



HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT

PAKISTAN

Disaster Risk Financing

JUNE 2026

Prepared By

Suphachol Suphachalasai, Juana Aristizabal, Katja Funke, Alberto Garcia Huitron, Michal Pietrkiewicz

Fiscal Affairs Department

PARTNERS

Global Public Finance Partnerships (GPFP)

High-Level Summary Technical Assistance Report
Fiscal Affairs Department

Pakistan: Disaster Risk Financing

Prepared by Suphachol Suphachalasai, Juana Aristizabal, Katja Funke, Alberto Garcia Huitron, Michal Pietrkiewicz

The *High-Level Summary Technical Assistance Report* series provides high-level summaries of the assistance provided to IMF capacity development recipients, describing the high-level objectives, findings, and recommendations.

ABSTRACT: Disasters pose macro-critical fiscal risks to Pakistan, with average annual losses from floods estimated at about 1 percent of GDP and severe events generating large financing needs of several percentage points of GDP. While existing budgetary mechanisms are generally sufficient for immediate disaster response, recovery and reconstruction costs create significant macro-fiscal pressures and risk crowding out development spending. Strengthening disaster risk reduction, integrating disaster risks into macro-fiscal planning and debt sustainability analysis, and improving federal–provincial coordination are essential to enhance fiscal resilience. A rules-based cost-sharing framework, better use of social protection systems, and carefully designed financial sector interventions would help contain future fiscal liabilities and safeguard long-term growth.

JEL Classification Numbers: H3, H5, G2, Q54
Keywords: Disaster risks, public finance, fiscal policy, financial instruments

The contents of this document constitute a high-level summary of technical advice provided by the staff of the International Monetary Fund (IMF) to the authorities of a member country or international agency (the "CD recipient") in response to their request for capacity development. Unless the CD recipient specifically objects within 30 business days of its transmittal, the IMF will publish this high-level summary on IMF.org (see [Staff Operational Guidance on the Dissemination of Capacity Development Information](#)).

International Monetary Fund, IMF Publications
P.O. Box 92780, Washington, DC 20090, U.S.A.
T. +(1) 202.623.7430 • F. +(1) 202.623.7201
publications@IMF.org
IMF.org/pubs

Main Messages and Recommendations

Disasters pose macro-critical fiscal costs to Pakistan, with substantial and rising financing needs.

Pakistan is among the most disaster-prone countries globally, with repeated large-scale floods, earthquakes, and droughts imposing significant economic losses. The 2010 and 2022 floods alone caused damage of about 5 and 8 percent of GDP, respectively. This mission estimates that annual average losses from riverine floods are approximately 1 percent of GDP, with reconstruction needs for severe events reaching several percentage points of GDP. Climate change is expected to increase both the frequency and severity of shocks. Given already constrained fiscal space, disaster shocks create material risks to debt sustainability, capital formation, and long-term growth.

Immediate disaster response financing is broadly adequate, but reconstruction financing creates serious macro-fiscal pressures.

The assessment finds that existing budgetary mechanisms—federal and provincial contingency allocations, provincial disaster funds, and federal contingent disaster financing—are generally sufficient to cover relief and early response needs, including for relatively severe events (up to a 1-in-50-year flood). However, coordination between the federal and provincial governments is necessary to support provinces that face higher losses and financing gaps. Recovery and reconstruction costs far exceed resources that can be mobilized within existing budgets and cannot be absorbed without additional financing or crowding out of planned development spending. For severe events, reconstruction gaps in Punjab and Sindh combined can exceed 2 percent of national GDP.

Disaster risks should be fully integrated into macro-fiscal planning and debt sustainability analysis.

Although Pakistan has developed a national disaster risk financing strategy and is exploring risk-layering approaches, the expected fiscal costs of disasters are not systematically incorporated into medium-term fiscal frameworks or debt sustainability analysis. Given the scale of expected annual losses and the severity of rare disaster events, integrating disaster risk into macro-fiscal planning is critical to preserving fiscal sustainability and protecting priority development expenditures. The integration would allow policymakers to better assess trade-offs between retaining fiscal buffers, mobilizing contingent financing, and investing in disaster risk reduction, all in the context of the binding fiscal space.

Strengthening disaster risk reduction is essential to limit future fiscal liabilities and safeguard development.

Given limited fiscal space, Pakistan cannot rely on ex-post financing alone to manage disaster risks. Reducing exposure and vulnerability through disaster risk reduction—including systematic “building back better”, land-use planning, and the right incentives for the private sector—can offer high economic return and help contain long-term fiscal costs. While Pakistan has established a robust legal and policy framework for disaster risk reduction, coordination across the government is a challenge and implementation remains uneven, particularly at the provincial level where most disaster risk reduction responsibilities lie.

Federal–provincial coordination gaps weaken incentives and reduce the efficiency of disaster financing.

The current intergovernmental fiscal framework creates coordination challenges on disaster financing and weak incentives for risk reduction, with no clear strategy on contingency spending and burden sharing to counter unexpected fiscal shocks. Following fiscal decentralization under the 18th amendment of the Constitution and the 7th National Finance Committee Award, provinces bear primary responsibility for disaster management and development spending, while the federal government retains

broader access to more sophisticated external financing and risk-pooling instruments. Without concrete coordination mechanism, federal support is typically determined on an ad hoc basis after large shocks. This approach undermines fiscal planning, erodes incentives for provinces to invest adequately in risk reduction, and can delay disaster response.

A rules-based federal–provincial cost-sharing mechanism would strengthen preparedness and fiscal sustainability. Pakistan would benefit from establishing ex ante rules that clarify how disaster costs are shared between the federal and provincial governments, particularly for large and infrequent events. Such a framework should be calibrated to provincial exposure and fiscal capacity, differentiate between response and reconstruction phases, and embed incentives for disaster risk reduction (for example by linking federal co-financing to measurable risk reduction efforts). A cost-sharing arrangement would complement the existing National Finance Committee framework by addressing disaster shocks that are currently not covered by the framework, improve predictability, enable more efficient use of federal financing instruments, and improve transparency and timeliness of disaster financing.

Social protection systems and public financial management tools are key enablers of effective disaster response. Pakistan’s social protection infrastructure, notably the Benazir Income Support Programme and the National Socio-Economic Registry, provides a potential platform for scaling up rapid, shock-responsive cash transfers. However, coordination between federal and provincial governments on the use of social programs during disasters remains fragile. Explicit guidelines for activating and financing emergency transfers would improve efficiency and reduce duplication. Strengthening disaster budget tagging, reporting, and transparency—including for supplementary grants and reallocations stemming from disaster—would further enhance fiscal accountability and planning.

The financial sector can play a greater role in disaster risk financing, but public interventions must avoid market distortions. Financial inclusion and digital payment systems have expanded rapidly, improving households’ ability to cope with shocks. However, insurance penetration remains very low and support mechanisms are often not risk-adjusted. Government support for financial instruments, such as credit guarantees and emergency liquidity schemes, should be carefully targeted, address clearly identified market failures, and follow international good practice. Strengthening risk data and analytics, while continuing to improve financial inclusion and access to risk-transfer products, would help support sustainable development of the insurance sector and lending for disaster risk management.

While significant progress has been made, much remains to be done to strengthen Pakistan’s disaster risk financing. Pakistan has made important progress in strengthening its disaster management and financing framework, but heightening climate risks require a strategic shift toward proactive risk reduction, coordinated intergovernmental financing arrangements, and integration of disaster risk into macro-fiscal policy. By aligning incentives across levels of government, improving institutional coordination, and leveraging private sector instruments, Pakistan can enhance fiscal resilience while protecting long-term development objectives.