



الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

ECONOMIC & BANKING SECTOR OVERVIEW

**Islamic Republic of
Pakistan**

October, 2018

ECONOMIC OVERVIEW

Table 1: Pakistan- Key Economic Indicators			
% , unless otherwise stated	FY ² 2015/2016 A	FY2016/2017 A	FY2017/2018 P
Population (million)	194	197	201
Income Per Capita (US\$)	1,529	1,632	1,641
Real GDP growth (%)	4.6%	5.4%	5.8%
Inflation (CPI Average, %)	2.6%	4.0%	3.8%
Current Account Balance as % of GDP	-1.6%	-3.5%	-5.0%
Fiscal Balance as % of GDP	-3.5%	-3.9%	-4.3%
Central Government Domestic Debt as a % of GDP	35.40%	38.46%	37.59%
Total debt as % of GDP	74.2%	75.2%	82.6%
<i>(Source: SBP; Pakistan Ministry of Finance; World Bank; A: Actual; P: Provisional)</i>			

With a population base of about 201m, Pakistan is among the world's 6th most populous nations. A per capita income of slightly over US\$1,500, qualifies the country as "low-income earning" by the World Bank.

Pakistan has posted an improvement in real GDP growth, over the last few years. However, the pass-through impact of imported inflation, relating to oil, will continue to put pressure on Pakistan's trade balances. Further, lower revenue collection has widened the fiscal

deficit. As such, external vulnerabilities are also rising for Pakistan on account of heavy build-up of external debt obligations. Official reserves have also been depleting and stood at US\$13.7b at May 2018. Resultantly, sharp Pakistani Rupee ("PKR") depreciation has been witnessed, particularly since the beginning of 2018. Owing to this, monetary policy in Pakistan has been on a tightening stance, starting Q1'18. The State Bank of Pakistan ("SBP" or "the central bank of Pakistan") has increased the policy rate thrice by cumulative 175 basis points to 7.5% at present.

IIP may improve with the new government implementing the announced reforms. Ongoing contributions from public sector development program ("PSDP), China Pakistan Economic Corridor ("CPEC") infrastructure spending, improvement in remittances and new power supply projects coming online may alleviate some of the above concerns.

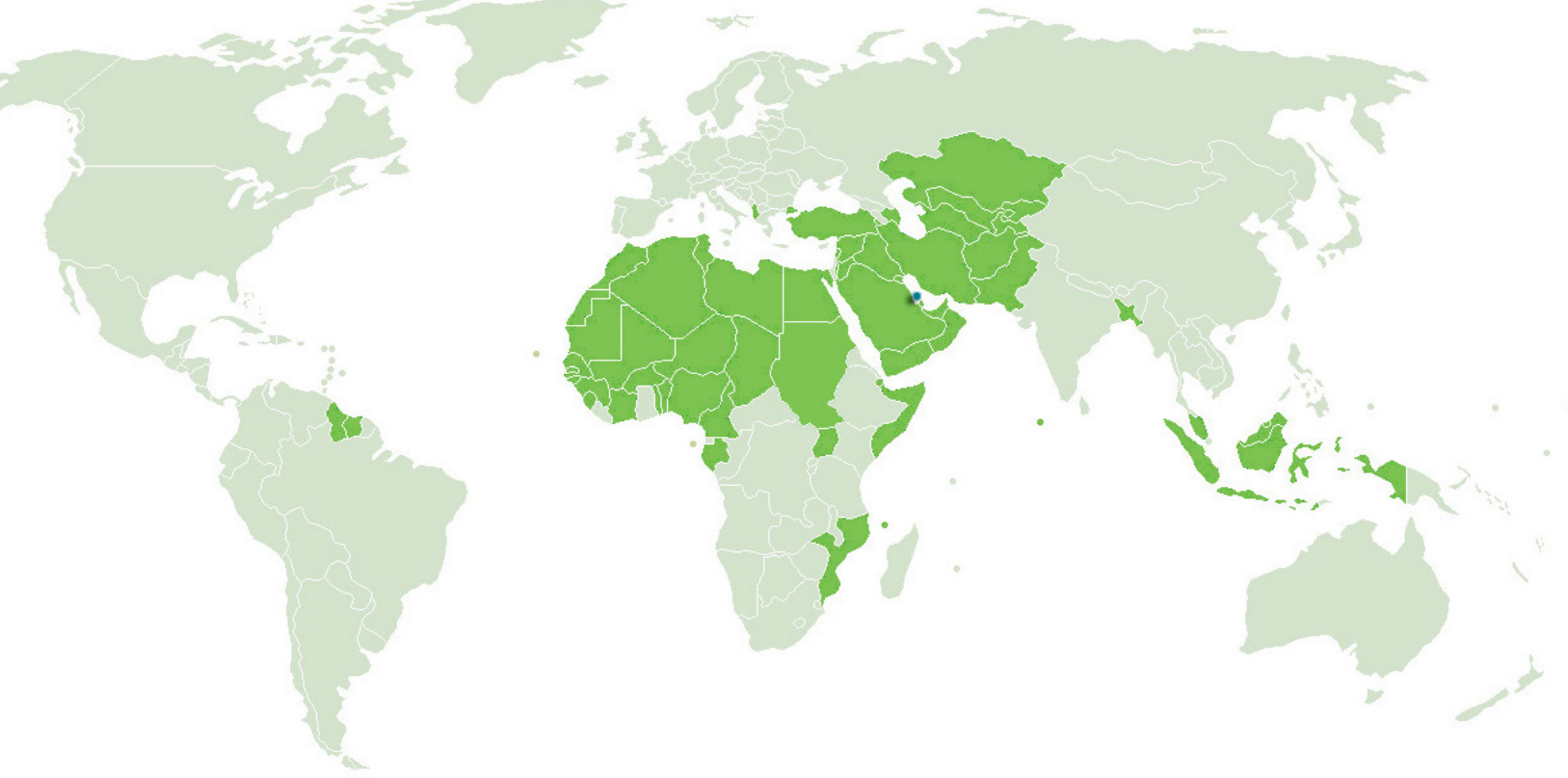
PAKISTAN ISLAMIC BANKING

As of H1'18, Pakistan's banking sector comprised 34 banks², of which 21 are Islamic banking ("IB") institutions (5 full-fledged Islamic banks and 16 operating as Islamic windows of conventional banks). Islamic banking segment accounts for 14.8% and 12.9%³ of the total banking industry deposits and assets, respectively, as of H1'18. Certain banks are undercapitalized and still others are border-line in terms of cushion available above regulatory requirements. Aggregate capital adequacy for the overall and IB sector stands at 15.9% and 12.9%, respectively, as at H1'18. In recent periods, there has been marginal improvement in asset quality. Gross non-performance has shown slight improvement over corresponding prior year period and stood at 7.9% and 2.7%, respectively for overall banking and IB at H1'18 (H1'17: 9.3%, 3.7%, respectively) despite the tough existing macroeconomic environment. Annualized profitability in terms of return ratios, for both overall and IB sectors, has edged up over the prior year period.

¹ Fiscal period starting July 1

² SBP: Quarterly Compendium: Banking Statistics – June 2018

³ SBP: Islamic Banking Bulletin: April-June 2018



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