Fiscal Risks Statement

Financial Year 2025-26

Finance Department

Government of Sindh

FOREWORD

In pursuance of the Government of Sindh's firm commitment to fiscal discipline, transparency, and sustainable economic development, I am pleased to present the Fiscal Risk Statement of the Government of Sindh. This Statement represents a significant step towards strengthening fiscal governance through systematic identification, assessment, and disclosure of risks that may impact the province's financial position.

Sindh's fiscal landscape is shaped by a range of external and internal factors, including risks arising from natural disasters and macroeconomic volatility, and internal fiscal risks stemming from public debt, rising pension liabilities, Public–Private Partnership commitments, uncertainty in federal transfers, and risks associated with Public Sector Enterprises. This document provides a structured and evidence-based assessment of these risks and outlines the measures adopted by the Government to mitigate their potential impact and safeguard province's fiscal space.

In addition, this document provides policymakers with a deeper understanding of the province's fiscal position, enabling more informed decision-making and proactive management of potential uncertainties that may place pressure on public resources. It aims to promote transparent, forward-looking, and evidence-based policies that strengthen fiscal stability and ensure the long-term sustainability of public finances.

I would like to express my sincere appreciation to the teams from the Finance Department particularly, Mr. M. Asghar Memon (Special Finance Secretary - B&E), Syed Rizwan Ali (Additional Finance Secretary - Resource), Mr. Zulfiqar Mirza (PFM Expert) and Ms. Maria Rafiq (Financial Management Specialist), for their technical contribution in the preparation of the province's first Fiscal Risk Statement. I also acknowledge the valuable contributions of all concerned wings and units that assisted in preparing the Fiscal Risks Statement for the FY 25-26.

Fayaz Ahmed Jatoi
Secretary Finance

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Acronyms

ADP	Annual Development Program
BE	Budget Estimates
BSP	Budget Strategy Paper
CRE	Current Revenue Expenditure
DS	Debt Servicing
ERE	Employee Related Expenses
FBR	Federal Board of Revenue
FRS	Fiscal Risk Statement
FY	Fiscal Year
GDP	Gross Domestic Product
GoS	Government of Sindh
GPF	General Provident Fund
IMF	International Monetary Fund
IPRR	Interest Payments to Revenue Ratio
MTFF	Medium-Term Fiscal Framework
NEC	National Economic Council
NFC	National Finance Commission
OECD	Organization for Economic Co-operation and Development
PEFA	Public Expenditure and Financial Accountability
PDMA	Provincial Disaster Management Authority
PFM	Public Financial Management
PPP	Public-Private Partnership
PSEs	Public Sector Entities
SIDC	Sindh Infrastructure Development Cess
VGF	Viability Gap Fund
YoY	Year-on-Year

1: Introduction

Fiscal Risks are defined as potential shocks to government revenues, expenditures, assets or liabilities that may cause fiscal outcomes to depart from expectations or forecasts[1]. The preparation and publication of a Fiscal Risks Statement (FRS) is a recognized practice both nationally and internationally, and has been institutionalized as part of sound public financial management. At both national and sub-national levels, the preparation of an FRS has been mandated through provisions in relevant PFM legislation.

Similarly, in the context of Sindh, the significance of preparing and publishing a Fiscal Risks Statement (FRS) is underscored by both legislation and international best practices. The section 13(3) of the Sindh Public Financial Management (PFM) Act, 2020 requires that principal accounting officers are required to exercise adequate control over spending commitments and contingent liabilities. Furthermore, Section 25 mandates that the Minister of Finance, while entering into borrowing arrangements such as government bills, bonds, or stock, must minimize debt-related risks to the Government. These provisions collectively establish a legal requirement for careful monitoring, assessment, and disclosure of fiscal risks, thereby binding provincial government to implement a structured framework for fiscal oversight.

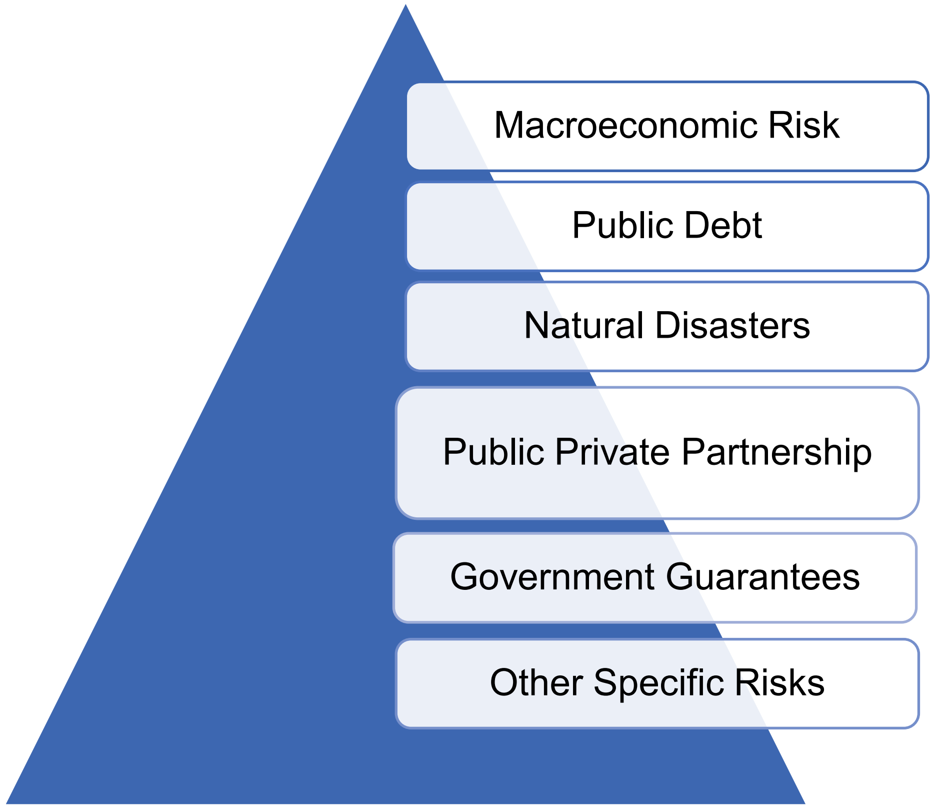
In addition to these statutory requirements, international best practices underscore the importance of identifying and managing fiscal risks to enhance fiscal transparency and sustainability. Frameworks such as the IMF Fiscal Transparency Code, Public Expenditure and Financial Accountability (PEFA) framework, OECD guidance on fiscal risks and sustainability, and World Bank governance frameworks all emphasize the identification, reporting, and management of fiscal risks.

In line with the international best practices, the legislative requirements and the province's commitment to strengthen its public financial management as well as achieve fiscal sustainability, the government of Sindh is presenting the Fiscal risk statement for FY 25-26. The Fiscal Risks Statement covers risks arising from the macroeconomic environment, institutional factors, and other specific sources that may have a significant impact on the province's fiscal position.

[1] IMF Fiscal Transparency Handbook (2018), Pg. 95.

1.1: Sources of Fiscal Risks

The principal sources of fiscal risk for the Government of Sindh, as identified and analyzed in this Statement, are outlined below:



1.2: Fiscal Risk Identification and Measurement

The Fiscal Risks Statement (FRS) of the Government of Sindh adopts a structured framework for the identification and assessment of fiscal risks through the use of a fiscal risk matrix, which categorizes risks according to their probability of occurrence and potential fiscal impact. This methodology facilitates systematic prioritization of vulnerabilities and supports informed fiscal decision-making.

Risks assessed as having high likelihood and high fiscal impact include external macroeconomic shocks due to the ongoing geopolitical conflicts in the middle east, pension expenditures, and uncertainty relating to federal transfers under the forthcoming NFC Award. The fiscal risk matrix is informed by budgetary data, historical trends, and internal risk assessments, thereby providing the Government with a structured, evidence-based framework to support prudent fiscal management and effective resource allocation.

