



“The Role of Sukuk in Islamic Capital Markets”

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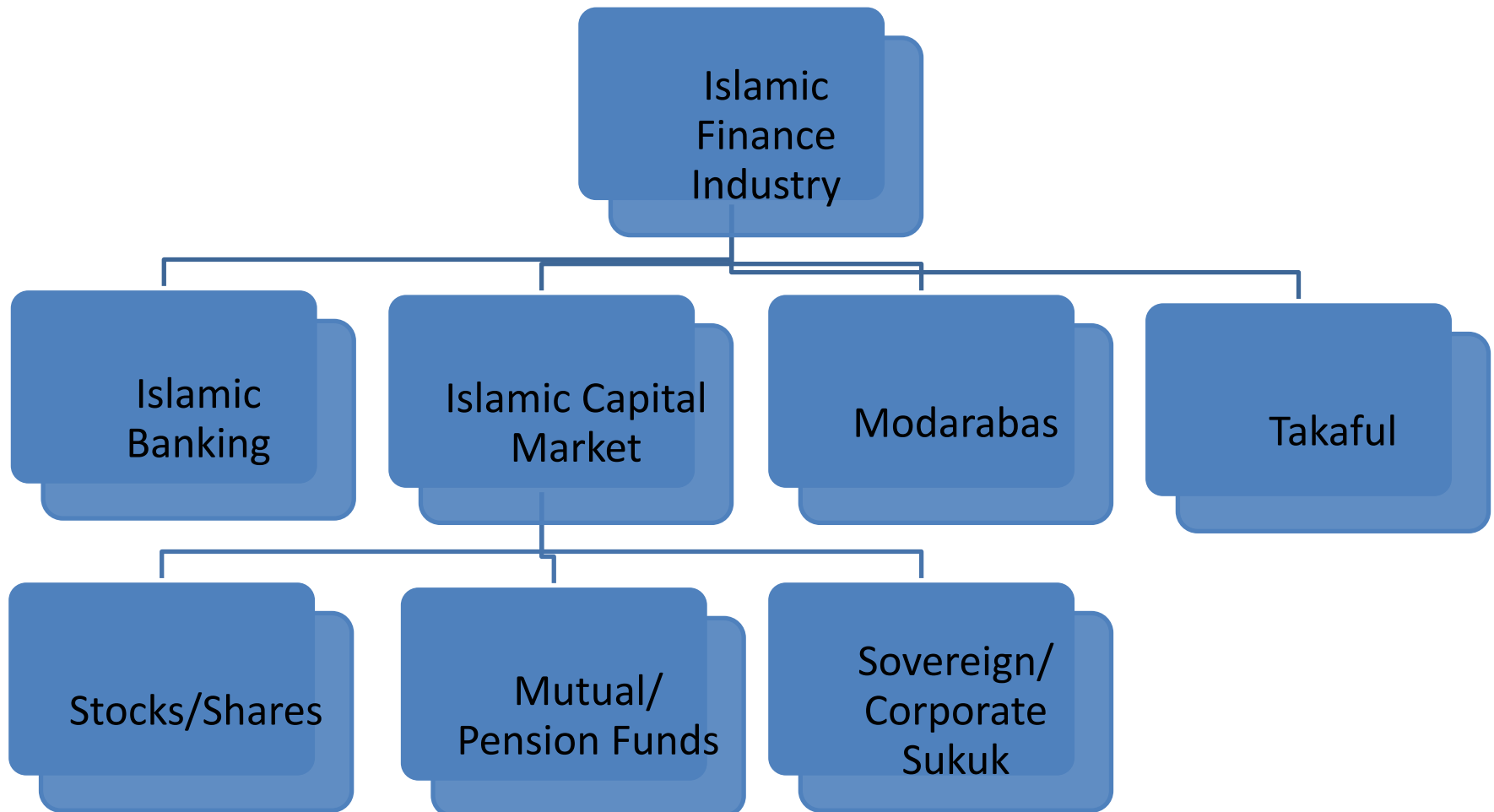
Outline of Presentation



