THE IMPACT OF GOVERNMENT DEBT, INFLATION, INTEREST RATE AND PRIVATE INVESTMENT ON BUDGET DEFICIT

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ABSTRACT

This study was conducted to analyze the impact of interest rate, inflation, government debt and private investment on budget deficit in Malaysia. Besides that the researcher explores if there is long-run or short-run relation exists between variables. Econometric methodology involving vector error correction (VEC) model was employed by using annual data for the period 1978 - 2008. The test for stationarity of variables is carried out using Dickey-Fuller in levels and first difference. The Johansen cointegration test and Granger causality technique is employed to determine the long-run and short-run relationship between variables. The estimated results indicate that government debt, inflation and private investment could have an impact on budget deficit in Malaysia through VEC model. However, interest rate does not affect budget deficit in estimated coefficient. Thus, it can be concluded that macroeconomic variables do give impact on the Malaysian economy. It is suggested for researcher to focus on the main variable which influence budget deficit mostly.

Keywords: Budget Deficit, Interest Rate, Inflation, Government Debt, Private Investment.