Fiscal Risks Statement
Financial Year 2024-25

Finance Department
Government of the Punjab

Contents

List of Tables & Figures

List of Acronyms & Abbreviations

CCL	Cash Credit Limit
EURIBOR	Euro Interbank Offered Rate
FBR	Federal Board of Revenue
FDP	Federal Divisible Pool
GDP	Gross Domestic Product
GoPb	Government of Punjab
GRR	General Revenue Receipts
GSDP	Gross State Domestic Product
LOC	Letter of Comfort
MTFF	Medium-Term Fiscal Framework
OSR	Own Source Revenue
OST	Own-Source Tax
PFM	Public Financial Management
PGFS	Punjab Green Financing Strategy
PPPs	Public Private Partnerships
PRA	Punjab Revenue Authority
PSTS	Punjab Sales Tax on Services
RMS	Revenue Mobilization Strategy
SOFR	Secured Overnight Financing Rate
SSA	Sponsor Support Agreement
TONA	Tokyo Overnight Average Rate

Introduction

Since FY 2021–22, the Punjab Finance Department has presented the Fiscal Risks Statement along with the Annual Budget Statement before the provincial legislature for its oversight. Under Section 19 of the PFM Act 2022, Government of Punjab approved Policy Framework for managing fiscal risks.

Section 4 of the PFM Act requires the Government to plan and budget for the medium term to promote financial discipline and consistency. However, in the medium term, there are associated fiscal risks that can lead to deviations from expected or forecasted budgetary outcomes. Thus, the Fiscal Risks Statement attempts to outline major sources of the risks that can cause significant deviations between actual and expected fiscal outcomes. Therefore, fiscal risks are uncertainties that may originate from historical rigidities, unsustainable policies, or unforeseen or unpredictable occurrences that impose significant fiscal burdens and necessitate immediate measures to mitigate these risks. Under the PFM Act 2022, it is also obligatory that the Fiscal Risks Statement also provides the compliance status of fiscal and debt rules stipulated in the Act.

1. Government Response to Fiscal Risks

Finance Department has presented the Fiscal Risks Statement with the Annual Budget since FY 2022. Government has accordingly taken measures to mitigate the risks identified in these statements.

Steps Taken by the Government to Mitigate Risks

The Public Financial Management Act of 2022

The Public Financial Management Act of 2022 provides an opportunity for comprehensive, efficient, and transparent use of the Provincial Consolidated Fund and Public Account of Punjab for the long-term socio-economic stability and growth of the province. Further, the Act established limits on Public Debt and Guarantees to ensure that the Government's liabilities remain within appropriate thresholds. Thus, Sections 20 & 21, describe the fiscal and debt limits for fiscal discipline mentioned below:

20. Fiscal discipline: - *The Government shall take appropriate measures to maintain a balanced budget over the long run by observing the following quantitative limits:*

(a) In any financial year, Net Investment in Non-Financial Assets shall not be less than 15% of average revenue of three preceding financial years; and

(b) In any financial year, the Budget Deficit shall not exceed 10% of average of revenues of three preceding financial years.

21. Debt limits: - *The Government shall take appropriate measures to keep the Public Sector Debt and Guarantees by observing the following quantitative measures:*

(a) stock of Public Sector Debt and Guarantees shall not, at any time, exceed 200% of the average revenue of three preceding financial years:
(b) Government Debt and Guarantees shall not, at any time, exceed 160% of the average revenue of three preceding financial years:
(c) Public Corporations Debt and Guarantees shall not, at any time, exceed 40% of the average revenue of three preceding financial years:
(d) *Interest expense on Government Debt shall not, in any financial year, exceed 12% of the average revenue of three preceding financial years:*

Further, Section 19 (d) requires the Finance Department to report on the compliance status of fiscal and debt rules in the Fiscal Risks Statement.

Punjab Revenue Mobilization Strategy (RMS)

The proportion of Own Source Revenue (OSR) in General Revenue Receipts (GRR) remains considerably low despite multiple efforts, which poses a significant risk with far-reaching implications. Government of Punjab has approved a Revenue Mobilization Strategy in 2022. The strategy emphasizes the importance of developing a comprehensive business plan for every tax collecting agency. This plan includes policy initiatives and measures designed to broaden the tax base and enhance revenue from current tax sources. The Punjab Revenue Authority (PRA) has taken steps to integrate various government agency and third-party business databases to identify potential tax evaders and expand the tax base in Punjab. Likewise, other Departments have also established plans to increase revenues.

