

## Ongoing vulnerabilities limit the economic potential

### General Information



<b>GDP</b>	USD269.9bn (World ranking 41, World Bank 2015)
<b>Population</b>	188.9mn (World ranking 6, World Bank 2015)
<b>Form of state</b>	Federal Republic
<b>Head of government</b>	Mohammad Nawaz SHARIF
<b>Next elections</b>	2018, presidential and legislative



### Strengths

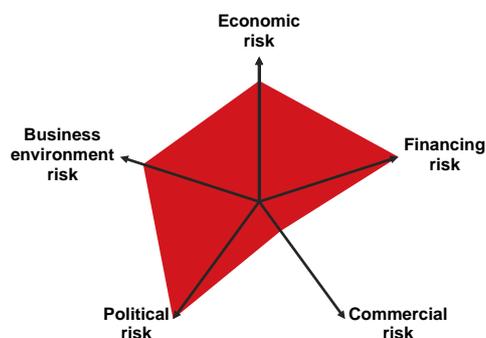
- Large domestic market
- Despite often strained relations, continued support by the US and multilateral agencies (IMF)
- Strong hard currency remittances

### Weaknesses

- Susceptibility to natural disasters and dependence on rain-fed agriculture
- More frequent protests since summer 2014
- Poor domestic and regional security (border with Afghanistan)
- Low per capita income and high poverty levels
- Large fiscal and trade account deficits
- Weak business environment

### Country Rating

**D4**



Source: Euler Hermes

### Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
United States	15% 1 20%	China
China	9% 2 15%	United Arab Emirates
Afghanistan	8% 3 9%	Saudi Arabia
United Kingdom	7% 4 6%	Kuwait
United Arab Emirates	5% 5 4%	Indonesia

By product (% of total)

Exports	Rank	Imports
Textile yarn and related products	37% 1 30%	Petroleum and related products
Articles of apparel, clothing accessories	20% 2 4%	Fixed vegetable oils and fats
Cereals and cereal preparations	10% 3 4%	Organic chemicals
Vegetables and fruits	3% 4 4%	Iron and steel
Petroleum and related products	3% 5 4%	Plastics in primary forms

Source: UNCTAD



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## Economic Overview

### Solid growth amid high vulnerabilities

GDP growth is forecast to rise by 4.8% in the financial year 2016-17. Exports will grow at a slow pace. Reasons include low cotton and rice prices, limited demand in partner economies, and deteriorated price competitiveness.

Domestic demand growth will remain firm. It should benefit from cheap oil prices and solid remittances inflows. Investment growth may pick up gradually with robust credit growth and solid Foreign Direct Investment (FDI) inflows related to the China-Pakistan Economic Corridor project.

In the short run, risks are elevated. First, an appreciation of the real exchange rate could further hinder price competitiveness. Second, weaker economic prospects in China and the GCC could result in lower FDIs and remittances. Third, tighter global financing conditions could translate into lower capital inflows. Fourth, a rise in oil prices would undermine the external position. In the longer term, external vulnerabilities, political and security uncertainties may contribute to weaker growth prospects.

### Policy buffers are up but from a low base

The monetary policy framework is improving. In 2015, the National Assembly passed legislation that enhances the State Bank of Pakistan's independence. Positive signs also include inflation being in check - it now stands below the 6% target - and a planned move towards an inflation targeting framework.

Public finances and the external position are improving but are still vulnerable. Progress on reducing macroeconomic imbalances is scrutinized by the IMF. Fiscal indicators have improved but are still at critical levels, with the public deficit above -3% of GDP and public debt above 60% of GDP. The external position has strengthened, with increased FX reserves providing now 4.3 months of imports (FY2015-16). The current account balance improved thanks to lower imports and higher remittances.

### Weak business environment, political vulnerabilities hinder the outlook

A poor business environment and a difficult political landscape might deter investors. The World Bank's Doing Business 2016 survey ranks Pakistan 138<sup>th</sup> out of 189 economies. The country's specific weaknesses include the tax environment, contract enforcement, and adequate power supply.

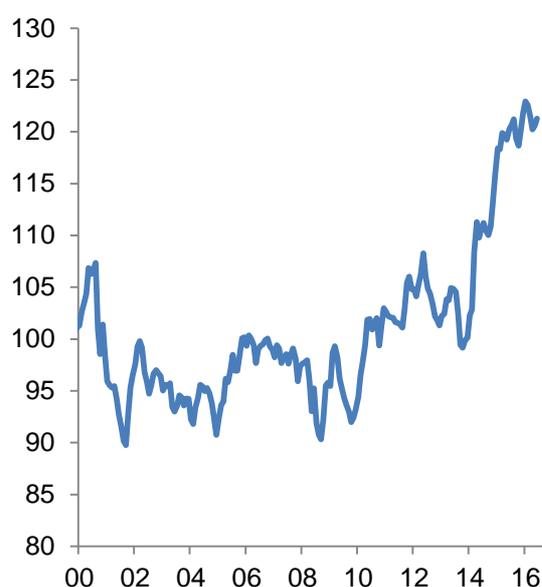
Political stability remains fragile. The current government is ridden by corruption scandals, a fragmented political scene, security issues, and uneasy relations with neighboring countries (e.g. India, Afghanistan).

### Key economic forecasts

	2013-14	2014-15	2015-16	2016-17
GDP growth (% change)	4.1	4.0	4.7	4.8
Inflation (% , year average)	8.6	4.5	2.9	4.0
Fiscal balance (% of GDP)	-4.9	-5.3	-4.2	-4.0
Public debt (% of GDP)	64.9	64.4	65.0	64.0
Current account (% of GDP)	-1.3	-1.0	-1.0	-2.0
External debt (% of GDP)	26.9	24.1	26.0	26.0

Sources: IMF, Euler Hermes

Figure 1 Real effective exchange rate



Sources: IMF-IFS, IHS, Euler Hermes

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