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Beyond the Remittance Shock: Domestic Layoffs and the Coming Unemployment Crisis

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EXECUTIVE SUMMARY

Pakistan faces a dual labour-market risk: first, a domestic layoff risk arising from energy, freight, credit, and demand shocks across textiles, construction, transport, and retail sectors; second, a returnee and migration-placement risk, in case of weak Gulf labour markets. In this study, we focus on the domestic layoff risk while treating returnees as a linked vulnerability.

In the absence of appropriate interventions, about 3 million additional workers could join Pakistan's unemployed, which can push the unemployment rate from 6.9 percent to 10.4 percent.

The US-Israel military strikes on Iran (28 February 2026) and Hormuz closure have created the need for a domestic employment assessment for Pakistan. Sector-level analysis across manufacturing/textiles, construction, transport, retail, and agriculture, which employ 79.7 million workers, reveals that the layoff risks range from 670005 (early resolution) to 3 million (systemic crisis).

The April 25, 2026, fuel increase (High Speed Diesel (HSD): Rs 380.19/litre; petrol: Rs 393.35/litre) directly worsens employment in the transport sector. As in Pakistan, around 73 to 84 percent of the workers are informal; therefore, official statistics may understate/underrepresent income and underemployment losses.

Our suggested measures (Immediate) consist of concessional textile credit, electricity tariff reform, income support in the transport sector, BISP support extension to the returnee, reallocation of the PSDP, and urea availability on a priority basis to reduce the employment layoffs.

1. Introduction: The Domestic Layoff Threat

Although a combination of channels is compounding simultaneously, the Gulf crisis has entered Pakistan's domestic economy. Domestic fuel prices rose by Rs.135.18 per litre[1], the largest recorded increase, within days of the Hormuz closure (April 25, 2026). Al Jazeera (2026) and Shah and Islam (2026) reported that the LNG spot prices were doubled to $23/MMBtu.

Shipping insurance war-risk surcharges of $1,500, 3,500 per container appeared overnight. This crisis has not stayed at the macroeconomic level. Since families no longer receive the monthly transfer from a Gulf-based breadwinner, it has affected textile mills, transport fleets, steel yards, grocery budgets, and the school enrolment decisions.

What follows is a scenario-based analysis of domestic layoff risk and its cumulative impact on Pakistan's unemployment rate. Estimates are based on sectoral employment responses to output shocks using Pakistan-specific empirical evidence; see Appendix A for full methodology.

2. Scenarios and Sectoral Unemployment Projections

The unemployment consequences of the Gulf crisis extend well beyond the return of overseas workers. Rising energy costs, freight disruptions, remittance-driven demand contraction, and credit tightening combine to force layoffs, shift reductions, and outright closures across multiple sectors. This section disaggregates the domestic layoff risk by sector and presents a four-scenario analysis of the cumulative unemployment impact.

2.1. Scenario Definitions (Updated: April 2026)

This section presents a four-scenario unemployment matrix. Each scenario combines: (i) domestic business layoffs by sector; and (ii) the resulting unemployment rate, expressed as a share of the labour force (PBS, 2024-25). Table 1 reports our scenario assumptions. The Strait of Hormuz is still closed (as per the first week of May 2026). Scenario 1 (early resolution) is rapidly narrowing as a probability. The details on our four scenarios with updated timeline assumptions are presented in Table 1.

Table 1: Scenarios' Assumptions

	Scenario-S	Key Assumption	Oil Price	Gulf Labour Impact
S1	**Early Resolution (By June 2026)**	Hormuz reopens; conflict de-escalates	<$100/bbl	Minimal worker return
S2	**Moderate Disruption (Through Q3 2026)**	Partial closure: high insurance/freight premiums persist	$110–130/bbl	Some return begins; Gulf hiring slows
S3	**Prolonged Conflict (Into Q1 2027)**	GCC economies destabilise; Hormuz disruptions persist; IMF emergency support required	>$130/bbl	Gulf labour contracts 10–15 percent; large return flows
S4	**Systemic Crisis (Beyond 12 months)**	War expands; GCC recession; Pakistan loses Gulf deposits & deferred oil facilities; IMF off-track; PKR depreciates 25–35 percent	>$150/bbl	GCC recession; mass returns; collapse of new deployment

1.(393.35 - 258.17 =135.18: April 25, 2026)

