

The Overview

1. Overall Performance of Financial Sector¹

Pakistan's financial sector posted steady performance and maintained resilience during the year 2025. The asset base of the financial sector expanded by 15.1 percent and the financial depth—measured in terms of assets to GDP ratio—increased to 67.1 percent (**Table 1**). Encouragingly, risks to financial stability subsided during the year under review.

Despite strong headwinds driven by volatile trade policies, associated uncertainties, and geopolitical tensions, the global output showed a steady growth of 3.4 percent.² In addition, major central banks—in the wake of receding inflation—continued to lower their policy rates during much of CY25, which contributed to a relative ease in global financial conditions (see **Chapter 1**).

Domestic macroeconomic conditions were also characterized by a supportive environment. For instance, price stability gradually took hold, external buffers strengthened amid contained current account deficit and financial inflows, and investor confidence improved. Against this backdrop, the real GDP grew by 3.1 percent in FY25 from 2.6 percent in FY24. The growth momentum got further traction in later half of CY25, i.e., national output expanded by 3.8 percent in H1FY26, as the coordinated and forward-looking monetary and fiscal policies continued to support the macroeconomic conditions. Moreover, two successful reviews under Extended Fund Facility (**EFF**) along with arrangements under Resilience and Sustainability Facility (**RSF**) further augmented the investor confidence.³ In this context, country's credit rating improved, and risk

Assets Composition of Financial Sector		Table 1	
	CY23	CY24	CY25
Assets - billion Rupees			
MFBs	771	1,069	1,029
DFIs	2,338	1,979	1,352
NBFIs	3,447	6,204	6,844
Insurance*	2,949	3,375	4,029
CDNS	3,179	3,227	3,553
Banks	46,364	53,693	63,231
Total	59,048	69,547	80,039
YoY Growth in Assets (percent)			
MFBs	2.4	38.6	-3.7
DFIs	63.3	-15.3	-31.7
NBFIs	34.5	80.0	10.3
Insurance*	14.3	14.4	19.4
CDNS	-6.2	1.5	10.1
Banks	29.5	15.8	17.8
Overall Financial Sector	27.0	17.8	15.1
Percent Share in Total Assets			
MFBs	1.3	1.5	1.3
DFIs	4.0	2.8	1.7
NBFIs	5.8	8.9	8.6
Insurance*	5.0	4.9	5.0
CDNS	5.4	4.6	4.4
Banks	78.5	77.2	79.0
Assets as a percentage of GDP**			
MFBs	0.8	1.0	0.9
DFIs	2.5	1.8	1.1
NBFIs	3.6	5.7	5.7
Insurance*	3.1	3.1	3.4
CDNS	3.3	2.9	3.0
Banks	48.6	49.0	53.0
Overall Assets	61.9	63.5	67.1

*Insurance data is available up to Sep-2025.

**GDP for Dec-25 is provisional.

Sources: SBP, SECP, CDNS, and PBS

¹ The analyses presented in this report were prepared on data outturns for CY25 and finalized in the last week of April 2026, using data and information as of then. At certain places the availability of data is as of September 2025, which are specified in the relevant chapters.

² International Monetary Fund. (2026). *World Economic Outlook April*

³ First and 2nd reviews were successfully completed in May 2025 and December 2025. RSF was approved in May 2025, and first review was completed successfully in December 2025.

premium observed a significant decline during the year under review.⁴

With improved output and moderation in global commodity prices, YoY inflation eased to 5.6 percent in December-25 – falling within the SBP’s target range. This, along with improved outlook for inflation, allowed SBP to further reduce the policy rate by 250 basis points (bps) in CY25 to 10.5 percent (following a cumulative 900 bps cut in CY24). Moreover, the current account balance, despite widening of trade deficit, remained contained due to strong inflow of workers’ remittances and favorable international commodity prices.⁵

Besides, developments on the fiscal front remained encouraging. The fiscal deficit narrowed to 5.4 percent (of GDP) in FY25 from 6.8 percent in FY24 with primary balance remaining in surplus. In H1FY26, fiscal balance also turned into a surplus of 0.4 percent. In the wake of anchored inflation expectations, narrowing imbalances, and traction in economic recovery, investor confidence remained upbeat as manifested by Business Confidence Index (BCI), which stayed above the threshold level of 50 in CY25 (see Chapter 1).

