

Deepening & Widening Capital Markets Accelerating Economic Growth and Job Creation

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1. INTRODUCTION

Mr. Speaker, first, I would like to say how very fortunate I feel to be standing in this honorable house on behalf of the residents of St. Andrew Eastern. I **thank** them for their belief in me and their hard work in ensuring our victory on February 25.

Thanks also to the Prime Minister and the Finance Minister for their confidence in me and to my entire family (near and extended) who stood behind and beside me all the way, particularly my husband and our two daughters.

Thanks to my colleagues, caretaker councilors (Andrew Bellamy and George Planto), my chairman and esteemed management team, who so ably helped me through the election and are still with me, all my workers (supervisors, indoor/outdoor agents, runners) and all the persons who assisted me in so many different ways, I thank you from the bottom of my heart. Finally, thanks to the team at the Ministry of Finance and the Public Service for their work since we have been in government.

My primary goal is to work with my colleagues and all stakeholders to ensure that this economy moves from poverty to prosperity, because once that happens, all Jamaicans will benefit.

2. St. Andrew Eastern ...untapped leadership potential

Mr. Speaker, St. Andrew Eastern has the capacity to provide leadership. We can build on the constituency's enormous assets, which include its vibrant business communities, primary and high schools, institutions such as the University of Technology, Heart VTDI on Gordon Town Road, the region's premier teaching hospital (UHWI) and the university (UWI). We have an awesome opportunity to bring significantly more students from all over the world to study our culture, our sports, our music, our flora & fauna and our people. Then there is Papine Square with its bustling marketplace and the awakening realization that it is the gateway to the Blue and John Crow Mountains, two of our many landmarks to the rest of the world.

All our communities in St. Andrew Eastern are within comfortable proximity to universities, thus allowing them the economic benefit of offering varying levels of student housing, a product on which we are focused for significantly further development. We have many communities bursting with talent in music, sports & entertainment.

But, we are not without issues, Mr. Speaker. Unemployment is the number one problem for our young people and is highest within the persons with disability community. This is particularly stark when we consider that St. Andrew Eastern has among the largest communities of persons living with various forms of disabilities. (I want to acknowledge the students from Lister Mair Gilby School for the Deaf and to say thanks to our

Interpreter.) I would have liked to have some of the persons with physical disabilities here, but there is no access in our Parliament for persons in wheelchairs. This is a stark reminder to our government to make Parliament more accessible to persons living with physical disabilities.

Mr. Speaker, within days of being elected Member of Parliament, we swiftly began a skills assessment program in St. Andrew Eastern, which has enabled us to place 210 persons in a variety of jobs. **This Mr. Speaker**, will be continuous. We are connecting persons with HEART to get training and we have begun efforts to bring HEART programs into the communities. For the entrepreneurial-minded person, we are connecting them with economic assistance and are pointing the way to grants and other financial aid that they can access. We have completed a needs assessment for our basic and tertiary schools, our roads and our community centers. We believe that our community centers should be restored as a pride of place in communities. Too many of them have been allowed to fall into disrepair. Many need a management structure to ensure their sustainability. We are helping communities to get there because we believe that communities matter, from the inner city communities of Jarrett and Sanders Lane in the southern-most part of the constituency to Backbush, Top Range, Chambers Lane, Standpipe, Hermitage, August Town, Elleston Flats, Tavern, Highlight View and Landlease, to our middle class communities in Hope Pastures, Long Mountain, Beverly Hills, Mona Heights, Karachi, Ravinia, Mountain and Barbican Terrace.

Communities matter.

Mr. Speaker, when we have working communities, when we have safe communities, we have a working Jamaica, a safe Jamaica.

3. Roles and Function of the Ministry of Finance and the Public Service

It was only two weeks or so ago, at the Caribbean Financial Action Task Force conference, at the Montego Bay Conference Center, that the Attorney General of Trinidad & Tobago congratulated us on winning the election and on getting through the budget process with high marks. He then offered empathy for the enormous task we have ahead of us and observed that Jamaica has half the budget of Trinidad & Tobago, yet more than 2 times the number of people.

