BMA CAPITAL

Why Pakistan? Media Coverage

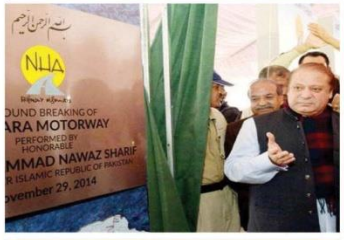
January 2015

CASA 1000 Agreement
Import of 1000MW
from Central Asia

Transparent 3G and 4G auction yielding
$1.18
billion

Groundbreaking of
Hazara Motorway

Rs. 500 million approved for land acquisition of
Mansehra Airport



$ 3 Billion
attracted through
EURO and SUKOOK Bonds

Rs. 8 billion approved for
construction of 1000 schools & colleges
in the earthquake affected districts of KPK and AJ&K

Rs. 27 Billion
allocated for Karachi Green Line Project and Karachi Greater Water Supply Scheme

Shaping a Prosperous Pakistan

We Promise ~ We Deliver

Government of Pakistan

PID(I) 2782/14

Economic outlook from
negative to stable

Fuel prices down by
25%
to the level
6 years back

Reduction in corruption
acknowledged by Transparency International's CPI survey

6.45%
Inflation at the lowest in 11 years

Stock Market at a historic high crossing
32,000
points

Wheat support price increased by
Rs.100
per 40 kg.

Subsidized universal tariff announced for tubewell @
Rs.10.35
per unit

Rs. 5000
per acre subsidy on cultivation of rice

Bloomberg

Pakistan Raises $1.13 Billion in Auction for 3G, 4GSpectrum

Pakistan raised $1.13 billion in an auction of licenses to run third and fourth generation mobile phone networks that will help boost the country's foreign reserves in an economy hit by energy shortages.

Pakistan Telecommunication Authority, or PTA, sold 3G licenses to four existing operators the Pakistan unit of China Mobile Ltd. (941), Pakistan Mobile Communications Ltd.'s Mobilink, Telenor ASA (TEL)'s local subsidiary and Ufone of Pakistan Telecommunication Co.

Finance Minister Ishaq Dar announced at a press conference after the auction held in Islamabad. China Mobile also won a 4G license.

"The new technology will benefit Pakistan's industries and businessmen and will create thousands of jobs," Dar said.

"The auction was pending for the last four years."

The sale will help the government's efforts to boost foreign reserves as Prime Minister Nawaz Sharif seeks to revive South Asia's second biggest economy hurt by chronic energy shortages and a Taliban insurgency. Pakistan aims to increase reserves to $15 billion by Sept. 30, Dar said April 16.

Current reserves, held by the central and commercial banks, stood at $11.67 billion as of April 16.

The telecommunications market was deregulated in 2004, and the number of mobile phone users in the South Asian nation grew to 132.33 million as of January from 12.7 million in 2005, according to the PTA.

Successful bidders must pay either 100 percent upfront or 50 percent of the winning bid amount within 30 days and the remaining 50 percent with markup at the rate of Libor plus 3 percent will be paid in equal annual installments in five years, the PTA said on its website.

Licenses will be issued for a period of 15 years.

The government was expecting to fetch $1.2 billion to $2 billion from the spectrum auction.
The regulator has yet to decide whether to leave it to the market to determine the tariff or employ regulatory intervention, PTA Chairman Syed Ismail Shah said Dec. 19.

Augustine Anthony in Islamabad

By Khurrum Anis and Augustine Anthony
Apr 23, 2014

Bloomberg

Pakistan's Central Banker Sees 8% Growth on Terrorism Fight

Pakistan's central bank chief sees the country's economic growth almost doubling to 8 percent as politicians unite to battle terrorism in the wake of a child massacre at an army run school last month.

"I'm optimistic because this is the first time in many years that the political parties are struggling in unison to find solutions," Ashraf Mahmood Wathra, 59, said on Jan. 2 at his wood paneled Karachi office, his first interview since he was appointed in April as the third head of the State Bank of Pakistan in four years. "They seem to be very serious."

Opposition parties ended five months of street protests against Prime Minister Nawaz Sharif after Taliban militants killed 134 students on Dec. 16 in one of the country's worst terror attacks. Wathra didn't give a timeframe for growth to reach 8 percent, up from 4.1 percent in the year ended June.

Pakistan's economy last grew more than 8 percent in 2005.

Pakistan's Turmoil

Sharif has struggled to revive the economy since taking office in May 2013 as terrorism and political discord hinder efforts to privatizestaterun companies and ensure a steady power supply. Growth will pick up to 4.3 percent this fiscal year from an average 3.8 percent over the past four years, the International Monetary Fund projected last month.

"Eight percent growth is possible but not immediately," said Yawaruz Zaman, vice president at Shajar Capital Pvt. in Karachi. "Provided we continue eliminating terrorists, which will encourage foreign and local investment, we may achieve this target in five years."

All Party Consensus

All political parties agreed to change the constitution to ensure that military courts can hold quick trials for accused terrorists, Sharif said in a Jan. 2 statement. It reiterated recent commitment to "degrading, dismantling and destroying all forms of terrorism," moving from a decades long policy of targeting militants that strike in Pakistan while indirectly supporting those that attack abroad.

Foreign direct investment rose 19 percent from a year earlier to $423 million in the five months since June, when the Pakistani military began bombing militants in tribal areas near the Afghan border.

"Pakistan could open up to business and foreign investment interest once again" when terror is quelled, Sakib Sherani, chief executive officer at Islamabad based research company Macroeconomic Insights, said by email.

"The war on terror has done incalculable damage to Pakistan's economy since 9/11."

Continued on next page

Bloomberg

Pakistan's Central Banker Sees 8% Growth on Terrorism Fight

Terror attacks have cost Pakistan about $29 billion in the three years through June 2014 and the $232 billion economy has lost $102 billion since the U.S. invaded Afghanistan in 2001, the government estimates.

Asset Sales

Governor Wathra, who has 35 years of banking experience, said the administration also needs to do more to improve public finances. It scrapped its biggest share sale in eight years amid the anti government protests and slumping oil prices.

"We certainly missed our target on the sale of OGDC," Wathra said, referring to Oil and Gas Development Co. "We expect the divestment of Habib Bank to do extremely well. The banking market attracts a lot of foreign investors."

Pakistan plans to garner about $1.2 billion by selling a 42 percent stake in Habib Bank Ltd., the nation's largest by assets, as it works toward meeting goals under an IMF program.

Progress has been "broadly on track," the Washington based lender said. It last month disbursed a $1.05 billion loan, taking total receipts to $3.2 billion under the $6.8 billion facility agreed in 2013.

Independence Key

It reiterated that central bank independence is key for a better monetary policy framework and called on the government to allow the bank full operational independence with price stability as its main objective. The IMF has extended the deadline for the State Bank of Pakistan Act to be changed to allow complete autonomy, the central bank said in an emailed response today. Since the "legislative process takes time," the government now has until the end of March 2015 to pass the law that was earlier due by June 2014, he said.

Pakistan's rupee, which gained about 5 percent last year in Asia's best currency performance, was little changed from Jan. 2 at 100.80 per dollar as of 3:04 p.m. local time. The benchmark share index, which also saw one of the region's biggest advances in 2014 with a 27 percent jump, rose 0.1 percent today. Pakistan's foreignexchange reserves more than doubled in 2014 to $9.5 billion as the nation, which carries Standard & Poor's junk grade rating of B, sold $3 billion of dollar debt including $1 billion of Islamic bonds.

Policy Review

Although Wathra is heartened by the developments and last year's 48 percent fall in global oil prices, these wouldn't be the only factors on his mind when he reviews interest rates this month. The monetary authority will be watching for assetprice bubbles and is cautious about the global commodity slump damping exports, he said. "We have interesting parameters interplaying," Wathra said. "We are at a stage in our present predicament where we can really go either way. We can either go for tightening or a little bit loosening or maintaining the status quo."

By Naween A. Mangi
Jan 5, 2015

FinanceAsia

A roundup of the latest syndicated loan market news.

Australia

Bradken Resources has inked a $587 million equivalent multitranche facility through sole bookrunner and mandated lead arranger NAB.

Syndication saw Commonwealth Bank of Australia, SMBC and Westpac join in as mandated lead arrangers while Bank of America Merrill Lynch, HSBC and Mizuho came in as lead managers. Proceeds are for general corporate purposes.

Hong Kong

Dongfeng Motor International has secured a €830 million one year term loan on a club basis through mandated lead arrangers Bank of China, BNP Paribas, HSBC, ICBC and Societe Generale.

Final allocations saw HSBC provide €350 million while Bank of China pledged €200 million. BNP Paribas lent €150 million while Societe Generale committed €100 million. ICBC rounded up the syndicate with €30 million.

