

**Building Resilience with Active Countercyclical Expenditures
(BRACE)**

Quarterly Progress Report

Quarter Ended 31 March 2023

Abbreviations

| | |
|----------|--|
| ADB: | Asian Development Bank |
| AGP: | Auditor General of Pakistan |
| BISP: | Benazir Income Support Program |
| BRACE: | Building Resilience with Active Countercyclical Expenditures |
| CDEP: | Countercyclical Development Expenditure Program |
| CFY: | Current Financial Year |
| COVID: | Corona virus pandemic |
| DMF: | Design and Monitoring Framework |
| EA: | Executing Agency |
| EAD: | Economic Affairs Division |
| ECC: | Economic Coordination Committee |
| GOP: | Government of Pakistan |
| GMSS: | Government Markup Subsidy Scheme |
| IA: | Implementing Agency |
| IF&RSLF: | Interest-free loan to landless farmers in the flood affected areas |
| MMBtu: | Metric Million British thermal unit |
| MSRSSF: | Mark-up subsidy and Risk sharing scheme for Farm Mechanization |
| NSER: | National Socio-Economic Registry |
| PASSCO: | Pakistan Agricultural Storage and Services Corporation |
| PSDP: | Public Sector Development Program |
| PMYBALS: | Prime Minister's Youth Business and Agriculture Loan Scheme |
| PRs | Pakistan Rupee |
| SME: | Small and Medium Enterprises |
| SNGPL: | Sui Northern Gas Pipeline Limited |
| USD | United States Dollar |

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Introduction

Background

1. The COVID 19 Pandemic sent shock waves through the world economy and heightened concerns about high private and public sector debt levels. Although the immediate response by the Government of Pakistan (GOP / Government) to the crisis was largely effective at stabilizing output and protecting incomes, it also aggravated some preexisting financial risks to households and the financial sector that pose a threat to an equitable recovery in the longer term. While the GOP efforts were continuing to combat the adverse impacts of COVID, the Russian-Ukraine war escalated the geopolitical tension and triggered a possible energy crunch in the region. The cascading effect of COVID and the war resulted in income and job losses and demanded massive GOP spending on social protection to protect the most vulnerable population and promote economic recovery. GOP used digital tools to manage the massive amounts of administrative data needed to monitor the welfare of households and individuals and to design better-targeted programs

Building Resilience with Active Countercyclical Expenditures Program

2. In order to support the government's efforts to provide immediate relief to the people of Pakistan, Asian Development Bank (ADB) approved a Countercyclical Support Facility Loan with a size of USD 1.5 billion on 21 October 2022-Building Resilience with Active Countercyclical Expenditures Program (BRACE). The program was aligned with the (i) Government's strategic priorities and the overarching objectives of promoting social inclusion by strengthening the support provided to poor and vulnerable groups, improving economic resilience, and supporting the trade-related sectors¹,(ii) ADB Strategy 2030², and (iii)ADB's country partnership strategy (2021-2025)³.

¹Government of Pakistan; Ministry of Planning, Development and Reform; Planning Commission. 2015. Islamabad.

² (i) Operational priority (OP) 1: addressing remaining poverty and reducing inequalities, (ii) OP 2: accelerating progress in gender equality, (iii) OP 3: tackling climate change, building climate and disaster resilience and enhancing environmental sustainability, (iv) OP 5: promoting rural development and food security, (v) OP 6: strengthening governance and institutional capacity, and (vi) OP 7: fostering regional cooperation and integration. ADB -2018 <https://www.adb.org/sites/default/files/institutional-document/435391/strategy-2030-main-document.pdf>

³ Reducing economic and social disparities, strengthening economic governance, and supporting private sector development. <https://www.adb.org/sites/default/files/institutional-document/674016/pak-cps-2021-2025.pdf>

Monitoring and Evaluation Framework

3. The monitoring and evaluation framework (framework) of the BRACE program builds on ADB's CARES program and is primarily based on the recommendations made by the Auditor General of Pakistan (AGP) in its audit report on expenditures incurred for the government's corona virus disease (COVID-19) pandemic response. The objective of the framework is to (i) ensure regular and systematic reporting on the countercyclical development expenditure program (CDEP) announced in the fiscal year (FY) 2023 national budget, with a particular focus on the priority expenditure items outlined in the BRACE Program Design and Monitoring Framework (DMF), (ii) provide a platform for coordinated and informed discussions between the government and development partners on the implementation of the CDEP, and (iii) continue the ongoing policy dialogue with the government on its program to address longstanding structural constraints.

4. Under the monitoring and evaluation framework, the executing agency (EA) i.e. Ministry of Finance is required to conduct quarterly meetings with the implementing agencies (IAs), that is, Ministries of Economic Affairs (EAD), Industries and Production, Food Security and Research, and Benazir Income Support Program (BISP) and other related agencies to review the progress of the implementation of the CDEP

5. The framework sets reporting requirements for the government to (i) provide semi-annual progress reports, (ii) quarterly progress reports, and program performance reports that include progress achieved against DMF indicators with reasonable details for variation of the target

Countercyclical Development Expenditures

6. The government introduced a countercyclical development expenditure program (or CDEP) in the fiscal year (FY) 2023 national budget to (i) increase social protection, (ii) increase food security, and (iii) enhance support for businesses. Detailed information and cost estimates are highlighted in Table 1:

**Table 1: Countercyclical Development Expenditures Program
(FY 2023)**

| | PRs million | USD million |
|---|------------------------|------------------------|
| Social Protection⁴ | 369,778 | 1,687 |
| Benazir Income Support Program | 364,078 | 1,661 |
| Unconditional cash transfer | 240,100 | 1,096 |
| Fuel subsidy scheme | 48,000 | 219 |
| conditional cash transfer for education | 35,000 | 161 |
| national socio-economic registry | 1,703 | 8 |
| undergraduate scholarship | 9,270 | 42 |
| conditional cash transfer for health and nutrition | 21,380 | 98 |
| Employee-related expenses | | 16 |
| and General Expenses | 4,078 | |
| Direct Cost Cash Transfer | 4,547 | 21 |
| Bait-ul-Mal | 3,700 | 17 |
| National Poverty Graduation Program (NPGP) | 2,000 | 9 |
| Food Security | 71,000 | 324 |
| PASSCO | 7,000 | 32 |
| USC | 17,000 | 78 |
| Fertilizer plant subsidy | 15,000 | 68 |
| subsidy for import of urea or fertilizer | 6,000 | 27 |
| Agriculture relief initiatives | 10,000 | 46 |
| Sales tax exemption on import of seeds and tractors | 16,000 | 73 |
| Support for Businesses | 70,000 | 320 |
| Entrepreneurship and employment schemes | 10,000 | 46 |
| Support for export-oriented industries | 60,000 | 274 |
| Subsidy for electricity | 20,000 | 91 |
| Subsidy for RLNG | 40,000 | 183 |
| Total | 510,778 | 2,331 |

FY = fiscal year, PASSCO = Pakistan Agricultural Storage & Services Corporation Ltd, PRs = Pakistan Rupee, RLNG = re-gassified liquefied natural gas, USC = Utilities Stores Corporation.

Source: Government of Pakistan; Finance Division – Federal Budget 2022-2023

Quarterly progress report

7. GOP is required to submit the quarterly report under the framework and schedule 4 of the Loan Agreements⁵.

⁴ The targeting and distribution of benefits to low-income households and those affected by the macroeconomic and cost-of-living crises will be done through agencies and channels that have been tried and tested including, most recently, through the 2020 COVID-19 pandemic. Social protection measures will be channeled through the Benazir Income Support 2 Program, Pakistan's flagship social protection program

⁵(i) Loan Number 4235-PAK (COL) ordinary operations (concessional) Loan, and (ii) Loan Number 4234-PAK for ordinary operations.

8. Under the framework, the quarterly progress report will cover: (i) updates on the macroeconomic and fiscal performance, (ii) implementation of CDEP, (iii) overall financial progress of CDEP with the comparison of the budgeted expenditures and actual progress, (iv) achievement of poverty, social, and gender targets and, as feasible and based on sex-disaggregated data, the program's gender impact; and (v) compliance with the loan agreement.

9. After approval from Steering Committee, Finance Division shared the first quarterly report of the program for the period July 2022 – December 2022. The report (i) summarizes the fiscal performance of country, (ii) the status of actual expenditures, (iii) comparative review of actual against budgeted figures and (iv) status of compliance with loan covenants.

Second Quarterly Report January 2023 – March 2023

Fiscal Performance

10. During FY2023, total Federal Board of Revenue (FBR) revenues grew by 16.7 percent to reach PRs 7,169 billion against PRs 6,143 billion in the same period of last year. In addition, the major contribution to revenue growth also came from a 41.8 percent increase in non-tax collection, mainly due to higher receipts from petroleum levy, followed by markup (PSEs and others) and royalties on oil and gas.

11. FY 2023 witnessed a significant rise in total expenditure that grew by 21.5 percent to PRs.16155 billion against PRs.13,295 billion in FY 2022. Higher expenditures were realized mainly due to a 26.6 percent increase in current spending. In absolute terms, it stood at PRs.14,583 billion in FY 2023 against PRs.11,521 billion recorded in FY 2022. The increase in current expenditure is largely attributed to 83.2 percent rise in markup payments while non markup spending was restricted to 5 percent. Development expenditure grew by 17.1 percent largely due to a 62.8 percent rise in federal PSDP (Net Excluding Federal Grants in Provinces) during FY 2023.⁶

⁶ Finance Division, Monthly Economic Update and Outlook – August 2023

Table 2: Key Economic Indicators (External Sector) - Comparative Review

| Indicator | FY 2022 | FY 2023 |
|---|----------------|----------------|
| Remittance (USD billion) | 31.3 | 27.03 |
| Exports (USD billion) | 32.5 | 27.9 |
| Imports FOB (USD billion) | 71.5 | 52.0 |
| Current Account Deficit (USD billion) | 17.5 | 2.6 |
| FDI (USD million) | 1936 | 1547 |
| Portfolio Investment (USD million) | -78 | -1,026.2. |
| Total foreign Investment (USD million) | 1,857.8 | 522.3 |
| Foreign Reserves (SBP) USD billion – end period | 9.8 | 4.4 |
| Exchange Rate (PRs/USD) – end period | 204.8 | 285.9 |

Source: Finance Division, Monthly Economic Update, and Outlook – July 2023 and June 2023

Table 3 Key Economic Indicators (External Sector) Comparative Review

| Indicator | July - March 2022 | July - March 2023 |
|---------------------------------------|----------------------------------|----------------------------------|
| Remittance (USD billion) | 23.0 | 20.5 |
| Exports (USD billion) | 23.7 | 21.1 |
| Imports FOB (USD billion) | 52.7 | 41.5 |
| Current Account Deficit (USD billion) | 13.0 | 3.4 |
| FDI (USD million) | 1351.1 | 1048.4 |
| Portfolio Investment (USD million) | 161.6 | 1017.7 |
| Foreign Reserves (SBP) USD billion | 16.5 | 10.1 |
| Exchange Rate (PRs/USD) | 185.6 | 283.4 |