- 1. Islamic Finance Industry in Pakistan**
- 2. Islamic Banking Sector of Pakistan**
- 3. Sukuk Market in Pakistan**
- 4. Challenges**
- 5. Way Forward**



Islamic Finance Industry in Pakistan





Islamic Finance Industry in Pakistan



| S. No. | Sub-Sector | Supervisory Authority |
|--------|--|---|
| 1 | Banking, Development Finance Institutions | State Bank of Pakistan (SBP) |
| 2 | Capital Market, Assets Management Companies, Takaful and Non-Bank Financial Institutions | Securities and Exchange Commission of Pakistan (SECP) |



Islamic Finance Industry in Pakistan



Assets of Islamic Finance Industry (31-12-2017)

(Amount in million US\$)

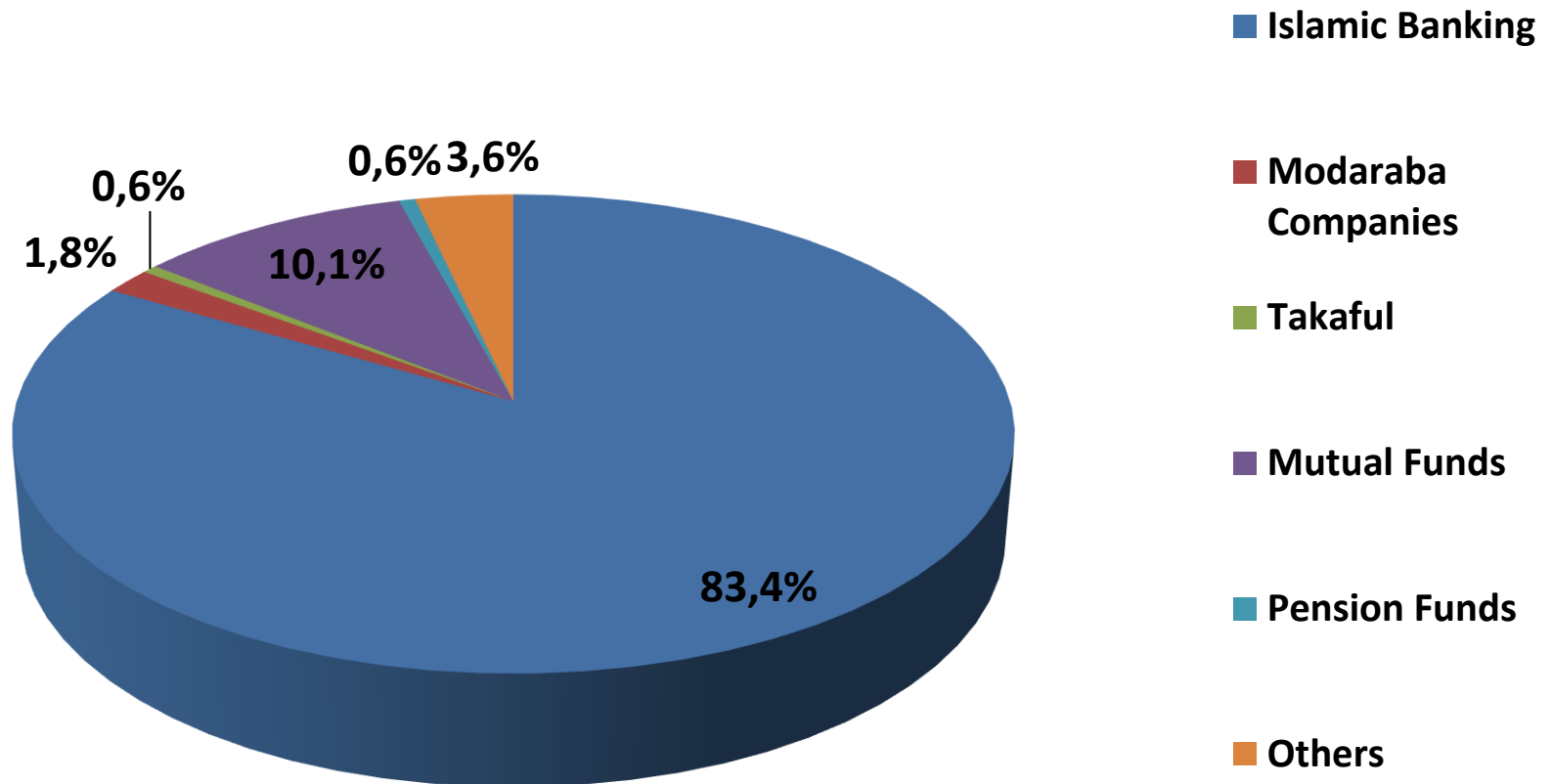
| S. No. | Sector | Total Assets |
|--------|---|---------------|
| 1 | Islamic Banking | 19,757 |
| 2 | Modaraba Companies | 417 |
| 3 | Takaful | 130 |
| 4 | Islamic Mutual Funds | 2,391 |
| 5 | Islamic Pension Funds | 130 |
| 6 | Others (Privately placed Sukuk, REITs etc.) | 1,000 |
| | Total | 23,826 |



