



State Bank of Pakistan

**GOVERNOR'S ANNUAL REPORT
2024 - 2025**



Governor's Annual Report

2024-2025

October 17, 2025



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Governor's Annual Report

2024-2025

The analysis and projections presented in this report were prepared on data outturns for FY25 and finalized in the second week of October 2025, using data and information as of then.

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This Report has been prepared in accordance with section 39(1) of the *SBP Act 1956* (as amended up to January 2022), which states that the Governor shall submit annual report before the Majlis-e-Shoora (Parliament) regarding the achievement of the Bank's objectives, conduct of monetary policy, state of the economy and the financial system.

Objectives of the State Bank of Pakistan

Objectives	<p>The objectives of the State Bank of Pakistan are set out in Section 4B of the <i>SBP Act 1956</i> (as amended up to January 2022), which states:</p> <ol style="list-style-type: none">1. The primary objective of the Bank shall be to achieve and maintain domestic price stability.2. Without prejudice to the Bank's primary objective, the Bank shall contribute to the stability of the financial system of Pakistan.3. Subject to sub-sections (1) and (2), the Bank shall support the Government's general economic policies with a view to contributing to fostering the development and fuller utilization of Pakistan's productive resources.
Definition of Price Stability	<p>Price stability means the maintenance of low and stable inflation guided by the government's medium-term inflation target. (section 2 (kb) of the <i>SBP Act 1956</i> (as amended up to January 2022))</p>

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Mr. Najaf Yawar Khan	Non-Executive Director, SBP Board
Mr. Muhammad Ali Latif	Non-Executive Director, SBP Board
Mr. Fawad Anwar	Non-Executive Director, SBP Board

LETTER OF TRANSMITTAL

State Bank of Pakistan
Karachi.
October 17, 2025

Dear Mr. Chairman,

In terms of Section 39(1) of the State Bank of Pakistan Act, 1956, Governor's Annual Report on the achievement of the Bank's objectives, conduct of monetary policy, state of the economy and the financial system for the year 2024-2025 is hereby enclosed for submission to the Majlis-e-Shoora (Parliament).

With warm regards,

Yours sincerely,



(Jameel Ahmad)
Governor
Chairperson, Board of Directors

Syed Yousaf Raza Gilani
Chairman
Senate of Pakistan
Islamabad

LETTER OF TRANSMITTAL

State Bank of Pakistan
Karachi.
October 17, 2025

Dear Mr. Speaker,

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With warm regards,






Yours sincerely,



(Jameel Ahmad)
Governor
Chairperson, Board of Directors

Sardar Ayaz Sadiq
Speaker
National Assembly of Pakistan
Islamabad

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Governor's Remarks

The continuation of a cautious monetary policy stance and fiscal consolidation further strengthened economic stability, with macroeconomic conditions improving for the second consecutive year in FY25. The National CPI (NCPI) inflation declined sharply, while financial system remained resilient, and real GDP grew moderately. The current account balance (CAB) improved considerably that supported the build-up of foreign exchange reserves and stability in the foreign exchange market.

The disinflation that had started in FY24 became pronounced in FY25. Average NCPI inflation fell to 4.5 percent, marking a substantial drop from 23.4 percent in FY24 and 29.2 percent in FY23. While the decline was broad-based, food inflation contributed the most, owing to a host of factors, including the impact of lower international food prices and better availability of food commodities. This was followed by a notable decrease in energy inflation that benefitted from downward adjustments in administered energy tariffs amid lower global energy prices. Core inflation nearly halved during FY25, reflecting a contained domestic demand, easing second round effects of previous shocks to food and energy prices, and anchored inflation expectations.

Responding to improving inflation outlook, the SBP's Monetary Policy Committee (MPC) reduced the policy rates by 1,100 basis points (bps) between June 2024 and June 2025. However, in view of the unfolding impact of substantial reduction in the policy rate in H1-FY25 and sticky core inflation; along with uncertainty emanating from global trade tariffs, rising geopolitical tensions, and the timing and size of adjustments in administered energy prices, the MPC slowed the pace of monetary easing from the start of 2025. The measured monetary policy stance led to a considerable increase in private sector credit, supporting a gradual recovery in economic activity, especially towards the end of FY25. This was particularly reflected in increasing large scale manufacturing output in Q4-FY25. Meanwhile, fiscal deficit narrowed further to a multi-year low of 5.4 percent of GDP, and the primary surplus more than doubled to 2.4 percent.

The external account position continued to strengthen, with the CAB posting the first surplus in fourteen years. Although trade deficit expanded as the year progressed, a substantial increase in workers' remittances helped post the highest current account surplus in 22 years. The surplus in CAB together with the increase in financial inflows, following the IMF's Extended Fund Facility (EFF), induced stability in the FX market, allowed the SBP to make significant purchases from interbank market, and helped strengthen the country's foreign exchange reserves. The improved external account position, supported by continued fiscal consolidation, also helped improve the country's credit ratings.

The global economic environment also remained largely favourable, though the situation became increasingly uncertain towards the end of FY25. Global demand picked up slightly, whereas global commodity prices eased. However, owing to a steep rise in tariffs by the US, and the ensuing risks to global supply chain, global trade policy uncertainty began rising in Q2-FY25 and surged to an unprecedented level in Q4-FY25. This necessitated caution in monetary policy decisions by the central banks in advanced as well as emerging and developing economies.

The country's financial system remained resilient with the banking sector – the largest player in Pakistan's financial system – exhibiting stability across key indicators and recording an improvement in solvency indicators. The banking sector's asset quality indicators improved further compared to FY24, whereas the adoption of IFRS-9 since January 2024 helped strengthen banks' risk management practices, and further enhanced their loss-absorption capacity during FY25. The banks' assets continued to grow, reaching 52.4 percent of GDP in FY25 from 49.1 percent in the previous year.

Investments in government securities remained the main driver of banking sector balance sheet. However, owing to continued fiscal consolidation together with government's mobilization of resources from non-bank sources and higher external finance towards the end of FY25, the share of banks in the financing mix fell. This facilitated more-than-two-fold increase in loans to private sector businesses that saw higher demand on the back of improving economic conditions, lower borrowing costs and elevated operational costs. In contrast to banking sector assets, the sector's deposit growth slowed, whereas the currency-in-circulation expanded amid rising domestic uncertainty due to regional conflict.

Microfinance banks (MFBs) also witnessed improvement in key soundness indicators during FY25. The sector's infection ratio improved and the loan-loss allowances and provisions exceeded the non-performing portfolio in FY25. Although MFBs' capital adequacy ratio (CAR) deteriorated, the sector's aggregate losses shrank by three times. Keeping in view the importance of MFBs for financial inclusion, SBP continued to provide regulatory support, and maintained enhanced supervision and proactive engagement with the MFBs. In this connection, the government, in collaboration with the SBP, has recently rolled out Climate Risk Fund-I for MFBs under World Bank's Resilient and Accessible Microfinance (RAM) initiative. The fund aims to promote climate resilient farming and provide liquidity support to small farmers affected by the floods.

In addition to its efforts to ensure price and financial stability, SBP continued to support the government's general economic policies, as part of its tertiary objective. From macroeconomic perspective, these included a host of measures to increase workers' remittances and exports. In particular, exchange company reforms and administrative measures that reduced kerb market premium, along with increase in incentives for banks and exchange companies, encouraged higher remittance inflows through formal channels. Moreover, pre-departure briefings to emigrant workers as well as continued outreach and awareness campaigns among Pakistani diaspora on sending remittances via efficient and secure channels, also helped grow remittances. Similarly, SBP facilitated exporters, especially in IT sector, by enhancing the retention limit to promote reinvestment and innovation.

During FY25, SBP continued to strengthen the digital payments ecosystem as part of its ongoing efforts to promote cashless economy. To this end, SBP established Raast Payments Pakistan (Pvt.) Ltd., a wholly owned subsidiary, to oversee the operations, development, and governance of Raast with the objective of achieving agility and scalability. During the year, SBP also introduced Pakistan Real-Time Interbank Settlement Mechanism Plus (PRISM+), replacing the earlier RTGS system. Developed with enhanced processing capacity, PRISM+ incorporates SBP's first Central Securities Depository (CSD) and has several new innovative features in line with the international best practices. As an enabler for the financial sector, SBP launched Regulatory Sandbox Framework to allow controlled experimentation with emerging payment products and services. SBP also led a key initiative of implementing digital payment acceptance solutions at major cattle markets across the country during Eid-ul-Azha 2025, along with further digitization of government payments.

Other measures to increase financial inclusion included the launch of National Financial Inclusion Strategy (NFIS) 2024-28. The NFIS 2024-28 focuses on leveraging digital financial services and reducing gender gap to improve the level of financial inclusion in Pakistan to 75 percent and reduce the gender gap to 25 percent by 2028. Under NFIS, SBP launched a comprehensive financial literacy policy titled 'National Financial Education Roadmap (NFER) 2025-29' in April 2025. These steps were taken in addition to the continuation of the SBP's Banking on Equality Policy and a variety of measures to promote Islamic banking as well as agriculture and SME financing. Loan disbursements to agricultural sector grew by 16.3 percent during FY25, exceeding the target outlined in commercial banks' expansion

plans, whereas outstanding SME finance rose by around 41 percent alongside nearly 57 percent increase in the number of SME borrowers.

While these measures would help towards Pakistan's long term economic growth and development, a host of supply-side structural and governance reforms are also needed to maintain price and financial stability alongside achieving sustainable growth. Recent taxation and customs tariff reforms; deregulation of agriculture commodity market; and gradual withdrawal of untargeted subsidies are encouraging. Indeed, there is a need to remain steadfast and let the reform process take its course, as premature unwinding of reform efforts can significantly set back economic progress. In this regard, the immediate forecast horizon already seems challenging in view of global tariff policy shifts in 2025 that may affect global trade and economic growth prospects, and the domestic 2025 floods that damaged agricultural produce and engendered supply-chain disruptions.

While average inflation has eased further to 4.2 percent in Q1-FY26, the unfolding impact of floods and global uncertainty present notable upside risks. Going forward, inflation may cross the upper bound of the target range of 5 - 7 percent for most of the second half of FY26, before reverting to the target range in FY27. Similarly, the upside risks to external account outlook have somewhat increased, although the current account deficit is expected to be contained in the range 0 - 1 percent of GDP in FY26. Likewise, the fiscal consolidation efforts may also be affected if the government is unable to ensure growth in tax collection through broadening of tax base, or offers untargeted subsidies to meet the expectedly greater-than-budgeted requirement to spend on social safety nets and rehabilitation and reconstruction of flood-affected areas. Nevertheless, the FY26 real GDP growth is expected to be higher, compared to FY25, in the range of 3.25 - 4.25 percent, whereas stress testing results suggest that the financial sector, especially the banking sector, to remain stable.

SBP is closely analyzing the situation and factoring in the risks in its policy decisions, as and when more information becomes available. We remain on guard to counter threats to price and financial stability that are critical to sustain economic growth over the medium to long term.

1 The State of Pakistan's Economy and Financial System

A well-coordinated monetary and fiscal policy mix played a key role in strengthening macroeconomic stability during FY25, with inflation falling sharply from its historic highs in the preceding two years. The fiscal deficit narrowed further, whereas the current account balance (CAB) turned into a surplus amid robust remittances, supporting a build-up in foreign exchange reserves and stability in the foreign exchange market. To preserve these hard earned gains, SBP cautiously calibrated its monetary policy stance, by accounting for risks to inflation and the external account, such as sticky core inflation, volatile global commodity prices, and trade policy uncertainty, while supporting recovery in real economic activity. The financial sector remained stable and resilient, amid continued growth in deposits and a noticeable jump in private sector credit. Meanwhile, continued fiscal consolidation led to reduced reliance on financing from the banking sector, facilitating a substantial increase in private sector credit. These developments bode well for increasing the breadth and depth of the banking sector and macroeconomic stability, as well as facilitating sustainable economic growth.

1.1 The State of Pakistan's Economy

Pakistan's macroeconomic conditions improved further during FY25, cementing the stability that had started taking hold in the previous fiscal year. The National CPI (NCPI) inflation fell sharply, reflecting the impact of a combination of subdued domestic demand and favourable supply side factors. The former was the result of the continuation of a cautious monetary policy stance and fiscal consolidation.

This sharp disinflation, improved inflation outlook, and continued strengthening of the external account position allowed a large

reduction of 1,100 basis points (bps) in the policy rate during June 2024 to May 2025. After aggressively reducing the policy rate by 900 bps during June to December 2024, the Monetary Policy Committee (MPC) slowed the pace of easing between Jan-Jun 2025 on account of sticky core inflation; growing uncertainty surrounding global tariffs; and rising geopolitical tensions.

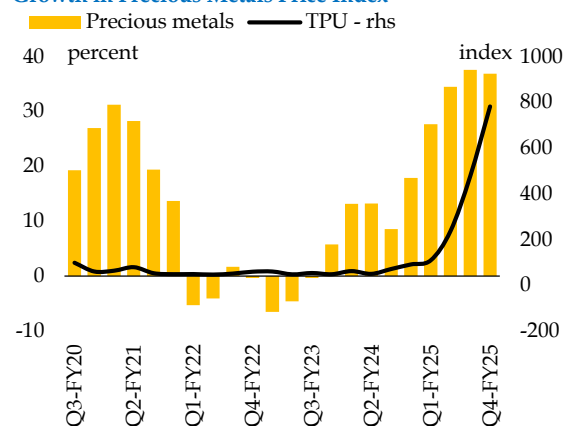
The external account also improved markedly as the year progressed, with the current account balance posting a surplus for the first time in 14 years. This, coupled with the net inflow of US\$ 1.5 billion from various multilateral, bilateral, commercial sources, and disbursements under the IMF's Extended Fund Facility (EFF) program, strengthened foreign exchange reserves. These developments also helped ensure exchange rate stability throughout the year. Meanwhile, real GDP growth ticked up in FY25 compared to the previous year. The pickup in domestic economic activity was visible, particularly during the second half of the fiscal year.

International Developments

Emerging from the spate of shocks in the last four years – the pandemic, global supply chain crisis, commodity super cycle, soaring inflation, and ensuing monetary tightening – the global economy witnessed modest growth in FY25. With the exception of the US, GDP growth increased notably in Pakistan's leading trading partners – the EU, the UK, and China – as well as major remittance corridors of the Middle East. Global trade also posted 3.7 percent growth amid a recovery in new export orders.

However, as the year progressed, the global economy faced a fresh wave of uncertainty owing to unprecedented and steep rise in tariffs

Trade Policy Uncertainty Index (TPU) and Growth in Precious Metals Price Index Figure 1.1



Sources: WB and Caldara et al (2019)

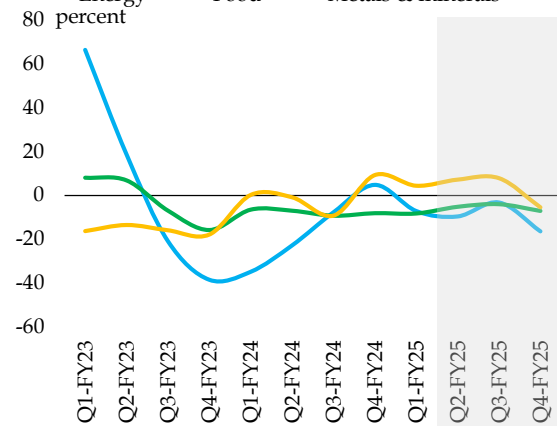
imposed by the US in the second half of FY25. Concerns over tariffs had already emerged in the first half of the year, during the lead up to the US elections in November 2024. Whilst this led to a rise in the prices of precious metals, as is often the case (Figure 1.1), it also contributed to a notable decline in energy and food prices as the uncertainty dampened the prospects of global trade and economic growth (Figure 1.2). Average global energy prices fell by 9 percent during FY25, because of concerns over a trade war and excess oil supply. Global food prices also declined by 6 percent amid expectations of record global grain production.

Despite the continued softening of global commodity prices, global inflation inched up towards the end FY25. This reflected tariff-related uncertainty and ensuing risks to the global supply-chain, which added to the existing pressures emanating from tight labour markets in advanced economies (AEs), and currency depreciation in the case of emerging and developing economies (EMDEs). Central banks, therefore, slowed the pace of monetary easing in both AEs and EMDE in the last quarter of FY25 to stay ahead of the curve in the face of mounting uncertainties.

Real Sector

Pakistan's real GDP growth in FY25 edged slightly higher to 3.0 percent, compared to the

Global Commodity Price Indices Figure 1.2

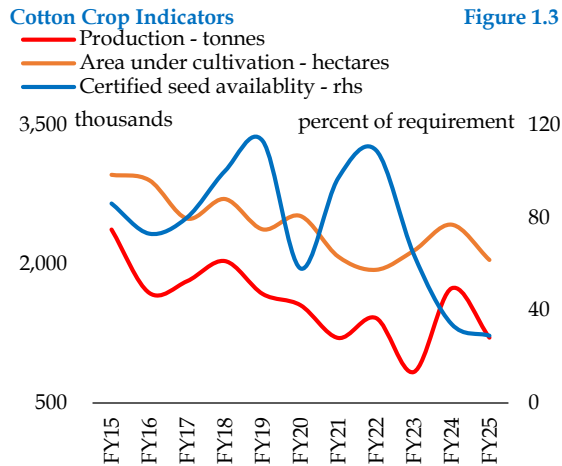


Source: WB

previous year's 2.6 percent. This was mainly driven by the service sector that contributed 1.7 percentage points, led by higher growth in general government, transport & storage, ICT and real estate services, which outweighed the impact of notably slower growth of education and wholesale & retail trade services. The latter reflected the decline in output of important crops and contraction in large scale manufacturing (LSM).

Growth in agricultural sector decelerated sharply from 6.4 percent in FY24 to 1.5 percent in FY25, with its contribution to real GDP growth falling to just 0.4 percentage points in FY25 from 1.5 percentage points in the previous year. This modest agriculture growth was primarily driven by livestock, supported by higher milk and poultry output, that more than offset the decline in crop output. The latter was mainly due to a double-digit decline in production of important crops amid falling yields in all major crops, and notable decrease in area under cultivation in wheat and cotton. In part, these trends stemmed from adverse weather conditions, and cash flow constraints faced by farmers due to low crop prices in FY24 that contributed to lower use of fertiliser, pesticides and other inputs.

The fall in important crop output is also attributed to a shift in agriculture policy. The

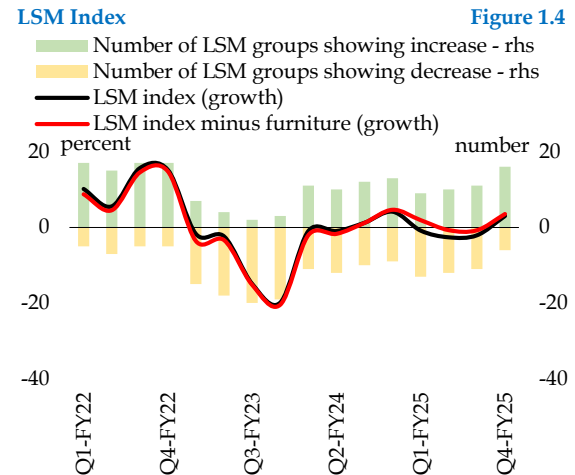


Sources: PBS and FSCRD

transition to market-based crop pricing, especially of wheat, following the discontinuation of minimum support price (MSP) and government procurement, created uncertainty. Similarly, cotton production decreased on account of both lower area under cultivation and fall in yield amid uncertainty regarding the announcement of its MSP in FY25. These developments led farmers to shift to other competing crops such as rice and sesame seeds. It is worth noting that cotton production, and the area under its cultivation has been declining over the last 10 years, amid a consistent decrease in the availability of certified seeds (**Figure 1.3**) and increased climate-induced stress. This is a cause for concern, considering that cotton is a key input for textile industry that contributes more than half of Pakistan's total exports.

Industrial activities grew by 5.3 percent in FY25, against the contraction during the previous two years. The recovery was largely driven by increase in value addition of electricity, gas and water supply, attributed mainly to higher subsidies. This together with the growth in construction, and small scale manufacturing sector more than offset the decline in mining and quarrying and the contraction in LSM.

The fall in LSM is mainly attributable to a sharp decline in output of few sub-sectors, as the number of sub-sectors that saw an increase in

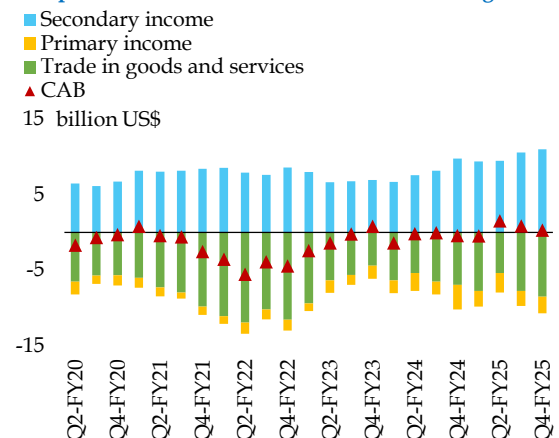


Source: PBS

output during FY25 was higher than that in FY24. Specifically, a substantial decline in the production of furniture masked the relatively better performance of the overall LSM index. The contraction in furniture output – that essentially tracks furniture export data – alone dragged down LSM growth by 1.6 percentage point (**Figure 1.4**).

Food, non-metallic minerals (mainly cement), iron and steel and chemicals (fertiliser) are other major sub-sectors that contributed negatively to LSM growth. The fall in output of food group was led by sugar, due to delay in sugarcane crushing amid uncertainty regarding the announcement of its MSP. Moreover, the production of cooking oil, ghee and tea also decreased. Cement and steel production continued to decline for the fourth and third consecutive year, respectively, despite higher federal and provincial development spending. This was largely due to weak private demand amid elevated cost of construction and increase in property taxes. Amongst the major LSM sub-sectors that posted an increase in output, textile saw export-led growth, whereas automobile production increased amid lower interest rates, improved consumer sentiments, stability in exchange rate and increased availability of imported inputs.

Components of Current Account Balance Figure 1.5



Source: SBP

Notwithstanding the contraction on full year basis, signs of recovery in LSM were visible towards the end of FY24. In fact, the growth in LSM index turned positive in Q4-FY25 after declining in three preceding quarters. The number of sub-sectors showing growth also increased as the year progressed. This suggests that the reduction in the policy rate enabled a gradual revival in manufacturing sector.

External Sector¹

The external account saw remarkable improvement with the CAB posting a surplus of \$2.1 billion in FY25 compared to a deficit of \$2.1 billion in FY24. The CAB surplus in FY25 was the first in 14 years, and the highest in 22 years. The country's trade deficit, however, widened as the year progressed, on account of a broad-based rise in imports that more than offset a rather moderate increase in exports. The record current account surplus, therefore, was mainly on the back of strong growth in workers' remittances, supported by government's incentives and the SBP's measures to lower transaction costs and encourage higher inflows through formal channels (Figure 1.5).

The widening of trade deficit was primarily due to a sharp increase in imports by 10.2 percent in FY25 compared to a fall of 1.0 percent in the year before. With the exception of petroleum group, all major import groups recorded growth largely driven by higher volumes. The unit prices of oil imports declined, whereas the unit values of non-oil imports posted muted growth in the wake of softening global commodity prices.² Higher volume of non-energy imports, especially that of industrial raw materials, machinery and metals, was in line with gradual recovery in LSM output, and a strong export-linked demand amid a fall in agriculture production (Figure 1.6).

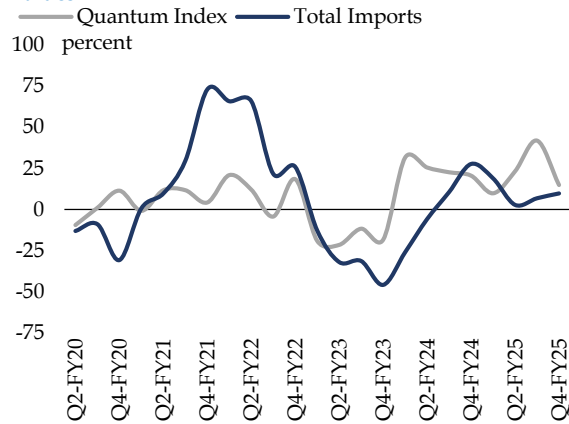
In particular, growth in machinery imports contributed nearly one-fourth of total increase in import, whereas textile imports contributed around 45 percent. Within textile, raw cotton imports jumped nearly 3.5 times and contributed to around 51 percent of total increase in textile imports. This was mainly due to a widening gap between domestic cotton production and requirement, largely from cotton-based textile exporters; and a continuation of this trend can potentially impair the country's textile terms of trade. Food group also posted a modest increase. This was despite a decline of \$1.0 billion in wheat import, which was more than offset by a sharp increase in the import of palm oil and pulses; the latter hit a record high amid rising demand and persistent shortfalls in domestic production.

Export growth slowed to 4.5 percent during FY25 from 10.7 percent last year. As the year progressed, the pace of export growth slowed as the pickup in global demand gave way to rising trade uncertainty, especially in H2-FY25. The deceleration in export growth also reflected the confluence of softer global food prices, and a high base effect as last year's higher growth rate was supported by a surge in food exports,

¹ Trade numbers in this report are based on SBP's BOP (payments) data. However, discussions on commodity-wise import/export and their volume and unit price are based on customs data (on value and volume) as reported by Pakistan Bureau of Statistics.

² Based on data available up to March 2025.

Growth in Import Quantum Index and Import Values



Source: PBS

particularly rice and sesame seeds, buoyed by favourable international prices and India’s ban on rice exports in FY24 (**Figure 1.7**).

Textile exports rose by 7.4 percent compared to 0.9 percent the previous year, contributing about 90 percent of the total increase in exports. This increase was led by both price and quantum effects in apparel and home textile; apparel export alone contributed 86 percent to total export growth in FY25. Considering that apparel exports typically generate significantly higher value per unit weight compared to bulkier home textiles, the rise in apparel exports in FY25 bodes well for the economy. However, it also masks the risks emanating from low diversification.

In contrast to textile, growth in non-textile exports collapsed to about 1.0 percent from 25 percent last year. This was despite a 34.2 percent jump in pharmaceutical exports on the back of strong global demand, better availability of raw materials and deregulation of non-essential drug prices announced in February 2024. The slower growth in non-textile exports was mainly due to a notable fall in rice exports, particularly of non-basmati rice, as India’s re-entry into the global rice market led to lower export prices. Exports of ‘other manufactures’ – that reflects a variety of goods including pharmaceutical, cement, leather and footwear, medical and surgical instruments, cutlery and sports goods – have been on a

Figure 1.6 Growth in Export Quantum Index and Export Values

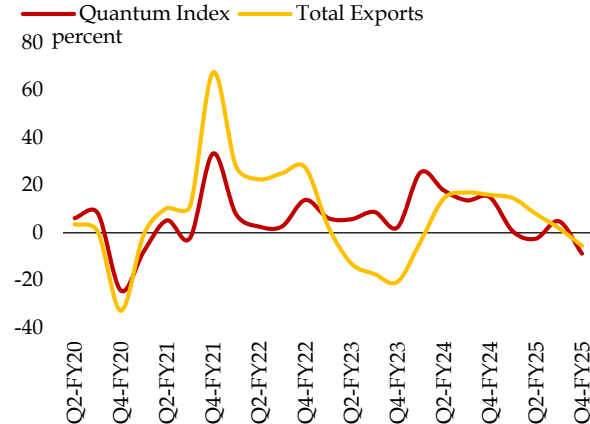
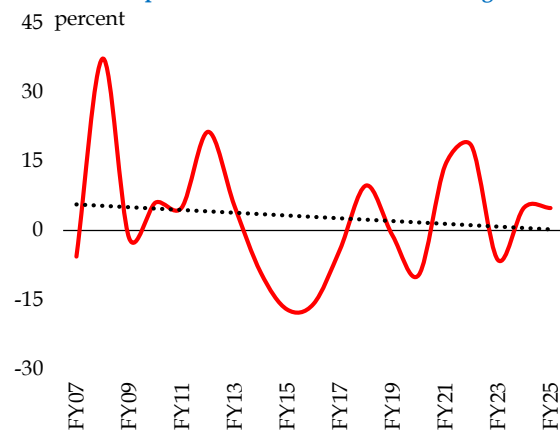


Figure 1.7

decline over the last 15 years (**Figure 1.8**). Reversing this trend is important to reduce external sector vulnerabilities, recurrently exposed by large trade deficit.