Table 1: Fiscal Risk Matrix

Fiscal Impact	**High**	**Natural Disasters**	**Growing Public Debt**	**External Macroeconomic Shock due to Geopolitical Conflict in the Middle East**
	Medium	**GP Fund Liabilities**	**Commodity Financing Operations** **Pension Payments**	**Institutional Uncertainties under New NFC Award**
	Low	**Realization of Contingent Liabilities**		
		Low	**Medium**	**High**
	Likelihood of realization			

Fiscal Impact	**Low Likelihood**	**Medium Likelihood**	**High Likelihood**
High			
Medium			
Low			

2: Macroeconomic Risks

2.1: Economic Outlook

Pakistan's macroeconomic conditions had shown signs of gradual stabilization during the early part of the fiscal year, creating a relatively favorable macroeconomic environment for fiscal planning by the Government of Sindh. According to projections by the International Monetary Fund (IMF), Pakistan's real GDP growth was expected to reach approximately 4.1 percent in FY 2026, reflecting continued stabilization efforts and improving business confidence. Similarly, the State Bank of Pakistan (SBP), in its Monetary Policy Statement dated 9 March 2026, projected real GDP growth to remain within the range of 3.75–4.75 percent in FY 2026[2]. During the earlier part of the fiscal year, macroeconomic indicators suggested a relatively stable outlook, with inflation expected to remain within the 5–7 percent range over the medium term.

[2] SBP Monetary Policy Statement Dated 09 March 2026

However, during the latter part of FY 2025–26, the macroeconomic outlook became increasingly uncertain due to evolving global developments. In particular, the escalation of geopolitical tensions in the Middle East and the resulting volatility in international energy and food prices introduced additional risks to inflation and overall macroeconomic stability. In the month of April, the inflation had reached 10.89 percent[3] and is projected to moderate at 8.2% for next financial Year[4]. Further, in its meeting held on 27 April 2026, the Monetary Policy Committee (MPC) Increased the policy rate by 100 basis points to 11.5[5] percent from 10.5 percent.

Although economic activity and real GDP growth for FY 2025–26 was projected within the range of 3.75–4.75 percent, the actual GDP growth rate achieved was 3.7%[6]. The International Monetary Fund (IMF) has projected Pakistan's GDP growth rate at 3.5[7] percent for the next financial year. Therefore, the broader macroeconomic environment further remains subject to heightened uncertainty due to recent geopolitical developments. Continued instability in the Middle East could pose significant challenges to economic growth prospects. If these conflicts persist during FY 2025–26, economic activity may weaken further in FY 26-27, adversely affecting trade, industrial production, and overall business confidence.

Such developments may have direct implications for the fiscal position of the Government of Sindh, as slower economic activity could negatively impact provincial revenue performance, particularly revenues linked to trade, industrial output, and economic transactions. Simultaneously, rising inflation and higher energy costs may increase expenditure requirements, thereby placing additional pressure on the province's fiscal framework. Accordingly, the Government of Sindh will continue to closely monitor evolving global and domestic developments and adopt prudent fiscal and expenditure management measures to mitigate potential risks to fiscal stability and revenue realization.

2.2: Fiscal Risks from Economic Volatility

At present, Sindh contributes about 30% to the national GDP playing a crucial role in the country's economy due to its significant contributions to agriculture, industries, and services[8]. GDP growth, inflation, and exchange rates are key assumptions for budgetary forecasts. Therefore, any variations in the projected rate of GDP growth, inflation, and

[3] Pakistan Economic Survey FY 2025-26
[4] Macroeconomic Framework approved by National Economic Council
[5] Monetary Policy Statement Dated April 27, 2026
[6] Pakistan Economic Survey FY 2025-26
[7] IMF Country Report No. 26/101
[8] Hafiz, A Pasha: Growth and Inequality in Pakistan, Volume-I (2018).

exchange rates constitute a significant macroeconomic risk with potential implications for the fiscal position.

Any change in these economic assumptions has a tendency to affect national and provincial budgeted fiscal outcomes. Slower economic activities can result in low revenue collections. Similarly, any inflationary pressure or exchange rate depreciation will impact the actual expenditures which may deviate from the budgeted expenditures.

The recent geopolitical developments and volatility in global energy markets have heightened these macroeconomic risks and increased the likelihood of deviations from earlier fiscal projections and fiscal performance. Recognizing these challenges, the Government of Sindh remains vigilant and continues to monitor macroeconomic developments while implementing appropriate policy measures to safeguard fiscal sustainability. of the Government of Sindh.

2.2.1: Revenue Profile

The table below presents the variance in Sindh's revenue profile, highlighting differences between budget estimates and actual collections mainly due to slower than expected GDP Growth in preceding financial years.

Table 2: Revenue Profile (BE vs Actuals) – Rs. In Billions

	FY 2021-22			FY 2022-23			FY 2023-24			FY 2024-25			FY 2025-26		
	BE	Actual	Var	BE	Actual	Var	BE	Actual	Var	BE	Actual	Var	BE	Actual	Var
Federal Transfers (B)	**870**	**925**	**6%**	**1,122**	**1,069**	**-5%**	**1,353**	**1,354**	**0%**	**1,900**	**1,755**	**-8%**	**2,095**	**1,896**	**-10%**
Revenue Assignment	799	837	5%	1,023	980	-4%	1,255	1,215	-3%	1,747	1,571	-10%	1,927	1,736	-10%
Straight Transfers	50	65	30%	71	67	-6%	64	102	59%	106	142	34%	116	113	-3%
Other Grants (OZT)	21	23	7%	28	22	-21%	34	37	9%	47	42	-10%	52	47	-10%
Provincial Revenue (C)	**278**	**283**	**2%**	**375**	**317**	**-15%**	**470**	**435**	**-7%**	**662**	**546**	**-17%**	**729**	**695**	**-5%**
Sales Tax on Services	125	146	17%	180	174	-3%	235	223	-5%	350	284	-19%	380	349	-8%
Other Tax Receipts	128	122	-5%	168	109	-35%	203	139	-32%	269	222	-18%	296	272	-8%
Non-Tax Revenue	24	15	-38%	27	34	26%	32	74	131%	43	40	-6%	53	73	39%
Total Revenue	**1,148**	**1,208**	**5%**	**1,497**	**1,386**	**-7%**	**1,823**	**1,789**	**-2%**	**2,562**	**2,301**	**-10%**	**2,824**	**2,590**	**-8%**

**Actual FY 2025-26 – 10 months actual + 2 months projected (without arrears)*

2.2.2: Volatility in Revenues from Sindh Infrastructure Development cess and Electricity Duty

The Sindh Infrastructure Development Cess (IDC) constitutes a significant component of the province's own tax revenue, contributing approximately 32 percent of total tax receipts. Similarly, Electricity Duty represents an important revenue stream linked to electricity consumption across the province. Given their substantial contribution to the revenue base, both heads carry material implications for fiscal planning and budgetary stability.

SIDC collections are directly dependent on import volumes, trade activity through ports, and applicable rate structures. As these factors are sensitive to domestic economic performance, external demand conditions, and policy adjustments, IDC revenue remains inherently volatile. Recent geopolitical tensions in the Middle East and the resulting volatility in global energy markets have further amplified these risks. Higher energy costs and disruptions in global trade flows may affect industrial production, import volumes, and port-related activities, which in turn could influence SIDC collections. As Sindh hosts the country's largest ports and a significant share of industrial activity, any slowdown in trade or industrial output may directly affect provincial revenue performance.

In addition, the cess has faced operational and legal challenges, including compliance disputes and collection delays. The legality of the levy has been challenged before the courts by segments of the business community, resulting in approximately Rs. 400 billion currently under litigation, thereby increasing uncertainty in revenue realization[9]. Furthermore, with the promulgation of the SIDMC Act 2026, cess rates for businesses under litigation have been reduced to 0.80%–0.85%, which is expected to affect provincial revenue collections. Any slowdown in economic activity may further weaken collections under this head, compounding the impact of reduced rates and ongoing legal uncertainties.