The Ministry of Finance and the Public Service, Mr. Speaker, is at the heart of Jamaica's economic and fiscal policy development, playing an important role to ensure mobilization of public resources for the whole Government.

We are further charged to oversee how these resources are accounted for as they aim to benefit all Jamaicans. But, it is not just about the budget and holding the line on expenditure. It is also about how to proactively help other ministries effectively provide the roads, the education, the health services, the security and other social services for the Jamaican people. It is about how to accelerate the reforms to widen and deepen our capital markets and how to help the private sector and our public enterprises efficiently provide those products and services to achieve the fastest rate of economic growth and job creation.

Mr. Speaker, we realize the urgency of this. No place is this urgency better captured than in a recent survey.

“When asked about the feasibility of quickly coming up with 28,000 Jamaican dollars (approximately US\$225) in an emergency, 37% of Jamaicans report that it would be ‘not at all possible’ or ‘not very possible’. This very sad finding came from the 2014 Global Findex survey.

Mr. Speaker, how do we take an economy in which 37% of Jamaicans cannot put their hands on \$28,000 Jamaican dollars in an emergency to one in which Jamaicans have a more secure and prosperous future?

I think we begin by understanding how income is generated in a country. There is a measure of GDP that says GDP is the sum of the total income that households earn from land, labor, capital (financial capital) and entrepreneurship. When we think about GDP this way, I believe we can immediately see how we have been missing the mark on GDP growth, as land lies idle with about only 54% of land in Jamaica with registered titles. Think of how much income and commercial activity could be generated if we could get to a level of say Ireland, a country in which 85% of titles are registered. Our job at the Ministry of Finance and the Public Service is to assist the Minister in charge of lands in whatever way we can to reduce the 9 procedures down to 2 and get to a point like New Zealand, the country ranked #1 in title transfers, in which titles that are free of disputes can be transferred online in less than a day (10 days if you use the paper based system)

because seriously accelerating land titling will significantly move the growth needle. The IMF noted that “...the ability to post collateral remains restricted to those in the upper levels of income, in part due to weak land titling. The IMF also said that property registration is among the areas Jamaica needs urgent improvement in. Working with the Ministry of Economic Growth and Job Creation, we are going to get it done, in our time.

5. Capital Markets Development

Credit Creation – Impact on Economic Development

Mr. Speaker, another way to take an economy in which 37% of Jamaicans cannot put their hands on \$28,000 Jamaican dollars in an emergency to one in which Jamaicans have a more secure and prosperous future, is to understand the impact on the economy from increasing the level of credit creation. I am calling on our banks as they can best do this.

Mr. Speaker, bank credit to the private sector is approximately 30% of GDP, well below the 52% average among countries in Latin America and the Caribbean according to a World Bank report entitled “Jamaica: Laying the Foundations for Growth and Debt Sustainability”, Fall 2015.

We know our banks are adequately capitalized. The Bank of Jamaica in its report said that capital adequacy ratios remained above the 10% minimum benchmark even in response to extreme but plausible hypothetical credit, foreign exchange, interest and liquidity shocks.¹ In fact, banks’ capital adequacy ratio hovers around 15%. The average under the Basel III regime is 8% capital to risk weighted assets.

Another indicator of how well banks are doing is loan quality, which is the ratio of non-performing loans to total loans and to private sector loans. This has improved to 4.1% and 4.2% respectively as of the end of 2015. The international benchmark for non-performing loans is 5%. So, there are no issues with bad debt.

¹ Bank of Jamaica, Annual Report 2015

On the profitability front, banks had a 20% pre-tax profit margin at the end of 2015 and a return on average assets of 2.1%. For perspective, the return on average assets for all US banks was 1.03% as measured by the Federal Reserve Bank of St. Louis², a half of that of Jamaican banks.

