State Bank of Pakistan

GOVERNOR'S ANNUAL REPORT
2025 - 26

Governor's Annual Report

2025-26

November 17, 2026



State Bank of Pakistan

Governor's Annual Report

2025-26

The analysis and projections presented in this report were prepared on data outturns for FY26 and finalized in the fourth week of October 2026, using data and information as of then.

© State Bank of Pakistan, 2026

Economic Policy Review Department

Published with one volume

Governor's Annual Report 2025-26

Printed at Pakistan Security Printing Corporation (Pvt.) Ltd. Publications Section, Karachi

Print Quantity: 650

No. of Pages: 90

Web link



Date of Printing: November 14, 2026

This Report is published by State Bank of Pakistan as required under the applicable laws. Reproduction of whole or part of this report is permitted for educational and non-commercial purposes, subject to acknowledgement of the publication by State Bank of Pakistan.

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

The objectives of the State Bank of Pakistan are set out in section 4(B) of the *SBP Act 1956* (as amended up to January 2022), which states:

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

Price stability means the maintenance of low and stable inflation guided by the government's medium-term inflation target. (section 2 (kb) of the *SBP Act 1956* (as amended up to January 2022))

Board of Directors

Mr. Jameel Ahmad (Chairperson)	Governor, SBP
Mr. Imdad Ullah Bosal	Secretary, Finance Division, Government of Pakistan
Dr. Ali Cheema	Non – Executive Director
Dr. Syed Akbar Zaidi	Non – Executive Director
Mr. Najaf Yawar Khan	Non – Executive Director
Mr. Fawad Anwar	Non – Executive Director
Mr. Zahid Ebrahim	Non – Executive Director
Mr. Mahfooz Ali Khan	Non – Executive Director
Mr. Muhammad Ali Latif	Non – Executive Director
Ms. Tahira Raza	Non – Executive Director

Monetary Policy Committee

Mr. Jameel Ahmad (Chairperson)	Governor, SBP
Mr. Saleem Ullah	Deputy Governor, SBP
Mr. Muhammad Amin Khan Lodhi	Deputy Governor, SBP
Mr. Muhammad Ali Malik	Deputy Governor, SBP
Dr. Naved Hamid	External Member
Dr. Hanid Mukhtar	External Member
Dr. S. M. Turab Hussain	External Member
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.
November 17, 2026

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 financial year 2025-26 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.
November 17, 2026

Dear Mr. Speaker,

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 financial year 2025-26 is hereby enclosed for submission to the Majlis-e-Shoora (Parliament).

With warm regards,

Yours sincerely,



(Jameel Ahmad)
Governor
Chairperson, Board of Directors

Sardar Ayaz Sadiq
Speaker
National Assembly of Pakistan
Islamabad

Contents

	Governor's Remarks	**1**
1	**The State of Pakistan's Economy and Financial System**	**5**
2	**Price Stability and the Conduct of Monetary Policy**	**23**
3	**Financial Stability**	**35**
4	**Measures to Support the Government's Economic Policies**	**47**
	List of Abbreviations	**67**

Box Items

Box 4.1	Ensuring a Smooth Transition to a Riba-free Financial System through the Government's Post-2027 Strategy	65

List of Figures

Figure 1.1	Geopolitical Risk	6
Figure 1.2	Global Commodity Prices - Average YoY Growth	6
Figure 1.3	Contribution to GDP Growth	7
Figure 1.4	LSM Index	7
Figure 1.5	Change in Area and Yield of Important Crops	8
Figure 1.6	Current Account Balance	8
Figure 1.7	Growth in Energy Imports	9
Figure 1.8	Growth in Textile Exports	10
Figure 1.9	Fiscal and Primary Balances	10
Figure 1.10	Actual vs Potential Buoyancy-led Growth in FBR Taxes	11
Figure 1.11	National CPI Inflation – YoY	13
Figure 1.12	Contribution to Average National CPI Inflation	13
Figure 1.13	Trends in Deposits	18
Figure 1.14	Trend in Financial Markets Stress Index	19
Figure 1.15a	Composition of Retail Transactions – Value	21
Figure 1.15b	Composition of Retail Transactions – Volume	21
Figure 1.16	Trend in Raast Transactions	21
Figure 2.1	SBP's Inflation Forecast and Actual NCPI Inflation	23
Figure 2.2a	Inflation Composition - Urban	23
Figure 2.2b	Inflation Composition - Rural	23
Figure 2.3a	Global and Domestic Energy Prices	25
Figure 2.3b	Urban CPI Inflation Composition - FY26	25
Figure 2.4	Global Commodity Prices	26
Figure 2.5	Inflation Expectations of Professional Forecasters	26
Figure 2.6a	Global Headline Inflation	27
Figure 2.6b	Global Core Inflation	27
Figure 2.7a	Global Monetary Policy Decisions - AEs	27
Figure 2.7b	Global Monetary Policy Decisions - EMDEs	27
Figure 2.8	Factors affecting SBP Monetary Policy Decisions during FY26	28
Figure 2.9	Economic Policy Uncertainty	28
Figure 2.10	Current Account Balance	29
Figure 2.11	Global Energy Prices and Freight Cost Index	30
Figure 2.12	Crude Oil Futures	30
Figure 2.13	High Frequency Indicators	31
Figure 2.14	Interbank Liquidity Indicators	32
Figure 2.15	Average Deviation of WAONR from Policy Rate	32
Figure 2.16	Monetary Transmission Indicators	33
Figure 3.1	Banking Sector Stability Map	35
Figure 3.2	Borrowers of Banks and MFBs	36
Figure 3.3	Yield Curve	37
Figure 3.4	Share in Government Securities of Banking Sector	37

Figure 3.5	Weighted Average Duration of Government Securities of Banking Sector	37
Figure 3.6	Share in Government Securities of DFIs	38
Figure 3.7	Weighted Average Duration of Government Securities of DFIs	38
Figure 3.8	Taxation Charges on Profit before Taxes	39
Figure 3.9	Projected Capital Adequacy Ratio of Banking Sector under different Scenarios	41
Figure 3.10	Results of Selected Single Factor Sensitivity Shocks	42

List of Tables

Table 1.1	Asset Composition of the Financial Sector	14
Table 1.2	Key Balance Sheet Variables of Banks, DFIs and MFBs	15
Table 1.3	Asset Profile of NBFIs	16
Table 1.4	Performance of Islamic Banking Institutions	19
Table 1.5	Movements in Key Variables of Financial Markets	20
Table 1.6	Profile of Payment System Mechanisms	20
Table 2.1	CPI Inflation	24
Table 2.2	SBP Macroeconomic Projections for FY26	24
Table 3.1	Key Financial Soundness Indicators of Banks, DFIs and MFBs	36
Table 3.2	Stress Testing (Sensitivity) Results of the Banking Sector Position based on June 30, 2026 (Un-audited data)	40
Table 4.1.1	Key Actions and Milestones to be Achieved for Smooth Transition	66

Governor's Remarks

Pakistan's macroeconomic indicators continued to show resilience during FY26. Average national CPI (NCPI) inflation remained close to the upper bound of the medium-term target range; foreign exchange reserves exceeded the year-end target amid a marginal current account deficit, and real GDP recorded higher growth. These outcomes were supported by a prudent and data-dependent monetary policy stance. This, together with continued fiscal consolidation, strengthened economic resilience against the successive shocks during the year, including monsoon floods and elevated uncertainty surrounding US trade tariffs at the start of the year, and the Middle East (ME) conflict since the end of February 2026 that triggered sharp increases in global commodity prices.

Average NCPI inflation was at 5.5 percent for the period Jul-Feb 2026. However, a significant rise in global oil prices following the onset of the ME conflict pushed the headline inflation to double digits from April 2026 onward. The contribution of energy inflation to NCPI inflation increased markedly during Mar-Jun FY26 compared to Jul-Feb FY26. Food inflation also increased, driven by a sharp rise in prices of wheat and related products reflecting supply constraints due to lower production in the previous year, flood-related stock losses and market uncertainty. Core inflation continued to moderate during most of FY26. However, it remained elevated and rose slightly after surge in energy prices started to reflect in the cost of production and transport services.

In consideration of the evolving developments during H1-FY26, the monetary policy committee (MPC) kept the policy rate unchanged until December 2025, when it reduced the rate by 50 basis points (bps). The rate cut was in view of the subdued headline inflation, anchored inflation expectations, softening global commodity prices, and a stronger external account position that improved the inflation outlook and provided room to support economic activity. However, the outbreak of the ME conflict led to a deterioration in inflation and external outlooks due to higher global commodity prices, prompting a 100-bps increase in the policy rate in April 2026 to contain second-round effects and support macroeconomic stability. A similar policy response was observed globally, where most central banks in advanced and emerging and developing economies paused their rate cuts, while some raised their policy rates.

SBP's FX reserves strengthened during FY26, exceeding the US$ 18.0 billion target for end-June 2026. During the year, SBP made net purchases of US$ 8.1 billion, and reduced its forward/swap liabilities by US$ 1.6 billion, reflecting a qualitative improvement in the country's reserve position. The build-up in reserves was supported by contained current account deficit, multilateral and bilateral inflows and access to international capital markets. The current account recorded a marginal deficit of 0.1 percent of GDP, as growth in workers' remittances and higher exports of ICT services offset the impact of contraction in goods exports and notable increase in imports. Workers' remittances registered a strong growth supported by government and SBP initiatives to facilitate remittances via formal channels, low kerb premium, and higher labour emigration in the previous years. The financial account posted a higher surplus on the back of multilateral and bilateral inflows, successful Panda and Eurobond issuances, and continued growth in Roshan Digital Account deposits.

The stronger reserve position coupled with sustained fiscal consolidation and the successful completion of reviews under the IMF's Extended Fund Facility and Resilience and Sustainability Facility helped improve the country's sovereign ratings, restore investor confidence, and support exchange-rate stability.

Fiscal consolidation continued for the fourth consecutive year with both fiscal and primary balances improving significantly during FY26. This was despite government's rescue and relief measures to contain the negative consequences of the monsoon floods. Moreover, government also provided relief to

vulnerable segments in the face of the ME conflict and was able to mitigate its impact by taking temporary austerity measures and budgetary adjustments.

Pakistan's financial system remained resilient against the domestic and external challenges during FY26. Financial depth improved, with financial sector assets rising to 68.1 percent of GDP from 65.6 percent in FY25, as economic activity gathered some pace amid moderate inflation. Supported by a relatively faster growth in deposits, the banking sector maintained a steady pace of asset expansion, led by increased investment in government securities. At the same time, improving economic activity and lagged impact of earlier ease in financial conditions also supported the expansion in private sector credit. Moreover, the level of 'access to finance' improved as the number of borrowers from scheduled banks and microfinance banks (MFBs) increased significantly in FY26.

Islamic banking continued its strong expansion during FY26, supported by growth in both financing and investments, as well as robust deposit mobilisation. As a result, its share in the banking sector's assets and deposits increased to 23.7 percent and 29.2 percent, respectively. This growth was catalysed by a favourable regulatory environment that facilitated banks to shift towards Shariah-compliant banking and branch expansion and a growing demand for Shariah-compliant products. The performance of MFBs also strengthened with their advances growing by 27.2 percent, partly reflecting the uptake of their gold-backed lending products. Notably, MFBs returned to profitability after six consecutive years of losses, supported by higher net interest income and improved operating efficiency. This turnaround is expected to improve their resilience and capacity to serve the underserved segments in the country.

Financial stability indicators remained broadly positive during FY26. Asset quality of banks and DFIs improved, with a notable decline in the ratio of non-performing loans (NPL) to total loans, whereas the ratio in case of MFBs slightly increased but its impact remained contained due to adequate loan-loss coverage. The banks and DFIs remained well-capitalised, with their capital adequacy ratio (CAR) remaining significantly above the minimum regulatory requirement. Although MFBs remained undercapitalised, their CAR improved, supported by better earnings and lower provisioning. This improvement is encouraging given the challenges faced by the sector since FY20, including the effects of the pandemic and successive floods, which impaired the repayment capacity of low-income and small borrowers. The recovery in MFBs' earnings and liquidity during FY26 suggests a gradual strengthening of the sector's financial position.

To further strengthen the resilience of the financial system, SBP continued to enhance its regulatory and risk-management frameworks during FY26. A comprehensive recovery-planning framework was introduced to strengthen banks' preparedness to withstand and recover from financial distress. Also, new requirements for managing climate-related financial risks established a structured approach to addressing both physical and transition risks. Additionally, SBP advanced the phased adoption of Basel III through revised credit-risk standards and implemented a more risk-sensitive approach to foreign exchange companies' exposure by linking limits more closely with institutions' capital strength. Moreover, SBP issued regulatory instructions following the enactment of the Virtual Assets Act, 2026 to facilitate banking relationships with licensed virtual asset service providers. Furthermore, to assess financial institutions' technical readiness, decision-making, and their preparedness to respond to cyber incidents, the first ever industry-wide Cybersecurity Drill was conducted in coordination with Pakistan Banks Association. The drill yielded valuable lessons to further enhance safeguards against ever growing cyber threats.

SBP continued to support the government's general economic policies, as part of its tertiary objective. From the perspective of financial inclusion, SBP undertook a variety of measures under the National

Financial Inclusion Strategy 2024–28, where efforts to expand financial access were aimed at underserved segments and greater use of digital channels. These included the establishment of 12 Digital Model Villages; the launch of the country's first end-to-end digital agriculture lending platform "Zarkhez-e" – Asaan Digital Zarai Qarza; and introduction of framework allowing teenagers to independently own and operate bank accounts and digital wallets. SBP also developed and started publishing the Pakistan Financial Inclusion Index, which captures different dimensions of financial inclusion. During FY26, SBP launched Pakistan Green Taxonomy in collaboration with the government to further green financing agenda and support green economic activities in the country.

Moreover, SBP continued to promote digitalisation through support of PM's Cashless Pakistan Initiative alongside the digital payments' agenda set out in SBP's Vision 2028. During FY26, SBP initiated innovation hub allowing fintech firms, start-ups and entrepreneurs with a structured route to engage the regulator while giving SBP early visibility of emerging technologies, business models and associated risks. To promote financial inclusion and broaden retail participation in government securities, SBP launched InvestPak – a digital platform for individuals and corporate customers to invest in government securities.

As a result of these continued efforts over the years, the share of financially included adults reached 71 percent by June 2026, and the gender gap in financial inclusion further narrowed to 27 percent. Both indicators exceeded the targets for end-June 2026. The continued growth in women-owned accounts also contributed to this progress. Meanwhile, outstanding SME loans, especially fixed investment loans, expanded significantly during FY26, accompanied by a large increase in SME borrowers. Likewise, digital transactions maintained their robust growth in FY26 in both volume and value terms.

SBP continued to encourage the financial system to facilitate remittances and exports. The remittance incentive mechanism was reformed to transition towards a more sustainable, private sector-led arrangement. To support the growing digital economy, SBP further streamlined foreign exchange and export procedures for IT and freelance service providers, alongside broader efforts to digitise and simplify foreign exchange regulations. In addition, SBP created mechanisms enabling the banking sector to efficiently deliver targeted fuel subsidies in a secure and timely manner as part of the government's plan to cushion low-income households against the ME conflict-driven shocks.

The ongoing ME tensions, elevated trade policy uncertainty, and El-Nino related extreme weather shocks continue to weigh on the outlook for global commodity prices and trade flows. In this context, building fiscal buffers is important to support growth-enhancing priorities, including infrastructure investment and targeted social protection. It is also important to increase investments in productive, export-oriented sectors that may help in enhancing exports and maintaining the economic growth momentum. Moreover, the increasing geopolitical risks and global commodity price shocks underscore the importance of diversifying energy sources, promoting energy efficiency, and developing alternatives to energy imports. To this end, the declining cost of renewable energy technologies and storage solutions offer an opportunity to reduce geopolitical vulnerability and carbon emissions while attracting global climate flows.

Pakistan's economy is expected to maintain its recovery over the course of FY27 on account of improved domestic demand and strong external position. However, elevated global energy and commodity prices continue to pose risk to inflation outlook. Nevertheless, the continuation of a prudent monetary policy stance and fiscal consolidation would help prevent unchecked growth in domestic demand. Accordingly, SBP projects the real GDP growth in the range of 3.5 – 4.5 percent in FY27, and inflation is expected to ease gradually towards the 5 — 7 percent medium-term target range, though on average it is likely to

remain above 7.0 percent in FY27. Despite the momentum in economic activities and elevated global commodity prices (particularly oil), the current account deficit is projected to remain in the range of 0 – 1.0 percent of GDP in FY27, as recovery in goods exports, continued resilience of services exports, and momentum of workers' remittances may partially offset import growth. Fiscal deficit is projected in the range of 3.0 – 4.0 percent of GDP in FY27.

SBP remains vigilant about the evolving nature of prevailing risks, particularly the risks of a prolonged ME conflict and El-Nino related extreme weather shocks, which may impact the projected macroeconomic outcomes. We remain on guard to counter any threat to price and financial stability, which are instrumental to sustain economic growth over the medium to long term.

1 The State of Pakistan's Economy and Financial System

A coordinated and prudent policy response from State Bank of Pakistan and the Government of Pakistan helped navigate the challenging domestic and global economic environment in FY26. The National CPI Inflation (NCPI) remained close to the upper bound of medium-term target range despite a notable increase after the outbreak of the Middle East (ME) conflict. SBP's FX reserves strengthened during FY26 supported by significant SBP's FX purchases. This was despite a marginal current account deficit as higher remittances and ICT exports offset the widening of merchandise trade deficit amid tariff rationalisation, improved economic activity, and surge in global commodity prices following the ME conflict. The overall balance of payments improved amid ample multilateral and bilateral flows and successful bond issuances. The strong external position along with continued fiscal consolidation led to consecutive upgrades in the country's sovereign ratings and boosted investors' confidence. The financial system also remained resilient to shocks during the year with private sector credit increasing amid sustained economic recovery and ease in financial conditions. The financial depth improved with a rise in banking sector assets in terms of GDP, alongside enhanced financial inclusion.

1.1 The State of Pakistan's Economy

Pakistan's macroeconomic stability gained further traction in FY26, with the economy demonstrating greater resilience to domestic and external shocks. Despite domestic floods; elevated global trade-related uncertainty; and the onset of the ME conflict at the end of February 2026, NCPI inflation was contained around the upper bound of the medium-term target range of 5.0 – 7.0 percent. The external account position also strengthened even as continued recovery in economic activities led to higher import demand, while SBP's FX reserves surpassed the end-June 2026 target alongside improvement in the quality of reserves.

The improving macroeconomic conditions were supported by the continuation of a data-driven, prudent monetary policy stance coupled with the sustained fiscal consolidation for the fourth consecutive year. The successful completion of reviews under IMF's Extended Fund Facility (EFF) and Resilience and Sustainability Facility (RSF), and improvement in the country's credit ratings also helped inspire confidence on the sustainability of economic recovery.

Following the substantial reduction of 1,100 basis points (bps) in the policy rate between June 2024 and May 2025, the Monetary Policy Committee (MPC) kept the policy rate unchanged in its four meetings held between June 2025 and October 2025. This was in consideration of the then emerging trends in flood-induced food supply disruptions; expected hikes in gas and electricity tariffs; uncertainty around global commodity prices; and evolving global trade tariff dynamics. The MPC eased the policy rate by 50 bps in its December 2025 meeting to 10.5 percent as headline inflation showed a benign trend due to relatively softer global commodity prices and anchored inflation expectations, while external account also strengthened.

However, after the outbreak of the ME conflict, the MPC adopted a cautious stance in March 2026 in view of concerns of its wide-ranging impact, which eventually reverberated across macroeconomic indicators from March 2026 onwards. Accordingly, the MPC kept the rate unchanged in March 2026 on account of emerging uncertainties, followed by a 100-bps

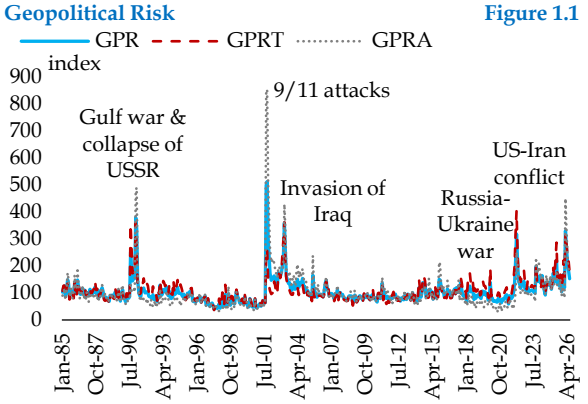
hike in April 2026. The MPC considered the rate hike as appropriate to keep inflation expectations anchored, contain the potential second-round effects of supply shocks, and preserve the hard-earned macroeconomic stability in the wake of sudden spikes in global commodity prices and ensuing risks to inflation and external account outlook.

International Developments

Global economic environment remained uncertain during FY26. At the start of the year, the stability and trajectory of global GDP growth was affected by US tariff-related trade uncertainty. However, soon after those uncertainties moderated amid tech investment boom and easing global financial conditions, the ME conflict erupted. As a result, global economic growth, including that in US, UK, Euro area and China, moderated. Moreover, the near blockade of the Strait of Hormuz disrupted supply chains, increased energy prices and freight charges, leading to higher inflation across both advanced, and emerging and developing economies.

As a result of rising geopolitical concerns, which were at their highest since 2001 (**Figure 1.1**), global energy prices spiked after having been on a downward trend since 2023. The risks of a prolonged ME conflict and the supply chain disruptions also led to sharp increases in the price of food, metals and other commodities.

Geopolitical Risk **Figure 1.1**



Note: GPR: geopolitical risk; GPRT: geopolitical threats; GPRA: geopolitical acts.

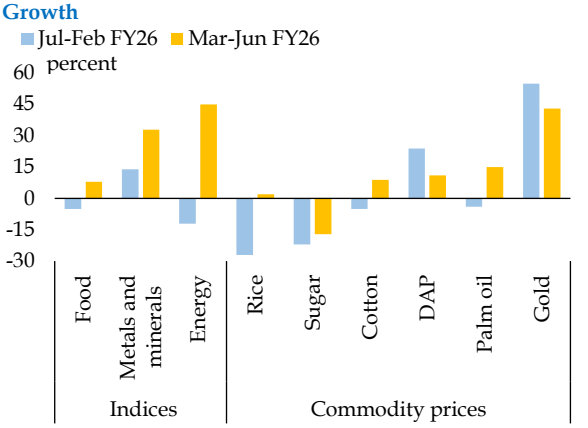
Source: Caldara et al. (2021)

Commodities, such as cotton, rice, and palm oil, whose prices had decreased during July 2025 - February 2026 because of improved supply conditions, saw notable increases March 2026 onward. The prices of commodities that were already on an upward trend, such as gold and DAP fertiliser, rose further as geopolitical tensions heightened (**Figure 1.2**). In view of these developments, central banks around the world paused their rate cuts, whereas some even chose to raise the policy rates.

Real Sector

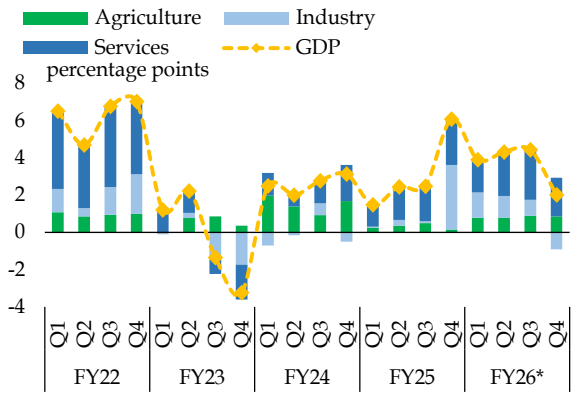
Economic activity in Pakistan continued to recover in FY26. However, the pace of economic growth remained moderate, as the combination of prudent monetary policy stance and continued fiscal consolidation contained growth in domestic demand and helped preserve macroeconomic stability. Real GDP growth edged higher to 3.7 percent compared to 3.1 percent last year. Growth was relatively firmer in the first three quarters, before moderating in Q4 in the backdrop of growing regional tensions (**Figure 1.3**). Had the growth trend in first three quarters continued in Q4 (in the absence of ME conflict-led shock), the full-year GDP growth would have been north of 4.0 percent. Services sector contributed the most to GDP growth. However, the key development during the year was the recovery in large-scale manufacturing (LSM), whereas agriculture sector managed to post higher growth despite disruptions caused

Global Commodity Prices - Average YoY Growth **Figure 1.2**



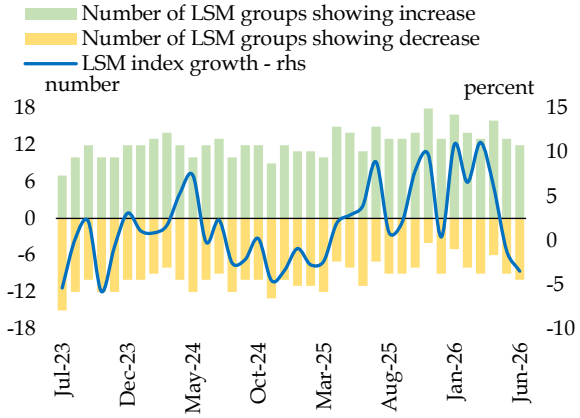
Source: WB

Contribution to GDP Growth **Figure 1.3**



* Provisional
Source: PBS

LSM Index **Figure 1.4**



Source: PBS

by floods.

Industrial activity remained resilient in FY26 despite a contraction in Q4, because of which the pace of full-year industrial growth eased to 3.3 percent compared to the strong expansion last year. The slowdown in Q4 was led by decline in gross value-addition (GVA) of electricity, gas and water supply due to reduction in power sector subsidies. Manufacturing output also saw lower growth during Q4 reflecting the impact of rising geopolitical tensions. However, except for electricity, gas and water supply, all major industrial sub-sectors posted growth on full-year basis, with LSM being the main contributor. Growth in construction activity also remained strong, albeit slightly lower compared to last year, whereas mining and quarrying recovered towards the end of the year after undergoing a contraction in the previous four years. These outcomes were supported by easing financial conditions, strengthening external position, and moderated but still positive business sentiments.

LSM output expanded by 5.0 percent after a contraction in the preceding year. The expansion was broad-based with output increasing in 16 of the 22 LSM groups, led by automobiles and allied industries, food and beverages, wearing apparel, petroleum products, non-metallic minerals, electrical equipment, and furniture. In contrast, pharmaceuticals, chemicals, and iron and steel recorded lower production. LSM growth, nevertheless, decelerated sharply in Q4, during which the number of LSM groups posting a decline in output also increased amid disruptions to global trade and elevated uncertainty (**Figure 1.4**).

Agriculture growth more than doubled to 3.5 percent in FY26 from 1.3 percent in the preceding year. Livestock remained the biggest contributor to the sector's expansion, while crop output increased against the decline in the previous year. Within crops, important crops posted a modest growth against a large contraction last year, whereas growth in 'other crops' moderated substantially from the high base of the preceding year. Despite slower growth, other crops accounted for much of the increase in overall crop output. The growth in crop sub-sector was supported by changes in sowing pattern with farmers opting for suitable time for crop growth within a crop cycle, adequate water availability and improved access to farm credit.

Within important crops, higher production of wheat, rice, and sugarcane more than offset the decline in output of cotton and maize. Wheat and sugarcane output mainly benefitted from increase in area under cultivation, whereas growth in rice output was driven by increase in yield (**Figure 1.5**). Given their sizeable, combined share in important crops, the contraction in cotton and maize was one of the

key factors that constrained the growth in important crops. Moreover, adverse climatic conditions and the monsoon floods in Q1-FY26 also affected crop output, albeit the floods had a relatively limited impact on account of the government's timely initiatives and relief measures.

Services sector maintained its growth momentum at 3.8 percent in FY26 from 3.1 percent last year. The expansion was broad-based, led by wholesale and retail trade, transport and storage, and other private services. In particular, the recovery in commodity producing sectors together with higher import volumes, supported activity in wholesale and retail trade and transport services.

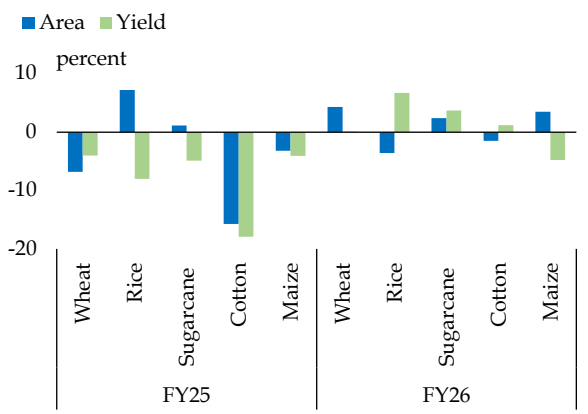
External Sector[1]

Following a record surplus in the preceding year, the current account balance (CAB) posted a marginal deficit of 0.1 percent of GDP, which was close to the lower bound of the SBP's projected range of 0 – 1 percent of GDP. The balance on goods and services widened notably. Goods imports rose owing to increased domestic economic activity, and tariff rationalisation, whereas exports contracted due to weak global demand amid trade disruptions and lower unit prices. Nonetheless, robust workers' remittances provided substantial support (**Figure 1.6**). The sustained growth in remittances was driven by low kerb market premium, increased labour emigration, as well as government and SBP initiatives aimed to facilitate remittance via formal channels and reducing transaction costs.

