FINAL YEAR PROJECT

THE RELATIONSHIP BETWEEN GOVERNMENT DEBT AND ECONOMIC GROWTH IN MALAYSIA

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THE RELATIONSHIP BETWEEN GOVERNMENT DEBT AND ECONOMIC GROWTH IN MALAYSIA

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PROJEK AKHIR TAHUN INI DIKEMUKAKAN BAGI MEMENUHI SYARAT UNTUK MEMPEROLEH IJAZAH SARJANA MUDA EKONOMI (KEWANGAN)

FAKULTI PENGURUSAN DAN EKONOMI

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF ABBREVIATIONS

Terms	**Description**
GDPPC	Gross Domestic Product (GDP) per capita
GDEBT	Government Debt
GEXP	Government Expenditure
HEXP	Household Expenditure
ARDL	Autoregressive Distributed Lags (ARDL)
VAR	Vector Autoregression
RESET	Ramsey Regression Specification Error Test
ADF	Augmented Dickey Fuller
ECM	Error Correction Model

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ABSTRACT

This study has been carried out to investigate the relationship between government debt and economic growth based on GDP per capita. Government expenditure and household expenditure also has been used as other independent variable. This study also investigates the long run and short run between those dependent variables with GDP per capita in Malaysia. This study used secondary data by collecting time series data along 1985 till 2017 that is within 32 years. The data is collected from the World Bank Data, Bank Negara Malaysia and International Monetary Fund, IMF. Autoregressive Distributed Lag (ARDL) model is applied in this study to examine the relationship between debt and economic growth. The results shows that there is a long- and short-term relationship for all the variables. Government debt reveals that in the long run, it has a positive relationship and significant with the GDP. These empirical results are in line with prior empirical research that looked at the effect of government debt on GDP growth and suggested that debt stimulates economic activity. Although debt is said to have a negative impact on the country's growth, but if the debt incurred does not exceed the threshold level set, then the national debt is able to help finance the country's expenditure in excess of tax collection.

CHAPTER 1

INTRODUCTION

1.0 INTRODUCTION

Economists examine a country's prosperity based on its economic growth using the gross domestic product per capita, a global indicator of a country's wealth. The GDP per capita figure shows how much economic output value is directly attributable to each individual citizen. Alternately, this translates to a measure of national wealth since GDP market value per person very easily serves as a measure of wealth. Despite certain acknowledged limitations, gross domestic product (GDP) per capita is a key measurement of economic success and frequently used as a general gauge of average living standards or economic health (OECD, 2013).

For instance, the average GDP per capita does not indicate how the GDP is distributed across the population. For illustration, if income inequality also rises, more people may suffer economically even though the average GDP per capita may increase. A significant number of seasonal or border workers who are not citizens, as well as inflows and outflows of property revenue, may also occur in some nations. These two events imply that the value of output and resident income is different, either overstating or understating the level of life for the individuals. However, a country's sustainable economic growth actually is supported by a variety of elements at once.

Thus, Due to the simultaneous contributions of so many growth related factors to the gross domestic product of a given country, measuring its economic growth is therefore complicated (Pokhrel & Khadka, 2019). In this research, the main independent variables that will be estimate is government debt. It is among the variables that have been chosen by researchers to be studied in more depth on how it affects the growth of the country's economy and what relationship can be concluded whether it gives a positive or negative relationship to the GDP per capita of the country's economy. Furthermore, the other independent variable that will be include into this finding is government expenditure and household expenditure.

Increase in government expenditure towards the benefit of country's community and country's development like in education, health, job opportunities, industries and infrastructure and so on can attribute to a development of an economic and also can reduces poverty, unemployment, and improve the standard of living society. While household expenditure is indicated by spending on things like health care, education, and other household expenses and their needs. According to Sulistyowati, Sinaga and Novindra (2017), components of household and governmental spending is highly related to the achievement of the human development index. Thus, this can also be related that these both indicator has high role in determine the country's growth per capita.

1.1 RESEARCH BACKGROUND

First and foremost, GDP and GDP per capita basically is the same thing where both indicators are mostly used by economist to estimate or analyze the economic growth of a country. But the difference is just between how it calculated and how it measure. Additionally, if a nation has a large population, it is possible for such nation to have a lower GDP per capita value than one with a higher GDP value. According to Kira (2013), the GDP is one measurement of an economy's output and national income at a certain period. The definition of GDP is the total market value of all finished goods and services produced in a country over a particular time period. However, in this research, GDP is measured based on per capita where it refers to per person. Thus, in this research, we will try to find out with the finding on how the selected variables impacted the GDP per capita and what are their relationship whether it occur in the long run or short run or in both.

Basically, government debt is referred as the main independent in this discussion. It is one of the variables that researchers have selected to be examined in further detail in order to discover how it influences the development of the nation's economy and whether a positive or negative relationship between it and that development can be inferred. According to Soyres, Kawai, and Wang (2022), a rise in government spending, an increase in public investment, a decline in tax income, or other fiscal developments might result in an increase in debt. Governments that experience budget deficits do so when their expenditure outpaces their tax revenues. To cover these deficits, the government borrows money from the private sector or from other countries. Economic theory predicts that lending at acceptable rates to developing nations will likely boost economic growth since it will hasten the pace of infrastructure construction (Siew & Yan, 2015). So, regarding from all the theory and past research, it can drive to a final results and conclusion based on the objective of this research.

