

The Overview

Pakistan's financial sector continued to maintain its resilience, and managed to grow at a decent pace of 17.8 percent in CY24 (**Table 1**). The financial depth—assets to GDP ratio—moved up to 64.8 percent from 61.7 percent in CY23.

The global and domestic macroeconomic environment in CY24 was characterized by disinflation and monetary policy reversals. **Global** economy expanded by 3.2 percent in CY24, slightly lower than 3.3 percent growth in CY23. The structural challenges, such as weak investments, slow productivity growth, high debt levels, and demographic pressures continued to restrain global economic activity.¹ Growth in Advanced Economies (**AEs**) remained steady at 1.7 percent while it slowed in Emerging Markets and Developing Economies (**EMDEs**) to 4.2 percent in CY24 from 4.4 percent in CY23. Global inflation fell to 5.7 percent in CY24 from its peak of 8.6 in CY22 (6.7 percent in CY23). Accordingly, most central banks moved towards monetary easing during the year under review.² As a result, global financial conditions eased as reflected in lowering of interest rates; however, a sharp rise in trade policy uncertainty towards year's end contributed to tighter financial condition for EMDEs (see **Chapter 1**).³

On **domestic** front, the macroeconomic conditions showed visible signs of improvement, as the economy grew by 2.2 percent in CY24 compared to a *contraction* of 0.2 percent in CY23. The successful conclusion of IMF-SBA program, currency stability, and increased momentum of disinflation underpinned macroeconomic recovery in CY24. Successive cuts in policy rate commencing from June 2024 (a cumulative reduction of 900 basis

Assets Composition of the Financial Sector **Table 1**

| | CY22 | CY23 | CY24 |
|--------------------------------|---------------|---------------|---------------|
| Assets - billion Rupees | | | |
| MFBs | 753 | 771 | 1,069 |
| DFIs | 1,431 | 2,338 | 1,979 |
| NBFIs | 2,563 | 3,447 | 6,204 |
| Insurance* | 2,580 | 2,949 | 3,375 |
| CDNS | 3,390 | 3,179 | 3,227 |
| Banks | 35,796 | 46,364 | 53,693 |
| Total | 46,513 | 59,048 | 69,547 |
| YoY Growth in Assets (percent) | | | |
| MFBs | 29.4 | 2.4 | 38.5 |
| DFIs | 165.7 | 63.3 | -15.3 |
| NBFIs | 26.7 | 34.5 | 80.0 |
| Insurance | 20.2 | 14.3 | 14.4 |
| CDNS | -12.7 | -6.2 | 1.5 |
| Banks | 19.1 | 29.5 | 15.8 |
| Overall Financial Sector | 18.6 | 27.0 | 17.8 |
| Percent Share in Total Assets | | | |
| MFBs | 1.6 | 1.3 | 1.5 |
| DFIs | 3.1 | 4.0 | 2.8 |
| NBFIs | 5.5 | 5.8 | 8.9 |
| Insurance | 5.5 | 5.0 | 4.9 |
| CDNS | 7.3 | 5.4 | 4.6 |
| Banks | 77.0 | 78.5 | 77.2 |
| Assets as a Percent of GDP | | | |
| MFBs | 1.0 | 0.8 | 1.0 |
| DFIs | 1.9 | 2.4 | 1.8 |
| NBFIs | 3.4 | 3.6 | 5.8 |
| Insurance | 3.4 | 3.1 | 3.1 |
| CDNS | 4.5 | 3.3 | 3.0 |
| Banks | 47.8 | 48.4 | 50.0 |
| Overall Assets | 62.0 | 61.7 | 64.8 |

* Insurance data is available up to Sep-2024

Sources: SBP, SECP, CDNS and PBS

¹ United Nations (2025). World Economic Situation and Prospects. January.

² By November 2024, 67 out of 108 central banks were in the easing phase (up from 31 in December 2023), with 20 more likely to begin easing soon.

