

# Punjab

## Introduction

Provincial Finance Minister Makhdoom Hashim Jawan Bakht presented Punjab's budget for the fiscal year 2021-22, with a special focus on "Social Development, Economic Growth & Regional Equalization." The total budget outlay for the upcoming fiscal year is set at PKR 2653 billion, up from PKR 2259 billion in the concluding year. Punjab is also expected to receive PKR 1684 billion in the upcoming fiscal year as its share of NFC award. This amount will be 18% more than what the province received last year. However, it is dependent on successful achievement of federal

revenue target of PKR 5829 billion. The federal revenue targets are highly optimistic and will need a much-improved performance from all revenue departments at federal and provincial level to accumulate the targeted revenue. Reducing evasions and improving compliance will be the key in this aspect. Punjab has also set itself a target of raising PKR 404.6 billion in own revenue. The total revenue target is almost 13% higher than last year's target. Table 1 below shows the breakdown of revenue targets for the upcoming year in Punjab.



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**Table 1: Punjab own revenue targets**

Departments	Revised Targets 2020-21 (PKR Billion)	Budget Estimate 2021-22 (PKR Billion)	Growth in Revenue
PRA	141.15	155.90	10.45%
BOR	56.20	66.95	19.13%
Excise & Taxation	30.50	42.80	40.33%
Energy + Transport	0.800	7.95	893.75%
Non-Tax	129.914	132	1.61%
Total	358.564	404.60	12.8%

As the table 1 shows above, non-tax revenue targeted increase is quite incremental and should be easily achievable, as the federal government expects the country's economy to grow further by over 4% in the upcoming fiscal year. On the other hand, the tax-revenues growth will be a challenging task for the Punjab government, especially the increase in revenue from Excise & Taxation and Energy + Transport departments. After a slight slump in car sales due to COVID outbreak and

the increased taxes on purchase of new cars in past couple of years, the new car sales took an upward trend in the last two quarters nationwide, primarily due to the introduction of new vehicles by new entrants in the market. Increased competition in the auto industry has helped increase sales and the 40% revenue increase target suggests the provincial government expects it to further increase. This optimism also stems from the reduction in taxes for small vehicles proposed in the fed-

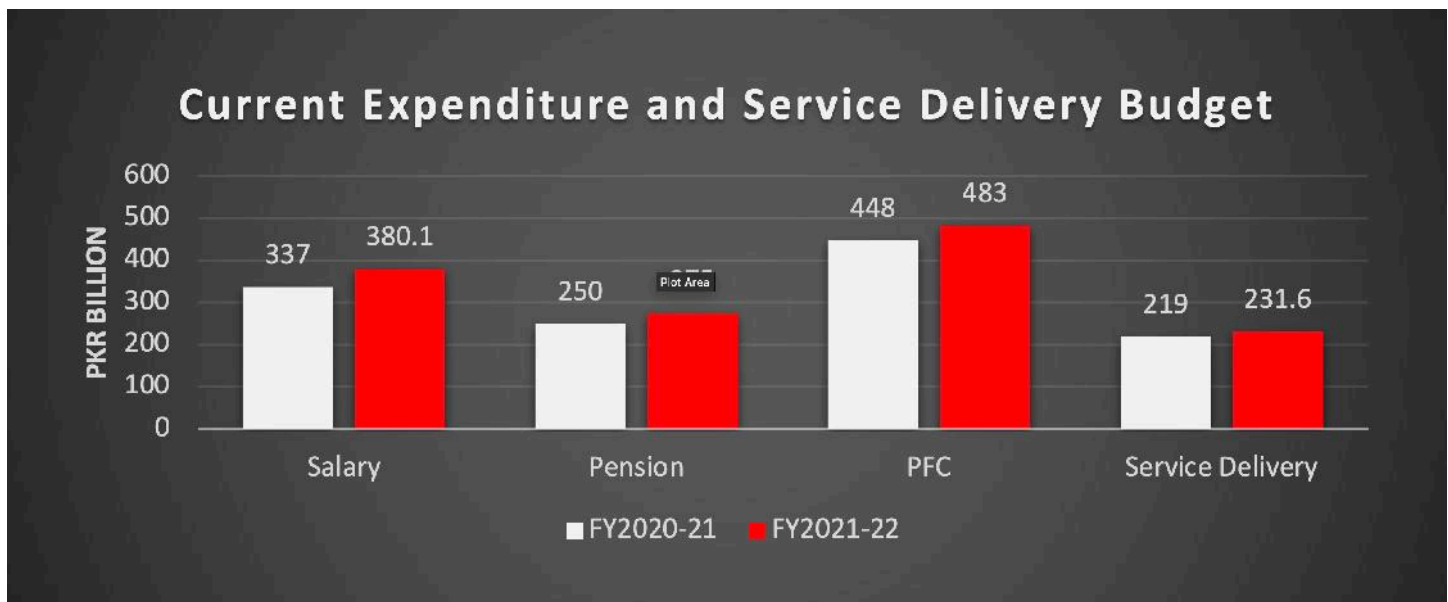
eral budget. The Energy and Transport department revenue though has been targeted at PKR 7.95 billion in the upcoming fiscal year. It is important to note that last year the estimate for Energy and Transport was set at PKR 7.522 billion but later revised to PKR 0.8 billion. As a result, if any similar revisions are made, crossing the PKR 400 billion revenue mark might not be possible in the current fiscal year either for the provincial government.

