



S&P Upgrades Pakistan's Sovereign Rating to 'B-': FPCCI's Comments

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Executive Summary

On account of Pakistan's **robust partnership with the International Monetary Fund (IMF)** through the **Extended Fund Facility (EFF)** and **Resilience and Sustainability Facility (RSF)**, the country has made significant strides in steering back toward **macroeconomic stability** and a **sustainable recovery path**. Reflecting this progress, **S&P Global Ratings** has **upgraded Pakistan's long-term sovereign credit rating to 'B-' from 'CCC+'**, assigning a **stable outlook** in recognition of improvements in **external liquidity management** and **fiscal reform implementation**.

This **renewed policy direction**, coupled with the **sovereign credit upgrade**, has sent a **clear and positive signal to markets**, enhancing **investor confidence** and reinforcing trust in Pakistan's **economic trajectory**.

The **Stable Outlook** reflects S&P's belief that **Pakistan will continue to receive crucial external support** and **adhere to fiscal and structural reforms**. If maintained, these efforts will enable the country to **meet its considerable debt obligations** while **managing existing vulnerabilities**.

S&P highlighted that **Pakistan's foreign exchange reserves have notably improved**, bolstered by **official inflows** and an enhanced **balance-of-payments position**, developments that have **eased external financing pressures**.

While **debt-servicing costs** remain high, the government's **revenue mobilization efforts** and a **more favorable inflation environment** are contributing to **faster-than-anticipated fiscal consolidation**.

In summary, the **Stable Outlook** signifies S&P's expectation that **sustained multilateral and bilateral support**, along with **continued fiscal progress**, will equip Pakistan to **meet its substantial debt obligations** over the coming year.

1. Introduction

1.1 Purpose and Scope of the Report

This report presents a comprehensive analysis by the **Policy Advisory Board of the Federation of Pakistan Chambers of Commerce and Industry (FPCCI)** on the recent **credit rating upgrade of Pakistan by S&P Global Ratings on July 24, 2025**. It delves into the **factors behind the upgrade**, evaluates its **broader implications for Pakistan's economy**, and assesses the potential impact on the **business and investment landscape**. The objective is to underscore the **significance of this development**, identify **emerging opportunities**, and outline the **challenges that must be addressed** to maintain economic momentum. The analysis covers key **macroeconomic indicators**, recent **government policy reforms**, and their **direct and indirect effects** on financial markets, capital inflows, and overall **business confidence** in Pakistan.

1.2 Overview of Sovereign Credit Ratings

Sovereign credit ratings, assigned by leading international agencies such as **S&P Global Ratings, Moody's, and Fitch**, are critical evaluations of a country's ability and willingness to meet its financial obligations. These ratings are not just technical benchmarks; they act as **key signals to global investors, financial institutions, and multilateral organizations**, reflecting the perceived risk of investing in or lending to a nation.

An **improved credit rating** brings several tangible advantages. Most notably, it leads to **lower borrowing costs** for the government, as creditors associate reduced risk with a stronger credit profile. It also **enhances access to international capital markets**, enabling the country to secure financing on **more favorable terms**. Moreover, an upgraded rating strengthens **investor confidence**, encouraging both **foreign direct investment (FDI)** and **portfolio inflows**, which are vital for economic growth and financial stability.

2. Core Reasons behind S&P Global Ratings Upgrade

S&P Global Ratings explicitly cited “**improved financial conditions and progress in fiscal reforms**” as the primary drivers for upgrading **Pakistan’s sovereign credit rating**. This favorable reassessment reflects a combination of **notable macroeconomic improvements** and **deliberate policy interventions** undertaken by the government.

According to S&P, Pakistan’s economic recovery has become less reliant on short-term favorable macro-financial developments, indicating a shift toward **structural resilience**. The agency also observed that the **country’s near-term default risks have eased**, largely due to a **strengthening in foreign exchange reserves** over the past 12 months, highlighting enhanced external liquidity and more stable economic fundamentals.