Proceeds are to support the acquisition of a 14% stake in Peugeot by Dongfeng Motor. Shanda Games Holdings (HK) has obtained a $117 million twoyear term loan through joint bookrunners Bank of Taiwan, Mega International Commercial Bank, Shanghai Commercial & Savings Bank and Taiwan Cooperative Bank. Parent group Shanda Games served as the guarantor of this financing.

Syndication saw Bank of Panhsin, Shanghai Commercial Bank and Taishin International Bank come in at lower tiers. Proceeds are for debt repaying purposes.

Maldives

Salt Bidco has inked a $150 million fiveyear term loan through bookrunners and mandated lead arrangers Deutsche Bank and HSBC. Syndication saw Babson Capital, China Development Industrial Bank and Macquarie Bank join in as lead arrangers. Proceeds are to refinance an existing facility signed in January 2013.

Pakistan

Ministry of Finance of Pakistan has concluded a $150 million 18months credit facility through joint bookrunners Allied Bank, Credit Suisse and United Bank. Syndication saw Bank Al Habib come in at lower tiers.

Proceeds are for general corporate purposes.

Taiwan

Synnex Technology International has signed a $412 million fiveyear revolving credit facility through sole bookrunner Bank of Taiwan.

The revolver is divided into a NT$8.7 billion tranche and a $128 million portion.

By FinanceAsia & Dealogic
3 April 2014

FinanceAsia

Pakistan joins sovereign sukuk spree

Pakistan raises a $1 billion five year Islamic bond, the latest sovereign to do so, boosting volumes of the asset class to an all time high since 2012.

The Islamic Republic of Pakistan sold a $1 billion five year sukuk — or Islamic bond — on Wednesday, taking the asset class to its best levels since 2012 as investor familiarity improves.

The 144A/Reg S offering's final profit rate is 6.75% which is much tighter than its initial targeted profit rate of 6.875% area, a source familiar with the matter told FinanceAsia.

It was also issued via a special purpose vehicle fully owned by the government — The Second Pakistan International Sukuk Company — that was established specifically for issuing shariah compliant securities in international markets.

"The government of Pakistan's sukuk offering reflects the growing interest in Islamic capital markets as a source of sovereign funding and helps support its domestic Islamic finance sector," Khalid Howladar, global head of Islamic finance at Moody's, said. Pakistan's Islamic bond — rated Caa1/B by Moody's and Standard & Poor's, respectively — comes shortly after it completed a global investor road show that took in Dubai, Abu Dhabi, London and Singapore.

Based on an ijarah or leasing structure, the proceeds of the sukuk will be used for general budgetary purposes. The structure is an operating lease whereby the bank will buy and lease equipment or property by the customer for an agreed rental fee. The agreement does not include a promise that the leased asset at the end of the lease term will be transferred to the lessee.

Pakistan was last in the market in April when it completed a $2 billion dual tranche offering split evenly between a five year and 10year bond issue.

According to Dealogic data, Islamic bond volumes have reached $19.4 billion in Asia ex-Japan year to date. This is 38% higher than last year's volumes during the same period. In 2012, sukuk volumes touched $21 billion — an alltime high.

The last Asian sovereign to tap the sukuk market was the Hong Kong government, which sold an inaugural $1 billion five year Islamic bond in September. Outside Asia, South Africa also launched a $500 million 5.75year sukuk in September, while the UK sold a £200 million ($314 million) sukuk in June.

Reforms on the way Pakistan's credit ratings capture its structurally large, albeit moderating, fiscal imbalances and weak debt metrics. The sovereign's 'Very Low' institutional strength assessment from Moody's reflects implementation risks associated with economic reforms. It also factors in a high susceptibility to event risk, both on the political front and in terms of its economic vulnerabilities.

Continued on next page

FinanceAsia

Pakistan joins sovereign sukuk spree

The country's foreign reserves rose sharply from $3.9 billion in January 2014 to $10.0 billion in July.

However, muted export growth coupled with capital flow deterrents, such as delays in divestment and rumbling political uncertainties, resulted in a slight decline to $9.3 billion in September.

A sustained stabilisation in the external position hinges on the government's commitment to reforms under its programme with the International Monetary Fund.

Pakistan has made steady progress in meeting reform benchmarks under its current 36month $6.8 billion Extended Fund Facility — funds offered to the sovereign under the condition that it carries out extensive economic reforms — which it signed with the IMF in September 2013.

So far Pakistan has cleared three programme reviews, most recently at the end of June, and has received $2.2 billion in financial assistance. Future milestones in the reform programme include changes to the tax system, energy reforms, and the privatisation of state owned enterprises.

Possible comparables

There are no clear apples-to-apples comparisons for Pakistan's sukuk. Bankers and investors were nonetheless able to get some general pointers from the secondary market ahead of the issue, where Pakistan's outstanding conventional 2019 notes yielded 6.296%, according to Bloomberg data.

In addition, the Export-Import Bank of Malaysia's 2019 Islamic bonds yielded 2.392% while its 2019 conventional notes yielded 2.262%, suggesting a spread between sukuk and conventional paper of around 13 basis points.

Citi, Deutsche Bank, Dubai Islamic Bank and Standard Chartered were the joint bookrunners of the deal.

By Chien Mi Wong
26 November 2014

FinanceAsia

Pakistan sells first dollar bond since 2007

The sovereign quenches the thirst of frontier market investors by issuing a $2 billion dual tranche bond, its first international note in seven years.

The Islamic Republic of Pakistan sold a $2 billion dual tranche note on Wednesday, meeting with heavy demand as investors, particularly US investors, warmed to the country's improved political and economic outlook.

The deal, which is the Asian sovereign's first dollar denominated bond sale since 2007, is divided into five and 10year tranches of equal size, according to a term sheet seen by FinanceAsia. The bonds yield 7.25% and 8.25%, respectively.

Based on Dealogic data, the transaction is Pakistan's largest international sovereign bond offering to date and the biggest debt issue by a high yield emerging Asian sovereign since 2011, when the Republic of Indonesia then sub investment grade sold a $2.5 billion 10year bond.

Pakistan's successful new bond offering – rated Caa1 by Moody's and B by Standard & Poor's – comes at a time of economic and political transition for the country. The International Monetary Fund said in February that the Pakistan economy was showing signs of improvement, raising its economic growth forecast for the fiscal year ending June 30 to 3.1% from a previous estimate of 2.8%. It also said that its reform programme remained broadly on track.

"The country has its own set of issues including structural and economic issues, geopolitical tensions in that part of the region and terrorism," a banker close to Pakistan's bond deal said. "But the new government that was elected in May last year committed to reforming the country and this boosts investors' confidence."

Nawaz Sharif was sworn in as the country's prime minister for a record third time, winning almost half the seats in parliament. As a result, his Pakistan Muslim League N party can govern without a major coalition partner and has a freer hand implementing its reformist agenda.

Sharif inherited a troubled economy, plagued by an energy crisis and worsening security situation. Since then, the government has taken steps to cut its subsidies and eliminate debt in the electricity sector, reducing blackouts, and has negotiated a $6.6 billion deal with the IMF to prevent default.

Strong US participation

The last time Pakistan sold a dollar note was in May 2007, when it issued a $750 million 10year note, Dealogic data shows.

Pakistan's new dollar bonds drew an order book totaling around $7 billion, including a significant amount of US interest.

For the fiveyear
tranche, US investors subscribed to 59% of the paper, followed by the UK with 19%, Europe with 10% and Asia with 10%, according to the term sheet. US investors also bought 61% of the 10year bonds.

Continued on next page

FinanceAsia

Pakistan sells first dollar bond since 2007

Fund managers accounted for 84% and 86% of the demand for Pakistan's fiveand 10year tranches, respectively.

Due to the strong investor interest, pricing tightened from the initial guidance of mid7% for the five year bond and mid8% for the 10year issue to 7.25% and 8.25%, respectively, sources close to the deal said. Comparables One of the closest comparables for Pakistan's 10year bond are the debut 10year dollar notes issued earlier this week by Zambia, another so called frontier investment market.

Zambia's notes (rated B+) were trading at around 8.2%8.3% prior to Pakistan's bond launch, indicating that the South Asian nation's new notes priced flat to Zambia's.

For Pakistan's five year tranche, bankers used the spread differential between Sri Lanka's existing five and 10year notes, which was around 15bp at the time of pricing. Pakistan's new 10year notes had a Gspread of 550bp and after adjusting for the curve, the five year tranche would come at a G spread plus 535bp, said a source close to the deal.

Adding these spreads to current benchmark rates for five and 10year US Treasuries generates yields of 7% and 8.18%, respectively, for Pakistan's fiveand 10year tranches.

