

# Pakistan Economy

## First Fitch, now Moody's- Pakistan's ratings upgraded

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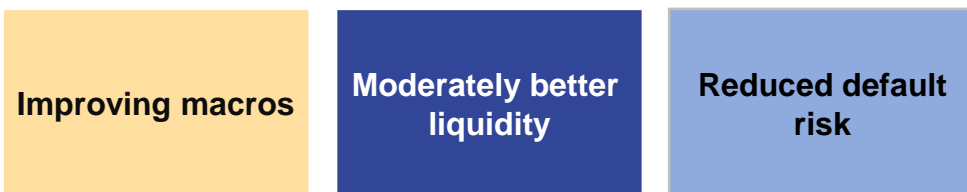


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## First Fitch, now Moody's- Pakistan's ratings upgraded

- Following Fitch's upgrade last month, Moody's has followed suit by elevating Pakistan's credit rating from Caa3 to Caa2. In addition to this upgrade, Moody's has also adjusted the outlook to positive from stable.

**Exhibit:** What does upgrade to Caa2 reflect?



Source (s): Moody's, AHL Research

- Moody's recent upgrade of Pakistan's credit rating and outlook is far more than a mere notch higher on a rating scale—it reflects a growing global confidence in Pakistan's capacity to navigate its financial challenges and lay the foundation for sustainable economic growth. This development offers the economy crucial breathing space, enabling the government to concentrate on implementing longer-term reforms.
- With today's upgrade, alongside Fitch's earlier revision, Pakistan is now better positioned to access international capital markets on more favorable terms. This paves the way for the potential issuance of Eurobonds and Panda bonds at more competitive rates, a move that could significantly lower borrowing costs, alleviate debt servicing pressures, and create essential fiscal space.
- To recall, In our August 13th, 2024 report, ['Independence Day - A Brighter Future on the Way,'](#) we had outlined 14 key developments, including the anticipated potential for a credit rating upgrade following Fitch's recent actions.

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## Key takeaways

Following are the key takeaways from Moody's report:

- **IMF Agreement and External Financing:** The IMF's staff-level agreement for a USD 7bn Extended Fund Facility (EFF) provides greater certainty over Pakistan's external financing sources for the next two to three years.
- The approval of the EFF by the IMF Board is expected soon, which could unlock additional funding from other multilateral and bilateral partners.
- **Foreign Exchange Reserves:** Pakistan's foreign exchange reserves have nearly doubled since Jun'23, reaching US 9.3bn in Aug'24, equivalent to just under two months of imports.
- However, reserves remain below the level required to meet the country's external financing needs, highlighting the importance of continued IMF program progress.
- **External Financing Needs:** Pakistan's external financing needs are estimated at USD 26bn for FY25, with USD 22bn required for external principal debt repayments and USD 4bn to cover the current account deficit.
- Similar financing needs are expected for Fiscal 2026-2027.
- **Debt Affordability and Fiscal Consolidation:** Pakistan's debt affordability remains very weak, with interest payments consuming 55-60% of government revenue in fiscal 2025.
- Although fiscal consolidation is underway, progress may be slower than the government anticipates due to the potential for social tensions from large tax increases.
- **Reform Implementation and Risks:** Sustained reform implementation, including revenue-raising measures, is crucial for improving Pakistan's debt affordability and securing additional financing.
- The new coalition government may face challenges in maintaining the pace of reforms, which could affect the continuity of financial support from official partners.
- **Potential for Further Improvement:** The positive outlook reflects the possibility of further reduction in government liquidity and external vulnerability risks.
- Continued economic stabilization and effective reform implementation could lead to a stronger fiscal position and more robust external financing, potentially supported by significant investments from Saudi Arabia and the UAE.

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## Moody's credit ratings

**Exhibit:** Pakistan - Credit Rating (Moody's) and KSE100 Performance

Date	Rating	Outlook	KSE100 Index Change		
			30 Days	90 Days	180 Days
Nov-94	Ba3	Stable	-5.6%	-11.1%	-28.5%
Jul-95	B1	Stable	10.3%	-2.1%	-11.4%
Sep-96	B1	Negative Watch	1.7%	-1.8%	13.5%
Nov-96	B2	Negative	-3.7%	8.6%	1.6%
May-98	B3	Negative	-15.5%	-3.5%	-2.8%
Oct-98	Caa1	Negative	22.1%	15.2%	27.5%
Oct-01	Caa1	Stable	-3.4%	7.1%	30.2%
Feb-02	B3	Stable	13.2%	7.6%	10.6%
Oct-03	B2	Stable	-2.9%	16.9%	39.4%
Jan-05	B2	Positive	14.6%	4.2%	8.5%
Nov-06	B2	Positive Watch	-3.7%	6.0%	10.1%
Nov-06	B1	Stable	-7.1%	7.7%	15.4%
Nov-07	B2	Negative	6.5%	5.2%	12.6%
May-08	B3	Stable	-16.6%	-21.9%	-34.3%
Sep-08	B3	Negative	-0.2%	-21.5%	-31.1%
Oct-08	B3	Negative Watch	0.0%	-47.6%	-17.0%
Dec-08	B3	Negative	-33.1%	-37.9%	-23.3%
Aug-09	B3	Stable	15.2%	14.3%	23.7%
Jul-12	Caa2	Negative	3.0%	10.6%	16.8%
Jul-14	Caa2	Stable	-4.0%	1.5%	12.2%
Mar-15	Caa2	Positive	8.6%	9.8%	5.6%
Jun-15	B3	Stable	1.5%	-2.2%	-5.2%
Jun-18	B3	Negative	-4.1%	-4.1%	-10.9%
Dec-19	B3	Stable	3.2%	-5.3%	-15.4%
May-20	B3	Under Review	2.4%	19.7%	21.7%
Aug-20	B3	Stable	5.7%	1.8%	17.2%
Jun-22	B3	Negative	-1.4%	0.3%	0.3%
Oct-22	Caa1	Negative	-0.7%	-3.8%	-5.9%
Feb-23	Caa3	Stable	-1.6%	2.0%	17.7%
Aug-24	Caa2	Positive			
<b>Average</b>			<b>0.1%</b>	<b>-0.8%</b>	<b>3.4%</b>

Source (s): Bloomberg, AHL Research

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- Sum of the Parts (SoTP)
- Justified Price to Book (JPTB)
- Reserved Base Valuation (RBV)

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