ABSTRACT

In this study, we have used annual time series data from 1973 to 2010 to analyze the long-term relationship between two sectors (Agriculture and Construction) of bank credit to private sector and the economic growth. To achieve this goal, we have sketched time plot and employed Augmented Dickey Fuller Test (ADF), Johansen Cointegration test and Vector Error Correction Model (VECM) to find out the long run relationship between variables, Normality test on Residuals and Autocorrelation test has also been used to check the validity of the model. The results of this study indicate that for agriculture sector credit to private sector, GDP growth and private investment are co integrated. In addition, bank credit to private sector has both direct and indirect impact on GDP growth in the long run. In case of direct impact, credit to private sector affects the growth by softening the credit constraints of firms and business for financing the working capital requirement. While, the indirect effects work through the private investment channel. For the construction sector credit to private sector GDP growth and private investment are co integrated and has direct impact on GDP growth in the long run.