LABOR MARKET Insight

Malaysian Budget 2025

THE FINAL SPRINT

under the framework of the

12th Malaysia Plan

Toward Evidence-Based Policy Formulation | Advanced Analytics for Future Workforce

The Future
Centre for Future Studies Berhad
EU ERA

About EU-ERA, THE FUTURE

Centre for Future Labour Market Studies (EU-ERA) is a state-of-the-art research centre in Malaysia that focuses on the labour market research and analytics. EU-ERA operates as a nucleus division within The Future Studies Berhad (THE FUTURE). At THE FUTURE, we are dedicated to conducting cutting edge research and analysis on the rapidly changing economic and labor market landscapes, with the goal of informing policymakers, businesses, and the public about the implications of these changes.

Our vision is crafted based on the principle of "bridging the gaps in knowledge and policy". Our goal is to enhance the economic, social, and environmental aspects of Malaysia by incorporating more knowledge-based policies in our decision-making processes. We aim to bring about transformational change by using evidence-based approaches in applied research, advisory services and educational programs to inform policy decisions.

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Foreword

Prof. Dr.
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Chairman of
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The Malaysia Budget 2025 serves as a significant milestone under the 12th Malaysia Plan, balancing immediate economic recovery with long-term fiscal sustainability. With RM421 billion allocated, it underscores the government's commitment to resilient growth, addressing inequality, and building a future-ready economy.

***Key labor market transformations are the cornerstone of Budget 2025's ambitions*.**
This plan envisions the creation of nearly 510,000 new jobs by 2025, with a focus on skilled and semi-skilled labor that reflects the evolving demands of a knowledge-driven economy. The projected decline in unemployment to 3.1%-3.2% signifies stability, yet the challenges of wage stagnation and skill mismatches persist. The progressive wage policy and minimum wage revisions are critical steps, but we must enhance these measures with integrated productivity-boosting initiatives to ensure sustainability.

***Our critique of the budget reveals the need for a cohesive alignment between education and workforce demands*.**
While significant allocations toward TVET and higher education aim to empower future generations, the persistence of educational mismatches—such as 33.1% of graduates employed in non-graduate roles—underscores systemic inefficiencies. Bridging this gap requires strengthening industry-academia partnerships, prioritizing hands-on training, and fostering skills that align with Malaysia's high-growth sectors.

***Budget 2025 also raises critical questions about inclusivity in the labor market*.**
Initiatives like the Self-Employment Social Security Scheme and i-Saraan are commendable steps toward empowering vulnerable groups. However, these efforts demand a broader strategy to incorporate underrepresented demographics, including women and older workers, into the mainstream workforce. Incentives for businesses and stronger public-private collaborations will play a pivotal role in achieving equitable and sustainable workforce participation.

***The government's fiscal prudence is evident, but greater innovation is required to escape Malaysia's "wage curse"*.**
The stagnant compensation-to-GDP ratio, coupled with the high dependence on low-skilled foreign labor, challenges our vision of becoming a high-income nation. Policy reforms that encourage technological adoption and reduce reliance on low-value labor will be instrumental in driving wage growth and labor productivity.

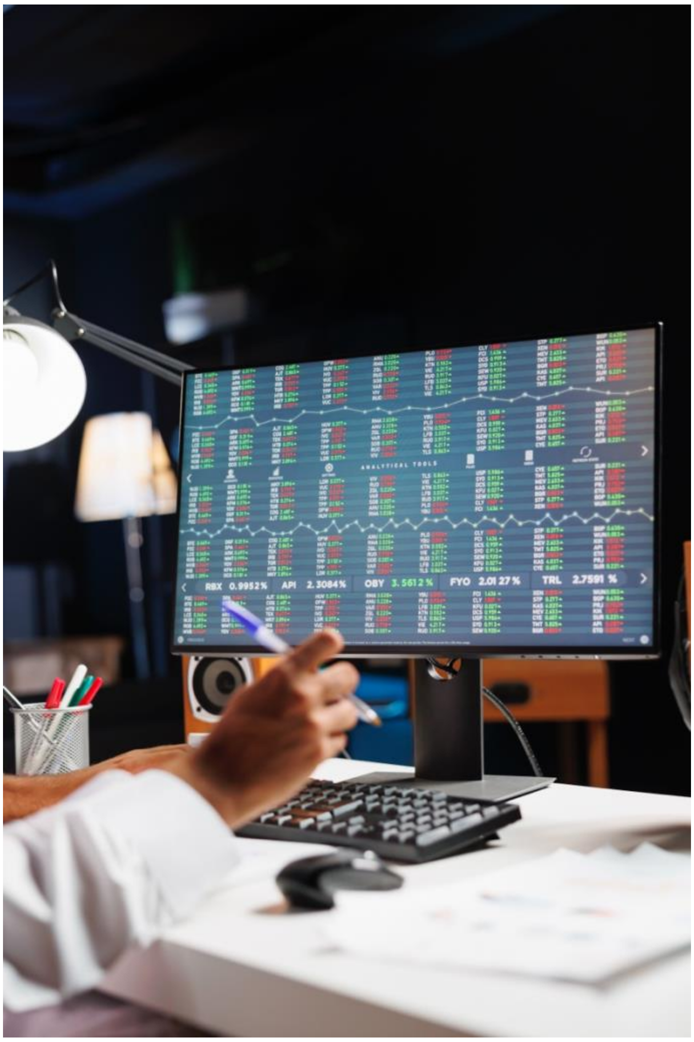
***As we move forward, the Budget 2025 critiques and proposals in this report offer actionable insights to refine our strategies for the 13th Malaysia Plan*.**
By integrating these recommendations, Malaysia can build an inclusive, resilient, and future-ready economy. Together, let us seize this opportunity to redefine our labor market landscape and reaffirm our nation's position on the global stage.

As you explore this report, I invite you to consider its findings as a roadmap for Malaysia's continued progress. Together, we can shape a labor market ecosystem that empowers every Malaysian to thrive in the face of change, driving our nation toward a brighter, more inclusive future.

We at THE FUTURE will keep plays an important role in supporting labor market reform through consultancy research and advisory. Leveraging our expertise in evidence-based analysis and strategic foresight, we aim to empower policymakers, businesses, and stakeholders with actionable insights to drive sustainable workforce development. Together, we strive to shape a resilient labor market ecosystem that aligns with Malaysia's economic ambitions and ensures inclusive growth for all.

FISCAL HIGHLIGHT

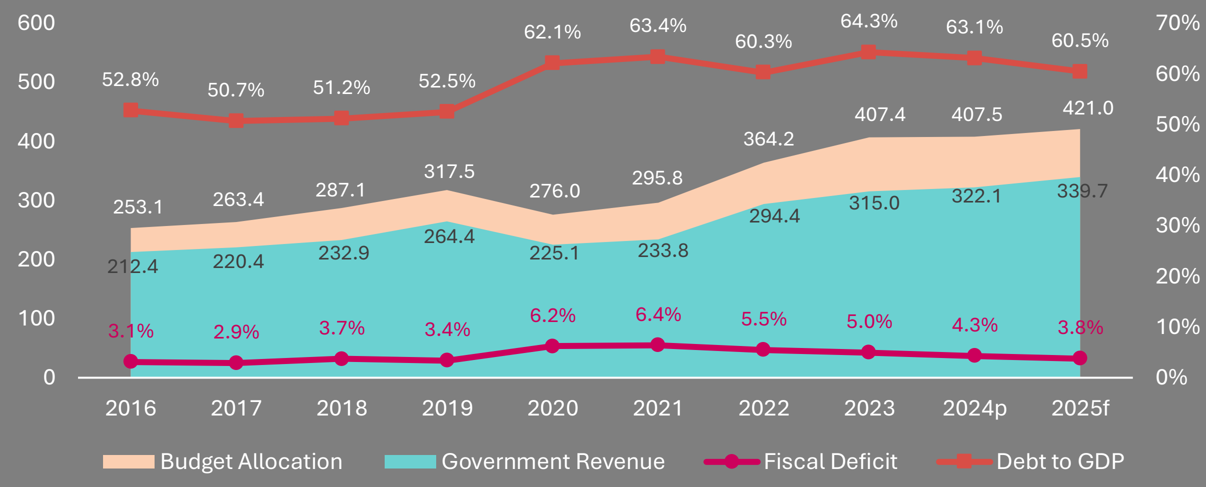
Balancing Long-Term Risk with Short-Term Stimulus



The 2025 Malaysian budget aims to support immediate economic growth through targeted stimulus while managing long-term risks to ensure sustainable fiscal health. By balancing short-term needs with prudent spending, the government seeks to drive recovery and build resilience for future challenges.

The Government's strategy in Budget 2025 balances economic growth initiatives with careful financial management. With a budget of RM421.0 billion, it focuses on driving economic recovery while also working to reduce the fiscal deficit (see **Figure 1**). This approach combines expansionary measures to stimulate growth with fiscal discipline to ensure long-term stability.

