

# General approach to the determinants of balance of payments: A case of Pakistan

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## **Keywords**

Balance of Payments (BOP), Money Supply, Real Exchange Rate, Real GDP, Interest Rate and Fiscal Balance.

## **Abstract**

*Distortion in balance of payments is one of the dominant causes for the sluggish economic condition of Pakistan. The present article focuses to scrutinize the relationship of the balance of payments to its certain determinants that are actually blamable for its distortion. The robust ARDL structure has been utilized to develop the bound testing approach to co-integration and error correction models on data set for 1972-2012. The bound test declares that there exists stable long run relationship of balance of payments to money supply, Real Exchange Rate, real GDP, interest rate and fiscal balance. The upshots indicate that real exchange rate inversely influences the balance of payments not only in the long run but also in the short run i.e Marshall Learner condition is not fulfilled. Interest rate inversely affects the balance of payment in the long run but positively affects in the short run. Fiscal balance affects the BOP negatively in the long and short run simultaneously. As regards the real GDP, it moves the BOP in the positive direction in both long and short run. The money supply casts positive influence on the BOP in the short run but negative effect in the long run. So the need of the hour is that the real GDP of Pakistan should be increased by the deliberate policy by the government. Because it is the GDP that can increase our savings consumption, government expenditures and exports and can improve balance of balance of payment.*

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