

# [Why is pakistan counted as underdeveloped?](https://assignbuster.com/why-is-pakistan-counted-as-underdeveloped/)

Right now, Rs. 52, 941 is the debt which is on the shoulders of each and every Pakistan, where total external and internal debt Pakistan today accountable is Rupees Nine trillion. Where as in the mid-nineties, the same figure was Rupees 30, 000 which was to be borne by each Pakistani citizen. The government of PM Nawaz Shareef came up with an initiative of Qarz Utaro Scheme which somehow gave a relieving cushion to the debt servicing piles.

Right now there is a total financial dichotomy in the country. In these worsening situations, it is again said that national treasury is facing an additional burden of Rupees 14 billion due to 12 percent increase in military pensions in 2007-2008[3]. On the other side of the coin, futuristic look is giving much cynical and gloomy representation as the total external debt is likely to soar by more than 43 per cent over the next five years, to about $73 billion in 2015-16 from about $50. 76 billion early this year[4].

Though the incapability and powerlessness of numerous countries to use the provided external supply in terms of aid or debt, it is further attributed to many other characteristic factors, the insufficient and scarce absorptive competence is termed as the rule of thumb applicable in many UDC’s as a limitation on the well-organized and proficient utilization of external resources. The normal debt indicators which are commonly practiced in Pakistan are:

Debt : GNP ratio

Debt : Debt Service Liability

Debt : Foreign Exchange Earnings

## CHAPTER II

## LITERATURE REVIEW

(Ashfaq, 2005) in his research (Aid Effectiveness, Debt Capacity and Debt Management in the Economy of Pakistan) discusses that discrete views are prevailing concerning the usefulness of external assistance to the UDCs. As many of the researchers and economist say that aid and debt is much useful in lessening the monetary tailback and blockage to enlargement of many developing countries like Pakistan, no matter the essence of taking assistance is satisfied or not (for example Cassen 1994, G. Papanek 1972, etc). The challengers declare that foreign assistance either in terms of aid or debt always caused disastrous affects on the maturity of the recipient country. A number of gives a moderate point of views on the same debate. The association linking external debt and economic escalation has been observed broadly in recent years. These studies have mostly focused on the destructive influence of a country’s “ debt overhang” which means the addition of a stockpile of liability so hefty as to terrorize the country’s ability to pay back its precedent loan.

The theme of the research is to see how and to what degree the foreign assistance has and debt affected the economy. It is to analyze the external assistance and resources in terms of its dynamic and fruitful role in the economy and as a bridge of expansion and growth or vice versa. The main idea is to check and estimate the effectiveness of foreign air and external debt in the country and the researcher seek to determine whether further resources linked with external assistance have in point of fact brought some kind of revolution in the economy or the situation is completely opposite of what it should be. The research will also investigate the position of debt lumber on Pakistan, giving extreme importance given on Pakistan’s competence in debt servicing and its retirement; in the light of major problems in debt management practices creating worst economic shape of the country.

( Hayat et al, 2010) discuss in their research (External debt and Economic Growth: Empirical evidence from Pakistan) of the known fact to everyone that Pakistan does not enjoy a good repute for aid and external debt. It has almost unmatchable witnesses of significant economic assistance from about each part of the globe. He further argues that Since Pakistan’s emergence of world map; it is facing crucial problems in balance of payments deficit. To finance this balance of payments deficit and loses, Pakistan is heavily relying on external debt. World Bank classified Pakistan as severely indebted country of South Asia in 2001. Even though, Pakistan shows a mushroom growth in its economy in the presence of serious economic and highest degree of political in-stability.