Figure 1: Budget Allocation, Government Revenue, Debt-to-GDP ratio and Fiscal Deficit, 2016 – 2025 (RM billion; %)



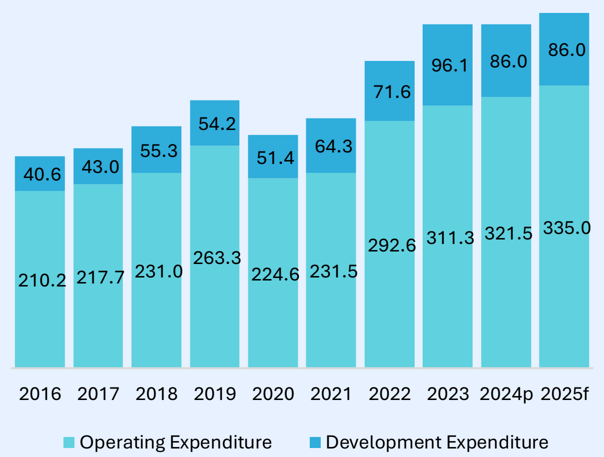
Note:
Sources: Fiscal Outlook and Federal Government Revenue Estimates by Ministry of Finance, 2024. Debt-to-GDP in 2025 is projected by the EU-ERA, THE FUTURE.
[1]The percentage budget deficit is measured by taking a ratio between of budget deficit to the current GDP.
[2]The debt-to-GDP percentage is defined as a ratio of total debt to the current GDP.

Projected government revenue remains strong at RM339.7 billion in 2025, supported by improved tax collection and diversified revenue streams. Fiscal consolidation is reflected in the targeted deficit reduction from 5.0% of GDP in 2023 to 3.8% in 2025, highlighting disciplined management of public finances alongside robust spending for growth. The debt-to-GDP ratio is also anticipated to gradually decline, reaching 60.5% in 2025, signaling a commitment to sustainable debt levels and fiscal stability.

To further strengthen fiscal stability, the implementation of broad-base tax such as Value Added Tax (VAT) is recommended to diversify revenue sources for enhancing fiscal resilience (see **Box Article 1**).

The operating expenditure (OE) reveals a steady upward trend, which is projected to reach RM335.0 billion in 2025, from RM321.5 billion in 2024 (**Figure 2**). This gradual increase reflects the Government's commitment to maintaining essential services and supporting economic recovery amidst persistent global challenges. In contrast, development expenditure (DE) shows a controlled approach, remaining consistent at RM86.0 billion in both 2024 and 2025, following a peak of RM96.1 billion in 2023. This approach signals a shift from mega projects to prioritizing rakyat-centric initiatives and infrastructure support for industrial areas, aligning with state-specific priorities to ensure targeted, impactful growth.

Figure 2: Operating and Development Expenditure, 2016 – 2025 (RM billion)



Sources: Fiscal Outlook and Federal Government Revenue Estimates by Ministry of Finance, 2024

Box Article 1

Value Added Tax (VAT) 2.0 for fiscal strength and economic resilience

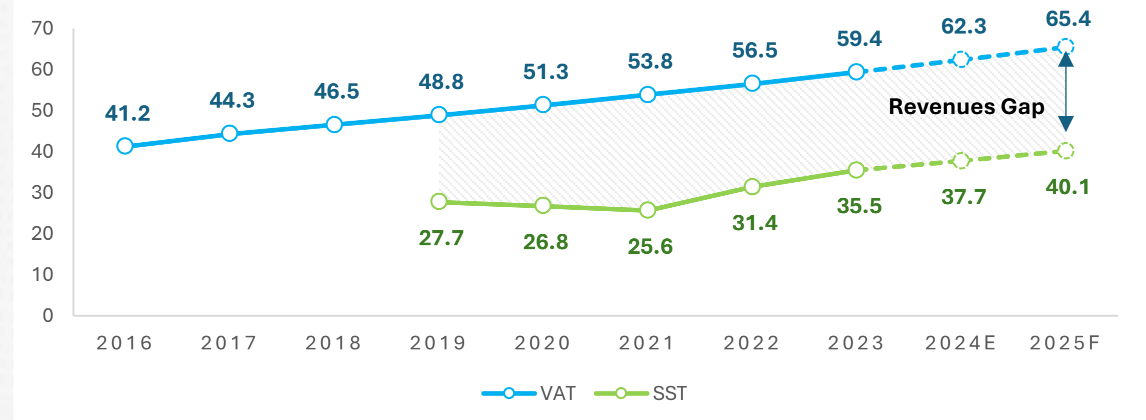
Value-added Tax (VAT) is closely linked to GDP growth, as it is based on the value added in goods and services generated in the economy. When GDP grows, economic activity increases, leading to higher consumption and production, which in turn boosts VAT collection. Consequently, VAT is highly sensitive to economic fluctuations, making it a reliable indicator of economic performance and a significant revenue source during periods of growth.

Based on this premise, the government should give serious consideration to reintroducing the VAT which was previously introduced as the Goods and Services Tax (GST) in 2016. Comparative analysis in **Figure B1** shows that the VAT system, introduced in 2015, has a significant edge over the current Sales and Service Tax (SST) system, especially when factoring in a projected 5% annual growth in collection based on recent historical trends, generating nearly twice the revenue potential.

By replacing SST with VAT, the government can secure a more robust fiscal foundation, which is essential for funding national development initiatives and supporting social welfare programs. The revenue certainty offered by VAT could also provide better planning stability, enhancing the government's ability to respond to economic fluctuations and enabling the achievement of desired fiscal conditions. Studies show that implementing GST could benefit the economy by reducing the price of goods and services by 7.4%, contrasting with an expected 2.0% increase[1].

The ineffectiveness of VAT 1.0 (2016) was driven by multiple factors, including a limited understanding of the system, which allowed for exploitation by businesses, the existence of multiple VAT systems, political perceptions that overshadowed its economic benefits and shorter implementation period before the system could stabilize (only two years of implementation before it had been removed).

Figure B1: Revenue collection under VAT and SST systems



VAT and SST revenues gap (RM billion)									
2016	2017	2018	2019	2020	2021	2022	2023	2024e	2025f
41.2	44.3	46.5	21.2	24.5	28.2	25.2	23.9	24.6	25.3

Note: The revenue gap refers to the difference in tax collection values between VAT and SST.
Sources: SST and VAT revenues are derived from Federal Government Revenue data provided by the Accountant General's Department of Malaysia and published by the Central Bank of Malaysia (2024).

Studies in footnote 1
[1] SST and VAT revenues are derived from Federal Government Revenue data provided by the Accountant General's Department of Malaysia and published by the Central Bank of Malaysia (2024). VAT revenues for periods 2019 to 2025 are estimated by the EU-ERA, THE FUTURE.

Macroeconomic Outlook

Inflation Eases, Growth Steady – What's Next?

The global economy exhibited resilience for the year 2023, with GDP growth stabilizing around 3.3% (**Figure 3**) despite ongoing inflationary pressures. Central banks continued implementing tight monetary policies to manage inflation, which was elevated due to persistent supply chain constraints, higher energy prices, and geopolitical uncertainties. Looking ahead, the IMF projects global GDP growth to remain stable at 3.2% in 2024 and 2025 (**Figure 3**), with inflation projected to ease gradually, declining from 5.8% in 2024 to approximately 4.3% in 2025 (**Figure 4**). This projection assumes that policies would be remain cautious and geopolitical risks diminish, setting a cautiously optimistic tone for economic stability.

Malaysia's outlook appears more upbeat, the Ministry of Finance, Malaysia projecting GDP growth between 4.8%-5.3% in 2024 and rising to 4.5%-5.5% in 2025 (**Figure 3**), slightly outpacing the ASEAN average forecasted by the IMF. Malaysia's economy is expected to benefit from robust external demand, especially in electronic and electrical (E&E) goods, driven in part by advancements in artificial intelligence (AI) and its role in the semiconductor supply chain. Compared to the world's slower growth, Malaysia's economy is anticipated to perform relatively well within the region. However, the outlook is not without risks, as inflation is projected to remain manageable but could rise to 2.5% to 3.5% in 2025 depending on external pressures (**Figure 4**). While Malaysia's growth outlook is optimistic, there is a sense of cautious optimism, recognizing potential risks from global uncertainties and geopolitical developments.

Building on Malaysia's optimistic economic outlook, attention turns to the Ringgit's performance. The currency has experienced considerable fluctuations over the past decade. It remained relatively stable between 2009 and 2014 before depreciating in 2015, staying above RM3.90 per USD since (**Figure 5**). Looking forward, the Ringgit is anticipated to strengthen modestly under a positive outlook, stabilizing around RM4.42 per USD by 2025, reflecting Malaysia's economic resilience and gradual improvements in global conditions. However, this forecast may shift if new factor emerge—see **Box Article 2** for more details.

