



INSTITUT MASA  
DEPAN MALAYSIA

# MASA ECONOMIC INSIGHT NO.5 / 2023

## Rising Cost of Living

POLICY AND RESEARCH DIVISION  
INSTITUT MASA DEPAN MALAYSIA  
22 JUNE 2023

***Rising Cost of Living***  
*Dated 22 June 2023*

**Theme:**

**Rising Cost of Living**

**Introduction:**

The cost of living refers to the amount of household spending, including financial obligations (e.g. car and housing loans), to maintain a certain standard of living (Bank Negara Malaysia, 2018). The rising cost of living in Malaysia has been a pressing issue that affects the daily lives of the *rakyat*.

The increasing prices of food and daily necessities have strained household budgets. Factors such as **inflation, supply chain disruptions and fluctuating global commodity prices** have contributed to the rising cost of groceries and basic goods. In addition, the **stagnant wage growth** has put a strain on lower-income families, who often struggle to meet their daily needs.

In conclusion, the high cost of living in Malaysia is a complex issue impacting various aspects of daily life. Addressing this issue requires a multi-faceted approach involving government intervention, policy reforms, and efforts to improve income levels and affordability for citizens.

Concerns about Malaysia's rising cost of living are influenced by these persistent internal and external issues. These are:

- 1) Higher fiscal deficit;
- 2) Price controls; and
- 3) Stagnant wages.

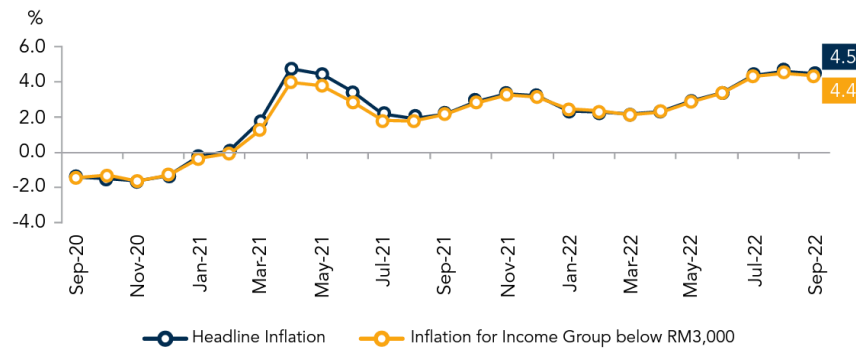
**1.0 Rising Cost of Living**

Elaboration	According to the Department of Statistics Malaysia (DOSM), it is estimated that <b>20% of M40 households fell into the B40 income group and 12.8% of the T20 category shifted down to the M40<sup>1</sup>.</b>
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<sup>1</sup> [Govt updating household income data, report expected to be ready by mid-2023](#)

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Inflation for Income Group Below RM3,000, September 2020–September 2022, percentage



Source: DOSM

The rising cost of living in Malaysia has resulted in soaring prices and increased food demand, making food less accessible to vulnerable groups. This situation is primarily due to the fact that low-income households allocate a higher percentage of their income towards purchasing food.

Between 2019 and 2021, **approximately 15.4 percent of the population, equivalent to 5 million people, experienced moderate or severe food insecurity<sup>2</sup>.**

**Issues:**

**1) Higher fiscal deficit**

- Malaysia, despite being a net exporter of agricultural goods, heavily relies on imports for products like maize, seafood, vegetables, and fruits.
- Malaysia's contribution to overall imports has remained stable, ranging from **3.4% to 7.3% between 1990 and 2020.**

<sup>2</sup> [Malaysia Economic Monitor : Expanding Malaysia's Digital Frontier \(February 2023\)](#)

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- In 2020, Malaysia's **imports of agricultural goods accounted for 6.1% of total imports, valued at RM48.8 billion<sup>3</sup>**.
- Increasing imports lead to a higher fiscal deficit as Malaysia imports more than it exports, putting downward pressure on the national currency, the Ringgit Malaysia (RM).
- Malaysia spent **RM75.71 billion on food imports** in the same year, **surpassing its neighbouring countries<sup>4</sup>**.
- In addition, a **weaker Ringgit against a high US Dollar (USD) drives up food costs**, resulting in a higher cost of living for consumers.
- The higher fiscal deficit strains the government's budget and may lead to reduced funding for essential sectors, in which the burden of higher imports and the fiscal deficit will affect both producers and consumers.

