What Determines External Debt? Empirical Evidence from Pakistan

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Abstract
External debt is considered to be one of the symbols of an ailed economy. The reasons of why financially weak countries have to take external debt are crystal clear, but what determines their debts is a matter that makes the position of one country different from the other.Economic freedom of a country is eclipsed by the clutches of external debt .Unfortunately Pakistanis is one of such countries that is under the stronghold of external debt. Hence the determinants of external debt in Pakistan are the focus of this paper. OLS regression technique has been used on time series, data for the period 1973-2010.The main determinants of the external debt considered are consumption, private investment, public investment, remittances, lending rate and a dummy variable democracy. If democracy then1, otherwise zero. The results indicate that consumption and private investment have positive and significant effects on external debt. Whereas Public investment and remittances show negative but significant relationship with external debt. Lending rate and democracy have positive but insignificant effects on external debt. As external debt is harmful for an economy so it should be minimized or avoided. And the inverse relationship of public investment and remittances with external debt forces the government to make deliberate efforts to increase the both so that debt can be decreased.