



FPCCI's Perspective on Moody's Credit Rating Upgrade for Pakistan

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Foreword



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As **Pakistan's foremost business voice**, the **Federation of Pakistan Chambers of Commerce and Industry (FPCCI)** remains steadfast in its mission to drive **business-friendly reforms** that promote **inclusive and sustainable growth**. By advocating for **clear policies**, forging **strong institutional partnerships**, and mobilizing **broad sectoral support**, FPCCI actively works to **stimulate trade, boost exports, and shape the nation's economic future**.

At the heart of FPCCI's advocacy is a firm commitment to **research-driven, evidence-based policy inputs**. The **Policy Advisory Board (PAB)** has emerged as a **credible and strategic arm** of the FPCCI — guiding internal policy dialogue while also extending **vital support to the Government** on matters of **trade, investment, taxation, energy, industrial policy, climate resilience, etc.**

Pakistan's economy stands at a **critical turning point**, facing **domestic and external challenges**. It is essential to **address economic risks** through **continuous reforms**, prudent management of **fiscal and monetary policies**, and proactive measures to **strengthen climate resilience**. These actions are not only necessary for **stability**, but also for building a **solid foundation for steady and inclusive growth**. The road ahead demands **meaningful reforms** to **boost productivity and reduce costs**. By taking these decisive steps, we can set Pakistan on a **clear path toward sustainable, long-term prosperity**.

The **FPCCI's Policy Advisory Board** has been actively engaged in broad-based consultative dialogues with stakeholders across Pakistan's business spectrum. Backed by a network of chambers and trade associations, it brings together diverse industry perspectives and plays a pivotal role in shaping **business-friendly policies** that foster sustainable economic growth.

This report, **"FPCCI's Perspective on Moody's Credit Rating Upgrade for Pakistan"**, highlights a rare endorsement by the world's top three rating agencies, with the most recent upgrade by Moody's, which improved Pakistan's sovereign credit rating from Caa2 to Caa1, accompanied by a stable outlook on account of the country's external and fiscal positions, supported by ongoing IMF-backed reforms. However, the external position remains fragile due to high gross financing needs, modest reserves, and significant external debt repayments. This upgrade is expected to lower borrowing costs, pave the way for Pakistan's return to international bond markets, and boost investors' confidence.



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Executive Summary

Pakistan has received a **rare endorsement** from the **world's top three credit rating agencies in 2025**. After the Rating upgrades by **Fitch** and **Standard & Poor's**, **Moody's** has also **upgraded Pakistan's sovereign credit rating from Caa2 to Caa1 with a Stable Outlook**. World's **top three credit rating agencies** have **commended the Government of Pakistan's efforts**, highlighting the country's strengthening **fiscal and external position**, coupled with **steady progress** in carrying out reforms under the **IMF's Extended Fund Facility (EFF) program**.

According to the Moody's Ratings official statement, says: ***"Moody's Ratings (Moody's) upgraded the Government of Pakistan's local and foreign currency issuer and senior unsecured debt ratings to Caa1 from Caa2. We have also upgraded the rating for the senior unsecured MTN programme to (P)Caa1 from (P)Caa2"***.

Moody's Ratings (Moody's) has upgraded Pakistan's credit ratings from **Caa2** to **Caa1** and has **revised the country's economic outlook** from **positive** to **stable**. This upgrade reflects improvement in overall external position, driven by consolidated external and fiscal positions, bolstered by the ongoing Extended Fund Facility (EFF) program with the International Monetary Fund (IMF). Moody's anticipates that Pakistan's debt service burden and external profile could improve at a pace faster than the expectations. While, it also expressed concerns over delays in securing timely foreign inflows and/or financing could once again undermine or weaken Pakistan's external position.

*Outlooks fall into **four categories**: 1) Positive, 2) Negative, 3) Stable, and 4) Developing. A **stable** outlook means the rating is **expected to remain unchanged in the near to medium term**, with only a low chance of an upgrade or downgrade.*

Moody's expects that if the Govt. maintains a consistent track record of reforms, especially in revenue, it could significantly ease debt servicing pressures and strengthen the external position, which could potentially unlock additional financing. Consequently, this bolsters the sovereign's external position. Whereas, Moody's also expects there is a risk of setbacks in carrying out reforms or failing to achieve their intended results. This could lead to delays or even the withdrawal of financing support from official partners, which could trigger renewed pressures on the external account. Pakistan's history of incomplete IMF programs is often linked to weak governance, limited institutional capacity, and compounded by a challenging domestic political environment. For the government formed after the February 2024 elections, the challenge will be to sustain revenue-raising efforts without igniting social unrest.