Barclays, Bank of America Merrill Lynch, Citi and Deutsche Bank were the joint bookrunners of Pakistan's sovereign bond. Other south Asian issuance Pakistan wasn't the only south Asian to come to market this week with dollar denominated bond offerings.

Oil India made its debut in the international debt market with a $1 billion dualtranche note. The transaction – equally split into five and 10year offerings with yields of 3.909% and 5.437%, respectively – is India's largest Reg S note and the biggest debut bond seen in Asia ex-Japan so far this year, according to Dealogic.

The crude oil and natural gas producer bond received a combined order book of more than $8 billion from more than 600 accounts. Citi, Deutsche Bank, HSBC, RBS and Standard Chartered were joint bookrunners on the transaction.

In addition, Sri Lanka raised $500 million on Monday with a five year bond yielding 5.125% – the second time it has tapped international debt markets this year. The country plans to use the funds to build urban complexes and fund development projects, according to its 2014 budget documents.

Citi, HSBC and Standard Chartered were the joint lead managers and bookrunners on Sri Lanka's deal, which was oversubscribed 8.3 times. The last time it tapped the international bond market was in January, when it issued a $1 billion five year fixed rate note.

By Chien Mi Wong
9 April 2014

FinanceAsia

Pakistan sells United Bank Limited stake

The block share trade was Pakistan's first privatisation deal in almost eight years.

The Pakistan government sold its entire stake in United Bank Limited in a block share trade that met with strong global investor interest, kick starting the country's renewed privatisation drive.

The government raised $387.9 million by selling its remaining 241.9 million shares in United Bank at 158 Pakistani rupees per share ($1.60) a 7.3% discount to their June 10 close.

The institutional book was twice oversubscribed, according to a banker close to the deal, with international investors making up more than four fifths of the total. Asian investors accounted for roughly 20% of the book, with the remainder split evenly between the US and Europe, the banker said.

Credit Suisse, Arif Habib and Elixir Securities handled the transaction.

Barring a few small followons, the divestment of the government's 19.8% stake in United Bank is Pakistan's first equity deal since Habib Bank's $134 million initial public offering in August 2007, data from Dealogic shows. It also comes three months after the Islamic Republic of Pakistan sold a $2 billion dualtranche note, the country's largest international sovereign bond offering to date and the biggest debt issue by a highyield emerging Asian sovereign since 2011. Strong demand for United Bank shares from both domestic and foreign institutional investors enabled the government to exercise the upside option of 81.9 million shares, in addition to the original 160 million shares on offer.

And while some analysts cautioned that the float could subsequently put price pressure on the stock, that threat has yet to materialise.

United Bank shares have risen 1% since the June 13 block trade and are up 33% year to date.

The bank, one of Pakistan's biggest institutions, is currently trading at 9.8 times estimated 2014 earnings and 8.5 times forecast 2015 earnings, while its 2014 and 2015 price-to-book value is 1.9 times and 1.8 times, respectively, according to Bloomberg.

New frontier

Analysts are optimistic about both United Bank and Pakistan, pointing to strong underlying economic fundamentals and a reform programme that is broadly on track. "This is a landmark transaction that finally reopens the capital markets in Pakistan after a long hiatus and marks a significant step in the government's ambitious economic revival program," said Hong Kong based Ali Naqvi, head of equities, Asia Pacific, at Credit Suisse.

Continued on next page

FinanceAsia

Pakistan sells United Bank Limited stake

Nawaz Sharif, recently sworn in as the country's prime minister for a third time, controls almost half the seats in parliament. This allows his Pakistan Muslim LeagueN party to govern without a chunky coalition partner and also gives it more freedom to implement a reformist agenda.

Since inheriting a troubled economy, energy crisis and worsening security situation, the government has taken steps to cut subsidies and eliminate debt from the electricity sector. It also negotiated a $6.6 billion deal with the International Monetary Fund to prevent default.

The country's fiscal deficit stood at a record 8% in 2012. It has since dropped to 6% and the government is targeting 4.8% by 2015.

"This will give more space for the government to [work on] more projects, and allow the private sector to focus on growth," Naqvi told FinanceAsia.

Although Pakistan's next equity linked deal won't come for some months, Naqvi said the strong foreign investor interest revealed in the United Bank share sale boded well for inflows in the future.

"For the last two years, emerging markets have underperformed because of a lack of growth. Investors either moved into developed markets, such as the US, or moved down to frontier markets in search of growth," he said.

The term 'frontier markets' describes a second tier of emerging market that is smaller, less developed and relatively inaccessible but nonetheless investable with potentially higher rates of growth. Pakistan is commonly defined as a frontier market by analysts.

"That is the trend. Frontier markets can provide 15 to 18% growth, which most emerging markets countries would struggle to do," Naqvi said. "We think this is a good time [to invest in Pakistan]."

By Suzy Waite
17 June 2014

IFR ASIA THOMSON REUTERS

The next frontier

A first sovereign bond after a seven year break has put Pakistan back on the capital markets map. With plans for an offering of a global sukuk bond and a privatisation agenda, there promises to be more to come.

The next frontier
Source: REUTERS/Damir Sagolj
Supporters of Nawaz Sharif's Pakistan Muslim League Nawaz (PMLN) dismantle a huge tent at one of party's election headquarters in Lahore.

The Islamic Republic of Pakistan has a lot to offer investors as long as they have a measure of risk tolerance. The sovereign's first bond in seven years drew a lot of demand in April, support that is likely to be repeated in another rare buying opportunity – a sukuk offering, Pakistan's second in the format, expected later this year.

For equity investors, too, the government's ambitious privatisation plan should provide some chances to own stakes in the country's better performing companies.

Yet, debt and equity investors are going to have to pay close attention to how well the country of 180m, under reformminded Prime Minister Nawaz Sharif, maintains stability against recently escalating political opposition.

Protracted volatility would likely affect leaders' ability to implement the reform platform the International Monetary Fund endorsed last year under the Extended Fund Facility. The three year US$6.64bn aid package went into effect months after Pakistan elected Sharif to office in May.

"[A]ny loss of reform momentum could see the external support, on which the country depends, dwindle, straining its capacity to repay its debts," said Anushka Shah, an analyst in the sovereign risk group at Moody's, in an email. "From a creditworthiness perspective, remaining on track with EFF prescribed reforms should help secure the next tranche of IMF funding, which is key to bolstering its external liquidity position and ensuring macroeconomic stability."

The IMF praised Pakistan's reforms in an August 18 release and said GDP growth for year ending June 30 2015 was expected to reach 4.3% versus a provisional estimate of 4.1%. About a year after Sharif came to office in June 2013, the administration's plans drew strong support from the credit markets. The sovereign saw its outstanding bonds trading at or near all time lows this April and took the opportunity to lock in new debt at such low yields. Its US$2bn bond offering attracted US$7bn in demand.

The tranches of five and 10 years, of each US$1bn, priced to yield 7.25% and 8.25%, respectively. The yields are well below what market participants had expected for a Caa1/B– rated country with a series military coups and only one democratic transition marking its history since independence in 1947.

Also, threats are always looming that the government's reforms will be derailed, sinking its junk credit rating even further.

Continued on next page

IFR ASIA THOMSON REUTERS

The next frontier

Since August, for example, there hade been regular violent protests in Islamabad, the capital, calling for the prime minister to resign on suspicion of electoral fraud, Reuters reported.

Elected politicians, however, will have to continue with reforms in the face of opposition if they want to keep investor support.

"There are big political risks, of course, but people know what's happening on the ground in Pakistan, and there are companies still delivering the numbers." "Pakistan's ability to drive structural reforms, despite resurgent political fractiousness, would be a key factor supporting its credit profile," Shah said. The government continues to press on.

The Ministry of Finance recently hired Citigroup, Deutsche Bank, Dubai Islamic Bank and Standard Chartered to run the books on a US dollar sukuk offering.
If the financing goes according to plan, it is expected to capture the demand from investors for exposure to the country's growth prospects, as well as those looking to capitalise on the recent surge in sukuk volume.

The trade will follow recent sovereign Islamic bonds from Hong Kong, Luxembourg and South Africa in September.

Enticing equity investors In addition, Pakistan is also enticing equity investors. The benchmark Karachi Stock Exchange 100 Index is also up 17.6% for the year to last Tuesday, when it was quoted at 30,109.5.

"Valuations are pretty cheap and, if you're getting decent fundamentals, the risk/reward [ratio] makes sense," said Ruchir Desai, senior investment analyst at Asia Frontier Capital. "There are big political risks, of course, but people know what's happening on the ground in Pakistan, and there are companies still delivering the numbers."

