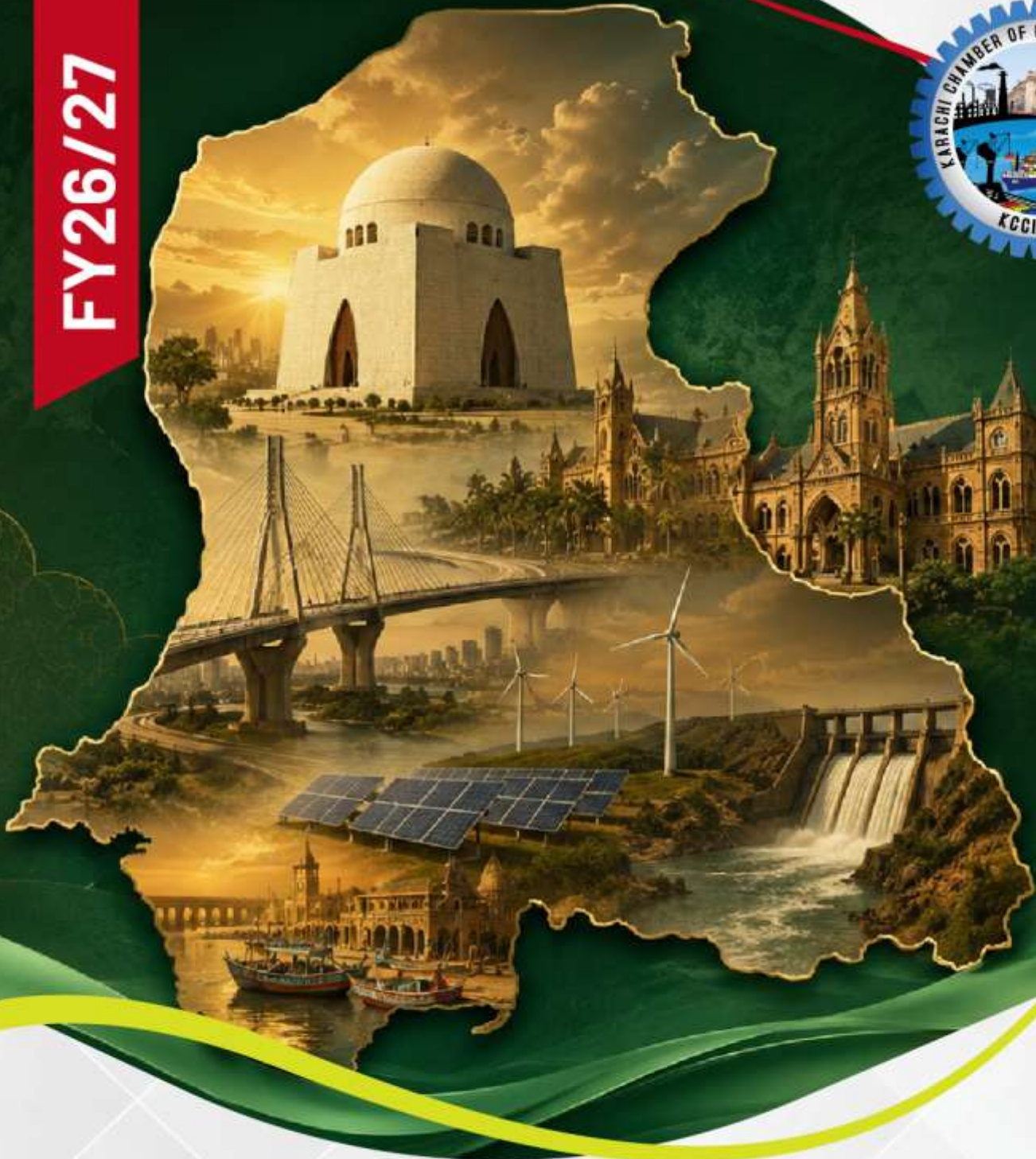


FY26/27




SINDH BUDGET COMMENTARY >

PRAC TEAM

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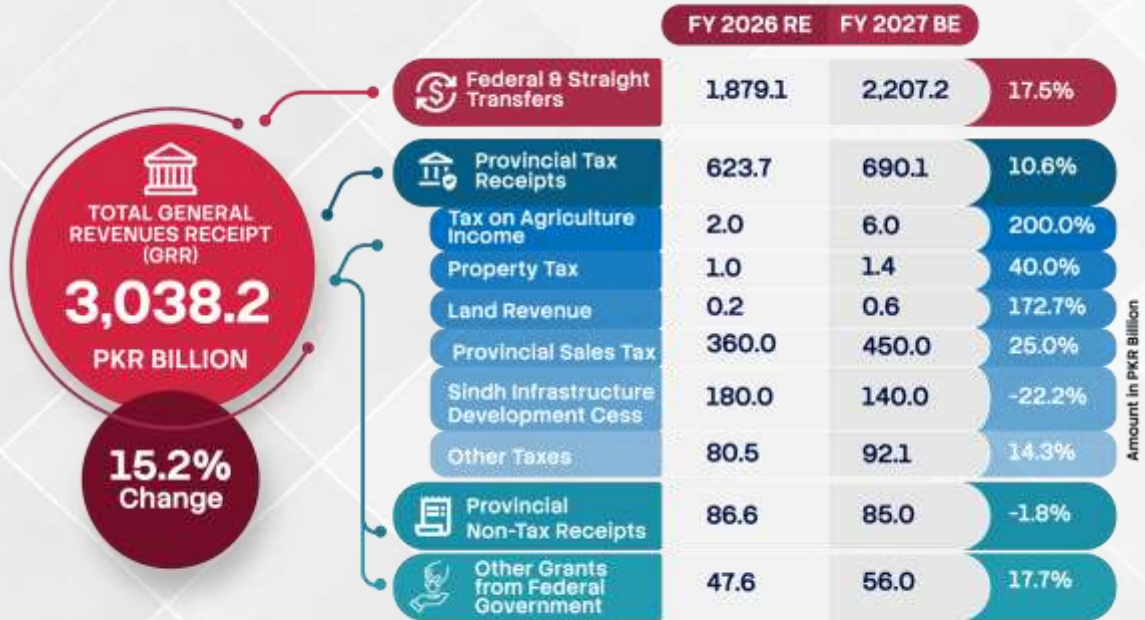
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I. BUDGET AT A GLANCE

Budget Snapshot (Rs Billion)	2025-26 RE	2026-27 BE	Change (%)
Total Receipts	3,259.5	3,525.1	8.2%
Total Expenditures	3,287.3	3,562.1	8.4%
Budget Deficit	-27.8	-36.9	32.9%
Receipts (Rs Billion)	2025-26 RE	2026-27 BE	Change (%)
Total Receipts (1+2+3+4+5+6)	3,259.5	3,525.1	8.2%
1. Total General Revenue Receipts (GRR) – (A+B+C+D)	2,637.0	3,038.2	15.2%
A. Federal Transfers & Straight Transfers*	1,879.1	2,207.2	17.5%
B. Provincial Tax Receipts (a+b+c)	623.7	690.1	10.6%
a. Direct Taxes	3.3	8.0	144.1%
Tax on Agriculture Income	2.0	6.0	200.0%
Property Tax	1.0	1.4	40.0%
Land Revenue	0.2	0.6	172.7%
Other Direct Taxes	0.1	0.0	-100.0%
b. Indirect Taxes	426.4	535.4	25.6%
Provincial Sales Tax	360.0	450.0	25.0%
Provincial Excise	9.0	15.0	66.7%
Stamps Duty	32.0	40.0	25.0%
Motor Vehicles	25.4	30.4	19.7%
c. Other Indirect Taxes	194.0	146.7	-24.4%
Entertainment Tax	0.014	0	-100.0%
