

J.S.E.'s
**14TH REGIONAL INVESTMENTS AND
CAPITAL MARKETS CONFERENCE**

***"EXPANDING OUR BORDERS:
SECURING OUR FUTURE"***

**ROUND TABLE DISCUSSION: PRESENTATION
*"CAPITAL MARKETS: THE KEY TO
CAPITAL FORMATION, JOB AND WEALTH CREATION"***

BY

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JAMAICA PEGASUS HOTEL

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ACKNOWLEDGEMENTS

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SALUTATIONS

Warmest congratulations on reaching the half century mark

- **Anniversary** - JSE was launched as Jamaica marked its 7th Year of Independence. Since then, you have played a pivotal role in the development of the Jamaican economy.
- **Bloomberg Award** – Warm congratulations are also due for retaining your top ranking Award as the **World's Best Performing Stock Market** – outplaying 93 other national benchmarks.

CAPITAL MARKETS: THE KEY TO CAPITAL FORMATION, JOB AND WEALTH CREATION

What are Capital Markets and Why are they important?

Capital Markets are created by a network of specialized financial institutions, underpinned by a series of mechanism, process and infrastructure which combine to facilitate bringing together suppliers and users of medium to long term capital for investment in projects for economic development. The growth of a country depends largely on the level of Savings and the productivity of capital investment which constitute the capital-output ratio. Without savings and investment, growth will be stymied.

Promoting adequate levels of investments is the only way to achieve sustainable economic growth and development. The capital market makes the process possible by the financial flows to fuel capital investment and growth, encourage job creation and lift productivity.

Through the institutional arrangements of a Stock Exchange, surplus funds in an economy may be linked to deficit sectors in the economy. Through a resource mobilization effort, assisted by modernization in the financial sector, we promote savings to drive efficiency and growth in the economy.

There is a direct correlation between robust economic growth and the stock exchange, as we have seen in countries with some of the largest exchanges: South Korea, Taiwan, India, Brazil, China and South Africa.

Evidence of Wealth Creation in the Jamaican Context

In 2017, the market capitalization for the Combined Market for the first time surpassed the trillion-dollar mark. It closed at J\$1.2 trillion at the end of December 2017, an increase of 45.28% over the previous year.

Also reaching the trillion-dollar mark was the market capitalization of the Main Market which grew significantly to J\$1.05 trillion in comparison to the J\$697.45 billion recorded in 2016.

For the Junior Market, capitalization at the end of 2017 amounted to J\$114.8 billion, an increase of J\$11.38 billion or 11% over the J\$103.42 billion recorded in 2016.

For the US\$ equity market, Market capitalization at the end of 2017 increased by 56.6% or US\$80.49 million to US\$222.58 million in comparison to the US\$142.13 million realized at the end of 2016.

At the beginning of 2018, 26 stocks were traded on the main market with a value of J\$102 million, at December 31, 2018, 28 stocks were traded with market value of J\$121 million. This is a 18 percent increase in value, outperforming all other asset class.

Job Creation and Growth

Companies that accessed the capital market have expanded their operations, retired expensive debt and used low cost equity to make strategic investments in physical assets. These are making significant gains in terms of revenue growth and profitability.

For 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.

Derrimon Trading has completed a number of acquisitions which led to them earning revenue of over J\$11 billion moving from J\$2.7 billion when they listed. Importantly, they have increased employment significantly.

Going Forward

- Your Conference Theme: Expanding our Borders: Securing our Future:

Within a single market – JSE should lead the way in building an international trading platform for the region.

In this round table session, we will discuss how a deeper stock market, with more available funding, will in turn attract larger investors from within and outside the Caribbean.

- Closer attention needs to be paid to the ownership structure of corporations within the context of a deepening, global capital market institution. Most corporations tend to be owned by a family, a business group or the state. Of the 540 largest publicly traded corporations in 27 major economies with strong capital markets, 30 percent of these companies are owned by a **family**, 18 percent by the **state**, 15 percent by some **financial and business group**, so only 37 percent is owned by the **general public**.
- Given that different owners have divergent objectives, the question becomes: what rules and institutions must be established in the economy to ensure that ownership of corporations via the capital markets is done in such a way to benefit the economy and not merely enrich a dominant group?

- Critically, policymakers using the capital market who, are charged with advancing policies to stimulate economic growth should consider rules to govern: A) who owns its major corporations, B) the structure that is used to control such ownership, C) the implications of the ownership structure on the operations of the corporation.
- Need more listings on the JSE to increase wealth, investment in strategic assets, business expansion and growth and employment creation. The SME sector is ripe for targeting as most of the firms there are underserved by the formal banking sector. World Bank Data shows that over 70% of SMEs in the formal sector is unserved or underserved by the financial sector. The capital market will provide a strong source of mobilizing additional resources to give this sector the oxygen it needs.
- As you celebrate your golden Anniversary
critical voices, including some from unexpected quarters, are increasingly heard for prosperity to be shared and not confined to the few;
that workers must enjoy the benefits of economic growth.
Persons from all walks of life, particularly young people must be informed and encouraged to invest.

- We need to broaden the participation of stakeholders in the market so that more Jamaicans can enjoy the benefits of the wealth creation. This will require greater focus on Access to ordinary Jamaicans. We need to change the mindset of workers who give to workers who invest and become owners through public education. We have to bring the market to the people through innovative programmes, such as a nano-exchange for Tertiary students and micro businesses in the cottage industry.

Your sustained level of outstanding performance throughout the past five decades establishes a high level of confidence that in the years ahead you will continue to build a sound platform from which can be launched a trajectory of high investment, increased savings, accelerated growth and a wider spread in the building of an edifice which will lift the standards of life for all our Jamaican people.