International Labour Organization

ILO brief

ILO Brief

September 2023

Pakistan: Employment outlook in a setting of austerity

Key points

- Pakistan's economy and labour market has yet to recover fully from the COVID-19 pandemic and economic crisis. Coupled with the devastating floods of 2022 and the currently unfolding financial crisis, Pakistan's economy is experiencing negative growth and inflationary pressures that enterprises and households are finding increasingly difficult to withstand.
- In the long run, the influx of funds from the USD 3 billion Stand-By Arrangement with the IMF should help to restabilize the macroeconomic situation and turn investment and growth back around. In the meantime, however, the current crisis and implementation of government austerity are hitting enterprises, workers and households hard.
- The country's employment-to-population ratio is estimated at 47.6 per cent in 2023, which is nearly 2 percentage points below the pre-crisis ratio in 2019. Compared to a post-COVID-19 no-crisis counterfactual scenario, employment numbers in 2022 are estimated at 1.8 million below where it should have been. The estimated "jobs gaps" grows to 2.4 million in 2023.
- The number of persons unemployed— not working and actively seeking work—is projected to reach 5.6 million (as an upper bound) in 2023, an increase of 1.5 million unemployed persons since 2021. This estimate matches to the IMF projected unemployment rate in 2023 of 8.5 per cent, up from 6.2 per cent in 2021.
- The female unemployment rate, which is historically at least 1.5 times that of male rates, could reach a high of 11.1 per cent.

Introduction

Strained by multiple exogenous shocks like the COVID-19 pandemic, surging global commodity prices consequent of the war in Ukraine, and the devastating floods of 2022, the economy of Pakistan continues to navigate serious macroeconomic fragility amid growing decent work deficits.

In July 2023, Pakistan secured a USD 3 billion loan from the IMF as a Stand-By Arrangement (SBA)—building from the Extended Fund Facility agreed upon in 2019 which expired at the end of June 2023.[1] The arrangement is expected to help Pakistan avert a debt default situation and help unlock financing from other multilateral and bilateral partners. The arrangement was secured after Pakistan revised its federal budget for FY24 to raise taxes and trim

[1] IMF, Pakistan: Request for a Stand-by Arrangement-Press Release; Staff Report; Staff Statement; and Statement by the Executive Director for Pakistan, Country Report No. 2023/60, July 2023.

expenditures.[2] While the SBA is expected to help stabilize a fragile macroeconomic situation characterized by large fiscal and external deficits, high inflation, and thin foreign exchange reserves, the impact of policy adjustments as part of the SBA and their implementation are likely to have adverse impacts on employment and other key labour market indicators in the near term.

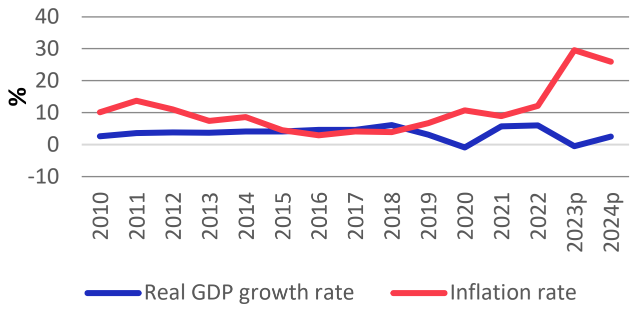
This Brief examines the labour market trends in Pakistan and presents estimates of the impacts of the current economic crisis on employment outcomes in the near term. With employment shares declining and unemployment on the rise, the austerity-driven limitations on social outlays are expected to feed a downward spiral in labour market outcomes that could push the country's progress toward decent work and inclusive growth backward by decades.

▶ Macroeconomic context

Pakistan is in the midst of an extremely challenging macroeconomic situation, the impact of which is rippling across the country and resulting in adverse distributional effects. as households cope with the sharp erosion in purchasing power, the decline in living standards and limited labour market demand. The IMF projects a real GDP growth of negative 0.5 per cent for the Pakistani economy in 2023, as shown in Figure 1. In the last five years (2019–23), Pakistan's economy has averaged a growth rate of just 2.7 per cent compared to an average growth rate of 4.7 per cent in the preceding five-year period (2014–18) underscoring that the current macroeconomic challenges have been building up for several years now.

