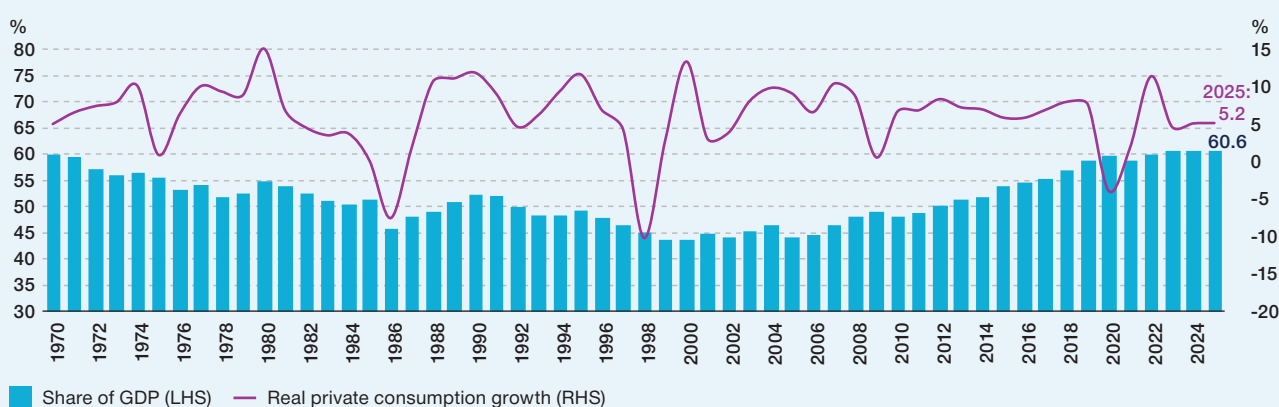


Sustaining the Engine: The Evolving Drivers behind Malaysia's Private Consumption Growth

Introduction

Malaysia's growth landscape has changed significantly over the decades. Malaysia transitioned from a consumption-driven growth model in the 1970s to an export-led industrialisation strategy from the mid-1980s to the early 2000s, with manufacturing and external trade becoming the dominant engine of expansion. From 2010 onwards, the growth engine turned inward again, with private consumption accounting for nearly 61% of GDP in 2025 (Chart 1).

Chart 1: Evolution of Real Private Consumption Growth and Its Share of GDP



Note: Pre-1990 data for real private consumption growth is sourced from World Bank and Post-1990 data is sourced from Department of Statistics, Malaysia. The share to GDP series is sourced from Department of Statistics, Malaysia.

Source: World Bank, CEIC and Department of Statistics, Malaysia

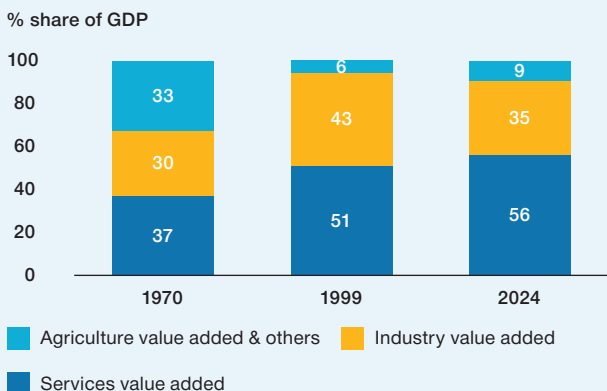
This article explores the evolution and sustainability of private consumption in Malaysia through two lenses. The first covers the major long-term structural factors such as the country's economic transformation and sociodemographic trends. The second perspective explores the underlying drivers of households' spending capacity such as income, wealth, debt and policy support. Finally, the article highlights challenges and policy priorities to ensure private consumption remains a sustainable engine of growth going forward.

Part 1: Structural Drivers of Rising Private Consumption

Economic Transformation and Income Growth

Since the 1970s, Malaysia's economy has steadily changed from agriculture-led to manufacturing and later, services (Chart 2). This shift created better-paying jobs and drew workers to higher-value added sectors. Productivity within these sectors increased, supported by a growing workforce and investments in equipment and infrastructure. These changes lifted output per capita and supported years of household income growth (Chart 3). In turn, this fuelled higher consumer spending.

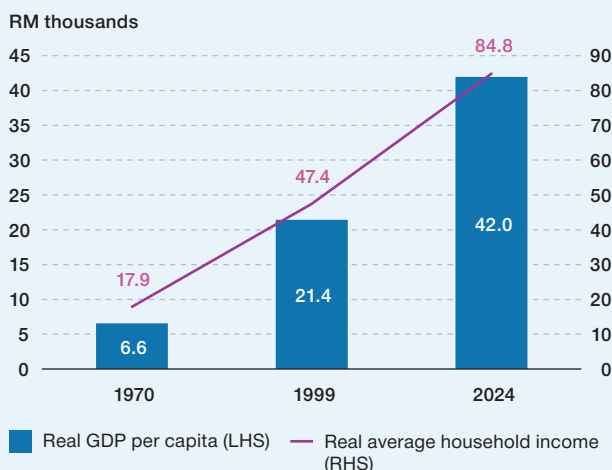
Chart 2: Sectoral Share of GDP



Note: Industry value added is the sum of manufacturing, mining and construction value added. For the year 1970, services value added is a residual of industry and agriculture, which means the estimate for services for that year incorporates import duties. For 1999 and 2024, import duties are considered under 'Agriculture value added & Others'. 1970 data is sourced from World Bank while 1999 and 2024 are sourced from the Department of Statistics, Malaysia.

Source: World Bank, Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Chart 3: Real GDP Per Capita and Real Average Household Income

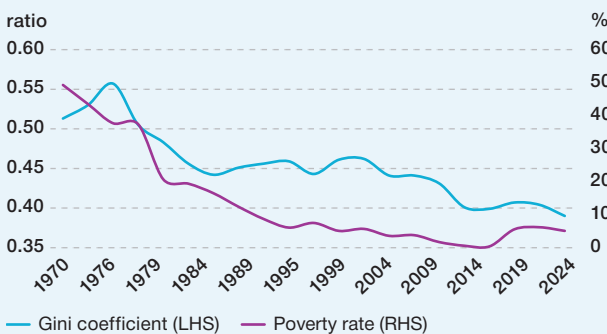


Note: Average household income is annualised and deflated to 2010 real terms using GDP deflator to standardise the frequencies.

