Finance Department
Government of the Punjab

WHITE PAPER
Budget FY 2022-23

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Government of the Punjab
Finance Department

White Paper

Budget FY 2022-23

PREFACE

This year's White Paper throws light on important aspects of Budget 2022-23. Starting with macroeconomic outlook and challenges, the document takes its readers through major sources of provincial receipts and priority areas of expenditure with special focus on the province's development portfolio. The document also lays forth the direction towards improved public service delivery and results-oriented developmental spending while being mindful of key challenges to Punjab's economy. In face of potential risks, fiscal forecasting becomes critical for the province and therefore, an attempt has been made for developing a medium-term fiscal framework. Provincial debt, domestic and foreign, though at sustainable levels at present has also been given adequate space in the White Paper. The chapter on public financial management reforms would be an interesting read as the province is undertaking a number of reforms to bring greater discipline in management of resources.

Budget preparation saw extensive engagement with financial and taxation experts, businesses, academia, researchers, civil society, and others concerned. Proposals emanating from these discussions were taken into account, especially in sectors having a direct bearing on public welfare. Budget 2022-23 aims to put the province on the trajectory of sustainable and inclusive growth, and provide immediate relief to most deserving segments of the society in these pressing times.

I would like to acknowledge the untiring efforts of my colleagues at Finance Department in preparation of this budget.

Iftikhar Amjad
Finance Secretary
Government of the Punjab

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LIST OF ABBREVIATIONS

ABS	Annual Budget Statement
ADB	Asian Development Bank
ADP	Annual Development Programme
AIT	Agriculture Income Tax
APDP	Automated Pension Disbursement Project
BE	Budget Estimate
BF	Benevolent Fund
BOR	Board of Revenue
CDC	Central Depository Company
CDLs	Cash Development Loans
CFU	Corporate Finance Unit
CFY	Current Financial Year
CLC	Community Learning Center
CMSES	Chief Minister's Self Employment Scheme
CTD	Counter Terrorism Department
CVT	Capital Value Tax
C&W	Communication & Works
DFID	Department for International Development
DMU	Debt Management Unit
E&T	Excise & Taxation
FBR	Federal Board of Revenue
EPS	Estimated Provincial Surplus
FD	Finance Department
FIEDMIC	Faisalabad Industrial Estates Development & Management Company
FRE	Framework for Rolling Expenditure
FY	Financial Year
GDP	Gross Domestic Product
GDS	Gas Development Surcharge
GI	Group Insurance
GIS	Geographic Information System
GP Fund	General Provident Fund
GoPb	Government of Punjab
GPF	General Provident Fund
GRP	Gross Regional Product
GRR	General Revenue Receipt
GSDP	Gross Subnational Domestic Product
GST	General Sales Tax
HUD&PHED	Housing Urban Development & Public Health Engineering Department
IBRD	International Bank for Reconstruction and Development
IC&YA	Information Culture & Youth Affairs
IDA	International Development Agency
J&C Program	Job & Competitiveness Program
JICA	Japan International Cooperation Agency
KIBOR	Karachi Inter Bank Offered Rate
L&DD	Livestock and Dairy Development
LFY	Last Financial Year
LG&CD	Local Government & Community Development
LIBOR	London Inter-Bank Offered Rate
LNFBE	Literacy & Non-Formal Basic Education Department
LRMIS	Land Record Management Information System
MDGs	Millennium Development Goals
MICS	Multiple Indicator Cluster Survey
MIS	Management Information System
MPDD	Management & Professional Development Department
MTDF	Medium Term Development Framework
MTFF	Medium Term Fiscal Framework
NFBE	Non-Formal Basic Education
NFC	National Finance Commission
NFIS	National Financial Inclusion Strategy
NHP	Net Hydel Profit
NLTA	Non-Lending Technical Assistance
NSS	National Savings Scheme
OSR	Own Source Revenue
PCF	Provincial Consolidated Fund
P&D	Planning & Development
PCGIP	Punjab Cities Governance Improvement Project
PEEF	Punjab Education Endowment Fund
PEF	Punjab Education Foundation
PEOP	Punjab Economy Opportunities Program
PESP	Punjab Education Sector Project
PFC	Provincial Finance Commission
PFM	Public Financial Management
PGPIF	Punjab General Provident Investment Fund
PHNP	Provincial Health & Nutrition Program
PHSRP	Punjab Health Sector Reforms Program
HRITF	Health Reforms Innovation Trust Fund
PIAIPP	Punjab Irrigated Agriculture Improvement Program Project
PIBs	Pakistan Investment Bonds
PIEDMIC	Punjab Industrial Estates Development & Management Company
PIFRA	Project to Improve Financial Reporting & Auditing
PKLI	Pakistan Kidney & Liver Institute
PLA	Personal Ledger Account
PPB	Punjab Privatization Board
PPF	Punjab Pension Fund
PPIC3	Punjab Police Integrated Command, Control & Communication Centre
PPMRP	Punjab Public Management Reform Program
PPP	Public Private Partnership
PRA	Punjab Revenue Authority

PRAL	Pakistan Revenue Automation (Pvt.) Limited
PSDP	Public Sector Development Programs
PSDP	Punjab Skills Development Project
PSIC	Punjab Small Industries Corporation
PSPA	Punjab Social Protection Authority
PSPC	Punjab Saaf Pani Company
RIMS	Restaurant Invoice Monitoring System
RE	Revised Estimate
RLNG	Regasified Liquefied Natural Gas
SBP	State Bank of Pakistan
SBS	Sector Budget Support
SED	School Education Department
SDG	Sustainable Development Goal
SNG	Sub-National Governance Programme
SPPAP	Southern Punjab Poverty Alleviation Project
S&GAD	Services & General Administration Department
TEVTA	Technical Education and Vocational Training Authority
TFCs	Term Finance Certificates
TMAs	Town/Tehsil Municipal Administrators
TRU	Tax Reform Unit
UIPT	Urban Immovable Property Tax
UNICEF	United Nations International Children's Emergency Fund
WDD	Women Development Department

FINANCIAL SNAPSHOT OF THE PROVINCE FY 2022-23

Receipts / Inputs

47.5 bn
Capital Receipts (A/C-I)

45.0 bn
Innovative Financing

551.0 bn
Capital Receipts (A/C-II)

61.6 bn
Foreign Project Assistance

2,020.7 bn
Federal Divisible Pool

337.0 bn
Provincial Tax Revenue

163.5 bn
Non-Tax Revenue

Programmes / Outputs

PKR 151.4 bn
Economic Affairs

PKR 1,039.1 bn
General Public Service

PKR 208.7 bn
Public Order & Safety Affairs

PKR 88.6 bn
Education Affairs

PKR 188.9 bn
Health

PKR 35 bn +
Tax Relief Package

PKR 685.0 bn
Development Expenditure

PKR 1,711.9 bn
Current Expenditure

PKR 704.5 bn
Capital Expenditure

EXECUTIVE SUMMARY

During FY2021-22, the fallout from COVID-19 continued to exert pressure on finances of the Government. The year also witnessed rising trends in international commodity prices, with accompanying domestic inflationary pressures and widening of the current account deficit. Uncertainty in accessing external financing sources at a time of elevated import bill also impacted the parity of Pak rupee against other currencies. These factors indeed made economic policymaking a challenge in itself.

In these difficult times, Punjab is adopting prudent budgetary targets with renewed focus on enhancing social safety nets for marginalized sections of the society. An effort has been made for effective utilization of resources to facilitate and support economic activity in the province. Budget 2022-23 is ambitious, yet carries fiscal discipline. The total General Revenue Receipts of Government of the Punjab are being targeted at PKR 2,521.3 billion; including Federal Divisible Pool transfers of PKR 2,020.7 billion and Provincial Revenues of PKR 500.5 billion. The Current Expenditure of the Government is expected to be PKR 1,711.9 billion.

The primary concern for FY2022-23 remains high inflation caused by higher petroleum prices, increase in gas/electricity tariffs, continuation of geopolitical crisis and supply side risks, impact of rupee devaluation with adoption of restrictive monitory policy by the central bank. Management of the external account will, therefore, stay at the forefront. Compression of non-essential imports and increasing export earnings and remittances will be crucial amid global economic slowdown. The Government of Punjab remains committed and focused to provide relief to vulnerable segments of the population.

The Government is initiating programmes to enhance safety nets while keeping substantial development investment to spur growth. Continuity of tax relief measures for businesses and sectors most hit by the economic downturn will provide the necessary impetus for recovery. Despite tough conditions, the tax base widened, compliance levels improved and number of economic transactions increased as a result of targeted reduction of rates and tax incentives for several service sectors. The Government of the Punjab has strived for a delicate balance amongst tax relief, resource generation, social protection and essential development. Moreover, substantial public investment continues in key social sectors like health and education.

Punjab has gradually shifted from a highly centralized to a more inclusive approach to budgeting, thereby enhancing accountability, transparency and inclusiveness. In recent years, Public Financial Management (PFM) reforms have contributed to a marked increase in provincial own-source revenue, informed and reliable budget preparation, fiscal responsibility, improved quality of technical input for strategic and operational level decision making, budget transparency and participatory governance. Punjab Resource Improvement and Digital Effectiveness (PRIDE) Programme is one such project with the objective to support the implementation of Government policies, improve service delivery and reduce fiduciary risks. The Programme supports selected actions under Responsive Investment in Social Protection and Economic Stimulus (RISE) Punjab and the Public Finance Management Reform Strategy.

In FY 2021-22, effective planning by the Government of Punjab to trigger drivers of growth enabled the provincial economy to improve significantly, reporting a growth rate of 6.2%. The Government has proposed an amount of Rs. 685 billion for the Annual Development Programme 2022-2023, up from 560 billion in 2021-22. The guiding principles for ADP 2022-23 are economic growth led investment, inclusive and balanced regional development, transformation of agriculture Sector, ensuring water and food security, human development through skills development, strengthening compliance with Sustainable Development Goals (SDGs), enabling environment for private sector resource mobilization, support for public private partnership, and strengthening governance through information technology.

The Government of Punjab continues to place regional equalization as its core priority. Sustained efforts have been made to address development disparities across different regions through increased funding, improvements in governance structure, and capacity building measures. A multipronged strategy for sustainable and equitable development includes establishment of industrial estates and special zones, and technical institutes, ring fencing of development budget, and strategic interventions in WASH, health, education, agribusiness, industrial and infrastructure development.

The Government is also geared to maximize economic cooperation with China. FY2022-23 envisions a shift in focus towards industrial, agricultural and socioeconomic cooperation. Furthermore, significant headway has been made on a number of initiatives, such as the Lahore Orange Line Metro Train and the Allama Iqbal Industrial City in Faisalabad. A number of socio-economic development projects have also been accorded approval for inclusion in CPEC, and the Government has prepared a robust portfolio of project proposals, pertaining to industrial cooperation, socioeconomic development, agriculture, livestock, water resource development, energy, and transport infrastructure.

Punjab Government's priorities as well as institutional frameworks are aligned with the 2030 UN Agenda for Sustainable Development. Policy guidance frameworks such as Punjab Growth Strategy 2023, Punjab Spatial Strategy 2047, and Punjab SDGs Framework define policies, plans and budgets, and ensure harmony of development priorities with the SDG Agenda 2030. Taking cognizance of data gaps that inhibit effective evidence-based policy making, the Punjab ADP guidelines emphasize the use of gender and other disaggregated data as a means of ensuring focus on the needs of those most deserving.

(PKR Billion)

CLASSIFICATION	BE 2021-22	RE 2021-22	BE 2022-23
A - CURRENT BUDGET			
General Revenue Receipts	2,088.3	2,182.2	2,521.3
Current Revenue Expenditure	1,427.9	1,423.7	1,711.9
A- Net Revenue Account – Surplus (+) / Deficit (-)	**660.4**	**758.5**	**809.4**
B- CURRENT CAPITAL BUDGET			
Current Capital Receipts (A/C-I)	79.2	52.9	92.5
Current Capital Expenditure (A/C-I)	119.8	81.1	153.5
B- Net Capital Account - Surplus (+) / Deficit (-)	**(40.6)**	**(28.2)**	**(61.0)**
C- Surplus for Development (A+B)	619.8	730.4	748.4
D - ADP Resources			
Foreign Assistance for Projects	65.2	33.3	61.6
E- TOTAL RESOURCES (C+D)	**685.0**	**763.7**	**810.0**
F - Annual Development Program	560.0	647.9	685.0
Estimated Provincial Surplus / Deficit (E-F)	**125.0**	**115.8**	**125.0**

(PKR Billion)

DESCRIPTION	BE 2022-23	DESCRIPTION	BE 2022-23
A - GENERAL REVENUE RECEIPTS		**A - CURRENT REVENUE EXPENDITURE**	
General Revenue Receipts	**2,521.3**	**General Revenue Expenditure**	**1,711.9**
Divisible Pool Transfers	2,020.7	01 - General Public Service	1,039.1
Provincial Tax Revenue	337.0	02 - Public Order and Safety Affairs	208.7
Provincial Non-Tax Revenue	163.5	03 - Economic Affairs	151.4
Straight Transfers (Excl. excise duty on NG)	8.0	04 - Environment Protection	0.6
Net Hydel Profit	*15.0*	05 - Housing and Community Amenities	9.4
Net Hydel Profit Arrears	*20.0*	06 - Health	188.9
Federal Grants	*4.4*	07 - Recreational, Culture and Religion	5.3
Provincial Own Non-Tax Revenue	*116.1*	08 - Education Affairs and Services	88.6
		09 - Social Protection	19.9
B - CURRENT CAPITAL RECEIPTS		**B - CURRENT CAPITAL EXPENDITURE**	
CAPITAL RECEIPTS	**643.5**	**CAPITAL EXPENDITURE**	**704.5**
Recoveries of Loans and Advances (A/C-I)	1.4	Public Debt	-
Debt (A/C-I)	46.1	Repayment of Principal	71.6
Innovative Financing including PPP mode	45.0	Investments	55.6
Recoveries of Investment-State Trading (A/C-II)	273.0	Loans and Advances (Principal)	25.8
Cash Credit Accommodation (A/C-II)	278.0	Loans to High Court Judges	0.5
		State Trading (Wheat) (A/C -II)	378.9
		Repayment of Commercial Bank Loans (A/C - II)	172.1
C- DEVELOPMENT RECEIPTS		**C- DEVELOPMENT EXPENDITURE**	
Foreign Project Assistance	61.6	**Annual Development Program**	**685.0**
		Core ADP	644.1
		Other Development Initiatives	40.9
Total Receipts A/C-I	**2,675.4**	**Total Expenditure A/C-I**	**2,550.4**
Total Receipts A/C-II	**551.0**	**Total Expenditure A/C-II**	**551.0**
		Provincial Surplus	**125.0**
Total Provincial Consolidated Fund	**3,226.4**	**Total Provincial Consolidated Fund**	**3,226.4**

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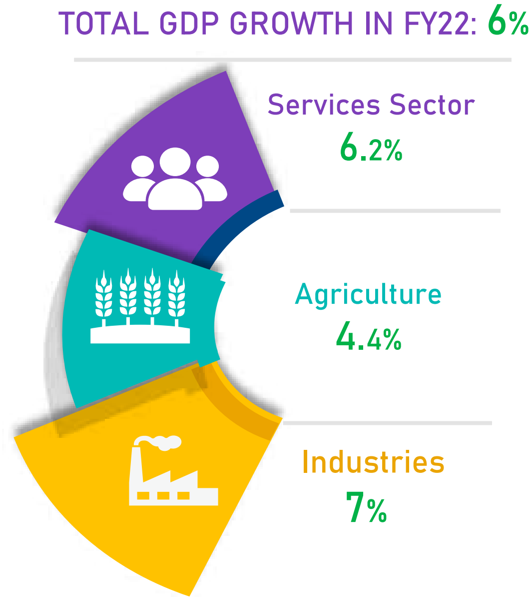
MACROECONOMIC REVIEW & OUTLOOK

Gross Domestic Product

FY22 marks a year of GDP re-basing as FY16 (previously FY06) has been adopted as base year for computation of GDP. The size of nominal GDP for FY21 has been revised upwards to PKR 55.8 TRN with FY16 as base year (PKR 47.7 TRN with FY06 as base year).

Pakistan's GDP can be divided broadly into three major sectors i.e. i) Agriculture, Forestry & Fishing ii) Industrial Activities, and iii) Services.
Real growth rate of overall GDP and the three major sectors along with their respective shares in the overall GDP are summarized below:



	FY20	FY21	FY22 (P)
		Base 2015-16	
GDP growth	**-0.9%**	**5.7%**	**6.0%**
Agriculture	3.9%	3.5%	4.4%
Industrial	-5.7%	7.8%	7.2%
Services	-1.2%	6.0%	6.2%
GDP mix			
Agriculture	23.5%	23.0%	22.7%
Industrial	18.5%	18.9%	19.1%
Services	58.1%	58.2%	58.2%

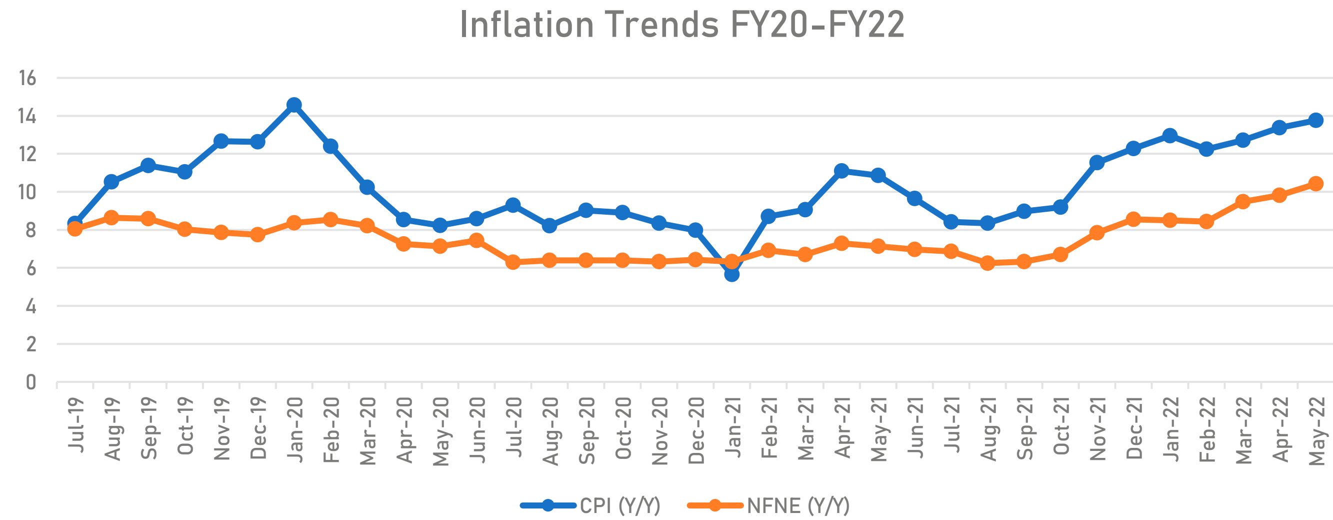
Source: Pakistan Bureau of Statistics

The share of these sectors in real GDP has been relatively stable in recent years. After a negative shock of FY20, the sharp recovery in growth rate of industrial sector is a welcome development.

Higher GDP growth rates in FY21 and FY22 are quite impressive. However, other macroeconomic indicators suggest that these growth rates may not be sustainable in the medium term as macroeconomic imbalances have built up due to a combination of adverse global developments, and expansionary monetary and fiscal policies followed by the Government.

Inflation

It is useful to analyse the trends in two inflation measures i.e. headline inflation measured by CPI (Consumer Price Index), and non-food non-energy (NFNE) measure of core inflation. Core inflation is a useful measure as it excludes food and energy items whose prices tend to be more volatile, and provides information regarding less volatile or persistent price trends.



The trends in these two measures are shown in the following chart:

Source: State Bank of Pakistan

Measure	FY20	FY21	Jul-May FY22
Headline CPI	10.8	8.9	11.3
NFNE	8.0	6.6	8.1

CPI 2021 : 8.9%

CPI 2022 : 11.3%

During FY22, both measures have been rising and have averaged more than the central bank's medium-term inflation target of 5-7% p.a. which indicates that inflationary pressures are widespread and persistent.

These inflationary pressures are attributable to both domestic and international factors. Expansionary monetary and fiscal policies at home, higher international commodity prices due to geopolitical factors, and supply chain disruptions caused by Covid-related restrictions have contributed to the build-up of inflationary pressures.

External Account

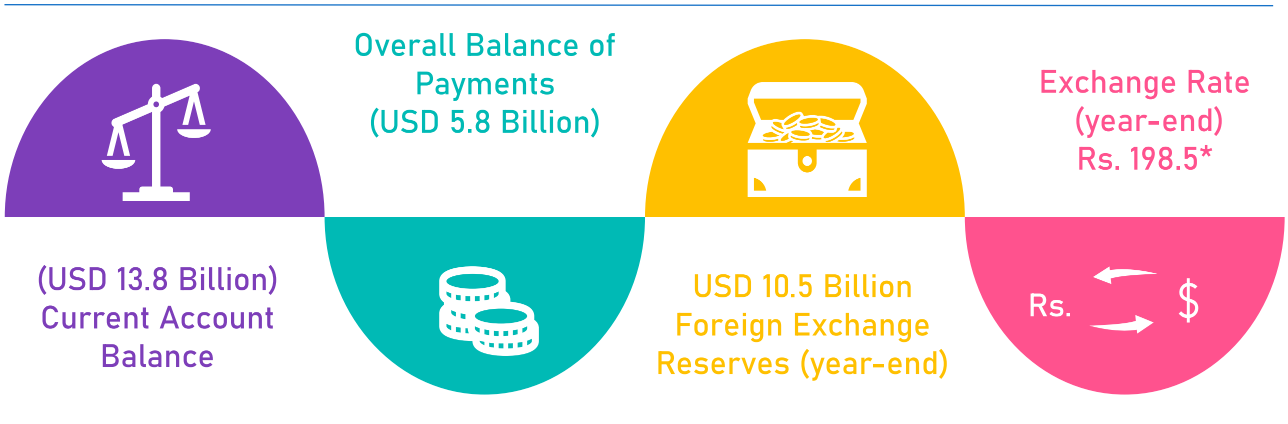
Important measures pertaining to External Account include Current Account Balance and the overall Balance of Payments situation. Two other related measures which are important from a macroeconomic perspective include Foreign Exchange Reserves and Exchange Rate. An important measure from analytical standpoint is Import Cover Ratio (Foreign Exchange Reserves / Average Monthly Imports) which measures the size of reserves in terms of number of months of imports.

The trends in these measures over last three financial years are summarized below:

Measure	Units	FY20	FY21	Jul-Apr FY22
Current Account Balance	USD billion	(4.4)	(2.8)	(13.8)
Overall Balance of Payments	USD billion	5.3	5.6	(5.8)
Foreign Exchange Reserves (year-end)	USD billion	12.1	17.3	10.5
Exchange Rate (*May 2022)	USD-PKR	168.1	157.5	198.5*

Source: State Bank of Pakistan

July-April FY22



*Exchange Rate for FY22 is as of end-May 2022

Sharp deterioration in current account during FY22 is attributable to a surge in imports due to strong domestic demand, and higher international commodity prices – particularly petroleum and food items.

Import Cover Ratio is a key indicator of adequacy of Foreign Exchange reserves. This ratio should preferably be above 4. At end-April 2022, the import cover ratio had declined below 2.

Pakistani Rupee has depreciated by 26% against the US Dollar during Jul-May FY22 from PKR/USD 157.5 at end-June 2021 to PKR/USD 198.5 at end-May 2022.

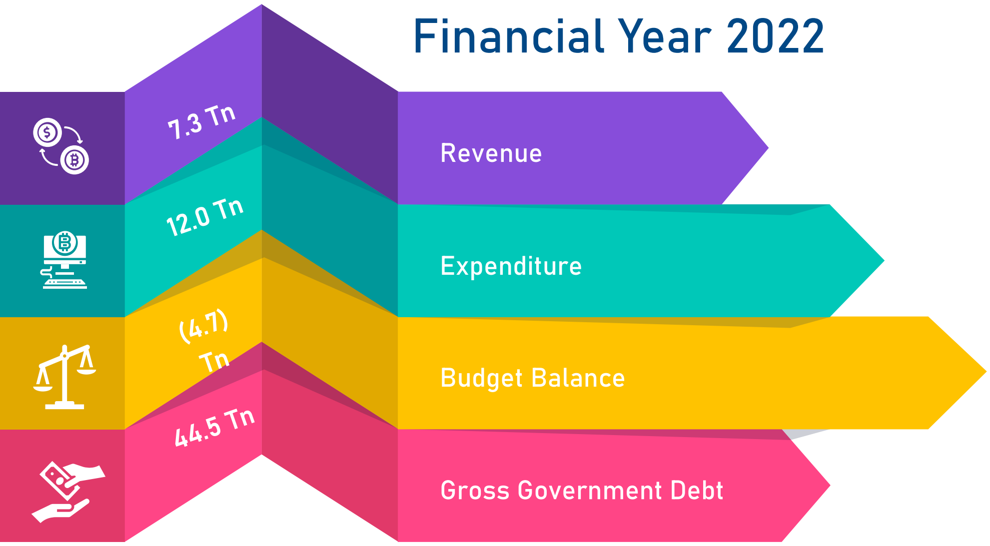
Considering the weak external account and foreign exchange reserves position, revival of the IMF programme will lend stability to the macroeconomic situation.

Fiscal Policy & Government Debt

Important measures to analyse fiscal policy and government debt include Revenue, Expenditure, Budget Balance (Revenue minus Expenditure), and Gross Government Debt. For a meaningful analysis, these are measured as a percentage of GDP.

Figures for the last three financial years are summarized below:

Measure	FY20		FY21		FY22 (P)	
	PKR tn	% of GDP	PKR tn	% of GDP	PKR tn	% of GDP
Revenue	6.3	13.2	6.9	12.4	7.3	10.9
Expenditure	9.7	20.3	10.3	18.6	12.0	17.9
Budget Balance	(3.4)	(7.1)	(3.4)	(6.1)	(4.7)	(7.0)
Gross Government Debt	36.4	76.6	39.9	71.8	44.5	72.4
GDP	47.5		55.5		66.9	



Consolidated figures for federal and provincial governments are presented. Figures for FY21 & FY22 are based on civil accounts issued by Ministry of Finance, Government of Pakistan while figures for FY22 are based on estimates of Finance Department, Government of Punjab.

Consolidated budget deficit is attributable entirely to the Federal Government as Provincial Governments have, in aggregate, run fiscal surpluses over the last three years.

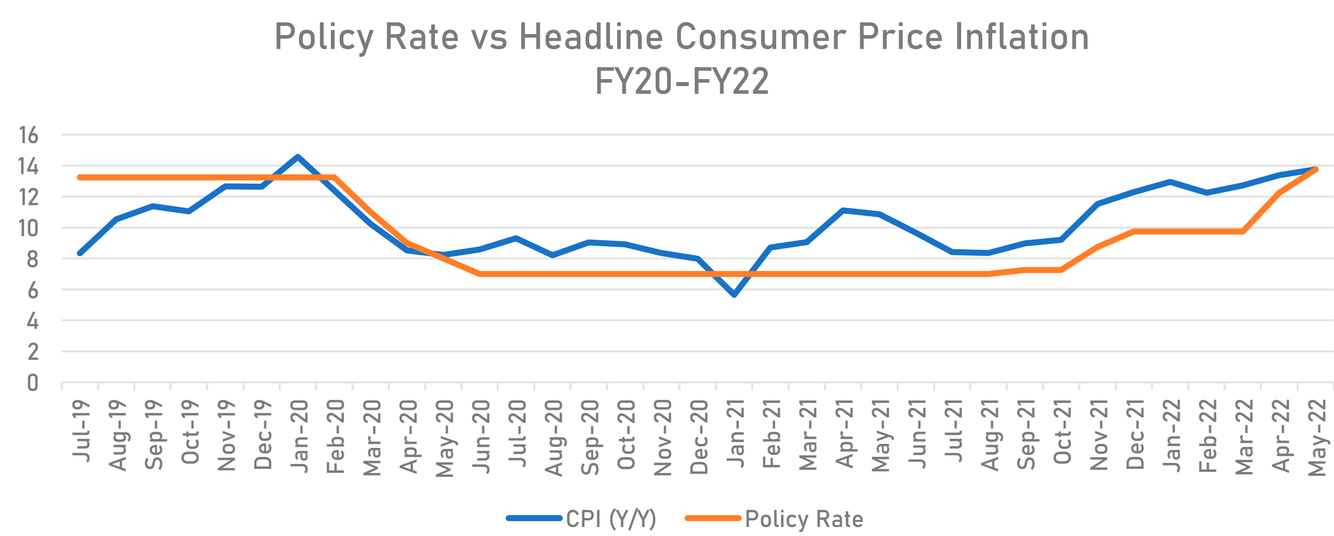
Detailed analysis shows that the Federal Government is faced with a structural fiscal imbalance due to a combination of low revenue and high expenditure. As a result, the federal fiscal deficit has been persistently high in recent years despite the fiscal discipline introduced under the current IMF programme. Fiscal Responsibility and Debt Limitation Act, 2005 requires the fiscal deficit in any financial year to be equal to or less than 3.5% of GDP. This limit is in line with the international good practices of fiscal management. Evidently, fiscal deficit as percentage of GDP needs to be reduced over the medium-term.

