International Labour Organization

ILO brief

ILO Brief

July 2026

Spillover effects of the Middle East crisis on jobs and livelihoods in Pakistan

Key points

- **Pakistan has been exposed to the Middle East crisis through several channels**: imported energy, higher transport and logistics costs, rising fertilizer prices, labour migration and remittance links with Gulf economies, as well as increasing risks to the local economy and labour market.
- **Country-level exposure estimates indicate a broad labour market exposure to the crisis.** More than 81 per cent of workers in Pakistan are employed in medium- or high-exposure activities, compared with 66 per cent globally. Informal and low- and medium-skilled workers have higher exposure than formal and high-skilled workers, respectively.
- **Pakistan's agriculture sector faces growing risks from higher fuel and fertilizer costs**. Prolonged increases in input prices or fertilizer shortages could raise food prices and weaken rural livelihoods, particularly for vulnerable farming households.
- **Labour migration is a key transmission channel for Pakistan**. The country sends large numbers of workers to Gulf economies, especially Saudi Arabia and the United Arab Emirates, and early evidence already points to declines in migrant worker outflows to the Gulf.
- **Remittance inflows initially slowed but rebounded more recently, suggesting resilience in migrant transfers.** However, continued weakness in overseas recruitment could eventually slow remittance growth, reducing household purchasing power and placing additional pressure on local economies and labour markets.
- **Rising insecurity along the Pakistan–Afghanistan border is creating additional risks for workers and livelihoods in frontier regions**. Disruptions at key crossings are affecting trade, transport and informal economic activity, with particularly strong impacts on informal workers dependent on cross-border commerce.

Introduction

Pakistan has been exposed to considerable spillovers from the Middle East crisis, even though the full effects on the labour market are likely to emerge only gradually. A significant share of Pakistan's oil and liquefied natural gas imports transit through the Strait of Hormuz, making the economy particularly sensitive to disruptions in Gulf shipping routes and volatility in global energy markets. Fuel price increases are already contributing to higher transport costs, inflationary pressure and weaker household purchasing power. These pressures are unfolding in a context of constrained fiscal space, elevated external financing needs and fragile household incomes following several years of high inflation and macroeconomic adjustment.

The crisis is also creating growing risks for Pakistan's agriculture sector through higher fuel and fertilizer costs, which may increase food prices, weaken rural incomes and place additional pressure on food security, especially among poorer households that already spend a large share of their income on food.

Overseas employment and remittances remain an important economic lifeline for Pakistan. Early evidence points to weaker migrant worker outflows to Gulf economies, while remittance inflows have remained resilient following an initial slowdown. If weaker overseas recruitment persists or labour demand in Gulf economies softens further, pressures on remittance growth could gradually affect household consumption and local labour markets in remittance-dependent communities.

The Middle East crisis is adding to an already fragile regional security environment and unfolding alongside renewed instability along the Pakistan-Afghanistan border, including militant attacks, cross-border violence and military operations since early 2026.[1] This combination of geopolitical shocks risks intensifying uncertainty for trade, transport and investment across the wider region. Border disruptions and heightened insecurity may affect cross-border commerce, logistics activity and livelihoods in areas already facing economic vulnerability and displacement pressures.

This brief provides an initial assessment of how the Middle East crisis may affect Pakistan's labour market and livelihoods through a range of transmission channels. Given that comprehensive labour market data are not yet available to directly identify the impact on employment, working hours or labour incomes, the analysis focuses on emerging economic pressures, exposure patterns and early indicators from inflation, migration and remittance data.

Broad exposure, uneven vulnerability: sectors and workers at higher risk

The shock does not affect all sectors, enterprises or workers in Pakistan in the same way. Exposure depends on how strongly different sectors rely on oil and gas, how deeply they are linked to energy-intensive supply chains, and where workers are concentrated. To identify worker exposure, the analysis looks at Pakistan's economic sector's dependence on oil, gas and fertilizers in general, and from the Gulf specifically, both directly and through supply chains (see Appendix B in Technical Note of global report for methodological details).

