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Pakistan Secures Credit Rating Upgrade Amid Reduced Default Risks and Fiscal Progress

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Pakistan has earned a significant credit rating upgrade from Fitch Ratings, moving from CCC+ to B-, reflecting improved economic stability and reduced default risks. This milestone, driven by fiscal discipline and a new International Monetary Fund (IMF) bailout, signals growing investor confidence and opens doors for Pakistan to access international capital markets. However, challenges like political volatility and substantial external debt obligations remain.

The upgrade to B-, announced in April 2025, underscores Pakistan's progress in stabilizing its economy. Fitch Ratings, a leading global credit rating agency, highlighted

the country's success in narrowing fiscal deficits and boosting foreign exchange reserves under a \$7 billion Extended Fund Facility (EFF) secured from the IMF in September 2024. "The upgrade reflects greater certainty over continued availability of external funding," Fitch noted, crediting Pakistan's adherence to IMF-driven reforms. These include tax policy adjustments and subsidy reductions, which have strengthened fiscal health despite a contraction in large-scale manufacturing, down 1.9% in February 2025. The agency projects a modest current account deficit of \$4 billion, or 1% of Gross Domestic Product (GDP), for the fiscal year, a marked improvement from prior years.

Pakistan's economic recovery is further evidenced by a sharp decline in inflation, dropping from 29% in 2023 to 4.6% in 2024, as stated by Finance Minister Muhammad Aurangzeb in the Economic Survey 2024–25. Foreign reserves have climbed to \$9.4 billion, a significant rebound from crisis levels in 2023. This progress has fueled optimism, with Bloomberg Intelligence ranking Pakistan as the top emerging market for sovereign risk reduction, slashing default probability by 1 100 basis points. Yet, Fitch warns that failure to sustain reforms could jeopardize this trajectory, especially with \$22 billion in external debt due in 2025, including \$13 billion in bilateral loans.

While Pakistan's economic outlook brightens, political uncertainty and a history of inconsistent reform implementation cast shadows. Fitch emphasized that the government's ability to navigate these challenges will be critical for future IMF reviews and securing additional financing from allies like Saudi Arabia and China. The upgrade reflects how sustained reforms and responsible governance can deliver tangible economic gains, but staying the course demands resolve against domestic and geopolitical headwinds.