



Pakistan: Third Capital Market Development Program (Subprogram 2)

Project Name	Third Capital Market Development Program (Subprogram 2)	
Project Number	53221-003	
Country / Economy	Pakistan	
Project Status	Approved	
Project Type / Modality of Assistance	Loan	
Source of Funding / Amount	Loan 4176-PAK: Third Capital Market Development Program (Subprogram 2)	
	Concessional ordinary capital resources lending	US\$ 300.00 million
Strategic Agendas	Inclusive economic growth	
Drivers of Change	Gender Equity and Mainstreaming Governance and capacity development	
Sector / Subsector	Finance / Finance sector development	
Gender Equity and Mainstreaming	Effective gender mainstreaming	
Description	<p>The program supports the design and implementation of structural reforms necessary to create a competitive capital market and promote private investment in the country and is anchored in an overall government approved Capital Market Development Plan and Vision 2025 government agenda for Pakistan. The program is in line with the Asian Development Bank (ADB) Strategy 2030 and country partnership strategy for Pakistan, 2021-2025. The program will (i) strengthen market stability, (ii) enhance market facilitation, (iii) enhance supply-based measures, and (iv) improve demand-based measures for capital market development. It also fits in the framework of the \$6 billion International Monetary Fund (IMF) Extended Fund Facility (EFF) program approved on 3 July 2019 to facilitate improved macroeconomic management. The EFF program includes recommendations for finance sector reforms that focus on deepening access to finance, implementing a sound debt management strategy, and supporting private sector development. The program also contributes to EFF implementation and sustainability since it develops alternative sources of access to finance (i.e., capital markets), supports sound debt management and government bond market development, and helps mobilize financial resources to private investment.</p>	
Project Rationale and Linkage to Country/Regional Strategy	<p>The Pakistan economy has started to show signs of recovery, posting a gross domestic product (GDP) growth rate of 3.94% in fiscal year (FY) 2021. The coronavirus disease (COVID-19) pandemic adversely impacted the economy in 2020, prompting a revision of the GDP forecast from a pre-pandemic growth projection of 2.6% to a contraction of 0.5% in FY2020. The government managed the pandemic response by enhancing the disease surveillance and response system, designating health facilities for COVID-19 patients, and initially imposing a partial lockdown in March 2020, which was gradually eased on May 2020 and replaced with localized lockdowns. The Ministry of National Health Services, Regulations, and Coordination also developed the National Deployment and Vaccination Plan with an implementation cost of \$1,950 million. As of 28 August 2021, 39.95 million persons had been vaccinated, including 15.27 million fully vaccinated. On the back of this recovery, the government is targeting 4.8% growth in FY2022. To support this, the federal budget for FY2022 includes measures to revive industrial growth and engage the private sector through fiscal and other incentives to support higher economic growth. The budget also introduces tax reforms rationalizing a series of withholding taxes and capital gains tax as well as promoting digital transactions. ADB is satisfied with the direction of macroeconomic conditions and policies, because the government continues to advance the reform agenda in key areas, including central bank autonomy and capital markets, taxation, management of state-owned enterprises (SOEs), and the power sector. Both demand and supply side have contributed to economic growth, and the debt outlook remains stable. However, the economy remains vulnerable, and investment rates have remained very low (an estimated 15.2% of GDP in FY2021). Underdeveloped capital markets have contributed to the ineffective mobilization of savings, leading to a wide saving investment gap. Banks' own credit origination capacity was hampered by ineffective role of Pakistan's capital markets, and the economy remained dependent on volatile foreign capital. The development of domestic capital markets can have the benefit of increasing the government's access to local currency financing by issuing debt through domestic open-market operations and thereby help manage foreign exchange risk and inflation better.</p>	
Impact		
Project Outcome		
Description of Outcome		
Progress Toward Outcome		
Implementation Progress		
Description of Project Outputs		
Status of Implementation Progress (Outputs, Activities, and Issues)		
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	McCartney, Andrew C.
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	11 Dec 2022
Fact Finding	01 Jul 2021 to 29 Jul 2021
MRM	20 Sep 2021
Approval	22 Mar 2022
Last Review Mission	-
Last PDS Update	22 Mar 2022

Loan 4176-PAK

Financing Plan		Loan Utilization			
	Total (Amount in US\$ million)	Date	ADB	Others	Net Percentage
Project Cost	300.00	Cumulative Contract Awards			
ADB	300.00	-	0.00	0.00	%
Counterpart	0.00	Cumulative Disbursements			
Cofinancing	0.00	-	0.00	0.00	%

Project Page	https://www.adb.org/projects/53221-003/main
Request for Information	http://www.adb.org/forms/request-information-form?subject=53221-003
Date Generated	25 March 2022

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