Moody's have also raised Pakistan's Local Currency Ceiling (B2) and Foreign Currency ceilings (Caa1) by two notches gap from **B3** and **Caa2**, respectively. This two-notch gap between the **local currency ceiling and sovereign rating** is driven by the **government's relatively large footprint in the economy, weak institutions, and high political and external vulnerability risk**. This gap also reflects **incomplete capital account convertibility** and relatively **weak policy effectiveness**.

Moody's emphasises that Pakistan has been experiencing substantial social and environmental risks, which are aggravated by a weak governance structure. At the same time, it also highlighted that limited institutional capacity and fragile fiscal strength may raise doubts about the government's ability to effectively address these challenges. The country's environmental vulnerabilities are particularly acute, including high exposure to climate change, scarcity of clean and safe water, and widespread reliance on unsafe drinking water. Every year, Pakistan depletes a significant portion of its already limited freshwater resources, leaving much of its population at risk. Moreover, Pakistan is also highly susceptible to extreme weather events, including tropical cyclones, droughts, floods, and extreme temperatures. Without urgent, unified action & coherent response, Pakistan's vulnerability will rise & the cost of inaction will be unsustainable for a fragile economy.

Moody's upgrade is expected to help Pakistan borrow at lower costs and facilitate a return to international bond markets on favorable terms. The improved credit rating reduces perceived risk, enhances the country's image, and boosts business confidence. This development is likely to invigorate financial markets, expand access to credit for local businesses, and create new opportunities for trade and investment, providing a much-needed stimulus to the economy.

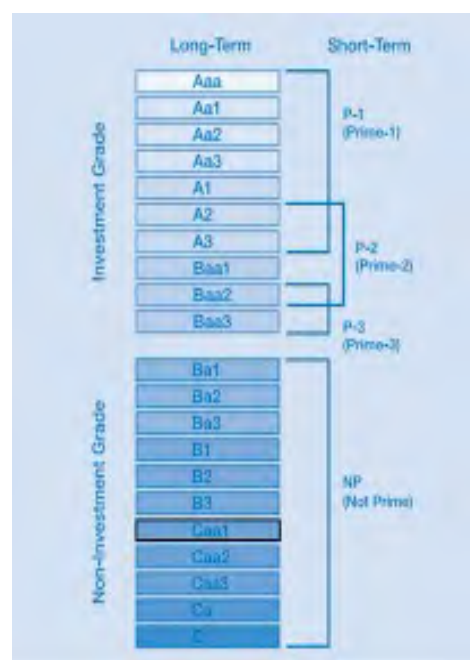
1. Moody's Rationale for the Upgrade to Caa1

Moody's Ratings has upgraded Pakistan's credit rating from **Caa2** to **Caa1** and shifted the outlook from *positive* to *stable*, signaling growing confidence in the country's economic direction. This action is based on two key areas, **a) strengthening external position**, supported by IMF-supported reforms and subsequent inflows and **b) improving fiscal position**, with stronger revenues outpacing expenditures leading to large primary surpluses.

1.1. External Position Continues to Strengthen, Although Still Fragile

According to Moody's In FY2025, Pakistan's external position has continued to strengthen over the past year. Pakistan not only met all its external debt obligations but also boosted its foreign exchange reserves. As of 25th July, State Bank's reserves surged to \$14.3 billion. This is equivalent to Pakistan's 10 weeks of imports. With the completion of the first IMF programme review on schedule, and \$1 billion disbursement in May 2025, Pakistan managed to secure a \$1 billion commercial loan in June 2025, backed by a \$500 million policy-based guarantee from the Asian Development Bank(ADB). This has strengthened Pakistan's external position and sign of growing global confidence in the country's reform momentum.

Figure 1: Moody's Short-term and Long-term Ratings



Moody's Credit ratings assigned ———on global long-term and short-term rating scales are the **forward-looking opinions** of the relative credit risks of financial obligations issued by non-financial corporations, financial institutions, structured finance vehicles, project finance vehicles, and public-sector entities. Moody's Ratings issues ratings at the issuer level and instrument level on both the long-term scale and the short-term scale.

