



Budget Strategy Paper

FY2024-25 to FY2026-27

Government of the Punjab
Finance Department

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I. State of the Global & National Economy

The global economy has demonstrated resilience, even in the face of substantial interest rate increases by central banks aimed at restoring price stability. Although the global recovery varies by region, it is steady but slow. Considering the latest forecast, global economic expansion is anticipated to sustain at a rate of 3.2 percent in 2024 and 2025. Emerging markets and developing economies are projected to experience a modest deceleration in growth from 4.3 percent in 2023 to 4.2 percent in both 2024 and 2025. However, a slight acceleration in growth for developed economies is expected (from 1.6 percent in 2023 to 1.7 percent in 2024 and 1.8 percent in 2025). From 6.8 percent in 2023 to 5.9 percent in 2024 and 4.5 percent in 2025, global inflation is projected to decline consistently, with developed economies returning to their inflation targets earlier than emerging market. There is a consensus expectation for a more gradual decline in core inflation, while rising geopolitical tensions in the Red Sea could create fresh near-term hazards for the world economy.

II. Medium Term Macroeconomic Framework

For Pakistan, global supply disruptions and economic slowdown coupled with domestic instability affected GDP growth during FY 2023. Shocks, especially FX side enhanced growth vulnerabilities, changing positive (6.2% in FY 2022) to negative economic growth (-0.2% in FY 2023). The Federal Government endeavoured to stabilize the economy by prioritizing structural reforms, aided by the International Monetary Fund (IMF) program. Emphasis was placed on relying more on domestic economic drivers rather than external assistance. In FY 2024, agriculture sector drove economic growth by 6.3 percent. Thus, GDP growth in FY 2024 is 2.38 percent due to 6.3 percent growth in agriculture and 1.2 percent growth in industry and services. Better policy management and both multilateral & bilateral partners inflows boosted growth during FY2024, whereas financial markets, real, fiscal, and external sectors have held up admirably. Various tough decisions are being taken by the Government like privatization of State-Owned Enterprises (SOEs), rationalization of energy tariff to reduce reliance on Government subsidies, restructuring of loss-making entities, taxation on non-productive sectors (real estate) etc. Based on the Government's pro-growth initiatives, the outlook of macroeconomic indicators is forecasted as under:

Table 1	Base Year Forecast	MTFF Period Forecast		
Medium-Term Macroeconomic Framework	2023-24	2024-25	2025-26	2026-27
Real GDP Growth (at Basic Prices) ¹	2.38%	3.50%	4.50%	5.00%
Real GDP (Billion Rupees)	39,685	41,074	42,922	45,068
Inflation (Average)	24.8%	17.0%	12.0%	8.0%
GDP at Market Prices (Billion Rupees)	106,045	127,784	148,869	168,222

¹ **Note:** Estimates of Real GDP are aligned with IMF Country Report No. 24/105, May 2024. However, inflation & GDP at Market Price are estimated based on forecast of various local macroeconomic experts.

III. Medium-Term Fiscal Framework (MTFF)

Medium Term Fiscal Framework (MTFF) refers to the forecasted estimates of revenue and expenditure prepared on a three-year rolling basis, with FY2023-24 as a base year. The projections for the outer three financial years (FY2024-25 to FY2026-27) consider macroeconomic factors as well as the medium-term strategic priorities of the Government for achieving economic stability and sustainable growth. The Budget Strategy encompasses approach on how to reach the targets of revenue collection and the subsequent expenditure management to get the results set in the medium-term planning of the Government in the form of MTFF. The framework helps the Government in formulation of its policy for efficient resource allocation. The annual budgets are expected to be largely aligned with the MTFF estimates. The estimated levels of provincial savings are also considered while setting space for current & development expenditure of the Government. Moreover, the MTFF has provided the basis for formulating budgetary ceilings for budget proposals.

Under this MTFF, the Government has set its sight on boosting revenues and streamlining current expenditures. This strategy aims to free up fiscal space, enabling a substantial allocation for infrastructure development within the province. Furthermore, trimming of non-essential expenses and intensifying efforts on pro-poor initiatives have been pivotal priorities during the formulation of estimates for the MTFF period.

