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**Moody's downgrades outlook to negative from stable**

Moody's investor's services on Thursday changed the outlook of 5 Pakistani banks namely ABL, HBL, MCB, NBP and UBL to negative from stable on the long-term local currency deposit ratings and bank financial strength ratings. Moody's expects negative pressure on the financial fundamentals of these banks, mainly in the form of asset quality deterioration arising from higher non-performing loans (NPLs) and a likely decline in profitability due to the increased provisioning requirements.

The changes in the outlook are made on the back of rising economic risks after the intense flooding caused severe destruction to the country mainly on agriculture, infrastructure and SMEs side which would lead to slow down in economic growth and inflationary pressures to rise sharply. These factors are in turn likely to impede the corporate sector's recovery and challenge borrowers' repayment capacity. Higher input prices would also weaken competitiveness in certain export-oriented industries, where the textile sector expected would be the most affected in lieu of estimated 20% destruction of cotton crops. We believe that the change in banking outlook is expected to have a negative impact on the stock price of the banking sector.

**IMF to urgently provide USD 450 mn**

In response to a recent floods IMF has agreed to offer loan worth USD 450 mn to Pakistan to help the nation re-build its infrastructure and help the displaced populace to re-establish their lives. However, at the same time IMF directs the economic managers to continue economic reforms which at present the country seems to miss the initial assigned targets. Moreover, talks about reorganising USD 11 bn loan will continue in the light of current unforeseen floods that has not only affected the lives of local populace but also damaged the infrastructure of the country.

The USD 450 mn financing would be provided under IMF's policy for Natural Disaster Assistance (ENDA). IMF since 1962 is providing assistance to member countries affected by natural disasters such as floods, earthquakes, hurricanes, or droughts. The objective of such assistance is to meet immediate foreign exchange financing needs arising from shortfalls in export earnings and/or increased imports, and avoiding a serious depletion of external reserves. Emergency assistance loans are usually disbursed quickly that do not involve adherence to performance criteria. The amount to be disbursed under emergency financing is sizable as IMF released USD 217.7 mn to Bangladesh when floods hit the country in 2008. Similarly IMF released USD 501.0 mn to Turkey in 1999 when earthquake jolted the nation.

**Market Outlook**

We recommend a 'Sell on Strength' stance for the day.