Commodity Operations Debt Management

Previous Fiscal Risks Statements for 2021-22 and 2022-23 identified commercial financing of commodity operations as a high-risk endeavor. The escalating circular commodity operations debt was significantly jeopardizing the province's fiscal stability. It was realized that heavy debt burden and high interest rates can make commodity activities reduce future fiscal space. The Punjab Government approved essential principles for commodity operations and directed the retirement of the unsecured portion of commodity debt during FY 2022-23 and FY 2023-24 to address the debt crisis and check commodity debt growth. After the Government recognized

this risk, Rs. 469 billion was spent on unsecured debt retirement. Multiple initiatives are being taken to reduce the accumulation of commercial debt and improve commodity operations. Additionally, the International Monetary Fund (IMF) stated unequivocally in the Q1 2024 Memorandum of Economic and Financial Policies (MEFP) issued under the Stand-By Arrangement that Provincial Governments are obligated to confront the buildup of commodity debts and execute schedule-compliant strategies to guarantee their prompt repayment.

Pension Reform Plan

Finance Department has developed a Pension Reform Plan which has been approved by the Provincial Government in 2022. The reform plan encompasses various measures, such as implementing a defined contribution scheme, introducing biometric verification for pensioners, and rationalizing allowances in pension payments. The approved and implemented reforms include the revision of the pensionable service age, the introduction of a defined contribution scheme, and the biometric verification of pensioners.

In October 2021, an Act was passed by the Government of Punjab to effectuate a minimum retirement age of 55 years, subject to the completion of 25 years of service. This has resulted in an annual deferment of Rs. 15 – 18 billion under the cost of pension commutation. The successful implementation of the Pension Reform Plan is anticipated to greatly alleviate the Government's fiscal constraints in the medium to long-term future.

2. Medium-Term Fiscal Framework (MTFF)

The Budget Strategy Paper outlines the Government's fiscal policy priorities for the medium term, including the Medium-term fiscal projections. Hence, the assumptions and forecasts of the model are crucial for implementing effective fiscal risk management strategies. The Medium-Term Fiscal Framework (MTFF) projections are formulated based on several assumptions, including the macroeconomic environment, governmental priorities, and the execution of diverse policy initiatives by the Government. Consequently, fluctuations in political stability, interest rates, exchange rates, GDP growth, and revenue collection, among others, can influence the forecasts for the Medium-Term Fiscal Framework and lead to deviations from the intended objectives because of changes in underlying assumptions. Moreover, any variation for information in the base year has the potential to influence the projection for the medium term. Hence, diligently monitoring the fundamental assumptions that underpin these projections is crucial for effectively mitigating the associated risks. A snapshot of the comparison of MTFF for 2024-26 and 2025-27 is given in Table 1:

Table 1 - Comparison of Medium-Term Fiscal Framework for 2024-26 & 2025-27

	MTFF Forecast 23/24 - 25/26				MTFF Forecast 24/25 - 26/27			
	Base Year	Projected			Base Year	Projected		
	2022-23	2023-24	2024-25	2025-26	2023-24	2024-25	2025-26	2026-27
Real GDP Growth (%)	-0.2	2.8	3.2	3.6	2.4	3.5	4.5	5.0
Inflation	29.2	25.8	20.0	17.0	24.7	17.0	12.0	8.0
Nominal GDP Growth (%)	26.2	28.6	23.2	20.6	26.1	20.5	12.6	11.7
FBR Collection (Rs. Billion)	7,169	9,308	11,036	12,741	9,251	12,000	13,680	15,732
FBR Collection Growth (%)	16.7	29.8	18.6	15.4	29.0	29.7	14.0	15.0
								(Rs. Billion)
Punjab's Share in FDP	2,065	2,675	3,172	3,662	2,659	3,449	3,932	4,522
Tax Receipts	310	363	441	520	345	424	520	619
Non-Tax Receipts	116	162	181	198	164	201	224	243
A - General Revenue Receipts	**2,491**	**3,200**	**3,794**	**4,379**	**3,168**	**4,074**	**4,676**	**5,384**
B - Current Expenditure	1,667	2,074	2,244	2,564	1,951	2,665	3,143	3,756
C = Revenue Balance (A - B)	**824**	**1,126**	**1,550**	**1,815**	1,217	1,409	1,533	1,628
D = Net Capital Receipts	(226)	(337)	(64)	(55)	(366)	(565)	(333)	(354)
E - Development Expenditure	589	655	760	877	585	775	882	994

Source: Budget Strategy Paper FY2023-24 & FY2024-25, Finance Department, Government of Punjab

3. Key Fiscal Risks

3.1 Macroeconomic Environment Landscape

Punjab contributes about 54.2 percent to the national GDP and employs approximately 37.6 million people[1], playing a crucial role in the country's economy due to its significant contributions to agriculture, industries, and services. Consequently, the economic dynamics of Punjab can have both positive and negative effects on the overall economy through forward and backward linkages. Therefore, any risks that impact the national economy will have a greater impact on Punjab. Similarly, any significant decline in Punjab's economic performance has a profound impact on the national economy.