2.2 Sectoral Layoff Risk

The Manufacturing/textile sector was already in crisis before the Gulf War: 150 large units closed, more than 100 spinning mills and 400 ginning factories became non-operational (FPCCI, 2026). The energy shock can force additional shift reductions and closures. It is stated that if the crisis persists beyond three months, a further 5–10 percent of remaining operational units could close, with a multiplier effect on ancillary jobs in dyeing, logistics, and packaging (APTMA, 2026). The construction sector accounts for direct and indirect labour participation across linked industries, including cement, steel, glass, and electrical fittings (SB Compliances, 2025; PACRA, 2025). There had already been negative growth of -7.1% YoY in 2Q FY2025 due to expensive inputs, high borrowing rates, and reduced development expenditures (PACRA, 2025). This situation becomes even harder due to increased costs of importing steel and cement, cessation of PSDP payments due to fiscal constraints, and disappearance of the privately-funded construction projects, which used to generate remittances and which were one of the biggest contributors to the demand from the industry. Transport consumes the lion's share of petroleum resources, with roughly 80% of them being consumed by the transport sector (Al Jazeera / Durrani, 2026). Increased prices of diesel fuel lead to an increase in operating expenses for trucks, buses, and rickshaws. Meanwhile, freight volumes drop with a decrease in export orders and consumption domestically. Moreover, the reduction in remittances could result in negative impacts on spending within retail businesses like supermarkets and other consumer goods, as well as education, healthcare, and construction activities. Finally, in the agricultural industry, if the problem of limited availability of fertilizers persists during the sowing season for Kharif crops, productivity as well as employment opportunities will be negatively impacted by this. Additionally, higher fuel prices mean increased operating costs of tubewell irrigation systems and other harvesting equipment, as well as increased transportation costs for food products.

2.3 Sector-Level Layoff Estimates

Table 2 presents the estimated layoff risk by sector under each scenario. Employment-output elasticities are calibrated from Pakistan's empirical evidence (see Appendix A). The manufacturing/textiles and construction sectors account for the largest layoff risk, followed by wholesale/retail trade.

Table 2: Estimated Domestic Layoffs by Sector and Scenario-S

Sector	Employment Base	(S1) Early Resolution	(S2) Moderate	(S3) Prolonged	(S4) Systemic
Manufacturing/Textiles	11.8 million	230,100–401,200	460,200–802,400	767,000–1,203,600	997,100–1,504,500
Construction	7.9 million	86,900–165,900	217,250–387,100	391,050–663,600	608,300–995,400
Transport/storage & communication	5.4 million	63,600–116,600	106,000–204,050	169,600–291,500	254,400–437,250
Wholesale & Retail Trade	12.8 million	38,400–115,200	115,200–288,000	192,000–460,800	307,200–691,200
Agriculture, Forestry and Fishing	26.4 million	26,400–79,200	52,800–158,400	105,600–237,600	158,400–396,000
Community/Social & Other	15.5 million	34,410–79,050	51,615–131,750	86,025–184,450	120,435–289,850
TOTAL	**79.7** million	**479,810–957,150**	**1,003,065–1,971,700**	**1,711,275–3,041,550**	**2,445,835–4,314,200**

Source: Authors' calculations. Employment bases from PBS LFS 2024–25 and sectoral accounts. See Appendix A for full methodology. The labour force data is based on the 13th ICLS framework of PBS LFS 2024–25.

2.4 Cumulative Unemployment Impact

Table 3 translates sectoral layoffs into headline unemployment rates under each scenario. The net new unemployed figures account for partial informal re-absorption (assumed and estimated at 30–40 percent of gross layoffs). The baseline unemployed pool of 5.9 million is taken from LFS 2024–25 (see Appendix A). Our estimates show that unemployment could rise from 6.9% to over 10.4% under a severe/systemic crisis-S4.

Table 3: Step-by-Step Unemployment Rate Calculation by Scenario

Component	(S1) Early Resolution (Jun 2026)	(S2) Moderate (Q3 2026)	(S3) Prolonged (Q1 2027)	(S4) Systemic (12+ months)
(A) Baseline unemployed (LFS 2025)	5,900,000	5,900,000	5,900,000	5,900,000
(B) Domestic sector layoffs (gross)	479,810–957,150	1,003,065–1,971,700	1,711,275–3,041,550	2,445,835–4,314,200
(C) Less: informal reabsorbed workers (30–40%)[2]	−191,924–−287,145	−401,226–−591,510	−684,510–−912,465	−978,334−−1,294,260
(D) Net new unemployed (B – C)	287,886–670,005	601,839–1,380,190	1,026,765–2,129,085	1,467,501–3,019,940
(E) Total unemployed (A + D)	6,187,886–6,570,005	6,501,839–7,280,190	6,926,765–8,029,085	7,367,501–8,919,940
(F) Labour force (LFS 2025)	85,600,000	85,600,000	85,600,000	85,600,000
(G) Headline unemployment rate	**7.2%–7.7%**	**7.6%–8.5%**	**8.1–9.4%**	**8.6%–10.4%**

Source: Authors' calculations; PBS LFS 2024–25.