The rationale behind the **upgrade by S&P Global Ratings** rests on a combination of key **macroeconomic improvements** and **structural reforms**. Firstly, the ongoing **IMF program**, supported by **strong bilateral partnerships**, has significantly bolstered Pakistan’s **foreign reserves**, rising from a **multi-year low of US\$6.7 billion in December 2022** to **US\$20.5 billion as of July 4, 2025** (including central bank gold holdings). This reserve position is now **adequate to cover external principal and interest obligations of US\$13.4 billion for fiscal year 2026**. Secondly, Pakistan recorded a **current account surplus in fiscal year 2025**, the **first in 14 years**, driven by **record-high remittances of US\$39 billion**, equivalent to **9.5% of GDP**, which has greatly improved the country’s **external metrics** and mitigated **near-term external vulnerabilities**.

Thirdly, **reforms under the IMF program** have enhanced **revenue mobilization**, with **tax revenues increasing by nearly 3% of GDP** over the past year. Combined with **prudent expenditure controls**, this has allowed the **general government deficit** to decline from **7.9% of GDP in FY2022** to a projected **5.1% in FY2026**. Lastly, the **monetary outlook** has improved markedly due to a **significant drop in inflation**, from a **peak of 29% in FY2023** to an **average of just 4.49% in FY2024**, paving the way for **lower interest rates** and improved **financial conditions**.

2.1 Historical Context of Pakistan's S&P Credit Ratings

A review of **Pakistan's sovereign credit rating history (2022–2025)** reveals a trajectory of gradual recovery, reflecting improvements in both macroeconomic fundamentals and policy credibility. On **December 22, 2022**, **S&P** downgraded Pakistan to **CCC+ with a Stable outlook**, signaling heightened fiscal and external vulnerabilities. Subsequently, in **February 2023**, **Moody’s** assigned a **Caa3 rating with a Stable outlook**, followed by **Fitch** rating Pakistan at **CCC** in **July 2023**, with the **Outlook Not Rated (NR)** at the time. However, beginning in **August 2024**, the tide began to turn, as **Moody’s** upgraded Pakistan to **Caa2 with a Positive outlook**, reflecting growing confidence in economic stabilization efforts. This was followed by **Fitch’s** upgrade to **B- with a Stable outlook in April 2025**, and most recently, **S&P** raised Pakistan’s rating to **B- with a Stable outlook on July 24, 2025**. This upward trend across major rating agencies signals a broad-based acknowledgment of Pakistan’s improved fiscal resilience and external position.

Table 1: Pakistan's Sovereign Credit Rating History (2022-2025)

Agency	Rating (Long-Term)	Outlook	Date
S&P	CCC+	Stable	Dec 22, 2022
Moody's	Caa3	Stable	Feb 2023
Fitch	CCC	NR	Jul 2023
Moody's	Caa2	Positive	Aug 2024
Fitch	B-	Stable	Apr 2025
S&P	B-	Stable	Jul 24, 2025

2.2 Pakistan's Macroeconomic Indicators

As per **S&P Global's forecasts**, Pakistan's economy has shown signs of a **gradual recovery**, with **real GDP growth** improving from **2.5% in 2024 to 2.7% in 2025**, and is **projected** to accelerate further to **3.6% in 2026**, before moderating slightly to **3.5% in 2027**. This **modest but consistent upward trend** suggests a cautious return to macroeconomic stability. **GDP per capita**, which rose from **\$1,600 in 2024 to \$1,700 in 2025**, is expected to further increase to **\$1,900 in 2026** and **\$2,000 in 2027**, reflecting incremental improvements in individual income levels.

However, **investment as a share of GDP** remains subdued, **13.1% in 2024 and 13.8% in 2025**, and is **expected** to stay around **13.6% in 2026** and **13.5% in 2027**, insufficient to drive the high growth needed for long-term development. Similarly, **domestic savings**, after peaking at **14.2% in 2025**, are projected to **decline to 13% in 2026** and further to **12.7% in 2027**, highlighting a persistent savings-investment gap.