## Targeted Relief

Ever since the PTI took over the federal government in 2018, and then with the beginning of the IMF program later, significant contractionary policies were put in place. Demand contraction measures were adopted while austerity especially in government expenditures became a norm. Similar actions were followed by the PTI provincial governments including that of Punjab. Moreover, increased inflation further reduced the purchasing power of the general public which impacted not just the end consumers' daily life, but also proved detrimental for the business community due to reduced activity in the markets. The COVID-19 pandemic made matters even worse, as local lockdowns and international trade suspensions drastically impacted the demand and supply of goods while prices went further up. In such times, it was important that government took necessary steps to provide targeted relief to various segments of the society.

The Punjab government in this budget has imposed no new taxes, maintaining the total number of provincial

taxes to 73 and this will directly benefit all segments of the provincial population. The provincial government aims to increase its revenue collection to PKR 404.6 billion in the upcoming year, and with no new taxes imposed it seems the focus will be on better compliance and effective monitoring. Leakages in forms of tax evasions etc. are due to lack of effective and efficient monitoring and evaluation mechanisms. It is essential that the province's own departments improve their working systems as well as increase inter-provincial and federal coordination. Only then the federal and provincial revenue targets can be successfully achieved without putting any additional burden on the economic agents. After continuous austerity measures over the past couple of years, the Punjab government has this time decided to open its pockets. The Current Expenditure and Service Delivery budget has been increased by 8.3% compared to last year from PKR 1318.3 billion to PKR 1427.9 billion. Figure 1 shows how allocations in the Current Expenditure and Service Delivery budget have been increased.



The Federal government is targeting an inflation rate of 8% in the upcoming year. If achieved, it will be lower than the over 10% inflation rate during last couple of years. Punjab government, following in the federal government footsteps has announced increasing the salaries and pensions of the government employees by 10%. If the government manages to keep inflation around its target, the beneficiaries of increased salaries and pensions will at least not be in a worse position, if not better in terms of purchasing power. This increase was particularly necessary, as the govern-

ment increased the salaries and pensions of government employees by a minimal amount only in 2019-20 i.e., 10% for Grade 1-16, 5% for Grade 17-19 and not at all for Grade 20 and above while due to COVID-19 impact on the economy government made no changes in salaries and pensions in the year 2020-21. With rampant inflation and minimal increase over the past two years, government employees had demanded a decent increase in salaries and pensions.

Although there is severe criticism regarding increasing

pension bill in the country, it must be noted that the incremental increase in pension rates is not what is creating a financial nuisance. As it could be seen in the figure 1, despite a 10% increase in pensions, the overall pension bill for the year is estimated to increase by just PKR 25 billion. The issue of pension bill needs structural reforms, and they must begin immediately. KPK has taken the lead by eliminating multiple tiers from the pension structure, while also increasing the age of pension eligibility through early retirement. The Punjab government must also work on coming up with a similar plan and help reduce the pension bill. This will eventually benefit the province itself as reduced pressure on pension affairs will give more fiscal space for other current and development expenditures.

Moreover, the Punjab government has approved a 25% Special Allowance for financially distressed employees. It will be applicable to employees of government institutions who have not received any additional allowances before and thus have their pays left much behind some other departments. This will decrease the disparity among various government departments and reduce transfer and deputation requests from existing employees due to financial reasons. Additionally, the applicants will not be tempted towards only a select few departments and not consider others due to a further reduced package. Instead, all departments at least on the financial front can now be expected to receive similar interest from relevant applicants.

Besides, as mentioned above, the business community has suffered a lot due to the demand contractionary policies initially and then the situation surrounding the COVID-19 pandemic. The Punjab government had extended a Tax Relief Package of PKR 50 billion for ease of business in the COVID-19 affected economy. This was a huge sigh of relief for the business community, and it has proven beneficial not just for the business community but for the province as well. Due to this pack-

age, the economic activity received encouraging push during the last financial year. As a result, the Punjab Government's revenue estimates for fiscal year 2020-21 have been revised to PKR 358.564 billion instead of the initial PKR 317.067 billion estimated while presenting the budget in June 2020. This includes a 3.5% higher tax revenue totaling PKR 228.65 billion compared to initial estimated tax revenue of PKR 220.886 billion.

