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THE FINANCIALIZATION OF OUR LIVES:

VALUES AND TRADE-OFFS

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This report was first uploaded on 16 May 2024 and reuploaded on 15 August 2024 for grammatical corrections as well as revisions to page 100.

The Financialization of our Lives: Values and Trade-offs. – Kuala Lumpur, Malaysia: Khazanah Research Institute

Published May 2024. Published by Khazanah Research Institute at Level 17, Mercu UEM, Jalan Stesen Sentral 5, Kuala Lumpur Sentral 50470 Kuala Lumpur, Malaysia.
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'Something is profoundly wrong in the way we live today. For 30 years we have made a virtue of the pursuit of self-interest, this very pursuit now constitutes whatever remains of our sense of collective purpose. We know what things cost but have no idea what they are worth.'

Judt (2010)

'We do indeed live in the age of financial capitalism. We should not regret that. Regulations and restrictions can and should be placed on financial institutions to help them function in the best interests of society, but the underlying logic and power of these institutions remains central to their role.'

Shiller (2013)

This report was prepared by the researchers of Khazanah Research Institute (KRI): Dr Suraya Ismail, Nithiyananthan Muthusamy, Shereen Hazirah Hishamudin, Dr Mohd Amirul Rafiq Abu Rahim, Theebalakshmi Kunasekaran, and Gregory Ho Wai Son.

It was authorised for publication by the Board of Trustees of KRI.

ACKNOWLEDGEMENTS

We would like to extend our gratitude to the following, without whom this report would not have been possible: Department of Statistics Malaysia (DOSM) Chief Statistician Dato' Sri Dr Mohd Uzir Mahidin and his team from the Prices, Income & Expenditure Statistics Division, Malaysian Bureau of Labour Statistics, Data Management & Integration Division, and Strategic Communication & International Division; and Bank Negara Malaysia (BNM) Governor Datuk Shaik Abdul Rasheed Abdul Ghaffour and his team from Data Management and Statistics Division, and the Consumer Credit Oversight Board (CCOB) Task Force. A special mention goes to our former Chairman, Tan Sri Nor Mohamed Yakcop, who initiated the research project.

We would like to thank our external reviewers, Professor Dr Nazari Ismail, Faculty of Business and Economics, University of Malaya (UM), Professor Dr Sharifah Zubaidah Syed Abdul Kader, Ahmad Ibrahim Kuliyyah of Laws, International Islamic University Malaysia (IIUM), Professor Dr Mariana Mohamed Osman, Kuliyyah of Architecture and Environmental Design, International Islamic University Malaysia (IIUM), and Dr Khaldun Malek, Fellow, Majlis Profesor Negara (MPN).

We would also like to thank our colleagues and interns at Khazanah Research Institute (KRI); Puteri Marjan Megat Muzaffar, Beatrice Jeanette Tay Hui Wen, Carisma Michaela Wong, Muhammad Muhaimin Maidin, and Nur Marsya Zuhairi for their valuable assistance.

In writing this book, we have benefitted tremendously from those mentioned above. However, any fault lies entirely with the authors.

CONTENTS

ABBREVIATIONS

AAGR	:	Average Annual Growth Rate
AI	:	Artificial Intelligence
AKPK	:	*Agensi Kaunseling dan Pengurusan Kredit* (Credit Counselling and Debt Management Agency)
AUD	:	Australian Dollar
b	:	billion
B40	:	Bottom 40
BA	:	Bachelor of Arts
BIS	:	Bank for International Settlements
BNM	:	*Bank Negara Malaysia* (Central Bank of Malaysia)
BNPL	:	Buy Now, Pay Later
BPO	:	Business Process Outsourcing
BSc	:	Bachelor of Science
BTS	:	Build-Then-Sell
CAGR	:	Compounded Annual Growth Rate
CCA	:	Consumer Credit Act
CCD	:	Consumer Credit Directive
CCOB	:	Consumer Credit Oversight Board
CFPB	:	Consumer Financial Protection Bureau
DKM	:	*Diploma Kemahiran Malaysia* (Malaysian Skills Diploma)
DLKM	:	*Diploma Lanjutan Kemahiran Malaysia* (Malaysian Skills Advance Diploma)
DOS	:	Department of Statistics, Malaysia
DSR	:	Debt-service ratio
ENES	:	National Exam for Higher Education
EPF	:	Employee Provident Fund
ESG	:	Environmental, Social, and Governance
FA	:	Financial assets
GDP	:	Gross Domestic Product
GDV	:	Gross Development Value
GER	:	Gross Enrolment Ratios
GLC	:	Government-linked Companies
HCB	:	Housing Cost Burden
HDB	:	Housing Development Board
HES	:	Household Expenditure Survey
HIES	:	Household Income and Expenditure Survey
HIS/BA	:	Household Income and Basic Amenities Survey
IBS	:	Industrialised Building System
ICL	:	Income Contingent Loan
IDC	:	International Data Corporation
IPP	:	Instalment Payment Plan

ABBREVIATIONS		
IPTA	:	*Institusi Pendidikan Tinggi Awam* (Public Higher Education Institutions)
IPTS	:	*Institusi Pendidikan Tinggi Swasta* (Private Higher Education Institutions)
IT	:	Information Technology
JPA	:	*Jabatan Perkhidmatan Awam* (Public Service Department)
k	:	thousand
KPDNHEP	:	*Kementerian Perdagangan Dalam Negeri dan Hal Ehwal Pengguna* (Ministry of Domestic Trade and Cost of Living)
KPKT	:	*Kementerian Perumahan dan Kerajaan Tempatan* (Ministry of Housing and Local Government)
KUSKOP	:	*Kementerian Pembangunan Usahawan dan Koperasi* (Ministry of Entrepreneur Development and Cooperatives)
m	:	million
M40	:	Middle 40
MARA	:	*Majlis Amanah Rakyat*
MAS	:	Monetary Authority of Singapore
MBBS	:	Bachelor of Medicine, Bachelor of Surgery
MOF	:	Ministry of Finance
MOHE	:	Ministry of Education Malaysia
NBFI	:	Non-bank Financial Institution
NEP	:	National Economic Policy
P2P	:	Peer-to-Peer
PhD	:	Doctor of Philosophy
PLI	:	Poverty Line Index
POS	:	Point of Sale
PSD	:	Payment Services Directive
PTPK	:	*Perbadanan Tabung Pembangunan Kemahiran* (Skills Development Fund Corporation)
PTPTN	:	*Perbadanan Tabung Pendidikan Tinggi Nasional* (National Higher Education Fund Corporations)
R&D	:	Research and Development
RI	:	Residual Income
RM	:	Malaysian Ringgit
RSA	:	Regulatory and Supervisory Agency
S&T	:	Science and Technology
SC	:	Securities Commission
SFA	:	Singapore Fintech Association
SKM	:	*Suruhanjaya Koperasi Malaysia* (Malaysia Co-operative Societies Commission)
SKM	:	*Sijil Kemahiran Malaysia* (Malaysia Skill Certification)
SPA	:	Sale and Purchase Agreement
SSPN	:	*Skim Simpanan Pendidikan Nasional* (National Education Savings Scheme)

ABBREVIATIONS

STB	:	Sell-Then-Build
STR	:	*Sumbangan Tunai Rahmah*
SWRC	:	Social Wellbeing Research Centre
SWS	:	Salary and Wages Survey
T20	:	Top 20
TOKTEN	:	Transfer of Knowledge Through Expatriate Nationals
TVET	:	Technical and Vocational Education and Training
UK	:	United Kingdom
UKM	:	*Universiti Kebangsaan Malaysia* (The National University of Malaysia)
UM	:	*Universiti Malaya*
UNDP	:	United Nations Development Programme
UP	:	University of the Philippines
UPM	:	Agricultural University of Malaysia (currently Universiti Putra Malaysia)
US	:	United States
USD	:	US Dollar
USM	:	*Universiti Sains Malaysia*
UTM	:	*Universiti Teknologi Malaysia*

GLOSSARY

Average annual growth rate (AAGR)	The AAGR is calculated from an average of Compounded Annual Growth Rate (CAGR)
Compounded annual growth rate (CAGR)	An annualised growth rate which provides a constant growth rate over a specified period. The formula is: CAGR = [(Ending value/Beginning value) (1/Number of time periods) – 1] × 100.
Expenditure Space	The Expenditure Space methodology represents the concept of relatedness among different goods and services consumed by households. It is basically a means to identify ubiquitous or exclusive goods and services, in order to express them as a function of household well-being.
Gross Enrolment Ratios	Total enrolment in a specific level of education, regardless of age, expressed as a percentage of the eligible official school-age population corresponding to the same level of education in a given school year. *Source:* UNESCO (n.d.)
Income contingent loan (ICL)	A type of loan where repayment is contingent upon the borrower's income. In an income contingent loan program, borrowers are typically required to make loan payments only if their income exceeds a certain threshold. If their income falls below this threshold, they may be eligible for reduced payments or deferment.
Income decile	A decile splits the households in the income distribution into ten equal groups (10% of households in each income decile).
Income thresholds for free tuition	Tuition fees for educational institutions are waived or subsidised for students based on their income level or socioeconomic status. The aim is to increase access to education for individuals from lower-income households who may otherwise face financial barriers to pursuing higher education.
Poverty Line Income (PLI)	A measure of income set as the minimum amount needed by a household to meet the basic needs of food and non-food for each of its members. The Food PLI is defined as the amount of income necessary to meet a household's daily nutritional requirements as determined by the Ministry of Health (MOH). The non-food PLI is defined as the amount of income necessary to meet the minimum requirements for items such as clothing, housing, transport and other non-food needs by sex and age of a person and is based on the expenditure patterns of low-income households. *Source:* DOS (2023c)
Progressive shape	Higher growth for lower wage groups.
Public-to-private student enrolment	Students' enrolment ratio from public (government-funded) educational institutions to private educational institutions. *Source:* UNESCO (n.d.)
Regressive shape	Lower growth for lower wage groups
SSPN	SSPN is a saving initiative tailored by the PTPTN to facilitate saving for higher education. This scheme adheres to Shariah principles, employing the "Wakalah Bil Istithmar" concept, whereby depositors authorise PTPTN to oversee their deposits for investment activities. *Source:* PTPTN (n.d.)

EXECUTIVE SUMMARY

In the last three decades, finance has grown beyond its traditional role as a provider of capital for the productive economy to an industry of its own, playing an increasingly central role in the daily activities of economies, institutions, and households. In line with the growth of the financial services sector globally, Malaysia's financial services sector recorded significant growth, contributing 11.7% to GDP in 2010, compared to 9.7% in 2001[1]. The growth of the financial services sector has brought upon rapid financialization of the Malaysian economy. The phenomenon of financialization in Malaysia can be traced back to the 1980s, a period marked by deregulation, liberalisation, and global integration. During this era, Malaysia underwent a series of financial reforms, opening up its capital markets and embracing financial innovation. The subsequent growth of the financial sector has been rapid, resulting in an increased role of finance in the country's economic activities.

On the macroeconomic level, financialization has had several notable impacts on the Malaysian economy. Firstly, it has led to increased domestic and foreign capital flows. The liberalisation of financial markets has attracted foreign investments, boosting capital availability for businesses, and spurring economic growth. This influx of capital has facilitated industrial expansion, infrastructure development, and entrepreneurship. Secondly, financialization has contributed to the transformation of corporate behaviour. With the rise of financial markets and the emphasis on shareholder value, corporations in Malaysia have increasingly focused on financial indicators and short-term profits. While this can drive efficiency and competitiveness, it may also lead to underinvestment in long-term projects, research and development, and human capital. Financialization has also reshaped the government's fiscal policy and budgeting priorities. The need to maintain confidence in financial markets has placed pressure on the government to pursue fiscal discipline and adopt market-friendly policies.

The growth of the financial services sector has brought about rapid financialization[2] amongst households. On the positive side, the growth of financial markets has increased the availability of financial products and services for households. From mortgages to investment funds, consumers have had greater access to financial tools allowing homeownership, wealth accumulation, and financial planning. However, financialization has also brought adverse changes to Malaysian households. The expansion of consumer credit, while enabling increased consumption, has led to rising household debt. Easy access to credit cards, personal loans, and hire purchase agreements has, in some cases, led to over-indebtedness and financial vulnerability. In addition, financialization has exposed households to new risks and uncertainties.

The shift towards a financialized economy has also affected income distribution and inequality. The financial sector's growth has disproportionately benefited those with financial assets and skills, widening the income gap between different population segments. Those with limited access to financial resources or the knowledge to navigate complex financial products may be left behind. The upward trend of household sector loans reflects consumers' confidence and willingness to leverage financial resources to meet basic needs and aspirational consumption. However, this upward trend, coupled with the analysis that demonstrates that only the top 30% of households spend on aspirational goods and services, is worrying. Affluent households often capture a significant share of credit in the era of financialization. The expansion of credit allows them to invest or meet short-term financial needs at a lower cost. Meanwhile, a policy expanding debt to middle- and low-income households carries the heaviest debt

[1] BNM (2011)
[2] Aalbers (2016) defines financialization as "the increasing dominance of financial actors, markets, practices, measurements, and narratives at various scales, resulting in a structural transformation of economies, firms, states, and households.

burdens. It is even more problematic if a debt is undertaken only to maintain a 'basic need' standard of well-being.

There is an average annual increase of only ~RM56 (in real 2021 ringgit terms) in the monthly wage of the bottom 50% of wage earners for the 2010 to 2019 period —a clear indication of wage stagnation. An analysis of microdata from DOSM's Salaries and Wages Survey (SWS) for the pre-pandemic period (2010-2019) provides real wage growth patterns in both percentage and absolute terms across wage deciles. The percentage analysis reveals much higher growth rates for low wage workers (particularly the bottom 2 to 3 deciles), driven almost entirely by the introduction and upward revisions of the minimum wage. The absolute analysis (in 2021 ringgit terms) reveals that, despite the progressive effects of the minimum wage, the bottom 50% of the wage distribution experienced an increase of only ~RM500 in monthly wages from 2010 to 2019, which translates to an average annual increase of ~RM56. This is despite the improved relative (percentage) position of these workers and speaks volumes of suppressed wage growth in general. The 5th to 8th deciles ("squeezed middle") fare a little better, with absolute real increases from RM508 (Decile 5) to RM887 (Decile 8). A significant jump is observed for Decile 9 (RM1,433) and Decile 10 (RM2,107).

The analysis of household well-being through the expenditure space seems to suggest that the overall bottom to middle 70% of households are still consuming items for basic needs and not for aspirational goods for the past 7 years. Over the past decade, households at the bottom 10% (Decile 1) experienced an increase in welfare twice between 2009 and 2014, and between 2016 and 2019, but they mainly consumed more food, clothing, and household utensils. Similarly, households in 'the middle' income (Decile 3 – 6) exhibited relatively stable consumption patterns. They consumed a wider range of food items and consumed a greater diversity of household utensils. The 'middle class' or aspirational consumption is consistently found in households in the top 30% (Decile 7 – 10). These households consistently desired higher-quality and often more luxurious goods and services, reflecting their greater economic capacity and preferences for an enhanced quality of life.

Household debt currently accounts for 84.2% of the country's GDP. According to BNM, the percentage of newly approved loans with a debt-service ratio (DSR) exceeding 60% has steadily increased from 22% in 2013 to 30% in 2019, subsequently declining to 25% in 2023. In other words, one out of every four borrowers carry a high-risk DSR. Approximately 69% of these credit exposures were held by middle- and high-income borrowers, suggesting that they may have adequate buffers to sustain loan repayments in the event of a financial crisis[3]. However, it is important to note that the remaining one-third (31%) of households with a DSR exceeding 60% comprise low-income borrowers, who are more vulnerable to adverse events such as interest rate hikes or loss of income. These households may struggle to secure additional financial support to meet their monthly repayment obligations.

The enrolment of borrowers in the Debt Management Programme offered by the Credit Counselling and Debt Management Agency (AKPK) has increased from 23,837 in 2021 to 34,670 borrowers in 2022[4], signalling growing concerns about the financial well-being of households. A survey conducted by the AKPK reveals that three out of ten Malaysian working adults need to borrow money to purchase essential goods, citing factors such as the high cost of living, lack of surplus income, and high debt commitments as primary reasons for their inability to save[5].

[3] BNM (2024)
[4] AKPK (2023)
[5] AKPK (2018a)

REDEFINING CREDIT: THE RISE OF "BUY NOW, PAY LATER" (BNPL) IN THE CONSUMER CREDIT SYSTEM

BNPL has emerged as an instrument for enhanced financial inclusion, especially among demographics that previously had limited access to traditional credit lines. By providing a simplified and often instantaneous credit approval process, BNPL has expanded the reach of credit to younger generations, those without a credit history, as well as individuals in less urbanised regions, most of which, fall within the lower-income bracket. While this has democratised credit access, it has also raised concerns about responsible lending practices and the potential risks associated with over-extension of credit to less financially literate populations. On a macroeconomic level, this can lead to rising household debt that poses systemic risks to the financial system.

Integrating BNPL in online and brick-and-mortar retail channels has led to notable shifts in consumer spending patterns. The availability of deferred payments has catalysed increased spending, especially for non-essential goods and luxury items. The flexibility and perceived affordability offered by BNPL have incentivised greater consumer expenditure, boosting the retail sector. For many retailers, particularly those in e-commerce, BNPL has become a vital tool for customer acquisition and retention, leading to higher conversion rates and larger average order values. This transformation in retail financing has underpinned growth in various sectors, from fashion and electronics to travel and wellness.

Policy Options

Policy Option 1: Integration of BNPL into Household Debt Metrics

At present, exposures to BNPL are not captured in total household debt. In ensuring household debt is kept in check, there is a vital need to integrate BNPL exposures into household debt metrics, which currently only include traditional forms of debt such as housing loans, credit card debt, and personal loans, amongst others.

Policy Option 2: Regulatory Oversight

One of the primary policy options to mitigate the risks of BNPL involves strengthening regulatory oversight. Existing regulations in Malaysia's financial system may not fully encompass the unique attributes of BNPL products, leading to potential regulatory gaps. Therefore, regulators must assess the existing legal framework and identify areas where adjustments are needed to ensure appropriate oversight of BNPL providers.

Policy Option 3: Consumer Education and Awareness

Education and awareness are vital components in empowering consumers to make informed decisions regarding BNPL. Policymakers can explore collaboration with industry stakeholders, consumer associations, and educational institutions to develop and disseminate educational materials on BNPL.

Policy Option 4: Enhanced Disclosure Requirements

One of the policy levers that can be effectively employed to protect consumers is enhancing disclosure requirements. This would involve mandating BNPL providers to provide clear, concise, and easily understandable information about the terms and conditions of their products. By enhancing the visibility of critical information, consumers would be better equipped to comprehend the full scope of their commitments and the associated risks.

Policy Option 5: Credit Assessment and Responsible Lending Practices

Promoting responsible lending practices is essential to protect consumers from over-extending themselves. While one of the attractions of BNPL is the simplified and expedited credit approval process, this convenience should not come at the expense of robust credit assessment. Regulators can introduce guidelines that require BNPL providers to conduct prudent credit assessments to ensure that consumers have the financial capacity to meet their repayment obligations.

Policy Option 6: Grievance Mechanism and Consumer Protection

Ensuring accessible and effective grievance redressal mechanisms is another vital aspect of protecting consumers. Policymakers can consider establishing dedicated channels for addressing consumer complaints related to BNPL.

Policy Option 7: Cross-border Collaboration

Given the global nature of many BNPL providers and the integration of e-commerce across borders, policymakers must also consider cross-border regulatory collaboration. Harmonising regulatory approaches and sharing information across jurisdictions can enhance oversight and ensure that consumers are equally protected, irrespective of the domicile of the BNPL provider.

INDIVIDUAL VS COLLECTIVE INTERESTS: THE STUDENT LOAN CONUNDRUM

The 1990s witnessed a changing approach towards public higher education funding. Government investment in the public sector declined, and a more market-based approach was adopted. A significant development emerging from this shift was the establishment of loans as a means of student financing through the National Higher Education Fund Corporation's (*Perbadanan Tabung Pendidikan Tinggi Nasional,* PTPTN) scheme. The rapid increase in the pursuit of higher education, gaining momentum in tandem with the privatisation agenda of Malaysia's tertiary education sector saw a remarkable transformation in the country's education financing. With a growing number of individuals able to access higher education, a substantial portion has come to rely on student loans to finance their educational needs. This shift in financing dynamics underlines the multifaceted nature of higher education's evolving landscape, in which policy-driven changes intersect with providing accessible and sustainable financial mechanisms to support the aspirations of an expanding tertiary educated workforce.

The foundation of student loans rests upon a fundamental assumption that individuals armed with degrees will unlock better-earning potential, thereby facilitating loan repayment after completing their education. While this anticipation holds some merit, its applicability within Malaysia's socio-economic landscape demands closer examination. While individuals with tertiary education generally earn higher incomes than their primary- and secondary-educated counterparts, the disparity is not as significant as commonly presumed. In fact, the gap in earnings between tertiary-educated individuals has shown the slowest growth rate among all qualification levels.

For many university graduates, employment outcomes remain bleak. Fresh graduate salaries have remained almost stagnant for at least a decade. In 2021, 59.6% of fresh graduates made RM2,000 or less for their first job, showing only marginal improvement compared to 2010, about 60.8%. And while the growth of "tertiary educated persons" continues to rise, the growth of "skilled employed persons" has plateaued since 2002—making overqualification and underemployment issues of pressing concern. It is important to recognise that securing quality employment outcomes for graduates serves as a crucial stepping stone for their future career development.

As of 2018, nearly one-fifth of the working population in Malaysia struggled to allocate funds for savings, and among the reasons cited for this financial difficulty, the weight of "high debt commitment" emerged as the third most commonly cited[6]. Education loans, an aspirational investment for the future, rank as the second highest debt portion held by individuals aged 20 to 29[7]. Though this debt typically dissipates by age 40, the nexus between education debt, aspirations, and financial obligations persists, posing compounded challenges as youth transition through life stages[8]. Student debt, originally intended to enhance graduates' earning potential, has now become a financial challenge, with education loans constituting the second largest portion of the debt burden for young adults.

[6] AKPK (2018a)
[7] The actual data represent a chart of proportion of debt for each debt categories. We have not had chance to get access to the actual data, hence, we ranked the categories based on the highest to the lowest debt proportion for each age cohort.
[8] Fry (2014)

Policy Options

Policy Option 1: Saving Schemes for Families

Education savings through Skim Simpanan Pendidikan Nasional (SSPN)

While various education savings options exist across various institutions in Malaysia, SSPN stands out for its affordability and offers decent protection measures for depositors. Designed by the PTPTN, SSPN offers a secure and structured platform for families to accumulate funds allocated explicitly for educational purposes. This scheme facilitates disciplined savings and provides tax relief benefits under the Income Tax Act. With its emphasis on accessibility, affordability, and depositor protection, SSPN serves as a reliable tool for parents seeking to ensure their children's educational aspirations are met without financial constraints.

Policy Option 2: Brain Gain

Unemployment is a consequence of the economy, not the higher education system. Therefore, it is an opportunity to reconsider policy options to induce more graduates to work abroad. Malaysia is experiencing wage stagnation[9] as well as an erosion of living standards for a significant portion of households. This reality is where relatively poorer households secure financial loans for higher education. However, employment outcomes for fresh graduates have not translated into favourable outcomes, with more than half of them securing a starting pay of less than RM2,000. Additionally, the unemployment rate among fresh graduates has consistently remained in the double digits for the past decade[10].

Policy Option 3: Options for Education Financing

Universal free tuition

The most straightforward way of reducing student debt burden would be to make higher education free for everyone. However, universal free tuition often comes at the expense of access. The easiest way (frequently, the *only* way) for governments to fully subsidise education is to restrict admissions—that is, to limit the number of students that need subsidising. Often these restrictions are based on "merit", which inherently favours those from higher socioeconomic backgrounds.

Income-targeted free tuition

If universal subsidisation is unfeasible, then it makes sense to limit our subsidisation in some other way by making tuition free only for those who need it. This approach is called income-targeted free tuition. Evidently, the use of an appropriate income threshold—the line between who does and does not get free tuition—is crucial. If done correctly, this policy could both alleviate student debt burden and enhance access to higher education.

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[9] KRI reports published in 2023 has discussed the issue of wage stagnations in Malaysia across three decades. In its Part I report, it discusses how wage growth and wage inequality emphasised the importance of institutional measures such as the minimum wage in counteracting the structural challenges of the Malaysian labour market. While in its Part II report, differential wage experiences of subgroups that compose the labour market, including the perspective of education qualification. See Nithiyananthan Muthusamy, Jarud Romadan Khalidi, and Mohd Amirul Rafiq Abu Rahim (2023); Nithiyananthan Muthusamy, Mohd Amirul Rafiq Abu Rahim, and Jarud Romadan Khalidi (2023)
[10] KRI (2024)

Income thresholds for free tuition

Determining the optimal income threshold for the implementation of free tuition is a multifaceted effort, requiring a comprehensive assessment that takes into account both financial sustainability and benefit distribution. Achieving a detailed balance between these two key considerations is necessary to ensure the long-term viability of the policy and its equitable impact on the target population.

Financial sustainability : To what extent can our government maintain and sustain free tuition?

Approximately 80% of those who graduated locally in 2020 came from B40 households. Waiving tuition for 80% of university students may pose long-term budgetary challenges given the government's substantial extant subsidy on public higher education. Though current fees pose a demonstrable burden on Malaysian graduates, the government already bears approximately 70% of the total cost at public universities (meaning that students currently pay only 30% of what they otherwise would have)[11]. Targeting a smaller portion of low-income students might be more financially manageable. 41.3% of individuals who graduated in 2020 had family incomes of RM2,000 or less. This is a reasonable approximation for the portion of graduates whose families fall below the poverty line income (PLI) of RM2,208. By implementing free tuition for those below the PLI, the government would be fully subsidising only about 40% of graduates, rather than 80% of them.

Benefit incidence

Equally as crucial is the consideration of benefit incidence. It is reasonably clear that the bulk of repayment failure occurs among B40 debtors, but available data does not indicate how much of that applies specifically to debtors with family incomes below the PLI. Limiting fee elimination to poor students seems more financially sustainable, but in doing so, the remaining B40 students who might also experience disproportionate debt burden might be neglected. Ultimately, more information is needed to determine an income threshold more precisely, namely one that can optimise both financial sustainability and benefit incidence.

Policy Option 4: Recognising TVET as an Option for Tertiary Education

TVET is a viable option for those less inclined towards pursuing "traditional" academic degrees. The underlying objective of this section is not to promote the notion that aspiring students should dismiss their academic passions and aspirations by opting for TVET solely to evade student debt. Instead, the intent is to (1) engage in critical self-reflection regarding the validity of our internal biases against TVET education, (2) contemplate the circumstances of individuals who might lean towards pursuing vocational or technical vocations were it not for the prevailing societal stigma, and (3) acknowledge that, for a substantial portion of the population, the financial factor significantly influences their decision-making process when selecting a higher education path.

[11] Abdullah (2017)

Policy Option 5: Income Contingent Loan (ICL)

In Malaysia, education loans predominantly adhere to a time-based repayment structure. For instance, a recipient of a PTPTN loan is obligated to commence repayments twelve months following their graduation, irrespective of their income capacity. This approach overlooks the inherent diversity in borrowers' financial capabilities, thereby inadvertently "penalising" those who face challenges in meeting payments and "under-capitalising" those with the means to do so.

In contrast, ICLs introduce an innovative approach where repayments are not initiated until a predetermined income threshold is surpassed. For borrowers who surpass this threshold, the repayment scale remains intrinsically tied to their income levels. The ICL mechanism comprises several key features, including compounding interest from a student's initial enrolment in higher education until the final payment is made. The income-based repayment structure offers several advantages:

1) Default Insurance: By rendering repayment more manageable, the propensity for default diminishes, thereby enhancing financial stability for both borrowers and lending institutions.
2) Consumption Smoothing: This system empowers borrowers with a clearer financial trajectory, enabling them to strategically plan their consumption patterns well in advance.
3) Efficiency in Debt Collection: The mechanism of deducting repayments directly from borrowers' salaries streamlines the debt collection process, ensuring greater efficiency and minimising administrative complexities.

THE FINANCIALIZATION OF OUR HOMES: THE MYTHS OF DEBT AND RISKS IN THE HOUSING MARKET

The proliferation of unaffordable homes in Malaysian cities is not primarily a wage stagnation problem as no amount of wage increments can commensurate or 'catch up' with Malaysia's rapid house price escalation. For example, between 2012 and 2014, the median house price increased at a compounded annual growth rate (CAGR) of 23% from RM170,000 to RM270,000. During the same period, median household incomes grew significantly slower at a CAGR of 11.7%, less than half the rate of increase in house prices. Is it reasonable to expect wages to increase at a CAGR of 23% to keep pace with house price increases? The simple answer is "no". This means there is also a huge mismatch between the labour and housing markets, where jobs are created, but houses are completely unaffordable.

The phenomenon of making homes more expensive and yet more 'affordable' through macro-prudential measures is nothing new[12]. The increasing gap between household income and housing prices can be explained as related to the development in the financial industry. The higher demand for housing vis-à-vis modest income growth was fuelled by mortgages. Starting in 2009/10, house prices grew at a CAGR of 7.2%. However, at the same time, expensive homes were made accessible and 'affordable' with innovative financing, such as increasing the loan tenure and increasing the LTV ratio. These rapid price escalations backed by innovative financial schemes can create a housing bubble because prices do not reflect the real value of properties.

Home buyers are assuming the commercial risks in housing developments with a Sell-Then-Build (STB) delivery system. 'Buyers' in Malaysia must be made aware that their role is now akin to an 'investor' in STB and are subjected to the commercial and construction risks associated with housing projects. In the unfortunate event of non-completion of the project, where the project is delayed or abandoned, and the developer company is wound up, the liquidator will auction the assets and give any proceeds back to the secured creditor, which is the bank. The bank's interest as a secured creditor overrides the interest of the purchasers, who are considered 'unsecured creditors' under insolvency laws. The purchaser with the home loan will not be compensated in any way because she is not a secured creditor. In short, the purchaser will be without a house, but with a home loan to pay in full.

Policy Options

Policy Option 1: The housing delivery system should follow the conventional Build-Then-Sell (BTS) or at least attempt to provide an ecosystem of legalities that protects home buyers from becoming non-secured creditors in STB housing projects

A just system requires homebuyers not to carry the burden of commercial risks in housing development. The traditional speculative housing developer model ought to be introduced in Malaysia. Speculative developers initiate the housing projects from their feasibility studies and continue building them. As a result, they take on the commercial risk of not finding a suitable buyer for the completed houses. They also do not require funding from home buyers through home loans.

[12] Ball (1994)

Additionally, in countries where the practice of STB is not government-led (as in Singapore), the social construction of the developer-homebuyer relationship is akin to joint investors in a commercial project. Therefore, the legalities and financing ecosystem support this type of social arrangement. Even then, some local municipal councils still require the total project value deposited in project accounts to minimise non-completion risks due to insufficient funding. Most STB projects, due to being socially constructed as investment projects, are geared toward high-end development, and payments by investors are made in cash[13].

Policy Option 2: Make house prices genuinely affordable instead of 'affordable' financing to buy expensive homes

Cheap and easy access to financing induce artificial demand for housing. If the housing supply remains relatively inelastic, this increase in demand can push house prices even further. This results in house buyers committing to more expensive housing, in addition to (mis)directing future supply of housing towards higher-priced houses. Apart from the existing measures that have been implemented by the Government, refinements to existing policies are suggested, as below:

1) Measurement of the 3x median-multiple in cities and towns

   a. KPKT has introduced guidelines in each state but only at the urban/non-urban level. A more detailed median-multiple calculation should be at the level of housing markets or at the scale of cities and towns.

2) Discontinue housing mortgages with longer time periods, generational loans

   a. The longer the mortgage period, the more house prices will increase due to financing.
   b. The reduction of the mortgage periods will make house prices more affordable and create moderate and sustainable price increments rather than rapid price escalations in the market.

3) Introduce down-market penetration ratio[14] to monitor incoming housing supply

   a. This refers to the ratio of the lowest priced, unsubsidised, formal housing unit produced by the private sector in significant quantities (no less than 2% of annual housing production) to median annual household income.
   b. The down-market penetration ratio is an indicator of housing affordability from the perspective of supply. The ratio focuses on the affordability of the lowest-priced new house provided by the private sector, without subsidies.
   c. This indicator is rooted in the 'filtering' model of housing consumption, in which low-income households are generally restricted to informal housing or 'filtered down', older formal-sector housing. The ratio captures the fact that in some housing markets, the private sector generally supplies housing for high-income groups, but not to low-income consumers while in others, the converse is the case. In general, the down-market penetration ratio is compared with the median multiple to indicate the extent to which the market supplies to below-median income households.

[13] Refer to Appendix A
[14] Angel (2000) and KRI (2015)

Overall, the financialization of the Malaysian economy is a multifaceted and complex phenomenon. It presents opportunities for growth, investment, and financial empowerment, but new risks, challenges, and inequalities have also emerged. Its impact on the economy has been transformative, influencing corporate behaviour, government policy, and economic structure. For households, financialization has offered tools for financial advancement but has also led to indebtedness, inequality, and vulnerability to market shocks. Balancing the benefits of financial innovation and integration with the need for responsible regulation, consumer protection, and social equity will be critical. The ongoing dialogue among policymakers, financial institutions, and civil society will be crucial in shaping a financialized economy that serves the interests of markets and the well-being and prosperity of all Malaysians.

INTRODUCTION

INTRODUCTION

Financialization has shaped patterns of inequality, culture, and social change in the broader society. Underlying these changes is a broad shift in how capital is intermediated, from financial institutions to financial markets, through mechanisms such as securitisation (turning debts into marketable securities). Enabled by a combination of theory, technology, and ideology, financialization is a potent force for changing social institutions.

Gerald F. Davis and Suntae Kim (2015)[15]

Introduction

Studies on financialization attract a variety of disciplines, which include political economy, economics, sociology, anthropology, and law, in understanding the term 'financialization' as it emerges in different social and institutional contexts. The exponential growth of the financial markets beginning from the late-1990s and their subsequent collapse, ranging from the collapse of the dot-com bubble in the early-2000s to the US sub-prime mortgage crisis in 2008, has spurred broad scholarly interests in finance capitalism and its impact on the economy and society. The aftermath of these financial crises has made it painfully clear how vital finance has become for national economies and livelihoods. This is due to the difference in impact finance has had on society and firms. It is often unclear where the 'downsides' of financialization are located. For example, political economists have drawn a hard line between the interests of owners of capital and the interests of labour. Yet, over the past 30 years, primarily in Anglo-Saxon countries in particular, workers have become increasingly invested in capital market activities through the privatisation of pensions and other incentives for market-based savings, even as their wages were stagnating as a result of firms not wanting to increase wage levels. The increased ownership of financial assets has galvanised more support from individuals to support financial bailouts and less for more stringent financial regulatory policies[16].

The positive public support towards financial bailouts is contrasted with the previous prevailing attitude that big companies do not require assistance from the government. When households' savings are invested in financial products, individuals must now bear financial risks previously mitigated within Keynesian welfarist institutional arrangements—for example, public pensions or mortgages. The State's role in delivering goods and services was considered ineffectual and a drain on government coffers with the ascent of Reagonomics and Thatcherism in the early 1980s. Neoliberal tenets advocating for reduced government intervention through austerity measures and encouraging privatisation as a catalyst for economic expansion were considered superior practices. The prevailing societal norms, values, and attitudes also underwent incremental changes with these changing ideologies. Therefore, even when the financial sector collapses occasionally or more often than not, society demands pro-finance support or bailouts from the government because individuals are directly affected or 'have skin in the game' through mortgages, pensions, securitization, and personal debt.

[15] Davis and Kim (2015)
[16] Pagliari, Phillips, and Young (2020)

Indeed, at stake is not just procuring a deeper understanding of the financialization process but also the question of how a country can create a more stable and equitable capitalist system in the context of an expanding financial market[17]. This report hopes to begin the discussion on the 'financialization of our everyday lives' in order to mitigate greater financialization of our economy with the attendant increased debt and risks for households.

What is Financialization?

Most developed economies are experiencing a trend of finance growing beyond its traditional role as a provider of capital for the productive economy to *an industry of its own*[18]. The working definition of financialization studies implies the shift of industrial to finance capitalism, where a 'finance-led economy' invests within itself rather than in the productive capacity or potential of the economy.

Broadly, there are three approaches to the study of financialization[19]:

1. **Financialization as a regime of accumulation**
    - The French regulationists first began to consider financialization as the successor of the Fordist regime of accumulation. This was evidenced by a finance-led growth regime that began to develop in response to declining productivity in the late 1960s; when the relationship between rising wages and demand for industrial production became severed[20].
    - This is an alternative regime that combines flexible labour markets with the expansion of credit, among other things, to sustain consumption in the face of stagnating real wages[21]. Closely connected are post-Keynesian analyses – the creation of the elite rentier class.

2. **The financialization of the modern corporation**
    - Studies focus on the financialization of the corporation to the emergence of shareholder value as the main guiding principle of corporate behaviour.
    - Shareholder value has become the 'norm of the transformation of capitalism' and, as such, has provided the justification for the dissemination of new policies and practices favouring shareholders over other constituents of the firm[22].

[17] Natascha Van der Zwan (2014)
[18] Boyer (2000)and Martin (2002)
[19] Ibid.
[20] Ibid.
[21] Magdoff and Sweezy (1987) and Foster (2007)
[22] Rappaport (1986) and Aglietta (2000)

3. The financialization of the everyday

- Scholars in this approach have abandoned the focus on the corporation in favour of one that appreciates the diverse ways in which finance is grounded in everyday life practices.
- These studies have interrogated projects and schemes to incorporate low-income and middle-class households in financial markets through participation in pension plans, home mortgages, and other mass-marketed financial products.
- The central thesis - finance has become a decentralised form of power, exercised through individuals' own interactions with 'new' financial technologies and systems of financial knowledge[23]. By participating in financial markets, individuals are encouraged to internalise new norms of risk-taking and develop new subjectivities as investors or owners of financial assets.

The financialization of daily lives covers two relatively distinct components[24]:

1. **Daily activities have been financialized**, which means that financial businesses have capitalised on them.
2. **Household money is invested using financial products** – bear financial risks that had previously been mitigated.

It is the latter element that has received the most attention from researchers. Analyses of credit, savings, health insurance, and retirement products, among others, have demonstrated a "risk shift" where people are expected to protect themselves from financial risks individually in a world that no longer guarantees employment and in which group insurance has fallen out of favour[25]. It is equally important to note that the financialization of household money has occurred in parallel with elements of career and income source destabilization wrought by the financialization of businesses and its effects on work.

[23] Martin (2002)
[24] Ibid.
[25] Langley (2008) and Hacker (2019)

Financialization of the Economy: An Overview

In the last three decades, finance has grown beyond its traditional role as a provider of capital for the productive economy to an industry of its own, playing an increasingly central role in the daily activities of economies, institutions, and households. Historically, nations across the globe have implemented policies that are conducive to financial activities, such as the reduction of capital controls, the formation of independent central banks, and the establishment of domestic stock markets. As a result, the financial services sectors of nations worldwide experienced substantial growth, contributing a larger share to the GDP of their respective economies. In the US, for instance, the financial services sector contributed 8.3% to GDP in 2006, compared to 4.9% in 1980 and 2.8% in 1950[26] indicating increasing demand for finance.

In line with the growth of the financial services sector globally, Malaysia's financial services sector recorded significant growth, with the financial services sector contributing 11.7% to GDP in 2010, compared to 9.7% in 2001[27]. The growth of the financial services sector has brought upon rapid financialization of the Malaysian economy. The phenomenon of financialization in Malaysia can be traced back to the 1980s, a period marked by deregulation, liberalisation, and global integration. During this era, Malaysia underwent a series of financial reforms, opening up its capital markets and embracing financial innovation. The subsequent growth of the financial sector has been rapid, resulting in an increased role of finance in the country's economic activities.

The growth of the financial services sector has brought upon rapid financialization[28] amongst households. Saving habits and financial planning of households have undergone significant changes due to the growing interdependence between individuals' everyday lives and life cycles (e.g. housing, consumption, health, retirement) and the performance of financial markets, which has led to increased risk transfers and higher household debt levels. Households became intricately involved in the financial sector through the accumulation of savings (e.g. savings accounts, fixed deposits) and investments (e.g. stocks, bonds, mutual funds), the utilisation of credit and loans (e.g. housing loans, education loans, credit card), and the need for retirement and insurance (e.g. pension funds, health insurance).

On the macroeconomic level, financialization has had several notable impacts on the Malaysian economy. Firstly, it has led to increased capital flows, both domestic and foreign. The liberalisation of financial markets has attracted foreign investments, boosting capital availability for businesses, and spurring economic growth. This influx of capital has facilitated industrial expansion, infrastructure development, and entrepreneurship. Secondly, financialization has contributed to the transformation of corporate behaviour. With the rise of financial markets and the emphasis on shareholder value, corporations in Malaysia have increasingly focused on financial indicators and short-term profits. While this can drive efficiency and competitiveness, it may also lead to underinvestment in long-term projects, research and development, and human capital. Financialization has also reshaped the government's fiscal policy and budgeting priorities. The need to maintain confidence in financial markets has placed pressure on the government to pursue fiscal discipline and adopt market-friendly policies.

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[26] Greenwood and Scharfstein (2013)

[27] BNM (2011)

[28] Aalbers (2017a) defines financialization as "the increasing dominance of financial actors, markets, practices, measurements, and narratives at various scales, resulting in a structural transformation of economies, firms, states, and households.

On the household level, the effects of financialization on Malaysian households have been intricate. On the positive side, the growth of financial markets has increased the availability of financial products and services for households. From mortgages to investment funds, consumers have had greater access to financial tools allowing homeownership, wealth accumulation, and financial planning. However, financialization has also brought changes to Malaysian households. The expansion of consumer credit, while enabling increased consumption, has led to rising household debt. Easy access to credit cards, personal loans, and hire purchase agreements has, in some cases, led to over-indebtedness and financial vulnerability. In addition, financialization has exposed households to new risks and uncertainties. The experience of the Asian Financial Crisis in 1997-98, for instance the risks associated with excessive financial liberalisation and inadequate regulation.

Similarly, the global financial crisis of 2008 provided a stark reminder of how interconnected and volatile financial markets can be. Households with investments in financial assets can be subjected to sudden market fluctuations, potentially eroding savings, and financial security.

The shift towards a financialized economy has also had implications for income distribution and inequality. The financial sector's growth has disproportionately benefited those with financial assets and skills, widening the income gap between different segments of the population. Those with limited access to financial resources or the knowledge to navigate complex financial products may be left behind.

Overall, the financialization of the Malaysian economy is a multifaceted and complex phenomenon. It presents opportunities for growth, investment, and financial empowerment, but new risks, challenges, and inequalities have also emerged. Its impact on the economy has been transformative, influencing corporate behaviour, government policy, and economic structure. For households, financialization has offered tools for financial advancement but has also led to indebtedness, inequality, and vulnerability to market shocks. Balancing the benefits of financial innovation and integration with the need for responsible regulation, consumer protection, and social equity will be key. The ongoing dialogue among policymakers, financial institutions, and civil society will be crucial in shaping a financialized economy that serves the interests of markets and the well-being and prosperity of all Malaysians.

The Malaysian Banking System

The Malaysian banking system, with its rich history, diverse offerings, and resilient nature, has played a pivotal role in the nation's economic development. Malaysia's banking system had humble beginnings in the colonial period, marked by the establishment of banking institutions catering mainly to colonial business interests. With independence in 1957, there was a strong desire to create a banking infrastructure that would facilitate economic growth, serve the diverse needs of a multi-racial society, and align with the nation's broader development objectives.

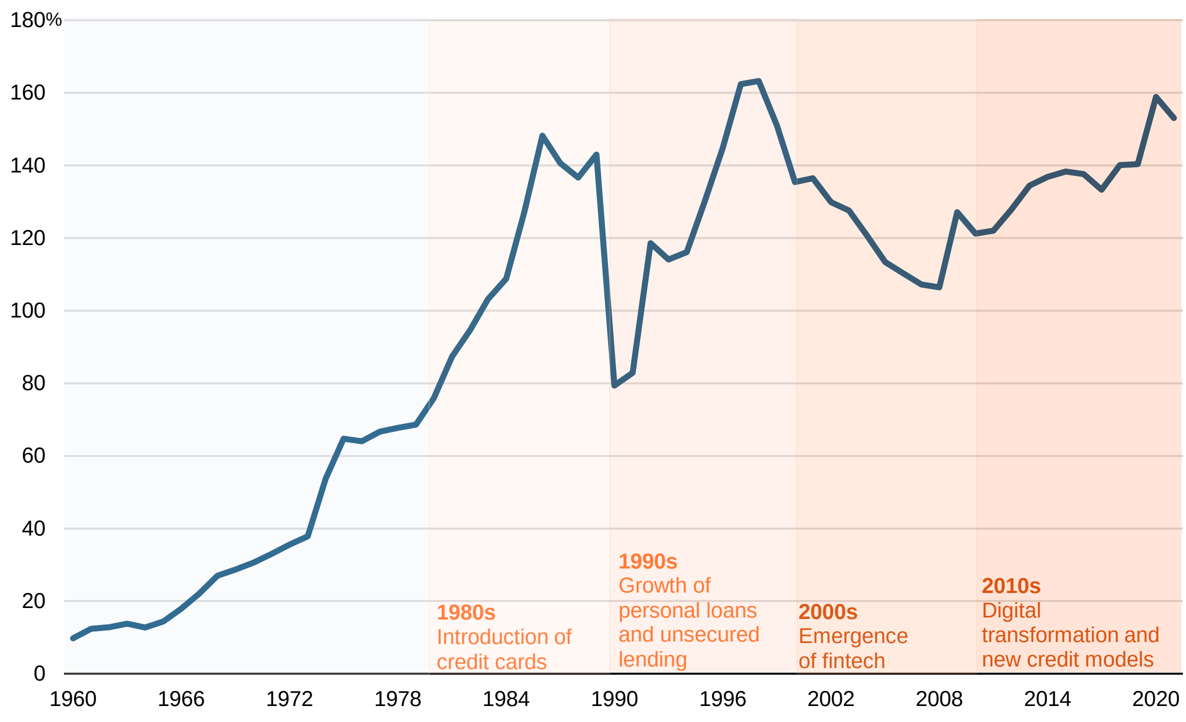
The establishment of Bank Negara Malaysia (BNM) in 1959 was a landmark event in the country's financial history. Tasked with regulating and supervising the banking system, the central bank has been instrumental in shaping the financial landscape of Malaysia. Its prudent policies and rigorous oversight have ensured stability, transparency, and integrity within the sector.

