

Exclusive Insights

Malaysia Pre-Budget 2027: Five Workforce Priorities for Employers

Oct 2026





Foreword

Budget 2027 will be tabled on 9 October. Most of the public attention is on one number: **the next minimum wage**. For employers, the wage rate is only one part of what needs planning.

The government's message has been consistent. It wants wages to rise, and it wants productivity to rise with them. The Pre-Budget Statement lists decent wages, high-value jobs and workforce skills among its ten focus areas.

Our team in Kuala Lumpur runs payroll and HR for employers across Malaysia and supports clients that manage Southeast Asian operations from here. In recent weeks, many of the clients we speak with have asked the same thing: what will the new minimum wage cost us? We think a more useful question for management teams to ask **before 9 October** is this, If our workforce costs rise, how do we get a return on that spend?

In this paper we set out five areas employers should review now, with questions management teams can use to check how ready they are.

- **Salary and wage structure:** protect pay gaps for experience and skill above the new floor.
- **Rebalancing total rewards:** get more value from every ringgit of the reward budget.
- **Impact of AI on workforce productivity:** redesign work around what AI does well.
- **Workforce upskilling and reskilling:** build the skills that support higher pay.
- **Workforce planning and cost modelling:** model the cost and measure the return.



If our workforce costs rise, how do we get a return on that spend?





Context: What Employers Are Hearing Before Budget 2027

Three developments shape the outlook for employers.

- The minimum wage is likely to rise.**
The statutory minimum has been RM1,700 since February 2025. The Prime Minister said on 26 September that if productivity is soaring and companies are making billions in profits while workers still earn RM1,700, “we have not raised the floor” and the Economy Minister has said any decision on RM2,000 will be left to the Prime Minister's Budget speech. On 30 September, Cabinet agreed to exempt micro, small and medium enterprises (MSMEs) from the new rate for the time being, so larger employers will feel the change first.
- Pay expectations are rising.**
The Malaysian Trades Union Congress (MTUC) is calling for RM3,100, the living wage that 34 GLICs and GLCs have committed to pay about 153,000 employees. Whatever the statutory rate, this figure is influencing what entry-level candidates expect.
- Wage growth is being tied to productivity.**
The government, employer groups and unions all say wages and productivity should move together. The Malaysian Employers Federation (MEF), MICSEA and ACCCIM have called for productivity-linked pay, and the Budget is expected to expand TVET, reskilling and AI training.

Exhibit 1: Budget 2027 at a glance (as at 1 October 2026)

Item	Current position
Minimum wage	RM1,700 today; RM2,000 under discussion
Effective date	Not yet announced
MSMEs	Exempt from the new rate for the time being; criteria not yet published
Foreign workers	Covered by the minimum wage today; some have proposed excluding them from the increase
Living-wage benchmark	RM3,100 committed by 34 GLICs and GLCs; MTUC wants it as the minimum
Skills and training	Expanded TVET, reskilling and AI training expected

For most employers, labour costs will go up, and management will want to see what the extra spend delivers.

Priority 1:

Salary and Wage Structure

Review pay for roles above the floor as well as at it

The direct cost of a higher minimum wage is easy to calculate. Employer statutory contributions add about 15% to each ringgit of increase (EPF 13%, SOCSO 1.75% and EIS 0.2%), and overtime rates and wage-linked allowances rise as well.

A bigger issue is pay for staff just above the floor. When entry-level pay rises, the gap between new hires and experienced operators, supervisors or technicians narrows, as Exhibit 2 shows. These employees often train others and hold process knowledge, and they are more likely to leave if their pay no longer reflects their experience.

Exhibit 2: How an RM2,000 floor narrows pay gaps (illustrative)

Current salary	Position at RM2,000	Effect	What to review
RM1,700	Rises to RM2,000	Direct adjustment	Role expectations at the new floor
RM1,900	Rises to RM2,000	Same pay as a new joiner	Recognition of experience and skill
RM2,100	No change	Only RM100 above the floor	Whether capability justifies a wider gap
RM2,300	No change	Gap over the floor halves	Responsibility, retention and grading



Our Perspective

We recommend reviewing the whole pay structure, including roles above the minimum. The aim is to keep reasonable pay gaps for skill, experience and responsibility within a budget the business can sustain. Employers with foreign workers should model two cases, since the Budget may or may not apply the new rate to them.

Where Employers Often Slip Up

- Updating the monthly rate but missing the hourly and daily minimums that apply to part-time and daily-rated staff.
- Leaving overtime, shift and rest-day rates calculated on the old basic pay.
- Forgetting allowances and benefits that are pegged to basic salary.
- Missing the payroll cut-off for the effective date, which leads to back-pay and recalculated contributions.

