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A balanced review of the minimum wage

Comment

THE Human Resources Minister has indicated that the current RM1,700 monthly minimum wage, which became fully enforced in August 2025, is currently being reviewed.

Malaysia legally requires a minimum wage review at least once every two years under the National Wages Consultative Council Act 2011. Malaysia is targeting a minimum wage of RM3,000 by 2030 under the 13th Malaysia Plan (13MP).

The minimum wage review will balance workers' cost-of-living pressures against businesses' (employers) financial capabilities and evaluating factors (the Consumer Price Index, cost of living, labour productivity, poverty line income, and median wages).

The Malaysian Trades Union Congress has pushed for a large adjustment of the minimum wage to RM3,100 per month, 1.82 times of the current RM1,700 figure.

Proposals to raise the minimum wage are often met with arguments that businesses, especially small and medium enterprises (SMEs), are particularly vulnerable to wage-floor increases.

Malaysia's minimum wage policy was first introduced in 2013. Throughout the period of 2013 to 2025, the minimum wage has been revised five times (2016, 2019, 2020, 2022 and 2025) from RM900 per month in 2013 to RM1,700 per month in 2025, marking a compound average growth of 5.4% per annum.

On a year (2013) to year (2025) comparison, the minimum wage increased cumulatively by 88.9% over the 12-year period.

An increase in the minimum wage can be justified on moral, social, and economic grounds. Headline inflation, which rose by 1.4% in 2025, has crept higher to an average of 1.8% in the first seven months of 2026.

Bank Negara Malaysia estimates inflation to average between 1.5% and 2.5% in 2026.

The cost of living index rose by 1.9% in 2024 with seven states above the national, including Pahang (2.4%), Penang (2.3%), Sarawak (2.2%), Selangor (2.1%), Negri Sembilan (2.1%) and Johor (2%).

The Basic Expenditure of Decent Living (PAKW) is a newly-created cost of living index calculated based on 419 items covering food and clothing to utilities and transportation. It provides a clearer picture of the minimum amount of money a household will need each month to afford a decent living in each district nationwide.

The national mean monthly PAKW (four-person) increased by 6.5% to RM5,497 in 2024, with double-digit increases in Kelantan (plus 11.4% to RM4,436) and Perak (plus 10% to RM4,634). Also included were high income per capita states like Penang (plus 7.4% to RM5,899), Selangor (plus 4.6% to RM6,491), Johor (plus 8.7% to RM5,449) and Sarawak (plus 7% to RM4,575).

A revision in minimum wage from the current RM1,700 will benefit low-income and entry-level workers at or near the baseline wage floor.

The *Salaries and Wages Survey Report* as of March 2026 indicated that around 556,800 workers (7.9% of total formal employees of 7.05 million) earn below RM1,700. About 1.27 million workers (18% of the total) earn between RM1,700 and RM1,999 per month.

The latest Employee Wages Survey for the first quarter of 2026 stated the median salary for an employee in the manufacturing sector was RM2,900 per month and RM3,064 per month for a staff in the services sector.

While employers are not against a hike in the minimum wage, an overly sharp adjustment exerts cost shocks, creating a heavy financial burden on SMEs already operating on thin profit margins.

Business costs have increased in recent years due to a higher minimum wage (plus 13.3% in 2025), the expanded scope of the sales and service tax, and rising raw material, electricity, and fuel costs. Furthermore, regulatory compliance has added to the burden, including employers' EPF contributions for foreign workers and stamp duty on all written employment contracts.

Industries that have a high concentration of low-wage, entry-level workers such as retail, food and beverage, agriculture and small and medium manufacturing, would incur higher operating costs.

A hike in minimum wage tends to have a "ripple effect" on other workers earning wages near that threshold. This ripple effect occurs when a raise in the minimum wage increases the wage received by workers earning slightly above the minimum wage.

The shrinking pay gap between entry-level workers and senior staff creates pressure on employers to raise salaries for junior, mid-tier and experienced staff to maintain fair pay gaps across job hierarchies.

