ISSN : 2350-0743

www.ijramr.com

International Journal of Recent Advances in Multidisciplinary Research

Vol. 07, Issue 05, pp. 5822-5831, May, 2020

RESEARCH ARTICLE

GROUNDS OF FINANCIAL RESOURCES INSUFFICIENCY IN SAARC COUNTRIES AND SAFETY MEASURES CONDENSE THIS PAUCITY

[1]*Muhammad Masood, [2]Irtaza Ishtiaq, [3]Mohammad Saiyedul Islam and [4]Ghazala Akhtar

[1]National University of Modern Languages Islamabad, Pakistan
[2]International Islamic University Islamabad, Pakistan
[3]School of International Trade and Economics, Jiangxi University of Finance and Economics, Nanchang, Jiangxi, China
[4]Bahria University Islamabad, Pakistan

ARTICLE INFO

Article History:
Received 19th February, 2020
Received in revised form
07th March, 2020
Accepted 29th April, 2020
Published online 30th May, 2020

Keywords:
Budget Deficit, Inflation,
Bank Loans, Taxation,
SAARC Countries.

ABSTRACT

The solid economy of any nation relies on its spending effectiveness. SAARC nations (Pakistan, Bhutan, India, Bangladesh, Sri Lanka, Nepal and Maldives) are for the most part creating nations. The exploration examines the reasons for spending shortages in SAARC nations and furthermore gauges factually the reasons of spending shortfalls in SAARC nations. Spending shortfall influenced by swelling, defilement, botch of regular assets, bank credits, charge framework and government plans. There is a solid connection between spending shortage and monetary development and unfriendly impacts of shortfall on financial development of SAARC nations. CPI, spending shortfall, obligation and investment funds are contrarily associated with Gross domestic product and most are measurably huge. At the point when swelling expands, it causes amount of cash course in the economy increments. The cash esteem goes down and it contrarily influences fares of the nation, therefore the two changes affect monetary development of economy. In SAARC nations there is a deficiency of monetary assets so, for this reason they get from national and universal money related foundations; likewise they abuse these budgetary assets in various uneconomical ventures. Along these lines monetary development in SAARC locale isn't at palatable level. Duty has positive effect on GDP and is measurably critical. In SAARC economies charge for the most part assume a positive job and results demonstrate that when measure of assessment increments monetary development increments.

1. INTRODUCTION

In an economy when consumptions surpass the incomes or uses are more than incomes is called spending deficiency. Typically the device of deficiency is utilized to reestablish the economy in brief timeframe. In since quite a while ago run the answer for conquer the spending deficiency through shortfall financing with obtaining isn't great for economy. Since it makes the circumstance where there is high financing cost which is an obstacle in the economy. Created nations just as creating nations like SAARC fund their spending shortage through recently printed cash. So this measure of cash is given by the national bank of the nations. Spending shortage happens when government's consumptions are more than its income in economy of a nation. The greater part of the nations typically account this sort of money related funding to build up their framework like streets, air terminals, school, universities, and colleges, seaports, medical clinics and other social administrations. The goal of these exercises is to raise financial development and chances of work. In the objects of the examination initially is to investigate the elements of spending deficiency over the example nations.

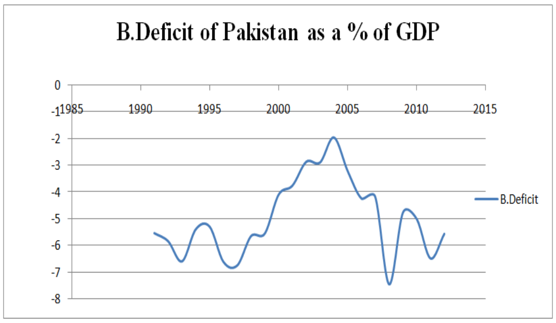
***Corresponding author:* Muhammad Masood,**
National University of Modern Languages Islamabad, Pakistan

Here to think about various circumstances which are the reason for unevenness in the financial limit and point out such markers which are obstacles? A large portion of the creating nations on the planet face unsure conditions when they make their financial limits and as a rule they discover defects to keep up it for monetary development. So these reliance nations face issues of absence of capital and their earlier year's shortfalls besides, socio-political state, monetary impacts and natural issues reason for extra weight of costs. The foundation data like revolt in Pakistan is a portrayal of such financial circumstance where nation faces unfavorable monetary condition. Swelling is another reason for spending shortfall in a large portion of creating nations which profoundly constancy in SAARC part nations. Asian nations especially SAARC nations and other creating nations as a rule experienced high expansion in light of reliance of oil and oil based commodities. Along these lines, most extreme utilization of these significant expenses imported items reason for high creation cost. These administrations for the most part rely on the acquiring through household just as unfamiliar to back their shortages. During monetary years there was tremendous sum which was obtained from various money related establishments. After that period the measure of getting was expanded by various governments to back their spending shortfall. Locally SAARC governments obtain through their national bank and business banks to back their deficiency. Another method for acquiring through business banks in SAARC makes an issue of high financing cost. So costly advances are of significant expense of creation for private makers and in this way some portion of monetary development is influenced by higher pace of intrigue. Fundamentally spending deficiency is a reason for more government spends than its expense assortments and this circumstance makes issues in the economy. In the event that an administration decreases the expense assortment rate likewise a reason for spending shortfall and expanding pattern in consumptions additionally reason for shortage. Such practice conveys the monetary development on decreasing track and the administration faces issues to back such deficiency. Then again income deficiency is characterized as the lack of complete income receipts contrasted with all out costs.

