

Punjab Budget 2017-18: Restoring Fiscal Fitness for Sustained Inclusive Growth and Development



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3.2 Revenue Expenditure

The revenue expenditure, inclusive of an expanded relief program for the poor, is expected to show growth of 13 percent from Rs 900 billion in 2016-17 to Rs 1,021 billion in 2017-18. The highest increase proposed is in the general public services of about Rs 91 billion. Within this head the highest increase is in the transfers to local governments while the outlay on economic affairs has, more or less, been kept constant at the previous year.

It is commendable that restraint is being exercised in budgeting revenue expenditure, which had grown rapidly by over 16 percent per annum and more than quadrupled in nominal terms over the last nine years. This was a reflection of the growing moderation in public expenditure at the provincial level by the Government of Punjab.

The decline in expenditure on general public services is predicated on economy in expenditure on executive and legislative organs, financial and fiscal affairs. In particular, interest payments on debt are expected to decline despite past accumulation of provincial debt and rising interest rates in the economy.

The major economy proposed is in transfers to local governments. These are expected to remain virtually flat at just over Rs 106 billion in 2017-18. This is despite the expected rapid growth in federal transfers (including the district support grant) to the province. The Government of Punjab is demonstrating a degree of hostility to the local governments set up in the province under the Devolution Plan. While this may be politically motivated, it implies that limits have been placed on the provision of basic municipal and social services, which have an important bearing on the quality of life of the people of Punjab.

The revenue expenditure projections also do not factor in the 20 percent increase in salaries and pensions announced by the federal government and major enhancements in allowances, especially for lower level employees. The provincial government is expected to follow suit with an additional cost approaching Rs 15 billion. It will become essential to increase the grant to local governments to avoid any disruption in the provision of basic services.

In the head of public order and safety affairs, the provincial government is also proposing to exercise economy and the allocation has been kept, more or less, constant at Rs 37 billion. But given the deteriorating security situation, with more frequent acts of terrorism, there is a strong likelihood that more protective measures will have to be taken to preserve law and order in the province. Also, there is the threat of strikes and protests against the rapidly increasing food, fuel, electricity and gas prices.

Within economic affairs, the big jump in expenditure is in the relief program for the

poor of Rs 17 billion. The provincial government is expected to set up a program of food stamps. The federal government is already running a national Benazir Income Support Program of Rs 127 billion, involving an income supplement of Rs 1000 per month to around 6 million households. For Punjab, the proposed relief program by the provincial government is almost as large as the federal initiative. It remains to be seen how the two programs will be implemented and coordinated and whether targeting of the poor will be effective. Nevertheless, the effort to extend relief by the Government of Punjab needs to be appreciated. No other province has announced such a program.

Overall, the conservatism in expenditure on public order and safety affairs in light of the prevailing security situation, the prospect of higher interest payments and the additional salary bill indicate that revenue expenditure in 2017-18 could be up to Rs 30 billion higher than budgeted. This will put further pressure on borrowings from SBP and/or require large cuts in the ADP.

The Budget is based on a revenue surplus of Rs 36 billion for financing of a provincial ADP of Rs 635 billion. The resource gap of Rs 27 billion is proposed to be met by capital receipts and foreign project assistance. But the gap could be substantially larger in view of the revenue shortfalls and current expenditure spillovers described above and approach Rs 95 billion. In view of the pressure on the SBP to maintain a very tight stance of monetary policy to contain inflation it is unlikely that overdraft limits will be raised. The government of Punjab, along with other provincial governments, is likely to face a hard budget constraint in 2017-18.

3.3 The Development Program

The development plan of 2017-18 has been made by the Government of Punjab to expand the development program from Rs 533 billion to Rs 635 billion in 2017-18, a growth of over 19 percent. This continues the past trend of rapid increases in provincial ADP, by over ten times in size over the last seven years. This has been one factor, which may have contributed to faster growth of the regional economy of Punjab.