Debt-to-GDP Ratio is also above the ceiling of 60% prescribed by the Fiscal Responsibility and Debt Limitation Act, 2005 and needs to be brought down over the next few years.

Monetary Policy and Exchange Rate Management

Important measures in this regard include the real interest rate (Policy Rate minus headline inflation measured by CPI) maintained by the central bank, ratio of currency-in-circulation (CIC) to money supply measured as M2, ratio of CIC and current account (non-interest bearing) deposits in banking system as percentage of money supply measure as M2, and real exchange rate.

In the aftermath of COVID, the State Bank of Pakistan has followed an accommodative monetary policy to encourage economic activity and has maintained negative real interest rates keeping the Policy Rate lower than the headline inflation measured by CPI. This is illustrated below:



Trends in CIC and M2 during last three financial years are summarized below:

Measure	Units	FY20	FY21	FY22
CIC	PKR tn	6.1	6.9	7.9
M2	PKR tn	20.9	24.3	25.7
CIC / M2	%	29.2	28.4	30.8

Figures for FY22 are as of end-April 2022
Source: State Bank of Pakistan

Large amount of CIC relative to M2 poses challenges to effective transmission of monetary policy as it is not sensitive to the interest rates set by the central bank. Pakistan has high ratios of CIC to M2 which is indicative of a larger economic problem i.e. lack of documentation, which in turn leads or contributes to a number of economic challenges such as low tax-to-GDP ratio.

Real Effective Exchange Rate (REER) reported by the central bank stood at 99.8 at the end of FY21 and 95.9 at end-April 2022. This indicates that PKR is currently trading at a discount to its real (fair) value mainly because of the pressures on external account and foreign exchange reserves.

Conclusion

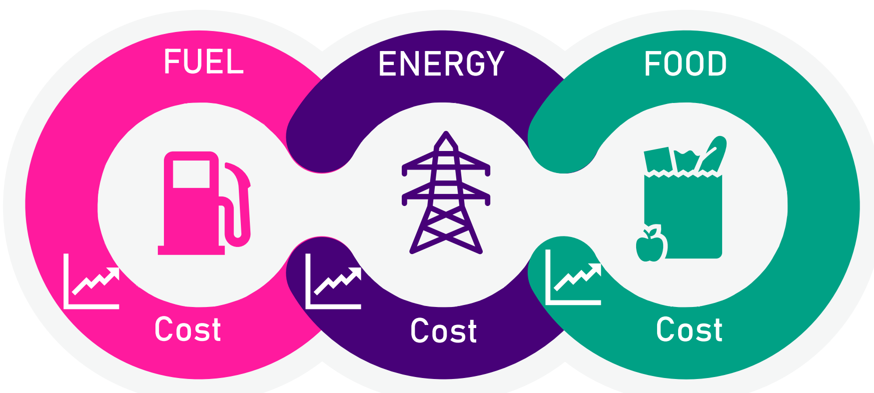
A significant portion of the increase in inflation and current account deficit is attributable to adverse global geopolitical developments and supply chain disruptions. However, loose fiscal and monetary policies have also played their part in the current macroeconomic imbalances.

Repeated boom-bust cycles experienced by Pakistan's economy over the last few decades illustrate that economic growth driven by higher consumption, in absence of high savings and investment rates, is not sustainable.

The Government's inability to lower the fiscal deficit to a reasonable level is arguably a serious economic challenge for the country. Overcoming this challenge requires major increases in tax revenues and long-term expenditure reforms including pensions and subsidies to public corporations.

Macroeconomic Outlook for FY23

Most signs point to a tough global and domestic economic situation during FY23. International commodity prices are expected to remain high on the back of supply constraints attributable largely to the Russia-Ukraine conflict and imposition of economic sanctions on Russia. Domestic economy will continue to grapple with multiple challenges. Pakistan is a major importer of fuels, therefore its external account is expected to remain under pressure. Increase in domestic food and energy prices, continued pressure on the exchange rate, and increased taxation are likely to slow down the growth momentum.



The Government remains committed to take tough decisions needed to bring the economy back on track. The recent increase in petroleum and electricity prices is a case in point. It will significantly reduce the fiscal deficit, lead to widespread energy conservation measures, and lower the aggregate demand. With revival of the IMF program, the twin deficits (fiscal deficit and current account deficit) will show reasonable improvement during FY23.

Overall, FY23 is expected to be a challenging year marked by high inflation, fragile external account and exchange rate, and tight fiscal and monetary policies.

A difficult economic situation also provides the opportunity to undertake long-overdue reforms. It is expected that the Federal Government will undertake a series of fiscal and structural reforms over the next year. Punjab, on its part, is committed to run a budget surplus during FY23 and to pursue medium-term fiscal planning and strategy. Major initiatives and priorities of Punjab include adoption of a fiscal risk management framework and preparation of a series of policies and strategies to address existing or potential fiscal risks, devising a medium-term revenue mobilization strategy to set higher targets, and introduce a series of tax policy and administration reforms to achieve those targets, introducing pension reforms to reduce the burgeoning pension expense to a fiscally sustainable level, formulating a strategy to manage the debt pertaining to commodity operations, and assigning high priority to the healthcare and education sectors.

2

BUDGET STRATEGY (CHALLENGES, PRIORITIES & MEDIUM-TERM FISCAL FRAMEWORK)

It is important to take stock of economic challenges faced by Punjab and how they translate into medium-term policies and priorities of the Government. It may be noted that forecasts are based on projections which are part of the Budget Strategy Paper 2022-25, prepared well before the budget to predict the broad parameters of fiscal horizon over medium term, assess the shape of economy in outer years and provide the basis for fiscal planning for FY2022-23 and beyond. Hence, actual budget estimates of FY2022-23 and allocations therein may vary from the projected forecasts in this chapter. The information provided reflects fair forecast of how the revenues and expenditure of the province will evolve over subsequent years.

This chapter discusses some of the challenges faced by Punjab's economy, followed by budget priorities considered by the Government based on these challenges and the medium-term forecasts for fiscal policy of the Province.

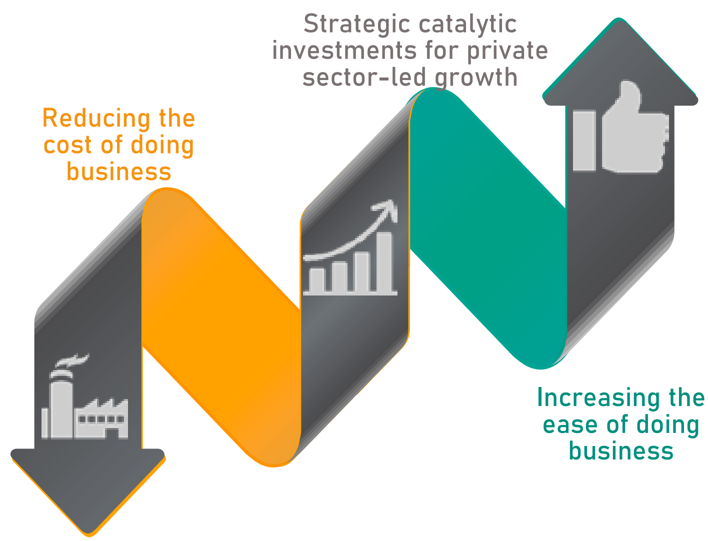
Key Challenges to Punjab's Economy

1. 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 population growth rate is not bridled, any amount of fiscal effort and space is going to remain inadequate. This also implies that Punjab must make prudent use of its resources, spending mainly in areas that are the responsibility of the Government – public welfare – so that those who are most needy, marginalized and disadvantaged are supported. The opportunity cost of continuing to invest in mega projects needs to be weighed against improving the provision of basic services. Further, resorting to meaningful austerity in Government's own expenditures has to be looked into.

2. An issue linked to growth in population is the youth bulge faced by the Punjab. Out of the 110 million people, 32 million are in the age bracket of 15-29 years. The challenge becomes more acute as people of this age group remain idle in the economy.

3. This adds to the responsibility of the Government to undertake effective measures to increase productive employment opportunities in the economy. In Punjab's economy, it is the private sector which is the main engine for employment. The Government of Punjab will continue to facilitate 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 revisit its policies to ensure that SMEs flourish and contribute towards employment generation.

4. Top 10 cities of Punjab are urbanizing at a rapid pace. Over the last two decades the population size 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.



5. Punjab due to its large population base remains short of providing adequate quality of health, education and water and sanitation services to its citizens. Although part of this is a result of limited resources, much needs to be done on the governance side too. It is, therefore, essential for the province to build productive human capital. Largest growth dividends to the province will come from investing more in development of human capital[1]. Investments will have to be increased in education, skills, health and gender inclusion to build stronger human capital. The province intends to tackle these issues on priority basis.

6. Water has become an increasingly scarce commodity in the country. In the near-term, water conservation and efficient use can assist Punjab and the country to counter the downward trends being observed in water resources. The Government will need to improve

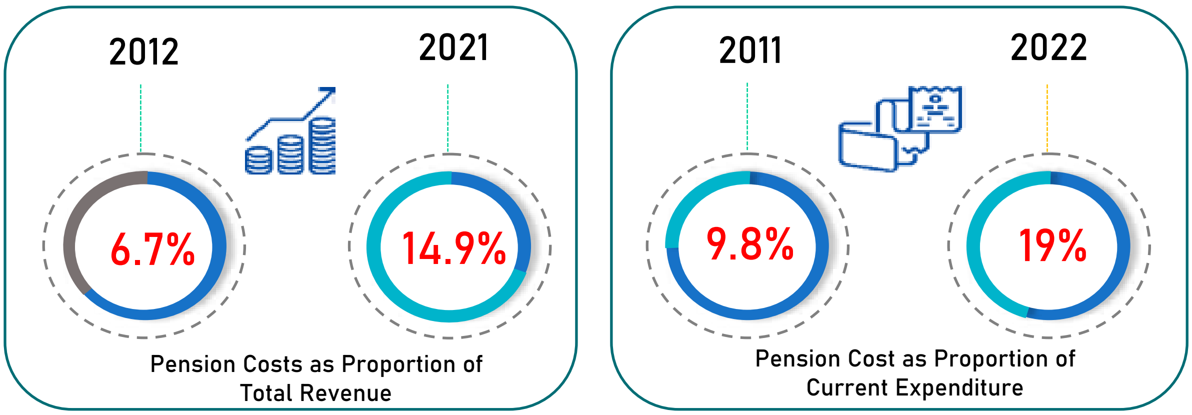
[1] *Punjab Economic Report 2017 Revised Edition*

its water courses, promote drip irrigation and initiate strong awareness campaigns to improve the use of water resources and reduce wastages.

7. Food security remains a major challenge, with a substantial number of households facing moderate or severe food insecurity.

8. 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.

9. Pension costs have been rapidly growing from 6.7% of revenues in 2012 to about 14.9% in 2021, and are expected to rise to 17.7% of revenues by 2030 and 21.4% of revenues by 2040, at current pace and policy. 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 to the provincial finances.



10. Enhancing the provincial resource base is a key challenge for the Government in the medium term. A low-tax-to-GDP ratio is a core constraint to economic growth. Punjab's reliance on federal transfers exposes its economy to fiscal risks as any fluctuations or policy changes at the federal level changes the revenue side of the fiscal equation for the province. This was experienced recently during the COVID-19 onset. It is, therefore, essential for Punjab to enhance own source resource base, particularly on the tax side.

11. 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 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 caused increasingly severe smog episodes in the fall months every year extending throughout the province.

12. Besides loss of lives, climate change is taking its toll on the economy. As per a recent study by IMF[2], climate change will weigh on inclusive growth, per capita incomes, macroeconomic stability, socioeconomic stability, and equality. Climate adaptation is an urgent priority for the country as recognized by the National Climate Change Policy. Adaptation needs to be embedded and mainstreamed in medium-term inclusive growth agendas and policy frameworks. Punjab, contributing roughly 54% to the National GDP, and being the industrial and agricultural base, is particularly affected by climate change induced disasters. There is a need to establish linkages between fiscal policies and environment/climate policy of the province for informed decision making and accordingly make adequate allocations to mitigate climate change disasters.

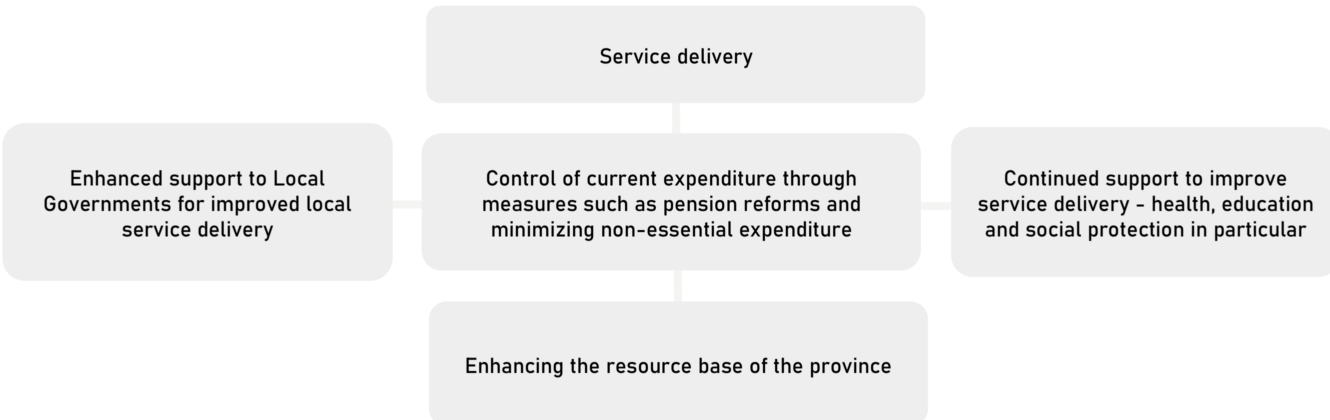
13. Districts in Punjab are segmented in terms of multi-dimensional poverty. Districts in south, namely Rajanpur, Muzaffargarh, and D.G. Khan lag in terms of development. Targeted social protection measures are, therefore, necessary to redress the poorer strata of the population.

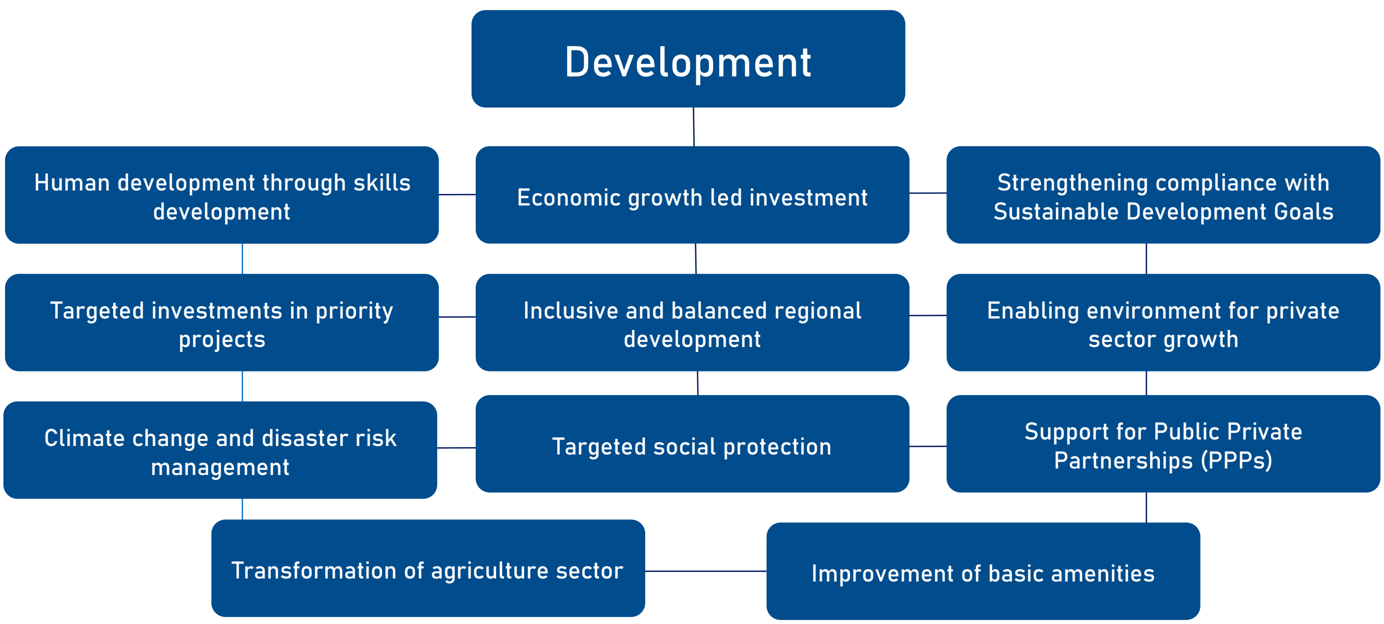
[2] *IMF Departmental Paper – March 2022 Feeling the Heat: Adapting to Climate Change in the Middle East and Central Asia*

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 in the coming years.

The cornerstones of development priorities for the Government of Punjab are: increased focus on agriculture and SME sectors, private sector development, human capital development and an optimal allocation of public investment (ADP) in terms of growth outcomes. Keeping in view the challenges discussed above, budget priorities are as under:





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.

Projections of Divisible Pool Transfers to the Province

Keeping the importance of increasing revenues in view, slightly ambitious targets have been presented in the table below, whereby projected revenue increases gradually to 9.8 percent by FY 2024-25.

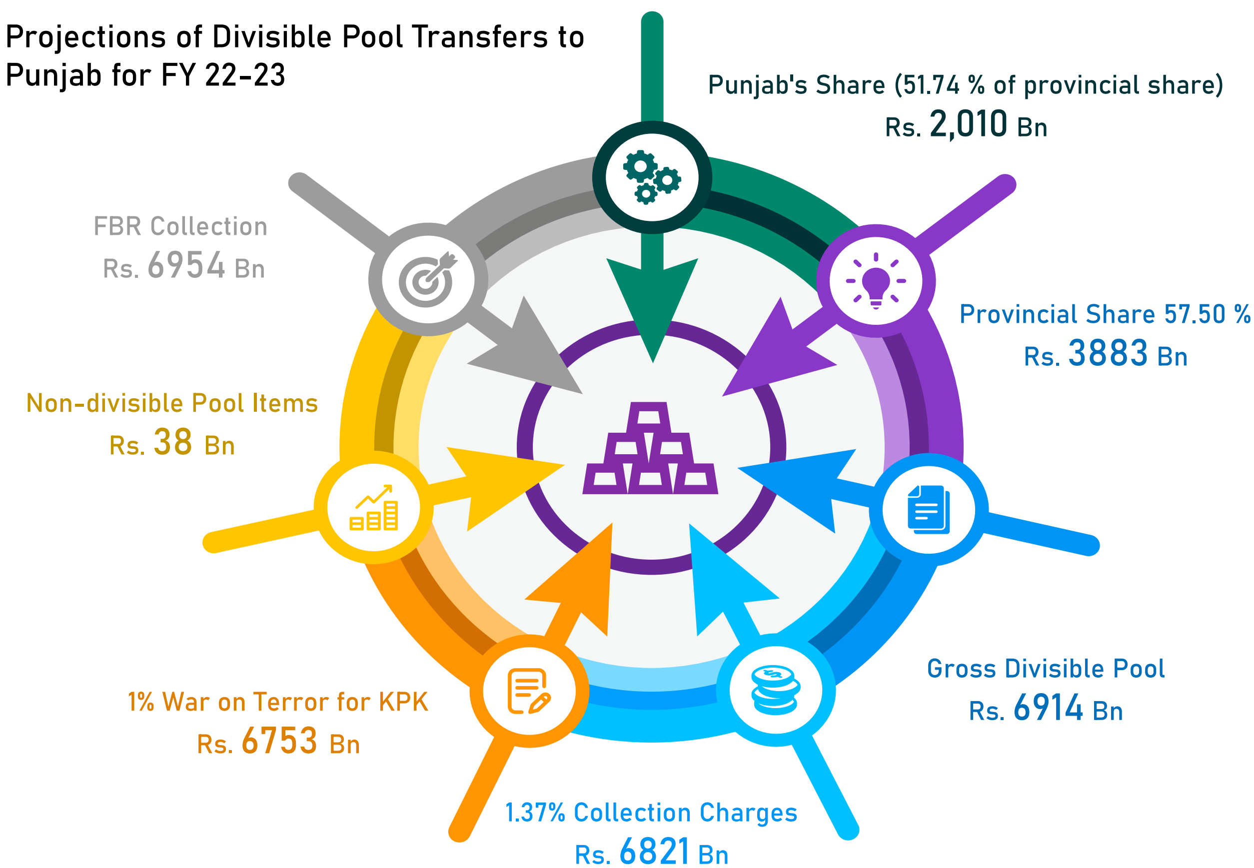
Projected FBR Collection

	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**

Based on these projections, the 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.

Projected Divisible Pool Transfers to Punjab

	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**



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

Projections of Provincial Tax Revenue

In FY21, the four provinces combined generated approximately 1.1 percent of GDP as their tax revenues[3]. Own source tax-to-GDP ratio for Punjab stands at 0.77% of estimated provincial GDP. It is important to continue the existing momentum of growth in provincial taxation in years to come to take the province closer to its potential tax revenue. To pursue this objective in a structured manner, a Revenue Mobilization Strategy identifying key measures and targets has been formulated.

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 slightly above Rs. 499 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
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**

[3] *Pakistan Fiscal Operations*

Projections of Own Source Tax Revenue

Tax Revenue Projections FY 22-23

Total Tax Receipts:
Rs. 333.7 Bn

Punjab Rev. Authority:
Rs. 204.47 Bn

BOR:
Rs. 75.23 Bn

Excise & Narcotics Control
Rs. 52.39 Bn

Transport Receipts:
Rs. 1.46 Bn

Energy:
Rs. 0.22 Bn

Projections for Provincial Non-Tax Revenue

Punjab's non-tax collection is likely to fall short of the target mainly on account of lower receipt of arrears of Net Hydel Profit (NHP) and meagre receipts under state land disposal by the Board of Revenue. Considering the current macroeconomic scenario, Punjab is unlikely to get the arrears and ongoing liabilities of NHP in FY23. Similarly, as a result of overall efforts to reduce fiscal deficit, PSDP allocations may shrink. Shortfall in receipts of Irrigation Department are also noted. The following NTR projections take these into consideration.

Projections of Own Source Non-Tax Revenue

Department		Projections (bn)			
	21-22 (BE)	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**

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 in the medium term:

Projections of General Revenue Receipts

		Projections (bn)			
	BE 2021-22	**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**

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 Gross Sub-National Domestic Product (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.

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):

Projections for Current Capital Account of Account-1 of Punjab

		Projections (bn)			
	BE 2021-22	**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)**

The 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 of 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 sizable exchange rate depreciation of Pakistan rupee, OLMT principal repayments beginning in FY24, and relatively inelastic capital expenditures on account of investments in Punjab Pension Fund and Punjab General Provident Investment Fund. Capital account, therefore, continues to show deficit.

Projections for Current Expenditure

The current expenditure of the Government was estimated at Rs.1,427.8 billion in budget FY22. This is, however, projected to be Rs.1,424 billion which is close to the budget. Expenditures included in the non-development budget such as salary and pension, and transfers to local governments etc. are inflexible. It may be noted that any special one-time provision such as subsidies, grants or other social protection measures are not included in expenditure projections.

Projections of Current Expenditure

		Projections (bn)			
	BE 2021-22	**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**

Projections for Resources for Development Expenditure

Following table provides projection of available resources for development in view of the projections of resources, current expenditure, net capital financing and project financing.

Projections of Resources for Development

			Projections (bn)			
		BE 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**

3

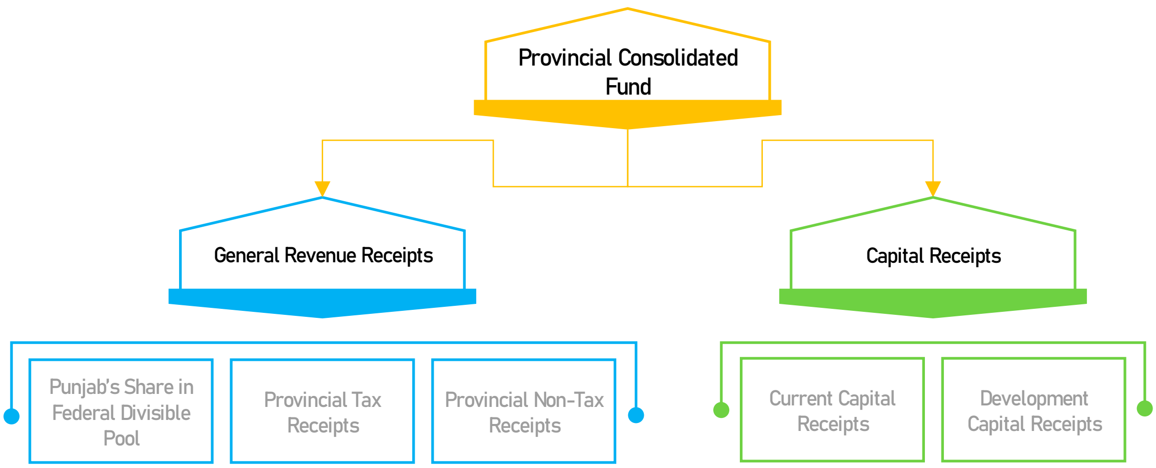
ESTIMATES OF RECEIPTS

Annual Budget Statement is considered a virtual manifestation of the priorities and objectives of a Government. For administrative purposes, however, the plan is reflected in terms of estimates of Receipts and Expenditure during a Fiscal Year. This Chapter aims to provide a comprehensive analysis of the Receipts of the Provincial Government in FY 2021-22 and projections for FY 2022-23.

Classification of Receipts by the Provincial Government

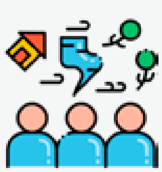
1 General Revenue Receipts & 2 Capital Receipts

The following diagram provides sub-categories of Receipts under the two main categories of Provincial Receipts:



Provincial Receipts comprise Federal Divisible Pool transfers, Own Source Revenue (Provincial Tax Receipts and Non-Tax Receipts) along with loan amounts raised by and returned to the Province. It is pertinent to mention that the Divisible Pool transfers per capita (inflation adjusted) have decreased over recent years, resulting in shrinking resources for provincial governments. To address the shortfall, Government of Punjab has been strategizing to enhance the Provincial Own Source Revenue while reducing dependence on Federal Divisible Pool transfers. This is essential to ensure financial sustainability and consistent allocation of adequate resources for development in the Province. A major area of focus has been increasing tax base through improvement in tax compliance and enhanced documentation of the economy. Moreover, the Government undertakes on-going engagements with multilateral development agencies to raise financial loans that contribute towards enduring development and progress in high impact sectors.

01



Relief

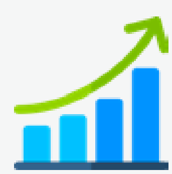
Relief / economic stimulus for businesses

02

Social Protection

Social Protection by providing relief to the poorest segment most impacted by the steep inflation

03



Revenue Generation

Revenue generation through economic growth and broadening of the tax base rather than increasing rates

Among Pakistan's federating units, Punjab continues to lead in its efforts to address the economic fallout from the COVID-19 pandemic along with the harsh financial constraints being faced by the citizens. Government of Punjab has adopted a proactive approach to mitigate the negative impact on businesses by framing a Relief Package worth more than **Rs 35 billion**. Furthermore, subject to the global and domestic financial conditions, it is expected that the provincial economy will be on a growth trajectory during FY 2022-23. Keeping in view the foregoing, a multi-dimensional Fiscal Strategy has been adopted with a focus on striking a balance between provision of relief, revenue generation and social protection.