Although it also showed variability with the passage of time but the situation at this point in time is worse where the growth rate of GDP is just 2% which was 7% in 2007. The outstanding stock of external debt swelled by a huge sum of Rupees 1095. 1 billion in FY09, registering a growth of 36. 1 percent against 28. 9 percent in FY08. As far as debt is related, International Monetary Fund (IMF) debt further damager the condition. The rise in debt stock of IMF by US$ 3. 8 billion was the major factor for rise in total debt stock during FY09. As discussed earlier, facing severe balance of payments problems the government had approached the IMF for a US$7. 6 billion Stand-By Arrangement (SBA) loan which was approved by the IMF board in November 2008. The IMF has also acceded to government of Pakistan’s additional request for US$3. 2 billion, which has increased the total assistance to $11. 3 billion. The bad and declining economic conditions also creates problems in Pakistan foreign exchange reserves. It was $ 14 Billion in June 2007 showing a drastic decline of 75. 71% by the mid of 2010 to just $ 3. 4 Billion. Prior to the events of September 11, 2001, Pakistan’s economy was caught in a vicious debt trap. U. S. bilateral aid to Pakistan started in 1951. Pakistan, in total, received a massive amount of $2 billion dollars between 1953 and 1961. On the other side, by the early 1960’s, aid reached $400 million per year. At the peak level, we get to know that in the first phase of the same decade, only United Stated provided fifty percent of the total aid Pakistan was receiving; which covered one third of the development budget and financed more than half of the import bill. It was the time by 1982, US was givibg $ 5. 1 Billion to Pakistan as aid on annual basis.

(Ibrahim, 2009) in his research (U. S. aid to Pakistan-U. S. Tax payers have funded Pakistani corruption) discussed the situation getting further worse when sanctions were imposed by the G-8 countries on bilateral and multilateral lending as a consequence of Pakistan’s nuclear tests in May 1998 and subsequently because of the military coup in October 1999. Pakistan was able to reschedule US $ 3. 96 billion of its bi-lateral liabilities through the Paris Club in 2000. The reschedule was, however, on short-term basis and dependent on the IMF agreement, which was being finalized at the time with all its stringent conditionality. The post September 11, 2001, events once again brought Pakistan into the limelight of global geo-strategic interests. The most significant benefit which Pakistan attained vis-à-vis its external debt problem was the restructuring agreement with the Paris Club in December 2001. Under the agreement, the debt repayment period was extended to a span of 38 years with a grace period of 15 years. This means that Pakistan’s debt servicing liabilities will decline by US $ 2. 7 billion between 2002 and 2004 and according to the State Bank; the net present value of external debt is expected to decline somewhere between 27 and 43 per cent between 2002 and 2017. All these problems faced by Pakistan are quite alarming and shows a need of taking massive and severe steps to take the position in a controllable mode, as further delay will make Pakistan drift herself into many other financial as well as social issues.

(Ahmed, 2010) argued that Pakistan must refuse to pay foreign debt payment and spend the same amount on relief and rehabilitation of people affected from recent flood and terrorism. He said that 20 Million populations have got effected from the angry flood which are a crucial part of $ 54 Billion foreign debt yet to be paid back with interest. People in Pakistan are already facing unemployment, hunger and worst hardships and the episode of the flood creating massive problems for such a huge number of populations is again devastating. Therefore, Pakistan is greatly unable to service its debt liability. Pakistan spends $ 3 Billion every year on its debt servicing where Pakistan’s debt-to-GDP ratio has skipped the massive height of 61% this fiscal year. Government is sometimes talking of cutting development budget and reduces subsidies on the call of IMF. The situation according to him is getting more badly where Government is talking about levying flood tax on the poor people of Pakistan. Despite of taking such steps, Pakistan’s government should take serious steps in the eradication of such problems by cutting military and capital budgets.

