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# ***Fiscal Policy of Pakistan***

***Lecture 05***



بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ





Welcome to IIR Academy



# Certificate of Success for Humans

وَأَنَّ لَيْسَ لِلْإِنْسَانِ إِلَّا مَا سَعَى ﴿٣٩﴾ وَأَنَّ  
سَعْيَهُ سَوْفَ يُرَى ﴿٤٠﴾ ثُمَّ يُجْزَاهُ الْجَزَاءَ  
الْأَوْفَى ﴿٤١﴾

اور یہ کہ انسان کو وہی ملتا ہے جس کی وہ  
کوشش کرتا ہے ﴿٣٩﴾ اور یہ کہ اس کی کوشش  
دیکھی جائے گی ﴿٤٠﴾ پھر اس کو اس کا پورا  
پورا بدلا دیا جائے گا ﴿٤١﴾

**The beautiful verse of the holy Quran, Chapter 53 Surah**

**Najm verse 39-41:**

# *Fiscal Policy*

مالی یا مالیاتی حکمت عملی



# ***Fiscal Policy of Pakistan***

حکومت پاکستان کی مالیاتی حکمت عملی

**TWO IMPORTANT  
ECONOMIC  
POLICIES**



**Fiscal Policy**

**Monetary Policy**



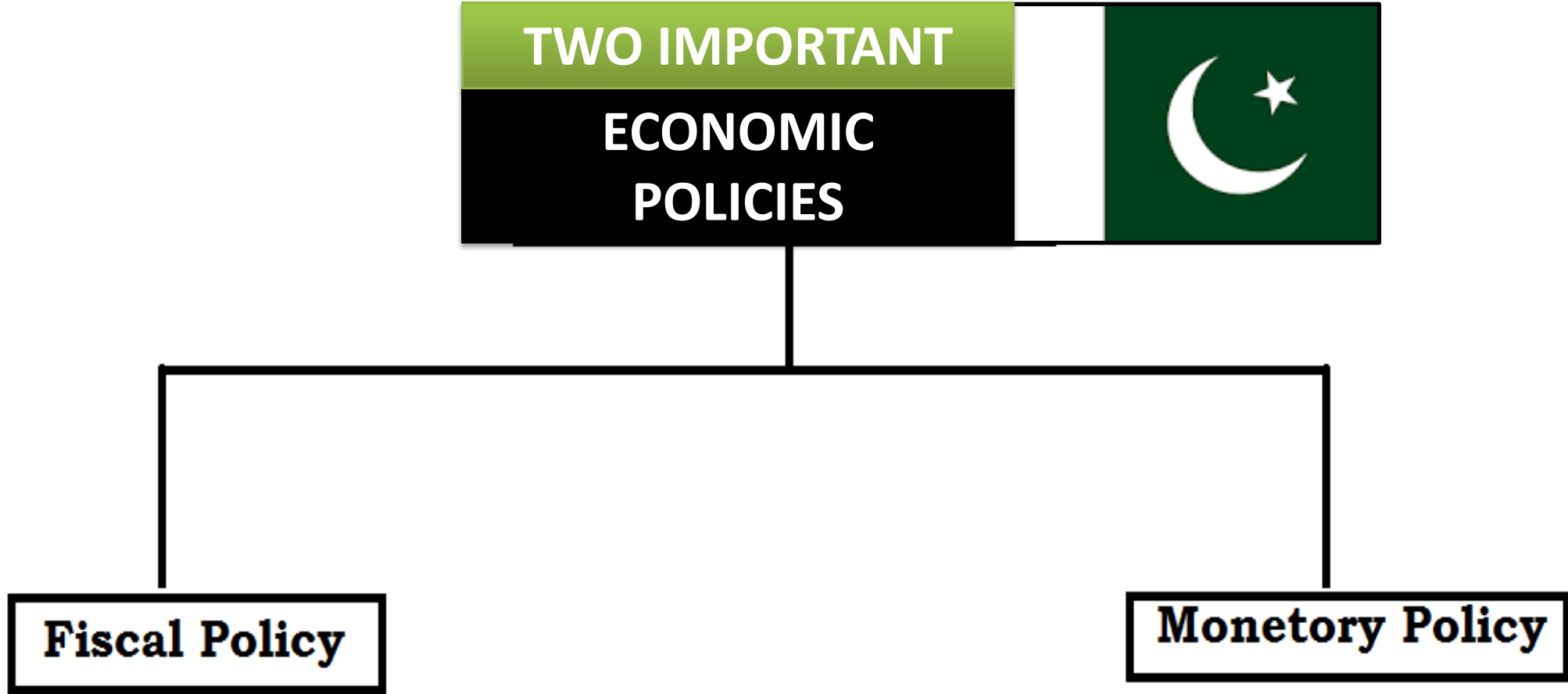
**TWO IMPORTANT**

**ECONOMIC  
POLICIES**



**Fiscal Policy**

**Monetary Policy**



# ECONOMIC POLICY



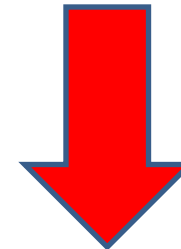
Govt

## Fiscal Policy



State Bank

## Monetary Policy



## Money

پیسہ





Return Back

# ECONOMIC POLICY



## Fiscal Policy



## Monetary Policy

Govt Revenue

Govt Spending

Money Supply

Money Control Via Interest Rate

سرکاری آمدنی محصول

Money  
پیسہ



# 3 Types of Fiscal Policy

- Governments use fiscal policy in different ways, depending on what type of strategy is desired. Some look to boost the wider economy through an expansionary policy, at the cost to the taxpayer in the long-run. Others may look to just balance the books through a neutral policy. Whilst others look to save in the short-term to keep the finances in check in case funds are needed in times of crisis, which would come under a contractionary policy.
- The three main types of fiscal policy are



# 2. Expansionary Fiscal Policy



## EXPANSIONARY FISCAL POLICY

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### GOVERNMENT SPENDING

Government Spending is greater than taxation.