Exposure patterns differ across groups of workers in the Pakistan labour market (Figure 1). Altogether, more than 81 per cent of workers are employed in either medium- or high-exposure activities, while fewer than one in five workers are employed in low-exposure sectors. This compares with 66 per cent of workers globally employed in medium- or high-exposure activities and around one-third in low-exposure sectors (ILO, 2026[2]). Pakistan's workforce is therefore considerably more exposed to the potential spillover effects of the crisis than the global average. This suggests that the effects of higher energy

[1] International Organization for Migration (IOM), *IOM Warns of Humanitarian Impact of Afghanistan–Pakistan Border Escalation*, March 2026.

[2] ILO, *Employment and Social Trends: May 2026 Update: Growing Labour Market Risks of the Middle East Crisis*, May 2026.

costs and supply-chain disruptions could spread widely across the labour market.

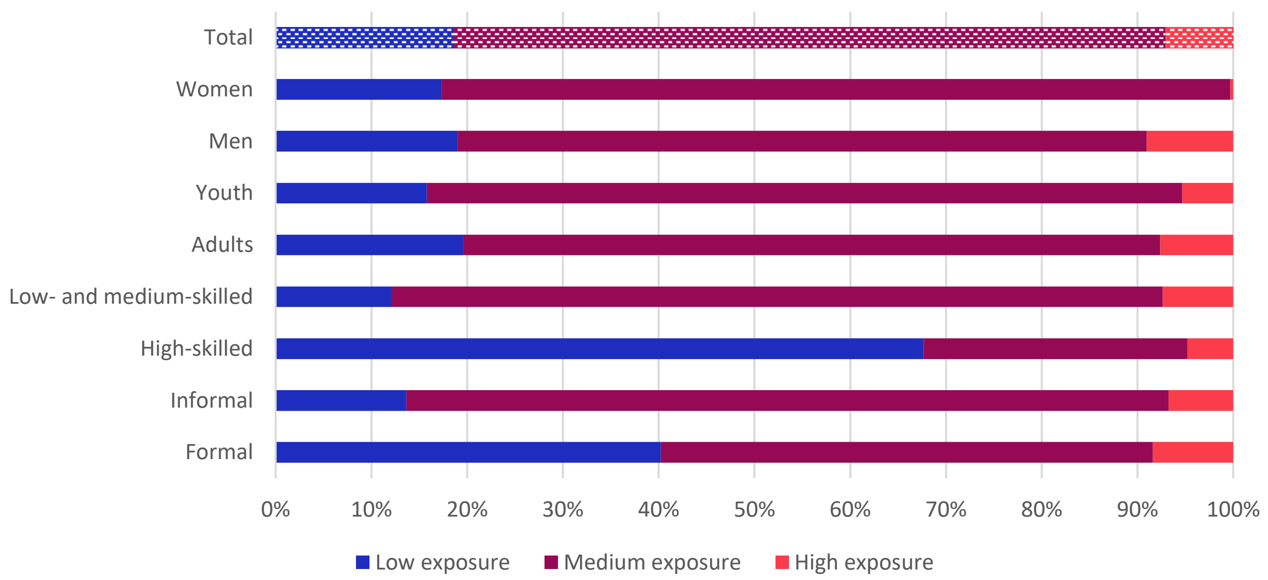
Some groups of workers are more exposed than others. Exposure is particularly widespread among informal and lower-skilled workers. More than 86 per cent of informal workers are employed in medium- or high-exposure activities, compared with around 60 per cent of formal workers. Although formal workers face slightly higher direct exposure to high-risk sectors, informal workers are much more concentrated in activities vulnerable to higher input costs and broader supply-chain disruptions. This matters because informal workers often have limited savings, unstable earnings and weaker access to social protection, making them especially vulnerable to declines in working hours or real incomes.

There are also strong differences by skill level. Around 88 per cent of low- and medium-skilled workers are employed in medium- or high-exposure sectors, compared with only around 32 per cent of high-skilled workers. Lower-skilled workers are heavily concentrated in agriculture, transport, construction, manufacturing and trade – sectors that are sensitive to rising fuel prices, fertilizer costs and supply-chain disruptions. By contrast, high-skilled workers are more likely to work in services and occupations that are less directly exposed to energy price increases and supply-chain disruptions.