This shows that the business community has responded positively to the ease in taxation last year and taken full benefit. This helped the government raise higher revenues as well. As a result, the Punjab government has decided to extend the same ease of business in the COVID-19 affected economy Tax Relief Package of PKR 50 billion for the upcoming fiscal year 2021-22 as well. Given the impact last year, the government expects to encourage greater economic activity in the markets through this relief package, which eventually will help achieve the province's own revenue targets as markets take a few steps forward towards achieving full potential.

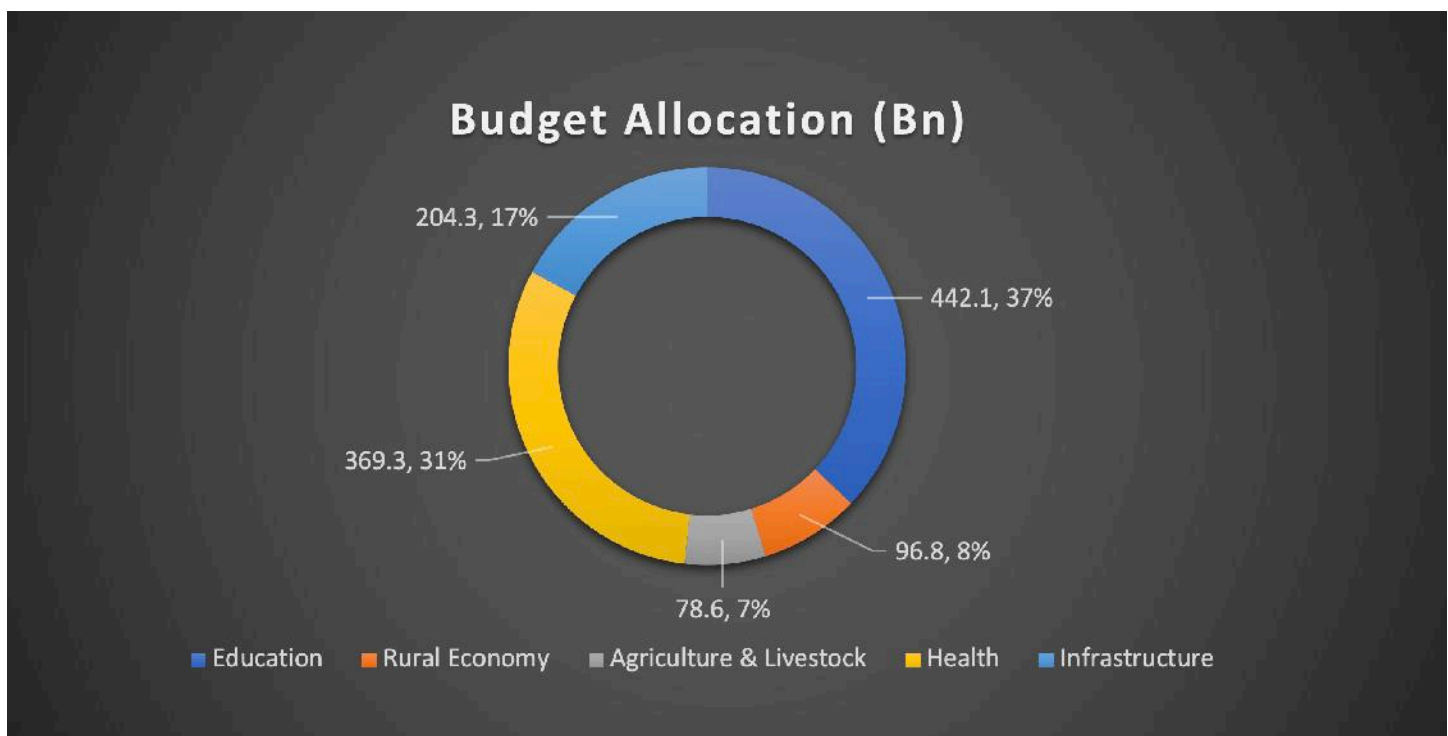
Furthermore, the Punjab government, just like the federal government has decided to increase the minimum wage per month to PKR 20,000. This is a PKR 2500 increase from PKR 17,500. The minimum wage had remained at the same level for the past two fiscal year since a PKR 2500 increase from July 2019 which brought the minimum wage from PKR 15000 to PKR 17500. Minimum wage is applicable on unskilled and juvenile workers. These are employees primarily in various industries and factories or also the support staff in various private organizations. Increase in minimum wage setting will benefit thousands of workers across the province. Implementation, however, remains a major concern as there is a lack of monitoring on firms and organization by the government regarding payments to minimum wage employees.