Source: World Bank, CEIC, Household Income Survey by the Department of Statistics, Malaysia and Bank Negara Malaysia estimates

As household income rose, poverty and inequality declined sharply. The national poverty rate¹ fell from 49.3% in 1970 to 5.1% in 2024, while income inequality as measured by the Gini coefficient improved from 0.51 to 0.39 (Chart 4). Better income distribution also supported aggregate consumption, as lower-income households who have a higher marginal propensity to consume (MPC) gained more money to spend.²

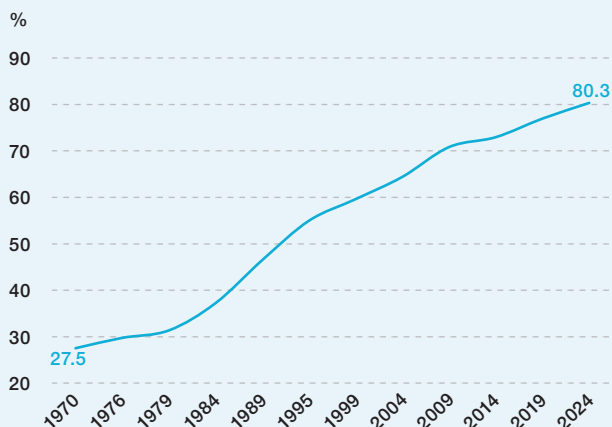
Chart 4: Poverty Rate and Income Inequality



Note: The increase in poverty rate in 2019 was due to a revision to Poverty Line Income. Further increase in 2020 reflected the impact from a sharp decline in income of vulnerable groups following the COVID19 pandemic.

Source: Household Income and Expenditure Survey by the Department of Statistics, Malaysia

Chart 5: Share of Urban Population to Total Population



Source: World Bank, CEIC

¹ The national poverty rate measures the percentage of Malaysian population living in households with total monthly gross income below the Poverty Line Income (PLI). In 1970, this was defined as RM25 per month; in 2024 it is RM2705 per month.

² Murugasu, D., Ang, J. W., & Tng, B. H. (2013) The Marginal Propensity to Consume Across Household Income Groups.

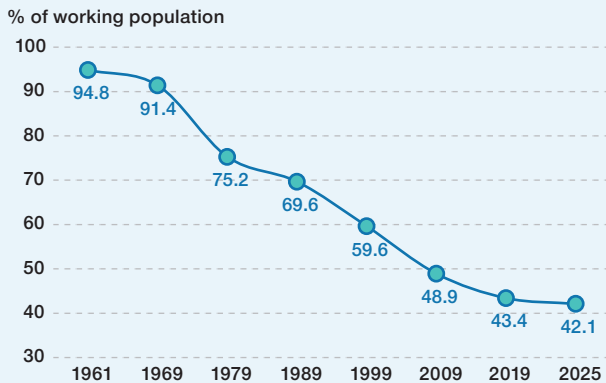
Urbanisation, Financial Deepening and Changing Consumption Habits

Alongside the sectoral shifts, Malaysia’s urbanisation rate more than doubled from 28% in 1970 to 80% in 2024 (Chart 5). Higher paying jobs in the manufacturing and services sectors attracted families to cities, spurring demand for homes and dwelling and the related spending on furnishing. Urban living also increased demand for transportation, modern retail, and services such as dining out and entertainment, creating new spending habits.³ In addition, financial deepening, through greater availability of banking services and credit facilities, enabled households to finance home purchases, consumer goods, and lifestyle services more easily.

Demographic Dividend and Household Structure

Rapid urban growth since the 1970s brought along challenges such as rising living costs and urban congestion. Meanwhile, better access to education, growing female workforce participation and lower fertility rates reshaped family structures, resulting in smaller families,⁴ more dual-income households⁵ and delayed marriage and childbearing.⁶ These factors contributed to the increase in the share of the working age population relative to dependents, reducing the total dependency ratio (TDR) (Chart 6). Consequently, the effects of the first wave of the demographic dividend were amplified, with a larger workforce and fewer dependents boosting per capita income⁷ and consumption⁸ (Chart 7).

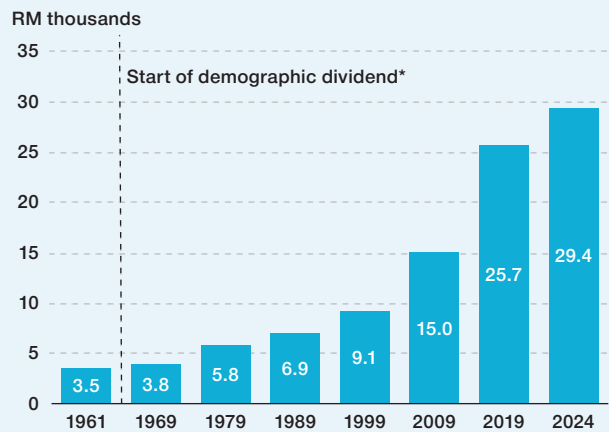
Chart 6: Total Dependency Ratio



Note: Total dependency ratio is a demographic measure that represents the combined number of children (under 15) and seniors (65 or older) relative to the number of working-age adults (aged 15-64). The pre-1990 series is taken from World Bank while the rest is sourced from Department of Statistics, Malaysia.

Source: World Bank, CEIC and Population Estimates by the Department of Statistics, Malaysia

Chart 7: Real Private Consumption per capita



Note: Real private consumption data prior to 1970 is sourced from World Bank while population data and post-1970 real private consumption data are sourced from the Department of Statistics, Malaysia.

Source: Department of Statistics, Malaysia, World Bank, CEIC, Bank Negara Malaysia estimates and *Ogawa et al (2021)

³ KRI (2024) The State of Households: Households and the Pandemic.

⁴ Population Census; Household Income Survey, Department of Statistics, Malaysia.

⁵ Zaimah, R., Sarmila, M.S., Selvadurai, S., Lyndon, N., Er, A. C., & Jamian, M. N. (2013). The History and Current Status of Dual-career Families in Malaysia.

⁶ Fertility Rate, Population Statistics, Department of Statistics, Malaysia.

⁷ Zélity, B. (2025). Estimating the Growth Effect of the Demographic Dividend. *Macroeconomic Dynamics*, 29, e127.

⁸ Cutler, D. M., Poterba, J. M., Sheiner, L. M., Summers, L. H., & Akerlof, G. A. (1990). An Aging Society: Opportunity or Challenge?. *Brookings papers on economic activity*, 1990(1), 1–73.

Part 2: Dynamics of Underlying Drivers of Private Consumption

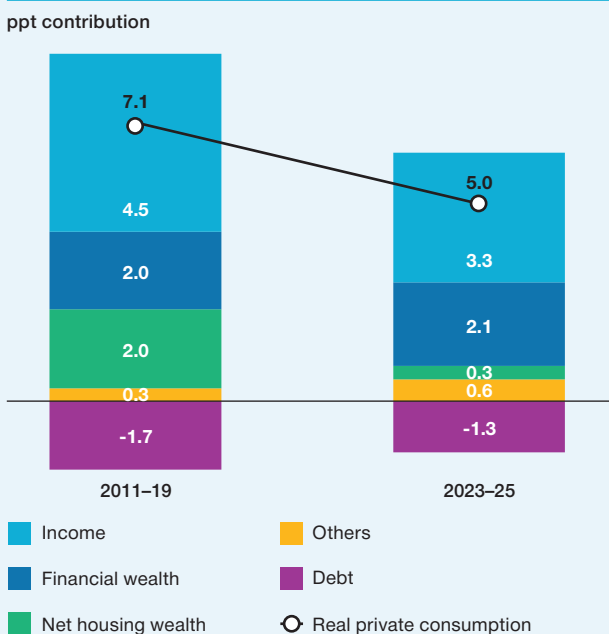
While structural forces shape the long-run potential for private consumption, they operate through more direct channels such as income, wealth, indebtedness and policy support. These drivers determine households' ability to spend and form the foundation of empirical consumption models. An error correction model (ECM)⁹ is used to identify the key factors driving private consumption and to compare their relative strength. The study also compares the key drivers of consumption before and after the COVID-19 pandemic.

