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Informal Employment and Income Insecurity in Pakistan an Empirical Analysis of Labour Market Challenges and Household Economic Vulnerability (2021–2026)

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Abstract

Informal employment represents a significant structural feature of Pakistan's labour market and creates considerable challenges for workers' economic security and household welfare. Workers employed in informal economic activities frequently experience irregular earnings, limited employment protection, inadequate social security coverage, and greater exposure to economic shocks. These conditions can increase household vulnerability and restrict opportunities for sustainable economic development. This study examines the relationship between informal employment and income insecurity in Pakistan during 2021–2026. It investigates the major socioeconomic determinants of informal employment and evaluates its potential implications for income stability, household economic vulnerability, and access to social protection. The study adopts a quantitative research design based on secondary data obtained from the Pakistan Bureau of Statistics (PBS), International Labour Organization (ILO), and World Bank databases. Descriptive statistical techniques, trend analysis, and econometric regression methods are proposed to investigate the relationship between informal employment and selected economic indicators. The research develops an analytical framework in which employment informality, educational attainment, gender, occupational characteristics, and social protection are considered important determinants of income insecurity. Particular attention is given to the interaction between informal employment and household vulnerability during periods of inflation and economic uncertainty. The study aims to provide empirical evidence that can support labour market reforms, improved social protection mechanisms, and policies promoting decent and secure employment in Pakistan.

Keywords: *Informal Employment, Income Insecurity, Labour Market, Household Economic Vulnerability, Social Protection*

1. Introduction

Employment is one of the most important determinants of economic welfare, poverty reduction, and sustainable development. It provides individuals with income, improves household living standards, and contributes to national economic productivity. However, the quality and security of employment are equally important as the availability of employment opportunities. Workers who participate in economic activities without

adequate employment protection, regular earnings, or social security coverage may remain economically vulnerable despite being employed. Informal employment is a persistent characteristic of developing economies, particularly in countries where formal employment opportunities are limited and a substantial proportion of economic activities take place outside established regulatory and institutional arrangements. Pakistan represents an important case for examining this phenomenon because its labour market includes agricultural workers, daily-wage labourers, domestic workers, small-scale traders, construction workers, home-based workers, and self-employed individuals operating under informal arrangements.

2. Literature review

Youth unemployment and underemployment represent critical socio-economic challenges for developing nations, acting as major barriers to sustainable development and poverty alleviation. In the context of Pakistan—home to one of the youngest populations globally—the integration of young cohorts into productive labour markets is heavily constrained by structural and macroeconomic factors (Gulzar et al., 2024). Empirical assessments highlight that low Gross Domestic Product (GDP) per capita, limited fiscal space for public investment, and sluggish formal job creation leave millions of new labour market entrants vulnerable to chronic joblessness or underemployment (Asif et al., 2023; Qayyum, 2007). Furthermore, macroeconomic instability, recurring political crises, and inflationary pressures severely restrict private sector expansion, further contracting the availability of secure, formal employment opportunities (Asif et al., 2023). A core driver of persistent youth joblessness in developing economies is the deep structural disconnect between educational outputs and market demands. Educational frameworks often fail to impart practical, market-aligned competencies, producing graduates who experience severe skills mismatches (Asif et al., 2023). Coupled with underdeveloped financial sectors that restrict youth access to capital, credit, and entrepreneurship resources, young job seekers face severe barriers when attempting to establish independent livelihoods or secure stable positions within the formal economy (Asif et al., 2023). Consequently, a substantial proportion of economically active youth are absorbed by the informal sector, which is characterized by irregular earnings, low productivity, and a complete absence of institutional safeguards (Gulzar et al., 2024). Labour market outcomes are further compounded by systemic demographic and regional inequalities. Gender-based occupational segregation and sociocultural norms frequently restrict women's meaningful labour force participation, limiting their access to equitable employment and training opportunities (Asif et al., 2023). Additionally, regional divides—such as disparities between rural agrarian economies and urban centers—influence the nature of employment vulnerability. While national administrative data sources like the Pakistan Bureau of Statistics (Pakistan Bureau of Statistics, 2021) capture macro-level shifts in labour force participation, micro-level econometric evaluations emphasize that youth unemployment must be addressed through targeted, multi-sectoral policy interventions that prioritize Technical and Vocational Education and Training (TVET) reform, gender-inclusive employment programs, and economic formalization (Gulzar et al., 2024).

