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Stock market liquidity and economic resilience in Malaysia during COVID-19: Implications for financial stability and sustainable development

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Abstract

This study investigates the liquidity dynamics of the Malaysian stock market during and after the COVID-19 pandemic, focusing on the 361-day period surrounding the pandemic's onset. By employing multivariate regression models, the research examines how key factors, such as trading volume, market volatility, and price fluctuations, impacted liquidity in Malaysia during this period of unprecedented market disruption. Two primary liquidity measures—Amihud's illiquidity ratio and bid-ask spreads—are utilized to capture different dimensions of market liquidity. The results highlight the significant effect of the pandemic's initial impact on liquidity, with both increased market volatility and shifts in trading volumes contributing to a marked deterioration in market efficiency. The findings reveal that liquidity challenges were most acute in the early stages of the pandemic, characterized by wider bid-ask spreads and heightened illiquidity. However, over time, the Malaysian market demonstrated resilience, with liquidity conditions improving as volatility subsided and market activity stabilized.

Keywords: Amihud's illiquidity measure, COVID-19, Relative spread, Stock liquidity, Stock return, Trading volume.

JEL Classification: G12; G32; M41; M42.

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1. Introduction

The COVID-19 pandemic's effect on global financial markets cannot be overstated and the Malaysian stock market was no exception. As the virus spread uncontrollably and sent shockwaves through the world's economies, Malaysia's financial sector found itself in hot water as an unprecedented crisis occurred. The changes in investor behaviour and market dynamics were staggering, exposing deep vulnerabilities in the very foundations of the nation's financial infrastructure [1]. The draconian yet potentially necessary measures put in place to stem the spread of the virus, such as, nationwide lockdowns, severe travel restrictions, and strict social distancing protocols. This practically placed a stranglehold on economic activity [2]. But what followed was an economic downturn of 5.6% contraction in GDP in 2020, one of the worst in Malaysia's modern history [3].

The results of this crisis went far beyond mere economic statistics as this event also disrupted the lives of millions and left businesses teetering on the brink of collapse. The hardest-hit sectors suffered crippling losses, their struggles exacerbating the market's liquidity challenges, here are some examples; tourism, retail, and manufacturing. Understanding these financial convulsions is not just an academic exercise but a matter of urgent importance for investors, policymakers, and regulators who must navigate the treacherous terrain of crisis-driven market behaviour. Liquidity is the cornerstone of market efficiency that Underlies the ease with which financial assets can be bought or sold without drastically altering their prices [4]. In Malaysia this is an important part of the financial ecosystem that is influenced by many different factors, including investor confidence, market depth, and broader economic stability [5]. Yet, despite being one of Southeast Asia's more developed financial markets Malaysia's stock exchange found itself grappling with liquidity shocks that rattled investor confidence and cast doubt on the market's ability to withstand global economic turmoil.

The evidence is incriminating. After Chia, et al. [6] bid-ask spreads were observed to increase noticeably at the height of the epidemic and it is certainly a reflection of risk-aversion and caution by investors. The price action was more chaotic and unpredictable as volumes traded fell and market depth diminished. This distressing trend was not isolated to Malaysia alone, similarly when liquidity collapses were observed in other emerging markets, where capital outflows and volatility wreaked havoc on financial stability [7]. The Malaysian case, however, was particularly alarming. Research taken place by Rahman and Ariff [3] found that liquidity shocks were most serious in industries like hospitality, retail and transportation and they were directly affected by government-imposed restrictions. These disruptions did not only affect short-term market performance but they even had far-reaching implications for economic sustainability, stifling business investment, delaying economic recovery and exacerbating financial instability.

Despite its relative market maturity, Malaysia's financial sector was left exposed to numerous economic shocks in supply chain breakdowns, global trade disruptions and domestic consumption declines all fed into a vicious cycle of financial uncertainty. The decline in Malaysia's GDP was not just a statistic it was a stark testament to the fragility of the system. Investor sentiments changed and liquidity started to dwindle making it challenging for businesses to acquire finance. The crisis emphasized the vital role played by financial resilience in enabling long-term economic stability and in the absence of efficient mechanisms of liquidity, markets become susceptible to shocks that they cannot effectively bounce back from and cannot maintain the country's overall economic sustainability goals.

