



Preliminary  
Budget Strategy Paper  
FY2023-24 to FY2025-26

**Government of Punjab  
Finance Department  
Public Finance Management Unit**

## PREFACE

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Public Finance Management Act, 2022 enacted during current fiscal year has institutionalized efficient, transparent and accountable financial decision-making in Punjab. Finance Department has been preparing budget strategy and MTFF based forecasts and budgeting for a number of years now and one of the major initiatives institutionalized under PFM Act`2022 is the preparation of a Budget Strategy (BS) including Medium Term Fiscal Framework (MTFF) for setting the strategic direction in line with short to medium term budgetary priorities and objectives of the Government of Punjab.

**(Mujahid Sherdil)**  
**Secretary Finance**

## EXECUTIVE SUMMARY

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To observe the best practice of Public Financial Management (PFM), Finance Department Government of the Punjab has prepared a preliminary Budget Strategy including Medium Term Fiscal Framework (MTFF) for the period FY2023-24 to FY2025-26 based on budgetary performance of ongoing fiscal year and the projected macroeconomic indicators of the economy. The framework will set a preliminary path for informed decision making primarily with regard to budgeting and overall financial management of the province also.

The forecasted estimates contained in the Budget Strategy Paper (BSP) are prepared on a three-year rolling basis. The ongoing fiscal year i.e., FY2022-23 acted as the baseline scenario for forecasting future estimates of next three fiscal years considering improved predictability of resources, expenditure requirements, and strategic priorities of the Government. Moreover, the concept of single ceiling budget has been introduced for which the estimates of MTFF will become a guiding source for setting such ceilings leading to efficient fiscal management, responsive budgeting, transparency, and financial accountability at provincial level.

Preliminary Budget Strategy includes revenue collection target of Rs.3,764 billion by FY2025-26 implying an average growth of 16% from the baseline target of Rs.2,428 billion estimated for FY2022-23. On the other side, spending growth rate of current expenditure has been planned to be reduced to an average of 7.3% during the period of MTFF (FY2024-FY2026) which in case of last five fiscal years (FY2018-FY2022) stands at an average of 9.5%. Under this preliminary MTFF, GoPb is committed to improve the allocation of development spending to the tune of Rs.1,484 billion by FY2025-26 from the baseline allocation of Rs.649 billion estimated for FY2022-23 while complying the estimated saving requirements of the Government under IMF program.

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**Government of Punjab**  
**Finance Department**

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**State of the Global & National Economy**

Pakistan economy has shown periodic 'boom-bust' growth cycles. Global economic events (COVID 19, Russia-Ukraine conflict, global inflation and international commodity prices etc.) in addition to domestic challenges including slow economic growth, high inflation and political instability have altered the outlook of the economy from moderate to low performing. Adverse effects of such challenges multiplied when flood hit many agriculture-rich regions of the country in the start of ongoing fiscal year 2022-23 leading to exacerbating the existing fiscal challenges for the country.

Though the government has taken measures to resume IMF program sticking on the path of fiscal consolidation, however, the outlook still remains uncertain. To improve the status of economy, far-reaching economic policies and structural reforms are needed to reverse the impact of economic slowdown associated with domestic as well as global challenges. Punjab has a realization that provinces will need to play their due role in stabilization of the macroeconomy. Budgeted commitment of provincial surplus is a case in point.

**Medium Term Macroeconomic Framework**

Economic activity in Pakistan is below its potential, showing a negative output gap. Global energy crisis resulted an increase in commodity prices while the increased imports have depleted foreign reserves to serious levels in addition to widening trade deficit of the country. The signs of post pandemic recovery started fading in the start of FY2022-23 due to inflationary pressures and flood damages mainly. Floods in major areas of the country would reduce economic growth in FY2022-23 below budgeted levels. Policymakers are challenged by low growth, high inflation, and inadequate foreign reserves. The Government and State Bank of Pakistan have used demand management policies to control inflation, preserve reserves, and foster inclusive growth. The government still has the long-term objective of stimulating the supply side in order to increase economic growth. However, uncertainties still prevail. The state of national economy surely has a bearing on the provincial economy. This aspect has been kept in consideration while preparing the preliminary MTFP projections. On the basis of economic performance of first quarter of FY2023 and global economic outlook, macroeconomic projections of the economy for MTFP period are described in Table-1 below:

1Table 1: Medium Term Macroeconomic Framework				Rs.blm
	Baseline	Projected		
	2022-23	2023-24	2024-25	2025-26
Real GDP Growth (at Basic Prices) (%) <sup>1</sup>	1.70%	3.20%	4.60%	5.00%
Real GDP	42,217	43,567	45,572	47,850
Inflation (Average)	23.0%	10.0%	7.7%	6.5%
GDP at Market Prices	83,991	95,122	105,887	118,333

## General Revenue Receipts

General Revenue Receipt (GRR) of the Government includes Federal Divisible Pool share of Punjab, Provincial Tax Revenue and Non-Tax Revenue of the Government.

