Government of Punjab
Budget Strategy Paper
2010-11, 2011-12 and 2012-13

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1. THE MEDIUM TERM DEVELOPMENT PRIORITIES

The Government of Punjab has initiated the practice of developing a rolling MTDF to streamline and rationalize its development priorities in a medium term framework. The expectation is that this will guide the annual ADP allocations. Key features of the MTDF include: first, a management by results framework, especially in terms of achieving the MDGs; second, adequate funding for foreign aided and mega projects; third, focus on lesser developed districts; fourth, emphasis on on-going projects and reduction of the throw-forward; fifth, continued emphasis on rural development, and; sixth, stress on allocation to pro-poor sectors in line with the MDGs. Beside these, reconstruction of public infrastructure damaged by the floods will continue to be a budgetary priority for 2010-11 provincial budget.

Table 1 presents the shares of different sectors in the MTDF. Social sectors enjoy the highest priority with a share of 37.5 percent rising to over 40 percent by 2012-13 of the total development programme. This is a clear indication of the emphasis placed by the Government of Punjab on human development and alleviation of poverty. Within social sectors, highest priority is for education, with a share of 12.8 percent increasing to 14.1 percent over the period. Health, on the other hand, has been projected to have a modest increase in its share in the ADP. We assume that these will continue to determine the Provincial budget development priorities in the next budget. The level of development spending of course, will be determined by the level of resource availability.

TABLE 1: MEDIUM TERM DEVELOPMENT FRAMEWORK, 2010-13

(Rs. in Billion)

Sectors	**Allocations**		**Projections**			
	2010-11	**(% of Total)**	**2011-12**	**(% of Total)**	**2012-13**	**(% of Total)**
A.Social Sectors	68.2	37.5	76.1	39.0	85.1	40.1
Education	23.3	12.8	26.2	13.4	29.9	14.1
Health	14.5	8.0	16.7	8.6	18.0	8.5
B.Infrastructure Development	59.3	32.6	63.1	32.4	67.7	31.9
C.Production Sectors	7.0	3.8	8.3	4.3	9.5	4.5
D.Services Sector	7.0	3.8	8.1	4.2	9.2	4.3
E.Others	6.4	3.5	7.3	3.7	8.5	4.0
Total Core Programme	**147.9**	**81.3**	**163.0**	**83.5**	**180.0**	**84.9**
F.Special Programm/Packages	34.1	18.7	32.0	16.4	32.0	15.2
Total Development Programme	**182.0**	**100.0**	**195.0**		**212.0**	**100.0**

2. PROJECTION OF RESOURCES

The Macroeconomic Framework

The year 2009-10 witnessed a modest recovery of the national economy. The GDP growth rate had plummeted earlier to about 1 percent in 2008-09 due primarily to a slump in large-scale manufacturing. There was a rise in the growth rate of the national economy to over 4 percent in 2009-10. But the economy continued to confront the problems arising from the war on terror which impacted severely on levels of private investment. In addition, the continued high levels of power loadshedding implied losses of output and higher cost especially for industry. Of particular concern was the large unanticipated jump in the fiscal deficit for 2009-10, which was projected at 4.9 percent of the GDP but ended the year at 6.3 percent of the GDP. There was a major shortfall in FBR revenues of almost 5 percent. The country has recently experienced a major catastrophe in the form of floods. The consequence of the floods is that all the macroeconomic targets will have to be revised significantly for 2010-11. Overall, post-floods the GDP of Pakistan is likely to show a modest growth rate of only 2 percent in 2010-11. This is consistent with SBP projections of 2-3 percent and somewhat lower than the initial government estimate of 2.5 percent. Inflation is projected at 14.5%.

Beyond 2010-11, the issue is how rapidly the economy will get back to the path of recovery. The process of reconstruction of the damaged infrastructure could take up to three years. Expenditures on rebuilding the housing stock and infrastructure will provide a stimulus to construction activity. Also, the floods could leave behind rich alluvial soil and ground water resources are likely to have been replenished. Therefore, agricultural productivity could be higher from 2011-12 onwards.

