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Moody's lowers growth forecast to 2.5pc

ISLAMABAD: Moody's Investor Service on Tuesday lowered its forecast for Pakistan growth rate at 2.5 per cent for the current fiscal year owing to Covid-19 even though it said risks for the entire Asia-Pacific (APAC) region were generally on the downside.

In December 2019, the New York-based rating agency had projected Pakistan's growth rate at 2.9pc for the current year.

This coincided with the State Bank of Pakistan (SBP) estimating the GDP growth rate for the current year at 3pc, down from its earlier projection of 3.5pc.

"Risks for the APAC firmly tilted to the downside, including from much weaker European and American economies than currently assumed", said Moody's in its latest "Regional Credit Outlook Update on Evolving Coronavirus Impact".

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It forecast 4.8pc growth rate for China, down from 5pc earlier, on assumptions of slow resumption of economic activity and weak export demand. It said the revised forecasts for the APAC region were based on coronavirus implications, incorporating ongoing travel restrictions and heightened containment measures, as well as the recent oil price shocks.

"Our baseline scenario assumes declining consumption levels and continuing disruptions to production and supply chains in the first half of 2020, followed by a recovery in the second half of the year," says Christian de Guzman, a Moody's senior vice president.

In the short run, this is playing out as both negative supply and demand shocks, and the longer the disruptions last, the greater the risk of a global recession. Rising infection rates would further impede global sentiment, heightening asset price volatility and tightening financing conditions, which could snowball into a deeper economic contraction.

A number of governments have already announced measures to cope with the impact of the coronavirus, and Moody's expects there will be more fiscal stimulus as the extent of the economic fallout becomes clearer. However, some governments — mainly frontier markets — may be constrained by their high indebtedness and limited access to funding. Pakistan is among them owing to more than 80pc of GDP debt burden and weaker fiscal balances.

At the same time, Moody's noted significant economic fallout from more rapid and wider spread of the coronavirus as dampening domestic consumption demand in affected countries exacerbates disruptions to supply chains and cross-border trade of goods and services.

"The longer the disruptions last, the greater the risk of global recession becomes", Moody's said adding risks were skewed to the downside.

Moreover, oil price shock was adding to growth and fiscal pressures for exposed sovereigns. A period of lower oil prices will further weigh on the economic and fiscal fundamentals of oil exporters, while mitigating the trade shock for importers.

The agency said that policy buffers were being tested by the prevailing uncertain situation as a number of governments and central banks have announced countervailing measures, including fiscal stimulus packages, policy rate cuts and regulatory forbearance. However, the effectiveness of policy easing will be blunted by measures to contain the outbreak, and policy space was constrained for some sovereigns.

It said the global financial volatility was heightening the liquidity and external vulnerability risks for the APAC's frontier markets. Tighter funding conditions and exchange rate depreciation could stress sovereigns with high foreign currency exposure, heavy reliance on external market funding or low foreign currency reserve coverage.