Steps to Take Now

- List every role paid within RM500 to RM800 of the expected new floor and count the employees affected.
- Restore pay gaps selectively, based on skills, certification and responsibility.
- Set clear, skill-based pay steps, in line with the Progressive Wage Policy, so employees can see how to progress above the floor.

Questions to Consider

- How many employees are paid just above the expected floor, and which of them do we most need to keep?
- Does our grade structure still reflect experience and responsibility at the new floor?
- Have we set aside budget for pay adjustments above the floor?

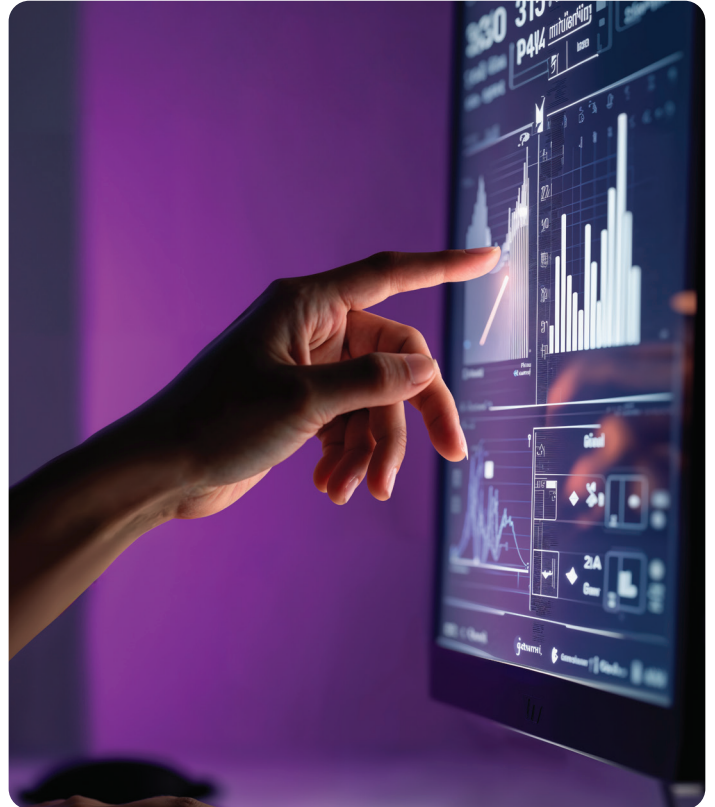


Priority 2: Rebalancing Total Rewards

Get more value from the reward budget

A higher minimum wage takes a larger share of the reward budget, which leaves less for increments, bonuses and benefits. Employers may also be misreading how staff feel: EY's 2025 Work Reimagined Survey (published January 2026) found that Malaysian employers overestimate employee satisfaction by up to 25%.

Most Malaysian employers already link pay to performance. MEF's Salary Survey 2025 found performance is the main factor in increments at about 89% of companies for executives and 82% for non-executives, with average bonuses of about two months' salary. Budget 2027 is a good time to make that link clearer to employees.



Our Perspective

We suggest reviewing the full package: fixed pay, variable pay, benefits, wellbeing, flexibility and career development. For each employee group, ask which elements they value most for the cost. A frontline operator, a shared-services analyst and a mid-career engineer will give different answers.

Flexible working is one of the non-cash elements employees value most. Under sections 60P and 60Q of the Employment Act 1955, in force since January 2023 and applicable in Peninsular Malaysia and Labuan, employees can apply in writing to change their hours, days or place of work. The employer must approve or refuse within 60 days, in writing, and give reasons for any refusal. A clear policy, defined by role and measured by output, turns these requests into a planned part of the reward offer.



Steps to Take Now

- Introduce gainsharing or productivity-linked incentives, as MICSEA and MEF have proposed, so part of any increase is tied to measurable results.
- Review benefits for relevance and tax treatment, including flexible benefits, medical cover and wellbeing support.
- Identify roles suited to flexible hours, days or location, and set a documented process for handling requests.
- Show employees the full value of their package, including benefits and allowances.

Questions to Consider

- Do we know what each employee group values most?
- What share of our reward spend is linked to performance?
- How will we explain any changes to the package to employees?

Priority 3: Impact of AI on Workforce Productivity

Turn individual AI use into company-wide gains

If higher wages need to be matched by higher productivity, AI is one of the main tools available. Many Malaysian employees already use it. Microsoft's 2026 Work Trend Index found that 24% of Malaysian workers are advanced AI users, against 16% globally, and EY's 2025 Work Reimagined Survey (published January 2026) found that 81% of Malaysian employees using generative AI save significant time.