Underlying structural problems in the economy were compounded during the 2019–23 period by significant exogenous shocks in the form of the COVID-19 pandemic, the global commodity price rise following the impacts of Russia's war in Ukraine, and climate-related disaster events like the devastating floods of 2022 in Pakistan. The latter is estimated to have caused damages nearing USD 16 billion and a total economic loss of USD 15 billion.[3]

▶ Figure 1: Real GDP growth rate and inflation rate in Pakistan, 2010–24 (percentage)



Note: 2023 and 2024 figures are projections.
Source: IMF, World Economic Outlook database, April 2023, IMF, Country Report No. 23/260, July 2023.

A key channel through which households have felt the impact of Pakistan's economic challenge is through the sharp price rise in the recent years. The inflation rate, as measured by the change in average consumer price index, is projected to rise to 29.6 per cent in 2023, up from 12.1 percent in 2022. The average inflation rate in the 2019–23 period stood at 13.6 per cent as opposed to 4.8 per cent for the preceding five-year period (2014–18). The IMF projects the inflation rate will remain above 25 per cent also in 2024 relative to 2023.

In addition to the rise in global commodity prices, the rolling back of energy subsidies and disruptions in production and supply chains in the aftermath of the 2022 floods have exerted additional upward pressure on prices. The sharp drop in foreign exchange reserves and loss of confidence have resulted in the Pakistani rupee experiencing considerable depreciation against the US dollar. From July 2021 to July 2023, the rupee has declined by 74.4 per cent against the dollar.

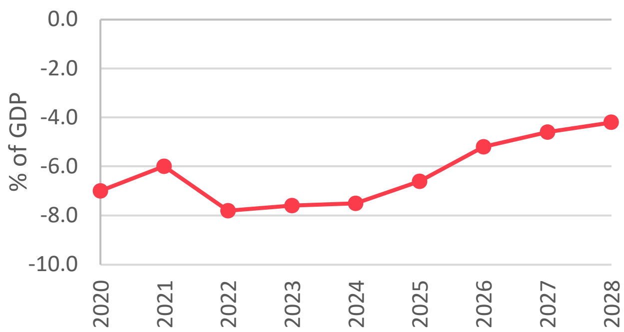
Fiscal and external imbalances underlined by rapid

[2] A. Shahzad, "Pakistan changes budget as dictated by IMF to clinch stalled funds", *Reuters*, 24 June 2023.

[3] The Government of Pakistan, Asian Development Bank, European Union, United Nations Development Programme and World Bank, *Pakistan Floods 2022: Post-Disaster Needs Assessment*, 2022.

growth in government spending has played a key role in destabilizing the economy. The fiscal deficit reached negative 7.8 per cent of GDP in FY22 as (Figure 2) and public debt, including government guaranteed debt, in the same year was estimated at 80.6 per cent of GDP.[4, 5] As of December 2022, banking sector's credit to the government was equivalent to 68.3 per cent of GDP, up from 43 per cent in June 2010.[6] The growth of lending to the sovereign by the banking sector not only crowds out private sector investments, it also exposes the banking sector to the debt risks and threatens financial sector stability, and by extension the financial stability of millions of households across the country.

▶ Figure 2: Fiscal balance, including grants, 2020–28 (percentage of GDP)

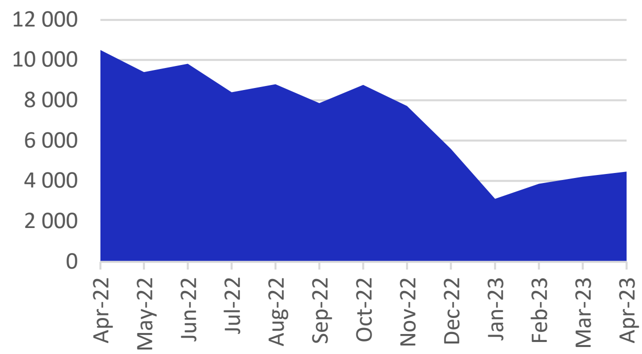


Note: Figures for 2023–28 are projections
Source: IMF, Country Report No. 23/260, July 2023.

