BUDGET STRATEGY PAPER
FY 2022-25

Finance Department
Government of the Punjab

Contents

1. State of the Global and National Economy

The world faced an unprecedented challenge in the form of COVID-19 pandemic. However, a robust policy response and a resilient global financial system resulted in bouncing back of the economy to pre-pandemic levels. The previous year's performance has been mostly encouraging yet troubling in certain aspects. It enhanced many risks related to global production and uncertainty in global supply chains. After peaking at 9.5 percent in 2021, global trade is expected to fall to 5.8 percent in 2022 and 4.7 percent in 2023. War in Ukraine, lockdowns in China, high global prices of crude oil, and monetary tightening to curtail inflation would define future economic growth trajectory for the world economies. Fuel and food prices have increased rapidly, hitting vulnerable populations in low-income countries the hardest, such as Pakistan. IMF forecasts that global growth is projected to slow from an estimated 6.1 percent in 2021 to 3.6 percent in 2022 and 2023.

Beyond FY2023, global growth is projected to decline to about 3.3 percent over the medium term. Multilateral efforts to respond to the humanitarian crisis, prevent further economic fragmentation, maintain global liquidity, manage debt distress, tackle climate change, and respond to inflationary pressures would be the defining factors.

Pakistan's economy has been defined by continuous cycles of boom and bust for at least the past three decades. These cycles have coexisted with the electoral/political cycle, where a new government goes through a balance of payments crisis and ends up resorting to external funding and a stabilisation curriculum. In the dearth of a simultaneous rise in investments and exports, this motivation in consumption produces a short-term superficial recuperation that soon dissipates when the reserves dry out. Figure 1 below shows this trend over the last three decades. With the exception from 2000-2003 where export contributed towards growth, for all other years the economy grew on the basis of strong consumption.

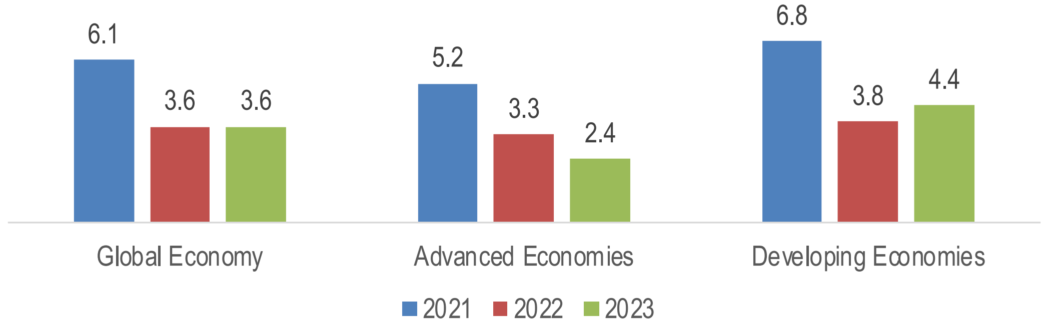


Figure 1: Global Economic Growth (IMF)

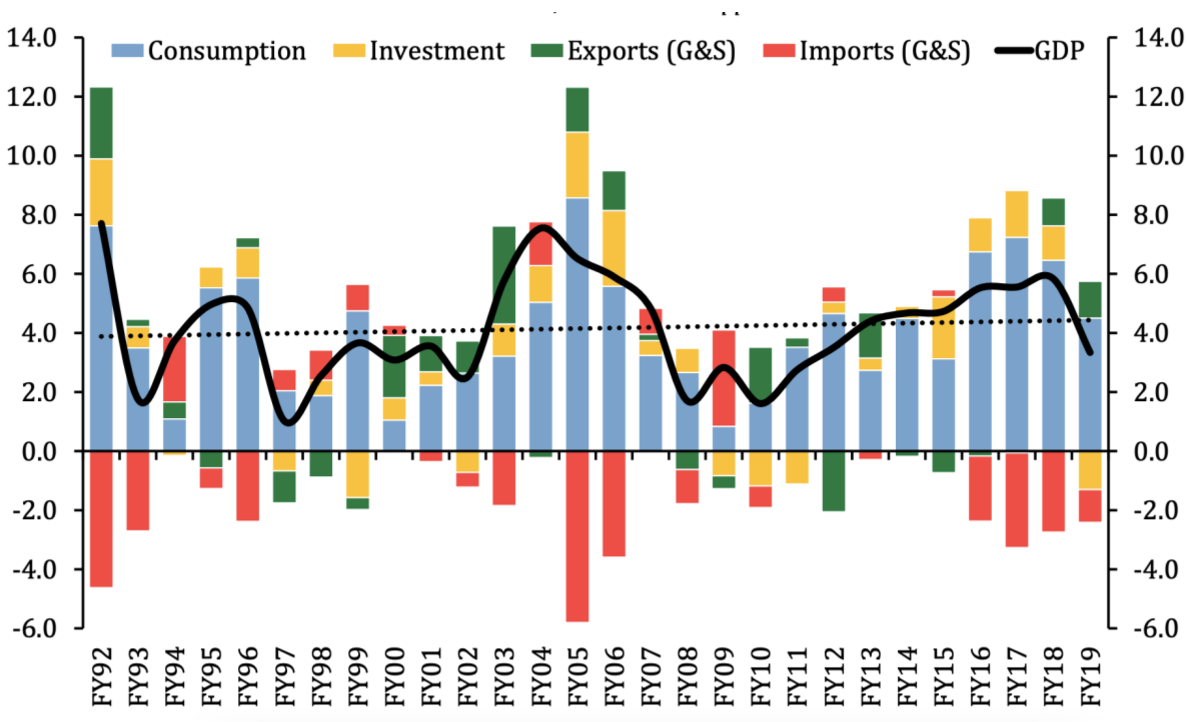


Figure 2: Pakistan's GDP Growth and it's drivers 1992-2021 (%) (Source: State Bank of Pakistan)

The current macroeconomic situation poses a very serious challenge. A significant portion of the increase in inflation and current account deficit is attributable to adverse global geopolitical developments and supply chain disruptions. However, loose fiscal and monetary policies have significantly impacted these macroeconomic developments. Borrowing costs have shot up due to several factors at play. In addition to immediate short-term measures, there is a realization that deep structural reforms are needed. The obvious difficulty for policymakers would be to implement structural reforms that would not only deliver short-term macro-stability but also create the conditions for long-term sustained growth and job creation. Pakistan needs to develop at least 7 percent a year to accommodate the nearly 2 million people that enter its labour force each year. The structural reform narrative should be based on increasing expenditure and productivity across all sectors of the economy with special emphasis on value-added production to ensure sustainable growth. Historical and more current empirical data indicates that only a globally competitive and profitable industrial sector will create the jobs needed, attract foreign investments, and enhance foreign currency reserves for a long-term growth and economic stability.[1]

1.1 Size of the Economy

FY22 marks a year of GDP re-basing to 2015-16 amid re-composition of weights from the previous base of 2005-06, which resulted in upward revision of GDP size and growth rates. GDP size at current market prices sharply increased to PKR 55.8 trillion in FY21 compared to

[1] Structural transformation or rapid industrialization has been the basis of the economic miracle of Korea and Taiwan and more recently China. Since the 2007 financial crisis developed countries (OECD) have revisited their economic strategy, formulating industrial policies to reinvigorate manufacturing for sustained growth and to make their economies resilient to financial and economic turnarounds.

PKR 47.7 trillion in previous base that depicts an augmentation of 17% while previous five years (FY16-20), GDP size also expanded by an average 13% annually.

Table 1: GDP Growth (Pakistan Bureau of Statistics)

	FY20	FY21	FY20	FY21
	Base 2015-16		Base-2005-06	
GDP Growth	**-0.9%**	**5.7%**	**-0.5%**	**3.9%**

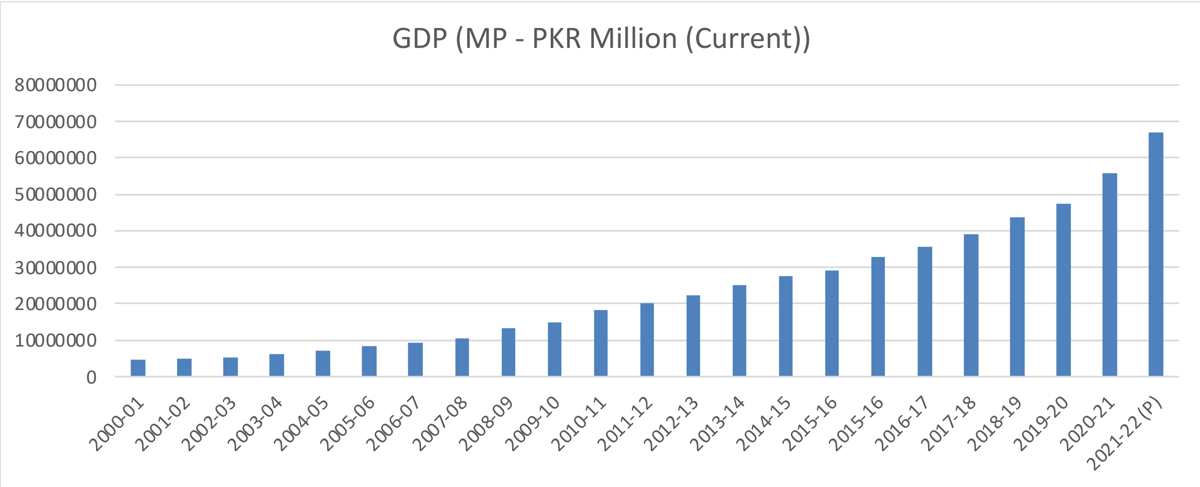


Figure 3: GDP Size of Pakistan (2015-16 onwards as base year) (Source: Pakistan Bureau of Statistics)

This is quite impressive compared with the growth rate of 5.7% in FY21. However, other macroeconomic indicators suggest that significant imbalances have also built up during the year due to expansionary monetary and fiscal policies.