Company support is behind. Microsoft found only 32% of Malaysian AI users say their leadership is clearly aligned on AI, and EY found only 12% of employees get enough AI training. EY also found that 68% report a heavier workload, which suggests the time saved is going into extra tasks.



Our Perspective

The largest gains from AI come when processes and roles are redesigned around what it does well. For roles affected by the wage change, look at which tasks AI or automation can take on, and what higher-value work those employees can move to.

Steps to Take Now

- Identify high-volume, repetitive processes in operations, finance and HR where AI or automation has a clear business case.
- Redesign roles so employees spend more time on judgement, customer contact and quality.
- Set simple rules for AI use, and measure results by output, error rates and turnaround time.

Questions to Consider

- Where would AI give us the biggest productivity gain for the money spent?
- Has our management team agreed how we will use AI, and have we told our staff?
- How will we use the time AI saves?

Priority 4: Workforce Upskilling and Reskilling

Build the skills that support higher pay

Higher pay is easier to sustain when employees' skills grow with it. Training is also where Budget 2027 is likely to offer employers the most support. The Pre-Budget Statement commits to more industry-led TVET, apprenticeships and reskilling, with a focus on AI and digital skills for workers and SMEs.

Skills also affect hiring and retention. EY's 2025 Work Reimagined Survey (published January 2026) found that the chance to work with new technology and AI is now the second most important reason Malaysian employees take a new job, and one in four plans to leave their current role.



Our Perspective

Training works best when it is targeted. Start with the roles most affected by the wage change and those most exposed to AI. Link each programme to a business result and to a clear step in pay or progression, so the training helps justify the higher wage.

Steps to Take Now

- Assess current skills in affected roles, starting with technical, digital and supervisory skills.
- Make full use of the HRD Corp levy and prepare to apply for any new Budget 2027 training incentives.
- Link certification and proven skills to the pay steps described in Priority 1.

Questions to Consider

- Which roles have the biggest gap between their new cost and current skill level?
- Are we using our full HRD Corp levy and the government programmes available?
- How do we show employees that new skills lead to better pay and careers?



Priority 5: Workforce Planning and Cost Modelling

Model the cost and plan the response

This priority brings the other four together. A new wage floor changes the cost of every role near it, and it changes the business case for other ways of getting work done. Employers that model the numbers before 9 October can act quickly once the rate is confirmed.

The model should cover the full cost of employment, including statutory contributions, overtime, allowances and pay adjustments above the floor. Run it for three cases: the current RM1,700, RM2,000 including foreign workers, and RM2,000 excluding them. Employers should also record current output, quality, turnaround and overtime in affected roles, so they can later show whether the higher cost paid off.

Our Perspective

Cost modelling shows what the change will cost, and workforce planning sets out the response. For each employee group, compare the four options below and choose the one with the best return.

Exhibit 3: Four options to offset higher costs

Option	Works best when
Upskill	Better skills can raise output or quality
Automate	Work is repetitive and technology can do it faster or with fewer errors
Redesign the role	A role includes low-value steps or can take on more responsibility
Rebalance the workforce mix	Changes in the cost and availability of foreign labour make local hiring more attractive

For companies running regional operations from Malaysia, few roles in a hub or shared-services centre are paid near the minimum wage. The bigger issues there are the RM3,100 living wage and competition for digital and AI skills, both of which affect the cost of running regional work from Malaysia.



Exhibit 4: How to tell whether the higher cost is paying off

Measure	Question for management
Output per employee	Are employees producing more or taking on more responsibility?
Quality and error rate	Has rework fallen?
Turnaround time	Is work being completed faster?
Overtime dependency	Are we relying less on overtime?
Higher-skilled work	Are employees doing more complex work?
Retention	Are the people we most need staying and progressing?

Questions to Consider

- Do we have one view of total employment cost under each Budget scenario?
- Have we set the measures that will show whether the higher cost paid off?
- For each affected group, which option gives the best return?



What To Do Before and After 9 October

The Budget speech will confirm the headline rate. Details such as the effective date, MSME criteria and the treatment of foreign workers will follow in the Minimum Wages Order and ministry guidance. We suggest preparing in two stages.

Before Budget Day

- Model the full cost of employment under each wage scenario.
- Identify roles paid just above the floor and the employees you most need to keep.
- Record current productivity and skill levels in affected roles.
- Agree the measures you will use to judge success

In The 90 Days After

- Confirm the final policy and update payroll and statutory settings.
- Adjust pay structures and explain the changes to employees and managers.
- Start targeted training, AI and job-redesign projects, using Budget incentives where available.
- Compare productivity against the starting point and adjust the plan.

