

**COUNTRY BRIEF**



# From Hormuz to the Frontlines of Hunger

The Middle East War's Economic Impact on Pakistan



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**MAY 2026**

## Executive Summary

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Just over two months after the latest outbreak of conflict in the Middle East and the effective closure of the Strait of Hormuz, economic shocks have reached households far from the fighting and are already apparent in fuel costs, fertilizer prices, supply chain disruption and currency pressure. Pakistan is structurally exposed to each of these pressures. It imports 80 to 85 per cent of its petroleum through the Strait of Hormuz,<sup>1</sup> routes approximately 99 per cent of all its active contracted Liquefied Natural Gas (LNG) supply from Qatar and the UAE,<sup>2</sup> and depends on gas-fed fertilizer production to grow its staple crops. The risk of compounding impact on remittance-receiving households, driven by potential disruption to millions of Pakistani workers in the Gulf, is an additional forward-looking concern.

Shocks from the conflict have landed on Pakistan faster than on any other country in the Mercy Corps analysis of six crisis-affected economies in *From Hormuz to the Frontlines of Hunger* (April 2026). One week into the war, Pakistan's fuel regulator issued the largest single-day price adjustment in the country's history – a direct pass-through of the global oil price spike to household fuel costs. Two rounds of government subsidies brought prices down partially, before a further increase on 25 April – driven by renewed global price pressure and International Monetary Fund (IMF) fiscal commitments – pushed petrol to Rs 393.35 and diesel to Rs 380.19. Both remain approximately 48 per cent above pre-war levels for petrol and 36 per cent above for diesel. As is typical in import-dependent economies, prices rose within days of the global spike and will take weeks or months to fall, even if global prices ease.

The fertilizer shock is arriving at the worst possible moment. Global urea prices – the key measure of fertilizer costs – rose approximately 85 per cent between December 2025 and March 2026, driven by the gas price spike and the removal of approximately 30 per cent of global nitrogen fertilizer exports from Qatari and Saudi producers. Pakistan's kharif planting window is active now. The October and November harvests it determines feed millions of families nationwide and depend on fertilizer restocking through May. The point at which farmer behavior changes irreversibly may already have been reached. The Food and Agriculture Organization (FAO) Chief Economist warned that disruption beyond 40 days risks triggering responses that are difficult to reverse — reduced fertilizer use, crop switching, smaller planted areas — with consequences that carry through the 2026 and 2027 harvests regardless of any political settlement.<sup>3</sup> That threshold was crossed on 9 April, during the ceasefire window.

The populations most directly exposed are specific and already had limited buffer to absorb financial shocks. Daily-wage laborers in Pakistan's major urban centers, including Karachi, Lahore, Faisalabad, Rawalpindi, Multan and Peshawar, have absorbed the full fuel cost increase through informal transport costs. Smallholder farmers in Punjab in the country's east and Sindh in the southeast – the two provinces that together produce the majority of Pakistan's wheat and rice – face higher diesel costs for irrigation and higher fertilizer costs at the opening of the kharif window. Remittance-dependent households

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<sup>1</sup> Al Jazeera (2026) 'Pakistan orders sweeping austerity measures as Iran war triggers oil crisis', 10 March. Available at: <https://www.aljazeera.com/news/2026/3/10/pakistan-orders-sweeping-austerity-measures-as-iran-war-triggers-oil-crisis> (Accessed: April 2026).

<sup>2</sup> Al Jazeera (2026) 'How war on Iran turned Pakistan's LNG surplus into a looming shortage', 3 April. Available at: <https://www.aljazeera.com/news/2026/4/3/how-war-on-iran-turned-pakistans-lng-surplus-into-a-looming-shortage> (Accessed: April 2026); CRU Group (2026) Global nitrogen fertiliser export flow analysis, March. Available at: <https://www.crugroup.com/> (Accessed: April 2026).

<sup>3</sup> FAO Chief Economist warns of severe global food security risks', UN press briefing, 26 March. Available at: <https://www.fao.org/newsroom/en> (Accessed: April 2026).

concentrated in South Punjab and Khyber Pakhtunkhwa are acutely exposed to the risk of a future remittance corridor shock should the conflict persist.

Pakistan's official exchange rate has barely moved since the Middle East war began. That reflects active SBP management under an IMF program that formally calls for greater exchange rate flexibility, not evidence that the underlying pressure has eased. The current rate posture is a GoP policy choice, not an IMF requirement. Informal currency markets are already pricing a 4 to 5 per cent premium over the official rate – a signal that demand for dollars is outrunning official supply.

Pakistan entered the war in an improved but structurally fragile position. Inflation had fallen from over 30 per cent in 2023 to 3.5 per cent by end-2025, and foreign exchange reserves had rebuilt to USD 21.4 billion by late February, with the IMF program on track. That gave the government room to absorb some of this shock – through emergency austerity measures, targeted fuel subsidies, domestic gas reallocation to restore fertilizer production, and naval escorts for merchant vessels. But absorption capacity under the IMF program's fiscal rules is limited. The 7 April ceasefire has not restored the Strait of Hormuz to normal commercial operation. Costs already locked into the fertilizer import bill, the exchange rate premium and road freight pricing will continue to transmit regardless of the diplomatic picture.

Three pressure points will determine how the next six to ten weeks unfold. Whether Qatari LNG supply resumes in time to maintain fertilizer production before the kharif planting window closes; if it does not, reduced harvests and higher food prices will follow in late 2026 and into 2027. Whether the IMF approves the next loan disbursement; approval stabilizes the exchange rate, delay puts it under immediate pressure. And whether Gulf remittance flows hold – approximately USD 3 to 4 billion per year is at risk if the conflict persists and Gulf labor markets contract, which would remove roughly one per cent of Pakistan's GDP from household incomes already under strain. Each of these risks compounds the others.<sup>4</sup>

For humanitarian and development actors operating in Pakistan, two actions cannot wait: cash transfer values need to be recalculated against the post-war cost base before mid-May to preserve purchasing power, and fertilizer pre-positioning for smallholder farmers needs to happen before the planting window closes – funding deployed after either deadline will arrive too late.

## KEY FINDINGS

**Global urea prices have already risen beyond what domestic support measures can easily absorb – and they are landing on Pakistan's main planting season.** The World Bank Pink Sheet urea price rose approximately 85 per cent between December 2025 and March 2026, the largest price move in any commodity during the war period.<sup>5</sup> Pakistan's exposure is direct: approximately 30 per cent of domestic urea production depends on regasified Qatari LNG, and LNG imports from Qatar were suspended on 2 March. Of eight cargo shipments scheduled for March, only two arrived – both pre-conflict vessels already en route. Pakistan's critical kharif planting season is active from April, with fertilizer restocking required through May, determining the October and November harvests that feed millions of families nationwide. The FAO Chief Economist warned that disruption beyond 40 days triggers farmer

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<sup>4</sup> Mercy Corps (2026) From Hormuz to the Frontlines of Hunger: The Middle East War's Economic Reach into Six Fragile Contexts, April. Available at: <https://www.mercycorps.org/research-resources/hormuz-to-hunger> (Accessed: April 2026).

<sup>5</sup> World Bank (2026) Commodity Markets: Pink Sheet Data – Monthly Prices, March 2026. Available at: <https://www.worldbank.org/en/research/commodity-markets> (Accessed: 28 April 2026).

behavioral responses, including reduced fertilizer use, crop switching, and smaller planted areas.<sup>6</sup> That threshold was crossed on 9 April, with potential consequences for this year's harvest and food prices into 2027.

**Pakistan's fuel regulator issued the largest single-day price adjustment in the country's history and high prices are proving slow to reverse, meaning retailers and households will continue to pay premiums at the pump.** Brent crude rose 78 per cent over six weeks, peaking at USD 126.69 per barrel on 31 March.<sup>7</sup> Retail prices peaked in early April before two rounds of targeted government subsidies reduced them partially. A further Oil and Gas Regulatory Authority (OGRA) adjustment on 25 April – attributed to renewed regional tensions and IMF fiscal commitments<sup>8</sup> – pushed them higher again, leaving petrol and diesel approximately 48 and 36 per cent above pre-war levels respectively.<sup>9</sup> Road freight rates rose an estimated 22 to 30 per cent between mid-February and late March, with full transmission to wholesale food prices expected through April and May.<sup>10</sup> As importers are still working through fuel stocks purchased at peak prices, and government subsidies have limited capacity to accelerate the reversal under the IMF program's fiscal rules, households and retailers will continue paying higher prices for weeks or months even if global oil prices ease.

**The Pakistani rupee's stability reflects active government management, not evidence that the underlying pressure has eased.** The official exchange rate moved less than 0.3 per cent between 6 and 14 April, in a currency whose oil import bill absorbed a 78 per cent rise in crude over six weeks.<sup>11</sup> Informal currency markets are pricing a 4 to 5 per cent premium over the official rate – the clearest available signal that demand for dollars is outrunning official supply.<sup>12</sup> The IMF and Pakistan reached a staff-level agreement on approximately USD 1.2 billion in further disbursement on 27 March, pending Executive Board approval. That decision is the single largest forward variable for exchange rate stability. If it is delayed or conditioned, the exchange rate moves and the real value of every rupee-denominated salary, saving and cash transfer falls immediately.

**Gulf remittances represent the largest risk, though this shock transmission has not yet materialized in available data.** Pakistan received a record USD 38.3 billion in formal remittances in

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<sup>6</sup> FAO (2026) 'FAO Chief Economist warns of severe global food security risks', UN press briefing, 26 March. Available at: <https://www.fao.org/newsroom/en> (Accessed: April 2026).

<sup>7</sup> U.S. Energy Information Administration (2026) Crude Oil Prices: Brent – Europe, retrieved via Federal Reserve Economic Data, series DCOILBRETEU. Available at: <https://fred.stlouisfed.org/series/DCOILBRETEU> (Accessed: 30 April 2026).

<sup>8</sup> Dawn (2026) 'Surprise fuel hike adds to burden on consumers', 25 April. Available at: <https://www.dawn.com/news/1994919> (Accessed: 28 April 2026).

<sup>9</sup> Oil and Gas Regulatory Authority (2026) Fuel price notifications, 1 March, 7 March, 3 April, 5 April, 11 April and 25 April. Available at: <https://www.ogra.org.pk/> (Accessed: April 2026); Dawn (2026) 'Surprise fuel hike adds to burden on consumers', 25 April. Available at: <https://www.dawn.com/news/1994919> (Accessed: 28 April 2026).

<sup>10</sup> Dawn (2026) Coverage of road-freight repricing, March-April 2026. Available at: <https://www.dawn.com/> (Accessed: April 2026); Business Recorder (2026) Coverage of road-freight repricing, March-April 2026. Available at: <https://www.brecorder.com/> (Accessed: April 2026).

<sup>11</sup> State Bank of Pakistan (2026) Daily Exchange Rate Bulletin, 6-14 April. Available at: <https://www.sbp.org.pk/ecodata/rates/eer/> (Accessed: April 2026).

<sup>12</sup> Binance (2026) USDT/PKR Peer-to-Peer Market, war-period daily observations, 7-13 April. Available at: <https://www.binance.com/en/crypto/buy/USDT> (Accessed: April 2026).

