

Abstract

The present study deals with the assessment and analysis of the GDP fluctuations (volatility) and its determinants and examines the impact of the GDP fluctuations on the long-run economic growth and private investment in South Asian countries. The study uses five years moving standard deviation from trend of GDP per capita growth rate to measure the GDP fluctuations. Furthermore, the study applies recently developed techniques for non-stationary panel data which account for cross-sectional dependence. These include Breitung and Das (2005) panel unit root test, Pedroni's panel cointegration tests and Group Mean Fully Modified OLS (GM- FMOLS) estimation techniques (with common time dummies to account for cross-sectional dependence) on the annual datasets of five selected South Asian countries (SSAC) which includes Bangladesh, India, Nepal, Pakistan and Sri Lanka over a period of 1980-2010.

The results of the study indicate that the reliance on agriculture, trade liberalization, foreign aid, level of financial development, volatility in price level and the level of political stability are the major determinants of GDP fluctuations in the SSAC. Furthermore, the study finds that the GDP volatility exerts a negative impact on the private investment and the long-run growth rate in SSAC. These findings have serious policy implications for developing countries as the significant negative impact of GDP fluctuations on private investment and long-run growth suggests that these fluctuations and volatility of GDP may be detrimental to long-run growth in developing countries. Therefore, the governments should not rely on growth-oriented policies only but should equally focus on managing these fluctuations in GDP through controlling its determinants and sources to achieve a sustained and stable growth rate.