Imports picked up by 8.1 percent in FY26, as compared to the growth of 7.7 percent last year. The increase was broad-based, with higher import values recorded across nearly all categories. The expansion was driven by non-energy items, particularly intermediate goods, as domestic economic activity continued to recover with stronger demand for production-related inputs.

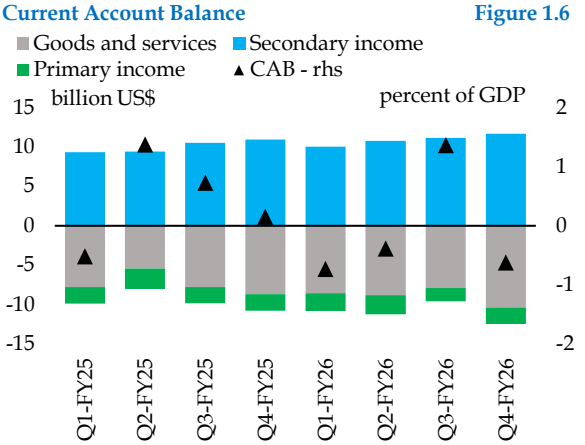
Within non-energy segment, transport imports made a particularly large contribution, accounting for nearly 31 percent of the total import growth, resulting from the sharp recovery in domestic automobile demand amid tariff rationalisation. Food imports also increased, mainly on account of higher palm oil and soybean imports underpinned by persistently increasing gap between domestic production and demand. In contrast, textile imports declined in the wake of lower cotton prices and a gradual shift towards import of

Change in Area and Yield of Important Crops **Figure 1.5**



Source: PBS

Current Account Balance **Figure 1.6**



Source: SBP

[1] Headline 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 PBS.

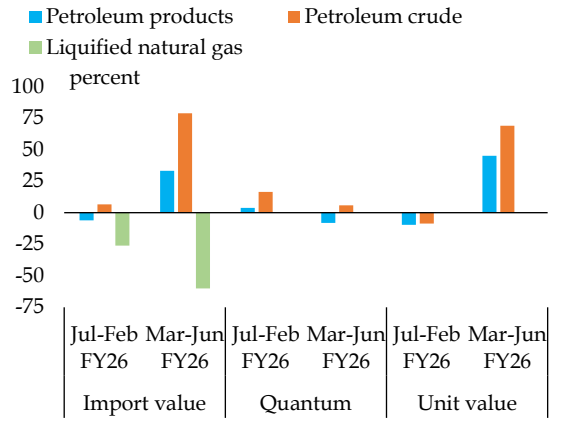
synthetic fibres and yarns. Imports of mobile phones and other telecom apparatus also strengthened in the wake of continued growth in teledensity and cellular network expansion.

Growth in energy imports, meanwhile, remained somewhat contained as the decrease in import volumes of petroleum products and low volumetric growth in petroleum crude during Mar-Jun 2026 partly cushioned the impact of higher international prices (**Figure 1.7**). The increase in the energy import bill during the last four months of FY26 was driven predominantly by the price effect, as growth in import volumes was contained partly by the government's austerity measures, including its decision to pass on the global price hike to consumers as a measure to curtail fuel demand. LNG imports were an exception, declining substantially as demand from the power sector weakened. Greater availability of lower-cost generation sources —such as decentralised solar—had reduced reliance on imported gas to run power plants. Lower industrial demand and the deferral of surplus contracted LNG cargoes also contributed to the decline.

Marking the sharpest decline since FY23, exports contracted by 6.0 percent in FY26 as both external and domestic factors weighed on export performance. Sluggish global demand and lower unit values reduced export receipts, while US reciprocal tariffs, ME-conflict-led global supply chain disruptions, and the closure of Pakistan's western borders further constrained export volumes. The contraction in exports was concentrated in non-textile goods, particularly food and other manufactures, whereas textile exports posted a marginal increase.

Non-textile exports recorded a notable contraction in FY26, mainly attributable to lower food exports that decreased by nearly 30 percent. Rice was the main contributor, with its exports falling to US$ 2.3 billion from US$ 3.4 billion in FY25 on account of heightened competition in international markets. Record

Growth in Energy Imports **Figure 1.7**



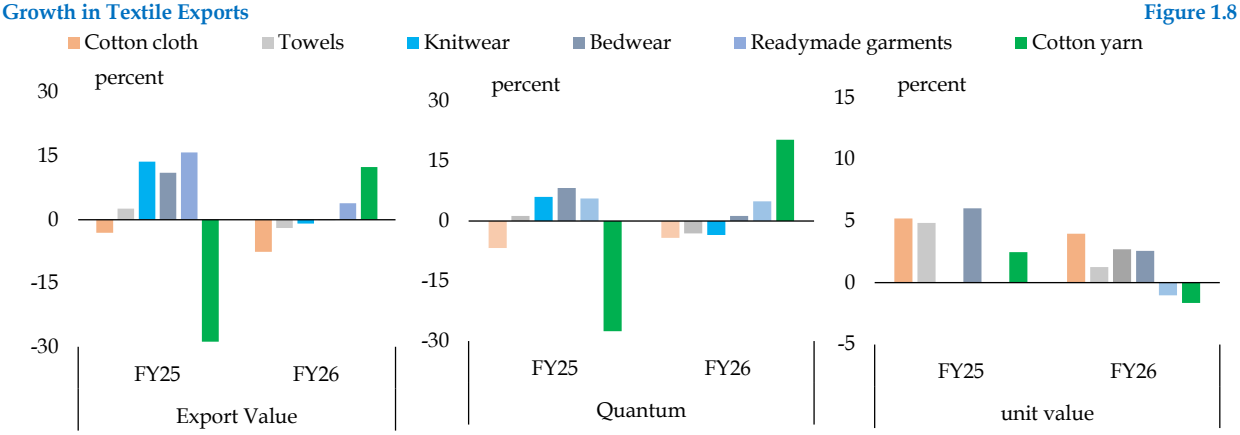
Source: PBS

global rice production created excess supply, contributing to a sharp drop in global benchmark prices, while lower prices offered by India also intensified competitive pressures. Moreover, ban on rice imports by Indonesia and Philippines to support the domestic produce, also affected Pakistan's rice exports. Sugar exports fell to zero in FY26 from US$ 0.4 billion last year, following the government's decision to restrict exports over concerns about domestic shortages. Vegetable exports decreased sharply owing to lower international prices, loss of key regional markets, and trade disruptions with western neighbours after the closure of Afghanistan border.

Textile exports rose by only 0.3 percent in FY26 compared to 7.4 percent growth in the preceding year. Export performance was weak across major textile categories, with a contraction in exports of cotton cloth, knitwear, bedwear and towels, whereas growth in readymade garments decelerated markedly to 3.9 percent, compared to 15.9 percent in the preceding year (**Figure 1.8)**. In contrast, cotton yarn exports increased by 12.4 percent against a contraction in last year, as weaker demand from apparel and home-textile exporters encouraged yarn producers to focus more on external demand.

Overall, textile export performance was constrained by both comparatively lower volumetric growth and decline in realised unit

Growth in Textile Exports **Figure 1.8**



Sources: PBS

values. Lower global cotton prices further reduced unit values across most key textile products, while softer US demand along with higher freight and insurance costs weighed particularly on bedwear and towels.

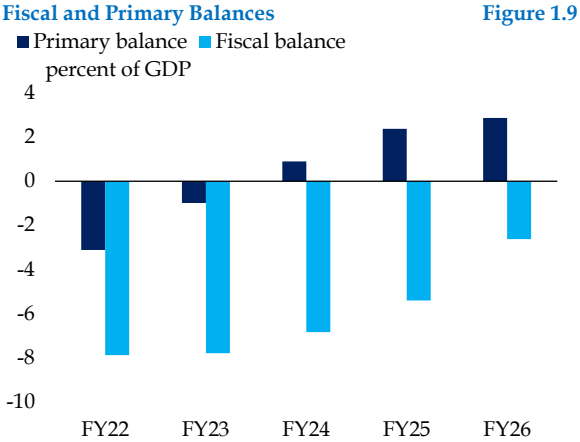
Despite the widening goods trade deficit, Pakistan's current account deficit remained manageable during FY26, supported by robust workers' remittances and ICT exports. The latter maintained strong momentum, emerging as the country's second-largest export earner after knitwear. The broadly balanced current account, coupled with net financial inflows, and continued SBP's FX purchases further strengthened external buffers.

Net financial account inflows of US$ 2.0 billion were supported by multilateral and bilateral financing, disbursements under IMF's EFF and RSF, and investment in Naya Pakistan Certificates. Pakistan also re-entered international capital markets after four years, raising around US$ 1 billion through Eurobond and Panda bond issuances, supported by improved macroeconomic conditions and the sovereign credit rating upgrades. Inflows under Roshan Digital Accounts also continued to gain traction. These developments, together with the contained current account deficit, in fact surplus current account balance excluding interest payments, allowed SBP to make net FX purchases of US$ 8.1 billion during FY26, leading to the build-up of SBP's FX reserves to US$ 18.4 billion by end-FY26 while also reducing forward liabilities by US$ 1.6 billion. The resulting improvement in both the level and quality of reserves contributed to a slight appreciation of exchange rate during the year.

Fiscal Policy and Public Debt

Fiscal consolidation continued for the fourth consecutive year in FY26, with both the fiscal and primary balances improving from the preceding year and exceeding their respective budget targets (**Figure 1.9**). The primary balance also surpassed the budget estimate for the third successive year. The revenue deficit decreased, narrowing to 0.7 percent of GDP from 3.1 percent in FY25. Sustained improvement in the provincial surplus since FY23 also supported the

Fiscal and Primary Balances **Figure 1.9**



Source: MoF

overall fiscal balance. However, these improvements mainly stemmed from a substantial reduction in markup payments, as total revenue decreased in percent of GDP in FY26.

Total expenditure declined sharply in FY26, falling to 18.3 percent of GDP from 21.2 percent in the preceding year, mainly due to a notable decrease in interest payments alongside restraint in non-interest spending. Mark-up payments alone decreased by 2.3 percent of GDP— the largest annual reduction in at least a decade — supported by the lower interest-rate environment and improved debt management. Non-interest expenditure also edged down, as lower power-sector subsidies more than offset the increase in non-power subsidies under the Prime Minister's austerity fund following the escalation of the ME conflict. Spending on pensions and civil administration remained unchanged relative to the GDP.

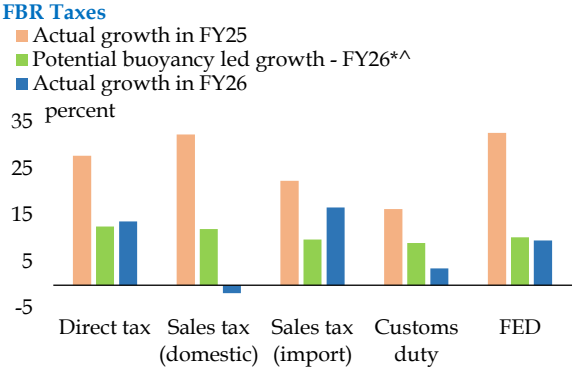
Within the non-interest expenditure, however, grants increased by 0.15 percentage points during the year, while development expenditure also edged up by 0.1 percent of GDP. The latter was driven primarily by higher provincial development spending that more than offset the reduction in federal development spending. The federal development spending was scaled back as the government sought to create fiscal space for energy relief to vulnerable segments amid global commodity supply and price shock.

Total revenue decreased marginally to 15.6 percent of GDP in FY26, primarily because of decline in non-tax revenue. The latter was largely attributable to lower SBP profit that more than offset the increase in petroleum development levy (PDL) collections. Higher PDL receipts were supported by increase in petroleum sales and an increase in the average levy on petrol. Tax revenue, meanwhile, slightly increased in terms of GDP, as the broad-based moderation in growth of FBR tax collection was offset by a modest improvement in provincial taxes.

The subdued growth in FBR tax receipts points to limited gains from revenue-enhancing measures, with sales tax (domestic), customs duty, and FED collection falling short of the growth that would have been generated by the expansion of underlying tax bases in the absence of new measures (**Figure 1.10**).[2] This was despite several administrative and budgetary initiatives during the year, including the removal of exemptions on selected tax bases.

Direct tax collection increased marginally, with higher receipts from tax enforcement and dispute resolution partly offset by weaker growth in major WHT heads, particularly bank interest and securities. However, indirect tax collection edged slightly lower in terms of GDP, mainly due to lower sales tax and customs duty receipts. The tariff rationalisation particularly affected customs duty collection, while a slight exchange rate appreciation offset the impact of higher import volumes on sales tax at import

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



* Based on buoyancy metric provided in FBR's EBRF report 2025-26; ^ without new measures

Sources: FBR; PBS; SBP staff calculations

[2] The tax-head wise autonomous growth is based on FBR's buoyancy metric multiplied by the growth in relevant tax base for each tax head. For instance, autonomous growth in sales tax (domestic) for FY26 should have been buoyancy metric for the tax head as estimated by FBR multiplied by actual nominal LSM growth. Similarly, that for sales tax (import) should have been buoyancy metric for the tax head as multiplied by growth in imports in PKR terms. Accordingly, this incorporates shocks to taxes bases (GDP, LSM or import growth).

stage. Although the growth in sales tax collected at the import stage decelerated to 16.7 percent in FY26 from 22.4 percent in FY25, the collection was still higher than the expected buoyancy led growth.

Continued fiscal consolidation, lower interest payments, and exchange rate stability improved public debt dynamics in FY26. The public debt-to-GDP ratio declined by 1.9 percent of GDP to 68.6 percent. The pace of debt accumulation slowed markedly to 7.7 percent, compared to 13.0 percent in the preceding year and an average of 17.4 percent over the last five years. The growth in domestic debt moderated to 9.1 percent from 15.5 percent. The pace of increase in public external debt (in rupee terms) also slowed to 4.7 percent from 8.1 percent last year, on account of favourable exchange rate movements of USD against other major global currency, and PKR appreciation (end period) that partially offset the impact of the increase in external debt flow. Moreover, the shift towards medium- and long-term financing also contributed to an improved debt profile through the lengthening of average time to maturity.

Money and Credit Developments

Broad money (M2) growth accelerated to 14.7 percent in FY26 from 12.9 percent in the preceding year. The expansion was driven mainly by an increase in net domestic assets (NDA). Net foreign assets (NFA) of the banking system also expanded amid the build-up of foreign exchange reserves, valuation gains on SBP's gold holdings following the rise in international gold prices, and the reduction in foreign liabilities. The expansion in NDA stemmed from budgetary borrowing through scheduled banks, albeit lower compared to the previous year, alongside higher credit to private sector and public sector enterprises.

Private sector credit (PSC) expanded by 14.7 percent in FY26, raising the credit-to-GDP ratio to 9.0 percent from 8.7 percent last year. Both working capital and fixed investment financing increased, with the latter showing a pronounced improvement. The recovery in economic activity, ease in financial conditions, and stronger consumer demand supported credit offtake throughout the year, while the increase in global commodity prices in H2-FY26 also raised working capital needs. On the supply side, the reduction in cash reserve requirement (CRR), alongside strong deposit growth, enhanced loanable funds with the banks to lend to the private sector.

Most of the loans were availed by manufacturing sector, led by increased borrowing by sugar manufacturers due to higher sugarcane production and its price, followed by fertiliser sector that availed long-term loans to improve operational efficiency of plants by investing in alternative gas supply lines. In contrast, loans to leading export-oriented sectors, textiles and wearing apparel, was notably lower in the wake of the slowdown in their exports. The growth in PSC was also driven by service sector, with wholesale and retail trade, transport and storage, and information and communication services accounting for about 28 percent of the increase in lending to private sector businesses.

On the liability side, the acceleration in broad money was supported by a strong expansion in bank deposits, with total remunerative deposits contributing somewhat more than non-remunerative deposits amid positive real interest rates. On the other hand, currency in circulation (CiC) grew at a slower pace in FY26, compared to last year.

The improvement in deposit mobilisation, together with the reduction in the CRR, SBP's net FX purchases, and continued retirement of commodity operations, contributed to an improvement in interbank liquidity conditions. This was reflected in a marked reduction in the average deviation of the weighted average overnight repo rate (WAONR) from the policy (target) rate, while the average outstanding stock of OMOs increased to Rs 13.9 trillion in

FY26 compared to Rs 11.4 trillion in FY25.[3]

Inflation

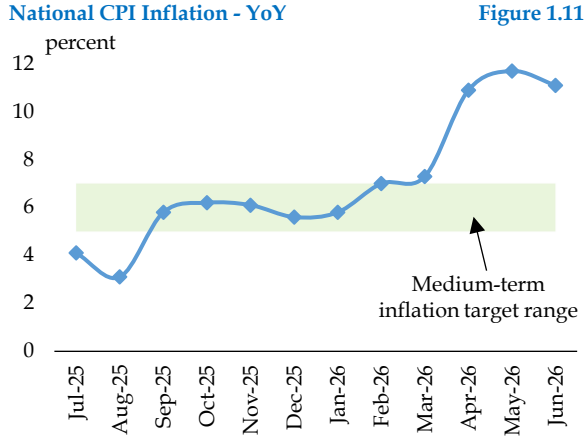
Average NCPI inflation increased to 7.1 percent in FY26 from 4.5 percent in the preceding year. Month-wise data shows that year-on-year (YoY) inflation remained within the medium-term target range during July 2025 to February 2026, before accelerating sharply from March 2026 onwards to average at 10.2 percent during March-June 2026 due to the hike in global energy and commodity prices following the ME conflict (**Figure 1.11**). The flood-related crop losses at the start of the year, together with the pass-through of higher global energy prices to domestic fuel prices, supply disruptions, and higher transportation costs during last quarter of the year, added to inflationary pressures.

Energy inflation increased sharply after the outbreak of the ME conflict, reversing the marked moderation recorded in the preceding year. Price pressures in the energy group remained relatively contained through most of the year, as subdued global commodity prices and downward revisions in power tariffs partly offset substantial increases in gas tariffs. The situation changed following the start of the ME conflict (**Figure 1.12**), when the government passed through the higher international energy prices to domestic fuel prices and liquefied hydrocarbons as well as electricity tariffs. Fuel prices had already been edging up earlier in the year, largely due to higher petroleum development levy (PDL), with the average PDL on petrol increasing by around 33 percent YoY, while that on HSD remained elevated.

Food inflation jumped noticeably during FY26, mainly due to supply-side disruptions. The increase was concentrated in non-perishable food items across both urban and rural baskets. However, the rise was more pronounced in rural markets. Higher wheat and wheat flour prices accounted for much of the increase, followed by milk, meat, sugar, and condiments and spices. Wheat prices were particularly affected by heightened uncertainty in the wake of the transitional impact of the government's decision to withdraw from procurement, concerns over potential supply shortages after the monsoon floods, and market frictions. Higher transportation costs, after the global energy price shock, added further pressure. In contrast, prices of perishable food items moderated amid improved domestic supply of vegetables as well as reduced exports after the closure of western borders.

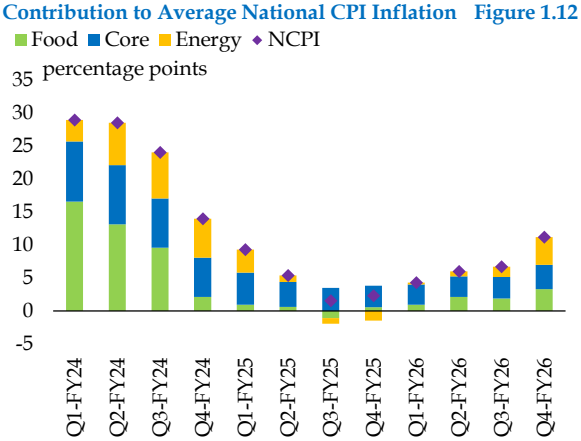
Despite higher food and energy inflation, core inflation maintained its softening trend during most of H1-FY26. The moderation was

National CPI Inflation - YoY **Figure 1.11**



Source: PBS

Contribution to Average National CPI Inflation **Figure 1.12**



Sources: PBS; SBP staff calculations

[3] The average deviation of WAONR from policy rate was reduced to 9.4 percent in FY26, compared to 23.4 percent last year.

supported by the prudent monetary policy stance and continued fiscal consolidation, alongside relatively soft global commodity prices for most of the FY26. However, price pressures picked up in the second half, particularly during the last four months, as higher global energy prices fed into transport and postal services, whereas house rents continued with its gradual upward trend. The moderation in core inflation would have been more pronounced were it not for personal effects, whose prices rose by around 40 percent amid surging gold and silver prices and accounted for nearly one-fifth of core inflation during FY26.

1.2 The State of the Financial System

Pakistan's financial sector demonstrated resilience during FY26, maintaining an uninterrupted delivery of credit and financial services throughout the year as macroeconomic conditions improved further. Growth in asset base of the financial system improved slightly from last year, with financial depth—measured as financial sector's assets-to-GDP ratio—rising to 68.1 percent in FY26 from 65.6 percent in FY25 (**Table 1.1**). This reflects an enhanced level of financial intermediation and an increased role of financial sector in mobilising and channelling savings in the economy.

Trends in Key Financial Sector Indicators

Banking Sector

Asset base of the banking sector grew at a steady pace of 15.8 percent in FY26 (**Table 1.1**).[4] The expansion in assets was mainly driven by investments, particularly the government securities, reflecting government's reliance on banks for budgetary support. Private sector loans also increased, supported by a relative ease in financial conditions and continued economic recovery.[5,6] Accordingly, private sector credit to GDP ratio slightly improved to 9.0 percent from 8.7 percent in FY25.

On the funding side, deposits together with borrowings financed 88.5 percent of the banking sector assets during FY26 (**Table 1.2**).

Asset Composition of the Financial Sector **Table 1.1**

	June-24	Jun-25	Jun-26
billion Rupees			
MFBs	782	891	1,169
DFIs	2,460	1,488	1,184
NBFIs*	3,978	5,812	6,991
Insurance**	3,322	3,770	4,046
CDNS	3,140	3,397	3,690
Banks	51,687	59,572	68,997
Total	**65,370**	**74,931**	**86,077**
Growth (in percent)			
MFBs	8.6	13.9	31.2
DFIs	-23.7	-39.5	-20.4
NBFIs	36.2	46.1	20.3
Insurance	21.1	13.5	7.8
CDNS	-3.3	8.2	8.6
Banks	26.7	15.3	15.8
Overall Financial Sector	**21.8**	**14.6**	**14.9**
Share in total assets (percent)			
MFBs	1.2	1.2	1.4
DFIs	3.8	2.0	1.4
NBFIs	6.1	7.8	8.1
Insurance	5.1	5.0	4.7
CDNS	4.8	4.5	4.3
Banks	79.1	79.5	80.2
Assets as percent of GDP* **			
MFBs	0.7	0.8	0.9
DFIs	2.3	1.3	0.9
NBFIs	3.8	5.1	5.5
Insurance	3.1	3.3	3.2
CDNS	3.0	3.0	2.9
Banks	49.0	52.2	54.6
Overall Assets	**62.0**	**65.6**	**68.1**

*Total assets of NBFIs for June 2025 are revised
**Data of insurance is as of end-March 2026
***Revised GDP for FY24 and FY25 and provisional estimates for FY26
Sources: SBP; SECP; CDNS; PBS

[4] Among financial institutions, the SBP-regulated entities represent around 82.9 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.
[5] Banking sector financing of the budget deficit was 99.9 percent in FY24, 74.0 percent in FY25 and 67.3 percent in FY26. In FY26, external sources finance 35.5 percent of the fiscal deficit, while non-bank financing witnessed net retirements.
[6] Loans to private sector rose by 14.7 percent in FY26 against 13.0 percent in FY25.

Profitability of the banking sector largely remained flat, recording an after-tax profit of Rs 720 billion in FY26 compared to Rs 721 billion in FY25. However, profitability indicators moderated due to higher expansion in the balance sheet footing and equity. Return on Assets (ROA) softened to 1.2 percent in FY26 from 1.3 percent in FY25, whereas ROE declined to 18.8 percent from 22.1 percent in FY25 (**see section on earnings in Chapter 3**).

Development Finance Institutions (DFIs)

The asset base of Development Finance Institutions (DFIs) shrank for the third consecutive year in FY26. This mainly reflected DFIs' strategy to deleverage their investment in government securities in a declining interest rate environment. The DFIs had substantially expanded their asset base in FY23, backed by investment in liquid government securities financed through borrowings. However, due to unfavourable market dynamics, the DFIs' Net Interest Margin (NIM) turned negative in H2-FY24, compelling DFIs to reduce investments and expensive borrowings. During FY26, DFIs retired Rs 327 billion under borrowings.[7] The contraction in DFIs' assets also translated into a decline in profit after tax to Rs 30 billion in FY26 from Rs 42 billion in FY25.

Microfinance Banks (MFBs)

Asset base of the Microfinance Banks (MFBs) expanded by 31.2 percent on account of increase in advances as well as investments in government securities. The advances surged by 27.2 percent in FY26 compared to a growth of 10.4 percent last year. The notable expansion in advances reflects MFBs' strategy to offer gold-based lending products to enterprises and consumers amid rising gold prices. The strategy also helped raise the share of collateralised lending in gross loans to 51.7 percent in FY26 from 43.3 percent in FY25. This would further help in extending credit to underserved segments of the economy, though the collateral volatility may be a concern.

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

billion Rupees

	Jun-24	Jun-25	Jun-26
Banks			
Total Assets	51,687	59,572	68,997
Investments (net)	30,973	37,492	43,646
Advances (net)	12,083	13,218	15,362
Deposits	32,538	37,423	43,332
DFIs			
Total Assets	2,460	1,488	1,184
Investments (net)	2,134	1,185	850
Advances (net)	191	218	250
Deposits & Borrowing	2,286	1,224	913
MFBs			
Total Assets	782	891	1,169
Investments (net)	164	217	278
Advances (net)	376	415	528
Deposits	640	709	939

Source: SBP

The after-tax earnings of the MFBs turned positive in FY26 after facing persistent losses in the previous six years.[8] This turnaround stemmed from two factors: (i) higher net interest income, and (ii) operational efficiency (owing to, inter-alia, technology adoption) that translated into declining administrative expenses.[9] The profitability is expected to strengthen the resilience of MFBs and improve their sustainability in providing financial services to the underserved and low-income segments to enhance the financial inclusion agenda of the government and the SBP.

Non-Banking Financial Institutions

The growth in asset base of Non-Banking Financial Institutions (NBFIs) decelerated in

[7] DFIs' borrowings grew by 385.9 percent in FY23 and contracted by 25.7 percent, 47.7 percent, and 28.1 percent in FY24, FY25 and FY26, respectively.

[8] MFBs have been facing challenges since the COVID-19 pandemic such as floods of 2022, and high inflation in recent years 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.

[9] Administrative expenses declined by 8.2 percent in FY26 against an average rise of 29.2 percent in preceding three years.

FY26 (**Table 1.3**).[10] The moderation reflects the sharp expansion in FY25 largely due to the impact of ADR-linked tax policy. To improve their ADRs by end of Q2-FY25, banks aggressively expanded their lending portfolio, which also resulted in sharp increase in availability of funds to NBFIs via advances. Most of the funds were placed in short-term government securities, which led to a sharp expansion in assets of the NBFIs in Q2-FY25. In subsequent quarters, however, these investments were redeemed. Accordingly, the moderation in FY26 partly represents normalisation from a tax policy induced high base. Nonetheless, despite the moderation, the double-digit growth of NBFIs' assets reflects a relatively better performance of the sector.

Within NBFIs, the fund management segment continued to dominate the industry,[11] accounting for 87.5 percent of total assets and contributing around 83 percent of the sector's overall growth in FY26. Mutual funds, the largest component of the NBFIs, grew by 14.2 percent during FY26. Within mutual funds, equity funds recorded strong growth as investors' interest shifted from conventional fixed-income instruments in the wake of falling interest rates, and outlook thereof, whereas the equity market continued to provide attractive returns despite volatility arising from global and domestic developments. This is also reflected in a contraction in money market funds and a subdued growth in income funds. Shariah-compliant funds remained the preferred investment avenue, accounting for about 85 percent of the overall increase in mutual fund assets. This highlights the growing acceptance of Islamic investment products within the fund management segment.