2. Financial Markets

The average volatility in domestic financial markets remained slightly higher during the year, mainly driven by equity market.⁶ Bullish sentiment continued to drive equity prices up and the KSE-100 index – with 51.2 percent growth – surged to 174,054 by end of CY25. Nonetheless, trade tariff uncertainty and geopolitical tensions had a material but

transitory impact on investor confidence. Foreign investors continued to be net sellers while mutual funds and individuals absorbed most of the selling pressure. Noticeable improvement in country’s FX reserves – mainly supported by strategic purchases in the interbank market – and reduced SBP’s forward liabilities kept FX market sentiment calm, resulting in stability of rupee-dollar parity. Money market also continued to function in an orderly manner under central bank’s effective monetary management (see Chapter 2).

3. Banking Sector

The banking sector maintained steady operational and financial performance and resilience during CY25. Balance sheet of the banking sector expanded by 17.8 percent against 15.8 percent a year ago. Strong balance sheet growth was primarily driven by investments in government securities. Accordingly, the share of investments in the asset-mix increased to around 62 percent from 55.5 percent in previous year. Advances, however, declined by 6.0 percent, reflecting higher base effect of last year’s ADR-linked tax policy, which incentivized the banks to substantially expand their lending portfolio and slow down deposit mobilization in Q4CY24. Adjusting for the base impact, the advances showed a decent growth, manifesting improved macro-financial conditions.⁷

On funding side, deposits accelerated and grew by 24.7 percent, reversing the impact of sharp slowdown in CY24. Accordingly, banks’ reliance on borrowing subsided in CY25, with its share

⁴ Fitch, S&P Global, and Moody’s upgraded Pakistan’s credit rating, respectively, in April 2025, July 2025, and August 2025.

Broadly, these agencies changed the credit rating due to sustained progress over fiscal consolidation, implementation of structural reforms, contained external liquidity risks, and recovery in international reserves. Moreover, Average Credit Default Swap (CDS) on 5 years bond declined to 719 bps in CY25 from 1,780 bps in CY24 and 4,770 bps in CY23.

⁵ Current account deficit stood at US\$ 0.4 billion as compared to a surplus of US\$ 0.5 billion in CY24. Trade deficit (goods & services) widened to US\$ 34.0 billion in CY25 from US\$ 26.7 billion in CY24. Workers’ remittances amounted to US\$ 40.2 billion in CY25 against US\$ 34.7 billion in CY24.

⁶ Average volatility increased to 0.50 percent in CY25 from 0.38 percent in CY24. The volatility is calculated by using Exponential Weighted Moving Average (EWMA) on daily percent changes of Weighted Average Overnight Repo Rate, interbank PKR/USD exchange rate and KSE-100 index.

⁷ For instance, in Q3CY25, the advances recorded a YoY growth of 11.2 percent.

in asset base falling to 25.1 percent from 27.9 percent in previous year.

The *credit risk*, being the major financial risk in banks' asset portfolio, remained contained and well provided for. Non-performing loans (NPLs) to gross loans ratio declined to 6.1 percent in December 2025, against 6.3 percent in December 2024. Importantly, the coverage for infection further improved, as the loan-loss allowances and provisions rose to 107.7 percent of NPLs (103.9 percent in December 2024). Besides the large exposure to low-risk sovereign securities, a high share of credit-worthy borrowers in banks' loan portfolio (e.g., rated borrowers constitute around 62 percent of banks' corporate and commercial loans), indicates contained credit risk.

The *market risk* of the banking sector has been quite contained. Even in the face of significant rise in the holding of government securities, interest-rate risk remained subdued because of larger share of securities with shorter repricing maturity. Moreover, limited exposure to FX and equities underpins banks' resilience even against severe shocks in market prices.

The *liquidity profile* of the banking sector remained strong during CY25. The treasury securities – representing the substantial part of asset base, i.e. 58.6 percent – have an active secondary market, which helps banks in managing daily liquidity needs. 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 215.0 percent and 174.3 percent at end December 2025, respectively.

After-tax *earnings* of the banks increased by 11.2 percent. As this growth was mainly volume driven, key earning indicators slightly moderated – after-tax return on assets (ROA) moderated to 1.2 percent (1.3 percent in last year) and after-tax return on equity (ROE) contracted to 19.8 percent (21.5 percent a year ago). The tax charges on banks' pre-tax profits

rose to 54.3 percent in CY25 from 52.9 percent in CY24.