Financial Year (FY) 2025 – approximately 9 to 10 per cent of GDP – with Middle East corridors accounting for approximately 54 per cent of total remittances.<sup>13</sup> Approximately 6 million Pakistanis work in Gulf Cooperation Council (GCC) countries. The March 2026 data – the first full war-period read – show no mass return and no material corridor disruption.<sup>14</sup> The Pakistan Institute of Development Economics (PIDE) projects that a sustained conflict could prevent 500,000 prospective migrants from traveling and prompt the return of a further 500,000 existing migrants already in the Gulf, reducing annual remittances by USD 3 to 4 billion.<sup>15</sup> Remittance-dependent households in Khyber Pakhtunkhwa and South Punjab – where Gulf transfers are often the primary household income source – are not yet exposed, but carry the full weight of that forward risk.

**Pakistan is still receiving cargo at its ports, but at a higher cost. The shock is arriving through freight rates and insurance premiums, not through ships failing to arrive.** The broader strait picture has worsened since April: daily transits averaged 5 to 11 vessels in early May against a pre-war baseline of approximately 95 to 120, and competing US and Iranian control regimes are now operating simultaneously.<sup>16</sup> Pakistan's protected-access status under the 26 March Iranian framework has kept cargo moving, but the cost premium persists and the logistics risk has not eased. Commercial shipping through the Strait of Hormuz collapsed approximately 94 per cent during the war period.<sup>17</sup> On 26 March, Iran named Pakistan among five countries whose vessels would be allowed to transit the Strait – a meaningful differentiator from most other countries in this series. Karachi and Port Qasim have continued receiving cargo throughout the war period. But war-risk insurance premiums for Hormuz transits peaked at 2 per cent of vessel value in mid-March, against a pre-war baseline of 0.04 per cent. The 17 April Iranian announcement that the Strait was open to all shipping has not restored commercial traffic to pre-war levels. The Strait is no longer operating as a normal commercial waterway, and for Pakistani importers, the cost premium persists regardless of the diplomatic headlines.

## PURPOSE AND SCOPE

This country paper extends the Pakistan section of *From Hormuz to the Frontlines of Hunger* (April 2026) with deeper analysis of the five transmission channels most exposed: fertilizer, retail and consumer fuel, commercial shipping and insurance, currency and purchasing power, and remittances. It includes data up

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<sup>13</sup> State Bank of Pakistan (2025) Press Release of Workers' Remittances in June 2025, 9 July. Available at: <https://www.sbp.org.pk/press/2025/Pr-09-Jul-2025.pdf> (Accessed: 28 April 2026); Pakistan Institute of Development Economics (2026) 'The Middle East Conflict and Its Implications for Pakistani Migrant Workers', Policy Viewpoint No. 54:2026. Available at: <https://pide.org.pk/research/the-middle-east-conflict-and-its-implications-for-pakistani-migrant-workers/> (Accessed: 28 April 2026).

<sup>14</sup> State Bank of Pakistan (2026) Press Release of Workers' Remittances for March 2026, 8 April. Available at: <https://www.sbp.org.pk/press/2026/Pr-08-Apr-2026.pdf> (Accessed: 27 April 2026).

<sup>15</sup> Pakistan Institute of Development Economics (2026) 'The Middle East Conflict and Its Implications for Pakistani Migrant Workers', Policy Viewpoint No. 54:2026. Available at: <https://pide.org.pk/research/the-middle-east-conflict-and-its-implications-for-pakistani-migrant-workers/> (Accessed: 28 April 2026).

<sup>16</sup> Lloyd's List (2026) weekly Hormuz transit data, week to 3 May (approximately 40 total transits); Windward Maritime Intelligence (2026) daily Hormuz transit observations, 6 May (7 vessels: 5 inbound, 2 outbound). Available at: <https://insights.windward.ai/> (Accessed: 8 May 2026); PBS/AP (2026) 'U.S. says 2 merchant ships have crossed the Strait of Hormuz as Navy helps to restore shipping traffic', 5 May. Available at: <https://www.pbs.org/newshour/world/u-s-says-2-merchant-ships-have-crossed-the-strait-of-hormuz-as-navy-helps-to-restore-shipping-traffic> (Accessed: 8 May 2026); CNN (2026) 'Iran imposes new rules for Hormuz in effort to cement control of key waterway', 7 May. Available at: <https://www.cnn.com/2026/05/07/middleeast/iran-hormuz-rules-warime-gains-intl> (Accessed: 8 May 2026).

<sup>17</sup> International Monetary Fund (2026) PortWatch: Daily Chokepoint Transit Calls and Transit Trade Volume Estimates. Available at: [https://portwatch.imf.org/datasets/42132aa4e2fc4d41bdaf9a445f688931\\_0/about](https://portwatch.imf.org/datasets/42132aa4e2fc4d41bdaf9a445f688931_0/about) (Accessed: 28 April 2026).

until the 28<sup>th</sup> April and reflects conditions to this date; given the dynamic nature of the situation, inferences beyond this should review and consider updated data and information.

Every factual claim carries a named public source and date, either in the body text or in a footnote. Global benchmarks draw on the US Energy Information Administration, World Bank Pink Sheet, Federal Reserve Economic Data (FRED), and IMF PortWatch. Pakistani series draw on the State Bank of Pakistan, Pakistan Bureau of Statistics, the Oil and Gas Regulatory Authority (OGRA), USDA Foreign Agricultural Service, and Pakistani business press. Institutional assessments draw on the World Bank *MENAAP Economic Update* (8 April), the OCHA Asia and the Pacific regional overview (3 April), the WFP *Pakistan Market Monitor* (3 April), the IMF staff-level agreement statement (28 March), and published research from the Pakistan Institute of Development Economics. Input from the Mercy Corps Pakistan country office team has been integrated throughout. Full detail in the source register at the end.

The paper does not predict ceasefire outcomes and does not take a view on the conduct of the war. Pakistan's kharif harvest outlook for October and November 2026, and the downstream food price effects in Q4 2026 and Q1 2027, reflect analytical inferences rather than observed outcomes. Retail-level fertilizer pricing at the agrodealer level has not been fully recorded in public price series. This is the critical data gap for confirming whether the production-side shock is reaching farmers and is the focus of the monitoring framework at the end of the paper.

The transmission channel section that follows documents observed and inferred evidence of economic shock transmission across five Pakistan-specific channels, identifying primary exposure and the populations most directly affected. The implications and priorities section identifies specific, time-bound actions that are warranted by the evidence and defensible under any ceasefire outcome.

## Pakistan: Structural Characteristics

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Pakistan entered the war in a stronger economic position than the other countries studied in this series, giving it more room to absorb the initial shock. Inflation had fallen sharply, from 30 per cent in 2023 to 3.5 per cent by the end of 2025. Foreign exchange reserves had rebuilt to USD 21.4 billion by late February, with USD 16.3 billion held at the central bank. Remittances reached a record USD 38.3 billion in the year to June 2025, up 27 per cent on the previous year. The IMF Extended Fund Facility was on track, with a staff-level agreement announced on 28 March 2026 pointing to a further USD 1.2 billion disbursement subject to Board approval.<sup>18</sup>

Three structural vulnerabilities sit underneath the headline position. First, Pakistan's domestic natural gas production has fallen 20 per cent over five years, and all major gas fields are now producing less than previously.<sup>19</sup> This is the structural reason Pakistan's fertilizer sector is exposed to Qatari LNG disruption: domestic gas cannot close the gap. Second, the 2025/26 wheat harvest, being brought in now, was already

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<sup>18</sup> World Bank (2025) Pakistan Development Update: Staying the Course for Growth and Jobs, October. Available at: <https://www.worldbank.org/en/news/press-release/2025/10/27/-pakistan-sustained-reforms-needed-for-inclusive-growth-economic-stability-and-flood-recovery> (Accessed: April 2026); State Bank of Pakistan (2025) Statistical Bulletin. Available at: [https://www.sbp.org.pk/reports/stat\\_reviews/Bulletin/index.htm](https://www.sbp.org.pk/reports/stat_reviews/Bulletin/index.htm) (Accessed: April 2026); International Monetary Fund (2025) World Economic Outlook, October. Available at: <https://www.imf.org/en/Publications/WEO> (Accessed: April 2026).

<sup>19</sup> Hydrocarbon Development Institute of Pakistan (2025) Pakistan Energy Yearbook 2024-25. Available at: <https://www.hdip.gov.pk/pakistan-energy-yearbook> (Accessed: April 2026); State Bank of Pakistan (2025) Domestic gas production statistics, FY2020-FY2025, via SBP EasyData. Available at: <https://easydata.sbp.org.pk/> (Accessed: April 2026). Reference fields: Qadirpur, Sui, Uch and Mari.

forecast before the war at 13 per cent below last year's record output, driven by dry weather, reduced planted area and the government's decision to end guaranteed purchase prices. The price of wheat flour was already up approximately 26 per cent year-on-year before the war started.<sup>20</sup> Third, the Afghanistan border has been closed since October 2025, restricting land trade routes to the west.

Simultaneously, the Afghanistan-Pakistan military escalation and the heavy rainfall across Balochistan and Khyber Pakhtunkhwa in late March are compounding the pressure on households already absorbing the war-driven shock.<sup>21</sup> These pressure sources are not attributable to the Middle East war, and this paper keeps that distinction explicit.

## Shock Transmission Channels

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### CHANNEL I: FERTILIZER

Natural gas is both raw material and energy source for producing urea fertilizer, typically making up 70 to 80 per cent of production costs. The war drove sharp gas price increases: the region's Asian LNG benchmark more than doubled, from approximately USD 10 per million British thermal units pre-war, to above USD 22 at its peak in mid-March.<sup>22</sup> The closure of the Strait of Hormuz removed approximately 30 per cent of global nitrogen fertilizer exports, predominantly from Qatari and Saudi producers, and an 85 per cent rise in global urea prices soon followed.<sup>23</sup>

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<sup>20</sup>USDA Foreign Agricultural Service (2026) Pakistan: Grain and Feed Annual. Available at: <https://www.fas.usda.gov/data/pakistan-grain-and-feed-annual-8> (Accessed: April 2026).

<sup>21</sup>OCHA (2026) Afghanistan Situation Update #3: Humanitarian Impact of Afghanistan-Pakistan Military Escalation, 5 April. Available at: <https://www.unocha.org/publications/report/afghanistan/afghanistan-situation-update-3-humanitarian-impact-afghanistan-pakistan-military-escalation-5-april-2026> (Accessed: April 2026); UN Women (2026) Border Tensions, Women's Realities: A Gender Alert on the Afghanistan-Pakistan Hostilities, March. Available at: <https://asiapacific.unwomen.org/en/digital-library/publications/2026/03/a-gender-alert-on-the-afghanistan-pakistan-hostilities> (Accessed: April 2026); World Food Programme (2026) Pakistan Rain Monitor, Issue 1 (30 March to 8 April), 2 April. Available at: <https://www.wfp.org/countries/pakistan> (Accessed: April 2026).