The increase in trade deficit in FY25 was counterbalanced by strong growth in workers’ remittances. In the backdrop declining trend in exports as percent of GDP, workers’ remittances have become an important source of foreign exchange (**Figure 1.9a**). However, cross-country analysis suggests that excessive reliance on remittances in countries with higher import dependency and supply-side issues, may lead to structural inflationary pressures through sustained higher consumption demand, reduced

Growth in Exports of Other Manufactures **Figure 1.8**



Sources: PBS

labour supply, movement of labour to non-tradable sectors, and loss in export competitiveness (Figure 1.9b).³

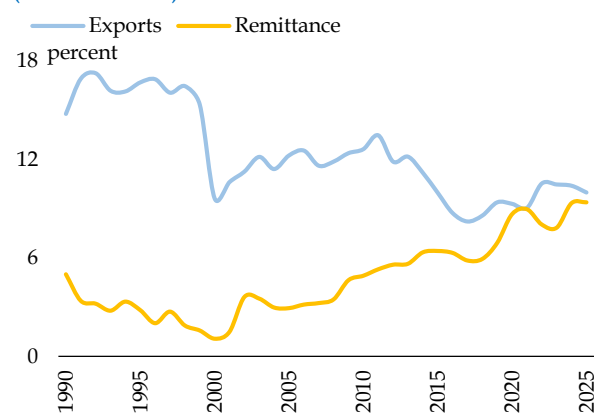
Nevertheless, a remittances-led current account surplus, together with higher official disbursements from multilateral and bilateral creditors, including the IMF, helped improve foreign exchange liquidity in the market. This helped bring stability in the foreign exchange market throughout the year, and enabled SBP to purchase US\$ 7.7 billion from the interbank market during FY25 on net basis, leading to a strengthening of the country's FX reserves.⁴ The PKR depreciation remained modest in FY25 at 1.9 percent compared to an appreciation of 2.7 in the previous year, whereas the kerb premium also remained subdued during the year. The trends in the external account, coupled with continued fiscal consolidation, led the international credit rating agencies to upgrade country's sovereign credit rating.

Fiscal Policy and Public Debt

Pakistan's fiscal position continued to improve in FY25, building on the momentum of the previous two years of consolidation. The fiscal deficit narrowed for the third year in row to 5.4 percent of GDP, slightly better than the budgetary target of 5.9 percent. The primary balance improved for the third consecutive year, with the surplus more than doubling to 2.4 percent of GDP in FY25, exceeding the budgetary targets for the second consecutive year. The revenue balance also improved to a deficit of 3.1 percent of GDP compared to 5 percent last year. Provincial governments also contributed meaningfully, posting a consolidated surplus of 0.8 percent of GDP, up from 0.5 percent in the previous year.

These developments were underpinned by robust FBR tax collection, record non-tax revenues – particularly SBP profit – and contained interest payments (in terms of GDP) amid declining interest rates. However, non-

Exports and Workers' Remittances (Percent of GDP)



Sources: WB and SBP

Figure 1.9a High Remittance Inflow and Inflation

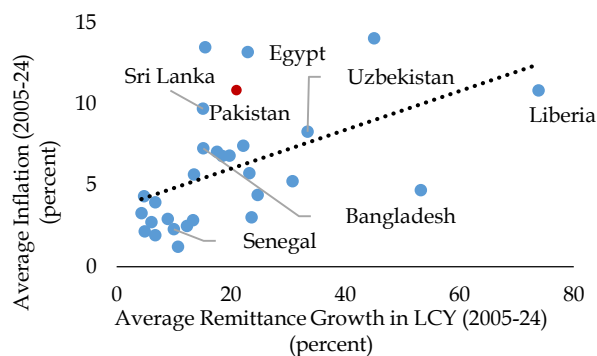


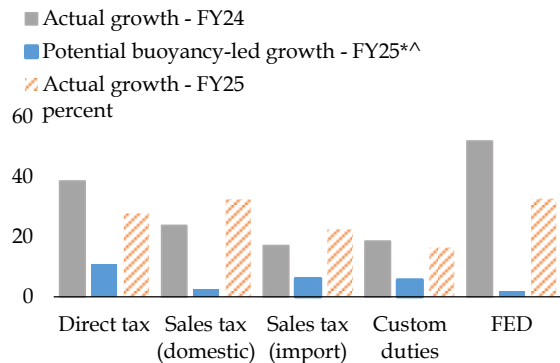
Figure 1.9b

Note: This chart compares average remittances growth and average inflation from 2005 to 2024 in 23 LMIC and 6 LIC countries that registered average remittance to GDP of 5 percent or more during this period

³ Narayan, P. K., Narayan, S., & Mishra, S. (2011). Do Remittances Induce Inflation? Fresh Evidence from Developing Countries, *Southern Economic Journal*, Vol.77 No.4.; Guha, P. (2013). Macroeconomic Effects of International Remittances: The Case of Developing Economies. *Economic Modelling*, Vol. 33.; Chand, S. A., & Singh, B. (2024). Role of Remittance on Sustainable Economic Development in Developing and Emerging Economies: New Insights from Panel Cross-sectional Augmented Autoregressive Distributed Lag Approach. *Journal of Risk and Financial Management*, Vol.17 No.4.; Naqvi, S. T. A. (2016). Remittances, Inflation and Economic Growth: A Case Study of Pakistan, *Pakistan Institute of Development Economics*.

⁴ In addition, SBP took initiatives to make intervention data and bi-annual FX reserves projections for next 6 months public as important steps toward transparency and guidance to improve market confidence.

Actual vs Potential Buoyancy-led Growth in FBR Taxes **Figure 1.10**



*Based on buoyancy metric provided in FBR's EBRF report 2024-25; ^without new measures

Sources: FBR, PBS and SBP staff calculations

interest expenditure – developmental spending, subsidies and grants – increased during FY25.

Total revenue grew by nearly 36 percent in FY25, equivalent to an increase of 3.2 percent of GDP, with both tax and non-tax revenue contributing equally (1.6 percent of GDP) to revenue growth. The continued rise of non-tax revenue was on the back of higher SBP profit. Federal tax-to-GDP ratio also rose from 8.9 percent of GDP in FY24 to 10.3 percent in FY25 with almost equal contribution from direct and indirect taxes. The growth in tax collected by Federal Board of Revenue (FBR) was notably above the expected buoyancy-led growth pegged to growth in the tax base (**Figure 1.10**), reflecting FBR's efforts to expand the tax base, rationalizing of tax exemptions, and other measures, such as higher rates/duties.

Direct taxes were driven by income tax on banks' profits, and withholding taxes that continued to contribute the most in direct tax collection. This was despite a decline in WHT on interest income due to falling interest rates. The WHT on salaries and contracts contributed nearly two-thirds of WHT collection, followed by WHT on imports, transfer of immovable property, and advance tax on retailers/wholesalers. Within the indirect taxes, sales tax contributed the most – about one-third of the increase in FBR's tax collection in FY25 –

where the growth was driven by higher collection at import stage and from domestic sales of electricity, sugar, cement, and motor cars.

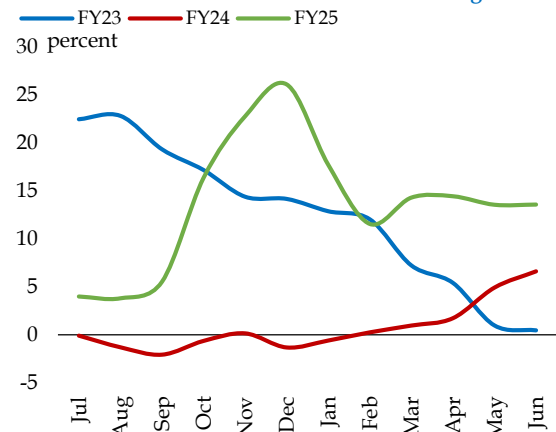
On the expenditure side, interest expenditures remained unchanged in percent of GDP in FY25, marking a notable shift after two years of consecutive increases. This was primarily due to the decline in interest rates. Non-interest expenses, however, increased by around 1.8 percent of GDP, reversing the declining trend of the previous two years. This was mainly on account of higher provincial current and development expenditures that increased by 0.7 and 0.6 percent of GDP respectively, as well as a notable increase in subsidies and grants that cumulatively rose by 0.2 percent of GDP. While total subsidies were less than budgeted, power sector subsidies rose due to capacity payments and tariff differential subsidy. This more than offset the decline in non-power subsidies, such as that on gas, petroleum and Utility Stores.

Total public debt-to-GDP ratio rose to 70.8 percent during FY25, after a decline to 67.7 percent in FY24. This was entirely on account of an increase in domestic debt, whereas external debt remained unchanged in terms of GDP. The increase in the public debt to GDP ratio in FY25 was due to slower growth in nominal GDP and a slight PKR depreciation.

Money and Credit Developments

Fiscal consolidation, through lower budgetary borrowings, also contributed to slower growth in broad money (M2) in FY25. M2 growth decelerated to 13.7 percent from 16 percent in the previous year. This was primarily due to a favourable compositional change as net domestic assets (NDA) of the banking system saw a significantly lower expansion, while Net Foreign Assets (NFA) grew nearly threefold on account of a sustained improvement in the external account position. The growth in NDA slowed to around 8.2 percent in FY25 compared to 13.1 percent in the year before, as budgetary

Growth in Loans to Private Sector Business Figure 1.11



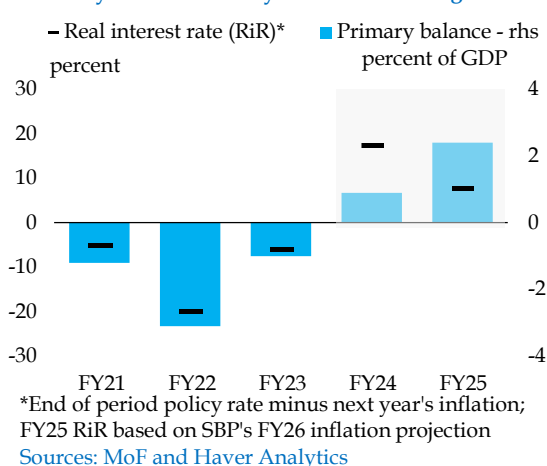
Source: SBP

borrowing from scheduled banks was about 58 percent lower in FY25, besides continued retirement of credit to public sector enterprises and commodity operations financing. These together offset the impact of private sector credit (PSC) offtake, which doubled during FY25.

The recovery in PSC was broad-based with a higher number of sectors borrowing for both working capital and fixed investment purposes. This trend reflected a decline in the cost of borrowing, gradual recovery in the manufacturing sector, higher operational costs in some sectors, and banks' efforts to avoid higher tax slabs in case their advance-to-deposit ratio (ADR) remained below 50 percent at end-December 2024 (Figure 1.11). It also reflected the growth in textile exports, as the sector availed nearly 36 percent of the total increase in loans to private sector businesses. However, the increase in PSC slowed in H2-FY25. In addition to the usual seasonal retirements, this was due to a slowdown in exports in the second half, and a reversal of earlier growth in the advances motivated by ADR-based tax policy on banks' income from government securities.

From the liabilities side, the slowdown in M2 growth in FY25 is explained by lower deposit inflows in the backdrop of falling interest rates, whereas currency-in-circulation (CiC) increased, amid rising domestic uncertainty due to

Monetary and Fiscal Policy Coordination Figure 1.12



regional conflict. These together with still elevated government borrowing and a sharp jump in PSC, contributed to liquidity pressures in the interbank money market. As a result, average deviation of Weighted Average Overnight Rate (WAONR) from the policy rate stood at 25.4 bps in FY25 compared to a negative 8.3 bps in the previous year. Moreover, responding to elevated demand for liquidity, the SBP upped its liquidity injections through Open Market Operations (OMOs), with outstanding OMO stocks rising by 21 percent during FY25, albeit significantly lower than the nearly 62 percent growth in the year before.

Inflation

Average NCPI inflation dropped by more than four times during FY25 to 4.5 percent, from 23.4 percent in the previous year. This steep fall from multi-decade high inflation was the result of both moderate domestic demand and favourable supply-side factors. On the supply side, cooling international prices; structural reforms – such as the removal of minimum support prices on wheat – better availability and price administration of essential food commodities; exchange rate stability; and a downward adjustment in administered energy tariffs were the main factors behind disinflation. On the demand side, the lagged impact of tight

monetary policy stance, complemented by fiscal consolidation has borne fruits (**Figure 1.12**). The food group majorly contributed towards lower NCPI inflation, accounting for nearly half of the decline in FY25. While inflation in perishable food items also fell quite sharply, it was more pronounced in non-perishable food items. In the urban basket, average non-perishable (food) inflation dropped to 1.7 percent from nearly 23 percent in FY24, rural areas saw a deflation of 0.8 percent in non-perishable food items compared to inflation of 22 percent in the year before. This was mainly due to a decline in the price of wheat and wheat flour amid a bumper wheat crop and discontinuation of the MSP for wheat and procurement of commodity by government.

The energy group contributed around one-third of the fall in urban inflation, and one-fifth of the decline in rural inflation. A confluence of factors, including softer global oil prices, easing base effect of previous years' gas tariff adjustments, and downward adjustment in electricity charges supported the fall in energy inflation. Continued easing of global oil prices also resulted in lower fuel prices, offsetting the

impact of an increase in Petroleum Development Levy.

Core inflation, as tracked by the non-food non-energy (NFNE), also nearly halved during FY25 in both urban and rural areas (**Figure 1.13**). This was mainly due to a calibrated monetary policy stance, complemented by sustained fiscal consolidation that helped mitigate the second-round effects of previous year's spike in food and energy prices. A stable exchange rate also kept the prices of imported goods in check. The pace of decrease in core inflation, however, slowed in H2-FY25 compared to the sharp fall in first half. The trend in core inflation coupled with rising global uncertainties, as well as uncertainty over timing and magnitude of administered energy prices amid still unfolding impact of earlier aggressive monetary easing necessitated a cautious approach, reducing the pace of reduction in the policy rate in H2-FY25.

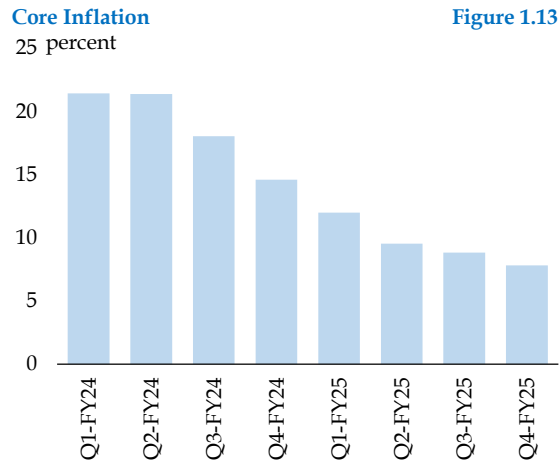
The State of the Financial System

The financial sector exhibited a steady performance, and continued the provision of credit and other financial services amid an improving economic environment during FY25. The asset base of the financial sector increased by 14.3 percent to Rs 74.7 trillion by the end of FY25, while the financial depth – measured in terms of financial sector's assets to GDP ratio – recovered in FY25, reflecting the expansion in financial intermediation in the context of falling inflation and a pickup in economic activity (**Table 1.1**).⁵

Trends in Key Financial Sector Indicators

Banking Sector

Being the largest component of the financial system, the banking sector drove the expansion



Source: SBP

⁵ Empirical evidence also suggests that inflation impedes financial depth. For instance, see Khan M.S, Senhadji A.S & Smith, B.D. (2006). Inflation and Financial Depth, *Macroeconomic Dynamics*, Vol.10, No.2. Conversely, falling inflation helps in improving financial depth. Recent empirical evidence indicates there is a statistically significant long- and short-run negative effect of inflation on financial sector development. For details, see Khaled B, Wasfi A. S. & Mohammad Q. M. M. (2021). The Impact of Inflation on the Financial Sector Development: Empirical evidence from Jordan, *Cogent Economics & Finance*, Vol.9, No.1.

Governor's Annual Report 2024-25

Assets Composition of the Financial Sector Table 1.1

	Jun-23	Jun-24	Jun-25
Assets (billion Rupees)			
MFBs	721	782	891
DFIs	3,224	2,460	1,488
NBFIs	2,922	3,978	5,635
Insurance*	2,744	3,322	3,754
CDNS	3,248	3,140	3,397
Banks	40,797	51,687	59,572
Total	53,655	65,370	74,737
Asset growth (percent)			
MFBs	19.3	8.6	13.9
DFIs	301.3	-23.7	-39.5
NBFIs	34.6	36.2	41.6
Insurance*	15.3	21.1	13.0
CDNS	-10.5	-3.3	8.2
Banks	17.0	26.7	15.3
Overall financial sector	20.7	21.8	14.3
Share in total assets (percent)			
MFBs	1.3	1.2	1.2
DFIs	6.0	3.8	2.0
NBFIs	5.4	6.1	7.5
Insurance*	5.1	5.1	5.0
CDNS	6.1	4.8	4.5
Banks	76.0	79.1	79.7
Assets as percent of GDP*			
MFBs	0.9	0.7	0.8
DFIs	3.9	2.3	1.3
NBFIs	3.5	3.8	5.0
Insurance*	3.3	3.2	3.3
CDNS	3.9	3.0	3.0
Banks	48.8	49.1	52.4
Overall assets	64.1	62.1	65.7

*For FY25, insurance data is as of March 2025

Sources: SBP, SECP, CDNS, and PBS

in assets of the system by growing at 15.3 percent in FY25 (Table 1.1).⁶ The major driver of the growth in assets of the banking sector remained investments, particularly in government securities. However, owing to lower financing needs due to fiscal consolidation, availability of the non-bank as well as external financing, the share of banks in financing the budget deficit reduced to 74.0 percent in FY25, compared to almost 100 percent in FY24. In this backdrop, the private sector credit (PSC) off-take more-than- doubled during FY25, compared to FY24, as the improvement in economic activity and business confidence amid

⁶ Among financial institutions, the SBP regulated entities represent around 83 percent of the assets of financial sector. As such, the financial performance and standing of these entities is crucial for the financial system and overall economy. The banking sector holds key significance in the financial sector due to its large market share as well as the crucial role that it plays in financial intermediation and payment systems.

⁷ For instance, credit to private sector rose by Rs 1,144 billion in FY25 compared to Rs 491 billion in FY24. Data source: Credit classified by borrowers, SBP

Key Balance Sheet Variables of Banks, DFIs and MFBs Table 1.2

	Jun-23	Jun-24	Jun-25
Banks			
Total Assets	40,797	51,687	59,572
Investments (net)	21,504	30,973	37,492
Advances (net)	12,060	12,083	13,218
Deposits	26,785	32,538	37,423
Development Finance Institutions (DFIs)			
Total Assets	3,224	2,460	1,488
Investments (net)	2,944	2,134	1,185
Advances (net)	188	191	218
Deposits	36	58	59
Microfinance Banks (MFBs)			
Total Assets	721	782	891
Investments (net)	157	164	217
Advances (net)	360	376	415
Deposits	520	640	709

Source: Unaudited Quarterly Returns Submitted by Institutions

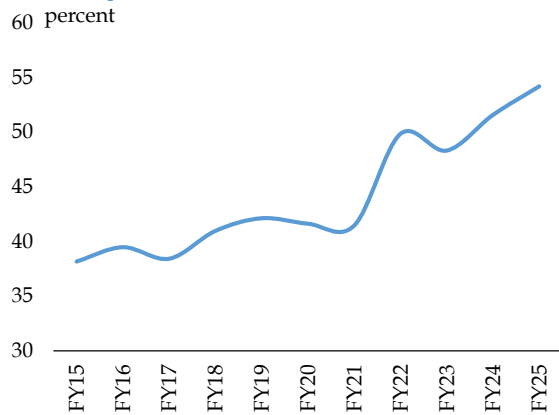
falling interest rates increased credit demand in the country.⁷

On the funding side, deposits and borrowings together financed around 85 percent of the increase in banks' asset base during FY25 (Table 1.2). Profitability remained steady on the back of expanding earning assets in the falling interest rate environment; though higher income tax charges, i.e. 54.1 percent of pre-tax profit (51.6 percent in FY24), suppressed the earnings (Figure 1.14). The after-tax profit of the banking sector increased by 11.8 percent in FY25 to Rs 721 billion, compared to 30.4 percent growth in FY24. Nevertheless, the baseline profitability indicator – the Return on Equity (ROE) – moderated to 1.3 percent from 1.4 percent in FY24 (for details see section on Earnings in Chapter 3).

Development Finance Institutions

Unlike the banking sector, the asset base of Development Finance Institutions (DFIs) shrank for the second consecutive year in FY25. Earlier in FY23, DFIs substantially expanded their asset

Taxation Charges on Profit Before Taxes of Banking Sector Figure 1.14



Source: SBP staff calculations

base mainly by investing in liquid government securities – financed through borrowings – in a rising interest rate environment. However, due to unfavourable market dynamics the DFIs' Net Interest Margin (NIM) turned negative in H2-FY24, creating an incentive for DFIs to reduce investments and expensive borrowings. Accordingly, DFIs slashed their holding of government securities and retired the borrowings. Amid this portfolio rebalancing activity, coupled with a favourable interest rate dynamics, the NIM of the sector improved and enabled it to post an after tax profit of Rs 42 billion in FY25 (Rs 13 billion in FY24 and Rs 21 billion in FY23).

Microfinance Banks

In the case of Microfinance Banks (MFBs), assets witnessed a noticeable growth of 13.9 percent. This was mainly due to expansion in investments in government securities, explaining around half of the total expansion in asset base, though the advances also rebounded with 10.4 percent growth in FY25. In line with business model of the MFBs, i.e. reliance on

large number of high-yielding small loans to finance the funding costs, advances constituted major part of asset base of the MFBs. From the financial soundness perspective, the increased investments helped improve their liquidity ratios and meet the enhanced Statutory Liquidity Requirement (SLR) requirement prescribed under the revised prudential regulations for MFBs.⁸

MFBs has been facing challenges since the COVID-19 pandemic, which severely affected the repayment capacity of its small and micro borrowers who generally have relatively lower resilience against severe exogenous shocks. This strain was further compounded by subsequent tightening of macro-financial conditions and devastating flooding of 2022. Nonetheless, MFBs showed signs of recovery in FY25, as after-tax losses substantially fell to Rs 5.9 billion from Rs 18 billion in FY24.⁹ The higher net interest income and earnings from fee and commission were major drivers behind the improved performance of MFBs in FY25. Even in the face of challenging environment, MFBs continued to play an important role in providing financial services to the underserved and low-income segments and contributed in enhancing the financial inclusion agenda of the government and the SBP.

Non-Banking Financial Institutions

Non-Banking Financial Institutions (NBFIs) demonstrated a strong growth of 41.6 percent in FY25 - the highest since FY17. Total assets reached Rs 5,635 billion by end-June 2025, raising the sector's market share to 7.5 percent (Table 1.1). The growth in NBFIs was primarily driven by fund-management segment,¹⁰ which accounted for 91.2 percent of the assets of NBFIs as of end-June 2025. After experiencing a

⁸ For MFBs, SLR has been increased from 10 percent to 12 percent; vide ACFID Circular No. 01 of 2025.

⁹ The MFB sector posted this improvement, despite the fact that a well-performing MFB became a digital commercial bank and migrated out of the sector during FY25.

¹⁰ The fund management segment includes: Asset Management Companies (AMCs), Investment Advisors (IAs), Real Estate Investment Trusts (REITs), Mutual Funds, Pension Funds, Private Equity (PE) Funds, and Discretionary/ Non-discretionary Portfolios.

marginal contraction in the previous year, the lending segment rebounded in FY25 with a growth of 34.8 percent.¹¹ The relative share of lending segment, however, declined to 8.8 percent in FY25 (9.3 percent in FY24).

The growth in fund-management segment was driven by mutual funds, which accounted for 76.6 percent of the assets of the segment and 69.8 percent of total NBFIs assets at end-June 2025. The mutual fund assets surged by 45.2 percent, reaching Rs 3,933 billion in June 2025. Within mutual funds, the major thrust came in income and money market funds in the first half of FY25 as the banks endeavored to increase their advances by lending substantial amounts, inter alia, to the NBFIs to avoid ADR-linked higher tax rate on banks' income from government securities. Following the withdrawal of this tax policy, Q3-FY25 witnessed outflows from mutual fund segment. However, inflows resumed in Q4-FY25, with the revival of corporate participation in mutual funds. The revival seems to be driven by amendments in the SBP's Minimum Deposit Rate (MDR) policy in which the PKR saving deposits of financial institutions, public sector enterprises and public limited companies with banks were excluded from applicability of MDR. The change made mutual funds an attractive investment avenue for these categories of depositors. Other category of fund management segment, i.e. portfolios, also expanded by 34.8 percent to Rs 776 billion in FY25.

With an improvement in the overall macroeconomic environment and easing of financial conditions, especially amid falling interest rates, the performance of lending segment of NBFIs also improved in FY25. Besides, the addition of new entities also contributed to the rebound of lending segment.

Within the lending segment, Non-Bank Microfinance Companies (NBMFCs) stood out with an asset growth of 51.2 percent, which took their bottom line to Rs 297 billion at end-June 2025. This bodes well for enhancing the financial inclusion and access to finance for small borrowers. Modarabas and investment finance companies also showed decent growth of 23.8 percent and 15.0 percent, respectively. Overall, the expansion of NBFIs sector, particularly the mutual funds, portfolios and microfinance, underscores its growing role in the financial intermediation process.

Insurance Sector

The insurance sector posted a decent growth in its asset base, which expanded by 13.0 percent during 9M-FY25 to reach Rs 3,754 billion. Both life and non-life segments contributed to this growth. However, in line with its leading share in the sector, the life segment contributed major part of the sectoral asset growth.¹² The life segment grew by 13.2 percent, while non-life segment grew by 11.9 percent in 9M-FY25.

It is also encouraging to see a steady increase in share of both Family and General Takaful in the insurance sector over the past two decades. From a marginal share in 2006, Family Takaful has grown to capture about 15 percent of the life insurance market, while General Takaful has reached around 14 percent of the non-life segment by December 2024, reflecting rising acceptance of Shariah-compliant insurance products.¹³

Nevertheless, insurance penetration remains low in Pakistan at just 0.7 percent as of December 2024.¹⁴ The low penetration highlights both the challenges in reaching wider segments of the population and a significant problem in

¹¹ Lending NBFIs include Leasing Companies, Modarabas, Investment Finance Companies, Housing Finance Companies, Non-Bank Microfinance Companies (NBMFCs), etc.

¹² Pakistan's insurance sector is dominated by life segment with 85.2 percent share in asset base in March 2025; while non-life segment's share was 14.8 percent

¹³ SECP (2024). Report on Insurance Industry Statistics 2024.

¹⁴ SECP (2024). Report on Insurance Industry Statistics 2024.

tapping into the growth potential of the sector. The sector faces a number of challenges, e.g., weak enforcement of mandatory insurance under existing laws, limited data sharing for monitoring, lack of insurance coverage for informal sector workers, and dearth of standardized products.

To address these issues, Securities and Exchange Commission of Pakistan (SECP), the regulator of insurance sector, has proposed the development of a national-level insurance scheme, tailored to informal sector workers as part of its larger effort to build a more inclusive and resilient social protection ecosystem.¹⁵ SECP is also working on expanding mandatory health and group insurance through amendments in provincial labour laws. Further, efforts are underway to broaden life and motor insurance, increase local retention,¹⁶ strengthen digital distribution, and promote products such as agriculture and disaster insurance.

To put this into context, Pakistan is highly vulnerable to climate change and ranks 8th among the most affected countries.¹⁷ Heavy rain and flash floods have now become a recurrent phenomenon during the monsoon season, causing losses to life, livestock, crops and physical infrastructure, while the risks of drought and heatwaves have also increased. In this regard, the insurance sector can play an active role in providing innovative products to various segments of the population and unlock vast untapped potential.

