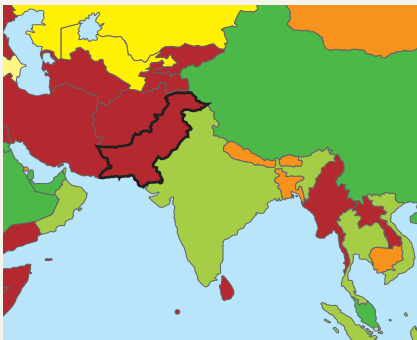


Basic facts (2025)

Population: 255 million

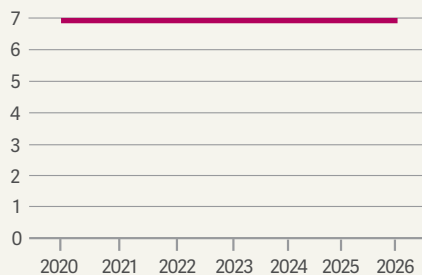
GDP, nominal: USD 408 billion

GDP/capita: USD 1 696



The country risk categories are arranged on a scale from 0 to 7. The lower the figure, the better the country's creditworthiness

Country classification history



Source: EKN

Strengths

- + Growth potential supported by a young population and mineral resources
- + Robust remittance inflows
- + Strategic importance to China and the Gulf states
- + Positive reform trend in cooperation with the IMF

Weaknesses

- Risk of political instability, with a negative trend in the security situation and geopolitical tensions
- Fragile macroeconomic stability due to weak public and external finances
- Narrow export base
- Weak institutional capacity
- Challenging business environment
- High exposure to climate change

Structural challenges constrain growth

With the world's fifth-largest population, at over 255 million, Pakistan's domestic economy is relatively large, providing some growth potential and resilience. The economy is driven by household consumption (just over 80 per cent of GDP), while investment remains low (below 15 per cent of GDP). On the production side, the services sector dominates. The important agricultural sector (23 per cent of GDP) employs 36 per cent of the workforce, while manufacturing remains underdeveloped.

Pakistan is a net importer of energy commodities, and its narrow export base (10 per cent of GDP) exhibits weak competitiveness and is dominated by textiles and agricultural products. The main source of foreign exchange earnings is remittances (9 per cent of GDP), of which more than half originate from the Gulf states. These inflows finance the bulk of structural trade deficits and support domestic consumption.

However, high debt servicing costs mean that the current account is often in deficit. The structure of the economy implies that deficits tend to widen as economic activity increases. With low foreign direct investment (FDI), the external position therefore remains vulnerable, characterised by reliance on external financing and limited foreign exchange reserves relative to external financing needs.

Pakistan, one of the poorest countries in Asia, faces significant structural challenges. Low GDP growth of 3.4 per cent over 2016–2024 is insufficient to generate employment for a rapidly growing young population. Social and religious tensions contribute to a latent risk of political instability. The country is affected by violence, including militant Islamism and separatist conflicts in parts of the country.

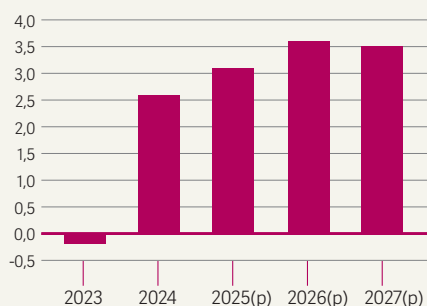
The security situation follows a negative trend since the Taliban took power in Afghanistan in 2021. Pakistan accuses the Taliban regime of harbouring the Pakistani Taliban (TTP), and bilateral tensions have escalated into armed strikes and border clashes from both sides since February 2026. With India, a ceasefire has been in place following a brief conflict in spring 2025, but relations remain tense.

Public finances are weak due to low revenues, subsidies in the agricultural and energy sectors, and a large, unprofitable state-owned enterprise sector. The public debt ratio is high, at around 70 per cent of GDP, and interest payments absorb over 35 per cent of government revenues. The fact that most debt is domestic reduces exposure to exchange rate risks. However, this also means that lending to the public sector accounts for the majority of banking sector assets, exposing the banking system to the sovereign and constraining credit to the private sector.

