# SINDH BUDGET COMMENTARY FY2025-26


**PRAC TEAM:**
Mohammad Younus Dagha – Chairman
Dr. Usama Ehsan Khan – Head of Research
Uzma Aftab - Lead Researcher
Hasan Abbas - Lead Researcher



PRAC
POLICY RESEARCH & ADVISORY COUNCIL

# TABLE OF CONTENTS

# I. BUDGET AT GLANCE

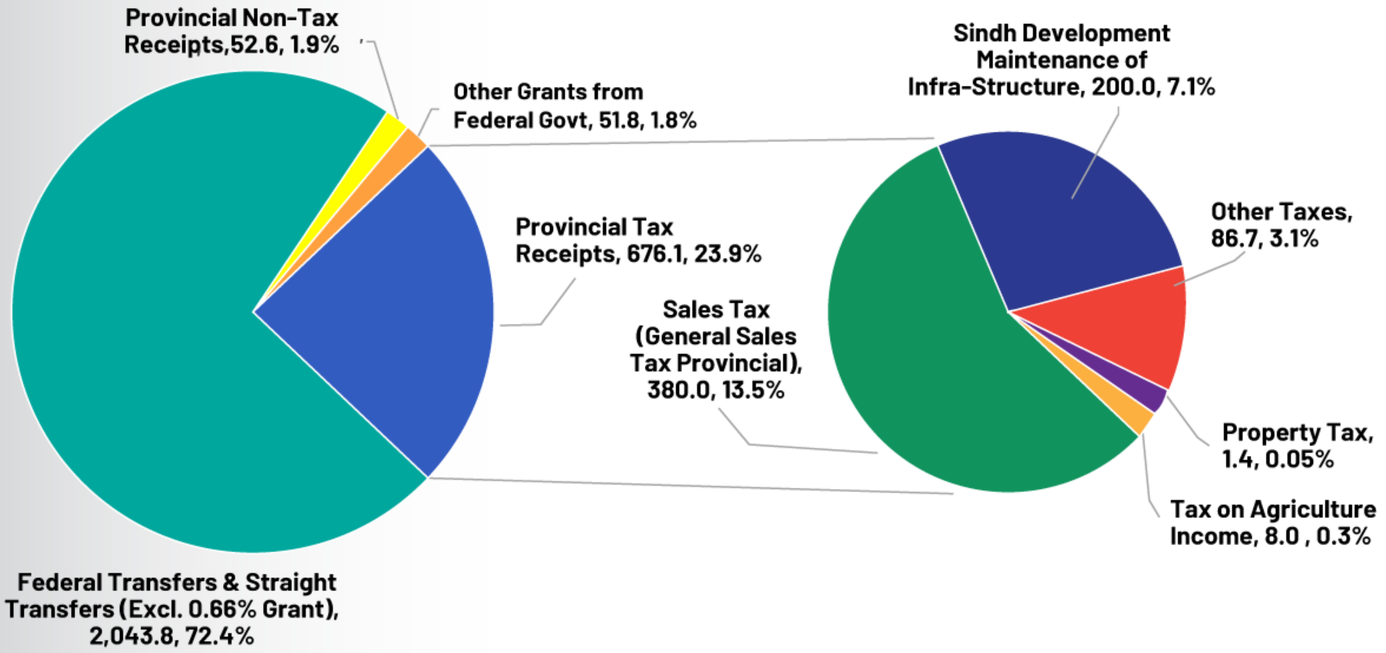
| | 2024-25 RE | 2025-26 BE | Change (%) |
|---|---|---|---|
| **Total Receipts (Rs. Billion)** | 2,916.1 | 3,411.5 | 17.0% |
| **Total Expenditures (Rs. Billion)** | 2,916.1 | 3,450.0 | 18.3% |
| **Budget Balance (Rs. Billion)** | 0.0 | -38.5 | |