The trade deficit has declined sharply in recent times due to weakened exports of goods and services and a sharp decline in imports. The current account deficit declined by almost 61 per cent between the first half of FY22 and FY23.[7] The sharp contraction of imports partially reflects the impact of measures taken by the government to limit access to foreign currency including the rationing of letters of credit. The decline in exports reflect both the reduced private sector investment capabilities as well as lower demand from the rest of the world in the context of global economic headwinds since the COVID-19 crisis.

Official remittance inflows declined by 10.7 per cent in the first half of FY23 as the informal exchange rate cap incentivized remittance sender to opt for sending money through informal non-banking channels instead.[8] The informal exchange rate caps have since been lifted.[9] Despite the lower current account deficit, reduced private foreign exchange inflows reflective of diminished confidence in the Pakistani economy and high debt service obligations put a serious strain on the country's foreign exchange reserves. Reserves fell from around USD 10.5 billion in April 2022 to USD 4.5 billion in April 2023 (Figure 3).[10] Foreign exchange reserves have since recovered, standing at around USD 8.7 billion by mid-July 2023, as Pakistan secured the stand-by arrangement with IMF in July 2023.[11]

▶ Figure 3: Month-end liquid foreign exchange reserves with State Bank of Pakistan (million USD)



Note: May 2022 to February 2023 are revised figures
Source: State Bank of Pakistan.

Pakistan's federal budget for FY24, which targets a primary surplus of 0.4 per cent of GDP has been shaped taking into consideration the IMF's conditions for the SBA. The government plans to increase revenues by raising taxes—including

[4] Fiscal deficit, including grants.

[5] IMF, Country Report No. 2023/60, *op cit.*

[6] World Bank, *Pakistan development update: Recent economic developments, outlook, and risks,* April 2023.

[7] *Ibid.*

[8] *Ibid.*

[9] A. Shahid and A. Shahzad, "Pakistani rupee falls after market maker group removes currency cap", Reuters, 25 January 2023.

[10] State Bank of Pakistan, Liquid foreign exchange reserves, data sheet, accessed 30 July 2023.

[11] *Ibid.*

income taxes—and improving revenue administration, while also limiting expenditure. Over half of the total planned outlay is earmarked for servicing debt interest and development expenditure is allocated under 10 per cent of the total planned outlay. While the federal budget is expected to set Pakistan on the right track for improving its fiscal framework, the distributional impact of austerity on households in the near term will likely be adverse. For more details on the conditions of the SBA, see the Annex.

Austerity measures and outlook for the labour market

Employment in Pakistan estimated to reach its lowest rate in decades

The Government of Pakistan has committed to institute a number of policy reforms as part of the structural conditionality of the SBA with the IMF (see the Annex for details). While the implementation of the reform pathway as structured under the SBA, including the prior actions and structural conditionality, are vital to restore macroeconomic stability and to lay the rails for long-term growth through sustainable and prudent fiscal and monetary management, the short-term impacts of the policy adjustments are expected to incur both monetary and non-monetary costs on households across the country.

The austerity policies can link to adverse labour market outcomes through the following channels:

- First, the policies aimed at increasing government revenue have a direct bearing on the cost of doing business which can in turn affect levels of investments and levels of employment. For instance, measures such as the rise in petroleum development levy, increasing revenue from income tax, and rationalizing the exemptions for fertilizers, among others, can contribute to increasing the cost of input for producers and affect the bottom-line of entrepreneurs and businesses. Furthermore, the control of foreign exchange reserves poses a significant challenge to manufacturers. Many are forced into temporary closures as import freezes leave them without crucial raw materials and machinery. Layoffs and hiring freezes result.[12]
- Second, the structural reform policy of improving governance, transparency, and efficiency of state-owned enterprises, while limiting their fiscal risks may also have employment impact. Pakistan's federal state-owned enterprises are reportedly the least profitable in South Asia with accumulated losses amounting to 3.1 per cent of the country's GDP in FY21.[13] The Government of Pakistan has been supporting the state-owned enterprises through subsidies, debt and equity injections, as well as government-backed loans from commercial banks. As Pakistan looks to reform this sector as part of the adjustment programme, significant employment losses from these enterprises could be anticipated.