**2) Price controls**

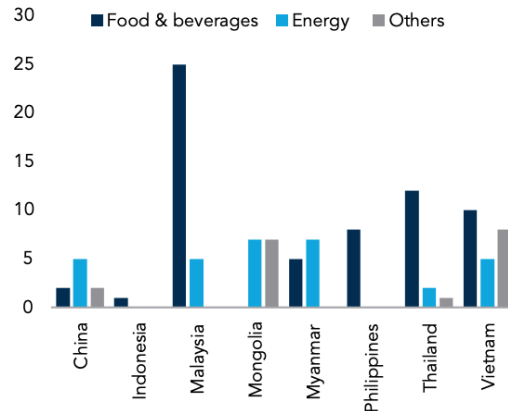
- **Malaysia has the highest number of price controls in the East Asia Pacific region**, particularly in food and beverage sector.

<sup>3</sup> [Malaysia trade statistics review volume 1 2021 \(page 8\)](#)

<sup>4</sup> [Import value of food in Malaysia from 2013 to 2022.](#)

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Number of prices controls



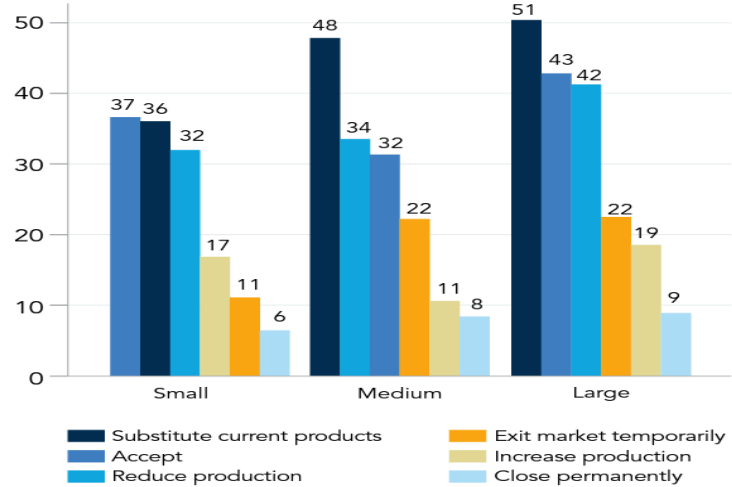
Source: World Bank staff compilations (Batmunkh & Pfitze, 2022).

- Excessive use of price controls can distort price signals and reduce overall efficiency, in addition to incurring direct fiscal costs.
- Price controls often disincentive producers from supplying goods at lower prices, leading to product shortages and reduced production levels. Among the firms affected by price controls, **37 per cent reported reducing their production by an average of 24 per cent<sup>5</sup>**.

<sup>5</sup> [Malaysia Economic Monitor : Expanding Malaysia's Digital Frontier \(February 2023\)](#)

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Share of affected firms plan to deal with price controls, percentage

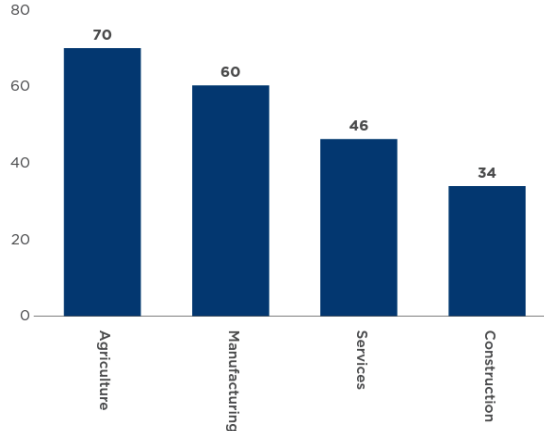


Source: World Bank Business Pulse Survey August 2022

- This limited supply exacerbates the scarcity of goods in the market and contributes to the rising prices of essential items.

Firms affected by price controls by broad sectors

Products/services currently subject to price controls by sector  
Share of firms (%)



- In Malaysia, **70 per cent of firms in the agriculture sector are subject to price controls<sup>6</sup>**, which limit their profitability and stifle their potential to expand and invest in productivity-enhancing measures.