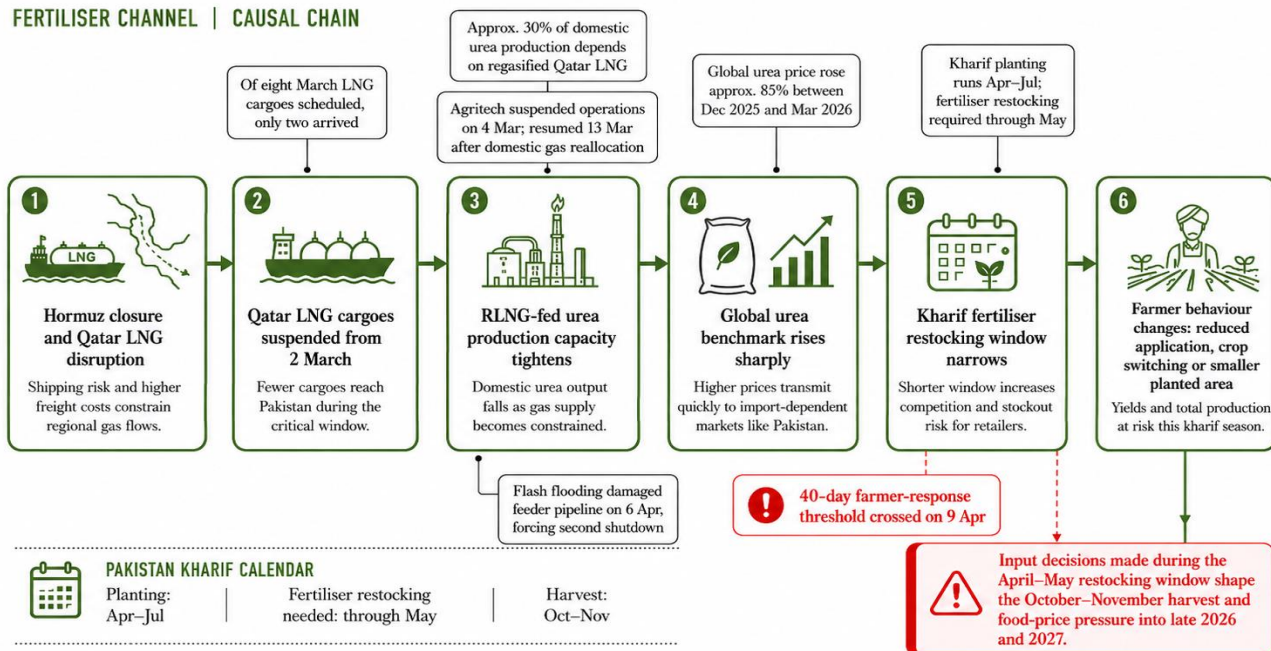
<sup>22</sup>Reuters (2026) 'Iran attack wipes out 17% of Qatar's LNG capacity for up to five years: QatarEnergy CEO', 19 March. Available at: <https://www.reuters.com/business/energy/iran-attack-damage-wipes-out-17-qatars-lng-capacity-three-five-years-qatarenergy-2026-03-19/> (Accessed: April 2026); S&P Global Commodity Insights (2026) 'QatarEnergy expects 3–5 years to repair LNG facilities after strikes', 19 March. Available at: <https://www.spglobal.com/energy/en/news-research/latest-news/electric-power/031926-qatarenergy-expects-3-5-years-to-repair-lng-facilities-after-strikes> (Accessed: April 2026).

<sup>23</sup>CRU Group (2026) Global nitrogen fertiliser export flow analysis, March. Available at: <https://www.crugroup.com/> (Accessed: April 2026); FAO (2026) FAO Food Price Index, Rome, 3 April. Available at: <https://www.fao.org/worldfoodsituation/foodpricesindex/en/> (Accessed: April 2026).

# Channel 1: Fertiliser Shock and Kharif Harvest Lock-In

Gas and LNG disruption is reaching Pakistan's staple-crop production window

## FERTILISER CHANNEL | CAUSAL CHAIN



Sources: Al Jazeera; CRU Group; World Bank Pink Sheet; Dawn; Business Recorder; FAO; Mercy Corps analysis.

**Pakistan's exposure is direct.** The country produces around 7 million tons of urea per year and before the war was broadly self-sufficient. However, approximately 1.6 million tons of that annual capacity depends on imported LNG rather than domestic gas. Qatar was Pakistan's sole active supplier and imports were suspended on 2 March: of eight cargoes scheduled for March, only two arrived, both vessels already en route at sea prior to the war beginning. The volume of gas being processed at Port Qasim fell by around 80 per cent and Pakistani officials warned that LNG would run out after 14 April.<sup>24</sup>

**The government response has partly worked and partly not held.** One main urea producer, AgriTech, suspended operations on 4 March after its gas supplier declared it could no longer fulfill its contract. AgriTech resumed operations on 13 March after the government reallocated domestic gas from other sectors, demonstrating that where domestic reserves exist, there is some room for maneuver. But the reprieve was short-lived. On 6 April 2026, flash flooding in Khyber Pakhtunkhwa damaged a feeder pipeline to the AgriTech plant, forcing a second shutdown.<sup>25</sup> This compounding shock, first on gas supply and then on physical infrastructure due to extreme weather, illustrates the fragility of domestic production as a fallback during times of import disruption.

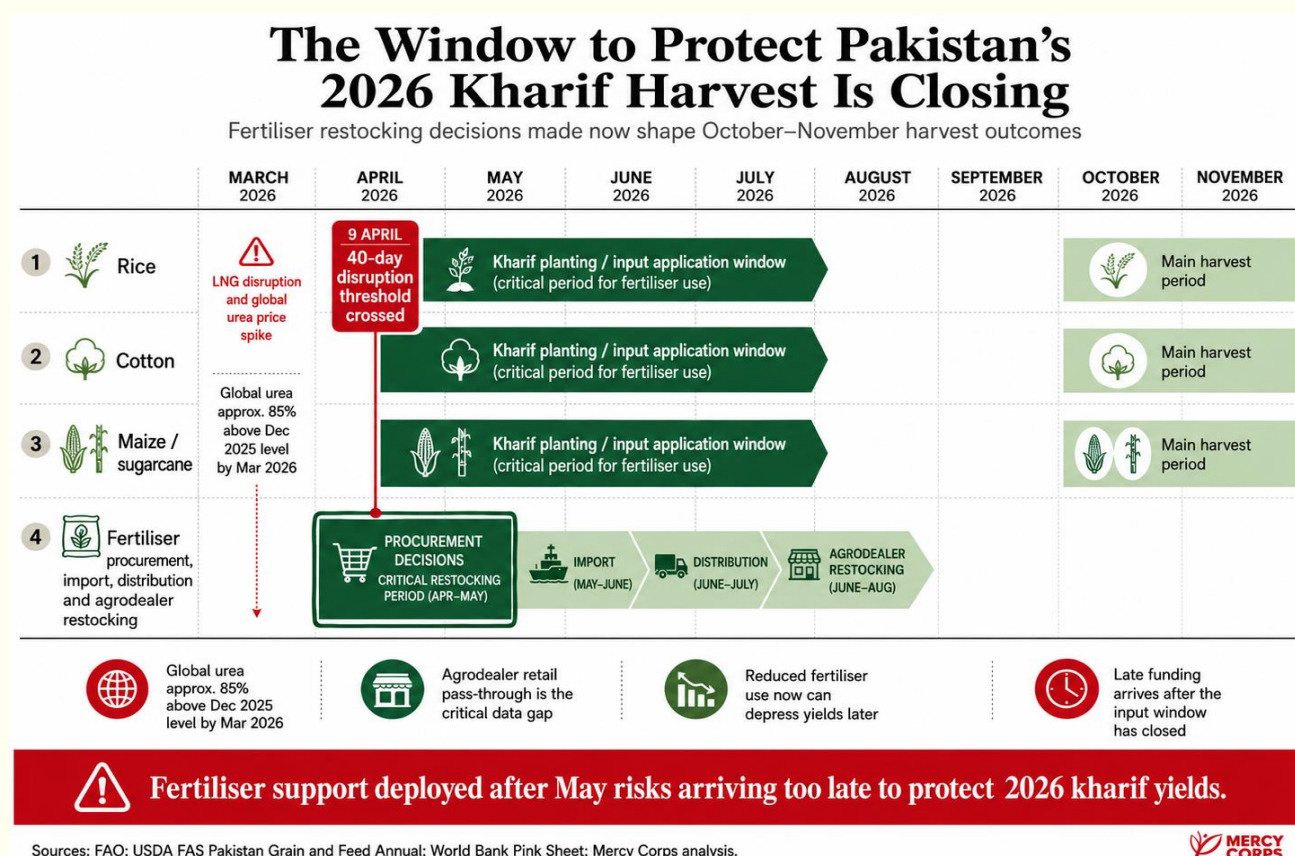
**The timing of these fertilizer shocks increases the urgency.** The kharif planting season runs from April to July, requires fertilizer restocking through May and determines yields for the October and

<sup>24</sup>Al Jazeera (2026) 'How war on Iran turned Pakistan's LNG surplus into a looming shortage', 3 April. Available at: <https://www.aljazeera.com/news/2026/4/3/how-war-on-iran-turned-pakistans-lng-surplus-into-a-looming-shortage> (Accessed: April 2026); Dawn Business (2026) Coverage of Pakistan LNG regasification at Port Qasim, March-April. Available at: <https://www.dawn.com/business> (Accessed: April 2026).

<sup>25</sup>Dawn (2026) 'AgriTech shuts urea plant due to disrupted LNG supply', 4 March. Available at: <https://www.dawn.com/news/1978251> (Accessed: April 2026); Business Recorder (2026) 'SNGPL restores gas supply to AgriTech urea plant', 13 March. Available at: <https://www.brecorder.com/news/40411460/sngpl-restores-gas-supply-to-agritech-urea-plant> (Accessed: April 2026); Profit by Pakistan Today (2026) Coverage of AgriTech 6 April flash-flood pipeline shutdown, 7 April. Available at: <https://profit.pakistantoday.com.pk/> (Accessed: April 2026).

November harvests. If fertilizer retail prices pass through to Pakistani agrodealers at anything close to the global benchmark move, smallholder farmers face the choice between higher-cost inputs, reduced application, crop switching, or smaller planted areas. The FAO Chief Economist has stated that disruption beyond 40 days triggers farmer behavioral responses that carry through to the 2026 and 2027 harvests. The war reached day 40 on 9 April 2026, during the ceasefire window.<sup>26</sup>

**Today's input shortage becomes next season's food price shock.** Smallholder farmers in Punjab, Sindh and Khyber Pakhtunkhwa face the immediate choice now: pay higher input costs, reduce fertilizer application, switch to less input-intensive crops, or plant smaller areas. Each of those decisions reduces their income and output this season. Kharif accounts for the majority of Pakistan's cotton and rice output and a meaningful share of maize and sugarcane; a weak harvest in October and November means less income for the farmers who grow it and less rural employment in the harvesting and processing that depends on it. Urban poor households in Karachi, Lahore and Faisalabad face the same shock on a different timeline: the food price consequences of planting decisions made now will reach city markets six to nine months later, in the fourth quarter of 2026 and into 2027.