The major contributor in FY21 was the services sector which showed an incremental impact of 48% to overall increase, while industries, agriculture and taxes contributed 29%, 14% and 12% respectively. Subsequently, provisional estimates show GDP expansion to PKR 66.9 TRN in FY22. The revised base reflects better sectoral representation and has improved GDP indicators (fiscal, debt, CAD) as a percentage of GDP.

1.2 Inflation

Post-pandemic, global commodity prices rose to unprecedented levels, particularly after January 2021, putting pressure on currencies and causing inflation around the world. These inflationary effects were also reflected in domestic inflation.

CPI Inflation, in general, increased by 13.4% on year-on-year basis in April 2022 as compared to an increase of 12.7% in the previous month and 11.1% in April 2021. On month-on-month basis, it increased by 1.6% in April 2022 as compared to increase of 0.8% in the previous month and increase of 1.0% in April 2021.

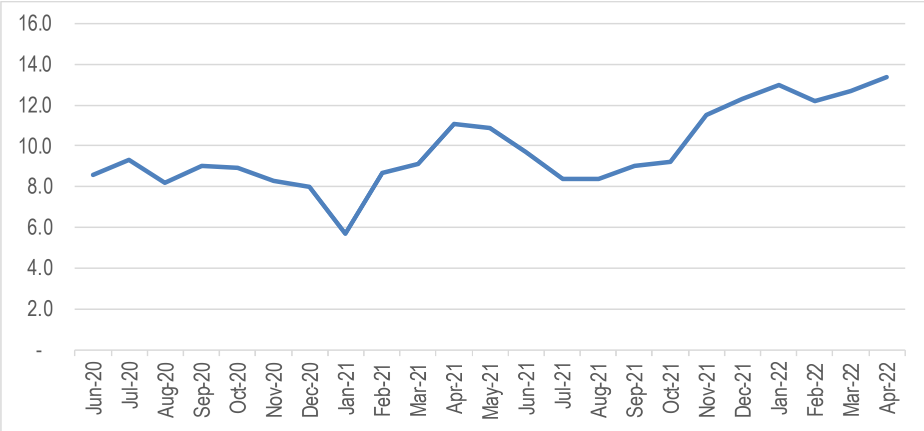


Figure 4: Pakistan National Inflation (Pakistan Bureau of Statistics)

Inflation has remained in double digits since Nov-21 due to higher food index (34.6% weight in CPI) amid surge in international commodity prices, hike in transportation cost, smuggling, demand substitution and rupee devaluation which led to higher import parity prices. Supply concerns over palm oil prices raised international prices that also translated into higher domestic cooking oil prices.

International supply demand imbalances in oil market during 1HFY22 and Russia-Ukraine crisis in 2HFY22 attributed to the jump in oil prices. This translated into high domestic petroleum prices that adversely impacted the transportation index (5.9% weight in CPI) with a surge of 19.4% in 10FY22. With the recent increase of petroleum prices and expectation of further hikes, overall inflationary environment seems bleak that will bring second round of inflation going forward.

1.3 Performance of the Economy & Key Sectors

Agriculture showed the slowest growth during last 5 years, ending FY21 at 2.8%, while manufacturing and services grew at an average rate of around 3.2% and 4.3% respectively. Pakistan's GDP has grown steadily at a stable rate, demonstrating low volatility since 2010. However, unfolding of macroeconomic crises and subsequent slowdown of public spending struck the economy in 2018-19 when GDP growth fell close to 3 per cent, with the manufacturing sector outsourcing for the very first time since 2008-09 (Figure 5); the coefficient of variation was 18.4 per cent. With a coefficient of variation of 58 percent, industrial output was the most significant, followed by agriculture at 52 percent and utilities at 19 percent. Similarly, 2019-20 was an exceptional year due to onset of COVID-19 in which Pakistan experienced negative real growth with both services and industry going down significantly.

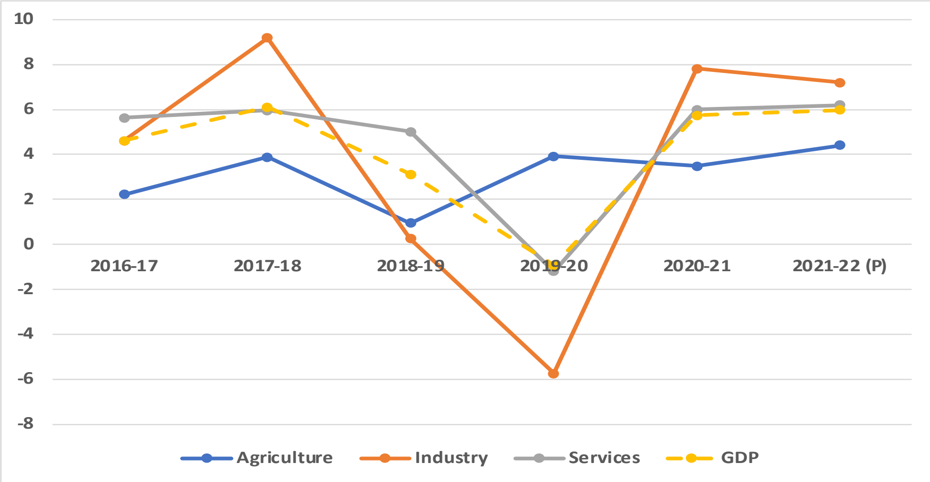


Figure 5: National GDP and Sectoral Growth Rates, 2016-21 (%) (Source: Pakistan Bureau of Statistics)

1.3.1 Manufacturing Sector Performance

In Pakistan, manufacturing sector contributed 12.0 percent to the Gross Domestic Product (GDP) and the sector employs 16.1 percent of the country's labor force. Manufacturing sector consists of three sub-sectors: Large Scale Manufacturing (LSM), Small Scale Manufacturing (SSM) and Slaughtering. Large Scale Manufacturing (LSM), at 8.86 percent of GDP dominates the overall manufacturing sector, followed by Small Scale Manufacturing, which accounts for 1.93 percent of total GDP. The third component, slaughtering, accounts for 1.21 percent of GDP with 6.1 percent sectoral share.

In terms of historical results, the sector witnessed a broad-based downturn of approximately 5 percent in FY2008-09 compared with a double-digit growth in FY2007-08. Several factors were responsible for this decline— including extreme energy shortages, increasing input costs, along with lower domestic and external demand. Nevertheless, the sector improved quickly when foreign commodity prices began to somewhat ease as of July 2008; yet consumer prices of many industrial inputs continued to rise. In turn, falling oil prices and somewhat improved power shortage stability balanced industrial output (Pakistan Economic Survey, various years). FY2009-10 saw a turnaround of the sector's decline with the automotive and telecommunications sectors benefiting from increased consumer demand. Textile, the main export market, was hard to recover. Due to energy crises, ever-increasing input costs and lack of demand, 2010-11 and 2011-12 again witnessed weaker performance. Key performance detractors included negative growth in the oil sector induced by circular debt, reduced domestic and international cement production and lower electronics demand. After 2011-12, LSM's results recovered based on better iron and steel, automobile, clothing, pharmaceutical, and food industry output.

Nevertheless, the manufacturing sector's output fell sharply in 2018-19, and reported negative growth. The slowdown stemmed from multiple factors, including reduced spending on the Public Sector Development Program (PSDP), decreased development activities in the private sector, and decreased consumer spending on durable products (Pakistan Economic Survey 2018-19). The subdued performance continued in 2019-20 due to onset of COVID-19. The economic crisis brought economic activity to a near-halt, both domestically and globally. Textile and Apparel, a heavy weight sector, was highly exposed to this crisis owing to its labour intensity. Still, uncertainty regarding pandemic, global economic downturn and dismal domestic demand escalated the downside risks for the manufacturing sector (Pakistan Economic Survey 2019-20). FY2020-21 saw significant recovery and LSM appeared to be one of the most resilient sectors during the COVID-19 pandemic. Broad-based growth in LSM originated from strong performance of Textile, Food Beverages & Tobacco, Non-Metallic Mineral Products and Automobile. Manufacturing showed overall growth of 10.52 percent in FY21, from -7.80 percent a year before. Manufacturing sector is expected to grow by 9.8 percent in FY21-22 (Pakistan Bureau of Statistics).

1.3.2 Agricultural Sector Performance

Agriculture accounts for 23 percent of the GDP. National labour force employs 38.5% in the sector. Despite its importance, the sector appears to be underdeveloped. Over the past few years, the production of the agricultural sector has declined below acceptable standards, mainly due to the decreasing productivity of all major crops. Climate change is also a significant challenge to Pakistan's agriculture and threatens the region's water supply and food security. In FY22, the crop productivity has particularly been affected due to fertilizer and water shortages. This has manifested in wheat procurement in Punjab lower than the target.

In recent years, agriculture's success remained negative in FY2018-19. The industry expanded by 0.94%, far smaller than the 3.8% target set at the start of the year. Crops sub-sector encountered negative growth of 4.38 percent against a target of 3.6 percent on the back of a decrease in the growth of important crops by 8.59 percent. In FY22, agriculture sector is expected to grow by 4.4%.

1.4 Structural Change in Sectoral Shares

Over the years the structure of the economy of Pakistan has shifted, with the share of agriculture declining and that of services increasing. The absolute size of the services sector in Pakistan rose from 37% in 1950 to 58.2% in 2021, whereas for the manufacturing sector, it only went up to 18.9% in 2021 from 10% in 1950 (Figure 6). Agriculture has lost nearly 35 percent to the services and production sectors. The related increase in jobs in these industries, however, indicates that migration from agriculture has been gradual, and there has been comparatively less employment in services.