Structurally, the Malaysian banking system comprises commercial banks, investment banks, Islamic banks, and development financial institutions. Commercial banks are central to the financial system, providing a wide range of services, including loans, deposits, and foreign exchange. Investment banks cater to capital market activities, while Islamic banks offer Shariah-compliant financial products. Development Financial Institutions (DFIs) play a specialised role in supporting sectors identified as critical to the nation's economic agenda.

The 1970s witnessed the initiation of important banking reforms. The government, recognizing the critical role of finance in national development, implemented policies aimed at enhancing financial inclusion and promoting domestic investment. The establishment of Bank Negara Malaysia, the country's central bank, in 1959, laid the foundation for a centralised regulatory framework. This enabled effective oversight and the introduction of policies that would guide the growth of the sector in the years to come.

The 1980s and 1990s were characterised by liberalisation and internationalisation. Malaysia embraced globalisation and opened its doors to foreign banks. Banking legislation was enacted to promote competition, efficiency, and consumer protection. This phase was marked by a diversification of banking services, introduction of Islamic banking, and an emphasis on technological adoption.

Bank assets, as a share of GDP, 1960 – 2021



Source: BNM (2023b) and IMF (2023)

The growth trajectory of the banking system was not without challenges. The Asian Financial Crisis in 1997/98 had a significant impact on Malaysia's economy, including its banking sector. The crisis exposed vulnerabilities and prompted a series of reforms. The government introduced measures to strengthen the regulatory framework, enhance transparency, and consolidate the banking industry. This post-crisis transformation set the stage for a more resilient and adaptive banking system.

The new millennium saw the emergence of Malaysia as a global leader in Islamic finance. Building upon a foundation laid in the 1980s, Malaysia's Islamic banking sector blossomed, supported by a conducive regulatory environment and innovative product offerings. This growth mirrored the global rise in interest in Islamic finance, and Malaysia positioned itself at the forefront of this trend.

Technology has been a significant driver in the evolution of the Malaysian banking system. The rise of Fintech and digital banking platforms has reshaped the way financial services are delivered and consumed. Malaysian banks have been proactive in embracing technology, offering digital banking solutions and collaborating with Fintech startups. This tech-driven transformation represents a leap towards a more accessible and customer-centric banking paradigm.

In recent years, the emphasis on sustainable banking and responsible finance has added a new dimension to Malaysia's banking landscape. Aligning with global trends, Malaysian banks have begun to integrate Environmental, Social, and Governance (ESG) considerations into their operations and lending practices. This shift towards sustainable banking reflects a broader societal awakening to the importance of ethical and responsible finance.

The ongoing COVID-19 pandemic has brought unprecedented challenges to the global economy, and Malaysia's banking system has not been immune. The pandemic has tested the resilience, adaptability, and responsiveness of the banking sector. The central bank's role in ensuring liquidity, supporting credit flow, and safeguarding financial stability has been pivotal in navigating the economic uncertainties wrought by the pandemic.

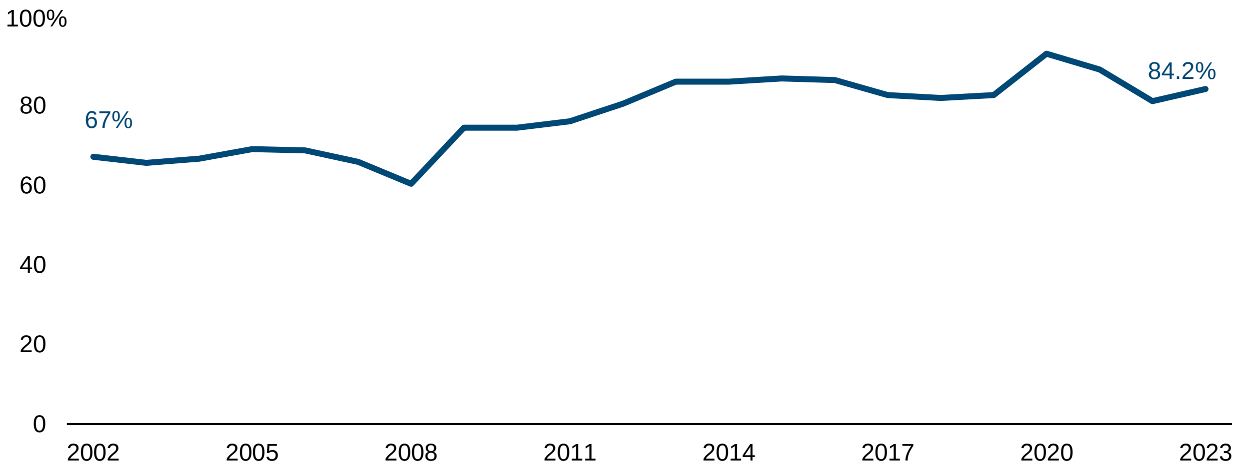
The evolution of the Malaysian banking system is a complex tapestry woven from historical legacies, economic transformations, strategic policy interventions, technological advancements, and global influences. From a fragmented and nascent beginning to its current sophisticated and diversified form, Malaysia's banking system has been a mirror to the nation's economic aspirations and challenges. Its journey reflects the dynamism and adaptability that has been characteristic of Malaysia's economic narrative. The lessons learned, the innovations pursued, and the resilience demonstrated provide a valuable blueprint for navigating the future, as the banking system continues to evolve in a rapidly changing world.

Household Debt

Over the past two decades, household debt has witnessed a significant rise. As our economy grew and financial products became more accessible, there has been a corresponding increase in borrowing by individuals and households, making up a substantial share of the country's GDP.

Homeownership has been a significant factor contributing to household debt. With urbanisation and the aspiration for better living standards, there has been a strong demand for housing, particularly in major cities. Financing this demand has often required substantial borrowing, leading to a rise in housing debt. Another contributing factor to household debt has been education. The pursuit of higher education, both domestically and abroad, has often required individuals to take on debt. The investment in education is generally seen as positive for individual and societal development, but it has contributed to the overall debt profile. In addition, consumer credit growth has driven higher household debt levels as more Malaysians have better access to credit amidst the growth of the banking system and the availability of credit facilities such as personal loans, credit cards, and hire purchase agreements.

Household debt, as a share of GDP, 2002 – 2023

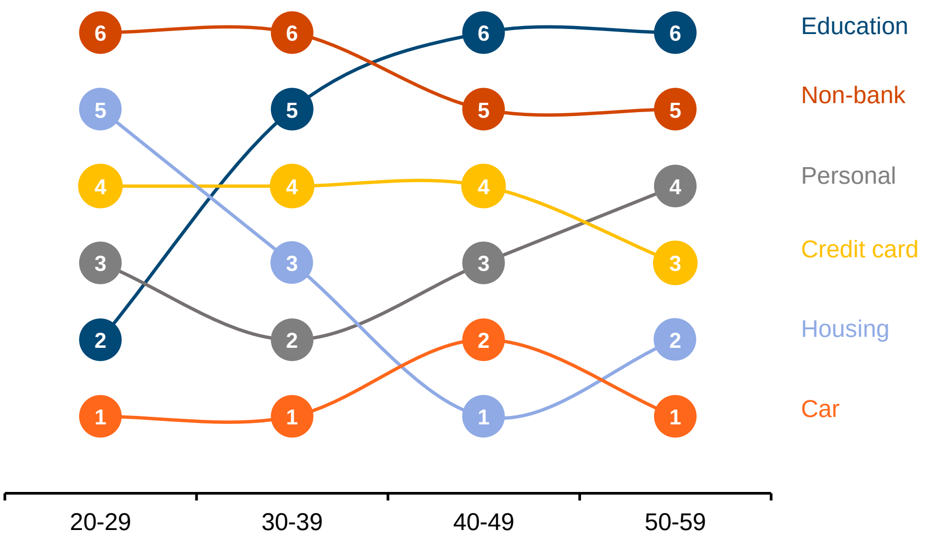


Source: BNM (2022)

The increase in household debt has implications for financial stability and individual well-being. On one hand, access to credit enables consumption, investment, and economic growth. On the other hand, excessive debt can lead to financial vulnerability, particularly if interest rates rise or if there is an economic downturn. Households that are over-leveraged may find themselves in distress, with consequences for the broader financial system. Recognising these risks, BNM has taken steps to manage household debt, through the implementation of macroprudential measures such as limits on loan-to-value ratios for mortgages and debt-service-ratio caps. These measures aim to ensure that lending is conducted responsibly and that borrowers are not taking on more debt than they can reasonably manage. Despite these efforts, challenges remain. The COVID-19 pandemic has led to further economic uncertainties and potential strains on household finance.

However, even before the pandemic, a report by AKPK stated that nearly one-fifth of the working population in Malaysia grappled with the inability to allocate funds for savings, in which amongst the array of reasons cited for this financial difficulty, the weight of "high debt commitment" emerged as the third most commonly mentioned reason[29]. The same publication by AKPK also indicated the different types of loans commonly shouldered by working adults by age group. We witness trends of a rise in non-bank loans throughout their life, a peak in education loans at the start of their career, and a peak in housing mortgages in the 40-49 age group.

Rank of loan ownership of Malaysian working adults, by age group, 2018



Source: Adapted from AKPK (2018a)

Household debt in Malaysia is a multifaceted phenomenon shaped by economic, social, and regulatory factors. Its growth reflects broader trends in economic development, consumer behaviour, and financial innovation. While household debt has enabled many Malaysians to invest in homes, education, and other valuable assets, it also carries risks that must be carefully managed. The experience of Malaysia offers valuable insights into the challenges and opportunities of household debt in an emerging market context, with lessons that may be applicable to other countries facing similar dynamics. The ongoing dialogue and collaboration among government, industry, and consumers will be vital in navigating the complex landscape of household debt in Malaysia, ensuring that it remains a tool for opportunity rather than a source of vulnerability.

[29] AKPK (2018b)

Objective and Scope of the Report

Several decades of Fordist and Keynesian regimes emphasised that the financial stability of households was a primary political goal[30], but this is no longer the case. Colin Crouch provides one way to describe household financialization with the term "privatised Keynesianism": it is no longer the state but rather households that indebt themselves to cope with increasing financial instability (precarious jobs), decreasing wages, the retreat of the welfare state, and diminishing collective protections, and an increase in the cost of living.

On the other hand, if finance is executed within the values of 'financial inclusion,' with the attendant normative behaviour, institutional arrangements, rules, and regulations, it mitigates the excessive trade-offs between profit and social welfare[31].

Based on the existing literature as well as AKPK's report in 2018, this report provides an analysis of societal well-being items (housing and university education) to mitigate incidences of high household debt for lower- and middle-range households. It also discusses the market push for consumerism through the use of "Buy Now, Pay Later" (BNPL) schemes amidst the backdrop of households' wage stagnation. These different household debt items were contextualised within the institutional arrangement (i.e. intermediaries of finance and private firms) and the role of the state, in order to provide improvements to both outcomes and the institutional context.

Chapter 1 presents evidence of wage stagnation and the decreased welfare of households. Household spending patterns have become increasingly diverse. This raises a crucial question: are households turning to debt to finance their escalating consumption habits? The diverse aspects of household indebtedness become apparent as individuals often resort to borrowing to finance essential needs and aspirational desires. This chapter analyses households' borrowing structure to elucidate whether they leverage debt to fuel their consumption-driven lifestyles.

Chapter 2 examines the rise of BNPL in Malaysia and the economic implications associated with its usage. It also dives into cultural ramifications in terms of the normative emphasis on instant gratification and consumerism. The ease and accessibility of BNPL services enable individuals to engage in conspicuous consumption without immediate financial commitment. Subsequently, the chapter offers policy options for relevant stakeholders to navigate the evolving BNPL landscape.

Chapter 3 addresses the growing phenomenon of higher education debt in Malaysia and how it may contribute to a broader issue of household indebtedness. The chapter sets forth two important agendas. First, it undertakes a policy review of feasible pathways to mitigate student debt. Second, it explores potential adjustments to the institutional landscape, aiming to foster a conducive environment for a sustainable and supportive financial framework for higher education financing in Malaysia.

[30] Crouch (2009) and Boyer and Saillard (2010)
[31] Shiller (2013)

Chapter 4 analyses the housing delivery system within the backdrop of housing loans. It provides a justification to reconfigure the institutional arrangement and the social construction of the housing delivery system to ensure that it provides the outcomes that the economy requires as opposed to the sole objective of achieving housing market 'efficiency'[32]. This is different from neo-classical perspectives, where efficiency is measured in terms of marginal utilities or when the price system creates negative externalities, and government should only interfere when an "economic problem" becomes a "social problem"[33].

Chapter 5 concludes the report.

[32] Arvanitidis (2015)
[33] Heilbroner and Milberg (1995)

CHAPTER 01

CHAPTER 1

THE RISE OF HOUSEHOLD DEBT: STAGNATING WAGES AND HOUSEHOLD WELL-BEING

No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, clothe, and lodge the whole body of people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, clothed, and lodged.

Adam Smith (1776)

1.1 Introduction

This chapter describes the financial condition of households by analysing wage growth from 1995 to 2019[34], utilising the 'Expenditure Space' model as a proxy for households' well-being[35]. The chapter then proceeds with a description of household debt, followed by concluding remarks.

1.1.1. Wages have stagnated for the Bottom 50% of Malaysian workers[36]

Sluggish wage growth is a global phenomenon and constitutes a key driving force in the increasing levels of structural inequality. Productivity growth has slowed in many advanced and emerging economies, and wage growth experienced similar trends but to an even greater degree[37]. There is an increasing coincidence of high labour and capital incomes for the wealthiest individuals and a stagnation, if not depression, of labour incomes for the rest[38].

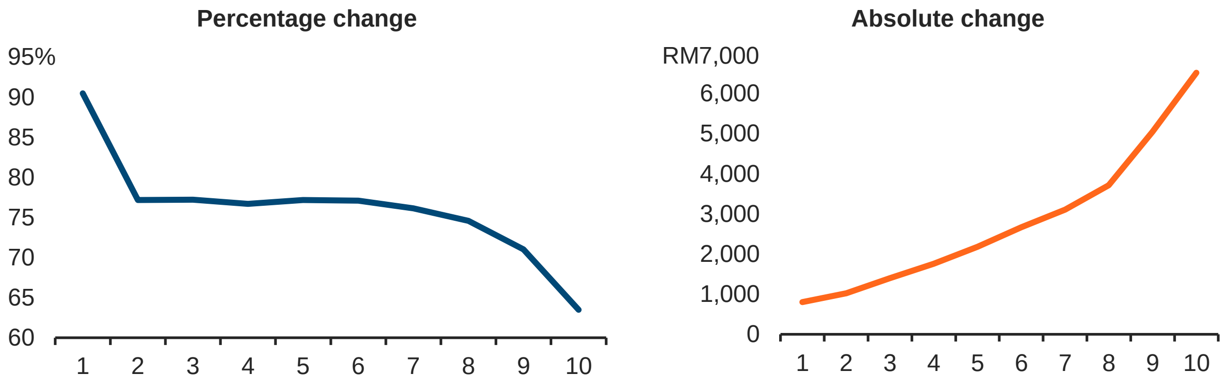
This section analyses wage growth patterns from 1995 to 2019 in Malaysia, emphasising the decade preceding the pandemic (2010 to 2019). The timescale (1995 to 2019) is expansive enough to identify the structural patterns by which the economy rewards labour. It covers crucial economic moments such as (the Asian Financial Crisis of 1997, the steady deindustrialization of the economy from the 2000s, the Global Financial Crisis of 2007 – 2009 etc.), and it excludes the shock of the pandemic. The latter consideration is essential since there is insufficient data to disentangle the temporal and permanent effects following the pandemic.

[34] Nithiyananthan Muthusamy, Jarud Romadan Khalidi, and Mohd Amirul Rafiq Abu Rahim (2023)
[35] Hawati Abdul Hamid, Gregory Ho Wai Son, and Suraya Ismail (2019)
[36] This sub-section relies heavily from the work of Nithiyananthan Muthusamy, Jarud Romadan Khalidi, and Mohd Amirul Rafiq Abu Rahim (2023). Readers are encouraged to read the working paper to appreciate the research design and methodology. In this sub-section we have only taken the partial findings from the working paper.
[37] OECD (2018)
[38] Piketty and Saez (2003); Piketty (2014); Goldin (1994); Daly and Valletta (2006); Juhn, Murphy, and Pierce (1993)

Wage growth and inequality for the wage-earning household (1995-2019), Household Income Survey (HIS) data

Figure 1.1 below presents wage growth in percentage and absolute terms for the **wage-earning household** at the decile level from 1995 to 2019. The x-axes are wage-earning households arranged from lowest to highest earners and are divided into 10 equal groups (deciles). The y-axis on the left is in percentage terms, while the one on the right is in real 2021 ringgit.

Figure 1.1: Percentage and absolute change in real monthly household wage, by decile, 1995 – 2019



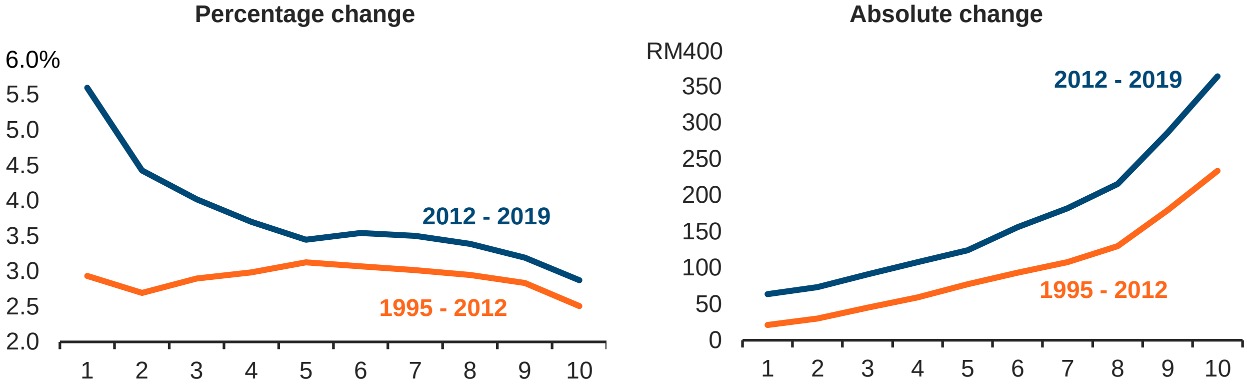
Note: Household wages are in real 2021 terms.
Source: DOS (2022) and KRI calculations

The graph on the left (percentage) shows three distinct sections. The first is a sharply progressive[39] shape from the first to the second decile. The following 4 deciles are neutral in their growth pattern, and then there's a progressive trend for the top 4 deciles. The kink at the second decile, indicating a much greater growth rate for the first decile, suggests a possible external intervention or shock and motivates much of our following analyses. In fact, the growth rate for the bottom decile is 28 percentage points higher than that of the top decile, and 14 percentage points higher than the growth rate for the median household (5th decile).

The graph on the right (absolute) is a reminder that a progressive relative pattern need not translate into progressive absolute realities. The graph has an exponentially regressive pattern, with an inflection at the 8^{th} decile indicating higher absolute growth for the top 20%. The real[40] monthly household wage for the bottom 10% grew by only RM802 over 24 years, averaging an annual increase of about RM33. The median household experienced an increase of RM2,177, or an average yearly increase of RM90. In comparison, the 9^{th} and 10^{th} deciles found their real monthly wages increasing by more than RM5,046 (an average annual increase of more than RM210).

[39] Progressive = higher growth for lower wage groups. Regressive = lower growth for lower wage groups.
[40] All real values are in 2021 ringgit after adjusting for inflation.

Figure 1.2: Annualised percentage and absolute change in real monthly household wage, by decile, 1995 – 2012 and 2012 – 2019



Note: Household wages are in real 2021 terms.
Source: DOS (2022) and KRI calculations

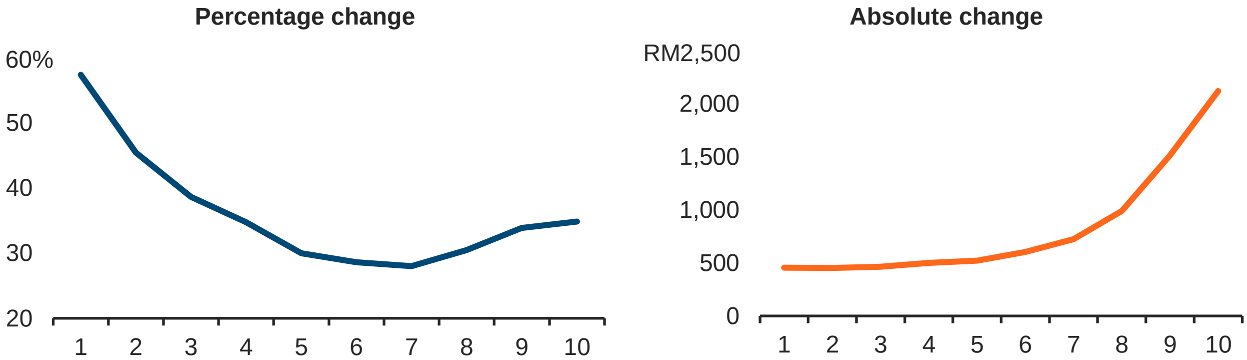
The above graphs clearly show that not only was wage growth at the household level greater in the 2012 – 2019 period for all parts of the distribution, but also that almost all the overall progressive relative pattern is attributable to this period. The relative (percentage) growth pattern for the 1995 – 2012 period is distinctly regressive for most of the bottom half of the distribution, and broadly regressive across the distribution—the growth rates for the bottom 4 deciles are below 3%, while they're above 3% from the median to the 7th decile (D5 to D7). These potentially reflect the Malaysian labour market's long-term structural inequalities in the absence of the interventions of the 2010s.

A substantial upswing in the percentage growth of the bottom half of the distribution occurred in the 2012 – 2019 period, with the median (D5) acting as a pivot point since the relative pattern of the top half remains remarkably similar. This improvement in the wage earnings of the bottom 50% of households causes the overall relative pattern for the 2012 – 2019 period to assume a progressive shape.

Wage growth and inequality for the wage-earning worker, 2010 – 2019, Salary and Wages Survey (SWS) data

Figure 1.3 below reproduces the percentage and absolute growth analyses in the previous graphs, but for the 2010 – 2019 period and using wages at the worker level. As a result of the increased granularity of wage data, we are able to observe more precise trends across deciles.

Figure 1.3: Percentage and absolute change in real monthly individual wage, by decile, 2010 – 2019



Note: Individual wages are in real 2021 terms.
Source: DOS (2022) and KRI calculations

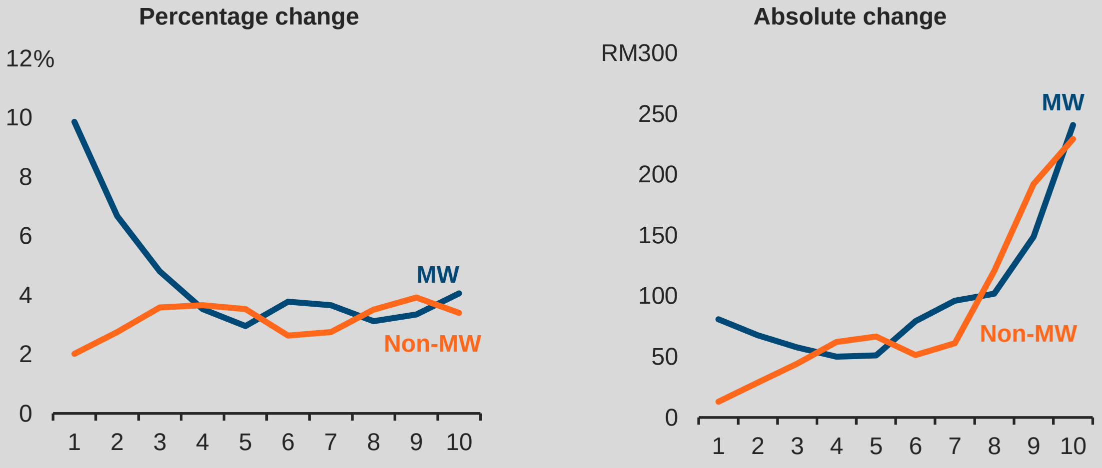
The relative (percentage) growth pattern during this decade demonstrates a distinct U-shape, with a pronounced and raised left tail. The curve descends steeply from the first decile to the median (a progressive pattern), and then flattens at an approximate 30% growth rate between the median to the 8th decile (a neutral pattern), before rebounding for the top 2 deciles of wage earners (a regressive pattern). This seems to indicate a "squeezed middle" of 30% of the workforce (between the median and the 8th decile) that finds its relative position in decline.

The absolute pattern on the right, as usual, provides a telling counterpoint. The curve is exponentially regressive, as observed in the previous section. The most startling result is that the increase in the real monthly wage per worker across this 9-year period is only approximately RM500 for the whole of the bottom 50% of the wage distribution—the line is almost perfectly flat at the RM500 level (RM458 at D1 to RM508 at D5). This translates to an average annual increase of only RM56 per worker in real terms for the bottom 50% of workers—a clear indication of wage stagnation. This is in spite of the improved relative position of these workers and speaks volumes of suppressed wage growth in general. The 5th to 8th deciles ("squeezed middle") fare little better, with absolute real increases from RM508 (D5) to RM887 (D8). A significant jump is observed for D9 (RM1,433) and D10 (RM2,107).

Box 1.1: Assessing the minimum wage's distributional effects, 2010 – 2019, SWS Data

Figure 1.3 presented cumulative wage growth patterns in both percentage and absolute terms for the 2010 – 2019 period. In order to isolate the minimum wage's distributional effects, we decompose them into minimum wage impact and non-impact periods.

Figure 1.4: Annualised percentage and absolute change in real monthly individual wage, by decile, minimum wage impact (MW) and non-impact (non-MW) periods



Note: Individual wages are in real 2021 terms. Minimum wage impact period includes 2012 – 2015, 2016 – 2017 and 2018 – 2019, while non-impact period includes 2010 – 2012, 2015 – 2016 and 2017 – 2018.
Source: DOS (2022) and KRI calculations

The impact periods (labelled "MW" in Figure 1.4 above) present average annual wage growth in percentage and absolute terms for the 2012 – 2015, 2016 – 2017 and 2018 – 2019 periods. These were the periods that demonstrated distributional shifts in response to the minimum wage as explained in the previous section.

What is clearly noticeable from the left graph in Figure 1.4 is that nearly all the progressive wage growth for the bottom half of the wage distribution in the 2010 – 2019 period is concentrated in the minimum wage impact periods. When we exclude the minimum wage years, the result is an overall upward slope, indicating a broadly regressive growth pattern; this is consistent with the 1995 – 2012 household wage growth trend observed in Figure 1.2 using HIS data, further corroborating the notion that the Malaysian labour market's wage growth dynamics are, in the absence of institutional and policy interventions such as the minimum wage, generally supressed and broadly regressive in nature.

The right graph (Figure 1.4) emphasises the progressive importance of the minimum wage, even in absolute terms. We see that the median acts as a pivot point; when the minimum wage is in effect, absolute wage growth for the lower half of the distribution swivels upwards like a switch. This positive effect for the lower half is so significant that we see a progressive absolute pattern from the first decile to the median for the minimum wage years – the first time a progressive absolute pattern is observed during the entire timescale of this study. We also see evidence of a squeezed middle; when the minimum wage is in effect, the 6th decile's absolute real wage growth is equivalent to the 1st decile's, and the 4th and 5th deciles experience the lowest growth quantum of the whole distribution.

These findings suggest that the minimum wage has compressed the lower half of the wage distribution, causing low wage earners to catch up to middle earners, but not greatly affecting top end inequality. Moreover, it indicates that the minimum wage exerts the greatest effect on the lowest earners and its effect weakens significantly for the following deciles before dissipating at the median.

The evidence for the minimum wage's progressive effect on Malaysia's wage distribution is compelling and considering that Malaysia enjoyed relatively healthy macroeconomic indicators during this period (unemployment rate between 2.9 and 3.4%[41], and real GDP growth between 4.4 and 7.5%[42]), the minimum wage should be strengthened as a core and essential labour market institution. Our analyses also find that the effect of the minimum wage weakens rapidly and significantly as the wage scale increases towards the median. There is compelling evidence of a "squeezed middle" of the wage scale, whose relative position has declined during the 2010 – 2019 period. Median wage earners experienced the lowest increase in real wages in absolute terms during the years in which the minimum wage was being implemented.

[41] DOS (2023)
[42] IMF (2022)

1.2 Stagnating Wages and the Well-Being of Households: Analysing Household Consumption Expenditure

The previous sub-section demonstrated that following HIS data, the real[43] monthly household wage for the bottom 10% grew by only RM802 over 24 years, **averaging an annual increase of about RM33. The median household experienced an increase of RM2,177, or an average yearly increase of RM90**. In comparison, the 9th and 10th deciles found their real monthly wages increasing by more than RM5,046 (an average annual increase of more than RM210). The relative (percentage) growth pattern for the 1995 – 2012 period is distinctly regressive for most of the bottom half of the distribution, and broadly regressive across the distribution—the growth rates for the bottom 4 deciles are below 3%, while they're above 3% from the median to the 7th decile (D5 to D7).

When using percentage and absolute growth analyses for the period 2010 – 2019 and using wages at the worker level (SWS data), the relative (percentage) growth pattern during this decade demonstrates a distinct U-shape, with a pronounced and raised left tail. The curve descends steeply from the first decile to the median (a progressive pattern), and then flattens at an approximate 30% growth rate between the median to the 8th decile (a neutral pattern), before rebounding for the top 2 deciles of wage earners (a regressive pattern). This seems to indicate a "squeezed middle" of 30% of the workforce (between the median and the 8th decile) that finds its relative position in decline. In terms of absolute numbers, the most startling result is that the increase in the real monthly wage per worker across this 9-year period is only approximately RM500 for the whole of the bottom 50% of the wage distribution—the line is almost perfectly flat at the RM500 level (RM458 at D1 to RM508 at D5). **This translates to an average annual increase of only RM56 per worker in real terms for the bottom 50% of workers—a clear indication of wage stagnation**. This is in spite of the improved relative position of these workers and speaks volumes of suppressed wage growth in general. The 5th to 8th deciles ("squeezed middle") fare little better, with absolute real increases from RM508 (D5) to RM887 (D8). A significant jump is observed for D9 (RM1,433) and D10 (RM2,107).

An alternative indicator to assess households' quality of life or economic well-being is their household expenditure or consumption patterns. The rationale behind employing consumption as a measure to estimate lifetime resources or household welfare is its potential to identify households' preferences to borrow to meet their current consumption patterns[44] (including setting aside a portion for savings[45]). Household preferences are recognised through the items they purchase. Employing household consumption as an indicator of well-being helps mitigate observed disparities in welfare that caused by income fluctuations.

In this sub-section, we analyse further how the diversity of household consumption can serve as an indicator of their well-being within their respective income levels. This section builds upon a previous KRI study titled "Demarcating Households: An Integrated Income and Consumption Analysis"[46], where the Product Space methodology[47] was employed to construct the Expenditure Space for Malaysian households in 2014. In this current study, we further expand on this methodology, examining household consumption patterns spanning from 2009 to 2014. Additionally,

[43] All real values are in 2021 ringgit after adjusting for inflation.
[44] Hawati Abdul Hamid, Gregory Ho Wai Son, and Suraya Ismail (2019)
[45] However, this analysis does not factor in household savings due to data limitations.
[46] Ibid.
[47] Hausmann and Klinger (2006); Hidalgo and Hausmann (2009); Hidalgo et al. (2007)

we will include an additional analysis of household debt, which was absent in the previous study due to data constraints.

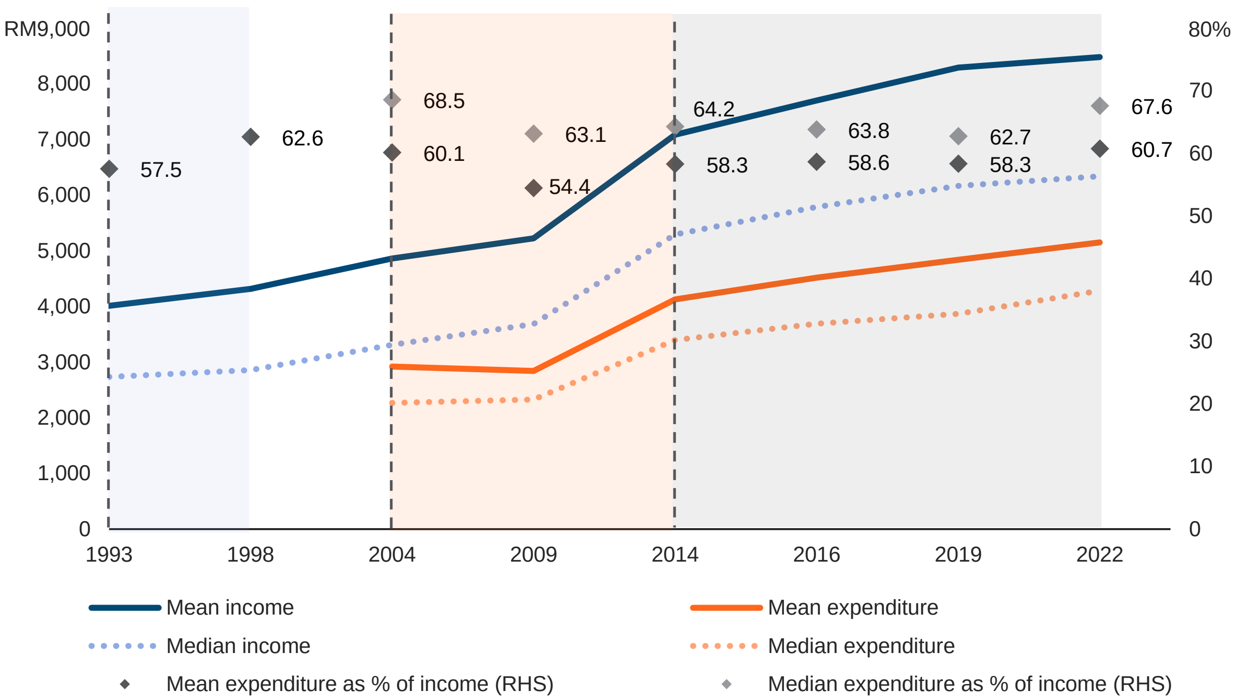
This subsection provides an overview of household consumption trends, spanning from 1993 to 2022, as reported in Household Income and Expenditure surveys by DOS. It serves as an introduction before a more in-depth exploration of household consumption patterns using the product space methodology in the following section.

1.2.1. Consumption Expenditure

Since 1993, Malaysian households have seen their consumption expenditure rise in parallel with their income levels. In 1993, the mean expenditure, adjusted for 2022 prices, was RM2,305 and it rose to RM5,150 by 2022. Interestingly, from 2004 to 2009, a period characterised by household income growth surpassing the expenditure growth, the proportion of income spent on consumption decreased from 60.1% in 2004 to 54.4% in 2009. This decline suggests that households had more residual income during this period, which could potentially have been used for savings or investments.

However, the trend reversed between 2014 and 2019 as mean expenditure outpaced income growth. This led to a slight increase in the share of expenditure to income, reaching 58.3%. Following this, the share remained relatively consistent at around 58% until 2019. In 2022, there was a further increase in the ratio, with Malaysian households, on average, allocating 60.7% of their income to consumption expenses.

Figure 1.5: Real household income and expenditure, 1993 – 2022

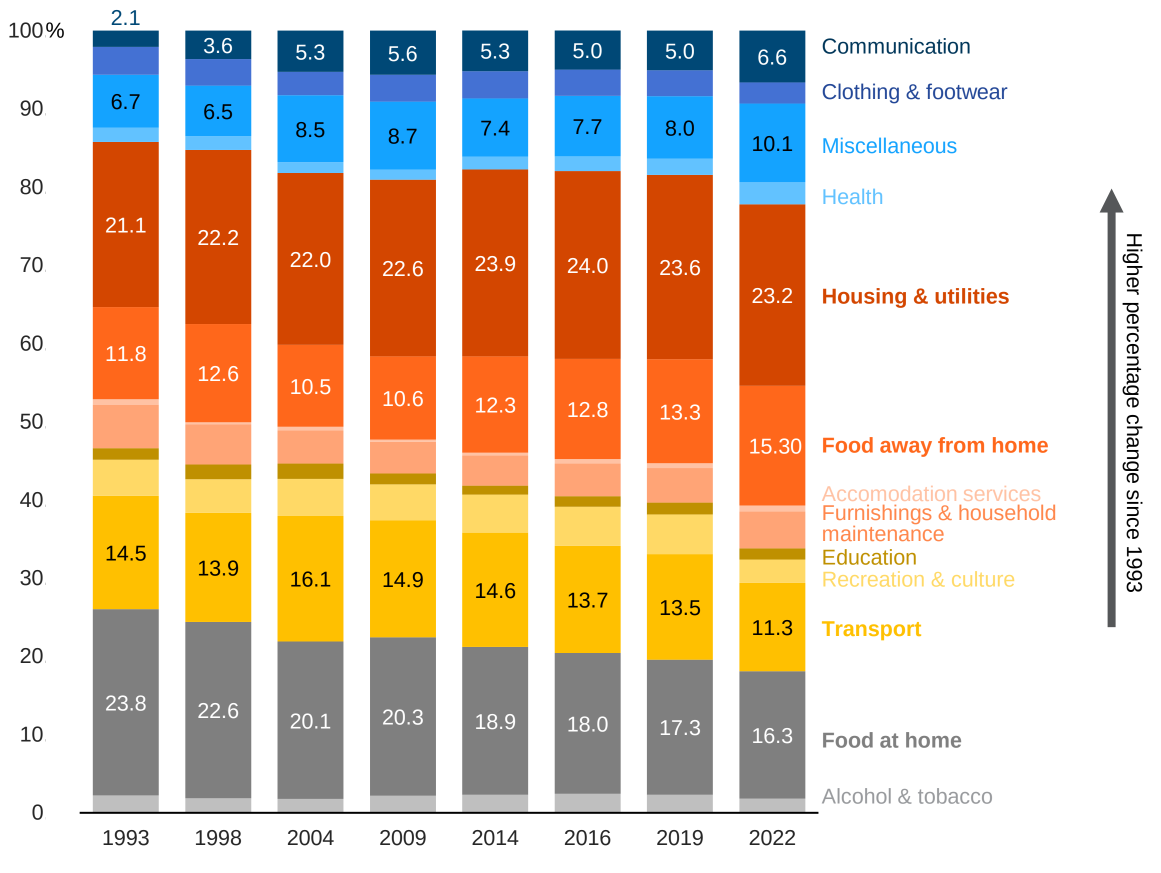


Note: The years featured in the chart are those with published data for household expenditure, which differs for earlier years with data for household income. Data is expressed in 2022 prices.
Source: Adapted from KRI (2020) with updated figures from DOS (2023a) and KRI calculations

So, where do households predominantly allocate their income? Figure 1.6 illustrates the distribution of mean household consumption expenditure by category from 1993 to 2022. Generally, households allocate the largest share of their expenditure to three fundamental necessities: housing and utilities, transportation, and food (both consumed at home and outside). The expenditure on housing has notably surged almost threefold, representing the most substantial increase of RM781 compared to other categories since 1993. Since 2004, housing and utilities have claimed the top spot in terms of the share of household consumption, outpacing expenditures on food at home.

Additionally, a notable shift in household consumption expenditure is observed, particularly in Malaysian households' changing food consumption habits. This is underscored by a surge in eating-out expenses and decreased spending on food at home. Expenses on food away from home have multiplied by 2.8 times, emerging as the second-largest expenditure, with households increasing their spending by RM512 in the last three decades. Meanwhile, the share of food spending at home decreased from 23.8% to 16.3% in 2022.

Figure 1.6: Share of mean household consumption expenditure, by category, 1993 – 2022



Note: Expenditure categories are arranged, from top to bottom, according to the highest growth rate between 1993 and 2022.
Source: Adapted from KRI (2020) with updated figures from DOS (2023a) and KRI calculations

Although transportation constitutes one of the largest shares of consumption expenditure, it has exhibited a declining trend over the years, recording 11.3% in 2022. The decrease in expenditure categories like food at home and transportation suggests that households diversify their expenditures across various categories, including spending more on non-essential items given the rising income over the years.

For instance, the categories of communication, clothing, and footwear have exhibited the most significant growth over the years. While these categories represent a smaller portion of their overall consumption, it underscores the evolving preferences in household consumption patterns, shaped by changes in societal lifestyle. Communication expenses, including phone purchases and costs related to internet and phone bills, have risen nearly 12 times. Indeed, this highlights the growing importance of digital devices and internet connectivity in our increasingly digitalised world, where they are not only essential for leisure but also for education and work.

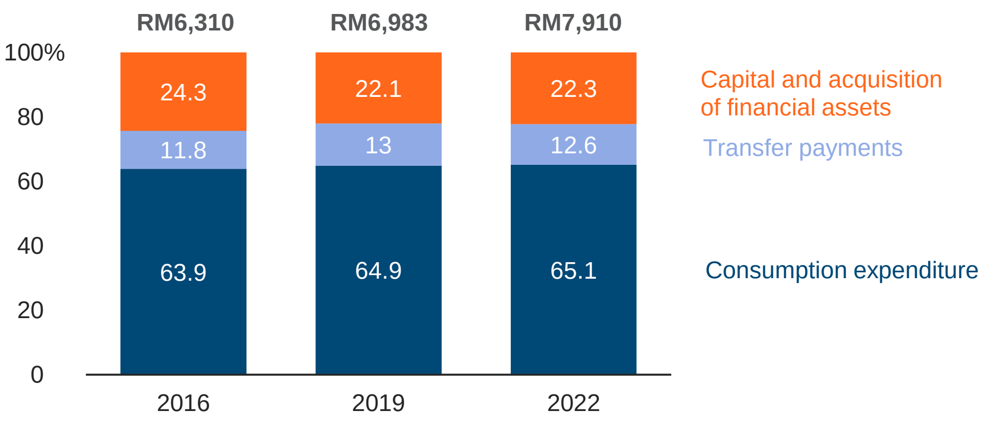
Furthermore, expenses on miscellaneous goods and services, which include costs related to insurance, personal care and social protection, have more than tripled since 1993. This highlights how households perceive certain goods like insurance and social protection as essential in today's context.

1.2.2. Non-consumption Expenditure

In addition to consumption expenditure, DOS began publishing figures on non-consumption expenditure in 2016. Non-consumption expenditure refers to expenses incurred by households to pay income tax, social security contributions, mandatory fees and fines, gifts to other households and repayment of loans, including loans for housing, motor vehicles, personal use and credit cards.

Figure 1.7 depicts the distribution of consumption and non-consumption expenditure for the years between 2016 and 2022. The proportion of non-consumption expenditure has decreased slightly, fluctuating between 35% and 36% during this period. In 2022, households allocated an estimated average of RM2,760 on transfer payments and capital and acquisition of financial assets. Considering non-consumption expenditure, the average total expenditure for households in 2022 reached RM7,910.

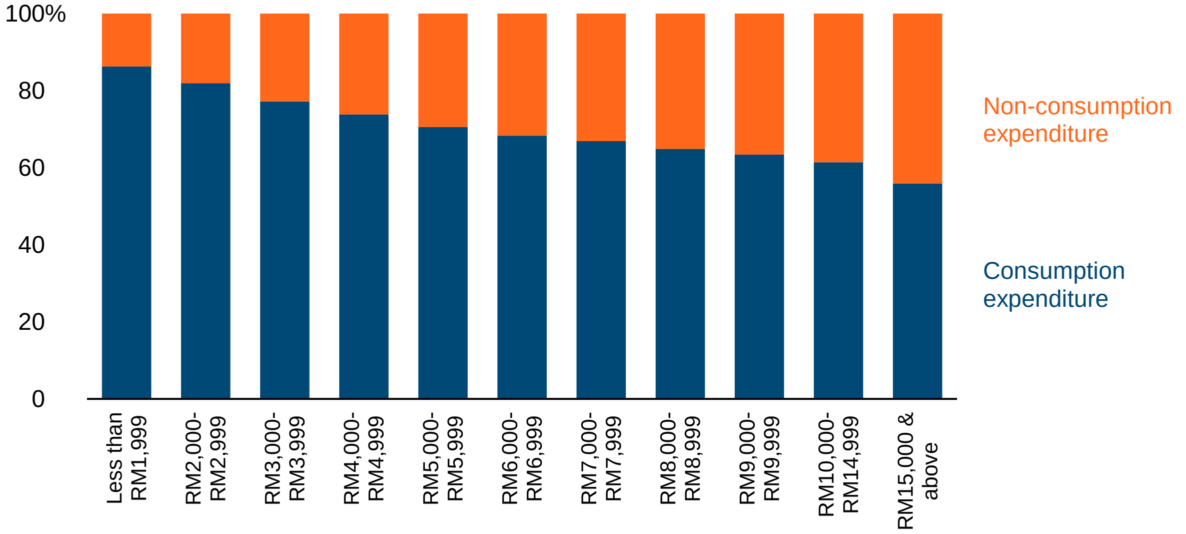
Figure 1.7: The share of consumption and non-consumption expenditure, 2016 – 2022



Source: DOS (2023a)

As anticipated, a comparison of the share of consumption and non-consumption expenditure by income class reveals that higher-income households tend to allocate a larger portion of their expenses to non-consumption expenditure compared to low-income households. In 2019, households earning RM10,000 or more dedicated nearly 40% or more of their expenditures to transfer payments and the accumulation of financial assets. A more detailed analysis on household debts will be discussed in the following subsections.

