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Please contact Kenneth Simler (ksimler@worldbank.org) if you have questions or comments with respect to the content of this report.
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# Abbreviations

<table>
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<th>Description</th>
</tr>
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<tr>
<td>AKPK</td>
<td>Credit Counselling and Debt Management Agency (Agensi Kaunseling dan Pengurusan Kredit)</td>
</tr>
<tr>
<td>BNM</td>
<td>Bank Negara Malaysia (the central bank)</td>
</tr>
<tr>
<td>BSH</td>
<td>Bantuan Sara Hidup Rakyat (cost of living aid)</td>
</tr>
<tr>
<td>CPI</td>
<td>Consumer Price Index</td>
</tr>
<tr>
<td>DOSM</td>
<td>Department of Statistics Malaysia</td>
</tr>
<tr>
<td>DSR</td>
<td>Debt Service Ratio</td>
</tr>
<tr>
<td>EPF</td>
<td>Employees Provident Fund</td>
</tr>
<tr>
<td>GWP</td>
<td>Gallup World Poll</td>
</tr>
<tr>
<td>HIS&amp;BA</td>
<td>Household Income and Basic Amenities Survey</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>PIR</td>
<td>Price-Income Ratio</td>
</tr>
<tr>
<td>PLI</td>
<td>Poverty Line Income</td>
</tr>
<tr>
<td>SPI</td>
<td>Spatial Price Index</td>
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</table>
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Summary

Despite Malaysia’s low and stable inflation rate, there has been an ongoing debate regarding perceived increases in the cost of living in the country. The concerns are frequently expressed in public policy discussions, the mass media, and private conversation. The issue has featured prominently in public and private discourse for years, dating back at least to the rationalization of the fuel subsidy in December 2014 and the introduction of the Goods and Services Tax in April 2015. More recently, there has been a robust public debate about whether Malaysia should raise the nationally defined poverty line. These concerns have emerged during a period of low inflation; the average annual headline inflation rate stood at less than 2 percent beginning in January 2015 and has declined to less than 1 percent since January 2018, well below the growth rates of the economy and average nominal incomes.

In this context, the “cost of living” is frequently used as a catchall term that may reflect wider developments in the economy and the associated impacts on household budgets and well-being. While the discussion is usually framed as an issue of the rising costs of goods and services, the core issues for most Malaysians extend beyond prices. These include lagging income growth and greater indebtedness that results in less disposable income and inadequate financial savings. In addition, rising home prices also feed into the concerns of many Malaysians about housing affordability and the cost of living.

Overall, increases in the price of most goods and services have been low and stable. The consumer price index (CPI) shows that the inflation rate has been moderate in recent years. This is especially the case of core inflation, which excludes items with more volatile prices (especially energy and food commodities), items with administered prices, and the estimated direct impacts of changes in consumption tax policy. The average year-on-year core inflation rate has stood at 3 percent or less since mid-2016. Headline inflation tracked this rate closely except during 2017, when higher food and fuel prices pushed it up into the 3 percent–4 percent range.

Living costs vary significantly across Malaysia. While price changes over time are well documented, comparatively little attention is given to the large differences in prices across locations. Around the country, it is readily apparent that some places are more expensive than others. The most obvious spatial price differences are in housing, where location is an inherently critical component of property values, but there is also significant spatial price variation across a wide range of common goods and services.

Because of spatial price differences, the purchasing power of the ringgit varies from place to place, which directly impacts the cost of living. Johor, Kuala Lumpur, and Selangor are Malaysia’s high-cost environments, and that costs tend to be lower in states such as Kedah, Kelantan, and Perlis. If household incomes varied across these areas in exactly the same proportion as costs then the effect of spatial price differences on the cost of living would be neutralized. However, incomes do not vary in the same way, especially beyond the averages.

Increasing numbers of Malaysians, particularly in urban areas, feel their incomes are insufficient to meet the cost of living. Real household incomes have been consistently rising over the past two
Aspirations Unfulfilled: Malaysia’s Cost of Living Challenges

decades, sometimes quite rapidly; yet, for many, the gains have not kept up with expectations. From 2009 to 2014, income growth rates were substantially higher among the bottom 40 percent of the income distribution (the bottom 40) than among the middle 40 percent of the income distribution (the 41st through 80th percentiles) and the top 20, but more recently (2014–16), income growth slowed among the bottom 40, trailing the growth among the middle 40. The sentiment among households that one is being left behind is likely compounded by the fact that absolute income gaps have been widening steadily.

Despite rising educational attainment, income growth among younger and less well educated workers has been sluggish. While incomes among all age-groups have tended to grow at a faster rate than inflation, the growth in employment earnings in the case of younger workers has consistently lagged those of their older counterparts. Employment earnings among individuals who have completed only secondary education are not only substantially lower than the corresponding earnings of individuals with higher education, but the real wage growth among the former has also been persistently low.

People who feel their incomes are not keeping up with the cost of living may opt to work more to try to make ends meet. This could mean that a nonworking household member may decide to start working or that a working household member might take on a second or even a third job. Qualitative research suggests that the increases in the number of workers per household and the
number of people holding multiple jobs are greater than indicated by quantitative survey data.

**Borrowing provides temporary income support among lower-income households.** Borrowing supplies temporary relief among households to compensate for inadequate incomes, particularly in the short term. While debt offers opportunities to shift consumption and make investments over the long run, it also limits the discretionary income available to households. Lower-income households and population subgroups have a heavy debt load and face high debt service ratios (DSRs). More than 40 percent of borrowers with monthly household incomes at less than RM 3,000 have DSRs above 40 percent. Among lower-income borrowers, debt is mostly tied up in motor vehicles and personal financing, thus supporting consumption as opposed to longer-term investments to build wealth.

**Housing affordability has deteriorated.** Housing is a basic need, and the cost of meeting this need usually constitutes one of the largest household expenditure items. Various studies using the price–income ratio (PIR) have shown that the affordability of housing in Malaysia has deteriorated and that housing is now severely unaffordable in several states and seriously unaffordable in Malaysia as a whole according to that measure. For this report, the World Bank has developed a new housing affordability model that is more detailed than the PIR and better equipped for the analysis of housing affordability across the income distribution and housing prices. If applied to detailed housing and income data on Kuala Lumpur and Petaling District as case studies, the model facilitates an analysis of income and housing prices to identify the points at which housing unaffordability is most critical.

**The lack of affordable housing is particularly severe among households earning less than RM 5,000 per month.** It is estimated that the number of households in this income group far exceeds the supply of housing that the group can afford. Household shares of 55 percent in Kuala Lumpur and 37 percent in Petaling District lack access to housing that they can afford. Households in the RM 6,000 to RM 10,000 monthly income bracket can typically afford to purchase a home in the RM 230,000 to RM 500,000 price range, but the availability of such homes is uneven. The market for affordable housing for this income group is much tighter in Petaling District than in Kuala Lumpur, given Petaling’s growing undersupply and the associated rise in prices in recent years.

**Reducing cost of living pressures requires a mix of short-term measures and medium- and long-term structural reforms.** Until recently, many of the measures targeted at addressing issues in the cost of living have been relatively ad hoc, fragmented, and short term. Some of the policies that the government has implemented include subsidies, administrative price controls, the construction of affordable housing, concessional mortgage financing, and credit counseling. Because the factors affecting household living standards are wide-ranging and tend to overlap to some degree, a more structured approach to addressing higher living costs and improving well-being may be organized into short-term measures and medium- and long-term structural reforms. Short-term measures need to focus on alleviating the hardships among lower-income households by deepening social safety nets, while, over the medium and long run, increased coordination across agencies and the implementation of structural reforms to foster greater market competition and accelerate productivity could help lift the real incomes of everyone.
CHAPTER 1

Many Factors Affect the Ability to Get By
There has been an ongoing debate about perceived increases in the cost of living and overall well-being among households in Malaysia. The concerns are expressed frequently in public policy discussions, the mass media, and private conversation. The issue has featured prominently in public and private discourse for years, dating back at least to the fuel subsidy rationalization in December 2014 and the introduction of the goods and services tax in April 2015. It is also linked to the robust public debate that has emerged more recently about whether and how the nationally defined poverty line should be raised. The worry about the rise in the cost of living has coincided with a period of low inflation. Headline inflation has averaged around 2 percent since 2015 (except in 2017, when it was 3.8 percent), well below the growth rates of the economy and average nominal incomes.

In this context, the “cost of living” is often used as a catchall term that may reflect wider economic developments and the associated impacts on household budgets and well-being. The discussion is usually framed around the rising cost of goods and services, but the core issues for most Malaysians extend beyond prices. They include lagging income growth and rising household debt, which result in less discretionary income and inadequate savings. Rising home prices also feed into the uneasiness about housing affordability and the cost of living.

This report reflects a comprehensive approach to the examination of the cost of living in Malaysia. Using a household-centric perspective, it identifies four factors that contribute in varying degrees to the ability of households to make ends meet. These factors may be conveniently categorized as follows: (1) consumer price inflation differentials linked to income or geographical location, (2) inadequate income, (3) declining financial well-being, and (4) insufficient access to affordable housing.

The underlying premise of the analysis is that the cost of living affects individual households differently depending on a range of factors, including demographics, location, and employment. Organizing the analysis along these lines also enables the identification of practical policy measures to address the economic hardships related to perceptions regarding the increasing cost of living.
CHAPTER 2
How Quickly Are Prices Really Increasing?
The prices of goods and services are central to understanding the cost of living. Two questions are frequently at the forefront of any discussion about the cost of living: What goods and services does one need for day-to-day living? What are the prices of these goods and services? Concepts and sentiments about the cost of living typically extend far beyond this rather literal interpretation.

Changes in consumer prices

Trends in the consumer price index (CPI) show that inflation has been moderate in recent years. This is especially true of core inflation, which excludes items with administered prices and items with more volatile prices, especially energy and food commodities. Core inflation also excludes the estimated direct impact of changes in consumption tax policy. Core inflation has been running at 2.6 percent or less year-on-year since mid-2016, and headline inflation has tracked it closely except during 2017, when higher food and fuel prices pushed headline inflation into the 3 percent–4 percent range (Figure 1).

Monetary policy in Malaysia, as in most countries, aims at establishing a low, stable rate of consumer price inflation. Low, stable inflation facilitates economic growth and development. It would therefore be unrealistic to expect that prices will not rise, even for basic consumption items. Indeed, the Consumer Sentiments Survey of Bank Negara Malaysia, the central bank, indicates that Malaysians expect prices to rise and that their expectations about inflation average about 1.5 percentage points more than actual inflation (Baker and Ghani 2019).
**Chapter 2: How Quickly Are Prices Really Increasing?**

**According to some critics, the CPI is not an accurate measure of the costs that people face every day.** To evaluate this criticism, it is useful to recall how the CPI is calculated. The CPI is based on a reference basket of consumer goods and services. The composition of the reference basket is determined by the average consumption patterns of Malaysian households as recorded in the Household Expenditure Survey. The three most recent surveys were carried out in 2014, 2016–17, and 2019.¹ The estimated cost of the CPI reference basket is calculated each month using the average prevailing prices of the items in the basket based on a price survey covering more than 500 items in more than 20,000 locations throughout Malaysia. According to assessments, the CPI methodology employed by the Department of Statistics Malaysia (DOSM) is generally sound and in line with internationally recommended practice.

**While the CPI may be a valid measure of average trends in consumer prices, it has two inherent limitations as a tool for examining the cost of living.** First, the CPI is a summary measure based on average consumption patterns and average prices, and the real price changes that individuals experience will be higher or lower than these averages. For example, lower-income households tend to spend a larger share of the household budget on food (see Figure 2). So, if food prices are rising more quickly than the prices of other items, as has been the case in Malaysia fairly consistently over the past decade, these households experience a rate of inflation that is higher than the rate measured using the CPI. Similarly, if prices rise more rapidly in urban areas than in rural areas, then urban dwellers will face a rate of inflation that is higher than the rate captured by the CPI. Second, by design, the CPI focuses on consumption items and therefore does not include living costs that have a high investment component, such as the cost of purchasing a house or condominium. Housing prices have risen rapidly in Malaysia, especially from 2012 to 2016, and this is not reflected in the CPI.

**More nuanced measures of consumer price inflation tend to show patterns that are similar to the patterns of the CPI.** In addition to the standard CPI, DOSM also publishes a CPI based on consumption patterns of lower-income households, that is, households earning less than RM 3,000 a month. The differences in the inflation rate are generally small despite the differences in consumption patterns (Figure 3). More detailed analysis by BNM (2016) measures the CPI for each income quintile and shows that consumer price inflation was only marginally higher—1 percentage point or less—among low-income groups.

**How prices change can also lead people to conclude that inflation is higher than it really is.** Consumers do not always give equal weight to the price information they receive, unconsciously filtering that information. For example, views of inflation tend to be more heavily influenced by price changes among items that are purchased frequently, such as fresh food, dining out, highway tolls, and fuel. Likewise, consumers are more inclined to notice and remember price rises than price declines. BNM (2019a) has calculated an everyday price index (EPI) using a reference basket consisting only of items purchased at least once a month. It has also calculated a perceived price index (PePI), which includes the same frequently purchased items, but counts only price increases and excludes price decreases. Figure 4 shows that the frequency bias captured by the everyday price index is quantitatively small; it closely tracks the standard CPI, especially during 2018. In contrast, the perceived price index shows that the memory bias that gives disproportionate weight to price increases is large; the perceived price index exceeds the CPI by 7 to 14 percentage points.

---

¹ The Household Income Survey was conducted in 1973–2016. The Basic Amenities Survey was conducted with the Household Income Survey twice every five years in 1987–2016. The Household Expenditure Survey was implemented every five years in 1957/58–2016. To meet the government’s needs and requirements in evaluating the effectiveness of policy programs and strategies, these surveys were combined in 2014, 2016, and 2019. See Household Income and Expenditure (database), Department of Statistics Malaysia, Putrajaya, Malaysia, https://www.dosm.gov.my/v1/index.php?r=column/ctwoByCat&parent_id=119&menu_id=amVoWU54UTl0a21NWmdhMjFMMWcyZz09.
Spatial differences in prices

While trends in prices are closely followed and documented in Malaysia, comparatively little attention is given to the large differences in prices across locations. It is thus easy to learn how much higher prices are today relative to five years ago, but much more difficult to learn how much higher prices are in Kuala Lumpur than in, for example, Pahang. As one moves around the country, it is readily apparent that some places are generally more expensive than others and that there is usually a locally produced specialty that is unusually inexpensive. The most obvious spatial price differences are in housing, but there is also significant spatial price variation across a range of routine goods and services (Table 1). It is not unusual for the average price to be almost twice as high in one state than in another. Fresh food items such as spinach and coconut milk are the least expensive in Kuala Lumpur and relatively expensive in Sabah and Sarawak, while the opposite is true of brinjal and bananas. Services, such as haircuts, tend to be more expensive in more urbanized states, though the most expensive haircuts are in Sabah, a more rural state. The average price for a television with a 40-inch screen is much higher in Sabah and Sarawak than in peninsular Malaysia.

Because of spatial price differences, the purchasing power of a ringgit varies from place to place, which directly impacts the cost of living. Johor, Kuala Lumpur, and Selangor are high-cost environments and that costs tend to be lower in Kedah, Kelantan, and Perlis. If household incomes varied across these areas in exactly the same proportion as costs then the effect of spatial price differences on the cost of living would be neutralized. However, incomes do not vary in the same way, especially beyond the averages. The most obvious example is the minimum wage, which was RM 1,100 across Malaysia in 2019. Thus, a minimum-
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Chapter 2: How Quickly Are Prices Really Increasing?

TABLE 1: Average Prices for Selected Goods and Services, by State, September 2019 (RM)

<table>
<thead>
<tr>
<th>State</th>
<th>Spinach (kg)</th>
<th>Coconut milk (kg)</th>
<th>Brinjal (kg)</th>
<th>Golden bananas (kg)</th>
<th>Men’s haircut</th>
<th>40” LED television</th>
</tr>
</thead>
<tbody>
<tr>
<td>Johor</td>
<td>4.13</td>
<td>9.00</td>
<td>6.53</td>
<td>4.30</td>
<td>11.55</td>
<td>1,415.17</td>
</tr>
<tr>
<td>Kedah</td>
<td>3.74</td>
<td>11.50</td>
<td>6.08</td>
<td>5.25</td>
<td>8.66</td>
<td>1,457.88</td>
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<tr>
<td>Kelantan</td>
<td>4.29</td>
<td>9.77</td>
<td>5.34</td>
<td>5.10</td>
<td>6.63</td>
<td>1,163.65</td>
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<tr>
<td>Melaka</td>
<td>3.89</td>
<td>10.93</td>
<td>7.32</td>
<td>4.75</td>
<td>10.80</td>
<td>1,344.00</td>
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<tr>
<td>Negeri Sembilan</td>
<td>3.57</td>
<td>9.41</td>
<td>6.80</td>
<td>4.97</td>
<td>9.94</td>
<td>1,299.50</td>
</tr>
<tr>
<td>Pahang</td>
<td>3.77</td>
<td>13.17</td>
<td>6.59</td>
<td>4.55</td>
<td>11.22</td>
<td>1,444.00</td>
</tr>
<tr>
<td>Perak</td>
<td>3.49</td>
<td>10.41</td>
<td>5.94</td>
<td>4.34</td>
<td>9.61</td>
<td>1,362.67</td>
</tr>
<tr>
<td>Perlis</td>
<td>4.80</td>
<td>10.88</td>
<td>5.86</td>
<td>6.00</td>
<td>11.00</td>
<td>1,396.00</td>
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<tr>
<td>Pulau Pinang</td>
<td>3.64</td>
<td>11.05</td>
<td>6.04</td>
<td>5.59</td>
<td>10.55</td>
<td>1,391.18</td>
</tr>
<tr>
<td>Sabah</td>
<td>4.27</td>
<td>9.50</td>
<td>4.38</td>
<td>3.15</td>
<td>12.36</td>
<td>1,527.75</td>
</tr>
<tr>
<td>Sarawak</td>
<td>6.05</td>
<td>–</td>
<td>7.17</td>
<td>3.21</td>
<td>10.46</td>
<td>1,506.81</td>
</tr>
<tr>
<td>Selangor</td>
<td>3.39</td>
<td>10.72</td>
<td>6.40</td>
<td>5.34</td>
<td>12.18</td>
<td>1,352.85</td>
</tr>
<tr>
<td>Terengganu</td>
<td>5.27</td>
<td>10.00</td>
<td>5.89</td>
<td>5.68</td>
<td>10.64</td>
<td>1,414.33</td>
</tr>
<tr>
<td>Kuala Lumpur (Federal Territory)</td>
<td>3.44</td>
<td>7.22</td>
<td>6.71</td>
<td>5.65</td>
<td>11.34</td>
<td>1,341.50</td>
</tr>
<tr>
<td>Putrajaya (Federal Territory)</td>
<td>4.90</td>
<td>12.00</td>
<td>7.89</td>
<td>5.72</td>
<td>12.00</td>
<td>1,298.00</td>
</tr>
<tr>
<td>Malaysia</td>
<td>4.23</td>
<td>10.23</td>
<td>6.10</td>
<td>4.33</td>
<td>10.78</td>
<td>1,412.94</td>
</tr>
</tbody>
</table>

Ratio of highest to lowest prices: 1.78 1.82 1.80 1.90 1.86 1.31

Source: DOSM 2019a.

wage earner in high-cost Johor would not be able to achieve the same standard of living as a minimum-wage counterpart in Kedah. Likewise, the income eligibility requirements and the benefits in the Bantuan Sara Hidup (BSH, cost of living aid) cash transfer program are uniform across Malaysia. This implies that, in terms of real income (purchasing power), the BSH program excludes needy people in high-cost areas and includes the less needy in low-cost areas. Furthermore, the BSH cash benefit buys less in high-cost areas.

In many countries, spatial price indexes (SPIs) are calculated and published to help the public and private sectors incorporate spatial price differences in decision making. The CPI, including the state CPIs that DOSM has published since 2013, is a temporal price index, that is, it measures changes in the cost of the reference consumption basket relative to a fixed moment in time or a base period. An SPI is similar in construction, except that it measures differences in the cost of the reference basket across different locations at the same moment in time. At the international level, the purchasing power parity estimates of the International Comparison Project are a form of SPI, as is the purchasing power standard produced by Eurostat for the member states of the European Union. The U.S. Bureau of Economic Analysis publishes an SPI known as the regional price parity, which measures differences in prices across the 50 U.S. states as well as in individual metropolitan areas. Likewise, Statistics Canada produces an SPI on living costs in 34 communities of Alberta relative to the provincial capital, Edmonton. The main practical use of these indexes is simple and powerful: to convert calculations of nominal income to real income, which takes into account spatial differences in living costs and more closely approximates the level of economic well-being.