In addition, government debt is frequently viewed as a tool to finance government spending (Barik & Sahu, 2022). Debt is extremely important to the economy of developing nations. According to Soludo (2003), he discovers that governments borrow primarily for two reasons that is to finance their balance of payments deficit and for macroeconomic considerations. Government borrows money for macroeconomic reasons in order to increase investment and boost national consumption. The government is taking this action through improving the nation's infrastructure.

The second justification is to reduce the nominal interest rate abroad and address financial limitations. Both of these arguments suggested that debt might stimulate economic expansion.

However, the debt load will rise and displace investment and growth once the debt level exceeds a particular proportion. Today, most of the nations with advanced economies are experiencing this. Government debt which supposed could boost the economic growth but at last turn to a worst place when it accesses the debt burden that should be. This finding was agreed by Hilton (2021) where he stated that although public debt is not a major issue, increasing public debt to unsustainable levels can limit economic progress. However, Mosikari and Eita (2021) discover that the debt to GDP ratio's level will determines the relationship between debt and real GDP growth.

They mentioned that the link between debt and GDP growth is very shaky when the debt to GDP ratio is less than 90%. The association turns negative, though, when the debt to GDP ratio exceeds 90%. This implies that a rise in debt will result in a decline in real GDP growth. For sophisticated economies only. The barrier is lower in emerging economies than in mature economies. The benchmark for rising economies is set at 60%. The findings show that the association between the two variables is negative for emerging nations when the debt to GDP ratio is higher than 60%. Real GDP growth will be 2% slower when the debt to GDP ratio is over 60%. Therefore, in order to provide the government some wiggle space in difficult times, it should endeavour to keep public debt below the planned boundaries.

Next, regarding government expenditure, observe that the government makes investments to achieve a range of objectives. In emerging nations, the average government expenditure on goods and services is 26% of GDP (World Bank, 1992). There has been a considerable amount of research on the connection between the size of government and economic growth as a result of the size and expansion of this statistic (Devarajan, Swaroop & Zou, 1996). The relationship between the composition of public spending and a nation's growth rate and GDP per capita is far less well understood. But this might be a key question in this study.

Furthermore, household spending also is one of the factors that could affected the GDP. The term "household final consumption expenditure" refers to all outlays made by residing households to meet their basic needs, including those for food, clothing, rent, energy, transportation, durable items particularly cars, medical expenses, leisure, and other services. It is a crucial element for economic research of the demand for goods and services because it typically accounts for 60% of the gross domestic product (OECD, 2015). Thus, it is crucial for a government implementing a plan in order to increase the household income and wealth. For instance, this is seen in the Tenth Malaysia Plan (10MP), 2011-2015, which identifies inclusiveness as a critical approach for achieving a wealthy and equitable society (Sulaiman et al., 2017).

The socioeconomic situation of the Malaysian people has improved as a result of the implementation of development programs and empowerment for the targeted group. People in rural and remote areas can now participate more actively in socioeconomic development thanks to the provision of basic rural infrastructure and initiatives to promote entrepreneurship. Particularly in less developed regions, attention to the establishment of regional economic corridors has drawn investment and led to the creation of jobs. Despite these successes, more work has to be done to guarantee that every household income category benefits from growth. From this overview, indirectly we can relate with the idea on how and what are the relation between household expenditure and GDP as a whole.

1.2 PROBLEM STATEMENT

Economic progress and development are related to the idea of economic growth. Economic growth is the increase in a nation's capacity to produce goods and services during a specific time period. A long-term rise in the economy's capacity for output to satisfy societal demands is referred to as economic growth in the study of economics. Whereas economic research illuminates the underlying principles of an economy. It is a methodical process for figuring out how to make the best use of few resources and picking the best course of action to achieve the economic goal. As we know that future prosperity of a nation depends greatly on economic growth. Positive economic growth can have significant spillover effects, whether it be an increase in consumption that would spur private investment and promote employment or a decrease in unemployment for its citizens.

On the other hand, the government gains from the rise in tax revenue and later helps to fund the rise in spending on public services. Given that households can afford to spend more on more goods and services, a rise in the nation's productivity would ultimately contribute to a reduction in poverty and an improvement in living standards. Furthermore, the majority of the cases, gross domestic products (GDP) are the most common way to gauge economic growth (Omar & Nor, 2020). The gross domestic product reveals a nation's entire output of goods and services over a certain time frame. The country's production, national income, and expenditure would all rise with an increase in GDP. However, in this study will reveal and appointing our own result whether it could be fit with other previous studies. The researchers will try to find out the differences and compare between theory, issues and method used among this study and other studies and will be mentioned in this section.

First of all, government debt has been referred as the main searching in this studies. As we know that the amount of a nation owes to lenders abroad is referred to as its government debt.

Private people, companies, institutions, and even other governments could be among these lenders. In literature, the terms "government debt" and "public debt" are frequently used interchangeably (Amadeo, 2020). Public debt is expected to impede long term economic growth through a variety of different channels, as is widely acknowledged in the research. Savings and investment, total factor productivity, and interest rates are three ways that government debt affects economic growth (Mosikari & Eita, 2021). From Checherita Westphal and Rother (2011), they highlight long term interest rates as a key mechanism via which the increase of government debt can be influenced. More debt financed government budget deficits may result in higher long term interest rates, which could discourage private investment and restrain potential output growth.