As such, the national economy is expected to demonstrate a higher growth rate in 2011-12. The extent of improvement will hinge, of course, on the extent to which power and the emerging gas loadshedding is reduced and on the degree of buoyancy in private investment if and when security conditions improve. Also, the rate of expansion in the economy will depend upon the stance of monetary and fiscal policies.

Based on the above, the GDP growth rate is projected at 4 percent in 2011-12 rising to 5 percent in 2012-13. Given the relationship between the growth of the national economy and the Punjab economy, the overall Gross Regional Product (GRP) growth rates are projected up to 2012-13 for the province. It is expected and that the economy of Punjab will grow by 2.7 percent in 2010-11, 4.7 percent in 2011-12 and 5.6 percent in 2012-13. This implies that the regional economy could get back to the trajectory of high growth by 2013-14, especially if in the intervening period the major infrastructure gaps are removed.

Projection of Federal Transfers

The lopsided allocation of fiscal powers across levels of goverment has necessitated establishment of elaborate revenue sharing arrangements in Pakistan. These transfers take place according to the provisions of NFC Award, which according to constitutional provisions should be announced once every five years. The latest NFC award was announced in December 2009 which became operative from July 2010. The award has significantly altered revenue sharing arrangements in Pakistan, enhancing the share of provinces in national resources.

Besides the revenue sharing formula, federal transfers from the divisible pool to the Government of Punjab are essentially determined by the level of tax revenues mobilized by FBR. This is the case as, unlike the other provinces where straight transfers constitute an important proportion of federal transfers, Punjab's dependence is mostly on 'Divisible-pool' transfers. As such, the evolution of tax-to-GDP ratio is an important factor in determining the resource availability to the provincial government.

Pakistan has been in the low tax-to-GDP trap over the last decade. The ratio of FBR administered taxes-to-GDP has remained at about 9 percent which is low when compared internationally with countries at a similar level of development. Factors responsible for keeping Pakistan in this low tax-to-GDP trap include a narrow tax base, widespread exemptions and concessions, tax evasion, slackening tax administration and resort to supply-side economics of simulating growth by tax cuts.

In order to enhance revenues, the Federal Government plans to introduce measures aimed at broadening the tax base and strengthening tax administration. These measures are presented in Box 1. Based on these it is estimated that the Federal tax collection will increase to Rs 2485 billion or 11.1 percent of the GDP by 2012-13.

Given the recent track record of FBR, and the progress made so far in the implementation of the federal resource mobilization measures the above magnitude of enhancement appears to be on the optimistic side. The federal (FBR) tax-to-GDP ratio is expected to remain stagnant this year and thereafter show some buoyancy to increase to 9.1 percent of the GDP by 2012-13. These projections though lower than those indicated by the Federal Ministry of Finance are considered more realistic for projecting transfers to the Government of Punjab.

Divisible pool transfers to the province of Punjab are projected at Rs. 398 billion in 2010-11, increasing to Rs. 535 billion by 2013-14 (see Table 2). These transfers are projected to increase at an annual rate of 15.9 percent. Compared to the budgeted transfers in 2010-11, there is likely to be shortfall of about Rs. 38 billion, due to the likely consequence of slowing down of the economy after the floods which have already affected FBR tax collection and delays in implementation of tax reforms, especially the RGST.

