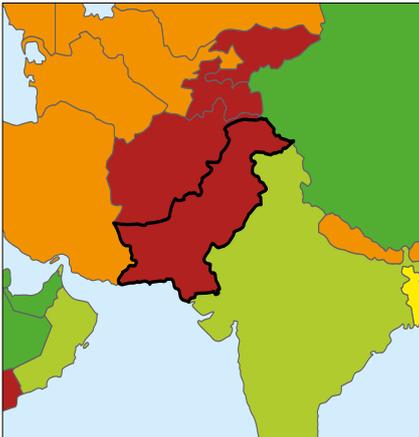




The country risk categories are arranged on a scale of 0 to 7. The lower figure, the better the country's creditworthiness.



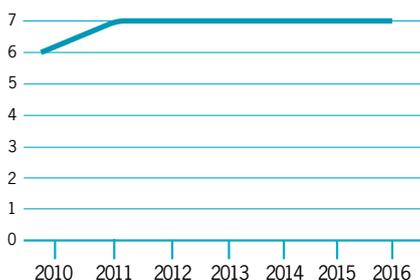
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BASIC FACTS

Population	189 million (2015)
Nominal GDP	USD 270 billion (2015)
GDP/capita	USD 1 450 (2015)

COUNTRY CLASSIFICATION HISTORY



Source: EKN

New energy in relation to China

The country has achieved an economic upswing due to progress under the completed IMF programme and China's extensive investments in the country. Increased investments in the country financed by China and projects within the framework for the cooperation with Asian development banks are expected to contribute to, among other things, better transport opportunities and more stable and reliable electricity supplies. In time, this can increase the country's competitiveness, and cautious optimism can be discerned.

The overall security situation, economic policy and political instability are, however, still weaknesses for the economic development. After the recently concluded IMF programme the economy is strong, although weak government finances, high indebtedness and the political environment limit the government's opportunities to achieve reforms.

THE COUNTRY'S STRENGTHS AND WEAKNESSES

STRENGTHS

- + Reform work within the framework of the IMF agreement has strengthened the country's economy. The programme has served as an anchor for the economic policy.
- + A steady inflow of remittances and good relations with bilateral donors and multilateral development banks.

WEAKNESSES

- Political instability, difficult security situation and extensive military influence.
- Weak public finances with revenue that falls far short of the investment requirement.
- The country's security situation lays claim to extensive resources, both politically and financially.
- Weak competitiveness due to structural weaknesses, such as a lack of access to electricity.

SWEDISH EXPORT TO THE COUNTRY

Pakistan	MSEK
2015	1 966
2014	2 285
2013	1 535
2012	1 606
2011	2 008
2010	-

Source: SCB

EKN'S EXPOSURE

	MSEK
Guarantees	10 263
Offers	653

EKN'S POLICY

EKN has placed Pakistan in country risk category 7, for both short and long term guarantees – an assessment made in collaboration with the other OECD countries. If the other party is a public buyer, such as a ministry or federal state, EKN requires a guarantee from the state.

EKN'S EXPOSURE AND EXPERIENCE

As of the end of October 2016, guarantees amounted to SEK 10.3 billion, and offers to SEK 0.7 billion. The guarantees are mainly for export transactions to the Pakistani state and the telecom sector. EKN's experience from guaranteeing export transactions for Pakistan is generally good.

WHAT MIGHT CAUSE A CHANGE IN THE COUNTRY POLICY

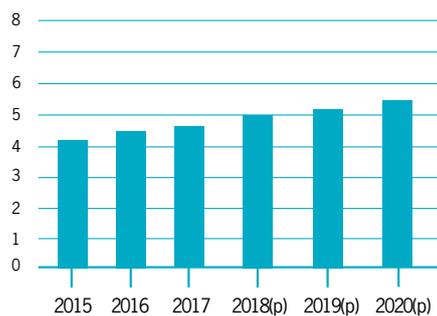
THE POLICY MAY BE MADE LESS RESTRICTIVE IN THE EVENT OF:

- Sustainable, responsible and long-term economic policy, with or without IMF cooperation.
- A more stable security situation, increased political stability and predictability contributing to international confidence, increased investments, and also greater growth potential going forward.
- Intensification of the reform work within the energy sector, infrastructure and business environment, which will also increase competitiveness.

THE POLICY MAY BE MADE MORE RESTRICTIVE IN THE EVENT OF:

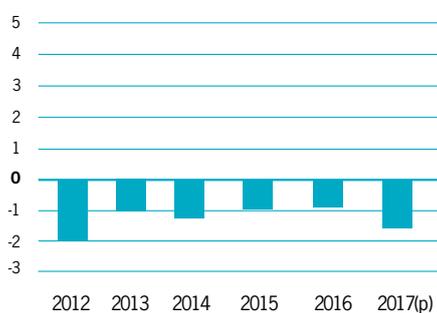
- An economic policy leading to a larger budget deficit and increased indebtedness.
- Exacerbation of the security situation in the country.