3. Immediate Measures

The proposed measures here are in line with the fiscal framework of Iqbal, Nawaz, and Riaz (2026); however, the fiscal or budgetary liabilities need to be further deliberated on to determine net budget expansion or reallocation would be required for the implementation of these measures[3].

1. Textile and Manufacturing. With 15 million workers and the already more than 150 closed units before the crisis, the immediate response is to prevent a structural collapse. The concessional financing scheme for three years at the SBP policy rate, less by two points, would help the industry start again, retain its manpower, and meet its pending export obligations without going bankrupt. In Pakistan, the electricity charge for industries is currently the highest in the region at 11.5 cents per kWh against India's 7.2 cents and Bangladesh's 9-10 cents. A specific reduction in tariffs by 2-3 cents per kWh. This electricity tariff reform is to be managed by NEPRA. Reduction of the tariff of the manufacturing industry is via rationalization of circular debt subsidies, which are cost-neutral and IMF-approved.

2.To be methodologically transparent: the 30–40 percent figure is an assumption, not a directly estimated regression parameter. No Pakistan-specific study has econometrically estimated the share of formally displaced workers who transition to informal activity. Given the large share of informal workers (73 percent-84 percent), the reabsorption rate of 30 to 40 percent is plausible in the case of Pakistan. If we lower it to 15–20 percent (more conservative, assuming crisis conditions severely impair informal absorption), the unemployment rates rise by a comparable margin.

3.For instance, concessional credit at policy rate minus 200 bps may not have direct budget cost, but it might have credit allocation, risk-pricing, and monetary-policy implications. Electricity tariff reduction can be budget-neutral only if cross-subsidy rationalisation, savings from circular debt subsidies, or budgeted offsets are specified. BISP supplements and returnee support require explicit reallocations.

2. Construction: Reallocation of PSDP Funds to Labour-Intensive Projects. Within the already approved fourth quarter budget estimate of FY2026 of PSDP, allocate resources to those projects that have an employment elasticity ratio ≥0.55 and labour component (cost share) ≥40%. The Ministry of Planning shall issue a circular regarding the same within two weeks.

3. Transport and logistics: Transport worker income support is the logical reaction to the April 25 fuel price increase. The fuel increase of Rs 26.77 per litre (HSD: Rs 380.19; Petrol: Rs 393.35) destroys the profitability of about five million transporters. The two zero-budget interventions here are: (i) BISP top-up Rs 4,000-5,000 per month in transport workers registered under the National Socio-Economic Registry Program; (ii) 90-day waiver of the route permits and fitness renewal cost in the provinces.

4. Retail and remittances. Where households derive their 30-40 percent income from Gulf remittances, the local retail economy, which includes grocery stores, pharmacies, small restaurants, and motorcycle mechanic shops, is dependent on the timing of these remittance flows. Extension of the BISP for six months for all households whose members have returned from the Gulf would help both the remittance households and the service economy dependent on them for six months. The BISP programme is the entity to extend the cash transfer.

5. Farming and food processing industry. Should fertiliser availability be constrained in the upcoming Kharif planting season, then the employment implications for the agriculture sector in Pakistan are serious and long-term. The immediate measure required here is to ensure priority production of urea using whatever domestic gas.

Bottom line is that in all five sectors, the interventions that work best are not the ones that cost the most. The conversion of concessional loans, reforms in electricity tariffs, transparent pricing of fuels, and urea availability in the Kharif season are all inexpensive compared to what they protect. Avoiding the welfare catastrophe requires deliberate, sector-specific action in the next 30 to 60 days, before the recovery window narrows further.

