UNIVERSITI TEKNOLOGI MARA

THE DETERMINANTS THAT AFFECT GOVERNMENT BOND YIELD IN MALAYSIA

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ABSTRACT

A government bond is a debt security issued by a government to support government spending and country development. Before investing in government bonds, investors need to assess with several factors such inflation risk, government debt, gross domestic product, and exchange rate risk. Government bond always be considered as risk free and traded in highly liquid market. in other perspective, government bond return is typically low rate of return. The purpose of this study is identifying the determinants that affect government bond yield in Malaysia. The dependent variable is government bond yield, and the independent variables are inflation rate, gross domestic product, government debt and exchange rate. The study is conducted by using time series data analysis. The data have been taken from 2012 – 2020 in quarterly basis which there are 36 observations in this research. The data has been taken from Data Stream, World bank and Bank Negara Malaysia (BNM). The tools that used in measure and analyze the data is by E-views software. Based on the previous research, several factors have significant impact on government bond yield. This study will focus on Malaysia.

TABLE OF CONTENT

	PAGE
AUTHOR DECLARATION	4
ABSTRACT	5
ACKNOWLEDGEMENT	6
TABLE OF CONTENT	7
LIST OF FIGURES	9
LIST OF TABLES	10
CHAPTER ONE	
INTRODUCTION	
1.1 Introduction	11
1.2 Background of the study	12
1.3 Problem statement	13
1.4 Research questions	14
1.5 Research objectives	14
1.6 Significance of the study	15
1.7 Scope of the study	15
1.8 Limitations of the study	15
1.9 Definition of key terms	16
1.10 Summary	16
CHAPTER TWO	
LITERATURE REVIEW	
2.1 Introduction	17
2.2 Literature Review on Government Bond Yield	17
2.3 Literature Review on Consumer Price Index	17
2.4 Literature Review on Gross Domestic Product	18
2.5 Literature Review on Government Debt	19

CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

Principally, bond is a classification of fixed income asset which is frequently used for the objective of debt financing and investment. Government bond is one of the categories of bond issued by the national government with a guarantee to pay periodic return in term of interest payments and to repay the par value on the maturity date.

In every direction, government bonds have often been categorized as one of the secure investments when measured with other capital market instruments. National governments would always grant priority in paying back debt to manage the credit worthy of a country (Karatheodoros, S., 2015).

The important of government bond yield can be explained as the return an investor expect to receive each year over its term to maturity. The bondholder will receive bond yield as summary of the overall return that accounts for the remaining interest payments and principal they will receive. For an issuer of a bond, the bond yield indicates the annual cost of borrowing by issuing a new bond. In addition, government bond yield will be an important indicator in financial markets which it helps to identify how expected and actual changes in the policy makers.

However, the fluctuation on the determinants factors such gross domestic product, exchange rate, interest rate, government debt and consumer price index will give significant impact to government bond yield.

This chapter consists of a background of study of the government bond in Malaysia. Next, a problem statement where is to observe the factor that influence government bond yield in Malaysia. The scope of the study is the government bond yield, and the data are from Bank Negara Malaysia (BNM), World Bank and Data Stream.