Subsequent to multiple rounds of Finance Department's meetings with major tax-collecting agencies, a comprehensive analysis of Punjab's Relief Package and Departmental proposals for the FY2022-23 has been conducted. This has resulted in generation of additional provincial revenue estimated at **Rs 17 billion** for FY-2022-23. Following are the key recommendations finalized by the Committee on Resource Mobilization:

Punjab's Resource Mobilization & Relief Proposals: Key Recommendations

- Extension of Reduced PSTS for 30+ Sectors
- Harmonization of PRA Procedures with FBR and other Revenue Authorities
- 95% Exemption for Electric Vehicles on Motor Vehicle Registration and Token Tax
- Revision in e-Auction Policy for Vehicle Registration Marks
- Enhancement of Rate of Stamp Duty from 1% to 2% in Urban Areas
- Enhancement in Rates of Luxury House Tax

The table below summarizes the estimates of total Provincial Receipts of the Government:

(PKR Billion)

Receipts	BE 2021-22	RE 2021-22	BE 2022-23
a. General Revenue Receipt	**2,088.304**	**2,182.196**	**2,521.289**
Federal Divisible Pool	1,683.696	1,761.166	2,020.738
Provincial Taxes	272.566	276.694	337.025
Provincial Non-Tax	132.042	144.336	163.526
b. Capital Receipts A/C-I	**119.370**	**76.919**	**109.122**
Current Capital Receipts	54.148	43.603	47.509
Development Capital Receipts (Foreign Projects Assistance)	65.222	33.316	61.613
c. Capital Receipts A/C-II	**420.339**	**512.350**	**550.980**
d. Innovative Financing	**25.000**	**9.300**	**45.000**
Total Provincial Consolidated Fund (a+b+c+d)	**2,653.014**	**2,780.765**	**3,226.391**

General Revenue Receipts

The primary components of General Revenue Receipts are **Federal Divisible Pool**, **Provincial Tax Receipts** and **Provincial Non-Tax Receipts**. The table below outlines the details of Budget Estimates and Revised Estimates of General Revenue Receipts for FY 2021-22 in comparison with the anticipated Budget Estimates for FY 2022-23:

(PKR Billion)

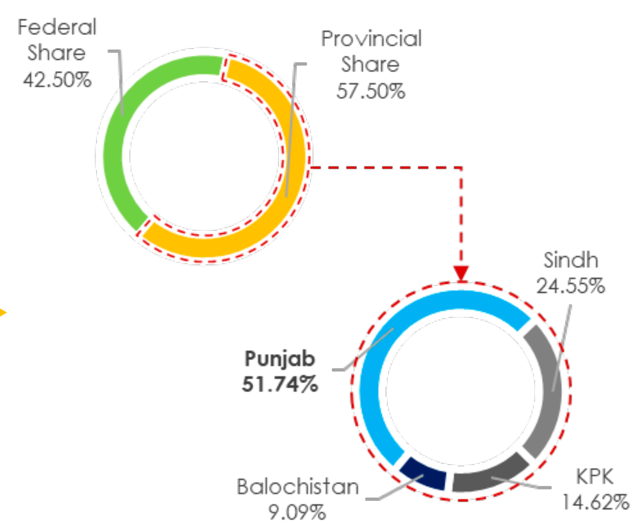
General Revenue Receipts	BE 2021-22	RE 2021-22	BE 2022-23
Federal Divisible Pool Taxes	**1683.696**	**1761.166**	**2020.738**
Tax on Income	626.878	639.065	743.232
Land Customs	225.971	276.266	302.166
Sales Tax	729.950	750.035	855.955
Capital Value Tax	0.164	0.132	0.154
Federal Excise	100.313	95.325	118.803
Excise Duty on Natural Gas	0.419	0.343	0.428
Provincial Tax Revenue	**272.566**	**276.694**	**337.025**
Board of Revenue	65.950	70.820	95.000
Excise, Taxation & Narcotics Control Department	42,766	39.182	43.500
Transport	0.700	0.991	1.005
Finance (Punjab Revenue Authority)	155.900	165.500	190.000
Energy	7.250	0.200	7.520
Provincial Non-Tax Revenue (Including Straight Transfers and Grants)	**132.042**	**144.336**	**163.526**
Income from Property and Enterprise	26.848	3.573	37.125
Receipts from Civil Administration and Other Functions	17.978	18.352	43.037
Miscellaneous Receipts	87.216	122.411	83.364
Total General Revenue Receipts	**2,088.304**	**2,182.196**	**2,521.289**

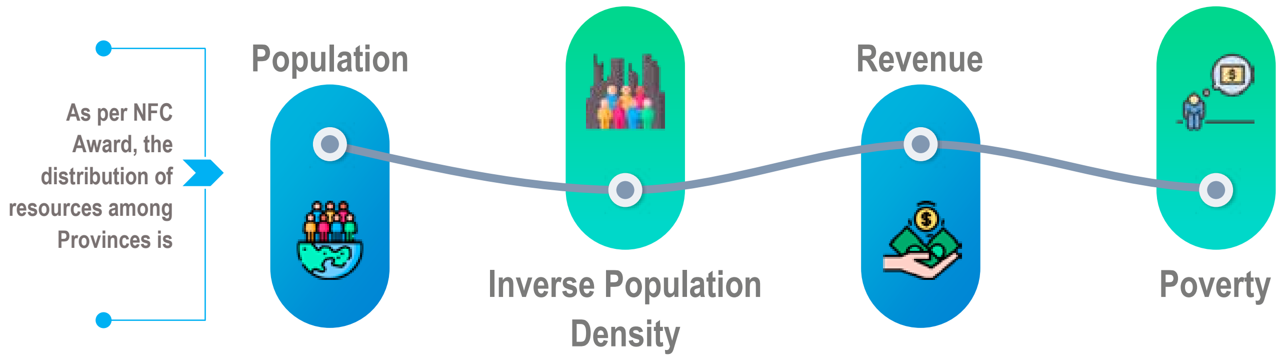
FEDERAL DIVISIBLE POOL TAXES

The major source of revenue for the Provincial Government is the receipt of its share from the Federal Divisible Pool which constitutes approximately **80%** of the General Revenue Receipts projected for FY 2022-23. Under the 7th NFC Award, the Divisible Pool of Taxes as collected by FBR has been laid down as under:

Divisible Pool of Taxes as collected by FBR (under the 7th NFC Award)

- Taxes on income
- Wealth Tax
- CVT
- Taxes on sales and purchase of goods imported, exported, produced, manufactured and consumed
- Export duties on Cotton
- Customs-duties
- Federal Excise Duties excluding the excise duty on gas charged at well heads





Since Divisible Pool transfers constitute the significant proportion of General Revenue Receipts, even a small percentage variation between Federal Board of Revenue's Budgeted Estimates and Actual Collection leads to a major re-adjustment in Provincial Receipts. The following table shows the variance between Budget Estimates and Actual Tax Collection by FBR over the last four years:

(PKR Billion)

	2017-18	2018-19	2019-20	2020-21
Budget Estimates	4,013	4,435	5,555	4,963
Actual Collection	3,841	3,829	3,998	4,771
Excess/Shortfall	-172	-606	-1,557	-192
Excess/Shortfall (in Percentage)	**-4.29%**	**-13.66%**	**-28.03%**	**-3.87%**

Punjab's Estimated Federal Divisible Pool Receipts

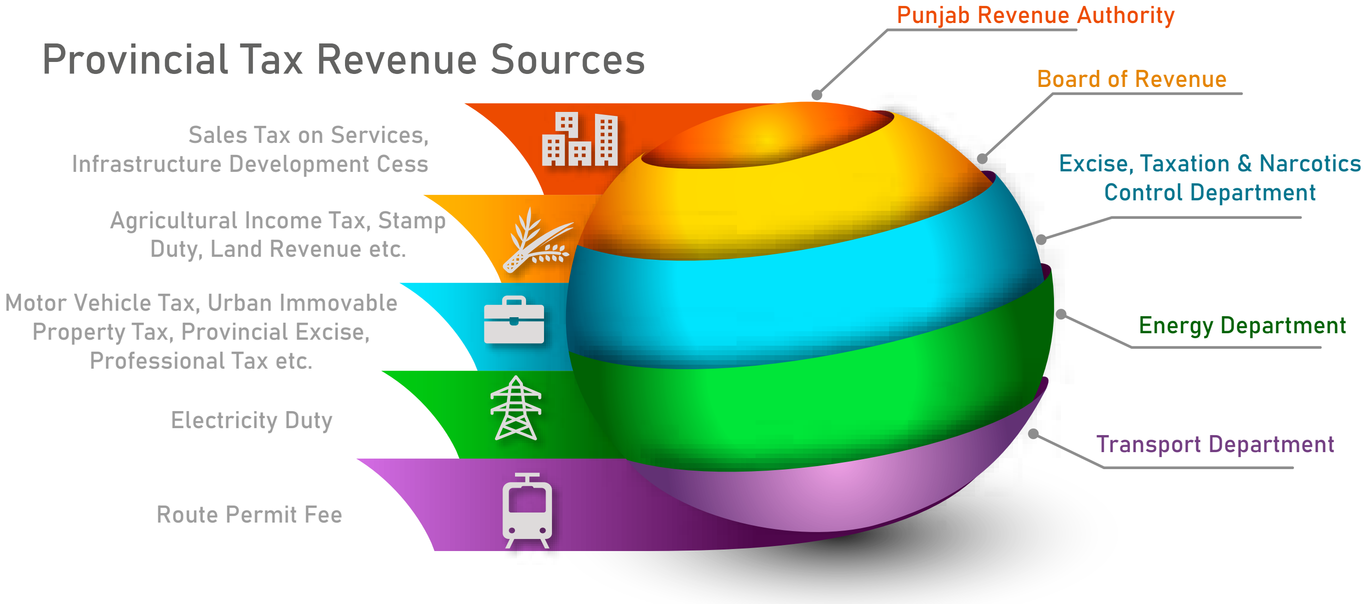
PKR 1,683.696 bn ← +20% → PKR 2,020.738 bn

B.E. FY 2021-22 B.E. FY 2022-23

Since the final tranche of the FDP is received during the last week of June each Financial Year, the settlement and reconciliation exercise for the entire FY (as well as the last two to three days of June) along with transfer the balance amounts to the Provinces in the form of arrears is undertaken in the first quarter of the next FY.

PROVINCIAL TAX REVENUE

The second component of the General Revenue Receipts is termed as Provincial Tax Revenue. The tax revenue is collected by the following agencies of the Government:



The details of taxes budgeted for FY 2022-23 is presented below:

(PKR Billion)

Tax Receipts	BE 2021-22	RE 2021-22	BE 2022-23
Punjab Revenue Authority	**155.900**	**165.500**	**190.000**
Sales Tax on Services	150.900	160.500	184.000
Punjab Infrastructure Development Cess	5.000	5.000	6.000
Board of Revenue	**65.950**	**70.820**	**95.000**
Agricultural Income Tax	5.250	2.500	2.850
Registration of documents	0.700	0.396	0.369
Land Revenue	20.000	20.148	24.063
Capital Value Tax	0.000	0.076	0.000
Stamp Duty	40.000	47.700	67.718
Excise, Taxation & Narcotics Control Dept.	**42.766**	**39.182**	**43.500**
Urban Immovable Property Tax	22.230	16.575	21.996
Tax on Professions, Trades and Callings	1.366	1.041	1.434
Receipts under Motor Vehicles	15.560	19.120	17.500
Provincial Excise	3.194	2.179	2.250
Tax on Luxury Houses	0.060	0.077	0.100
Other Indirect Taxes	0.356	0.190	0.220
Energy	**7.250**	**0.200**	**7.520**
Electricity Duty	7.250	0.200	7.520
Transport	**0.700**	**0.991**	**1.005**
Motor Vehicles fitness certificate and permit fee	0.700	0.991	1.005
Total Provincial Tax Revenue	**272.566**	**276.694**	**337.025**

The above table shows that tax collection by the Punjab Government during FY 2022-23 is estimated at **PKR 337.025 billion** as compared to BE 2021-22 of PKR 272.566 billion. Major increase in Provincial revenue is expected from Sales Tax on Services and Urban Immoveable Property Tax along with Stamp Duty. These taxes carry high potential through expansion of tax base and effective enforcement.

Punjab Revenue Authority (PRA)

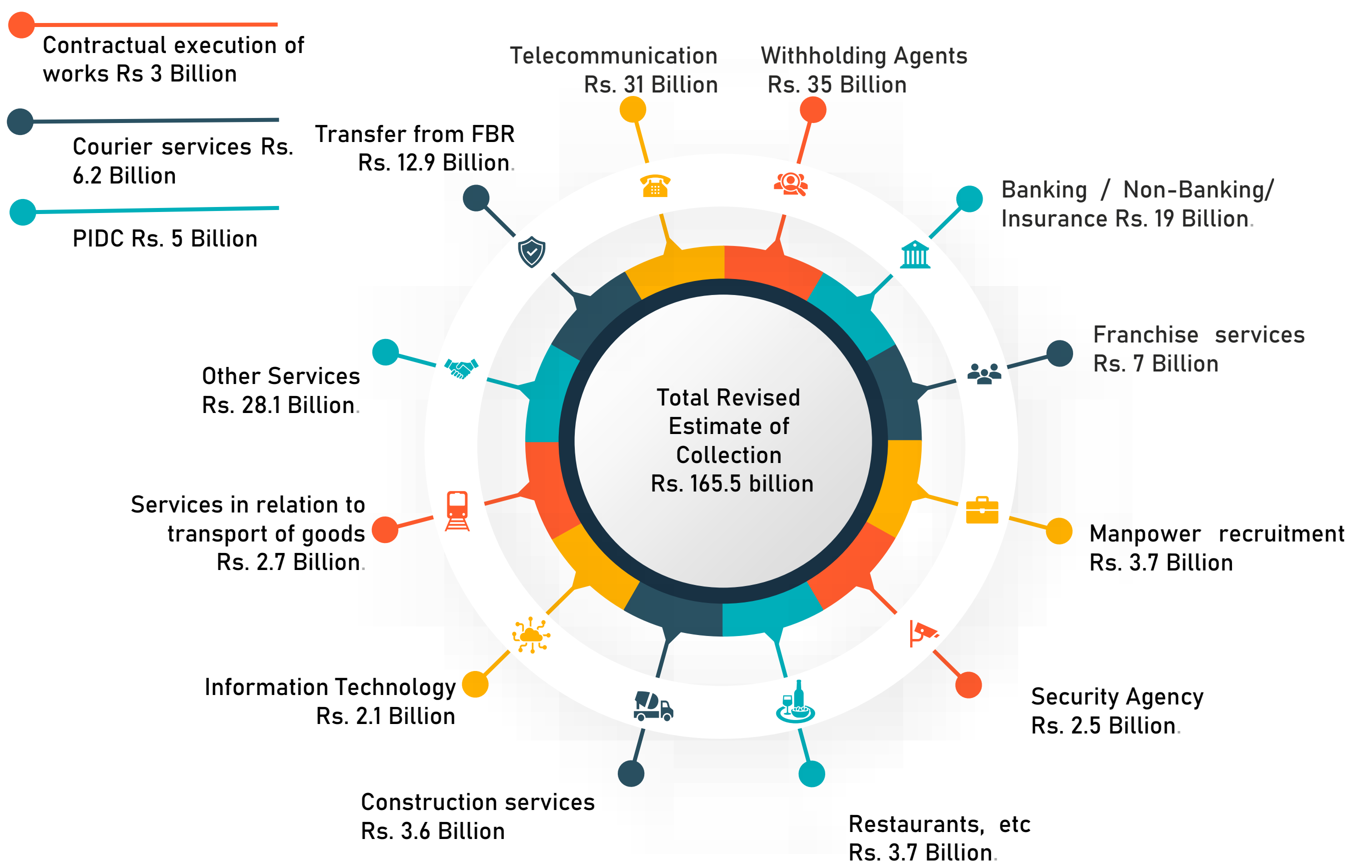
Punjab Revenue Authority was assigned a revenue collection target of PKR 155.900 billion for FY 2021-22. The target was based on the revenue collection trends of preceding years, revenue generation potential of the assigned taxes, expansion of tax base and tax policy measures taken by the Government. In spite of overall impact of COVID-19 and economic downturn on the service sector and the reduction of PSTS on 30 plus sectors under the **Tax Relief Package,** PRA has performed exceptionally well in terms of collection, subsequently, the R.E for FY2021-22 has been set at **PKR 165.500 billion.** This amount also includes the transfer of PKR 12.9 billion received from the FBR against Cross-Adjustment of input taxes of PRA.

PKR **190.0** bn
FY 2020-21 Target for Punjab Revenue Authority

22%
increase over Budget Estimates of FY 2020-21

Services such as Telecommunications, Banking / Insurance, Contractual Execution etc. were expected to be the primary revenue spinners for PRA during the financial year and have also generated the highest revenue amongst different sectors as shown below. The following table shows the Revised Estimates of collection from major Services during the year:

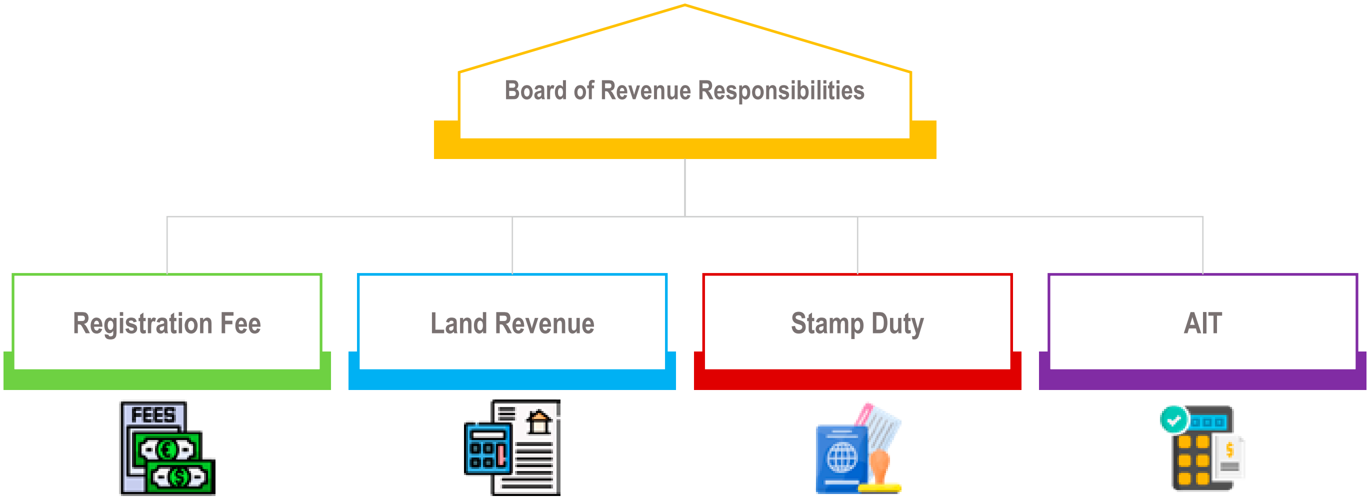
Sales Tax on Services Collection 2021-22 (Total PKR 165.50 bn)



PRA has performed admirably to maintain a consistently high growth in revenue collection over the recent past. Based on revenue trends, PRA has been assigned a target of **PKR 190.0 billion** for FY 2022-23 with an increase of **22%** over Budget Estimates of FY 2021-22. It is also pertinent to mention that the Government has maintained the reduced PSTS for numerous sectors from 16 to 5% to incentivize compliance and encourage broadening of the tax base.

Board of Revenue (BOR)

Board of Revenue's (BOR) collection target for FY 2022-23 is projected at **PKR 95.0 billion**. The major tax heads under BOR's purview are elaborated as under:



Agricultural Income Tax:

Agricultural Income Tax (AIT) is an important Direct Tax of Provinces, collected under the AIT Act of 1997. It is levied as a fixed amount per acre of land, or as a percent of income of owners of agricultural land, whichever is higher. The rates of Land Based Agricultural Income Tax under the Punjab Agricultural Income Tax Act, 1997 were most recently revised in 2019. The BE for AIT for FY 2022-23 is set at **PKR 2.9 billion**.

Land Revenue:

Land revenue is an expansive category and includes a variety of receipts related to land revenue functions, the largest being mutation fee. This category of Provincial Tax Receipts carries significant potential and is expected to contribute up to **PKR 20 billion** to the provincial exchequer during FY 2021-22. Resultantly, the BE for Land Revenue for FY 2022-23 is set at **PKR 24 billion** which is 20% higher than the BE of FY 2021-22.

PKR 20 bn	PKR 24 bn
Revised Estimate 2021-22	Budget Estimate 2022-23

Stamp Duty:

The Provincial Government has reformed the system by introducing e-Stamps to facilitate taxpayers, plug leakages, and to ensure greater transparency in the process of transfer of property. It has resulted in increased revenue generation since implementation of the reform initiative.

A priority area for the Federal and Provincial Governments has been the Construction Sector. In order to further boost the Sector, the Government of Punjab reduced Stamp Duty rates, for transactions of land in Urban areas to 1% from 5% during the Covid-19 pandemic. However, analysis of data during the period has revealed that while the number of transactions have almost doubled, receipts for the Government have declined over the same period. It is observed that due to the appeasement of the pandemic threat, along with a visible return to normalcy for the sector, Stamp Duty for Urban Areas has been revised upward at a rate of **2%**. Keeping in view the annual growth trajectory and revision in rates, the Budget Estimates of Stamp Duty for FY 2022-23 have been pitched at **PKR 68 billion** which is 69% higher than the BE of FY 2021-22.

Excise, Taxation & Narcotics Control Department

Excise, Taxation & Narcotics Control Department (ET&NC) provides services for collection of eight different levies / taxes. The Department aims to promote automation of its functions to optimize service delivery through reduced interface between public and Government officials. The major tax heads under purview of Excise, Taxation & Narcotics Control Department are indicated below:

Motor Vehicle Taxes:

Excise, Taxation & Narcotics Control Department collects 'Tax on Registration' and 'Token Tax' on motor vehicles. The BE 2021-22 of MV Taxes was PKR 15.560 billion. Compared to previous years, revenue through Motor Vehicle Taxes have reflected a significant increase in collection. The Revised Estimate for this tax has been pitched at PKR 19.120 billion, while the target for the next Financial Year 2022-23 has been projected at **PKR 17.5 billion**. It is also pertinent to highlight that Electric Vehicles would enjoy a **95%** exemption in fees for motor vehicle Registration and Token Tax.

Urban Immoveable Property Tax (UIPT):

The UIPT target for FY 2022-23 has been set at **PKR 22 billion**. This is a tax devolved to Municipal Committees, Municipal Corporations and Metropolitan Corporation under Local Government legislation in Punjab. However, for administrative purpose, it is being collected by the Provincial Government. The proceeds of this tax are subsequently passed on to the respective Local Governments/local agencies from where the tax is collected.

Administrative Relief Proposals for FY2022-23

Reg. Fee and Token Tax

- Waiver of penalty on late payment of motor vehicle tax in 1st and 2nd Quarter of FY 2022-23
- 5% Rebate for payment through ePay Punjab

UIPT

- Waiver of surcharge on late payment of UIPT in 1st and 2nd Quarter of FY 2022-23
- Collection of UIPT in 2 instalments
- 5% rebate for payment through ePay Punjab

Professional Tax

The Budget Estimate for FY 2022-23 with respect to Professional Tax has been set at **PKR 1.434 billion** against the Revised Estimates for FY 2021-22 which came to PKR 1.041 billion.

Provincial Non-Tax Revenue

Categories of Provincial Non-Tax Revenue

- Income from publicly owned property and enterprises
- Receipts from Civil Administration and other functions
- Extraordinary Receipts
- Miscellaneous Receipts from toll, fees, cess etc. collected by Provincial Departments (excluding Federal Grants and Development Surcharges and Royalties)

Revised Budget Estimates FY 2021-22 & Projected Budget Estimates FY 2022-23 are reflected in the table below:

(PKR Billion)

Non-Tax Revenue	BE 2021-22	RE 2021-22	BE 2022-23
Income from Property and Enterprises	**26.848**	**3.573**	**37.125**
Electricity (Net Hydel Profit)	12.500	-	15.000
Net Hydel Profit Arrears	12.500	2.500	20.000
Interest on Loans to District Govts. / TMAs	0.035	0.036	0.026
Interest on Loans to Non-Financial Institutions.	0.309	0.533	0.595
Interest on Loans & Advances to Govt. Servants.	-	-	-
Interest on Loans – Others	0.004	0.004	0.004
Dividends	1.500	0.500	1.500
Civil Administration and other Functions	**17.978**	**18.352**	**43.037**
Fiscal Administration	**1.205**	**1.442**	**1.446**
Law and Order	**7.555**	**6.543**	**7.040**
Justice	0.750	0.740	0.756
Police Department	6.600	5.561	6.032
Jails including Civil Defense	0.205	0.242	0.252
Community Services	**4.335**	**4.202**	**4.335**
Communications & Works	4.025	3.779	3.891
Public Health	0.310	0.423	0.444
Social Services	**4.292**	**5.530**	**29.566**
Education	2.106	3.695	2.149
Health	2.186	1.835	27.417
Housing and Physical Planning	**0.591**	**0.635**	**0.650**
Miscellaneous Receipts	**87.216**	**122.411**	**83.364**
Agriculture	1.147	1.807	1.250
Board of Revenue	30.356	2.077	25.500
Fisheries	0.380	0.500	0.466
Forest & Wildlife	1.020	1.127	1.011
L&DD	1.270	1.413	1.453
Cooperative	0.004	0.004	0.005
Irrigation	11.317	6.627	8.435
Industries	0.412	0.373	0.552
Mines & Minerals	11.660	11.200	12.000
Home	1.087	1.014	1.105

Misc.	18.724	19.517	19.608
Federal / Foreign Grants	2.437	68.721	4.391
Straight Transfers	7.402	8.031	7.588
Total	**132.042**	**144.336**	**163.526**

Income from Property & Enterprises consists primarily of profits of hydroelectricity generating units referred to as **'Net Hydel Profits' (NHP)** located in Punjab – in line with Article 161(2) of the Constitution of Pakistan 1973. An amount of **PKR 2.5 billion** was received as arrears of NHP during FY2021-22. The running payment for FY2022-23 is forecasted at **PKR 15 billion** while **PKR 20 billion** has been estimated as receipts against NHP Arrears, as reflected below:

The other main source of Revenue within the Non-Tax category is '**Interest on Loans**' advanced by the Government to financial and non-financial institutions. The revenue from '**Civil Administration & Other Functions**' can be divided as follows:

Civil Administration & Other

Law and Order

Receipts collected by Law Department from *sale proceeds of unclaimed and escheated property, court fees realised in cash, general fee, fines & forfeitures, receipt of official record room & recoveries of over-payments, etc.*

Receipts collected by Home Department include sale proceeds of articles manufactured in jail, fines, payments on services rendered including supplies made by workshop of department

Receipts collected by Police Department on account of police personnel deputed at the strength of Railways, Federal Government, public departments, fees, fines, forfeiture, motor driving license fee, traffic fines, e-challans, police land receipts and recoveries of overpayments.

Community Services

The Receipts from 'Toll on Provincial Roads and Bridges' are the major sources of income in this category. Levy of toll on 13 new roads has already been approved by the Government.

Social Services

These Receipts pertain to different social services like Health and Education etc. The Budget Estimate for FY 2022-23 has been set at **PKR 29.566 billion**

As a new revenue source for FY 2022-23, receipts through **Universal Health Insurance (UHI)** payments have been included with an estimate of **PKR 25 billion** to supplement the Province's Non-Tax Revenue collection. Under **Miscellaneous Receipts**, the Budgetary Estimates for FY 2022-23 have been determined at **PKR 83 billion**. Under Article 161 of the Constitution and the NFC Award, Straight Transfers to the Provinces include Net Proceeds of the Federal Excise Duty on Natural Gas, Net Proceeds of Royalty on Crude Oil and Natural Gas assigned to the Provinces. The table below presents an overview of Straight Transfer receipts:

(PKR Billion)

Component	BE 2021-22	RE 2021-22	BE 2022-23
Net Proceeds of Royalty on Crude Oil	3.648	5.687	5.571
Net Proceeds of Royalty on Natural Gas	1.732	1.429	1.713
Surcharge on Natural Gas-share of net	2.021	0.915	0.304
Total	**7.402**	**8.031**	**7.588**

Federal Grants

Public Sector Development Programme (PSDP) grants, received from the Federal Government, are essentially a pass-through item as far as Provincial revenues are concerned since these are transferred on to respective executing agencies for implementation of the relevant Federal Development Projects.