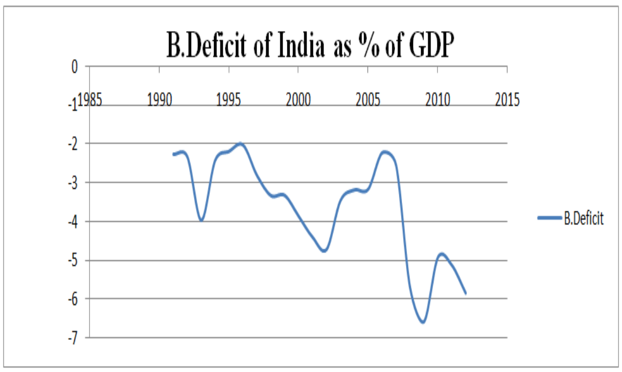
2. LITERATURE REVIEW

The co-coordination system and blunder revision model to check the connection between government spending and duty incomes. After exact examination they finish up they the two factors have since a long time ago run relationship. Government spending is a reason for increment in government incomes; an expansion in government spending the spending shortfall strategy can be resolved. They give proposals that by upgrading the productivity of the administration spending, the legislature should diminish the spending development Hondroyiannis and Papapetrue (2001). Puah et al (2000) is an exact research about spending shortage sway on financial development an examination instance of Malaysia. They gather information from various assets from 1970 to 2005 and compute the various connections among factors. Right off the bat they apply ADF test to check stationary in the information. By utilizing various techniques for estimation which are incorporation and granger causality they discover results. Through these models they gauge that the there is no since quite a while ago run connection between spending shortfall and monetary development. There is irrelevant and negative connection among shortage and financial development. Prunera (2000) investigates the circumstance that spending shortfall may hurt financial development through the collection of human capital. He utilizes the basic development model to gauge the deficiency issue and its results on economy. For exact relationship he utilizes the OLS system and figures the numerical outcomes. From these outcomes he looks at the circumstance among needy and autonomous factors and dissects the realities. Results show that shortfall is a pointer for macroeconomic soundness; essentially disheartens human capital amassing and development might be very conceivable. The cross sectional research of Ahmed and Mill operator (2000) is around thirty nine nations thinking about the information for time of 1975 to 1984. The techniques which they use are Common Least Square (OLS), fixed impact model and irregular impact model. Through these models they find that the administration spending can be isolated into two sections. The initial segment of the spending of the legislature is on standardized savings and government assistance of the individuals of the nation. This spending is the reason for decrease of the speculation which prompts the non-monetary exercises. Then again in less created nations the spending on correspondence segment is ascending by the private division. They suggest that if the degree of speculation is low, therefore it prompts low degree of incomes. Along these lines the reason for deficiency and the spending on correspondence divisions show positive outcomes positive patterns. Ahmed (1999) offers his input not for the econometric strategies of basic OLS, Different relapse examination ARIMA model. He condemns that these procedures don't cover the effect of causality, erogeneity and these can't give dependable determining. Here the he utilizes the synchronous model and for estimation takes VAR model for gauging and estimating rehashed conduct of factors and valuation of the effects of spending deficiency on various macroeconomic elements. By utilizing the Increased Dickey Full Test he checks the stationary of the factors. At that point he likewise utilizes the Johenson Co-reconciliation Test to check the since a long time ago run connection between the factors. The outcomes which he ascertains are critical and he infers that swelling in the economy is a result of spending deficiency. Results likewise show that the effect of deficiency is on financial development, loan cost, conversion scale and parity of installment. He speaks to the since quite a while ago run connection between spending shortage, cash supply and loan fee in his exploration. Singh (1999) look through the connection between household obligation and financial development an examination instance of India. He gathers the information for this examination from the time of 1959 to 1995 to check the relationship between the factors. For assessing the relationship he utilizes co-joining strategy and granger causality test. The financial expert talks about two diverse hypothetical ideas about household obligation and monetary development. First is customary view in which there are negative impacts of household obligation on monetary development of nation. Second idea is Recardiac Equality theories which tell about impartial effects of local obligation and monetary development.

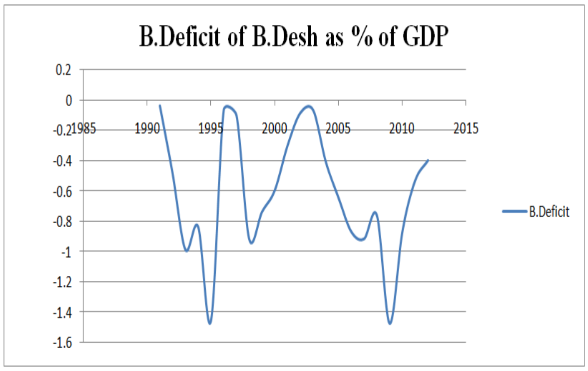
Finally he deciphers the aftereffects of Engle-Granger co-joining and infers that local obligation and financial development are not co-coordinated. Ahmed et al (1998) demonstrated that as a result of inefficient and inadequate strategies of incomes age Pakistan is confronting high monetary deficiency. Something else which they talk about that is the issue in charge structure and this issue is additionally a reason for financial deficiency in the nation. Chaudhary and Ahmed (1995) suggest that spending deficiency financing locally through banking makes expansion over the long haul. The aftereffects of this exploration show a positive connection between spending shortage and swelling during the basic time of seventies. They additionally look at that cash supply is an endogenous variable yet not exogenous. It relies upon the situation of remote stores and monetary deficiency and this thing shows cash supply is an endogenous variable. Dark colored and Yousefi (1996) Darker and Yousefi select ten creating nations from the rundown of the nations which are remembered for the examination of Cukieman et al (1992). In the rundown of these nations Indonesia, Israel, Mexico, Philippines, South Africa, Thailand, Turkey, and Venezuela and especially from SAARC are Pakistan and India. Here they analyze the connection between spending shortage, expansion and their consequences for financial development. They dismiss the crucial connection between spending deficiency and swelling. The job of expansion is substantially more and in view of this there are outer impacts in the economies of these nations. In this manner these progressions influence the monetary development of part nations. Sarkar inspects the connection between exchange transparency and monetary development and he finds that there is no positive and long haul connection between outside direct venture, exchange receptiveness and financial development. He explores this relationship under the examination instance of Pakistan and Turkey. In the event of Pakistan he infers that there is bi-directional causality between exchange transparency and financial development. In the event of Turkey he discovers that there is bi-directional connection between remote direct venture and outside exchange. Islam (1992) examines the issue of obligation and financial development an exploration instance of Bangladesh economy. For examining the experimental relationship the factors he assembles the time arrangement information from the time of 1972-1988. In the wake of evaluating the outcomes he deciphers that there is a feeble positive connection among obligation and monetary development. He additionally says household assets usage impacts are more grounded than the outside assets in the economy. Another comparative research of Mbaku (1993) in which he explores a similar relationship of remote obligation and monetary development to know the realities. He appraises similar outcomes like past research and concurs with the consequences of Islam (1992) and his discoveries.



