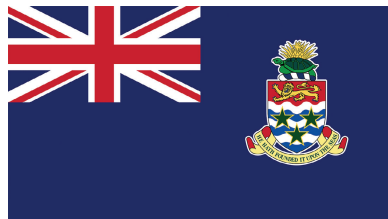
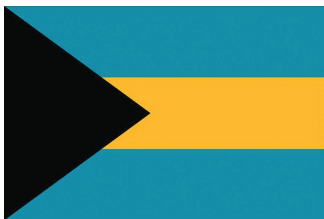


CFA CARIBBEAN SOCIETIES RESEARCH BRIEF

January 2023

THE EVOLVING CAPITAL MARKETS OF THE CARIBBEAN

Local Capital Markets in the English-speaking Caribbean: Challenges
and Opportunities



Monique French, Editor



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Profiles

Monique French, CFA, is Vice-President and a founding member of the board of directors of the CFA Society Jamaica, which is the 100th Society in existence. She is presently the group-wide chief credit officer for the largest banking franchise operating in the region across 16 territories following her banking and investment experience at Citibank and Scotiabank. Her extensive experience in the financial services industry includes leadership positions in credit, debt, risk management, treasury, sales & trading, and reporting & analytics. She is an executive with a depth of expertise in treasury, retail, small business, corporate, sovereign, and private banking segments. She has served on various industry, public sector, community, nonprofit, and economic committees and boards of directors. Monique has held the CFA Charter since 2000, in addition to holding BSc & MBA degrees, the Financial Risk Manager designation and completing the Canadian Securities Course. Monique is winner of the 2020 WeQual Award for the Finance category in the Americas, which recognizes world-class women executives, and she is the first and to date only winner from the Caribbean region. Monique is Jamaican.



Holland Grant, CFA, is the chief operating officer of The Bahamas International Securities Exchange. Holland joined BISX in 2006. During his time at BISX, Holland has focused attention on capital creation and market transparency, amongst other areas. Mr. Grant has previously held positions at Insurance Management Bahamas Ltd. and at The Bahamas Entrepreneurial Venture Fund Ltd. Mr. Grant has a Masters in Business Administration from the Rotman School of Management at the University of Toronto with a focus on entrepreneurship and finance, a Bachelor of Commerce (Finance) from Dalhousie University, and an Associates of Arts from the University of The Bahamas (then “the College of The Bahamas”). Holland is also a Chartered Financial Analyst (CFA) charter holder. He also serves as a part-time lecturer for the School of Business at the University of The Bahamas. In his free time Holland plays the saxophone, engages in mentorship for young men, and is a founding member of the One Family Junkanoo Group. Holland is Bahamian.



Charlene Lewis-Small, CFA, is the Inter-American Development Bank (IDB) Group’s private sector financing specialist responsible for ESG-driven business development and execution in The Bahamas, also working on wider Caribbean infrastructure projects. In addition, she provides support for sovereign infrastructure activities in The Bahamas. She joined Investment Operations at IDB Invest (an arm of the IDB Group) in 2017 and is currently on temporary transfer to the Social & Environmental Risk team. Prior to this, Charlene was a director in KPMG’s financial advisory practice, where she led Caribbean engagements across a variety of industries and engagement types. Her work was often cross-jurisdictional and multi-functional in nature. As the



technical and client lead for tourism and infrastructure, she headed research, thought leadership, and new business initiatives for the regional practices by writing, researching, and speaking about related topics, developing proposals, and planning client knowledge events. Additionally, Charlene was the lead for performance quality, compliance, and risk management for The Bahamas' Deal Advisory practice. Charlene holds a BA in Financial and Economic Studies from the University of Western Ontario (now Western University) and an MBA in Global Business (Latin American track) from the University of Texas at Austin. She is a CFA charter holder and CPA licensee. Charlene is Bahamian.

Justin Robinson, a professor of corporate finance, is a national of St. Vincent and the Grenadines, and currently serves as Pro Vice-Chancellor, Board For Undergraduate Studies, University of the West Indies. He is responsible for academic quality assurance across UWI. He obtained his PhD in Finance from the University of Manchester, UK. He also holds an MSc in Finance and Econometrics from Florida International University and a BSc in Management Studies (First Class Honors) from the University of the West Indies, Cave Hill Campus, Barbados. Prof. Robinson's research interests are capital markets in developing countries, public finance, financial risk management, and corporate finance in developing countries. Professor Robinson currently serves as a director of the Central Bank of Barbados, JMMB International, WIBISCO, and First Vice President of the Barbados Museum and Historical Society.

Marla Dukharan is a Trinidadian economist, analyst, and public speaker known for her focus on the economies in the Caribbean Basin. Marla worked in the Caribbean financial sector from 1996 to 2017, most recently as group economist for RBC Financial (Caribbean) Ltd. She has written and presented on issues of Caribbean economic development, and was given the honor by the Eastern Caribbean Central Bank in 2017 to deliver the Annual Sir Arthur Lewis Memorial Lecture. In 2018, Marla was invited by the Central Bank of Curacao and Saint Maarten to speak about the withdraw of correspondent banking relations in the Caribbean. In 2011, Marla was invited by the University of the West Indies to present her research on "Testing Dominant Theories in Finance Using the Trinidad and Tobago Stock Exchange." Her research on behavioral finance has been published internationally in peer-reviewed journals and presented at academic conferences in the Caribbean. Marla's research on Petro Caribe was presented at the 5th Biennial International Business, Banking and Finance Conference, UWI St. Augustine, Trinidad and Tobago. Marla's research article on the local capital markets in the Caribbean was funded by CFA Society Cayman Islands.



Tameka Walker-Mowatt is a trained economist with over 15 years' experience working in the private and public sectors in risk management, investment management, tax policy and budget analysis, and the generation of overarching economic forecasting models supporting national development goals. She was the Senior Manager, Liquidity & FX Risk for the English Caribbean Region (ECR) at Scotiabank. In that capacity she had oversight of the Bank's liquidity and trading risks in addition to maintaining and enhancing appropriate liquidity and trading risk framework. She was also instrumental in supporting the development and implementation of an appropriate liquidity stress testing framework including model execution, reporting, monitoring, and related policies and procedures. Tameka is Jamaican.

Kevin Walters, CFA, is the Director of Market Risk for the English Caribbean Region at Scotiabank. In his current capacity, Kevin is charged with leading the Caribbean Market Risk Management Team, which is a regional team that focuses on the monitoring, measuring, modeling, and reporting of market and liquidity risks in addition to partnering with key stakeholders across both profit and risk optimization initiatives. Kevin is a seasoned finance professional with over 14 years of experience in areas such as risk management, financial and economic modeling, investment strategy and analysis, asset allocation, policy development, strategic influencing, and security pricing and valuations. Kevin is Jamaican.



Wayne Dass, CFA, is the Chief Executive Officer of Caribbean Information and Credit Rating Services Limited (CariCRIS). Wayne holds BSc and MSc degrees in Engineering and is a Chartered Financial Analyst (CFA) charterholder. Wayne is a seasoned finance and risk professional with over 25 years of experience in financial and capital markets, with special expertise in credit risk assessment. Over the past 16 years, Wayne has successfully led the expansion and development of CariCRIS. Under his leadership, CariCRIS is now well established throughout the region with a solid track record for independence and integrity in its ratings. Wayne is Trinidadian.



Karen Smith is currently pursuing a PhD in International Economics and Finance at Brandeis University in the United States. Karen is in her third year of the program researching topics in behavioral economics and finance. She has over five years' experience in asset management and investment advisory. Prior to joining the program at Brandeis, Karen served as a portfolio manager with Infinity Financial Engineering Ltd. (a private, local investment advisory firm), where she managed a significant portfolio of assets including a separate sizable options portfolio. As portfolio manager, a critical part of her role was to develop a quarterly economic outlook for existing and prospective clients. The outlook focused on regional and global macroeconomic conditions and the anticipated impact on investment conditions at home and abroad. Her interest in understanding the dynamics of macroeconomics and finance and the crucial role they play in financial markets led to her pursuit of a PhD in the field. Karen is Trinidadian.



Introduction

In late 2019 the CFA Society of Jamaica conceptualized the creation of a research publication on the Caribbean capital markets as a collaborative effort of the CFA societies of the region. While this brief is focused on the English speaking Caribbean, we acknowledge that there are Spanish-, French-, and Dutch-speaking Caribbean territories; this reflects the wonderfully diverse nature of the region.

The effort to make this brief a reality has truly been a labor of love marked by commitment, resilience, and determination, echoing the nonlinear and at times defiant development of the capital markets and financial sector in the region. The January 2020 timing of the kickoff of the initial concept collided head on with the shock, disruptions, and multiple and complex consequences that the COVID 19 pandemic had on world markets, the Caribbean economies, the CFA Institute, the individual CFA Societies, and the lives of the persons involved in the coordination, editing, and writing. But here we are—after investing in this effort, holding on through volatility—now delivering. The editor and almost all of the writers of the articles—each from a country in the Caribbean where there is a CFA society: Bahamas, Barbados, Eastern Caribbean, Jamaica, Trinidad, Cayman—have given voluntary service and are members of the associated territories’ CFA societies and were selected after consultation with the leadership of each society.

This brief aims to provide the reader with useful insight into the capital market of each territory. Each chapter of this discusses key characteristics, challenges, and evolving solutions for the development of the local capital markets in each country, and the state of the market depth and transparency, Government regulation (or lack thereof), availability and knowledge about financial products, the level of institutional market structures, capital controls, degree of internationalization, extent of product standardization, level of competition and financial participation, and most significant market frictions posed to market participants are covered. The authors, to degrees varying with the context and available information of the respective territory, seek to touch on opportunities and challenges (some more specific to certain markets than others).

The banking industry and capital markets in each of the subregions of the Caribbean have historically seen common regional players, similar fundamental banking rules and legal frameworks, similar evolving recent themes (e.g., responding to externally driven correspondent banking/non-tariff rules, handling climate change impacts, advancing financial inclusion, government financial constraints, privatization) and knowledge sharing among financial institutions and regulators, and increasingly between investors, given it often makes sense to consider multiple islands for economies of scale. The English-speaking Caribbean, the focus of this brief, has been characterized by democracies, and in most cases in recent times, political parties, that are not far part with respect to economic policy positions. Hence the region presents relatively low political risk.

In other ways, the capital markets’ evolution in each territory has been unique, reflecting the various arrangements with and differing relationships to nonregional countries and political regimes (some territories remain under the oversight of their colonial connection), varying historical roles of certain institutions, regulatory maturity and independence, demographic and social structure, technical expertise, foreign exchange regimes (from pegged, to managed, to floating rates), and economic policies. With regards to differences, the foreign currency regimes are a good example. The Caribbean territories of

the Eastern Caribbean (EC), after attaining political independence, successfully crafted and sustained a strong consensus that a degree and form of monetary governance integration and currency union was the best way forward for those small island states (given the volatility of their economies built on agriculture and tourism, vulnerable to external policy and climate impacts, and each having populations of under 200,000). Hence in the EC the Organization of the Eastern Caribbean States (OECS) and the Eastern Caribbean Central Bank (ECCB) have been in place for decades, maintaining a credible currency with a stable exchange rate against the benchmark USD and driving capital market rules, and there is a regional stock exchange for the EC. This contrasts with investment-grade rated Cayman, whose dollarized economy is substantially driven by financial services and an expatriate (intra-Caribbean and extra-Caribbean) population with the highest regional per capita GDP; Jamaica with a relatively large and predominately locally born population (3 million), a huge diaspora, a comparatively diversified economy notwithstanding importance of tourism and services, GDP per capita lower than the regional average, relatively low financial inclusion, a floating (generally depreciating) exchange rate, emerging successfully from an IMF Agreement, and showing the strengthening fundamentals; and Trinidad, which uniquely in the region (until Guyana's recent oil discoveries) is a resource-driven (natural gas) economy, investment grade rated and with a sovereign wealth fund, but still grapples with and reflects practical impacts from the volatility of the global energy market. Given the structural, social, and political context, pace and focus of capital market development has been different in each of these territories.

As you read about the capital market of each territory in each article, you may conclude that “The Caribbean” is a label of convenience. It is the individual territories that drive their capital market agendas, and each continues to develop in its own specific way with linkages waxing and waning depending on the priorities, opportunities, and players (public sector and private sector relationships) at a given point in time. There exists opportunity for regulatory simplification and alignment across the region to enhance regional financial sector efficiency and attractiveness without sacrificing local sovereignty. Generally, more timely, expansive, and granular publicly available data would aid economic and market efficiency. Each author determined the approach to describing the market they covered.