(Haider Mullick, 2004) discusses the fact that though Pakistan has been a front-line ally to The United States for the war on terrorism to curb the threats on the US soil; but received a sum of $2. 4 billion in foreign aid[5]. He further argues that after the terrorist attacks on the WTC on September 11, 2001 many of the rich and developed nations pondered over the fact that foreign aid to UDCs has now turned to a new phenomenon with a blend of new priority and importance unlike previous times. All is due to the reason of such UDCs falling into the hands of radical extremists and fanatics which finance the poor and misuse their status of ‘ poverty’. It is just due to the Pakistan’s involvement to help the US and NATO forces to defeat the Taliban regime in Afghanistan and the US are allocating massive aid in an injecting manner similar to 80’s. But the end result could become much fierce. There can be a financial ‘ dead-lock’ in the country if the US and NATO move out of the Afghan land in next 10 years. Our system in Pakistan will be so dependent on the aid and grants that when it will be removed; there is a growing fear of over all ‘ system-collapse’. He stresses on the immediate need of autarky and self dependence like India and China.

(Martin, 2009) writes in his research about Pakistan Capital Crisis that Pakistan’s government has reached to an agreement with the International Monetary Fund (IMF) for a sum of $ 7. 6 B in the form of loans followed by massive hefts of impositions on the economy of Pakistan. Despite of the huge sum, Pakistan’s financial dichotomy still persists and the state has requested additionally for a sum of $ 4. 5 billion. He states that Pakistan badly affected capital situation is affecting the nations over all economic efficiency and performance leading towards socio-political ‘ havoc’. He further extends his argument to the debt burden Pakistan is getting in such monetary and socio-economics problems that it will become very difficult for a common Pakistani to win bread for his family. He discusses about different research groups which have recently issued reports on the prevailing circumstances in the country that further recommends on the actions that the United States can do to help an improved economic system. He indicates the role of Congress that may consider many of the recommendations and take severe actions to increase in US’s non-military assistance and establishment of ‘ reconstruction opportunity zones’ in the country. It is barely on the mercy of time which will show the effectiveness of what such recommendations will bring; prosperity or disaster. The US is interested in a firm and established democratic Pakistan which can act as a front-line ally to the US interests in Afghanistan and South Asia. The US wants to assist Pakistan on the basis of regional and global terrorism which is the major threat to the US after September 11, 2001. Now, the US think-tanks are pondering over the fact that a financial stalemate in the country will might weaken multilateral endeavors to soothe South Asia and restrain the growing emergence of Islamic extremism; so there is an immediate need of capital assistance in a rapid and quick way.

(Momani, 2004) discusses the Triad focusing on Pakistan, The IMF and The U. S. War on Terrosism. She argues the basic question that did The U. S intrude to approve the final payout of Pakistan’s IMF as a prize to support the United State’s war on terrorism? It is a rule of thumb that The IMF has been always politicized to attain foreign policy objectives which are important to the U. S. It is a matter of fact that Pakistan’s loans approval was immediately given after 9/11 attacks by the IMF but was scheduled for the approval by the executive board of IMF. The overall situation gets clumsy as there are strong and positive linkages of the United State’s influence inside the decision makings of The IMF to strongly correlate objectives getting success in the end- Exactly what The United States have been doing to all Under developed countries (UDCs) across the globe. Although there are weak evidences present of the US’s influence in the case of Pakistan but the writer argues that The United States clearly wanted to take a credit for the approved payment by the IMF to the country, getting General Musharraf as a front line ally to attack Afghanistan.

(Hameed et al , 2008) discuss how external debt and aid is deteriorating the fiscal and monetary policies of Pakistan. In their research that even in short run or long run; the relationship between debt shamble and economic growth is always negative in the Pakistan’s history until now. It is clear to every one that debt and debt servicing responsibilities always bring negative productivity as far as labor and capital is concerned. Now, the relationship is causal to the fiscal deficit in the country. When there is a problem in the labor and productivity, there is always a negative impact on the taxation base. On the other hand there are severe problems prevailing as people always look to avoid or evade taxes. The researchers also focused on the need of cutting the above mentioned expenditures drastically so that there should be an adequate cushion given to the injured fiscal structure of the country. They also stressed on the reality that debt service relation tends to affect negatively GDP and thereby the rate of economic growth in the long-run, which, in turn, reduces the ability of the country to service its debt. Now tax being the foremost and crucial part of the fiscal structure as revenue plays a very important element as far as the capital, development and military expenditures are in question. The researchers claim that external debt is not good for a country in general and Pakistan particularly after a certain limit as piles of interest has to be returned back which further deteriorate the fiscal structure of the country.

