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Banking sector performed steadily and maintained adequate buffers during H1CY25, says SBP's Mid-Year Performance Review of the Banking Sector

The State Bank of Pakistan (SBP) has issued today the Mid-Year Performance Review (The Review) of the Banking Sector for 2025. The Review covers the performance and soundness of banking sector for the period from January to June 2025 (H1CY25). It also briefly discusses the performance of financial markets as well as the results of the Systemic Risk Survey (SRS), which represents the views of independent experts about key current and potential future risks to financial stability.

The Review highlights that banks managed to grow their asset base by 11.0 percent in H1CY25. Investments in government securities primarily supported the asset growth, reflecting government's needs from the banking sector. Advances observed contraction across both public and private sectors. Nonetheless, fixed investment advances to SMEs continued to grow. On funding side, deposits grew at an impressive pace of 17.7 percent, leading to a decline in banks' reliance on borrowings.

The Review notes that the credit risk of banking sector remained contained. Non-performing loans of the sector declined during the period under review, however, due to contraction in advances, the gross NPLs to loans ratio marginally deteriorated to 7.4 percent in June 2025. Nonetheless, as the banks hold higher stock of provisions for loan losses, the net NPLs to net Loans ratio clocked at negative 0.5 percent, reflecting muted risks on net basis. The earnings of the sector remained steady — backed by rising volumes of earning assets. Accordingly, the Return on Asset (ROA) and Return on Equity (ROE) remained steady at 1.3 percent (1.3 percent in December-2024) and 21.3 percent (21.5 percent in December-2024), respectively. The solvency position of the banking sector also remained strong as the Capital Adequacy Ratio (CAR) improved to 21.4 percent (20.6 percent in December-2024) and was well above the minimum regulatory requirement. The latest stress test results reveal that CAR of the banking sector is expected to remain comfortably above the minimum regulatory requirement of 11.5 percent under both baseline as well as hypothetically severe stressed macro-financial scenarios over the two-year forecast horizon. Results also indicate strong resilience of banks to withstand hypothetical shocks to credit and market risk factors.

The Review shows that financial markets exhibited a relatively higher volatility in H1CY25 as compared to H2CY24, mainly stemming from equity market owing to short-lived impact of trade tariffs uncertainty and geopolitical tensions. The independent respondents in the latest wave of the Systemic Risk Survey highlight geopolitical risk as the topmost risk, however they expressed confidence in the stability of the financial system and the ability of the regulator to manage any unforeseen shocks.

The Review of the Banking Sector is available at:
https://www.sbp.org.pk/publications/HPR/H1CY25.pdf

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