The government also intends to raise Rs198bn (US$1.93bn) through a privatisation programme, an important component of the IMF plan, in the fiscal year ending June 30 2015. It has a list of 65 state owned enterprises in which it plans to sell stakes in the next five years.

In June, the government sold its 19.8% stake in United Bank for Rs38bn, its first capital markets divestment since 2007. Foreign investors, including Lazard, BlackRock and Morgan Stanley, bought almost 80% of the 241.9m shares offered. About a month later, the government sold a 5% stake in Pakistan Petroleum, raising Rs15bn from the sale of 70.1m shares in at Rs219 apiece.

At present, it is marketing 7.5% of state owned Oil and Gas Development Corp for about US$816m. The government currently owns 74.97% of the company. Bookbuilding runs from October 9 to October 15 with pricing scheduled for October 16. Bank of America Merrill Lynch and Citigroup are the joint global coordinators and KASB is the domestic lead manager.

IFR Asia
Asian Issuers 2014 | By Timothy Sifert

IFR ASIA THOMSON REUTERS

WELCOME RETURN

Many Asian issuers raised funds with ease in 2014, but only one capped a remarkable turnaround with offerings in both the debt and equity capital markets. For putting itself firmly back on the global markets map, the Islamic Republic of Pakistan is IFR Asia's Issuer of the Year.

The Islamic Republic of Pakistan embarked on ambitious capital-raising plans in 2014, presenting investors throughout the international markets with an optimistic turnaround growth story. This allowed Pakistan's new government to do two things the country of 180m had not been able to do in about seven years: price a US dollar bond and sell shares in the capital markets.

In April, the sovereign printed a US$2bn offering bonds at tenors of five and 10 years in April and, in June, it launched a Rs38bn (US$370m) offer for sale in United Bank and a Rs15 stake sale in Pakistan Petroleum.

These transactions were no mere showpieces. They were vital to Pakistan's future. The proceeds helped increase foreign-exchange reserves and cut the fiscal deficit, two improvements required under a US$6.7bn conditional support package agreed with the International Monetary Fund in late 2013, just months after probusiness Prime Minister Nawaz Sharif came to office.

Pakistan had been forced to turn to the IMF to avert a balance-of-payments crisis in November 2008, after a run on the rupee, amid the global crisis, left it frozen out of the international capital markets. However, the IMF ended its support in 2011 after Pakistan showed little sign of economic reform, and the final US$3.7bn of a US$11.3bn rescue package was never disbursed.

Having regained the IMF's support 2013, the government needed to show real progress in improving its fiscal position. It also needed to convince investors that the reform-minded prime minister could maintain stability in the face of severe political and economic challenges.

The country tested the waters with a US$100m 360-day loan in December 2013, its first syndicated facility in 15 years, and increased the size to US$172.5m after six other lenders joined leads Credit Suisse, Standard Chartered and Pakistan's United Bank.

A mandate for a US dollar sovereign bond followed in early January 2014, as the government set out to take advantage of the global hunt for yield, which had led money managers lower and lower down the credit spectrum.

Days before the mandate, B1/B+/BB– rated Sri Lanka had priced a successful US$1bn five-year bond, hinting at the extent of global demand. Pakistan, however, with its far lower ratings of Caa1/B– and a bigger target size, needed to work hard to attract a similar response.

Continued on next page

IFR ASIA THOMSON REUTERS

WELCOME RETURN

When bookrunners Bank of America Merrill Lynch, Barclays, Citigroup and Deutsche Bank started marketing the US$2bn deal around the end of March, they had many data points with which to impress investors. The IMF had just increased to 3.1% from 2.8% its growth forecast for Pakistan in the 2013–14 fiscal year, and the government had just announced an ambitious plan to privatise more than 60 companies to help fill a hole in its budget.

Pakistan's outstanding dollar bonds were also trading at all-time low yields. The 6.875% June 2017 notes – the country's last global issue before the crisis – dipped below 7% in February for the first time since they were launched in 2007, quite a recovery from yields of over 15% in early 2012.

The results were striking. The US$1bn five-year bond priced to yield 7.25%, and the US$1bn 10-year tranche printed at 8.25%.

The rate on the 10-year bonds was particularly low. Just days before Pakistan came to market, B+/B rated Zambia printed a US$1bn 10year offering at 8.625%. Investors clearly valued Pakistan's prospects, despite the lower rating.

"In broad terms, Pakistan's credit fundamentals have improved since the new government came into office last year," said Agost Benard, associate director of sovereign ratings, at Standard & Poor's.

"Given a B– rating, Pakistan's current conditions are fairly benign, and the improved macroeconomic setting was what enabled the government to launch a bond this year."

Fund managers in the US, the UK and Europe bought the majority of both tranches, signalling a strong vote of confidence in the country.

Privatisation

It was only a matter of weeks before Pakistan was back in the international markets, this time with a share offering of Karachi-listed United Bank. In June, the country disposed of its 19.8% stake in the bank, raising Rs38bn, the government's first equity offering since it sold a 7.5% stake in Habib Bank for Rs12bn in 2007.

It was a crucial first step towards the government target to raise Rs198bn through privatisation in the fiscal year ending June 30 2015, and the first of 65 state-owned companies earmarked for partial privatisations over the next five years.

There was a lot riding on this transaction, something Mohammad Zubair, chairman of the privatisation commission, knew well. Before investors could really be convinced of the viability of Pakistan's privatisation plan, Zubair and his associates had to convince bankers, advisers, lawyers and accountants that the country was serious. Pakistan had hired equity advisers in the recent past, only to have those planned deals go nowhere.

Continued on next page

IFR ASIA THOMSON REUTERS

WELCOME RETURN

"I went to New York and London within two months of taking the job (to talk to the financing community)," said Zubair, who was appointed in December 2013. "This was the first indication for them that we were serious about this. If we couldn't convince them, obviously we couldn't do this."

Arif Habib, Credit Suisse and Elixir Securities were eventually named joint lead managers.

Because the bank was already listed, and the government held a minority stake, it was easier to garner political support for the trade. "Pakistan restarted its privatisation programme with the less controversial deals, and it's a smart move," said Ali Naqvi, head of equities for Asia Pacific at Credit Suisse. "They sought to sell companies that were already partially privatised – and at smaller stakes." In the end, foreign investors bought almost 80% of the 241.9m shares on offer. "Investors liked the story a lot because the banking sector is growing and, with more stock from the sale, the name would become more liquid," Naqvi said.

Additonally, money managers, including Templeton Asset Management, Wellington Management, Everest Asset Management, Lazard, BlackRock and Morgan Stanley, participated despite reports of militant attacks at the country's main airport days before the deal closed. "It was actively participated by the major funds," Zubair said. "When we went around on the roadshows, we were able to sell the Pakistan story – Pakistan as a place to invest. There is interest in our economic momentum."

Professional team

The transaction also put the country in good stead for what would
come next. "United Bank's story is good, and thegovernment delivered on execution like a professional team," Credit Suisse's Naqvi said. "Because of that, we were able to generate a well-oversubscribed order book. Then, once it was listed, the stock did well, which was good news for the rest of the privatisation plans."

United Bank priced at Rs158 in early June and on August 5 it hit a 2014 high of Rs202. That was good news because Pakistan had plans to sell takes in Allied Bank and Habib Bank.

The government did not waste any time building on the success of the United Bank sale. Weeks afterwards, it sold a 5% stake in Pakistan Petroleum for Rs15bn, its second capital markets privatisation of the year and one that was heavily marketed to domestic investors.

"We went around the country to places where the privatisation commission would never have gone (in the past) to drum up interest – even among people who never would have participated," Zubair said.

"We wanted to spread the idea of privatisation around the country to everyone in the country."

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IFR ASIA THOMSON REUTERS

WELCOME RETURN

It sold 70.1m shares at Rs219 each in a mainly domestic deal that was twice covered, with a handful of foreign investors also taking part.

Not every deal was a success, however. Oil and Gas Development Corp decided to pull its offering of up to Rs69.8bn in global depositary receipts, owing a weak response from investors as oil prices tanked globally. Zubair said the country would try to sell the deal again in 2015.

As ever, it is difficult to disentangle the fiscal benefits of privatisation from politics. Indeed, one way the government sought to put Pakistan in a positive light locally was to show citizens how much international investor interest there was for its companies.

"That was another challenge. We had to say to people: 'Look, Pakistan's not falling apart. These financial institutions participating in UBL is a great thing for us. This is positive momentum'," Zubair said.

IFR Asia
REVIEW OF THE YEAR 2014

Bloomberg

Pakistan Bonds Better Choice Than Egypt's, VTB Capital Says

Pakistan debt is a safer bet than that of similarly rated Egypt as the South Asian nation is enjoying greater political stability, VfB Capital said.

