



# Reforming Minimum Wage Determination in Pakistan: From Wage Announcements to Wage Governance



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## EXECUTIVE SUMMARY

Pakistan's minimum wage determination has historically functioned more as a symbolic annual announcement than as a transparent, evidence-based labour market institution. In a period marked by persistent inflationary pressures, food and energy shocks, labour market informality, and rising household vulnerability, minimum wage policy must evolve into a credible macro-social policy instrument capable of protecting workers while remaining economically sustainable and administratively enforceable.

This policy brief proposes a shift from discretionary wage announcements toward a transparent, rules-based framework grounded in official evidence and aligned with International Labour Organization (ILO) principles. Rather than relying on a single indicator or arbitrary adjustment, the proposed approach combines purchasing-power protection, worker-family adequacy checks, labour-market affordability, partial productivity sharing, and provincial implementation realities. The proposed reform architecture rests on four linked elements: transparent evidence-based wage setting, bounded provincial calibration, credible enforcement and compliance mechanisms, and annual reporting on wage-setting evidence and implementation outcomes.

Applying this framework to official data from the Pakistan Bureau of Statistics (PBS), the Ministry of Planning, Development and Special Initiatives, and other government sources supports a recommended national minimum wage reference benchmark of Rs. 45,000 per month for FY2026–27. This benchmark represents the administratively rounded policy application of the hybrid methodology and reflects purchasing-power protection, worker and household adequacy, partial productivity sharing, labour-market affordability, and implementation feasibility. The supporting sensitivity analysis is reported in the integrated annex.

The framework further recommends a “national reference benchmark with provincial calibration” model. Under this approach, the Federal Government would publish a transparent

methodology and national reference benchmark. At the same time, provinces would retain constitutional authority to notify wage rates at or above that benchmark, based on local labour-market evidence, affordability conditions, and enforcement capacity. Indicative provincial calibrations suggest Rs. 45,000 for Punjab and KP, Rs. 46,000 for Sindh, and Rs. 45,500 for Balochistan, subject to provincial affordability, sectoral, and compliance reviews. The central contribution of this policy brief is therefore institutional rather than merely numerical. It proposes a minimum wage governance system under which the national benchmark is derived transparently, provincial adjustment is evidence-based and bounded, compliance is progressively strengthened through phased enforcement, and annual reporting holds institutions accountable for whether workers actually receive the notified wage.

*The integrated annex provides the estimation formulae, provincial calibration indicators, sensitivity analysis, and core implementation-monitoring indicators supporting the proposed framework.*

### Evidence Dashboard for Minimum Wage Setting

Policy Benchmark and Adjustment	Price and Purchasing-Power Pressures	Wage Adequacy and Compliance Diagnostics	Labour-Market and Welfare Context
<b>Current notified wage</b> Rs. 40,000/month Legal base for adjustment	<b>Period-average CPI</b> 6.19% Stable inflation anchor	<b>LFS mean wage</b> Rs. 39,042 Affordability diagnostic	<b>Poverty headcount</b> 28.9% Household vulnerability
<b>Recommended national reference benchmark</b> Rs. 45,000/month FY2026-27 policy benchmark	<b>CPI inflation (April 2026)</b> 10.9% YoY Purchasing-power pressure	<b>LFS median wage</b> Rs. 33,600 Typical worker diagnostic	<b>Poverty line</b> Rs. 8,484/adult equivalent Basic-needs lower bound
<b>Increase over current wage</b> Rs. 5,000/month; 12.5% Proposed adjustment Purchasing-power protection with phased implementation	<b>SPI lowest quintile (April 2026)</b> 10.1% YoY Low-income price stress	<b>Urban/rural mean wage</b> Rs. 44,171/Rs. 35,508 Rural-urban enforcement pressure	<b>Informal/formal employment</b> 80.8% / 19.2% Documentation challenge
<b>Provincial application</b> Bounded calibration No province below the reference benchmark in the first year	<b>WPI inflation (April 2026)</b> 13.6% YoY Upstream/shock pressure	<b>Wage distribution</b> 57.1% up to Rs. 35,000 Compliance priority	<b>Overall / youth unemployment</b> 7.1% / 12.8% Labour-market vulnerability
<b>Real GDP growth (FY2025-26)</b> 3.70% Economic-capacity check	<b>Shock buffer</b> Bounded 0-1 ppt Used under elevated price risk	<b>Rs. 45,000 benchmark relative to wages (LFS)</b> 115.3% / 133.9% Mean / median; phased-compliance signal	<b>Household food insecurity</b> 24.35% in 2024-25 Up from 15.92% in 2018-19 Food-access vulnerability

**Sources:** PBS Monthly Review on Price Indices, April 2026; PBS Labour Force Survey 2024-25; Ministry of Planning, Development and Special Initiatives, poverty estimates; PBS National Accounts.

**Notes:** Overall/youth unemployment are reported under the PBS current labour-force framework; formal/informal employment shares are reported under the 21st ICLS framework. Benchmark-to-wage ratios are compliance diagnostics, not grounds for reducing the recommended benchmark.

## 1. Why Pakistan Needs a Credible Minimum Wage System

Pakistan's minimum wage setting process has long suffered from four major weaknesses: discretionary announcements, weak enforcement, poor provincial coordination, and limited analytical transparency. As a result, announced minimum wages often fail to translate into actual wages paid, particularly in labour-intensive and informal sectors.

