Date: 21/04/25 Current Affairs Day: Monday.

Budget Deficit:-

Discuss the causes and implications of the persistent budget deficit in Pakistan. Suggest viable solutions.

I Introduction:

A budget deficit happens when a government spends more than it earns in a year. It is an important measure of how well a country is managing its economy. Pakistan has been facing a budget deficit for many years. The gap b/w income and spending keeps growing. This issue, along with the balance of payment crisis, is often called "Twin economic problems" of pakistan.

(Economic survey of Pak 23)

Although several reforms have been tried, the real causes of the deficit have not been

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fixed. As a result, the economy remains unstable, development slows down, and the country becomes more dependent on borrowing

II. Understanding Pakistan's Budget Deficit: A Historical overview:

Pakistan has had a budget deficit for a long time. In FY 2021-22, the government earned PKR 4.1 trillion but spent PKR 8.4 trillion, leading to a deficit of PKR 4.3 trillion ("Ministry of Finance, Budget in Brief 2022)".
In FY 2023-2024, the deficit increased to PKR 4.5 trillion. The government's income was PKR 4.6 trillion, but expanses reached PKR 9.1 trillion.
On average, the deficit has stayed around PKR 3.5 trillion

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over the last 10 years and above PKR 2.5 trillion over the last 20 years (IMF Rep, 2023) This shows that the government is not collecting enough revenue to match its growing spending.

I Causes of Budget Deficit in pakistan:-

1): Weak Tax system:-/Flawed T.S:-

The biggest reason for the deficit is that the government cannot collect enough taxes. Pakistan's taxation system is regressive and ineffcient with a heavy reliance on indirect taxes and low compliance from high - income sectors. The tax

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to GDP ratio remains dangerously low at 9.2% in the FY- 2023-24 (World Bank) Compared to India at 17.7% and Bangladesh at 13.1%. An estimated 35% of Pakistan's economy remains undocumented (IMF rep, 2021) enabling massive tax evasion - Particularly in real estate, retail, private healthcare and education. For Instance, only 3.5 million people out of 240 million are active tax filers (FBR Yearbook 2022, 2023).

one reference is enough for a single argument. use marker for references.

(2) Weak Tax Administration:-

The FBR lacks both technological Infrastructure and human resource investment. According to the "World Bank's Pakistan Revenue Mobilization Project" Pakistan

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Spends only 0.6% of its Total revenue on tax administration, far below the international recommendation of 2%. The absence of automation and low-paid workforce contribute to inefficiencies, weakening enforcement and enabling tax evasion accross sectors.

3) Overdependence on Indirect Taxes:-

More than 60% of Pakistan's tax revenue comes from Indirect taxes like GST, Customs duties, and Petroleum levies (FBR Yearbook 22). These taxes disproportionately affect lower-income groups, Pushing inflation up and increasing the cost of living. Conversely, direct taxes

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account for only about 38% of total revenue - an ~~unst~~ unsustainable balance for an equitable system.

④ Debt Servicing:-

A large portion of the national budget - around 35 - 40% is consumed by interest payments on existing debt. In FY 2021, 22, PKR 3.4 trillion out of PKR 8.4 trillion was allocated to debt servicing. For FY 2024-25, debt payments are expected to surpass PKR 9 trillion "(Debt policy statement, 24)"

These obligations leaves little room for development or social welfare spending;

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5) Subsidies and State-owned Enterprises (SOEs):-

The government continues to offer large subsidies on energy and special protection schemes such as BISP and Ehsas. While these are essential for poverty alleviation, they are often poorly targeted. Additionally, over 100 SOEs, including PIA, WAPDA, Pakistan railways, and pakistan steel mills remain financially unstable. PIA alone has recieved over PKR 1 trillion in bailout packages over the past two decades (Privatization Commission of Pakistan), yet it operates at a consistent loss.

keep the description of a single argument a bit brief.

6) Defence and pension spending:-

Due to regional tensions and internal security threats,

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Pakistan maintains high defense spending. In FY 2024-25, the official defense budget exceeded PKR 2.1 trillion, not including military pensions and war-on-terror allocations. When those are added, actual defense-related expenditures cross PKR 3 trillion (Budget in Brief 2024-25) Pensions particularly for retired defense personnel, accounted for PKR 550 billion in FY 2022-23.