The SPI is not currently reported in Malaysia, although spatial aspects are likely to be incorporated.

The 2020 budget speech announced a RM 100 increase in the minimum wage in major cities.

2 The 2020 budget speech announced a RM 100 increase in the minimum wage in major cities.
Aspirations Unfulfilled: Malaysia’s Cost of Living Challenges

Chapter 2: How Quickly Are Prices Really Increasing?

### TABLE 2: Cost of Buying a Standard PLI Consumption Basket, by State and Urban or Rural Area, 2016

<table>
<thead>
<tr>
<th>State</th>
<th>Urban</th>
<th>Rural</th>
</tr>
</thead>
<tbody>
<tr>
<td>Johor</td>
<td>131.8%</td>
<td>114.0%</td>
</tr>
<tr>
<td>Kedah</td>
<td>122.5%</td>
<td>110.6%</td>
</tr>
<tr>
<td>Kelantan</td>
<td>113.6%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Melaka</td>
<td>130.1%</td>
<td>115.3%</td>
</tr>
<tr>
<td>Negeri Sembilan</td>
<td>125.0%</td>
<td>122.0%</td>
</tr>
<tr>
<td>Pahang</td>
<td>128.0%</td>
<td>115.7%</td>
</tr>
<tr>
<td>Perak</td>
<td>122.5%</td>
<td>111.4%</td>
</tr>
<tr>
<td>Perlis</td>
<td>117.4%</td>
<td>110.2%</td>
</tr>
<tr>
<td>Pulau Pinang</td>
<td>140.7%</td>
<td>125.4%</td>
</tr>
<tr>
<td>Sabah</td>
<td>148.7%</td>
<td>143.2%</td>
</tr>
<tr>
<td>Sarawak</td>
<td>139.8%</td>
<td>130.1%</td>
</tr>
<tr>
<td>Selangor</td>
<td>143.2%</td>
<td>122.0%</td>
</tr>
<tr>
<td>Terengganu</td>
<td>124.2%</td>
<td>116.9%</td>
</tr>
<tr>
<td>Kuala Lumpur (Federal Territory)</td>
<td>166.9%</td>
<td>–</td>
</tr>
<tr>
<td>Labuan (Federal Territory)</td>
<td>148.7%</td>
<td>143.2%</td>
</tr>
<tr>
<td>Putrajaya (Federal Territory)</td>
<td>166.9%</td>
<td>–</td>
</tr>
</tbody>
</table>

Source: Personal communication, DOSM, 2018.

In the cost of living index being developed through the National Cost of Living Action Council. Despite the absence of a standard SPI, a rough approximation of the influence of spatial price differences on the cost of living may be obtained using a special-purpose SPI that is already being calculated in Malaysia: poverty line income (PLI). A form of SPI, the PLI measures the cost of a fixed basket of goods and services in different places at the same time. The PLI differs from a typical SPI in the composition of the PLI reference basket, which is based on the average consumption of poor people, as opposed to the average across the population. In the Malaysia case, these are basic goods and services, corresponding approximately to the poorest 1 percent of the population.

Even at a low standard of living, the cost of the most basic goods and services can vary by almost 70 percent depending on where one lives in Malaysia. After controlling for household composition, one finds that the state of Kelantan has the lowest cost PLI basket, while Kuala Lumpur and Putrajaya have the highest cost baskets. For example, for a single 35-year-old man living alone, the PLI in 2016–17 was RM 236 a month in rural Kelantan, but RM 394 in Kuala Lumpur and Putrajaya, which is 67 percent greater. Table 2 shows the spatial price differences in Malaysia for the basic PLI basket as a percentage of the PLI in rural Kelantan. As expected, the costs tend to be higher in more highly urbanized states and federal territories than in more rural states. In addition, prices are mostly lower in the northern states of peninsular Malaysia. Both rural and urban Sabah and, to a lesser degree, Sarawak stand out because of high prices for basic consumption items, not far below the three Federal Territories and higher than Pulau Pinang and, in some cases, Selangor.

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3 It is straightforward to calculate an SPI based on the CPI reference basket using unpublished aggregate data from the CPI price surveys. Official requests for the price data were declined. The decision was therefore taken to resort to the PLI, which DOSM did provide, as the best available alternative.
Chapter 2: How Quickly Are Prices Really Increasing?
This implies that, because of spatial price differences, substantially higher incomes are needed relative to other areas to achieve the same standard of living in urban areas, Sabah, and Sarawak. If the SPIs in Table 2 are applied to a living standard that is more reasonable than the PLI, one may say that it takes an income of approximately RM 4,300 in rural Sabah to reach the same standard of living that RM 3,000 will buy in rural Kelantan. Indeed, the SPI derived from the PLIs almost certainly underestimates the size of these differences because the PLI reference basket contains a large proportion of items that are price controlled. A basket based on the consumption of average consumers would involve a lower share of expenditure on items that are price controlled and would therefore generate greater price variability between high-cost and low-cost areas.

Although household incomes tend to be higher in high-cost areas, the extra income is probably not sufficient in many places to offset higher prices. The PLI-based SPI presented here is a suboptimal approximation of the price differences faced by average consumers across Malaysia, and the adoption of a proper SPI would be a welcome development. However, despite its limitations, the PLI-based SPI can provide an indicative view of the extent to which spatial differences in prices are offset by spatial differences in incomes. Nominal household income data from the 2016 Household Income and Basic Amenities Survey (HIS&BA) were converted to real incomes that reflect local purchasing power. Figure 5 plots median household income in individual states and Federal Territories against the estimated increase or decrease in purchasing power if spatial price differences are taken into account (also see Box 1). Among the locations lying below the zero line (Kuala Lumpur, Labuan, Putrajaya, Sabah, and urban areas of Pulau Pinang, Sarawak, and Selangor), real income is lower than nominal income, indicating that local purchasing power is less than one might expect before taking spatial price differences into account. The opposite holds for the points above the zero line. Meanwhile, Sabah and urban Sarawak exhibit the challenging combination of lower than average mean incomes and higher than average prices on basic goods and services.

**FIGURE 5: Income and Purchasing Power Gain or Loss, by State and Urban-Rural Area, 2016**

Estimated Median Gain/Loss in Household Purchasing Power from Spatial Price Differences in 2016, RM per Month

Differences in the Cost of Living in Rural and Urban Areas

A qualitative study on living standards conducted in 2019 by the World Bank and the University of Malaya carried out 56 focus group discussions in the Klang Valley (including the Kuala Lumpur metropolitan area), Sabah State, and Terengganu State. The recruitment of the focus group participants was stratified by ethnicity (Bumiputera, Chinese, and Indian) and by income category: first quintile (bottom 20 percent), second quintile (21–40 percentiles), and 40 percent (third and fourth quintiles). The focus groups provide depth and texture to cost of living issues that do not always emerge in quantitative data. Participants in the focus group discussions provided examples of how migrating out of villages to larger towns and cities with the intention of raising household income did not always work out.

“When I worked in the museum, I had a staff member who came to KK [Kota Kinabalu] from Pensiangan. He thought he would work in the city and send cash back home. But he discovered that the cost of living was too high. He returned to the kampung [village].” –Bumiputera, Kota Kinabalu, Sabah

“I think we are miskin tegar [hardcore poor] here. We cannot afford much. Our economy is not stable. But in Kota Marudu [a bigger town], it is even worse. The cost of living is very high. It’s hard to make a living. It’s hard to increase your income.” –Bumiputera, Tongod, Sabah

“A few years ago, I was working in Sandakan. My income was RM 400. My rent was RM 100. Now, in Kota Kinabalu, I’m making about RM 1,000, but my rent is RM 600. I am making more here, but the cost was lower in Sandakan.” –Bumiputera, Kota Kinabalu, Sabah

“Some people who grew up in villages prefer to stay in villages because of the high cost of living in the cities. Your money goes further in the village. RM 2,500 is okay in Kuala Terengganu, but many are struggling to make even RM 1,200.” –Bumiputera, Kuala Terengganu, Terengganu

However, if people move back to places where the cost of living is supposed to be lower, their incomes drop as well, resulting in frustration and a reduction in the quality of life.

“I worked in Johor in 2000, and my salary was RM 2,500 a month. I moved back to Terengganu 13 years ago. I started at RM 700. Now it has gone up to RM 1,380. The increment is so low. Living costs in Terengganu are not so low compared with Johor. I am very unhappy.” –Bumiputera, Kuala Terengganu, Terengganu

Some study participants questioned the notion that their cost of living was lower because they lived in smaller towns or villages.

“Prices are high even in our village. The prices here might be higher than in Kuala Lumpur. They think that, because the oil and gas industry is located here, people must have lots of money. But we are not in oil and gas. We are the victims of the situation.” –Bumiputera, Kemaman, Terengganu

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a. The definition of Bumiputera is not fixed, but typically refers to Malays and other indigenous peoples of Malaysia. The income categorization is based on estimates of the focus group participants on their household incomes.
Summary

Price increases on most goods and services have been low and stable. The CPI shows that the inflation rate has been moderate in recent years. This is especially the case of core inflation, which excludes items with more volatile prices (especially energy and food commodities), items with administered prices, and the estimated direct impacts of changes in consumption tax policy. The average year-on-year core inflation rate has stood at 3 percent or less since mid-2016; headline inflation has been tracking this rate closely except during 2017, when higher food and fuel prices pushed it into the 3 percent–4 percent range.

Living costs vary significantly across Malaysia. While time trends in prices are well documented, comparatively little attention is given to the large differences in prices across locations. It is readily apparent that some places are more expensive than others. The most obvious spatial price differences are in housing, where location is an inherently critical component of values, but there is also substantial spatial price variation across a wide range of goods and services.

Because of spatial price differences, the purchasing power of a ringgit varies from place to place, which directly impacts the cost of living. Johor, Kuala Lumpur, and Selangor are Malaysia’s high-cost environments and that costs tend to be lower in states such as Kedah, Kelantan, and Perlis. If household incomes varied across these areas in exactly the same proportion as costs, the effect of spatial price differences on the cost of living would be neutralized. But incomes do not vary in the same way, especially beyond the averages.
CHAPTER 3

Are Living Costs Too High or Incomes Too Low?
The cost of living is usually framed as an issue of rising prices on goods and services, but for many Malaysians the core issue is lagging income growth. Average household incomes in Malaysia have grown at rates that are greater, often much greater, than consumer price inflation. The one notable exception is the slight downturn in real household incomes in 2007–09 that was associated with the global financial crisis. Yet, among some households, income growth has not kept pace with the rising prices of goods and services. More broadly, incomes may not be increasing at a rate that matches household expectations or aspirations for improving the standard of living and enjoying the material comforts and economic security promised by Malaysia’s ascent to high-income-country status. Indeed, some households may only be able to make ends meet by working longer hours or taking on second jobs, thereby potentially straining personal well-being.

This chapter draws on several years of perception surveys, quantitative data, and focus group discussions to explore the income dimension of dealing with the rising cost of living. The examination begins with a review of recent evidence from the Gallup World Poll (GWP), a standardized multicountry perceptions survey that has been carried out regularly in Malaysia. The analysis then disaggregates incomes by level and reviews the growth in real household incomes, that is, incomes adjusted for consumer price inflation. This is followed by an in-depth analysis of trends in income from employment, including accounting for differences across age-groups, gender, educational attainment, and urban or rural residence. The chapter concludes with a brief discussion of relevant policies to promote more robust, sustainable income growth as a means to help households manage the cost of living.

Perceptions of income and living standards

The GWP is conducted periodically in more than 150 countries. It involves interviews among nationally representative samples based on standard core questions, which are sometimes augmented by region-specific questions. The survey collects the views of respondents on a range of social and economic issues, including employment, well-being, the affordability of food and shelter, education, law and order, institutions, and infrastructure. The GWP was carried out 11 times in Malaysia between 2006 and 2018. In most years, the GWP interviews were conducted among 1,000 randomly selected individuals, which is the GWP norm; the only exception was 2014, when 2,000 individuals were interviewed.

In the 2018 GWP, nearly a third of Malaysians in the sample said they did not have enough money for food. This is more than double the rate reported in 2012, which was 11.4 percent (Figure 6). The number of respondents reporting that they did not have sufficient money for food rose sharply in urban areas, more than tripling, from 8.6 percent to 29.7 percent. The rise was less dramatic in rural areas. The prevalence was thus about equal in rural and urban areas in 2018. The share of urban residents responding that they did not have enough money for shelter more than tripled in 2012–18, from 7.4 percent to 24.8 percent (Figure 7). Although high housing costs are typically seen as an urban issue, 17 percent–18 percent of rural residents reported they did not have enough money for shelter in 2012 and 2018.

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5 The GWP constructs food and shelter indexes based on the questions “Have there been times in the past 12 months when you did not have enough money to buy food that you or your family needed?” and “Have there been times in the past 12 months when you did not have enough money to provide adequate shelter or housing for you and your family?”
Despite the challenges in meeting the costs of food and shelter, more respondents stated they were living comfortably or getting by on their incomes in the 2018 GWP than in the four preceding GWP surveys since 2012. In 2018, the share living comfortably (17.5 percent) had declined slightly relative to the 2014 and 2015 surveys, but the decline was more than offset by the large increase in those saying they were getting by (62.1 percent) (Figure 8). Thus, only 20.0 percent of respondents were finding getting by on their incomes difficult or very difficult in 2018, compared with 24 percent–33 percent in earlier surveys. The overall shares and trends are similar in urban and rural areas. How to interpret the relatively positive trends in Figure 8 alongside the more negative perceptions reported with reference to food and housing in Figures 6 and 7 is not clear.
There is stark divergence in the perceptions of urban and rural residents and growing dissatisfaction among urban residents about standards of living and the changes over time. The share of urban respondents reporting an improvement in standards of living rose by 5 percentage points in 2012–18, from 54.1 percent to 59.4 percent, while the share reporting a deterioration also increased slightly, from 9.5 percent to 10.4 percent (Figure 9). Yet, over the same period, the share of urban residents responding that they were satisfied with the standard of living declined from 76.5 percent to 69.5 percent (Figure 10). One might interpret these results in various ways, but a plausible inference is that, although the standard of living is improving among urban respondents (according to their own assessments), these respondents are increasingly dissatisfied because the standard of living is not improving as quickly as their expectations or aspirations (Box 2).

In contrast, rural residents reported that living standards were declining, though their satisfaction with their living standards was increasing. In 2018, 17.1 percent of rural residents said their standard of living was declining (see Figure 9). This is almost twice the corresponding share in 2012 and also almost double the corresponding share among urban residents in 2018. The share of rural residents stating that their standard of living was improving also declined substantially, from 53.6 percent to 49.0 percent. Over the same period, satisfaction with living standards in rural areas rose marginally, from 71.5 percent to 73.4 percent (Figure 10).
The results of the qualitative study indicate that participants overwhelmingly believe salaries are not keeping up with rising prices. Asked if their lives were easier, more difficult, or the same at the time of the study versus five years previously, 56 percent of the participants in the 56 focus groups said their lives were more difficult now. Participants felt their lives were not in balance because salaries were not keeping up with the cost of living, leading to greater hardship and stress. This theme resonated with Malaysians across regions and ethnicities.

“When I joined ten years ago, my salary was RM 500. Now I earn RM 2,000. It took ten years for me to get here. But the gap between the salary increase and the rise in cost of living is not balanced. I am struggling to even earn this low salary.” –Indian, Klang Valley

“With salary and expenses before, we can level it. The salary was less before but so was the price of things. Now, the salary is the same while price has increased. How can we balance it?” –Chinese, Klang Valley

“Back then, with a salary of RM 1,000 it was enough for household things, getting married, a car. But now it is not enough. We have to work with a low pay of RM 1,200. Malaysia has developed, but the rakyat [people] has not, because the incomes have not developed.” –Bumiputera, Kuala Terengganu, Terengganu

b. This percentage is not necessarily representative of all Malaysia.
“Although my husband is earning RM 2,000+, the cost of living is too high. Sometimes, all of the salary is used up in 10 days.” –Bumiputera, Kemaman, Terengganu

“I can think back to a time when the salary was exactly the same, but the prices were not so high, inflation was not so high. We are overburdened with the rising costs.” –Bumiputera, Kota Kinabalu, Sabah

Participants often wondered how previous generations could raise large families on incomes that were significantly lower. They concluded that this was only possible because costs had climbed steadily since then, while the value of money steadily declined.

“I have experienced a time when I earned RM 900 to feed nine children. Now, the salary is not going up. The only thing going up is the cost of living. It is not in balance.” –Bumiputera, Klang Valley

“The income of the older generation was not high, but they were still able to afford five kids and more. The same situation now, - with five or more kids, that family will be suffering. A total income of RM 800–RM 1,000 could support six or more persons. Nowadays, you can barely support three persons and even that is a nightmare.” –Chinese, Klang Valley

“With the progress of Malaysia, people are being burdened. Previously, with RM 500, I would get a trolley full of items and needed my van to transport it all. Now, spending RM 700, the amount I buy can only fill up my Kancil [the smallest Malaysian car].” –Bumiputera, Setiu, Terengganu

Malaysians in all three main ethnic groups expressed a common sentiment: while material comforts had improved considerably relative to the generation of their parents, there had not been a similar increase in overall well-being. This was most acutely expressed by participants in the middle 40.

“Something that can be provided physically, yes, we children are better off. But something that is about the mind and the soul, we are not better off.” –Chinese, Klang Valley

“In the past, we just lived comfortably by rewarding ourselves with good food for working hard. It was that simple. Now we have different needs and wants. We are suffering.” –Bumiputera, Klang Valley

“In the days of our parents, life was very happy. Even if we had few things and small houses, we were happy. Now, even with a three-story house, we cannot sleep in peace.” –Indian, Klang Valley

What used to be luxuries have become necessities.

“Previously babies only wore cotton pants, now we need to buy pampers. We used to ride bicycles, but the children now ride motorcycles. They need handphones. Lessons are online, so we need to pay for Internet.” –Bumiputera, Setiu, Terengganu

“You must have your own transport. No car also cannot survive.” –Chinese, Klang Valley
The GWP life evaluation index highlights the increasing hardship among urban and rural residents. The GWP asks respondents to assess their current and future life conditions on a scale from 0 to 10, where 0 is the worst possible life and 10 is the best possible life. Based on the answers, respondents are categorized as thriving, struggling, or suffering. The share of urban respondents categorized as thriving dropped sharply in 2012–18, from 28.0 percent to 16.2 percent (Figure 11). This was matched by increases of 9 and 3 percentage points among urban residents categorized as struggling and suffering, respectively. Over the same period, the share of rural respondents classified as thriving rose slightly, from 20.6 percent to 21.8 percent, but the share reported as suffering increased by 6.4 percentage points.

In most countries, as the middle class grows, so do demands for higher-quality public services. If public services do not meet the rising standards, the growing middle class will tend to turn to private services, especially in education and health care. The use of private services in place of free or nearly free public services can be costly and may contribute to a rising cost of living among households. A 2017 survey found that 81 percent of parents in Malaysia are paying or have paid for private tutoring, while 42 percent have forfeited “me-time” to support their children’s education; both of these rates are higher than the averages of 63 percent and 31 percent, respectively, among the 15 economies in the survey. The Ministry of Education of Malaysia reported a rise in private kindergarten enrollments starting in 2011, while over 350,000 children were enrolled in private kindergartens in 2019 (Figure 12). During the same period, the number of private kindergartens in Malaysia increased by 28.9 percent, which reflects the growing demand of parents for early childhood education as well as private education for their children.

