Indo-Pak Issues Post-Pahalgam Attack: Moody's Forecasts Stable Outlook for India, Alert for Pakistan

Following the tragic April 22 terror attack in Jammu and Kashmir's Pahalgam that killed 26 tourists, global ratings agency Moody's has weighed in on the economic implications for both India and Pakistan. The attack, reportedly carried out by Pakistan-backed militants, triggered a series of diplomatic and economic retaliations. India suspended the Indus Waters Treaty of 1960, while Pakistan responded by suspending the 1972 Simla Agreement, halting bilateral trade, and closing its airspace to Indian flights.

Despite several developments, Moody's maintains a relatively stable outlook for India's macroeconomic conditions. The agency accredits this to India's strong public investment, solid private consumption, and least economic exposure to Pakistan — responsible for less than 0.5% of its total exports in 2024. However, it issued an alert that any increase in defence spending may weaken India's fiscal consolidation.

On the other hand, Pakistan's economic recovery appears more vulnerable. Moody's notes that escalating tensions could derail Pakistan's ongoing fiscal improvements, disrupt external financing, and put pressure on its already weak foreign exchange reserves. Although Pakistan has made progress under the IMF programme, sustained instability could undermine this trajectory. Moody's concludes by assuming periodic geopolitical flare-ups between the two nations, consistent with historical patterns, but not expecting a full-scale conflict.

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