³ IMF (2025). World Economic Outlook Update. *January*

points in CY24), securing of the IMF's Extended Fund Facility (EFF), and upgrade in country's credit rating by Moody's and Fitch⁴ further buoyed market sentiments. Importantly, an improved current account balance, continued fiscal discipline, and benign international commodity prices were also crucial in restoring macroeconomic stability.

As a result of stabilization policies and easing of supply constraints, average inflation fell to 12.6 percent in CY24 from 30.8 percent a year ago. Moreover, the current account balance—aided by strong exports and a robust increase in workers' remittances—turned into a surplus of US\$ 0.7 billion in CY24 (deficit of US\$ 1.0 billion in CY23). Supported by current account developments and IMF financing, SBP's FX reserves increased to US\$ 11.70 billion by end CY24 from US\$ 8.2 billion at end CY23, despite weak net official foreign inflows. Amid improved external account position, the country's risk premium⁵ declined to an average of 17.8 percent in CY24 from 47.7 percent in CY23. Encouragingly, along with reduction in the overall fiscal deficit, the economy achieved a primary surplus for the first time since FY07.⁶ In addition, the Business Confidence Index (BCI) remained above threshold level of 50, throughout CY24, except for July (see Chapter 1).

The volatility in **financial markets** considerably declined during CY24, manifesting the impact of persistent improvement in macroeconomic environment. The sentiments in FX market remained calm and rupee-dollar parity witnessed stability throughout the year. This stability stemmed from an improved current account position, successful arrangements with

IMF, the reforms in the FX market along with administrative measures, falling forward liabilities and buildup of reserves. Amid these developments and better economic prospects, the equity market touched record levels, with the KSE 100 index soaring to a historic high of 116,169 in December 2024. The mutual funds and insurance sectors were the largest net buyers of equities in CY24. Positively though, with a limited exposure of banks amidst prudential limits, risk to the banking sector from any adverse movements in these markets remains contained. In the money market, the Overnight Repo Rate saw a few episodes of increased volatility, reflecting adjustments to reduction in policy rate. The market, however, continued to function in an orderly fashion. (see Chapter 2).

The **banking sector**, which constitutes around 77.0 percent of the financial sector's asset base, maintained its operational and financial resilience and continued to support the economic activity by maintaining an uninterrupted supply of banking services. The asset base of the sector expanded by 15.8 percent in CY24 (29.5 percent in CY23). The slowdown in the balance sheet growth was driven by a sharp deceleration in investments, which grew by 14.5 percent in 2024—down from 41.4 percent a year ago. Nonetheless, advances witnessed a growth of 29.8 percent—highest since CY05. More than 90 percent of the rise in private sector advances, however, occurred during the last quarter of CY24 showing, inter alia, aggressive efforts by banks to meet the end December 2024 Advances-to-Deposit ratio (ADR) targets to avoid additional taxation on income from government securities. Moreover, easing in financial conditions (due to reduction in interest

⁴ Fitch upgraded Pakistan's credit rating from CCC to CCC+ in July-2024. Moody's upgraded the credit rating to Caa2 from Caa3 in August-2024.

⁵ It represents Pakistan's 5 Years Credit Default Swap as reported by Bloomberg, Inc.

⁶ Fiscal deficit declined to 6.8 percent in FY24 from 7.8 percent in FY23. Moreover, primary surplus was recorded at 0.9 percent of GDP in FY24.

rate and exchange rate stability) as well as pick-up in economic activity and seasonal demand for bank credit (e.g., from agribusinesses and textile) also drove-up the demand for advances.

On funding side, ADR-related developments restrained deposits growth to just 9.1 percent – the lowest mobilization in 21 years, barring 8.0 percent growth in CY22 when similar ADR-related policy was in place. Accordingly, banks' reliance on borrowings from financial institutions further increased, as 27.9 percent of the assets were funded through borrowings against 25.2 percent in CY23 and 21.9 percent in CY22.