Keeping the foregoing in view, a forecast of revenue, expenditure, net capital receipts and estimated provincial savings under MTFF period is given below:

(Rs. in billion)

Table 2	Base Year Forecast	MTFF Period Forecast		
Medium-Term Fiscal Framework	2023-24	2024-25	2025-26	2026-27
A - General Revenue Receipts (GRR)	3,168	4,074	4,676	5,384
B - Current Expenditure	1,951	2,665	3,143	3,756
C = (A-B) Revenue Balance	1,217	1,409	1,533	1,628
D - Net Capital Receipts	(366)	(565)	(333)	(354)
E = (C+D) Available Resource for Development & Other Commitments	851	844	1,200	1,274
F - Development Expenditure	585	775	882	994

Based on above framework, an approach to achieve revenue target and the expenditure management methodology is explained as under:

a) General Revenue Receipts (GRR)

General Revenue Receipts of the Punjab are derived from three streams, namely Punjab's share in the Federal Divisible Pool, Provincial Tax Revenue and Non-Tax Revenue. The

macroeconomic outlook of the country and the potential impact of policy measures are the primary sources of revenue projection. A snapshot of revenue projection, based on performance of FY2023-24, for the next three financial years FY2025-2027 is given below:

(Rs. in billion)

Table 3	Base Year Forecast	MTFF Period Forecast		
General Revenue Receipts	2023-24	2024-25	2025-26	2026-27
FBR Collection	9,251	12,000	13,680	15,732
A- Punjab's Share in FDP	2,659	3,449	3,932	4,522
YoY Growth - FBR	29%	30%	14%	15%
Total Tax Receipts	345	424	520	619
Non-Tax Receipts	164	201	224	243
B- Total Own Source Revenue (OSR)	509	625	744	862
YoY Growth - OSR	20%	23%	19%	16%
(A+B) General Revenue Receipts	3,168	4,074	4,676	5,384
YoY Growth - GRR	27%	29%	15%	15%

The General Revenue Receipts (GRR) of the Government for FY2023-24 were budgeted at Rs. 3,331 billion which are expected to be Rs. 3,168 billion due to lower-than-expected collections as outlined in the budget. For MTFF period, an average growth of 19% is forecasted in GRR against the historical average growth of 15% for the last five fiscal years (FY19-FY23) primarily due to growth in FBR revenues. Anticipated modifications to the Federal Sales Tax Act, Income Tax Ordinance, and Federal Excise Act are on the horizon for the forthcoming fiscal year. High growth in FBR's revenue is expected to follow the nominal GDP growth forecast, however, additional revenue measures of approximately Rs 1.5 trillion have been projected in the upcoming fiscal year. Resultantly, a healthy revenue stream from Federal Divisible Pool is expected in the province under MTFF period due to these potential measures of FBR.

Table 4	Base Year Forecast	MTFF Period Forecast		
Revenue Components as % of GRR	2023-24	2024-25	2025-26	2026-27
FDP as % of GRR	84%	85%	84%	84%
Own Source Tax Revenue as % of GRR	11%	10%	11%	11%
Own Source Non-Tax Revenue as % of GRR	5%	5%	5%	5%

It is pertinent to mention that historically (based on last five financial years average), 81% of the GRR has been contributed from the Federal Divisible Pool (FDP) share of Punjab under the 7th NFC Award, whereas around 13% has been collected from provincial tax receipts and

around 6% comes from non-tax receipts including federal grants. For projected period (Table 4) share of provincial own source tax revenue is increasing marginally due to various measures of the Government, the details of which are given below in the paragraph of “Own-Source Tax Revenue”.

Federal Divisible Pool: Federal transfers based on the collection of taxes by the FBR are an essential and main source of revenues of Punjab. For base year FY2023-24, FBR growth is budgeted at 31% mainly due to increased collection of taxes following upward revision of the FBR target by the IMF and the levy of increased taxes on the real estate sector. However, FBR is expected to achieve Y-o-Y growth of 29%. This impacted the Federal Divisible Pool share of Punjab positively and resultantly budget estimates of FY2023-24 in respect of FDP increased significantly. The base year FDP growth is expected at 29%, reasonably higher than the average FDP growth of the MTFF period (i.e. 19.4%) as well as the growth of last five fiscal year (FY2019-2023) i.e. 15.5%. The economic recovery, high inflation, application of new measures, such as 7E, enhanced advance income tax rates under section 236C and 236K of the Income Tax Ordinance 2001, and aggressive withholding tax rates for non-filer are possible reasons for higher growth of FBR collection, leading to corresponding increase in the FDP share of Punjab during MTFF period.