The **Caa1** rating is classified as “**judged to be speculative of poor standing and is subject to very high credit risk**” and remains below investment grade. Consequently, despite the **upgrade being a positive development** for the Pakistan economy, the **government could still face challenges** in attracting funds from international markets. **Moody's assigns provisional ratings to medium-term note (MTN) programs. A provisional rating is denoted by a (P) in front of the**

rating. A credit rating is an assessment of the creditworthiness of a borrower.

Moody's rating outlook reflects its view on the likely direction of a country's credit rating over the **medium term**. Moody's revised outlook from **positive to stable**————reflecting **increased confidence** in the country's economic

trajectory. The upgrade is driven by two main factors: **first**, a **stronger external position** supported by IMF-backed reforms and related inflows; and **second**, an **improved fiscal stance**, with rising revenues outpacing expenditures, resulting in substantial primary surpluses. *Moody's also believes Pakistan's external position is fragile. According to international standards, a country's liquid foreign exchange reserves should be sufficient to cover at least three months of imports.* This import cover is still lower than the global standard. As of 1st August, the State Bank's reserves stood at **\$14.23 billion**, slightly lower than the **\$14.3 billion** figure cited in Moody's report. With the surge in imports, maintaining reserve levels that meet global benchmarks will remain a significant challenge for the country. Moody's points out that **Pakistan's foreign exchange reserves are still not enough to fully meet its external debt obligations**, making it **crucial to stay on track** with **IMF-backed reforms** to keep **much-needed financing flowing**. According to the Moody's estimation, "Pakistan's external financing needs are about \$24-25 billion in FY2026, and similar amounts again in FY2027". Govt. of Pakistan has already opened new avenues for financing, i.e. securing a **28-month IMF Resilience and Sustainability Facility (RSF) program**, worth around \$1.4 billion, coupled with **10-year Country Partnership Framework with the World Bank for FY2026-2035**, carrying an indicative financing envelope of **\$20 billion**. This reflects that international creditors view Pakistan as a credible partner, reflect their confidence in the country's economic direction and are willing to provide long term resources.

According to the World Bank, **Country Partnership Framework (CPF)** will span the **next decade**, with a **Performance and Learning Review in FY30**, and is built around **six key outcomes** targeting Pakistan's most critical development needs. Unlike the past focus on short-term fixes and scattered, small-scale projects, this approach prioritizes fewer but more selective, stable, and larger investments in areas critical for sustained development and that require time and persistence for impact that drive sustainable progress. The CPF should also help shield the program from a volatile polity and a track record of frequent changes in priorities and short-lived initiatives while facilitating alignment with other development partners.

1.2. The Improved Fiscal Position, Debt Sustainability Remains Weak.

Pakistan's fiscal health has strengthened from previously fragile levels. This is driven by progress in revenue-raising measures. The Budget deficits are narrowing, primary surpluses are expanding, and debt affordability is gradually improving, though it still ranks among the weakest compared to other sovereigns Moody's rates.

According to the Finance Ministry, Pakistan's **budget deficit** was recorded at **Rs6.17 trillion, i.e. 5.4% of the GDP**, during the fiscal year 2024-25, as compared to **Rs7.20 trillion or 6.8% of GDP** last year. This is mainly due to **higher revenue growth, which has outpaced expenditure growth**. While the primary balance recorded at Rs2.71 trillion or 2.4% of GDP, as compared to Rs0.95 trillion or 0.9% of GDP last year. **This reflects improved fiscal discipline in FY25.** This **fiscal consolidation was fueled by strong revenue growth**, enabling the government to meet IMF targets, a result largely attributed to **greater fiscal discipline and an improvement in debt dynamics**.

According to Moody's, Pakistan's revenues climbed to around 16% of GDP in FY2025, up from 12.6% in FY2024, driven largely by a significant boost in tax collections, adding roughly 2% of GDP. Major contribution has come from the Non-tax revenues, which saw a sharp rise, helped by a one-time extraordinary dividend from the State Bank of Pakistan.

The government's heavy reliance on non-tax revenues, such as SBP's large profits and petroleum development collection, make up a large share of this income, raises concerns about how sustainable the current fiscal consolidation will be in the long run. A more **sustainable path** would involve a **structural broadening** of the **direct tax base**, an area where **progress remains a persistent challenge**.

On the revenue front—Moody's expects the Govt. to keep strengthening revenue administration and enforcement, while also introducing new tax measures to further boost collections. It also expects *"tax revenues to pick up by another 0.5% of GDP in FY2026"*. However, Moody's says *"a decline in SBP dividends will lead to an overall narrowing of government revenue to about 15-15.5% of GDP"*.