Foreign Program Grants
+
Public Sector Development Programs (PSDP)
=
Federal Grants

(PKR Billion)

Component	BE 2021-22	RE 2021-22	BE 2022-23
Programme Grants (Foreign i.e. PESP-II, NISP etc.)	2.437	3.721	4.391
PSDP Grants / Federal Grant (Dev + Non-Dev)	0.000	65.000	0.00
Total	**2.437**	**68.721**	**4.391**

(PKR Billion)

Particulars	BE 2021-22	RE 2021-22	BE 2022-23
DFID-Punjab Education Sector Project-II	-	1.921	-
National Immunization Support Project	1.347	1.355	0.819
Enhancing PPPs in Pakistan (Punjab)	0.644	-	-
IFAD-Southern Punjab Poverty Alleviation Project Program	0.244	0.254	0.166
JICA-Construction of Distribution Center, Rehabilitation of Old Jhal Khanuana Water Treatment Plant / Project for Improvement of Water Treatment Plant and Water Distribution System in Faisalabad	0.202	0.191	1.358
AFD - Project Management Unit for Construction of Waste Water Treatment Plant at Babu Sabu, Lahore	-	-	0.058
Japan Govt. - Provision of Clean Drinking Water in Pilot Areas of UC-99,100,101, Lahore	-	-	0.500
Japan Govt - Upgrading of Mechanical System for Sewerage and Drainage Services in WASA, Multan	-	-	1.490
Total	**2.437**	**3.721**	**4.391**

CURRENT CAPITAL RECEIPTS

Current Capital Receipts of the Province include all fresh loans borrowed or raised by the Provincial Government (except for loans for specific Development projects) and recoveries of loans granted to provincial entities / authorities / financial institutions, provincial employees or the District Governments. Current Capital Receipts may be credited either to the Provincial Government's Account No. I (Non-Food Account) or Account No. II (Food Account), depending on the nature of the receipt.

- Money raised through loans
- Budgetary support programmes of multilaterals
- Recoveries of principal amount of loans advanced by the Government to its Employees and Autonomous Bodies

Credited to Account I

- Receipts from sale of wheat
- Financing for procurement of wheat

Recorded in Account II

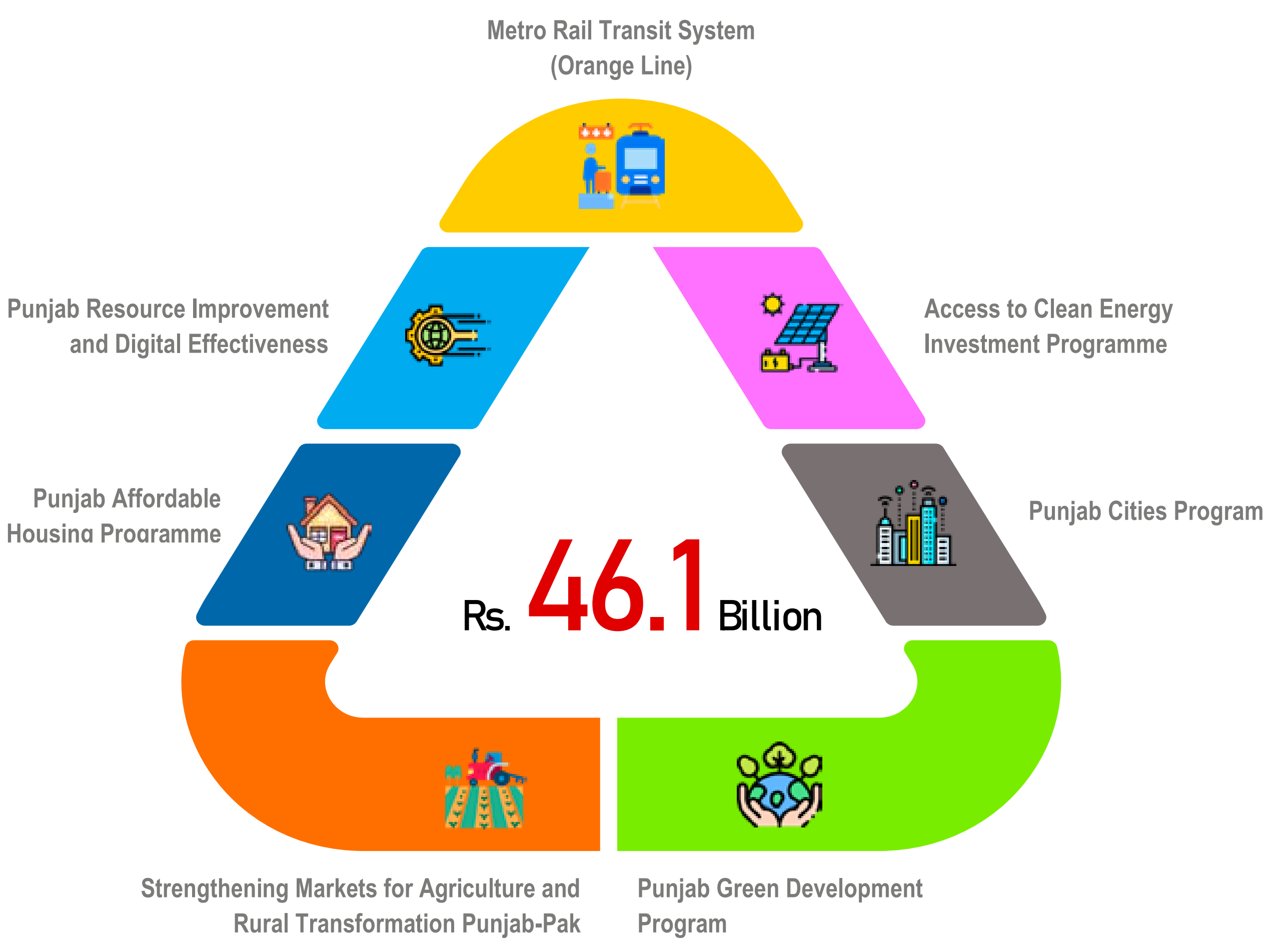
For the Financial Year 2022-23, the total Current Capital Receipts is estimated at **PKR 643.489 billion** compared to a Budget Estimate of PKR 449.487 during FY 2021-22. The table below provides a detailed comparison of Current Capital Receipts for FY 2021-22 and FY 2022-23:

(PKR Billion)

Receipts	BE 2021-22	RE 2021-22	BE 2022-23
Loans & Advances/ Recoveries of Loans and Advances	**3.049**	**1.264**	**1.373**
From District Governments/TMAs/Local Bodies	0.017	0.016	0.016
From Non-Financial Institutions	3.009	1.229	1.339
From Government Servants	0.024	0.018	0.018
From Private Sector (Taccavi Loans)	0.000	0.000	0.000
Debt	**51.099**	**42.339**	**46.136**
Permanent Debt-Domestic	0.000	0.000	0.000
Permanent Debt-Foreign	51.099	42.339	46.136
Account No. I Total	**54.148**	**43.603**	**47.509**
Recoveries of Investment-State Trading Schemes	217.434	236.543	272.980
Cash Credit Accommodation	202.905	275.807	278.000
Account No. II Total	**420.339**	**512.350**	**550.980**
Innovative Financing	**25.000**	**9.300**	**45.000**
Total Current Capital Receipts (Account No. I & II)	**499.487**	**565.253**	**643.489**

Account No. I - Permanent Debt: The Budget Estimates for FY 2022-23 for the permanent debt (foreign) have been set at **PKR 46.136 billion**. The Government is likely to receive budgetary support loans from World Bank under Punjab Education Sector Reform Program, Strengthening Markets for Agriculture & Rural Transformation (SMART), Punjab Green Development Program, Punjab Cities Program, Punjab Resource Improvement & Digital Effectiveness (PRIDE) Program and Punjab Affordable Housing Program (PAHP). It is also pertinent to highlight that Punjab will be receiving lower disbursement through the Metro Rail Transit System (Orange Line) under the agreement, which is likely to reflect a downward trend in capital receipts.

Detail of Loans	BE 2021-22	RE 2021-22	BE 2022-23
Punjab Education Sector Reform Programme-III	4.962	6.177	-
Access to Clean Energy Investment Programme	1.597	1.089	1.116
National Immunization Support Program	0.932	1.467	-
Strengthening Markets for Agriculture and Rural Transformation (SMART) Punjab	5.670	3.750	9.810
Punjab Cities Program	3.807	7.601	7.635
Punjab Green Development Program	6.804	3.821	7.311
Punjab Resource Improvement and Digital Effectiveness (PRIDE)	12.150	8.779	13.844
Punjab Affordable Housing Program (PAHP)	-	-	2.232
Metro Rail Transit System (Orange Line)	15.177	9.655	4.187
Total	**51.099**	**42.339**	**46.136**



Account No. II - Public Debt (Food Account): Food Account of the Province, commonly known as Account No. II, is also maintained with the State Bank of Pakistan. However, it is meant exclusively for transactions relating to state trading in food commodities by the Food Department.

Finances for Food Commodity purchases raised through 'Cash Credit Accommodation', carried out through a Consortium of Banks

Wheat Grain procured directly from farmers by the Food Department with Financing from Banking Consortia

Receipts from sale of wheat are then deposited in Account No. II, from where these are utilised to retire the Consortia Loans

During FY2022-23, an amount of **PKR 550.980 billion** is estimated to be received for commodity operations compared to the amount of PKR 420.339 billion realized during FY 2021-22.

Development Capital Receipts

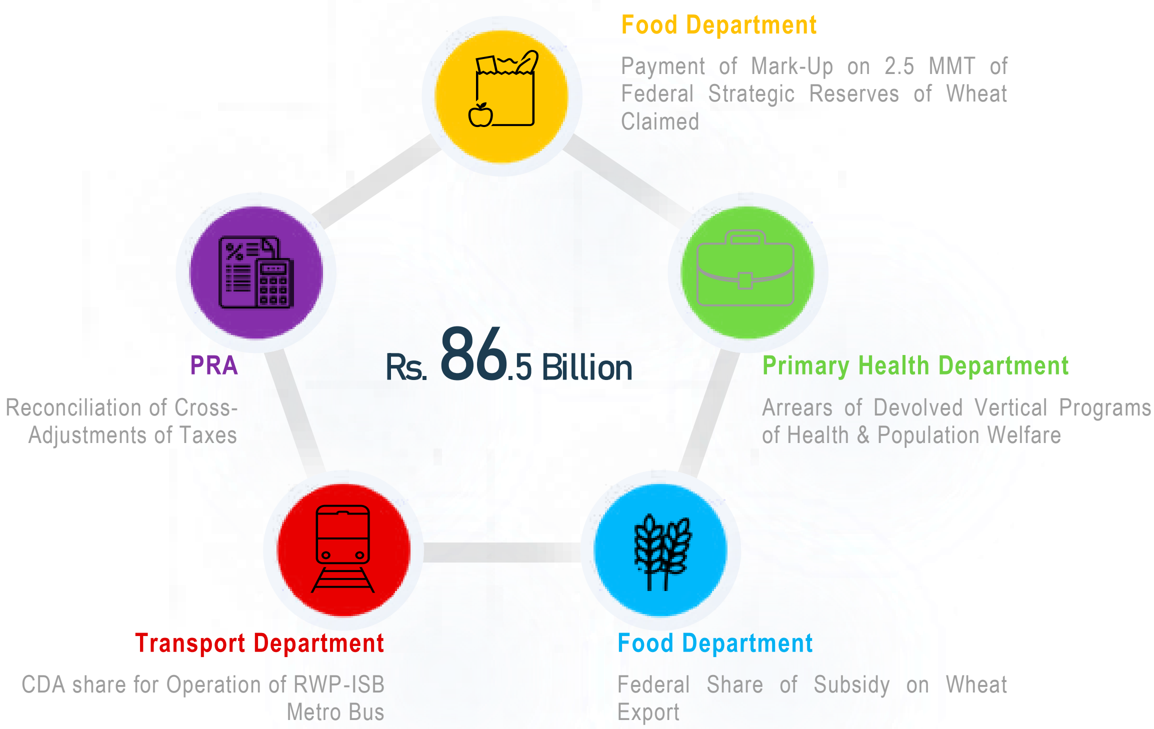
Loans obtained from multilateral donor agencies through the Federal Government for specific foreign-assisted development projects are termed as **Development Capital Receipts** or **Foreign Project Assistance**. The estimated Receipts are to be utilized for a number of Development projects for which a total of **PKR 61.613 billion** worth of loans for Development projects are expected to be realized during the FY 2022-23 including new projects (in pipeline) which are expected to be signed during next financial year.

Receivables from Federal Government

At the beginning of FY2021-22, claims of various Provincial Departments, pending with the Federal Government came to the tune of PKR 84.946 billion (excluding NHP dues of approximately PKR 57.958 Billion). During the CFY2021-22, an amount of PKR 12.959 billion due to Punjab Revenue Authority on account of Cross-Input Adjustment of Taxes was settled and credited to Punjab. However, an outstanding claim of **PKR 86.493 billion** (excluding NHP dues) remains pending (details in table below) with the Federal Government. These claims, if received, would create additional fiscal space to bolster the Development budget of the Province.

(PKR Billion)

Issues	Department	Amount
Payment of Mark-Up on 2.5 MMT of Federal Strategic Reserves of Wheat Claimed	Food	36.023
Arrears of Devolved Vertical Programs of Health & Population Welfare	Primary Health	32.28
Federal Share of Subsidy on Wheat Export	Food	9.96
CDA share for Operation of RWP-ISB Metro Bus	Transport	4.23
Reconciliation of Cross-Adjustments of Taxes	PRA	4.00
Total	**Total**	**86.493**



The Provincial Government of Punjab has repeatedly conveyed these claims to the Federal Government to encourage a timely resolution. Since a settlement on these issues cannot be guaranteed or anticipated for actualization of funds, it may, therefore, be appropriate to not budget these claims as Receipts for FY2022-23.

4

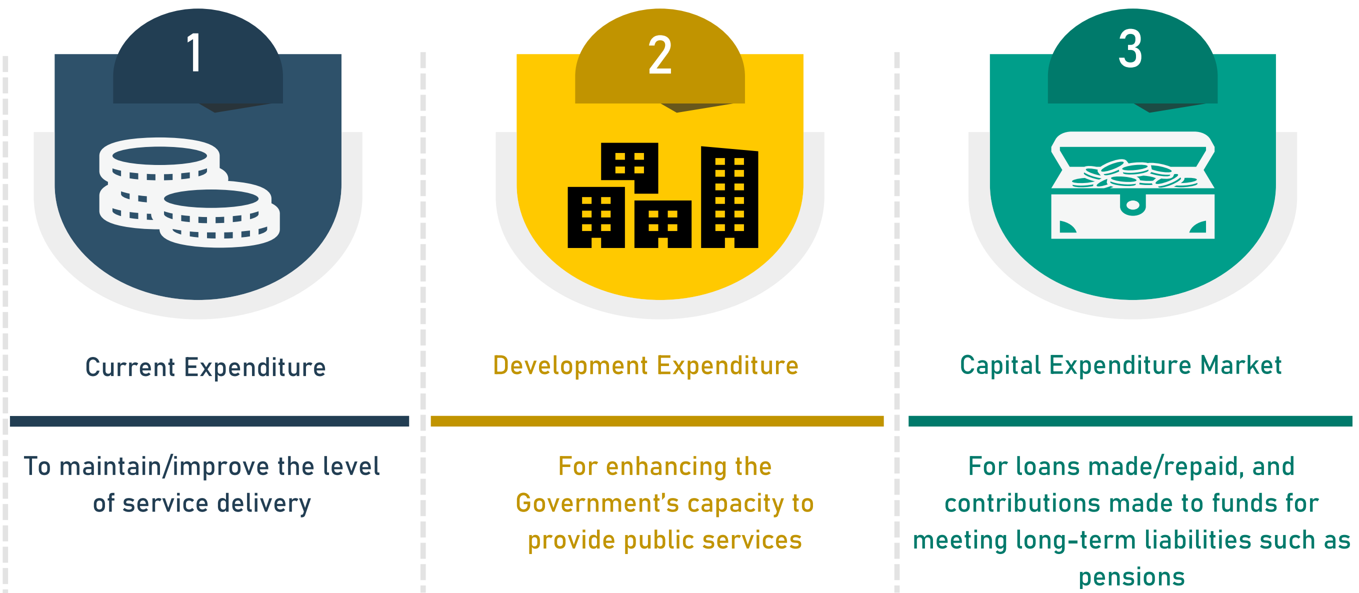
ESTIMATES OF EXPENDITURES

Chapter IV – Estimates of Expenditures

For the Government of Punjab, FY2022-23 heralds pro-people initiatives while grappling with fiscal limitations and challenges. Service delivery being the order of the day, social sectors, primarily health and education, have a large share of the pie. The Government is geared towards improving service delivery alongside prudent spending while prioritizing benefits to the common man; be it through provision of improved public services, subsidies on atta, edible oil/ghee, or public transport. To achieve this amidst financial constraints, non-essential spending will be discouraged through a stringent monitoring mechanism and regular reviews of Departments' spending priorities. Notwithstanding this austere approach, essential expenditures will not be curtailed, being vital for service delivery.

Government of Punjab is a strong proponent of an inclusive budget, the benefits of which should reach all segments of society, particularly the marginalized ones.

MAJOR COMPONENTS OF GOVERNMENT EXPENDITURE



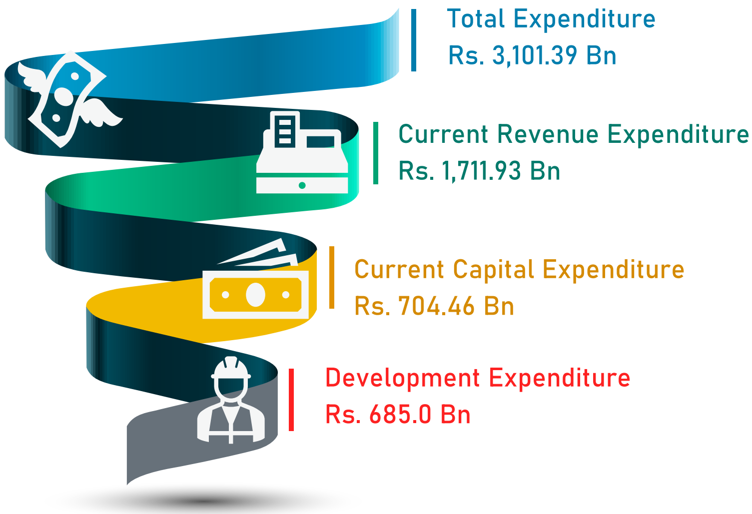
ABSTRACT OF EXPENDITURE FY 2022-23

(PKR in billion)

Classification	BE 2021-22	RE 2021-22	BE 2022-23
Current Revenue Expenditure	**1,427.900**	**1,423.667**	**1,711.929**
Social Sector	744.403	701.722	811.087
Infrastructure Development	47.637	65.450	52.419
Production Sector	66.704	86.494	85.916
Services Sector	557.045	557.295	648.330
Others	12.111	12.707	114.176
Current Capital Expenditure	**540.114**	**593.411**	**704.462**
Repayment of Principal	54.158	52.638	71.577
Investments	39.995	5.000	55.555
Loans and Advances (Principal)	25.621	22.764	25.850
State Trading in Medical Stores	-----	------	------

State Trading (Wheat) (A/C-II)	273.122	343.328	378.855
Repayment of Commercial Bank Loans (A/C-II)	147.217	169.021	172.125
Loans to Government Servants	------	------	------
Loans to High Court Judges	------	0.659	0.500
Development Expenditure	**560.0**	**647.9**	**685.0**
Annual Development Program	560.0	648.0	685.0
Total Expenditure	**2,528.014**	**2,664.945**	**3,101.391**

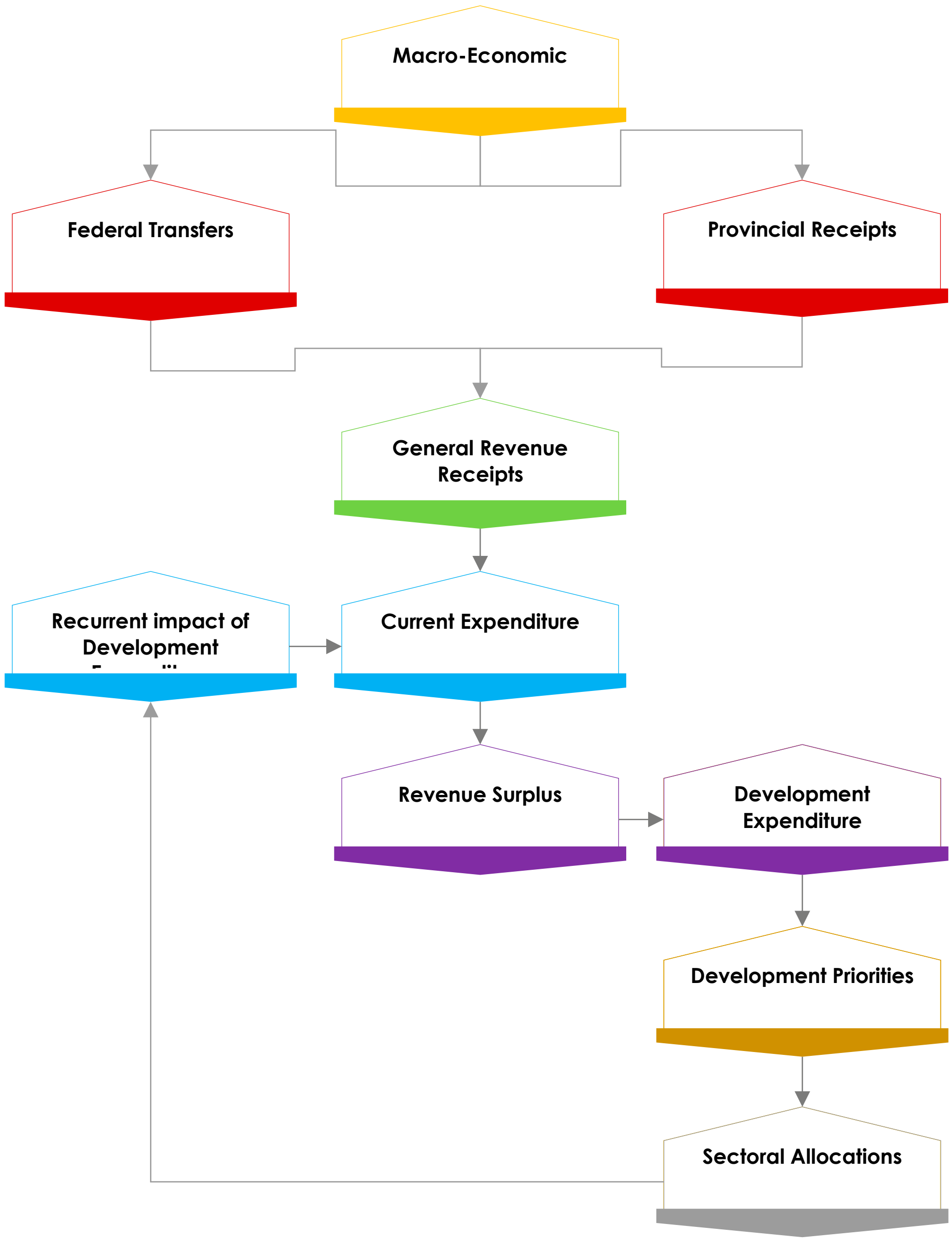
ABSTRACT OF EXPENDITURE FY 2022-23 (PKR in billion)



Articles 120 to 126 of the Constitution of Islamic Republic of Pakistan, 1973 lay down the framework for Annual Budget Statement, Demand for Grants, Charged and Voted Expenditure out of Provincial Consolidated Fund, procedure for Annual Budget Statement, Authentication of Schedule of Authorized Expenditure and procedure for Supplementary Grants for excess expenditure.

Current expenditure and current capital expenditure are followed by development expenditure, which is met from the net surplus available to the Government. In addition to funding from the Provincial Consolidated Fund, development initiatives also receive financial support from foreign aided projects. The aims is to ensure maximum funding for development needs without compromising on essential areas of current and capital expenditures.

Budgetary Framework



Against various components of expenditure, a comparison of allocations in year 2021-22 and 2022-23 is explained below:

(PKR Billion)

Classification	BE 2021-22	RE 2021-22	BE 2022-23
Current Revenue Expenditure	1,427.900	1,423.667	1,711.929
Current Capital Expenditure	540.114	593.411	704.462
Development Expenditure	560.000	647.867	685.000
Total Provincial Consolidated Fund	**2528.014**	**2,664.945**	**3,101.391**

The current revenue expenditure has been estimated at PKR 1,711.9 billion for FY2022-23, 20% higher than the outgoing fiscal year.

SOCIAL SECTOR (9% increase from last year's allocation)

(PKR Billions)

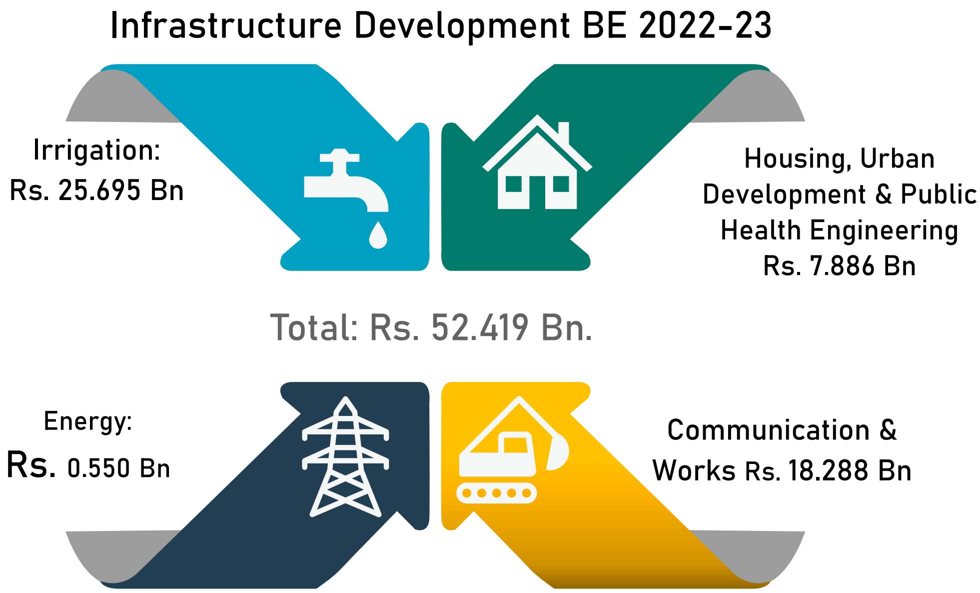
Social Sectors	BE 2021-22	RE 2021-22	BE 2022-23
School Education	349.684	342.227	382.060
Higher Education	37.498	38.763	45.577
Special Education	0.292	0.336	0.325
Literacy and Non-Formal Education	0.483	0.458	0.595
Youth Affairs & Sports	1.174	1.149	1.334
Specialized Health & Medical Education	137.927	122.808	150.725
Primary & Secondary HealthCare	135.508	130.709	145.375
Population Welfare	7.444	7.605	7.983
Social Welfare & Bait ul Maal	2.960	2.931	3.189
Women Development	0.342	0.237	0.373
Local Government & Rural Development	71.092	54.499	73.552
Total	**744.404**	**701.721**	**811.088**

Public health, be it preventive or curative, is the top priority area for the Government. The focus is on providing the best possible patient care by engaging adequate number of well qualified and trained professionals and best available medical equipment along with medicine stocks at all levels, be they BHUs, RHCs, THQs, DHQs or teaching/allied hospitals. Improvement in facilities and cleanliness is also being ensured. Equally prioritized is preventive care which entails large scale door to door vaccination drives and other noteworthy initiatives requiring engagement of human resource and purchase of medicines/vaccines and supporting equipment. Funds are also being transferred to District Health Authorities empowering the local governments to incur expenditure according to the needs of the population. Equal importance is attached to the education sector. As in the health sector, funds are being provided to the District Education Authorities to prioritize spending on education at the level of the local governments. Another important area of public sector spending is provision of clean drinking water, sanitation services and community development. Funds are being transferred as PFC share to Metropolitan Corporations, Municipal Corporations, Town/Tehsil Councils and Union Councils. The local governments are well positioned to incur expenditure at their level to address public needs.

INFRASTRUCTURE DEVELOPMENT (10% increase from last year's allocation)

(PKR in billion)

Infrastructure Development	BE 2021-22	RE 2021-22	BE 2022-23
Communication & Works	15.321	25.696	18.288
Irrigation	24.243	26.253	25.695
Energy	0.483	0.496	0.550
Housing, Urban Development & Public Health Engineering	7.590	13.006	7.886
Total	**47.637**	**65.451**	**52.419**



The Government's focus on infrastructure development not only ensures an increase in physical capital assets but also improvements in public service delivery and socio-economic betterment through employment generation.

