

Governor SBP Speech for International Capital Market Conference 2025

Regional Integration and Innovation in Capital Markets: A New Era of Cooperation

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Chairperson SECP, Mr. Akif Saeed;
Chairperson, PSX Board, Dr. Shamshad Akhtar;
Honorable Foreign Delegates;
Presidents & CEOs of Banks and Corporates
Distinguished Guests; Ladies and Gentlemen,

Assalam-o-Alaikum and a very good morning;

It is my pleasure to be here today to attend this inaugural International Capital Market Conference. I wish to commend the SECP for taking this important initiative to establish a platform that foster constructive dialogue and strengthens regional cooperation among capital market stakeholders across the region.

The theme of today's conference is both timely and of critical importance. Since the onset of the pandemic, our economies have faced a series of global and domestic shocks. Responding effectively to these challenges has been beyond the scope of any single country to manage in isolation. Yet, many of our economies were unable to draw upon support from international capital markets, amidst rising benchmark yields and a marked increase in risk premiums demanded by foreign investors. Domestically too, the financial markets of many of our economies are dominated by commercial banks, which possess limited capacity to provide financing at the scale required by governments, without constraining credit flows to the private sector. Although the global capital market dynamics have become somewhat favorable over the past year, they continue to remain highly susceptible to prevailing global trade uncertainty, the reorientation of supply chains, and persistent geopolitical frictions, to name just a few.

In this context, the role of regional market integration has assumed considerable significance. In my remarks today, I will address three key dimensions to the topic: (1) Why regional capital market integration is important; (2) How such integration can be achieved effectively; and (3) How Pakistan is positioned to contribute to the development of regional capital markets.

Ladies and gentlemen,

Regional capital markets are an important part of a well-functioning financial ecosystem – one in which capital flows smoothly; investment services are harmonized; and regulatory frameworks are aligned. Within such an environment, savers gain access to a broader array of financial instruments, while issuers and investors are able to raise and allocate capital across borders with confidence in consistent standards and regulatory practices.

In economies with low savings rates, where bank financing alone cannot meet long-term investment needs – particularly for climate and infrastructure projects – regional capital markets can play a pivotal role. Smaller markets can benefit from enhanced visibility and participation in regional benchmarks, while more developed markets, in turn, gain from broader diversification opportunities and deeper investor bases. Ultimately, regional integration can foster a virtuous cycle: where more efficient capital allocation supports stronger and more sustainable growth, which in turn, promotes greater financial stability and inclusivity.

We already have a few examples of successful regional capital markets, especially in Latin America and the Caribbean. For instance, the Eastern Caribbean Securities Market and the Regional Government Securities Market are integrated regional financial markets for the issuance of primary debt securities and their secondary

trading for eight countries in the region. By integrating eight fragmented government debt markets and creating a single regional financial space, the region has managed to secure a larger investor base, lower transaction costs, and higher trading volumes.

In contrast to small island economies of the Caribbean, the countries represented at this conference are home to substantially bigger markets, across almost all socioeconomic and financial indicators. While our large collective market size offers its own set of challenges, the case for deeper financial market integration remains compelling. Beyond facilitating capital flows, greater integration can enhance risk-adjusted returns, strengthen domestic financial systems, and promote healthy competition. Investors can benefit from a wider spectrum of debt and equity instruments, while lower transaction costs and increased competition among service providers may contribute to higher levels of retail investor participation and satisfaction.

In this regard, Asia, for example, provides a unique opportunity due to its inherent heterogeneity both in funding gaps and investment returns. Some countries have deposit bases exceeding 130% of GDP but lack sufficient domestic investment avenues to generate competitive returns. Others, with deposit bases below 30% of GDP, face substantial financing needs and offer promising returns to investors. Greater regional integration can bridge this gap and unlock mutual benefits for all stakeholders.

Ladies and gentlemen,

Turning now to the second part of my address—what must be done to harness the full benefits of regionally integrated capital markets. Achieving such integration

requires deliberate effort, sustained coordination, and a shared commitment across jurisdictions. There are a few important prerequisites in my view:

First, we must align key regulatory frameworks - covering disclosure standards, market conduct, investor protection, and taxation - in order to reduce barriers to cross-border investment.