Minimum wage policy today has implications extending far beyond labour departments. It directly influences household purchasing power, poverty vulnerability, labour informality, domestic demand, industrial costs, and social stability. In the context of persistent food inflation, external-price shocks, and declining real wages, the credibility of wage-setting institutions has become increasingly important. The challenge, therefore, is not merely determining "what number to announce," but rather establishing "what rule can credibly protect workers, remain affordable for firms, and be implemented by provinces." Labour-market vulnerability is further reflected in elevated youth and educated unemployment, reinforcing the need for wage-governance reform to be complemented by employment creation and productivity-enhancing policies.

Following the 18th Constitutional Amendment, the determination and enforcement of minimum wages largely fall within provincial jurisdiction. Consequently, the Federal Government's role should evolve toward providing a transparent evidence-based benchmark and methodological guidance, while allowing provinces to calibrate and notify wages according to their labour-market conditions and enforcement realities.

In Pakistan's current economic context, the minimum wage policy has both labour-market and macro-social implications. Where compliance is achieved, protection of low-paid workers' real earnings can support household consumption, reduce working poverty, and strengthen resilience against food and energy shocks, particularly because lower-income households devote a larger share of income to essential consumption. Over time, improved wage security may also support nutrition, worker retention, and labour productivity. However, where wage increases are not aligned with enterprise capacity or are not effectively enforced, the adjustment may instead result in informality, under-reporting of wages, reduced hiring, or substitution away from low-skilled labour. Minimum wage governance must therefore balance purchasing-power protection with affordability, compliance, and productivity-enhancing measures.

The objective is therefore to transition:



From discretion to rules



From symbolic announcements to enforceable compliance



From isolated labour notifications to integrated macro-social policy

Accordingly, the purpose of this brief is not to advocate wage adjustment in isolation, but to propose an institutional framework for minimum wage governance. The wage benchmark estimated in this brief is one application of that framework, which is built on transparent evidence, bounded provincial calibration, credible enforcement, and annual accountability for implementation outcomes.

## 2. Conceptual Framework for Evidence-Based Wage Setting

The proposed framework follows the ILO principle that minimum wage setting must balance worker and family needs with economic and institutional realities. No single indicator is sufficient on its own. CPI-only approaches protect purchasing power but ignore affordability and productivity; productivity-only approaches risk excluding vulnerable workers; and poverty-line-only approaches may be socially relevant but economically difficult to sustain as a direct wage-setting rule.

The proposed hybrid framework, therefore, combines five complementary pillars:



- i. **Purchasing-Power Protection:** Average CPI inflation serves as the primary indexation anchor to protect real wages, while SPI and WPI indicators capture low-income price stress and upstream cost pressures.



- ii. **Worker and Family Adequacy:** The framework compares proposed wages with poverty thresholds, household size, Household Integrated Economic Survey (HIES) evidence, transport and utility costs, and basic-needs considerations.



- iii. **Labour-Market Affordability:** Labour Force Survey (LFS) mean and median wages are used as affordability and compliance-risk diagnostics. They are not treated as normative ceilings because observed wages in informal labour markets may reflect weak bargaining power, underemployment, non-compliance, and low-productivity employment structures.



- iv. **Partial Productivity Sharing:** Economic growth and productivity indicators are incorporated as capacity checks rather than dominant determinants. This allows workers to share partially in economic gains while avoiding unsustainable wage escalation.



- v. **Enforcement and Institutional Feasibility:** Provincial enforcement capacity, labour-market informality, sectoral conditions, and administrative feasibility are incorporated to assess whether the notified wage can realistically become an effective wage.

A credible wage-setting framework must also distinguish between the normative wage floor, the effective wage floor, and the transition path between them. The normative floor reflects what workers should receive based on inflation protection, adequacy, vulnerability, and purchasing-power preservation. The effective floor reflects what can realistically be enforced under prevailing labour-market conditions. The transition path is the institutional process thro-

ugh which a notified wage progressively becomes the wage actually received by workers. This distinction is essential for Pakistan because any estimated benchmark must be treated as a policy benchmark whose credibility depends on phased enforcement, digital payroll documentation, procurement-linked compliance, and provincial implementation capacity.

The framework, therefore, produces an evidence-based wage range rather than an arbitrary single figure. It emphasizes calibrated adjustment, affordability, and enforceability rather than automatic escalation.

**Figure 1: Minimum Wage-Setting Framework for Pakistan**

Worker and Family Needs	Evidence-Based Wage Range	Economic and Institutional Factors
Cost of living: CPI, SPI, WPI, food, transport, rent, utilities  Poverty line, household size, earners per household, nutrition/basic-needs basket	CPI floor; household-needs adjustment; partial productivity share; shock buffer  Result: recommended wage range, not a single arbitrary number	Average/median wages, productivity, GDP growth, SME affordability, employment and compliance  Competitiveness, sectoral labour intensity, fiscal/procurement impact, provincial capacity
<b>Final Wage Decision Rule</b>		
Final notified wage = national evidence-based benchmark + bounded provincial adjustment, subject to affordability, enforcement readiness, compliance planning, and provincial notification Round to the nearest Rs. 500 or Rs. 1,000 for administrative simplicity Institutional outputs: annual evidence report, provincial notification, compliance plan, and annual implementation review.		
<b>Option 1: Uniform Benchmark</b> Same wage benchmark for FY2026-27; simple and clear, but less sensitive to local conditions.	<b>Option 2: National Reference Benchmark &amp; Provincial Top-Ups</b> Recommended: common national reference benchmark, provinces may notify higher rates using local evidence.	<b>Option 3: Province-Specific Floors</b> Medium-term option after provincial wage boards publish annual evidence reports.

Source: Author's adaptation of ILO minimum wage-setting principles for Pakistan's data context.

