Pakistan’s Islamic finance enters a new phase

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As growth reaches critical mass, regional connectivity and Islamic liquidity are reshaping what comes next for financial institutions.

This article is built on Standard Chartered’s latest Islamic Banking for FIs report, The Islamic Finance Connector Era and insights shared by Azhar Aslam, Head of Islamic Banking, Standard Chartered Pakistan, during a recent discussion on the future of Islamic finance in Pakistan.

Twenty years ago, one question consistently surfaced whenever large corporates considered Islamic finance in Pakistan: could it support financing at scale?

Today, that question has largely disappeared. Islamic banking now accounts for approximately 28.5 per cent of Pakistan’s banking deposits and 24 per cent of banking assets, following particularly strong growth over the past 18 months. More than 20 banks now offer Islamic finance, and increasingly sophisticated financing structures are supporting larger corporate transactions. As the market has expanded, the conversation has evolved from whether Islamic finance can participate in the financial system to how it can shape it.

Pakistan’s evolution is taking place against the backdrop of a rapidly-expanding global Islamic finance industry. Standard Chartered estimates global Islamic finance assets will grow from USD 5.5 trillion in 2024 to USD 7.5 trillion by 2028, reflecting growing demand for Shariah-compliant financing, investment and liquidity solutions across multiple markets. Pakistan’s experience therefore forms part of a much broader transformation taking place across the Islamic finance ecosystem.

That shift extends beyond Pakistan. In The Islamic Finance Connector Era, we argue that the next phase of Islamic finance will be shaped by three structural forces: regional connectivity, Islamic liquidity and digitalisation. While these themes will not emerge uniformly across every market, Pakistan provides an early illustration of how the first two, regional connectivity and Islamic liquidity, begin to reinforce one another once an Islamic finance market reaches critical mass.

Our earlier article, ‘Opportunities in Pakistan’s Islamic finance growth‘, explored the structural drivers behind the market’s expansion. The next question for financial institutions is different: what changes once growth is no longer the defining story?

The answer is that competitive advantage begins to shift – from building market share to building connectivity.

When markets mature, scale stops being the differentiator

The first phase of Pakistan’s Islamic finance journey was defined by participation. Institutions expanded product offerings, customer adoption accelerated and market confidence steadily increased.

The next phase looks different. Reflecting on the industry’s evolution, in a recent panel discussion, Azhar Aslam – who is Head of Islamic Banking, Standard Chartered Pakistan – observed that two decades ago, many large corporates questioned whether Islamic banking possessed sufficient scale to support complex financing requirements. Today, those conversations have largely given way to discussions about supporting larger funding programmes, increasingly sophisticated financing structures and international business activity.

That progression is reflected in transactions such as the Shariah-compliant financing arranged for Engro Fertilizers, one of the largest fertilizer companies in Pakistan, alongside International Finance Corporation. The transaction itself is significant, but the broader implication is more important: Islamic finance is increasingly being considered as a platform for complex wholesale banking rather than a specialist alternative.

For financial institutions, this represents a fundamental shift in priorities.

Once markets reach critical mass, growth alone is no longer the primary differentiator. Institutions increasingly compete on their ability to deploy liquidity, deepen capital markets, support cross-border client activity and provide integrated solutions across the banking value chain.

Those are the capabilities that define the next stage of market development.

Regional connectivity becomes a strategic capability

As markets mature, client activity rarely remains confined within national borders.

During the discussion, Aslam highlighted the growing number of Pakistani businesses establishing operations in markets such as the UAE, with interest in Saudi Arabia still in early stages and, over time, interest expected to grow in other regional markets. As those businesses expand, expectations of their banking partners also evolve. Clients increasingly require integrated financing, treasury, trade finance, foreign exchange and transaction banking capabilities that support business across multiple jurisdictions.

This reflects a broader shift taking place across Islamic finance. Regional connectivity is no longer simply about facilitating cross-border transactions. It is increasingly about connecting financial ecosystems: linking clients with capital, institutions with expertise and domestic markets with international infrastructure.