Source: Finance Division, Monthly Economic Updates – April 2023

12. FY2023 witnessed a fiscal deficit of 7.7 percent of GDP (PRs.6,521 billion) against 7.9 percent of GDP (PRs.5,260 billion) in the last year. Similarly, the primary deficit was restricted to 0.8 percent of GDP in FY 2023 against 3.1 percent of GDP recorded in FY2022 mainly due to limited growth in non-markup spending.⁷

Table 4: Key Economic Indicators (Fiscal Sector) Comparative Review

| Indicator | PRs (billion) | |
|--------------------------------------|----------------------|----------------|
| | FY 2023 | FY 2022 |
| FBR Revenue | 6,143 | 7,169 |
| Non-tax Revenue | 1,615 | 1,815 |
| PSDP (Excluding grants to Provinces) | 400 | 652 |
| Fiscal Deficit | 5,260 | 6,521 |
| Primary Balance | 2,077 | 690 |

Source: Finance Division, Monthly Economic Update and Outlook – August 2023

Table 5: Key Economic Indicators (Fiscal Sector)

⁷ Finance Division, Monthly Economic Update and Outlook – August 2023

Comparative Review

| Indicator | PRs (billion) | |
|--------------------------------------|---------------------|---------------------|
| | July -March 2022 | July -March 2023 |
| FBR Revenue (July - March) | 4,376 | 5,156 |
| Non-tax Revenue | 836 | 1,130 |
| PSDP (Excluding grants to Provinces) | 420 | 287 |
| Fiscal Deficit | 2,873 | 2,392 |
| Primary Balance | 399 | 787 |

Source: Finance Division; Monthly Economic Outlook – April 2023

Progress on the countercyclical development expenditure program (CDEP)

13. The countercyclical development expenditures consist of three major components under (i) social protection, (ii) food security, and (iii) support for businesses. Progress will be discussed in this part of the report by (i) comparing the budgeted and actual expenditures, and (ii) measures taken by the government to implement CDEP.

Social Protection

(i) Pakistan Bait-ul-Mal

14. An amount of PRs 3.7 billion was allocated to Pakistan Bait ul Mal (PBM) under IB-5194, Demand / Grant No 083 for FY 2023, and as per strategy for the release of the budget being issued by Finance Division. PRs 1.48 billion (40% of budget) was released to Pakistan Bait ul Mal till 31 December 2022 which was fully utilized on different initiatives. The expenditures details are explained from **Table 6 – 8**.

**Table 6: Pakistan Bait ul Mal – Budget Vs Actual Expenditures
For the period July 2022 – March 2023**

| Period | Budget | Released | PRs (million) |
|---------------------------|--------------|--------------|---------------|
| | | | Expenses |
| July 2022 - December 2022 | | 1,480 | 1,442 |
| January 2023 – March 2023 | | 925 | 885 |
| April 2023 – June 2023 | | | |
| Total | 3,700 | 2,405 | 2,327 |

Source: Pakistan Bait-ul-Mal

**Table7: Pakistan Bait-ul-Mal
Details of Expenditures
For the period July 2022 – March 2023**

| Description | PRs (million) | |
|---|---------------|---------|
| | HY 2022 | Q3 2022 |
| Individual Financial Assistance – Medical | 551.1 | 323.6 |
| Individual Financial Assistance – General | 41.5 | 43.3 |

| | | |
|--|----------------|--------------|
| Individual Financial Assistance – Special Friends (disabled) | 30.9 | 11.5 |
| Individual Financial Assistance – Education | 47.6 | 56.6 |
| Schools of Rehabilitation for Child Labor (SRCLs) | 128.9 | 83.5 |
| Women Empowerment Centres (WECs) | 118.7 | 90.0 |
| PBM Sweet Homes (PSHs) | 243.6 | 121.8 |
| PBM Old Home | 3.7 | 3.8 |
| PBM Shelter Homes | 63.9 | 37.5 |
| Roti Sab Ke Leay (<i>Bread for all</i>) | 15.5 | 18.8 |
| Institutional Rehabilitation (NGO's) | 24.7 | 8.8 |
| Administration | 171.8 | 85.9 |
| Total | 1,441.9 | 885.1 |

Source: Pakistan Bait ul Mal

**Table 8: Month-wise Expenditures
For the period July 2022 – March 2023**

| Description | Quarterly Budget | PRs (million) | |
|--------------------|------------------|----------------|--|
| | | Expenses | |
| Jul-22 | | 15.8 | |
| Aug-22 | 629 | 344.8 | |
| Sep-22 | | 267.9 | |
| Oct-22 | | 129.4 | |
| Nov-22 | 851 | 483.4 | |
| Dec-22 | | 200.6 | |
| Jan-23 | | 126.5 | |
| Feb-23 | 925 | 165.8 | |
| Mar-23 | | 592.6 | |
| Grand Total | 2,405 | 2,327.3 | |

Source: Pakistan Bait ul Mal

(ii) [Benazir Income Support Program](#)

15. The budget and actual expenditures position show that considerable progress has been achieved as it constitutes a major component of the overall CDEP. **Tables 9 and 10** provide a detailed analysis of the amount budgeted and expenditures incurred till 31 March 2023. Table 8 shows that BISP has achieved 67.5% in terms of financial progress during the period July 2022 – March 2023 against the total budgeted allocated amount of Rs 364.1 billion.