The General Revenue Receipt (GRR) of the Government for FY2022-23 was budgeted at Rs. 2,521 billion. This has, however, been estimated to be Rs. 2,428 billion which is slightly (i.e. 3.7%) down from the budget estimates of FY2022-23 mainly due to economic slowdown and local flooding in major areas of the country. For projected period, an average growth of 15.73% is forecasted in GRR against the historical average growth of 12% for last five fiscal years primarily due to projected growth of FBR revenue. A snapshot of GRR for projected period is given in Table-2 below:

Table 2 : General Revenue Receipts				Rs. blm
	Baseline	Projected		
	2022-23	2023-24	2024-25	2025-26
Federal Divisible Pool (FDP)	2,040	2,457	2,833	3,237
Provincial Own Source Revenues (OSR)	388	426	473	527
Total Tax Receipts	306	347	390	439
Non-Tax Receipts	82	78	83	88
<b>General Revenue Receipts</b>	<b>2,428</b>	<b>2,883</b>	<b>3,306</b>	<b>3,764</b>
<b>As Percentage (%)</b>				
FDP as % of GRR	84.0%	85.2%	85.7%	86.0%
Provincial Tax Receipt as % of GRR	12.6%	12.1%	11.8%	11.7%
Provincial Non-Tax Receipt as % of GRR	3.4%	2.7%	2.5%	2.3%

It is pertinent to mention that historically 79% of the GRR has been contributed from the Federal Divisible Pool (FDP) share of Punjab under the NFC award, whereas around 14% has been collected from provincial tax receipts and around 7% comes from non-tax receipts of the province including federal grants. For projected period the aforementioned percentages are 85% for FDP, 12% for provincial tax receipts and 3% for non-tax receipts of the province.

<sup>1</sup> Note: Estimates are provisional based on World Bank and IMF forecast of country's economic outlook. These estimates will be updated upon receipt of latest information from federal government published in its upcoming Budget Strategy Paper

Share of FDP is slightly higher than historical trend because of exclusion of estimates of federal grants from the head of non-tax receipt on account of its volatile nature.

In the first half of current fiscal year (CFY) i.e. FY2022-23, the growth in FDP share remains 13% compared to corresponding period last year. However, it is 3% behind the budgeted growth of 16%. Punjab FDP share is dependent upon performance of FBR tax revenue collection which remains affected due to zero rating of Sales Tax on POL products, import compression and the prevailing situation of economy due to floods. For projected fiscal years, FDP share is calculated by using the FBR collection targets given in last FY's BSP of Federal Government for FY2023-24 & FY2024-25, whereas for FY2025-26 historical average growth of 14% in FBR collection is assumed as there is no estimate available in the Federal Budget Strategy Paper FY2022-2025 for the said FY.

Second important component of GRR is the Punjab Own Source Tax collection which has outperformed while considering average of last 3 fiscal years by achieving growth of 21% mainly due to post pandemic recovery of the economy. This growth was far ahead from the last five FYs' average growth of 9% due to relief measures but the momentum could not continue due to economic slowdown starting from FY2023 because of rise in international commodity prices, energy crisis, and domestic flood in major areas of the country. Moreover, changes in provincial stamp duty rates and rising taxation under Sec 236c and 236k of Income Tax Ordinance 2001 also discourages transactions involving transfers of immovable property leading to fall in the collection of stamp duty. For projected period a growth of 12.8% is assumed against the average growth of 9% during last five fiscal years (FY2018-2022).

In provincial Non-Tax Receipts expected growth for projected period is 3% with the assumption that no receipts will be received under the head of PSDP grants from the federal government. Non-Tax Receipts mainly includes Net Hydel Profit, sales/lease of Government owned assets, royalties from mines extraction, water rates, traffic challans and some other user fees. 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', meagre receipts under state land disposal by Board of Revenue and receipts budgeted under universal health insurance. In addition, a worrying sign is a considerable expected shortfall in receipts of Irrigation.