Own Source - Tax Revenue: The second important component of GRR is the own source tax collection of the province which remained suppressed due to stifled economic growth and the curtailment of public expenditure under the IMF Standby Agreement for Extended Finance Facility requirements, in addition to taxation by the Federal Government on real estate sector. The inconsistency in Government policies due to frequent change of governments also played its role in slow growth. Other factors which contributed towards sluggish growth in tax revenue include downgrade of provincial Stamp Duty rates and the failure to tax agriculture sector mainly. However, the tax on services follows growth trajectory with average growth of 19% since establishment of Punjab Revenue Authority (PRA) in the province. This growth rate is higher than the average growth rate of FBR revenue i.e. 14% during the same period. For the period of MTFF, average annual tax revenue growth of 21% is projected against the last three-year average growth of 15% based on the assumptions of economic recovery, implementation of revenue mobilization strategy, and anticipation of new taxation measures like:

- Implementation of long-awaited policy shift of Urban Immoveable Property Tax from Rental Valuation to Capital Valuation
- Expected increase in the rate of Stamp Duty in Urban areas
- Revision of Court Fee administered under Court Fee Act 1870
- Revision of Rates of various Articles of Schedule-I of the Stamp Act, 1899
- Invoice value-based motor vehicle token tax regime
- Rationalization of PSTS exemptions

- Harmonization of PSTS Reduced Rates
- Removal of anomalies in PSTS Act 2012
- Digitization/Efficiency measures for tax base enhancement by Punjab Revenue Authority

Own Source - Non Tax Revenue: Non-tax receipts mainly include Net Hydel Profit (NHP), sales/lease of Government owned assets, royalties from mines extraction, water rate charges, traffic challans, universal health insurance proceeds and some other user fees. In provincial non-tax receipts, expected average annual growth for the MTFF period is 14% against the actual growth of 12% for the last five financial years (FY2019-2023). For baseline year, the anticipated collection is 29% less than the budgetary target mainly due to non-realization of proceeds from disposal of Government assets and less receipt on account of NHP from the Federal Government. For projected period of MTFF, the reasons of expected growth in non-tax revenue include:

- Release of NHP arrears by the Federal Government
- Implementation of new crop-based water rates
- Anticipated cash inflows from provincial health insurance scheme
- Revision in royalty rates of various minerals and better management of mineral resources
- Expected profit from Punjab Pension Fund (PPF)
- Anticipated proceeds from Cash Management Fund
- Expected inflow of PSDP grants in the range of Rs. 10-25 billion during projected period of MTFF

b) Total Expenditure (Current & Development)

Under the Medium-Term Fiscal Framework (MTFF), a three-year projection of expenditure (current and developmental) has been formulated ensuring alignment with the overarching priorities of the Government. The base year (FY2023-24) set the stage for the forecast of the next three year while taking into account the projection of economic indicators (e.g. inflation, FX impact, FBR growth etc.) in addition to the departmental objectives and the needs. The spending limits forecasted in the period of MTFF act as a guiding threshold for the Government to ensure alignment of expenditure with its resource envelop. Below is the summary of medium-term expenditure planning under certain economic assumptions:

(Rs. in billion)

Table 5	Base Year Forecast	MTFF Period Forecast		
Expenditure Heads	2023-24	2024-25	2025-26	2026-27
A- Employee Related Expenses	486	609	763	949
B- Employees Retirement Benefits	384	481	603	749

C- PFC	580	867	1,036	1,263
D- Service Delivery Expenditure	501	708	741	795
F= (A+B+C+D) Current Expenditure total	1,951	2,665	3,143	3,756
YoY Growth - Current Expenditure	17%	37%	18%	20%
Development Expenditure Total	585	775	882	994
YoY Growth - Development Expenditure	0%	33%	14%	13%
Total Expenditure	2536	3440	4025	4750
YoY Growth - Total Expenditure	13%	36%	17%	18%

The total expenditure of the Government for FY2023-24 is estimated at Rs. 2,536 billion showing a year-on-year growth of 13%, compared to average growth of 19% during last three fiscal years. The main reasons for the lower growth in total expenditure of the base year are control on current expenses and the less development expenditure due to caretaker provincial government. For the next three years, the Government has estimated total expenditure growth of 23% slightly higher than the growth of the last three years.

During the MTFF period, the average share of current expenditure to total expenditure stands at 78% which is aligned with the last five years average share i.e. 78.3%. The average share of current expenditure to GRR stands at 67% during the MTFF period which in case of last three years stands at 68%. The decline in the share of current expenditure to GRR during MTFF period is the reflection of the Government's commitment towards rationalization of current expenditure to create more space for the infrastructure development and the subsequent provincial savings. Table 5 above shows a yearly growth of 37% in current expenditure for FY2024-25, higher than the yearly growth for next two years which is mainly due to inflation estimate for FY2024-25 being significantly higher than that of next two years, where the inflation is expected to settle in single digit by end of FY2026-27.

