Governor	: Mr. Jameel Ahmad
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Mr. Abdur Rehman Warraich - President CFA Society Pakistan; **the Governing Board** of the CFA Society of Pakistan, **Distinguished Guests.** Assalam-o-Alaikum and Good Evening.

It gives me great pleasure to address this distinguished gathering today, to recognize individuals and institutions for their outstanding performance in providing financial services to the public. At the onset, I would like to acknowledge the CFA Society of Pakistan for convening these awards for the past 18 years and promoting a culture of excellence, professionalism, and healthy competition in the industry. The CFA Institute and CFA Society Pakistan Chapter play an important advocacy role in promoting ethical and professional conduct in the financial industry which is essential for a developing market like ours.

Ladies and Gentlemen, I would like to take this opportunity to talk about the need to develop a deep, diverse, and well-functioning local debt market in the country. Since all the major stakeholders are present here, I think this is an excellent platform to highlight the importance of the bond market.

I am sure you all will agree that a well-developed local bond market is essential for the efficiency and stability of a country's financial system and fostering economic growth. It allows both governments and private businesses to access long term funds to finance investments; promote financial savings by creating alternative saving avenues; reduces reliance on foreign currency borrowing to fund development needs; strengthens transmission mechanism of monetary policy, lessens excessive dependence on banks and vulnerabilities within the banking system; and exposes banks to competition which in turn helps to improve their efficiency and lower intermediation spread.

From a macro - financial stability perspective, a well-developed bond market serves to mitigate risks within the banking system. Banks are typically constrained in lending long-term because their liabilities are of shorter - tenors. Long-term funding needs hence are financed by banks running maturity mismatches on their balance sheets or by a rolling-over of short-term loans. And in times of tight liquidity conditions and increasing interest rates, borrowers often face credit crunch and difficulties in rolling over their maturing obligations. An efficient bond market can better match institutional investors with long-term financial assets, helping them duration-match their assets and liabilities, effectively diversifying risk across a wider category of investors, and thereby contributing to financial stability.

This role of local bond and equity markets takes on greater significance in the current context, when global financial conditions have tightened and capital flows are moving away from emerging economies. Domestic markets need to fill this gap and facilitate mobilization of domestic private capital to key priority areas such as Infrastructure, Corporate Investments, SME and Climate-focused Projects.

The Asian Financial Crisis of 1997 is a stark reminder for the policymakers in developing countries that overdependence on foreign capital can leave a country vulnerable to the external shocks, particularly a widespread exodus of foreign capital. Subsequently, while the Global Financial Crisis of 2007 had a significant impact on the developed countries, the East Asian emerging economies showed remarkable resilience and were able to recover quickly. This was due to their efforts to develop their local bond markets, thereby reducing the currency and maturity mismatches on sovereign and corporate balance sheets.

Ladies and Gentlemen, low saving and investment rates in Pakistan have been major obstacles in sustaining high economic growth in the country. Pakistan's national saving to GDP ratio at 11.1 percent and investment to GDP ratio at 15.1 percent in FY22, are nearly half of the South Asian averages of 23 percent and 31 percent respectively. We are stuck in a low-saving, low-investment, and low-growth vicious cycle. Consequently, our dependence on external financing to support high economic growth has increasingly grown over time. Not surprisingly, Pakistan's high growth periods have mostly coincided with abundant inflows of foreign savings in the form of external loans, grants and remittances. And whenever such inflows dried up, economic growth slid back, as domestic saving and investment often proved insufficient to maintain the growth momentum. Among other macroeconomic policies and reforms, developing deep, diverse and well-functioning local debt markets would play an important role in increasing and channelizing domestic long-term savings towards the growing needs of investments in the country.

Ladies and Gentlemen,

Pakistan has a thriving financial and banking system, yet there are areas that need attention and further development. The financial sector remains dominated primarily by banks, while capital markets and non-banks are still in relatively nascent stage of development. Bond market in Pakistan is mainly dominated by securities issued by the government, with total outstanding stock of marketable government securities at Rs 27.3 trillion or 41 % of GDP at the end FY22. The corporate debt market is still at a nascent stage with total outstanding issues amounting to less than one percent of GDP.

Issuance of corporate debt has been allowed from 1995 onwards. However, only a handful of borrowers in Pakistan have utilized the corporate debt market as a funding source and even these issuances remained skewed towards financial institutions. Keeping in view the limited issuances, investor holdings patterns and secondary market turnover statistics, it is clear that the corporate debt market needs further attention of the industry and regulators.