Mr. Speaker, credit creation helps to expand an economy. Everyone knows this. Yes, “private sector credit growth is showing some uptick, increasing by 11 percent y/y in Q1 2016, partly reflecting increased capital investments in hotel and business process outsourcing industries.”³ Yes, “Corporate loan growth increased in real terms slightly by 4.8 percent y/y in 2015.” However, as the IMF noted, “Banks’ exposure to the corporate sector, has declined for three years in a row, to around 17.2 percent of total bank assets in 2015, while corporate sector non-performing loans continued to decrease.” Total private sector corporate debt is around 12 percent of GDP, very low compared to other countries at a similar development level, again according to the IMF’s findings. So, our banks are adequately capitalized, non-performing loans are low and return on asset is strong. There is room for banks to accelerate credit creation to help the economy grow.

Capital creation comes from profits that companies make but a more important source is capital creation through bank credit.

² <https://fred.stlouisfed.org/series/USROA>

³ IMF Staff Report, p9

Capital Markets

Another obvious solution to economic development and job creation is our capital markets as distinct from our banking sector. Jamaica's capital markets are underdeveloped by international standards. Because capital is so key to raising productivity, it occupies a very central position in the economic development process. In fact, Mr. Speaker, economists have long recognized that capital is the very core of economic development. Regardless of the type of economy (free enterprise or centrally managed), economic development cannot take place without capital formation. We know that employment will increase as capital formation increases in the economy.

Mr. Speaker, in our 10-point plan prior to the election, restoring the benefits of the junior stock market to grow small to medium size businesses, as they form a stable base for job creation, was the second point in our plan.

It bears noting the results of the junior market. Companies that have raised capital from the public and have listed on the junior market have increased revenue by an average of 67% and have employed 3,107 additional persons since the exchange was introduced in April 2009 with the support of the Ministry of Finance. PAYE taxes from these companies have increased from \$243.5 million to \$478.6 million, a 96% increase. NIS contributions went from \$50.9 million to \$112.2 million, up 120%. We note as well the rise in NHT contributions to \$148 million from \$78 million and the tripling of GCT from \$225 million to \$984 million. These figures compare the companies in the year prior to listing versus their performance for 2015. These are absolutely fantastic results. While the IMF would rather us lower the barriers to entry for companies to list on the exchange

and simplify the listing requirements, than use tax incentives to encourage listing, nevertheless, they said expansion of the junior stock exchange should be encouraged because developing financial markets to provide alternate financing sources is important for building private sector entrepreneurship.

Mr. Speaker, the Ministry Of Finance and the Public Sector stands ready to take a leading role in deepening and widening the government and corporate debt markets, much like it did in April 2009 when it took a leading role in establishing the junior stock exchange.

In order to facilitate financial products such as factorization and securitization of credit, it is essential that a high degree of liquidity be ensured, so that market risk is minimized. The improvement of domestic bond markets, primary and secondary, is crucial in this regard.

When corporate bond markets are underdeveloped the risks of supplying long-term capital are concentrated in the banking sector. In order to mitigate the over-concentration of risks in banks, it is important that both government and corporate bond markets be developed. The risks would then be dispersed, and companies would be enabled to finance their investment from various sources in the domestic markets.

The World Bank looks favorably on securitization. Often such “securitization” is done by parceling up loans and selling them to a special purpose vehicle which then issues securities backed by the loans and their underlying collateral. Both the World Bank and IMF (2001, p 297) laud securitization as “an advanced stage of market evolution ...

[which] allows for better management of balance sheets.” They also noted that where bond markets have been developed, banks may be able to use them to sell off some of their loans. This may enable banks to economize on capital, reduce maturity mismatches, enhance their liquidity and diversify their credit exposures.

Real Estate Investment Trusts (REITS)

Mr. Speaker, other instruments that we can look to widen and deepen capital markets to help accelerate economic growth are real estate investment trust or REITS. REITs are recognized as an effective structure to finance and manage listed real estate and are a key feature of the majority of the world's developed investment jurisdictions. Currently, there are 37 countries worldwide that have REIT or 'REIT-like' legislation in place.