Malaysian households contribute to a large, growing portion of total health expenditure. The National Health Accounts of the Ministry of Health (MOH 2018) show that, in 2018, private sector financing—which covers private households, corporations, and insurance—accounted for 48 percent of total health expenditure. The share of household out-of-pocket expenditure in total health expenditure rose from 30

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6 The survey was conducted in 15 economies and territories, including Australia; Canada; China; the Arab Republic of Egypt; France; Hong Kong SAR, China; India; Indonesia; Malaysia; Mexico; Singapore; Taiwan, China; the United Arab Emirates; the United Kingdom; and the United States. More than 500 parents were surveyed in each country. See "The Value of Education." Liquid Newsletter, HSBC, London, https://sp.hsbc.com.my/liquid/6238.html.
percent in 2010 to 35 percent in 2018 (Figure 13). Figure 14 illustrates the out-of-pocket shares of current health expenditure in Malaysia and other countries in 2016. Countries in the Association of Southeast Asian Nations that exhibit lower private health care spending include Indonesia (37.3 percent), Singapore (31.2 percent), and Thailand (12.1 percent). Similar to the increasing expenditures on private education, the rise in out-of-pocket expenditure for health care also reflects the changing consumption patterns and the rising cost of living among Malaysian households.
Chapter 3: Are Living Costs Too High or Incomes Too Low?
Growth of the middle class: needs of the bottom 40 and middle 40

Changes in the aspirations of households have accompanied the substantial growth in household incomes and the expansion of the middle class. Higher incomes are consistent with greater aspirations for income (Flechtner 2014; Stutzer 2004). In a more equitable economy, aspirations are relatively balanced across all income groups compared with an economy with substantial poverty and inequality. In the World Bank (2014) report, “Towards a Middle-Class Society,” the aspirational group is identified and defined as households around the middle of the income distribution, that is, between the vulnerable and the middle class. An estimated 51 percent of households were in the aspirational group in 2014 (World Bank 2014). In the World Values Survey conducted in Malaysia in 2012, 46.1 percent of the 1,300 respondents identified themselves as working class (Figure 15).

![Figure 15: Share of Respondents by Self-Reported Income Class, 2012](image)

Despite earning sufficient income to meet basic needs, the aspirational group has yet to attain the aspiration of living a middle-class lifestyle, resulting in a lack of satisfaction. Genicot and Ray (2017) refer to aspirations as socially determined reference points beyond income aspirations, including educational and social achievement consistent with Sen’s (1985) notion of capabilities. Feelings of frustration are linked to unreachable or unmet aspirations, particularly in the context of group-based aspirations whereby one’s aspirations are influenced by the achievement of others. For example, while individuals in the aspirational group are inspired by the middle-class lifestyle, feelings of discontent and frustration may arise if they are unable to meet the desired living standards because of income inadequacy.

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7 The income range for this aspirational group is between 2.5 times the poverty line and the average income, which was between RM 2,120 and RM 5,919 in 2014 (World Bank 2014).
Trends by income

Quantitative data collected through the HIS&BA show that mean and median household incomes have consistently outpaced inflation. The most rapid increase occurred in 2009–14. Adjusted for CPI inflation, average monthly gross household income grew from RM 4,547 in 2002 to RM 7,414 in 2016, a rise of 63 percent in real terms (Figure 16). During this period, there was a slight decline in average household size; so, the real income growth rate becomes even higher if any of the common household equivalence scales are used, such as measures per capita, the square root of household size, the equivalence scale of the Organisation for Economic Co-operation and Development (OECD), or the OECD-modified equivalence scale. The only interruption in average income growth was a relatively minor downturn in 2007–09 during the global financial crisis, after which real income growth accelerated rapidly. The patterns are similar in median real household income, though there are a couple of minor differences (Figure 17). First, as is usually the case, median incomes are lower than mean incomes because the income distribution is skewed. Second and more subtly, the growth rate is higher in median incomes than in mean incomes because of higher income growth rates at the lower end of the income distribution.

During the period of rapid income growth in 2009–14, income growth rates were exceptional among lower-income households. Growth incidence curves show widely varying patterns in the rate of income growth across the income distribution in various subperiods in 2002–16 (Figure 18). After low growth of about 2 percent across all income groups in 2002–09, annual growth in real mean household income rose sharply, to 6.4 percent, in 2009–12, when rates exceeded 10 percent among the bottom 20 percent of the income distribution (the bottom 20). Real household income growth was even more favorable in 2012–14,
with annual growth rates of 7.4 percent and 10.0 percent in mean and median income, respectively, and rates in the low teens among the bottom 40 percent of the income distribution (the bottom 40). In 2014–16, overall household income growth slowed to 5.5 percent, and lower-income households were no longer catching up even in relative terms because income growth rates were slightly higher among the middle 40 (the 41st through 80th percentiles) than among the bottom 40. To the extent that rapid income growth from 2009 to 2014 among the bottom 40 and the middle 40 shaped expectations about future income growth, households may have viewed the slower, less-inclusive growth in 2014–16 as a disappointment, which may have shaped perceptions about increases in the cost of living.

Even when income growth rates were higher among lower-income households, the absolute gaps across income groups continued to increase. Because of their lower base income, it is common for the absolute income gains in currency terms to be smaller among lower-income households than among higher-income households even if the incomes of lower-income households are growing at a more rapid relative rate. For example, in 2012–14, the mean incomes of the bottom 40 were growing at about 13 percent a year, while the incomes of the top 20 were growing at around 6 percent. However, because of the lower initial incomes among the bottom 40, this translated into an average gain of only RM 132 a month among the bottom 40, compared with RM 356 a month among the top 20 (see Figure 19). These increases in absolute income gaps may contribute to perceptions among lower-income households that they were being left behind even during periods, such as 2009–14, when they were gaining a larger share of total income because their incomes were increasing more rapidly relative to the incomes of their richer counterparts. These perceptions would likely be amplified and fully justified during periods, such as 2014–16, when the income gap between the bottom 40 and the middle 40 increased in both absolute and relative terms.
Employment earnings are the main source of income among people ages 20–59. The majority of Malaysians in this age range report at least some employment income either from salaries and wages or from self-employment (Table 3). Across all age-groups, men are more likely than women to have employment income, but especially among people ages 30 or more. This gender disparity has been declining slightly as women’s labor force participation has been increasing in recent years, while men’s participation has remained relatively constant within each age cohort. The share of the 20–29 age-group receiving employment income has been decreasing slightly, which is attributable in large part to later entry into the workforce as more young Malaysians pursue tertiary education (Table 4).

Table 3: Percentage of Malaysians with Employment Income, by Gender, 2004–16

<table>
<thead>
<tr>
<th></th>
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<th></th>
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<tbody>
<tr>
<td>20–29</td>
<td>Men</td>
<td>78.4</td>
<td>77.1</td>
<td>75.9</td>
<td>74.1</td>
<td>71.8</td>
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<td>50.6</td>
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<tr>
<td>30–39</td>
<td>Men</td>
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<td>95.9</td>
<td>96.1</td>
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<td>56.8</td>
<td>59.2</td>
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<tr>
<td>40–49</td>
<td>Men</td>
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<td>96.7</td>
<td>96.7</td>
<td>96.7</td>
<td>96.9</td>
<td>95.8</td>
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<td>Women</td>
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<td>44.1</td>
<td>43.8</td>
<td>50.0</td>
<td>48.1</td>
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<td>50–59</td>
<td>Men</td>
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<td>87.8</td>
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<td>33.4</td>
<td>35.1</td>
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<td>60–69</td>
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<td>63.6</td>
<td>57.2</td>
<td>54.4</td>
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<tr>
<td></td>
<td>Women</td>
<td>18.2</td>
<td>19.5</td>
<td>17.4</td>
<td>18.7</td>
<td>14.9</td>
<td>14.9</td>
</tr>
</tbody>
</table>

Source: World Bank calculations based on HIS&BA data.

Table 4: Percentage of 20–29 Age-Group Reporting Student as Main Activity, by Gender, 2004–16

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Men</td>
<td>10.0</td>
<td>11.6</td>
<td>10.6</td>
<td>14.4</td>
<td>15.4</td>
<td>16.5</td>
</tr>
<tr>
<td>Women</td>
<td>11.0</td>
<td>13.5</td>
<td>12.2</td>
<td>15.9</td>
<td>18.0</td>
<td>18.4</td>
</tr>
</tbody>
</table>

Source: World Bank calculations based on HIS&BA data.

The analysis here relies on individual-level income data from the HIS&BA. Employment income includes gross wages and salaries in cash and in kind, allowances, bonuses, and employer contributions to the Employees Provident Fund (EPP) and the Social Security Organization. Self-employment income includes marketed output and own consumption, net of production costs.
Incomes among all age-groups have tended to outpace the CPI, but the growth in employment earnings among younger workers has consistently lagged the corresponding earnings of older counterparts. Figure 20 shows the trends in median monthly employment income, adjusted for CPI inflation and limited to survey respondents who report at least some employment earnings. Slower employment income growth is most pronounced among young men. In 2004, median employment income among men ages 20–29 was 70 percent of the corresponding income of their counterparts ages 40–49; by 2016, the ratio had eroded to 58 percent. From 2004 to 2016, the compound annual growth rates in median employment income among men and women ages 20–29 were 2.1 percent and 2.6 percent, respectively, compared with 3.8 percent and 5.0 percent among men and women ages 40–49. Among both men and women, the divergence in employment income by age-group accelerated after 2009. The relationship between age-group and median employment income is somewhat weaker among women than among men. Working women ages 30 or more may be more likely to work part-time to balance family and work commitments, but this hypothesis cannot be tested using HIS&BA data because, unlike the Labor Force Survey, the HIS&BA does not include information on hours worked.

**Figure 20: Median Employment Income, by Age and Gender, 2004–16**

The differences in employment income and income growth rates are driven largely by employment returns in urban areas. Urban areas have a greater weight in national averages because around 75 percent of Malaysia’s population is urban. The urban and rural patterns of employment income growth by age-group are also distinct. The urban growth trajectories by age-group more or less mimic the corresponding patterns among men, while the trends in rural areas differ in three key respects: the levels are considerably lower; the growth rates are slower; and there is relatively little differentiation across age-groups (Figure 21). Moreover, whereas the share of workers in urban areas used to be highest among younger workers (for example, 74 percent among 20- to 29-year-olds and 61 percent among 50- to 59-year-olds in 2004), urbanization rates among the employed have converged, registering approximately 80 percent across all four working age-groups (Figure 22).
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**FIGURE 21:** Median Employment Income, by Age and Urban-Rural Location, 2004–16

- **a. Urban**
  - Constant RM per Month at April 2017 Prices

- **b. Rural**
  - Constant RM per Month at April 2017 Prices

Source: World Bank calculations based on HIS&BA data.

**FIGURE 22:** Urbanization Rates among the Employed Population, by Age, 2004–16

Number of Workers Living in Urban Areas (%)

Source: World Bank calculations based on HIS&BA data.
Employment earnings are correlated with educational attainment, and the share of workers with postsecondary education has been increasing across all age-groups. Access to postsecondary education has expanded rapidly. This is most evident among the younger age-groups. The number of workers ages 25–39 who have completed postsecondary education has risen by 20 percentage points (Table 5). The highest postsecondary completion rate among the employed is among the 25–29 age-group, at 48.9 percent. The postsecondary completion rate in the 20–24 age-group is lower because many in the age-group are still in postsecondary education. Individuals with only secondary education therefore appear disproportionately among people who are working in the 20–24 age-group. While higher educational attainment usually translates into higher employment earnings, work experience is also correlated with employment earnings. The wage premium associated with higher education may thus be at least partially offset by the delayed acquisition of work experience that accompanies remaining in school longer. This may affect earnings trajectories especially if employers use the first few years of employment to give employees opportunities to prove themselves.

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>20–24</td>
<td>Secondary</td>
<td>72.9</td>
<td>68.8</td>
<td>68.9</td>
<td>69.3</td>
<td>68.3</td>
<td>65.2</td>
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<tr>
<td></td>
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<td>21.2</td>
<td>25.9</td>
<td>26.7</td>
<td>26.8</td>
<td>29.0</td>
<td>32.6</td>
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<td>25–29</td>
<td>Secondary</td>
<td>63.6</td>
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<td>53.6</td>
<td>52.0</td>
<td>48.6</td>
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<tr>
<td></td>
<td>Postsecondary</td>
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<td>34.7</td>
<td>39.7</td>
<td>42.6</td>
<td>45.3</td>
<td>48.9</td>
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<tr>
<td>30–39</td>
<td>Secondary</td>
<td>63.3</td>
<td>62.3</td>
<td>60.0</td>
<td>57.4</td>
<td>54.1</td>
<td>51.4</td>
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<td></td>
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<td>40.8</td>
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<td>40–49</td>
<td>Secondary</td>
<td>52.8</td>
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<td>58.9</td>
<td>61.5</td>
<td>60.5</td>
<td>58.0</td>
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<tr>
<td></td>
<td>Postsecondary</td>
<td>17.8</td>
<td>19.0</td>
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<td>25.6</td>
<td>29.3</td>
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<tr>
<td>50–59</td>
<td>Secondary</td>
<td>36.9</td>
<td>41.9</td>
<td>45.1</td>
<td>50.6</td>
<td>53.9</td>
<td>55.5</td>
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<tr>
<td></td>
<td>Postsecondary</td>
<td>10.2</td>
<td>12.9</td>
<td>14.1</td>
<td>15.7</td>
<td>20.1</td>
<td>24.0</td>
</tr>
</tbody>
</table>

Source: World Bank calculations based on HIS&BA data.

Most of the employment income growth among 20- to 29-year-olds is associated with higher educational attainment. To the extent that people in the youngest employed age cohort have experienced any employment income growth, it is mainly because a larger share of them are now attaining tertiary education. Among individuals across age-groups who have attained postsecondary education, the real growth in median employment income was substantial among the 40–59 age-group. The more rapid employment income growth among this age-group stems from a combination of rising incomes among those in the age-group who have attained postsecondary education and the growth in the share of the age-group with postsecondary educational attainment (Figure 23b). In contrast, 20- to 29-year-olds only benefit from the second of these two effects because employment income growth has been negligible among

10 Postsecondary education includes preuniversity, vocational education, diploma (equivalent to a first-year university degree), bachelor, and advanced degrees.
people in this age-group who have attained postsecondary education. A similar analysis applies to 30- to 39-year-olds who have attained postsecondary education and among whom the growth in employment earnings has been relatively modest. Meanwhile, among people with only secondary education, real growth in median income has been modest across age-groups (Figure 23a). Within each age-group, the median employment income is at least twice as high among people who have completed postsecondary education relative to people who have completed only secondary education.

**FIGURE 23: Median Employment Income, by Age and Educational Attainment, 2004–16**

*Source: World Bank calculations based on HIS&BA data.*

**People who feel their incomes are not keeping up with the cost of living may turn to additional employment to try to make ends meet.** This might mean that a nonworking household member would decide to start working or that a working household member might take on a second or third job (Box 3). The additional employment and the extra hours worked could impose more costs, such as the costs of childcare, transportation, or meals away from home, or more stress because of the effort to try to keep up. According to data of the HIS&BA, the share of households with more than one member who is employed rose slightly from 2004 to 2012, but remained constant from 2012 to 2016, when around 47 percent of households had a single earner, and 38 percent included two employed members (Figure 24). However, evidence from the Labor Force Survey shows that female labor force participation has increased considerably since 2010, suggesting that the number of multiple-earner households has also increased. The female labor force participation rate hovered around 46 percent from 1982 until 2010 and, after that, rose steadily to 55 percent in 2018 (Figure 25). For a variety of reasons, one of which may be the relatively high cost of living in Malaysia’s capital region, women’s labor force participation is highest in Kuala Lumpur and Selangor (Figure 26).

**Data of the Labor Force Survey indicate that only about 1 percent to 2 percent of workers hold second jobs (Figure 27).** This outcome may be influenced by the framing of the question in the survey, which uses the standard reference period of the International Labour Organization, that is, the preceding seven days, and which may therefore omit many second jobs that are more seasonal or intermittent.
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**FIGURE 24: Employed Household Members, 2004–16**

Number of Employed People per Household (% of Households)

![Bar chart showing the number of employed household members from 2004 to 2016.](chart)

Source: World Bank calculations based on HIS&BA data.

**FIGURE 25: Female Labor Force Participation, 1982–2018**

Female Labor Force Participation (%)

![Line graph showing female labor force participation from 1982 to 2018.](chart)

Source: World Bank (2019a); DOSM data.

**FIGURE 26: Female Labor Force Participation, by State GDP per Capita, 2017**

Female Labor Participation Rate (%)

![Scatter plot showing female labor force participation rate by state GDP per capita in 2017.](chart)

Source: World Bank (2019a)

**FIGURE 27: People Working Multiple Jobs, 2010–17**

Number of People Working a Second Job (%)

![Line graph showing the number of people working multiple jobs from 2010 to 2017.](chart)

BOX 3

Getting by with Dual Income Earners and Multiple Jobs

Many low-income Malaysians are only able to make ends meet by taking on multiple jobs. The need for dual incomes and multiple jobs per earner was discussed in nearly half the focus groups conducted in the Klang Valley and Terengganu as part of the joint World Bank–University of Malaya qualitative study on living standards.

“Most of the people in my salary range actually work two jobs. Having two jobs makes it more secure. I cannot go up. I cannot go down. Yeah, I’m stuck here. I’m trapped.”
–Chinese, Klang Valley

“Doing one job is no longer sufficient financially. Even two or three jobs can leave a question mark about whether you have enough to meet basic needs.”
–Indian, Klang Valley

“There is no disposable income. Every penny we earn, we know how it will be spent. That is why a lot of us housewives are taking on random jobs to support our husbands with extra income.”
–Bumiputera, Klang Valley

A young, unmarried engineer in Terengganu explained how, after paying off his monthly expenses, he was left with no savings and had to resort to a second job. Moreover, he did not foresee a future in the same company because the yearly income increase was negligible.

“My salary is not that high. After EPF [Employees Provident Fund] contributions, I earn RM 2,300. My car loan is RM 600. I need my car for my job. I pay RM 300 for a PTPTN [National Higher Education Fund Corporation] loan and RM 100 for medical insurance. After deducting all these, plus some other expenses, I’m left with RM 800. I have no savings. I am single and live with my parents. I started a second job. I teach electronics, I sell electronic goods. Without this second job, I would have no disposable income. Even though I work in a good company, my yearly raise is only RM 50. If I continue here, I won’t go far.”
–Bumiputera, Terengganu
Closer analysis of the determinants of employment income reveals that, if one controls for other variables, differences in the wage premium for postsecondary education account for most of the age-related differences in income growth. Regressions of log income on individual characteristics and a set of dummy variables for the year of the HIS&BA have been estimated separately for each age-group (Table 6). If other variables are held constant, the total growth in employment income from 2004 to 2016 is 25 percent among each of the three youngest age-groups and rises to 42 percent among the oldest age-group. However, there are large differences across age-groups in the amount of additional income earned by individuals with postsecondary educational attainment. In the 20–29 age-group, individuals who had completed postsecondary education were earning an average of 41 percent more than their age-mates who had not completed secondary education. In contrast, the within-age-group differential associated with postsecondary education ranges from 64 percent to 75 percent among the older age-groups. Thus, all else being equal, while completion of postsecondary education is increasing rapidly among 20- to 29-year-olds, the premiums attached to this level of education are modest during the early years of employment relative to the corresponding results among older counterparts with similar educational attainment.

Table 6: Regression Results on Correlates of Employment Income, by Age-Group

<table>
<thead>
<tr>
<th>Year (relative to 2004)</th>
<th>Coefficient</th>
<th>Standard Error</th>
<th>Coefficient</th>
<th>Standard Error</th>
<th>Coefficient</th>
<th>Standard Error</th>
<th>Coefficient</th>
<th>Standard Error</th>
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<td>2007</td>
<td>0.0407</td>
<td>0.0095</td>
<td>0.0393</td>
<td>0.0095</td>
<td>0.0146</td>
<td>0.0105</td>
<td>0.0603</td>
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<td>2009</td>
<td>0.0477</td>
<td>0.0096</td>
<td>0.0370</td>
<td>0.0093</td>
<td>-0.0021</td>
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<tr>
<td>2012</td>
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<td>0.0094</td>
<td>0.1391</td>
<td>0.0090</td>
<td>0.1323</td>
<td>0.0105</td>
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<tr>
<td>2014</td>
<td>0.2316</td>
<td>0.0083</td>
<td>0.2207</td>
<td>0.0081</td>
<td>0.2255</td>
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<td>2016</td>
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<td>0.2482</td>
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<td>0.2452</td>
<td>0.0095</td>
<td>0.4189</td>
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Variable

<table>
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<th>Education (relative to uncompleted secondary)</th>
<th>Coefficient</th>
<th>Standard Error</th>
<th>Coefficient</th>
<th>Standard Error</th>
<th>Coefficient</th>
<th>Standard Error</th>
<th>Coefficient</th>
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<tr>
<td>Secondary</td>
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<td>0.2687</td>
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<td>0.2655</td>
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<td>Post-secondary</td>
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Variable

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<th>Occupational category (relative to elementary occupations)</th>
<th>Coefficient</th>
<th>Standard Error</th>
<th>Coefficient</th>
<th>Standard Error</th>
<th>Coefficient</th>
<th>Standard Error</th>
<th>Coefficient</th>
<th>Standard Error</th>
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<td>Various mid-level</td>
<td>0.3000</td>
<td>0.0083</td>
<td>0.3898</td>
<td>0.0083</td>
<td>0.4065</td>
<td>0.0085</td>
<td>0.6190</td>
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<td>Managers and professionals</td>
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<td>0.0099</td>
<td>0.8230</td>
<td>0.0092</td>
<td>0.9297</td>
<td>0.0099</td>
<td>1.2535</td>
<td>0.0152</td>
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<td>Women</td>
<td>-0.1845</td>
<td>0.0047</td>
<td>-0.3513</td>
<td>0.0045</td>
<td>-0.4943</td>
<td>0.0054</td>
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<td>0.0087</td>
</tr>
<tr>
<td>Chinese</td>
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<td>0.0061</td>
<td>0.2162</td>
<td>0.0056</td>
<td>0.2429</td>
<td>0.0065</td>
<td>0.2560</td>
<td>0.0097</td>
</tr>
<tr>
<td>Indian</td>
<td>0.0002</td>
<td>0.0092</td>
<td>0.0190</td>
<td>0.0083</td>
<td>**</td>
<td>-0.0084</td>
<td>0.0089</td>
<td>-0.0036</td>
</tr>
<tr>
<td>Self-employed</td>
<td>-0.1430</td>
<td>0.0126</td>
<td>-0.2077</td>
<td>0.0085</td>
<td>**</td>
<td>-0.2446</td>
<td>0.0074</td>
<td>-0.4128</td>
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<td>Rural</td>
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<td>-0.1440</td>
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<td>**</td>
<td>-0.1381</td>
<td>0.0066</td>
<td>-0.0093</td>
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<td>Constant</td>
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<td>9.2412</td>
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</table>

Source: World Bank calculations, HIS&BA data.
Note: The dependent variable is the natural logarithm of employment income adjusted for inflation. The regressions also control for state fixed effects, which are not shown. Standard errors are robust to the cluster sample survey design.