Differences by age and gender are comparatively small. This suggests that the economic spillovers of the crisis are likely to affect a broad cross-section of the labour force. At the same time, workers in insecure, lower-skilled and informal employment remain particularly vulnerable because they are less likely to have stable earnings, savings or effective social protection coverage. Moreover, women may face greater challenges in coping with income shocks because they are more likely to be engaged in more insecure forms of employment, including unpaid family work and informal employment.[3]

Sectoral differences are substantial. Nearly 96 per cent of workers in transport services are employed in highly exposed activities, reflecting the sector's direct dependence on fuel prices and freight movements. Most workers in manufacturing, wholesale and retail trade, and accommodation and food services are employed in medium-exposure activities. Construction and agriculture also fall entirely within the medium-exposure category, reflecting their vulnerability to higher energy costs and supply-chain disruptions.

▶ **Figure 1. Distribution of employment in Pakistan according to crisis exposure, by worker type** (percentage)



Source: ILO calculations based on OECD and ADB input-output tables and ILO estimates; see Appendix B in Technical Note for further details.

[3] According to ILOSTAT, based on Pakistan's Labour Force Survey of 2024-25, the informal employment rate among women was 92.7 per cent, compared with 87.4 per cent among men.

Agriculture under growing pressure

Pakistan's agriculture sector is exposed to the spillover effects of the Middle East crisis through rising fuel and fertilizer costs. Higher fuel prices raise the cost of production, transport and irrigation, while fertilizer supply disruptions can affect both costs and availability of key inputs.

Disruptions to maritime flows through the Strait of Hormuz have tightened global fertilizer supply and pushed up prices. Pakistan imports a significant share of fertilizers from Gulf countries: in 2024, around 38 per cent of compound or mixed fertilizers and 18 per cent of nitrogen-based fertilizers originated from Gulf economies.[4] Pakistan's government has responded by exploring alternative fertilizer suppliers in Central Asia and accelerating plans to expand domestic fertilizer production capacity in order to stabilize supply ahead of the Kharif sowing season.[5]

However, if price spikes or shortages persist, the effects could feed into higher food prices, lower farm incomes and weaker rural household demand, particularly in poorer regions where households already spend a large share of income on food and energy. Since agriculture remains an important source of employment in Pakistan (more than 34 per cent in 2025[6]) – especially for lower-skilled and informal workers – prolonged disruptions to fertilizer markets and agricultural production could have broader implications for jobs, incomes and household vulnerability in rural areas. Women working as unpaid family workers and seasonal agricultural labourers may be particularly affected by declining farm incomes, as they often have limited access to formal employment, social protection and financial resources.

Deteriorating household livelihoods could also have wider social consequences. Evidence from previous economic crises suggests that declines in household income and purchasing power can increase the risk of child labour, school dropout, food insecurity and other negative coping strategies, particularly among poorer rural households.[7]

It is noteworthy that the sector has already been under pressure before the onset of the Middle East crisis. Agricultural growth slowed sharply to 1.5 per cent in FY2025[8], down from 6.4 per cent in FY2024, reflecting higher input costs as well as excessive rain and flooding during the monsoon season (ADB, 2026).[9] Moreover, changes to wheat procurement arrangements and the withdrawal of the traditional minimum support price contributed to weaker farm-gate prices, lower farm incomes and reduced incentives for production (State Bank of Pakistan, 2026).[10] Additional increases in fuel, fertilizer and electricity costs could further strain an already fragile rural economy.

Rising inflation and weakening migrant worker outflows

Rising inflation and uncertainty surrounding overseas employment and remittance flows are creating growing pressures on Pakistan's domestic economy and labour market. Higher fuel and transport costs linked to the Middle East crisis have already been feeding into broader price increases, particularly for food, energy and other essential goods. Annual inflation based on the consumer price index (CPI) accelerated sharply, reaching 10.9, 11.7 and 11.1 per cent in April, May and June 2026, respectively (Figure 2). Lower-income households are especially

[4] Source: ILO calculations based on UN Comtrade database.

[5] Arab News, *Pakistan Explores Alternative Fertilizer Supplies Amid Gulf Disruptions*, April 2026. Kharif crops are monsoon-season crops sown around June and July and harvested in September and October.

[6] Source: ILO calculations based on ILOSTAT. ILOSTAT includes data based on Pakistan's Labour Force Survey of 2024-25.

[7] See, for example, ILO and United Nations Children's Fund (UNICEF), *Child Labour: Global Estimates 2020, Trends and the Road Forward*, 2021.