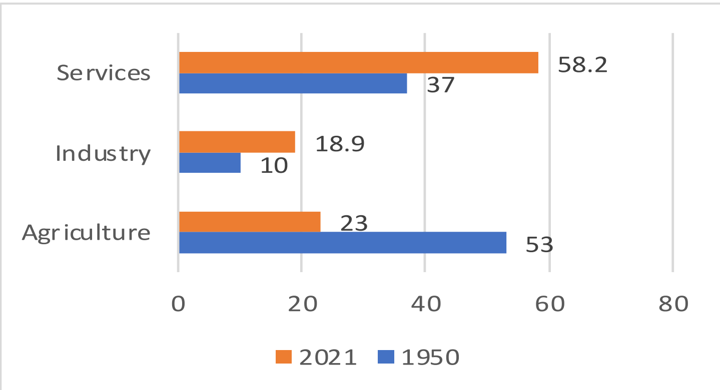


Figure 6: Structural Change in Pakistan GDP (% Share) (Source: Pakistan Bureau of Statistics)

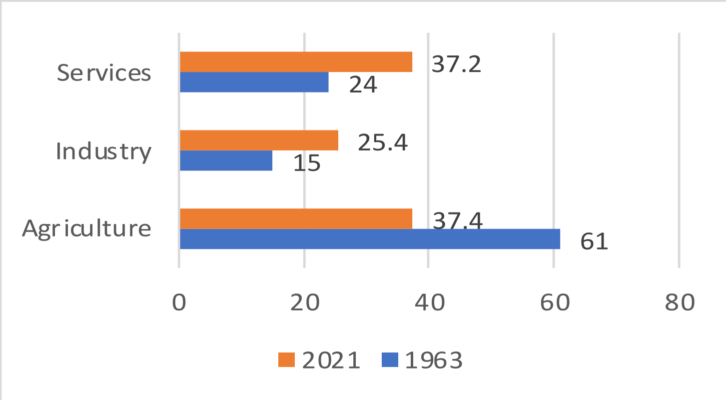


Figure 7: Change in Employment share (% of total employed) (Source: Pakistan Labour Force Surveys)

The above improvement in structure and jobs clearly shows that Pakistan has not had a sustained focus on growth in business or manufacturing (Figure 7). The last detailed labour policy was implemented in 2011-12, but it was also dismissed. One of the major factors contributing to premature de-industrialisation and a skewed structural transformation in favour of the services sector is the lack of serious emphasis on developing a competitive manufacturing base and industrial value-add.

1.5 Future Economic Outlook in the Medium-Term[2]

Pakistan's economy grew at 5.7% in the last financial year and was expected to grow at 5.6% in FY22. However, there are significant challenges to the macroeconomy of the country. Due to mounting internal and external deficits, inflationary pressures, exchange rate challenges, and possible reduced public spending, the economy is expected to lose momentum in growth in FY23. Federal Government's fiscal balance is expected to be in the range of Rs 5.6 trillion or more than 8% of GDP in FY22. The exchange rate took a massive hit having a direct impact on inflation. Both, the deterioration of the exchange rate, and rising inflation induced the monetary committee to increase interest rates to 13.75 percent. This increased cost of capital is likely to cut aggregate demand, slowing down economic growth. The following table provides a list of the projections for these key macroeconomic indicators in the medium term:

Table 2: Macroeconomic Indicators

Economic Indicators	2021-22 (P)	2022-23 (P)	2023-24 (P)	2024-25 (P)
GDP Growth Rate %	5.6%	4.0%	4.2%	4.6%
Inflation	10.9%	11.2%	10.5%	7.4%
FBR Collection (Rs. bn)	6000	6,955	8,067	9,051
GDP - Market Prices (Rs. bn)	64,315	74,601	83,739	92,727
Punjab GSDP[3]	34,730	40,285	45,219	50,073

Inflation is expected to remain high but is expected to somewhat taper off towards FY25. A major concern for FY23 will be high inflation caused by higher petroleum prices, increase in gas/electricity measures, continuation of geopolitical and supply side risks and second round impact of rupee devaluation.

[2] IMF World Economic Outlook is the source of economic forecasts used in this section.

[3] Punjab's share is estimated at 54% of National GDP

Pakistan had its latest rounds of constructive discussion with IMF for restoration of IMF package that is currently held subject to unwinding of fuel and electricity subsides announced in Q3FY22. Subsequently, increased petroleum prices by 40% will contract price differential claims and create further room for complete abolishment of petroleum subsidy to narrow fiscal gaps. Having IMF on board means disbursement of external finances from bilateral and multi-lateral bodies that will further facilitate in building of FX reserves and reduce pressure on external accounts. It is expected that IMF will expedite the implementation process of economic reforms, especially in the energy sector, to curb circular debt build-up. Though higher electricity and gas prices will be inflationary in nature, their long-term benefit will provide resilience to future economic growth.

It is anticipated that expected unwinding of the energy subsidy and move to targeted subsidy will also reduce fiscal imbalances in FY23. Keeping in view contractionary monetary and fiscal policies, GDP growth is likely to fall in FY23. As per estimates, Pakistan's GDP will reduce to 4.0% while SBP expects the range of 3.5-4.5% in FY23.

Current account management will once again be a challenge, especially if international commodity prices remain high. The imports of essential items such as food and petroleum groups are likely to remain high. Sustainability of exports and remittances will be crucial amid global economic slowdown that could bring adverse impacts to Pakistan. SBP projects a current account deficit of 3% of GDP in FY23.

In short, the economy will see a slow-down with high inflation and high cost of capital but recovery will start as pressure on the deficits eases out.

2. Punjab Growth Model

Punjab Economic Research Institute (PERI) worked out an extensive growth model for the Province of Punjab, which involved tabulating the structure and value of the provincial economy and its sectors. PERI has estimated the entire Gross Provincial Product (GPP) series to identify the policy variables that are likely to result in maximum impact.

The policy variable in Punjab growth model includes all provincial and federal policy variables. The key variable at the federal level include inflation, GDP, size of PSDP, interest rates, exports, imports, money supply, price index of import and exports, exchange rate etc. At the provincial level the key policy variables include water availability, SME credit, size of ADP, provinces own source revenues, return on public investments, regional inequity, multi-dimensional poverty and similar other provincial variables. Based on the growth model, the province has developed its economic growth strategy titled Punjab Growth Strategy 2023. The strategy aims for the following key targets.

Target 1: **Attain 7 percent per annum growth of the provincial economy by year 2023**

The expected growth trajectory for the economy and sectors is presented below:

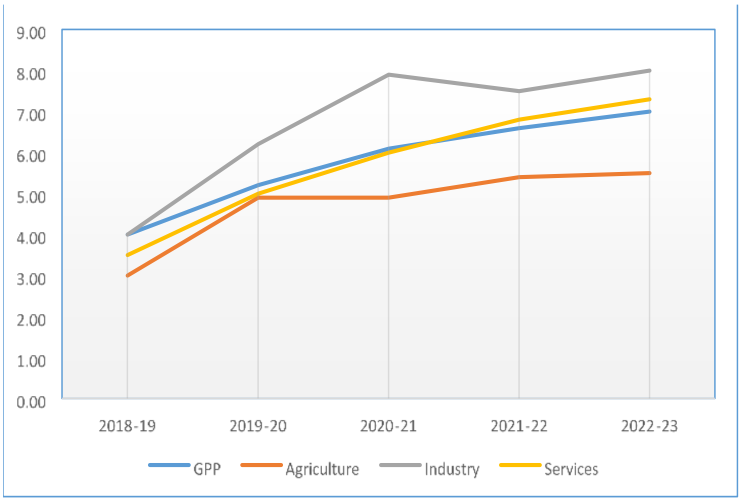


Figure 8: Expected Economic Performance of the Province and Sectors (%) - Punjab Growth Strategy

Moreover, the patterns above suggest that over the five years, average growth in of the provincial GDP will be around 5.7 percent per annum on average. The industrial sector on average will grow at 6.5 percent, services by 6.0 percent and agriculture by 3.6 percent on average.

Target 2: Create 6 million jobs (60% of the national target) by year 2023

Based on its growth expectations, the Punjab Government expects to produce jobs as per the trajectory presented below.

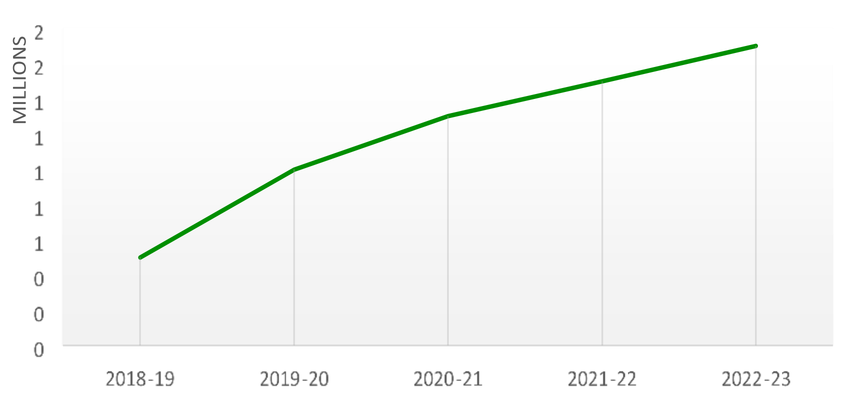


Figure 9: Expected Employment Creation over Five Years to 2023 (Numbers) - Punjab Growth Strategy

Target 3: Bring multi-dimensional poverty down to 20% by year 2023

Based on its growth expectations, the Punjab Government expects to reduce poverty as per the trajectory presented below:

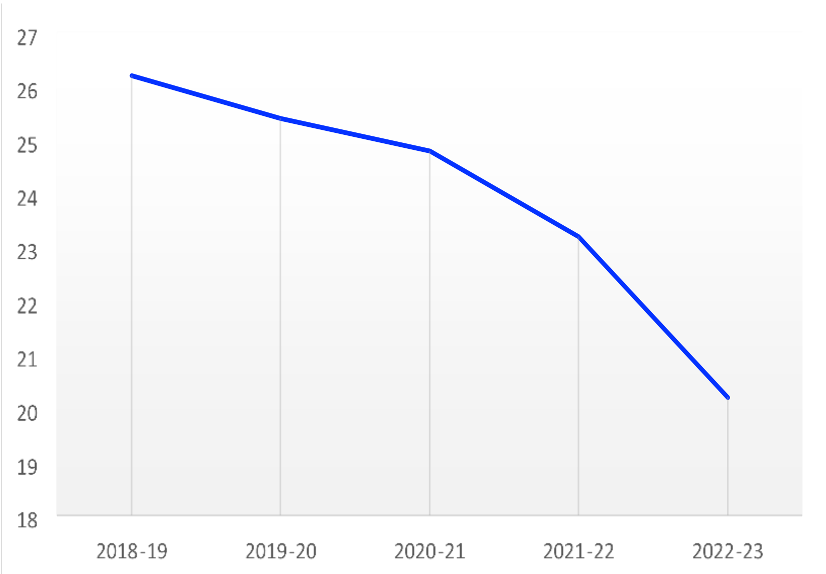


Figure 10: Reduction in Multi-Dimensional Poverty over Five Years to 2023 (%)

The Punjab Growth Model and Strategy realises private sector to be the engine for growth and economic prosperity. The provincial target is to at least increase the private investment from PKR 1.8 trillion to PKR 3.2 trillion by the year 2023.

3. Revenue Mobilization Strategy (RMS) for Punjab

The main instrument available to the provincial government for implementing its growth targets and catalysing private investment is the Government's own spending. The level of this spending depends on the revenues raised by the Government in the medium term. Finance Department has formulated a comprehensive Revenue Mobilization Strategy in this regard, the elements of which have helped in identifying the interventions and revenue projections in the medium-term. Punjab's Own Source Tax Revenue collection stands at 14% of its overall revenue and 0.77% of estimated provincial GDP. Government is committed to improving its tax policy and administration to achieve high growth in its own-source revenue collection and increase its Own Source Tax Revenue (OSTR) to GDP ratio.

The strategy aims to focus on major areas for mobilization of greater fiscal space for the provincial government without increasing cost of doing business in the province. RMS has its major focus on enhancing tax revenue which has a high potential of growth. Broad principles underlying the OSTR mobilization strategy include progressive taxation, minimizing economic distortions caused by tax policies, broadening of tax base, improving human resource management, standardizing, and automating administrative processes, and laying emphasis on effective communication and taxpayer facilitation.

Sources of OSTR can be broadly categorized as direct and indirect taxes. Major direct taxes include Property Tax and Motor Vehicle Tax whereas major indirect taxes include Sales Tax on Services and Stamp Duty. The Government's objective is to significantly enhance the collection of these taxes as a percentage of provincial GDP. The proposed strategy focuses on the following tax specific strategies:

a) Key elements of the Property Tax strategy include holistic policy and target setting on the subject; linking all taxes requiring property valuation to capital value of the property; adopting DC rates as the proxy of Capital Value of property; taking measures to bring DC rates closer to market values; rationalizing the exemptions; expanding the scope of immoveable property tax to extended urban; converting immoveable property tax into a progressive tax applicable on capital value of all properties above a certain threshold; and aligning rates of similar transaction taxes such as Stamp Duty and Mutation Fees.
b) Key elements of the Motor Vehicle taxation strategy include progressive taxation, use of Motor Vehicle Tax policy as an environmental management instrument, increasing the rate of Transfer fee and Token Tax especially on luxury vehicles, and taking measures to curb the practice of registration of vehicles in other jurisdictions to benefit from lower tax rates.
c) Key elements of the Provincial Sales Tax on Services strategy include embedding the Destination Principle as the basis of taxation, universal application of sales tax subject to a few exceptions included in a negative list of services; rationalization of sales tax rates; phasing out of exemptions; rationalizing concessional rates; allowing input tax adjustments across the board; broadening of tax base with a focus on e-commerce and other high-potential taxpayers; strong IT and communication platforms; automation of administrative processes; financial and operational autonomy; and a comprehensive human resource policy with emphasis on career planning, training & development, and performance management.

d) Key elements of the strategy pertaining to Stamp Duty include uniformity in rates of duty for rural and urban properties and calibrating the rates of duty to balance the considerations of higher economic activity with those of higher tax collection.

The strategy proposes to enhance tax collection from 0.77% of provincial GDP in FY21 to 1.2% in FY25. The strategy shall serve as an anchor for the business plans of revenue collecting agencies of Punjab.

4. Medium Term Fiscal Framework 2022-25

This section provides projections of the estimated revenues and expenditures of the Government from FY 2021-22 to FY 2024-25.

4.1 Projections of Divisible Pool Transfers to the Province

Pakistan is a country with a chronic problem of low tax-to-GDP ratio. The current level of its tax effort is lower than that of most of its South Asian neighbours. No country can make good economic progress with this level of tax-to-GDP ratio. Therefore, low-tax-to-GDP ratio is a core constraint to economic growth which needs to be resolved if the country has to address its macro-challenges.

In the last five years, on average, 81% of the Total Provincial Revenue of Punjab has been contributed from the Provincial share in Federal Revenue, whereas around 17% has been collected from own source revenue, and around 2% comes from Federal Loans and Grants. Therefore, an accurate estimate of these transfers is extremely important to predictably plan budget allocations in the medium term. In this regard it may be useful to have a look at the past trends of FBR tax collection as almost all of this collection forms part of the Divisible Pool Transfers. Table 3 shows the trend of FBR tax collection during last two decades.

Year	FBR Tax Collection (bn)	Tax-to-GDP Ratio
2005-06	713	9.40%
2006-07	847	9.80%
2007-08	1008	9.80%
2008-09	1161	9.10%
2009-10	1327	8.90%
2010-11	1558	8.60%
2011-12	1883	9.10%
2012-13	1946	8.70%
2013-14	2255	8.90%
2014-15	2590	9.44%
2015-16	3112	10.70% (rebased: 9.51%)
2016-17	3368	10.54% (rebased: 9.45%)
2017-18	3842	11.17% (rebased: 9.8%)
2018-19	3829	9.97% (rebased: 8.72%)
2019-20	3997	9.58% (rebased: 8.41%)
2020-21	4732	9.92% (rebased: 8.48%)

Table 3: FBR Tax to GDP (Nominal)

During the past two decades, FBR tax-to-GDP ratio exhibited a minimum of 8.6% in FY 2010-11 and a maximum of 11.2% in FY 2017-18. Only during FY16 to FY18 did this ratio increase to double digits on FY2005-06 as base. The momentum, however, was derailed as the economy got hit by a downturn, details of which have already been discussed.

Budget estimates FY2021-22 of FBR tax collection is Rs. 5,829 billion which is approximately equal to 8.8% of the estimated GDP size of FY22. Past trends provide us a good basis to project revenues during the current year especially with the knowledge of revenue performance in the first six months of the financial year. On average during last ten years, FBR collection in the first half of the financial year typically remains at 45-47 percent of the collection in the full year.

FBR's collection of Rs. 2,210 billion during the first six months of FY 2020-21 was 44.5% of the BE and finally, 46.7 percent of the actual collection during the whole year, making a collection, during the year, of Rs.4,732 billion. However, for FY2021-22, FBR collection for the first six months has been Rs. 2,922 billion which is 50% of the BE. Two factors have contributed to the higher collection for the first half of the year – high inflation and supplementary budget during the financial year.

The estimate for FY 2021-22, however, works out to be between Rs. 6,217 billion to Rs. 6,493 billion based on historical trends of past 10 years. In this scenario, Rs. 6,217 billion could have been a likely estimate. However, subsidies announced by the Federal Government such as in sales tax on petroleum products are needed to be factored in projecting estimates for FY22. It may be feasible to push down the estimate to Rs. 6,000 billion. This collection would imply a tax-to-GDP ratio of approximately 9.3 percent of estimated GDP in line with historical average.

Since the Government realizes the importance of increasing the level of domestic fiscal efforts, a slightly ambitious revenue target has been presented in the table below, whereby projected revenue increases gradually to 9.8 percent by FY 2024-25:

Projections of FBR Collection (bn)				
	2021-22 (P)	**2022-23 (P)**	**2023-24 (P)**	**2024-25 (P)**
GDP Projection	64,315	74,601	83,739	92,727
Tax-to-GDP Ratio	9.3%	9.3%	9.6%	9.8%
FBR Tax Rev.	**6000**	**6,955**	**8,067**	**9,051**

Table 4: Projected FBR Collection

Based on the above projections of FBR revenue, divisible pool transfers to the province of Punjab are projected at Rs. 1,733 billion in 2021-22 in accordance with 7th NFC Award, increasing to Rs. 2,617 billion by 2024-25:

Projections of Divisible Pool Transfers to Punjab (bn)				
	2021-22 (P)	**22-23 (P)**	**23-24 (P)**	**24-25 (P)**
FBR Collection	6,000	6,954	8,067	9,051
Less: Non-divisible Pool Items	38	38	42	46
Gross Divisible Pool	5,962	6,916	8,025	9,005
Less: 1.37% Collection Charges	5,880	6,821	7,914	8,881
Less: 1% War on Terror for KPK	5,821	6,753	7,835	8,792
Provincial Share 57.50 %	3,347	3,883	4,505	5,055
Punjab's Share (51.74 % of provincial share)	**1,733**	**2,010**	**2,332**	**2,617**

Table 5: Projected Divisible Pool Transfers to Punjab

In this context, it is important to note that the 10th National Finance Commission (NFC) has been constituted; however, it is yet to begin its deliberations for a fiscal transfer formula. Any changes in the current formula / fiscal arrangement have the potential to alter these estimates.

