

# Stable but fragile

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**MOODY'S latest decision to upgrade Pakistan's credit rating from 'Caa2' to 'Caa1' and revise its outlook from 'positive' to 'stable' offers a welcome break for the national economy — even if the sovereign remains firmly in speculative-grade territory. The move reflects the agency's confidence in Pakistan's steadily rising foreign exchange reserves, strengthened fiscal position and continued reforms under the IMF programme. Yet Moody's, one of the three top global rating agencies, has its concerns, and the upgrade comes with caveats. While acknowledging the progress made by Pakistan, it does not mince its words in underlining that the foundations of the hard-won recovery remain fragile.**

Debt affordability has improved but remains one of the weakest among rated sovereigns. Governance weaknesses and political uncertainty leave the economy exposed to risks at a time when the country's external position remains fragile. Foreign exchange reserves have grown over \$14bn — equivalent to about 10 weeks of imports —



but are still well below what is required to meet the high external financing needs of nearly \$50bn over the next two years. Pakistan will remain dependent on timely financing from official partners, the rating agency cautions while underscoring the importance of steady progress under the IMF programme to keep unlocking financing. The upgraded local and foreign currency ceilings also come with caveats about the state's heavy footprint in the economy, weak institutions, high political and external vulnerability risk, incomplete capital account convertibility and potential policy slippages. Like its peers, Moody's has handed Pakistan a modest vote of confidence. The move is a welcome development but not a cause for triumph. The economy remains in junk-bond territory. It means that the government is still unlikely to get competitive rates if it issues bonds in the international markets to raise funds to shore up its reserves and strengthen its external position. The message, which echoes the concerns highlighted earlier by rating agencies Fitch and S&P in their recent upgrade decisions, is quite clear: the economy may have stabilised but it is not yet out of the woods. The challenge for the political leadership and policymakers now is to turn this fragile stability into durable economic resilience. This is not an easy task as it requires enduring political stability, and policy consistency and execution to ward off another relapse into familiar fiscal and balance-of-payments crises.

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## Upgradation to Caa1

Moody's upgrades Pakistan's credit rating from Caa2 to Caa1 with 'stable' outlook for the national economy. The upgradation is done due to a rise in the foreign exchange reserve, better economic position and alignment with IMF programme reforms. The positivity come but with some precaution. The economic situation is still at risk due to poor internal economic situation. Increase in the foreign exchange reserves, Pakistan will be bound to its official partner, like IMF programme, for the stability of economy in the country. Getting a modest vote of confidence is not a sign of victory but, to shift from fragile stability to a durable economy the government of Pakistan need strick measure.

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