

Budget Definition :

The government budget is an annual financial statement showing item wise estimates of expected revenue and anticipated expenditure during a fiscal year. Just as your household budget is all about what you earn and spend, in the same way the government budget is a statement of its income and expenditure.

A budget can be of three types:

❖ *Balanced budget:*

- ◆ when government receipts are equal to the government expenditure.

❖ *Deficit budget:*

- ◆ when government expenditure exceeds government receipts.

❖ *Surplus:*

- ◆ when government receipts exceed expenditure.

Problems in measurement

The Govt. budget deficits equal govt. spending minus govt. revenue, which in turn equals the amount of new dept. the govt. needs to issue to finance its operations. This definition may sound simple enough, but in fact debates over fiscal policy sometime arise over how the budget deficit should be measured. As a student of economics I think that the deficit as currently measured is not a good indicator of the stance of fiscal policy. That is they believe that the budget deficit does not accurately gauge either the impact of fiscal policy on today's economy or the burden being placed on future generations of taxpayers.

There are four problems with the usual measure of the budget deficit.

Measurement Problem 1: Inflation

The least controversial of the measurements issues is the correction for inflation. Almost all economists agree that the government's indebtedness should be Measured in real term's not in nominal terms. The measured deficit should equal the change in the government's real debt, not the change in its nominal debt.

The budget deficit as commonly measured, however, doesn't correct for inflation. Understand with this example. Supposed that the real govt. Sept is not changing, (in other words). Real terms, the budget is balanced. In this case, the nominal dept. must be rising at the rate of inflation

That's :

$$\Delta D/D = \pi$$

Δ Show change

D is stock of govt. dept.

π is inflation

This implies :

$$\Delta D = \pi D$$

The government would look at the change in the nominal debt ΔD and would report a budget deficit of πD . Hence, most economist believe that the reported budget deficit is overstated by the amount ΔD .

We make the same argument In other way. The deficit is govt. expenditure minus govt. revenue. Part of expenditure is the interest paid on the govt. Sept. Expenditure should include only the real interest paid on the dept. rD , not the

nominal interest paid iD . Because the difference between the nominal interest and real interest. And is the inflation rate. The budget deficit is overstated by ΔD

In simple, we say when inflation is high and it can often change our evaluation of fiscal policy.

Measurement problem 2; Capital assets

Many economists believe that an accurate assessment of the govt's budget deficit requires taking into account the government's assets as well as its liabilities. In particular. When measuring the government's overall indebtedness, we should subtract govt. assets from govt. debt. Therefore, the budget deficit should be measured as the change in dept. minus the change in asset. Certainly, individuals and firms treat assets and liabilities symmetrically. When a person borrows to buy a house, we do not say that she is running a budget deficit.

MEASUREMENT PROBLEM 3: Uncounted liabilities

- Current measure of deficit omits important liabilities of the government.
- Future pension payments owed to current govt. workers.
- Future Social Security payments
- Contingent liabilities, e.g., covering federally insured deposits when banks fail (Hard to attach a dollar value to contingent liabilities, due to inherent uncertainty.)

MEASUREMENT PROBLEM 4: The business cycle

- The deficit varies over the business cycle due to automatic stabilizers (unemployment insurance, the income tax system).
- These are not measurement errors but do make it harder to judge fiscal policy stance.
- E.g., is an observed increase in deficit due to a downturn or an expansionary shift in fiscal policy?

Causes of Deficit Financing in Pakistan

The main causes of deficit financing in Pakistan are:

➤ ***Increase in government expenditure:***

- The government expenditures both development and non development are increasing as time passes. The government has not been able to meet the expenditure by its revenues.

➤ ***Ineffective budget deficit:***

- There are ineffective fiscal policies implemented in Pakistan and fiscal indiscipline also result the public debt.

➤ ***Fiscal deficit:***

- The average fiscal deficit in 1990s was 7% of GDP. The public debt increased from 66% of GDP in 1980 that almost 100% by the mid of 2000. In 2004-2005 the fiscal deficit was 3.3% of GDP however; it increased to 4.2% in 2006-2007.