Investment portfolio was the second-largest contributor to NBFIs' growth. The assets under this segment increased by 38.6 percent to Rs

Asset Profile of NBFIs **Table 1.3**

billion Rupees

		Jun-24	Dec-24	Jun-25	Dec-25	Jun-26
Asset Management	AMCs/IAs (own assets)	65	79	93	108	107
	AMCs' AUM	3,360	5,246	4,821	5,665	5,733
	Mutual funds	2,708	4,439	3,933	4,537	4,493
	Pension funds	76	96	111	136	164
	Portfolios	576	712	776	992	1,076
	RMCs	14	14	15	16	16
	REITS	161	176	195	219	248
	PE & VC firms	0	0	2	2	2
	PE funds	8	11	10	10	11
Lending	Modarabas	50	57	61	68	72
	Leasing	7	7	5	5	5
	Housing finance companies	1	1	1	1	1
	IFCs	116	292	311	339	341
	NBMFCs	196	321	297	410	454
	Total Assets	**3,978**	**6,204**	**5,812**	**6,844**	**6,990**

Note: AMCs: Asset Management Companies; IAs: Investment Advisers; REITs: Real Estate Investment Trusts; RMCs: REIT Management Companies; PE: Private Equity; VC: Venture Capital; IFCs: Investment Finance Companies; NBMFCs: Non-Bank Microfinance Companies.
Source: SECP

1,076 billion, which improved the segment's share in total NBFIs' assets to 15.4 percent in FY26 from 13.4 percent in FY25. The growth in investment portfolios was led by non-discretionary portfolios, which expanded by 52.0 percent to Rs 633 billion. This suggests continued demand from institutional and high-net-worth investors for separately managed and customised investment arrangements alongside pooled mutual fund products.

Following subdued performance in previous few years, the REITs recovered strongly in FY26. Total assets of REITs increased by 27.4 percent to Rs 248 billion, supported by the launch of new schemes as well as progress in existing schemes. By end-June 2026, 29 REIT schemes were registered across developmental, rental, and hybrid categories, catering to diversified investor preferences and risk appetites.

[10] The sector's total assets increased by 20.3 percent compared to 46.1 percent growth in FY25.
[11] 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.

Besides improved macroeconomic stability, this expansion indicates increasing investor interest and deepening of Pakistan's REIT market, supported by regulatory enhancements made by SECP during the year. For instance, SECP introduced regulatory changes to simplify procedures, improve governance and control mechanisms, and encourage greater transparency and objectivity in the operations of REIT schemes.[12]

The asset base of the lending segment[13] of NBFIs expanded by 29.2 percent in FY26 (82.8 percent growth in FY25). Non-bank microfinance companies (NBMFCs) remained the principal driver of lending activity in FY26. Assets of NBMFCs grew by 52.7 percent and contributed almost 80 percent in the lending segment's overall expansion. The increase in lending was driven by the government financing initiatives for housing and women entrepreneurs. Moreover, the automation of loan-processing system also enhanced operational efficiency and supported sector's lending capacity. However, the increase in advances was concentrated in a few NBMFCs. Investment Finance Companies and Modarabas also exhibited decent growth of 9.6 percent and 17.6 percent, respectively.

Insurance Sector

The insurance sector expanded by 7.8 percent, YoY, to reach Rs 4,046 billion at March 2026. The life segment—holding 81.2 percent share in the total assets as of end-March 2026 – grew by 2.7 percent. The non-life segment, however, exhibited robust growth of 36.8 percent in the same period. The rapid expansion in non-life segment can be attributed to SECP's efforts to promote the segment as per envisaged strategic plan.[14] The plan aims to raise the insurance penetration rate to 1.5 percent from 0.9 percent with a focus on disaster products, agriculture insurance, and motor third party insurance.

Trends in Financial Intermediation by the SBP-Regulated Entities

Deposit mobilisation and promotion of savings

The branch network of the SBP-regulated entities (banks, MFBs and DFIs) rose by 7.2 percent to reach 20,672 by end-Jun 2026 (5.0 percent growth in FY25). The expansion in branch network, along with alternate delivery channels (ADCs), indicates enhanced outreach and greater potential to support economic growth through financial intermediation and the allied services.

In line with the increased branch expansion, deposits of banks, MFBs, and DFIs collectively grew by 16.1 percent during FY26, raising total deposits to Rs 44,346 billion by end-June 2026 (14.9 percent growth in FY25). Consistent with their large share in total assets of the financial sector, the banking sector contributed the most to deposit mobilisation. Within the deposit-mix, current and saving deposits primarily explain the expansion (**Figure 1.13**). As a result of decent growth, deposits-to-GDP ratio improved. Moreover, the deposit accounts of the SBP-regulated FIs maintained a double-digit growth of 18.0 percent during FY26 (12.5 percent in FY25). The share of banks in total accounts stood at 70.3 percent by end-June 2026 (70.9 percent at end-June 2025).

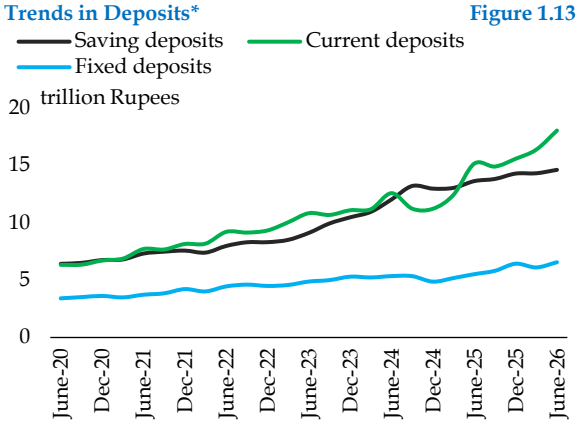
Meeting credit needs of the economy

In the backdrop of macroeconomic stability, the combined lending of banks, MFBs, and DFIs to public and private sectors grew by 16.5 percent in FY26, against 9.5 percent growth in the previous year.

Financing provided by banks increased by 16.2 percent in FY26. Within total financing, advances to private sector increased by 14.7 percent, reflecting continued recovery in

[12] SECP press release, dated January 05, 2026.
[13] Lending NBFIs include Leasing Companies, Modarabas, Investment Finance Companies, Housing Finance Companies, Non-Bank Microfinance Companies (NBMFCs), etc.
[14] Journey to an Insured Pakistan – Five-Year Strategic Plan – SECP.

Trends in Deposits* **Figure 1.13**



* Excluding financial institutions' deposits

Source: SBP

economic activity and eased financial conditions. Encouragingly, the credit off-take remained broad-based across various business sectors, including chemicals and pharmaceuticals, agribusiness, textiles, sugar, cement, and individuals.

Particularly, cement and sugar sectors availed noticeable financing as compared to their net retirement in FY25. The rise in financing to cement sector is on account of increased working capital needs, driven by higher production amidst revival in construction activity. In case of sugar sector, relatively higher prices of sugarcane and production drove up the working capital needs.[15] Also, the reduced liquidity due to absence of refined sugar exports in FY26 appears to explain increased credit intake by the sector. The automobile-manufacturing firms availed higher financing in FY26 both on account of increased working capital needs and capacity-related investments.

Advances to individuals increased to Rs 255 billion in FY26 as against a contraction of Rs 45 billion in FY25. The notable expansion was driven by auto and mortgage financing. Eased financial conditions, launch of new models, discounts offered by manufacturers, and relatively stable prices of vehicles facilitated higher auto sales, thereby driving auto loans, while the government's subsidised schemes[16] contributed to growth of house finance.

Public sector advances witnessed an increase of 17.5 percent to reach Rs 3,729 billion in FY26. Advances to energy sector contributed 80.0 percent to the increase in total advances during FY26, possibly reflecting—inter alia-- circular debt related financing of Rs 1.2 trillion arranged by the government. Accordingly, the share of public sector advances in total domestic advances inched up to 24.6 percent from 23.8 percent in FY25.

Investments (mainly comprising government securities) of the SBP-regulated FIs increased by 15.1 percent in FY26 as compared to 16.9 percent in FY25. The deceleration reflects persistent improvement in fiscal discipline. Nonetheless, investments still represented 63.3 percent of the banks' balance sheet as of end-June 2026. Also, banks' exposure to domestic public sector (advances plus investments in government securities) further increased to 66.2 percent by end-June 2026 from 64.7 percent at end-June 2025.

In terms of credit outreach, borrowers of banks and MFBs increased by 28.0 percent to reach 17.1 million in FY26.[17] The strong growth in borrowers during FY26 indicates improved financial inclusion as well as ameliorating economic conditions, transmitting into higher credit demand. Besides, the introduction of digital banks is also contributing to expanding credit to new borrowers. The share of MFBs in total number of borrowers increased to 56.9 percent by end-June 2026 from 47.9 percent at end-June 2025, portraying enhanced financial access to small borrowers.

[15] The production of sugarcane increased by 6.2 percent to 89.5 million tonnes. Increased production was owing to higher expected returns from sugarcane relative to competing crops such as cotton and maize (Source: Pakistan Economic Survey 2025-26). Also, prices of refined sugar increased from an average of Rs 153/kg in FY25 to Rs 168/kg in FY26.

[16] This included Wazir-E-Azam Apna Ghar Program – Ghar Ho Tu Apna.

[17] As of end June-26, the number of borrowers of banks and MFBs stand at 7.4 million and 9.8 million, respectively.

Islamic Banking Institutions (IBIs) maintained their growth momentum in asset base during FY26. The expansion in assets was driven by investments as well as financing. On the funding side, deposits witnessed robust growth **(Table 1.4).** Resultantly, the market share of IBIs in the total assets and deposits of the banking sector rose to 23.7 percent in FY26 (20.7 percent in FY25) and 29.2 percent (25.5 percent in FY25), respectively.

IBIs segment consists of seven full-fledged Islamic banks and 16 windows of conventional banks offering Islamic banking services. The branch network of IBIs rose to 7,757 branches by end-Jun 2026 from 6,395 at end-June 2025. The sustained momentum of branch expansion is a result of SBP's continued efforts to provide an enabling regulatory environment for growth of Islamic banking, banks' efforts to gradually transition to Shariah-compliant mode as well as the rising demand for Shariah-compliant financial products.

SBP continued to align its regulatory framework with international best practices by adopting standards issued by global standard-setting bodies, including the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB). Moreover, SBP has been promoting Islamic banking by conducting awareness sessions.

Financial markets

The stress in equity market increased during FY26, while FX and money markets witnessed calmer conditions. In the first half of FY26, stability in financial markets improved. However, the outbreak of the ME conflict significantly dented equity market investors' confidence leading to elevated stress in H2-FY26 (**Figure 1.14**).

KSE-100 index went through a mixed trend during FY26. In the first half of FY26, the index increased by 38.5 percent to 174,054 points. However, the index grew by only 2.5 percent in

Performance of Islamic Banking Institutions **Table 1.4**

	IBIs		Conventional Banks	
	FY25	FY26	FY25	FY26
billion Rupees				
Total Assets	12,345	16,345	47,228	52,652
Investments (net)	5,935	7,914	31,557	35,733
Financing (net)	4,033	6,005	9,185	9,357
Deposits	9,533	12,669	27,889	30,663
Growth (percent)				
Total Assets	27.4	32.4	12.5	11.5
Investments (net)	32.2	33.3	19.2	13.2
Financing (net)	16.9	48.9	6.4	1.9
Deposits	29.5	32.9	10.8	9.9
Share in Total Assets (percent)				
Investments (net)	48.1	48.4	66.8	67.9
Financing (net)	32.7	36.7	19.4	17.8
FDR/ADR (Percent)*	42.3	47.4	32.9	30.5

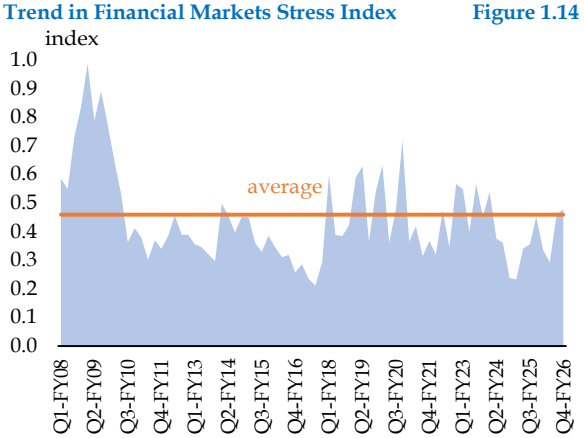
* FDR= Financing to Deposits and ADR=Advances to Deposits

Source: SBP

the second half of FY26 in the wake of ME conflict and sudden surge in international commodity prices, particularly the energy prices. Reflecting significant volatility, the index declined by 11.5 percent to 148,743 points between February 27 and Mar 31,2026, albeit it bounced back in the Q4 after announcement of ceasefire. By end-June 2026, the index recovered to 178,415 points, leading to almost 20 percent recovery in Q4-FY26. On overall basis, the index grew 42.0 percent in FY26, as compared to 60.1 percent increase in FY25.

FX market conditions remained stable during FY26 as reflected in improved parity against US dollar **(Table 1.5)**. The relatively manageable current account deficit, supported largely by

Trend in Financial Markets Stress Index **Figure 1.14**



Source: SBP staff calculations

Movements in Key Variables of Financial Markets **Table 1.5**

		FY24	FY25	FY26
PKR vs. USD	Level (end of period) - PKR/USD	278.3	283.8	278.2
	Depreciation (-)/appreciation (+) - percent	2.7	(1.9)	2.0
	Average volatility*	0.3	0.0	0.0
Weighted average overnight repo rate	Level (end of period) – percent	20.5	11.6	11.2
	Change - bps	(198.0)	(894.0)	(34.0)
	Average volatility*	0.0	0.0	0.0
KSE-100 index	Level (end of period) - Index	78,445.0	125,627.3	178,414.8
	YoY change - percent	89.2	60.1	42.0
	Average volatility*	1.1	1.3	1.6

*Volatility is measured using growth rates and Exponential Weighted Moving Average (EWMA) method with daily data (working days).
Sources: SBP; PSX; SBP staff estimates

workers' remittances; inflows from IMF; the issuance of Eurobonds and Panda bonds; meeting external debt obligation in a timely manner; and bilateral financial arrangements bolstered external account position. In this backdrop, SBP's FX reserves increased to US$ 18.4 billion by end-June 2026 from US$ 14.5 billion at end-June 2025.

Money market continued to operate smoothly due to SBP's effective monetary management. The monetary policy committee (MPC) adopted cautious approach and maintained the status quo during most of the FY26 due to uncertainty surrounding near-term macroeconomic outlook. The MPC reduced the policy rate by 50 bps in December 2025 as inflation was expected to remain within the target range over the medium term. Nonetheless, in April 2026, the MPC increased the policy rate by 100 bps to 11.5 percent as the prolonging of the ME conflict had intensified risks to the macroeconomic outlook. It was deemed necessary to maintain a tighter policy stance to keep inflation expectations anchored and contain second-round effects of the supply shock. In the money market, however, the volatility in weighted average overnight repo rate (WAONR) remained relatively contained during FY26.

Payment Systems and Financial Market Infrastructures (FMIs)[18]

The FMIs continued to operate smoothly during FY26. The large-value payment and settlement system, i.e. Pakistan Real-time Interbank Settlement Mechanism (PRISM), processed 6.3 million transactions during FY26, reflecting a growth of 5.3 percent over comparable period of last year. In value terms, PRISM handled transactions worth Rs 1,566 trillion during FY26, representing an increase of 23.8 percent (**Table 1.6**).

On the other hand, retail payments continued to dominate the volume of overall transactions and recorded growth of 57.6 percent and 10.0

Profile of Payment System Mechanisms **Table 1.6**

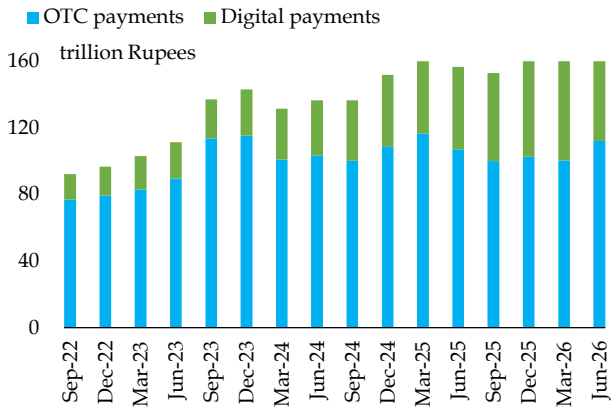
volume in millions, and value in trillion Rupees

	Volume/Value		Growth (percent)	
Mechanism	**FY25**	**FY26**	**FY25**	**FY26**
a. PRISM				
Volume	5,991	6,308	3.5	5.3
Value	1,265	1,566	21.2	23.8
b. Retail Payments (i+ii)				
Volume	9,073	14,298	87.9	57.6
Value	612	673	18.7	10.0
i. OTC Transactions				
Volume	1,101	1,105	8.4	0.4
Value	433	416	-0.2	-4.0
ii. Digital Transactions				
Volume	7,972	13,192	109.3	65.5
Value	179	257	118.7	43.9

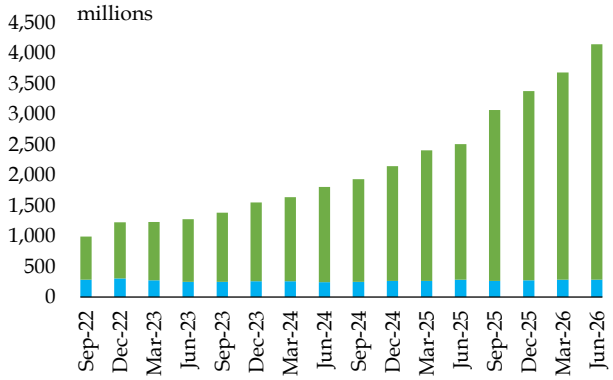
Source: SBP

[18] 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.

Composition of Retail Transactions -Value **Figure 1.15a**



Composition of Retail Transactions -Volume **Figure 1.15b**



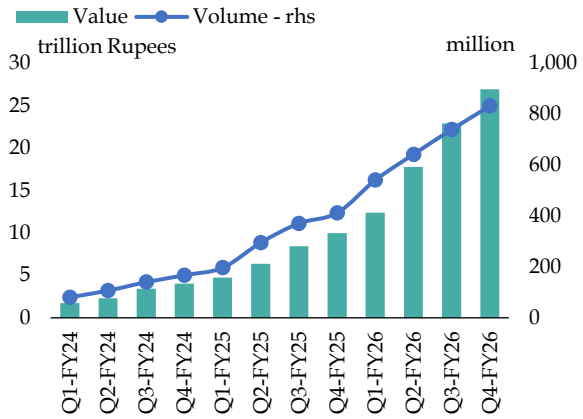
Source: SBP

percent in volume and value terms, respectively. While the volume of OTC transactions did not change much, transactions in value terms slightly contracted, reflecting increasing reliance on digital modes of payments. However, OTC transactions continued to maintain above 60 percent share[19] in retail transactions in value terms, indicating that large-ticket transactions were carried out through OTC (**Figure 1.15a & 1.15b**). Digital transactions exhibited robust growth momentum, representing 92.3 percent share in total volume of transactions in FY26. Within volume of digital transactions, branchless banking wallets (BB wallets) dominated, followed by mobile banking and ATM transactions. Mobile phone banking transactions, however, dominated transactions in value terms.

Transactions through Raast, SBP's instant payment system for retail transactions, witnessed an exponential growth during the year, both in volume and value terms. The number of transactions surged from 1,276 million in FY25 to 2,755 million in FY26. In terms of value, Raast processed transaction worth Rs 80.1 trillion against Rs 29.6 trillion in FY25. The bulk of transactions continued to be Person-to-Person (P2P) transfers, reflecting its popularity among retail users (**Figure 1.16**).

To further promote the adoption of digital transactions through Raast, the federal government introduced a subsidy of Rs 3.5 billion for Raast Person-to-merchant (P2M) QR Payments.[20] The subsidy aims to promote onboarding of merchants on Raast and enable them to digitally receive payments through Raast QR Code. This will expand usage of P2M model via Raast by reducing cost on the merchant side, thus further facilitating cashless transactions. As a result, P2M transactions grew to 86 million in June-2026 from 4.3 million in September-2025.[21] Moreover, the recorded average ATM downtime remained broadly unchanged at 2.9 percent in FY26.

Trend in Raast Transactions **Figure 1.16**



Source: SBP

[19] OTC transactions share in overall retail transactions was 70.8 percent in FY25.
[20] PSP&OD Circular No 03 of 2025.
[21] Annual Payment System Review FY26.

2 Price Stability and the Conduct of Monetary Policy

2.1 Inflation Projections and Outcomes

SBP was successful in keeping the average headline inflation around the upper bound of the medium-term target range of 5.0 – 7.0 percent during FY26, despite global oil price shock and supply chain disruptions (**Figure 2.1**). The national CPI (NCPI) inflation averaged 7.1 percent in FY26 following a steep decline to 4.5 percent in FY25 (**Table 2.1**). The monetary policy committee (MPC) had assessed the year-on-year (YoY) inflation to slightly exceed the upper bound of the medium-term target range from March 2026 onwards. However, the fallout from the Middle East (ME) conflict triggered a steep rise in global energy prices that pushed YoY inflation to double digits by April 2026 (**Figure 2.2a & 2.2b**).

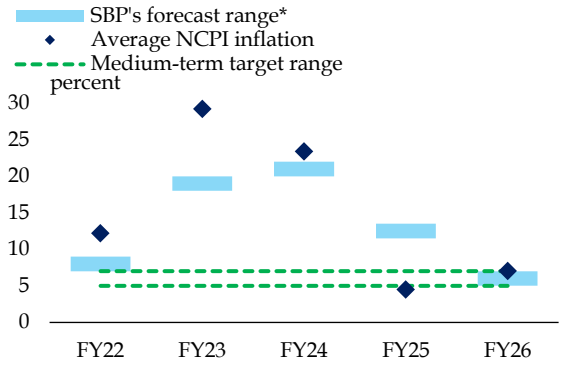
In overall terms, the increase in inflation during FY26 mainly stemmed from supply pressures in energy and food groups. Nevertheless, core inflation remained the primary contributor to headline inflation, despite moderation during the year.

Inflation projections

At the beginning of the year, the MPC projected YoY inflation to remain within the target range of 5.0 – 7.0 percent during FY26, anticipating some temporary deviations in few months. This outlook was based on the following assumptions about macroeconomic performance.

First, accounting for a gradual recovery in economic activity supported by an improvement in agriculture, the MPC expected the real GDP growth to slightly increase in the range of 3.25 – 4.25 percent in FY26, compared to the revised estimate of 3.1 percent in FY25 (**Table 2.2**).[1,2] Second, a moderate expansion in domestic

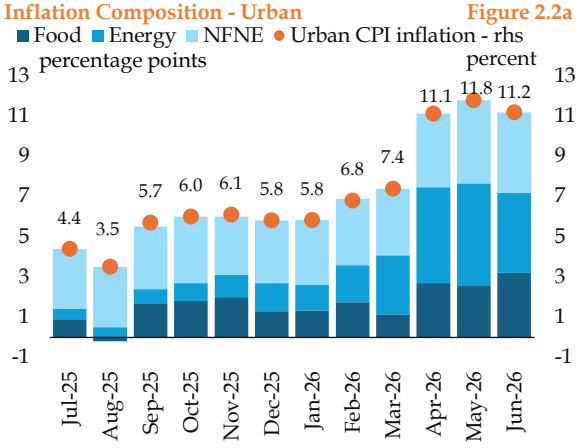
SBP's Inflation Forecast and Actual NCPI Inflation **Figure 2.1**



* As announced in July of each fiscal year

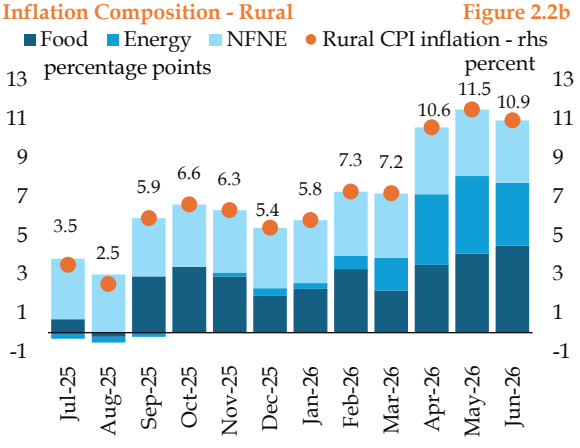
Source: SBP

Inflation Composition - Urban **Figure 2.2a**



Source: PBS

Inflation Composition - Rural **Figure 2.2b**



Source: PBS

[1] At the time of the MPC meeting in July 2025, the provisional estimate for FY25 real GDP growth was 2.7 percent.
[2] MPC upward revised the real GDP growth projection to a range of 3.75 - 4.75 percent, in January 2026, amid stronger-than anticipated economic activity.

CPI Inflation **Table 2.1**

percent

	FY22	FY23	FY24	FY25	FY26	FY26	
						Jul-Feb	Mar-Jun
National CPI inflation	12.2	29.2	23.4	4.5	7.1	5.5	10.2
Urban CPI inflation	11.8	26.8	24.1	5.3	7.1	5.5	10.4
NFNE	8.1	16.2	16.1	8.5	7.4	7.1	8.3
Food	13.4	37.6	22.1	1.6	4.2	3.3	6.1
Energy	25.3	38.4	62.6	6.1	13.5	6.7	28.0
Rural CPI inflation	12.6	32.6	22.4	3.3	7.0	5.4	10.0
NFNE	9.0	20.6	22.7	11.1	8.2	8.1	8.3
Food	13.0	41.1	21.6	-0.9	5.4	4.4	7.4
Energy	24.8	39.1	24.8	-2.1	9.2	0.9	26.7

Source: PBS

demand, sluggish global growth and lacklustre export prices were likely to result in a widening of the trade deficit. At the same time, the projected strong growth in workers' remittances was expected to contain current account deficit in the range of 0 – 1.0 percent of GDP in FY26, against a surplus in the preceding year.

Moreover, improvement in the country's sovereign credit ratings in July 2025 was anticipated to strengthen external account due to higher private inflows. Third, in view of continued fiscal consolidation efforts, the government was expected to achieve the budgeted primary surplus for FY26.

The inflation outlook was susceptible to multiple risks, led by elevated domestic and global uncertainty during FY26. On the domestic front, flood-related supply shortages, commodity market imperfections and ambiguity about the timing and magnitude of energy price adjustments were expected to weigh on near-term inflation outlook. Externally, uncertainty surrounding global trade and volatile global commodity prices were key risks.

Inflation developments

Inflation continued a benign trend, remaining within the target range, through most part of the year. Although supply side constraints reversed the falling trend in food inflation, the downward adjustments in electricity prices and moderation in core inflation – relative to the previous year – acted as a countervailing force that contained overall headline inflation, especially during Jul-Feb FY26. Later, the ME conflict led surge in global energy prices and its full pass-through to domestic retail prices considerably increased the energy inflation from March 2026 onwards (**Figure 2.3a**). As a result, the average CPI inflation nearly doubled from 5.5 percent during Jul-Feb FY26 to 10.4 percent in Mar-Jun FY26 in the urban regions.[3,4] The inflationary spike was driven predominantly by the energy component, with its contribution to urban inflation rising from 1.1 percentage points in Jul–Feb FY26 to 4.2 percentage points during Mar–Jun FY26 (**Figure 2.3b**).