4.2 Projections of Provincial Tax Revenue

Provincial tax receipts comprise direct taxes (agriculture income tax (AIT), urban immovable property tax (UIPT), land revenue, professional tax, stamp duties, motor vehicle taxes etc.) and indirect taxes (sales tax on services, provincial excise, electricity duty etc.). In FY21, the four provinces combined generated approximately 1.1 percent of GDP as their tax revenues[4]. Given that the country needs to make strenuous efforts to emerge from the low tax-to-GDP trap, sub-national governments will need to continue to play their due role by enhancing their fiscal effort.

Tax revenue generation effort by Punjab Government in the last decade was approximately 23 percent per annum. This was impressive compared to the previous decade when there was little growth in provincial tax collection. In the last decade, Punjab's tax collection increased from Rs. 69.1 billion in FY 2010-11 to Rs. 234.0 billion in FY 2020-21. Assignment of sales tax on services was an important but not the only reason for this increase in tax revenue. Successive governments introduced several reform initiatives that have contributed to accelerated growth of tax revenue. Such measures include introduction of valuation tables in rural areas, levy of capital value tax on property transactions, automation of the UIPT record, extension in scope of sales tax on services, introduction of E-Stamping and revision of tax rates for motor vehicle taxes, E-pay Punjab, various tax administration measures etc.

It is important to mention that currently, own source tax-to-GDP ratio for Punjab stands at 0.77% of estimated provincial GDP. It is pivotal to continue the existing momentum of growth in provincial taxation for another period of 5 years to take the province closer to its potential tax revenue. To pursue this objective in a structured manner, the Revenue Mobilization Strategy identifies key measures and targets. Key features of the strategy have been highlighted earlier.

The table below provides the projections of Punjab's tax collection in the medium term. Tax collection during FY 2021-22 is estimated to yield Rs. 276.8 billion compared to a budget estimate of Rs. 272.5 billion. It is estimated that the tax collection would increase to Rs. 499.13 billion in FY 2024-25.

Projections of Tax Revenue					
Category		**Projections (bn)**			
		21-22 (P)	**22-23 (P)**	**23-24 (P)**	**24-25 (P)**
Board of Revenue		**70.85**	**75.23**	**80.90**	**88.18**
Agri. Income Tax		2.11	2.14	2.18	2.21
Land Revenue		21.90	27.19	33.75	41.90
Stamps + Registration + CVT		46.84	45.89	44.97	44.07
Excise & Narcotics Control		**39.22**	**52.39**	**70.45**	**95.25**
UI Property Tax Collection		16.93	22.24	29.21	38.37
Tax on Professions		1.07	1.30	1.57	1.91

[4] Pakistan Fiscal Operations Data

Receipts under M.V. Acts		18.73	26.44	37.32	52.69
Provincial Excise		2.27	2.23	2.19	2.15
Other Taxes of E&NT		0.22	0.18	0.16	0.13
Punjab Rev. Authority		**165.5**	**204.47**	**252.66**	**312.32**
GST on Services		115.4	196.90	242.38	298.36
Infrastructure Dev. Cess		7.8	7.57	10.28	13.95
Energy Receipts		**0.2**	0.22	0.25	0.27
Transport Receipts		**1.0**	1.46	2.13	3.11
Total Tax Receipts		**276.8**	**333.7**	**406.39**	**499.13**

Table 6: Projections of Own Source Tax Revenue

4.3 Projections for Provincial Non-Tax Revenue

Non-tax receipts include income from property and enterprises (importantly net hydel profit); receipts from civil administration and other functions; miscellaneous receipts (other receipts excluding federal grants and development surcharges and royalties) and extraordinary receipts. Non-tax receipts accrue mainly on account of regulatory functions performed by the provincial government and from rates and fees charged for the provision of certain social and economic services. The other important non-tax receipts of Punjab Government include royalties from mines and minerals and traffic challans.

Projections of Non-Tax Revenue					
Department	**21-22 (BE)**	**Projections (bn)**			
		21-22 (P)	**22-23 (P)**	**23-24 (P)**	**24-25 (P)**
Agriculture	1.147	1.807	2.01	2.23	2.48
BOR	30.356	2.077	2.30	2.54	2.80
C&W	4.025	3.779	4.50	4.60	4.70
Cooperatives	0.004	0.004	0.004	0.004	0.004
Education	2.106	3.695	1.98	2.02	2.06
Finance	37.893	81.977	49.43	59.47	69.52
FW and Fisheries	1.400	1.627	1.67	1.72	1.77
Health	2.186	1.835	2.00	2.10	2.20
Home	1.292	1.255	1.20	1.30	1.40
HUD&PHED	0.900	1.058	0.95	0.97	0.99
Industries	0.412	0.373	0.37	0.39	0.41
Irrigation	11.317	6.627	11.20	11.30	11.40
L&DD	1.270	1.413	0.76	0.78	0.79
Law & Parliamentary	0.750	0.740	0.74	0.75	0.75
Mines & Minerals	11.660	11.200	13.52	16.32	19.69
Police	6.600	5.561	6.01	6.50	7.02
Miscellaneous	18.724	19.517	15.50	16.00	16.50
Total Non-Tax	**132.04**	**144.5**	**114.14**	**128.99**	**144.50**

Table 7: Projections of Own Source Non-Tax Revenue

Punjab Government’s non-tax collection is likely to fall well short of the target mainly on account of lower receipt of arrears of ‘Net Hydel Profit’ and meagre receipts under State Land disposal by Board of Revenue. Finance Department will cautiously budget such NTR heads as the collection situation was similar previous year as well. In addition, a worrying sign is a considerable expected shortfall in receipts of Irrigation.

It is projected that compared to collection of Rs. 119.5 billion in FY 2020-21, the collection from non-tax revenue will increase to Rs.144.5 billion by FY 2021-22 mainly on account of PSDP receipts. Considering the current macroeconomic scenario, Punjab is unlikely to get the arrears and ongoing liabilities of NHP in FY23 at least. Similarly, in an overall effort to reduce fiscal deficit by Federal Government, PSDP allocations are likely to shrink. Therefore, the NTR forecast has been projected taken into consideration these key policy factors.

4.4 Projections of General Revenue Receipts

Based on the above projections of Divisible Pool Transfers, Provincial Tax Revenue and Provincial Non-Tax Receipts, following are the projections of the General Revenue Receipts of the Government during the BSP period:

Projections of General Revenue Receipts						
		BE 2021-22	**Projections (bn)**			
			21-22 (P)	**22-23 (P)**	**23-24 (P)**	**24-25 (P)**
	Divisible Pool Transfer	**1683.7**	**1,733**	**2,010**	**2,332**	**2,617**
	Provincial Resources	**404.6**	**421.3**	**447.84**	**535.38**	**643.63**
	Provincial Tax Revenues	272.6	276.8	333.7	406.39	499.13
	Non-Tax Revenues	132	144.5	114.14	128.99	144.50
	General Revenue Receipts	**2088.3**	**2,154**	**2,458**	**2,867**	**3,261**

Table 8: Projection of General Revenue Receipts for Punjab

The table above shows that the projection of General Revenue Receipts for FY2021-22 is Rs. 2,154 billion which is equal to 6.2 percent of Punjab's GSDP. In 2024-25, this will increase to Rs. 3,261 billion or 7.0% of GSDP. A significant shortfall in non-tax revenue appears likely at this stage for FY2022-23.

4.5 Projections of Financing from Capital Account

The following table shows the projections of Current Capital Receipts, Current Capital Expenditure and the financing from Capital Account (titled Net Capital Receipts that is projected to be available to Punjab Government from FY 2021-22 onwards compared to Budget Estimate 2021-22.

CURRENT CAPITAL RECEIPTS					
	BE 2021-22	**Projections (bn)**			
		21-22 (P)	**22-23 (P)**	**23-24 (P)**	**24-25 (P)**
Recoveries of Loans and Advs.	**3.0**	**1.3**	**1.4**	**1.5**	**1.6**
Debt	**60.9**	**42.7**	**56.4**	**55.2**	**52.8**
Foreign Program Loans	35.9	32.7	31.4	30.2	27.8
Innovative financing	25.0	10.0	25.0	25.0	25.0
Current Capital Receipts - A/c I	**63.9**	**44.0**	**57.8**	**56.7**	**54.4**

CURRENT CAPITAL EXPENDITURE					
Investment	**5.5**	**5.0**	**10.0**	**10.0**	**10.0**
Repayment of Principal	**53.2**	**52.6**	**71.5**	**95.0**	**95.0**
Loans and Advances	**25.6**	**23.5**	**26.5**	**27.2**	**28.6**
Current Capital Expenditures	**84.3**	**81.1**	**108.0**	**132.2**	**133.6**
NET CAPITAL RECEIPTS					
Net Capital Receipts	**(20.4)**	**(37.1)**	**(50.2)**	**(75.3)**	**(79.2)**

Table 9: Projections for Current Capital Account of Account-1 of Punjab

Financing available from the Capital Account of the Government was estimated at negative Rs. 20.4 billion in budget estimates FY2021-22. However, due to lower receipts mainly under Innovative Financing, the net financing from capital account during FY2021-22 is likely to be around negative Rs. 37.1 billion. The deficit in capital account is likely to continue due to the sizable exchange rate depreciation of Pakistan rupee, OLMT principal repayments beginning in FY24 and relatively inelastic capital expenditures on account of investments to Punjab Pension Fund and Punjab General Provident Investment Fund. Capital account continues to show large deficit. It is pertinent to mention here that above estimates do not include any expenditure on special initiatives government budgets on the capital expenditure side based on any policy measure.