In addition, the connection between governmental debt and economic growth has been extensively researched in the past and has become one of the famous searchings among the researchers. Both developed and developing nations have looked into the connection between these two variables. The relationship between public debt and economic development has been studied using cross sectional data or panel data in both developed and developing nations (Mosikari & Eita, 2021). Based on Eberhardt and Presbitero (2015), their investigation on the relationship of public debt and GDP found that there is negative relationship between these two variables. According to Reihnart (2010) and Rogoff (2010), they also explored the connection between debt and GDP growth over a 200 year period in 44 different nations with 3,700 observations make up the dataset that was used in the study. There were also various political systems throughout the estimate period such institutions, historical context, and exchange rate arrangements. According to the study, the intensity of the debt to GDP ratio determines the relationship between debt and real GDP growth.

Both internationally and within a single nation, there is good discussion of the link between public debt and economic growth. Some studies demonstrate that public debt negatively affects economic growth while other studies show that it positively influences it (Barik & Sahu, 2022). So, in order to understand the relationship between government debt and GDP growth, few issues are addressed in this paper, is there have a long run and short run between this both and how GDP got affected by the government debt. This will have a further discussion on the next section whether the result in these studies can be almost relating with other's findings or have a contradiction.

Not only that, the studies of GDP per capita from (Sharma & Kautish, 2019) appointed that foreign aid has a negative relationship with GDP per capita, but the lagged version of this relationship is insignificant, while the coefficient of the government expenditure relationship with GDP per capita has been found to be negative over time. These effects of time lag foreign aid and economic policy on income per capita across the region of South East Asia. In this research, they used the same dependent variables that is government expenditure and there are negative relationship between GDP per capita in the long run. Similarly, Cheong (2001) also found that there are no evidence for a long run relationship between real per capita income and government expenditure in another relevant study that tested the validity of Wagner's classical approach in particular within the Malaysian context as opposed to Keynesian theory, which treats government expenditure as an exogenous factor.

In Dogan and Tang (2006), they introduced Wagner's law in detail where a relationship he hypothesised between government spending and GDP in the late 19th century basically states that the role of the public sector will rise as per capita income rises. Wagner offered explanations for why the GDP portion of government spending would become more significant as an economy expanded. One of them is that as industrialization proceeds, public sector activity will take the place of private sector activity due to the increased significance of the state's administrative and protective roles. For example, in relating studies, Islam (2001) used the Johansen-Juselius cointegration approach to re-examine Wagner's theory for the USA and discovered that the real Gross National Product per capita and the relative quantity of government spending are cointegrated. Wagner's theory is further strongly reinforced by the Engle-Granger (1987) error correcting technique finding.

To meet the needs of acquiring goods or services that are available on the market, household expenditure planning is essential. The increase in household assets and liabilities shows that the financial standing of households has greatly improved in recent years (Bakri et al., 2017). With greater ownership of financial assets and real estate, the financial status of households has also changed. The financial status of Malaysian households is characterised by two primary patterns. First, since 2002, the size of households' financial resources has increased. Second, the variety of household assets has increased (BNM Annual Report, 2013). The Malaysian economy's private consumption sector has grown in importance. Over the past ten years, it has fueled economic growth, which grew at an average annual pace of 7.4% from 2000 to 2009. (Annual Report 2010).

According to the Malaysia Plan, growing living expenses are a significant problem for households. The average monthly household expenditure climbed from RM1,248 in 2009 to RM2,0155 in 2014, a 10.1% annual rise (Bakri et al., 2017). Additionally, households' high levels of debt have an impact on their ability to manage their finances because they frequently take out personal loans to pay for essential daily needs. It is challenging to pinpoint the variables that influence consumption or are most strongly correlated with consumption spending in the households sector. It might be challenging to develop an estimation model that works well in a real world economic environment when the model is constructed and at odds with current economic theories. As a result, the estimation of consumption model can be used to pinpoint potential causes of economic issues as well as pinpoint solutions to those issues that are specific to the household sector.

From past studies which figure out regarding household consumption, according to macroeconomic research by Diacon and Maha (2015), there is generally a correlation between income and consumer spending. They used cross-sectional and time series data to investigate income, consumption, and GDP in 97 different countries. They classify those nations as high income, middle income, and low income countries. In low and high income countries, income levels have a stronger effect on household consumption spending. On the other hand, people in middle income nations have a poor link between income and consumption spending. In fact, households in lower income countries will utilise their income to pay for necessities. Households in high income countries, in contrast, have a variety of income streams, allowing their investment to rise pace with their consumption costs. Also referring to the Keynesian macroeconomic model where it predicts that household consumption and its ability to influence collective spending have a significant impact on economic growth.

Last but not least, the factors that affect GDP growth per capita were both government and household spending. The findings suggested that the other predictors and GDP per capita have a long-run equilibrium connection (Yoong et al., 2020). Also with the government debt where it comes out with different ideas where some studies estimated with a positive relationship between debt and GDP while some having a negative relationship. However, it can be conclude that all these variables actually have an impact towards GDP per capita, but sometimes it having a contrast finding among the researchers and have their own idea regarding the correlation. Therefore, the researcher is interested in conducting a study on debt and economic growth based on per capita and this can indirectly help the researcher to further confirm the findings obtained through this study apart from the reference of previous studies on the relationship between debt and economic growth in Malaysia.