PRODUCTION SECTOR (29% increase from last year's allocation)

(PKR in billion)

Production Sectors	BE 2021-22	RE 2021-22	BE 2022-23
Agriculture	28.007	30.326	38.423
Forestry, Wildlife & Fisheries	6.248	6.563	7.175
Food	5.453	22.424	11.830
Livestock & Dairy Development	14.116	13.824	15.107
Industries, Commerce & Investment	11.301	11.866	11.290
Mines & Minerals	0.950	0.980	1.324
Tourism & Archaeology	0.629	0.511	0.766
Total	**66.704**	**86.494**	**85.915**

The province serves as the food basket for the country. The production sector, therefore, remains of critical importance for food security and agri-based industry. The Government is provisioning for a subsidy of PKR 17 billion as an agricultural package with predominant focus on availability of fertilizers at subsidized rates. Additionally, relief on essential household items is also being planned to support needy segments of the society.

SERVICES SECTOR (17% increase from last year's allocation)

Services sector includes expenditure on provision of services related to the executive and legislative organs. The Government remains committed to improving the performance of its administrative and regulatory institutions with provision of adequate, yet rationalized, budget for carrying out of its operations.

(PKR in billion)

Services Sectors	BE 2021-22	RE 2021-22	BE 2022-23
Services & General Administration	41.050	41.702	46.710
Labour & Human Resource	1.377	0.774	1.518
Transport	15.844	15.759	18.436
Home Department	15.499	18.987	19.017
Punjab Police	128.941	144.335	149.019
Law & Parliamentary Affairs	2.265	2.100	2.551
Provincial Assembly	2.992	2.966	3.688
Management & Professional Development	0.220	0.220	0.266
Chief Minister's Secretariat	0.781	0.912	0.806
Chief Minster's Inspection Team	0.124	0.138	0.131
Governor Secretariat	0.542	0.483	0.589
Board of Revenue	14.450	14.378	16.373
Excise & Taxation	2.208	2.652	2.500
Punjab Emergency Service	9.572	9.095	10.822
Relief	1.499	1.570	1.539
Finance	319.682	301.224	374.366
Total	**557.046**	**557.295**	**648.331**

Security continues to be a priority as it is essential for growth in trade and industry and for public wellbeing at large. As a strong advocate of reforms, the Government is focusing on improving prison conditions across the province so that reformed individuals return as productive members of the society. The Government also remains committed to provision of affordable public transport system for which an amount of PKR 17 billion has been kept in FY2022-23.

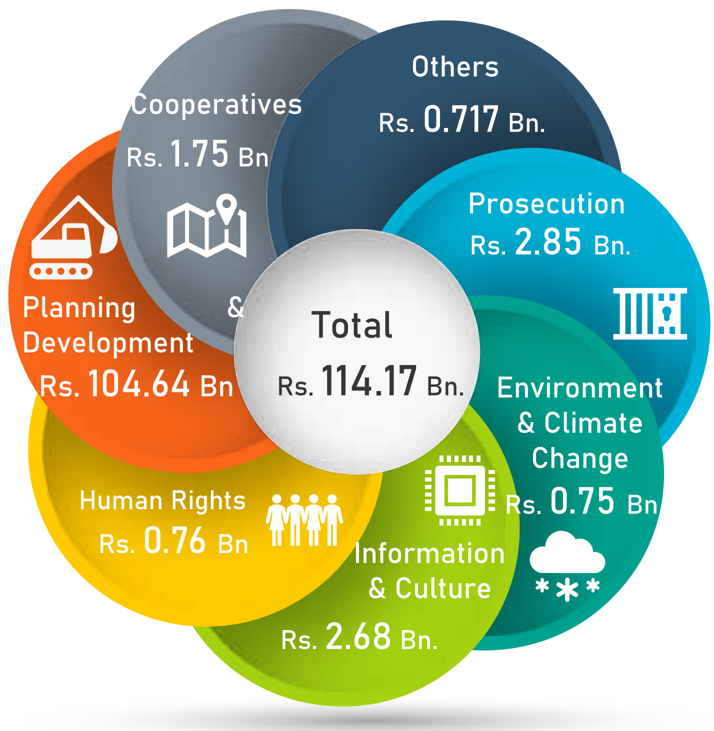
MISCELLANEOUS

This area incorporates governance and administration. The Planning & Development Board (P&D Board) formulates the development portfolio of the province and ensures that all sectors of the provincial landscape receive due importance and allocation in the development budget. The P&D Board monitors and evaluates all development activities on a regular basis to ensure timely completion and proper closure of projects and programs.

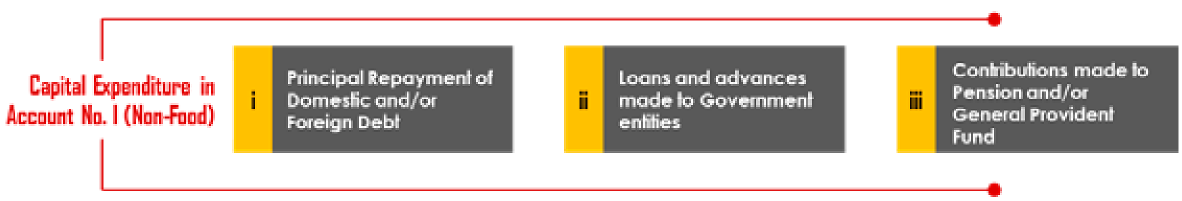
(PKR in billion)

Miscellaneous	BE 2020-21	RE 2020-21	BE 2022-23
Environment & Climate Change	0.598	0.726	0.751
Information & Culture	2.489	2.325	2.685
Auqaf & Religious Affairs	0.102	0.298	0.326
Human Rights & Minorities Affairs	0.403	0.173	0.761
Planning & Development	4.006	4.570	104.650

Zakat & Ushr	0.364	0.379	0.392
Cooperatives	1.568	1.553	1.757
Prosecution	2.582	2.685	2.855
Total	**12.112**	**12.709**	**114.177**



CAPITAL EXEPNDITURE



The Government of Punjab maintains Provincial Account No. II (Food) with the State Bank of Pakistan. Capital expenditure from this account is incurred on state commodity trading operations in food grains, especially procurement of wheat for maintaining critical stocks.

(PKR in billion)

Capital Expenditure	BE 2021-22	RE 2021-22	BE 2022-23
Debt Management - Repayment of Principal	54.158	52.638	71.577
Investment	39.995	5.000	55.555
Loans and Advances	25.621	22.764	25.850
Loans to High Court Judges	------	0.660	0.500
Loans to Government Servants	------	------	------

State Trading in Medical Stores	-----	-----	------
Total Account No. I	119.775	81.061	153.482
Public Debt Account No. II	420.339	512.350	550.980
Total Current Capital Expenditure	**540.114**	**593.411**	**704.462**

Lastly, it is important to note that introducing Public Financial Management (PFM) reforms is a priority area for the Government. These reforms will improve fiscal discipline and bring greater transparency and accountability to the utilization.

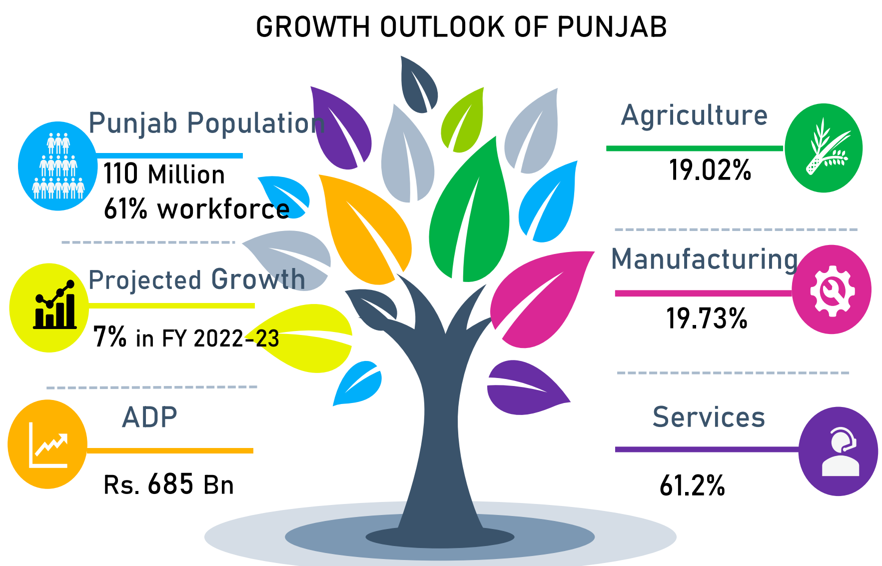
5

ANNUAL DEVELOPMENT PROGRAMME

GROWTH OUTLOOK OF PUNJAB

Punjab is home to 110 million people with a 53 percent share in Pakistan's population. Its contribution to the national economy is estimated at 54.2 percent. As for the sectoral distribution, Agriculture contributed 19.02% in the 2020-21 GDP of Punjab, which was a decline from 24.46% in 2005-06. Over the same period however, the contribution of the Industrial Sector increased from 18.97% to 19.73% and the services sector from 56.60% to 61.25%.

Punjab's economy is facing multifaceted challenges on account of both external and internal factors. While Pakistan experienced a gradual decline in the poverty headcount between 2000 and 2018, almost a third of its population remains multidimensional poor in 2022. The economic slowdown of the last few years and COVID-induced vulnerabilities further worsened the situation, resulting in unprecedented inflation in the country. The ongoing Russia-Ukraine conflict and its economic fallout is likely to continue reverberating across the globe in 2022, Pakistan being no exception. Therefore, a strategic vision backed by a sound development framework is vital to buffer the economy from further shocks and risks.



Government of the Punjab has a clear vision to generate economic growth that is both inclusive and sustainable. Strategic institutional frameworks and strategies have been used to effectively guide provincial policies, plans and budgets in the medium-term and long-term. Two of these key strategies include the Punjab Growth Strategy 2023 and Punjab Spatial Strategy 2047, which serve as guiding documents to inform government spending through the Annual Development Program. Punjab Growth Strategy 2023 highlights the importance of focusing on the development of agriculture sector and MSMEs, creating an enabling environment for the private sector, investing in building human capital, and aligning ADP sectoral allocations to developmental priorities to maximize the impact on growth. Punjab will continue to focus on human development by ensuring the provision of health, education and livelihood opportunities to its citizens. It will also make smart public investments to address regional disparities that institutionalize the spatial dimension of poverty.

Higher Government spending through the Annual Development Program in different sectors of the economy is the basic pre-condition for staying on course for achieving the targeted growth rate. To achieve a growth rate of 7% percent in 2022-23, the size of the Annual Development Program is being increased to Rs. 685 billion from Rs. 560 billion in the previous year; an increase of 22%.

KEY PRIORITY AREAS

Regional Equalization

The Government of Punjab places regional equalization among its core priorities. To this end, it will continue to make sustained efforts to address the existing development disparities across the different regions of Punjab through increased funding, improvements in the governance structure, and capacity-building measures. Punjab faces a critical challenge of imbalanced development. In overall numbers, South Punjab can be seen as more deprived relative to the rest of Punjab. This inequity reduces opportunities for economic growth and results in mass migration, as people tend to migrate to developed regions. After analysing poverty by districts and regions, it is found that over 42% of the households are poor in the South, compared to 19% for the rest of the Punjab. Data also indicates that districts in South Punjab lag behind in almost all key education and health indicators compared to the rest of the Punjab. The health and education expenditure differences between South Punjab and the rest of Punjab serve to explain these glaring differences.

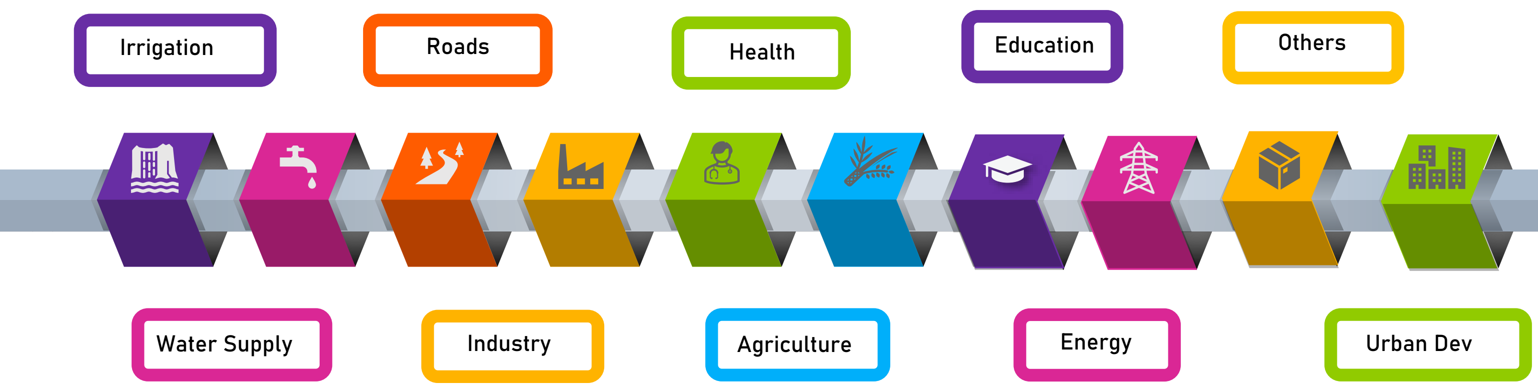
Punjab stands to gain significantly by improving inequity: it is found that a 1% decrease in the inequity ratio will reduce multidimensional poverty by almost 0.4%. In FY 2022-23, a 35% percent share in ADP has been earmarked for the development of South Punjab. This is in addition to the all-Punjab schemes in which the South will receive its proportionate share from the development budget.

The Government of Punjab has devised a multipronged strategy to enable regional equalisation. Firstly, industrial estates have already been established in Vehari, Rahim Yar Khan, and Bahawalpur. Punjab Industrial Estates Development & Management Company (PIEDMC) will be assigned to develop technical institutes in the industrial estates and creating employment opportunities for the locals. Efforts will also be made to attract foreign investment by declaring parts of the industrial estates as Special Economic Zones (SEZs). The government will invest in connecting routes to the Lahore–Sukkur motorway under CPEC to increase regional connectivity. Secondly, the Punjab Assembly legislated an Act which provides for 35% ring-fenced expenditure in South Punjab. This will ensure that the much-needed equity stays within the geographical boundaries of the region. Lastly, a number of substantial strategic interventions are being implemented in resource-deprived areas in multiple sectors, including health, education, WASH, agribusiness, industrial and social sectors.

Expanding Horizons in the China Pakistan Economic Corridor

Economic cooperation with China, under the umbrella of CPEC, remains one of the core priorities of the Government of the Punjab. From the inception of CPEC, Punjab has capitalized upon its conducive business environment to attract a significant number of Chinese Corporations, Companies, and investments in various public and private enterprises. The gains, for both countries, are expected to be manifold. FY 2022-23 envisions a shift towards a focus on Industrial, Agriculture, Science & Technology and Socio-Economic Cooperation.

The Government of the Punjab has made significant headway on a number of new development initiatives. Most importantly, despite limitations posed by COVID-19, the commercial operation of the monumental Lahore Orange Line Metro Train was launched in October 2020. The ridership of the project is at 110,000 passengers per day, which is expected to rise gradually. The Government is working on developing an integrated system to increase train ridership to make the project as self-sustainable as possible. Significant headway has also been made in the completion of the Allama Iqbal Industrial City in Faisalabad. Land acquisition process has been completed and work on infrastructure and provision of utilities is being undertaken in the full swing. Phase II of the project is expected to be completed by December 2024.



The Government of the Punjab plans to prioritize the implementation of socio-economic projects in FY 2022-23 as well. A number of socio-economic development projects have also been accorded approval for inclusion in CPEC, such as Punjab Tianjin University of Technology Project, Establishment of Burn Unit, Bahawalpur, Establishment of a Joint Cotton Research Laboratory in Punjab and Strengthening of Oil Laboratory to Assist Research Activities regarding Rapeseed crop.

Finally, the government has prepared a robust portfolio of project proposals, pertaining to industrial cooperation, socioeconomic development, agriculture, livestock and water resource development, energy, and transport infrastructure, and has recommended them for inclusion in the upcoming JCC Meeting. These include projects such as the Quaid-i-Azam Business Park in Sheikhupura, Extension and Rehabilitation of Rural and Urban Water Schemes in Punjab, Solar System on Tube Wells and Filtration Plants in various districts of Punjab, Establishment of Foot and Mouth Disease Free Zones and Suspension Culture Plant and FMD Research Centre Lahore, construction of a number of Small and Medium scale Dams, 135 MW Taunsa Hydropower project, and Faisalabad By-Pass Ring Road.

The Province of Punjab has a long-standing and deep cooperation with China and is engaged in a number of initiatives outside CPEC as well. In the last seven decades, the Punjab Province has established Sister-Province relationships with Guangdong, Jiangsu, Shandong, Sichuan and Tianjin Municipality of China which are main engines of China's industrial development and growth.

Revitalizing Potential of PPPs in Punjab

The Punjab PPP Act 2019 has laid the foundation of a conducive environment to attract private sector investment in physical and social infrastructure projects leading to improved service delivery. Under this Act, a new institutional arrangement has been provided for PPPs in Punjab, which includes PPP Policy and Monitoring Board (PPP P&M Board), PPP Authority and the Executive Committee of PPP Authority. The Act also provides for the role and responsibilities of the PPP Cell and Risk Management Unit with a clear segregation of functions. Further, the role of screening and development of proposals for PPP projects to be undertaken in the province has exclusively been assigned to the Punjab PPP Authority.

During FY 2021-22, the most prominent achievement in the PPP regime was the signing of Concession Agreement of the project titled, *"Procurement, Installation And O&M of Water Meters in Lahore Under PPP Mode"* on 11.03.2022, with a consortium of three Chinese firms operating through SPV titled, "XINLANG Lahore Water Metering (SMC-Private) Limited". The total project cost is estimated at 9.3 billion. In addition, two infrastructure projects: Dualization of Faisalabad-Chiniot-Sargodha Road (estimated cost of PKR 18.50 billion) and Dualization of Multan-Vehari Road (estimated cost of PKR 16.70 billion) have been approved for execution. International Tenders have been called for both the projects, expected to be awarded in the FY 2022-23. For the next Financial Year i.e. 2022-23, Government of the Punjab intends to take up the following projects in PPP Mode.

(PKR Million)

Sr. No	Project Title	Estimated Cost
1	Dualization of Multan Vehari Road	16,700.000
2	Dualization of Faisalabad Chiniot Sargodha Road	18,500.000
3	Rehabilitation of Wazirabad - Sambrial - Sialkot Road	10,000.000
4	Provision of Equipment, Operation and Management of 9 Permanent Weigh Stations for Axle Load Management in Punjab	1,000.000
5	Upgradation of Faisalabad Institute of Cardiology	4,000.000
6	Innovation Funds for Public Private Partnership	24,300.000

Sustainable Development Goals (SDGs)

The Punjab government's strategic priorities as well as institutional frameworks place an emphasis on rapid, sustainable, and regionally equitable growth, and are therefore in alignment with the 2030 UN Agenda for Sustainable Development. Policy guidance frameworks such as Punjab Growth Strategy 2023, and Punjab SDGs Framework guide provincial policies, plans and budgets, and ensure alignment of Punjab's development priorities with the SDG Agenda 2030.

In 2021-22, the Government of Punjab made significant progress in improving access to healthcare despite the COVID-19 pandemic through initiatives such as 'Implementation of Universal Health Coverage under Health Insurance Program in Punjab' and the establishment of a dedicated 'Pakistan Kidney and Liver Institute and Research Center' in Lahore. Furthermore, projects such as 'Imparting education through private participation (PEF)' and 'Insaaf Afternoon Schools Program' made significant contributions to improving education outcomes in Punjab. In 2022-23, the Government will continue to focus on improving school education through dedicated projects.

The government also aims to target marginalized and vulnerable groups through projects such as the "Sarparast", which provides stipends and skills development to low income widows. In light of the need for treatment of waste water and surface water, the government has prioritized allocation for projects such as "Lahore Water and Waste Water Management Project - Construction of Surface Water Treatment Plant at BRBD Canal Lahore", "Construction of Eastern Wastewater Treatment Plant 45 MGD of Faisalabad City Phase-I (DANIDA Assisted)" and "Punjab Rural Sustainable Water Supply and Sanitation Project". Additionally, in pursuit of regional equalization, the "Southern Punjab Poverty Alleviation Project" is being implemented which is a multi-component project that focuses on livelihood enhancement through the transfer of productive assets, and agriculture and livestock development.

Gender Empowerment

As a common national agenda, the Government of Punjab is fully committed to bridging of the vast gender gap that exists in society. The entire provincial administrative and planning and development machinery is geared towards bridging this divide. Gender equality and the empowerment of women are cross-cutting issues for all development policies. By strengthening the related institutions and enhancing their capacity, Punjab Government aspires to work for the development of women, enhancement of their participation in economic activities, augmentation of their control over financial resources, and reduction of gender disparity in access to education, health, and employment.

With regards to planning, it is widely acknowledged that the gender disaggregated data helps policy makers make informed and smart decisions. Taking cognizance of data gaps that inhibit effective evidence-based policy making, the Punjab ADP guidelines emphasize the use of gender and other disaggregated data as a means of identifying the needs of marginalized groups. Therefore, all projects, whether at the feasibility or approval stage, are viewed through the gender lens, to ensure that gender empowerment, especially gender-based budgeting, is accounted for effectively. The ADP 2021-22 has an array of women-focused schemes amounting to Rs. 110 billion which are supplemented with more such plans with a budget outlay of Rs. 40.95 billion.

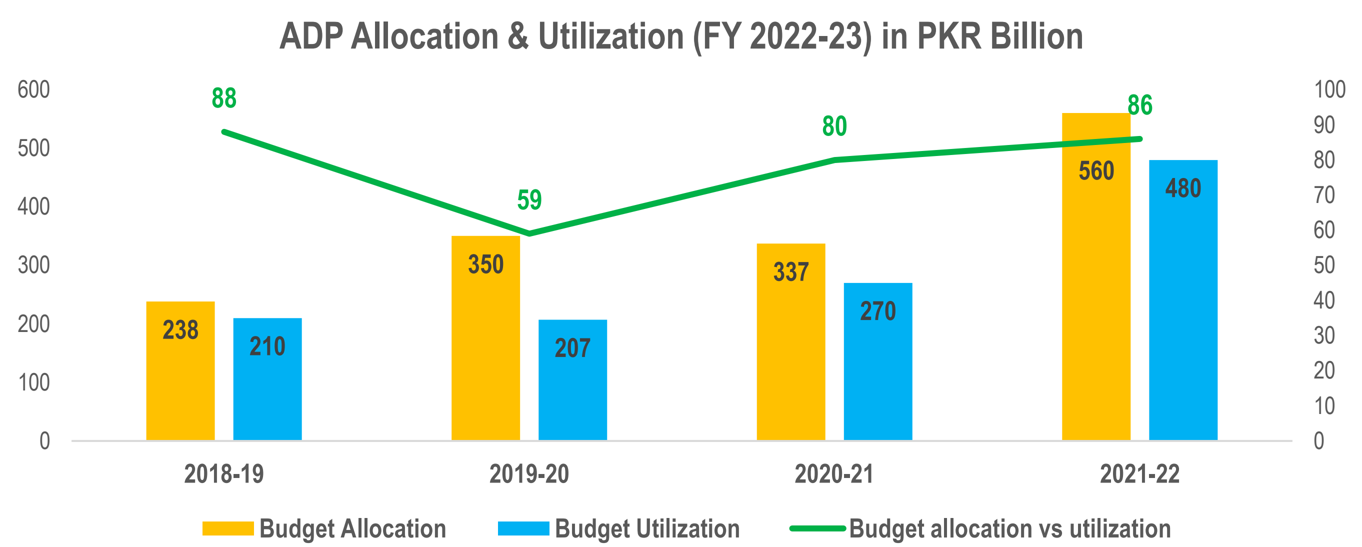
In FY 2022-23, Budget allocation patterns indicate a significant rise in allocation over last year's allocation. Major initiatives include the construction of women development office complexes, multipurpose complexes, working women hostels, development centers, and the establishment of Punjab Day Care Fund (PDCF) Society. The World Bank assisted Girls' Results Agenda for the development of the Education Sector in Punjab is also in a pipeline project which aims to focus on girls' education.

REVIEW OF ANNUAL DEVELOPMENT PROGRAMME 2021-22

Annual Development Programme 2021-22 was developed as a sustainable investment plan for Punjab to counter the effects of COVID-19 and at the same time accelerate growth in key sectors of the economy. Effective Government policies and public investments, together with the unprecedented support of the private and voluntary sectors, enabled relatively swift economic recovery than expected.

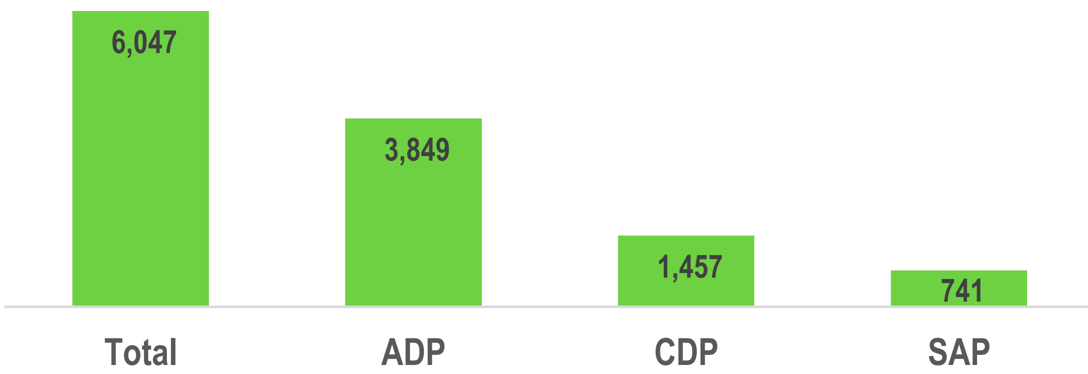
The size of the Annual Development Programme 2021-22 was set at Rs. 560 billion, in line with the Government's focus on developing human capital, it allocated Rs. 54.22 billion for the Education Sector. Similarly, an amount of Rs. 78.7 billion and Rs 17.212 billion was allocated for Specialized Healthcare & Medical Education and Primary and Secondary Healthcare respectively. Furthermore, Rs. 30.78 billion was allocated for the Irrigation Sector and Rs 43 billion for the Agriculture sector. To address environmental changes and promote conservation and environmental governance, Rs. 5 billion was allocated in FY 2021-22.

A total of 6,047 schemes are expected to be completed on priority, out of which 3,849 are ADP schemes, 1,457 belong to Community Development Programme and 741 schemes to Sustainable Development Achievement Programme.



**Source: Planning and Development Board, Government of the Punjab*

Completion of Schemes in FY 2021-22



Major Achievements for 2021-22

The following are the major achievements during the FY 2021-22:

Major Achievements during FY 2021-22

Health

- Universal Health coverage under Health Insurance Program (Cost: Rs. 60,000 million)
- Punjab Agriculture Food and Drug Authority (Cost: Rs. 6,322 million)
- Prevention and Control of Hepatitis (Cost: Rs. 5,392 million)
- Missing specialties in DHQ hospital DG Khan (Cost: Rs. 5,846 million)
- Establishment of DHQ Multan (Cost: Rs. 1,774 million)
- Academic Block in Nawaz Sharif Medical College, Gujrat (Cost: Rs. 767 million)
- Upgradation of neurosurgery department in BV Hospital, Bahawalpur (Cost: Rs. 531 million)
- Provision of missing facilities in Punjab Institute of neuro Sciences, Lahore (Cost: Rs. 451 million)
- Establishment of DHQ Bahawalnagar (Cost: Rs. 411 million)
- Upgradation of RHC Zafarwal as THQ (Cost: Rs. 300 million)
- Construction of 60 bedded THQ hospital, Sarai Alamgir, Gujrat (Cost: Rs. 283 million)

Education

- Up-gradation of 6,729 Primary and 120 Elementary Schools to the next level under the Afternoon Schools Programme (Cost: Rs. 4530 million),
- Provision of Missing Facilities in 800 Schools and building for 20 Shelter less Schools (Cost: Rs. 1,005 million)
- Reconstruction of 650-Dangerous School buildings (Cost Rs. 1,573 million) and Construction of 25 new Schools in Punjab (Cost: Rs. 581 million).
- Provided basic education to 429,000 illiterates through 13,519 NFBES and NFEFS (Cost: Rs. 1832 million).
- Provided Literacy with Life Skills to 15,000 adults through 712 Adult Literacy Centers (ALC's). (Cost: Rs.137 million).