Holland Grant, CFA, starts our journey in The Bahamas and takes us through the important elements of the Bahamian capital market as it has evolved. The existence of exchange controls, parallel onshore and offshore sectors, the Bahamas Exchange (BISX) starting as an equity exchange and later adding a debt exchange, and the government as a material issuer are explored. His article discusses opportunities for further capital market growth and liquidity, such as liberalization of the foreign currency market and increased ease of fundraising options for small and medium-sized businesses. Digital assets and associated financial activities are seen by the territory as a potential creator of local economic growth and innovation. Investment in facilitative legislation and regulation has occurred. It will be interesting to see how this plays out.

Justin Robinson positions Barbados foreign-owned commercial banks as central to the financial sector despite the long existence of the Barbados Stock Exchange (BSE). Accordingly, he references the regulatory framework for banking, and the Central Bank in particular, and interestingly points out the absence of any local banking sector crises. The insurance segment is the largest part of the nonbank financial sector, and the article implies a concentrated distribution of assets in the banking and nonbank financial sector. He posits that the challenges of declining number of listings, low trading and illiquidity suggest the opportunity for financial innovation. The potential of innovation is clearly shown by the issuance in early 2022 by the Barbados government of a Blue Bond guaranteed by the Inter-American Development Bank (IADB) and The Nature Conservatory (TNC).

Robinson then moves to the nearby EC, a subregion covering eight islands, one of which boasts the only Caribbean territory and among the few countries in the world to have two Nobel prize laureates (one in Economics and the other in Literature). The surprises do not end there: the Eastern Caribbean is the longest fixed exchange rate currency and currency union (ECCU) in the world, masterminded by visionary indigenous minds, and with the Eastern Caribbean Central Bank (ECCB) at its center. While these islands have led boldly in the currency regime arena, they have lagged in improving the depth and vibrancy of their capital markets and the access to liquid, efficiently priced equity financing. With a mix of foreign-owned and indigenous banks, an open economy, and a historical investor bias to real estate investments, public education, and sound regulatory oversight are likely to be key success factors to healthy capital market expansion.

Marla Dukharan clearly lays out the Caymans' present status as the strongest economy in the region. The investment grade rating and stable currency over decades evidenced in this dollarized market is attributed to good governance, strong fiscal and monetary management inclusive of explicit fiscal rules, low size of the public sector, low sovereign debt to GDP, and growth driven by the key offshore financial sector and tourism. The banking sector is comprised of non-indigenous banks. Against this backdrop the government is not a material issuer in the capital market (sovereign debt/GDP is below 10%) and real estate, alternative investments, and private debt are investors' investments of choice, resulting in low participation and activity on the Cayman Stock Exchange (CSX). Changes to regulations related to pension fund investments and the stock exchange are included in the recommendations that would spur local capital market development.

Tameka Walker-Mowatt, CFA, and Kevin Walters, CFA, introduce Jamaica, the largest and most populous of the territories covered in this brief, as the first country in the region to establish a stock exchange (JSE), one of many firsts. Jamaica is the first country in the region to have electricity, first to launch a Junior Market board on the stock exchange (which has increased access to equity capital for medium-sized firms and investment options for investors), and the first to establish a formal framework for public-private-partnership (PPP) projects (which has successfully funded large infrastructure). The authors point out that it has sometimes taken crisis to create a catalyst for change, as reflected by the financial sector regulatory and oversight enhancements following the banking crisis in the mid-1990s and the resolute transformation of the public sector finances from 2013 to present forced by unsustainable currency volatility, persistent fiscal deficits, and debt/GDP ballooning over 140% (largely due to the government's bailout of failed banks and insurers in the 1990s and the difficulty of reducing the debt in the face of social, infrastructural, and weather-related costs in a capital market that was then characterized by climbing cost of debt and no GDP growth due to the government increasingly and significantly crowding out the private sector). Bolt forward to the present and the banks are generally well capitalized, financial infrastructure has been modernized, legislation has anchored the central bank's formal independence from the government, the Jamaican dollar currency displays orderly movements and availability, the fiscal balance is in surplus, and debt/GDP has been consistently reduced (except for a blip upwards during the COVID pandemic which has now been fully reversed) and is on track to go below 60% by 2026. The JSE is the most dynamic of the regional stock exchanges, has had the most success in growing listings, and hosts an annual conference that attracts regional interest. Jamaica's commercial banking sector includes indigenous and foreign-owned players. Local investment and alternative asset management firms have grown in number in the recent decade and are bringing new expertise, financial access, and complexity to the capital market. The writers mention the country's various regulatory improvements of the last 20 years; regulatory institutions and the

regulatory framework will need to continue to iterate to match industry changes. The article points out that the objectives of private sector led GDP growth, economic competitiveness, and debt sustainability represent the finish line of the focus on capital market development; hence the next stage for this cultural powerhouse is to have the discipline, determination, and drive to achieve and maintain these objectives.

Wayne Dass, CFA, and Karen Smith paint a picture for us of the financial sector landscape of Trinidad, one of the two investment grade-rated territories covered in this brief and the birthplace of the influential Calypso and Soca creative musical genres. In Trinidad, private markets dominate for equity fundraising, though the Trinidad Stock Exchange (TSE) has been established for decades the trading and number of listings on the TSE are thin. Resembling the issues seen in some of the other Caribbean territories, transaction costs contribute to a buy-and-hold investor culture and low float for listed equities, which creates a cycle of market illiquidity, limited public listings, and inefficient equity market pricing. Technology and initiatives to make the equity exchange more accessible to medium-sized private firms are expected, with the aim of using the capital market to diversify the economy and increase financial inclusion. Mutual funds have become well accepted, notwithstanding the embedded currency and public sector exposure risks embedded in some of the offerings of these collective investment schemes. Despite an economy uniquely driven by energy (natural gas) and a sizable (for the economy's size) sovereign wealth fund, the lack of USD availability is cited by the writers as a key issue. The authors suggest that continued strides in governance aspects, collaboration amongst relevant stakeholders, and greater availability and use of independent research and ratings may help unlock the dynamism of this capital market.

External Debt Ratings of the Caribbean Territories Covered in this Brief (as of January 2023):

Country	CariCRIS	Moody's	Fitch	S&P	Outlook	Up to January 2023
Bahamas		B1		B+		Recent downgrades
Barbados	Cari BB-	Caa1	B	B-		Default in 2018
Cayman		Aa3			Stable	Investment Grade
Eastern Caribbean: St. Lucia	Cari BBB-					
St. Kitts & Nevis		B3				
Antigua and Barbuda						
St. Vincent & Grenadines	Cari BBB+					
Grenada	Cari BB					
Anguilla						
Dominica						
Montserrat						
Jamaica		B2	B+	B+	Stable	Sequential upgrades
Trinidad	Cari AA	Ba2		BBB-		Investment Grade

In closing, it must be mentioned that, reflecting the often unrecognized progress of the Caribbean in many areas, the editor and 50% of the writers of this publication are women. This reflects the profile of women in finance in the region. Also, pandemics and climate change have a real and present meaning for the Caribbean, especially given most territories are (small) islands with economies significantly contributed to by tourism. The critical importance of action regarding the global environment is top of mind for the region given its firsthand knowledge of the consequences of global warming and environmental deterioration (which it contributes very little to but disproportionately suffers the effects of): consequences from severe hurricanes (with material GDP reducing and debt increasing impacts) such as Dorian in Bahamas; Nicole and Tomas in St. Lucia; Maria in Dominica, Barbuda, Puerto Rico; Ian in Cuba; Gilbert in Jamaica; and Ivan in Cayman and Jamaica; as well as beach erosion and sea level rise. The necessary COVID-19 driven lockdown of borders in 2020 took a toll on private and sovereign finances in the region. The private and public sectors in the Caribbean have been taking steps to mitigate and transition in the face of these realities as best as they can. These steps include the issuance of bonds for blue (marine-related) and green (environment-related) purposes, purchase of risk insurance for certain events (if available and not cost prohibitive), and more effective advocacy in international arrangements such as the Paris Rulebook at COP 26 (Scotland in 2021), which operationalized the Paris Agreement of COP 21 (Paris in 2015); more activity along these lines is expected. While the ESG label is not yet prevalent in the Caribbean, many practical strides have been made on the themes it embodies.

Postscript: Between the completion of these written papers on Caribbean markets in late 2022 and the printing of this brief, Caribbean markets have continued to evolve. The good news is that the economies of the Caribbean have generally improved or been stable. Financial markets (even where increased interest rate equity bull markets have run their course for the time being) are carrying out new initiatives to enhance financial sector soundness and financial inclusion and incorporate elements such as environmental, social, and governance (ESG) considerations. Using Jamaica, which is keen to increase its average annual GDP growth rate now that it has established a credible and improving performance regarding its debt/GDP (expected to reach 72% in 2024), fiscal balance, employment (unemployment at a record low of 4.5%), and currency volatility (due to tight monetary policy stance and buoyant tourism flows improving the current account) as an example, an overhauled regulatory ‘twin peaks’ approach is being implemented under which the Bank of Jamaica (Central Bank) will assume prudential regulatory oversight of the entire financial sector (previously its focus was on banks) and the Financial Services Commission mandate will change to focus on consumer protection and market conduct. The JSE’s Social Stock Exchange is up and running with initial listings. In addition, the JSE is working on a framework for listing instruments whose proceeds facilitate climate-related and/or environmental projects (inclusive of renewable energy, waste management, sustainable housing, and infrastructure); and the first-ever Government of Jamaica (GOJ) Jamaican-dollar denominated international bond was issued in November 2023. The wider Caricom region (of which all the territories covered in this region are members) is seeing increasing sustainable finance transactions, renewable energy financing, and focus on food security (the latter two also critical because of the significant opportunity to reduce the region’s foreign currency dependence). With the oil-related developments in Guyana, if the countries covered in this brief sustain and extend the macroeconomic gains coming out of their hard-won reforms, a similar brief to this in a decade would hopefully feature Guyana and have a lot of healthy progress to share.

External Debt Ratings of the Caribbean Territories Covered in this Brief (January 2024):

Country	Moody's	Fitch	S&P	Since January 2023
Bahamas	B1		B+	
Barbados	B3	B	B-	Moody's upgrade
Cayman	Aa3			
Eastern Caribbean:				
St. Lucia				
St. Kitts & Nevis				
Antigua and Barbuda				
St. Vincent & Grenadines	B3			
Grenada				
Anguilla				
Dominica				
Montserrat				
Jamaica	B1	B+	BB-	Moody's, S&P upgrades
Trinidad	Ba2		BBB-	

Editor: Monique French, CFA, FRM, MBA, Vice-President CFA Society of Jamaica

The Bahamas Capital Markets

OVERVIEW AND HISTORY

The Bahamas' capital markets have grown over the past 20 years. Products and services have become increasingly diversified to meet the growing needs of investors and other participants. Moreover, market institutions have become professional, providing a safe and sustainable business environment for participants.

The Bahamas International Securities Exchange (BISX) is the sole organized exchange in The Bahamas, founded in 1999 and commencing operations in 2000. BISX currently trades equities, government bonds, corporate bonds, and preferred shares. However, the Bahamian capital markets predate the foundation of BISX with offerings having taken place from the 1980s. Before BISX, secondary trading of those equity offerings within The Bahamas was carried out by brokers who maintained trade books. Many securities traded with more than one broker. Government bond issuances were carried out by the Central Bank of The Bahamas (Central Bank) with trading then being both over the counter (OTC), and for retail clients via the Central Bank.

The Bahamas is an exchange controlled jurisdiction with the Bahamian dollar (B\$) being pegged to the value of the United States dollar (US\$). As a result, the Bahamian Dollar (B\$) has a 1:1 relationship with the US\$. All statistics in this article will be stated in B\$. This relationship is maintained via Exchange Control regulations set by the Exchange Control Act, 1952 and the Exchange Control Regulations, 1956. These regulations are managed by the Central Bank of The Bahamas. As the Central Bank notes:

Exchange Control is used as a tool of economic and monetary policy, to:

- Preserve the country's external reserves and safeguard the balance of payments;
- Maintain the fixed rate parity of the Bahamian Dollar with the United States Dollar;
- Control expansion in the money supply, as well as speculation in the Bahamian currency by non-residents;
- Provide a statistical means of monitoring the inflows and outflows of foreign currency to/from The Bahamas.

In the overall macro policy mix of tools available to the Bank in the management of the economy, the Exchange Control arrangements enable a clear differentiation between the domestic and offshore sectors.

The Bahamas is a well-established International Financial Centre with a strong history in private banking and trusts, being home to many multi-national financial institutions. However, given Exchange Control regulations, the crossover between offshore and onshore financial institutions is limited. The international

financial sector conducts transactions in numerous currencies, the domestic sector mainly conducts transactions in B\$. This brief will focus on the domestic financial market.