Figure 3: Real GDP growth (%), 2011-2025

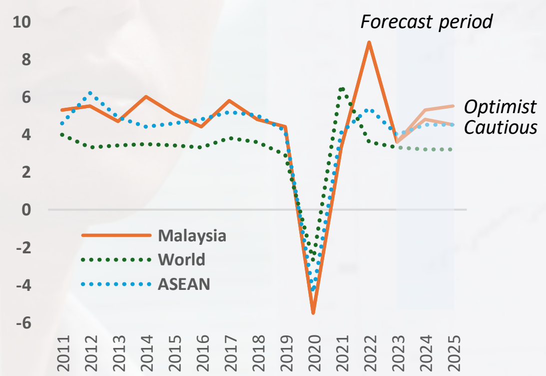
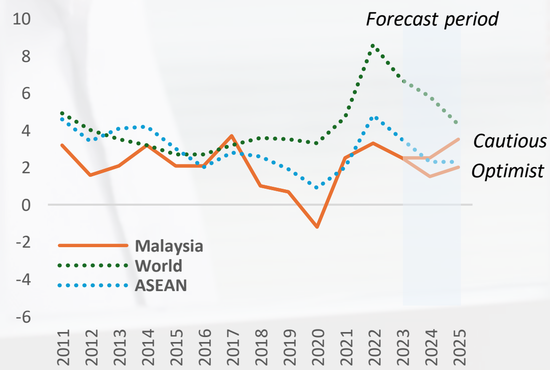


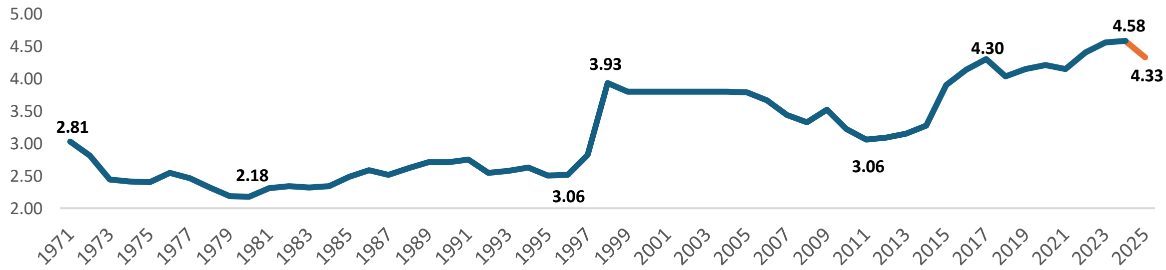
Figure 4: Inflation rate (%), 2011-2025



Sources:
World and ASEAN data are sourced from the International Monetary Fund (IMF), World Economic Outlook (WEO) database. Malaysian historical data is taken from the Department of Statistics Malaysia (DOSM), with projections is taken from the Ministry of Finance Malaysia (MOF).

Notes:
Cautious Scenario: Inflation is expected to remain under control, though there are potential upward risks, while GDP growth is projected to show moderate expansion despite global uncertainties.
Optimist Scenario: Inflation is expected to remain stable, while GDP growth is projected to experience robust expansion, driven by favorable economic conditions.

Figure 5: Ringgit to US Dollar Exchange Rate, 1971-2025



Sources: Historical data are taken from Bank Negara Malaysia (BNM) while the projection for 2025 is performed by EU-ERA, THE FUTURE.

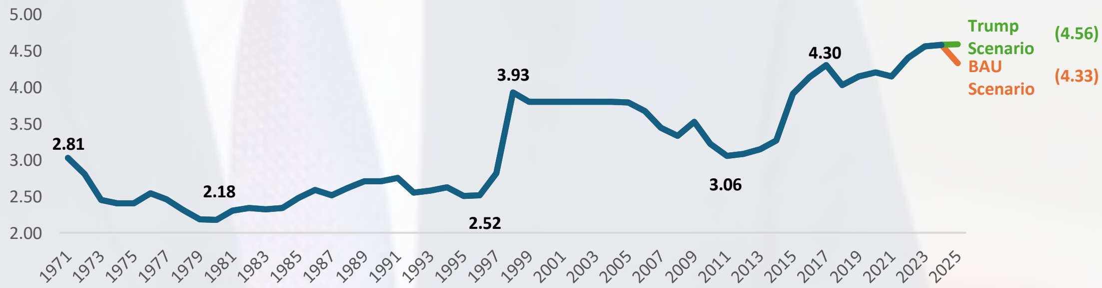
Box Article 2

Trump Presidency: A threat or resilient opportunity for Ringgit?

The recent election of President Donald Trump brings renewed focus on the potential volatility of the Ringgit, particularly given Trump's inclination toward protectionist policies, higher tariffs, and aggressive economic reforms. If the Trump administration returns to its previous "America First" stance, policies aimed at reducing imports and boosting domestic production could drive up demand for the USD, strengthening the currency. This scenario would likely exert downward pressure on the Ringgit, leading to a weaker exchange rate. However, if Trump's administration were to adopt a more moderate, neutral approach, the USD could remain stable, allowing the Ringgit to experience a more favorable outlook as Malaysia's domestic economy strengthens (**Figure B2**).

To analyze the potential impacts, we considered two scenarios: a business-as-usual (BAU) approach and a scenario based on Trump's previous administration style. Under the BAU scenario, where the Trump administration maintains a neutral stance, the Ringgit is projected to stabilize around RM4.33 per USD in 2025 from average (eleven months) RM4.58 in 2024. In contrast, if Trump returns to his previous policies, the USD is likely to appreciate, potentially depreciate the Ringgit marginally to RM4.59 per USD on average of 2025.

Figure B2: Ringgit Outlook: Baseline Projection vs. Trump Policy Impact



Sources: Historical data are taken from Bank Negara Malaysia (BNM) while the projection for 2025 is performed by the EU-ERA, THE FUTURE.

Technical notes:
The projection is made using regression models to assess the potential impact of U.S. monetary policy (federal funds rate) on the RM/USD exchange rate, comparing a business-as-usual (BAU) scenario with a Trump administration scenario based on past trends. The results indicate that Trump's potential policy directions could significantly shape Ringgit's performance in 2025, either stabilizing or weakening it depending on his economic approach.

Labor Market Outlook

Strengthening Malaysia's Workforce in a Growing Economy

With Malaysia's GDP growth projected to rise to between 4.5% and 5.5% in 2025, up from an estimated range of 4.8% to 5.3% in 2024, the economic outlook signals positive developments for the labor market. This growth trajectory is expected to stimulate job creation across sectors, contributing to a reduction in unemployment and an increase in wage levels as demand for skilled labor rises. Additionally, the favorable economic conditions may provide an opportunity to enhance female labor force participation, as businesses expand and new policies promote a more inclusive workforce.

The projection for 2025 labor outlook will consider two economic performance scenarios for each labor market indicator: i) GDP growth rate of 4.5%, represented by a yellow line, and ii) GDP growth rate of 5.5%, indicated by a green line.

Job Market

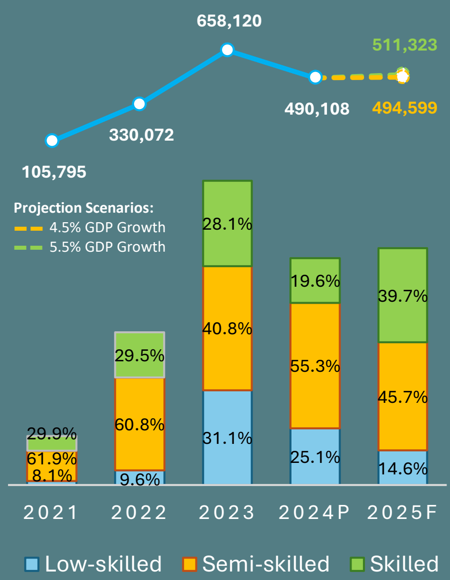
Malaysia is projected to experience substantial employment creation by 2025, supported by GDP growth estimated at 4.5% to 5.5%. Employment is expected to grow by 3.0% to 3.1%, resulting in the addition of approximately 490,000 to 510,000 new jobs across various sectors of the economy.

Significantly, the 2025 forecast highlights that skilled and semi-skilled jobs will dominate the labor market expansion, accounting for 39.7% and 45.7% of the total employment, respectively. In comparison, low-skilled jobs are anticipated to represent a smaller share, comprising just 14.6% of the total new positions.

Note:
Skills are categorized based on MASCO occupations with categories 1-3 defined as skilled, categories 4-8 denoted semi-skilled and category 9 stands for low-skilled.

Sources: Historical data are taken from Department of Statistics Malaysia (DOSM) while the projection for 2025 is performed by the EU-ERA, THE FUTURE.

EMPLOYMENT GENERATION

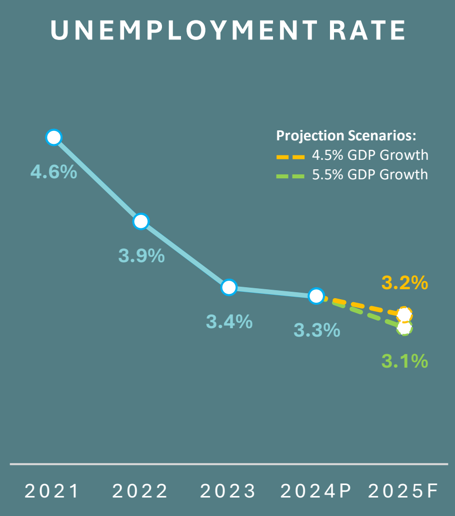


Unemployment Rate

Malaysia's unemployment rate has shown a consistent decline, reaching 3.4% in 2023, with further improvement anticipated to reduce the rate to 3.3% in 2024, signifying the attainment of full employment.