BOX 1: FEDERAL RESOURCE MOBILIZATION STRATEGY

According to the Federal Budget Strategy Paper 2 (2010)[1], federal resource mobilization measures include:

1. Introduction of a broad based Value-Added Tax (VAT) replacing the General Sales Tax (GST) system of tax collection with the RGST. The VAT system has a better growth potential in relation to GST because it generates extra revenue through systematic documentation of the economy.
2. Phasing out of exemptions (to broaden the tax base and ensure horizontal equity in the tax system)
3. Broadening tax base to include services sectors.
4. Completing tax administration reforms. This will improve efficiency, integrity, transparency and prevent revenue leakages. The measures are estimated to increase Tax revenue by 0.1 percent of GDP (at market prices) for 2010/11 and 0.2 percent of GDP (at market prices) in the outer two years. These reform programmes will include the following specific measures:
   a. Strengthening of enforcement and audit functions,
   b. Automation of tax collection, monitoring and reporting systems.
   c. Re-engineering of existing processes, and
   d. Simplification of rules and procedures, and
   e. Capacity Building.

The Federal Cabinet on the 10th of November 2010 approved the RGST bill for presentation to the National Assembly . In addition, a flood surcharge at 10 percent on income tax revenues is to be imposed from January 1, 2011, for a period of six months. Also, special excise duty is being raised from 1 percent to 2 percent. The total additional revenue expectation from these measures is about Rs. 40 billion in 2010-11.

Besides, the federal government also transfers net proceeds of the federal excise duty on natural gas and net proceeds of royalty on crude oil and natural gas assigned to the provinces under the Constitution as straight transfers. Inclusive of federal grants, total federal transfers are

[1] Federal Budget Strategy Paper-2 (2010-11), Ministry of Finance, Government of Pakistan.

projected to increase from Rs. 408 billion in 2010-11 to Rs. 545 billion by 2012-13, as shown in Table 2.

TABLE 2: THE RESOURCE ENVELOPE, 2010-11 TO 2012-13

(Rs. in Billion)

	Description	2009-10	2010-11	2011-12	2012-13
1	**Federal Resource Transfers**	**345.4***	**407.8**	**476.6**	**545.0**
	Divisible Pool Transfer	329.8	398.8	466.8	534.9
	Straight Transfers	7.0	6.2	6.9	7.1
	Subventions	4.8	-	-	-
	Federal Grants	3.8	2.8	2.9	3.0
2	**Provincial Resources**	**65.0***	**104.3**	**122.9**	**142.9**
	Provincial Tax Revenues	**32.6**	**82.5**	**98.1**	**115.6**
	GST on Services		42.1	53.6	66.6
	Other Provincial Taxes		40.4	44.5	49.0
	Non-Tax Revenues	**32.4**	**21.8**	**24.8**	**27.3**
3	**TOTAL REVENUE RECEIPTS (1+2)**	**410.4***	**512.1**	**599.5**	**687.9**
4	**Financing Available for Development**	**27.9**	**-3.0**	**20.1**	**23.2**
	Net Capital Account	15.7	-12.8	8.0	10.5
	Net Public Account	1.2	-	-	-
	Foreign Assistance	10.5	3.0	5.0	5.0
	Program Grants		6.8	7.1	7.7
	TOTAL RESOURCES (3+4)	**437.7**	**509.1**	**619.6**	**711.1**

Provincial Own Receipts

Currently the four provinces combined are generating less than half a percent of GDP as own revenues. This ratio has, in fact, fallen over the years. Given that the country needs to make an all out effort to get out of the low tax-to-GDP trap, sub-national governments will also have to play their due role by enhancing the level of fiscal effort in their respective jurisdictions.

Provincial own receipts consist of the following:

I. Tax receipts: Receipts from direct taxes (agriculture income tax (AIT), property tax (UIPT), land revenue, professional tax, capital value tax etc.) and indirect taxes (sales tax on services, provincial excise, stamp duties, motor vehicle taxes, electricity duty etc.)

