

The Impact of Oil Price and Government Expenditure on Economic Growth in Malaysia

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Abstract

Purpose: This study examines the impacts of oil prices and government expenditure on economic growth in the context of Malaysia.

Methodology: The time series monthly data from 2000 to 2021 has been considered for this study and examined by the Auto Regressive Distributed Lag (ARDL) model for short and long-run observations.

Findings: The finding reveals that the oil price has a favourable impact on both short- and long-term economic growth; hence, Malaysia is practically an oil exporter. Despite the instability of oil prices, the country generates a significant amount from the sector. As oil price rises, economic activities are eventful. The government allocates more funds to various productive areas of the nation from the oil sector-generated revenue. Government expenditure has a considerable positive effect on economic growth in the short and long run.

Practical Implications: The investigation results indicate that oil prices and government expenditure favourably impact Malaysia's economy in the short and long term.

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Originality/Value: Based on the data, policymakers could re-evaluate government expenditures to lubricate the wheels of economic growth while keeping an eye on the volatility of oil prices, contributing to oil revenues.

Keywords: Oil price, government expenditure, economic growth.