Building on this positive trend, the unemployment rate for 2025 is projected to stabilize between 3.2% and 3.1%. This forecast is contingent on the overall economic performance and sustained growth momentum across key sectors.

Sources: Historical data are taken from Department of Statistics Malaysia (DOSM) while the projection for 2025 is performed by the EU-ERA, THE FUTURE.

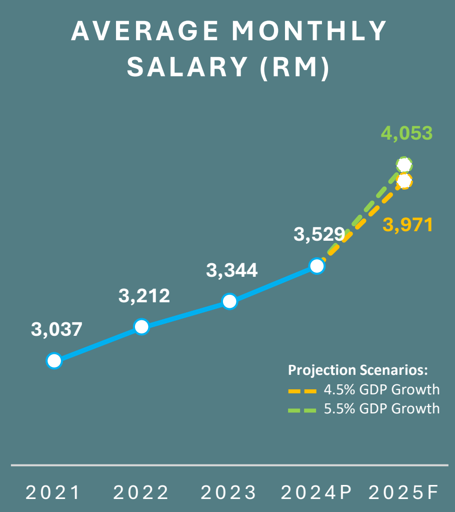


Wages

Wages in Malaysia are expected to experience a significant improvement, with an annual growth rate projected between 12.5% and 14.8% through 2025 (nominal wages). Average salaries are anticipated to rise from RM 3,529 in 2024 to a range of RM 3,971 to RM 4,053 by 2025.

This growth trend reflects improvements in wage levels driven by the implementation of a new minimum wage of RM 1,700 (assuming all firms comply with this new wage level) and progressive wage policy (PWP). The PWP, supported by a federal government allocation of RM 200 million in Budget 2025, aim to benefit approximately 50,000 workers. Supported by economic expansion and strengthened wage policies, these measures are expected to enhance overall income levels across the workforce.

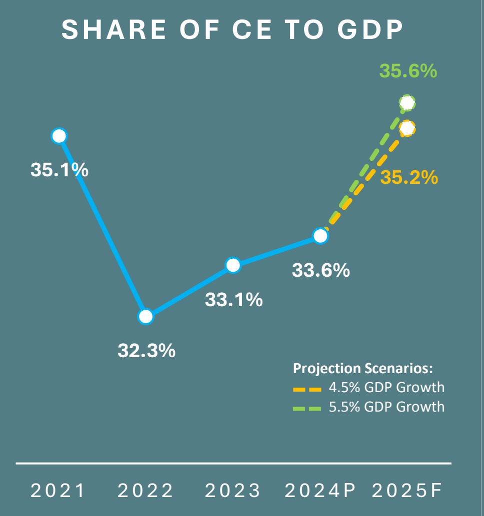
Sources: Historical data are taken from Department of Statistics Malaysia (DOSM) while the projection for 2025 is performed by the EU-ERA, THE FUTURE.



Compensation of employees to GDP

Malaysia's share of compensation of employees (CE) to GDP has shown a steady recovery, with the CE-to-GDP ratio projected to reach 33.6% by 2024. By 2025, this share is expected to increase further, ranging between 35.2% and 35.6%, depending on overall economic performance. The improvement in the CE-to-GDP ratio for 2025 aligns with anticipated wage growth driven by the implementation of the new minimum wage and the Progressive Wage Policy (PWP). These measures are expected to enhance Malaysia’s labor market, raise income levels, and ensure a more equitable distribution of economic gains for the workforce.

Sources: Historical data are taken from Department of Statistics Malaysia (DOSM) while the projection for 2025 is performed by the EU-ERA, THE FUTURE.

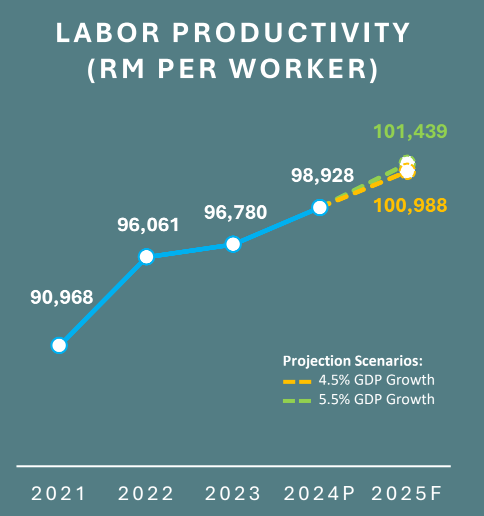


Labor Productivity

Labor productivity in Malaysia is expected to register positive growth, driven by anticipated improvements in economic performance and labor market conditions. Annual productivity growth is projected at 2.1% to 2.5% in 2025, with labor productivity rising from RM98,928 in 2024 to an estimated range of RM100,988 to RM101,439 in 2025.

This positive trend underscores ongoing advancements in worker efficiency and output, highlighting robust momentum in productivity gains as the economy continues to expand.

Sources: Historical data are taken from Department of Statistics Malaysia (DOSM) while the projection for 2025 is performed by the EU-ERA, THE FUTURE.

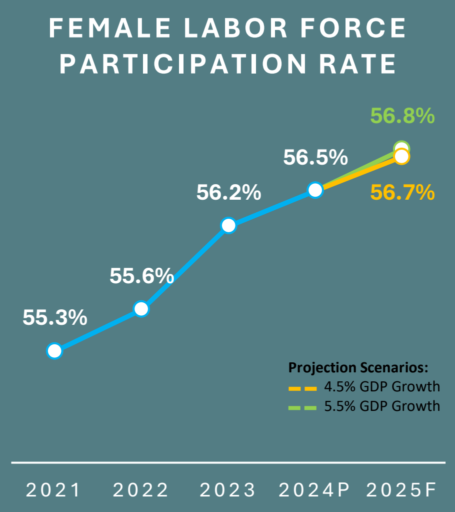


Female Labor Force Participation Rate

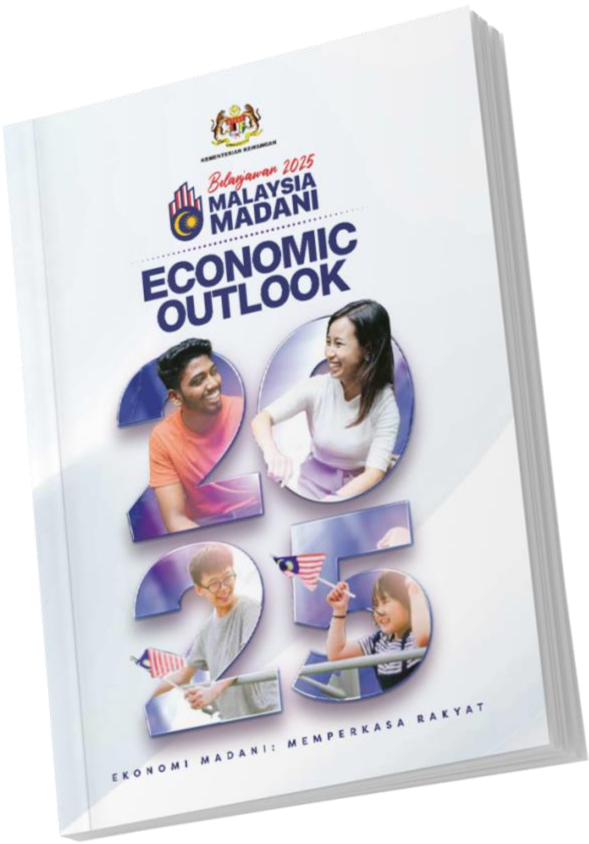
The gradual increase in Malaysia's female labor force participation rate suggests that more women are entering the workforce, with participation rising from 55.3% in 2021 to an estimated 56.5% in 2024. Based on this trend and wage-policy interventions the female participation is projected to reach between 56.7% and 56.8% by 2025.

This projection signals a shift in labor market toward greater female engagement, driven by improving economic and social conditions. It reflects a sustained commitment to tapping into untapped female talent, enhancing workforce inclusivity and empowering women in Malaysia's labor force.

Sources: Historical data are taken from Department of Statistics Malaysia (DOSM) while the projection for 2025 is performed by the EU-ERA, THE FUTURE.



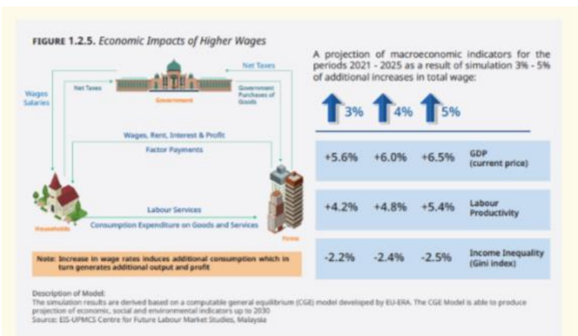
The Need for Escaping the Wage Curse



In the Economic Outlook 2025, a notable reference is made to the article titled "The Need for Escaping the Wage Curse". This article, co-authored by EU-ERA and the Ministry of Finance, delved into the critical challenge of wage stagnation, often termed the "wage curse," and its implications on long-term economic growth and productivity.