Regulation

The Bahamas is a common law jurisdiction with laws passed by the Parliament of The Bahamas. The regulator of The Bahamian capital markets is the Securities Commission of The Bahamas (the “Securities Commission”), which enforces the Securities Industry Act, 2011. The Securities Industry Act is the main legal instrument for the regulation of capital markets in The Bahamas. Other notable Acts enforced by the Securities Commission include the Investment Funds Act, 2019; Financial and Corporate Services Providers Act, 2020; and the Digital Assets and Registered Exchanges Act, 2020. The Securities Commission is an Ordinary Member of The International Organization of Securities Commissions.

In addition to its monetary policy functions and Exchange Control oversight roles, The Central Bank of The Bahamas regulates Banks and Trust Companies. The Central Bank is an independent body tracing its history back to 1974, with its roots going further back to the Currency Board, originally established in 1919. As noted by the Bank (on its website); “Under the Central Bank of The Bahamas Act, 2020 (“the Act”), overall responsibility for the policy and general administration of the Bank is vested in the Board of Directors. The Act provides that the Board, which is appointed by the Governor General, shall consist of a Governor, two Deputy Governors and six other Directors having wide experience in and having shown some capacity in financial or commercial matters, industry, law or administration.”¹ The Insurance Commission of The Bahamas regulates Insurance Companies.

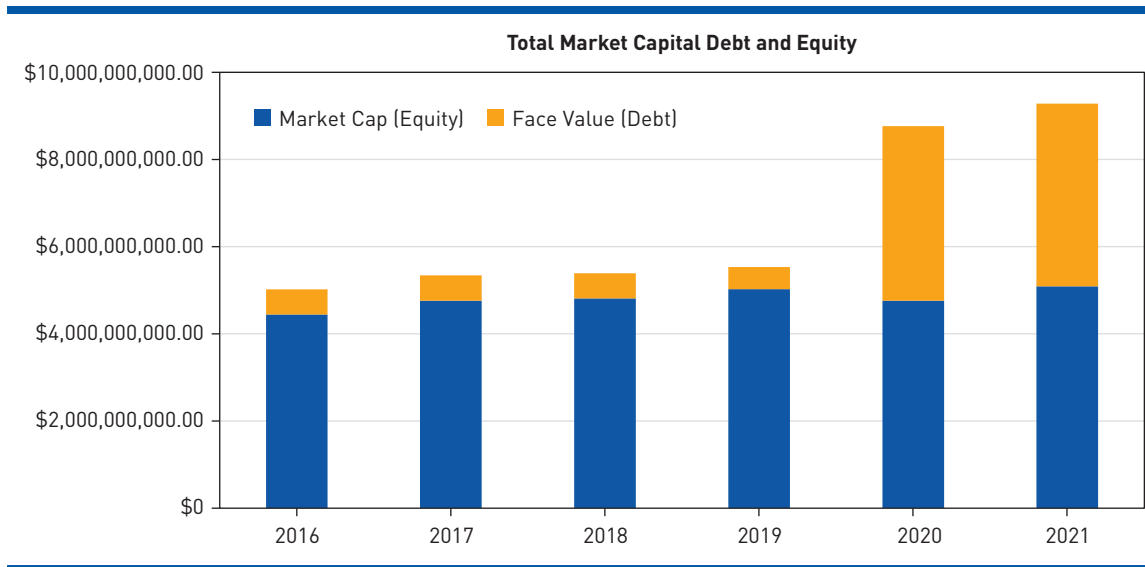
The Bahamas International Securities Exchange

As noted above, the Bahamian capital market pre-dates the inception of BISX. BISX began formal listing and trading of securities on 12 May 2000 with nine domestic companies having listed their ordinary shares on the Exchange resulting in a market capitalization of approximately \$820 million. The market consisted of two broker-dealer members. BISX is a private for-profit company with 43 shareholders including The Government of The Bahamas, corporations, BISX members, and individuals.

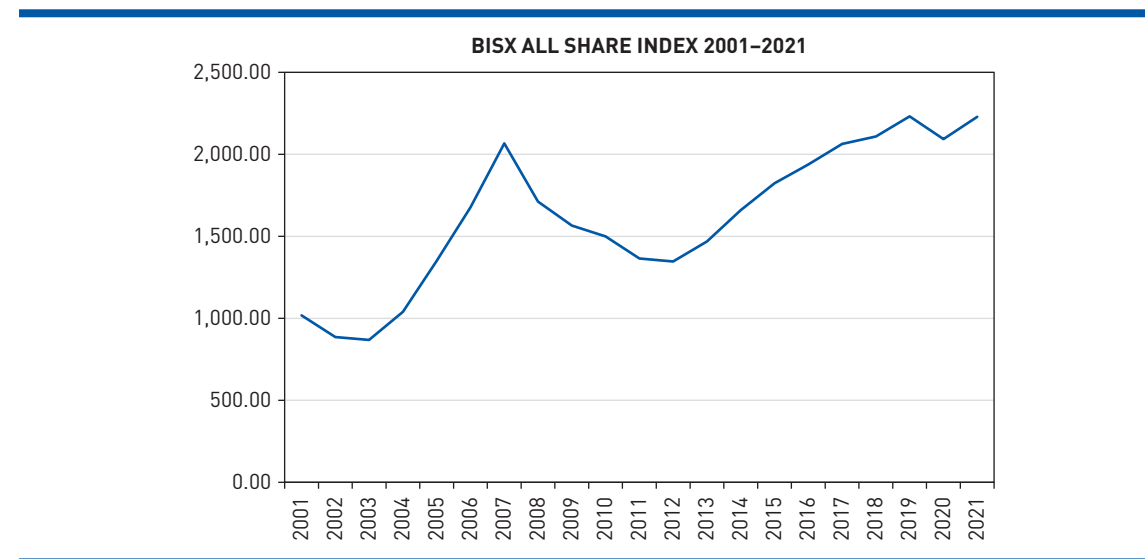
As of 31 December 2021 the market was comprised of 20 ordinary shares with a market capitalization of \$4.84 billion. In addition, there were eight preference shares with a market capitalization of \$249 million and 240 bonds (including government and corporate bonds) with a face value of approximately \$4.3 billion. Additionally, as of 31 December 2022, there were 92 mutual funds listed on the Exchange with approximately \$9 billion in assets under management. The broad majority of these funds are international; however, the assets under management of the domestic funds are over \$1 billion. The market as of 31 December 2021 also had six Broker Dealer members.

Over the three-year period 2019 to 2021, the market value of all securities listed on BISX has increased. The increases can partially be explained by the listing of all issues of Bahamas Government Registered Stock (BRS; more information on BRS is included in the Fixed Income section of this brief) on BISX in July 2020 and September 2021, as indicated by the chart below:

¹The Board, Executive and Senior Management, Central Bank of the Bahamas (centralbankbahamas.com)



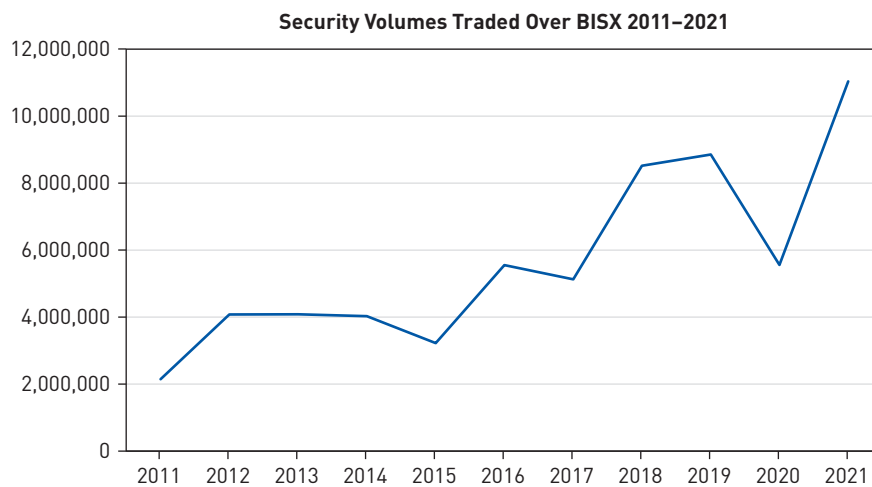
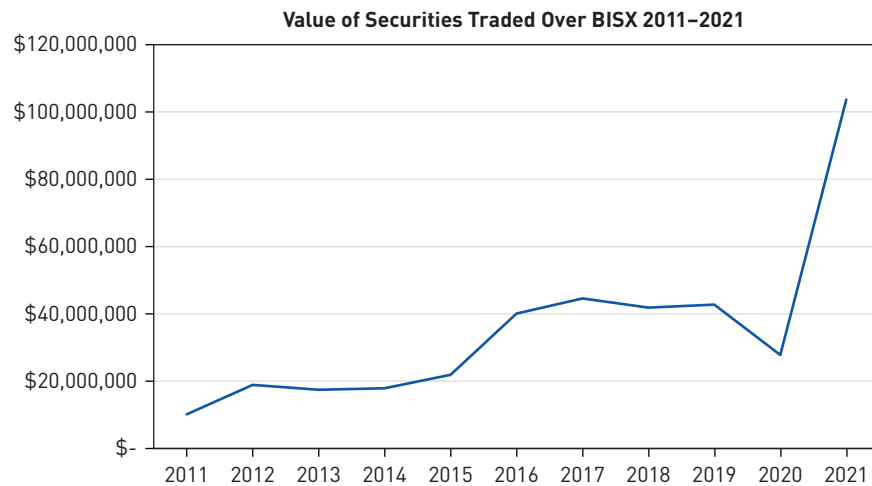
BISX operates a fully electronic order driven market using an internationally recognized trading software that allows it to trade multiple types of securities. These securities can be segregated into multiple separate markets that allow separate rule parameters to be applied.



BISX is a delegated self regulatory organization under the Securities Industry Act, 2011. BISX is also an associate member of IOSCO and has recognitions from the United Kingdom’s Her Majesty’s Revenue and Customs and the United States of America Securities and Exchange Commission.

The BISX All-Share Index is a market capitalization weighted index comprised of all primary market listings excluding debt securities. The BISX All Share Index dates to the year 2001; the chart below illustrates its performance since inception.

Trading volumes and values traded over BISX have increased over time, as indicated by the charts below showing the last 10 years of trading.



For the 12-month period ending 31 December 2021, trade volumes and values by security class on BISX are indicated in the chart below.²

Type of Security	Volume	Value
Ordinary Shares	11,011,966	\$42,507,417
Preference Shares	409,582	\$3,288,700
Corporate Bonds	0	0
Government Bonds	623,219	\$62,641,755
Total	12,044,767	\$108,437,872

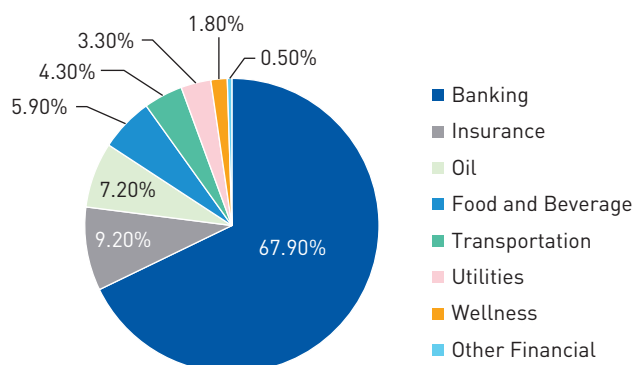
EQUITIES

Ordinary Shares

Equities were the initial securities listed on BISX. The first public offerings of equity securities in The Bahamas date to the early 1980s. Since that time there have been periodic offerings of equities in The Bahamas. Most equity offerings have listed on BISX; however, there is no requirement for them to do so. Offerings that are not listed on BISX would trade OTC. Most public companies have listed on BISX.

Of the public companies in The Bahamas, banking is the dominant industry by market capitalization. This is not surprising as the three largest companies on BISX by market cap are commercial banks. The utilities category includes two Bahamas Depository Receipts (BDRs are explored more in their own section below).

Market Cap by Industry - BISX Listed Companies



²BISX Q4 2021 Quarterly Statistical Report

Market Cap by Industry			
Industry	# of Companies	Market Capitalization	% of Total Value
Banking	5	\$3,831,805,133.50	67.9%
Insurance	4	\$516,139,138.15	9.2%
Oil	1	\$404,684,246.82	7.2%
Food and Beverage	2	\$330,471,560.30	5.9%
Transportation	2	\$240,700,000.00	4.3%
Utilities	3	\$187,555,596.25	3.3%
Wellness	1	\$102,080,956.86	1.8%
Other Financial	2	\$27,350,230.84	0.5%
	20	\$5,640,786,863	

Initial public offerings (IPOs) of equity are required to produce a prospectus which must be registered with the Securities Commission of The Bahamas pursuant to the Securities Industry Act, 2011. Once the prospectus is registered, it can be offered to the public. Most offerings in The Bahamas have been via best efforts offerings, though nothing prohibits an underwritten offering.