From the perspective of financial stability, it is encouraging that the SECP is taking steps to improve 'ease of doing business', support capital and reinsurance access, implement

modern regulatory standards like risk-based supervision, implement International Financial Reporting Standard (IFRS)-17, and encourage innovation and digitization. This will help build a stronger and more inclusive insurance market.¹⁸ In this regard, the country's first-ever digital-only non-life insurance license was granted to Digi Insurance Limited in July 2025, marking a significant milestone in the evolution of Pakistan's insurance sector.¹⁹

Trends in Financial Intermediation by the SBP-Regulated Entities

Deposit mobilization and promotion of savings

Branch network of the SBP-regulated entities, i.e. banks, MFBs, and DFIs recorded the highest increase of 923 in last three years to reach 19,278 by end-June 2025 from 18,355 at end-June 2024. The rising branch network along with the expansion in alternate delivery channels (ADCs)²⁰ helped financial institutions (FIs) in carrying out the intermediation and catering to demand for financial services of a large population base of the country. The deposit accounts of the SBP-regulated FIs maintained the momentum, registering a 12.5 percent growth to reach 242 million by the end of FY25.²¹ With the conversion of a microfinance bank into a digital retail bank, a part of the account ownership shifted from MFBs to the banking sector, which raised banks' share in accounts to 70.9 percent in FY25 from 48.9 percent in FY24.

Banks, DFIs and MFBs together mobilized additional deposits of Rs 4,955 billion (a growth

¹⁵ SECP (2025). Insurance as a Tool of Social Security: Landscape of Pakistan.

¹⁶ The retention rate is the proportion of gross written premium that an insurer retains for its own account after ceding a proportion of the risk and corresponding premium to re-insurers.

¹⁷ German Watch Global Climate Risk Index (2025)

¹⁸ SECP (2024). Five Year Strategic Plan – Journey to an Insured Pakistan

¹⁹ SECP Press Release dated July 22, 2025, available at: www.secp.gov.pk/wp-content/uploads/2025/07/Press-Release-SECP-Grants-Pakistans-First-Digital-Only-Non-Life-Insurance-License-to-Digi-Insurance-Limited.pdf

²⁰ ADCs include various channels such as ATM, Internet banking, Agent/ merchant banking, Mobile banking, e-Wallet, Call center

²¹ SBP (2025), Statistics on Scheduled Banks, Microfinance Banks and Development Finance Institutions in Pakistan

of 14.9 percent) in FY25, and total deposit reached Rs 38,191 billion at end-June 2025. In line with its high share in financial sector, the major part of this deposit mobilization came from the banking sector, amid healthy increase in current and saving deposits.²² However, in mid-FY25, the deposit mobilization of banks dampened due to banks' strategy to raise their Advances to Deposit (ADR) by expanding advances and moderating deposits growth in view of the ADR-linked tax policy.²³ The deposit mobilization, however, recorded a recovery during second half of the FY25, after abolition of ADR-linked tax.²⁴

Meeting credit needs of the economy

The steady progress of stabilization measures led to a substantial fall in inflation and revival of business confidence, providing room to ease the monetary policy stance with a cumulative reduction of 950 bps in FY25. In an improving macroeconomic environment, the SBP-regulated FIs were able to accelerate lending. The combined loan portfolio of banks, DFIs and MFBs increased by 9.5 percent during FY25 – much higher than the muted growth of 0.3 percent in previous year. The private sector advances grew by 14.1 percent, compared to 4.5 percent growth in FY24.²⁵

Investments of the SBP-regulated FIs, which mainly comprise government securities and represent a substantial part of the balance sheets of the banking sector and DFIs, grew by 16.9 percent in FY25, much slower compared to 35.2 percent growth of the previous year. Major

reasons for this subdued expansion were lower financing needs amidst an increase in non-tax revenue as well as the government's strategy to diversify its financing sources by resorting to non-bank and external resources. Nonetheless, investments remained a substantial part of banking sector's asset base, with 62.9 percent share in total assets. Banks' exposure to public sector (advances plus investments in government securities) increased to 65.0 percent of their asset base at end-June 2025, up from 63.9 percent at end-June 2024. During FY25, the government was able to achieve a noticeable fiscal consolidation. A continuation of this trend is essential for reducing government's reliance on banking sector and creating space for lending to the private sector.

Being the major financial intermediaries, banks accounted for around 95 percent of the expansion in combined advances of the SBP-regulated FIs during FY25. The total advances of the banking sector surged by Rs 1,134 billion in FY25 (compared to only Rs 24 billion increase in FY24) as the improvements in macro-financial conditions and ADR-linked tax policy facilitated the growth in advances. A number of sectors, such as textiles, chemicals and pharmaceuticals, agri-businesses and electronics increased their bank financing. However, cement, autos, energy and sugar witnessed net retirement in FY25, reflecting better cash flow situation of these sectors.²⁶

Public sector advances, which are typically dominated by non-financial public sector enterprises and commodity operations financing

²² The combined share of savings and fixed deposits rose to 55.5 percent in June 2025 from 53.4 percent in FY24, while share of current accounts also rose to 42.7 percent in June 2025 from 38.7 percent in June 2024.

²³ ADR-linked policy aimed to tax banks' income from government securities at progressively higher rates in case their ADR fell below 50 percent. (For details, see Chapter 3 in SBP's FSR (2024))

²⁴ ADR-linked tax policy was abolished through 'The Income Tax (Amendment) Ordinance, 2024' dated December 28, 2024.

²⁵ Combined advances of banks, DFIs and MFBs rose by 9.5 percent to Rs 13,850 billion in FY25 compared to only 0.3 percent in FY24. Source: Unaudited Quarterly Reports of Conditions submitted by banks to SBP through RCOA

²⁶ For instance, average price of refined sugar rose to Rs 152/kg in FY25 compared to Rs 146/kg in FY24. Sugar exports (in quantum) terms rose to 765,734 MT in FY25 from only 33,101 MT in FY24. The better export earnings also support the argument of better cash flow in the sector that translated into decline in bank borrowing of sugar in FY25. Sales of passenger cars rebounded by 37.5 percent in FY25 from a decline of 15.7 percent in FY24. Data source: Pakistan Bureau of Statistics and Pakistan Automotive Manufacturing Association

(mainly wheat), recorded a net retirement during FY25. The government discontinued wheat procurement amid reforms in commodity operations, while provincial procurement agencies are gradually retiring their existing debt under these operations.²⁷ Accordingly, the share of public sector advances in total domestic loan portfolio fell to 23.6 percent at end-June 2025 (28.1 percent at end-June 2024).

With relatively better credit off-take and falling inflation, the private sector credit to GDP ratio also slightly improved to 8.7 percent in FY25 from 8.4 percent last year. However, due to stronger deposit mobilization compared to growth in advances and banks' focus on investments in government securities due to higher credit needs of the government, the advances to deposits ratio (of banks, DFIs and MFBs) fell to 36.3 percent in FY25 from 38.1 percent in FY24.

In terms of credit outreach, the total number of borrowers of banks and MFBs recorded healthy increase of 24.3 percent in FY25 to reach 13.4 million. Within the SBP-regulated financial institutions, a part of the borrower clientele shifted to the banking sector, as one of the MFBs became a digital bank. With this shift, the share of MFBs in total number of borrowers fell to 47.8 percent by end-June 2025 from 65.5 percent at end-June 2024. Nonetheless, MFBs continued to play a crucial role in provision of microcredit to low-income borrowers as well as achievement of financial inclusion goals under the SBP's Vision 2028.

Islamic Banking Institutions (IBIs) continued their strong growth in FY25. The IBIs posted higher expansion in asset base and deposits compared to the previous year. The growth was

Performance of Islamic Banking Institutions (IBIs) Table 1.3

	IBIs		Conventional Banks	
	FY24	FY25	FY24	FY25
billion Rupees				
Total assets	9,689	12,345	41,998	47,228
Investments (net)	4,489	5,935	26,484	31,557
Financing (net)	3,449	4,033	8,634	9,185
Deposits	7,363	9,533	25,175	27,889
Growth (percent)				
Total assets	19.4	27.4	28.5	12.5
Investments (net)	29.3	32.2	46.9	19.2
Financing (net)	3.8	16.9	-1.2	6.4
Deposits	25.4	29.5	20.4	10.8
Share in Total Assets (percent)				
Investments (net)	46.3	48.1	63.1	66.8
Financing (net)	35.6	32.7	20.6	19.4
FDR/ADR (percent)*	46.8	42.3	34.3	32.9

* FDR= Financing to Deposits ratio for IBIs and ADR=Advances to Deposits ratio for Conventional banks

Source: SBP

also higher than their counterpart conventional banks. Asset base grew mainly on the back of investments (mostly in Shariah-compliant government securities), followed by financing (Table 1.3). Accordingly, the market share of IBIs in the asset base of banking sector and the share in deposits rose to 20.7 percent and 25.5 percent, respectively, by end of FY25, from 18.7 percent and 22.6 percent in FY24.

With 6 full-fledged Islamic banks and Islamic banking branches of 15 conventional banks, 21 IBIs were offering Islamic banking services at end-June 2025.²⁸ During the year under review, the branch network of IBIs expanded by 1,199 to reach 6,395 at the end-June 2025 – historically, the largest branch expansion in any fiscal year.²⁹ This strong expansion in branch network reflects SBP's emphasis on expansion of Shariah-compliant banking as well as the demand for Shariah-compliant financial products.³⁰ This

²⁷ IMF (2025). Pakistan: First Review Under the Extended Arrangement Under the Extended Fund Facility.

²⁸ During FY25, the number of IBIs reduced from 22 to 21 during FY25, as a small-sized conventional bank, which was also operating Islamic Banking branches, merged with and into a large-sized conventional bank.

²⁹ This expansion includes the conversion from conventional to Islamic branches

³⁰ Religious beliefs contribute 23 percent to demand for Islamic banking and the overall demand for Islamic banking is higher amongst households (retail) than the businesses. Source: Knowledge Attitude and Practices of Islamic Banking in Pakistan available at: www.sbp.org.pk/publications/KAPStudy.pdf

bodes well for the efforts to transform the banking sector to Shariah-compliant mode.

SBP is collaborating with the government and other stakeholders, and is actively working for the implementation of the Federal Shariat Court's judgement on Riba. Under a multi-pronged approach and guidance from a high-level 'Committee for Transformation of Conventional Banking into Islamic', an assessment of regulatory framework, including a review of existing domestic laws and regulations and comparison with international best practices, is currently underway (**Box 1.1**). Further, awareness sessions on Islamic banking and finance, and capacity building of stakeholders were conducted throughout the year.

Along these lines, a new chapter on Islamic banking has been made a part of the Banking Companies Ordinance (BCO), 1962. The chapter includes specific provisions related to Islamic banking, including definitions of key terms, scope of business, relationship between an Islamic banking institution or Islamic financial institution and its customers, Shariah governance, penalties, and the charity, among others.

For achieving a more inclusive and sustainable economic growth, the country requires a significant increase in depth and breadth of the financial sector. Traditionally the government and large corporate firms utilize the bank credit, as 65.0 percent of the banking sector's asset base comprise credit to government and public sector enterprise, while large corporate firms account for around 69 percent of advances of banks. Conversely, priority sectors such as SMEs, agriculture and housing with low share in bank credit remain underserved due to various supply- and demand-side constraints; though these sectors hold great potential for both

balanced economic growth as well as promising returns for FIs.³¹

The supply of credit to these sectors remains a key priority of the SBP. For this purpose, to cater to the peculiar dynamics of various sectors, SBP has taken various steps over time. On the policy front, separate sets of prudential regulations (PRs) have been prescribed for financing to SMEs, consumer, housing, and agriculture segments on the principle of proportionality. Further, SBP also revised the PRs for microfinance banks, in order to align these regulations with the changing business environment. Likewise, other initiatives to enhance credit to priority sectors have also been taken (see **Chapter 4**).

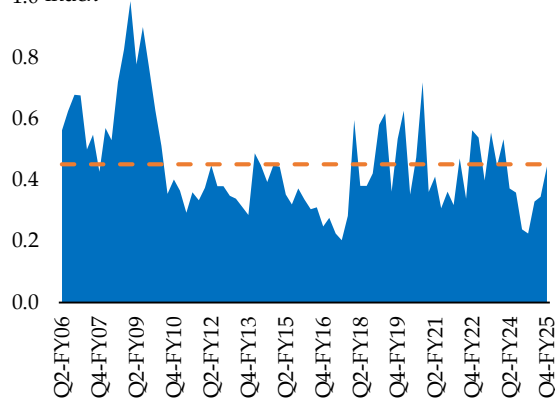
Nonetheless, the SBP-regulated FIs can take various steps to improve availability of credit and augment their earnings and operational efficiencies. Financial institutions, for instance, can leverage artificial intelligence, alternate data sources, and technological platforms to both cope with hazards of information asymmetries, which constrain decision-making capabilities and provide cost-effective services through ADCs. The use of technology and innovation can enhance the access and quality of financial services and augment revenue streams of the FIs. They can also collaborate with relevant government and regulatory agencies, fintechs, and agri-tech firms to deliver end-to-end digital lending solutions and advisory services tailored for target customers.

Financial markets

Volatility in financial markets remained contained, although there was some rise in stress towards the end of FY25 (**Figure 1.15**), mainly due to episodes of increased, albeit short-lived volatility in the equity market. Consistent improvement in macroeconomic conditions kept financial markets volatility

³¹ For details see Chapter 1 of Governor Annual Report FY22 and 'Understanding Low Private Credit Penetration in Pakistan - Contextualizing Recent Policy Reforms available at: www.sbp.org.pk/reports/annual/arFY20/Chapter-07.pdf

Trends in Financial Markets Stress Index Figure 1.15
1.0 index



Note: Dotted line represents period average
Source: SBP staff calculations

under check amid an upbeat investor confidence.

The FX market remained broadly stable as manifested by a modest depreciation of PKR against the USD during FY25 (Table 1.4) amid further improvement in external account position. In particular, the current account balance turned into a surplus as compared to a deficit in FY24 while the IMF's EFF remained on track. As a result, the SBP's FX reserves strengthened to US\$ 14.5 billion by end-June 2025 from US\$ 9.4 billion at end-June 2024.

The money market in general continued to operate smoothly under a close watch of the SBP. The policy rate was reduced by 950 basis points to 11.0 percent in response to receding inflationary pressures during FY25. Multiple reductions in the policy rate, however, resulted in slightly higher volatility in WAONR during FY25 (Figure 1.16).

Nonetheless, the money market witnessed a few episodes of liquidity strains and elevated volatility, especially in mid and towards the end of FY25, due to high credit needs of government

Movements in Key Variables of Financial Markets Table 1.4

		FY23	FY24	FY25
PKR vs. USD	Level (end of period)	286.0	278.3	283.8
	Depreciation (-)/Appreciation (+) (%)	-28.4	2.7	-1.9
	Average volatility*	0.96	0.28	0.04
Weighted Average Overnight Repo Rate	Level (end of period)	22.5	20.5	11.6
	Change (bps)	869	-198	-894
KSE-100 Index	Level (end of period)	41,453	78,445	125,627
	YoY change (%)	-0.2	89.2	60.1
	Average volatility*	0.88	1.08	1.27

*Volatility is measured using Exponential Weighted Moving Average (EWMA) method

Sources: SBP, PSX, and SBP staff estimates

vis-à-vis the deposit mobilization. Accordingly, to keep the WAONR close to the policy rate, the tenor-weighted average size of the SBP injections increased to Rs 2,144 billion in FY25 from Rs 944 billion in FY24.

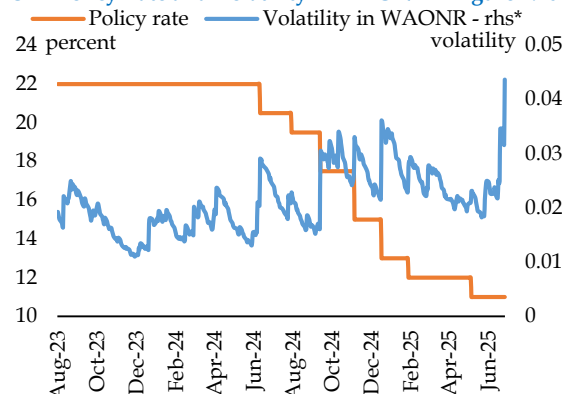
KSE-100 index continued to follow an upward trajectory, growing by 60.1 percent in FY25 and surpassed 125,000 by end of FY25. Nonetheless, equity prices witnessed heightened but short-lived volatility in the final quarter of FY25 due to uncertainty on global trade tariffs and increased geopolitical tensions. The continued optimism in equity market, among others, was due to substantial softening in monetary policy stance; the securing of IMF's EFF program; current account surplus; and improvement in economic outlook (as reflected in sovereign rating upgrades by international agencies).

Payment Systems and Financial Market Infrastructures³²

The Financial Market Infrastructures (FMIs) operated smoothly without encountering any systemic disruptions in the provision of financial services, while recording an overall increase in activity. The large-value payment

³² Financial Market Infrastructure (FMI) is a multilateral system among participating institutions used for clearing, settling, or recording payments, securities, derivatives, or other financial transactions. Pakistan's FMI comprises: i) a large-value payment system - the Pakistan Real-Time Interbank Settlement Mechanism (PRISM); ii) a retail value payment system, Raast; iii) an interbank switch facilitating various banking services, 1Link; iv) a clearinghouse for paper-based instruments, NIFT; v) a corporate security settlement company, NCCPL; and vi) a corporate securities depository, CDC.

SBP Policy Rate and Volatility in WAONR Figure 1.16



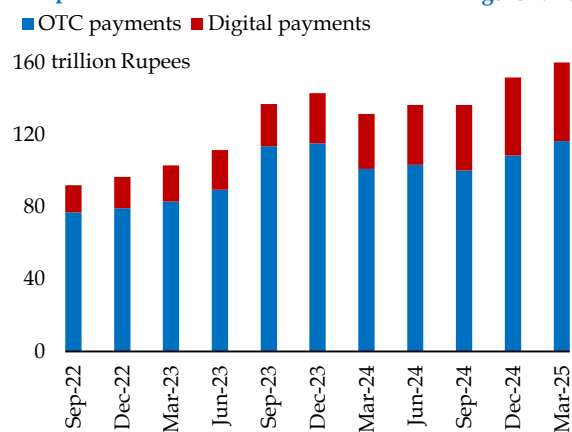
*Volatility is measured using exponential weighted moving average (EWMA) method

Source: SBP staff calculations

and settlement system processed 4.7 million transactions during Jul-Mar FY25, showing a growth of 8.1 percent over the previous year. In value terms, Pakistan Real-time Interbank Settlement Mechanism (PRISM) handled transactions worth Rs 956 trillion during Jul-Mar FY25, representing an increase of 21.4 percent compared to the previous year (Table 1.5).

Retail payments also exhibited a robust growth, rising by 41.7 percent in volume and 10.0 percent in value terms. The share of digital transactions continued to increase steadily, while share of over-the-counter (OTC) transactions showed a declining trend. Nevertheless, in value terms, branch banking continued to account for 71.3 percent of total

Composition of Retail Transactions - Value Figure 1.17a



Source: SBP

Profile of Payment System Mechanisms (July - March)

Table 1.5

volume in millions, value in trillion Rupees, growth in percent

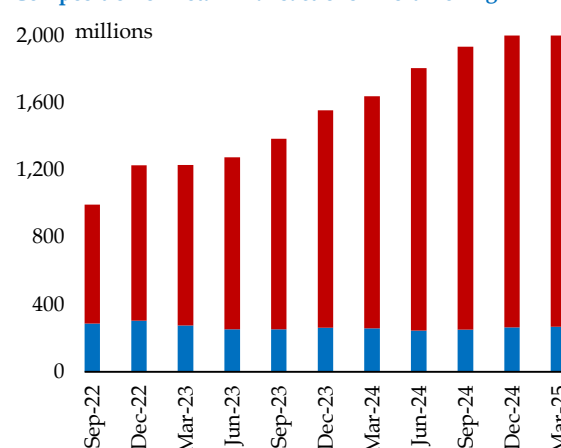
Mechanism	Volume/Value		Growth	
	FY24	FY25	FY24	FY25
a. PRISM				
Volume	4.4	4.7	20.9	8.1
Value	788	956	72.2	21.4
b. Retail Payments (i+ii)				
Volume	5	6	32.6	41.7
Value	412	453	41.1	10.0
i. OTC Transactions				
Volume	0.8	0.8	-10.9	1.4
Value	330	326	37.9	-1.4
ii. Digital Transactions				
Volume	4	6	47.1	49.9
Value	82	127	55.4	56.1

Source: SBP

retail transactions, indicating that large-ticket transactions were carried through OTC channels (Figures 1.17a & 1.17b). Digital transactions, however, sustained their strong growth momentum, expanding by 49.9 percent in volume and 56.1 percent in value terms during 9M-FY25. Branchless banking wallets (BB wallets), mobile banking, followed by ATMs, mainly supported the growth in volume of digital transactions. In terms of value, branch-banking transactions continued to dominate.

Transactions through Raast, SBP's instant payment system for retail transactions, witnessed exponential growth during the year,

Composition of Retail Transactions - Volume Figure 1.17b



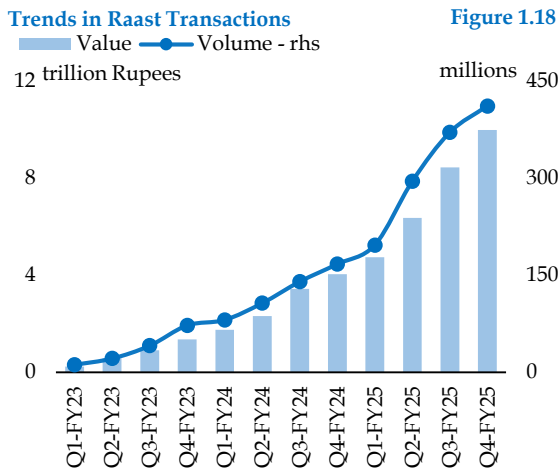


Figure 1.18

from 496 million in FY24 to 1,276 million in FY25. In terms of usage, growth continued to be dominated by Person-to-Person (P2P) transfers, while the Person-to-Merchant (P2M) module completed its first year of operations with 4.9 million transactions amounting to Rs 14.9 billion in FY25 (Figure 1.18).

To further strengthen Raast, SBP introduced a comprehensive framework on Raast Participation Criteria, aimed at broadening access, strengthening risk management, and enhancing the overall functioning of Pakistan's instant payment system.³³ This framework formalizes the categories of Raast participants and lays out clear operational requirements for both banking and non-banking entities.

both in volume and value terms. The number of transactions processed through Raast surged

Box 1.1: Strengthening Islamic Finance Practices through Alignment with International Islamic Financial Standards

In a continued effort to elevate the soundness and credibility of the Islamic banking sector, SBP has undertaken major assessment to align its regulatory framework with the internationally recognized standards issued by the Islamic Financial Services Board (IFSB) and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). These initiatives directly contribute to Strategic Goal-4 of the SBP Vision 2028, which is related to transformation to a Shariah compliant banking system.

For the adoption of these international standards, SBP has followed a structured process that is both robust and consultative, involving active engagement with a broad range of internal and external stakeholders. Key steps in this process include the consolidation of comprehensive feedback from all relevant stakeholders, followed by thorough reviews conducted by expert working groups to ensure the standards are effectively tailored to the local banking environment.

Rationale for Adopting International Islamic Financial Standards

The adoption of IFSB and AAOIFI standards in Pakistan's Islamic banking system helps strengthen the regulatory, supervisory, and Shariah governance framework of Islamic banking. IFSB standards help align regulatory practices with globally recognized norms, enhancing systemic stability. Complementing this, AAOIFI standards (Shariah, Governance and Auditing) provide comprehensive guidance on Islamic contracts, financial transactions, and governance principles, ensuring consistency across institutions. The inclusive adoption of these standards helps minimize interpretational variations, standardize Shariah-compliant practices, and enhance public trust in Islamic financial system in Pakistan.

Enhancing Supervisory Framework through Adoption of IFSB Standards

To ensure a systematic approach, SBP has conducted a detailed clause-by-clause assessment of banking standards issued by the IFSB. During FY2024-25, SBP adopted six new IFSB standards, bringing the total adopted standards to ten. These standards include principles on conduct of business, liquidity risk management, stress testing, financial regulations, corporate governance and supervisory review process.

Harmonizing Shariah Practices through Adoption/Adaption of AAOIFI Shariah Standards

³³ PSP&OD Circular No. 01 of 2025, available at: www.sbp.org.pk/psd/2025/index.htm

SBP has maintained an ongoing collaboration with AAOIFI and commenced the adoption of AAOIFI Shariah standards in 2010. Since then, it has adopted 41 Shariah standards, significantly enhancing the consistency and credibility of Islamic banking practices in Pakistan. Another four standards have been considered at the time of preparing the relevant SBP regulatory instructions/guidelines. Thus, total AAOIFI Shariah standards adopted by the SBP reached 45 by end-June 2025. During FY2024-25, SBP adopted nine AAOIFI Shariah standards, covering critical areas such as financial rights, protection of capital, earnest money (Arbun), credit agreements, sale of debt, regulation of excessive uncertainty (Gharar), calculation of profits, sale of commodities, and impact of contingent incidents on commitments, further supporting the harmonization of Islamic financial practices in the country.

Way Forward: Sustaining Momentum towards a Robust Shariah-Compliant Banking System

Building on the progress made so far, SBP remains committed to deepening the integration of international Islamic financial standards into Pakistan's regulatory framework. Going forward, SBP will continue its phased and strategic adoption of the remaining relevant IFSB and AAOIFI standards. Notably, two IFSB standards – IFSB-22 on disclosures to promote transparency and market discipline, and IFSB-23 on capital adequacy – have successfully completed their assessment phase and will be considered for implementation in future. SBP will maintain its inclusive, consultative approach to standard adoption. This sustained momentum is central to achieving the SBP Vision 2028's objective of a robust Shariah-compliant financial system in Pakistan.

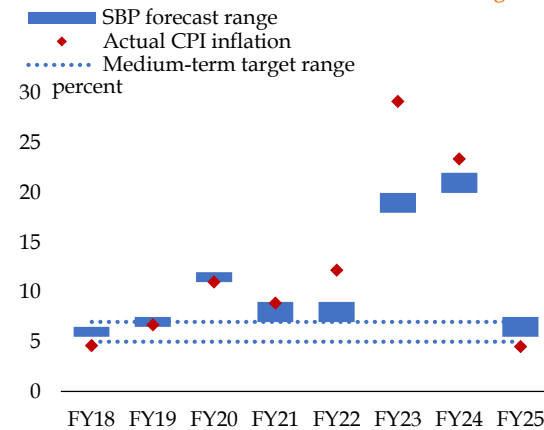
2 Price Stability and the Conduct of Monetary Policy

2.1 Inflation Projections and Outcomes

The average national CPI (NCPI) inflation saw a steep and broad-based decline to 4.5 percent in FY25, falling below the SBP's revised forecast range of 5.5 – 7.5 percent (**Table 2.1 & Figure 2.1**). The monthly data shows that inflation followed almost a consistent downtrend in the first ten months, before edging up towards the end of FY25. A confluence of factors including subdued domestic demand, conducive domestic supply conditions, stable exchange rate and benign global commodity prices underpinned this sharp disinflation during FY25.

The combined impact of a tight monetary policy stance, as indicated by positive real interest rates, and fiscal consolidation, alongside depressed farm incomes kept domestic demand in check during FY25. The decline in prices as well as output of important crops amid rise in input costs (especially fertiliser prices) adversely impacted farmers' incomes during FY25. On the supply side, ample supply of key food commodities, downward adjustments in power tariffs, the governments' efforts to strictly enforce administered prices of food items, positive impact of ongoing energy sector reforms, a stable exchange rate, and subdued

SBP Inflation Forecast and Actual Inflation Figure 2.1



Source: SBP

global commodity prices reinforced the disinflationary trend (**Figure 2.2**).