The common assumption that increasing wages could lead to market distortion and reversely affect economic performance seem to be an "unspell curse" to the Malaysian economy. These assumptions are strongly held by the majority of employers as a result of the lack of evidence-based facts and scientific evaluation. We have shown the attainable benefits to employers, employees and the economy as a whole when wage rates are raised higher than the current level. Higher wages would:

- **attract more women participation in the labor force**
- **improve economic efficiency by reducing the size of shadow economy**
- **reduce the dependency on the low-skilled foreign worker**
- **promote technological adoption**
- **reduce the size of skill-related underemployment**



Our analysis also highlights that the existing wage rate is not inclusive as there are some segments of the household groups that cannot cope with the current cost of living. Another perspective demonstrates that the existence of the minimum and living wage reflects the inefficiency of the labor market's response on both demand and supply sides. Thus, more dedicated studies on the possible impact of the multidimensional aspects of wages are needed, as Malaysia aspires to become a high- income economy.

For more information, please refer to The Need for Escaping the Wage Curse, pages 19-31, Economic Outlook 2023, which can be downloaded at https://progressive-wage-hub.euera.org/wp-content/uploads/2023/07/Economic-Outlook-2023-The-Need-for-Escaping-the-Wage-Curse.pdf or scan QR code to download

SCAN HERE

Evaluating Malaysia's Progress on RMKe-12 Targets

What's Working and What Needs Recalibrating

During the 2021-2025 period, political instability has directly impacted the implementation of the 12th Malaysia Plan (RMKe-12), resulting in the underachievement of several macroeconomic targets. This uncertainty has hindered consistent policy enforcement and disrupted long-term development strategies. Moving forward, it is essential for Malaysia to prioritize political stability and cohesive governance to ensure the effective execution of national development plans. Establishing a clear and united policy direction, along with fostering stronger cooperation between federal and state governments, can create a more resilient framework for achieving economic and social goals.

Selected Macroeconomic Target

Malaysia's economic performance under RMKe-12 reflects mixed progress across key macroeconomic targets. GDP growth, projected at 5.3% for 2021-2025, is the only indicator expected to meet its target range of 5.0 – 6.0%. However, the average growth of gross exports is anticipated to reach only 6.0%, significantly below the 11.9% target due to global economic challenges and reduced demand for Malaysian exports (**Figure 6**).

The trade balance is projected to reach RM131 billion by 2025, falling short of the RM290 billion target. Similarly, the current account balance of payments is expected to be RM49 billion or 2.4% of GNI, slightly below the RM51 billion goal. Fiscal challenges have also emerged, with the fiscal balance projected at -3.8% of GDP, exceeding the target range of -3.5% to -3.0%. This deficit is driven by increased spending on pandemic recovery and slower revenue growth.

Additionally, GNI per capita is expected to be RM59,011, below the RM61,000 target, reflecting moderate income growth amidst inflationary pressures. The average annual inflation rate, projected to stay within the 2.8 – 3.8% range, has affected purchasing power and limited the growth in household income.

While GDP growth remains within the targeted range, these shortfalls in export growth, trade balance, fiscal balance, and income growth highlight the need for strategic policy interventions. Addressing these gaps will be essential to building a resilient economy that can navigate both global and domestic challenges effectively.

Figure 6: Selected Key Macroeconomic Indicators: MTR RMKe-12 Targets vs. Current Projections

Selected Macroeconomic Target	MTR RMKe-12	Projection	Achievement
GDP Growth Per Annum	5.0% - 6.0% *(2021-2025)*	5.3% *(2021-2025)*	✓
Average Growth of Gross Exports	11.9% *(2021-2025)*	6.0% *(2021-2025)*	✗
Trade Balance	RM 290 billion *(2025)*	RM 131 billion *(2025)*	✗
Current Account of the Balance of Payments	RM 51 billion; 2.5% to GNI *(2025)*	RM 49 billion; 2.4% to GNI *(2025)*	✗
GNI per capita	RM 61,000 *(2025)*	RM 59,011 *(2025)*	✗
Percentage of Fiscal Balance to GDP	-3.5% – -3.0% *(2025)*	-3.8% *(2025)*	✗
Average Annual Inflation Rate	2.8% – 3.8% *(2021-2025)*	2.4% *(2021-2025)*	✓

Sources: Mid Term Review of RMKe-12 while the projection for 2025 is performed by the EU-ERA, THE FUTURE.

Selected Labor Market Target

The 12th Malaysia Plan (RMKe-12) set ambitious targets to enhance labor market outcomes, focusing on both economic and social well-being. Figure 7 illustrates progress toward the labor market targets established under RMKe-12, comparing projected values against the 2025 benchmarks.

The projections for key labor market indicators reveal mixed results in achieving the RMKe-12 targets. For the share of compensation of employees (CE) to GDP, projections range from 35.2% to 35.6%, falling short of the 2025 target of 40%. This indicates that compensation growth may not be on track to meet the desired level, highlighting a potential gap in achieving this goal.

Similarly, labor productivity growth per annum is projected at 2.6% to 2.8%, below the target of 3.7% for the period 2021–2025. This suggests that productivity growth may lag behind the intended trajectory, posing a challenge in aligning with the target.On a more positive note, the unemployment rate is projected to stabilize between 3.1% and 3.2%, slightly below the target of 3.3%. This indicates that the unemployment rate is likely to meet or even exceed expectations, reflecting a stable and resilient job market.

However, the female labor force participation rate is projected at 56.7% to 56.8%, slightly below the target of 59%. Additionally, the composition of skilled workers in employment is expected to reach 30.4%, falling short of the 2025 target of 35%.
Meanwhile, wages in Malaysia are expected to see notable improvements. Mean salaries are anticipated to rise from RM3,529 in 2024 to a range of RM3,971 to RM4,053 by 2025, driven by progressive wage initiatives and the implementation of a new minimum wage policy.

While progress has been made, these mixed results underscore the need for continued efforts to address shortfalls and ensure alignment with RMKe-12 labor market targets.

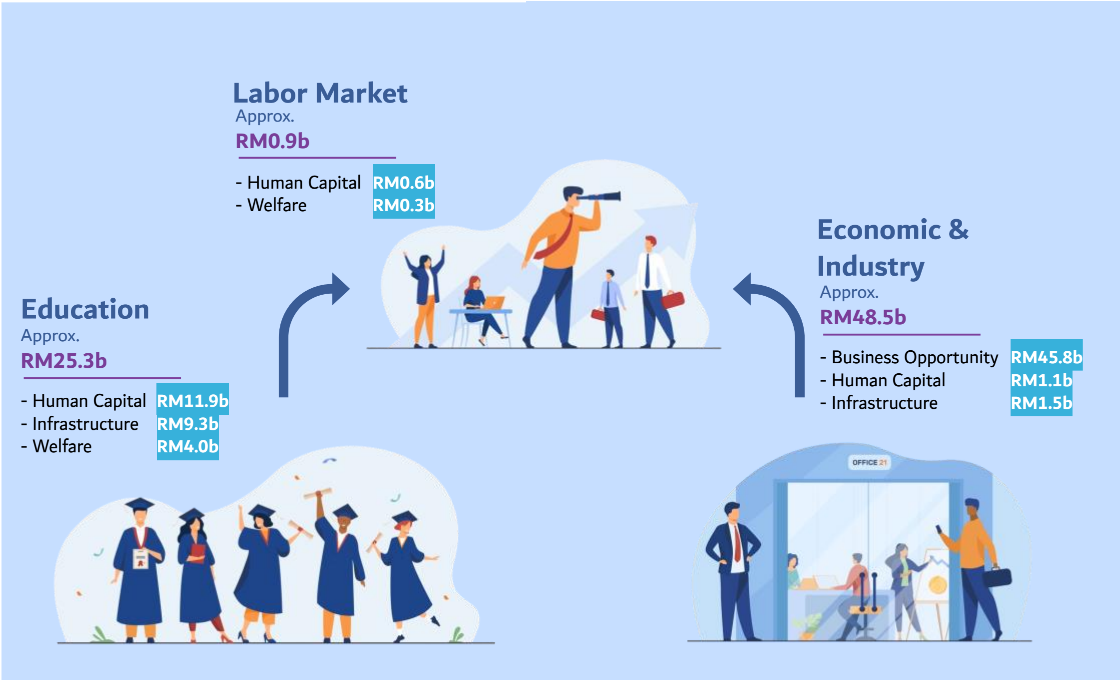
Figure 7: Selected Key Labor Market Indicators: MTR RMKe-12 Targets vs. Current Projections

Selected Labor Market Target	MTR RMKe-12	Projection	Achievement
Share of compensation of employees of GDP	40.0% *(2025)*	35.2% – 35.6% *(2025)*	✗
Labor productivity	3.7% *(2021-2025)*	2.8% *(2021-2025)*	✗
Unemployment rate	3.3% *(2025)*	3.1% – 3.2% *(2025)*	✓
Female labor force participation rate	59.0% *(2025)*	56.7% – 56.8% *(2025)*	✗
Composition of employment:			
Skilled	35.0% *(2025)*	30.4% *(2025)*	✗
Semi-Skilled	54.0% *(2025)*	56.8% *(2025)*	✗
Low-Skilled	11.0% *(2025)*	12.8% *(2025)*	✗

Sources: Mid Term Review of RMKe-12 while the projection for 2025 is performed by the EU-ERA, THE FUTURE.