The Asian country is benefiting from a recently finalized International Monetary Fund program, the political transition to its second elected government and resumption of U.S. support. Egypt, meanwhile, has put IMF talks on hold and is trying former President Mohamed Mursi while waiting to hold parliamentary and presidential elections next year.

Pakistani bonds' "downside is more protected than in Egypt," VfB's Raza Agha, chief economist for Middle East & Africa, said inane-mailed note. In Egypt, "there are increasing indications that Islamist parties will remain disenfranchised in the new permanent set-up post elections," that will hurt investor sentiment and economic activity, London-based Agha said.

The yield on Egypt's 5.75 percent notes due April 2020 fell two basis points today to 7·3 percent, paring the surge this year to 127 basis points. By contrast, the yield on Pakistan's 6.875 percent Eurobonds due June 2017 has tumbled 165 basis points to 7.72 percent. Both countries are rated Caa1, the fifth-lowest ranking, at Moody's Investors Service.

The Egyptian pound lost value in black market trading, while the official interbank rate was little changed at 6.8889 pounds a dollar. The U.S. currency traded at 7.135 pounds, or a 3.6 percent premium to the official rate compared with 3-4 percent last week, according to three money changers surveyed by Bloomberg. They asked not to be identified because trading currency outside official rates is illegal

By: Ahrmed A. Namatalla
Nov 6. 2013

CHINA DAILY

Pakistan ties stand test of time

POSTPONEMENT OF CHINESE PRESIDENT'S VISIT WILL NOT AFFECT EVER-DEEPENING BILATERAL RELATIONS

"China and Pakistan are good friends, good partners, good neighbors and good brothers weathering all the storms together and sharing all the weal and woe. And China will continue, as always, to attach priority to Pakistan in its relations with the neighboring countries."

Though Islamabad is not on President Xi Jinping's upcoming South Asia itinerary, the above statement voiced by Xi during his meeting with his Pakistani counterpart Mamnoon Hussain at the beginning of this year in Beijing tells the story of the two countries' extraordinary bilateral relations. Xireiterated these thoughts when he met Prime Minister Nawaz Sharif in April on the sidelines of the Boao Forum for Asia (BFA) in South China's Hainan province.

Since establishing diplomatic ties in 1951, China and Pakistan have enjoyed a close and mutually benefi cial relationship, including numerous high-level visits.

Meanwhile, media reports suggest that despite the postponement of Xi's visit to Pakistan next week due to anti-government protests in that country — which has delayed the signing ceremonies of several projects — both countries are exploring various options to keep the momentum of bilateral relations going.

"The Sino-Pakistan relationship is a time-tested bond," Iftikhar Ali Malik, vice-president of the Chamber of Commerce and Industry at the South Asian Association for Regional Cooperation, tells China Daily Asia Weekly. "It is rock solid."

Ali Malik, who has hosted several Chinese leadership and business delegations, is of the view that the postponement of one visit cannot jeopardize the billion-dollar Chinese investments in Pakistan. "Many high-level bilateral visits have happened in the past, and will continue to take place in the future," he says.

Chinese Premier Li Keqiang, on his first official overseas tour, said in Islamabad that "the China-Pakistan friendship has stood the test of hardship and is more precious than gold". Following this, Sharif made Beijing his first overseas visit, shortly after taking the oath of office.

On his second visit, Sharif fully endorsed Xi's proposal of reviving the ancient trade routes connecting China, Central Asia and Europe, as he said the revival of the Silk Road could help bring economic growth and prosperity to the region.

Pakistan's geographic location supplements the potential of the Silk Road and enhances the scope of its revival. "Pakistan has geographic advantages to promote economic development intheregion, "saysLiQingyan, research fellow at the department for international strategic studies at the China Institute of International Studies in Beijing. "China's new leadership attaches great importance to cooperation and integration with South Asia countries."

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CHINA DAILY

Pakistan ties stand test of time

Li says that when Xi visits Pakistan, the two countries will consolidate the foundation of building the economic corridor which is regarded as an important component of the Silk Road Economic Belt initiative.

The China-Pakistan Economic Corridor is an under-construction project to connect Gwadar Port in southern Pakistan with the Xinjiang Uygur autonomous region in Northwest China, via highways, railways and pipelines to transport oil and gas.

The billion-dollar corridor, once completed, will serve as a primary access for trade among China, the Middle East and Africa.

In particular, oil from the Middle East could be offloaded at Gwadar, which is located just outside the mouth of the Persian Gulf, and transported to China through Baluchistan province in Pakistan.

At present, more than 85 percent of China's energy imports from the Middle East and mineral resources from Africa currently transit through the Indian Ocean.

"It is a win-win economic corridor," says Hafeez Ur Rehman, chairman of the department of economics at Lahore-based University of the Punjab.

"Pakistan can reap the economic benefits of the corridor, especially for its underdeveloped region," he says. "China's western regions are also not so developed compared to the eastern coastal areas: By focusing on westward trade, it can bring economic benefits to the region."

The economic corridor, first advocated by Chinese Premier Li, will play a crucial role in regional integration. It will connect China, Iran, Afghanistan, Central Asia and Myanmar.

The other projects proposed and finalized by the two sides include construction of the Karakoram Highway to Islamabad; a new airport at Gwadar, close to the border with Iran on the Arabian Sea; and the economic zones in the region.

To meet Pakistan's energy needs, which in turn will boost the domestic economy, China has agreed to build 14power plants in the country.

The power projects, with a total electricity generation capacity of 10,400 megawatts, are expected to be started immediately and put into operation by 2018. At present, the country faces an energy shortfall and the demand for electricity is rising by 8 percent every year.

"Once energy needs are taken care of, the economic development will happen on its own," says Mustafa Hyder Sayed, executive director of the Pakistan-China Institute.

According to Pakistan official estimates, China is investing more than $35 billion in Pakistan's energy and infrastructure. China has already committed $6.5 billion to build a new nuclear power plant in the southern city of Karachi.

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CHINA DAILY

Pakistan ties stand test of time

Experts say that earlier China and Pakistan ties were defined in terms of strategic and military outcomes.

However, the need to shift the discourse in terms of economic development is now being recognized.

"We also need to focus on technology transfer and the small scale sector," adds Sayed.

The majority of Chinese companies in Pakistan are largely working in the oil and gas, IT, telecom, engineering, and mining sectors.

The two countries have also seen a significant expansion of trade in the last couple of years.

"Trade has seen considerable improvement after the FTA (free trade agreement) was implemented in 2007," says Syed Mazhar Ali Nasir, vice-president of the Federation of Pakistan Chambers of Commerce and Industry.

"China has been contributing significantly to Pakistan's imports even before the FTA was signed. Now Pakistan traders need more access to Chinese market," he says.

The China-Pakistan Free Trade Agreement is the only such deal signed between China and a South Asian country. The free trade negotiationswereconcludedin2006and the agreement came into effect in 2007.

According to official data, bilateral trade between China and Pakistan touched the $13 billion mark in 2013, and is expected to reach $15 billion by 2015. In 2008, bilateral trade between the two countries was $7 billion.

"China enjoys very positive relations with Pakistan," says Muhammad Ali Kemal, research economist at the Pakistan Institute of Development Economics in Islamabad. "There are signs of improving political stability in Pakistan as well, and if so, this will further boost Chinese investment and trade into the country."

By KRISHNA KUMAR VR
in New Delhi

NIKKEI ASIAN REVIEW

Pakistan has profit for investors bold enough to risk it

ISLAMABAD--Foreign investors are flocking to Pakistan despite a deadly Islamic insurgency--and their boldness is paying off. The Karachi Stock Exchange's benchmark KSE 100 index rose 49.4% last year, the second year in a row that the bourse was one of the world's top performers.

Much of the investment enthusiasm stemmed from optimism that the sweeping election victory last May of Nawaz Sharifas prime minister would improve the business and economic environment after five years of weak rule under the leftist Pakistan People's Party. Sharifs Pakistan Muslim League-Nawaz party is considered pro-business and has a reputation for favoring large-scale infrastructure projects.

Investors hope that after the first transition from one elected government to another in the country's history, they can cash in on rising incomes and consumer spending.

Pakistan, with the world's sixth-largest population at nearly 200 million people, is waiting to reap dividends from its youth bulge as well as rising urbanization. Approximately 6o% of the population is under 30.

"Pakistan's political breakthrough has come at a time when there was frontier market interest, and that continues," said Mattias Martinsson, chief investment officer at Tundra Fonder, a Swedish group that manages a dedicated Pakistan fund with more than Sso million in assets.

A broker rests after a day of trading at the Karachi Stock Exchange.