Energy inflation remained moderate despite a significant increase in gas prices during Jul-Feb FY26, compared to the same period last year. Soft global commodity prices, power sector reforms and deferment of annual rebasing,[5] resulted in lower electricity tariffs in this period. Thus, electricity charges contributed, on

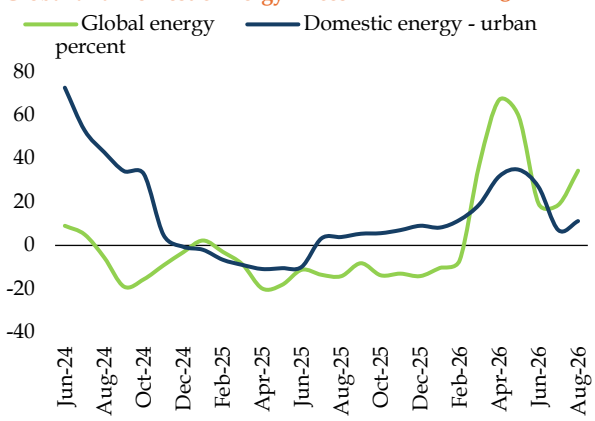
SBP Macroeconomic Projections for FY26 **Table 2.2**

	SBP Projections		Actual
(percent)	Jul-25	Jan-26	FY26
National CPI inflation-average	5.0 – 7.0	5.0 – 7.0	7.1
Real GDP growth	3.25 - 4.25	3.75 - 4.75	3.7
(percent of GDP)			
Current account balance	-1.0 - 0	-1.0 - 0	-0.1
Fiscal deficit	3.8 - 4.8	3.5 - 4.5	2.6

Sources: SBP; PBS; MoF

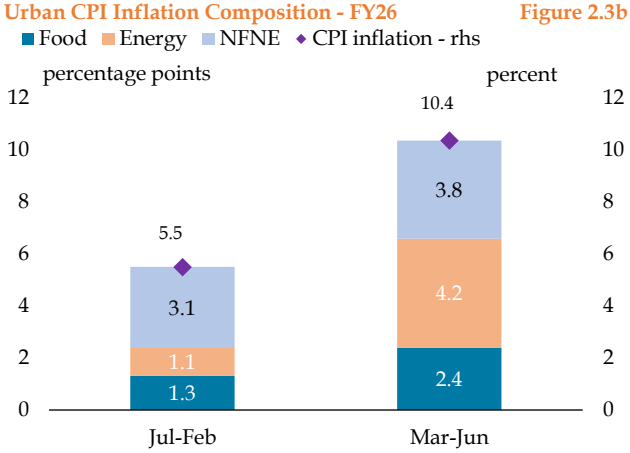
[3] In the rural regions, average CPI inflation rose from 5.4 percent during Jul-Feb FY26 to 10.0 percent in Mar-Jun FY26.
[4] The average NCPI inflation also doubled from 5.5 percent in Jul-Feb FY26 to 10.2 percent in Mar-Jun FY26.
[5] PR No. 150. January 17th, 2025. Ministry of Information and Broadcasting. Government of Pakistan.

Global and Domestic Energy Prices — Figure 2.3a



Sources: WB; SBP

Urban CPI Inflation Composition - FY26 — Figure 2.3b



Source: PBS

average, negative 0.45 percentage points to inflation during Jul-Feb FY26, partially mitigating the effects of upward pressures from gas price adjustments.

However, this favourable trend reversed in March 2026. An increase in fuel cost adjustments (FCA), following the surge in global energy prices, pushed up domestic electricity charges.[6] This pressure was compounded by rising prices of motor fuel and liquefied hydrocarbons, driving a broader increase in energy inflation.

On the other hand, supply frictions exacerbated food inflation throughout the year. Food inflation was primarily driven by rising prices of wheat and its products, which alone explained around one-tenth and one-fifth of average urban and rural inflation in FY26. A range of factors were responsible for the surge in wheat prices. These included price deregulation in the preceding fiscal year that created transitional market uncertainty; decline in crop production in FY25 that reduced overall supply; stock losses caused by summer floods;[7] delays in operationalising private-sector wheat procurement arrangements;[8] and global energy price shock, which led to higher transport costs, further added to wheat price increase from April 2026 onward.

Additionally, prices of other food items including milk, meat, and sugar also increased. Sugar prices rose amid domestic market frictions and supply concerns due to a drop in sugarcane output in FY25. Nonetheless, lower prices of some perishable food items due to improved domestic availability partly offset the effect of increase in prices of non-perishables.

Core inflation continued to moderate in both urban and rural areas, specifically during H1-FY26. This moderation was led by coordinated monetary tightening and fiscal consolidation which kept domestic demand in check. Moreover, a slight exchange rate appreciation and softer global commodity prices (till February 2026) further eased price pressures in core goods and services (**Figure 2.4**).

The moderation in core inflation was broad-based with major contributions from recreation and culture, footwear and cotton cloth. Specific factors such as reduction in tax rates, high base effect from previous year, and lower imported raw cotton prices eased price pressures in these

[6] Higher global prices of imported fuels, particularly RLNG and coal, raise generation costs and feed into electricity tariffs through periodic fuel cost adjustments and, over time, revisions in the base tariff. The extent of pass-through depends, among other factors, on the share of imported fuels in the generation mix.
[7] USDA (2025). Grain and Feed Update, September 2025, Report No. PK2025-0011
[8] USDA (2026). Grain and Feed Update, September 2026, Report No. PK2026-0012

categories, respectively.[9,10,11] These gains, however, were partly offset by the personal effects category, driven by the sharp increase in international gold and silver prices.[12] Heightened global uncertainty associated with the ME conflict increased investors' demand for gold and silver as safe-haven assets, pushing their prices to unprecedented levels.[13] With increase in gold and silver prices, personal effects contributed around one-fifth to overall core inflation during FY26.

The disinflationary trend, however, reversed during H2-FY26 following the ME conflict. The main trigger was the pass-through of higher international energy prices to domestic fuel and transportation costs, which created price pressures across NCPI basket, particularly in core goods and services.

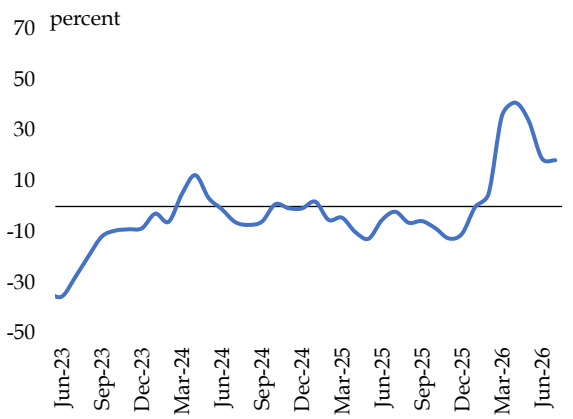
The increase in core inflation towards the end of the year was also accompanied by some deterioration in near-term inflation expectations. Household expectations, after improving earlier in FY26, increased in the final quarter amid higher fuel prices and concerns over their pass-through to other consumer prices. One-year-ahead expectations of professional forecasters also increased. However, two-year-ahead expectations remained broadly within the SBP's medium-term target range of 5.0 – 7.0 percent, suggesting that the expectations remained broadly anchored over the medium term (**Figure 2.5**).

Inflation developments and SBP's monetary policy were broadly aligned with global trends

Global inflation remained mostly stable before the start of the ME conflict. Headline inflation in Advanced Economies (AEs) continued to gradually drift towards target ranges in Jul – Feb FY26, while it remained steady in Emerging Markets and Developing Economies (EMDEs) **(Figure 2.6a)**.

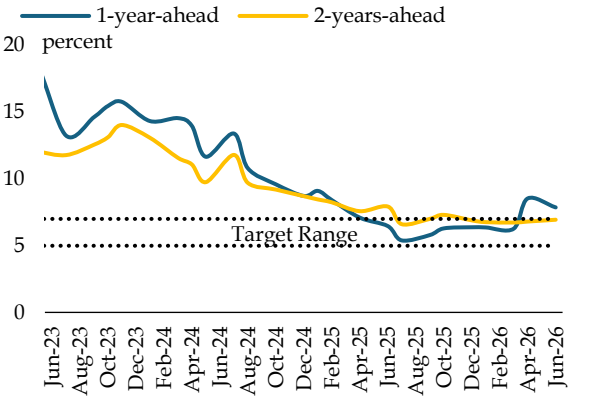
Core inflation also declined, remaining close to target levels in AEs and moderating gradually in EMDEs, mainly due to softening labour markets **(Figure 2.6b)**. These inflation developments were largely attributed to benign global

Global Commodity Prices **Figure 2.4**



Source: WB

Inflation Expectations of Professional Forecasters **Figure 2.5**



Source: SBP

[9] Source: Monthly Cotton Review, June 2026, Pakistan Central Cotton Committee (PCCC), Directorate of Marketing and Economic Research.

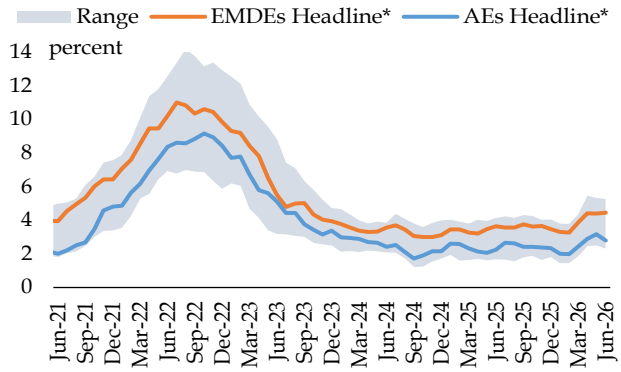
[10] Lower customs valuations for imported laptops and reduced GST on cable TV services in Sindh supported the moderation in recreation and culture. Source: Directorate General of Customs Valuations, Government of Pakistan, Valuation Ruling No. 2000/2025, April 23, 2026

[11] Sindh Finance Act (2025).

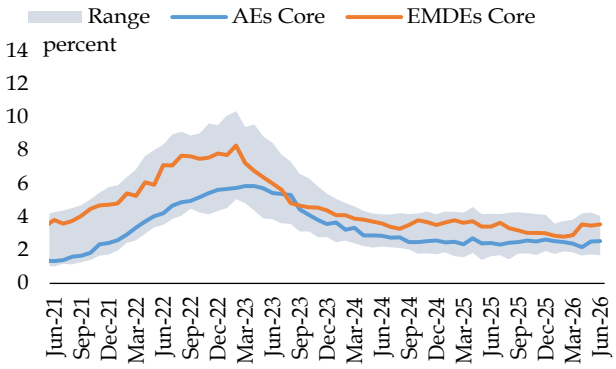
[12] Gold and silver prices reached their peaks in February 2026. During the same month, the Personal Effects category accounted for 28.8 percent of year-on-year core inflation.

[13] In FY26, gold prices surged by 54.4 percent, compared with a five-year average increase of 26.8 percent. During the same period, silver prices rose by 120.1 percent, substantially higher than their five-year average increase of 26.1 percent. Source: PBS

Global Headline Inflation Figure 2.6a



Global Core inflation Figure 2.6b



*AEs inflation target: 0-2 percent, EMDEs inflation target: 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

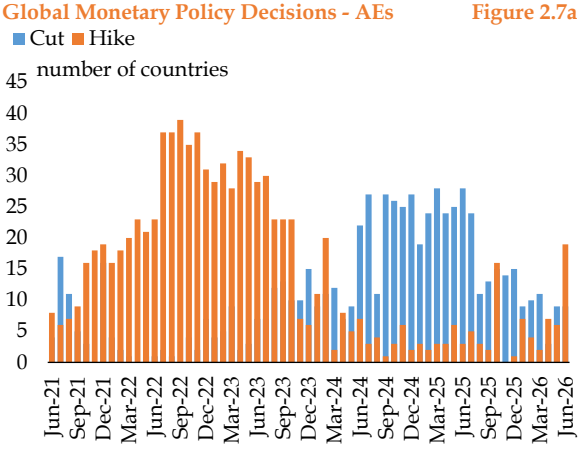
commodity prices, and a generally tepid pace of economic activity reflecting the uncertainty related to US trade tariffs. However, the disinflationary trend in both AEs and EMDEs reversed after the ME conflict, which disrupted energy supply chain causing a surge in global energy prices. This global energy price shock was quickly transmitted to rising inflation worldwide.

The emergent risks to inflation outlook from the Middle East conflict and persistent uncertainty surrounding the impact of the US trade tariffs prompted central banks to remain cautious across the globe. After gradual monetary easing in the previous year and during the first half of FY26, while central banks in some AEs and EMDEs started to increase rates in H2-FY26, a relatively greater number of central banks maintained the status quo (**Figures 2.7a and 2.7b)**. Pakistan's monetary policy response remained broadly aligned with these global trends.

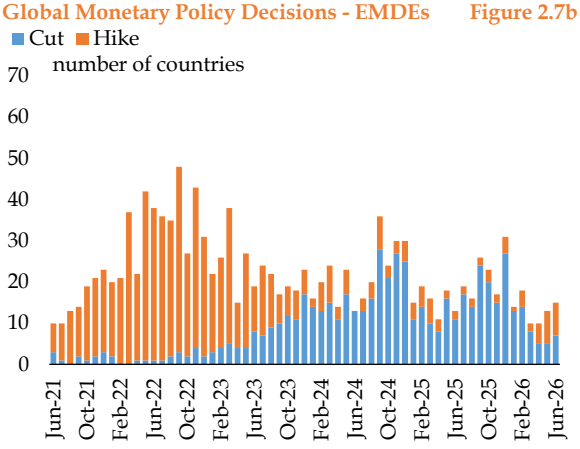
2.2 Monetary Policy Stance

The MPC adopted a prudent stance and maintained status quo in six out of eight monetary policy meetings in FY26, after a cumulative 950 basis points (bps) reduction in the policy rate in FY25 (**Figure 2.8**). This approach was guided by the need to carefully monitor the effects of elevated domestic and global uncertainty (**Figure 2.9**), persistent core inflation trends and still unfolding transmission

Global Monetary Policy Decisions - AEs Figure 2.7a

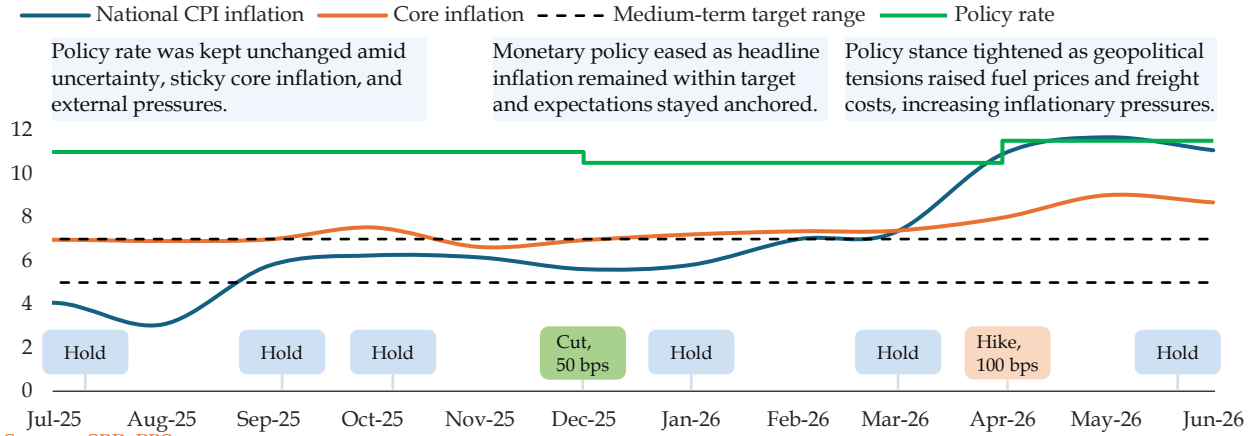


Global Monetary Policy Decisions - EMDEs Figure 2.7b



Source: Haver Analytics

Factors affecting SBP Monetary Policy Decisions during FY26 **Figure 2.8**



Sources: SBP; PBS

of the monetary easing in the previous year.

The MPC continued a data-dependent and forward-looking approach closely evaluating high-frequency economic indicators, domestic energy price adjustments, food supply situation, alongside trends in global commodity prices and global trade dynamics.

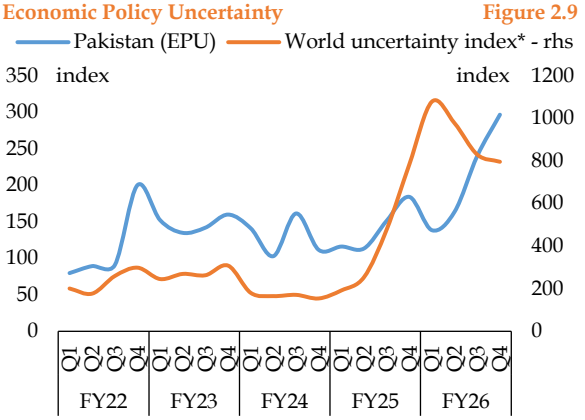
Elevated global and domestic uncertainty led the MPC to maintain status quo in its meetings from July to October 2025

The MPC kept the policy rate unchanged at 11.0 percent in its July, September and October 2025 meetings. Although inflation continued to be benign, with YoY inflation remaining below the lower bound of the medium-term target range during Jun-Aug 2025, the Committee assessed that the near-term inflation outlook at that time was subject to elevated uncertainty stemming from both the domestic and global factors **(Figure 2.9)**. Specifically, in July 2025, risks mainly emanated from higher-than-expected adjustments in administered energy prices, particularly gas tariffs. Around the time of its September 2025 meeting, monsoon floods added to uncertainty by raising concerns over the likely impact of supply-side pressures, especially on food inflation. Moreover, sticky core inflation, evolving global trade dynamics and a volatile global commodity price environment further warranted a caution.

The flood-induced supply shortages, imperfections in food markets, upward adjustments in energy prices and persistent core inflation drove the headline inflation to 5.8 percent in September from 3.1 percent in August 2025. Moreover, the MPC noted that the impact of earlier policy rate cuts on economic activity was still unfolding, which was expected to increase import demand and widen the trade deficit. In this backdrop, the MPC deemed it appropriate to remain cautious by maintaining an adequately positive real policy rate for effectively anchoring inflation expectations and steering inflation towards the medium-term target range on a sustainable basis.

In line with the MPC's expectations, real economic activity gained traction, as the impact of previous monetary easing continued to

Economic Policy Uncertainty **Figure 2.9**



* WUI is divided by 100.

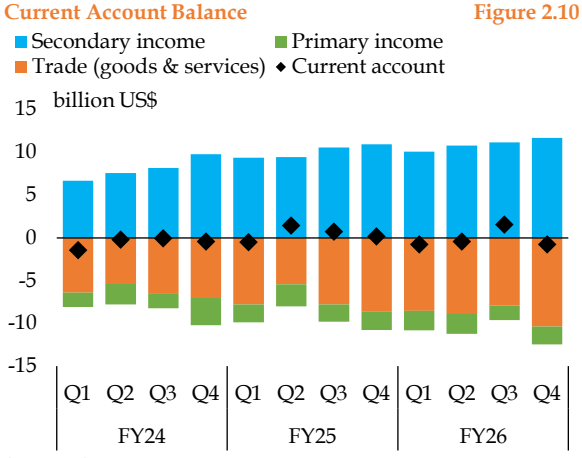
Sources: SBP; worlduncertainty.com

unfold. This was reflected in strengthening domestic demand, evidenced by trends in high-frequency indicators (HFIs) including sales of automobiles, cement, fertilizers and POL products in Q1-FY26. Additionally large scale manufacturing (LSM) production increased in Jul-Aug FY26, against a contraction in the same period of the previous year.

Private sector credit also recorded a notable increase around the time of October 2025 MPC meeting, supported by lower borrowing costs and continued momentum in economic recovery. The expansion was contributed by working capital loans, fixed investment advances and consumer financing.

The pickup in economic activity led to a widening of trade deficit during Jul-Sep FY26, as exports remained constrained by subdued global demand and lower export prices (**Figure 2.10**). Nonetheless, robust workers' remittances prevented a large expansion in current account deficit. Additionally, net inflows in the financial account and FX purchases supported the accumulation of SBP's FX reserves which induced stability in foreign exchange market.

Current Account Balance **Figure 2.10**



Source: SBP

In July 2025, international credit rating agencies upgraded Pakistan's sovereign credit ratings reflecting the country's improved macroeconomic conditions, external buffers and economic outlook.[14,15] These upgrades supported investor confidence, paving the way for Pakistan's re-entry into global capital markets after a gap of four years. The MPC also stressed the need to continue building FX and fiscal buffers to support economic recovery and withstand future supply shocks, without any disruptions to price stability and external account sustainability.

The MPC reduced the policy rate in December 2025 as inflation evolved broadly in line with its expectations and risks to inflation outlook moderated

In December 2025, the MPC reduced the policy rate by 50 basis points (bps) to 10.5 percent. Moreover, SBP reversed the Cash Reserve Requirement (CRR) for banks from 6.0 percent to 5.0 percent in line with improvement in economic fundamentals.[16,17]

The Committee noted that inflation in food, energy and core groups was trending close to earlier expectations. In addition, the provisional estimates released by Pakistan Bureau of Statistics (PBS) revealed that flood-related damages to crops turned out to be lower than initially anticipated, while relatively favourable global commodity prices helped keep the overall inflation outlook broadly unchanged. These developments created space for a measured reduction in the policy rate to support economic growth without compromising the objective of price stability.

Lower interest rates, and reduced cost of production, supported a sustained improvement in domestic demand and economic activity. LSM

[14] Source: S&P Global Ratings (2025). Pakistan Ratings Upgraded to 'B-' from 'CCC+,' available at www.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/101636788, Accessed on October 02, 2026.
[15] Source: Moody's Ratings (2025). Pakistan's Rating Upgraded to 'Caa1' from 'Caa2' on August 13, 2025. Available at https://ratings.moodys.com/ratings-news/448659, Accessed on October 02, 2026.
[16] SBP also reduced the daily minimum requirement from 4.0 percent to 3.0 percent.
[17] In November 2021, SBP increased the CRR from 5 percent to 6 percent and daily minimum requirement from 3 percent to 4 percent, to contain domestic demand.

production continued a strong uptrend with 7.9 percent and 9.8 percent YoY increases in October and November 2025, respectively. The steady economic expansion resulted in a large increase in trade deficit during H1-FY26. However, consistent upsurge in workers' remittances and growth in ICT exports helped contain the current account deficit, which aided SBP to build FX buffers through purchases. The MPC observed that continued increase in workers' remittances and availability of planned financial inflows were likely to shore up FX reserves to the benchmark of three months of import cover by June 2026. However, uncertainty around global trade and geopolitical developments posed upside risks to this outlook. Against this backdrop and accounting for persistent core inflation and stronger-than-expected momentum in economic activity, the MPC kept the policy rate unchanged in January 2026.[18]

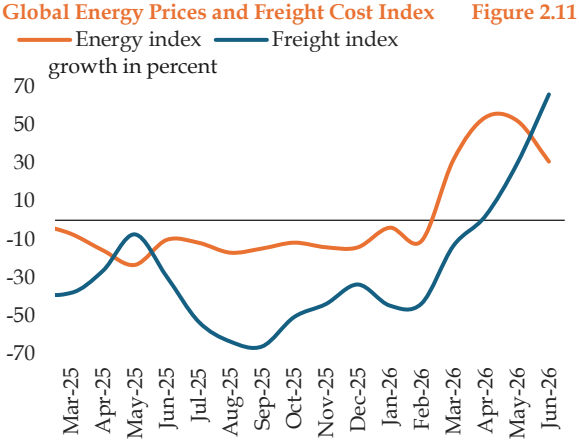
Amid rising geopolitical tensions, the MPC maintained status quo in March and June 2026, and increased the rate in April 2026

The outbreak of the ME conflict in February 2026 caused a spike in global energy prices, freight charges and insurance costs (**Figure 2.11**). The MPC observed that worsening geopolitical dynamics, supply-chain disruptions and higher uncertainty around global commodity prices have increased risks to inflation outlook (**Figure 2.12**). Oil futures which had been hovering in a narrower range of US$ 60.0 – 67.9 per barrel during Jul - Jan FY26, jumped to US$ 67.4 – 109.8 per barrel during Feb–Jun FY26. In view of evolving external risks, the MPC decided to keep the policy rate unchanged at 10.5 percent in March 2026. As the conflict prolonged and risks to inflation outlook increased, the Committee proactively raised the policy rate by 100 bps in April 2026. This stance was aimed to stabilise inflation expectations and mitigate the second-round effects of energy price shock.

At the same time, to safeguard economic stability, the government passed-on the rise in global energy prices to domestic electricity and fuel charges and introduced several targeted austerity measures to reduce domestic energy consumption. The hike in energy prices pushed headline inflation to double digits during Apr–Jun FY26, while core inflation also increased. Moreover, inflation expectations worsened and confidence of both consumers and businesses weakened in March 2026.

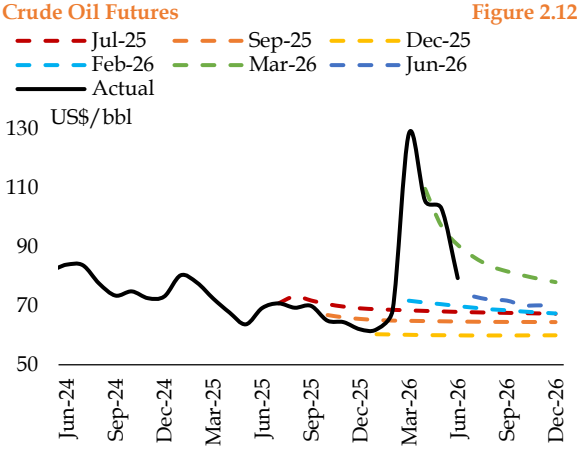
Meanwhile, the provisional estimates suggested broad-based improvement in economic activity as real GDP growth doubled to 4.1 percent in H1-FY26,[19] compared to 2.0 percent in the same

Global Energy Prices and Freight Cost Index **Figure 2.11**



Sources: WB; Bloomberg

Crude Oil Futures **Figure 2.12**



Source: Bloomberg

[18] The committee also upward revised the FY26 growth projection to 3.75 – 4.75 percent.
[19] At the time of MPC meeting in April 2026, the provisional estimate for real GDP growth in H1-FY26 was 4.0 percent.

period of last year. While LSM production saw a strong 5.9 percent increase in Jul-Feb FY26, the prospects of agriculture growth deteriorated due to lower-than-expected production of wheat. Meanwhile, as anticipated, the incoming information on HFIs suggested some moderation in domestic demand in March 2026 after a robust trend till February 2026 (**Figure 2.13**).

Although the broad economic expansion had translated into a sizeable trade deficit, strong growth in workers' remittances turned the cumulative current account balance into a small surplus during Jul-Mar FY26. This, together with the successful issuance of Eurobonds (US$ 0.75 billion) and Pakistan's first ever Panda bond (US$ 250 million), and inflows from friendly countries and multilateral creditors helped offset the impact of repayment of external debt & liabilities on SBP's FX reserves. Alongside these dynamics, disbursement of US$ 1.32 billion after the successful completion of reviews under IMF Extended Fund Facility (EFF) and Resilience and Sustainability Facility (RSF) in May 2026, further supported the external account position.

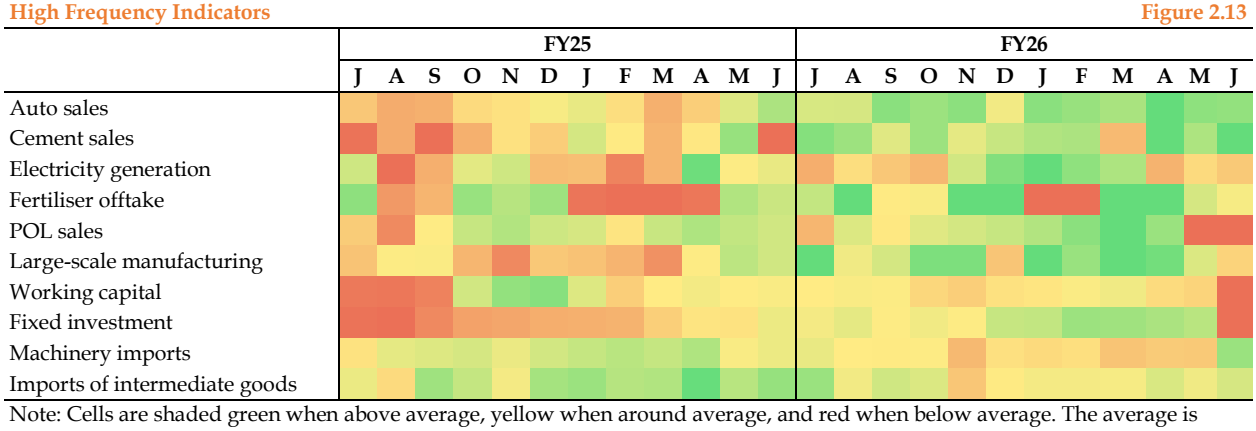
By the time the MPC met in June 2026, oil price had eased from their recent peaks, though it remained well above pre-conflict levels. After reviewing incoming data, including a modest recovery in consumer and business sentiments, and continued increase in SBP's foreign-exchange reserves that provided a cushion against external shocks, the MPC observed that the prevailing contractionary stance remained appropriate to steer inflation back toward the 5.0 – 7.0 percent target range.

The MPC, however, underscored the need for structural reforms to address external sector vulnerability to geopolitical developments and for continued coordination between monetary and fiscal policies to ensure economic stability. The MPC also reiterated the importance of continued fiscal consolidation and structural reforms to bolster resilience to supply shocks and to limit their second-round effects.