Assign clear owners: HR for people actions, Finance for tracking cost and return, business leaders for productivity results, Payroll and HRIS teams for accurate implementation, and line managers for setting expectations and supporting skills development.

Looking Ahead

A higher wage floor will raise costs for most larger employers. Employers that plan early can also use it to repair pay structures that have drifted, give staff a clearer route to better pay, and get more from AI and training. Budget 2027 gives management teams a clear reason to make those changes now.

How BIPO Can Help

BIPO provides payroll, HR technology and workforce services to employers in Malaysia and across Southeast Asia. For Budget 2027, we can help you:



Model the impact of new wage and statutory rates on your workforce, including pay above the floor and foreign-worker scenarios.



Update payroll accurately in [BIPO HRMS](#), with minimum wage, overtime, EPF, SOCSO and EIS settings tested before the effective date.



Track cost and results with [Athena BI](#), our analytics tool for headcount, attrition, overtime and employment cost.



Manage regional teams through our [multi-country payroll](#) outsourcing and Employer of Record (EOR) services.

Talk to Our Experts About Your Budget 2027 Plans, or Contact Us Directly:



Lee Yun-Han
Country General Manager,
Malaysia
yunhan.lee@biposervice.com



Samanda Yong
HR Service
Delivery Manager
samanda.yong@biposervice.com

Sources

1. Ministry of Finance Malaysia, [Pre-Budget Statement 2027](#), 18 August 2026.
2. The Star, ["Low wages to be tackled"](#), 27 September 2026.
3. The Star, ["RM2,000 minimum wage decision rests with Budget 2027, says Akmal"](#), 28 September 2026.
4. Bernama, ["Cabinet agrees that MSMEs be exempted from new minimum wage increase"](#), 30 September 2026.
5. Free Malaysia Today, ["MTUC wants RM3,100 minimum wage in 2027 budget"](#), 27 September 2026.
6. Ministry of Finance Malaysia, [GEAR-uP press release](#), 30 June 2025.
7. theSun, ["Minimum wage review must be guided by data, not politics: MEF"](#), 23 August 2026.
8. Business Today, ["Government urged to phase broad wage hike plans in Budget 2027 to protect SMEs, jobs"](#), 29 September 2026.
9. Malay Mail, ["ACCCIM welcomes minimum wage exemption for MSMEs"](#), 30 September 2026.
10. Malay Mail, ["Guan Eng says foreign workers should be excluded from minimum wage hike"](#), 29 September 2026.
11. KWSP (EPF), [Employer mandatory contribution rates](#).
12. PERKESO (SOC SO), [Contributions](#).
13. EY Malaysia, [EY 2025 Work Reimagined Survey press release](#), 27 January 2026.
14. Malay Mail, ["MEF: nearly 90pc of Malaysian workers got pay hikes in 2025"](#), 5 December 2025.
15. [Employment Act 1955 \(Act 265\)](#), sections 60P–60Q, official text, Department of Labour Peninsular Malaysia (JTKSM).
16. Microsoft, ["2026 Work Trend Index: Malaysian workforce is ready for AI"](#), 23 June 2026.
17. [Minimum Wages Order 2024](#), Ministry of Human Resources.

Important Notice

This publication reflects publicly reported information as at 1 October 2026, ahead of the tabling of Budget 2027 on 9 October 2026. References to an RM2,000 minimum wage are planning scenarios and should be revalidated against the Budget speech and the gazetted Minimum Wages Order. This publication is intended as general guidance and does not constitute legal, tax or financial advice. Organisations should seek specific advice before acting on its contents. © 2026 BIPO.

Offices

Singapore Office (Global Headquarters)

BIPO Service (Singapore) Pte. Ltd.

77 Robinson Road, #33-01, Singapore 068896

Tel: +65 6432 8380

Malaysia Office

BIPO Service Malaysia Sdn. Bhd.

Unit 13.02, Level 13, Mercu 3, KL Eco City, No. 3,

Jalan Bangsar, 59200 Kuala Lumpur, Malaysia

Tel: +60 3 4812 7004

About Us

Established in 2010 and headquartered in Singapore, BIPO is a trusted provider of payroll and people solutions in over 170 global markets.

Our comprehensive HR offerings include Human Capital Management solutions, Global Payroll Outsourcing, and Employer of Record services, powered by our award-winning HR Management System and Athena BI (Business Intelligence) platform.

Contact Us

www.biposervice.com