

Country at risk of downgrade?

Pakistan's under-performing economy, sharp depreciation of the rupee and uncertainty accounts for a decline from 0.16 percent to 0.03 percent in the emerging market index, which places the country at risk of a downgrade from emerging-market status to frontier markets. This was the crux of background discussions with leading stock exchange brokers in the country. Some maintained that the downgrade may disappoint investors, while others termed it a blessing in disguise as it would get Pakistan a major share in the frontier market.

Morgan Stanley Capital International (MSCI) reclassified the country to emerging market index (EMI) in June 2017 after keeping it on frontier markets for nine years. The MSCI's upcoming index review is scheduled to be held in June, 2019, however according to brokers even if Pakistan is downgraded to frontier markets it would take around one and a half years for the country's exit from the emerging market status.

Talking to Business Recorder broker Samiullah Tariq Arif Habib said Pakistan's market has under performed with rupee the depreciating by around 35 percent in recent months while KSE-100 index fell from 50,000 points to 38,000 points.

Tariq said that currently only Habib Bank Limited (HBL), Oil and Gas Development Company (OGDC) and Muslim Commercial Bank (MCB) barely meet the criteria for emerging market status and the exit of even one of the these players would lead to Pakistan to exit from EMI as MSCI requires at least three stocks to remain to maintain an emerging-market status.

Currently, Pakistan is being placed with developing economies, but after exit from EMI, the country will be placed with less developed countries.

Habib further stated that Pakistan may get a good weight among the frontier markets if downgraded, which is not a bad thing. Replying to a question, he said that if only big asset management companies could help avoid a downgrade.

Another broker Muzammil Aslam concurred arguing that a downgrade may prove helpful for the country as its weight which is currently 0.03 percent is likely to be 7-8 percent in frontier markets.

"MSCI may decide to keep the market within the same status for some time, while keeping three constituents using the index continuity rule. The final decision to reclassify would be made following a public consultation", he added. Aslam maintained that due to the under-performance of the economy, political instability and Panama case, Pakistani companies suffered huge losses, resulting in reducing the country's weight in the emerging market index.

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