

Pakistan Economy

S&P upgrades Pakistan's rating, rejoining B- club after 3yrs

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S&P upgrades Pakistan to B-, outlook stable

Back in the B- club after three years

- In a significant move reflecting improving economic fundamentals, S&P Global Ratings has upgraded Pakistan's long-term sovereign credit rating to 'B-' from 'CCC+', assigning a 'Stable' outlook. This marks a return to the 'B-' rating for the first time since Jul'22 and restores a 'stable view' last seen in Feb'19.
- The upgrade signals that Pakistan's immediate default risks have abated, underpinned by progress on macroeconomic stabilization and reform implementation.

Reserves rebound: A key confidence booster

- At the core of S&P's reassessment lies Pakistan's improved balance-of-payments position. Foreign exchange reserves, which had fallen to a precarious USD 6.7bn in 2022, have now rebounded to USD 20.5bn as of Jul'25, including central bank gold holdings.
- This turnaround, powered by IMF disbursements, bilateral deposits, and a rare current account surplus, has significantly eased pressure on Pakistan's external account. The reserves are now sufficient to cover all principal and interest repayments due in FY26, totaling USD 13.4bn.

Fiscal reforms deliver results

- The government's efforts to stabilize the fiscal framework are beginning to bear fruit. With support from the IMF's Extended Fund Facility (EFF), tax revenues have increased by 3% of GDP, while better expenditure control has reduced the fiscal deficit to 5.6% of GDP in FY25, down from 7.9% in FY22.
- S&P expects the fiscal deficit to narrow further to 5.1% in FY26, supported by continued reforms in tax administration, including widening the tax base to agriculture and retail sectors.

Exhibit: Pakistan's - credit rating

Date	Rating	Outlook
S&P Global		
Oct-16	B	Stable
Feb-19	B-	Stable
Jul-22	B-	Negative
Dec-22	CCC+	Stable
Jul-25	B-	Stable
Moody's		
Aug-20	B3	Stable
Jun-22	B3	Negative
Oct-22	Caa1	Negative
Feb-23	Caa3	Stable
Aug-24	Caa2	Positive
Fitch's		
Feb-23	CCC-	na
Jul-23	CCC	na
Dec-23	CCC	na
Jul-24	CCC+	na
Apr-25	B-	Stable

Source (s): Bloomberg, AHL Research

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Inflation under control, interest costs easing

- Inflation, a key economic pain point in recent years, has cooled dramatically. CPI inflation dropped to 4.5% in FY25, down from a peak of 29% in FY23. This easing has allowed the SBP to cut policy rates by 1,100bps, bringing them down to 11%.
- This monetary easing has also helped reduce the government's interest burden, with interest payments falling from over 60% to 41% of total revenue.

External support remains critical

- Pakistan's improved rating hinges largely on continued support from multilateral and bilateral partners. The USD 7bn IMF EFF and the USD 1.4bn RSF are acting as anchors of external confidence.
- Bilateral assistance from China, Saudi Arabia, UAE, and Kuwait remains pivotal, USD16.8bn in deposits and swaps were rolled over in FY25, helping plug Pakistan's external financing gap.
- S&P also noted that Pakistan's renewed engagement with global financial institutions, such as the World Bank's USD 20bn Country Partnership Framework, enhances long-term financing visibility.

Economic growth rebounds despite political challenges

- Pakistan's economy posted a 2.7% growth in FY25, driven by recovery in industry and services. Agricultural output remained subdued due to adverse weather, but growth is projected to rise to 3.6% in FY26 as reforms and lower inflation support broader economic activity.
- However, the report highlights that Pakistan's political environment remains fragile. The coalition government, formed after the Feb'24 elections, has so far managed to advance reforms. But social and political resistance to austerity and tax reforms could emerge as key risks going forward.