The *credit risk* of the banking sector remained within comfortable range as non-performing loans (NPLs) to gross loans ratio fell to 6.3 percent in December 2024, from 7.6 percent in December 2023. Importantly, the amount of allowances and provisions for loan losses were higher than the outstanding stock of non-performing loans (NPLs) i.e. 103.9 percent (92.7 percent a year earlier). It is worth mentioning that the major loan portfolio of the banks comprises large corporate borrowers who generally have better credit worthiness and established business track record. This helped keep credit risk in check even in the face of significantly stressed macroeconomic conditions.

The *market risk* dynamics did not pose any serious concern. Given limited exposure of the banks in FX and equity markets, risks arising from adverse changes in exchange rate and equity prices remained contained during CY24. Substantial buildup of long-term government securities has increased the banks' sensitivity to interest rate risk. However, banks have comfortable capital cushions and their susceptibility to this risk remains contained as a major portion of these investments comprise floating rate instruments.

The *liquidity profile* of the banks remained steady as their asset base mainly comprised risk-free government securities, which have quite active secondary market. The sector continued to comply with Basel III liquidity metrics such as Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), which stood at 206.0 percent and 161.0 percent, respectively, at end December-2024.

After-tax *profit* of the banking sector increased marginally by 0.2 percent to Rs 644 billion against a notable growth of 90.9 percent in CY23. The weak growth in earnings was driven by declining net interest income, increased tax rate, and a one-off extra ordinary expense by a major bank. Return on Assets (ROA-after tax) moderated to 1.3 percent from 1.6 percent last year while Return on Equity (ROE-after tax) fell to 21.5 percent from 27.1 percent a year ago. Incidentally, rising taxation expense and tax policies that directly influence banks' business decisions may have implications for monetary policy transmission, financial stability and financial sector development. For instance, increased tax charges reduce profitability, hamper inflow of fresh capital, lower incentives for capital investments to innovate and improve efficiency, and impair deposit mobilization.

The solvency position of the banking sector further improved as Capital Adequacy Ratio (CAR) increased to 20.6 percent by end December 2024 (19.7 percent in December 2023). Retained earnings and revaluation gains on securities pushed up regulatory capital, outpacing risk weighted assets. Encouragingly, the prevailing CAR level remains well above the domestic and international minimum benchmarks of 11.5 percent and 10.5 percent, respectively. With strong capital cushions, the banking sector is in a comfortable position to increase its lending exposure, in general, and to the priority segments such as agriculture and SMEs, in particular, and play its due role in

stimulating economic growth in the country (see **Chapter 3**).

Islamic Banking Institutions (IBIs) showed a remarkable performance during the year under review. With highest ever expansion in branch network of 1,072, IBIs' asset base also observed substantial growth of 23.1 percent in CY24, constituting now 20.6 percent of banking sector's assets. Both investments and financing showed double-digit growth, however, investments primarily supported assets expansion. The deposits increased by 17.1 percent. On soundness front, IBIs maintained a healthy position. Asset quality indicators exhibited contained credit risk, after-tax earnings contributed 42.3 percent in overall banking sector's profitability, and capital buffers were strong (see **Box 3.1 in Chapter 3**).

The asset base of **Microfinance Banks (MFBs)** though observed a strong increase during CY24, the infection ratio increased to 9.7 percent from 6.7 percent in CY23. Moreover, the sector witnessed losses for sixth consecutive year and the aggregate CAR fell further to 2.6 percent in CY24 from 7.6 percent in CY23 – against the regulatory requirement of 15 percent. The decline in CAR was mainly due to significant rise in provisioning expenses, especially by a large MFB. The sector contributes only 1.5 percent to the total assets of the financial sector and poses relatively lower systemic risk. However, the MFBs hold importance from financial inclusion standpoint. The sector caters to the financial needs of low-income and financially under-served segments of the population, and its customer base is significantly higher than that of the commercial banks. Thus, to support the sector's stability, its role in financial inclusion and employment generation, SBP continues its enhanced engagement and supervision at individual institutions as well as sector level (see **Chapter 5**).

