

# Inflation and Economic Growth in Bangladesh: Evidence from Time-Series Analysis

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## Abstract

Bangladesh has been experiencing an unstable inflation rate since its independence and the high inflation rate has become one of the major issues of Bangladesh economy. The impact of inflation on economic growth, however it remains controversial in both theory and empirical findings. This work attempted to provide an investigation regarding the effects of inflation on economic growth of Bangladesh. The secondary data of inflation rate, economic growth and other factors were collected from various sources such as (1) Bangladesh Bureau of Statistics (BBS) (2) Bangladesh Bank and (3) World Development Indicator (WDI) compiled by the World Bank. Descriptive and correlation analyses, OLS-based regression models, and time-series diagnostic techniques including CUSUM stability test, structural break analysis, threshold analysis, cointegration test and causality test were used to determine the effects of inflation on economic growth and to identify the direction of causality between them. The resulting outcomes of this research highlight some guidelines to the suitable inflation related policies for Bangladesh.

**Keywords:** Real Inflation, GDP growth, long-run relationship, Significant Improvement.

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## 1. Introduction

The impact of inflation on economic activity, in particular on economic growth has become one of the active areas of macroeconomic research. The question of whether inflation rate can benefit economic growth has become the subject of intense debate and academic scrutiny. Though it is generally acknowledged that inflation and economic growth are related, there is no general consensus on the nature of the relationship. Some views that inflation lowers the economic growth, while others argue that inflation stimulates the economic growth.

Three general arguments have been put forward for the negative impact of inflation on economic growth. The first argument is that uncertainty about future profits from investment arises when there is high inflation accompanied by a high variability of the price level. This discourages investors from liberal investment projects leading to a decline in economic growth. The second argument is that inflation makes the domestic products expensive which leads to the decline in export thus to a decline in the balance of payment. The third argument is that inflation can incur a more additional cost for competitive firms. Because the firm needs to investigate whether the prices of competitive firms rose because of inflation or because of any internal cost by the competitive firm (Gokal and Hanif, 2004). This investigation is generally costly for firms. This also can lead to an improper decision if the firm failed to know the real cause of the price rise of its competitor.

A contrary view, however, has been presented by R. Mundell, (1963), R. A. Mundell, (1965), and Tobin, (1965). According to their analysis, the effect of inflation on economic growth is positive. They argued that because of the higher inflation investors often reduces the cash balance and increase the real capital formation. This will stimulate the economic growth.

The conclusions from empirical research are also mixed. While the majority found a negative impact of inflation on economic growth, a few researchers also found the evidence of positive impact on economic growth. There are also some empirical papers that concluded that the impact is positive at the low rate of inflation and negative at the high rate of inflation. The above discussion suggests that whether inflation is beneficial or harmful to the economic growth is not clear-cut from both theoretical and empirical viewpoints.

Although the average growth rate of Bangladesh after its independence is 4.17%, it has experienced a higher growth rate in the last two decades. The average growth rate in 2007-2016 was 6.24% and in 1997-2006 it was

5.17%. After the year 2000, Bangladesh has managed to achieve the growth rate of 5.87% on average reaching the peak 7.11% in 2016, Bangladesh was in second place among the south Asian countries in growth rate in 2015. The growth rate of Bangladesh in 2016 was also second in rank, including the second rank again in 2017 with the growth rate of 7.3%. Bangladesh is expected to be graduated from UN's Least Developed Countries by 2024. Moreover, Bangladesh is expected to achieve middle-income status in 2021, on its 50th birthday.

Despite the recent economic progress, Bangladesh has experienced a volatile price level. For instance, it has been severely affected by the all-time high inflation rate (10.70%) in 2011, followed by 6.22% inflation rate in 2012. Figure 1 shows that changes in GDP growth rate and in the inflation rate. The inflation rate seems more volatile than the GDP growth rate. Though we acknowledge that a price rise badly affects the satisfaction level of the consumers, it is unknown whether inflation can contribute to the long-run growth. This raises an important research question should the regulatory bodies of Bangladesh care about the inflation rate if we aim to achieve the sustainable growth rate in coming years. This research work attempts to address and answer this question.

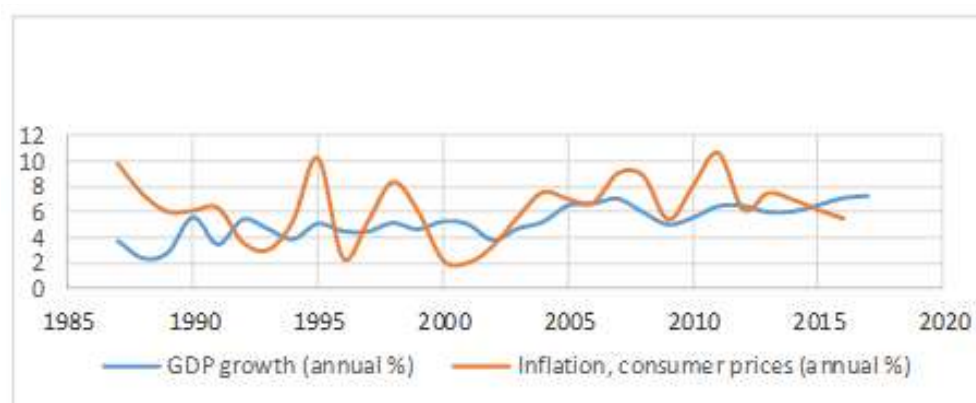


Figure 1: Trends in inflation rate and GDP growth rate.

Source: WDI

In the recent period, the inflation issue has again become important for Bangladesh. After the Covid-19 shock and global commodity price rise, the price level became unstable. The World Bank reported that headline CPI inflation in Bangladesh remained above 9 percent since August 2022. It also mentioned food prices, non-food prices, exchange rate pressure and import cost as important reasons behind this pressure (World Bank, 2024). Again, in another report, the World Bank stated that inflation peaked at 11.7 percent in July 2024, while food inflation reached 14.1 percent in the same month (World Bank, 2025). So, the problem of inflation is still present in Bangladesh economy.

This issue is also important from policy side. Bangladesh Bank stated in the Monetary Policy Statement for July–December 2025 that tight monetary policy would continue in the first half of FY26 to contain inflation and inflation expectation. It also reported that point-to-point inflation declined to 8.48 percent in June 2025 from the high level of July 2024 (Bangladesh Bank, 2025). The IMF also reported that Bangladesh's growth slowed in recent years while inflation remained elevated. Therefore, inflation and growth should not be treated as separate issues in present policy discussion (IMF, 2026).

Recent academic studies also show that the relationship between inflation and growth is still not settled. Hossain, Acet, Ahmed and Majumder (2021) found an asymmetric relationship between inflation and GDP growth in Bangladesh by using nonlinear ARDL method. Their result indicates that GDP growth responds more to upward change in inflation than downward change in inflation. Aktar, Mithy and Hossain (2022) also examined inflation, government expenditure and economic growth in Bangladesh and found a long-run relationship among these variables. These findings show that the issue still needs further empirical attention in Bangladesh.

