Some expats look forward to currency weakening and then remit large volumes of money in terms of activity. – *File photo*

Will currency volatility boost GCC remittances?

GCC banks send out alerts to expats on low exchange rates

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THE GCC economies are bracing themselves for a slowdown on account of a drop in oil prices which will also impact remittances from various expats in the region. Despite the challenging scenario, GCC banks are looking forward to see how to improve their offerings to customers, taking into consideration the volatile currency movements, and thereby contribute to their fee and commission income.

The GCC is one of the largest sources of remittances, contributing to more than $100 billion in remittances in 2014, mostly to the South Asian nations of India, Bangladesh, the Philippines, Pakistan, Sri Lanka, Indonesia and Nepal. Saudi Arabia's value of remittances is estimated at $44 billion, followed by the UAE with $29 billion, Kuwait $12 billion and Qatar at $9.5 billion. Globally, Saudi Arabia and the UAE are the leading migrant destination countries. India and Philippines are the leading remittance recipient countries.

In the GCC, non-oil GDP is a key determinant of remittance outflows, while oil GDP is a significant driver of non-oil GDP. Infrastructure and government sectors are the most strongly associated with remittance outflows.

The impact of lower oil prices on remittances will depend on how the non-hydrocarbon sector is affected by lower oil prices. The impact will also depend on the pace of fiscal discipline in the GCC in response to lower oil prices.

Growth in remittances from the Middle East eased to 6.8 per cent from January to August of 2015 from the 22.7 per cent growth in 2014 on account of a fall in oil prices. Bangladesh has witnessed a drop of 1.04 per cent from July-January in the fiscal year 2015-16 to $8.63 billion, mainly due to the drop in oil prices. There have been concerns in Philippines too on account of the drop in oil prices.

GCC expatriates are more alert to the economic developments and their liquidity requirements to send remittances back home at favourable rates.

The first kind of expats send money every month to meet commitments back home. Such remittances also rise due to the number of festivals that expatriates observe. In the second half of the year, during festivals such as Onam or during the Christmas season, the volumes pick up.

$100b
Gulf remittances mostly to South Asian nations

There are also opportunistic expats who look forward to currency weakening and then send large volumes in terms of activity.

In GCC, except Kuwait, all other countries' currencies are pegged to the dollar. The weakening of currencies like the Indian rupee and some of the other South Asian currencies will also give some boost to remittances.

We have seen recently that USD-INR had fallen by more than 3.5 per cent year to date and reaching near all-time lows of 68.83 as seen in 2013 and recovering back to 67 levels on account of a stock market rally after the Indian budget.

The Indonesian rupee against the dollar touched new lows of 14,693 in September 2015 on hopes the US Fed could prepone its rate hike plans. The Philippines peso against the dollar has weakened by 1.5 per cent year to date and also touched new lows of 48.04 in January 2016 and now recovered above 47 levels.

The Bangladesh taka against the dollar had touched new lows of 80.2 in November 2015, has recovered and is at 78 levels against the dollar.

GCC banks have continued to encourage expatriates to remit by periodically giving alerts on low exchange rates of the host country rates against the dollar. Volatile currency movements have induced them to become opportunistic expats.

They also improved remittance offerings by leveraging technology and thereby providing instantaneous e-remittances from GCC to their home countries. Global banks have also made arrangements with GCC correspondent banks and large exchange houses to capitalise on the remittance segment.

We need to see whether the drop in remittance volumes from the GCC on account of low oil prices and the economic slowdown will be revived on account of favourable exchange rates in Asian host countries of GCC expats.

The writer is Group CEO of Doha Bank. Views expressed by the author are his own and do not reflect the newspaper's policy.