Estimating labour force trends in 2022–23

The latest labour force survey implemented by the Pakistan Bureau of Statistics covered the fiscal year 2020/21. There was a subsequent pause in the survey programme to allow for the implementation of the 7th Population and Housing Census 2023. With the next labour force survey not expected until 2024, this Brief puts forth estimates of national employment and unemployment figures and rates

[12] Examples of media coverage: A. Kumar, "Pakistan unemployment at its peak: Over 10 lakh lost jobs in past few months amid economic slowdown", *IndiaTV*, 7 May 2023; M. Aazim, "The explosion of unemployment", *Dawn,* 23 January 2023; "Businesses shutting down, considering layoffs: OICCI", *The Express Tribune,* 12 April 2023; M. Jha, "Pakistan's textile industry struggles amidst job losses, economic crisis", *Mint,* 6 August 2023.

[13] K. Kiani, "Pakistan's state-run firms worst in Asia", *Dawn*, 22 April 2023.

for the missing years 2022 and 2023.

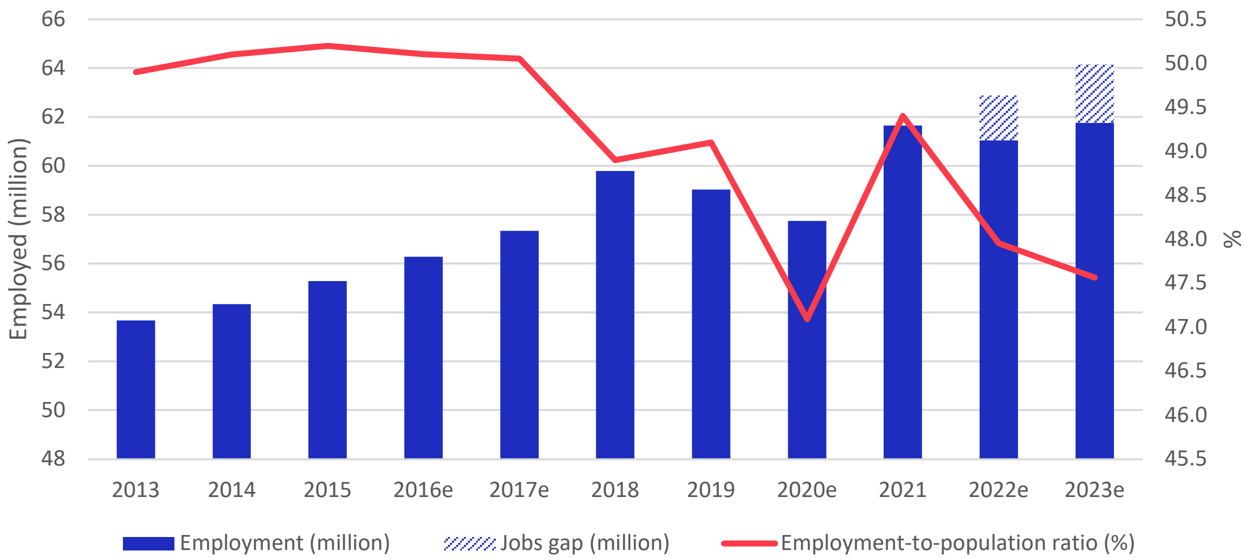
The employment numbers for 2022 and 2023 are based on a panel estimation covering 136 countries over the period 2012–23. The regression models employment (15+) using population data and GDP figures at constant price from the IMF World Economic Outlook database. The unemployment numbers in 2022 and 2023 were calculated to align to the IMF-estimated unemployment rates.[14]

The continuation of multiple crises is driving a declining employment rate.