The typical IPO in The Bahamas has involved more mature companies of lower risk, having carried out their IPOs for reasons not necessarily related to financing growth. The notable exception would be infrastructure projects which have carried out IPOs while still in the development stage.

The last IPO in The Bahamas was in 2021 through the Bahamas Investment Fund. This fund owns the Nassau Cruise Port (this is not listed on BISX); the last equity listing on BISX was in 2020 (this was of a public company that had up to that point not chosen to list). However, the last IPO before that was in 2011. Since that time there have been secondary offerings and other investment products that have allowed Bahamians to invest in new projects via other investment instruments including through mutual funds. While it is difficult to identify one specific reason for the lack of IPOs, some reasons offered by market participants include aggressive commercial banking departments that are prepared to lend to mature companies at low rates, thus negating the fundraising motivation of IPOs; a large number of foreign investments coming to The Bahamas with their financing needs already met and thus having no need to access the domestic capital market via IPO; and many potential companies that are suitable for IPOs being family-owned businesses that do not wish to dilute their ownership.

Many Bahamian shareholders have expressed a desire for dividends as one of the main reasons for purchasing equities. Two possible explanations for this are that (1) on average the typical Bahamian retail shareholder is at a later stage in life where they value investment dollar income, and (2) The Bahamas does not have corporate or personal income tax, and as a result the tax-related preference for capital gains over dividends that exists in many jurisdictions is not a factor. Many investors in both the equity and fixed income markets have expressed a preference for buying and holding that may be linked to either lower market liquidity or the lack of competing alternate investment opportunities.

There have been complaints about the liquidity of securities on BISX specifically equities. This criticism, however, doesn't apply to the entire market, as some symbols are relatively liquid with others having little to no liquidity. The public companies in The Bahamas have widely divergent free floats, with a survey carried out by BISX indicating the average free float for a listed issuer being approximately 20% to 25%, with some large issuers having significantly less of their shares outstanding. To address this, BISX now requires new issues to offer at least 25% of their shares to the investing public. The exception to this is if the applicant can demonstrate that there are enough shares in float to support a functioning market.

Preference Shares

Preference shares in The Bahamas are most often issued via private placement and are typically held by institutional investors and high net worth investors (accredited investors) due to their typically requiring large initial benchmarks for purchase (e.g., a minimum investment of \$50,000). Some retail investors are able to invest via brokers that aggregate their smaller amounts into eligible amounts. Preference shares issued by already public companies can easily list on BISX. These instruments have been used by public companies at various times to fund capital projects. Instruments are either issued at fixed or floating rates tied to the Nassau Prime Rate, the reference rate used for fixed income in The Bahamas.

Bahamas Depository Receipts

Bahamas depository receipts (BDRs) function in much the same way as other examples of depository receipts in other jurisdictions. However, the rationale for BDRs is somewhat different: as an Exchange Control jurisdiction, Bahamians require Central Bank approval to hold securities that are denominated in other currencies so the BDR facility was created to allow a regulatorily efficient way for Bahamians to hold such securities. Note: Inward investment by non-Bahamians into The Bahamas is also governed by Exchange Control regulations.

There are currently two BDRs listed on BISX, both in infrastructure, with a prior BDR in hospitality having delisted after the company went private.

Fixed Income

The Bahamian fixed income portion of the capital markets is made up of securities issued by the Government of The Bahamas, as well as issues by statutory agencies and by corporate issuers (while preference shares tend to be fixed income, they were grouped with equities). The largest and most active part of the Bahamian fixed income market is the government debt market.

Corporate Bonds

Corporate bonds are issued by public and nonpublic issuers as a source of secondary financing. Those issued by public companies are eligible to list and trade on BISX, though not all choose to do so. Corporate bonds are typically bought by accredited investors for the same reasons as preference shares. Again, some retail investors are able to invest via brokers that aggregate their smaller amounts into eligible amounts.

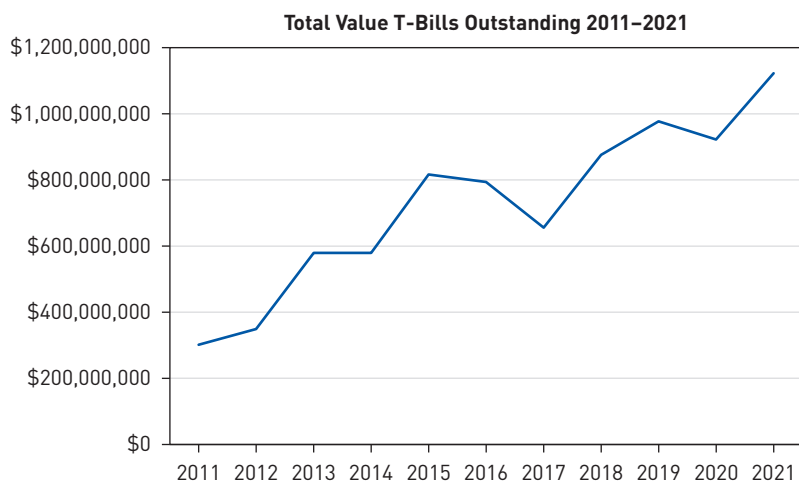
Agency Bonds

Several statutory agencies (i.e., government agencies) have issued bonds. These bonds are issued by the relevant agency and are typically treated as an implicit liability of the Government of The Bahamas. While most are issued for an institutional investor base, some have had thresholds that have made them accessible to retail investors.

Government Issuances

The Government of The Bahamas' routine capital market issuances come mainly in two tiers, Treasury bills (T-Bills) and Bahamas Government Registered Stock (BRS).

Treasury Bills. T-Bills are short-term debt issued by the Government of The Bahamas, typically purchased by financial institutions. The typical maturity is 182 days or less. As with T-Bills in other jurisdictions, they do not pay interest, but rather are issued at a discount to mature at par. Given their relatively short maturity, T-Bills do not trade frequently. T-Bills are not listed on any exchange and trade OTC. As of 31 December 2021 there was approximately \$1.12 billion in T-Bills outstanding.³

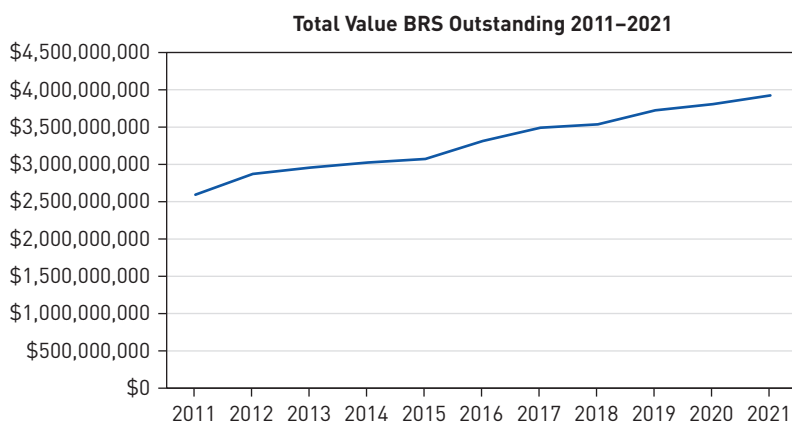


T-Bills are issued by the Central Bank of The Bahamas as the agent for the government. Issuance takes place via competitive bidding with those issuances with the lowest rate being the first bids accepted with the next lowest rate being the next bid accepted, going on until the full amount has been satisfied.

Bahamas Government Registered Stock (BRS). BRS is the typical financial tool for issuances with maturities of 1 year or over. Maturity times for BRS range from 1 year to 30 years. BRS is issued by the Central Bank of The Bahamas on behalf of the government.

³Central Bank of The Bahamas December 2021 Quarterly Statistical Report

BRS can be issued at fixed rates or floating rates; however, over the last few years, all issues have been at fixed rates. BRS rates are published in advance and investors are able to subscribe through the Central Bank. Both retail and institutional investors are encouraged to subscribe for BRS, with the Central Bank giving a preference to retail investors in the event of an oversubscription. A typical offering of BRS consists of several offerings of various maturities (e.g., a 1-, 3-, 7-, 10-, 20-, and 30-year tenor all being offered at the same time). As of 31 December 2021 there was approximately \$3.9 billion in BRS outstanding.⁴



As the largest issuer of securities in The Bahamas, the Government of The Bahamas through BRS has the widest and largest holding by Bahamian investors. This includes a large amount of retail investors. This reflects the ease to subscribe for BRS, the many issues of BRS, the conservative nature of Bahamian investors, and the desire for income producing investments. The high liquidity of BRS compared to other investments also encourages investment by retail investors. The Central Bank acts as a market maker in the BRS market.

In June 2020, the Government of The Bahamas formally applied for and was approved for BRS to list on BISX. Since that time the issues of BRS have become actively traded on BISX.

Other Financial Market Infrastructure

There are two securities depositories operating in The Bahamas.

The Bahamas Central Securities Depository (BCSD) is a depository that holds ownership records for public companies and some private companies. The BCSD is owned by BISX and two BISX broker-dealer members.

⁴Central Bank of The Bahamas December 2021 Quarterly Statistical Report

The Bahamas Government Securities Depository (BGSD) is a depository that holds ownership records for government securities. The BGSD is owned by the Central Bank of The Bahamas.

Opportunities

1. Greater investor exposure and education will lead to more trading and more companies seeking to go public – The Bahamas has only had an organized stock exchange for 22 years, which is a very recent development in the context of capital markets. Since the creation of the organized market the Bahamian market has matured. With more time we anticipate further developments.
2. Exchange Control liberalizations – Liberalizations that allow for easier inward and outward investment have the potential to increase liquidity as well as lead to more companies receiving financing.
3. Crowdfunding and Small and Medium Business Fundraising – As noted, the typical IPO in The Bahamas had been by a mature company. Creating new avenues for medium-sized entities and smaller companies to access capital has the potential to create a new wave of companies that grow to become mature stable Bahamian institutions. To encourage growth in this space, the Securities Commission passed business capital rules in 2021 that allowed crowdfunding platforms to be registered in The Bahamas. One of the first entrants, ArawakX, has carried out several offerings.
4. Digital Assets – The Bahamas was one of the first jurisdictions to introduce a full digital assets regulatory regime through the passage of the Digital Assets and Registered Exchanges Act, 2020. This legislation has resulted in companies in this space coming to The Bahamas; however, there has not yet been significant involvement of these companies in the local capital markets.
5. Consolidation of Government issues around key benchmarks – There are many issues of BRS with sizes of issues ranging from \$50 million to issues under \$1 million. There have been discussions around consolidation of issues to allow for the creation of a full yield curve.
6. Central Bank Digital Currency (CBDC) – The Bahamas became the first country to issue a legal tender CBDC when the Central Bank of The Bahamas issued its CBDC, named Sand Dollar. Sand Dollar was initially piloted on the island of Exuma (one of the islands of The Bahamas) but is now available throughout The Bahamas. Sand Dollar does not yet have significant usage rates; however, the usage rate is expected to increase once Sand Dollars are automatically transferable in and out of bank accounts, which is currently in progress.⁵
7. Carbon Credits and Sustainable Finance – The Bahamas is impacted significantly by climate change. Options to develop financial products in the Sustainable Finance or Carbon Credit space have the potential to help The Bahamas deal with the effects of climate change. The Bahamas has not yet issued any ESG or “green bonds,” but the Government of The Bahamas has expressed interest in starting a Carbon Credit Exchange, as evidenced by the passage of the Carbon Credit Trading Act of 2022.⁶

⁵Sand Dollar integration with commercial banks by early Sept. - The Nassau Guardian

⁶SP-I-11-August-2022-No.-32-A-Vision-I.pdf (scb.gov.bs)

The Financial System In Barbados

OVERVIEW

The financial system plays a crucial role in transferring funds from savers to investors and consumers, facilitating payments and allowing individuals and institutions to manage a range of financial risks. Barbados boasts a financial system built around a strong regulatory framework administered by the Central Bank of Barbados and the Financial Services Commission. The legislative framework was significantly enhanced by the 2020 Central Bank Act, which also makes for a more independent Central Bank and addresses recent developments in the payments system such as digital currencies. The financial system is further anchored by Barbados' legendary Fixed Exchange rate regime, where the Barbados dollar has been pegged to the United States dollar at an exchange rate of US\$0.5 to US\$1 Barbados since 1972.

Barbados possesses what is often termed a “bank based” financial system, which is dominated by commercial banks engaging in retail banking. Alongside the commercial banks, there is a modest non-bank financial sector dominated by Insurance companies, credit unions, finance companies, and mutual funds. The major challenges for the financial system are the underdevelopment of the capital markets and non-bank sector which are characterized by few public offerings of debt or equity securities and limited trading of such securities. The underdevelopment of the capital markets and non-bank sector creates a situation where there are high levels of liquidity in the banking system alongside a shortage of investment options for investors and limited funding for investment projects.