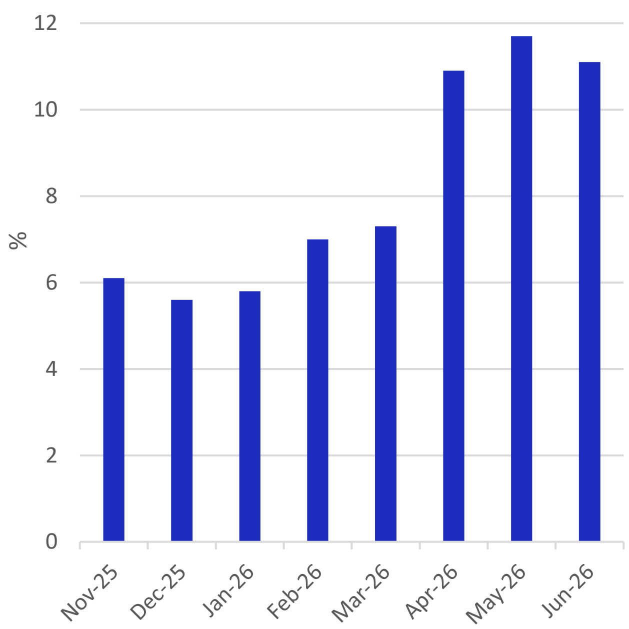
[8] The fiscal year in Pakistan ends in June. For example, FY2025 refers to the period from July 2024 to June 2025.

[9] Asian Development Bank (ADB), *Asian Development Outlook (ADO) April 2026: Pakistan*, April 2026.

[10] State Bank of Pakistan, *Half-year Report 2025-26: The State of Pakistan's Economy*, May 2026.

vulnerable because they spend a disproportionately large share of their income on food, transport and energy. Rising fertilizer and fuel costs may further increase food prices and deepen pressure on rural livelihoods.

▶ **Figure 2. Annual CPI inflation rate** (percentage)



Source: Pakistan Bureau of Statistics.

Labour migration is one of the most direct ways in which the Middle East crisis is affecting Pakistan. Overseas employment has long been absorbing part of Pakistan's expanding labour force and provided income to households through remittances. Countries such as Saudi Arabia and United Arab Emirates have been among the leading destination countries for Pakistani labour migrants over the past decades, with more than half of all labour migrants registering for employment in Saudi Arabia.[11]

Migrant worker outflows from Gulf Cooperation Council (GCC) countries have been showing clear signs of weakening (Figure 3). Migrant worker outflows to GCC countries declined sharply on a year-on-year basis in March 2026. After a small year-on-year increase in April 2026[12], migrant worker outflows nearly halved in May 2026 compared to the year before, indicating weaker overseas recruitment and growing disruptions to labour mobility.

Remittance inflows from GCC countries initially lost momentum rapidly. Year-on-year remittance growth, which had been positive up to January 2026, reaching 6.7 per cent, declined to -0.6 per cent in February and -3.3 per cent in March (Figure 4). However, remittance growth rebounded strongly in April and May, with inflows exceeding their levels a year earlier by 14.2 per cent and 19.4 per cent, respectively. This pattern resembles that observed during previous crises such as the Covid-19 pandemic, when remittances showed resilience as migrant workers sought to provide additional financial support to families facing economic uncertainty.[13] The rebound may also reflect precautionary transfers in response to heightened uncertainty in host countries, although it remains too early to determine whether the increase will be sustained.

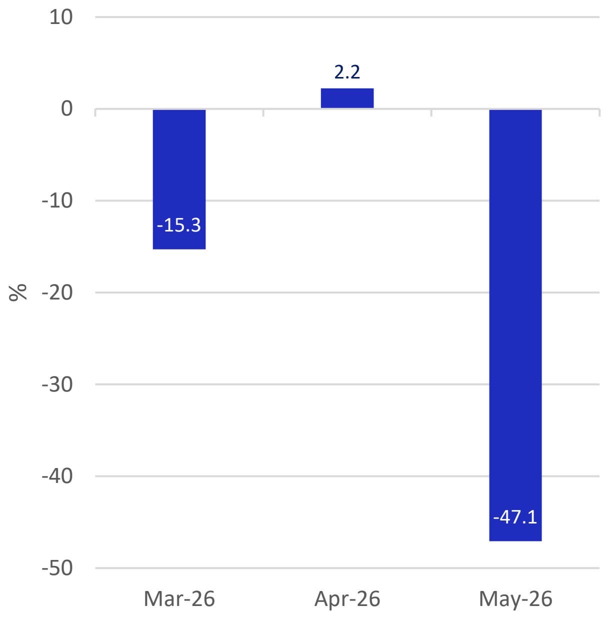
Overall, the figures suggest that weakening migrant worker outflows could become a more important source of domestic economic pressure if they are sustained over time. While remittance inflows have so far remained resilient, continued declines in overseas recruitment could eventually slow remittance growth as fewer workers enter Gulf labour markets. Given the important role of remittances in supporting household incomes and consumption, slower growth in remittance inflows could weaken local business activity and reduce demand for goods and services, particularly in regions with limited formal employment opportunities. Sectors such as retail trade, transport, construction and small-scale services – many of which rely heavily on remittance-supported household spending – could face declining revenues and weaker hiring conditions. Small enterprises and informal businesses may be particularly vulnerable because they often operate with narrow profit margins and limited financial buffers.