Electricity	14.0	6.0	-57.1%
Sindh Infrastructure Development Cess	180.0	140.0	-22.2%
Other, all types	0.03	0.65	2224.7%
Cotton Fees	0.0	0.0	-100.0%
C. Provincial Non-Tax Receipts	86.6	85.0	-1.8%
D. Other Grants from Federal Government	47.6	56.0	17.7%
2. General Capital Receipts	7.2	68.3	854.5%
3. Development Grants	71.4	64.3	-9.9%
4. Foreign Grants (Non-Development Grant)	6.0	8.1	35.7%
5. Foreign Projects Assistance (FPA)	367.9	256.1	-30.4%
6. Carry Over Cash Balances	170.0	90.0	-47.1%
Expenditures (Rs. Billion)	2025-26 RE	2026-27 BE	Change (%)
Total Expenditures (1+2+3)	3,287.3	3,562.1	8.4%
1. Current Revenue Expenditures	2,207.3	2,560.0	16.0%
General Public Service	679.4	987.8	45.4%
Education Affairs and Services	475.0	583.2	22.8%
Health	314.1	338.2	7.7%
Public Order and Safety Affairs	251.4	249.3	-0.8%
Social Protection	20.6	19.9	-3.1%
Other Current Revenue Expenditures	466.9	381.6	-18.3%
2. Current Capital Expenditures	136.0	281.7	107.1%
3. Development Expenditures	944.0	720.4	-23.7%
Provincial ADP	440.0	385.0	-12.5%
District ADP	40.0	15.0	-62.5%
Federal PSDP	64.0	64.3	0.5%
Foreign Project Assistance (FPA)	400.0	256.1	-36.0%

