



الوكالة الإسلامية الدولية للتصنيف  
Islamic International Rating Agency

# ECONOMIC & BANKING SECTOR OVERVIEW

**Islamic Republic of  
Pakistan**

*December, 2019*

## Economic Sector Overview - Islamic Republic of Pakistan

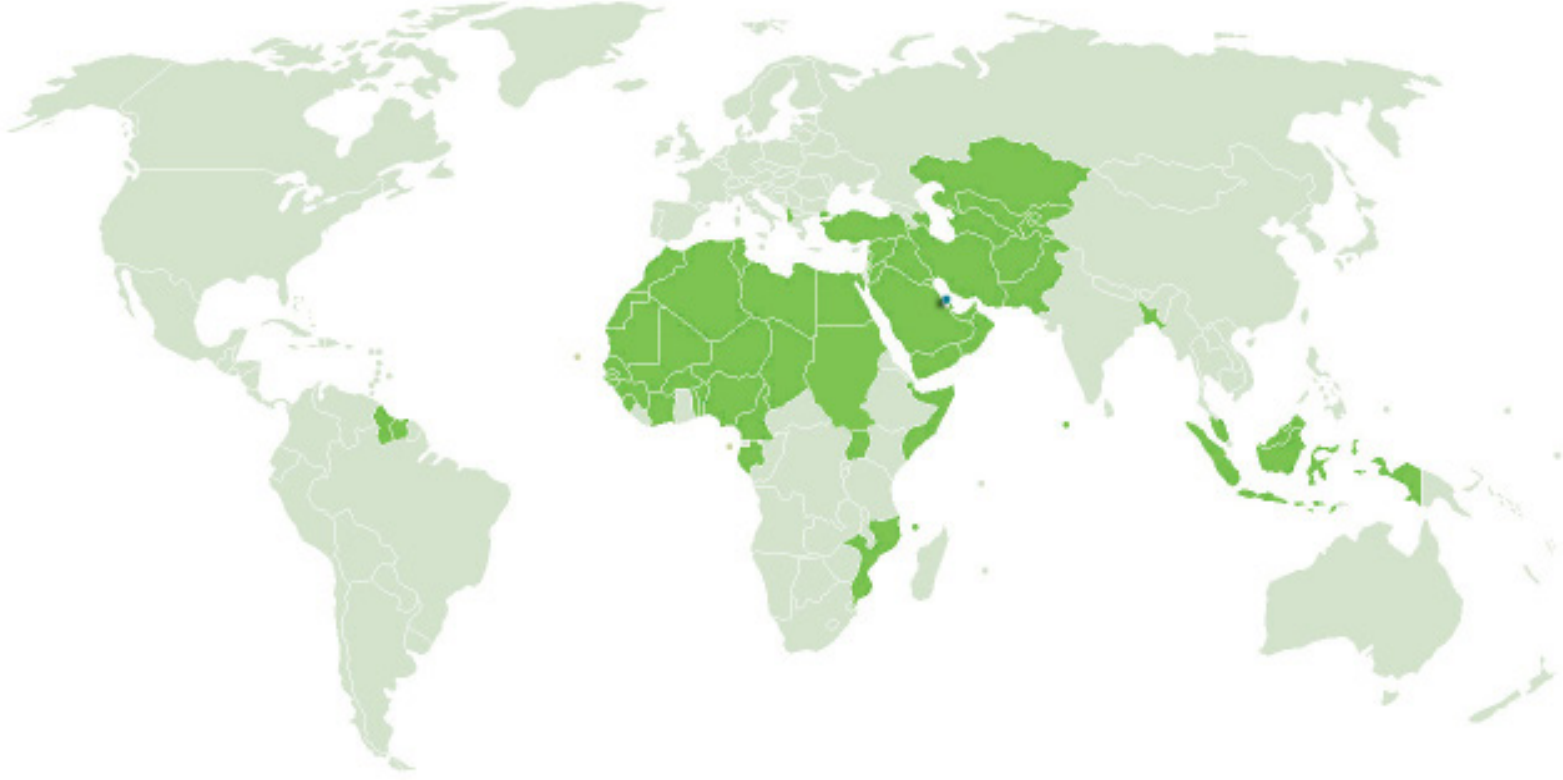
With a population base of about 212mn, Pakistan is the world's 6th most populous nation, which has a GDP per capita of close to US\$1,500.

Pakistan's imminent macroeconomic challenges identified in the form of substantial fiscal and financial needs have begun to show signs of easing towards the second half of 2019. With access to IMF's Extended Fund Facility program and support from other international partners, Pakistan has been able to address its pressing twin deficit concerns.

In FY2018/2019, due to implemented policy measures, growth slowed to 3.3% after having registered 5.5% real GDP growth in the previous fiscal period. Over the past, Pakistan's economic growth was fuelled by consumption and an import-driven model, which have amplified its vulnerabilities resulting in depleting buffers over the years. The twin current account and fiscal deficits that had widened to over 6% of GDP at FY2017/2018 became the focal policy priorities for the government for FY2018/2019. As a result, FY2018/2019 witnessed exchange rate realignment with market fundamentals, sharp rise in interest rates and fiscal consolidation measures in the form of curtailment of public sector development expenditure in addition to raising energy and utility prices. It may be notable that Pakistani Rupee ("PKR") depreciated by over 25% in 2018, and further by about 11% until YTD November 2019. Coupled with this and rising inflationary pressure due to exchange rate pass through, since the beginning of 2018, Pakistan's monetary policy has seen a tightening stance, with the State Bank of Pakistan ("SBP" or "the central bank of Pakistan") having increased the policy rate nine times by a cumulative 775 basis points to 13.25% until July 2019. With exchange rate depreciation, exports improved and for first time in the last 4 years in October 2019, Pakistan reported current account surplus.

In conjunction with the approval of IMF's Extended Fund Facility of about US\$6bn in July 2019, the Government of Pakistan passed its FY2019/2020 budget aiming to improve fiscal sustainability by focusing on revenue measures. Some improvement was evidenced in the budgetary revenue collections that are growing with wider tax base and efforts on tax administration. Further, activation of Saudi Arabia oil facility and other long-term financing commitments secured from its international and multilateral and bilateral partners like China, UAE, Asian Development Bank reinforce buffers. This has also aided in the accumulation of official reserves that were declining until mid-2019, and recovering in the following months with international reserve asset levels at around US\$12.9bn at October 2019.

The macroeconomic challenges in Pakistan had also raised some assets quality concerns, yet the banking system has broadly remained stable with well capitalized banks.



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