Country Insight Snapshot

Pakistan

February 2019

Written 22 February 2019

OVERVIEW

OVERALL COUNTRY RISK RATING: DB6a

Very high risk : Expected returns subject to large degree of volatility. A very high expected return is required to compensate for the additional risk or the cost of hedging such risk.

R

Rating Outlook: Deteriorating ↘

CORE OUTLOOK

+ Pakistan could benefit from a significant demographic dividend as its young population enters the workforce.

- The tax-to-GDP ratio must be increased if social spending and public investment are to rise on a sustainable basis.
- The government's investment drive will continue to exert pressure on the current account via growing non-oil imports required for infrastructure development and defence.
- The country's large infrastructure deficit, alongside disaster-risk events (notably flooding and earthquakes), can lead to a high cost-structure for business operations.

KEY DEVELOPMENT

Foreign investment pledges from Saudi Arabia are due to provide a limited boost to stability, while regulatory rankings for doing business in the country have improved.

CREDIT ENVIRONMENT OUTLOOK

A

Trend: Deteriorating ↘

Key Development has had a positive impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

A

Trend: Stable →

Key Development has had a neutral impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

A

Trend: Deteriorating ↘

Key Development has had a neutral impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

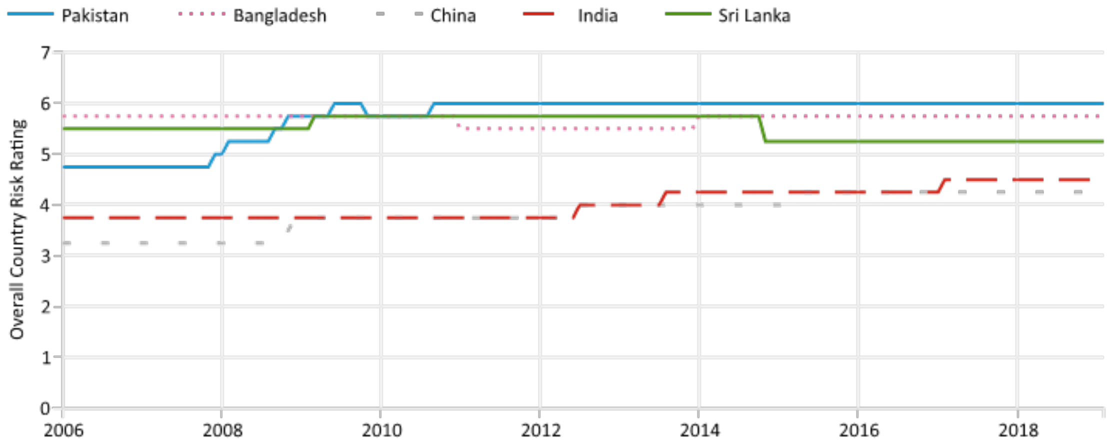
R

Trend: Deteriorating ↘

Key Development has had a neutral impact on the outlook.

