

## **Relative Effectiveness of Monetary and Fiscal Policies on Output Growth in Bangladesh: A Co-integration and Vector Error Correction Approach**

### **Abstract**

This paper investigates the relative importance of monetary and fiscal policies in altering real output growth in Bangladesh. Broad money supply (M2) and government consumption expenditure have been used as a proxy for monetary and fiscal policies while GDP growth at constant prices is used as proxy for real output growth. Anderson and Jordan (1968) St. Louis equation is used to estimate the relative effectiveness of monetary and fiscal policies. Various charts, graphs, correlation, granger causality test, co-integration and vector error correction approach are used to examine the validity of St. Louis equation in measuring relative effectiveness of monetary and fiscal policies in Bangladesh. The empirical results show that both the monetary and fiscal policies have significant and positive impact on real output growth in Bangladesh with varying degree. The outcomes of the study demonstrate that monetary policy has relatively stronger impact than that of fiscal policy in altering output growth in Bangladesh. This support the view of the proponent of St. Louis Model that avowed monetary policy is relatively more effective than fiscal policy in stimulating real economic activity.

**Key Words:** Monetary policy, Fiscal policy, Co-integration, Vector Error Correction

**JEL Classification:** E61, E63, 023