**Table 9: BISP - Comparison of the budgeted and actual expenditures
For the period July 2022 – March 2023**

| Budget Head | Annual Budget (Rs million) | Final Budget | PRs (million) | | |
|--|----------------------------|--------------|---------------------------|----------------|---------|
| | | | Expenditures (Rs million) | | |
| | | | July-Dec 2022 | Jan-March 2023 | Total |
| Unconditional cash transfers | 240,100 | 274,096 | 118,651 | 72,873 | 191,524 |
| Fuel Subsidy Scheme | 48,000 | | - | - | 0 |
| Conditional cash transfers for education | 35,000 | 40,575 | 12,849 | 10,630 | 23,479 |
| National Socio-economic Registry (NSER) | 1,703 | 1,651 | 114 | 20 | 134 |

| | | | | | |
|--|---------|---------|---------|--------|---------|
| Undergraduate scholarship | 9,270 | 8,615 | 8,615 | 0 | 8,615 |
| Conditional cash transfer for health and nutrition | 21,380 | 20,661 | 8,830 | 9,172 | 18,002 |
| Direct Cost of Cash Transfer/Other Program | 4,547 | 4,183 | 1,410 | 1,044 | 2,454 |
| Administration and other program expenditures/ERE | 4,078 | 3,743 | 1,572 | 976 | 2,548 |
| Regular Budget | 364,078 | 353,524 | 152,041 | 94,715 | 246,756 |
| Emergency Flood Relief Cash Assistance | 0 | 50,419 | 50,419 | | 50,419 |
| Wheat Seed Subsidy (Government of Sindh) | 0 | 8,390 | | 4,645 | 4,645 |
| One-Off Total | 0 | 58,809 | 50,419 | 4,645 | 55,064 |
| Grand Total | 364,078 | 412,333 | 202,460 | 99,360 | 301,820 |

Source: Benazir Income Support Program

**Table 10 BISP - Quarterly expenditures
For the period July 2022 – March 2023FY 2023**

| Budget Head | (PRs million) | | | |
|--|---------------|---------------|---------------|----------------|
| | Quarter 1 | Quarter 2 | Quarter 3 | Total |
| Benazir Kafalat-unconditional cash transfers | 59,752 | 58,899 | 72,873 | 191,524 |
| Fuel Subsidy Scheme | - | - | - | 0 |
| Conditional cash transfer for education | | 12,849 | 10,630 | 23,479 |
| NSER project | 1 | 113 | 20 | 134 |
| Undergraduate scholarship program | 2,242 | 6,373 | - | 8,615 |
| CCT for health and nutrition | 8,273 | 557 | 9,172 | 18,002 |
| Direct Cost of Cash Transfer | 198 | 1,212 | 1044 | 2454 |
| ERE and General Expenditures | 766 | 806 | 976 | 2548 |
| Total | 71,232 | 80,809 | 94,715 | 246,756 |

Source: Benazir Income Support Program

16. In addition to that, BISP has also disbursed an amount of Rs 50.420 billion on account of Emergency Flood Relief Cash Assistance (PRs 50.188 billion in 1st Quarter and PRs 0.232 billion in 2nd Quarter) as per directions from the Federal Government. The scheme was an extension of the Fuel Subsidy Scheme launched in mid June 2022 to provide Rs. 2,000/- per family to cushion against negative impact of unprecedented rise in prices of petroleum products. The amount could be utilized for purchase of fuel or any other household item as per requirement of the targeted family. The Government allocated Rs. 25 billion for the program but only Rs. 16.76 billion was utilized to cover 8.36 million families.

17. To continue the benefits of the scheme in next financial year i.e. 2022-23, an amount of PRs. 48 billion was allocated to BISP under Fuel Subsidy Scheme. However, due to unprecedented rains during the month of July and August 2022 and subsequent floods in low lying areas, the amount for fuel subsidy was re-allocated to Flood Relief Cash Assistance, whereby Government committed an amount of Rs. 70

billion. In addition to that, BISP disbursed an amount of PRs 8,390 million under wheat seed subsidy funded by the Government of Sindh.

National Poverty Graduation Program

18. The budget allocation and expenditures incurred against allocations made to National Poverty Graduation Program (NPGP) are explained in Table 11-12.

**Table 11: Budget Vs Expenditures Allocations for NPGP
For the period July 2022 – March 2023**

| PRs (million) | | |
|---------------|--------------|----------|
| Budget | Expenditures | Variance |
| 2,000 | 1,972 | 28 |

Source: National Poverty Graduation Program

**Table 12: Budget Vs Expenditures Allocations for NPGP
Monthly Expenditures
For the period July 2022 – March 2023**

| PRs (million) | | | | |
|---------------|--------------------|---------------------|--------------------|----------------|
| Month | Poverty Graduation | Social Mobilization | Program Management | Total |
| Jul-02 | 0.0 | 0.0 | 8.5 | 8.5 |
| Aug-22 | 0.0 | 0.0 | 6.9 | 6.9 |
| Sep-22 | 40.7 | 3.6 | 10.5 | 54.9 |
| Oct-22 | 213.9 | 22.3 | 27.6 | 263.8 |
| Nov-22 | 1,314.5 | 127.3 | 113.0 | 1,554.9 |
| Dec-22 | 0.5 | 0.0 | 4.4 | 4.9 |
| Jan-23 | 0.0 | 0.0 | 11.2 | 11.2 |
| Feb-23 | 15.0 | 3.4 | 26.0 | 44.4 |
| Mar-23 | 0.0 | 0.0 | 22.6 | 22.6 |
| Total | 1,584.5 | 156.7 | 230.8 | 1,972.1 |

Source: Pakistan Bait- ul- Mal

Support for Businesses

19. Expenditures paid under entrepreneurs and employment schemes during the period July 2022 – March 2023 under different schemes are listed in Table 13 below:

**Table 13: Quarterly Utilization of Entrepreneur Schemes
For the period July 2022 – March 2023**

| | | | | PRs (million) |
|--|-----|-------|-------|---------------|
| Program | Q1 | Q2 | Q3 | Total |
| PM's Youth business loan scheme | 0.0 | 148.3 | 150.9 | 299.2 |
| Kamyab Pakistan Program | 0.0 | 9.0 | 7.7 | 16.7 |
| PM Youth Business and Agriculture Loan | 0.0 | 0.0 | 0.0 | 0.0 |

| | | | | | | | |
|-----------------------|--------|-------|-------|------------|--------------|----------------|----------------|
| PM's Entrepreneurship | Kamyab | Jawan | Youth | 0.0 | 787.4 | 1,426.6 | 2,214.0 |
| Total | | | | 0.0 | 944.7 | 1,585.3 | 2,529.9 |

Source: Finance Division (Internal Finance Wing)

PM's Youth Business and Agriculture Loan Scheme (PMYBALS)

20. SBP has issued instructions to banks vide SBP circular No 12 dated 12 December 2022 for implementation of PM's Youth Business and Agriculture Loan Scheme (PMYBALS). The scheme is accessible at SBP website at below mentioned link:

<http://www/sbp.org.pk/sme/d/circulars/2022/circulars/2022/C12.htm>

21. Under this scheme, the target of PRs 30 billion has been assigned to 15 banks for small and medium (SME) and Agricultural loans combined, of which PRs 15 billion will be disbursed to the agriculture sector. The PMYBALS portal has been launched as of 10 February 2023. As the scheme was revised and re-launched in December 2022, therefore, the expected financing and budgetary impact would be witnessed during 2023.

Energy Sector

22. The government is providing gas / re-gasified liquefied natural gas (RLNG) at concessionary rates of USD 9 per MMBtu all-inclusive to five export-oriented industries across Pakistan. For this purpose, a subsidy amounting to Rs 40 billion has been budgeted for the give export-oriented sectors during the CFY 2023. Out of the total subsidy for the CFY, PRs 3.5 billion has been earmarked for the export-oriented consumers of Sui Southern Gas Company Limited's system while the remaining amount is allocated for similar consumers on Sui Northern Pipeline Limited's network.

23. The Economic Coordination Committee (ECC) deferred the electricity bills for domestic consumers in flood-affected areas for September 2022 until the next billing cycle and waived off electricity bills for non-Time of Use domestic consumers who use less than 300 units for August and September 2022. An additional supplementary grant of PRs10.34 billion was approved to cover the waiver of electricity bills in flood-affected areas.

24. The details of GOP zero rated industrial rebated claims verified in FY 2023 for K-Electric, and Discos are as under:

**Table 14: Zero Rated Industrial Claims
For the period July 2022 – March 2023**

| Month | PRs (million) | | |
|--------------|---------------|--------------|---------------|
| | Discos | K-Electric | Total |
| Dec-22 | 6,219 | 437 | 6,656 |
| Jan-23 | 7,372 | 387 | 7,760 |
| Feb-23 | 5,975 | 95 | 6,071 |
| Mar-23 | 0 | 258 | 258 |
| Apr-23 | 0 | 0 | 0 |
| May-23 | 0 | 0 | 0 |
| Jun-23 | 0 | 0 | 0 |
| Total | 19,567 | 1,178 | 20,744 |

Source: Ministry of Energy

25. Till December 2022, a subsidy amounting to PRs 14.03 billion has been given to the five export-oriented industries in gas / RLNG supply tariff on the Sui Northern Gas Pipeline (SNGPL's) network out of which PRs 4.55 billion has been released to SNGPL against the tariff differential whereas PRs 9.47 billion subsidy is estimated to be required for the export-oriented sectors. Further, the month-wise subsidy claims related to SNGPL till December 2022 are as under:

**Table 15: Subsidy claim from SNGPL
For the period July 2022 – March 2023**
PRs (million)

| Month | Subsidy | Subsidy (SSGC) |
|--------------|---------------|----------------|
| Jul-22 | 2,351 | 144 |
| Aug-22 | 2,328 | 228 |
| Sep-22 | 2,232 | 311 |
| Oct-22 | 1,231 | 229 |
| Nov-22 | 1,048 | 205 |
| Dec-22 | 4,849 | 198 |
| Total | 14,039 | 1,315 |

Source: Ministry of Energy

26. Subsidy provided for RLNG to the five export-oriented sectors in 3rd quarter of FY 2023 on SNGPL and SSGC's network with monthly bifurcation is hereunder:

**Table 16: Subsidy provided for RLNG to export oriented sectors
For the period July 2022 – March 2023**

| Month | PRs (million) | | |
|--------------|---------------|------------|---------------|
| | SNGPL | SSGC | Total |
| Jan-23 | 4,528 | 182 | 4,710 |
| Feb-23 | 3,154 | 165 | 3,319 |
| Mar-23 | 6,511 | 211 | 6,722 |
| Total | 14,193 | 558 | 14,751 |

Source: Ministry of Energy

Food Security

27. The food security component consists of support provided through (i) PASSCO, (ii) Utility Stores Corporation, (iii) Fertilizer plant subsidy, (iv) subsidy for import of urea or fertilizers, (v) agriculture relief initiatives, and (vi) sales tax exemption on import of seeds and tractors.

Pakistan Agricultural Storage and Services Corporation (PASSCO)

28. For FY 2023, the government made an allocation of PRs 7 billion. However, to date, no release has been made from PRs 7 billion.

Industries and Production Division

**Table 17: Food Security Expenditures
Comparison of budgeted and actual expenditures
For the period July 2022 – March 2023**

| Description | Budget | PRs (million) | | | | Total |
|---|--------|---------------|-------|----------|--------|-------|
| | | Q 1 | Q2 | Q3 | | |
| Fertilizer plant subsidy | 15,000 | 6,703 | 8,297 | - | 15,000 | |
| Subsidy for import of urea or fertilizer* | 6,000* | - | - | - | - | |
| Utility Store Corporation | 17,000 | 6,000 | 2,851 | 14,427** | 23,278 | |

Source: Ministry of Industries and Production

Note: * The budget for “subsidy for import of urea of fertilizer” has been allocated under Grant No 45-FC21G01-Grants, Subsidies and Miscellaneous Expenditure being dealt by Finance Division. **This includes subsidy to utility stores corporation for Ramzan Package (Rs 4,997.02 million), and Prime Minister Package to Utility Store Corporation (Rs 9.430 million).