Islamic Finance Industry in Pakistan



Islamic Finance Assets





Islamic Banking Industry – Key Figures



(Rs in Billion)

| Description | Dec-12 | Dec-13 | Dec-14 | Dec-15 | Dec-16 | Dec-17 |
|------------------------------|--------|--------|--------|--------|--------|--------|
| Total Assets | 837 | 1014 | 1259 | 1610 | 1853 | 2272 |
| %age of Banking Industry | 8.6% | 9.6% | 10.4% | 11.4 | 11.7% | 12.4% |
| Deposits | 706 | 868 | 1070 | 1375 | 1573 | 1885 |
| %age of Banking Industry | 9.7% | 10.4% | 11.6% | 13.2% | 13.3% | 14.5% |
| Financing. & Invest. | 626 | 709 | 765 | 1077.2 | 1311 | 1741 |
| Full fledged Islamic Banks | 5 | 5 | 5 | 6 | 5 | 5 |
| Conventional Banks with IBBs | 13 | 14 | 17 | 16 | 16 | 16 |
| No. of Branches * | 1097 | 1304 | 1574 | 2075 | 2322 | 2581 |

*Also includes sub-branches of IBIs.

SBP's Role in Promotion of Islamic Banking



SBP's Initiatives in Islamic Banking



- Re-launch of Islamic banking in 2001-02 in parallel to conventional banking
- Two five years strategic plans (first in 2007 and second in 2014) as roadmap for growth and development of the sector
- Issuance of comprehensive Shariah Governance Framework for institutionalizing Shariah compliance function in IBIs
- Establishment of three Centers of Excellence in Islamic Finance Education at well reputed institutions
- Regular holding of targeted seminars and conferences for awareness building of business community, academia, bankers and policy makers



SBP's Initiatives in Islamic Banking



- **Effective coordination with national and international organizations for capitalizing on their expertise for promotion of Islamic banking in Pakistan**
- **Policy advocacy through issuance of information bulletin on Islamic banking key indicators and creating linkages among key stakeholders for optimum results**
- **Tax neutrality to Islamic banking institutions through the Government of Pakistan for providing a level playing field to these institutions**
- **For its continued efforts, State Bank of Pakistan (SBP) has been voted as the Best Central Bank in promoting Islamic finance by a poll conducted by Islamic Finance News (IFN), an arm of REDmoney Group, Malaysia. SBP has also won this award in 2015.**



Support of Government of Pakistan



- **Formation of High level Steering Committee for the Promotion of Islamic Banking in Pakistan – 2013**
- **Formation of Implementation Committee (IC) by Ministry of Finance (September, 2016)**
- **Formation of four sub-committees under Implementation Committee:**
 - **Sub-Committee on Legal & Regulatory Framework**
 - **Sub-Committee on Taxation**
 - **Sub-Committee on Capital Market**
 - **Sub-Committee on Awareness & Capacity Building**