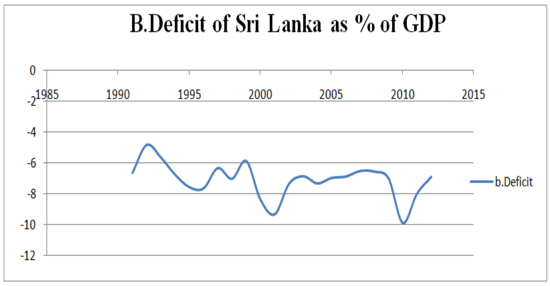
Pakistan: Typically the device of shortfall is utilized to reestablish the economy in short run timeframe. Created nations just as creating nations like Pakistan fund its spending shortage through recently printed cash. So this measure of cash is given by the national bank of the nations. A large portion of the nations as a rule money this sort of monetary cash-flow to build up their framework like streets, air terminals, school, universities, and colleges, seaports, medical clinics and other social administrations. The goal of these exercises is to raise financial development and work openings.



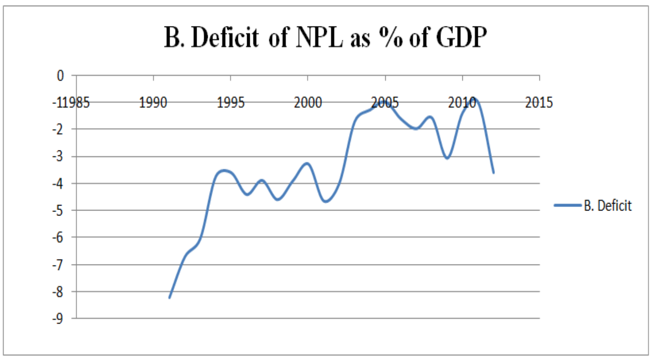
India: During budget deficit governments usually finance their deficits through different strategies to overcome this problem. The deficit is a gap which is caused by the excess of country's expenditures than its revenues. In India deficit financing is through creating or with printing new money by the financial institutes.



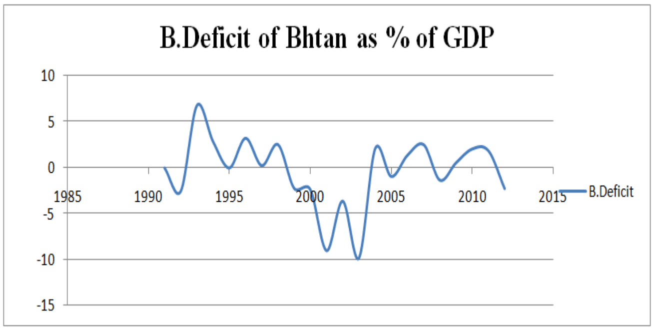
Bangladesh: In Bangladesh, from the hour of autonomy, an expansionary monetary approach has been following under its offered assets to conquer destitution and continue financial development. Accordingly there is a shortage in its spending balance which has been winning in the nation. Despite the fact that the patterns of spending deficiency was somewhat falling during 80s and 90s and again it has gone upward in 2000s. Spending shortage to Gross domestic product proportion was 6.96 per cent and 4.7 per cent in 1980s and 1990s respectively and during 2000s it has been approximately 5.0 per cent of GDP.



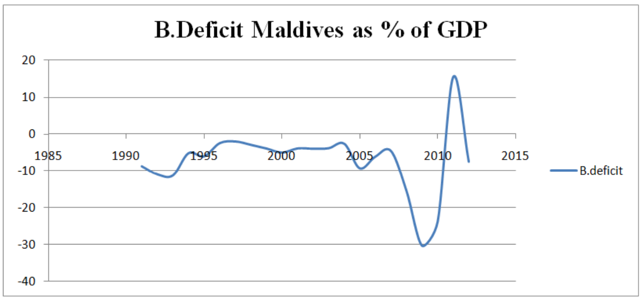
Sri Lanka: Most of the economic budgets of Sri Lanka are in deficit in its economic history except two or three budgets. Early budgets of Sri Lanka after independence were in lower deficit like in 1948 it was 1.7 per cent of the GDP of country. But during 1980s the volume of budget deficit of Sri Lanka went up rapidly by 23.1 per cent of its GDP. But in 1990s to early years of 2000s it was 7.0 per cent. So this continuity in budget deficit affects negatively the economic growth of country.



Nepal: In Nepal there are some problems which are the cause of budget deficit in the country and such affected budget is financed through different methods. In Nepal the deficit budget is mainly financed through tax collection and spent on different public projects. From 1990s to early years of 2000s domestic revenues were sufficient for current expenditures and capital expenditures were met through foreign loans and grants. During same period which has been mentioned above average revenues were 10.4 per cent of GDP and average expenditures were 9.3 per cent of GDP.



Bhutan: Most of the developing counties like Bhutan are facing a continuous budget deficit from the beginning. The country is using the tool of deficit financing to overcome its budget deficit. Government of Bhutan mostly depends upon the borrowing through domestic as well as foreign to finance their deficits. During 2000s there was huge amount which was borrowed from different financial institutes.



Maldives: In an economy when expenditures exceed the revenues or expenditures are more than revenues this situation is called budget deficit. It is called deficit financing when a government finances its deficit through bank and public borrowing. Usually the tool of deficit is used to restore the economy in short run period of time. In long run the solution to overcome the budget deficit through deficit financing with borrowing is not favorable for economy.

2.2 SITUATION ANALYSIS OF SAARC COUNTRIES

Pakistan: Pakistan finances its budget deficit through newly printed money. So this amount of money is issued by the central bank of the countries. Pakistan is using the tool of deficit financing since 1950 to overcome its budget deficit. Pakistani governments mostly depend upon the borrowing through domestic as well as foreign to finance their deficits. During 1990s there was huge amount which was borrowed from different financial institutes. After that period the amount of borrowing increased by different government to finance their budget deficit. Domestically Pakistani government borrows through central bank and commercial banks. The central bank SBP issues newly printed money to finance the deficit budget. But this kind of act always creates inflation in Pakistan because mostly the amount of money supply does not spend on real development projects. Another way of borrowing through commercial banks in Pakistan creates a problem of high interest rate. Because government usually borrows money through commercial banks at very high interest rate and this higher rate of interest is not favorable for private investors.