Budget 2025 for Labor Market Ecosystem

RM74.7 Billion Toward a Future-Ready Workforce



The Government has allocated RM74.7 billion across 169 initiatives within an end-to-end labor market ecosystem framework, covering education, job market, and economic and industry development. This comprehensive allocation supports Malaysia's goal of building a robust labor ecosystem that seamlessly connects foundational education, workforce entry, and sustainable economic growth. The education sector receives RM25.3 billion, focused on human capital, infrastructure, and welfare initiatives to strengthen mainstream and higher education, with a particular emphasis on Technical and Vocational Education and Training (TVET) empowerment. Significant investments, such as RM11.9 billion for human capital development and RM9.3 billion for infrastructure in education, aim to prepare a skilled and adaptable workforce for future demands.

In the job market, RM0.9 billion is allocated to enhance human capital and welfare through policies supporting wage growth, skills training, and job creation, with a particular focus on vulnerable groups to ensure inclusive and sustainable income growth. Meanwhile, economic and industrial development receives the highest share, with RM48.5 billion designated to expand business opportunities, develop human capital, and improve infrastructure. Key allocations include RM45.8 billion for business ventures, highlighting the government's commitment to fostering an entrepreneurial environment and supporting industrial growth. Together, these initiatives aim to create a cohesive ecosystem that links education, labor market readiness, and economic growth, enhancing Malaysia's resilience and global competitiveness.

Classification of budget allocation according to labor market thematic:

Human Capital:
Investments focused on enhancing individuals' skills, education, and employability to meet current and future labor market needs.

Example – Increasing scholarships and training programs for sectors like AI, robotics, and sustainable technology, or the implementation of initiatives like the TVET Empowerment program to train over 77,000 students.

Infrastructure:
Investments in physical assets that support public services, connectivity, and educational facilities.

Example – Maintenance, improvement and upgrade of school buildings and facilities nationwide.

Welfare:
Programs aimed at supporting the wellbeing and quality of life for citizens, particularly vulnerable groups.

Example – Continuation of the Self-Employment Social Security Scheme (SKSPS) Subsidy Programme under SOCSO.

Business Opportunity:
Support mechanisms to foster business growth, innovation, and economic diversification.

Example – Tax incentives for supply chain resilience initiatives and funding for the Strategic Co-Investment Fund (CoSIF) to strengthen local industries and create high-value job opportunities.

Does Budget 2025 Support the Necessary Labor Market Reforms?

In the realm of Malaysia's labor market, Budget 2025 brings initiatives with ambitious intent—enhancing skills, increasing wages, and pushing for better social protections. Yet, do these measures sufficiently address the structural reforms required for a resilient, adaptable workforce?

Advancing Skills and Education Alignment

Budget 2025's education initiatives offer substantial funding, critical gaps remain in aligning resources with labor market needs and maximizing the impact of allocations. Prioritizing infrastructure, with RM8.4 billion for mainstream education, may limit funds for urgently needed skills development, especially in high-demand areas like digital technology, AI, and STEM. Although RM5.7 billion is allocated to TVET, a stronger alignment with industry requirements and strategic partnerships for hands-on training could bridge the gap between secondary education and workforce demands. Similarly, the RM4.5 billion for higher education largely supports traditional academics, overlooking innovative curriculums that could better equip graduates for Malaysia's economic goals. Addressing these gaps with targeted investments in industry-relevant skills, adaptable learning paths, and practical training would create a more responsive and future-ready workforce, enhancing the educational ecosystem's contribution to Malaysia's labor market and economic growth.

SCHOOL

Human Development:	RM 0.9 billion
Infrastructure:	RM 8.4 billion
Welfare:	RM 4.0 billion

UNIVERSITY

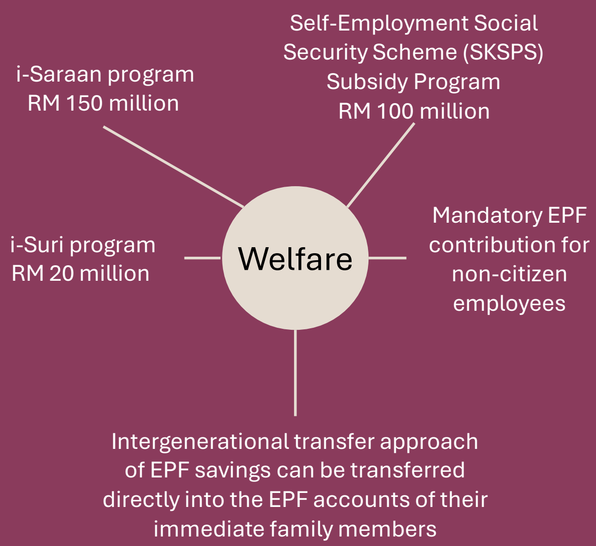
Human Development:	RM 4.5 billion
Infrastructure:	RM 7.6 billion

TVET EDUCATION

Human Development:	RM 5.7 billion

Wage Growth and Living Standards

The proposed minimum wage increase to RM1,700, the Progressive Wage Policy pilot and starting salary guideline are positive steps toward raising income levels and easing financial pressures for lower-wage workers. However, without a direct connection to productivity growth across sectors, these increases risk creating a wage-output imbalance that could strain employers, particularly micro, small and medium enterprises (MSMEs), which may struggle to bear the added costs. Integrating productivity-boosting mechanisms, such as targeted training and incentives for technological upgrades, could have helped make wage growth more sustainable. Budget 2025 could have fostered a more sustainable wage structure, encouraging businesses to adopt productivity-enhancing practices that ultimately support wage increases in a balanced and economically viable manner.



Empowering Vulnerable and Underrepresented Groups

Budget 2025 commendably focuses on vulnerable populations, with initiatives like the Self-Employment Social Security Scheme, which subsidizes 70% of SOCSO contributions for self-employed groups, and programs such as i-Saraan and MYInsentif Programme KESUMA, supporting older workers, women, and people with disabilities in re-entering or securing stable employment, potentially increasing labor force participation. However, these efforts would benefit from broader reforms, including a more systematic approach to inclusivity in employment policies and greater incentives for private sector participation, fostering sustainable employment pathways through stronger partnerships with private and international entities beyond state-supported programs.

Enhancing Workforce Resilience through Social Protections

The continuation and expansion of EPF programs, such as i-Suri and intergenerational transfer options, represent significant steps toward enhancing financial resilience, while phased contribution increases for non-citizen workers mark a meaningful move to improve retirement security for foreign labor—a commonly overlooked segment. However, this policy direction lacks a corresponding focus on strengthening retirement security for Malaysians in gig and precarious employment. By relying on voluntary contribution models, Budget 2025 risks perpetuating retirement vulnerabilities for informal sector workers, leaving a substantial portion of the workforce without guaranteed protections.

Industry Collaboration and Ecosystem Alignment

Programs like the MyAERO Centre of Excellence in aerospace and the Khazanah Youth Development Programme mark important steps toward integrating youth into high-growth sectors, while the Public-Private Partnership (PIKAS 2030), targeting 900,000 new job opportunities, highlights the role of industry in workforce development. However, strategic engagement with private sectors, particularly for apprenticeships and internships, appears underfunded and insufficiently institutionalized. Without stronger cross-sectoral initiatives, these efforts risk fragmentation, potentially limiting their impact on aligning the workforce more effectively with evolving economic needs.

Budget 2025 takes significant strides in skill development, wage reform, and social security; however, there is room for a more cohesive approach. Ensuring sustainable labor market reform will require more detailed initiatives that integrate these measures into long-term career development, particularly for the gig and informal sectors, along with an inclusive wage policy that leaves no demographic behind. The reform agenda would benefit from incentives that promote private sector participation in workforce readiness initiatives and address vulnerabilities faced by precarious workers, setting a more comprehensive foundation for a future-ready Malaysia.

KEY REFLECTION

The following key reflections are our recommendations for the government to consider in order to filter and refine the approach.