## CHANNEL 2: RETAIL FUEL AND CONSUMER PRICES

Pakistan imports 80 to 85 per cent of its petroleum, historically routed through Hormuz to Karachi and Port Qasim. Brent crude rose 78 per cent in six weeks, peaking at USD 126.69 on 31 March 2026.<sup>27</sup> Dubai

<sup>26</sup>FAO (2026) 'FAO Chief Economist warns of severe global food security risks', UN press briefing, 26 March. Available at: <https://www.fao.org/newsroom/en> (Accessed: April 2026); FAO (2026) FAO Food Price Index, March release. Available at: <https://www.fao.org/worldfoodsituation/foodpricesindex/en/> (Accessed: April 2026).

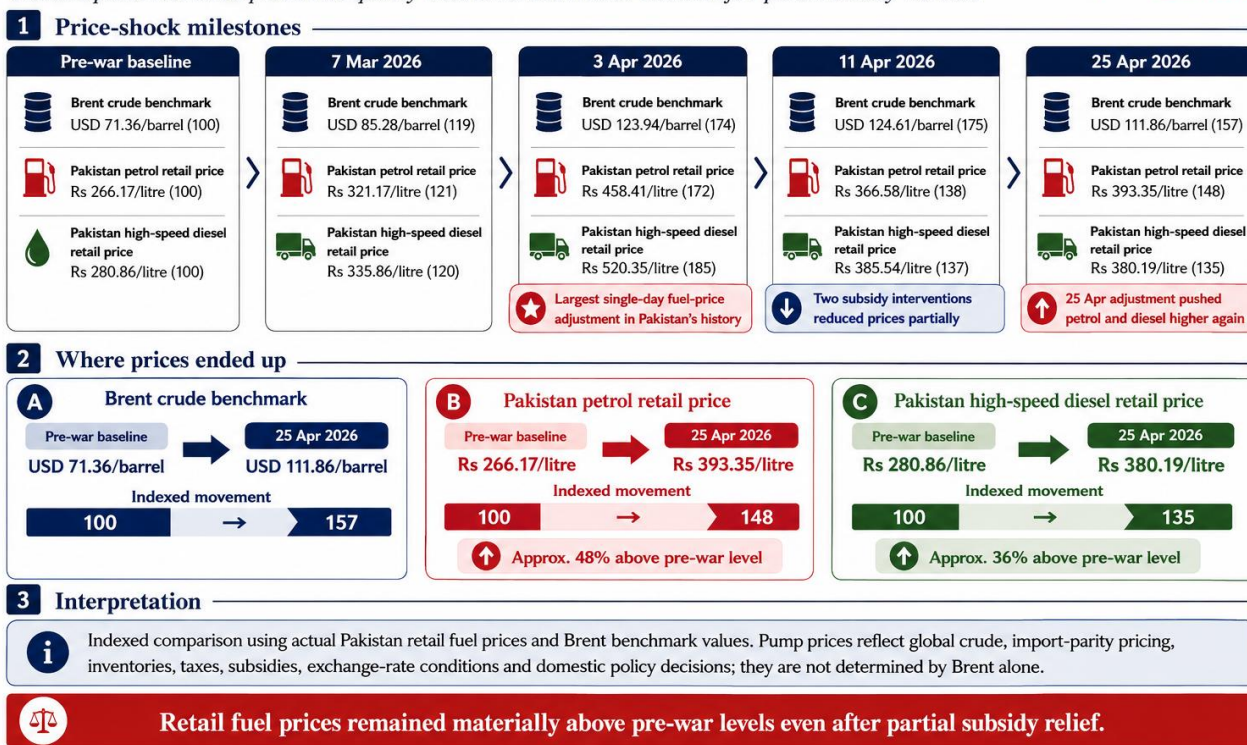
<sup>27</sup>U.S. Energy Information Administration (2026) Crude Oil Prices: Brent – Europe, retrieved via Federal Reserve Economic Data, series DCOILBRENTU. Available at: <https://fred.stlouisfed.org/series/DCOILBRENTU> (Accessed: 30 April 2026). 27 February 2026 pre-war baseline to 31 March 2026 peak.

crude, the benchmark for Asian refinery imports, rose 34 per cent month-on-month from February to March.<sup>28</sup>

Pakistan's fuel regulator issued the largest single-day price adjustment in the country's history on 3 April. Retail prices first adjusted on 7 March via an OGRA notification, with petrol and diesel each rising by Rs 55 per liter, petrol from Rs 266.17 to Rs 321.17, diesel from Rs 280.86 to Rs 335.86.<sup>29</sup> Prices continued rising and reached Rs 458.41 per liter for petrol and Rs 520.35 for diesel on 3 April, increases of approximately 43 and 55 per cent respectively against the 7 March baseline, the largest single-day fuel-price adjustment in Pakistan's history.<sup>30</sup> Two government subsidy interventions on 10 and 11 April reduced prices to Rs 366.58 for petrol and Rs 385.54 for diesel.<sup>31</sup> A further OGRA adjustment on 25 April pushed petrol to Rs 393.35 and diesel to Rs 380.19, leaving both well above pre-war levels: Petrol was approximately 72 per cent above the pre-war baseline at the 3 April peak, before easing to approximately 48 per cent above pre-war by 25 April. Diesel was approximately 85 per cent above the pre-war baseline at the 3 April peak, before easing to approximately 35–36 per cent above pre-war by 25 April.

## Channel 2: Retail Fuel Prices Remain Above Pre-War Levels

Pakistan petrol and diesel prices rose quickly with Brent and remain elevated after partial subsidy reversals



Sources: OGRA; Pakistan Today; Dawn; PakistanPetrolPrices.com; EIA/FRED Brent crude; Mercy Corps analysis.

## Higher fuel prices are proving slow to reverse, and the gap between global benchmarks and

<sup>28</sup>CNBC (2026) 'Iran war-hit oil prices will soon rise if Hormuz stays shut', 28 March. Available at: <https://www.cnbc.com/2026/03/28/oil-gas-prices-iran-war-hormuz.html> (Accessed: April 2026).

<sup>29</sup> Pakistan Today (2026) 'Govt announces Rs55 per litre increase in petrol and diesel prices', 7 March. Available at: <https://www.pakistantoday.com.pk/2026/03/07/government-raises-petrol-and-diesel-prices-by-rs55-per-litre> (Accessed: 27 April 2026).

<sup>30</sup> Business Standard (2026) 'Pakistan hikes petrol, diesel prices by record 43% and 55% amid Iran war', 3 April. Available at: [https://www.business-standard.com/world-news/pakistan-hikes-petrol-diesel-prices-by-record-43-and-55-amid-iran-war-126040300353\\_1.html](https://www.business-standard.com/world-news/pakistan-hikes-petrol-diesel-prices-by-record-43-and-55-amid-iran-war-126040300353_1.html) (Accessed: 27 April 2026); Oil and Gas Regulatory Authority (2026) Fuel price notifications, 10 and 11 April. Available at: <https://www.ogra.org.pk/> (Accessed: April 2026).

<sup>31</sup> Dawn (2026) 'Surprise fuel hike adds to burden on consumers', 25 April. Available at: <https://www.dawn.com/news/1994919> (Accessed: 28 April 2026); OGRA notifications, 25 April 2026; PakistanPetrolPrices.com.

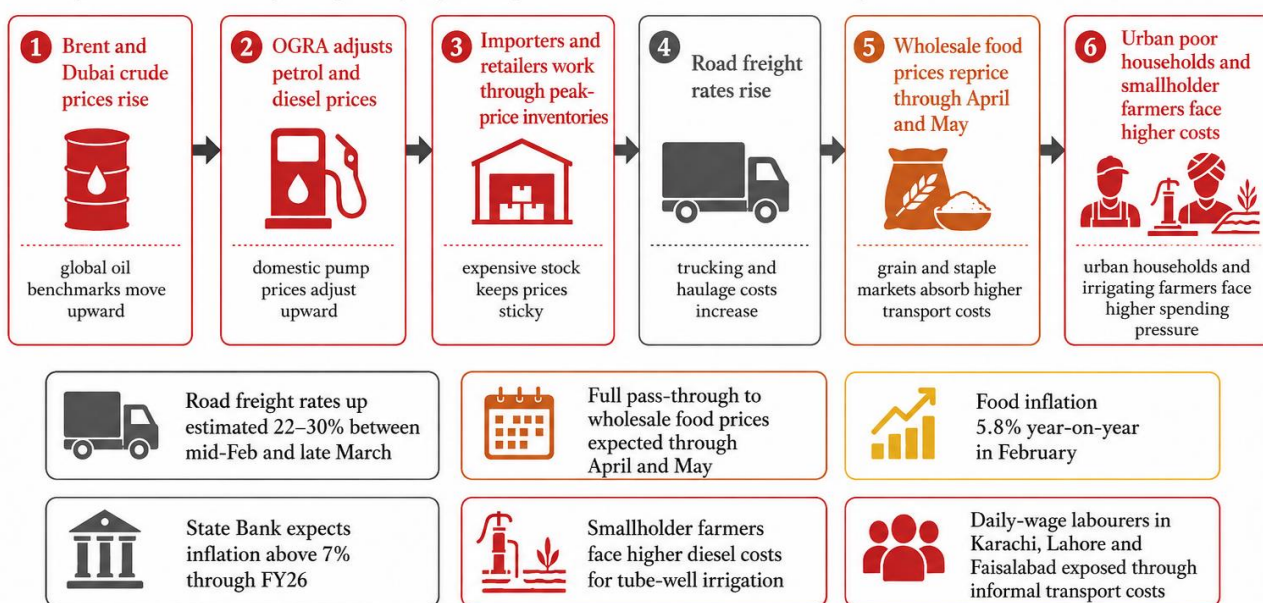
**household pump prices is narrower than it appears.** Subsidy interventions reduced the immediate inflationary pressure, but petrol and diesel remained above pre-war levels. The issue is not a clean divergence between global prices and what households pay – both remain elevated. Rather, inventories purchased at peak prices, import-parity pricing and limited fiscal room are all slowing the return to normal. Households and retailers will continue paying higher prices for weeks or months even if global oil prices stabilize.

**Higher fuel costs are feeding through to road freight and food prices.** Road freight rates rose an estimated 22 to 30 per cent between mid-February and late March, with full pass-through to wholesale food prices expected through April and May as transport contracts repriced.<sup>32</sup> Food inflation was running at 5.8 per cent year-on-year in February with rural inflation running slightly higher than in urban areas.<sup>33</sup> The State Bank of Pakistan in its post-war guidance expects inflation to remain above 7 per cent for the remainder of FY26 (through June 2026), reflecting the cumulative pass-through of the Middle East war retail fuel and food price transmission documented in this paper.<sup>34</sup>

PAKISTAN | ECONOMY & MARKETS | CAUSAL CHAIN

## Fuel Costs Are Feeding Through to Transport and Food Prices

*Retail fuel increases are repricing road freight, irrigation and urban household mobility*



Sources: OGRA; Dawn; Business Recorder; WFP Pakistan Market Monitor; Pakistan Bureau of Statistics; State Bank of Pakistan; Mercy Corps analysis.