Waning price pressures of food items alone explained around half of the decline in urban and rural inflation in FY25 (**Figure 2.3a & 2.3b**), with major contributions from wheat and wheat products, tea, rice, cooking oil and fresh milk. The falling prices of wheat and wheat products, in particular, pared urban and rural inflation by 1.6 and 3.0 percentage points in FY25 from the last year's level, respectively.

Similarly, rice prices retreated in FY25 amid sustained high production and a 3.5 percent

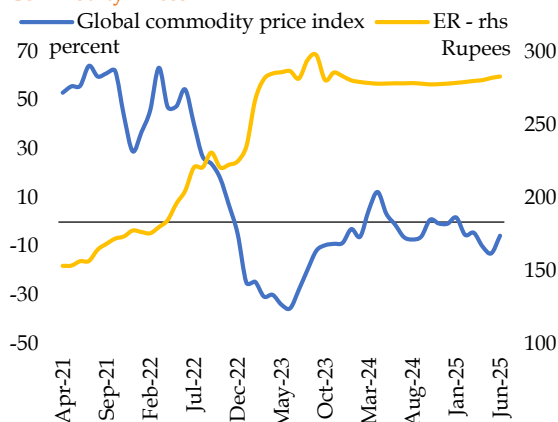
CPI Inflation
percent

Table 2.1

	FY21	FY22	FY23	FY24	FY25
National CPI inflation	8.9	12.2	29.2	23.4	4.5
Urban CPI inflation	8.1	11.8	26.8	24.1	5.3
NFNE	6	8.1	16.2	16.1	8.5
Food	12.4	13.4	37.6	22.1	1.6
Energy	4.1	25.3	38.4	62.6	6.1
Rural CPI inflation	10	12.6	32.6	22.4	3.3
NFNE	7.6	9	20.6	22.7	11.1
Food	13.1	13	41.1	21.6	-0.9
Energy	6.6	24.8	39.1	24.8	-2.1

Source: PBS

Trends in Exchange Rate (ER) and Global Commodity Prices Figure 2.2



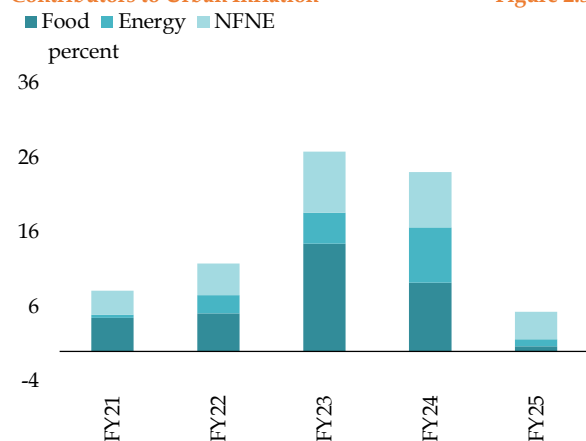
Sources: WB, PBS and SBP

drop in export volumes that increased availability in the domestic market.¹ On the other hand, the lagged impact of declining international commodity prices and a stable exchange rate favourably affected cooking oil and tea prices during the year.² At the same time, increased supply of perishable food items, especially during the second half, further dampened food inflation in H2-FY25.

Energy inflation eased considerably, accounting for about one-third of the disinflation in urban and one-fifth in rural baskets during FY25. This was mainly because of the substantial decrease in electricity tariffs.³ The combined impact of lower global oil prices, stable exchange rate, and improving operational performance of the power sector transmission & distribution system, pulled electricity charges below the preceding year's level from December 2024 onwards. Additionally, in Q4-FY25, the government also introduced a Rs 1.71/kWh Tariff Differential Subsidy (TDS) for April-June, which further reduced electricity tariffs.⁴ Moreover, amid softening global oil prices, motor fuel prices also declined substantially during FY25.

Core inflation in FY25 fell to almost half of the level seen in FY24, reflecting dissipating second round effects of past shocks to food and energy prices, in addition to restrained domestic demand. The easing of underlying inflationary pressures is also evident in steady improvement in inflation expectations of households (Figure

Contributors to Urban Inflation



Source: PBS

Figure 2.3a Contributors to Rural Inflation

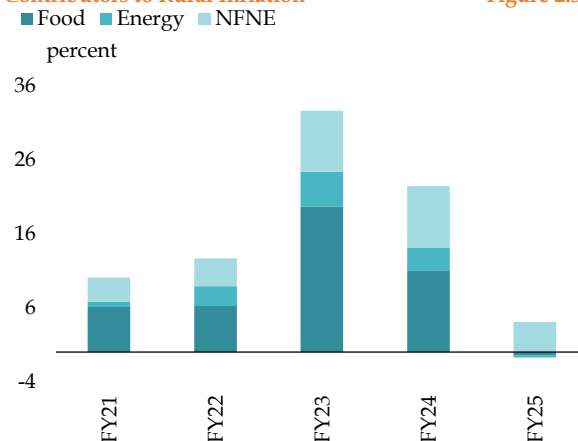


Figure 2.3b

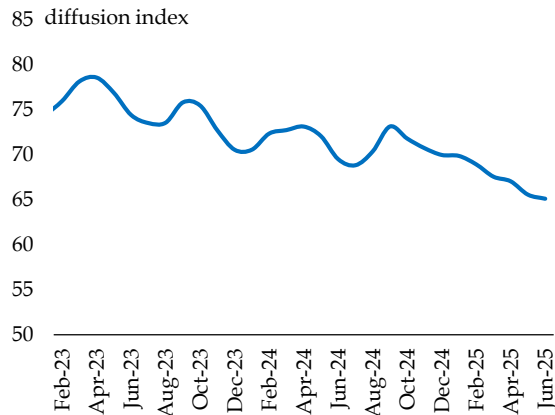
¹ Rice production of 9.7 million tonnes in FY25 remained close to the historic high of 9.8 million tonnes in FY24.

² International palm oil prices decreased by 10.5 percent during Jul-May FY24, before starting to rise again from June 2024 onwards. International tea prices fell by on average 5.1 percent in FY24. After rising for a brief period in H1-FY25, tea prices again eased in H2-FY25.

³ The adjustment in gas tariffs, originally anticipated during FY25, was postponed and implemented in July 2025, resulting in a 22.9 percent increase in gas charges.

⁴ Source: NEPRA notification dated April 10, 2025, effective from April 01, 2025.

Consumer Inflation Expectations* **Figure 2.4a**



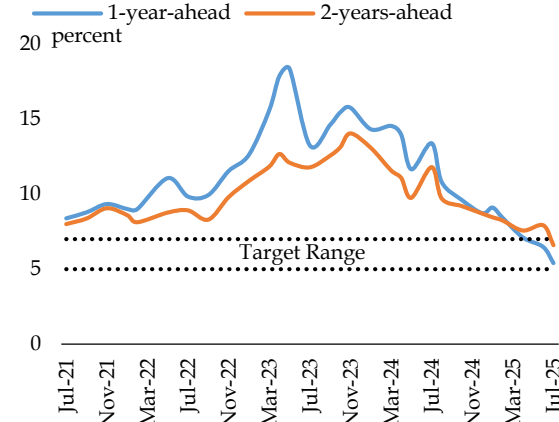
*3-month moving average

Source: SBP

2.4a). Further, the inflation expectations of professional forecasters, after staying in double digits for a long period of time, came down steadily within the SBP’s medium-term target range of 5 – 7 percent towards the end of FY25 (**Figure 2.4b**). However, the pace of decrease in core inflation moderated during H2-FY25, reflecting the sticky nature of underlying inflationary pressures. This was partly attributed to persistent cost pressures emanating from the impact of hike in gas charges announced in November 2023 that kept input costs elevated during FY25, besides the impact of 16 percent increase in minimum wages.⁵

Furthermore, some sector-specific factors also contributed to rigidity in prices of core basket during FY25. For instance, increase in domestic cotton prices,⁶ following a large 30.7 percent contraction in domestic cotton production,⁷ as well as rising prices of precious metals (gold) amplified input costs of clothing and personal effects items, respectively. Meanwhile, deregulation of non-essential drugs’ prices in April 2024, kept medicine prices higher

Inflation Expectations of Professional Forecasters **Figure 2.4b**



Source: SBP

throughout FY25 compared to the previous year.⁸ Furthermore, strict enforcement of withholding tax on marriage halls and imposition of GST on education services by the Sindh government also contributed to slowing the pace of decrease in core inflation during FY25.^{9,10}

The persistence in core inflation, besides the short-term dynamics, also reflects the impact of structural factors, including backward looking inflation expectations of firms; indexation of wages to past inflation; frequent supply shocks and weak supply-chains; and, market imperfections. Moreover, weak coordination between monetary and fiscal policies in the past also restrained the effectiveness of monetary policy in addressing price rigidities. While the monetary policy interventions addressed demand-driven increase in prices, maintaining price stability in the medium to long-term also requires focus on addressing the domestic policy lacunas, economic inefficiencies and structural issues that engender price rigidities. Specifically, ensuring fiscal–monetary coordination;

⁵ Sources: No. SO (L&P) MW/2024, Labour & HR Department, Govt. of the Punjab. No. SO (L-II)/13-3/2016-I, Labour & HR Department, Gov. of Sindh.

⁶ Average increase in seed cotton prices was 2.2 percent during FY25 as compared to a decline of 5.7 percent during FY24. (Source: PCCC)

⁷ MOF (2025). Pakistan Economic Survey, June 2025, Ministry of Finance, Islamabad.

⁸ Prices of non-essential medicines were deregulated through S.R.O 228(I)/2024 issued by the Ministry of National Health Services, implemented in April 2024.

⁹ WHT on marriage halls was imposed through The Finance (Supplementary) Act 2023.

¹⁰ Source: Notification No. SRB-3-4/23/2024, dated 29th June 2024, Sindh Revenue Board, Government of Sindh.

improving market structure to promote competition; reducing oil dependence through energy efficiency; expanding storage infrastructure for food grains; and, fostering climate-resilient agriculture can support in maintaining price stability in the medium to long-term.¹¹

Amid improved supply conditions and restrained demand the SBP's Monetary Policy Committee (MPC) substantially revised down inflation projections

A number of factors had markedly improved the inflation outlook from the start of FY25. These included: (i) reduced uncertainty about the impact of FY25 budget measures on inflation; (ii) benign global commodity prices; and (iii) gradual strengthening of external account position. Incorporating these developments, the MPC in its July 2024 meeting, projected the average NCPI inflation to fall in the range of 11.5 - 13.5 percent in FY25, compared to 23.4 percent in FY24.

The inflation projection was subject to risks including potential fiscal slippages, uncertainty about the timing of adjustments in administered energy prices, and the likelihood of new tax measures to address revenue shortfalls. On the downside, the MPC noted favourable global food and fuel prices, along with the possibility of delays in domestic energy adjustments.

Concurrently, the MPC projected the real GDP to grow moderately in the range of 2.5 - 3.5

SBP's Macroeconomic Projections for FY25 **Table 2.2**

	SBP Projections*		Actual
	Jul-24	Jan-25	FY25
<i>(percent)</i>			
National CPI-average	11.5 to 13.5	5.5 to 7.5	4.5
Real GDP Growth	2.5 to 3.5	2.5 to 3.5	3.0
<i>(percent of GDP)</i>			
Current account balance	0.0 to -1.0	-0.5 to 0.5	0.5
Fiscal deficit	5.5 to 6.5	5.5 to 6.5	5.4

*At the time of MPC meetings

Source: PBS, MoF, SBP and SBP staff estimates

percent in FY25 (**Table 2.2**). Despite anticipated increase in imports in line with a moderate pick-up in economic activity, the current account deficit (CAD) was projected to remain in the range of 0.0 - 1.0 percent of GDP on the back of expected increase in workers' remittances and exports. Moreover, in view of continued fiscal consolidation efforts, the government was expected to meet the envisaged primary surplus target of 2.0 percent of GDP in FY25.

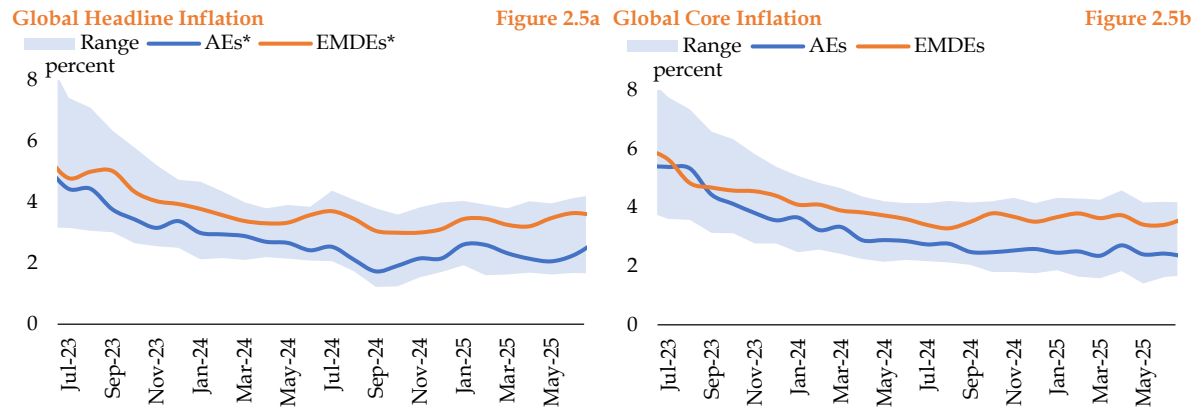
As FY25 progressed, the pace of disinflation turned out to be faster than initially anticipated. This, together with better-than-expected outcomes of fiscal and external accounts, led the MPC to revise down the inflation projection range to 5.5 - 7.5 percent in January 2025. Based on stronger than earlier projected increase in workers' remittances, the CAB was now expected in the range of a surplus and a deficit of just 0.5 percent of GDP. Moreover, the government was able to generate higher primary surplus and contain the fiscal deficit in H1-FY25 compared to H1-FY24, which indicated the likelihood of achieving the envisaged fiscal consolidation during FY25. However, the MPC maintained its real GDP growth projection, i.e. in the range of 2.5 to 3.5 percent.

The inflation outruns in the post January 2025 MPC meeting continued to surprise on the lower side, with year-on-year (YoY) inflation falling below 1.0 percent by April 2025, before inching up towards the end of the fiscal year. However, the risks to the inflation outlook persisted. Specifically, potential supply chain disruptions stemming from regional tensions, volatility in global commodity markets, and uncertainty about future energy price adjustments posed significant upside risks.

Inflation developments and the SBP's monetary policy stance moved broadly in line with the global trends during the course of FY25

The headline inflation moderated across most advanced economies (AEs) and emerging

¹¹ See "Box 3.2: Persistence in Core Inflation in Pakistan", in The State of Pakistan's Economy, Annual Report 2024-25.



*AEs inflation target range: 0 - 2 percent, EMDEs inflation target range: 3 - 5 percent.

Note: The sample contains 30 AEs and 44 EMDEs. The bands depict 25th and 75th percentiles of data across economies.

Source: Haver Analytics

market and developing economies (EMDEs), gradually returning to pre-pandemic levels and the inflation targets (**Figure 2.5a**). This broad-based easing of inflation was largely driven by tight monetary policy stance worldwide, along with favourable trend in global energy prices.¹² Food inflation also eased, partly due to lower energy costs, both for production and transportation.¹³ However, core inflation showed a modest decrease, after remaining elevated in both AEs and EMDEs (**Figure 2.5b**). The stickiness in core inflation mainly stemmed from tight labour markets in AEs and currency depreciation in EMDEs.

However, the favourable inflation trend encountered headwinds from mounting geopolitical tensions and rising global uncertainty from Q2-FY25, giving rise to early signs of renewed inflationary pressures. Therefore, the pace of disinflation relatively moderated, especially during the second half of FY25, reflecting the persistence of inflationary pressures in both AEs and EMDEs (**Figure 2.5b**).

In response to the shifting inflation trends and increasing uncertainty, the central banks around the world carefully adjusted monetary policies. Amid rapid disinflation, both AEs and EMDEs saw greater rate-reductions in H1-FY25. In H2-

FY25, most central banks adopted a cautious approach due to inflation persistence and increased global uncertainty. As shown in (**Figure 2.6**), the number of central banks reducing the policy rates declined towards the end of FY25, indicating that most were maintaining policy rates in H2-FY25. Similar pattern of monetary policy easing was observed in Pakistan as well.

2.2 Monetary Policy Stance

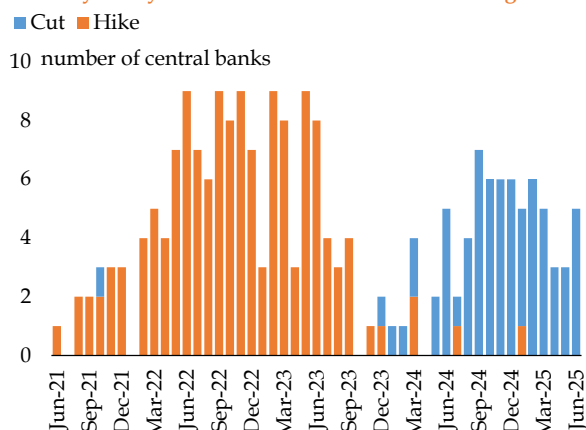
Easing inflationary pressures, a marked improvement in inflation outlook and strengthening external account position allowed the MPC to reduce the policy rate by a cumulative 1,000 basis points between June 2024 and January 2025. After this aggressive easing, the MPC took a more cautious approach during March to June 2025 due to increased uncertainty surrounding global trade tariffs, heightened geopolitical tensions, and the concerns over rigidity of core inflation, reducing the policy rate by only 100 bps in its meeting held in May 2025.

In overall terms, FY25 saw a total reduction of 950 bps in the policy rate. The voting pattern shows that all MPC members voted in favour of a rate-cut, though with varied preferences about the magnitude, in almost all MPC meetings

¹² The average crude oil price fell by 12 percent in FY25. Source: World Bank

¹³ WB (2025). World Economic Prospects, World Bank.

Monetary Policy Decisions in AEs



Source: Haver Analytics

Figure 2.6a Monetary Policy Decisions in EMDEs

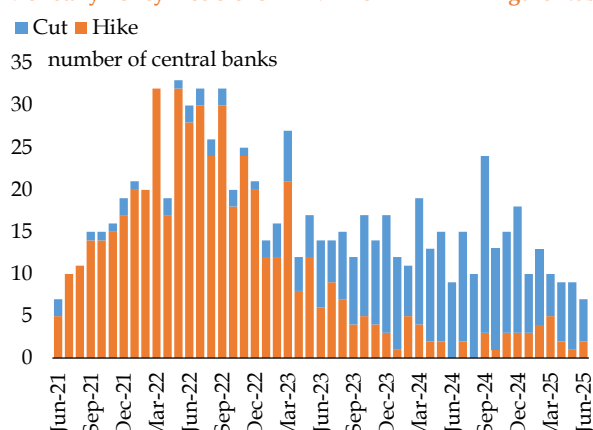


Figure 2.6b

(Table 2.3). The MPC adopted a cautious stance to ensure that inflation stabilised within the target range, while remaining vigilant to external account vulnerabilities, fiscal measures, and geopolitical uncertainties.

The MPC made a series of rate reductions in all its meetings during June 2024 to January 2025

The primary impetus for the successive rate-cuts came from a pronounced and almost consistent drop in headline inflation, which exceeded the MPC's initial expectations. Inflation saw a rapid and broad-based decline, falling from 12.6 percent in June 2024, to below the medium-term target range in November 2024.

However, as noted by the MPC, the core inflation, while falling gradually, remained at elevated levels during this period (Figure 2.7). The MPC viewed that inflation developments

were susceptible to uncertainty surrounding the path of administered energy prices and global commodity price movements, which could induce short-term volatility in inflation. To this effect, the Committee noted that the monetary policy stance, with the real interest rates in positive territory, was appropriate to guide inflation to the medium-term target range of 5.0 – 7.0 percent on a sustainable basis.

A notable improvement in external account position during July-January FY25 also supported the monetary policy decisions. Specifically, a turnaround in current account balance not only induced stability in the FX market, but also provided SBP the room to build FX reserves. In addition, the disbursement of the first tranche worth US\$ 1.0 billion under the IMF's Extended Fund Facility (EFF) further strengthened SBP's FX reserves, despite large

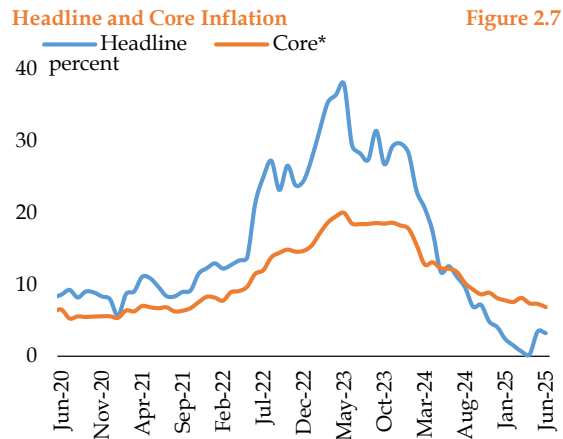
MPC: Policy Decisions and Voting Pattern*

Table 2.3

percent	Jun-24	Jul-24	Sep-24	Nov-24	Dec-24	Jan-25	Mar-25	May-25	Jun-25
Unchanged	2	-	-	-	-	-	10	1	9
-50	-	2	-	-	-	-	-	-	-
-100	2	6	2	-	-	10	-	8	-
-150	6	-	1	-	4	-	-	-	-
-200	-	-	7	2	6	-	-	-	-
-250	-	-	-	6	-	-	-	-	-
-300	-	-	-	1	-	-	-	-	-
Total Votes	10	8	10	9	10	10	10	9	9

*Highlighted numbers represent the votes casted for the decision made during the meeting.

Source: SBP

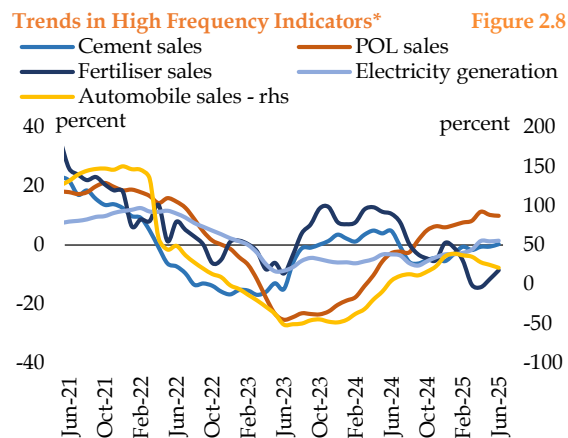


*Urban core inflation

Source: SBP

external debt repayments. Specifically, foreign exchange reserves rose from a low of US\$ 4.4 billion in June 2023 to US\$ 11.4 billion in January 2025. The stability in the external account allowed the SBP to pursue aggressive monetary easing without risking pressures on currency.

In line with the MPC’s expectations, the real economic activity showed moderate uptick as seen from month-on-month (m/m) increases in sales of petroleum products (excluding furnace oil) and automobiles at the time of MPC meetings during July-January FY25 (Figure 2.8). Some of the key LSM sectors including textile,



*12-MMA

Sources: APCMA, OCAC, NFDC, PAMA, and NEPRA

automobiles, food and POL posted a strong growth in Q1-FY25. However, the real GDP growth in Q1-FY25 turned out to be lower than the same period last year, amid a sizeable slowdown in agriculture output. The MPC noted that the impact of a cumulative 1,000 bps reduction in the policy rate during June 2024 – January 2025 was expected to further support economic activity to keep real GDP growth in the upper half of the projected range of 2.5 – 3.5 percent in FY25.

As anticipated, lower cost of borrowing revived demand for private sector credit. This, along with the banks’ focus on meeting the threshold for advances-to-deposits ratio (ADR) to avoid additional taxation, contributed to a significant increase in private sector credit during Q2-FY25.¹⁴ The retirement in budgetary borrowing amid improved fiscal balance on account of higher SBP profit and government’s fiscal consolidation efforts also facilitated this expansion in private sector credit.

However, tax collection remained short of target during H1-FY25, which indicated upside risks for inflation outlook from possible enforcement of contingency taxes to compensate for revenue shortfall. To address these concerns, the MPC underscored the importance of continued fiscal reforms to widen the tax base and contain losses in the public sector enterprises (PSEs) to achieve macroeconomic stability.

The MPC adopted a cautious stance during Mar-June FY25 amid upside risks to inflation outlook

The concerns over core inflation trends and emergent pressures in the external account led the MPC to keep the policy rate unchanged in March 2025, after consecutive reductions in the previous six MPC meetings. The MPC noted that while a significant decrease in prices of food and energy items led the headline inflation to

¹⁴ ADR-linked policy aimed to tax banks’ income from government securities at progressively higher rates in case their ADR fell below 50 percent. (For details, see Chapter 3 in SBP’s FSR (2024)).

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fall to a decade low of 1.5 percent in February 2025, core inflation remained stubbornly elevated. This indicated the risk of a larger increase in inflation going forward, in event of an increase in food and energy prices.

Similarly, external account also saw increased vulnerabilities from a mix of domestic and global factors. In particular, reflecting a volume and price driven expansion in imports, current account slipped into a deficit in January 2025, after remaining in surplus in the previous three months. This, together with weak financial inflows drove a decline in SBP's FX reserves for the second consecutive month in January 2025. On the other hand, heightened uncertainty surrounding global tariffs and rising geopolitical tensions (**Figure 2.9**), which had implications for commodity prices, global trade flows and growth outlook posed fresh risks to the outlook of external account.

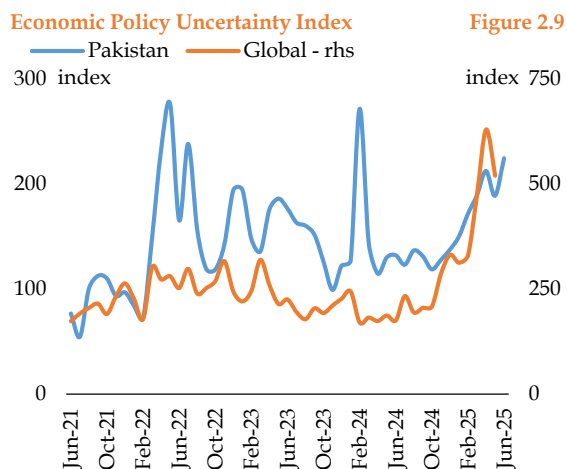
At the time of its meeting in May 2025, the incoming information suggested improved outlook of inflation and external account. The headline inflation continued to decline, falling to a new multi-year low of 0.3 percent in April 2025. The underlying inflationary pressures also eased somewhat with core inflation coming down to 8.0 percent in April 2025, after remaining sticky around 9 percent since January 2025. Moreover, the current account recorded a sizable surplus of US\$ 1.3 billion in March 2025,

mainly due to record-high workers' remittances. This, together with SBP's FX purchases, partially cushioned the impact of large ongoing debt repayments on the SBP's FX reserves. These improvements prompted the MPC to decide in favour of a further 100 bps cut in policy rate in May 2025.

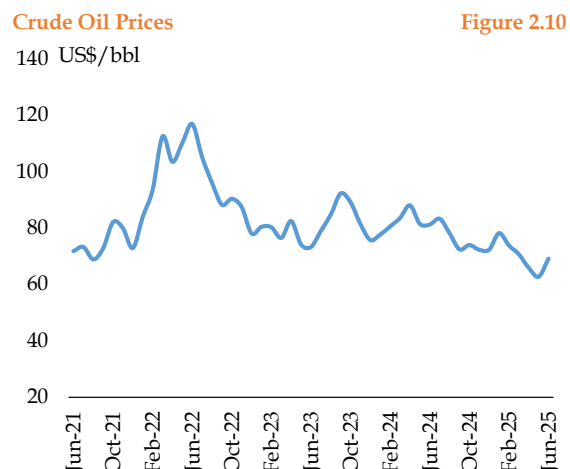
At the time of the MPC meeting in June 2025, the Committee noted that the trend in headline inflation had reversed in May 2025 due to fading high base effect of food inflation along with the rigidity in core inflation. Moreover, persistent widening of trade deficit and lacklustre financial inflows increased pressures on external account. While continued recovery in economic activity induced a sharp increase in imports, the uncertain global trade environment constrained a concomitant expansion in exports.

