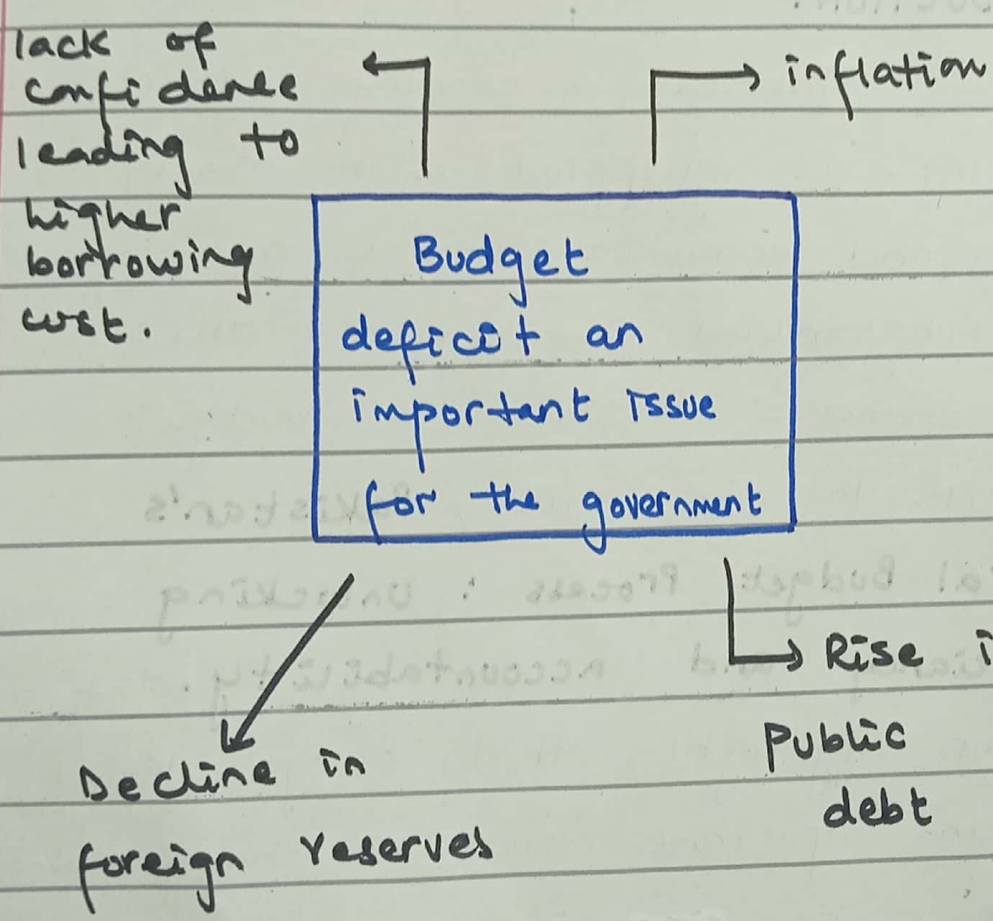


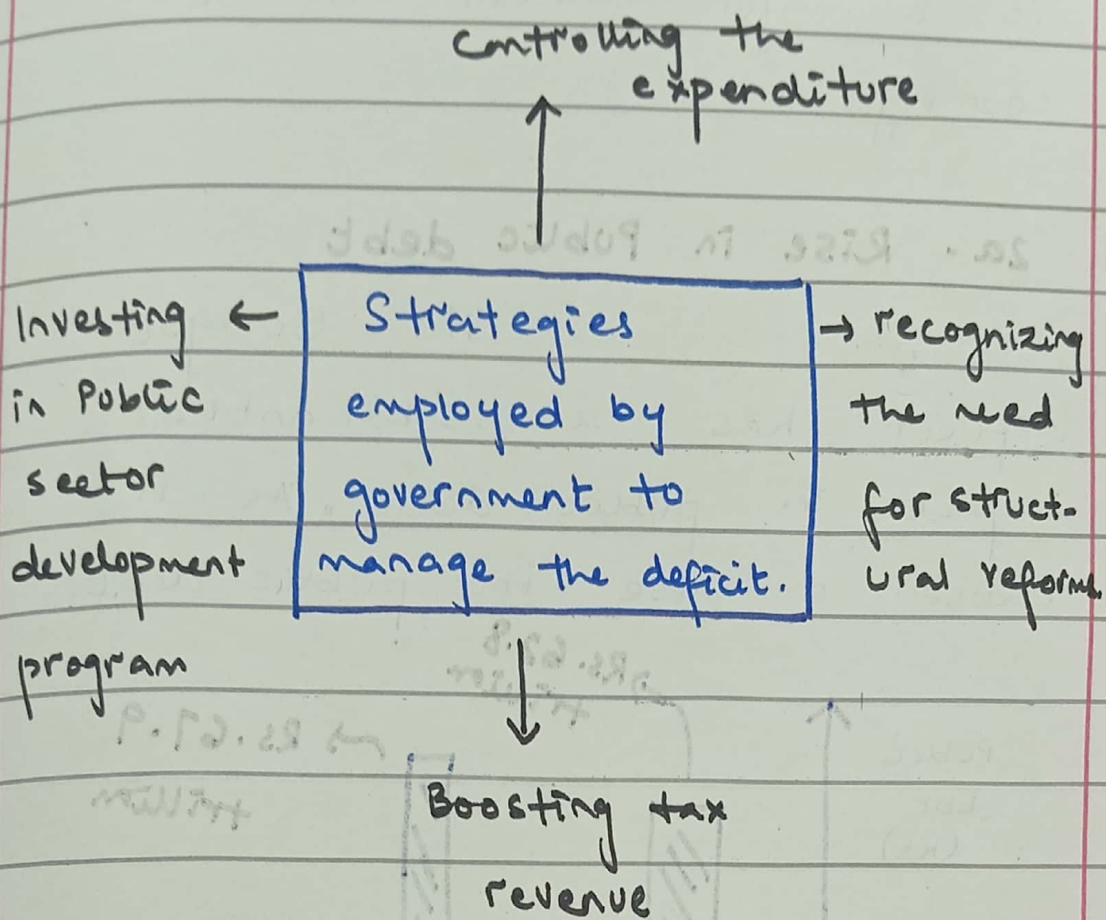
A great deal of political debate in the last two decades has focused on strategies for controlling the federal budget deficit. Why is this an important issue for the government and what strategies have been employed by govts to manage the deficit? Give example.

