

## Effect of Bank Specific and Macro Economic Factors on Credit Risk of Islamic Banks in Pakistan

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**Abstract :** The purpose of this research study is to investigate the effect of macroeconomic and bank-specific factors on credit risk in Islamic banking in Pakistan. The future of financial institutions largely depends on how well they manage risks. Credit risk is an important type of risk affecting the banking sector. The current study has taken quarterly data for the period of 6 years, from 1st July 2014 to 30 Jun 2020. The data set consisted of secondary data. Data was extracted from the websites of the State Bank and World Bank and from the financial statements of the concerned banks. In this study, the Ordinary least square model was used for the analysis of the data. The results supported the hypothesis that macroeconomic factors and bank-specific factors have a significant effect on credit risk. Macroeconomic variables, Inflation and exchange rates have positive significant effects on credit risk. However, gross domestic product has a negative significant relationship with credit risk. Moreover, the corporate rate has no significant relation with credit risk. Internal variables, size, management efficiency, net profit share income and capital adequacy have been proven to influence positively and significantly the credit risk. However, loan to deposit-has a negative insignificance relationship with credit risk. The contribution of this article is that similar conclusions have been made regarding the influence of banking factors on credit risk.

**Keywords :** credit risk, Islamic banks, macroeconomic variables, banks specific variable

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