THE DETERMINANTS OF GOVERNMENT DEBT:

THE CASE OF FIVE ASEAN COUNTRIES

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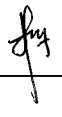

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ABSTRACT

Over the past 30 years, ASEAN countries' government debt has been on an increase, with the increase closely linked to a number of economic factors. The changing quantities and qualities of government debt have become a national concern. Data related to the changes in dependent which is government debt and independent variables are inflation, interest rate, investment and gross domestic product between 1980 and 2016 was used in the study. The model was tested For Pooled Ordinary Least Square, Random Effect Model, Breusch-Pagan Lagrange Multiplier, Fixed Effect Model and Hausman Test. Moreover, three out of the four expectations were met in a significant manner through the long-run relationships. The government manages to reduce government debt by increasing investment. But, the government increases GDP and interest rate by increasing government debt. Based on the four explanatory variables, it is clear that the government rely on investment for the repayment of government debt. Lastly, this research can be a guideline to government to be a better way and decrease the amount of government debt. It is advice that adjustment in policies is necessary in order to align growth with improvement in the determinants of government debt.

Keywords: ASEAN countries, government debt, inflation, interest rate, investment, GDP