

# Do Macroeconomic Variables Influence Inflation? Analysis from Malaysia

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## ABSTRACT

**Background:** This paper investigates the influence of some key macroeconomic variables on the inflation rate in Malaysia using annual time-series data for the period of 1982-2022.

**Methodology:** The relationships between inflation and four major indicators-unemployment rate, economic growth, net imports, and interest rate-are investigated in this paper using the multiple linear regression technique based on the OLS method.

**Finding:** The findings indicate that inflation in Malaysia has been significantly affected by fluctuations in those macroeconomic factors. From the estimates, economic growth, unemployment rate, and interest rate show a positive and significant effect on inflation, implying that high output, employment, and cost of borrowing are positively associated with escalating price levels. On the other hand, net imports have a negative and significant effect, which implies that greater trade openness and an inflow of imported goods may dampen upward pressure on domestic prices.

**Originality:** Generally, the results provide useful insights into the dynamics of Malaysia's inflationary behavior and emphasize that coordinated macroeconomic policies are crucially important to achieve price stability along with economic growth.

**Keywords:** Inflation rate; Macroeconomic variables; Economic growth; Interest rate; Net imports; Malaysia.