Economy

Exhibit: Moody's Pakistan Credit rating history

Date	Rating	Outlook
6-Oct-22	**Caa1**	**Negative**
2-Jun-22	B3	Negative
8-Aug-20	B3	Stable
14-May-20	B3	Under Review
2-Dec-19	B3	Stable
20-Jun-18	B3	Negative
11-Jun-15	B3	Stable
25-Mar-15	Caa2	Positive
14-Jul-14	Caa2	Stable
13-Jul-12	Caa2	Negative
17-Aug-09	B3	Stable
12-Dec-08	B3	Negative
28-Oct-08	B3	Negative Watch
23-Sep-08	B3	Negative
21-May-08	B3	Stable
5-Nov-07	B2	Negative
22-Nov-06	B1	Stable
8-Nov-06	B2	Positive Watch
20-Jan-05	B2	Positive
20-Oct-03	B2	Stable
13-Feb-02	B3	Stable
29-Oct-01	Caa1	Stable
23-Oct-98	Caa1	Negative
28-May-98	B3	Negative
6-Nov-96	B2	Negative
23-Sep-96	B1	Negative Watch
11-Jul-95	B1	Stable
23-Nov-94	Ba3	Stable

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Pakistan Sovereign Rating

Moody's Revises down Pakistan Sovereign Rating to Caa1; Amid Heightened Risks to Economy Post-Floods 2022

- Moody's Investors Service (Moody's) yesterday downgraded the Pakistan's local and foreign debt ratings to Caa1 from earlier B3 (2nd June, 2022) maintaining the outlook to "negative". Concurrent to this action, Moody's has lowered Pakistan's local and foreign currency country ceilings to B2 and Caa1 from B1 and B3, respectively.
- As per the Moody's report, the decision to downgrade Pakistan credit rating came amid heightened liquidity and external risks following the devastating floods that hit the country since June 2022.
- A downgrade on country's sovereign rating bears negative consequences for country's financial markets including equity market by a way of raising the risk premiums, causing market multiples to re-rate downwards.

Moody's revise down Pakistan sovereign rating.

Sovereign Rating Revised down to Caa1; amid increase heightened risks to economy Post-Floods 2022

Moody's Investors Service (Moody's) yesterday downgraded the Pakistan's local and foreign debt ratings to Caa1 from earlier B3 (2nd June, 2022) maintaining the outlook to "negative". Concurrent to this action, Moody's has lowered Pakistan's local and foreign currency country ceilings to B2 and Caa1 from B1 and B3, respectively.

The two-notch gap between the local currency ceiling and sovereign rating as per the report (link), is driven by the government's relatively large footprint in the economy, weak institutions, and relatively high political and external vulnerability risk.

Exhibit: Pakistan Current Credit rating

Rating Agency	Rating	Outlook	Last Update	Action
Moody's Investors Service	Caa1	negative	6-Oct-22	outlook downgrade
Standard & Poor's	B-	negative	30-Jul-22	outlook downgrade
Fitch Ratings	B-	negative	2-Aug-22	outlook downgrade

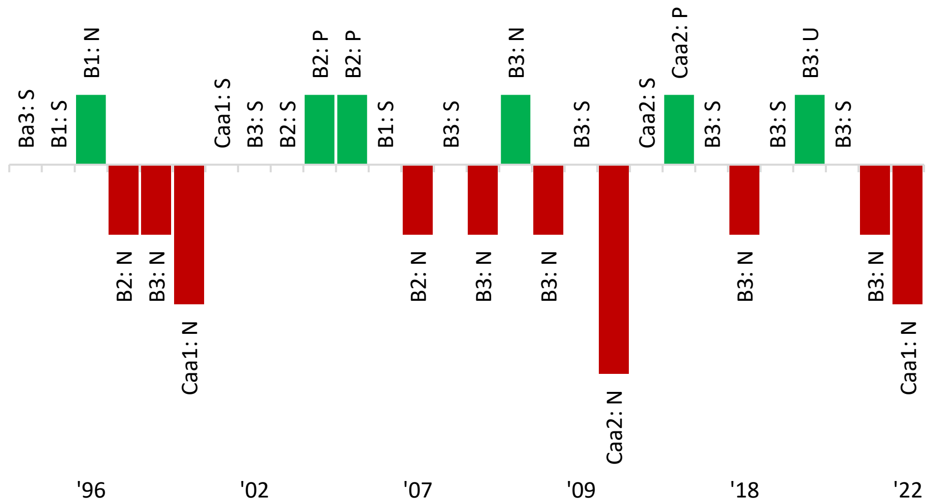
As per the Moody's report, the decision to downgrade Pakistan credit rating came amid heightened liquidity and external risks following the devastating floods that hit the country since June 2022.