Additionally, escalating geopolitical tensions in the Middle East pushed up global oil prices, representing fresh risks to external account (**Figure 2.10**). These challenges, along with the potential impact of FY26 budgetary measures on trade account, led the MPC to maintain the policy rate unchanged at 11.0 percent in its meeting in June 2025.

The MPC reaffirmed its earlier view that with consistently positive real interest rates, the monetary policy stance was adequately tight to stabilize inflation in the medium-term target



Sources: SBP and FED



Source: WB

range of 5.0 – 7.0 percent, after some short-term volatility. However, the MPC underscored the need for achieving budgeted fiscal consolidation through prioritizing fiscal policy and tax reforms to preserve macroeconomic stability and support economic growth.

2.3 Monetary Policy Implementation

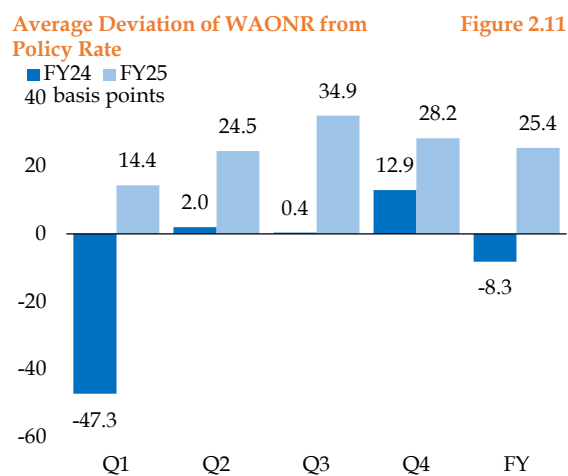
SBP implements monetary policy by aiming to keep Weighted Average Overnight Repo Rate (WAONR) close to the policy (target) rate. This involves managing liquidity in the interbank market using monetary policy tools, mostly Open Market Operations (OMOs). In FY25, mounting liquidity pressures led the WAONR to remain 25.4 basis points (bps), on average, higher than the policy rate. This was in contrast to FY24 when WAONR averaged at 8.3 bps lower than the policy rate (Figure 2.11). The increase in liquidity pressures during FY25 were driven by rise in currency-in-circulation, slower increase in deposits, government borrowing from scheduled banks – albeit lower than last year – and an expansion in private sector credit. Despite a net retirement in commodity operations financing, a moderate uptick in deposits, and net FX purchases by SBP,¹⁵ overall

liquidity conditions remained tight throughout FY25.

However, the underlying factors for liquidity demand shifted between the two halves of FY25. Specifically, some of the governments’ tax policy measures had un-intended implications for the liquidity conditions in the money market in H1-FY25. To strengthen tax collection, the government introduced an additional tax on scheduled banks’ income from government securities if their ADR ratio remained below 50 percent by end-December 2024. Banks’ attempts to achieve the minimum ADR threshold, by managing the asset and liability sides, strained liquidity conditions in the interbank market.

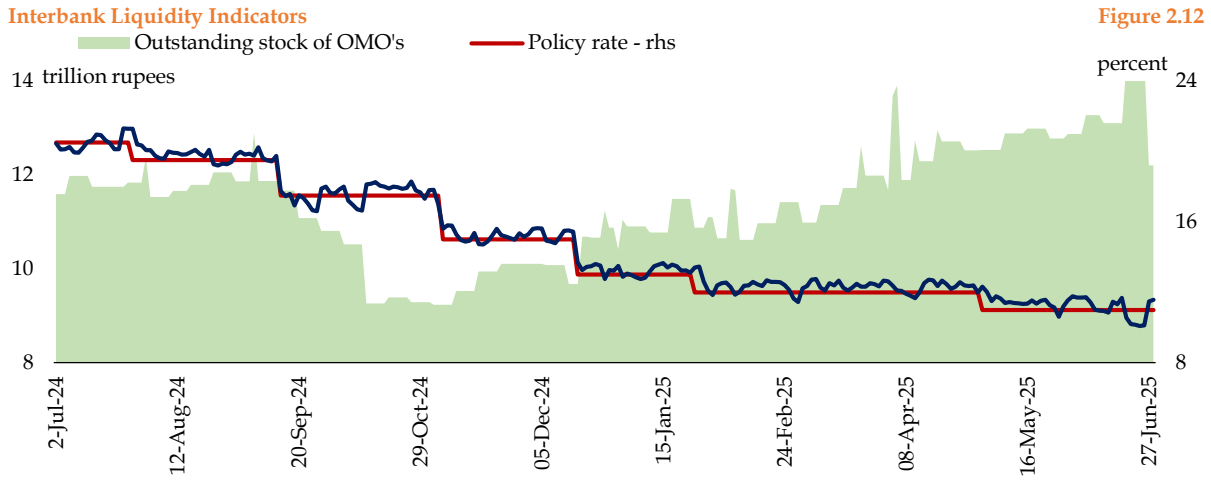
On the assets side, banks devised aggressive lending strategies to achieve the ADR threshold, which contributed to a large increase in private sector credit. On the other hand, to reduce liabilities, banks started introducing service charges for large deposits around mid-November 2024. These charges were significantly high and likely discouraged deposits,¹⁶ contributing to the increase in CiC during Q2-FY25. These liquidity pressures were partially offset by a net retirement in government’s budgetary borrowing from scheduled banks, aided by a significantly large transfer of SBP profit to the government. Moreover, commodity financing also saw net retirement, which reflected government’s efforts to stem circular debt accumulation in the commodity sector. However, the overall liquidity conditions remained strained, resulting in the average outstanding stock of OMOs rising to Rs 10,819.2 billion in H1-FY25, from Rs 8,488.5 billion in the same period last year. Nonetheless, the deviations of WAONR from the policy rate increased during H1-FY25 to 19.6 bps as compared to negative 22.3 bps relative to the same period last year.

Moreover, a sizeable increase in government borrowing from scheduled banks from Q3-FY25



¹⁵ These net FX purchases totalled USD 7.7 billion during FY25.

¹⁶ Chapter 3: Banking Sector. Financial Stability Review 2024. State Bank of Pakistan.

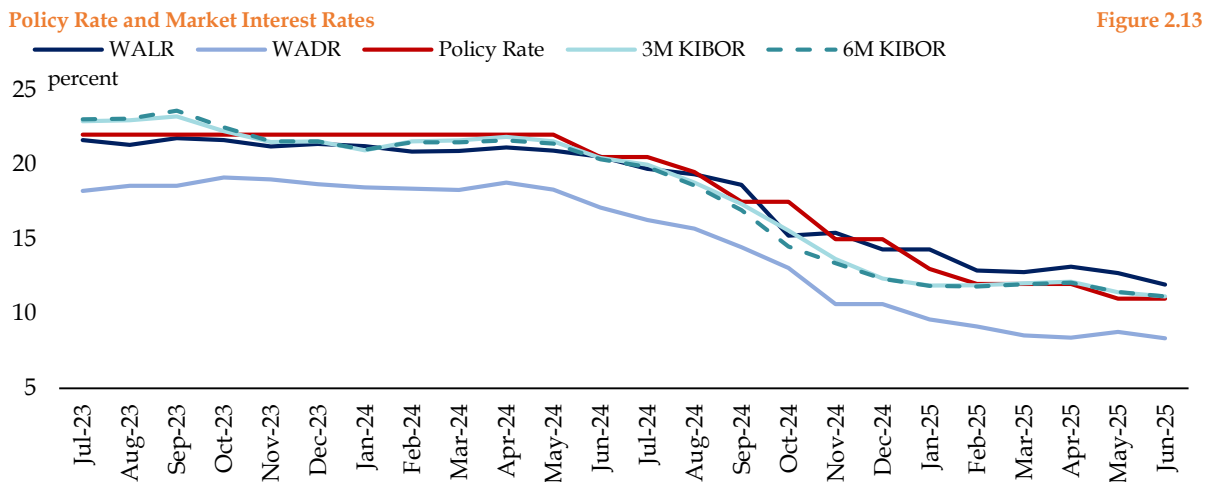


Source: SBP

onwards, along with Eid-related cash withdrawals, further scaled up the liquidity requirement of banks in H2-FY25, keeping WAONR above the policy rate, on average. This was despite the offsetting impact of withdrawal of the ADR-based tax towards the end of December 2024, in view of its negative implications, which led to a net retirement in private sector credit in Q3-FY25. Additionally, deposits also saw a modest growth, as banks withdrew fees on large deposits, following the removal of minimum deposit rate (MDR) requirement from deposits of financial institutions, public limited companies and public sector enterprises in November 2024.¹⁷

To meet the increased liquidity demand, SBP frequently employed 7-day and 28-day OMO injections. However, in the last quarter of the year, in view of market's preference for shorter-tenor OMOs in a declining interest rate environment, SBP mainly used shorter-tenor OMOs, which shortened the average maturity of OMO injections. An increase in the frequency and volume of injections to meet the market's demand led to a rise in the average outstanding OMO stock to Rs 11,436 billion at end-June 2025 from Rs 9,425 billion at end-June 2024 (Figure 2.12).

Liquidity needs of Islamic Banking Institutions (IBIs) were also met primarily through shorter-



Source: SBP

¹⁷ BPRD Circular No.5 of 2024, State Bank of Pakistan

tenor OMOs, with the 7-day tenor being the most frequently utilized. While the volume of injections increased during FY25, the outstanding stock of Islamic OMOs rose only marginally. These operations supported the SBP's objective of enhancing monetary policy transmission by aligning WAONR with the

policy rate in the Islamic segment of the market.

Overall, the decline in the policy rate was effectively transmitted to retail market interest rates in FY25 (**Figure 2.13**). The resulting ease in financial conditions supported economic activity through a substantial expansion in private sector credit.

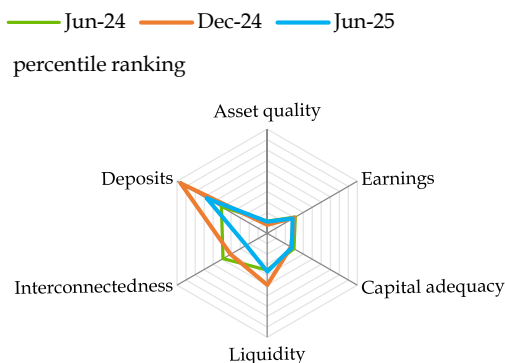
3 Financial Stability

Pakistan’s macroeconomic conditions in FY25 continued to improve for the second consecutive year amid sharp decline in inflation, an uptick in growth, continued fiscal consolidation, and a sizeable external account surplus that contributed to higher foreign exchange reserves and exchange rate stability. Against this backdrop, Pakistan’s financial sector maintained its soundness, while providing credit and uninterrupted financial services to firms, households, and the government.

The key financial soundness indicators of the banking sector show that the risks across key dimensions of financial stability subsided during FY25 (**Figure 3.1**). This is encouraging as the banks’ solvency is crucial for the overall stability of the financial system. The significance of banks’ stability stems from their large share in total financial assets and the crucial role they play in the mobilization of savings, the supply of credit and provision of payment services in the economy. The dimension of deposits (deposit mobilization and its support in funding the asset base) saw increase in stress during Q2-FY25; however, it moderated towards the end of FY25 (For details see Chapter 1).

Banking Sector Stability Map

Figure 3.1



Note: Movement to centre implies stability
Source: SBP

Asset Quality and Credit Risk

The asset quality indicators improved during FY25. The ratio of non-performing loans (NPLs) to total loans fell from last year’s level in case of banking sector and Development Finance Institutions (DFIs). The loan-loss allowances and provisions exceeded the stock of non-performing loans, suggesting muted risks to the solvency on a net basis (**Table 3.1**).

The adoption of IFRS-9 has helped in further strengthening of risk management practices and loss absorption capacity of the banking sector. While the share of advances in the earning assets remained low as compared to investments, a major part of the loan book remained tilted towards borrowers having better creditworthiness. Lending to large corporate firms constituted around 69 percent of the total loan portfolio at end June 2025. These borrowing firms are mostly rated with better credit histories, strong financial health and resilience to economic shocks, which translates into lower credit risk for the banking sector. There are relatively muted residual credit risks to the solvency of banking sector and DFIs and the results of the latest stress testing exercise (sensitivity analysis) also show that the sector has adequate resilience to severe hypothetical shocks to various credit risk factors.

The asset quality indicators of Microfinance banks (MFBs) also improved in FY25. In particular, the loan-loss allowances and provisions showed significant improvement, indicating bigger financial cushion available with the institutions to absorb the impact of impaired loans on solvency. While MFBs are quite important for enhancing financial inclusion and serving low-income segments of the population (**Figure 3.2**), their low market share in financial sector assets poses relatively muted risk to the overall financial stability. MFBs, however, have been facing a difficult

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Key Financial Soundness Indicators of Banks, DFIs and MFBs* (Percent) **Table 3.1**

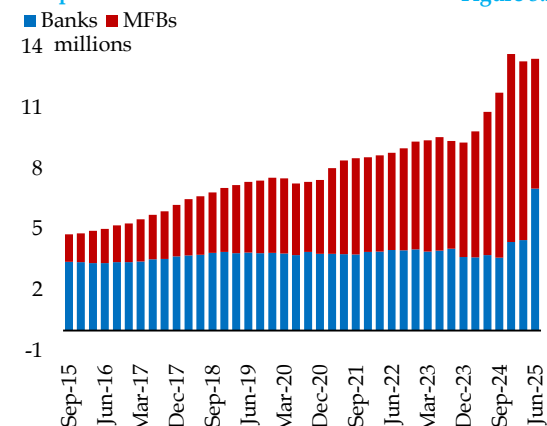
Description	Jun-23	Jun-24	Jun-25
Asset Quality Indicators			
NPLs to Total Loans			
Banks	7.4	7.6	7.4
DFIs	7.2	7.4	7.3
MFBs	7.8	10.5	8.3
Loans Loss Allowance/Provision to NPLs#			
Banks	94.4	105.3	106.2
DFIs	107.3	107.9	104.8
MFBs	89.5	96.4	131.9
Net NPLs to Capital			
Banks	2.4	-1.9	-1.8
DFIs	-0.7	-0.8	-0.4
MFBs	9.1	7.2	221.5^
Solvency Indicators			
Eligible Capital to Risk Weighted Assets (RWA)~			
Banks	17.8	20.0	21.4
DFIs	36	48.9	58.1
MFBs	9.3	5.7	-1.6
Tier 1 Capital to RWA			
Banks	14.8	16.2	17.2
DFIs	35.2	47.2	54.2
MFBs	6.3	3.0	-4.3
Earnings Indicators			
ROA (after Tax)***			
Banks	1.3	1.4	1.3
DFIs	1.3	0.5	2.1
MFBs	-2.0	-2.4	-0.7
ROE (after Tax)***			
Banks	23.5	24.3	22.0
DFIs	14.4	8.8	22.3
MFBs	-30.3	-51.6	-21.4
Liquidity Indicators			
Liquid Assets/Total Assets			
Banks	59.9	66.8	67.4
DFIs	89.2	85.5	76.2
MFBs	28.5	29.0	34.1
Liquid Assets/Total Deposits			
Banks	91.2	106.1	107.3
DFIs	8,098	3,618	1,929
MFBs	39.6	35.5	42.8
Liquid Assets/Short term liabilities			
Banks	107.9	111.5	109.4
DFIs	97.2	94.8	96.3
MFBs	38.8	40.1	56.9

*Share in total financial sector assets at end June 2025:

Banks=79.7%, DFIs=2.0% and MFBs=1.2% ~CAR requirement = For Banks/ DFIs = 11.5 percent; For MFBs = 15 percent, #Loan-loss allowances against NPLs contain specific as well as general provisions including provisions under IFRS-9, ***ROA and ROE are calculated on fiscal year basis ^Net NPLs and Regulatory capital of MFBs are negative at end-June 2025

Source: SBP

Composition of Banks' and MFBs' Borrowers **Figure 3.2**



Source: State Bank of Pakistan

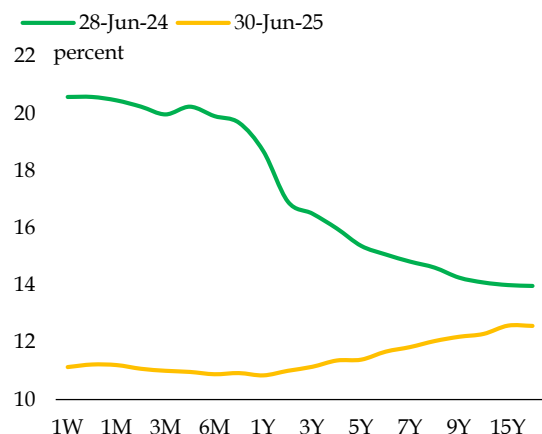
situation for the last few years due to severe exogenous shocks, i.e. COVID-19 pandemic and devastating floods that severely affected the repayment capacity of the micro borrowers and created asset quality and capital adequacy issues for the sector.

Whilst the loan-loss allowances and provisions strengthened, the capital position of a few MFBs deteriorated, which dragged the aggregate capital adequacy ratio (CAR) of MFBs in FY25. In this backdrop, SBP continued its enhanced supervision and engagement with the MFBs to support the revival efforts and soundness of the sector, as MFBs are crucial for financial inclusion.

Market Risk

Market risk accounts for a relatively small share of the capital requirements of the SBP-regulated financial institutions. However, its significance has increased over the recent years as the asset composition of the financial institutions has markedly tilted towards fixed-income government securities. The return on these securities makes a major portion of the income, particularly of banking sector. Moreover, interest rates have seen significant changes, which implies risks to market value of equity (capital) as well as earning streams of financial institutions. Among the SBP-regulated financial institutions, market risk for the banking sector is

Yield Curve Figure 3.3



Source: MUFAP

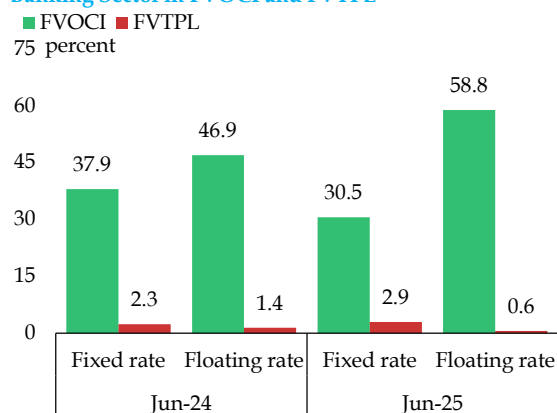
relatively more important as around 87 percent of the assets are rate sensitive.

The banking sector held around 90 percent of the government securities in Fair Value Through Other Comprehensive Income (FVOCI) and 6.7 percent in Amortized Cost at end-June 2025. The remainder of government securities were in the Fair Value Through Profit and Loss (FVTPL). The securities in FVOCI and FVTPL portfolios are subject to regular mark-to-market

adjustments due to changes in interest rates to reflect their fair value and can be traded to generate and manage liquidity. Following the changes in the policy rate, the yield curve shifted downward during FY25, as the market factored in the sharply falling inflation into their expectations about the policy rate (Figure 3.3). The downward shift in yield curve translated into gains on sale of FVTPL securities.¹ Moreover, the quantum of accumulated revaluations deficit on FVOCI securities turned into surplus in FY25 from a deficit at end of FY24.²

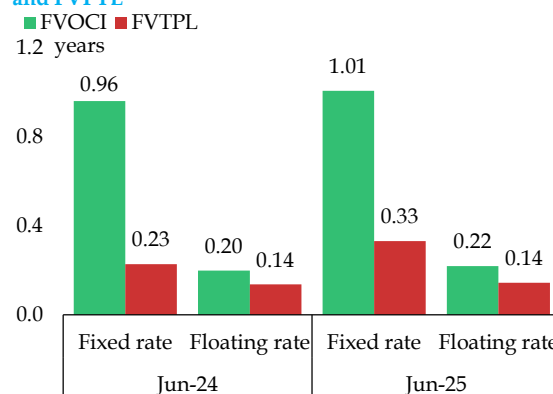
In line with the government strategy to launch variable-rate securities, the banking sector had strategized on raising the share of floating rate instruments in their portfolio of government securities. With lower weighted average duration compared to fixed-rate instruments, the rising share of floating-rate instruments in total government securities bodes well for banks in reducing their sensitivity to interest rate changes (Figures 3.4 and Figure 3.5). This contained sensitivity also reflected in the results of stress tests, which show that banks have

Share of Government Securities held by Banking Sector in FVOCI and FVTPL Figure 3.4



Source: SBP

Weighted Average Duration of Government Securities held by Banking Sector in FVOCI and FVTPL Figure 3.5



Source: SBP

¹ Gains on sale of government securities of banking sector amounted to Rs 117 billion during FY25, up from Rs 30 billion in FY24, and losses of Rs 1.0 billion in FY23.

² Revaluation deficit on the FVOCI government securities, which were Rs 41 billion (-0.1 percent of the total value government securities) at end-June 2024, turned into surplus of Rs 492 billion (1.4 percent of total value of government securities) at end-June 2025.

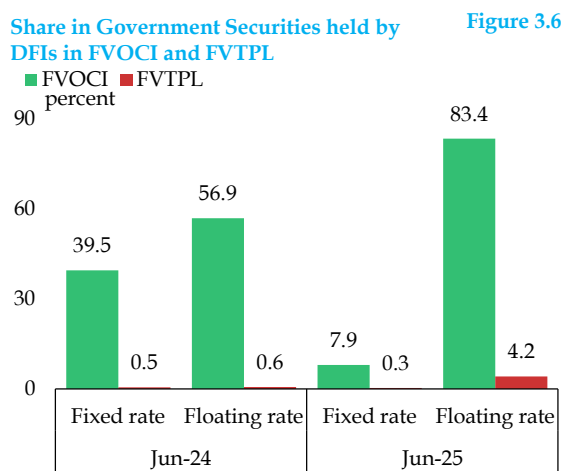
ample resilience to adverse movements in the interest rates.

The SBP's regulated institutions have relatively low exposure to other two market risk factors i.e., exchange rate and equity price movements. While the exchange rate depreciated by 1.9 percent during FY25, the banks remained largely immune from any concomitant risk due to their contained FX exposure. Similarly, banks' investments in shares and equity stocks were also low, which helped in containing the impact of volatility in equity prices.³ The equity market, nevertheless, continued its growth momentum and rose by 60.1 percent in FY25, yielding substantial gains on quoted shares. The limited sensitivity of the banking sector to the FX and equity price movements stems, in part, from the SBP's prudent regulatory approach, which prescribes conservative limits on banks' exposures to these markets.⁴ Accordingly, the capital charge for market risk accounts for only 7.5 percent of the minimum regulatory capital requirement at end-June 2025. The resilience to FX and equity price shocks was also reflected in results of the latest stress testing exercise, which shows that the banking sector in general

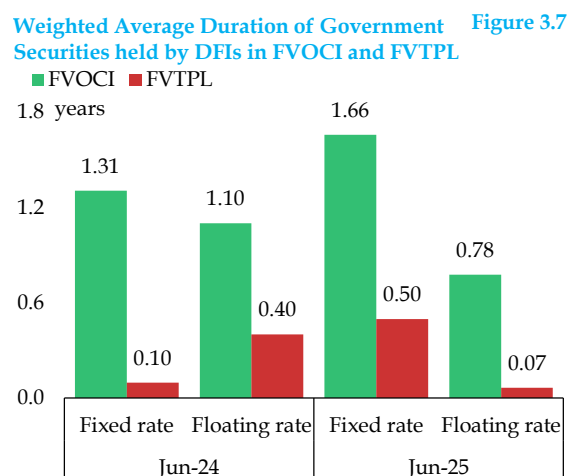
remained resilient to hypothetical severe shocks related to various market risk factors.

In case of DFIs, exposure to equities is even minimal at 0.6 percent of the capital base at end-June 2025, which shields DFIs from the excessive swings in stock prices. The aggregate balance sheet of DFIs is, however, highly skewed towards investments, which constituted around 80 percent of the asset base at end-June 2025 (86.8 percent at end-June 2024). Within the investments, government securities dominate with around 95 percent share. Just like the banking sector, DFIs have also increased the share of floating-rate government securities in their investment portfolio (Figure 3.6). With a very high share of floating-rate instruments in government securities and lower weighted average duration of these instruments, DFIs have a contained sensitivity to interest rate movements (Figures 3.6 and 3.7). The stress testing results for DFIs also suggest that these institutions are resilient to both a sharp upward shift in the yield curve (interest rate), and to a severe fall of around 35 percent in equity prices.

The MFBs, on the other hand, have low exposure to market risk, given their business



Source: SBP



Source: SBP

³ For instance, investment in equities to capital ratio of banking sector was 2.8 percent at end June 2025 (5.6 percent at end June 2024 and 6.8 percent in June 2023).

⁴ The aggregate equity investment limit for banks and DFIs, which are mobilizing funds as deposits/ COIs from general public/individuals, shall be 30 percent of their respective equity. For details see www.sbp.org.pk/publications/prudential/PRs-IPF-June-24.pdf

model, which mainly focuses on lending operations. Though investments rose to 24.3 percent of their asset base by end-June 2025 (21.0 percent at end-June 2024), as SBP increased the Statutory Liquidity Requirement (SLR) for the sector, the MFBs' balance sheet remained tilted towards advances which constituted 46.5 percent of the asset base at end-June 2025.

Earnings

The earnings of the banking sector remained largely steady, as the bottom line indicators witnessed only a slight moderation. After-tax profit of the banking sector grew by 11.8 percent in FY25 to Rs 721 billion, compared to 30.4 percent growth in FY24. While a sharp decline in interest rates – a cumulative 950 bps reduction in the policy rate in FY25 – dampened the interest income, an increase in the volume of earning assets as well as a relatively sharper decline in cost of funds supported the net interest income. Besides, the banks' strategy to increase the share of non-remunerative deposits, changes in regulatory requirements in respect of minimum rate on saving deposits,⁵ helped the banks in containing the interest expense. Non-interest incomes also supported earnings, as increase in fee and commission income and trading gains on government securities and quoted shares (amid upbeat equity market) were notable.⁶

On the other hand, growth in operating expenses moderated to 11.4 percent in FY25, after remaining elevated for the last two years,⁷ which is consistent with the sharp reduction in overall inflationary pressures in the economy. This improvement is also encouraging in the context that the branch network saw an expansion during FY25, with the highest growth rate in the last three years.

The appreciable improvement in banking sector's earnings was, however, largely neutralized by taxation charges, which rose sharply and took 54.1 percent of pre-tax profit in FY25 (51.6 percent in FY24). It also reflects the impact of increase in tax rate for banking companies from 39 percent to 44 percent for the tax year 2025.⁸ The taxation charges accounted for more than half of the banking sector's earnings for the second consecutive year in FY25. Higher tax rates have the implications for both stability and efficiency of the sector, as it reduces both the ability to build buffers against unforeseen macroeconomic shocks, and the incentive to invest in technologies and capacity to improve the efficiency.⁹ Profitability indicators, such as after-tax ROE, slightly moderated to 22.0 percent in FY25 (24.3 percent in FY24), and after-tax ROA marginally fell to 1.3 percent in FY25 (1.4 percent in FY24).¹⁰

Earnings of the DFIs posted marked improvement. The after-tax profit of DFIs rose to Rs 42 billion in FY25 (Rs 13 billion in FY24). The

⁵ SBP removed the Minimum Deposit Rate (MDR) requirement for deposits of non-financial public sector enterprises (PSEs), financial institutions and public limited companies. Previously, banks had to pay MDR on all PKR savings deposits, equivalent to 50 basis points below the prevailing SBP Repo Rate. As of January 1, 2025, these three (3) types of deposits are exempted from mandatory requirement of MDR. Moreover, Islamic Banking Institutions (IBIs) are required to pay at least 75 percent of the weighted average gross yield of all pools of an IBI on PKR saving deposits (excluding deposits of financial institutions, public sector enterprises and public limited companies), with effect from January 01, 2025. For details, see BPRD Circular No. 05 of 2024 and IFPD Circular No. 09 of 2024 dated November 26, 2024.

