

The relationship between government expenditure and economic growth in South Africa from 1981-2019: An ARDL and ECM approach

Nyiko Worship Hlongwane

School of Economic Sciences, North-West University, South Africa

Tumelo Donald Mmutle

School of Economic Sciences, North-West University, South Africa

Prof Olebogeng David Daw

School of Economic Sciences, North-West University, South Africa

Abstract

This study examines the relationship between government expenditure and economic growth in South Africa for the period spanning from 1981 to 2019. The study employs an Autoregressive Distributed Lag (ARDL) model and Error Correction Model (ECM) to investigate the short run and long run impact of government expenditure on economic growth in South Africa. The study utilised the available annual time series data from South African Reserve Bank (SARB), The World Bank and Knoema from 1981 to 2019. Statistical results from the ARDL model shows that there is a negative and insignificant long run relationship between government expenditure and economic growth in South Africa. Results from the ECM shows that there is a short run positive and statistically significant relationship between government expenditure and economic growth. The speed of adjustment to coefficient found in this study revealed that 71 percent of variation in GDP from equilibrium level is corrected within a year. Government expenditure can therefore be used as a short run stabilisation tool since the relationship is positive and statistically significant. In the long run, however, the government should promote investment as it boosts economic growth and to avoid crowding out effect of investment in South Africa. It can therefore be concluded that the Keynesian theory is applicable in South Africa.

Keywords: Economic growth, government expenditure, ARDL model, ECM, South Africa.

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