Income is the most fundamental and durable driver of private consumption

Income is the core driver of private consumption because it determines households' purchasing power. Most spending decisions depend on disposable income, which is generally stable and predictable, particularly from wages and salaries. This makes income a reliable basis for consumption planning, which also anchors households' expectations of future consumption.

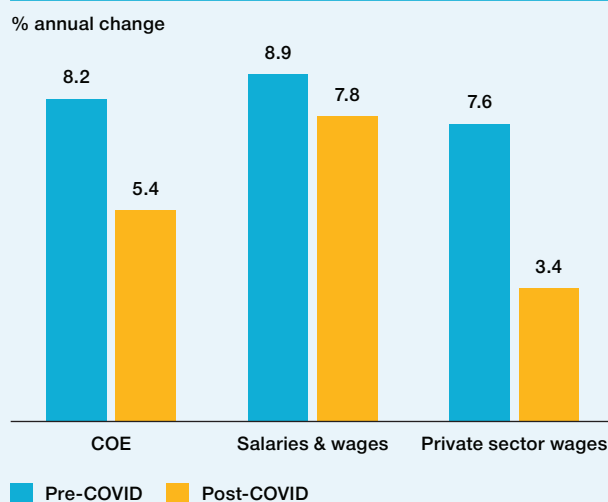
In the ECM, income measured by compensation of employees (COE), remains the main driver of consumption, accounting for more than 60% share of spending in both pre- and post-pandemic periods. However, income growth has been more moderate in the post-pandemic period, which has corresponded with a softer pace of private consumption growth (Chart 8). This is reflected across multiple income indicators,¹⁰ including COE, private sector wages and overall salaries and wages, which show slower growth in the post-COVID period despite broader economic recovery (Chart 9).

Chart 8: Decomposition of Drivers of Private Consumption Growth



Source: Bank Negara Malaysia estimates

Chart 9: Compensation of Employees (COE) and Wages



Note: Pre-COVID is defined as 2011-19 for COE and salaries & wages, and 2015-19 for private sector wages (data started in 2013). Post-COVID refers to 2023-25 for private sector wages, and 2023-24 for COE and salaries & wages, based on the latest available data.

Source: Department of Statistics, Malaysia

⁹ The error correction model estimates the long-run relationship between private consumption and its drivers, while capturing short-run dynamics around the equilibrium. The model includes labour income (proxied using compensation of employees), financial wealth (sum of deposits, unit trust funds, investment in equities, EPF savings and endowment policies), net housing wealth (number of owned residential units multiplied by the average house price, minus total outstanding housing loans) as well as non-residential debt. The 'Others' category captures the residual, reflecting factors not in the model such as government assistance and self-employment income.

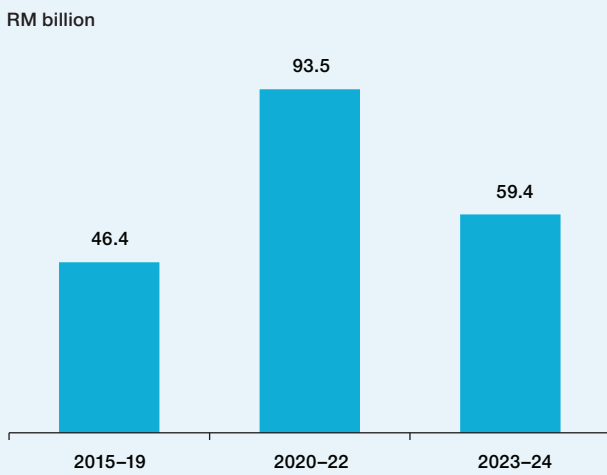
¹⁰ COE is the most comprehensive measure of total remunerations to employees by producers, which includes salaries, wages, allowances, bonuses, commissions and payments in kind. Salaries & wages data covers all private and public sectors. Meanwhile, private sector wages data covers only services and manufacturing sector based on Quarterly Services Statistics and Monthly Manufacturing Statistics. Both COE and overall salaries & wages are only available on annual basis and published with a lag.

Wealth influences consumption through realised and unrealised channels

Both financial and housing wealth support consumption through realised and unrealised channels. The realised channel operates when households liquidate assets to meet spending needs. The unrealised channel materialises as valuation gains on assets strengthen household balance sheets and confidence, thereby supporting spending.

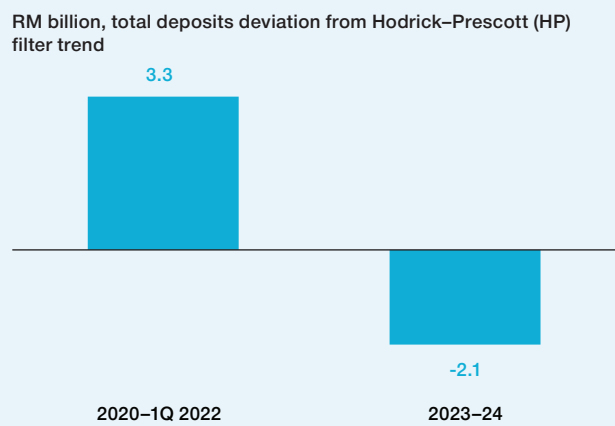
In Malaysia, financial wealth has provided relatively stable support for private consumption. Households’ accumulation of deposits, retirement balances, alongside holdings of equities and unit trusts, support spending through wealth effects and serves as buffers during periods of weak income growth. This role was evident during and after the COVID-19 pandemic. Special Employees Provident Fund (EPF) withdrawal schemes played a critical role in sustaining spending during this period (Chart 10). In addition, excess savings¹¹ built up during lockdowns were drawn upon as the economy reopened to finance pent-up demand (Chart 11).

Chart 10: Average Annual EPF Withdrawals Across Period



Source: Employees Provident Fund

Chart 11: Excess Savings



Note: Malaysia entered ‘endemic’ phase and fully reopened its economy in 1 April 2022.