Other recent studies also connect inflation with broader macroeconomic factors. Islam, Ferdous, Sultana and Nomi (2022) found that GDP, broad money supply, export growth, import growth and population growth are major determinants of inflation in Bangladesh. Ridwan et al. (2025) examined trade openness, inflation, exchange rate and economic growth in Bangladesh and showed that these variables are connected in the long run. These findings suggest that future research should consider inflation with growth, demand-side variables and structural changes, rather than considering inflation alone.

Therefore, the present study is relevant in the current context of Bangladesh. The earlier findings are mixed. Some studies found positive relation, some found negative relation and some found nonlinear or asymmetric relation. Recent reports also show that Bangladesh is facing inflationary pressure along with growth-related concerns. In this respect, this study tries to examine the inflation-growth relationship in Bangladesh by using time series data and demand-side variables.

## **2. The Real Problem Inside**

It is crucial for policymakers and monetary authority to know the effect of inflation on economic growth. Because important policy choices emerge from the direction and strength of the relationship between inflation and economic growth. If the impact of inflation on economic growth is strong, policymakers would attempt to change the level of inflation to sustain the economic growth. If the relationship is weak, policymakers would rather concern about the other factors which have a strong effect on economic growth.

Bangladesh has again faced a high inflation situation in recent years. The World Bank reported that headline CPI inflation remained above 9 percent since August 2022. It was driven by food and non-food prices, exchange rate pressure, foreign exchange shortage and adjustment of fuel and electricity prices. Therefore, inflation is not only a common price rise issue. It is now connected with demand, import cost, exchange rate and overall macroeconomic stability of Bangladesh economy (World Bank, 2024).

This issue is also important for monetary policy. Bangladesh Bank stated in the Monetary Policy Statement for July-December 2025 that tight monetary policy would continue in the first half of FY26 to contain inflation and anchor inflation expectation. It also stated that the policy repo rate would remain at 10.0 percent until inflation comes below 7 percent. This indicates that the monetary authority has considered inflation as one of the main policy concerns of the economy (Bangladesh Bank, 2025).

Recent empirical studies also justify this concern. Hossain, Acet, Ahmed and Majumder (2021) found an asymmetric relationship between inflation and GDP growth in Bangladesh by using the nonlinear ARDL approach. Their result shows that GDP growth responds more to an upward change in inflation than to a downward change in inflation. Aktar, Mithy and Hossain (2022) also found a long-run relationship among inflation, government expenditure and economic growth in Bangladesh. Their study indicates that inflation and economic growth are negatively related. So the inflation-growth relation is still important for policy analysis in Bangladesh (Hossain et al., 2021; Aktar et al., 2022).

In this respect the question is still important. Should contractionary monetary policy be adopted to sustain growth? Or the expansionary policy should be the optimal choice? The IMF reported that Bangladesh's economic growth slowed recently, while inflation remained elevated. GDP growth declined to 3.7 percent in FY25 from 4.2 percent in FY24 and 5.8 percent in FY23. This makes the policy question more relevant for Bangladesh economy (IMF, 2026).

## **3. Rationale and Reality**

One of the main objectives of macroeconomic policies in Bangladesh is to promote economic growth with a low level of inflation. However, far too little attention has been paid to investigate the impact of inflation on economy in the recent context of Bangladesh. The rationale of the study emanates from the lack of empirical research evidence in the context of Bangladesh economy, on the relationship between inflation and economic growth. This paper focuses on a much-neglected issue: the links between economic growth and inflation.

The recent reality of Bangladesh also supports this issue. The World Bank reported that inflation has remained persistently high since 2022. It also reported that inflation reached 11.66 percent in July 2024, which was the highest in more than a decade. Food inflation was also high in that period. This situation affects the purchasing power of people. It also affects consumption demand. Therefore, inflation is related not only with price level, but also with welfare and aggregate demand of the economy (World Bank, 2025).

The academic findings are not fully similar. Hossain et al. (2021) found an asymmetric relation between inflation and economic growth in Bangladesh. Aktar et al. (2022) found a negative relation between inflation and economic growth. Again, Ahmed and Hossain examined external debt, inflation and growth in Bangladesh and found a long-run relationship among external debt, inflation, reserves, FDI, money supply and economic growth.

These findings show that inflation should not be considered separately from the broader macroeconomic structure of Bangladesh (Hossain et al., 2021; Aktar et al., 2022; Ahmed and Hossain, 2024).

At the same time, the policy reality is also changing. Bangladesh Bank has followed a tight monetary policy stance to reduce inflationary pressure. But tight policy may also affect investment and demand in the short run. The IMF also mentioned that sluggish investment and tighter policy mix contributed to the recent slowdown of growth in Bangladesh. Therefore, inflation and growth need to be analyzed together, especially under demand side consideration (Bangladesh Bank, 2025; IMF, 2026).

Therefore, it is important to examine whether inflation has positive, negative or insignificant impact on economic growth in Bangladesh. This study tries to see the reality of our country and how it is moving after independence. It is based on two main objectives.

### *3.1 General Objective*

The central objective is to investigate the nature of the relationship between inflation and economic growth in the context of Bangladesh.

### *3.2 The Specific Objective*

The specific objective is to see the responsiveness of general demand due to the impact of economic growth.

## **4. Literature Review**

The findings from literature review are highly conflicting and heterogeneous. Some results support the notion that inflation negatively affects the economic growth, while some results show the support for the positive impact of inflation.

The studies who found negative relationship between inflation and economic growth are Gregorio, (1999) for 12 Latin American countries, Fischer, (1993) using panel and cross-sectional data from many countries, Ayyoub, Chaudhry, & Farooq, (2011) for Pakistan, Barro, (1996) for more than 100 countries. On the contrary, the studies who found the positive impact of inflation on economic growth are Mallik & Chowdhury, (2001) Bangladesh, India, Pakistan and Sri Lanka. Osuala & Onyeike, (2013) for Nigeria, Umaru & Zubairu, (2012) for Nigeria, Behera, (2014) for Malaysia, Mahmoud, (2015) for Mauritania.

A good number of empirical studies also found a non-linear relationship between inflation and economic growth. For instance, Doyle & Christoffersen, (1998) found that 13% of the inflation rate is the structural breakpoint above which the impact of inflation is positive and below which the impact is insignificant. Burdekin, Denzau, Keil, Sithiyot & Willett (2004) however, found the breakpoint to be 8% for developed countries and 3% for developing countries. They used panel data for both developing and developed countries from 1967 to 1992. Using data for the period 1960 to 1998 from 140 developed and developing countries Khan & Shadji, (2001) found that threshold break lies between 1 and 3 percent in developed countries and between 7 and 11 percent in developing countries. Using data from 114 countries Ghosh & Phillips, (1998) also concluded that high inflation had a negative impact on economic growth and low inflation positively affected the economic growth. Though some studies support the non-linear relationship between inflation and economic growth the breakpoint or the threshold level varies across the studies.