### **Current Expenditure**

The current expenditure of the Government for FY2022-23 was budgeted at Rs. 1,712 billion. This has, however, been estimated to be Rs. 1,600 billion which is 5.6% less from the budget estimates of FY2022-23 mainly due to less utilization on account of social protection and employee related expenses. In the first half of current financial year (CFY) i.e., FY2022-23, current expenditure grows at 24% from the first half of last financial year which is aligned with the budgeted growth of the expenditure i.e. 24%.

For projected period an average growth of 7.3% is forecasted for current expenditures against the historical average growth of 9.5% for the last five fiscal years (FY2018-2022). Lesser growth in current expenditure is attributed to austerity measures based on prevailing economic situation of the country. Furthermore, it is pertinent to mention that almost 80% of the projected expenditure includes salary, retirement benefits and transfers to local governments which is quite inflexible, therefore, the probability of higher variance in current expenditure remains low. A snapshot of current expenditure for projected period is given in Table-3 below:

<b>Table 3: Current Expenditure</b>				<b>Rs. bln</b>
	<b>Baseline</b>	<b>Projected</b>		
	<b>2022-23</b>	<b>2023-24</b>	<b>2024-25</b>	<b>2025-26</b>
<b>Employee Related Expenses</b>	<b>418</b>	<b>460</b>	<b>506</b>	<b>537</b>
<b>Operating Expenses</b>	<b>282</b>	<b>303</b>	<b>271</b>	<b>276</b>
Electricity	15	14	13	13
Purchase of Drugs and Medicines	36	46	53	58
POL	18	18	17	16
Repair and Maintenance	24	26	28	30
Acquisition of Physical Assets	6	6	7	7
Others	183	192	153	151
<b>A04-Employees Retirement Benefits</b>	<b>311</b>	<b>342</b>	<b>376</b>	<b>413</b>
<b>Grants / Subsidies etc.</b>	<b>566</b>	<b>623</b>	<b>684</b>	<b>726</b>
Local Bodies (PFC Grants)	526	579	637	675
Subsidies	40	44	47	50
<b>Interest Payments</b>	<b>23</b>	<b>32</b>	<b>29</b>	<b>26</b>
<b>Total Current Revenue Expenditure</b>	<b>1,600</b>	<b>1,760</b>	<b>1,866</b>	<b>1,978</b>

### Net Capital Receipts

The Table-4 below 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 2022-23 onwards. The deficit of Rs.74 billion is projected in Capital Account of FY2022-23 which is likely to continue in the projected period in the range of negative Rs.77-90 billion. The reasons of deficit include exchange rate depreciation of Pakistani rupee, principal repayments of Orange Line metro train and relatively inelastic capital expenditures on account of investments to Punjab Pension Fund and Punjab General Provident Investment Fund. It is pertinent to mention here that projected period estimates do not include any special initiative which the government budgets under capital expenditure based on any policy measure.

<b>Table 4: Net Capital Receipt</b>				<b>Rs. bln</b>
	<b>Baseline</b>	<b>Projected</b>		
	<b>2022-23</b>	<b>2023-24</b>	<b>2024-25</b>	<b>2025-26</b>



<b>Capital Receipts</b>	<b>43</b>	<b>48</b>	<b>51</b>	<b>43</b>
Existing foreign loans inflows	33	22	24	16
Innovative Financing	10	25	25	25
Recovery of Loans & Advances- Employees	-	-	-	-
Recovery of Loans & Advances- Entities	-	2	2	2
Recovery of Investment	-	-	-	-
<b>Capital Expenditure</b>	<b>117</b>	<b>138</b>	<b>128</b>	<b>125</b>
Loan Repayment	84	101	90	88
Investment expenditure	7	10	10	10
Loans & Advances- Employees	1	-	-	-
Loans & Advances- Entities	26	27	28	27
<b>Net Capital Receipt</b>	<b>(74)</b>	<b>(90)</b>	<b>(77)</b>	<b>(82)</b>
<b>Foreign Project Assistance</b>	<b>30</b>	<b>45</b>	<b>50</b>	<b>55</b>

### Medium Term Fiscal Framework (MTFF)

The projected size of Punjab Government's Annual Development Plan (ADP) in view of above explained projections of revenue, current expenditure, net capital financing and project financing are summarized in the Table-5 below:

Table 5: Medium Term Fiscal Framework Forecast				Rs. bln
	Baseline	Projected		
	2022-23	2023-24	2024-25	2025-26
General Revenue Receipts	2,428	2,883	3,306	3,764
Current Expenditure	1,600	1,760	1,866	1,978
Any Special Initiative	10	90	125	150
<b>Revenue Balance</b>	<b>818</b>	<b>1,033</b>	<b>1,315</b>	<b>1,637</b>
Net Capital Receipts	(74)	(90)	(77)	(82)
Foreign Project Assistance	30	45	50	55
<b>Resource for Development</b>	<b>774</b>	<b>988</b>	<b>1,288</b>	<b>1,609</b>
Estimated Provincial Saving	(125)	(125)	(125)	(125)
<b>Annual Development Plan</b>	<b>649</b>	<b>863</b>	<b>1,163</b>	<b>1,484</b>

