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FISCAL ADJUSTMENT: ASSESSING THE SUCCESS AND IMPACT IN CASE OF PAKISTAN

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ABSTRACT
This study intends to evaluate the effectiveness of fiscal reforms in lowering the national debt and their effects on Pakistan's economic growth. Findings from such an investigation of the composition of fiscal adjustment show that while spending-based consolidation significantly lowers the debt-to-GDP ratio, it has a contractionary effect on the economy as a whole. This brings to light an important feature of Pakistan's public expenditure structure: while adopting austerity measures, the government prefers to reduce capital spending on items that are less politically contentious. Additional findings showed that, despite playing a significant role in producing an expansionary effect, modifications to current spending do not successfully reduce public debt. Even though descriptive analyses cannot prove a cause-and-effect relationship, success seems to be impacted by tax-side adjustments. Similar to this, the structure of direct and indirect taxes also raises the possibility of fiscal adjustment success. According to the analysis, the composition of direct taxes has minimal bearing on both the success and impacts. To minimize adverse effects, the government should rely on spending-based adjustments. In addition, altering the ratio of government spending in favor of capital investment is probably going to spur economic growth and help the nation meet its MDGs.
Keywords: Fiscal Adjustment; Success; Impact; Public Debt; GDP Growth; Millennium Development Goals
JEL: E62; H50; H61; E01.

BACKGROUND OF THE STUDY
Through a variety of socioeconomic policies, the government may have an impact on the lives of its citizens. The range of such policy initiatives has been increasingly wide and complex throughout time and across different countries (Hussain et al., 2020). Fiscal and monetary policies play a crucial role in many of the economic measures that economists suggest to improve economic outcomes and even the social lives of the population (Hussain et al., 2020). Despite the fact that such policies aim to improve human welfare, there is disagreement among policymakers about the best course of action. Because economic and social factors are believed to have an impact on welfare in addition to being immediately observable, policymakers' priorities may change over time or depending on which government is in power (Tanzi, 2006). Social indicators include life expectancy at birth, infant mortality rate, physical environment quality, literacy rate, and the frequency of disease and crime. Economic indicators include GDP growth, appropriate levels of inflation, productivity and employment growth, and equitable income distribution (Tanzi, 2006; Hussain et al., 2020). Similarly, fiscal policy may be used to achieve price stability and keep inflation under control. Other objectives to which fiscal policy might be directed include the promotion of economic development and the improvement of the balance of payments. Despite disagreements over fiscal policy objectives, there appears to be a lack of agreement on the tools that promise an optimal macroeconomic management

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solution. Due to the fact that none of these instruments is sufficient in and of itself to attain the ultimate goal of optimal economic management, opinions on the significance of fiscal, monetary, and exchange rate policies as tools of macroeconomic management vary and typically change over time. Three main viewpoints on the efficacy of fiscal policy have emerged. In addition to the Keynesian and Neoclassical theories, the Ricardian Equivalence Hypothesis (REH) exists. Keynesians and Neo-classicists dispute about the fiscal multiplier's "crowding-in" and "crowding-out" effects, whereas REH believes it has no effect at all (Hussain et al., 2021). Until 1990, the fiscal deficit was primarily employed by scholars examining the relationship between fiscal policy and growth. As a result, many experts have used the size of the overall fiscal deficit in their examination of the macroeconomic implications of fiscal policy. But with Giavazzi and Pagano's significant work in the 1990s, the attention of scholars switched to the analysis of fiscal adjustment (Hussain et al., 2021).

The balance of payment deficit will worsen, there will be financial instability, and private investment will be discouraged if there is a persistent fiscal deficit. It is anticipated that macroeconomic indicators will be impacted in different ways depending on the magnitude of the fiscal deficit, the source of money, and the financing method. This belief has been simply communicated by international organizations through the execution of structural adjustment programs in emerging nations confronted with the conundrum of huge budget deficits (Zaidi, 2005). Due to its macroeconomic effects, which include the deteriorating balance of payments, financial distress, and rapid inflation, the budget deficit has emerged as the topic of discussion and debate that receives the greatest attention across the nation (Zaidi, 2005). It has attracted the attention of politicians and academicians, besides economists, and has therefore become the most discussed and debated issue in Pakistan (Hussain et al., 2021).

