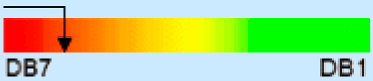
D&B Country RiskLine Report

PAKISTAN

Region : Asia Pacific
Edition : December 2013

D&B Country Risk Indicator

DB6a



This "DB" Rating Indicates:

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.

Trend

Deteriorating

The country's overall risk profile is deteriorating owing to adverse political, commercial, economic and/or external developments

The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country and encapsulates the risk that country-wide factors pose to the predictability of export payments and investment returns over a two year time horizon. The 'DB' risk indicator is a composite index of four over-arching country risk categories:

Political risk - internal and external security situation, policy competency and consistency, and other such factors that determine whether a country fosters an enabling business environment;

Commercial risk - the sanctity of contract, judicial competence, regulatory transparency, degree of systemic corruption, and other such factors that determine whether the business environment facilitates the conduct of commercial transactions;

External risk - the current account balance, capital flows, FX reserves, size of external debt and all such factors that determine whether a country can generate enough FX to meet its trade and foreign investment liabilities;

Macroeconomic risk - the inflation rate, government balance, money supply growth and all such macroeconomic factors that determine whether a country is able to deliver sustainable economic growth to provide further expansion in business opportunities.

The DB risk indicator is divided into seven bands, ranging from DB1 through DB7. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on. Only the DB7 indicator is not divided into quartiles.

Key Facts

Population:	201.4
Surface area (sq km):	796,100
Capital:	Islamabad
Timezone:	GMT +05:00
Official language:	Urdu
Head of state:	President Mamnoon HUSSAIN
GDP (USD):	234.1
GDP per capita (USD):	1,188
Life expectancy (years):	66
Literacy (% of adult pop.):	50.0

Country 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 its mountainous north and northwest. Pakistan is the world's sixth most populous nation, and the second-largest 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 testing in 1998, Pakistan's leaders have maintained good relations with both China and the US. In recent years, Pakistan has experienced increasing armed Islamic radicalism.

Trade & Commercial Environment

Trade Terms

Minimum Terms:	LC

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

Recommended Terms:	CiA

D&B'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.

Transfer Situation

Local Delays:	2-4 months

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

FX/Bank Delays:	0-2 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.

Trade & Commercial Environment

The country's balance of payments situation has continued to deteriorate despite renewed IMF financing in September. By end November, the country's total liquid FX reserves had slid to just USD8.2bn down by 1.3bn from a month earlier and USD5.7bn less than a year earlier; the reserves are now sufficient for import cover of just 7-9 weeks. Even the next tranche of IMF assistance (USD500m, due by early 2014) will not be sufficient to assure a short-term improvement in overall FX liquidity. Net outward capital flows, a growing trade deficit and weaker remittance growth have all contributed to ongoing deterioration. The continued decline in the currency poses payment risks on FX-denominated accounts receivable. D&B recommends CiA terms.

Export Credit Agencies

US Eximbank	Limited public and private sector cover available
Atradius	ST cover available subject to approved LC, no discretionary limits
ECGD	Full cover available
Euler Hermes UK	ST cover available, restrictions may apply

Economic Indicators

	2010	2011	2012	2013f	2014f
Real GDP growth, %	2.8	4.0	3.6	2.5	4.0
Inflation, annual ave, %	14.0	10.8	7.8	9.2	9.0
Govt balance, % GDP	-6.6	-7.0	-8.8	-7.0	-6.0
Debt service ratio, %	19.0	18.5	14.5	13.0	13.5
C/A balance, % GDP	0.1	-2.0	-1.0	-0.9	-0.9

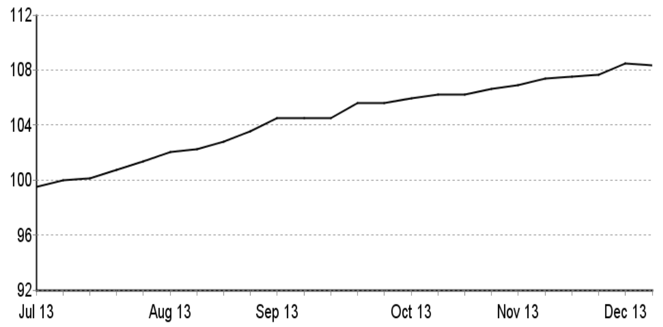
Economic Indicators: Figures refer to fiscal years (July-June; i.e. 2010 is July 2010 through June 2011).