| Receipts (Rs. Billion) | 2024-25 RE | 2025-26 BE | Change (%) |
|---|---|---|---|
| **Total Receipts (1+2+3+4+5+6)** | **2,916.1** | **3,411.5** | **17.0%** |
| 1. Total General Revenue Receipts (GRR) - (A+B+C+D) | 2,415.0 | 2,824.2 | 16.9% |
| A. Federal Transfers & Straight Transfers (Excl. 0.66% Grant) | 1,752.5 | 2,043.8 | 16.6% |
| B. Provincial Tax Receipts (a+b) | 567.4 | 676.1 | 19.2% |
| a. Direct Taxes | 7.6 | 10.0 | 31.6% |
| Tax on Agriculture Income | 4.0 | 8.0 | 100.0% |
| Property Tax | 0.6 | 1.4 | 133.3% |
| Land Revenue | 0.5 | 0.6 | 20.0% |
| Other Direct Taxes | 2.5 | 0.0 | -100.0% |
| b. Indirect Taxes | 559.8 | 666.1 | 19.0% |
| Sales Tax (General Sales Tax Provincial) | 320.0 | 380.0 | 18.8% |
| Sindh Development Maintenance of Infra-Structure | 170.2 | 200.0 | 17.5% |
| Other Indirect Taxes | 69.6 | 86.1 | 23.6% |
| C. Provincial Non-Tax Receipts | 51.5 | 52.6 | 2.1% |
| D. Other Grants from the Federal Government | 43.6 | 51.8 | 18.7% |
| 2. General Capital Receipts | 6.6 | 33.2 | 400.2% |
| 3. Development Grants | 79.7 | 76.6 | -4.0% |
| 4. Foreign Grants - Non-Development Grants | 6.0 | 10.8 | 82.1% |
| 5. Foreign Projects Assistance (FPA) | 296.2 | 366.7 | 23.8% |
| 6. Carry Over Cash Balances | 112.6 | 100.0 | -11.2% |