Regarding fiscal adjustment, there are a number of fundamental, and frequently rather challenging, issues that are currently under discussion (Daniel et al., 2006). To be more precise, the goal of this research is to deconstruct the intricacies that underlie real-world policy choices in a developing nation like Pakistan. What is the fiscal adjustment, for example? would be among the questions the study sought to address. When will the economic adjustment be effective? What procedure must be followed when making the fiscal adjustment? How might the fiscal adjustment affect growth? More significantly, this paper aims to accomplish three elements: first, it adopts Alesina and Ardagna's (2013) definition of a fiscal adjustment episode; second, it looks for episodes of fiscal adjustments that promote growth and evaluates how well they succeed in lowering public debt.

It's important to recognize fiscal adjustment episodes so that one can assess if they were successful in boosting economic activity and reducing public debt. First, the study will concentrate on identifying fiscal adjustment episodes and will give descriptive analyses of selected macroeconomic variables in two dimensions. The first dimension is concerned with distinguishing successful from unsuccessful adjustment, while the second is concerned with separating expansionary from contractionary episodes. Besides these, assessments of the disaggregated components of the fiscal deficit in a resource-constrained nation like Pakistan are used in the study to further the empirical literature on the contribution of fiscal policy to the achievement of the goal of sustainable public finance. Such descriptive insights would probably open the door for a more thorough investigation of fiscal adjustments, which will help Pakistan decide on the optimal fiscal actions in terms of timing, scope, and policy mix.

Six sections make up the remaining portion of this paper. In Section 2, the pertinent literature is reviewed. Materials and methods are discussed in Section 3, and fiscal adjustment episodes in Pakistan are identified in Section 4. Section 5 conducts a descriptive examination of the effects of fiscal adjustment. In Section 6, the descriptive studies of the macroeconomic implications of the fiscal adjustment's composition are covered in detail. Section 7 offers a conclusion and policy recommendations.

REVIEW OF LITERATURE

Sometimes aggressive budget deficit reduction, also known as "austerity," is necessary to address the rising public debt brought on by policy errors and political distortions (Alesina, Favero, & Giavazzi, 2019). Large, exogenous fiscal adjustments could be identified in a new approach, according to a recent article by IMF economists (IMF, 2015). They chose situations in which governments have taken aggressive measures to reduce their deficits in accordance with their criteria, using the narrative

technique developed by Romer and Romer (2007). The current paper is built upon a vibrant and extensive body of "episode-based" literature. Giavazzi and Pagano (1990) wrote the first paper in this series. In contrast to the conventional Keynesian forecast that fiscal contraction will cause a recession, this line of research found fiscal contraction to be expansionary and developed the term "expansionary fiscal contraction." It is fiscal consolidation that increases private consumption by raising expectations for impending tax reductions. According to Afonso, Baxa, and Slavk (2018), the concept has a considerable impact on the fiscal adjustment strategies used by policymakers throughout Europe.

Numerous studies after Giavazzi and Pagano have contributed to the field of fiscal adjustment, including Alesina and Perotti (1995, 1996), Gupta, Clements, Baldacci, and Mulas-Granados (2004), Alesina and Ardgana (2013), Leibrecht and Scharler (2013), Alesina et al. (2018), and Hussain et al. (2021). The optimal strategy to manage the budgetary changes has thus been decided upon by a group of researchers. Alesina and Perotti (1996) assert that the combination of fiscal adjustments influences the likelihood of long-term budget consolidation and macroeconomic effects.