Alarmingly, while comprehensive studies have examined liquidity trends in developed markets, emerging markets like Malaysia have been woefully under-researched. Existing studies have focused on firm-level or industry-level trends in liquidity without a comprehensive market-level study of how the COVID-19 pandemic increased shortfalls in liquidity. Such a glaring research gap must now urgently be plugged. A comprehensive study of Malaysian market liquidity both at and after the time of the pandemic is not simply needed—it is a must. In addition, introducing the paradigm of Sustainable Development Goals (SDGs) to this context is important because capital markets have a critical role to play in deepening financial inclusiveness, facilitating green finance, and building resilience to future crises.

This study seeks to bridge this research gap by meticulously analyzing Malaysian stock market liquidity trends pre- and post-pandemic. By analyzing key indicators—bid-ask spreads, trading volumes, market depth, and volatility—the study will explain forces that shaped market behavior, resilience, and recovery in this turbulent period. The study will also critically analyze government interventions like Economic Stimulus Packages in stabilizing market liquidity. Such a study is not merely academic; it will yield essential information regarding Malaysian financial markets' response to the pandemic and their direction in coming years. Apart from that, this study will determine key recovery drivers and recommend measures to enhance conditions of liquidity and market resilience in the future. By correlating such findings with sustainability objectives, the study will determine ways through which restoration of liquidity can contribute to overall financial stability, economic resilience, and attainment of key SDGs related to financial inclusiveness and economic growth.

The importance of this study cannot be overstated. The study will be extremely useful to various stakeholders. Traders will require a sophisticated level of understanding of trends in liquidity to make their trading choices, while policymakers and regulatory agencies will require an understanding of vulnerabilities in Malaysia's financial system to make effective reforms. The study will make evidence-based recommendations on developing more stable market infrastructure, deepening facilities to offer support in terms of liquidity, and developing resilience to shocks in the market in the future. Beyond academia, the study will have real-world applications in financial policymaking and market regulation to allow policymakers to create a more stable and resilient financial ecosystem.

When comprehending the trajectory of Malaysia's stock market liquidity post-COVID-19 is not just an intellectual pursuit but also a necessity and the lessons learned from this study will serve as a defining factor for shaping policy responses and also strategic decisions aimed at fortifying Malaysia's financial markets against future economic shocks.

2. Literature Review

Numerous studies have thoroughly analyzed the devastating effect of the COVID-19 pandemic on global stock markets with some very disquieting findings on such critical economic measures as market returns, liquidity, and risk. The pandemic's disastrous financial mayhem compels a candid study since its consequences have been deeply profound.

An influential study by He, et al. [8] vestigated the performance of the developed countries' stock markets—United States, Japan, Germany, Spain, France, South Korea, Italy, and China—during this traumatic period. The authors meticulously analyzed three different periods: a pre-event window (January 23rd to February 2nd, 2020), a short event window (January 23rd to February 3rd, 2020), and a long event window (January 23rd to March 10th, 2020). These were compared with a pre-pandemic baseline period (June 1st, 2019 to January 2nd, 2020). Applying their rigorous statistical techniques using t-tests and non-parametric Mann–Whitney tests, they discovered something unequivocal and deeply disturbing—stock market returns collapsed in both pre-event and short-event windows. Curiously enough, however, the long event window had no statistically significant findings, leaving profound questions regarding market resilience and the long-term effect of such crises.

The G7 economy's focus is not accidental but is rather a necessity because such financial titans have uncannily similar tendencies that occur particularly in periods of turmoil [3]. For instance, Liu, et al. [9] examined stock returns and liquidity in the 2007-2009 global financial crisis and discovered a stern reality: in Germany and the UK returns and liquidity were positively correlated while in the US and China had volatile and mixed results. Likewise, Ji, et al. [10] employed time-varying copulas and Markov switching regimes to uncover the startling risk spillovers between the US and other G7 stock markets during periods of market volatility.

But while such a focus on developed countries has been common, China's stock market has been under close examination. Throughout the evolution of the pandemic, China's financial markets were subjected to a spell of sheer volatility at the beginning, fuelled by an aura of sheer panic that was compounded by round-the-clock media coverage and the intricate web of global financial interlinkages. But Sun, et al. [11] offered a compelling alternative explanation, demonstrating that such volatility was short-term in nature since China's rapid government interventions and firm actions by global central banks were capable of stabilising markets. Contrariwise, Al-Awadhi, et al. [12] conclusively testified to the fact that an increase in daily confirmed cases of COVID-19 and deaths had a clear negative impact on China's stock returns. Gofran, et al. [7] replicated such findings and drew a dark parallel with the US: both were subject to extreme stock market upheaval but China recovered quickly, perhaps due to pre-existing exposure to the pandemic and relatively low mortality rates. The terrifying correlation between newly reported cases of COVID-19 and stock market performance, as Sansa [13] discovered in both China and the US, illustrates the terrifying vulnerability of financial markets to public health crises.

