

The Role of the Capital Markets in Driving Growth

, Ladies and gentlemen, before we proceed with the address, I always find it useful to ensure that the speaker and the audience are fundamentally on the same page with regards to the topic

What are 'Capital Markets?'

Capital markets are structured facilities/institutions for buying and selling [equity](#) and [debt](#) instruments. Capital markets include [primary markets](#), where new [stock](#) and [bond](#) issues are sold to investors, and [secondary markets](#), which trade existing [securities](#).

A developed capital market means an integrated, well-funded, and efficient vehicle that is in place that allows the creation of industries. These industries are borne from the ideas of individuals who dare to believe that their dreams can be translated into reality. These industries are consequently funded by individuals who believe that they can confidently invest in entities or products of these entities that have a high probable chance of success.

While this topic speaks to growth, it is critically important to speak of growth in the context of sustainability and accompanied by broad based economic development and productivity. Capital markets are vital to the functioning of an [economy](#), since capital is a critical component for generating economic output. It provides that important framework upon which our economy depends for its growth and development by channelling savings and investment between suppliers of [capital](#) such as [retail investors](#) and [institutional investors](#), and users of capital like businesses, government and individuals.

The capital market is an appropriate vehicle for unlocking the tremendous growth potential of the Jamaican economy. The provision of capital for businesses to facilitate growth and expansion will improve economic output. Looking at average GDP growth rate over the last 30 years, the World Bank reports that Jamaica grew at an average rate of one percent per year. There is significant room for improvement and the market provides that valuable opportunity. The discussion on the role of the market in driving growth has become particularly relevant given the recent improvement in the economic fundamentals with the stage now being set for growth.

If companies acquire and optimally utilise equipment along with a highly skilled labour force, productivity levels should improve. Efficiency is the foundation upon which companies survive in an

constantly evolving and increasingly competitive global environment. In order to enhance efficiency and productivity, companies will have to access affordable and reliable funding. *[let's face it the days of organic growth funded by cash flow generation are rapidly disappearing, the environment will not wait until sufficient internally generated capital has been accumulated]* The capital market serves as that avenue through which capital can be provided for these companies. Jamaica *[and I would add the region]* has a lot of work to be done in the area of productivity. Data from the Jamaica Productivity Centre show that labour productivity levels in the overall economy has been declining for over several years. Just looking over a fifteen-year period, the average worker contributed \$602,332 to GDP in 2000, while in 2015 the average worker contributed \$539,610 to GDP. If companies access the necessary funds that are utilised in an efficient productive process, the country should see a reversal of the trend the productivity levels.

A highly developed market will enable businesses to rely less on bank loans and create more diversity in relation to access to capital. As such, the likely effects of a credit crisis in the banking sector will be mitigated as bank lending is twinned with risk to banks. A developed capital market should increase opportunities for companies to raise capital. This will be in direct competition to bank funding that has been expensive or elusive, particularly, for small and medium size enterprises. According to the World Bank's Doing Business 2017, *"around 70% of formal small and medium-size enterprises in developing economies are estimated to be either unserved or underserved by the formal financial sector"*. The report also indicated that globally, *"while a quarter of firms use banks to finance investments, only 15% of these firms' total investments are financed by banks, with 71% of investments being financed internally, 5% by supplier credit and 5% by equity or stock sales"*. A more competitive environment will create a lower cost environment for capital funding for businesses.

The capital market facilitates the efficient management of resources and provides that avenue for governments to divest state owned assets that can be managed better by the private sector. The recent divestment of Caymanas Track Limited (CTL) to Supreme Ventures Limited serves as an example of such as an endeavour. The government is not in the business of managing companies and there is significant competition for funding across the different ministries. A better-managed CTL will redound to be benefit of the government and the wider economy. The country benefits, as part of the terms of the contract, the government will be getting US\$305,000 in an annual lease and 1.875% in pretax profit from Supreme Ventures Limited for the operation of CTL. Additionally, there are other benefits associated with an improvement in the management of CTL such as employment and the development of the racing industry.

There are discussions surrounding the possible listing of the state owned National Water Commission and Wigton wind farm, in south Manchester. In the 1980's the government of Jamaica successfully divested its holdings in Caribbean Cement Company Limited and National Commercial Bank that have become successful entities on the local market.. These divested entities will attract funds from large and small investors for growth and expansion. The government may also consider listing its bonds on the local market The listing of government assets allowing for a greater level of transparency in trading and better price discovery.

The capital market provides a channel for foreign investors to diversify their investments. An effective local capital market will provide the inflows of foreign exchange to stabilize the Jamaican dollar and build the reserves of the central bank, widen the pool of shareholders, and increase the available capital for companies to grow and for working capital. A sound build up of reserves coupled with confidence in the local currency will enhance that framework for growth and development.