Kissan Package

29. The Economic Coordination Committee of Cabinet, in its meeting held on 14 November 2022, approved a summary titled “*Kissan Package*” and its decision was ratified by the cabinet on 28 November 2022. The decision of ECC duly ratified by the Cabinet was forwarded by *M/o NFS&R to Finance Division on 7 December 2022.

30. Accordingly, upon the direction of the Finance Division, the State Bank of Pakistan (SBP) issued instructions to concerned banks for the implementation of schemes vide circulars dated 21 December 2022. The detail of the estimated fiscal outlay / budgetary requirement for FY 2023 and FY 2024 of the following four schemes is as under:

Table 18: Prime Minister Kissan package

| PM's Kissan Package Schemes | Budgetary requirement | | Details | Implementation Status |
|-----------------------------|-----------------------|----|---------|-----------------------|
| | PRs (million) | | | |
| | FY | FY | | |

| Components | 2022-23 | 2023-24 | | |
|---|---------|---------|--|---|
| Waiver of mark-up on outstanding loans for subsistence farmers in the flood affected areas. | 5.31 | - | The fiscal outlay of PRs 10.62 billion has been approved by GoP for this scheme as a mark-up waiver cost against agriculture loans of up to Rs 500,000/- in flood-affected areas. 50% mark-up waiver cost will be borne by banks / (Microfinance banks) MFBs whereas the remaining 50% by GoP itself against which banks/ MFBs will submit markup subsidy claims for reimbursement during FY 2023. | Upon receipt of the Finance Division letter dated 19 December 2022 regarding the approval of the scheme, SBP has issued AC&MFD circular No 03 of 2022 dated 21 December 2022 to all banks / MFBs for implementation ⁸ . Banks submitted claims of PRs.2.96 billion out of which PRs 1.48 billion will be borne by the Government of Pakistan under markup waiver scheme. |
| Provision of subsidy for interest-free loans for subsistence farmers in the flood affected areas. | 1.2 | 7.0 | Total fiscal outlay of PRs 8.2 billion has been approved by GoP for this scheme as mark-up subsidy cost against interest free loans of up to Rs 500,000/- to be extended through banks in flood affected areas. Out of it, PRs 1.2 billion will be required in FY 2023 for quarter ending March 2023 and remaining Rs 7.0 billion will be required during FY 2023-24. | SBP has assigned limits to banks for financing to subsistence farmers in flood affected districts. Banks are advertising the scheme and are reporting financing under the scheme. As of 31 March 2023, PRs 2,803.5 million have been disbursed under this scheme. Markup subsidy claims of PRs 52.2 million for quarter ended on March 31, 2023 were submitted to Finance Division under this scheme |
| Mark-up subsidy & risk sharing scheme for farm mechanization (MSRSSFM) | - | 6.4 | As per this scheme, the disbursement target of Rs 56 billion has been assigned to banks to extend subsidized loans during 2023 for a period up to 7 years. Accordingly, the fiscal outlay of Rs 6.4 billion is estimated for FY 2023-24 as mark-up subsidy cost to be borne by GoP against such loans. | Upon receipt of the Finance Division letter dated 20 December 2022 regarding the approval of the scheme, SBP has issued AC&MFD circular No 04 of 2022 dated 21 December 2022 to all banks/Islamic banks for implementation. ⁹ Based on the GoP allocations under Markup subsidy and risk sharing scheme for farm mechanization, SBP has allocated limits of Rs 56 billion to 24 banks including Islamic banks in line with the already allocated for farm mechanization (tractor, thresher, combined harvester, planter, tube well etc). As of 31 March 2023, |

⁸The scheme may be accessed at: <http://www.sbp.org.pk/acd/2022/C3.htm>

⁹The scheme may be accessed at: <http://www.sbp.org.pk/acd/2022/C4.htm>

| | | | | |
|--|-----|-----|---|--|
| | | | | <p>Rs 4 million have been disbursed under this scheme.</p> <p>MFNSR, jointly with the PM office, has developed an online portal within PMYB&ALS, which is being tested for the processing of loans under the scheme. SBP will share details and mechanisms of the online portal with participating banks once received from MNFSR.</p> <p>As the scheme was launched in late December 2022, therefore, and the markup and risk subsidy claim submission in on half yearly basis, therefore, the expected financing and budgetary impact would be during FY 2024.</p> |
| Interest-free loans to landless farmers in the flood affected areas. (IF&RSLF) | 2.0 | 1.3 | <p>PRs 5.0 billion inclusive of existing PRs 1.7 billion lying with SBP (as of June 2022) has been approved for IF&RSLF under PM Kisan Package by GoP to provide interest free loans of up to PRs 200,000/- to small and marginalized farmers in flood-affected areas for the period of 6 months in line with GoP's ongoing scheme of CGSMF. Hence, GoP will add PRs 3.3 billion to facilitate risk coverage and markup subsidy under this scheme. Out of it PRs 2.0 billion will be required in FY 2023 to add in credit guarantee funds. However, PRs 1.3 billion will be required in FY 2024 on account of markup subsidy to banks/MFBs under IF&RSLF.</p> | <p>Upon receipt of Finance Division letter dated 19 December 2022 regarding the approval of the scheme, SBP has issued AC&MFD circular No 03 of 2022 dated 21 December 2022 to all banks/MFBs for implementation.¹⁰ The scheme was designed while merging interest free loans and risk sharing scheme for landless farmers into an ongoing scheme credit guarantee for small and marginalized farmers (CGSMF) as both were meant for landless farmers. The scheme may be accessed at SBP website.¹¹</p> <p>Accordingly, SBP has assigned indicative targets to banks for financing and as of 31 March 2023, PRs 1,876 have been disbursed under the scheme. Since markup will be claimed by banks on half yearly basis, therefore, budgetary impact for coverage under the scheme will be during fourth quarter of FY 2022-2023.</p> |