About 570 stocks trade on the bourse. CAP Frontier market funds like Pakistan have consistently outperformed emerging market funds over the last two years, according to Bank of America Merrill Lynch. "Most investors are realizing that they need to look at frontier markets in some way," said Paul Ross, an investment analyst at Renaissance Asset Managers, which runs a $27 million frontier market fund with a 6% exposure to Pakistan.

Total assets invested in global frontier funds doubled to $7.2 bill ion in 2013. "The big investors are putting 2-5% (of their money) in these funds," Ross said. "It might be a small percentage, but it's big numbers for markets like Pakistan." The country has a 4% weighting in the MSCI Frontier Markets index.

Potentially taking some of the shine off Pakistan's recent gains are allegations that senior exchange staff may have illicitly exploited access to data on investors' trading orders for their own profit. The ews, a local newspaper, reported Feb. 25 that many of the exchange's information-technology staff have been fired or suspended.

Plenty of potential Yet some investors expect the positive market trends to last. "There are very few markets that can produce nearly 20% earnings growth in 2014," said Martinsson, a professed bull

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NIKKEI ASIAN REVIEW

Pakistan has profit for investors bold enough to risk it

on Pakistan who sees its shares as still undervalued. Such gains, in his view, should offset other negatives, such as a further potential slide in the Pakistani rupee against the U.S. dollar and Taliban attacks.

"Pakistani companies listed on the Karachi stock exchange have a long history of operating despite difficult conditions."

Referring to the bomb blasts and suicide attacks that have plagued the country in recent years, he said, "These black swan' events lead to a discount, but all of these are unlikely to reverse the positive trend from the democratic transition. The next 10 years look better than the last. For me, that's enough."

Investors may get anxious over the next year if Sharif, the son of a steel tycoon, is not seen to be making progress on election promises, such as widening the tax base and addressing power shortages that leave business and indivduals dependent on expenshse generators or battery backups--or simply in the dark.

Ross called the power crisis, which has hit the country's textile producers and other exporters hard, the "biggest opportunity" for international investors, noting that the sector accounts for a majority of the gains in the MSCI Pakistan index over the last five years and a growing share of its market capitalization. Energy companies also account for most of Bank of America's "buy" ratings in Pakistan, including state-backed companies Pakistan Petroleum and Oil and Gas Development, the country's biggest by market capitalization, as well as private companies such as Pakistan Oilfields.

"Pakistan is not at the market-acceptance level where institutional investors treat it as any other market," Martinsson said. "The big money will take another year or two to arrive."

ANNABEL SYMINGTON, Contributing writer
March 6, 2014 12:00 am JST

The Banker
Global Financial Intelligence Since 1926

A glimmer of hope for Pakistan's economy

Dogged by a history of political instability, Pakistan has struggled to secure trading partners or attract much in the way of foreign investment, at the expense of its economy. However, a new probusiness government and a revival in GDP growth suggest that the country's economic fortunes might finally be on the up.

National economies are inseparably intertwined with national politics the world over, but few countries demonstrate this principle better than Pakistan. Following the latest of many loans to the country from the International Monetary Fund (IMF), some much needed economic reforms are being implemented by prime minister Nawaz Sharif's new probusiness government. Not for the first time, however, political gymnastics have threatened to undermine any recovery.

Pakistan's gross domestic product (GDP) growth rate last peaked at about 9% in 2005/06, under the presidency of army general Pervez Musharraf, who seized power in 1999. Military dictatorships have been the only stretches of enforced political stability in Pakistan, a fact which tends to be reflected in economic performance. "It's sad but true that we only ever see growth of 7% or 8% during periods of dictatorship," observes one Karachi banker.

Balancing the books

There have been hopes that this might change, against a backdrop of evolving political maturity. The left of centre Pakistan People's Party under president Asif Ali Zardari – the widow of former prime minister Benazir Bhutto – formed the previous administration from 2009 to 2013. It became the first civilian government in Pakistan's history to serve its full fiveyear term without being ousted by the army or by public protest.

It did little for the economy, however. After collapsing in 2008/09 along with the global recession, real GDP remained at less than 4% until the last financial year, ending in June 2014 (FY14), when it was 4.1%, according to the State Bank of Pakistan (SBP), the country's central bank. "This was the first year in which there has been a revival of growth, when we have seen the economy heading in the right direction," says Riaz Riazuddin, SBP's chief economic advisor.

In fact, last year's growth slightly undershot the official target of 4.4%. This year's target is 5.1%, though the IMF has pencilled in only 4.3%. Consumer price index inflation in FY14 was 8.6%, up from the previous year's 7.5%, but broadly as expected. "Some studies say that inflation of 8% or 9% is good for Pakistan [given targeted GDP], but I would like to see it at 5% to 6% after the next three or four years," says Mr Riazuddin.

Pakistan's foreign trade is structurally lopsided, and imports have exceeded exports for most of the country's history. Principal exports are cotton and rice, with all their attendant output and demand uncertainties. Fuel accounts for up to 40% of imports, and its price tends to move in one

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direction only. Pakistan has sometimes managed to balance the books with the help of external funding, notably US assistance after the Soviet invasion of Afghanistan in 1979. However, such subventions have dwindled over time, with one important exception – growing remittances from Pakistanis working abroad.

After Mr Sharif's Pakistan Muslim League party (PMLN) was elected in May 2013 by the largest voter turnout in the country for more than 40 years, it had to address yet another balance of payments crisis. Though the trade deficit was small by emerging markets standards (at about 1% of GDP), it still had to be financed and foreign reserves were running low. The IMF approved a three year $6.6bn loan under its extended fund facility. There were, naturally, strings attached.

Tax breaks

These IMF conditions have provided an externally sanctioned platform for the new government to set about its reform agenda. Some progress has already been made in cutting the budget deficit, now down from 8.5% to 5.8% of GDP. Here, the tax take, or lack of it, remains a crucial issue. At about 9%, Pakistan has one of the lowest tax to GDP ratios in the world, and less than 1% of the population – only 1.5 million out of 180 million people – actually pays tax. Non payers include many wealthy members of parliament. The system is highly complicated, with scores of exemptions and, bizarrely, there is no federal tax on agriculture.

The authorities have promised to reduce tax loopholes and exemptions substantially, to broaden the tax base and reduce tax evasion. The retail sector is a particular target. A walk down the street is enough to tell a visitor that a vibrant informal economy fizzes away alongside the formal one, and may be twice its size.

As the deficit reduces, the government will need to borrow less. Public debt is targeted to fall from 62% of GDP in FY14 to 58.7% in FY15, and its maturity profile is being lengthened. Foreign reserves have risen from their critically low levels, helped by more than $15bn in remittances, an oversubscribed but expensive $2bn Eurobond and a $1.5bn 'gift' from Saudi Arabia, the reason for which is the topic of much speculation.

Fuel to the fire

Another priority in Pakistan is the largest single problem facing the industrial economy – an energy sector that has been catastrophically underfunded and mismanaged by successive governments. As a result, industry is plagued by chronic electricity brownouts and gas shortages.

Consumer prices have been heavily subsidised, but fiscal pressures have led to delays in subsidy payments to suppliers. Nonpayment of electricity bills (by some government departments as well as by households) have also drained the cashflows

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of power companies. They cannot pay their fuel suppliers, who then stop supplying. and gas shortages.

Consumer prices have been heavily subsidised, but fiscal pressures have led to delays in subsidy payments to suppliers. Nonpayment of electricity bills (by some government departments as well as by households) have also drained the cashflows of power companies. They cannot pay their fuel suppliers, who then stop supplying.

The result of this 'circular debt' is loadshedding which, alongside gas shortages, has noticeably reduced industrial productivity and helped to deter domestic as well as foreign investment. With a declining ratio of investment to GDP (from 15.1% in FY12 to 14% in FY14), this is a problem crying out to be fixed, though international investors such as Barrick, Antofagasta and Etisalat would testify that Pakistan is no walk in the park.

Tariffs have been raised, though not for the poorest, so that consumers will pay more

Over time, the fuel mix will be tilted away from furnace oil and gas to cheaper coal, as well as hydro, wind and solar. The government hopes to attract Chinese and Gulf investment into various coalfired projects. Bankers, starved of infrastructure assets, look forward to some major lending opportunities.

On lockdown

The third in the triumvirate of ills besetting the Pakistani economy is terrorism, or law and order. Sudden outbursts of violence are not always caused by jihadists, but also by organised crime groups and, in Karachi, political activists of the disaffected but secular Muttahida Qaumi Movement party. The inherent threat has caused some foreign investors, including banks, to leave the country and has kept others away.

While the threat remains, the security situation in Karachi has improved noticeably, and the army has now taken the war to the jihadists. In June, it launched a major offensive against the Taliban in North Waziristan, near the Afghan border. So far it seems to be winning, and fears of retaliatory urban violence have not been realised.