Banking sector's *solvency* further strengthened as Capital Adequacy Ratio (CAR) improved to 20.8 percent at end 2025 (20.6 percent at end 2024). The prevailing CAR level remains well above the domestic and international minimum benchmarks of 11.5 percent and 10.5 percent, respectively. The overall solvency position of banking sector is well supported by steady earnings, comfortable financial buffers, and contained risk exposures. Further, sound credit ratings of individual banks also reflect the creditworthiness of the sector (see Chapter 3).

Islamic Banking Institutions (IBIs) continued their growth momentum during CY25, reaching around 23.0 percent of the total banking sector assets. With the highest-ever branch expansion during the year, IBIs assets grew by 30.7 percent and outpaced growth of their conventional counterparts for the second consecutive year. Investments and financing both witnessed remarkable growth during the year under review, supported by a notable growth in deposits. The credit risk subsided as the non-performing financing (NPF) to total gross financing ratio dropped to 2.4 percent by CY25 from 3.5 percent a year ago. However, key earning indicators i.e., ROA and ROE moderated to 1.8 percent (2.8 percent in CY24) and 24.7 percent (36.0 percent in CY24), respectively (see Box 3.1 in Chapter 3).

4. Microfinance Banks

The asset base of **Microfinance Banks (MFBs)** contracted by 3.7 percent in CY25 (38.5 percent growth in CY24). The contraction was driven by the migration of an institution to banking sector as a full-fledged digital bank. After considering this structural adjustment, the assets of the sector, however, grew by 7.3 percent. While infection ratio slightly fell to 9.1 percent from 9.7 percent in CY24, provisioning coverage rose to 138.1 percent from 95.2 percent in previous year. Over the last few years, the sector's borrowers have faced some severe exogenous shocks such

as the COVID-19 pandemic, heavy floods, elevated inflation and economic downturn. Accordingly, the sector faced loan losses, and its aggregate earnings are in red for the last seven years.

Encouragingly, pre-tax losses significantly reduced to Rs 2 billion in CY25 from Rs 25 billion last year. However, the consistent losses have eroded the capital base of the sector, with aggregate CAR falling to negative 1.2 percent. The sector contributes only 1.3 percent to the total assets of the financial sector and poses relatively lower systemic risk. Nonetheless, the MFBs hold importance from financial inclusion standpoint. The sector caters to the financial needs of low-income and financially underserved segments of the population, and its customer base is significantly higher than that of the commercial banks. SBP, through its active engagement and proactive intervention, is ensuring that the MFB sector revives, remains resilient, and continues to play its due role in financial inclusion and poverty alleviation.⁸ Accordingly, SBP played an active role in the restructuring and recapitalization of distressed institutions and revised prudential regulations to support financial stability and sustainability of microfinance banks (see Chapter 5).

5. Non-Bank Financial Sector

Non-Bank Financial Sector posted a mixed performance during CY25. The asset base of **Development Finance Institutions (DFIs)** contracted by 31.7 percent in CY25 (15.3 percent contraction in CY24). The shrinking balance sheet reflects sustained decline in exposure towards government securities as well as borrowings, driven by squeezed spread between yields on investments and funding cost. Advances, nonetheless, rebounded by 23.2 percent in CY25. The thrust for portfolio rebalancing came from declining interest rates and improving economic activity which stimulated credit demand by borrowers. Along with noticeable improvement in asset quality indicators, earnings and

solvency of the sector remained strong in the year under review (see Chapter 6.1).

The asset base of **Non-Bank Financial Institutions (NBFIs)** expanded by 10.3 percent in CY25 against an exceptional 80.0 percent growth in last year, which occurred due to one-off effect of ADR-linked tax policy on banks that diverted funding to NBFIs sector in the last few months of CY24. Mutual funds—having 66.3 percent share in NBFI sector's assets—experienced subdued growth of 2.2 percent largely owing to high-base effect of substantial inflows received in Q4CY24 that reversed during the year under review. While money market funds decelerated and income funds contracted, equity funds exhibited strong expansion in the wake of strong stock market performance. Nonetheless, in terms of the asset composition, two-thirds of the funds remained concentrated in money market and income funds.

The lending segment, however, grew by 21.5 percent in CY25 due to improved macroeconomic environment and easier financial conditions. From systemic risk standpoint, the interconnectedness between the banking and NBFI sectors and associated risks remained contained and well-managed (see Chapter 6.2).

