



MINISTRY OF ECONOMY
DEPARTMENT OF STATISTICS MALAYSIA

STUDY THE IMPACT OF MINIMUM WAGE POLICY ON WAGE INEQUALITY IN MALAYSIA USING ADMINISTRATIVE DATA

Nurin Nasuha Hussain^{1,2,3}; Sulaiman Abd Kadir^{1,2}; Muhammad Izhan Mohd Nawawi¹

¹ Malaysian Bureau of Labour Statistics (MBLS), DOSM

² Bank Negara Malaysia

³ Presenter

26th SEPTEMBER 2022 | TUESDAY

10TH MALAYSIA STATISTICS CONFERENCE

“Looking Beyond GDP: Towards Social Well-being and Environmental Sustainability”

25TH-26TH SEPTEMBER 2023



Organised by:



01

INTRODUCTION

Problem Statement &
Objective

03

RESULTS

The Gini coefficient
Lorenz Curve

02

METHODOLOGY

Data Sources & Method

04

DISCUSSION & CONCLUSION

Recommendations



MINISTRY OF ECONOMY
DEPARTMENT OF STATISTICS MALAYSIA

Introduction

10TH MALAYSIA STATISTICS CONFERENCE

“Looking Beyond GDP: Towards Social Well-being and Environmental Sustainability”

25TH-26TH SEPTEMBER 2023

Organised by:



INTRODUCTION

Introduction

- Report shows that the poorest 40 per cent of the population earn only 16 per cent of the national income, while the richest 10 per cent earn more than 30 per cent (UNDP, 2022)
- This signals a higher portion of the economy served by a small number of people, while the majority of people are suffering from very little of their income. In other words, it means there was a **wage gap** between the rich and the poor during that period.
- Therefore, some studies and papers stated that the main purpose of the minimum legislation, which was first introduced in 2012 and enforced on 1st January 2013, with a monthly minimum of RM900 per month for Peninsular and RM800 for Sabah and Sarawak is to **protect low-wage workers so that they will be able to afford a better living and promote decent work.** (NHRC, 2022)
- In recent times, the government has **approved** the implementation of **a new minimum wage rate of RM1,500 per month**, starting on 1st May 2022 across all states. (NHRC,2022)



Organised by:



MINISTRY OF ECONOMY
DEPARTMENT OF STATISTICS MALAYSIA



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA



MALAYSIA INSTITUTE
OF STATISTICS



AGENSIA STATISTIK
NEGARA MALAYSIA

INTRODUCTION

Problem statement

Is the revision of the minimum wage in 2022 going to reduce wage inequality among Malaysian formal workers?

Objective

This research paper aims to study **the wage inequality trends pre and post the implementation of the minimum wage policy in 2022 by sector**



MINISTRY OF ECONOMY
DEPARTMENT OF STATISTICS MALAYSIA

Methodology

10TH MALAYSIA STATISTICS CONFERENCE

“Looking Beyond GDP: Towards Social Well-being and Environmental Sustainability”

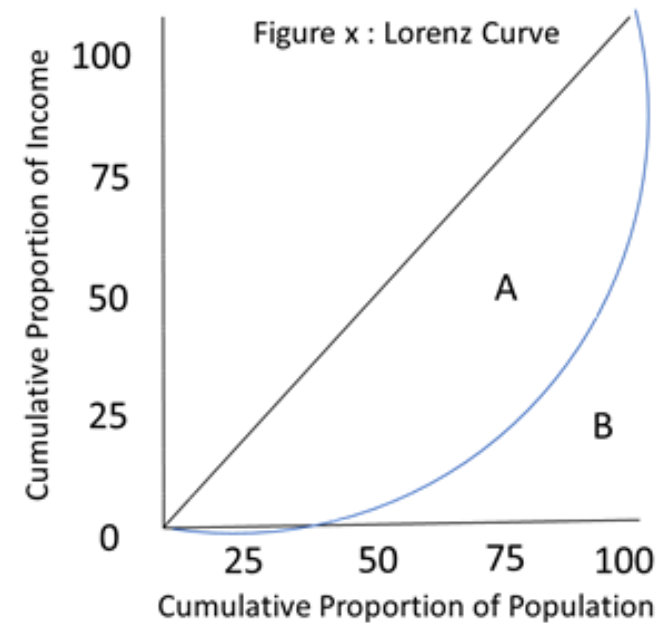
25TH-26TH SEPTEMBER 2023

Organised by:



METHODOLOGY

- For this paper, we **utilize 6.45 million administrative data** from the **Employees Provident Fund (EPF)** and **Social Security Organization (SOCSO)** in line with the Employee Wages Statistics (Formal Sector) Report (EWS) Q1 2023 to measure the Gini Coefficient.
- Based on EWS, wages refer to **all remuneration in money payable** made throughout the reference period to employees. The wage estimate **includes bonuses, commissions and allowances** per the data sources' definition.
- Measuring wage inequality using **Gini coefficient and Lorenz curve** method.
- The Gini index is the ratio of the area between the 45° line of equality and the Lorenz curve to the area of the triangle below the 45° line of equality.
- Moreover, if the Gini Coefficient simplifies variations in the shares of income held by different parts of the income distribution into a single score; **0 representing perfect equality** and **1 representing perfect inequality**.



$$\text{Gini Coefficient} = A/(A+B)$$



MINISTRY OF ECONOMY
DEPARTMENT OF STATISTICS MALAYSIA

Result

10TH MALAYSIA STATISTICS CONFERENCE

“Looking Beyond GDP: Towards Social Well-being and Environmental Sustainability”

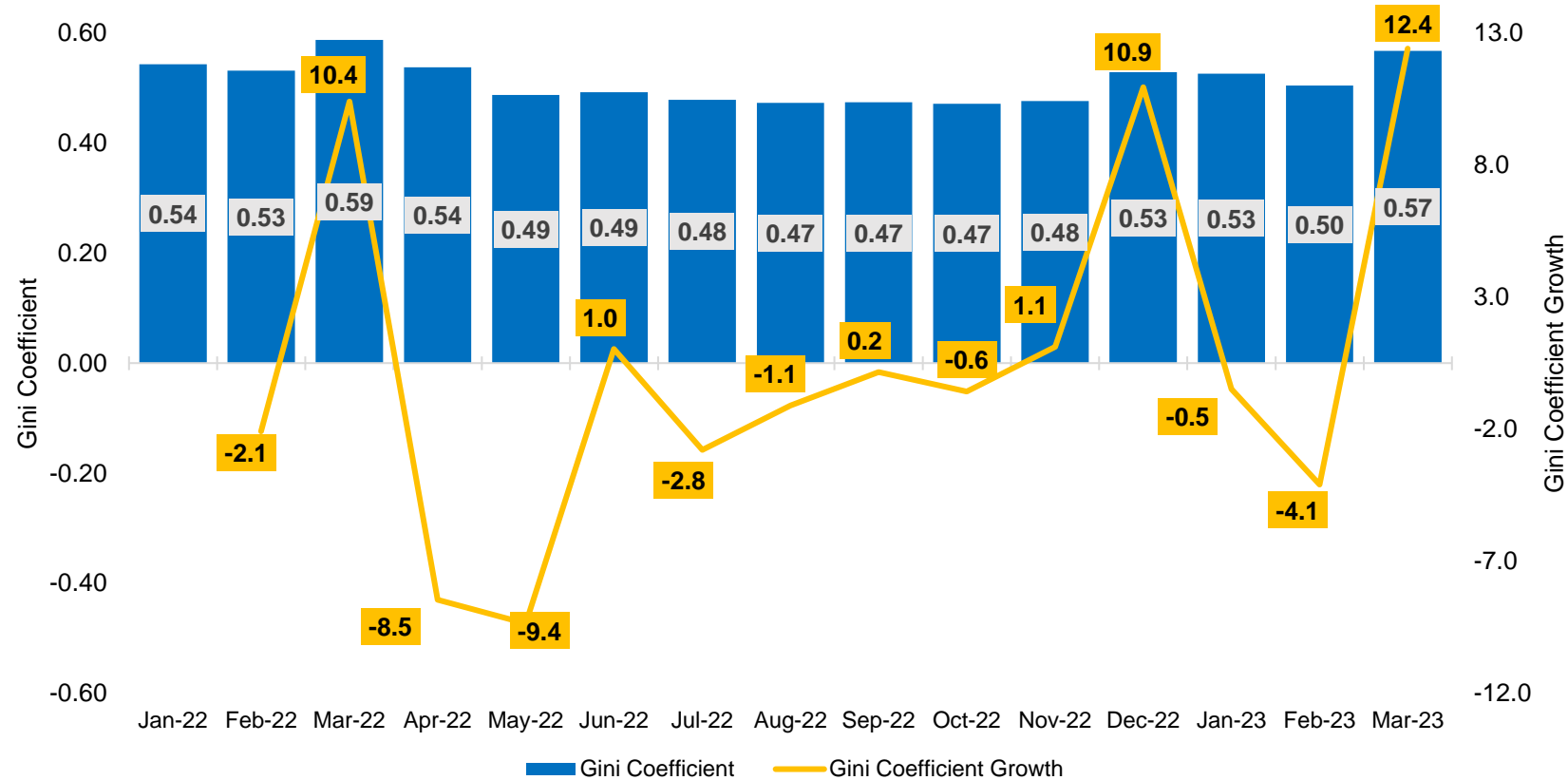
25TH-26TH SEPTEMBER 2023

Organised by:



RESULT

Gini Coefficient, January 2022-March 2023



- The Gini Coefficient for formal employees in March 2022 is **the highest** in 14 months period which is 0.59.
- In March 2023, the Gini coefficient **decreased by 3.4 per cent** to record a 0.57 Gini coefficient compared to the same month in the previous year.
- In comparison to Quarter 1 2023, the average Gini coefficient for formal employees is 0.53 lower by 3.6 per cent compared to the same quarter in the previous year (Q1 2022: 0.55).

10TH MALAYSIA STATISTICS CONFERENCE



Organised by:



MINISTRY OF ECONOMY
DEPARTMENT OF STATISTICS MALAYSIA



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA



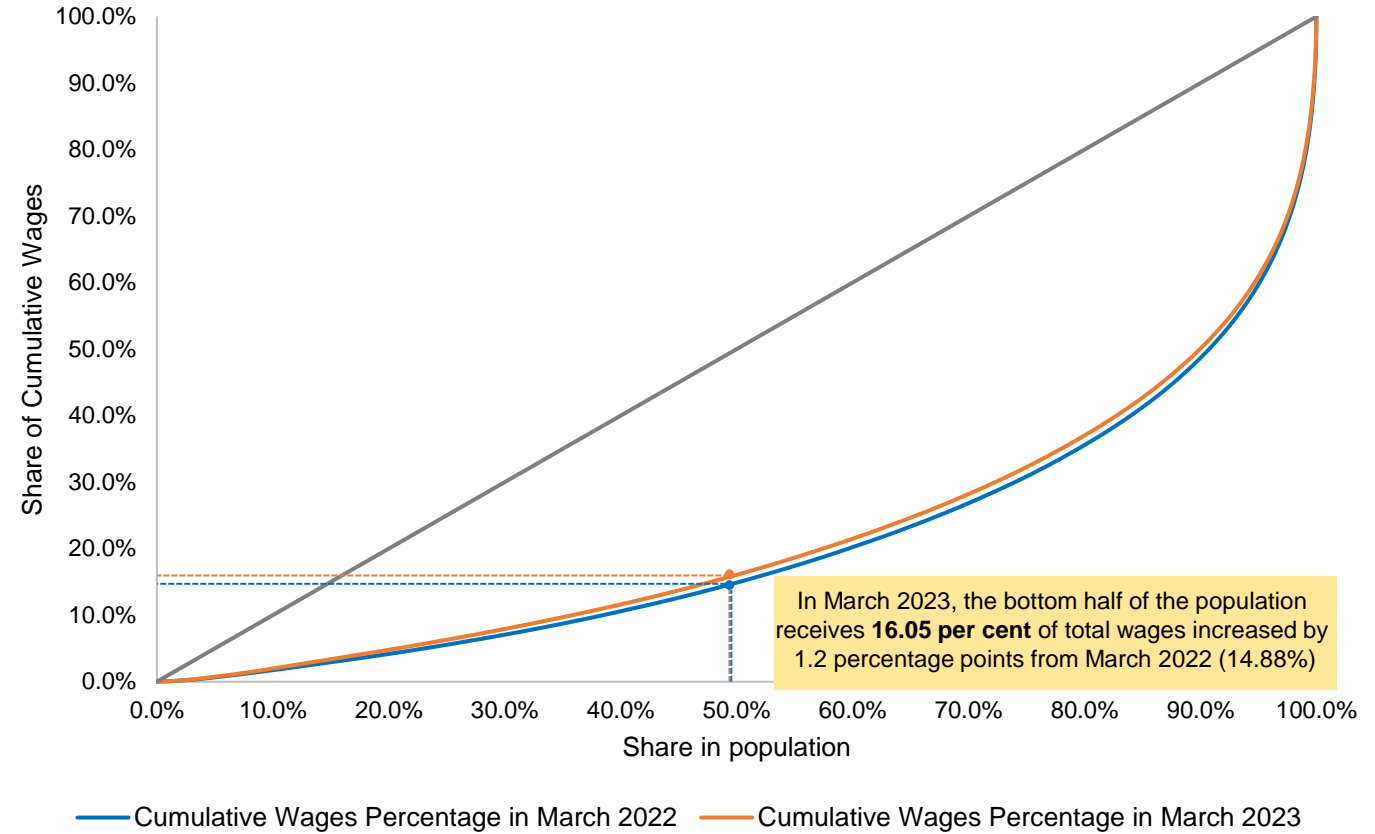
MALAYSIA INSTITUTE
OF STATISTICS



STATISTIK NEGARA

Lorenz Curve, March 2022 & March 2023

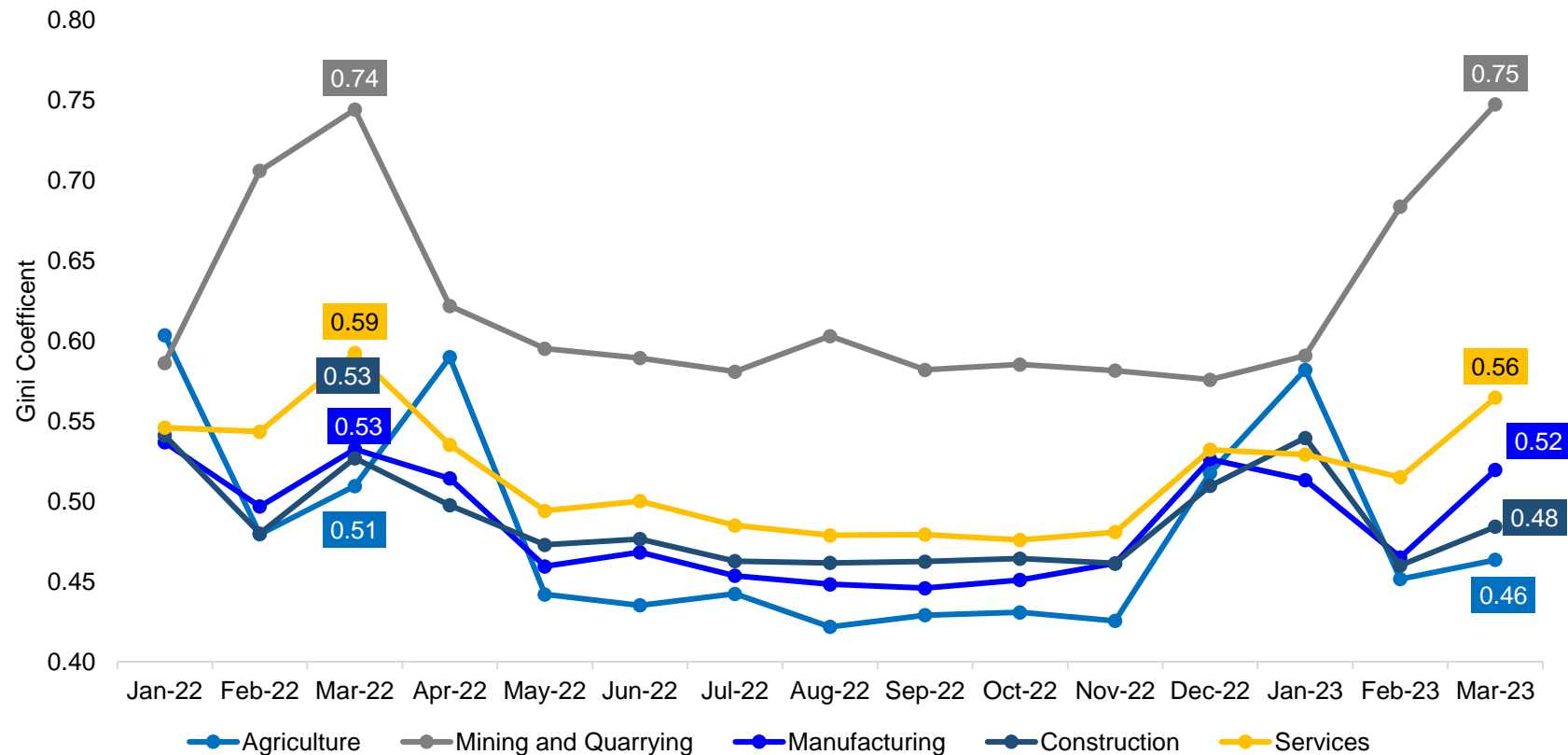
Cumulative Employees Percentage	Monthly Wages by Percentile		Cumulative Wages Percentage	
	March 2022	March 2023	March 2022	March 2023
10.00%	RM 1,167	RM 1,482	1.72%	1.97%
20.00%	RM 1,300	RM 1,564	4.16%	4.78%
30.00%	RM 1,600	RM 1,800	7.06%	7.92%
40.00%	RM 1,989	RM 2,145	10.58%	11.60%
50.00%	RM 2,400	RM 2,600	14.88%	16.05%
60.00%	RM 3,000	RM 3,200	20.22%	21.48%
70.00%	RM 3,767	RM 4,000	26.83%	28.20%
80.00%	RM 5,100	RM 5,500	35.56%	37.00%
90.00%	RM 8,700	RM 9,100	48.66%	50.07%