Government bond market in Pakistan has seen a gradual yet considerable evolution over the past twenty years. Starting with basic fixed coupon securities, the market now offers a diverse set of financial instruments -fixed rate, floating rate, sharia compliant instruments, of varying maturities, varying coupon payment and reset frequencies - to cater to the needs for various segments of investors. This has resulted in a deep and liquid Government bond market, with regular issuances, healthy turnover, and a reasonably liquid sovereign yield curve.

The government debt market investors base, however, remained less diversified. Holding of the government securities and their trading in the secondary market remained concentrated within the banking sector. At end-June 2022, banks were holding around 80 percent of the total outstanding stock of government securities that translate into almost half of assets and around two-third of the deposits of the banking sector. Institutional investors such as insurance companies, pension funds and mutual funds, which usually have a natural appetite for long term securities, do not figure prominently as investors in our government debt market. For example, insurance companies roughly hold about 5 percent of government securities in Pakistan, against an average of around 10 percent among our peer countries and around 25 percent in more developed economies.

Pakistan's debt market remains not only concentrated with respect to investor segments but also with respect to investor base. Pakistan has 67.5 million formal bank accounts at end June 2022. The number of Investor Portfolio Securities accounts (that allow bank users to invest in Government Securities) with Primary Dealers only reached to 23 thousand by June 2022. While this highlights the weakness in outreach, it also represents the huge untapped market which can be snapped up by the non-banking financial intermediaries.

Ladies and Gentlemen, SBP recognizes the problem and constantly strives to provide enabling regulations that market players can leverage for improving the market outreach. I will briefly discuss some of the steps taken by SBP to address the issues:

First, we have revised our Primary Dealer System to allow more capital market functionaries – like brokerages, clearing houses and Depositories - to participate in the primary market of Government Securities. Under the revised PD system, NCCPL and CDC have secured the status of Special Purpose Primary Dealers for FY23 that enabled them to directly participate in primary auctions on behalf of their customers. The updated PD Rules will cater to the needs of a diverse group of investors, and will attract a new clientele to the government securities market. I would like to encourage all the players in the industry to consider this opportunity and increase their penetration in this huge untapped market.

Second, recognizing the need to promote and protect micro savings through better investment opportunities, we have expanded the scope of Investor Portfolio Securities (IPS) account services to microfinance banks. Similarly, CDC and NCCPL being specialized primary dealers, can also open the IPS account of its customers. Previously, only commercial banks were specifically allowed to open IPS accounts. This step will enable more than 85 million branchless and mobile banking users to take advantage of attractive returns offered by Government Securities.

Third, recent issuance of Customers' Digital Onboarding Framework by SBP will further simplify and facilitate the process of IPS Account opening, by removing unnecessary frictions from the investment process. Bank Account Holders can also open investment accounts in PSX based on their existing Bank KYC. This step should reduce the hassle associated with documentation and provide the banking users with easier access to capital markets in a seamless manner.

Fourth, SBP is currently working on a Debt Market Web Portal. The portal is expected to be launched in the next couple of months and will improve investor's access to debt markets and provide relevant information. It will also help participants with access to PD system and facilitate development of domestic market infrastructure. Currently, the higher cost of international trading and information platforms prevents cost-effective and broad-based participation in markets.

Ladies and Gentlemen.

In my concluding remarks, I would like to emphasize upon three sets of recommendations. Firstly, creating awareness, improving financial literacy, and enhancing access to information needed to making investment decisions.

Secondly, leveraging technology to ensure easy and cost-effective access to investment opportunities. And thirdly, developing the Debt Securities "warehousing" capability of Brokers, which also has the potential to enhance investor interest. Currently, there is no product available that allows the investor to park their funds temporarily in the Government Security Market.

I would also like to reiterate the need to develop a vibrant corporate debt market for meeting long-term financing needs and providing alternate saving avenues in the country. This will require a coordinated and sustained effort on multiple fronts.

These recommendations are aimed at building a comprehensive ecosystem of financial services where different market participants – each with their own specialized area – can work together to provide services that meet customer demands and increase market participation. In doing so, the industry can develop deeper, more efficient, and more inclusive financial markets, that will mobilize the essential domestic funding towards meeting the growth and development needs of the country. Moreover, in an era of digital transformation of financial services, there will be many opportunities that are best leveraged through building partnerships and a coordinated response from all stakeholders.

Ladies and Gentlemen. Bringing about change will require a culture of innovation, excellence and execution – themes that are well represented in today's award categories. I would like to congratulate all the winners and nominees for their outstanding efforts.

Once again, I would like to thank the CFA Society for inviting me, and would encourage its Governing Board to leverage its broad membership base across the industry to encourage debate, build consensus and catalyze transformation of the financial sector in the country. SBP remains open to engagement with the industry, especially on issues that promote financial market development.

Thank you.