Regarding the economic channels through which fiscal changes might have an impact, the right policy mix has an impact on both the supply and demand sides of the economy. Similarly, another body of research focuses on the influence of fiscal policy's funding implications on its efficacy (Alesina & Ardagna, 2013). In this context, the "expansionary fiscal contraction" concept describes the negative effects of fiscal policy when the economy is burdened by an unsustainable budget deficit and rising debt burden (Choi & Devereux, 2006). The expectation channel is used to produce such counterproductive effects. These consequences arise when government expenditure and debt reach a particular level, producing a fall in private consumption through public fear of a fiscal crisis (Sutherland, 1997; Perotti, 1999; Barry & Devereux, 2003). Type-I and type-II adjustments have been distinguished in this regard. The main elements of Type-I adjustment are budget cuts, particularly in transfers, employment and compensation, and social security. A rise in taxes generally is associated with the type-II adjustment. But it is associated with higher contributions to both family taxes and social security payments.

Fiscal policy, like other policy interventions, plays a significant role in determining a country's economic potential and ensuring a fair distribution of wealth (IMF, 2015). According to a large body of evidence, the pace of fiscal consolidation influences economic growth in both the short and long run. However, empirical research on the fiscal policy-growth nexus in Pakistan has shown mixed results. Certain research attempting to determine the dynamic influence of fiscal policy faces two issues. Beginning with the premise that the effects of fiscal policy are static, the majority of researchers have looked at the effects of the overall budget deficit on the expansion of real GDP. Second, they failed to conduct a thorough study of the elements of the budgetary adjustment and even relied on inaccurate approximations. For a developing country like Pakistan, it is apparent that composition of adjustment would bring positive outcomes. Aside from this, the developed world's experience demonstrates that a similar-sized deficit will have varied effects on development in various scenarios. Another body of literature emphasizes (for example, Devarajan, Swaroop, & Zou, 1996; Devries, Guajardo, Leigh, & Pescatori, 2011; Alesina, Favero, & Giavazzi, 2015, 2019; Hussain et al., 2021) the importance of the composition of the fiscal adjustment in influencing growth, even demonstrating that an appropriate policy mix of expenditure and revenues is likely to be dependent on the country's specific circumstances.

MATERIAL AND METHODS

Defining Episodes of Fiscal Adjustments, their Success, and Impact

In our paper, we use and rely on the following definitions of Alesina and Ardagna (2013) as:

1. ***Episode:*** An episode of fiscal adjustment is a two-year period during which the ratio of primary balance (cyclically adjusted) to GDP increases each year. However, the cumulative sum of such increase should be at least two points higher than the previous year.
2. ***Success:*** If an episode lowers the total amount of debt relative to GDP, it is deemed successful. Specifically, if this fraction (two years after the adjustment was initiated) continues to be lower than it was in the final year of the fiscal adjustment.
3. ***Impact:*** An episode would be successful if average real GDP growth during the adjustment period exceeded average growth in the two years prior to the adjustment.

Cyclical Adjustment: Hodrick-Prescott Filter

The study attempts to distinguish the discretionary fiscal stance by changing the overall fiscal balance with two effects. Since fiscal policy is an automatic stabilizer, it responds to the economic cycle. Besides this, it is also influenced by monetary policy. To begin with, the primary fiscal balance will be used to isolate the impact of monetary policy by excluding interest payments from government spending. Second, this variable will be smoothed throughout business cycles using the Hodrick-Prescott (HP) filter to compensate for entirely endogenous changes in fiscal policy variables. Following such modifications, the new fiscal balance variable is the cyclically adjusted primary balance (hence referred to as CAPB). Alternatively, this deficit measure represents the amount of fiscal balance that is compatible with full employment production (Alesina et al., 2019). Many influential studies such as Ardagna (2004), Alesina and Ardagna (2013), Leibrecht and Scharler (2013), Alesina et al. (2015, 2019) and other recent attempts by Hussain et al. (2020) have used this variable in their analyses.

