



THE IMPACT OF PUBLIC DEBT AND BUDGET DEFICIT
TOWARDS MALAYSIAN ECONOMIC PERFORMANCE

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JUNE 2017

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ACKNOWLEDGEMENT

First and foremost, Alhamdulillah and all praise to Allah Almighty for giving me the opportunity, strength and patience to fulfill this Academic Project requirement for the Bachelor of Business Administration (Honors) (Finance). His utmost blessings have made this entire final semester research possible within the allocated timeframe.

First and foremost, I would like to express my sincere appreciation to my dedicated advisor, Dr Zuriyati Ahmad for her exemplary guidance and constant encouragement that help me bring this study into success. Her patience throughout the semester are so great that even my most profound gratitude is not enough. I am truly fortunate to have her as my advisor. Besides that, I would like to thank my second examiner, Prof Madya Dr Abdol Samad Nawi who is high knowledgeable person for his constructive comments and suggestions in order to improve this study and also expand my knowledge.

In addition, my heartfelt thanks are also extended to both my loving parents, family members and classmates for their unwavering contribution and invaluable counsel in helping me steering this research to greater heights.

Last but not least, I would like to thank everyone who have supported, helped and worked together directly or indirectly in assisting me realizing this research on time, the cooperation given is well appreciated and will always be remembered. Thank you very much.

ABSTRACT

Malaysia has recorded a fiscal deficit position since its independence in 1957 except for the year 1993 and 1997. As at the end of year 2014, total federal debt was recorded at RM 582,828.00. This position has already been reached and is slightly higher than the prudent cut-off point of public debt-holding that has been set for developed economies. In addition, the importance of analysis on Malaysia has been highlighted before it is too late. Meanwhile, it is also to prevent danger of a government running excessive deficits that might turn our economy unstable. Thus, this study aims to address the above issues to identify the relationship between domestic debt, external debt and budget deficit on Malaysian economic over a period of 1996 to 2016. Ordinary Least Square method and Johansen Co-integration test are used in this study. The OLS result shows that there is a positive significant relationship between public debt and economic performance. Besides that, budget deficit has positive insignificant relationship with economic performance. However, in the long-run equilibrium, public debt have positive significant relationship with economic performance but negative insignificant relationship for budget deficit towards economic performance. The empirical findings suggest that government should issue more securities to stimulate economic performance since public debt especially domestic debt brings positive impact and also spend the money wisely to overcome budget deficit problem.