ADP = Annual Development Program. *Excluding 0.66% Grants

REVENUE BREAKDOWN



*Federal & Straight Transfers exclude Sindh's 0.66% OZT grant.

EXPENDITURE BREAKDOWN

EXPENDITURE CATEGORY	FY26 RE	% CHANGE	FY27 BE
TOTAL EXPENDITURES	3287.3	↑ 8.4%	3562.1
GENERAL PUBLIC SERVICE	679.4	↑ 45.4%	987.8
EDUCATION AFFAIRS AND SERVICES	475	↑ 22.8%	583.2
HEALTH	314.1	↑ 7.7%	338.2
PUBLIC ORDER AND SAFETY AFFAIRS	251.4	↓ -0.8%	249.3
SOCIAL PROTECTION	20.6	↓ -31.1%	19.9
OTHER CURRENT REVENUE EXPENDITURES	466.9	↓ -18.3%	381.6
CURRENT CAPITAL EXPENDITURES	136.0	↑ 107.1%	281.7
PROVINCIAL ADP	440.0	↓ -12.5%	385
DISTRICT ADP	40.0	↓ -62.5%	15
FEDERAL PSDP	64.0	↑ 0.5%	64.3
FOREIGN PROJECT ASSISTANCE (FPA)	400.0	↓ -36.0%	256.1

Amount in PKR Billion

*ADP=Annual Development Programme

II. POSITIVE MEASURES

- **No New Tax Measure:** The absence of new tax measures in the budget offers some relief to businesses and households already struggling with elevated operating costs, squeezed margins, weak purchasing power and the risk of re-emerging inflationary pressures.
- **Sindh Leads the Charge on the Rs 90 Billion Thar Coal Rail Link:** By allocating Rs 16.7 billion for Thar Coal infrastructure and releasing its upfront equity for the Rs 90 billion Thar-to-Port Qasim rail link, the Sindh Government has taken a major proactive step toward national energy self-reliance. This 105-kilometer logistics corridor, structured on a 50:50 federal-provincial cost-sharing basis, is vital for fueling Karachi's industrial grid with cost-effective domestic energy. While the federal government's initial Rs 2 billion token allocation against its Rs 45 billion share presents a temporary hurdle, Sindh's robust financial commitment lays a solid foundation. Securing full federal alignment will quickly finalize this strategic asset, yielding massive foreign exchange savings. The Rs18 billion concessional solar financing scheme for low-income households, in collaboration with the World Bank, is also a positive step to reduce electricity costs and improve energy access.
- **Karachi International Financial Centre: Islamic and Climate Finance Hub:** The proposed Karachi International Financial Centre could position the city as a specialised hub for Islamic finance, climate finance, investment facilitation and international business. This is a promising initiative given Karachi's role as Pakistan's financial capital. However, without a clear legal framework, credible governance, investor protection and coordination with SBP, SECP and FBR, the centre risks remaining symbolic rather than becoming a functional financial-sector reform.
- **Minimum Wage Increase; Necessary Relief but Weak Enforcement:** The Sindh government has increased the minimum wage from Rs40,000 to Rs. 43,000 per month, reflecting a 7.5 percent increase. This is higher than the federal minimum wage of Rs. 40,700 and provides some relief after the sharp erosion of real incomes caused by high inflation in recent years. However, the effectiveness of this measure will depend on enforcement, as many workers remain outside formal compliance mechanisms. Without stronger labour inspections, penalties and monitoring, the higher wage floor may provide limited practical benefit to low-income workers.
- **Expansion of Provincial Revenue Mobilization:** The Sindh Government has prioritized structural reforms within the Sindh Revenue Board (SRB), the Excise & Taxation Department, and the Board of Revenue. The directive emphasizes leveraging digital technologies, eliminating collection leakages, and broadening the provincial tax net through business-friendly, highly transparent procedures rather than introducing inflationary tax rates. This focus on modernizing provincial administration will structurally expand