In reviewing the state of the financial system, I will examine the following: (1) the current size of the financial system, (2) the state of the commercial banking sector, and (3) the state of the non-bank sector and capital markets.

Size of Financial System

An assessment of the size of the financial system typically involves the use of two measures: (1) the ratio of liquid liabilities to GDP; and (2) the ratio of domestic credit to private firms divided by GDP as outlined by Kunt and Levine (2000). Liquid liabilities that finance government deficits may not reflect the provision of efficient financial intermediary services (such as acquiring information about firms, monitoring managers, and facilitating transactions and risk diversification). Therefore, domestic credit to private firms divided by GDP is calculated as an additional measure of the size of the financial system. As shown in Table 1, Barbados boasts a relatively large financial system with liquid liabilities of over 100% of GDP, compared to a global average of 67% of GDP.

Private sector credit to GDP averaged 82% of GDP over the same period, compared to a global average of 92% of GDP. The private sector credit to GDP of 55% is below the global average, suggesting that the domestic financial system provides a smaller share of private sector financing compared to the rest of the world.

TABLE 1. LIQUID LIABILITIES TO GDP & DOMESTIC CREDIT TO PRIVATE SECTOR CREDIT TO GDP

	2016	2017	2018	2019	2020
Liquid liabilities to GDP (%)	105%	108%	113%	111%	112%
Domestic credit to private sector (% of	83%	82%	82%	81%	80%

Source: World Bank's World Development Indicators

The relatively large size of the financial system reflects the high level of economic development experienced by Barbados and the fact that the vast majority of economic activity takes place within the formal economy. The relatively low share of credit to the private sector may be driven by the structure of the economy, where there is a high level of foreign financing for the large tourism; the real estate and international business sectors; and the underdevelopment of the domestic capital markets.

Commercial Banking Sector Development

Financial systems are typically classified as being either “bank based” or “market based.” In bank-based financial systems, the majority of financial intermediation or transfer of funders from savers to consumers and investors takes place through commercial banks, while in market-based systems the majority of funds are channeled through bond and stock markets.

As can be seen in Table 2, Barbados possesses a bank-based financial system, and commercial banks the dominant entities in the domestic financial system of Barbados.

At the end of 2021, commercial banks controlled about 62% of total financial assets and held assets equivalent to 185% of GDP . The assets of the banking system simply dwarf those of the other players in the financial system in Barbados. One of the unique features of the commercial banking sector in Barbados is that it is totally foreign owned, with the majority being Canadian-owned banks and two Trinidadian-owned banks being active in the market.

TABLE 2. ASSETS ACROSS FINANCIAL INSTITUTIONS IN BARBADOS (US\$)

	2017	2018	2019	2020	2021
Commercial banks	\$3,320	\$3,368	\$3,166	\$3,207	\$3,306
Insurance companies	\$856	\$888	\$868	\$912	\$935
Finance & trust companies	\$384	\$393	\$254	\$ 249	\$248
Credit unions	\$509	\$553	\$605	\$651	\$ 698
Mutual funds	\$501	\$552	\$531	\$603	\$ 614
Pension funds	\$540	\$580	\$586	\$595	\$601

Source: Barbados Financial Stability Report 2021

Current Commercial Banking Market Situation

To assess the development of the banking sector reliance, I report on five commonly used indicators for the period 2017 to 2021 (see Table 3). These measures are (1) the ratio of the total claims of deposit money banks to GDP as a measure of the size of the banking sector; (2) the spread (difference between bank lending and deposit rates) as an indicator of the efficiency of financial intermediation; (3) ATMs per 100,000 adults; (4) bank branches per 100,000 (as indicators of ease of access to banking services); and (5) whether or not the banking system has suffered any crises over the sample period.

TABLE 3. DEPOSIT BANK ASSETS TO GDP

Banking Sector	2017	2018	2019	2020	2021
Bank deposits to GDP (%)	109%	111%	109%	107%	109%
Bank lending–deposit spread	5.9%	6.7%	7.7%	7.9%	7.9%
ATMs per 100,000 adults	36.46	23.46	26.30	26.17	28.98
Bank branches per 100,000 adults	15.87	16.21	16.97	16.88	15.54
Banking crisis dummy (1=banking crisis, 0=none)	0	0	0	0	0

Source: World Development Indicator (World Bank)

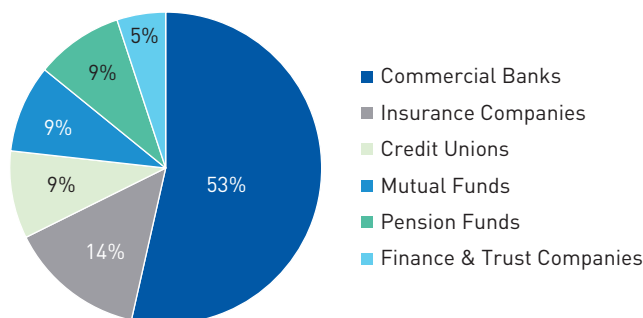
Deposit bank assets to GDP averages 107% of GDP over the period, compared to a global average of 93.02%; the spread in Barbados averages 5.38% over the sample period compared to a global average of 7.91%. The data comparisons indicate that Barbados has a relatively large banking sector with modest costs of financial intermediation. The evidence points squarely to the presence of a well-developed banking sector in Barbados that has been free of crises, is quite efficient in intermediating funds between savers and borrowers, and whose services are readily accessible.

Non-Banks and the Capital Markets

The non-bank sector consists of a range of financial intermediaries such as credit unions, insurance companies, pension funds, finance companies, mutual funds, venture capitalists, investment bankers, and brokerage houses, among others. Figure 1, extracted from the Barbados Financial Stability Report 2021 prepared by the Financial Services Commission of Barbados, shows the average percentage of assets by institutional type over the 2017 to 2021 period.

Figure 1 reinforces the dominance of commercial banks and the modest size of the non-bank sector in Barbados' financial system. There is little evidence of significant underwriting of securities, brokerage services, venture capital operations, or financial engineering solutions. Barbados thus presents a picture of a bank-dominated financial system, with the non-bank sector largely limited to insurance services and credit unions.

Assets By Institutional Type



CAPITAL MARKETS IN BARBADOS

The Stock Market

The Barbados Stock Exchange (BSE) is the sole securities trading platform in Barbados. The BSE is a privately owned nonprofit organization. It exists as an association of Member-Brokers, operating a central marketplace for the trading of securities. The primary purpose of the Exchange is to establish and maintain a market in Barbados for the trading of securities by its members, and through its wholly owned subsidiary, BCSD, to facilitate clearing and settlement of securities transactions. The BCSD also provides an electronic depository for listed securities and is owned by a number of domestic financial institutions.

The original trading facility, known as the Securities Exchange of Barbados, was established in 1987 under the Securities Exchange Act, Cap 318A, of 1982. However, in August 2001 the passage of the Securities Act 2001-13 allowed for the incorporation of the Barbados Stock Exchange (BSE), which assumed all assets and liabilities of the Securities Exchange of Barbados. The passage of the Securities Act also enabled the establishment of the Securities Commission, which on 1 April 2011 was subsumed by the Financial Services Commission (FSC). The BSE and BCSDI are designated as self-regulatory organizations (SROs) under the Securities Act 2001-13 and are therefore under the oversight of the FSC.

The BSE is open Monday to Friday. Securities are traded in Barbados dollars and foreign entities can list on the exchange. One Caribbean Media is an example of a company that is from Trinidad and Tobago and is also listed on the Trinidad and Tobago Stock Exchange. There are eight brokerage firms listed as for 31 December 2021, though stock brokerage is not the main business line for any of these firms.

In evaluating stock market development, it is common to focus on the number of listed securities, stock market size (market capitalization to GDP), and the level of trading on the market (value traded to GDP and market turnover). Table 4 presents these indicators for the BSE over the 2017 to 2021 period.

TABLE 4. INDICATORS OF STOCK MARKET DEVELOPMENT FOR THE BSE

	2017	2018	2019	2020	2021
Number of listed companies	17	16	16	15	14
Stock market capitalization to GDP (%)	67.3%	69.6%	65.2%	63.7%	61.2%
Stock market total value traded to GDP (%)	0.14%	0.19%	0.26%	0.14%	0.11%
Stock market turnover ratio (%)	0.16%	0.32%	0.41%	0.23%	0.32%

Despite the sophistication of its trading platform, processes, and governance structure the BSE has struggled with the number of listings. The Exchange was established with 7 listed companies in June 1987. By February 2003 that number reached 27 listed companies, peaking at 28 by November 2006. As of December 2021, there were 14 companies listed with 2 suspended, leaving 12 active companies. As the number of listings have declined the market capitalization to GDP has also declined; and although it remains relatively high, this is largely due to the capitalization of a single listing.

TABLE 5. LISTED COMPANIES 31 DECEMBER 2021

Listed Company	Sector
ABV Investments	Tourism
Bico	Manufacturing
Barbados Dairy Industries	Manufacturing
Barbados Farms	Agriculture
Cave Shepherd & Co	Retail
First Caribbean International Bank	Banking
Goddard Enterprises	Conglomerate
Insurance Corporation of Barbados	Insurance
One Caribbean Media	Media
West India Biscuit Company	Manufacturing
Banks Holdings	Manufacturing
Emera Depository Receipts	Utility

The stock market is also plagued by extremely low levels of trading, as evidenced by the absolutely and relatively low turnover ratios and values traded, which are among the lowest in the world. The low level of trading raises questions as to the liquidity of equity holdings and the credibility of “current” market prices, which are meant to be two of the major benefits of a stock exchange listing. In addition, the low levels of trading activity have a negative effect on the revenues of the exchange and by extension its profitability.

TABLE 6. VALUE OF SECURITIES TRADED ON BARBADOS STOCK EXCHANGE (US\$)

	2017	2018	2019	2020	2021
Equities	\$2,225,850	\$1,564,516	\$4,706,695	\$1,105,399	\$434,138

Source: Barbados Stock Exchange Reports

Fixed Income Market

The fixed income market in Barbados is dominated by government debt. Publicly traded corporate bond issues are largely nonexistent in Barbados as there is a distinct preference for private placements among private entities. As far as the author was able to determine, a bond issue by the Barbados Port Authority (a state-owned corporation) is the only corporate bond available for active trading in Barbados. The Barbados Port Authority bonds are in three tranches which mature in 2025, 2030, and 2035 and have coupons of 4.20% and 5.5%.

In 2018 the government of Barbados undertook a comprehensive debt restructuring exercise affecting and as part of an International Monetary Fund program. There have been limited government debt issues up to July 2022. The restructured government bonds have been novel in that they include a “Disaster Clause” allowing for the suspension of debt service in the event of a natural disaster as defined in the bonds.

Due to the heavy reliance on government securities, the limited government debt issuance since 2018 (see Table 7) has dealt a severe blow to the domestic fixed income market and activity has virtually ground to a halt. As can be seen in the table, net domestic financing for the government has generally been negative as domestic debt retirements have tended to exceed new domestic debt issues. The paucity of new domestic debt issues by the government has likely played a major role in the buildup of large levels of liquidity in the financial sector.

TABLE 7. NET DOMESTIC FINANCING GOVERNMENT OF BARBADOS (US\$)

	Net Domestic Financing
2018	\$ (68.5)
2019	\$ (69)
2020	\$ (86)
2021	\$ 25

Like the equities market, the fixed income market is plagued by extremely low levels of trading as investors are predominantly buy and hold investors. Table 8 provides a summary of trading activity in fixed income securities over the last five years. As can be seen, the level of annual trading is paltry.

TABLE 8. VALUE OF SECURITIES TRADED ON BARBADOS STOCK EXCHANGE (US\$)

	2017	2018	2019	2020	2021
Fixed Income	\$344,275	\$11,929,500	\$645,086	\$1,495,897	\$1,329,762

Source: Barbados Stock Exchange Reports

A major development in 2022 was the completion of a “Blue Loan” by the Government of Barbados. Barbados completed a \$150 million debt conversion through a new co-guarantee structure with a \$50 million guarantee from The Nature Conservancy alongside a \$100 million guarantee from the Inter-American Development Bank that will facilitate the expansion of the country’s marine protected areas from virtually zero to approximately 30% and improve management for all marine waters within its jurisdiction. It is possible that this will serve as a milestone as ESG becomes a more important element in the financial landscape.

Conclusion

The financial system in Barbados is well regulated and there is a constant thrust to ensure that financial regulation conforms to global best practices. The financial system benefits from the stable exchange rate and the sophistication of the regulatory oversight of the Central Bank of Barbados and the Financial Services Commission.

