Determinants of Economic Growth in Pakistan: A Structural Vector Auto Regression Approach

Authors : Muhammad Ajmair

Abstract : This empirical study followed structural vector auto regression (SVAR) approach proposed by the so-called AB-model of Amisano and Giannini (1997) to check the impact of relevant macroeconomic determinants on economic growth in Pakistan. Before that auto regressive distributive lag (ARDL) bound testing technique and time varying parametric approach along with general to specific approach was employed to find out relevant significant determinants of economic growth. To our best knowledge, no author made such a study that employed auto regressive distributive lag (ARDL) bound testing and time varying parametric approach with general to specific approach in empirical literature, but current study will bridge this gap. Annual data was taken from World Development Indicators (2014) during period 1976-2014. The widely-used Schwarz information criterion and Akaike information criterion were considered for the lag length in each estimated equation. Main findings of the study are that remittances received, gross national expenditures and inflation are found to be the best relevant positive and significant determinants of economic growth. Based on these empirical findings, we conclude that government should focus on overall economic growth augmenting factors while formulating any policy relevant to the concerned sector.
Keywords : economic growth, gross national expenditures, inflation, remittances

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