

Unlocking the Capital Markets Potential for Banks-18 Aug 2025

Mr. Muhammad Aurangzeb, Federal Minister for Finance and Revenue
Mr. Akif Saeed, Chairman, Securities & Exchange Commission of Pakistan
Mr. Farrukh Sabzwari, CEO, Pakistan Stock Exchange
Mr. Muneer Kamal, CEO, Pakistan Banks' Association
Presidents, CEOs and other senior executives,
Distinguished Guests, Ladies & Gentlemen;

Assalam-o-Alaikum, a very good morning to you all.

It is a pleasure to be here today and share my thoughts with this esteemed audience. The theme of the conference is extremely important and, in my view, lies at the heart of Pakistan's economic future: the development of deep, diversified, and well-functioning capital markets. And how these markets can complement and work alongside our banking system to boost the economy's ability to grow at a higher pace in a stable and sustainable way. This topic is especially relevant now. Pakistan's economy has shown signs of stabilization. Inflation has come down. Growth is slowly picking up.

But underneath this improvement, some long-standing structural challenges remain. One of the most serious among them is our persistently low domestic savings rate. According to the latest Pakistan's Economic Survey, our domestic savings stand at just 7.4 percent of GDP. This is significantly lower when compared to an average domestic saving rate of 27 percent in South Asia and 41 percent in East Asian economies. This low saving rate creates a large gap between what we save and what we need to invest. And this is why we have had to rely heavily on foreign inflows to meet our development needs. But this reliance has come at a cost. Among other factors, it has contributed to repeated balance of payments stresses, instability in the FX markets, and inflationary

pressures. Over time, these recurring problems have weakened our growth momentum. In earlier decades, we saw economic growth of above 6 percent. In the past two decades, the average growth has been closer to 4 percent.

Avoiding the boom-bust cycle requires us to mobilize more domestic savings and channel them into productive investment. This is where well-developed, deep, and diversified capital markets — working alongside the banking system — can make a real difference.

Ladies and Gentlemen!

With this background, let me now share my views and thoughts on the current state of capital markets in Pakistan and how their deepening can benefit our banks.

Over the past two decades, Pakistan's government bond market has developed from offering only basic fixed-coupon instruments to a broad range of securities, including fixed-rate, floating-rate, and Shariah-compliant options across various maturities. This evolution has created a reasonably deep and liquid sovereign yield curve, supported by regular auctions and active secondary market trading. However, the government bond market remains heavily concentrated within the banking sector.

Recently, the SBP has taken further targeted steps to broaden access and deepen the country's bond market. The Primary Dealer system has been revamped to include non-bank institutions such as the National Clearing Company of Pakistan Limited (NCCPL) and the Central Depository Company (CDC) as Special Purpose Primary Dealers, enabling them to bid directly in auctions on behalf of clients. The scope of Investor Portfolio Securities accounts

has also been expanded to microfinance banks, CDC, and NCCPL. This provides close to 100 million branchless and mobile banking users in the country the opportunity to invest in government securities. Account opening has already been simplified through the Customers' Digital Onboarding Framework.

Together, these reforms aim to diversify the investor base, enhance liquidity, and make the sovereign segment more resilient. At the same time, these reforms are helping in laying the groundwork for broader capital market development. In particular, a deep and inclusive government bond market can serve as the benchmark for pricing other forms of debt, including corporate bonds.

However, while the country's government bond market has made steady progress, the corporate debt market remains largely absent. Outstanding corporate bonds amount to less than one percent of GDP, substantially lower than Asian countries. Also, most of these bonds are privately placed with minimal secondary market activity. Non-financial firms, as well as sectors such as manufacturing, infrastructure, and renewable energy, which could benefit greatly from long-term funding, remain almost entirely dependent on bank loans. The lack of a vibrant corporate debt market restricts businesses from accessing long-term financing on competitive terms, while also limiting savers' access to diverse saving options. This in turn reinforces a cycle of low financial participation and inadequate domestic capital mobilization.