India: In India deficit financing is through creating or with printing new money by the financial institutes. During 1990s government of India used another tool to meet the budget deficit was borrowing. Government of India uses another source to control budget deficit is deficit financing through collection of taxation. In India above mentioned sources are used to finance the budget deficit in the economy all these are not beneficial for economic growth. One of the methods to meet the deficit is finance through newly printed currency. Usually when government wants to finance deficit through borrowing, government adopts the way of borrowing from central and commercial banks. Central bank issues new currency notes to the government for controlling the budget deficit in the economy. But this method of deficit financing increases money supply in economy and as well as a result of this increase in money supply means increase in inflation in the economy. So this method creates a situation where there is inflationary pressure and by this the prices of goods and services become high. Thus there is a negative impact on economic growth of country. Another step of government to finance its budget deficit is borrowing through commercial banks. But this method also creates a problem of high interest rate in the economy.

Bangladesh: In Bangladesh, from the time of independence, an expansionary fiscal policy has been following under its given resources to overcome poverty and sustain economic growth. As a result there is a deficit in its budget balance which has been prevailing in the country. Although the trends of budget deficit was slightly falling during 80s and 90s and again it has gone upward in 2000s. Budget deficit to GDP ratio was 6.96 per cent and 4.7 per cent in 1980s and 1990s respectively and during 2000s it has been approximately 5.0 per cent of GDP. The rise in budget balance has carried the government in a situation where government borrows money from domestic as well foreign financial resources to finance the deficit. Domestically government finances its deficit budget through two main resources i.e. the central bank and commercial banks. The average rate of inflation was 7.31 per cent, 8.8 per cent and 10.62 per cent in 2009-10, 2010-11 and 2011-12 respectively. So to escape the inflationary pressure the government finances its deficit budget through foreign exchange reserve of the central bank.

Sri Lanka: Most of the economic budgets of Sri Lanka are in deficit in its economic history except two or three budgets. Early budgets of Sri Lanka after independence were in lower deficit like in 1948 it was 1.7 per cent of the GDP of country. But during 1980s the volume of budget deficit of Sri Lanka went up rapidly by 23.1 per cent of its GDP. But in 1990s to early years of 2000s it was 7.0 per cent. So this continuity in budget deficit affects negatively the economic growth of country. The government of Sri Lanka uses a tool tax collection and then finances this amount of tax for budget deficit. During 2010-11 and 12 a record amount of taxes was collected by the Sri Lankan government to finance its deficit. The collection of such amount for deficit financing is helpful as compare with borrowing through different financial institutes. At the end 2006 the government controlled the deficit at 6 per cent of its GDP.

Nepal: In Nepal there are some problems which are the cause of budget deficit in the country and such affected budget is financed through different methods. In Nepal the deficit budget is mainly financed through tax collection and spent on different public projects. Another way which is used for deficit financing is foreign loans and grants and those revenues which are collected domestically use to complete current expenditures. From 1990s to early years of 2000s domestic revenues were sufficient for current expenditures and capital expenditures were met through foreign loans and grants. Domestic borrowings at limited level were taken from commercial banks of the country. During same period which has been mentioned above average revenues were 10.4 per cent of GDP and average expenditures were 9.3 per cent of GDP. So the above mentioned methods and ways of deficit financing to meet budget deficit are also create problems in the way of economic growth in the country's economy. In an economy when uses surpass the incomes or consumptions are more than incomes this circumstance is called spending deficiency. It is called deficiency financing when an administration funds its shortfall through bank and open acquiring. Typically the device of shortfall is utilized to reestablish the economy in short run timeframe. In since quite a while ago run the answer for conquer the spending shortage through deficiency financing with getting isn't good for economy.

2.3. CIRCUMSTANCE EXAMINATION OF SAARC NATIONS

Pakistan: Pakistan funds its spending shortage through recently printed cash. So this measure of cash is given by the national bank of the nations. Pakistan is utilizing the device of deficiency financing since 1950 to beat its spending shortage. Pakistani governments for the most part rely on the getting through household just as unfamiliar to back their deficiencies. During 1990s there was enormous sum which was obtained from various money related establishments. After that period the measure of acquiring expanded by various government to fund their spending shortage. Locally Pakistani government gets through national bank and business banks. The national bank SBP gives recently printed cash to fund the deficiency spending plan. In any case, this sort of act consistently makes expansion in Pakistan in light of the fact that generally the measure of cash supply doesn't spend on genuine improvement ventures. Another method for getting through business banks in Pakistan makes an issue of high loan cost. Since government generally gets cash through business banks at high financing cost and this higher pace of premium isn't positive for private speculato

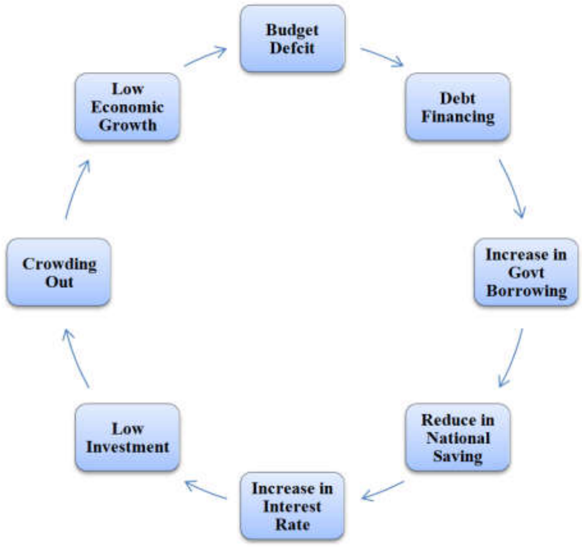
India: In India deficiency financing is through making or with printing new cash by the budgetary foundations. During 1990s legislature of India utilized another apparatus to meet the spending shortfall was acquiring. Administration of India utilizes another source to control spending deficiency is shortfall financing through assortment of tax assessment. In India previously mentioned sources are utilized to fund the spending shortfall in the economy all these are not gainful for monetary development. One of the strategies to meet the deficiency is fund through recently printed money. Typically when government needs to fund deficiency through getting, government receives the method for acquiring from focal and business banks. National bank gives new cash notes to the legislature for controlling the spending deficiency in the economy. Be that as it may, this technique for shortfall financing builds cash supply in economy and just because of this expansion in cash supply implies increment in swelling in the economy. So this strategy makes a circumstance where there is inflationary weight and by this the costs of merchandise and enterprises become high. Hence there is a negative effect on financial development of nation. Another progression of government to back its spending shortage is obtaining through business banks. In any case, this technique likewise makes an issue of high financing cost in the economy.