[11] Gallup Pakistan, *Pakistan-Migration-Patterns*, 2025.

[12] This represents a substantial revision from the decline of around 10 per cent reported for April 2026 in ILO, *Employment and Social Trends: May 2026 Update: Growing Labour Market Risks of the Middle East Crisis*, May 2026. The revision reflects the incorporation of additional deployment data from the Overseas Employment Corporation (OEC) into the Bureau of Emigration and Overseas Employment statistics.

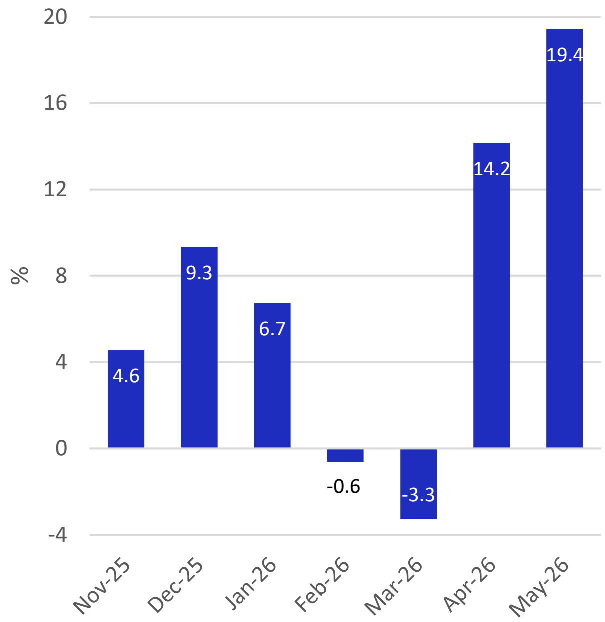
[13] See, for example, Dilip Ratha, *Remittances During the COVID-19 Crisis: Resilient and No Longer Small Change*, May 2021.

Figure 3. Migrant worker outflows to GCC countries, year-on-year growth (percentage)



Source: ILO calculations based on Bureau of Emigration and Overseas Employment - Ministry of Overseas Pakistanis & Human Resource Development, Pakistan.

Figure 4. Remittances from GCC countries, year-on-year growth (percentage)



Source: ILO calculations based on State Bank of Pakistan.

Border disruptions

The Middle East crisis is also interacting with rising insecurity along the Pakistan–Afghanistan border, creating additional risks for workers and livelihoods in frontier regions. Since early 2026, renewed militant violence, cross-border tensions and military operations contributed to periodic disruptions at key crossings.[14] These crossings are major corridors for regional trade and transport and support a large ecosystem of employment and informal economic activity. Workers employed in trucking, logistics, warehousing, customs-related services, wholesale trade and informal border commerce are particularly exposed to disruptions in freight movements and market activity.

The labour market implications may be especially significant because many border-region workers depend on informal and daily wage employment with limited income security or access to social protection. Temporary border closures, transport delays and heightened insecurity can therefore translate rapidly into lower earnings and interrupted livelihoods. Small traders, transport workers, loaders and market vendors are among the groups most directly affected. In addition, heightened insecurity may weaken local investment and enterprise activity while increasing displacement pressures in already vulnerable communities. Although the full labour market effects remain difficult to quantify, the interaction between regional conflict, border insecurity and economic fragility risks intensifying pressure on livelihoods in Pakistan's frontier regions.