Non-Bank Financial Sector, posted a mixed performance during CY24. The **Development Finance Institutions (DFIs)**'s asset base contracted by 15.3 percent driven by 18.6 percent fall in investments, compared to a strong investment-led growth of 63.3 percent in CY23. Also, advances showed a subdued growth of 1.5 percent in CY24. Importantly, DFIs borrowing from SBP sharply declined while it increased from the banks in CY24. Asset quality indicators slightly deteriorated though earnings and solvency remained strong (see **Chapter 6.1**).

The asset base of **Non-Bank Financial Institutions (NBFIs)** surged by 80.0 percent in CY24 (34.5 percent growth in CY23), manifesting the impact of improved economic conditions and diversion of funds from banks to NBFIs due to the dynamics of ADR-linked tax policy. Mutual funds – having 71.5 percent share in the sector's assets – almost doubled over CY24. The marked expansion was primarily driven by money market and Islamic income funds. Equity market funds, which constitute relatively small i.e. 10 percent of mutual funds, also observed a phenomenal rise of 107.2 percent owing to surge in equity market during the year under review. The assets of the lending segment of NBFIs increased by 89.4 percent reflecting the impact of favorable interest rates and availability of credit lines by the banks to Microfinance Companies (**NBMFCs**) and investment finance companies (**IFCs**). Importantly, systemic risk concerns arising from inter-sector exposures between banking sector and NBFIs remained contained (see **Chapter 6.2**).

The asset base of the **insurance sector** expanded at a decent pace of 14.4 percent in 9MCY24 (11.2 percent in 9MCY23). Nonetheless, premium revenues of the life segment contracted by 4.1 percent as the government ceased some of the public-health insurance initiatives. On the contrary, premiums of non-life segment increased by 16.9 percent during 9MCY24, mainly due to rise in vehicle prices and revival in auto sales amid recovering economic activity (see **Chapter 6.3**).

Financial Market Infrastructures (FMIs)

continued to support financial system stability thorough steady performance and operational resilience during CY24. The volume and value of transactions under Pakistan Real-time Interbank Settlement Mechanism (**PRISM**), which handles large value payments, grew by a significant pace. Also, retail transactions increased with an impressive momentum, both in volume and value terms. The *e*-banking has been consistently dominating the retail transactions. Positively, ATM downtime further reduced to 3.0 percent of activity time in CY24, which was lowest in previous five years.

It is noteworthy that SBP has taken a number of initiatives to promote digital services. For instance, different modules of Raast have been launched to handle bulk as well as retail transactions. Also, SBP issued licensing and regulatory framework for digital banks. In this regard, SBP recently awarded the first Digital Retail Bank (**DRB**) license to Easypaisa Bank Limited, authorizing it to commence commercial operations.⁷

Besides, a number of enhancements were made in different modules of Raast – which successfully completed its third year of uninterrupted services. For instance, Raast partnered with Central Depository Company (**CDC**) to facilitate and execute dividend payments promptly. Moreover, government related payments were integrated with Raast for cost-effective and uninterrupted provision of payments. Encouragingly, SBP has already signed a Memorandum of Understanding (**MoU**) with Arab Monetary Fund (**AMF**) to enable the integration of Raast with Buna – a cross border payment system. It is a major landmark in enabling cross-border payments, streamlining remittances from Gulf Cooperation Council countries, and increasing regional integration.

The **Non-Financial Corporate Sector**⁸ witnessed some moderations in key financial indicators related to sales, earnings and interest coverage ratio amid high interest rates, which prevailed until the first half of CY24, and lackluster performance of large scale manufacturing (**LSM**) sector. However, the liquidity and solvency position of the sector remained steady, and it continued to service its obligations to financial sector without any significant stress.