Figure 1.8: The share of consumption and non-consumption expenditure by income class, 2019



Source: DOS (2020)
Note: The composition of consumption and non-consumption expenditure by income class for 2022 is not publicly available; hence the data for 2019 was employed for the purpose of this analysis.

1.3 Household Expenditure Space

Hausmann and Klinger (2006), Hidalgo et al. (2007), and Hidalgo and Hausmann (2009) introduced the Product Space methodology to illustrate the concept of relatedness among different products traded globally. They posited that a country's capacity to produce and trade diverse and ubiquitous/exclusive products is ultimately a function of the capabilities that exist within the nation.

The principle of relatedness has also been applied in various fields and contexts, serving as a valuable tool for understanding phenomena such as knowledge diffusion, industry agglomeration, research patents or even the survival of pioneering firms[48].

In this report, we have employed similar methodologies to construct the Expenditure Space for Malaysian households. Following the literature on basic needs and beyond, we have adopted the methods developed in the Product Space to gauge household well-being. By applying these methods, we can evaluate a household's ability to afford a variety of common and specialised goods and services as a function of its well-being (limited by actual income and the availability of goods and services).

[48] Recent research conducted by KRI, titled "Residential Settlements and Spatial Inequality: A Study of Greater Kuala Lumpur Neighbourhoods" also utilised the concept of relatedness to generate the GKL Amenity Space. This framework allows for the characterisation and ranking of neighbourhoods based on their place differentiation – how neighbourhoods are similar or dissimilar in terms of amenities they offer.

While Section 1.2.1 and 1.2.2 provides an overview of general consumption trends among households, breaking down their monthly budget allocation based on the consumption purpose, the Expenditure Space analysis in this section dives deeper into understanding household well-being by:

- Revealing the groups of products that are frequently co-consumed by households, revealing different lifestyles that exist in different households that consume these products.
- Identifying instances where household consumption exceeds the expected average, a concept we term "structural consumption" for specific products. This also reflects households' revealed preferences.
- Distinguishing items classified as basic needs and those considered aspirational for households of varying income levels.
- Recognizing households that satisfy their basic needs by observing higher-than-expected consumption in specific expenditure categories. Similarly, we identify households displaying traits of aspirational consumption patterns.

1.3.1. Expenditure Space Analysis

The data used for the Expenditure Space analysis was derived from the Household Income & Basic Amenities Surveys (HIS/BA) and Household Expenditure Surveys (HES) spanning from 2009 – 2019. This data was obtained through a formal request to DOS. Data on household expenditure were compiled according to the COICOP.

Historically, HIS/BA has been conducted every two years, while HES occurs approximately every four years, involving different sets of individuals. However, both the HIS/BA and HES surveys have been conducted simultaneously since 2014. Access to microdata for each household (instead of at the aggregated level) has provided us with the opportunities to conduct integrated analyses on both dimensions for each household, rendering improved comprehension of households' economic well-being. With data from both sources now linked, we can make meaningful comparisons of household consumption levels and patterns across income brackets, offering insights beyond traditional consumption expenditure brackets. For a more comprehensive discussion of the methodologies employed, please refer to "Technical Paper II: The Expenditure Space: A Model to Demarcate Malaysian Households"[49], published by KRI in 2019.

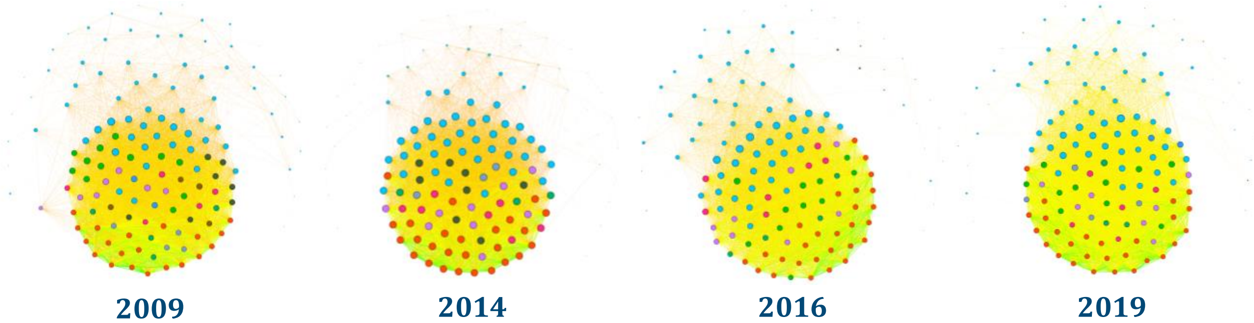
Figure 1.9 provides a visual representation of the Expenditure Space for the years 2009 - 2019. In this Expenditure Space, nodes symbolise the goods and services consumed by households, while the links indicate the degree of co-consumption between two goods or services. The size of a node corresponds to the extent of its connection with other nodes; larger nodes represent a higher number and stronger links with other nodes. The colour of the links signifies the relatedness between goods and services[50].

[49] Gregory Ho Wai Son and Suraya Ismail (2019)
[50] Ibid.

Additionally, we applied Community Analysis[51] to examine the connections between various products (nodes) and the density of these connections. This analysis provides insights into the diverse lifestyles among households that consume these products, identifying patterns ranging from basic needs consumption to aspirational consumption among households.

Community Analysis, derived from network science and graph theory, enables the clustering and categorization of specific nodes (representing goods and services) into groups based on their network configuration. The analysis results in clusters of goods and services, with each cluster distinguished by node colours and containing a wide range of products across different expenditure categories. For a closer examination of expenditure categories in each community class, please refer to Figure 1.12 – Figure 1.15.

Figure 1.9: The Expenditure Space, 2009 – 2019



Note: The Expenditure Space network was visualised using the Fruchterman-Reingold Algorithm, a force-directed algorithm which applies a spring-like attractive force to attract pairs of nodes toward each other while simultaneously applying a repulsive force to ensure all nodes are separated. For a more detailed visual representation of the Expenditure Space, please refer to Figure 1.12 – Figure 1.15.

The Expenditure Space is evidently structured in a well-defined core-periphery structure, a typical organization seen in network models. This structure exhibits two distinct characteristics:

1. Core - This contains nodes that have numerous connections to other nodes within the network.
2. Periphery - This refers to the region outside of the core where nodes are generally less interconnected.

Notably, goods and services located in the core tend to have a larger average degree, as represented by the size of the nodes within the core. This suggests that they are co-consumed by a larger proportion of households. Jointly, these two traits (being in the core and having larger sizes) imply that these goods are purchased by most households, regardless of their income level or household size. This strongly indicates that these particular goods and services are essential or basic needs required by all households.

[51] Ibid.

Our findings consistently reveal that the structure of co-consumption probabilities among Malaysian households remains relatively stable across the years analysed. The trends observed from 2009 – 2019 clearly demonstrate that the core of the Expenditure Space is predominantly characterised by community class colours such as red, pink, purple and green. These colours are primarily associated with the consumption of basic needs such as food, clothing and housing-related expenses. For example, food items like rice and bread; clothing items such as garments and footwears; and housing and utilities items such as rental and electricity bills fall into this core category. Figure 1.10 shows the example of items from the community classes situated within the Core category.

Figure 1.10: Example of items from the Core category community classes @ Basic needs consumption

FOOD: Rice, eggs, fresh meat, fresh seafood, fresh vegetables, potatoes, spices, sugar, coffee, tea, cocoa, honey, bread, butter, milk and other dairy products, chocolates, and sweets

CLOTHING: Garments, clothing accessories, shoes and other footwear

TRANSPORT: Petrol, passenger transport by road e.g. train, bus, taxi

HOUSING: Imputed rent/actual rental paid, utilities (gas, electricity, water supply), non-durable household goods

MISCELLANEOUS: Hairdressing and personal grooming

Note: Goods and services listed here is not exhaustive.

Conversely, goods and services found in the periphery tend to display the opposite pattern. They are usually consumed by specific households, and their lower degree of interconnectedness suggests that they are non-essential items. These goods and services are more indicative of a "better well-being" or represent aspirational items due to their exclusivity.

The findings reveal that the periphery category primarily consists of community class colours like blue, light green and grey. This pattern remained consistent across all the years analysed. These colours are associated with clusters of goods and services that are mostly related to recreation, health, education, and household equipment. For example, recreational services such as sport equipment and cultural items; health services including private healthcare services; education encompassing private and tertiary education; and the purchase of major household equipment like washing machines and air-conditioners. Figure 1.11 shows the example of items from the community classes situated within the Periphery category.

Figure 1.11: Example of items from the Periphery category community classes @ Aspirational consumption

RECREATION, SPORTS & CULTURE: Sports equipment, cultural services, packaged tours, television, photography equipment, musical instruments, gardening items, pet-related products, lottery

HEALTH: Public and private healthcare services, medical products, dental services

EDUCATION: Secondary and tertiary education

MISCELLANEOUS: Jewellery, insurance, social protection

HOUSING: Maintenance and repair of dwelling, carpets and floor coverings, furniture and furnishings, cooking appliances, air-conditioning, washing machines, refrigerators and freezers, household appliances, domestic services

TRANSPORT: Petrol, motor cars, motorcycles, maintenance of personal transport equipment

FOOD: Fresh milk, butter, sundry goods, wine, spirits and liquors, cigarettes, food away from home

Note: Goods and services listed here is not exhaustive.

Figure 1.12 – Figure 1.15 provide a detailed breakdown of community classes generated within the Expenditure Space for each year. From 2009 to 2016, the Community Analysis yielded 10 community classes, while in 2019, there were 11 classes. Each community class is distinguished by node colours as demonstrated in Figure 1.12 – Figure 1.15[52] and each community class encompasses a diverse set of products spanning different expenditure categories that are highly co-consumed, as detailed in Figure 1.12a – Figure 1.15a.

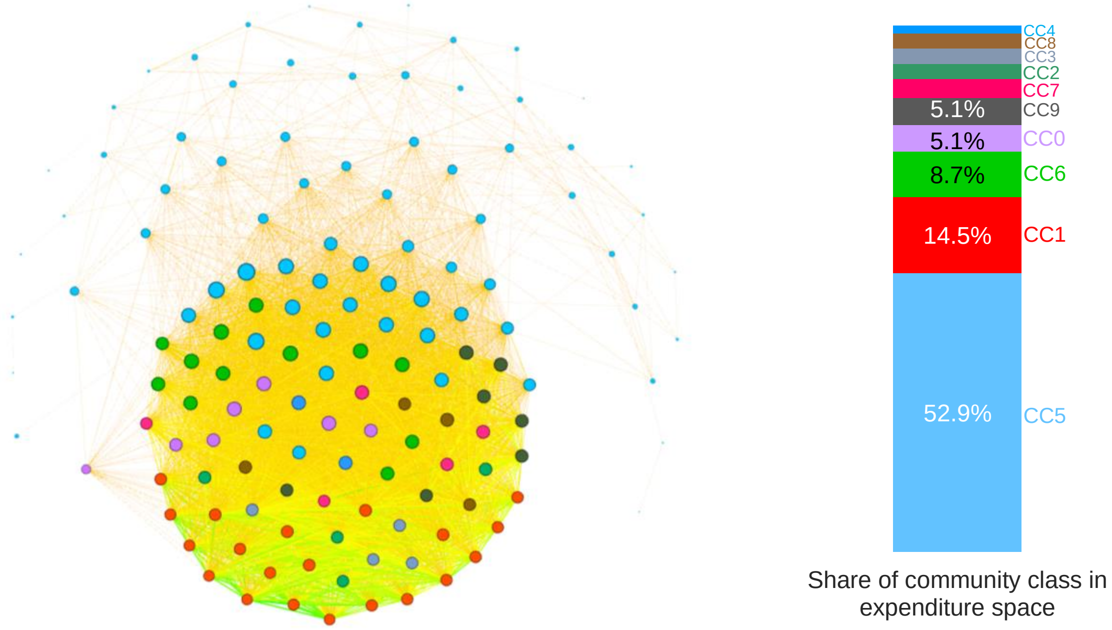
The community classes in Figure 1.12a – Figure 1.15a are arranged based on the total number of products co-consumed by households in their respective income deciles. Therefore, these classes reflect the distinctions between goods and services related to basic needs and those considered aspirational. "Aspirational" consumption reflects the co-consumption patterns of the top income deciles, while "Basic needs" consumption reflects the co-consumption of lower-income deciles.

Throughout all the years, Community Class (CC5) consistently exhibits the characteristics of aspirational consumption. It encompasses a diverse range of expenditure categories, primarily dominated by recreational spending (e.g. sports, packaged tours), followed by the acquisition of various household equipment (e.g. carpets, furniture) and healthcare services (e.g. dental, hospital expenses, medical products). Additionally, miscellaneous items such as jewellery and social protection expenses are notable within this community class. This pattern signifies consumption trends among households in the top income deciles, who possess the financial capacity to afford such goods and services.

[52] It is important to note that while the colours of the clusters remained consistent throughout the years, the composition of expenditure categories in the community classes differ across the years due to differences in the clustering algorithm.

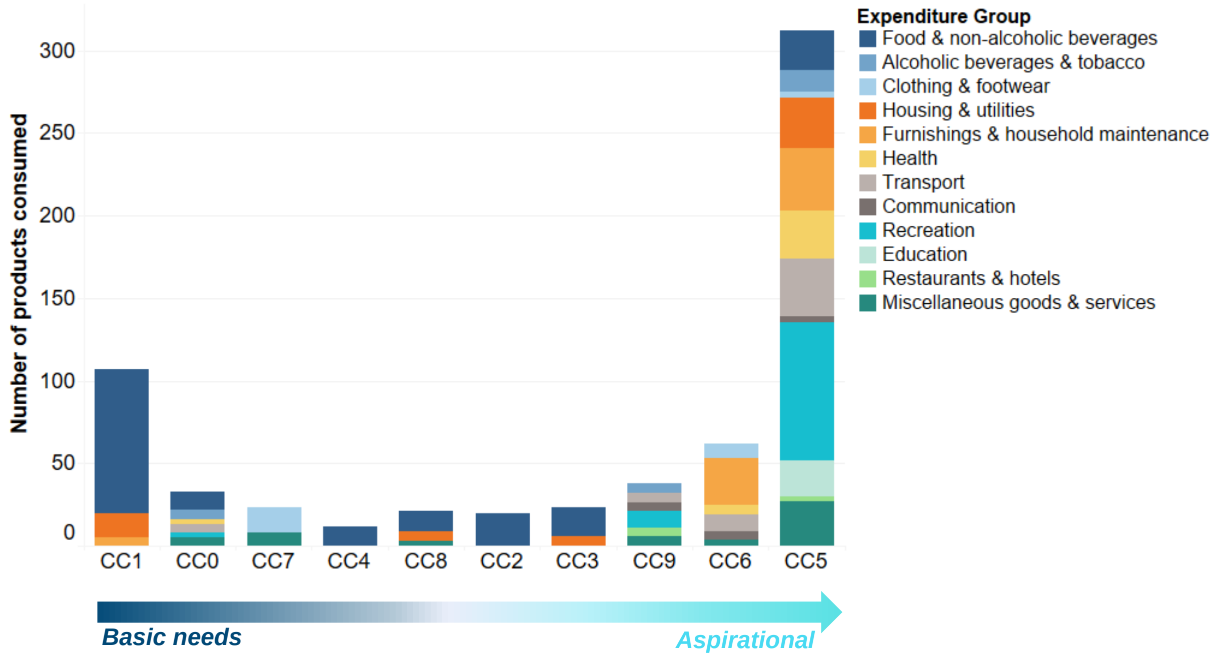
On the other hand, Community Class (CC1) consistently demonstrates the characteristics of basic needs consumption. It predominantly comprises expenditures related to food and housing, reflecting the consumption behaviour of lower income who prioritise their budget for essential items.

Figure 1.12: The Expenditure Space (Community Analysis): Malaysia's Consumption, 2009



Share of community class in expenditure space

Figure 1.12a: The breakdown of community class by COICOP expenditure group



Note: Refer to Appendix A for a detailed breakdown of goods and services in each community class.

Figure 1.13: The Expenditure Space (Community Analysis): Malaysia's Consumption, 2014

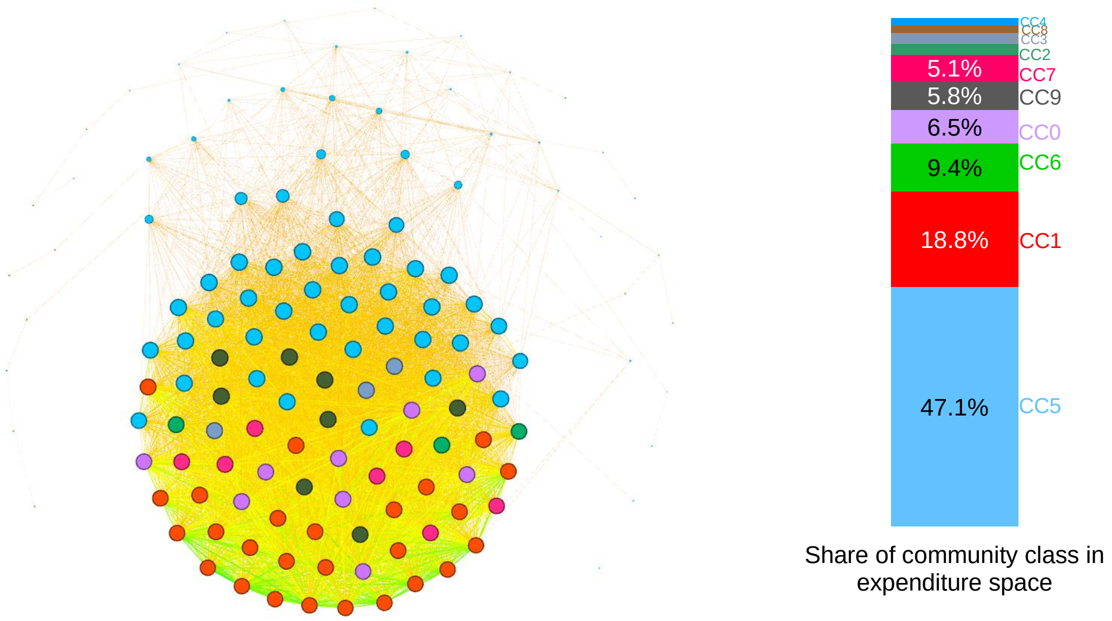
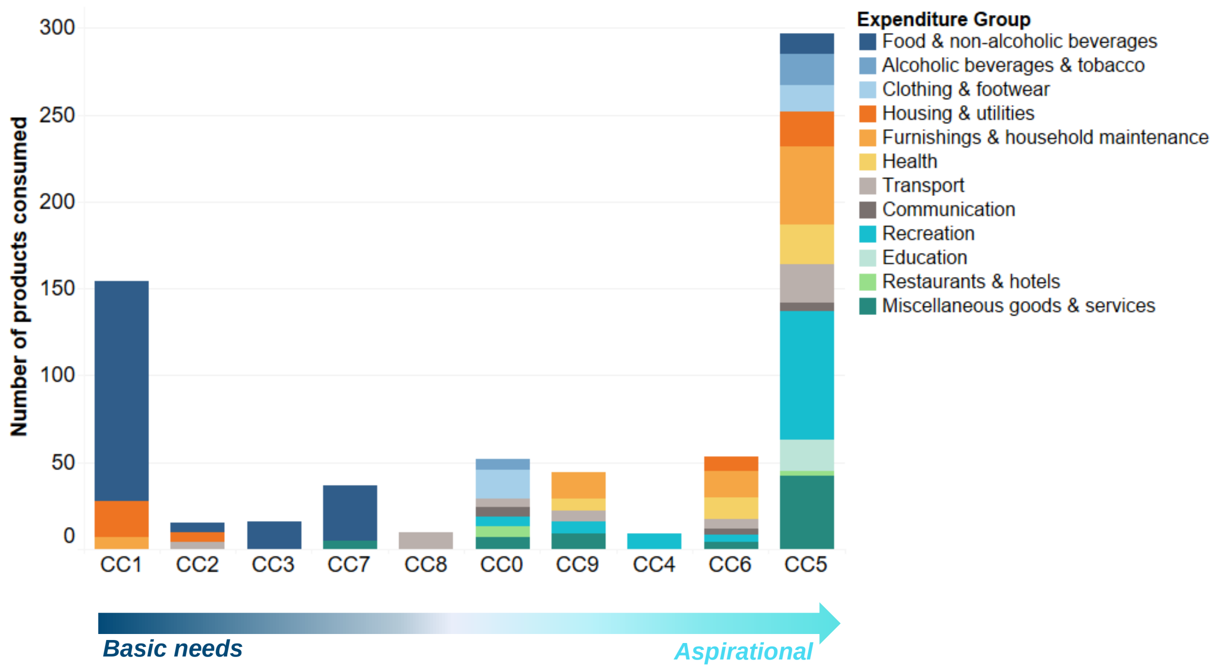


Figure 1.13a: The breakdown of community class by COICOP expenditure group



Note: Refer to Appendix A for a detailed breakdown of goods and services in each community class.

Figure 1.14: The Expenditure Space (Community Analysis): Malaysia's Consumption, 2016

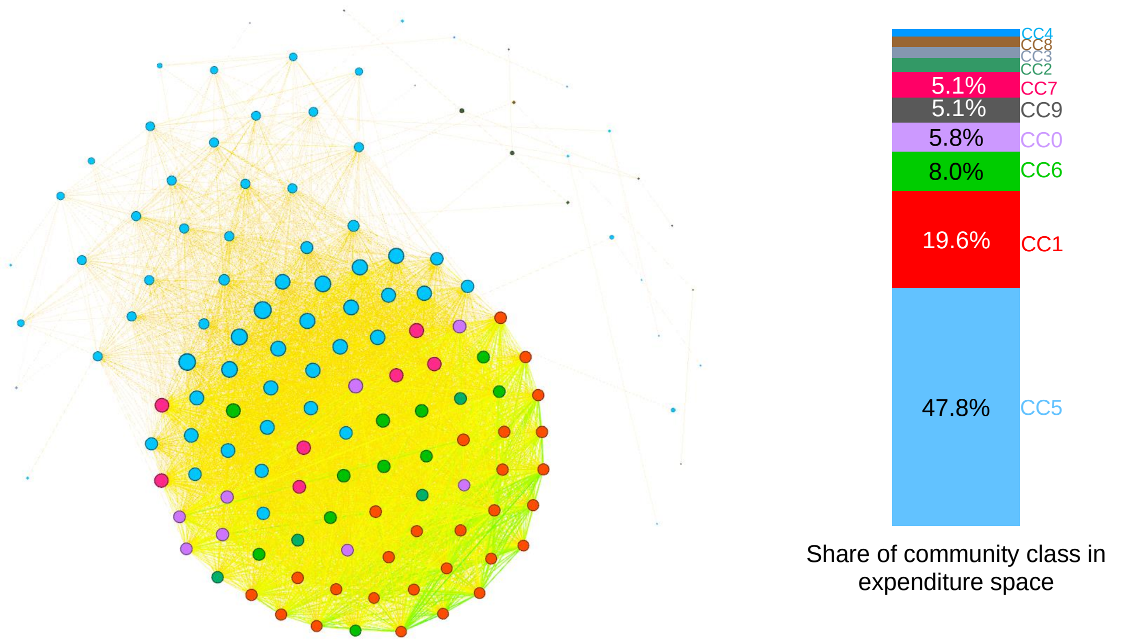
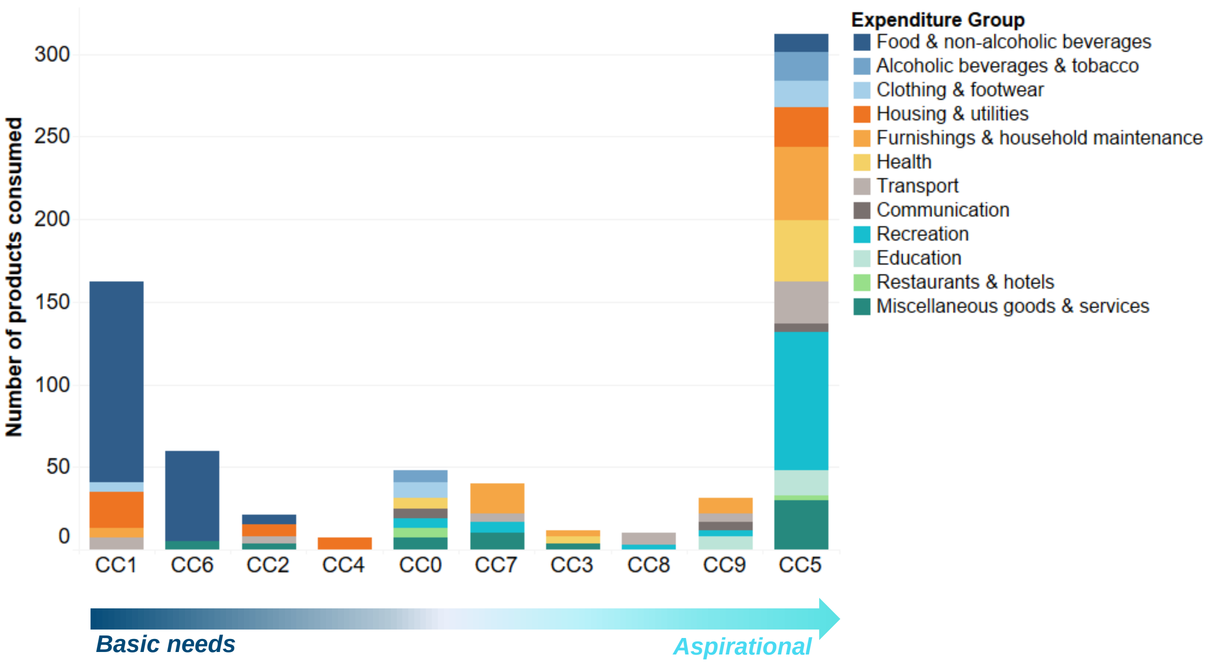


Figure 1.14a: The breakdown of community class by COICOP expenditure group



Note: Refer to Appendix A for a detailed breakdown of goods and services in each community class.

Figure 1.15: The Expenditure Space (Community Analysis): Malaysia's Consumption 2019

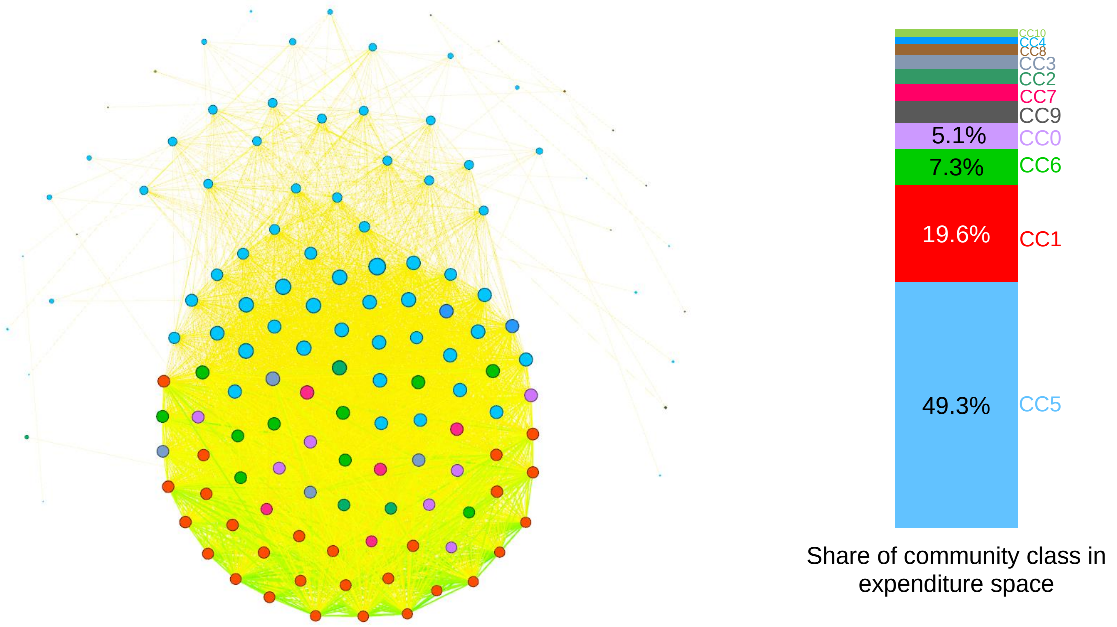
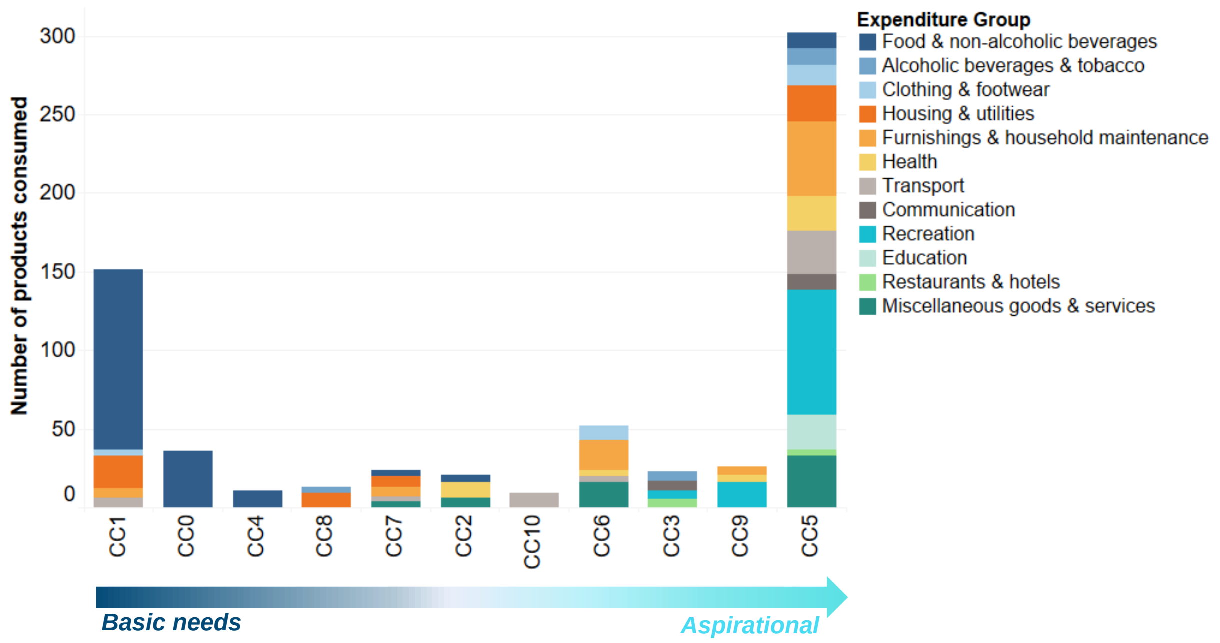


Figure 1.15a: The breakdown of community class by COICOP expenditure group



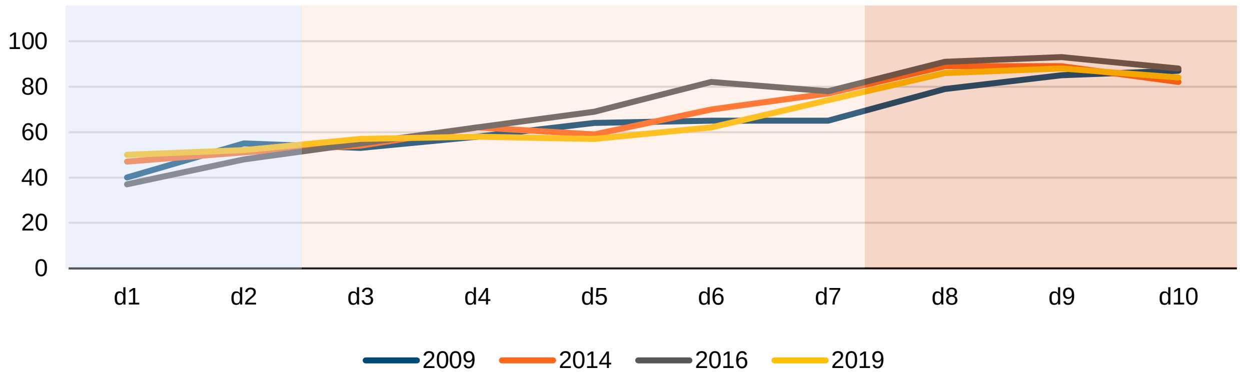
Note: Refer to Appendix A for a detailed breakdown of goods and services in each community class.

1.3.2. The dynamics of household expenditure by equivalised income

The previous sub-section provides insights into clusters of goods and services categorised according to the "hierarchy of needs", distinguishing between basic needs and aspirational consumption. This sub-section examines the dynamics of household expenditure within the Expenditure Space. To achieve this, we compute households' income deciles based on the equivalised income[53] distribution. This approach ensures that inter-decile comparisons have already adjusted for the effects of household size, composition and stratum.

Figure 1.16 illustrates the distribution of goods and services consumption across household deciles, computed based on equivalised income. It is important to note that this distribution considers only the number of goods and services consumed by households that exceed the Malaysian household's fair share for those products. In other words, it shows how many items households in Decile 1, for example, consume beyond what is typically considered as structural consumption for that product[54].

Figure 1.16: Distribution of household consumption, by income decile, 2009 - 2019



The findings show that households in the bottom 10% income bracket over the past decade experienced two phases of improvement in their standard of living: first, between 2009 and 2014, and subsequently, between 2016 and 2019. During these periods, there was an increase in their consumption of essential items like food, clothing, and household utensils. However, there was a dip in their expenditure between 2014 and 2016, characterised by reduced spending on household utensils.

As evidenced by Figure 1.17 to Figure 1.20, lower-income deciles, specifically Decile 1 and 2, allocated the majority of their expenditure towards food items, including fresh meat, fish, sugar, spices and others. Clothing and footwear also represented a significant portion of their budget, while housing expenditures primarily covered utilities and rent. Interestingly, these households also began investing in some household furnishings typically considered aspirational, such as carpet floorings, tableware and miscellaneous accessories. An important observation is the purchases related to social protection among households in 2019.

[53] Equivalised income is an indicator of the economic resources available to a standardised household. It takes into account of the differences in a household's size and composition, and thus is equivalised or made equivalent for all household sizes and compositions. For this analysis, square root equivalence scale was utilised as a means to equivalised income. For more information on equivalise scale, refer to Hawati Abdul Hamid, Gregory Ho Wai Son, and Suraya Ismail (2019).

[54] Refer to Appendix A for the distribution of household consumption exceeding the structural consumption for the products within each income decile.

In contrast, households in 'the middle' income range (Deciles 3 to 7) exhibited relatively consistent consumption patterns over the same decade. They diversified their food consumption, expanding their range to include a wider variety of food items (e.g. preserved vegetables). Moreover, they began allocating budgets for housing maintenance and diversified their selection of furnishings to include carpet flooring, cooking appliances and household textiles (see Figure 1.17 to Figure 1.20).

Regarding health expenses, the transition to private healthcare, dental services, and pharmaceutical/medical products began to emerge from Decile 6 onwards, reflecting an increasing focus on health-related matters. This shift is supported by their higher income compared to lower income deciles. Additionally, starting from Decile 5, households reported purchasing motorcycles and cars for transportation purposes.

On the other hand, households within the top 30% income bracket (Deciles 8 – 10) exhibited a diverse spending pattern throughout the decade, characterised by what can be termed as "aspirational consumption". These households consistently desired higher-quality and often more luxurious goods and services, reflecting their greater economic capacity and preferences for an enhanced quality of life. Their expenses on food decreased in dominance, while their spending on clothing remained relatively modest. Instead, these households favoured clothing maintenance services such as dobby services.

Housing-related expenditures also experienced an increase, with more funds allocated for maintenance and repair, reflecting the additional costs associated with homeownership. A substantial portion of their budget was allotted to furnishings and household maintenance, including items like air conditioning, washing machines, furniture, and the engagement of domestic help services.

Healthcare expenses among this group also saw a noticeable increase, covering dental care, pharmaceutical/medical products, private healthcare, and paramedical services. Transportation expenses expanded to include motor vehicles, including repair expenses and flights, suggesting an ability to afford air travel.

Recreation-related expenditures are most prominent among the top 30% of income earners. This included expenditures on entertainment, television, photography equipment and repair, musical instruments, sports gear, gardening, cultural activities, gambling, and packaged tours. The inclusion of packaged tours and flights in their spending habits indicates that these households had the financial means to indulge in extensive travel and leisure activities.

Furthermore, educational expenses, particularly for tertiary education, were significant. Dining out, miscellaneous items such as jewellery and watches, and investments in insurance and social protection also formed essential components of their expenditure profile, underscoring their commitment to a well-rounded and secure lifestyle.

Figure 1.17 to Figure 1.20 demonstrates the distribution of household consumption across community classes and income deciles. Refer to Appendix A for a detailed breakdown of this analysis.

Figure 1.17: Distribution of household consumption, by community class and decile, 2009

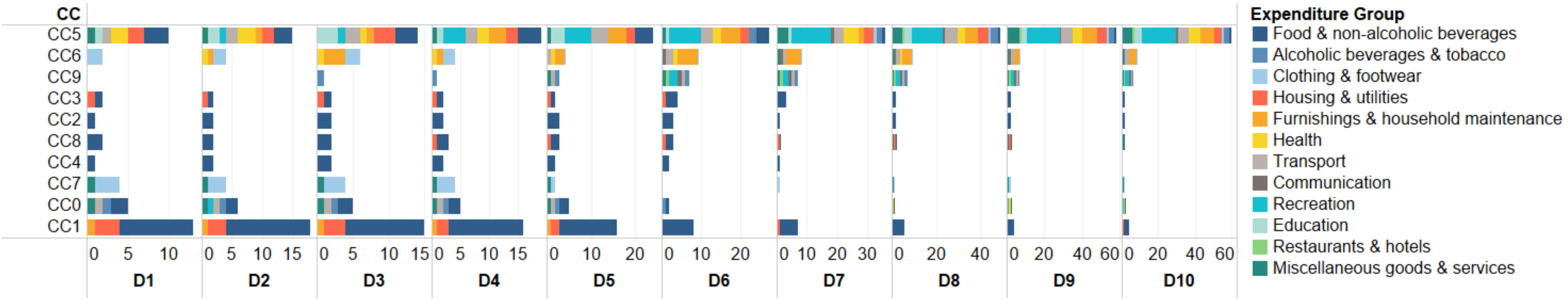


Figure 1.18: Distribution of household consumption, by community class and decile, 2014

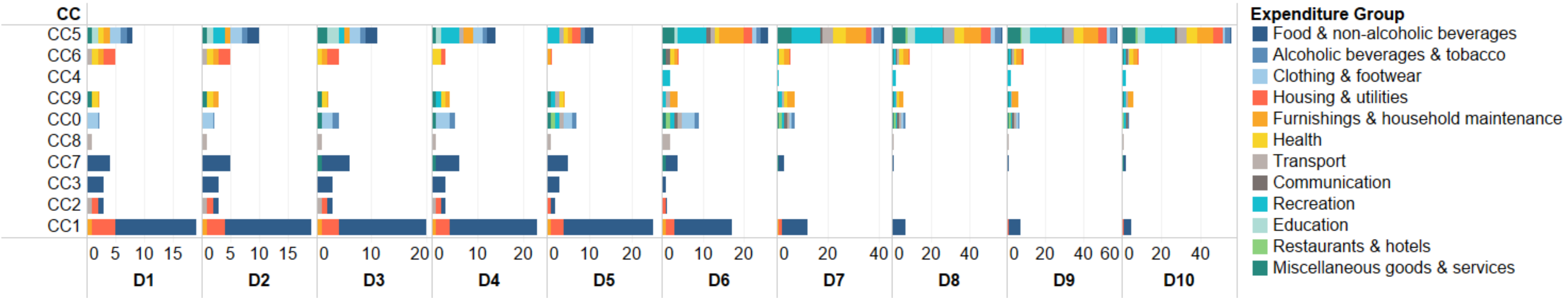


Figure 1.19: Distribution of household consumption, by community class and decile, 2016

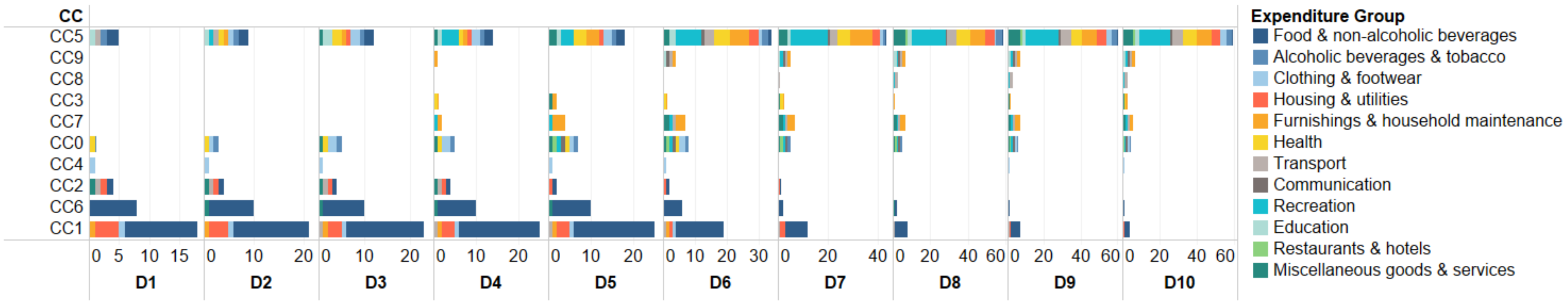
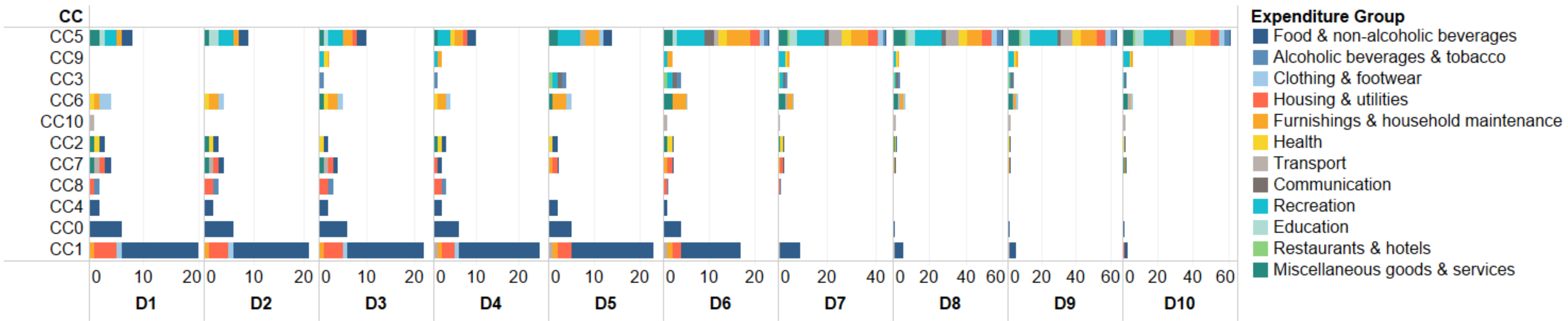


Figure 1.20: Distribution of household consumption, by community class and decile, 2019

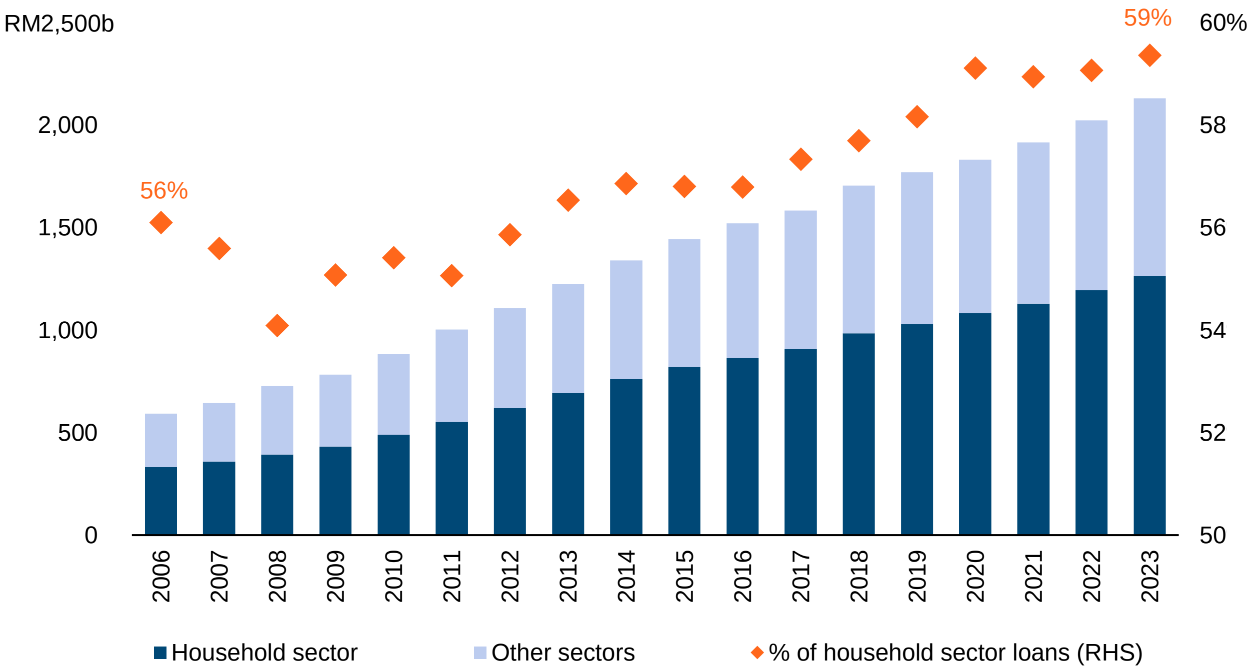


1.4 Household Debt

Household spending patterns, as explored in the previous section, have become increasingly diverse. This raises a crucial question: are households turning to debt to finance their escalating consumption habits? The diverse aspects of household indebtedness become apparent as individuals often resort to borrowing to finance both essential needs and aspirational desires. This borrowing behaviour prompts the question of whether households are leveraging on debt to fuel their consumption-driven lifestyles, and this can be addressed by examining the share of loans attributed to the household sector compared to total banking loans.