¹⁰The scheme may be accessed at <http://www.sbp.org.pk/acd/2022/C3.htm>

¹¹<http://www.sbp.org.pk/acd/2022/C3.htm>

Source: Finance Division and State Bank of Pakistan

31. During CFY 2023, PRs 8.51 billion is required which has already been communicated to the budget wing of the Finance Division on 13 February 2023.

Other components of Kissan Package and implementation Status

32. SBP has allocated an indicative agriculture credit disbursement target of PRs 1,819 billion for FY 2023, which is 28% higher than last year's disbursement of PRs 1,419 billion. The agriculture credit target includes Rs 400 billion recently announced under the PM Kissan package. During 01 July 2022 to 31 March 2023 (FY 2023), agriculture lending banks have disbursed PRs 1,221.9 billion which is around 67% of the overall annual target FY 2023.

Inclusion of agro-based SMEs in SME modernization scheme

33. SBP has shared details with the implementation committee vide email dated 27 December 2022. As of 31 March 2023, Rs 5,312 billion have been disbursed under SBP's refinancing facility for modernization of SME's, of which Rs. 2,906 have been availed by Agro-based SME's.¹²

34 During the period January 2023 to March 2023, no import of seeds was made, however, the impact of sales tax exemptions granted on import of tractors during the period January 2023 to March 2023 is given in **Table 19** below:

Table 19: Impact of Sales Tax Exemption

| Period | Items | HS Code | Imports | PRs (million) |
|--------------|---------|---------|------------|---------------|
| | | | | Sales Tax |
| Jan-23 | Tractor | 8701 | 97 | 17 |
| Feb-23 | Tractor | 8701 | | 0 |
| Mar-23 | Tractor | 8701 | 575 | 104 |
| Total | | | 672 | 121 |

Source: Federal Board of Revenue

Compliance with loan agreements:

35. The status of compliance with the loan agreements¹³ is provided in Table 15 - 17

Table 20: Article III - Use of proceeds of the loan

| Covenant | Status of Compliance |
|---|----------------------|
| Section 3.01: The borrower shall cause the proceeds of the loan to be applied to the financing of expenditures on the program in accordance with the provisions of this | Complied with |

¹²The scheme is accessible at <http://www.sbp.org.pk/Incen-others/sme-1.asp>

¹³Loan Number (i) 4235 - PAK (COL), and Loan Number (ii) 4234 - PAK

| | |
|--|---------------|
| loan agreement. | |
| Section 3.02: The proceeds of the loan shall be withdrawn in accordance with the provisions of schedule 3 of this loan agreement, as such schedule may be amended from time to time by agreement between the Borrower and ADB. | Complied with |

Table 21: Article IV- Particular Covenants

| Covenant | Status of Compliance |
|--|-----------------------------|
| Section 4.01: In the carrying out of the program, the borrower shall perform, or cause to be performed, all obligations set forth in schedule 4 of this loan agreement. | Being complied with |
| Section 4.02: As part of the reports and information referred to in sections 6.01 and 6.05 of the loan regulations, the borrower shall furnish, or cause to be furnished, to counterpart funds and the use thereof; and (b) the implementation of the program, including the accomplishment of the objectives, policies and action set out in the policy letter. | Being complied with |

Table 21: Schedule 4: Program Implementation and other matters

| Covenant | Status of Compliance |
|--|--|
| Implementation arrangements: 1) The borrower, through the program executing agency, shall be responsible for the implementation of the program, including monitoring or and reporting on the implementation of the program. | Being complied with |
| Policy Dialogue: 2) The borrower, through the program executing agency, shall (a) promptly inform ADB about any issues and constraints encountered during the implementation of the program; and (b) proactively engage with ADB to adopt appropriate measures to address and mitigate such issues and constraints. 3) The Borrower, through the program executing agency, shall keep informed of policy discussions with other multilateral and bilateral and agencies that may have implications for the implementation of the program and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Borrower, through the program executing agency, shall take into account ADB's view before finalizing and implementing any such proposal. | Not applicable at this stage as there are no issued being faced currently. ADB is being informed of the outcome of discussions between GOP and IMF. |
| Use of counterpart funds: 4) The Borrower shall ensure that the counterpart funds are used to finance the implementation of certain programs and activities consistent with the objectives of the program. | Complied with |
| Governance and Anticorruption: 5) The Borrower and the program executing agency shall (a) comply with ADB's anticorruption policy (1998, as | |

| | |
|--|---|
| <p>amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive proactive relating to the program; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.</p> | <p>Being complied with</p> |
| <p>Monitoring, Review and Reporting:</p> <p>6) The Borrower, through the program executive agency, shall ensure that a structured platform for policy dialogue with key stakeholders and implementation support is in place on the CDEP to (a) engage with such stakeholders in the design and implementation of the CDEP, and (b) respond to implementation bottlenecks, if any</p> <p>7) The Borrower shall (a) monitor, evaluate and provide quarterly reports to ADB in accordance with MRF; and (b) ensure that adequate budgetary and human resources are made available to fully implement the MRF.</p> <p>8) The Borrower shall, in particular, monitor, evaluate and report to ADB on areas including (a) developments in its macroeconomic and fiscal conditions, including the CDEP, (b) impacts of its CDEP on poor and vulnerable groups, disaggregated by sex, including the number of beneficiaries of cash transfer schemes and other social assistance programs; and (c) implementation of its crisis's response plan.</p> | <p>Complied with—With the approval of Finance Minister, Finance Division (FD) vide notification No 3(2) ADB/2022 dated 5 December 2022 constitute a steering committee and working group to monitor the progress achieved on the countercyclical Development Expenditure Program (CDEP).</p> <p>Being complied with</p> <p>Complied with – First quarterly report submitted to ADB</p> |