1.3 CONCEPTUAL FRAMEWORK

The relationship between the independent variables and dependent variables of this study can be referred to in the conceptual framework as follows:

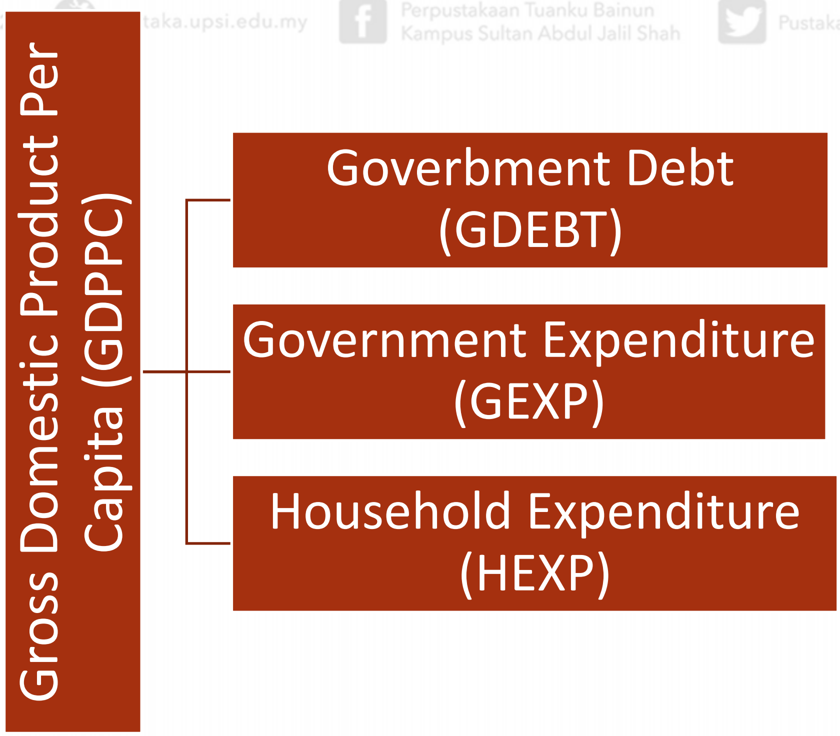

Figure 1.3.1

According to this conceptual framework, it shows the relationship between dependent and independent variables which GDPPC as dependent variables while GDEBT, GEXP and HEXP refer as independent variable. In this study, the main focuses is towards the relationship between GDPPC and GDEBT since this has attract the researchers to study more depth and what are in between GDP and debt and how this two can relate with each other. On the other hand, GEXP and HEXP also are one of the important indicator in affecting the GDP per capita. However, this three independent can be said is relating to each other and how does they affects GDP whether in positive correlation or negative will be discuss further in chapter 4 with the method use. Thus, the findings will be explain according to the results gain.

1.4 RESEARCH QUESTIONS

In order to achieve the objectives of this study, there are several research questions that must be addressed . The research questions are listed as follows :

1.4.1 How does government debt affected gross domestic product per capita (GDPPC) in Malaysia during the chosen year (1985 – 2017)?

1.4.2 Is there exist a long run and short run relationship between variable selected (GDEBT, GEXP and HEXP) with the economic growth as measured using GDP per capita?

1.5 RESEARCH OBJECTIVE

The research aims are particular of the main aspects for transporting some research. The objectives are the steps or the particular list of tasks wanted to realize the aims of the project. Basically, the aim of the analysts search out validate the dependability and departure of existent information.

Gross domestic product (GDP) is one of ultimate usual signs of economic appearance. GDP measures a public frugality's total yield in a likely ending, and is with little or no deviation conform remove periodically alternatives established temperature or feasts. The most approximately guarded GDP measure is also regulated for swelling to measure changes in productivity rather than changes in the prices of goods and services. GDP is crucial because it gives facts about the proportion of the economy and by means of what an economy is operating. The tumor rate of legitimate GDP is frequently secondhand as every sign of the approximate well being of the saving. In broad conditions, an increase in absolute GDP is interpreted as a sign that the economy is doing well. Thus, this study has narrowed down the scope to focus on government debt, government expenditure and household expenditure. This research will examine the relationship between every each variables with GDP per capita of Malaysia's country and how it get affected. The scope of year is from 1985 until 2017 that is within 32 years and along this period, we will find out the long and short run whether it exist or not. Hence, the specific objectives are shown as below:

1.5.1 Objective I :

To investigate the effect of government debt on gross domestic product per capita (GDPPC) in Malaysia during the chosen year (1985 – 2017).

1.5.2 Objective II :

To identify the existing of a long run and short run relationship between variable selected (GDEBT, GEXP and HEXP) with the economic growth as measured using GDP per capita.

1.6 RESEARCH HYPOTHESIS

A hypothesis is a statement that illustrate about the relationship between two or more variables. The research hypothesis is referring as a speculation that expresses the study's initial expectation in which the hypothesis refers to the predicting of relationship between the independent and dependent variables. In order to answer the study, the researcher employs the alternative hypotheses as follows :

1.6.1 To test the effect of government debt on dependent variables

H_1 : There is influence of government debt towards GDP per capita in Malaysia.

1.6.2 To test the long run relationship between government debt, government expenditure and household expenditure with dependent variables

H_2 : There is a long run relationship between government debt, government expenditure and household expenditure with GDP per capita.

1.6.3 To test the short run relationship between government debt, government expenditure and household expenditure with dependent variables

H_3 : There is a short run relationship between government debt, government expenditure and household expenditure with GDP per capita.

1.7 SCOPE OF STUDY

The main focus of this thesis is to analyze regarding independent variable that has been selected with the economic growth as measured using GDP per capita. In this study, the main independent was refer to government debt while the other variable is government expenditure and household expenditure. The coverage of this study is to investigate the effect and relationship of long run and short run between government debt, government and household expenditure with the GDP per capita. Relating the year chosen, the researcher decided to find out the relation in between 1985 till 2017 that is within 32 years due to through the period, there are few matter related to economics like finance crises, global crises and Asian crises which those incident has bring an impact towards Malaysia economic and also in globally.