Bangladesh: In Bangladesh, from the hour of autonomy, an expansionary financial strategy has been following under its offered assets to beat neediness and support monetary development. Therefore there is a shortfall in its spending balance which has been winning in the nation. Despite the fact that the patterns of spending shortage was somewhat falling during 80s and 90s and again it has gone upward in 2000s. Spending shortfall to Gross domestic product proportion was 6.96 percent and 4.7 percent in 1980s and 1990s individually and during 2000s it has been roughly 5.0 percent of Gross domestic product. The ascent in spending balance has conveyed the administration in a circumstance where government gets cash from household also outside money related assets to fund the shortfall. Locally government funds its shortfall spending plan through two primary assets for example the national bank and business banks. The normal pace of expansion was 7.31 percent, 8.8 percent and 10.62 percent in 2009-10, 2010-11 and 2011-12 individually. So to get away from the inflationary weight the administration funds its shortage spending plan through remote trade hold of the national bank.

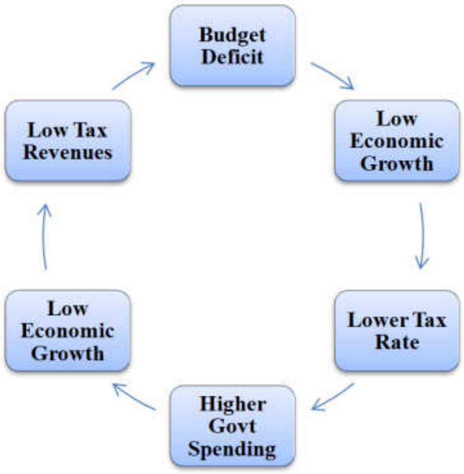
Sri Lanka: The majority of the monetary spending plans of Sri Lanka are in shortfall in its financial history aside from a few spending plans. Early spending plans of Sri Lanka after autonomy were in lower deficiency like in 1948 it was 1.7 percent of the Gross domestic product of nation. Be that as it may, during 1980s the volume of spending deficiency of Sri Lanka went up quickly by 23.1 percent of its Gross domestic product. Be that as it may, in 1990s to early long periods of 2000s it was 7.0 percent. So this progression in spending shortfall influences contrarily the financial development of nation. The administration of Sri Lanka utilizes an apparatus charge assortment and afterward funds this measure of assessment for spending shortfall. During 2010-11 and 12 a record measure of duties was gathered by the Sri Lankan government to back its shortfall. The assortment of such sum for deficiency financing is useful as contrast and obtaining through various money related organizations. Toward the end 2006 the legislature controlled the shortfall at 6 percent of its Gross domestic product.

Nepal: In Nepal there are a few issues which are the reason for spending deficiency in the nation and such influenced spending plan is financed through various techniques. In Nepal the deficiency spending plan is chiefly financed through duty assortment and spent on various open tasks. Another way which is utilized for shortage financing is outside advances and concedes and those incomes which are gathered locally use to finish current consumptions. From 1990s to early long stretches of 2000s household incomes were adequate for current uses and capital consumptions were met through remote credits and awards. Household borrowings at constrained level were taken from business banks of the nation. During same period which has been referenced better than expected incomes were 10.4 percent of Gross domestic product and normal consumptions were 9.3 percent of Gross domestic product. So the previously mentioned strategies and methods for shortfall financing to meet spending shortage are likewise make issues in the method for monetary development in the nation's economy.

Theoretical and Transmission Chanel: For deficit financing government borrows from different financial institutes and usually governments borrow at higher interest rate. High interest rate in financial market is a cause of reduction in private investment. At lower production rate results the lower return and thus at the end lower economic growth in a country.



Lower tax revenues and higher government spending are the reasons of lower economic growth which cause to lower tax revenues. So because of these negative changes in the economy the situation runs in a vicious cycle. Only one way to break this vicious cycle is cutting government spending and increasing tax rate.



Theoretical Model: If one component of X is eliminated then the perfect co-linearity will not occur and after that there will be imbalance between revenues and expenditures. So after neglecting the components the equation will be:

$$y_i = \alpha + \sum_{i=1}^{k} \beta_i Z_{it} + \sum_{j=1}^{m-1} (\gamma_j - \gamma_m) X_{jt} + \varepsilon_{it} \quad (7)$$

The economists Amanja and Morrisery (2005) and Matthew (2009) verified the null hypothesis like ($\gamma j - \gamma m$) = 0 in place of conventional null hypothesis which is γj=0. Therefore, coefficient of fiscal variable described as "the impact of unit variation in related variable counterbalance by a unit change in the component misplaced from the regression.

3. ECONOMETRIC MODEL

Panel Data Estimation Models: There are two kinds of models to estimate and analyze the panel data

Fixed Effects Model: For the estimation of panel data estimation usually there are two models which are fixed effects and random effects model. The estimating model in econometric form is

$$Y_{it} = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + \beta_5 X_{5it} + \beta_6 X_{6it} + \beta_1 X_{2it} + \beta_8 X_{8it} + \beta_9 X_{9it} + \beta_{10} X_{10it} + \mu_{it}$$

Fixed impacts relapse strategy is a principle system used to dissect the board information in relapse investigation. It is utilized for the adjustments in factors over an opportunity to evaluate the impacts of the free factors on subordinate variable or this system is utilized to investigate the effect of factors which change over the time. Fixed impacts model is the exploration of the connection among needy and autonomous factors inside a substance like a nation, individual or an organization. Something else is additionally that these elements have their own qualities and these might impact dependent variable. For instance nation's swelling, fares or obligation influence its Gross domestic product. In fixed impact model suppositions that will be that there is control of an issue where something inside the individual may affect or predisposition the autonomous or ward factors and on account of this current nation's blunder term and free factor associate one another. The fixed impact model wipes out such impacts and model can figure the net impact of the free factor on subordinate variable. Another supposition that will be that the above talked about issue is an outstanding instance of individual and it ought not be corresponded with some other person. Here is something else that every nation is extraordinary and along these lines nation's blunder term and steady ought not be corresponded with one another. On the off chance that in the model blunder terms are associated with one another and fixed impact model isn't appropriate for relapse investigation. In the event that this, at that point there is utilization of another model which is called arbitrary impact model. The fixed impact model controls the contrasts between the individual and assessed coefficients under the fixed impact model can't be one-sided due to excluded time related qualities. One symptom of the fixed impact model is that it can't be utilized for time related reasons in subordinate factors. So under the fixed impacts model here the utilization of sham variable strategy which is known as differential catch fakers. In the event that number of people is N = 7

$$Y_{it} = \alpha_1 + \alpha_2 D_{2i} + \alpha_3 D_{3i} + \alpha_4 D_{4i} + \alpha_5 D_{5i} + \alpha_6 D_{6i} + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + \beta_5 X_{5it} + \beta_6 X_{6it} + \beta_1 X_{2it} + \beta_8 X_{8it} + \beta_9 X_{9it} + \beta_{10} X_{10it} + \mu_{it}$$