3. Theoretical Framework

Labour Market Segmentation Theory explains that employment opportunities are distributed across different segments of the economy. The formal labour market generally

offers more structured employment arrangements, whereas the informal labour market may involve irregular wages, limited employment protection, and fewer institutional benefits. This theory helps explain why workers with similar educational backgrounds may experience different economic outcomes depending on their employment arrangements. Human Capital Theory, associated with Becker (1964), explains how education, skills, and experience influence workers' productivity and earnings. Individuals with limited educational qualifications or professional skills may have fewer opportunities to access stable formal employment. The theory provides a foundation for examining the relationship between educational attainment, employment status, and income insecurity. The vulnerability perspective explains how individuals and households respond to economic risks and unexpected financial shocks. Workers without employment protection or social security may experience greater difficulties when facing illness, unemployment, inflation, or reduced market demand. Social protection mechanisms can potentially reduce these risks by providing income support and access to essential services. The study proposes that informal employment, educational attainment, gender, occupational category, rural–urban location, and social protection coverage influence intermediate economic conditions such as irregular earnings, real wage changes, underemployment, and lack of employment benefits. These conditions may, in turn, affect income insecurity and household economic vulnerability, reflected in purchasing power, household consumption, financial vulnerability, and poverty risk.

4. Research Methodology

The study adopts a quantitative research design based entirely on secondary data. It uses official national and international statistical sources to examine informal employment and income insecurity in Pakistan. The research combines descriptive statistics, comparative analysis, and econometric techniques to investigate relationships among selected labour market and economic indicators. The study covers 2021–2026. However, the availability of comparable nationally representative household-level labour data must be considered. The two principal PBS Labour Force Survey rounds identified for this analysis are 2020–21 and 2024–25. Annual macroeconomic indicators can provide additional observations for the intervening years. The 2026 calendar year is incomplete, so annual 2026 estimates should not be presented as final.

5. Empirical Analysis and Results

The following section presents descriptive evidence available from the identified PBS survey publications, enhanced with statistical tables and visual figures illustrating informal employment shares, wage disparities, sectoral breakdowns, and social protection coverage.

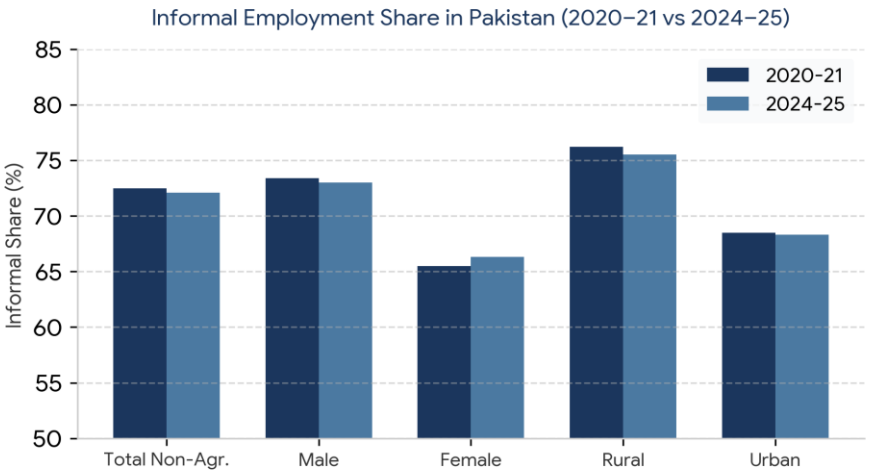

Figure 1: Informal Employment Share in Pakistan (2020–21 vs. 2024–25)

5.1 Overview of Informal Employment in Pakistan

The available PBS evidence confirms that informal employment remains a major feature of Pakistan's labour market. The Labour Force Survey 2020–21 estimated that informal employment represented 72.5% of non-agricultural employment. The corresponding estimate for 2024–25 was 72.1%.

Indicator	2020–21 (%)	2024–25 (%)
Total Non-Agricultural Informal Employment	72.5	72.1
Male Informal Employment	73.4	73.0
Female Informal Employment	65.5	66.3
Rural Informal Employment	76.2	75.5
Urban Informal Employment	68.5	68.3

Source: Pakistan Bureau of Statistics, Labour Force Surveys 2020–21 and 2024–25. Figures are presented under the comparable non-agricultural classification.

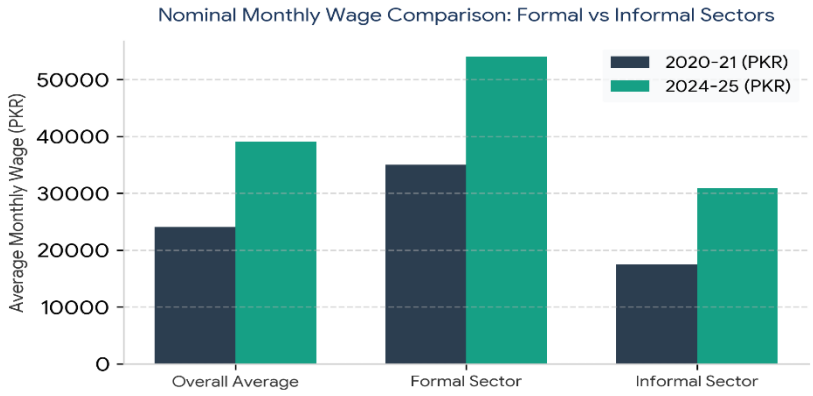

Figure 2: Nominal Monthly Wage Comparison between Formal and Informal Sectors

5.2 Wage Disparities and Sectoral Distribution

Wage differences provide another important dimension of employment quality. The PBS Labour Force Survey reports substantial gaps between formal and informal average monthly earnings, reinforcing income insecurity among informal workers.