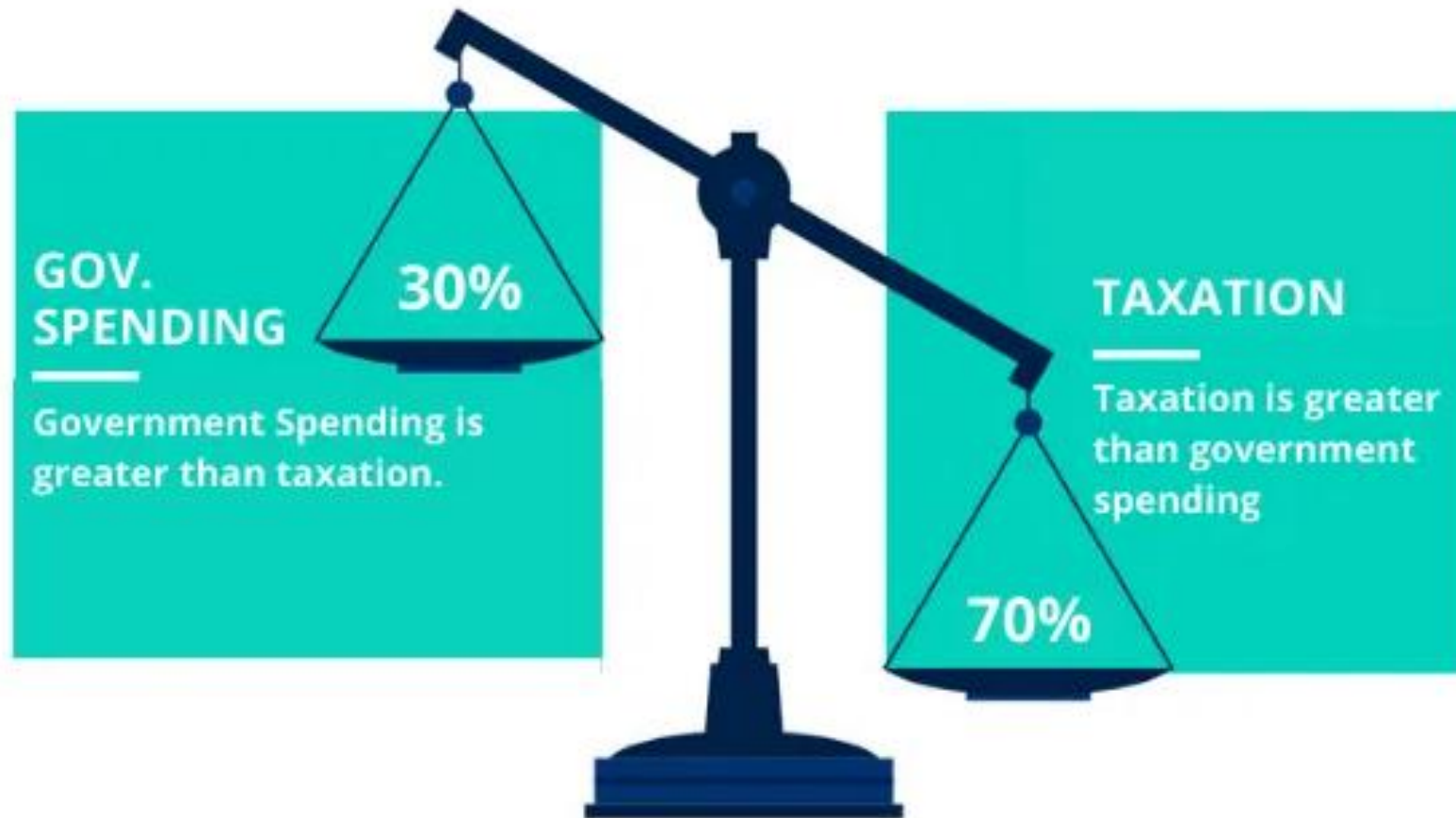


### TAXATION

Taxation is smaller than government spending.

# 3. Contractionary Fiscal Policy

## CONTRACTIONARY FISCAL POLICY



# CONTRACTIONARY OR EXPANSIONARY POLICY



Govt

**Fiscal Policy**

- Expansionary Fiscal Policy
- Contractionary Fiscal Policy



State Bank

**Monetary Policy**

- Expansionary Monetary Policy
- Contractionary Monetary Policy



# EXPANSIONARY POLICY



- **Expansionary Fiscal Policy** + **Expansionary Monetary Policy**

# CONTRACTIONARY POLICY



- **Contractionary Fiscal Policy** + **Contractionary Monetary Policy**







# EXPANSIONARY POLICY



- **Expansionary Fiscal Policy** + **Expansionary Monetary Policy**

# CONTRACTIONARY POLICY



- **Contractionary Fiscal Policy** + **Contractionary Monetary Policy**

# ARTIFICIAL EXPANSION



# INDEPTH STUDY / REVIEW

- **Expansionary Fiscal Policy**
- **Contractionary Fiscal Policy**

# Fiscal Policy Types, Objectives, and Tools



EXPANSIONARY  
FISCAL POLICY

VS

CONTRACTIONARY  
FISCAL POLICY



# Fiscal Policy Types, Objectives, and Tools

EXPANSIONARY  
FISCAL POLICY

VS

CONTRACTIONARY  
FISCAL POLICY

Government  
spending

Taxes

Government  
spending

Taxes

$$GDP = C + I + G + (X - M)$$

**C** = Consumption  
**I** = Private Investment  
**G** = Government  
Investment/Expenditure  