4.6 Projections for Current Expenditure

The current expenditure of the Government was estimated at Rs. 1,427.8 billion. This has, however, been estimated to be Rs. 1,424 billion which is close to the budget. Expenditures included in the non-development budget (such as salary and pension to employees, transfers to local governments etc.) are quite inflexible. It may be noted that any special one-time provisions such as subsidies, grants or other social protection measures are not included in expenditure projections.

Projections of Current Expenditure						
		BE 2021-22	**Projections (bn)**			
			21-22 (P)	**22-23 (P)**	**23-24 (P)**	**24-25 (P)**
	Employee Related Exp.	**380.1**	**364.4**	**422.4**	**489.9**	**549.9**
	Operating Expenses	**231.7**	**284.0**	**325.7**	**368.8**	**409.8**
	Electricity	10.1	14.5	16.9	16.5	17.8
	Purchase of drugs and medicines	36.3	39.4	43.7	48.4	51.9
	POL	9.5	10.9	11.5	10.15	10.2
	Others / Remaining	149.4	174.1	201.8	234.05	262.7
	Repairs and Maintenance	19.4	33.04	38.3	44.4	49.9
	Acquisition of Physical Assets	6.9	11.4	13.3	15.5	17.2
	Employee Retire. Benefits	**275.2**	**259.5**	**300.7**	**348.9**	**391.6**
	Grants / Subsidies etc	**505.7**	**490.7**	**570.3**	**657.5**	**734.9**
	Local bodies (PFC)	483.0	444.5	515.3	597.7	670.9
	Subsidies	22.7	46.15	54.9	59.7	64.01
	Interest Payments	**35.4**	**24.9**	**32.7**	**32.05**	**31.0**
	Total Current Expenditure	**1427.9**	**1423.5**	**1651.8**	**1897.15**	**2117.2**

Table 10: Projections of Current Expenditure

4.7 Projections for Resources for Development Expenditure

Following table provides projection of the size of Punjab Government's ADP in view of the projections of resources, current expenditure, net capital financing and project financing.

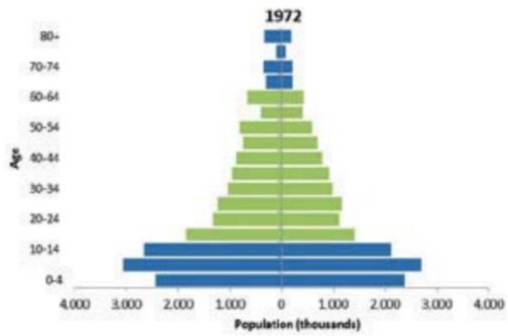
Projections of Resources for Development						
		BE	**Projections (bn)**			
		2021-22	**21-22 (P)**	**22-23 (P)**	**23-24 (P)**	**24-25 (P)**
1	Divisible Pool Transfers	1,683.7	1,733	2,010	2,332	2,617
2	Provincial Tax	272.6	276.8	333.7	406.39	499.13
3	Provincial Non-Tax	132.0	144.5	114.14	128.99	144.5
4	**General Rev. Receipts (1+2+3)**	**2,088.3**	2,154	2,458	2,867	3,261
5	**Current Expenditure**	**1,427.9**	1423.5	1651.8	1897.15	2117.2
6	**Credit for Special Initiatives**	**35**	**-**	**-**	**-**	**-**
7	**Revenue Surplus (4-5-6)**	**625.4**	**731**	**806**	**970**	**1,143**
8	Net Capital Receipts	-20.4	-37.1	-50.2	-75.3	-79.2
9	Foreign Project Assistance	80.39	42.9	55.0	60.0	65.0
10	**Resources for Development (7+8+9)**	**685.0**	**737**	**811**	**955**	**1,129**
11	Estimated Surplus	125.0	125.0	125.0	200.0	250.0
12	**Annual Development Plan**	**560.0**	**612**	**686**	**755**	**879**

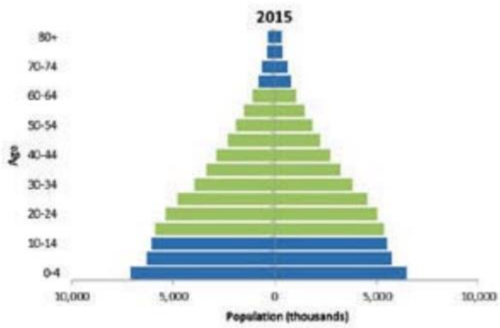
Table 11: Projections for Resources for Development

5 Challenges and Strategic Priorities 2022-25

Punjab's economy faces several challenges. It is important to look at these challenges before embarking to explain the medium-term priorities of the Government.

- Punjab's population growth has been relentless. Although, the growth rate has now declined, the population of the Punjab is now 110 million. If the growth rate of population is not bridled, any amount of fiscal effort is going to remain inadequate. This implies that Punjab must make prudent use of its resources, only spending in areas that are the responsibility of the Government i.e. are pure public goods. It will have to make spending such that most needy, marginalized and the disadvantaged are targeted. It shall weigh the opportunity cost of continuing to invest in mega projects versus improving the provision of basic services. Finally, it might have to resort to meaningful austerity in Government's own expenditures.
  A linked issue to historic growth in population is the youth bulge faced by the Punjab. Out of the 110 million people, 32 million lie in the age bracket of 15-29 years. The challenge becomes more serious as 11.52 million people of age group 15-24 are considered idle in the economy.





Source: Population Council

  This creates a pressure on the Government to take strong measures to increase productive employment opportunities in the economy. In Punjab's economy, 90% of the output are services is produced by the private sector which should be the main engine for employment. The Government of Punjab will be facilitating the private sectors by (i) reducing the cost of doing business (ii) increasing the ease of doing business, and (iii) making strategic catalytic investments to trigger private sector led growth. The Government will also look at its procurement policies to ensure more SMEs can benefit of this and are able to contribute more.
- Top 10 cities of the Punjab are rapidly urbanizing. Over the last two decades the population sizes of cities of Lahore, Faisalabad, Gujranwala, etc. have grown by more than 70%. Presently, five major cities of Punjab house half of the urban population of the province. This has increased the pressure on urban facilities and has created a massive shortage of houses.
- Punjab, due to its large population base, has still not managed to provide adequate quality of health, education and water and sanitation services to its citizens. Although part of this has been a result of limited resources, it has also been a result of inadequacy of governance. These factors are critical in building a productive human capital for the

province. Largest growth dividends to the Province will come from investing more in development of human capital[5]. Investments will have to be increased in education, skills, health and gender inclusion to build a stronger human capital. The Province intends to tackle these issues on priority basis.

- Water is becoming an increasingly scarce commodity in the country and its shortage would be most damaging. In the near-term, water conservation and efficient use can assist Punjab and the country to counter the trends being observed in water resources. Punjab government will need to improve its water courses, promote drip irrigation and initiate strong awareness campaigns to improve the use of water resources and eliminate wastages.
- Food security remains a major challenge, with 15.66 percent of households in Punjab facing moderate or severe food insecurity in 2019-20.
- Punjab needs to support private sector development and revitalize the SMEs sector by gearing its industrial policy towards easing regulations, investing in human capital and supporting industrialization.
- Pension costs have been rapidly growing from 6.7% of revenues in 2012 to about 14.9% in 2021, are further expected to rise to 17.7% of revenues by 2030 and 21.4% of revenues by 2040 at current pace and under current policy regime. Similarly, as proportion of current expenditure, pension liabilities have increased from 9.8% in 2010-11 to 19% in 2021-22. Unmitigated pension liabilities pose a significant challenge for the provincial finances.
- Enhancing provincial resource base is a key challenge for the government in the medium term. Pakistan is a country with a chronic problem of low tax-to-GDP ratio. The current level of its tax effort is lower than that of most of its South Asian neighbours. Therefore, low-tax-to-GDP ratio is a core constraint to economic growth which requires resolution if the country is to address its macro-challenges. Punjab's reliance on the Federal transfers (80% of provincial revenues) exposes its economy to fiscal risks as any fluctuations or policy changes at the federal level drastically changes revenue side of the fiscal equation for the province. This has recently been experienced in the COVID-19 onset in FY2019-20. It is essential for Punjab to enhance own source resource base, particularly on the tax side.
- Disasters and climate related risks for Punjab can be categorized as high. Punjab has witnessed high-impact natural disasters in recent years which have had significant economic impacts. Floods have remained a frequent phenomenon in Punjab. In addition, Punjab is particularly affected by pollution, notably because of increasing pollutant emissions from industries, vehicles, power generation, open trash and crop burning. This has resulted in increasingly severe smog episodes in the fall months every year extending throughout Punjab which has both direct and indirect costs resultantly.
- Besides the human losses due to climate induced disasters, climate change is taking its toll on the country's economy. As per a recent study by IMF[6], climate change will weigh on inclusive growth, per capita incomes, macroeconomic stability, socioeconomic stability, and equality. Climate adaptation is an urgent priority for Pakistan and recognized by the National Climate Change Policy. Adaptation needs full embedding in medium-term inclusive growth agendas and mainstreaming into all existing policy frameworks. Punjab contributes roughly 54% to the National GDP and the industrial and agricultural base of the economy and is particularly affected by climate change induced disasters. There is a

[5] Punjab Economic Report 2017 Revised Edition

[6] IMF Departmental Paper – March 2022 Feeling the Heat: Adapting to Climate Change in the Middle East and Central Asia

need to establish linkage between fiscal policy and environment / climate policy of the province to inform the right policy decisions. It is important to make adequate allocations to mitigate and adapt to these disasters.

- Districts in the Punjab are sharply segmented in terms of multi-dimensional poverty. The districts in extreme South, namely Rajanpur, Muzaffargarh, D.G. Khan appear to be the most deprived districts. Anti-poverty efforts such as targeted social protection measures for the poorer strata of the population segment are required. While provinces have a limited role to play in the macroeconomic stabilization efforts in the existing fiscal framework of the Federation, social protection is one area which needs to be of high strategic priority for the province in ensuring financial support to the most deserving strata of the society.