*Sources: Sindh Budget 2025-26*

# I. BUDGET AT GLANCE

## Total General Revenue Receipts (GRR) - Breakup (Rs. in Billion, Share)



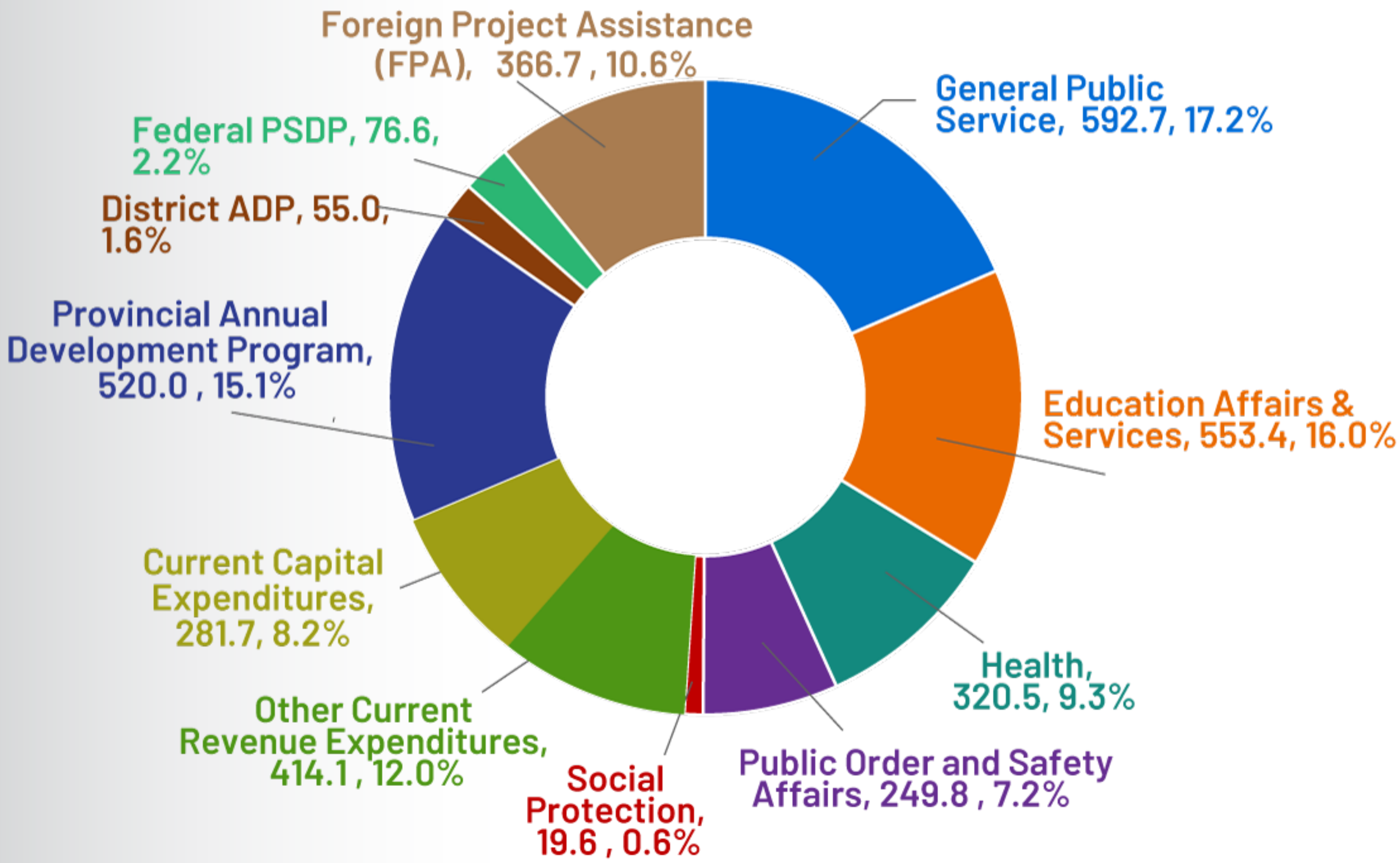

*Source: Sindh Budget 2025-26*

| Expenditures Head (Rs. Billion) | 2024-25 RE | 2025-26 BE | Change (%) |
|---|---|---|---|
| **Total Expenditures (1+2+3)** | **2,916.1** | **3,450.0** | **18.3%** |
| 1. Current Revenue Expenditures | 1,860.9 | 2,150.0 | 15.5% |
| General Public Service | 597.0 | 592.7 | -0.7% |
| Education Affairs and Services | 414.1 | 553.4 | 33.6% |
| Health | 270.0 | 320.5 | 18.7% |
| Public Order and Safety Affairs | 197.9 | 249.8 | 26.2% |
| Social Protection | 16.9 | 19.6 | 15.7% |
| Other Current Revenue Expenditures | 365.1 | 414.1 | 13.4% |
| 2. Current Capital Expenditures | 238.0 | 281.7 | 18.4% |
| 3. Development Expenditures | 817.2 | 1,018.3 | 24.6% |
| Provincial Annual Development Program (ADP) | 386.3 | 520.0 | 34.6% |
| District ADP | 55.0 | 55.0 | 0.0% |
| Federal PSDP | 79.7 | 76.6 | -4.0% |
| Foreign Project Assistance (FPA) | 296.2 | 366.7 | 23.8% |

*Source: Sindh Budget 2025-26*

## I. BUDGET AT GLANCE

### Expenditures - Breakup (Rs. in Billion, Share)




*Source: Sindh Budget 2025-26*

## II. POSITIVE MEASURES

- **Tax Relief for Common Citizens:** The Sindh government has abolished five taxes—Professional Tax, Entertainment Duty, Cotton Fees, Drainage Cess, and Local Cess—while simplifying the sales tax system through a Negative List approach. These measures aim to reduce the tax burden on citizens and stimulate economic growth.

- **Tax Reduction on Vehicle Insurance:** To promote public welfare and encourage third-party vehicle insurance coverage, the Sindh government has significantly reduced the sales tax rate on such insurance—from 15% to 5%. The yearly tax under the Motor Vehicle Ordinance for commercial vehicles is being reduced to mere Rs.1,000, giving much-needed relief to transporters and goods carriers.

- **Cautious Approach to Salary Hikes:** To provide relief to government employees, the Sindh Budget FY2026 includes a tiered salary increase: 12% for Grades 1-16, 10% for Grades 17-22, and an 8% hike in pensions. While this raise is rather modest than last year's record 30% salary adjustment, it aligns with the 10% increase recently approved for federal employees and KP's announcement of 10% increase indicating an attempt to curb expenses.