Table 6: Regression Results on Correlates of Employment Income, by Age-Group

11 The lower average employment income among younger age-groups is obscured in Table 6 because it is absorbed within the state fixed effects (not shown) and the constant term.
As with postsecondary education, the additional employment income associated with higher-level occupations also appears to increase with age if other variables are held constant. Compared with individuals active in elementary occupations, 20- to 29-year-olds in mid-level occupations earn 30 percent more, while those in management and professional occupations earn 71 percent more. Among older age-groups, the corresponding within–age-group earnings are 39 percent to 62 percent higher for mid-level occupations and 82 percent to 126 percent higher for managers and professionals. A likely explanation is that the broad occupational categories in the regressions encompass a wide range of work experience and abilities and that the pay differentials for higher-level occupations are larger among older workers because of accumulated job-relevant experience.

A key caveat is that the income regressions by age-group do not control for time worked. This information is not collected along with individual employment income in the HIS&BA. This affects the estimates to the extent that average time worked is correlated with age-group and regressor variables. The estimated coefficients for gender and self-employment, which show larger differences in older age-groups, may be the most affected because part-time work may be more common among older women and the older self-employed.

Summary

Qualitative and quantitative evidence reveals that the subjective perceptions of respondents about their living standards are not always easy to reconcile with objective data on incomes. Although the qualitative information from the GWP is somewhat mixed, it shows that, from 2012 to 2018, large, growing shares of Malaysians reported that they do not have enough money for necessities, such as food and shelter. The GWP also highlights the increasing dissatisfaction of Malaysians with their standard of living; the share of survey respondents reporting that their standard of living is getting worse instead of better is rising. Nonetheless, over roughly the same period, the HIS&BA shows that household incomes per capita were rising much more quickly than CPI inflation and that income growth among lower-income households was particularly rapid from 2009 to 2014.

One of the more striking findings of the analysis is that, despite steadily rising educational attainment, income growth among recent entrants to the labor force has been relatively sluggish. Older workers with more experience are expected to have higher average employment earnings than their younger counterparts. Yet, this does not explain the negligible real employment income growth among workers in their 20s in 2004–16. Does the additional education and training that 20- to 29-year-olds are gaining not translate into higher productivity in the workplace, or, at least, not until they are reinforced by several years of work experience? If so, is this an indication that the quality of postsecondary education has become less meaningful because, for example, diploma mills that confer qualifications, but underdeliver in learning outcomes, are proliferating? Or perhaps younger workers are underemployed because their jobs do not help them realize their productive potential?

The qualitative data hint at a factor that is not measured by the HIS&BA: people’s expectations and aspirations. The more negative findings of the GWP may be capturing a feeling among many Malaysians that, even though some aspects of well-being, such as income, are improving, they are not improving sufficiently quickly to satisfy aspirations. For many people, interpersonal or intertemporal comparisons may be more relevant than the inflation rate as a benchmark of income growth. Real household income growth
was much slower and much less favorable to lower-income households in 2014–16 than in 2009–14. Because the most recent available household income data refer to 2016, it may be that household incomes are now growing even more slowly and are less equitably distributed. The answer will not become available until the data of the 2019 HIS&BA are released in mid-2020.

Dissatisfaction with income or living standards may have emerged because of real or perceived interpersonal differences in income trends. The HIS&BA data presented above show clearly that older workers have been enjoying not only higher incomes relative to younger workers, but also more rapid income growth. The higher income growth rates and higher base incomes among older workers have combined to amplify the absolute income gaps between younger and older Malaysians, which may be a more tangible measure of comparative well-being than relative income growth rates. Meanwhile, absolute income gaps between richer and poorer households were widening even during 2009–14, when income growth rates among the bottom 40 were more than double the rates among the top 20.

Over the long term, sustainable household income growth must be grounded on greater labor productivity. This will require a combination of increased human capital among workers, more physical capital and technology among firms, and a shift in the workforce to more productive jobs. Most of the human capital gains will need to be generated by elevating the skills of workers, although there is also scope for boosting the quantity of labor, especially because women’s labor force participation continues to expand, and older workers are delaying retirement. Wage or salary increases predicated solely on administrative mechanisms, such as the indexing of salaries to the cost of living or raising the minimum wage, but without labor productivity increases, are not likely to be sustainable and may spur more consumer price inflation.

Short- and medium-term policies to address the cost of living through higher incomes could focus on raising the supply and demand among productive workers and reinforcing the social safety net. On the labor supply side, enhanced education and training, especially on-the-job training, could facilitate a smoother school-to-work transition among labor market entrants and prepare them more effectively to ascend the salary ladder while still in their 20s. Increased investment and production in sectors requiring skilled labor might also help propel the demand for productive young workers. Whereas total unemployment has been consistently low in recent years, at 3 percent–4 percent, the unemployment rate among young workers has been three times higher. Weakness in this segment of the labor market is a likely contributor to the slow employment income growth among young workers. Accelerated job creation, especially in more highly skilled occupations, would also help boost the employment earnings of younger workers. While higher wages linked to productivity growth represent a structural foundation for ensuring that income growth outpaces the cost of living, a stronger needs-based social safety net is also essential for protecting low-income and vulnerable Malaysians who are stuck in low-wage jobs or who are contending with economic shocks, such as unemployment or serious illness.
CHAPTER 4

The Cost of Living: Does Borrowing Offer Relief?
The concept of a living wage, that is, sufficient income to maintain a reasonable standard of living beyond subsistence needs in food, clothing, and shelter, has recently become a lively research topic in Malaysia. Chong and Khong (2018) estimate that, in 2016, the living wage in Kuala Lumpur was RM 2,700 for a single adult, RM 4,500 for a couple without children, and RM 6,500 for a couple with two children. The Belanjawanku report (EPF 2019) provides reference budgets for various types of households and stages of the life cycle, including details about specific cost of living categories and benchmarks among retirees. It suggests living wage levels in the Klang Valley (Greater Kuala Lumpur) that are similar to the reference wages of Chong and Khong (2018): RM 2,490 for a single adult with a car, RM 4,420 for a couple without children, and RM 6,620 for a couple with two children.

Around 27 percent of households in Kuala Lumpur earn less than the recommended living wage, thus limiting the ability of these households to subsist in a meaningful, dignified way (Chong and Khong 2018). There is a strong correlation between educational attainment and the ability of households to earn a living wage. Chong and Khong (2018) find that 73 percent of heads of household earning less than a living wage have secondary, primary, or no education. In contrast, 72 percent of household heads earning more than the living wage have completed tertiary education. Furthermore, households whose heads work in low- and middle-skilled jobs are more likely to earn less than a living wage, although more than the minimum wage. The same applies to married couples with or without children.

This chapter explores the financial behavior and well-being of Malaysians, in particular lower-income individuals and households, public sector workers, and younger age-groups, to better understand the role of debt in their efforts to raise living standards. The chapter begins with an examination of overall debt and recent trends in household indebtedness in Malaysia. This is followed by a review of household debt as a share of income by income group, sector of employment, and age-group. The chapter analyzes the composition of debt, focusing on four main types of borrowing: housing, motor vehicle, personal finance, and credit card. The analysis covers bankruptcy cases by type of loan and age-group to clarify trends and the concerns about household indebtedness. Financial behavior and well-being are reviewed based on survey findings of the Credit Counselling and Debt Management Agency (Agensi Kaunseling dan Pengurusan Kredit, AKPK), RinggitPlus, and the EPF. The chapter concludes with a review of financial literacy and financial education initiatives in Malaysia, highlighting the importance of financial awareness in promoting financial well-being.

Debt levels and trends

Borrowing provides temporary relief to allow households to compensate for inadequate income, particularly in the short term. According to the AKPK, among the 3,540 randomly selected working adults surveyed in Malaysia in 2018, 28 percent had to borrow to buy essential goods. While borrowing provides opportunities for shifting consumption and making investments, the debt obligation also limits discretionary spending because a share of household income must now be committed to monthly loan repayments. The greater amounts of household debt relative to a few years ago may be considered a positive development in that households are able to use credit to invest in a home or otherwise smooth consumption over the life cycle. However, borrowing may also encourage households to spend beyond their means.

Household debt rose at a relatively slower pace in 2013–18, totaling RM 1.18 trillion in 2018. Household debt in Malaysia consists of loans for housing (53.3 percent), motor vehicles (13.3 percent), personal financing
Within this period, the proportion of household debt in the total amount of the lowest income group (incomes below RM 3,000) has slightly decreased, but the median DSR among this group was approximately 30 percent in 2016 and 2017 (Figure 29). Dobbs et al. (2015) report that Malaysia has one of the highest household debt to income ratios in Asia: 146 percent in 2014 compared with approximately 42 percent in other selected developing or emerging economies.  

Lower-income households and civil servants tend to carry more debt than the rest of the population. A recent study by BNM (2018a) highlights the heavy debt burden carried by households earning less than RM 5,000 a month. A majority of the debt—52 percent—is channelled toward the purchase of motor vehicles and to cover personal financing rather than to build long-term wealth (Figure 30). Similarly, a large share of the debt among civil servants—45 percent—represents loans for personal financing and motor vehicles (BNM 2018b). The high DSRs among lower-income households leaves these households with limited money for discretionary consumption or savings (Figure 31; Box 4). Civil servants tend to have substantially higher average DSRs. Over 50 percent of the monthly incomes of civil servants is used for debt repayment, which is 1.6 times the DSR found among average borrowers in the same income group (Figure 32).

Debt as a share of income

The debt service ratio (DSR) remains high among households with monthly incomes below RM 3,000. Figure 28 shows a slightly decreasing trend in the household debt share among the lowest income group (incomes below RM 3,000), but the median DSR among this group was approximately 30 percent in 2016 and 2017 (Figure 29). Dobbs et al. (2015) report that Malaysia has one of the highest household debt to income ratios in Asia: 146 percent in 2014 compared with approximately 42 percent in other selected developing or emerging economies.  

Lower-income households and civil servants tend to carry more debt than the rest of the population. A recent study by BNM (2018a) highlights the heavy debt burden carried by households earning less than RM 5,000 a month. A majority of the debt—52 percent—is channelled toward the purchase of motor vehicles and to cover personal financing rather than to build long-term wealth (Figure 30). Similarly, a large share of the debt among civil servants—45 percent—represents loans for personal financing and motor vehicles (BNM 2018b). The high DSRs among lower-income households leaves these households with limited money for discretionary consumption or savings (Figure 31; Box 4). Civil servants tend to have substantially higher average DSRs. Over 50 percent of the monthly incomes of civil servants is used for debt repayment, which is 1.6 times the DSR found among average borrowers in the same income group (Figure 32).

12 Namely, Argentina, Brazil, China, the Czech Republic, Indonesia, Mexico, Poland, the Russian Federation, Turkey, and Vietnam (Dobbs et al. 2015).
Chapter 4: The Cost of Living: Does Borrowing Offer Relief?

**FIGURE 29:** Median Debt Service Ratio, by Income Category, 2016–17

Median Debt Service Ratio (%)

<table>
<thead>
<tr>
<th>Monthly income (RM '000)</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;3</td>
<td>28</td>
<td>22</td>
</tr>
<tr>
<td>3-5</td>
<td>18</td>
<td>11</td>
</tr>
<tr>
<td>5-10</td>
<td>7</td>
<td>17</td>
</tr>
<tr>
<td>&gt;10</td>
<td>17</td>
<td>11</td>
</tr>
</tbody>
</table>

Source: BNM 2018b.

**FIGURE 30:** Composition of Debt, by Purpose and Income Category

Share of Debt (%)

<table>
<thead>
<tr>
<th>Monthly income (RM '000)</th>
<th>Residential properties</th>
<th>Motor vehicles</th>
<th>Personal financing</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;3</td>
<td>24</td>
<td>30</td>
<td>16</td>
<td>7</td>
</tr>
<tr>
<td>3-5</td>
<td>28</td>
<td>22</td>
<td>18</td>
<td>11</td>
</tr>
<tr>
<td>5-10</td>
<td>18</td>
<td>11</td>
<td>7</td>
<td>17</td>
</tr>
<tr>
<td>&gt;10</td>
<td>17</td>
<td>17</td>
<td>17</td>
<td>17</td>
</tr>
</tbody>
</table>

Source: BNM 2018a.

**FIGURE 31:** Debt Service Ratio among Borrowers, by Income Quintile

Share of Borrowers (%)

<table>
<thead>
<tr>
<th>Income Quintile</th>
<th>Bottom 20%</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>Top 20%</th>
</tr>
</thead>
<tbody>
<tr>
<td>DSR &lt;20%</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>DSR 20-40%</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>DSR 40-60%</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>DSR 60-80%</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>DSR 80-100%</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>


**FIGURE 32:** Debt Service Ratios, Civil Servants and Malaysia Average (Among Borrowers)

Debt service ratio (%)

<table>
<thead>
<tr>
<th>Monthly income (RM '000)</th>
<th>Civil servants</th>
<th>Malaysia</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;3</td>
<td>50</td>
<td>30</td>
</tr>
<tr>
<td>3-5</td>
<td>50</td>
<td>30</td>
</tr>
<tr>
<td>5-10</td>
<td>50</td>
<td>30</td>
</tr>
<tr>
<td>&gt;10</td>
<td>50</td>
<td>30</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>30</td>
</tr>
</tbody>
</table>

Source: BNM 2018c.
Debt as a Double-Edged Sword

In the joint World Bank–University of Malaya qualitative study, lower-income households described their monthly struggle to service loans. Expressing a common theme across regions and ethnic groups, study participants in the bottom 20 and bottom 40 found survival difficult on their current incomes, given the debts they had incurred to pay for housing, automobiles, and other goods. This is consistent with BNM data (2017, 2018a, 2019b) that show high DSRs among lower-income households, leading to limitations on household savings and consumption.

“At the end of every month, I feel like going insane because always I feel I do not have enough to settle all payments. I need to pay house mortgage, car loan, children’s education and needs, utility bills, water, electricity... After settling all these bills, the balance is almost zero. Then the wait starts for the following month’s salary for the same purpose.” –Indian, Klang Valley

“Definitely you need a loan for everything. For house, for car. For professional people, it may be easy to pay back. But my job is unstable. It is hard for me.” –Chinese, Klang Valley

“By the 20th of the month, we have to scrape the bottom of the barrel while waiting for our pay for the next month.” –Bumiputera, Terengganu

“There is no disposable income. Every penny we earn, we know how it will be spent. That is why a lot of us housewives are taking on miscellaneous jobs to support our husbands with extra income.” –Bumiputera, Klang Valley
Participants in the lowest income group in Terengganu described their inability to pay for food or other basic necessities, such as electricity, because they did not have adequate income and needed loans.

“Of course, we have to resort to loans to get by. We get groceries on credit. We get loans from friends and family if they have extra. It’s mostly to pay for food; most importantly, for rice.” – Several participants, Bumiputera, Kuala Terengganu, Terengganu

“We can only pay our electricity bills once every two months. It is common to pay our rents late. It is also common for our electricity to get cut off.” – Several participants, Bumiputera, Kemaman, Terengganu

Older participants recalled that the amount of loans had increased over time.

“In my time, student loans used to be RM 8,000–RM 10,000. Now it is RM 30,000 and above. And there is no guarantee that you will get a job after you finish.” – Bumiputera, Kemaman, Terengganu

Across regions, participants complained of their inability to build up savings, especially the participants ages 25–40.

“You’re lucky if you save RM 100 a month.” – Bumiputera, Kota Kinabalu, Sabah

“Our parents could save back then. Today we can’t save. I have no savings at all. My parents were on their own and could save. I live with them and I still can’t save.” – Bumiputera, Kuala Terengganu, Terengganu

The inability to pay debt installments on time can result in stress, blacklisting, and bankruptcy.

“For every RM 1,000 that you borrow, you have to repay RM 22 a week. It is impossible to carry out business with just a RM 1,000 loan. You have to borrow at least RM 5,000–RM 6,000. Then the weekly payment goes up to RM 187. Can we afford to pay such an amount? Our profit from sales does not even reach RM 180 a week. Sometimes, you need to take a bus for transportation and that is RM 30 each way. Can we afford such a loan? Life is harder, much harder now. It is causing stress.” – Bumiputera, Kota Belud, Sabah

“The bank offers us credit cards. Aeon offers credit shopping. You can get personal loans. We get used to swiping when our salaries barely cover our living costs. I know many people who got blacklisted.” – Bumiputera, Kemaman, Terengganu

“My base salary was only RM 700. It was like that for 13 years. Five years ago, I fell into bankruptcy after I couldn’t pay my car loan.” – Indian, Klang Valley
A majority of the household debt burden falls on the middle-aged (Figure 33). The highest median DSRs in 2017 were among the 30–40 and 40–50 age-groups: 37 percent and 34 percent, respectively (Figure 34). In employment income, 30- to 50-year-olds may expect a raise in paid income as they gain more experience and reach more advanced positions. Following income increases, they may believe they will enjoy higher financial capabilities in the future, which helps explain the relatively higher share of debt among these borrowers. In addition, except among individuals below age 30, the median DSRs among working adults have been rising in recent years, reflecting a substantial and growing debt among those age 30 or older.

**The composition of debt**

**Housing has always accounted for a large share of household debt.** This can be a good sign because it may reflect housing price stability and appreciation following the 2008–09 global financial crisis. The purchase of residential properties has accounted for 45 percent or more of total household debt since 2012 (Figure 35). One of the reasons housing represents the largest share of total household debt may be the consistently high housing prices. High prices create the need for households to borrow to purchase homes. Yet, the high share of debt associated with the purchase of residential properties is perceived as “good” debt because the price appreciation often exceeds the loan repayment, and homeowners can thus enjoy high returns on investment and stable wealth accumulation over time.

**Nearly every household, including a majority of lower-income households, owned at least one car in 2016.** The share of car owners in the bottom 20 rose by 15 percentage points in 2012–16 (Figure 36). Despite the considerable depreciation that is characteristic of cars, car loans represent one of the largest categories of debt across all age-groups. Among the respondents in a recent survey, 45 percent to 65 percent had taken out car loans (Figure 37). Among lower-income households, motor vehicle loans accompanied by
monthly payments can account for a third of monthly household income and thus become financial burdens rather than household assets. High vehicle ownership rates also suggest that public transportation services are inadequate, inconvenient, or inaccessible. Motor vehicle ownership and car loans cost households at least six times more than public transportation for the daily commute (see appendix A).  