As illustrated in Figure 1.21, total loans by household sector in the banking system have consistently grown over the years, surging from RM332.7b in 2006 to RM1,265.3b in 2023. In terms of the share, the proportion of loans attributed to the household sector has risen from 56% in 2006 to 59% in the 2023. Despite some initial fluctuations, this share began to ascend in 2011. Subsequently, from 2014 onwards, household sector loans have maintained a relatively stable range of 57% - 59%, indicating a stable distribution of borrowing between the household sector and the rest of the economic/industry sectors.

Figure 1.21: Proportion of household sector loans over total loans in the banking system, 2006 – 2023

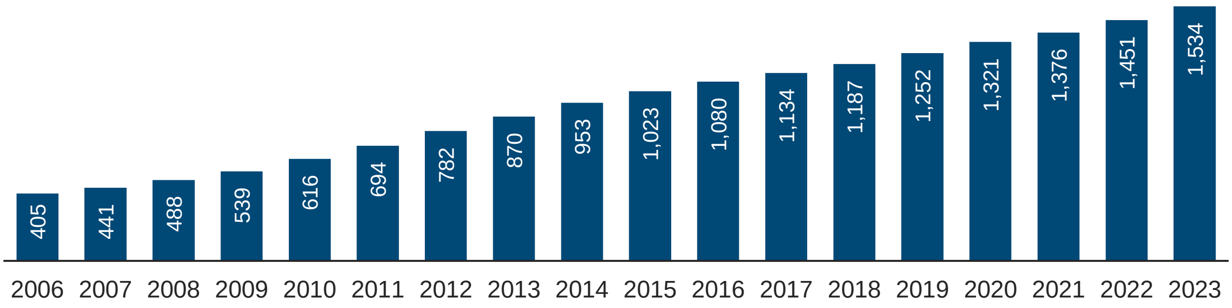


Source: BNM (Various years)

The upward trend of household sector loans may indicate households' involvement in dynamic economic activities, potentially driven by investments in housing, education and various personal expenditures. This trend also reflects consumer confidence and their willingness to leverage on financial resources to meet diverse financial needs.

While Figure 1.21 shows the statistics for loans by household sector, Figure 1.22 shows the statistics for household debt. Household debt has increased 3.8 times from RM405b in 2006 to RM1,534b in 2023.

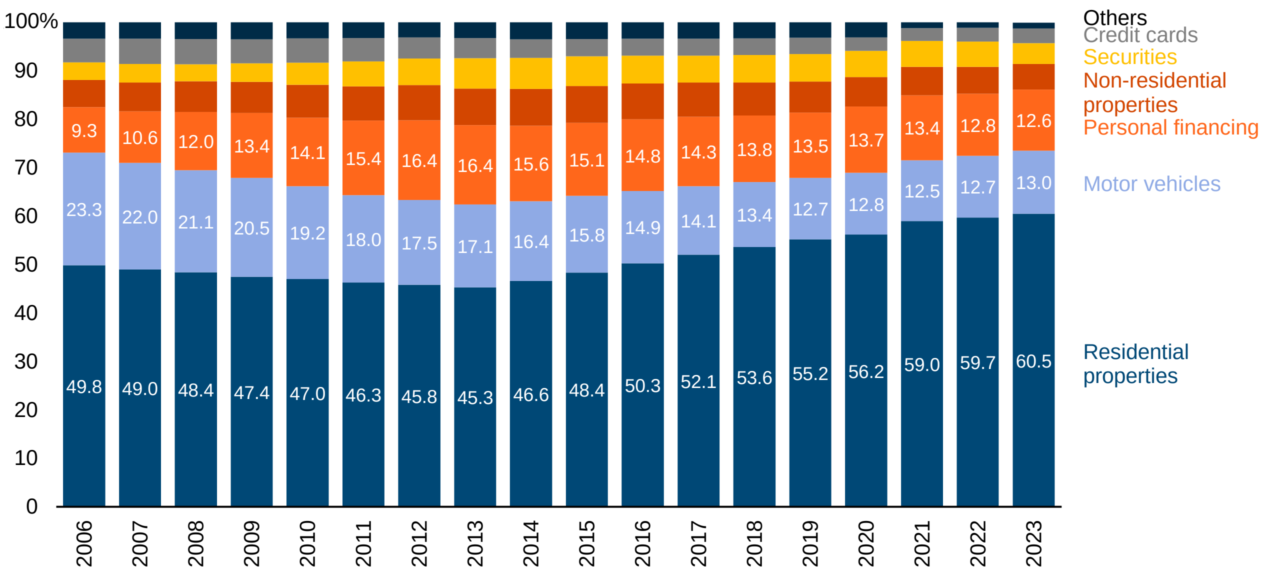
Figure 1.22: Total household debt (RM billion), 2006 – 2023



Source: BNM (2023a) and BNM (2024)

To understand why households, take up loans, we examined the household debt composition from 2006 – 2023. Figure 1.23 illustrates the dynamic evolution of household debt composition during this period. The statistics reveal that a significant portion of households' debt, about two-thirds, is allocated for residential properties. Its share has persistently increased from 36% in 1997 to 60.5% in 2023. This is closely followed by motor vehicles and personal financing.

Figure 1.23: Composition of household debt by purpose, 2006 – 2023



Source: : BNM (2023a) and BNM (2024)

In 2006, loans for residential properties amounted to RM202b and by 2023, this amount had quadrupled to RM928.1b. The continuous increase in residential loans, particularly in recent years, suggests increased demand among house buyers facilitated by government measures to promote homeownership[55]. This includes measures on stamp duty exemption to support first time home buyers, among others. Moreover, this trend also underscores the role of financialization in facilitating homeownership by providing easy access to credit, enabling certain segments of society to afford homes despite rising house prices. Chapter 4 will delve further into how innovative financing have made expensive homes more affordable.

Additionally, the composition of household debt depicts an interesting shift over the years. In 2006, motor vehicles were the second-largest category of loans sought by households, accounting for 23% of household debt. Although motor vehicle loans doubled from RM94.3b in 2006 to RM202.5b in 2023, with a moderate average annual growth of 5% over the period (in comparison to other loan categories), its share of households' debt portfolio steadily decreased to 13%. This decline, particularly between 2017 - 2021 was overtaken by personal financing—loans acquired for personal, domestic, or household purposes. However, a resurgence in car loans has been observed from 2022 onwards. According to BNM, this surge can be attributed to the ongoing fulfilment of backlog orders and robust car sales driven by promotional campaigns as well as the introduction of newer models during this period[56]. Thus, motor vehicles continue to be a significant contributor to household debt.

On the other hand, the share of personal financing ascended from 9% to 12.6% during the period. In terms of absolute figures, loans for personal financing experienced tremendous growth, averaging an annual growth rate of 10%, the highest among other categories. The most significant growth occurred in the initial period between 2006 – 2013. Loans for personal financing surged from households borrowing a total of RM37.9b in 2006 to RM193.3b in 2023. This indicates a growing reliance on loans among households to meet personal needs. It also raises concerns of whether rising prices are driving the need for loans, or if loans are being used to sustain current lifestyle trends or if there is inadequate government assistance in meeting these needs, such as education loans.

The trend in credit card loans also reveals an interesting finding. During the period, credit card loans peaked in 2007, accounting for 5.3% of total household debt. However, despite a growth in credit card loans over the period, its share steadily declined to 2.8% in 2020. This decline remained relatively stable in the subsequent years, before showing a slight increase to 3% in 2023. It is also observed that during the pandemic years, credit card loans experienced negative growth; however, it is gradually returning to pre-pandemic levels. The decline in its share of debt portfolio potentially suggests the availability and increasing popularity of alternative credit options for households, such as Buy Now, Pay Later (BNPL) schemes, which will be further explored in Chapter 2.

[55] BNM (2024)
[56] BNM (2023b) and BNM (2024)

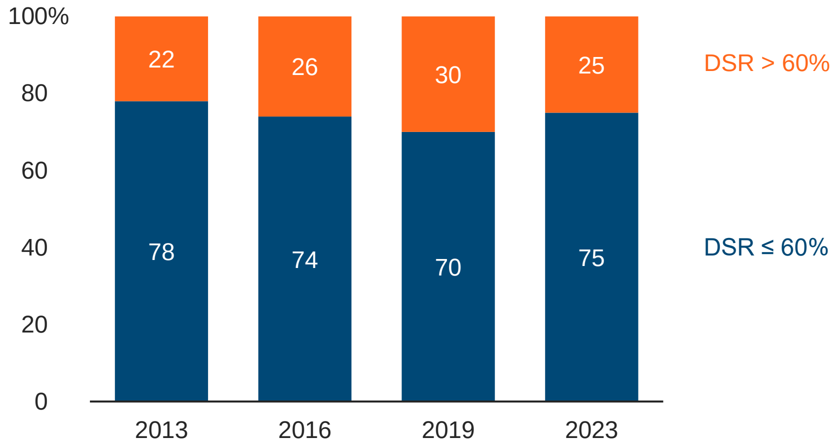
1.4.1. Are households vulnerable given the high indebtedness?

Overall, the household debt portfolio highlights the significant dominance of housing loans, with recent trends indicating a notable surge in personal loans among households. This raises several concerns, including the financial vulnerability of households, particularly given the high levels of household debt, which currently stands at 84.2% of household debt to GDP.

Additionally, factors such as the rising cost of living and increasing interest rates further compound these concerns. For instance, in the event of continuous increases in interest rates or income shocks, households may potentially default on loans, exacerbating their financial burden. BNM has also underscored these risks, emphasizing the potential consequences of higher-than-anticipated default rates or sharp declines in house prices, especially considering that housing debt constitutes nearly 60% of household debt[57].

According to BNM, the percentage of newly approved loans with a debt-service ratio (DSR) exceeding 60% has seen a steady increase from 22% in 2013 to 30% in 2019, subsequently declining to 25% in 2023. In other words, one out of every four borrowers carrying a high-risk DSR. Approximately 69% of these credit exposures were held by middle and high-income borrowers, suggesting that they may have adequate buffers to sustain loan repayments in the event of financial crisis[58].

Figure 1.24: Share of newly approved loans by Debt-Service-Ratio (DSR), 2013 – 2023



Source: BNM (2020) and BNM (2024)

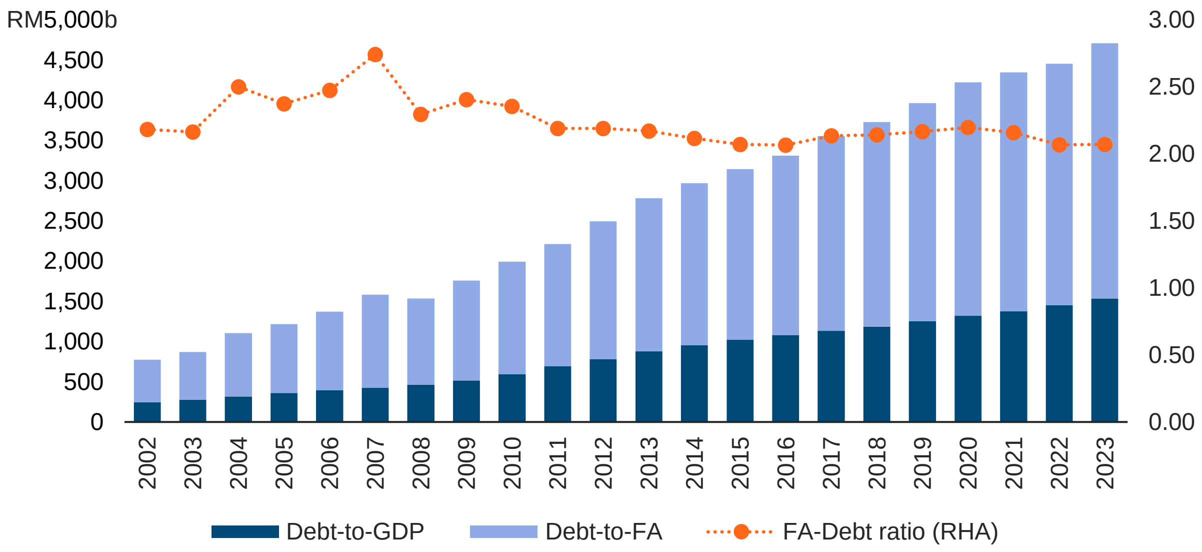
However, it is important to note that the remaining one-third (31%) of households with a DSR exceeding 60% are composed of low-income borrowers, who are more vulnerable to adverse events such as interest rate hikes or loss of income. These households may struggle to secure additional financial support to meet their monthly repayment obligations.

[57] Ibid.
[58] BNM (2024)

Furthermore, the enrolment of borrowers in the Debt Management Programme offered by AKPK has increased from 23,837 in 2021 to 34,670 borrowers in 2022[59], signalling growing concerns about the financial well-being of households. A survey conducted by the AKPK reveals that three out of ten Malaysian working adults need to borrow money to purchase essential goods, citing factors such as the high cost of living, lack of surplus income, and high debt commitments as primary reasons for their inability to save.

Despite these challenges, it appears that households continue to maintain financial assets surpassing their debt levels, albeit with a slower expansion rate. The aggregate value of financial assets remains stable at 2.1 times the total household debt[60].

Figure 1.25: Households Financial assets – Debt ratio, 2002 – 2023



Source: CEIC, n.d.
Note: FA refers to financial assets

However, there is growing concern about the increasing vulnerabilities among highly leveraged borrowers who have limited financial buffers, especially given the current situation of escalating cost of living pressures. Nevertheless, BNM stated that credit risks from the household sector remain under control, supported by improvements in economic and labour market conditions, which ensure overall household resilience amid rising borrowing costs and healthy debt-servicing capacity[61].

[59] AKPK (2023)
[60] BNM (2023b)
[61] Ibid.

1.5 Concluding Remarks

This section has demonstrated that wages have stagnated for the bottom 50% of the population. The Malaysian labour market, in the absence of robust policy and institutional measures, demonstrates a structural pattern of suppressed and broadly regressive wage growth. While the overall relative pattern for 1995 – 2019 has been progressive, this progressivity is almost exclusively a result of the time periods in which the minimum wage was introduced.

In other words, the labour market, "left to its own devices", and functioning with prevalent market imperfections and power imbalances, provides a poor pathway for the larger part of the workforce to secure the foundations of a dignified life. The paltry levels of real wage growth in absolute ringgit terms for the bottom half of the wage distribution, even after including the effect of the minimum wage, is a testament to this reality.

In addition, the analysis of household well-being through the expenditure space seems to suggest that the overall bottom to middle 70% of households are still consuming items for basic needs and not for aspirational goods for the past 7 years. Over the past decade, households at the bottom 10% (Decile 1) experienced an increase in welfare twice between 2009 – 2014, and between 2016 – 2019, but they mainly consumed more food, clothing, and household utensils. Similarly, households in 'the middle' income (Decile 3-6) exhibited relatively stable consumption patterns. They consumed a wider range of food items and consumed a greater diversity of household utensils. They diversified their food consumption, expanding their range to include a wider variety of food items (e.g. preserved vegetables). Moreover, they began allocating budgets for housing maintenance and acquiring a wider variety of household utensils, including items such as carpet floorings, cooking appliances, and household textiles.

The 'middle class' or aspirational consumption is consistently found in households in the top 30% (Decile 7 -10). These households consistently desired higher-quality and often more luxurious goods and services, reflecting their greater economic capacity and preferences for an enhanced quality of life. Notably, their expenses on food decreased significantly, while their spending on clothing remained relatively modest. Housing-related expenditures also experienced an increase, with more funds allocated for maintenance and repair, reflecting the additional costs associated with homeownership. This group's expenditure on healthcare is more pronounced[62]; covering dental care, pharmaceutical/medical products, private healthcare, and paramedical services. Lastly, recreation-related expenditures are most prominent among the top 30% of income earners. This included expenditures on entertainment, television, photography equipment and repair, musical instruments, sports gear, gardening, cultural activities, gambling, and packaged tours.

[62] We deduce that the top 30% do not utilise public healthcare compared to the bottom 70%, as the expenditure on healthcare is non-significant for the latter. It is assumed that this is due to the latter group's propensity to consume public healthcare.

The upward trend of household sector loans reflects consumer confidence and willingness to leverage financial resources to meet basic and aspirational consumption. However, this upward trend, coupled with the analysis that demonstrated only the top 30% of households are spending on aspirational goods and services, is worrying. Affluent households will always capture a significant share of credit in the era of financialization. The expansion of credit allows them to invest or meet short-term financial needs at a low cost. Meanwhile, a policy expanding debt to middle- and low-income households carries the heaviest debt burdens and is even more problematic if the debt is taken for the purpose of just maintaining a 'basic need' standard of well-being.

CHAPTER 02

REDEFINING CREDIT: THE RISE OF "BUY NOW, PAY LATER" IN THE CONSUMER CREDIT SYSTEM

CHAPTER 2

REDEFINING CREDIT: THE RISE OF "BUY NOW, PAY LATER" IN THE CONSUMER CREDIT SYSTEM

Debt is a two-edged sword. Used wisely and in moderation, it clearly improves welfare. But, when it is used imprudently and in excess, the result can be disaster. For individual households and firms, overborrowing leads to bankruptcy and financial ruin. For a country, too much debt impairs the government's ability to deliver essential services to its citizens.

Cecchetti, Mohanty, and Zampolli (2011)

2.1 Introduction

The consumer credit system has evolved significantly over the past century. From traditional lending practices to the advent of credit cards and online banking, the credit landscape has transformed to keep pace with digitalisation, economic growth, shifting consumer behaviour, and regulatory changes. Within this dynamic environment, Buy Now, Pay Later (BNPL) has emerged as an innovative payment method. Originating in the West, the concept has swiftly spread to emerging markets, including Malaysia.

BNPL is a credit arrangement that enables consumers to purchase goods and services immediately, deferring payment through scheduled instalments. Unlike traditional credit cards and loans, BNPL often does not require extensive credit checks. This model's allure lies in its simplicity, accessibility, and flexibility, appealing to a broad spectrum of consumers, particularly those belonging to the millennial and Generation Z (Gen Z)[63] cohorts. By redefining credit, BNPL challenges conventional wisdom and opens new horizons. It is not merely a financial product; it is a cultural, economic, and technological phenomenon that merits comprehensive exploration. The growth of e-Commerce and the integration of BNPL into online checkout processes have further fuelled its popularity. In 2022, the global BNPL market was valued at USD6.2 billion[64]. By 2030, the BNPL market is projected to grow to USD39.4 billion (CAGR: 26.0%)[65]. The regional and global traction has attracted significant investment, leading to the emergence of dedicated BNPL platforms and the integration of BNPL services by traditional financial institutions.

The rapid growth of BNPL is an indication of consumers' need for innovative payment solutions to increase consumption. However, BNPL may encourage overspending where the ability to pay for an item over a period can make a purchase seem more affordable than they are, potentially leading to a higher probability of default. In the US, for instance, 38% of BNPL users surveyed had fallen behind on at least one payment, of which, 72% believed their credit scores declined as a result[66]. Similarly,

[63] Pew Research Center categorises millennials as those born between 1981 and 1996, while Gen Z are those born between 1997 and 2012 (Dimock, 2019).
[64] Research and Markets (2023)
[65] Ibid.
[66] Credit Karma (2021)

approximately 25% of BNPL users in the UK have not been able to pay their instalments on time based on a report by the Centre for Financial Capability[67].

This chapter seeks to understand the mechanics and prevalence of BNPL in Malaysia. In addition, it aims to examine the economic implications associated with BNPL and subsequently, offer policy considerations for relevant stakeholders to navigate the evolving BNPL landscape.

This chapter begins with a review of the existing literature on BNPL and its effects on the financial health of consumers. It then attempts to provide an overview of the consumer credit system in Malaysia, bringing attention to the evolution of Malaysia's consumer credit system over the years, with a focus on the rise of BNPL. This chapter then lays out the BNPL regulatory landscape, followed by the economic implications of BNPL both to the economy as well as consumers. This chapter ends with several policy options for relevant stakeholders to manage the risks related to BNPL while ensuring that the consumer credit system remains conducive for economic growth.

2.2 Assessing the Implications of BNPL: Insights from Existing Literature

Research on BNPL is limited but expanding. Given the rising popularity of BNPL, there is a growing interest in understanding the dynamics of BNPL and its potential implications, particularly in relation to consumers' financial well-being, household indebtedness, and consumption behaviours. The existing body of research suggests varied findings, with some studies indicating BNPL's positive influence on consumer spending and financial inclusion, while others raising concerns on over-indebtedness and financial instability.

Bian, Cong, and Ji (2023) documents an increase in consumer spending in China from higher BNPL utilisation without observing any increase in indebtedness. They conclude that BNPL serves the role of digital cash instead of being a consumer credit with negative welfare implications, as experienced in other developed countries. Rejla, Ward, and Zhao (2023) articulate a perspective where BNPL emerges as a viable alternative to traditional high-interest loans. The research argues that by offering a relatively safer borrowing channel, BNPL can shield households from predatory debt cycles characterised by exorbitant interest rates and stringent repayment terms[68]. This suggests a silver lining, portraying BNPL schemes as a tool for financial liberation, offering respite from the traditional debt traps that have ensnared numerous households in the past.

BNPL has also been noted to engender a transformative effect on the financial landscape, especially in promoting inclusivity and bridging gaps. Berg et al. (2023) describes BNPL as a signal of financial empowerment, capable of paving the way for marginalised groups to enter the financial system. These initiatives, noted for their facile accessibility and user-friendliness, seemingly dismantle conventional bureaucratic roadblocks, offering a streamlined pathway for the unbanked and underbanked populations to engage with credit systems. This emerging narrative paints BNPL as a potential catalyst for fostering a more equitable financial future where opportunities for economic participation are significantly broadened.

[67] Jamieson and Chaudry (2023)
[68] Sng and Tan (2022)

In the longer-term, however, Berg et al. (2023) suggest the possibility of a decline in credit scores, increase in household default risk, and subsequent reduction in households' access to financing. Within the same strand, Lux and Epps (2022) delineates that the oversimplified nature of acquiring goods and services through BNPL can overshadow prudent financial judgment, fostering an environment where consumers give in to temptations without fully weighing the financial ramifications involved. In exploring the nuances of evolving consumer behaviors, the study conducted by Berg et al. (2023) unveils a concerning trajectory where BNPL schemes appear to be shaping a more indulgent and less restrained consumer culture. This study meticulously explores how the flexibility that BNPL offers potentially recalibrates consumers' financial prudence, leading to increased indulgence in luxury and non-essential items. This shift signals a significant departure from conventional fiscal conservatism, potentially fostering a new wave of consumers prioritising immediate gratification and luxury over savings and financial security. Berg et al. (2023) suggest that this trend could herald a transformative phase in the retail industry, where consumer values and purchasing philosophies are notably shifting, thus necessitating a deeper investigation to fully grasp its long-term implications and formulate strategies to guide responsible consumption.

Rejla, Ward, and Zhao (2023) unearth seasonal variations in consumption patterns facilitated by BNPL. The research accentuates that these schemes have a penchant for encouraging heightened spending during festive seasons and sale periods. This phenomenon may fuel a cyclical pattern of increased consumer expenditure during certain times of the year as explored by Aalders (2023). This creates a wave of seasonal consumption spikes, reshaping how consumers approach spending during festive seasons, driven by the allure of easy payment solutions offered by BNPL.

As a result, BNPL has prompted discussions and research on regulatory oversight and consumer protection. Studies have examined the regulatory frameworks in different jurisdictions, with some arguing for stricter regulations to protect consumers[69] and others advocating for a balance between innovation and regulation[70].

Overall, the growing literature on BNPL reflects the payment method's increasing prominence and complexity. While offering a novel and convenient credit solution, BNPL also raises significant questions and challenges that require careful consideration. The ongoing research and debate within academia, regulatory bodies, and the industry itself suggest that BNPL will continue to be a vibrant area of exploration and innovation.

[69] Sng and Tan (2022)
[70] Rizk (2021)

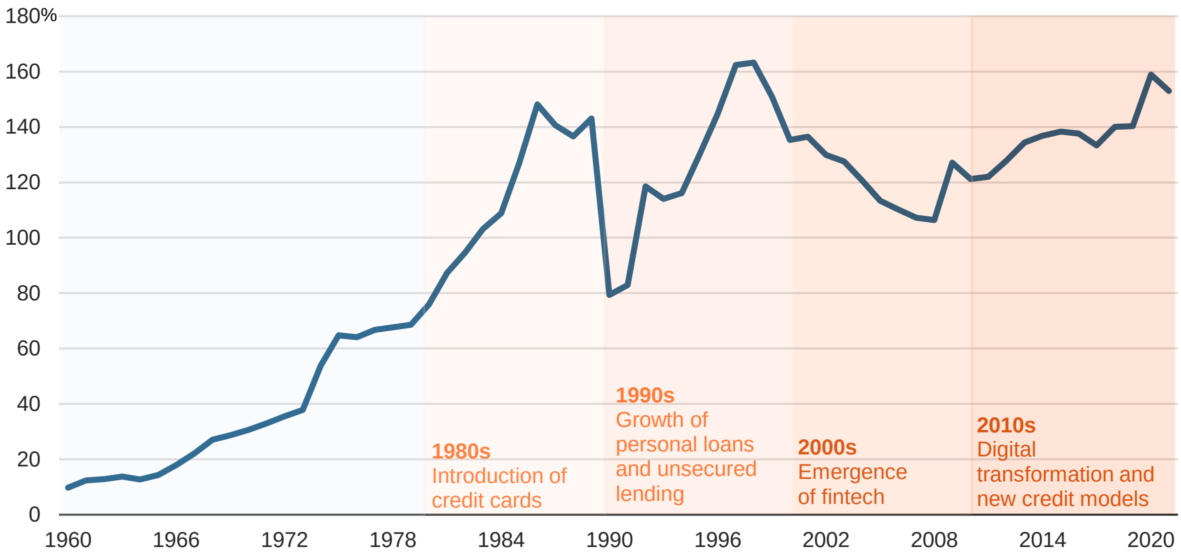
2.3 Overview of the Consumer Credit System

2.3.1. Evolution of the Consumer Credit System

The consumer credit landscape in Malaysia has undergone significant changes over the past few decades, characterised by advancements in the banking infrastructure, credit facilities, regulation, and consumer behaviours (see Figure 2.1). In the early post-independence years, Malaysia's consumer credit market was characterised by traditional banking structures. Consumer credit was primarily provided through conventional banking channels, focusing on secured lending for asset acquisitions such as home mortgages and automobile financing. Credit facilities were accessible to the urban and economically privileged segments of the population, leaving a considerable portion of society underserved.

The 1980s marked a turning point with the introduction of credit cards. This period saw the entry of foreign banks and increased competition among local banks, spurring innovation in consumer credit products. The credit card became a symbol of modernity and financial sophistication, appealing to the growing middle-class in Malaysia. Regulators played a proactive role in shaping the credit card market by introducing guidelines and promoting transparency. However, the lack of stringent credit checks led to concerns over mounting consumer debt, triggering regulatory interventions to tighten credit assessments and promote responsible lending.

Figure 2.1: Bank assets, as a share of GDP, 1960 – 2021



Source: BNM (2023b), IMF (2023)

The 1990s and early 2000s witnessed the growth of personal loans and unsecured lending. Financial institutions began to explore underserved markets by introducing tailored credit products. Concurrently, the Malaysian government embarked on financial liberalisation policies, opening the door for non-bank financial institutions (NBFIs)[71] to enter the consumer credit market. This era also saw the development of credit reporting agencies, enhancing risk management and allowing for more refined credit assessments. The Credit Reporting Agencies Act of 2010 further standardised credit reporting practices, fostering greater transparency and accountability. Since 1992, the size of Malaysia's financial system has surpassed GDP, signalling the financialization of the economy amid rapid finance growth.

The Asian Financial Crisis in 1997 and the Global Financial Crisis in 2008 had profound impacts on Malaysia's consumer credit landscape. These crises prompted regulatory recalibration to ensure stability and consumer protection. Stricter lending criteria were imposed, and there was a renewed emphasis on financial literacy and responsible borrowing. The crises also led to a re-evaluation of unsecured lending practices, with regulators pushing for risk-based pricing and a greater focus on creditworthiness. BNM played an instrumental role in steering these changes, aligning the country's consumer credit practices with international standards.

The early 2010s saw the digital revolution transforming Malaysia's consumer credit landscape, paving the way for innovations in fintech. Online banking, mobile applications, and digital platforms reshaped the way consumers access and manage credit while fintech firms introduced alternative credit scoring models, utilising data analytics and artificial intelligence (AI) to assess credit risk beyond traditional parameters. Peer-to-peer (P2P) lending platforms also emerged, democratising access to credit and bridging gaps in the conventional banking system. Credit cards and personal loans remain popular but are now accompanied by various other credit options, including BNPL. Recognising the potential of fintech, Malaysian regulators adopted a supportive stance, introducing regulatory sandboxes and collaborative frameworks to foster innovation while maintaining oversight and consumer protection.

Within this evolving backdrop, Malaysia's diverse population has displayed varied attitudes toward credit. While urban areas may exhibit a more liberal approach to borrowing, cultural norms and socio-economic conditions heavily influence credit behaviour across different regions with education, awareness of financial products, and economic cycles significantly impacting demand and consumption patterns.

2.3.2. The Rise of BNPL

BNPL is a type of short-term financing that allows consumers to make purchases and pay for them at a future date, often interest-free. It is also referred to as point-of-sale (POS) instalment loans and is becoming an increasingly popular payment option, especially when shopping online.

[71] NBFIs include, amongst others, provident and pension funds, Development Finance Institutions (DFIs), savings institutions, insurance companies,

The rise of BNPL is a global phenomenon. From established markets in the US and Europe to emerging economies across Asia, BNPL has found resonance with consumers and merchants alike. In 2022, the global BNPL market was valued at USD6.2 billion. By 2030, the BNPL market is projected to grow to USD38.6 billion (CAGR: 26.1%)[72]. Within the Southeast Asian region, a similar trend is observed (see Table 2.1).

Table 2.1: Southeast Asia BNPL market, 2021 – 2026e

Country	BNPL market share across payment methods[73] (%)			Increase in BNPL spend on e-Commerce between 2021 to 2026	Number of users in 2021 (million)
	2021	2023e	2026e		
Indonesia	1.0	3.0	6.0	3.3x	11.3
Malaysia	**1.0**	**3.0**	**6.0**	**3.5x**	**4.0**
Philippines	0.0	3.0	5.0	8.0x	5.1
Singapore	2.0	4.0	6.0	2.0x	1.5
Thailand	1.0	3.0	5.0	2.5x	2.4
Vietnam	0.0	2.0	4.0	6.5x	5.0

Source: IDC (2022)

While payment methods via instalment, such as Instalment Payment Plans (IPPs) have been around for some time, BNPL's entry into the Malaysian market is fairly recent. During the mid-2010s, a number of start-ups began to experiment with BNPL concepts, providing shoppers with instant credit at the point of purchase. Early adopters were young, tech-savvy consumers looking for flexible and convenient payment options. The promise of "zero-interest" payments and the elimination of traditional credit checks appealed to a generation less inclined towards conventional credit cards. The rise in e-Commerce and digital payment platforms also led to BNPL becoming an attractive option for both consumers and merchants.

Several BNPL providers have emerged in Malaysia, each employing distinct strategies to capture market share (see Table 2.2). Local and regional start-ups include companies such as Atome, Hoolah, and PayLater, which have made inroads in the market by forming partnerships with local merchants, tailoring their services to suit the preferences of Malaysian consumers. Given the growing market potential, international players such as Afterpay and Klarna are exploring expansion into the Malaysian market, leveraging on their global success. Collaborations with banks and financial institutions have also been an adopted strategy of BNPL providers (e.g. Standard Chartered partnering with Pine Labs).

BNPL providers often focus on three key aspects; namely (1) consumer engagement, where extensive marketing and social media campaigns have been used to create brand awareness, (2) merchant partnerships, where collaborations with well-known brands and e-commerce sites are common to enhance reach, and (3) technology integration, where user-friendly mobile apps and integration with existing e-wallets contribute to a seamless customer experience.

[72] Research and Markets (2023)
[73] Payment methods include credit and debit cards, domestic payments, mobile wallets, BNPL, and other payment methods (e.g. cash on delivery, ATM payments etc.).

Table 2.2: BNPL providers in Malaysia (non-exhaustive)

	BNPL provider						
	Atome	Shopee SPayLater	Grab PayLater	Hoolah	MyIOU	Fave PayLater	Split
Credit limit	RM1,500 (non-credit card users) RM5,000 (credit card users)	Up to RM6,000, based on user assessment	Based on user assessment	Based on user assessment	RM1,000 but can be increased to RM10,000	Based on user assessment	Based on user assessment
Tenure	3, 6, or 12 months	1 month (BNPL) 2, 3, 6, or 12 months (Instalment Plan)	1 month or 4 months	3 months	2, 3, or 6 months	3 months	Up to 3 months
Processing fee	1.5% for 6- and 12-month tenures	1.5% per month on total order amount	0%	0%	0%	0%	0%
Late payment fee	RM30 – RM60 for 3-month tenure RM30 – RM150 for 6-month tenure RM30 – RM330 for 12-month tenure Account deactivation	Account deactivation	Account deactivation	RM5 or 1% on outstanding amount per late payment – whichever is higher	RM5 or 1% on outstanding amount per late payment – whichever is higher	1.5% of outstanding payable amount per late instalment	-
Reactivation fee	RM50 (additional RM25 if reactivation fee and instalment not paid within 7 days)	RM10	RM10	-	-	-	-
Source of revenue	Merchant fee Processing fee	N/A	Merchant fee	Merchant fee	Merchant fee	Merchant fee	Merchant success fee

Source: Adapted from *The Edge Malaysia* (2023), KRI compilation

As the BNPL landscape becomes more competitive, with a higher number of BNPL providers operating within the BNPL market, as well as incumbent players like banks and card networks developing new offerings, BNPL distribution models have also evolved. In general, there are four distribution models for BNPL, namely, (1) direct merchant supplier, (2) multi-lender network, (3) credit card issuer, and (4) white-label provider (see Table 2.3).

Table 2.3: BNPL distribution models

Distribution model	Description	Examples
Direct merchant supplier	Offer merchants consumer-facing technology where the company coordinates directly with the merchants and provides instalment options during checkout, including a transaction a fee	• Klarna • Afterpay • Affirm • Sezzle
Multi-lender network	Connects merchants and lenders from their network where the company integrates a network of lenders with different financing options and fee structures during checkout of the merchants' business	• Visa + ChargeAfter • Mastercard + Vyze
Credit card issuer	Charges cardholders instead of merchants for instalments where instalment solutions are offered independently during or after checkout, including interest and/or repayment fees	• Citibank • American Express • Bank of America
White-label provider	Allows merchants to offer their own BNPL solutions where a set of customisable features for financing options during checkout is offered. Merchant businesses are also provided funding.	• Limepay • Bread

Source: Mikula, de Bel, and Kral (2021)

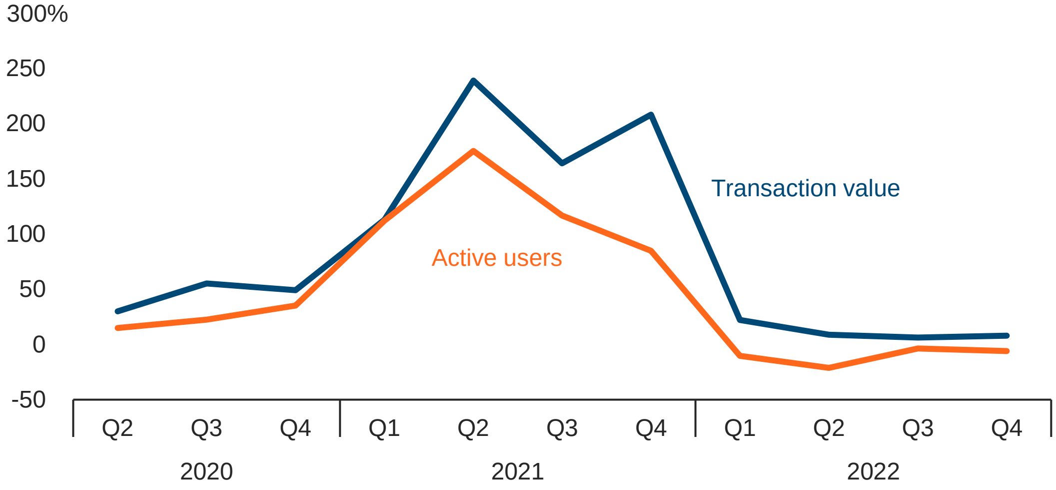
BNPL providers in Malaysia adopt a wide range of business models with revenue emanating from multiple sources. Atome's revenue, for instance, comes from charging brand partners a fee for every transaction processed with Atome. In addition, Atome has options for users to pay over a longer period of time (i.e. 6 months, as opposed to the default period of 3 months) with a small processing fee.

In 2022, the transaction value and active users of BNPL continue to increase albeit at a more moderate pace (see Figure 2.2). Over the Q1 2023 to Q3 2023 period[74], BNPL usage gained traction with double digit average quarterly growth rates in transaction volume and value at 21% and 16% respectively. According to BNM, BNPL continues to target selected segments of Malaysian households with the majority of users being younger and lower-income[75] borrowers[76]. In 2022, approximately 44% of users are aged between 18 and 30 years old and more than 80% of users earn less than RM3,000 a month[77], increasing the susceptibility to financial stress. Anecdotal evidence among selected larger BNPL players gathered by BNM also suggest an increasing trend in missed repayments, indicating that such risks may be rising (i.e. share of BNPL users with overdue payments in 4Q 2022 stands at 17.0%; 2Q 2022 at 14.0%; and 4Q 2021 at 7.0%).

[74] Based on data of 10 non-bank BNPL providers collected by BNM.
[75] The lower-income group refers to individuals earning a monthly income of less than RM5,000.
[76] BNM (2023b)
[77] Ibid.

As at 4Q 2022, the average total amount spent by an active BNPL account holder in Malaysia is RM545.20, which is about 11-18% of those within the lower-income group earning between RM3,000 to RM5,000 per month. Over the Q1 2023 to Q3 2023 period, the total amount spent via BNPL transactions ranged between RM40 to RM500 within diverse merchant sectors such as Professional & Commercial Services, Retail, Amusement & Entertainment, Accommodation, Food & Restaurants, and Transportation & Automotive.

Figure 2.2: Quarterly growth of transaction value and active users for BNPL schemes, 2020 – 2022



Note: Based on data from the top four non-bank BNPL players, which account for 96% of transaction value in 4Q 2022. These exposures are not currently captured in the total of household debt.
Source: BNM (2023b)

Cultural Features Contributing to the Rise of BNPL

The introduction of BNPL in Malaysia has reshaped the consumer credit system, reflecting not only the direct need for debt to fuel consumption but also the cultural dynamics at play that suggest the relevance of social norms, values, and behaviour. In part, the cultural emphasis on instant gratification that is prevalent in many societies has led to the growth in BNPL. The desire for immediate satisfaction is not new, but the digitisation of commerce has intensified it. BNPL caters to this desire by offering a frictionless shopping experience, allowing consumers to acquire products instantly without upfront payment. This aligns with a broader cultural trend favouring convenience, speed, and flexibility.

The rise of BNPL can also be seen as a manifestation of consumerism, where the acquisition of goods is closely tied to personal identity and social status. In societies where material possessions are viewed as symbols of success, BNPL can facilitate the pursuit of a lifestyle that might otherwise be out of reach. The ease and accessibility of BNPL services enable individuals to engage in conspicuous consumption without immediate financial commitment.

The adoption of BNPL is also shaped by cultural attitudes toward debt and credit. In some societies, particularly in the West, credit is an accepted and integral part of financial life. In Malaysia, the tradition of buying on credit is not new where BNPL can be seen as a modern iteration of familiar practices. Historically, local retailers would often extend credit to trusted customers, allowing them to pay for goods over time. This traditional credit culture laid a foundation for the acceptance of BNPL as a legitimate and convenient means of purchasing. In contrast, other cultures have a more conservative view of debt, rooted in religious or traditional values that emphasise financial prudence and self-restraint. In these contexts, BNPL may face resistance or be used more cautiously.

Cultural responses to BNPL also vary by generation. Millennials and Gen Z, having grown up in a digital age, are more likely to embrace BNPL as an extension of their online lives. These younger consumers tend to be more comfortable with technological innovation and have different attitudes towards credit and debt than older generations.

The growth of the middle class in Malaysia has brought about new consumer aspirations and purchasing behaviours. The desire to attain a certain lifestyle, often influenced by global trends and social media, has fuelled consumption patterns that align with BNPL. The system's ability to facilitate immediate possession of goods without upfront payment aligns with these aspirational consumer desires.

Gender also plays a role in how BNPL is perceived and used. In some cultures, women are more engaged in shopping and more likely to use BNPL. This might be linked to gendered roles and responsibilities in household consumption or to targeted marketing by BNPL providers. However, it is essential not to overgeneralise, as gender dynamics vary widely across different societies and individual situations.

Understanding the cultural dynamics of BNPL is essential for policymakers, providers, and consumers. It highlights the need for responsible practices that align with diverse cultural values and recognise the potential risks and benefits of this emerging payment method.

2.4 BNPL Regulatory Landscape

BNPL has come under public and regulatory scrutiny alongside the growth of BNPL. The regulatory response to BNPL has been diverse (see Table 2.4) with a variety of initiatives to tighten regulation underway. In some jurisdictions, BNPL is treated as a financial product and is subject to existing credit laws. In others, regulators have struggled to fit BNPL into traditional regulatory frameworks, leading to calls for new legislation specifically addressing this innovative payment method.

Table 2.4: BNPL regulations in selected developed countries

Country	Licensing	Product	Price	Disclosures	Responsible Lending	Process	Competition
EU	In place	X	X	In motion	In motion	X	X
Sweden	In place	X	X	In place	In motion	In place	In place
UK	X	X	X	In motion	In motion	In motion	In motion
Denmark	In place	X	X	X	X	X	X
Ireland	X	In motion	In motion	In motion	In motion	In motion	In place
US	In place	In place	X	X	X	X	X
Canada	X	X	X	X	X	X	X
Singapore	X	X	X	In place	In place	X	X

Notes:

1. Licensing=requiring providers to be licensed by a state authority; Product= limiting which products the provider can offer; Price:=limiting the prices the provider can charge; Disclosures=specifying the information that providers have to give to prospective customers; Responsible lending= requiring lenders to assess how affordable the product will be to the customer; Process= specifying how the product is sold, applied for, or serviced; Competition= disallowing rules set by providers that limit a merchant's ability to use or accept the product (e.g., prohibiting merchants from surcharging customers for using the provider's payment method).
2. Singapore has not introduced any regulatory measures related to BNPL per se. Instead, the Singapore Fintech Association (SFA), under the guidance of the Monetary Authority of Singapore (MAS), has formulated the BNPL Code of Conduct, an industry-led initiative.

Source: Adapted from The Paypers (2022), KRI compilation

In the EU, the approach undertaken to regulate BNPL services remains fragmented, with no unified regulatory framework explicitly addressing BNPL. Traditional EU financial regulations like the Consumer Credit Directive (CCD) and the Payment Services Directive (PSD2) only partially cover aspects of BNPL transactions. This has led to a regulatory grey area, where BNPL providers operate under less stringent requirements compared to traditional credit lenders[78]. Consultations and reviews are, however, underway to ensure the introduction of new oversight rules to protect consumers against inherent risks.

Similarly in the US, BNPL regulation is fragmented across states. States have begun applying existing lending laws to BNPL products albeit with significant variation in scope and enforcement. Some states have specific regulations that apply to BNPL, while others rely on general consumer credit laws. Federal agencies like the Consumer Financial Protection Bureau (CFPB) have started to take a closer interest in the sector but specific regulations governing BNPL services are still in their developmental stage.

[78] The current CCD applies to loans ranging from EUR200 to EUR75,000. As a result, BNPL loans, which are typically characterised by smaller credit amounts, are excluded from the scope of the CCD.

Across Asia, the regulatory landscape is diverse, reflecting the region's economic and cultural heterogeneity. In markets like Singapore where BNPL has seen rapid growth, the regulation of consumer credit is piecemeal where several legislations exist (e.g. Moneylenders Act, Hire Purchase Act, Pawnbrokers Act). At present, Singapore has adopted a “light-touch” approach to the regulation of BNPL, with the Singapore Fintech Association (SFA) alongside other BNPL players, taking on an industry-led initiative through the formulation of the BNPL Code of Conduct under the guidance of the Monetary Authority of Singapore (MAS). Other countries, such as Vietnam and the Philippines, continue to deliberate the appropriate regulatory framework for BNPL, balancing the need for financial inclusion with risk management.