<sup>6</sup> [Firms' Recovery from COVID-19 in Malaysia](#)

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- With rising prices internationally, the Malaysian government has deployed price control as a policy tool much more extensively to cap prices relative to other countries in the region.
- In addition to the implementation of price controls, there are also subsidies in the agricultural sector, primarily focused on rice. These subsidies are aimed at supporting rice production and related activities.
- However, according to DOSM, Malaysian consumers allocate a greater portion of their income to non-rice products compared to rice.
- When it comes to monthly household consumption expenditure, **the percentage allocated to rice stands at a modest 0.9**. In contrast, **cereals receive a higher allocation of 2.4**, while **fruits and vegetables receive an even greater allocation of 3.1**<sup>7</sup>.
- When farmers receive subsidies exclusively for rice production, they lack the incentive to diversify into non-rice items. Moreover, when producers are unable to earn more than the capped price, their motivation to increase production diminishes.
- As a result, the supply of non-subsidised goods is reduced, leading to higher prices due to limited availability. This not only affects consumers' access to a variety of goods but also contributes to the overall inflationary pressures on the cost of living.
- Hence, the combination of price controls and subsidies creates a scenario that not only affects consumers' access to a variety of goods but also contributes to the overall inflationary pressures on the cost of living.

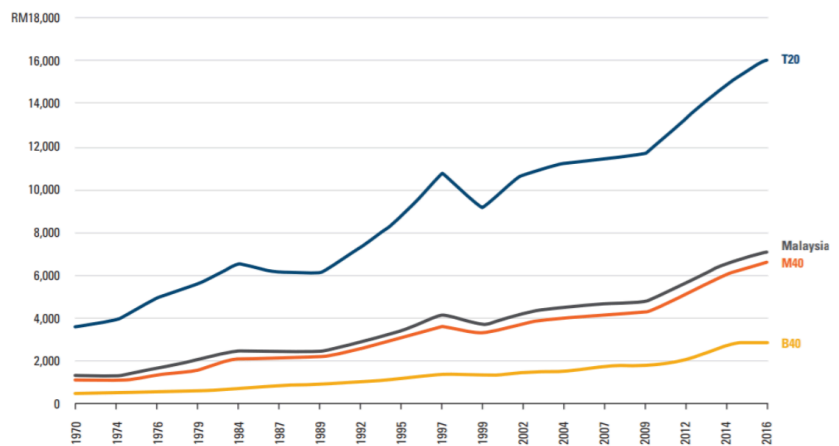
<sup>7</sup> [Household Expenditure Survey Report 2019](#)

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**3) Wage stagnation**

- Malaysia has faced challenges in achieving substantial wage growth across various sectors of the economy, which has left many unable to face the high rise in the cost of living.
- According to Khazanah Research Institute’s (KRI) State Of Households 2018 report, **household income in Malaysia has steadily increased from 1970 to 2018** (Figure 1.37).

**Figure 1.37: Real mean household income by income group, 1970 – 2016**



Source: Department of Statistics Malaysia and World Development Indicators

- Yet, it also reported that Malaysians had been underpaid for decades, with Malaysian employees being paid the least for the same level of production compared to their regional peers in Singapore and South Korea<sup>8</sup>.
- Consumer Price Index (CPI) inflation, which captures increases in consumer prices, is often used to assess changes in the cost of living.
- However, it is important to note that evaluating the cost of living involves considering not only price changes but also the income aspect.

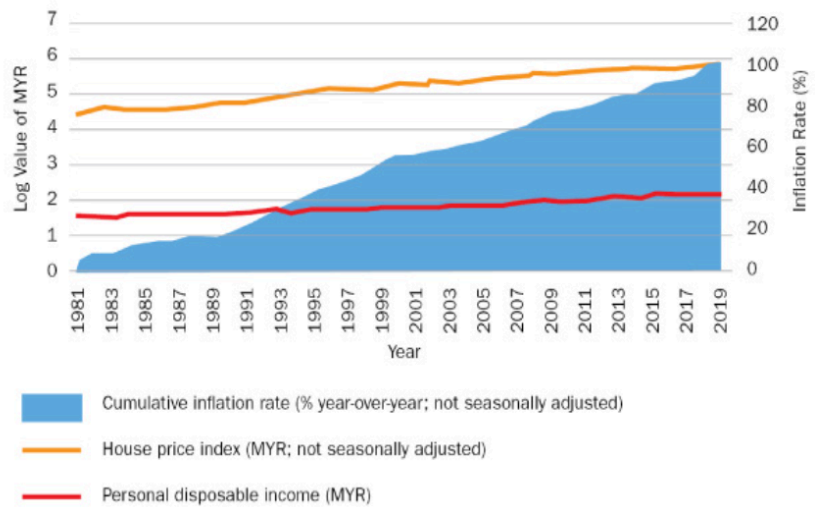
<sup>8</sup> [Malaysian employees are not being paid enough, BNM says](#)