(Hashmi, 2009) worked on the reflections of Pakistan’s economy due to the war on terror. On the other hand she also focused on the mutual relationship between the fiscal discrepancies and Pakistan’s involvement in the War on terror as an ally of the United States. As matter of fact, Pakistan was a heaven for most of the world most renowned investors which always saw Pakistan as place where huge piles of profits are present. There were and still ate many latent demands which people want in their life. Consequently, many of the Multinational companies and other world class organizations were interested in setting up business in Pakistan and importing the raw material in the field of textiles and other services into their own countries. With the invasion of NATO and US troops in Afghanistan, the situation was worse than ever before in the history of Pakistan. All of a sudden all the investors from Pakistan flew away taking all their capital and investment out of the country. Stock markets crashed as due to the war in Afghanistan, all the foreign investors were afraid of loosing their huge chunks of virtues; the virtues which in the end makes Pakistan generates heavy amounts of taxes being used as revenue for the state. There is a worse fiscal and monetary gridlock in the country after facing much socio-economic and political instability.

(Burki, 2008) applies the political economic analysis of decision making processes in the donor country to the special case of US aid to Pakistan. Pakistan is not an extremely poor country but nevertheless, it is among the 5 major recipients of foreign aid. Over the last decades, Pakistan’s aid receipts show considerable shifts for which no obvious development related reasons can be provided. This calls for explanations related to reasons other than developmental efficiency which require a closer look at decision making processes on the donor side. Looking at the United States as the single most important bilateral donor, we draw upon earlier analyses of the effect of lobbying on congressional decision making. Numerous studies, like Coughlin (1985), Tosini and Tower (1987), Harper and Aldrich (1991), Marks (1993) and Baldwin and Magee (1998) empirically tested the hypothesis of domestic lobbies affecting congressional voting behavior with respect to US trade policy. A more recent study by Gawanda et al. (2004) also includes the effect of lobbies working for foreign principals, e. g., for foreign governments and foreign business groups. As a result, the external assistance Pakistan has been given was all on the basis of political interests of the donor countries and show minimal or negligible improvement in the economic and fiscal structure of the country. Over the years, the sums of aids and external debts have been getting a sky-high increase but the monetary situation is worse since 1947. He argues that there is a negative relation of aid and foreign debt with the economic uplift of a country, especially in Pakistan where the situation is quite different due to its involvement in war on terror, prevailing corruption, and no productivity due to energy crisis, Minimum subsidies and The IMF’s impositions on the poor Pakistani. Results from ineffective use of the money show that unidirectional causality runs from the foreign exchange constraint to the budget deficit and then from the budget deficit to the external debt stock. Bi-directional causality was observed between foreign exchange requirements and the external debt stock.

## Chapter III

## 3. 0 Theoretical Framework

## CHAPTER IV

## METHODOLOGY AND CHOICE OF ANALYTICAL TECHNIQUE

## 4. 1 Research type

In order to conduct my research study the most suitable data I have gathered is secondary in nature collected from reliable and consistent data sources and no primary data has been collected, hence my study will be referred to as secondary research.

## 4. 2 Data type & Reference Period

Data type is purely secondary in nature as no primary data has been acquired.