Since 2015, major infrastructure investments — primarily in the energy sector — have been undertaken through the China–Pakistan Economic Corridor (CPEC). The terms of these often debt-financed projects raise questions about the returns in terms of competitiveness and growth needed to service Chinese loans, which account for approximately 30 per cent of public external debt.

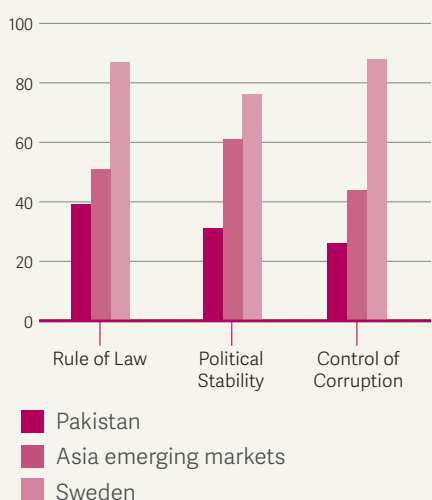
Parliamentary democracy was reinstated in 2010, but the military continues to

Real GDP growth (constant prices, % per annum)



Source: IMF WEO, Macrobond

Business environment



Ranking from 0 (worst) to 100 (best)

Source: The World Bank, Macrobond

Swedish export to Pakistan

	MSEK
2025	1 622
2024	1 762
2023	3 593
2022	2 221
2021	2 377

Source: SCB

EKN:s exposure

	MSEK
Guarantees	870
Offers	39

exert significant influence over politics and the economy behind the scenes. This influence is assessed to have increased following the contested elections in 2024, the conflict with India, and subsequent constitutional changes. Strong vested interests from the military, a large public sector, and a dynastic political elite tend to hinder much-needed reforms, particularly those aimed at liberalising the inward-looking economic structure. These factors tend to undermine the country's ability to sustain structural reform efforts.

At the same time, Pakistan's geostrategic position has enabled it to rely on external support from multilateral institutions and allies such as China and Saudi Arabia. However, pressure for reform is increasing as indications suggest that bilateral support is increasingly conditional on reforms and provided on more commercial terms.

Recovery if conflict subsides

The Middle East conflict has renewed uncertainty at a time when the economy had just begun to recover from the crisis years of 2022–2023. Despite disruptions from flooding and the Middle East conflict, growth is expected to reach 3.6 per cent in fiscal year 2026 (July 2025–June 2026), the highest level in four years. Public finances show a positive trend, with strengthened revenues and a gradually declining debt ratio. The current account has also improved, while the currency has stabilised and policy rates have been reduced significantly. Some initial progress has been made in structural reforms, such as efforts to broaden the narrow tax base and initiate the privatisation programme. This positive development has paved the way for sovereign credit rating upgrades and Pakistan's return to the international bond market in 2026.

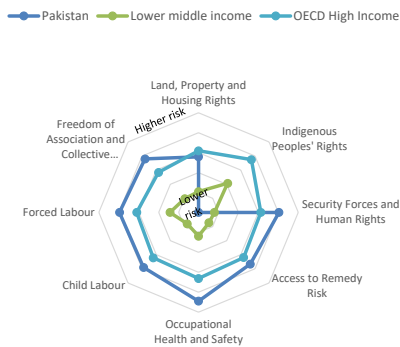
However, the conflict and uncertainty regarding whether a lasting resolution between the United States and Iran can be achieved create renewed uncertainty for the economic outlook. The country's exposure to the Gulf region is significant, both from a security and an economic perspective, particularly due to its reliance on oil and gas imports — of which the Gulf region accounts for over 85 per cent — and as the main source of Pakistan's remittance inflows.

Disruptions to commodity prices are already sufficiently significant to lead to some slowdown in growth, higher inflation, and a return to a current account deficit in the current year.