IV Implications of persistent Budget Deficits:

a Rising Public Debt:-

To cover the shortfall, the government turns to both domestic and foreign borrowing. Public debt has ballooned from PKR 6 trillion in 2008-09, to over PKR 62 trillion in 2023-

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2024 (State Bank of Pakistan, Annual Report). This not only increases interest obligations but also reduces the country's ability to negotiate economic policies independently, especially under IMF loan agreements.

b Reduced Development Spending:- With more than 70% of the budget going toward non-productive expenditures, public sector development programs (PSDP) have repeatedly seen budget cuts. In FY 2023-24, PSDP allocation was slashed by over 25% to accomodate rising debt repayments and subsidy costs (planning commission pakistan).

c Limited Social Sector Investment:- Pakistan spends only 1.7% of GDP on education and 0.9%

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on health-care (UNDP Human Development Report, 2023). These figures are among the lowest in South Asia and contribute directly to poor human development indicators including low literacy, high infant mortality, and underemployment.

d: Macroeconomic Instability:
Chronic deficits trigger inflationary pressures and currency depreciation. In 2023, inflation peaked at 28.3% the highest in 5 decades (Pakistan Bureau of statistics), largely due to fiscal discipline, energy price hikes, and import restrictions.

e Policy Dependence on International Lenders:-
Pakistan's budgetary constraints have led to increasing reliance

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on international institutions like the IMF, whose programs often include unpopular austerity measures such as tax hikes and energy subsidy withdrawls. These conditions hinder long-term planning and lead to political backlash.

V Viable solutions for fiscal stability:-

a Broadening the tax base:-

Integrating Nadra, banking data, and FBR systems can help identify high-net worth individuals and underreported income. Sectors like real estate, private hospitals and elite educational institutions must be brought into the tax net. According to a 2022 UNDP report, taxing just the top 1 % of wealthy

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individuals more effectively could raise over PKR 1.5 trillion annually.

be more specific with your headings.

b Reforming FBR:-

Modernization of tax administration is urgent. The world Bank's $400 million "Pakistan Raises Revenue Project" is a step in the right direction. Introducing point-of-sale (POS) systems in retail, digital invoicing, and realtime tracking systems in industries can improve transparency of enforcement.

c Privitization of SOEs:

Entities like K-Electric, Privatized in the Early 2000s, have reduced losses from 33% to under 16%. Banks like UBL and MCB, also Privatized, now post annual

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Profits exceeding PKR 10 billion
Learning from these cases, Pakistan should privatize loss-making enterprises such as PIA, Steel Mills and inefficient DISCOs.

4. Shift towards direct Taxation:-

Expanding the share of income and corporate tax while reducing dependency on consumption taxes would make the system more equitable, For examples- implementing a progressive wealth tax could generate substantial revenue while reducing inequality.

5. Rationalize subsidies:
Instead of blanket subsidies, the government should adopt targeted cash transfers using the BISP National Socio-Economic Registry (NSER)

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This would ensure that only deserving segments benefit, saving billions in leakages.

f Improve Investment-to-GDP Ratio:
At 13.6% Pakistan's investment to-GDP ratio is among the lowest in South Asia (World Bank 23). To attract investment, the government must improve the ease of doing business, ensure regulatory stability, and promote industrial zones through initiatives like SEZs under CPEC.

g: Political Consesus and Judicial Restraint
A bipartisan Charter of Economy and charter of Privatization are needed to ensure continuity of economic reforms. Moreover, Judicial institutions must avoid undue interference, such

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as the 2007 Supreme court ruling that blocked the privatization of Pakistan Steel Mills — an entity that continues to drain resources despite being non functional since 2016.

Conclusion:

In a nutshell, Pakistan's budget deficit is a reflection of deep-rooted structural and administrative inefficiencies — ranging from a narrow tax base and inefficient public enterprises to excessive debt servicing and low investment in human capital. These challenges have resulted in reduced fiscal space for developments rising inflation and growing dependence lengthy conclusion.

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on foreign leaders. Addressing this issue requires a comprehensive, evidence-based approach that includes broadening the tax base, reforming the FBR, privatizing loss-making SOEs and shifting towards direct taxation. Additionally, rationalizing subsidies and improving political and judicial cooperation are essential to restoring fiscal discipline. Without these reforms, the country risks deeper economic vulnerability. But with a concerted national effort, Pakistan can move towards a more stable, self-reliant, and prosperous fiscal future.

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structure, arguments and references are good.

but the answer is lengthy and will affect your time management, so shorten it a bit.