Energy

- Solarization of 2300 BHUs across south and central Punjab (Cost: Rs. 1096.9 million)
- Solarization of (11000) Public Schools in South Punjab (Cost: Rs. 1539.2 million)
- Installation of 2 Solar-Biogas hybrid Power Plants at Samundari & Vehari (Cost: Rs. 317 million)

Skills Development

- Training of 315,000 individuals under Skill Development Programmes
- Skill training through PVTC (Cost: Rs. 800 million)
- Punjab Skills Development Project (Cost: US 56 Million Dollars)
- Establishment of Technical Training Centre for male and female at Kharan, Baluchistan (Cost: Rs. 228 Million)

Information Technology

- Online Payment of Government Receipts (Cost: Rs. 236.1 million),
- Establishment of Citizen Facilitation Centes (Cost: Rs. 380.000 million).
- Digitization, preservation and modernization of Punjab Archives and Libraries wing, S&GAD (Cost: Rs. 117.7 million)

Agriculture and Livestock

- Established state of the art labs at VRI and FMD Research Center (Cost: Rs. 290 million)
- Establishment of Civil Veterinary Dispensaries in DG Khan (Cost: Rs. 117 million)
- Provision of veterinary services and capacity building in Rajanpur (Cost: Rs. 321 million)
- Strengthening of veterinary services in Lodhran (Cost: Rs. 300 million)

Water Resource Development

- Lining of Watercourses (Cost: Rs. 8780 million)
- Disaster & Climate Resilience Improvement Project (Cost: Rs. 10,789 million)
- Selective Lining of Irrigation Channels (Cost: Rs. 3,500 million)
- Construction of Chahan Dam (Cost: Rs. 1,567.429 million)
- Installation of High Efficiency Irrigation Systems and Construction of water storage ponds (Cost: Rs. 10680 million)

Poverty Alleviation and Social Protection

- Under SPPAP, women were given 1,004 low-cost houses and 1,004 small land plots; small ruminant were provided to 20,570 women; 5,513 unskilled people were provided vocational and entrepreneurship trainings (Cost Rs. 25243 million)
- Human Capital Investment Project:
  - 53,858 beneficiaries have been enrolled in the Punjab Human Capital Investment Project (PHCIP). 47,018 of these have been enrolled under H&N-CCT (Aghosh) component for receiving early years` nutritional interventions, whereas another 6840 have been provided productive assets under the economic inclusion component.
  - An additional 17,323 beneficiaries have been registered for the economic inclusion component.

Urban Development

- Augmentation/improvement of Disposal Station, Multan (Cost: Rs. 591 million)
- Rehabilitation and Improvement of Saggian Road, Lahore (Cost: Rs. 3,405.865 million)
- Augmentation of Water Supply of Rawalpindi (Cost: Rs. 7,918.933 million)
- Surface Water Treatment Plant of 54 MGD at BRBD canal Lahore (Cost: Rs. 2,1045 million).
- Upgradation/Dualization of main Barki Road from LSE to BRB canal (Cost: Rs. 400 million)

Local Government & Community Development

- 836 projects completed.
- District Development Package having 752 schemes for basic infrastructure (Cost: Rs. 26,506 million)
- Punjab Rural Sustainable Water Supply and Sanitation Project (World Bank Funded) for provision of municipal services in 2000 villages (Cost: Rs. 89,560 million)
- Master Plan of Local Government (Cost: Rs. 500 million)

Public Building

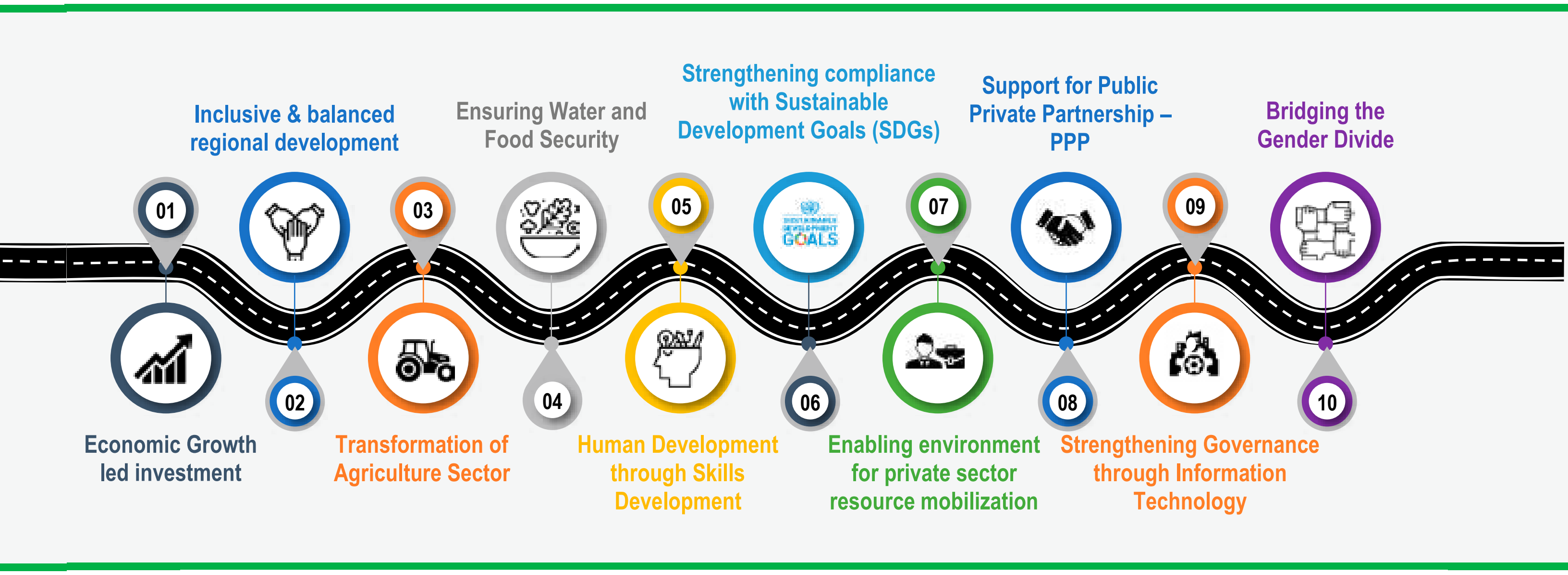
- Punjab Assembly Building, Lahore (Cost Rs. 5,025 million),
- Regional Offices of Counter-Terrorism Department and District Public Prosecutors (Cost: Rs. 1,288 million)
- Child Protection Institution, Faisalabad (Cost: Rs. 209 million).

Forestry

- Strengthening of Forest Services Academy Ghora Gali Murree (Cost: Rs. 392 million)
- Construction & Rehabilitation of offices & residences in Punjab (Cost: Rs. 390 million)

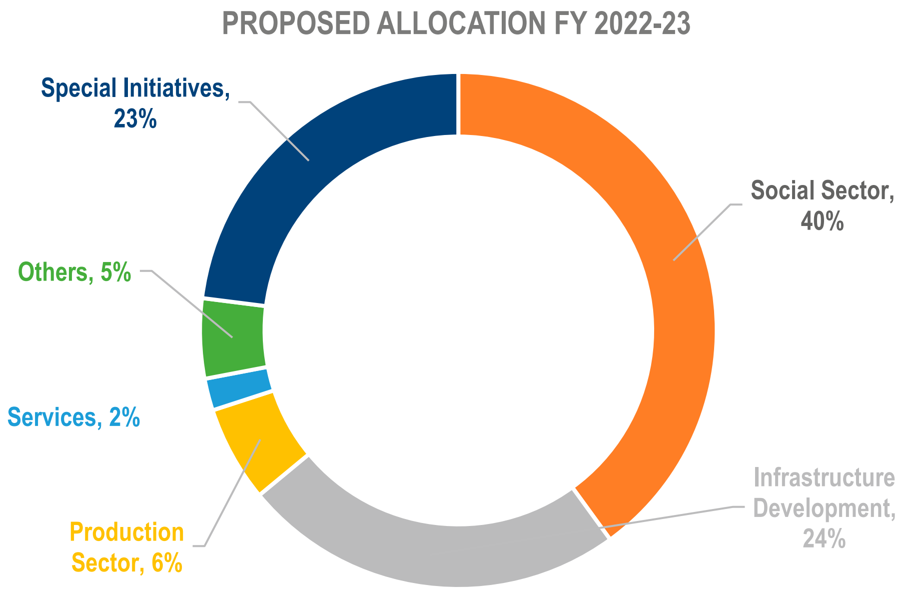
Annual Development Programme 2022-23

An evidence-based policy and development framework is essential to effectively harness Punjab's potential to deliver sustainable development and equitable economic growth that ensures basic security and prosperity for all the population. To this end, the Annual Development Programme 2022-23 centers around building momentum for economic growth, helping Punjab achieve its potential and mitigating socioeconomic risks. In light of these objectives, the guiding principles adopted for ADP 2022-23 are the following:



Government of the Punjab has allocated an amount of Rs. 685 billion for the Annual Development Programme 2022-2023, up from 560 billion in 2021-22. Out of this total, Rs. 365.548 billion is the proposed allocation for ongoing projects, 233.564 billion for the new initiatives, Rs. 40.89 billion for the Other Development Projects and Rs. 45.00 billion for Public Private Partnerships (PPP). The social sector has a share of 40%, infrastructure 24%, production sector 6%, services 2% and special initiatives 23% in the total allocation.

Sectoral Shares in ADP 2022-23



The allocation for social sectors and infrastructure increased, as compared to the previous year. Social Sector allocation witnessed a growth rate of 33% from the previous year. Infrastructure development witnessed a 13% growth in allocation in FY 2022-23 compared to FY 2021-22. Special initiatives increased at a rate of 69% from FY 2021-22 to FY 2022-23. On the other hand, the allocation to the production sector declined at a rate of 28% as compared to allocation in 2021-22. Similarly, Services sector allocation witnessed a 37% decline from FY 2021-22 to FY 2022-23. Overall, total allocations witnessed a growth rate of 22%.

For School Education an amount of Rs. 39 billion has been allocated, compared to 35.5 billion in FY 2021-22. Higher Education has been allocated Rs. 13.5 billion, compared to the previous year's Rs. 15.06 billion. In the Health sector, Rs. 152 billion for Specialized Healthcare & Medical Education and Rs. 21 billion for Primary & Secondary Healthcare has been allocated, compared to Rs. 78.7 billion and Rs. 17.21 billion as revised estimates in FY 2021-22. Moreover, an allocation of Rs. 12.54 billion is envisioned for the Industries, commerce and investment sector, Rs. 28 billion for Planning and Development, Rs. 11.95 billion for Water Supply & Sanitation, Rs. 26.15 billion for the Agriculture sector, Rs. 27.63 billion for the Irrigation sector, and Rs. 80.77 billion for the Roads sector. Rs. 5 billion has been allocated for environment and climate change.

Major Initiatives

Major Initiatives (PKR Million)

- Universal Health Insurance Programme in Punjab (Allocation: Rs. 127,343)
- Sustainable Development Programme (Allocation: Rs. 58,500.00)
- Sustainable Development Programme for South Punjab (Allocation: Rs. 31,500.00)
- Road Rehabilitation Programme (Allocation: Rs. 10,000.00)
- VGF and Land Acquisition for Development Projects (Allocation: Rs. 5,000.00)
- Correctional Facilities Revamping Programme (Allocation: Rs. 5,000.00)
- Priority Programme (Allocation: Rs. 4,000.00)
- Afternoon Schools Programme (Up-Gradation of Primary Schools) (Allocation: Rs. 3,840.00)
- Punjab Resilient and Inclusive Agriculture Transformation (PRIAT) (2022-23 to 2026-27) (Allocation: Rs. 3,650.00)
- Chaubara Branch Canal Construction Project - Greater Thal Canal (Phase-II) (Allocation: Rs. 2,750.00)
- Establishment of Nursing University at PKLI (Allocation: Rs. 1000.00)
- Provision of Classrooms along with Furniture to Graduate Colleges (Allocation: Rs. 1,000.00)
- Rehabilitation of dual carriageway Kasur-Depalpur Road length 98.95 km district Kasur & Okara (Allocation: Rs. 1,642.908)
- Provision of Classrooms along with Furniture for Associate Colleges (Allocation: Rs. 1,000.00)
- Minority Development Fund (MDF) (Allocation: Rs. 1,350.00)
- Prisoners Welfare Programme (Allocation: Rs. 1,000.00)
- Provision of Laptops (Allocation: Rs. 2,000.00)
- Upgrading of mechanical system for sewerage and drainage services in Multan (UMS WASA M) (Allocation: Rs. 1,591.275)
- Scheme for BECS & NCHD (Allocation: Rs. 1,062.00)
- Provision of Missing Facilities to Colleges (Allocation: Rs. 1,500.00)
- Solarization of Irrigation and Water Supply Systems (Allocation: Rs. 1,500.00)
- Afternoon Schools Programme (Up-Gradation of Elementary Schools to High Level) (Allocation: Rs. 1,000.00)
- Construction of Additional Classrooms in Schools of Punjab (Allocation: Rs. 1,000.00)
- Retrofitting of Partially Dangerous School Buildings in Punjab (Allocation: Rs. 1,000.00)

Foreign Funded Projects

The technical and financial assistance extended by international development partners supplements Punjab's domestic resources for achieving accelerated growth in priority development areas. Foreign funded development projects in Punjab for FY 2022-23 amounting to US$ 495.273 million have been included in the Annual Development Program (ADP). These focus on improving and developing health, education, skill development, industries, water and sanitation, agriculture, livestock, irrigation, energy, physical infrastructure, urban development, information technology and governance.

Expected cash inflows for FY 2022-23 amounting to US$ 545.49 million in the shape of Programs (US$ 154.12 Million) and Projects (US$ 386.97 Million) comprise of loans and grants provided by our major International Development Partners including the World Bank (US$ 243.636 Million), Asian Development Bank (US$ 258.009 million), Danish International Development Agency(US$ 4.597 Million), French Development Agency (US$ 15.815 Million), International Fund for Agricultural Development (US$ 1.83 Million), Asian Infrastructure Investment Bank (US$ 4 Million), Foreign Commonwealth & Development Office UK (US$ 15 Million) and Japan International Development Cooperation Agency (US$ 2.603 million). Following are the major initiatives by Government of the Punjab in collaboration with International agencies for FY 2022-23:

WORLD BANK ASSISTED PROJECTS

- Punjab Urban Land System Enhancement (PULSE) Project
- Punjab Rural Sustainable Water and Sanitation Project
- Support to Naya Pakistan Housing Program in Punjab
- Punjab Irrigated Agriculture Productivity Improvement Project (IBRD)
- Disaster & Climate Resilience Improvement Project
- Punjab Tourism for Economic Growth Project
- Punjab Human Capital Investment (HCI) Project
- Punjab Cities Program
- Punjab Resilient and Inclusive Agriculture Transformation (PRIAT)
- Drought Mitigation & Climate Resilience Project (DMCRP)
- Strengthening Markets for Agriculture and Rural Transformation (SMART)
- Punjab Green Development Program
- Punjab Resource Improvement and Digital Effectiveness
- Punjab Jobs and Competitiveness Program (J&C)
- Punjab Education Sector Reform Project-III (PESRP-III)
- National Immunization Support Project (NISP)

ASIAN DEVELOPMENT BANK ASSISTED PROJECTS

- Trimmu, Panjnad and Islam Barrages Improvement Project
- Project Readiness Financing (PRF) for Punjab Water Resources Management
- Punjab Intermediate Cities Improvement Investment Program (PICIIP)
- PRF for Urban Development Projects
- Construction of Jalalpur Irrigation Canal
- Enhancing PPPs in Pakistan (Punjab)
- Access to Clean Energy
- Punjab Arterial Roads Improvement Project

- Greater Thal Canal (GTC) Project
- Improving Work Force Readiness in Punjab

ASIAN INFRASTRUCTURE INVESTMENT BANK (AIIB) PROJECTS

- Lahore Water and Waste Management Projects
- Sewerage Scheme for Larech Colony to Gulshan-e-Ravi
- Construction of Surface Water Treatment Plant at BRBD Lahore

DANISH INTERNATIONAL DEVELOPMENT AGENCY (DANIDA)

- Construction of Eastern Waste Water Treatment Plant at Faisalabad City
- Construction of Waste Water Treatment Plant at Katar Band South Lahore

FRENCH DEVELOPMENT AGENCY (AFD) FUNDED PROJECT

- Heritage & Urban Regeneration: Tourism Development in Lahore Fort and its Buffer Zone
- Extension of Water Resources Faisalabad City Phase-II

INTERNATIONAL FUND FOR AGRICULTURE DEVELOPMENT (IFAD) FUNDED PROJECTS

- Southern Punjab Poverty Alleviation Project

JAPAN INTERNATIONAL COOPERATION AGENCY (JICA) FUNDED PROJECTS

- Extension of Water Resources Faisalabad City Phase-II
- Upgrading of Mechanical System for Sewerage and Drainage Services in WASA Multan. (UMS WASA-M).

FOREIGN COMMONWEALTH DEVELOPMENT OFFICE (FCDO)

- Punjab Education Sector Project-II (PESP-II)

A comparison between the total financial assistance, in the form of loans and grants, by each International Development Partner for FY 2021-22 & FY 2022-23 indicates that the highest expected cash inflows during FY 2021-22 were from the World Bank, which is also expected to remain the largest contributor during FY 2022-23. However, the cash inflows of World Bank, in absolute terms, are likely to be reduced, and the share of Asian Development Bank is expected to be more than double its share in FY 2021-22.

Development Partner-wise Cash Inflows - FY 21-22 and FY 22-23

Donor	FY21-22	FY22-23
ADB	96.014	198.057
AFD	0.170	9.179
AIIB	-	0.010
China	55.170	22.510
DANIDA	-	4.590
FCDO	10.976	-
IFAD	14.583	16.750
JAPAN Govt	-	2.688

JICA	1.090	15.311
WB	292.468	226.177

Sectoral Allocations made during FY 2022-23

For FY 2022-23, the highest expected cash inflows are to be received in the LG&CD sector amounting to US$ 104.437 million followed by Regional Planning (US$ 101.273 Million), Information Technology & Governance (US$ 70 Million), Irrigation (US$ 58.971 Million), Roads (US$ 50 Million), Urban Development (US$ 42.413 Million), Environment (US$ 30 Million), Transport (US$ 22.510 Million), Energy (US$ 6 Million), Agriculture (US$ 5.267 Million) and Health (US$ 4.401 Million).

Achievements during FY 2021-22

1. Disbursement of funds amounting to US$ 560.136 million during FY 2021-22 against revised budget estimates 2020-21 of US$ 733.100 million
2. Overall substantial progress made against timelines of projects during FY 2021-22
3. Projects titled Punjab Education Sector Programme - II (PESP-II) will be successfully completed during FY 2021-2022
4. Project titled Punjab Irrigated Agriculture Productivity Improvement has shown remarkable progress during FY 2021-22. Its targeted installation of high efficiency irrigation systems on 90,000 Acres, improvement of 6,375 of unimproved Watercourses, completion of 6,450 of the partially Improved Watercourses and rehabilitation of 4475 irrigation conveyance systems
5. Project titled Disaster and Climate Resilience Improvement targeted to restore flood embankment along with rehabilitation of river training works/spurs. Its outcomes include setting up of equipped Emergency Operation Centers (DEOCs) and 3700 Village Emergency loss of livelihood reporting and facilitation centers and enhancing the rescue and relief Capacity of PDMA Punjab

Annual Development Programme 2022-23

(Rs. in million)

Sr. No.		Sector	Allocation
Social Sectors			**272,600**
1	Education		64,200
	i.	School Education	39,000
	ii.	Higher Education	13,500
	iii.	Special Education	1,200
	iv.	Literacy & NFBE	3,000
	v.	Sports & Youth Affairs	7,500
2	Health & Family Planning		174,900
	i.	Specialized Health and Medical Education	151,500
	ii.	Primary and Secondary Health Care	21,000
	iii.	Population Welfare	2,400
3	Water Supply & Sanitation		11,950
4	Social Welfare		1,600
5	Women Development		900

6	LG&CD	19,050
Infrastructure Development		**164,265**
7	Roads	80,773
8	Irrigation	27,630
9	Energy	5,000
10	Public Buildings	29,500
11	Urban Development	21,362
Production Sectors		**41,405**
12	Agriculture	14,770
13	Forestry	4,500
14	Wildlife	990
15	Fisheries	1,100
16	Food	500
17	Livestock & Dairy Development	4,290
18	Industries, Commerce, Investment & Skills Development	12,535
19	Mines & Minerals	1,500
20	Tourism	1,220
Services		**14,820**
21	Governance & IT	6,200
22	Labour & HR Development	500
23	Transport	6,320
24	Emergency Services (1122)	1,800
Others		**37,410**
25	Environment & Climate Change	5,000
26	Information & Culture	530
27	Archaeology	700
28	Auqaf & Religious Affairs	680
29	Human Rights & Minority Affairs	2,500
30	Planning & Development	28,000
Special Initiatives		**154,500**
31	Special Programme / Initiatives	154,500
Total		**685,000**

6

PUBLIC ACCOUNT

The provisions of the Constitution of Islamic Republic of Pakistan, 1973, envisage establishment of two accounts and inter alia require the following:

i) **Article 118 (1):** All revenues received by the Provincial Government, all loans raised by that Government, and all moneys received by it in repayment of any loan, shall form the part of a consolidated fund, to be known as **Provincial Consolidated Fund**.

ii) **Article 118 (2):** All other moneys –

a. received by or on behalf of the Provincial Government; or

b. received by or deposited with the High Court or any other court established under the authority of the Province;

shall be credited to the Public Account of the Province.

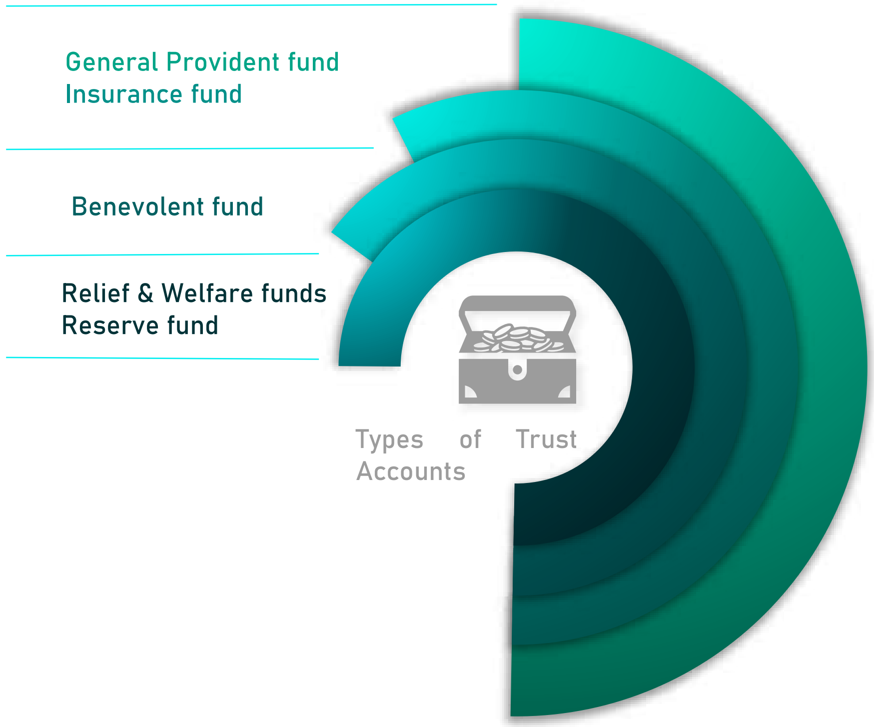
The moneys received and forming part of the Provincial Consolidated Fund (PCF) and Public Account (PA) are deposited to the Government Treasury, cash of which is placed in a bank account titled "Punjab Account Number – I (Non-Food)" maintained with the State Bank of Pakistan (SBP) under an agreement between Punjab and SBP. This account reflects a common cash balance of both PCF and PA (of both Food and Non-Food accounts). However, a separate set of books of accounts for receipts and expenditure/disbursement of PCF and PA of the Province are maintained by the District Accounts Offices. At month end, these receipts are consolidated by the Accountant General Punjab and, among others, submitted to Finance Department. It may also be worthwhile to add that for the facility of the public, the Government is authorized to open more than one bank account to keep the cash pertaining to the PCF or PA separate. Hence, additional accounts are established with SBP for this purpose. However, all such accounts form part of the PCF or, as the case may be, the PA, the cash in which would be the composite cash balance of the PCF or PA.

Accordingly, the Government of Punjab, in addition to Punjab Account Number - I (Non-Food), has opened Provincial Account Number - II (Food) with SBP for its commodity operations. Similarly, for District Education and District Health Authorities, Account Number – V (DEAs) and Account Number – VI (DHAs) respectively, have also been opened with SBP. The cash balances of these accounts are treated as part of the composite cash balance of the Punjab Account No-I (Non-Food) for overdraft facility of the Punjab Government and reflected in PA as a cash asset.

The PA consists of moneys received by the Provincial Government for which it has a fiduciary duty, but is not at liberty, to appropriate for general services of the Government, unless provided for under an Act of the Provincial Assembly. Unlike the PCF, balances in the PA are carried forward beyond the financial year, to be used for the specific purpose for which they have been established.

The PA consists of 'Trust Accounts' and 'Special Deposit Accounts'. Trust Accounts are generally separate legal entities and as such, expected to produce financial statements. Examples of trust accounts are:

a) General Provident fund
b) Insurance fund
c) Benevolent fund
d) Relief & welfare funds
e) Reserve fund



Special Deposit Accounts (SDA) are accounts which are established under the authority of law for a particular purpose but are not legal entities. Examples of SDAs are:

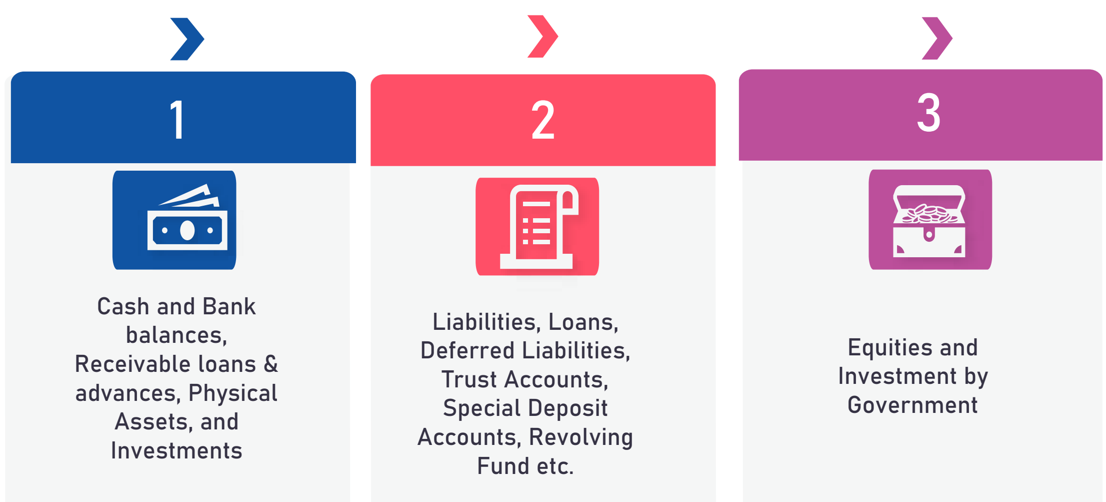
a) Revenue deposits
b) Court deposits, personal deposits

As a custodian of all moneys placed in the PA, the Government has a fiduciary responsibility to receive and disburse these moneys, but is not at liberty, to appropriate the money pertaining to PA for general service of the Government. In terms of Article 119 of the Constitution of Pakistan, the Treasury & Subsidiary Treasury Rules and Punjab Financial Rules have been framed to regulate:

a) Disbursement of moneys from the PA
b) Form and manner to keep the accounts thereof

As the disbursement of moneys credited to the PA is not subject to the vote of the Provincial Assembly, therefore, its balance does not lapse at the close of the financial year. However, in terms of Rule 12.7 of Punjab Financial Rules Volume-I, deposits not exceeding five rupees unclaimed for one whole account year, balances not exceeding five rupees of deposits partly repaid during the year then closing, and all balances, unclaimed for more than three complete account years will, at the close of June in each year, be credited to Government by means of transfer entries. Any claims arising after this stand lapsed and are refunded from provincial receipt "C03801-Unclaimed Deposits" in the prescribed manner.