However, the stagnation of agriculture productivity meant that development priorities needed to be shifted decisively towards this sector. But the share of the provincial development program going directly into agriculture and rural development remains low at about 12 percent only. In particular, along with larger public investments in rural infrastructure, the provincial government ought to have focused more on expanding agricultural research and extension for achieving higher yields. Instead, there continues to be an 'urban bias', with substantially larger allocation of Rs 29 billion proposed for special infrastructure, primarily in the metropolitan city of Lahore like the Ring Road and the Rapid Mass Transit Projects. Also,

the allocation for urban development is up by as much as 86 percent. Given high levels of poverty, most of these resources ought to go towards provision of basic municipal facilities in the smaller cities and towns of the province.

The overall allocation for social sectors is up significantly from Rs 222 billion to Rs 244 billion, with important changes in priorities. Within education, the priority is shifting from higher education, emphasized by the previous government, towards school education. Similarly, within health, the focus is more on preventive care and public health. These changes are more pro-poor in character.

In line with the Punjab's government's negative perception about local governments, there is no increase proposed, in relation to last year's development allocation of Rs 12 billion, to district governments and TMAs. This has negative implications for the rate of expansion in basic municipal and social services. Also, the local government program executed by the provincial government has been phased out.

Perhaps the biggest disappointment is in the lack of increase in the already meager allocation of about Rs 2 billion only for area development programs in backward parts of the province like the Barani areas, Cholistan and Southern Punjab. The public sector will clearly have to play a leading role in arresting the growing regional inequality in the province and allocations for regional planning for balanced development will have to be enhanced substantially in coming years.

4. Conclusion

Given the optimistic growth projections for revenue receipts and in the ability to restrict current expenditure, partly due to low inflation period, the policy choices of the provincial government during 2017-18 are aiming at restoring fiscal fitness for sustained inclusive growth and development of Punjab. The presence of a hard budget constraint implies that if the resource gap is larger than either the relief program for the poor and/or the development program will have to be cut back. The Government of the Punjab has demonstrated a commitment to progressivity both on the taxation and the expenditure side in the Budget of 2016-17 and it will be able to realize its intentions, given that the budget estimates are proposed at a time when provincial economy is booming.

End Notes

¹ Calculated from the Household Integrated Economic Survey 2015-16, Pakistan Bureau of Statistics.

² For details see OPHI (2016). Multidimensional Poverty in Pakistan. A publication of Oxford Poverty & Human Development Initiative (OPHI) of University of Oxford and United Nations Development Programme (UNDP).

Preamble: Punjab is the biggest province of Pakistan not only in terms of Population but also in terms of largest contribution to national GDP and consolidated fiscal position of Pakistan. Therefore, changes in it also determines changes in the national economy. This policy brief analyses the Punjab Budget 2017-18 and answer the most pertinent question of what is happening to the fiscal situation of Punjab.

1. Punjab's Economic Performance

The economy of Punjab has performed relatively well during the last decade, with a growth rate of about 1.0 percentage point above that for the country as a whole has enable the economy to recover back to a medium to higher growth period from a slow growth period. The economy of Punjab now contributes almost 55 percent to the national GDP (see Figure 1). The contribution has increased to almost 2 percent in the last five years. Today the province has a per capita income about 4 percent above the national average and contributes to federal revenues from apportionable taxes almost as much as its share in population.

Figure 1: Contribution of Punjab's GRP in National GDP.



The more prosperous progress of the economic growth is that it has been accompanied by declining inequality both among households and between different parts of the province. Between 2007-08 and 2015-16, incomes of the bottom 20 percent of households have risen faster than the richest 20 percent of households.¹ Similarly, there has been significant progress in the social indicators. The adult (15 years & older) literacy rate has improved 60 percent in 2014-15 from 52 percent in 2006-07. The economic and social developments in Southern Punjab to some extent have caught-up with the Northern and Central Punjab.