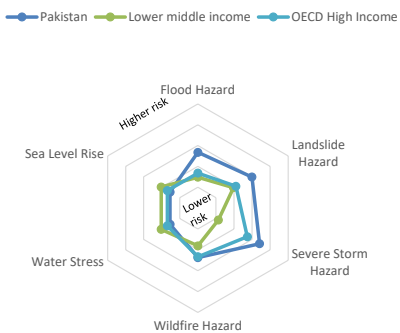
However, risks are partly mitigated by the still fragile peace process in the Middle East and Pakistan's recent progress in strengthening macroeconomic stability. The IMF programme, which runs until autumn 2027, serves as an anchor for economic policy. It has enabled a partial rebuilding of macroeconomic buffers. The relatively well-functioning cooperation also increases the likelihood that the IMF if needed, may show some flexibility regarding the challenging targets agreed under the programme. This raises the probability that cooperation will continue and unlock financial support from multilateral institutions and allies, which is critical for Pakistan.

In a more prolonged conflict scenario, there is a risk of significant strain, given the country's social and political tensions, still limited fiscal and external buffers, and substantial external debt repayments in the coming years.

Riskprofile Human Rights



Riskprofile physical climate risks and natural disasters



The foregoing chart information was obtained from Verisk Maplecroft*

High exposure to climate change

The importance of agriculture, demographic pressures, and an energy mix heavily reliant on fossil fuels — albeit with a significant share of hydropower — contribute to the country's high exposure to climate change. Pakistan is among the ten countries most affected by extreme weather over the past decade, as evidenced by floodings in recent years.

Investment in climate adaptation is lagging. This is reflected in the World Bank's (2022) estimate of financing needs for 2023–2030 of USD 348 billion, equivalent to around 10 per cent of cumulative GDP over the period, requiring substantial external financing. Power generation capacity is expanding in nuclear energy and renewable solar power, where the country has considerable potential. Over time, this may reduce dependence on imported fossil fuels, which still dominate electricity generation (52 per cent, of which gas accounts for 28 per cent; IEA 2023).

In the ND-GAIN Index, which measures countries' vulnerability to climate change and their capacity to manage related risks, Pakistan ranks 146th out of 181 countries (2023). The impacts of climate change are difficult to quantify, but the frequency of extreme weather events appears to be increasing. This contributes to more volatile food inflation, which risks exacerbating poverty. Estimates from the Asian Development Bank (2024) and the World Bank (2022) suggest GDP losses of just over 10–20 per cent by 2050 compared with scenarios without further climate change.

Business environment

Pakistan's business environment is weak, as reflected in low investment levels. In the World Bank's Worldwide Governance Indicators (WGI), Pakistan's scores for economic institutions are around 25 per cent below the average for emerging and developing economies in Asia.

Corruption is a particular challenge. In Transparency International's Corruption Perceptions Index, Pakistan has ranked around 135th out of 180 countries during 2023–2025. The results are significantly below the regional average (94). The security situation is also challenging, particularly in the country's western provinces. Based on data for 2025, Pakistan ranked first for the first time in the Global Terrorism Index as the country most affected by terrorism.

Another challenge are recurring episodes of macroeconomic volatility. However, recent stabilisation has contributed to the removal of the import and foreign exchange restrictions that paralysed industry during the crisis years of 2022–2023. Nevertheless, there are lingering risks of changes to regulations concerning foreign exchange, tariffs, and import restrictions, which could complicate access to foreign currency for external payments. Predictability in the business environment is also limited by a lack of harmonisation in regulations and their implementation across provinces and authorities.

Another source of uncertainty stems from a constitutional amendment in 2024 that sets out the ambition to eliminate all forms of interest by January 2028. This creates uncertainty regarding the structure of financial transactions.

Significant commercial interests from the military and a large state-owned enterprise sector risk distorting competition for private companies. Structural problems in the energy sector result in an unreliable electricity supply. Complex

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structures of protective tariffs and non-tariff barriers, combined with a limited network of free trade agreements, constrain integration into global value chains and hinder the export sector.