⁶ Fee, commission and brokerage income rose to Rs 283 billion in FY25 (Rs 240 billion in FY24). Gains on sale of government securities of banking sector amounted to Rs 117 billion in FY25 up from Rs 30.2 billion in FY24. Total gains on sale of securities amounted Rs 138 billion in FY25, compared to total gains of Rs 43 billion in FY24.

⁷ Operating expenses rose by 31.5 percent growth in FY24 and 30.2 percent in FY23.

⁸ Rate of tax on banks was raised through Income Tax (Amendment) Ordinance 2024, dated December 28, 2024.

⁹ Buffers are important for the financial stability of the banking sector and the overall stability of financial sector.

¹⁰ ROA and ROE are calculated on fiscal year (July to June) basis. Usually, these ratios are calculated on calendar year basis and may be different than the published ratios in Quarterly Compendium: Statistics of the Banking System available at: www.sbp.org.pk/ecodata/fsi.asp

sector has been heavily focusing on investment in government securities, which constituted 75.4 percent of the asset base at end-June 2025. As this portfolio has been financed from the short-term borrowings, the declining interest rates during FY25 led to a greater fall in interest expense and an improvement in NIM, which had remained under pressure during FY24.¹¹

Moreover, DFIs curtailed their reliance on borrowings – borrowing to total asset ratio fell to 78.3 percent at end-June 2025 from 90.5 percent at end-June 2024. Non-interest income, particularly, the higher dividend income also supported the earnings. Main driver of the growth in dividend income was the stake of a DFI in a leading Islamic bank, which contributed 80.8 percent of total dividend income of DFIs for FY25. Accordingly, the baseline indicators of profitability also improved; after-tax ROA rose to 2.1 percent in FY25 (0.5 percent in FY24) and after-tax ROE improved to 22.3 percent (8.8 percent in FY24).¹²

In case of MFBs, FY25 was the sixth consecutive year when the sector faced losses on aggregate basis. The clientele of MFBs mainly consists of small borrowers and low-income households, which have very low resilience to economic shocks. Over the past few years, different recurring shocks have resulted in a persistent build-up of NPLs in microfinance banks. Moreover, the MFB's business model, i.e. geographically scattered small-sized loans, inherently involves higher operational costs. In this backdrop, the increased delinquencies, loan-loss provisioning and high operating costs relative to constrained income translated into losses.

On an overall basis, MFBs were able to get higher growth in net interest income, as the

falling interest rates helped expand advances during FY25. The after-tax loss of the MFBs sharply shrank to Rs 5.9 billion in FY25 from Rs 18.0 billion in FY24. Moreover, the cost-to-income ratio improved to 84.7 percent for FY25 from 101.6 percent at end of FY24.¹³ However, the significantly higher provisioning expenses turned the profitability into negative during FY25, and indicators such as ROA and ROE showed improvement compared to last years (Table 3.1).

Liquidity

Most of the liquidity related financial soundness indicators (FSIs) of the banking sector improved during FY25, compared to the previous year. The liquid assets more than fully covered total deposits and short-term liabilities of banks, reflecting the high volume of investments in liquid government securities. These securities have a well-developed secondary market with high trading volumes that helps banks in managing their liquidity needs. Trading volume has consistently increased in the secondary market, a trend in line with the rising issuance of government securities in the market as well as the liquid nature of these securities.¹⁴

DFIs witnessed some moderation in liquidity position. However, the overall balance sheet-based indicators present a comfortable liquidity profile. The DFIs use borrowing as their main source of funding, which touched around 90 percent of assets at end-June 2024. However, with the reduction in investments, the borrowing to assets ratio has also witnessed a decline as DFIs endeavored for a more optimal balance sheet structure and margins. The decline in investments also moderated liquidity indicators, though the levels remained satisfactory.

¹¹ To recall, a few DFIs, having around 60 percent market share, incurred higher interest payments on funding that outpaced interest earnings in last two quarters of FY24 amid falling yields, which dragged the net interest earning of the sector.

¹² Profitability ratios such as ROA and ROE are calculated on fiscal year basis (July to June).

¹³ These ratios are calculated on fiscal year basis

¹⁴ The average trading volume of government securities more than doubled to Rs 12,579 billion in FY25 from Rs 5,959 billion in FY24. Data sources: SBP and Haver Analytics

The liquidity profile of MFBs showed a noticeable improvement during FY25. As the MFBs mainly focus on lending activities, their liquidity indicators were relatively lower vis-à-vis banks and DFIs. The improvement in liquidity indicators stemmed from rising investments in government securities, reflecting balance sheet expansion as well as adherence to enhanced SLR under the SBP revised prudential regulations for the MFBs.¹⁵ The cash reserve requirement (CRR) for MFBs was reduced from 5 percent to 3 percent, while the sector's SLR was enhanced to 12 percent from 10 percent.¹⁶ The share of investments in the asset base of MFBs rose to 24.3 percent at end-June 2025 (21.0 percent at end-June 2024); accordingly, liquidity ratios also improved. Nevertheless, due to their small share in the financial sector, the likelihood of MFBs posing systemic liquidity risks for the financial sector remained low.

Besides the CRR and SLR requirements, SBP has also prescribed Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) for banks, in line with the Basel-III standards. The banking sector adequately complied with the prescribed benchmarks.¹⁷ The LCR of the banking sector stood at 233.2 percent at end-June 2025 – well above the regulatory requirement of 100 percent (234.4 percent at end-June 2024). Similarly, the NSFR of banking sector also remained at a comfortable level of 187.3 percent at end-June 2025 (192.3 percent at end-June 2024), suggesting a satisfactory liquidity profile. The DFIs also maintained the NSFR at 131.4 percent at end-June 2025, well above the minimum regulatory benchmark.

However, despite comfortable fund-based liquidity profiles of the SBP-regulated financial institutions, the market liquidity conditions

witnessed some episodes of strain during FY25. The SBP actively carried out its monetary operations to keep the market stable and maintain the money market rates close to the policy rate. The average injections by SBP, carried out via open market operations (OMOs), for both conventional as well as Shariah-compliant modes remained relatively high during FY25.¹⁸ Besides, the use of standing facilities, especially the ceiling facility, by financial institutions also remained high for both conventional and Shariah-compliant modes during FY25, as compared to FY24.

It is, however, important that the average OMO injection remained higher only in a few months. For instance, in (i) December 2024, amid the ADR-linked tax policy on banks' income led to a decline in deposits and a significant expansion in advances of the banking sector, ii) March 2025 due to Ramadan and Eid-ul-Fitr, that led to an increase in currency-in-circulation, and (iii) June 2025, amid the seasonal budgetary needs of the government. However, the results of stress testing exercise (sensitivity analysis) suggest that banking sector in general has adequate resilience to liquidity shocks, including hypothetical scenarios of severe deposit withdrawals (Table 3.2).

Solvency and Capital Adequacy

The solvency of the banking sector improved further in FY25. The CAR rose to 21.4 percent by end-June 2025, which was well above the minimum regulatory capital requirement of 11.5 percent. This improvement mainly emanated from earnings and revaluation gains on FVOCIs securities during FY25. The solvency profile of DFIs also further strengthened, with the aggregate CAR at 58.1 percent at end-June 2025,

¹⁵ SBP revised the Prudential Regulations (PRs) for MFBs in order to align with the changing business environment. These regulations prescribe minimum benchmarks in Governance, Operations, Consumer Protection and Risk Management to ensure financial stability and sustainability of the Microfinance Banks. For details see ACFID Circular No. 01 of 2025 available at: www.sbp.org.pk/acd/2025/C1.htm

¹⁶ For details see ACFID Circular No. 01 of 2025 available at: www.sbp.org.pk/acd/2025/C1.htm

¹⁷ The LCR and NSFR requirements are not applicable to MFBs.

¹⁸ The tenor-weighted average size of OMO injections more than doubled to Rs 3,101 billion in FY25 from Rs 1,381 billion in FY24 in conventional mode. Similarly, the tenor-weighted average OMO injection size more than doubled to Rs 212 billion in FY25 from Rs 88 billion in FY24, in case of Shariah-compliant mode.

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Stress Testing (Sensitivity) Results of the Banking Sector Position (based on Jun-25 unaudited accounts) Table 3.2

Description of shock	Number of banks with CAR*			
	< 0%	0- 8%	8-11.50 %	> 11.5%
Pre-shock position	2	0	0	28
	No. of banks with no liquidity after			
	3 Days		4 Days	
Withdrawal of customer deposits by 2%, 5%, 10%, 10% and 10% for five consecutive days respectively.	1		2	
	1 Day		2 Days	
Withdrawal of wholesale deposits and unsecured borrowings by 10%, 20%, and 50% for three consecutive days respectively.	1		2	
	1 Day		3 Days	
	No. of banks with LCR<100%			
Shock to LCR applying 20% haircut to the value of investments in government and marketable securities	0			

*Excluding Easypaisa and PPCB

Source: State Bank of Pakistan

as compared to 48.9 percent by end-June 2024, well above the minimum regulatory requirement.

The asset base of the banking sector and DFIs is concentrated in government securities, reflecting the continued reliance of the government on domestic resources, particularly the banking sector, for financing its fiscal deficit. From the stability perspective, it is pertinent to mention that the government securities require no capital charge for credit risk (zero risk weighting for the treasuries), and relatively low capital charge in respect of market risk. Thus, to avoid the excessive leverage that banks can build in the operating environment, SBP has prescribed banks to maintain a minimum leverage ratio (LR) requirement of 3.0 percent as per Basel-III standards. The ratio acts as non-risk based 'backstop'¹⁹ to CAR requirement to address, inter alia, any model issues in calculating the risk weights and the issues of excessive leveraging.²⁰ In this regard, the LR of Pakistan's

banking sector at 4.4 percent and DFIs at 11.8 percent at end-June 2025 remained above the minimum requirement of 3.0 percent.

In case of MFBs, the aggregate CAR of the sector has consistently declined from June 2022 and now stands below the minimum regulatory requirement of 15.0 percent. The overall CAR of the sector further fell to negative 1.6 percent at end-June 2025 from 5.7 percent at end-June 2024, reflecting significant loan-loss provisioning in a few MFBs as well as conversion of an MFB to digital bank segment. However, the MFBs with a combined share of around 56 percent in total risk weighted assets of MFBs, complied with the minimum regulatory capital requirement. Excluding the CAR-non compliant MFBs, the sector's aggregate CAR improves to 20.9 percent at end-June 2025.

The MFB sector is facing challenging environment since FY20. The severity of various stress events in last few years have weakened the repayment capacity of borrowers of the MFBs. However, some signs of recovery in the sector were noticeable in FY25. For instance, with the falling inflation, improved economic activity and easing financial conditions, aggregate losses of the sector have markedly squeezed in FY25. The viability and operating efficiency can be improved by leveraging the technology e.g. use of Artificial Intelligence (AI) for improving the credit assessment and monitoring, using technology-driven platforms and products to offer financial services in cost-effective manners.

Going forward, the improvement in macroeconomic conditions and easing out of financial conditions in the wake of cumulative 1,100 bps reduction in the policy rate (since June 2024) are expected to positively impact the borrowers' debt servicing capacity and credit demand. Nevertheless, any impending severe

¹⁹ The Basel III Leverage Ratio (LR) is designed to restrict the build-up of leverage in the banking sector, and to backstop the existing risk-weighted capital requirements with a simple, non-risk-weighted measure. In this context, it is often referred as non-risk backstop measure.

²⁰ Details are available at: www.bis.org/publ/bcbs270.htm

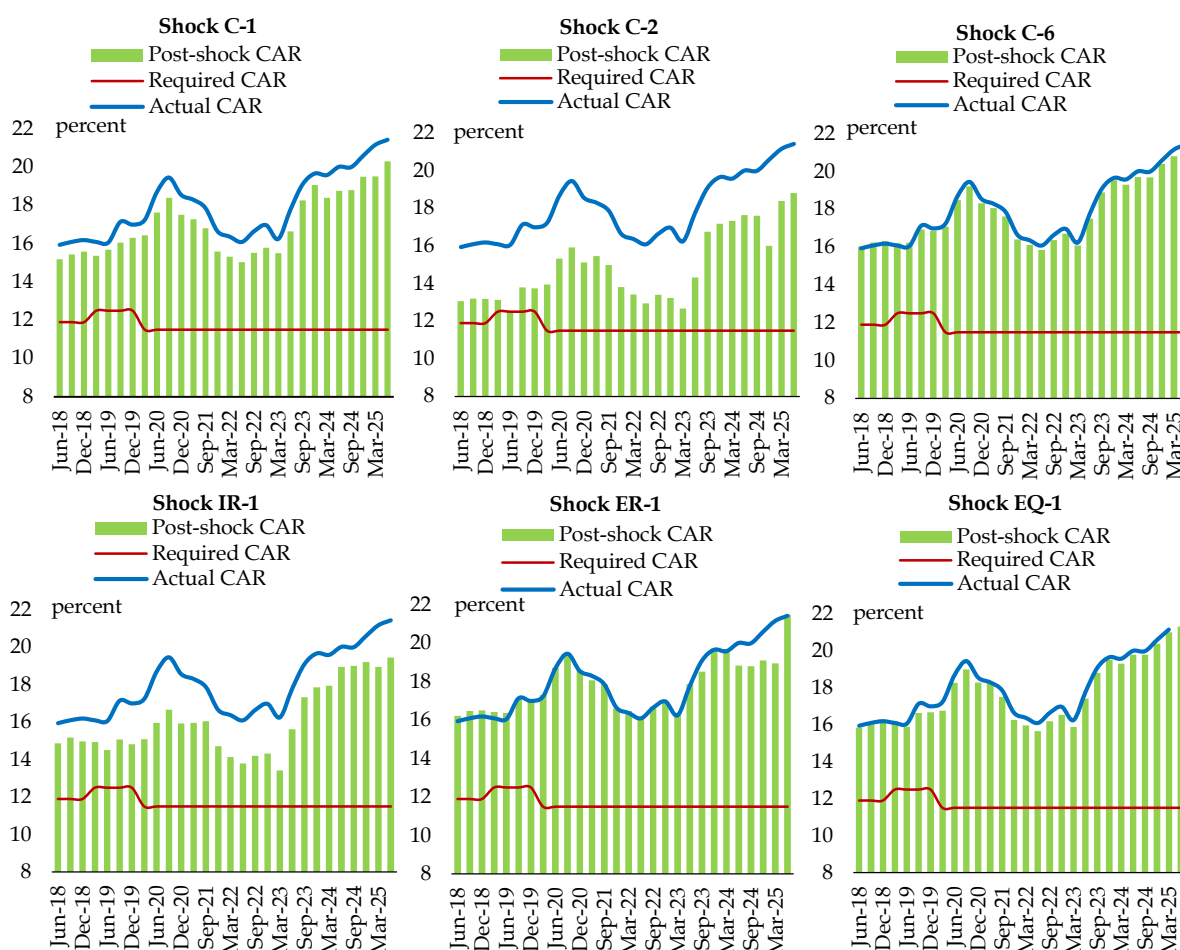
climate events, such as the 2025 floods, pose risks to economic activity and repayment of capacity of particularly micro-borrowers in agriculture sector.

In order to assess the resilience of the SBP-regulated financial institutions against severe shocks, SBP regularly conducts both sensitivity and scenario analyses. While the sensitivity analysis assesses the resilience against shocks to

specific risk factors, i.e. credit, market, operational, and liquidity risks, the scenario analysis (macro-stress testing) assesses the institutions' capacity to withstand plausible, hypothetically severe macro-financial shocks over the projected severe horizon of two years. The results of the latest sensitivity analysis show that banking sector has adequate resilience to withstand severe hypothetical shocks to key risk factors (Figure 3.8). Moreover, the sector is

Results of Selected Single Factor Sensitivity Shocks*

Figure 3.8



Shock C-1: 10 percent of performing loans become non-performing, 50 percent of substandard loans downgrade to doubtful, 50 percent of doubtful to loss.

Shock C-2: Default of top 3 private sector borrowers/Groups (fund based) exposures.

Shock C-6: Increase in NPLs to Loan Ratio equivalent to the historical maximum quarterly increase in the ratio of individual banks.

Shock IR-1: Parallel upward shift in the yield curve - increase in interest rates by 300 basis points on all the maturities.

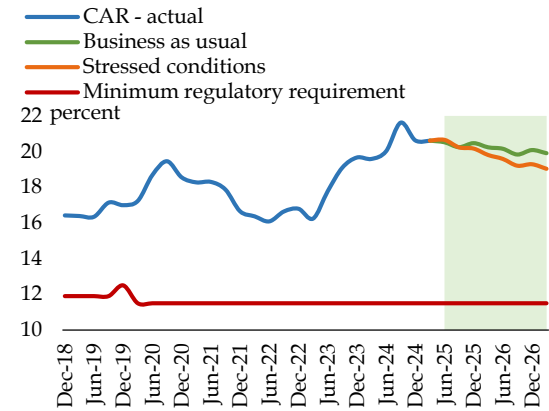
Shock ER-1: Depreciation of Pak Rupee by 30 percent.

Shock EQ-1: Fall in general equity prices equivalent to maximum decline in KSE-100 index.

*These selected shocks are part of a set of single factor sensitivity analysis that SBP conducts and publishes regularly

Source: SBP

Projected Capital Adequacy Ratio Under Different Scenarios Figure 3.9



Source: SBP staff calculations

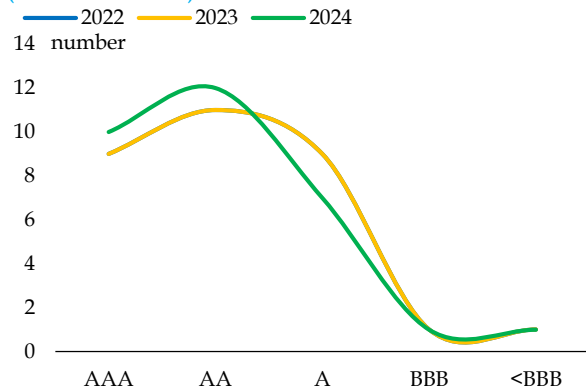
expected to maintain its resilience against severe (hypothetical) macroeconomic conditions, including the impact of extreme weather events. The projected CAR of the sector under both business-as-usual and stressed scenarios is likely to remain well above the minimum regulatory requirements (Figure 3.9). Particularly, the large sized banks, which are crucial for overall financial stability in the economy, exhibit relatively higher resilience.

The creditworthiness and soundness of individual FIs have a profound bearing on the overall stability of the financial system. The ratings assigned by independent credit rating agencies to the SBP-regulated FIs also suggest

that these institutions in general have satisfactory creditworthiness, indicating that they have adequate ability to honor their financial obligations and keep flow of credit to the economy. A comparison of banks' credit ratings over the last three years shows that the number of banks and their market share with better credit rating have further improved (Figure 3.10a and Figure 3.10b).²¹

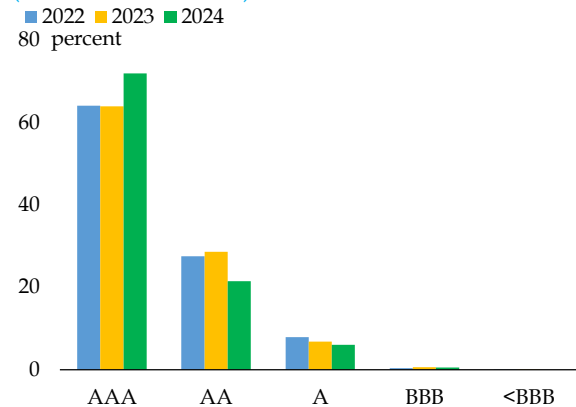
SBP regularly assesses the financial performance and soundness of its regulated entities and communicates the analyses through various publications, such as the Quarterly Compendium on Banking Statistics and Financial Soundness Indicators; Mid-Year Performance Review of Banking Sector (January to June period); and the annual Financial Stability Review (FSR). These analytical reports also include the results of Systemic Risk Survey (SRS), which gauge the views of market participants and independent experts about various existing and emerging risks to the stability of the financial system. The results of the latest SRS survey, conducted in July 2025, suggest that the respondents expressed confidence in the stability of the financial system, particularly the banking system. Moreover, the participants also expressed confidence on the ability of regulators to ensure stability of the financial system.

Distribution of Banks by Credit Ratings (Number of Banks) Figure 3.10a



Note: Distributions for 2022 and 2023 are the same
Sources: VIS, PACRA and Moody's

Distribution of Banks by Credit Ratings (Market Share of Banks) Figure 3.10b



Sources: VIS, PACRA and Moody's

²¹ Detailed ratings are available at: https://www.sbp.org.pk/publications/c_rating/2023/Ratings-26-Oct-2023.pdf

Strengthening Institutional Arrangements for Financial Stability and Priorities of the SBP

Strengthening of Resolution and Crisis Management Framework

SBP continued to strengthen its resolution and crisis preparedness framework in FY25. In October 2024, the legal framework was further enhanced by designating SBP as the resolution authority and outlining clear resolution objectives, triggers and powers. Further, MFBs were also brought under the scope of the resolution regime of Banking Companies Ordinance (BCO), 1962.²² SBP also introduced institutional and policy refinements to strengthen the financial sector safety nets and reinforce the resolution framework. In this connection, with the aim of facilitating timely and orderly resolution of non-viable distressed institutions while preserving overall financial stability, a dedicated department, the Financial Institutions Resolution Department (FIRD), was set up to proactively conduct resolution planning, perform resolvability assessments, and determine appropriate resolution strategies for key regulated financial institutions.

Publication of Macro-prudential Policy Framework (MPPF)

During FY25, SBP developed MPPF which outlines the objectives, institutional framework, assessment mechanism, set of policy tools and communication strategy for the macro-prudential surveillance in Pakistan. This was in pursuance of Section 4C(j) of SBP Act 1956, which requires SBP to adopt and implement macro-prudential measures for scheduled banks and financial institutions that fall under the SBP's regulatory and supervisory domain. 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 scenarios to contain systemic risks and ensure stability of the banking sector, in particular, and the financial sector, in general.²³

Facilitating Liquidation, and Mergers and Acquisitions

Liquidation of SME Bank

SBP played a key role in ensuring a smooth winding down process of SME Bank, as the bank faced persistent challenges, including negative equity, and liquidity shortfalls. The successful liquidation of SME Bank ensured the full repayment of depositor funds amounting to Rs 5.4 billion, upholding depositors' confidence and mitigating systemic risks. This orderly resolution demonstrates the SBP's commitment and ability to ensure financial stability.

Acquisition of FINCA Microfinance Bank by TPL and Abhi

SBP facilitated the acquisition of FINCA Microfinance Bank by Abhi Private Limited. The bank was facing losses, a negative CAR, and a shortfall of Minimum Capital Requirement (MCR). The acquisition infused fresh capital by foreign investors thereby strengthening the overall financial standing and viability of the institution and protecting interests of depositors.

Merger of Silk Bank with United Bank Limited

This merger was an important step to safeguard depositors, ensure financial stability, and help reap synergies, as Silk bank had been facing persistent losses and financial distress. SBP duly facilitated this voluntary transaction,

²² This was done through legal amendments in the Banking Companies Ordinance (BCO) 1962 and the Deposit Protection Corporation (DPC) Act 2016, which were enacted in October 2024 to ensure consistency with the international standards and emerging best practices on bank resolution.

²³ Available at: www.sbp.org.pk/fs/PDF/MPPF.pdf

underscoring its commitment and ability to maintain a resilient and viable banking system.

Amendment in Deposit Protection Corporation (DPC) Act

The legal mandate of DPC was enhanced from pay-box to pay-box *plus* through amendments in the DPC Act 2016. Accordingly, the DPC can now also contribute in the resolution of a failing bank, subject to certain safeguards.²⁴ Moreover, the amendments outlined funding mechanisms in case of shortfall, ensuring that DPC could support resolutions without relying on taxpayers' money. Additionally, the amendments in the law also strengthened the operational effectiveness of the DPC by providing additional options or tools for smooth reimbursement to eligible depositors in case of a bank failure.

Increase in the Limit of Deposit Protection

In order to safeguard the depositors' interest and further enhance their confidence in the banking sector, DPC increased the guarantee amount for all eligible depositors of its member banks from Rs 500,000 to Rs 1,000,000 with effect from October 01, 2024. This enhanced guarantee amount now provides full protection to around 96 percent of the eligible depositors.²⁵

Measures to Address Climate-related Risks to Financial Stability

Pakistan is one of the countries that are most vulnerable to climate change, leaving its financial system exposed to climate-related shocks. Considering the importance of tackling climate-related risks to ensure financial stability, climate change has been incorporated as a strategic theme in SBP Vision 2028, which outlines several measures and initiatives aimed

at identifying and mitigating climate-related risks to the financial sector.

Addressing the Issue of Legacy NPLs and Non-performing Assets (NPAs)

NPLs and claims of financial institutions remain stuck for an unduly long time, involving significant opportunity costs. SBP issued various instructions to address the issue of legacy NPLs of the banking sector. These instructions aim to facilitate banks in reducing the existing stock of NPLs and minimizing further build-up of NPLs. Banks have been allowed to charge-off their legacy NPLs to clean their books subject to certain conditions; however, the banks' legal right to recover will remain intact.²⁶ SBP also issued comprehensive guidelines to develop and implement an NPL Management Strategy, which covers the identification, management, monitoring and reduction of their NPLs.²⁷ Further, as a part of NPL reduction strategy, SBP arranged capacity building for over 150 judicial officers from various high courts, training them on banking and financial matters, to facilitate speedy disposal of loan-related legal cases.

SBP also amended the Guidelines for Transfer & Assignment of Non-performing Assets to Credit Restructuring Companies. The amendment was made to encourage banks to transfer their NPAs to credit restructuring companies and facilitate the development of secondary market for distressed assets in the country. With the view to reduce information asymmetries, amendments also include standardized data sharing templates between potential buyers and sellers of NPL portfolios.²⁸

Strengthening Cyber Risk Supervision

Recognizing the significance of cybersecurity in maintaining financial stability, SBP established a

²⁴ A "pay-box" mandate is where the deposit insurer is only responsible for the reimbursement of insured deposits. A "pay-box plus" mandate is where the deposit insurer has additional responsibilities, such as certain resolution functions (e.g. financial support).

²⁵ SBP Press Release dated Oct 01, 2024

²⁶ BPRD Circular No. 02 of 2024

²⁷ BPRD Circular No. 03 of 2024

²⁸ BPRD Circular Letter No. 15 of 2024

Cyber Risk Management Department (CRMD), which is primarily responsible for supervision of cyber risk of the SBP-regulated entities and for strengthening cyber resilience of the banking system. Additionally, CRMD is also entrusted with the responsibilities of oversight of digital frauds and taking measures to counter these frauds.²⁹

Launch of New eCIB System (v2)

SBP replaced its existing Electronic Credit Information Bureau (eCIB) system with a more advanced version, eCIB System (v2), which became operational from January 1, 2025. The enhancements aim to improve the comprehensiveness of Credit Information Reports, in alignment with international standards and technological advancements. The granularity of financial and non-financial data reported by FIs has been enhanced, which enables FIs as well as the SBP prudential supervision to assess credit risk of borrowers with greater focus and detail. This reflects the SBP's broader vision to modernize the financial infrastructure in Pakistan, enhancing access to finance and foster economic growth.