Second, it is essential to design and effectively implement market connectivity infrastructure. This entails linking trading, clearing, and settlement systems across jurisdictions to enable seamless transactions and enhance market depth.

Third, legal and institutional frameworks will need to be harmonized, and - in some areas - established from the ground up. Mutual recognition agreements, consistent insolvency regimes, and effective cross-border enforcement mechanisms will be critical to building trust and predictability.

And **fourth**, regulators and market participants must collaborate closely to share data, expertise, and best practices, while opening up to innovation and constructive feedback—with the shared objective of deepening our financial markets.

In terms of practical examples, regional initiatives such as the Asian Bond Markets Initiative, launched by the ASEAN+3, have already laid important groundwork. The bond market initiative was launched to develop local currency bond markets as an alternative to short-term foreign currency borrowing for the member countries. It reduced exchange rate risk and liquidity risk for domestic borrowers. This, in turn, helped mobilize long-term capital across the region for trade and infrastructure finance. In terms of impact, since the launch of the initiative, the local currency bond market in ASEAN+3 has grown from 88 percent of GDP in 2002 to 133 percent of combined GDP of the group in 2025.

In the big picture, the supportive impact of several factors, including capital market integration, enabled total trade of the ASEAN region to increase from around 43 percent of GDP in 1967 to 98 percent of GDP in 2024.

Nonetheless, at this point, let me acknowledge that while integration holds great promise, it does not come without risk. Greater interconnectedness can amplify contagion in times of financial stress. Divergent policy priorities or uneven market development may also create imbalances. To mitigate these risks, we must take essential precautionary measures. They include a well-designed and functioning regional surveillance framework, involving coordination among central banks, securities regulators, and finance ministries. Also, developing local currency debt markets can help reduce participants' foreign exchange risk.

Ladies and gentlemen,

I now come to the third and final part of my address, about how Pakistan is positioned to contribute to a potential regional capital market for regional Asian economies. With the economy having stabilized and now on course for higher growth, we are in a stronger position to undertake a series of structural reforms, including a deepening of our financial markets.

At the State Bank of Pakistan, we are focused on expanding access to finance, fostering innovation, and broadening participation. These goals are aligned with the SBP's five-year strategic plan – Vision 2028. These goals are also in sync with the government's *Uraan Pakistan* blueprint, which aims to build a resilient, inclusive, and technology-driven financial ecosystem that supports long-term sustainable economic growth.

In the context of regional integration, SBP has already undertaken some major initiatives. They include the regional expansion of our Raast instant payment

system. Following the signing of a Memorandum of Understanding (MoU) with the Arab Monetary Fund (AMF), work is underway to link Raast with the Fund's Buna platform— a cross-border, multi-currency payment system established by the AMF to serve as a bridge between the Arab region and the rest of the world. Going forward, we may explore similar integrations of our payment systems with other countries to facilitate regional capital market integration.

Besides this, we are coordinating with the SECP and the Pakistan Stock Exchange to develop a unified KYC and digital identity framework. This will allow investors to use a single digital ID to access banking, insurance, and securities markets, thereby simplifying participation, improving investor protection, and enhancing interoperability. We are also constantly engaged with the SECP to facilitate digital payment integration within our capital markets; provide easier access to credit information for regulators; and come up with solutions to legacy credit data issues. Together, our coordinated efforts would build trust and transparency, and enhance our readiness to take up a focal role in developing a regional capital market.

Ladies and gentlemen,

In conclusion, let me emphasize that the potential integration of capital markets in our region represents a historic opportunity. It would be a pathway to harness our region's savings for our own development; it will strengthen financial stability; and it will amplify our collective voice in the global financial system. We must act with vision and enhanced coordination. We must recognize that integration will not happen overnight; instead, it will require sustained political will, regulatory cooperation, and trust among our economies. Therefore, as we move forward, a phased plan of action for regional capital market integration may be designed and implemented with an objective of creating a stronger, more resilient, and more prosperous region - a region that finances its own future.

With that, I thank you for your time, and I look forward to hear more from my colleagues in the region during this conference and beyond.

Thank you for your attention.