REITs allow both small and large investors to acquire ownership in real estate ventures, own and in some cases operate commercial properties such as apartment complexes, hospitals, office buildings, warehouses, hotels and shopping centers. Two (2) such companies exist on the Jamaica Stock Exchange, one which I lead for 7 years.

Mr. Speaker, in order to attract international money managers to invest in commercial real estate in Jamaica utilizing the REIT structure, their first question is always, “Is there REIT legislation in Jamaica?” REITS create liquidity in real estate. REITs provide a [liquid](#) and non-capital intensive way to invest in real estate. Having REIT legislation is another way to widen our capital markets.

Listing state-owned entities

Some of our state-owned entities would also be good candidates for listing on the stock exchange. In fact, Mr. Speaker, the model being used for privatization of state-owned entities has been reviewed to include listing Public Bodies that are suitable for privatization on the Jamaica Stock Exchange. This is intended to broaden the ownership base of assets in the country. It is anticipated that this method of divestment could result in a quicker turn-around time in the privatization of entities and enlarge the pool of investible funds that can contribute to GDP growth. In the first instance, the Government is encouraged to undertake partial divestment of shares in selected Public Bodies, with the Government maintaining majority control. It is expected that the visibility of share prices on a daily basis will provide the incentive for the directors to concentrate on what the business should really be doing.

Public bodies

Mr. Speaker, presently there are 190 active public bodies with 42% of them (or 80) characterized as self-financing. This means the other 110 have to be supported by central government.

Total gross assets of 64 of the public bodies are \$1.1 trillion. Jamaica's GDP is \$1.7 trillion. The public enterprises employ approximately 14,000 persons and their capital

spending budget this year is \$58.8 billion, a much higher figure than the \$43 billion at central government.

We just concluded a review of the public enterprises sector in partnership with the Fiscal Affairs Department of the IMF. It is a study that began in September 2015. It is expected that the public bodies will be subject to new categorizations with the appropriate legislative, regulatory and governance arrangements. This is necessary because for the period 2002 to 2014, the average annual return on asset at our public enterprises has been -2.8%. This compares to a high of 3.3% for the cohort of 12 island economies in the study. The average annual return on taxpayers' equity for the same period was -21.3%, the worse in the cohort. The contribution of the public bodies to GDP in 2014 was 0.3%. In other island countries, the contribution to GDP ranged from 1.2% to a high of 11.9%. Only twice in 10 years did the public enterprises as a whole generate positive returns on asset and on equity, in 2003 and 2010. These figures are from a study entitled "Finding Balance 2016. Benchmarking the performance of state-owned enterprises in island countries." Jamaica was one of those that was benchmarked.

Mr. Speaker, these results should give us pause when we consider that the public enterprises were only able to contribute 0.3% to GDP despite having subsidized capital, monopoly market power in some cases and ongoing taxpayer cash transfers in other cases.

Our government believes in holding our public enterprises accountable for achieving commercial returns on the \$1.1 trillion of assets they collectively own. We support mechanism for long-term improvements in productivity of state assets. These mechanisms include full privatization, partial privatization through public listing on the local stock exchange, joint ventures, or public private partnerships (PPP) a leading tool for realization of infrastructure projects worldwide. One of the analysis that we plan to do is properly cost and **over-time** properly fund the subsidized activities such as social water, urban transportation, also known as Community Service Obligations (CSOs) that central government imposed on the public bodies. We also will act to correct the deficiencies in the Public Bodies Management and Accountability Act 2001 as the study noted. The notable ones are:

- 1) There is no primary objective that requires the SOEs to operate commercially
- 2) There are no provisions dealing with Community Service Obligations
- 3) There is no statement establishing the role of directors and how and for what they are held to account.

Mr. Speaker, the World Bank study said that when public bodies contribution to GDP is much smaller than the portion of fixed assets that they use in the economy, this inefficiency acts as a drag on economic growth. The resolve, as was publicly stated, is to address this through accelerated program of commercialization, restructuring and full or partial privatization. We favor stock exchange listing as this will generate revenues for the people of Jamaica but more importantly, listing introduces disclosure and governance requirements.