Source: Bank Negara Malaysia estimates

By contrast, housing wealth, which contributed significantly to private consumption pre-COVID, has played a more limited role in recent years. In the early 2010s, strong house price growth (Chart 12) and robust transaction activity supported consumption through capital gains and sentiment effects. House price growth began to moderate from 2012 as housing demand cooled and speculative activities

Chart 12: Malaysia's House Price Index



Source: National Property Information Centre (NAPIC)

¹¹ Excess savings are measured as deviations of deposits from their HP-filtered long-term trend. Deposits comprise demand deposits, savings deposits, fixed deposits, tawarruq fixed deposits, special investment accounts and general investment accounts.

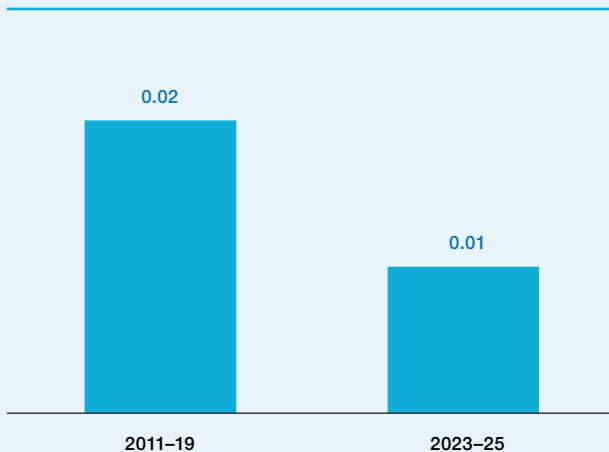
eased, alongside rising supply. Over time, the build-up of unsold units signalled emerging oversupply and placed additional downward pressure on prices. These developments dampened capital gain and softened the unrealised wealth channel. Although house prices growth picked up post-COVID, it has not returned to pre-pandemic average. Consequently, the marginal propensity to consume (MPC) out of housing wealth declined (Chart 13), reducing its contribution to consumption growth.

Credit uptake enables consumption smoothing in the short run but reduces disposable income over time via debt servicing burdens

Household debt plays a dual role in Malaysia’s consumption dynamics. In the short term, access to credit enables households to smooth spending during income fluctuations and bring forward purchases of big-ticket items such as vehicles and durable goods. Over time, however, debt servicing obligations reduce disposable income, weighing on long-term consumption.

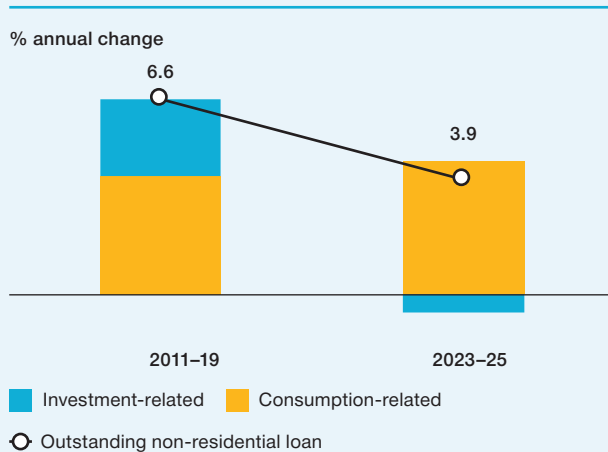
Before the pandemic, Malaysia’s household non-residential debt¹² increased in tandem with economic activity, alongside wider and deeper financial access, reflecting broad-based growth in both consumption and investment-related borrowing.¹³ As indebtedness increased, repayment burdens rose and weighed on spending. In recent years, growth in consumption credit has remained positive, even as borrowing for investment purposes, particularly for securities, has declined. Although outstanding household debt growth has eased slightly (Chart 14), the debt-to-GDP ratio has remained elevated at 84.8% as at end 2025 (2024: 84.1%; 2019: 82.8%). The slower pace of debt accumulation post-COVID has reduced the drag from debt, but debt-servicing burdens remains a factor weighing on private consumption growth.

Chart 13: Marginal Propensity to Consume Out of Net Housing Wealth



Source: Bank Negara Malaysia estimates

Chart 14: Outstanding Household Non-residential Debt



Source: Bank Negara Malaysia

¹² Residential debt has been included as part of net housing wealth.

¹³ Consumption-related loans or consumption credit includes loans for personal use, motor vehicle and credit card. Meanwhile, investment-related loan includes loans to purchase securities and non-residential property.

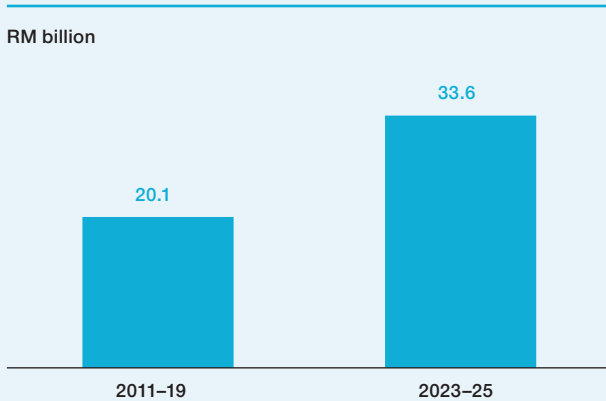
The rising role of policy support and self-employment income

Since 2019, factors beyond formal income and net wealth appear to be increasingly supporting household spending. This primarily reflects the growing role of Government assistance alongside higher income from self-employment.

Government policies continue to help ease financial burden, especially for lower-income households. While cash assistance and subsidies were already part of Malaysia’s social protection framework prior to the COVID-19 pandemic, the scale and scope of the measures have expanded over the years to cushion households against rising living costs (Chart 15). For example, allocations for *Sumbangan Tunai Rahmah* (STR) and *Sumbangan Asas Rahmah* (SARA) reached RM15 billion in 2025, higher than RM5 billion allocated under *Bantuan Sara Hidup* (BSH) in 2019.

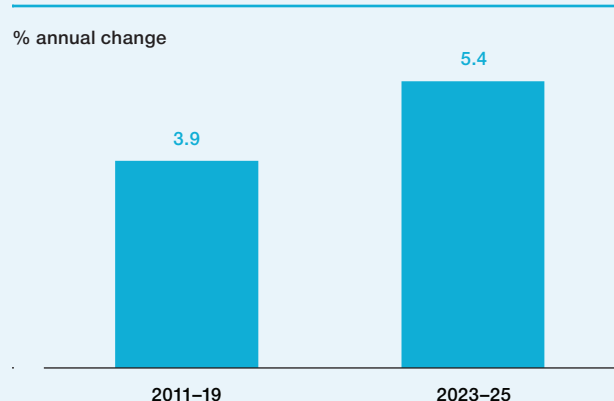
At the same time, the pandemic accelerated digital adoption in Malaysia and reshaped labour dynamics. This led to a growing prevalence of gig work and own-account activities such as delivery services and freelance jobs. Growth in own-account workers rose faster in the post-COVID period, averaging 5.4% compared with 3.9% pre-COVID (Chart 16), and they now make up approximately 20% of total employment.¹⁴ As this work is outside formal wage employment, the earnings are recorded as mixed income rather than COE.¹⁵ Mixed income posted growth of 11.1% in 2023 and 6.6% in 2024.¹⁶ For many households, this additional source of earnings has helped sustain spending amid slower formal wage growth.