2.3 Monetary Policy Implementation

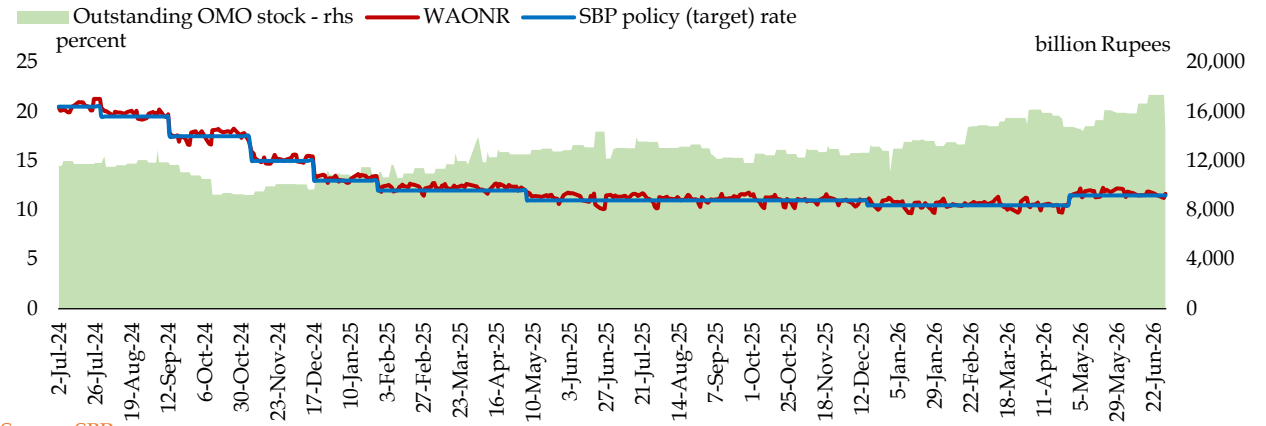
SBP successfully guided the overnight money market rate to close proximity with the policy (target) rate, through effective monetary management despite sizeable liquidity requirements of the interbank market in FY26 (**Figure 2.14**). The Weighted Average Overnight Repo Rate (WAONR) remained, on average, 9.4 bps above the policy rate during FY26, compared with 23.4 bps in FY25 (**Figure 2.15**). The narrow-spread points to more effective management of short-term market rates, strengthening the transmission of the monetary

High Frequency Indicators **Figure 2.13**



Note: Cells are shaded green when above average, yellow when around average, and red when below average. The average is calculated for each variable over the period FY22–FY26.
Sources: SBP; PBS; APCMA; OCAC; NFDC; PAMA; NEPRA

Interbank Liquidity Indicators **Figure 2.14**

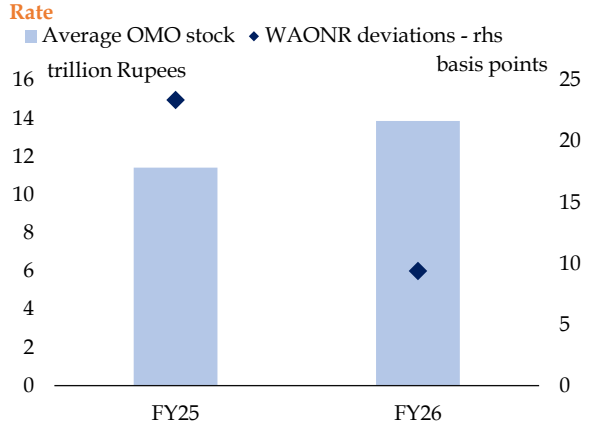


Source: SBP

policy stance across the financial system and the real economy.

Interbank liquidity remained strained during FY26. This was despite stronger deposit mobilisation, SBP's net FX purchases, retirement of commodity operations financing, reduction in the CRR, and slower growth in currency in circulation. However, the impact of these factors did not fully offset pressures from higher government borrowing from scheduled banks, expansion in private sector credit and lending to PSEs. SBP responded to these liquidity pressures through regular OMO injections, predominantly 7-day and 14-day tenor. As a result, the average outstanding stock of OMOs increased to Rs 13.9 trillion in FY26 compared to Rs 11.4 trillion in FY25.

Average Deviation of WAONR from Policy Rate **Figure 2.15**



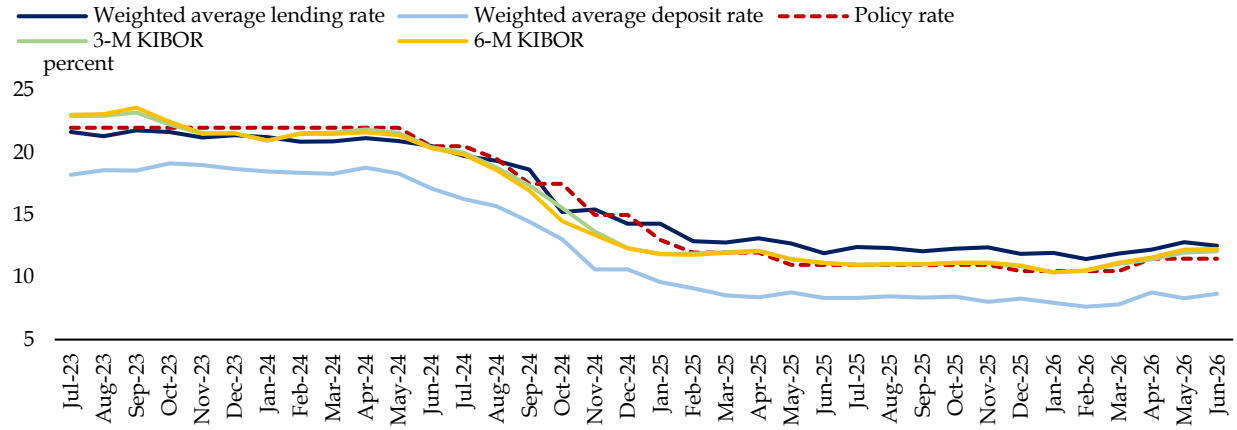
Source: SBP

SBP also strengthened the risk-management framework for its monetary policy operations during FY26. Effective from July 2025, SBP introduced haircuts on government securities pledged as collateral in monetary policy lending operations.[20] By providing a buffer against changes in the fair market value of collateral, the measure strengthened safeguards against central bank liquidity provision and made the collateral framework consistent with established international central banking practices.

Liquidity management in the Islamic banking segment followed a different intra-year pattern. Liquidity requirements increased during H1-FY26, when the frequency and overall volume of Shariah-compliant injections rose considerably compared with the corresponding period of FY25. These pressures moderated subsequently. For FY26, the average volume of Shariah-compliant OMO injections declined to Rs 205.1 billion from Rs 234.6 billion in FY25. Recourse to the Islamic ceiling facility also decreased, with the frequency of access falling from 115 to 95 days and the face value of collateral pledged declining from Rs 6.5 trillion to Rs 5.6 trillion. Overall, changes in the policy rate were

[20] DMMD Circular No. 09 of 2024.

Monetary Transmission Indicators **Figure 2.16**



Source: SBP

effectively transmitted to retail lending and deposit rates during FY26, contributing to a substantial expansion in credit. (**Figure 2.16).**

3 Financial Stability

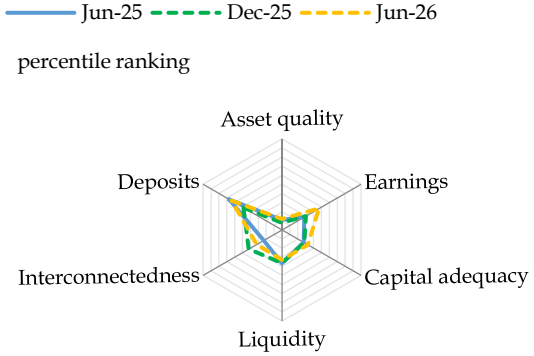
Pakistan's financial sector demonstrated resilience during FY26 despite challenges marked by domestic and external shocks, including severe floods, geopolitical tensions, and an uncertain global trade environment. Banks, being the cornerstone of financial system stability, performed intermediation and payment-related operations steadily during FY26. Notwithstanding the slight moderation in earnings, the risks across other key dimensions of financial stability remained contained in FY26 (**Figure 3.1**). Moreover, SBP continued to enhance its regulatory and supervisory frameworks to strengthen financial institutions' resilience, reinforce the financial safety nets, and improve risk management in the banking sector.

3.1 Assessment of Risks to the Financial System

Asset Quality and Credit Risk

The asset quality improved in FY26. Non-performing loans (NPLs) to total loans ratio declined in case of banks and development finance institutions (DFIs), while it increased for microfinance banks (MFBs). While gross NPLs of the banks and DFIs declined, gross loans witnessed strong growth resulting in lower NPLs ratio. During FY26, gross NPLs of the banks declined by Rs 153 billion. The reduction was primarily driven by cash recoveries, upgrade in NPL classification and loan write-offs. The improved cash recoveries were supported by easing financial conditions and momentum in economic activity. The loan-loss allowances and provisions of banks and DFIs stayed above the stock of non-performing loans, suggesting muted risks to the solvency from existing NPLs. Net NPLs to capital ratio also improved further for Banks and DFIs, while it deteriorated in case of MFBs **(Table 3.1)**.

Banking Sector Stability Map — Figure 3.1



Note: Movement to centre implies stability
Source: SBP

The adoption of forward-looking assessment under the IFRS-9 has helped strengthen the identification of credit risk and recognition of credit loss allowances, thus strengthening risk management in the banking sector and DFIs.

Nonetheless, a loan portfolio largely tilted towards borrowers with strong credit history represents well managed and contained credit risk. Specifically, lending to large corporates by banks represented 69.0 percent (69.9 percent at end-June 2025) of the total loan portfolio at end-June 2026. These firms have strong credit profiles and financial positions, which provide resilience to adverse economic shocks and resultantly, pose relatively lower credit risk for the banking sector. Hence, with adequate allowances, the overall residual credit risk to the banking sector remains contained. Stress testing exercise (sensitivity analysis) also shows sufficient capacity and resilience of banks and DFIs to withstand hypothetical shocks to multiple credit risk factors.

Asset quality indicators of MFBs showed a mixed trend during FY26. While the gross NPLs to loans ratio deteriorated, the sufficient loan-loss allowances against infected loan portfolio cushioned risks from the delinquent loans. The trajectory of MFB's earnings reversed as the continued losses of last few years turned into profits, showing progress while ensuring

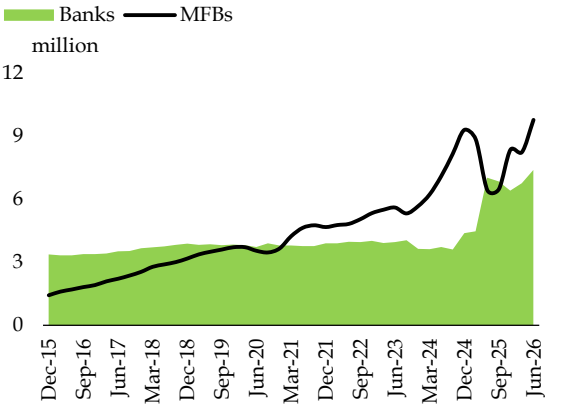
Key Financial Soundness Indicators of Banks, DFIs and MFBs* **Table 3.1**

percent

	Jun-23	Jun-24	Jun-25	Jun-26
Asset Quality Indicators				
NPLs to Total Loans				
Banks	7.4	7.6	7.4	5.5
DFIs	7.2	7.4	7.3	6.0
MFBs	7.8	10.5	8.3	9.1
Loans Loss Allowances/Provision to NPLs#				
Banks	94.4	105.3	106.2	110.2
DFIs	107.3	107.9	105.4	110.5
MFBs	89.5	96.4	131.9	129.7
Net NPLs to Capital				
Banks	2.4	-1.9	-1.7	-2.3
DFIs	-0.7	-0.8	-0.5	-0.8
MFBs**	9.1	-	-	-
Solvency Indicators				
Eligible Capital to Risk Weighted Assets (RWA)^				
Banks	17.8	20.0	21.8	19.6
DFIs	36.0	48.9	58.1	55.0
MFBs	9.3	5.7	-1.6	-0.7
Tier 1 Capital to RWA				
Banks	14.8	16.2	17.6	16.3
DFIs	35.2	47.2	54.2	52.5
MFBs	6.3	3.0	-4.3	-3.1
Earnings Indicators				
ROA (after Tax)***				
Banks	1.3	1.4	1.3	1.2
DFIs	1.3	0.5	2.1	2.2
MFBs	-2.0	-2.4	-0.7	0.7
ROE (after Tax)***				
Banks	23.5	24.3	22.1	18.8
DFIs	14.4	8.8	22.7	13.2
MFBs	-30.3	-51.6	-21.4	28.1
Liquidity Indicators				
Liquid Assets/Total Assets				
Banks	59.9	66.8	67.4	68.3
DFIs	89.2	85.5	76.2	67.5
MFBs	28.5	29.0	34.1	33.2
Liquid Assets/Total Deposits				
Banks	91.2	106.1	107.3	108.8
DFIs	8,098.2	3,618.3	1,929.3	1061.4
MFBs	39.6	35.5	42.8	41.3
Liquid Assets/Short term liabilities				
Banks	107.9	110.9	109.5	117.0
DFIs	97.2	94.8	96.3	93.6
MFBs	38.8	40.1	56.9	40.5

* Share in total financial sector assets at end-June 2026: Banks=80.2%, DFIs=1.4% and MFBs=1.4%
^ CAR requirement: for banks/ DFIs = 11.5 percent; for MFBs = 15 percent
** This ratio is not relevant because equity of MFBs is negative
***ROA and ROE are on fiscal year basis
#Loans-loss allowances/provisioning against NPLs contain specific as well as general provisions including allowances under IFRS-9
Source: SBP

Borrowers of Banks and MFBs **Figure 3.2**



Source: SBP

essential delivery services to underserved segments. Resultantly, MFBs' earning indicators improved significantly during the period under review. While MFBs play an important role in serving low-income segments of the population (**Figure 3.2**), their low market share in financial sector limits the likelihood of systemic risk to financial stability.[1] The sector's re-entry into profitability is a welcome development and was much needed to ensure its long-term sustainability for its contribution to the financial inclusion agenda of the government and SBP.[2]

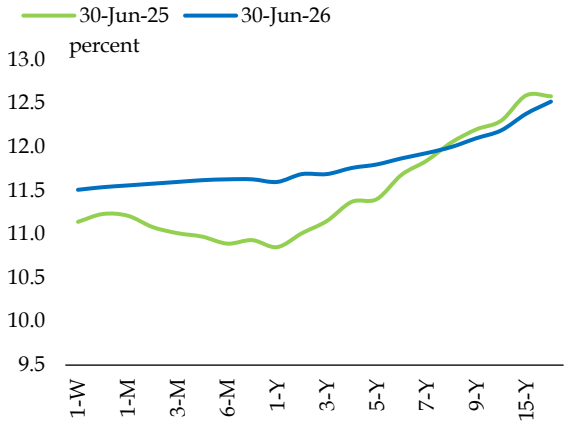
Market Risk

The market risk, which accounts for a small fraction (17.7 percent) in total risk-weighted assets (RWAs) of banks, also remained contained during FY26. Within market risk, interest rate risk continues to be the most significant component. Despite its small size compared to credit and operational risks, market risk gained significance in recent years as financial institutions' asset composition tilted more towards investments in government securities.

Investments remained the largest component of banking sector's asset mix, accounting for 63.3 percent of total assets during FY26 (62.9 percent

[1] The decline in number of borrowers of MFBs in FY25 was due to the fact that one of the MFBs became a digital bank and is now part of the banking sector.
[2] Strategic Goal 3 of SBP's Vision 2028, which envisions promotion of inclusive and sustainable access to financial services, also has a tactical objective of strengthening the business model of MFBs.

Yield Curve **Figure 3.3**



Source: MUFAP

in FY25).[3] During FY26, the yield curve shifted upward amid changing market expectations following the developments in Middle East **(Figure 3.3)**. As a result of upward shift in yield curve and concomitant mark-to-market losses on investment portfolio,[4] the revaluation surplus declined from Rs 662 billion during FY25 to Rs 475 billion in FY26 (a 28.2 percent decline).

The major portion of government securities classified in Fair Value through Other Comprehensive Income (FVOCI) reflected that mark-to-market losses or gains due to fluctuations in market yields would directly impact banks' equity or capital position.

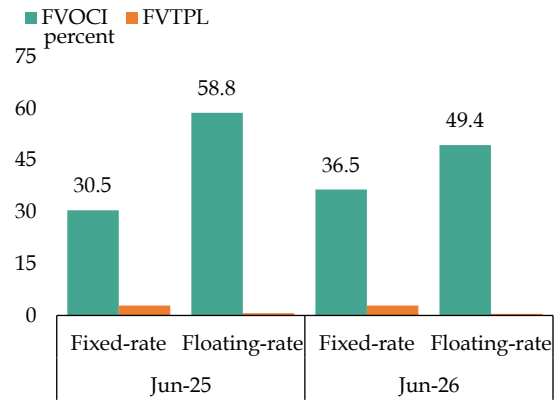
Incidentally, the share of fixed-rate government securities in the FVOCI portfolio increased, while that of floating-rate instruments declined (**Figure 3.4**).

The Fair Value Through Profit & Loss (FVTPL) portfolio remained relatively small, holding only 3.8 percent of government securities at end-Jun 2026 (3.7 percent at end-June 2025). This implies that any change in the fair market value of this portfolio would have limited adverse impact on banks' profitability.

The interest rate sensitivity of fixed-rate government securities, held by banks, has declined, reflected through the reduced weighted average duration to 0.8 year at end-June 2026 from 1 year at end-June 2025 (**Figure 3.5**). This bodes well for managing interest rate risk on these securities, especially in rising interest rate scenario.

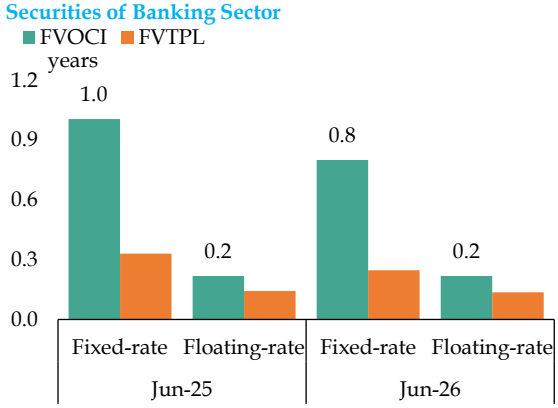
The exposure of the banking sector to FX and equity markets has remained limited. This helps the banking sector in containing risks from adverse movement of exchange rate. Similarly, amid conservative regulatory limits, banking sector's exposure to equity investment remained low, which insulated banks from the impact of volatility in equity (stock) prices.

Share in Government Securities of Banking Sector **Figure 3.4**



Source: SBP

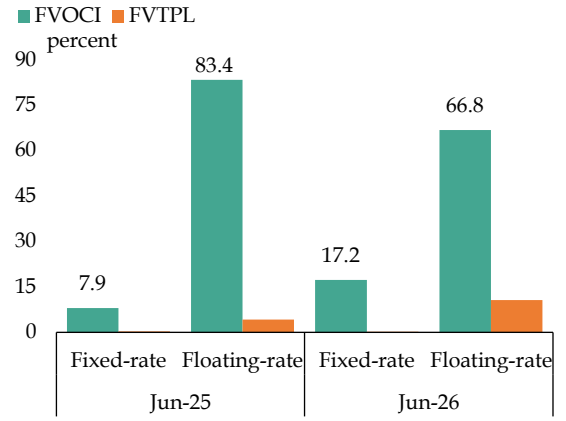
Weighted Average Duration of Government Securities of Banking Sector **Figure 3.5**



Source: SBP

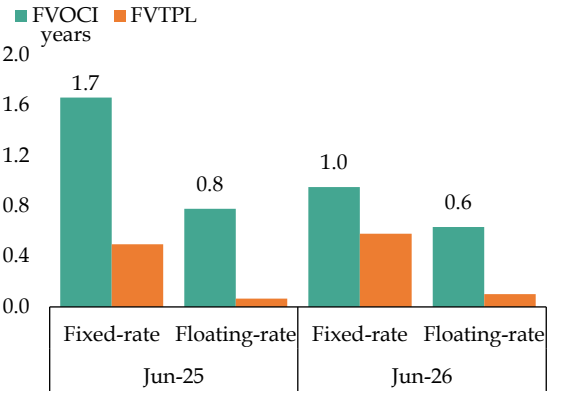
[3] Investments rose from Rs 37,492 billion at end-June 2025 to Rs 43,646 billion at end-June 2026.
[4] The banking sector held around 86.9 percent of the government securities in FVOCI, 3.8 percent in the FVTPL and 9.4 percent in Amortised Cost at end-June 2026.

Share in Government Securities of DFIs **Figure 3.6**



Source: SBP

Weighted Average Duration of Government Securities of DFIs **Figure 3.7**



Source: SBP

In DFIs also, the asset mix remained tilted towards investments with 71.8 percent share in total assets at end-June 2026 (79.6 percent at end-June 2025). DFIs incurred negative interest margins in last two quarters of FY24, which induced them to retire investments in government securities - a strategy that continued in FY25 and FY26. In this backdrop, DFIs' investments in floating-rate securities decreased from 83.4 percent in Jun-25 to 66.8 percent in Jun-26. On the other hand, fixed-rate holdings rose from 7.9 percent at end-June 2025 to 17.2 percent at end-June 2026. FVTPL exposure was minimal (below 1 percent for fixed and 10.7 percent for floating), indicating DFIs preference to hold most of the investments in long-term securities (**Figure 3.6**).

The weighted average duration of government securities held by DFIs reduced significantly as of end-June 2026, showing lower sensitivity to interest rates **(Figure 3.7)**. Equity (stock) exposure of DFIs, however, remained low at 1.5 percent of the total investments at end-June 2026 (1.1 percent at end-June 2025), which limits the adverse impact from the volatility in equity (stock) prices.

Unlike banks and DFIs, the balance sheet of MFBs remained tilted towards loans. MFBs, therefore, operate with low market risk exposure. The investment portfolio of MFBs grew to Rs 278 billion at end-June 2026 (Rs 217 billion at end-June 2025), accounting for 23.8 percent of the total asset base at end-June 2026.

Earnings

Earning indicators of the banking sector slightly moderated during FY26, primarily transmitting the impact of low interest rates to return on earning assets and higher tax rate applicable to banking sector. After-tax profit of the banking sector largely remained flat at Rs 720 billion in FY26, compared to Rs 721 billion in FY25. A high taxation on banking sector, nonetheless, limits the banking sector's ability to build buffers. The buffers are necessary to take risks associated with higher lending; take efficiency-enhancing measures, such as investments in new technology; and withstand unforeseen macro-financial shocks.

Following 950 bps reduction in the policy rate in FY25, the banking sector witnessed a lower interest rate environment in FY26. Accordingly, net interest income grew by only 1.4 percent to Rs 2,307 billion. However, non-interest income – fees, commission, brokerage income, FX income, and gains on securities – provided support to overall earnings.

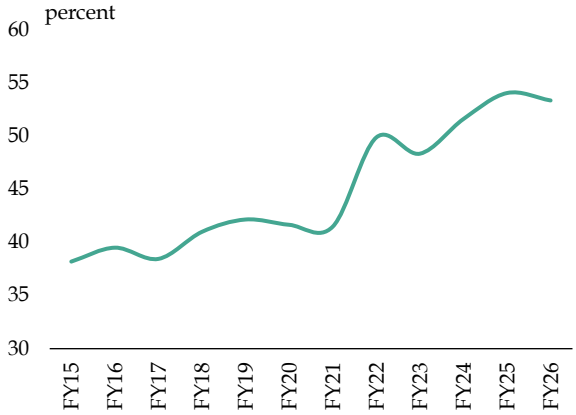
On the non-interest expenses side, operating expenses increased by 22.2 percent to Rs 1,467 billion in FY26. The rise in operating expenses was mainly driven by other expenses. Provisioning charges declined by 11.3 percent to Rs 994 billion.

The taxation charges accounted for 53.4 percent of pre-tax profit in FY26 (54.1 percent in FY25), reflecting reduction in the tax applied to income of banking sector (**Figure 3.8**).[5] As a result of moderation in after-tax earnings compared to growth of earning assets, the profitability indicators, such as after-tax ROE declined to 18.8 percent in FY26 (22.1 percent in FY25) and after-tax ROA declined to 1.2 percent in FY26 (1.3 percent in FY25).[6]

The DFIs posted an after-tax profit of Rs 30 billion in FY26 (Rs 42 billion in FY25). The decline in profitability was mainly driven by lower net interest income. However, steady non-interest income slightly rose to Rs 21 billion in FY26 (Rs 20 billion in FY25), primarily supported by dividend income from associates and gains on sale of securities. As a result of higher growth in balance sheet footing and moderation in earnings, after-tax ROA remained at 2.2 percent in FY26 from 2.1 percent in FY25. Also, after-tax ROE declined to 13.2 percent from 22.7 percent in FY25 due to higher increase in equity.

In case of MFBs, after several consecutive years of losses on aggregate basis, the sector returned to profitability, posting an after-tax profit of Rs 7 billion in FY26, compared to losses of Rs 6 billion in FY25. This turnaround was primarily driven by net interest income backed by higher spreads. Also, improved operational efficiency helped in containing admin expenses, which had remained a major drag on earning of the sector in recent years.[7] As a result of profitability, the after-tax ROE turned into a positive 28.1 percent in FY26 from a negative 21.4 percent in FY25 and after-tax ROA improved to 0.7 percent in FY26 from a negative 0.7 percent in FY25.

Taxation Charges on Profit before Taxes **Figure 3.8**



Source: SBP staff calculations

Although MFBs witnessed positive earnings in FY26, the sector's earnings remained under pressure from persistently higher provisioning amid increasing NPLs. This reflects the fact that MFBs' customers primarily comprise low-income households and small businesses, who are vulnerable to recurring economic and climatic shocks.

Liquidity

Liquidity position of the banking sector remained strong throughout FY26, primarily attributable to a sizeable share (60.8 percent) of highly liquid government securities held within their asset mix. Banks' liquid assets were sufficient to fully cover deposits and short-term liabilities (**Table 3.2**). The banking sector also complied with the Basel III liquidity requirements as of end-June 2026 with both net stable funding ratio (NSFR) and liquidity coverage ratio (LCR) at 169.5 percent and 214.1 percent, respectively, well above the minimum regulatory requirements of 100 percent.

Liquidity indicators of DFIs observed a slight moderation in FY26; nevertheless, these remained strong. This moderation was primarily due to 28.2 percent decline in investments resulting in a dip in the share of investments in total assets to 71.8 percent as of end-June 2026 from 79.6 percent as of end-June 2025. On the

[5] The tax rate fell to 43 percent for tax-year 2026 from 44 percent for the tax-year 2025.
[6] 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: https://www.sbp.org.pk/ecodata/fsi.asp.
[7] Cost to income ratio declined to 63.6 percent in FY26 from 84.7 percent in FY25.

Stress Testing (Sensitivity) Results of the Banking Sector Position based on June 30, 2026 (Un-audited data) **Table 3.2**

Description of shock	Number of Banks*		
	No. of Banks with no liquidity after		
	3 Days	4 Days	5 Days
Withdrawal of customer deposits by 2%, 5%, 10%, 10% and 10% for five consecutive days, respectively.	2	2	2
	1 Day	2 Days	3 Days
Withdrawal of wholesale deposits and unsecured borrowings by 10%, 20%, and 50% for three consecutive days, respectively.	1	1	1
	No. of Banks with LCR<100%		
Shock to liquidity coverage ratio applying 20% haircut to the value of investments in government and marketable securities	1		

* Excluding PPCB

Source: SBP

funding side, although borrowings continued to serve as the main funding source, DFIs' reliance on borrowings reduced from 90.5 percent at end-June 2024 to 70.7 percent at end-June 2026 (78.3 percent at end-June 2025). The DFIs also maintained the NSFR at 130.2 percent at end-June 2026 (131.4 percent at end-June 2025), well above the minimum regulatory benchmark of 100 percent. Due to simultaneous decline in investments and borrowings, DFIs' liquidity indicators did not register a significant deterioration and remained satisfactory, showing their ability to meet financial obligations.

Liquidity profile of MFBs remained broadly stable, albeit with a slight moderation during FY26. Given that MFBs business model is predominantly oriented towards micro-lending activities, their liquidity indicators are relatively lower than those of banks and DFIs. Nevertheless, MFBs' investment in government securities, which expanded by 26.4 percent during FY26, provided a cushion to their liquidity position. During FY26, MFBs also strengthened liquidity position in line with SBP's revised regulations.[8] While maintaining adequate liquidity is essential for the smooth running of MFBs, given their relatively small share in the financial sector assets, the sector poses limited systemic risk.

In money market, the volatility in Weighted Average Overnight Repo Rate (WAONR) remained lower in FY26. However, there were higher instances of positive gap between WAONR and the policy rate than the negative, indicating liquidity pressures.[9] SBP proactively carried out its monetary policy operations to maintain the market liquidity, thereby ensuring that WAONR remained close to the SBP's policy rate – a key component for the effective transmission of monetary policy. In addition, the utilisation of standing facilities, particularly the ceiling facility, recorded a decrease during FY26 compared to FY25.