On the external front, the **exports-to-GDP ratio** has steadily declined from **10.4% in 2024 to 9.9% in 2025**, and is **forecasted** to drop further to **9.5% in 2026** and **9.4% in 2027**, reflecting structural competitiveness challenges. Nonetheless, **real export growth**, which was negative in 2024 (-1.6%) and 2025 (-1.2%), is **projected to turn positive**, reaching **2.7% in 2026** and **2.8% in 2027**, indicating a potential rebound in export performance.

Despite these improvements, the **unemployment rate is projected to remain stagnant at 7%** throughout the forecast horizon, underscoring the need for more **inclusive and job-intensive growth** strategies. Overall, while the **macroeconomic outlook appears cautiously optimistic**, it hinges on the implementation of deeper **structural reforms** to boost **investment, productivity, export competitiveness, and employment generation**.

Table 2: Pakistan's Macroeconomic Indicators (%)

Description	2024	2025	2026	2027
Real GDP growth	2.5	2.7	3.6	3.5
GDP Per Capita	1.6	1.7	1.9	2
Investment/GDP	13.1	13.8	13.6	13.5
Savings/GDP	12.6	14.2	13	12.7
Exports/GDP	10.4	9.9	9.5	9.4
Real Exports Growth	-1.6	-1.2	2.7	2.8
Unemployment Rate	7	7	7	7

2.3 Pakistan's External and Fiscal Indicators

According to **S&P Global**, Pakistan's external and fiscal indicators present a **mixed outlook**, with some signs of improvement in fiscal discipline but persistent external vulnerabilities. The **Current Account Balance**, which turned slightly **positive at 0.5% of GDP in 2025**, is **projected to slip back into deficit**, reaching **-0.6% in 2026** and **-0.8% in 2027**. This reversal indicates that rising import demand and limited export performance may continue to strain the country's external financing needs. Similarly, the **Trade Balance** remains in deficit throughout, from **-6.0% of GDP in 2024** to a **forecasted -5.9% in 2027**, reflecting ongoing structural issues in the trade composition and competitiveness. **Net FDI inflows**, already low at **0.6% of GDP in 2024**, are projected to remain subdued, declining to **0.3% in 2026**, before slightly recovering to **0.4% in 2027**. This underperformance in foreign direct investment highlights investor concerns related to macroeconomic and political stability.

On the fiscal front, the **Primary Balance** (fiscal balance excluding interest payments) has improved significantly, from **0.9% of GDP in 2024 to 2.1% in 2025**, suggesting a tightening of fiscal controls. However, it is **expected to soften** in the forecast years, falling to **1.8% in 2026** and **1.2% in 2027**, indicating challenges in sustaining fiscal consolidation over time. **Government Revenue as a share of GDP** jumped sharply from **12.6% in 2024 to 15.7% in 2025**, likely reflecting one-off measures or enhanced collection efforts. However, it is **projected to decline slightly**, stabilizing at **15% in 2026** and **15.2% in 2027**. Meanwhile, **Expenditure as a percentage of GDP**, after peaking at **21.3% in 2025**, is expected to moderate to **20.1% in both 2026 and 2027**, suggesting efforts to streamline public spending.

A notable positive trend is seen in the **interest-to-revenue ratio**, which measures the burden of interest payments relative to government revenue. This ratio is **projected to decline significantly** from **61.5% in 2024 to 40.2% in 2027**, implying some relief in debt servicing pressures, possibly aided by revenue gains and a more favorable interest rate environment. Finally, **Pakistan's Debt-to-GDP ratio** is **expected to gradually decline**, from **70% in 2024 to 66.6% in 2027**, reflecting a slow but positive movement toward fiscal sustainability. However, the level remains elevated, and continued efforts will be required to place public debt on a firmly downward path.

