

MINIMUM WAGE: THE IMPACT ON THE ECONOMY

- Minimum wages are widely used as a labour policy tool to promote income equality and reduce working poverty.
- Approximately 90 per cent of nations in the world have a minimum wage policy that is acceptable for their economic systems.
- Among others are the United Kingdom, Australia, South Korea, Thailand, and Indonesia. **Malaysia** also has established minimum wage policy, and its minimum wage rate is relatively high compared with many of its Southeast Asian neighbours.



This newsletter presents the fundamentals of minimum wage: its definition, objectives and the rationale for its adoption. It also traces its evolution over time, examine its impact on workers & businesses and highlights the challenges policymakers encounter in balancing its benefits and limitations.

What is Minimum Wage?

According to **International Labour Organization (ILO)**, minimum wage can be defined as:

Lowest wage that should be paid to a worker for work or services rendered over a certain period whether calculated based on time or output. It may not be reduced either by individual or collective agreement of which it is guaranteed by law. It may be fixed in such a way as to cover the minimum needs of the worker and his or her family, in the light of national economic and social conditions (ILO, 2024).

According to Section 2 of **Malaysia's National Wages Consultative Council Act 2011 (Act 732)**, the minimum wage is the **basic wage** excluding allowances, incentives, commissions, or other additional payments. The wage must meet the government's minimum rate without including any allowances (KESUMA, 2024).

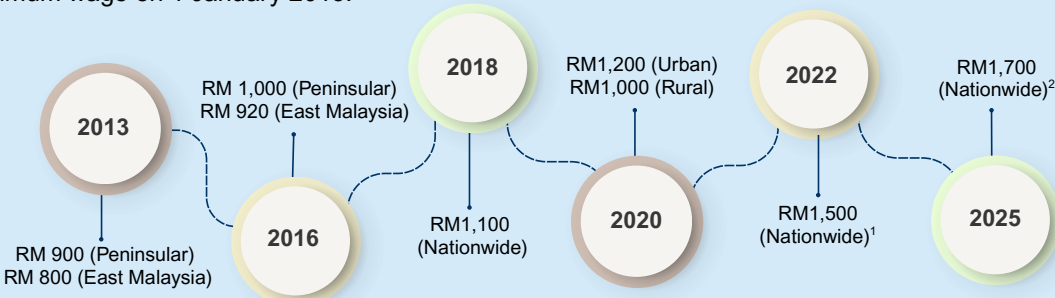
What are the general aims?

- 1 To reduce poverty or inequality by increasing the wages of low-income workers.
- 2 To promote a fairer wage structure and contribute to higher value-added economic activities.
- 3 To promote a more equitable economy and balanced income distribution within the country.

Source: Ministry of Human Resource (KESUMA),
International Labour Organization (ILO)

How has the implementation of Minimum Wage evolved in Malaysia?

The ILO laid the foundations for minimum wage standards internationally in 1970, whilst Malaysia implemented its first national minimum wage on 1 January 2013.



Note:

¹Implemented on 1st May 2022 for employers with more than 5 employees and 31st December 2022 for employers with less than 5 employees.

²Implemented on 1st February 2025 for employers with more than 5 employees and 1st August 2025 for employers with less than 5 employees.

Source: KESUMA

1



What are the trade-offs of Minimum Wage?



Advantages

- ✓ Help **lift low-income employees out of poverty** by guaranteeing a basic level of income.
- ✓ **Improve employees' standard of living & access** to basic need.
- ✓ Sets a **fair standard to protects employees** from being paid unfairly or exploited in low-paying jobs.
- ✓ **Increase employees motivation and loyalty** that benefits employers through higher productivity.

Source: Ministry of Human Resources (KESUMA)



Disadvantages

- ✗ **Higher minimum wage** requirements can **raise operating costs (labour cost)** for businesses.
- ✗ **Higher minimum wages** might compel **businesses to increase the prices of respective goods and services**, which might result in higher living costs.
- ✗ May lead to **reduce staff or fewer working hours** to control expenses.
- ✗ May **discourage hiring of inexperienced or low-skilled workers**.

Source: National Wages Consultative Council (NWCC), ILO

“ **What is the rationale for implementing minimum wages in Malaysia?** ”

- ① To ensure the basic needs of workers and their families are met.
- ② To provide adequate social protection for workers.
- ③ To set minimum wage rates based on key economic indicators such as poverty levels, inflation, wages, productivity, and unemployment.
- ④ To reduce the nation's dependence on unskilled foreign labour.