5.1 Punjab's Medium-Term Priorities

It is important to realize that while the challenges for Punjab are evident, the opportunities are contingent. Punjab of today is significantly complex as compared to five years ago. This complexity is bound to increase further over the next five years. Hence, over the next five years, the development priorities of Punjab will be aligned with the Sustainable Development Goals (SDGs), Pakistan Vision 2025 Framework, and China Pakistan Economic Corridor (CPEC) Framework.

The governance approach of Punjab is based on certain key principles that will guide its development agenda over the years. The Government will continue to maintain its focus on improving security and provision of justice, provision of quality public services, investing in building competencies and skills in the public sector while insuring inclusive participation of most vulnerable and disadvantaged groups of the society. Punjab is fully committed to the CPEC initiative which has opened-up several opportunities for the province. However, large investments are required to build facilitative infrastructure such as SEZs and, more importantly, farm to market roads that will bridge east-west linkages with north-south CPEC corridor.

Keeping in view the challenges discussed above, budget priorities of the government are as under:

Control of Current Expenditure - Pensions

Finance Department has carried out extensive analysis over the years, through its partners, of this mounting pension challenge and several studies have been undertaken to identify pension reform options. Various reform options have now been crystallized and await approval of the Cabinet. One of the path-breaking recommendations is to move to a Defined Contribution (DC) Scheme for the new hires. This would bring in a major regime change in how the public pensions are being managed. In the existing Defined Benefits (DB) scheme, several reform options have been identified. One such key reform has already been enforced through change in the voluntary age of retirement to 55 years of age or 25 years of service, whichever is later. This change is expected to save PKR 59 billion during the next three years. The Finance Department has been taking this case up with the Federal Government to take the lead and set the stage for pension reforms across the country. Pay and Pension Commission is yet to furnish its recommendations to the Federal Government after concluding its deliberations.

Sectoral Priorities

The cornerstone of development priorities for Government of the Punjab include an increased focus on agriculture and the SME sectors, private sector development as the main engine of growth, formation of human capital due to its significant direct and indirect impact on growth, and the most optimal allocation of public investment (ADP) for the province in terms of growth outcomes. The guiding principles for the development expenditure for 2022-23 and onwards are the following:

i. Economic Growth led investment
ii. Inclusive & balanced regional development
iii. Transformation of Agriculture Sector
iv. Human Development through Skills Development
v. Strengthening compliance with Sustainable Development Goals (SDGs)
vi. Enabling environment for private sector resource mobilization
vii. Support for Public Private Partnership - PPP
viii. Improvement of basic amenities through District Development Package
ix. Targeted investments in priority projects through Economic Revival Programme

Human Development (Health, Education, WASH)

There is a clear case for the Province to invest more in developing its human capital. Development of human capital improves growth outcomes and mitigates poverty. Improving human capital is not only limited to improving education outcomes; it also requires investment to improve health and nutrition outcomes, especially for children and youth. Furthermore, access to clean water and sanitation substantially impacts health outcomes. Therefore, a lot needs to be done to improve clean drinking water and sanitation facilities. Investments in Punjab will also take into account priorities incorporated in SDGs.

A key priority and responsibility of the Government is the provision of universal education. The province intends to increase its budgetary allocation to the education sector over the next few years in order to focus on provision of quality primary and secondary education, as well as improve accessibility and retention. This will require investments in upgrading schools, curriculum development and teacher training. Investments will also be required to bring the most deprived districts on par with the developed districts in the province to improve overall outcomes and reduce disparities. Furthermore, the use of technology to effectively impart education will remain a central focus. The focus on technical and vocational education will also remain a priority area as part of the overall emphasis on strengthening human capital.

The Punjab Government will also invest more in the health sector to ensure the well-being of its citizens. The emphasis will be on improving the quality of healthcare, ensuring the provision of medicines and basic care, and elimination of all preventable diseases. Additional focus will be on reducing stunting, improving nutrition and strengthening facilities to improve maternal and child health. Furthermore, ensuring the provision of specialised services, strengthening drug testing laboratories, improving the quality and operation of existing public hospitals, and creating better regulatory governance to enable the private sector to play a leading role, will also remain key sectoral priorities.

In its drive to shift from curative to preventive health management, the Punjab government will increase its investments in provision of clean drinking water and sanitation facilities. A significant proportion of households in Punjab use water contaminated by E.coli. The Government of the Punjab intends to attract private investments in this sector. The strategy, going forward, will be to effectively deploy PPP based schemes in the sector. Over the next few years, the Government of the Punjab will build wastewater treatment plants and water filtration plants, and rehabilitate dysfunctional rural water schemes, to provide quality water and sanitation facilities to its citizens.

Fostering Economic Growth and Enabling Services Sector Growth

The private sector has a critical role to play in delivering growth and providing employment. The focus of the Government will be on reducing the cost and burden of doing business, decreasing transaction costs for efficient markets, facilitating investment in the province, and promoting Punjab as a hub for business and investment. Incentivizing growth in the private sector will require a paradigm shift in how the government operates in its policy and regulatory space. The province will invest in creating a conducive environment for entrepreneurship and high-value start-ups. In addition, the province will also invest in regulatory reform, for example, running a provincial Regulatory Guillotine. Investment in securing premises of industries, and revamping and establishing a new state of the art industrial infrastructure (including SEZs, Industrial Parks etc.) will remain a priority.

Some strategic interventions to foster economic growth include the following:

- Increase resource use efficiency, improve techniques & technology
- Address price volatility, quality of inputs and increase credit provision
- Improve the relevance & quality of extension and support services
- Improve product quality as per international requirements for export with a special focus on agriculture and livestock

The services sector remains a priority from the point of view of both tax collection and growth and job creation. Strategic interventions to promote the services sector include modernizing wholesale and retail markets through interventions in domestic commerce, and promoting e-governance, e-commerce and digitization of the economy. CPEC and its follow-on activities remain a priority. PPPs are also highlighted as a priority for Government of Punjab for the next few years.

Agriculture remains critical for the economy by employing almost 40 percent of the provincial labour force. Investments in this sector will focus on research and the use of new technologies. An emphasis will be placed on expanding the yield, productivity and outputs of the Agriculture and Livestock sectors by investing in inputs, adopting to high-value agriculture, technology and better research and development opportunities.

Tourism will be a key priority for Punjab due to its economic multipliers. Investments in tourism will increase over the next few years to develop a stock of activities and resorts that can attract a multitude of tourists.

Promoting SME led Economic Growth

The new industrial policy of Punjab focuses on improving industrial infrastructure and creating an environment that is conducive for industrialization to take place in the province. The policy also requires dedicated support to SMEs, where the biggest constraint is the availability of credit and suitable land. SMEs form the backbone of the provincial economy. Strategic interventions envisioned include loan and grant programs for entrepreneurship and self-employment as well as gender economic empowerment through inclusion and specific programs. Providing affordable development credit to small and cottage industries and building better human resources by expanding skills development programs will also remain a priority.

Increasing Resource Use Efficiency

Investments in infrastructure will be structurally altered to place a greater emphasis on irrigation and water conservation and storage, and less on roads and transport. Improving water availability is a national priority, and therefore, the sector will witness significant investment in Punjab over the next few years. This will require substantial investment in improving water courses, water conservation and management, and building smaller dams to store water. Upgradation of agricultural practices to move towards advanced water efficient irrigation technologies is an additional priority. A linked priority is the environment and climate change, where the province will increase investments over the next few years.

Investments in roads and other infrastructure will be managed more efficiently by incorporation of PPPs and leveraging of private capital. During the preceding 5 years, Punjab has invested significantly in power infrastructure. It is envisioned that allocation for this will be reduced and only strategic investments in upgrading the provincial distribution system will be made. However, the future agenda for the power generation sector now also includes a stronger focus on enhancing the use of indigenous resources (solar, biomass, bio gas, wind and coal) and ensuring a sustainable energy mix by introducing new technologies and energy conservation – “Every Watt Counts”. In addition, the Government will emphasize on the promotion of efficient use of energy. This will be pivotal in reducing the stress on energy supplies and the environment. Energy conservation and demand management measures will further complement such initiatives.

The overall approach is that public sector investment will be made only for the provision of pure public goods and only in areas where market failures result in inefficiencies. The government will ease the regulatory burden and improve its openness and transparency to build stronger partnerships to leverage private capital. The Government will also develop its donor engagement and support strategy by partnering with key development partners.

Developing Emerging Urban Areas and Regional Equalization

Strategic interventions for developing emerging urban areas and regional equalization include:

- Improving quality of life through provision of infrastructure
- Supporting new local governments in capacity development
- Carrying out regional development and spatial planning
- Promoting cities as engines of economic growth

- Supporting setting up an independent administrative unit for South Punjab
- Making human capital investments to improve social capital
- Support in capturing the potential of renewable energy

Targeted Social Protection

As has been assessed in the section on State of National Economy, macroeconomy of the country is faced with challenge of high inflation owing to several factors. While the provinces have limited role in the macroeconomic stabilization efforts, social protection is one area which needs to be of high strategic priority for the province to ensure financial support to the most deserving segment of the society. As a priority, Government is keen on beefing up the existing social protection sectoral allocations and introducing new interventions for targeted social protection support in view of increasing cost of living challenges for the neediest and deserved sections of the population.

