Governor’s Remarks

Global economic conditions gradually normalized towards the end of CY25, showing resilience to strong headwinds of trade-related uncertainties and geopolitical tensions. According to IMF, the global economy grew steadily by 3.4 percent, while inflation declined to 4.1 percent compared to 5.8 percent last year. Amid easing inflation, major central banks relaxed their policy stance, and global financial conditions remained relatively accommodative, albeit with some variations across jurisdictions.

On the domestic front, the year 2025 presented both significant challenges and opportunities. While the spillovers from global uncertainties added to challenges, a stabilizing economy amid well-coordinated fiscal and monetary policies provided room to make progress on reforms. More specifically, SBP navigated a complex economic environment, implemented decisive monetary policy actions, and continued to take strategic initiatives to strengthen the soundness and efficiency of financial sector. As a result of SBP’s prudent, timely and well-calibrated policy responses, inflation returned within the target range of 5-7 percent; SBP’s FX reserves further strengthened, mainly via strategic purchases from interbank market; and the economic growth recovered gradually without putting excessive pressures on inflation and external account. This was duly complemented by the government’s fiscal consolidation efforts, which improved debt dynamics. Consequently, the business confidence remained upbeat throughout the year.

At the same time, SBP’s prudential policy and oversight frameworks reinforced financial system stability. Particularly, the banking sector, which contributes around 80 percent of the financial sector’s assets, exhibited steady performance and maintained its financial soundness. The sector maintained strong solvency, supported by healthy earnings and better risk management. Asset quality indicators improved, with non-performing loans contained, while liquidity conditions remained satisfactory. Encouragingly, the stress testing exercise conducted by SBP reaffirms the banking sector's capacity to withstand plausible adverse shocks over the projected horizon of three years. Moreover, with the cumulative cut of 1,150 bps in the SBP policy rate since June 2024, financial conditions have eased, which are expected to further improve the repayment capacity of borrowers.

Given Pakistan’s vulnerability to climate-related risks and increased frequency of extreme weather events, climate-change is one of the leading themes of our Strategic Vision-2028. SBP issued Framework for Effective Management of Climate-related Risks and Guidelines on Climate Stress Testing to strengthen the risk management frameworks of banks, Development Finance Institutions, and Microfinance banks (MFBs). The risk-based supervisory framework has been updated to also cover climate-related risks. Moreover, for MFBs, the government, in collaboration with the SBP, rolled out Climate Risk Fund-I under World Bank’s Resilient and Accessible Microfinance (RAM) initiative to promote climate resilient farming and provide liquidity support to small farmers affected by the floods.

Leveraging digital technologies and innovation to enhance financial literacy as well as access to finance for underserved segments of society remained a key priority of SBP during the year. Under National Financial Inclusion Strategy (NFIS) 2024-28, SBP launched a comprehensive financial literacy policy, the ‘National Financial Education Roadmap (NFER) 2025-29’, in April 2025. SBP launched Pakistan’s first Financial Inclusion Index (P-FII) which aims to comprehensively measure the progress on access, usage and quality of financial services across the country. Amid central bank’s continued efforts to promote financial inclusion, the level of inclusion further improved from 67 percent to 69 percent while the gender gap reduced to 29 percent by end December 2025 from 33 percent a year ago. We are now well positioned to achieve our strategic milestones on inclusion at 75 percent of the adult population and a reduction in gender gap to 25 percent by June 2028.

Our digitalization agenda also achieved major mileposts, including the implementation of PRISM+ and the rollout of QR code-based payments through RAAST. As an enabler for the financial sector, SBP launched Regulatory Sandbox Framework to allow controlled experimentation with emerging payment solutions. The RAAST adoption continued to gain strong momentum with its outreach expanding to around 48 million users and processing almost two billion transactions with value of around Rs 50 trillion. Overseas Pakistanis also increased their footprint as the gross inflows in Roshan Digital Accounts (RDA) crossed US$ 11 billion, while the number of expatriates with active RDAs exceeded 890,000 by end 2025. These improvements have also supported the robust inflows of workers' remittances to the country.

While the rapid adoption of digitalization provides convenience to customers and enhances the efficiency and delivery of financial services, specifically payment-related, the increased digitalization and use of technologies also entail cybersecurity and data privacy risks. SBP continued its vigilance of the cyber-related risks of its regulated entities and took various measures to strengthen the cyber resilience of institutions and protection of customers. Besides, SBP, in collaboration with financial institutions and law enforcement agencies, conducted various customer awareness campaigns on cybersecurity risks, which are expected to help in reducing financial frauds and enhancing digital resilience. Moreover, acknowledging the importance of practical counterfactual drills for effectively managing crises, SBP in collaboration with Pakistan Banks Association (PBA), conducted an industry-wide cybersecurity simulation exercise in January 2026. The drill followed a dual-track approach, covering both technical and management aspects of cyber threats. This initiative is expected to substantially help the banking sector in identifying the gaps and improving the cybersecurity profile.

In line with the changing environment and emerging best practices, SBP continuously strives to improve its macroprudential policy framework. In pursuance of Section 4C(j) of SBP Act 1956, SBP developed and published the Macroprudential Policy Framework (MPPF), which outlines the objectives, institutional framework, assessment mechanism, set of policy tools and communication strategy for the macroprudential surveillance in Pakistan. The framework will help stakeholders understand the mechanism of financial stability assessment and the set of tools at the disposal of SBP, which may be invoked as policy intervention(s) under certain stressed scenarios to contain systemic risks and ensure stability of the banking sector, in particular, and the financial sector, in general.

While the macroeconomic environment is susceptible to risks emanating from ongoing conflict in the Middle East, 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 efficient provision of financial services and credit in the economy.

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