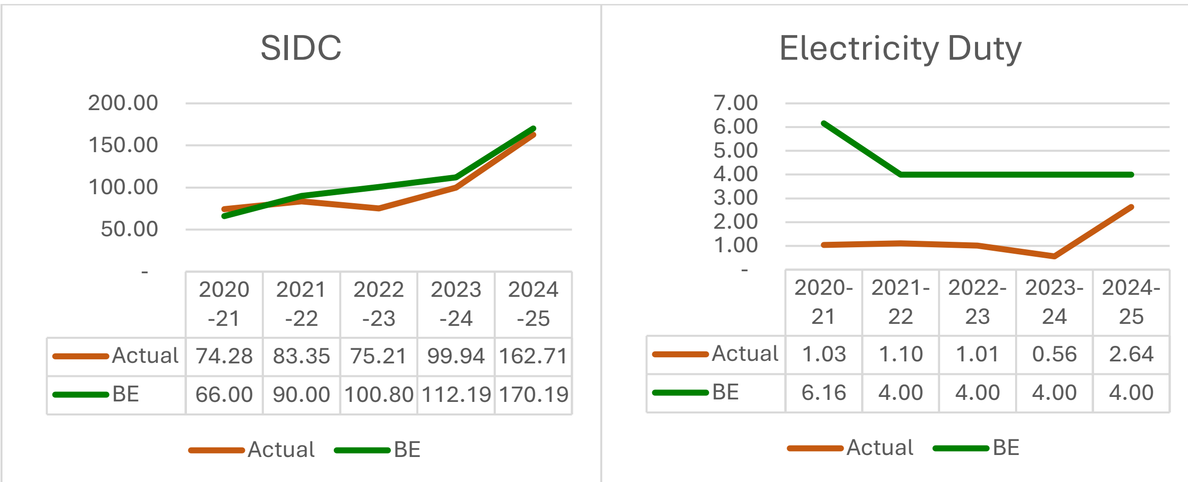
Electricity Duty revenue has likewise exhibited volatility over the past eight years. Collections under this head are directly linked to electricity sales and recoveries and are therefore influenced by industrial output, tariff revisions, regulatory measures, and broader energy sector dynamics. The power sector in Pakistan faces persistent structural challenges, including the accumulation of circular debt, capacity payment obligations, and operational inefficiencies within distribution companies. These factors have affected electricity pricing, industrial competitiveness, and consumption patterns. Furthermore, rising global energy prices and potential disruptions in energy supply arising from geopolitical developments may increase electricity tariffs and affect consumption patterns, particularly within the

[9] https://www.brecorder.com/news/40405229

industrial sector. Consequently, any slowdown in economic activity, tariff adjustments, or regulatory interventions may result in deviations from projected Electricity Duty collections.

The year-wise actual collection trends of IDC and Electricity Duty, presented below, demonstrate the extent of volatility in these revenue streams.

Figure 1: Volatility in SIDC and Electricity Duty (Rs. in Billions)



	2020-21	2021-22	2022-23	2023-24	2024-25
Actual	74.28	83.35	75.21	99.94	162.71
BE	66.00	90.00	100.80	112.19	170.19

	2020-21	2021-22	2022-23	2023-24	2024-25
Actual	1.03	1.10	1.01	0.56	2.64
BE	6.16	4.00	4.00	4.00	4.00

2.2.3: Variation In Inflation, Interest Rate & Exchange Rate

Variations in inflation, interest rates, and exchange rates pose significant macro-fiscal risks to the province, as expenditure projections and debt servicing estimates are formulated on the basis of prevailing macroeconomic assumptions. Over the medium term, the State Bank of Pakistan (SBP) had projected inflation within the range of 5–7 percent[10], and provincial expenditure estimates have been aligned accordingly. Similarly, the policy rate was maintained at 10.5 percent, and interest payments were projected on this basis. However, recent geopolitical developments and volatility in global energy markets have increased inflationary risks. As of April 2026, the inflation has reached 10.89%[11], whereas interest rates have been raised upwards to 11.5%[12]. Any further upward deviation in inflation may increase current expenditures, while potential increases in the policy rate may raise the cost of domestic borrowing, leading to variations from budgeted allocations.

Furthermore, approximately 99 percent of the provincial Government's public debt is contacted from external agencies in foreign currencies. As a result , fluctuations in exchange rates and movements in international benchmark rates directly influence debt servicing costs. A depreciation of the Pakistani Rupee increases the local currency burden of external

[10] SBP Monetary Policy Statement Dated 09 March 2026
[11] Pakistan Economic Survey FY 2025-26
[12] Monetary Policy Statement Dated April 27, 2026

debt, particularly where loans are denominated in foreign currency or linked to variable reference rates.

The ongoing geopolitical tensions and associated volatility in global energy and financial markets may place additional pressure on the exchange rate and inflation outlook. Since inflation trends in Sindh largely follow national patterns, these broader macroeconomic developments have a direct bearing on the province's fiscal position. Accordingly, variations in inflation, interest rates, and exchange rates remain key fiscal risks requiring prudent debt monitoring within the fiscal framework.

3: Institutional Uncertainty

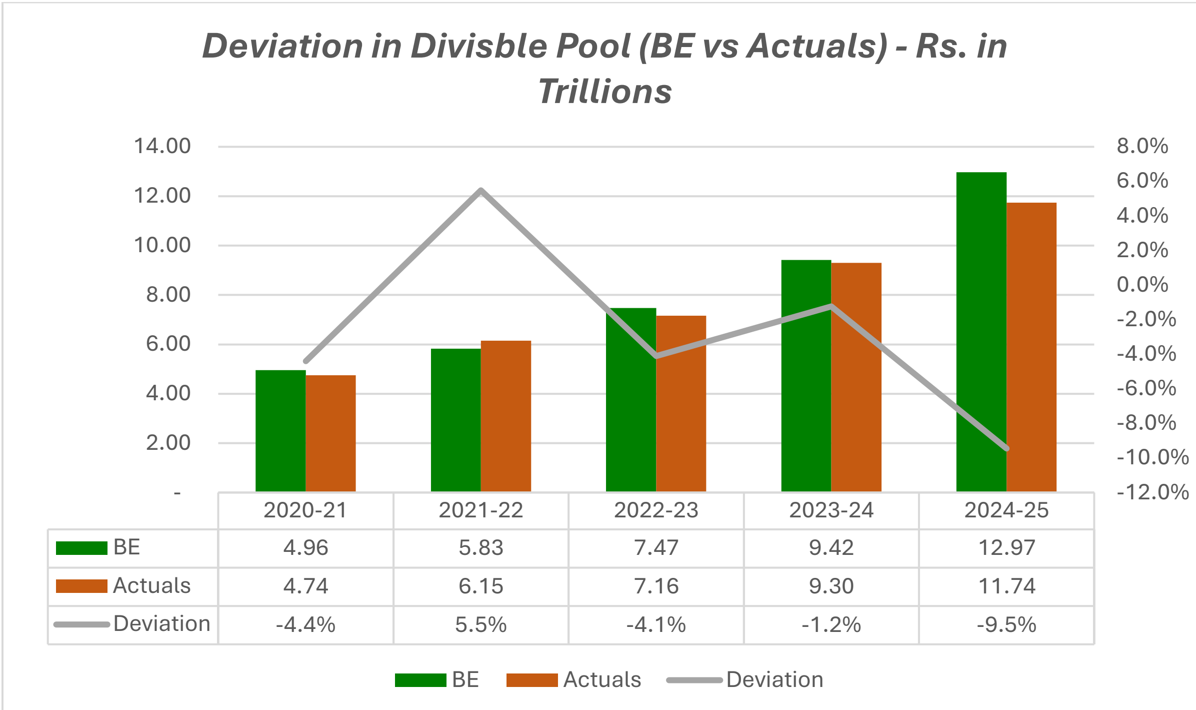
3.1: Uncertainty Around Revenue Assignments

Federal transfers constitute more than 70 percent of the total revenue of the Government of Sindh and therefore represent the most significant source of provincial receipts. Under the NFC Award 2009, Sindh's share in the divisible pool has been fixed at 24.55 percent. As transfers from the federal divisible pool are directly linked to national tax collections, any slowdown in economic activity at the national level adversely affects overall tax revenues and, consequently, reduces transfers to the province.

