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Pak economic growth less than before: Moody's

ISLAMABAD: International credit rating agency Moody's on Thursday projected Pakistan's real GDP growth falling to 4.3 percent and 4.7 percent respectively in ongoing and next fiscal year against 5.8 percent achieved by the country in last financial year.

Moody's maintained its credit profile of Pakistan at B3 negative which reflects the sovereign's high external vulnerability, weak debt affordability, and very low global competitiveness. Moody's Investors Service (Moody's) had changed its outlook on Pakistan's rating to negative from stable in June 2018 owing to falling foreign exchange reserves and other weakening macroeconomic indicators.

"Significant external pressures driven by wider current account deficits have reduced foreign currency reserves, which are unlikely to be replenished in the near term unless capital inflows increase substantially," Moody's said in its annual credit analysis report.

It said, "While Pakistan's public external debt repayments are modest, low reserve adequacy threatens the ability of the government to finance the balance of payments deficit and roll over external debt at affordable costs."

Moody's said credit profile of Pakistan (B3 negative) reflects the sovereign's high external vulnerability, weak debt affordability, and very low global competitiveness. It said that current account deficits will remain wider relative to 2013-16 levels "with near-term prospects for a marked and sustained reversal unlikely unless goods imports contract sharply".

"Absent significant capital inflows, the coverage of foreign-exchange reserves for goods and services imports will remain below two months, below the minimum adequacy level of three months recommended by the International Monetary Fund," it added.

Moody's said the government's narrow revenue base restricts fiscal flexibility and weighs on debt affordability, while its debt burden has increased in recent years. "At around 72 percent of GDP as of the end of fiscal 2018, the government's debt stock is higher than the 58 percent median for B-rated sovereigns," it added.

Moody's expected the burden to rise further and peak at around 76 percent of GDP in fiscal 2020, in part because of currency depreciation, before gradually declining as the twin deficits gradually narrow.

"The moderate but rising level of external government debt also exposes the country's finances to sharp currency depreciations," the ratings agency said. "Nevertheless, longer-term economic prospects remain robust, in part because of improvements in power supply, infrastructure and national security that have raised the country's growth prospects and hence business confidence."

Moody's further said infrastructure investments and the significant increase in power supply, including through projects under the China-Pakistan Economic Corridor, which are already helping with growth, will address some of Pakistan's long-term economic constraints and strengthen its growth potential.

The credit ratings agency said institutional reforms planned by the new government, if effectively implemented, will also bolster institutional strength, which has increased in recent years with greater central bank autonomy and monetary policy effectiveness. “However, the reforms will be challenging for any government to navigate because of the country's large bureaucracy and complex federal-provincial politics and administrative arrangements.”

It is relevant to mention here that sometimes the downgrading of countries ratings were perceived as ‘political move’ as when Russian annexed Crimea and credit rating agencies downgraded its ratings in 2014 the Russian termed it as part of political move. Secondly, Turkey also termed it in same tone when rating agencies downgraded ratings of the country after failure of military coup from the supporters of President Erdagon few years back.

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