Reference period for my research is from 1995-2009

## Research Hypothesis

## 4. 3. 1 Basic Research Hypothesis

## First Hypothesis

Ho: External aid and debt has a negative correlation with the GDP growth in Pakistan from 1995-2009

HA: External aid and debt has a positive correlation with the GDP growth in Pakistan from 1995-2009

## Second Hypothesis

Ho: Economic growth will not be continual by rising external debt and foreign aid to Pakistan

HA: Economic growth will be continual by rising external debt and foreign aid to Pakistan

## 4. 3. 2 Statistical Hypothesis

## Grants as a percentage of GDP

H0: To test the hypothesis that Grants as a percentage of GDP has no negative on External debt as a percentage of GGP

H0: Î²1= 0

H1: To test the hypothesis that Grants as a percentage of GDP has negative impact on External debt as a percentage of GGP

H1: Î²1â‰ 0

## Foreign Direct Investment

H0: To test the hypothesis that FDI as a percentage of GDP has insignificant no negative on External debt as a percentage of GDP

H0: Î²2= 0

H1: To test the hypothesis that FDI as a percentage of GDP has negative impact on External debt as a percentage of GDP

H1: Î²2â‰ 0

## Debt Servicing

H0: To test the hypothesis that Debt servicing as a percentage of GDP has no positive impact on External debt as a percentage of GDP

H0: Î²3= 0

H1: To test the hypothesis Debt Servicing as a percentage of GDP has positive impact on External debt as a percentage of GDP

H1: Î²3â‰ 0

## Trade Deficit

H0: To test the hypothesis that Trade Deficit as a percentage of GDP has no negative impact on External debt as a percentage of GDP

H0: Î²4= 0

H1: To test the hypothesis that Trade Deficit as a percentage of GDP has negative impact on External debt as a percentage of GDP

H1: Î²4â‰ 0

## Fiscal Deficit

H0: To test the hypothesis that Fiscal Deficit as a percentage of GDP has no negative impact on External debt as a percentage of GDP

H0: Î²5= 0

H1: To test the hypothesis that Fiscal Deficit as a percentage of GDP P has negative impact on External debt as a percentage of GDP

H1: Î²5â‰ 0

## Saving Investment Gap

H0: To test the hypothesis that Saving- Investment Gap as a percentage of GDP has no negative impact on External debt as a percentage of GDP

H0: Î²6= 0

H1: To test the hypothesis that Saving- Investment Gap as a percentage of GDP P has negative impact on External debt as a percentage of GDP

H1: Î²6â‰ 0

## 3. 4. 1 Variable reference list

## Dependent Variable

External Debt as a percentage of GDP (Malik, 2010)

## Independent Variables

Fiscal Deficit as a percentage of GDP\* (Ashfaq, et al 1999)

Foreign Direct Investment as a percentage of GDP\* (Azam et al, 2009)

Balance of Payment as a Percentage of GDP\* (Loser, 1977) and (Malik et al, 2010)

Exchange rate fluctuation (Mahmood et al , 2009)

Capital Flight (Chipalkati , Rishi; 2009)

Foreign Aid as a percentage of GDP\* (Miles B. Cahill, Paul N. Isely)

Saving-Investment Gap percentage of GDP (Malik, 2010)

Debt Servicing percentage of GDP\* (Clement, et al, 2009)

Trade Deficit as a percentage of GDP\* (Mohammad, 2010)

Grants excluding technical assistance percentage of GDP\* (Befekadu Degefe )

\* as a percentage of GDP is used to gauge the variables in accordance to economic growth of Pakistan

## Information gathering and sampling procedures

## Data Sources

The data sources for my research study are as follows:

WDI

## Data reliability and internal consistency

WDI is a renowned database developed by World Bank. The data from WDI is completely reliable to be used in the research.

## 3. 4. 4 Data analysis tools and techniques

Multiple regression: To measure the increasing effect of independent variables on the dependent variable and to obtain a single regression line for all variables, which will be further used in hypothesis testing

Granger Causality: The researcher would like to identify whether variation in a variable will enclose an impact on changes other variables

Scatter Plots: Such plots will also be used for graphical representation of data.