Alongside the underdeveloped corporate debt segment, our equity market, though showing substantially improved performance in recent period, still reflects low participation and coverage. For instance, total unique accounts in PSX stood at less than four hundred thousand only in June 2025. Similarly,

market capitalization of PSX, at around 15 percent of GDP, remains far lower than that in many peer economies.

The current state of our shallow corporate bond market and underutilized equity market highlights the challenge we face. But at the same time, it also presents an opportunity — to develop and deepen our capital markets so that they can play their proper role in mobilizing domestic savings and allocating them efficiently across the economy.

Overall, the aim of achieving deep and well-functioning capital markets should be to create a more liquid, better-priced financial ecosystem that complements banks' traditional funding and lending roles. Such markets should be supported by a diversified investor base, ranging from households and institutional investors to international participants that can provide sustainable financing for both the banking sector and the wider economy. Underpinning this vision is a robust regulatory and market infrastructure framework that safeguards financial stability while promoting responsible innovation and healthy competition, ensuring that capital is efficiently mobilized and directed toward productive uses.

Here, I would like to share an insight from the OECD's recent Debt Report on Asia. The data shows that Pakistan ranks at the bottom among Asian economies in terms of both credit and market-based financing available to firms as a share of GDP. In neighboring and regional economies, these ratios are much higher, and in some cases, market-based funding even surpasses bank credit. The report also highlights a positive link between the availability of market-based funding and a country's ability to score higher on innovation. This also highlights urgency of developing vibrant capital markets to support private sector growth and innovation.

Ladies and Gentlemen!

For banks, deep and well-functioning capital markets can unlock significant benefits by expanding and diversifying their funding sources. Beyond deposits and wholesale borrowing, banks can raise longer-term funds through debt, equity, and securitized instruments. This reduces reliance on any single funding source and provides access to liquidity, even during market stress. Capital market can also help in improving risk pricing and management, enhancing transparency, and strengthening governance. These factors can help lower funding costs for sound and well-managed banks.

Beyond funding diversification, deep capital markets can give banks greater flexibility to manage and deploy funds in targeted ways that support inclusive growth. They can provide avenues to share credit risk with a wider investor base through instruments like securitization, while also allowing banks to complement traditional lending by underwriting corporate bond and equity issuances. This can free up space on their balance sheets to extend financing to productive and underserved sectors of the economy, including SMEs, export-oriented industries, agriculture and renewable energy, which often require longer-term funding or involve higher perceived risk. Through this, banks can play a stronger role in channeling capital toward investments that drive sustainable economic development.

Ladies and Gentlemen!

In conclusion, I must reiterate that deepening and broadening our financial markets will require coordinated efforts of the SBP, SECP, government, banks, and investors on several fronts. We must work on widening participation by

improving financial literacy, making credible market information easily accessible, and using technology to provide seamless, low-cost access to investment opportunities. All these factors calls for credible, transparent policy, prudent risk management, and a long-term commitment to reforms that balance growth with stability.

If pursued consistently, these measures would yield significant macroeconomic benefits. A stronger corporate bond market, alongside a more inclusive equity market, would smooth credit cycles, ensure investment flows even when banks face constraints, and strengthen the transmission of monetary policy. Most importantly, it would help narrow the savings–investment gap by channeling domestic capital into projects that raise productivity and long-term growth potential.

With a well-functioning sovereign bond market, improving digital infrastructure, and a growing base of potential investors, Pakistan has the building blocks to achieve this transformation. The task now is to connect these elements into a coherent financial architecture that can support the economy through all phases of business cycle.

In the end, let me emphasize that banks and capital markets stand as two vital pillars of financial system. Each plays a distinct yet complementary role in driving economic progress of a country. For our country to realize its full development potential, it is essential that we strengthen both these institutions, ensuring they remain robust, resilient, and responsive to the needs of a growing economy.

Thank you for your attention.