Government ministers make the point, however, that economic growth is just as important in combating extremism. Not all foreigners have left. Multinationals such as Nestlé, Procter & Gamble and Unilever have held fast, attracted by continuing profits and gross margins deep into double digits. Miftah Ismail, an industrialist who chairs the government's board of investment, says the annual target for foreign direct investment is 20% of GDP, against the current 14%.

Power generation is a key destination, offering generous returns, he says. "We would also like one more manufacturer of cars," he adds, preferably a credible European brand to provide competition to the existing Japanese producers.

Since Pakistan must grow exports to earn

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more foreign currency, the government has identified potential new markets, such as eastern Europe, and new export products, such as chemicals. There was much satisfaction in December 2013 when the EU granted generalised system of preferences (GSP) plus status to Pakistan, extending duty free treatment to products such as textiles, leather and agriculture products. It was estimated to be worth an extra $1bn a year, though an anticipated leap in textile exports has yet to materialise.

Clear vision

The EU bloc is Pakistan's top export destination, followed by the US, the United Arab Emirates and Afghanistan. Since its US GSP programme has expired, there is less comfort there. The government is now placing its bets closer to home, and looking to regional trade as an engine of growth.
In August, professor Ahsan Iqbal, Pakistan's minister for planning and development, launched the 'Vision 2025' programme, which aspires to make Pakistan one of the world's top 25 economies by that year. (Two years ago, Goldman Sachs forecast that the country would be in the top 20 by 2025.) Its goals include improving education (with the current literacy rate at 59%) and health, modernising the civil service, developing a knowledge economy and, importantly, pursuing more regional connectivity.

"We have a locational advantage, lying at the heart of three great engines of growth – south Asia, China and central Asia," says Mr Iqbal. "And we are in the proximity of a fourth region, the Middle East."
Pakistan has a longstanding military and political relationship with China, which is only now, slowly, evolving into an economic relationship. The two countries have agreed to create an economic corridor linking western China with the new southwestern Pakistani port of Gwadar, the operation of which has already been handed over to China. New roads will eventually be followed by rail links, slashing delivery times for Chinese exports and oil imports from the Gulf.

If and when a workable peace comes to Afghanistan, the opportunities to expand trade there will be considerable. Afghanistan will also be a gateway to central Asia which could, in turn, offer energy security.

A passage to India?

Most alluring, and most elusive, are the prospects of opening up trade with India. The present trickle of trade between the two countries is choked off at the borders whenever the diplomatic temperature rises, though more business is transacted via Dubai. Pakistan's two main parties both favour normalisation of trade with India, unlike the army and the rightwing and religious parties. This difference of opinion partly explains PMLN's poor relations with the army. One school of thought holds that, if the floodgates are opened, Indian goods will destroy Pakistani industry.

Trade talks with India's previous Indian National Congress (INC) government had

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reached an advanced stage and included agreement on a better banking relationship between the two countries. Habib Bank and United Bank were each getting ready to open a branch across the border. But the INC did not want to go into the 2014 election boasting about trade with Pakistan, and it has since been replaced by the more lukewarm Bharatiya Janata Party government.

The regional potential is there, nonetheless, even if much of it remains outside Pakistan's control. Foreign portfolio investors have already scented value in the small Karachi stock market.
"Net foreign portfolio investment in the Karachi Stock Exchange grew 50% in FY13 and almost 100% in FY14," reports Nadeem Naqvi, the exchange's CEO. He attributes this to a listed corporate sector which remains very profitable, and to this year's resumption of privatisation (see story p88). Since Qatar and the UAE were promoted to the MSCI Emerging Markets Index, Pakistan's weighting in the Frontier Index has doubled to more than 8%, which pulls in more investors.

Moreover, Moody's recently changed the outlook on Pakistan's foreign currency government bond's Caa1 rating from negative to stable. It cited a stabilisation in the country's external liquidity position, supported by the government's strong commitment to reforms.

Signs of change

In spite of recent parliamentary progress, one of those risks continues to be political. Two groups of political demonstrators, led by cricket legend Imran Khan and cleric Tahirul Qadri, have resorted to the political tactics of old, hoping to oust the government by public protest. They began blockading parliament and key government buildings in Islamabad in mid August and, at the time of writing, were still there.
They are demanding, among other things, the prime minister's resignation, though he is fully supported by other opposition parties and the Supreme Court. By halting government, the sit in is costing the country $150m a day, according to one government source. Because of the protests, Chinese president Xi Jinping cancelled his much anticipated trip to Pakistan, as did Sri Lankan president Mahinda Rajapaksa. These cancellations could cost even more, as potential investors will fear nothing much has changed. But, perhaps it has. Only a few years ago the army would have intervened already. The prime minister stands accused of Lahore centric cronyism, hoarding power within his closest circle and dragging his feet on reforms and key appointments.

Though these weaknesses may have allowed the crisis to gather, Mr Sharif has responded calmly and given the army little pretext to act. Yet, if Pakistan can survive this particular episode intact, perhaps its politics and its economy will continue to improve together.

By Edward Russel Wal ing
Published: 01 October, 2014

The Banker
Global Financial Intelligence Since 1926

Giving Pakistan's privatisation drive a push

Having had a long and successful career in the commercial sector, Mohammad Zubair, Pakistan's privatisation minister, understands the importance of the country's privatisation drive. But, not everybody shares his enthusiasm, with the heavily unionised companies putting up resistance to the privatisation plans, and foreign investors wary of the country's less than perfect track record in denationalisation deals.

Privatisation in Pakistan has a chequered history, to say the least. When prime minister Nawaz Sharif offered Mohammad Zubair the post of privatisation minister in late 2013, a colleague urged him not to take it. His reason? Everyone that had held the position before had gone to jail. Mr. Zubair slept on it, and then took the job anyway.

Privatisation is a must do if the Pakistani government is to continue to meet the International Monetary Fund's budget deficit reduction targets. But it also chimes with the Pakistan Muslim League party's centre right leanings. "Government should have no role in running business," says Mr Zubair. "We just want to create a conducive environment for it."

Along the right lines

In wanting to minimise the role of the state in the economy, the party line echoes Thatcherism and Reaganomics, says Mr Zubair. It is a line he should find easy to espouse, since he spent most of his working life moving around the world with IBM, ending up as chief financial officer for the Middle East and Africa region. Then, he decided it was time he did something for his country.

Pakistan's government has driven its way into virtually every sector of the economy, including power, transport, finance and insurance, trading, and oil and gas. "All agree that their quality of service to the people of Pakistan is dismal," says Mr Zubair. "And they are losing [money] heavily."

In the last financial year their collective losses were about $6bn, he says, and growing. Pakistan International Airlines (PIA) and Pakistan Steel – both politically sensitive operations – lose $1bn a year between them. Half the electricity generating companies and all the energy distribution companies are in the public sector, and together they lose about $4bn. If it just gave them all away, the government would give its budget a boost.

The government has earmarked 68 companies for privatisation and, if all goes to plan, sales could raise $5bn over the next two years. One political problem is that many of the enterprises concerned are greatly overstaffed and heavily unionised. Another is that privatisation has a reputation in Pakistan as an opaque and corrupt process, in which the family silver is sold off cheap to insiders. "So a stringent process has been laid down," Mr. Zubair stresses, adding that transparency is essential if foreign investors are to be attracted into the process.

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The Banker
Global Financial Intelligence Since 1926

Giving Pakistan's privatisation drive a push

Political hot potatoes

Foreign investors were key to the present administration's first big capital market sale, of its final 19.8% stake in listed United Bank. The deal, 81% of which went to foreigners, raised $387m. With Credit Suisse and Karachi based Elixir Securities as advisors, it was rushed through before the end of June, when the financial year ended.

A 5% stake in listed Pakistan Petroleum was also sold to domestic investors for nearly $150m, also just in time to be recorded as part of the 2014 financial year.

A number of other stakes in quoted companies are due in the current financial year. The biggest is a 41.5% holding in Habib Bank (HBL), which could be worth $1.3bn, and which will be split into two tranches for sale via the London Stock Exchange. The same venue will host the sale of 10% of the profitable Oil & Gas Development Company for a possible $800m, although its unions are threatening to strike. Bank of America Merrill Lynch, Citi and KASB Bank have been appointed to advise on the deal.

A 10% stake in listed Allied Bank, worth perhaps $100m, is also on the table. State Life Insurance is promised an initial public offering. But as Mr. Zubair admits, these stock market sales are the easy ones. "Strategic sales, because they are private, are very sensitive," he says. Few are as sensitive as national flagship carrier PIA, overstaffed and desperately in need of new aeroplanes.