The consumer credit regulatory landscape in Malaysia is fragmented, akin to trends observed around the world, with various regulators overseeing multiple laws governing consumer credit activities (see Table 2.5). Currently, BNPL schemes may fall under the purview of existing consumer credit laws, but it is not definitively regulated.

Table 2.5: Existing consumer credit laws in Malaysia

Relevant ministry/agency	Legislation
Ministry of Domestic Trade and Consumer Affairs (KPDNHEP)	• Hire Purchase Act 1967 • Consumer Protection Act 1999 • Consumer Protection (Credit Sale) Regulations 2017
Ministry of Housing and Local Government (KPKT)	• Moneylenders Act 1951 • Pawnbrokers Act 1972
Malaysia Co-operative Societies Commission (SKM)	• Cooperative Societies Act 1993
Bank Negara Malaysia (BNM)	• Financial Services Act 2013 • Islamic Financial Services Act 2013 • Development Financial Institutions Act 2002
Securities Commission (SC)	• Capital Markets and Services Act 2007

Source: CCOB (2023c;2023b;2023a), KRI compilation

In July 2021, the Consumer Credit Oversight Board Task Force (CCOB Task Force) led by the Ministry of Finance (MOF), BNM, and SC was formed to regulate non-bank credit providers and credit service providers, particularly through enactment of the Consumer Credit Act (CCA) that is aimed at providing a comprehensive framework for regulating the conduct of entities carrying out the business of providing credit or credit services to consumers, with an immediate focus on those that are not currently subject to direct regulation by any authority, such as BNPL schemes[79,80]. The CCOB Task Force drives the enactment of the CCA in close collaboration with KPDNHEP, KPKT, the Ministry of Entrepreneur and Cooperatives Development (KUSKOP), and SKM[81].

[79] BNM (2023b)
[80] The proposed definition of BNPL under the CCA is as follows: It is an arrangement entered between the purchaser, who is a credit consumer, with a third-party credit provider for the purchase of goods and services from a seller, where (i) credit is provided to the credit consumer for the purchase of such goods or service without interest; and (ii) the repayment due from the credit consumer is deferred and may be made in a single payment or by instalments within the specified period, or any other arrangement as may be prescribed by the Minister.
[81] CCOB (2023b)

According to the second public consultation paper issued by the CCOB Task Force in April 2023, there will be three phases in transforming the regulatory landscape of consumer credit in Malaysia (see Table 2.6) to facilitate a smooth transition and minimise unintended disruptions in the consumer credit industry.

Table 2.6: Transformation of the regulatory landscape of consumer credit with the CCA

Timeline	Details
Phase 1 (Upon enactment of the CCA, 2023 – 2024)	• Existing Regulatory and Supervisory Agencies (RSAs)[82] will continue to serve within their respective sectors while the CCOB Task Force will oversee credit providers and credit service providers that are currently unregulated by any authority. • The CCA will have enabling provisions for the CCOB to issue guidelines which could be similarly adopted and enforced by the relevant RSAs on its regulated entities. • The Hire Purchase Act will be amended or repealed with the relevant provisions to be included in the CCA. KPDNHEP, as an RSA, will continue to oversee the activities of non-bank hire-purchase companies, repossession agents and credit sales providers. • The CCA will facilitate Islamic credit business by non-bank credit providers by including provisions to ensure that such credit providers and its product offerings comply with Shariah principles. KPKT's regulatory ambit will be expanded to include Islamic financing activities and Islamic pawnbroking activities which are not governed under the Islamic Financial Services Act (Act 759) and the Cooperative Societies Act 1993 (Act 502), while KPDNHEP will oversee non-bank Islamic hire-purchase business. • The existing moneylenders' and pawnbrokers' licences obtained under the Moneylenders Act and Pawnbrokers Act respectively, as well as permits issued to individuals for repossession of goods under the Hire Purchase Act, will remain valid with the enactment of the CCA in Phase 1. • Consumer credit activities by banks will remain under the oversight of BNM.
Phase 2 (2025 – 2029)	• Regulatory functions in respect of consumer credit activities under KPDNHEP and KPKT will be transferred to the CCOB Task Force while BNM, SC, and SKM will continue to act as RSAs for the entities under their respective purview. • The Moneylenders Act, Pawnbrokers Act as well as provisions relating to credit sales transactions under the Consumer Protection Act will be repealed and all relevant provisions will be retained and subsumed under the amended CCA.
Phase 3 (2030 onwards)	• The financial industry's regulatory architecture in Malaysia will evolve towards the Twin Peaks[83] model of financial regulation.

Source: Adapted from CCOB (2022), KRI compilation

While the CCA is slated to be tabled to Parliament in the fourth quarter of 2023 where discussions and proposals have been put forward to develop targeted regulations that address transparency, consumer protection, and potential systemic risks, no concrete announcements have been made thus far. Regardless, the enactment of the CCA marks a pivotal step towards strengthening the overall regulatory framework within Malaysia's consumer credit sector, particularly at a time of high debt levels amongst consumers and households.

[82] Existing RSAs include BNM, SC, SKM, KPDNHEP, and KPKT.
[83] The Twin Peaks model for financial regulation is where financial regulation is separated into two broad functions i.e. market conduct regulation (including consumer credit protection) and prudential regulation.

2.5 Economic Implications of BNPL

The growth of BNPL in Malaysia has brought about several economic implications. This new payment method has reshaped credit accessibility, retail dynamics, and financial regulation, leading to nuanced impacts on the broader Malaysian economy.

BNPL has emerged as an instrument for enhanced financial inclusion, especially among demographics that previously had limited access to traditional credit lines. By providing a simplified and often instantaneous credit approval process, BNPL has expanded the reach of credit to younger generations, those without a credit history, as well as individuals in less urbanised regions, most of which, fall within the lower-income bracket. While this has democratised credit access, it has also raised concerns about responsible lending practices and the potential risks associated with over-extension of credit to less financially literate populations. On a macroeconomic level, this can lead to rising household debt that poses systemic risks to the financial system.

The integration of BNPL in both online and brick-and-mortar retail channels has led to notable shifts in consumer spending patterns. The availability of deferred payments has catalysed increased spending, especially for non-essential goods and luxury items. The flexibility and perceived affordability offered by BNPL have incentivised greater consumer expenditure, boosting the retail sector. For many retailers, particularly those in e-commerce, BNPL has become a vital tool for customer acquisition and retention, leading to higher conversion rates and larger average order values. This transformation in retail financing has underpinned growth in various sectors, from fashion and electronics to travel and wellness.

The rise of BNPL has also prompted changes in the credit market dynamics within Malaysia. Traditional banks and credit card providers find themselves contending with these new and agile payment solutions. The competitive landscape has spurred innovation and led to traditional financial institutions exploring collaboration or even launching their BNPL products. While competition have led to a more vibrant and diverse credit market, there is a risk that traditional banks may engage in riskier lending practices to maintain market share, potentially leading to financial instability.

As BNPL continues to grow in popularity, regulatory considerations have come to the fore. The intersection between ease of access to credit and the potential risks to individual financial well-being has necessitated a careful examination of existing financial regulation and consumer protection frameworks. The Malaysian government and financial regulators have been grappling with the challenge of fostering innovation while ensuring financial stability and consumer protection. The evolving regulatory landscape surrounding BNPL is reflective of its economic significance and the complexities associated with managing a novel form of credit.

The economic implications of BNPL in Malaysia extend beyond the immediate impact on retail and credit markets. By influencing consumer behaviour and integrating into various economic sectors, BNPL is contributing to broader economic trends and potential shifts in the country's economic trajectory. The influence of BNPL on savings rates, debt levels, and overall consumer financial health is likely to have long-term ramifications. The growth of BNPL can influence the dynamics of consumer credit and, by extension, impact monetary policy transmission mechanisms. Understanding and monitoring this interaction becomes vital for effective monetary policy. The economic impact of BNPL must be assessed within the context of broader economic resilience, especially in times of economic downturn. Ensuring that BNPL does not contribute to systemic vulnerabilities is essential for maintaining economic stability.

2.6 Policy Options

Policy Option 1: Integration of BNPL into Household Debt Metrics

At present, exposures to BNPL are not captured in total household debt. In ensuring household debt is kept in check, there is a vital need to integrate BNPL exposures into household debt metrics, which currently only include traditional forms of debt such as housing loans, credit card debt, and personal loans, amongst others. While debt emanating from BNPL currently accounts for a relatively small proportion of total household debt, the exclusion of BNPL can create a distorted picture of household debt, particularly as exposures to BNPL increase.

Policy Option 2: Regulatory Oversight

One of the primary policy options to mitigate the risks of BNPL involves strengthening regulatory oversight. Existing regulations in Malaysia's financial system may not fully encompass the unique attributes of BNPL products, leading to potential regulatory gaps. Therefore, regulators must assess the existing legal framework and identify areas where adjustments are needed to ensure appropriate oversight of BNPL providers. This includes establishing clear and transparent guidelines for BNPL providers concerning interest rates, fees, disclosure requirements, and lending practices. Ensuring that BNPL providers adhere to these standards would promote fairness and transparency, thus reducing systemic risks, protecting consumers, and fostering a stable and robust BNPL market.

Policy Option 3: Consumer Education and Awareness

Education and awareness are vital components in empowering consumers to make informed decisions regarding BNPL. Policymakers can explore collaboration with industry stakeholders, consumer associations, and educational institutions to develop and disseminate educational materials on BNPL. These materials should not only elucidate the workings of BNPL but also highlight the potential risks, such as late fees, interest charges, and the impact on credit scores. An informed consumer base would be better positioned to navigate the intricacies of BNPL and less susceptible to potential financial pitfalls.

Policy Option 4: Enhanced Disclosure Requirements

One of the policy levers that can be effectively employed to protect consumers is enhancing disclosure requirements. This would involve mandating BNPL providers to provide clear, concise, and easily understandable information about the terms and conditions of their products. By enhancing the visibility of critical information, consumers would be better equipped to comprehend the full scope of their commitments and the associated risks. Furthermore, standardising the format and content of disclosures across different BNPL providers can facilitate comparisons and aid consumers in selecting the products best suited to their needs and risk profiles.

Policy Option 5: Credit Assessment and Responsible Lending Practices

Promoting responsible lending practices is essential to protect consumers from over-extending themselves. While one of the attractions of BNPL is the simplified and expedited credit approval process, this convenience should not come at the expense of robust credit assessment. Regulators can introduce guidelines that require BNPL providers to conduct prudent credit assessments to ensure that consumers have the financial capacity to meet their repayment obligations. By aligning BNPL credit assessments with recognised standards in traditional lending, the policy can create a more responsible and sustainable credit environment.

Policy Option 6: Grievance Mechanism and Consumer Protection

Ensuring accessible and effective grievance redressal mechanisms is another vital aspect of protecting consumers. Policymakers can consider establishing dedicated channels for addressing consumer complaints related to BNPL. Whether through existing financial watchdog services or specialised forums, streamlined complaint handling would enhance accountability and instil greater confidence among consumers. In addition, strengthening consumer protection laws to include specific provisions related to BNPL would solidify the legal framework for addressing consumer grievances and holding BNPL providers accountable for unfair practices.

Policy Option 7: Cross-border Collaboration

Given the global nature of many BNPL providers and the integration of e-commerce across borders, policymakers must also consider cross-border regulatory collaboration. Harmonising regulatory approaches and sharing information across jurisdictions can enhance oversight and ensure that consumers are equally protected, irrespective of the domicile of the BNPL provider.

The growth of BNPL in Malaysia's consumer credit system is a testament to the innovative dynamism of the financial sector but also presents novel challenges in consumer protection. The policy options to mitigate the risks to consumers from BNPL are multifaceted and require a delicate balance between promoting innovation and ensuring robust consumer protection. Understanding BNPL within the unique socio-economic and cultural context of Malaysia is also necessary in providing a nuanced perspective.

By engaging in comprehensive regulatory oversight, consumer education, enhanced disclosure, responsible lending practices, effective grievance redressal, and cross-border collaboration, policymakers can build a resilient framework that allows BNPL to thrive while safeguarding consumer interests. The success of these policy measures will hinge on thoughtful implementation, continuous monitoring, and adaptability to the ever-changing landscape of consumer credit. Through collaborative engagement with all stakeholders, Malaysia can harness the potential of BNPL while cultivating a responsible and consumer-centric credit environment.

2.7 Concluding Remarks

This chapter presents several policy considerations that attempt to balance between regulation and innovation, particularly within the BNPL market. However, it is important to note that the BNPL market needs to be examined in more depth, utilising micro data from BNPL providers and banking institutions, to better understand consumer preferences and spending behaviour and their debt dynamics overtime. The views and analysis presented in this chapter serves as a reasonable starting point for further, deeper discourse.

CHAPTER 03

CHAPTER 3

INDIVIDUAL VS COLLECTIVE INTERESTS: THE STUDENT LOAN CONUNDRUM

"If the language we use to talk about universities represents them as being principally institutions that provide narrowly vocational training for employment and the application of technology to promoting economic growth, and if the language we use about students represents them as being consumers who shop in the educational supermarket purely for what provides the most remunerative future job at the lowest cost, then those are the kinds of universities and the kind of education we shall end up with. It is therefore very important that we should try to articulate a different and more adequate conception of what universities are 'for' because otherwise we risk damaging, or even in some cases destroying, the defining characteristics of universities and what has made them so valuable to humanity in its search for fuller and deeper understanding."

Stefan Collini (2018)

3.1 Introduction

Malaysia's higher education have undergone radical transformation since 1957. As of today, tertiary-educated individuals make up a substantial proportion, comprising one-third of Malaysia's total workforce[84]. This evolution has been underpinned by a deliberate alignment of policy initiatives with the growth of higher education. Particularly, during the 1990s, a key juncture witnessed the establishment of private higher education institutions, a move aimed at catalysing development within the sector[85]. At this stage, the establishment of private higher education institutions, spurred by the introduction of the Private Higher Educational Institutions Act in 1996. This legislation provided the legal and regulatory framework for the privatisation of higher education in Malaysia, allowing for the formation of local private universities and university colleges, as well as branches of foreign universities. The liberalisation of the educational sector was further accelerated after the 1997 East Asian Financial crisis and the sharp currency devaluation, as foreign education became increasingly unaffordable[86].

The integration of private entities into higher education has produced diverse outcomes. It has arguably facilitated broader access to tertiary education, thus addressing some concerns regarding limited capacity within public institutions. The overarching objective of accommodating an expanding cohort of learners has indeed been met with a degree of commendable success[87]. Nevertheless, the expansion of higher education avenues and the sector's growth have not been without challenges. The 1990s also witnessed a changing approach towards public higher education funding. Government investment in the public sector declined, and a more market-based approach was adopted. A significant development emerging from this shift was the establishment of loans as a means of student financing through the PTPTN scheme.

[84] DOSM (2023)
[85] Norliza Mohd Zain et al. (2017)
[86] Sivalingam (2007a)
[87] Sharom Ahmat (1980a) and Norliza Mohd Zain et al. (2017)

As the higher education landscape evolves, the issue of education-related indebtedness has gained attention. This chapter aims to address the growing phenomenon of higher education debt in Malaysia, and how it may contribute to a broader issue of household indebtedness. In light of this critical concern, this chapter sets forth two important agendas. First, the study undertakes a policy review of feasible pathways to mitigate student debt. Second, it explores potential adjustments to the institutional landscape, aiming to foster a conducive environment for a sustainable and supportive financial framework for higher education financing in Malaysia.

As we embark on this exploration, it is imperative to acknowledge the pertinence of charting a course that not only addresses the immediate issue of education debt but also lays the groundwork for an inclusive and resilient higher education financing landscape. Through an incisive examination of the potential policy approaches, this chapter aspires to contribute meaningfully to the ongoing discourse surrounding the nexus between higher education, financialization, and household well-being.

3.2 Development of Malaysia's Higher Education

The privatisation of higher education in Malaysia has spurred the growth of private tertiary institutions and boosted education financing in the country[88]. This phenomenon can be understood within the framework of institutional arrangements and the evolving role of the state in education. As its economy continued to grow and diversify, there emerged a demand for specialised skills and knowledge, aligning with the theory of human capital[89]. This was especially pronounced in knowledge-intensive industries, where a skilled workforce was crucial for innovation and economic advancement. In response, Malaysia strategically embraced privatisation as a means to expand its higher education sector, thus accommodating the increasing desire for advanced education.

The institutional context transformed as private players entered the educational domain, resulting in a mushrooming growth of private higher education institutions. This expansion addressed the rising for tertiary education, ensuring a wider range of learning opportunities for the younger population. The state's role evolved from being the sole provider of higher education to a regulator and facilitator of private institutions, creating an environment where educational diversity thrived. The impact of this transformation extends beyond education itself, influencing the broader socio-economic landscape[90].

The proliferation of private tertiary education has led to an increase in education financing as individuals and families invest in acquiring specialised skills and qualifications. This education financing trend reflects the perceived value of higher education in enhancing employability and contributing to personal and national economic growth. Malaysia's approach to higher education through privatisation has undoubtedly enriched the educational landscape, yet it is imperative to address the potential consequences of increased financing, ensuring that education remains an empowering tool without burdening individuals with debt in their pursuit of knowledge and skills.

[88] Jamshidi et al. (2012)
[89] Becker (2002)
[90] Sivalingam (2007b)

3.2.1. Expansion through Privatisation

In the initial three decades of its post-independence, Malaysia strategically prioritised the enhancement of its primary and secondary education systems. This strategic emphasis aligned closely with the prevailing economic landscape of the era, characterised by a reliance on labour-intensive export commodities such as rubber and tin. These industries predominantly required a skilled workforce equipped with primary and secondary level qualifications, rather than an immediate demand for tertiary education credentials. Consequently, the nation's early focus predominantly rested on fostering a robust foundation of basic education.

Throughout this formative period, the domain of higher education remained primarily within the purview of state institutions. The pace of expansion within this sector was measured and deliberate, marked by a cautious approach to growth. This approach was driven by the recognition that higher education held a distinct role within the broader socio-economic fabric, one that required careful consideration to align with the nation's developmental trajectory[91].

During this phase, universities were established with a dual mandate, serving not only as educational institutions but also as instruments of "nation building"[92]. Table 3.1 presents the first five universities established during the period and its primary roles. These institutions were particularly assigned specific functions that merged with Malaysia's multifaceted development goals[93]. Universiti Malaya, for instance, was meant to produce high-skilled graduates to lead development, Universiti Kebangsaan Malaysia was meant to help and shape national intellectual discourse, etc. Up until 1975, only these five public universities existed. Beyond the conveyance of knowledge and skills, universities were tasked with cultivating a sense of national identity and unity, contributing to the broader narrative of socio-economic progress[94]. In hindsight, the measured expansion of tertiary education during this period can be seen as a reflection of Malaysia's perceptive understanding of its economic demands, as well as an intended approach to nurture a higher education ecosystem that would seamlessly integrate with the nation's evolving development priorities. This deliberate strategy laid the groundwork for the subsequent phases of tertiary education expansion, demonstrating the intricate interplay between education, economic imperatives, and nation-building aspirations.

The evolution of Malaysia's higher education landscape, as outlined through these key events, underscores a profound transition from an initial emphasis on state-led provision towards an expanded role for the private sector. This transformation, linked to global ideological shifts and catalysed by domestic policy initiatives, has significantly shaped the contours of higher education in Malaysia, reflecting a nuanced interplay between political, economic, and educational paradigms.

[91] Sharom Ahmat (1980b)
[92] Sivalingam (2007a)
[93] Chang-Da and Sirat (2018)
[94] Lee (1998)

Table 3.1: The first five universities in Malaysia

University	Role in nation-building agenda	Year established
Universiti Malaya (UM)	Preparing graduates to “administer and enhance” development	1962
Universiti Sains Malaysia (USM)	To increase graduates in the sciences	1969
The National University of Malaysia (UKM)	The centre of national intellectual discourse	1970
Agricultural University of Malaysia (UPM)	Developing graduates in agricultural, technological, and engineering fields	1971
Universiti Teknologi Malaysia (UTM)	Developing graduates in technological, and engineering fields	1972

Source: Adapted from Sivalingam (2007), respective university websites[95]

In tracing the trajectory of significant events in Malaysia's development and its higher education landscape, a fundamental stage begins with the inception of the National Economic Policy (NEP) in 1971 (Figure 3.1). During this period, Malaysia prioritised a state-led approach to development, characterised by robust government intervention and the provision of essential public services, including education, in alignment with Keynesian principles of welfarism[96,97]. However, the early 1980s witnessed a paradigm shift in global economic ideologies with the ascent of leaders such as Margaret Thatcher in the UK and Ronald Reagan in the US. This transformative phase, underscored by a re-evaluation of the State's role in delivering goods and services, propelled the propagation of neoliberalist tenets, advocating for reduced government intervention through fiscal austerity measures.

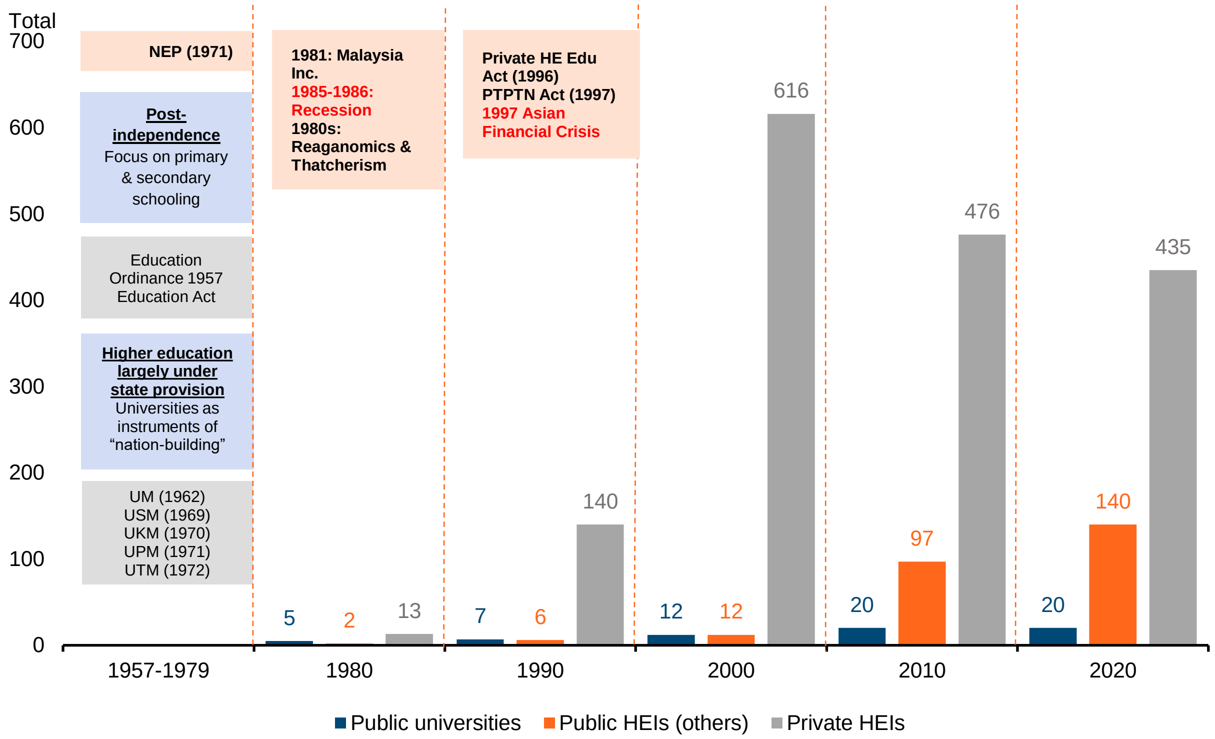
Notably, Malaysia's response to this shifting paradigm was epitomised by the Malaysia Incorporated policy (Malaysia Inc.) announced in 1983 under the leadership of Tun Dr Mahathir Mohamad. This initiative embraced the tenets of Reaganomics and Thatcherism, endorsing privatisation as a catalyst for economic expansion[98]. Evidently, this marked the genesis of a pronounced surge in private higher education providers from 13 to 140 between 1980 and 1990, signifying a proactive shift toward the private sector's involvement in education provision.

This trajectory towards privatisation and its implications were further underscored in subsequent years. In the Sixth Malaysia Plan (1991-1995), the government articulated its intent to augment the domain of private higher education, setting the stage for the ensuing transformation. This intent was subsequently formalised in 1996 through the enactment of the Private Higher Educational Institutions Act, which established a comprehensive legal framework governing the establishment, management, and quality assurance of private educational institutions.

[95] Universiti Malaya, Universiti Sains Malaysia, The National University of Malaysia, Universiti Putra Malaysia and Universiti Teknologi Malaysia.
[96] Rodrigo (2020)
[97] Keynesian principles of welfarism refer to economic policies and strategies inspired by the ideas of economist John Maynard Keynes, which aim to promote economic stability, growth, and social welfare through government intervention and fiscal measures. Keynesian economics emerged in response to the economic challenges of the Great Depression and emphasises the role of aggregate demand in shaping economic outcomes.
[98] Singh (2005)

Parallelly, 1997 marked a watershed moment with the establishment of the PTPTN, aimed at enhancing accessibility to higher education through the provision of student loans at nominal interest rates. The confluence of these policies further bolstered the trajectory of privatisation, particularly in light of the East Asian Financial Crisis of the same year. The sharp depreciation of the Malaysian ringgit catalysed a notable surge in private institutions, with their numbers escalating from 140 in 1990 to a striking 616 in 2000 (Figure 3.1). This growth was further propelled by the escalating costs of overseas education due to the currency devaluation, thereby accentuating the appeal of domestic private higher education options[99].

Figure 3.1: Timeline of important events of higher education institutions over time



Source: Adapted from Hawati Abdul Hamid (2022)

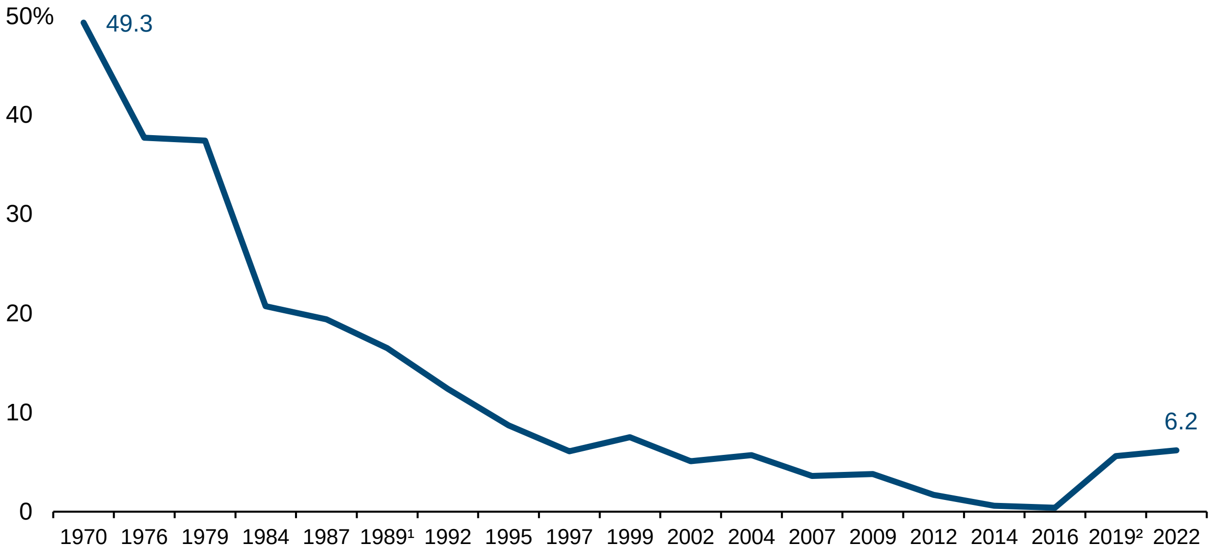
The shift in student enrolment ratios brought by the NEP's reflects a significant reconfiguration of the higher education landscape in Malaysia. This transformation, guided by the policy's objectives of reducing economic inequalities among racial groups, has a nuanced correlation with the broader surge in enrolment, emphasising the complex interplay between policy interventions and the overarching dynamics of educational growth during that transformative period[100].

It is essential to contextualise these figures within the broader educational landscape of the time. In 1970s, nearly 50% of households in Malaysia were in absolute poverty as depicted in Figure 3.2 below. The significant decline in the incidence of absolute poverty, from almost 50% in 1970 to 6% in 2022, reflects a remarkable improvement in living standards and economic conditions within the country. As Malaysia prioritised in education and human capital development, there has been a corresponding increase in the accessibility and quality of higher education opportunities for

[99] Lee (1998)
[100] Guan (2000)

Malaysians. This has led to a more educated and skilled workforce, which in turn has contributed to economic growth, job creation, and upward mobility for individuals and households.

Figure 3.2 Incidence of absolute poverty of head of household, Malaysia, 1970 – 2022



Note:
1. Starting 1989, data is based on Malaysian citizens.
2. ** Starting 2019, data is based on 2019 methodology of PLI which involves a calculation of healthy food intake at an optimal rate as compared to 2005's methodology which factored in the measurement of the food intake to meet minimum daily needs.

Source: DOS (2023c)

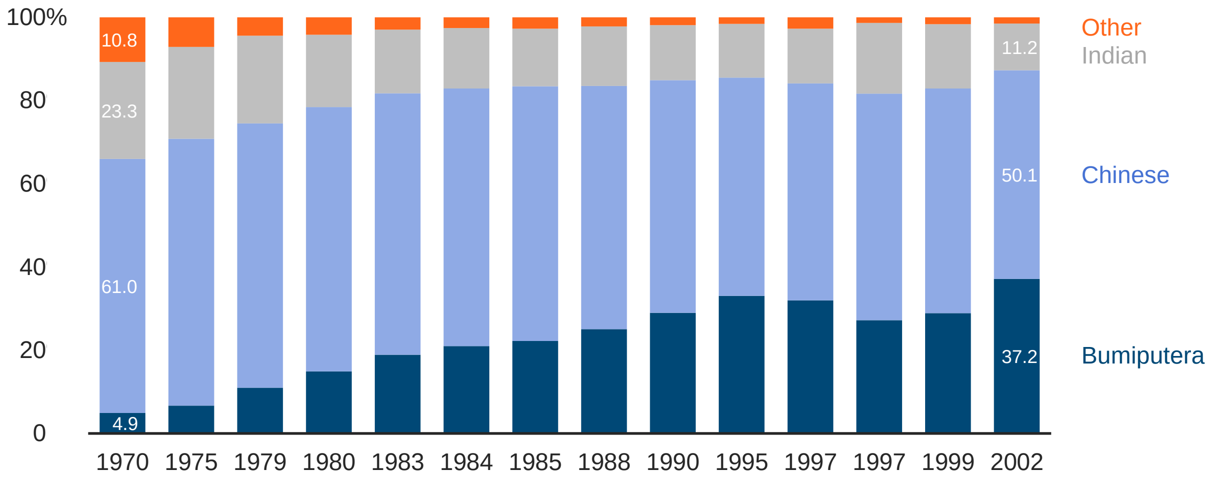
The expansion of higher education in Malaysia has had a significant impact on the educational attainment of its citizens, yet it has also revealed certain disparities in participation rates among different ethnic groups. Historically, the data (as shown in Figure 3.3) indicates that in 1970, only 4.9% of Bumiputera, were engaged in professional occupations, whereas the figure for other community stood at 61.0%. This stark contrast underscores the skewed participation in professional fields, with the majority of professionals being non-Bumiputera.

Over the years, there has been a gradual increase in the participation of Bumiputera in professional occupations, albeit at a slower pace compared to other ethnic groups. By 2002, the percentage of Bumiputera professionals had risen to 37.2%, marking a notable improvement from the figures recorded in the 1970s. However, despite this progress, there remains a considerable gap between Bumiputera and other ethnic groups in terms of representation in professional fields.

Regarding occupational restructuring, as of 2000, Bumiputeras were remarkably underrepresented, accounting for less than 45%, specifically in "administrative and managerial" roles (at 37.0%) and sales-related occupations (at 37.3%). However, the Bumiputera representation in these roles has experienced significant growth since independence, particularly under the NEP, although the Chinese representation, at 52.3%and 49.8% respectively, still surpasses their share of the population[101].

[101] Jomo Kwame Sundaram (2004)

Figure 3.3: Registered professionals by ethnic group, Malaysia, 1970-2002



Note:

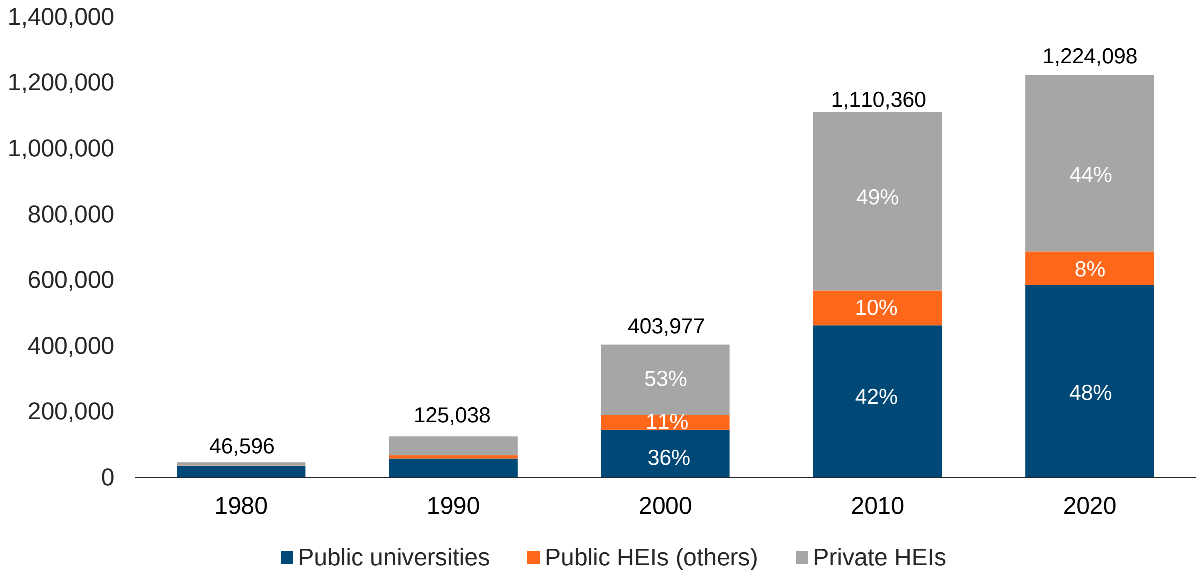
1. Registered professionals in various profession, i.e. architects, engineers, doctors, veterinary surgeons, surveyors and lawyers.
2. Figure for 1970 excludes surveyors and lawyers.
3. Figure for 1975 excludes surveyors.
4. Figure for 1997s shown a significant change in the counting of professionals from 1997, including 1999 and 2002, with total registered professionals and the Bumiputera share dropping drastically.

Source: Jomo Kwame Sundaram (2004), from various Malaysia Plan documents from 1976 to 2003.

All of these policies and events culminated in the expansion of domestic higher education. This trajectory becomes even more pronounced when observing the same timeline as shown in Figure 3.4, illustrating student enrolment in local institutions from 1980 to 2020. This expansion has been notably consistent between public and private institutions, with students broadly distributed across these two sectors. This distribution aligns with the logical understanding that private institutions, often characterised by smaller capacities compared to their public counterparts, play a significant role in meeting the increasing demand for higher education opportunities.

In essence, the relationship of policy interventions, shifting ideologies, and global economic dynamics has influenced the development trajectory of higher education in Malaysia. The policy-driven emphasis on privatisation, the implementation of ethnic quotas, and the consequent phenomenon of students furthering studies overseas have collectively shaped the local higher education landscape. This evolution underlines the complex nature of policy-driven changes and their interaction with broader societal trend.

Figure 3.4: Student enrolment by type of institution, 1980-2020



Source: Sivalingam (2007) and Hawati Abdul Hamid (2022)

3.3 Financing of Higher Education in Malaysia: A Landscape

The rapid increase in the pursuit of higher education gains momentum in tandem with the privatisation agenda of Malaysia's tertiary education sector, saw a remarkable transformation in the country's education financing[102]. With a growing number of individuals were able to gain access in higher education, a substantial portion has come to rely on student loans to finance their educational needs. This shift in financing dynamics underlines the multifaceted nature of higher education's evolving landscape, in which policy-driven changes intersect with providing accessible and sustainable financial mechanisms to support the aspirations of an expanding tertiary educated workforce.

The concept of financialization, which focuses on the integration of finance into everyday life, offers insight into the interaction between wage policies and higher education financing. Just as financialization has expanded financial engagement for low-income and middle-class households through mechanisms like pension plans and mortgages, the financing of higher education can similarly drive individuals to navigate complex financial systems. This point aligns with Shiller's perspective[103] on finance's role in society, emphasising the potential consequences of such widespread financial engagement on individuals' financial behaviours and the broader societal implications, including the potential increase in household debt due to education-related borrowing.

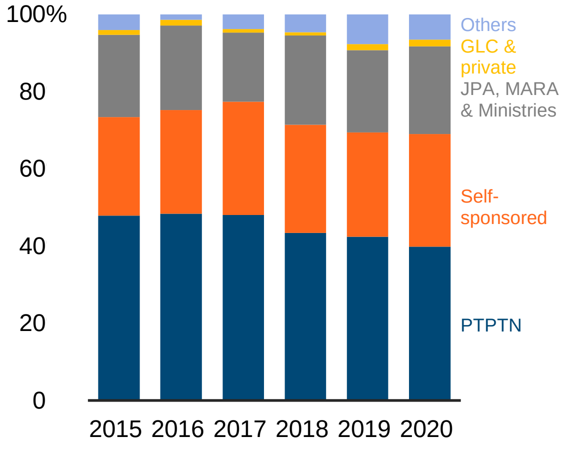
[102] The prominence of finance within national economies has experienced a significant surge since the 1980s, as evidenced by the World Bank (2018). This phenomenon of financialization has been accompanied by the expansion of privatised and debt-driven modes of social provisioning, particularly noticeable in sectors like housing, healthcare, and education. Within the realm of economic geography, scholarly investigation has directed attention towards the financialization of ordinary existence, as discussed by (among others) Aalbers (2017), Hall (2016), Karaagac (2020) and Montgomerie (2020). An integral aspect of this study pertains to the examination of debt's role—unveiling how the pervasive financialization across societal and economic domains has translated into heightened instances of financialized household debts (e.g., mortgages, medical expenses and student loans). This progression has progressively introduced greater degrees of risk into individuals' everyday lives.
[103] Shiller (2012)

A crucial aspect that deserves policy attention is the potential expansion of education-related debt. If not cautiously addressed, this burden of debt risks turning into an overwhelming societal challenge. Effectively tackling this looming crisis requires comprehensive policy interventions that encompass not only education financing reforms, but also broader measures aimed at strengthening financial stability, nurturing economic resilience, and improving people's living standards, as envisioned in the recent *Ekonomi Madani*'s framework[104].

As the higher education sector in Malaysia expanded, a pressing issue comes into focus, wherein a considerable proportion of aspiring graduates have increasingly turned to student loans to finance their education, as presented in Figure 3.5 and Figure 3.6. This dynamic, while playing a key role in enabling access to education, bears an important fact characterised by student's socio-economic backgrounds. Indeed, a stark reality develops as a substantial number of these loan recipients belong to the low-income segment, with a staggering 55% of graduates under PTPTN loan from households within the B40 category.

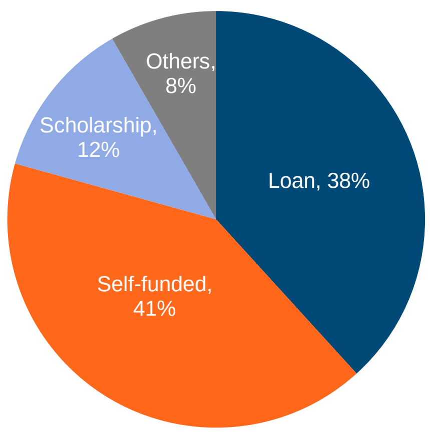
In this discerning context, the emergence and provision of student loans, notably those characterised by low interest rates like to the PTPTN model, have undoubtedly contributed to the commendable goal of democratising access to higher education opportunities. This commitment to inclusivity is expressively exemplified by the fact that a substantial 80% of undergraduates attending local universities are from B40 families. This statistic serves as a proof to the student loans in reshaping the educational landscape by facilitating the educational aspirations for the poor. However, this fact brings to the forefront the nuanced challenge of maintaining an equitable balance between expanded access and the growing debt burden on the most financially vulnerable segments of society. Therefore, a critical question appears: Are Malaysian graduates experiencing appropriate returns on their considerable investment?

Figure 3.5: Total graduates by education sponsorship, 2015 – 2020



Source: MOHE, n.d.

Figure 3.6: Funding for tertiary education students, 2018



Source: KRI (2018b)

[104] Anwar Ibrahim (2023)

The foundation of student loans rests upon a fundamental assumption that individuals armed with degrees will unlock better earning potential, thereby facilitating loan repayment after completing their studies. While this anticipation holds some merit, its applicability within Malaysia's socio-economic landscape warrants closer examination, particularly in light of recent trends. Conventional wisdom suggests that higher education correlates with higher earnings[105]. However, data from 2010 to 2022 paints an important information (Table 3.2). While individuals with tertiary education indeed earn higher incomes compared to their primary- and secondary-educated counterparts, the disparity is not as significant as commonly presumed. In fact, the gap in earnings between tertiary-educated individuals has shown the slowest growth rate among all qualification levels.

Table 3.2: Median monthly salaries & wages of employees by educational attainment, Malaysia, 2010 – 2022

Year	2010	2015	2020	2022	AAGR
No formal education	RM 621	900	1,237	1,357	6.3%
Primary	890	1,110	1,274	1,493	5.2
Secondary	1,250	1,500	1,630	1,873	4.2
Tertiary	2,550	3,090	3,499	3,890	4.0
Median	**1,500**	**1,942**	**2,062**	**2,424**	**5.0**

Note: AAGR refers to Average Annual Growth Rate, calculated from an average of Compounded Annual Growth Rate (CAGR) for the period of 2010-2022.
Source: DOS (2023d) and KRI calculations

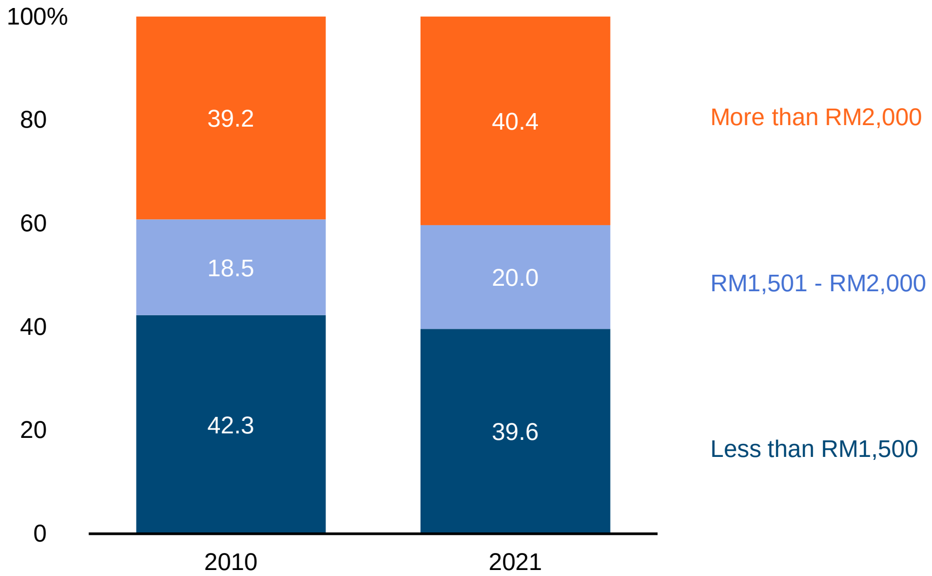
Additionally, the landscape of graduate employability and income realisation in Malaysia requires further attention. While the correlation between degree holders and higher earnings is generally substantiated, various factors such as field of study, industry demand, regional disparities, and evolving market trends contribute to the complexity of financial outcomes. Furthermore, the spectre of underemployment—wherein individuals find themselves working in roles that do not fully leverage their acquired qualifications—adds another layer of complexity to the equation[106].

For many university graduates, employment outcomes remain bleak. Fresh graduate salaries have remained almost stagnant for at least a decade. In 2021, 59.6% of fresh graduates made RM2,000 or less for their first job, showing only marginal improvement compared to 2010, about 60.8% (Figure 3.7). And while the growth of “tertiary educated persons” continues to rise, the growth of “skilled employed persons” has plateaued since 2002—making overqualification and underemployment issues of pressing concern.

It is important to recognise that securing quality employment outcomes for graduates serves as a crucial stepping stone for their future career development. Our research highlights that commencing with a poor employment status, marked by underemployment and low starting pay, can significantly impact graduates' long-term career trajectories, even after a decade in the labour market post-graduation[107].

[105] See Becker (2002)
[106] Mohd Amirul Rafiq Abu Rahim and Shazrul Ariff Suhaimi (2023b)
[107] KRI (2024)

Figure 3.7: Starting pay of fresh graduates with degree qualification, 2010 and 2021



Source: MOHE (n.d.) and KRI calculations

Consequently, the debt which was intended to push graduates toward financial empowerment has, in many instances, transformed into an unexpected financial hurdle. The implications of this resonate far beyond the scope of individual finances, potentially extending to compound the broader debt burden. It has become increasingly apparent that the promise of future prosperity determined by the pursuit of higher education may unwillingly contribute to a cyclical pattern of subsequent financial burden.

