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RELATIONSHIP BETWEEN GOVERNMENT DEBT AND ECONOMIC GROWTH IN INDIA

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ABSTRACT

Government debt and economic growth are related concepts. By reviewing existing literature, it is found that the impact of external debt on economic growth is non linear. Thus, when the indebtedness is low, economic growth can be promoted by an increase in the proportion of external public debt to GDP, however, at high levels of indebtedness; an increase in this proportion could slow down economic growth. This study is an attempt to examine whether Government Debt actually promotes economic growth in developing countries using India as a case study. Gross Domestic Product of a country is generally a measure of Economic Growth of that country. In this study, time series data from 1990 to 2013 were fitted into Granger causality test in order to analyse the problem. Empirical results reveal that causality between Internal debt and external debt is unidirectional causality, between External debt and GDP is bidirectional causality, and between Internal debt and GDP is bidirectional causality.

KEYWORDS: *Government Debt, External Debt, Economic, Growth, Causality*