The costs of vehicle ownership and car loans include monthly car loan installments, insurance, fuel, tolls, and other maintenance fees (World Bank calculations). The cost of public transportation is calculated with reference to the RM 100 monthly RapidKL unlimited pass for trains and buses.
**Personal financing is used widely to keep up with lifestyle choices.** Lifestyle choices are considered discretionary consumption that provide a higher standard of living beyond basic survival. According to BNM (2019b), there are two types of consumption expenditure: necessity and discretionary spending. Necessity items include basic goods required to sustain life, such as medical- and education-related consumption, whereas discretionary consumption comprises expenditure to support lifestyle choices, including spending on durable goods, weddings, and festive seasons. Individuals and households that do not earn a living wage thus need either to reduce expenditures or to increase incomes through additional jobs, borrowing, or investment. In some ways, lifestyle choices should be included in the living wage, enabling individuals to participate in meaningful social activities and events during festive seasons. In any case, it is anticipated that households with incomes below the living wage will take on personal financing loans for consumption. Figure 38 illustrates the various ways personal loans are used among AKPK clients. AKPK borrowers with monthly incomes below RM 5,000 use 32 percent of their loans to buy discretionary items, twice as much as they borrow for necessity items (BNM 2019b). The use of personal financing to keep up with lifestyle choices is common not only among lower-income households; indeed, such spending is even more frequent among households earning more than RM 10,000.

![Figure 38: Purpose of Personal Finance Loans among AKPK Clients](source: BNM 2018b)

**FIGURE 38: Purpose of Personal Finance Loans among AKPK Clients**

<table>
<thead>
<tr>
<th>Monthly Income (RM '000)</th>
<th>Consumption: Discretionary</th>
<th>Consumption: Necessity</th>
<th>Purchase of Motor Vehicles</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;3</td>
<td>15</td>
<td>32</td>
<td>7</td>
<td>15</td>
</tr>
<tr>
<td>3-5</td>
<td>19</td>
<td>32</td>
<td>7</td>
<td>15</td>
</tr>
<tr>
<td>5-10</td>
<td>16</td>
<td>37</td>
<td>7</td>
<td>15</td>
</tr>
<tr>
<td>&gt;10</td>
<td>70</td>
<td>15</td>
<td>15</td>
<td>38</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

To maintain higher standards of living, households often rely on another sort of borrowing: credit cards. It is increasingly easy to obtain credit cards, and households are increasingly using credit cards to help make ends meet. They thereby must often confront the challenges of overspending and poor debt management. While the increasing share of household credit card debt might suggest that households are using debt to improve their living standards in the short term, it may also indicate that people are spending beyond what they can afford. Even with an annual income of RM 24,000, individuals may obtain bank approvals for a credit card. It is common for Malaysians to have at least one credit card, if not multiple cards from various banks, making it easier for individuals and households to spend beyond what they earn. According to AKPK (2018), more than half (57.1 percent) of Debt Management Program participants had problems with credit card debt, while the Asian Institute of Finance (AIF 2015) finds that 70 percent of cardholders ages 23–38, that is, the Generation Y or Gen Y, paid only the minimum monthly charges to manage outstanding balances.

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14 For example, see "All the Best Credit Cards You Can Find in Malaysia," CompareHero.my, Kuala Lumpur (accessed October 2019), https://www.comparehero.my/credit-card/all.

15 RinggitPlus (2019) finds that 58 percent of respondents in its survey have one to three credit cards, and 12 percent have four or more.
Bankruptcy trends and levels

Bankruptcy is a legal status indicating an individual’s inability to settle debt, whereas insolvency refers to an inability to make payments on debt during a particular period. Insolvent borrowers may have their loans restructured, but bankrupt borrowers face asset acquisition and liquidation after being declared bankrupt in court. Insolvency and bankruptcy may have similar causes, including poor financial management and job loss. The Malaysian Department of Insolvency has reported a generally declining trend in the number of bankruptcy cases in 2015–18 (Table 7). In 2018, 85 percent of bankrupt borrowers are in the 25–54 age-group, and 56 percent are residents of more urbanized states (Johor, the Federal Territory of Kuala Lumpur, Pulau Pinang, and Selangor).

Large shares of cases of bankruptcy are related to borrowing for consumption rather than for wealth accumulation, especially among younger borrowers with limited financial knowledge and literacy. Defaults on motor vehicle and personal financing loans constitute almost half the total bankruptcy cases (49 percent in 2018), while the number of bankruptcy cases involving personal financing and credit card debt grew by 104 percent and 43 percent, respectively, in 2012–18 (Figure 39). Moreover, concern is rising about bankruptcy among the 25–34 age-group (Figure 40). Approximately 60 percent of bankrupt borrowers were millennials ages 25–44. The spending of millennials beyond their incomes can become detrimental and long-lasting if they continue to lack financial knowledge and money management skills (Box 5).

### TABLE 7: Number of Bankruptcy Cases, 2012–18

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Cases</td>
<td>19,575</td>
<td>21,987</td>
<td>22,351</td>
<td>18,457</td>
<td>19,588</td>
<td>18,227</td>
<td>16,482</td>
</tr>
</tbody>
</table>

Source: Malaysian Department of Insolvency 2018.

### FIGURE 39: Bankruptcy Cases by Cause, 2012–18

Source: Malaysian Department of Insolvency 2018.

### FIGURE 40: Bankruptcy Cases by Age-Group, 2012–18

Source: Malaysian Department of Insolvency 2018.
Millennials, also known as Generation Y or Gen Y, are individuals born between 1981 and 1996, which means they are ages 23–38 today (Dimock 2019). They represent a majority of the Malaysians who are spending well beyond their means. This phenomenon is associated with impulse-buying behavior, ready access to personal loans and credit card financing, a basic desire for instant gratification, and the ease of seamless online purchasing (AIF 2015; AKPK 2014). About 40 percent of millennials admitted to spending more than they can afford, while 70 percent expressed dissatisfaction with their current incomes (AIF 2015). Credit cards are an increasing source of borrowing, which allows for prolonged outstanding balances and thus the rapid buildup of debt because cardholders are only required to settle the minimum monthly payment after use (BNM 2019b). Are these financial behaviors short-lived, or will they lead to serious ramifications, such as bankruptcy?
**Different age cohorts spend differently.** Millennials in the United States are spending more on necessity items—groceries, utilities, and health care—than on discretionary items, such as travel and dining out (Gallup 2016). In Malaysia, respondents ages 25–44 to the HIS&BA spend similar amounts on food at home and food away from home. Up to 40 percent of consumption was spent on food among Gen Y household heads in 2016, including food at home and food away from home (Figure B5.1).c

**Millennials, including in Malaysia, lack financial knowledge and the capacity to manage their own financial well-being.** Across 1,011 respondents, Gen Ys ages 20–33 said they lack confidence in their financial knowledge and ability; 14 percent said they possessed poor or very poor financial knowledge, and 58 percent said they had average financial knowledge. In 2017, only 36 percent of millennials ages 15–34 in Malaysia were financially literate, compared with 51 percent in Myanmar and 66 percent in Singapore (Khidhir 2019). About 20 percent of millennials do not save. They blame the high cost of living and their indebtedness, excessive spending on discretionary items, and lack of income.d Among the millennials who do save, 43 percent do not invest their savings, while 16 percent invest once every one or two years (FMT News 2019).

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c. Food away from home refers to restaurants and hotels in the Household Expenditure Survey, which indicates discretionary consumption.
d. Based on the 2019 RinggitPlus survey, 69 percent of the respondents were ages 20–39, and the rest were ages 40–60. Among the respondents, 21 percent generally did not save, either because they were using their savings for debt repayment (34 percent), were facing the high cost of living (24 percent), did not have disposable income (25 percent), or spent too much on discretionary items (12 percent).
Financial behavior and well-being

AKPK has surveyed the financial behavior and financial well-being of 3,540 working adults using random sampling across Malaysia. Financial behavior refers to three key areas in money management: (1) spending; (2) savings, retirement, and investment; and (3) debt management (AKPK 2018). Financial well-being measures the ability to lead a meaningful, content, and sustainable life without constant financial worries (FEN 2019). Overall, 18 percent of the respondents in the survey had been unable to save during the previous six months, mainly because of the high cost of living, lack of income, and high debt commitment (AKPK 2018). If they had received any additional income, the respondents chose to pay off their debt first instead of spending on essentials or saving for retirement. Based on the survey, this section examines important findings on the financial behavior and well-being of Malaysians across income groups, age-groups, and regions.

A large share of working adults among lower-income groups feel pressure because of their current financial position. Almost one-third of the respondents to the AKPK survey who earned less than RM 4,000 and one-fifth who earned RM 4,000–RM 8,000 had low scores for financial behavior in spending, savings, and debt management (Figure 41). Consequently, they show lower scores for financial well-being; 58 percent of the lower-income group (less than RM 4,000) and 36 percent of the middle-income group (RM 4,000–RM 8,000) feel that they are under pressure or need attention because of their financial position (Figure 42).

---

16 According to the scoring system on financial behavior, scores of 0–5 are defined as weak, 5–6 as low, 6–8 as reasonable, 8–9 as good, and 9–10 as exemplary (AKPK 2018).

17 According to the scoring system on financial well-being, scores of 0–5 indicate under pressure, 5–6 need attention, 6–8 surviving, 8–9 comfortable, and 9–10 elated (AKPK 2018).
Financial pressure is felt by most working adults regardless of age-group. Financial behavior scores are similar across all age-groups, though the older cohorts ages 40–49 and 50–59 have slightly better ratings of good and exemplary financial behavior (Figure 43). Financial well-being tends to be poorer among younger working adults ages 20–29 and 30–39 than older age cohorts. Among the former, 22 percent and 25 percent, respectively, feel that they are under pressure because of their financial position, compared with 19 percent and 12 percent among the 40–49 and 50–59 age-group (Figure 44). Regardless of age, the majority of working adults with reasonable financial behavior rates still feel that they are under financial pressure.

Larger shares of working adults are characterized by better financial behavior and well-being in the Central Region than in the other regions of Malaysia (AKPK 2018). Respondents in the Central Region and East Malaysia achieved the highest scores for financial behavior in 2018. In terms of financial well-being, respondents in the Central Region also had higher scores than respondents in other regions (Figure 45). More respondents had the savings necessary for emergency spending in the Central Region than in other regions (Figure 46). Among working adults in the Central Region, 70 percent are able to pay RM 1,000 for an emergency; 60 percent are able to pay medical bills of RM 2,500; and 51 percent are able to cover three months of expenses if they lose their jobs. The higher share of working adults with better financial behavior and well-being in the Central Region may indicate that they have better access to resources and tools such as AKPK, BNM, and online financial service platforms. It may also reflect a greater awareness and better financial education programs in schools and companies in the Central Region. Nonetheless, the overall low financial well-being of working adults across Malaysia—close to half without the minimum savings necessary for emergency spending—has become a concern.
Chapter 4: The Cost of Living: Does Borrowing Offer Relief?

**FIGURE 45:** Financial Behavior and Well-Being Scores, by Region

<table>
<thead>
<tr>
<th>Region</th>
<th>Rating Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central</td>
<td>7.07</td>
</tr>
<tr>
<td>East Coast</td>
<td>6.42</td>
</tr>
<tr>
<td>Northern</td>
<td>6.90</td>
</tr>
<tr>
<td>Southern</td>
<td>7.00</td>
</tr>
<tr>
<td>East Malaysia</td>
<td>6.03</td>
</tr>
</tbody>
</table>

**FIGURE 46:** Ability to Pay Unanticipated Expenses, by Region

<table>
<thead>
<tr>
<th>Region</th>
<th>Share of Respondents (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central</td>
<td>Able to pay RM1,000 for emergency</td>
</tr>
<tr>
<td>East Coast</td>
<td>Able to pay medical bills of RM2,500</td>
</tr>
<tr>
<td>Northern</td>
<td>Able to cover 3 months’ expenses if retrenched</td>
</tr>
<tr>
<td>Southern</td>
<td></td>
</tr>
<tr>
<td>East Malaysia</td>
<td></td>
</tr>
</tbody>
</table>

Source: AKPK 2018.

**FIGURE 47:** Household Savings Rates, Malaysia and Selected Countries, 2009–15

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Household Savings (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>Malaysia</td>
</tr>
<tr>
<td>2010</td>
<td>Japan</td>
</tr>
<tr>
<td>2011</td>
<td>Korea, Rep.</td>
</tr>
<tr>
<td>2012</td>
<td>US</td>
</tr>
<tr>
<td>2013</td>
<td>Chile</td>
</tr>
</tbody>
</table>

Source: World Bank calculations based on 2015 DOSM and OECD data.

**FIGURE 48:** Ability to Pay Unanticipated Expenses, by Age-Group

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Share of Respondents (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>20-29</td>
<td>Able to pay RM1,000 for emergency</td>
</tr>
<tr>
<td>30-39</td>
<td>Able to pay medical bills of RM2,500</td>
</tr>
<tr>
<td>40-49</td>
<td>Able to cover 3 months’ expenses if retrenched</td>
</tr>
<tr>
<td>50-59</td>
<td></td>
</tr>
</tbody>
</table>

Source: AKPK 2018.
The current savings among individuals with the EPF indicate that most EPF members do not have savings sufficient for retirement. Although over 89 percent of EPF members agree that their EPF savings are insufficient for retirement, only 38 percent have started planning for retirement (RinggitPlus 2019). Moreover, 60 percent of adults are not covered by the EPF (FEN 2019). The reasons for the low savings in EPF accounts are various, but include the low average base in starting salaries and the slow growth in salaries among individuals during their years of active contribution; leakages before the official age has been reached for housing, health, or education expenditures that are allowed prior to retirement (which is a common design for provident funds); and a density of contributions that falls below 100 percent among many workers, meaning that they are not able to contribute every year. The EPF (2019) Belanjawanku report estimates that an elderly couple living in Klang Valley needs approximately RM 3,090 to cover monthly living expenses.

The household savings rate is low in Malaysia relative to OECD countries and other comparators. The gross household savings rate was 1.5 percent of adjusted disposable income in Malaysia in 2015, compared with 9.6 percent in Chile and 7.8 percent in the United States (Figure 47). Respondents in 37 percent of Malaysian households with monthly incomes below RM 2,000 say they do not save at all (RinggitPlus 2019). About half of Malaysian households do not have sufficient savings to cope with unforeseen personal financial shocks such as emergencies, medical bills, or job loss (Figure 48). Among millennials who save part of their incomes, approximately 60 percent possess savings that represent three months of income or less.18

18 The information is taken from a Vase ai (2019) survey among 1,525 millennials.
### Financial literacy

Financial literacy is lower in Malaysia than in many of its neighbors in the Association of Southeast Asian Nations and in high-income countries. Based on a survey by Standard and Poor’s, only 36 percent of Malaysian adults are financially literate, a substantially lower rate relative to Estonia (54 percent), Myanmar (52 percent), Singapore (59 percent), and Uruguay (45 percent) (Figure 49).

#### FIGURE 49: Financial Literacy, Selected Developed and Developing Economies

![Financial Literacy Chart](chart.png)


The current state of financial well-being among Malaysian households underscores the importance of financial literacy across income levels and age-groups. If middle- and high-income households lack financial knowledge and planning, they will have difficulty sustaining their living standards after retirement. Among people ages 40 or older, financial knowledge and the ability to accumulate savings are pertinent to avoiding the obligation to work beyond retirement because of financial pressure. Retirees need financial education to ensure sustainable use of their savings over time, thereby allowing them to have available the money they need for retirement (Jomo 2017). Financial education is thus crucial for all groups, regardless of income, age, location, or ethnicity.

Until recently, the outreach of financial literacy initiatives has been narrow. The Financial Education Network was established in 2016, consisting of AKPK, BNM, the EPF, the Ministry of Education, Perbadanan Insurans Deposit Malaysia, Permodalan Nasional Berhad, and Securities Commission Malaysia. Based on the current financial literacy and well-being among Malaysians, the Financial Education Network formulated a five-year roadmap—the National Strategy for Financial Literacy 2019–2023—to outline key priorities and elevate financial literacy among Malaysians. There are five key priorities: (1) nurture appropriate values from a young age; (2) increase the access to financial management information, tools, and resources; (3) promote
positive behavior among targeted groups, including young graduates, the self-employed, and housewives; (4) boost long-term financial and retirement planning; and (5) build and safeguard wealth, including analysis of risks and returns and protection from financial scams and fraud. The national strategy has expanded public and private financial literacy initiatives that were originally launched on a smaller scale. Financial education is now provided at various levels by all financial institutions in Malaysia according to the consumer protection regulations of BNM and Securities Commission Malaysia. Financial education has also been integrated into the formal K–12 curriculum by the Ministry of Education. In addition, large agencies, such as EPF, have begun offering financial planning workshops among members, including education on ways to extend the years of contribution, retiring later, and the potential to increase pensions through an annuity option. (Appendix B lists other financial literacy programs and financial counseling services aimed at improving the financial knowledge and well-being of Malaysians, whether young or old.)

Summary

**Borrowing provides temporary income support among lower-income households.** Borrowing provides temporary relief so households may offset inadequate incomes, particularly in the short term. While debt provides opportunities for shifting consumption and making investments, it also limits available discretionary income among households over the long run. Lower-income households and population subgroups have a heavy debt load and face high DSRs. More than 40 percent of borrowers with monthly household incomes at less than RM 3,000 have DSRs above 40 percent. Among lower-income borrowers, the debt is mostly tied up in motor vehicles and personal financing, thus supporting consumption as opposed to longer-term investments to build wealth.

**Financial education is important among Malaysian households, regardless of income, age, location, or ethnicity.** The majority of working adults are under financial pressure despite having reasonable financial behavior. Most Malaysian households also do not have sufficient savings for life after retirement or to cope with unforeseen personal financial shocks. Therefore, there is a need for effective policies to provide better social protection and enhance financial literacy across subgroups in Malaysia.
CHAPTER 5

Is Housing in Malaysia Seriously Unaffordable?
Housing is a basic need and is one of the largest household expenditures. The amount a household must pay for housing directly impacts the household’s ability to pay for other necessities such as food, education, transportation, and health care. If the cost of housing is too high compared with a household’s income, the household may have no choice but to compromise other expenditures to remain sheltered. Households unable to afford a safe, adequate, and well-located home may have to find alternate lodging that compromises health and well-being or requires long commutes to access livelihoods and basic services. Owning a home constitutes one of the primary means of wealth accumulation, especially if the value of the home appreciates over time. As of 2016, the homeownership rate in Malaysia was 76.3 percent, including owner-occupied homes with mortgages, which is higher than the rates in many OECD and high-income countries (Ismail et al. 2019).

This chapter examines the extent to which rising housing costs have contributed to the high cost of living among Malaysian households. The chapter presents the most common methodology for calculating housing affordability using the price-income ratio (PIR), also known as the median multiple index. It then examines the strengths and weaknesses of this calculation and provides alternative methodologies. It also reviews an alternative measure of housing affordability. It analyzes the impact of government policies on the housing market. It concludes by summarizing the key findings and policy implications for the case of Malaysia.

The affordability indicators developed for this report rely on a market-based approach that involves a calculation of the capacity of consumers in various income groups and in specific locations to take on housing mortgage loans at the prevailing market terms to achieve homeownership. The capacity to pay a home loan and resulting home price is assessed against the supply of housing at different price points in specific markets. Ideally, such an analysis would be carried out in all housing markets in Malaysia, but such an extensive exercise is beyond the scope of this report. Instead, the analysis focuses on Kuala Lumpur and neighboring Petaling District in the state of Selangor. These areas were selected because they have been focal points of public and policy attention on housing affordability. A comparative analysis is also informative because population sizes and income levels are similar in these areas, however, housing policies differ under the respective local and state governments. In addition, unusually rich data on current and projected housing supply are available for Kuala Lumpur and Petaling District. This permits high-resolution analysis to highlight the areas of housing undersupply or oversupply at different price points and, thus, the severity of housing unaffordability across income segments. The analysis is centered on the homeownership segment of the market because of a severe lack of reliable data on residential rental supply and pricing.

Housing affordability: A typical approach in Malaysia

Various studies using the PIR have concluded that, since 2002, housing affordability has deteriorated in Malaysia at varying degrees across states (Ismail et al. 2019). The median multiple index—the PIR—is used in the annual International Housing Affordability Survey of Demographia to compare the median home price with median household income across international markets (Cox and Pavletich 2019). Markets are ranked based on their median multiple between affordability (3.0 or less) and severe unaffordability (5.1 or more). From 2002 to 2016, the median multiple index in Malaysia exceeded the 3.0 indicator of

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19 The customized housing stock data were acquired from Urbanmetry, a big data housing research firm that combines publicly sourced data with geolocation information through proprietary algorithms, satellite imagery, and other tools that allow the measurement of housing affordability against the availability of supply-side data by pricing segments and by micromarket levels.
housing affordability. It worsened from 2012 to 2014 when it increased from 4.0 to 5.1 (Ismail et al. 2019). In 2016, Malaysia’s median multiple index was 5.0, indicating that housing in the country was seriously unaffordable (Figure 50). Among the states, the Demographia scale identifies Negeri Sembilan and Pulau Pinang as severely unaffordable, Johor, Kuala Lumpur, and Selangor as seriously unaffordable, and Melaka as moderately unaffordable (Ismail et al. 2019). Map 1 illustrates housing affordability across the states according to the median multiple index.

