

BEST'S COUNTRY RISK REPORT

Pakistan CRT-5

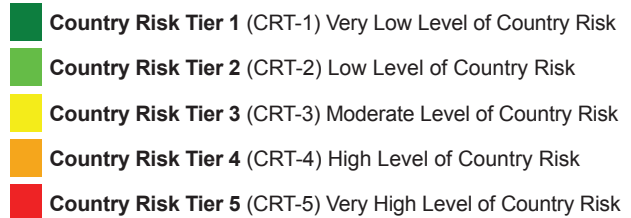
August 22, 2018

Region: Asia

[Country Risk Criteria Procedures](#)

[Guide to Best's Country Risk Tiers](#)

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Pakistan, a CRT-5 country, has a high level of economic risk and very high levels of political and financial system risk. Real GDP growth accelerated in 2017 to 5.3%, driven by improvements in macroeconomic stability. GDP growth is projected to continue to remain steady, as economic reforms continue.
- Pakistan lags the region in terms of human development indicators. Much can be done to improve the educational system and to increase spending on key social services.
- The map depicts the countries in the region A.M. Best evaluates. The countries in South Central Asia are all categorized as CRT-3, CRT-4 or CRT-5.



Regional Summary: South Central Asia

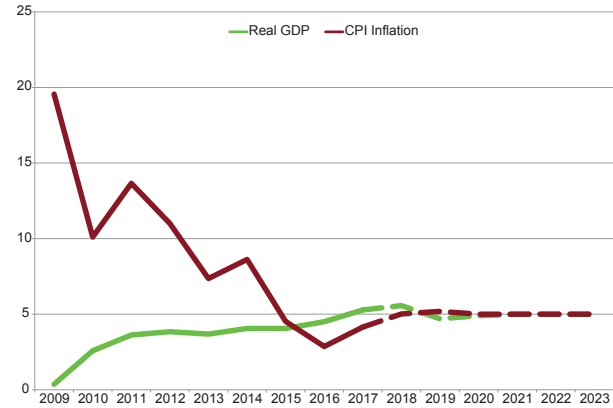
- India, the largest country in South Central Asia, has been the fastest growing major economy in the world in recent years, surpassing China.
- Heightened geopolitical tensions in the region have the potential to hold back economic growth through subdued foreign investment. Additional headwinds include low levels of wealth, endemic corruption, underdeveloped tax systems and regulations, infrastructure deficiencies, cumbersome bureaucracy that can be a major impediment to doing business, and a high likelihood of natural disasters.
- The region is highly vulnerable to global financial conditions. The monetary normalization process poses risks to financial stability across the region owing to an increase in financing costs, the potential for significant capital outflows, and volatility in exchange rates.
- High levels of non-performing loans have been a long-standing concern and have the potential to hurt credit growth and investment.

Vital Statistics 2017		
Nominal GDP	USD bn	303.99
Population	mil	197.3
GDP Per Capita	USD	1,541
Real GDP Growth	%	5.3
Inflation Rate	%	4.1
United Nations Estimates		
Literacy Rate	%	57.9
Urbanization	%	39.7
Dependency Ratio	%	65.3
Life Expectancy	Years	68.1
Median Age	Years	23.8
Insurance Statistics		
Insurance Regulator	The Insurance Division of the Securities and Exchange Commission	
Premiums Written (Life)	USD mil	1,810
Premiums Written (Non-Life)	USD mil	786
Premiums Growth (2016 - 2017)	%	1.9
Regional Comparison		
	Country Risk Tier	
Pakistan	CRT-5	
China	CRT-3	
India	CRT-4	
Kazakhstan	CRT-4	
Russia	CRT-4	
Saudi Arabia	CRT-3	

Source: IMF, UN, Swiss Re, Axco and A.M. Best



Economic Growth (%)



