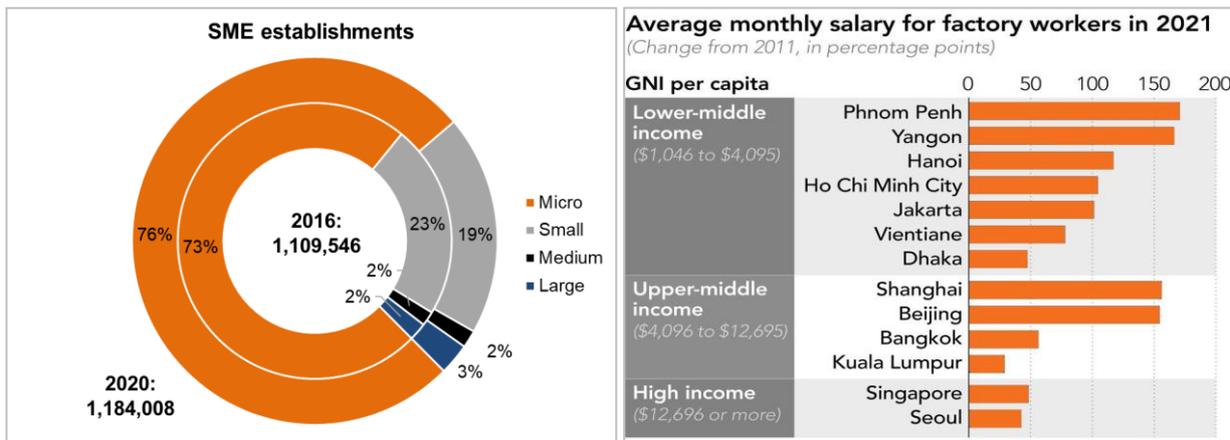


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Malaysia has been stuck in the "middle-income trap" for years, notwithstanding its faster economic growth performance than its high-income peers. **Wage growth has been slow** for the last decade, with a pre-pandemic Gross National Income per capita of USD11,260 in 2019 (2020: USD10,570). The move to review and raise the minimum wage every 2 years is an initiative by the government to accomplish high-income status by 2025. This is in line with the World Bank's expectation that Malaysia will be able to achieve the high-income status between 2024 and 2028.

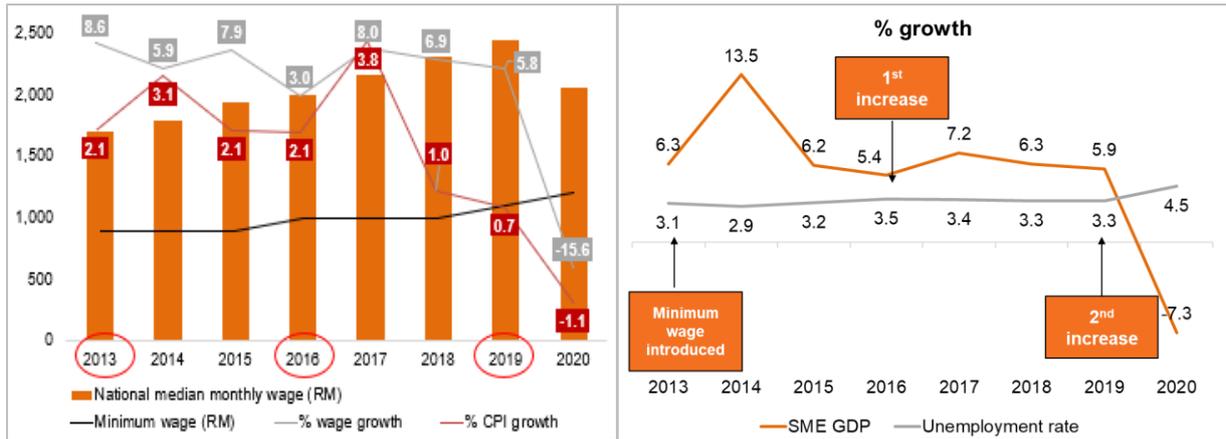


Sources: SME Corporation Malaysia, Nikkei Asia and SME Bank SCEA

Effective 1st May 2022, the minimum wage has increased 25% to RM1,500 per month. Informal employees, who do not receive a basic salary and are compensated through commissions, must be paid with a pro-rated RM1,500 daily or hourly rate. No economic sector or type of employment is permissible to postpone the implementation of the **Minimum Wage Order 2022**. There is, however, a **temporary delay** granted to **micro-enterprises** that employ less than 5 workers and **provide non-professional services**.

While there are some 900,000 micro businesses in Malaysia (76% of total SME establishments), not all of them are eligible for a postponement until 1st January 2023. Sectors that are likely to be **affected by the increase in minimum wage** are mainly the **agriculture (plantation), labour-intensive manufacturing, construction and services** (food & beverage, accommodation, retail, administrative & support services) sectors.