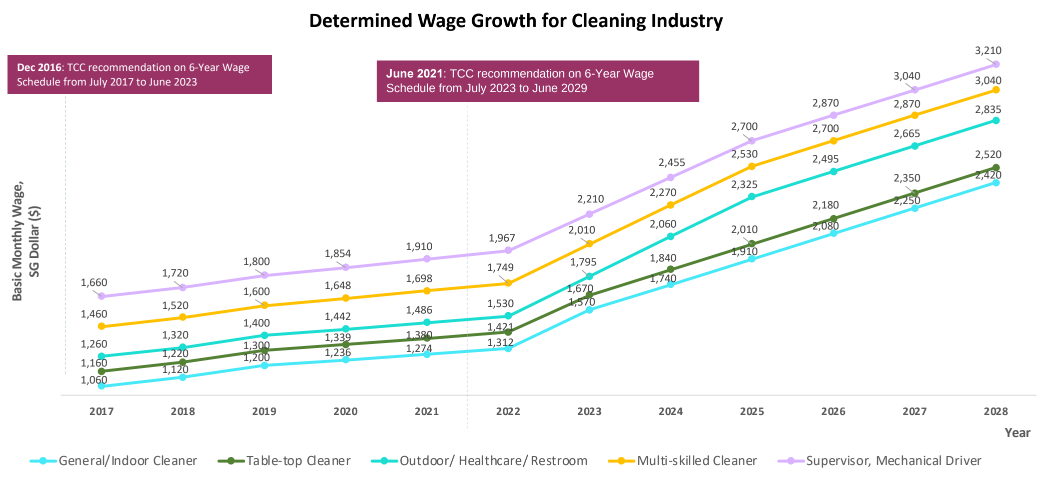
Minimum wage planning and management

The government has agreed to raise the minimum wage from 1,500 ringgit per month to 1,700 ringgit per month, effective from 1 February 2025. Additionally, the government has decided to defer the implementation of the 1,700 ringgit minimum wage for employers with fewer than five employees, with enforcement for this group beginning on 1 August 2025, after a six-month grace period.

An increase in the minimum wage could contribute to market distortions if not managed effectively. When there is a short gap between the announcement and the implementation period, industries may struggle to adjust their cost structures in time. Limited flexibility in adjusting cost structures often leads industries to pass on the increased labor costs to end consumers by raising prices. This lack of readiness also contributes to non-compliance with the new minimum wage rate. For example, in March 2023, it was estimated that 10.2% of employees received a basic wage below RM1500.

It is proposed that the government consider adopting a model similar to Singapore's progressive wage model, where wage increases are set on a structured path projected up to 10 years in advance.

Figure 8: Wage Structure under the Progressive Wage Model in the Cleaning Industry, Singapore (SGD)



Source: Ministry of Manpower, Singapore (2022)

Providing a 10-year projection of the minimum wage offers multiple benefits for both employers and employees.

Employers can forecast labor costs more accurately, allowing for better budgeting, resource allocation, and long-term financial planning, which helps mitigate the impact of sudden wage adjustments.

Employees benefit from a predictable wage trajectory, enabling them to plan their personal finances and manage expenses more effectively, leading to increased job satisfaction and loyalty.

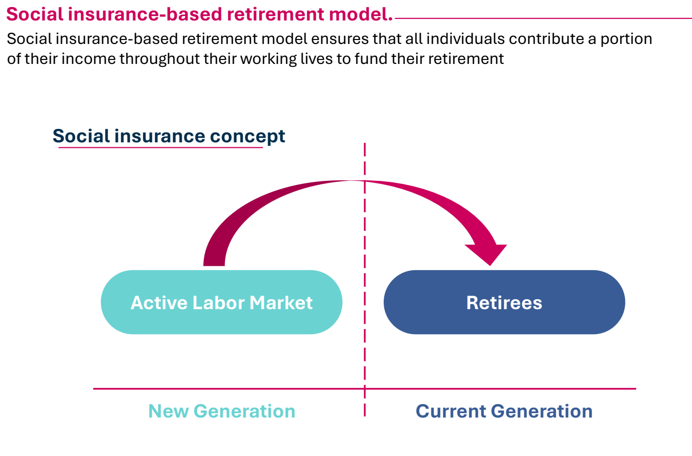
It is further recommended that the government reforms the current wage governance framework and functionality to enable a more holistic and effective approach to wage management and planning in Malaysia. We need an active, rather than passive, wage governance institution.

Shifting towards sustainable retirement scheme

As Malaysia transitions towards an aging nation, the Employee Provident Fund (EPF) is reviewing its scheme to strengthen the intergenerational transfer approach, whereby a portion of EPF members' savings can be directly transferred to the EPF accounts of their close family members.

Studies from EPF indicate that retirement savings are currently insufficient, over two-thirds (68%) of EPF members aged 54 have less than RM50,000 in their EPF savings which would last them for up to four and a half years, when most of them are likely to live for another 20 years. In the context of an aging nation, retirement financing methods need to evolve to reduce the government's financial burden on welfare assistance and to enable retirees to live comfortably. Best practices from other countries suggest adopting a social insurance system, as shown in **Figure 9**.

Figure 9: Social insurance-based retirement model in Sweden



Key features

- Applying concept of Pay-as-you-go (PAYG) where current workers' contributions are used to directly fund the pensions of current retirees, rather than accumulating in individual accounts for future payouts.
- Retirees receive a monthly pension for the remainder of their lives, including healthcare coverage.
- The monthly pension a retired employee receives is usually based on their earnings history and contributions made over their career, rather than being strictly tied to their last salary.
- Keeping low unemployment with high retention rates.
- Considering a single pension system (all employees regardless private or public sectors).

Source: Illustrated by EU-ERA, THE FUTURE

This figure illustrates the concept of social insurance as a system in which individuals contribute a portion of their income while they are active in the labor market to fund their own retirement and support current retirees. In this pay-as-you-go structure, the contributions made by the current workforce (active labor market) help provide benefits to today's retirees, creating a sustainable intergenerational transfer system.

Benefit to the government

Social insurance reduces the government's immediate financial burden to support retirees, as the system is funded by continuous contributions from the working population.

Benefit to employers

Employers benefit from a stable social insurance system, as it enhances employees' financial security, leading to increased loyalty, productivity, and reduced turnover.

Benefit to employees

Employees gain security in knowing they are contributing towards their retirement, ensuring a reliable income when they leave the workforce. This system provides peace of mind and encourages consistent long-term savings, which supports their well-being post-retirement.

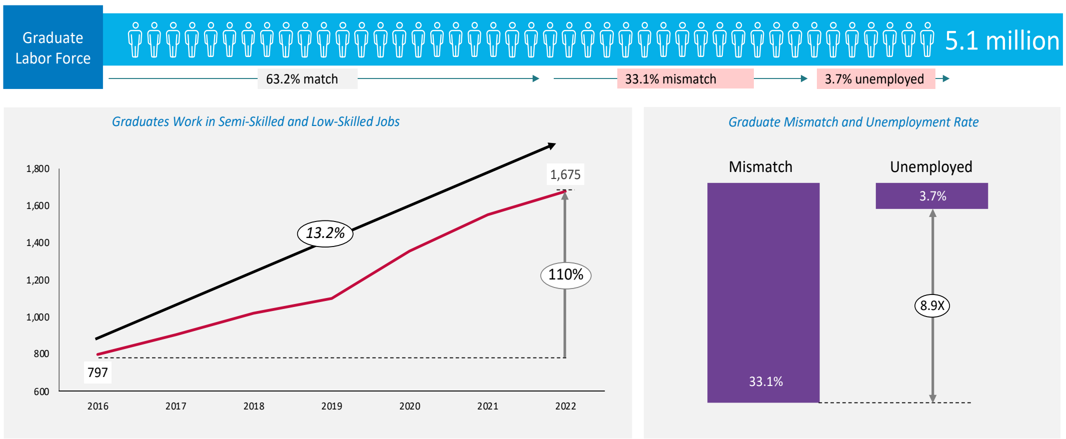
Before developing a social insurance system, the government could conduct a willingness-to-accept survey to assess the acceptance levels among employees and key stakeholders. Establishing a social insurance system will likely also require the consolidation of labor-related institutions to ensure financial stability.

Outcome-based budget for graduate employability

The Ministry of Higher Education has been allocated RM18 billion compared to RM16.3 billion this year. The allocation is focused on supporting further studies, higher education funds, infrastructure, AI education, research, development and commercialization, and TVET education.

The return on higher education is relatively lower in the presence of significant educational mismatches. In 2022, the Ministry of Higher Education reported that 35.4% of fresh graduates were employed in non-graduate positions. This persistent educational mismatch has shown a significant increase in the labor market with data from the Department of Statistics Malaysia indicating that the percentage of graduates in jobs below their qualification level rose from 22.9% in 2016 to 33.1% in 2022.

Figure 10: Graduate Mismatch



Source: Graduate Statistics by Department of Statistics Malaysia (2023)

Higher education institutions need substantial reforms, not only to enhance their ability to contribute to national wealth through research and commercialization but also to ensure that graduates can secure relevant jobs with reasonable wages. If the educational mismatch continues to widen in the future, we may face a crisis of confidence in the higher education system.

The government is advised to take a firmer stance in ensuring that higher education institutions, particularly public universities, undergo necessary changes in alignment with market demands. Implementing a real employability as outcome-based approach to allocate funding to these institutions is recommended. The quality of education and graduates are essential to be corrected through a strong education-industry collaborations.