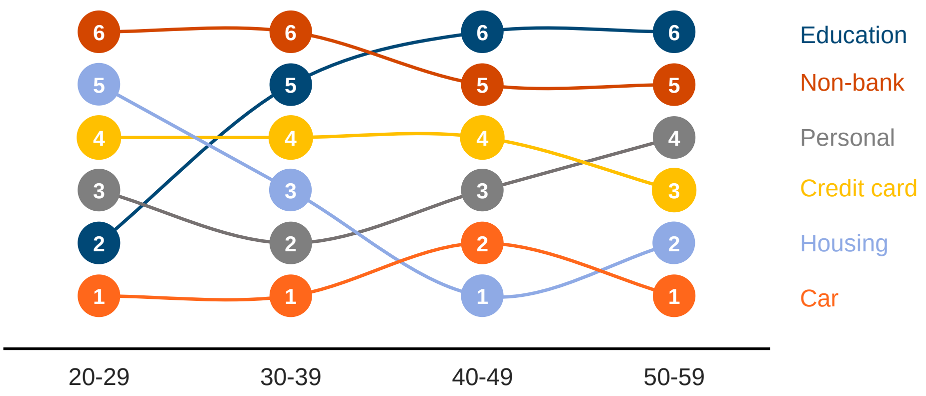
As of 2018, nearly one-fifth of the working population in Malaysia struggled to allocate funds for savings, and amongst the reasons cited for this financial difficulty, the weight of "high debt commitment" emerged as the third most commonly cited[108]. Zooming into the breakdown of loan commitment by age cohort, a telling narrative emerges. Education loans, symbolic of an aspirational investment in the future, accounted for the second highest debt portion held by individuals aged 20 to 29 years old[109] (Figure 3.8). While education loan component vanishes for individuals in later cohorts, typically by the age of 40, the dynamic relationship between education debt, aspirations, and financial responsibilities during youth remains critical. This interplay has the potential to compound financial challenges for young individuals as they advance through various life stages[110].

Notably, a recent report from AKPK, as cited from Utusan Malaysia[111], reveals that 53,000 youths aged 30 and below are in debt worth nearly RM1.9 billion in total. The main factor cited for these affected youths to approach and register with AKPK for debt restructuring assistance was to restore their cash flow. Consequently, the debt meant to facilitate graduates' financial growth has instead become a financial hindrance. This turning of debt meant to facilitate graduates' financial growth into

[108] AKPK (2018a)
[109] The actual data represent a chart of proportion of debt for each debt categories. We have not had chance to get access to the actual data, hence, we ranked the categories based on the highest to the lowest debt proportion for each age cohort.
[110] Fry (2014)
[111] Aiman Ali (2024)

a hindrance, with education loans accounting for over 40% of debt held by those aged 20 to 29 years old, comprising the second largest portion of debt burden for young adults[112].

Figure 3.8: Rank of loan ownership of Malaysian working adults, by age group, 2018



Source: Adapted from AKPK (2018a)

Furthermore, the consequence of student debt's impact on individuals from low-income background, particularly the B40 households, becomes even more pronounced when considering the distinct disparities in debt outcomes. Evidently, B40 borrowers not only bear a disproportionate share of student debt but also face a disproportionately higher risk of default. Remarkably, while constituting 55% of all PTPTN debtors, B40 borrowers make up a staggering 97% of those who find themselves unable to fulfil their debt obligations[113].

This inequitable phenomenon is compounded by the reality that individuals from lower-income backgrounds are frequently compelled to choose extended repayment periods. This option, driven by the necessity to manage immediate financial constraints, leads to a prolonged duration of indebtedness. As these borrowers stretch their repayment timelines, the ensuing accrual of interest over the extended period exacerbates their financial burden, thus perpetuating their debt-related struggles for a longer period.

This disproportionate debt burden could also be attributed to the way PTPTN loans are structured. Loan amounts are determined by one's family income and the level of study they are looking to pursue (Table 3.3), and do not necessarily depend on one's tuition fees. A student can access a maximum loan if their family receives *Sumbangan Tunai Rahmah*[114]—that is, if their household income falls below RM5,000. This means that all B40 borrowers qualify for a maximum loan.

On the other hand, possessing a family income between RM5,000 and RM8,000 allows students a 75% loan; and if one's family income exceeds RM8,000, then they qualify only for a 50% loan. This falls in line with PTPTN's overarching goal of financial inclusion. By allowing the lowest-income families access to large loans at a low interest rate, they (presumably) open the doors to higher

[112] AKPK (2018a)
[113] This figure is based on a relatively small sample size and thus might not be exhaustive. Out of a randomised and representative sample of 2,500 borrowers, only 1,866 responded, of whom only 551 had experienced loan default (Wan Jan 2020).
[114] MOF (n.d.)

education. But on a practical level, this also means that the poorer you are, the greater the debt you incur.

Table 3.3: PTPTN loan levels by family income

Loan level	Conditions
Maximum	Recipient of *Sumbangan Tunai Rahmah* (STR)
75%	Family income does not exceed RM8,000
50%	Family income exceeds RM8,000

Source: PTPTN – *Info Pinjaman Pendidikan*[115]

Certainly, delving into the details of the debt landscape among B40 borrowers is important to understand the key financial challenges they face. Table 3-5 displayed total estimation of PTPTN loan by type of institution. According to this breakdown, a B40 borrower could incur between RM9,500 and RM38,250[116] in loans to obtain a diploma. In the public higher education institutions (IPTA), a B40 borrower could take on about RM26,600 for a bachelor's degree; in the private higher education institutions (IPTS) this amount varies between RM56,120 to RM68,000.

The maximum loan amounts allocated for diplomas and bachelor's degrees, as highlighted in red within Table 3.4, exposed several insights into the implications of debt burdens within this group. The significance of these figures lies in the following reasons:

1. Predominance of debt repayment challenges within the B40 group: It is an established fact that the B40 segment encounters the most problematic to debt repayment. The rationale behind this claim can be attributed to the economic constraints that often characterise this group, rendering them more prone to opt for and rely upon maximum loan offerings to pursue higher education. As such, these individuals find themselves struggling with the consequences of compounded debt burdens, making it crucial to focus on the maximum loan amounts.

2. Educational aspirations and debt realities: The strategic allocation of the majority of borrowers towards the diploma and bachelor's degrees is a notable trend. About 46% of borrowers aim to fund their diploma education, while 50% seek financial support for their bachelor's degree[117]. The information underlines the importance of examining the maximum loan amounts associated with these educational levels, given their prevalence among the borrowing population. These figures essentially form the point which the financial future of these individuals' hinges, thus requiring careful consideration.

[115] PTPTN (n.d.)
[116] Based on conservative estimate of years taken for completing each education level.
[117] Wan Jan (2020)

Table 3.4: PTPTN loan amounts by institution type, education level, and loan level

Institution	Education Level	Loans Granted Annually			Years Taken*	Total Loans Estimate		
		Maximum	75%	50%		Maximum	75%	50%
IPTA	Diploma	RM 4,750	3,560	2,380	2	9,500	7,120	4,760
	Bachelor of Science (BSc)	6,650	4,990	3,330	4	26,600	19,960	13,320
	Bachelor of Arts (BA)	6,650	4,990	3,330	4	26,600	19,960	13,320
	Master's degree	9,500	7,130	4,750	1	9,500	7,130	4,750
	Doctor of Philosophy (PhD)	24,700	18,530	12,350	3	74,100	55,590	37,050
	Professional courses	5,700	4,280	2,850	1	5,700	4,280	2,850
	Foundation	6,800	5,100	3,400	1	6,800	5,100	3,400
	Diploma	6,800	5,100	3,400	2	13,600	10,200	6,800
IPTS	Diploma (Pharmacy, Dentistry, & Health Sciences)	12,750	9,560	6,380	3	38,250	28,680	19,140
	Bachelor of Science (BSc)	14,030	10,520	7,010	4	56,120	42,080	28,040
	Bachelor of Arts (BA)	13,600	10,200	6,800	4	54,400	40,800	27,200
	Bachelor's degree (Pharmacy, Dentistry, & Health Sciences)	17,000	12,750	8,500	4	68,000	51,000	34,000
	Bachelor of Medicine, Bachelor of Surgery (MBBS)	50,000	37,500	30,000	5	250,000	187,500	150,000

Note: *KRI conservative estimate.
Source: PTPTN – *Info Pinjaman Pendidikan*[118]

A notable disparity between loans for public and private institutions generally reflects a difference in tuition fees. Private institutions tend to be more costly than their public counterparts, as evidenced in Table 3.5.

Table 3.5: Total course fees by field and institution type, 2019

	Business	Law	Engineering	Medicine	Arts/ Humanities
IPTA	RM 6,400 – 11,100	7,000 – 12,100	8,000 – 13,200	13,600 – 15,700	7,100 – 7,600
Semi-Private IPT	41,600 – 72,000	67,700	51,600 – 84,000	260,200	40,000 – 42,200
Foreign Universities with Local Campuses	67,200 – 112,800	112,800	118,700 – 190,000	348,000 – 499,500	82,800 – 111,400
IPTS	46,000 – 102,500	52,700 – 104,600	68,000 – 139,500	395,500	64,000 – 86,500
Public HEI's	6,400 – 11,100	7,000 – 12,100	8,000 – 13,200	13,600 – 15,700	7,100 – 7,600

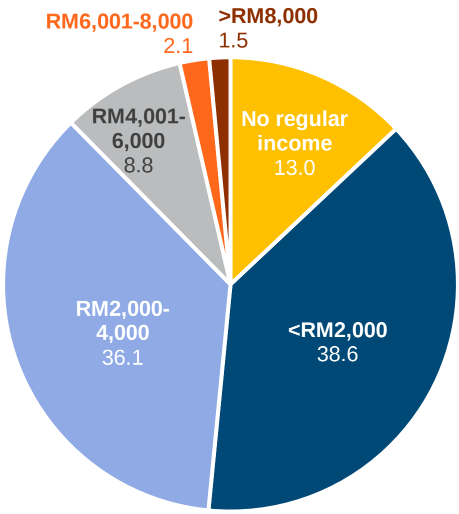
Source: The Centre (2019)

Nevertheless, this image of unmanageable, restrictive debt burden seems to contrast starkly with other credible findings, which point to higher education as a key driver of social mobility. For instance, in 2016, KRI found that tertiary education makes B40 children 4.6 times more likely to be upwardly mobile[119]. While these realities appear contradictory (and thus difficult to reconcile), the issue here might be the magnitude of upward mobility.

[118] PTPTN (n.d.)
[119] KRI (2016)

Tertiary education facilitates upward mobility, but perhaps not to the extent we expect. For instance, KRI's 2016 report defined "upward mobility" as a movement up by at least one income quintile. Upward mobility of any kind is a positive improvement, but it might not amount to a sufficient wage. Additionally, accrual of student debt only further dampens these supposed social mobility effects, evidenced by the 51.6% of B40 PTPTN borrowers who earn below RM2,000 or have no regular income post-graduation (Figure 3.9).

Figure 3.9: PTPTN borrowers by income level after graduation, 2019



Source: Wan Jan (2020)

In summary, there are three pertinent questions warrant policy attention. First, in the context of the prevailing educational debt landscape, what innovative strategies and policy interventions can be devised to effectively alleviate the burden of educational indebtedness? This is particularly significant for individuals from lower income segment, who are substantially represented among debtors and defaulters. Secondly, in the quest of rectifying the challenge of educational indebtedness for economically disadvantaged individuals, how can a balance strategy be achieved between implementing mitigating measures and preserving unobstructed pathways to higher education? And finally, what policy frameworks and support mechanisms can be developed to achieve this complicated balance?

3.4 Policy Options

This subsection delves into an exploration of policy approaches implemented by other countries, offering a valuable opportunity to glean insights from diverse experiences. While these approaches may not be directly applicable to the Malaysian context, they serve as a reference of innovative ideas that prompt further thought and analysis for future policy development. The section also proposed financial easing strategies for those already indebted as well as precautionary measures towards greater financialization by employing saving schemes.

Policy Option 1: Saving Schemes for Families

The influence of education savings, particularly at an early age, has been a subject of considerable interest and research[120]. Studies have consistently shown a positive relationship between savings behaviour and educational attainment, highlighting the pivotal role of financial planning in shaping academic outcomes. Savings accounts designed for educational purposes have been identified as influential factors in determining a child's educational trajectory. For instance, research conducted by Morris (2003) suggests that offering an additional $1,000 for a savings account can significantly reduce the likelihood of a child receiving no education by 4% to 7%. This highlights the importance of financial incentives in promoting educational participation and access to learning opportunities.

Furthermore, the impact of tax-free savings accounts on education outcomes has been demonstrated to surpass that of tax credits, particularly in the US context. While tax credits for educational expenditures exist, it is essential not to conflate them with savings accounts. Morris's experiment indicates that providing a $1,000 grant to all students, coupled with the establishment of tax-free savings accounts with a limit of $7,500 per year, yields greater improvements in education outcomes compared to tax credits alone.

Elliott and Nam (2012) highlighted that young adults who had savings specifically designated for higher education were more likely to stay on track academically compared to those without such savings. Building on this research, Elliott (2013) provided evidence supporting the significance of even modest savings accounts for children, showing their relevance in facilitating enrolment and completion of college education.

Additionally, literature have also highlighted the importance of parent savings for their children's tertiary education as a means to alleviate financial burdens associated with higher education expenses. Friedline (2012), for instance, emphasised the value of parents saving for their children's future educational needs, particularly during the critical developmental stages between the ages of 12 to 15. Such savings, encompassing both basic and college funds, were found to be influential in addressing short-term and long-term educational expenses.

However, like what we have discussed in the context of this chapter, challenges persist in financing higher education where the costs continue to rise without restraint. Elliott et al. (2014) further emphasised the growing reliance on education loans to cover college education expenses in the US. In this context, parental college savings emerge as a crucial strategy to mitigate the accumulation of college debt among students in the future.

These findings underscore the significance of proactive savings strategies, particularly through dedicated educational savings accounts, to foster positive outcomes for higher education and enhancing opportunities for academic advancement. As such, policies aimed at promoting savings for education, such as the SSPN savings[121] scheme under PTPTN's framework, hold considerable potential in facilitating access to higher education and fostering socio-economic development.

[120] Okech, Little, and Williams-Shanks (2011)
[121] The SSPN is a savings initiative tailored by the PTPTN to facilitate saving for higher education. This scheme adheres to Shariah principles, employing the "Wakalah Bil Istithmar" concept, whereby depositors authorise PTPTN to oversee their deposits for investment activities. Source: PTPTN (n.d.)

Education savings through SSPN

SSPN scheme, which was introduced in 2004, offer an important avenue for parents to consistently save and prepare for their children's higher education. While various education savings options exist across various institutions in Malaysia, SSPN stands out for its affordability and offers decent protection measures for depositors. Designed by the PTPTN, SSPN offers a secure and structured platform for families to accumulate funds specifically allocated for educational purposes. This scheme not only facilitates disciplined savings but also provides tax relief benefits under the income tax act. With its emphasis on accessibility, affordability, and depositor protection, SSPN serves as a reliable tool for parents seeking to ensure their children's educational aspirations are met without financial constraints.

Starting from 2007, the SSPN offered personal income tax relief of up to RM3,000, a figure that was later increased to RM6,000 after the in the Budget 2016's announcement. Subsequently, in Budget 2019, the tax relief was further raised to RM8,000 annually. SSPN has consistently garnered popularity among taxpayers over the past few years due to its appealing income tax relief of up to RM8,000 and its interest rates ranging from three percent to four percent, which generally surpass those of fixed deposits provided by other financial institutions. As of 31 December 2023, SSPN boasted 6.25 million depositors, with the total accumulated deposits amounted to RM17.4 billion since 2004. Meanwhile, the total accumulated SSPN deposits received from 2004 until 31 December 2023 amounted to RM17.39 billion involving 6.25 million accounts[122]. Table 3.6 demonstrates the SSPN's performance, in terms of total yearly deposits collected and dividend returns.

The SSPN scheme offers several noteworthy features, particularly in terms of its return, flexibility and protection for depositor. The dividend rate offered by SSPN is highly competitive, surpassing the interest rates of savings and fixed deposit accounts in local banks, which typically range between 2.05% and 3.45% (Table 3.7). Another key aspect is its flexibility, which allowing individuals to contribute as low as RM30 monthly, making it accessible to a wide range of income groups. Despite the modest contribution amount, the scheme provides significant protection for its depositor, with coverage extending up to one million RM per child, depending on the total monthly savings contribution. This affordability aspect is essential in the context of financial easing strategies for future higher education expenses. By starting to save early and consistently contributing to this SSPN scheme, parents can gradually build up a substantial fund to ease the financial burden when their child enters tertiary education.

The scheme's ability to offer protection up to one million ringgit per child further reinforces the sense of financial security, assuring parents that their savings are safeguarded against unforeseen circumstances. A quick calculation on its return shows that if a parent contributes RM30 monthly for one child, with an annual return of 4%, by the time the child reaches 18 years of age, they will have access to RM9,293.12 for their higher education expenses. While this amount may seem modest for those with higher income groups, it can provide some relief for those with lower incomes. Additionally, it is important to consider the protection scheme offered by SSPN. In the event that something were to happen to the parent (the scheme contributor), the child is protected with RM60,000 in compensation.

[122] PTPTN (2024)

Table 3.6: Total SSPN deposits and returns (dividend), 2017-2021

Year	Total SSPN Deposits	Total SSPN Deposits (% Increase)	Returns (Dividend)
2015	RM 498.6 m	-	4.00%
2016	544.5 m	9.2%	4.00
2017	726.8 m	33.3	4.00
2018	1.14 b	57.2	4.00
2019	1.47 b	19.8	4.00
2020	1.99 b	45.6	4.00
2021	3.01 b	51.0	3.00
2022	3.36 b	11.6	3.05
2023	3.15 b	-6.3	3.60

Source: PTPTN (2023b), Sofea Susan Albert Kassim (2017), PTPTN (2023a) and PTPTN (2024)

However, challenges persist for this scheme in order to encourage parents to save for their children's higher education. One significant obstacle lies is the low awareness among parents regarding the benefits of this scheme and the necessity of starting early[123]. Many parents remain unaware of the scheme's existence or fail to grasp its advantages fully. To address this, comprehensive awareness campaigns and educational initiatives are necessary.

Through strategic dissemination of information via social media, educational seminars, and partnerships with schools and institutions, parents will be able to gain a clearer understanding of the importance of initiating savings early and the benefits offered by the scheme. Moreover, offering flexible contribution options can help make SSPN more accessible, particularly to parents facing financial constraints or competing priorities in their monthly obligation.

In addition to its potential, a common concern among contributors as investors in the scheme is the priority of maintaining favourable returns, ideally slightly higher than those offered by conventional fixed deposit savings. To address this concern, one suggestion is for the government to consider providing a dividend subsidy for SSPN's yearly returns. For instance, for every 3% return announced by SSPN, the government could supplement with a 1-2% contribution to its dividend, ensuring that the scheme maintains competitive rates yearly, consistently surpassing the 3% threshold.

This approach could be strategically targeted to benefit low-income contributors, thereby incentivising more parents from this demographic to invest in SSPN. By fostering confidence in the scheme's ability to generate returns that outperform traditional savings options, such targeted dividend subsidies could effectively encourage greater participation in SSPN, ultimately facilitating greater financial security for families and broader access to education savings opportunities. Moreover, the continuation of tax incentives for SSPN savings could offer additional avenues for parents, especially from the middle-and high-income contributors, to further bolsters their long-term savings efforts for their children's education.

[123] Yi et al. (2018)

Additionally, integrating financial education programs into schools and community centres can equip parents with the necessary knowledge and skills to make informed decisions about saving for their children's education. Providing online resources and tools for budgeting and planning can further empower parents in managing their finances effectively and contributing towards their children's future educational expenses with confidence.

Policy Option 2: Brain Gain

Malaysia is experiencing wage stagnation[124] as well as an erosion of living standards for a significant portion of households. This is the realities in which relatively poorer households are securing financial loans for higher education. However, employment outcomes for fresh graduates have not translated into favourable outcomes, with more than half of them securing starting pay of less than RM2,000 and the rate of unemployed fresh graduates within a year after graduation has also been stagnant in double digits, at 15.2% in 2021[125]. Unemployment is a consequence of the economy, not the higher education system. Therefore, it is an opportune to reconsider policy options to induce more graduates to work abroad.

The issue of skilled migration has long been a subject of analysis and debate, dating back to the 1950s and 1960s[126]. Economists, politicians, entrepreneurs, and academics have expressed concerns about brain drain and its adverse effects on national competitiveness in developing countries. Despite attempts to address brain drain through short-term policies or taxation measures, skilled migration continues persistent, due to globalisation[127].

However, there has been a shift in perspective in recent years, with a growing recognition of the potential benefits of skilled diaspora networks. Instead of trying to prevent emigration, many governments[128] are now exploring ways to leverage their diaspora communities for national development, reflecting a shift towards concepts of brain gain, brain exchange, and brain circulation to better manage migration flows and serve their national interests.

Perspective of global policy transformation

The policies adopted by developing countries regarding the migration of its tertiary-qualified citizens can be summarised through two basic approaches, which are not contradictory but rather complementary. The first approach, known as the brain drain approach, focuses on the negative impacts of migration, such as the loss of skills for the country of origin, and explores responses to mitigate these effects. Conversely, the brain gain approach emphasises the positive aspects of brain drain, acknowledging the existence of highly skilled migrants abroad and exploring opportunities to leverage this diaspora for national interests. Both approaches have led to various policy options, including taxation, regulation of flows through international norms, and control of emigration.

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[124] KRI reports published in 2023 has discussed the issue of wage stagnations in Malaysia across three decades. In its Part I report, it discusses how wage growth and wage inequality emphasised the importance of institutional measures such as the minimum wage in counteracting the structural challenges of the Malaysian labour market. While in its Part II report, differential wage experiences of subgroups that compose the labour market, including the perspective of education qualification. See Nithiyananthan Muthusamy, Jarud Romadan Khalidi, and Mohd Amirul Rafiq Abu Rahim (2023); Nithiyananthan Muthusamy, Mohd Amirul Rafiq Abu Rahim, and Jarud Romadan Khalidi (2023)
[125] KRI (2024)
[126] Khadria (2006)
[127] Mahroum (2005)
[128] Ibid.

Taxation was once a prominent countermeasure to brain drain, but its popularity waned by the late 1980s[129]. Regulation through international norms has been proposed but not enforced due to selective immigration policies in developed countries. Restrictive policies aimed at retention or recuperation of skilled individuals have been implemented in many developing countries, but their success has been limited. In recent years, alternative strategies have emerged, including the 'return option' and the 'diaspora option'[130].

The return option, which gained traction in the 1980s and 1990s, integrates scientific, technological, and economic dimensions into a comprehensive development policy[131]. Successful cases of return policies are found in newly industrialised or industrialising countries with vibrant science, technology, and industrial sectors. On the other hand, the diaspora option mobilises the resources of nationals living and working abroad for the national development of their home country[132]. This strategy does not necessarily require the physical repatriation of individuals but focuses on their contribution to government, research institutions, or corporations based in their home nation.

Each of these brains gain options has its advantages and limitations, and their success depends on addressing the root causes of skilled emigration within the home country. In the context of Malaysia, considering brain gain strategies could serve as a proposed financial easing strategy for those already indebted and as an option for graduates to gain better employment prospects abroad, while also serving as a precautionary measure towards greater financialization. As part of this effort, encouraging graduates to work abroad can be considered as a brain gain measure for Malaysia. By tapping into the global talent pool and leveraging the skills and expertise of our graduates in foreign markets, Malaysia can potentially benefit from increased remittances, knowledge transfer, and international networks[133]. Furthermore, working abroad can offer Malaysian graduates' valuable exposure to diverse work environments, new technologies, and global best practices, thereby enhancing their skills and competencies.

This international experience can ultimately contribute to their personal and professional development, making them more competitive in the global job market upon their return to Malaysia[134,135]. Additionally, encouraging students to work abroad aligns with the concept of brain circulation, where skilled individuals move between countries, gaining experience and expertise before returning to their home country to contribute to its development[136]. By fostering a culture of mobility and exchange, Malaysia can harness the potential of its diaspora and create mutually beneficial relationships with other countries.

[129] Commander, Kangasniemi, and Winters (2004)
[130] Docquier and Rapoport (2012)
[131] Samet (2014)
[132] Séguin et al. (2006)
[133] Tyson (2011)
[134] During a Malaysian diaspora high-tea event at Tokyo, Prime Minister Datuk Seri Anwar Ibrahim highlighted the need for Malaysians to change their mindset to foster a new Malaysia. He encouraged Malaysian students to gain international experience working experience after graduation but emphasised the importance of returning to contribute to their home country. Source: Bernama (2023)
[135] Starting February 15, JPA students in their final year studying for their first degree abroad can now defer their return to Malaysia for up to three years. This decision, announced by JPA, aims to enable students to gain employment and skills overseas, while still requiring them to repay their scholarships through monthly instalments. Source: The Star (2024)
[136] Malhotra (2009)

Lesson Learn from India and Columbia

India

India serves as one of important example of addressing skilled migration through various policies, particularly in sectors like information technology (IT), engineering, and healthcare. The country's significant role as a source of skilled professionals in various sectors, particularly in the US and UK, underscores the demand for Indian talent globally. Initiatives facilitating temporary entry for Indian healthcare workers and software professionals have been established through contractual arrangements with host countries, demonstrating collaborative efforts to address skill shortages. Moreover, India has witnessed an increasing trend of return migration and a growing contribution of overseas Indians to its economy, particularly in IT and business process outsourcing (BPO) sectors, aligning with its economic growth.

Studies have highlighted the dual impact of skilled migration on the Indian economy, acknowledging the loss of human capital alongside benefits such as skills upgrading, technology transfer, and increased productivity[137]. Government initiatives have begun recognising these benefits, fostering the participation of the overseas Indian diaspora in the economy through trade, investment, and technology transfer. While skilled migration from India to developed countries has historically been permanent, recent trends indicate a reversal, driven by improving economic conditions and opportunities within India.

Lessons learned from India's experience highlight the positive contributions of skilled migration, particularly in sectors like IT and healthcare. Return migration has facilitated skill and technology transfer, with returning professionals enhancing India's capabilities through specialised expertise and knowledge gained abroad.

Government policies, while sector-specific, aim to balance brain gain and brain drain considerations, with initiatives to retain talent through educational incentives and industry collaborations. However, efforts to attract healthcare providers back to India have been relatively limited, with a focus on diaspora investment rather than direct talent retention.

Columbia

Columbia's approach to skilled migration focused on harnessing the diaspora's potential, particularly through initiatives like the Colombian Caldas Network of Scientists and Engineers Abroad, which was introduced in 1994[138]. This pioneering project aimed to connect highly skilled expatriates with scientific and technological activities in Colombia, recognising their significant contribution to national development objectives. Studies of the Caldas Network revealed various forms of contributions, including policy design, human resources development, and participation in economic and cultural development[139].

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[137] Khadria (2006)
[138] Chaparro, Jaramillo, and Quintero (2006)
[139] Tejada Guerrero (2008)

The establishment of the Caldas Network was accompanied by a broader shift in Colombia's approach to science and technology (S&T), placing it at the forefront of national development. This included comprehensive reviews of research programs, the creation of a National System of Science and Technology, and significant increases in public funding for R&D activities. The diaspora option, in Colombia's case, emerged as an integral component of national development strategies, reflecting a concerted effort to leverage expatriate skills for domestic advancement.

Furthermore, Colombia's experience underscores the importance of aligning diaspora initiatives with internal dynamics and national priorities. While the diaspora option has been adopted by many countries and organisations, its success hinges on effectively turning negative migration effects into positive outcomes and ensuring optimal utilisation of expatriate knowledge and expertise. The Colombian case offers valuable insights into achieving these objectives, emphasising the transformative potential of diaspora engagement in driving socioeconomic progress.

In addition to Colombia's experience, the United Nations Development Programme (UNDP) introduced the Transfer of Knowledge Through Expatriate Nationals (TOKTEN) Programme[140] to facilitate the repatriation of knowledge and expertise from expatriates to their countries of origin. This initiative, exemplified by Afghanistan and Vietnam, demonstrates the potential for leveraging expatriate talent to address national development priorities. Through initiatives like TOKTEN, countries can tap into their diaspora resources to build local capacities, foster sustainable development, and effectively address key challenges.

Policy Option 3: Options for Education Financing

Universal free tuition

Perhaps the most straightforward way of reducing student debt burden would be to make higher education free for everyone. However, universal free tuition often comes at the expense of access. The easiest way (frequently, the *only* way) for governments to fully subsidise education is to restrict admissions—that is, to limit the number of students that need subsidising. Often these restrictions are based on "merit", which inherently favours those from higher socioeconomic backgrounds. This section revolves around two case study countries, Ecuador and the Philippines. They serve as useful points of reference because:

1. Ecuador and the Philippines are among the few developing countries which have implemented free public higher education for all.
2. Their Gross Enrolment Ratios (GER) and public-to-private student enrolment have remained somewhat comparable to ours, both before and after their fee reforms (Table 3.7).

Table 3.7: GER and public-to-private enrolment ratio of Malaysia, Ecuador and the Philippines

Country	Gross Enrolment Ratio	Public-to-private enrolment ratio
Malaysia	**2020: 42.6%**	**56.0% public : 44.0% private**
Ecuador	2020: 52.6	56.7 public : 43.3% private
Philippines	2016: 40.4 2020: 33.4	45.0 public : 55.0% private

Source: UNESCO (2023), Mateo (2023) and Stinson (2022)

[140] Kuschminder (2014)

When a 2008 policy eliminated tuition fees at Ecuador's public universities, it also implemented an entrance exam for prospective applicants. In 2010 this exam was replaced by National Exam for Higher Education (ENES), an aptitude test meant to evaluate students' "verbal, numerical, and abstract reasoning"[141]. But since most Ecuadorian secondary schools lack adequate preparation for ENES, students from higher-income backgrounds remain at an advantage since they can afford private training. Furthermore, the ENES is administered online, reducing opportunities for those without stable internet access. Thus, although Ecuadorian enrolment rates of higher socioeconomic status[142].

Similarly in 2017 the Philippines's "Free Tuition Act" eliminated tuition and other school fees for public university undergraduates. By conducting logistic regression analysis on 2006–2015 admissions data from the University of the Philippines (UP), Daway-Ducanes, Pernia, and Ramos (2022) found a substantial "income advantage" among those admitted. Applicants from the lowest income decile remained "13% less likely to be admitted" than those from the topmost income decile, even after accounting for determinants like high school grades, geographical location, year of application, and gender. The study speculate that the Free Tuition Act will only further perpetuate this income advantage, especially since demand for higher education has risen sharply since the fee elimination (with up going from about 66,000 applicants yearly to over 100,000).

In the Malaysian context, while waiving all tuition fees would certainly ease the debt burden of future university graduates, limited admission capacities would force public universities to grow more "selective", contradicting the supposed "egalitarian" nature of universally free education[143]. It would necessitate rigorous restrictions on education access, beyond the grade requirements in place today—restrictions which, as seen here, would disproportionately affect students from lower-income families. Additionally, tuition fees are part of university's revenue stream, and it may be challenged for universities to sustain and maintaining their resources and facilities.

While policy makers may perceive it as a straightforward budgetary decision and a powerful political move, the implementation of free-tuition higher education is complex, costly, and not a guaranteed means to enhance access or success. This complexity arises primarily due to the fact that free higher education lacks targeted focus; it affects all individuals regardless of their specific needs. Although inherently egalitarian, this policy can paradoxically lead to inequity. Instances of equity concerns within free systems are evident globally, yet the allure of free tuition prevails in political discourse. However, should we not prioritise channelling efforts into creating equitable avenues for higher education financing, rather than negating its cost?

However, it is worth noting that Malaysia has essentially highly subsidised its higher education. The government covers over 90% of academic fees charged at public universities, making tuition fees in the country among the lowest in Asia. For instance, before subsidies, the tuition fees for medical programs amount to approximately RM289,885. However, fees charged to students is RM9,000 throughout their study period[144]. On average, the government subsidises about 91.4% of the tuition fees for medical programs in the country. Nevertheless, extending this model to private institutions presents considerable challenges.

Examples from Scandinavian countries such as Germany, Denmark, Norway and Sweeden that implemented universal free tuition policies provides valuable insights into how such initiatives can

[141] Cabrera Moreno (2017)
[142] Molina and Rivadeneyra (2021)
[143] Cabrera Moreno (2017)
[144] Zainuddin (2017)

be affordably financed. One key aspect of their approach is the strong commitment to education as a public good. These countries prioritise investment in education as a means of fostering social mobility, economic growth, and innovation. As a result, higher education is publicly funded, with the government covering the majority, if not all, of the tuition costs[145].

Nonetheless, ongoing debates persist in these countries regarding the adoption of free tuition policies for higher education. While such policies do mitigate student debt to some extent, they do not eradicate it entirely. Students in these countries still face financial challenges related to housing, meals, and transportation, even without tuition fees. Despite the absence of tuition costs, many European students have to take up part-time employment to cover these expenses[146]. For instance, in Sweden, around 85% of students graduate with debt, averaging approximately $19,000[147].

Moreover, one notable aspect to consider is the higher income tax rates in countries offering free college. These nations prioritise social welfare programs, necessitating elevated tax rates. For example, Denmark has an income tax rate of 56%[148]. Additionally, the re-introduction of free college in Germany in 2014 led to a 37% increase in taxes allocated for higher education[149]. Should Malaysia consider implementing free tuition fees for its higher education, federal income taxes would likely undergo a similar adjustment.

Despite the benefits of free tuition fees, these systems may not effectively foster social mobility among low-income adults. In Denmark[150], Norway[151], and Germany[152], individuals from non-college-educated backgrounds are equally unlikely to pursue higher education. This trend may stem from the availability of well-paying blue-collar jobs in these countries, which can provide middle-class stability without the need for a college degree. Consequently, the allure of middle-class security may deter European teenagers from pursuing higher education and accumulating debt.

Income-targeted free tuition

If universal subsidisation is unfeasible, then it makes sense to limit our subsidisation in some other way by making tuition free only for those who need it. This approach is called income-targeted free tuition. There are several countries have implemented this approach, as follows[153]:

1. The **Canadian** government fully subsidises education for families making under CAD50,000, by paying grants equal to average tuition in their province. For those making above the threshold, grants are awarded on a sliding scale, declining to only CAD1,800 for families making CAD100,000 and disappearing altogether for those earning CAD180,000. This approach proved most beneficial for students from lower-income families earning below CAD60,000.
2. In **Chile**, the income-targeted approach was an accidental one. The government had promised universally free college (*gratuidad*), but financial constraints left it only able to subsidise students from the "bottom 6 income deciles". Chile already had a "system of grants and loans" in place for students from low-income households. But many of these existing programs had minimum grade requirements which made them inaccessible. Under *gratuidad*, low-income students were able to access aid unconditionally, improving enrolment and access.

[145] Karran, Beiter, and Mallinson (2023)
[146] Phillips (2013)
[147] Ibid.
[148] Layton (2015)
[149] Marcus (2016)
[150] Subramanian (2021)
[151] Marcus (2015)
[152] Marcus (2016)
[153] Usher (2017)

3. **New York's Excelsior Scholarship** has been relatively less successful. Under the scholarship, students from families earning under USD125,000 receive grants to cover whatever they would have paid in tuition (i.e., tuition minus any grant they'd already received from the federal or state government). But because students from the lowest income households are already mostly covered by other grants, much of the Excelsior's benefits are instead channelled to the upper end of their threshold: families making between USD80,000 and USD125,000, for whom public higher education was already largely affordable. The scholarship was, in essence, redundant.

Evidently, the use of an appropriate income threshold—the line between who does and does not get free tuition—is crucial. If done correctly, this policy could both alleviate student debt burden and enhance access to higher education.

In the context of Malaysia, the adoption of an income-targeted free tuition approach, akin to the policies observed in Canada, Chile, and New York, presents a prudent strategy for addressing the challenges associated with universal subsidisation of higher education. This approach aligns with Malaysia's diverse socioeconomic landscape, enabling the government to allocate resources more effectively while enhancing affordability for marginalised students. By removing financial barriers, such an approach can particularly targeted to disadvantaged groups, and promote equitable access to education. Additionally, tailoring the policy to Malaysia's existing conditions and defining an appropriate income threshold ensures that the benefits of free tuition reach those who genuinely require assistance, ultimately alleviating student debt burdens and advancing educational accessibility in line with national goals.

Income thresholds for free tuition

Determining the optimal income threshold for the implementation of free tuition is a multifaceted effort, requiring a comprehensive assessment that takes into account both financial sustainability and benefit distribution. Achieving a detailed balance between these two key considerations is necessary to ensure the long-term viability of the policy and its equitable impact on the target population.

Financial sustainability: To what extent can our government maintain and sustain free tuition?

As mentioned earlier, around 80% of those who graduated locally in 2020 came from B40 households. Waiving tuition for 80% of university students may pose long-term budgetary challenges given the government's substantial extant subsidy on public higher education. Though current fees pose a demonstrable burden on Malaysian graduates, the government already bears approximately 70% of the total cost at public universities (meaning that students currently pay only 30% of what they otherwise would have)[154].

[154] Abdullah (2017)

Additionally, a B40 fee waiver would likely attract many more B40 university applicants, including those who are more loan-averse and would thus normally resist acquiring a degree. This may appear to be a positive development: an improvement in educational access. However, if applications spike, and fully subsidised B40 students compose a larger and larger portion of Malaysian undergraduates, it would exert increasingly unsustainable strain on government funds, and universities may react, as in Ecuador and the Philippines, by growing more meritocratically selective. This may be seen to disadvantage the poor.

Targeting a smaller portion of low-income students might be more financially manageable. 41.3% of individuals who graduated in 2020 had family incomes of RM2,000 or less. This is a reasonable approximation for the portion of graduates whose families fall below the PLI of RM2,208. By implementing free tuition for those below the PLI, the government would be fully subsidising only about 40% of graduates, rather than 80% of them.

Jarud and Hawati (2020) address the latter limitation by analysing data on enrolled students from 2017. Using parents' highest education level as a "proxy for students' socioeconomic status", their analysis highlighted that 43.7% of students in public institutions had parents who had attained "secondary education at most". Since educational attainment is commonly associated with income level, this finding affirms that the bottom 40 to 45% of university students (by family income level) may be a reasonable approximation target for fee elimination.

But there are several limitations to this approach. Firstly, these figures do not reflect household size, rendering them biased towards smaller households. Secondly, these data refer only to graduates who have completed their studies, which does not necessarily reflect the socioeconomic status of all students who have enrolled. Students who stop their studies mid-way are still obligated to repay their student loans based on their duration of attendance, regardless of their completion status. This is important because there could be a link between students' socioeconomic status and their likelihood of not graduating, dropping out, or being expelled[155].

Additionally, since these data were collected post-graduation, "family income may be affected by graduation status". For instance, if a fresh graduate secures employment prior to participating in the Graduate Tracer Study, then they too begin contributing to their family income. This newly enlarged total income is what graduates then submit to the survey. This means that some of our family income data could be inflated, and we might be undercounting the actual portion of graduates from low-income families.

Benefit incidence

Equally as crucial is the consideration of benefit incidence. It is reasonably clear that the bulk of repayment failure occurs among B40 debtors, but available data does not indicate how much of that applies specifically to debtors with family incomes below the PLI. Limiting fee elimination to poor students seems more financially sustainable, but in doing so, we could neglect the remainder of B40 students, who might also experience disproportionate debt burden. While Wan Jan (2020) affirms that 97% of PTPTN defaulters are from the B40, it would be useful to have a more detailed income distribution breakdown of those struggling with student debt. Ultimately, more information is

[155] Jarud Romadan Khalidi and Hawati Abdul Hamid (2020)

needed to more precisely determine an income threshold that can optimise both financial sustainability and benefit incidence.

Policy Option 4: Recognising TVET as an Option for Tertiary Education

Technical and Vocational Education and Training (TVET) is a viable option for those less inclined towards pursuing "traditional" academic degrees. In Malaysia, TVET encompasses three different qualifications, comprising five progressive levels: (1) Malaysia Skill Certification (*Sijil Kemahiran Malaysia, SKM*) (Level 1 to Level 3), (2) Malaysian Skills Diploma (*Diploma Kemahiran Malaysia, DKM*) and (3) Malaysian Skills Advance Diploma (*Diploma Lanjutan Kemahiran Malaysia, DLKM*).

These qualification levels build upon each other. If one completes 3 levels of SKM, they may then pursue a DKM. Having a DKM would in turn allow one to pursue a DLKM. Due to prevailing societal stigma, TVET is often perceived as a last resort; a “dead end” for the “academically challenged”, with inferior employment prospects[156]. Consequently, even individuals genuinely interested in vocational occupations may be discouraged out of pursuing TVET, pressured instead to take up substantial debt to pursue a conventional degree.

KRI’s recent report revealed that TVET has generally better employment outcomes relative to its traditional degree counterparts, and many are having potential to gaining high incomes through entrepreneurship[157]. The study also revealed a higher proportion of TVET graduates are in working status within a year after completing studies, as compared to non-TVET graduates, and they make up a greater percentage of total working graduates.

Furthermore, it is imperative to contextualise the fact that approximately 90% of them earn less than RM2,000 per month. However, it is crucial to extrapolate these findings to the broader Malaysian labour market landscape, as similar circumstances prevail among graduates holding conventional qualifications as well. This trend is observable across graduates with certificates, diplomas, including those outside the TVET domain, wherein earnings predominantly fall below the RM2,000 threshold.

Notably, this trend extends to encompass nearly 60% of bachelor's degree holders and approximately 30% of individuals possessing postgraduate degrees. This observation gains further significance when coupled with the earlier revelation that 51.6% of PTPTN borrowers, who are recipients of student loans for conventional degrees, either earn below RM2,000 or contend with irregular income streams. In this context, it becomes evident that societal perception tends to overlook the fact that TVET education, particularly in public institutions (as outlined in Table 3.8), is considerably more cost-effective compared to its conventional counterparts.

[156] Ahmad, Jalani, and Hasmori (2015) and KRI (2018c)
[157] KRI (2024)

Table 3.8: Total tuition fees and amount per semester fees for TVET institutions in Malaysia

Institutions	SKM (4 semesters)	DKM (3-6 semesters)	DLKM (2-3 semesters)
Polytechnics	**RM3,290**	**RM4,710**	**RM2,580**
Fees breakdown (per semester)			
Tuition		RM200	
Dormitory		60 - 630	
Miscellaneous		First semester RM300; subsequent semesters RM150	
Community College	**RM1,890**	**RM2,550**	**RM1,500**
Fees breakdown (per semester)			
Tuition		RM200	
Dormitory		Free	
Miscellaneous		First semester RM300; subsequent semesters RM150	

Source: JPPKK (n.d.) and KRI calculations

It is important that the cumulative fees, encompassing accommodation expenses for those pursuing studies at polytechnics, span a range from approximately RM1,500 to around RM3,300. This cost structure emerges as being more economical than even the most affordable degree programs offered by public universities. Nevertheless, it is imperative to approach these findings with a discerning perspective, as they are accompanied by crucial contextual nuances that warrant careful consideration. Public TVET costs may not be representative, given larger proportion of private providers. As of 31st December 2020, 373 Training Providers registered with Skills Development Fund Corporation (*Perbadanan Tabung Pembangunan Kemahiran* – PTPK), of which 324 were private and only 39 were public[158]; and without knowing the share of total TVET enrolment by type of institution, it is difficult to tell whether these costs are representative— (1) it is difficult to track these changes across private TVET providers, given the "spaghetti bowl" of hundreds of private institutions about whom little is known[159]; and (2) these data provide a snapshot of conditions today but lack historical context and thus predictive capacity[160].

The underlying objective of this section is not to promote the notion that aspiring students should dismiss their academic passions and aspirations, opting for TVET solely to evade student debt. Instead, the intent is to (1) engage in critical self-reflection regarding the validity of our internal biases against TVET education, (2) contemplate the circumstances of individuals who might lean towards pursuing vocational or technical vocations were it not for the prevailing societal stigma and (3) acknowledge that, for a substantial portion of the population, the financial factor significantly influences their decision-making process when selecting a higher education path.

In essence, while recognising that TVET might not encompass a universal solution, it is important to acknowledge it as a legitimate educational avenue—one that often encounters unwarranted underestimation and scepticism.

[158] MOHR (2021)
[159] Aziz and Subramaniam (2023)
[160] Again, situating TVET costs historically and seeing if they changed in line with privatisation would be of great utility. To the authors' knowledge, TVET costs over time are not publicly available especially for private providers. Furthermore, if TVET were to become increasingly professionalised, recognised, and favoured by society, it is possible that fees could rise to reflect that increased cultural value.

Policy Option 5: Income Contingent Loan (ICL)

The aspects we have thus far examined have predominantly revolved around pre-emptive measures, focusing on preventing Malaysians from succumbing to unsustainable levels of student debt. However, it is equally pertinent to address the existing debt quandary. This pertains to the sphere of burdensome debt that necessitates prudent management. In the aspect of potential solutions, the concept ICL has gained traction, emerging as a highly promising policy avenue for consideration. This subsection delves into the concept of ICL and its implications. Drawing inspiration from various countries, including Australia and the United Kingdom, we examine the mechanics and impacts of ICLs, with a specific focus on the Malaysian context.

