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 concern 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.

mention the type of budget making fed govt uses

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.
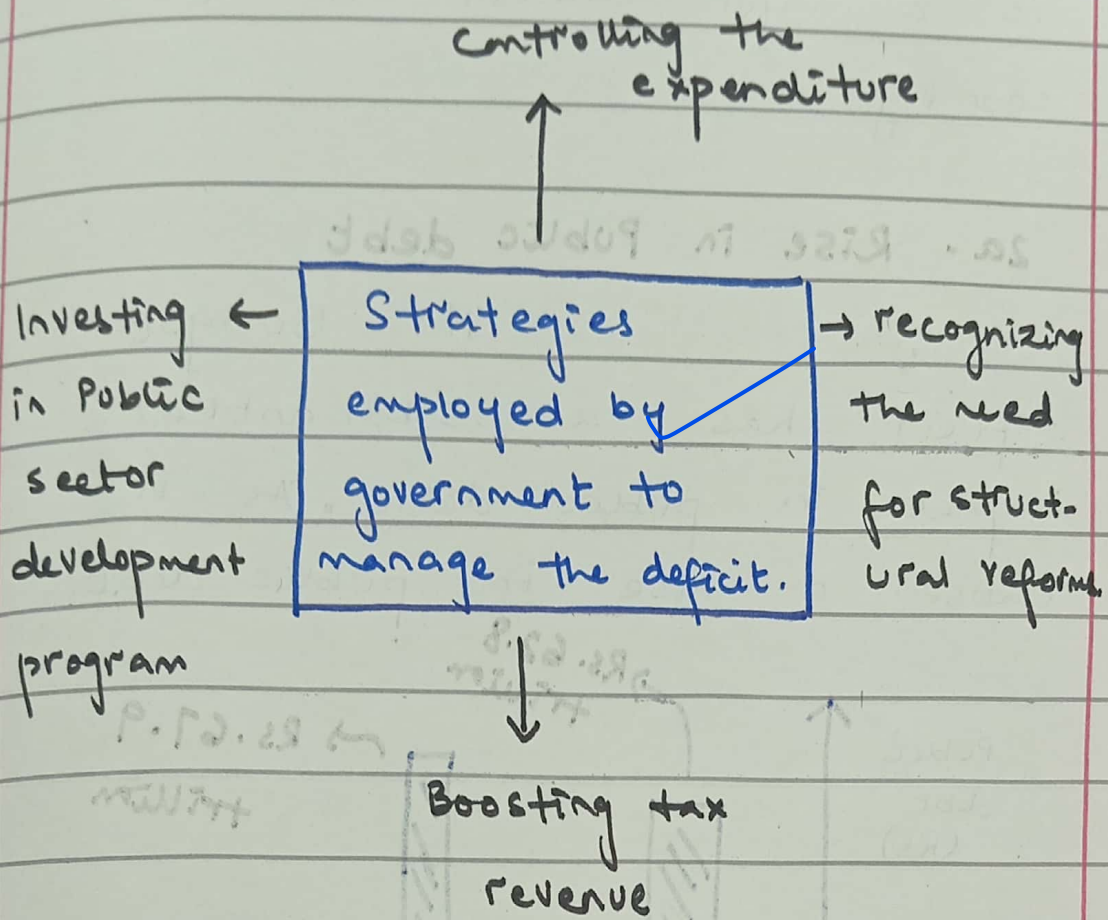
lack of confidence leading to higher borrowing cost.

→ inflation

Budget deficit an important issue for the government

↳ Rise in Public debt

Decline in foreign reserves

Controlling the
                          expenditure
                              ↑

Investing ← ┌─────────────────┐ → recognizing
in Public   │ Strategies   │   the need
sector   │ employed by   │   for struct-
development │ government to   │   ural reforms
             │ manage the deficit. │
program   └─────────────────┘
                         ↓
                  Boosting tax
                    revenue

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

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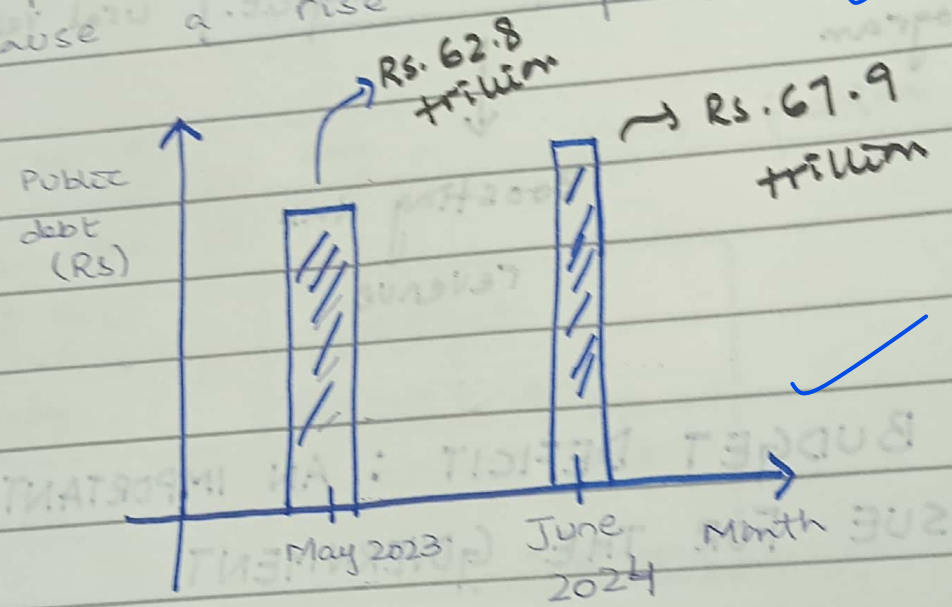past two years.
                        - SBP.

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

Rs. 62.8 trillion

→ Rs. 67.9 trillion

Public debt (Rs)

May 2023   June 2024   Month

— Pakistan study of development ecnomics

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 in 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 11%.
- 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 expenditures.

"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 terms 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 subsidizes".

— 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.