The Punjab Government is committed to prudent spending on current side while prioritizing developmental initiatives aimed at bolstering public sector infrastructure. During next three years FY2025-FY2027, the Government has planned to increase average share of development expenditure to the average revenues of the last three fiscal years to 27%, which in case of last five years stood 25%.

c) Net Capital Receipts

Another important component of public financial management is net capital receipt i.e. difference between capital receipt and capital expenditure of the province. The estimates of net capital receipt during the next three years show negative reducing balance reflecting a decline in the capital expenditure over the next three years. This is caused by the expected payouts on account of loan repayments (including wheat debt repayment), loans & advances to public entities, and other investments (capitalization of funds) higher than the capital receipt (recovery of investments, debt financing etc.) during the same period.

The next three years' projection of capital account is outlined below:

(Rs. in billion)

Table 6	Base Year Forecast	MTFF Period Forecast		
Net Capital Receipts	2023-24	2024-25	2025-26	2026-27
A. Capital Receipts	151	168	149	143
B. Capital Expenditure	517	733	482	497
C = (A-B) Net Capital Receipts	(366)	(565)	(333)	(354)

IV. Consolidated Fiscal Framework of Punjab

MTFF projections translate into Punjab's fiscal framework as under:

(Rs. in billion)

Period: FY2025 – FY2027	Base Year Forecast	MTFF Period Estimates			
	FY2023-24	2024-25	2025-26	2026-27	
REVENUE (A=B+C)	3,168	4,074	4,676	5,384	
Federal Transfers (B)	2,659	3,449	3,932	4,522	
FDP share of Punjab	2,659	3,449	3,932	4,522	
Provincial Revenue (C)	509	625	744	862	
Tax Receipts	345	424	520	619	
Non-Tax Receipts	164	201	224	243	
EXPENSE (D)	1,951	2,665	3,143	3,756	
Employee Related Expenses	486	609	763	949	
Employees Retirement Benefits	384	481	603	749	
Transfers to LGs under PFC Award	580	867	1,036	1,263	
Subsidies	45	71	80	89	
Acquisition of Physical Assets	15	16	18	18	
Repair & Maintenance	65	63	76	89	
Operating Expense	130	139	151	169	
Interest Expense	62	142	129	126	
Others	184	278	287	303	
NET OPERATING BALANCE (E=A-D)	1,217	1,409	1,533	1,628	
Investment in Non-Financial Assets (F)	585	775	882	994	
TOTAL EXPENDITURE (G) = (D+F)	2,536	3,440	4,025	4,750	
PRIMARY BALANCE (H) = A - (G - Interest Expense)	694	776	780	760	
BUDGET BALANCE (I) = (A-G)	632	634	651	634	
NET CHANGE IN FINANCIAL WORTH (J) = (K+L)	366	451	232	259	
Net Acquisition of Financial Assets (K)	155	151	110	128	
Net Loans and Investments	155	151	110	128	
Net incurrence of liabilities (L)	211	300	122	131	
Capital Inflows & Public Debt	(52)	(62)	(42)	(32)	
Foreign Projects Assistance	(96)	(102)	(102)	(105)	
Debt Repayment	359	464	266	268	

The above table reflects the budget balances of Rs. 634 billion, Rs. 651 billion, and Rs. 633 billion during FY2024-25 to FY2026-27, inclusive of provincial savings for international commitments under IMF Program. The expected change in the financial worth of the Government is targeted to be Rs. 232-451 billion during next three fiscal years which in case of base year amounts to Rs. 366 billion. The positive change in net worth is an indication of the addition of assets higher than the accumulation of liability during a period of time.

V. Medium-Term Budget Priorities FY 2025-2027

Punjab is facing economic challenges that require a transition towards a sustainable and inclusive growth path by giving precedence to strategic endeavors. The Punjab Government is fully devoted to embarking on a thorough recovery plan in line with its predefined objectives. It remains resolute in its pledge to bolster security and justice accessibility, provide top-notch public services, invest in boosting capacities and skills in the public sector, expand specialized health measures, tackle climate-related challenges, and ensure the active participation of the most vulnerable and marginalized sectors of society.

The Government's priority in development spending revolves around fostering inclusive economic growth which encompasses sectors such as health, education, energy, small and medium enterprises (SMEs), water and sanitation, agriculture, environment, and human capital development mainly.

The guiding principles of development agenda of the Government include:

- Inclusive Economic Development
- Making Punjab Climate Resilient
- Developing Vibrant Institutions
- Improved Governance, Transparency & Rule of Law
- Citizen-centric Policy Approach
- Focus on International Commitments (SDGs)