On the expenditure front, Moody's expects *"government spending to stay contained, despite a rise in budgeted defense allocations"*. Whereas, Power sector subsidies are gradually being scaled back as reforms take hold. The debt servicing costs are easing with the decline in domestic interest rates, driven by lower policy rates. This has provided much fiscal space to the Govt. to divert its resources to the productive sectors of the economy. Moody's projects Pakistan's fiscal deficit to narrow further to 4.5–5% of GDP in FY2026, down from 5.4% in FY2025. Interest payments, while still high by global standards, are expected to consume about 40–45% of revenues in FY2026–2027 which was roughly at 60% in FY2024, but still a major credit constraint. Similarly, S&P sees it to remain around 40.2 % in FY2026-27, which has provided some welcome breathing space for the budget and easing debt pressures.

1.3. Stable Outlook

The stable outlook reflects a balance of risks to Pakistan's credit profile. Moody's rating outlook signals the expected direction of a country's credit rating over the medium term, falling into four categories: Positive, Negative, Stable, and Developing. A **stable** outlook reflects confidence that the rating is likely to hold steady, with only a minimal chance of change, indicating a period of relative predictability in credit risk.

On the upside, Moody's expects a sharper-than-expected improvement in the debt servicing burden and external position could emerge, if the government builds a consistent track record of reforms, particularly in revenue-raising measures that safeguard macroeconomic stability. This may lead to unlocking more financing. As a result of this, this bolsters and further strengthens the sovereign's external position. According to Moody's, *"Debt affordability could also improve beyond current projections, if additional revenue measures succeed in broadening the tax base more than anticipated"*.

On the downside, Moody's expects there is a risk of setbacks in carrying out reforms or failing to achieve their intended results. This could lead to delays or even the withdrawal of financing support from official partners, which could trigger renewed pressures on the external account. Pakistan's history of incomplete IMF programs is often linked to weak governance, limited institutional capacity, and compounded by a challenging domestic political environment. For the government formed after the February 2024 elections, the challenge will be to sustain revenue-raising efforts without igniting social unrest.

2. Impact of the Rating Upgrade on Pakistan's Economy

2.1. Moody's Upgrade to Help Pakistan Borrow at Lower Costs

Pakistan's upgrade to **Caa1 with a stable outlook** by Moody's, reflects a modest but notable improvement in the country's capacity to meet its debt obligations. This positive development can strengthen investor confidence, paving the way to open doors to more favorable financing terms, and potentially lower borrowing costs. Given Pakistan's sizable external financing requirements of about **\$24–25 billion in FY2026** and a similar amount projected for FY2027. Successfully meeting these obligations will hinge not only on strengthening foreign exchange reserves but also on maintaining steady progress under the IMF programme to secure continued financial support. **Gaining improved access to a broader range of financing options is critical** not only for managing the country's sizable **debt** but also for building **long-term financial stability**.

2.2. Return to International Bond Markets on Favorable Terms

According to the State Bank Governor, Pakistan faces two external debt repayments totaling **\$1.8 billion** this year, including a **\$1 billion bond** maturing in **April 2026**. Whereas, Pakistan's **net annual external debt obligations** stood at **around \$10 billion** in FY26. As of 1st August, the State Bank's reserves stood at **\$14.23 billion**. Pakistan's reserves exceed our net external debt obligations, which indicates a **"Surplus"** reserves of **over \$4.0 billion**. Whereas, State Bank expects foreign exchange reserves to increase to around **\$15.5 billion** by end **Dec 2025**.

The timely repayment of these bonds, along with the recent improvement in the country's credit rating, could open the door for Pakistan to **access global capital markets** and **potentially raise new funds** through the **issuance of Eurobonds in the future**. Upgrades from the world's top three credit rating agencies could pave the way for Pakistan's return to international bond markets, including Eurobonds and Panda bonds, allowing the country to raise funds on more favorable terms. This could allow the country to diversify its funding sources as well and secure financing at potentially lower rates. In the past, Pakistan has struggled to access global capital markets, making this progress particularly significant. This recent upgrade has given a strong signal of confidence that, with continued support from official lenders, Pakistan will be better positioned to meet its external debt obligations.

The upgrade to Caa1 from Caa2 rating also applies to the backed foreign currency senior unsecured ratings for **"Pakistan Global Sukuk Programme Co Ltd."**. The associated payment obligations are direct obligations of the Government of Pakistan. By changing outlook for The Pakistan Global Sukuk Programme Co Ltd to stable from positive, mirroring the stable outlook on the Government of Pakistan. This indicates improved terms for Islamic financing instruments, broadening the potential investor base.