Critics counter that rather than improving welfare, the minimum wage could disrupt the labour market, as artificially setting a price floor above the market rate creates unintended negative consequences.

In competitive markets, if the minimum wage is enforced and raises wages above the prevailing levels, some companies would be unwilling to pay the higher wage and instead lay off workers.

Most local studies and evidence in Malaysia found that past increases in minimum wage did not cause a major drop in overall employment and had a statistically insignificant effect on total jobs.

With an unemployment rate of 3% in June 2026 and 2.1 million active and legally registered foreign workers, this represents a state of full employment.

What is the appropriate minimum wage level, taking into account the balancing of factors and economic metrics? In practice, minimum wage determination should be calibrated to keep overall wage growth in line with productivity gains.

In developed countries, the minimum wage typically sits between 35% and 60% (the average across Organisation for Economic Cooperation and Development countries is roughly 55%) of the national median wage. As for developing countries, the ratio of the minimum wage to the median wage is frequently higher than in developed nations.

Employers argue that a higher minimum wage must be justified by a corresponding hike in labour productivity to offset rising labour costs and prevent cost increases inflation.

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Malaysia's labour productivity per employment increased by 3.8% per annum in 2024 to 2025 and 4.6% in the first half of 2026 (1H26).

The manufacturing sector recorded 3.6% per annum in 2024 to 2025 and 6.5% in 1H26, while the services sector stood at 3.6% in 2024 to 2025 and 4.2% in 1H26.

Labour productivity growth in the agriculture sector reversed from plus 2.7% per annum in 2024 to 2025 to decline by 0.7% in 1H26. The construction sector's labour productivity performance moderated from plus 14.1% in 2024 to 2025 to 6% in 1H26.

It is reckoned that higher minimum wages are beneficial for supporting low-income workers, but an overly sharp adjustment in wages may dampen business sustainability (the employer's financial capacity), prompting employers to cut jobs, and hence, have adverse distributional effects.

As low-income earners lose their jobs, inequality will widen.

A productivity-linked wage system ties a worker's pay directly to their output, performance, or company profits.

For employees, it rewards productivity-driven performance, boosts their income growing with the company's profitability, and improves overall quality of life.

The employers motivate staff, increase business competitiveness, and align labour costs with actual company revenue.

Amid scepticism about the Progressive Wage System (PWS) – a voluntary, incentive-based programme designed to raise workers' salaries in line with productivity and skills training, PWS has benefited 51,363 workers, exceeding the initial target of 50,000 workers.

More than RM73mil has been disbursed, including about RM10.2mil for entry-level workers and RM62.9mil for non-entry-level workers.

PWS has had a positive impact on raising the incomes of skilled workers, particularly professionals as well as technicians and associate professionals, who account for 45.9% of the total workers involved.

Among professionals, the median basic salary increased by RM350, from RM2,900 to RM3,250, representing a 12.1% increase, while the average basic salary rose by RM364.36, from RM2,930.74 to RM3,295.10.

There have been frequently debates whether to re-introduce a regional minimum wage tied to state-level costs of living and local socio-economic indicators.

A uniform national minimum wage cannot be one-size-fits-all.

It needs to consider regional cost of living differences, socio-economic factors, economic and business development of different states.

The cost of living, prices of goods and services can differ substantially between states/regions as well as differences in labour market conditions with better economic and business activities and low unemployment in some states, while some states have experienced weaker business conditions with higher unemployment.

Economic disparities across states pose a significant challenge to setting effective minimum wages because different states have varying cost of living and income levels, making a uniform national minimum wage potentially too high for some areas and insufficient for others.

This disparity can lead to issues such as businesses in low-wage states struggling with increased labour costs, while workers in high-cost states may find the minimum wage still unable to cover basic expenses.

A tiered approach, with minimum wages calibrated to regional cost-of-living differences, is a potential solution to better support livelihoods without unduly burdening businesses in economically weaker regions.

Regional tiering reflects local realities as high-cost cities require higher wages for meeting higher living expenses compared to rural areas, protects low-margin businesses against unsustainable labour cost spikes, and prevents job losses in weaker business conditions states.

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