KEY INDICATORS

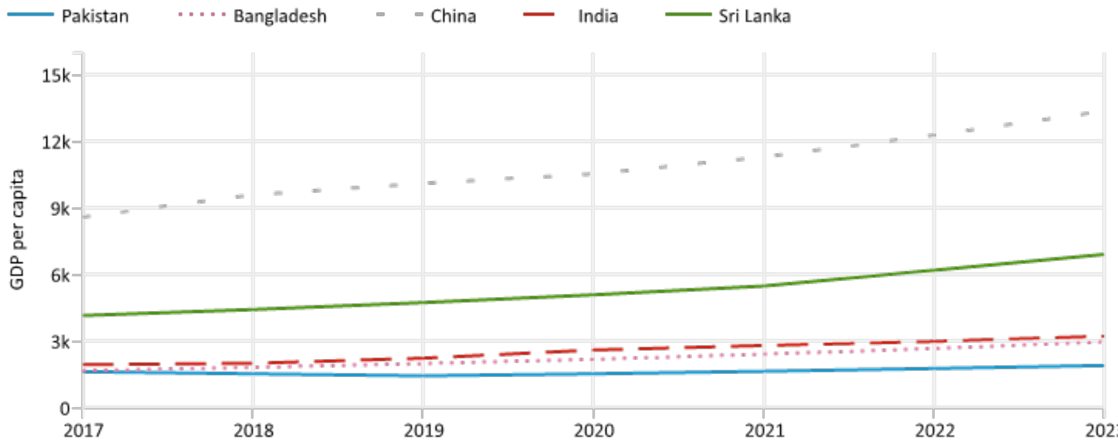
Rating History and Comparison



Source : Dun & Bradstreet

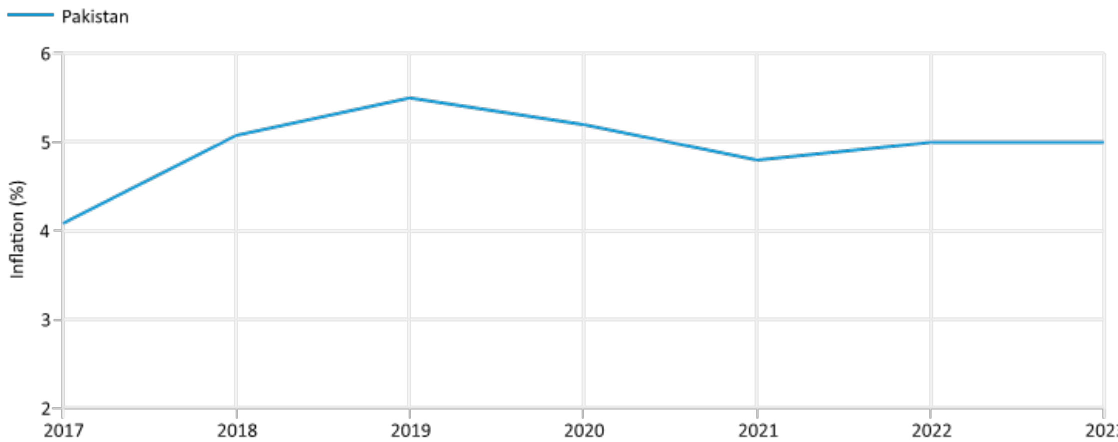
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Inflation (%)



Source : Haver Analytics/Dun & Bradstreet

Economic Indicators

Indicator	2016	2017	2018e	2019f	2020f	2021f	2022f	2023f
C/A balance % GDP	-4.1	-5.8	-6.3	-5.3	-3.2	-2.0	-1.8	-1.9
Debt Service Ratio, %	15.5	22.8	26.0	29.0	26.0	23.6	21.6	20.0
Govt balance, % GDP	0.6	-5.2	-5.9	-5.4	-5.2	-5.1	-5.5	4.8
Inflation, annual avge %	3.8	4.1	5.1	5.5	5.2	4.8	5.0	5.0
Real GDP Growth, %	5.4	5.8	5.2	4.9	5.4	5.7	6.0	5.9

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

The State Bank of Pakistan (SBP) has continued its monetary policy tightening cycle that began in 2018, raising the policy rate by a further 25 basis points to 10.25% at end-January 2019. The rate hike highlights growing concerns over underlying price pressures stemming from currency weakness, higher government spending and upward adjustments in gas and electricity tariffs. The decision was also based on concerns over the country's elevated twin deficits and a shift in the pattern of government borrowing from banks to the SBP. Encouragingly, the rate hike will provide a backstop for the country's weak level of FX reserves (which stand at USD8.2bn, covering 1.5 month of imports). The decision to retire government borrowing from banks will also improve lending conditions for the private sector. However, the rising cost of funds will put more pressure on struggling industries; and while a weaker PKR will boost export competitiveness, such gains will be negated by higher input costs sustaining financing difficulties in key sectors, notably large-scale manufacturing and commodity-producing sectors.

TRADE TERMS AND TRANSFER SITUATION

Minimum Terms: LC

The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms: CLC

Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms: 60-120 days

Normal period of credit associated with transactions with companies in the stated country.

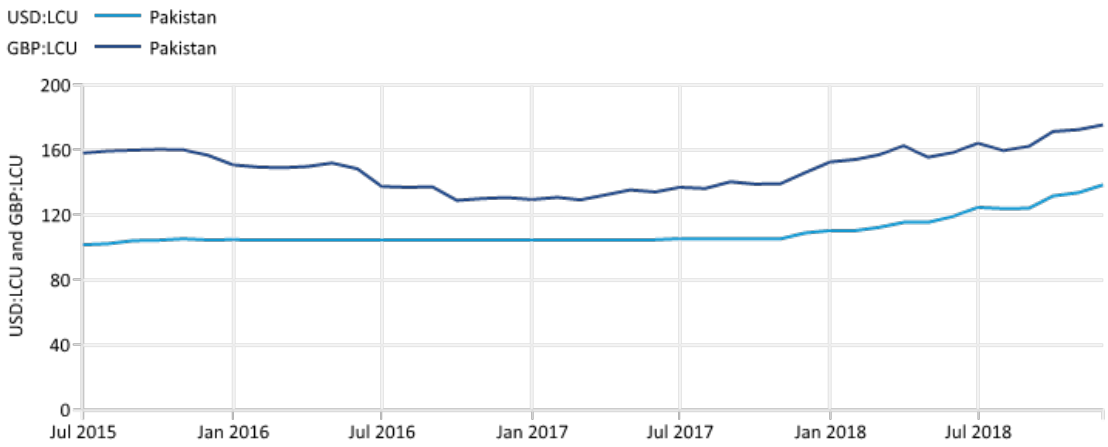
Local Delays: 0-3 months

The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: 0-1 months

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.