The asset base of the **insurance sector** expanded by 19.4 percent during 9MCY25 (23.4 percent in 9MCY24). Premium revenues of the life segment expanded by 13.2 percent as individual new business and single-premium policies surged amid economic recovery. The premiums of non-life segment exhibited a growth of 8.8 percent during 9MCY25, mainly due to surge in auto sales (see Chapter 6.3).

6. Non-Financial Corporate Sector

In the wake of declining interest rates and reduction in finance costs, debt servicing

⁸ The new Financial Inclusion Index published by SBP increased to 58.1 in 2024 from 54.8 in 2023

capacity of the **Non-Financial Corporate Sector** improved in CY25.⁹ The data of selected firms indicate that although sales revenue faced pressures, a decent growth in other income and a fall in finance cost supported profitability. However, earnings indicators such as **ROA** and **ROE** moderated mainly due to increased taxation expenses. The sectoral performance presented a mixed picture: while textile, power, and petroleum sectors witnessed moderate increase in sales, the sales of fertilizer and sugar sectors declined. However, auto sector posted a strong growth in sales and revenues. Encouragingly, the probability of default – mainly reflecting market valuations, asset volatility and financial buffers – of the selected firms improved, mirroring healthy macroeconomic environment, and the investors' confidence in the prospects of firms. The credit worthiness and repayment capacity of top 30 borrowing groups of the banking sector also remained sound during CY25 (see **Chapter 7** and **Box 7.1**).

7. Financial Market Infrastructures

Financial Market Infrastructures (FMIs) continued to facilitate payments through steady performance during CY25. Pakistan Real-time Interbank Settlement Mechanism (**PRISM**), which handles large value payments, kept functioning smoothly and handled an even larger value of transactions compared with last year. Retail transactions witnessed impressive growth both in value and volume terms. While *digital transactions* continue to dominate volume of transactions, OTC transactions still lead in value terms.

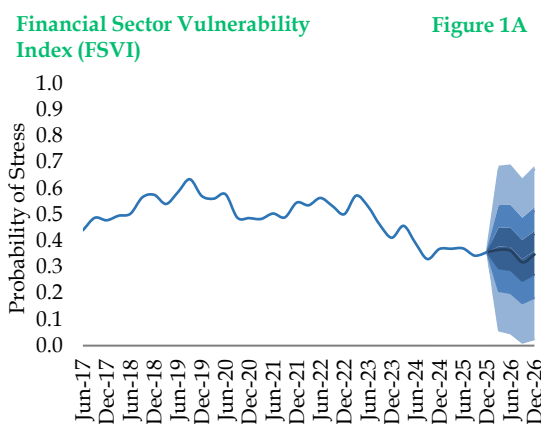
The policy makers took a number of measures to improve the efficiency of FMIs. For instance, PRISM+ was implemented – a next-generation platform designed to modernize and strengthen the national payment infrastructure. SBP also

rolled out QR code-based payments through RAAST.

Besides, National Clearing Company of Pakistan (**NCCPL**) successfully transitioned to T+1 settlement mechanism. The transition to one-business-day trade settlement aims to enhance the operational efficiency of securities market transactions and is aligned with global regulatory standards. Furthermore, SECP in collaboration with the Central Depository Company (**CDC**) and the Insurance Association of Pakistan (**IAP**), launched Pakistan's first motor insurance repository. This centralized repository aims to revolutionize the motor insurance landscape by enhancing transparency, improving underwriting practices, and combating insurance fraud (see **Chapter 8**).

8. State of Overall Financial Stability

The overall assessment of the state of financial stability, as measured by Financial Sector Vulnerability Index, reveals that most of the risks subsided in CY25 on the back of macroeconomic stability and improved macro-financial conditions (**Figure 1A and 1B**).¹⁰



