



# Pakistan: Financial Markets Development Program

Project Name	Financial Markets Development Program
Project Number	53221-001
Country	Pakistan
Project Status	Proposed
Project Type / Modality of Assistance	Loan
Source of Funding / Amount	Loan: Financial Markets Development Project
	Ordinary capital resources <span style="float: right;">US\$ 600.00 million</span>
Strategic Agendas	Inclusive economic growth
Drivers of Change	Governance and capacity development Private sector development
Sector / Subsector	Finance - Finance sector development
Gender Equity and Mainstreaming	Some gender elements
Description	<p>1. The proposed Financial Markets Development Program will support demand and supply measures to broaden and deepen the financial system in Pakistan and ground it in a strong legal and regulatory framework in line with country partnership strategy for Pakistan (2015-2019).</p> <p>2. The program was requested by the Government of Pakistan as a policy-based lending modality to be disbursed over two subprograms. The PBL will facilitate the design and implementation of reforms that are necessary to create an enabling environment for the emergence of competitive financial markets. The programmatic approach will serve to chronologically sequence the reforms in a multiyear framework (2020-2022) and bring flexibility to incorporate changes where warranted by the country's economic situation.</p>
Project Rationale and Linkage to Country/Regional Strategy	<p>1. A central objective of the Government's economic development strategy, as reflected in 'Vision 2025', is to elevate Pakistan's status from a lower-middle-income country to an upper-middle-income one by 2025. The Government has targeted the generation of job opportunities and enhancement of income levels as top priorities. Achieving these objectives will require substantial investments of private and public capital to accelerate economic growth, and robust financial markets will help to mobilize these resources.</p> <p>2. ADB's Strategy 2030 prioritizes the development of the financial sector and capital markets to support the development of the private sector and enhance financial stability. This program will not only support expansion of private sector, but will also contribute to the operational priorities such as strengthening governance and institutional capacity by supporting public management reforms and financial stability. Facilitation of private sector investment is identified as a key driver of economic growth in Pakistan's endeavor to transform the economy into a competitive marketplace, and a strategic area for ADB support. This is not only reflected in the current country partnership strategy for Pakistan (2015-2019), but has also been highlighted as a key area in the ongoing discussions between ADB and the Government for the proposed country partnership strategy for 2020-2024.</p> <p>3. Bank-based financial system. The lack of sophistication in financial markets in Pakistan has reduced the range of viable options for companies and borrowers seeking finance for growth. Moreover, the role of the government as the dominant borrower from the banking sector has restricted space for private sector credit and essential long-term financing for infrastructure projects, which are in turn a prerequisite to support growth. The economy remains over-reliant on bank financing (bank assets consist of more than 70% of the country's total financial assets).</p> <p>4. The financial markets remain underdeveloped. Pakistan's financial markets currently do not play a significant role in financial intermediation and resource mobilization. Market capitalization of the Pakistan Stock Exchange (PSX) accounted for only around 30% of the country's gross domestic product in 2019. With 558 listed companies and \$58 billion market capitalization, the PSX is significantly below regional peers on a per capita basis (in terms of listed companies) and as a percentage of gross domestic product (GDP) (in terms of market capitalization). Moreover, many listed companies have minimal 'free float' since most shares are held by sponsors including the Government. The accounting and auditing standards of listed companies are also unreliable and lack facts for informed investment decisions. Beyond the unreliability of financial reporting is the issuer's concern over poor corporate governance. The corporate governance structure of listed companies is not sufficiently transparent and lacks proper checks and balances. Furthermore, financial stability is compromised due to limited policy coordination and joint supervision of the financial system by the key regulators. The absence of a high-level forum and, ultimately, of agreements that would enable Pakistan's financial market regulators to share information as well as coordinate financial sector oversight and policy issues on a regular basis has led to opportunities for regulatory arbitrage. The enforcement effectiveness of the Securities and Exchange Commission of Pakistan (SECP) is also challenged by the absence of a dedicated capital market tribunal as a result of which the pace of resolution of securities cases pending in the court system is slow.</p> <p>5. Bond market development is also constrained. The corporate bond market remains in its nascent stage, undermining long-term infrastructure financing requirements. The corporate bond market is 2.2% of GDP, which is significantly less than that of its regional peers. Issuances in the primary market are dominated by Government bonds with limited and costly corporate bond issuances. The Government bond market is primarily short-dated and, thus, does not fulfill its role as a benchmark pricing reference due to ad hoc Government debt management practices arising from the lack of a professional debt management office. The absence of an effective Government bond market yield curve impedes the appropriate pricing of corporate bonds, and corporate bond issuances are therefore less attractive to both issuers and investors. Other barriers also restrict the issuance of corporate bonds such as non-existence of concessions for listing fees, stamp duty and other related costs. On the demand-side, major institutional investors (such as pension funds, insurance companies, and mutual funds) have a limited role in financing Government bonds and corporate bonds. This is primarily due to anomalies in the National Savings Schemes structure that offer the same return as Government bonds, but unlike Government bonds they have insignificant downside risk prior to maturity. The participation of investors across the maturity spectrum is critical to support market development.</p>
Impact	Financial markets act as a major catalyst in transforming the economy into a more efficient, innovative and competitive marketplace within the global arena.
Outcome	Greater capacity of intermediation and expanded size of capital markets.
Outputs	<ol style="list-style-type: none"> <li>1. Market stability strengthened.</li> <li>2. Market facilitation enhanced.</li> <li>3. Demand measures enhanced.</li> <li>4. Supply measures enhanced.</li> </ol>
Geographical Location	Nation-wide

Safeguard Categories	
Environment	C
Involuntary Resettlement	C
Indigenous Peoples	C

Summary of Environmental and Social Aspects	
Environmental Aspects	
Involuntary Resettlement	
Indigenous Peoples	
Stakeholder Communication, Participation, and Consultation	
During Project Design	
During Project Implementation	

Responsible ADB Officer	Syed Ali-Mumtaz H. Shah
Responsible ADB Department	Central and West Asia Department
Responsible ADB Division	Public Management, Financial Sector and Trade Division, CWRD
Executing Agencies	Ministry of Finance Q-Block, Finance Division, Pak Secretariat, Red Zone, Islamabad, Pakistan

Timetable	
Concept Clearance	15 Aug 2019
Fact Finding	10 Feb 2020 to 14 Feb 2020
MRM	16 Mar 2020
Approval	-
Last Review Mission	-
Last PDS Update	16 Aug 2019

Project Page	<a href="https://www.adb.org/projects/53221-001/main">https://www.adb.org/projects/53221-001/main</a>
Request for Information	<a href="http://www.adb.org/forms/request-information-form?subject=53221-001">http://www.adb.org/forms/request-information-form?subject=53221-001</a>
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