ROle of public domestic debt in economic development: the case study for emerging market coutries and Indonesia

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Abstrak

The objective of this paper is to investigate the role of public domestic debt on economic growth in emerging It does so by analysing the main question: Does public domestic debt affect market economies and in economic growth positively or adversely? Employing the system of pooled least square of panel data over the period 1990 to 2005 from 13 countries in Asia and Latin America, the results show that all coefficients are statistically significant and consistent with what important. Increasing one we expected. It is dear that the mole of domestic debt on economic development percentage point of domestic debt per GDP will increase economic growth point By applying the fixed effect model and the random effect model, the estimation is consistent with the pooled least square The effect of domestic debt/GDP on economic growth is non-liner The regression result shows that the sign of domestic debt/GDP square is negative. Although the variable of domestic debt square is not significant, intuitively this result suggest that in the long run the role of domestic debt may reduce economic growth. It may be happened since domestic debt in East Asian countries and Latin America countries is still growing and immature. The one of the recommendation of this paper is that emerging market economies in Asia and Latin America, including Indonesia, should focus on the improvement of domestic bond markets and should adopt more prudent policies in borrowing money from external sources by seeking the lowest cost of borrowing.