Here the use of dummies is for estimating the fixed effected model and this process is called least-square dummy variable model. Intercept varies over the time but it does not vary over the individuals and also the slope coefficients remain the same Different intercepts for different time periods instead of β1

$$Y_{it} = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + \beta_5 X_{5it} + \beta_6 X_{6it} + \beta_1 X_{2it} + \beta_8 X_{8it} + \beta_9 X_{9it} + \beta_{10} X_{10it} + \mu_{it}$$

If the number of time periods is T = 23

$$Yit = \lambda^1 + \lambda_2 D_{2t} + \lambda^{3D_{3t}} + \lambda^{4D_{4t}} + \cdots + \lambda^{23D_{23t}} + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + \beta_5 X_{5it} + \beta_6 X_{6it} + \beta_1 X_{2it} + \beta_8 X_{8it} + \beta_9 X_{9it} + \beta_{10} X_{10it} + \mu_{it}$$

If intercept varies over the individual as well as varies over the time

$$Y_{it} = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + \beta_5 X_{5it} + \beta_6 X_{6it} + \beta_1 X_{2it} + \beta_8 X_{8it} + \beta_9 X_{9it} + \beta_{10} X_{10it} + \mu_{it}$$

If N = 7 and T = 23 then

$$Y_{it} = \alpha_1 + \alpha_2 D_{2i} + \alpha_3 D_{3i} + \alpha_4 D_{4i} + \alpha_5 D_{5i} + \alpha_6 D_{6i} + \alpha_7 D_{7i} + \lambda^1 + \lambda_2 D_{2t} + \lambda^{3D_{3t}} + \lambda^{4D_{4t}} + \cdots + \lambda^{23D_{23t}} + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + \beta_5 X_{5it} + \beta_6 X_{6it} + \beta_1 X_{2it} + \beta_8 X_{8it} + \beta_9 X_{9it} + \beta_{10} X_{10it} + \mu_{it}$$

Both intercept and slope coefficient varies over individual but constant over the time

$$Yit = \alpha 1 + \alpha 2D1i + \alpha 3D3i + \alpha 4D4i + \alpha 5D5i + \alpha 6D6i + \alpha 7D7i + \beta 1X1it + \beta 2X2it + \beta 3X3it + \beta 4X4it + \beta 5X5it + \beta 6X6it + \beta 7X7it + \beta 8X8it + \beta 9X9it + \beta 10X10it + \mu it$$

Both intercept and slope coefficient varies over the individual as well time

$$Yit = \alpha 1 + \alpha 2D1i + \alpha 3D3i + \alpha 4D4i + \alpha 5D5i + \alpha 6D6i + \alpha 7D7i +$$

Under the fixed effects model if there are lot of dummy variables it indicates of less degree of freedom and it increases the risk of multi-co linearity.

4. RESULTS AND DISCUSSION

Hausman Test: After applying the random and fixed effect model the next thing is to specify which model is appropriate according to the situation and true results. For this Hausman test is used to select the model that is best fitted for efficient results. Before applying Hausman test random effect model is considered null hypothesis and fixed effect model is alternative. If in Hausman test calculated value of probability is less than 0.05 there is the rejection of null hypothesis and acceptance of alternative otherwise vice versa.

F-Test or Wald Test: After performing above steps of estimation method draw null hypothesis for all dummy variable are equal to zero and alternative is fixed effect model. For this Wald test is used to check whether dummy variables are zero or not and this is a kind of F-test.

If probability value is less than 0.05 there is rejection of null hypothesis and acceptance the alternative. Acceptance of alternative hypothesis means that fixed effect model is appropriate for the efficient estimation and gives best results.

Table No.1 Fixed Effect Model without Time Trend

GDP	Coefficient	T-Value	P > |t|
CPI	47.01	5.01	0.000
TAX	3.90	3.97	0.000
DEFICIT	-7.34	-15.92	0.000
DEBT	-18.83	-0.72	0.472
SAVING	-6.99	-1.74	-0.084
Country FE	Yes		
Time Trend	No		
R-Squared	0.92		
Observations	161		

Table No.2. Fixed Effect Model with Time Trend

GDP	Coefficient	T-Value	P > |t|
CPI	-12.5	-1.92	0.055
TAX	4.94	3.36	0.001
DEFICIT	-1.16	-1.12	0.000
DEBT	-21.4	0.59	0.556
SAVING	-3.07	-3.73	0.000
Country FE	Yes		
Time Trend	Yes		
R-Squared	0.73		
Observations	161		

Table No.3 Hausman Test:

Coefficient	FE	RE	Difference
Cpi	-12.5	47.01	59.51
Tax	4.94	3.90	1.04
Deficit	-1.16	-7.34	6.18
Debt	-21.4	-18.83	-2.57
Saving	-3.07	-6.99	3.92
Probability	0.03		

Table No.4 Fixed Effect Model

GDP	Coefficient	T-Value	P > |t|
CPI	-12.5	-1.92	0.055
TAX	4.94	3.36	0.001
DEFICIT	-1.16	-1.12	0.000
DEBT	-21.4	0.59	0.556
SAVING	-3.07	-3.73	0.000

This table elaborates the results without time means there is no effects of time here. The first variable CPI affects positively the GDP and its value is 47.01 which mean that 1 unit change in CPI brings 47.01 billion increases in GDP. Taxes are positively correlated with gross domestic production and it indicates that 1unit change in tax revenues bring 3.90 billion increase in GDP. The values of t-stats and p-value are significant because t-value is greater than 2 and p-value is less than 0.05. On theoretical bases collection of taxes is cause of increment in government revenues. These revenues are sources of minimizing deficit in economy and are financial assistance for developing economic projects. So economic development affects the GDP positively and increases its volume. Many empirical studies tell that high rate of tax is a key factor in reduction in economic growth. Padovano (2001) and Galli (2002) confirmed that there are positive effects of tax on economic growth. The impact of budget deficit on GDP according to estimation of the results is negative. The estimated value is -7.34 which show that budget deficit cause of low level of GDP and 1unit change in budget deficit is caused of 7.34 billion decreases in GDP. Deficit situation carries the economy to the printing money or deficit financing and borrowing. Those steps are usually not in the favor of country's GDP and it decreases.