Chart 15: Spending on Social Assistance and Non-Fuel Subsidy to Households



Source: Bank Negara Malaysia estimates based on data from Ministry of Finance, Malaysia

Chart 16: Own Account Workers Employment Growth



Source: Department of Statistics, Malaysia

Part 3: Emerging Challenges for Consumption Sustainability

Moderating Structural Tailwinds

Several structural tailwinds that previously supported private consumption are now moderating. Malaysia is approaching the end of its first demographic dividend, as the population median age rises and the total dependency ratio is expected to bottom-out at 40.8 by 2034.¹⁷ This leaves fewer workers to support a growing dependent population. Similarly, gains from urbanisation and improvement in inequality have moderated. The growth rate of urban population has slowed to under 2% annually since 2019 while Gini coefficient has hovered around 0.40 for over a decade.

¹⁴ The share of own account workers is based on DOSM’s Labour Force Statistics. For comparability, the 2024 growth rate is computed using the pre-rebased series (prior to the Population and Housing Census 2020 rebasing) to avoid a break in the time series.

¹⁵ Mixed income combines the remuneration of work done by self-employed workers and the business’s operating surplus from production. This includes income from hawkers, e-hailing and delivery riders, freelancers and other own-account work.

¹⁶ Based on Economic Outlook 2026 by the Ministry of Finance, Malaysia.

¹⁷ Department of Statistics, Malaysia (DOSM), Population Projections (2025).

Slower Wage Growth

Wages, which made up 62.9% of household income in 2024,¹⁸ have grown only modestly over the past decade. Between 2010 and 2019, real¹⁹ monthly median wages rose from RM1,500 to RM2,010, equivalent to a 3.3% compound annual growth rate (CAGR). Wages even fell below productivity during COVID-19. Although wages recovered thereafter, the CAGR of 0.9% during 2019–24 remained below pre-pandemic trend and growth in productivity (CAGR: 1.1%). Wages caught up with the cumulative productivity gains only in 2024 (Chart 17). Undoubtedly, Malaysia’s labour productivity performance has room for improvement relative to aspirational comparators (2021–24 avg. Malaysia: 2.8%, Singapore: 3.4%, UK: 3.2%, China: 5.2%). Even at Malaysia’s current stage of productivity development, workers receive a relatively smaller share of national income compared with regional and advanced economies, as reflected in the lower compensation of employees share of GDP (Chart 18).

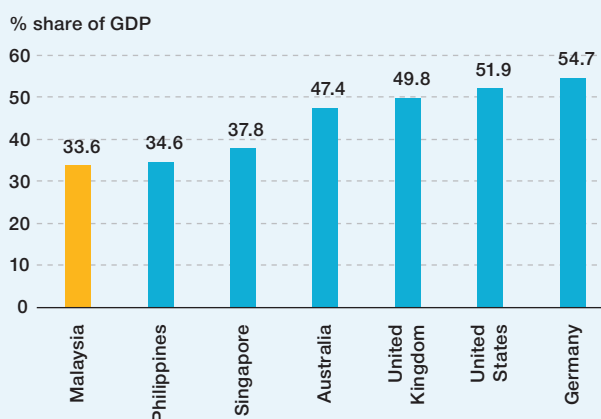
Chart 17: Productivity vs Real Wage (2019–24)



Note: Real median wage is estimated by deflating nominal median wage with Consumer Price Index, with 2010 as the base year. Productivity is defined as real value added per worker.

Source: Salaries and Wages Survey Report, Consumer Price Index and Labour Productivity Statistics by the Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Chart 18: Compensation of Employees in 2024



Source: Economic Outlook 2026 by the Ministry of Finance, Malaysia

Several structural factors may explain Malaysia’s subdued wage outcomes.²⁰ Firstly, over the last seven years, the economy has not generated enough high-skilled, high-paying jobs, reflecting slow progress in moving towards more technology-intensive production. Secondly, heavy reliance on low-cost foreign labour reinforces low-value production models and further suppresses wage growth, especially in low- and semi-skilled roles. Thirdly, gaps in broader labour market ecosystem, such as persistent skills mismatches and uneven access to quality, relevant skilling opportunities, also limit workers’ ability to access better-paying jobs. Fourthly, during COVID-19, many firms retained their workers despite lower output,²¹ which preserved employment but dampened wage adjustments in the recovery period.

Persistently weak wage growth has two potential implications for the sustainability of household spending. Firstly, under the permanent income²² and life-cycle hypotheses,²³ spending decisions reflect both current earnings and expectations of future income. Slower wage growth signals weaker future earnings, causing prudent households to slow their consumption. Secondly, some households may treat the income weakness as temporary or face frictions in adjusting consumption. To maintain their spending, they may increasingly draw down on savings, increase borrowing, or make use of available policy support. However, prolonged reliance on the non-income channels has its own sustainability risks.

¹⁸ Based on the Department of Statistics, Malaysia Household Income Survey Report 2024, other sources of household income are income from self-employment (14.8%), income from property & investment (11.7%) and income from current transfers (10.6%).

¹⁹ These real monthly median wages are estimated by deflating nominal median wage with the Consumer Price Index, with 2010 as the base year.

²⁰ For further details, please refer to the box article ‘The Case for Labour Market Reforms in Malaysia: Challenges and Opportunities’ in BNM’s Economic and Monetary Review 2023.

²¹ For further details, please refer to the BNM Working Paper 4/2025 ‘Balancing Wages: Investigating Labour Hoarding Dynamics in Malaysia’.

²² Friedman, M. (1957). The Permanent Income Hypothesis. In A Theory of the Consumption Function (pp. 20–37). Princeton, NJ: Princeton University Press.

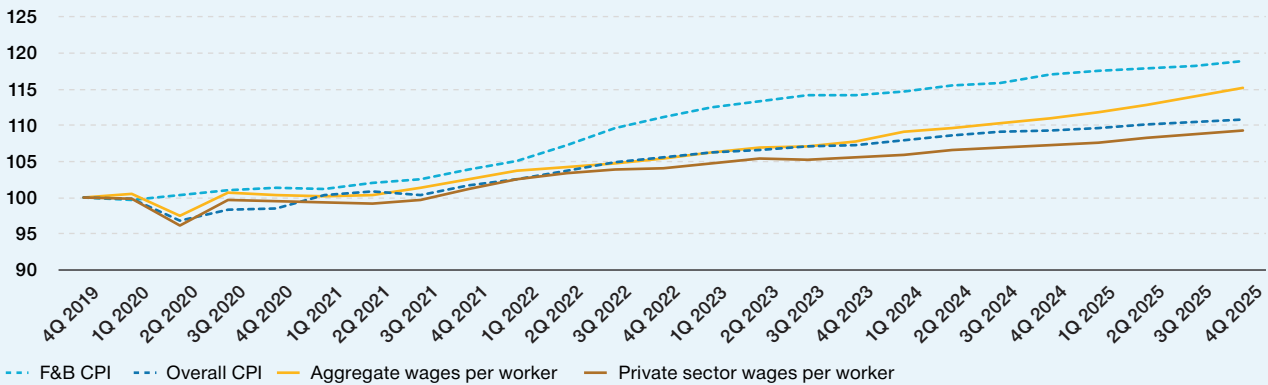
²³ Modigliani, F. (1954). ‘Franco Modigliani and the Life Cycle Theory of Consumption.’ In The Life Cycle Hypothesis as a Tool of Theory and Policy, edited by J. J. Arrow, 1–22. Cambridge University Press.