Source: NWCC, KESUMA

How Minimum Wage differs from Living Wage in Malaysia?



Minimum Wage

Lowest wage that should be paid to an employee for services over a certain period calculated based on time which may not be reduced either by individual or collective agreement

RM 1,700 (2025)

Required by law

To prevent exploitation & provide wage floor

Only cover basic needs

May lead to financial stress, multiple jobs and low quality of life



Definition

Rate

Legal Status

Purpose

Social Inclusion

Impact

Living Wage



A level of pay that gives workers & their families a decent standard of living including afford basic needs such as food, housing, healthcare, education, transport and clothing

RM 3,100 (2025)

Voluntary

To ensure financial security

Includes social participation, family planning & freedom from financial stress

Promotes well-being, motivation, higher productivity and work-life balance

Source: International Labour Organization (ILO); Bank Negara Malaysia; National Wages Consultative Council (NWCC)



How does Minimum Wage affect productivity in Malaysia?

1

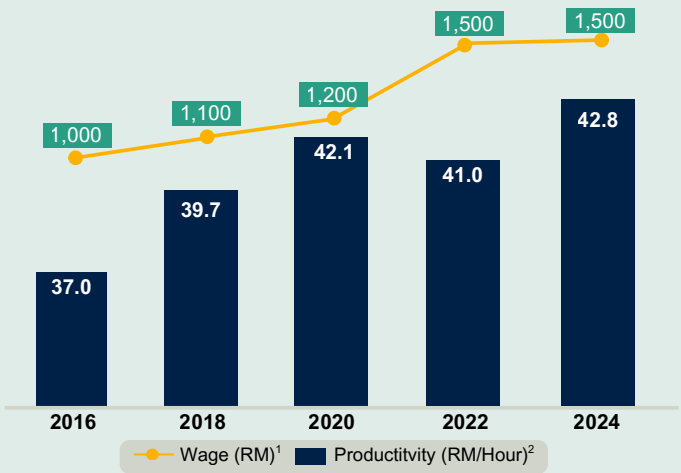
Fair wages can increase workers' motivation and commitment to their jobs.

2

Paying higher wages often helps employers reduce staff turnover and the costs of hiring and training new employees.

3

To manage increased labour costs, companies may adopt better technology and more efficient work processes.



- Since 2016, minimum wage and productivity increased steadily, indicating a positive correlation between the two.
- However in 2022, minimum wage increased to RM 1,500 but recorded a decline in productivity from 2020 as the full implementation was only realised at the end of 2022.
- Between 2022 and 2024, while the minimum wage remained unchanged, productivity rebounded, suggesting a possible lag effect in productivity response.

Source: ¹ NWCC, KESUMA;
² Labour Productivity Report, Fourth Quarter 2024, DOSM

What are the Impacts of Minimum Wage on Employment?



Neoclassical economic theory predicts that higher minimum wages will lead to lower employment for two reasons:

- **scale effect:** minimum wages may force businesses to raise the prices of goods and services and cause consumers to reduce their demand in response to the higher costs.
- **substitution effect:** when low-wage workers become more “expensive” due to the minimum wage, firms may decide to replace some of them with more machines and a few skilled workers to operate these.

What are the Impacts of Minimum Wage on Economy?



- Many businesses are struggle to bare higher wages and can lead to reduce operations or closures.
- Higher wages can lead to increase costs for businesses, which may be imposed on consumers and it will cause inflation and affects everyone's cost of living.
- A single nationwide wage does not reflect to regional living costs like in urban vs. rural areas. Some areas may be overburdened or underprotected by a flat rate.
- Many employers delayed implementation, saying they couldn't afford it with some reportedly faked records or forced workers to sign false wage slips.

Source: International Labour Organization (ILO)

Key Findings

The minimum wage in Malaysia has increased over the years to improve workers' income and reduce poverty which recorded a Compound Annual Growth Rate (CAGR) of 4.65 per cent. Overall, higher minimum wages have helped improve workers' standard of living, motivation, and productivity. However, the policy also creates challenges for businesses such as higher operating costs, possible jobs reduction, and inflationary pressure. It may be useful for minimum wage policies to take into account differences in living costs, economic conditions, and business environments across states and regions. A more flexible and data-driven approach could help ensure that workers are protected while businesses remain competitive and sustainable.