**X** = Exports  
**M** = Imports

# EXPANSIONARY FISCAL POLICY & EXTREME FALLOUT

1

**Borrowing from banks/ FIs**



Crowding out of private investment

2

**Borrowing from Foreign sources**



Debt crisis

3

**Printing more currency**



Inflation due to more money in circulation

4

**Tapping foreign exchange reserves**



Foreign Exchange Reserves

Balance of Payments crisis



# UNDER WHAT CIRCUMSTANCES BORROWINGS ARE JUSTIFIED?



1



Inflation must be under control

2



Public debt must be under control

3



Returns on assets created must be more than interest

4



Borrowings should not go for revenue expenditure



## PUBLIC DEBT

# CONCEPTUAL UNDERSTANDING

## FUTURE SCENARIO



### ONE VIEW

1. It is shifting of burden on the future generations.
2. The government is borrowing money by issuing bonds and it may pay back by raising taxes after 05 to 20 Years.
3. If the taxes are raised in future, consumption expenditure will fall, which may also result in fall in national savings.
4. Hence, private sector investment may fall.
5. It may result in reduction in capital formation.
6. Hence, it is a burden on future generations.





PUBLIC DEBT

CONCEPTUAL UNDERSTANDING

FUTURE SCENARIO



## SECOND VIEW

- Debt does not matter, because majority of this, we owe it to ourselves.
- There is a transfer of resources between generations, purchasing power remains, within the Nation.





*QnA*