Disaster and Climate Risk Financing

The COVID-19 pandemic has highlighted the importance of disaster risk management and the necessity of having a robust mechanism of disaster risk financing in place for developing countries. In the absence of systems for disaster risk management, governments are forced to divert resources/allocations from projects and initiatives included in the budgets in the event of unforeseen calamities. Thus, disaster risk management and financing will be the priority areas for Government of the Punjab. Moreover, these are areas where the Government can benefit from assistance from international development partners. Furthermore, disaster risk financing is a key pillar of the Government of the Punjab's Public Financial Management Reform Strategy 2025 with a vision that the Government of the Punjab should strengthen its PFM systems to mitigate fiscal risks arising from disasters.

Through better considered disaster risk financing instruments, the disaster burden on government can be reduced. In the ongoing Punjab Resource Improvement and Digital Effectiveness (PRIDE) program of World Bank, the bank will provide support to the Finance Department for the establishment of a disaster mitigation fund and support towards disaster risk financing.

However, three important initiatives have so far been undertaken in Punjab, which provide impetus to manage disaster and climate related risks:

- Establishment of Environment Endowment Fund – Capitalized with funds of more than PKR 6.5 billion
- Development of green financing strategy of Punjab to channel public and private capital to strengthen environmental governance of the Government and promote green investments in Punjab
- Climate budget tagging (CBT) to provide decision support in provincial climate change framework. CBT is being institutionalized as a priority in Government of Punjab P&D Board and will help inform policy choices regarding disaster and climate investments

As a matter of priority now, Punjab will have specific allocations for mitigating and adapting to any climatic events, in addition to any department specific allocations, for maintaining a buffer for backstopping and diverting resources in time of need.

However, with limited fiscal space available to dedicate sizable resources to risk mitigation, adaptation and disaster management efforts, Punjab needs to access instruments such as Debt for Nature Swaps and enhance access to international climate finance such as Green Climate Fund, Global Environment Fund, and bilateral climate funds.

6 Budget Ceilings

Budget Ceilings are being provided separately for the recurrent budget and development budget as follows, subject to the following general assumptions:

- No significant change is expected in the nature and level of activities of the provincial departments in FY 2021-22
- Funding for the acquisition of capital assets will continue to be provided through the development budget
- Salary and pension growth based on nominal GDP growth for FY23, FY24 and FY25
- Non-salary growth indexed to various macro variables such as crude oil price growth, exchange rate, inflation, and others
- Development expenditure – utilization performance of spending entities and based on budget strategy priorities
- Any special provisions such as one-time subsidies and social protection measures are not included in expenditure projections

6.1 Joint Budget Ceilings for 11 Departments

For the first time, a mechanism for joint planning of development and non-development budgets has been introduced in Punjab beginning FY2022-23. Joint Priorities Committee (JPC) has been established for assessment by FD and P&D Board of budget proposals under single budgetary ceilings. This mechanism has incorporated formal coordination at this stage between the two departments for joint evaluation of departmental requirements on the operational, service delivery and development side before issuance of these ceilings and after receipt of budget proposals from the departments.

This being the first reform year for FY2022-23, 11 departments have been issued joint ceilings. Budget proposals from these Departments have been assessed by the JPC in detail for inclusion in the budget. Coordination between Finance Department and P&D Board has provided greater flexibility to the departments in planning expenditure and greater ownership of expenditure assignments.

Department-wise joint budget ceilings for 11 departments for FY2021-22 are given in **Annex-A**.

6.2 Budget Ceilings for Recurrent Budget for Remaining Departments

Department-wise budget ceilings for the remaining departments for current budget for FY2021-22 are given in **Annex-B**.

6.3 Budget Ceilings for Development Budget for Remaining Departments

Department-wise budget ceilings for the remaining departments for current budget for FY2021-22 are given in **Annex-C**.

7 General Assumptions & Guidelines for Budget Strategy Paper & Medium-Term Fiscal Framework (MTFF)

Important assumptions and risks for the Government are as follows:

- Medium-term forecasts do not include projections for Food Account-II.
- The fiscal framework used in the budget strategy paper is clearly linked to the economic growth assumption. Therefore, if the growth assumptions are not fulfilled, the Government will not be able to achieve its fiscal targets.
- As Divisible Pool contributes between 77-80 percent of total revenues, achievement of FBR tax collection targets would be central to the Government's fiscal policy.
- All revenue projections have been made based on the 7th NFC Award. However, the 10th NFC has been constituted but is yet to start its deliberations. In case, the arrangements for the fiscal transfer mechanism change, the fiscal strategy will have to be reviewed by the Government.
- Provincial Government will have to ensure it achieves its own revenue collection targets.
- New recruitments put an additional burden on public exchequer. Therefore, while initiating recruitment processes, the departments will have to carefully review their medium-term fiscal space.
- Government will have to continue to observe strict fiscal discipline to keep the recurrent expenditure on track.
- Increasing pension payments are a source of major fiscal risk for the Government. In order to manage this risk better, the Government will not only have to capitalize Pension Fund, it will also have to reconsider the current pension scheme of its employees.
- Public Private Partnerships and Public Sector Enterprises have the potential to create serious financial issues for the Government. The Government will be well served if the consolidated fiscal risk arising from PSEs and PPPs is regularly reviewed.

Guidelines:

The Budget Strategy Paper including preliminary estimates of MediumTerm Fiscal Framework and Budget Ceilings shall be presented every year to the Provincial Cabinet, not later than February 28 of the respective financial year. The Budget Strategy Paper will accordingly guide the budget preparation process.

Annex-A

Joint Budget Ceilings for 11 Departments

(Amount in Rs.)

Department	Single Ceiling for the Department for BE 2022-23
C67 - Industries, Commerce & Investment	12,148,255,000
H57 - Higher Education	40,309,039,000
M72 - Human Rights & Minorities Affairs	432,652,000
P01 - Youth Affairs and Sports	1,261,884,000
P70 - Irrigation	26,058,499,000
P71 - Labour and Human Resource	1,480,483,000
P79 - Population Welfare	8,001,515,000
P85 - Social Welfare & Bait ul Mal	3,182,764,000
P86 - Special Education	313,751,000
P93 - Energy Department	518,988,000
P95 - Women Development Department	367,408,000

Annex-B

Current Budget Ceilings for Remaining Departments

(Amount in Rs.)

Department	Current Expenditure Ceilings for Budget FY2022-23
C65 - Police Department	138,134,371,000
P02 - Tourism & Archaeology	669,315,000
P05 - Punjab Emergency Services	10,236,340,000
P50 - Agriculture	29,736,631,000
P51 - C.M. Secretariat	835,085,000
P52 - Chief Ministers Inspection Team	133,107,000
P54 - Communication and Works	16,336,294,000
P56 - Cooperatives	1,680,888,000
P58 - Environment Protection	640,050,000
P59 - Excise and Taxation	2,360,204,000
P60 - Finance	368,331,263,000
P61 - Food	5,813,498,000
P62 - Forestry Wildlife & Fisheries	6,670,015,000
P63 - Governor's Secretariat	580,253,000
P64 - Health	43,557,000
P65 - Home	16,542,849,000
P66 - Housing Urban Development Public Health Engineering	8,039,774,000
P69 - Information and Culture Department	2,651,284,000
P72 - Law and Parliamentary Affairs	2,426,789,000
P73 - Literacy and Non-formal Basic Education	517,546,000
P74 - Livestock and Dairy Development	15,047,333,000
P75 - Local Government and Rural Development	73,110,019,000
P76 - Management and Professional Development	233,993,000
P77 - Mines and Minerals	1,018,946,000
P78 - Planning and Development	4,264,628,000
P80 - Provincial Assembly	3,197,077,000
P82 - Religious Affairs and Auqaf Dept	108,414,000
P83 - Board of Revenue	17,058,475,000
P84 - Services and General Administration	43,949,963,000
P88 - Transport	16,651,858,000
P89 - Zakat and Ushr	388,665,000
P92 - Prosecution Department	2,771,021,000
R64 - Primary & Secondary Healthcare	139,783,223,000
S57 - School Education	359,451,393,000
S64 - Specialized Healthcare & Medical Education	146,554,282,000

Annex-C

Development Budget Ceilings for Remaining Departments

(Rs. in millions)

Department	Budget Allocation 2022-23
H57 - Higher Education	13,000
P73 - Literacy and Non-formal Basic Education	3,000
P86 - Special Education	10200
S57 - School Education	38,500
R64 - Primary & Secondary Healthcare	20,000
S64 - Specialized Healthcare & Medical Education	15,000
C65 - Police Department	0
C67 - Industries, Commerce & Investment Department	12,500
M72 - Human Rights & Minorities Affairs	2,250
P01 - Youth Affairs and Sports	7,500
P02 - Tourism & Archaeology	1,900
P05 - Punjab Emergency Service Department	1,500
P50 - Agriculture	14,500
P51 - C.M. Secretariat	0
P52 - Chief Ministers Inspection Team	0
P54 - Communication and Works	110,000
P56 - Cooperatives	0
P58 - Environment Protection	5,000
P59 - Excise and Taxation	0
P60 - Finance	0
P61 - Food	500
P62 - Forestry Wildlife & Fisheries	6,500
P63 - Governor's Secretariat	0
P65 - Home	0
P66 - Housing Urban Development Public Health Engineering	33,000
P69 - Information and Culture Department	500
P70 - Irrigation	27,500
P71 - Labour and Human Resource	500
P72 - Law and Parliamentary Affairs	0
P74 - Livestock and Dairy Development	4,000
P75 - Local Government and Rural Development	18,500
P76 - Management and Professional Development	0
P77 - Mines and Minerals	1,500
P78 - Planning and Development	188,000
P79 - Population Welfare	2,000

P80 - Provincial Assembly	0
P81 - Relief	0
P82 - Religious Affairs and Auqaf Dept	680
P83 - Board of Revenue	0
P84 - Services and General Administration	0
P85 - Social Welfare & Bait ul Mal	1,500
P88 - Transport	6,500
P89 - Zakat and Ushr	0
P92 - Prosecution Department	0
P93 - Energy Department	5,000
P95 - Women Development Department	900