Also t-value and p-vales are significant which means deficit has strong significant impact on GDP. So the overall deficit effect on the country's GDP is worse and carries the economic situation to the poor economic condition. Fischer (1993) discussed that large deficits are simply a signal of general macroeconomic instability which is harmful for economic growth. According to the different economic theories and empirical studies, regression result for deficit shows unique result. Debt affects the GDP adversely because when there is a burden of debt in the economy it creates hurdles in the way of progress. So 1unit change in debt there is 18.83 billion reductions in GDP which is quite high. Sheikh et al (2010) explored the relationship between debt and economic growth in case of Pakistan and they explain after estimating empirical results that increasing amount of debt enhances the economic growth in economy. The value of R-squared is 0.92 which explains there is 92 percent variation in dependent variable DGP is due to independent variables. F-stats should be less than 0.05 and here this value is 0.0000 which means that model is accurate. Most of the independent variables have significant impact on dependent variable except debt.

CPI is contrarily connected with Gross domestic product and its worth is - 12.5 which imply that 1 unit change in CPI gets 12.5 billion decreases Gross domestic product. The p-worth and t-estimation of CPI are not noteworthy and hence the relationship isn't solid with subordinate variable. Fischer (1991) and Sala-I-Martin (1991) have examined a unimportant connection among expansion and financial development. In any case, Levine and Zervos (1993) gauge those peripheral changes in moderate expansion rates may not be antagonistically connected with monetary development. Duties are decidedly connected with net local creation and it shows that 1 unit change in charge incomes gets 4.94 billion expands Gross domestic product. The estimations of t-details and p-esteem are noteworthy in light of the fact that t-esteem is more noteworthy than 2 and p-esteem is under 0.05. On hypothetical bases assortment of expenses is caused an addition in government incomes. These incomes are wellsprings of limiting shortage in economy and are monetary help for creating financial ventures. So financial improvement influences the Gross domestic product decidedly and expands its volume. The effect of spending shortfall on Gross domestic product as indicated by estimation of the outcomes is negative. The evaluated esteem is - 1.16 which shows that spending deficiency causes low degree of Gross domestic product and 1 unit change in spending shortfall causes 1.16 billion abatements in Gross domestic product. Shortfall circumstance conveys the economy to the printing cash or shortage financing and getting. Those means are typically not in the kindness of nation's Gross domestic product and it diminishes. Additionally t-worth and p-vales are huge which implies shortfall has solid noteworthy effect on Gross domestic product. So the general shortage impact on the nation's Gross domestic product is more awful and conveys the monetary circumstance to the poor financial condition. Obligation influences the Gross domestic product unfavorably in light of the fact that when there is a weight of obligation in the economy it makes leaps in the method for progress. Along these lines, 1 unit change owing debtors conveys 21.4 billion decreases in Gross domestic product which is very high. Here right now impact of time is included and changes the circumstance of the variable. The estimation of R-squared is 0.7375 which clarifies there is 73 percent variety in subordinate variable Gross domestic product is because of free factors. F-details ought to be under 0.05 and here this worth is 0.0000 which implies that model is precise. The vast majority of the free factors have critical effect on subordinate variable with the exception of obligation. Non-monetary factors have been assessed by utilizing fixed and arbitrary impacts model. Here invalid theory is arbitrary impacts model, proper and elective speculation is fixed impacts model. In the event that P-esteem is critical in the wake of assessing the Hausman test, at that point fixed impact model is fitting in any case irregular impact model.

During the estimation procedure first irregular impact model is applied and afterward run the fixed impact model. To realize which model is reasonable for exact legitimization Hausman test is applied. Here in estimation of Hausman test likelihood esteem is 0.0397 which is less 5% and it implies that it is noteworthy. Along these lines, we dismiss the invalid speculation which is arbitrary impact display as suitable. Presently irregular impact model isn't appropriate and acknowledge the elective speculation which is fixed impact model. Right now, fixed impact model is most proper model for examining the board information. In the wake of performing above strides of estimation presently gauge the fixed impact model by utilizing sham factors. Here we draw invalid theory that every fake variable are equivalent to zero and elective speculation is fixed impact model. To check this we apply Wald test to realize that fake factors are zero or not. Essentially Wald test is F-measurements for breaking down the dismissal or acknowledgment of the theory. The likelihood esteem is 0.0000 which is extremely little and under 0.05 implies that it dismisses the invalid theory. Elective theory is acknowledged and fixed impact model is suitable for the further investigation. Both Hausman test and F-test demonstrate that fixed impact model is most proper model for exact examination.

The primary variable CPI influences adversely the Gross domestic product and its worth is - 12.5 which imply that 1% change in CPI acquires 12.5 billion decreases Gross domestic product. The hypothesis behind tells that if there is expansion in the economy the costs of products go up. At the point when value level goes up interest for products diminishes and this circumstance disheartens the maker. So right now costs are caused of lower creation underway units, assessments are emphatically associated with net residential creation and it shows that 1 unit change in charge incomes acquire 4.94 billion increment Gross domestic products. The estimations of t-details and p-esteem are critical in light of the fact that t-esteem is more prominent than 2 and p-esteem is under 0.05. On hypothetical bases assortment of assessments is caused an augmentation in government incomes. These incomes are wellsprings of limiting shortfall in economy and are budgetary help for creating financial undertakings. So financial advancement influences the Gross domestic product decidedly and expands its volume. The effect of spending shortfall on Gross domestic product as per estimation of the outcomes is negative. The evaluated esteem is (- 1.16) which shows that spending shortfall reason for low degree of Gross domestic product and 1 unit change in spending shortage is caused of 1.16 billion lessening in Gross domestic product. Deficiency circumstance conveys the economy to the printing cash or shortage financing and obtaining. Those means are normally not in the kindness of nation's Gross domestic product and it diminishes. Additionally t-worth and p-vales are huge which implies shortfall has solid huge effect on Gross domestic product. So the general shortage impact on the nation's Gross domestic product is more awful and conveys the monetary circumstance to the poor financial condition. Obligation influences the Gross domestic product unfavorably in light of the fact that when there is a weight of obligation in the economy it makes leaps in the method for progress. In this way, 1 unit change owing debtors there is 21 billion decreases in Gross domestic product which is very high. The estimation of R-squared is 0.7375 which clarifies there is 73 percent variety in subordinate variable Gross domestic product is because of autonomous factors. F-details ought to be under 0.05 and here this worth is 0.0000 which implies that model is alright. A large portion of the autonomous factors have critical effect on subordinate variable aside from obligation.