How poverty can be reduced by the economic growth through Micro-credit evidence with the positive recommendations has been shown in, “Micro-credit and Poverty Reduction: A case of Bangladesh” by Mohammed Shofiullah Mazumder, Lu Wencong, 2013.

Not only the reduction of poverty but also the increasing of women’s empowerment through microcredit has been shown in, “The Impact of Microcredit on Poverty and Women’s Empowerment: A case study of Bangladesh” by Sayma Rahman, University of Western Sydney, Australia, March 2007, which shows how this influences the economic growth.

A wonderful and interesting study is, “The Impact of Microcredit on the Poor in Bangladesh: Revisiting the Evidence” by David Roodman Center for Global Development, Jonathan Morduch, New York University Financial Access Initiative, June 2013. This study shows how microcredit is reaching to the poor and also to the

poorest people in the village and urban area. The study shows it is one of the finest tools in the economy to ensure the economic growth.

A different study is done as, “Why some poor women in Bangladesh do not opt for micro-credit?” by M. A. Khatun, M. A. Islam and S. Majumder, Department of Agricultural Statistics, Sylhet Agricultural University, Sylhet, Bangladesh and Department of Agricultural Statistics, Bangladesh Agricultural University, Mymensingh, Bangladesh, 2013. This study shows microcredit is not opted by massive rural people. Specifically, in the above study the author has shown how a large number of women in the village area are refusing to accept microcredit for higher rate of interest as a result the overall economic structure is influenced by the both positive and negative findings to the inflation of the economy.

## **5. Duality of the Opinion and Reality of Bangladesh**

It is significantly seen from the various literature review that the findings are highly conflicting and heterogeneous in all study. But few cases have shown homogeneous findings to obtain the expected result of growth rate in the economy. Few important studies show the gap of the overall findings on this issue. In this perspective it is found basically two types of impact of inflation such as positive and negative.

A negative relationship between inflation and economic growth have been found by Gregorio, (1999) for 12 Latin American countries. Where it was not shown the positive findings is also possible by considering the small sectors like SME, Call money market and village market. Ghosh & Phillips, (1998) also concluded that high inflation had a negative impact on economic growth and low inflation positively affected the economic growth. A case study of Bangladesh” by Sayma Rahman, University of Western Sydney, Australia, March 2007, which shows how inflation influence the economic growth in the above study the author has shown how a large number of women in the village area are refusing to accept microcredit for higher rate of interest as a result the overall economic structure is influenced by the both positive and negative findings to the inflation of the economy. Here it is not exactly shown in the analysis that the impact is positive or negative. On the contrary, the studies who found the positive impact of inflation on economic growth are Mallik & Chowdhury, (2001) Bangladesh, India, Pakistan and Sri Lanka.

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## **6. Theoretical Looks of the Inflation Issue**

### *6.1 Classical Growth Theory*

This theory assumes that total production is determined by capital, labor and technology. This theory does not provide any clear description of the relationship between economic growth and inflation. It, however, signals that inflation is a consequence of increased taxes and salaries which decrease the profit levels of the Entrepreneurs.

### *6.2 Neo-classical Growth Theory*

This theory posits that saving rate, population growth rate and technological progress are exogenous. The capital level changes and stabilizes at the steady stage. The steady stage will be broken by a change in exogenous variables and a new steady stage will be achieved. This theory also does not provide a detailed description on the nature of the relationship between inflation and economic growth. Mundell, (1963) and Tobin, (1965) however, provided detailed explanations on the relationship between economic growth and inflation based on the Neo-classical Growth Theory. Mundell (1963) and Tobin (1965) argued that an increase in nominal interest rate caused by inflation leads people to consume less and invest more. This will lead to more capital accumulation which will cause economic growth. This effect is called “Mundell-Tobin Effect”. Mundell-Tobin Effect advocates a positive relationship between inflation and economic growth.

### 6.3 New Growth Theory

New growth theory is also called endogenous growth theory because it assumes technological progress as an endogenous variable. Also, unlike the neo-classical growth theory which assumes a diminishing marginal return of capital, the New Growth Theory assumes the marginal product of capital as constant. The monetary framework of New

Growth Theory developed by Lucas, (1988) suggests that inflation negatively affects economic growth rate. With the increase in inflation marginal productivity of labor and capital accumulation declines. This, in turn causes a decline in economic growth rate.

### 6.4 Monetarism

Monetarists emphasize the role of money in the economy stating that "only money matters". According to the monetarists change in money supply is the only policy intervention that the government can adopt to stabilize the economy. The Quantity Theory of Money of monetarists shows a negative impact of economic growth on inflation.

### 6.5 Keynesian theory

The Keynesian theory is based on the ideas of Aggregate Demand (AD) and Aggregate Supply (AS) curves. Humphrey, (1981) writes: *‘His (Keynes’) writings reveal that he consistently deplored inflation, that he warned unceasingly of its dangers, and that he urged that its avoidance be made a primary objective of public policy. In these respects, he shared much with modern monetarists, even to the point of using similar analytical tools.* However, Keynes also noted that there are some beneficial *‘output effects of inflation’*. He argued that unexpected inflation may stimulate economic growth by increasing profits and profit expectation. He also argued that inflation reduces the burden of fixed costs thus encourages economic performance. This *‘output effects of inflation’*, according to Keynes, is only temporary (Humphrey, 1981). Thus, according to the Keynesian theory, inflation stimulates the economic growth in short-run and discourages it in the long-run.

It is important to note here that other factors which affect the economic growth should be considered in order to minimize the possible omitted variable bias in the estimation of the growth-inflation model. There are several determinants of the economic growth cited in the literature. Investment is the most crucial determinant of the economic growth according to the neo-classical and endogenous growth model. Several forms of endogenous growth model and an extension of the neo-classical growth model emphasize the role of human capital in economic growth (Knack & Barro, 1998). The choice to which indicator represents human capital varies in the empirical literature. Secondary or Tertiary School enrollment ratios are the frequently used indicators of human capital.

## 7. A Conceptual Framework

This theoretical framework chapter is about relevant theories related with the topic of this article. Relevant theories are discussed to explain the importance of this present study. An overview of demand-side school with their doctrine is discussed first. Then where the inflation lies in the aggregate demand model is discussed. In the next section, demand side economics is introduced in the financial market. The relation between inflation and output is explain under the Solow growth model and the Tobin effect in the next section followed by a concluding section.

### 7.1 An Overview of Demand-side School

The demand side economic analysis came as a response to the failure of classical economic analysis during the great depression. The classical economists, based their macroeconomic understandings on microeconomics. According to them, macroeconomics is the logical extension of microeconomic. According to the classical economists the demand and supply forces interact to adjust the prices and to clear the market and the market can drive itself towards equilibrium and hence government should not intervene in the market. In the long run, the economy attains full employment, and arrive at a point where the national income equates the production spending. In the long run, they claim there will be no shortage and no excess of output. During the Great Depression of the 1930 unveiled the incompetence of these doctrines of classical economist. The US economy that operated on the light of classical thoughts collapsed. The stock market crashed, the unemployment level surged (from 3 percent to 25 percent), the investment level and the total production dropped (by nearly 30 percent) (Friedman and Schwartz, 2017). The depression lasted almost a decade defying their self-adjusting long-run equilibrium.