**FIGURE 50:** Home Price-Income Ratio, Malaysia, 2002–16

**MAP 1:** Home Price-Income Ratio, by State

Housing is relatively more affordable in Kuala Lumpur than in other Asian cities. A World Bank (2019b) study compares housing costs in several Asian metropolitan areas using the PIR. Although Kuala Lumpur is seriously unaffordable on the Demographia scale, the PIR is substantially lower in Kuala Lumpur than in many other major metropolitan areas, such as Bangkok, Jakarta, and Singapore (Figure 51). Thus, despite increasing housing unaffordability in parts of Malaysia, it is less severe relative to many other East Asian economies.

The deterioration in housing affordability gauged by the PIR methodology can be attributed to several factors, including urbanization and unresponsive supply. One factor has been the increase in housing demand in urban areas, driven by rural migration to urban areas and by changes in the main industries that have altered the country’s demographics. From 1990 to 2019, the number of households has more than doubled, increasing from 3.6 million to 8.0 million (DOSM 2019b). Until recently, housing supply was not responsive to this rise in demand, exacerbating increases in housing prices, particularly in economic centers such as Kuala Lumpur and Selangor. In addition, new housing construction since 2008 has been dominated by properties priced at RM 250,000 or more. As a result, housing units priced below RM 200,000 made up less than 20 percent of the total units launched in Malaysia between 2014 and 2016 (Figure 52). Wages have not increased as quickly as housing costs. While cumulative salaries and wages rose by 59 percent from 2010 to 2018, cumulative home prices increased by 87 percent (Figure 53).
Chapter 5: Is Housing in Malaysia Seriously Unaffordable?

**FIGURE 52**: Composition of Total Housing Units Launched, by Price Range (cumulative %), 2014–2016

Composition of Total Housing Units Launched by Price Range, Cumulative Percentage

<table>
<thead>
<tr>
<th>Price Range</th>
<th>Cumulative %</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;RM100k</td>
<td>18%</td>
</tr>
<tr>
<td>RM100-150k</td>
<td></td>
</tr>
<tr>
<td>RM150-200k</td>
<td></td>
</tr>
<tr>
<td>RM200-250k</td>
<td></td>
</tr>
<tr>
<td>RM250-300k</td>
<td></td>
</tr>
<tr>
<td>RM300-400k</td>
<td></td>
</tr>
<tr>
<td>RM400-500k</td>
<td></td>
</tr>
<tr>
<td>RM500k-1m</td>
<td></td>
</tr>
<tr>
<td>&gt;RM1m</td>
<td></td>
</tr>
</tbody>
</table>

Sources: Ismail et al. 2019; NAPIC 2016.

**FIGURE 53**: Median Home Price per Unit and Annual Growth Rate, Malaysia, 2010–19

Home Price Per Unit (Thousands)


- Par Unit Price
- YoY Change

Sources: Data of the Bank for International Settlements; NAPIC 2016.
How is housing affordability assessed elsewhere?

While the PIR is one of the most commonly used measures of housing affordability, it omits numerous household- and location-specific factors that determine affordability. Most notably, the PIR methodology does not account for the presence and quality of surrounding infrastructure and amenities, relevant costs associated with buying and owning a property, or the availability of housing relative to demand. In addition, assessments of housing affordability should take into account household-specific factors. Relative to richer households, lower-income households can typically afford to devote a smaller share of their incomes to housing because other necessities, such as food, take up a larger portion of the family budget. For these reasons, alternative approaches have been developed to address some of the weaknesses of the PIR methodology. Box 6 summarizes the more precise housing affordability measures that are used in Australia, Canada, and the United States. The measures assess the affordability of housing based on the relevant costs for renters or homeowners under local market conditions and household income brackets.

The contribution of housing to the cost of living depends on several factors. One factor is location. Where a home is located in relation to economic opportunities, public infrastructure, transportation, and social amenities affects the overall cost of housing. A second factor is the income level of the household: a home that is affordable for a two-person household in which both individuals are earning high incomes is likely not affordable for a four-person household with one employed individual earning the minimum wage. For homebuyers, a third factor is the associated costs, such as the prevailing mortgage terms (interest rate, loan term, and so on), maintenance, utilities, and insurance. A fourth factor is the availability of housing, that is, the housing supply. Often, housing supply is ample, but may not be at a price point that meets the household capacity to pay or may not meet livability and accessibility requirements.
How is Housing Affordability Assessed Elsewhere?

Alternative housing affordability measurements can be considered to counteract the weaknesses of the median multiple index. Canada’s Mortgage and Housing Corporation uses a two-stage indicator to identify households in need of housing assistance. The core housing need indicator determines need by assessing if a house is in adequate condition and suitable in size and if it costs more than 30 percent of the household’s income. The Royal Bank of Canada’s housing affordability measure calculates the affordability of housing for new buyers by assessing the proportion of median pre-tax household income needed to service the cost of mortgage payments, property taxes, and utilities based on the prevailing market price of a home by housing type and region. In Australia, the 30:40 standard identifies households as experiencing housing affordability stress if they are in the bottom 40 and paying more than 30 percent of income on housing. The U.S. Department of Housing and Urban Development defines the rental affordability index as the ratio of 30 percent of median household income in an area to the median-priced rental unit in the same area (Table B6.1).

**TABLE B6.1: Alternative Housing Affordability Measurements and Indicators**

<table>
<thead>
<tr>
<th>Housing Affordability Index</th>
<th>Proponent of Index</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core Housing Need</td>
<td>Canada Mortgage Housing Corporation</td>
<td>Household is considered in core housing need from the affordability perspective if (a) rental, plus utilities (for renters) or (b) mortgage, plus utilities, property taxes, and condo fees (for owners) cost 30 percent or more of the household pre-tax income. Estimate number of households in core housing need on an annual basis.</td>
</tr>
<tr>
<td>Housing Affordability for New Buyers Index</td>
<td>Royal Bank of Canada</td>
<td>Estimates affordability trends for new buyers by calculating the share of median pre-tax household income needed to service the cost of mortgage payments, property taxes, and utilities based on the prevailing market price for single-family homes and condo apartments, disaggregated by cities or metropolitan areas, as well as for an overall aggregate of housing types in the market. The index is calculated on a quarterly basis.</td>
</tr>
<tr>
<td>30:40 Standard</td>
<td>Australian Housing and Urban Research Institute</td>
<td>Identifies households to be under housing affordability stress if the household has an income level in the bottom 40 percent of Australia’s income distribution and is paying more than 30 percent of its income in housing costs. The 30:40 standard recognizes that higher income households can exceed the 30 percent threshold without experiencing financial stress.</td>
</tr>
<tr>
<td>Rental Affordability Support</td>
<td>U.S. Department of Housing and Urban Development</td>
<td>Sets benchmarks. A household paying more than 30 percent of median income in a specific area qualifies for affordable housing rental assistance based on a fair market rent. Fair market rent is defined as the 40th percentile of gross rents of recent movers in an area, based on an annual rent survey.</td>
</tr>
</tbody>
</table>

Redefining housing affordability

The local nature of housing markets demands that affordability is also locally defined. Housing prices depend on the proximity of public and social infrastructure, access to economic centers, and transportation. Housing affordability is also a subjective consideration of households. A more well off household can pay a larger share of income on housing and not be stressed, while a less well off household may only be able to pay a small share of income before being obliged to compromise other basic needs.

To address the limitations of the PIR methodology, a more detailed housing affordability model has been developed that measures the capacity of households, by income, to pay a mortgage and compares this information with information on the supply of housing at the relevant price points. The first step in this model is the determination of the capacity to pay, which is measured by the DSR traditionally used by lenders to determine the maximum mortgage a household would be authorized to borrow (Figure 54). Mortgage applicants also frequently use the DSR formally or informally to assess how much debt they can afford to take on and still meet other financial obligations. The capacity to pay a home loan and the resulting affordable home price are then assessed against the availability of housing at the relevant affordable price points in Kuala Lumpur and Petaling District.

![Figure 54: World Bank DSR Assumptions and the Maximum DSRs of Two Mortgage Lenders](source: World Bank calculations.)

21 The debt service ratio is the total debt repayment obligations (including principal, interest, and fees) per month expressed as a percentage of monthly household income. Lenders can pull data on the existing debt of consumers from Credit Bureau Malaysia reports, with the exception of debt obtained through informal lending channels or family networks. For the reports, see CBM (Credit Bureau Malaysia), Products and Services, CBM, Petaling Jaya, Selangor, Malaysia, [https://www.creditbureau.com.my/about-cbm/products-services](https://www.creditbureau.com.my/about-cbm/products-services).

22 For housing supply data, see Intelligence Placed (database), Urbanmetry, Petaling Jaya, Selangor, Malaysia, [https://www.urbanmetry.com/](https://www.urbanmetry.com/).
Calculating the capacity to pay a home loan

The capacity to pay the monthly housing loan repayment obligation is calculated as follows:

\[
\text{capacity to pay} = (\text{net household income})(\text{DSR}) - \text{other debt obligations}
\]

Net household income is gross household income, less all required deductions for the EPF, Social Security Organization, Employment Insurance System, and income tax according to the prevalent regulations and guidelines relevant for the various deductions.

The DSR applied in the model is aligned with international DSR benchmarks and is scaled between a conservative DSR on net household incomes among lower-income households starting at 30 percent and a more liberal DSR at a maximum of 60 percent among higher-income households. In Malaysia, this translates roughly to a DSR range of 27 percent to 43 percent based on gross household income. This is also comparable with the weighted average DSR of 34 percent to 40 percent among all Malaysian consumers across all income levels reported by BNM (BNM 2017).

Other debt obligations consist of personal loans, credit card balances, motor vehicle loans, student loans, securities loans, and other debt. To estimate other debt obligations, the BNM composition of household debt by purpose and income group has been used (BNM 2018a; see Figure 30). For instance, for a household with a monthly income of RM 3,000, other debt obligations account for around 65 percent of total debt obligations on average. This results in housing loan repayment obligations of 35 percent of total debt obligations.

Based on the housing affordability model, a household with a monthly income of RM 5,000 can afford a home valued up to approximately RM 134,000, and a household with income of RM 10,000 can afford a home valued up to RM 500,000. The relatively conservative value of the housing that may be considered affordable by the lowest income households (RM 5,000 or less) reflects the challenge this group generally faces in accessing housing financing given the low and sometimes volatile income among this group, the high cost of nonhousing necessities relative to the income, and the small savings buffer (Figure 55). Mortgage lenders are generally more comfortable lending to households with monthly incomes greater than RM 5,000 because there is evidence that this group is more likely to be able to adjust to adverse developments in financial conditions (BNM 2019c) (Box 7).
As part of this study, the World Bank researched the DSRs used by mortgage lenders in Malaysia to assess applicants’ capacity to pay and maximum borrowing capacity.

In other developed markets, the DSR typically ranges from 30 percent to 50 percent of gross household income, but Malaysian mortgage lenders tend to set higher maximum DSRs. For example, one mortgage lender interviewed for the study sets a maximum DSR of up to 75 percent of gross household income for households with monthly incomes of RM 5,000 and above and 60 percent for households with incomes of RM 5,000 or less in urban areas. Some mortgage lenders require a minimum net disposable income for low-income households to ensure that adequate cash is available after all debt obligations for everyday household expenditures. This additional requirement is designed to account for this group’s narrow safety net, small savings capacity, and high income volatility.

A high maximum DSR does not necessarily translate into high risk for mortgage lenders because the mortgage loan portfolio in Malaysia appears to perform well. The loan impairment ratio for residential mortgage products for homeownership was 1.1 percent in 2018–19, which is a low and acceptable level (BNM 2019c). Discussions with mortgage lenders in Malaysia indicate that internal credit scores, combined with a robust underwriting system, help lenders segregate creditworthy applicants and keep the default risk manageable.

Comparing the World Bank affordability model with other models

The World Bank housing affordability model used in this study can be compared with the PIR model and the BNM Housing Watch model in measuring the maximum affordable home price among buyers in households defined by income (Figure 56). The BNM Housing Watch model assumes a 30 percent DSR on net household income across all income groups, a 4.5 percent interest rate, a 35-year loan tenure, and a 90 percent loan to value ratio in calculating the maximum affordable home price. The PIR maximum affordable home price is calculated by multiplying annual gross household income by 3, which is deemed affordable according to the PIR index.
The World Bank housing affordability model represents a market-based approach that takes into consideration the ability of a household to take out a loan to purchase a home and pay total monthly household debt obligations inclusive of other debt. The model applies a range of DSRs to account for the varied capacity to pay across household income levels. It is most conservative in the case of the lowest monthly income group (RM 5,000 or less). The World Bank affordability model is more conservative than the BNM Housing Watch model because it takes into account other debt obligations, while the BNM model does not do this. It is more liberal than the PIR model for higher-income households (monthly incomes of RM 10,000 or more), as the World Bank model assumes they can afford higher DSRs because of the larger savings buffer between incomes and expenditures among these households.

A measured market approach is required to pinpoint the stress on housing affordability by location and by income. The PIR model is essentially the most conservative of the three models (except for the lowest-income households), but it is a crude instrument and may have imprecisely concluded that the housing markets in Malaysia, in Kuala Lumpur, and in Selangor are seriously unaffordable across all income groups. The BNM Housing Watch model does not account for other debt obligations, which would tend to overestimate the capacity to pay and, therefore, housing affordability in the case of the low- and middle-income household groups. Meanwhile, because it relies on a 30 percent DSR across all income groups, the BNM Housing Watch model would tend to underestimate housing affordability in the case of the high-income group. The methodology used in this study takes into account the full distributions of housing prices and household incomes, rather than only the median values. The methodology also incorporates other factors that help determine housing affordability, including the available financing terms, the existing debt obligations of households, and the fact that the DSRs households can reasonably support vary by household income. This has allowed for a more precise assessment of housing affordability by location and by income for households in the housing markets under analysis, Kuala Lumpur and Petaling District in Selangor.
Chapter 5: Is Housing in Malaysia Seriously Unaffordable?

Aspirations Unfulfilled: Malaysia’s Cost of Living Challenges
Based on what households can afford by income group, are enough homes available for purchase at the right price?

Figure 57 on Kuala Lumpur and Figure 58 on Petaling District compare the number of households and the maximum home prices these households can afford against the supply of housing units at various price points. The places where the cumulative number of housing units are greater than the cumulative number of households indicate that adequate housing stocks are available at appropriate price points to satisfy the needs of the relevant households. If the population line is above the housing supply line, this indicates there is an undersupply of housing, and, if the population line is below the supply line, this indicates an oversupply of housing.

**FIGURE 57: Cumulative Number of Households vs Housing Units, Kuala Lumpur, 2019**

Cumulative Number of Housing Units and Households, Thousands

![Cumulative Number of Households vs Housing Units, Kuala Lumpur, 2019](image)

Sources: Urbanmetry data; World Bank calculations.

**FIGURE 58: Cumulative Number of Households vs Housing Units, Petaling District, 2019**

Cumulative Number of Housing Units and Households, Thousands

![Cumulative Number of Households vs Housing Units, Petaling District, 2019](image)

Sources: Urbanmetry data; World Bank calculations.
The following are the key findings of the analysis on Kuala Lumpur and Petaling District:

- **Housing unaffordability is most severe among households in the RM 3,000–RM 5,000 monthly income range.** It is estimated that these households can afford a home costing up to RM 134,000 (see Figure 54). In Kuala Lumpur, approximately 86,000 households earn incomes of RM 5,000 or less, but there are only 37,000 housing units available at RM 120,000 or less, representing an undersupply of almost 50,000 units. In Petaling District, for the 137,000 households with incomes of RM 5,000 or less, there are only 50,000 housing units available, indicating an undersupply of 87,000 units. Thus, for households with incomes from RM 3,000 to RM 5,000 in Kuala Lumpur and Petaling District, there are only enough housing units priced at RM 120,000 or less for 43 percent and 37 percent of the households, respectively. This substantial stress in affordable housing implies that many in these household income groups would face difficulty achieving homeownership.

- **Housing affordability is tight for households with incomes between RM 5,000 and RM 10,000, though not as tight as it is among households earning less than RM 5,000.** Households with incomes from RM 5,000 to RM 10,000 have moderate difficulty purchasing an affordable home in line with their incomes. Households at this income can afford to purchase homes in the range of RM 230,000 to RM 500,000. The supply of homes in this price range relative to effective demand varies significantly between Kuala Lumpur and Petaling District. The balance of supply and demand in this price range is also affected by competition from households earning more than RM 10,000 per month that can afford homes costing RM 500,000 or more, but opt to purchase less expensive properties.

- **Housing affordability is not a problem for households with incomes above RM 10,000.** The large supply of homes at higher prices (RM 500,000 or more) relative to the number of households with incomes of RM 10,000 or more allows for ample housing options for these households.

These findings are consistent with the qualitative study conducted by World Bank and the University of Malaya in 2019 (Box 8).

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23 The value RM 120,000 is used instead of RM 134,000 because the price data on housing supply are in price ranges, and RM 120,000 is a closer match than the next closest home price in the range, RM 160,000.
Affordable housing emerged as a key concern across topic areas in the joint World Bank–University of Malaya living standards qualitative study. Participants raised housing issues whether the discussion questions focused on intergenerational mobility, cost of living, government policies, or personal hopes and aspirations. Homeownership is a strong personal aspirational goal across the three locations covered by the qualitative study—Klang Valley, Sabah, and Terengganu—and across urban and rural areas, ethnicities, and income categories. The inability to find affordable housing to buy or rent is a common concern that unites all Malaysians and has a negative effect on overall well-being.

“A lot of young people these days cannot afford any assets: no land, no house... So they are filling up bubble tea shops. It looks ridiculous to be drinking so much bubble tea. But what can you do? That’s the only thing you can afford to spend on yourself!”
—Chinese, Klang Valley

“The rental for a two-storey house near UNISZA and UMT [local universities] is RM 1,000 per month. Now you find 15–20 students sharing one house because how else to afford at such prices? Look at how they have to live!”
—Bumiputera, Kuala Terengganu, Terengganu

“The condition of the house I grew up in was very bad. It was a wooden plank house with a lot of holes and white ants. This generation has never faced such conditions.”
—Chinese, Klang Valley

“Twenty-five years ago, so many of us were in small wooden huts on estates. It was very difficult then. Things are more developed now. We live comfortably in brick houses.”
—Indian, Klang Valley

Bumiputera participants across income classes in Klang Valley, as well as middle-income Chinese and Indians unfavorably compared current housing with the housing of older generations. Rather than describe an improvement, they emphasized that their parents could afford decent, higher-quality housing of a good size without feeling financially burdened.

“My mother was a single parent. She was a civil servant, a teacher, and was able to afford to buy a house on her salary. A nice house. A big house. I mean, a good corner
lot. Too big for us. But no, I cannot afford to buy such a house anymore. Even the house I am living in, she paid for it.”
–Chinese, Klang Valley

“Our money is not enough to buy a house. In the past, the houses were decent. Now they are smaller and more expensive. Our children don’t live with us. If they did, we wouldn’t fit!”
–Bumiputera, Klang Valley

“Our houses are small and uncomfortable. Houses are supposed to be comfortable. Even the bathroom is very small. It’s around 4x4 square feet. I am really not satisfied.”
–Bumiputera, Klang Valley

Urban participants in Sabah and Terengganu felt that they were poorer than their parents, even if they earned more. Their parents owned land and were asset rich by comparison.

“I grew up in the village. My parents make money from the land by farming. People are rich in the village, maybe not in money, but in terms of land. There is food everywhere. For me, even with higher income, and trying to be rich, I feel I am not going anywhere.”
–Bumiputera, Kota Kinabalu, Sabah

“My parents don’t earn much, but they managed to buy land and build a house. We can’t do that today. Our salary might be two or three times more, but we can’t buy property.”
–Bumiputera, Kuala Terengganu, Terengganu

“In Malaysia, you have people with jobs. But they cannot afford property. That’s a new kind of poor.”
–Bumiputera, Kota Kinabalu, Sabah

Rural residents, particularly in Sabah, agreed with their urban-dwelling counterparts.