Cost of Living Pressure

Cost of living concerns have intensified following higher prices during the post-pandemic reopening. Although inflation has stabilised since 2023, price levels remain elevated relative to the pre-COVID period.²⁴ While aggregate wage per worker growth tracked headline inflation, it has not matched the sharper increases in food and beverage (F&B) prices (Chart 19). In the private sector, wage growth lagged both overall and F&B inflation. The pressure is more pronounced for lower-income households, for whom F&B spending constitutes a larger share of total expenditure.²⁵ In this environment, income transfers continue to provide an important buffer, with their share of total household income increasing to 10.6% in 2024 compared to 8.2% in 2019.²⁶

Chart 19: Consumer Price Index (CPI) & Wages

Seasonally adjusted index, 4Q 2019=100



Note: CPI data use seasonal adjustment by Department of Statistics, Malaysia while seasonal adjustment for wages is done using X-13 ARIMA-SEATS method. Wages are in nominal terms.

Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Sustainability of Fiscal Support and Its Trade-Offs

Government support has played an important role in helping lower income groups cope with cost-of-living pressure. However, fiscal space is limited, and prudence requires careful prioritisation of Government spending. Over time, greater fiscal allocation on recurrent cash assistance will reduce room for public investments that strengthen productive capacity, such as education and public infrastructure. Without effective exit mechanisms, prolonged household reliance on cash transfers increases exposure to shifts in fiscal priorities and could complicate fiscal consolidation and retargeting efforts. These challenges are likely to intensify over the longer term as population ageing raises structural demands on healthcare and social protection.

Moderation in Accumulation of Household Liquid Buffers

As households draw down pandemic-era savings, liquid savings has moderated and the pace of buffer rebuilding has been more gradual. While household liquidity positions remain adequate with outstanding liquid asset exceeding household debt, liquid financial asset-to-debt ratio has eased alongside lower household savings rate (Chart 20).²⁷ This trend aligns with the moderation in residual income, as reported

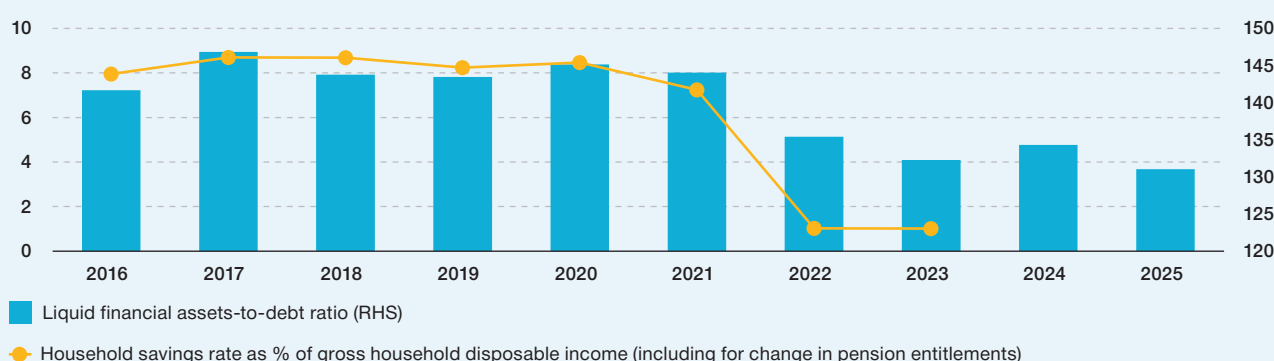
²⁴ For further details, please refer to the box article 'Curbing Inflation, Easing Costs: The Policy Perspective' in Bank Negara Malaysia's Annual Report 2024.

²⁵ Based on the Household Income and Expenditure Survey (HIES) 2024, food and beverage spending (including meals at restaurants) constitutes the largest component of household spending at 32%. By income group, B40 households allocate the highest share to food at 37%, followed by M40 at 34% and T20 at 27%.

²⁶ This share is based on HIES, where transfers include government cash assistance, remittances from other households, pensions, alimony and gifts.

²⁷ Liquid financial asset-to-debt ratio measures the sum of deposits, unit trust funds, investment in equities and surrender value of insurance policies divided by total outstanding household debt.

Chart 20: Household Savings Rate and Liquid Financial Asset-to-Debt Ratio



Note: Household savings rate, which is based on the National Economic Accounts, is only available up to 2023.

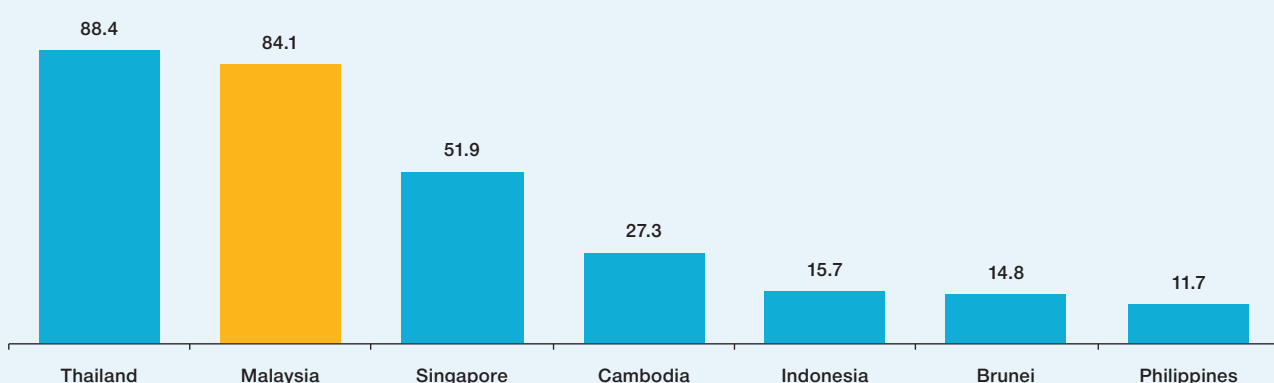
Source: Bank Negara Malaysia and Department of Statistics, Malaysia

by Khazanah Research Institute (KRI), which declined across all gross income deciles between 2019 to 2022.²⁸ From a longer-term perspective, retirement adequacy risks are evident across age groups, with KRI noting that over 90% of EPF members under 30, and most aged 30–54 do not meet the basic savings benchmark for retirement.

