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Declining reserves raise repayment risks: Moody"s

Pakistan"s declining foreign exchange reserves because of a current account deficit of around 4-5 percent of GDP raise repayment risks, says Moody"s Investors Service. Moody"s in its latest report, "Emerging Markets-Global Outlook 2019", states that Pakistan"s reserves adequacy is among the lowest of rated sovereigns, covering less than two months of imports as of September 2018.

Although the share of foreign currency debt is relatively low at around 35% of total government debt, declining foreign reserves because of a current account deficit of around 4%-5% of GDP raise repayment risks.

Moody"s further projected that Pakistan"s external vulnerability indicator (EVI) would rise to 153% in 2019. Successful negotiations for a new International Monetary Fund (IMF) programme would reduce external financing risks. The report further states that Maldives (B2 negative), Mongolia (B3 stable), Pakistan (B3 negative) and Sri Lanka (B1 negative) stand out for their exposure to external risks. Credit conditions for emerging markets in 2019 will probably be more challenging as global growth slows, financial market volatility continues, interest rates rise and trade protectionism and geopolitical tensions heighten, the report stated. However, Moody"s has a broadly stable outlook on emerging markets, including in Asia.

The outlook incorporates the various buffers that emerging market debt issuers have against these challenges, such as strong balance sheets, supportive policy and access to a growing domestic market. "As global trade slows and financing conditions tighten in 2019, we expect median GDP growth in emerging economies in Asia Pacific to slow to 4.8%, following an expected 5.8% growth rate in 2018," said Moody"s Managing Director Atsi Sheth.

This is still a robust growth rate, supported by domestic drivers such as rising household incomes, a growing middle class, expanding working-age populations and infrastructure investment. However, escalating trade tensions between China and the US will pose risks through trade as well as investment flows.

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