Baseline year is critical to forecast projected period estimates therefore its alignment with regard to latest economic situation, macro variables, political environment, FBR targets and Government priorities is of paramount importance and accordingly the GoPb has revised its estimate for baseline year (FY2022-23) by revising the assessment of expenditure and revenue both leading to improve the estimation of projected period of MTFF (FY2024-2026). From priorities perspective, health, education, agriculture, and human development will be at the forefront of the Punjab Government's development spending priorities. However, the government has also allocated some amounts for commodity financing and special initiatives of the Government in its projections. The revised budget for ADP of FY2022-23 is estimated at Rs. 649 billion which is 5.3% less than the budgeted ADP size of PKR 685 billion.

## Medium Term Budget Priorities 2024-26

### **Budget Priorities – Current Budget**

Punjab at present faces economic challenges which need to be addressed by progressing towards a more sustainable and inclusive growth through prioritizing its strategic efforts. Punjab stands committed towards a broad based recovery aligned with its defined priorities. Government of the Punjab over the last few years has transformed the way it conducts its business. The governance approach of Punjab today 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. Keeping in view all these, budget priorities of the government are as under:

#### **Control of Current Expenditure – Implementation of Punjab Pension Reforms Plan 2022-25**

Through its partners, the finance department has analyzed the pension challenge and conducted many pension reform studies. Punjab Pension Reforms Plan 2022-25, authorized by Provincial Cabinet, has outlined several reform possibilities. Defined Contribution (DC) schemes for new recruits are groundbreaking. This reform alone could revolutionize public pension management. Further, plan regarding Defined Benefits (DB) scheme is also invoke. The voluntary retirement age was raised to 55 or 25 years of service. This adjustment will save PKR 59 billion over three years.

#### **Commodity Operations Debt**

There has been considerable increase in the Account-II (Food) debt emanating out of the commodity operations and general subsidy provided to the entire population of the Punjab in the last decade or so. It is expected that outstanding liability to the commercial banks under Account-II debt shall stand at an estimated Rs. 575 billion. This liability poses a considerable challenge to the fiscal health of Punjab as the circular nature of this debt is reaching unsustainable levels. Retirement of existing debt and measures for further accumulation of debt under the commodity operations is required to be a high budget priority in the medium-term.

#### **Targeted Social Protection**

Linked with the previous challenge is the need to prioritize of targeted social protection for the most needy. Macroeconomy of the country is faced with challenge of high inflation owing to several factors. Though the provinces have limited role to play in the macroeconomic stabilization efforts, however, 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 introduce new interventions for targeted social protection support in view of increasing cost of living challenges for the most needy and most deserving sections of the population.

### **Climate Risks and Disaster Financing**

Floods of 2022 have highlighted the importance of climate-induced disaster risk management and the necessity of having a robust mechanism of disaster risk financing in place for developing countries. In the event of unforeseen disasters, governments must redirect resources/allocations from budgeted projects and initiatives without disaster risk management mechanisms. Thus, budget 2022-23 goals for the Punjab include catastrophe risk management and financing. Finance Department allocated PKR 12 billion for flood-related spending from climate and disaster-related appropriations. Punjab climate budget tagging (CBT) guided budgetary allocations. Punjab's climate-related budget was 15% (13% current and 24% development) in FY2020-21. In FY2021-22, spending has reduced to overall 10% (development 16% and current at 6%) of the total expenditure by the government. Ensuring adequate allocations for addressing climate adaptation, mitigation and environment protection measures are the key budget priorities considering the fiscal challenges such disasters pose for the Punjab.

Disaster risk finance is a fundamental component of the Punjab's Public Financial Management Reform Strategy 2025, which aims to develop PFM systems to manage fiscal risks from disasters.

Catastrophic risk finance mechanism minimizes government disaster burdens. The World Bank's Punjab Resource Improvement and Digital Effectiveness (PRIDE) program will enhance the Finance Department's disaster mitigation fund and disaster risk financing.

