



**Research Paper**

## Impact of fiscal deficit on economic growth in India: A cointegration analysis

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**ABSTRACT : Objectives:** To investigate the long run and short run relationship between fiscal deficit and economic growth in Indian economy. **Methods and statistical analysis:** The study is based on secondary data; objective of the study is examined using time series data from the period 1980-81 to 2013-14. **Findings:** The Johansen methodology concludes an existence of a one cointegrating relationship among gross domestic product, fiscal deficit, gross domestic capital formation and employment. The finding of the study indicates that one per cent increase in fiscal deficit is likely to decrease Gross domestic product by 0.618609 thus, it shows there is a negative relationship between Gross domestic product and fiscal deficit in the long run. But the Vector Error Correction model discards the short run relationship between fiscal deficit and economic growth. **Application/improvements:** Fiscal deficit hampered the economic growth in the long run hence gap between the government revenue and government expenditure should be minimized.

**KEY WORDS:** Economic growth, Fiscal deficit, Gross domestic product, Gross domestic capital formation, Employment

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