

**COUNTRY PROFILE:****ISLAMIC REPUBLIC OF PAKISTAN****DATED:****NOVEMBER 2007****CREDIT GUARANTEE:**

	<i>Country Rating</i>	<i>U/W Method</i>
<i>Short-term</i>	3C	CILC

*Recent Political Highlights*

- ❑ A Supreme Court cleared the way for Gen Pervez Musharraf to rule as a civilian president, throwing out a final challenge and putting a stamp of approval on the October vote that won Musharraf a five-year term. Pervez Musharraf resigned from his military post as chief of army staff, ending eight years of military rule; he had earlier promised that once he got a court decision in his favour, he would quickly step down as army chief and take oath as president. President George W Bush has strongly backed his counterpart Pervez Musharraf, calling him a man who has done more for democracy in his country than any modern leader has.
- ❑ Analysts expect Musharraf's term as a civilian president to be full of challenges with his grip on power likely to loosen in the coming months. With parliamentary elections set for January 8, Musharraf will have to deal with two political opponents who are back from exile, the former prime ministers Benazir Bhutto, and Nawa Sharif. Both politicians have called for Musharraf's resignation since he imposed emergency rule, restoration of the constitution, withdrawal of curbs on the media and the release political prisoners.
- ❑ Pakistan has asked the 53-nation Commonwealth to defer a decision on suspending its membership and to immediately dispatch a delegation to review the situation there.

*Recent Economic Highlights*

- ❑ Underpinned by continued healthy domestic demand, the economy maintained its robust performance in FY2007 (ended June 2007) to achieve 7% growth. This outcome was broad based and supported by a solid recovery in agriculture, continued momentum in large-scale manufacturing and sustained expansion of services. Private and government consumption contributed 45.4% of total output growth. Rebuilding work in the regions affected by the October 2005 earthquake continued to boost a notable expansion in construction. On the basis of strong demand, bolstered by increased private and public investment, the economy is forecast to grow 6.5% in FY 2008.
- ❑ Inflation declined only marginally in FY 2007 to 7.8% from 7.9% the previous year. Despite heightened global oil prices, the government did not raise domestic oil prices in response but tighter monetary policies brought down nonfood inflation markedly. Good rains have been forecast and this will result in a pickup in agriculture and should help ease the supply-side constraints that triggered the rise in food inflation. Overall inflation is expected to subside to 6.5% in FY2008.
- ❑ Pakistan's inter-corporate debt has crossed over Rs180bn and a hike in the prices of three major utilities in a quick succession has become inevitable owing to failure by the former prime minister Shaukat Aziz-led economic team to resolve the problem. The situation is such that Pakistan's energy sector crisis could worsen in the short run with disruption in oil supplies and much higher scale of load shedding. In the long run, Pakistan's budget deficit may go beyond 5% of GDP. The government had made an allocation of Rs87bn in the 2007-08 budget as subsidies for the energy sector, which means the caretaker government will need to raise more than Rs90bn through prices and tariff hikes or pass on the legacy of even higher circular debt to a new elected government next year. The government is to continue its expansionary fiscal policy in FY2008 as announced in the June budget, with an increase in salaries and pensions of government employees, larger subsidies and a 20% hike in development spending. Taking these factors into account, the fiscal deficit is projected to reach 4.2% of GDP in FY2008.
- ❑ Relatively slow growth in exports is expected because of continuing weakness in textiles, while import growth is expected to be elevated by a huge oil bill. The current account deficit is therefore expected to widen from an estimated 3.9% of GDP in FY2007 to 5.5% of GDP in FY2008.
- ❑ Total foreign private investment inflows nearly doubled to a record \$8.4bn from \$4.5bn a year earlier. FDI flows have however been highly concentrated in four sectors; telecommunications, financial services, oil and gas, tobacco and cigarettes.

*Latest Trade Developments*

- ❑ Main exports: textiles (garments, bed linen, cotton cloth, yarn), rice, leather goods, sports goods, chemicals, manufactures, carpets and rugs;
- ❑ Main imports: petroleum, petroleum products, machinery, plastics, transportation equipment, edible oils, paper and paperboard, iron and steel, tea;
- ❑ Major trading partners: US, UAE, UK, Germany, Hong Kong, Saudi Arabia, China, Japan and Kuwait;
- ❑ South African exports to Pakistan totaled R1.1bn in 2006 and R952.5m in the year to August 2007.