II. Non-tax receipts: income from property and enterprises; receipts from civil administration and other functions; miscellaneous receipts (other receipts excluding federal grants and development surcharges and royalties) and extraordinary receipts

Analysis of provincial tax mobilization over the decade reveals a varying level of fiscal effort. Provincial tax effort clearly slackened during the period 2003-04 to 2007-08, when there was a fast growth in GDP. The growth rate of provincial taxes declined to 12 percent per annum from over 15 percent in the previous two years. Thereafter, great vibrancy is observed in provincial tax mobilization. Growth in provincial taxes over the last two years has averaged close to 30 percent. The high growth is partially because capital value tax, hitherto collected by the federal government and shown as part of federal transfers, has been devolved to the province and is therefore a part of provincial tax receipts. Currently, buoyancy of provincial tax revenues is estimated at 0.80 with respect to the GRP. That is, if the provincial economy grows by 10 percent, provincial tax revenues grow by 8 percent. This coefficient has to be raised, to say 1.2, to lead to some increase in the provincial tax-to-GRP ratio. This would essentially imply continuation of the recent growth momentum over the next five years.

The primary growth area for provincial taxes is sales tax on services. The federal government collects GST on services on behalf of the provincial governments and reverts back revenues collected net of cost of collection. Following the 7th NFC award, federal government will also revert back revenues previously collected as federal excise duty (CE mode) on services to the provinces. This alongwith an expansion of the GST tax net to include more services will lead to a substantial increase in revenues from this source to the Government of Punjab. In the absence of full agreement yet on the distribution of RGST revenues among provinces and the federal government, the allocation for 2010-11 by the federal government is budgeted on the basis of population. We assume continuation of this allocation basis. Revenues accruing to the Government of Punjab on account of RGST on services are projected at Rs 42 billion in 2010-11, increasing to Rs. 66 billion by 2013-14[2].

Beside Sales Tax on Services, given the current allocation of fiscal powers provinces have two other promising direct revenue sources under their fiscal jurisdiction, the Urban Immovable Property Tax (UIPT) and Agriculture Income Tax (AIT). Proper development of these taxes can yield significant revenues. The strategy to mobilize higher tax revenues is presented in Box 2

[2] Estimates based on "VAT on Services", Research Report prepared for the Federal Board of Revenue, Government of Pakistan by Institute of Public Policy, BNU.

BOX 2: RESOURCE MOBILIZATION STRATEGY FOR PROVINCIAL TAXES

The Provincial Government can implement a number of reform measures to enhance of the revenue of the own tax revenues. Higher revenues from UIPT can be mobilized through updating of valuation tables, reduction in differential between owner occupied and rented properties, notification of new rating areas and facilitation of tax payers. During the financial year 2009-10, survey of properties has been completed and accordingly new valuation tables have been developed, reflecting market value of the properties. Phased implementation over the next three years of the above reforms can lead to significant revenue gains from UIPT.

Currently, the AIT generates only about Rs 770 million in revenues. Today, major crops (wheat, rice, cotton etc) receive world prices with subsidized inputs of fertilizer, water and electricity. Therefore, the conventional argument given against the levy of agricultural income tax of disguised taxation is no longer valid. Effective taxation of agricultural income will also remove perception of inequality in the tax system. A case can be made for the levy of a presumptive tax at the marketing stage of crops at a small rate of 2 to 3 percent. In addition, the AIT can be collected as a presumptive income tax on land holding.

Higher resources can also be mobilized through other tax sources. Some proposals which can be implemented in a phased manner over the next three years are listed below:

1. Computerization of land record and imposition of valuation tables in rural areas will streamline Land Revenue and reduce leakage
2. Likewise, some revision in valuation tables/ DC tables every year to reduce the gap between the value of property assessed and the market value of properties and introduction of valuation tables in rural areas can boost stamp duty revenues.
3. In case of stamp duty on financial instruments like Debentures, TFCs and Commercial Paper the rate has already been reduced and the following policy actions may be considered:
   a. The categories of fixed/ ad-valorem rates in various instruments to be reduced to create uniformity and simplicity in the structure of the duty;
   b. Fixed as well as ad-valorem rates to be reduced wherever it is likely to boost economic activity, encourage compliance (or reduced evasion) and thereby increase revenue collection;
   c. Subclasses of instruments to be eliminated wherever possible;
   d. Duty on similar instruments to be levied at the same rates;
   e. In case of instruments which can be executed in any province, stamp rates not to be set above rates prevalent in other provinces to avoid loss in revenue;
4. In the case of motor vehicle tax, proposals include review of payment of annual token tax through post office system and replacement with collection through the banking system, establishment of database of vehicles in Punjab, enforcement through spot checking by traffic wardens.