GDP growth, inflation, and exchange rates are usual assumptions for medium-term macroeconomic forecasts. Any change in these economic assumptions has a propensity to affect national and provincial fiscal conditions. Thus, the economic downturn at the national level can significantly affect Punjab being the most populous province. Due to its contributions to manufacturing, agriculture, and services, Punjab's economy is also vital. Slower economic activities can result in low revenue collections. Likewise, any inflationary pressure or exchange rate depreciation will impact the expenditures which may deviate from the budgeted expenditures. Thus, the overall fiscal performance of Punjab may deviate. However,

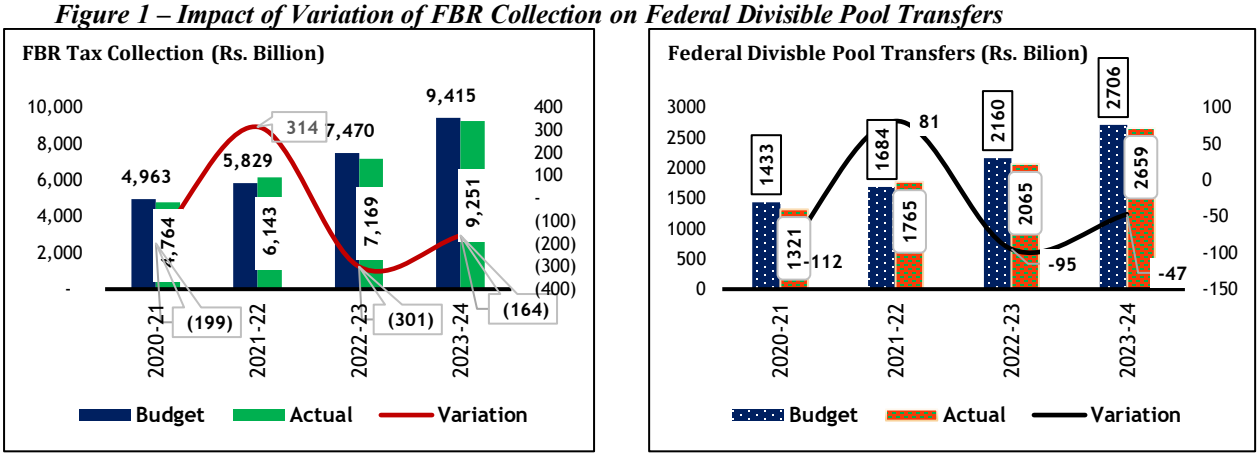
[1] Punjab Growth Strategy 2023, Planning & Development Board, Punjab

macroeconomic risks are typically outside the control of the Provincial Government. Nevertheless, the Punjab Government remains vigilant regarding these risks and implements strategies to foster inclusive economic development and contribute to sustainable growth.

3.2 Fiscal Structure

Fiscal structure and distribution formula have significant implications for Provincial Governments as they heavily depend on Federal tax collections through the Federal Divisible Pool (FDP). The Provincial receipts are inevitably impacted by any decrease in Federal tax collections as Punjab's share in the Federal Divisible Pool makes up around 80% of its annual total revenues. Thus, Punjab determines Revenue Receipts based on its share of the Federal Divisible Pool by considering the revenue collection target set by the Federal Board of Revenue (FBR). Any significant decline in FBR collection or shift of the Federal Government toward revenue collection other than FBR can pose a significant fiscal risk for Punjab. Risk in this area pertains to transfer of FDP share that is lower than the estimated budget.