GDP-GROWTH (% PER ANNUM)



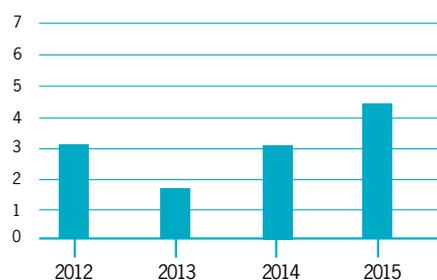
Source: IMF WEO

CURRENT ACCOUNT (% OF GDP)



Source: IMF WEO

INTERNATIONAL RESERVE (MONTHS OF IMPORT)



Source: Världsbanken

COUNTRY ANALYSIS

BACKGROUND

Pakistan is characterised by political instability, low economic growth and a weak security situation. In the light of the weak starting point, the country has nevertheless made progress. The civilian government's ability to achieve political influence is limited by military forces, the special interests of the country's elite, and a confrontational political tradition. The fragile nature of the democracy is among other things apparent from how the most recent change of regime in 2013 was the first time that an outgoing government served its full term.

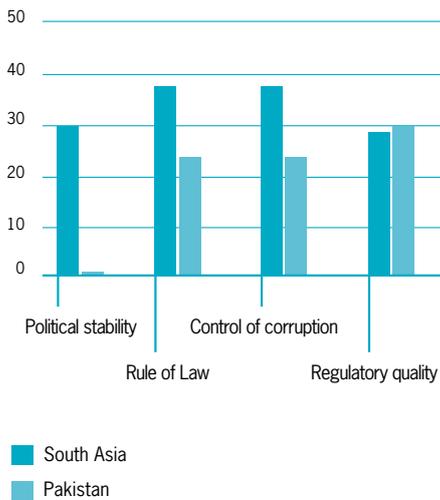
RECENT TRENDS

The relationship between China and Pakistan is longstanding, but Chinese influence has increased considerably in recent years. This is specifically apparent in projects such as China Pakistan Economic Corridor, which is part of the larger One Belt One Road (OBOR) initiative from China, which concerns the entire region. Chinese investments in Pakistan are expected to amount to USD 45 billion during a ten-year period, and primarily target the energy and infrastructure sectors. The investments have a positive impact on economic activity and can consequently also increase the country's competitiveness.

The stronger relationship with China has probably also played a role in the country's position not to continue the cooperation with the IMF. There are no signals of any ongoing discussions with the IMF on any type of monitoring programme. The previous IMF agreement served as an anchor for the economic policy. Without any such anchor, there is a risk of difficult decisions being derailed and of increasing public expenditure. Comparison between the budgeted deficit in the national budget and the actual outcome in the 2010-2016 period shows substantial differences in budget discipline. During the years of the IMF programme, the difference between outcome and budget was less than one percentage point, while the deficit also decreased in nominal terms. During the years without an IMF programme (2010-2013) the outcome was a deficit in relation to GDP that was two to five percentage points higher than budgeted.

In contrast to the multilateral banks, China offers favourable financing opportunities without interfering in domestic policy and without requirements like those which Pakistan in many cases found it difficult to fulfil in relation to the IMF. Within the defence area, Pakistan has established cooperation with China, and has a shared rival in India. Transport and energy are other sectors in which extensive cooperation is developing. The port in Gwardar in Pakistan suits China's strategy to have access to a port that does not rely on crossing the South China Sea. There are thus both short- and long-term reasons on both sides to promote increased cooperation.

BUSINESS ENVIRONMENT



Source: Världsbanken

LONG TERM TRENDS

The reforms achieved during the last three years have contributed to a more stable economy. The economy can be improved further by implementing planned investments and completing ongoing reforms, such as a more cohesive tax system. Meanwhile, fundamental structures such as the country's security situation and the power balance between the military and the civilian regime have not changed. The conditions for the functioning and development of the economy will therefore also continue to be strongly linked to the political situation in the country. The possible scenario is that Pakistan will refrain from approaching the IMF again and instead, together with China, attempt to stand on its own feet. Currently, both countries have a lot to gain, in relative terms, from the mutual relations, but China will avoid intervening in the complicated domestic politics.

In the longer term there is a risk of a clearer bisection of Asia between countries: the countries which ally themselves with China, and those that do not. This potential development would be negative for the region, with an increased risk of escalation of other conflicts, such as in the South China Sea, or between Pakistan and India. A rapprochement between Pakistan and China would not necessarily have such far-reaching consequences, since each country also has its own interests, which differ from the other party's.

BUSINESS ENVIRONMENT

The business environment concerns the regulatory environment, the legal environment, and transparency and reporting. The institutions are generally very weak and do not function satisfactorily, and the implementation of regulations is deficient. On the other hand, in certain respects the regulations are modern and relatively well-developed, compared to other emerging economies. This concerns the banking sector, for instance.

At an early stage, Pakistan undertook to use IFRS, the international financial reporting standards. During 2015, the use of IFRS, which previously solely concerned banks and large companies, was extended to also include small companies. There is relatively good insight into companies' financial situation and ownership.

Pakistan's ranking in the World Economic Forum's competitiveness index is low, at 126 out of 140 countries, and the country ranks only slightly better in the World Bank's Doing Business Index (DBI). EKN has little experience from recovering claims in Pakistan. According to DBI, the average recovery rate in Pakistan is somewhat higher than the region's average, at 40 per cent compared to 32 per cent for South Asia overall.

Against the background of the lack of any indication of more extensive structural improvements in, for example, the corruption situation, the politicisation of institutions and the legal system, the assessment is that the business environment will not change to any great extent in the coming years.

Disclaimer: The country analysis is based on a range of sources and reflects information that is relevant to EKN at the time of publication. The responsibility for how the information is used or interpreted rests solely with the user, and EKN cannot be held responsible for any loss or damage.