Identifying the Fiscal Adjustment Episodes in Pakistan

Our study, which examined the sample years from 1976 to 2017, based on Definition 1, discovered eleven episodes. Table 1 shows some basic summary information on expansionary versus contractionary and successful versus unsuccessful episodes. Interestingly, they are nearly identical in number as identified in the studies by Hussain et al. (2020) and Hussain et al. (2021). The successful ones, by definition, result in lower debt-to-GDP ratios, whereas the rest do not. Devries et al. (2011) state that an episode is considered spending-based if the absolute difference between the growth in cyclically adjusted revenue (hereinafter CAR) and the decline in cyclically adjusted primary spending (hereinafter CAPS) exceeds one. According to Definition-2, five episodes are considered to have been successful, whereas six episodes are considered to have been unsuccessful. One of the five successful episodes is based on taxation, as opposed to the other four successful episodes, which are based on expenditure. Observations show that the number of unsuccessful episodes is equally distributed between tax- and spending-based episodes. Eight adjustment episodes are determined to be expansionary, whereas just three are found to be contractionary when comparing the two. Further research demonstrates that although contractionary episodes are fully centered on expenditure, expansionary episodes are split 50/50 between taxation and spending. The expansionary effects of three of the five successful episodes outweigh the contractionary effects of the other two. The six unsuccessful episodes consist of five expansionary episodes and one contractionary episode.

Table No. 1. Fiscal Adjustments: Episodes, Success, and Impact

Expansionary Episodes	Contractionary Episodes	Successful Episodes		Unsuccessful Episodes	
		Expansion	Contraction	Expansion	Contraction
1977-1978*	1993-1994**	1977-1978*	1993-1994**	1979-1980*	1989-1990**
1979-1980*	1997-1998**	1991-1992**	1997-1998**	1981-1982**	--
1981-1982**	1989-1990**	1999-2000**	--	1995-1996**	--
1991-1992**	--	--	--	2013-2014*	--
1995-1996**	--	--	--	2015-2016*	--
1999-2000**	--	--	--	--	--
2013-2014*	--	--	--	--	--
2015-2016*	--	--	--	--	--

Note: * indicates tax-based and ** shows spending-based fiscal adjustment.

Table 2 lists eleven episodes, five of which were successful and six were not. In terms of how accompanying policies impact episodes that are contractionary vs. expansionary, the end consequence is not largely the same. The public debt decreased from sixty-three percent to around fifty-two percent during 1977–1978, making it the most successful episode. The debt ratio for the second-most successful episode, which occurred in 1999-2000, dropped from eighty-three percent to approximately seventy-sex percent.

Table No. 2. Actual Fall in Debt-to-GDP Ratio

Un-Successful				Successful			
Episodes	FA_{LY} (I)	After (II)	Difference (II)-(I)	Episodes	FA_{LY} (I)	After (II)	Difference (II)-(I)
1979- 80	62.25	82.36	20.11	1977-78	63.48	52.12	-11.36

1981- 82	58.30	65.44	7.14	1991- 92	80.40	80.23	-0.17
1989- 90	83.07	85.14	2.07	1993- 94	85.84	82.16	-3.68
1995- 96	80.37	100.26	19.89	1997-98	89.33	87.51	-1.82
2013- 14	62.95	67.10	4.15	1999- 00	82.90	75.76	-7.14
2015- 16	67.70	74.20	6.50	--	--	--	--
Mean	69.11	79.08	9.98	Mean	80.39	75.56	-4.84
	(4.18)	(5.32)	$(3.25)^{\gamma}$		(4.48)	(6.15)	$(2.00)^{\eta}$

Note: The columns denoted by "FA^{LY}" and "After" show last year of adjustment and two years after the adjustment, respectively. Standard errors of the mean difference are parenthesized. Further, the symbols $^{\gamma}$ and $^{\eta}$ indicate significance at 5% and 10% levels of probability, respectively.