Historical trends indicate deviations between Budget Estimates (BE) and actual realizations of the divisible pool. During the period from FY 2017-18 to FY 2024-25, actual collections remained below budgeted projections in most years[13]. These fluctuations in federal tax collection have directly translated into variations in Sindh's share of transfers, resulting in differences between projected and actual receipts. Such uncertainty in federal transfers poses a significant fiscal risk, affecting the province's revenue forecasts, expenditure commitments, and overall fiscal stability.

[13] Budgetary Data has been extracted from Federal Government Budget Books and actual collections from Fiscal Operations Report

Figure 2: Deviation in Divisible Pool Taxes (BE vs Actuals)



	2020-21	2021-22	2022-23	2023-24	2024-25
BE	4.96	5.83	7.47	9.42	12.97
Actuals	4.74	6.15	7.16	9.30	11.74
Deviation	-4.4%	5.5%	-4.1%	-1.2%	-9.5%

3.2: Implications of Potential Reduction in Sindh's Share under the upcoming NFC Award

The forthcoming National Finance Commission (NFC) Award is expected to redefine the distribution of revenues between the Federation and the Provinces in light of evolving demographic, economic, and fiscal conditions. Any revision to the horizontal distribution formula or the provincial share in the divisible pool could have significant fiscal implications for the province.

Changes in the Province's share of federal transfers may affect the predictability of revenues, with potential consequences for fiscal sustainability, budget planning, service delivery, and the financing of development priorities. As federal transfers constitute a major source of provincial revenue, any reduction in the province's share would require corresponding fiscal adjustments through expenditure rationalization, enhanced own-source revenue mobilization, or other fiscal management measures.

The Government of Sindh will continue to closely monitor developments relating to the NFC Award and assess their potential fiscal implications to ensure prudent fiscal planning and the sustainability of public finances.

4: Debt Management

The total outstanding Debt of Sindh as of 30th June 2025 stands at Rs. 1.349 trillion which is 1.18% of the national GDP and 4% of the provincial GDP. This only includes the domestic and external debt of the government and does not include the contingent liabilities, the gross provident fund liability and other such commitments. Whilst the total stock of debt is increasing over time, the public debt of Sindh, remains sustainable, within the prescribed limits. Notwithstanding this, the growing debt stock entails increasing debt servicing obligations, which exert pressure on the province's fiscal space. While current indicators demonstrate compliance with legal debt thresholds, continued prudence in borrowing and effective debt management remain essential to contain fiscal stress and safeguard medium-term fiscal sustainability.

4.1: Fiscal Risk Due To Public Debt

Sindh's debt portfolio has increasingly shifted toward external borrowing, with external debt rising from approximately Rs. 76.98 billion in 2010 to around Rs. 1,337.69 billion as of June 30th 2025 and 1,492 billion as of March 31st 2026[14], while domestic debt has remained comparatively contained. The growing stock of foreign-currency denominated liabilities exposes the province to exchange rate depreciation and fluctuations in interest rates, thereby increasing the rupee cost of debt servicing.

While the Government of Sindh remains well within the quantitative fiscal and debt targets prescribed under the Sindh Fiscal Responsibility and Debt Management Act, 2022, these emerging risks, particularly revenue uncertainty, rising expenditure obligations, and external macroeconomic pressures, have intensified pressures on the province's medium-term fiscal sustainability and debt management framework. Any potential reduction in the province's share in the divisible pool, coupled with the risk of discontinuation of specific grants, would further constrain fiscal space and may increase reliance on borrowing to meet development and expenditure commitments.

[14] Debt Management Unit, Finance Department: Government of Sindh

Figure 3: Debt Portfolio (Rs. in Billions)

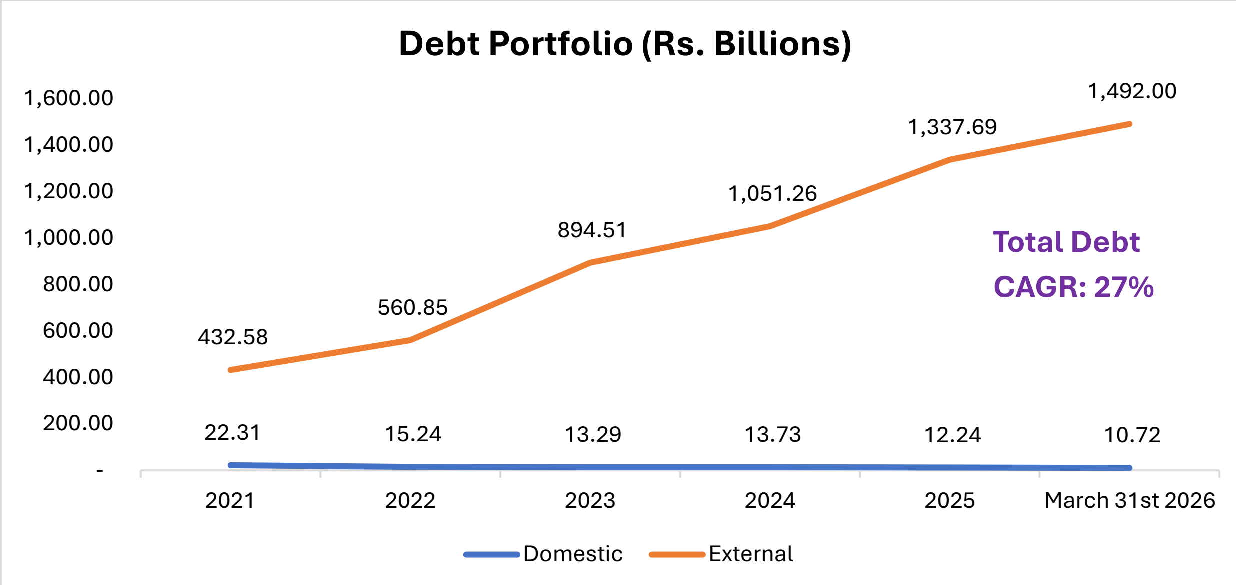


Figure 4: Sindh's Debt Summary (Rs. in Billions) [15]

Yearly Comparison	June 2021	June 2022	June 2023	June 2024	June 2025	March 31st 2026
Domestic Debt	22.31	15.24	13.29	13.73	12.24	10.72
External Debt	432.58	560.85	894.51	1,051.26	1,337.69	1,492
Total Government Debt	**454.89**	**576.09**	**907.80**	**1,064.99**	**1,349.93**	**1,502.72**
Total GDP	**47,709.33**	**66,657.87**	**83,650.83**	**105,190.40**	**113,934.97**	**129,567**
Sindh's GDP (30%)[16]	**14,312.80**	**19,997.36**	**25,095.25**	**31,557.12**	**34,180.49**	**38,870.10**
Total Government Debt as a % of Sindh's GDP	**3.18%**	**2.88%**	**3.62%**	**3.37%**	**3.95%**	**3.87%**