The moneys credited to the PA and its disbursement are generally governed by the agreement(s)/law and rules/court orders etc. So far as to distinguish the different kinds of credits/debits and the maintenance of PA is concerned, various codes with nomenclature have been allotted at Major, Minor and Detailed levels in the Chart of Accounts (CoA).



The credits and debits of Public Account are categorized in following three categories:

Annual Budget Statement (ABS): Summary of Major Element of Public Account

(PKR in billion)

Row Labels	BE 2021-22	RE 2021-22	BE 2022-23
Assets & Liabilities – Public Account Receipt	(369.647)	(350.705)	(429.422)
F01-Cash and Bank Balances	1,406.809	1,710.640	1,754.476
F02-Receivables	(2.276)	(2.860)	(3.167)
F05-Other Assets	-	-	-
G01-Current Liabilities	(813.073)	(1,025.486)	(1,068.478)
G02-Loans	-	-	-
G05-Control Accounts	(547.995)	(558.332)	(577.545)
G06-Trust Account-Fund	(58.814)	(50.842)	(80.787)
G10-Trust Accounts-Other	(221.255)	(273.154)	(282.920)
G11-Special Deposit Investment	(122.438)	(138.752)	(158.834)
G12-Special Deposit Fund	(10.605)	(11.919)	(12.167)
Assets & Liabilities – Public Account Payment	369.647	350.705	429.422
F01- Cash and Bank Balances	(1,536.678)	(1,852.852)	(1,910.411)
F02-Receivables	0.467	0.495	0.519
F05-Other Assets	-	-	-
G01-Current Liabilities	957.833	1,119.533	1,183.068
G04-Other Liabilities	-	-	-
G05-Control Accounts	548.012	597.131	631.592
G06-Trust Account-Fund	54.982	62.591	66.653
G10-Trust Accounts-Other	210.743	278.347	297.769
G11-Special Deposit Investment	124.684	134.530	149.471
G12-Special Deposit Fund	9.604	10.930	10.761
Net of Public Account (+) (-)	-	-	-

The net of PA (+) or (-) is treated as source/financing available during a financial year for PCF.

The provisions of Punjab Financial Rules demand prudent cash management, inter-alia, the cash pertaining to the PA should be deposited into Government Treasury and should not, in any case, be kept apart from the Punjab Account Number - I (Non-Food) maintained by SBP. Accordingly, Government Offices are neither allowed to undertake any cash operation outside the Treasury Single Account nor obliged to open, operate or maintain a bank account in any commercial bank. They can only operate through the principal Government account i.e., Punjab Account No.1 (Non-Food) maintained with SBP for deposit and withdrawal of all public moneys.

The Federal Government has since framed Cash Management and Treasury Single Account Rules 2020 under the Public Finance Management Act (PFM), 2019. The Punjab Government is also striving for the promulgation of a PFM Act, which is currently in the process of approval. In the meanwhile, Punjab has also initiated amendments in the existing financial rules to adopt the principles of Treasury Single Account.

To ensure transparency in the disbursement from PA through prudent financial management, the Federal Government has devised a procedure to deposit and disburse money from PA, known as the *"Special Assignment Account, Procedure for Withdrawal of Funds from the Public Account of the Federation 2021".* The prime objective of devising this procedure is to facilitate the Government Offices in the closure of the commercial bank accounts, transfer of all the available balances to the PA/Account No.1 (Non-Food) and undertake further PA transactions through Account No.1 (Non-Food). It has, therefore, been found expedient to prescribe a dedicated and hassle-free procedure for withdrawal of funds from the PA through non-lapsable Special Assignment Account, as the existing Assan Assignment Account procedure is for withdrawal of funds from PCF only. Considering the features of the Special Assignment Accounts, the same has been adopted by the Punjab Government and is in the process of dissemination/training of DDOs.

7

DEBT & CONTINGENT LIABILITIES

Debt Stock

Government Debt means the outstanding principal amount of all financial liabilities of the Government of Punjab which require payment of interest or profit. It excludes the debt of Public Corporations controlled by the Government of Punjab.

Two useful and generally acceptable measures to evaluate debt burden are (i) Debt as a percentage of GDP, and (ii) Debt as a percentage of revenue. Punjab's Government debt is quite low on both these measures.

Punjab's overall Government Debt and its two major components, i.e., Domestic Debt and External Debt, are summarized below:

	FY21	FY22	Year-on-Year Growth
Government Debt	**955**	**1,126**	**18%**
Domestic Debt[4]	5.2	3.6	-31%
External Debt	949	1,122	18%
Exchange Rate (PKR/USD)	*157.4*	*186.0*	
External Debt (USD bn)	***6.02***	***6.03***	***0.01%***
Punjab's GDP[5]	**30,518**	**36,823**	
As % of GDP	**3.1%**	**3.1%**	
Government Debt			
- Domestic Debt	0.02%	0.01%	
- External Debt	3.1%	3.0%	
Average Revenue (last 3 years)	**1,539**	**1,791**	
As % of Revenue	**62%**	**63%**	
Government Debt			
- Domestic Debt	0.3%	0.2%	
- External Debt	62%	63%	

Note: FY implies Financial Year. Figures for Debt Stock for a Financial Year imply figures on the last day (30 June) of that Financial Year. This debt stock for FY22 is based on actual figures until March 2022 and estimated changes during the last quarter of the Financial Year.

Domestic Debt

Domestic Debt profile is summarized below:

[4] Domestic debt amount is exclusive of outstanding commodity/wheat debt obtained by Food Department for procurement of wheat, estimated at Rs. 645 billion as on 30.06.2022, secured against wheat stock coupled with Federal Government guarantee.

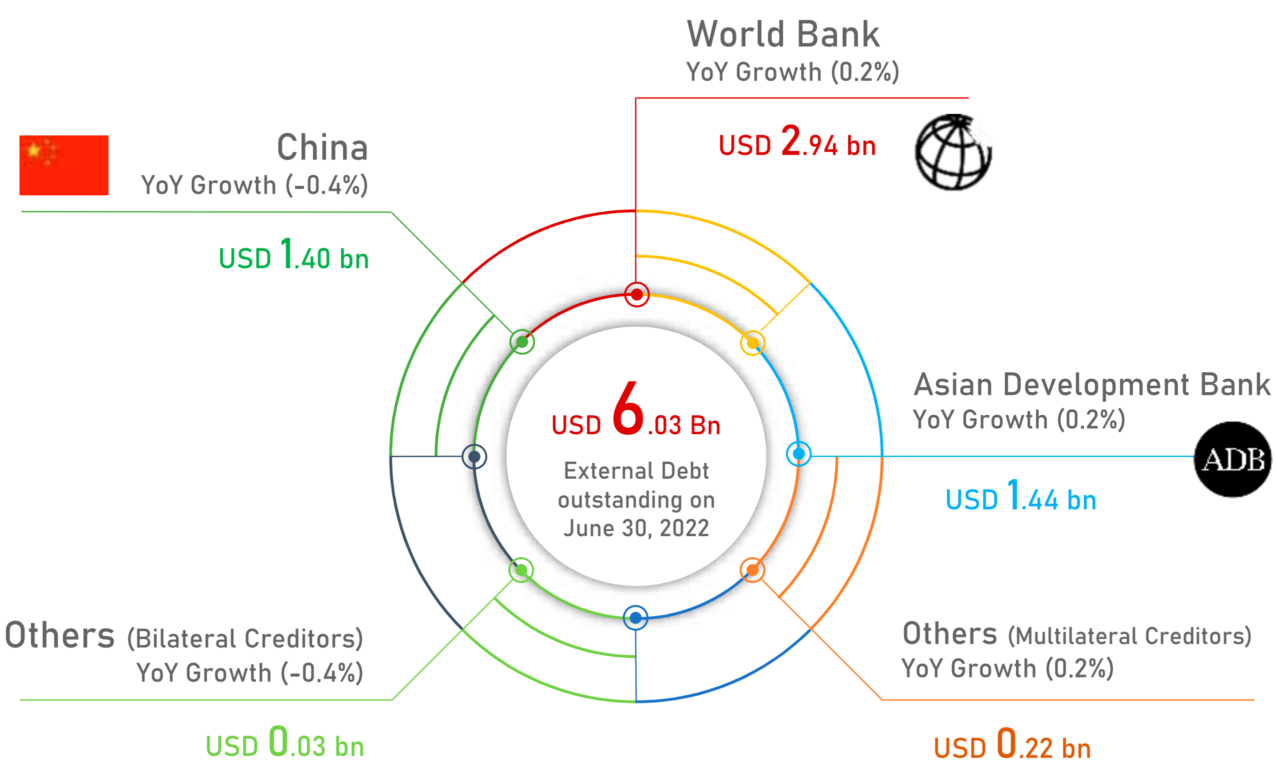
[5] Punjab's GDP is estimated at 55% of Pakistan's GDP. For FY21, figures of rebased GDP (announced by Pakistan Bureau of Statistics by using FY16 as the base year) have been used. For FY22, figures of GDP estimates prepared by PBS have been used.

Domestic Debt amounting Rs.3.6 billion comprises of Cash Development Loans (CDLs) obtained from the Federal Government. CDLs are agriculture program loans at fixed interest rates with original maturity of 25 years. These have been mostly repaid and only a small portion is outstanding.

External Debt

External Debt of the Government comprises mainly of concessional, long-term, foreign currency-denominated loans obtained from multilateral creditors such as World Bank and Asian Development Bank. These loans are borrowed by the Federal Government and on-lent to the Government of Punjab. These loans can be broadly classified as Project Loans and Programme Loans. Project loans are long-term loans meant for public investments in infrastructure whereas Programme Loans are medium-term loans meant for budgetary support and are typically linked with certain legal or policy reforms. Remaining External Debt consists of loans from bilateral creditors, including China, Japan, France etc. External Debt outstanding on 30 June, 2022 has an average borrowing cost of 1.57% p.a. and average maturity of 8.4 years. Creditor-wise composition is provided below:

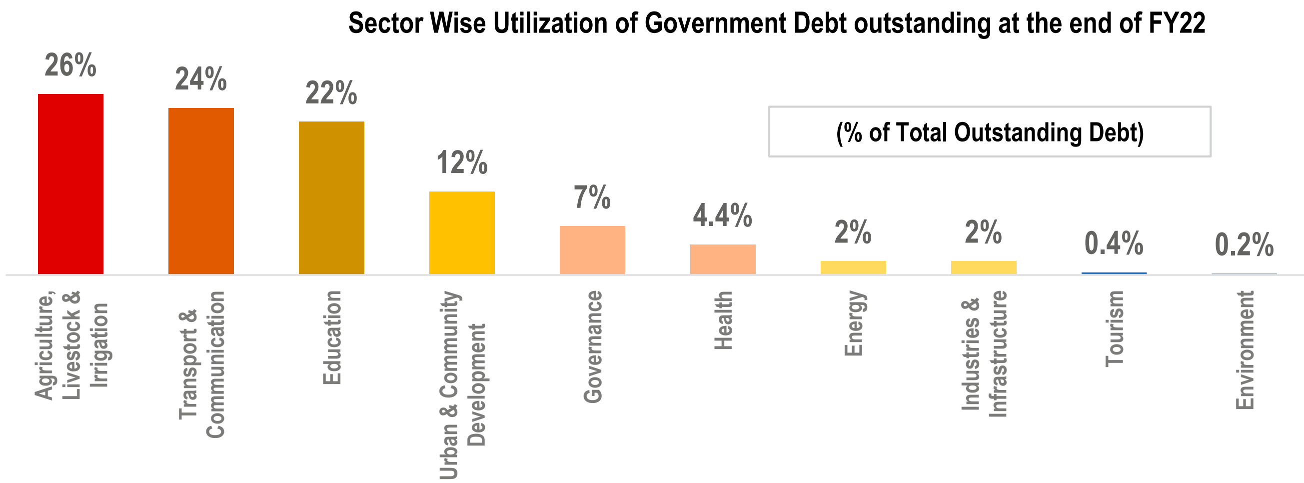
	FY21 (USD bn)	FY22 (USD bn)	YoY growth %
Total External Debt	**6.02**	**6.03**	**0.1**
Multilateral Creditors	**4.60**	**4.60**	**0.2**
- World Bank	2.85	2.94	
- Asian Development Bank	1.50	1.44	
- Others	0.25	0.22	
Bilateral Creditors	**1.42**	**1.43**	**-0.4**
- China	1.40	1.40	
- Others	0.02	0.03	



The above figures consist of USD equivalent value of the outstanding debt (which is denominated in various currencies) at the end of the respective Financial Year. External Debt of the Government is denominated mainly in US Dollar (72%), followed by Special Drawing Rights (18%), Japanese Yen (6%) and other currencies (4%).

Utilization of Government Debt

The purposes for which debt is utilized provide important insights into the Governments' priorities. The utilization of Government Debt outstanding at the end of FY22 can be analysed through the following table:

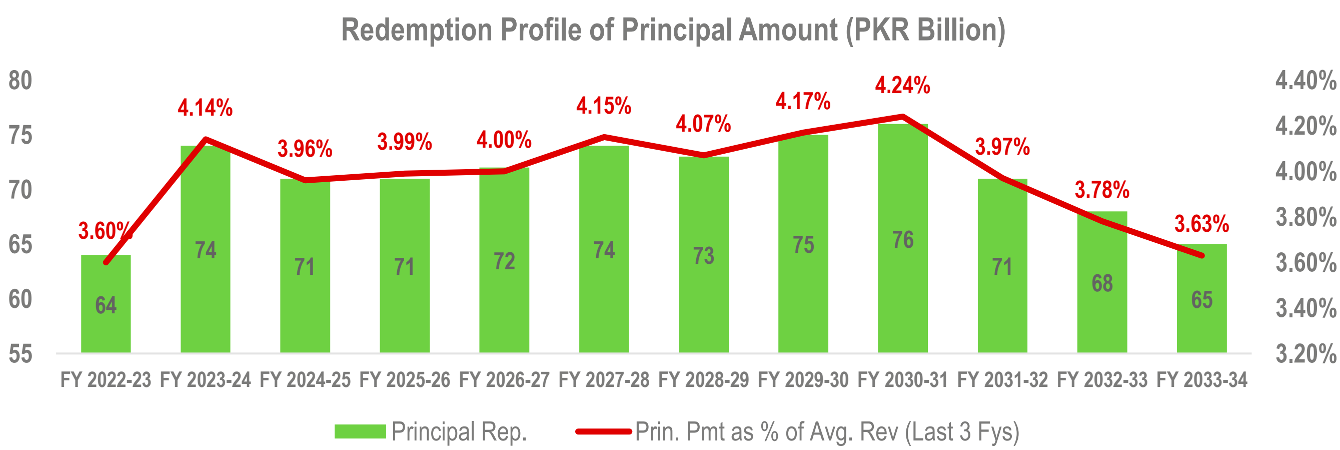


Debt Service[6]

Debt Service includes principal repayment and interest expense during a Financial Year. It is useful to analyze the projected principal and interest payments in respect of the existing debt over the next few years in order to gauge the risk of debt distress in the future.

Principal Repayment Projections

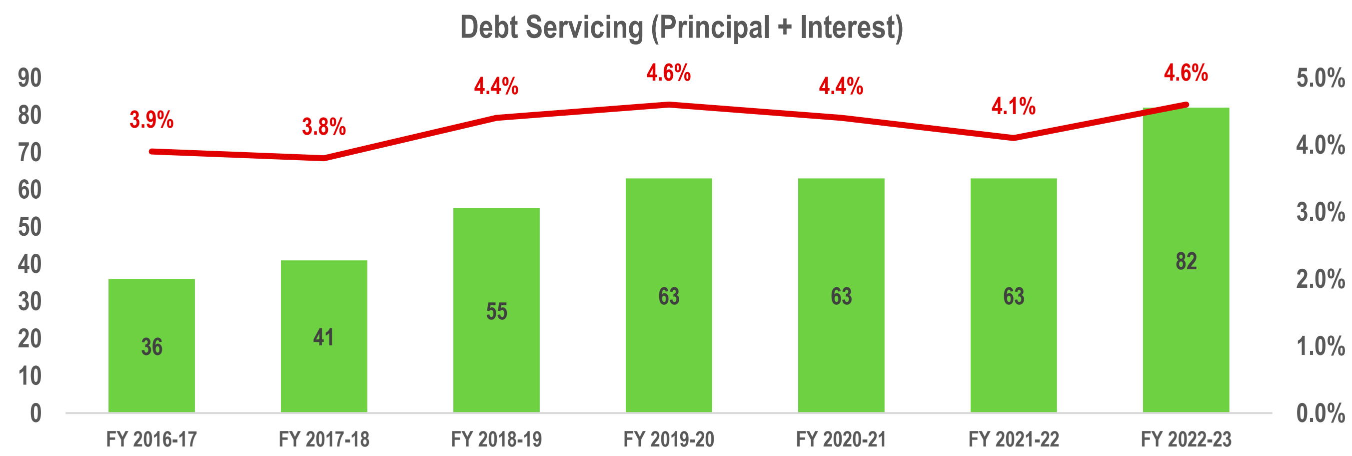
The redemption profile refers to the projections of annual principal repayments according to the repayment schedules of underlying loans. It helps identify periods in which large principal repayments will be due so that appropriate measures can be taken to address with such challenges. The redemption profile of Punjab's debt is quite smooth and is spread over a period of 36 years. Projections of principal repayments for the next 14 years are shown below:



[6] *Exchange rates of foreign currencies communicated by Finance Division has been used for conversion of foreign currencies into Rupee amount for debt servicing as well as for debt stock amount.*

Interest Payment Projections

Ratio of Interest Expense to Revenue is a good measure to assess the risk of debt distress. Lower ratio demonstrates debtor's ability to service debt without distress. In Punjab, ratio of interest expense to Avg. Revenue is 1% for FY2022-23.



Punjab`s Ratio of Debt Service to Avg. Revenue is 4.6% for FY 2022-23 which is not high and indicates low risk. Debt Service estimates for FY2022-23 is **PKR 82.4 bn** with interest payment of PKR 18 bn and principal repayment of PKR 64.4 bn. Historical trend of debt servicing is given below:

Risk Analysis of Punjab's Debt Profile

A number of indicators are used to monitor and control risks associated with the Government's debt. Risk indicators act as a guideline to devise future borrowing strategies. A few risk indicators are explained in the following paragraphs.

Refinancing / Rollover Risk

Refinancing / Rollover risk refers to the risk of being either unable to raise new debt to repay the portion of existing debt that is maturing, or to raise such debt at a much higher cost. Debt maturing in a year and Average Time to Maturity (ATM) are the two indicators used to measure this risk. ATM means the average time-to-retirement of the entire debt stock. High proportion of debt maturing in a year and shorter ATM imply higher risk, as a large proportion of the existing loans will need to be refinanced over a shorter period of time.

Estimated indicators of Refinancing Risk as of **30.06.2022** are given below:

Refinancing Risk	**FY21**	**FY22**
Debt Maturing in a Year	5.1%	5.7 %
Avg. Time to Maturity (ATM) Domestic	2.53 Years	2.43 Years
Avg. Time to Maturity (ATM) External	8.86 Years	8.41 Years
Avg. Time to Maturity (ATM) Total Portfolio	**8.82 Years**	**8.39 Years**

Interest Rate Risk

Interest Rate Risk refers to the exposure of debt portfolio to changes in the interest rate. Proportion of Fixed Rate Debt, Average Time to Re-fixing (ATR) and share of debt stock exposed to interest rate re-fixing in one year are the key indicators. Fixed rate debt is considered less risky as it is not exposed to interest rate fluctuations during its life. ATR indicates the average time after which the interest rate on the entire debt portfolio is reset. Low ATR and high proportion of debt re-fixing in one year indicate high interest rate risk and imply that debt stock is significantly exposed to interest rate resetting over a relatively shorter period of time in case of a rising interest rate environment.

Estimated indicators of Interest Rate risk as of **30.06.2022** are given below:

Interest Rate Risk	FY21	FY22
Fix Rate Debt (% of total debt)	73%	75%
Debt Re-fixing in 1 Year (% of total debt)	30%	29%
Avg. Time to Refixing (Years)	6.62 Years	6.40 Years

Exchange Rate Risk

Exchange Rate risk refers to the exposure of the debt portfolio to changes in the exchange rate. Government of Punjab`s debt is exposed to FX Risk as 99% of the total outstanding debt stock is denominated in foreign currency. However, this seemingly high risk is partially mitigated by two factors:

01 low interest rates on foreign loans offset the adverse consequences of exchange rate depreciation; and

02 overall size of Punjab's External Debt is low as a percentage of the provincial GDP

Provincial Guarantees

The Government issues guarantees mainly to Public Corporations and Public Private Partnerships (PPPs) as support to enhance the financial viability of the projects undertaken by these entities. Currently, the outstanding guarantees pertain mainly to Public Corporations operating in the energy sector and PPP projects in the roads and transport sector. The size of provincial guarantees issued by the Punjab Government is quite low as compared to provincial revenues. A comparison of Guarantees exposure at June close for last two years is given below:

Guarantees	FY21	FY22
Guarantee outstanding at June close	PKR 49 bn	PKR 49 bn
Guarantee as % of Avg. Revenue (last 3 Years)	3.2%	2.7%

Pension Scheme

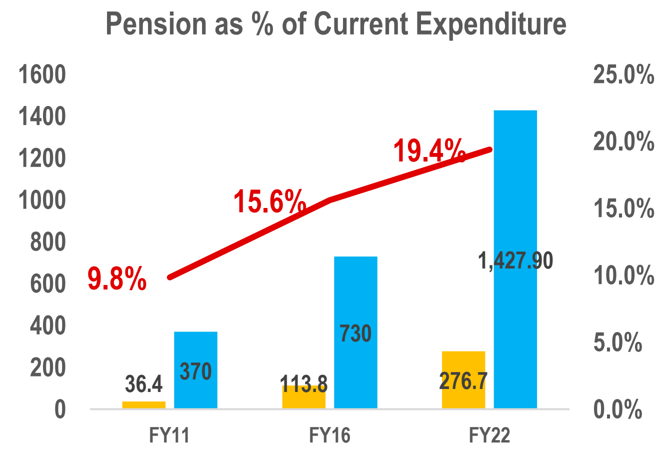
Introduction

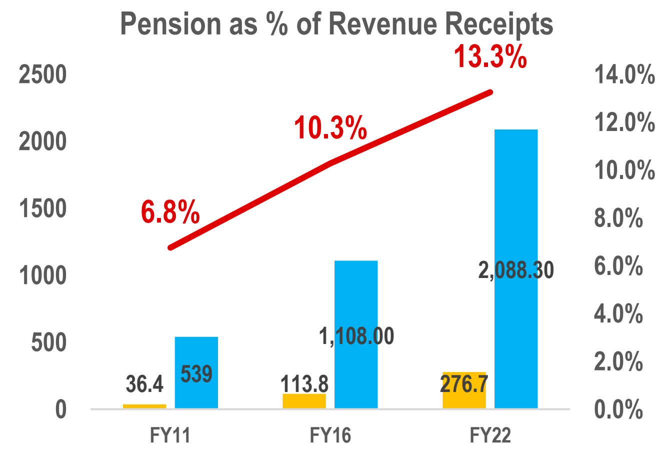
The Government of Punjab operates a Defined-Benefit (DB) Pension Scheme for its permanent employees. The pension scheme is being managed on a 'pay-as-you-go' basis i.e. pension payment during a year is made out of that year's revenues regardless of the time of accrual of the liability. Considering the rising burden of pension expenditure, the Government been has over the last few years following a more systematic approach to valuation, reporting and funding of pension liability.

Cost of the Pension Scheme

Pension Expense is one of the largest expenses for the Government (Salary expense being the largest). From a fiscal management and sustainability perspective, it is useful to analyze the trends in the ratio of Pension Expense and Government Revenue. The following table and chart summarize this trend:

Year	Pension Expenditure (Rs. in bn)	Current Expenditure (Rs. in bn)	Pension as % of Current Expenditure %	General Revenue Receipts (Rs. in bn)	Pension % of Revenue Receipts %
FY11	36.40	370.00	9.84	539.00	6.75
FY16	113.80	730.00	15.59	1,108.00	10.27
FY22	276.7	1,427.9	19.38	2,088.30	13.25
CAGR	**20.25%**	**13.06%**		**13.10%**	





Pension expense has grown at a compound annualized growth rate (CAGR) of 20.25% over the last eleven years since FY11 while Government Revenue has grown by 13.10% over the same period. Pension Expense to Revenue has increased from 6.75% in FY11 to 13.25% in FY22. This trend is clearly unsustainable and, in the absence of wide-ranging pension reforms, it is likely to severely constrain the Government's fiscal space for other high priority expenses and public investments in future.

A generally accepted measure to analyze the cost of any pension scheme is the Contribution Rate. In the context of a Defined Benefit Pension Scheme, Contribution Rate can be understood as the percentage of pensionable pay that the Government needs to contribute into an investment fund at the time of payment of salary, to fund the pension benefit that is payable in the future but has accrued over the period for which the salary is being paid.

Most Defined-Benefit Pension Schemes have Contributions Rates in the range of 20-25% of the pensionable pay of the employees. As per the Actuarial Assessment carried out in FY19, the Punjab's pension scheme, which is a replica of the Federal Government's pension scheme, has an implicit Contribution Rate of **65%**.

This shows that Punjab's pension scheme is one of the most expensive pension schemes in the world. This is also being reflected in the Pension Expense of the Government which has increased sharply both, in absolute terms, and as a percentage of Revenue.

Evidently, the fiscal sustainability of the scheme is in serious doubt and there is an urgent need to introduce reforms in the pension scheme.

Punjab Pension Fund

Punjab Pension Fund Act, 2007 established Punjab Pension Fund (PPF) as a body corporate. The Government's objective was to make regular contributions into an investment fund which would be managed by PPF. This way, the pension liabilities would be gradually funded and the need to make pension payments from annual budget would be reduced.

Pension Liability

Based on the actuarial valuation carried out in FY19 and the internal estimates of Punjab Pension Fund, the present value of accrued pension liability is estimated at Rs. 5,735 billion on June 30, 2022.

Punjab Pension Fund's Assets

Assets of the Punjab Pension Fund are projected to reach Rs. 97.3 billion on June 30, 2022. The Government has contributed Rs. 42.1 billion into the Fund until April 30, 2022, while the remaining Rs. 52.9 billion has been earned by the Fund through its investments.

Funding of Pension Liabilities

Funding Ratio is a key measure to analyze the adequacy of funding of liabilities of an employee retirement or savings plan. In case of a Defined-Benefit Pension Scheme, it is computed as the ratio of Fund's assets to the present value of Government's accrued pension liabilities.

Government contributions into the investment fund, established for funding of pension liabilities, have not been made on a consistent basis and the Funding Ratio of pension liabilities remains very low. With projected assets of Rs 97.3 billion and projected liabilities of Rs 5,735 billion, the Funding Ratio (i.e., the ratio of Fund's assets to liabilities) of GP Fund is projected at 1.7% at the end of FY22. The Government is committed to increase contributions into the Fund and improve its Funding Ratio significantly over the next few years.

Investment Fund's Performance

Investment objective of the Fund is to earn compound average annualized return equal to, or higher than, the compound average annualized increase in Consumer Price Index plus 3%.

Over the 14-year period from July 2008 to Jun 2022, the Fund has earned a time-weighted average return of 12.4% p.a. whereas consumer price inflation has averaged 8.35% p.a. and the performance benchmark comes to 11.35% (inflation + 3%). The Fund is mainly invested in debt securities issued by the Federal Government and the national saving scheme instruments. A smaller proportion of the Fund's assets is invested in listed equity securities and listed corporate debt securities. The investment strategy of the Fund is summarized in the following table:

As % of Fund size at the end of the financial year

	FY21	FY22	FY09 – FY22 (average)
Federal Government Debt securities and instruments	77.11%	60.05%	66.09%
- Pakistan Investment Bonds (PIBs) & T-Bills	12.85%	0.87%	38.36%

- National Saving Schemes (NSS)	64.26%	59.18%	27.73%
Corporate Debt securities - Term Finance Certificates (TFCs)	3.85%	3.61%	2.13%
List Equity securities	16.83%	23.89%	4.20%
- Equity mutual funds	11.07%	15.26%	3.10%
- Direct investment in equity securities	5.77%	8.63%	1.11%
Other (Bank Deposits, Fixed Income Mutual Funds etc)	2.21%	12.45%	27.58%

Pension Reforms

As explained earlier, the cost of the existing pension scheme is too high and there is an urgent need to bring it down to a fiscally sustainable level. The Government is contemplating wide-ranging reforms of the pension scheme to make the scheme fiscally sustainable and to bring the Government's cost of the pension scheme in the range of 15-20% of pensionable pay of the employees.