PIA will be restructured before sale, split into its core and ancillary businesses. Mr Zubair believes that the core will become profitable as soon as it is separated, and only about half of it will be sold. Dubai Investment Bank is advising on the sale, not least because Mr Zubair would like Dubaibased airline Emirates to be the strategic investor.

Emirates is not the only option, however, and even Australian airline Qantas is interested. "Qantas has a fantastic fleet, but not the passengers," says Mr Zubair. "We have the passengers but not the aeroplanes."

By Edward Russel Wal ing
Published: 01 October, 2014

FINANCIAL TIMES

Pakistan delays $800m OGDCL stake sale

Pakistan has suspended a plan to sell shares in the country's largest oil and gas group, dealing a blow to an ambitious privatisation drive at the centre of government efforts to revive the moribund economy.
The government had aimed to sell a 7.5 percent stake in Oil and Gas Development Company Ltd (OGDCL) this month with a Minimum price of 216 rupees ($2.11) per share.

The transaction was expected to raise over $800m and mark the country's return to global equity markets. Local businessmen said the government caved under pressure from trade unions opposed to the divestment, while officials claimed the sale was scrapped due to sliding international oil prices, which is weighing on energy groups a round the world. "The recent fall in global oil prices meant that we would have receive d a significantly lower price than expected," said one government official. Shares in OGDCL have dropped 11 per cent in the past month to 224.98 rupees. The company is listed on all three exchanges in Pakistan and in London. In the quarter ended in September, the company posted net income of 27.79bn rupees on revenues of 64.40bn rupees. The sale of a stake in OGDCL was at the centre of the government's plans to raise some $2bn by early next year, through the sale of shares in major energy and banking groups, as it attempts to stabilize an economy blighted by political turmoil and militant violence. "Many people believed OGDC would make a difference it's a rare example of a government-owned company in Pakistan which is also profitable," said one economist. "But now, irrespective of the reasons for the delay, there is generally going to be skepticism [around future offers] ." The OGDCL transaction was to be followed by the offer of government shares in the privately run Habib Bank, which analysts said could fetch up to $1.2bn, in the first quarter of next year.

The bank was privatised in 2003 when a 51 per cent holding was sold to the Aga Khan Fund for Economic Development. Industry analysts fear that a delay in the divestment of OGDCL shares will dent investor confidence and could also raise fresh questions about Islamabad's ability to shore up the economy.

Prime Minister Nawaz Sharif, the scion of a prominent business family, has built a reput ation as a pro-business leader after easing restrictions on foreign currency accounts for Pakistani nationals and overseeing new infrastructure projects. "Going forward, questions will emerge over how far the prime minister can lift prospects at a time of uncertain," said Shuja Rizvi, an equity analyst at the Karachi Stock Exchange.

Farhan Bokhari in Islamabad and Avantika in Mumbai
November 9, 2014

FTSE GLOBAL MARKETS

Pakistan returns to international bond market

Pakistan has issued its SU dollar bonds in seven years. The sovereign, rated Caal1/B- by Moody's S&P, has launched a $1bn five-year tranche at the final yield of 7.25% and a 10-year portion at 8.25%.

The transactions re-established the country's profile in front of the global income investor base. Pakistan list visited the US dollar bond market in May 2007.

Finance Minister Ishaq Dar has been meeting bond managers in Dubai, London Toronto and New York to drump up support for the issue. This week Dar said impressive macroeconomic indicators present a picture of sustainable growth and economic stability in Pakistan.

According to reports, 59% of the five-year bonds were allocated in the US, 19% in the UK, 10% in rest of Europe and 10% in Asia. Fund managers accounted for 84%, banks and private banks 8%, hedge funds 7% and insurance companies and pension funds 1%.

The 10-year paper was reportedly distributed in the US with 61%, UK21%, rest of Europe 12%, Asia 5% and other jurisdictions 1% Fund managers were also biggest buyers with 86%, with the rest sold to hedge funds 9%, banks and private banks 4% and insurance companies and pension funds 1%.

Barclays, Bank of America Merrill Lynch, Citigroup and Deutsche Bank are the lead managers on the 144A/Reg S isse.

09 April 2014

GLOBAL FINANCE

Frontier Markets Focus / Pakistan

Pakistan 's ability to attract both foreign direct and domestic investment fell dramatically during the past decade. Some of the reasons why still apply.

Net inflows of foreign direct investment (FDI) into Pakistan grew to $5.4 billion in fiscal year 2008, then dropped 73% over the following five years, according to the US State Departments. Since the Pakistan Muslim League-Nawaz took office in June 2013, the net inflow has improved only slightly. From July 2013 through to March 2014, it reached &669.8 million, up 6% from $ 631.9 million for the same period a year earlier.

The downturn in investment also affected domestic outlays, according to Sakib Sherani, economist and CEO of market analysis firm Macro Economic Insights. "It's not just the FDI. It's the overall investment climate", he says.

Several factors caused the drop – with the threat of terrorism heading the list, according to Huma Yusuf, senior analyst at Control Risk, a global risk consultancy. The country's long-running energy shortage comes in a close second. Pakistan has a daily average 6000 megawatt hydroelectricity shortfall. Power outage in summer can last for 12 to 15 hours a day and 4 to 6 hours or more at other times, meaning that factories operate well below capacity.

The ongoing natural gas dispute as the government has tried to raise rate and some suppliers have subsequently cut off supply compounds the problem: Many industries had seen gas as an antidote to electricity shortages.

Now a complicated system of gas allocation varies by sector and location. Further confusing the issue, bribery and political connections can lead a company to receive more gas than its formal allocation.

Specific incidents also compound investor apprehensions about Pakistan. In a case that ran from 2009 to 2013, the Pakistan Supreme Court voided a $ 500 million contract for the Reko Dig mining project, 75% controlled by a consortium consisting of Chilean company Antofagasta and Canadian firm Barrick Gold.

"That was a very alarming disincentive," Yusuf recalls, adding that the government is trying to reassure investors that such a fiasco will not happen again.

However, an investor with a long-term horizon and high risk tolerance could profit from several advantages Pakistan offers, starting with the size of its market.

"It's the sixth-largest country in the world (by population), and, more importantly, it has a growing middle class of 70 million people," Yusuf says.

Pakistan also has good demographic, since approximately two-third of the population are under 30 years of age.

Continued on next page

GLOBAL FINANCE

Frontier Markets Focus / Pakistan

"(They) are going to be buying from you, not just for five years (but) for two generations at least, so it is a consistent market," she says. The dividend also means a solid supply of labor for factories and other installations. Moreover, since January 2013, Pakistan has had a coherent antiterrorism program that has helped foreign investors feel more confident in the market – and that partially explains the increase in FDI.

According to Yusuf, Terrorists here have a specific ideological agenda and so may attack government installations but not commercial and industrial infrastructure. "Most people do not go that extra step (of) figuring out the nuances,". confident in the market – and that partially explains the increase in FDI.

According to Yusuf, Terrorists here have a specific ideological agenda and so may attack government installations but not commercial and industrial infrastructure. "Most people do not go that extra step (of) figuring out the nuances,".

VITAL STATISTICS

Location: Asia

Neighbors: India, Afghanistan, Iran, China

Capital city: Islamabad

Population (2014): 196.1 million

Official language: Urdu but English is commonly used in business and government

GDP per capita (2013): $1,299

GDP growth (2014): 3.7% forecast

Inflation (2013): 7.7%

Currency: Pakistan Rupee

Investment promotion agencies: Board of Investment http://boi.gov.pk

Investment incentives available? Some tax exemptions and reduced tariffs; export industries qualify for duty-free imports of raw materials.

Ease of Doing Business rank: 2014: 110 (out of 189)

Corruption Perceptions Index rank: 2013: 127 (out of 177)

Political risk: Continuing dispute over Kashmir

Security risk: Disagreements with India, terrorism

PROS

Wide choice of projects for FDI

Stable monetary system

Foreign-owned companies able to borrow from domestic banks

Investments gains and dividends can be fully repatriated

CONS

Discriminatory tax regime

Large number of refugees

Vulnerable to shifts in commodity prices

Widespread corruption

Sources: BBC Profile; *Determinants of FDI: A Case Study of Pakistan*, 1981-2009, Ahmad, Dr. Salman, Department of Management Studies, University of Central Punjab, Lahore; *Economic Conditions of Pakistan and their Impact on FDI*, Jamshaid, Amara, 2014, National Defense University, Islamabad; International Monetary Fund; State Bank of Pakistan; Transparency International; UNCTAD; US State Department; World Bank

For more information on Pakistan, check out our Country Economic Reports at: GFMag.com/gdp-data-country-reports.html

By: Al Emid
December 2014