Next, in this research, the researcher has chosen the country of Malaysia in the scope of this study to examine in more depth the effects faced due to economic changes, crises that occur and so on related to the Malaysia's economic growth. Researchers are also interested in doing research on Malaysia because Malaysia is one of a developing country and also practices economic openness. Therefore, this attracts the interest of researchers to see how Malaysia manages its economy in terms of policy and how they control the country's economic growth even in the situation of crises that have had an impact on the global.

Not only that, in doing this research also will help the researcher in gaining more information from the searching. All the data used is found through internet sources from past studies, annually data from the World Bank, Banak Negara Malaysia and International Monetary Fund (IMF). The review from past research has giving a lot of idea and understanding which could help me to evaluate more regarding this research.

1.8 DEFINITION OF TERMS

1.8.1 GROSS DOMESTIC PRODUCT (GDP PER CAPITA)

Gross domestic production (GDP) is one of ultimate established signs of business related depiction. GDP measures a domestic frugality's total yield in a likely period, and is with little or no deviation used to remove periodically alternatives established atmosphere or festivities. The most carefully observed GDP measure is too regulated for swelling to measure changes in crop alternatively changes in the prices of merchandise and duties. GDP is the key summary unit of the mathematical system of financial venture and ultimate main changing in studies of economic progress (Konchitchki, Yaniv, Patatoukas, Panos N. 2014). GDP in a country is regularly planned apiece communal mathematical instrumentality, that compiles the facts from a lot of beginnings.

Basically, GDP and GDP per capita is the same basis that both are used as a benchmark for the growth of a country's economy. But, despite its acknowledged shortcomings, the Gross Domestic Product (GDP) per capita is a crucial indication of economic success and is widely used as a broad measure of typical living standards or economic health. (OECD, 2012). Or in other words, it tends to refer more in evaluate living standards and citizens which it calculated by dividing a country's GDP by its population, gross domestic product (GDP) per capita is a financial indicator that shows how much money is made by each individual in a nation.

So as whole, Economists use the gross domestic product per capita, a global indicator of national prosperity that is based on economic growth, to assess the prosperity of a nation. The GDP per capita statistic demonstrates the amount of economic production value that can be directly linked to each individual citizen. Alternately, this translates to a measure of national wealth since GDP market value per person very easily serves as a measure of opulence.

1.8.2 GOVERNMENT DEBT

The economy of a nation needs a certain quantity of capital to support economic growth and generate production. According to economic theory, borrowing at affordable rates will likely boost economic growth since it will hasten the pace of infrastructure construction in developing nations (Lee & Ng, 2015). One of the developing nations, Malaysia has had a financial deficit for many years. In order to finance government spending and domestic investment when Malaysia has a budget deficit and so boost economic growth, the government may borrow on both local and international markets. However, Malaysia will suffer if more debt has a detrimental influence on economic expansion.

The debt is a national debt that includes both domestic and foreign debts. According to Abd-Rahman (2012), public debt occurs when government holdings of securities are insufficient to cover prior budget shortfalls. Concerns about whether borrowings could boost economic growth or whether they could become a financial burden for future generations have been raised by the sharp rise in governmental debt in developing nations. The debt overhang ideas were the main focus of the majority of earlier investigations. The debt overhang hypothesis contends that a nation with high levels of debt is not required to pursue macroeconomic changes or policies because the benefits would not be sufficient to balance the costs and would simply be utilised to pay off existing debt (Clements et al., 2003).

However, there are few opinion that come out with a rising debt can boost to an economic activities. According to some research, debt can actually increase growth, but only up to a certain point. Beyond that point, it could be harmful to economies. These empirical findings are consistent with other empirical studies that examined how government debt affected GDP growth and found that debt boosted economic activity.

1.8.3 GOVERNMENT EXPENDITURE

Basically, government spending is measured by consumption costs and gross investments, which are factored into GDP calculations. The government's current expenditures include payments for corporate subsidies, interest, social benefit and other transfer payments, as well as consumption costs. Current data on public spending indicate a considerable cross country variation. Both in terms of per capita spending and as a proportion of GDP, government spending in high income countries is often much larger than in low income countries, and it also tends to be more heavily skewed towards social safety. Governments all throughout the world frequently depend on the private sector to manufacture and administer goods and services, according to recent data on public spending. And in particular, public private partnerships (PPP) have gained popularity as a way for governments to finance, plan, construct, and manage infrastructure projects.

On the other hand, in simple words, the phrase of "government spending" refers to funds that the government invests in the economy (Danladi, 2015). From small city councils to federal organisations, all levels of government incur expenses. However, the failure of the market system to properly and efficiently allocate these resources led to the emergence of government intervention in the matter. The types and amounts of overall public spending devoted to economic and social development projects in the economy determine how the government's spending on public infrastructure influences economic growth. But, Danladi (2015) also mentioned that Increases in government spending could have a negative impact on the economy's performance since they will increase individual taxes, which will lower productivity. So, due to this statement, various researchers has come out with many different idea which all of it are make sense. Thus, this issue will be discusss further in next section.

1.8.4 HOUSEHOLD EXPENDITURE

The intended amount that a household spends to meet their fundamental needs, such as for food, clothing, shelter, transportation, and other items, is known as household consumption expenditure (Hone & Marisennayya, 2019). Because it involves particular economic units, a household's decision over how much to spend or save falls under the category of microeconomics. Consumption is the most important factor in determining aggregate demand and national income accounting. It is the primary economic activity that determines the health of the economy and, at the microeconomic level, it represents a sizeable portion of household disposable income.