Key reforms proposals under consideration include:

- Extending the early retirement age to 55 years of age or 25 years of service, whichever is later (already implemented)
- Introduction of a Defined-Contribution Pension Scheme for new employees of the Government and subscription to the General Provident Fund (GPF)
- Series of reforms in the Defined-Benefit Pension Scheme applicable to existing employees including discontinuation of ad-hoc increases in pension, lowering the commutable portion of pension, discontinuing restoration on the commuted portion of pension, linking pension with last three years' average pensionable pay rather than last drawn pensionable pay, pegging annual pension increases with the consumer price index, curtailing the long list of family pensioners to a reasonable level etc.

General Provident Fund

Introduction

The Government requires its permanent employees to subscribe to the General Provident (GP) Fund, a Defined Contribution Scheme, to build financial savings of employees. General Provident Fund contributions are deducted from the salaries of Government employees and credited to the GP Fund Account, which is a part of the Public Account of the Province. Government has the responsibility to invest these contributions in a prudent manner.

Punjab General Provident Investment Fund

In 2009, the Government passed the Punjab General Provident Investment Fund Act to establish an investment fund for the management of GP Fund liabilities. This Fund is being managed on the lines of Punjab Pension Fund to invest the GP Fund contributions deducted from the salaries of employees.

General Provident Fund Liability

The amount of GP Fund liability of the Government is the sum of the contributions deducted from the salaries of the active employees (who have neither retired nor left the employment) and the profits announced by the Government on such contributions on annual basis.

Based on the actuarial valuation carried out in FY19 and the internal estimates of Punjab Pension Fund, which is managing the GP Fund investments also, the accrued GP Fund liability is Rs. 314.1 billion on June 30, 2022.

Punjab General Provident Investment Fund's Assets

Assets of the Punjab General Provident Investment Fund are projected to reach Rs. 13.8 billion on June 30, 2022. The Government has contributed Rs. 8.1 billion into the Fund until April 30, 2022, while the remaining Rs. 5.7 billion has been earned by the Fund through its investments.

Funding of GP Fund Liabilities

With projected assets of Rs 13.8 billion and projected liabilities of Rs 314.1 billion, the Funding Ratio (i.e. the ratio of Fund's assets to liabilities) of GP Fund is projected at 4.4% at the end of FY22. The Government is committed to increase contributions into the Fund and improve its Funding Ratio significantly over the next few years.

Investment Fund's Performance

The fund's investment objective is to earn compound average annualized return equal to, or higher than, the compound average annualized increase in Consumer Price Index plus 3%. Over the eight-year period from June 2014 to June 2022, the Fund has earned a time-weighted average return of 12% p.a., whereas consumer price inflation has averaged 7.93% p.a., and the performance benchmark comes to 11.93% (7.93+3).

The Fund is mainly invested in debt securities issued by the Federal Government and the national saving scheme instruments. A smaller proportion of the Fund's assets is invested in listed equity securities and listed corporate debt securities. The investment strategy of the Fund is summarized in the following table:

As % of fund size at the end of the financial year

	FY21	FY22	FY14 – FY22 (average)
Federal Government Debt securities and instruments	77.88%	51.98%	54.49%
- Pakistan Investment Bonds (PIBs) & T-Bills	16.17%	0.00%	19.05%
- National Saving Schemes (NSS)	61.71%	51.98%	35.44%
Corporate Debt securities - Term Finance Certificates (TFCs)	7.84%	10.51%	3.86%
List Equity securities	0.00%	17.49%	3.50%
- Equity mutual funds	0.00%	14.58%	2.92%
- Direct investment in equity securities	0.00%	2.91%	0.58%
Other (Bank Deposits, Fixed Income Mutual Funds etc.)	14.28%	20.02%	38.15%

8

PUBLIC FINANCIAL MANAGEMENT (PFM) REFORMS

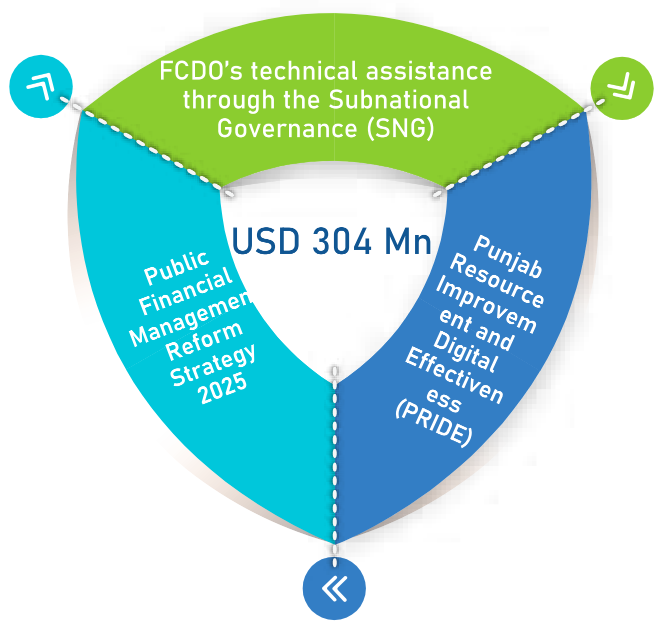
Public Financial Management (PFM) is essential for effective management of public funds by governments. Societal needs are inevitably greater than resources available to the government, and therefore, all public resources must be used as efficiently as possible. PFM reforms refer to actions that improve laws, rules, policies, systems, and processes used by national and sub-national governments to mobilise revenues, allocate funds, undertake public spending, and account and audit these funds. A robust PFM system also helps bring greater transparency and reliability to the entire fiscal policy lifecycle.

Over the years, Government of the Punjab (GoPb) has achieved some key milestones in its journey towards PFM reforms, demonstrating the priority assigned to this policy reform space. Some significant initiatives undertaken in the previous years include the creation of Punjab Revenue Authority, establishment of Punjab Pension Fund, Debt Management Unit, Corporate Finance Unit, Risk Management Unit, introduction of Medium-Term Budget Framework, strengthened oversight of the Provincial Cabinet over fiscal affairs, a mechanism for broad-based budget consultations, and citizen-friendly budget documents.

The focus has gradually shifted from a highly centralized to a more inclusive approach to budgeting, thereby enhancing accountability, transparency and inclusiveness. Over years, PMF reforms have contributed to a marked increase in provincial own-source revenue, informed and reliable budget preparation, fiscal responsibility, improved quality of technical input for strategic and operational level decision making, budget transparency and participatory governance.

Foundation of the Next Generation of Reforms

Public Expenditure and Financial Accountability Assessment (PEFA) is a globally recognized methodology to assess the performance of any PFM system. In 2019, PEFA was undertaken with technical assistance from the World Bank and Foreign Commonwealth Development Office (FCDO, formerly DFID), UK. The exercise identified gaps in the PFM system including weaknesses in policy-based budgeting, low budget reliability and transparency, unpredictability in budget execution, weak legislative scrutiny and ineffective accountability mechanisms. PEFA 2019 helped shape the reforms for the coming years.



PFM Reform Strategy 2025

A systematic approach was adopted by Finance Department to address the issues highlighted in PEFA 2019. The Department took international development partners on board to structure the reform agenda. The World Bank and FCDO became the leading partners. FCDO's technical assistance through its Subnational Governance (SNG) Programme helped Finance Department in developing a holistic Public Financial

Management Reform Strategy 2025 (PFMRS 2025). After approval of the Strategy by GoPb, the World Bank adopted the same as the foundational document for its USD 304 million Programme titled *'Punjab Resource Improvement and Digital Effectiveness (PRIDE)'*.

PFMRS is a comprehensive strategy covering all aspects of a strong PFM system. It comprises of nine pillars, each addressing a major area within the PFM system. The pillars are presented in a Results Framework that specifies thevision, result areas, issues, and recommended actions to counter PFM challenges. PFMRS aims to develop a robust system setting out a vision and goals defining priorities and sequencing of the reform process. Effective implementation of PFMRS is expected to build the capacity of Finance Department officials and increase tax and non-tax revenue, eventually leading to improved service delivery. It also includes a pillar on disaster risk financing (DRF), given the recent COVID-19 pandemic and climate related challenges faced by the province. The inclusion of DRF not only improves budget credibility through improved fiscal risk assessment but also helps in provisioning for disaster financing instruments. This is the first time DRF has been included in any provincial PFM strategy in Pakistan. In FY2021-22, GoPb has conducted an analysis of climate and disaster related expenditures along with an assessment of its budget tagging and tracking system.

In order to cohere the support extended by international development partners, a donor coordination forum has been established to coordinate and oversee the implementation of the PFMRS. Similarly, to steer the reforms, an Advisory Committee on Provincial Finance has also been operationalized in Finance Department. The Committee has diverse representation from the government, practitioners, academia and experts and is providing high level advisory for the reforms. A broad-based Committee of Experts on Resource Mobilization has also been constituted, replacing the erstwhile Ministerial Committee of Cabinet on Resource Mobilization Committee (RMC), to deliberate on revenue generation proposals.

Punjab Resource Improvement and Digital Effectiveness (PRIDE) Programme

In FY 2020-21, GoPb started implementing the World Bank funded USD 304 million PRIDE Programme anchored largely on the objectives and targets of the PFMRS. As stated above, it derives key areas of interventions from PEFA 2019. PRIDE is a flagship PforR programme on PFM reforms. Its objectives are spread across three Result Areas - i) Strengthened budget formulation and

fiscal risk management ii) Increased use of digital technology for delivery of selected public services, and iii) Improved collection of Own Source Revenue. These results are linked to 7 Disbursement Linked Indicators (DLIs) and Intermediary Result Indicators (IRIs). A number of important reform interventions have been envisaged under the Programme, and their implementation is well underway with the support of World Bank and SNG. With successful completion of various reform measures and targets, GoPb has secured USD 75 million. Other reform measures are underway which shall make the PFM landscape of the province more effective. A specialized unit, **Public Financial Management Unit**, comprising of a team of domain experts has also been established in Finance Department with a view to internalize and institutionalize various reform actions.

Needless to say, without an effective oversight and implementation mechanism even the best of strategies may fail. Several platforms exist to provide strategic guidance and oversee the implementation of PFM reforms agenda.

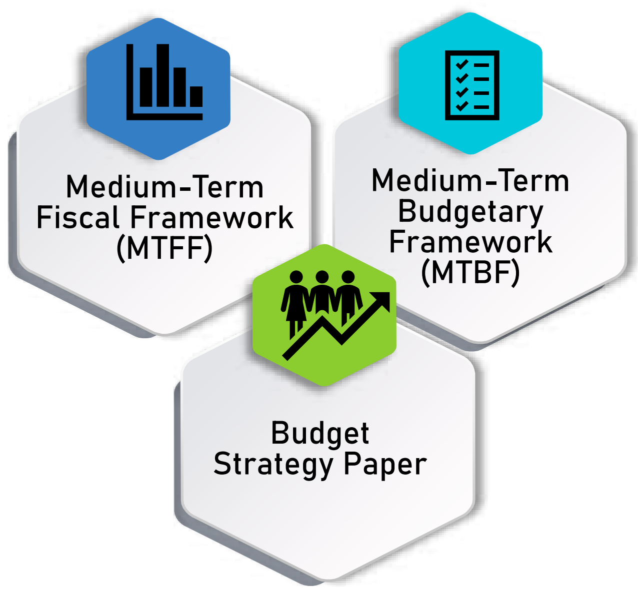
Regulatory and Legal Reforms

GoPb is in the process of finalizing a key legal instrument to improve the legal and regulatory framework of PFM, as envisaged under Article 119 of the Constitution of Pakistan. The Punjab Public Financial Management (PFM) Act. The PFM Act will not only strengthen the management of public finances but also help to improve fiscal policies for better macroeconomic management. It will also fulfil the Constitutional requirement of regulating the provincial financial management through an Act of the Provincial Assembly, which is being regulated till date through rules approved by the Governor. The PFM Act will also codify various ongoing PFM practices and provisions through subordinate legislation(s). Another key aspect of PFM Act is the provision of qualitative and quantitative debt responsibility and fiscal control rules to pave way for prudent debt and fiscal management.

The reforms envisaged under the PRIDE Programme are in line with the Federal Government's macroeconomic commitment towards greater fiscal discipline.

Institutionalizing Budget Strategy

Over the years, GoPb has been working towards the institutionalization of the Medium-Term Fiscal Framework (MTFF) and Medium-Term Budgetary Framework (MTBF) in its processes and systems. MTFF includes forecasts of the government's revenues, expenditures and debt over a medium-term horizon. Finance Department has conducted trainings on MTFF to develop the capacity of its officials. The budget call circular has been aligned with MTBF, guiding the line departments on how to prepare their budget submissions by bringing in a medium-term perspective. Indicative budget ceilings, including single ceilings for 11 departments, under the Joint Priorities Committee (JPC), were issued to line departments giving them a resource envelope for FY2022-23 Budget. GoPb has also improved its MTBF processes by preparing a Budget Strategy Paper that provides inter-sectoral strategic priorities, forward estimates and space for priority setting. The Budget Strategy Paper will improve aggregate fiscal discipline and strategic prioritization of available resources.



Priority Settings Through Joint Budgeting

As stated above, for the first time a mechanism for joint planning of development and non-development budgets has been established in Punjab. JPC, consisting of Finance Department and P&D Board, was established to assess budget proposals under single budgetary ceilings. This mechanism helped improve coordination and gelling of the functions of the two departments. Previously, separate budget ceilings for current and development budgets were issued to the institutional units of GoPb for preparation of the budget and there was no formal coordination between the two departments for joint evaluation of departmental requirements on the operational, service delivery and development side. JPC has, therefore, instituted a formal coordination mechanism for joint evaluation of budgetary proposals with common budgetary ceilings in perspective. This also provided greater flexibility to the departments in planning their development as well as non-development expenditure with greater ownership.

Fiscal Risks Assessment

Unmitigated fiscal risks can make fiscal forecasts redundant, disrupt government's financial plans and undermine development spending. Such risks include potential shocks to government revenues, unexpected expenditure obligations, risks associated with assets or those arising from contingent liabilities. To ensure fiscal and debt sustainability, it is imperative that the Government has an effective fiscal risk management policy framework in place. This helps the Government in identifying, analysing and addressing the short, medium and long-term risks that can pose challenges to the larger goals of fiscal and debt sustainability. Achieving a healthy growth in revenues and containing operating expenditures is also important to maintain a sizeable public investment program, essential for economic growth and productivity of a province like Punjab which has a growing population and high development needs. Punjab's non-development budget is gradually increasing, reducing the fiscal space available for the development. The Government also injects funds into public sector companies and authorities to make them sustainable and operational. This adds to the expenditure burden.

Consequent to this realization, the Government needed to have a policy for managing fiscal risks in a systematic and institutionalized manner. Fiscal risk management framework for Punjab was approved by the Provincial Cabinet in FY2021-22. As required under the framework, an annual Fiscal Risk Statement is being presented as part of the FY2022-23 Budget, disclosing all major risks to the fiscal sustainability of the province.

Fiscal Space Reforms

Reforms undertaken by Finance Department have not only focused on improving budgeting and fiscal strategy but also on increasing fiscal space on two fronts, enhancing own source revenue and reducing expenditure. To increase own source revenue, the Government is undertaking several initiatives. COVID-19 further amplified the need for GoPb to enhance its own-source revenue and manage expenditures more efficiently to address Covid-related revenue shortfalls and to fund the Covid response.

Most of the tax concessions granted in FY2021-22 are being continued in FY2022-23 to support the post-Covid economic recovery. Focus remains on areas of taxation and revenue that can improve collection through greater administrative efficiency, use of IT, improved compliance and broadening of tax base.

Assessment of COVID's Impact on Provincial Tax Revenues

The assessment findings reveal an estimated revenue loss of ***PKR 103 billion*** *(27% of estimated OSTR) during the 15-month period from April 2020 to June 2021. It has also provided the basis for devising Revenue Mobilisation Strategy for the Punjab.*

Under the PRIDE Programme, Finance Department commissioned a comprehensive analysis, with support of SNG, of the impact of COVID on provincial tax revenues across four major taxes: Stamp Duty, Property Tax, Motor Vehicle Tax and Sales Tax on Services which together account for around 90% of Punjab's Own-Source Tax Revenue (OSTR).

Revenue Mobilization Strategy

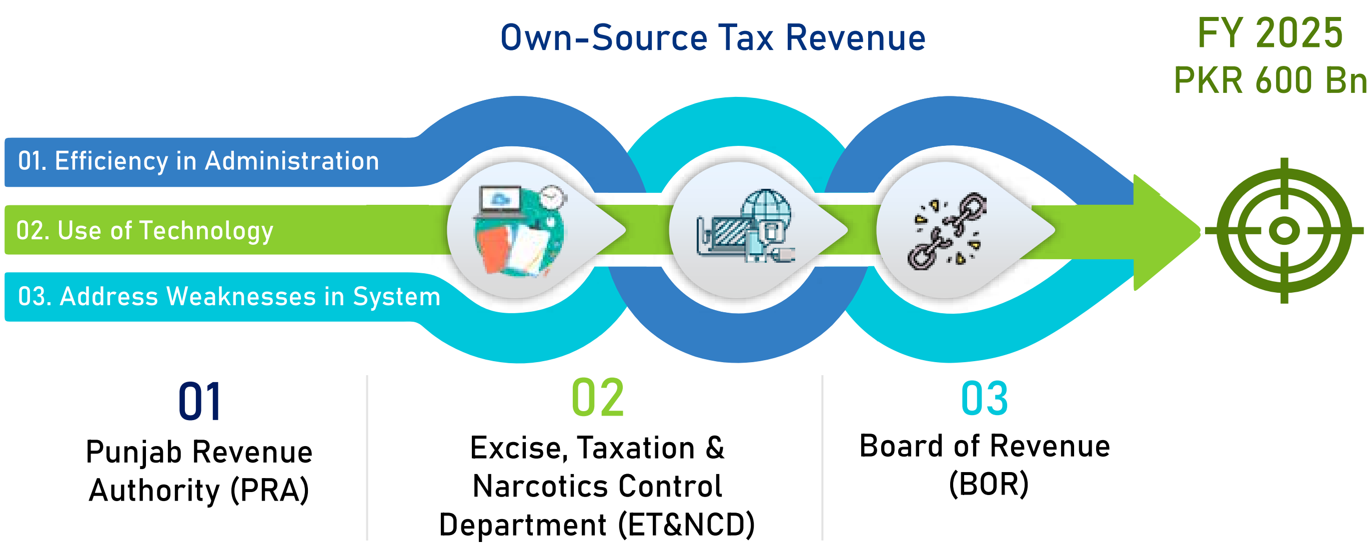
GoPb is committed to improving its tax policy and administration to achieve high growth in its own-source revenue collection and increase its OSTR to GDP Ratio. The Government also aims to use tax policy to pursue other high-priority public policy objectives such as documentation of the economy. Enhanced documentation, along with integration of databases and sharing of data among federal and provincial Governments, will increase revenue mobilization in the country as a whole and help the GoPb make effective and informed policies and decisions. Finance Department is in the process of finalizing a 3-year Revenue Mobilization Strategy in respect of OSTR collected by the three leading revenue collecting institutions of Punjab i.e. Punjab Revenue Authority (PRA), Excise Taxation and Narcotics Control Department (ET&NCD), and Board of Revenue (BOR).

Broad principles underlying the OSTR mobilization strategy include progressive taxation, minimizing economic distortions caused by tax policies, broadening the tax base, improving human resource management, standardizing, and automating administrative processes, and emphasizing effective communication and taxpayer facilitation. The strategy proposes to set tax collection targets in terms of Tax-to-GDP Ratio and aims to enhance this ratio from 0.8% in FY21 to 1.2% in FY25. Based on a projected growth rate of 12% p.a. in nominal GDP, this translates into OSTR collection of around PKR 600 billion in FY25 and implies an average growth of more than 20% p.a. in OSTR over the next three years.

Tax Database Integration

To coordinate the revenue raising efforts, pool the tax bases of different tax collecting agencies and to identify out-of-net taxpayers, Finance Department has prepared a Tax Database Integration Plan to integrate taxpayers' data from the presently disaggregated revenue collecting agencies databases. Currently, all databases are operating in silos. PFM Unit at Finance Department shall be the custodian of the consolidated data to the benefit of the three chief tax agencies – BOR, PRA and ET&NCD. The plan, pending approval from the Cabinet, will strengthen tax enforcement and help identify new taxpayers. The integration is expected to increase compliance and prevent revenue leakages. Going forward, databases of other governmental and third party databases such as Punjab Food Authority, PESSI, electricity distribution companies etc shall also be integrated.

Reforms in Tax Collection & Administration



Provincial excise is presently governed under an outdated legal framework, the Excise Duty Act (1914). Levy of excise and operational processes lack transparency and efficiency as there are no automated systems for collection, monitoring, and regulation of licenses/permits. Monitoring of production is done through on-site inspections while record keeping is not aligned with modern requirements. The manual processes of these functions result in significant delays in verification of Government's collection, identification of defaulters, and prevention of leakages/frauds. The ET&NCD is undertaking a comprehensive review of the archaic legal framework for revising the Excise Duty Act and its rules to improve revenue collection. The revision will address issues related to inefficiencies in excise administration and reducing the interface between taxpayers and tax collectors. These reforms are also supported by the track and trace system for distilleries and breweries. The initiative also focuses on installing end-to-end barcoding systems at production places, complete monitoring by the Department for counterfeit products, and tracking of goods at the retail level. ET&NCD expects significant improvements in its business processes and tax collection.

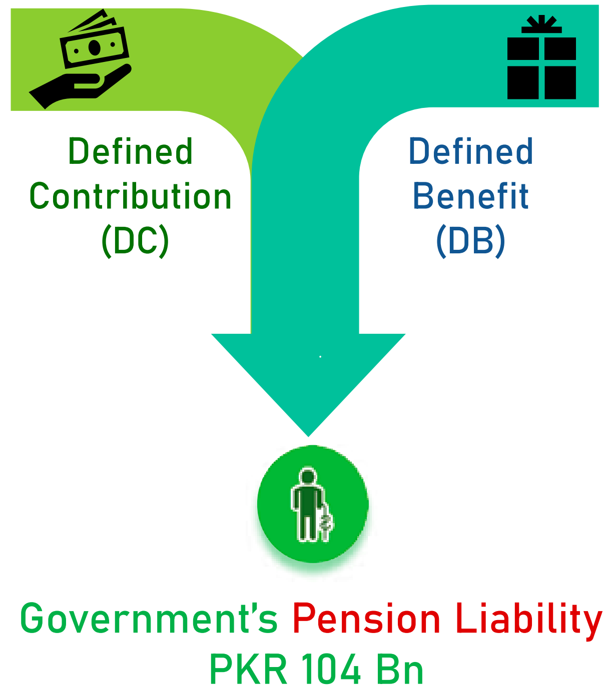
Reforms in the Urban Immovable Property Tax (UIPT) have the potential to increase provincial revenues substantially Accordingly, a number of proposals including adoption of new valuation tables and shifting of valuation basis from Annual Rental Value to Capital Value are under consideration. Similarly, Motor Vehicle Tax (MVT) is also a significant source of tax for ET&NCD. Renewed focus on this area through automation and database updation is underway to identify vehicle token tax defaulters.

Through increased used to technology, automation and integration of data, the ET&NCD expects its revenue collection to increase substantially. The reforms will also improve transparency in tax administration to the satisfaction of taxpayers.

Pension Reforms

Finance Department has been endeavouring to maximize its existing resources by reforming the pension system. The Government has identified the mounting pension liabilities as one of the key risk to the fiscal health of the province in the years to come. GoPb has undertaken a comprehensive review of the policy options for the pension system, including the development of a Defined Contribution scheme for new employees, along with changes to the existing Defined Benefits scheme.

Pension payments in Punjab are accounting for approximately 14% of revenues in FY2021- 22 (doubling from a base of less than 7% in FY11). A review has highlighted the need for reforms to ensure fiscal sustainability. It proposes two categories of reforms: introduction of new Defined Contribution (DC) Pension Scheme for new employees, and (ii) reforms to the existing Defined Benefit (DB) Pension Scheme applicable to existing employees. After thorough deliberations at various levels with multiple stakeholders, these proposals have been included in the Pension Reform Plan awaiting final approval from the Cabinet. Introduction of Defined Contribution Pension Scheme is expected to lower the government's pension liability significantly over the coming years subject to the number of new hires, their average pensionable pay, and contributions payable by the Government and employees. Similarly, various reforms in the existing Defined Benefit Scheme will reduce Government's pension liability on existing employees.



Climate Change-Aware Fiscal Management

Pakistan potentially faces a major climate change challenge. As its vulnerability to climate change impacts is well documented, the country is prone to natural disasters as well, many of which are increasing in severity and frequency on account of climate change. On Yale's Global Environmental Performance Index (EPI) 2020, Pakistan stands at 142 out of 180 countries in environmental health and eco-system vitality. Besides loss of human lives and livelihoods, climate change is taking its toll on the country's economy. As per a recent study by IMF[7], climate change will weigh on inclusive growth, per capita incomes, macroeconomic stability, socioeconomic stability and equality. Climate adaptation is, therefore, an urgent priority for Pakistan as 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. Punjab is particularly affected by pollution. Air quality in the province's cities, including Lahore, the country's second-largest city with over 11 million inhabitants, has deteriorated in recent years 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 fall months every year extending throughout Punjab.

Policy Support through Climate Budget Tagging

With this significance and urgency of action in perspective, in the year 2021-22, the Finance Department undertook an assessment of GoPb's budget and spending using Climate Budget Tagging (CBT) to assess climate change expenditure based on PIFRA's FMIS data. The exercise helped to monitor and track climate-related budget and expenditures, and the Government's climate-change responsiveness. Adoption of CBT has also been approved for adoption by P&D Board for classification of ADP projects on climate relevance.

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

Green Financing Strategy for Punjab

To step up efforts to strengthen environmental management and mainstream green development, GoPb has signed up Punjab Green Development Program (PGDP) with the World Bank. Key interventions of the Program are intended to help strengthen environmental governance and promote green investments in Punjab, for which Finance Department is preparing a Green Financing Strategy (GFS). The concept of Green Finance envisages that both public and private sectors should establish linkages between technological development, innovation, and the greening of the economy to explore untapped opportunities for ‘green’ growth. The efforts to mobilize green financing in Pakistan are few, none so far on the provincial level. With this milieu, Finance Department has begun efforts to develop the Green Financing Strategy with the support of SNG to address mainstream environmental issues so that future investments in the province can support key environmental objectives, avoid/minimize the accumulation of polluting assets and promote low-carbon, resilient and resource-efficient development under the changing climate. Key pillars of the strategy include issuance of Green bonds/sukuks, green banking guidelines, PPPs for environmental infrastructure, Green SME financing, design and utilization of Environment Endowment Fund and design of green/carbon tax for Punjab. Strategy and a well-defined roadmap is expected to be in place in FY2022-23.

Budget Transparency and Inclusion

To increase budget transparency, the Finance Department prepared the first ever mid-year Budget Execution Report (BER) in FY 2020-21. The bi-annual BERs are now being regularly published for open and participatory governance. The budget execution reports allow for the analysis of budget spending and enables a comprehensive assessment of actual spending and revenue collection against original estimates at the midpoint and conclusion of the budget year. It also helps identify the need for changes in budget allocation, including whether there is a need for supplementary budgets and other course correction measures that must be taken. Year-end BERs provide a holistic assessment of execution of the budget for the whole financial year. It contains a comprehensive assessment of actual spending and revenue collection against original estimates at the end of the budget year. Year-end reports also help take stock of the government’s performance in realising its targets and performance indicators. These reports help identify variances between actuals and allocations to ensure that variance is within acceptable limits.

Budget transparency and accountability are important elements in budget efficiency. Improvements in budget transparency also strengthen scores in PEFA indicators. Consultative Workshop on Budgetary Proposals is a permanent feature through which Finance Department solicits proposals from citizens, experts, academia, research and industry. Similarly, the budget proposals are also solicited through various digital means and social media to ensure maximum participation.

Conclusion

A strong PFM system is an essential aspect of the institutional framework for effective governance in the province. Improving PFM systems allows the Government to make best use of its resources, and GoPb is committed to bring in reforms for greater transparency and accountability.

FOR FURTHER INFORMATION

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