"The decision to downgrade the ratings to Caa1 is driven by increased government liquidity and external vulnerability risks and higher debt sustainability risks, in the aftermath of devastating floods that hit the country since June 2022."

Moreover, the report further points to Pakistan's weak debt affordability position and will remain so for foreseeable future. To address the liquidity issue and debt obligations, Pakistan financing reliance will remain on the multi-bi-lateral partners.

"Debt affordability, a long-standing credit weakness for Pakistan, will remain extremely weak for the foreseeable future."

Exhibit: Pakistan Rating History, by Moody's
Current Caa1 was last witnessed back in 1998



Source: Moody's, IGI Research, *N=Negative, P=Positive, S=Stable, U=Under Review*

Key Economic forecasts rolled out by Moody's;

Gdp growth to take a significant dip following Floods2022

- Pakistan Flood 2022, preliminary estimates comes at US$ 30bn or 10% of the Gdp
- Gdp growth is likely to grow 0-1% for FY23, compared to pre-flood growth target of 3-4%, with agriculture sector taking major hit. (IGI report on Foods 2022: Link). Post FY23, Moody's expect growth to recover.
- Inflation is expected to average 20-25%, with increase deterioration in social living standards
- Fiscal deficit will widened to 7-8% of the Gdp (pre-flood 5-6% of the Gdp) accommodating to revenue shortfalls and higher social expenditure and pressure is likely to sustain in coming years
- Moreover, Pakistan economy remain highly susceptible to climate related events

Debt Affordability at serious risks

- Importantly, Pakistan debt affordability which is one of the weakest among the sovereign Moody's rate will further worsen. Debt servicing cost will take up roughly 50% of the total revenue in Fy23 compared 40% in Fy22. Government debt / revenue share is already very high at 600% in Fy22, this is likely to further increase to 620-640% (median 320% for Caa-rated sovereigns.
- Hence this increase in debt servicing cost, significantly undermines country's capacity to service its current and future debt obligation while also meetings its social spending needs.

Heighten External liquidity risks will force Pakistan to rely mainly on financing from multi/bi-lateral partners