Currency Information

Exchange Rates (London, 09 Dec 13)	
EUR	148.239
GBP	177.147
JPY*	105.477
USD	108.33
*(x 100)	

Local Currency

(Pakistan rupee [PKR]: USD)



Local Currency

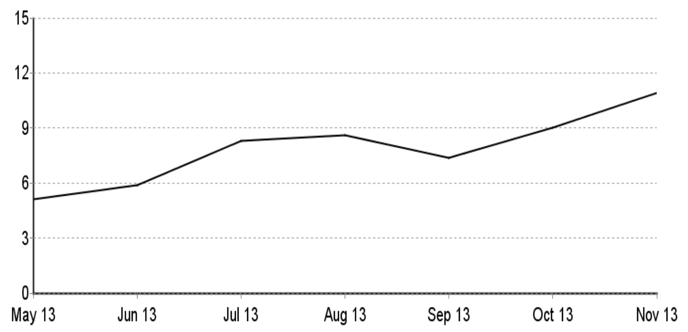
(Pakistan rupee [PKR]: USD)

	Jul 13	Aug 13	Sep 13	Oct 13	Nov 13	Dec 13
Week 1	99.500	102.006	104.480	105.965	106.870	108.475
Week 2	100.000	102.265	104.480	106.205	107.345	108.330
Week 3	100.125	102.795	104.480	106.205	107.480	
Week 4	100.725	103.535	105.565	106.605	107.630	
Week 5	101.320		105.625			

Consumer Price Inflation

Consumer Price Inflation

(y/y rate, %)



Data Table						
May 13	**Jun 13**	**Jul 13**	**Aug 13**	**Sep 13**	**Oct 13**	**Nov 13**
5.1	5.9	8.3	8.6	7.39	9.0	10.9

Risk Factor

The government continues to make progress on its economic reform agenda. Most notably, it has made headway on its pledges to overhaul the country's chronically inadequate power sector, as well as its privatisation programme. Power cuts are a severe drag on all sectors of the economy. In the 2012-13 fiscal year (July-June), power shortages cut up to 2.0 percentage points off GDP growth. Since coming to office in May, the government of Prime Minister Nawaz Sharif has paid down USD4.8bn worth in government debts (stemming from subsidies) to power producers; this has helped to lift the burden of circular debts that triggered liquidity difficulties and supply-chain problems between fuel importers, power producers and electricity distributors. These moves, along with a timely seasonal increase in hydroelectric power, have boosted the electricity supply by nearly 15.0% since May. In an effort to prevent the sector's circular debts from accumulating again, the government has also succeeded in raising electricity tariffs by about 60.0% for industrial customers and by as much as 40.0% for consumers, in spite of a supreme-court challenge.

The government formalised its privatisation plans in December 2013. The government intends to privatise over 31 state-owned enterprises (SOEs), including the state's most-serious loss-making enterprises (Pakistan International Airlines and Pakistan Steel Mills). The government aims to privatise at least seven SOEs by the end of 2013-14. The sales will face significant political resistance. By pressing ahead with the less controversial privatisation of state-run energy firms, the agenda should be able to gain some momentum. The privatisation of inefficient, indebted SOEs will help to shore up the government's tenuous fiscal situation; however, it is less clear that the programme will strengthen these ailing sectors. Robust regulatory agencies to oversee the privatised industries are lacking; the country's regulators often suffer from a lack of expertise, bureaucratic inefficiency, insufficient regulatory power and politicisation. Opponents of the plan warn of continued inefficiency, high prices and under-performance.

The country's difficulties with Islamist groups remain a source of concern. In addition, the political backlash against ongoing US drone strikes targeting Islamist militants has escalated since a strike killed the leader of the Pakistani Taleban in November. Opposition parties have organised blockades of NATO supply lines to and from Afghanistan. In December, the US military halted shipments of cargo via Pakistani supply routes for safety reasons. Continued blockades will strain already-fragile bilateral relations and threaten US-aid monies provided to the government to ensure the passage of US military supplies; this would put further pressure on the country's weak external position.

Glossary & Definitions

DEFINITIONS

Minimum Terms:

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

Recommended Terms:

D&B'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:

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

Local Delays:

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

F/X Bank Delays:

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.

C/A (current account) balance, % GDP:

Part of the balance of payments that records a nation's exports and imports of goods and services, and income and transfer payments.

DSR (debt service ratio), %:
Annual interest and principal payments on a country's external debts as a percentage of exports of goods and services.

Govt balance, % GDP:
The balance of government expenditure and receipts.

Real GDP growth, %:
GDP adjusted for inflation.

Inflation, %:
The increase in prices over a given period.

GLOSSARY

CiA	Cash in Advance
CLC	Confirmed Letter of Credit
CWP	Claims Waiting Period
FX	Foreign Exchange
LC	Letter of Credit
LT	Long term
MT	Medium term
OA	Open Account
SD	Sight Draft
ST	Short term

Customer Service & Support

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