



UNIVERSITI TEKNOLOGI MARA

THE ECONOMIC EFFECT ON MALAYSIAN BUDGET

KHAIRUNNISA NABILAH BINTI KAMAL

2020993339

Bachelor of Business Administration (Hons)
Investment Management

Faculty of Business and Management

FEBRUARY 2022

ACKNOWLEDGEMENT

All glory and acclaim go to Allah (SWT) for his guidance, favour, and bounty. May Allah's peace and kindness be upon our prophet Muhammad (SAW), his Companions, and all who sincerely follow him until the Day of Judgment.

I would like to thank my advisor, Dr Roslina Mohamad Shafi for her constant advice, support, opinion, and encouragement during the research process. My gratitude is insufficient for her ongoing assistance.

Not to mention the help and encouragement from family and friends. Their help either directly or indirectly, has helped me to achieve the greatest possibility for success in my research. Without all the mentioned above this task maybe will be difficult to be done.

ABSTRACT

This paper is primarily interested to examine the economic effect on Malaysian budget from the year 1991 to 2020. A specific question that is addressed in this study is whether the economic effect contribute to the changes Malaysian budget in Malaysia. Hence, the independent variables that were chosen in this study are gross domestic product (GDP), exchange rate (ER) tax revenue (TAX) and interest rate (IR) while the government budget would be the dependent variable. This paper utilized the Ordinary Least Squares (OLS) regression method in determining the significance of the independent variables in causing budget deficit. The correlation test, multicollinearity test, normality test and regression analysis were also employed in order to discover the properties of data collected from The World Bank and Trading Economic. Overall, the results indicate that GDP and IR have a significant relationship with Malaysia's government budget. The study also found insignificant relationship between ER and TAX with government budget over the study period.

Keywords: Budget, Gross Domestic Product, Exchange Rate, Tax Revenue, Interest Rate, Malaysia

TABLE OF CONTENTS

AUTHOR'S DECLARATION	1
ACKNOWLEDGEMENT	2
ABSTRACT	3
TABLE OF CONTENTS	4
LIST OF TABLES	7
LIST OF FIGURES	7
CHAPTER 1: INTRODUCTION	8
1.1 Introduction	8
1.2 Background of the Study	9
1.3 Problem Statement	12
1.4 Research Questions	13
1.5 Research Objectives	14
1.6 Significance of Study	14
1.7 Scope of Study	14
1.8 Limitation of the Study	15
1.9 Summary	15
CHAPTER 2: LITERATURE REVIEW	16
2.1 Introduction	16

CHAPTER 1

INTRODUCTION

1.1 INTRODUCTION

In public finance, the budget is the "rule of law" (Muttukrishna Sarvananthan, 2007). A government budget is a document prepared by the government and/or other political institutions that outlines the government's tax revenue expectations for the coming fiscal year, including inheritance tax, income tax, corporate tax, import tax, and proposed expenditure or expenditure such as health care, education, defence, roads, and state benefits. Estimates are typically submitted to the legislature for approval in most parliamentary systems.

The government budget is divided into two parts which are income and expenditures. Budgeting in the public sector differs from that in the private sector. While the private sector is concerned with budgeting profits, the public sector is concerned with budgeting expenditures (Lee & Plummer, 2007). As a result, analyzing government spending behaviour is critical to ensuring that resources are allocated in a responsive, efficient, and effective manner. According to Daw Tin Hia and Shaharudin Jakpar (2016), every country's government budget is a vital instrument for achieving economic and social development goals. It is significantly more essential than those in the private sector due to its critical role in ensuring equal wealth distribution to all residents.

In Malaysia, the government releases federal budgets each year to specify expected government income and spending, predicted economic conditions for the current year, and fiscal strategies for the next years. The federal budget details the government's revenue and spending projections, as well as any new policy initiatives. Federal budgets are typically released in October, soon before the start of the fiscal year. All Malaysian states publish budgets as well and because state finances rely on federal subsidies, state budgets are typically given after the federal budget.