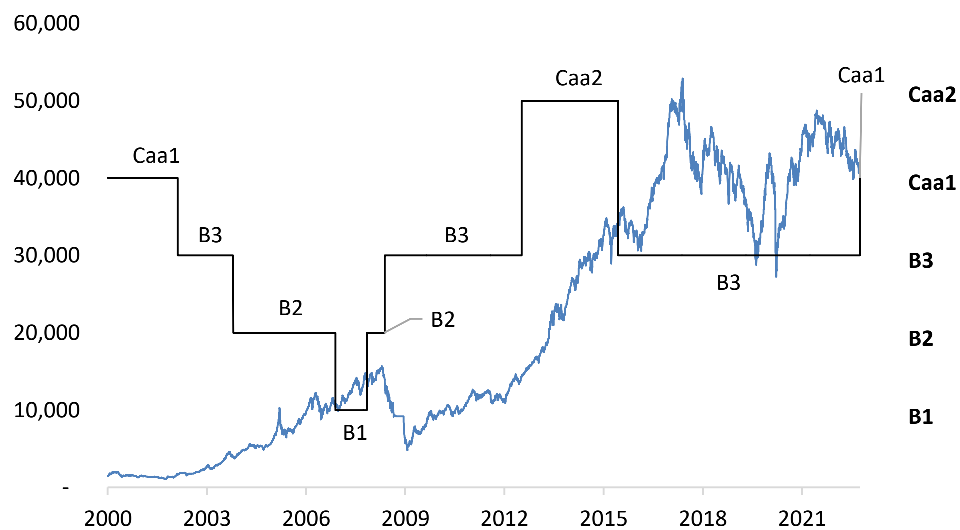
- Acknowledging Pakistan C/a deficit will be contained under 3.5-4.5% of the Gdp in Fy23 (4.6% in Fy22) as slowdown in demand will limit non-essential imports and while exports will take a hit. Having said that remittances will make-up much of the widened trade deficit.
- However, this will not help in building country's already low FX reserves covering just less than 2-months of imports, despite IMF EFF programme (Link).
- This low-level of FX reserves increases balance of payment risk for the country to service its debt obligation or meet import payment.
- Moreover, external conditions are also not ideal for Pakistan to secure financing at affordable costs. Hence the country will remain highly reliant on financing from multi/bi-lateral partners.

Country	Rating
Pakistan	Caa1
Gabon	Caa1
Solomon Islands	Caa1
Tunisia	Caa1
Iraq	Caa1
Barbados	Caa1
Congo	Caa1
Maldives	Caa1
Ghana	Caa2
Republic of the Congo	Caa2
Mali	Caa2
Ethiopia	Caa2
Mozambique	Caa2
Ecuador	Caa3
Laos	Caa3
Belize	Caa3
El Salvador	Caa3
Suriname	Caa3
Ukraine	Caa3

To recall, this is the second time during the year 2022 Moody's has downgraded Pakistan credit rating. The current Caa1 as per Moody's rating definition highlights poor quality of LT sovereign bonds and country likely to face high credit risk. Moreover the 'Negative' outlook signals the rating is unlikely to be upgraded in the near-term, unless material progress on government liquidity and external vulnerabilities is exhibited.

Since 1994, there has been two instances where Pakistan credit rating was categorize as Caa with negative outlook. One was in Oct-1998, whereby Pakistan faced sanctions over the nuclear tests and the later in Jul-2012, when Pakistan had high external debt repayments with limited FX reserve arsenal. FX reserves in 2012 stood just shy of US$ 10bn and external debt stood close to US$ 65bn, taking the debt/reserve ratio to 7x, as of now, this ratio has almost doubled to 14x, with debt almost close to US$ 130bn and reserves held by SBP stand just under US$ 9bn.

Exhibit: KSE100 Performance during different rating periods



Source: Bloomberg, IGI Research, Moody's

A downgrade on country's sovereign rating bears negative consequences for country's financial markets including equity market by a way of raising the risk premiums, causing market multiples to re-rate downwards. In addition, Sovereign credit rating plays an influential role to determine the conditions in which countries can access and attract flows from international financial markets. Hence a downgrade to a Caa, implies limited accessibility for Pakistan both public & private sector to raise funding in the international capital market.

Exhibit: Moody's Rating Guide

Rating	Long-term ratings
Investment Grade	
Aaa	Rated as the highest quality and lowest credit risk.
Aa1 Aa2 Aa3	Rated as high quality and very low credit risk.
A1 A2 A3	Rated as upper-medium grade and low credit risk.
Baa1 Baa2 Baa3	Rated as medium grade, with some speculative elements and moderate credit risk.
Speculative grade	
Ba1 Ba2 Ba3	Judged to have speculative elements and a significant credit risk.
B1 B2 B3	Judged as being speculative and a high credit risk.
Caa1 Caa2 Caa3	Rated as poor quality and very high credit risk.
Ca	Judged to be highly speculative and with likelihood of being near or in default, but some possibility of recovering principal and interest.
C	Rated as the lowest quality, usually in default and low likelihood of recovering principal or interest.

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