Sindh's fiscal space, lowering its historical vulnerability to federal divisible pool fluctuations.

III.NEGATIVE MEASURES

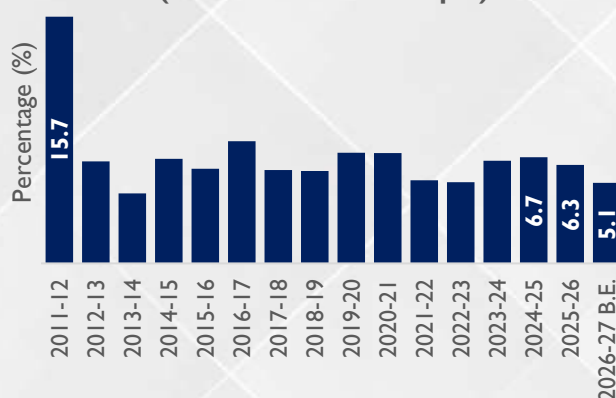
- **Rigid Dependency on Federal Transfers:** For FY27, federal transfers (including grants) to Sindh are projected to increase by 17.5%, significantly higher than the 9.1% growth expected in provincial revenues. The federal share in General Revenue Receipts stands at 74.5% in FY27 (against revised estimate 73.1% in FY26) while provincial receipts only make up 25.5%. This underscores a pronounced dependency on federal funding, which could undermine fiscal autonomy and sustainability for the province. This increased budgeted share of Federal Transfers despite reduction in the overall Federal receipts shows a lack of intent to collect Agricultural Income Tax and other potential options to increase provincial revenues.
- **Karachi's Infrastructure Deficit:** Karachi's development allocation remains inadequate even by a basic population-share benchmark. Karachi's Mega Schemes portfolio includes 167 mega projects amounting to Rs. 500 million each and 110 projects valued at Rs1 billion. This year's allocation for Karachi's Mega Schemes stands at Rs. 6.5 billion. However, around 37 percent of Sindh's population, Karachi's notional share would be Rs. 266.4 billion from a Rs. 720.4 billion development outlay. This estimate is conservative, as it does not reflect Karachi's much larger contribution to provincial revenue, port activity, industry and employment. Any allocation below this level would further deepen the city's infrastructure deficit in transport, drainage, water, sewerage, solid waste and industrial connectivity.
- **Trimming Sindh's ADP and Its Developmental Impact:** Sindh's FY 2026-27 financial plan introduces severe development austerity, threatening its already lagging HDI score. By slashing the overall development outlay to Rs 720.4 billion and the net provincial component to Rs. 385 billion, the framework eliminates all new growth initiatives, locking the remaining Rs. 400 billion entirely into 3,642 ongoing projects. The entire grant for Federation under Article 164 seems to have been cut from the development budget and no effort seems to have been made to rationalize the non-productive and wasteful current expenses.
- **Sharp Reduction in District Development Programme:** The reported reduction in district development funding from Rs. 40 billion in FY26 to Rs.15 billion in FY27 is a major negative measure. District-level development is directly linked with local roads, drainage, water supply, sanitation, public buildings and community-level services. Such a steep cut can weaken local governments and reduce the ability of districts to respond to local development needs. This goes against the claims of empowering local governments. As the tier closest to general public, local authorities are

mandated to provide essential everyday services, yet their developmental capacity is being aggressively strangled.