“To the world’s view, having no money is being poor. I consider myself rich because I have land and have nature around me to give me food. There are no hunger problems here like in the peninsula. When you don’t have your land, you lose everything. I don’t think I am poor based on the government’s definition.”
–Bumiputera, Tongod, Sabah

While some low-income participants mentioned that they had benefited from government housing schemes, others shared reasons why the schemes proved disappointing: applications were rejected, even the scheme prices were unaffordable, and the targeting did not seem appropriate.

“There was a housing scheme called Selangorku. We applied, but did not get a chance to buy. Many people’s loan applications were not accepted. And for some, even the prices were out of reach. It was costing RM 200,000 to RM 280,000.”
–Indian, Klang Valley

“The houses that were promised by the government to poor people like us is just lip service. We still haven’t seen it. The ones that get to buy these affordable houses are those with connections with government officials.”
–Bumiputera, Kuala Terengganu, Terengganu

“The government should look at the allocation of houses. There is a lot of unfairness. They are not targeting the right people. These houses are going to those who should not be eligible.”
–Bumiputera, Setiu, Terengganu
Government housing policies

Local, state, and national governments have been actively engaged in addressing the affordable housing needs of the people. In the National Housing Policy (2018–25), the government has affirmed its commitment to ensuring sufficient safe and affordable housing for the population, especially households in the bottom 40 and the middle 40. A review of public housing schemes finds a total of 16 schemes on both the supply and demand sides.24

Government housing policies have diverse impacts on housing supply and affordability. This study assesses two government housing schemes, Residensi Wilayah and Rumah Selangorku, on their relative effectiveness in delivering affordable housing to the market, the uptake of the schemes by consumers, and the overall impact on the commercial market.

Residensi Wilayah is a government affordable housing scheme that is designed to provide affordable housing for people working or living in the three federal territories, Kuala Lumpur, Labuan, and Putrajaya. Under the Residensi Wilayah Program, developers are allowed a floor area ratio above the standard regulated densification as an incentive to build affordable housing. By building at a higher density, developers can offset the losses involved in selling units at a lower price point. The aim of the scheme is to build 80,000 units of affordable homes by 2020, of which 50,000 units are to be developed in Kuala Lumpur, 10,000 in Labuan, and 20,000 in Putrajaya. The units are priced at less than RM 300,000 and are only available for first-time homebuyers with monthly incomes at less than RM 10,000 for single individuals or RM 15,000 for married couples. Once purchased, the properties cannot be resold for 10 years, but can be rented out. An example of the Residensi Wilayah scheme is the Casa Green Project in Bukit Jalil. It is a transit-oriented development project and is thus within walking distance of the Light Rail Transit. Unit prices start at RM 300,000. Unit sizes range from 825 to 1,000 square feet. Figure 59 illustrates how units can be priced at 42 percent less than private commercial units nearby, though they are only 15 percent smaller. Given the price advantage, the nearby commercial products may lose some competitive edge.

While the Residensi Wilayah scheme has contributed to the supply of housing units to the Kuala Lumpur market in the price range of RM 300,000 and below, it also attracts higher-income households. Higher-income households with monthly income of RM 15,000 can afford to purchase higher-priced homes of up to RM 1 million, but sometimes choose the Residensi Wilayah housing at RM 300,000 due to its value-for-money and favorable characteristics such as central location and decent home size. Households with incomes from RM 6,000 to RM 10,000 whose ability to pay is in line with the Residensi Wilayah home prices are often crowded out by higher-income households with stronger capacity to pay and better access to mortgage financing. Hence, the Residensi Wilayah housing scheme could be more effective in addressing affordable housing needs if the eligibility criteria were adjusted to cater to those with incomes of RM 10,000 or less, and if the scheme placed tighter limits on the use of Residensi Wilayah for investment purposes instead of as the recipient’s primary residence.

24 These include six schemes on the supply side: the Public Low-Cost Housing Project (Projek Perumahan Rakyat), the Public Service Housing Scheme (Perumahan Penjawat Awam Malaysia), MyHome, the 1Malaysia People’s Housing Program (Perumahan Rakyat 1Malaysia), Rumah Selangorku, and Residensi Wilayah; five schemes on the demand-side: the BNM Fund for Affordable Homes, Skim Pinjaman Perumahan, My First Home Scheme, Youth Housing Scheme, and MyDeposit to support homeownership; and five rental or rent-to-own schemes: the Public Low-Cost Housing Project Disewa, Rent-to-Own Public Low-Cost Housing Project, Program Rumah Transit, Skim Smart-Sewa Selangor, and Rent-to-Own 1Malaysia People’s Housing Program.
In addition, the Residensi Wilayah scheme has added to the housing oversupply situation in Kuala Lumpur. Residensi Wilayah contributes 17 percent of the total estimated incoming housing units between 2019 and 2023, and 82 percent of incoming units from public housing schemes over the same period of time. In 2018, the total supply of housing units stood at 571,454 units, which is 1.25 times that of the total number of households in Kuala Lumpur. The oversupply of homes means that approximately 25 percent of the housing units are being used as second-homes and investment homes; or the units sit empty. Based on the estimated number of incoming housing units and population growth between 2019 and 2023, the oversupply situation in Kuala Lumpur is expected to widen to 1.63 times (Figure 60).
In Selangor, the state government launched Rumah Selangorku in 2014 with the aim of increasing the supply of housing priced at less than RM 250,000. Under this inclusionary housing policy, 20 percent–50 percent of residential units in a new development are required to be priced at less than RM 250,000, while the remaining units may be priced at market levels (Table 8; Figure 61). Rumah Selangorku is only available for first-time homebuyers, whereby households with monthly income less than RM 3,000 are eligible for type A homes with prices of RM 42,000 and households with income between RM 3,000 and RM 10,000 are eligible for types B, C, and D homes with prices of RM 250,000 or less. Buyers must be primary residents for at least five years before a resale can take place.

The Rumah Selangorku scheme has not had the desired impact on affordable housing, instead it exacerbates the undersupply situation in Petaling District. In 2018, the total supply of housing units stood at 621,821 units, which is 1.12 times that of the total number of households in Petaling. At a 12 percent margin of housing units over the total number of households the situation is tight yet still manageable. Based on the estimated number of incoming housing units and projected population growth from 2019 to 2023, the housing units per household ratio in Petaling district is expected to shrink to 1.05. The scheme resulted in the increasing number of high-end units relative to lower-priced units in 2017, as developers overcompensate by building high-end units first to subsidize the subsequent construction of lower-end units in the Petaling market (Figure 62). It is possible that developers will persist in building more high-end than affordable housing units or shift their developments elsewhere if they continue to feel constrained by the Rumah Selangorku policy. Hence, the scheme has created more homes for the higher-income segment in Petaling District.
TABLE 8: Rumah Selangorku Scheme: Requirements for Developers to Build Affordable Housing

<table>
<thead>
<tr>
<th>Development zone</th>
<th>Provision for Rumah Selangorku based on total development area (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2–5 acres</td>
</tr>
<tr>
<td>Zone 1</td>
<td></td>
</tr>
<tr>
<td>Zone 2</td>
<td></td>
</tr>
<tr>
<td>Zone 3</td>
<td></td>
</tr>
</tbody>
</table>

Source: Lembaga Perumahan dan Hartanah Selangor.


Source: Urbanmetry data.

FIGURE 62: Number of Residential Units and Households, Petaling District, 2018–23

Source: Urbanmetry data.
The Residensi Wilayah and Rumah Selangorku policies have contributed to the residential housing market price trends. The housing oversupply in Kuala Lumpur is expected to worsen by 2023, with Residensi Wilayah contributing 17 percent of total incoming housing units. As a result, the housing oversupply (estimated total housing units compared to number of households) has already led to a stagnant and slightly declining home price trend for Kuala Lumpur as shown in Figure 63. On the other hand, the already-tight housing supply conditions in Petaling are likely exacerbated by the Rumah Selangorku policy, which has created more homes in the higher-income segment and resulted in continued increases in housing prices since 2014.

**FIGURE 63: Kuala Lumpur Versus Petaling District Pricing Trends, Comparison of High-Rise Units, 2008–18**

<table>
<thead>
<tr>
<th>Price Index</th>
<th>Kuala Lumpur</th>
<th>Petaling District</th>
</tr>
</thead>
<tbody>
<tr>
<td>220</td>
<td>191</td>
<td>208</td>
</tr>
<tr>
<td>200</td>
<td></td>
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<tr>
<td>180</td>
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<tr>
<td>140</td>
<td></td>
<td></td>
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<tr>
<td>120</td>
<td></td>
<td></td>
</tr>
<tr>
<td>100</td>
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</tr>
</tbody>
</table>

Source: Urbanmetry data.

**Summary**

Housing as part of the cost of living in Malaysia is highly dependent on a variety of factors including location, household income, housing type preference, and the supply of housing stock at the affordable price points. By harnessing supply side data that include both existing and incoming housing stocks by price segments, population demographics, size and growth pattern, and mortgage market dynamics, a more nuanced image of who can afford housing in what location is shown to be possible, as this study has demonstrated for Kuala Lumpur and Petaling District. If reliable rental housing data were available, a rental affordability measurement would allow deeper analysis such as the comparative analysis of buy versus rent and the trade-off that households are making in deciding how best to deploy household expenditures for optimal cost of living efficiency.

The conclusion that housing in Malaysia is seriously unaffordable is an oversimplification of the reality of the market. There are ample housing affordability measurement indicators available for Malaysia to benchmark, which are far more useful and pertinent to support housing policy decision-making beyond
the basic PIR methodology. Further, a constantly shifting real estate market requires policy makers to be nimble to adjust policies and programs as needed.

The housing affordability model developed here has found that housing affordability by household income is not linear but changes as households have less or more income.

- **Severe housing unaffordability**: Households in the RM 3,000 to RM 5,000 income segment in Kuala Lumpur and in Petaling District experience severe housing stress, with an estimated 55 percent and 63 percent of households, respectively, without access to housing within their capacity to pay. As such, it is expected that many of these households would depend on rental for shelter, and regardless of the choice of renting or not, this population would likely suffer living conditions that are unsafe, inadequate, and overcrowded. It is also likely that many of these households are in housing that they cannot afford and are accumulating debt or making major sacrifices in other dimensions of their well-being.

- **Moderate housing unaffordability**: Households with income from RM 6,000 to RM 10,000 have moderate difficulty purchasing an affordable home in line with their incomes. This segment has the ability to purchase homes in the range of RM 230,000 to RM 500,000 and the supply of homes varies significantly between Petaling District and Kuala Lumpur. In Petaling District, this population would face more housing affordability stress given the growing undersupply situation and increase in price. In Kuala Lumpur, there is an increasing oversupply of housing thanks partially to the Residensi Wilayah scheme, though this population might still have difficulty as they have to compete against the higher-income segment who also value the public housing schemes with significant value-for-money.

- **Housing affordability is not an issue for households with monthly incomes above RM 10,000.** The government is committed to ensuring affordable housing for its population—especially the bottom 40 and the middle 40—as per its National Housing Policy (2018–2025). This analysis shows that households in Kuala Lumpur and Petaling District with incomes greater than RM 10,000 have ample choice of homes within their capacity to pay.

Government policies impact housing affordability in that housing is being built at certain price points by the private sector and government bodies such as the 1Malaysia People’s Housing Program (Perumahan Rakyat 1Malaysia) in response partly to these policies. As the government is deeply engaged in addressing housing affordability issues, active monitoring of market supply and pricing trends is critical to understand the impact of the government policies and schemes on the market and make the necessary adjustments to ensure that the housing schemes do not over- or undershoot the targeted outcomes. Without these monitoring mechanisms, government interventions may not effectively help correct market imbalances but rather exacerbate the oversupply situation in Kuala Lumpur and undersupply in Petaling District.

The following adjustments to the government housing policies and schemes in urban centers are recommended based on the outcomes of this study. While additional study would be needed to evaluate the relevance of the outcomes of this study to all urban centers, it is expected that this study’s focus on Kuala Lumpur and Petaling District would be representative of the urban areas in Malaysia.

- **Increase focus on research, policy, budget and operational support to address the severe unaffordability among households with incomes of RM 5,000 or less in urban centers with acute market pressure, as shown in Kuala Lumpur and Petaling District.**
This housing market study at the city level shows that households with monthly incomes of RM 5,000 or less are typically unable to afford housing in the formal market in large cities such as Kuala Lumpur and Petaling District. In Kuala Lumpur, there are approximately 86,000 households with incomes of RM 5,000 or less, but there are only 37,000 housing units at a level they can afford (RM 120,000 or less), representing an undersupply of almost 50,000 units.26 In Petaling, for the 137,000 households with incomes of RM 5,000 or less there are only 50,000 housing units available, for an undersupply of 87,000 units within that price range. This severe stress would likely result in this population having to depend heavily on rental housing and, regardless of the rental or not, would experience living in unsafe, inadequate and overcrowded conditions.

As these households are unlikely to access formal housing without external support, they should be the primary focus of government interventions. Increasing support of private and public rental housing development, rent-to-own schemes, and other affordable formal housing options would allow this at-risk population living in urban areas with acute housing cost pressure to access adequate and affordable housing. In addition, further research and analysis of housing markets at the city and micro-market levels is necessary to ensure such policies and programs are guided by the needs of those at the bottom of the income distribution.

The housing affordability analysis conducted for this report confirms households with monthly incomes of RM 10,000 or more are generally well-served by the market. Housing affordability is not an issue for those with incomes above RM 10,000: The large supply of homes priced at RM 500,000 and higher relative to the number of households with incomes of RM 10,000 and above allows for ample housing options for these households without the need of government interventions.

- Conduct research of the existing government programs to ensure their designs are effectively targeting households with the greatest needs in the most economically efficient manner without crowding out the private sector.

At all levels, the government of Malaysia has been actively engaged in addressing the affordable housing needs of its people. The Residensi Wilayah scheme has successfully delivered housing units to the Kuala Lumpur market in the price range of RM 300,000 and below and the housing units are generally well-located with good access to transport and basic services. Residensi Wilayah contributes 17 percent of the total estimated incoming housing units between 2019 and 2023, and 82 percent of incoming units from public housing schemes over the same period. However, there is concern that the program is not serving the households in the greatest need. In addition, the Rumah Selangorku scheme appears to have created a distortion in the market as developers are building high-end units to subsidize the construction of RM 250,000 and below units.

It is recommended that the government conduct a robust and comprehensive study of the different public housing schemes on both supply and demand sides being funded and implemented by the federal ministries and state governments to assess the development impact on the housing market and the people it aims to serve. The assessment could review the different aspects of the public housing schemes such as (1) fiscal and economic effectiveness, (2) implementation efficiency, (3) targeting and potential leakages, (4) development impact, and (5) impact on the real estate and housing markets. Among the methodologies that can be used to assess the housing schemes is the economic cost-benefit methodology as laid out by the World Bank (1989).

26 The value RM 120,000 is used instead of RM 134,000 because the price data on housing supply are in price ranges, rather than being continuous, and RM 120,000 is a closer match than the next highest house price range, which goes up to RM 160,000.
This study, together with a review of federal and state housing laws, regulations, and policies, will inform how to redesign or adjust public housing schemes to optimize efficiency and effectiveness, improve targeting for maximum equitability to beneficiaries, while limiting loopholes and gaps, and address affordability stress in the most effective manner.

- **Support the development of a rental database, rental affordability indicators and more nuanced rental housing policies and programs.**

**Rental housing is a key component of a healthy housing ecosystem.** Ensuring that there is an adequate supply of rental housing is vital to cater to an influx of workers seeking employment opportunities in economic centers, and to the attitudinal shift away from home-ownership by the younger generation that favor rental. The government has created various programs to support households who rent, including the Public Low-Cost Housing Project (Projek Perumahan Rakyat Disewa), the Program Rumah Transit, and Skim Smart-Sewa Selangor. The rental market in urban settings is also supported by private landlords who rent market rate apartments.

**Although urban centers in Malaysia have thriving rental markets, there is limited data available to assess rental market prices, affordability, and the impact of government rental policies and programs.** The government of Malaysia should collaborate with the private sector to support the development of a rental database to enable further understanding of the rental market demand and affordability, and to increase evidence-based policies and programs. These data can be made available to scholars, universities, and research centers to allow for greater review and policy idea generation.

- **Integrate housing development as part of urban and city planning to help ensure balance of supply and demand.**

**Housing is an important component of the urban center, along with transportation, social infrastructure such as health and education facilities, and employment centers.** As such, housing production should be planned alongside other urban infrastructure to ensure that households can live in locations well served by transit, health and education centers, and in proximity to employment. Confirming that affordable housing options are dispersed throughout urban centers, and that housing production meets demand, can lower the risks of appreciating and unaffordable housing prices that cause the displacement of lower-income households.

**Master and land use planning by city and state government need to be cognizant of the housing needs and be developed based on present and projected demographics to ensure that cities are able to support their residents in a sustainable manner.** Housing supply data and analytics as shown in this study need to be integrated as a part of the city government building permit decision process to mitigate the risk of housing oversupply as in the case of Kuala Lumpur and to support the affordability stress related to housing undersupply as in Petaling District. The government should take advantage of housing, economic, and transportation data available to create plans, land use regulations, and encourage development that is well-located and affordable.
CHAPTER 6
Addressing Malaysia’s Cost of Living Challenges
This report identifies four main factors Malaysian households face in coping with the cost of living. These include consumer price inflation (especially differentials linked to income levels or geographical location), inadequate income, poor financial well-being, and a shortage of affordable housing. These factors overlap to some degree and are by no means exhaustive. Broadly, the findings show that the cost of living affects individual households differently, depending on various factors including demographics, location and employment. This also helps to identify practical policy measures to address economic hardships related to perceptions of the increasing cost of living.

The cost of living varies widely by location, most notably for housing, but also for food, clothing, services and other necessities. It is not unusual for an item to cost almost twice as much in one state as in another. Higher living costs may be offset somewhat, but not completely, by higher incomes in that area. Recent initiatives such as BNM’s living wage estimation and the Belanjawanku efforts by the EPF and the Social Wellbeing Research Centre at the University of Malaya represent valuable steps toward recognizing, measuring and monitoring the magnitude of spatial differentials in prices. This could be supported by taking advantage of the price data that are already collected for the CPI to develop an official SPI and using it to inform public and private decisions, as is done in other countries. In contrast, with the notable exception of housing costs, consumer price inflation (the increase of prices over time) has not been a major contributor to rising living costs. Although low-income households are affected more by higher-than-average food price inflation, the impact of inflation is small relative to other factors such as spatial differences, lagging income growth, subpar financial well-being and rising housing costs.

A large proportion of Malaysians feel that their income is insufficient, and the data suggest that this is particularly relevant for lower-income households and younger workers, who have experienced slower income growth in recent years. Findings from the GWP show that both urban and rural Malaysian households feel growing hardship in their life conditions. Data of the DOSM household income surveys suggest that lower-income households have experienced rapid growth in income between 2009 to 2014. However, income growth for this segment has slowed considerably and the absolute income gaps have widened, which could contribute to perceptions of being left behind. Meanwhile, despite steadily increasing educational attainment, income growth among recent entrants to the labor force has grown only marginally over the past decade, especially relative to older age cohorts. Higher income growth rates and higher “base” incomes for older workers combine to amplify both relative and absolute income gaps between younger and older Malaysians, which could be another tangible measure of comparative well-being. Qualitative research points to significant increases in the number of people working multiple jobs and the number of household members who work. The available survey data indicates only modest increases, which may be an artefact of the survey methodology and warrants further investigation and perhaps additional data collection.

Certain segments of the population are doing worse than others in terms of financial well-being, either because of high indebtedness, lack of financial knowledge, or poor financial and retirement planning. For lower-income households, borrowing provides temporary relief to compensate for income shortages in the near term. Increasing shares of debt for credit cards, personal financing, and motor vehicle loans indicates the growing use of debt for consumption rather than for wealth accumulation over time. Consequently, lower-income households, as well as civil servants, have committed higher shares of their incomes to debt servicing, further reducing their income available to meet other living costs. In addition, most Malaysian households, particularly lower-income households, do not have adequate financial savings to cushion economic shocks or provide for their retirement. The lack of financial knowledge and literacy is widespread regardless of income and age, and contributes to the deterioration of financial well-being among Malaysians.
Aspirations Unfulfilled: Malaysia’s Cost of Living Challenges

The conclusion that housing in Malaysia is seriously unaffordable might be an oversimplification of the reality of the market as low- to middle-income households face a higher degree of housing unaffordability. The housing affordability model developed for this report has demonstrated that the fraction of income that households can afford to allocate to housing is not constant, but changes as households have less or more income. Insufficient access to affordable housing is particularly severe among households earning below RM 5,000 in Kuala Lumpur and in Petaling District, with an estimated 55 and 63 percent of households, respectively, without access to housing within their capacity to pay. Households in the RM 6,000 to RM 10,000 income bracket can typically afford to purchase a home in the RM 230,000 to RM 500,000 price range, but availability of such homes is uneven. The market for such homes that are affordable for this income group is much tighter in Petaling District than in Kuala Lumpur, given Petaling’s worsening undersupply and increase in prices. The analysis also shows that housing affordability is not an issue for households with incomes greater than RM 10,000 as they have ample choice of homes within their capacity to pay.