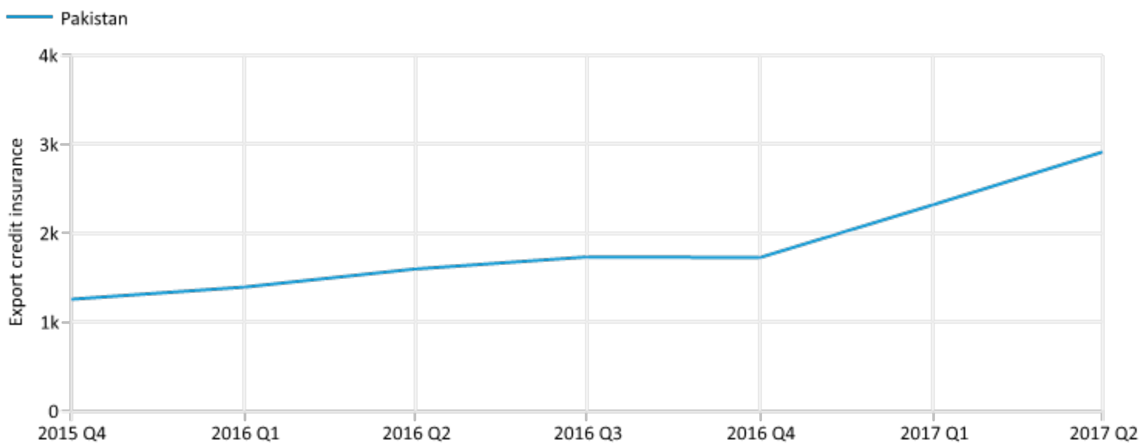
Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Pakistani rupee

Credit Conditions



Source : Export Credit Agencies

Insured export credit exposures, short-term, USDm; part of the increase going into 2017 is due to methodology changes.

RISKS AND OPPORTUNITIES

Political/Insecurity Risk

Foreign investment to provide a limited boost

In his historic visit to Pakistan in February 2019, Saudi Arabia's Crown Prince Mohammed bin Salman pledged a USD20bn investment with Pakistan, USD6bn more than was initially expected. This is a welcome boost for cash-strapped Pakistan and appears to buy the country more time to negotiate a reform package with the IMF. The new deal comprises investments in agriculture, minerals and energy projects, including the development of an estimated USD8bn oil refinery and petrochemicals complex in Gwadar, where China is developing a port to international standards under CPEC. The pledge cements existing relations between the two countries - 15,000 soldiers from Pakistan's powerful army protect Saudi Arabia's royal family in a deal estimated at USD5bn annually, and remittance flows from the oil-rich kingdom help prop up Pakistan's FX reserves. However, the recently announced deal does not wholly address Pakistan's macroeconomic deficiencies. The country still requires major reforms (which will be painful in the short term) to address long-standing imbalances that continually drain its meagre FX reserves.

Meanwhile, Pakistan's willingness to participate fully in a peaceful resolution to the 18-year conflict in Afghanistan following the US's outreach to Pakistan on the issue in December 2018 is welcome news. The decision by the US in 2018 to suspend its aid programme to Pakistan for allegedly not doing enough in the fight against terrorism has not only had an adverse impact on Pakistan's fiscal and external accounts, but has also served to isolate the country in terms of geopolitical relations.

Pakistan faces fresh challenges from its neighbours India and Iran over alleged complicity in terrorist attacks in both countries. Tensions between India and Pakistan have escalated following a terror attack by a Pakistan-based terror group, Jaish-e-Mohammad (JeM, which demands that the Muslim majority Indian state of Kashmir becomes part of Pakistan) that killed 44 Indian soldiers in Pulwama in Kashmir in February. India alleges that Pakistan's security services were involved in the attack, and it has threatened retaliatory strikes in Pakistan, in addition to the removal of certain trade benefits for Pakistani businesses. The escalation in bilateral tensions will dampen trade prospects for Pakistan, while raising security risk. Therefore Pakistan's efforts to co-operate with the US in resolving geopolitical issues will be crucial to mending relations with the US and in restoring US financial and moral support.