Impact of Fiscal Adjustment: A Descriptive Analysis

Table 3 looks at and summarizes some macroeconomic factors that have changed over successful and unsuccessful episodes as well as expansionary and contractionary episodes. When successful episodes occur, the average debt/GDP ratio rises by 4.84 percentage points on average, whereas it falls by 9.98 percentage points when failure episodes take place. In successful episodes, the average GDP growth rate is 4.17 percent, which is lower than that of unsuccessful ones, which is 5.67 percent. This difference is statistically significant at 5%. Similar to this, when successful episodes occur, the average GDP growth rate is only 4.17%. Although the growth rate is currently 5.67%, it remained strong during the unsuccessful episodes. At 5%, the difference in growth rates is statistically significant.

Table No. 3. Comparing Macroeconomic Indicators Over Successful/Unsuccessful and Expansionary/Contractionary Episodes

Macroeconomic Indicators	Successful Episodes	Unsuccessful Episodes	S. E Diff.	Expansionary Episodes	Contractionary Episodes	S. E Diff.
Debt	81.54	69.20	4.28*	61.26	84.65	2.41*
$Debt_{(t+2)}$ - $Debt_{(t)}$	-4.84	9.98	4.86*	4.89	-1.14	10.82
Growth (GDP Based)	4.17	5.67	0.52*	6.74	3.08	1.20**
Fiscal Balance (Primary)	-1.81	-2.57	0.59	-4.94	-0.94	0.32*
Fiscal Balance (Overall)	-7.21	-6.56	0.49	-6.61	-6.98	0.61
CAB	-3.25	-3.85	0.54	-3.99	-3.64	0.41
Exchange Rate (Real Effective)	127.47	140.54	14.21	143.05	112.06	4.87*
GDP-Deflator	11.45	8.66	1.79	9.25	9.59	1.13
Investment (Private Sector)	8.80	8.19	0.39	8.39	9.37	0.37*
$Growth_{(t)} - Growth_{(t-2)}$	-0.32	0.51	1.20	1.32	-3.03	0.38**
Interest Rate	9.63	8.75	0.68	9.00	9.55	1.40
UE Rate	4.97	3.44	0.61*	2.21	4.01	0.62

Note: CAB denotes current account balance, UE denotes unemployment rate and Debt represents the ratio of public debt to GDP. While * indicates significance at 1% and ** represents 5% significance.

Although successful episodes had lower average primary fiscal balances than unsuccessful ones, this difference is not very significant. Although the differences are insignificant, successful episodes have a somewhat larger overall budget deficit and short-term interest rate than unsuccessful ones. The local currency remained more stable during the successful episodes. Successful episodes are slightly contracting, whereas failure episodes are slightly expanding, according to Definition 3. The change is statistically insignificant, though. The achievement of fiscal consolidation has little impact on other macroeconomic variables. Such variables include current account balance and private investment besides inflation. Table 3 also displays the evolution of a few macroeconomic indicators during expansionary and contractionary phases. Findings show that average GDP growth climbed to 5.64 percent from 4.32 percent during expansionary periods, and this increase is statistically

significant at a 1% probability level. GDP growth significantly dropped from 6 percent to 3 percent. When the economy is expanding, the average debt ratio is much lower than when it is contracting. The differences in average current account balances, inflation, unemployment rate (representing the labor market), interest rates (represented by call money rates), and total fiscal balance are discovered to be statistically insignificant when comparing expansionary and contractionary occurrences. Surprisingly, expansionary periods degrade public finances and increase the debt ratio by an average of 4.89 percentage points after 2 years of adjustments. Contractionary episodes, on the other hand, reduced debt by some 1.14 points, but remarkably the difference remained insignificant. While the average exchange rate (REER) is greater during expansionary periods than during contractionary ones, the average primary fiscal deficit is bigger during expansionary episodes than during contractionary ones. At a 1% probability, both differences are significant. In their study, Alesina and Ardagna (2013) discovered that, while there is a statistically insignificant difference in appreciation between successful and unsuccessful episodes, they conclude that, at least based on these fundamental characteristics, the influence appears to be quite weak.