## 7.2 Aggregate Demand Model and Inflation

The demand side school sees the output of the economy through the lens of demands. They consider the total outputs as the sum of demands that comes from different sectors. Therefore, they analyze the outputs by classifying the GDP into four components: the demands generated from consumers, from investors, from government, and from foreigners. So, the total purchases of these four groups constitute the gross domestic products (GDP).

## 7.3 The Financial Market and the Demand Side Economics

Financial institutions such as banks, investment institutions, and individuals interact with each other to decide how much money to hold for consumption and how much money to let flow for investment. There are two major products in the financial markets, cash money, and bonds (Blanchard and Johnson, 2003). These two products are different in terms of the profits they generate. The bonds earn profits, but the cash money does not. There is also differences in terms of cost. Holding bonds require a certain amount of costs like fees and the cost incurred to communicate with brokers.

The demand for money implies the amount an individual needed to hold as cash. The demand for money in the macroeconomic sense refers to the total volume of money demanded by individual, business and government. Although holding money does not generate profits, it is a necessary to perform daily purchases. The bonds and other similar financial assets cannot be used to perform that easily. However, they provide profits as interests. So, a part of the wealth of a country is occupied by cash, and another part by the financial assets. The decision about how much money to keep and how much bonds to buy depends on two main factors: the volume of transaction, and the interest rate.

## 7.4 Inflation and Output: The Solow Model and the Tobin Effect

The Solow growth model is popular because of several reason. First, it simplifies the analysis considering only one-product in the economy. Then the Solow model is dynamic. Most of the macroeconomic variables are dynamic in nature. For example, consumption, investment, government expenditure, exports and GDP growth all are dynamic in nature. Through dynamic models, one can analyze how the economy grows or declines from the previous period to the next period. It can also help to find out what causes the growth or decline. However, there are two versions of the Solow growth model: discrete-time and continuous-time (Acemoglu, 2010). The discrete version analyzes the growth with yearly, quarterly, or daily rate of change. The continuous version of the dynamic model proceeds with instantaneous rates.

The Aggregate production function has the following form:

$$Y(t) = F[K(t), L(t), A(t)] \quad 3.19$$

Where,  $Y(t)$  denotes total produced final good at year  $t$   $K(t)$  represents the capital stock at time  $t$ ,  $L(t)$  represents the total amount of labor and  $A(t)$  represents the technology (Todaro, 2002).

Employment can be measured either in hours or the number of laborers. The production function in the Solow model is assumed to satisfy the following conditions (Solow, 1996):

$$F_K(K, L, A) \equiv \frac{\partial F(K, L, A)}{\partial K} > 0, \quad F_L(K, L, A) \equiv \frac{\partial F(K, L, A)}{\partial L} > 0 \quad 3.20$$

$$F_{KK}(K, L, A) \equiv \frac{\partial^2 F(K, L, A)}{\partial K^2} < 0, \quad F_{LL}(K, L, A) \equiv \frac{\partial^2 F(K, L, A)}{\partial L^2} < 0 \quad 3.21$$

The production function takes 3 inputs and produces 1 output. The equation 3.20 indicates that the first derivatives of the production function with respect to capital and employment are positive. This means that the production increases with the increase of capital stock and employment. The equation 3.21 indicates that the second derivatives of the production function with respect to capital and employment are negative. This implies that with more capital and labor the production of the final good increases with lesser amounts. In other words, diminishing productivity of labor and capital is assumed.

Another assumption is that the production function is homogeneous of degree 1. The production function will be concave if it satisfies this assumption of linear homogeneity. In the Solow growth framework, the households own the capital, invest in the firm, and decide how much to invest. The amount of capital used by the firms is assumed to be maximized the revenue of households. This means that the volume of the capital input  $K^d(t)$  equals the profit-maximizing volume of investments for the households  $I^S(t)$  (Acemoglu, 2010).

$$I^S(t) = K^d(t) \quad 3.22$$

The Solow growth model assumes the depreciation of capital stock as capital wears out during production. Therefore, the depreciation of capital affects the returns of savings of the households. The households will not receive the returns of full capital due to the depreciation.

The Solow model also assumed to satisfy the 'Inada Conditions' (Guerrini, 2006):

$$\lim_{K \rightarrow 0} F_K(K, L, A) = \infty \text{ and } \lim_{K \rightarrow \infty} F_K(K, L, A) = 0 \quad 3.23$$

$$\lim_{L \rightarrow 0} F_L(K, L, A) = \infty \text{ and } \lim_{L \rightarrow \infty} F_L(K, L, A) = 0 \quad 3.24$$

The conditions imply that the first few inputs will generate large volumes of outputs. As capital or labor tends to zero, the marginal products will tend to infinity. On the other hand, capital or labor are employed by a large amount, the marginal products will decline and eventually tends to zero when capital or labor tends to infinity. If the aggregate production function satisfies the Inada conditions, it will have a high positive slope near the origin and low slopes when the curve moves further to the right.

The interrelationship between three economic variables, namely, investment, savings and technological advancement stay at the core of Solow's growth theory. These 3 variables are the sources of economic growth. First, Savings defines how much capital will undergo production. The capital stock is positively related to the level of the savings. The higher the savings the higher the capital stock. The higher level of capital stock will finally translate into a higher level of production. Second, population growth contributes to economic growth through employment. However, per worker capital should not be reduced after population growth. If the population grows without the growth of the capital or investment, the capital per worker declines. This will result in reduction in production income per worker. Therefore, the technological advancement is another source of economic growth. The technology does not only include advanced production machines, but also advanced knowledge and skills of the workers, and the improved managerial and productivity performance of the organizations.

The model under Solow (1996) framework proceeds as follows:

Let the production function be,

$$Y = f(K, L) \quad 3.25$$

Considering a production function that satisfies the constant return to scale,

$$Y(t) = K(t)^\alpha A(t)L(t)^{1-\alpha} \quad 3.26$$

Because of the constant return to scale with any constant  $\gamma$ , this can be written as: 3.27

$$\gamma Y = f(\gamma K, \gamma L)$$

Letting  $\gamma = \frac{1}{L}$ , it becomes

$$\frac{Y}{L} = f\left(\frac{K}{L}, 1\right) \text{ or, } Y = f(K) \quad 3.28$$

Which is now a function of one variable. In the Solow framework, the per capita investment growth rate depends on savings  $s f(I)$ , depreciation  $\delta I$  and the investment given to the new labor  $n I$  it can be written:

$$\Delta I = s f(I) - (\delta + n)I \quad 3.29$$

In 'steady stage', the investment per labor do not change, so it becomes:

$$\Delta I = 0 \quad 3.30$$

With this condition and rearranging the equation 3.29 can be written as:

$$s f(I^*) = (\delta + n)I^* \quad 3.31$$

Where,  $I^*$  is the per capita investment that belongs to an economy in a steady stage. Now, if inflation increases from  $\rho_1$  to  $\rho_2$ , according to Tobin(1965), people will prefer to hold less money and more capital because the value of money has already decreased by the inflation, resulting in an increase of capital stock (Haslag, 1997).

