

Fiscal Policy:

A policy under which the government uses its expenditure and revenue programmes to produce desirable effects and avoid undesirable effects on the national income, production and employment.

Objectives of fiscal policy:

- Economic Growth
- Full employment
- Price stability
- Capital Formation
- Allocation of Resources
- Redistribution of income for mitigating inequality

Instruments of Fiscal Policy:

- Govt Expenditures (public expenditures)
- Govt Revenue

Types of GOVT Expenditures:

1. Capital and Revenue Expenditures
2. Planned and non- planned Expenditures

1. Capital and Revenue Expenditure:

Capital: creation of physical assets (long term assets) or Reduction in Financial liabilities (loan payments, Bailout package).

Revenue: Expenditures other than the physical or financial assets of govt (day to day expenditure)

- Interest payments of loan
- Grants given to provincial govts (flood)

2. Planned and non-planned Expenditures:

Planned: Any kind of expenditure that has been mentioned in a central plan of govt

- Irrigation, Rural Development
- Construction of Motorways and highways
- Electricity Generation
- Dam
- Billion Tree project

Non-Planned: it covers a vast range of routine expenditures, govt has no choice to plan these expenditures

- Defense services
- Salaries
- Interest payments

GOVT Revenue:

1. Capital Receipts
2. Revenue Receipts

Capital Receipts

Every receipt of govt which creates Liability or reduce Financial Assets (Privatization, Auctioning coal mines) are termed as capital receipts.

- Taking loan from IMF, ADB, WB, (Liability)
- Selling of govt owned properties
- Auctioning coal mines

Revenue Receipts:

Revenue receipts are receipts of govt which are non-redeemable. They cannot be reclaimed.

i. Tax Revenue

Tax revenue consists of the proceeds of taxes and other duties levied by federal govt.

- **Income Tax:** tax on individual income
- **Corporate tax:** tax on firms and corporations.
- **Excise Duties:** duties levied of goods produced within the country.
- **Custom Duties:** Duties imposed of Imports and exports
- **Service tax:** tax levied by the govt on service providers on certain service transection.
- **Property tax:** imposed on property.
- **GST:**

ii. Non-tax Revenues

- Interest receipts
- Fees (Challan, toll tax)
- Dividends on investments
- Foreign Aids

Budget:

- Produced Ministry of finance
- Passed by 2/3 majority from national assembly
- Signed by president of Pakistan

Types of Budget:

- Surplus Budget
- Deficit budget
- Equal budget

Difference Between Monetary Policy and Fiscal Policy

Monetary Policy	Fiscal Policy
M.P involves changing the interest rate and influencing the money supply.	F.P involves changing the tax rate and influencing the aggregate demand
Administrated by SBP	Administrated Ministry of Finance
Focus on economic stability	Focus on economic Growth
No political influence	political influence
Quicker to implant	