The financial system is bank dominated; the banks provide a wide range of modern and sophisticated banking services and the available evidence points to modest costs of financial intermediation. While Barbados is well served by sophisticated insurance companies, credit unions, mutual funds, and a growing pension fund sector, the non-bank sector and capital markets generally remain underdeveloped. Despite the presence of modern institutions and legislation, there are few listings on the stock exchange, even fewer corporate bonds issues, and limited trading of securities. Barbados currently faces a situation where there are high levels of liquidity in the financial system but an acute shortage of capital for investments in the economy, especially in critical areas such as agriculture, alternative energy, creative industries, education, healthcare, information technology, manufacturing, and tourism and hospitality. The main purpose of the financial system is to facilitate the movement of funds from savers to investors. As such, the financial system is failing at present and there is an urgent need for regulatory and financial innovation to allow the financial system to perform its core function.

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The Cayman Islands Capital Markets: Challenges and Opportunities

INTRODUCTION

With a population that reached roughly 60,000 pre-pandemic, about half of whom are nonresident/expatriate, The Cayman Islands has one of the smallest populations and the highest GDP per capita in the Caribbean—indeed, the 5th highest globally in 2019 at almost USD93K, according to the United Nations.

The Cayman Islands is a self-governing British Overseas Territory (BOT). BOTs, also known as the United Kingdom Overseas Territories (UKOTs), are 14 territories with a constitutional and historical link with the United Kingdom. These are the last remnants of the former British Empire and do not form part of the United Kingdom itself. The territories are internally self-governing, with the United Kingdom retaining responsibility for defense and foreign relations.

Cayman's well-developed financial services sector and business domicile have attracted companies from around the world for decades, while its breathtaking landscapes and unparalleled experiences drove its tourism sector to average annual growth above 6% in the decade prior to the pandemic. These economic pillars have underpinned the creation of 12,288 jobs in the last 10 years, including 4275 for Caymanians.

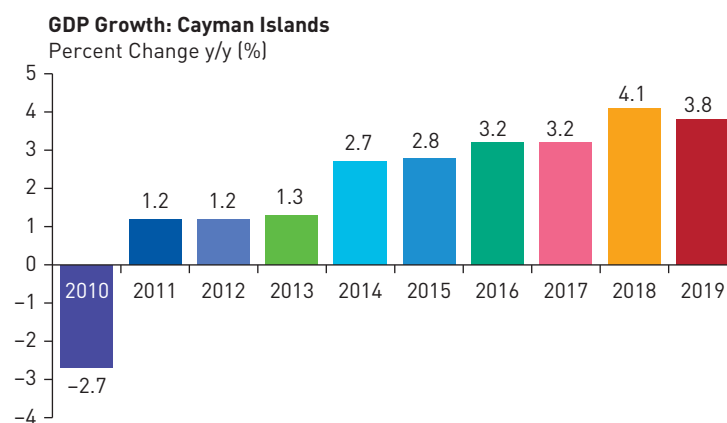
Cayman has a highly dollarized economy, where the USD is widely accepted as a means of payment and settlement, and over two thirds of the deposit base is held in USD versus the Cayman Islands Dollar (KYD). A currency board arrangement governs the issuance of the KYD, such that it is always fully backed by USD and is therefore a strong and stable currency. As a matter of fact, it is the only currency in the Caribbean that is “stronger” than the USD, with the currency peg established in 1974 at USD1.20:KYD1.00, which still holds today.

The Cayman Islands Currency Board was created by the Currency Law of 1971 for the purpose of administering the physical issue and redemption of currency. On 1 January 1997, the Cayman Islands Monetary Authority (CIMA) was created from the merger of the Financial Services Supervision Department of the Cayman Islands Government and the Cayman Islands Currency Board and assumed the former responsibilities, duties, and activities of these two bodies.

The Cayman Islands economy is considered to be one of the most stable in the Caribbean. It is the only country with an Aa3 credit rating and stable outlook from Moody's, which has not changed since 1997. This rating is based on the Cayman Islands' strong fiscal and external position, and its political stability and continuity—particularly in recent years, as the then-premier (the head of government and political leader of majority party) was the first leader of The Cayman Islands ever to serve two successive terms. The country held a general election in April 2021 and elected almost an entirely new government, but

there is every indication that this level of stability and good governance will be maintained going forward in Cayman.

Cayman's political, economic, and institutional strength, coupled with strong fiscal and monetary management, provide the foundation for long-term, sustainable resilience and growth. In fact, The Cayman Islands is the only island economy in the Caribbean to have expanded for nine consecutive years through 2019, and the unemployment rate remained below 5% for six consecutive years prior to the pandemic.



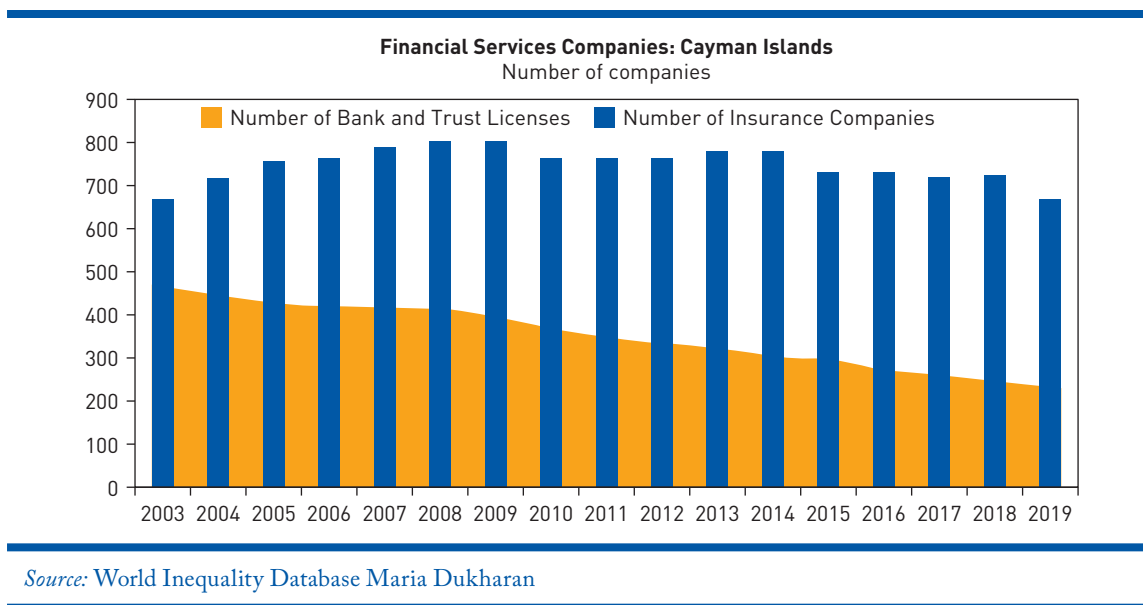
Source: Cayman Islands Economics and Statistics Office Maria Dukharan

The Cayman Islands' economy is largely dominated by the services sector (86.3% of GDP), while industry and agriculture have minor shares (7.6% and 0.4%, respectively per World Bank's latest data). Tourism accounts for a considerable part of GDP and about three-quarters of foreign currency earnings. The financial and insurance services sector is estimated to account for almost one-third of GDP, which correlates with the presence of 85% of the world's hedge funds and over 11,000 mutual funds registered in the country (the Cayman Islands is among the most sophisticated offshore centers in the world).

Nonetheless, the pandemic revealed the country's high exposure to too-few economic sectors, and the pandemic-driven sudden stop in 2020 caused visitor arrivals to fall to the lowest level in nearly 40 years. The financial sector was minimally affected, contracting only 0.7% y/y from January to September 2020, but this sector has undeniably faced its share of mounting challenges in recent years.

In fact, the financial and insurance services sector has been the second slowest growing sector in the economy over the last five years, averaging only 2.2% growth annually. The sub-index of banking institutions actually contracted in 2019, prior to the pandemic, by 2% y/y.

The number of insurance companies registered in 2019 was the lowest in 16 years and less than half of what it was in the 1990s. Based on ongoing and mounting international pressure on the Cayman Islands, and on this industry more broadly, it is possible that this sector is experiencing a secular decline.



Unlike most countries in the Caribbean, Cayman’s economic activity is not dominated by the public sector, which accounts for only 5% of GDP and 14% of jobs. This is the case for two major reasons:

1. The ease of doing business in Cayman is enviable on a regional scale, which has underpinned this decidedly and almost uniquely private sector–driven economy.
2. The fiscal rules which limit the size of the fiscal deficit and the level of debt ensure that the government cannot overspend in an effort to stimulate the economy (or buy popularity), and the state is therefore much less likely to crowd out private sector activity, including activity in the capital market. Central government fiscal operations resulted in a surplus of KYD102.1 million in 2019. This surplus emanated from a 3.6% growth in total revenue to KYD860.0 million, which outweighed total expenditure of KYD757.9 million. In 2020, The Cayman Islands recorded a government debt to GDP of 5.3% of the country’s gross domestic product (lowest since 2012).

Cayman Islands Capital Market

Fiscal rules and the resulting surpluses which characterize the state’s finances mean that there is little need for government borrowing. Indeed, as of 31 December 2020, according to the Minister of Finance and Economic Development, government debt stood at KYD248.6 million with an estimated GDP of KYD4.7 billion, which translates into a debt/GDP ratio of 5.3%. This is certainly the lowest in the Caribbean, and one of the lowest in the world. Furthermore, the government’s bank account balances totaled KYD447.6 million, of which KYD104.3 million represents General Reserves, according to the Ministry of Finance and Economic Development (the Ministry).

The government very rarely borrows, even for capital expenditure. But in light of the pandemic and the possible need to finance a fiscal deficit, in 2020 the Cayman government arranged a precautionary line of credit with a consortium of domestic banks for USD403 million.

With respect to private sector capital market transactions, one would assume that an economy as strong, relatively well diversified, and private sector driven as Cayman's ought to be supported by vibrant capital market activity. Ironically, we find that there is limited private sector capital market activity in the Cayman Islands.

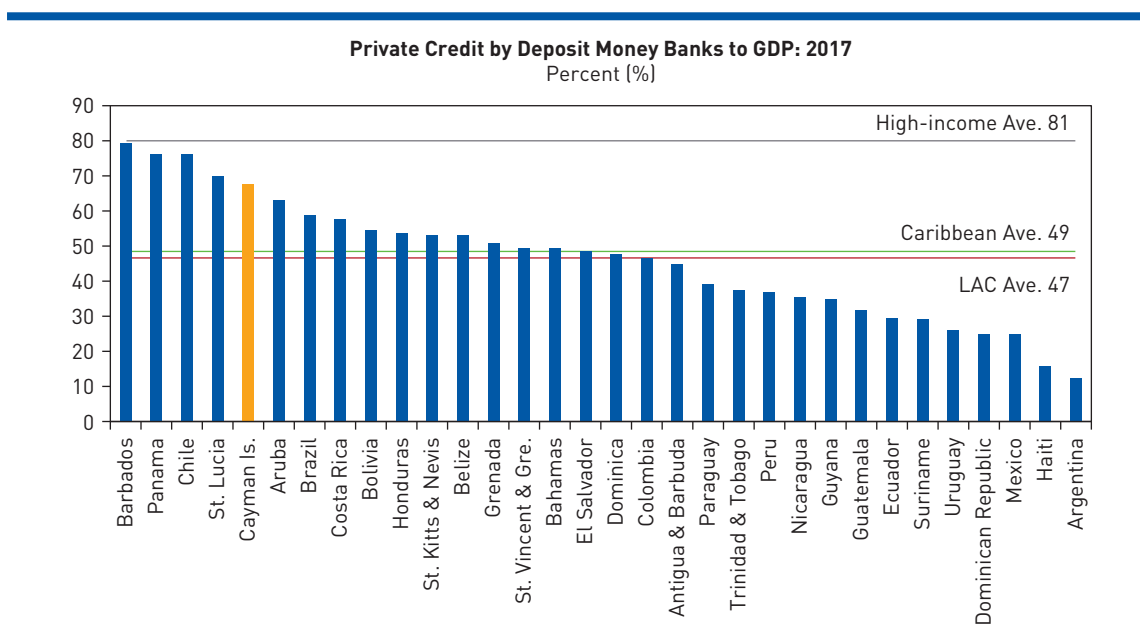
Why Is There Limited Domestic Private Sector Capital Market Activity in Cayman?

The domestic banking sector currently consists only of non-indigenous banks, following the sale of Cayman National Bank to Republic Bank, which is headquartered in Trinidad and Tobago and is majority owned by that country's government. As of December 2020, there were nine "Class A" banks and trusts registered to operate in the Cayman Islands, which dominate the capital markets space.

These nine Class A commercial banks provide for a relatively competitive environment, especially when compared to most other English-speaking Caribbean territories, according to the Ministry. The Ministry believes that domestic lending rates are typically pegged to the US dollar prime rate, ensuring that Cayman's bank lending rates are quite competitive. Given that all of Cayman's domestic Class A banks have head offices and/or parent companies abroad, access to foreign capital becomes even easier, at least in theory. While this is a huge advantage to the borrower, it means that the local capital market could remain relatively untapped for such funds.