Besides returns on shares, the pandemic's hold on financial health and liquidity has been equally disastrous. Karim, et al. [14] uncovered a nightmarish picture while studying the financial well-being of listed banks in Bangladesh: conditions of liquidity deteriorated at a horrifying rate, particularly in banks that were already on the brink of financial hardship even pre-pandemic. Similarly, Narayan, et al. [15] uncovered the disproportionate impact of the pandemic on Australian sectors. The healthcare, information technology, and staple sectors were fortunate beneficiaries while others were in financial ruin or stagnated forebodingly.

Government interventions were at the forefront of curbing this financial havoc. Zaremba, et al. [1] reiterated that monetary and fiscal policies have a key role to play in fending off liquidity risks, particularly in vulnerable emerging markets whose financial systems stand frighteningly at risk of shocks. Phan and Narayan [16] also illustrated that government interventions—loan moratoriums and hawkish central bank policies—led to a real boost in stock market liquidity in ASEAN countries, including Malaysia. These findings serve as a stark reminder that government intervention is not merely helpful in times of crisis but is outright vital to prevent financial disaster.

But among this plethora of studies, a worrisome lacuna remains. The impact of the COVID-19 pandemic on smaller emerging market liquidity—namely that of Malaysia—has been woefully under-researched. The Malaysian stock market, like that of ASEAN countries, has special characteristics that make it especially vulnerable to shocks to the economy. Empirical studies have mostly centered on macroeconomic determinants such as GDP growth rate, inflation, and currency fluctuation Rahman and Ariff [3] without exploring micro-level conditions of liquidity that actually drive market efficiency and stability. Such important indicators as bid-ask spreads and market depth have remained glaringly absent, leaving a risky lacuna in Malaysian financial resilience understanding.

Even with comparable stock market volatility in other economies, Malaysian pandemic liquidity conditions have remained unstudied. It is a risky lacuna. It is important to understand how COVID-19 shocks impacted Malaysian stock market liquidity—no longer a theoretical topic of debate, but of tangible, applicable knowledge on economic recovery, market efficiency, and intervention policy efficacy. Malaysian financial infrastructure, though resilient in some respects, is considerably different from that of developed countries and urgently demands close inspection. This glaring lacuna in literature is a critical opportunity—now to be seized—to produce useful findings that will inform policymakers as well as follow-up studies on economic resilience in emerging markets.

The consequences of not addressing this subject of study are dire. If we do not study and learn to understand the intricacies of Malaysian stock market liquidity during pandemic periods, we risk leaving critical lacunae in economic policymaking. The repercussions extend far beyond academia; they have direct implications for financial stability, investor sentiment, and the very fabric of emerging market economic resilience. It is imperative that more study is conducted to deconstruct the intricate relationship between government intervention, investor psychology, and liquidity in such a novel

crisis. Only through such close study can we ever start to prepare ourselves for the inevitable financial crises that will arise and defend ourselves against the destructive forces of economic upheaval.

3. Research Design

3.1. Research Method

This study examines the impact of the COVID-19 shock on market liquidity within a 121-day window around the announcement of the pandemic. Using a multivariate regression model, we draw inspiration from Gregoriou [5] and Gofran, et al. [7] to examine the changes in liquidity over this critical period as follows.

$$Liquidity_t = \alpha_0 + \alpha_1 Volume_t + \alpha_2 Covid_t + \alpha_3 Volume_t x\ Covid_t + \alpha_4 Return_t + \ +\alpha_5 Return_t x\ Covid_t \ + \alpha_6 Volatility_t + \ \alpha_7 Volatility_t x\ Covid_t + \varepsilon_t \quad (1)$$

Here, t refers day in the event window (-180 to +180). Liquidity refers to FTSE Bursa Malaysia KLCI Index's liquidity at day t. Volume in the regression equation refers to the log trading volume of index iii at day t, and COVID refers to a dummy variable that takes the value 1 after the pandemic announcement and 0 otherwise. Return refers to the daily return of the index at t, and Volatility refers to return volatility on each trading day within the event window.