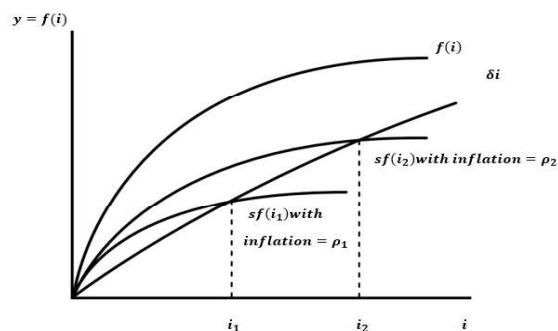


Figure 2: Tobin effect  
Source: (Haslag,1997), Here  $i$  represent investment.

The figure.2 shows that when inflation rate increases from  $\rho_1$  to  $\rho_2$ , the per capita investment also increases from  $i_1$  to  $i_2$ , resulting in an increase in total output (Haslag, 1997).

## 8. Methodology

### 8.1 Design

This article is to explore the relationship between inflation and economic growth in Bangladesh. Therefore, this research is quantitative in nature. Here the relationship between concerned variables is empirically tested. The secondary data is used; a detail description is given in the data section next. The proper statistical procedure is followed that discussed in detailed in the methodology section later.

### 8.2 Data Used

The data used in this research is the time series in nature. Although Bangladesh got independence in the year 1971 but the data from that period is not available. Moreover, the quality and reliability of the available data is very important for quality research. In this respect, this research considered data from World Development Indicator (WDI) compiled by the World Bank as the source of the data. Therefore, the sample period of the available data in WDI is from 1987-2019 total 33 years.

### 8.3 Some Descriptive Statistics of Data

Some basic descriptive statistics of the data used in the empirical analysis is shown in Table1. The Table shows variables and their mean, median, maximum, minimum, standard deviation, skewness, kurtosis and some other statistics along with observation numbers.

Table 1: Descriptive Statistics of Data

|              | GDP       | Inflation | Consumption | Investment | Govt. Exp. | Net Export |
|--------------|-----------|-----------|-------------|------------|------------|------------|
| Mean         | 4.993448  | 6.276501  | 0.029233    | 13.71301   | 0.065018   | 0.072593   |
| Median       | 5.121278  | 6.126718  | 0.037728    | 8.909372   | 0.053918   | 0.074831   |
| Maximum      | 9.591956  | 11.39517  | 0.106225    | 147.3316   | 0.635203   | 0.461628   |
| Minimum      | -4.088214 | 2.007174  | -0.139818   | -22.08893  | -0.139818  | -0.465567  |
| Std. Dev.    | 2.1817 14 | 2.273263  | 0.044165    | 24.62919   | 0.108952   | 0.158150   |
| Skewness     | -1.434942 | 0.059281  | -1.655456   | 4.265172   | 3.283498   | -0.771308  |
| Kurtosis     | 7.895620  | 2.829779  | 7.070653    | 22.18324   | 18.02944   | 6.874054   |
| Observations | 33        | 33        | 33          | 33         | 33         | 33         |

Note: All the variables are in growth rate form the data for the period is 1987-2019

The table1 shows that an average real GDP Growth rate of Bangladesh economy is about 4.99 percent since 1987. However, the minimum growth rate was - 4.08 and the highest ever growth rate was 9.59 percent. The inflation rate was 6.27 percent on average. The Bangladesh economy never felt a negative inflation rate. The minimum inflation rate was 2 percent in the year 2001. The maximum inflation rate in this range was 11.39 during the year 2011. Although it has never experienced a negative rate, the rates is very volatile. For example,

in 1995, the rate was 10.29 percent which jumped to 2.37 percent in the following year. After a big rise of 11.4 percent in 2011, the inflation rate remained less volatile in the subsequent periods from 2012 to 2019.

#### *8.4 Justification of Research Design and Techniques*

This research follows a quantitative research design because the main objective is to examine the measurable relationship between inflation and economic growth in Bangladesh. The study is based on numerical macroeconomic variables such as GDP growth, inflation, consumption, investment, government expenditure and net export. Therefore, a quantitative design is suitable because it allows the relationship among these variables to be tested empirically. Since the study tries to see the effect of inflation on economic growth over time, time series design is also appropriate. The World Development Indicators database is used because it is the primary World Bank collection of development indicators and it is compiled from officially recognized international sources. This helps to ensure consistency and comparability of the data.

Secondary data is used in this research because the variables of this study are national level macroeconomic indicators. These indicators are already recorded by recognized national and international institutions. Primary data is not suitable here because inflation and GDP growth cannot be collected through individual survey or interview. For this reason, secondary time series data is more appropriate for the present study. The use of yearly data from 1987 to 2019 is also justified because the data for Bangladesh is available consistently for this period in the selected source. This period provides enough observations to examine the long-run movement of inflation and economic growth in Bangladesh.

At first, descriptive statistics are used to understand the basic nature of the data. Mean, maximum, minimum, standard deviation, skewness and kurtosis help to show the average position, volatility and distribution pattern of the variables. This is important before conducting regression analysis because macroeconomic variables often show fluctuation over time. After that, correlation analysis is used to see the simple association among the variables. However, correlation is not treated as final evidence. It only gives an initial idea about the direction and strength of the linear relationship.

OLS regression is used because the first objective of the study is to examine the effect of inflation on economic growth. A bivariate OLS model is used first to see the direct effect of inflation on GDP growth. Then a multiple regression model is used by adding demand side variables. This is done to reduce omitted variable bias. Economic growth is not influenced by inflation only. Consumption, investment, government expenditure and net export also affect growth. Therefore, the demand side framework is used to make the model more meaningful.

The quadratic term of inflation is included because the relationship between inflation and economic growth may not be linear. In many cases inflation may have one effect at low level and another effect at high level. Therefore, only a linear model may not capture the actual nature of the relationship. The use of inflation square helps to examine whether the effect of inflation changes after a certain level. This is also consistent with the threshold view of inflation-growth relationship, where the impact of inflation may differ at different inflation levels.

HAC standard errors are used because time series regression may suffer from autocorrelation and heteroscedasticity. If these problems exist, the usual standard errors may become misleading. The Newey-West method provides heteroskedasticity and autocorrelation consistent covariance estimates. Therefore, it is suitable for time series regression where error terms may not be fully independent over time.

Unit root tests are necessary because time series variables may be non-stationary. If non-stationary variables are used in regression without checking their order of integration, the result may become spurious. For this reason, stationarity of the variables should be checked before applying long-run techniques. The Dickey-Fuller and Phillips-Perron approaches are commonly used for detecting unit root in time series data.