2.3. Credit Upgrade Reduces Perceived Risk & Revives Country's Soft Image

The Sovereign Credit ratings play a key role in shaping how investors view a country's risk. The recent upgrade from Moody's reduces Pakistan's "Perceived Risk" and revives "Soft Image". This will make Pakistan an **attractive investment destination** to potential foreign investors. This is expected to **boost overall investor confidence** and support the country's efforts to bring in more foreign investment under the Special Investment Facilitation Council (SIFC), aimed to stimulate FDI to attract foreign investment and accelerate economic growth by streamlining the investment process and fostering a more investor-friendly environment. A more favorable risk profile, as highlighted by Moody's, could encourage foreign direct investment in various sectors, including energy, manufacturing, and infrastructure.

2.4. Improves Business Sentiment and Give a much needed boost to Financial Markets

Financial markets are naturally forward-looking and tend to react quickly to new information, such as **expected lower risk and borrowing costs**, which helps explain the swift rise in bond and equity prices. Credit rating upgrades lift investor confidence, sending a strong signal of economic stability. This improved sentiment can energize financial markets and encourage fresh capital inflows. In contrast, **the real economy, especially the manufacturing sector, usually takes longer to respond** and reflects these changes with a noticeable time lag. Sovereign credit ratings play a significant role in attracting Foreign Direct Investment (FDI). Recipient countries with higher sovereign ratings are generally perceived as more stable and less risky investment destinations, thereby attracting more FDI flows.

2.5. Access to Credit for Local Businesses

A sovereign credit rating upgrade can boost confidence in the economy, making it easier for banks to borrow and lend, which may improve credit access for local businesses. However, the impact will be gradual and depend on broader political and institutional stability, so cheaper or easier credit may not be felt right away.

2.6. Trade and Investment Opportunities

Moody's recent credit rating upgrade, following similar moves by S&P and Fitch, reflects better economic management and reduced default risk, boosting Pakistan's credibility in global markets. This can help unlock trade financing, attract investment, and improve terms of trade. However, it is imperative that Govt. addresses structural challenges, ensuring policy consistency, improving ease of doing business, and resolving energy sector issues to turn initial investor interest into sustained growth.

3. Key Drivers that Could Influence Future Credit Rating Changes

3.1. Moody's could consider upgrading Pakistan's ratings if:

a) Debt affordability and external position improve well beyond expectations.

Pakistan's gross financing needs are expected to remain high in the near term, driven by maturing short-term debt, repayments to multilateral and bilateral creditors, and upcoming Eurobond obligations. These substantial external financing requirements, coupled with modest foreign exchange reserves and a heavy debt burden, continue to pose challenges. Therefore, timely repayment of existing obligations, alongside the recent upgrade in Pakistan's credit rating, renewed access to global capital markets, will subsequently improve Pakistan's external position well beyond expectations, which could pave the way for an upgrade.

b) Significant progress on reforms

The tangible progress on reforms such as tax systems, energy, ease of doing business, robust privatization program, debt management, reducing inefficiencies, and creating a more transparent business environment is critical for economic sustainability.

c) Continued fiscal consolidation

The government's effective efforts to raise revenue are making debt more manageable than expected, which could be seen as a positive by credit agencies like Moody's. Through prudent fiscal management and expenditure containment, fiscal consolidation is gradually improving the country's ability to service its debt.

3.2. Moody's could consider downgrading Pakistan's ratings if:

a) Government liquidity or external vulnerability risks rise sharply

Moody's warns that Pakistan's government could face a sharp rise in liquidity and external risks. This will subsequently put the country in a difficult position to pay debts, fund key services, or maintain enough foreign reserves. This makes the country more vulnerable to economic shocks.

b) Financing strains emerge

Moody's has highlighted its concerns that there is "potential risk" of delays in carrying out reforms or failing to achieve their intended results, which could lead to delays or even the withdrawal of financing support from official partners. This could trigger pressures on countries' external accounts.

c) Escalating social or political tensions

With the government playing a significant role in the economy, combined with weak institutions and high political and external risks, policymaking could be disrupted, making it harder for Pakistan to attract the financing it urgently needs.

