

A Study on the Macroeconomic Variables and Government Debt in Malaysia

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Government debt is an issue that is concerning by all nations. The Institute of International Finance found the government debt has risen to the highest record at \$281 trillion by the end of 2020. It was mainly due to the risen debts in the government, companies, and households. There was even more borrowing as the world has never been more indebted after a year facing the Covid-19. Government debt in Malaysia increased rapidly in the mid of 1980 which rose from 43 percent to 101.7 percent in only 7 years. It cannot be denied that the pandemic is one of the rationales that caused the Malaysian government debt to increase. Different types of fiscal stimulus packages have been implemented by the Malaysian government to boost the economy and so to help the people and the businesses in Malaysia. It was expected that Malaysia's 2021 statutory debt would reach 58.5 percent of gross domestic product (GDP). This study examined annual data from 1990 to 2019, with 30 observations. Johansen cointegration test and Vector Error Correction Method (VECM) were used in the study to examine the long run and short-run relationships among the variables including government debt (DEBT), GDP Growth, foreign direct investment (FDI), trade openness (TO), real interest rate (IR), inflation rate (INF), and government expenditure (G). The analyses result showed that INF, G, and GDP growth have a negative relationship with DEBT. FDI, IR, and TO have a positive relationship with DEBT. Results from the Johansen Cointegration Test indicated that 12 cointegrating equations were significant at the 5 percent level, which meant that the long-term equilibrium between the variables was met. There was also a long-term relationship between DEBT_{t-2} and FDI_{t-2}, INF_{t-2}, IR_{t-2}, and TO_{t-2} variables statistically significant at the 1 percent level. Granger causality test showed DEBT and FDI, DEBT and GDP Growth are the cointegrated and long-term relationships between the variables and showed a bi-directional. DEBT and INF, IR, and DEBT, TO and DEBT are the cointegrated and long-term relationship between the variables and showed a uni-directional. On the contrary, DEBT and G are not cointegrated and not a long-term equilibrium relationship between the variables. DEBT, FDI, GDP Growth, INF, G, IR, and TO are stationary at statistical significance at the 1 percent level in both the Augmented Dickey-Fuller (ADF) test and Phillip-Perron (PP) test. Residuals are normally distributed; residuals had no autocorrelation and there is no multicollinearity in this study. In a nutshell, this research provides some insights for policymakers in policy formulation. Raising taxes may help the government to stabilise the money. Besides, the government may issue bonds to the public and so borrow money from the public to pay the expenditure in Malaysia.

Keywords: *Foreign Direct Investment, GDP Growth, Government Debt, Government Expenditure, Inflation Rate, Interest Rate, Trade Openness*