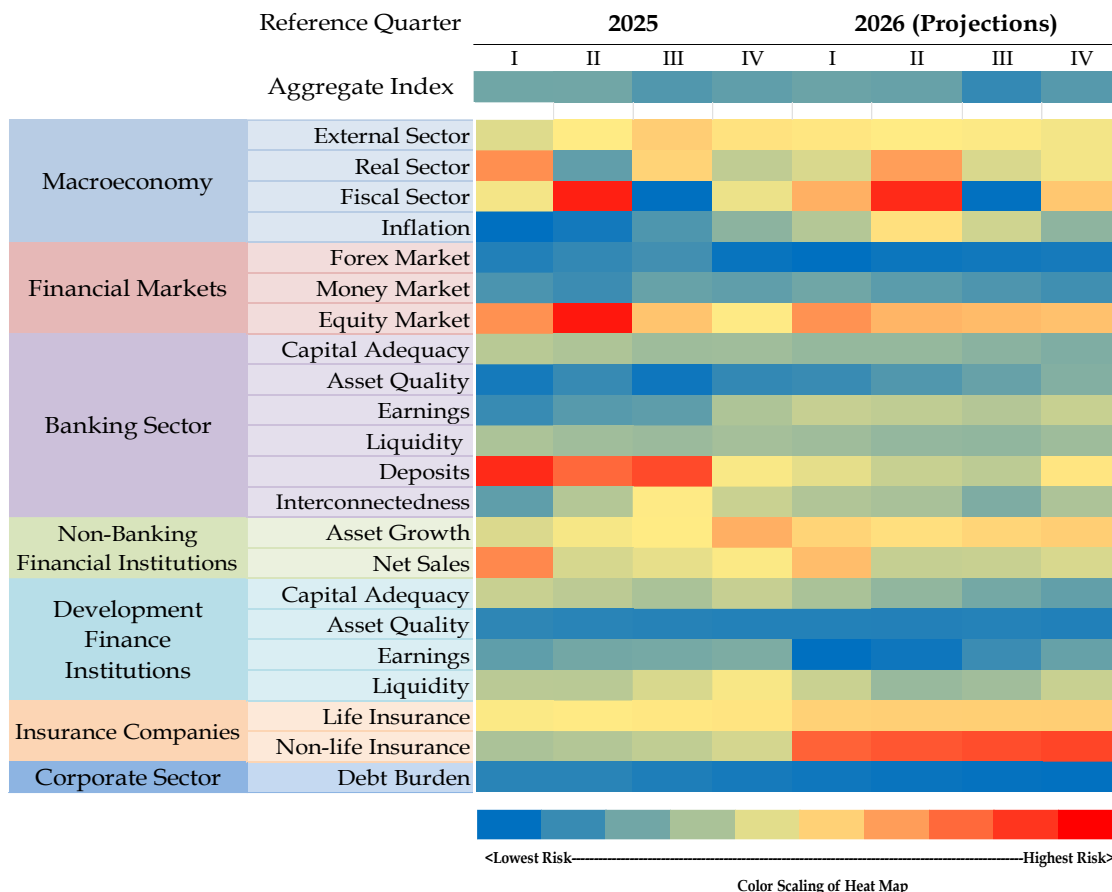
Source: State Bank of Pakistan Staff Estimates

⁹ Analysis is based on financials of select listed firms at Pakistan Stock Exchange.

¹⁰ Financial Sector Vulnerability Index (FSVI) represents an equally weighted average index of risks arising from the seven key areas i.e. the banking sector, Development Finance Institutions (DFIs), financial markets, non-bank financial institutions (NBFIs), Insurance sector, non-financial corporate sector, and the macro-economy. The risk spectrum ranges from 0 and 1, implying 'least risk' and 'highest risk', respectively. The individual sub-indices of key sectors form the basis of Financial Sector Heatmap. For

Financial Sector Heat Map

Figure 1B



Source: State Bank of Pakistan Staff Estimates

9. SBP’s Policy Measures in Key Areas

SBP’s regulatory and supervisory frameworks along with adequate safety nets are likely to preserve the general confidence in banking system and safeguard financial system stability. These frameworks are regularly reviewed and updated in line with emerging best practices and local environment dynamics. In CY25, SBP took additional measures in critical areas such as digital financial services, cybersecurity, climate risk, Islamic banking, and financing to priority segments.