The relatively faster economic growth coupled with low food inflation in recent years has meant that significant reduction in poverty, which has gone down to 15.2 percent in 2014-15 from 23.9 percent in 2006-07.² Based on these improvements in the economy and uplifting of social welfare of the people, it can be said that the efforts of the Government of Punjab are commendable given that the economy was marred with structural constraints and governance mismanagement when the Government resumed power in 2008.

The Punjab Budget of 2017-18 is the ninth budget of the current government. It comes at a time of improved economic conditions, lowering food and fuel prices and declining poverty. There were expectations that major relief will be provided to the economy, especially to the poor.

2. State of Punjab's Finances

The state of finances of Punjab since 2007-08 is presented in Table 1. Since 2007-08, there has been a rapid growth in the revenue receipts and expenditure. Between the period of 2007-08 to 2016-17, the growth in actual revenues receipts are more by 2 percent than the growth in revenue expenditure.

Table 1: Punjab Budget at a Glance since 2007-08

	07-08	13-14	16-17	17-18
General Revenue Receipts	316	845	1,405	1,502
Revenue Expenditure	232	585	900	1,021
Revenue Surplus	83	260	506	482
Capital Receipts ¹	46	(35)	(28)	36
Foreign Assistance & Others	9	0	55	117
Development Expenditure	138	225	533	635

Source: White Paper, Government of Punjab
¹Sum of net Capital and Public Accounts Receipts.
 Note that the numbers for 2007-08, 2013-14 and 2016-17 are revised estimates.

The key characteristic of the Punjab's finances is that the province has moved toward fiscal consolidation. This is in response to the Government of Punjab's efforts to strive for the better fiscal consolidation in the province.

3. Budget Estimates in 2017-18

3.1 Revenue Receipts

Revenue receipts of the province are expected to increase from Rs 1320 billion in 2016-17 to Rs 1502 billion in 2017-18, showing a growth of 14 percent. Federal transfers are the largest source accounting for 77 percent of these receipts. Within these transfers, the bulk is transfers from the federal divisible pool, which are expected to increase significantly from Rs 1040 billion in 2016-17 to Rs 1154 billion in 2017-18, a growth of 11 percent. This is due not only to increase in the share of the provinces (from 42.5 percent to 48.7 percent) in the divisible pool but also because of expected fast growth of 14 percent in federal tax revenues, which is reasonable because the national economy is moving toward the high growth period.

Provincial own tax receipts are expected to show rapid growth of almost 32 percent, rising from Rs 175 billion to Rs 231 billion. This includes extraordinary growth of almost 51 percent in sales taxes on services. All other heads of tax revenue are assumed to grow at reasonable rates, therefore, the overall tax revenue target looks reasonable.

The non-tax revenues are pitched at over Rs 117 billion. This includes disinvestment of shares of the Bank of Punjab, which is expected to yield receipts from privatization of Rs 12 billion. The Bank has already suffered considerable loss of confidence following actions by the government. Sale of shares at this time may lead to a run against the Bank. These receipts should anyway be shown as a financing item in the budget and not as a part of revenue receipts.

About Punjab Economic Research Institute:

The Punjab Economic Research Institute is a statutory body attached with Planning and Development Board, Government of the Punjab, with a mandate to carry out socio-economic research on issues of provincial and national importance and to support planning and development work of Punjab Government. It is the oldest economic research institution in the country. The Institute was reorganized by the Punjab Government in 1975 in order to reactivate the Board of Economic Inquiry which had an unbroken record of economic research going back to 1919. The Institute became a statutory body in November 1980.

Vision

A dynamic and vibrant research institute that provides analytical inputs for the formulation of forward looking provincial development strategies, and also undertakes high quality, evidence based research to broadly improve public policy making in the province.

Mission

To be Punjab's leading provider of socio-economic insight on evidence based research by adopting proactive and new ideas orientation to assist in policy formulation.