Table 3: Pakistan's External and Fiscal Indicators

Description	2024	2025	2026	2027
Current Account Balance/GDP (%)	-0.6	0.5	-0.6	-0.8
Trade Balance/GDP (%)	-6	-6.3	-6.2	-5.9
Net FDI/GDP (%)	0.6	0.4	0.3	0.4
Primary Balance/GDP (%)	0.9	2.1	1.8	1.2
Revenue/GDP	12.6	15.7	15	15.2
Expenditure/GDP	19.5	21.3	20.1	20.1
Interest/Revenues	61.5	49	45.8	40.2
Debt/GDP	70	69.6	68	66.6

3. Key Implications of the S&P Credit Rating Upgrade

S&P's credit rating upgrade is a strong vote of confidence in Pakistan's economy, carrying meaningful impact across multiple sectors and for the business community. It reflects an improved perception of risk and growing trust from international financial markets.

3.1 S&P Upgrade to Help Pakistan Borrow at Lower Costs

A higher credit rating leads to lower borrowing costs for a country by reducing the risk in the eyes of lenders, **With the S&P upgrade, Pakistan's sovereign debt has become more appealing to global investors**, which is expected to ease the cost of future borrowing. This shift was quickly reflected in the markets, **Pakistan's longer-term international bonds saw a notable rally**, with the 2051 bond rising by 1.6 cents, and the 2031 and 2036 bonds gaining around 1 cent. **This clearly signals a drop in perceived risk and points to lower yields for any future bond issuances.** S&P anticipates that the current environment of lower interest rates and more relaxed monetary conditions will help **reduce Pakistan's government interest payments significantly**, from over 60% of revenue in FY2024 to an average of 41% over the next three years.

3.2 Return to International Bond Markets on Favorable Terms

The recent upgrade is expected to pave the way for Pakistan's return to international bond markets, such as Eurobonds and Panda bonds, on more favorable terms. **This would help the country diversify its funding sources and potentially secure financing at lower costs.** In the past, Pakistan has faced significant challenges in accessing global capital markets, making this development especially meaningful. **S&P's stable outlook also signals confidence that continued support from official lenders will help Pakistan meet its external debt obligations.** Importantly, the agency anticipates that Pakistan will be able to **roll over its commercial credit lines over the next 12 months.** **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.

3.3 Credit Upgrade Reduces Perceived Risk & Revives Country's Soft Image, Making Pakistan more Attractive Investment Destination

The Sovereign Credit ratings play a key role in shaping how investors view a country's risk. The recent upgrade from S&P **reduces "Perceived Risk" and revives "Soft Image"**, making Pakistan a more attractive destination to potential investors. **This move is expected to boost overall investor confidence** and support the country's efforts to bring in more foreign investment. **S&P's decision is seen as a strong endorsement of Pakistan's ongoing reform path** and a sign that global confidence is returning. **For a country that has long struggled to draw significant foreign investment, this renewed trust is both timely and essential.**

3.4 Potential for Higher FDI Inflows

An improved credit rating can open the door to stronger and more dynamic economic growth, both directly, by stimulating activity in the industrial and services sectors, and indirectly, by **attracting more foreign direct investment (FDI)** and lowering the country's risk premium. **In emerging economies like Pakistan, FDI plays a vital role in driving growth, expanding production, creating jobs, and boosting exports.** For Pakistan, where **attracting investment depends heavily on strong governance, stable policies, and political consistency**, this upgrade lays an important foundation for drawing in the foreign capital needed to support long-term development.

3.5 Return of Foreign Portfolio Investment to Pakistan Stock Market

The S&P upgrade has already had a noticeable impact on Pakistan's financial markets. The value of the country's dollar-denominated bonds has increased, and **the stock market is showing strong momentum, with the benchmark KSE-100 Index hitting a record high of 140,000 levels.** The improved credit rating has made **Pakistani equities and debt instruments more appealing to global investors looking for strong risk-adjusted returns.**

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. In contrast, **the real economy, especially the manufacturing sector, usually takes longer to respond** and reflects these changes with a noticeable time lag.