Improving the business environment has long been on the reform agenda. However, the pandemic, volatile domestic politics, and strong vested interests have limited policy continuity, resulting in modest progress. In the years prior to the IMF programme launched in 2023, the focus appears to have been on facilitating individual large-scale projects, for example through the establishment of the Special Investment Facilitation Council (SIFC), involving senior representatives from government and the military to improve coordination for planned investments, including in the mining sector.

The IMF programme focuses on broader systemic improvements, including an anti-corruption programme, a privatisation programme, a National Tariff Policy (NTP) aimed at rationalising and reducing tariffs by 2030, and reforms to streamline regulations and processes related to permits, customs clearance, and taxation.

As digital infrastructure gradually expands, the conditions for implementing reforms are improving. Some progress is becoming visible, but sustained implementation beyond the IMF programme will be required to achieve lasting improvements in the business environment.

From EKN's credit perspective, key aspects of the business environment include the predictability and quality of regulations affecting debtors' operations, as well as the legal framework affecting creditors' rights. In both areas, Pakistan's WGI scores are significantly below the regional average. In the legal environment, structural weaknesses and lengthy judicial processes may hinder recovery, with company liquidation, for example, reported to be a very prolonged process.

The legal framework is gradually being strengthened. While there are no dedicated bankruptcy law, corporate restructuring and insolvency are governed by the Companies Act (2017) and the Corporate Rehabilitation Act (2018), which aim to establish a court-driven restructuring process. In 2020, legislation on collateral was introduced and an electronic collateral registry was established, although the focus remains on financial institutions' security interests.

Systematic evaluation of these frameworks is lacking, and in practice it takes time for case law and institutional capacity to develop. Efficiency is further constrained by an overburdened judicial system with few specialised insolvency courts. EKN has limited experience of debt recovery in Pakistan, but establishing collateral for larger credits is advisable.

The corporate sector is dominated by family-owned conglomerates, including among private banks. Access to financial information is relatively good for banks and listed companies, which report in accordance with international standards (IFRS). An increasing number of state-owned enterprises have also begun publishing audited financial statements in line with IFRS, following legislation (SOE Act 2023) requiring such reporting by 2026.

In its business assessments, EKN considers the risk of adverse impacts on human rights. The focus is on potential impacts arising from operations in the countries where exported goods are used. Key issues include working conditions, child and forced labour, excessive use of force by security forces, indigenous rights, and land rights. According to Maplecroft's human rights

index, Pakistan shows a somewhat higher risk profile than comparable countries across several dimensions, particularly linked to the security situation. (Data on indigenous rights is unavailable.) This also applies to the sub-index on security forces and human rights, reflecting the longstanding security challenges, particularly in the provinces of Khyber Pakhtunkhwa and Balochistan bordering Afghanistan and Iran.

EKN's policy

EKN classifies Pakistan in country risk class 7 (on a scale from 0 to 7). In June 2024, some easing was introduced in the previously very restrictive country policy. For public buyers, letters of credit or bank guarantees are required for short tenors (up to one year), and restrictions apply for longer tenors. For corporate counterparts an increased premium surcharge is typically applied.

EKN's commitment and experience

EKN's exposure amounts to just over SEK 910 million, with sovereign-related counterparties dominating. Between 2021 and 2025, EKN issued guarantees for approximately 375 transactions involving around 30 exporters, totalling SEK 2.4 billion. The flow is dominated by public sector-related counterparties, as well as buyers of packaging materials and pulp and paper. Swedish SMEs and trading companies account for just under 50 per cent of the guarantee volume. Just over half of transactions have a credit tenor of up to one year.

EKN's payment experience is good. For guarantees issued between 2021 and 2025, delays occurred in just over five per cent of cases, with an average duration of 88 days. EKN has paid claims on only one transaction over the past ten years. The low frequency of claims and delays is partly explained by the high share of transactions using letters of credit as the payment instrument.

Pakistan continues to service bilateral debt under Paris Club agreements following restructurings with international creditors in 1999–2001. As of June 2026, approximately SEK 30 million remain outstanding.