Non-tax receipts accrue mainly on account of regulatory functions performed by the provincial government and from rates and fees charged for the provision of certain social and economic services. An important cornerstone of the provincial resource mobilization strategy should be a move towards full operation and maintenance cost recovery in the case of economic services, law and order, community services, etc.

Implementation of the above resource mobilization strategy will raise provincial own-tax revenues (excluding RGST on services) to Rs. 49 billion in 2012-13 (see Table 2). Provincial non-tax receipts will increase to Rs. 27.3 billion over the period. Overall provincial own resource base will yield revenues of about Rs. 82 billion, excluding RGST. Inclusive of RGST, provincial own revenues are expected to increase to Rs. 142 billion by 2012.13. Projection of provincial own tax and non-tax revenues is given in Table 3.

TABLE 3: PROJECTION OF PROVINCIAL OWN TAX AND NON-TAX REVENUES (Rs in Million)					
	2009-10	**2010-11**	**2011-12**	**2012-13**	**Growth Rate (%)**
Provincial Tax Reciepts	**31357**	**40424**	**44506**	**49001**	**16.0**
Agricultural Income Tax	770	1200	1377	1579	27.0
Urban Immovable Property Tax	3323	4362	4877	5450	17.9
Land Revenue	6718	6901	7668	8519	8.2
Registration	2199	3300	3532	3780	19.8
Tax on Professions, Trades & Callings	406	521	563	607	14.3
Capital Value Tax	-	1500	1606	1718	4.6
Provincial Excise	1046	1230	1313	1401	10.2
Stamp Duties	7608	10200	11108	12090	16.7
Motor Vehicle Tax	6129	6468	7421	8510	11.6
Cotton Fees	362	433	442	451	7.6
Tax on Hotels	240	278	284	289	6.4
Electricity Duty	2481	3961	4240	4536	22.3
Others	73	68	73	75	0.9
Provincial Non-Tax Receipts	**25724**	**21793**	**24825**	**27260**	**2.3**
Income from Property & Enterprises	14547	8267	9507	10633	-9.0
Irrigation Charges	2102	2966	3351	3787	21.7
Agriculture	569	626	688	757	10.0
Police	2000	2491	2864	3294	18.1
Mines and Minerals	1569	1726	1898	2088	10.0
Communications and Works	405	446	490	539	10.0
Others	4533	5271	6027	6162	10.8
Total Provincial Reciepts	**57081**	**62217**	**69331**	**76251**	**10.1**
*including Rs 5.7 billion from resolution of PTCL properties with the federal government.					

The Resource Envelope

Overall, surpluses from general revenues receipts (projected above) net capital receipts, foreign assistance to projects and program assistance finance the ADP of the province. Projections of financing available for development as net capital receipts, foreign assistance and programs is projected to increase from -0.3 Billion in 2010-11 to Rs 23.2 billion by 2012-13. The major reason for the decline in 2010-11 is because of the repayment of the loan and non-realisation of expected receipts. Historically, net public accounts receipts have also contributed in some years to funding development activity in the province. It is proposed to avoid this practice in future years. Table 2 summaries the resource envelope of the provincial government in the medium term framework from the above sources.

Federal Government revenue sharing transfers, straight transfers and grants will contribute Rs.408 billion to the provincial exchequer in 2010-11, increasing to Rs. 545 billion in 2013-14. The provincial own resources will further add Rs. 104.3 billion in 2010-11 increasing to Rs. 142.9 billion by 2012-13. Besides these, provinces will have financing available of Rs. 20.1

billion in 2011-12, increasing to Rs. 23 billion by 2012-13. Overall resources available to the provincial governments during the period of projection will increase from Rs. 437.7 billion in 2009-10 to Rs. 711 billion by 2012-13. As a percentage of the regional economy, the provincial resource availability will be around 5.5 percent .