Household consumption has a significant impact on socioeconomic growth. Reasonable consumer behaviour and moderate consumption levels contribute to the economic well being of the scale of growth, and this is the real world illustration of how well people are doing. Household consumption expenditures are the market prices paid by households for all products and services purchased to meet their needs and desires. According to Goldsmith (1996), the pattern of household consumption expenditure changes with the passage of time. Money or income must be dealt with as soon as feasible in order to fulfil the essential expenses. This is because the passage of time has become one of the elements that indirectly influence the pattern of household consumption, as the change currently affects the cost of acquiring goods and services due to the country's inflation.

1.9 TREND ANALYSIS

1.9.1 GDP Per Capita (GDPPC) and Government Debt (GDEBT)

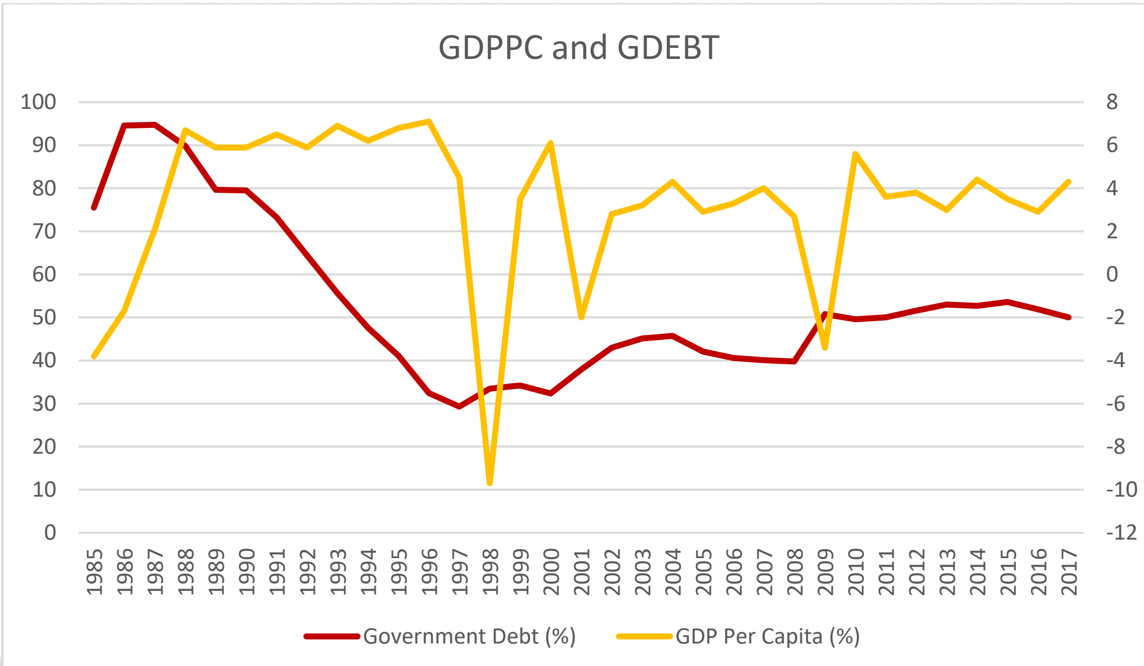

Figure 1.9.1

Based from the figure above, it shows the Malaysia's central government debt and GDP per capita between 1985 until 2017. From the trend we can see that the flow pattern for government debt and GDP is not uniform and has a negative relationship because when there are increasing in government debt, GDP per capita will decrease. The most significant trend difference can be seen in the year 1998, 2001 and 2009 where during this year, there is an increase in government debt but at the same time, GDP fall suddenly. In 1998, 2001 and 2009, the debt recorded a percentage of 33.43%, 37.95% and 50.8% respectively and causes a drop in GDP per capita at -9.7%, -2 %and -3.4% for year mentioned respectively. One of the factors contributing to the drop in GDP was the 1997 crisis, which resulted in poor perceptions of the Malaysian economy following the dramatic collapse of the Thai economy (Nambiar, 2009). The collapse in Thai baht also impacted other country region like Indonesia and Singapore.

In the face of a tough external environment, the Malaysian economy remained robust in 2001. While the worldwide economic slump in 2001 was worse than expected. As early as March 2001, the negative consequences of the US economic slowdown and worldwide electronics crisis were felt. These were reflected in falling manufacturing output and negative export growth (BNM, n.d). On that year, a rise in government debt shows that government needs to spend more to restore the economic situation that has been severely affected by the crisis to the point that the government has to increase the amount of national debt. While, the current crisis did not begin in Asia or Malaysia, but rather as a result of deficiencies in the United States banking industry, which escalated into a serious international financial crisis, a major depression in global commerce, and a global recession by late 2008.

If deficit financing is done through external borrowings or printing money, it is not sustainable. However, due to Malaysia's high savings rate and surplus liquidity in the economy, the majority of the fiscal deficit was financed through non-inflationary domestic sources in the form of Malaysian government securities. The domestic composition of the government's debt protected it from exchange rate problems. Although the government's debt is still within acceptable bounds, fiscal restraint needs to be practised to guarantee macroeconomic stability.