4.2: Debt Outlook

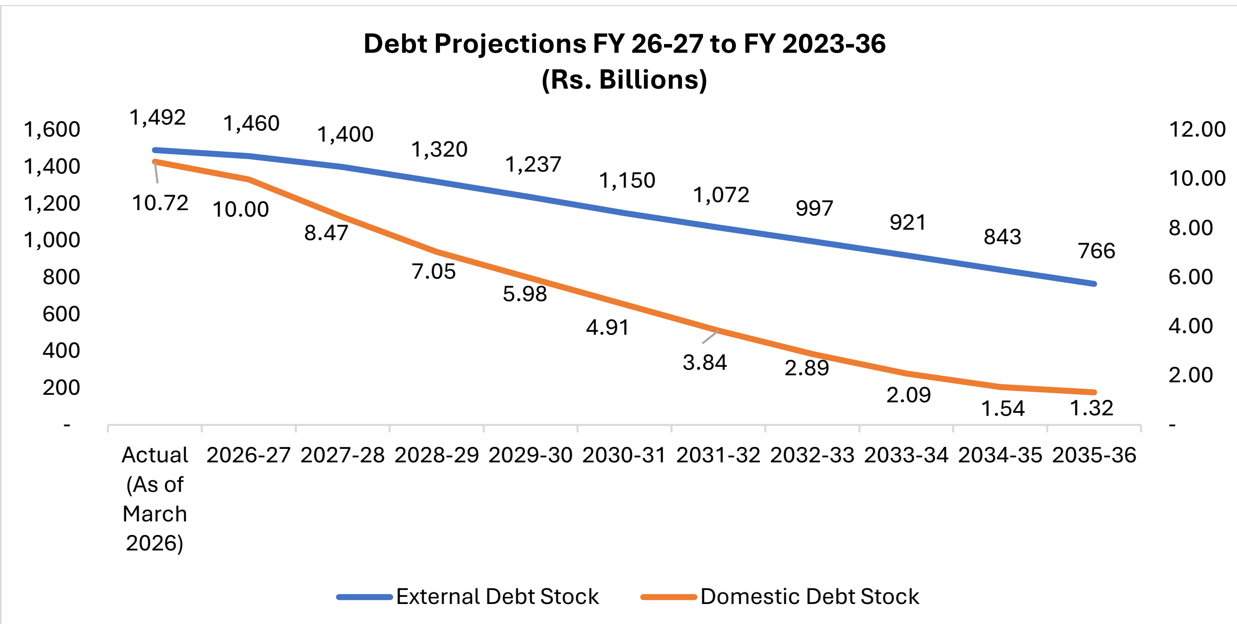
The medium-term debt outlook of the Government of Sindh remains stable and consistent with prudent debt management practices. Over the past five years, the province's total public debt has remained contained, ranging between 0.95 percent and 1.18 percent of GDP, indicating a prudent borrowing position relative to the size of the economy.

[15] Debt Management Unit, Finance Department: Government of Sindh
[16] Hafiz, A Pasha: Growth and Inequality in Pakistan, Volume-I (2018).

During the same period, the interest payments to revenue receipts ratio has increased from 2.3 percent in FY 2020–21 to 3.4 percent in FY 2024–25. Despite this gradual increase, the ratio remains significantly below the quantitative ceiling prescribed under legislation of sub-national governments, which stipulates that "***interest expense on government debt shall not exceed 12 percent of the average revenue of the preceding three financial years"*[17]**.

Looking ahead, total public debt is projected to remain broadly stable, with the debt-to-GDP ratio expected to range between 0.87 percent and 1.16 percent over the next three years. This suggests that, while debt levels are gradually increasing in line with development financing needs, the province's debt position remains sustainable and within prudent fiscal limits.

Figure 5: Total Debt Projections FY 26-27 to FY 2035-36[18]



4.3: Debt Retirement / Repayment Profile

Based on the current debt portfolio and projected borrowing plans, principal repayments are expected to follow a gradual trajectory over the coming years. However, the actual repayment profile may vary depending on underlying fiscal and macroeconomic outlook. Risks such as natural disasters, realization of contingent liabilities, changes in macroeconomic conditions, uncertainty in federal transfers, and variations in provincial revenue performance may affect the Government's fiscal space and influence the timing and magnitude of debt servicing obligations.

[17] Section 21 Subnational PFM Act 2022
[18] Debt Management Unit, Finance Department: Government of Sindh

The Government of Sindh continues to closely monitor the debt portfolio and repayment schedule to ensure that any emerging risks are effectively managed and that debt obligations remain within the province's fiscal capacity.

Table 3: Debt Retirement / Repayment Profile[19]

2. Debt Retirement / Repayment Profile (Rs. in Billion)											
Description	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**2029-30**	**2030-31**	**2031-32**	**2032-33**	**2033-34**	**2034-35**	**2035-36**
Domestic Debt Principal Repayment	1.13	1.69	1.56	1.14	1.14	1.14	1.00	0.84	0.57	0.22	0.22
External Debt Principal Repayment	31.85	60.03	79.88	82.56	86.85	77.61	75.30	76.21	77.87	77.20	72.66
Total Principal Retirement	**32.98**	**61.73**	**81.44**	**83.70**	**87.99**	**78.74**	**76.30**	**77.06**	**78.45**	**77.42**	**72.88**
Interest Payments	23.75	36.38	34.86	33.16	31.37	29.36	27.23	25.11	22.98	20.84	18.77
Total Debt Servicing	**56.73**	**98.10**	**116.30**	**116.86**	**119.36**	**108.10**	**103.53**	**102.16**	**101.43**	**98.27**	**91.65**

5: Other Specific Risks

The specific risks include risks emerging out of the various factors like risks associated with Public Private Partnerships, Public Sector Undertakings, risks due to natural disasters, risks out of Government Guarantee and others which have been discussed as under.

5.1: Provincial guarantees and Contingent Liabilities

5.1.1 Public Private Partnerships Projects

5.1.1.1 PPPs Risk Profile

Public–Private Partnerships (PPPs) are an established mechanism for infrastructure development in Sindh, enabling the province to leverage private sector investment, technical expertise, and operational efficiencies to deliver public services. The Government of Sindh has proactively promoted PPPs through the Sindh PPP Act amended 2025, which provides a structured legal and institutional framework for project identification, transparent procurement, risk allocation, dispute resolution, and provision of Viability Gap Funding (VGF) where necessary.

[19] Debt Management Unit, Finance Department: Government of Sindh

PPP projects in Sindh span multiple sectors, including transport, roads, urban development, health, education, energy, and industrial infrastructure. These projects are categorized as completed, under implementation, and pipeline projects, representing a measurable but relatively modest share of provincial GDP. While PPPs reduce the need for upfront public capital expenditure, they create fiscal commitments and potential contingent liabilities depending on project structure.

In Sindh, several PPP projects, particularly in roads, water supply, wastewater treatment, solid waste management, health, and education, are supported through Viability Gap Funding. Under this arrangement, the Government provides a one-time capital grant (up to a specified percentage of project cost) or limited operational support.

While the VGF structure avoids long-term fixed annuity payment obligations by the Government, fiscal risks may still arise under certain circumstances. If projected user revenues or demand levels are not realized, contractual clauses such as minimum revenue guarantees, sovereign guarantees issued to PPP projects, termination payments, compensation events, or force majeure provisions may obligate the Government to provide additional financial support. These obligations may not be reflected as direct debt but can materialize as contingent liabilities, thereby creating explicit or implicit fiscal exposure.

5.1.1.2: Overall PPP Scenario

The PPP Projects in Sindh have been categorized into *completed*, *under construction*, kicked off and *pipeline* projects. *Completed* projects account for Rs148.4 million, the projects in the *under-construction* category account for Rs.130.7 million[20].