Mechanics of ICLs

In Malaysia, education loans predominantly adhere to a time-based repayment structure. For instance, a recipient of a PTPTN loan is obligated to commence repayments twelve months following their graduation, irrespective of their income capacity. This approach overlooks the inherent diversity in borrowers' financial capabilities, thereby inadvertently "penalising" those who face challenges in meeting payments and "under-capitalising" those with the means to do so.

In contrast, ICLs introduce an innovative approach where repayments are not initiated until a predetermined income threshold is surpassed. For borrowers who surpass this threshold, the repayment scale remains intrinsically tied to their income levels. The inception of the ICL dates back to 1989 when Australia adopted this novel approach. The paradigm shifts towards privatising education, as seen during Margaret Thatcher's era in the United Kingdom, also paved the way for ICL implementation in the British education system.

The ICL mechanism comprises several key features, including compounding interest from a student's initial enrolment in higher education until the final payment is made. The income-based repayment structure offers several advantages:

1. Default Insurance: By rendering repayment more manageable, the propensity for defaults diminishes, thereby enhancing financial stability for both borrowers and lending institutions.
2. Consumption Smoothing: This system empowers borrowers with a clearer financial trajectory, enabling them to strategically plan their consumption patterns well in advance.
3. Efficiency in Debt Collection: The mechanism of deducting repayments directly from borrowers' salaries streamlines the debt collection process, ensuring greater efficiency and minimising administrative complexities.

The implementation challenges of ICLs

As Malaysia contemplates potential strategies to ease the predicament of education debt, exploring the integration of ICLs into its policy framework demands thoughtful consideration. This approach promises not only to address current challenges but also to align the education financing system with the broader goals of fiscal prudence, equity, and social advancement. ICLs represent a progressive approach to addressing the financial burden associated with higher education. Unlike traditional student loans, which adhere to fixed repayment schedules, ICLs adapt to the borrower's post-graduation income, ensuring equitable access to education and manageable debt repayment.

The successful implementation of this policy hinges profoundly on the judicious selection of an appropriate income threshold—a decision of utmost significance. In the year 2019, the Malaysian government came close to officially introducing ICLs, labelled as Scheduled Salary Deductions[161]. A comparative analysis, presented in Table 3.9, outlines the structure of Scheduled Salary Deductions in contrast to Australia's ICL blueprint. Unfortunately, the initial plan stipulated a staggeringly low minimum repayment threshold of RM1,000—remarkably falling below the minimum wage benchmark.

This contentious decision, met with substantial opposition, was subsequently revised to a marginally higher RM2,000. It is imperative to note that these repayment rates were characterised by their "mandatory and immediate" nature, consequently subjecting higher-income borrowers to steeply "progressive increases" in monthly obligations, elevating their payments from the conventional range of RM150-RM300 to a substantial RM1,200. Not surprisingly, public discontent was vociferous and widespread in response to this design.

As for policy implementation, critique often flows effortlessly from a distance. Yet, the complex task of establishing income thresholds demands thorough consideration. Attaining an equitable balance in setting these thresholds encompasses comprehensive considerations. On one hand, the threshold encapsulates the principles of fairness and public sentiment. Striking too low a threshold might propel low-income debtors towards default, delinquency, or loan distress—precipitating an inevitable public outcry. Ideally, the threshold should be meticulously calibrated to achieve a dual objective:

1. Facilitating a Decent Standard of Living: This encompasses ensuring a minimum, respectable standard of living, potentially informed by indicators such as median wages. Notably, Australia pegs its student loan repayment threshold just slightly below the median personal income, aligning with the principle of fostering a feasible standard of living.
2. Reference to *Belanjawanku*[162]: This is a key reference point in the Malaysian context. *Belanjawanku*, a guide conceptualised by the Social Wellbeing Research Centre (SWRC) and the Employee Provident Fund (EPF), factors in essentials like housing, healthcare, education, and other pivotal components to establish an appropriate monthly expenditure that underpins an acceptable standard of living.

Integrating a more acceptable reference in our context, like *Belanjawanku* framework into discussions and policy formulation around income-contingent loans strengthens the accuracy of evaluating borrowers' financial standings. This approach supports the ability to determine apt repayment thresholds that mirror the true cost of living, bolstering a more comprehensive perspective. Furthermore, importance must be attached to borrowers' individual financial comfort and discretion. Realistically, this necessitates an opt-in mechanism. As evidenced in the episode of 2019, compelling and radical adjustments provoked significant disapproval, even among the cohort of higher-income borrowers.

[161] Ramasamy (2018)
[162] SWRC and EPF (2023)

Conversely, the income threshold also navigates the space of practicality. Balancing lofty thresholds against the backdrop of a considerable number of borrowers earning RM2,000 or less poses a pertinent conundrum. How do we foster efficient loan repayment if the pace of repayment lags the immediacy required? Furthermore, how do we induce maximum participation in the opt-in process, and how do we address situations where such participation is not forthcoming? While the current assessment not equipped to stipulate precise figures for the income threshold and repayment rate, what is clear is that effectuating ICLs would entail a difficult equilibrium between the morally just and the pragmatically viable within the current context.

Table 3.9: The structure of Scheduled Salary Deductions as compared to Australia's ICLs plan

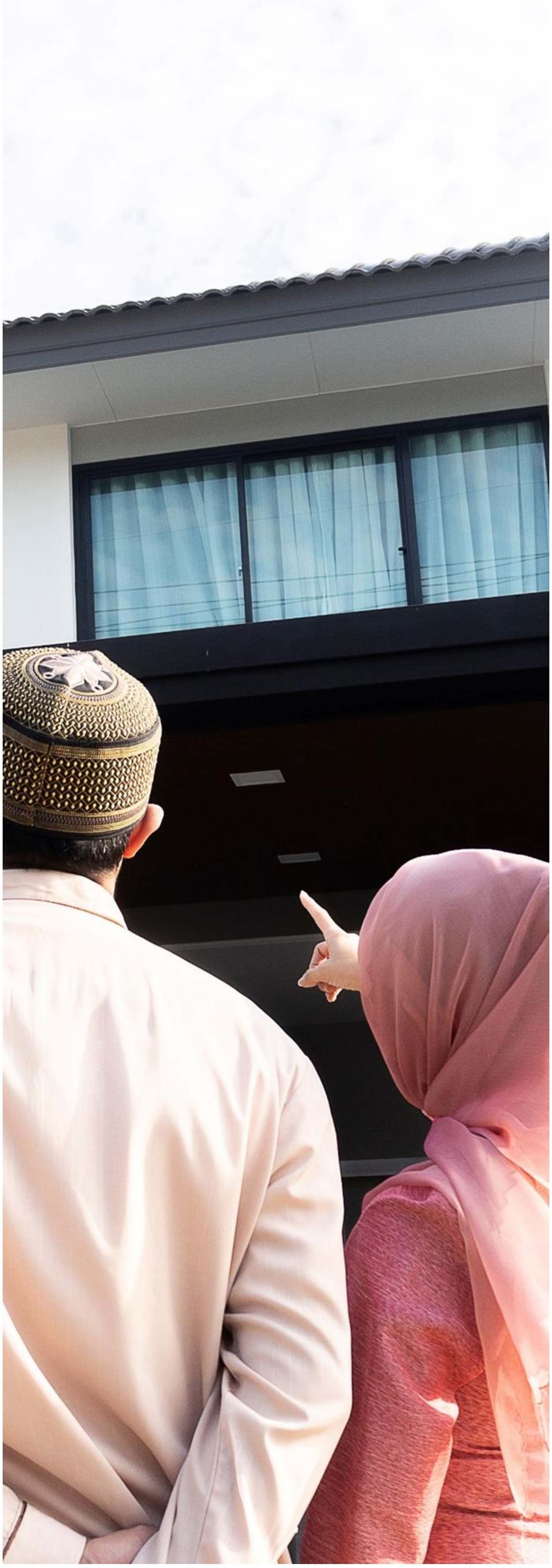
Malaysia			Australia		
Repayment income threshold (monthly, RM)	Repayment rate (%)	Monthly amount (RM)	Repayment income threshold (monthly, AUD)	Repayment rate (%)	Monthly amount (AUD)
Below RM2,000	N/A	N/A	Below AUD3,883	N/A	N/A
2,000 - 2,500	2.0%	RM40 - 49	3,883 - 4,483	1.0%	AUD39 - 45
			4,483 - 4,750	2.0	90 - 95
2,500 - 3,000	3.0	75 - 89	4,750 - 5,033	2.5	119 - 125
			5,033 - 5,342	3.0	151 - 160
3,000 - 4,000	5.0	150 - 199	5,342 - 5,658	3.5	187 - 198
			5,658 - 6,000	4.0	226 - 240
4,000 - 6,000	8.0	320 - 479	6,000 - 6,367	4.5	270 - 287
			6,367 - 6,742	5.0	318 - 337
6,000 - 8,000	10.0	600 - 799	6,742 - 7,150	5.5	371 - 393
			7,150 - 7,575	6.0	429 - 455
			7,575 - 8,033	6.5	492 - 522
More than RM8,000	15.0	More than 1,200	8,033 - 8,517	7.0	562 - 596
			8,517 - 9,025	7.5	639 - 677
			9,025 - 9,567	8.0	722 - 765
			9,567 - 10,133	8.5	813 - 861
			10,133 - 10,750	9.0	912 - 968
			10,750 - 11,392	9.5	1,021 - 1,082
			More than 11,392	10.0	More than 1,139

Note:
1. Monthly income threshold for Malaysia (2020): B40 (below RM4,851); M40 (RM4,850 to RM10,959); T20 (more than RM10,959)
2. Monthly income threshold for Australia (2020): B40 (below AUD6,585); M40 (AUD6,585 to AUD13,279); T20 (more than AUD13,279)

Source: Direct excerpted from Ooi Kok Hin, Khairil Ahmad, and Nelleita Omar (2023) and KRI calculations

3.5 Concluding Remarks

In our analysis, we have examined several critical policy approaches in tackling the issue of education debt, including universal free tuition, income-targeted free tuition, income thresholds for free tuition, the recognition of TVET as a viable alternative, and the potential implementation of income-contingent loans. While definitive solutions to these involved challenges elude us at present, they certainly serve as focal points for ongoing discussions, enabling us to gauge their feasibility and appropriateness within our context. However, it is necessary to underline that disregarding this issue could have dire consequences for household well-being, a fact underscored by the alarming prevalence of education debt among the youth cohort. While our exploration remains a work in progress, it is hoped that the ideas presented will spark thought and discourse.



CHAPTER 04

CHAPTER 4

THE FINANCIALIZATION OF OUR HOMES: THE MYTHS OF DEBT AND RISKS IN THE HOUSING MARKET

"The most important thing for Government is not to do things which individuals are doing already, and to do them a little better or a little worse; but to do those things which at present are not done at all."

John Maynard Keynes (1926)

4.1 Introduction

Economic choices with respect to housing – to rent or buy, to buy an old house or a new house – depend on, on the one hand, the economic dispositions (socially constituted) of home buyers and, on the other, the state of supply of dwellings. These two canonical relationships are contingent on a set of economic and social conditions produced by 'housing policy' or 'housing policy environment'. The housing policy environment is defined as "…the set of government interventions that have a critical and measurable effect on the performance of the housing sector"[163].

Governments and those who are able to impose their views through them contribute very substantially to producing the state of the housing market, mainly through forms of regulation, tax regimes, and financial assistance aimed at promoting a particular objective. This can be done by giving grants to home buyers to purchase homes[164], or requirements for developers/builders to build certain types of homes[165]. In short, the market for owner-occupier houses is a product of two social constructions to which housing policies contribute crucially[166]:

1) The construction of demand through a system of individual preferences – most importantly, socially constructed values regarding ownership or renting.
2) The construction of supply through the policies designed by the state regarding land laws, access to financing, and regulations for planning and building permissions.

This chapter will concentrate more on the construction of supply and the mechanisms that determine its functioning within the backdrop of housing mortgages[167] (effective demand) rather than explore the social construction of demand. The social construction of demand, whether to rent or buy, is contingent on both social conditions of society and factors of demand and will not be detailed due to the scope of this report[168]. In this chapter, the outcome of the interplay of effective demand and supply, i.e., the price of housing, will be the guiding factor of analysis for the state of the housing market.

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[163] Angel (2000)
[164] As part of a government initiative to increase homeownership for lower-income households, housing grants of up to RM30K per household were distributed. Source: EPU (2015)
[165] The amenities built for lower-middle income groups in housing complexes should be similar to facilities in apartments or condominiums. Source: EPU (1981); although not expressly stated, such requirements may be imposed through planning conditions under Act 172, which are reflected in the approved layout plans. Such conditions arise from state housing policy through comments made by the State Housing Boards or in states without a Housing Board, by the housing unit of the state department of Lands and Mines before approval of planning permission.
[166] Bourdieu (2005)
[167] Although the term 'mortgage' is widely used in the literature relating to property finance, such a term is legally inaccurate under Malaysian land law regarding the Torrens system applicable under the National Land Code.
[168] Interested readers are encouraged to read Bourdieu (2005) to understand the analytical framework. This is because the social construction of demand creates the 'values' that inform those choices.

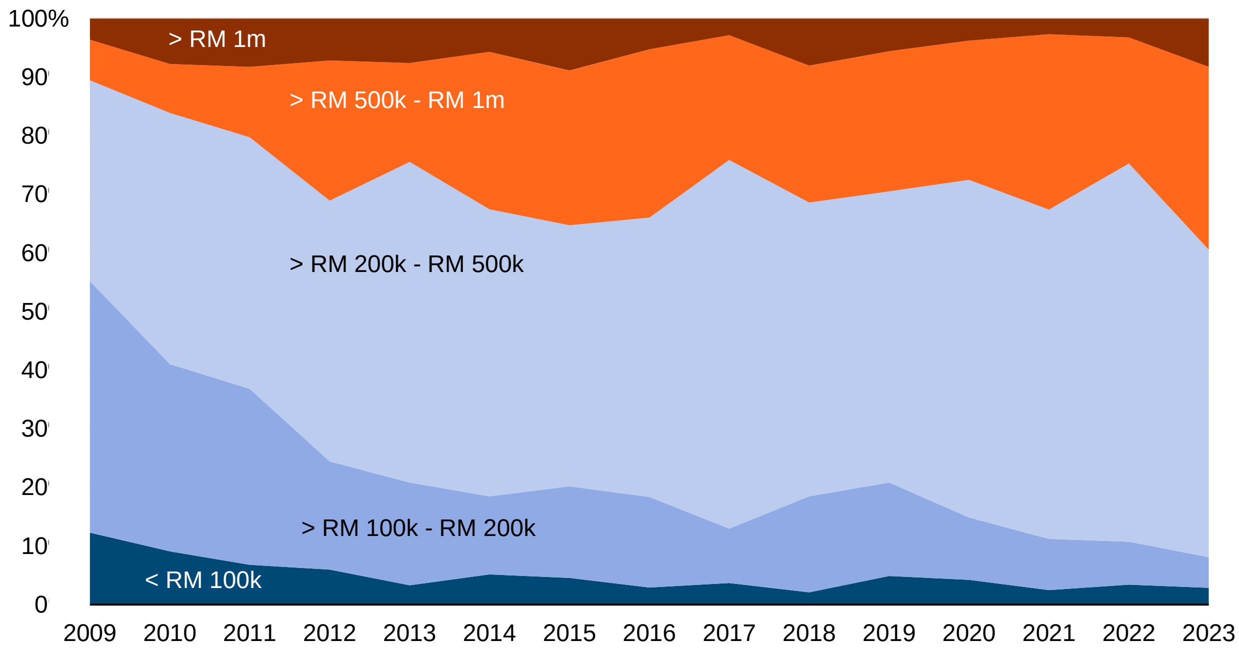
4.2 The State of the Housing Market

4.2.1. A mismatch of effective demand and supply

The housing market in Malaysia is experiencing a mismatch in households' effective demand to the supply of incoming stock. Demand is an expression of households' preferences for different types of housing through the price system. However, houses have become increasingly expensive over the years and has proven to be unaffordable to a significant proportion of households. Housing supply, on the other hand, continues to cater to the top-end of the income distribution despite the increasing glut (unsold units) in this particular market segment.

For example, in 2022, Malaysia's affordable median house price was RM228,168 (3x median annual household income). Yet, newly launched housing units priced below RM200k made up only 10.7% of total new launches in 2022, declining further to 8% in 2023. In contrast, houses supplied above RM500k made up 24.7% of total new launches in 2022, a figure that continued to increase to 39% in 2023 (see Figure 4.1).

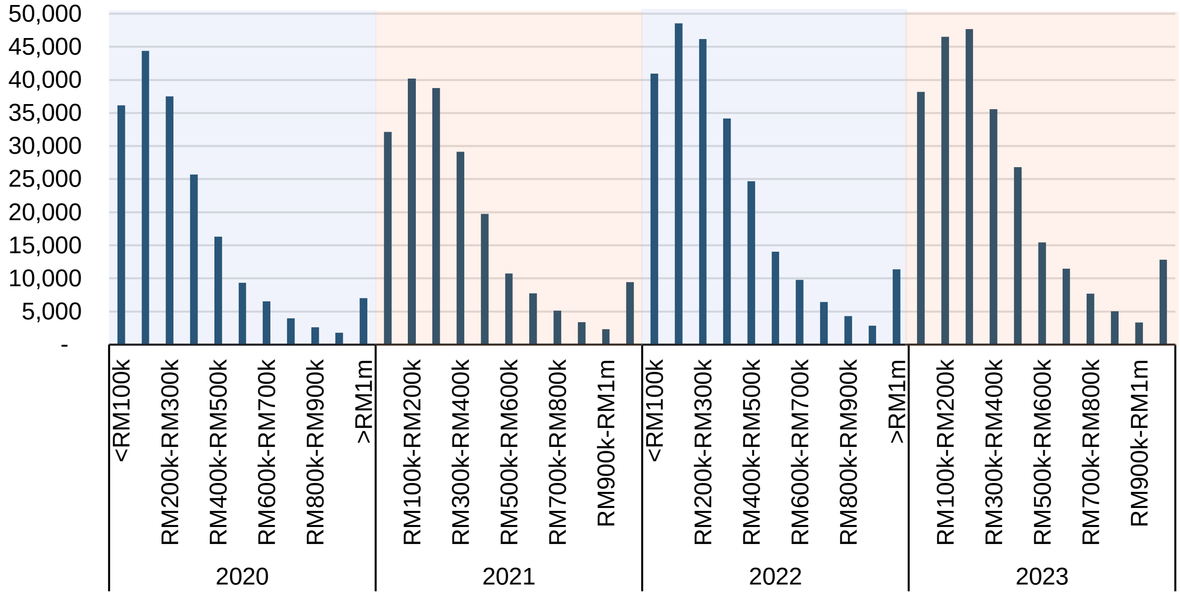
Figure 4.1: Composition of new launches, by price range, 2009 – 2023



Source: NAPIC (Various years) and KRI calculations

Figure 4.2 illustrates property sales from 2020 to 2023. Units that are priced below RM500k dominate the transactions, with a cumulative total of 709,283 units over the last four years. More specifically, units below RM300k constitute 56.2% of total transactions, indicating strong effective demand at this price bracket.

Figure 4.2: Property sales, 2020 – 2023



Source: CEIC, n.d. and KRI calculations

A closer examination of 2023 sales and overhang units' data reflects a similar trend. Units priced below RM300k accounted for nearly 53% of total sales. A total of 25,816 overhang units were recorded as of Q4 2023. The majority of these units are in the higher price range, as units priced above RM300k constituted 70.6% of total unsold units. This suggests a strong demand for affordable housing following the population's income brackets, while higher-priced properties encounter challenges in finding buyers. The data highlights the struggle of higher-priced units to attract buyers, resulting in a higher share of overhang.

Table 4.1: The number and share of residential property sales and overhang units by price range, 2023

Price range	Transacted units	Percentage	Unsold units	Percentage
RM300k and below	132,353	52.8%	7,592	29.4%
> RM300k - 500k	62,401	24.9%	6,528	25.3%
> RM500k - 1m	42,982	17.2%	7,523	29.1%
> RM1m	12,850	5.1%	4,173	16.2%
TOTAL	250,586	**100%**	**25,816**	**100%**

Source: CEIC, n.d., NAPIC (2024), and KRI calculations

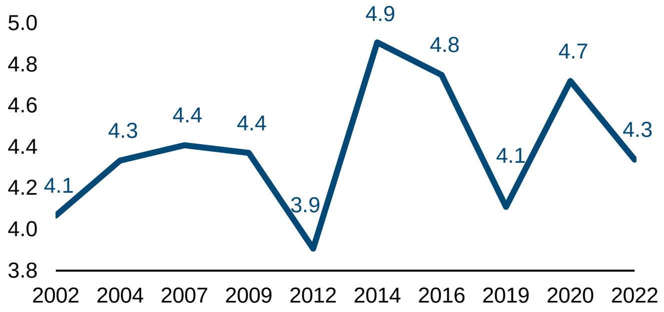
The housing market consistently scored above 3.0 (the affordability threshold), indicating that the market is 'seriously unaffordable'. Between 2012 and 2014, the median house price increased at a CAGR of 23% from RM170,000 to RM270,000. At the same time, median household incomes grew significantly slower at a CAGR of 11.7%, less than half the rate of increase in house prices.

Table 4.2: Compounded annual growth rate (%), 2002 – 2022

	2002	2004	2007	2009	2012	2014	2016	2019	2020	2022
Median Income	6.1%	3.8%	4.8%	5.4%	8.1%	11.7%	6.6%	3.9%	-12.0%	9.8%
Median House Price		7.0%	5.3%	4.9%	4.4%	23.1%	4.9%	-0.9%	1.8%	5.6%

Source: NAPIC (2023), DOS (2023b) and KRI calculations

Figure 4.3: Housing Affordability Indicator, 2002 – 2022



Source: NAPIC (2023), DOS (2023b) and KRI calculations

Housing Affordability Rating	Median Multiple
Affordable	3.0 & below
Moderately unaffordable	3.1 to 4.0
Seriously unaffordable	4.1 to 5.0
Severely unaffordable	5.1 & above

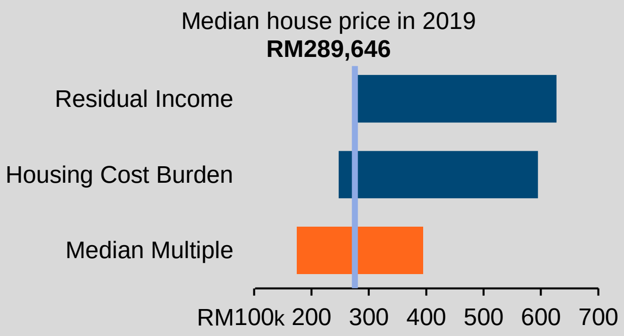
Source: Demographia (2020)

Box 4.1: What is a good affordability measure?

The three approaches commonly used to determine housing affordability for homeowners are the Median Multiple, the Housing Cost Burden (HCB), and the Residual Income (RI)[169]. The HCB and RI approaches both measure the ability of households to purchase a house based on the amount of housing loan they qualify for. The HCB approach caps an affordable amount at 30% of the household income, while the RI approach estimates the maximum amount of housing loan the household can attain based on their income after accounting for expenditure on other non-housing related items. In this way, both the HCB and RI approach are influenced by factors or policies related to housing finance. This includes the amount of deposit required for housing loans, the effective rate of interest, and the maximum tenure for mortgages.

The Median Multiple approach isolates the role of finance when looking at housing affordability. It considers only the price of housing relative to income, whereby a house is considered affordable if it is less than three times a household's median annual income. The tendency for both the HCB and RI approaches to skew house prices to a higher range, as depicted in the below simulation of house price ranges in Figure 4.4:

Figure 4.4: Comparison of housing affordability measures, 2019



Affordability Indicator	Price range (RM)
M40 Income level	4,850 - 10,959
Residual Income (RI)	277,502 – 349,321
Housing Cost Burden (HCB)	247,500 - 347,323
Median Multiple	174,600 - 219,924

Note: 1. The household income range for M40 in 2019 is RM4,850 – RM10,959.
2. Estimates are based on interest rate of 4.25% and 35-year loan tenure.
Source: NAPIC (2020), DOS (2020) and KRI calculations

[169] BNM (2017)

Based on the 2019 data, we used three approaches to estimate the price range of a house that is affordable for the M40 group in Malaysia, as most affordable housing schemes in the country target this household group. The maximum price for an affordable home for the M40 under the RI and HCB approach is 50% more expensive than the maximum price for the Median Multiple estimates. Most strikingly, however, the price range for affordable homes under the RI and HCB approach clearly skews to the right when compared to the actual median house price for 2019.

The Median Multiple 3 is a good indicator of a well-functioning housing market because it gives an indication of affordability along the income distribution curve. As can be seen from Figure 4.5 and Figure 4.6 below, a housing 'Median Market 3' follows the distribution of income distribution of any given population and, therefore, makes housing generally affordable to all strata of society.

Figure 4.5: Distribution of households by income category, 2016

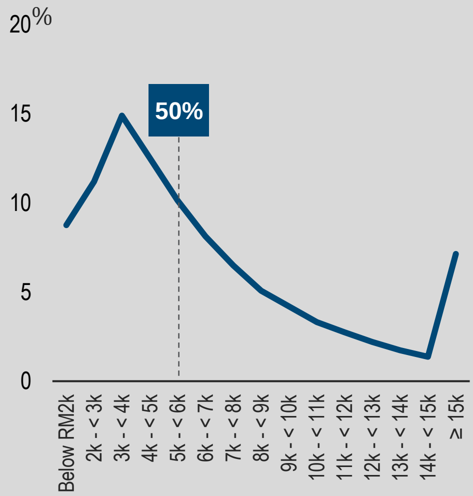
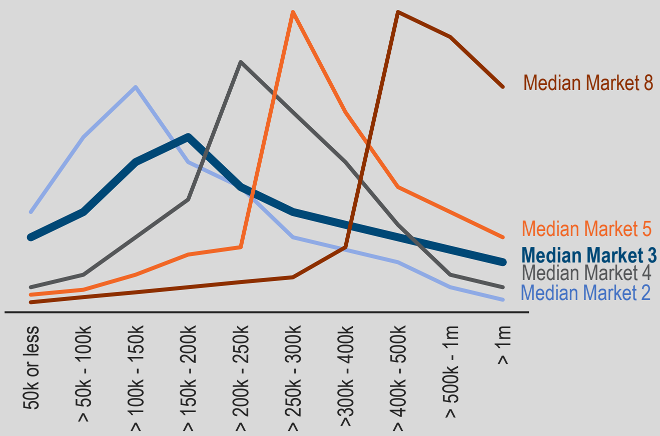


Figure 4.6: A Monte Carlo Simulation of the housing median market for 2, 3, 4, 5 and 8



Note: Our assumptions are as follows:

1. The median monthly household income in 2016 is RM 5,228.
2. The range for house prices is following NAPIC's house price distribution.
3. Total number of units transacted is 2,000.
4. All the house price brackets (based on price range) are filled with value (units).
5. The mode house price (price with the highest number of units) lies on the same bar as the median value
6. The lower quartile (Q1) and the upper quartile (Q3) are assumed to be at the middle of the price range.
7. The cumulative frequency for the price range where the median is located gives the exact value of 1,000 units.

Source: DOS (2017) and KRI (2015)

Table 4.3: Comparison of Housing Affordability Indicators

Approach	Definition of housing affordability	Advantages/Disadvantages
Median multiple	Median house price of three times or less than the median gross annual household income	• Easy to calculate • Cross country comparisons over time is possible • Excludes the role of finance
Housing cost burden	Housing expenditure (e.g. rent or mortgage) that is less than 30% of household income	• Accounts for the role of finance and non-housing expenditures of households • Cross country comparison is possible but may be affected by differences in cost of living and financial systems
Residual income	Residual income (i.e. total income minus non-housing costs) that is sufficient to service monthly mortgage obligations	• Accounts for the role of finance and the household's spending patterns • Requires detailed data on household income and expenditures as well as housing costs • Limited cross-country comparability

Source: BNM (2017)

The signal of a well-functioning housing market is when most prospective buyers can afford to buy a house irrespective of their income distribution segment. This is best reflected when the median price of the housing market is 3x the median gross annual household income. On average, 49% of the population can afford houses within the price range of RM100k-400k at the national level, whilst 25% of the population should be placed under the social agenda (a case for government allocation) for shelter. The 25% mark is still a very crude measure since poverty is multi-dimensional, and a filtering process based on household incomes without taking into account household size and neighbourhood conditions is limiting. However, the 'crude' example is sufficient to demonstrate that the most vulnerable group (B25-30) should not be subject to 'innovative' financing schemes, especially when purchasing a home will only make them house-poor[170].

Furthermore, as far as affordability across the income distribution is concerned, the housing supply is not following the population's income, as depicted in Figure 4.1. There has been a steady decrease in supply for the consumption of 49% of the population but a steady increase of houses for the utility of the top 27% of society. Starting in 2013, nearly 40% of newly launched homes were affordable to the top 27% of society, but the same cannot be said for the rest of the population. Statistically, on average, 27% of households will not be able to absorb 40% of the incoming stock in any given year. Therefore, it was highly probable then that the industry would end up with a glut of high-end properties, which is what is experienced in current times. Unfortunately, the real estate industry is continuously launching houses within the higher price range.

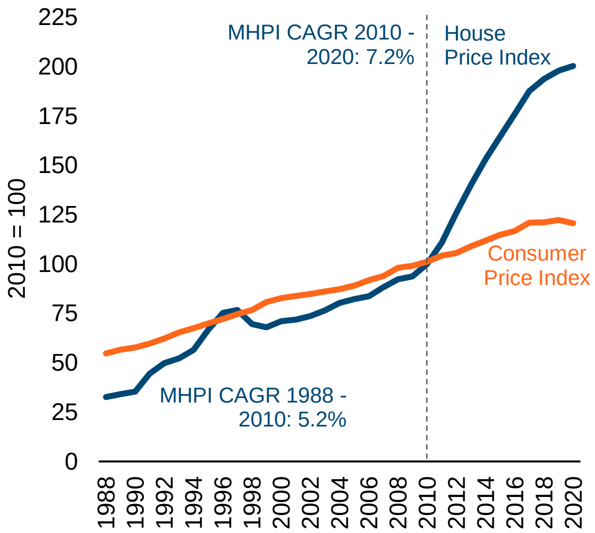
[170] House-poor refers to a condition when low-income owner-occupiers cannot pay maintenance fees or rectification work to their individual units or stratified buildings (apartments or flats). Source: KRI (2023).

4.2.2. Making expensive homes 'more affordable' through 'innovative' financing

The proliferation of unaffordable homes in Malaysian cities is not primarily a wage stagnation problem, as no amount of wage increment can commensurate or 'catch up' with Malaysia's rapid house price escalation. For example, between 2012 and 2014, the median house price increased at a CAGR of 23% from RM170,000 to RM270,000. During the same period, median household incomes grew significantly slower at a CAGR of 11.7%, less than half the rate of increase in house prices. Is it reasonable to expect wages to go up at a CAGR of 23% to keep pace with house price increases? The simple answer is "no". This means that there is also a huge mismatch between the labour market and the housing market, where jobs are created, but houses are completely unaffordable.

The phenomenon of making homes more expensive and yet more 'affordable' through macro-prudential measures is nothing new[171]. The increasing gap between household income and housing prices can be explained as related to the development in the financial industry. The higher demand for housing vis-à-vis modest income growth was fuelled by mortgages. Starting in 2009/10, house prices grew at a CAGR of 7.2%. However, at the same time, expensive homes were made accessible and 'affordable' with innovative financing, such as the increase in both the loan tenure and the Loan-to-value (LTV) ratio. This can be seen in the figure and table below:

Figure 4.7: Inflation and house price index, 1988 – 2020



Source: CEIC, n.d. and KRI calculations

Table 4.4: Mortgage Parameters

Period	1980s - 2010	2010 to date	Future
Loan Tenure	10 -15 years	35 years	Intergenerational loan? (40-60 years)
Loan-to-value (LTV) ratio	80%	90%	100%?
Interest rate	Fixed rate (8%-12% every year)	Floating rate	?

Source: Cagamas (2013) and KRI calculations

These rapid price escalations backed by innovative financial schemes can create a housing bubble as prices do not reflect the real worth of properties. When a significant number of households fall short of mortgage repayments and are forced to sell their house before the end of the mortgage period, the valuation will fall short of the original mortgage price. More often than not, the bank's valuation will follow the predicted stable CAGR (a value of 5.2% as depicted in Figure 4.7).

[171] Ball (1994)

The shortfall of 2% is sufficient to induce loan insolvency amongst households and, therefore, lead to a home market crash (by securitization) since most banks will enforce the charge by auctioning off the property at a lower value[172] (similar to the case of the United States 2008/2009 housing sub-prime crisis where banks repossessed one's property and auctioned it off at a lower value). Hence, house prices cannot be left to rise too steeply, too quickly. In addition, house prices are increasing in real terms due to the increase in the mortgage tenure period instead of current house valuations. In a report by the OECD that provides a classification of countries in which "houses appear overvalued, but prices are rising"[173], the OECD indicates that such phenomenon, if left unchecked, can emerge in Malaysia due to the reasons explored above.

4.3 The State of the Housing Delivery System: When Buyers Assume the Commercial Risks of Housing Projects

A housing delivery system is largely contingent on the institutional arrangements of firms within the legalities of the state. A narrow definition of the construction industry includes those firms undertaking on-site assembly. Though this is the most important single part of the production of the construction sector, it precludes other separate industries such as quarrying, mining (primary sectors), material and component manufacturing (secondary sector), and plant hire and professional services (tertiary sector) that is part of the production of the built environment. Several frameworks of analysis have been developed[174] to articulate the singularities or universalities of the housing delivery system for making meaningful country comparisons and, through it, infer some measure of a defined efficacious system. However, this might not be a useful exercise due to the intricacies related to the different levels of maturity of these economies, the legal and institutional frameworks within each country, and the different growth patterns of firms within the built environment.

Therefore, the approach taken in this section is to look into the stages of housing development and the types of risks and accountability it brings to the different parties/entities within the housing delivery system. The starting point will be the conventional delivery system 'speculative housing development' or Build-Then-Sell (BTS) as it is the most practiced system worldwide.

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[172] The security created to finance property purchases in Peninsular Malaysia is a Torrens 'charge' rather than a mortgage under common law. There is a fundamental difference between a mortgage and a charge. Whereas a mortgage would confer legal title to the property upon the mortgagee/financier, a charge does not. A charge merely creates a registered interest in favour of the chargee/ financier and this interest is manifested through the statutory right of the chargee to apply for an order of sale of the charged by public auction upon default of the chargor. In Singapore, Singapore's Land Titles Act recognises both, mortgage and charge and a registered mortgage is in the nature of a Torrens charge except that the common-law remedy of 'foreclosure' is still applicable for a mortgage. So, use of the term 'mortgage' is not inappropriate in the context of Singapore land law.
[173] OECD as cited in The Guardian (2015)
[174] M Ball (1986), Michael Ball (1996) and Janssen (1983)

The major activities of a speculative housing development could be summarised as follows[175]:

1) Recognises the potential of development
2) Assembles the site
3) Obtains the necessary planning permissions
4) Arrange finance
5) Get the project built and completed
6) Arrange the sale

Speculative builders or developers have distinct economic features compared to contract builders or contractors. Speculative builders initiate work from within the construction industry, whereas contractors respond to a specific demand- for example, a contract to build a warehouse for a client. As a result, speculative builders take on a commercial risk over and above the risks taken by contractors, namely the risk of not finding a suitable buyer for the completed project. On the other hand, speculative builders are not constrained by demand workload and can be more proactive in shaping their workload[176]. In most developed and emerging economies, speculative builders and contractors are often subsidiaries of the same large, diversified groups. Often, the parent companies utilise their position and size to provide funding and finance for speculative building projects and may switch capital between their contracting and speculative activities.

However, Malaysia and Singapore are two countries that do not practice the above system as the main delivery system for housing. In these two countries, activity no 4 -*Arrange finance* is given to the homebuyers to individually seek a suitable home-financing package and sign the sale contract with the developer as well as financing agreement with the bank even before the home is built. Essentially the homebuyers are now assuming the commercial risks of item 5 -*get the project built and completed*. This delivery system is commonly known in Malaysia as Sell-Then-Build (STB).

In other countries where STB is practiced, the rules pertaining to the developer's working capital or financing of the project and home mortgages within this system are laden with stringent rules and forewarning due to the commercial risks associated with STB[177]. For example, some local municipal councils require the total project value to be deposited within the council in order to mitigate the risks of non-completion due to insufficient financing. The housing mortgage system also nudges the buyers to purchase through the conventional method (BTS) by ensuring a property valuation is conducted by the banks for the approval of the loan (the offer for the housing loan is valid for 6 months). Inadvertently, the loan will not be executed since a house cannot be built and inspected within 6 months. In some countries, STB is only practiced in high-end development where 'buyers' are seen as joint investors with the housing developer, and payments are made in cash[178].

[175] Harvey (1992)
[176] Ive and Gruneberg (2000)
[177] Refer to Appendix B
[178] Refer to Appendix B

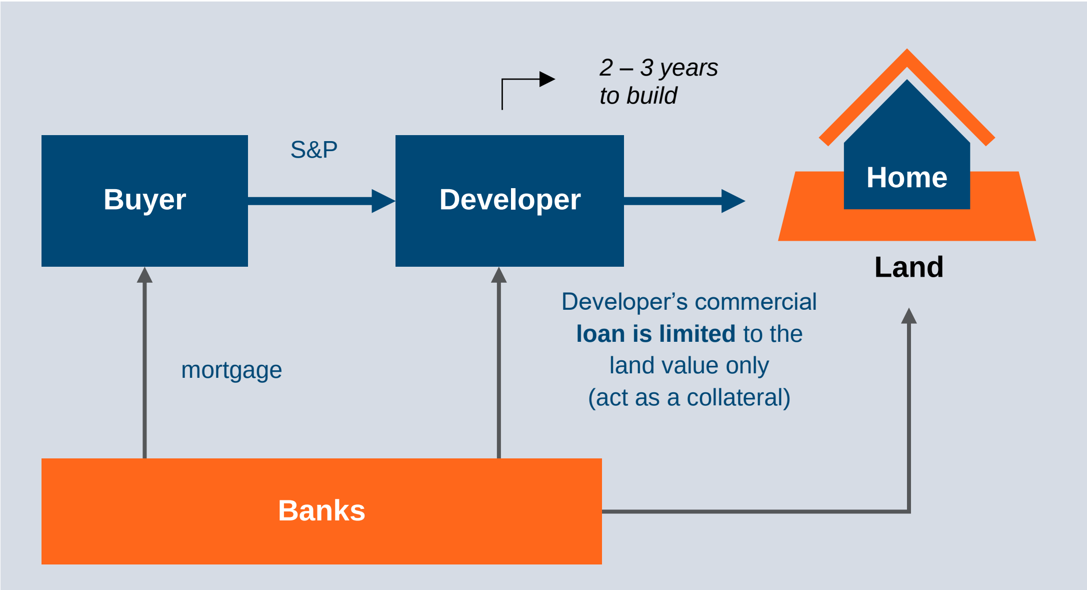
Table 4.5: Comparison of housing affordability indicators

Main activities performed by a developer in the Conventional Housing Delivery System (BTS)	STB in Malaysia	STB in Singapore	Variations of STB/ off-shelf plans in other countries
Recognises the potential for housing development	Recognises the potential for housing development	Recognises the potential for housing development	Recognises the potential for housing development
Assembles the site	Assembles the site	Assembles the site	Assembles the site
Obtains the necessary planning permission	Obtains the necessary planning permission	Obtains the necessary planning permission	Obtains the necessary planning permission
Arrange the finance	Developer **arranges the sale**, and **home buyers arrange the finance** through home mortgages with their respective banks.	HDB (a government agency) **arranges the sale**, and **home buyers arrange the finance** through home mortgages with their respective banks. Homebuyers are getting into an arrangement with the government and not a private developer. This means the commercial risk of incomplete projects is non-existent.	**Developers and investors arrange for the financing of the project.** Legalities are put in place to ensure the projects get completed, and investors are protected, At the very minimum, homebuyers comprehend their new role as an 'investor'.
Gets the Project built	Gets the Project built	Gets the Project built	Gets the project built
Arrange the sale	The property has been sold in activity 4.	The property has been sold in activity 4.	The property has been sold in activity 4.

Note: Refer to Appendix B for more details.

Other singularities of the STB delivery system in Malaysia are as follows:

Figure 4.8: The delivery system in Malaysia



In this system, house buyers sign a Sale and Purchase Agreement (SPA) contract with the private developer to purchase a home based on the advertisement/brochures of the project. The purchaser then arranges a housing loan with the bank. The housing loan is subject to a registered charge being created on the house purchased as collateral once a separate title to the house in the name of the homebuyer is delivered by the developer. In fact, the homebuyer has already signed the charge annexure when signing the loan agreement. The position of the purchaser as a non-secured creditor only manifests upon insolvency of the developer in the ranking of creditors in a situation where the homebuyer has already begun servicing the housing loan. Pending this, the loan is secured through assignment of the SPA to the bank (this is called a 'loan agreement cum assignment' ('LACA') thus making the bank a secured creditor. The loan is then released progressively into the Housing Development Account under the name of the developer according to predetermined stages of construction in the schedule enclosed in the statutorily prescribed SPA. When this happens, the homebuyer begins repaying the loan.

According to the Housing and Development Act 118, the private developer will request a license for the proposed project – ringfencing the risks away from the 'parent' company should the project finds itself in a precarious situation. The banks will provide a bridging loan to the developer limited to the value of the land where the proposed houses will be built. The developer is a debtor still owing the bank loan repayments on the bridging loan.

In the unfortunate event of non-completion of the project; where the project is delayed or abandoned and the developer company is wound up, the liquidator will auction the assets and give any proceeds back to a secured creditor, which is the bank. The bank's interest as a secured creditor overrides the interest of the purchasers who are considered 'unsecured creditors' under insolvency laws. The purchaser with the home loan will not be compensated in any way because she is not a secured creditor. In short, the purchaser will be without a house, but with a home loan to pay in full.

4.3.1. The disadvantages of the STB system

In Malaysia, STB has created difficulties as summarised below:

a) Buyers are assuming the commercial risks of development projects

Many buyers are affected by abandoned, delayed, and sick housing projects; an average of 30,000 home buyers every year. KRI study showed that, according to the 6th Malaysia Plan, in 1990, there were 277 abandoned projects involving 63,560 units of houses and 36,130 house buyers. The estimated value of these projects was **RM 3.6b**[179].

The study also found an average of 95 private housing projects per year were categorised as "abandoned" between 2010 and 2016. This involved an average of 21,628 buyers a year. In addition to that, between 2010 and 2016, the average number of delayed and sick projects was reported to be around 260 projects on average per year. **This involved an average of 30,053 buyers per year**[180].

More recently, as of August 2023, there are 608 housing projects that are problematic (delayed or sick) and affect nearly 50,000 house buyers (actual number: 48,853[181]). These figures are higher than the average figures identified in the KRI's study. In addition to that, there are 23 abandoned projects (with static status) recorded in August 2023 that affect 1,931 house buyers and a total number of 2,455 housing units[182]. The projects have been abandoned for four to 34 years. On average, the projects have been abandoned for around 17 years.

Moreover, the task force for private and abandoned housing projects (TFST) announced that as of December 2023, there were 98 delayed projects, 505 sick projects and 117 abandoned projects. Gross Development Value (GDV) for all these projects was RM 103.16b. The government has revived 452 housing projects (53,697 units) with GDV amount RM39.81b[183].

b) House buyers under the STB system are also exposed to the risk of non-compliance with the specifications agreed upon in the sale and purchase agreements

This may include poor quality workmanship and defects of the completed units. In 2016 there were 1,124 cases of defects and damages reported to the tribunal for home buyer claims. Out of this, 665 were reports of completed units that did not follow sale and purchase agreement specifications and 155 were regarding wall and floor problems. **It should be noted that under the current practice, purchasers do not have the right to withdraw from the SPA even though developers fail to deliver the agreed house**.

[179] Suraya Ismail et al. (2019)
[180] Ibid.
[181] JPN (2023a)
[182] JPN (2023b)
[183] KPKT (2024)

c) Government bail-outs of abandoned projects are of significant value

Government spending to revive abandoned projects has reached an average of RM33m every year (2011 – 2017) with a total of RM219m. Fiscal allocation must be made to revive the abandoned housing projects by giving incentives for other private developers to resume the work. **The government has spent a total of RM219m between 2011 and July 2017, or on average around RM33m per year, to revive abandoned housing projects**. This involves rebuilding 32 projects that constitute 5,827 houses and 5,079 house buyers. **This does not involve administration costs and time in managing sick and delayed projects as well as cases heard at tribunals after the completion of the projects**.

d) The Sale and Purchase Agreements (SPA) afford time for the developers; therefore, there is no incentive to build faster and modernise

STB does not provide incentives for modernising the construction industry, particularly for the housing sector. Measures to induce a structural shift in the housing industry towards higher technological adoption, e.g., Industrialised Building System (IBS) or other proprietary systems, have not been successful. This is because the nature of the STB system allows developers to sell first, lock in the profits, and then have two or three years before delivering the houses. There is no incentive to build houses faster with better technology since the profit is already locked in from the start. Hence, IBS incentives to speed up the completion of houses are irrelevant as a result of the STB system.

4.4 Policy Options

The institutional arrangement and the social construction of the housing delivery system should be reconfigured to provide the outcomes that the economy requires rather than the sole focus of housing market 'efficiency'[184]. This is different from neo-classical perspectives, where efficiency is measured in terms of marginal utilities or when the price system creates negative externalities, in which the government should only intervene when an "economic problem" becomes a "social problem"[185]. This can be seen by government bailouts in the STB housing delivery system and consumers assuming the commercial risks of housing projects.