Financial Depth

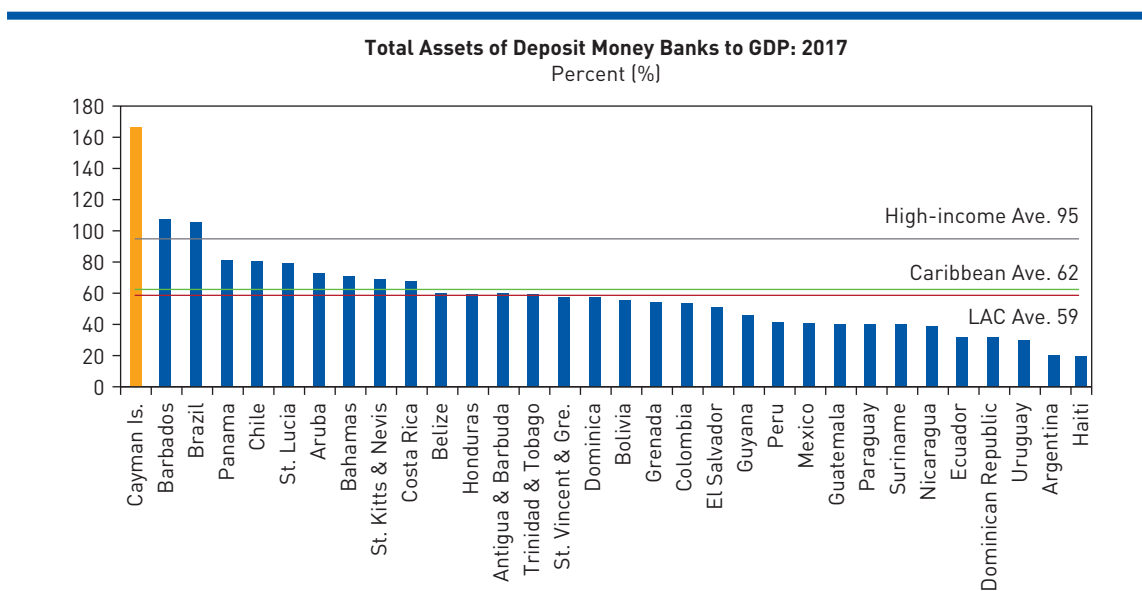
The size of the financial sector as measured by private credit to GDP is one of the highest in the hemisphere. In 2017 the Cayman Islands was at 68.7% vis-a-vis an average of 47% for Latin America and the Caribbean and 49% for the Caribbean, and compares more closely with high-income countries. The indicator has declined slightly in recent years for the Cayman Islands, falling to 60.3% in 2019, partly as a result of the rapid expansion of GDP.



The Cayman Islands legal framework and laws are flexible in terms of meeting the objective of arrangers, issuers, and investors in capital markets transactions, yet at the same time provide a credible and well-established foundation for creditor rights. The Cayman Islands has as a result become the first choice location for vehicles in capital markets transactions, particularly structured finance transactions, by offering the key legal elements that arrangers, issuers and investors require.

The Cayman Islands jurisdiction offers the key legal elements that arrangers and investors require and as a result is the first choice location for the majority of offshore capital markets transactions, particularly structured finance transactions. One of the key legal elements is that there is no taxation. There is no form of corporation, income, or capital taxation in the Cayman Islands, whether direct (on the finance vehicle or holders of securities issued by the finance vehicle) or indirect (by way of withholding on payments made by the finance vehicle). If incorporated as an exempted company (the typical form of vehicle for capital markets transactions), the finance vehicle can obtain a tax undertaking from the Cayman Islands government that no taxation introduced for a period of up to 30 years will be applicable to the finance vehicle or to the holders of its securities.

Total assets of domestic retail banks relative to GDP also stand out in the region, at 167% in 2017, being more closely aligned with the average for high income countries of 95%. This indicator declined to 148% in 2019 as GDP expanded at a faster pace than domestic bank assets, though remaining well above the average for high-income countries.



Source: Global Financial Development Database World Bank Group (Oct. 2019) Cayman Islands Economic and Statistics Office Maria Dukharan

The highly dollarized nature of the Cayman Islands economy means that the USD and the KYD are easily interchangeable, and the KYD is not seen as the typical soft currency. Indeed, where domestic borrowers can access financing in USD, there may be a price advantage to doing so either locally or overseas,

depending on the circumstances of the borrower. The lack of constraints around access to foreign currency makes lending in USD in the Cayman Islands less risky than in other Caribbean jurisdictions.

For example, a foreign lender would be reluctant to lend USD to an entity operating in a jurisdiction where access to USD is restricted. Since Cayman has no such restrictions or market tightness, formal or de facto a domestic borrower of foreign capital can purchase any quantity of USD it needs at the local banks to repay its foreign debt. In fact, net foreign assets held by commercial banks amounted to 103% of GDP at the end of 2019.

According to the Cayman Islands Monetary Authority, in Q3 2020:

- Retail banks issued KYD4.2 billion in nonresident debt and equity securities and zero in resident debt and equities;
- Resident financial corporations have accessed KYD47 million in loans from retail banks;
- Resident commercial private sector has accessed KYD1.2 billion on loans from retail banks;
- Total resident deposits in retail banks reached KYD9.3 billion out of KYD13.9 billion total deposits (67%), broken down as follows:
 - Demand deposits KYD3.6 billion
 - Savings deposits KYD3.6 billion
 - Fixed deposits KYD2.1 billion
 - Other deposits KYD4.6 billion
 - Altogether, households have deposited KYD2.6 billion in retail banks.

In relative terms based on deposit figures, local commercial banks are sufficiently capitalized and have ample liquidity to handle demands for funding. The Cayman Islands Development Bank (CIDB) is also a source of domestic credit to the private sector but is relatively small. The CIDB is a statutory authority wholly owned by the Cayman Islands government, established in March 2002.

Because the Cayman Islands government has maintained its Aa3 credit rating, this extends to Caymanian businesses being able to obtain low-cost financing on the international capital market. Larger companies can and do access the advice necessary to access external funding; however, it is not the primary funding source for small businesses in the Cayman Islands, according to the Ministry.

If Price and Availability of Liquidity Are not the Issue, What Is?

According to the CIMA, the private sector does not access the equity market to mobilize capital from investors or savers to productive sectors, partly because it is so much easier and cheaper to raise the necessary capital for business acquisition and expansion via traditional bank loans.

The CIMA is also of the view that the investment culture is somewhat weak among Caymanian residents. Savings in traditional deposits in commercial banks, or investment in real estate, seem to be the preferred options among locals.

Historically, there has been deep banking penetration for interest bearing savings accounts, and for credit unions with higher rates of return and dividends, versus interest on savings accounts. The savings and investment products offered by insurance companies are also a preferred option. And finally, there is a historical or cultural preference for passive activity/rental income, and capital gains through real estate investment (especially since there is no capital gains tax).

Former Minister of Finance and current CEO of the Cayman Islands Stock Exchange (CSX) Marco Archer believes that although the CSX provides a platform for the listing and trading of securities, while debt listings are huge and international, there is not sufficient participation with respect to the listing and trading of equities. “We established a Stock Exchange 25 years ago, but to date, our equity listings are small, and, therefore, equity trading has not yet gained sufficient traction and acceptance with the average local investor. That is the demand side. On the supply side, in addition to those local companies with debt and equity listings on stock exchanges in other jurisdictions, there are many successful and privately owned companies with sufficient liquidity and / or access to credit lines, and therefore choose not to utilise capital markets such as the CSX in order to raise capital.” Archer shared. The CSX is fully owned by the Cayman Islands government and is subject to supervision and regulation by CIMA. Due to limited activity on the exchange, there are no independent brokers outside of the government employees.

There are five types of entities whose equity is listed on the Cayman Islands Stock Exchange, one retail debt listing, but countless Investment Funds, Specialist Debt, Corporate Debt, Insurance Linked Securities and Catastrophe bonds, all denominated in foreign currencies. The debt listings are primarily by Cayman, Delaware, Irish, and UK incorporated entities, and the instruments are mostly intragroup and issued outside of the Cayman Islands. These therefore ought not to be considered as Caymanian capital market transactions.

Culture and policy-based restrictions are also major factors. According to Mike Anderson, Managing Director of RF Holdings Limited, one of the newest licensees operating in the Cayman Islands, “The capital market is not as active as it could be, and perhaps more innovative solutions would cater to the needs of the private sector entities trying to raise capital, but are unable to satisfy the traditional (real estate) asset-backed lending preferences of the commercial banking sector.” Anderson believes that RF can play a major role in Cayman’s capital market development going forward. “Furthermore, the fact that 100% of Cayman’s domestic pension fund portfolios must be invested overseas, means that the Cayman Islands’ capital market is in effect being robbed of valuable long-term capital, which could be harnessed to invest in appropriate domestic commercial debt and equity,” Anderson went on to suggest.

Cayman’s absolute restriction on pension fund investment portfolios is unique in the Caribbean, where most countries place relatively low limits (typically around 25% maximum) on the proportion of pension fund assets which can be invested abroad.

It is clear that these legislated restrictions on pension funds, both in Cayman and across the region, should be reassessed with a view to optimizing the prescribed mix of local versus foreign investment and should

be reviewed periodically. The IMF has found local pension funds provide impetus for the development of local capital markets, with the institutional investor base creating positive externalities that can improve corporate performance and promote sound corporate governance.¹

Apart from the pension fund restriction, the longstanding fixed exchange rate and currency board arrangement may also dampen domestic capital market activity. Darryl White, CEO of RBC Financial Caribbean Limited, and Regional Vice President of Corporate and Investment Banking for RBC Caribbean, raised this as a possibility. “If you look at Jamaica for example in 2018 and 2019, we see that the stock exchange was the best performing in the world, and it is possible that the decoupling from the US’ monetary policy stance that a flexible exchange rate allows, could have contributed to this outcome. A foreign exchange regime such as Cayman’s gives rise to the veritable importation of US monetary policy, which may not be consistent with domestic needs and conditions, and which could affect the cost and availability of capital.”

Regulatory Developments

Under the Monetary Authority Act, the CIMA was created by the Cayman Islands Government to regulate and supervise the Cayman Islands’ financial services industry and began operations on 1 January 1997. It is also responsible for enhancing Cayman’s ability to maintain a well-regulated financial services regime and monetary stability. CIMA was created from the merger of the Financial Services Supervision Department of the Cayman Islands government and the Cayman Islands currency board and assumed the responsibilities, duties, and activities of these two bodies.

Generally speaking, the Cayman Islands government is responsible for the drafting of acts and regulations. Following this, CIMA determines the relevant regulatory rules, policies, and procedures, etc., post-private sector consultation. These provide the industry with guidance on how to comply with acts and/or regulations. According to CIMA, as it currently stands, there is little to no market surveillance framework for the domestic capital market.

CIMA believes that the government may also wish to use a multi-pronged approach to:

- Incentivize certain types of companies to float a number of shares on a trading exchange;
- Incentivize certain bond issues to be offered locally before it is offered internationally;
- Promote financial education and literacy, especially in the area of sound investment instruments and strategies;
- Evaluate the adequacy of consumer protection and address any gaps;
- Encourage government corporations to tap capital debt markets for their funding needs.

Additionally, the government may consider launching a national mutual fund or unit trust that would mop liquidity and mobilize savings away from bank deposits towards such mutual funds and unit trusts that

¹IMF, The Development of Local Capital Markets: Rationale and Challenges, WP/14/234, December 2014.

would be listed to provide liquidity. The core drawback in using commercial banks to fund business ideas is banks' tendency to over-focus on collateral and securitization of loans, which is clearly the case in Cayman. Banks are generally less likely to favor innovative, high-growth potential projects, having a bias towards lower risk. It is generally accepted that this is not conducive to entrepreneurship and MSME growth in general. This creates a gap in terms of a new company's ability to access capital where no collateral is available.

The Ministry shared that the government has taken steps to address this gap by making funds available via the Cayman Islands Development Bank. The Cayman Islands Centre for Business Development was also established to assist small businesses with training and support. The Centre also provides incubation offices and managerial support to maximize their credibility and ability to access financing.

The Ministry also shared that a Sovereign Wealth Fund (SWF) has been proposed and remains on the agenda for the new government. Indeed, past governments have established other funds that are unique to particular industries and situations, but the concept of a more broad-scale fund remains a conceptual idea at this time. Certainly, questions surrounding the SWF's scope and how it is funded must be considered keenly, preferably via public consultation. Additionally, how to entrench the SWF so that its objective and function are maintained across administrations is also a major consideration.

Conclusion

The Cayman Islands economy is probably the best-run in the Caribbean. It is stable and prosperous, carrying the highest credit rating in the region, not having suffered any downgrades since its rating with Moody's was established in 1997. The economy is driven mainly by private sector activity, and the government is relatively small and carries a net cash position.