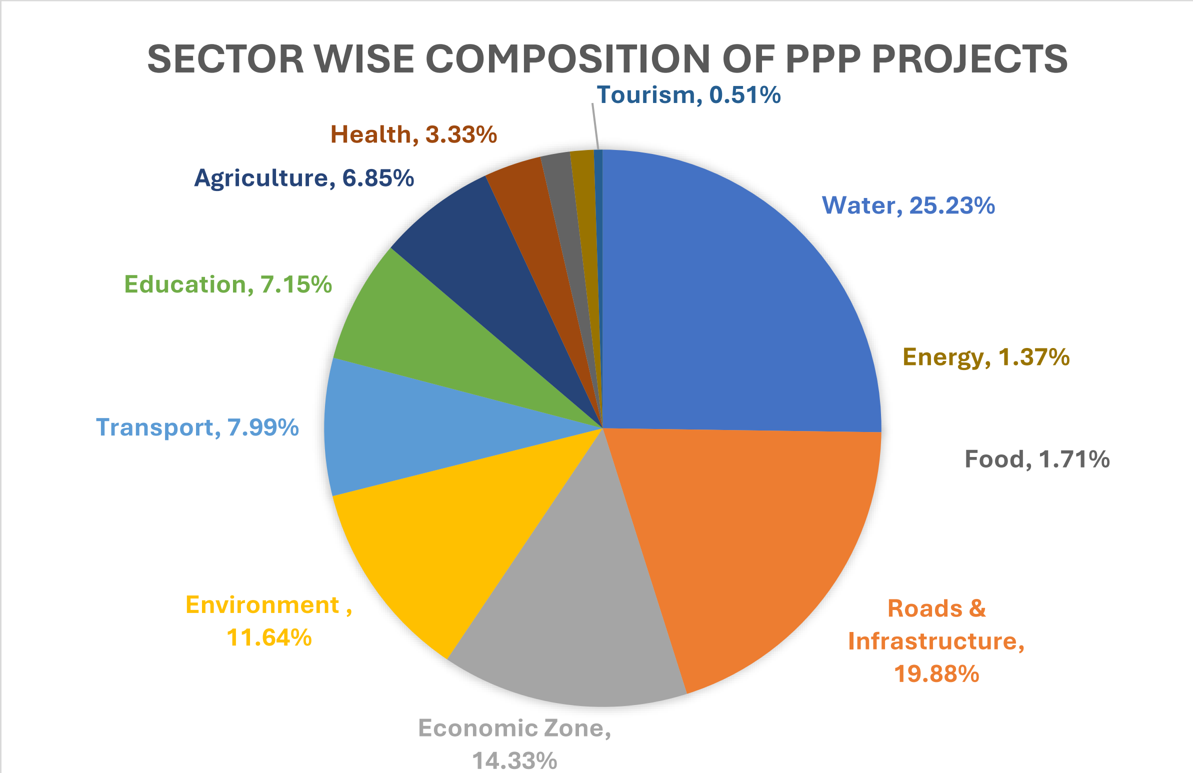
Table 4: PPP Projects Portfolio - March 2026

PPP Projects Portfolio – March, 2026	
Summary of the Projects	**Total Cost (PKR in Mn)**
Executed Projects *(Completed)*	148,399
Advanced Stage Projects *(Under Construction)*	130,700
Kicked Off Projects *(Investor Solicitation)*	177,500
Kicked Off Projects *(Feasibility Stage)*	419,400
Projects in Pipeline	-
Grand Total	**875,999**

Overall sector composition:

[20] PPP Unit, Finance Department: Government of Sindh

Figure 6: Sector wise Composition of PPP Projects



5.1.2 Public Sector Enterprises:

Public Sector Enterprises (PSEs) of the Government of Sindh operate across key sectors including energy, finance and industries. While many entities are operationally viable, PSEs represent a potential source of fiscal risk due to explicit and implicit contingent liabilities arising from government ownership and financial support. These exposures materialize through equity injections, guarantees, loans, grants-in-aid, and subsidies extended by the Provincial Government.

While a majority of operational PSEs are currently profit-making or self-sustaining, they remain exposed to sector-specific risks, including market volatility, regulatory changes, pricing constraints, operational inefficiencies, and macroeconomic fluctuations. PSEs constitute a potential source of fiscal risk through explicit and implicit contingent liabilities arising from government support in the form of equity injections, guarantees and grants-in-aid.

Given the Province's exposure through financial backing and ownership stakes, any deterioration in the financial position of major PSEs, particularly those operating in energy, and financial services may require budgetary support and exert pressure on the fiscal framework. Accordingly, continuous monitoring of financial performance, strengthened corporate governance, and systematic assessment of contingent liabilities remain critical to mitigating fiscal risks associated with PSE operations and safeguarding

The Government of Sindh currently holds equity shareholding in a limited number of entities, including Sindh Bank Limited, Sindh Modaraba Company Limited, Sindh Engro Coal Mining Company, and Sindh Energy Holding Company. In addition, the Government provides budgetary support to a number of Public Sector Enterprises (PSEs) operating across various sectors. Such key PSEs include Sindh Seed Corporation, Sindh Tourism & Development Company, Sindh Government Press, Karachi & Khairpur, Sindh Small Industries Corporation, Sindh Economic Zone Management Company, Sindh Land Management Development Company, Sindh Irrigation & Drainage Authority.

5.1.3 Financial Health of PSEs:

The financial health of the major Public Sector Enterprises (PSEs) in which the Government of Sindh holds equity is stable. Key entities, including Sindh Bank Limited, Sindh Modaraba Company Limited, Sindh Insurance Limited, Sindh Engro Coal Mining Company, and Sindh Energy Holding Company, have demonstrated satisfactory financial performance over the last two financial years.

A review of the financial performance of these entities indicates that they remain profitable and financially sustainable. However, regular monitoring of these entities is essential to identify any emerging financial vulnerabilities and assess their potential fiscal implications.

In addition, an assessment was conducted of those PSEs receiving budgetary support from the Government of Sindh. According to the *Audit Report on the Accounts of Public Sector Enterprises, Government of Sindh (Audit Year 2024-25)*[21], the majority of PSEs operating under the administrative control of the Provincial Government are either profit-making or financially sustainable. However, two entities reported financial losses during the review period. While, the losses remain limited in scale, sustained underperformance could result in future fiscal exposure through the need for additional government support. Accordingly, continued monitoring of the financial performance of loss-making entities is essential to mitigate potential fiscal risks and ensure the long-term sustainability of the provincial PSE portfolio.

5.1.4 Overall Outstanding Government Guarantees:

The total outstanding government guarantee as of March 2026 is Rs.27 billion which is 0.07 percent of Sindh's GDP[22]. The guarantees do not form a part of the provincial government's

[21] Audit Report FY 24-25 on the Accounts of the PSEs; Government of Sindh
[22] PPP Unit; Finance Department – Government of Sindh

loans, but it becomes incumbent on the provincial government to discharge the guaranteed loan liability in case of failure on part of the borrowing organizations to service their debt covered under such guarantee. The guaranteed loan as a percentage of total revenue receipts has reached 1.6% as of March 2026.

As per the ceiling policy of the Sindh fiscal responsibility and debt management act, 2022, the outstanding government guarantees in a financial year should not exceed 25 percent of revenue receipts of the preceding financial year[23]. The Government of Sindh remains well within this prescribed limit, with the current level of guarantees significantly below the statutory threshold, reflecting prudent management of contingent liabilities and adherence to fiscal discipline.