Alleviating cost of living pressures

Recognizing the widespread concern about the cost of living and its impact on Malaysians’ well-being, the government has taken several policy measures to improve Malaysians’ living standards. Previously, many of the measures designed to address the cost of living were relatively ad hoc, fragmented, and short term. Policies implemented by the government have included subsidies, administrative price controls, construction of affordable housing, concessional mortgage financing, and credit counseling. To have a more holistic and organized approach to mitigate cost of living pressures, the government has established the National Cost of Living Action Council with the objective of identifying and analyzing a wide range of issues and challenges relevant to addressing the cost of living, coming up with policy decisions, and coordinating implementation strategies across relevant ministries and agencies. The council secretariat is the Ministry of Domestic Trade and Consumer Affairs. Various government ministries and agencies are engaged in addressing cost of living concerns, including the Economic Planning Unit in the Prime Minister’s Department, Ministry of Finance, the Ministry of Domestic Trade and Consumer Affairs, BNM, DOSM, and others.

The council has played an important role in addressing various cost of living issues through initiatives in food, housing, and transportation sectors. On food, the Festive Season Price Control Scheme (Skim Kawalan Harga Musim Perayaan) has been improved with a longer enforcement period and additional controlled items during festivities. The Food Bank Malaysia and Food Bank Siswa programs were also established to provide direct food resources to low-income households and university students in need. On housing, the council has worked with BNM to introduce the Fund for Affordable Homes to provide up to RM 1 billion in loans for lower-income households to purchase housing priced at RM 300,000 and below, at a maximum loan term of 40 years and financing rate of 3.5 percent. Other initiatives for affordable housing include the introduction of Rent-to-Own and Rental and Saving programs by the Ministry of Housing and Local Government. On transportation, the Ministry of Transport has implemented the RM 50 and RM 100 unlimited travel pass for RapidKL users, as well as a 20 percent discount for rail users to encourage public transport use and reduce the costs of transportation among Malaysians.
Because the factors affecting household living standards are wide-ranging and tend to overlap to some degree, a more structured approach to addressing the cost of living and improve well-being among Malaysians can be organized into short-term measures and medium- to long-term policies. The broad guiding principle for short-term measures should be actions that can be implemented fairly quickly within one or two years. The objectives for short-term measures should be two-fold: first to provide solutions to alleviate hardships among lower-income households and increase awareness on these measures and second, to improve the current set of data and information that would help inform policy decisions. Meanwhile, medium- to long-term policies are those that tend to require strengthening coordination across ministries and agencies, for which the outcomes are observed over a longer period of time. These should aim to address structural reforms and to increase real incomes of low- and middle-income households.

Short-term measures

Continuation of the ongoing reevaluation of price controls for selected commodities is advisable, with a view to identifying and resolving the underlying causes of undue price increases. Administrative price controls and other measures that limit price movements are relatively blunt instruments that may provide immediate relief, but are difficult to sustain in the long term and run the risk of creating bigger and deeper challenges. If mechanisms to limit price discovery become entrenched, producers and traders may withdraw from the market if they cannot make a profit, while enforcement costs for curbing the growth of black markets are likely to increase. The analysis in this report has shown that overall price inflation is not currently a major contributor to the high cost of living in Malaysia.

For those commodities where sharp price increases are an issue, a focus on enhancing market competition is appropriate, as in the recent examination of supply chains for certain fresh food items by the Malaysia Competition Commission. If barriers prevent potential competitors from entering the market, producers or middlemen have low incentives to compete on prices and this ultimately affects consumers. To this end, tackling anticompetitive practices in key sectors is critical. However, this should be accompanied by measures to lift regulatory barriers in order to foster competition, especially in production and distribution. Similarly, measures to uncover and punish abuse of market dominance and anti-competitive practices such as illegal price fixing would also help.

In addition, the reevaluation of price controls should be aligned with the bottom 40 consumption patterns to further reduce the cost of living pressures through price controls on frequently purchased items. The creation and timely reporting of an official SPI would help address the current information gap about the large geographic differences in the cost of living. An SPI that tracks the cost of a given reference basket at different locations in the country will be useful for government policy making as well as for private employers. This would be in addition to a cost of living index that allows the basket composition to vary.

Easing the income shortfalls among low- and middle-income households in the near term could entail deepening the existing social safety nets and extending the living wage analysis. Stylized simulations by the World Bank suggest that, while the design of the BSH channels most of the benefits to the households with the lowest incomes, the depth of the program is quite limited, resulting in only modest reductions in income poverty and inequality (World Bank 2018). While BSH’s impact could be improved foremost by...
Increasing the total outlay and benefits, incorporating household size and location into BSH’s eligibility criteria, in addition to benefit formulas, would also enhance its impact.

In the short term, household incomes can be increased by enabling greater female labor force participation. This could include increased availability and quality of childcare services, especially among households in the bottom 40. Under the Budget 2020, key initiatives to increase female labor force participation include the establishment of childcare centers at workplaces and the introduction of Women@Work tax incentives for women returning to work. These initiatives could be targeted on households in the bottom 40 by locating childcare centers in low-cost housing areas.

Short-term measures to strengthen the social safety net could also encompass a replacement of fuel subsidies by a transportation allowance that is income-targeted and does not require recipients to own a motor vehicle. This could be complemented by a strengthening of core social welfare programs implemented by the Department of Social Welfare, perhaps by reallocating resources from programs whose benefits are reggressively distributed. Recent work by BNM on living wages and by the EPF and the Social Wellbeing Research Centre at the University of Malaya on reference budgets should continue to be extended to other regions in Malaysia and utilized as a wage bargaining framework according to specific household characteristics and locations.

Raising awareness among citizens on their rights and responsibilities in personal and household financial management, and to be accountable for their financial decisions, are important first steps toward improving financial well-being. Generating awareness of financial planning and the role of AKPK, providing easier access to resources and tools could help for financial planning, and coming up with a standardized measure to gauge financial literacy could help to improve financial knowledge especially among lower-income households, civil servants, and young adults. AKPK’s role as the national credit counseling agency providing financial advisory services throughout different milestones in life, including guidance on student loans, could be more actively disseminated to the public. 27 Official government channels and social media are effective tools for outreach and communication to all Malaysians on good financial practices and behavior. Continuing and strengthening current public and private financial literacy initiatives, for example those listed in Appendix B, is important especially in reaching vulnerable groups such as single mothers, people with disabilities, youth and migrant workers.

Creating a repository of financial planning tools that are available online and in local languages could help lower-income households, civil servants and young adults make the first step in better planning their financial well-being. 28 Concurrently, assessment of financial literacy levels over time through regular implementation of standardized measures of financial literacy such as BNM’s Financial Capability and Inclusion Demand Side Survey could help policy makers to identify target groups, prioritize initiatives, and gauge the effectiveness of existing financial literacy programs. 29 A World Bank meta-analysis of 126 impact evaluations of financial education initiatives notes that more successful interventions depend on having higher intensity financial literacy programs and offering financial education at teachable moments, such as when buying a car or a house (Kaiser and Menkhoff 2018). Bruhn et al. (2014) also highlight the importance of having a stable and durable system such as the repository, which could provide greater benefits to lower income households, civil servants and young adults in the long run. Their findings suggest that working adults often have little interest and experience difficulty in accessing financial literacy interventions and that the benefits of financial education courses are minimal for shorter interventions.

27 A survey conducted by the Malaysia Financial Planning Council (MFPC 2018) suggests that only 55.8 percent of the respondents are aware of the role of the AKPK.
28 At the moment, there are several online tools and apps, including in AKPK’s website, available in English and Bahasa Malaysia.
29 The OECD (2018) has produced a toolkit for measuring financial literacy and financial inclusion, which may be used to monitor financial literacy.
In the short term, policies to address the housing affordability gap could be sharpened through better affordability measurement and evidence-based housing supply data and analytics. Adopting a more precise housing affordability measurement, as has been done in this study, is useful for identifying the population subgroups and locations that face the biggest housing affordability challenges. This could be further enhanced by harnessing supply-side data that include both existing and incoming housing stocks by price segments, population demographics, size and growth pattern, and mortgage market dynamics for a more accurate representation of housing affordability. Strengthening the residential rental market could offer a means to alleviate the issue in the short run as households build their balance sheets and increase their income. There should be increased support for private and public rental housing development, rent-to-own schemes, and other affordable formal housing options for at-risk populations in both urban and rural areas facing acute housing price pressures. As such, the enactment of the Rental Tenancy Act and the establishment of a Tribunal Act coupled with the development of a rental database, and rental affordability indicators would facilitate current efforts to ensure affordable housing for all.

Medium- and long-term structural reforms to lift real incomes

In a competitive market economy, prices relay valuable information about scarcity, thus price policies should respect price signals. Guiding principles for deciding when to intervene when price spikes occur include the reason for the price spike (exogenous supply disruption, anti-competitive behavior, etc.), the expected duration of the price increase, and the impact on public well-being. Fostering competition in production and distribution in key sectors, not only for domestic producers but also with regard to the entry of imported goods, will require careful investigation and vigilance. Price interventions by the government should be kept to a minimum to ensure sustainable market supply in the long run. When introducing new price measures, interventions ought to be time-bound and range-limited to manage fiscal risks over time. Interventions to address increasing prices should consider income relief to the most affected parties, as opposed to broad subsidies or price ceilings that can be fiscally costly, distort markets and encourage overconsumption of the item in question. Therefore, progressive shifts to protect the incomes of low- and middle-income households will be more useful than persistent price interventions in the long run.

Over the long term, sustainable household income growth needs to be grounded in accelerating labor productivity, realigning investment and hiring incentives, and enhancing the overall social safety net framework. Wage or salary increases solely indexed to the cost of living or raising minimum wages without concomitant labor productivity increases are not likely to be sustainable and may instead spur consumer price inflation. Thus, acceleration of productivity growth is needed to sustainably boost Malaysians’ earnings potential in the future. The realignment of investment and hiring incentives toward economic upgrading and creation of high-quality jobs could also increase incomes for lower-income households and younger workers.

Sustainable household income growth requires developing and improving human capital, particularly those directly related to employment and income outcomes, through the expansion of early childhood education and promotion of lifelong learning and upskilling among adult workers. Consolidation and enhancement of the various social assistance and subsidy programs, such as those under the purview of the Department of Social Welfare, the Ministry of Domestic Trade and Consumer Affairs and the Ministry of Agriculture, toward streamlined design and implementation can be effective for improving the income distribution and protecting the most vulnerable in Malaysia.
Financial literacy and well-being could be raised through clear implementation and regular monitoring and evaluation of the National Strategy for Financial Literacy 2019–23, as well as increased financial incentives for savings behavior. Recognizing the substantial room for improvement in financial literacy among Malaysians, the government has launched the strategy with the aim of elevating the financial well-being across income groups, age-groups, genders, and regions. It sets out five priority areas encompassing all stages of the life cycle. One way of building upon the strategy is to lay out a time-bound roadmap on the implementation and regular monitoring and evaluation of measures in the strategy. To address low savings among Malaysians, evidence-based behavioral interventions and financial incentives such as matching pension contributions could encourage higher retirement savings among lower-income households, civil servants, and young adults.

Efforts to increase financial well-being would also need to be complemented by measures to strengthen consumer protection and encourage more responsible behavior by both banks and non-bank financial institutions. This would include strengthening of the legal and regulatory framework for consumer protection and responsible lending, as well as ensuring an efficient and humane insolvency system and non-judicial alternatives. Recent announcements by BNM to improve the Consumer Credit Act, including elements such as (i) promoting prudent and responsible lending practices among credit providers; (ii) safeguarding the wellbeing of consumers; (iii) supporting more coordinated and consistent oversight arrangements for credit providers; and (iv) facilitating transparent and comparable disclosure of interest rates and fees are all promising mechanisms to strengthen consumer protection. Consumers’ associations have offered detailed recommendations for the new act that could be relevant to the prevention of over-indebtedness, including taking a broader view of consumer credit to address actors outside their current regulatory perimeter, such as pawnbrokers, who are currently licensed under the Ministry of Local Government and Housing, regulating marketing practices (truth in advertising), cooling off periods for all types of loans, encouraging early loan repayment and prohibiting calculation of interest rates on a flat basis.

Current housing policies should prioritize low- and middle-income households and strengthen coordination among various stakeholders to ensure adequate supply of affordable housing. The National Housing Policy should be finetuned to provide support for households in the low- and middle-income groups, through increased focus on research, policy, budget and operational support to address severe unaffordability. This can be complemented by ongoing monitoring and analysis of the impact of different policies on the constantly shifting real estate market so that policy makers can adjust housing policies and programs as necessary. Policies could improve the planning of affordable housing community design with energy-efficient building materials and family-friendly locations. Housing is an important component of the urban center, and is intimately intertwined with transportation networks, social infrastructure such as health and education facilities, community services, employment centers and access to markets and information. As such, integrating housing development as part of urban and regional planning should help ensure the balance of supply and demand of affordable housing—either for ownership or rental—to the targeted population. Thus, there is a need for greater coordination across ministries, agencies and state and local governments in designing overall housing policy and planning to ensure an adequate supply of affordable housing, particularly for low- and middle-income households.

Table 9 offers a summary of the policy recommendations.
### TABLE 9: Summary of Policy Recommendations

<table>
<thead>
<tr>
<th>Increasing prices and large geographic price differences</th>
<th>Short-term measures to alleviate cost of living pressures</th>
<th>Medium- and long-term structural reforms to boost market competition and increase incomes</th>
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<tr>
<td></td>
<td>i. Tackling anti-competitive practices in key sectors.</td>
<td>i. Fostering competition in production and distribution in key sectors, by reducing barriers to entry.</td>
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<tr>
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<td>ii. Reevaluating administrative price controls, focusing on aligning them with B40 consumption patterns.</td>
<td>ii. Minimizing distortion of price interventions to ensure sustainable market supply.</td>
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<tr>
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<td>iii. Developing and regularly reporting a spatial price index in addition to a cost of living index.</td>
<td>iii. Ensuring price measures are time-bound and range-limited to manage fiscal risks.</td>
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<td></td>
<td></td>
<td>iv. Progressively shifting to protect incomes of low- and middle-income households rather than through price interventions.</td>
</tr>
</tbody>
</table>
| Inadequate income among lower-income households and younger workers | i. Deepening existing social safety nets:  
  - Improving the targeting of Bantuan Sara Hidup by appropriately taking into account household size and location for eligibility and benefits.  
  - Increasing the total outlay for core social welfare programs.  
  - Shifting from fuel subsidies to a targeted transportation allowance. | i. Accelerating productivity growth as the basis for sustainably boosting earnings potential. |
|                                                          | ii. Enabling greater labor force participation by parents, both women and men, through improved child care services for B40 families. | ii. Realigning investment and hiring incentives towards economic upgrading and high-quality job creation. |
|                                                          | iii. Extending living wage and Belanjawanku analysis and providing a framework to inform wage bargaining. | iii. Building human capital through expansion of early childhood education and promotion of life-long learning and upskilling. |
| Poor financial well-being and higher indebtedness among lower-income households as well as low savings among Malaysians | i. Raising awareness among citizens on their rights and responsibilities in personal and household financial management and to be accountable for their financial decisions. | iv. Consolidating and enhancing the overall social safety net framework, including the various subsidy programs. |
|                                                          | ii. Creating a repository of financial planning tools which are available online and in local languages. | |
|                                                          | iii. Assessing financial literacy periodically through regular implementation of standardized measures of financial literacy, in collaboration with the private sector. | |
| High degree of housing unaffordability among low- and middle-income households | i. Adopting a more precise affordability measurement, with respect to location, supply and demand. | i. Strengthening consumer protection and encouraging more responsible behavior by both banks and non-bank financial institutions. |
|                                                          | iii. Strengthening the rental market:  
  - Enacting the Rental Tenancy Act and establishing a Tenancy Tribunal.  
  - Developing a rental database and rental affordability indicators. | iii. Increasing financial incentives, including through matching contributions and the use of evidence-based behavioral interventions to encourage retirement savings. |
|                                                          |                                                        | iv. Strengthening the legal and regulatory framework for consumer protection and responsible lending through the Consumer Credit Act. |

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Chapter 6: Addressing Malaysia’s Cost of Living Challenges
References


# Appendix A: The Purchase of a New Car

## Purchase of new car over 9 years

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<th>Loan term</th>
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<th>Insurance per year (RM)</th>
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## Purchase of new car over 7 years

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## Appendix B: Financial Literacy Initiatives

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<th>Year</th>
<th>Programs, services, tools</th>
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<td>Financial counseling&lt;br&gt;Offers one-to-one counseling and advice on good financial management habits, including budgeting, money management, and credit-related matters&lt;br&gt;Debt Management Programme (DMP)&lt;br&gt;Offers consultation and personalized debt repayment plan for individuals experiencing financial distress</td>
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<td><strong>Malaysian Care</strong></td>
<td>2010</td>
<td><strong>Financial Literacy Program</strong>&lt;br&gt;Aims to reduce poverty through capacity building and equipping poor people with basic financial knowledge – over 800 participants in Klang Valley have undergone training; 100 have started small businesses/projects</td>
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<td><strong>Allianz Malaysia</strong></td>
<td>2012</td>
<td><strong>My Finance Coach</strong>&lt;br&gt;A financial literacy program aimed at improving financial literacy among students and young people through promotion of good money management habits&lt;br&gt;Reaching 102 schools and organizations with over 10,000 students in 2017</td>
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<td><strong>Edge Education Foundation, in collaboration with Citi Foundation</strong></td>
<td>2014</td>
<td><strong>Money and Me: Youth Financial Empowerment Program</strong>&lt;br&gt;School-based program; emphasis on saving and good spending habits; 13 participating schools in Klang Valley</td>
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<td><strong>Prudential Assurance Malaysia (Prudential Corporation Asia and Prudence Foundation)</strong></td>
<td>2014</td>
<td><strong>Cha-Ching Live, Karnival Cha-Ching, Duit Right</strong>&lt;br&gt;For 7- to 15-year-olds&lt;br&gt;Interactive financial education program available offline and online (learning activities, television episodes, and games)&lt;br&gt;Main focus: earn, save, spend, and donate</td>
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<td><strong>Securities Commission Malaysia</strong></td>
<td>2014</td>
<td><strong>InvestSmart</strong>&lt;br&gt;Focuses on investment education; offers various programs, ranging from InvestSmart Fest, SC-in-the-Community, seminars, mobile applications, and Jump2Invest educational game</td>
</tr>
<tr>
<td><strong>Financial Literacy for Youth</strong></td>
<td>2015</td>
<td><strong>Online publications</strong>&lt;br&gt;Provide the latest information on personal finance, economics, and fintech industry for youth</td>
</tr>
</tbody>
</table>
### Organization | Year | Programs, services, tools
--- | --- | ---
Bank Negara Malaysia (BNM) | 2017 | **Karnival Kewangan**  
The Financial Carnival has been held in Kuala Lumpur, Kedah, Terengganu, Sabah, and Sarawak, and it offers financial services and advice, financing briefing, as well as entertainment activities for families – children, youths, adults – to learn about effective financial management

Employees Provident Fund (EPF) | 2019 | **Belanjawanku: Malaysian Individual and Family Expenditure Guide**  
An expenditure guide that suggests the minimum monthly budget for different households in Klang Valley  
Retirement Advisory Service (RAS) Professional Consultation  
Provide EPF members with knowledge on sustainable retirement options, as well as conduct awareness programs on retirement planning

AKPK | 2019 | **Online learning platform**  
Free online courses such as the “Rumahku” module that guides first-time homebuyers (in English and Malay Languages)

BNM, AKPK, and Credit Guarantee Corp Malaysia | 2019 | **Financing advisory services (MyKNP, Khidmat Nasihat Pembiayaan)**  
Offers advice to homebuyers and small and medium enterprises (SMEs) that cannot secure financing, while assessing ways to improve their eligibility for future financing

Five-year roadmap to intensify financial education initiatives through collaborative and coordinated efforts among public-private agencies and others
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