1.9.2 GDP Per Capita (GDPPC) and Government Expenditure (GEXP)

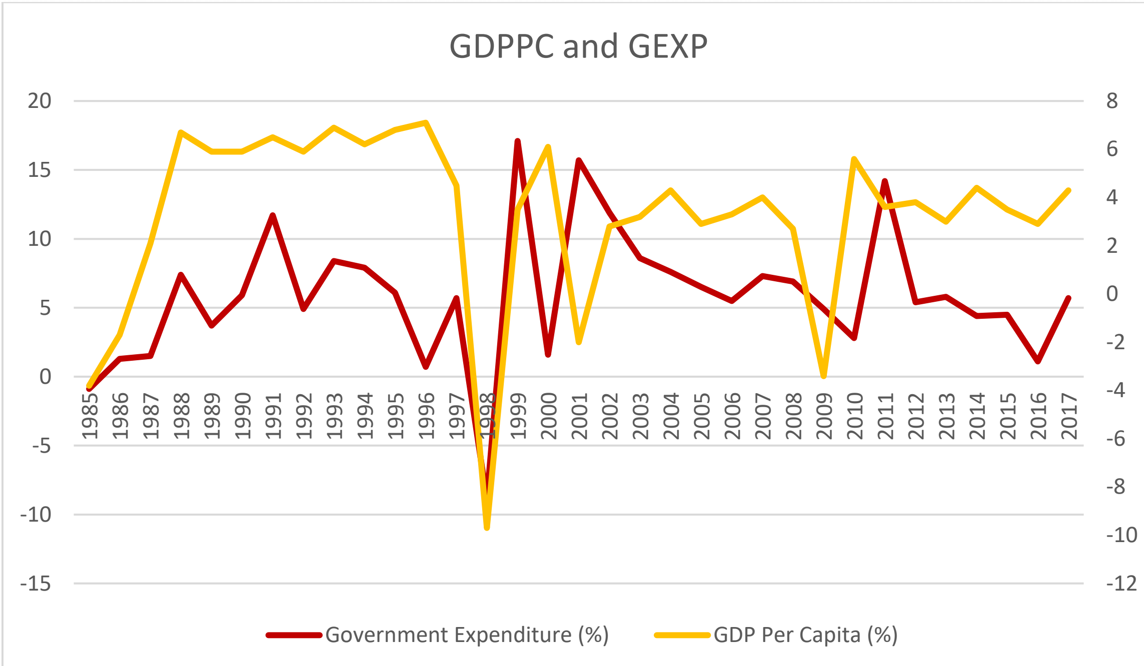

Figure 1.9.2

From the figure above, the trend shows a positive correlation between government expenditure and GDP per capita where we can see that there is a uniform flow pattern on the growth of government spending also drives GDP per capita. The flow pattern shows almost the same trend as the previous diagram where the circles of 1998, 2001 and 2008 are among the years that experienced significant decline as a result of the crisis that hit in those years. In year 1998, the overall percentage for government expenditure and GDP per capita were -8.9 % and -9.7 % respectively and this matter very worrying and puts the state of the country's economy in a dangerous situation. This is maybe due to the impact of the crises and has causes government to lower their spending but this also has driven the GDP dropped.

Government spending is a significant fiscal tool in Malaysia and is separated into two categories which is operational expenditure and development expenditure. Operating expenses are those that are incurred for recurring activities, such as pensions, judge salaries and state subsidies, office rentals, asset purchases, and gasoline purchases. In contrast, the money designated for developmental expenditures is used to carry out development projects under the Five-Year Malaysia Plan. The development budget is a one time, non-recurring expense that is more in the category of investment than consumption. As a result, it demands a sizable investment or service, provides long term advantages, and necessitates oversight and upkeep. For instance, building roads, schools, offices, medical facilities, clinics, and police stations. So, it really having a high impact towards country's economic growth.