INTRODUCTION:

Pakistan, a country with rich tapestry, is grappled with many socio and economic crises. One of the substantial concerns in this socio-economic crises is budget deficit. In the article, **Pakistan's Federal Budget Process: Unlocking efficiency and accountability**, the author highlights that budget deficit is an important issue for the government as it cause inflation, rise in public debt, decline in foreign reserves and lack of confidence leading to higher borrowing cost.

However, the government have employed strategies to manage the deficit such as controlling expenditure, investing in public sector development program, boosting tax revenue and recognizing the need for structural reforms.





2- BUDGET DEFICIT : AN IMPORTANT ISSUE FOR THE GOVERNMENT.

The Budget Deficit has been 7.9% of GDP from the past two years.

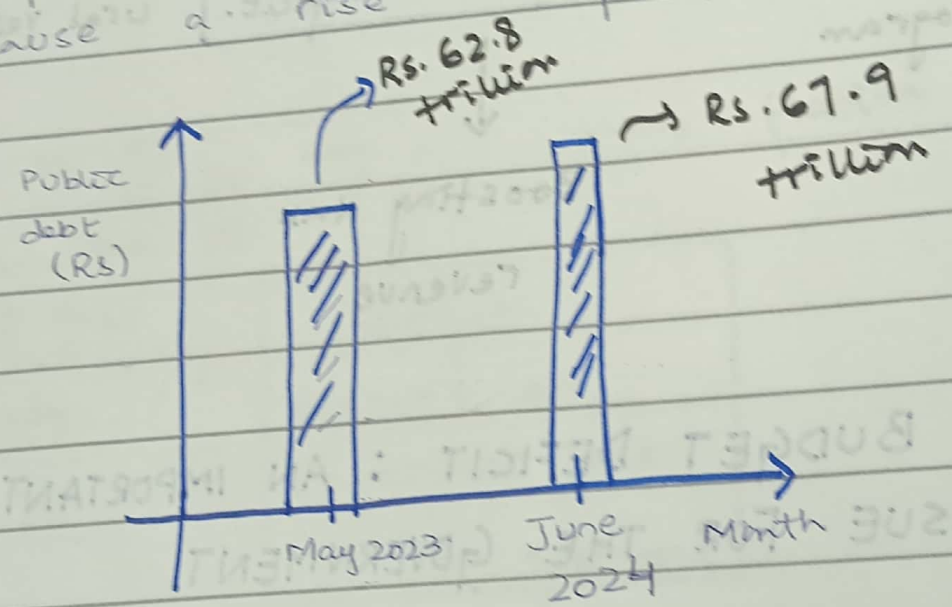
- SBP.

The above statistics given by the state bank of Pakistan

accentuates that budget deficit is a major concern in the country.

2a. Rise in Public debt

The Budget deficit has a substantial impact on public debt. As it cause a rise in public debt.



— Pakistan Study of development economics

2b. Decline in Foreign reserves:

The budget deficit also cause a

a decline in foreign and decrease in saving rate.

The savings of Pakistan are decreased from 17% in FY 2007-2008 to 10% in FY 2023-2024.

— State Bank of Pakistan

2c. lack of confidence by the investors.

The Budget deficit cause a lack of confidence by the investors leading to higher borrowing cost.

The interest rate is increased to 22% by the State Bank of Pakistan.

2d. Causing Inflation:

In the same vein, inflation due to budget deficit also makes it an

Important concern for the government.

As per statistics of May 2024,
the inflation rate is
- Pakistan Bureau
of statistics.

3- Strategies employed by the
government to manage the
deficit.

The government aims to
reduce the budget deficit
to 5.9% of GDP.

- State Bank
of Pakistan.

3a- Investing in Public Sector
development program

Firstly, the
government is investing in
public sector development
programs in order to generate

revenues and control the budget deficit.

"As per the budget for FY 24-25 the government has allocated Rs. 1.5 trillion for public sector development programs/units."

- Economic survey of Pakistan.

3b. Boosting tax revenue

Also the government aims to collect more taxes for combating the budget deficit.

"Pakistan has set an ambitious tax revenue target of PKR 13 trillion, a nearly 40% increase from the previous year."

- Economic survey of Pakistan.

3c. Controlling the expenditure:

Another step taken by the government to control the non-development expenditure is

"The projected total federal budget for FY 2024-25 is PKR 14 trillion, with efforts to streamline spending and focus on development projects that yield long term benefits."

- Budget FY
24-25
(Economic survey)

3d. Recognizing the need for structural reforms

Lastly, the government has recognized the need for structural reforms to address the underlying issue contributing

to the deficit.

"The government is trying to rationalize energy tariff and reduce subsidies".

- Institute of peace studies.

4. Conclusion:

In a nutshell, the budget deficit is a major concern for the government as it cause a decline in foreign reserves, and lack of confidence by the investors. But the government has employed numerous strategies to deal with the problem such as boosting tax revenue and investing in public sector development program.