

Fiscal Sustainability: An Empirical Investigation in Sarawak

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ABSTRACT

This paper examines the fiscal sustainability condition for Sarawak during 1971 to 2004. We also split the sample period into the pre-crisis (1971-1996) to investigate the disparities between the two empirical samples. Empirical validation from the time series analysis finds that government revenue, government expenditure and Gross domestic Product (GDP) are cointegrated, which provides some support for the position that Sarawak's budget deficit is sustainable in the long run in both sampling periods. The results also found support for coefficient of expenditure being unity in both periods. This finding suggests that reducing the size of government spending may improve fiscal budget deficits without having to undergo changes in the overall strategy.

Keywords: Fiscal Sustainability, Revenue, Expenditure, GDP and Sarawak.

INTRODUCTION

Since the publication of Hamilton and Falvin's (1986) article, the behavior of fiscal deficit sustainability has been an important topic in economic frontline and policymaking. It is seen as a key indicator of a country's economic performance. According to this view, temporary fiscal deficit presents few problems, as the imbalances may be the result of dealing with a recession, natural disaster or some other form of short-term event. However, persistent fiscal deficit poses a problem that is likely to induce a policy response at both macro and microeconomic levels.

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