4. Conclusions and Recommendations

- 1. Post Stabilization, convert hard earned gains into Sustainable Growth:** Pakistan's biggest challenge now is to convert hard-earned gains into sustainable economic growth. Achieving this will demand bold, high-impact reforms which includes, building a fairer and more efficient tax system, keeping the exchange rate market-driven, lowering import tariffs to boost exports, improving the business climate, and streamlining the public sector. This will require unwavering commitment from policymakers at both the federal and provincial levels, not just in announcing reforms, but in **implementing them consistently and transparently**. Such dedication would send a **clear signal** that Pakistan is serious about creating a stable, predictable policy environment. This, in turn, would strengthen investor confidence, attract both domestic and foreign capital, and lay a **solid foundation** for **sustained economic growth** in the years ahead.
- 2. Gross Financing needs to stay high, Continued Fiscal consolidation and Comprehensive Reforms way forward.** According to the World Bank, Pakistan's **gross financing needs** are expected to **stay high**, driven by **maturing short-term debt, repayments to multilateral and bilateral creditors, and upcoming Eurobond obligations**. Public debt, including government-guaranteed debt, is projected to peak at 77.0% in FY26 before gradually declining over time. These significant external financing requirements, combined with the modest foreign exchange reserves and a high debt burden, continue to remain a key concern for the economy. Therefore, **Ongoing fiscal consolidation** and **comprehensive structural reforms**, as outlined in the government's new economic transformation plan, **URAAN Pakistan**, are essential. Promoting **trade liberalization**, reducing **excessive state involvement in the economy**, tackling **obstacles** to doing business, and investing more in human capital are all key steps toward boosting real incomes and creating better job opportunities for the population.
- 3. Create an enabling environment for Business & Industrial community:** By improving the ease of doing business, engaging the business community to address key growth hurdles, and creating an enabling environment, Pakistan can rebuild domestic investor confidence. By offering targeted incentives to the private sector can draw significant investment from both local and international sources, critical for funding joint ventures, creating jobs, and fostering innovation and efficiency. These steps can reinvigorate business confidence, stimulate economic activity, restore competitiveness, reduce poverty, and set the country on a path to sustainable growth.
- 4. Integrated Trade Facilitation & Infrastructure Policy Measures:** Trade facilitation in Pakistan needs a comprehensive, end-to-end approach that strengthens the entire supply chain. This calls for a national agenda focused on boosting both physical infrastructure, such as seaports, airports, dry ports, roads, and

rail networks and digital systems, including advanced ICT platforms and smart logistics solutions. At the same time, overcoming Pakistan's long-standing energy challenges is critical to making industries more competitive. Achieving this will require swift investment in renewable energy projects and upgrading the country's transmission and distribution networks to ensure reliable power for growth.

5. **Pursue Strategic Shift towards Circular Economy to fix structural issues:** It is crucial to shift towards a circular economy to fix the recurring balance of payments crisis, implement structural transformation programs, enhance the productive capacity of the manufacturing sector, reform unfavorable taxation policies, address the energy crisis, develop critical infrastructure, and ensure good governance within the economic system.
6. **Foster Human Capital Development:** Pakistan's investment in human development is among the lowest globally, ranked 164 out of 193 countries in the Human Development Index (HDI) in 2023–24. Therefore, it is imperative to invest in human development, which not only fuels economic growth, but also enhances productivity, improves quality of life, and fosters a more skilled and resilient population. This leads to sustainable national prosperity, inclusive growth, and empowers people to reach their full potential
7. **Export Diversification and Competitiveness:** To build genuine external resilience and reduce reliance on remittances, comprehensive strategies are needed to diversify and boost Pakistan's manufacturing and export base. This should focus on promoting higher value-added goods and services, enhancing product quality, and exploring new international markets.
8. **Urgent Unified Action to Counter Climate Vulnerability:** Pakistan has been experiencing substantial social and environmental risks, aggravated by a weak governance structure. This is also highlighted by Moody's in its report. The country's environmental vulnerabilities are particularly acute, including high exposure to climate change, scarcity of clean and safe water, and widespread reliance on unsafe drinking water. Every year, Pakistan depletes a significant portion of its already limited freshwater resources, leaving much of its population at risk. Unpredictable monsoons lead to either devastating floods or prolonged droughts, affect livelihoods and displace vulnerable communities. Farmers & urban planners struggle to prepare themselves for predicting the unpredictability of seasonal cycles & flash floods, both are fighting climate change that "no longer goes by the rules". Without urgent, unified action & coherent response, Pakistan's vulnerability will rise & the cost of inaction will be unsustainable for a fragile economy.