### 3. Methodology for Estimating the National Wage Benchmark

The proposed methodology is designed as an annual wage-governance mechanism rather than a one-time wage estimation exercise. It provides a repeatable process through which the national benchmark, provincial adjustments, and implementation requirements may be reviewed and updated using official evidence. The process begins with the existing notified wage floor and then applies purchasing-power protection, household adequacy checks, economic-capacity filters, shock adjustments, affordability diagnostics, and implementation constraints. Its purpose is to produce a technically defensible wage range that balances worker needs with affordability, compliance, and provincial implementation realities.

- ▶ **Step 1: Base Wage Anchor:** The existing notified minimum wage of approximately Rs. 40,000 per month serves as the starting benchmark for the calculation. This provides continuity with the current wage-setting system and avoids an abrupt departure from the legally recognised wage floor.
- ▶ **Step 2: Purchasing-Power Adjustment:** Average CPI inflation is applied as the core annual indexation anchor to protect the real value of wages. CPI is preferred as the primary adjustment factor because it captures the broad movement in consumer prices. However, additional reference is made to SPI and WPI trends. SPI helps capture inflation stress faced by low-income households, particularly for essential food and daily-use items, while WPI provides information on upstream cost pressures faced by firms. This ensures that the wage adjustment reflects both household purchasing-power pressures and production-side cost conditions.

- ▶ **Step 3: Household Adequacy Assessment:** The CPI-adjusted wage is assessed against poverty-line requirements, household size, consumption evidence, transport and utility costs, and basic-needs considerations. This step ensures that the proposed wage benchmark is not limited to inflation protection alone, but is also tested against minimum household adequacy. The objective is to determine whether the wage floor can reasonably support basic consumption needs without ignoring the fiscal, economic, and labour-market constraints within which wage-setting operates.
- ▶ **Step 4: Economic Capacity and Affordability Check:** The proposed wage range is then tested against LFS mean and median wages, GDP growth, sectoral affordability, SME viability, labour-market conditions, and employment realities. This step is essential because a wage floor that rises far above prevailing labour-market conditions may weaken compliance, encourage informality, reduce hiring incentives, or place disproportionate pressure on smaller firms. The affordability check does not mean that minimum wages should mechanically follow existing low wages; rather, it ensures that the recommended floor remains credible, enforceable, and consistent with the economy's capacity to absorb wage increases.
- ▶ **Step 5: Shock and Enforcement Filters:** A moderate-risk buffer is incorporated to address external price volatility, exchange-rate pressures, energy-price shocks or geopolitical uncertainty that may erode purchasing power. However, the adjustment is constrained by affordability and enforcement considerations to avoid setting a wage floor that is difficult to implement in practice. Enforcement capacity is therefore treated as a core credibility filter. A wage floor that is technically justified but weakly enforced may fail to protect workers and may instead deepen informality.
- ▶ **Step 6: Provincial Implementation and Adjustment:** Because minimum wage notification and enforcement are primarily provincial responsibilities, the national wage benchmark should be treated as a reference floor rather than a uniform mechanical prescription. Provinces may apply bounded top-up adjustments using available province-specific cost-of-living evidence and transparent official proxy indicators, together with labour-market conditions, sectoral composition, rural-urban structure, enforcement capacity, and SME affordability. This allows a common national methodology while preserving provincial flexibility in implementation. Provinces with higher living costs, stronger labour-market capacity, or better enforcement systems may justify higher notified wages, while all provinces should maintain the agreed national benchmark as the minimum reference point.

The proposed policy formula may therefore be expressed as:

**Recommended wage range**

= CPI-protected wage + household needs adjustment + partial productivity adjustment + shock buffer

**Subject to** affordability, compliance, sectoral capacity, and provincial implementation checks.

For technical transparency, the detailed notation and estimation formula are provided in the annex. The formula-based estimate supports a rounded national policy benchmark of Rs. 45,000 per month. For implementation, this benchmark should serve as the national reference floor, while provinces may apply bounded top-up adjustments where justified by provincial cost-of-living conditions, labour-market structure, SME affordability, and enforcement capacity.

The provincial wage formula may be expressed as:

**Provincial notified wage** = National benchmark + provincial cost-of-living adjustment + provincial labour-market adjustment + sectoral/top-up adjustment

**Subject to:** provincial affordability, SME viability, compliance capacity, and enforcement readiness.

The provincial adjustment should be bounded and should operate only as a top-up over the national reference floor; no provincial notified wage should fall below the national benchmark.

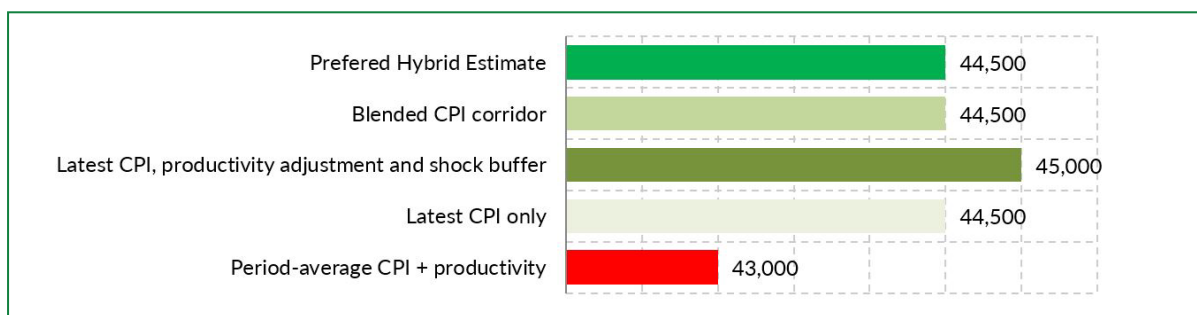
The provincial adjustment factor may reflect available official evidence or transparent proxy indicators on cost-of-living pressure, household vulnerability, formal-sector absorptive capacity, enforcement readiness, and geographic or transport dispersion. LFS wage indicators remain affordability and compliance diagnostics rather than automatic wage-setting coefficients. This maintains a consistent evidence-based methodology while allowing provinces to respond to local conditions and implementation capacity.