The recommendations in the study are many including the need to register commercial public bodies as companies under the Companies Act.

Private Sector Pension Reform – Phase II

Mr. Speaker, we are well aware that the accumulation of pension funds and their investment in financial markets can contribute to important economic development. In other countries, their pension funds have played important role in the mortgage market. Pension funds are long-term funds. We have seen where pension funds have played an integral part in markets. The spin off has been greater levels of employment and real wages.

Both our private and public sector pensions need to be addressed. In the private sector, phase II reforms that would provide benefits such as indexation, portability and participation in multiple pension arrangements have been pending since the Pensions (Superannuation Funds and Retirement Schemes) Act was passed in 2004.

In the public sector, the Pensions (Public Service) Act to establish a contributory pension scheme is also important legislation to come before this house. A critical component of the reform is automation of the business processes to address the predominantly manual system with paper based records that take as long as a year to process a pension application. Automation will also allow the government to forecast its pension liabilities. Retirement benefits accounts for approximately \$30 billion in this year's budget, or about

10% of the recurrent expenditure. Getting the public employee pension administration system completed is a key goal for this administration.

Financial Inclusion

We will accelerate the actions required for financial inclusion to happen.

Financial Inclusion is the uptake and use of appropriate financial products and services by underserved individuals and micro, small and medium sized enterprises, provided in a manner that is convenient and safe to the customer and sustainable to the provider.

Improved financial inclusion is an important enabler of sustainable economic growth, job creation and development. The IMF and other multilateral financial institutions also recognize and support financial inclusion as a key pillar of financial development and inclusive growth.

We have to move fast on this, as we know that households in Jamaica remain very financially vulnerable. Households lack suitable and accessible savings, affordable insurance and retirement products. Without these, households are going to continue to struggle to be financially resilient, meaning problems hit them (lost their job, death in the family, health issues) and where they should have insurance or savings there is none and so they fall flat on their faces, having to pick up and start all over again and again.

We commit to moving swiftly with the reforms that will contribute to increased usage of savings, health insurance, life insurance, property insurance, mortgage insurance and retirement accounts for the low-income households. This is urgent when you consider

that approximately 30% of Jamaicans in the poorest half of the population do not have a bank account.⁴ For MSME our goal is to help the market revamp the credit guarantee scheme, develop alternative financing instruments such as leasing and factoring that are suitable for MSME's.

I agree with the National Financial Inclusion Strategy that was articulated that "...with improved financial inclusion, households can manage irregular cashflows, increase investments in entrepreneurial activities and afford basic services such as education and health. They can insure against adverse events and thus avoid falling into poverty. For businesses and farms, especially small and new ones, access to finance encourages investment in new and more productive activities and helps them expand, mature and generate employment. Financial inclusion is an enabler and accelerator of economic growth, job creation and development. It can help households have better lives."

De-Risking

This takes me to the issue of de-risking. A threat to Jamaica's efforts towards growth and sustainable development is the reaction of global banks to rapidly changing international standards associated with anti-money laundering and countering the financing of terrorism (AML/CFT). The response for many has been simply to undertake broad brushed terminations and restrictions of their correspondent banking relationships without due consideration for the extent of actual AML/CFT risk. The response action generally includes a withdrawal of correspondent banking services from selected market segments and categories of clients.

⁴ Financial Inclusion Strategy, p2

Over the past 5 years, 80% of Jamaican deposit taking institutions have had terminations or other forms of restrictions placed on correspondent relationships by their international banking partners. Herein lies a worrisome threat to advancements in sustainable development. Correspondent banking relationships are necessary for the facilitation of international money flows, including the provision of foreign exchange services, letters of credit, check clearing, cash management, wire transfers and trade financing, which allow for cross border business and economic activity. De-risking by correspondent banks not only constrains development through the direct suppression of business opportunities but through its stagnating effect on financial inclusion.