Figure 1 – Impact of Variation of FBR Collection on Federal Divisible Pool Transfers

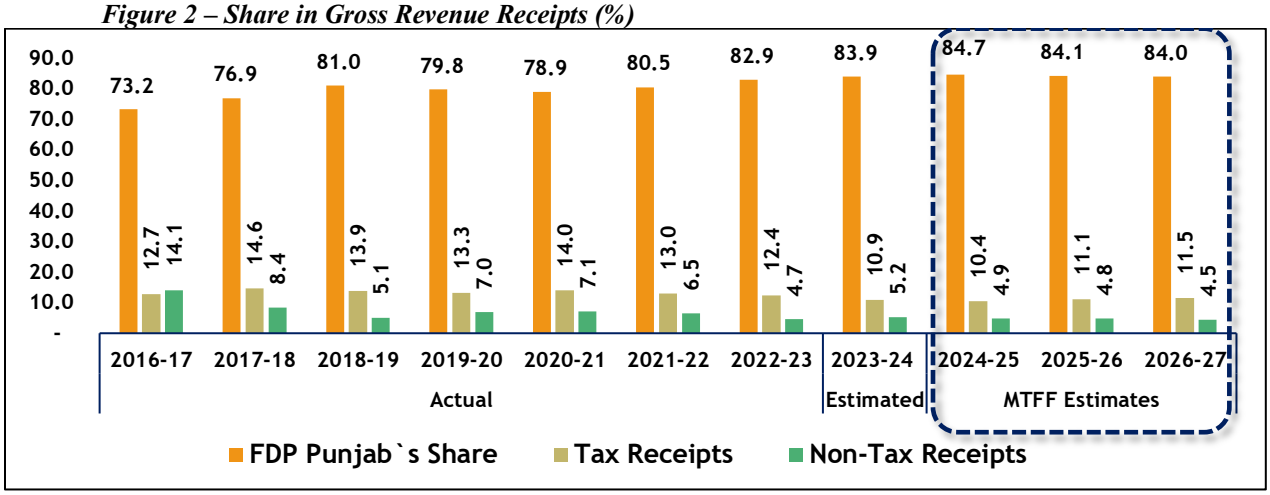


Source: Finance Department, Government of Punjab
Note: For FY 2023-24, the numbers are based on estimation with available information

3.3 Own Source Revenue

Despite efforts, the proportion of Own Source Revenue (OSR) in General Revenue Receipts (GRR) remains considerably low, posing a significant risk. For FY 2023-24, Punjab's share in the Federal Divisible Pool is estimated to be around 83.9% of its Gross Revenue Receipts (GRR), while Own Tax and Non-Tax revenue are estimated to constitute 10.9% and 5.2% respectively in GRR.

Figure 2 – Share in Gross Revenue Receipts (%)



Source: Finance Department, Government of Punjab

Government of Punjab implemented a strategy to address the risk of less revenue mobilization which emphasized the importance of developing a comprehensive business plan for every taxation agency. The Punjab Revenue Authority (PRA) has taken steps to integrate various government entity and third-party business databases to identify potential tax evaders and expand the tax base in Punjab.

Table 2 - Comparison of OST Revenue Collection Budgeted vs Actual *(Rs. Billion)*

	2022-23		2023-24	
	Budget	Actual	Target	Estimated
Own Source Tax Revenue	**337**	**310**	**441**	**345**
Sales Tax on Services	184	198	235	226
Property Tax	22	18	21	20
Motor Vehicle Tax	19	17	20	19
Stamp Duty	68	47	72	45
Others	44	30	46	35

Source: Punjab Civil Accounts & Budget Strategy Paper 2024-25, Finance Department, GoPb

However, over the past two years, there has been a deviation that could potentially accumulate to a significant amount in the medium term. Thus, Government of Punjab aims to remove all possible hurdles for smooth implementation of the Strategy.

3.4 Commodity Operations Debt

Financing of Commodity Operations was highlighted as high risk in all earlier Fiscal Statements. Punjab Food Department, annually, purchases wheat to ensure food security and price stability. During the wheat harvesting season, the Provincial Government purchases large volumes of wheat at a support price and distributes it at lower prices. Buying wheat stock requires borrowing from commercial banks.

The Federal Government issues Provincial Governments Cash Credit Limits (CCL) for commercial loans. The Government's wheat price rises due to interest, storage, freight charges, etc. To ensure a continuous flour supply, the Government sells wheat to flour mills at a lower price than the purchased cost, providing a general subsidy across the board resulting in enhanced unsecured debt acquired over time, which is financed by quarterly bank loans.