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APPENDIX A: METHODOLOGY — DOMESTIC SECTOR LAYOFF CALCULATIONS

For the calculation of domestic layoff estimates, we have used a three-step method: First, we have taken the sectoral employment base from LFS 2024–25; Second, we applied the employment-output elasticity (EEO); and Third, we used the estimated sectoral output/demand decline under each scenario based on observed energy cost shocks, freight cost increases, and demand contraction. The formula applied is given as:

Layoffs (sector) = Employment Base × Output Decline (%) × Employment-Output Elasticity (EEO)

The aggregate EEO is derived from Jafri & Aziz (2021), who estimate the output elasticity of employment (OEE) for Pakistan at 2.5 over 1994–2019, implying EEO = 1/2.5 = 0.40. Sector-level calibrations are then adjusted directionally based on Ahmed & Samad (2019) and ILO sectoral benchmarks. Because both output decline and EEO carry ranges, layoff estimates are expressed as lower–upper bounds. Output decline percentages are drawn from industry-reported data: APTMA (2026) for textiles; PACRA (2025) for construction; FPCCI (2026) for transport; Shah & Islam (2026) for agriculture.

Table A1: Derivation of Calibrated EEO Coefficients by Sector

Sector	Empirical Basis	Directional Adjustment	EEO Range	Justification
Manufacturing/Textiles	Labour-intensive, export-driven; large informal segment	Above aggregate	0.45–0.85	ILO: labour-intensive garments among highest EEO; informal segment displaces quickly
Construction	Project-based hiring; high backward linkages	Well above aggregate	0.55–0.70	Ahmed & Samad (2019): highest elasticity in Pakistan; project cancellations translate directly to worker release
Transport/storage & communication	Predominantly self-employed; highly cost-sensitive	Near aggregate	0.35–0.50	High informality: shocks appear as income loss, not registered unemployment
Wholesale & Retail Trade	Informal; demand driven by remittance spending	Below aggregate	0.25–0.40	ILO: flexible hours/wage adjustment precedes job loss
Agriculture, Forestry and Fishing	Largely seasonal; subsistence fallback available	Well below aggregate	0.15–0.25	Ahmed & Samad (2019): lowest elasticity; shocks manifest as underemployment
Community/Social & Other	Subsistence fallback available	Well below aggregate	0.22–0.34	Ahmed & Samad (2019): lowest elasticity; shocks manifest as underemployment

Baseline Labour Market Parameters

Table A2: Baseline Labour Market Parameters (PBS LFS 2024–25)

Parameter	Value	Source
Total labour force	85.6 million persons	PBS LFS 2024-25
Employed persons	79.7 million persons	PBS LFS 2024-25
Unemployed persons (baseline)	5.9 million persons	PBS LFS 2024-25
Baseline unemployment rate	6.9 percent	PBS LFS 2024-25
Annual new labour force entrants	3.5 million per year	World Bank / PBS (2025)
Informal employment share	73–84 percent of the total employed	ILO (2023)
Youth unemployment (15–24)	12.6 percent	PBS LFS 2024-25
Female unemployment rate	9.7 percent	PBS LFS 2024-25

Source: Pakistan Bureau of Statistics, Labour Force Survey 2024–25; World Bank / PBS (2025); ILO (2023).

Table A3: Sector Employment Bases, Output Elasticities, and Layoff Calculation Inputs

Sector	Employment Base (Est.)	Output Decline S1	Output Decline S2	Output Decline S3	Output Decline S4	Emp.-Output Elasticity	S1- Early Resolution	S2- Moderate	S3- Prolonged	S4-Systemic
Manufacturing/Textiles	11.8 million	3–4%	6–8%	10–12%	13–15%	0.65–0.85	230,100–401,200	460,200–802,400	767,000–1,203,600	997,100–1,504,500
Construction	7.9 million	2–3%	5–7%	9–12%	14–18%	0.55–0.70	86,900–165,900	217,250–387,100	391,050–663,600	608,300–995,400
Transport/storage & communication	5.4 million	3–4%	5–7%	8–10%	12–15%	0.40–0.55	63,600–116,600	106,000–204,050	169,600–291,500	254,400–437,250
Wholesale & Retail Trade	12.8 million	1–2%	3–5%	5–8%	8–12%	0.30–0.45	38,400–115,200	115,200–288,000	192,000–460,800	307,200–691,200
Agriculture, Forestry and Fishing	26.4 million	0.5–1%	1–2%	2–3%	3–5%	0.20–0.30	26,400–79,200	52,800–158,400	105,600–237,600	158,400–396,000
Community/Social & Other	15.5 million	1–1.5%	1.5–2.5%	2.5–3.5%	3.5–5.5%	0.22–0.34	34,410–79,050	51,615–131,750	86,025–184,450	120,435–289,850
TOTAL(Rounded)	**79.7**	—	—	—	—	—	**479,810–957,150**	**1,003,065–1,971,700**	**1,711,275–3,041,550**	**2,445,835–4,314,200**

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