Our Strategic Focus

Research and Consultancy: Present neutral, independent and objective analyses and solutions to major policy issues; and undertake research projects and consultancy work.

Think Tank: Contribute to debate on public policy issues and undertake a strong advocacy role on issues of vital significance; and through intense study and interaction, provide strategic analysis and policy prescriptions of the concepts and doctrines in selected areas of public policy.

Education and Learning: Formulate and conduct education and training courses in the field of public policy and leadership; and enhance capacity and competency for public policy development and implementation

Knowledge Management: Collate, generate, store, exchange and share knowledge, publications, knowledge products, best practices etc.; Facilitate knowledge transfer between research institutes and relevant stakeholders; Produce publications, journals, and analytical notes on public policy.

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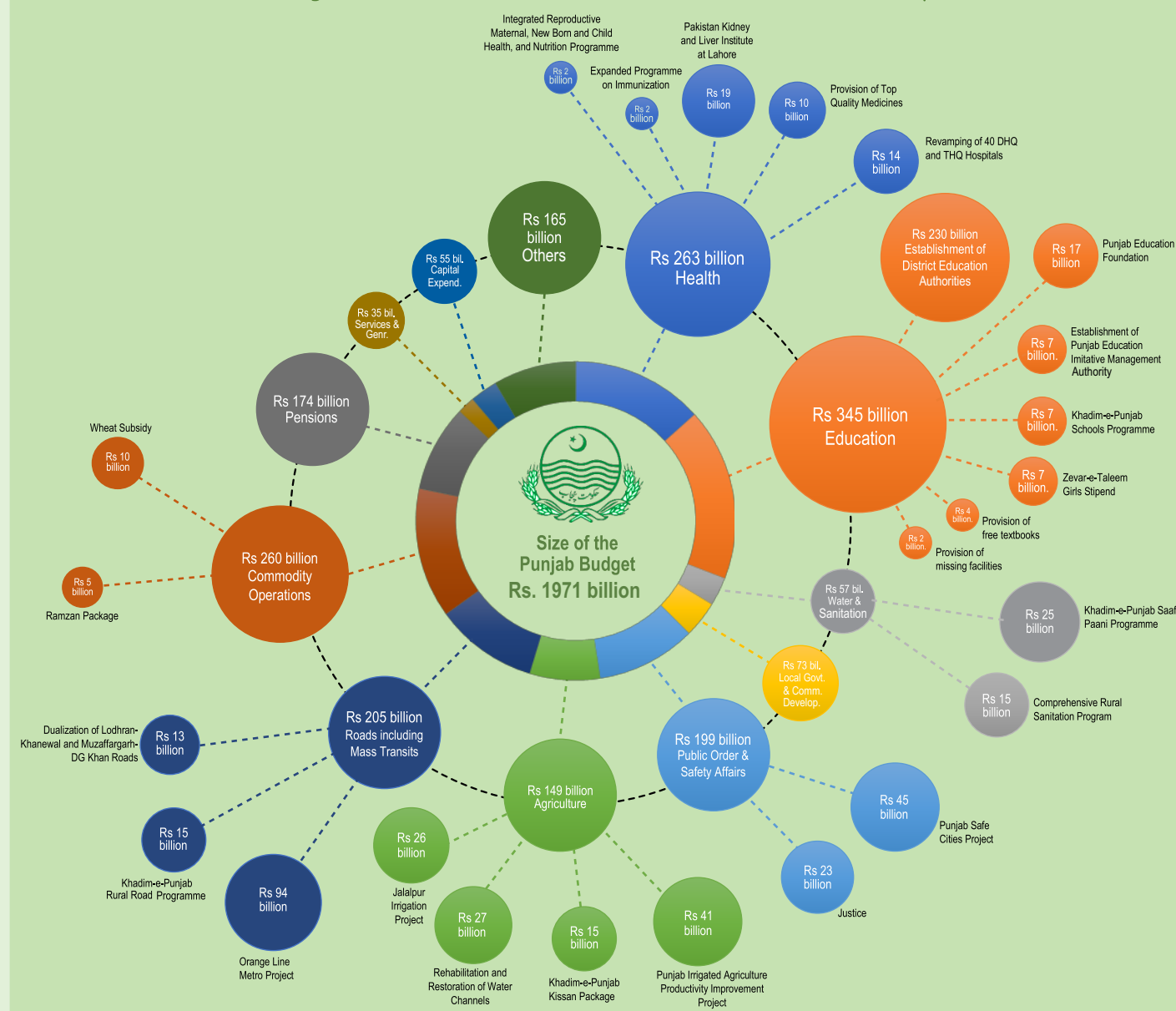
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Punjab Budget 2017-18