The CUSUM stability test is used to examine whether the estimated parameters are stable over the sample period. This is important for Bangladesh because the economy has passed through different policy changes and external shocks. If the CUSUM line crosses the critical boundary, it indicates possible instability in the model. Thus, the CUSUM test helps to identify whether the regression relationship remains stable or changes over time. Stata explains that the cumulative sum test uses recursive residuals or OLS residuals to test whether there is a structural break in the model.

Cointegration test is used because the study also wants to examine whether inflation and economic growth have a long-run relationship. Even if some variables are non-stationary at level, they may move together in the long run. In that case, cointegration analysis becomes important. Engle and Granger explained that cointegration

connects long-run equilibrium relationship with error correction representation. Therefore, this technique is suitable to examine whether inflation and growth are linked in the long run.

Causality test is used to identify the direction of relationship between inflation and economic growth. Regression can show whether inflation affects growth, but it does not clearly show the direction of causality. The causality test helps to examine whether inflation causes economic growth, whether economic growth causes inflation, or whether both variables influence each other. This is important for policy recommendation because the direction of causality guides whether inflation control should be treated as a growth policy or whether growth itself creates inflationary pressure. Toda and Yamamoto's VAR-based approach is useful because it allows causality testing even when the variables may be integrated or cointegrated.

## 9. Analysis of Data

The analysis is done in accordance with the objectives of this research. Here only the findings are presented and discussed, the detailed methodology is discussed in the previous chapter. There are several sections in this chapter. As empirical chapter, there are several models used to explore the relationship that this research interested in. However, before go into those regression models, a simple correlation analysis is done at first in section 5.2 to have a flavor of the relationship among variables. Then the regression analysis is done considering different models to explore the impact of inflation on economic growth which is the first objective of this research in section 5.3, 5.4 and 5.5. However, after discussing the findings, diagnostic tests are also discussed next to validate the models here.

The second objective of this research is to explore the existence of any structural breaks related to inflation in Bangladesh. That part is discussed in the next section, section 5.6. However, considering the break points found here, the impact of inflation on economic growth is explored again here in section 5.7 and 5.8. Then the inflation threshold is explored which is the third objectives of this research in section 5.9. The fourth objective of this research is to find the long-run relationship between inflation and economic growth as well as the causality between these two variables in Bangladesh. These are empirically tested in the following two sections next. Finally, with a concluding section this chapter ends.

### 9.1 Correlation Analysis

The interested variables related to this research are inflation, GDP, consumption, investment, government expenditure and net export of Bangladesh. However, all these variables are in growth form here, as discussed in detail about this in chapter four in data section. Before go into the formal empirical test the regression analysis, a simple correlation analysis is done in this section to see the relationship among the variables. The Person's correlation coefficient is used here. The results can help to detect any possible linear relationship. The results related the correlation analysis is presented in Table.2. The correlation coefficients for each pair of variables, the t-statistics for the significance test of the coefficients, and the associated p-values are included in this table.

The table.2 shows 21 correlation pairs related to variables used in this research. It is found here that only 5pairs are having significant relationships and they are consumption growth and GDP growth, investment growth and GDP growth, government expenditure growth and GDP growth, government expenditure growth and consumption growth and export growth and consumption growth. Correlation coefficients for all these cases are also positive which is not contradictory to usual relationship between those pairs. Apart from this no other pair of variables are found to be significantly related.

One interesting finding can be seen from table.2 that the correlation coefficient between inflation and GDP growth is not significant. It means that they are not related. However, this is worth mentioning here that, the insignificant correlation between two variables does not necessarily imply that the variables are unrelated. Pearson's correlation detects only linear relationships. There might exist a nonlinear relationship which this test is unable to find. As this is related to the main objective of this research, using different regression models this has been tested also. Apart from this no significant correlation is also found here between inflation and all other variables. Only two pairs (government expenditure growth and consumption growth, and export growth and consumption growth) found here are related. Therefore, if these variables are used in regression as independent variables there might be a chance of multi co-linearity problem. However, as the correlation coefficient is not so high (around 0.5 or below 0.5), the multi-col linearity problem is not a serious issue.

**Table.2: Correlation Analysis**

|                      |                      | Correlation | t-Statistic | Probability |
|----------------------|----------------------|-------------|-------------|-------------|
| GDP GROWTH           | GDP GROWTH           | 1.000000    | -----       | -----       |
| INFLATION            | GDP GROWTH           | 0.130398    | 0.732280    | 0.4695      |
| INFLATION            | INFLATION            | 1.000000    | -----       | -----       |
| CONS GROWTH          | GDP GROWTH           | 0.689760    | 5.304176    | 0.0000***   |
| CONS GROWTH          | INFLATION            | 0.206192    | 1.173242    | 0.2496      |
| CONS GROWTH          | CONS GROWTH          | 1.000000    | -----       | -----       |
| INVESTMENT<br>GROWTH | GDP GROWTH           | 0.447724    | 2.787856    | 0.0090***   |
| INVESTMENT<br>GROWTH | INFLATION            | 0.053976    | 0.300962    | 0.7655      |
| INVESTMENT<br>GROWTH | CONS GROWTH          | 0.219021    | 1.249800    | 0.2207      |
| INVESTMENT<br>GROWTH | INVESTMENT<br>GROWTH | 1.000000    | -----       | -----       |
| GOVT EX GROWTH       | GDP GROWTH           | 0.528703    | 3.468038    | 0.0016***   |
| GOVT EX GROWTH       | INFLATION            | -0.184394   | -1.044576   | 0.3043      |
| GOVT EX GROWTH       | CONS GROWTH          | 0.522199    | 3.409241    | 0.0018***   |
| GOVT EX GROWTH       | INVESTMENT<br>GROWTH | 0.239283    | 1.372130    | 0.1799      |
| GOVT EX GROWTH       | GOVT EX<br>GROWTH    | 1.000000    | -----       | -----       |
| EXPORT GROWTH        | GDP GROWTH           | 0.122279    | 0.685971    | 0.4978      |
| EXPORT GROWTH        | INFLATION            | 0.183804    | 1.041115    | 0.3059      |
| EXPORT GROWTH        | CONS GROWTH          | 0.298751    | 1.742973    | 0.0913*     |
| EXPORT GROWTH        | INVESTMENT<br>GROWTH | 0.113407    | 0.635521    | 0.5298      |
| EXPORT GROWTH        | GOVT EX<br>GROWTH    | 0.141964    | 0.798512    | 0.4306      |
| EXPORT GROWTH        | EXPORT<br>GROWTH     | 1.000000    | -----       | -----       |

Note: \*\*\* and \* denotes significance at 1 percent and 10 percent level respectively.

## 9.2 Linear Bi-variate Model

The first objective is to see the effect of inflation on economic growth. Therefore, to explore that a bivariate linear regression is used. The result of this regression is shown in table.3. It is seen that the t-statistics and the associated p-value of 0.36 indicate that the null hypothesis regarding the coefficient of inflation is zero cannot be rejected at a 5 or 10 percent significance level. It indicates that there is no significant impact of inflation on economic growth in Bangladesh.