While the number of persons employed and the share of employed persons in the population recovered in 2021 from the harshest effects of the COVID-19 pandemic (in 2020), the floods in 2022 and current economic devastation have since reversed the recovery scenario. At an estimated 47.6 per cent in 2023, the country's employment-to-population ratio is at its lowest point in decades (2020 excepted) (Figure 4).[15] The estimated 2023 employment-to-population ratio falls nearly 2 percentage points below the pre-crisis period of 2019 (at 49.1 per cent).

Based on a counterfactual scenario, where the employment ratio continued at its 2021 level—thus assuming a longer-term recovery had taken hold and no ensuing crises had occurred—there was an estimated shortfall of 1.8 million persons in employment in 2022. This estimated "jobs gap" grows to 2.4 million in 2023, meaning the number of employed persons fell 2.4 million below the "no crisis" trendline.

► **Figure 4: Employment (millions) and employment-to-population ratio (%), 2013–23**



Note: e = estimates. The "jobs gap" is the estimated shortfall in the number of persons employed had the employment-to-population ratio in 2021 (49 per cent) carried forward into the ensuing years.
Source: Pakistan labour force survey results, available in ILOSTAT, except for 2016–17, 2020 and 2022–23, which are ILO estimates.

[14] As published in IMF, Country Report No. 2023/60, *op cit.*

[15] The 1994 labour force survey showed an employment-to-population ratio of 46.9 per cent. From 1994, the employment-to-population ratio ranged between 48 and 51 per cent.

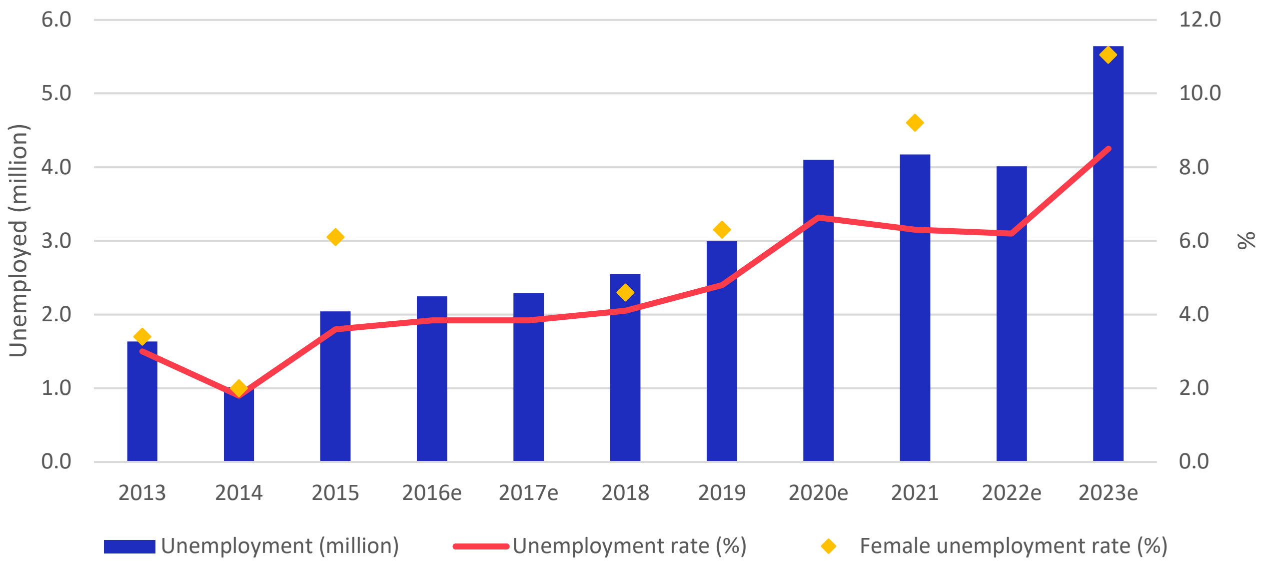
Unemployment jumps by 1.5 million in two years (2021–23)

The IMF projects unemployment rates in Pakistan of 8.5 per cent and 8.2 per cent in FY23 and FY24 respectively—up from 6.2 per cent in FY22.[16] Applying this rate to the employment and labour force estimates, the ILO estimates that the number of persons unemployed – not working and actively seeking work – could reach 5.6 million in 2023, a 1.5 million increase over the figure in 2021 (Figure 5).