Policy Option 1: The housing delivery system should follow the conventional BTS system or at least attempt to provide an ecosystem of legalities that protects home buyers from becoming non-secured creditors in STB housing projects

'Buyers' in Malaysia must know that their role is now akin to an 'investor' in STB and are subject to the commercial and construction risks associated with housing projects.

A just system requires homebuyers not to carry the burden of commercial risks in housing development. The traditional speculative housing developer model ought to be introduced in Malaysia. Speculative developers initiate the housing projects from their feasibility studies and continue building them. As a result, they take on the commercial risk of not finding a suitable buyer for the completed houses. They also do not require funding from home buyers through home loans.

Additionally, in countries where the practice of STB is not government-led (as in Singapore), the social construction of the developer-homebuyer relationship is akin to joint investors in a commercial project. Therefore, the legalities and financing ecosystem support this type of social arrangement. Even then, some local municipal councils still require the total project value to be deposited in project accounts to minimise non-completion risks due to insufficient funding. Most STB projects, due to being socially constructed as investment projects, are geared toward high-end development, and payments by investors are made in cash[186].

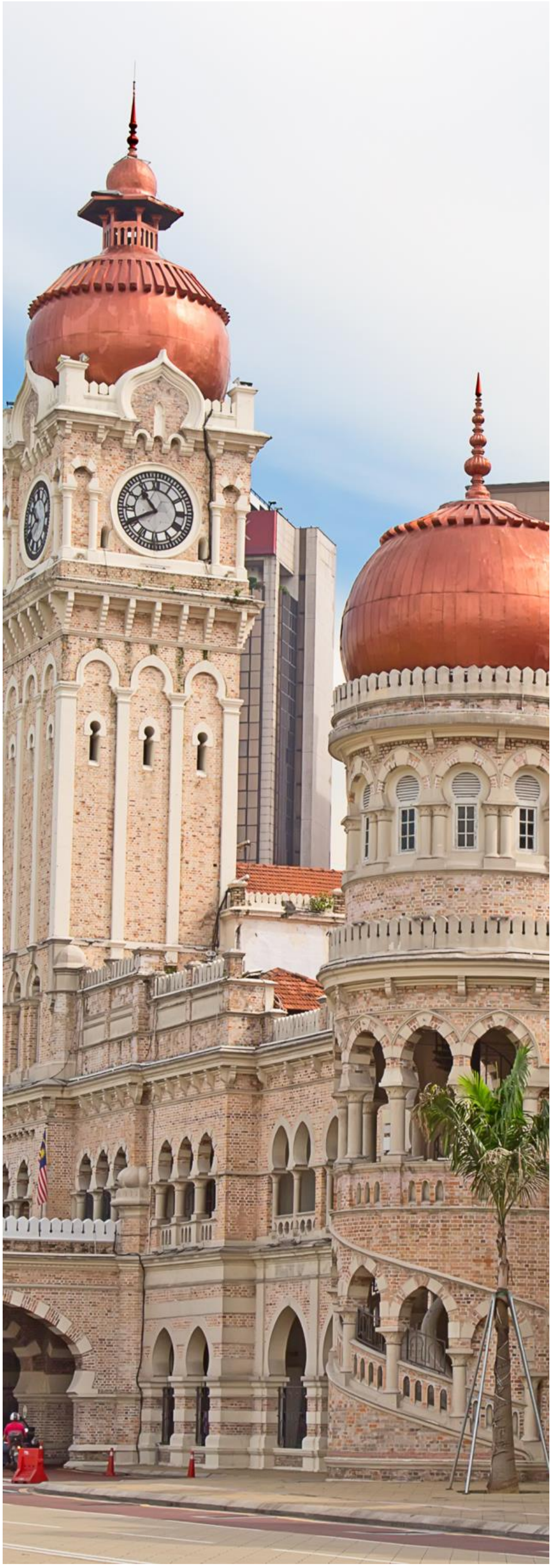
[184] Arvanitidis (2015)
[185] Heilbroner and Milberg (1995)
[186] Refer to Appendix B

Policy Option 2: Make house prices genuinely affordable instead of 'affordable' financing to buy expensive homes

Cheap and easy access to financing induce artificial demand for housing. If the housing supply remains relatively inelastic, this increase in demand can push house prices even further. This results in house buyers committing to more expensive housing, in addition to (mis)directing future supply of housing supply towards higher-priced houses. Apart from the existing measures that have been implemented by the Government, refinements to existing policies are suggested, as below:

1) Measurement of the 3x median-multiple in cities and towns
    a. KPKT has introduced guidelines in each state but only at the urban/non-urban level. A more detailed median-multiple calculation should be at the level of housing markets or at the scale of cities and towns.
2) Discontinue housing mortgages with longer time periods, generational loans
    a. The longer the mortgage period, the more house prices will increase due to financing.
    b. The reduction of the mortgage periods will make house prices more affordable and create moderate and sustainable price increments rather than rapid price escalations in the market.
3) Introduce down-market penetration ratio[187] to monitor incoming housing supply
    a. This refers to the ratio of the lowest priced, unsubsidised, formal housing unit produced by the private sector in significant quantities (no less than 2% of annual housing production) to median annual household income.
    b. The down-market penetration ratio is an indicator of housing affordability from the perspective of supply. The ratio focuses on the affordability of the lowest-priced new house provided by the private sector, without subsidies.
    c. This indicator is rooted in the 'filtering' model of housing consumption, in which low-income households are generally restricted to informal housing or 'filtered down' older formal-sector housing. The ratio captures the fact that in some housing markets, the private sector generally supplies housing for high-income groups, but not to low-income consumers while in others the converse is the case. In general, the down-market penetration ratio is compared with the median multiple to indicate the extent to which the market supplies to below-median income households.

[187] Angel (2000) and KRI (2015)



CHAPTER 05

CHAPTER 5

CONCLUSION

'....the subprime mortgage crisis of 2008, which has exposed the shaky fundaments on which our economies are based: frantic trade in inscrutable financial products like derivatives and asset-backed security; a Wall Street bonus culture that incentivized risk-taking and speculation; predatory lending practices that convicted low and middle-income individuals to a lifetime of debt; and lax oversight by government and private monitoring agencies, rife with conflicts of interest. The question remains to what extent the lessons of the subprime mortgage crisis have been internalized by policy-makers.'

Natascha Van der Zwan (2014) pg. 120

The insights gathered from studies of financialization indicate that it is almost primarily Anglo-American in origin and nature and has important implications for the analysis of contemporary capitalism. The increased centrality of the financial industry and the growing power of shareholders question the relevance of placing large manufacturing firms at the centre of economic analysis. A finance-led economy, fuelled by a language of shareholder value[188] as an essential driver of change within political economies, will challenge the assumed stability of national models of growth with its strong ties between wages and demand.

Therefore, this report advocates for a more fundamental understanding of the financialization process that will continue transforming our economy. This is important because, as has been demonstrated in other parts of the world, the process of financial capitalism, left to its trajectory, will negatively impact workers and households. Examples include the expansion of credit in the face of stagnating wages to sustain household consumption. This phenomenon was evidenced in Chapter 1, where 50% of workers experienced wage stagnation for the past 10 years, and the expenditure of the bottom 70% of households demonstrated consumption of basic needs without sufficient balance towards increasing well-being and social mobility endeavours. Chapter 2 described the rise in BNPL, where purchases were significantly higher for non-durable goods at low pricing points of expenditure. The worst-case scenario of the 'financialization of the everyday' is when there is a shift towards credit/financial services to provide for basic needs. From a social point of view, the excessive accumulation of debt accompanied by households' liquidity constraints causes a deterioration in households' social and economic well-being.

BNPL, home mortgages, and other mass-marketed financial products incorporate the low and middle-income households in financial markets under the term 'financial inclusion'. By participating in the financial markets, individuals are encouraged to internalise new norms of risk-taking and develop new subjectivities as investors or owners of financial assets. This is especially true in the financial and physical housing development, as detailed in Chapter 4, where households assume the commercial risks of housing development projects.

[188] In the USA, the enrichment of shareholders and managers has been at the detriment of workers' wages and benefits. Corporate restructuring activities in the name of shareholder value have been associated with job loss, decreasing working conditions and rising social inequality (Lazonick and O'sullivan (2000); Fligstein and Shin (2004); Lin and Tomaskovic-Devey (2013).

The three items covered in this report, BNPL, housing, and student debt, were contextualised within the institutional arrangement – intermediaries of finance and private firms and the role of the state in curbing the excesses of power play between economic agents. This is because improvements are needed at the institutional level to develop more equitable and just economic outcomes for many. Each chapter detailed policy options that leverage the role of the state to intervene with strict regulations and laws, while some detailed the changes that need to be made to the entire ecosystem or institutional arrangement that appear to support growing financialization at the back of disadvantaging the least economically able households.

The significance of the financialization process is not only the institutional changes it creates but also the behaviour and value system that permeates the expansion. The cultural and social discourses within this transformation are that of risk-taking, self-management, and self-fulfilment. Risk becomes the motivating force to enter financial markets for protection against possible unemployment, poor health, or retirement. By actively managing risks, the investing individual can adequately prepare for a never-secure and uncertain future. With this focus on self-management, financialization has created a new subjectivity: the 'investing subject.' The investing subject is the autonomous individual who insures himself against lifecycle risks through financial literacy and self-discipline. However, the literature and this report demonstrate that ordinary people have become vulnerable to financial risks and do not possess the financial literacy to make informed decisions. Indeed, financial literacy is of utmost importance in the age of financial capitalism.

'We do indeed live in the age of financial capitalism. We should not regret that. Regulations and restrictions can and should be placed on financial institutions to help them function in the best interests of society, but the underlying logic and power of these institutions remains central to their role.'

Shiller (2012) pg. 6

The moral imperative for the financial sector and civil society is to help find meaning and a larger social purpose in the economic system. If the financialization process is executed within a value system that safeguards the productive economy from the initial predatory inclinations, it mitigates the excessive trade-offs between profit and social welfare. Finance is a 'functional' science that supports other societal goals[189]. The better aligned a society's financial institutions are with its goals and ideals, the stronger and more successful the society will be.

[189] Shiller, 2012

APPENDICES & REFERENCES

APPENDIX A
HOUSEHOLD EXPENDITURE SPACE ANALYSIS

The Detailed Breakdown of Community Classes

Community Analysis, derived from network science and graph theory, facilitates the clustering and categorization of specific nodes (representing goods and services) into groups based on their network configuration. The result of this analysis is the formation of community classes comprising highly co-consumed goods and services.

Table A1 provides a detailed breakdown of community classes, each encompassing a diverse set of products spanning various expenditure categories. It also shows the consumption trends across community classes by income deciles.

It is important to take note that community analysis only takes into account the products consumed by households that exceed the Malaysian household's fair share for those products within their respective income deciles. In other words, it shows the number of items that households in Decile 1, for example, consume beyond the standard threshold regarded as structural consumption for that product.

Table A1: The consumption trends across community class by expenditure groups and income deciles, 2009 - 2019

2009	D1	D2	D3	D4	D5	D6	D7	D8	D9	D10
CC0	**5**	**6**	**5**	**5**	**5**	**2**	**0**	**1**	**2**	**2**
Alcoholic beverages and tobacco	1	1	1	1	1	1	0	0	0	0
Food and non-alcoholic beverages	2	2	2	2	2	1	0	0	0	0
Health	0	0	0	0	0	0	0	1	1	1
Miscellaneous goods and services	1	1	1	1	1	0	0	0	0	0
Recreation	0	1	0	0	0	0	0	0	1	1
Transport	1	1	1	1	1	0	0	0	0	0
CC1	**13**	**18**	**15**	**16**	**16**	**8**	**7**	**6**	**4**	**4**
Food and non-alcoholic beverages	9	14	11	13	13	8	6	6	4	3
Furnishings and household maintenance	1	1	1	1	1	0	0	0	0	0
Housing and utilities	3	3	3	2	2	0	1	0	0	1
CC2	**1**	**2**	**2**	**2**	**3**	**3**	**1**	**2**	**2**	**2**
Food and non-alcoholic beverages	1	2	2	2	3	3	1	2	2	2
CC3	**2**	**2**	**2**	**2**	**2**	**4**	**3**	**2**	**2**	**2**
Food and non-alcoholic beverages	1	1	1	1	1	3	3	2	2	2
Housing and utilities	1	1	1	1	1	1	0	0	0	0
CC4	**1**	**2**	**2**	**2**	**2**	**2**	**1**	**0**	**0**	**0**
Food and non-alcoholic beverages	1	2	2	2	2	2	1	0	0	0
CC5	**10**	**15**	**14**	**19**	**24**	**27**	**36**	**49**	**58**	**60**
Alcoholic beverages and tobacco	0	0	0	0	0	2	2	3	3	3
Clothing and footwear	0	0	0	0	0	0	1	1	1	1
Communication	0	0	0	0	0	0	1	1	1	1
Education	1	2	3	1	3	1	1	3	3	4
Food and non-alcoholic beverages	3	3	3	4	4	3	1	1	1	1
Health	2	3	1	2	0	2	5	3	5	6
Furnishings and household maintenance	0	1	1	3	4	5	2	6	8	8
Housing and utilities	2	2	3	2	2	2	3	5	5	4
Miscellaneous goods and services	1	1	0	1	1	1	4	5	7	6
Recreation	0	1	1	4	6	8	13	14	17	19
Restaurants and hotels	0	0	0	0	0	0	0	1	1	1
Transport	1	2	2	2	4	3	3	6	6	6
CC6	**2**	**4**	**6**	**4**	**4**	**9**	**8**	**9**	**7**	**9**
Clothing and footwear	2	2	2	2	0	0	0	0	0	1
Communication	0	0	0	0	0	1	1	1	1	1
Health	0	1	1	1	1	1	0	1	0	0
Furnishings and household maintenance	0	1	3	1	2	5	5	4	3	4
Miscellaneous goods and services	0	0	0	0	0	0	1	1	1	1
Transport	0	0	0	0	1	2	1	2	2	2
CC7	**4**	**4**	**4**	**4**	**2**	**0**	**1**	**1**	**2**	**1**
Clothing and footwear	3	3	3	3	1	0	1	0	1	0
Miscellaneous goods and services	1	1	1	1	1	0	0	1	1	1
CC8	**2**	**2**	**2**	**3**	**3**	**3**	**1**	**2**	**2**	**1**
Food and non-alcoholic beverages	2	2	2	2	2	2	0	0	0	0
Housing and utilities	0	0	0	1	1	1	1	1	1	0
Miscellaneous goods and services	0	0	0	0	0	0	0	1	1	1
CC9	**0**	**0**	**1**	**1**	**3**	**7**	**7**	**7**	**6**	**6**
Alcoholic beverages and tobacco	0	0	1	1	1	1	1	1	0	0
Communication	0	0	0	0	0	1	1	1	1	1
Miscellaneous goods and services	0	0	0	0	1	1	1	1	1	1
Recreation	0	0	0	0	0	2	2	2	2	2
Restaurants and hotels	0	0	0	0	0	1	1	1	1	1
Transport	0	0	0	0	1	1	1	1	1	1
Grand Total	**40**	**55**	**53**	**58**	**64**	**65**	**65**	**79**	**85**	**87**

2014	D1	D2	D3	D4	D5	D6	D7	D8	D9	D10
CC0	**2**	**2**	**4**	**5**	**7**	**9**	**7**	**7**	**6**	**3**
Alcoholic beverages and tobacco	0	0	1	1	1	1	1	1	0	0
Clothing and footwear	2	2	2	3	2	3	1	1	1	0
Communication	0	0	0	0	0	1	1	1	1	1
Miscellaneous goods and services	0	0	1	1	1	1	1	1	1	0
Recreation	0	0	0	0	1	1	1	1	1	1
Restaurants and hotels	0	0	0	0	1	1	1	1	1	1
Transport	0	0	0	0	1	1	1	1	1	0
CC1	**19**	**19**	**20**	**23**	**25**	**17**	**12**	**7**	**7**	**5**
Food and non-alcoholic beverages	14	15	16	19	21	14	10	7	6	4
Furnishings and household maintenance	1	1	1	1	1	1	1	0	0	0
Housing and utilities	4	3	3	3	3	2	1	0	1	1
CC2	**3**	**3**	**3**	**3**	**2**	**1**	**0**	**0**	**0**	**0**
Food and non-alcoholic beverages	1	1	1	1	1	0	0	0	0	0
Housing and utilities	1	1	1	1	1	1	0	0	0	0
Transport	1	1	1	1	0	0	0	0	0	0
CC3	**3**	**3**	**3**	**3**	**3**	**1**	**0**	**0**	**0**	**0**
Food and non-alcoholic beverages	3	3	3	3	3	1	0	0	0	0
CC4	**0**	**0**	**0**	**0**	**0**	**2**	**1**	**2**	**2**	**2**
Recreation	0	0	0	0	0	2	1	2	2	2
CC5	**8**	**10**	**11**	**14**	**11**	**26**	**42**	**56**	**57**	**55**
Alcoholic beverages and tobacco	1	1	1	1	1	1	3	3	3	3
Clothing and footwear	2	2	2	2	0	1	1	2	2	1
Communication	0	0	0	0	0	1	1	1	1	1
Education	1	1	2	1	0	1	0	4	4	4
Food and non-alcoholic beverages	1	2	2	2	2	2	1	0	0	0
Health	1	0	0	0	1	1	5	5	5	5
Furnishings and household maintenance	1	1	1	2	1	6	8	9	8	8
Housing and utilities	0	0	0	0	2	2	2	5	4	5
Miscellaneous goods and services	1	1	2	1	0	3	6	7	7	7
Recreation	0	2	1	4	3	7	11	14	17	15
Restaurants and hotels	0	0	0	0	0	0	0	1	1	1
Transport	0	0	0	1	1	1	4	5	5	5
CC6	**5**	**5**	**4**	**3**	**1**	**4**	**5**	**9**	**9**	**8**
Communication	0	0	0	0	0	1	0	1	1	1
Health	1	1	1	2	0	1	2	2	1	2
Furnishings and household maintenance	1	1	1	0	1	1	2	3	3	2
Housing and utilities	2	2	2	1	0	0	0	0	1	0
Miscellaneous goods and services	0	0	0	0	0	1	0	1	1	1
Recreation	0	0	0	0	0	0	1	1	1	1
Transport	1	1	0	0	0	0	0	1	1	1
CC7	**4**	**5**	**6**	**6**	**5**	**4**	**3**	**1**	**1**	**2**
Food and non-alcoholic beverages	4	5	5	5	5	3	2	1	1	1
Miscellaneous goods and services	0	0	1	1	0	1	1	0	0	1
CC8	**1**	**1**	**1**	**1**	**1**	**2**	**0**	**1**	**1**	**1**
Transport	1	1	1	1	1	2	0	1	1	1
CC9	**2**	**3**	**2**	**4**	**4**	**4**	**7**	**6**	**6**	**6**
Health	1	1	1	1	1	0	1	1	0	0
Furnishings and household maintenance	0	1	0	1	0	2	3	2	3	3
Miscellaneous goods and services	1	1	1	1	1	0	1	1	1	1
Recreation	0	0	0	1	1	1	1	1	1	1
Transport	0	0	0	0	1	1	1	1	1	1
Grand Total	47	51	54	62	59	70	77	89	89	82

2016	D1	D2	D3	D4	D5	D6	D7	D8	D9	D10
CC0	**1**	**3**	**5**	**5**	**7**	**8**	**5**	**5**	**5**	**4**
Alcoholic beverages and tobacco	0	1	1	1	1	1	1	1	0	0
Clothing and footwear	0	1	2	2	1	2	0	0	1	1
Communication	0	0	0	0	1	1	1	1	1	1
Health	1	1	1	1	1	1	0	0	0	0
Miscellaneous goods and services	0	0	1	1	1	1	1	1	1	0
Recreation	0	0	0	0	1	1	1	1	1	1
Restaurants and hotels	0	0	0	0	1	1	1	1	1	1
CC1	**18**	**21**	**23**	**25**	**25**	**19**	**12**	**8**	**7**	**4**
Clothing and footwear	1	1	1	1	1	1	0	0	0	0
Food and non-alcoholic beverages	12	15	17	19	19	15	9	7	5	3
Furnishings and household maintenance	1	1	1	1	1	1	0	0	0	0
Housing and utilities	4	4	3	3	3	1	2	0	1	1
Transport	0	0	1	1	1	1	1	1	1	0
CC2	**4**	**4**	**4**	**4**	**2**	**2**	**1**	**0**	**0**	**0**
Food and non-alcoholic beverages	1	1	1	1	1	1	0	0	0	0
Housing and utilities	1	1	1	1	1	1	1	0	0	0
Miscellaneous goods and services	1	1	1	1	0	0	0	0	0	0
Transport	1	1	1	1	0	0	0	0	0	0
CC3	**0**	**0**	**0**	**1**	**2**	**1**	**2**	**1**	**2**	**3**
Health	0	0	0	1	0	1	1	0	0	1
Furnishings and household maintenance	0	0	0	0	1	0	0	1	1	1
Miscellaneous goods and services	0	0	0	0	1	0	1	0	1	1
CC4	**1**	**1**	**1**	**0**	**1**	**1**	**0**	**0**	**1**	**1**
Clothing and footwear	1	1	1	0	1	1	0	0	1	1
CC5	**5**	**9**	**12**	**14**	**18**	**34**	**43**	**58**	**60**	**59**
Alcoholic beverages and tobacco	1	1	1	1	1	2	1	3	3	3
Clothing and footwear	0	1	2	2	2	1	1	1	3	3
Communication	0	0	0	0	0	1	1	1	1	1
Education	1	1	2	1	1	2	1	2	2	2
Food and non-alcoholic beverages	2	2	2	2	2	1	0	0	0	0
Health	0	1	2	1	3	5	5	7	6	7
Furnishings and household maintenance	0	1	1	1	3	6	9	8	8	8
Housing and utilities	0	0	1	1	1	3	3	5	5	5
Miscellaneous goods and services	0	0	1	1	2	2	4	7	7	6
Recreation	0	1	0	4	3	8	15	18	18	17
Restaurants and hotels	0	0	0	0	0	0	0	1	1	1
Transport	1	1	0	0	0	3	3	5	6	6
CC6	**8**	**10**	**10**	**10**	**10**	**6**	**2**	**2**	**1**	**1**
Food and non-alcoholic beverages	8	9	9	9	9	6	2	1	1	1
Miscellaneous goods and services	0	1	1	1	1	0	0	1	0	0
CC7	**0**	**0**	**0**	**2**	**4**	**7**	**7**	**7**	**7**	**6**
Furnishings and household maintenance	0	0	0	1	3	3	3	3	3	2
Miscellaneous goods and services	0	0	0	0	0	2	2	2	2	2
Recreation	0	0	0	1	1	1	1	1	1	1
Transport	0	0	0	0	0	1	1	1	1	1
CC8	**0**	**0**	**0**	**0**	**0**	**0**	**1**	**3**	**3**	**3**
Recreation	0	0	0	0	0	0	0	1	1	1
Transport	0	0	0	0	0	0	1	2	2	2
CC9	**0**	**0**	**0**	**1**	**0**	**4**	**5**	**7**	**7**	**7**
Communication	0	0	0	0	0	1	1	1	1	1
Education	0	0	0	0	0	1	1	2	2	2
Furnishings and household maintenance	0	0	0	1	0	1	1	2	2	2
Recreation	0	0	0	0	0	0	1	1	1	1
Transport	0	0	0	0	0	1	1	1	1	1
Grand Total	37	48	55	62	69	82	78	91	93	88

2019	D1	D2	D3	D4	D5	D6	D7	D8	D9	D10
CC0	**6**	**6**	**6**	**6**	**5**	**4**	**0**	**1**	**1**	**1**
Food and non-alcoholic beverages	6	6	6	6	5	4	0	1	1	1
CC1	**20**	**21**	**22**	**25**	**23**	**17**	**9**	**6**	**5**	**3**
Clothing and footwear	1	1	1	1	0	0	0	0	0	0
Food and non-alcoholic beverages	14	15	16	19	18	13	8	5	4	2
Furnishings and household maintenance	1	1	1	1	1	1	0	0	0	0
Housing and utilities	4	4	4	3	3	2	0	0	0	1
Transport	0	0	0	1	1	1	1	1	1	0
CC10	**1**	**0**	**0**	**0**	**0**	**1**	**1**	**2**	**2**	**2**
Transport	1	0	0	0	0	1	1	2	2	2
CC2	**3**	**3**	**2**	**3**	**2**	**2**	**2**	**2**	**1**	**1**
Food and non-alcoholic beverages	1	1	1	1	1	0	0	0	0	0
Health	1	1	1	1	1	1	1	1	1	1
Miscellaneous goods and services	1	1	0	1	0	1	1	1	0	0
CC3	**0**	**0**	**1**	**1**	**4**	**4**	**4**	**4**	**3**	**2**
Alcoholic beverages and tobacco	0	0	1	1	1	1	1	1	0	0
Communication	0	0	0	0	1	1	1	1	1	1
Recreation	0	0	0	0	1	1	1	1	1	1
Restaurants and hotels	0	0	0	0	1	1	1	1	1	0
CC4	**2**	**2**	**2**	**2**	**2**	**1**	**0**	**0**	**0**	**0**
Food and non-alcoholic beverages	2	2	2	2	2	1	0	0	0	0
CC5	**8**	**9**	**10**	**10**	**14**	**23**	**44**	**60**	**63**	**61**
Alcoholic beverages and tobacco	0	0	0	0	0	1	1	3	3	3
Clothing and footwear	0	0	0	0	1	1	2	3	3	3
Communication	0	0	0	0	0	2	2	2	2	2
Education	1	2	1	0	0	1	3	4	5	5
Food and non-alcoholic beverages	2	2	2	2	2	0	0	0	0	0
Health	0	0	0	1	0	2	4	5	5	5
Furnishings and household maintenance	1	1	2	2	3	5	7	8	9	9
Housing and utilities	0	0	1	1	0	2	4	5	5	5
Miscellaneous goods and services	2	1	1	1	2	2	4	7	7	6
Recreation	2	3	3	3	5	6	11	15	16	15
Restaurants and hotels	0	0	0	0	0	0	1	1	1	1
Transport	0	0	0	0	1	1	5	7	7	7
CC6	**4**	**4**	**5**	**4**	**5**	**5**	**6**	**7**	**6**	**6**
Clothing and footwear	2	1	1	1	1	0	0	1	1	1
Health	1	1	1	1	0	0	0	0	0	0
Furnishings and household maintenance	1	2	2	2	3	3	2	2	1	1
Miscellaneous goods and services	0	0	1	0	1	2	3	3	3	3
Transport	0	0	0	0	0	0	1	1	1	1
CC7	**4**	**4**	**4**	**2**	**2**	**2**	**2**	**1**	**1**	**2**
Food and non-alcoholic beverages	1	1	1	1	0	0	0	0	0	0
Furnishings and household maintenance	0	0	0	0	1	1	1	1	1	1
Housing and utilities	1	1	1	1	1	1	1	0	0	0
Miscellaneous goods and services	1	1	1	0	0	0	0	0	0	1
Transport	1	1	1	0	0	0	0	0	0	0
CC8	**2**	**3**	**3**	**3**	**0**	**1**	**1**	**0**	**0**	**0**
Alcoholic beverages and tobacco	1	1	1	1	0	0	0	0	0	0
Housing and utilities	1	2	2	2	0	1	1	0	0	0
CC9	**0**	**0**	**2**	**2**	**0**	**2**	**5**	**3**	**6**	**6**
Health	0	0	1	0	0	0	1	1	1	1
Furnishings and household maintenance	0	0	0	1	0	1	1	0	1	1
Recreation	0	0	1	1	0	1	3	2	4	4
Grand Total	50	52	57	58	57	62	74	86	88	84

The Classification of Community Classes into Basic Needs vs Aspirational Consumption

The order of community classes in Figure 1.12a – Figure 1.15a is determined by the total number of products co-consumed by households in their respective income deciles. Table A2 provides an income decile analysis used to recognise basic needs versus aspirational consumption among households. Community classes that are predominantly co-consumed by households in the top income deciles are recognised as "Aspirational" consumption, whereas those primarily co-consumed by households in lower-income deciles are identified as "Basic needs" consumption.

Table A2: Total household co-consumption across community class, by income deciles, 2009 – 2019

2009	D1	D2	D3	D4	D5	D6	D7	D8	D9	D10
CC 0	5	6	5	5	5	2	0	1	2	2
CC 1	13	18	15	16	16	8	7	6	4	4
CC 2	1	2	2	2	3	3	1	2	2	2
CC 3	2	2	2	2	2	4	3	2	2	2
CC 4	1	2	2	2	2	2	1	0	0	0
CC 5	10	15	14	19	24	27	36	49	58	60
CC 6	2	4	6	4	4	9	8	9	7	9
CC 7	4	4	4	4	2	0	1	1	2	1
CC 8	2	2	2	3	3	3	1	2	2	1
CC 9	0	0	1	1	3	7	7	7	6	6

2014	D1	D2	D3	D4	D5	D6	D7	D8	D9	D10
CC 0	2	2	4	5	7	9	7	7	6	3
CC 1	19	19	20	23	25	17	12	7	7	5
CC 2	3	3	3	3	2	1	0	0	0	0
CC 3	3	3	3	3	3	1	0	0	0	0
CC 4	0	0	0	0	0	2	1	2	2	2
CC 5	8	10	11	14	11	26	42	56	57	55
CC 6	5	5	4	3	1	4	5	9	9	8
CC 7	4	5	6	6	5	4	3	1	1	2
CC 8	1	1	1	1	1	2	0	1	1	1
CC 9	2	3	2	4	4	4	7	6	6	6

2016	D1	D2	D3	D4	D5	D6	D7	D8	D9	D10
CC 0	1	3	5	5	7	8	5	5	5	4
CC 1	18	21	23	25	25	19	12	8	7	4
CC 2	4	4	4	4	2	2	1	0	0	0
CC 3	0	0	0	1	2	1	2	1	2	3
CC 4	1	1	1	0	1	1	0	0	1	1
CC 5	5	9	12	14	18	34	43	58	60	59
CC 6	8	10	10	10	10	6	2	2	1	1
CC 7	0	0	0	2	4	7	7	7	7	6
CC 8	0	0	0	0	0	0	1	3	3	3
CC 9	0	0	0	1	0	4	5	7	7	7

2019	D1	D2	D3	D4	D5	D6	D7	D8	D9	D10
CC 0	6	6	6	6	5	4	0	1	1	1
CC 1	20	21	22	25	23	17	9	6	5	3
CC 2	3	3	2	3	2	2	2	2	1	1
CC 3	0	0	1	1	4	4	4	4	3	2
CC 4	2	2	2	2	2	1	0	0	0	0
CC 5	8	9	10	10	14	23	44	60	63	61
CC 6	4	4	5	4	5	5	6	7	6	6
CC 7	4	4	4	2	2	2	2	1	1	2
CC 8	2	3	3	3	0	1	1	0	0	0
CC 9	0	0	2	2	0	2	5	3	6	6
CC10	1	0	0	0	0	1	1	2	2	2

Examining Household Consumption Beyond Structural Consumption, 2009 - 2019

Table A3 shows the distribution of goods and services consumption across household deciles, computed based on equivalised income, as illustrated in Figure 1.16. Each cell in the table represents the number of products consumed beyond what is typically considered as structural consumption for that product in the respective decile. Figures highlighted in brown indicates the top two years within each decile where households consumed a greater number of products beyond the structural consumption. This indicates the periods of increased consumption or shifts in standard of living/ consumption behaviours within specific income brackets.

Table A3: Distribution of household consumption exceeding the structural consumption for the products, by income deciles, 2009 – 2019

Year/Decile	D1	D2	D3	D4	D5	D6	D7	D8	D9	D10
2009	40	55	53	58	64	65	65	79	85	87
2014	47	51	54	62	59	70	77	89	89	82
2016	37	48	55	62	69	82	78	91	93	88
2019	50	52	57	58	57	62	74	86	88	84

APPENDIX B

THE SELL-THEN-BUILD MECHANISM PRACTICED IN OTHER COUNTRIES

In various countries like the UK and Australia, the practice of purchasing properties before they are fully constructed is commonly referred to as "off-the-plan" buying. Similarly, in the Philippines, this concept is known as "pre-selling," where buyers commit to purchasing properties that are still in the planning or construction stages. While the specific terminology may vary, the mechanism remains largely similar across these regions. In Brunei, although the exact terms may differ, the underlying process aligns with the principles established in relevant acts and regulations governing property sales before completion. Additionally, terms such as presales, off-plan sales, and pre-construction sales are also frequently used to describe this purchasing method.

Investing in off-plan properties has become a popular avenue for real estate investors who want to take advantage of the benefits offered by buying properties before their construction is complete. Countries such as the United Arab Emirates (Dubai), the United Kingdom (London), Portugal (Lisbon), and Australia (Melbourne) are considered to be some of the best places to invest in off-plan properties.[190] Off-plan investment presents an attractive opportunity due to its offering of lower prices, a wider selection of units, speculative potential, high rental demand, and access to amenities.[191] On the contrary, investing in off-plan properties in undeveloped areas can present risks related to quality and uncertainty. However, in countries where off-plan investments are prevalent, such investments often occur in urban areas where developers have the opportunity to create high-end projects that adhere to quality standards, local regulations, and offer significant profit potential.

Regardless of the terminology used, buyers engage in these transactions with the understanding that they are investing in properties based on plans or concepts, often benefiting from early access to developments and potential price advantages. However, these countries differ from Malaysia in terms of ensuring buyer protection through additional regulations. The following subsections will discuss how some countries ensure buyer protection through regulations and practices implemented alongside the STB housing delivery system.

Australia[192]

In Australia, once the buyer has selected their preferred house, a contract will be prepared and sent to the buyer's lawyer. This contract outlines the specifics of the purchase, the buyer's responsibilities and payment terms, as well as the developer's duties and obligations towards the buyer. Upon the buyer's signature on the contract, the developer signs a matching contract, and the two contracts will be exchanged, facilitated by the buyer's lawyer. Subsequently, the buyer provides a deposit, which is usually 10% of the total purchase price but special conditions are often available. Some developers may accept a partial deposit of 5% or even an initial payment of $1000, with the remaining deposit due within a specified period. This arrangement gives buyers extra time to accumulate the necessary funds.

[190] MK Global (2023)
[191] Muller & Co (2024)
[192] Office of Registrar General, New South Wales Australia (2019)

Any funds paid by a buyer as a deposit or installment under a contract must be held in a controlled account for the duration of the contract[193]. This means that buyers' deposits or installments cannot be given to the developer until the property sale/project is completed. The regulation ensures that funds are securely held until project completion, safeguarding buyers' money from misuse by developers until their obligations are met.

It serves as financial insurance, aiming to protect buyers' investments from irresponsible developers and providing a safety net in the event of developer financial issues or bankruptcy prior to project completion. If such a situation occurs, the funds paid as a deposit or installment are guaranteed and cannot be used to settle the developer's debts or address their financial problems. This ensures that the financial investment made by buyers remains protected, and buyers are not exposed to the risk of financial issues due to the developer's inability to fulfill their project commitments.

Furthermore, the Australian government has also made amendments to property market laws aimed at enhancing buyer protection, especially for off-the-plan property buyers. One crucial aspect of these reforms involves tightening regulations surrounding the "sunset clause," which is a contract provision that allows either party (buyer or seller) to terminate a property contract outside the plan under certain conditions.

The main objective of these amendments is to prevent developers from exploiting this clause to the detriment of buyers and to ensure a fair and transparent property transaction process. This is because there have been reported cases where developers intentionally delayed projects, used the sunset clause to cancel contracts, and then resold the properties at higher prices[194].

Brunei

In Brunei, developers are required to establish project accounts for each housing development[195], similar to practices in Australia. A deposit of 10% of the estimated completion cost or a lesser sum defined by regulators is mandatory before starting any housing project, supported by documentation. All proceeds from housing sales, along with specified amounts per regulations, must be deposited into these accounts, with withdrawals allowed only as authorised by regulations.

These regulations aim to protect homebuyers by ensuring that funds from housing sales are used for completing developments and fulfilling sale agreements. They prevent financial mismanagement by developers and ensure that funds remain available for development completion or addressing buyer concerns, especially in cases of financial difficulties or legal issues. Prohibiting the use of project account funds until all buyer obligations are met strengthens buyer protection. Overall, these regulations aim to improve accountability and transparency in the housing construction industry. By mandating project accounts, they ensure proper fund allocation for development completion and buyer satisfaction, while preventing misuse of funds for unauthorised purposes. Non-compliance may lead to penalties, highlighting the importance of maintaining integrity and protecting buyer interests in the sector.

[193] Ibid.
[194] Miriam Bell (2021)
[195] Government of Brunei Darussalam (2012)

Indonesia

The Ministry of Public Works and Housing (PUPR) has introduced new regulations to regulate the selling prices for subsidised housing, with the goal of maintaining affordability for low-income groups. The regulations include a value-added tax (VAT) exemption, amounting to 11% of the selling price of the land house. This translates to a subsidy ranging from IDR 16 million to IDR 24 million per unit, aiming to alleviate financial burden for prospective homebuyers.[196]In terms of buyer protection, the aforementioned regulation serve as a crucial safeguard. By setting clear price limits, these regulations protect buyers from potential price manipulation and ease the financial burden on low-income individuals or families aspiring to own a home. Additionally, the government's commitment to supporting affordable housing initiatives, as demonstrated by its ability to offer housing financing assistance to low-income communities, underscores its dedication to addressing housing disparities and improving the overall quality of life for its citizens. Overall, these regulations represent a significant step towards making affordable housing accessible to a wider population while promoting sustainable development.

With regards to cases involving building failure, under the Construction Services Law, responsibility for addressing defects or failures in the construction or building falls upon the owner and/or the contractor involved in the project if construction services fail to meet specified security, safety, health, and sustainability standards[197]. These responsibilities encompass two main aspects: (i) the contractor is obligated to either replace or repair any defects in the building, and (ii) the owner and/or contractor must provide compensation for any damages incurred.

Furthermore, the regulations establish a time frame for contractor liability. If the planned lifespan of a building or structure exceeds 10 years, contractors may be held responsible for building failures for up to a decade from the date of the final handover of the construction service. After this initial 10-year period, the owner assumes liability for any subsequent building failures. Importantly, these regulations also emphasise that contractors and owners have a duty to compensate third parties who are adversely affected by building failures, and compensation for such failures can potentially be sourced from third-party insurance[198]. These regulations aim to uphold construction standards by ensuring the safety, quality, and durability of buildings and structures while establishing accountability for both owners and contractors and promoting long-term safety and maintenance. Additionally, they also provide a clear compensating mechanism for third parties affected by building failures.

[196] Expat Life Indonesia (2023)
[197] Conventus Law (2020)
[198] Ibid.

Philippines

In the Philippines, buying real estate through installment plans is common but risky for buyers. To address concerns and ensure fairness, the government passed Republic Act 6552, known as the "Maceda Law"[199]. One of the primary provisions of the Maceda Law is the grace period it offers to buyers who have paid at least two years' worth of monthly installments. This provision allows buyers to have a specific number of months, corresponding to the number of years they've paid, as a grace period during which they can settle any unpaid installments without incurring additional interest. This right can be exercised once every five years. For instance, if a buyer has paid 60 monthly installments over five years, they are entitled to a five-month grace period to catch up on unpaid installments without incurring extra charges.

In cases where a buyer defaults or the contract is cancelled, the Maceda Law stipulates that the seller must refund the buyer the cash surrender value of the payments made. The law mandates a refund equal to50% of the total payments made. This cash surrender value can increase by an additional 5% for every year of installments, provided that at least five years of payments have been made, not exceeding a maximum of 90%.

> *For instance, consider a scenario where a buyer has accumulated a total of Php 1,200,000.00 in payments over a period of five years. In this case, the seller would be obligated to refund the buyer an amount equivalent to fifty percent (50%) of the total payments made, which would amount to Php 600,000.00 as the cash surrender value. If the buyer had made payments for a period exceeding five years, the refund would proportionally increase, in accordance with the law's provisions.*[200]

Buyers who have paid less than two years of installments have a different set of regulations. They are entitled to a grace period of not less than 60 days from the due date of the installment. If the buyer fails to pay within this grace period, the seller may cancel the contract after 30 days from the buyer's receipt of the cancellation notice or demand for rescission by notarial act. In such cases, the seller is not required to refund any payments made.

The sale of off-plan houses in the Philippines is usually funded by bank mortgages. The loan funds will be disbursed either in Philippine Peso for transactions involving the purchase or acquisition of properties, or in US Dollars for house construction. The disbursement can be a one-time payment for property purchase, refinancing, or reimbursement. Alternatively, it can be staggered, with the total amount reaching up to eighty percent (80%) of the lot's Appraised Value (AV). However, the first disbursement will be based on seventy percent (70%) of the AV. The loan can be disbursed in a maximum of five (5) stages, each corresponding to a stage of completion. The loan disbursement stages correspond to the various stages of project completion. The initial release occurs at the start of construction or improvement, when less than 30% of the project is complete. The second release happens when the project is 30% complete. The third release is made when the project reaches 60% completion. The fourth release is disbursed when the project is 90% complete. Finally, the last release is made when the project is fully completed, at 100% completion.[201]

[199] Government of the Philippines (2020)
[200] Atty. Reynaldo Ross D. Sucgang IV (n.d.)
[201] PNB Los Angeles (n.d.)

United Kingdom

The United Kingdom (UK) has implemented regulations to safeguard buyers in newly constructed homes, by requiring insurance companies to provide warranties and insurance protection packages. In England, recent amendments to the Building Safety Act, effective since 28 April 2022, require insurance companies to offer warranties for newly built homes lasting 15 years[202], up from the previous minimum of 10 years.

The insurance packages are provided by various insurance companies, including NHBC, LABC Warranty, Premier Guarantee, and Checkmate, and cover around 95% of all new homes in the UK. They are all members of the Consumer Code for Home Builders, which ensures consumer protection.[203]

This amendment places a greater responsibility on developers to ensure the safety of buildings from the early design stages to their completion. Failure to meet these safety standards can lead to criminal charges against developers[204]. This extended warranty not only provides peace of mind but also financial relief for homeowners, especially those with lower incomes. Moreover, it can also boost the developers' reputation and improve the overall quality of construction materials. This, in turn, can make the property market more competitive if all developers adopt these assurance standards.

Additionally, three new regulatory bodies were established under the Building Safety Act to oversee property development. The Building Safety Regulator (BSR) monitors the safety and performance of all buildings, particularly high-rise structures, and ensures construction industry workers possess the necessary skills and capabilities. The National Construction Products Regulator (NRCP) oversees construction product regulation and streamlining oversight and enforcement in the industry across the entire UK. Furthermore, the New Home Ombudsman Scheme handles complaints from new homeowners, resolving issues related to their new homes that cannot be resolved by registered developers. Developers are required to be part of this scheme, and legal regulations with associated penalties are in place to ensure their compliance with these rules[205].

The Consumer Rights Act 2015[206] and The Consumer Protection from Unfair Trading Regulations 2008[207] play crucial roles in regulating and safeguarding homebuyers, particularly in off-plan schemes, in London. These regulations ensure that consumers are protected against misleading or unfair commercial practices and that the quality of goods, in this case, properties, meets certain standards. For instance, the Consumer Rights Act 2015 mandates that goods must be of satisfactory quality, fit for a particular purpose, and as described. This means that developers in the off-plan market are legally obligated to deliver properties that meet these criteria, ensuring that homebuyers receive high-quality projects.

Furthermore, The Consumer Protection from Unfair Trading Regulations 2008 prohibits any commercial practice that is misleading, aggressive, or contrary to professional diligence. This regulation aims to prevent developers from engaging in unfair practices that could deceive or

[202] Government of United Kingdom (2022)
[203] Carol Brady (2020)Carol Brady (2020)
[204] Department for Levelling Up, Housing and Communities (2022)
[205] Ibid.
[206] Government of United Kingdom (2015)
[207] Government of United Kingdom (2008)

manipulate homebuyers. The enforcement powers and duties conferred by these regulations ensure that authorities have the necessary tools to take action against traders who engage in unfair commercial practices, thereby upholding consumer rights and protecting the integrity of the off-plan market.

As a result of these regulations, the London off-plan market tends to feature high-end projects with top-quality standards such as regeneration and development projects that are happening in Royal Docks[208] particularly in the Royal Docks Enterprise Zone, a designated area that provides tax breaks and other business incentives to attract foreign investment, 60,000 new jobs, and 25,500 new homes are forecast in the wider area[209]. Developers understand that they must adhere to strict regulations to avoid penalties and maintain their reputation in the market. Homebuyers benefit from this regulatory framework as they can have confidence that the properties they purchase off-plan will meet certain quality standards and that they are protected against unfair practices. Overall, these regulations contribute to the overall integrity and reliability of the off-plan market in London, attracting high-end projects and ensuring the satisfaction of homebuyers.

In terms of financing the house purchase, most developers prefer to have a pre-approved mortgage agreement in place before proceeding with a property exchange. However, this can present certain challenges. A mortgage offer typically remains valid for a period of six months. Some lenders may offer a brief extension after this period, but buyers may need to reapply. Due to the contract exchange, buyers committed to the purchase at this stage. Hence buyers are advised to include an exit clause in the contract before the exchange. This clause should enable buyers to retrieve their deposit and withdraw from the purchase if they can't secure funding despite reasonable attempts. In the case of purchasing off-plan, lenders often conduct an initial valuation during the mortgage offer and another valuation upon property completion. If the final valuation is lower than the purchase price, buyers may face a deficit. They then have the option to contest the valuation, negotiate a price reduction with the developer to match the lender's valuation, or cover the difference themselves[210].

[208] The Royal Docks (n.d.)
[209] Newham London (n.d.)
[210] Angela Kerr (n.d.)

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