Euler Hermes Economic Research

Country Risk Analysis

Pakistan

Security and stability risks

General Information

GDP	USD210.2bn (World ranking 47, World Bank 2011)
Population	176.75 million (World ranking 6, World Bank 2011)
Form of state	Federal Republic
Head of government	PM-elect Nawaz Sharif
Next elections	2018, parliamentary

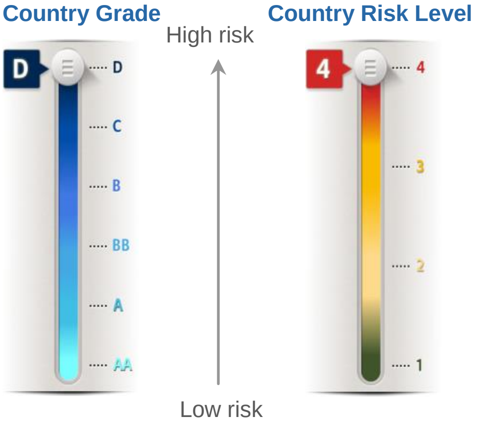
Strengths

- Large domestic market.
- Despite often strained relations, support remains available from the US and multilateral agencies.
- Improved relations with India.

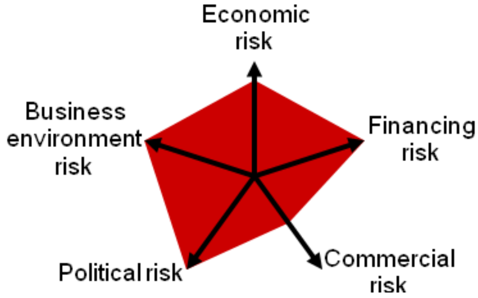
Weaknesses

- Susceptibility to natural disasters and dependence on rain-fed agriculture.
- Lingering concern relating to the role of the military in domestic governance and of perceptions that elements in the security forces may provide support for terrorist groups.
- Poor domestic and regional security (border with Afghanistan).
- Low per capita incomes and high poverty levels fuel resentments that can be harnessed by extremists.
- Fiscal and current account deficits.
- Weak structural business environment.

Country Rating D4

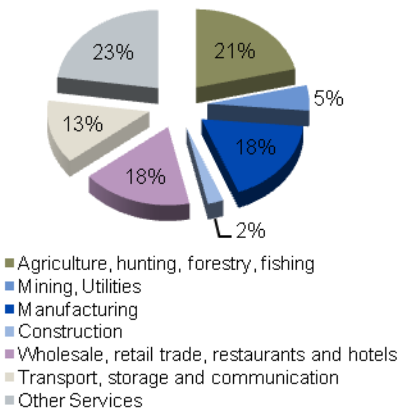


Risk Dimensions



Economic Structure

GDP breakdown (% of total, 2010)



Sources: Chelem, UnctadStat, IHS Global Insight, Euler Hermes

Trade structure (% of total, 2010)

By destination / origin

Exports		Rank		Imports
United States	16%	1	25%	Other Gulf
Other Gulf	12%	2	16%	China
LDCs in Asia / Oceania	8%	3	7%	Saudi Arabia
China	8%	4	6%	Malaysia
United Kingdom	5%	5	5%	United States

By product

Exports		Rank		Imports
Yarns Fabrics	19%	1	19%	Refined Petroleum Products
Carpets	15%	2	8%	Crude Oil
Cereals	11%	3	5%	Fats
Knitwear	9%	4	4%	Other Edible Agricultural Prod
Refined Petroleum Products	7%	5	4%	Basic Organic Chemicals

Economic Forecast

	Average 2000-08	2009	2010	2011	2012	2013f	2014f
GDP growth (% change)	4.8	3.6	3.5	3.0	4.2	3.5	4.5
Inflation (%, end-year)	7.1	10.5	15.2	9.8	7.9	7.9	9.4
Fiscal balance (% of GDP)	-3.6	-5.4	-6.3	-6.6	-8.5	-7.3	-6.1
Public debt (% of GDP)	69.5	66.5	65.1	62.2	62.5	64.6	64.1
Current account (% of GDP)	-1.6	-2.6	-0.8	-1.1	-2.0	-2.0	-2.0
External debt (% of GDP)	38.1	36.2	33.7	28.8	25.7	25.6	27.1