Elevated Household Debt

Malaysia’s household debt-to-GDP ratio remains high by regional standards (Chart 21). High leverage increases the sensitivity of consumption to adverse shocks, particularly for low-income and highly indebted groups.²⁹ When income falls and repayments remain fixed, debt service takes up a larger share of income, reducing flexibility to maintain spending. At the same time, such borrowers have limited capacity to borrow further for consumption smoothing. Taken together, these factors imply that shocks to income may lead to more pronounced spending adjustments, heightening downside risks to private consumption.

Chart 21: Household Debt-to-GDP Ratio (2024)



Note: For Thailand, Malaysia and Singapore, the data include household loans from all financial institutions. Meanwhile, the figures for Indonesia Brunei and Philippines cover only household debt within the banking system. Malaysia’s household debt-to-GDP ratio based solely on the banking system stood at 69.5% in 2024.

Source: CEIC, national authorities

²⁸ This is based on KRI State of Household 2024, where residual income is defined as excess of income over consumption expenditure.

²⁹ This is observed in Japan, where highly indebted households exhibit higher marginal propensities to consume (Nakajima 2018), and in Australia and the United States, where households with high debt and limited liquidity display stronger consumption responses to monetary tightening (Loukoianova, Wong and Hussiada 2019; Gelos et al. 2019). Vulnerability is greatest among lower-income groups. IMF stress-tests for China indicate that low-income, highly indebted households face larger consumption declines and higher default risks when adverse shocks materialise (Han et al. 2019).

The Rise of Gig Worker and Income Volatility

Gig employment often substitutes stable and predictable wages with more volatile and uncertain earnings. A recent study by the World Bank finds that informally employed workers, including many gig workers, consistently earn less than formal workers, with earnings concentrated at the lower end of the income distribution.³⁰ Gig work also provides fewer opportunities for skill accumulation, career and wage progression, limiting upward mobility over time. The Government's introduction of the Gig Workers Bill 2025 marks a significant step in formalising gig work and strengthening social protections for gig workers.³¹ Nevertheless, gaps in income stability, retirement savings accumulation and employment benefits relative to formal employment would remain.

Part 4: Policy Imperatives

This section outlines three key policy imperatives to support the sustainability of private consumption growth, namely raising household income; maintaining price stability through low and stable inflation; and harnessing the second demographic dividend.

(a) Raising Household Income

Given the central role of private consumption in driving GDP growth, a key focus area for sustaining economic momentum is to raise Malaysian incomes in a durable way. Higher and more predictable income growth would improve households' expectations of future earnings and reduce the need to increase borrowing or drawdown their savings. This would in turn ease pressures from elevated household debt and help households better absorb cost of living pressures.

To achieve this, Malaysia could benefit from structural reforms that support industrial upgrading, better jobs and skills development. Recent strategies such as the National Industrial Masterplan (NIMP2030), the National Semiconductor Strategy (NSS) and the National Investment Aspirations (NIA) aim to attract quality investments and shift Malaysian firms towards more complex, high-value activities that generate more high-skilled job opportunities. As of September 2025, focus sectors under the NIA framework have attracted RM137.9 billion in investments, with projects expected to generate more than 49,000 jobs.³² Efforts are also underway to strengthen education and skills development,³³ including reforms to technical and vocational education and training (TVET) and expanded industry-linked training initiatives. Additionally, workers should have continuous opportunities to upgrade their skills and participate in lifelong learning. Continued improvements in governance, coordination and alignment with industry needs are critical to enhance workforce adaptability. At the same time, rationalising foreign labour policies will also play a role in strengthening incentives for firms to invest in capital-deepening, while still being able to meet genuine labour shortages.

To meaningfully raise incomes and strengthen purchasing power, Malaysia must also strengthen the institutions that shape how wages are set between employers and employees. The introduction of the minimum wage in 2013, and its subsequent revisions, which progressively raised the wage floor from RM900 to RM1,500, marked a significant step toward correcting institutional imbalances. During the decade leading up to the pandemic, wage inequality declined³⁴ and labour income share improved (Chart 22).

However, as the minimum wage mainly affects the lower end of the wage distribution, repeated adjustments have narrowed wage differentials between low- and semi-skilled workers (2024: RM396, 2016: RM550), reflecting wage 'bunching' around the statutory minimum (Chart 23). In other words, rather than encouraging broad-based wage growth, it is observed that the minimum wage has not proportionally raised wages for workers in the middle of the pay distribution. To support broader, more

³⁰ World Bank (2024). Informal employment in Malaysia: Trends, challenges and opportunities for reform.

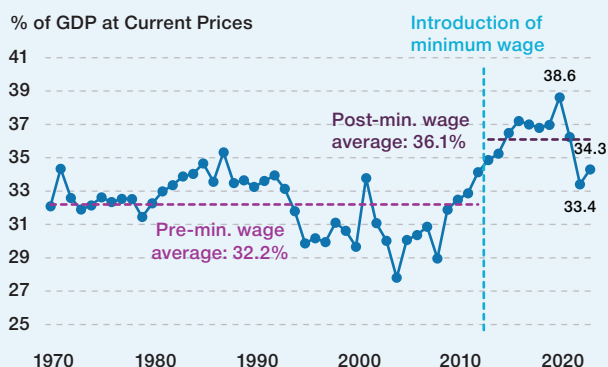
³¹ The Gig Workers Bill 2025 establishes Malaysia's first comprehensive legal framework for gig workers, granting statutory rights such as fair contract terms, payment transparency, access to dispute resolution, and protection from unjust termination. It also mandates minimum service agreement standards, requires platform providers to make Social Security Organization (SOCSSO) deductions and contributions from gig workers' earnings, imposes occupational safety obligations on contracting entities, and creates a new Gig Workers Tribunal to provide accessible and efficient dispute resolution. Source: Parliament of Malaysia. (2025). Gig Workers Bill 2025 (D.R.27/2025). Retrieved from (<https://www.parlimen.gov.my/>).

³² MIDA (2025) 'Malaysia's RM286.2 Billion Approved Investments in 9M 2025 Up 13.2% Y-O-Y, Defies Global Headwinds, Creates Over 150,000 Jobs'.

³³ For further details, please refer to the box article 'The Case for Labour Market Reforms in Malaysia: Challenges and Opportunities' in BNM's Economic and Monetary Review 2023.

