UNIVERSITI TEKNOLOGI MARA
JOHOR BRANCH, SEGAMAT, JOHOR

DETERMINANTS OF EXTERNAL DEBT
IN MALAYSIA

ZAHIRATUL NAZURA BINTI ABDUL KADIR
2015140955

Thesis submitted in fulfillment of the requirements for the degree of Bachelor of Business Administration (Finance)

Faculty of Business Management

December 2017
AUTHOR’S DECLARATION

I declare that the work in this thesis was carried out in accordance with the regulations of Universiti Teknologi MARA, Johor Branch, Segamat Campus. It is original and is the results of my own work, unless otherwise indicated or acknowledged as referenced work. This thesis has not been submitted to any other academic institution or non-academic institution for any degree or qualification.

I, hereby, acknowledge that I have been supplied with the Academic Rules and Regulations for Undergraduate, Universiti Teknologi MARA, Johor Branch, Segamat Campus regulating the conduct of my study and research.

Name of Student : Zahiratul Nazura binti Abdul Kadir

Student I.D. No. : 2015140955

Programme : Bachelor of Business Administration (Hons) Finance

Faculty : Business Management

Thesis : Determinants of External Debt in Malaysia

Signature of Student : 

Date : December 2017
ABSTRACT

It is difficult for a developing country to support itself with only domestic financial resources because these resources are limited. So, they tend to borrow from external resources to help them in enhancing their economies. However, borrowing from other foreign countries can be one of the main problems faced by developing countries. A major obstacle to the continued capital acquisition and future economic growth, the debt burden is now one of the main concerns in international affairs. Many lesser-developed countries (LDCs) such as Myanmar and Bangladesh, today simply cannot repay these debts, without the assistance of developed countries (DCs). It is said that extra and excess portion of external borrowings more than the favorable level will contribute negatively to the country’s economy instead of the collected amount of international debt helps in developing their economic growth up to an ideal level. The purpose of this paper is to examine the determinants of using external debt for Malaysia. Malaysia is chosen because this country is one of the less-developed countries that use external debt to enhance their economies. This paper wants to investigate the factor that most enhancing the external borrowings in Malaysia and why it encourages the external debt to increase. This study use annual time series data for the period 1987-2016 on debt composition and run regressions of Gross Domestic Product (GDP), inflation, trade openness, interest rate and savings gap. This paper find that the GDP, inflation, interest rate and savings gap are consistently significant determinants composition of external debt. While trade openness has negative relationship with external debt but not significant at required level of significance. Consistent with my prediction, GDP and inflation are found to have a significant positive impact on external debt. From the results obtained, it is also suggested that increase in interest rate and savings gap can promote external debt. On the other hand, GDP and inflation appear to discourage external debt.
ACKNOWLEDGEMENT

First of all, I would like to thank Allah for the gift of this life and give me the opportunity to experience such a great journey and ease them throughout completing my research.

I would also wish to express my gratitude to whom that I deeply indebted to, my main and co-advisor thesis advisor, Madam Ruziah binti A. Latif and Madam Zuraidah binti Ahmad, for their critical comments, encouragement, advice, and patience that guided me through the completion of my research.

Finally, I am also very thankful to my family for non-stop giving me love and encouragement for me to stay focus and back on track whenever I feel like quitting. Thank you so much.
# TABLE OF CONTENT

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>AUTHOR'S DECLARATION</td>
<td>ii</td>
</tr>
<tr>
<td>ABSTRACT</td>
<td>iii</td>
</tr>
<tr>
<td>ACKNOWLEDGEMENT</td>
<td>iv</td>
</tr>
<tr>
<td>TABLE OF CONTENT</td>
<td>v</td>
</tr>
<tr>
<td>LIST OF TABLES</td>
<td>ix</td>
</tr>
<tr>
<td>LIST OF FIGURES</td>
<td>x</td>
</tr>
<tr>
<td>LIST OF PLATES</td>
<td>xi</td>
</tr>
<tr>
<td>LIST OF SYMBOLS</td>
<td>xii</td>
</tr>
<tr>
<td>LIST OF ABBREVIATIONS</td>
<td>xiii</td>
</tr>
</tbody>
</table>

## CHAPTER ONE: INTRODUCTION

1.1 Introduction
1.2 Background of The Study
1.3 Problem Statement
1.4 Research Questions
1.5 Research Objectives
1.6 Significance of The Study
1.7 Scope of The Study
1.8 Limitation of The Study
1.9 Definition of Terms
  1.9.1 External Debt
  1.9.2 Gross Domestic Product (GDP)
  1.9.3 Trades
  1.9.4 Inflation
  1.9.5 Interest Rate
  1.9.6 Savings Gap
1.10 Summary

Page 1