4. Business Community Confidence, Sentiment and Challenges for Pakistan

4.1. Business Community Confidence and Sentiment

The S&P upgrade reflects growing confidence in Pakistan's economic management and its improved ability to meet debt obligations. It signals that the country's strengthened fiscal position is likely to hold steady over the coming year. This recognition of Pakistan's economic progress, and of the tough but necessary steps taken to restore financial discipline, is an important milestone in building strong, long-term macroeconomic foundations. The upgrade is expected to reinforce these efforts, playing a key role in enhancing overall economic stability and resilience. The various surveys that reflect improved business sentiment are hereafter:

- a) **PwC Survey:** Business optimism among Pakistani CEOs has sharply risen, with **83% expecting economic improvement**, a notable increase from 49% last year. Furthermore, **92% express confidence in revenue growth over the next year**.
- b) **Ipsos Survey:** Consumer confidence has surged to a **six-year high**, with **42% of Pakistanis now believing the country is on the right track**, a substantial increase from just 2% in September 2023. Confidence in the economy's strength rose to **29%**, the highest since 2019, and **optimism about local economic conditions jumped from 12% in August 2024 to 37% in May 2025**.
- c) **OICCI Survey:** The Overseas Investors Chamber of Commerce and Industry (OICCI) **reported a sharp rise in its Business Confidence Index from -5% to +11%**, representing a **16-point improvement**. This positive shift, observed in the March-April 2025 survey, is **driven by improving macroeconomic indicators and falling inflation**.
- d) **Gallup Survey:** The Household Financial Outlook experienced a significant rise of **27.5% in just one quarter**, and the overall Consumer Confidence Index surged by **20.9% to 88.1 points**, marking the highest level in seven quarters.
- e) **IMF Assessment:** The IMF's recent review also affirms that **Pakistan's economy is "on the right track with strong reforms."**

While the State Bank of Pakistan's business sentiment surveys have claimed improvement, it is noteworthy that the **large-scale manufacturing (LSM) sector index has remained negative**. This indicates that **while sentiment is largely positive, it may be ahead of actual industrial output recovery**, suggesting that the benefits of improved confidence are **yet to fully translate into tangible production growth**.

Table 4: Business and Consumer Confidence Indices in Pakistan (2023-2025)

Survey/Index	Q4 2023 (or prior)	Q2 2025 (or current)	Change/Status
PwC CEO Optimism	49%	83%	Sharp rise, 92% confident in revenue growth
Ipsos Consumer Confidence	2% (Sep 2023)	42% (Current); 4-point rise; 37% (May 2025)	Six-year high; highest since 2019
OICCI Business Confidence	-5%	+11%	16-point improvement
Gallup Household Financial Outlook		Up 27.5% (in 1 Qtr)	Overall Confidence Index surged 20.9% to 88.1 (7-Qtr high)
Large-Scale Manufacturing (LSM) Index	Negative	Negative	Sentiment ahead of actual industrial output

4.2. Challenges and Risks

According to the S&P upgrade, **Pakistan's economic outlook remains subject to several notable challenges and risks.** The various **Challenges & Risks** are hereafter:

- a) Elevated Domestic and External Security Risks:** S&P also cautioned that **Pakistan's credit ratings remain limited by ongoing domestic and external security risks.** Although the security situation has improved compared to the early 2010s, the risk of setbacks still exists. These challenges can discourage foreign investment, disrupt key economic activities, and force the government to allocate significant resources to security, rather than development. Such diversions can weaken efforts to maintain fiscal discipline and slow down broader economic progress, potentially offsetting some of the gains from the recent credit rating upgrade.
- b) Geopolitical Tensions & India Factor:** S&P has warned that **rising border tensions with India,** highlighted by the recent **Pahalgam attack** and **India's launch of Operation Sindoor,** could significantly increase Pakistan's credit risk. While some reports suggest easing geopolitical tensions have supported investor sentiment, S&P's caution highlights the underlying fragility of this stability. Temporary calm may mask deeper unresolved issues, and any escalation could quickly reverse economic progress and investor confidence. This underscores the urgent need for sustained diplomatic efforts and strong de-escalation mechanisms to safeguard Pakistan's financial stability and hard-earned gains.

5. Conclusion and Recommendations

Based on this comprehensive analysis, the following recommendations are put forth for the **Federation of Pakistan Chambers of Commerce and Industry (FPCCI)** and relevant government stakeholders:

- a) **Sustain Fiscal Discipline and Reform Momentum:** The government needs to remain committed to fiscal discipline by **boosting revenues, managing spending wisely, and expanding the tax base**. Key steps include **reforming state-owned enterprises** and **making subsidies more targeted and efficient**. **Consistent policy implementation is essential**, not only to uphold the credibility built through the IMF program but also to ensure that the country's **improved fiscal position remains sustainable in the long run**.
- b) **Further Cut in Policy Rate inevitable:** Despite a sizeable reduction in the Policy Rate by 11%, the country could not yield the expected revival in economic activity or tangible improvements. **With the real interest rate standing at 6.5%, there's ample room for a rate cut**, something that's **crucial for reviving industrial activity and the broader economy**. **Gradually bringing the policy rate closer to the current CPI inflation rate** would stimulate large-scale manufacturing, trade, and exports and **help ease the government's interest burden on public debt**. This will **restore the competitiveness of our exporters and domestic industries**, while helping the government meet its Real GDP growth targets of 4.2% for 2025–26.
- c) **Create enabling environment for Business & Industrial community:** By **reducing interest rates and incentivizing the private sector**, sizeable investment can be attracted both from **domestic and foreign investors**, essential for **funding joint ventures, creating jobs, and encouraging innovation and efficiency**. This will **revive business confidence and stimulate economic activity, restoring competitiveness, reducing poverty, and achieving sustainable growth**.
- d) **Integrated Trade Facilitation & Infrastructure Policy Measures:** Trade facilitation must be approached **holistically**, covering the entire supply chain. For Pakistan, this requires a **national trade facilitation agenda** that prioritizes **investment in both physical (seaports, airports, dry ports, road and rail) and digital infrastructure (ICT systems and smart logistics)**. Simultaneously, **addressing Pakistan's chronic energy bottlenecks is essential for industrial competitiveness**. This requires **urgent investment in renewable energy projects and modernization of transmission and distribution networks**. To ensure consistent power supply and reduce dependence on the national grid, **solar-powered micro-grids should be developed across industrial zones**. Expanding renewable energy-powered micro- and mini-grids in rural areas can also **improve energy access and support local economic development**. Furthermore, **encouraging private investment in smart grid technologies and digital energy infrastructure** will help build a **resilient, efficient, and future-ready power system**, crucial for **sustainable industrial growth and export competitiveness**.
- e) **Translate Financial Gains into Real Economy Growth:** While the **financial market response is positive**, concerted efforts are needed to ensure that **lower borrowing costs and increased capital inflows translate into tangible growth in the real economy**. This involves **addressing structural bottlenecks in the large-scale manufacturing sector, improving the ease of doing business, and fostering an investment-friendly environment** to create jobs and **expand productive capacity**.

- f) **It is imperative to 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.
- g) **Monitor and Communicate Economic Progress:** Continuous monitoring of key macroeconomic indicators, including FDI inflows, GDP growth, and inflation, is essential. Transparent and consistent communication of progress, along with clear strategies for addressing remaining challenges, will help maintain confidence among domestic and international stakeholders.
- h) **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.