Restoring Fiscal Fitness for Sustained Inclusive Growth and Development



Highlights of the Punjab Budget 2017-18

- Top priority has been assigned to *Social Sector Development* including Education, Health, Water Supply and Sanitation.
- There will be a much greater focus on *Agriculture Sector* to address ailments faced by the sector. For development of the sector Rs 15 billion has been allocated under the *Khadi-e-Punjab Kissan Package*.
- Special focus would be given to the *Human Development* schemes regarding nutrition, population welfare and skills development.
- Ensure better performance of Punjab against key *Sustainable Development Goals* (SDG) indicators. For this purpose, Rs 15 billion has been allocated under the Prime Minister's SDGs Programme.
- To modernize police infrastructure and its capabilities, *Punjab Safe City Project* at the cost of Rs 50 billion is under execution. The project was initially launched in Lahore, planning work has also started for similar projects in 6 major cities of Punjab namely: Faisalabad, Gujranwala, Bahawalpur, Multan, Rawalpindi and Sargodha.
- For working of *CPEC*, special focus is being placed on the production sectors, modern infrastructure development, SMEs development, devising a comprehensive industrial policy and land use policy, domestic commerce strategy, spatial planning for industry, and developing of a long-term engagement strategy with the Chinese.
- The development schemes that create and enhance *urban clusters* and ensure provision of requisite services are prioritized.
- Several new schemes have been introduced to *empower women* and to accelerate the social inclusion of marginalized and disadvantaged groups.
- For the improvement of public school infrastructure, construction of class rooms and provision of missing facilities, an allocation of Rs 15 billion has been made.
- Launch of *Khadi-e-Punjab Ujala Programme* with the aim to provide off-grid solar power to 10,000 schools all over Punjab.
- Rs 9 billion has been allocated for provision of quality health services and revamping of all DHQ Hospitals in Punjab and 50 THQ Hospitals in Punjab.
- Allocation of Rs 25 billion for Provision of clean drinking water under *Khadi-e-Punjab Saaf Pani Programme* for provision of safe and clean water to un-served & underserved rural areas and other water supply initiatives.
- *Comprehensive rural sanitation and solid waste management programme* is being launched with an allocation of Rs 15 billion.
- An allocation of Rs 54 billion for *Good Governance Initiatives & Information Technology*.
- Rs 45 billion have been allocated for provision of basic amenities in backward/leftover areas of the province under *Khadi-e-Punjab Local Development Programme*.
- Various foreign funded projects are also part of the budget which are being implemented with the financial and technical support of World Bank, ADB, DFID, USAID, etc.
- 10% increase in pay and pension for civil employees of Government of Punjab.

Punjab Growth Strategy 2018

Key Objectives of the Strategy

- 7-8% annual economic growth rate
- Double private investment
- Achieve SDGs
- Create 1 million quality jobs every year
- Add 2 Million skilled workforce
- Improved security for life, property and business

Key Drivers to achieve above Objectives

- Private Sector-led Job Creation
- Overcoming Energy Shortage
- Export Promotion
- Productivity Enhancement
- Human Capital & Skills Development
- Equitable Regional Development
- Institutional Reforms & Governance