Conclusion

The autonomous factors are fundamentally related with subordinate variable. The outcomes are exact and as indicated by the given circumstance of SAARC economies, the assessed outcomes tell that there is a solid connection between spending shortfall and monetary development and unfriendly impacts of deficiency on financial development of SAARC nations. CPI, spending shortfall, obligation and investment funds are adversely connected with Gross domestic product and most are measurably critical. At the point when expansion builds, it causes amount of cash flow in the economy increments. Thus buying intensity of shopper is diminished and influences makers. Then again cash esteem goes down and it adversely influences fares of the nation, in this way the two changes affect monetary development of economy. In SAARC nations there is a deficiency of money related assets so for this reason they get from national and worldwide budgetary establishments; additionally they abuse these monetary assets in various uneconomical undertakings. Along these lines monetary development in SAARC area isn't at good level. Expense has positive effect on total national output and is factually noteworthy. In SAARC economies charge for the most part assume a positive job and results demonstrate that when measure of expense increments financial development increments.

These nations gather a sensible measure of expenses which assume a positive job. Sparing is likewise negative yet critical effect on monetary development and when sparing increments financial development diminishes. At the point when reserve funds decline there is decrease in venture exercises and afterward low pace of speculation diminishes the financial development. The maintainable financial development is proportion of the government assistance of progressive ages and wide-running macroeconomic approach. The expectations for everyday comforts in the public eye are appeared through stable monetary development and when development is accomplished with stable swelling and joblessness. The outcomes give helpful methodology so as to comprehend and take protection measures. In SAARC nations the efficient utilization of expense is a positive sign for financial development and economy develops by legitimate utilization of assessments. SAARC nations face an enormous measure of obligation which is generally dangerous for monetary development and for the most part is a reason for deficiency spending plan. In these creating nations utilization of such credits isn't on effective level and they spend in those tasks which give less return. So governments should take these advances on simple standing and conditions and should utilize appropriate monetarily which give most extreme return.

4.1 REFERENCES

Adam, C.S., and Bevan, D.L 2002. Fiscal Deficit and Growth in Developing Countries: Department of Economics, Oxford University 1471-0498

Ahmed, K., and Wajid, S. 2013. Fiscal Policy or Its Composition: Asian Economic and Financial Review 196-215

Ahmed, N. 2013. The Role of Budget Deficit in the Economic Growth of Pakistan: Double Blind Peer Reviewed International Research Journal 13-5

Bista, N.B. 2013. Macroeconomic Implication of Fiscal Deficit and Public Debt in Nepal:

Buscemi, A., and Yallwe, A.H. 2012. Fiscal Deficit, National Saving and Sustainability of Economic in Emerging Economies: 126-140

Cheng, M.Y. 2003. Economic Fluctuations and Growth: The Journal of Business in Developing Nations, 7

Chaudary, M. A., and Shabbir, G. 2005. Macroeconomic Impact of Budget Deficit on Pakistan's Foreign Sector: Pakistan Economic and Social Review

Dewaldt, W. G. 1985. COB and OMB Projections, Adjusted for Inflation, Show Federal Budget Deficit under Control: The Washington Post

Dolan, J. 2002. The Budget Minimizing Bureaucrat? Empirical Evidence from the Senior Executive Service: Public Administrative Review 62-1

Fatima, G., and Ahmed, M. 2012. Consequential Effects of Budget Deficit on Economic Growth of Pakistan: International Journal of Business and Social Science.

Fatima, G., and Maqsood, A. 2011. Fiscal Deficit and Economic Growth: An Analysis of Pakistan's Economy: International Journal of Trade, Economics and Finance.

Gulcan, Y., and Bilman, M. E. 2005. Effects of Budget Reduction on Exchange Rate: A studycase of Turkey:

Gupta, A. P. 2013. Reforming Deficit Measurement: The Indian Case: Economic and Political Weekly 28-8/9

Hassan, S., and Kalim, R. 2010. Role of Key Macroeconomic Variables in Fiscal Deficit: School of Business and Economics, University of Management and Sciences, Lahore

Huynh, N. D. 2007. Budget Deficit and Economic Growth in Developing Countries: The case OfVietnam.Kansai Institute for Social and Economic Research (KISER).

Iqbal, N. and Malik, W. S. Budget Balance through Revenue or Spending Adjustment

Jadhav, A., and Neelankavil, J. 2011. Deficit Financing – Causes, Consequences and Potential Cures: Journal of Applied Business and Economics 12-6

Lee, U. 1997. Stock Market and Macroeconomic Policies: Multinational Finance Journal 1-4

Metin, K. 2013. The Relationship between Budget Deficit and Inflation in Turkey: Journal of Business and Economic Statistical 16-4

Mohanty. R. S. 2013. Fiscal Deficit and Economic Growth Nexus in India:

Nelson, M. A,. Singh, R. D. (2013). The Deficit Growth Connection: Some Recent Evidence of from Developing Countries: Chicago Journals 43-1

Ojong, C.M., and Owui, H.O. Effect of Budget Deficit Financing on the Development of the Nigerian Economy: European Journal of Management and Business 5-3

Rehman, N. H 2012. The Relationship between Budget Deficit and Economic Growth from Malayia's Prospective: IACSIT Press 38

Shi, M,.andSvensson, J. 2003. Political Budget Cycle: Nordic Journal of Political Economy 29-1

Sill, K. 2005. Do Budget Deficits Cause Inflation: Business Review

Velnampy, T., and Achchuthan, S. 2013. Fiscal Deficit and Economic Growth: A Study on Sri Lakan Economic Prospective: Developing Country Studies 3-3

William, J. H. 2013. Federal Budget: Economic Consequences of Deficit Financing, Deficit Spending: American Economic Association 30-5

****