Title of the Paper:
Fiscal Deficit and its Impact on Economic Growth: Evidence from Bangladesh

Review Comments

The paper raises a very interesting subject however some issues should be revised in order to be published.

General Comments

1. Can the authors stress some aspects making their work innovative?
2. The paper has to be proofread by a native speaker so some syntax errors to be corrected.

Theoretical Comments

3. The paper investigates the impact of Fiscal Deficit on Economic in Bangladesh using data from two sources (two data-sets, BBS and WBDI database). Since the number of observations is limited (1993-2016 for BBS) it is good that the authors use a similar analysis based on the World Bank data (2001-2014) in order to ensure/compare their results.
4. I recommend the authors to separate the literature section in theoretical and empirical. Expected effects should be underpinned by theoretical models. Also, in theoretical section the three schools of economic though (Neoclassical, Keynesian, Ricardian Equivalence (transfer it from introduction section)) regarding the impact of budget deficits and recent theoretical studies can be added.
5. I recommend the authors to add in introduction section a few words about the impact of global financial crisis on the economy of Bangladesh and the factors that have helped the country to survive the global challenges.
6. In the empirical literature section, the review should also provide more details on the methodology employed by the relevant studies to verify comparability of the results discussed. Also, it would be better if the authors concentrate only on evidence from studies that concern developing countries as the paper is conducted on such country. It is good that the most studies mentioned are from recent empirical literature.
Methodology Comments

7. The authors begin their analysis applying the ADF unit root test in order to define the stationarity properties of the variables. Except form ADF I recommend the use of PP test as well as the KPSS test.

8. Having defined the integration order of the series they continue applying the Johansen and Juselius (1990) cointegration approach in order to examine the long run relationship among the variables. Since this approach is sensitive to the lag length, before applying the cointegration test, they rightly found the order of the VECM (by the minimum value of the Akaike information criterion (AIC), Schwarz information criterion (SBC) and Hannan-Quinn criterion (HQC)).

9. At line 241 (page 6) it would be good to mention that the FMOLS approach for cointegration is used only in panel data.

10. The VECM equations have to be written again as follows (estimations to be done again, Table 6):

\[
\Delta GDP\_GrowthRate_t = \alpha_{10} + \sum_{i=1}^{11} \alpha_{1i} \Delta GDP\_GrowthRate_{t-i} + \sum_{j=1}^{12} \alpha_{12j} \Delta Fiscal\_Deficit_{t-j} + \lambda_{13} ECM_{t-1} + \epsilon_{1t}
\]

\[
\Delta Fiscal\_Deficit_t = \alpha_{20} + \sum_{i=1}^{21} \alpha_{21i} \Delta Fiscal\_Deficit_{t-i} + \sum_{j=1}^{22} \alpha_{22j} \Delta GDP\_GrowthRate_{t-j} + \lambda_{23} ECM_{t-1} + \epsilon_{2t}
\]

Or with matrices as follows:

\[
\begin{bmatrix}
\Delta GDP\_GrowthRate_t \\
\Delta Fiscal\_Deficit_t
\end{bmatrix}
= \begin{bmatrix}
\alpha_{10} \\
\alpha_{20}
\end{bmatrix}
+ \sum_{i=1}^{p} \begin{bmatrix}
\alpha_{11} \\
\alpha_{21}
\end{bmatrix}
\begin{bmatrix}
\Delta GDP\_GrowthRate_{t-i} \\
\Delta Fiscal\_Deficit_{t-i}
\end{bmatrix}
+ \begin{bmatrix}
\lambda_{13} \\
\lambda_{23}
\end{bmatrix}
ECM_{t-1} + \begin{bmatrix}
\epsilon_{1t} \\
\epsilon_{2t}
\end{bmatrix}
\]

All variables have to be done in first differences (\(\Delta\) is missing in front of Fiscal Deficit and GDP Growth Rate at lines 255, 258).

Also, the lags in the VECM have to start at 1 (not at 0 as it is shown at lines 255, 258). We could have as starting lags 0 in the VECM but then it would be an SVAR (SVEM) model (authors did not mention something like it).

Empirical Results Comments
11. Unit root results:

Null hypothesis: the series has a unit root (not stationary)
Alternative: the series has not a unit root (stationary)

If test statistic is smaller than the critical values (1%, %5, 10% respectively) then we accept the alternative hypothesis which means that the variables are stationary.

In Table 3, 1.39 is larger than the critical value which means that we accept the null. (see line 273 and correct smaller to larger, similarly line 276 etc).

12. Cointegration results:

At line 283-284 “in Table 5 we present the results of trace test”. Why the authors don’t mention about the λmax tests?

13. The estimates obtained should be tested for robustness before any sensible conclusions are drawn. So in addition to authors’ diagnostic tests the White and the LM test (Heteroskedasticity) have to be added.

14. As far as the stability test I propose the authors to appear the (inverse) unit root circle graph. In addition, the Cusum and the Cusum test of squares can be added.

**Minor Comments**

1. Reference Style

In page 6 at section Data, Bangladesh and Bureau of Statistics (BBS, Year?) and World Bank Development (WBDI, Year?)

Also, at the end (References section) these references have to be added.

To sum up, the paper raises a very interesting and topical issue. My decision is “Minor Revision”.