Consolidated Regulatory Framework for Exchange Companies

Subsequent to the structural reforms in Exchange Companies (ECs) in September 2023, SBP initiated a comprehensive review of the existing regulatory instructions for ECs, and issued a consolidated and updated Regulatory Framework for Exchange Companies (RFEC) in FY25. The framework elaborates corporate governance structures, sets out internal controls and IT systems requirements, and strengthens the supervisory and enforcement regime. Further, it updates reporting requirements and provides a single, unified source of regulatory guidance for the ECs.³⁰

Regulatory Frameworks for Diversified Payment Rights (DPRs)

In order to facilitate Authorized Dealers (ADs) of foreign exchange in raising long-term funds from outside Pakistan using foreign exchange future flows, SBP amended the Foreign Exchange manual to issue a comprehensive regulatory framework for DPRs comprising of two sets of instructions. The first 'Framework Governing International Payment Orders' provides clarity regarding the roles and responsibilities of ADs in the international payment orders, particularly creation of payment order contract and the ownership of rights in such payment orders. The second 'Foreign Exchange Future Flow Transactions Framework' allows ADs to raise long-term funds through a Special Purpose Vehicle (SPV) outside Pakistan, by selling their DPRs to that SPV.³¹

Reclassification of FX Translation Reserves

SBP rationalized the treatment of FX translation reserves for capital adequacy purposes by reclassifying them from Tier-2 Capital to Common Equity Tier-1 (CET-1) Capital for the calculation of CAR. The revised treatment is aligned with the international best practices including Basel Capital Accord and domestic market conditions. This reclassification will also strengthen the quality of banks' core capital (by more accurately capturing genuine and available earnings from currency movements), improve the market confidence and the soundness of banks' capital positions. Additionally, a stronger CET-1 base provides banks with greater capacity to maintain or expand lending activity, supporting credit growth and economic activity.³²

Consumer Protection

SBP has launched the *Sunwai*, customer complaint service, to enhance the effectiveness

²⁹ BSD-1 Circular No. 01 of 2024

³⁰ FE Circular No. 2 of 2024

³¹ EPD Circular Letter No. 05 of 2024

³² BPRD Circular Letter No. 02 of 2025

and fairness of the banking system. This platform aims to facilitate customers in lodging complaints with respective banks, EMIs, DFIs, and MFBs through a one-window operation. *Sunwai* is accessible through both web browsers and mobile applications, available for both Android and iOS users. Registered users can conveniently file complaints in either English or Urdu, and each complaint is assigned a unique tracking number, which is communicated to users via SMS and email for easy tracking. As of end-June 2025, over 97,000 users have been registered, while the number of complaints has surpassed 67,000 of which 98 percent have been resolved.

SBP instructed its regulated FIs to create awareness among their customers about *Sunwai*. For this purpose, FIs have displayed the URL on their websites and communicated the same to their customers via emails, SMS, and IVR (Interactive Voice Response) recordings. This initiative aims to promote customer awareness and ensure that customers' concerns are addressed promptly, fostering transparency and trust in the banking system.

Under its Strategic Vision 2028, SBP initiated capacity-building and awareness programs in various cities focusing on responsible banking conduct and the fair treatment of consumers. These programs aim to equip FIs' employees and customers with the necessary skills and knowledge needed to address their needs effectively. These initiatives empower banking officers to provide transparent, efficient, and responsible services, thereby promoting consumer confidence and safeguarding their interests. Enhancing financial literacy among consumers enables them to make well-informed decisions, understand their rights and responsibilities, and protect themselves from frauds as well as financial exploitation.

Moreover, SBP enhanced its focus on Conduct Supervision, in line with Vision 2028. In this respect, a comprehensive risk-based Conduct Assessment and Risk Evaluation framework was operationalized that is also aligned with the extant prudential Risk-Based Supervision (RBS) mechanism. Under this framework, a combination of on-site inspections and off-site monitoring has been deployed across all regulated FIs to gain first hand insights into their consumer protection and fair treatment practices and compliance status. This serves as a natural evolution of the SBP's approach to conduct supervision, which has evolved historically from regulatory complaint handling into a self-assessment tool called the Conduct Assessment Framework (CAF) under which banks rated their conduct health annually before getting it endorsed by their board, prior to sharing it with the SBP. This framework marks a new phase of data-intensive vigilance and oversight over FIs across Pakistan, and aims to significantly enhance fairness in the financial system.

Amendment in Minimum Deposit Rate (MDR) Policy

SBP introduced MDR in 2008, to strengthen monetary policy transmission and protect the depositors, as the deposit rates were significantly lower than the policy rate.³³ In this respect, based on the review of the current situation, SBP relaxed the MDR requirements in respect of certain categories of depositors i.e., financial institutions, public sector enterprises and public limited companies.³⁴

Profit Sharing on Saving Deposits of Islamic Banking Institutions (IBIs)

SBP issued instructions on profit sharing on saving deposits of IBIs. With effect from January 2025, all IBIs have been advised to pay profit on

³³ SBP (2008). Interim Monetary Policy Measures, May 2008. Available at: https://www.sbp.org.pk/m_policy/MPS-MAY-FY08-EN.pdf

³⁴ BPRD Circular No. 05 of 2024

their PKR saving deposits (excluding deposits of financial institutions, public sector enterprises and public limited companies) equivalent to at least 75 percent of the weighted average gross yield of all pools of an IBI.³⁵

Launch of Pakistan Real-Time Interbank Settlement Mechanism Plus (PRISM+) and Central Securities Depository (CSD) System

During the year, SBP introduced PRISM+, a major upgrade to the country's Real-Time Gross Settlement (RTGS) platform.³⁶ The new system is designed to improve resilience, efficiency, and transparency in payment and settlement operations. Key features include customizable dashboards, real-time monitoring tools, automated billing, and flexible payment scheduling. Importantly, the introduction of a Liquidity Saving Mechanism with multiple settlement queues, along with reserve earmarking for critical systems (Raast, 1-Link, NIFT, NCCPL), and automatic Intraday Liquidity Facility (ILF) provisioning through pre-assigned collateral pools, has enhanced liquidity management and reduced the risk of settlement gridlocks.

PRISM+ also integrates a Central Securities Depository (CSD) module, which expands the system's role beyond payments to include government securities auctions, secondary market trading, collateral management, and OMOs. These developments support deeper financial market integration, improve the transmission of monetary policy, and contribute to the growth of the domestic debt market. With end-to-end audit trails, role-based access controls, extended operating hours, and real-time settlement alerts, PRISM+ brings Pakistan's FMI closer to global standards for systemically important payment systems. Collectively, these improvements reinforce the stability of the financial system by strengthening operational

resilience, enhancing liquidity efficiency, and increasing confidence in settlement processes.

Strengthening of SBP's Monetary Policy Lending Operations (MPLO), and Mudarabah Based Financing Facilities (MBFF)

SBP introduced new policies on counterparty eligibility, and collateral (haircut on government securities) for the SBP's MLPO and MBFF (Shariah Compliant Standing Ceiling Facility and OMO-Injections), with an objective to strengthen risk mitigation measures for these facilities. Under the collateral policy, haircuts were introduced on government securities used as collateral for availing financing from SBP under the above-mentioned facilities. These haircuts would provide a safety buffer against loss in value of the collateral due to volatility in prices, which can potentially create risk for the SBP's balance sheet.

The counterparty eligibility policy has been defined to integrate financial soundness into the eligibility assessment process. The eligibility criteria are based on Basel-III capital and liquidity requirements to ensure a level playing field and maintain market neutrality. A clear set of criteria have been introduced to deal with breach of regulatory requirements, which are rule-based and provide due flexibility and predictability. For instance, the criteria envisage; (i) an assessment period with limited participation, wherein SBP would determine whether the breach is temporary and resolvable; (ii) if the determination of resolvability is established, a specified grace period during which the FI in breach of regulatory requirement can have limited access to operations or services; (iii) the facility is suspended if the breach is determined to be not temporary in nature or if the FI fails to meet the requirement within the prescribed grace period or if the FI is designated for resolution.³⁷

³⁵ IFPD Circular No. 09 of 2024

³⁶ DI&SD Circular No. 1 of 2025 available at: <https://www.sbp.org.pk/disd/2025/index.htm>

³⁷ DMMD Circular No. 09 of 2024

Facilitating IBIs Liquidity Management

Following the implementation of a Revaluation Mechanism for GoP Ijara Sukuk (GIS) by Pakistan Stock Exchange (PSX), SBP operationalized mechanism to facilitate IBIs to avail MBFF against such GIS, which were issued through PSX and reside with Central Depository Company (CDC). SBP has commenced accepting such securities as collateral in MPLOs from March 2025 onwards. Earlier IBIs could only avail the MBFF against GIS issued through SBP. The operationalization of the mechanism would facilitate the IBIs in managing their liquidity position by using the Sukuk issued through PSX and also improve the liquidity of such GIS.³⁸

Amendment in the law for Islamic banking

SBP recognizes the importance of a robust and supportive legal framework for the continued growth of the Islamic banking sector. In order to promote Islamic banking and strengthen its legal framework, the government, on the recommendation of the SBP, introduced a dedicated chapter on Islamic banking in the BCO, 1962. The chapter enacts specific provisions related to Islamic banking, including definitions of key terms, business, relationship between an Islamic banking institution and its customers, Shariah governance, penalties, and the charity, among others.

Initiatives for Conversion to Islamic Banking

In order to facilitate banks and streamline the process for conversion of their conventional branches, SBP revamped the existing criteria covering various areas. These include disclosure requirements for conversion of accounts; permission for use of digital channels for seeking consent from customers for conversion; permission for conversion of current accounts from conventional to Islamic after exhausting all

measures for seeking customer consent; flexibility in conversion process by allowing permission to establish virtual conventional cost center(s); flexibility in safekeeping of securities/collaterals during phase out of conventional portfolio; and facilitation in reporting line.³⁹

Updating of Shariah Governance Framework (SGF)

SBP also updated its comprehensive SGF, first introduced in 2015, to ensure its alignment with international best practices and recent developments in the Islamic banking industry.⁴⁰

Adoption of International Standards

With a view to continue strengthening Shariah compliance framework, and standardize and harmonize Shariah practices in the Islamic banking industry in line with International standards, SBP adopted nine additional Shariah standards of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) during FY25. With the adoption of these standards, total number of AAOIFI Shariah standards adopted by SBP stood at forty-five by end-June 2025, which includes adoption of forty-one standalone standards, whereas another four have been considered while issuing the relevant SBP regulatory instructions or guidelines. Similarly, six IFSB standards have been assessed and adopted by SBP during FY25. Adopting IFSB standards demonstrated the SBP's stance to align its regulatory framework with internationally recognized Islamic finance norms and global best practices, thus enhancing systemic stability (**Box 1.1**). Further, a compendium of Shariah standards adopted has also been developed to provide ease of access to the end users.

³⁸ DMMD Circular No. 03 of 2025

³⁹ IFPD Circular No. 05 of 2024

⁴⁰ IFPD Circular No. 8 of 2024

Revised Prudential Regulations (PRs) for Microfinance Banks

In order to align the PRs for MFBs with changing business environment, SBP revised the PRs for MFBs. These regulations prescribe minimum benchmarks in Governance, Operations, Consumer Protection and Risk Management to ensure financial stability and sustainability of the MFBs.⁴¹

New Financial Institutions

In an effort to further enhance financial inclusion, SBP granted nation-wide microfinance banking license to 'Halan Microfinance Bank Limited' with effect from June 03, 2025. The MFB will help in further extending financial services to the underserved

and unbanked segment of the society. Within MFBs, however, a financial institution was able to become first digital bank of Pakistan under the recent SBP's initiative to introduce full-fledged digital banks in Pakistan.

Launch of SBP Page on Bloomberg

As part of its efforts to enhance transparency and global accessibility, SBP launched a dedicated page on Bloomberg during the reviewed period. This initiative was aimed at increasing the visibility of Pakistan's financial markets on global stage by providing easy access to key economic and financial indicators. The page was developed in line with the design standards of central banks from G7 countries and major emerging economies, ensuring international comparability and alignment with global best practices.

⁴¹ ACFID Circular No. 01 of 2025

4 Measures to Support the Government's Economic Policies

The prudent coordination between monetary and fiscal policies strengthened macroeconomic stability, with inflation decreasing sharply during FY25 while financial sector remained stable. These improvements set the stage for a gradual recovery in economic growth. Moreover, State Bank of Pakistan (SBP) deployed a range of targeted policy measures and initiatives to support the government's economic policies as part of its tertiary objective.

The initiatives taken by SBP can be grouped into following broad categories: (a) improving financial inclusion and sustainable finance; (b) digitalization of financial services; (c) facilitating the government in managing its debt; and (d) promotion of home remittances. These measures are also aligned with the SBP's Strategic Plan (Vision 2028), which aims at maintaining price stability; strengthening foreign exchange reserves; improving financial inclusion; developing climate-resilient financing; and advancing an innovative, inclusive digital financial services ecosystem capable of meeting evolving banking needs.

4.1 Measures to Improve Financial Inclusion and Sustainable Finance

In line with its mandate under the SBP Act 1956, SBP has been pursuing to increase financial inclusion in the country in a more structured manner since 2015, when it launched its first National Financial Inclusion Strategy (NFIS). This strategy envisioned 'improving usage and quality of financial services while extending financial access for all', through recognizing financial inclusion as crucial factor in fostering

inclusive growth and financial well-being. The NFIS 2024-28, launched in January 2025, is the third iteration of NFIS after the completion of second iteration, i.e. NFIS 2018-23. During the second iteration, the SBP's measures were instrumental in uplifting the level of financial inclusion as well as reducing the gender gap substantially.¹

The key contributing factor to this significant growth has been digitalization. Through initiatives like Asaan Mobile Account (AMA), Raast, Digital On-boarding Framework, Roshan Digital Accounts (RDAs), and Digital Banks, SBP has led the digital transformation of the financial landscape. The availability of digital financial services also paved the way for women's financial inclusion as they could access financial services from the comfort of their homes. Furthermore, the SBP's Banking on Equality (BOE) Policy provided the impetus for developing a more inclusive banking, encouraging greater investment in both the female workforce and women customers.

With an expanding financial services landscape, SBP stepped up its efforts to enhance financial literacy of the populace. The flagship National Financial Literacy Program (NFLP) entered its second phase of implementation during FY25, wherein banks provided financial education to the residents of rural and peri-urban areas. As of end-June 2025, nearly 4.4 million people have been trained, half of which have been women. This is also supported by capacity building through National Financial Education Roadmap 2025-29 coupled with the global learning via Alliance for Financial Inclusion. Together, these elements shift the focus from mere access to

¹ The level of financial inclusion increased from 47 percent in 2018 to 67 percent by December 2024, while gender gap reduced from 47 percent in 2018 to 33 percent by December 2024.

secure, active usage and quality of formal financial services.

The SBP's targeted programs also extend inclusion to economy's production base. In agriculture, the SBP's toolkit, such as credit scoring, the Champion Bank Model, Electronic Warehouse Receipt Financing, adoption of digital land records, livestock insurance, improved risk recognition, enhanced collateral utilization, and smoothened seasonal cash flows. For SMEs, a complementary set of measures help banks lend prudently, enabling the youth-led businesses to formalize and grow. Dedicated women-inclusive instruments and capacity funding close practical gaps that often keep excluded segments out of the system.

For tradable sector, export finance is being reformed. Moreover, the Pakistan Green Taxonomy provides a common language for classifying green activities enabling the capital to move transparently towards climate-aligned projects. Collectively, these measures advance the SBP's third objective of supporting the government's economic policies for sustainable and inclusive growth.

(i) NFIS 2028

The NFIS 2028 aims to further utilize digital solutions to enhance access, usage, and quality of financial services. The strategy focuses on leveraging the progress made under the past two strategies, to not only remove bottlenecks and reach the last mile, but also foster innovations for improving usage and quality of formal financial services.

The NFIS 2028 prioritizes enhanced availability and usage of secure and easy digital financial services, improved ecosystem for priority sector financing, and strengthening capabilities of both financial institutions and consumers. Particular attention has been given to improve financial inclusion of women, youth and disabled persons in the financially excluded and underserved areas. Moreover, in order to catalyze inclusive growth and economic development in the

country, a host of actions have been chalked out to enhance financing to priority sectors like SMEs, housing, agriculture, microfinance and sustainable finance, with the ultimate aim of enhancing the wellbeing of the low income/underprivileged population. Based on these priorities and actions, the NFIS 2028 targets to improve the financial inclusion to 75 percent and reduce the gender gap to 25 percent by 2028.

Banking on Equality (BoE) Policy

To reduce the gender gap in financial inclusion and make the banking industry more women-friendly, SBP has been successfully implementing the BoE Policy. The policy has institutionalized a gender lens within the financial sector through five key pillars: improving institutional readiness; product diversification and capability development; customer acquisition and women facilitation; robust collection of gender disaggregated data; and prioritizing gender focus in the SBP's policies.

The three-year BoE policy, launched in 2021, was extended till June 2025. The key achievements made till June 2025 are as follows:

- Banks have inducted over 14,600 women – a significant increase from 9,662 as of end-June 2024. This has improved the overall ratio of women staff from 13 percent in FY24 to 16.4 percent in FY25.
- In FY25, 17.6 million active women-owned accounts were added over the baseline of 20 million in 2021; this is more than double of the 8.2 million accounts added in FY24.
- All banks have appointed female directors to their Boards and established Diversity & Inclusion Councils or management sub-committees on gender.
- All banks have established dedicated financial services departments/teams for

women, and developed women-centric products and services.

- 81 percent of bank branches have dedicated women champions in place, while 82 percent of overall bank staff has been imparted gender sensitivity trainings.
- In terms of financing, women microfinance borrowers increased by 47 percent to 2.7 million in FY25 from 1.8 million in FY24. However, women agri-borrowers declined by 16 percent during FY25.
- Women Branchless Banking agents have grown to over 21,000 and represent 3 percent of total agents, up from 1 percent in December 2021.

Further, SBP has developed a BoE Scorecard to annually rank the performance of financial institutions (FIs) against their assigned targets and their relative position against the top-performers, and the results are made public on the SBP website.

The BoE policy has aided to catapult Pakistan's banking industry on a journey of becoming gender intentional in its approach to financial inclusion. As a result of these initiatives, the gender gap in financial inclusion has narrowed by 6 percentage points to 33 percent in December 2024, compared to 39 percent in 2021.

Following the success of BoE policy, SBP is currently developing the second iteration of the policy – BoE 2.0 – whose key component will be to improve women's access to financing. In this regard, SBP has become a signatory to the WE Finance Code, an initiative of the World Bank to improve women entrepreneurs' access to finance globally. SBP became its 19th signatory in February 2025 and invited banks to voluntarily join the Code. To date, 22 banks have pledged to introduce new actions, share data, and appoint leadership at banks to improve women's access to finance in the country.

National Financial Education Roadmap (NFER) 2025-29

In order to scale up the SBP's ongoing initiatives for promoting financial literacy among the unbanked and underbanked segments, SBP has launched a comprehensive financial literacy policy titled 'National Financial Education Roadmap (NFER) 2025-29' in April 2025. The policy addresses the bottlenecks in the existing financial literacy approach, and aims to capitalize on digital means to further enhance outreach and impart financial education to targeted segments with tailored contents. The NFER is targeting to add 50 million beneficiaries by 2028, as envisaged in the latest NFIS 2024-28. The policy has three broad components that holistically converge all financial literacy activities into one place:

- Dissemination of financial education to targeted segments through physical and digital means
- Establishment of Centre for Financial Literacy & Education Pakistan
- Integration of financial literacy content in the national curriculum

(ii) Improving Access to Financial Services Program (IAFSP)

SBP established the IAFSF in 2008 under the loan agreement signed between the government and the Asian Development Bank (ADB) for IAFSP. The Fund is an endowment facility and its income is utilized for financial literacy programs and capacity building activities. The Fund is managed by the IAFSF Committee, which draws representation from the SBP, Pakistan Microfinance Network (PMN), Pakistan Poverty Alleviation Fund (PPAF), Pakistan Banks' Association (PBA), and a

representative from the Education Sector.² During FY25, various programs related to financial literacy and capacity building were approved and carried out under IAFSP. These include:

- Integration of financial literacy content into national curriculum
- Capacity building activities in areas of Agriculture, Islamic, and Microfinance
- Agriculture Finance Literacy – Student Ambassador Program
- Media campaign for financial literacy, customer awareness & empowerment
- National Financial Literacy Program – II (NFLP – II)
- Women entrepreneurship day
- Financial literacy programs for teachers of Balochistan
- National financial literacy week
- Training of the trainers – Female agents' onboarding and capacity building etc.

(iii) Asaan Mobile Account (AMA)

Introduced under the NFIS 2023, AMA has progressed considerably, with around 13 million individuals on-boarded. AMA provides a simplified, USSD-based platform that enables low-income segments, especially those without smartphones or internet access, to open and operate bank accounts of their choice. The initiative plays a critical role in advancing financial inclusion by bridging digital and geographic divides.

Engagement with Alliance for Financial Inclusion

Alliance for Financial Inclusion (AFI) is an international body owned and led by member central banks and financial regulatory institutions to promote financial inclusion through peer learning. SBP is a founding member of AFI since 2008 and actively participates in AFI's different forums. The central bank aims to learn from the global best practices and highlights Pakistan's achievements in the sphere of financial inclusion.

The Governor SBP has been the member of AFI Board of Directors since September 2023, and has been re-nominated for the second two-year term for 2025-27. In addition, SBP holds the Vice-Chair position at AFI's South Asia Region Financial Inclusion Initiative. This reflects the SBP's active leadership role in advancing financial inclusion across the region.

During FY25, SBP secured technical support under AFI's In-Country Implementation Program for Climate Smart Agriculture Financing (CSAF) for capacity building, and developing a toolkit and comprehensive guidelines for CSAF.

(iv) Measures to Promote Agriculture Credit

The agriculture sector experienced a slowdown in FY25, recording a modest growth of 1.5 percent compared to 6.4 percent in FY24, primarily due to a sharp decline in output of important crops. Despite this, the sector continues to play a significant role in Pakistan's economy, contributing 23.7 percent to the overall GDP and employing approximately 37.4 percent of the country's labour force. Given its importance for economic growth, employment generation, and food security, SBP continues to play a leading role in meeting the financing needs of the agriculture sector.

² The committee consists of five voting members as mentioned above and one observer from ADB with non-voting status.

In order to strengthen agriculture financing in Pakistan and encourage financial institutions to expand their agriculture credit portfolios, SBP, instead of allocating indicative agricultural credit targets, encourages banks to prepare their own agriculture credit expansion plans.

In FY25, the agricultural lending institutions disbursed Rs 2,577.3 billion, exceeding the banks' assumed target of Rs 2,572.3 billion, and recording a 16.3 percent growth over FY24. Further, the outstanding portfolio of agricultural loans increased by 13.8 percent and reached Rs 995.3 billion at end-June 2025 compared to Rs 875 billion at end-June 2024. Moreover, the number of outstanding agricultural borrowers reached 2.9 million at end-June 2025 compared to 2.7 million in the previous year.

Adoption of Agriculture Credit Scoring Model

SBP has introduced a scoring model to assess the agriculture credit performance of banks in a fair and transparent manner. The model applies multiple criteria and provides a composite numerical score that reflects each bank's overall performance. Its objective is to direct banks' attention towards enhancing agriculture financing. The scoring model uses multi-dimensional criteria, including (i) disbursement level, (ii) outstanding portfolio, (iii) number of borrowers, and (iv) sectoral and regional performance.

Champion Bank Model

SBP launched the Champion Bank Model in 2022 to address regional agricultural financing needs through coordinated efforts of key stakeholders. Six Champion Banks were nominated for six regions/provinces, each tasked with forming a Regional Agriculture Coordination Committee (RACC) chaired by their CEO. In FY25, 19 RACC meetings were held with participation from banks, SBP, SBP-BSC, and provincial agriculture departments.

Electronic Warehouse Receipt Financing (EWRF)

SBP launched EWRF framework in February 2022, to allow farmers to avail bank financing against their eligible commodities stored in accredited warehouses. EWRF continues to expand its footprints in enabling post-harvest financing for the farmers. Since its launch, the farmers have availed over Rs 10 billion under the scheme, highlighting its growing relevance in agriculture financing. In FY25, the banks provided EWRF of Rs 1,996 million to 518 borrowers.

Adoption of Digital Land Records for Agriculture Financing

SBP has been supporting digitalization of land records and their adoption by the banks to reduce the turnaround time in processing of agriculture loans. In Punjab, 30 banks are integrated with the Punjab Land Records Authority (PLRA) to mark their charge digitally. SBP has advised banks to achieve full adoption of digital land records by September 2025. The PLRA has begun mapping digital land records using satellite imagery to accurately determine land ownership and usage, thereby strengthening reliability of land as a secured collateral. Other provinces are at varying stages of digitalization and its adoption by banks for the swift processing of agricultural loans.

Crop Loan Insurance Scheme

The government covers the insurance premium cost per crop, per season for eligible borrowers of wheat, cotton, rice, sugarcane, and maize production loans from banks/MFBs. Between July 2008 and December 2024, banks have submitted insurance premium claims of Rs 11.93 billion against 7.13 million beneficiaries under the scheme.

Livestock Insurance Scheme for Borrowers (LISB)

LISB provides the government-funded insurance for livestock losses due to diseases, accidents, or

natural disasters. Targeted at small livestock farmers, the scheme is applicable to loans for the purchase of up to 10 cows, buffaloes, or bulls. Under the LISB, during the period from July 2014 to December 2024, banks submitted insurance premium claims of Rs 3.25 billion against 0.95 million beneficiaries.

Women Inclusive Finance Sector Development Program (WIFSD)

SBP is the implementing agency for the Financial Intermediary Loan (FIL) component of the ADB-funded WIFSDP. The WIFSDP aims to promote gender-inclusive economic growth in Pakistan by improving women's access to financial services and increasing their participation in the formal economy.

Under FIL component, two programs, WIFSDP-I (2023-24) and WIFSDP-II (starting June 2025), have been launched. WIFSDP-I included US\$ 50 million FIL, which was disbursed as Credit Line Facility (CLF) to 15 financial institutions benefiting nearly 194,000 women. WIFSDP-II features another US\$ 50 million FIL, of which US\$ 20 million has already been used to top-up the existing CLF whereas US\$ 30 million will be used to establish a Women Microfinance Credit Guarantee Facility.

SME Finance

Given the significant potential of the SME sector in driving economic growth, creating jobs, and reducing poverty, SBP has implemented various measures to improve SME's access to finance. As of end-June 2025, outstanding SME finance has risen to Rs 691 billion from Rs 491 billion at end-June 2024, showing an increase of 40.7 percent. Similarly, number of SME borrowers increased by 57 percent from 176,000 at end-June 2024 to around 276,000 at end-June 2025. The key initiatives are discussed below:

Prime Minister's Youth Business and Agriculture Loan Scheme

In collaboration with the SBP, the government launched the Prime Minister's Youth Business

and Agriculture Loan Scheme in January 2023. The scheme aims to foster youth entrepreneurship and self-employment opportunities by providing business and agriculture loans to young people at concessional rates ranging from 0 to 7 percent. The government provides markup subsidy for the scheme and offers a partial credit guarantee to cover the risk associated with extension of small business loans upto Rs. 2,000,000. For FY25, SBP set a disbursement target of Rs 65 billion for banks, split equally between the SME and agriculture sectors.

As of end-June 2025, banks met this target, disbursing Rs 65 billion to approximately 172,600 borrowers. Since its inception in January 2023 till June 2025, the banks have disbursed a total of Rs 175 billion to approximately 400,579 borrowers.

Risk Coverage Scheme for SMEs

Considering the critical importance of SMEs for inclusive economic growth and employment creation, the government, on the recommendation of the SBP, has approved a Risk Coverage Scheme for securing banks' fresh exposure against SMEs. Under the scheme, the government absorbs credit loss (principal portion only), 20 percent first loss coverage against banks' fresh exposure to small enterprises (SE) and 10 percent first loss coverage against banks' fresh exposure to medium enterprises (ME).

Digital Supply Chain Financing (DSCF)

DSCF is one of the key enablers in scaling up and lowering costs in SCF business, which connects all players on a digital platform. Adopting DSCF brings operational efficiency, scales up transaction volume and strengthens risk management and compliance practices. In order to promote DSCF, SBP issued instructions to banks to create dedicated SCF function and offer digital solutions for SCF. As a result, most banks have developed DSCF platforms.