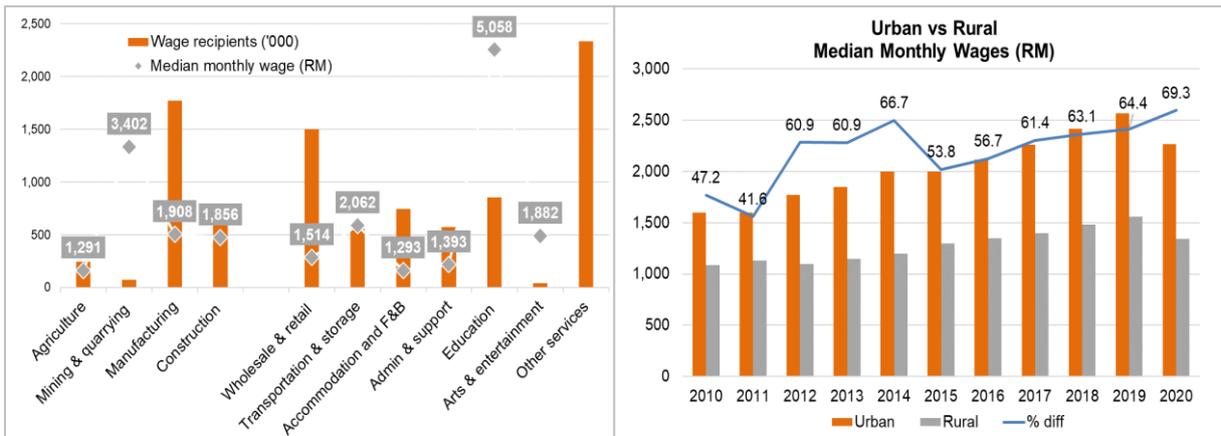
Given the lack of detailed wage data breakdown, we have used the median wage from the Department of Statistics Malaysia (DOSM) as our yardstick to estimate the number of beneficiaries. Assuming all employees that earns a monthly median wage below RM1,500 will enjoy the minimum wage hike, a **maximum of 1.6 million foreign workers and 2.9 million Malaysian wage earners will benefit**. This is equivalent to **27.4% of total labour force or 37.4% of total employees** in the job market.



Sources: DOSM and SME Bank SCEA

Businesses often claim that having the minimum wage increases would hurt their profitability, thus leading to potential layoffs. Contrary to the belief, an **increase in minimum wage in fact curtails the rise in unemployment rate**. According to the historical data, stagnant unemployment rates coincided with years when the minimum wage was raised. Moreover, a study by Nobel laureate David Card in the early 1990s also indicated that higher minimum wages do not necessarily result in a rise in unemployment. In its Minimum Wage Policy Guide, International Labour Organisation noted that studies showed the **minimum wage can help increase labour productivity**. Workers may be **motivated to work harder and stay longer** with their companies, accumulating valuable experience. The minimum wage could also encourage more productive enterprises to replace less productive ones, boosting overall productivity.

Meanwhile, SMEs have charted an annual GDP growth of 7%, on average, from 2013 to 2019, which suggests that the idea of minimum wages stifling SMEs' growth is debatable. Another concern surrounding the timing of minimum wage implementation is the uptick in cost for businesses that may further add pressure to the current inflationary environment. Nonetheless, the growth of consumer price index in the past was relatively mild and stable since the introduction of the mechanism. Factors such as fluctuations in commodity prices, exchange rate, monetary policy and external headwinds are more likely to drastically swing the inflation rate.



Sources: DOSM and SME Bank SCEA

In 2020, the government only succeeded in raising the minimum wage to RM1,200 in 56 city and municipal councils. For non-city and town areas, the minimum wage was set at RM1,100.

As a result, the income disparity between urban and rural areas peaked at 69% in 2020. This time around, the new minimum wage of RM1,500 is being applied equally to rural areas and is anticipated to bridge the pay gap, thus raising the overall national household income. Most employees in urban regions are unlikely to benefit from this minimum wage hike as the median monthly income for urban dwellers was RM2,268 in 2020. **The rise in minimum wages that will further cascade across low wage brackets**, could lift the income of workers in the B40 group. This could cushion the rise in price pressures driven by food items to **preserve the purchasing power of lower-income households** and is **viewed** positively as it provides an impetus to private consumption, which is the economy's growth driver (58.8% of GDP in 2021).

As the leading development financial institution mandated to help SMEs grow, SME Bank, via our various financing programs, will continue to take part in the country's socioeconomic development. To date, the Bank has approved financing worth more than RM38 billion to more than 21,000 SMEs. Amid the mandatory hike in the minimum wage, customers who are facing financial predicament are welcome to reach out to us for assistance.

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