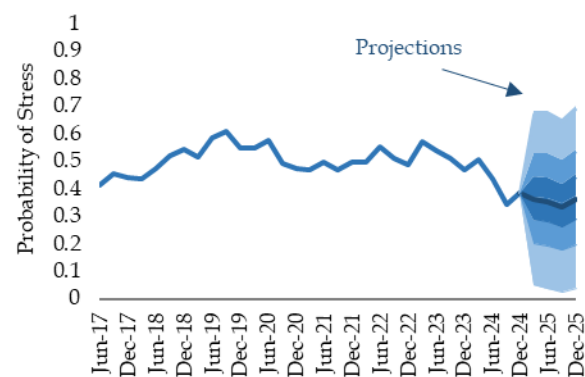
Incidentally, as a result of recent positive developments and a surge in equity market, a corresponding increase in firms' valuations was witnessed, which augmented their overall financial soundness. The **LSM** sectors presented a mixed picture where, auto, and textile sectors witnessed increase in sales while sales of cement, fertilizer, petroleum, power generation and sugar declined. An analysis of top 30 borrowing groups of the banking sector indicates that the credit quality and repayment capacity has remained sound during CY24 (see **Chapter 7 and Box 7.1**).

The **consolidated financial stability matrix** reveals that risks to financial stability receded in CY24 (see **Figure 1A and 1B**), reflecting mainly the impact of coordinated policy response on monetary and fiscal fronts, reduced policy uncertainty, timely arrangements with IMF, improved external account position, and benign international commodity prices.

⁷ <https://www.sbp.org.pk/press/2025/Pr-28-Jan-2025.pdf>

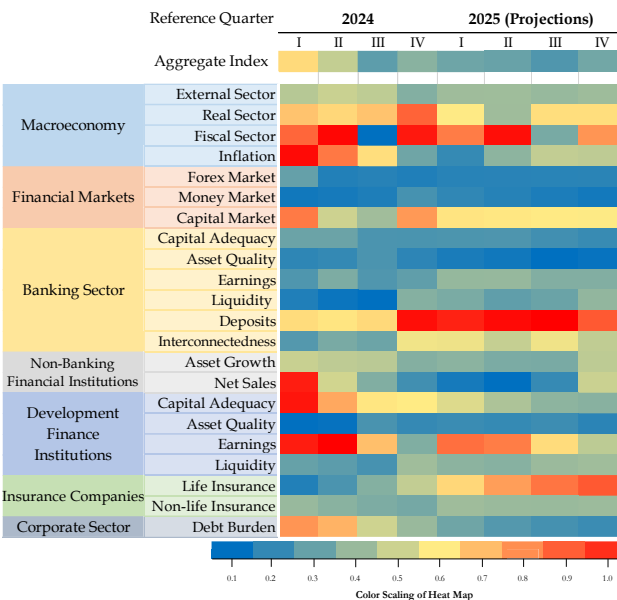
⁸ Analysis is based on financials of leading 100 listed firms for 9 months of CY24. These firms represent 79 percent of total assets of listed non-financial firms.

Financial Sector Vulnerability Index (FSVI) Figure 1A



Source: SBP Staff estimates

Financial Sector Heat Map Figure 1B



Source: SBP Staff Estimates

Going forward, prospects of financial stability in near term remain encouraging. National CPI (12-month Moving Average) has steadily declined to 7.2 percent in March 2025 from 28.7

percent last year. In view of these developments, Monetary Policy Committee has reduced the policy rate cumulatively by 1,000 bps to 12.0 percent in January-2025. This, combined with improved external account position⁹ and stable exchange rate, is likely to further induce demand for private sector credit and enhance repayment capacity of the banks' borrowers. Besides, the continuity of IMF program¹⁰ is to further support macroeconomic stability. Encouragingly, first review of IMF's EFF in March 2025 terms the program implementation as strong.¹¹ Amid such developments, SBP FX reserves have improved by 41.4 percent to reach US\$ 11.2 billion in February 2025, keeping rupee-dollar parity in check and further contributing to easing of financial conditions. Moreover, fiscal consolidation remains on track¹² supporting a positive economic outlook. These developments are reflected in Business Confidence Index (BCI), which has stayed in positive zone since August-2024.¹³