Exhibit: S&P's Projections

Fiscal deficit projected at 5.1% of GDP in FY26

CPI inflation expected to average 6.5% over the next 2–3 years

Interest payments to decline, averaging 41% of revenue over the next 3 years

GDP growth projected at 3.6% in FY26

FY26 fiscal deficit to decline less steeply to 5.1%

Current account deficit to average 0.8% of GDP from FY26–FY28

Source: S&P, AHL Research

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Risks remain, but so do opportunities

- Despite the upgrade, Pakistan's credit profile remains constrained by high debt levels, elevated interest costs, and external vulnerabilities. S&P warns that a reversal in external funding or resurgence in inflation could trigger renewed pressure on the rating.
- Conversely, stronger-than-expected reform momentum, combined with improved institutional stability, could lead to further upgrades in the future.

Implications for investors and markets

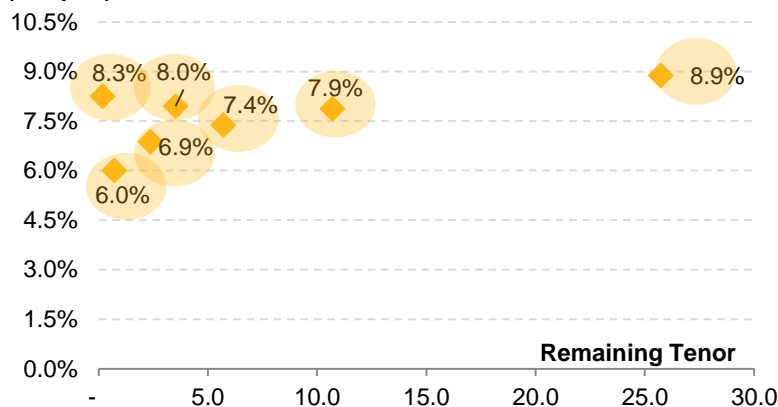
- The S&P upgrade, coming shortly after Fitch raised its rating in Apr'25, is expected to enhance investor confidence, reduce external borrowing costs, and improve Pakistan's prospects of re-entering international bond markets.
- To recall, Finance Minister recently announced that Pakistan is preparing to issue its first-ever Panda Bond in the Chinese market, targeting around USD 200mn, a sign of strategic diversification of funding sources.

Historical pattern: Market cheers rating upgrades

- The last time all three major rating agencies; Moody's, Fitch, and S&P upgraded Pakistan's credit rating, the **PSX reacted positively the very next day**.
- Moody's upgrade was followed by a +0.5% DoD increase in the stock market. Fitch's upgrade led to a +1.8% DoD gain. S&P's upgrade triggered the strongest reaction, with a +3.5% DoD rise in the PSX. This historical trend shows that credit upgrades have a direct, positive impact on market sentiment, often resulting in short-term equity rallies.

Figure: Pakistan int'l bonds coupon and maturity (remaining tenor)

(Coupon)



Source (s): Bloomberg, AHL Research

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Market reaction post rating change

Exhibit: Pakistan - credit rating (S&P) and KSE100 performance

Date	Rating	Outlook	KSE-100 Index Performance		
			30 Days	60 Days	90 Days
Dec-02	B	Stable	-15.3%	0.5%	-4.4%
Dec-03	B	Positive	-3.7%	-11.1%	-11.1%
Nov-04	B+	Stable	-7.8%	-18.4%	-28.9%
Dec-05	B+	Positive	-9.4%	-18.0%	-17.3%
Jul-07	B+	Stable	5.6%	12.2%	-3.1%
Nov-07	B+	Negative	-6.3%	-5.8%	-4.1%
May-08	B	Negative	11.9%	29.5%	46.2%
Oct-08	CCC+	Negative	0.0%	-0.1%	58.4%
Nov-08	CCC	n/a	0.0%	51.6%	70.1%
Dec-08	CCC+	n/a	51.2%	64.1%	62.3%
Aug-09	B-	Stable	-12.2%	-9.4%	-11.0%
May-15	B-	Positive	-1.6%	-5.4%	-6.4%
Oct-16	B	Stable	-6.4%	-16.6%	-20.2%
Feb-19	B-	Stable	5.2%	10.9%	15.2%
Jul-22	B-	Negative	-5.4%	-2.1%	-3.0%
Dec-22	CCC+	Stable	3.7%	-2.1%	-1.3%
Jul-25	B-	Stable			