We control for liquidity complexity through a number of proxies including Amihud [4] illiquidity measure and relative spread.

The Amihud illiquidity measure is constructed based on Amihud [4] which is the absolute value of returns on stocks divided by dollar volume per trading day.

$$Amihud = \frac{1}{n}\sum_{t=1}^{n} \frac{|R_t|}{DV_t} \quad (2)$$

Where n is the number of days, R_t is the stock return on the trading day t, DV_t is the dollar volume on the trading day t.

Additionally, following the methodology of Gofran, et al. [7] we calculate the relative spread during the 180 days before and after the pandemic announcement on March 11, 2020, using the following formula.

$$ESpread_t = \frac{HighP_t - LowP_t}{(HighP_t + LowP_t)/2} \quad (3)$$

Where t represents a given day in the event window (-180, +180). The terms "HighP" and "LowP" denote the highest and lowest prices of the index on day t.

3.2. Data Collection

Malaysia's main stock index, the FTSE Bursa Malaysia KLCI (FBM KLCI) shows how the biggest 30 companies listed on Bursa Malaysia are doing. This index which uses market value is guided by the FTSE Bursa Malaysia Index Ground Rules. These rules consider three main things: market value after subtracting shares not freely traded (free-float-adjusted), how easily shares can be bought and sold (liquidity), and good corporate practices (Governance standards).

To assess COVID-19's impact on market liquidity, we analysed daily closing prices over a [-180, +180] day window centered on March 11, 2020—the day the WHO declared COVID-19 a pandemic. This 361-day period balances capturing liquidity effects with maintaining a focus on immediate and transitional impacts. All the data was sourced directly from Bloomberg Terminal, which helps keep everything consistent and accurate.

4. Descriptive Statistics, Results, and Discussion

4.1. Statistical Description

Table 1 showcases essential statistics regarding the performance and liquidity of the FTSE Bursa Malaysia KLCI Index during the time surrounding the COVID-19 pandemic announcement. It includes data on open and close prices, trading volume, returns, effective spread (ESpread), Amihud illiquidity measure, and volatility. It provides a summary of opening and closing prices, trading volume, returns, the effective spread (ESpread), the Amihud illiquidity measure, and volatility. The table summarizes the minimum, maximum, mean, standard deviation, skewness, and kurtosis of each variable and therefore provides meaningful observations about market activity and liquidity shifts during this important timeframe.

4.1.1. Volume and Returns

Over this timeframe, the volume exhibited some extremes, ranging anywhere from 0 (or "no trading") to the highest trading volume of 595,843. The average trading volume was 143,220 with a standard deviation of 77,202 reflecting rather high volatility overall. The majority of days experienced very low trading volumes with dramatic spiking presumably due to market overreaction in pandemic cases somehow. Outlier trading days heavily impacted overall volume trends due to high kurtosis of 7.73 being rather typical. These irregularities highlight the financial instability caused by COVID-19, emphasizing the need for strong market structures and regulatory measures to sustain investor confidence and economic stability.

Table 1.
Statistical Description.

	Minimum	Maximum	Mean	Std. Dev	Skewness	Kurtosis
Open	1,217.28	1,694.33	1,542.90	89.54	-1.19	1.39
Close	1,219.72	1,690.05	1,543.24	88.25	-1.17	1.23
Volume	0.00	595,843	143,220	77,202	2.17	7.73
Return	-3.18	6.78	0.03	0.87	1.23	10.75
ESpread	0.00	0.07	0.01	0.01	2.81	13.59
Amihud	0.00	0.02	0.00	0.00	1.29	2.00
Volatility	0.00	6.78	0.59	0.64	3.65	25.30

Market returns during this period fluctuated between -3.18 and 6.78, with a mean of 0.03, an overall neutral return. A standard deviation of 0.87 is a measure of high volatility, and price fluctuation was common. A Skewness of 1.23 shows a moderate bias towards positive returns, but negative fluctuations were also high. Kurtosis of 10.75 is high, showing a leptokurtic distribution in which extreme price movements were more frequent than under a normal distribution, showing the volatility of the market during the pandemic.

4.1.2. Liquidity Measures: ESpread and Amihud

ESpread averaged 0.01, implying overall tight liquidity with narrow price spreads between buy and sell orders. The peak of 0.07, however, implies periods of severe liquidity stress. The highly positive skewness of 2.81 implies that while most days had tight spreads, occasional spikes reflected heightened uncertainty and reduced liquidity, particularly during the start of the pandemic. The high kurtosis of 13.59 implies the presence of extreme outliers, and it marks the occurrence of severe market strain events.