Regulatory Measures for Promotion of SME Financing

SBP has undertaken various measures in FY25 to promote SME financing, which include:

- *Revision in financing limits for SMEs:* For SE, financing limit has been increased from Rs 25 million to Rs 100 million, whereas for ME, financing limit has been increased from Rs 200 million to Rs 500 million.
- *Enhancement in Regulatory Retail Portfolio Limit:* SBP has also enhanced the regulatory retail portfolio limit from Rs 180 million to Rs 300 million.
- *Enhancement in clean financing limit:* SBP has enhanced the clean financing limit for SME borrowers from Rs 5 million to Rs 10 million.
- *Incentive for export-based SMEs:* In order to incentivize the export-based SMEs, 40 percent share has been allocated for SMEs in EXIM Bank Administered EFS (E-EFS) Enhancement Plan for FY25.

(v) Export Facilitation

SBP promotes industrial growth and export competitiveness to support broader economic development. This is achieved through targeted refinance facilities and special schemes that provide value-added industries with concessional financing, enabling them to meet working capital requirements and enhance production capacity. In this regard, the Export Finance Scheme (EFS), operational since 1973, is a short-term financing facility for export of value-added goods with a loan duration of up to 180 days. Additionally, a Shariah-compliant alternate of the EFS, Islamic Export Refinance Scheme (IERS), is also available.

However, in order to make the process more transparent and market-driven, the SBP's involvement in managing these schemes is being phased out to EXIM Bank, with the gradual approach aimed at facilitating EXIM Bank in operationalizing export financing. Under the new arrangement, Export Finance Scheme will be financed by banks through their own liquidity, while the government will provide markup subsidy through EXIM Bank. Financing to exporters is available at end-user markup rate of 3 percent below the policy (target) rate.

Phasing out of Export Finance Scheme

As part of its transition plan, SBP phased out 30 percent of its existing EFS portfolio by end-June 2025.³ Accordingly, the outstanding amount of EXIM Bank-administered EFS – or the phased out portfolio – rose from Rs 89.7 billion in FY24 to Rs 240.7 billion by end-June 2025. Moreover, the total outstanding amount under the EFS – encompassing the IERS and the Rupee-based discounting facility⁴ – declined to Rs 502.5 billion by end-June 2025, from Rs 605.5 billion at end-June 2024.

EFS Enhancement Plan

Keeping in view the positive impact of EFS and growing demand for concessional export financing, SBP proposed the government to enhance the existing EFS portfolio by Rs 230 billion. Under the enhancement plan, the banks are offering financing to eligible exporters from their own sources and claiming markup subsidy from the government through EXIM Bank. To encourage financing to the SME sector, 40 percent of the enhanced amount is allocated for SME exporters. The total outstanding amount under the EFS enhancement plan stood at Rs 118.9 billion as of end-June 2025.

³ At end-June 2024, SBP had phased out 10 percent of its portfolio

⁴ As per the IH&SMEFD Circular No. 03 of 2022, SBP has allowed Rupee-based discounting of export bills/receivables under EFS/IERS only upon conversion of associated foreign exchange into rupees at the time of discounting. Banks shall discount at the end-user rate, and refinance shall be available for the discounted amount for the tenor of discount.

EXIM-administered Long Term Financing Facility (E-LTFF) for Plant and Machinery

Long-Term Financing Facility (LTFF) has been operational since 2008 to facilitate exporters in procurement of imported and locally manufactured new plants and machinery for export-oriented projects. A Shariah-compliant option, Islamic LTFF (ILTFF), is also available. However, similar to EFS, the SBP's involvement in managing LTFF is also being phased out to EXIM Bank, which will manage the E-LTFF. In line with the phase-out plan, the combined outstanding amount under traditional LTFF and ILTFF declined from Rs 254.0 billion at end-June 2024 to Rs 198.8 billion at end-June 2025. In contrast, disbursements of Rs 168 million were made under E-LTFF during FY25.

Under E-LTFF, financing is available at end-user rate of 3 percent below the policy (target) rate, which is revised biannually. Banks/DFIs are providing long-term financing from own sources wherein mark-up subsidy of 5 percent is provided by the government through EXIM Bank. A limit of Rs 60 billion for fresh financing was made available under E-LTFF for FY25.

Better Targeting of Export Finance Scheme

In order to promote exports and diversify export base, the government, in consultation with the SBP, allocated an exclusive EXIM administered Export Finance Scheme (E-EFS) financing limit for non-traditional exports and plan to gradually increase its share to 50 percent of the EFS portfolio by 2030. The implementation of better targeting has started from July 1, 2025.

Sustainable Finance Initiatives

Financing for sustainable development has become imperative for Pakistan, especially given its vulnerability to climate change. To this end, the role of financial sector in facilitating the establishment of a resilient and sustainable economy is critical. Recognizing the sensitivity of the issue, SBP has incorporated climate

change as one of the crosscutting themes in its Strategic Plan 2023-2028.

SBP is committed to enhancing climate-risk mitigation and management capabilities, recognizing the urgent need to address the challenges posed by climate change and promote sustainable development. In this regard, SBP has undertaken a number of green initiatives to promote sustainability considerations in the financial sector, which are aligned with the international best practices. These measures mainly include Green Banking Guidelines (2017), ESRM Implementation Manual (2022) and Pakistan Green Taxonomy (2025).

Development of Pakistan Green Taxonomy

SBP, in collaboration with the Ministry of Climate Change, has developed Pakistan Green Taxonomy (PGT), while World Bank provided technical assistance in the development process of PGT. The taxonomy will provide clarity to financial markets in identifying green economic activities, increasing the transparency of green investments and financial products, and mitigating climate-related financial risks. Through the classification of green projects and activities, the PGT will support policymakers, financial institutions and investors in directing investments and capital flows for climate mitigation and adaptation measures.

4.2 Digitalization of Financial Services

SBP implemented a range of initiatives, such as enhancing interoperable payment infrastructure, issuing supportive regulations for retail payment providers and fintechs, ensuring the security and reliability of digital payment channels, and encouraging technological innovations. The key initiatives rolled out during FY25 include issuance of digital retail bank licenses, the Regulatory Sandbox, Raast participation criteria, and PRISM+ among many

other measures. Together, these measures, as discussed below, reshaped the financial services landscape by enabling inclusive faster, safer and more transparent settlement, while automating auctions of government securities and monetary operations.

Issuance of Digital Retail Bank Licenses

In line with its ongoing efforts to promote financial inclusion through the adoption of technology-enabled solutions, SBP introduced 'Licensing and Regulatory Framework for Digital Banks' in January 2022. The enabling regulatory environment for digital banks is expected to not only advance the SBP's financial inclusion agenda, but also act as a catalyst for reshaping the financial services landscape in Pakistan through greater accessibility, efficiency, and innovation.

Building on this, in January 2023, it issued NOCs to five applicants for the establishment of digital retail banks (DRBs). In FY25, Mashreq Bank Pakistan Ltd. and Raqami Islamic Digital Bank Ltd. commenced operations in Pakistan under a restricted pilot phase. This is part of the SBP's gradual rollout strategy for digital banks. The approval for full commercial operations for the banks mentioned above is contingent upon the success of the pilot program. Meanwhile, Easypaisa, an existing financial institution, was the first to obtain a license and has already started commercial digital retail banking services on full scale in Pakistan.

Award of Microfinance Banking License

Further, in response to the country's growing demand for digital financial services, SBP granted nation-wide microfinance banking license to 'Halan Microfinance Bank Limited' with effect from June 03, 2025. MNT-Halan – Egypt's leading Fintech Company having global presence, offering business and consumer lending, digital payments and e-commerce solutions to the underserved and unbanked – has recently acquired the ADVANS Pakistan microfinance bank.

Introduction of Regulatory Sandbox

SBP introduced Regulatory Sandbox (RSB) to provide a controlled environment where innovative products, services, and technologies can be tested on a limited scale, within a defined period and under specific market-driven themes, enabling risk identification and informed policy development. SBP conducted extensive outreach across Pakistan, engaging its regulated entities, fintechs, academia, the government bodies, and technology associations. It also provided ongoing support to guide innovators through the onboarding process and comply with regulatory requirements.

Formation of subsidiary – Raast Payment Pakistan

Raast Payments Pakistan (Pvt.) Ltd. has been established as a wholly owned subsidiary of the SBP to oversee the operations, development and governance of Pakistan's Instant Payment System, Raast. The formation of the subsidiary underscores the SBP's strategic commitment to ensuring the system's long-term sustainability, promoting technological innovation, and responding effectively to evolving market and user needs. Through this dedicated entity, SBP aims to fortify Pakistan's digital payments infrastructure and accelerate the transition toward a cash-less, digitally inclusive economy.

Raast Participation Criteria

In line with its strategic vision to foster a digital, inclusive, and interoperable payments ecosystem, SBP issued Raast Participation Criteria 2025. The framework outlines eligibility and operational requirements for participation in Raast, Pakistan's instant payment system. It broadens access to a diverse range of entities including banks, EMIs, PSOs/PSPs, fintechs, and the government bodies aiming to promote competition and accelerate the shift toward a cashless economy.

In-app notifications instead of SMS

SBP has allowed banks to send transaction alerts via push notifications, in-app messages, and emails for digital transactions conducted through mobile banking apps. Further, SMS alerts would continue for all other digital channels including ATM, POS, and e-commerce transactions. The banks are allowed to replace SMS-based OTPs for mobile apps and internet banking transactions with secure Transaction PIN (TPIN)/Financial PIN (FPIN) functionality. These changes aim to reduce costs and enhance customer experience through secure digital alternatives.

Digital payments at Cattle Markets on Eid-ul-Azha

SBP expanded its Digital Acceptance Initiative in cattle markets during Eid-ul-Azha 2025 to promote cashless transactions and reduce currency in circulation. Building on the success of the 2024 pilot, the initiative saw enthusiastic participation from merchants and customers, with banks deploying kiosks, mobile vans, and customer facilitation zones in 54 markets nationwide. Real-time account openings were enabled through biometric devices, and QR codes were issued for seamless payments. Public awareness was boosted through Surface Mount Device (SMD) screens, interactive activities, and a targeted social media campaign by the SBP.

The initiative reflected a dramatic shift towards digital adoption in the traditionally cash-heavy sector. Compared to 2024, the number of transactions through digital means rose by 396 percent, from 13,011 to 64,553, while the total value surged by 731 percent, from Rs 560 million to Rs 4,656 million. These numbers highlight the growing trust in digital financial services and mark a significant milestone in Pakistan's journey toward a more inclusive and efficient financial ecosystem.

Facilitating disbursements under Prime Minister Ramadan Relief Package 2025

Prime Minister announced the Ramadan Relief Package 2025 to provide financial assistance of Rs 5,000 to low-income families at the start of Ramadan. Supporting this initiative, SBP collaborated with the Ministry of Industries & Production, and BISP to issue a framework for fund disbursement in February 2025. Under this framework, a one-time financial assistance of Rs 5,000 was provided to each eligible beneficiary, identified through the National Socio-Economic Registry (NSER).

To enable seamless and secure disbursements, six Participating Financial Institutions (PFIs) namely HBL, Bank Alfalah, Bank of Punjab, HBL Microfinance Bank, Mobilink Microfinance Bank, and Easypaisa Digital Bank were engaged. These PFIs opened Branchless Banking accounts/wallets / limited mandate accounts for over 2.5 million beneficiaries, into which the funds were directly credited. This initiative exemplifies the SBP's continued commitment to advancing financial inclusion and promoting digital financial services.

By leveraging branchless banking as a digital payment platform, the process eliminated the need for physical branch visits, thereby enhancing convenience for the recipients. Additionally, the beneficiaries were enabled to utilize funds through digital channels at their discretion, including utility payments, mobile top-ups, and purchases, which in turn fostered digital adoption. For those who preferred cash, secure withdrawals were facilitated through agent networks after biometric verification, ensuring both accessibility and process integrity.

Furthermore, the initiative supported the SBP's broader financial inclusion agenda by bringing previously unbanked individuals into the formal financial ecosystem. Many of the accounts/wallets opened under this scheme are expected to remain active beyond the disbursement phase, serving as an entry point for beneficiaries to access a wider range of

financial services. The successful implementation of the Ramadan Relief Package 2025 has highlighted the SBP's strong commitment for inter-agency coordination and a collective commitment to inclusive economic development and enhancing resilience of low-income segment of the population.

Automation of the Procedure of Government Securities Auctions and Monetary Policy Lending Operations

With the launch of PRISM+, an upgraded RTGS, and Central Securities Depository (CSD) system on June 16, 2025, a new interface has been introduced to enhance the efficiency of auctions and market operations by the SBP. Key features of this system are as follows:

- All auctions for Market Treasury Bills (MTBs), Pakistan Investment Bonds (PIBs), and their respective buyback operations are now conducted through PRISM+. The system streamlines the entire auction process, improving transparency and operational efficiency.
- Conventional OMOs, including injection and mop-up operations, and the conventional Reverse Repo (Ceiling) and Repo (Floor) facilities are now executed through PRISM+, enabling faster settlement and better liquidity management.
- PRISM+ provides a platform for secondary market trading of the government securities, including outright and repo-based transactions. It also supports '*when-issued trading*'⁵ of fixed-coupon PIBs prior to their auctions, enhancing market depth and price discovery.

The enhanced CSD module provides an end-to-end audit trail for full transaction; role-based

access control for improved security; and real-time settlement failure alerts to minimize operational risk.

4.3 Measures to Support the Government in Managing Debt

As the government's agent for managing domestic public debt, SBP conducts auctions of marketable securities (MTBs, PIBs, GIS), manages related data, and regulates primary dealers. Alongside strengthening the debt market through improved liquidity, price discovery, and a broader investor base, SBP has facilitated capital market development, which is crucial for economic growth. In this regard, following steps were taken:

Buyback of Government Securities

The government revised its policy of buyback of government securities in FY25, with key objectives of improving cash management, enhancing liquidity, and developing greater depth at the longer-end of yield curve.⁶ In accordance with this policy, the government decided to buyback (partial or full) MTBs and PIBs. Pursuant to this decision, SBP, in consultation with the Debt Management Office (DMO), developed the operational modalities of buyback transactions, including the auction mechanism, pricing, and the selection of securities for buybacks.

In accordance with the agreed mechanism and terms, buyback auctions of MTBs and PIBs were conducted, with a cumulative buyback of more than Rs 1.25 trillion from the market. These operations supported the government in managing its liabilities more effectively by optimizing the debt maturity profile and reducing refinancing risks as a part of its debt management strategy. Additionally, the buybacks give the government an option to

⁵ 'When-issued' trading refers to transactions where a new issue of securities, such as stocks or bonds, is authorized but not yet actually issued or delivered. These securities are traded on a conditional basis, meaning the actual trade will only be completed if and when the securities are officially issued. The term is particularly common in the contexts of treasury securities, initial public offerings (IPOs), and other new issues.

⁶ www.finance.gov.pk/dpco/circular_25092024.pdf

streamline the sovereign yield curve by enhancing market liquidity and targeting specific maturities to eliminate any distortions in the yield curve.

Introduction of New Government Securities' Tenors

As per the instructions received from the Ministry of Finance (MoF), SBP introduced new tenors for the government securities, including a 1-month MTB, and 2-year and 15-year PIBs. This initiative was aimed at enhancing the range of investment options available in the domestic debt market, while also aligning with the financing needs of the government. The introduction of these tenors has effectively addressed both the market demand for diversified maturity profiles and the government's evolving funding requirements, thereby contributing to improved debt management and market development.

Development of Innovative Sukuk Structures

Conversion of existing conventional domestic public debt into the Shariah compliant alternatives poses a significant challenge. A key prerequisite for the conversion to materialize is the availability of sufficient volume of the government Sukuk, which is essential for enabling banks to effectively manage their liquidity and navigate the transformation process smoothly. In this regard, SBP, in collaboration with key stakeholders, is actively working on development of innovative hybrid Sukuk structures. Moreover, SBP has also been working on proposal of developing an Assets Register of the government-owned entities, enabling speedy and simpler process for Sukuk issuance going forward.

4.4 Promotion of Workers' Remittances

Remittances are vital to Pakistan's economic and social fabric, acting as a major source of foreign exchange and supports the balance of payments.

Beyond the macroeconomic impact, remittances also help reduce poverty, improve access to essential services like education and healthcare, and foster community development across the country. Some of the key initiatives for enhancing inflow of remittances through formal channels are as under:

Pre-departure Briefing Program for Outgoing Emigrants

Launched in August 2023 by the SBP and the Pakistan Remittance Initiative (PRI) in collaboration with the banks and the Bureau of Emigration & Overseas Employment, this program conducts briefing sessions at Protectorate of Emigrants (PE) Offices nationwide. The initiative educates outgoing workers on secure and efficient remittance channels, highlights risks of informal methods, facilitates bank account opening, and informs about the government incentives and bank products. During FY25, over 6,000 sessions were conducted for more than 186,000 workers intending to go overseas.

(i) Changes in Reimbursement of Telegraphic Transfer (T.T.) Charges Scheme

SBP revised the Reimbursement of Telegraphic Transfer (T.T.) Charges scheme in October 2024 to further incentivize the authorized dealers and microfinance banks to maximize their efforts for increasing remittance inflows through formal channels. The incentive structure employed a dual-component approach based on the performance of an institution.

- **Fixed Component:** Financial institutions received a reimbursement of SAR 20 for every eligible transaction valued at US\$ 100 or more.
- **Variable Component:** An additional reimbursement was provided based on YoY growth in remittances:

- For growth up to 10 percent or US\$ 100 million (whichever is lower), an additional SAR 8 was provided per incremental eligible transaction.
- For growth exceeding 10 percent or US\$ 100 million, an additional SAR 7 was provided per incremental eligible transaction.

(ii) Changes in Exchange Companies Incentive Scheme (ECIS)

The ECIS rewards Exchange Companies (ECs) with Pakistani Rupees for every USD mobilized through inward home remittances, provided 100 percent of the foreign exchange is surrendered in the interbank market. To further encourage ECs to step up their efforts to mobilize home remittances, the ECIS was also made performance-based. Under the revised scheme:

- ECs received a base rate of Rs 2 for every USD mobilized through inward home remittances.
- The following additional incentives are provided based on year-on-year growth:
 - For growth up to 5 percent or US\$ 25 million (whichever is lower), ECs receive an additional Rs 1 per USD surrendered.
 - For growth exceeding 5 percent or US\$

25 million compared to the previous year, ECs receive an additional Rs 2 per USD.

(iii) Pakistan Remittance Summit in Italy

Under the auspices of the SBP and PRI, the 4th Pakistan Remittance Summit was organized in Rome-Italy in November 2024, in collaboration with the top remittance-mobilizing banks. PRI Awards were distributed at the Summit to recognise the performance of banks and partner money transfer operators (MTOs) in home remittances during the fiscal year 2023-24. The summit provided an effective platform for engaging a diverse range of stakeholders including diaspora representatives, banks, money transfer operators, and remittance service providers.

(iv) Outreach Campaign in Kingdom of Saudi Arabia (KSA)

A focused engagement initiative was conducted in August 2024 in KSA, the top remittance-sending country to Pakistan. The campaign included: community awareness events; meetings with banks and exchange houses; and engagement with Pakistani diaspora to understand barriers and preferences.

List of Abbreviations**A**

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
ACFID	Agriculture Credit and Financial Inclusion Department
AD	Authorized Dealer
ADB	Asian Development Bank
ADC	Alternate Delivery Channel
ADR	Advances to Deposits Ratio
AEs	Advanced Economies
AFI	Alliance for Financial Inclusion
AFS	Available for Sale
AI	Artificial Intelligence
AMA	Asaan Mobile Account
AMC	Asset Management Company
APCMA	All Pakistan Cement Manufacturers Association
ATM	Automated Teller Machine

B

BB	Branchless Banking
BCO	Banking Companies Ordinance
BISP	Benazir Income Support Programme
BOE	Banking on Equality
BOP	Balance of Payments
BPRD	Banking Policy & Regulations Department
bps	Basis Point
BSD	Banking Supervision Department

C

CAB	Current Account Balance
CAD	Current Account Deficit
CAF	Conduct Assessment Framework
CAR	Capital Adequacy Ratio
CDC	Central Depository Company
CDNS	Central Directorate of National Savings
CEO	Chief Executive Officer
CET-1	Common Equity Tier-1
CIB	Credit Information Bureau
CiC	Currency in Circulation
CLF	Credit Line Facility
CPI	Consumer Price Index
CRC	Credit Restructuring Company
CRMD	Cyber Risk Management Department
CRR	Cash Reserve Requirement
CSAF	Climate Smart Agriculture Financing
CSD	Central Securities Depository

D

DFI	Development Finance Institution
DI&SD	Digital Innovation & Settlements Department
DMMD	Domestic Markets & Monetary Management Department
DMO	Debt Management Office
DPC	Deposit Protection Corporation

	DPR	Diversified Payment Right
	DRB	Digital Retail Bank
	DSCF	Digital Supply Chain Financing
E		
	EBRF	Evidence Based Revenue Forecasting
	eCIB	Electronic Credit Information Bureau
	ECIS	Exchange Companies Incentive Scheme
	EC	Exchange Company
	E-EFS	EXIM Bank Administered Export Finance Scheme
	EFF	Extended Fund Facility
	EFS	Export Finance Scheme
	E-LTFF	EXIM Bank Administered Long Term Financing Facility
	EMDE	Emerging and Developing Economy
	EMI	Electronic Money Institution
	EOP	End of Period
	EPD	Exchange Policy Department
	ER	Exchange Rate
	ESRM	Environmental and Social Risk Management
	EU	European Union
	EWMA	Exponential Weighted Moving Average
	EWRF	Electronic Warehouse Receipt Financing
	EXIM Bank	Export-Import Bank
F		
	FBR	Federal Board of Revenue
	FDI	Foreign Direct Investment
	FDR	Financing to Deposits Ratio
	FED	Federal Reserve System
	FIL	Financial Intermediary Loan
	FIRD	Financial Institutions Resolution Department
	FI	Financial Institution
	FMI	Financial Market Infrastructure
	FPIN	Financial Personal Identification Number
	FSCRD	Federal Seed Certification and Registration Department
	FSI	Financial Soundness Indicator
	FSR	Financial Stability Review
	FVOCI	Fair Value Through Other Comprehensive Income
	FVTPL	Fair Value Through Profit and Loss
	FX	Foreign Exchange
	FY	Fiscal Year
G		
	GDP	Gross Domestic Product
	GIS	GoP Ijara Sukuk
	GoP	Government of Pakistan
H		
	H2	Second Half
	HBL	Habib Bank Limited
	HFT	Held for Trading
	HTM	Held to Maturity

I		
IAFSF		Improving Access to Financial Services Fund
IAFSP		Improving Access to Financial Services Program
IA		Investment Advisor
IBI		Islamic Banking Institution
ICT		Information and Communication Technology
IERS		Islamic Export Refinance Scheme
IFPD		Islamic Finance Policy Department
IFRS		International Financial Reporting Standard
IFSB		Islamic Financial Services Board
IH&SMEFD		Infrastructure, Housing and SME Finance Department
ILF		Intraday Liquidity Facility
ILTFF		Islamic Long Term Financing Facility
IMF		International Monetary Fund
IT		Information Technology
IVR		Interactive Voice Response
K		
KIBOR		Karachi Interbank Offered Rate
KSA		Kingdom of Saudi Arabia
KSE		Karachi Stock Exchange
L		
LCR		Liquidity Coverage Ratio
LCY		Local Currency
LIC		Lower Income Country
LISB		Livestock Insurance Scheme for Borrowers
LMIC		Lower Middle Income Country
LR		Leverage Ratio
LSM		Large Scale Manufacturing
LTFF		Long Term Financing Facility
M		
MBFF		Mudarabah Based Financing Facilities
MCR		Minimum Capital Requirement
MDR		Minimum Deposit Rate
ME		Medium Enterprise
MFB		Microfinance Bank
MMA		Month Moving Average
MoF		Ministry of Finance
MPC		Monetary Policy Committee
MPLO		Monetary Policy Lending Operations
MPPF		Macro-prudential Policy Framework
MSP		Minimum Support Price
MT		Metric Tonne
MTB		Market Treasury Bill
MTO		Money Transfer Operator
N		
NBFI		Non-Banking Financial Institution
NBMFC		Non-Bank Microfinance Company
NCCPL		National Clearing Company of Pakistan Limited
NCPI		National Consumer Price Index

NDA	Net Domestic Assets
NEPRA	National Electric Power Regulatory Authority
NFA	Net Foreign Assets
NFDC	National Fertilizer Development Center
NFER	National Financial Education Roadmap
NFIS	National Financial Inclusion Strategy
NFLP	National Financial Literacy Program
NFNE	Non-Food Non-Energy
NIFT	National Institutional Facilitation Technologies (Pvt). Limited
NIM	Net Interest Margin
NOC	No Objection Certificate
NPA	Non-Performing Asset
NPL	Non-Performing Loan
NSER	National Socio-Economic Registry
NSFR	Net Stable Funding Ratio
O	
OCAC	Oil Companies Advisory Council
OMO	Open Market Operations
OTC	Over-the-Counter
OTP	One-Time Password
P	
P2M	Person-to-Merchant
P2P	Person-to-Person
PACRA	Pakistan Credit Rating Agency
PAMA	Pakistan Automotive Manufacturers Association
PBA	Pakistan Banks' Association
PBS	Pakistan Bureau of Statistics
PCCC	Pakistan Central Cotton Committee
PE	Protectorate of Emigrants
PE Funds	Private Equity Funds
PFI	Participating Financial Institution
PGT	Pakistan Green Taxonomy
PIB	Pakistan Investment Bond
PIN	Personal Identification Number
PKR	Pakistani Rupee
PLRA	Punjab Land Records Authority
PMN	Pakistan Microfinance Network
PMYB&ALS	Prime Minister's Youth Business and Agriculture Loan Scheme
POL	Petroleum Oil and Lubricants
POS	Point of Sale
PPAF	Pakistan Poverty Alleviation Fund
PPCB	Punjab Provincial Co-operative Bank Limited
PR	Prudential Regulations
PRI	Pakistan Remittance Initiative
PRISM	Pakistan Real-Time Interbank Settlement Mechanism
PRISM+	Pakistan Real-Time Interbank Settlement Mechanism Plus
PSC	Private Sector Credit
PSE	Public Sector Enterprise
PSO/PSP	Payment System Operator / Payment Service Provider

	PSP&OD	Payment Systems Policy & Oversight Department
	PSX	Pakistan Stock Exchange
	PTA	Pakistan Telecommunication Authority
Q		
	QR	Quick Response
R		
	Raast	Instant Payment System by SBP
	RACC	Regional Agriculture Coordination Committee
	RAM	Resilient and Accessible Microfinance
	RBS	Risk-Based Supervision
	RCOA	Reporting Chart of Accounts
	RDA	Roshan Digital Account
	REIT	Real Estate Investment Trust
	RFEC	Regulatory Framework for Exchange Company
	RiR	Real Interest Rate
	ROA	Return on Asset
	ROE	Return on Equity
	RSB	Regulatory Sandbox
	RTGS	Real-Time Gross Settlement
	RWA	Risk Weighted Asset
S		
	SAR	Saudi Arabian Riyal
	SBP	State Bank of Pakistan
	SBP-BSC	SBP Banking Services Corporation
	SCF	Supply Chain Financing
	SE	Small Enterprise
	SECP	Securities and Exchange Commission of Pakistan
	SGF	Shariah Governance Framework
	SLR	Statutory Liquidity Requirement
	SMD	Surface Mount Device
	SME	Small and Medium Enterprises
	SMEDA	Small and Medium Enterprises Development Authority
	SMS	Short Message Service
	SPV	Special Purpose Vehicle
	SRB	Sindh Revenue Board
	SRO	Statutory Regulatory Order
	SRS	Systemic Risk Survey
T		
	TDS	Tariff Differential Subsidy
	TPIN	Transaction Personal Identification Number
	TPU	Trade Policy Uncertainty
	TT	Telegraphic Transfer
U		
	UBL	United Bank Limited
	UK	United Kingdom
	URL	Uniform Resource Locator
	US	United States
	USD	United States Dollar
	USSD	Unstructured Supplementary Service Data

W

WADR	Weighted Average Deposit Rate
WALR	Weighted Average Lending Rate
WAONR	Weighted Average Overnight Rate
WB	World Bank
WHT	Withholding Tax
WIFSDP	Women Inclusive Finance Sector Development Program

Y

YoY	Year-on-Year
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