## 4. 1 Statistical Analysis

## Grants and External Debt

Dependent Variable: External Debt as a Percentage of GDP

Independent Variable: Grants excluding technical assistance as a percentage of GDP

In this relation, the result is significant at 15% level. Keeping all other variables constant, one Dollar change in External debt as a percentage of GDP creates negative 3. 83 Dollars in Grants excluding technical assistance (as a percentage of GDP). This is because in many underdeveloped parts of the world, Grants excluding technical assistance is used to finance much governmental expenditure. Also, such grants are also used in debt servicing. As a special case, Pakistan has been using such grants in the same manner. This is because Pakistan has been a key ally to The United States of America for War against Terrorism. The country has been paying much in the form of deficits in each governmental tool. Hence, the lesser Grants given to Pakistan, more piling of external debt will be apparent.

T-stat for Î²1 comes out to be 1. 156; where T-Critical is 1. 108 at 15% significant level. In this way, the research tends to reject H0, where Hypothesis is:

H0: To test the hypothesis that Grants as a percentage of GDP has no negative impact on External debt as a percentage of GGP

H0: Î²1= 0

H1: To test the hypothesis that Grants as a percentage of GDP has negative impact on External debt as a percentage of GGP

H1: Î²1â‰ 0

## Grants and External Debt

Dependent Variable: External Debt as a Percentage of GDP

Independent Variable: Grants excluding technical assistance as a percentage of GDP

In this relation, the result is significant at 15% level. Keeping all other variables constant, one Dollar change in External debt as a percentage of GDP creates negative 3. 83 Dollars in Grants excluding technical assistance (as a percentage of GDP). This is because in many underdeveloped parts of the world, Grants excluding technical assistance is used to finance much governmental expenditure. Also, such grants are also used in debt servicing. As a special case, Pakistan has been using such grants in the same manner. This is because Pakistan has been a key ally to The United States of America for War against Terrorism. The country has been paying much in the form of deficits in each governmental tool. Hence, the lesser Grants given to Pakistan, more piling of external debt will be apparent.

As the regression equation is:

Î± = 35. 0 – 3. 83 Î²1 – 2. 89 Î²2 – 1. 87 Î²3 + 0. 581 Î²4 + 3. 10 Î²5 – 0. 133 Î²6

T-stat for Î²1 comes out to be 1. 156; where T-Critical is 1. 108 at 15% significant level. In this way, the research tends to reject H0, where Hypothesis is:

H0: To test the hypothesis that Grants as a percentage of GDP has positive impact on External debt as a percentage of GGP

H0: Î²1= 0

H1: To test the hypothesis that Grants as a percentage of GDP has negative impact on External debt as a percentage of GGP

H1: Î²1â‰ 0

## Grants and External Debt

Dependent Variable: External Debt as a Percentage of GDP

Independent Variable: FDI as a percentage of GDP

H0: To test the hypothesis that FDI as a percentage of GDP has positive correlation with External debt as a percentage of GDP

H0: Î²2= 0

H1: To test the hypothesis that FDI as a percentage of GDP has negative correlation with External debt as a percentage of GDP

H1: Î²2â‰ 0

As the regression equation is:

Î± = 35. 0 – 3. 83 Î²1 – 2. 89 Î²2 – 1. 87 Î²3 + 0. 581 Î²4 + 3. 10 Î²5 – 0. 133 Î²6

It states that negative change of $ 2. 89 in FDI (as a percentage of GDP) adds $ 1 External Debt (as a percentage of GDP. Hence, lesser the FDI, more is the external debt.

On the other hand t-stat for Î²2 is 1. 824; where T-Critical is 1. 108 at 15% significant level. Since t-stat is greater than t-critical, the researcher tends to reject the null hypothesis which states that FDI (as a percentage of GDP) as a negative correlation with external debt (as a percentage of GDP)

## Debt Servicing and External Debt

Dependent Variable: External Debt as a Percentage of GDP

Independent Variable: Debt Servicing as a percentage of GDP

H0: To test the hypothesis that Debt servicing as a percentage of GDP has positive correlation with External debt as a percentage of GDP

H0: Î²3= 0

H1: To test the hypothesis Debt Servicing as a percentage of GDP has negative correlation with External debt as a percentage of GDP

H1: Î²3â‰ 0

As the regression equation suggests:

Î± = 35. 0 – 3. 83 Î²1 – 2. 89 Î²2 – 1. 87 Î²3 + 0. 581 Î²4 + 3. 10 Î²5 – 0. 133 Î²6

A negative change of $ 1. 87 in Debt Servicing as a percentage of GDP adds $ 1 External Debt (as a percentage of GDP). Hence, lesser the debt retirement is, the more is the external debt piling is seen in Pakistan (1995-2009)

On the other hand t-stat for Î²3 is 1. 442; where T-Critical is 1. 108 at 15% significant level. Since t-stat is greater than t-critical, the researcher tends to reject the null hypothesis which states that Debt Servicing (as a percentage of GDP) as a negative correlation with external debt (as a percentage of GDP).

## Trade Deficit and External Debt

Dependent Variable: External Debt as a Percentage of GDP

Independent Variable: Trade Deficit as a percentage of GDP

H0: To test the hypothesis that Trade Deficit as a percentage of GDP has a positive correlation with External debt as a percentage of GDP

H0: Î²4= 0

H1: To test the hypothesis that Trade Deficit as a percentage of GDP has a negative correlation with External debt as a percentage of GDP

H1: Î²4â‰ 0

The regression equation suggests that:

Î± = 35. 0 – 3. 83 Î²1 – 2. 89 Î²2 – 1. 87 Î²3 + 0. 581 Î²4 + 3. 10 Î²5 – 0. 133 Î²6

$ 0. 581 change in Trade Deficit (Trade deficit increases i. e. Imports> exports) as a percentage of GDP creates a positive change of $ 0. 581 External debt as a percentage of GDP. Hence, greater the trade deficit is, the more is external debt evident in Pakistan (1995-2009)

On the other hand t-stat for Î²4 is 1. 311; where T-Critical is 1. 108 at 15% significant level. Since t-stat is greater than t-critical, the researcher tends to reject the null hypothesis which states that Trade Deficit (as a percentage of GDP) as a negative correlation with external debt (as a percentage of GDP).

## Grants and External Debt

Dependent Variable: External Debt as a Percentage of GDP

Independent Variable: Fiscal Deficit as a percentage of GDP

H0: To test the hypothesis that Fiscal Deficit as a percentage of GDP has no negative impact on External debt as a percentage of GDP

H0: Î²5= 0

H1: To test the hypothesis that Fiscal Deficit as a percentage of GDP P has negative impact on External debt as a percentage of GDP

H1: Î²5â‰ 0

The regression equation suggests that:

Î± = 35. 0 – 3. 83 Î²1 – 2. 89 Î²2 – 1. 87 Î²3 + 0. 581 Î²4 + 3. 10 Î²5 – 0. 133 Î²6

$3. 10 change in Fiscal Deficit (i. e. Government Revenues > Government Expenses)as a percentage of GDP creates a positive change of $ 1. 00 in Pakistan’s external debt. Hence, greater the fiscal deficit is, the more is external debt is in Pakistan during 1995-2009.

On the other hand t-stat for Î²4 is 1. 834; where T-Critical is 1. 108 at 15% significant level. Since t-stat is greater than t-critical, the researcher tends to reject the null hypothesis which states that Fiscal Deficit (as a percentage of GDP) as a negative correlation with external debt (as a percentage of GDP).

## Saving Investment Gap and External Debt

Dependent Variable: External Debt as a Percentage of GDP

Independent Variable: Saving Investment gap as a percentage of GDP

H0: To test the hypothesis that Saving- Investment Gap as a percentage of GDP has positive correlation on External debt as a percentage of GDP

H0: Î²6= 0

H1: To test the hypothesis that Saving- Investment Gap as a percentage of GDP P has negative correlation