

Impact of External Debt on Stock Market Performance and Economic Growth: Moderating Role of Capital Formation

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Abstract

The main objective of this study is to ascertain the effect of external debt on economic growth and stock market performance in SAARC countries that included Pakistan, Sri Lanka, Bangladesh and India for the period spanning from 1992 to 2017. This study examines the effect of capital formation as a moderator. Using panel least square recreation analysis, we find a negative and significant association between economic growth and external debts. The inclusion of interaction tea reveals a positive moderation effect of capital formation on the relationship of external debt and economic growth. Our study suggest that the external debt is less favourable for the SAARC countries and that greater emphasis should be increased on capital formulation. Moreover, policies that enhance the national treasury base, increase exports, and make environment conducive for foreign direct investment should be introduced in SAARC countries. The governments of SAARC countries should look for the alternates of external debt for financing the fiscal deficit.

Keyword: External debts, stock market performance, capital formulation, Economic growth

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