#### 4. National Minimum Wage Benchmark for FY2026-27

Applying the proposed wage-governance methodology to official evidence for FY2026-27 produces a national minimum wage range of approximately Rs. 43,000–45,000 per month (Figure 2). The preferred hybrid estimate is Rs. 44,500, while a rounded policy benchmark of Rs. 45,000 provides an administratively simple national reference floor under conditions of market fragility and external uncertainty. This estimate should be interpreted as the current-year application of a repeatable evidence-based framework rather than as a stand-alone wage announcement.

The proposed benchmark reflects protection against inflationary erosion, low-income price pressures, partial productivity sharing, labour-market affordability, and institutional feasibility. The hybrid approach is preferred because it avoids excessive dependence on any single indicator. CPI protects real wages, affordability checks reduce compliance risks, productivity indicators provide economic realism, and worker-family benchmarks strengthen social adequacy. The objective is therefore not to maximize the notified wage, but to establish a credible wage floor that workers can realistically receive and provinces can realistically enforce.

**Figure 2: Formula-Driven Minimum Wage Estimates under Direct Adjustment Methods<sup>1</sup>**



Source: Author's estimates

Detailed sensitivity analysis, including alternative inflation, productivity, and shock assumptions, is reported in Annex Table A5 to assess the robustness of the preferred hybrid estimate and the rounded national reference benchmark.

1. Poverty-line/CBN, household-budget, and nutrition/basic-needs estimates are used as adequacy cross-checks rather than direct wage-setting estimates. They are therefore not shown as standalone wage recommendations in Figure 2.

## 5. Provincial Calibration: National Reference Benchmark with Evidence-Based Adjustment

Given the constitutional position after the 18th Amendment, the proposed framework recommends a national reference benchmark with provincial calibration. The Federal Government may publish the national benchmark, methodology, and annual evidence report, while provinces retain authority to notify wages according to local labour-market conditions, affordability, and enforcement capacity. This approach links a common national reference benchmark with bounded, evidence-based provincial adjustment, while making provinces responsible for notification, implementation, enforcement readiness, and annual accountability for compliance outcomes.

Provincial calibration should not be based mechanically on Labour Force Survey (LFS) wage ratios. Selected LFS indicators, including mean wages, median wages, rural wages, and urban wages, are used as affordability and compliance diagnostics. They help assess whether a proposed wage is likely to create enforcement pressure in a province, but they should not be treated as normative ceilings or automatic wage-setting coefficients. In highly informal labour markets, observed wages may reflect weak bargaining power, underemployment, non-compliance, or sectoral composition rather than an appropriate wage standard.

**Table 1: Selected LFS 2024-25 Wage Benchmarks by Province and Region (Rs.)**

Province/area	Mean wage	Median wage	Rural mean	Urban mean
Pakistan	39,042	33,600	35,508	44,171
Punjab	38,189	32,000	34,712	43,246
Sindh	39,801	35,000	32,075	45,654
KP	39,974	33,600	39,268	43,826
Balochistan	41,780	35,000	40,405	44,179

Source: PBS Labour Force Survey 2024-25. Values are monthly wages in rupees. Mean, median, rural, and urban wages are used as affordability and compliance diagnostics, not as mechanical provincial wage-setting coefficients.

Since provincial minimum wage calibration should not be based only on observed wages, Table 2 reports additional province-specific indicators used to assess adjustment needs and implementation capacity. These indicators capture household vulnerability, formal-sector absorptive capacity, informality, rural-urban structure, and enforcement or geographic difficulty. They are used to guide bounded provincial adjustment around the national benchmark, while LFS wage indicators remain affordability and compliance diagnostics.

**Table 2: Provincial Indicators for Minimum Wage Calibration**

Province	Avg. household size	Lowest consumption quintile share	Formal employment share	Informal employment share	Urban population share	Rural population share	Calibration implication
Punjab	5.77	16.84%	17.4%	82.6%	40.70%	59.30%	Strong national-floor case; large informal base requires phased compliance.
Sindh	5.70	25.77%	23.0%	77.0%	53.73%	46.27%	Higher urban cost and formal-sector concentration may justify limited upward adjustment.
KP	6.83	19.33%	20.1%	79.9%	15.01%	84.99%	High rural share and enforcement difficulty support national floor with phased compliance.
Balochistan	7.08	27.77%	19.9%	80.1%	30.96%	69.04%	High vulnerability and geographic dispersion justify caution and limited adjustment.

Source: PBS Household Integrated Economic Survey 2024-25 for household-size indicators; PBS Labour Force Survey 2024-25, Table 4.17, 21st ICLS framework, for formal/informal employment shares; Census 2023/PBS for rural-urban population distribution

The indicators suggest that provincial calibration should remain cautious and bounded. Sindh shows the strongest case for a limited upward adjustment because of its higher urbanization and relatively stronger formal-sector concentration. Punjab supports the adoption of the common national benchmark, but its large informal base requires phased enforcement. KP's high rural share signals substantial enforcement difficulty, while Balochistan's vulnerability and geographic dispersion justify some recognition of higher implementation and transport costs, but not a mechanically high wage premium unless enforcement readiness improves.