Solvency and Capital Adequacy

The banking sector remained resilient and well-capitalised to withstand hypothetical macro-financial shocks. The CAR at 19.6 percent by end-June 2026 (slightly lower from 21.8 percent at end-June 2025), remained well above the minimum regulatory required level of 11.5 percent. The moderation in CAR was attributed to increased Risk Weighted Assets and decline in eligible capital. Other capital adequacy metrics such as Tier I capital to risk weighted asset ratio at 16.3 percent as of end-June 2026, also remained above the regulatory benchmark.

The solvency indicators of DFIs also remained robust with aggregate CAR at 55.0 percent at end-June 2026, though slightly lower than 58.1 percent as of end-June 2025.

To avoid the excessive leverage that banks can build in the operating environment, SBP has prescribed banks to maintain a minimum leverage ratio (LR) of 3.0 percent as per Basel-III

[8] ACFID Circular No. 01 of 2025.

[9] In FY26, there were 167 instances of positive gap between WAONR and policy rate while on 79 occasions, policy rate was higher than WAONR (Gap = Weighted Average Overnight Rate – Policy Rate).

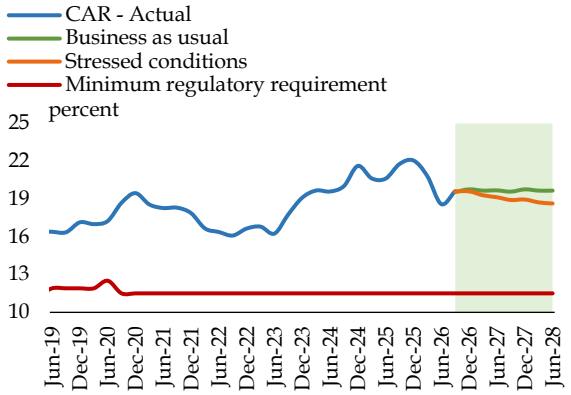
standards. The ratio acts as non-risk based 'backstop' to CAR requirement to address, inter alia, any model issues in calculating the risk weights and the issues of excessive leveraging. Both the banking sector and DFIs maintained the leverage ratio above the minimum required level (of 3.0 percent) at 4.4 percent and at 16.3 percent, respectively, at end-June 2026.

MFBs remained undercapitalised with their CAR still falling much below the regulatory requirement of 15.0 percent. With marginal improvement, MFBs CAR stood at negative 0.7 percent as of end-June 2026, a slight improvement from negative 1.6 percent as of end-June 2025, primarily due to better earnings and lower provisioning. It is noteworthy that the MFBs have been operating in a challenging environment since FY20. Successive stress events such as COVID-19, devastating floods in 2022 and 2025 have weakened the repayment capacity of small borrowers. However, sector showed some signs of recovery in FY26, with earnings and liquidity indicators showing improvement.

Going forward, the continued improvement in macroeconomic conditions, relatively eased financial conditions and progress on reforms under the IMF program are expected to maintain the hard-earned macroeconomic stability. These developments are anticipated to improve the borrowers' repayment capacity and gradually strengthen the private credit demand. However, financial institutions, particularly MFBs, remain exposed to severe climate risks and other shocks.

The projected CAR of the banking 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, exhibit relatively higher resilience. Moreover, the results of the latest sensitivity analysis show that banking sector has adequate resilience to withstand severe hypothetical shocks to key risk factors (**Figure 3.10)**. The sector is expected to

Projected Capital Adequacy Ratio of Banking Sector under different Scenarios **Figure 3.9**



Source: SBP staff calculations

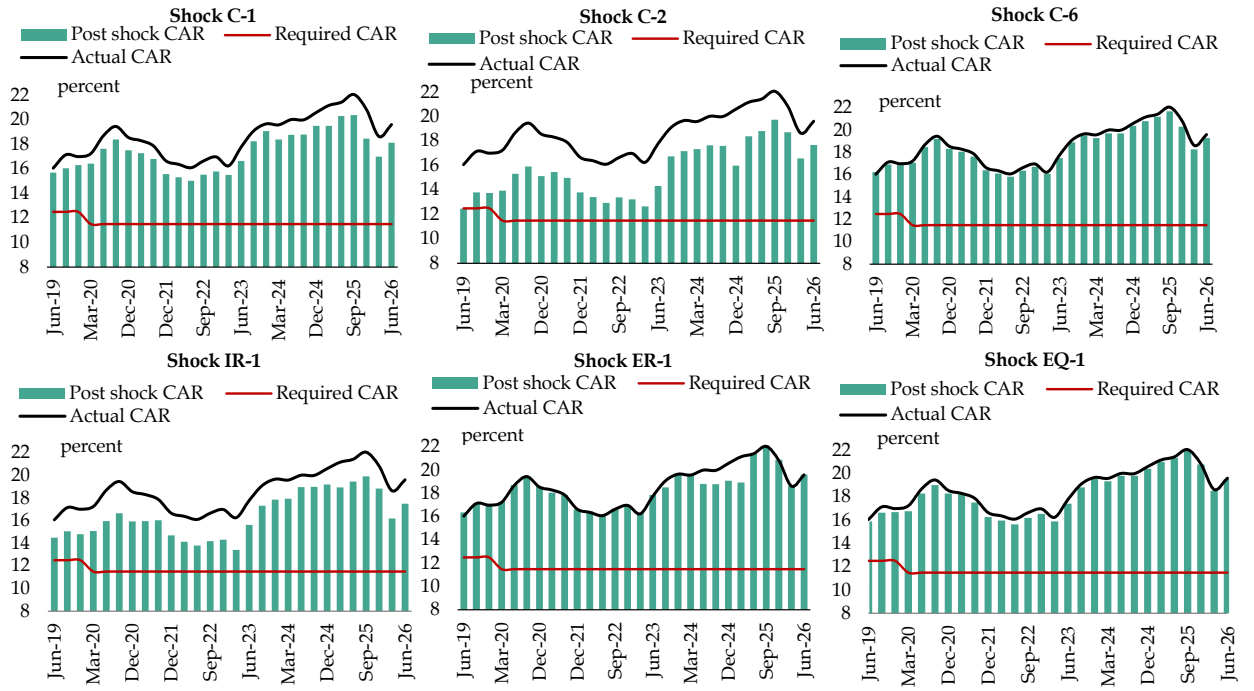
maintain its resilience against severe (hypothetical) macroeconomic conditions, including the impact of extreme weather events as well as geopolitical developments, among other risk factors.

3.2 Strengthening Institutional Arrangements for Financial Stability and Priorities of the SBP

During FY26, SBP continued to strengthen the institutional and regulatory arrangements underpinning financial stability, with measures aimed at enhancing the resilience of financial institutions, strengthening the financial safety net, and improving the management of emerging risks. The financial safety nets were strengthened through the introduction of recovery planning, further development of the resolution framework, and extension of deposit protection to digital banks. The regulatory framework was adapted to emerging risks by issuing a climate-related financial risk management framework, climate stress-testing guidelines, a phased cyber resilience strategy, technology risk management requirements for payment institutions, and instructions governing banking relationships with licensed virtual asset service providers. Together, these measures are expected to strengthen the preparedness and resilience of the financial system.

Results of Selected Single Factor Sensitivity Shocks*

Figure 3.10



Shock C-1: 10% of performing loans become non-performing, 50% of substandard loans downgrade to doubtful, 50% of doubtful to loss.
Shock C-2: Default of top 3 private sector borrowers/groups (fund based) exposures, including outstanding or limit whichever is higher and investments in borrowers' TFCs, equity etc., as defined under Revised PRs, net of deductions.
Shock C-6: Increase in NPLs to Loans Ratio (NPLR) equivalent to the historical maximum quarterly increase in NPLs to Loans Ratio of the individual banks.
Shock IR-1: Parallel upward shift in the yield curve - increase in interest rates by 300 basis points along all the maturities.
Shock ER-1: Depreciation of Pak Rupee exchange rate by 30%.
Shock EQ-1: Fall in general equity prices equivalent to maximum decline in the index.
* These selected shocks are part of a set of single factor sensitivity analysis that SBP conducts and publishes regularly.
Source: SBP

Financial Safety Nets and Crisis Preparedness

Recovery Planning Framework

SBP introduced a comprehensive regulatory framework for banks' recovery planning. The framework aims to strengthen the overall recovery and resolution regime and enhances the banking sector's capacity to withstand and recover from periods of financial distress. The framework requires banks to develop and maintain Board-approved, group-wide recovery plans covering their subsidiaries and associates, where applicable, with defined recovery triggers and early warning indicators, recovery options, governance framework, and communication strategy. The plans are to be reviewed and updated regularly, enabling banks to identify vulnerabilities early and take timely corrective actions.[10]

Resolution Regime

SBP published "State Bank of Pakistan's Approach to Resolution" which outlines how it carries out its statutory responsibilities for orderly resolution of a failed bank.[11] Furthermore, SBP issued guidelines specifying the core information to be maintained by banks, MFBs and DFIs for resolution planning. The guidelines require institutions to identify

[10] BPRD Circular No. 02 of 2025.
[11] State Bank of Pakistan's Approach to Resolution, available at: https://www.sbp.org.pk/assets/document/publications/State-Bank-Pakistan-Approach-to-Resolution.pdf.

relevant and material entities, core business lines, critical functions and key financial, operational and legal dependencies, alongside other information necessary to assess their resolvability. The resulting information base will support the development of resolution plans and enable timely identification of potential impediments to an orderly resolution in crisis.[12] Moreover, SBP is in the process of developing policies, frameworks, and operational manuals under technical assistance provided by the World Bank to further strengthen resolution regime.

Extending Deposit Protection to Digital Banks
To strengthen the financial safety nets alongside the development of digital banking, the Deposit Protection Corporation (DPC) issued the circular for applicability of deposit protection mechanism for digital banks which are declared as scheduled banks.[13] Hence, digital banks are required to become members of the DPC and are subject to the instructions applicable to other member institutions. The measure extends depositor protection to digital banking institutions and reinforces the coverage of the deposit protection framework as the banking sector evolves.

Enhancing Resilience to Emerging Financial Risks

Guidelines on Climate Stress Testing
SBP issued Guidelines on Climate Stress Testing as an additional critical component of the existing stress-testing framework, introducing climate-related scenarios to assess the potential impact of physical and transition risks on its regulated FIs. The guidelines require banks, DFIs and MFBs to conduct annual physical-risk analysis, while sample Domestic Systemically Important Banks (D-SIBs) are required to undertake transition-risk analysis and incorporate climate-related risks into their annual Macro Stress Testing/Scenario Analysis.[14] The framework enables financial institutions to assess the sensitivity of their lending portfolios and financial position to climate-related shocks and strengthens the integration of climate risks into their risk-management and stress-testing practices.

Framework for Climate-related Financial Risks
SBP issued the Regulatory Framework for Effective Management of Climate-related Financial Risks to establish a structured approach for financial institutions to identify and manage climate-related financial risks. The framework requires banks, MFBs and DFIs to assess and manage physical risks, while management of transition risks applies to banks and DFIs in line with the materiality of their portfolios. It sets principle-based expectations covering governance, business strategy, risk management, policies and procedures, and integration of climate-related risks into existing risk-management and stress-testing frameworks. Financial institutions are required to submit Board-approved, time-bound implementation plans and targets by September 2026, with full compliance targeted by June 2029.[15]

Banking Services for Licensed Virtual Asset Service Providers
Following the enactment of the Virtual Assets Act, 2026 and the establishment of the Pakistan Virtual Assets Regulatory Authority (PVARA), SBP issued regulatory instructions enabling its regulated entities to establish banking relationships with PVARA-licensed Virtual Asset Service Providers (VASPs) and facilitate the opening of bank accounts for their customers, subject to prescribed customers' due diligence requirements. The instructions also prescribe enhanced customers' due diligence, risk-profiling and ongoing monitoring requirements for such relationships. The measure provides a structured regulatory

[12] FIRD Circular No. 01 of 2025.
[13] DPC Circular No. 01 of 2025.
[14] FSD Circular No. 01 of 2025.
[15] SH&SFD Circular No. 07 of 2025.

framework for banking relationships with licensed VASPs and supports the development of a regulated virtual asset ecosystem while ensuring compliance with applicable AML/CFT/CPF requirements.[16]

Cyber Resilience of the Financial System

Launch of 'Cyber Shield Cyber Resilience Strategy'

Recognising the increasing sophistication of cyber threats and their potential implications for the continuity and stability of financial services, SBP introduced a comprehensive cyber resilience strategy for regulated entities.[17] The strategy provides a phased roadmap through 2030 for strengthening cybersecurity systems and controls, enhancing governance and preparedness, and improving the ability of regulated entities to prevent, detect, respond to, and recover from cyber incidents. Covering banks, MFBs, DFIs, digital banks, Electronic Money Institutions and Payment System Operators/Payment System Providers, the initiative seeks to enhance the overall resilience of the financial ecosystem and safeguard the uninterrupted provision of financial services.

First Industry-wide Cyber Security Drill

In January 2026, SBP, in coordination with the Pakistan Banks' Association, conducted Pakistan's first industry-wide cybersecurity drill. The exercise adopted technical and management tracks and covered 34 financial institutions, including all commercial, Islamic and digital banks, as well as major PSOs/PSPs. It assessed institutions' technical readiness, decision-making, and management preparedness for responding to cyber incidents.

Technology Risk Management Framework for Payment Institutions

To strengthen the resilience of the payments' ecosystem, SBP issued a Technology Risk Management Framework for Payment Institutions, covering EMIs, PSOs and PSPs. The framework establishes baseline, risk-based requirements for technology governance, cybersecurity and operational risk management, calibrated to the size, nature and complexity of individual institutions and their technology operations. It also provides mandatory implementation timelines and enforcement provisions, strengthening the ability of payment institutions to manage technology and cyber risks and enhancing the overall resilience of the digital payment infrastructure.[18]

Advancing Basel III Reforms

As part of the phased implementation of Basel III reforms in Pakistan, SBP issued instructions for the revised Standardized Approach to Credit Risk under Phase II of the reforms. The instructions update the risk-weighting treatment of banks' credit exposures and introduce more risk-sensitive approaches for determining credit risk-weighted assets and associated capital requirements. To facilitate an orderly transition, the revised approach was introduced through a four-quarter parallel run, during which banks, digital banks and DFIs were required to calculate and report their capital adequacy ratios under both the existing and revised approaches.[19] The measure further strengthens the risk sensitivity of the regulatory capital framework and supports the resilience of the banking sector.

Reinforcing Foreign Exchange Market Resilience

Revision of Foreign Exchange Exposure Limit

SBP revised the methodology for determining Foreign Exchange Exposure Limits (FEEL) of authorized dealers (ADs). Under the previous framework, FEEL could be assigned up to 25 percent of an AD's paid-up capital (free of losses), with the limit also determined based on

[16] BPRD Circular Letter No. 10 of 2026.
[17] CRMD Circular Letter No. 01 of 2026.
[18] PSP&OD Circular No 04 of 2025.
[19] BPRD Circular No. 03 of 2025.

its share in foreign exchange market volumes and subject to a maximum cap of Rs 5 billion. The revised framework replaced these criteria with a limit equivalent to 7.5 percent of Tier-1 capital, allowing the limit to adjust with changes in the institution's capital position.[20] The risk-sensitive approach aligns exposure limits more closely with the capital strength of individual institutions while supporting efficient functioning of the foreign exchange market.

Enforcement Actions against Exchange Companies

Authorisations/licensing of four exchange companies were cancelled during FY2025-26 based on identification of material non-compliance of regulatory instructions. These actions reinforced regulatory compliance and strengthened market discipline in the exchange companies' sector.

Consumer Protection & Business Conduct

Business Conduct and Fair Treatment of Consumers Regulatory Framework (BC&FRF)

In October 2025, SBP issued the "Business Conduct and Fair Treatment of Consumers Regulatory Framework (BC&FRF)" to strengthen market conduct and consumer protection. Under this framework, SBP established both principle-based and rule-based obligations applicable to banks, DFIs, EMIs, and PSOs/PSPs, in accordance with their respective scopes of operations. It strengthens requirements relating to governance and oversight, transparency, fair and non-discriminatory treatment, data protection and privacy, dispute resolution, and consumer awareness and capacity building, thereby promoting a more customer-centric and responsible financial services ecosystem.[21]

Strengthening Conduct Supervision and Consumer Grievance Redressal

SBP further strengthened its consumer protection and conduct supervision regime during FY26, with greater emphasis on fair treatment, responsible banking conduct, transparency, effective grievance redressal, and consumer empowerment. The BC&FRF is complemented by a more risk-based and data-driven conduct supervision approach, enabling SBP to assess financial institutions' conduct practices through supervisory assessments, off-site monitoring and on-site reviews, and to identify systemic and emerging consumer risks.

Over the year, the use of complaints and other consumer-related data as a supervisory intelligence tool was further strengthened to guide SBP's overall and institution-specific conduct-related risk assessments and allied supervision strategies. In addition, SBP continued to strengthen the Sunwai complaint management platform, providing consumers with a convenient, technology-enabled channel for lodging and tracking complaints and facilitating their access to the appropriate redressal forum.

Capacity Building and Awareness-Raising on Banking Conduct and Fair Treatment of Consumers

Building on the experience of the previous year's sessions and demonstrated demand for such initiatives, SBP conducted multiple capacity-building and awareness-raising sessions on Banking Conduct and the Fair Treatment of Consumers (FTC) across the country during FY26. The sessions aimed to enhance understanding of Responsible Banking Conduct, FTC, and the rights and responsibilities of both financial service providers and customers.

[20] DMMD Circular No. 07 of 2025.
[21] BPRD Circular No. 04 of 2025.

4 Measures to Support the Government's Economic Policies

Pakistan's economy continued to gain momentum as the macroeconomic stabilisation achieved over the preceding two years increasingly translated into a pickup in economic activity. Real GDP growth maintained the gradual upward trajectory; average headline inflation settled close to the upper bound of the SBP's medium-term target range; and external account strengthened further. The resilience of these fundamentals was tested during the year, particularly due to the Middle East conflict, which posed a renewed external risk to macroeconomic stability. Nonetheless, proactive policy mix led to improved external and fiscal buffers, helping Pakistan navigate the shock while maintaining the ongoing recovery in economic activity.

Against this backdrop, SBP adopted a range of targeted policy measures and initiatives during FY26 to support the government's economic policies, as part of its tertiary objective under The State Bank of Pakistan Act, 1956.[1] These measures were designed to improve the growth prospects, reinforce external buffers, keep pace with the rapid digitalisation of financial services, and safeguard financial stability as private sector credit picked up.

The initiatives can be grouped into the following broad categories: (a) advancing inclusive growth and financial access; (b) deepening digitalisation and modernising payments infrastructure; (c) strengthening external sector resilience; (d) facilitating the transition to Islamic banking; and (e) improving debt and monetary management practices. These measures are aligned with the SBP's Strategic Plan (Vision 2028) that 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 Advancing Inclusive Growth and Financial Access

During FY26, SBP pursued a multi-pronged agenda to widen the reach of the formal financial system across underserved segments. Particular attention was given to small farmers, women, youth, SMEs, and first-time home buyers. Moreover, SBP facilitated the government's relief and subsidy schemes for targeted support to vulnerable segments. Together, these measures reflect SBP's contribution towards a more inclusive, sustainable and resilient financial system aligned with government's broader economic and development priorities. The key measures undertaken during the year are discussed below.

(i) National Financial Inclusion Strategy (NFIS) 2024–28

NFIS (2024–28) remained the overarching framework guiding SBP's financial inclusion agenda during FY26. The NFIS (2024-28) is structured around five strategic goals and a detailed action plan aimed at improving the usage, quality and accessibility of financial services, with headline targets of raising financial inclusion to 75 percent and narrowing the gender gap to 25 percent by 2028. The implementation of most of the action plans was largely on track. Moreover, financial inclusion reached 69 percent,[2] and the gender gap

[1] As amended up to 28-01-2022.
[2] Broadly defined as the share of adult population having a bank account. Source: SBP

narrowed to 29 percent,[3] broadly in line with annual targets for CY25.

Key achievements during the year include the enablement of 12 Digital Model Villages through digital onboarding,[4] infrastructure deployment and financial literacy outreach; onboarding of over 2 million merchants under the Raast Person-to-Merchant (P2M) use case; launch of 'Zarkhez-e: Asaan Digital Zarai Qarza,' the country's first end-to-end digital agriculture lending platform; and development of Pakistan Financial Inclusion Index. The following initiatives supported implementation of the Strategy:

Pakistan Financial Inclusion Index (P-FII)
SBP developed the P-FII to capture the multidimensional nature of financial inclusion, which extends beyond account ownership to encompass credit, savings, insurance, payments and the quality-of-service delivery. In line with the international best practices,[5] the index offers a 360-degree, evidence-based measure of the true level of financial inclusion in the country, rather than relying on a single indicator.

For 2025, the overall P-FII score rose from 58.1 in 2024 to 59.5, with Access score at 74.1, Usage score at 68.5, Quality score at 43.5. The positive trajectory of the index was largely supported by substantial growth in the 'Usage' sub index, followed by 'Access' and 'Quality' sub-indices, reflecting successful implementation of the digital initiatives under NFIS 2024–28. Notable drivers include RAAST merchant onboarding and payment ecosystem, introduction of digital banks, and account opening drives. These advancements were further reinforced by strong consumer orientation and financial literacy.

National Financial Education Roadmap 2025–29 (NFER)
Under the NFER, banks and SBP-BSC offices imparted financial education to 2.6 million beneficiaries during FY26. SBP and NIBAF also advanced the Financial Literacy Integration in the National Curriculum (FLIP) project, completing five milestones. These include finalisation of 192 Student Learning Outcomes for Grades 1–12, curriculum mapping and pilot testing, with detailed Model Chapters now under development.

Teenager Account and Wallet Framework
SBP introduced a framework allowing individuals aged 13 to 18 years to independently own and operate bank accounts and digital wallets, addressing a longstanding access gap for approximately 26 million Pakistanis in this age group. The features of this framework include:[6]

- Directions to banks/MFBs/EMIs that the account/wallet shall be opened instantly upon completion of all requirements, and the account/wallet must open within two (02) working days.
- The account/wallet will be a savings account by default, unless otherwise requested by the applicant.
- Upon attaining the age of 18, the same account shall be converted into a regular account/wallet, after fulfilling the relevant regulatory requirements.

This initiative constitutes a cornerstone of SBP's Strategic Plan 2023–28 and the NFIS 2024–28, both of which accord high priority to youth financial inclusion and builds on SBP's recent AFI Global Youth Financial Inclusion Award.

[3] Defined as the disparity in the percentage of women and men who have access to formal financial services.
[4] The 12 villages include: Mouza 5 Kasi (Multan); Langarpura (Muzaffarabad); Bhata (Rawalpindi); Salankay (Sialkot); Rasoolpoor Gateri (Faisalabad); Rangpur (Dera Ismail Khan); Papnakha (Gujranwala); Wahid Dino Shoro (Karachi); Haji Ahmad Mullah (Karachi); Mangtanwala (Lahore); Babarlo (Sukkur); Mathra (Peshawar).
[5] Based on the methodology used by the United Nations Development Program for the Human Development Index and adapted from the Sarma (2012) approach for measuring financial sector inclusiveness, The index aggregates 69 indicators across three dimensions – Access, Usage and Quality, weighted 30 percent, 40 percent and 30 percent respectively, with a higher weight on Usage reflecting SBP's focus on deepening financial inclusion rather than access alone. Each indicator is normalized against a 2030 target value.
[6] BPRD Circular No. 01 of 2026.

Pilot Agent Interoperability Project
SBP implemented the country's first Agent Interoperability pilot, enabling customers of Easypaisa, HBL Konnect and Virtual Remittance Gateway to conduct cash-in/cash-out transactions through a shared agent network. Building on the success of the pilot, five additional financial institutions are currently engaged and are at various stages of onboarding and technical integration. Their participation will further expand the interoperable agent ecosystem, enhancing customer convenience, increasing outreach in underserved areas through an inclusive, efficient, and competitive digital payments landscape in Pakistan.

Improving Access to Financial Services Fund (IAFSF)
During FY26, Rs 157.1 million were disbursed from the Fund's endowment income for initiatives in agriculture finance, Islamic finance, microfinance, financial education, and strengthening of institutional capacity across stakeholders.

(ii) Promoting Agricultural Finance and Farmer Resilience

To strengthen agriculture financing as a viable business proposition for financial institutions, SBP encouraged banks and other financial institutions to prepare their own agriculture credit expansion plans rather than allocating indicative credit targets.

During FY26, 36 banks and 11 microfinance institutions disbursed Rs 3,231.6 billion, exceeding their combined target of Rs 3,061.6 billion. The outstanding agricultural loan portfolio grew 25.2 percent to Rs 1,257.8 billion by end-June 2026, with outstanding borrowers reaching 3.26 million, compared to 3.11 million at end-June 2025. Key initiatives during the year included:

Risk Coverage Scheme for Small Farmers and Underserved Areas
Introduced in August 2025 by the government, the scheme provides first-loss risk coverage of up to 10 percent to banks' lending to small farmers. To meet the operational cost, it also offers a subsidy of Rs 10,000 per borrower to the bank linked to net new borrower growth, to encourage outreach to underserved segments and regions. The scheme will remain valid for three years, from FY26 to FY28.

Zarkhez-e: Asaan Digital Zarai Qarza
Launched in October 2025 under the Risk Coverage Scheme, this end-to-end digital financing platform provides collateral-free crop financing of up to Rs 1.0 million for landowners and Rs 500,000 for tenants. To promote productive use of funds, 75 percent of financing is disbursed in-kind through a verified agri-merchant network and up to 25 percent in cash, thereby reducing turnaround time and improving transparency.

Crop Loan Insurance Scheme Plus (CLIS+)
SBP, in collaboration with the Ministry of Finance, SECP, SUPARCO, the Insurance Association of Pakistan, ADB and participating banks, revised the scheme in April 2026. Several enhancements were made including expanded crop coverage; establishment of an insurance consortium for claims settlement; adoption of satellite-based calamity declaration and yield-loss assessment; and enhanced farmer protection through one-time income-loss support of Rs 15,000 for male and Rs 17,500 for female farmers, alongside accident and bodily injury coverage of up to Rs 250,000 and Rs 275,000, respectively.

Electronic Warehouse Receipt Financing (EWRF)
Since its launch in 2022, EWRF has facilitated over Rs 15 billion in financing against stored commodities. During FY26, accredited warehouses increased to 35 (having combined capacity of approximately 360,000 metric tons), with Rs 5.0 billion disbursed to 864 farmers. The Agriculture Credit Advisory Committee, at its annual meeting held on January 12, 2026, constituted a committee to develop a roadmap for EWRF ecosystem development in consultation with key stakeholders.

Adoption of Digital Land Records for Agriculture Financing
SBP continued to advance the digitalisation of agricultural finance by promoting banks' adoption of Punjab's digitised land record systems. As of end-June 2026, 30 banks had integrated with the Punjab Land Records Authority for electronic land ownership verification and charge creation, with SBP also facilitating banks' transition to the upgraded Land Access Management Platform (LAMP) and Green Property Certificate (GPC). During the year, SBP also engaged provincial chief secretaries in Sindh, Khyber Pakhtunkhwa and Balochistan to extend similar digitisation.

Livestock Insurance Scheme for Borrowers (LISB)
This government-funded scheme covers livestock losses for small farmers borrowing against up to 10 cows, buffaloes or bulls. From July 2014 to December 2025, banks submitted premium claims of Rs 3.32 billion, covering approximately 960,000 beneficiaries.

(iii) Building Climate Resilience through the Resilient and Accessible Microfinance (RAM) Project

Given Pakistan's vulnerability to climate-related shocks, SBP continued to lead implementation of the RAM Project, established by the GoP with World Bank support. RAM combines long-term climate adaptation with a pre-arranged post-disaster recovery mechanism, strengthening the resilience of both small borrowers and microfinance providers, through two streams:

Innovative Agriculture Liquidity (IAL) and the Agriculture Finance Innovation Challenge (AFIC)
The IAL stream supports agricultural finance solutions combining credit with technology, advisory services and climate-smart practices. During FY26, SBP operationalised this approach through AFIC, bringing together 13 microfinance providers and 11 technology companies to develop bundled, technology-enabled agricultural finance products moving beyond standalone credit. Through the AFIC Matchmaking Day and subsequent facilitation, participating institutions will form partnerships and develop joint proposals, with selected solutions to be supported for implementation through eligible microfinance providers.

Contingent Liquidity Facility (CLF)
CLF, the second stream of liquidity under RAM, provides emergency liquidity to eligible microfinance providers following a qualifying flood event,[7] for loan restructuring or recovery financing. During FY26, SBP approved 15 institutions in the first eligibility round, with a subsequent assessment based on December 2025 data identifying 17 eligible institutional applicants.