Rising circular debt threatens provincial fiscal stability. Increasing debt and interest rates are making commodities operations fiscally unsustainable. Government of Punjab has adopted essential principles for the future of commodity operations, including the retirement of the unsecured element of commodity debt, in recognition of the urgency of the debt crisis and the need to curb the unfettered rise of commodity debt. Thus, Rs. 469 billion was retired in FY-2023 and FY-2024. At the end of March 2024, the aggregate outstanding commodity debt is Rs. 355 billion. Of this amount, Rs. 221 billion is secured by wheat stock (based on price of 3,900 per maund which was the support/procurement price). The rising circular debt poses a significant risk to the fiscal stability of the province. The accumulation of debt associated with wheat operations over recent years is shown in the following Table:

Table 3 - Commodity Debt ***(Rs. Billion)***

	Jun-2023	Sep-2023	Dec-2023	Mar-2024
Commodity Debt – Opening Balance	629	680	510	450
Repayment	(386)	(170)	(94)	(95)
New Borrowing & Accrued Markup	437	-	34	-
Commodity Debt – Closing Balance	**680**	**510**	**450**	**355**
Interest Payment	87	-	66	24

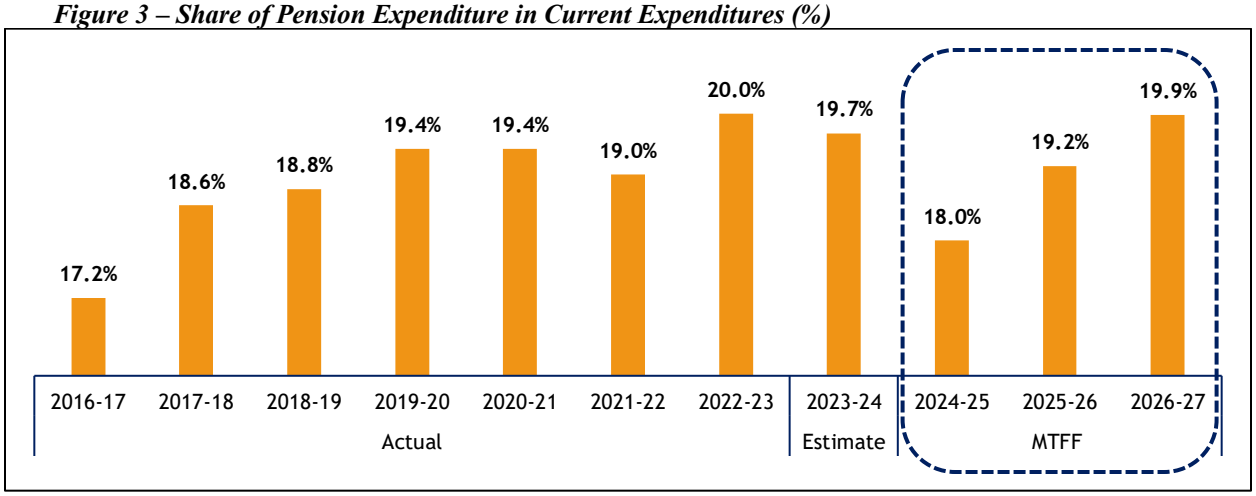
Source: Punjab Debt Bulletins, Finance Department, Government of Punjab

Punjab Government has decreased the significance of the risk by approving key principles of commodity operations. Associated risks have, therefore, considerably reduced, however, in the future, the risk may arise again if commodity operations are undertaken in a similar archaic manner.

3.5 Pension Expenditures

Pension liabilities represent a substantial obligation for the government, similar in nature to debt, and the magnitude of estimated accrued liability stood at Rs. 6.5 trillion in 2019 as estimated by an actuarial study. A rough estimation of this liability indicates current pension obligations of Rs. 10 trillion. As a percentage of share in Current Expenditure, the share of Employees Retirement Benefits in Current Expenditures has also been increased since FY 2016-17 (Fig 3):

Figure 3 – Share of Pension Expenditure in Current Expenditures (%)



Source: Finance Department, Government of Punjab

The yearly pension expenditures have increased to around Rs. 392 billion in FY2023-24 from Rs. 145 billion in FY 2016-17. During this period, these expenses have grown at a compound annual growth rate of 13%, while Gross Revenue Receipts have increased by 17% over the same period. Furthermore, during the medium-term (FY 2023-24 – FY 2026-27), pension expenditures are expected to increase by a compound annual growth of 24% while Gross Revenue Receipts will increase by 19%.

Realization of exponential growth of pension expenditure is emerging as a key fiscal risk necessitated its prudent management for fiscal discipline. Owing to the significant financial implications of potential fiscal risks, Government took the initiative of management of the fiscal risks systematically emanating from pension expenditure. In this regard, a comprehensive Pension Reform Plan and its implementation plan was prepared by the Finance Department and approved by the Provincial Government. The plan includes reforms including introduction of defined contribution scheme for new employees, biometric verification of pensioners, pensionable service age, etc.

