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Contribution of oil in economic growth of Saudi Arabia

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Abstract

This article examines the relationship between oil production and economic growth based on time-series data of Saudi Arabia from 1971 to 2010, and the Autoregressive Distributed Lag (ARDL) model approach for cointegration has been used. The innovative contribution of this study is to determine long-run relationship between oil production and economic growth by disaggregating oil production into domestic consumption of oil in industrial sector and revenues earned from export of oil. Results show that oil revenues have a strong positive impact on real Gross Domestic Product (GDP) in both the short and the long runs, and this positive relationship holds for different specification of the model. Domestic consumption of oil in industrial sector has negative impact on GDP in both the short and the long runs.

Keywords:

ARDL | oil | growth | Saudi Arabia

JEL Classification:

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Notes

[1] http://www.eia.gov/countries/country-data.cfm?fips=SA

[2] The 47th annual report of Saudi Arabian Monetary Agency (SAMA).

[3] We use an Autoregressive Distributed Lag-Error Correction Model (ARDL-ECM) with an unrestricted intercept and no trend.