This figure (5.6 million unemployed) should be considered an upper-bound estimate because there is an alternative outcome in which many jobless persons give up on an active job search – perhaps seeing it as futile in the current economic context – and instead move into the category of inactive persons. During economic downturns, women are much more likely than men to move into inactivity than unemployment.

While gender disaggregation is not attempted in the IMF and ILO estimates, given the historically higher rates of unemployment rate for women and the experience of higher jumps in the female unemployment rate during the COVID-19 pandemic,[17] it is reasonable to assume that the unemployment rate for women will continue to remain at elevated levels as the structural conditionality measures are implemented. If the total unemployment rate in 2023 reaches the IMF estimated 8.5 per cent, applying past elasticities would put the female unemployment rate as high as 11.1 per cent in the same year. This would imply a 2-percentage point increase over the female unemployment rate in 2021.

▶ **Figure 5: Unemployment (millions) and unemployment rate (%), 2013–23**



Note: e = estimates.
Source: Pakistan labour force survey results, available in ILOSTAT, except for 2016–17, 2020 and 2022–23, which are ILO estimates.

[16] IMF, Country Report No. 2023/60, *op cit.*

[17] The unemployment rate for men rose from 4 per cent in 2018 to 5.5 per cent in 2021, whereas that for women rose from 4.6 per cent to 9.2 per cent.

Coping measures include informal work, working poverty and outmigration

The sharp decline in purchasing power that comes with rampant inflation,[18] the depreciating rupee and increasing joblessness means that living standards in Pakistan are experiencing a severe drop. The World Bank estimates that in the absence of sufficient public transfers to cover income losses or mitigate the impact of higher prices, the poverty rate in Pakistan could increase to 37.2 per cent.[19] Although lower than the 2018 figure of 39.8 percent, this rate reflects an addition of 3 million poor people.[20] The loss of purchasing power is also anticipated to affect non-monetary dimensions of poverty such as access to nutritious food and access to quality education and healthcare, which will have long-term implications for Pakistan's growth. The impact on girls and women will likely be even more pronounced in the forms of disruption in education and training, as well as job losses.

The Pakistan authorities have increased the annual allotment to the unconditional cash transfer schemes of the Benazir Income Support Programme (BISP) for the purpose of easing financial difficulties of the most vulnerable. PRs 404 billion (0.4 percent of GDP) is allocated to the regular and exceptional BISP schemes in FY23, an increase of 70 per cent over FY22.[21] The expectation is that the support programmes will absorb an additional 300,000 families, yet implementation challenges remain, including delayed payments to beneficiaries, and it remains unclear if the scheme will be sufficient to handle the growing influx of persons now struggling to cover their basic household costs.[22]

Given the current budgetary difficulties, public spending in other areas of social expenditure like education and health care remain below target. As households cut down on vital expenses such as food, health care and education in order to cope with contracting incomes, it can shut doors to upward social mobility for a generation of youth and stymie future development prospects.

Fiscal expenditures on labour market institutions are another likely victim of the country's financial challenges. As formal job losses increase and push more Pakistanis into casual work, the necessity for services like unemployment insurance (currently absent in the country[23]), labour dispute resolution, setting and enforcement of minimum wage and career training increases. The capacity of the provincial level labour institutions to expand their services in supporting of the millions of additional struggling jobseekers and vulnerable workers is doubtful.