Eight episodes are expansionary in accordance with Definition 3, whereas three episodes are contractionary (details are given in Table 4). According to this definition, a fiscal adjustment episode is considered expansionary if the average GDP growth rate is greater than it was two years prior to the adjustment.

Table No. 4. Comparing Average GDP Growths During Expansionary and Contractionary Episodes (Definition-3)

Expansionary Episodes				**Contractionary Episodes**			
Episodes	**Before (1)**	**During (2)**	**Change (2)-(1)**	**Episodes**	**Before (1)**	**During (2)**	**Change (2)-(1)**
1977-78	4.68	6.00	1.32	1989- 90	7.04	4.71	-2.33
1979- 80	6.00	6.99	0.99	1993- 94	6.38	2.75	-3.64
1981- 82	6.99	7.23	0.24	1997-98	4.90	1.78	-3.12
1991- 92	4.71	6.38	1.67	--	--	--	--
1995- 96	2.75	4.90	2.15	--	--	--	--
1999- 00	1.78	3.96	2.18	--	--	--	--
2013- 14	3.13	4.53	1.40	--	--	--	--
2015- 16	4.53	5.13	0.60	--	--	--	--
Average	4.32	5.64	1.32	Average	6.109	3.079	-3.030
S.E	0.61	0.42	0.24*	S.E	0.63	0.86	0.38**

Note: * and ** indicate significance at 1 and 5 percent levels of probability respectively. S.E stands for standard error.

Descriptive Analysis of the Macroeconomic Impacts of Fiscal Adjustment's Composition

The most striking comparison between the composition of spending and revenue is provided in this section. According to Devries et al. (2011)'s classification, four episodes that were successful remained on the spending side, while just one was tax-based. Alesina and Ardagna's (2010) and (2013) findings are consistent with the outcome of our study. Furthermore, the unsuccessful episodes are split 50/50 between spending and taxes. The findings also reveal that the expansionary episodes are evenly split between spending and tax-based adjustments, with no tax-based adjustments having a contractionary effect (revert to Table 1).

Table 5 displays a few macroeconomic indicators that describe the characteristics of fiscal adjustment episodes. These indications are examined from two angles: expansionary vs. contractionary and successful vs. unsuccessful. Panel A of Table 5 reveals an unexpected finding: the primary fiscal deficit was lowered more during unsuccessful periods than during successful ones. At a 10% level, this difference is determined to be significant. The primary deficit is lowered more during expansionary episodes than during contractionary episodes, and the difference is significant. Interestingly, there is no statistically significant difference between episodes that successfully reduce the overall budget deficit and those that fail to do so. When expansionary occurrences are contrasted with contractionary ones, a similar result is drawn.

Table No. 5. Macroeconomic Indicators: Composition of Fiscal Adjustment

	Panel A			**Panel B**		
Indicator	**Succ.**	**Un-Succ.**	**S.E.**	**Expansion**	**Contraction**	**S.E.**
ΔPrimary Deficit	-1.68	-2.44	0.50[c]	-2.43	-1.22	0.13[a]
ΔTotal Deficit	-6.98	-6.62	0.32	-6.68	-7.05	0.17
ΔTax	12.74	12.84	0.47	12.50	13.57	0.52
ΔIndirect Tax	8.40	8.76	0.23[a]	8.50	8.85	0.56[c]
ΔDirect Tax	2.72	2.88	0.19	2.83	2.74	0.19[b]
ΔSpending[¶]	23.46	22.93	0.50	22.67	24.51	0.61
ΔPrimary Spending[¶]	18.18	20.00	0.84[b]	20.34	21.14	0.33
ΔCurrent Spending[¶]	19.35	17.54	0.55[b]	17.99	19.35	0.84
ΔDevelopment Spending[¶]	5.55	6.09	0.31[b]	6.067	5.25	0.32[a]
ΔTotal Revenue[¶]	16.18	15.90	0.31	15.64	17.05	0.58[b]
ΔTax[¶]	12.94	12.67	0.30	12.52	13.52	0.35
ΔDirect Tax[¶]	2.75	2.86	0.16	2.84	2.74	0.20[b]
ΔIndirect Tax[¶]	8.62	8.61	0.16[b]	8.55	8.78	0.38[b]
Composition: Spending	-30.11	-9.68	5.31[b]	-14.80	-30.07	4.42[a]
Composition: Current Spending	-16.81	-11.50	6.63	-17.97	-3.11	5.21[a]
Composition: Development Spending	-15.47	-4.31	3.78[b]	-7.57	-14.24	3.58
Composition: Total Revenue	-9.21	8.38	5.14[b]	3.73	-8.53	4.06[a]
Composition: Tax	-6.82	10.51	6.57[c]	6.15	7.67	2.55[a]
Composition: Indirect Tax	-11.49	-2.02	2.33[a]	-4.98	-9.99	2.37[b]
Composition: Direct Tax	5.86	5.84	2.91	5.73	6.17	1.71