1.9.3 GDP Per Capita (GDPPC) and Household Expenditure (HEXP)

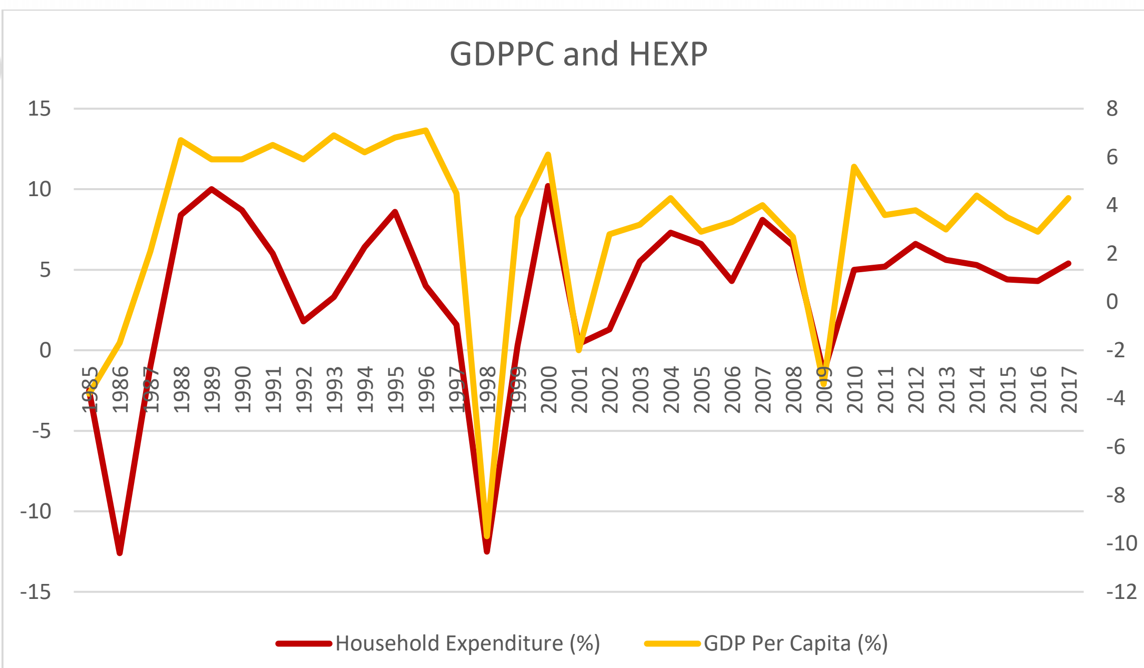

Figure 1.9.3

Based from the figure above, the analysis trend also shows a positive relationship between household expenditure and GDP per capita. The crises that happened in 1998, 2001 and 2009 also shows a declined in spending of consumer thus causes a declined in GDP per capita which both are related to each other. Also, the crisis induced slowdown in economic growth has unavoidably had an influence on Malaysia's social sphere. As a result of the GDP downturn, employment growth slowed and unemployment levels rose (Ariff & Abu bakar, 1999) and rising in unemployment rate will slower the production.

The items and services that households purchase from a variety of product categories are considered to be consumed. Changes in consumption are a major factor in the booms and recessions of the business cycle because they account for two thirds of GDP. Given how important consumption is to economic growth, long-term analysis also depends on it. The components of GDP include household consumer spending, investment, government spending, and net export. Consumption expenditures are included in macroeconomic policies for fiscal planning since they account for a large portion of GDP. The behaviour of consumers in the face of income volatility is a concern for policymakers. The choice of a household on how much to spend or save is a microeconomic issue because it pertains to the individual units of the economy.

After 1985, the net average income expanded more quickly than the rate of consumption in high income nations. In actuality, consumption rose steadily, with a slight decline during the height of the crisis. In middle income nations, average net income and average GDP per capita climbed more than consumption between 2003 and 2008. We can infer from this that customers have made greater savings than previously. The discrepancies between the three variables are less pronounced for low income countries than they are for high and middle income nations. This finding can be explained by the fact that, on average, people from these nations spend a greater percentage of their income on consumption (Diacon & Maha, 2015).

In addition, according to an examination of household dynamics, factors influencing household consumption expenditures include disposable income, inflation, government spending, interest rates, population size, and educational attainment. The majority of household spending on consumables is influenced by price and related elements including tax, income, and import levels. Income has a big impact on how much you spend on consuming. Thus, household spending also can be as a bench mark for economic growth.

1.10 LIMITATION OF STUDY

Every research has its limits, which are caused by limitations in methodology or research design. By stating the limitations of the research, the researchers demonstrate that they have explored all of the study's flaws and have a thorough understanding of the purpose of these investigations. Just like for these research, the researcher have try hard to find the accurate information and find the related articles to gain more idea and way to describe the study. However, every study done must have its own challenges and limitations that the researcher has to overcome.

In this study, the researcher having few problem to get complete data for the period that has been set. For example, there are some variables that do not provide data for certain years and there are also websites that need to be paid for excess data. Researchers also have difficulty finding data in the same currency value. For example, there is a variable in the value of the Malaysian Ringgit currency but do not have in USD currency and vice versa. So, this have become a limitations for the researcher to synchronize the currency for each variables.

Not only that, limited time also have become one of the limitations for the researchers. The time given for the researcher to complete this study is quite limited considering that the researcher also has other tasks that need to be completed at certain times. So, the limitation of time makes it difficult for researchers to get comprehensive information. In addition, the researcher also needs more time to discuss and get guidance from the supervisor to ensure that each step in this study is organized and get the correct selection of methods.

1.11 SIGNIFICANCE OF STUDY

Accelerated GDP growth expands the overall size of the economy and strengthens budgetary conditions. According to conventional knowledge, a nation's stability and prosperity depend on its GDP growth, which quantifies the goods and services produced in its economy each year. Growth is what makes each generation better off than the previous one. So, based on this study, what attracts the researcher's attention to study the economic growth of Malaysia is in terms of the relationship between GDP and selected variables to see the extent to which those variables affect GDP growth. But, in this study, GDP is refer to per capita where it will emphasize the standard of living and relate it with economic growth.

Based from the past research, there are various opinions from researchers regarding the relationship between macroeconomic variables and GDP. at the end of the results, there are similarities and there are also differences about the conclusions made based on the final results gained. Therefore, this has indirectly caused disagreements or arguments among researchers to get the final results for the study carried out on economic growth, considering the scope of this study is very broad and closely related to every economic activity.

Therefore, the study of economic growth is always a priority for researchers due to the fact that this issue is always relevant to be discussed and studied from time to time and from year to year. In addition, economic growth is also always linked to current issues or conditions that have an impact on Malaysia's GDP such as recent health or financial crisis situations, natural disasters, population growth and others which have made Malaysia's GDP as an important benchmark or indicator to determine the economic condition of a country. So, that is why it is very crucial to having a research regarding this topic.

1.12 CONCLUSION

In a nutshell, economic growth refers to a rise in overall productivity as measured by the gross domestic product (GDP). Productivity is the capacity of a state to generate goods and services out of its own resources. While the GDP per capita statistic demonstrates how much of the total economic production is directly due to every single citizen. Instead, as GDP market value per person very easily serves as a measure of affluence, this translates to a measure of national wealth. Any increase in productivity indicates an increase in economic growth. From this statement, we can conclude that GDP growth and per capita is very important to determined the economic condition. However, there are still many more discussions and reviews from past studies that will be discussed in the next chapter related to the selected variables and what is their relationship with GDP per capita.