- **Minimum Wage Increase:** The Sindh government is considering a minimum wage increase from Rs. 37,000 - a necessary step amid historic inflation in last couple of years. But implementation challenges persist as 80% of industries currently flout the existing wage law (per govt data). With Sindh having Pakistan's 2nd-highest poverty rate (0.20) after Balochistan (0.30), this enforcement crisis undermines any reform. Until implementation improves, even a higher minimum wage will remain just on paper for most workers.

## II. POSITIVE MEASURES

- **Financial Support for Farmers:** The Sindh government is supporting 1.3 million small/medium farmers (1–25-acre landholders) through: Benazir Hari Card, 80% subsidy on DRIP irrigation and providing input subsidies on fertilizers, seeds, and pesticides. This measure is expected to achieve higher yields from efficient irrigation, lower production costs for vulnerable farmers and improved resilience.

## III. NEGATIVE MEASURES

- **From Balanced to Deficit:** The budget marks a significant shift from a balanced budget in FY 2024–25 to a projected deficit of Rs. 38.5 billion for FY 2025–26. Total expenditures are set to rise by 18.3% to Rs. 3,450.0 billion, outpacing the 17.0% increase in total receipts, which are projected at Rs. 3,411.5 billion. This widening fiscal gap underscores the increasing strain on Sindh's financial resources and signal future challenges in balancing fiscal responsibility with growing expenditure needs.

- **Stagnation in Provincial Finance Commission (PFC) Award Discussions:** Sindh has not issued a new Provincial Finance Commission (PFC) Award since 2007-09 PFC, with no mention of progress in the 2025-26 budget. The federal government is actively discussing NFC Award revisions. This PFC stagnation persists despite a 2023 commission being formed to recommend resource distribution formulas (vertical/horizontal) creates uncertainty in local government financing, risks of unequal resource allocation across Sindh.

- **Persistent Dependency on Federal Transfers and Grants:** The province continues to face a high dependency on federal funding, with federal transfers and grants to Sindh projected to rise by 16.7% in FY2026, bringing the federal share in Sindh's General Revenue Receipts (GRR) to 74.2%. This heavy reliance on federal transfers and grants underscores concerns about the sustainability of the province's fiscal autonomy, especially since

## III. NEGATIVE MEASURES

provincial tax and non-tax receipts constitute only 25.8% of total general revenue receipts.

- **Inadequate Development Budget:** The allocation for Sindh's Provincial Annual Development Plan (ADP) has increased from Rs. 386.3 billion to Rs. 520 billion, but the district ADP remains stagnant at Rs. 55 billion.

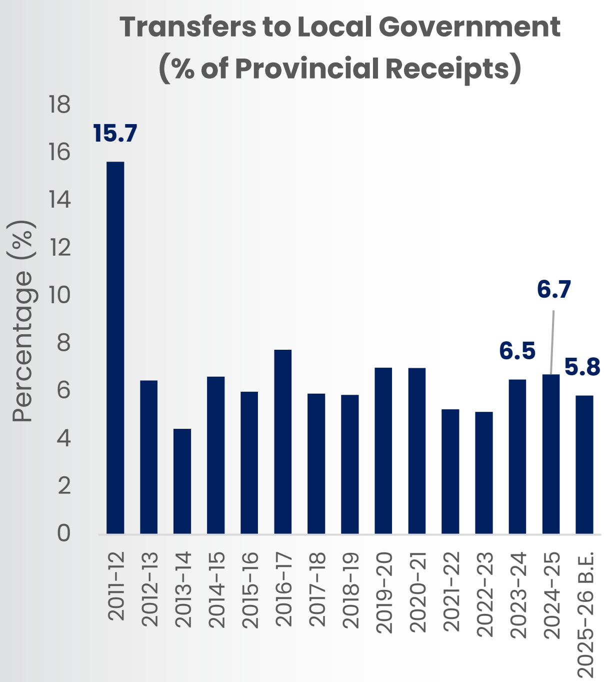
- **Karachi's Chronic Neglect Continues:** Karachi, Pakistan's economic hub, requires exponentially higher investments to address its chronic water shortages, failing transport systems, and deteriorating urban services. This nominal increase fails to match the scale of the crisis, leaving critical projects underfunded and the city's decline unchecked. The Rs. 8.3 billion allocation for Karachi's mega projects in FY26 is higher than last year's Rs. 5.6 billion is inadequate to reverse decades of decay.

