
Finding the impact of foreign debt servicing on per capita income growth rate: a case study of Pakistan

Syeda Azra Batool

Bahauddin Zakariya University Multan, Pakistan

Atif Khan Jadoon & Tahir Mehmood

University of Punjab, Lahore, Pakistan

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Abstract

Among the wide array of macroeconomic problems confronted by Pakistan, foreign debt servicing, has occupied a substantial place. Persistent fiscal deficit since the independence, turned out to be the ground for various governments to rely on the internal or external borrowings. The acquisition of more external debt instead of internal resource mobilization results in higher level of debt stock. Due to soaring level of debt, Pakistan has been allocating a major chunk of resources to debt repayment, which is tarnishing its economic growth. The present study has been conducted to discover the impact of foreign debt servicing on per capita income growth rate of Pakistan for the period 1981-2010 by applying relatively new technique, called Auto-Regressive Distributed Lag (ARDL) of Co-integration. The results confirm that the foreign debt servicing has adversely and significantly affect the per capita income growth rate of Pakistan in both short-run and long-run in the specified period. There is an ardent need for comprehensive policy on part of the government of Pakistan to salvage the economy of such a financial loss.