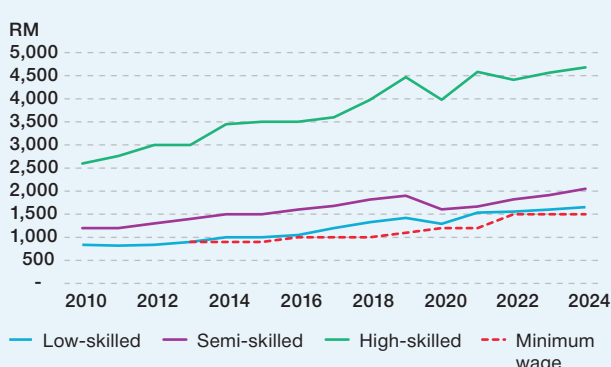
³⁴ Khazanah Research Institute (2023) 'The Returns to Malaysian Labour – Part I'.

Chart 22: Time Series of Malaysia's Labour Income Share



Source: APO Productivity Databook 2025 by the Asian Productivity Organization and Bank Negara Malaysia estimates

Chart 23: Median Nominal Wages by Skill Category



Source: Salaries and Wages Survey Report by the Department of Statistics, Malaysia and Federal Government Gazette

durable income growth, Malaysia will need to further develop its wage-setting institutions beyond the minimum wage. International experience shows that complementary mechanisms, such as wage guidelines, living wage³⁵ standards and coordinated wage-setting can help link wage growth to national priorities like productivity, competitiveness and price stability. For example, Japan's Shunto system is an economy-wide process that helps anchor wage expectations and link wage increases to broader macroeconomic conditions. Adapting these principles to Malaysia's context would help rebalance bargaining power and ensure that rising productivity consistently translates into higher incomes for workers. In this regard, the Thirteenth Malaysia Plan (13MP) outlines commitments to labour market reforms, including strengthening the role and mandate of Majlis Perundingan Gaji Negara (MPGN), encouraging large firms to adopt living-wage practices and promoting a shift from reliance on foreign labour toward greater automation, mechanisation and hiring of local workers.

(b) Maintaining Low and Stable Inflation

Besides income growth, low and stable inflation are also key to ensuring sustainable consumption among households. Bank Negara Malaysia, through its conduct of monetary policy, continues to ensure that inflation remains low and stable, which in turns help with maintaining household purchasing power. The Government has also introduced time-bound measures to alleviate food costs in the short term. Targeted production subsidies and price ceiling for essential food items experiencing temporary supply disruptions helps cushion vulnerable households from a sharp increase in cost of living.³⁶ However, such interventions are not without challenges. For instance, chicken price controls and subsidies were introduced in February 2022 to stabilise prices and production amid higher feed costs.³⁷ Despite the subsidies, this has caused a shortage of chicken supply that persisted into mid-2022.³⁸ These controls distorted market incentives, disrupted production and eventually necessitated the easing of chicken import requirements and the extension of subsidies³⁹ to fulfil the domestic supply. Thus, in the medium to long-term, supply-side policies should be in place to raise productive capacity. Investment in infrastructure and funding for the research and development of high-growth-high-value sectors helps with expanding domestic production thus keeping the prices of essential goods affordable. Externally, relevant government agencies should work closely with industry stakeholders to diversify sources of food products to mitigate future supply disruptions. Such efforts would enable domestic importers to respond more nimbly by securing purchase orders from alternative supplies, helping to keep food inflation low and stable.

(c) Harnessing the 'Second Demographic Dividend'

As Malaysia's population ages, policies must actively harness the 'second demographic dividend', defined as productivity-enhancing economic gains that arise when an ageing population accumulates more savings, wealth, and human capital. Economic literature highlights that, unlike the first demographic dividend, the second dividend is not automatic. It must be enabled through reforms

³⁵ For further details, please refer to the box article 'The Living Wage: Beyond Making Ends Meet' in BNM's Annual Report 2017.
³⁶ For further details, please refer to the box article 'Closing the Food Gap: The Role of Structural Improvements in Agrofood Sector' in BNM's Third Quarter of 2021 Quarterly Bulletin.
³⁷ (<https://www.straitstimes.com/singapore/malaysia-bans-chicken-exports-from-june-1-how-singapore-consumers-businesses-are-coping>).
³⁸ Mohd Zulhelmi et al (2023) Malaysia's Chicken Shortage, A Solution Proposal Through Consumerism, JABM.
³⁹ USDA (2022) Malaysia Extends Price Support Subsidy for Poultry Products.

that raise national savings, strengthen social support systems and increase productivity through targeted capital investments.⁴⁰ A key priority is to continue broadening retirement savings coverage, particularly among informal workers such as micro-entrepreneurs and gig workers. Ongoing measures such as default EPF enrolment for platform-based workers, matching contributions for lower-income informal workers, and simplified contribution channels through e-wallets and payment platforms would directly strengthen their long-term financial buffers. These policies may temporarily come at the cost of lower short-term income and consumption, but they improve retirement adequacy and reduce vulnerability to income shocks in the long run. The pooled savings would then need to be strategically intermediated into sectors with strong productivity spillovers. In practice, this means ensuring that domestic institutional savings are intermediated into priority investments outlined under the various national masterplans (e.g. NIMP 2030).⁴¹ Such investments can raise Malaysia's capital-to-labour ratio, which in turn supports labour productivity growth⁴² and sustained real wage growth even as the labour force contracts.⁴³

At the same time, policies must tackle issues that hinder the enablement and empowerment of older Malaysians to remain economically and socially active. This includes scaling up elder care services such as nursing, rehabilitation, community-based healthcare support,⁴⁴ as well as ensuring adequate standards, staffing and financing models for these services. In parallel, labour policies should promote flexible work arrangements and phased retirement options that enable older Malaysians to remain economically active. Higher participation among older workers not only supports household income but also help support sustainable consumption as this demographic grows in economic significance.⁴⁵ Realising the second demographic dividend therefore requires coordinated execution of related policies to ensure that households continue to experience sustainable income and consumption growth in an ageing Malaysia.

Conclusion

Malaysia's economic landscape has changed significantly since the 1970s. Sustaining private consumption requires addressing pressures on household incomes and living costs. This calls for policies that deliver better-quality jobs, stronger wage growth and more responsive social protection, supported by efforts to keep prices stable. By building a more resilient foundation for households, Malaysia can ensure that private consumption remains a stable and sustainable engine of growth in the years ahead.

⁴⁰ Manuel Mejido (2019) Harnessing the second demographic dividend, Social Development Working Papers.

⁴¹ EPF Commits RM250 Million Aimed At Catalysing Malaysian Mid-To-Growth Stage Companies.

⁴² World Bank (2025) Malaysia Economic Monitor: From Bytes to Benefits: Digital Transformation as a Catalyst for Public Sector Productivity (Box 3).

⁴³ Goh (2009) Is productivity linked to wages? An empirical investigation in Malaysia.

⁴⁴ Cassey Lee (2025) Demographic Change and Services: the case of Malaysia.

⁴⁵ Phillip O'Keefe (2024) Malaysia's Aging Society and the Silver Economy.

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