

Volume 30, Issue 4**Research Announcement****Foreign aid-growth nexus in pakistan: role of macroeconomic policies**

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This study examines the effectiveness of aid, focusing on the ongoing debate on the interactive effect of aid and policy on sustainable economic growth. We disaggregate the total aid into bilateral and multilateral aid to examine the separate affect of these forms of aid on economic growth. The empirical analysis is based on the ARDL cointegration approach using the data for the period 1960 to 2008. Empirical findings suggest that foreign aid has no role in economic growth of Pakistan under the period reviewed. Based on the empirical results we find that foreign aid and real GDP has negative relationship while aid-policy interactive term and real GDP growth has positive and significant relationship. The interesting results emerge; when Aid/GDP alone is introduced into the growth equation it has insignificant positive coefficient in the long run and negative and weakly significant coefficient in the short run. Similar results obtained when we disaggregate aid in term bilateral and multilateral component. The results strongly support the view that foreign aid does have positive impact on economic growth in Pakistan conditional on sound macroeconomic policies.

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