The capital market allows for the efficient movement of resources throughout the economy. This makes the economy more resilient and responsive to changes and capitalise on opportunities. Investors are quick to allocate resources to those industries that are fast growing and able to generate higher risk adjusted return. These industry, particularly technology, can be high risk and lack the necessary funding. Pioneering industries can be funded through the capital market. Available funds will provide these entities with the opportunity to grow, create jobs and generate more interest from outside the economy. The dynamic nature of markets requires consistent supply of capital to fuel the continuous demand for resources by businesses for growth and expansion.

Investors create wealth via the capital market. Greater wealth among investors leads to an increase in the spending power of investors. The year 2015 and serves as a perfect example of the wealth that can be generated via the market. Market capitalisation at the start of the year was \$296.84 billion and moved to \$615.56 at the end of the year. This reflects an increase of \$318.72 billion or 107.37 percent. The average price appreciation of ordinary shares was 162.04 percent with only five of the 32 ordinary shares registering a decline on the Main Market. For the Junior Market, market capitalisation was \$26.10 billion at the start of the year and rose by \$41.85 billion or 160.34% to \$67.95 billion at the end of the year 2015. The year 2016 saw an extension of the gains made by investors. Market capitalisation for the Main Market increased \$81.89 billion or 13.30 percent to \$697.45 billion. The price of ordinary shares on average increased 40.71 percent in the Main Market with a strong positive advance to decline ratio in ordinary shares of 27:4. The Junior Market also performed well for investors with market capitalisation rising by \$35.47 billion or 52.20 percent in the year 2016 to \$103.42 billion. Junior Market company share prices increased on average by 85.46 percent during the year with a strong positive advance to decline ratio of 18:5 ordinary shares. More listings will create greater opportunities for investors to increase their wealth via the stock market. This will serve to benefit the wider economy.

The Junior market as an example of the benefits of the capital market in enabling growth and development. It is a special project established in 2009 to facilitate access to capital for small and medium sized enterprises. Companies that have listed on the Junior Market have reported remarkable success stories. Since inception, the Junior Market companies have raised at least \$5 billion, which has been utilise for growth and expansion. Junior Market Companies have expanded their branch networks and acquired properties. They have also retired expensive debts and make strategic investments. Just by example, LASCO Manufacturing Limited built a modern 100,000 square feet manufacturing plant costing approximately \$1.7 billion. The company hired over 150 new employees and launched new products. Paramount Trading (Jamaica) Limited has recorded sales of over \$1 billion during its last financial year for the first time in its history. The company is now seeking to establish a state of the art lubricant blending facility in Jamaica that will conduct quality assessments on an on-going basis to provide the market with high quality lubricants and oils.

The primary incentive for the Junior Market companies is a ten-year tax benefit. The original format of the incentive, which was recently reinstated by the government, will provide companies with an income tax holiday during the first five years of listing and then require them to pay fifty percent of the going rate during the next five years.[it is very easy to get blindsided by this fact] however While companies do not pay corporate income taxes during the incentive period, they pay other taxes such as GCT, NHT, NIS and PAYE, which have been increasing as these companies expand. Data gathered on Junior Market companies up to May 2015 showed tax collection from GCT amounting \$984.05 million, NHT at \$148.37 million, NIS was \$112.19 million, and PAYE stood at 478.60 million. These are taxes that the government collects which filter back into the economy.

However, let us not be comforted by Billions of dollars raised on the local capital markets, the increased capitalisation, the #1 ranking by Bloomberg in 2015.. The capital markets are not totally an end in themselves but the means to an end. The billions increase in the market capitalisation is great. If this efficiency of movement in the transfer of capital from investors (retail and institutions) to the users of capital (organisations, government, individuals does not create broad based economic growth and development then the growth opportunities afforded by the capital market would not have been sufficiently utilised.

“Five in four” is a big goal, an achievable goal which requires that many interconnected variables work effectively and efficiently. The Capital markets is one of those variables that if efficiently and effectively utilised will make the achievement of the economic growth targets a little easier. Who’s to tell ‘Five in Four’ may just become “Five in three or Six in four”

Given the importance of the capital market, there is need for deepening of the market to allow a wider pool of stakeholders to participate. The integrity of the market is important in generating confidence among businesses to raise capital and for investors to invest. There needs to be a reduction in the reliance on bank lending given the high cost of borrowing for businesses among other challenges that businesses may encounter.

The Jamaica Stock Exchange under the leadership of Mrs Marlene Street-Forrest and her management team and the Board of Directors is doing an excellent job of deepening the reach of the Stock Exchange by education and with enabling technology and innovative products

The government should consider other measures to enable the development and deepen the reach of the capital market. The capital market serves as a holistic avenue for economic growth and development. All members and institutions of society are relevant stakeholders and have an active role to play. The Jamaican economy stands to benefit tremendously from further improvements in the local capital market.

Jamaica has the talent , the capital, an efficient well structured, efficient capital market. The question is not why..... but why not..

Thank you