Analysis of Risk Factors

The growth of about 17 percent on average in provincial resource availability from 2009-10 to 2012-13 is conditioned on a number of risk factors, including the following:

I. The floods are expected to lead to a fall in the GDP growth rate by about 2.5 percentage points in 2010-11. Thereafter, the economy is expected to recover and show a growth rate of 4 percent in 2011-12 increasing to 5 percent by 2012-13, as highlighted earlier. If, however, the economy slows down more than anticipated in 2010-11 or if the recovery thereafter is slower, then the projected growth rate in FBR revenues, which determine the size of the divisible pool, could be lower than projected in Table 2. For every one percentage point lower growth in the GDP, FBR revenues are lower by Rs 15 to 20 billion annually.

II. The Budget Strategy Paper-2 of the Federal Government envisages major improvements in tax administration by FBR. These include strengthening of the audit process, machanisms for detection of filers and non-filers, simplification of processes, etc. Such improvements are expected to fetch on additional 0.2 percent of the GDP in revenues by 2012-13. If, however, these reforms are not implemented fully or if they do not yield the desired revenues, then FBR revenues could be lower by Rs 44 billion in 2012-13, implying lower transfers to Punjab of 12 billion.

III. As highlighted earlier, the fastest growth in provincial own-tax revenues is likely to be in the RGST on services. This is based on the assumption that the provinces will promulgate legislation to introduce a broad-based RGST on services, excluding only education and health, and that consensus will be reached on the sharing of the revenues among the provinces latest by the beginning of the next fiscal year. If, however, there are delays in the implementation of the broad-based GST on services, then the growth in provincial own-tax revenues could be significantly lower. In this case, provincial resources could be lower by over Rs. 20 billion by 2012-13.

IV. A relatively fast growth rate of 16 percent has also been projected upto 2012-13 in provincial own-tax revenues (excluding RGST on services). This is based on the assumption that the provincial government will develop promising revenue sources like the UIPT, AIT, etc. But if the existing revenue sources continue to grow only according to the historical rate of buoyancy with respect to the regional economy, then revenues are likely to be somewhat lower by Rs. 5 billion in 2012-13.

3. EXPENDITURE OUTLOOK

Based on the relationship between development and current expenditures on different functions[3] by the provincial government we are in a position to develop different scenarios given the resource outlook. These scenarios will highlight changes in level of current and development expenditure from 2010-11 to 2012-13 depending upon different assumptions as follows:

Baseline Scenario: based on resource projections of revenue and capital receipts presented in Table 2 and projected size of ADP in line with MTDF.

Scenario with an Increase in Revenues: based on a higher projected revenue receipts than in the baseline scenario, but with the same development priorities as in the baseline scenario.

Baseline Scenario

The forecast of the key budgetary magnitudes upto 2012-13 under the assumptions in the base line scenario is presented in Table 4. During 2010-11, it is likely that the growth rate in expenditure will be restricted by a large fall in net capital receipts due to the virtual cessation in development grants by the federal government, tightening of limits to borrowings by provincial governments in the aftermath of the NFC Award and a shortfall in federal revenue transfers. Beyond 2010-11 total expenditure is projected to increase to Rs 711 Billion by 2012-13. Around 72 per cent of this expenditure is current in nature. The share of development expenditures is likely to be around 28 percent over the medium term timeframe. The Table shows that the historical expenditure mix of about 70 percent current and 30 percent development will not be feasible due to the shortfall in provincial revenues. The development expenditure in this case in 2010-11 will be as low as Rs 124 billion.