Table 5: Sector-wise Outstanding Provincial Government Guarantee (Rs. in millions) as on 31st March 2026

Project	Sector	Amount (PKR in Mn)
Nabhisar Vajihar Water Works Project	Irrigation	27,000
Total		**27,000**
National GDP (mp) FY 25-26		**129,567,000**
Sindh GDP (30% of National GDP)		**38,870,100**
% of Sindh's GDP		**0.07%**
As a % of Revenue Receipts of previous year (FY 24-25)		**1.2%**

5.2: Pension Expenditures

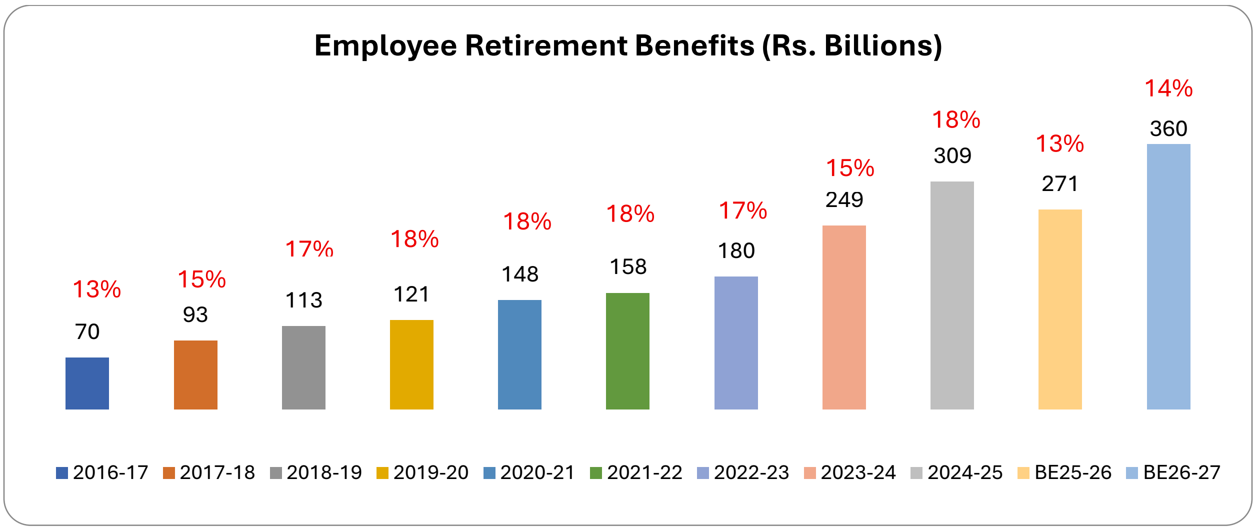
Pension expenditures have emerged as one of the most significant and rapidly growing sources of fiscal pressure for the Government of Sindh. Employee retirement benefits have increased substantially over the past fifteen years, rising from approximately Rs. 21.05 billion in FY 2010-11 to Rs. 309.34 billion in FY 2024-25. Over the last ten years, Employee retirement benefits have grown at a compound annual growth rate (CAGR) of 17.79 percent, substantially outpacing inflation and placing increasing pressure on the province's fiscal position. Budget Estimates for FY 2026-27 further project employee retirement benefits to increase to Rs. 360.04 billion, indicating that pension obligations will continue to expand in the medium term.

The fiscal implications of rising pension obligations are evident in their increasing share of Current Revenue Expenditure (CRE). Pension expenditure accounted for approximately 13

[23] The Sindh Fiscal Responsibility and Debt Management Act, 2022

percent of CRE in FY 2016-17 and increased to around 18 percent in FY 2024-25. Although this share is estimated at 14 percent in FY 2026-27 due to the projected expansion in overall current expenditure, the absolute increase in pension payments continues to place considerable pressure on the province's recurrent expenditure framework. This trend indicates that an increasing share of public expenditure is being allocated to pension obligations, which may gradually reduce the fiscal space available for infrastructure development, social protection programs, and other government priorities.

Figure 7:Employee Retirement Benefits over the Years and as a % of CRE

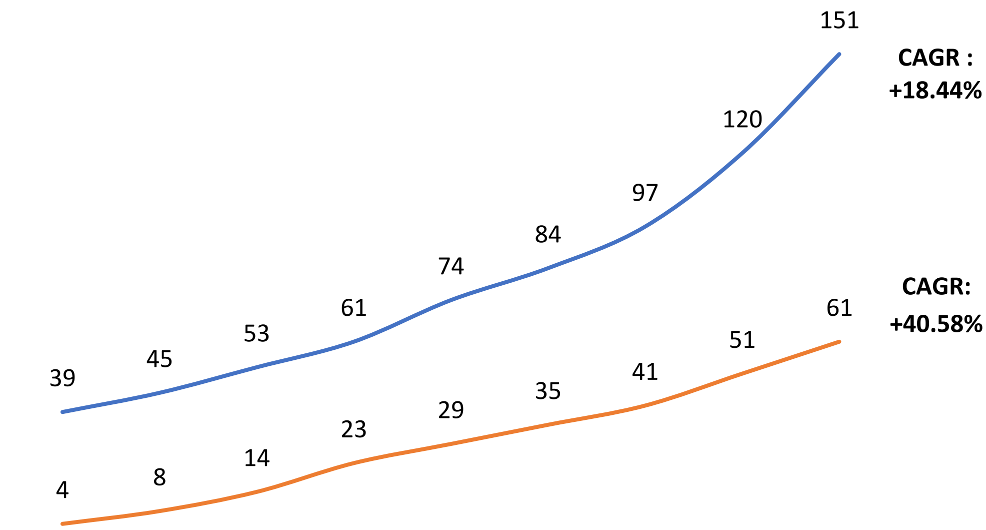


While total employee retirement benefits have recorded a compound annual growth rate (CAGR) of 17.79 percent over the last ten years, family pension has grown at a significantly faster pace. This trend reflects the increasing long-term fiscal implications of survivor benefits in addition to the growth in regular pension obligations. Since 2012, the number of pensioners has more than doubled, increasing from 150,589 to 302,790 by May 2025. During the same period, the active employees of Government of Sindh reached 504,143[24], resulting in a pensioner-to-active employee ratio of approximately 60 percent.

In the absence of structural pension reforms and effective liability management, these trends are expected to place increasing pressure on the province's fiscal sustainability by expanding mandatory recurrent expenditure, crowding out resources available for development priorities and essential public services, and reducing the Government's fiscal flexibility to respond to future economic and fiscal shocks.

[24] Service Rules Wing; Finance Department – Government of Sindh

Figure 8:Growth in Regular and Family Pension



	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Regular Pension	39	45	53	61	74	84	97	120	151
Family Pension	4	8	14	23	29	35	41	51	61

The sustained increase in pension liabilities reflects a combination of structural and policy-related factors, including the growing number of retirees, successive increases in pension rates, merger of ad hoc relief allowances into pensionable emoluments, and inflation-related adjustments announced through annual budgets. As pension payments constitute mandatory and non-discretionary expenditures financed directly from the provincial budget, they reduce fiscal flexibility and limit the Government's ability to reallocate resources towards development priorities and essential public services.

Recognizing these fiscal challenges, the Government continues to strengthen pension administration and improve the forecasting and monitoring of pension liabilities. Ongoing efforts include enhancing pension data management systems, improving actuarial assessment of long-term liabilities, strengthening budgetary planning for retirement benefits, and evaluating options for pension reforms aimed at ensuring the long-term sustainability of the provincial pension system while safeguarding the welfare of retirees.

5.3: Commodity Financing Operations

Financing of wheat procurement operations remains a significant fiscal risk for the Government of Sindh. In order to ensure food security and maintain price stability, the Provincial Government undertakes large-scale procurement of wheat during the harvesting season at the notified support price. The procured stock is subsequently released to flour mills at subsidized rates to ensure continued availability of affordable flour across the province. These operations are primarily financed through commercial bank borrowing under Cash Credit Limits (CCLs) approved by the Federal Government. The total cost of wheat procurement increases substantially due to interest charges, storage, handling, and transportation expenses. As wheat is sold below its procurement and carrying cost, the differential is financed through borrowing, resulting in accumulation of debt over time. As of 11th June 2026, the outstanding liability relating to commodity operations stands at approximately Rs. 127.39 billion out of which Rs. 112 is unsecured.[25]. The rising stock of debt, coupled with elevated interest rates, has increased the cost of servicing these liabilities and placed additional pressure on the province's fiscal position. Continued reliance on short-term bank borrowing for commodity financing contributes to circular debt and heightens fiscal vulnerability.

5.4: GP Fund Liabilities

The General Provident (GP) Fund is a contributory scheme under which mandatory deductions are made from the salaries of permanent Government employees and credited to the Public Account of the Province. The Government of Sindh bears fiduciary responsibility for safeguarding these funds and ensuring timely settlement of claims at the time of withdrawal or retirement.

