

Lives Disrupted: The Hidden Costs of Bankruptcy

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Malaysia's household debt to GDP level was 65.6% in March 2024, which is the highest in Southeast Asia¹. Bankruptcy cases have also reached a stage that warrants policy review of the current economic conditions and loan structure that may lead debtors deeper into debt. The latest bankruptcy trends among youth at 54.3% out of the total of national bankruptcy cases, mean policymakers need to dive in to understand why and how younger Malaysians are getting into difficult financial situations – is it caused by a lack of financial literacy or inherent problems in the economy?

Incidences of bankruptcy among individuals may not look like a state matter but are usually categorised as a social or rather a personal issue. However, high rates or rising levels do indicate the health of the economy in general and perhaps a red flag signifying bigger problems in the system.

From a social perspective, bankruptcy leads to disruption for individuals and families, and if not addressed, the impact could extend far beyond the immediate financial implications. Firstly, losing assets, savings, or homes can create immediate financial instability, making it difficult for individuals and families to meet basic needs, secure the ability to secure future borrowing, and, in some cases, secure employment prospects. This complex situation may turn into a vicious cycle for many Malaysians and further erodes the foundation of Malaysia's long-term economic stability.

Bankruptcy cases in Malaysia

The Malaysian government has periodically adjusted the bankruptcy threshold in response to the current economic condition. According to Budget 2024, individuals aged 40 and below with debts not exceeding RM200,000 will be discharged from bankruptcy, reflecting the government's effort to reduce overall bankruptcy cases². This can be shown in the latest statistics reported by the Department of Insolvency that there were 6,554 cases in 2021, 5,695 cases in 2022, 4,810 cases last year, and only 2,401 cases until May 2024³.

However, has this move addressed the country's rising debt and non-performing loans in practice?

On 12 August 2024, FMT news reported that our national household debt raises the alarm about our domestic microeconomic condition. Malaysia's household debt amounted to RM1.53 trillion in 2023, with the household debt-to-GDP ratio recording at 84.2%. Compared to the previous years, it was RM1.45 trillion in 2022, RM1.38 trillion in 2021, and RM1.32 trillion in 2020⁴. This shows

¹ <https://www.freemalaysiatoday.com/category/opinion/2024/08/12/malaysias-rm1-5-trillion-debt-time-bomb/>

² <https://www.thestar.com.my/news/nation/2023/10/13/budget-2024-second-chance-policy-on-bankruptcy-expanded-says-pm>

³ <https://www.thestar.com.my/news/nation/2024/07/25/over-142000-individuals-released-from-bankruptcy-under-second-chance-policy-says-pm>

⁴ <https://thesun.my/local-news/malaysia-s-household-debt-hits-rm153-trillion-EC12232754>

the yearly household debt surge, significantly threatening our national economy and people’s future financial well-being.

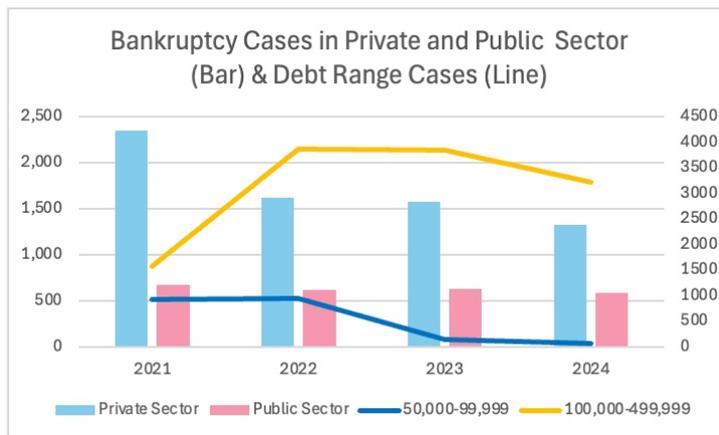
The Director-General of the Malaysian Department of Insolvency (MDI), Datuk M. Bakri Abd Majid, voiced concern over the escalation of the insolvency trend, especially among civil servants⁵. The proportion of insolvency among civil servants has increased from 10% in 2021 to 14% in 2024. The 2024 bankruptcy report by the MDI shows that the administrated bankruptcy rate among Malaysian males is more than 70% compared with females, with a total of 29,516 cases reported from 2020 to August 2024. Despite the stable condition taunted by the government in controlling inflation, this increment shows that many people are struggling to cope with debts and costs.

Based on the data from the MDI statistics, personal loans reported the highest among the bankruptcy issues with 1,935 cases in 2024, and it stands at 47.12%, with business loans (809 cases) at 19.70%, car purchase, and rentals (293 cases) at 7.13%. At the same time, the government published perfect-pitch data, with the average inflation rate hovering from 1.80% to 2.00% throughout year⁶. The discrepancy in household debt is far more damaging than reported, leading to more problems in the coming years.

In the public sector, individuals of Malay ethnicity make up a significant portion, comprising around 78% of civil servants. This group represents more than half of Malaysia’s total population⁷. Regarding bankruptcy cases, Malay ethnicity accounts for over 59.23%, with 2,432 cases in 2024, with Chinese at 1,052 cases (25.62 %) and India at 301 cases (7.33 %).

According to the Organization for Economic Co-operation and Development (OECD), the working-age population is typically defined as those between the ages of 15 and 64. In the MDI 2024 report, 3,409 insolvency cases, representing 83.02%, occurred among individuals aged 25 to 54. This age group plays a critical role in driving the economy and contributing to the labour market.

Figure 1: Bankruptcy Cases in Private and Public Sectors & Debt Range Cases



Data: Malaysia Department of Insolvency (MDI) Chart: INSAP

⁵ <https://www.thestar.com.my/news/nation/2024/09/09/10-13-of-new-bankruptcy-cases-from-2021-2024-involve-civil-servants-says-mdi-dg>

⁶ <https://open.dosm.gov.my/dashboard/consumer-prices>

⁷ <https://www.iseas.edu.sg/articles-commentaries/iseas-perspective/2023-34-diversity-in-malysias-civil-service-from-venting-old-grouses-to-seeking-new-grounds-by-lee-hwok-aun/>

Figure 1 shows the number of bankruptcy cases in the private and public sectors from 2021 to 2024 and the distribution of debt range cases. It shows that the private sector consistently experiences more bankruptcy cases than the public sector across all years. The peak for private-sector cases is in 2021, with a noticeable decline in 2022 and a slight increase in 2024.

Bankruptcies among public sector employees follow a steadier trend, maintaining lower numbers throughout the years. Similarly, the line chart representing two debt ranges shows that the cases with debts between RM100,000 to RM499,999 peaked in 2022 and then decreased in 2023 and 2024. Meanwhile, the cases with debts between RM 50,000 and RM 99,999 remained relatively low, gradually declining from 2022 onward. Overall, while employees from the private sector face more bankruptcies, debt amounts in the higher range have shown a downward trend after 2022.

Young and in debts

According to the latest report from the National Credit Counseling and Management Agency (AKPK) in 2024, over 53,000 Malaysian youths under 30 have accumulated RM1.9 billion in debt⁸. Additionally, the Malaysian Consumer and Borrower Settlement Association (4PM) has reported that an alarming 15 youth insolvency cases occur daily⁹.

For context, of the 4,810 bankruptcy cases filed between January and December 2023, 2,707 or 56.2% involved individuals under 45. Even more concerning, 15.1% of these cases were from those under 35. This trend is worsening; in the first eight months of 2024 alone (January to August), 54.6% of bankruptcies or 2,242 out of 4,106 cases, were among individuals below 45.

Youths are struggling under the weight of substantial debt, exacerbated by rising financial commitments such as increasing house loan payments while incomes remain stagnant. Many are driven into insolvency by credit card debt and personal loans, resulting from spending on necessities and also overspending in some cases and poor financial management. This trend exposes a flaw and weakness where young Malaysians are becoming vulnerable and risk being "debt slaves."

Essentially, the rising levels of youth debt contribute to several social problems that cannot be overlooked. Financial strain often leads to increased stress and mental health issues, as young individuals grapple with anxiety and uncertainty about their financial futures. This can result in a decline in overall well-being, affecting their relationships, academic performance, and job stability.

Additionally, high debt levels can exacerbate social inequalities, as disadvantaged youths may lack access to resources and support systems, making it even harder for them to escape the cycle of debt. As young people struggle to meet their financial obligations, they may also face social stigma, leading to feelings of isolation and shame. Ultimately, these social problems not only affect the individuals involved but can also erode community cohesion and trust, creating a ripple effect that impacts society as a whole.

⁸ <https://www.akpk.org.my/ms/node/1027>

⁹ <https://www.malaymail.com/news/malaysia/2023/10/26/report-increasing-bankruptcy-among-youths-worrying-consumer-group-calls-for-govt-intervention/98439>

What does this all mean?

The rising trend of insolvency cases within Malaysia, especially among civil servants and youth, sits on more entrenched and fundamental problems in the economy than simply raising the ceiling of the bankruptcy threshold.

Even though the Malaysian government discharges bankrupt individuals with debts of less than RM200,000 to ease some tensions, such measures do not help resolve the issue that Malaysians are taking on higher and more loans and debts for various reasons, including for sustenance. Considering the increasing household debt to GDP ratio, there is an immediate need for the government to address this dangerous pattern.

The escalating number of bankruptcies is detrimental not only to Malaysia's economy but also to its social and governmental structures. Beyond the immediate economic impact, bankruptcies carry hidden costs that extend far into society and the government. Socially, the financial and emotional toll on individuals leads to increased mental health issues, family breakdowns, and weakened social protection. These hardships often translate into higher healthcare and social welfare expenditures, further straining public resources. Addressing these cascading effects for the government involves diverting funds from critical areas such as education, infrastructure, and development, weakening the country's long-term prospects.

Current measures addressing fiscal issues tied to bankruptcies have yet to produce significant results. Despite these efforts, Malaysians still struggle with soaring living costs, stagnant wages, growing debt, economic instability, and inflation. These broader economic pressures intensify financial distress, making it clear that solutions like raising the bankruptcy threshold are inadequate.

A more universal approach, with stronger government intervention, is critical. By addressing the root causes of financial distress, for example, through comprehensive economic reforms, improving salary and income structures in the country, providing new sources of economic growth, and creating high-skilled jobs, the government can address the need for loans and prevent Malaysians from defaulting on loans and financial obligations. At the same time, tighter financial regulation, and enhanced social welfare protection could help mitigate the risk of bankruptcies.

The government's failure to act will not only perpetuate the cycle of financial hardship but also place an increasing burden on public resources, ultimately compromising Malaysia's economic and social future.

INSAP is cognizant of recent changes to Malaysia's bankruptcy laws that have aimed to provide relief, but experts suggest that more comprehensive measures are necessary, including possibly a bankruptcy moratorium to help struggling individuals and businesses.

Perhaps it worth asking if Budget 2025 will introduce specific policies to address the root causes of rising bankruptcies in Malaysia and what would be done to keep the rate down.

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