With limited formal sector jobs, informal work has long dominated the employment landscape of Pakistan. Informal workers include both those working on their own-account (self-employed) and casual wage labourers engaged in unregistered enterprises or registered enterprises that do not provide entitlements like paid sick leave. Even during years of high economic growth, the economy was not creating enough formal jobs to absorb the large working population. This is reflected in the rising informal employment rate which rose for both men (by 3 percentage points) and women (by 1 percentage points) between 2013 and 2021 (Figure 6). Already in 2021, more than 8 in 10 workers (84.3 per cent) were in informal employment. With the reported job losses in 2023, the country should expect to see informal employment rates push even higher.

[18] At record levels of 38 per cent in May 2023, according to IMF, Country Report No. 2023/60, *op cit.*

[19] Poverty measured at lower middle-income poverty line (USD 3.65 per day 2017 PPP per capita); World Bank, *Pakistan development update: recent economic developments, outlook, and risks*, April 2023.

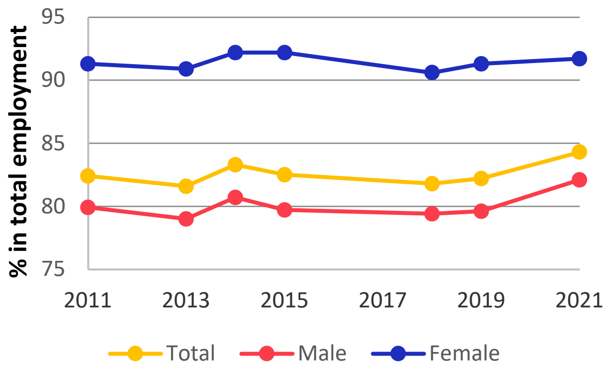
[20] World Bank, "Pakistan: Poverty and Equity brief, 2023.

[21] IMF, Country Report No. 2023/60, *op cit.*

[22] *Ibid.*

[23] ILO, *A social protection profile of Pakistan: Building an inclusive social protection system*, 2021.

▶ **Figure 6: Informal employment rate sex (%)**



Source: Pakistan labour force survey results, available in ILOSTAT.

Another unfortunate consequence of the turmoil and resulting labour market challenges is the increase in out-migration, as an increasing number of Pakistanis seek out earning opportunities outside the country.[24, 25] Out-migration through formal channels was already on the increase in 2022, according to the Bureau of Emigration and Overseas Employment and the Overseas Employment Corporation. The increasing economic desperation is expected to continue that trends while also pushing more Pakistanis to take their chances through dangerous, informal migration channels.

▶ Key actions for supporting labour market recovery

Enterprises, workers and households in Pakistan are reeling from the effects of fiscal shocks and the unfolding economic recession coming on the heels of the 2022 floods and COVID-19 crisis.

The latter two crises were met with bold action and positive fiscal outlays—both domestic and donor-driven—to help keep enterprises afloat and safeguard incomes in the short term. The current economic crisis, however, cannot be allayed through similar boosts to social expenditures (expanded social protection for affected workers, tax subsidies for affected enterprises, and so on) precisely because the government coffers have run dry. The Stand-By Arrangement (SBA) with the IMF with its associated USD 3 billion loan will offer some relief and should help to facilitate the continuation of the Benazir Income Support Programme but pulling back on social expenditures in other areas will bring renewed pains to jobs and livelihoods.

Given the sharp increase in poverty expected to accompany the employment losses projected in this Brief and given the continuation of untenable inflation rates, there is likely to be a significant shortfall in the capacity of the government to meet the country's humanitarian needs, let alone foster recovery in labour markets.

Despite the challenging road ahead, the Government of Pakistan, employers' and workers' organizations, along with the ILO, signed the Fourth Decent Work Country Programme (DWCP), setting the priorities for action in the critical areas of concern to Pakistan's workforce over the next five years.[26] Targeted action is expected, for instance, to address the plight of workers in the informal economy, limited social protection benefits, and the rising number of NEETS—youth who are not in employment, education or training.

Recognizing the fiscal challenges, it is nonetheless important to put on the table the following elements that will be key to supporting recovery in the labour market and helping to mitigate a worsening of decent work deficits in Pakistan in the near-term. These include:

- ▶ Develop (and fast-track implementation of) integrated provincial-level inclusive recovery

[24] "800,000 professionals left Pakistan in 2022", *Daily Times*, 1 February 2023; A. Hussain, "'Hopelessness': Why Pakistanis are leaving, losing lives at sea", *Al Jazeera*, 21 June 2023.