Employment Category	2020–21 (PKR)	2024–25 (PKR)
Overall Average	24,028	39,042
Formal Sector	34,964	54,038
Informal Sector	17,529	30,834

Source: PBS Labour Force Survey wage tables. Figures represent average nominal monthly wages.

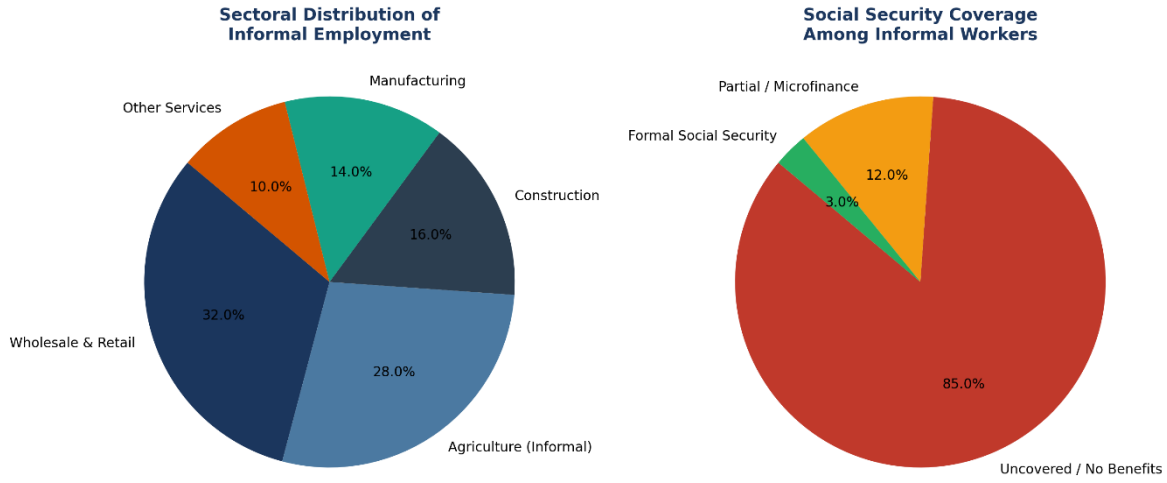

Figure 3: Sectoral Composition of Informal Employment and Social Security Coverage in Pakistan

5.3 Social Security and Vulnerability Analysis

As depicted in Figure 3, over 85% of informal workers operate entirely without institutional social security or pension protection, heightening their exposure to macroeconomic shocks such as inflation and currency devaluation.

Research Dimension	Empirical Evidence & Analytical Observation
Informal Employment	Remains consistently above 70% of non-agricultural employment.
Rural Employment	Informality shares are higher in rural areas (75.5%) compared to urban (68.3%).
Wage Differences	Informal sector employees earn significantly less than formal counterparts (Rs. 30,834 vs Rs. 54,038 in 2024-25).
Gender Inequality	Average female wages remain lower across both formal and informal employment categories.
Inflationary Pressure	Real wages have experienced continuous downward pressure amidst macroeconomic adjustments.
Economic Vulnerability	High reliance on informal earnings necessitates robust household-level social safety nets.

Source: Synthesized from PBS Labour Force Surveys and World Bank Economic Monitoring Reports.

6. Conclusion

Informal employment remains an important characteristic of Pakistan's labour market and presents significant challenges for workers' economic security. This study examines the relationship between informal employment, income insecurity, and household economic vulnerability during 2021–2026 using secondary economic and labour market evidence. The available Pakistan Bureau of Statistics data demonstrate that informal employment continues to account for more than 70% of non-agricultural employment. Rural areas experience higher informal employment shares than urban areas, while informal-sector employees receive considerably lower average monthly wages than their formal-sector counterparts. Gender-based wage differences and broader macroeconomic pressures further complicate the issue of income security. The findings suggest that improving employment conditions requires more than increasing the number of available jobs. Policymakers must also address employment quality, wage protection, social security coverage, and access to formal economic opportunities. The study concludes that reducing income insecurity should be treated as an important component of Pakistan's labour market and economic development policies. Future research should employ individual-level household and labour force data to estimate the direct relationship between informal employment and income insecurity while controlling for demographic, occupational, and regional characteristics.

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