Source (s): Bloomberg, AHL Research

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Key economic indicators

Exhibit: Pakistan Economic Indicators Historical & Projections

	2019	2020	2021	2022	2023	2024	2025	2026e	2027e	2028e
Economic indicators (%)										
Nominal GDP (tril.PKR)	43.8	47.5	55.8	66.7	83.9	105.1	114.7	126.4	139.2	153.5
Nominal GDP (bil. \$)	320.9	300.4	348.5	374.9	337.9	371.4	410.8	451.5	497.2	548.1
GDP per capita (000s \$)	1.5	1.4	1.6	1.7	1.5	1.6	1.7	1.9	2.0	2.2
Real GDP growth	3.1	(0.9)	5.8	6.2	(0.2)	2.5	2.7	3.6	3.5	3.5
Real GDP per capita growth	1.2	(2.8)	3.4	4.3	(2.0)	0.8	1.0	1.9	1.8	1.8
Investment/GDP	15.5	14.8	14.5	15.6	14.0	13.1	13.8	13.6	13.5	13.4
Savings/GDP	11.3	13.3	13.7	10.9	13.1	12.6	14.2	13.0	12.7	12.5
Unemployment rate	6.9	7.0	6.3	7.5	7.0	7.0	7.0	7.0	7.0	7.0
External indicators (%)										
Current account balance/GDP	(4.2)	(1.5)	(0.8)	(4.7)	(1.0)	(0.6)	0.5	(0.6)	(0.8)	(1.0)
Trade balance/GDP	(8.6)	(7.0)	(8.2)	(10.4)	(7.4)	(6.0)	(6.3)	(6.2)	(5.9)	(5.8)
Net FDI/GDP	0.5	0.9	0.5	0.5	0.2	0.6	0.4	0.3	0.4	0.4
Net portfolio equity inflow/GDP	(0.1)	(0.1)	(0.1)	(0.1)	0.0	0.0	(0.1)	(0.1)	(0.1)	(0.1)
Gross external financing needs/CARs plus usable reserves	145.4	137.8	116.7	124.7	123.6	128.2	112.1	110.2	110.8	111.2
Usable reserves (Mil.\$)	2,398.1	10,303.2	16,230.6	9,607.9	4,194.8	11,402.6	17,151.2	18,280.0	19,373.9	20,415.3
Fiscal indicators (general government %)										
Balance/GDP	(7.9)	(7.1)	(6.1)	(7.9)	(7.8)	(6.9)	(5.6)	(5.1)	(4.9)	(4.8)
Primary balance/GDP	(3.1)	(1.6)	(1.2)	(3.1)	(1.0)	0.9	2.1	1.8	1.2	0.8
Revenue/GDP	11.2	13.2	12.4	12.1	11.5	12.6	15.7	15.0	15.2	15.2
Expenditures/GDP	19.1	20.3	18.5	20.0	19.2	19.5	21.3	20.1	20.1	20.0
Interest/revenues	42.7	41.8	39.8	39.6	59.1	61.5	49.0	45.8	40.2	36.6
Debt/GDP	76.5	77.6	73.2	75.9	77.1	70.0	69.6	68.0	66.6	65.1
Net debt/GDP	69.1	70.8	65.5	68.4	70.8	63.9	64.2	63.3	62.4	61.4
Monetary indicators (%)										
CPI growth	6.8	10.7	8.9	12.2	29.2	23.4	4.5	6.5	6.5	6.5
Exchange rate, year- end (PKR/\$)	163.1	168.2	157.3	204.4	286.4	278.4	280	280	280	280

Source (s): S&P, AHL Research

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Rating	Description
BUY	Upside* of subject security(ies) is more than +15% from last closing of market price(s)
HOLD	Upside* of subject security(ies) is between 0% and +15% from last closing of market price(s)
SELL	Upside* of subject security(ies) is less than 0% from last closing of market price(s)

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AHL Research uses the following valuation technique(s) to arrive at the period end target prices;

- Discounted Cash Flow (DCF)
- Dividend Discount Model (DDM)
- Sum of the Parts (SoTP)
- Justified Price to Book (JPTB)
- Reserved Base Valuation (RBV)

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