Looking Forward for 13th Malaysia Plan, (2026 - 2030)

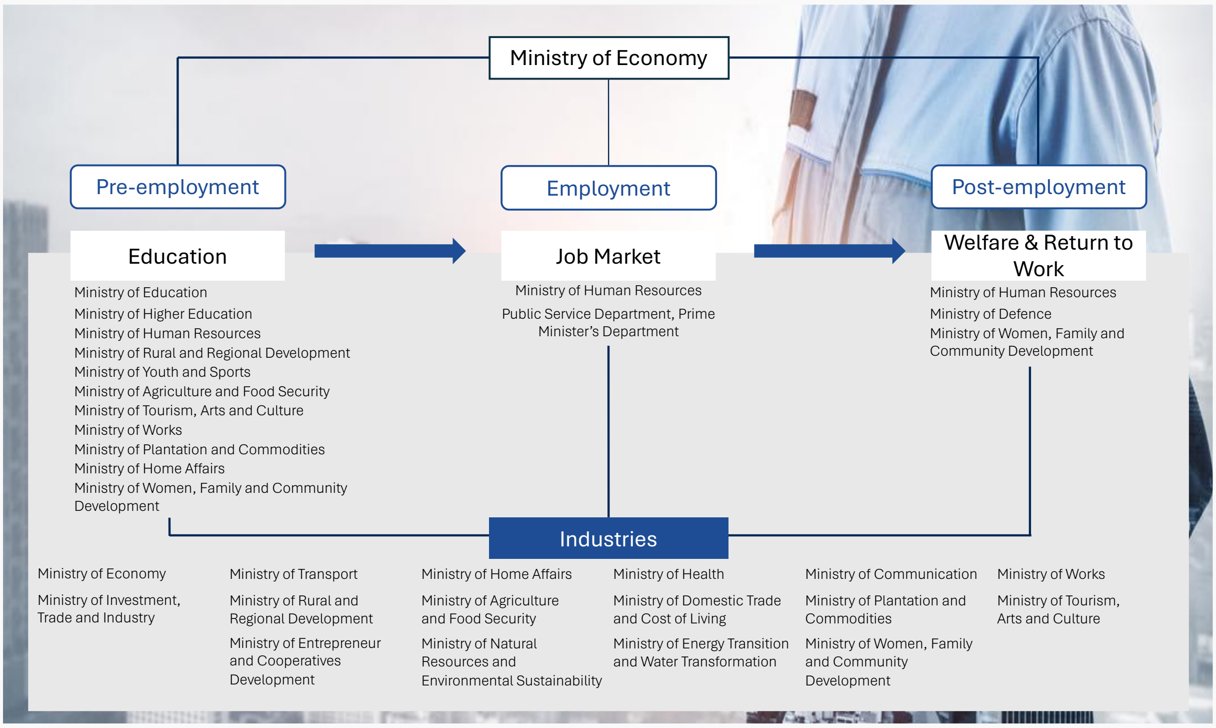
As Malaysia faces complex economic shifts and societal demands, a forward-thinking approach is essential to developing a workforce ready to meet future challenges. Key labour market priorities in the 13th Malaysia Plan, 2026-2030, should recognise non-formal education, foster adaptive mindsets, integrate underrepresented groups, and support mental well-being. The government can empower Malaysians across all sectors by addressing these needs and ensuring an inclusive, resilient, highly skilled workforce.

A call for integrated approach for labor market reform

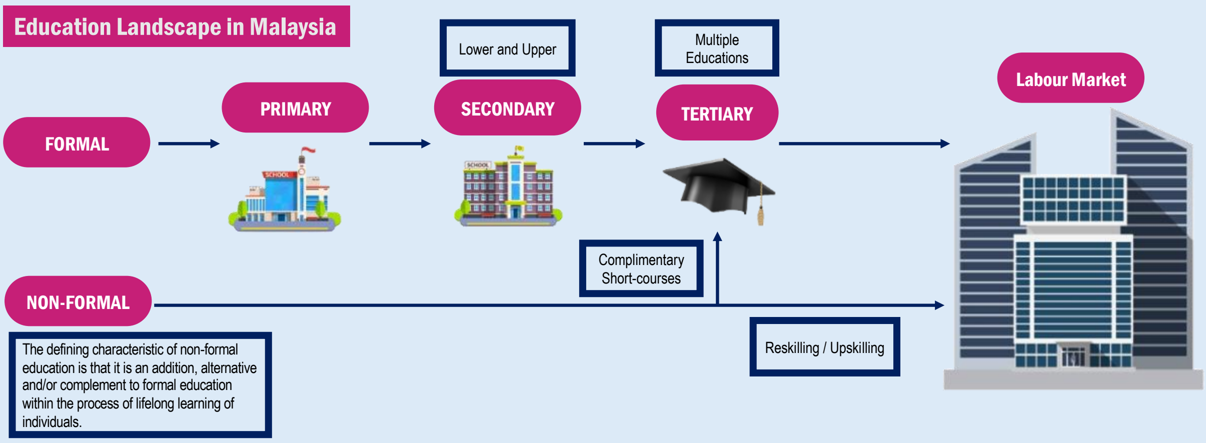
Managing and planning the labor market reform requires integrated and coordinated efforts across multiple government ministries (see **Figure 11**). Each stage of employment—pre-employment (education), employment (job market), and post-employment (welfare and return to work)—is interconnected and requires alignment between different ministries, such as Education, Higher Education, Human Resources, and other sector-specific ministries.

An integrated approach ensures that education aligns with market demands, employment policies support job creation and fair labor practices, and post-employment programs provide social welfare and reintegration support. Coordination is critical to address skills mismatches, improve workforce readiness, and ensure a comprehensive labor market ecosystem. This collaborative framework allows for a cohesive strategy where industries and government work together to enhance productivity, support economic growth, and improve overall labor market outcomes.

Figure 11: Labor management across all ministries



Recognizing non-formal education is fundamental to creating a comprehensive, inclusive workforce where nobody is left behind. As the nature of skills and jobs evolves, traditional education alone is no longer sufficient. Non-formal learning, such as job-related courses, certifications, and technical training, must be acknowledged within formal structures. Recognizing these credentials will increase the average years of schooling and bridge skill gaps in critical industries. The government should establish mechanisms to validate these diverse learning forms, helping maintain workforce relevance and competitiveness across sectors.



Empowering women and expanding labor force participation by redefining work itself is crucial. As informal work becomes more prevalent among women, redefining what constitutes "work" within labour force metrics is essential. Many women contribute significantly to the economy through part-time, gig, and freelance roles outside traditional measures. Official recognition and support for these roles will not only provide a clearer economic picture but also encourage broader participation in the workforce. Creating supportive infrastructure and policies for flexible work will further promote women's economic engagement and resilience.

The ageing population is an untapped economic asset that requires supportive reintegration pathways. With a growing number of older, experienced workers, Malaysia has a unique opportunity to reengage this demographic through phased retirement, flexible roles, and reskilling initiatives. Experienced workers bring invaluable knowledge and skills, which can help offset labor shortages and mentor younger colleagues. Providing free or affordable education opportunities for lifelong learning enables older workers to acquire new skills efficiently, smoothing career transitions and ensuring their skills remain relevant in a changing job market. Policies that offer incentives for

A mindset shift focused on gender equality, sustainability, and lifelong learning can be crucial in creating a balanced and productive labor force in Malaysia. Central to this approach is a strong cultural emphasis on work-life balance, supported by initiatives such as flexible working hours, remote work options, and a work culture that values personal time over rigid schedules. Implementing such elements could inspire reforms to enhance workforce productivity and well-being. High female workforce participation can also be achieved through dedicated gender equality initiatives, such as shared parental leave, subsidized childcare, and inclusive hiring practices—policies grounded in a broader cultural acceptance of gender equality across all sectors. Furthermore, integrating older workers effectively by adapting work environments and promoting lifelong learning can reinforce the idea that age does not restrict productivity. By creating age-friendly workplaces and ensuring skills development programs cater to older workers, Malaysia can value senior employees' experience and promote continuous productivity across all age groups.

Building resilience in the workforce requires starting mindset changes early in the education system. In fostering a mindset shift from early childhood, education practices that emphasize exploration, creativity, and a connection with nature can play a vital role in shaping well-rounded, socially aware individuals. Rather than focusing solely on technical skills like reading, writing, and arithmetic, early childhood education could encourage learning through natural experiences, where children explore outdoor environments, engage with nature, and learn through sensory-rich activities. This approach nurtures curiosity, problem-solving, and environmental stewardship from a young age. Activities such as drawing local buildings to be shared with municipalities or participating in community-based projects can help children understand their societal role, fostering a sense of responsibility and connection with their surroundings. By allowing children to learn through active engagement with their environment, they develop a deeper appreciation for nature, a strong sense of community, and an intrinsic motivation to contribute positively to society—qualities that form a strong foundation for future societal contributions and personal growth.

Mental health and social support systems are foundational to a productive, engaged workforce. As the demands of work and life evolve, we must view mental health support as a cornerstone of workforce productivity. Integrating accessible mental health resources within workplaces will reduce absenteeism, improve job satisfaction, and foster a supportive work culture. Emphasizing mental wellness within labour policies will equip workers to face challenges head-on and maintain high performance, ultimately benefiting employees and the broader economy.

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