

PUBLIC DEBT AND ECONOMIC GROWTH IN PAKISTAN: A TIME SERIES ANALYSIS FROM 1972 TO 2010

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ABSTRACT

This research is about public debt and economic growth of Pakistan, it uses simple OLS technique and dataset is from 1972 to 2010. Pakistan is surrounded by serious socio-economic problems. Due to low tax base and twin deficits, Pakistan has to rely on both external and internal capital flows. The foreign capital flows are not easily accessible but domestic capital flows are approachable at all times. Public debt is an important means of bridging government financing gaps, but should be used in a moderate level because it will increase liabilities in future. In Pakistan outstanding public debt has exceeded our GDP and thus income per capita is lower than per citizen indebtedness. This all is due to mismanagement and poor planning sector in the nation. It appears that external financing of domestic budget deficit is cheaper than the domestic financing. However, under certain circumstances external financing is significantly more expensive than the domestic financing. Both types of debt have negative role in the real per capita income growth rate, so they should be avoided or their quantity should be reduced in future. Debts should be used only for needed purposes and should keep away from corrupt people while debt for IMF should be avoided because their conditions worsen the economy of debtor nation.

Keywords: domestic, External, economic growth, economic development