These microfinance-level measures complement Pakistan's broader progress under the IMF's Resilience and Sustainability Facility (RSF) to support the country's climate and disaster resilience efforts. SBP's contribution centred on strengthening the financial sector's climate information architecture in line with the reform measures due under the second RSF review. The IMF assessed these measures as a significant improvement in Pakistan's climate risk architecture, expected to reduce potential balance of payments risks and support climate-related investment.

(iv) Advancing Women's Financial Inclusion

SBP's gender-finance initiatives during FY26 combined three mutually reinforcing strands: policy mainstreaming, industry commitments and dedicated financing instruments. These are embedded in the following policy measures:

[7] Qualifying flood events are those that are deemed a 'disaster' by a relevant government agency or events which lead to a triggering of predefined triggers, grounded in flood risk modelling. Source: Annexure 1 of ACFID Circular No. 03 of 2025

Banking on Equality (BoE) Policy
To reduce the gender gap in financial inclusion, SBP continued implementing the BoE Policy across five pillars – institutional readiness, product development, customer acquisition, gender-disaggregated data, and gender focus in SBP's own policies. The key achievements made till June 2026 are as follows:

- Banks had inducted 21,000 women in their workforce as of end-June 2026, compared with 14,600 reported in FY25. This has improved the share of women's workforce in banking sector to 17.3 percent by end-June 2026 from 16.4 percent at end-June 2025.
- Active 'women-owned' accounts reached 25 million at end-June 2026, up from 17.6 million at end-June 2025, showing an annual growth of approximately 42 percent.
- All banks have already established dedicated women's financial services teams. Moreover, 86 percent of branches had dedicated women champions and 83 percent of staff had received gender-sensitivity training.
- Women microfinance borrowers increased by 7 percent to 2.9 million by end-June 2026, from 2.7 million at end-June 2025.
- Women branchless-banking (BB) agents grew to 26,428 by end-June 2026, up from 21,000 at end-June 2025 (26 percent growth), bringing women's share of the total BB agent portfolio to 3.2 percent.

SBP also launched a Gender Supervisory Framework to assess banks' compliance with the BoE Policy. Building on this progress, SBP has launched second edition of BoE policy (BoE 2026) after extensive consultations with international and local stakeholders. The policy is aimed at further reducing the gender gap and advancing women's financial inclusion in the country.

WE-Finance Code [8]
SBP joined the World Bank's WE-Finance Code as its 19th signatory, launching the initiative in Pakistan in July 2025 with ADB support. Twenty-three banks along with the Pakistan Banks Association committed to targeted actions, improved data reporting and senior-level accountability for advancing women's access to finance. SBP also engaged SECP, PTA and SMEDA to establish a national coalition. In addition, SBP, together with ADB, conducted a two-day workshop to develop concrete measures for expanding credit to women-owned Micro, Small and Medium Enterprises (MSMEs). Aligned with the SBP Vision 2028, the National Financial Inclusion Strategy, and the BoE Policy, the initiative seeks to strengthen data and institutional support for women-owned enterprises

Women Inclusive Finance Sector Development Program (WIFSDP)
SBP serves as implementing agency for the financial intermediary loan components of WIFSDP, delivered through the Women Inclusive Finance Support Fund (WIFSF) Trust, operationalised in December 2025. The trust is a US$ 100 million national facility – the first dedicated credit and guarantee intervention of its kind for women in Pakistan, within the broader US$ 505.5 million ADB-supported WIFSDP. Under Credit Line Facilities I and II, microfinance providers extended around Rs 46 billion to 521,764 unique women borrowers, while the Women Microfinance Credit Guarantee Facility is expected to mobilize a further Rs 35 billion in financing.

(v) SME Finance

SBP implemented various measures to improve SMEs' access to finance, given the significant potential of the SME sector in driving economic growth, creating jobs, and reducing poverty. At end-June 2026, outstanding SME finance stood at Rs 907 billion, compared to Rs 691 billion in the corresponding period of last year. This translates into 31.2 percent growth, twice the

[8] The Women Entrepreneurs Finance Code (WE-Finance Code) is a coordinated, multi-stakeholder initiative designed to close financing gaps for women-led micro, small, and medium enterprises.

average growth of 15.7 percent in the last five years. Similarly, the number of SME borrowers increased by 15.4 percent, compared to an average growth of 13 percent in the last five years, to 319,166 by end-June 2026, compared to 276,593 at end-June 2025. The key initiatives are:

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

Regulatory Measures for Promotion of SME Financing
SBP has undertaken various regulatory measures in FY26 to promote SME financing which include:

- **Revised Prudential Regulations for SME Financing:** SBP revised the Prudential Regulations for SME Financing which are aimed at making them principle-based; removing structural barriers, encouraging banks to leverage technology, and fostering partnerships with fintechs and other non-financial service providers for scalable and sustainable SME financing. Under the revised regulations, banks shall own SME finance as one of their key business lines; develop a Board-approved SME finance strategy outlining targeted sectors, growth objectives, product development, technology adoption and capacity building; and establish a management committee chaired by the President/CEO to monitor performance against the strategy.
- **Enhancement in clean financing limit:** SBP enhanced the clean financing limit for SME borrowers from Rs 10 million to Rs 50 million.
- **Simplified Loan Application Form for SMEs:** The loan application form was simplified in collaboration with SME Development Authority (SMEDA) and Pakistan Banks Association (PBA).
- **Digital Supply Chain Financing:** The banks have been advised to develop and offer Digital Supply Chain Financing (DSCF) products
- **Awareness Creation and Capacity Building:** SBP-Banking Services Corporation (SBP-BSC), through its field offices across various regions, continued structured outreach, awareness and mentorship programs, and ecosystem coordination with SMEs and their representative bodies.

Prime Minister's Youth Business and Agriculture Loan Scheme (PMYB&ALS)
In collaboration with SBP, GoP launched the Prime Minister's Youth Business and Agriculture Loan Scheme (PMYB&ALS) in January 2023. The objective of the PMYB&ALS was 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 GoP provides markup subsidy for the scheme and offers a partial credit guarantee to cover the risk associated with financing youth entrepreneurs. Since the scheme's inception in January 2023, a total of Rs 287.6 billion has been disbursed to 555,791 SME/business and agriculture borrowers by and-June 2026. In FY26, Rs 112.7 billion was disbursed to 155,221 borrowers under the scheme.

(vi) Export Facilitation

SBP bestows greater emphasis on creating an enabling environment for industrial growth and export competitiveness and has progressively reduced its reliance on directed and concessional credit as part of the transition towards a more market-based financial system. The export-related schemes provide concessional financing to value-added industries to meet working capital requirements and enhance production capacity. 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, complemented by the Shariah-compliant Islamic Export Refinance Scheme (IERS).

To make the process more transparent and market-driven, SBP continued to phase out these schemes, gradually shifting the portfolio to EXIM Bank. The financing under the new arrangement will be provided by banks through their own liquidity while the GoP provides markup subsidy through EXIM Bank. Financing to exporters remains available at an end-user markup rate of 3 percentage points below the SBP policy rate.[9]

As part of its transition plan, SBP phased out 60 percent of its existing EFS portfolio by end-June 2026.[10] Accordingly, the outstanding amount of EXIM Bank-administered EFS, or the phased-out portfolio, rose from Rs 240.7 billion in FY25 to Rs 483.7 billion by end-June 2026. Moreover, the total outstanding amount under the EFS, encompassing the IERS and the Rupee-based discounting facility,[11] declined to Rs 304.5 billion by end-June 2026, from Rs 502.5 billion at end-June 2025.

EFS Enhancement Plan
Keeping in view the positive impact of EFS and growing demand for concessional export financing, the GoP enhanced the existing EFS portfolio by Rs 230 billion in FY25 which was continued for FY26, as well. Further, 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 144.9 billion as of end-June 2026.

Better Targeting of Export Finance Scheme
To promote exports and diversify export base, the GoP, in consultation with SBP, allocated an exclusive EXIM administrated 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 started from July 1, 2025, whereby 30 percent of the EFS portfolio was specified for non-traditional exporters during FY26.

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, like EFS, SBP's involvement in managing LTFF is also being phased out to EXIM Bank, which will manage the portfolio under EXIM-administered Long Term Financing Facility (E-LTFF).

In line with the phasing-out plan, the combined outstanding amount under traditional LTFF and ILTFF declined from Rs 198.8 billion at end-June 2025 to Rs 149 billion at end-June 2026. A limit of Rs 110 billion for fresh financing was made available under E-LTFF for FY26 whereas disbursements of Rs 58.3 billion were made under this limit during FY26. Under E-LTFF, financing is available at end-user rate 3 percentage points below the SBP policy rate, which is revised biannually. Banks/DFIs provide long-term financing from own sources wherein mark-up subsidy of 5 percent is provided by the GoP through EXIM Bank.

(vii) Housing Finance

Construction and housing sector plays an important role in reviving economic activity in

[9] With effect from February 11, 2026, the EFS/IERS rate for the end-users has been further reduced by 3 percentage points to 5.5 percent by the scheduled banks.
[10] At end-June 2025, SBP had phased out 30 percent of its portfolio.
[11] 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.

the country. The total outstanding amount for housing & construction finance rose by 14.6 percent to Rs 553.9 billion at end-June 2026 from Rs 483.36 billion at end-June 2025.

Wazir-e-Azam Apna Ghar Program-Ghar Ho Tu Apna

In line with its vision of providing affordable housing to masses, government announced mark-up subsidy and risk sharing facility commonly known as Wazir-e-Azam Apna Ghar Program - Ghar Ho Tu Apna. This facility allows individuals, who are constructing or buying a new house for the first time, to avail bank financing at subsidised and affordable markup rates. As of end-June 2026, the Participating Financial Institutions (PFIs) have received 90,196 applications amounting to Rs 518 billion under this scheme. Out of these, 25,197 applications, amounting to Rs 148 billion, have been approved and disbursed Rs 20.6 billion to 4,781 applicants.[12]

SBP took a host of measures to create an enabling regulatory environment for banks to extend financing under the scheme. Some of the major initiatives are discussed below:

- Debt Burden Ratio has been relaxed from 50 percent to 65 percent of the net disposable income of the prospective borrower.
- Banks have been advised not to take more than 15 working days for the credit approval process (from the date of receipt of application under the scheme along with complete information).
- For the properties having market value up to Rs 5 million (previously it was Rs 3 million), banks can use their internal resources to assess the property instead of arranging valuations by PBA approved evaluators.
- Extension of financing facility to Overseas Pakistanis/ Non-Resident Pakistanis (NRPs) holding NICOP/POC.
- For informal income estimation of the applicants, SBP advised the PFIs to use the model developed by PBA.

(viii) Sustainable Finance

Pakistan's vulnerability to climate change underscores the need for sustainable financing and a resilient financial system. Recognizing this, SBP incorporated climate change as a cross-cutting theme in its Strategic Plan 2023–2028 and strengthened its focus on climate-risk management. Key initiatives include:

Pakistan Green Taxonomy (2025)

The government notified the Pakistan Green Taxonomy (PGT) in September 2025 to promote green and sustainable economic activities. The PGT provides a science-based classification system for identifying green economic activities and investments in the country, offering a single, common, and consistent definition of "green" across sectors. Subsequently, on December 10, 2025, SBP advised banks/DFIs to use PGT as a reference guide for formulating and updating their green banking policies.

The development of the PGT was jointly led by SBP and the Ministry of Climate Change & Environmental Coordination (MoCC&EC), with technical support from the World Bank.[13] To facilitate navigation of the comprehensive PGT document, SBP also developed a web-based tool/dashboard on its website to assist users in identifying economic activities that contribute to climate change mitigation and adaptation under the PGT.

Prime Minister's Fan Replacement Program

In February 2026, SBP communicated the government's program to banks and advised them to integrate their systems with the program's online portal. The Federal Government provides participating banks with a

[12] As of September 18, 2026, the number of applications received by PFIs under this scheme has increased to 166,999 applications amounting to Rs 989 billion. Out of these, 65,190 applications, amounting to Rs 380 billion, have been approved and PFIs have disbursed Rs 57.8 billion to 10,755 applicants.

[13] The PGT was issued through SH&SFD Circular No. 06 of 2025, along with FAQs and a web-based navigation tool.

10 percent first-loss credit guarantee. The program aims to replace 88 million energy-inefficient fans over ten years, with an estimated reduction of up to 5,000 MW in peak electricity demand.

Electric Mobility Financing under Pakistan Accelerated Vehicle Electrification (PAVE)
In September 2025, SBP issued banking instructions for the Government's Cost Sharing Scheme for Electric Bikes and Rickshaws/Loaders under the PAVE Program. SBP advised banks to integrate their systems with the scheme's central portal. The scheme improves access to financing for electric two- and three-wheelers, supporting the transition towards cleaner mobility.

4.2 Deepening Digitalisation and Modernising Payments Infrastructure

A faster, cheaper and more resilient digital payment system is essential for sustaining growth momentum and to consolidate the shift away from a cash-based economy. As retail activity, remittance inflows, and government-to-person transfers all scaled up over the year. The resilience, interoperability and oversight of critical payment infrastructure took on added importance. At the same time, continued innovation in digital finance supported the broader diversification of economic activity envisaged under the SBP Vision 2028.

During FY26, SBP further advanced its agenda for a more inclusive, innovative, secure and less cash-dependent financial system. Following are the key initiatives focused on expanding digital payment acceptance, facilitating responsible market entry and expanding digital financial services for overseas Pakistanis.

Expanding Digital Banks Network in Pakistan
SBP granted NOCs and In-principle Approvals to five digital retail banks, of which Mashreq Bank and Raqami Islamic Digital Bank secured licenses to begin commercial operations in September 2025 and February 2026, respectively.

Advancing The Cashless Pakistan Agenda
SBP continued to support the Prime Minister's Cashless Pakistan Initiative alongside the digital payments agenda set out in SBP Vision 2028. During the year, efforts focused on expanding digital acceptance, strengthening merchant infrastructure, promoting digital public infrastructure, and digitising government payments and receipts. As a result, retail digital transactions increased from approximately 6.9 billion in FY25 to nearly 12 billion in FY26, while mobile banking application users reached about 137 million, with mobile banking remaining the dominant channel, accounting for more than 90 percent of digital payments. Around 92 percent of home remittances were credited directly in beneficiaries' accounts or wallets, supporting lower-cost receipt of remittances through formal banking channels. Physical access points also continued to expand – bank branches and ATMs increased by 6 percent and 7 percent, respectively, reaching 20,424 branches and 21,656 ATMs by end-June 2026.

Expanding Merchant Acceptance and Self-Service Banking
SBP issued instructions requiring banks, microfinance banks and electronic money institutions to equip merchants with appropriate digital acceptance solutions, including QR codes, point-of-sale terminals and online payment facilities. The instructions require to enable at least one digital payment method on opening a new business account. Further, the existing merchant portfolios are to be progressively equipped with digital channels, alongside simplified merchant onboarding requirements.

SBP also required banks to expand Cash Deposit Machines (CDMs) to at least 25 percent of their branch networks by end-December 2028, and to submit time-bound deployment plans. Following these instructions, the number of CDMs increased from 1,038 to 1,875 within a year. The direction also emphasises operational

safeguards, security and consumer protection, supporting convenient self-service deposits and greater use of automated channels.

Designation of 1LINK and Issuance of PRISM+ Operating Rules

SBP designated 1LINK (Private) Limited as a Designated Payment System under the Payment Systems and Electronic Fund Transfers Act, 2007, with effect from August 20, 2025, recognising its systemic role in Pakistan's retail payment infrastructure and bringing it under enhanced, risk-based oversight. SBP also issued the PRISM+ Operating Rules during FY26, integrating the Central Securities Depository and funds modules in a single operating environment and providing enhanced functionality for large-value payments and securities settlement, aligning the system with international best practices and reinforcing payment finality.

Facilitating Responsible Market Development

SBP continued to facilitate responsible entry and innovation in the payments market. Pilot approvals were granted to Toko Lab (Private) Limited for integrated business wallets and digital bookkeeping solutions for SMEs, and to Cerisma (Private) Limited for digitisation of retail payments in the energy sector. Barq Fintech (Private) Limited received In-principle approval for inward-remittance and financial-inclusion services, while Haball (Private) Limited received In-principle approval to scale business-to-business supply-chain payments, e-invoicing and digital settlements. These approvals have broadened the range of regulated solutions available to consumers and businesses while maintaining appropriate safeguards.

Launch of SBP Innovation Hub

SBP launched the Innovation Hub in November 2025 as its principal point of engagement with innovators in the financial sector. The hub provides individuals, fintech firms, start-ups and entrepreneurs with a structured route to engage the regulator while giving SBP early visibility of emerging technologies, business models and associated risks. Since its launch, the Hub has convened knowledge-sharing sessions and focus groups involving banks, academia, fintech companies and government entities. This engagement supports more informed and responsive regulation and the development of an inclusive digital financial services ecosystem.

Operationalising the Regulatory Sandbox

Following issuance of the Regulatory Sandbox Guidelines in FY25, SBP operationalised the Sandbox through its first cohort. Six entities were admitted for live testing across three market-driven themes: technology-enabled inward remittances, open banking and remote merchant onboarding. Controlled testing enabled SBP to assess participant models, identify risks and design proportionate safeguards, while giving participants clarity on alignment with the regulatory framework.

Facilitated Disbursements under Prime Minister's Ramzan Relief Package (PMRRP) 2026

Prime Minister announced the Ramzan Relief Package 2026 to provide financial assistance to low-income families at the start of Ramzan 2026. SBP, in collaboration with the Ministry of Poverty Alleviation and Social Safety and BISP, developed and issued a Framework for the PMRRP 2026 in February 2026 for the disbursement of funds through the banking system.

Under this framework, one-time financial assistance of Rs 13,000 was provided to each eligible beneficiary identified through the National Socio-Economic Registry (NSER). Disbursements were facilitated through six PFIs (HBL, Bank Alfalah, Bank of Punjab, Easypaisa Bank, Mobilink Microfinance Bank and HBL Microfinance Bank) and six other financial institutions (NBP, UBL, ABL, MCB, Meezan Bank and Sindh Bank).[14] Financial assistance

[14] PFIs include banks and MFBs with contractual arrangement with BISP for its various disbursement projects, whereas "Other Financial Institutions" refers to those with no contractual arrangement with BISP, but were engaged for the disbursements of funds.

was credited directly into beneficiaries' existing bank and branchless banking accounts/wallets; for eligible beneficiaries who did not maintain an account or wallet, PFIs opened branchless banking accounts/wallets or limited mandate accounts to facilitate disbursement.

Overall, approximately Rs 23.2 billion was disbursed to around 1.79 million beneficiaries, who were able to utilise the funds through digital payment services including merchant payments, utility bill payments and mobile top-ups, or access cash withdrawals through the branchless banking agent network following biometric verification. The successful implementation of PMRRP 2026 reaffirmed the effectiveness of coordinated institutional efforts in delivering targeted government assistance efficiently, securely and transparently, while expanding beneficiaries' access to formal digital financial services.

BISP Disbursements through Social Protection Wallets

To promote a cashless economy, SBP has been working closely with the Benazir Income Support Program (BISP) to improve the delivery of government-to-person (G2P) payments under BISP's various programs, benefiting more than 10 million beneficiaries, predominantly women from low-income and vulnerable households.

During FY26, SBP issued Regulatory Instructions on BISP Disbursements through Social Protection Wallets (SPWs), providing the regulatory and operational framework for PFIs to onboard beneficiaries and transition from the Legacy Limited Mandate Account (LMA) model to a secure wallet-based disbursement mechanism. Under this framework, PFIs commenced the disbursement of BISP payments through SPWs.

Introduction of SPWs has significantly enhanced the delivery of social protection payments by enabling beneficiaries to securely retain and save funds in their wallets and withdraw them at their convenience. The initiative reduced operational bottlenecks associated with the legacy disbursement mechanism, improved beneficiaries' access to formal financial services, and strengthened the efficiency, transparency, and convenience of government payment delivery. It also brought millions of previously underserved women into the formal financial system, laying the foundation for their gradual transition from cash-based transactions to digital payments and other formal financial services.

Facilitated Implementation of Government Fuel Subsidy Scheme

To mitigate the impact of rising global oil prices on vulnerable segments of society, the government introduced a targeted fuel subsidy scheme in Q4 to provide financial assistance to eligible motorcyclists, small farmers, intercity public transport operators and freight transport vehicle owners. SBP operationalised the scheme through the banking industry by establishing a secure and efficient subsidy disbursement mechanism, and, leveraging beneficiary data provided by the Pakistan Digital Authority, facilitated secure, transparent and timely disbursement of financial assistance to eligible beneficiaries across all provinces, Islamabad Capital Territory, Gilgit-Baltistan and Azad Jammu & Kashmir.

Under the Scheme, fuel subsidy amounting to Rs 13.3 billion was successfully disbursed through five tranches by crediting funds directly into eligible beneficiaries' bank accounts and branchless banking accounts/wallets. The successful implementation of the Scheme demonstrated the banking industry's capacity to efficiently deliver large-scale government-to-person (G2P) payments through the formal financial system and reaffirmed SBP's commitment to supporting national priorities through secure and efficient financial infrastructure.

Transitioning Exchange Companies to a Digital Foreign Exchange Ecosystem

The Exchange Companies (ECs) sector continued its transition towards a more transparent, technology-driven and digitally integrated foreign exchange market following

implementation of the Regulatory Framework for Exchange Companies (RFEC). Initiatives during the year included enabling account-to-account transfer of foreign currency sale to resident customers, allowing direct account-to-account credit of home remittances through digital payment channels, such as Raast, and introducing a forward sale facility for ECs to facilitate settlement of inward remittances.[15] These reforms represent an important step towards developing a digitally enabled and resilient foreign exchange ecosystem, improving market efficiency, fostering transparency, and supporting the evolution of a modern and open foreign exchange market in Pakistan.

These digitisation measures were complemented by the continued expansion and institutional strengthening of Raast, alongside the operationalisation of new channels for regulatory engagement.

Strengthening Institutional Ownership of Raast

After incorporating as SBP's wholly owned subsidiary in FY25, Raast Payments Pakistan (Private) Limited (RPP) established its corporate governance framework in FY26. Its Board of Directors was constituted, and a Chief Executive Officer was appointed, providing independent board oversight and a dedicated management team. RPP now carries responsibility for the operations, development and expansion of Raast, while SBP retains regulatory oversight of infrastructure having systemic and national importance.

Scaling Merchant and Government Payments

Under the government's cashless economy programme, a Rs 3.5 billion subsidy was introduced for Raast person-to-merchant QR transactions from 1st September 2025 to 30th June 2026.[16] Together with wider QR deployment, this helped increase average daily Raast P2M transactions from around 60,000 at end-June 2025 to more than one million at end-June 2026. Registered Raast merchants reached 3.63 million, including more than 2.68 million onboarded during FY26. P2M transactions increased from around 4 million in FY25 to around 180 million in FY26.

Raast QR acceptance expanded across retail outlets, educational and healthcare facilities and public-service points. A major milestone was the enablement of Raast QR at NADRA centres, making QR-based digital payments the exclusive payment mode for customer transactions at these centres. Raast QR was also deployed in 123 major cattle markets across the country during Eid-ul-Azha, increasing the visibility and everyday utility of instant payments.

Raast also supported government-to-person and person-to-government payments for institutions including the Accountant General of Pakistan, Federal Board of Revenue, Military Accountant General, Controller of Naval Accounts, NADRA and National Savings Organization, enabling their payments and collections to be processed instantly and efficiently.

Broadening Ecosystem Participation

Nearly all SBP-regulated banks, microfinance banks, electronic money institutions and payment system operators/service providers participate in Raast. Fourteen new participants were added during FY26, further strengthening interoperability. More than 30 fintechs applied under the Raast Participant Criteria; 14 were approved and entered the onboarding process, while other applications remained under assessment. This wider participation supports continued expansion of use cases, acceptance infrastructure and access to instant digital payments across the economy.

[15] EPD Circular Letter No. 02 of 2026.

[16] The subsidy - 0.5 percent of transaction value or PKR 100, whichever is lower - is shared equally between the merchant's and customer's financial institutions.

Consolidated Customer Onboarding Framework (CCOF)
SBP introduced the CCOF by consolidating existing customer onboarding requirements into a single regulatory framework applicable to SBP's regulated entities. The framework lays down requirements for establishing customer relationships, including information and documentary requirements applicable to different categories of customers and types of accounts/wallets, adopts a risk-based approach to customer due diligence, and incorporates provisions for digital onboarding.

Expanding the Roshan Digital Account (RDA) Ecosystem

The RDA remained central to SBP's strategy for strengthening financial linkages with overseas Pakistanis and mobilising foreign-exchange inflows. SBP amended the CCOF to expand the eligibility for Roshan Digital Individual Accounts and Roshan Digital Business Accounts to all non-resident natural and legal persons falling within the definition of non-resident persons under the Income Tax Ordinance, 2001.

Naya Pakistan Certificates were also introduced in Saudi Riyal and UAE Dirham, supplementing existing PKR, USD, GBP and Euro offerings. By end-June 2026, RDA accounts had reached 946,201 and cumulative inflows stood at US$ 13.37 billion, with outstanding investments including US$ 1.90 billion in Naya Pakistan Certificates and US$ 145 million in Roshan Equity Investments, while account balances stood at US$ 712 million.

4.3 Strengthening External Sector Resilience

Pakistan's external account strengthened further during FY26. Although the trade deficit widened on the back of stronger import demand, this was largely offset by a substantial increase in workers' remittances, keeping the current account deficit contained and helping SBP build foreign exchange reserves. SBP continued to deepen the formal remittance ecosystem, facilitate foreign investment and trade flows through exchange policy reforms as part of its role as to safeguard external buffers.

(i) 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. Owing to the concerted efforts of SBP, the Pakistan Remittance Initiative (PRI), and domestic financial institutions, home remittances rose by 8.6 percent to US$ 41.6 billion in FY26, from US$ 38.3 billion in FY25. Some of the key initiatives for enhancing inflow of remittances through formal channels are as under:

Pre-departure Briefing Program for Outgoing Emigrants
SBP and PRI, in collaboration with banks and the Bureau of Emigration & Overseas Employment (BEOE), continued this program, which conducts briefing sessions at nine Protectorate of Emigrants (PE) Offices throughout Pakistan, educating the departing overseas workers about secure formal remittance channels, risks associated with hundi/hawala, banks' products and services, and opening of bank accounts/wallets. Since inception, over 15,800 briefing sessions have been conducted, benefiting over 518,600 intending overseas workers; during FY26 alone, approximately 5,300 sessions briefed around 133,000 intending overseas workers.

Changes in Home Remittance Incentive Schemes
The government has implemented various home remittance incentive schemes to promote remittance inflows through formal channels. However, rising remittance volumes also resulted in a fiscal burden associated with these schemes, prompting a gradual phase-out of government-funded incentives initiated in FY25.

In line with this plan, marketing and exchange company incentive schemes were discontinued at the end of FY25, and exchange companies were allowed to take part in the TT Charges Incentive Scheme (TTCIS). The phasing-out plan subsequently culminated in the complete discontinuation of both TTCIS and the Sohni Dharti Remittance Program (SDRP) from the start of FY27.

To safeguard foreign exchange flows and preserve the "free-send model" for overseas Pakistanis, SBP collaborated with PFIs in transitioning to a sustainable, private sector-led mechanism, under which participating banks will bear the cost of incentives from their own resources, ensuring remittance services remain free of charge for remitters without imposing further fiscal burden on the national exchequer.

Pakistan Remittance Summit in London, United Kingdom
SBP, along with PRI and banks, organized 5th summit in December 2025, bringing together global financial institutions, remittance partners, regulators, and the Pakistani diaspora. Discussions focused on cross-border payment innovations (blockchain, stablecoins, CBDCs), RDA expansion, and diaspora engagement, while celebrating high-performing financial institutions through the PRI Awards.

Outreach Campaign in the United States of America
During the April 2026 IMF/World Bank Spring Meetings in Washington, D.C., SBP engaged global financial institutions, rating agencies and multilateral institutions on Pakistan's macroeconomic outlook. Alongside the meetings, SBP also organized a Remittances and RDA event at the Embassy of Pakistan in Washington, D.C. to engage the Pakistani diaspora and international stakeholders, showcasing recent enhancements to the RDA framework and initiatives undertaken for promoting remittance inflows and investment into Pakistan.

(ii) Exchange Policy Facilitation

Alongside remittance promotion, SBP continued to simplify and digitise foreign exchange regulations during FY26. These measures included easing compliance for exporters, investors and IT/freelance service providers, while strengthening oversight of exchange companies and trade-based flows, and supporting the broader external buffer-building effort over the year.