**Table.3: Effect of Inflation on Economic Growth: Bi-variate OLS Results**

| Dependent Variable: GDP GROWTH                                                          |             |                       |             |          |
|-----------------------------------------------------------------------------------------|-------------|-----------------------|-------------|----------|
| Method: Least Squares                                                                   |             |                       |             |          |
| HAC standard errors & covariance (Bartlett kernel, Newey-West fixed bandwidth = 4.0000) |             |                       |             |          |
| Variable                                                                                | Coefficient | Std. Error            | t-Statistic | Prob.    |
| INFLATION                                                                               | 0.079007    | 0.085561              | 0.923406    | 0.3629   |
| C                                                                                       | 4.936400    | 0.604119              | 8.171243    | 0.0000   |
| R-squared                                                                               | 0.017004    | Mean dependent var    |             | 5.432290 |
| Adjusted R-squared                                                                      | -0.014706   | S.D. dependent var    |             | 1.377352 |
| S.E. of regression                                                                      | 1.387443    | Akaike info criterion |             | 3.551494 |
| Sum squared resid                                                                       | 59.67493    | Schwarz criterion     |             | 3.642191 |
| Log likelihood                                                                          | -56.59965   | Hannan-Quinn criter.  |             | 3.582011 |
| F-statistic                                                                             | 0.536235    | Durbin-Watson stat    |             | 0.507283 |
| Prob (F-statistic)                                                                      | 0.469498    | Wald F-statistic      |             | 0.852679 |
| Prob (Wald F-statistic)                                                                 | 0.362927    |                       |             |          |

Table.3 also shows that the R square value is extremely low, 0.017, indicates that around 1 percent variation of economic growth is explained by the inflation here. The reason could be only one explanatory variable, inflation, is included in this regression. Then the quadratic term is included in the regression which is discussed in the next section. Therefore, it may be concluded from this simple regression here that the inflation rate does not significantly affect the GDP growth rate in Bangladesh.

### 9.3 Effect of Inflation on Economic Growth

Table.4 is showing the multiple regression results exploring effect of inflation on economic growth under the demand side framework. Therefore, in the explanatory variables, along with inflation and inflation square demand side variables like consumption, investment, government expenditure and net exports are also included. It is seen that inflation and inflation square are still insignificant determinants of GDP growth even after including demand side factor.

**Table.4: Regression Result of Multiple Regression: Effect of Inflation on Economic Growth in the Demand Side Framework**

| Dependent Variable: GDP GROWTH                                                          |             |                       |             |          |
|-----------------------------------------------------------------------------------------|-------------|-----------------------|-------------|----------|
| Method: Least Squares                                                                   |             |                       |             |          |
| Date: 11/26/20 Time: 03:33                                                              |             |                       |             |          |
| HAC standard errors & covariance (Bartlett kernel, Newey-West fixed bandwidth = 4.0000) |             |                       |             |          |
| Variable                                                                                | Coefficient | Std. Error            | t-Statistic | Prob.    |
| Inflation                                                                               | 0.225761    | 0.195144              | 1.156894    | 0.2578   |
| Inflation Square                                                                        | -0.015136   | 0.016588              | -0.912523   | 0.3699   |
| Consumption                                                                             | 0.330912*   | 0.086027              | 3.846581    | 0.0007   |
| Investment                                                                              | 0.177720**  | 0.076008              | 2.338178    | 0.0273   |
| Govt. Expenditure                                                                       | 0.077517    | 0.058210              | 1.331669    | 0.1945   |
| Net Export                                                                              | -0.011817   | 0.011789              | -1.002433   | 0.3254   |
| C                                                                                       | 1.595882    | 0.802008              | 1.989858    | 0.0572   |
| R-squared                                                                               | 0.609557    | Mean dependent var    |             | 5.432290 |
| Adjusted R-squared                                                                      | 0.519454    | S.D. dependent var    |             | 1.377352 |
| S.E. of regression                                                                      | 0.954800    | Akaike info criterion |             | 2.931201 |
| Sum squared resid                                                                       | 23.70271    | Schwarz criterion     |             | 3.248642 |
| Log likelihood                                                                          | -41.36482   | Hannan-Quinn criter.  |             | 3.038011 |
| F-statistic                                                                             | 6.765163    | Durbin-Watson stat    |             | 1.183275 |
| Prob (F-statistic)                                                                      | 0.000209    | Wald F-statistic      |             | 20.28380 |

Prob (Wald F-statistic) 0.000000

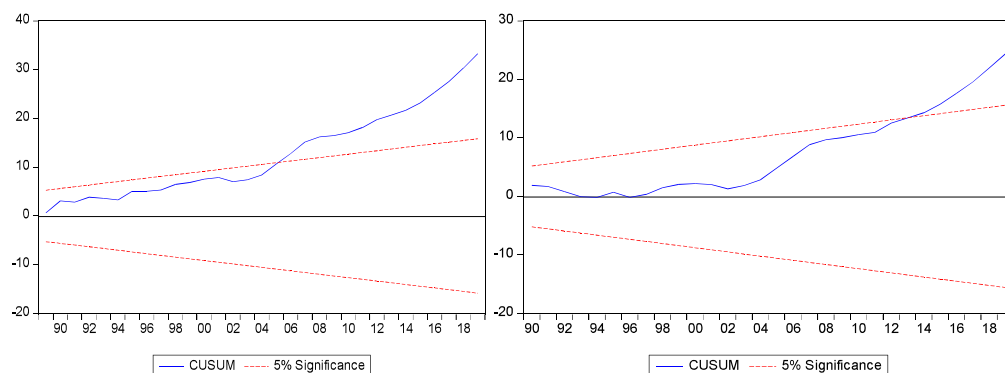
Note: \* indicates 1 percent and \*\* indicates 5 percent level of significance.

It is also seen from table 5.4 that among the demand side variables only consumption and investment are significant effect on the economic growth in Bangladesh. The coefficient of consumption implies that one unit increase in consumption growth would increase 0.33 unit of GDP growth in Bangladesh. Similarly, one unit increase in investment growth would increase around 0.177 unit of GDP growth in Bangladesh.