In October 2021, an Act was passed by the Government of Punjab to effectuate a minimum retirement age of 55 years of age, subject to the completion of 25 years of service. This has resulted in an annual deferment of Rs. 15 – 18 billion under the cost of pension commutation. The successful implementation of the Pension Reform Plan is anticipated to greatly alleviate the Government's fiscal constraints in the medium to long-term future.

Over the medium to long term, pension reforms will help the Government in reducing its fiscal stress. However, any delay in implementation or reversal of these reforms may increase the fiscal constraint. Another downside risk is employment in the public sector, if the private sector gets competitive advantages in the remuneration of its employees.

3.6 Public Debt

Punjab's debt levels are currently quite low when measured as a percentage of its GSDP (Gross State Domestic Product). Punjab's total debt, foreign as well as domestic, is 2.87% of its GSDP[2]. At the end of March 2024, the debt stock of Government of Punjab (GoPb) stood at Rs. 1,644.5 billion, out of which Rs. 1,642.6 billion is from external lenders and Rs. 1.9 billion is from domestic sources.

The aggregate debt servicing amount for the fiscal year 2022-23 was Rs.115.0 billion which is anticipated to be Rs.153.4 billion during the fiscal year 2023-24. Out of the budgeted debt servicing of Rs.153.4 billion for FY 2023-24, an amount of Rs.115.1 billion has already been paid during three quarters (July 2023-March 2024). The following Table provides a summary of the Redemption Profile of the Principal Amount of the Loan:

Table 4 - Redemption Profile of Principal Amount *(Rs. Billion)*

Redemption of Principal Amount[3]	2021-22	2022-23	2023-24
Total Loan Repayment (External+ Domestic)	52.64	84.56	112.9

Source: Finance Department, Government of Punjab

It is pertinent to mention that debt portfolio predominantly comprises borrowing from external sources with 99.9 percent coming from multilateral agencies and bilateral loans contracted mostly on concessional terms (low cost and longer tenor), procured mainly for infrastructure development and reform support, whereas, only 0.1 percent of debt portfolio is domestically borrowed from the Federal Government. The external debt is denominated in foreign currency including USD, JPY, Yuan, SDR, etc. implying serious repercussions in terms of debt growth and its servicing when compared to local currency during the period of local currency depreciation.

It is important to emphasize that a substantial majority (74 percent) of the debt portfolio consists of loans obtained at fixed interest rates, which protects them from fluctuations in international interest rates. However, the floating rate portion (26 percent) is still vulnerable to periodic changes in interest rates as these loans are tied to floating reference rates such as SOFR, TONA, EURIBOR, and others.

Likewise, Refinancing risk is the potential for the Government to be unable to replace its debt obligation with new debt. An essential factor in evaluating it is the Average Time to Maturity (ATM). This metric considers payment weight and time to estimate the speed at which a loan

[2] Gross State Domestic Product (GSDP) of Punjab FY2024 (Rs. 57,353 bn.) assumed at 54.2% of Pakistan's GDP$^{(P)}$ (Rs. 105,817 bn.)
[3] Debt bulletin Mar 2024, Finance Department, Punjab

is repaid. However, the average life of GoPb's total debt portfolio is 8.1 years, indicating longer-term loans and a lower risk profile.

Finance Department has adopted prudent policies for additional foreign borrowing based on past macroeconomic situations. Thus, the Punjab Government will continue to engage bilateral and multilateral development partners to raise concessional financing but for new debt from non-concessional sources, the P&D Board may consider obtaining loans strictly for projects involving physical asset creation for which it cannot provide funds from within provincial resources or 'ring-fence' funds for these purposes. Further, average time to maturity (ATM) of loan portfolio will be maximized. Most importantly, to limit fiscal risk, debt servicing (Principal + Interest) as a percentage of the average annual revenue of the last 3 years will not exceed 5% by the end of preferably FY 2026-27.

3.7 Provincial Guarantees

Guarantee support has been granted by the Government of Punjab to a multitude of GoPb-owned entities and initiatives. At the end of May 2024, GoPb issued guarantees totaling Rs. 59.67 billion, which were intended to offer assistance for a range of Power and Road initiatives. Under the Sponsor Support Agreement, the Provincial Government has authorized Punjab Thermal Power (Pvt.) Limited to receive additional Guarantee support. The Finance Department will augment the total number of guarantees with the addition of these supplementary ones.