The 15th wave of SBP Systemic Risk Survey (SRS), conducted in January 2025, also indicates that the market participants' perceptions towards macroeconomic risks (e.g., exchange rate risk, inflation, and fiscal deficit) would improve in the next six months. Importantly, cybersecurity risk has been identified among the top five prevailing risks to financial stability (see **Box 1 on SBP's Systemic Risk Survey**). Incidentally, SBP remains vigilant to the cybersecurity concerns and has been taking a number of measures to strengthen cyber resilience of banks. In fact, Technological Innovation is now a strategic theme under SBP's Vision 2023-28 and a particular emphasis is being accorded to the promotion of innovation and use of technologies as well as to cybersecurity and privacy of data. For this

⁹ Current account surplus stood at US\$ 1.9 billion in Jul-Mar FY25 against deficit of US\$ 1.7 billion in the comparable period of previous year.

¹⁰ Pakistan secured a 37-month Extended Arrangement under the Extended Fund Facility (EFF) on September 25, 2024 for around US\$ 7 billion.

¹¹ <https://www.imf.org/en/News/Articles/2025/03/14/pr-2564-pakistan-end-of-mission-statement-1st-rev-37-mo-ext-arrangement-under-eff-and-rsf>

¹² In Jul-Dec FY25, fiscal deficit stood at 1.2 percent of GDP while primary balance was in surplus of 2.9 percent of GDP.

¹³ BCI has remained above threshold level of 50 throughout CY24 except for July 2024 when it declined to 48.6.

purpose, SBP has recently established a dedicated Cyber Risk Management Department (CRMD) to perform on-site and off-site supervision of cyber security risks of the regulated entities (REs) with greater focus.¹⁴

The rapid adoption of Artificial Intelligence (AI) in various aspects of contemporary world, including the financial sector, is yielding enormous benefits, though, it is also introducing novel risks. Being cognizant, SBP conducted a survey of its regulated entities on adoption of AI into their processes.¹⁵ The results of survey reveal that about half of the surveyed financial institutions have either deployed AI in financial services, or are in the process of development. Moreover, survey indicates that the regulated entities are using AI for a variety of financial services, including fraud detection, customer services, marketing, credit risk assessment, process automation etc. Given its significance, 'Guidelines on the Responsible use of Artificial Intelligence (AI) in Financial Services' are at an advance stage of finalization at SBP, with the objective to foster trust, transparency and accountability in AI-driven financial services, while safeguarding the rights and interests of the consumers.

The global environment presents a mixed picture for domestic economy. Global commodity prices are trending down¹⁶ and major central banks in advanced economies, excluding Federal Reserve, continue to lower key interest rates.¹⁷ Nonetheless, change in trade policy by the US may have implications for FED's monetary policy as well as global financial conditions. Moreover, the resultant shift towards protectionist policies by other

major economies may adversely affect global growth prospects, bearing repercussions for Pakistan's economy as well.

It deserves an emphasis that although domestic economy is steadily on a recovery path, sustaining the recovery, which hinges on continued progress on structural reforms, is crucial to build external buffers and reduce external financing risks.

In order to develop a proactive strategy to ensure banking sector's resilience in a fast changing domestic and global economic landscape, SBP regularly conducts scenario analysis. The scenario design for current exercise considers hypothetical shocks emanating from domestic and global macro-financial factors as well as climate change. The results of the latest stress tests indicate that the banking sector in general and large systemically important banks in particular are expected to show resilience and can withstand even severe shocks. The overall CAR of the sector is likely to remain above the minimum regulatory requirement under both business-as-usual and stressed macroeconomic scenarios over the projected three-year horizon (see Chapter 4). It is noteworthy that Moody's has recently upgraded Pakistan's banking outlook to positive from stable due to better operating environment.¹⁸

