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PROLONGED CORONAVIRUS OUTBREAK CAN HURT ASIA-PACIFIC ECONOMIES, BANKS TO TAKE MAXIMUM HIT: MOODY'S

Relevant for: Indian Economy | Topic: Issues relating to Planning & Economic Reforms

Mumbai: The deadly coronavirus outbreak, which has so far killed over 1,100 people in China, can hit economies of the Asia-Pacific region if it prolongs, and the impact will be more pronounced on banks with poor profitability and asset quality, rating agency Moody's has said. Many parts of China are in a shutdown mode after the virus outbreak last month.

The World Health Organisation has described the epidemic as very serious and has issued a global alarm. Already many industries have been hit across the world as China is the single-largest source market for the world economy today.

Moody's in a note on Wednesday warned that the larger impact on regional economies will be visible through poor bank profitability and worsening asset quality because of the impact the hit on travel and tourism, consumption, commodity prices and supply chain disruptions will have on banks.

"If the outbreak of the coronavirus outbreak intensifies and the disruptions stemming from it are not contained in the next few months, it will hurt the asset quality and profitability of banks in the Asia-Pacific region," Moody's Investors Service warned.

"The severity and length of the outbreak remain highly uncertain. If the virus related disruptions are short-lived, there will be a limited credit impact on APAC economies and banks. However, the outbreak can also last for a prolonged period and become more severe," it said.

On travel and tourism, the note said as people travel less, economic growth and employment conditions will weaken in these economies in general and those dependent on foreign travellers in particular.

"This will hurt banks' asset quality, in turn driving up credit costs and weakening profitability," it said.

If the outbreak lasts longer, it will force households to consume less at brick-and-mortar retail outlets, hurting businesses that are dependent on domestic private spending. Banks will face credit losses from exposures to weaker companies, it added.

Factory closures in China will disrupt supply chains, particularly in electronics and automotive sectors, which are already impacted by it.

"In that event, credit risks for banks will arise from financing for suppliers or subcontractors that are dependent on orders from major technology or auto companies," it said.

Poor demand from China will drive down commodity prices, pulling down growth in commodity-exporting countries, impacting the financial health of commodity companies, which will pose risks to banks' asset quality.

Real estate prices can decline as a result of weaker economic growth and investor confidence, leading to larger losses on mortgages and property exposures, it added.

The impact on the financial markets will be visible through falling prices of financial assets, leading to a decline in value of mark-to-market securities held by banks and fall in revenue from financial markets, it said.

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