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**Increased remittance inflows positive for banks, borrowers: Moody's**

ISLAMABAD: Increased remittance inflows positive for both Pakistani banks and the borrowers, says Moody's Investor Services.

Moody's in its latest report on Pakistan stated that on February 12, the State Bank of Pakistan (SBP) released updated monthly data on workers' remittances showing a four percent increase in the monthly average for fiscal year 2020 (which ends on June 30th) over 2019 levels.

This increase adds to a continued surge in remittance inflows in recent years and is credit positive for Pakistani banks because it supports deposit flows and strengthens household finances.

According to the World Bank, Pakistan was the seventh-largest recipient of remittances (money transferred back home primarily by overseas migrant workers) globally in 2018, with remittances inflows reaching \$21 billion, or 6.8 percent of the country's GDP.

During the fiscal 2012-2019 period, remittances grew at a compounded annual rate of nearly nine percent, with the majority of inflows arriving from Gulf Cooperation Council countries (54 percent of total remittances in 2019), the US (16 percent), the UK (16 percent) and Malaysia (7 percent).

In local currency, however, remittances have grown even more because the Pakistani rupee has depreciated by more than 40 percent over this period, although the US dollar/rupee exchange rate has experienced significantly less volatility since mid-2019.

The high levels of remittances have contributed to a reported double-digit growth in residents' household deposits.

Such growth benefits Pakistani banks by providing a stable and low-cost deposit base, which in turn enhances banks' profitability and increases their liquidity buffers.

The growth will also help mitigate the effect of government deposit outflows from the potential introduction of a Treasury Single Account that will require government deposits to be placed with the SBP instead.

Increased remittances also support Pakistani households' disposable income and borrowers' repayment capacity, mitigating the challenges posed by high interest rates.

Households are better positioned to meet their financial obligations with banks and have historically maintained low nonperforming loan (NPL) levels despite challenging conditions for borrowers.

Consumer NPLs accounted for five percent of total consumer loans as of the end of September 2019, while the system average NPL ratio was 8.8 percent.

Furthermore, it is expected that the increase in income will gradually increase the historically low demand for personal credit and support financial inclusion.

Personal credit accounted for 12 percent of total private-sector credit extended by scheduled banks as of the end of December 2019, based on the SBP data.

Also, as households accumulate sufficient funds we expect them to overcome one of the main factors for financial exclusion and access a variety of banking products beyond loan services.

Further growth in remittances is expected, despite subdued growth in developed markets over the outlook period because of technological advances and the Pakistani authorities' focus on remittances and digitisation, which will further reduce the cost of repatriating funds.

Moody's expects advances in mobile technology and the wider availability of digital payment platforms to reduce the cost of remittances, which the World Bank estimated accounted for seven percent of the transferred fund globally as of the first quarter of 2019.

For Pakistanis, remittances are carried out primarily by various remittance and payment service providers through collaborations with commercial banks.

Domestic banks' ability to offer this service on a stand-alone basis is constrained by their insufficient presence overseas. Pakistani authorities have made continuous efforts to facilitate faster and cheaper flow of remittances with efficient end-to-end use through increasing the number of channels and offering appropriate guidance.