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

- Climate budget tagging (CBT) to support decision support in provincial climate change framework. CBT is being institutionalized as priority in Government of Punjab P&D Board and will help inform and guide policy choices regard climate-related investments.
- Establishment of Environment Endowment Fund – Capitalized with funds of more than PKR 6.5 billion development of green financing strategy of Punjab to channelize public and private capital to strengthen environmental governance of the Government and promoting green investments in Punjab is underway and shall guide the province in raising climate finance.
- Finance Department has begun work on the Green Financing Strategy (GFS) for the province – first such undertaking for subnational government – with the assistance of SNG Punjab program. This will help government of Punjab identify sources of funding

/ financing under climate and green finance and prioritize actions under various sectoral actions over medium to long term.

### **Budget Priorities – Development Side**

In the aftermath of 2010, 2014 and 2022 Floods, Government of the Punjab is heavily focused on resilient rehabilitation, recovery and reconstruction. For this purpose, concerned departments are preparing projects related to calamity hit districts in Punjab and they have been advised to expedite preparation of project proposals for approval by PDWP / CDWP / ECNEC. Administrative Departments of Government of the Punjab will be implementing and executing the projects in calamity hit districts.

The guiding principles adopted for ADP 2023-24 are the following:

- i. Public investment led economic growth
- ii. Inclusive & balanced regional development
- iii. Transformation of Agriculture Sector
- iv. Ensuring Water and Food Security
- v. Human Capital through Skills Development
- vi. Promoting SME led Economic Growth
- vii. Fostering Economic Growth and Enabling Services Sector Growth
- viii. Strengthening compliance with Sustainable Development Goals (SDGs)
- ix. Enabling environment for private sector resource mobilization
- x. Support for Public Private Partnership - PPP
- xi. Strengthening Governance through Information Technology
- xii. Bridging the Gender Divide

## Annual Budget Ceilings FY2023-24

Indicative Budget Ceilings for Current Budget Estimates FY 2023-24 have been issued to Administrative Departments in Punjab. Moreover, Single Ceilings (Development + Non-Development) FY 2023-24 for twenty Administrative Departments approved by the Joint Priorities Committee (JPC) have also been communicated. Details are as follows:

### Single Ceiling 2023-24 (JPC Departments)

(Amount in Million)

Sr. No.	Description	Budget Ceiling
1	Industries, Commerce & Investment Department	32,197.592
2	Higher Education	69,082.658
3	Human Rights & Minorities Affairs	3,782.394
4	Youth Affairs and Sports	11,449.311
5	Tourism & Archeology	4,824.935
6	Environment Protection	8,818.684
7	Forestry Wildlife & Fisheries	18,273.942
8	Information and Culture Department	3,415.786
9	Irrigation	62,697.183
10	Labour and Human Resource	2,306.071
11	Literacy and Non-formal Basic Education	4,644.565
12	Livestock and Dairy Development	24,261.950
13	Population Welfare	12,693.458
14	Social Welfare & Bait ul Mal	5,472.605
15	Special Education	1,852.367
16	Transport	29,358.265
17	Energy Department	10,600.360
18	Women Development Department	2,905.041
19	Primary & Secondary Healthcare	64,844.513
20	School Education	58,219.881

### Budget Ceiling 2023-24 (Non-JPC Departments)

(Amount in Million)

Sr. No.	Description	Budget Ceiling
1	Police Department	161,537.696
2	Emergency Services	11,848.314
3	Agriculture	40,809.486
4	C.M. Secretariat	867.116
5	Chief Ministers Inspection Team	141.830
6	Communication and Works	19,776.528
7	Cooperatives	1,913.005
8	Excise and Taxation	2,724.574

9	Finance	413,918.336
10	Food	5,235.524
11	Governor's Secretariat	634.558
12	Home	20,695.861
13	Housing Urban Development Public Health Engineering	8,454.667
14	Law and Parliamentary Affairs	2,780.267
15	Local Government and Rural Development	2,664.609
16	Management and Professional Development	288.298
17	Mines and Minerals	1,437.246
18	Planning and Development	5,023.764
19	Provincial Assembly	3,954.270
20	Religious Affairs and Auqaf Dept	352.731
21	Board of Revenue	19,397.089
22	Services and General Administration	50,569.720
23	Zakat and Ushr	427.056
24	Prosecution Department	3,097.939
25	Specialized Healthcare & Medical Education	161,449.069
26	Higher Education - South Punjab	214.157
27	Forestry Wildlife & Fisheries - South Punjab	278.519
28	Irrigation - South Punjab	188.311
29	Livestock and Dairy Development - South Punjab	171.442
30	Primary & Secondary Healthcare - South Punjab	171.632
31	School Education - South Punjab	319.639