Source: IHS Global Insight, National sources, Euler Hermes

Economic Overview

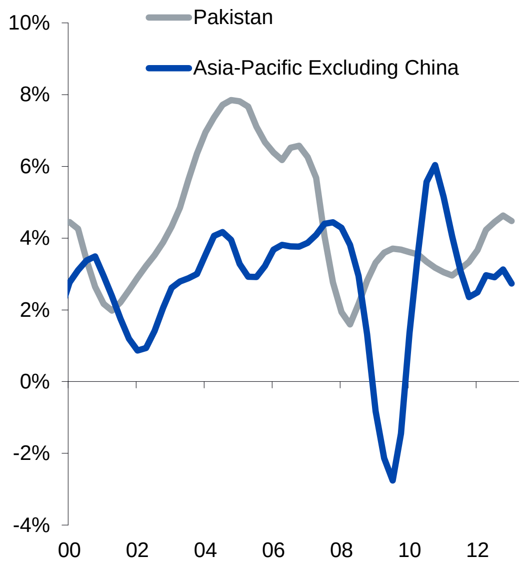
GDP growth below potential, inflationary pressures

In recent years, economic growth was relatively weak, reflecting political and security concerns and some weakness in global markets but also domestic structural deficiencies, including macro-economic imbalances and lack of an efficient and reliable power supply.

Annual GDP growth averaged +3.5% in 2009-12, a rate that is insufficient to raise incomes and living standards substantially. Moreover, the structural problems (poor infrastructure and lack of skilled labour as well as intermittent power supplies) will remain over the forecast period. EH expects GDP growth of +3.5% in 2013 and a pick-up to +4.5% in 2014, with a boost from a new pro-business government and moderate improvement in the global environment.

Inflationary pressures remain evident and a likelihood of further monetary easing, some subsidy reductions, monetary expansion to meet fiscal deficits and PKR depreciation may heighten generalised price increases. EH expects growth in consumer prices of over 7% in 2013 and over 9% in 2014.

GDP profile (y/y, 4 quarters cumulated)



Sources: IHS Global Insight, Euler Hermes

External accounts will be challenging to balance

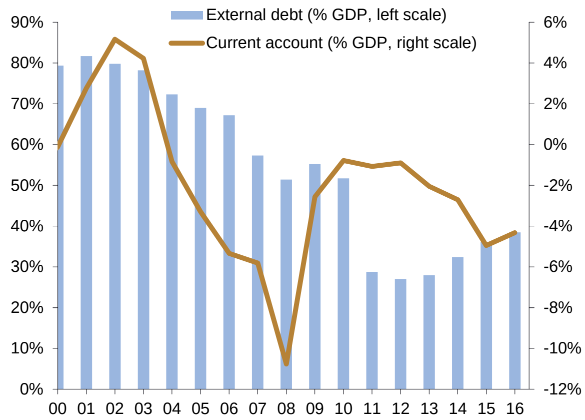
Deterioration in the external accounts suggests that recourse will be made to a financial facility and support package from the IMF. Otherwise, Pakistan appears likely to face significant problems in meeting its external obligations falling due over the forecast period. Although relations between the IMF and Pakistan have been strained, it is likely that the Fund will agree a facility.

The infrastructure and power bottlenecks that disrupt and limit industrial output feed through into the merchandise trade balance. The trade deficit in 2012 was equivalent to -6% of GDP but inward remittance flows reduced the overall impact on the current account deficit, which was -0.9% of GDP in 2012. EH expects the current account deficit to widen to -2% of GDP in 2013 and 2014.

Foreign exchange reserves totalled USD10.24 billion at end-2012, providing an import cover of 2.5 months, compared with an internationally-recognised safe benchmark of three months. Moreover, FX reserves fell in the first half of 2013 and are expected to end 2013 at around USD6.9 billion, which would provide import cover of only 1.5 months. It is against this background that an IMF facility appears essential.

External debt/GDP is around 25% and external debt/export earnings is over 100%. The repayment schedule on this stock of debt gives a debt service/export earnings ratio of around 20%. Given weak FX reserves and the development needs of the country, repayment of external obligations appears challenging.

Current account and external debt (% GDP)



Sources: IHS Global Insight, Euler Hermes

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