**The fuel shock is landing hardest on those with the least capacity to absorb it.** Daily-wage laborers in Pakistan's major urban centers, including Karachi, Lahore, Faisalabad, Rawalpindi, Multan and Peshawar, whose commutes and work mobility depend on informal transport including minibuses,

<sup>32</sup>Dawn (2026) Coverage of road-freight repricing, March-April. Available at: <https://www.dawn.com/> (Accessed: April 2026); Business Recorder (2026) Coverage of road-freight repricing, March-April. Available at: <https://www.brecorder.com/> (Accessed: April 2026). Estimate drawn from business press rather than a statistical series. Single source.

<sup>33</sup> World Food Programme (2026) Pakistan Market Monitor Report: March 2026, 3 April. Available at: <https://www.wfp.org/countries/pakistan> (Accessed: April 2026).

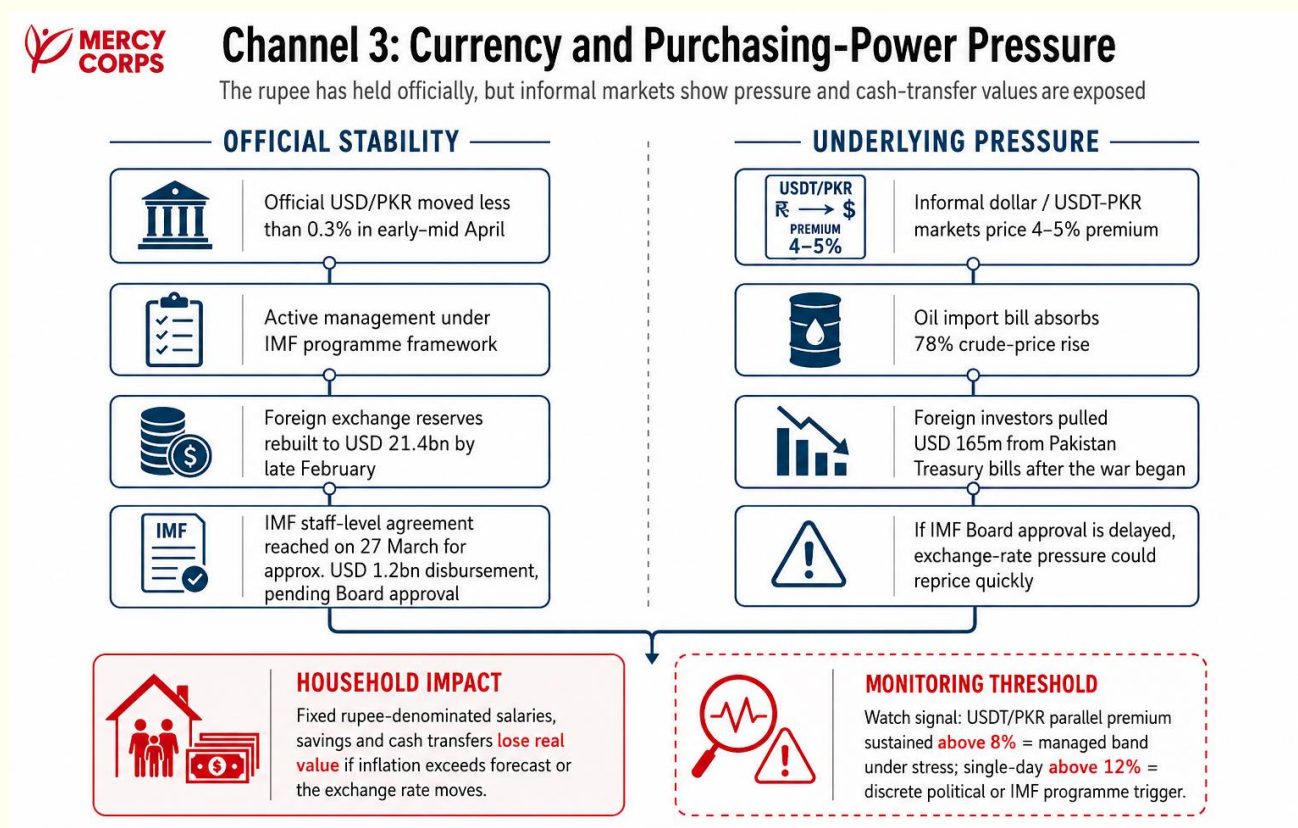
<sup>34</sup> State Bank of Pakistan (2026) FY26 inflation guidance, monetary policy. Available at: [https://www.sbp.org.pk/m\\_policy/index.asp](https://www.sbp.org.pk/m_policy/index.asp) (Accessed: April 2026); Pakistan Bureau of Statistics (2026) Consumer Price Index, February 2026. Available at: <https://www.pbs.gov.pk/cpi> (Accessed: April 2026).

rickshaws and qingqis, have absorbed the full retail fuel rise in their transport costs. Smallholder farmers in Punjab and Sindh face higher diesel costs for tube-well irrigation during the kharif growing season. Urban poor households in the major cities face food inflation that will rise further as road-freight repricing passes through to wholesale food prices through April and May.

## CHANNEL 3: CURRENCY AND PURCHASING POWER

**The rupee's stability is the product of active management, not evidence that the shock is being absorbed.** The official USD/PKR exchange rate has barely moved during the war period – shifting less than 0.3 per cent in early-mid April, in a currency whose oil import bill absorbed a 78 per cent peak rise in crude prices over six weeks.<sup>35</sup> That stability reflects active SBP management within an IMF program framework that formally calls for greater exchange rate flexibility. The current rate posture reflects the Government of Pakistan's preference, not IMF prescription. It is not evidence that the shock is being absorbed.

**The live pressure gauge is the informal dollar market.** The gap between the official exchange rate and the rate available on informal dollar markets ran at between 4.24 and 4.81 per cent in mid-April.<sup>36</sup> A premium in this range is moderate by regional standards, but in a currency with a near-zero official move, it is the clearest available market signal that the external price shock is not being fully offset.



Sources: State Bank of Pakistan Daily Exchange Rate Bulletin; IMF; Binance P2P; World Bank Global Economic Monitor; Mercy Corps analysis.

**Reserves have held, but the IMF Board decision is the single largest forward variable for**

<sup>35</sup> World Bank (2026) Global Economic Monitor: USD/PKR annual series 2023-2026. Available at: <https://databank.worldbank.org/source/global-economic-monitor> (Accessed: April 2026); State Bank of Pakistan (2026) Daily Exchange Rate, 6-14 April, via SBP EasyData. Available at: <https://easydata.sbp.org.pk/> (Accessed: April 2026).

<sup>36</sup> Binance (2026) USDT/PKR Peer-to-Peer Market parallel pricing against the SBP reference rate, war-period daily observations 7, 11 and 13 April. Available at: <https://www.binance.com/en/crypto/buy/PKR/USDT> (Accessed: April 2026).

**currency stability.** Reserves stood at USD 21.4 billion at the end of February, with USD 16.3 billion held at the State Bank of Pakistan. The State Bank's baseline projects reserves reaching USD 18 billion by June 2026. The IMF and Pakistan reached a staff-level agreement on 27 March, pointing to approximately USD 1.2 billion in further disbursement.<sup>37</sup> Foreign investors pulled USD 165 million from Pakistan Treasury bills in the weeks after the war began.<sup>38</sup> As of 14 April, Finance Minister Aurangzeb met IMF Middle East and Central Asia Director Jihad Azour on the sidelines of the Spring Meetings and "expressed hope for early approval."<sup>39</sup>

**For Pakistani households, the currency channel translates into purchasing power erosion.** Even before the war, IMF's October 2025 forecast implied that a fixed Pakistani rupee cash transfer would lose around 8 per cent of its real value over 2026 through inflation alone.<sup>40</sup> If observed inflation exceeds that forecast (as the State Bank of Pakistan's expectation of above-7-per cent inflation through FY26 implies), the erosion widens. For Benazir Income Support Programme beneficiaries and humanitarian cash transfer recipients, the nominal exchange rate holding does not protect the real value of what they receive. The larger risk sits further out: if the IMF Board decision is delayed and the exchange rate moves, the real value of every rupee-denominated transfer, salary and saving falls immediately.

## CHANNEL 4: COMMERCIAL SHIPPING AND INSURANCE

**Commercial shipping through the Strait of Hormuz collapsed 94 per cent during the war period.** Traffic through the strait fell from approximately 95 vessels per day before the war to an average of five.<sup>41</sup> On 8 April Iran suspended tanker passage, and its Ports and Maritime Organization issued a safe navigation advisory warning that anti-ship mines may be present in the main traffic area. On 9 April the Islamic Revolutionary Guard Corps (IRGC) Navy published a map designating narrow corridors near Larak Island as the only safe routes, with the rest of the waterway treated as a mine hazard area and all passage requiring IRGC coordination. On 12 April, the US announced a naval blockade of Iranian ports, which took effect on 13 April. On 17 April the Iranian Foreign Minister announced that the strait was open to all shipping. Oil prices dropped 11 per cent in the immediate aftermath, but commercial traffic has not returned to pre-war levels.<sup>42</sup>

**Pakistan sits inside a protected-access framework that has kept cargo moving.** On 26 March, Iran named Pakistan among five countries (alongside China, Russia, India and Iraq) whose vessels would be allowed to transit the strait.<sup>43</sup> This is a meaningful differentiator from other countries studied in this

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<sup>37</sup>International Monetary Fund (2026) 'IMF Reaches Staff-Level Agreement on the Third Review for the 37-month Extended Arrangement under the Extended Fund Facility (EFF) and the Second Review for 28-month Arrangement Under the Resilience and Sustainability Facility (RSF) – Pakistan', Press Release No. 26/095, 27 March. Available at: <https://www.imf.org/en/News/Articles/2026/03/27/pr-26095-pakistan-imf-reaches-agreement-3rd-rev-37mo-ext-arrang-eff-2nd-rev-28mo-arrang-rsf> (Accessed: 28 April 2026).

<sup>38</sup>State Bank of Pakistan (2026) Weekly reserves, 27 February 2026; SBP baseline reserve projection through June 2026; SBP non-resident Treasury bill flow data, via SBP EasyData. Available at: <https://easydata.sbp.org.pk/> (Accessed: April 2026).

<sup>39</sup>The Diplomatic Insight (2026) 'Pakistan, IMF Review Reform Progress and Economic Outlook', 14 April. Available at: <https://thediplomaticinsight.com/pakistan-imf-review-reform-progress> (Accessed: April 2026).

<sup>40</sup>International Monetary Fund (2025) World Economic Outlook, October. Available at: <https://www.imf.org/en/Publications/WEO> (Accessed: April 2026).

<sup>41</sup>International Monetary Fund (2026) PortWatch: Daily Chokepoint Transit Calls, Strait of Hormuz, daily AIS observations February to April. Available at: <https://portwatch.imf.org/pages/chokepoint6> (Accessed: April 2026).

