

Usage of Military Spending, Debt Servicing and Growth for Dealing with Emergency Plan of Indian External Debt

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Abstract : This study investigates the relationship between external debt and military spending in case of India over the period of 1970-2012. In doing so, we have applied the structural break unit root tests to examine stationarity properties of the variables. The Auto-Regressive Distributed Lag (ARDL) bounds testing approach is used to test whether cointegration exists in presence of structural breaks stemming in the series. Our results indicate the cointegration among external debt, military spending, debt servicing, and economic growth. Moreover, military spending and debt servicing add in external debt. Economic growth helps in lowering external debt. The Vector Error Correction Model (VECM) analysis and Granger causality test reveal that military spending and economic growth cause external debt. The feedback effect also exists between external debt and debt servicing in case of India.

Keywords : external debt, military spending, ARDL approach, India

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