Table 5 - Provincial Guarantees & Letter of Comfort Issued & Outstanding

Sr.No	Instrument Type	Sector	Project/Entity	Amount (Rs. Billion)
1	Provincial Guarantee	Roads Infrastructure	Lahore Ring Road Project	4.74
2	Provincial Guarantee	Energy	Punjab Thermal Power Private Limited Company (PTPL)	31.00
3	Sponsor Support Agreement (SSA)	Energy	Quaid-e-Azam Thermal Power Private Limited (QATPL)	10.75
4	Letter of Comfort (LOC)	Energy	Quaid-e-Azam Thermal Power Private Limited (QATPL)	2.00
5	Letter of Comfort (LOC)	Industries	Punjab Small Industries Corporation (PSIC)	0.42
6	Provincial Guarantee	Energy	Punjab Thermal Power (Pvt.) Limited (PTPL)	10.76
			Total	**59.67**

Source: Finance Department, Government of Punjab

In March 2024, the stock of debt and guarantees issued in favor of public corporations stood at 18% which is significantly lower than the threshold of 40% defined in debt limits vide Section 21 of the Punjab Public Financial Management Act, 2022.

To manage the risks emanating from the issuance & management of Guarantees, a framework for issuance, valuation, and monitoring of Government Guarantees is being prepared under the Punjab Public Financial Management Act, 2022 which will help the Government to manage such risks more effectively in the future. Additionally, the risk of such a guarantee's realization can be managed by maintaining buffers/provisions annually from the Government resources. Further, the Government has extended a substantial quantity of loans to several public non-financial corporations (primarily waste management firms), the recuperation of which appears improbable. However, the due diligence of corporate entities' requests for financial support from the Government will be conducted by the Corporate Finance Unit of the Finance Department to address the management of such fiscal risks.

3.8 General Provident Fund Liabilities

The Government requires its permanent employees to subscribe to the General Provident (GP) Fund, which is a Contributory Scheme. General Provident Fund contributions are deducted from the salaries of Government employees and are credited to the GP Fund Account, which is a part of the Public Account of the province. The Government has fiduciary responsibility for these contributions. Based on the actuarial valuation of 2015, accrued GP Fund liability is estimated at Rs. 350.18 billion on June 30, 2023, which will increase to Rs. 1,909 billion by FY 2040. The Government maintains a common cash balance for both the Provincial Consolidated Fund and the Public Account which carries a risk of utilization of the cash balance of the Public Account for various provincial expenditures on development or service delivery. The Punjab Government has passed the Punjab General Provident Investment Fund Act, 2009 to establish an investment fund for the management of GP Fund liabilities of the Government to ensure its fiduciary responsibilities.

3.9 Risks Related to Climate Change

Fiscal sustainability of the Punjab province in Pakistan is threatened by climate change, owing to the region's susceptibility to temperature rises. Punjab is ranked 28th in total greenhouse gas emissions. The Provincial Disaster Management Authority (PDMA) of Punjab reports that the minimum temperature of Punjab has increased by 0.97°C and the maximum temperature by

1.14°C, over the 30 years (1975–2005)[4]. Increased temperatures have detrimental impacts on sectors such as industry and agriculture, resulting in a deceleration of economic activity. The analysis of a global panel dataset of subnational poverty in 134 countries done by the World Bank in June 2023 reveals that a one-degree Celsius increase in temperature results in a 9.1 percent increase in poverty, as measured by the US$1.90 daily poverty threshold. The Gini inequality index increases by 0.8 percent in response to a comparable rise in temperature[5].

Thus, the correlation between fiscal sustainability and climate-induced economic difficulties underscores the imperative for proactive measures to alleviate these consequences.

In addition to climate budget tagging to support the provincial climate change framework, Punjab Green Financing Strategy (PGFS) has been approved. The approach follows worldwide climate resilience and low-carbon infrastructure investment requirements. Four pillars underpin PGFS:

- Targeted Green Investments in renewable energy and sustainable transport;
- SME Finance for green projects;
- Green PPPs; and
- Major environmental legal and policy reforms.

For Punjab, greening would essentially involve a total reorganization of financial activities so that all parts of public finance (loans, budgets, investments, subsidies, grants, etc.) systemically guarantee that environmental and climatic objectives are prioritized. However, the province has economic, financial, institutional, and political impediments to green finance. Financial incentives, risk-sharing systems, and legislative support are needed to enable green investments.