SBP has instituted a comprehensive micro and macro prudential policy framework, which is regularly reviewed and updated in line with emerging best practices and dynamics of the local environment. In this regard, SBP has taken a number of measures during CY24. For instance, in order to strengthen resolution and

¹⁴ <https://www.sbp.org.pk/bsd-1/2024/C1.htm>

¹⁵ In 2024, SBP conducted a survey of 55 Regulated Entities (REs) to explore the current state and challenges, as well as future prospects of AI adoption within the Pakistan's financial services sector. The surveyed REs included Commercial Banks (Conventional and Islamic), Microfinance Banks, Digital Banks, Electronic Money Institutions (EMIs) and Payment Service Operators/Payment Service Providers (PSOs/PSPs).

¹⁶ According to World Bank, aggregate commodity price index is projected to decline by 6.0 percent in 2025 to reach its lowest level since 2020. Source: World Bank, Global Economic Prospects, January 2025.

¹⁷ Bank of England further reduced the Bank Rate by 25 basis points to 4.5 percent on February 06-2025. Also, ECB made another cut of 25 basis points in its key interest rates on January 30, 2025. Nonetheless, Federal Reserve observed a status quo stance in its latest monetary policy decision on January 29, 2025.

¹⁸ [Moody's Upgrades Pakistan's Banking Outlook, February 2025](#)

crisis preparedness framework, amendments in the Banking Companies Ordinance (BCO) 1962 and the Deposit Protection Corporation (DPC) Act 2016 were enacted. These amendments designated SBP as the resolution authority and brought Microfinance Banks (MFBs) under the scope of BCO's resolution regime and expanded resolution toolkit. Accordingly, SBP also made improvements in its policy and institutional framework. Specifically, a Financial Institutions Resolution Department has been established to perform the function of resolution of distressed regulated entities. Moreover, deposit protection amount under the DPC Act was increased to Rs one million from Rs 0.5 million.

Going forward, SBP will continue to remain vigilant against emerging risks by enacting timely policy measures to safeguard stability of financial system, ensure smooth supply of financial services, and support sustainable economic growth.

Box 1: SBP's Systemic Risk Survey – 15th Wave (January 2025)

SBP conducted the 15th wave of its biannual Systemic Risk Survey (SRS) in January 2025. The survey aims to capture the perceptions of market participants about various risks to the financial system of Pakistan and their confidence in the stability of financial system. The survey is designed to gauge the present and near term (over the next six months) perceptions of the respondents across five broad risk categories, including, global, macroeconomic, financial markets, institutional, and general.

The respondents of the current iteration of the SRS covered a wide spectrum of participants, including senior executives of financial institutions, financial journalist, and others. A total of 119 respondents took part in the current wave as compared to 135 in July 2024 wave, with a response rate of 54 percent.

Summary of Results:

1. The respondents, on aggregate, perceive risks emanating from “General”, “Macroeconomic”, and “Global” categories to be the major risks to the financial system (**Figure A**). Perception regarding “General Risk” was driven by “Geopolitical Risk for Pakistan” and “Terrorism”. Over the period of next six months, risk perceptions are lower across all five broad categories of risks. (**Figure B**).
2. In terms of key risks at present, top five risks (in descending order) are those coming from “Cyber Security”, “Political Uncertainty”, “Geopolitical Risk for Pakistan”, “Widening Fiscal Deficit” and “Deterioration in Household Income”. Over the next six months, risk perceptions regarding these categories are expected to subside in general (**Figure C**).
3. Regarding the stability of the financial system of Pakistan, the respondents seem to repose a fair amount of confidence in the system. Conversely, the majority of the respondents exhibited strong confidence on the stability of the banking system and also showed their confidence on the ability of regulators to ensure the stability of the financial system (**Figure D**).
4. A comparison of last three waves (13th, 14th, and 15th wave) indicates that the risk perception has improved across the majority of the risk categories. A significant improvement in risk perception was seen in “Interest Rate”, “Energy Crisis”, and “Deterioration of BoP” (**Figure E**).