Facilitation for IT Companies and Freelancers
SBP introduced a facilitative framework to promote IT and freelance exports by simplifying export receipt processing. IT companies and freelancers are no longer required to submit Form 'R' for export proceeds, and greater flexibility has been provided in retaining and utilising export proceeds through Exporters' Special Foreign Currency Accounts (ESFCAs) for business, personal and digital payments without prior SBP approval.[17]

Digitalisation of Form 'R', 'IRV' and Form 'M'
SBP revised Forms – 'R', 'IRV' and 'M' to simplify and digitise foreign exchange inward and outward transaction reporting. SBP also advised ADs to digitise the collection and processing of information through the revised forms,[18] modernising foreign exchange reporting by aligning documentary requirements with electronic processing, improving data quality, and reducing operational complexities for ADs.

Facilitation of International Trade
To address exceptional market conditions and ensure uninterrupted supply of crude oil and petroleum products, SBP temporarily permitted the import of crude oil and petroleum products on a Cost, Insurance and Freight (CIF) basis,[19] providing operational flexibility to importers during market disruptions and supporting

[17] EPD Circular Letter No. 06 of 2026.
[18] EPD Circular Letter No. 07 of 2026.
[19] EPD Circular Letter No. 04 of 2026.

national energy security and supply chain resilience.

Distribution of Services by Intermediaries/Aggregators
SBP introduced a regulatory framework enabling Pakistani companies to act as intermediaries or aggregators between foreign service providers and local users. This is aimed at streamlining the collection of PKR payments and facilitating transparent, compliant cross-border remittances.[20] This will likely support expansion of the digital economy by enabling smoother access to global digital services and fostering fintech innovation.

Expansion of Non-Resident Value Accounts Framework
SBP expanded the eligibility criteria for Foreign Currency Value Accounts (FCVA), Non-Resident Rupee Value Accounts (NRVA), and their business counterparts (FCBVA/NRBVA) under the RDA framework. It now includes all natural and juridical non-resident persons under the Income Tax Ordinance,[21] aimed at bolstering foreign investment and remittance inflows into the country.

Revised Instructions for Remittance of Royalty, Franchise and Technical Service (RFT) Fees
SBP revised the framework governing the remittance of royalty, franchise and technical service fees for entities operating in agriculture, social, infrastructure and services sectors, including international food chains, aligning regulatory requirements with evolving market dynamics,[22] and further enhancing the ease of doing business.

Implementation of the Performance Evaluation System for Investment Abroad (PESIA)
SBP introduced PESIA, an online reporting mechanism enabling ADs to submit data relating to Equity Investment Abroad (EIA) transactions through SBP's Data Acquisition Portal (DAP).[23] By establishing a centralized repository of EIA data, PESIA enhances transparency, improves data quality and consistency, and supports more informed policymaking, regulatory oversight and decision-making.

Revision in Framework for Managing Risks of Trade-Based Money Laundering and Terrorist Financing (TBML&TF)
To further strengthen the effectiveness of the framework and align it with evolving business requirements and emerging risks, SBP revised the TBML&TF framework, incorporating enhanced risk-based measures, updated regulatory expectations and strengthened controls for identification, assessment, monitoring and mitigation of TBML/TF risks.[24]

Implementation of the Non-Resident Shareholding Registration System (NSRS)
In May 2026, SBP implemented the NSRS, a centralised digital reporting platform for foreign equity investments in Pakistan. It enables reporting and maintenance of records relating to registration of shares issued to non-residents as well as repatriation of dividends/disinvestment proceeds to them.[25]

Facilitation to Foreign Investors through Delegation of Functions to Authorized Dealers
To promote ease of doing business and facilitate foreign investors, SBP delegated certain foreign direct investment-related functions to ADs in May 2026. These included (a) registration of shares/units issued or transferred by local companies/funds to non-residents on a repatriable basis; (b) designation of ADs for remittance of dividend and disinvestment proceeds to non-resident shareholders/ unitholders; and (c) simplified documentary

[20] FE Circular No. 01 of 2026.
[21] EPD Circular Letter No. 08 of 2026.
[22] FE Circular No. 03 of 2026.
[23] EPD Circular Letter No. 02 of 2026.
[24] EPD Circular Letter No. 06 of 2026.
[25] FE Circular No. 03 of 2026.

requirements for registration of shares/units.[26] The revised framework enables eligible requests to be processed by designated ADs without prior approval of SBP, streamlining the regulatory process and facilitating timely repatriation of foreign investment.

4.4 Facilitating the Transition to Islamic Banking

SBP stepped up its efforts to support implementation of the Federal Shariat Court's judgment on Riba, in collaboration with the GoP and industry stakeholders. Alongside this system-wide transformation agenda, financial institutions including banks, microfinance banks, development finance institutions and digital banks alike, showed growing interest in commencing or expanding Islamic banking operations. This was driven by growing demand for Shariah-compliant financial products and services and reflecting the industry's response to evolving customer needs and market preferences. The key measures during FY26 are discussed below.

Commencement of Islamic Banking Operations

During FY26, SBP granted approval to five institutions – Raqami Islamic Digital Bank Limited, Mashreq Bank Pakistan Limited, Pak Oman Investment Company Limited, Mobilink Microfinance Bank Limited, and LOLC Microfinance Bank Limited – to commence Shariah-compliant business and operations. Further, In-principle approvals were accorded to seven institutions: Samba Bank Limited, HBL Microfinance Bank Limited, ASA Microfinance Bank (Pakistan) Limited, Sindh Microfinance Bank Limited, Pak Libya Holding Company Limited, Easypaisa Digital Bank Limited, and Abhi Microfinance Bank Limited. SBP remained actively engaged with these institutions, providing regulatory guidance and facilitation to support the timely commencement of their Islamic business operations. This represented the highest number of In-principle approvals and commencements of operations recorded by financial institutions in a single financial year.

Instructions on Islamic Banking Windows (IBWs) Operations

SBP revised the regulatory instructions governing IBWs, with the aim of expanding the outreach of Islamic banking by enabling banks to establish and operate IBWs more efficiently, while supporting a smoother transition and ensuring uninterrupted availability of Shariah-compliant banking services. Key revisions included:

- allowing banks to establish IBWs without prior SBP approval, on an interim basis, within conventional branches already approved for conversion;
- permitting these interim IBWs to offer the full range of Shariah-compliant products during the conversion period;
- rationalising signage requirements by relaxing prescribed space allocation for IBW signboards at conventional branches; and
- encouraging greater use of technology to ensure effective segregation of conventional and Islamic funds.

The scope of the instructions was also extended to microfinance banks, enabling them to establish and operate IBWs in response to growing demand for Islamic microfinance services.

Streamlining the Conversion of Conventional Branches into Islamic Banking Branches

As part of its ongoing efforts to support the expansion of Islamic banking, SBP revised the existing branch conversion instructions to facilitate a smoother and more efficient conversion of conventional branches into Islamic branches. The minimum notice period for informing the public and account holders of a proposed branch conversion was reduced from three and a half months to two months, while the interval between the two public notices required for conversion of current accounts on a deemed acceptance basis was shortened from 30

[26] FE Circular Letter No. 02 of 2026.

days to 15 days. These changes are expected to accelerate the conversion process while maintaining appropriate customer awareness and facilitating the timely expansion of Islamic banking services.

Placement of Funds of Islamic Banking Institutions (IBIs) with Conventional Parent or Head Office based on the Contract of Loan (Qard) or Any Other Form of Subsidised Financing

SBP issued regulatory instructions restricting the placement of funds by IBIs with their conventional parent or head office under Qard or any other form of subsidised financing. The measure is aimed at maintaining clear segregation between Islamic and conventional funds and preventing arrangements that may result in undue benefit to either party. The instructions, however, do not apply to placements made with the head office for meeting applicable regulatory requirements.

Update on Implementation of the Federal Shariat Court's Judgment on Riba

SBP, in collaboration with the government and other stakeholders, is taking several measures to support implementation of the Federal Shariat Court's judgment on Riba. In this regard, SBP established a high-level Committee for Transformation of Conventional Banking into Islamic Banking, comprising SBP senior executives and presidents/CEOs of selected commercial banks, which oversees 7 working groups and 36 workstreams. These working groups and workstreams are actively working to provide policy and operational recommendations across diverse areas, including legal and regulatory reforms, awareness creation and capacity building, review of conversion plans, adoption of international standards, liquidity management for the Islamic banking industry, and the IT ecosystem to support conversion to Islamic banking.

As part of these efforts, SBP has completed a comprehensive review of the legal and regulatory framework to assess its alignment with Shariah principles. In this regard, SBP adopted various international standards, launched a nationwide awareness campaign, and rolled out a capacity-building strategy comprising 16 actionable initiatives for different stakeholders. In parallel, SBP and the MoF are developing an Asset Register of government-owned entities, expected to facilitate faster and simpler Sukuk issuances. These institutional efforts are being carried out within the broader roadmap set out in the government's Post-2027 Financial System Strategy, discussed in **Box 4.1**.

Operationalization of Hybrid Sukuk Issuance for Liquidity Management of Islamic Banks

Addressing the most critical challenge in the transformation process, SBP, the government, the Joint Financial Advisors (JFAs) of the Ministry of Finance, and Standard Chartered Bank jointly worked on the development and operationalisation of a Hybrid Sukuk structure (Ijarah cum Murabaha) for tenors of one year and above, thereby reducing the need to rely wholly on Ijarah assets. Following approval of the structure by SBP's Shariah Advisory Committee (SAC), the first live transaction under this structure was executed in April 2026 through the Pakistan Stock Exchange (PSX).

Recognising the need for a Shariah-compliant alternative to conventional T-bills, SBP, in collaboration with the MoF and JFAs, also steered the development of a short-term Hybrid Sukuk structure, with special arrangements for redemption, for tenors of less than one year. It provides a Shariah-compliant alternative to conventional T-bills, supports banks in their liquidity management requirements, and contributes to the development of an Islamic money market yield curve. These milestones collectively contributed to the issuance of more than Rs 2 trillion in Hybrid Sukuk since April 2026

Awareness and Capacity Building Initiatives

SBP has consistently undertaken a wide range of awareness-raising and capacity-building initiatives to promote the Islamic finance industry over the years. These efforts have not

only enhanced the perception and understanding of Islamic finance among the public but have also contributed to a continuous supply of qualified professionals, ensuring fulfilment of both supply- and demand-side requirements.

To further streamline these efforts, a dedicated nationwide Awareness Creation Campaign and Capacity Building Strategy have been launched. The campaign spans multiple activities, including awareness sessions for businesses, government officials, students, the public, the legal fraternity and media personnel. These sessions leverage multiple communication channels and reaching a diverse target audience through the collective efforts of various stakeholders, including the platform of the Islamic Banking Industry of Pakistan (IBIOP). The aim is to effectively increase awareness of Islamic banking and finance among the masses.

Similarly, the Capacity Building Strategy comprises multiple actionable items catering to the needs of different stakeholders, including the banking industry, academia, government officials, Shariah scholars, emerging professionals, company directors and other stakeholders/institutions. The strategy also emphasizes strategic collaboration between the banking and finance industry and academia, through handholding in research and development initiatives for the industry. In addition to the activities conducted by banks and under the IBIOP platform, SBP, in collaboration with SBP-BSC and NIBAF Pakistan, organized more than 100 awareness and capacity-building sessions during FY26.

4.5 Improving Debt and Monetary Management Practices

SBP, in its role as the custodian of government debt and supervisor of domestic financial markets, undertook several measures during FY26 to broaden investor participation in government securities, enhance liquidity management for banks, and improve transparency in foreign exchange operations. These include:

Launch of InvestPak

To promote financial inclusion and broaden retail participation in government securities, SBP launched InvestPak in November 2025 – a digital platform enabling individuals and corporate customers across Pakistan to invest in government securities via a web portal (investpak.sbp.org.pk) and Android/iOS mobile applications. Open to all bank account holders regardless of their bank, including microfinance bank customers, InvestPak removes the need for branch visits and allows investors to access conventional instruments such as Market Treasury Bills (MTBs) and Pakistan Investment Bonds (PIBs – fixed and floating rate), as well as the Shariah-compliant GoP Ijarah Sukuk (GIS).

Through the platform, customers can submit competitive and non-competitive bids in government securities auctions, request quotes from banks for secondary-market transactions, and lodge complaints through the portal or a dedicated call centre, with transactions automatically reflected in the investor's portfolio. The portal became immediately available to customers,[27] and SBP launched a nationwide marketing and investor-awareness campaign in July 2026 to further promote its adoption.[28]

Inclusion of Non-Bank Investors in GoP Sukuk Auctions

SBP revised the mechanism for outright purchase of GoP Sukuk on a deferred payment (Bai-Muajjal) and their subsequent sale on a ready payment basis through uniform-price competitive bidding auctions, to allow non-bank investors, including corporates, funds and individuals, to participate through Islamic Banking Institutions (IBIs) or Islamic Banking

[27] DMMD Circular No. 08 of 2025.
[28] SBP Press Release PR-06-Jul-2026.

Branches (IBBs).[29] Such investors may submit pass-through or non-competitive bids, with IBIs/IBBs responsible for submitting the required documentation on their behalf; non-competitive bids receive the Sukuk at the uniform price determined through the competitive auction, with one bid permitted per tenor. The measure broadens the investor base and provides non-bank investors with greater, more structured access to Shariah-compliant government securities.

Reduction in Cash Reserve Requirement (CRR)

SBP revised the Cash Reserve Requirement applicable to all banks, including Islamic banks and Islamic banking branches, reducing the average CRR from 6 percent to 5 percent (with the daily minimum lowered from 4 percent to 3 percent) of total demand liabilities and time deposits with a tenor of less than one year, effective January 30, 2026.[30] The reduction is calibrated to provide banks with greater flexibility in liquidity management and to enhance their capacity to extend credit to the private sector, supporting credit expansion and economic activity.

Migration of Mark-to-Market Revaluation Rates (M2MR) to a Consolidated RIC-Based Page on LSEG Workspace

To improve data transparency and dissemination, SBP migrated publication of Mark-to-Market Revaluation Rates (M2MR) from three static, segregated pages to a single new Refinitiv Identification Code (RIC)-based page (PKRFX=SBPK) on LSEG Workspace. Unlike the previous static pages, the new page preserves historical data for each data point, which can be exported to Excel for analytical purposes, and consolidates all M2M rates on a single page for easier access and visibility.

Box 4.1: Ensuring a Smooth Transition to a Riba-free Financial System through the Government's Post-2027 Strategy

The Ministry of Finance issued a Strategy Paper on the Post-2027 Financial System in Pakistan in June 2026,[31] formulated in light of the Federal Shariat Court's judgment of April 28, 2022, which held that Riba is prohibited in all its forms and mandated its elimination from Pakistan by December 31, 2027, and the 26th Constitutional Amendment of October 2024, which similarly envisioned the complete elimination of Riba before January 1, 2028. Recognising that clarity on the financial sector's post-2027 direction is vital for building trust in institutions and policies, the strategy sets out the envisioned post-2027 landscape, the key actions and milestones required for a smooth transition, and the roles and responsibilities of different stakeholders (**Table 4.1.1**).

The strategy envisages that the transition to a Riba-free financial system will be gradual, smooth, and without major disruption, ensuring financial system stability and conformity with international prudential and supervisory standards. Majority of the domestically owned financial institutions are expected to pursue transformation in line with the prevailing legal, regulatory and business environment and the availability of Shariah-compliant liquidity management systems, while most foreign-owned banks and financial institutions may opt to offer both Islamic and conventional products. All existing commitments and obligations towards domestic and international counterparties will continue to be honoured as per contractual terms, with conventional financing replaced by Shariah-compliant financing on respective maturities.

Way Forward: Coordinated Implementation towards a Riba-free Financial System

The government, SBP, SECP and other relevant stakeholders will work in close coordination to implement the action areas envisaged in the strategy. Post-2027, federal and provincial governments are expected to explore all options to ensure that fresh financing from domestic and international sources is conducted through Shariah-compliant modes and instruments, with all related arrangements completed and notified by December 2027. Conventional debt outstanding as of December 31, 2027, will be converted into Shariah-compliant financing on respective maturities,

[29] DMMD Circular Letter No. 08 of 2026.
[30] DMMD Circular No. 01 of 2026.
[31] Source: Ministry of Finance, Strategy Paper, Post-2027 Financial System in Pakistan.

Key Actions and Milestones to be Achieved for Smooth Transition to a Riba-free Financial System **Table 4.1.1**

Legislative Amendments	Review of legal framework to identify statutory provisions that may require amendment to facilitate the transition towards a Shariah-compliant financial system while avoiding legal & fiscal complications and preserving stability in existing arrangements.
Shariah compliant Infrastructure for Public Finance	Development of Sukuk structures of varied tenors and types and establishment of Assets Registry Company (ARC) for regular sovereign Sukuk issuance.
Arrangements for raising Shariah compliant FC Financing	Government and private sector will strive to expand arrangements with multilateral & bilateral partners, international commercial banks & global capital market platforms for raising Shariah compliant financing.
Regulatory and Supervisory Framework	Continued efforts by SBP and SECP to ensure financial system stability, conformity with Shariah principles while remaining fully aligned with international standards and global best practices.
Strengthening Shariah Compliant Financial Safety Nets	Shariah complaint Lender of Last Resort facility and deposit protection already in place; resolution and recovery framework in conformity with Shariah principles to be updated.
Shariah Compliant Monetary Policy Framework	SBP to formulate and implement monetary policy on Shariah principles to achieve its price stability mandate. As per initial assessment, the framework is largely Shariah compliant.
Treatment of Retained Earnings	Treatment of retained earnings has been highlighted by the industry as a key challenge for conventional banks interested in transformation. Shariah-compliant options are being explored to keep retained earnings of transforming institutions on their balance sheet post transformation.
IT Systems Assessment and Upgradation	A set of baseline specifications of the required IT ecosystem has been prepared. Banks report no major obstacles in IT switchover as most are already using the systems in Islamic windows.
Awareness Creation and Capacity Building	Adoption of dual-track approach to strengthen awareness & building institutional capacity in Islamic banking targeting diverse stakeholders, including banks, academia, Shariah scholars, government officials, businesses, legal professionals, media personnel, and the general public etc.

Source: GoP Post 2027 Financial System Strategy

and a centralized Assets Registry Company (ARC) will be established to maintain records of non-current assets of Federal Government and unlisted federal government-owned entities, creating a pool of assets to support Sukuk issuance.

List of Abbreviations

A

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
ABL	Allied Bank Limited
ACFID	Agriculture Credit & Financial Inclusion Department
ADB	Asian Development Bank
ADCs	Alternate Delivery Channels
ADR	Advances-to-Deposits Ratio
ADs	Authorized Dealers
AEs	Advanced Economies
AFI	Alliance for Financial Inclusion
AFIC	Agriculture Finance Innovation Challenge
AMCs	Asset Management Companies
AML	Anti-Money Laundering
APCMA	All Pakistan Cement Manufacturers Association
ARC	Assets Registry Company
ATM	Automated Teller Machine
AUM	Assets Under Management

B

BB	Branchless Banking
BC&FRF	Business Conduct and Fair Treatment of Consumers Regulatory Framework
BEOE	Bureau of Emigration & Overseas Employment
BISP	Benazir Income Support Program
BoE	Banking on Equality
BOP	Balance of Payments
BPRD	Banking Policy & Regulations Department
bps	Basis Points

C

CAB	Current Account Balance
CAR	Capital Adequacy Ratio
CBDC	Central Bank Digital Currency
CCOF	Consolidated Customer Onboarding Framework
CDC	Central Depository Company
CDMs	Cash Deposit Machines
CDNS	Central Directorate of National Savings
CEO	Chief Executive Officer

CFT	Combating the Financing of Terrorism
CiC	Currency in Circulation
CIF	Cost, Insurance and Freight
CLF	Contingent Liquidity Facility
CLIS+	Crop Loan Insurance Scheme Plus
CPF	Countering Proliferation Financing
CPI	Consumer Price Index
CRMD	Cyber Risk Management Department
CRR	Cash Reserve Requirement
CY	Calendar Year

D

DAP	Data Acquisition Portal
DAP	Diammonium Phosphate
DFIs	Development Finance Institutions
DMMD	Domestic Markets & Monetary Management Department
DPC	Deposit Protection Corporation
DSCF	Digital Supply Chain Financing
D-SIBs	Domestic Systemically Important Banks

E

EBRF	Evidence Based Revenue Forecasting
ECs	Exchange Companies
E-EFS	EXIM Administered Export Finance Scheme
EFF	Extended Fund Facility
EFS	Export Finance Scheme
EIA	Equity Investment Abroad
E-LTFF	EXIM-administered Long Term Financing Facility
EMDEs	Emerging Markets and Developing Economies
EMIs	Electronic Money Institutions
EPD	Exchange Policy Department
EPU	Economic Policy Uncertainty
EQ	Equity
ER	Exchange Rate
ESFCAs	Exporters' Special Foreign Currency Accounts
EWMA	Exponentially Weighted Moving Average
EWRF	Electronic Warehouse Receipt Financing
EXIM Bank	Export-Import Bank

F

FAS	Foreign Agricultural Service
FBR	Federal Board of Revenue
FC	Foreign Currency
FCA	Fuel Cost Adjustment
FCBVA	Foreign Currency Business Value Account
FCVA	Foreign Currency Value Accounts
FDR	Financing-to-Deposits Ratio
FE	Foreign Exchange
FED	Federal Excise Duty
FEEL	Foreign Exchange Exposure Limit
FIRD	Financial Institutions Resolution Department
FIs	Financial Institutions
FLIP	Financial Literacy Integration Project
FMI	Financial Market Infrastructure
FSD	Financial Stability Department
FTC	Fair Treatment of Consumers
FVOCI	Fair Value Through Other Comprehensive Income
FVTPL	Fair Value Through Profit or Loss
FX	Foreign Exchange
FY	Fiscal Year

G

G2P	Government-to-Person
GAIN	Global Agricultural Information Network
GBP	Great British Pound
GDP	Gross Domestic Product
GIS	GoP Ijarah Sukuk
GoP	Government of Pakistan
GPC	Green Property Certificate
GPR	Geopolitical Risk
GPRA	Geopolitical Acts
GPRT	Geopolitical Threats
GST	General Sales Tax
GVA	Gross Value Addition

H

H1	First Half of the Fiscal Year
H2	Second Half of the Fiscal Year

HBL	Habib Bank Limited
HFIs	High-Frequency Indicators
HSD	High-Speed Diesel

I

IAFSF	Improving Access to Financial Services Fund
IAL	Innovative Agriculture Liquidity
IAs	Investment Advisors
IBBs	Islamic Banking Branches
IBIOP	Islamic Banking Industry of Pakistan
IBIs	Islamic Banking Institutions
IBWs	Islamic Banking Windows
ICT	Information and Communication Technology
IERS	Islamic Export Refinance Scheme
IFCs	Investment Finance Companies
IFRS	International Financial Reporting Standards
IFSB	Islamic Financial Services Board
IH&SMEFD	Infrastructure, Housing and SME Finance Department
ILTFF	Islamic Long-Term Financing Facility
IMF	International Monetary Fund
IR	Interest Rates
IRV	Inward Remittance Voucher
IT	Information Technology

J

JFAs	Joint Financial Advisors

K

KIBOR	Karachi Interbank Offered Rate

L

LAMP	Land Access Management Platform
LCR	Liquidity Coverage Ratio
LISB	Livestock Insurance Scheme for Borrowers
LMA	Limited Mandate Account
LNG	Liquefied Natural Gas
LR	Leverage Ratio
LSEG	London Stock Exchange Group
LSM	Large-Scale Manufacturing
LTFF	Long-Term Financing Facility

M

M2	Broad Money
M2M	Mark-to-Market
M2MR	Mark-to-Market Revaluation Rates
ME	Middle East
MFBs	Microfinance Banks
MoCC&EC	Ministry of Climate Change & Environmental Coordination
MoF	Ministry of Finance
MPC	Monetary Policy Committee
MSMEs	Micro, Small and Medium Enterprises
MTBs	Market Treasury Bills
MUFAP	Mutual Funds Association Of Pakistan
MW	Megawatt

N

NADRA	National Database and Registration Authority
NASS	National Agricultural Statistics Service
NBFIs	Non-Banking Financial Institutions
NBMFCs	Non-Bank Microfinance Companies
NBP	National Bank of Pakistan
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 Centre
NFER	National Financial Education Roadmap
NFIS	National Financial Inclusion Strategy
NFNE	Non-Food Non-Energy
NIBAF	National Institute of Banking and Finance
NICOP	National Identity Card for Overseas Pakistanis
NIFT	National Institutional Facilitation Technologies (Pvt.) Limited
NIM	Net Interest Margin
NOC	No Objection Certificate
NPLR	NPLs to Loans Ratio
NPLs	Non-Performing Loans
NRBVA	Non-Resident Rupee Business Value Account
NRPs	Non-Resident Pakistanis
NRVA	Non-Resident Rupee Value Accounts

NSER	National Socio-Economic Registry
NSFR	Net Stable Funding Ratio
NSRS	Non-Resident Shareholding Registration System

O

OCAC	Oil Companies Advisory Council
OMO	Open Market Operations
OTC	Over the Counter

P

P2M	Person-to-Merchant
P2P	Person-to-Person
PAMA	Pakistan Automotive Manufacturers Association
PAVE	Pakistan Accelerated Vehicle Electrification
PBA	Pakistan Banks Association
PBS	Pakistan Bureau of Statistics
PCCC	Pakistan Central Cotton Committee
PDL	Petroleum Development Levy
PE	Private Equity
PE	Protectorate of Emigrants
PESIA	Performance Evaluation System for Investment Abroad
P-FII	Pakistan Financial Inclusion Index
PFIs	Participating Financial Institutions
PGT	Pakistan Green Taxonomy
PIBs	Pakistan Investment Bonds
PKR	Pakistani Rupee
PM	Prime Minister
PMRRP	Prime Minister's Ramzan Relief Package
PMYB&ALS	Prime Minister's Youth Business and Agriculture Loan Scheme
POC	Pakistan Origin Card
POL	Petroleum, Oil and Lubricants
PPCB	Punjab Provincial Co-operative Bank Limited
PR	Press Release
PRI	Pakistan Remittance Initiative
PRISM	Pakistan Real-Time Interbank Settlement Mechanism
PRISM+	Pakistan Real-Time Interbank Settlement Mechanism Plus
PRs	Prudential Regulations
PSC	Private Sector Credit
PSEs	Public Sector Enterprises
PSOs	Payment System Operators

PSP&OD	Payment Systems Policy & Oversight Department
PSPs	Payment System Providers
PSX	Pakistan Stock Exchange
PTA	Pakistan Telecommunication Authority
PVARA	Pakistan Virtual Assets Regulatory Authority

Q

Q1	First Quarter of the Fiscal Year
Q2	Second Quarter of the Fiscal Year
Q3	Third Quarter of the Fiscal Year
Q4	Fourth Quarter of the Fiscal Year

R

RAM	Resilient and Accessible Microfinance
RDA	Roshan Digital Account
REITs	Real Estate Investment Trusts
RFEC	Regulatory Framework for Exchange Companies
RFT	Royalty, Franchise and Technical Service
rhs	Right-hand Side
RIC	Refinitiv Identification Code
RLNG	Regasified Liquefied Natural Gas
RMC / RMCs	Real Estate Investment Trust Management Company / Companies
ROA	Return on Assets
ROE	Return on Equity
RPP	Raast Payments Pakistan (Private) Limited
Rs	Rupees
RSF	Resilience and Sustainability Facility
RTGS	Real-Time Gross Settlement
RWA	Risk-Weighted Assets

S

SAC	Shariah Advisory Committee
SBP	State Bank of Pakistan
SBP-BSC	SBP-Banking Services Corporation
SDRP	Sohni Dharti Remittance Program
SECP	Securities and Exchange Commission of Pakistan
SH&SFD	SME, Housing and Sustainable Finance Department
SMEs	Small and Medium Enterprises
SMEDA	Small and Medium Enterprises Development Authority
S&P	Standard & Poor's

SPWs	Social Protection Wallets
SUPARCO	Space and Upper Atmosphere Research Commission

T

T-bills	Treasury Bills
TBML&TF / TBML/TF	Trade-Based Money Laundering and Terrorist Financing
TFCs	Term Finance Certificates
TT	Telegraphic Transfer
TTCIS	Telegraphic Transfer Charges Incentive Scheme
TV	Television

U

UAE	United Arab Emirates
UBL	United Bank Limited
UK	United Kingdom
US	United States
US$ / USD	US Dollar
USDA	United States Department of Agriculture
USSR	Union of Soviet Socialist Republics
US$/bbl	US Dollars per Barrel

V

VASPs	Virtual Asset Service Providers
VC	Venture Capital

W

WAONR	Weighted Average Overnight Repo Rate
WB	World Bank
WE-Finance Code	Women Entrepreneurs Finance Code
WHT	Withholding Tax
WIFSDP	Women Inclusive Finance Sector Development Program
WIFSF	Women Inclusive Finance Support Fund
WUI	World Uncertainty Index

Y

YoY	Year-on-Year