

Household saving behaviour: Roles of perceived inflation, income, and government policy

Hafirda Akma Musaddad^{a*}, Nurkhaleeda Balqis Mohd Faudzi^b,
Wan Anis Wan Mohd Assrudin^c, Masyitah Abu^d

^a*Faculty of Business and Management, Universiti Teknologi MARA, Kampus Machang, Kelantan, Malaysia*

^b*Faculty of Business and Communication, Universiti Malaysia Perlis, Kampus UniCITI Alam, Perlis, Malaysia*

^c*Islamic Business School, Universiti Utara Malaysia, Kedah, Malaysia*

^d*Centre for Instructional Technology & Multimedia, Universiti Sains Malaysia, Pulau Pinang, Malaysia*

ARTICLE INFO

Article history:

Received 12 December 2025

Revised 15 February 2026

Accepted 20 February 2026

Published 31 March 2026

Keywords:

Household saving behaviour

Perceived inflation pressure

Income adequacy

Perceived government policy effectiveness

Life-cycle hypothesis

DOI:

10.24191/jeeir.v14i2.10059

ABSTRACT

Household saving behaviour plays an important role in strengthening household financial resilience, particularly in the context of rising living costs and economic uncertainty. This study examines the influence of perceived inflation pressure, perceived income adequacy, and perceived government policy effectiveness on household saving behaviour in Peninsular Malaysia. Grounded in the Life-Cycle Hypothesis (LCH), the study explores how perception-based economic factors shape saving decisions among households. Data were collected from 385 households using a structured questionnaire distributed through online platforms. The findings indicate that perceived inflation pressure has a significant positive effect on household saving behaviour, suggesting that households tend to increase precautionary savings when they perceive rising cost-of-living pressures. Perceived income adequacy also demonstrates a positive relationship with saving behaviour, indicating that individuals who perceive their income as sufficient are more likely to engage in consistent saving practices. Similarly, perceived government policy effectiveness contributes positively to household saving behaviour by strengthening confidence in financial support mechanisms. Overall, the results highlight the importance of perception-based economic factors in influencing saving decisions among households. The study contributes to the literature by providing behavioural insights into household financial decision-making in a developing economy context and offers policy implications for strengthening household financial resilience.

* Corresponding author. E-mail address: hafirda@uitm.edu.my

1. Introduction

Household saving behaviour is widely recognised as a critical component of financial stability at both the household and macroeconomic levels. Adequate savings enable households to manage unexpected expenditures, smooth consumption over time, and prepare for long-term financial needs such as education, healthcare, and retirement. At the national level, household savings contribute to capital accumulation and economic resilience, particularly in developing economies that are more exposed to macroeconomic volatility (Modigliani & Brumberg, 1954; Loayza, Schmidt-Hebbel, & Servén, 2000).

In Malaysia, concerns regarding household financial preparedness have intensified in recent years, particularly following economic disruptions such as the COVID-19 pandemic and rising living costs. Recent reports suggest that many Malaysians may not have sufficient retirement savings to sustain their long-term financial needs. For instance, it has been estimated that individuals may require approximately RM1.3 million to RM1.5 million to retire comfortably, yet existing savings levels for many workers remain below this benchmark (New Straits Times, 2026). Similarly, concerns have been raised that savings accumulated through retirement schemes such as the Employees Provident Fund (EPF) may no longer be adequate for a large proportion of Malaysians (Free Malaysia Today, 2026). These developments highlight the increasing importance of understanding the factors that influence household saving behaviour in the current economic environment.

One factor that may influence household saving decisions is inflation-related financial pressure. Rising prices reduce purchasing power and increase uncertainty regarding future expenses, particularly for essential goods and services. While Malaysia has generally experienced moderate inflation rates, fluctuations in the prices of food, housing, and transportation have increased the perceived cost-of-living burden faced by households (Bank Negara Malaysia, 2021; Department of Statistics Malaysia, 2024). Such conditions may encourage households to adjust their financial strategies, including their saving behaviour, in response to anticipated future financial risks.

Economic theory offers differing predictions regarding how inflation may influence saving behaviour. Traditional consumption theory suggests that inflation may discourage saving by eroding the real value of financial assets and encouraging households to increase current consumption (Mankiw, 2020). In contrast, the precautionary saving perspective argues that inflation-related uncertainty may motivate households to accumulate savings as a protective measure against future income or expenditure shocks (Loayza et al., 2000). These contrasting theoretical perspectives suggest that the relationship between inflation and saving behaviour may depend on how households perceive and respond to economic conditions.

The Life-Cycle Hypothesis (LCH) provides a useful theoretical framework for examining these behavioural responses. According to the LCH, individuals plan their consumption and savings over their lifetime in order to smooth consumption, basing their saving decisions on expected lifetime income rather than current income alone (Modigliani & Brumberg, 1954). Within this framework, perceived economic pressures such as rising living costs may influence expectations about future financial needs, thereby affecting saving behaviour.

Empirical evidence on the relationship between inflation and household saving behaviour remains mixed, particularly in developing economies. While some studies report a negative or insignificant relationship between inflation and saving behaviour, others identify inflation-related pressures as a significant determinant of saving decisions (Ahmad Khan & Abdullah, 2010; Yousop et al., 2020). In the Malaysian context, existing studies frequently examine saving behaviour together with multiple economic and policy variables, making it challenging to understand how specific perception-based economic factors influence household saving behaviour.

Therefore, this study aims to examine how Perceived Inflation Pressure (PIP), Perceived Income Adequacy (PIA), and Perceived Government Policy Effectiveness (PGP) influence household saving behaviour among households in Peninsular Malaysia. By adopting a perception-based behavioural perspective grounded in the Life-Cycle Hypothesis, this study provides additional insight into how households respond to economic pressures and financial uncertainty when making saving decisions.

2. Literature review

This section reviews prior theoretical and empirical studies related to household saving behaviour, with a particular emphasis on the role of inflation as an economic determinant. The discussion synthesises existing literature on household saving behaviour, inflation–saving relationships, and the Life-Cycle Hypothesis (LCH) as the underpinning theoretical framework. By examining both global and Malaysian evidence, this review highlights inconsistencies in previous findings and establishes the research gap addressed by the present study.

2.1 Household saving behaviour

Household saving behaviour refers to the portion of disposable income that households allocate for future use rather than immediate consumption. Savings are essential for maintaining financial security, enabling households to cope with income volatility, unexpected expenditures, and long-term financial commitments such as retirement and education (Modigliani & Brumberg, 1954; Loayza, Schmidt-Hebbel, & Servén, 2000). In developing economies, household savings play an especially critical role due to weaker social safety nets and higher exposure to economic shocks (Loayza et al., 2000).

Empirical studies consistently identify household income, economic expectations, and perceived financial risks as key determinants of saving behaviour (Murugiah, 2016; Sahudin et al., 2024). While higher income generally increases saving capacity, households with limited income may still engage in saving behaviour as a precautionary response to uncertainty (Loayza et al., 2000). In Malaysia, declining household savings and rising financial vulnerability have been widely reported, particularly among lower-income groups facing persistent cost-of-living pressures (Sahudin et al., 2024; DOSM, 2024). These findings suggest that saving behaviour is shaped not only by income levels but also by broader macroeconomic conditions.

Recent studies further emphasise that saving behaviour is shaped by a combination of behavioural, institutional, and macroeconomic factors. For instance, cross-country evidence shows that financial vulnerability, institutional trust, and economic expectations significantly influence households' saving decisions, particularly in emerging economies where income uncertainty and limited social protection systems increase precautionary motives (Albaity et al., 2020; Jabbar & Mirza, 2019). Similarly, research examining household financial behaviour suggests that inflation expectations, perceived financial risk, and macroeconomic instability often lead households to strengthen precautionary savings as a buffer against future uncertainty (Sahudin et al., 2024; Khan et al., 2022).

Similarly, recent research has emphasised that behavioural responses to financial uncertainty, including inflation expectations and perceived economic instability, may encourage precautionary saving behaviour among households (Ahmad Khan & Abdullah, 2010; Sahudin et al., 2024).

2.2 Inflation and saving behaviour

Inflation is defined as a sustained increase in the general price level of goods and services, which reduces the purchasing power of money over time (Mankiw, 2020). The relationship between inflation and household saving behaviour has long been debated in economic literature. Traditional economic theory

posits that inflation discourages saving by lowering real returns on savings and encouraging households to advance consumption before prices rise further (Mankiw, 2020; Loayza et al., 2000).

However, an alternative perspective highlights inflation as a source of economic uncertainty that may encourage precautionary saving. Under this view, households respond to rising prices by increasing savings to buffer against anticipated future expenses and income instability (Loayza et al., 2000; Ahmad Khan & Abdullah, 2010). Empirical evidence from developing economies supports this argument, showing that inflation can positively influence saving behaviour when households perceive heightened financial risk (Ahmad Khan & Abdullah, 2010; Sahudin et al., 2024).

In the Malaysian context, findings remain mixed. Some studies report an insignificant relationship between inflation and household savings, suggesting that income constraints limit saving responses among lower-income households (Yousop et al., 2020). Other studies, however, identify inflation as a significant long-run determinant of saving behaviour, particularly during periods of sustained price increases (Ahmad Khan & Abdullah, 2010). These mixed results indicate that household responses to inflation may vary depending on economic structure, income distribution, and institutional settings.

More recent empirical evidence also suggests that the relationship between inflation and saving behaviour may depend on households' expectations and perceptions of economic conditions. Studies across developing and emerging economies indicate that inflation expectations can increase precautionary savings when households anticipate higher future living costs and economic uncertainty (Jabbar & Mirza, 2019; Khan et al., 2022). In such contexts, inflation is not merely viewed as a macroeconomic indicator but as a perceived financial pressure that influences household-level financial decisions. This perspective highlights the importance of examining inflation from a behavioural standpoint when analysing saving behaviour.

2.3 *Life-cycle hypothesis and precautionary saving*

The Life-Cycle Hypothesis (LCH), introduced by Modigliani and Brumberg (1954), provides a foundational framework for analysing household saving behaviour. The theory posits that individuals plan consumption and savings over their lifetime to smooth consumption, saving during working years and dissaving during retirement. Saving decisions are therefore based on expected lifetime income rather than current income alone (Modigliani & Brumberg, 1954).

Within the LCH framework, inflation can be interpreted as an economic shock that alters households' expectations regarding future consumption needs. Rising prices increase anticipated future expenditures, motivating households to accumulate additional savings to preserve consumption stability (Loayza et al., 2000). This behaviour aligns with the precautionary saving motive, where households save not only for planned future expenses but also to hedge against uncertainty related to inflation and economic instability (Ahmad Khan & Abdullah, 2010).

In Malaysia, inflationary pressure combined with rising living costs has intensified concerns about future financial adequacy, particularly among households with limited income buffers (Bank Negara Malaysia, 2021; DOSM, 2024). These conditions suggest that households may increasingly rely on precautionary saving strategies to maintain financial resilience, consistent with the predictions of the LCH (Modigliani & Brumberg, 1954; Loayza et al., 2000).

2.4 *Research gap*

Despite extensive research on household saving behaviour, limited studies have examined how perception-based economic factors jointly influence saving decisions, particularly in developing economies. In Malaysia, existing studies often investigate saving behaviour alongside broader variables such as income levels, financial literacy, or government support, but less attention has been given to how households' subjective perceptions of inflation pressure, income adequacy, and government policy

effectiveness shape saving behaviour (Yousop et al., 2020; Sahudin et al., 2024). Furthermore, empirical findings remain inconsistent, highlighting the need for a context-specific investigation grounded in behavioural perspectives (Ahmad Khan & Abdullah, 2010; Yousop et al., 2020). This study addresses these gaps by examining the roles of Perceived Inflation Pressure (PIP), Perceived Income Adequacy (PIA), and Perceived Government Policy Effectiveness (PGP) in influencing household saving behaviour in Peninsular Malaysia.

3. Hypothesis development

3.1 *Perceived inflation pressure and household saving behaviour*

Perceived inflation pressure refers to households' subjective evaluation of rising prices and the extent to which increases in the cost of living affect their financial capacity. When households perceive that price of essential goods and services are increasing, their purchasing power is effectively reduced. This situation may create financial uncertainty regarding future consumption needs and motivate households to adjust their financial behaviour accordingly. In such circumstances, households may attempt to strengthen their financial buffer by increasing savings to cope with anticipated future expenses.

From the perspective of the Life-Cycle Hypothesis (LCH), individuals allocate consumption and savings across their lifetime in order to maintain stable consumption patterns (Modigliani & Brumberg, 1954). When households expect higher future expenses due to rising prices, they may increase savings in the present to maintain their desired consumption level in the future. Previous studies have also shown that inflation-related uncertainty can encourage precautionary saving behaviour, particularly in developing and emerging economies where economic fluctuations may increase financial vulnerability (Loayza, Schmidt-Hebbel, & Servén, 2000; Ahmad Khan & Abdullah, 2010). Therefore, when households perceive stronger inflationary pressure, they may increase their savings as a precautionary response to future financial uncertainty.

H1: Perceived inflation pressure positively influences household saving behaviour.

3.2 *Perceived income adequacy and household saving behaviour*

Perceived income adequacy refers to individuals' assessment of whether their household income is sufficient to meet financial obligations and support future financial planning. When households perceive that their income is adequate to cover current expenditures, they may have greater capacity to allocate resources towards savings. Conversely, households that perceive their income as insufficient may struggle to maintain regular saving behaviour due to financial constraints.

The Life-Cycle Hypothesis suggests that saving behaviour depends largely on expectations regarding lifetime income and financial stability. When individuals perceive their income as stable and sufficient, they are more likely to accumulate savings in preparation for future consumption needs or unexpected financial events (Modigliani & Brumberg, 1954). Empirical studies have also indicated that income adequacy plays an important role in shaping saving behaviour, as households with greater perceived financial capacity are more likely to engage in consistent saving practices (Yousop et al., 2020). Therefore, individuals who perceive their income as adequate are expected to demonstrate stronger saving behaviour.

H2: Perceived income adequacy positively influences household saving behaviour.

3.3 *Perceived government policy effectiveness and household saving behaviour*

Government policies and financial initiatives may influence household saving behaviour by shaping the broader institutional environment in which financial decisions are made. Policies such as tax incentives, retirement savings schemes, subsidies, and financial literacy programmes are often designed to encourage households to build financial security through savings. However, the effectiveness of these policies may depend on how households perceive their impact and accessibility.

When households perceive government policies as supportive and effective, they may develop greater confidence in the financial system and become more motivated to engage in long-term financial planning. Perceived policy effectiveness can therefore strengthen saving behaviour by providing institutional assurance and encouraging households to participate in formal saving mechanisms. Previous research has also highlighted the role of government support and financial institutions in promoting saving behaviour, particularly in developing economies where public policy plays an important role in strengthening household financial resilience. Therefore, households who perceive government policies as effective are more likely to engage in saving behaviour.

H3: Perceived government policy effectiveness positively influences household saving behaviour.

4. **Methodology**

This section outlines the research methodology employed to examine the influence of Perceived Inflation Pressure (PIP), Perceived Income Adequacy (PIA), and Perceived Government Policy Effectiveness (PGP) on household saving behaviour in Peninsular Malaysia. It describes the research design, sampling procedure, measurement of variables, and statistical techniques used for data analysis. A quantitative approach was adopted to allow for objective measurement and statistical testing of relationships between variables, which is consistent with prior studies on household saving behaviour (Loayza, Schmidt-Hebbel, & Servén, 2000; Murugiah, 2016). The methodological framework was designed to ensure reliability, validity, and replicability of findings, following established empirical research practices in household finance and applied economics (Hair et al., 2014).

4.1 *Research design*

This study adopts a quantitative, cross-sectional research design to examine the influence of Perceived Inflation Pressure (PIP), Perceived Income Adequacy (PIA), and Perceived Government Policy Effectiveness (PGP) on household saving behaviour in Peninsular Malaysia. A quantitative approach is appropriate as the objective of the study is to test hypothesised relationships between variables using numerical data and statistical techniques (Sekaran & Bougie, 2016). The cross-sectional design enables data to be collected at a single point in time, allowing for the analysis of household saving behaviour under prevailing economic conditions.

This design is widely applied in household finance and macroeconomic behaviour studies, particularly when assessing perceptions and behavioural responses to economic variables such as inflation (Loayza, Schmidt-Hebbel, & Servén, 2000; Murugiah, 2016).

4.2 *Sampling and data collection procedure*

This study employed a non-probability sampling approach to collect data from households across Peninsular Malaysia. Specifically, a purposive sampling strategy was adopted to target individuals who were likely to have experience with household financial management and saving decisions. This approach was considered appropriate because the study focuses on behavioural perceptions related to inflation

pressure, income adequacy, and government policy effectiveness rather than population-level representativeness.

Data were collected using an online questionnaire distributed through WhatsApp and social media platforms, including Facebook and messaging groups commonly used for community and professional communication. The survey link was circulated within various online networks and community groups to reach respondents from different states in Peninsular Malaysia. To enhance geographic coverage, the distribution was extended through multiple contacts and social networks to ensure participation from households across the 14 states and federal territories.

To ensure the relevance of responses, several inclusion criteria were applied. Respondents were required to be 18 years old or above, currently residing in Peninsular Malaysia, and involved in household financial decision-making, including saving behaviour. Individuals who did not meet these criteria were excluded from the analysis. In addition, incomplete responses and duplicate submissions were removed during the data screening process to maintain data quality.

The final dataset consisted of 385 usable responses, representing households from diverse socioeconomic backgrounds, including individuals from the B40, M40, and T20 income categories. While the use of non-probability sampling limits the generalisability of the findings to the entire Malaysian population, the approach remains appropriate for exploratory behavioural research examining perception-based financial decisions.

4.3 Measurement of variables

Household saving behaviour, Perceived Inflation Pressure (PIP), Perceived Income Adequacy (PIA), and Perceived Government Policy Effectiveness (PGP) were measured using validated instruments adapted from prior studies.

Perceived inflation pressure reflects respondents' subjective evaluation of rising prices and cost-of-living increases, particularly the extent to which such increases are perceived to exert financial strain on the household. Perceived income adequacy captures individuals' assessment of whether their current income is sufficient to meet financial obligations and support saving activities. Perceived government policy effectiveness refers to respondents' evaluation of how effectively government policies support household financial stability and saving capacity. Household saving behaviour measures respondents' saving tendencies, precautionary motives, and financial preparedness.

All items were assessed using a five-point Likert scale ranging from 1 ("strongly disagree") to 5 ("strongly agree"), which is widely employed in behavioural finance research due to its reliability and interpretability (Likert, 1932; Hair et al., 2014). The use of adapted measurement instruments enhances content validity and ensures alignment with established methodological standards (Sekaran & Bougie, 2016).

The measurement items were adapted from previously validated instruments reported in prior empirical studies. For instance, household saving behaviour items were adapted from Dew and Xiao (2011), while perceived income adequacy items were adapted from Abdullah Al-Mamun and Adaikalam (2011). Minor modifications were made to ensure contextual relevance to Malaysian households.

4.4 Operational definition of variables

This study operationalises its variables based on established measurement practices in behavioural finance research. All latent variables were measured using multi-item Likert-scale instruments adapted from prior studies. Table 1 summarises the operational definitions of each variable.

Table 1. Operational definition of variables

Variable	Type	Operational definition	Measurement	Source
Household Saving Behaviour (HSB)	Dependent Variable	Refers to the extent to which households consistently allocate income for savings, plan expenditures prudently, and prepare for future financial needs.	3 items (HSB1–HSB3), 5-point Likert scale (1 = Strongly disagree, 5 = Strongly agree)	Adapted from Dew & Xiao (2011)
Perceived Inflation Pressure (PIP)	Independent Variable	Refers to individuals' subjective evaluation of rising prices and cost-of-living increases, particularly the extent to which such increases are perceived to exert financial strain on the household.	3 items (PIP1–PIP3), 5-point Likert scale	Samsir et al. (2023)
Perceived Income Adequacy (PIA)	Independent Variable	Refers to individuals' assessment of whether their current household income is sufficient to meet financial obligations and support saving activities.	6 items (PIA1–PIA6), 5-point Likert scale	Adapted from Abdullah Al-Mamun & Adaikalam (2011)
Perceived Government Policy Effectiveness (PGP)	Independent Variable	Refers to individuals' evaluation of how effectively government policies, incentives, and financial interventions support household financial stability and saving behaviour.	3 items (PGP1–PGP3), 5-point Likert scale	Yap & Ng (2018)

All variables were treated as latent constructs reflecting respondents' perceptions and behavioural tendencies. This approach is consistent with prior behavioural finance studies employing perception-based instruments.

4.5 Reliability and validity

Instrument reliability was assessed using Cronbach's Alpha, which measures internal consistency among scale items. A Cronbach's Alpha value of 0.70 or higher is considered acceptable for social science research (Hair et al., 2014). The results indicate that all constructs achieved satisfactory reliability levels, confirming the suitability of the measurement instruments for further analysis. Content validity was ensured through adaptation of items from established studies and alignment with the theoretical framework underpinning this research, namely the Life-Cycle Hypothesis (Modigliani & Brumberg, 1954).

4.6 Data analysis techniques

Data analysis was conducted using the Statistical Package for the Social Sciences (SPSS). Descriptive statistics were employed to summarise respondent characteristics and variable distributions. Pearson correlation analysis was used to examine the strength and direction of the relationships between Perceived Inflation Pressure (PIP), Perceived Income Adequacy (PIA), Perceived Government Policy Effectiveness (PGP), and household saving behaviour. Multiple regression analysis was subsequently performed to assess the predictive effects of the three independent variables on household saving behaviour. Statistical significance was evaluated at the 0.05 level.

4.7 Summary of methodology

This study employed a quantitative, cross-sectional research design to examine the influence of Perceived Inflation Pressure (PIP), Perceived Income Adequacy (PIA), and Perceived Government Policy Effectiveness (PGP) on household saving behaviour in Peninsular Malaysia. Data were collected using a structured questionnaire administered to 385 households across different income groups. The measurement

instruments demonstrated acceptable internal consistency, with Cronbach's Alpha values exceeding the recommended threshold, indicating reliability of the constructs. Descriptive statistics were used to describe respondent characteristics and variable distributions, while Pearson correlation and multiple regression analyses were applied to test the proposed relationships. Overall, the methodological approach adopted in this study is appropriate for addressing the research objective and provides a robust empirical basis for examining household saving behaviour from a perception-based behavioural perspective.

5. Results

This section presents the empirical findings of the study, focusing on the relationships between Perceived Inflation Pressure (PIP), Perceived Income Adequacy (PIA), Perceived Government Policy Effectiveness (PGP), and household saving behaviour among households in Peninsular Malaysia. The analysis is based on data obtained from 385 valid responses and was conducted using SPSS Version 29. Descriptive statistics were first employed to summarise respondents' characteristics and the distribution of key variables, followed by inferential analyses using Pearson correlation and multiple regression techniques. These analyses were performed to address the research objectives and to examine the extent to which inflation influences household saving behaviour. All statistical tests were conducted at a 0.05 significance level.

5.1 Reliability analysis

The reliability of the measurement instruments was assessed using Cronbach's Alpha to ensure internal consistency among the items measuring each construct. The results indicate that all variables achieved acceptable reliability levels, with Cronbach's Alpha values exceeding the minimum threshold of 0.70 recommended for social science research. Specifically, household saving behaviour recorded an alpha value of 0.787, perceived inflation pressure 0.790, perceived income adequacy 0.881, and perceived government policy effectiveness 0.738. These values suggest that the items used to measure each construct were consistent and reliable for further statistical analysis. Overall, the reliability results confirm that the questionnaire instruments were suitable for examining the relationships between the study variables.

5.2 Descriptive analysis of respondents

Descriptive analysis was conducted to provide an overview of the demographic characteristics of the respondents. A total of 385 households participated in the study, with female respondents representing 55.6% of the sample, while male respondents accounted for 44.4%. The majority of respondents were within the working-age group of 29–43 years (53.8%), followed by those aged 18–28 years (21.3%), indicating that the sample largely comprised economically active households. In terms of income distribution, a substantial proportion of respondents belonged to the B40 income group (70.6%), followed by the M40 (19.5%) and T20 (9.9%) groups. This distribution reflects Malaysia's broader income structure and highlights the relevance of examining saving behaviour under financial constraints faced by lower-income households.

Table 2. Demographic profile of respondents (n = 385)

Variable	Category	Frequency	Percentage (%)
Gender	Female	214	55.6
	Male	171	44.4
Age Group	18–28 years	82	21.3
	29–43 years	207	53.8
	44–59 years	69	17.9
	Above 60 years	27	7.0
Income Group	B40	272	70.6
	M40	75	19.5
	T20	38	9.9

Table 2 presents the demographic characteristics of the respondents. The sample is dominated by economically active households, with the majority of respondents aged between 29 and 43 years. In terms of income distribution, a substantial proportion of respondents fall within the B40 income group, reflecting Malaysia's broader income structure and underscoring the relevance of examining household saving behaviour under financial constraints faced by lower-income households.

5.3 Correlation analysis

Pearson correlation analysis was conducted to examine the relationships between perceived inflation pressure, perceived income adequacy, perceived government policy effectiveness, and household saving behaviour. As presented in Table 3, household saving behaviour demonstrates a strong and positive correlation with perceived inflation pressure ($r = 0.742$, $p < 0.01$), indicating that higher perceived inflation is associated with increased saving behaviour among households. This finding suggests that households may adopt precautionary saving strategies in response to rising prices and economic uncertainty.

In addition, perceived income adequacy exhibits a strong positive relationship with saving behaviour ($r = 0.748$, $p < 0.01$), reflecting the role of income capacity in facilitating saving decisions. Perceived government policy effectiveness and statistically significant correlation with household saving behaviour ($r = 0.701$, $p < 0.01$), suggesting that institutional mechanisms such as EPF contributions and subsidies are associated with improved saving practices. Collectively, these results indicate that all independent variables are significantly related to household saving behaviour, providing preliminary empirical support for proceeding with multiple regression analysis to assess their predictive effects.

Table 3. Pearson correlation matrix among study variables

Variables	1	2	3	4
1. Household Saving Behaviour (HSB)				
2. Perceived Inflation Pressure (PIP)	0.742**			
3. Perceived Income Adequacy (PIA)	0.748**	0.835**		
4. Perceived Government Policy Effectiveness (PGP)	0.701**	0.733**	0.840**	

Note: ** $p < 0.01$ (two-tailed)

5.4 Regression analysis

Multiple regression analysis was conducted to determine the extent to which perceived inflation pressure, perceived income adequacy, and perceived government policy effectiveness predict household saving behaviour as shown in Table 4. The overall regression model was statistically significant ($F = 204.955$, $p < 0.001$) and explained 61.7% of the variance in household saving behaviour ($R^2 = 0.617$). Among the predictors, perceived inflation pressure emerged as the most dominant factor influencing saving behaviour ($\beta = 0.388$, $p < 0.001$), indicating that households are highly responsive to perceived inflation pressure when making saving decisions. Perceived government policy effectiveness also had a significant positive effect on saving behaviour ($\beta = 0.235$, $p < 0.001$), suggesting that institutional mechanisms such as EPF and subsidies support saving practices. Perceived income adequacy, while significant, exhibited a comparatively smaller effect ($\beta = 0.156$, $p < 0.001$), highlighting that income alone is not the strongest determinant of saving behaviour in the presence of inflationary pressure.

Table 4. Multiple regression analysis predicting household saving behaviour

Predictor Variables	Standardised Coefficient (β)	t value	p value
Perceived Inflation Pressure	0.388	6.292	< 0.001
Perceived Income Adequacy	0.156	3.749	< 0.001
Perceived Government Policy Effectiveness	0.235	3.495	< 0.001

Model Statistics: $R^2 = 0.617$
 $F = 204.955$
 $p < 0.001$

5.5 Hypothesis testing

Based on the regression results, all proposed hypotheses were supported. Perceived inflation pressure was found to have a significant influence on household saving behaviour, leading to the acceptance of H1. Perceived income adequacy also significantly influenced saving behaviour, supporting H2, while perceived government policy effectiveness demonstrated a significant positive effect, supporting H3. The acceptance of all hypotheses suggests that household saving behaviour in Peninsular Malaysia is significantly shaped by households' subjective perceptions of inflationary pressure, income adequacy, and government policy effectiveness. Importantly, the dominance of perceived inflation pressure as a predictor suggests that households may prioritise precautionary saving in response to rising prices and economic uncertainty.

6. Discussion

This study examined the influence of perceived inflation pressure (PIP), perceived income adequacy (PIA), and perceived government policy effectiveness (PGP) on household saving behaviour in Peninsular Malaysia, drawing upon the Life-Cycle Hypothesis (LCH) as the underlying theoretical framework. The results indicate that all three perception-based factors significantly influence household saving behaviour, with perceived inflation pressure emerging as the most influential determinant. This finding suggests that households tend to increase their savings when they perceive rising cost-of-living pressures and economic uncertainty.

The significant role of perceived inflation pressure supports the precautionary saving motive embedded within the Life-Cycle Hypothesis. According to this framework, individuals adjust their saving behaviour in anticipation of future financial needs and economic uncertainty (Modigliani & Brumberg, 1954). When households perceive that inflation reduces purchasing power and increases future expenditure expectations, they may respond by increasing precautionary savings in order to stabilise future consumption. In this

context, perceived inflation pressure functions as an important behavioural trigger that influences financial decision-making at the household level.

The present findings are also consistent with empirical evidence suggesting that economic uncertainty and perceived financial vulnerability can significantly shape saving behaviour. Studies conducted in emerging and developing economies have shown that households often increase precautionary savings when they anticipate higher future living costs or experience financial uncertainty (Albaity et al., 2020; Sahudin et al., 2024). These findings reinforce the argument that behavioural perceptions, rather than purely objective macroeconomic indicators, play an important role in shaping household financial decisions.

Recent studies further suggest that households' saving behaviour is strongly influenced by expectations about future economic conditions. Empirical evidence indicates that inflation expectations and perceived financial vulnerability can significantly encourage precautionary savings, particularly in emerging economies where households face greater income uncertainty and weaker social protection systems (Jabbar & Mirza, 2019; Khan et al., 2022). In such contexts, inflation is not only interpreted as a macroeconomic indicator but also as a perceived financial pressure that shapes household financial planning and saving decisions.

The results further contribute to clarifying previously mixed empirical evidence in the Malaysian context. While some studies have reported weak or insignificant relationships between inflation and household savings (Yousop et al., 2020), the present findings demonstrate that inflation exerts a stronger influence when examined from a perception-based behavioural perspective. This suggests that differences in prior findings may partly stem from variations in measurement approaches, particularly whether inflation is analysed as an objective macroeconomic indicator or as a subjective financial pressure experienced by households.

The findings also highlight the adaptive financial behaviour of Malaysian households in response to rising living costs. Households appear to adopt a cautious financial stance by strengthening their saving practices in order to safeguard future financial stability. This behaviour is particularly relevant in the Malaysian context, where concerns regarding household financial vulnerability remain prominent, especially among lower- and middle-income groups facing persistent cost-of-living pressures (Sahudin et al., 2024; DOSM, 2024).

In addition, perceived inflation pressure was found to exert a stronger influence on saving behaviour compared to perceived income adequacy and perceived government policy effectiveness. One possible explanation is that inflation directly affects households' day-to-day purchasing power and immediate cost-of-living experiences. When households perceive that price of essential goods are rising, the perceived financial risk becomes more salient, prompting a stronger behavioural response in the form of precautionary savings. In contrast, perceived income adequacy and government policy perceptions may influence saving behaviour more indirectly, as their effects depend on longer-term income stability and awareness of policy interventions. Similar behavioural responses have been reported in recent studies examining saving behaviour under economic uncertainty and inflationary pressures in emerging economies (Albaity et al., 2020; Sahudin et al., 2024).

7. Conclusion

This study investigated how perception-based economic factors influence household saving behaviour in Peninsular Malaysia, focusing on perceived inflation pressure, perceived income adequacy, and perceived government policy effectiveness within the framework of the Life-Cycle Hypothesis (LCH). The findings indicate that households' saving decisions are not shaped solely by objective economic conditions, but also by how individuals perceive financial pressures and institutional support in their economic environment.

The results suggest that inflation-related perceptions play a particularly prominent role in shaping saving behaviour. When households perceive rising living costs and declining purchasing power, they appear more inclined to strengthen precautionary savings as a means of safeguarding future financial stability. At the same time, perceptions of income sufficiency and supportive government policies also contribute to saving behaviour by influencing households' confidence in their financial capacity and institutional environment. These findings highlight the importance of perception-driven financial decision-making in household economic behaviour.

From a theoretical perspective, the study contributes to the literature by extending the application of the Life-Cycle Hypothesis to a perception-based behavioural context. By incorporating perceived economic pressures and institutional perceptions into the analysis of saving behaviour, the study provides additional insight into how households adapt their financial strategies in response to uncertainty and rising living costs in emerging economies.

From a policy standpoint, the findings underscore the importance of strengthening household financial resilience through targeted and context-sensitive initiatives. Policymakers may consider expanding targeted savings schemes for vulnerable income groups, particularly households in the B40 category who are more exposed to inflationary pressures. In addition, digital financial literacy programmes and accessible saving instruments may help encourage sustainable saving practices across different income groups. Strengthening such initiatives may enhance households' ability to cope with economic uncertainty and support long-term financial stability.

8. Recommendations

8.1 Policy recommendations

Based on the findings, policymakers should recognise inflation as a critical factor influencing household financial behaviour. While inflation control remains a macroeconomic priority, complementary measures are needed to support households in managing inflation-related uncertainty. Strengthening price stability policies and ensuring transparency in inflation-related information can help households make more informed saving decisions (Bank Negara Malaysia, 2021). In addition, targeted financial education programmes that emphasise inflation awareness and long-term financial planning may enhance households' ability to respond effectively to rising living costs.

Furthermore, policymakers should consider integrating inflation-sensitive mechanisms into existing savings-related initiatives. Programmes such as retirement schemes or subsidised savings instruments could be designed to protect the real value of household savings during inflationary periods, particularly for low- and middle-income households who are more vulnerable to purchasing power erosion (Sahudin et al., 2024).

8.2 Implications for financial institutions

Financial institutions play an important role in translating macroeconomic conditions into household-level financial decisions. Banks and financial service providers may introduce savings products that offer inflation-adjusted returns or flexible contribution structures to encourage sustained saving behaviour during periods of price instability. Enhancing accessibility to formal saving instruments can also help households transition from informal precautionary saving practices to more secure financial channels (Loayza et al., 2000).

8.3 Recommendations for future research

Future studies may extend this research by adopting a longitudinal design to examine how household saving behaviour evolves over time in response to persistent inflationary pressure. Such an approach would allow for a deeper understanding of behavioural adjustments across different economic cycles. Additionally, incorporating behavioural variables such as financial literacy, risk perception, and inflation expectations may enrich the explanatory power of future models (Yousop et al., 2020). Expanding the scope to include East Malaysia could also provide a more comprehensive national perspective on household saving behaviour.

Acknowledgment and fundings

The authors would like to thank all respondents for their participation and valuable cooperation in this study. Appreciation is also extended to individuals and institutions that provided support and guidance throughout the research process. This research did not receive any specific funding.

Conflict of interest statement

The authors declare that this research was conducted in the absence of any commercial or financial relationships that could be construed as a potential conflict of interest. The authors also confirm that there are no conflicting interests with the funders of this study.

Ethics statement

This study adhered to established ethical research standards. Informed consent was obtained from all respondents prior to data collection, and participants were assured of anonymity and confidentiality. Participation was voluntary, and all data were used solely for academic purposes.

Declaration of generative AI

During the preparation of this work, the authors used ChatGPT solely to assist with language refinement and readability improvement. All ideas, analysis, interpretation, and final content were developed, reviewed, and verified by the authors, who take full responsibility for the accuracy and integrity of the manuscript.

Data availability/Supplementary materials

Available upon request: The datasets used and/or analysed during the current study are available from the corresponding author on reasonable request.

References

- Abu Bakar, Z.-F., & Abdul Ghani, N. A. (2004). When the future starts today: Inflation expectations of Malaysian households. Bank Negara Malaysia.
https://www.bnm.gov.my/documents/20124/791626/cp04_001_box.pdf
- Afendi, S. S. M., Surianshah, S., & Ho, C. M. (2024). Macroeconomic factors and household savings: A case study in Malaysia. *AIP Conference Proceedings*, 2895(1), 090025.
<https://doi.org/10.1063/5.0193589>
- Ahmad Khan, H. H., & Abdullah, H. (2010). Saving determinants in Malaysia. *Jurnal Ekonomi Malaysia*, 44, 23–34. <https://journalarticle.ukm.my/3370/>

Albaity, M., Rahman, M., & Isa, C. R. (2020). Retirement saving behavior: Evidence from the United Arab Emirates. *International Journal of Bank Marketing*, 38(7), 1511–1529.
<https://doi.org/10.1108/IJBM-01-2020-0020>

Bank Negara Malaysia. (2021). *Economic and monetary review 2021*. Bank Negara Malaysia.

Department of Statistics Malaysia. (2024). *Current population estimates, Malaysia*. Department of Statistics Malaysia.

Dew, J., & Xiao, J. J. (2011). The financial management behavior scale: Development and validation. *Journal of Financial Counseling and Planning*, 22(1), 43–59. Retrieved from
<http://afcp.org/journalarticles.php?volume=387&article=403>

Free Malaysia Today. (2026, February 3). For most EPF savings may no longer be enough.
<https://www.freemalaysiatoday.com/category/nation/2026/02/03/for-most-epf-savings-may-no-longer-be-enough/>

Gildner, T. E., Liebert, M. A., Capistrant, B. D., D'Este, C., Snodgrass, J. J., & Kowal, P. (2019). Perceived income adequacy and well-being among older adults in six low- and middle-income countries. *The Journals of Gerontology Series B: Psychological Sciences and Social Sciences*, 74(3), 516–525. <https://doi.org/10.1093/geronb/gbw145>

Hair, J. F., Black, W. C., Babin, B. J., & Anderson, R. E. (2014). *Multivariate data analysis (7th ed.)*. Pearson

Jabbar, M., & Mirza, N. (2019). Determinants of household saving behavior in developing economies. *Economics and Sociology*, 12(2), 211–226. <https://doi.org/10.14254/2071-789X.2019/12-2/18>

Likert, R. (1932). A technique for the measurement of attitudes. *Archives of Psychology*, 140, 1–55.

Loayza, N., Schmidt-Hebbel, K., & Servén, L. (2000). Saving in developing countries: An overview. *World Bank Economic Review*, 14(3), 393–414. <https://doi.org/10.1093/wber/14.3.393>

Mankiw, N. G. (2019). *Macroeconomics (10th ed.)*. Worth Publishers.

Masud, J., Haron, S. A., & Hamid, T. A. (2006). Perceived income adequacy and health status among older persons in Malaysia. *Asia Pacific Journal of Public Health*, 18(Suppl.), 2–8.

Modigliani, F., & Brumberg, R. (1954). Utility analysis and the consumption function: An interpretation of cross-section data. In K. Kurihara (Ed.), *Post-Keynesian economics* (pp. 388–436). Rutgers University Press.

Mohamed Yousop, N. L., Wan Zakaria, W. M. F., Ahmad, Z., & Abdul Manan, A. A. (2020). Empirical analysis on household savings in Malaysia. *Journal of International Business, Economics and Entrepreneurship*, 5(1), 13–22. <https://ir.uitm.edu.my/id/eprint/34880/>

New Straits Times. (2026, January 19). Malaysians need RM1.3mil–RM1.5mil to retire comfortably.
<https://www.nst.com.my/business/economy/2026/01/1159652/malaysians-need-rm13mil-rm15mil-retire-comfortably>

Sahudin, Z., Ridzuan, A. R., Razak, M. I. M., & Bahrudin, N. Z. (2024). Determinants of household savings. *Advances in Social Sciences Research Journal*, 11(2.2), 347–362.
<https://doi.org/10.14738/assrj.112.2.16422>

- Samsir, M. S., Khalid, Z., Attan, N., Kai Chen, G., & Shafii, H. (2023). A study on inflation: Reason behind rising price of construction materials in Johor Bahru. *Research in Management of Technology and Business*, 4(1), 1203–1220. <https://publisher.uthm.edu.my/periodicals/index.php/rmtb/article/view/11694>
- Sekaran, U., & Bougie, R. (2016). *Research methods for business: A skill-building approach (7th ed.)*. Wiley.
- Yap, J. B. H., & Ng, X. H. (2018). Housing affordability in Malaysia: Perception, price range, influencing factors and policies. *International Journal of Housing Markets and Analysis*, 11(3), 476–497. <https://doi.org/10.1108/IJHMA-08-2017-0069>

About the Authors

Hafirda Akma Musaddad (ORCID: 0000-0003-2611-5095) is a senior lecturer and researcher in the field of economics and Islamic finance. She holds a Bachelor's degree in Economics (Honours), a Master's degree in Islamic Business and Shariah, and a PhD in Islamic Economics from Universiti Utara Malaysia. Her research interests include housing affordability, Islamic finance, and economic issues from both conventional and Shariah perspectives. She has published academic articles and book chapters related to Islamic economics and housing studies. Her scholarly work contributes to policy discussions and academic understanding of contemporary economic challenges. Email: hafirda@uitm.edu.my

Nurkhaleeda Balqis Mohd Faudzi is a student at Universiti Malaysia Perlis (UniMAP). Her academic background is in the area of economics, finance, and business-related studies. She is involved in academic learning and collaborative research activities as part of her university studies.

Wan Anis Wan Mohd Assrudin (ORCID: 0009-0004-3277-1392) is a PhD candidate in Islamic Finance and Banking at Universiti Utara Malaysia (UUM). She holds a Master's degree in Islamic Finance and Banking and a Bachelor's degree in Business Administration with Honours (Islamic Finance and Banking). Her main research interests include Islamic finance and Shariah-compliant financial practices in developing economies. She has been actively involved in academic research and writing related to Islamic banking, financial behaviour, and Islamic fintech. Email: wananis18@gmail.com

Masyitah Abu (ORCID: 0000-0003-3072-2314) is a lecturer and researcher in the field of Artificial Intelligence and Educational Technology at Universiti Sains Malaysia, Pinang. She holds a PhD and an MSc in Computer Engineering from Universiti Malaysia Perlis and a BEng in Electronic Engineering (Computer). Her research interests include the Internet of Things (IoT), artificial intelligence in education, and educational management. She has published several papers on the use of AI and IoT to enhance experiential learning and student motivation. Email: masyitah_abu@usm.my

Authors' contributions

Hafirda Akma Musaddad: Conceptualization, Supervision, Validation, Writing review & editing. **Nurkhaleeda Balqis Mohd Faudzi:** Investigation, Data curation, Validation, Formal analysis. **Wan Anis Wan Mohd Assrudin:** Methodology, Formal analysis, Software, Visualization, Writing original draft, Writing review & editing. **Masyitah Abu:** Investigation, Resources, Software, Data curation, Writing review & editing.

Appendix

Table A1. Questionnaire items and measurement

Construct	Item code	Item wording
Household saving behavior (HSB)	HSB1	My household saves a portion of income regularly every month.
	HSB2	My household has long-term saving goals, such as housing, education, or retirement.
	HSB3	We usually plan our spending to ensure we have money left to save.
Perceived inflation pressure (PIP)	PIP1	Inflation reduces my household's purchasing power.
	PIP2	Inflation has made it harder for my household to borrow or repay loans.
	PIP3	Inflation forces my household to adjust or reduce planned savings.
Perceived income adequacy (PIA)	PIA1	When my income increases, I tend to increase my household savings.
	PIA2	My current household income allows me to save regularly.
	PIA3	A higher income level would improve my ability to save for the future.
	PIA4	My current income level is sufficient to cover all basic living expenses.
	PIA5	My household income is stable enough to allow for long-term financial planning.
	PIA6	If my income were higher, I would be more likely to set aside regular savings.
Perceived government policy effectiveness (PGP)	PGP1	I believe the government considers the needs of middle-income groups in designing saving incentives and assistance programs.
	PGP2	Government housing subsidies help reduce my household financial burden.
	PGP3	Policies introduced by the government positively influence my household's saving habits