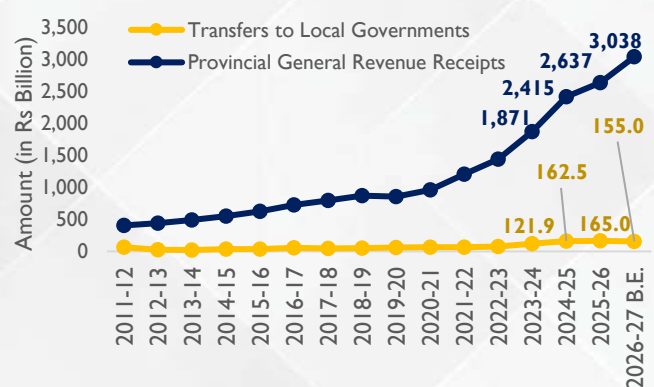
- The IDC Accountability Deficit:** Despite generating an estimated Rs. 140 billion in FY 2026-27 and nearly Rs. 1 trillion since its 1994 inception, the Infrastructure Development Cess (IDC) continues to be absorbed into Sindh's general Provincial Consolidated Account. In the backdrop of the heavily compressed Sindh Budget 2026-27, treating this cess as fungible revenue rather than routing it into a statutorily protected, earmarked urban and industrial infrastructure development fund is a severe policy distortion. This lack of a transparent utilization mechanism systematically starves Karachi's crumbling logistics and transit corridors (including its "freight corridor") of their organic reinvestment capital, actively prioritizing general bureaucratic outlays over the critical infrastructure sustaining Pakistan's economic engine.
- Shrinking Fiscal Space for Local Governance:** In addition to the reduction in district ADP, non-transparent use of IDC and withholding the rightful one-sixth share in GST transfers to local bodies, Sindh's overall allocation for transfers to local governments has also declined from Rs.165 billion in FY2025-26 to Rs155 billion in FY2026-27. Thereby, LGs' share in provincial revenues has fallen from 6.3 percent to 5.1 percent, continuing a long-term decline from around 16 percent in FY2011-12. This shrinking share is inadequate for a highly urbanized province where local bodies are responsible for essential services such as sanitation, drainage, roads, solid waste, water supply and municipal infrastructure.


The non-allocation of the one-sixth share of GST transfers since 2010 (after 7th NFC) has already deprived Sindh's local bodies of more than a trillion rupees. Karachi's local governments are being deprived of more than Rs. 200 bn annually, if calculated for their share in GST against Octroi & Zila Tax directly transferred to them from 1999 to 2010. No measure has been taken to correct this anomaly even in this budget.

**Transfers to Local Government
(% of Provincial Receipts)**



Provincial Revenues and Transfers to Local Governments



- 
- **Dormant Provincial Finance Commission (PFC):** Sindh's last PFC Award was designed in 2007-08 and remained functional only until 2008-09, before being discontinued with the abolition of the local government system. Since then, no new functional PFC framework or award has been announced to ensure predictable, formula-based transfers to local governments. As a result, districts and local bodies remain dependent on discretionary provincial releases rather than guaranteed fiscal resources, weakening grassroots governance, widening service-delivery gaps and leaving underdeveloped and marginalised communities structurally disadvantaged.
 - **Provincial Development Space Diverted to Centre:** Sindh's allocation of around Rs. 260 billion as a federal grant under Article 164 reflects a major diversion of provincial fiscal space toward the Centre's debt-servicing and defence-related pressures. This ad-hoc arrangement reflects the dead-born institution of NFC which has failed to approve any award in the past 16 years, after its only award (7th NFC award) passed in 2010 immediately after the 18th amendment. A practical constitutional arrangement in defining the role, the composition and workability of NFC would have helped a continuity of this important constitutional forum.