Malaysia offers an instructive example. Throughout the discussion, it was referenced not simply as a larger Islamic finance market, but as one that has systematically invested in the institutional foundations that allow Islamic finance to operate at scale. Liquidity management tools, regulatory development, specialist talent and governance frameworks have enabled Islamic finance to become embedded within Malaysia’s broader financial system rather than operating alongside it.

Pakistan is increasingly drawing on those experiences. One example is the introduction of Bursa Malaysia’s commodity platform to support Pakistan’s evolving hybrid sukuk market. Developed through collaboration between the State Bank of Pakistan, the Ministry of Finance, Joint Financial Advisors and Standard Chartered, the initiative illustrates how markets increasingly deepen by connecting with international expertise and market infrastructure rather than developing independently.

For financial institutions, that distinction matters. Competitive advantage increasingly comes not from operating in multiple markets, but from connecting those markets in ways that create new opportunities for clients.

Growing Islamic liquidity creates new strategic opportunities

The second structural shift is equally significant. As Islamic banking expands, generating Shariah-compliant liquidity becomes less of a challenge than deploying it effectively.

Pakistan's evolving sukuk market demonstrates why. During the discussion, Aslam described the introduction of hybrid sukuk structures as an important milestone in broadening government funding options beyond traditional fully asset-backed issuance. The first shorter-tenor sukuk auction is another proof point: by giving banks access to shorter-tenor government paper for the first time in Pakistan, it could help them deploy Islamic liquidity more efficiently. More broadly, these developments begin to address one of the structural questions facing any growing Islamic finance market: how expanding pools of Islamic liquidity can be mobilised more efficiently across the wider economy.

That opportunity extends well beyond sovereign funding. During the discussion infrastructure, housing, energy and SME financing were all identified as sectors where deeper Islamic capital markets could play a larger role as the market matures. Deeper sukuk markets not only broaden financing options but also expand the range of instruments available to governments, financial institutions and investors, strengthening balance sheet flexibility while supporting long-term economic development.

Viewed individually, these developments represent product innovation. Viewed collectively, they signal something more fundamental.

Growing Islamic liquidity increases the value of markets that possess the institutional depth to deploy it efficiently. The strategic question therefore shifts from how quickly liquidity can be accumulated to how effectively it can be mobilised across clients, sectors and markets.

For financial institutions, this expands both the opportunity set and the operating model.

Institutional capability becomes competitive infrastructure

Neither regional connectivity nor Islamic liquidity develops in isolation. Throughout the discussion, one message remained remarkably consistent: sustainable growth depends on institutions developing together.

Regulators, policymakers, financial institutions, universities, Shariah scholars, legal professionals and clients all contribute to building the ecosystem that allows Islamic finance to mature. Malaysia's experience demonstrates that long-term leadership is underpinned as much by governance, talent and market infrastructure as by product innovation.

Pakistan is investing in many of those same foundations. Industry initiatives are strengthening Islamic finance education, expanding specialist talent and building closer collaboration between academia and practitioners. Standard Chartered has contributed through capability-building programmes spanning Board members to frontline bankers, partnerships with leading universities and continued investment in strengthening the commercial understanding of Shariah scholars alongside banking practitioners.

These developments are easy to overlook because they happen gradually. Yet they represent one of the clearest indicators that Islamic finance is entering a new stage of maturity.

What this means for financial institutions

Pakistan's experience illustrates a broader point about the future of Islamic finance: The first phase of development was defined by growth. The next phase will be defined by connectivity.

As markets mature, financial institutions increasingly differentiate themselves through their ability to connect regional opportunities, mobilise Islamic liquidity and combine local execution with international capability. Success depends less on offering individual Islamic finance products and more on delivering integrated solutions that support clients across financing, treasury, trade, foreign exchange, capital markets and cross-border banking.

This is precisely the direction outlined in The Islamic Finance Connector Era. Pakistan demonstrates how those dynamics begin to emerge in practice.

Pakistan's experience will not define the future of every Islamic finance market. It does, however, illustrate an important principle: Once Islamic finance reaches critical mass, growth alone no longer determines competitive advantage. The institutions that lead the next phase will be those that can connect markets, liquidity and clients more effectively across borders.

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