Similarly, the Amihud measure of illiquidity averaged 0.00, which suggests relatively stable liquidity. Skewness of 1.29 indicates that there were some sporadic episodes of illiquidity, but most days were liquid. Kurtosis of 2.00 hints at a somewhat regular distribution having relatively few outliers of illiquidity somehow. Sensible financial regulations foster stable economic growth via central bank interventions that render markets remarkably resilient somehow.

4.1.3. Volatility

The volatility measure, averaging 0.59, reflects market fluctuations during the event window. Values range widely between 0.00 and 6.78 and capture instances of calmness but also the majority of commotion somehow. A high extreme standard deviation of 0.64 suggests extreme variation and positive skewness of 3.65 suggests highly unpredictable days were the norm because of pandemic-related volatility somehow. High extreme kurtosis of 25.30 suggests a highly fluctuating distribution with many many volatile peaks akin to sudden market plunges into chaos. Excessive volatility normally discourages investment in the long term hence affecting overall economic stability. Policies like sustainable finance in responsible investment approaches and ESG considerations simply reduce excessive market fluctuation thereby providing economic sustainability.

Figure 1 shows time-series plots of the FTSE Bursa Malaysia KLCI, showing large market movements during the COVID-19 pandemic. The plots show a steep decline in mid-March, which coincided with the world pandemic announcement. The steep decline symbolizes the sudden and draconian impact of COVID-9 on financial markets, as indiscriminate panic and uncertainty resulted in massive sell-offs for major indices.

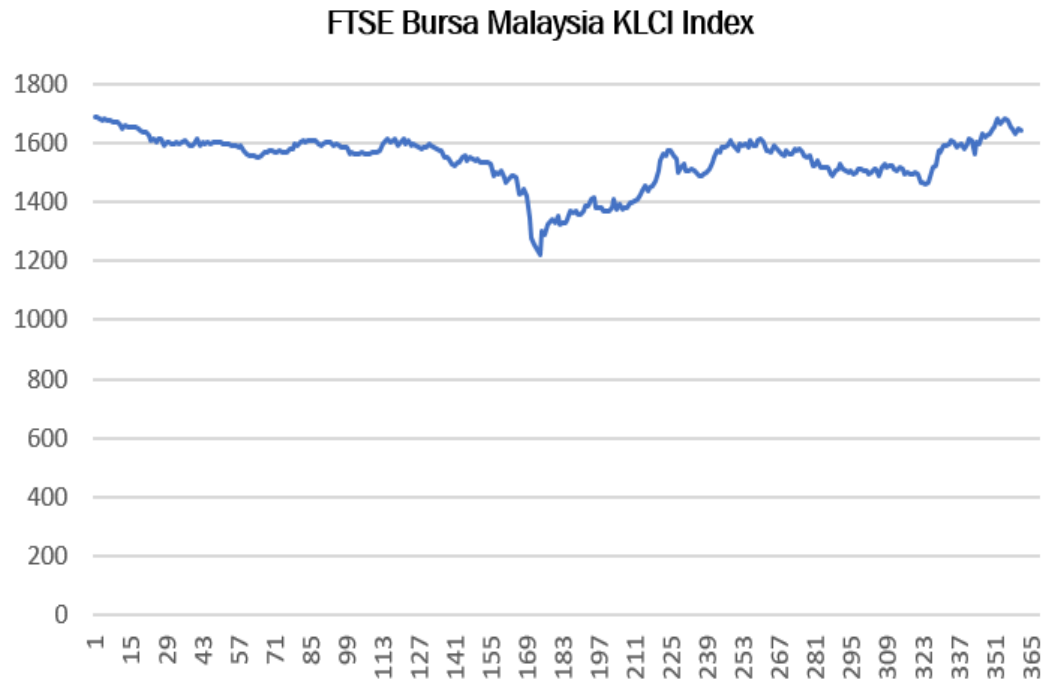

Figure 1.
FTSE bursa Malaysia KLCI index over a [-180, +180] day window.

