

Flash Note

Wednesday, August 28, 2024



Pakistan Economy

Moody's Upgrades Pakistan's Debt Ratings to Caa2 from Caa3

Ratings and Outlook upgrade: Moody's Ratings has raised Pakistan's local and foreign currency issuer and senior unsecured debt ratings to Caa2 from Caa3. Additionally, the rating for the senior unsecured MTN programme has been upgraded to Caa2 from Caa3. The outlook for the Government of Pakistan has also been revised from stable to positive.

Reasons leading to the upgrade as per Moody's: The upgrade to Caa2 reflects Pakistan's modest improvements in macroeconomic stability and government liquidity, reducing default risk to align with a Caa2 rating. The recent \$7 billion IMF Extended Fund Facility agreement adds certainty to external financing, with approval expected soon. Pakistan's foreign reserves have doubled since June 2023 but remain insufficient to meet external financing needs, keeping the country reliant on timely support from official partners. Despite improved conditions, Pakistan's debt affordability remains extremely weak, with interest payments expected to consume about half of government revenue over the next few years. The rating also factors in weak governance and high political uncertainty.

The positive outlook suggests potential for further risk reduction and a stronger fiscal position, driven by the IMF program and consistent reforms. Timely completion of IMF reviews could unlock additional financing and support reserve rebuilding.

Rating Upgrade Extends to Sukuk Programme and Country Ceilings: The Caa2 upgrade from Caa3 also applies to the foreign currency senior unsecured ratings for The Pakistan Global Sukuk Programme Co Ltd, with payment obligations seen as direct responsibilities of the Government of Pakistan. The outlook for the Sukuk Programme is now positive.

Additionally, Pakistan's local and foreign currency ceilings have been raised to B3 and Caa2. The gap between these ceilings and the sovereign rating reflects the government's large economic role, weak institutions, and high political and external risks, as well as limited capital account convertibility and potential transfer restrictions.

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