A more defensible provincial calibration, therefore, requires additional indicators beyond observed wages. Provincial minimum wage adjustment should consider cost-of-living pressure, household vulnerability, formal-sector absorptive capacity, enforcement readiness, rural-urban structure, geographic and transport dispersion, and provincial implementation capacity. This is important because minimum wages are not determined solely by current wages; they may also reflect living costs, transport costs, labour scarcity, regional price levels, enforcement capacity, and the structure of formal and informal employment.

The proposed approach uses the national benchmark as the common floor and allows only a bounded provincial adjustment where multiple indicators justify it. No province should fall below the national benchmark. A limited upward adjustment may be considered where cost-of-living pressure, vulnerability, formal-sector capacity, and enforcement readiness jointly support it. This prevents mechanically lower provincial wage estimates while also avoiding excessive provincial differentiation that may be difficult to defend or enforce.

**Table 3: Indicative Provincial Minimum Wage Benchmarks under a Common National Reference Benchmark<sup>2</sup>**

Province	Indicative benchmark (Rs./month)	Interpretation
Punjab	45,000	Common national floor; large informal base requires phased compliance.
Sindh	46,000	Limited upward adjustment where urban cost pressure and formal-sector capacity support it.
KP	45,000	Common national floor; mixed labour-market structure and enforcement constraints.
Balochistan	45,500	Small adjustment for geographic/transport dispersion, but capped due to enforcement constraints.

*Note: These benchmarks are indicative policy estimates rather than mandatory federal rates. Provinces may finalize notifications after affordability, sectoral, and compliance reviews.*

Over time, province-specific wage systems should be strengthened through annual evidence reports, improved labour-market data, formal-sector mapping, direct administrative data on enforcement readiness, and provincial compliance assessments. This would allow future adjustments to move from cautious bounded calibration toward a more mature province-specific wage governance system.

<sup>2</sup>The provincial differences are limited and reflect differences in local conditions rather than separate wage-setting systems. Punjab and KP remain at the national reference benchmark because affordability and implementation challenges favour a cautious first-year approach. Sindh receives a modest upward adjustment due to relatively higher urban cost pressures and a stronger concentration of formal employment. Balochistan receives a smaller adjustment to recognize vulnerability and higher geographic and transport-related difficulties, while remaining cautious because enforcement capacity is limited. These estimates are indicative policy benchmarks; final notifications remain subject to provincial review of affordability, sectoral conditions and compliance capacity.

## 6. Sectoral, SME and Informal Labour-Market Considerations

The impact of a minimum wage adjustment is unlikely to be uniform across sectors, firm types or categories of workers. Labour-intensive sectors, small and medium enterprises (SMEs), contract-based activities and highly informal employment arrangements may face greater adjustment pressures than larger firms with documented payroll systems and stronger productivity bases. Particular implementation attention is required for construction, sanitation, retail trade, security services, small manufacturing, contract labour, agriculture, domestic work, home-based work and informal urban services.

The principal adjustment risks arise through four channels. First, firms operating with thin margins may respond to higher labour costs by shifting workers into undocumented or informal employment arrangements. Second, SMEs may face compliance stress because of high energy costs, limited access to formal finance, weak payroll systems, tax-registration concerns and low productivity. Third, labour-intensive firms may reduce new hiring, increase reliance on casual or family labour, or substitute away from documented low-skilled employment where feasible. Fourth, weak monitoring may encourage compliance evasion through under-reporting of wages, subcontracting or partial cash payments. These risks do not justify withholding wage protection; rather, they reinforce the need for calibrated wage adjustments, credible enforcement and practical transition support.

For SMEs, the transition to compliance should be supported through simplified employer registration, low-cost digital payroll and wage-record systems, advisory support for compliance, and access to productivity-enhancing finance or technology upgrading programmes. Any fiscal incentive, including time-bound tax credits or cost-sharing for payroll digitalization, should be targeted only to newly compliant and verifiably registered firms, subject to fiscal assessment and safeguards against abuse. The objective should not be to subsidize persistent non-compliance, but to reduce the initial cost of formalizing wage payments and meeting the notified standard.

Rural and informal labour markets require a differentiated implementation strategy because workers in agriculture, seasonal employment, domestic work and home-based production are frequently outside documented employer-employee relationships. In these segments, immediate enforcement through conventional inspection alone may be ineffective. Progress will require worker and employer registration, simplified wage documentation, linkages with social protection systems, accessible grievance mechanisms, sector-specific compliance campaigns and gradual extension of digital payments where feasible. The wage standard should remain common, but the route through which compliance is expanded must reflect differences in formality, seasonality, location and administrative reach.

Export-oriented sectors, particularly textiles and other labour-intensive industries, require predictable wage-setting and complementary productivity measures to preserve competitiveness while improving labour standards. The proposed framework therefore combines a transparent wage benchmark with phased compliance, formalization support, skills upgrading and productivity-enhancing measures. This approach seeks to protect workers without creating avoidable incentives for informality, employment displacement or compliance evasion.

## 7. Enforcement Architecture and Compliance

Building on the enforcement challenge identified earlier, the minimum wage framework must include practical compliance mechanisms that convert notified wages into wages actually paid. Weak payroll documentation, cash-based payments, subcontracting, informal employment relationships, and limited inspection coverage continue to undermine compliance, particularly

in agriculture, construction, domestic work, small enterprises, and other labour-intensive sectors.

A credible wage system, therefore, requires institutional reforms beyond annual notifications, with priority given to digital wage payments, payroll documentation, integration with EOBI and provincial social security systems, procurement-linked compliance, risk-based labour inspections, grievance redress, third-party verification, and annual provincial compliance reporting. Key implementation priorities are provided in Table 4.