[14] Asif Shahzad, *Pakistan Resumes Military Operations Against Afghanistan*, March 2026.

Policy responses and outlook

Pakistan has introduced various emergency measures (Table 1), including those that are aimed at conserving fuel and managing the immediate economic shock. These measures have included remote work arrangements, restrictions on official travel, reduced government fuel use, school closures or limited opening hours, and other energy-conservation measures.

While such interventions may help contain immediate fuel demand, labour market risks are likely to require a stronger focus on jobs, incomes and vulnerable workers. Targeted support for low-income households, exposed informal workers and enterprises facing rising costs and weaker demand could help cushion the economic impact while preserving productive capacity. Such measures are likely to be most effective when developed through social dialogue and close consultation with employers' and workers' organizations, helping to ensure that support reaches the sectors and workers most affected. Temporary measures that enable viable enterprises to retain workers and adapt to higher operating costs may help limit job losses, particularly among small and informal businesses. Expanding social protection coverage and ensuring timely access to income support could further protect livelihoods while sustaining household consumption during the crisis.

Migration-related measures are also likely to become increasingly important. Given Pakistan's strong dependence on overseas employment and remittance inflows from Gulf economies, continuous disruptions to migrant worker recruitment, mobility or earnings could have broader implications for household consumption and local labour markets. Strengthening labour market and migration monitoring systems, migrant support services and reintegration assistance may therefore become more important if labour market conditions in destination countries weaken further.

The outlook remains highly uncertain and depends largely on the duration and scale of the Middle East crisis and its disruptions to energy markets, fertilizer supplies and Gulf labour demand. If disruptions ease relatively quickly and labour demand in Gulf economies remains resilient, the effects on Pakistan may remain concentrated in higher prices and transport costs. However, if disruptions persist or intensify, the effects could spread more broadly through weaker remittance growth, slower enterprise activity, placing increasing pressure on jobs, incomes and livelihoods. Continued monitoring of labour market, migration and price developments will therefore be essential to inform timely policy responses as the situation evolves.

Table 1. Selected policy measures for Pakistan

Area	Measures / actions taken
Energy conservation measures	• **Work from home:** 4-day work week and 50% remote work on the remaining days for public officials; encourage remote work for private sector • **Government travel:** Ban on foreign travel by public officials • **Schools and universities:** Online classes, remote work encouraged • **Campaign:** Ask local governments to save energy. No official dinners, no physical meetings. Close markets and commercial centres from 8pm, and food and events establishments from 10pm • **Transport:** Reduce speed limit on highways, vehicle purchase ban for public officials, temporarily free public transport
Consumer support measures	• **Fuel subsidies:** Provide targeted fuel subsidies for vulnerable groups, including farmers, and the transport sector
Migrant worker support measures	• **Emergency response, community outreach and other support systems, including consular services:** Crisis management unit, special facilitation desk, and helplines activated, and advisories issued in countries of destination

Source: ILO synthesis based on International Energy Agency, 2026 Energy Crisis Policy Response Tracker.

Acknowledgements

This brief was prepared by Christian Viegelahn. The author would like to thank ILO colleagues – including in particular Roger Gomis, Sadia Hameed, Stefan Kühn, Catherine Laws, Miguel Sanchez Martinez and Rabia Razzaque – for their valuable comments and suggestions. The author also gratefully acknowledges the valuable comments and suggestions provided by Sadaf Zulfiqar (UNICEF).

Disclosure on the use of Artificial Intelligence tools

During the preparation of this work, the author utilized ChatGPT for editorial assistance, language refinement and suggestions regarding the structure, clarity and presentation of draft text. Following the use of this tool, the author carefully reviewed, revised and validated all content as necessary and assume full responsibility for the final content of the publication. No material subject to intellectual property rights, including third-party material, was used without appropriate acknowledgment and permission.

ILO. *Spillover effects of the Middle East crisis on jobs and livelihoods in Pakistan*, ILO brief, Geneva: International Labour Office, 2026. © ILO. https://doi.org/10.54394/00034836

Contact details

International Labour Organization
Country Office for Pakistan
ILO Building, Sector G-5/2,
Near State Bank of Pakistan
Islamabad 44000
Pakistan

T: +92 51 2276456-8
E: islamabad@ilo.org
W: www.ilo.org/pakistan