The outstanding GP Fund liability has increased from approximately Rs. 68.55 billion in 2012 to about Rs. 192.7 billion in 2025[26], reflecting the cumulative growth in employee contributions and accrued balances. The steady rise in liabilities represents a growing fiscal obligation and poses liquidity and cash management risks, particularly in the context of increasing withdrawal demands. Effective fund management and prudent financial planning remain essential to ensure fulfillment of fiduciary responsibilities and to mitigate associated fiscal risks.

5.5: Risks Related to Disasters

The Province of Sindh remains particularly vulnerable to natural and climate-related disasters, including floods, cyclones, droughts, heatwaves, and urban flooding. Given its geographic location, extensive riverine belt, and coastal exposure, Sindh faces recurring risks from extreme weather events.

Recent events, particularly the 2022 floods, highlighted the scale of economic losses and the substantial fiscal burden associated with emergency response, rehabilitation, and

[25] Resource Wing: Finance Department: Government of Sindh
[26] Public Accounts: Government of Sindh

reconstruction. Approximately Rs. 117 billion were spent on immediate relief and rehabilitation, while over Rs. 900 billion[27] have been allocated through the Annual Development Program (ADP) for reconstruction of critical infrastructure such as roads, hospitals, schools, and irrigation systems. Such events have significant fiscal implications, affecting both revenues, through disruptions to agriculture, industry, and trade and expenditures due to the need for large unplanned allocations.

In the context of increasing climate variability and heightened frequency of extreme events, disaster-related risks constitute a material fiscal vulnerability for the Government of Sindh. In response, the province has undertaken measures to strengthen institutional preparedness and resilience, including the development of a comprehensive Disaster Risk Management (DRM) framework, comprising the Sindh Disaster Management Policy, the Provincial Disaster Management Plan (2023–2032), and the PDMA Conduct of Business Rules. The Government of Sindh continues to integrate disaster-related contingencies within its fiscal risk management framework to mitigate potential impacts on fiscal sustainability and service delivery.

6: Fiscal Risk Mitigation Measures

The Government of Sindh recognizes that the province is exposed to a wide range of fiscal risks arising from macroeconomic volatility, revenue uncertainty, public debt obligations, Public Sector Enterprises, Public–Private Partnerships, commodity operations, and natural disasters. In order to safeguard fiscal stability and ensure continuity of development initiatives, a number of fiscal risk mitigation measures have been adopted.

6.1: Risk Mitigation in PPP's

The Government of Sindh has put in place a structured framework to manage fiscal risks arising from Public–Private Partnership (PPP) projects. PPP policies and risk management guidelines have been developed to ensure appropriate risk allocation between the public and private sectors.

All PPP projects, including those requiring Viability Gap Funding (VGF), are subject to approval by the PPP Policy Board, which reviews the financial viability, risk exposure, and fiscal implications of each proposal. The VGF Guidelines provide broad parameters for extending government support to eligible projects, ensuring that such support remains transparent, justified, and within sustainable fiscal limits.

[27] Budget Books – Government of Sindh (FY 24-25)

The PPP Unit also undertakes continuous monitoring of projects at different stages of implementation to ensure compliance with approved financial and contractual arrangements. Through these institutional arrangements and oversight mechanisms, the Government of Sindh seeks to contain contingent liabilities and mitigate fiscal risks associated with PPP projects while supporting infrastructure development in the province.

6.2: Compliance with Debt Rules/ Fiscal Sustainability Indicators

To ensure fiscal discipline in the government's financial affairs, debt targets, limits on government guarantees have been specified in the Sindh fiscal responsibility and debt management act, 2022, section 6[28]. The government is obligated to adhere to these limits through the provision of fiscal and debt targets, as required by Section 6. As such, Tables below provide an update on the compliance status pertaining to fiscal discipline and debt limits respectively.

(Rs. In Billions)

Section 6 (ii)	*Debt servicing of total public debt* ***shall not exceed 10% percent of total revenue of preceding Financial Year***
Debt servicing as of March 31st 2026	56.73
Total Revenue FY 24-25	2,301.20
Compliance status %	2%

(Rs. In Billions)

Section 6 (iii)	*Stock of Guarantees does not, at any time,* ***exceed 25% percent of the total revenue of preceding Financial Year***
Govt Guarantees Extended as of March 2026	27
Total Revenue FY 24-25	2,301.20
Compliance status %	1.17%

In addition, the provincial borrowing limit authorized by the National Economic Council (NEC) on 17 August 2017 stands at Rs. 60.8 billion, and the Government of Sindh remains well below this threshold. Adherence to these statutory limits constitutes a core mitigation measure, ensuring that debt accumulation and contingent liabilities remain within sustainable bounds and supporting the province’s medium-term fiscal stability.

[28] The Sindh Fiscal Responsibility and Debt Management Act, 2022

6.3: Medium-Term Budgetary Framework and Budget Strategy Paper

The Budget Strategy Paper (BSP) outlines the Government's fiscal policy priorities and presents medium-term fiscal projections under the Medium-Term Fiscal Framework (MTFF). In line with standard public financial management practices, the Government of Sindh prepares these projections keeping in view key macroeconomic indicators such as GDP growth, inflation, interest rates, exchange rates, and revenue trends. These assumptions form the foundation of revenue forecasting and expenditure planning.

Accordingly, the Government of Sindh regularly reviews and updates its macroeconomic assumptions and fiscal projections to ensure realism, fiscal discipline, and effective risk management. This approach supports prudent budgeting and strengthens the province's capacity to respond to macroeconomic volatility.

6.4: Pension Reform Plans Including Defined Contribution Plan

The Government of Sindh has witnessed a significant rise in pension expenditures over the past few years. This sharp growth in the pension bill highlighted the need for sustainable, forward-looking reforms to manage long-term fiscal pressures. In response, the Government introduced the Sindh Civil Servants Defined Contribution Pension Plan, 2025, aimed at ensuring long-term pension sustainability. To operationalize this reform, the Finance Department has established the Sindh Contribution Pension Unit, responsible for monitoring the Defined Contribution Pension Scheme and overseeing all operational aspects.

6.5: Provincial Disaster Management Fund, Social Relief and Other Dedicated Disaster and Relief Funds

In view of Sindh's vulnerability to natural disasters and climate-related shocks, the Government has established institutional mechanisms such as the Provincial Disaster Management Fund and other social relief funds to respond to emergencies in a timely manner. These funds serve as financial buffers to address unforeseen expenditures arising from floods, droughts, and other calamities. By maintaining dedicated resources for disaster response and rehabilitation, the Government seeks to reduce reliance on ad hoc reallocations and borrowing, thereby mitigating fiscal disruptions and strengthening resilience.

6.6: Oversight of PSEs

To mitigate fiscal risks arising from Public Sector Enterprises (PSEs), the Government of Sindh has instituted strengthened oversight and monitoring arrangements. Any budgetary support whether in the form of grants, equity injections, loans, or guarantees is extended after due scrutiny and assessment of fiscal implications.

The Government is also focused on improving corporate governance practices, enhancing financial transparency, and ensuring accountability in the operations of these entities. Through sustained monitoring and prudent financial oversight, the Government of Sindh seeks to contain contingent liabilities and minimize fiscal exposure arising from potential underperformance of PSEs, thereby safeguarding the province's fiscal stability.

7: Conclusion

The Fiscal Risk Statement FY 2025-26 outlines the Government of Sindh's approach towards identifying, assessing, and managing fiscal risks to strengthen fiscal discipline and transparency in public finances. Fiscal risks arise from macroeconomic conditions, institutional uncertainties, and unforeseen events that may impose significant fiscal pressures on the province.

While certain risks particularly those related to the macroeconomic environment and natural disasters remain beyond the direct control of the Provincial Government, the Government of Sindh remains vigilant in monitoring these developments and implementing appropriate mitigation measures. Through prudent fiscal management and strengthened institutional mechanisms, the Government aims to safeguard fiscal sustainability and ensure that public resources continue to support sustainable and inclusive economic development in the province.