PGFS recommends a dual strategy for green investments: Financing Green and Greening Finance. Punjab may access and use financing for green projects and activities. To align Punjab with climate and environmental financing systems, the PGFS includes all areas of carbon credits and carbon markets. Greening finance has three phases:

i. Awareness and Capacity Building
ii. Green Taxonomies
iii. Financial Market Goods

Finance Department Punjab has also taken budgetary initiatives regarding disaster risk management. Block allocation has been made under the annual budget for FY 2024-25

[4] https://epd.punjab.gov.pk/system/files/Report%202022-small.pdf
[5] https://documents1.worldbank.org/curated/en/099448406012312484/pdf/IDU0380ce1ed060ac047cf096bd0b9dff98cdd84.pdf

amounting to Rs. 24 billion, including Rs. 6 billion for emergent needs, Rs. 12 billion to meet climate, and Rs. 1 billion for emergencies due to monsoon rains.

3.10 Risks Related to Natural Disasters

Pakistan has been experiencing an increase in the frequency of natural disasters. Floods, extreme temperatures, and intermittent droughts are regular hazards observed in Pakistan from 1980 to 2024. The floods of 2010 and 2022, along with the earthquake of 2005 resulted in significant economic losses, casualties, infrastructure damages, and rehabilitation costs. According to Pakistan: Flood Impact Assessment, out of total damages, Punjab suffered the highest losses at 94.74% in 2010[6] while in 2022, it suffered 3.6%[7].

In contrast to other fiscal risks, a natural disaster poses distinct challenges to budget processes and fiscal risk management due to its exogenous characteristics. The province needs to have a disaster risk financing strategy in order to cope with disaster related fiscal challenges to avoid budgetary disruptions.

4. Compliance with Fiscal & Debt Rules under PFM Act 2022

To ensure fiscal discipline in the government's financial affairs, Sections 20 and 21 of the Punjab PFM Act 2022 establish fiscal and debt limits. The government is obligated to adhere to these limits through the provision of fiscal and debt targets, as well as to report on compliance with them in the Fiscal Risks Statement, as required by Section 19 (d). As such, Tables 6A and 6B are appended below to provide an update on the compliance status pertaining to fiscal discipline and debt limits respectively.

Table 6A - Compliance with Fiscal Discipline

Rule 1- Net Investment in Non-Financial Assets shall not be less than 15% of the Avg. Revenue of three preceding financial years					
	Actual			**Average 3 years 2021-23**	**Projection 2023-24**
	2020-21	**2021-22**	**2022-23**		
GRR (Rs. Billion)	1,675	2,193	2,491	2,120	
Development Expenditure (Rs. Billion)					**585**
Rule 1- Net Investment in Non-Financial Assets shall not be less than 15% of the Avg. Revenue of three preceding financial years					**28%**

[6] https://finance.gov.pk/survey/chapters_15/Annex_III_flood.pdf
[7] https://www.finance.gov.pk/survey/chapters_23/Annex_III_Pakistan_Floods_2022.pdf

Rule 2- Budget Deficit in a single financial year shall not be more than 10% of the Avg. Revenue of three preceding financial years

	Actual			Average 3 years 2021-23	Projection 2023-24
	2020-21	2021-22	2022-23		
GRR (Rs. Billion)	1,675	2,193	2,491	2,120	
Budget Surplus / (Deficit) (Rs. Billion)			**Budget Surplus**		+266
Rule 2- Budget Deficit in a single financial year shall not be more than 10% of the Avg. Revenue of three preceding financial years					**+13%**
Source: Finance Department, Government of Punjab					

Table 6B - Compliance with Debt Limits

PFM Debt Limits	Defined Limit as % of Avg. Revenue of preceding 03 years	Mar-2024
a) Public Debt* and Guarantees	**200%**	97%
b) Government Debt** and Guarantees	**160%**	80%
c) Public Corporations Debt and Guarantees	**40%**	18%
d) Interest expense on Government Debt	**12%**	1.4%

* Public Debt includes Government Debt (Foreign & Domestic) and debt raised for commodity operation
** Government Debt includes Foreign & Domestic Debt

Source: Finance Department, Government of Punjab

It is noteworthy to mention that the Government of Punjab's adherence to the Fiscal & Debt Rules as stipulated in the Punjab PFM Act, 2022 demonstrates its dedication to conducting fiscal affairs in a sustainable, transparent, and efficient manner.

5. Conclusion

Fiscal Risks Statement FY 2024-25 details the Punjab Government's responses to various risks to enhance risk management. Fiscal risks encompass uncertainties that arise from historical rigidities, unsustainable policies, or unanticipated events that impose substantial and immediate financial burdens. Furthermore, macroeconomic risks are generally beyond the Punjab Government's control. Nevertheless, the Punjab Government maintains a vigilant stance regarding the potential ramifications of these risks to execute requisite mitigation measures to preserve fiscal sustainability and implement approaches that promote inclusive economic development and contribute to sustainable growth.