[25] ILO, *Decent Work Country Programme for Pakistan (2023–27)*, 2023.

[26] ILO, *Decent Work Country Programme for Pakistan (2023–27)*, 2023.

strategies for decent job creation, with a particular focus on women and youth;

- Maintain government spending on jobs and social protection programmes, including through strengthening targeted measures to protect the poor and the most vulnerable;
- Foster partnerships towards bolstering the assistance of hard-hit groups and sectors, particularly vulnerable workers and micro, small and medium-sized enterprises, and giving priority to labour-intensive climate adaptation programmes;
- Reinforce social dialogue as an instrument for social stability.

Annex. Additional information on the structural conditionality under the IMF Stand-by Arrangement

The Government of Pakistan has committed to instituting a number of policy reforms as part of the structural conditionality of the SBA with the IMF. The completion of two prior actions paved the way for the IMF board approval of the SBA which include: i) the parliamentary approval of the federal budget for FY24 in alignment with the IMF staff agreement to meet the SBA programme target; and ii) ensuring full market determination of exchange rate, including the withdrawal of a circular on the prioritization in foreign exchange facility for certain types of imports that were introduced in December 2022.[27] The federal budget for FY24 includes measures to advance fiscal consolidation in the form of i) raising additional revenues by targeting undertaxed sectors such as agriculture and construction, broadening the tax base, and improving progressivity; and ii) curbing non-priority spending (including measures such as containing energy subsidies) while creating fiscal space for preserving the generosity of the unconditional cash transfer scheme under the Benazir Income Support Programme (BISP).

In addition to the two prior actions, the SBA includes a number of structural benchmarks across a number of sectors and thematic areas, including fiscal, social, monetary and financial, energy and state-owned enterprises, climate and economic statistics. On the fiscal side, this includes the commitment from the Government of Pakistan to not grant further tax amnesties, to avoid the practice of issuing new preferential tax treatment or exemptions, and to ensure the issuance of the first periodic report by the Central Monitoring Unit within the Ministry of Finance on the performance of state-owned enterprises in Pakistan to the federal government. On the social side, the agreement includes the commitment of the Pakistani authorities to undertake inflation adjustment of the unconditional cash transfer scheme under the BISP.

There are two structural benchmarks identified on the monetary and financial side. Firstly, that the average premium between the interbank and open-market rate will not be more than 1.25 per cent during any consecutive five-business day period.[28] These builds on the prior action on ensuring full market determination of the exchange rate. Secondly, that Pakistan's statutory amendments to align its early intervention, bank resolution and crisis management arrangements in line with global good practices and in line with IMF staff recommendations will be submitted to its parliament.

In the energy sector, building on from the rolling back on subsidies, the structural conditionality includes the authorities' commitment to issue the

[27] IMF, Country Report No. 2023/60, *op cit.*

[28] The interbank and open market exchange rates are the official regulated foreign exchange markets in Pakistan. The open market rate refers to the transactions carried out by exchange companies.

notification of the annual rebasing for FY24. The notification has been issued by the National Electric Power Regulatory Authority (NEPRA), with upward price adjustments expected to impact consumers across the country. The structural conditionality also addresses the topic of state-owned enterprises with the objective limiting their fiscal risks, including through the improvement of their governance, transparency and efficiency.

The structural conditionality also addresses the climate-induced disaster risks with the cabinet approval of Climate-Public Investment Management Assessment and associated action plan, intended to help the government to identify the mechanisms through which to build low-carbon and climate-resilient infrastructure. Finally, the structural conditionality includes the commitment to compile and disseminate quarterly national accounts statistics for the first quarter of FY24 and the revised annual estimates for FY23.

Contact details

International Labour Organization
Country Office for Pakistan
ILO Building, Sector G5/2, Islamabad
Pakistan

E: islamabad@ilo.org
W: www.ilo.org/islamabad