Macrothink Institute™

Business and Economic Research
ISSN 2162-4860
2023, Vol. 13, No. 3

Public Debt, Current Account Balance, and Fiscal Balance: The Threshold Effects in Selected ASEAN Countries

Xin-Lin Soo (Corresponding author)

Faculty of Economics and Business, Universiti Malaysia Sarawak

94300 Kota Samarahan, Sarawak, Malaysia

E-mail: xinlin_soo@hotmail.com

Jerome Swee-Hui Kueh

Faculty of Economics and Business, Universiti Malaysia Sarawak

94300 Kota Samarahan, Sarawak, Malaysia

Tel: 60-8258-4436 E-mail: kshjerome@unimas.my

Rossazana Ab-Rahim

Faculty of Economics and Business, Universiti Malaysia Sarawak

94300 Kota Samarahan, Sarawak, Malaysia

Tel: 60-8258-4455 E-mail: arrossazana@unimas.my

Josephine Tan-Hwang Yau

Faculty of Economics and Business, Universiti Malaysia Sarawak

94300 Kota Samarahan, Sarawak, Malaysia

Tel: 60-8258-4370 E-mail: ythjosephine@unimas.my

Received: June 13, 2023 Accepted: July 21, 2023 Published: July 27, 2023

doi:10.5296/ber.v13i3.21070 URL: https://doi.org/10.5296/ber.v13i3.21070

Abstract

Indebtedness is a huge global issue faced by all economies around the world since the older time until today. The high and increasing debt levels have become a concern, and public debt has become the core of the turmoil that began a few years ago. When the government's spending in a year exceeds its revenue, there will be a budget deficit for that fiscal year. Hence, it must use debt to fill the funding gap. This situation creates an annual deficit, which cannot end until the accumulated debt becomes unsustainable and the government's finances collapse. Hence, this study is aimed to assess the impact of the public debt threshold on current account balance and fiscal balance in selected ASEAN countries (Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam) by adopting annual data from 1990 to 2021. In panel long run estimation by pooled mean group (PMG) estimator, public debt affects twin balances to have a positive relationship. In the empirical analysis, the single threshold sample splitting model is employed to assess the impact of the public debt threshold on the current account balance and fiscal balance either below or above the threshold level. The outcomes indicate that the public debt threshold level is at 63.36%. When the public debt threshold is below 63.36%, there is a negative relationship between the current account balance and fiscal balance; whereas when the public debt threshold is higher than 63.36%, there is positive nexus between the current account balance and fiscal balance. This result implies the situation of twin divergence situation when exceeding the public debt threshold level.

Keywords: Current account balance, Fiscal balance, Panel model, Public debt, Threshold effects

1. Introduction

Debt is inevitable and is richly introduced to reduce the negative effect of economic shocks. Since the older time until today, indebtedness is a huge global issue faced by all economies around the world. In the past few decades, the increase in government debt has become a major concern for most countries in the world. Law et al. (2021) revealed that due to stimulus spending and the high cost of stabilizing the financial system, advanced economies are facing a large amount of debt accumulation, especially after the 2007 to 2008 global financial crisis, the European sovereign debt crisis that began in 2008, and the recent outbreak of Covid-19. In the first quarter of 2020, global debt soared to a record high of USD 258 trillion, as the global economy is shut down to contain the coronavirus pandemic and debt levels continued to rise. Although the growth of debt levels is much lower than the average quarterly growth from 2015 to 2019, the global debt accumulation of governments, companies, financial institutions, and households has accelerated.

On the other hand, debt is depicted as a two-edged sword. It can help to enhance better welfare if utilized smartly. On the contrary, overuse can cause serious negative effects. When government spending is exceeding its revenue, there will be a budget deficit for that fiscal year, and hence, borrowing huge funds is needed to overcome the circumstances. Hence, to moderate the passive effects of buffer shocks, a country may accept a deficit situation that is endless until the accumulated debt becomes unsustainable and the government's finances collapse. At the same time, the budget deficit will expand as the debt level grows every year