

ABSTRACT

This study intends to examine how past policies have impacted local budget balances in local governments of Pakistan while also considering how various pertinent political features have affected local budget balances in a changing environment. Even though dynamic assessments of budget balances at the local government level have been somewhat underrepresented in recent research, Lindblom (1959) highlighted the importance of previous policies approximately 60 years ago. The dataset used for the empirical analysis in this study spans 11 years and includes micro-panel data from 120 municipalities of Pakistan between 2011 and 2022. The Two Step System Generalized Method of Moments (GMM) is designated as the most apposite technique to estimate the long-run effects in this dynamic heterogenous panel model. The outcome of the dynamic panel analysis depicts the influence of historical performance, the election cycle, ideology of political parties and the power of the executive on local budget balance. The innovative understanding regarding how political power affects the budget balance that is introduced within the context of dynamic research is particularly significant. This study avoids the possibility of underestimating the long-term impression of governmental issues on the local budgetary balance by focusing on the enduring impacts of explanatory variables brought about by the dynamic character of the analysis.