**Table 4: Key Implementation Priorities for Minimum Wage Compliance**

Compliance Systems	Enforcement Tools	Accountability Mechanisms
Digital wage payments	Public procurement compliance clauses	Digital grievance mechanisms
Payroll documentation	Risk-based labour inspections	Third-party compliance verification
Integration with EOBI and tax systems	Sectoral compliance drives	Reporting and follow-up systems

Enforcement should follow a phased implementation path. In the first phase, compliance should be prioritized in sectors where employers are identifiable, and wage payments can be documented, including public procurement contracts, export-oriented firms, large registered establishments, security services, sanitation contracts, and other formal wage-employment sectors. In the second phase, enforcement should extend to SMEs, retail, urban services, construction, and contract labour through simplified registration, payroll documentation, and compliance incentives. In the third phase, gradual coverage should be expanded to agriculture, domestic work, home-based work, and other highly informal segments through worker registration, social protection linkages, digital wage records, and targeted compliance drives.

The political economy of enforcement also needs to be recognized. Non-compliance is not only a result of weak administrative capacity; it also reflects employer resistance, subcontracting practices, cash-based wage payments, fear of formal registration, and the weak bargaining power of workers. SMEs may evade compliance because of thin margins and concerns about exposure to tax, social security, and labour regulation, while industrial employers may seek predictable adjustment rules to manage competitiveness pressures. Provincial labour departments may under-enforce because of limited inspection capacity, political pressure, and weak follow-up systems. The enforcement strategy must therefore combine credible penalties with practical compliance incentives, consultation with worker and employer representatives, simplified registration, digital payroll support, procurement-linked compliance, social security integration, and transparent reporting of compliance outcomes.

To institutionalize accountability, each province should publish an annual minimum wage implementation report covering notified rates, establishments inspected, wage-compliance findings, complaints received and resolved, digital wage-payment coverage, public procurement compliance, and sectoral expansion of enforcement. These reports should feed into the following year’s evidence-based review of the national benchmark and provincial calibration, thereby completing the cycle from wage setting to notification, compliance, reporting, and recalibration.

The proposed framework has direct administrative and potential fiscal implications. Administrative costs will arise from strengthening inspection systems, establishing digital grievance and compliance-reporting mechanisms, supporting payroll documentation, and publishing annual provincial evidence reports. Fiscal exposure may arise where public contracts, outsourced services, public-sector entities, or government-supported programmes

employ workers below the notified wage benchmark and require contractual adjustment. A quantified fiscal-impact assessment should therefore accompany final notification, using federal and provincial data on outsourced workers, wage-linked procurement contracts, labour-intensive public projects, and the administrative cost of compliance systems. Financing options may include reprioritization within labour administration budgets, incorporation of wage compliance costs in future procurement bids, and targeted digitalization support for priority sectors.

## **8. Policy Recommendations**

The proposed reform should be implemented as a minimum wage governance framework rather than as a one-time wage adjustment. The immediate policy objective is to establish a transparent national reference benchmark, enable bounded provincial calibration and progressively strengthen compliance with notified wages.

### **8.1 Immediate Actions**

- i. Adopt the evidence-based national reference benchmark for FY2026–27. The rounded benchmark of Rs. 45,000 per month should be presented as the current-year application of the proposed annual wage-governance framework.
- ii. Apply the national reference benchmark with bounded provincial calibration. Provinces should retain authority to notify wages, while any upward adjustment should be transparent, evidence-based, and supported by affordability and enforcement assessments. No provincial benchmark should fall below the national reference benchmark under the proposed first-year framework.
- iii. Publish the methodology with wage notifications. Federal and provincial wage-review processes should disclose the evidence, assumptions, and implementation considerations supporting notified rates.
- iv. Introduce enforceable compliance in priority public and formal-sector employment. Relevant public procurement and outsourced service contracts should include minimum wage compliance clauses supported by wage documentation and verification arrangements.
- v. Undertake a fiscal and administrative implications assessment. Before operational implementation, the implications for outsourced public services, labour-intensive public contracts, inspection systems, digital compliance mechanisms, and provincial reporting should be assessed.

### **8.2 Medium-Term Implementation Reforms**

- i. Institutionalize annual evidence and implementation reporting. Annual reviews should cover price pressures, labour-market indicators, provincial calibration evidence, notified rates, compliance findings, and implementation constraints.
- ii. Implement phased compliance mechanisms. Enforcement should begin with identifiable and documentable employment relationships, including public contractors, outsourced services, export-oriented firms, and large registered establishments, before extending progressively to SMEs and urban services.
- iii. Strengthen wage documentation and enforcement systems. Provinces should expand digital wage documentation, risk-based inspections, grievance-redress mechanisms, procurement-linked compliance, and linkages with EOBI and provincial social security systems.

- iv. Support SME transition to documented compliance. Simplified registration, low-cost payroll tools, compliance guidance, and productivity-enhancing support should be provided to facilitate formal wage payment. Any fiscal incentive should be targeted, time-bound, verifiable, and subject to fiscal assessment.

### 8.3 Longer-Term Institutional Reforms

- i. Develop stronger provincial wage-governance data systems. Provincial calibration should progressively rely on direct evidence on local cost pressures, payroll documentation, inspection outcomes, social security coverage, and compliance performance.
- ii. Extend compliance to rural and highly informal workers. Agriculture, seasonal work, domestic work, and home-based production require tailored mechanisms, including simplified wage records, registration, social protection linkages, grievance access, and gradual expansion of documented payments.
- iii. Evaluate labour-market effects periodically. Future wage reviews should assess compliance, employment, informality, wage under-reporting, productivity, and sectoral competitiveness effects so that the framework remains responsive to evidence.