<sup>42</sup>US Central Command (2026) 'U.S. to Blockade Ships Entering or Exiting Iranian Ports', press release, 13 April. Available at: <https://www.centcom.mil/MEDIA/PRESS-RELEASES/Press-Release-View/Article/4457255/us-to-blockade-ships-entering-or-exiting-iranian-ports/> (Accessed: April 2026); Al Jazeera (2026) 'No ships "make it past US blockade" in Hormuz strait in first day: Pentagon', 14 April. Available at: <https://www.aljazeera.com/news/2026/4/14/no-ships-make-it-past-us-blockade-in-hormuz-strait-in-first-day-pentagon> (Accessed: April 2026); Araghchi announcement of Hormuz reopening, 17 April, via Reuters and BBC.

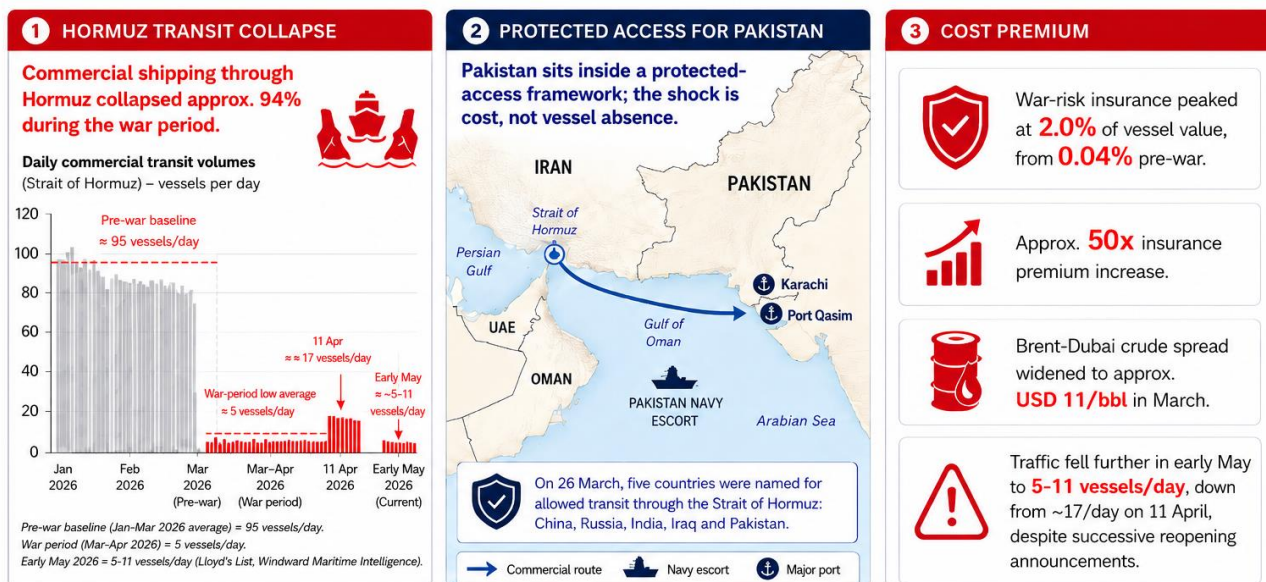
<sup>43</sup>Iranian Ministry of Foreign Affairs statement, 26 March 2026, via Reuters. Available at: <https://www.reuters.com/> (Accessed: April 2026); Al Jazeera (2026) Coverage of Iranian Foreign Minister Araghchi statement on protected-access transit list, 26 March. Available at: <https://www.aljazeera.com/> (Accessed: April 2026).

series. Karachi and Port Qasim arrivals have continued through the war period. Pakistan port-call data show continued cargo arrivals through March, consistent with upstream cost pressure rather than a downstream absence of vessels. The Pakistan Navy launched escorts for merchant vessels on 9 March and Saudi Arabia is arranging alternative oil shipments from Yanbu on the Red Sea, bypassing Hormuz.<sup>44</sup>



## Channel 4: Commercial Shipping and Insurance

Pakistan's cargo has kept moving, but Hormuz transit is no longer priced as a normal commercial route



**Higher insurance, freight and crude-benchmark premiums feed back into Pakistan's fuel, fertiliser and export-margin channels.**

**Sources:** IMF PortWatch; Lloyd's List Intelligence; Windward Maritime Intelligence; EIA/FRED; World Bank Pink Sheet; Reuters; Al Jazeera; PBS/AP; The Hill; NPR; CNN; CENTCOM; Express Tribune; Mercy Corps analysis.

**For Pakistan, the shock arrives through cost rises for shipping insurance, freight rates, and the premium paid for crude not requiring Gulf transit – rather than absence of shipping.** Insurance premiums for Hormuz transits peaked at 2 per cent of vessel value in mid-March against a pre-war baseline of 0.04 per cent – a fifty-fold increase – before easing slightly after the ceasefire.<sup>45</sup> The price gap between Brent crude and Dubai crude, which measures the premium for oil not requiring Gulf transit, widened to approximately USD 11 per barrel in March against a near-zero gap before the war.<sup>46</sup> Pakistani importers face these cost increases, with the scale of pass-through to retail still working through the supply chain.

**The permission regime will outlast the political ceasefire whatever its outcome.** Mine hazard declarations cannot be unmade by a handshake. IRGC coordination protocols, once established, require

<sup>44</sup>The Express Tribune (2026) 'Navy launches Operation Muhafiz-ul-Bahr against threats to shipping, trade amid Mideast crisis', 9 March. Available at: <https://tribune.com.pk/story/2596648/navy-launches-operation-muhafiz-ul-bahr-against-threats-to-shipping-trade-amid-mideast-crisis> (Accessed: April 2026); Arab News (2026) 'Pakistan Navy escorting ships on country's own trade routes, not Strait of Hormuz— official', 11 March. Available at: <https://www.arabnews.com/node/2636078/pakistan> (Accessed: April 2026); Pakistani business press coverage of Saudi Yanbu rerouting, March 2026.

<sup>45</sup> Lloyd's List Intelligence (2026) War-risk insurance premium tracking, war-period observations February-April. Available at: <https://www.lloydslist.com/> (paid subscription) (Accessed: April 2026); cited via Mercy Corps (2026) From Hormuz to the Frontlines of Hunger, April 2026.

<sup>46</sup>U.S. Energy Information Administration (2026) Crude Oil Prices: Brent – Europe, retrieved via Federal Reserve Economic Data, series DCOILBRENTTEU, March 2026 monthly average. Available at: <https://fred.stlouisfed.org/series/DCOILBRENTTEU> (Accessed: 30 April 2026); World Bank (2026) Commodity Markets: Pink Sheet Data – Monthly Prices, Dubai crude monthly average, March 2026. Available at: <https://www.worldbank.org/en/research/commodity-markets> (Accessed: April 2026).

formal unwinding. Commercial insurance markets price the regime, not diplomacy. The Norwegian Shipowners' Association and Maersk both declined to resume Gulf operations on current terms during the first week of the ceasefire. The 17 April reopening announcement did not restore commercial traffic. Nor did the 7 May IRGC statement offering to "facilitate" transit under unspecified "new procedures". Each successive announcement has produced a diplomatic headline without a corresponding change in vessel counts.<sup>47</sup>

**The cost premium feeds back into the fuel and fertilizer channels and squeezes Pakistani exporters.** Higher freight rates, higher insurance premia, and a wider crude-benchmark spread all feed back into the fuel and fertilizer channels documented above. For Pakistani export-dependent producers, such as textile manufacturers in Punjab or seafood exporters in Sindh, rising shipping costs are narrowing margins at the moment domestic input costs are also rising. The transmission is diffuse but persistent.

**The situation has worsened since the ceasefire, not improved.** On 4 May, President Trump launched Operation Project Freedom, a US Navy mission to escort merchant vessels out of the Gulf. Two American-flagged commercial ships transited the strait under destroyer escort.<sup>48</sup> Iran responded with drone strikes on transiting vessels and warnings that any foreign military force approaching the strait would be targeted. Trump paused the operation on 6 May, citing progress toward a deal with Iran brokered by Pakistan, but the US naval blockade of Iranian ports remained in force.<sup>49</sup> As of 7 May, CENTCOM reported that 52 commercial vessels had been turned away from Iranian ports since the blockade began on 13 April.<sup>50</sup> Iran has formalized a new Persian Gulf Strait Authority requiring all transiting vessels to submit a formal application for passage.<sup>51</sup> The week to 3 May saw approximately 40 total transits per Lloyd's List, against a pre-war baseline of approximately 120 per day. Daily counts in early May have averaged 5 to 11 vessels.<sup>52</sup> The strait is not reopening. It is being institutionalized as a controlled-access waterway, with competing US and Iranian permission regimes operating simultaneously.

## CHANNEL 5: REMITTANCES

**Pakistan received a record USD 38.3 billion in formal remittances in FY25, up 26.6 per cent year-on-year – making it acutely exposed to any remittance corridor shock.** That places Pakistan among the top five or six global remittance recipients.<sup>53</sup> The first war-window read does not show a triggered corridor shock: remittances reached approximately USD 3.8 billion in March 2026, up

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<sup>47</sup>Reuters (2026) 'Maersk says US-Iran ceasefire may create Strait of Hormuz transit opportunities', 8 April. Available at: <https://www.reuters.com/business/maersk-cautious-strait-of-hormuz/> (Accessed: April 2026); Reuters / MarketScreener (2026) 'Norway ships not yet ready to resume Hormuz transit, industry group says', 9 April. Available at: <https://www.marketscreener.com/news/norway-ships-not-yet-ready-to-resume-hormuz-transit-industry-function-says-ce7e50dadf8df022> (Accessed: April 2026).

<sup>48</sup> PBS/AP (2026) 'U.S. says 2 merchant ships have crossed the Strait of Hormuz as Navy helps to restore shipping traffic', 5 May. Available at: <https://www.pbs.org/newshour/world/u-s-says-2-merchant-ships-have-crossed-the-strait-of-hormuz-as-navy-helps-to-restore-shipping-traffic> (Accessed: 8 May 2026).

<sup>49</sup> The Hill (2026) 'Donald Trump announces pause on Project Freedom', 6 May. Available at: <https://thehill.com/policy/defense/5865012-trump-pauses-project-freedom/> (Accessed: 8 May 2026); NPR (2026) 'Pakistan says it's hopeful a U.S.-Iran deal can happen soon', 7 May. Available at: <https://www.npr.org/2026/05/06/nx-s1-5813497/iran-war-strait-hormuz-updates> (Accessed: 8 May 2026)

<sup>50</sup> CENTCOM (2026) X post, 7 May, confirming 52 vessels redirected under US blockade; GlobalSecurity.org/RFE/RL (2026) 'Commercial Ships Redirected By US Forces, As CENTCOM Chief Visits Area Of Operations', 3 May. Available at: <https://www.globalsecurity.org/military/library/news/2026/05/mil-260503-rferl02.htm> (Accessed: 8 May 2026)

<sup>51</sup> CNN (2026) 'Iran imposes new rules for Hormuz in effort to cement control of key waterway', 7 May. Available at: <https://www.cnn.com/2026/05/07/middleeast/iran-hormuz-rules-warime-gains-intl> (Accessed: 8 May 2026).

<sup>52</sup> Lloyd's List (2026) weekly Hormuz transit data, week to 3 May (approximately 40 total transits); Windward Maritime Intelligence (2026) daily Hormuz transit observations, 6 May (7 vessels: 5 inbound, 2 outbound). Available at: <https://insights.windward.ai/> (Accessed: 8 May 2026).