Scenario with some Increase in Revenues

In this scenario we undertake sensitivity analysis with revenue receipts 2-4 percent higher than in the baseline scenario. The consequences of this rise are presented in Table 4. Revenue receipts are higher by about Rs 11 billion in 2010-11. This leads to a change in the mix of expenditure. Initially, bulk of the improvement in resource availability is absorbed in an increase in the ADP, which will be higher by about Rs 8 billion. Likewise, in 2011-12, Rs 11 billion of an revenue increase of Rs 18 billion will be diverted to ADP. Gradually, as the increase in development expenditure enhances the downstream liabilities of recurring expenditure, some fiscal space has to be spared for an enhancement in the current budget. Clearly, the current/development expenditure mix is very sensitive to the revenue availability to the

[3] Based on the Model of Provincial Finances presented in "Assessing Financial Impact of Development Portfolio" ,DFID TAMA P&D Department, December 2010

Government. The province will be able to embark on a path of high development, only if its resource envelope enlarges through higher federal transfers and/or higher own resource generation.

TABLE 4: PROJECTIONS OF CURRENT AND DEVELOPMENT EXPENDITURE

(Rs in Billion)

	BASELINE RESOURCES WITH MTDF PRIORITIES			HIGHER REVENUES WITH MTDF PRIORITIES		
	Total Expenditures	Current Expenditure	Development Expenditure	Total Expenditures	Current Expenditure	Development Expenditure
2009-10	463.8	318.2 (68.6)	145.6 (31.4)	463.8	318.2 (68.6)	145.6 (31.4)
2010-11	509.1	384.6 (75.5)	124.5 (24.5)	520.1	388.0 (74.6)	132.1 (25.4)
2011-12	619.6	445.4 (71.9)	174.2 (28.1)	637.9	452.9 (71.0)	185.0 (29.0)
2012-13	711.1	511.6 (71.9)	199.5 (28.1)	733.5	522.3 (71.2)	211.2 (28.8)

Figures in paranthesis gives shares in total expenditure

Expenditure Ceilings

In the past few years, the government has been giving regular increases in salary / allowances to its employees in order to save them from the impact of inflation. During 2010-11, the government allowed a 50 percent increase in the basic pay of its employees in addition to doubling the medical allowance for non-gazetted servants and 15 percent medical allowance for gazetted employees. In the next couple of financial years, the government would be focusing more resources towards socio-economic development of the province. Accordingly, following assumptions have been made:

I. The salary expenditure of the government is expected to grow at a rate of 10% per annum in 2011-12, 2012-13 & 2013-14. This includes the impact of normal increment

II. In the past few years, government has been suppressing its non-salary items of the budget to reduce its current expenditures. Lesser investment on these items results into poor service delivery by government departments. The Budget Strategy Paper (BSP) has been prepared after allowing for the downstream impact for development expenditure on O & M liabilities of completed projects, allowing an increase of 18% in 2011-12 & 19% thereafter for 2012-13 & 213-14 in non salary budget items.

III. In accordance with the priority assigned to Health and education sectors, a growth rate of 20% has been allowed to their salary & non-salary expenditure.

Accordingly, indicative current expenditure ceilings for next 03 financial years for departments preparing their Medium Term Budgetary Framework are presented in table below.

EXPENDITURE PICTURE*

(Rs. in million)

Sr.	Name of Department	B.E 2010-11	B.E 2011-12	B.E 2012-13	B.E 2013-14
1	Communication and Works Department	2,893.838	5,864.298	6,791.870	7,872.984
2	Health Department	21,975.025	28,614.357	35,767.947	44,709.934
3	Education Department	26,531.204	35,680.278	44,600.348	55,750.435
4	Irrigation and Power Department	7,513.659	10,712.080	12,137.215	13,767.926
5	Excise and Taxation Department	171.413	108.127	122.175	138.204
6	Housing Urban Dev. & PHE Department	3079.350	3,716.082	4,383.232	5,169.756
7	Livestock and Dairy Development	1,840.878	2,374.008	2,723.910	3,128.848
	Total	**60,754.604**	**87,069.230**	**106,526.696**	**130,538.087**