Money services businesses are being financially excluded due to de-risking. Cambios in Jamaica are now partly being excluded from accessing the services of global correspondent banking services. Cambios that are legitimate and supervised provide formality in the exchange of currency. They also play a contributory role to development by widening access to the regulated financial sector for many unbanked low income segments of society. Therefore, the exclusion of cambios from the correspondent banking chain will partly stifle Jamaica's objective of financial inclusion, poverty reduction and sustained growth.

The broad-based termination and restriction of correspondent banking services is a matter critical for financial inclusion and by extension national development. The global community has agreed that reducing cross boarder activity and weakening international financial links with small states was not the intended result of tightening standards related to financial crime. The challenge for us now is to encourage the reforming of relationships that were impacted without due consideration for actual AML/CFT risks.

All stakeholders should collaborate with intentional rule setting bodies and global banks to strike a fair balance between AML/CFT standards and global financial inclusion. Jamaica is making strenuous efforts to address the problem. Bank of Jamaica has joined with the other central banks in the region in making strong representations to the international regulators and rule-setting bodies. The US Treasury has been responsive and joined with us in organizing structured discussions with institutions in Jamaica and the region who have been affected by the rising tide of strictures. The Government is engaged at all levels in making the case for international financial inclusion in an environment of compliance with rules that protect the system, maintain good order and support economic growth and development.

Mr. Speaker, our Government is an inclusive one, so our financial system must also be inclusive, not elitist. The international community must also be inclusive. All hard-working Jamaicans engaged in legitimate business *deserve* access to our domestic and the external financial systems. All law-abiding Jamaicans *deserve* a sound consumer protection framework. All law-abiding citizens should be given the tools to engage with financial institutions, local and international, to obtain credit, purchase insurance, save for their retirement and invest in businesses, homes and property in Jamaica.

What we Inherited

Mr. Speaker, while we talk about credit creation, widening and deepening capital markets, fostering financial inclusion, engaging in reforms in both private and public sector pension arrangements, stream-lining our public enterprises and listing the appropriate ones in order to accelerate economic growth and job creation, we are mindful of items we inherited that act as a drag on economic growth.

We inherited a mountain of domestic arrears, which are bills owing to businesses and other government entities, of approximately \$23.9 billion. These bills are for goods and services that were consumed long ago but they now compete for payment with the limited resources in the current budget.

We also inherited \$21.7 billion of tax refund arrears payments, that is, tax to be refunded to persons from whom the government collected it but this cannot be done because of the limited resources.

Together these total \$45.6 billion dollars and represent funds that the provider of the goods and services did not expect to be tied up this long. Viewed another way, these obligations represent approximately 3% of GDP, whose release into the economy would significantly improve the growth agenda in the quarters to come.

Mr. Speaker, we are seeking solutions for these inherited items.

Additionally, Mr. Speaker, we now have to confront the drag from that leg of the fiscal consolidation stool that is not so strong or permanent. I am referring to the \$11.4 billion NHT withdrawal that comes to an end this fiscal year. That was one of the legs under the fiscal consolidation of the last 4 years. Mr. Speaker, it was indeed a temporary leg that provided support. We now must replace this temporary leg of the fiscal consolidation stool with something more durable. Much has been said about the gains of fiscal consolidation without any reference to this **temporary** support measure.

Mr. Speaker, we are seeking solutions for these inherited problems.

Conclusion

Mr. Speaker, the Ministry of Finance and the Public Service stands at the intersection of economic development and job creation. It impedes growth or it facilitates growth. It has direct oversight of 190 public enterprises. It is the Ministry to which all sorts of issues come to be resolved from across a broad cross-section of industries and other ministries. We have had to be innovative in our solutions and we have had to move at the speed of business.

As Member of Parliament for St. Andrew Eastern and State Minister on Finance, I am acutely aware of the task ahead of me and have committed to ensuring that our society benefits from the trust they have bestowed. I am pleased to be part of a government that does not take the welfare of its people for granted.

The Ministry of Finance and the Public Services stands at the intersection of economic development and job creation. Jamaicans are counting on us to move swiftly. They have no more time to wait. We commit to move at the speed of business.

God bless you. God bless Jamaica, land we love.

Thank you.