Governor's Message

Global economic growth slightly moderated in 2024, while disinflationary trends witnessed further progress owing to contractionary policies, pursued over the last couple of years to address the elevated inflationary pressures. Accordingly, most of the central banks started to make cautious rate cuts while keeping a close eye on emerging developments. The global financial conditions eased, albeit with some differences across jurisdictions. The economic policy uncertainty—after consistently declining—sharply rose towards the end of CY24 owing to renewed drive towards the protectionist trade policies by leading economies. The rise in uncertainty and resultant volatility in financial conditions may complicate macro-financial landscape of various economies.

On domestic front, the year 2024 marked a beginning of turnaround in macroeconomic environment. Amid a traction in stability measures, signs of economic recovery emerged as inflation subsided significantly and external and fiscal accounts improved, which were also reflected in revival of business confidence. Nonetheless, to put the economic recovery on a sustainable growth path and enhance macroeconomic resilience, it is imperative for the government to continue with the much needed structural reforms, including fiscal consolidation and broadening of tax base, achieving debt sustainability, improving productivity and increasing export competitiveness.

SBP's prudential policy and oversight frameworks ensured the stability of financial sector during CY24. Particularly, the banking sector, which contributes around 77 percent of the financial sector's assets, exhibited steady performance and maintained its financial soundness. Assets of the sector recorded a notable expansion, which was mainly driven by investments as well as advances. The advances rebounded strongly amid the recovering demand as well as transitory factors like banks' efforts to improve their advances to deposit (ADR) ratio. This was due to ADR-linked tax policy which taxed the income from government securities at progressively higher rates, if the ratio fell below certain thresholds. Deposit mobilization also lost momentum as banks strived to raise their ADR ratios. Accordingly, the sector's reliance on borrowings increased to fund the assets growth. Banks' earnings remained steady on the back of increased volume of earning assets as the fall in interest rates translated into deceleration in earnings' growth.

As regards the key financial risks to the banking sector, credit risk profile of the banking sector manifested no serious concerns due to adequate provisioning coverage of non-performing loans. The adoption of IFRS-9 is expected to further enhance the risk management practices of banks and augment their financial cushions to withstand delinquencies in loan portfolio. Solvency indicators such as capital adequacy ratio (CAR) of the banking sector improved further to 20.6 percent and remained well above the global standard as well as domestic minimum regulatory requirements.

In view of the quite dynamic economic environment and exogenous shocks like climate change, SBP regularly conducts stress testing of the banking sector to assess its resilience against hypothetical adverse macroeconomic scenarios and severe shocks to key risk factors. As per the latest assessment, the sector is expected to remain resilient to various severe hypothetical but plausible shocks over the projected horizon of three years, with its CAR remaining well above the minimum regulatory requirements. Moreover, with the cumulative cut of 1,000 bps in SBP policy rate since June 2024, the financial conditions have started easing, which are expected to further improve the repayment capacity of borrowers and soundness of banking sector. In view of the country's high vulnerability to climate-related risks and increased frequency of extreme weather events, climate-change is one of the leading theme of SBP's

Strategic Plan-2028, which envisages various initiatives to cope with both the challenges and opportunities posed by the climate change. In this context, SBP has taken an initiative to develop and adopt a national-level "Green Taxonomy", which is in advanced stage of finalization.

SBP continued its efforts to promote financial inclusion. A comprehensive Financial Inclusion Strategy has been adopted which aims to increase the level of financial inclusion to 75 percent from current 64 percent and reduce the gender gap to 25 percent by 2028 from current 33 percent. For this purpose, SBP is particularly focusing on leveraging the digital technologies and innovation to enhance the financial literacy as well as the access to finance for underserved segments of the society. Leading from the front, SBP setup the country's instant payment system i.e., Raast a few years back which has a great potential to infuse efficiency in business transactions and promote the documentation of the economy. Raast maintained its growth momentum with its outreach reaching around 40 million users and processing almost 800 million transactions during CY24. Overseas Pakistanis increased their footprint as the gross inflows to Roshan Digital Accounts (RDA) have crossed US$ 9.3 billion, while the number of expatriates with active RDAs exceeded 778,000 in CY24. These improvements have also supported the recent surge in foreign remittances.

Besides efficiency gains, increased digitization and use of technologies also involve cybersecurity and data privacy risks. SBP remains vigilant to these risks and has taken various measures to strengthen the cyber resilience and protection of customers. A dedicated Cyber Risk Management Department has been established to supervise cyber security risks of the regulated entities. Moreover, a monitoring tool i.e., Sunwai has been launched which empowers the customers and keeps track of customers' complaints, thus ensuring their timely resolution in a systematic and fair manner.

SBP's supervisory and safety net framework for financial stability has worked quite effectively in the past. However, in line with the changing environment and emerging best practices, SBP continuously strives to improve this framework. In this regard, legal and institutional arrangements for resolution and crisis preparedness have been strengthened by incorporating certain amendments in the banking and deposit protection (insurance) laws which enhanced the resolution tool kit of SBP. Moreover, a dedicated department has been established to conduct resolution planning on proactive basis and handle the resolution of distressed institutions. In order to enhance depositor trust and augment safety nets, the deposit protection amount has been increased to Rs 1.0 million from Rs 0.5 million.

While the macroeconomic environment remains dynamic, SBP is vigilant to the evolving economic and financial developments and stands ready to take necessary measures to effectively address emerging risks to financial stability and support the efficient provision of financial services and credit in the economy.

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