<sup>53</sup> State Bank of Pakistan (2025) Press Release of Workers' Remittances in June 2025, 9 July. Available at: <https://www.sbp.org.pk/press/2025/Pr-09-Jul-2025.pdf> (Accessed: 28 April 2026), reporting FY25 record of USD 38.3 billion (+26.6 per cent year-on-year).

16.5 per cent month-on-month but down 5.5 per cent year-on-year from an unusually high March 2025 base. Cumulative July-March FY26 inflows stood at USD 30.3 billion, up 8.2 per cent year-on-year.<sup>54</sup>

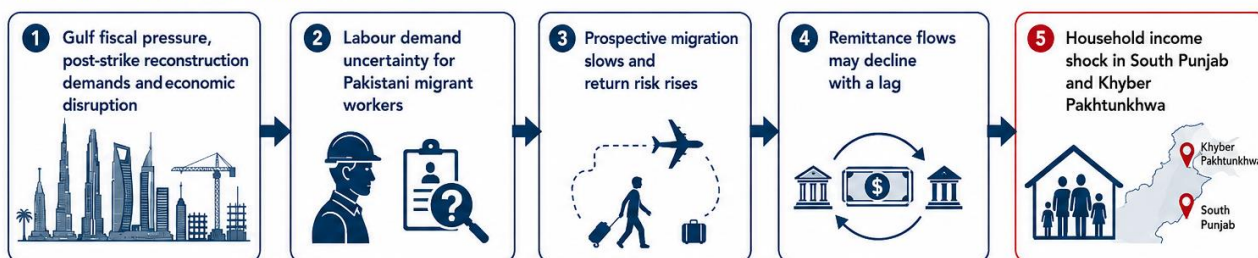
**The bilateral corridor structure concentrates the risk.** Middle East corridors account for approximately 54 per cent of Pakistan's total remittances per the Pakistan Institute of Development Economics, with Saudi Arabia and the UAE the dominant individual partners. KNOMAD 2021 bilateral data records the Gulf-only formal-channel share at 61.7 per cent of FY21 inflows (Saudi Arabia 25.7 per cent, UAE 19.1 per cent, plus Kuwait, Qatar, Oman and Bahrain). The two figures reflect different scopes: PIDE's 54 per cent is the current Middle East corridor estimate, KNOMAD's 61.7 per cent is the FY21 formal-channel Gulf-only figure.<sup>55</sup> Approximately 6 million Pakistanis work in GCC countries. Hawala and other informal channels are not captured in the 60 per cent figure, meaning the true Gulf share is likely higher than the published figure suggests.

## Channel 5: Remittances and Gulf Labour-Market Forward Risk

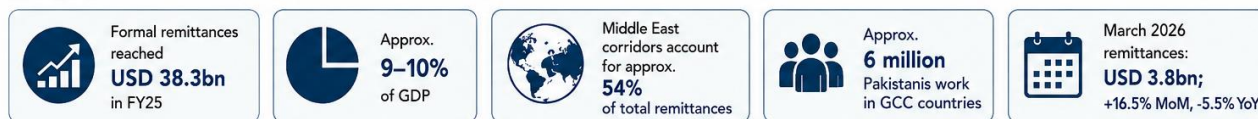


*Pakistan's largest household-income buffer has not yet broken, but it carries the largest forward-looking risk*

RISK PATHWAY: LEFT TO RIGHT, WITH LAGGED IMPACT



KEY FACTS



<p><b>FORWARD-RISK SCENARIO (ANALYTICAL)</b></p> <p>PIDE projection under sustained conflict: <b>500,000</b> prospective migrants may not travel and <b>500,000</b> existing migrants could return, reducing annual remittances by <b>USD 3–4bn</b>.</p>	<p><b>No mass return or material corridor disruption is yet visible in available data.</b></p> <p><b>THIS IS A FORWARD-RISK CHANNEL.</b></p>	<p><b>MONITORING INDICATORS</b></p> <ul style="list-style-type: none"> <li> State Bank monthly remittance release</li> <li> Saudi Arabia and UAE corridor data</li> <li> Worker-return signals</li> <li> Recruitment and visa issuance indicators</li> <li> <b>Trigger: month-on-month decline above 10%, especially in Saudi Arabia and UAE corridors</b></li> </ul>
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Sources: State Bank of Pakistan; PIDE; KNOMAD Bilateral Remittance Matrix; Business Recorder; Mercy Corps analysis.

**If the Gulf labor market contracts, the consequences for Pakistan would be severe and fast-moving.** No mass return has been reported. The Pakistan Institute of Development Economics (PIDE) projects that a sustained conflict would prompt a further 500,000 existing migrants to return already in the Gulf, reducing annual remittances by USD 3 to 4 billion and removing approximately one per cent of

<sup>54</sup>State Bank of Pakistan (2026) Press Release of Workers' Remittances for March 2026, 8 April. Available at: <https://www.sbp.org.pk/press/2026/Pr-08-Apr-2026.pdf> (Accessed: 27 April 2026); Business Recorder (2026) 'Pakistan records \$3.8bn in remittances for March 2026', 8 April. Available at: <https://www.brecorder.com/news/40415417/pakistan-records-38bn-in-remittances-for-march-2026> (Accessed: April 2026).

<sup>55</sup> World Bank KNOMAD (2022) Bilateral Remittance Matrix 2021. Available at: <https://www.knomad.org/data/remittances> (Accessed: April 2026). Of USD 31.3 billion in inflows in 2021, USD 19.32 billion came from Gulf states (61.7 per cent of the total): Saudi Arabia USD 8.05 billion (25.7 per cent), the UAE USD 5.99 billion (19.1 per cent), and Kuwait, Qatar, Oman and Bahrain together USD 5.27 billion. Single source.

Pakistan's GDP over a year.<sup>56</sup> At least three Pakistani workers were killed in the UAE by Iranian strikes during the war period.<sup>57</sup>

**The households carrying this forward risk are specific and already financially stretched.** Gulf remittances are concentrated in Khyber Pakhtunkhwa and South Punjab, where they anchor household consumption, education spending and healthcare access. These households are not yet affected, because the corridor is still intact, but they carry the forward risk of a shock if conditions change. The State Bank of Pakistan monthly remittance releases, published five to eight working days after month-end, are the authoritative signal to monitor.

## Government Response

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The government's response has moved across multiple tracks. On 7 March OGRA issued the largest single-day fuel price adjustment in Pakistan's history. Within days the Prime Minister announced emergency austerity measures – a four-day government working week, school closures, fuel allowance cuts of 50 per cent, and 60 per cent of official vehicles grounded. The Pakistan Navy launched escorts for merchant vessels. The government reallocated domestic gas to restore urea production at the Agritech plant on 13 March, though flash flooding knocked the plant offline again on 6 April. Import rules were temporarily relaxed to allow a wider range of crude grades on more flexible terms for 60 days.<sup>58</sup>

Fuel price interventions reduced the immediate pressure but left prices well above pre-war levels and fiscal space for further interventions remains limited. Following the record Rs 458.41 per liter petrol peak on 3 April, the government cut petrol by Rs 80 per liter effective 5 April and made a further cut to Rs 366.58 on 11 April. Diesel was cut by Rs 134.81 per liter to Rs 385.54 on 11 April. The IMF staff-level agreement reached on 27 March, pending Board approval, provides the framework within which further fiscal measures must operate.

These measures have bought time. They have not altered the structural exposure. Fuel subsidies consume fiscal space under an IMF program that requires a primary surplus of 1.6 per cent of GDP. Domestic gas reallocation can restore one urea plant but cannot close the gap created by the suspension of Qatari LNG imports. Naval escorts reduce risk along Pakistan's sea lanes but do not address the cost premium of Gulf routing. The IMF Board decision, if delayed or conditioned, removes the single largest stabilizing instrument available. Each absorption measure has a cost, and each has a limit.

## Outlook

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The outlook is structured around three questions: what does the current evidence show, what would make things significantly worse, and what signals should be monitored. Pakistan's outlook is assessed on

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<sup>56</sup>Pakistan Institute of Development Economics (2026) 'The Middle East Conflict and Its Implications for Pakistani Migrant Workers', Policy Viewpoint No. 54:2026. Available at: <https://pide.org.pk/research/the-middle-east-conflict-and-its-implications-for-pakistani-migrant-workers/> (Accessed: 28 April 2026). Single source.

<sup>57</sup>Time (2026) 'Iran's Retaliatory Strikes Challenge Image of Gulf Stability', 19 March. Available at: <https://time.com/7381884/iran-missiles-dubai-palm-gulf/> (Accessed: April 2026); Wikipedia (2026) '2026 Iranian strikes on the United Arab Emirates'. Available at: [https://en.wikipedia.org/wiki/2026\\_Iranian\\_strikes\\_on\\_the\\_United\\_Arab\\_Emirates](https://en.wikipedia.org/wiki/2026_Iranian_strikes_on_the_United_Arab_Emirates) (Accessed: April 2026), citing UAE Ministry of Defence statements on Pakistani national casualties (Baniyas, Al Barsha and Dubai Marina incidents, March 2026); Arab News (2026) wire coverage, March 2026. Available at: <https://www.arabnews.com/> (Accessed: April 2026). Single source.

<sup>58</sup>Oil and Gas Regulatory Authority (2026) Fuel-grade flexibility notifications, March-April. Available at: <https://www.ogra.org.pk/> (Accessed: April 2026); Pakistani business press coverage (Dawn, Business Recorder) on the crude-import quality waiver and cost-insurance-freight arrangement, March-April 2026. Available at: <https://www.dawn.com/> and <https://www.brecorder.com/> (Accessed: April 2026). Single source.

this basis rather than against a set of defined political scenarios, given the pace at which the diplomatic situation is changing.

**The observed state has three cores.** Fuel has passed through to retail and is now the driving input into transport and irrigation costs, partly offset by the April subsidy cuts. The rupee has barely moved against the dollar, but informal currency markets are pricing a 4 to 5 per cent premium over the official rate, the clearest signal that underlying pressure exists. The Strait of Hormuz remains effectively closed to normal commercial shipping, with daily transits in early May averaging 5 to 11 vessels against a pre-war baseline of approximately 95 to 120, and competing US and Iranian control regimes now operating simultaneously. Fertilizer is the tightest single-channel exposure, with global urea 85 per cent above its December 2025 level at the opening of the kharif planting window.

**Three developments, individually or together, would materially worsen the outlook.** First, a further fuel price rise if global oil prices move again on renewed Hormuz disruption. Second, a break in the exchange rate if the IMF Board decision is delayed or conditioned, or if external financing tightens and China remains absent – which would immediately reduce the real value of every rupee-denominated salary, saving and cash transfer. Third, a Gulf remittance shock if the Gulf labor market contracts, which could remove USD 3 to 4 billion per year of remittances approximately one per cent of GDP. Each of these eventualities would compound the others, should they materialize.