During this period, the FTSE Bursa Malaysia KLCI plunged 25% from its peak, reflecting the extreme volatility that gripped regional and global markets. The steep drop reflected the almost universal panic among investors due to government-imposed lockdowns and unprecedented business disruption. The market recovered quite heavily afterward. The index recovered losses quickly and surpassed pre-pandemic levels within 180 days of the pandemic onset to new highs. Market resilience is acting as a key factor in making economic stability possible for extended periods somehow. Financial regulation and transparent fiscal policy played very significant roles in making the market stable with robust investor protection arrangements somehow. Government policy measures such as stimulus packages and regulatory measures were very successful in reviving investor confidence and being somewhat coincident with global financial stability objectives specified in UN SDGs.

The rapid recovery of the Malaysian stock market indicates the market's adaptability in the face of shifting economic tides. Market forces alongside shifts in sectoral performance were largely accountable for recovery but investor sentiment played a significant role somehow. Despite shock response mechanisms somehow sustained strong market recovery reaffirming the usefulness of resilience in the face of financial crises suddenly again. Table 2 displays a complex correlation matrix for research variables that reveals subtle nuances in their delicate interconnections. Most correlations fall within reasonable levels but one pair Volume and Volatility correlates highly at 0.537 suggesting potential multicollinearity somehow. VIF figures in Table 3 indicate multicollinearity poses no problem evidently due to certain underlying statistical factors.

Table 2.
Correlation Matrix.

	Volume	Return	ESpread	Amihud	COVID	Volatility
Volume	1					
Return	0.126*	1				
Effspread	0.651**	0.177**	1			
Amihud	-0.005	0.094	0.467**	1		
COVID	0.385**	0.051	0.459**	0.161**	1	
Volatility	0.537**	0.231**	0.830**	0.728**	0.319**	1

Note: *, ** is the correlation significant at the 0.05 level (1-tailed), 0.01 level (2-tailed), respectively.

4.2. Main Results

The findings of Amihud Illiquidity (Amihud) and Effective Spread (ESpread) are reported in Table 3.

Amihud's R-squared of 0.795 and ESpread's R-squared of 0.77 indicate a good model fit that explains approximately 79.5% and 77% of the variation in liquidity, respectively. It suggests that Volume, Return, COVID, and Volatility play a significant role in influencing market liquidity in the pandemic era.

Table 3.
Regression Results.

	Amihud		VIF	ESpread		VIF
	Coef.	t-statistics		Coef.	t-statistics	
R-square	0.795			0.77		
F-test	198.613***			172.735***		
(Constant)	0.003***	11.609	2.452	0.001***	2.066	5.293
Volume	-2.63E-11***	-10.697	3.645	2.33E-11***	4.233	6.640
Return	-5.13E-05	-0.218	1.852	-5.19E-05	-0.095	5.506
COVID	0.001***	3.797	4.430	0.002***	2.84	1.795
Volume*COVID	2.94E-12	1.018	1.421	-7.23E-13	-0.111	2.469
Volatility	0.008***	22.475	6.698	0.008***	9.011	6.693
Return*COVID	-8.78E-05	-0.341	1.749	-5.38E-05	-0.09	1.762
Volatility*COVID	-0.003	-8.463	5.452	-9.99E-05***	-0.108	5.293

The regression results provide significant insights into market liquidity in Malaysia during the COVID-19 pandemic:

Volume and Liquidity: The vast and negative coefficient of Volume (-2.63E-11, t-stat = -10.697) in the Amihud Illiquidity model is a firm confirmation that higher volumes of trades facilitate market liquidity as expected. Its interaction term with the COVID variable is not significant, which means that the pandemic did not increase or decrease this effect.

Market Returns: The Return coefficient of the Amihud model (-5.13E-05, t-stat = -0.218) is not significant and indicates that price actions alone did not have a significant contribution to illiquidity.

Effect of COVID-19: The COVID variable is significant for both Amihud (0.001, t-stat = 3.797) and ESpread (0.002, t-stat = 2.84), validating that the pandemic led to poorer market liquidity in Malaysia.

Volatility and Liquidity: Volatility is positively correlated with illiquidity with high coefficients in both specifications (Amihud: 0.008, t-stat = 22.475; ESpread: 0.008, t-stat = 9.011). This is hypothesized that greater uncertainty will be linked to larger spreads and reduced liquidity.

Volatility Impacts Amplification of Pandemic: The COVID connection with Volatility is a significant one for Amihud (t-stat = -8.463, p-value = -0.003), but not the ESpread one, suggesting pandemic volatility impacts significantly added to increased illiquidity.