Business Regulatory Environment

Ease of doing business improves

Pakistan's regulatory ranking has improved moderately in the World Bank's *Doing Business 2019* report, moving up 11 places to a still-disappointing 136th position, out of 190 countries surveyed; it scored 55.31, up from 52.78 in the previous year - where 0 represents the lowest performance and 100 the best. The improvement reflects the further progress made in reducing the procedures involved in three key areas: starting a business, registering a property, and resolving insolvency.

COUNTRY PROFILE AND STATISTICS

Overview

Pakistan borders the Arabian Sea, Afghanistan, Iran, China and India. The hot, dry climate of the Indus plain gives way to temperate conditions in the mountainous north and northwest. Pakistan is the world's sixth-most populous nation, and the second-most populous Muslim majority country.

In 1947, the partition of British India into Muslim Pakistan (which then included modern-day Bangladesh) and India brought with it one of the world's largest-ever mass migrations. However, partition also brought an intense eruption of communal violence in which as many as 1m people died. Pakistan and India's relationship has been tense ever since; they have fought several wars over the still-disputed Kashmir territory, and another that led to the creation of Bangladesh in 1971.

Pakistan has seen alternating periods of unstable democracy and military rule. Poverty has remained entrenched, and the political elite and army enjoy benefits unavailable to the rest of society. Despite nuclear tests in 1998, Pakistan's leaders have maintained good relations with the US, but in recent years Pakistan's increasing armed Islamic radicalism has complicated this relationship.

Key Facts

Key Fact	Detail
Head of state	President Mamnoon HUSSAIN
Capital	Islamabad
Timezone	GMT +05-00
Official language	Urdu
Population (millions)	201.0
GDP (USD billions)	313.6
GDP per capita (USD)	1,560
Life expectancy (years)	66.3
Literacy (% of adult pop.)	56.4
Surface area (sq km)	796,100

Source : Various sources/Dun & Bradstreet

Historical Data

Metric	2014	2015	2016	2017	2018e
Real GDP growth (%)	4.1	4.6	5.4	5.8	5.2
Nominal GDP in USDbn	271	283	305	326	314
Nominal GDP in local currency (bn)	27,443	29,076	31,963	34,396	37,932
GDP per Capita in USD	1,463	1,494	1,579	1,655	1,560
Population (year-end, m)	185.5	189.4	193.2	197.1	201.0
Exchange rate (yr avge, USD-LCU)	101.1	102.8	104.8	105.5	121.0
Current Account in USDbn	-2.8	-4.9	-12.6	-19.0	-19.8
Current Account (% of GDP)	-1.0	-1.7	-4.1	-5.8	-6.3
FX reserves (year-end, USDbn)	11.9	17.2	19.5	15.5	8.7
Import Cover (months)	2.9	4.1	4.7	3.2	1.5
Inflation (annual avge, %)	7.2	2.5	3.8	4.1	5.1
Govt Balance (% GDP)	-0.4	0.6	0.6	-5.2	-5.9

Source : Haver Analytics/Dun & Bradstreet

Forecasts

Metric	2019f	2020f	2021f	2022f	2023f
Real GDP growth (%)	4.9	5.4	5.7	6.0	5.9
Nominal GDP in USDbn	301	326	357	392	430
Nominal GDP in local currency (bn)	41,877	46,316	51,179	56,808	63,001
GDP per Capita in USD	1,468	1,561	1,673	1,800	1,936
Population (year-end, m)	205.0	209.1	213.3	217.6	221.9
Exchange rate (yr avge, USD-LCU)	139.1	141.9	143.4	145.0	146.6
Current Account in USDbn	-15.9	-10.6	-7.1	-6.9	-8.2
Current Account (% of GDP)	-5.3	-3.2	-2.0	-1.8	-1.9
FX reserves (year-end, USDbn)	9.5	10.6	12.2	13.7	15.8
Import Cover (months)	1.7	1.6	1.7	1.7	1.8
Inflation (annual avge, %)	5.5	5.2	4.8	5.0	5.0
Govt Balance (% GDP)	-5.4	-5.2	-5.1	-5.5	4.8

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Pakistan	Bangladesh	China	India	Sri Lanka
Income per Capita (USD)	1,468	2,024	10,135	2,264	4,769
Country Population (m)	205.0	168.1	1,420.1	1,350.2	21.0
Internet users (% of population)	15.5	18.2	53.2	29.5	32.1
Real GDP Growth (% p.a., 2019 - 2028)	3.0 - 5.0	5.0 - 6.0	4.5 - 6.5	6.0 - 8.0	3.5 - 5.5

Source : Various sources/Dun & Bradstreet

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