The recommended approach, therefore, combines a transparent national reference benchmark with provincial responsibility, phased enforcement, and annual accountability. Its success should ultimately be assessed not only by the wage notified, but by the extent to which workers actually receive it.

## 9. Conclusion

Pakistan does not merely need a higher minimum wage. Pakistan needs a credible minimum wage system. The central contribution of this policy brief is therefore institutional rather than merely numerical. It proposes a transparent and repeatable framework through which national wage benchmarks are derived from official evidence, provincial adjustments are justified through local conditions and implementation capacity, enforcement is phased according to compliance feasibility, and annual reporting holds institutions accountable for outcomes. A key implementation limitation remains the effective monitoring and enforcement of minimum wages in agriculture, where employment is often seasonal, geographically dispersed, and informal, requiring gradual development of tailored compliance mechanisms rather than immediate reliance on conventional inspection systems. The estimated benchmark for FY2026-27 provides an immediate application of this framework, but the longer-term reform objective is to ensure that wage notifications progressively become wages actually received by workers.

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## Annex: Technical Basis, Provincial Calibration and Implementation Indicators

This annex provides the minimum technical detail required to support the proposed minimum wage governance framework. It specifies the national benchmark formula, adequacy and affordability checks, provincial calibration rule, sensitivity scenarios, and core implementation indicators. The final notified wage remains subject to provincial authority, affordability review, compliance capacity, and administrative feasibility. Inflation and growth variables are expressed in decimal form in the calculation; for example, 10 percent is entered as 0.10.

**Table A1: Core Formulae for the National Minimum Wage Benchmark**

Component	Formula	Purpose / notation
Core hybrid wage benchmark	$MW_h = MW_b \times (1 + \pi_{adj} + \alpha g + s)$	Estimates the formula-based wage benchmark before rounding. $MW_h$ = hybrid benchmark; $MW_b$ = current notified wage floor, approximately Rs. 40,000 per month; $\pi_{adj}$ = weighted inflation adjustment; $\alpha g$ = partial productivity sharing; $s$ = bounded shock buffer.
Adjusted inflation factor	$\pi_{adj} = 0.50\pi_{avg} + 0.30\pi_{latest} + 0.20\pi_{stress}$	Combines the annual CPI anchor, current inflation momentum and stress indicators.
Stress inflation indicator	$\pi_{stress} = \frac{\pi_{SPI} + \pi_{WPI}}{2}$	Captures low-income household price stress through SPI and upstream cost pressure through WPI.
Estimated full-year CPI, where required	$\pi_{FY} = \frac{10\pi_{10m} + \pi_{May}^e + \pi_{Jun}^e}{12}$	Used where May and June inflation expectations are available. $\pi_{10m}$ denotes July-April period-average CPI; $\pi_{May}^e$ and $\pi_{Jun}^e$ are expected CPI inflation for May and June.
Productivity adjustment	$ProdAdj = \alpha g, 0.30 \leq \alpha \leq 0.40$	Allows partial sharing of growth or productivity gains without imposing full pass-through on firms.
Shock buffer	$s = 0 - 1 \text{ percentage point}$	Applied only where fuel prices, exchange-rate pressures, SPI/WPI stress or geopolitical risks threaten purchasing power. It is bounded to avoid unsustainable escalation.
Final national reference benchmark	$MW_{rec} = Round(MW_h)$	The formula-based estimate is rounded to the nearest Rs. 500 or Rs. 1,000 for administrative simplicity. For FY2026-27, the recommended rounded national reference benchmark is Rs. 45,000 per month.

**Note:** Real GDP growth is used as a transparent economy-wide capacity proxy because timely and sufficiently disaggregated labour-productivity estimates are limited. The productivity adjustment is therefore partial rather than automatic or full.

**Table A2: Adequacy and Affordability Cross-Checks**

Component	Formula	Purpose / notation
Poverty-line / CBN adequacy check	$MW_{CBN} = \frac{PL \times AEHH}{E}$	Tests whether the recommended wage is consistent with basic-needs adequacy. $PL$ = poverty line; $AEHH$ = adult-equivalent household size; $E$ = number of earners.
Household budget check	$MW_{HH} = \frac{HHB}{E}$	Cross-checks the wage against a basic monthly household budget. $HHB$ = basic household budget; $E$ = number of earners.
Nutrition/basic-needs check	$MW_{nutrition} = \frac{FB \times AE \times (1 + NFM)}{E}$	Provides a needs-based benchmark. $FB$ = food basket; $AE$ = adult equivalents; $NFM$ = non-food multiplier; $E$ = number of earners.
Compliance risk flag	$CR = \frac{MW_{rec}}{Median_{LFS}}$	Tests how far the recommended wage is from the typical observed wage. A high ratio signals greater enforcement risk.
Affordability check	$AR = \frac{MW_{rec}}{Mean_{LFS}}$	Tests affordability against the mean wage from the Labour Force Survey. This is a diagnostic, not a wage-setting ceiling.

**Note:** Poverty, household-budget and nutrition estimates are adequacy cross-checks, not automatic wage-setting rules. LFS mean, median, rural and urban wage indicators are affordability and compliance-risk diagnostics; they are not normative ceilings and do not mechanically determine wage notifications.