Persistent Challenges

36. Fuel Prices: Overall, the impact of Russian-Ukraine war on the economy of Pakistan is significant, mainly due to high fuel prices. Fuel prices have relatively high multiplier effects and high fuel prices can cause reduction in economic activity across different sectors. High fuel prices not only reduce the direct consumption of petroleum products but also shrink other sectors such as electricity production, industrial demand, goods transportation, travelling, mining, construction, and many others.

37. Edible Oil: After fuel, edible oil has the most impact on the GDP and household consumption, but it is almost double for the poor. Due to the relatively higher elasticity of oil with its price, demand shock is greater than

wheat and almost double in poor households. As Pakistan remains largely dependent on imported palm oil (all from Malaysia and Indonesia), it remains highly prone to any upward shock in prices and can also cause deterioration in the healthy diet structure of children.

38. Poverty: The Russian-Ukraine war crisis has a serious impact on poverty that can increase the burden on the already tightened fiscal space. Post-Disaster Needs Assessment Report of the 2022 floods, released by Ministry of Planning, Development & Special Initiatives stated that the national Poverty rate may increase by 3.7-4.0 percent by pushing 8.4-9.1 million more people into poverty due to devastating calamity. Any potential cash handouts or expansion of Benazir Income Support Programs (the existing transfer payment program) can further increase the existing high fiscal deficits

39. Inflation: Rising inflation, particularly food inflation (highest in the history of Pakistan), increase in administered prices of petroleum products, electricity, and gas and continuous depreciation of the country's currency have a negative impact on household consumption which will lead to greater poverty, particularly in rural areas.

40. Floods: While the global crisis, because of the Russian-Ukraine War, was expected to result in slowing down the economic growth in Pakistan, its adverse impact on poverty, food insecurity and deteriorated diet quality are likely to be more pronounced. However, the cataclysmic floods in 2022 in Pakistan affecting 33 million people and 1.8 million hectares of cropland across the country; damaging cotton and rice crops, perishing to 1.16 million as per the NDMA Post-Disaster Needs Assessment Report of 2022 floods and major damages to public infrastructure and private properties will lead to lower economic growth in FY 2023, higher poverty and food insecurity, and worsened diet quality, especially in rural areas.

Conclusion

41. The quarterly progress report (end 31 March 2023) shows that the financial progress achieved till 31 March 2023 on CDEP is satisfactory as 68% of the budget, under social protection, is utilized. To support the

business and agriculture sectors, the government is taking measures to generate employment, protect job losses, and ensure food security. The overall financial progress achieved shows that 67% of budget has been utilized, which is expected to improve in the remaining quarter of FY 2023.

**Table 22: Countercyclical development expenditure program
Comparison of Budgeted and Actual Expenditures
For the period July 2022 to March 2023**

| | Budgeted PRs millions | Actual PRs million |
|---|----------------------------------|-------------------------------|
| Social Protection¹⁴ | 369,778 | 251,055 |
| Benazir Income Support Program | 364,078 | 246,756 |
| Unconditional cash transfer | 240,100 | 191,524 |
| Fuel subsidy scheme | 48,000 | - |
| Conditional cash transfer for education | 35,000 | 23,479 |
| National socio-economic registry | 1,703 | 134 |
| Undergraduate scholarship | 9,270 | 8,615 |
| CCT: Health and Nutrition | 21,380 | 18,002 |
| ERE and General Expenses | 4,078 | 2,548 |
| Direct Cost of Cash Transfer | 4,547 | 2,454 |
| Bait-ul-Mal | 3,700 | 2,327 |
| NPGP | 2,000 | 1,972 |
| - | | |
| Food Security | 71,000 | 38,399 |
| PASSCO | 7,000 | - |
| USC | 17,000 | 23,278 |
| Fertilizer plant subsidy | 15,000 | 15,000 |
| subsidy for import of urea or fertilizer | 6,000 | - |
| Agriculture relief initiatives* | 10,000 | - |
| Sales tax exemption on import of seeds and tractors | 16,000 | 121 |
| Support for Businesses | 70,000 | 53,375 |
| Entrepreneurship and employment schemes | 10,000 | 2,529 |
| Support for export-oriented industries | | |
| Subsidy for electricity | 20,000 | 20,744 |
| Subsidy for RLNG | 40,000 | 30,105 |
| Total | 510,778 | 342,829 |

* The ECC of Cabinet in its meeting held on 14 November 2022 approved a summary titled "Kissan Package" and its decision was ratified by the cabinet on 28 November 2022. No allocation/release has been made so far under the above-mentioned four schemes and during CFY 2022-23, Rs 8.51 billion is required.

** ** PM's Youth business loan scheme (Rs 299 Mn); PM's Kamyab Jawan (Rs 787 Mn)

¹⁴ The targeting and distribution of benefits to low-income households and those affected by the macroeconomic and cost-of-living crises will be done through agencies and channels that have been tried and tested including, most recently, through the 2020 COVID-19 pandemic. Social protection measures will be channeled through the Benazir Income Support 2 Program, Pakistan's flagship social protection program.