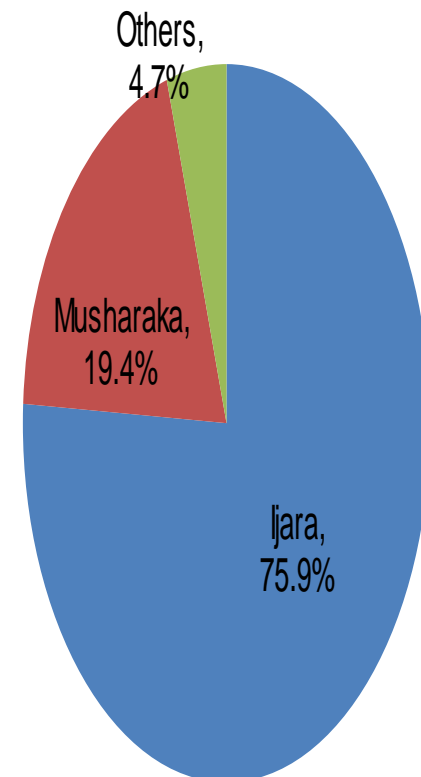


Sukuk Market in Pakistan-Current Status



- Overall 107 Sukuk valuing US\$ 10,472 million have been issued in the domestic market by December 31, 2017. Nineteen (19) of these are Government of Pakistan (GoP) Ijara Sukuk while remaining 88 have been issued by corporate or quasi-sovereign entities.
- These Sukuk are medium term and most of them are privately placed, though, few corporate Sukuk have also been listed at the stock exchange