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- The impact of rising costs is felt by households not just when prices go up but also when their incomes fail to keep up with the same pace, thereby diminishing their purchasing power.



- According to data from the Ministry of Finance (MOF), the **growth of personal disposable income for the average Malaysian has not kept pace with the substantial increase in inflation**<sup>9</sup>. From 1981 to 2019, although personal disposable income experienced some growth, it was slower than anticipated when considering the significant rise in the inflation rate.
- Therefore, efforts to improve the cost of living should focus not only on controlling price inflation but also on promoting income growth and ensuring an equitable distribution of resources.

By adopting a holistic approach, the Government must address the challenges posed by the high cost of living, promote a more balanced market environment, and ultimately enhance the well-being of Malaysian citizens.

<sup>9</sup> [Housing Prices And Affordability In Malaysia](#)

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<p>Recommendations</p>	<p>Although the Government has already initiated measures and policies to address the high cost of living through the establishment of the National Action Council on Cost of Living (NACCOL), it is crucial to rigorously implement these initiatives to achieve a comprehensive outcome and effectively tackle this pressing issue. To plan ahead and ensure a sustainable future, the Government must:</p> <ol style="list-style-type: none"> <li>1) Effectively improve the efficiency and productivity of farmers, reduce reliance on food imports, and create a more sustainable and self-sufficient food system in the country.             <ol style="list-style-type: none"> <li>a. <b>Invest in the usage of digital technologies</b>, including precision farming, remote sensing, and data analytics, to optimise resource allocation, monitor crop health, and improve decision-making. This digitalisation of agriculture can enhance productivity, reduce costs, and minimise environmental impact.</li> <li>b. Enhance the capacity and reach of agricultural extension services to provide farmers and producers with the <b>necessary training, information, and support in adopting new technologies and practices</b>.</li> </ol> </li> <li>2) Create a more competitive and efficient market environment, <b>promote innovation and productivity</b>, and <b>gradually reduce reliance on price controls and subsidies</b>. This can contribute to a more sustainable and balanced economic system, benefiting both consumers and producers.</li> </ol>
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|  | <ul style="list-style-type: none"><li>a. While the current government has started to phase out certain subsidies, there is still a need to <b>implement a comprehensive communication strategy</b>. This is to educate the public about the rationale behind relaxing price controls and phasing out subsidies.</li><li>b. <b>Implement a phased approach to relaxing price controls on essential goods and services</b>. This allows market forces to determine prices based on supply and demand dynamics, fostering a more efficient allocation of resources and reducing market distortions.</li><li>c. Establish <b>robust monitoring and evaluation mechanisms</b> to assess the impact of relaxing price controls and phasing out subsidies. Regularly review the effectiveness of these measures and make necessary adjustments based on empirical evidence and stakeholder's feedback.</li></ul> <p>3) <b>Recognise the income perspective</b> and take it into account when addressing the challenges of a high cost of living.</p> <ul style="list-style-type: none"><li>a. Policymakers must conduct a <b>thorough evaluation to identify discrepancies and establish guidelines</b> that ensure equitable wages.</li><li>b. Strengthen the <b>implementation and regular review of minimum wage policies</b> to ensure fair compensation for workers.</li></ul> |
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	<p>c. <b>Promote economic diversification and encourage investments</b> in high-value industries to create more job opportunities with higher wages.</p> <p>d. <b>Implement policies and programmes to upskill and reskill the workforce</b>, ensuring they have the necessary skills to access higher-paying jobs.</p>
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Prepared by: Adriana Asmaa' Mohd Ezanee - Research Analyst (Economy)  
Maryam Husna Maznorzuhairi - Research Analyst (Economy)

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