

Pakistan Banao certificates fetch \$1mln in two weeks

KARACHI: The government managed to receive one million dollars from sale of 'Pakistan Banao Certificate' (PBC) launched less than two-week ago to replenish depleting reserves of foreign exchange, sources said on Monday.

"At least 50 investors have remitted approximately \$1 million to the State Bank of Pakistan's (SBP) account maintained with the National Bank of Pakistan's (NBP) New York branch," a source, privy to the inflows said.

The government launched a new scheme in late January to encourage million of Pakistanis living abroad to pour their dollars savings into PBCs, as it strives to improve dwindling foreign exchange reserves that has hit the economy. It's neither a bond nor traded in international markets. It's a primary market instrument.

The source said the response has been better-than-expected as 5,000 investors have been registered with a web-based portal to procure the bonds. The demand is mainly emanating from Pakistani expatriates living in Europe and the United States.

"We expect a nice response from the Gulf countries, especially the United Arab Emirates as well," the source added. "We're testing an appetite for this unique product from the overseas Pakistanis. We see more investment applications to be received in times to come given significant returns being offered on these certificates."

The dollar-denominated PBCs are being offered at higher yields than foreign bonds. The latest offering is 100 percent guaranteed by the government. The minimum investment limit is \$5,000 with no upper limit.

The government offers maturities of three and five years, with yields of 6.25 percent and 6.75 percent respectively. The six-monthly return on the certificates is set to London Interbank Offered Rate plus 400 basis points.

Comparatively, yields on Pakistan's five Eurobonds maturing during 2019 to 2036 hover between 6.6 to 8.2 percent.

PBCs are being marketed by the consortium of six banks, including National Bank of Pakistan, Habib Bank, Allied Bank, JS Bank and Standard Chartered Bank. The transaction is being managed by the SBP and NBP, which provides services such as collection of proceeds, distribution of periodic payments (profit and redemption) and handling of investors' queries with respect to investment in the certificates.

To recall, Standard and Poor's this week downgraded Pakistan's long-term sovereign credit rating. The government is hoping the certificates will exceed the target amount of \$1 billion by the end of June. The offering of the certificates will be closed on June 30.

To catch up, the bank appointed by the government to market the certificate issuance needs to strengthen their connections and standing in the foreign countries. They must team up to help arrange meetings with Pakistani diaspora, which may result in higher inflows into PBCs.

There are, however, some challenges to be addressed such as technical glitches the NBP can suffer that may leave investors unable to get certificates online.

At a time when international funds transfers are coming under greater scrutiny because of security concerns, the PBCs will encourage overseas Pakistanis to send money through legal sources.

“The funds under the scheme are routed through a bank account after a tough procedure of screening and know-your- customer,” an expert said. “Banks ensure transactions are not illicit and suspicious in terms of money laundering and terrorist financing.”

Remittances from expatriates are an important source of foreign exchange for Pakistan. It remains a key source to manage current account deficit.

“The certificates are unlikely to hamper the inflow of workers’ remittances into Pakistan,” a source said. “The ticket size of remittances is small as remitters send home up to \$1,000-1,500. However, the amount of money invested by investors in the scheme starts from \$5,000.”

Erum Zaidi