For instance, to further promote digital financial services, Digital Retail Bank (DRB) licenses were granted to two banks, viz., Easypaisa Bank Limited and Mashreq Bank Pakistan Limited. Moreover, instructions were issued to enhance digital payment acceptance by requiring all regulated entities to provide digital payment acceptance solutions such as QR, POS, e-commerce gateways, and Raast P2M integration. In addition, SBP introduced a regulatory sandbox framework to facilitate controlled testing of innovative digital financial products and services within a defined regulatory environment (see Appendix A).

detailed methodology, see <https://www.sbp.org.pk/FSR/2017/Appendix-A.pdf> and <https://www.sbp.org.pk/FSR/2018/Appendix-A.pdf>

With rapid penetration of digital services, SBP continued to take measures to ensure the safety and resilience of cyber and information security regime. For instance, guidelines were issued to strengthen the security of digital banking products and services. Moreover, SBP introduced 'Cyber Shield', a strategic framework designed to consolidate the safety and robustness of the national financial ecosystem by establishing a multi-phased roadmap for regulated entities to enhance their systems. Particularly, SBP – in collaboration with Pakistan Banks Association – conducted first industry-wide cybersecurity drill in January 2026. The drill assessed technical readiness, decision making and management readiness for crisis responses (see Box 3.2). SBP also issued a Technology Risk Management Framework for Payment Institutions to strengthen governance, cybersecurity, and operational resilience across EMIs, PSOs, and PSPs.

On climate front, SBP has continued to take measures to bolster climate resilience of the banking sector. A regulatory framework for Effective Management of Climate-related Financial Risks was issued to ensure that financial institutions effectively identify climate risk drivers and integrate climate-related financial risk considerations into their governance, business strategy, and risk management frameworks. SBP also issued guidelines on climate stress testing, which will help the regulated entities to assess the impact of climate-related physical and transition risks on credit, market, operational and liquidity risks, and set minimum regulatory expectations in this area. In addition, SBP advised Banks/DFIs to use Pakistan Green Taxonomy (PGT) – notified by the government – as a reference guide for formulating and updating their green banking policies.

SBP also continued to lay enabling regulatory infrastructure in collaboration with relevant stakeholders to support *priority segments* during the year under review. For instance, SBP facilitated a government Risk Coverage Scheme for Small Farmers & Underserved Areas. This comprehensive scheme aims to enhance financing to small and marginalized farmers as well as the farmers in unserved and underserved areas. Moreover, SBP revised prudential regulations for SMEs to align the regulatory framework to the changing business environment and to promote sustainable, responsible, and inclusive SME finance.

The transformation of conventional banking to Islamic banking – as per the April 2022 verdict of the honorable Federal Shariat Court (FSC) and subsequent constitutional amendment in 2024 – remains a crucial task. In this regard, the Committee for Transformation (CT) of conventional banks to Islamic banking has made considerable progress against the intended targets. Furthermore, SBP has been actively pursuing to align Shariah compliance framework with internationally recognized best practices. Accordingly, SBP has adopted a total of forty-five (45) Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) standards and ten (10) Islamic Financial Services Board (IFSB) standards. It is noteworthy that Shariah-compliant Standing Ceiling Facility and Open Market Operations (OMO-injection) facilities were operationalized against PSX-issued Government of Pakistan Ijara Sukuk (GIS).

10. Financial Stability Outlook

While the recently achieved macroeconomic stability presents a sanguine outlook for financial stability¹¹, the uncertainty around the conflict in the Middle East may pose downside risks. A protracted and widespread conflict may

¹¹ Encouragingly, Pakistan successfully concluded staff level agreement with the IMF on Third Review under the Extended Fund Facility (EFF) and Second Review under the Resilience and Sustainability Facility (RSF) in March 2026. The disbursement of the installment is expected to be approved by the IMF Board in early May 2026.

keep oil prices higher for longer and disrupt global supply chains. Consequently, inflationary pressures may resurge, and the external account could come under strain, potentially affecting the growth momentum. The latest Systemic Risk Survey, conducted in January 2026, also indicates that independent experts foresaw geopolitical risk as the topmost risk at present as well as six months down the road (**see Box 1**). This risk may have spillover effect on the banking and financial sector of Pakistan. Nonetheless, the banking sector is well positioned to withstand severe shocks as it is supported by strong financial cushions, prudent and time-tested supervisory and crisis management frameworks that have effectively weathered severe macroeconomic stresses in the past.

The results of our latest stress tests also strengthen this view, indicating that the banking sector in general and large systemically important banks in particular are expected to remain solvent, exhibit resilience and can withstand even severe shocks over the projected horizon of three years (**see Chapter 4**). Preserving the hard-earned stability gains as well as improvement in productivity growth and export competitiveness are crucial policy priorities as these will determine the durability of a sustainable macroeconomic momentum. Being cognizant of prevailing and emerging risks, SBP will continue to endeavor to utilize the available toolkit and capabilities to achieve price stability, ensure financial stability, and promote sustainable economic growth.