Note: Each indicator's composition gives the percentage change in the corresponding cyclically adjusted variable that corresponds to the change primary deficit (cyclically adjusted). The symbols [a, b, c] represent the significance at one, five and ten percent probability respectively, while the symbol[¶] represents cyclical adjustment of the variable.

It is uncertain if growth causes a rise in development spending or if the expansion causes the rise in development spending. However, other research (such as Hussain et al., 2017; Ali et al., 2013) demonstrates that, in the context of Pakistan, expenditure on development leads to an increase in economic activity. The difference between the two is statistically insignificant, despite the fact that revenue (cyclically adjusted) is higher during recessions than expansions and higher during successful episodes than unsuccessful ones. We find no significant difference in cyclically adjusted tax on the tested dimensions. Direct taxes that have been cycle-adjusted are noticeably high during expansionary episodes, but there is no difference between the successful and unsuccessful periods. Cycle-adjusted indirect taxes are significantly higher during successful and contractionary episodes than they are during their inverse counterpart episodes.

CONCLUSIONS AND POLICY RECOMMENDATIONS

Since other policies are frequently involved, it is challenging to isolate the macroeconomic impact of fiscal policy. Many experts have attempted to disentangle the effect of discretionary fiscal policy on economic growth in order to draw out practical policy lessons. In this study, the primary fiscal balance is adjusted to account for the economic cycle using the HP filter. A consistent lambda value throughout the series and end-point bias are two issues with the HP filter, though. Aside from that, the discretionary fiscal stance, which is completely exogenous to macroeconomic conditions, may not be isolated by the HP filter's cyclical adjustment to the primary fiscal balance. As a result, a considerable decline in the cyclically adjusted primary balance has served as a proxy for the true fiscal position.

The development of a narrative approach to pinpoint fiscal adjustment (in the case of Pakistan, over more than four decades) would call for a large investment of money and labor; therefore, it is outside the purview of this study. However, in the future, studies should concentrate on the narrative approach to discover and isolate the true fiscal stance.

According to the analysis of the impact of spending-based consolidation, it is necessary for lowering the public debt relative to GDP but has a contractionary effect on the nation. This brings to light an important feature of Pakistan's public expenditure structure: while adopting austerity measures, the government tends to reduce capital investment in order to pick items that are politically less sensitive. Political governments demonstrated this by slashing capital investment by 34% in 2018-19 to reduce the country's debt burden. Other findings show that while adjustments to current spending are essential for producing an expansionary effect, they are not helpful in reducing debt. Although descriptive research cannot prove a cause-and-effect relationship, the revenue-based adjustment appears to have an impact on the fiscal adjustment's success. It also has a contractionary impact, though. Surprisingly, this outcome supports the conclusions from Alesina and Ardagna (2010). The composition of indirect taxes as well as the composition of total taxes both improve the likelihood of success. In the instance of Pakistan, the research finds that the mix of direct taxes has little to no bearing on the success and results of the fiscal adjustment.

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