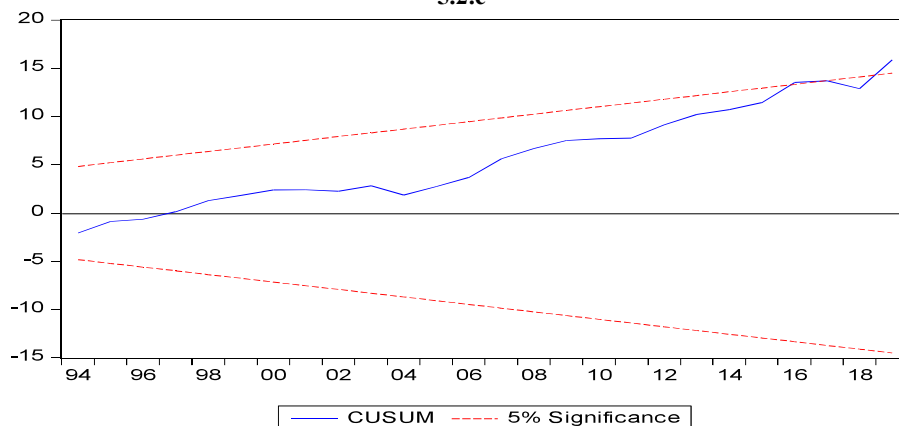
#### 9.4 Stability test for the Models

To check the stability in the parameters of the equation, a plot of recursive residuals about the zero line is normally used. For that the CUSUM Test (Cumulative Sum of The Recursive Residuals) is used here where it plots the cumulative sum together with the 5 percent critical lines. The test results for the above three models are presented in figures 5.2 (a, b and c). If the cumulative sum goes outside the area between the two critical lines, then it indicates parameter instability for the model.

Figure 5.2.a and 5.2.b Stability Test



5.2.c



From the above stability test two things can be derived. First, there seems to have a structural change in the economy in relation to GDP growth, inflation and other demand side variables. Although they are not the correct measure, the points where the cumulative sum line crosses the critical lines indicates the years of change. In this respect, it can be said that the point of structural change is not unique: different models provided different results. According to the bivariate model, structural change has occurred in 2005. According to the second model, the change occurred in 2014. And finally, the third model indicates that the structural change has occurred in 2019. Therefore, to explore the structural change formal statistical tools need to be used that is done in the next section.

From the above, all the data analysis depicts different results related to the objectives of this research. Using different regression models, it is found that there is no significant effect of inflation on economic growth.

Different diagnostic test results also validate the models used here. Existence of several structural breaks are also found in the data period used here. However, when these structural breaks are used in the regression, there found a significant impact on economic growth from inflation in two period only among four periods. Moreover, it is also found that these two periods (1991-1994 and 2015-2019) is having negative impact on GDP growth from the inflation. This indicates that although for the whole data period there is no impacts of inflation on economic growth, there exist a negative impact on some periods when structural breaks in the economy are considered.

#### *9.5 Inflation Growth Relation*

In this respect, this research found that there is no significant impact of inflation on economic growth in Bangladesh. Linear bivariate model is used first to see the effect of inflation on economic growth. Then quadratic term of inflation is included in the regression model to see the non-linear relation as well. Finally, a multiple regression model is used under the demand side framework. In all three cases, the findings is the same. That is inflation and inflation square are insignificant determinants of GDP growth. Apart from that among all the demand side variables only consumption and investment are found to be significant effect on the economic growth in Bangladesh. The previous study done by Younus (2012) found that there is a positive relation at the beginning of low-level inflation. In this respect the present study does not support their findings.

#### *9.6 Implications of the Study*

The findings of this study have implications for both literature and policy practice. The study found that inflation has no significant impact on economic growth in Bangladesh when the full sample period is considered. This result is found in the linear bivariate model, the quadratic model and the demand side multiple regression model. But the result changes when structural breaks are considered. In some specific periods, especially during 1991-1994 and 2015-2019, inflation shows a negative impact on GDP growth. Therefore, the relation between inflation and growth in Bangladesh is not very straight forward. It may depend on time period, structural change and other macroeconomic conditions.

This result can add to the existing literature in a modest way. Many previous studies found mixed results about inflation and economic growth. Some studies found negative effect. Some studies found positive effect. Some studies also found non-linear effect. The present study supports the view that the relationship may not be same in all periods. Hossain et al. (2021) also found an asymmetric relationship between inflation and GDP growth in Bangladesh. Their result indicates that positive and negative changes in inflation do not affect growth in the same way. So, the present study is close to this line of argument. It shows that the inflation-growth relation should be examined with instability, break points and demand side factors.

The findings are useful for monetary authority. Bangladesh Bank gives importance to price stability in monetary policy. But this study suggests that the policy decision should not depend only on the average relation between inflation and growth. If inflation affects growth negatively only in some periods, then the policy response should consider the economic situation of that period. A tight monetary policy may be necessary when inflation pressure is high. But it may also reduce investment and consumption if the economy is already weak. Bangladesh Bank also mentioned inflation control as an important target in its recent monetary policy statement. So, the result has practical relevance for monetary policy design.

The findings are also relevant for fiscal policymakers. In this study, consumption and investment are found as significant demand side factors for GDP growth. So, inflation control should be coordinated with policies that protect productive investment and necessary consumption. Otherwise, the policy may reduce inflation but also weaken growth activities. The World Bank also reported that high inflation and weak investment have affected Bangladesh's recent growth performance. This supports the practical importance of considering both inflation and demand side variables together.

For business firms and investors, the study indicates that inflation uncertainty can create problem in planning. If inflation becomes unstable, firms may delay investment or face cost uncertainty. For researchers, the implication is that future studies should use updated data, structural break models, non-linear models and sector-level analysis. This can help to understand whether inflation affects all sectors in the same way or not. Therefore, the study is relevant not because it gives a final answer, but because it shows the need to examine inflation-growth relation more carefully in Bangladesh.

### **10. Significance of the Article**

The economy is not running at capacity, meaning there is unused labor or resources, inflation theoretically helps to increase the production. More money translates to more spending, which equates to more aggregated demand.

More demand, in turn, triggers more production to meet that demand. It is significant to believe that some inflation is necessary to prevent the Paradox of Thrift. Which says, if consumer prices are allowed to fall consistently because the country is becoming too productive, consumers learn to hold off their purchases to wait for a better deal. The net effect of this paradox is to reduce aggregate demand, leading to less production, layoffs, and a faltering economy. Inflation also makes it easier on debtors, who repay their loans with money that is less valuable than the money they borrowed. This encourages borrowing and lending, which again increases spending on all levels. It is also believed an inverse relationship existed between inflation and unemployment, and that rising unemployment could be fought with increased inflation. This relationship was defined in the famous Phillips curve. The Phillips curve was largely discredited in the 1970s when the U.S. experienced stagflation. As a result, in all aspect of the economy inflation is a matter or issue to discuss.

## 11. Limitations and Reality

Like any other empirical time, series study on this issue, this study lacks the sufficient long time series. The data for inflation rate is available only from 1987. This limitation is, however, has been partially curbed with newly proposed estimation techniques mentioned in methodology sections. They are said to be suitable for a small sample.

## 12. Conclusion

This article mainly examined the nature of the impact of inflation on economic growth in Bangladesh. At the same time, the other social and economic factors that may affect economic growth were analyzed. This utilized the time series data from Bangladesh Bureau of Statistics (BBS), Bangladesh Bank and World Development Indicator (WDI). Appropriate time series estimation techniques is used to determine the effects of inflation on economic growth and to identify the directional causality between them. This article is highlighted the important policy recommendations regarding the inflation and economic growth for the emerging economy of Bangladesh that with so many ups and down with good inflation our nation is marching forward gradually.

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