➤ ***Low saving:***

- The people of Pakistan are consumption oriented. Due to high consumption rate the saving ratio was lower than 16%.

➤ ***Rapid population growth:***

- The rapid population growth also a main cause to slow down the economic activity of a country. According to economic survey of 2007-2008 the population growth was 1.8%.

➤ ***Monetary Policy:***

- In underdeveloped countries the increase in money supply is one of the major causes of disequilibrium in the balance of payment with heavy government borrowing from banks and as well as from international source of finance. In such developing countries government relies on the deficit financing due to unable to use their domestic sources due to the inflexible tax structure. The capital market of such

underdeveloped nations is not able to determine the interest rate and the interest rate was determined by the institutions that in case the result of excess money supply.

Problem Formulation of Pakistan Budget Deficit

Pakistan are facing severe obstacles of generating public revenue. The persistent failure in attainment of public revenue leads the public sector to depend on public borrowing. The result is that the public debt goes to increase the rate of 90% of GDP and the rate of budget deficit increase to 8% of GDP. The figure of budget deficit lead to double digit inflation (ref). These imbalances adversely affect the economy. These problems all are interconnected with each other in order to decrease the public revenues that in turn create the hindrance to meet the needs of the public expenditures. In this regard the efforts are made to improve the taxation system that is not based on the scientific approach, that's why the to attain the target of achieving the projected target failed continuously. The result is that it is not only used to meet the demands of development projects because at that time it not able to meet the demand of the current expenditure. In Pakistan the less than 1% population is taxpayer. According to the economic survey of (1998-99) Pakistan has experienced the sustainable growth rate more than three decades till 1990. Pakistan's economy grew at the rate of 6% per annum more than three decades but the situation became adverse in 1990. The collection of tax also became very adverse at a satisfactory level.

Pakistan's budget deficit has soared to Rs994.7 billion or 2.3 per cent of the Gross Domestic Product (GDP) during the first half of the financial year 2019-2020, revealed the fiscal operation report issued by the Ministry of Finance on Friday.

According to the report, the country's expenditures were recorded at Rs4,226.6 billion or 9 per cent of the GDP, as compared to the revenue of Rs3,231.9 billion during the same period.

In addition to this, the report stated that out of the Rs4,226.6 billion, the government spent Rs1,281.2 billion on domestic and foreign debt servicing (Rs1,120.7 billion on domestic debt and Rs160.5 billion on foreign debt).

The government spent Rs529.5 billion on defence expenses out of the Rs1.152 trillion allocated for the sector in the current fiscal year. Meanwhile, the government spent only Rs237.5 billion on federal development projects whereas the provincial governments spent Rs219.4 billion on the same.

The report revealed that the government spent Rs218.9 billion on pension payments, Rs72.01 billion on public order and safety affairs, Rs31.8 billion on education, Rs5.1 billion on health and Rs4.3 billion on recreation, culture, and religion.

Of the total revenue of Rs3,231.9 billion, the government collected Rs766.7 billion as non-tax revenue. Out of the Rs766.7 billion, Rs27.44 billion were collected as mark-up on public sector entities, Rs26.02 billion as dividend, Rs426.5 billion as profit of the State Bank of Pakistan (SBP), Rs112.1 billion as profit of the Pakistan Telecommunication Authority (PTA), Rs6.5 billion from defence sources, Rs11.4 billion from passport fee, Rs7.2 billion as discounts on crude oil, Rs43.8 billion as royalties on gas and oil, Rs3.3 billion as windfall levy against crude oil and Rs100.6 billion through other sources.

The Federal Board of Revenue (FBR) faced a major tax collection shortfall of Rs274 billion in the first six months of the current financial year. The bureau collected Rs2,093 against the target of Rs2,367 billion for the first half of FY20. The shortfall continues to increase with passing time whereas non-tax collection is expected to increase by Rs400 billion to Rs1.6 trillion in the current fiscal year.

On the other hand, the four provincial governments recorded a budget surplus of Rs323.7 billion during the first six months of the current fiscal year as they spent Rs1,359.7 billion against their revenue of Rs1,683.4 billion. The federal government had expected the provinces to record a budget surplus of Rs423 billion during the current fiscal year.