In March 2023, the Gini coefficient decreased by 3.4 per cent to 0.57 compared to the same month in the previous year (March 2022: 0.59).

RESULT

Gini Coefficients by Sector, January 2022-March 2023



- The Gini coefficient for the Agriculture sector initially remained lower following the implementation of a minimum wage increase to RM1,500 in May 2022, but it gradually increased reaching its peak of 0.58 in January 2023.
- The annual increase in the Gini coefficient for Mining & Quarrying was 0.4 per cent reaching 0.75 in March 2023 compared to the same month in the previous year (March 2022: 0.74).
- The Gini coefficient for Manufacturing decreased year on year by 2.5 per cent from 0.53 in March 2022 to 0.52 in March 2023.
- The Gini coefficient notably declined year-on-year by 8.1 and 4.7 per cent for the sectors of Construction and Services in March 2023, respectively.



MINISTRY OF ECONOMY
DEPARTMENT OF STATISTICS MALAYSIA

Discussion and Conclusion

10TH MALAYSIA STATISTICS CONFERENCE

“Looking Beyond GDP: Towards Social Well-being and Environmental Sustainability”

25TH-26TH SEPTEMBER 2023



Organised by:



DISCUSSION AND CONCLUSION

The statistics, as shown by the past figure, show that there is a positive and significant impact of an increase in the value of the minimum wage on income inequality. Income inequality should be one of the main concerns for policymakers to take into consideration.

- The implications of an **increase in the value of minimum wages** have a **positive impact on wage inequality**. Specifically, every sector shows improvement, with the **exception of Mining and quarrying**.
- One of the reasons why Mining and quarrying sector remains higher is possibly **due to its high baseline income**, which was unaffected by changes in the minimum wage. In fact, the median wage for this sector is three times higher than the new national minimum wage rate implemented in 2022.
- In fact, the increase of the minimum wage to RM1,500 (RM 7.21 per hour), effective as of 1st May 2022 has been gazette under the Minimum Wages Order on April 27, 2022.
- As income inequality has a significant impact due to the revised minimum wage, as stated above, the Gini coefficient **should be one of the main concerns of policymakers** as they translate the reform wage agenda into an inclusive redistribution of income policy.
- Therefore, there are **several recommendations** that policymakers could consider in order to reduce inequality in income and make the income distribution more **inclusive, fair, and equitable**.
- There is a need to make sure any kind of **wage model** in the future benefits the majority of citizens and workers by reducing income inequality. For example, in the latest half-year, a **progressive wage model** has been discussed in Malaysia. The EU ERA also highlighted that this wage model can also stimulate economic growth, boost purchasing power, and **reduce income inequality**.
- The second recommendation is specifically for the private sector, particularly to ensure that **bonuses are distributed fairly among all employees**. For instance, the incentives should benefit low-income employees more than high-income employees whose gross income is already higher. By ensuring that bonuses are paid fairly, we can gather sufficient evidence to **support our primary goal of reducing income inequality** and, within the **MADANI economic framework** achieving a labour income percentage of 45 percent in 10 years (40 percent in RMk-12).



THANK YOU



10TH MALAYSIA STATISTICS CONFERENCE

“Looking Beyond GDP: Towards Social Well-being and Environmental Sustainability”

25TH-26TH SEPTEMBER 2023

Organised by:

