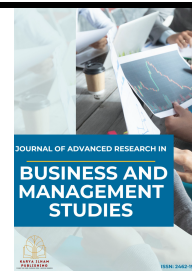




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Financial Literacy and Mental Health Risk among Youth: A Conceptual Perspective

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ABSTRACT

Mental health issues among youth have become a significant global concern, with psychological problems such as anxiety, stress, and depression widely observed in both developed and developing countries. In Malaysia, the prevalence of these challenges is intensified by financial pressures, particularly job insecurity, debt and rising living costs. This paper investigates the impact of financial literacy on youth mental health, analyzing the influence of financial, psychological, and religious factors on the relationship between these two critical variables. Using a desk research methodology, the study synthesizes existing literature to explore theoretical perspectives that explain the pathways linking financial knowledge to mental well-being. Findings indicate that financial literacy matters for protecting mental health, as it equips individuals with the financial knowledge and skills to make wise financial decision, reduce financial stress, and promote a sense of control and resilience during financial difficulties. This paper highlights few gaps in the literature to be addressed by future research, particularly regarding youth populations, cultural and socioeconomic contexts, and the methodological limitations. To address these gaps, a conceptual framework is developed that include the roles of moderating variables (financial factors, risk factors, protective factors, religion) and mediating variable (financial self-efficacy) in the relationship between financial literacy and mental health.

1. Introduction

1.1 Background of the Study

In today's world, the issue of mental health among youth has become a major concern since it affects many aspects of their life, which include lower academic performance, reduced employability, school dropout and long-term risk of health problems [1-3]. In Malaysia, the National Health and

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Morbidity Survey 2023 [4] reported that depression among youth¹ is at 15.5%, which almost doubled the rate in 2019.

According to previous studies, they are a few factors leading to depression among youth. Among the contributors are the academic pressure [7,8], family and socioeconomic factors [9,10] and financial problems [11,12]. Despite multiple factors contributing to the rising prevalence of depression among youth, financial issues stand out as a particularly prominent factor. Studies by Kamel and Sahid [13] and Ettman et al. [11] highlight several financial problems commonly faced by youth, including impulsive buying, poor financial management, and study loans. These problems can contribute to psychological and mental instability.

In Malaysia, low financial literacy among university students has caused unhealthy financial behaviour in many cases involving overspending and improper budgeting, making them more prone to stress and depression [13]. Correspondingly, Lindgren et al. [12] showed that student loan is significantly associated with drinking problems and depressive symptoms among students in the US. In addition, Ettman et al. [11] revealed the positive impact of financial assets in decreasing the risk of long-term mental health issues in the US.

In recent years, financial literacy has emerged as a vital competency for youth, particularly in the context of rising financial challenges contributing to poor mental health. Financial literacy which encompasses of the understanding and application of financial knowledge to make informed financial decisions [14-17] is said to have a significant impact on reducing the depression of youth around the world; UK [18]; US [19]; Malaysia [20, 21]. These studies agree that building financial literacy skill is consequently not only an economic priority but also a preventive approach to support the youth mental health.

1.2 Financial Literacy and Mental Health Risk in the Malaysian Context

Malaysia has implemented several initiatives and policies to address the mental health issues, mainly focusing on enhancing awareness, accessibility and psychological support network. The National Strategic Plan for Mental Health 2020–2025 was introduced by the Ministry of Health Malaysia (MOH) in October 2021. The plan highlights more effective governance, supervision, resources and interdisciplinary collaboration to expand the accessibility and comprehensiveness of the mental health services. It also emphasizes prevention, crisis resilience and suicide reduction as safety measures to uphold the national well-being. In addition, the National Centre of Excellence for Mental Health (NCEMH) was established as a centre for research, training and accessible psychological services. Moreover, the HEAL Line 15555 provides daily psychosocial support facilitated by trained MOH counsellors. In 2023, Malaysia decriminalized suicidal attempts by removing penalties under Section 309 of the Penal Code. This reform redefines suicide as a mental health issue to foster help-seeking behaviour without fear of criminal charges.

At the university level, few institutions have taken proactive measures to foster mental health awareness among their students and staffs. At the International Medical University (IMU), students participated in outreach programs including mental health booths offering psychological assessments and awareness activities during National Youth Day 2025. Furthermore, Universiti

¹ According to the Malaysian Youth Council, the youth are defined as those who aged between 15 and 40 years [5,6].

Kebangsaan Malaysia (UKM) promotes emotional resilience with its Jom Sembang Kaunselor sessions, mobile counseling services and interactive activities across campus. In 2024, UKM established the innovative Catharsis Room and Karnival Katarsis to provide a safe and insulated zone for emotional stress release. Meanwhile, Universiti Pertanian Malaysia (UPM), Monash University and Taylor’s University also organize awareness programs, youth counseling session, on-campus mental health booths and national health carnivals focusing on holistic mental health well-being for both students and staffs. At Universiti Utara Malaysia (UUM), a few trainings, webinars and forums were held to promote the importance of knowledge and prevention of any related issues on mental health. For instance, in August 2021, UUM organized a seminar to specifically address the psychological issues following the Covid-19 pandemic.

Despite various efforts and initiatives, Malaysia continues to see an increasing trend in mental health cases, as reported by the National Health and Morbidity Survey (NHMS).

Table 1

Comparison of Adolescent Mental Health Indicators: NHMS 2017 vs. NHMS 2022

Indicator	NHMS 2017	NHMS 2022
Suicidal ideation	10%	13.1%
Suicide planning	7.3%	10%
Suicide attempts	6.9%	9.5%
Depression prevalence	20%	26.9%

Sources: CodeBlue (Galen Centre for Health and Social Policy)[22]; NHMS [23,4]; Othman & Essau [24].

As indicated in Table 1, the comparison between NHMS [23] and NHMS [4] highlights an alarming increase in adolescent mental health issues in Malaysia. Depression has worsened from 20% in 2017 to 26.9% in 2022, with a significant surge for young women. Correspondingly, suicidal ideation surged from 10% (2017) to 13.1% (2022), pattern suicide attempts almost doubled, from 6.9% (2017) to 9.5% (2022). The reports also indicate that anxiety continues to be a major concern, affecting one in three adolescents in 2022. The statistics, by gender, reveal that females have consistently reported higher rates in every category. Thus, these increasing trends highlight a critical need for prevention, early intervention and inclusive support ecosystems specifically for Malaysian youth.

Over the past few years, financial distress has emerged as one of the major issues among Malaysians. According to the latest statistics in Malaysia, from 2020 to early 2025, a total of 5,272 individuals aged under 34 were declared bankrupt, with 5,189 in the 25–34 age category and 83 aged under 25 [25,26]. In comparison to the statistics in 2023, the number of cases has increased by 150 to 877 cases in 2024. As reported by the Malaysia Department of Insolvency, among the most significant factors leading to bankruptcy were personal loans (2,776 cases), business loans (1,148 cases) and housing loans (474 cases).

Recent studies in Malaysia highlight that personal loans remain as one of the leading contributors to financial distress and bankruptcy among youth [27]. According to Che-Yahya et al. [28] and Tan [29], the expansion of unsecured loans and personal credit remains as the most significant and alarming cause of personal bankruptcy. Few studies have confirmed the positive and significant relationship between financial literacy, amount of loans and indebtedness [30-33]. They concluded that low financial literacy and poor self-control are the main factors leading to personal insolvency. Han et al. [32] argue that enhancing financial literacy would mitigate the over-indebtedness by improving the borrowers’ capability to understand and manage their financial risks.

In Malaysia, few initiatives have been taken by both the government authorities and private sectors to increase the level of financial literacy. On 9 November 2019, National Strategy for Financial Literacy (2019-2023) was launched by Bank Negara Malaysia (BNM). The main focuses of this framework were to cultivate prudent money management, enhance financial knowledge and behaviour, encourage responsible usage of debt, strengthen retirement planning and foster wealth accumulation and protection. These efforts are further strengthened by introducing the Second National Strategy for Financial Literacy (2026–2030); which is a five-year roadmap jointly collaborated by BNM, Securities Commission (SC) and other government agencies.

Furthermore, several targeted initiatives have been carried out by both government and private sectors to increase the level of financial literacy among youth in Malaysia. In January 2025, FWD Insurance Bhd. and Arus Academy launched the Fun(d) for Life – University Edition (FFL Uni) program, which focused on 500 public university students. This project included mentoring, workshops, training and community services intended at enhancing financial literacy among young communities at the university level. Moreover, in August 2024, Permodalan Nasional Bhd. (PNB) introduced the Inisiatif Celik MADANI, which focused on empowering 1 million students in vocational institutions and public higher learning institutions (IPTA) with financial literacy. In order to attract more participants, each student received RM50 to cultivate saving habits among young generation.

Recognizing the importance of financial literacy in reducing financial distress and its subsequent impact on mental health, this paper aims to gain a deeper understanding of the relationship between financial literacy and mental health risks among youth. This analysis is based on findings from scholarly articles, newspapers, policy documents, survey data, government reports, and other relevant sources. It is hoped that the information provided by this paper would assist the policy makers to design targeted interventions that promote the youth financial resilience and mental health.

Furthermore, this paper also highlights a few gaps in the literature to guide the future research in this field. Finally, a conceptual framework is constructed, which include the roles of moderating variables (financial factors, risk factors, protective factors, religion) and mediating variable (financial self-efficacy) in the relationship between financial literacy and mental health. Since, to the authors' knowledge, no studies² have developed the conceptual understanding by compiling information employing the research desk methodology for this topic, this paper would contribute to the body of existing literature.

2. Methodology

This paper employs the desk research methodology to understand the relationship between financial literacy and mental health risk among youth. To ensure that the information gathered are relevant and comprehensive, only those published in 2010 and later are included. The year 2010 is selected based on the World Bank's first formal program dedicated to financial literacy (FL); which was named as the Global Program on Consumer Protection and Financial Literacy [36]. Since the term "mental health risk" and any related terms have been used in publication for almost a decade, 2010 is more appropriate cut-off year. The inclusion and exclusion criteria are based on suggestions made by Nightingale [37] and Pickering and Byrne [38].

² Nonetheless, there are few recent compilations of literature in the areas of mental health risk [34] and financial literacy [35], conducted separately.

Table 2

Inclusion and Exclusion Criteria

Inclusion Criteria	Exclusion Criteria
All relevant publication written in English	All relevant English-written publications before 2010
All publications consist of the following keywords are considered: “financial literacy”, “mental health risk”, “depression”, “anxiety”, “adult”, “adolescent”, “students” in either title or abstract	

3. Literature Review and Theoretical Foundation

3.1 Theory on Financial Literacy and Mental Health Risk

The stress-buffering model proposes that personal resources, such as skills, wealth, knowledge, or social network, play a significant role in mitigating the detrimental effects of stress on individual mental and physical health [39]. From the perspective of mental health, financial literacy can serve as a tool to reduce stress and anxiety by equipping individuals with a core personal resource, which empowers them with the competence to make an informed financial decision, personal risk management and responsible debt management. According to Lusardi and Mitchell [40] and Han et al. [32], strengthening financial literacy significantly reduces financial-related anxiety. It stimulates a sense of control, consequently minimizing the risk of psychological disorders. Therefore, applying the stress-buffering model, financial literacy can be considered a mitigating factor that protects individuals from the detrimental impacts of mental health risks linked to financial strain.

3.2 Conceptualizing the Link between Financial Literacy and Mental Health Risk among Youth

The term ‘mental health risk’ refers to the chance of developing a psychological disorder, encompassing common conditions such as depression, anxiety and stress, which may disrupt an individual’s intellectual, emotional and social interactions [41]. Granlund et al. [42] explain that mental disorders are general concept that incorporates two main categories: neurodevelopmental disorders (such as Attention-Deficit/ Hyperactivity Disorder-ADHD, autism and cognitive disability) and mental illnesses (for example anxiety, schizophrenia and depression). They argue that mental illnesses are considered as a subset of mental disorders and indicate a more severe, diagnosable category of mental health problems spanning from mild to serious conditions.

In addition, Oliveros et al. [43] claim that mental health risk is affected by two groups of determinants: risk factors and protective factors. Risk factors include financial issues, social exclusion, dysfunctional relationships, unemployment, drug addiction, and gender discrimination. Collectively, these factors increase an individual's susceptibility to mental health conditions. On the contrary, protective factors such as supportive social support system, conducive neighbourhood, adequate financial resources, good physical health and life satisfaction act as cushions that lessen the probability of adverse mental health problems. Consequently, mental health risk can be framed as the dynamic interaction between risk and protective factors influenced by economic, social and interpersonal settings.

Financial literacy has been extensively researched and involves both financial knowledge and effective financial behaviour [14-17,44]. Research shows that having knowledge of financial concepts, risks, and skills enables individuals to make informed and effective decisions in different financial situations. This, in turn, improves their financial well-being and supports their physical and mental health [32,40].

The youth are considered to be a vital element to a nation because they represent its future leaders and workforce, which then drive the social and economic progress leading to a sustainable economic development. Past literature has provided evidence that this group of society, which includes university students and young adults, is fragile to financial stress. The youth has said to be at their transitional life stage where they are encountering financial responsibilities for the first time. Existing literature has consistently reported that the youth are facing increasing financial pressures caused by student loans, rising costs of living and inadequate income [19,45,46].

For instance, in the US, a few studies have concluded that a higher level of debt is significantly associated with mental health issues among young adult [19,45,47]. As debt levels rise, young people face increased financial stress while dealing with economic instability and an uncertain future. In Lebanon, Maalouf et al. [48] discover that the financial distress initiated by the inflated living costs has significantly increased the mental health risks among 1,200 university students during the country's economic instability. Furthermore, balancing student loans, limited sources of income and daily expenses lead to an ongoing stress that influences their physical and mental well-being. These financial burdens commonly cause anxiety and disturbed focus on their study or work. The financial challenges become more difficult to control when these factors are combined with low level of financial literacy. These financial stressors elevate the risk of increased financial anxiety and, in certain circumstances, worsen mental health conditions such as depression or lower quality of life [47,49].

Financial knowledge plays a crucial role in assisting individuals in making informed decisions about debt management, budgeting, saving and investment. It enables people to attain better financial stability and avoid common money management issues. A repeated observation becomes evident across the reviewed literature, that is financial literacy is a main determinant of mental health, primarily among youth and students. Studies conducted in several countries — namely the US., UK., China and Malaysia — reveal that those with higher financial literacy are likely to experience healthier mental health condition, such as lower levels of financial anxiety, depression and stress [18,50,51]. This relationship demonstrates the preventive role of financial literacy, implying that the competency in understanding and managing finances equips individuals with boosted confidence in managing financial challenges, thus mitigating psychological strains.

In the US, Sinha et al. [51] discover that financial knowledge reduces the late payment by 11% to 21% among 3,360 borrowers that making their students' loan repayment in 2018. Similarly, in China, Bai [52], employing 447 university students, reveals that the financial anxiety tends to reduce with higher level of financial knowledge. Furthermore, the students with higher financial literacy are found to have better investment decisions, credit and cash management and financial planning. In the UK, Perry et al. [50] conduct a study during the Covid-19 pandemic (2020-2021) involving 174 university students aged 18 to 28. This study has assessed financial literacy based on two dimensions, objective financial literacy and subjective financial literacy. They argue that the students with higher financial literacy develop more awareness of the risks and benefits of debt, which finally causes them to have good practices in debt management, especially during the period of economic uncertainties.

Correspondingly, a few studies conducted in Malaysia indicate that financial literacy improves the mental health. Sabri et al. [21] conduct a study involving 482 young adults aged 18 to 35 from the B40 category. They discover that financial knowledge is positively correlated with financial behaviours, internal local of control (LOC) and financial wellbeing. Using a large sample of 21,126 individuals aged 15-30, Daud et al. [20] reveal that good financial behaviours, such as sound financial management, mitigate financial vulnerability, thereby improving financial decision-making and facilitating the achievement of long-term financial goals. Similarly, a recent study by Hamzah et al. [53] reveals that financial anxiety is a prevalent issue among Malaysians in recent years. The findings

indicate that those with lower education level, lower income and higher financial risk tend to experience higher financial anxiety. Furthermore, financial knowledge and financial behaviour negatively influenced financial anxiety, which indicates that greater understanding and responsible financial behaviour reduce physiological stress on financial related issues.

3.3 Gaps in the Literature

Although past literature agrees that financial literacy is a factor influencing mental health risk, there are limited studies exploring the relationship between these two variables, especially among the youth [18,54-56]. Specifically, previous studies have identified several gaps in the literature that future research should address. Firstly, there is the limited contextual and demographic coverage. A large number of empirical studies have primarily focused on youth in Western or high-income countries, with limited studies from middle-income or developing countries such as Malaysia, China, and Lebanon [18,56,57]. In addition, youth and low-income populations continue to be understudied despite their growing relevance in the country's economic agenda [49,58]. Moreover, specific subgroups such as ethnic minorities and B40 youth in Malaysia remain underexplored [20,21].

Secondly, there are methodological limitations. Across the literature, cross-sectional studies dominate, limiting causal inference between financial literacy, financial stress and mental health risk [51,59]. The findings that are made from causal investigations are important since they could significantly explain whether financial literacy directly influences financial stress and mental health risks. Thus, the findings would allow the policymakers to formulate more effective targeted interventions and policies. In addition, few longitudinal studies are conducted and most of the studies rely on narrow or self-reported measures of financial literacy, anxiety and mental health issues, prompting issues on validity and reliability [45,47].

Furthermore, Fernandes et al. [60] discover that financial education has only a minimal impact on financial behavior. Their finding is built on a meta-analysis of 201 related studies employing a large secondary data, including datasets of both experimental and observational. As for the youth mental health, a study conducted by Newton et al. [61] on 3,000 pediatric mental health cases concludes that few clinical and demographic factors such as lower socioeconomic status and limited access to care are associated with more severe mental health issues. Although both studies, Fernandes et al. [60] and Newton et al. [61], are conducted using secondary data, but to the best of our knowledge, no study has employed secondary data to empirically test the influence of financial literacy on mental health among youth. Using secondary data is principally robust for this type of study because it allows for the assessment of large samples of youth, which increases the reliability and generalizability of findings. It also enables the assessment on the trends, causality patterns, or changes over time, which are difficult to observe using one-time surveys.

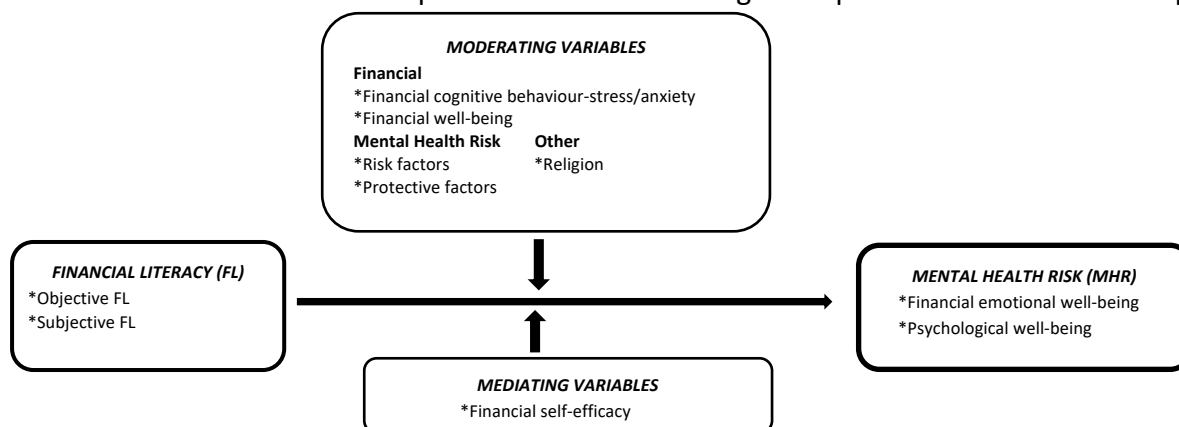
Thirdly, there is a limited focus and inconsistencies in the chosen variables and estimation models. Earlier research frequently employed the objective financial indicators such as savings, income and debt, neglecting subjective variables namely emotional aspects and cognitive factors, for example shame, self-control and attitude towards debt [49,50,52]. As such, moderating and mediating variables, which include self-efficacy, financial behavior and social relations, are not being integrated into the regression models [20,62]. Additionally, the bidirectional relationships between financial literacy, financial distress and mental health risks remain underexplored [59]. The present literature also shows inconsistency in measuring financial literacy, for example; knowledge vs. attitudes vs. behaviors; and financial well-being (objective vs. subjective indicators) [57,63].

Furthermore, psychological variables such as financial stress, anxiety, stress and emotional health are also evaluated with limited tools [51,64]. The lack of standardized frameworks restricts

cross-study comparisons among different countries and populations. Although a few studies examine how macroeconomic instability, cultural norms, or institutional structures influence the link between financial literacy and mental health risks [19,48,58], the literature in this area remains very limited. Likewise, despite evidences of their importance in the literature, the role of peer, family and community influences remains underexplored [20,46].

3.4. Conceptual Framework

Based on the review of past studies the following conceptual framework is developed:



Sources: Adapted from previous literature

This present study has developed the above conceptual framework from the suggestions made by previous literature. As for the financial literacy, following Allgood and Walstad [65] and Sinha et al. [51], this variable is divided into two dimensions; that are objective financial literacy and subjective financial literacy. In these studies, objective financial literacy refers to the actual knowledge an individual possesses, as measured by correct answers to financial-related questions on topics such as inflation, interest, debt, bonds, and stocks. This dimension captures the extent to which an individual can correctly apply the financial concepts they have previously acquired, rather than merely believing themselves knowledgeable. On the other hand, subjective financial literacy refers to the perceived knowledge or confidence individuals have, rather than the actual knowledge they possess. To measure this dimension, the respondents are required to self-rate their overall financial knowledge. The inclusion of subjective financial literacy allows for assessing how confidence and self-perception influence individuals' financial behaviours, where both overconfidence and under confidence can lead to harmful financial decision-making.

The mental health risk is measured in two domains; financial emotional well-being and psychological well-being. According to Hassan et al. [66] and Xu and Abd. Rashid [64], financial emotional well-being is a state of satisfaction, security and stability that an individual experiences with respect to their financial well-being. They argue that this emotional state is influenced by a few financial related factors such as stress, cognitive behaviour, well-being, anxiety and stress. Furthermore, from a broader perspective, psychological well-being denotes how positively individuals perceive their own lives in relation to cognitive, emotional and functional aspects. It consists of both hedonic components (such as positive effects, happiness, and satisfaction) and eudaimonic components (such as self-realization, meaning in life, and personal growth) [67-70]. Overall, by distinguishing mental health risk into finance-specific emotional outcomes and overall psychological health allows for a detail assessment of the relationship between financial literacy and mental health conditions.

The conceptual framework of this paper also includes the roles of moderating and mediating variables in influencing the relationship between financial literacy and mental health risks. This framework integrates both mediating and moderating variables to provide a comprehensive and holistic view on the investigated variables. Mediators explain how financial literacy affects mental health risks. On the other hand, moderators identify when and for whom the relationship between the two holds. Thus, combining both types of variables strengthens the theoretical insight and practical relevance of the findings [71,72].

In terms of moderating variables, three categories are included: 1. financial variables (financial cognitive behavior, anxiety, and financial well-being), 2. mental health risk factors (risk and protective factors), and 3. other variables (religion). According to Xu and Abd. Rashid [64], financial stress triggers persistent fear and uncertainty about daily expenses, debt and future financial needs. These continuous strains could trigger overall anxiety and depressive symptoms. On the other hand, individuals with better financial well-being, such as those with stable incomes, are likely to experience less financial stress. This stress reduction can then lead to improved mental health and a greater sense of financial security.

With respect to moderating factors for mental health risks, Oliveros et al. [43] have suggested two variables, which are risk factors and protective factors. Risk factors encompass of conditions such as social exclusion, drug addictions, dysfunctional relationships, unemployment and gender discrimination, which would trigger mental health issues. In contrast, protective factors such as supportive social support system, good physical health, conducive neighbourhood and life fulfilment act as buffers that decrease the likelihood of adverse mental health problems. In addition to factors related to financial and mental health, religion appears to be important in influencing the relationship between financial literacy and emotional well-being. Wijiyah et al. [73] find that Islamic teaching encourages responsible lending, such as a zero-interest loan (Qard Hassan), and promotes charity through zakat and wakaf, which have a direct influence on the individual financial practices. From the psychological perspective, several studies indicate that religious beliefs significantly influence mental health [74-78]. They concluded that religiosity is associated with low levels of depression and suicidal cases. People with strong religious belief are guided by ethical principles that would shape their behaviour and help them in making wise financial and life decisions. All of these reasons could lower internal conflict, enhance self-esteem and encourage positive qualities.

Financial self-efficacy is the final variable included as the mediator between financial literacy and mental health. A study by Xu and Abd Rashid [64] has incorporated financial self-efficacy as the mediating variable to explain the link between financial cognitive behavior and financial emotional well-being. In essence, financial self-efficacy refers to an individual's belief in their ability to manage their finances wisely. This belief influences how individuals handle their financial challenges that finally affects their emotional health. Since youth are believed to have less experience and knowledge in managing finances, including this variable would provide a clearer picture of how their beliefs about financial situations affect their mental health condition.

In summary, by integrating financial literacy, moderating variables (financial, mental health risk, religion), mediating variable and mental health risks into the conceptual framework allows for more rigorous assessment conducted in the youth population, which may improve the validity and reliability of the findings. Since there are very limited studies conducted within the context of youth population, the selection of variables from this group allows for an in-depth assessment to be conducted using their unique characteristics with respect to financial literacy and mental health, making the findings more relevant for policymakers.

4. Conclusions

This paper explores the impact of financial literacy on youth mental health. Past studies show that financial literacy helps to improve mental health among young adults. Equipping youth with financial knowledge to enhance their financial literacy can help alleviate concerns regarding financial stressors such as student loans, unstable income, and peer pressure to spend. A conceptual framework is developed based on the literature, which outlines the roles of moderating variables (financial factors, risk factors, protective factors, and religion) and a mediating variable (financial self-efficacy) in the relationship between financial literacy and mental health. This paper also identifies several gaps in the current literature, including methodological limitations and a lack of diverse settings and backgrounds. The limitation of this conceptual paper is its reliance on existing publications and literature without empirical analysis, which means that the proposed conceptual framework is not yet been validated with the actual data. As such, future study should conduct an empirical analysis on the proposed conceptual framework by employing the secondary, primary and longitudinal data to strengthen the contextual findings. In summary, it is hoped that this paper would offer a foundation for future empirical investigations and policy formulation in Malaysia and global settings.

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