## Implications and Priorities

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**Cash working groups in Pakistan – recalculate minimum expenditure baskets against post-war costs before mid-May.** Any program still operating against pre-war transfer values by that point is operating against an outdated baseline, and the purchasing power erosion documented in this paper will continue. Interim top-ups pending full recalculation are appropriate where delivery cycles cannot wait on the full revision. Transfer value revision should account for the retail fuel pass-through already in the system, the food price transmission expected through April and May, and the fertilizer pass-through that will land on rural household food security through Q4 2026.

**Food security actors in Punjab, Sindh and Khyber Pakhtunkhwa – pre-position seed and fertilizer supplies for smallholder farmers before the May restocking deadline.** The global urea price rise is already locked into the importer purchase cost. Pass-through to agrodealer retail will materialize over the next four to six weeks and is the earliest observable signal of whether the production-side shock is landing on farmers. Pre-positioning, targeted voucher or in-kind distribution to smallholders, and support for micro-dosing techniques to stretch limited supplies are more cost-effective than generalized subsidies. Available fertilizer should be prioritized toward food crops over cash crops.

**Implementing partners with fleet-heavy programs – review operational cost bases against the retail fuel move.** Partners running TB and HIV health outreach, primary healthcare in Khyber Pakhtunkhwa and Balochistan, nutrition outreach across Sindh and Punjab, and disaster-response logistics for the 2026 Floods Support Plan are the most exposed. Donor flexibility on cost-base renegotiation should be flagged early to avoid silent reductions in delivery frequency.

**Country-level coordination bodies – convene donors and delivery partners to monitor transmission and assess alternative modalities.** The scale and speed of transmission across fuel, fertilizer and shipping channels warrants a structured monitoring conversation at country level. Funding

timelines for time-sensitive inputs (fertilizer ahead of planting, cash ahead of the food price transmission) are better front-loaded than deployed after the window has closed. The permission-based transit regime through Hormuz creates an urgent case for pre-positioning critical supplies in-country or at regional hubs before the logistics window narrows further.

**International financial institutions, including the IMF** — build space for shock-responsive fiscal action into ongoing program reviews. The Pakistan Extended Fund Facility (EFF) programme's primary surplus target of 1.6 per cent of GDP constrains the government's room for fuel subsidies, fertilizer support and social protection top-ups at the moment those tools are most needed. Program review flexibility on the primary surplus path, recognition of war-attributable fiscal costs in the fiscal framework, and conditionality that distinguishes between policy slippage and externally driven absorption costs would preserve more space for the Government of Pakistan to respond. The IMF Board decision on the third EFF review, currently pending, is the single largest forward variable for currency stability documented in this paper. Approval on terms that allow targeted, time-limited fiscal absorption of war-driven cost shocks would materially reduce the household purchasing power erosion this paper documents.

**Do not treat the ceasefire as a pause in shock transmission** – The 7 April ceasefire did not reopen the Strait of Hormuz to normal commercial traffic, did not restore Qatari LNG to Pakistan, and did not reverse the global urea price move. The 13 April US blockade and the 17 April Iranian reopening announcement have moved the political picture without restoring the commercial one. Costs already locked into the fertilizer import bill, the rupee parallel premium, and the road-freight repricing will continue to transmit regardless of whether the ceasefire holds politically.

## Monitoring

The monitoring table is extractable as a standalone weekly and monthly tracker for humanitarian and development actors. The fuel-price indicator and the Gulf-remittance corridor indicator are the two most operationally valuable signals.

INDICATOR	SOURCE AND FREQUENCY	CURRENT VALUE	THRESHOLD	WHAT CROSSING THE THRESHOLD MEANS
Hormuz transit volumes	IMF PortWatch, daily	~5-11 vessels/day (early May). Down from ~17/day (11 April). Week to 3 May saw approximately 40 total transits per Lloyd's List. US Operation Project Freedom escorts briefly lifted counts to 11-13 (3-4 May) before suspension on 6	<b>&gt;20 sustained = permission regime easing; &lt;10 sustained = formalization into new baseline</b>	Pre-war baseline approximately 95/day. Sustained recovery is the single clearest signal of de-escalation.

INDICATOR	SOURCE AND FREQUENCY	CURRENT VALUE	THRESHOLD	WHAT CROSSING THE THRESHOLD MEANS
		May. Pre-war baseline ~95/day (IMF PortWatch).		
Pakistan retail petrol and diesel	OGRA notifications, weekly	Rs 393.35 petrol / Rs 380.19 diesel (25 April). Down from 3 April peak of Rs 458.41 / Rs 520.35 after two rounds of government subsidies, before a further OGRA adjustment on 25 April.	<b>Further single-day adjustment &gt;Rs 15/liter = continued upstream pass-through; diesel &gt;Rs 400/liter sustained = margin-structure pressure across downstream fuel sector</b>	
Urea retail prices at Pakistani agrodealer level	Pakistan National Fertilizer Development Centre, Fauji Fertilizer and Engro distribution reporting, Pakistani business press, weekly	Not publicly recorded	<b>Any material move above pre-war level = production-side shock reaching farmers</b>	This is the critical data gap. Retail pass-through will materialize over the next four to six weeks and is the earliest signal of whether kharif yields will be affected.
Pakistan LNG regasification throughput	Ministry of Energy and Port Qasim operator releases, weekly	~100 mmcf (March)	<b>Sustained &lt;150 mmcf = Qatari supply has not resumed meaningfully; &lt;50 mmcf = full depletion of pre-war stock, cascades into RLNG-fed urea capacity</b>	
State Bank of Pakistan foreign exchange reserves	SBP weekly press release	USD 21.4 billion (27 February)	<b>&lt;USD 15 billion total = IMF import-cover target breached; &lt;USD 10 billion SBP-held = severe external pressure</b>	
USDT/PKR parallel premium	Binance P2P, daily	4-5 per cent (April)	<b>Sustained &gt;8 per cent = break in managed band; single-day &gt;12 per cent = discrete political or IMF program trigger</b>	
State Bank of Pakistan monthly remittance release	SBP, monthly (5-8 working days after month-end)	USD 3.8bn March 2026 (+16.5% MoM, -5.5% YoY). 9MFY26	<b>Month-on-month decline &gt;10 per cent, particularly Saudi Arabia and UAE corridors = forward-looking Gulf exposure materializing</b>	The March release is the first full war-window read.

INDICATOR	SOURCE AND FREQUENCY	CURRENT VALUE	THRESHOLD	WHAT CROSSING THE THRESHOLD MEANS
		cumulative USD 30.3bn (+8.2% YoY)		
FAO Food Price Index	FAO, Rome, monthly	128.5 (March)	<b>Further rise = transmission continuing; fall = earlier stabilization than this paper expects</b>	
Rural-urban migration signal from agricultural districts	Pakistan Bureau of Statistics Labour Force Survey, quarterly; supplemented by district-level reporting from Punjab and Sindh agriculture departments and Mercy Corps country office observation	Pre-war baseline approximately stable	<b>Sustained quarter-on-quarter increase above 15 per cent in rural-to-urban movement from agricultural districts in Punjab and Sindh, or anecdotal reporting of distress migration ahead of the October-November harvest</b>	Indicates smallholder farming households are unable to sustain agricultural employment under fertilizer cost pressure and are seeking urban labour markets ahead of the harvest. Forward-looking indicator of agricultural sector contraction.

## Sources

This report synthesizes real-time data from authoritative public sources with Mercy Corps country office research, and country-level primary-source reporting from 28 February to 28 April 2026. It reflects conditions as of 28 April 2026, the end of the ninth week of the conflict.

### Publicly available data:

- IMF PortWatch chokepoint transit and maritime trade flow data.
- US Energy Information Administration Europe Brent Spot (DCOILBRENTU via FRED).
- World Bank Pink Sheet monthly commodity prices.
- US Bureau of Labor Statistics Gasoline PPI and Refinery PPI (via FRED).
- OCHA Financial Tracking Service 2026 Humanitarian Response Plan data.
- KNOMAD bilateral remittance matrix and World Bank World Development Indicators.
- FAO Food Price Index.
- Middle East free-on-board urea futures.

### Pakistan-level sources:

- Pakistan Bureau of Statistics Consumer Price Index and Sensitive Price Indicator.

- State Bank of Pakistan weekly reserves, monthly remittances and policy rate releases.
- Oil and Gas Regulatory Authority fuel-price notifications (1 March, 7 March, 3 April, 5 April, 11 April 2026).
- USDA Foreign Agricultural Service *Pakistan Grain and Feed Annual 2026*.
- Ministry of National Food Security and Research statement, 20 March 2026.
- Pakistani business press: *Dawn*, *The News*, *The Express Tribune*, *Business Recorder*, *Profit by Pakistan Today*, *Bloom Pakistan*.
- Pakistan Institute of Development Economics research on Gulf remittance corridor exposure.
- Mercy Corps Pakistan country office input (April 2026) integrated throughout.

### **Institutional assessments (April 2026):**

- World Bank *MENAAP Economic Update: Challenges of Conflict and Industrial Policy for Development*, 8 April (names Hormuz closure and Pakistan explicitly).
- OCHA *Asia and the Pacific: Humanitarian Impact of the Middle East Escalation* (as of 3 April 2026).
- WFP *Pakistan Market Monitor Report, March 2026*, 3 April.
- IMF *Pakistan: Staff-Level Agreement on the Third Review of the Extended Fund Facility*, 28 March.
- Joint IMF, World Bank and WFP statement, Washington DC, 8 April.
- CRU Group, March 2026, on QAFCO Mesaieed and the two-week operational-continuity threshold.
- Institute for Energy Economics and Financial Analysis, March 2026, on Pakistan LNG overcapacity and distributed solar.
- FAO Chief Economist Máximo Torero, UN press briefing, 26 March, on the 40-day farmer-response threshold.

### **Ceasefire and war-period reporting (March-April 2026):**

- Reuters, Al Jazeera, CNBC, CNN, *Washington Post*, *The National*, Bloomberg, *Financial Times*, *Arab News* on the Islamabad talks (10-12 April), the 12 April US naval blockade announcement and 13 April implementation, and the 17 April Iranian Foreign Minister statement.
- The Diplomatic Insight on the Aurangzeb-Azour meeting, 14 April.
- Iran Ministry of Foreign Affairs 26 March protected-access list (via Reuters and Al Jazeera).
- Islamic Revolutionary Guard Corps Navy map and Iran Ports and Maritime Organization safe-navigation advisory, 8-9 April (via ISNA and Reuters).
- Windward Maritime Intelligence daily Hormuz transit observations, 8-12 April.
- *Dawn* and *Business Recorder* on the Agritech urea plant suspension (4 March) and resumption (13 March).
- *Profit by Pakistan Today* on the Agritech 6 April flash-flood shutdown.
- Pakistan Navy Operation Muhafiz-ul-Bahr reporting: *Express Tribune*, *Arab News*, *Marine Insight*, USNI News (9-17 March).
- PakistanPetrolPrices.com fuel-price history for 10 and 11 April cuts.

**Background (not Middle East-war attributable):**

- OCHA *Afghanistan Situation Update #3*, 5 April.
- UN Women *Gender Alert #2*, April.
- WFP *Pakistan Rain Monitor Issue 1* (30 March-8 April) and associated flood response reporting. Distinguished throughout from war-driven signal.