

EXTERNAL DEBT AND GROSS DOMESTIC PRODUCT IN BANGLADESH: A CO-INTEGRATION ANALYSIS

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Abstract

External Debt (ED) is considered as a significant source of income for developing countries. Bangladesh relied on foreign debt to finance its balance of payments deficit and saving investment gap. Primary objective of this paper is to explore the relationship between external debt and Gross Domestic Products in Bangladesh for the period of 1972-2010, using time series econometric technique. We took a point of glance of external debt and economic performance of Bangladesh. The results show that there is a positive significant correlation between Gross Domestic Products (GDP) and External Debt (ED). The empirical results suggest the existence of long-run relationship between GDP and ED. The result of Granger's Causality test implies that there is bi-directional causality runs through GDP to ED as well as ED to GDP.

Keywords: External Debt (ED), Gross Domestic Product (GDP), Unit Root, Granger Causality, Johansen Co-integration.

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