## Expenditure For Growth

The federal government has set a target of 4.8% GDP growth for the fiscal year 2021-22. Considering this, the Punjab government has set itself a target of 5.2% provincial growth. While other steps with the aim to encourage and facilitate economic activity in the province have been undertaken as mentioned above, emphasis has been put on expenditure induced growth through various development projects. As a result, the development budget for the province has been set at PKR 560 billion, a 66.2% increase from the concluding fiscal year's development budget of PKR 337 billion. 34% of the development expenditure has been allocated for the districts in South Punjab. This is a welcome step by the government for the development and growth of areas that have been in the past ignored and left behind as compared to areas in Central and Northern Punjab. With the South Punjab secretariat established, this development expenditure if

utilized efficiently and effectively will prove essential in decentralization of South Punjab matters and eventually also for the formation of a separate province, as part of the ruling party's electoral manifesto.

Through feedback from the provincial citizen's<sup>1</sup>, the provincial government identified five priority sectors i.e., Education, Rural Economy, Agriculture & Livestock, Health, and Infrastructure. These five priority sectors have been the primary focus of sectoral allocations in the budget for upcoming year from the government as a total of PKR 1191.1 billion have been allocated for these sectors as shown in Figure 2. Important to note that these are the complete allocations of these sectors and not just the development expenditures. Higher total allocations though, obviously, indicate a higher development expenditure as well, which are shared later in this section.



While total allocations as shown above have increased, development allocations in various sectors have also increased in this budget. The major focus for increases has been on five different sectors, with up to 58%

development budgets increased in sectors. The allocations and increase in the development budget of these sectors have been mentioned in Table 2 below:

<sup>1</sup> The feedback was obtained through the Citizen's portal. The five sectors received a total of 68% votes from the respondents. Education: 23%, Rural Economy: 15%, Agri & livestock: 12%, Health: 10%, Infrastructure: 8%.

**Table 1 put title here**

Sector	Allocation FY 21-22 (PKR Bn)	Increased from FY 2020-21
Health	369.3	30%
Education	442.1	12.9%
Infrastructure	204.3	57.9%
Rural Economy	96.8	57%
Local Government	162.1	15.6%

Moreover, Punjab government has also announced flagship development projects and initiatives, which it sees as the selling points of its development budget in the upcoming fiscal year. Additionally, such a categorization of projects also indicates the message of priority from the government side. This allows for better accountability from the public of the government by being able to compare the government priority areas and projects with their election manifesto. It also showcases the government priority going forward in the next fiscal years. While there could be differing opinions on the initiatives chosen as flagship projects as well as the allocations for them, the idea of highlighting such projects should be a norm in all budgets not just for Punjab but for all provincial and federal budgets. The initiatives summary is as follows:

1. **District Development Package- PKR 360 billion**
2. **Universal Healthcare Insurance for entire population of Punjab – PKR 80 billion**
3. **Road Rehabilitation and Development – PKR 105 billion**
4. **5 Mother and Child Healthcare Hospitals**
5. **Agriculture Economy – PKR 31.5 billion**
6. **South Punjab Development Portfolio – PKR 189 billion**
7. **Upgradation of over 8,500 schools – PKR 6.5 billion**
8. **Special Initiatives for Economic Stimulus and Growth – PKR 10 billion**
9. **Punjab Rural Sustainable Water Supply & Sanitation Projects – PKR 86 billion**

The provincial government has set a medium-term deadline for its new initiatives, aiming to complete majority if not all of them in three years. The three-year timeframe is not too short to be unrealistic, while also not too long to further push up the development budget throw-forward. Development expenditure throw-forward ahs become a nuisance even at the federal level, and just like the pension bill needs immediate addressing. Punjab government’s medium-term timeframe for development projects will prove beneficial to restrict the provincial throw-forward, while also giving more fiscal space in upcoming budgets for new initiatives. Furthermore, through medium-term projects the government will be able to provide greater development to more areas in less time period. The successful implementation and completion of these projects though depends on proper monitoring and evaluation of project progress alongside timely support in shape of fund releases, necessary approvals etc.

## Conclusion

As shown above, the Punjab government has put forward an expansionary budget, with great emphasis on increased expenditure while also providing relief to various segments of the population to encourage economic activity. The 5.2% provincial growth target is highly optimistic and will be a big challenge, but it remains a possibility if the correct decisions are made. The budget document is a financial plan for the year, and the success of this plan depends on the effective implementation of it. Additionally, reforms to remove barriers of entry in markets and aimed at encouraging more activity are of utmost important not just for growth but also for successful implementation of the budget in the upcoming fiscal year. If the Punjab government manages to support its subjects with necessary reforms, as also highlighted in the PIDE Reform Agenda for Accelerated and Sustained Growth, this budget has the potential to fulfill the “**Social Development, Economic Growth & Regional Equalization**” objectives as laid down by the provincial government.