Global credit rating agency, Moody's Investors International, has downgraded Pakistan's outlook to negative from stable. (Image: Reuters)

Global credit rating agency, Moody's Investors International, has downgraded Pakistan's outlook to negative from stable citing factors like "heightened external vulnerability risk" and "low reserves adequacy". In a statement issued yesterday, the Moody's said Pakistan's foreign exchange reserves had fallen to low levels and in the absence of significant capital inflows they would not be replenished over the next 12-18 months.

The downsizing of Pakistan's ratings came ahead of the general election in the country on July 25. Moody's said the decision to change the ratings of Pakistan's economy was taken because of the heightened external vulnerability risk as ongoing balance of payment pressures made foreign exchange buffers.

"Low reserves adequacy threatens continued to several external financing at moderate costs, in turn potentially raising government liquidity risks," the statement said. The Pakistani Rupee has since last week suffered devaluations with the US dollar selling for around PKR 124 in the market and currency exchange dealers reporting a shortage of dollars. The devaluation process started since last week when the dollar was trading around PKR 115.5.

The Moody's also predicted that the government's tax amnesty scheme, which will expire on

June 30, will have a modest impact of USD 2-3 billion in foreign exchange inflows. The rating agency also affirmed the B-3 local and foreign currency long-term issuer and senior unsecured debt ratings. It said the decision to affirm the B3 ratings reflects Pakistan's robust growth potential, supported by ongoing improvements in the energy supply sector and physical infrastructure, which are likely to raise economic competitiveness over time.