



External Communications Department

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Financial system's performance and resilience remained steady, says the SBP Financial Stability Review 2025

State Bank of Pakistan (SBP) has issued its annual flagship publication Financial Stability Review (FSR) for CY25. The FSR presents the performance and risk assessment of various segments of the financial sector including banks, microfinance banks (MFBs), development finance institutions (DFIs), non-bank financial institutions (NBFIs), insurance, financial markets and financial market infrastructures (FMIs). It also assesses the non-financial corporate sector, a major user of bank credit.

The Review highlights that the financial sector grew by 15.1 percent and maintained operational and financial resilience during CY25. Encouragingly, the financial depth, as measured by assets-to-GDP ratio, increased to 67.1 percent while risks to financial stability subsided during the year under review. The domestic macroeconomic conditions further improved during CY25. Amid well-calibrated policy measures, inflation eased and fell within SBP's target range and economic activity continued to gain momentum. SBP's FX reserves witnessed noticeable improvement mainly due to contained current account deficit and SBP's strategic purchases in the interbank market. In this background, reviews under Extended Fund Facility (EFF) along with arrangements under Resilience and Sustainability Facility (RSF) were successfully completed.

The financial market constituents, viz., the money, forex and equity segments functioned smoothly without any major disruption. The average volatility in domestic markets, nonetheless, witnessed an uptick—mainly driven by the equity market which posted substantial gains despite trade-tariff uncertainties and a few events of geopolitical tensions. Particularly, forex market sentiments remained calm. The banking sector continued to exhibit steady performance and resilience during CY25. Banks' balance sheet expanded by 17.8 percent—driven by investments in government securities. Advances showed a YoY decline as of December 2025, mainly reflecting higher base effect of last year's ADR-linked tax policy; however, adjusting for this base effect, the advances registered a decent growth in line with the improvements in macro-financial conditions. With a healthy revival in deposits' mobilization, banks' reliance on borrowings subsided. Asset quality indicators improved, as non-performing loans (NPLs) to gross loans ratio declined to 6.1 percent in December 2025 from 6.3 percent last year. On a net basis, however, the credit risk remained low as the provisioning coverage of NPLs further improved to 107.7 percent and a large part of the credit portfolio comprised rated borrowers with steady credit profile and established background.

On profitability front, the after-tax earnings posted growth; nonetheless, volume-driven earnings led to moderation in profitability indicators. The solvency position of the sector remained strong as capital adequacy ratio improved to 20.8 percent by end December 2025 and remained well above the minimum international and local regulatory benchmarks. Within the banking sector, Islamic banking institutions witnessed highest ever expansion in branch network and continued their growth momentum. Along with muted credit risk and steady earnings, capital buffers of the Islamic banks remained strong as well. Microfinance banks (MFBs) on aggregate basis, though remained under stress, however, the sector recorded significant reduction in losses during CY25 as the recapitalization and restructuring efforts started to mature.

The Review notes that non-bank financial sector presented a mixed performance. The asset base of DFIs contracted while NBFIs grew at a decent pace. The insurance sector maintained a strong performance during the year.



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The debt servicing capacity of the non-financial corporate sector improved owing to declining finance cost, driven by easing of monetary policy stance, although the sector experienced revenue pressures and moderation in earning indicators. Moreover, the credit worthiness and repayment capacity of the large borrowers of the banking sector also remained sound during CY25.

The Review highlights a steady performance and operational resilience of Financial Market Infrastructures (FMIs) during CY25. The digital transactions continued to drive the volume of financial transactions. To further strengthen the FMIs, a number of policy initiatives were undertaken, including the launch of PRISM+, rolling out QR code-based payments through RAAST, and successful transition to T+1 settlement mechanism by NCCPL.

Going forward, the uncertainty around the Middle East conflict may pose challenges to financial stability prospects. However, the strong financial cushions, prudent and time-tested supervisory and crisis management frameworks together provide comfort to the banking sector's stability. The results of latest stress tests strengthen this view, indicating that the banking sector in general and large systemically important banks in particular exhibit resilience to withstand even severe shocks over the projected horizon of three years. SBP—anticipating emerging challenges and risks—will continue its efforts in coordination with stakeholders to achieve its statutory mandates of ensuring price and financial stability to meaningfully contribute to promotion of sustainable economic growth.

The Financial Stability Review 2025 can be accessed at: <https://www.sbp.org.pk/FSR/2025/index.htm>