The data indicates that liquidity was weakened significantly due to the pandemic, driven by higher volatility and decreased investor confidence. Trading volume contribution remained strong but was not exacerbated by the pandemic. The data indicates the contribution of good regulation and intervention in improving liquidity and stability during financial crises.

5. Conclusion

The COVID-19 pandemic shook not only the foundations of global financial markets but unveiled their deepest weaknesses, laying bare the vulnerability of liquidity, uncontrollable chaos of volatility, and raw fear that governs investors. The Malaysian market, although relatively mature, was no exception. As lockdowns swept like wildfire, choking supply chains and paralysing consumer spending, Malaysia's financial system was at the mercy of an economic catastrophe of a scale that had never been experienced in modern times. The liquidity that energises a healthy market—required to allow efficient price discovery and investor confidence—deteriorated at breakneck speed with trading volumes reducing, bid-ask spreads blowing out to unsustainable sizes, and volatility reaching levels that were more pessimistic than anyone's worst fears. It was not a temporary fluctuation. It was a breakdown that was systemic.

For far too long now, policymakers and financial institutions have had the illusion that emerging markets like Malaysia would be able to ride out shocks from abroad with minimal effect. This research dispels that naivety. By looking with precision at the Malaysian market's pandemic-fueled liquidity crisis, this research fills a glaring lacuna in the present literature that has ignored the brutal realities that face developing countries. In contrast to copious studies on such financial heavy-hitters like the United States or the European Union, this research aims at an economy that, while making strides, was open to full exposure to the pandemic's economic destruction. It does so through a close study of primary indicators of liquidity—trading volume, bid-ask spreads and market volatility—taking a close-up look at why and how Malaysia's market collapsed and struggled to find footing.

The revelations were shocking. The Malaysian market had a record low level of liquidity caused by a deadly combination of volatility and panicky investors. The resilience of markets—the backbone of every healthy financial system—was strained to breaking point. In fact, the market did recover later but at what cost? Investor sentiment remains weak, and wounds caused by the crisis will take years to heal. The fallout of this financial chaos does not end at prices and trading patterns; it has long-term consequences that threaten to undermine Malaysia's financial stability, corporate viability, and long-term financial inclusiveness.

This was not a market incident alone—it was actually an attack against financial stability itself. The pandemic ruthlessly reaffirmed the need for robust liquidity support facilities, flexible market regulations, and more interventionary policies by policymakers. Policymakers and leaders in Malaysia now have to confront a painful reality: Malaysian financial markets were not designed to handle such a once-in-a-lifetime shock. Unless reforms occur at this point in time, Malaysia will remain vulnerable to being struck by economic disasters with even more catastrophic consequences.

The ramifications of this crisis reach into Malaysia's compliance with the United Nations Sustainable Development Goals (SDGs), SDG 8 (Decent Work and Economic Growth), and SDG 9 (Industry, Innovation, and Infrastructure). A well-functioning financial market is not a luxury—it is a pre-condition to long-term economic advancement. Without it, businesses collapse, expansion halts, and investor participation withers. The brutal reality is that Malaysia's financial market cannot afford to have another such crisis. Improving mechanisms of liquidity is not a regulatory issue—it is a matter of survival.

This research demands prompt action. It is not enough to state that liquidity deteriorated. Malaysia must implement aggressive forward-oriented policies that cause markets to remain operative even in adversity. These range from but are not limited to additional measures of liquidity, conscious realignment of trading mechanisms to prevent mass panics, and general policies of management of crises to buffer the financial system against shocks.

However their financial impact is small compared to their broader socio-economic ones. When liquidity vanishes, it is hard for corporations to finance themselves, hiring freezes up, and economic resilience is shattered. The knock-on effect reaches every corner of society, with small businesses, retail investors, and the economy's weakest parts being disproportionately affected. It is not theoretical—it can be measured.

Malaysia's financial system stands at a crossroads. Will policymakers and financial institutions rise to the challenge and implement reforms to safeguard the economy against future disasters? Or will they allow events to recur, condemning the market to another inevitable meltdown once the next global crisis arrives? This study is both a warning and a call to action. The lessons of the COVID-19 pandemic cannot be forgotten. Malaysia's financial markets cannot merely rebound but must be changed—into a system that is not merely reactive but resilient, not functional but secure against the constantly mounting risks of the global economy.

The days of complacency have long since passed. The time now is to take firm and resolute action. Anything else would be a reprehensible failure.

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