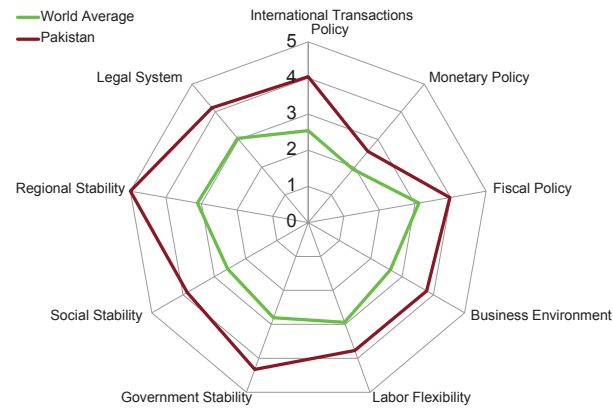
Source: IMF World Economic Outlook and A.M. Best

Economic Risk: High

- Pakistan's economy is driven primarily by services, which account for 56% of GDP, and agriculture, accounting for 25%. The importance of the agriculture sector increases the country's vulnerability to severe climate conditions.
- The China-Pakistan Economic Corridor (CPEC) is likely to continue to benefit Pakistan's economy. The geo-strategic location benefits the country's external trades as well.
- Public debt remains high, at 68.1% of GDP in 2017, exacerbated by inefficient fiscal policy management. The fiscal deficit has also been rising in recent years.
- The population is very young and labor costs are low which could help improve the economic competitiveness. However, poverty is widespread and social issues such as the lack of education, sanitation, and vulnerability to natural disasters remain concerns.

Political Risk Summary

Score 1 (best) to 5 (worst)

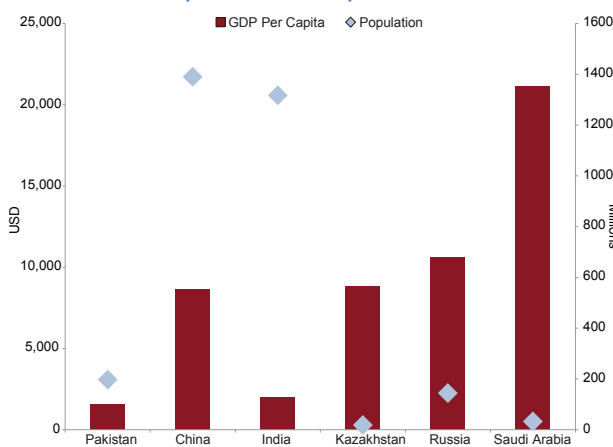


Source: A.M. Best

Political Risk: Very High

- Imran Khan won the July 2018 general election, defeating the incumbent Pakistan Muslim League party.
- The change in political power can bring major challenges to the status quo. Khan ran on a platform of curbing corruption, improving relations with China, as well as improving the country's healthcare and educational systems.
- The legal system is subject to government influence. Contract enforcement is weak, and business operations are often thwarted by a shortage of critical resources such as electricity and water. The World Bank Ease of Doing Business Index ranks Pakistan 147 out of 190 countries.
- Corruption remains pervasive. Pakistan ranked 117 out of 176 countries in Transparency International's 2017 Corruption Perceptions Index.
- Protests driven by religious and political motives are expected to continue and can become violent. The recent election itself was plagued by violence and irregularities.

GDP Per Capita and Population



Source: IMF and A.M. Best

Financial System Risk: Very High

- The State Bank of Pakistan, the country's central bank, is responsible for regulating the financial sector. The insurance industry is regulated by the Securities and Exchange Commission of Pakistan.
- Fiscal imbalances and high levels of debt, as well as rising external borrowing, will raise the financial system risks.
- The foreign exchange rate needs to be made more flexible, to reinforce external buffers and increase competitiveness.
- Macroeconomic stability must be reached through structural reforms, according to the IMF. The IMF also recommends enhancing financial inclusion to drive growth, particularly for women, low-income citizens, and rural populations.