**Table A3: Provincial Calibration Framework**

Component	Formula	Purpose / notation
Provincial Adjustment Index	$PAI_p = 0.30COL_p + 0.20VUL_p + 0.20FSC_p + 0.20ENF_p + 0.10GEO_p + 0.30R_{median,p} + 0.20R_{urban,p}$ $R_{mean,p} = Mean_p / Mean_N$ $R_{median,p} = Median_p / Median_N$ $R_{urban,p} = UrbanMean_p / UrbanMean_N$	Provides a transparent multi-indicator basis for provincial calibration: cost-of-living pressure, household vulnerability, formal-sector absorptive capacity, enforcement readiness and geographic/transport dispersion.
Bounded provincial adjustment	$A_p = \min[A_{max}, \max(0, \theta(PAI_p - PAI))]$	Allows a limited upward adjustment only where multiple provincial indicators support it. For the first-year framework, the upward adjustment is capped at $A_{max} = 0.03$ .
Provincial benchmark and lower-bound rule	$PMW_p = Round[MW_{national} \times (1 + A_p)]; PMW_p \geq MW_{national}$	Produces an administratively rounded provincial policy benchmark while ensuring that no province falls below the national reference benchmark.

**Note:** LFS wage ratios are not automatic provincial wage-setting coefficients. Provincial mean, median, rural and urban wages remain diagnostics for affordability and compliance risk. Where direct cost-of-living or enforcement-readiness data are unavailable, official proxy indicators should be used transparently and progressively replaced by direct administrative evidence.

**Table A4: Justification of Weights and Parameters**

Component	Weight / treatment	Justification
Period-average CPI ( $\pi_{avg}$ )	50 percent of adjusted inflation factor	Main annual indexation anchor; provides stability and avoids overreacting to one month of inflation.
Latest CPI ( $\pi_{latest}$ )	30 percent of adjusted inflation factor	Captures current inflation momentum and prevents the annual average from understating recent price pressure.
SPI/WPI stress indicator ( $\pi_{stress}$ )	20 percent of adjusted inflation factor	Captures low-income household stress and upstream price pressure, but remains bounded to avoid turning temporary shocks into permanent wage escalation.
Productivity pass-through ( $\alpha_g$ )	30-40 percent of real GDP growth or productivity proxy	Allows workers to share part of economic growth while avoiding full pass-through that may be unaffordable for SMEs and labour-intensive sectors.
Shock buffer ( $s$ )	Generally 0-1 percentage point	Used only under elevated fuel, exchange-rate, SPI/WPI or geopolitical risks; capped to keep the rule disciplined and enforceable.
Cost-of-living pressure ( $COL_p$ )	30 percent of $PAI_p$	Captures available official evidence or transparent proxies on local price, transport, housing and utility pressure.
Household vulnerability ( $VUL_p$ )	20 percent of $PAI_p$	Captures household size, low-consumption concentration and welfare stress.
Formal-sector absorptive capacity ( $FSC_p$ )	20 percent of $PAI_p$	Captures the capacity for documented wage payment and compliance.
Enforcement readiness ( $ENF_p$ )	20 percent of $PAI_p$	Captures administrative ability to monitor, verify and enforce notified wages.
Geographic/transport dispersion ( $GEO_p$ )	10 percent of $PAI_p$	Captures remoteness, dispersion and implementation difficulty.

The assigned weights are policy parameters, not econometric coefficients. They are selected to keep the rule stable, responsive, and implementable. Direct provincial cost-of-living and enforcement-readiness evidence should progressively replace proxy measures as provincial reporting systems improve.

**Table A5: Sensitivity and Policy Scenario Analysis**

Scenario	Indicative benchmark	Interpretation
Conservative / affordability-oriented adjustment	Rs. 43,000	Greater immediate affordability and lower compliance pressure, but weaker protection against recent price stress.
Preferred hybrid estimate	Rs. 44,500	Balances purchasing-power protection, affordability diagnostics, partial productivity sharing and implementation feasibility.
Rounded national policy reference benchmark	Rs. 45,000	Administratively simple national reference benchmark under prevailing uncertainty.
Higher-stress scenario	Rs. 46,000	Stronger protection against price pressures, but requires stronger compliance mechanisms and SME transition support.

**Interpretation:** The scenario range confirms that the recommendation is not based on an arbitrary single number. The Rs. 45,000 benchmark is a rounded policy application of the preferred hybrid estimate; movement toward the higher-stress scenario should require stronger evidence on price persistence, affordability and enforcement readiness.

**Table A6: Core Implementation and Annual Monitoring Indicators**

Monitoring area	Core indicator / action	Reporting responsibility / frequency
Wage notification	Provincial notified wage and supporting evidence statement published	Provincial Labour Department / Annual
Priority-sector coverage	Sectors brought under active compliance monitoring	Provincial Labour Department / Annual
Inspection and compliance	Establishments inspected; violations identified; share paying notified wage	Provincial Labour Department / Quarterly and annual
Wage documentation	Documented or digital wage-payment coverage in monitored sectors	Labour / Social Security Institutions / Annual
Procurement enforcement	Relevant public contracts carrying minimum wage clauses	Procurement Authority / Annual
Grievance redress	Complaints received and resolved within prescribed period	Provincial Labour Department / Quarterly
Accountability	Annual Minimum Wage Evidence and Implementation Report published	Federal-provincial review mechanism / Annual

**Implementation principle:** Enforcement should proceed in phases, beginning with identifiable and documentable employment relationships, including relevant public procurement, outsourced services, and large registered establishments, before gradually extending to SMEs, urban services, and highly informal employment arrangements.

**Annual review principle:** Monitoring and compliance outcomes should feed into subsequent wage reviews. Provinces experiencing persistent non-compliance should prioritize enforcement strengthening and transition support before considering further upward adjustments beyond the national reference benchmark.

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