

On the Twin Deficits Hypothesis: Is Malaysia Different?

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ABSTRAK

Kajian ini membincangkan isu semasa berkaitan defisit berkembar di Malaysia. Teknik statistik yang dipelopori oleh Toda dan Yamamoto (1995) digunakan di dalam kajian ini untuk menganalisis hubungan penyebab jangka panjang di antara defisit akaun semasa dan belanjawan kerajaan. Keputusan empirikal jelas menunjukkan bahawa terdapat hubungan penyebab dua hala di antara kedua-dua defisit di Malaysia. Keputusan ini menunjukkan dengan jelas bahawa Malaysia berbeza sekali daripada kebanyakan negara-negara industri. Dari satu perspektif, keputusan ini mencadangkan bahawa hubungan penyebab daripada defisit belanjawan kerajaan kepada defisit akaun semasa yang membuktikan fenomena defisit berkembar. Dari sudut lain, hubungan penyebab daripada defisit akaun semasa kepada defisit belanjawan kerajaan mencadangkan elemen-elemen polisi pengukuhan akaun semasa. Oleh itu, masalah menguruskan akaun semasa defisit dalam akaun semasa tidak hanya boleh bergantung sepenuhnya pada mengurangkan defisit di dalam belanjawan kerajaan.

ABSTRACT

This paper discusses the on-going debates surrounding the issue of twin deficits in Malaysia. The statistical technique advocated by Toda and Yamamoto (1995) for handling economic variables that might spuriously move together is utilized to examine the long run causal relationships between budget and current account deficits. We examine more than the three decades of time series data to answer the question of whether the budget deficit had led to current account deficit. The empirical result reveals the presence of bi-directional causality between the two deficits in Malaysia. It is this finding that makes Malaysia different from the major industrialized countries. On the one hand, we find that the causal relationship is from budget to current account deficits providing evidence of twin deficits phenomena. On the other hand, the reverse causation as detected in this study tends to suggest some evidence of current account targeting. Therefore, policy to curb 'chronic' current account deficit cannot be achieved if the policy markers simply rely on curtailing budget deficit.

INTRODUCTION

The past two decades have witnessed large swings in budget as well as large fluctuations in employment, output, interest rates, exchange rate and the trade balance in the major industrialized countries. Economists view these

events as harmful to the economy. The best known events took place during the "Reagan fiscal experiment" in the 1980s which marked a period of strong appreciation of the dollar and an unusual shift in external balance not in favor of the United States.¹ In Europe, both Germany

¹ In the period 1981-1985, budgetary deficits in US rose from almost zero to a total of USD140 billion in 1985. In the same period, there was simultaneous depreciation of US dollar in real as well as nominal terms as well as deterioration in current account balance from a current account surplus of USD6.0 billion in 1981 to a deficit of USD120 billion by the year 1985. The two deficits were called twin deficits because they move in the same direction (amount) and they derived from the same economic fundamentals.