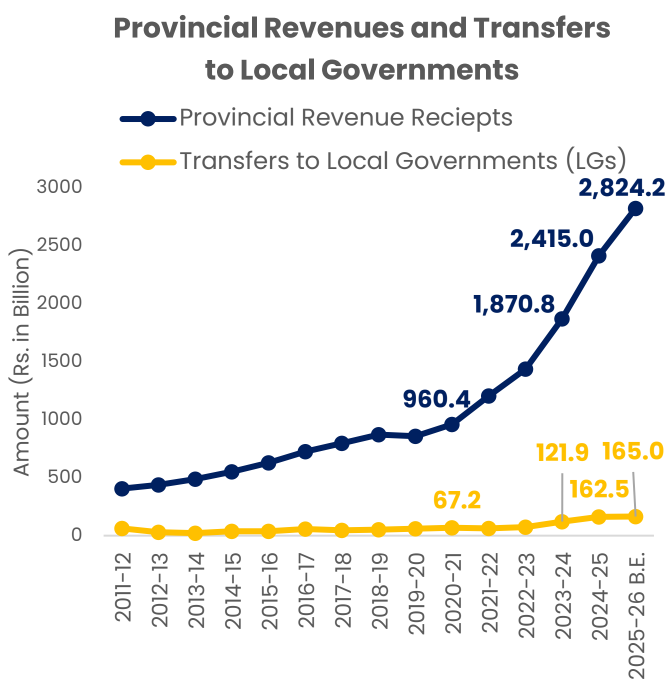
- **Karachi Transformation Plan:** The Karachi Transformation Plan, approved in December 2020 with an estimated cost of Rs. 1,114 billion, was designed to address the city's critical infrastructure challenges, with the Sindh government committing Rs. 378 billion. Originally slated for completion in 2023 and then extended to June 2025, the plan has missed all of its deadline. Despite these delays, no progress has been made, with persistent issues in infrastructure, waste management, and urban planning continuing to affect the city.

- **Lack of Focus on Industrial Development and Infrastructure Maintenance:** The Sindh government's industrial development strategy has been criticized for its lack of a coherent, long-term vision. While new industrial zones are being planned, existing zones suffer from deteriorating infrastructure, including poor road conditions and inadequate water supply. This neglect hampers productivity and drives industries to consider relocating to other provinces with better facilities.

## III. NEGATIVE MEASURES

- **Local Governments Starved Again:** In terms of local governance, Sindh's allocation for local governments (LGs) has seen a marginal increase from Rs. 162.5 billion in FY25 to Rs. 165 billion in FY26. However, the share of LGs in the total General Revenue Receipts has decreased from 6.7% in FY25 to just 5.8% in FY26. This sharp decline compared to the 16% share in FY2012 signals a growing gap in local government funding, which may undermine the effectiveness and sustainability of decentralized**.**




*Sources: Various Versions of Sindh Budgets & Finance Department, GOS*

- **Social Sector Challenges Amid Higher Allocations:** While there are higher allocations for Education and Health sectors, the issues of the low quality of education and the drop in the rates of literacy (stagnant) and enrolment in Sindh would have to be addressed on war footings, as well as the low immunization coverage (aged 12–23 months) of only 61% in the province as compared to 90% and 68% of Punjab and KPK for the year 2020. Local governments play a vital role in delivering social services. The allocation for the local governments is decreasing every year.

## III. NEGATIVE MEASURES

The targets of equitable human development, industrial development, and job creation in the province cannot be achieved without resourceful local governments with meaningful devolution of social sector management.

- **Limited Support for Small and Medium Enterprises (SMEs)**: SMEs are critical drivers of economic growth and job creation; however, they continue to face challenges such as limited access to credit, high operational costs, and bureaucratic hurdles. The lack of more comprehensive support measures may limit their ability to expand and contribute to economic growth.

- **Pro-poor Social Protection and Economic Sustainability Initiatives:** The allocation of only Rs. 20 billion for "Pro-poor Social Protection and Economic Sustainability Initiatives" is significantly insufficient given the scale of the challenges. This modest amount fails to adequately address the pressing need for comprehensive social protection and economic sustainability.