

Remittance growth credit positive for Pakistani banks

KARACHI: Rating agency Moody's has termed growth in remittances in Pakistan as credit positive for banks, saying foreign inflows improve their access to low-cost and stable deposits.

Moody's, citing the State Bank of Pakistan's (SBP) data, said workers' remittances showed a 4pc year-on-year increase in the monthly average so far during the current fiscal year of 2019/20.

"This increase is credit positive for Pakistani banks because it supports deposit flows and strengthens households' finances," Moody's Investors Service said in its credit outlook report.

Moody's said Pakistan was the seventh-largest recipient of remittances in the world in 2018 according to the World Bank, with remittances inflows reaching \$21 billion, or 6.8 percent of the country's GDP.

During the fiscal 2012/19 period, remittances grew at a compounded annual rate of nearly nine percent, with the majority of inflows arriving from gulf cooperation council countries – 54pc of total remittances in 2019 –, followed by the US (16pc), the UK (16pc) and Malaysia (7pc). Remittances have grown even more, in terms of local currency, because the 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, Moody's said.

Moody's said the high levels of remittances 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," it said. "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."

Moody's is bullish on continued surge in remittances to Pakistan due to technology-driven ease in funds transfer and reduction in wire cost.

"We expect further growth in remittances, 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," it said.

Moody's said increased remittances also support 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 (NPLs) levels despite challenging conditions for borrowers,” it said. “Consumer NPLs accounted for 5pc of total consumer loans as of the end of September 2019, while the system average NPL ratio was 8.8pc.”

Moody’s expected a gradual increase in the ‘historically-low’ demand for personal credit and support to financial inclusion owing to increase in income. Personal credit accounted for 12pc of total private sector credit extended by banks as of December-end 2019, it said, citing the SBP’s 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,” it added.

Moody’s, however, hinted at inability of Pakistani banking sector in carrying out remittances without the help of wire services.

“Domestic banks’ ability to offer this service on a stand-alone basis is constrained by their insufficient presence overseas,” it said. “Pakistani authorities have made continuous efforts to facilitate the faster and cheaper flow of remittances with efficient end-to-end use through increasing the number of channels and offering appropriate guidance.” Currently, remittance and payment service providers, through collaborations with commercial banks, primarily carry out remittances in Pakistan.