Figure 1: Mode wise breakup of Domestic Sukuk

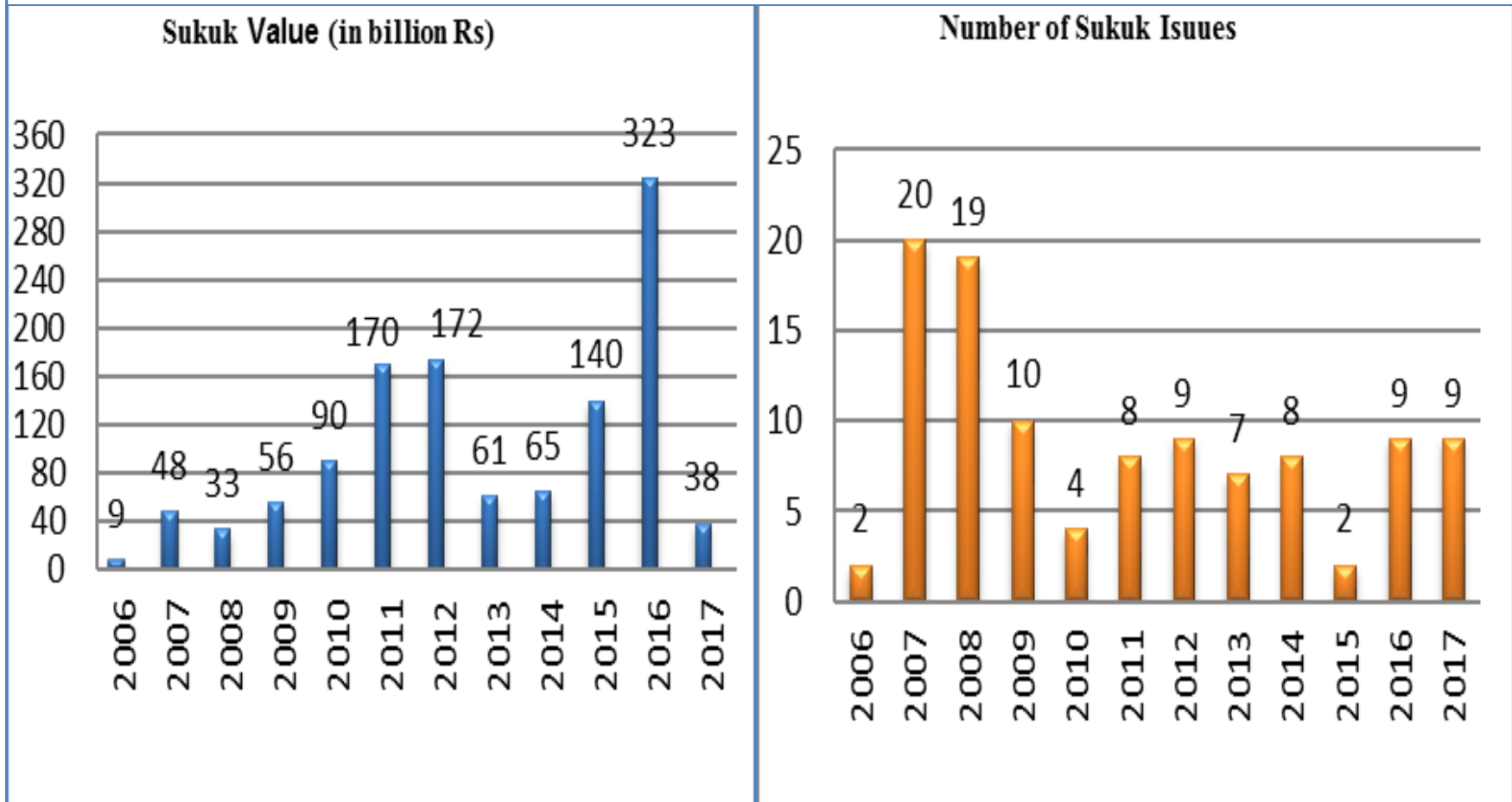




Sukuk Market in Pakistan-Current Status



Figure 2: Year Wise Domestic Sukuk Summary





Sukuk Market in Pakistan-Current Status



Entity wise & Year wise Breakup of Sukuk (cumulative as of end year in percent)

| Year | Corporate | Sovereign | Quasi-Sovereign |
|------|-----------|-----------|-----------------|
| 2006 | 7.2 | 0.0 | 92.8 |
| 2007 | 55.5 | 0.0 | 44.5 |
| 2008 | 48.6 | 14.0 | 37.4 |
| 2009 | 43.3 | 29.0 | 27.7 |
| 2010 | 27.1 | 55.7 | 17.2 |
| 2011 | 15.9 | 72.7 | 11.4 |
| 2012 | 11.5 | 79.3 | 9.2 |
| 2013 | 10.7 | 78.5 | 10.8 |
| 2014 | 11.0 | 78.3 | 10.7 |
| 2015 | 9.2 | 79.3 | 11.5 |
| 2016 | 8.9 | 74.2 | 16.9 |
| 2017 | 10.5 | 73.1 | 16.4 |



Sukuk Market in Pakistan-Current Status



International Sukuk Issued by the Government of Pakistan

| Auction | Issue Date | Maturity Date | Amount of Sukuk |
|-------------------------------------|------------|---------------|--------------------|
| Pakistan First International Sukuk | Jan-05 | Jan-10 | US\$ 600 million |
| Pakistan Second International Sukuk | Nov-14 | Nov-19 | US\$ 1,000 million |
| Pakistan Third International Sukuk | Oct-16 | Oct-21 | US\$ 1,000 million |
| Pakistan Fourth International Sukuk | Nov-17 | Nov-22 | US\$ 1,000 million |



Major Challenges



- Sukuk market in Pakistan provides opportunity for both government and corporate entities to raise funds in a Shariah compliant manner especially in the wake of the China-Pakistan Economic Corridor (CPEC). However, like globally, the Sukuk market in Pakistan is confronted with some challenges like:
 - Identification of assets for issuance of Sukuk
 - Limited issuance of sovereign domestic Sukuk
 - limited availability of short term instruments
 - Absence of effective secondary market
 - Limited SLR eligible Sukuk
- In this regard, the stakeholders including regulators are working for increasing depth and stability of the Sukuk market in Pakistan.



Way Forward



- **Future positive outlook of the industry owing to**
 - **Overwhelming Demand**
 - **Supportive Government**
 - **Dynamic and Supportive central bank**
- **Financial advisors have been appointed by the Government for developing proposals for different Sukuk structures**
- **Being an emerging economy, Pakistan's huge infrastructural needs require consistent investments from both domestic and foreign investors**
- **Sukuk, as an effective investment tool, can play an important role in financing various infrastructure projects and developmental needs of the country's economy.**



Thanks!