

# Developing Debt Capital Market in Pakistan

*Ensuring Liquidity through Market Making*

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# Debt Market Structure - Overview

## Debt Market

### Banking Channel

Conventional/Islamic Mode

Bilateral Financing      Syndicated Financing

### Investor Base

Commercial Banks

Development  
Financial Institutions

### Non Banking Channel

Conventional Mode

Shariah Compliant Mode

Term Finance Certificates  
("TFCs"), Bonds,  
Commercial Papers etc

Sukuks, Islamic  
Commercial Paper etc

### Investor Base

Banks & DFIs

General Public  
(Public listed debt  
instrument)

NBFIs, AMCs &  
Insurance

Corporates

# Debt Market – Local Landscape

## Current Composition

Local Debt market is largely dominated by **Government of Pakistan**.

Total GoP Securities ~PKR 29T; Sukuk ~PKR 3T

Banks ~PKR 21T AMCs & Insurance ~PKR 3.6T and Corporate/others ~PKR 4.9T

Total outstanding corporate debt - ~PKR 11 T.

Out of total corporate debt, capital market debt - ~PKR 0.8 T.

## Investor Base

The corporate bond/sukuk market is mainly used by a few large state-owned enterprises (SOEs), private corporations, and banks to meet their capital adequacy requirements (Tier I & Tier II TFC/Sukuk).

Total **117 private issues** outstanding in the debt capital market as of March 2023.

## Constraints

The debt capital market is generally **subdued** due to overall low listings and preference of raising funds through banks instead of the capital markets.

Source: [[https://www.finance.gov.pk/survey\\_2023](https://www.finance.gov.pk/survey_2023)]

Source: [<https://www.sbp.org.pk/ecodata>]

# Debt Capital Market – Recent Initiatives

## Pakistan Energy Sukuk-II:

PKR 200 BN

In 2020, Meezan Bank played a leading role in successfully executing the issuance of Pakistan Energy Sukuk (PES) II, a public sector entity owned by Government of Pakistan.

The price determination was based on book building mechanism, cut-off profit rate/ spread was determined on the basis of Reverse Dutch Auction Method.

The Sukuk issue was **1.7 times** over-subscribed and the rate of return paid by PHL was very competitive which resulted in significant saving of financing cost.

## GoP Ijarah Sukuk:

PKR 30 BN

In December, 2023, for the first time, GoP Ijarah Sukuk was launched from PSX platform through primary market auction.

Total bids received amounted to ~PKR 400 billion against a target of PKR 30 billion with a cutoff rental of 19.51%. **The Sukuk was oversubscribed ~13 times of the ask.**

These Sukuk issuances depict the potential of Islamic capital market and promises immense potential for delivering large ticket deals for the benefit of the economy.

# Debt Capital Market - Market Making

*Role of market makers is to keep up the functionality of the market by infusing liquidity.*

Intervention during market volatility to stabilize prices and prevent extreme fluctuations.

Availability of buy and sell prices for specific debt securities, fostering a consistently active market.

Keeps a close eye on market conditions and adjust quotes based on the latest information.

**How Market Making helps?**

Fulfills buy and sell orders on behalf of investors, boosting overall trading activity.

Adhere to regulatory requirements and follow guidelines to maintain fair and efficient markets.

Gap between buying and selling prices is minimized, making it more cost-effective for investors to trade.

# Debt Capital Market - Recommendations

## Investor Base

- Investor awareness programs in all business hubs.
- Tax incentives. Section 5AA for Sukuk: 25% for Corporates and 10% to 12.5% for individuals/AOP,
- Enable beneficiaries of retirement funds to make investments directly in debt capital markets. 401K of USA.
- Digital opening of CDC accounts.
- Flexible investment and divestment process through Banks, Brokerage Houses and AMCs.
- Easy access to electronic trading platforms to enhance market accessibility and transparency.
- AMCs be allowed to invest in ADT-1 instrument.

## Issuer Base

- Awareness program for issuance process and the potential advantage.
- Eliminate SECP approvals after PSX approval.
- Eliminate Underwriting requirement.
- Tax incentives for issuance of capital market debt securities. Rebate on profit payable on Sukuk unlike earlier 2% rebate under 18(b) Part II, 2<sup>nd</sup> Sch.
- No additional licensing for Scheduled Banks for underwriting, market marking, consultant to the issue etc.

*Thank You*