The capital market in Cayman is therefore relatively small and quiet and is dominated by retail banks who prefer to lend against (real estate) assets. Much of economic activity is supported through FDI, which also occurs largely outside of the local financial system, dampening the impact these activities have on financial development. However, we believe that a few policy amendments could help to support greater activity in this space.

In the first instance, relaxing the restrictions placed on pension funds could help to bring that liquidity back home and drive the cost of capital down. It is also possible (with appropriate legislation) to channel some of that liquidity towards small and medium enterprises, who otherwise would not be able to access credit from the commercial banks if they do not have (real estate) assets to leverage. And finally, pension funds are an important source of long-term capital that could be used prudently to finance the sustainable development and resilience needs of a country. The Cayman Islands has been identified as one of the most vulnerable to sea level rise,² and climate adaptive infrastructure spending may soon become a more urgent priority.

Changing the framework governing the CSX could also play a role in fostering a culture of issuing and investing in debt and equity instruments. More broadly, building a strong regulatory framework for the CSX and for capital market activity could underpin borrower and investor confidence.

²Moody's Investors Service, Sea level rise poses long-term credit threat to a number of sovereigns, https://www.moody's.com/research/Sovereigns-Global-Sea-level-rise-poses-long-term-credit-threat-PBC_1175883, January 16, 2020.

The Financial System in the Eastern Caribbean Currency Union

OVERVIEW

The Eastern Caribbean Currency Union (ECCU) consists of eight island economies, namely Anguilla, Antigua & Barbuda, Commonwealth of Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent & The Grenadines. These countries all use the Eastern Caribbean dollar as their currency, and the Eastern Caribbean Central Bank (ECCB) serves as their monetary authority. The Eastern Caribbean Securities Regulatory Commission (ECSRC) is the regulatory body that administers the securities legislation governing securities business in the Eastern Caribbean Currency Union.

The ECCU's financial system is overseen by these two regulatory bodies, ECCB and ECSRC and the longest running fixed exchange rate regime in the world where the Eastern Caribbean dollar has been pegged to the United States dollar at an exchange rate of EC\$2.67 to US\$1.00 since 1965. The ECCU and the ECCB have led the way as the first currency union to issue blockchain-based digital currency, which will be discussed later in this brief paper.

The financial system in the ECCU is heavily dominated by retail financial institutions such as commercial banks, credit unions, and insurance companies. In terms of the capital markets, the Regional Government Securities Markets (RGSM), which facilitates the trading of government paper of ECCU member countries, has been a major success while the stock market has continued to struggle with few listings and limited trading.

In reviewing the financial system in the ECCU I will use the available data to examine the following: (1) the composition of the financial system and the assets of the commercial banking sector, (2) the developments in digital currencies in the ECCU, and (3) capital markets in the ECCU with a focus on the RGSM.

The Composition of the Financial System

The financial system in the ECCU reflects a diverse range of deposit taking and other financial institutions as reflected in tables 1 and 2.

TABLE 1. STRUCTURE OF ECCU FINANCIAL SYSTEM: DEPOSIT TAKING INSTITUTIONS 2020

	Ang	Ant	Dom	Gre	Mont	SKN	SLU	SVG	ECCU
Commercial banks	3	6	4	5	2	6	5	4	35
Savings banks	0	0	0	0	0	0	0	2	2
Development banks	1	1	1	1	0	1	1	0	6
Credit unions or co-operatives	1	7	7	11	1	4	16	9	56
Mortgage banks	0	1	0	0	0	0	0	0	1
Building societies	0	0	1	1	1	0	0	1	4
Micro-finance institutions	0	1	0	0	0	1	5	0	7
	5	16	13	18	4	12	27	16	111

Source: Eastern Caribbean Central Bank Statistics

In terms of the number of deposit taking institutions, credit unions or co-operatives constitute the largest number followed by commercial banks. While the credit unions or co-operatives are larger in number and sometimes more than twice the number of commercial banks in some islands, the commercial banks tend to be significantly larger in terms of their asset and loan portfolios. The most recent comprehensive data on Credit Union assets reported in the ECCB's 2019 Financial Stability Report indicated total assets of US\$1.3 billion up from US\$1.49 billion in 2018, compared to Commercial Bank Assets of US\$11.0 billion in 2019. Table 2 provides a summary of Commercial Bank Assets by country between 2017 and 2019.

TABLE 2. COMMERCIAL BANKS ASSETS BY COUNTRY (US\$000s)

Country	2017	2018	2019
ANGUILLA	526,912	579,599	545,054
ANTIGUA AND BARBUDA	231,588	254,185	210,833
ANTIGUA AND BARBUDA	2,382,385	2,538,978	2,101,250
THE COMMONWEALTH OF DOMINICA	953,556	886,266	790,680
GRENADA	1,258,639	1,332,731	1,388,994
GRENADA	18,230	23,523	16,997
MONTserrat	168,836	172,685	172,200
ST. KITTS AND NEVIS	2,676,772	2,851,404	2,548,209
SAINT LUCIA	2,242,415	2,349,997	2,397,193
ST. VINCENT AND THE GRENADINES	820,746	824,374	842,999
ECCU	11,280,080	11,813,740	11,014,408

Source: Eastern Caribbean Central Bank Statistics

Non-Banks and the Capital Markets

The non-bank sector consists of a range of financial intermediaries such as credit unions, insurance companies, pension funds, finance companies, mutual funds, venture capitalists, investment bankers and brokerage houses among others. Table 3 shows a relatively broad range of financial institutions operating in the ECCU. However, according to the 2019 ECCU Financial Stability Report, Commercial Banks, Credit Unions and Insurance companies accounted for 81.0% of total domestic assets of the financial sector.

The main risk that confronts the insurance sector in the ECCU is climate change, which increases the frequency and intensity of hurricanes in the region. In 2016 and 2017, this sector was affected significantly by hurricanes. ECCU member countries Dominica and Grenada have suffered devastating hurricanes in recent years, and insurers are increasingly concerned about the risks posed by climate change.

Unsustainable government debt levels pose another to insurers as restructuring of these instruments can affect their solvency and credit ratings.

TABLE 3. STRUCTURE OF ECCU FINANCIAL SYSTEM: OTHER FINANCIAL CORPORATIONS

	Ang	Ant	Dom	Gre	Mont	SKN	SLU	SVG	ECCU
Insurance corporations	26	25	16	25	7	15	26	23	163
Pension funds	2	7	6	45	0	13	18	22	113
Other financial intermediaries	32	13	17	0	4	6	21	81	174
National foundation	0	0	1	0	0	0	0	0	1
Finance companies	1	0	0	0	0	1	0	0	2
Holding companies	0	0	0	0	0	0	1	1	2
Investment funds	0	1	1	0	0	1	0	0	3
Mutual funds	28	0	0	0	0	2	13	75	118
Vehicle companies	0	0	0	0	0	1	0	0	1
International banks	3	12	15	0	4	1	7	5	47
Financial auxiliaries	11	14	8	7	4	44	11	23	122
Brokers and agents	0	0	0	0	0	0	3	1	4
Trust companies	8	1	0	0	2	29	0	16	56
Money services businesses	2	11	7	6	2	11	6	4	49
Financial regulators	1	2	1	1	0	2	2	2	11
ECCU	71	59	47	77	15	78	76	149	572

Source: ECCU Statistics

CAPITAL MARKETS IN THE ECCU

The Eastern Caribbean Securities Exchange (ECSE) is a fully electronic regional exchange promoted by the Eastern Caribbean Central Bank (ECCB), as a part of a programme to develop money and capital markets in the Eastern Caribbean Currency Union (ECCU). The ECSE was launched in October 2001 along with two subsidiaries, the Eastern Caribbean Central Securities Registry (ECCSR) and the Eastern Caribbean Central Securities Depository (ECCSD), to provide the infrastructure for the trading, clearing and settlement, and registration and transfer of financial assets on the Eastern Caribbean Securities Market and, subsequently, the RGSM. The ECCSR was subsequently wound up, as a part of a Group rationalization exercise, and its activities subsumed into the ECCSD. Consistent with industry norms, the ECCSD then became a full-service CSD providing a full range of post-trade services.

According to the ECCB, “The markets were developed in response to identified gaps in the financial infrastructure in the ECCU, where financial intermediation was based primarily on bank financing, leading to a bank-centric financial system. Additionally, there were limited investment opportunities, inadequate pricing and distribution mechanisms for securities, and minimal capital flows across ECCU.”

At the time of its launch the ECSE was the first fully electronic regional securities market in the entire Western Hemisphere, operating in a fully dematerialized environment with trades settled one day after trade (T+1) cycle and cleared on a delivery against payment (DVP) basis. The ECSE is open Monday to Friday, securities are traded in EC dollars, and foreign entities can list on the stock exchange. There were seven listed brokerage firms listed as of 31 December 2021, though stock brokerage is not the main business of any of these firms.

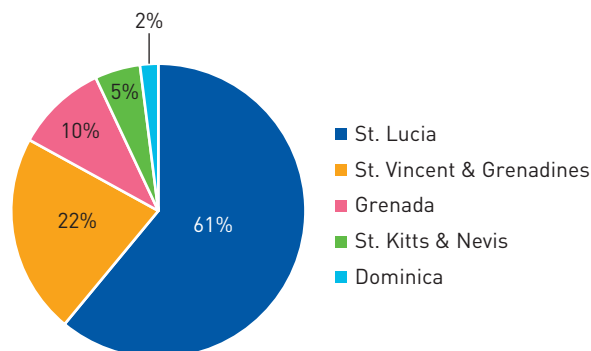
During 2020/21, total listings on the ECSE grew by 5.8% to 164 securities, consisting of 140 sovereign debt securities, 11 corporate debt securities, and 13 equities. During the year, 74 new securities—13 issues of commercial paper, 10 sovereign bonds, 3 Treasury notes, and 48 Treasury bills—were listed on the market. Over the same period 65 securities—7 issues of commercial paper, 4 Treasury notes, 4 bonds, and 50 Treasury bills—matured and were redeemed, resulting in a net increase of nine listings. Listed equities remained unchanged.

Sovereign Debt Securities. During the year, the number of sovereign debt instruments listed on the ECSE increased by 5 to 140, accounting for 85.4% of total market listings on 31 March 2021. Figure 1 shows sovereign debt by issuer for 2020/2021.

Corporate Securities. The 24 listed corporate securities comprised 13 equities and 11 debt instruments, an increase of 9% over the comparable year in 2020, when 22 corporate securities were listed.

Market Capitalization

On 31 March 2021, total market capitalization was \$1.9 billion, an increase of \$128.0 million or 6.9% from 31 March 2020. The increase in market capitalization is attributed mainly to an increase in the price of Grenada Electricity Services Limited, which contributed 11.6% to total market capitalization. The financial services sector continued to lead, accounting for \$907.9 million, or 46% of market capitalization. The utilities sector followed, with a market capitalization of \$828.4 million, or 42% of total capitalization.

FIGURE 1. SOVEREIGN DEBT BY ISSUER 2020/2021

Primary Market

Primary market activity during the year was dominated by the RGSM. Five governments: Antigua and Barbuda, the Commonwealth of Dominica, Grenada, Saint Lucia, and St Vincent and the Grenadines raised \$972.4 million through the issue of 52 securities. These issues comprised 50 Treasury bills and two Treasury notes. The auction proceeds were \$638.8 million, or 39.7% lower than the sum raised during financial year 2020, due to a marked reduction in issuances by regional governments and no activity by corporates.

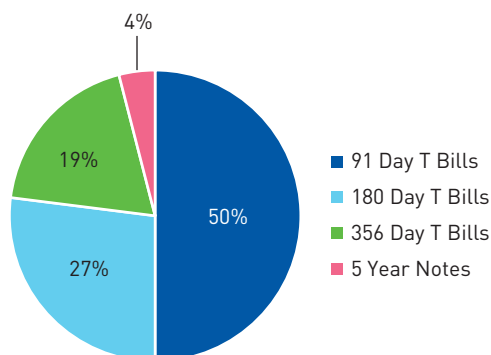
GOVERNMENT ISSUES ON REGIONAL GOVERNMENT SECURITIES MARKETS (MLs OF US\$)

Issuer	2020/2021	2019/2020
Antigua & Barbuda	\$75.39	\$111.56
Dominica	\$29.96	\$46.89
Grenada	\$34.41	\$42.35
St. Lucia	\$109.06	\$175.54
St. Vincent & The Grenadines	\$115.35	\$153.07
RGSM Total	\$364.19	\$529.43

Regional Government Securities Market

During the year, 52 securities were auctioned on the RGSM by the governments of Antigua and Barbuda, the Commonwealth of Dominica, Grenada, Saint Lucia, and St Vincent and the Grenadines, raising \$972.5 million. Fifty Treasury bills were auctioned comprising twenty-six 91-day T-bills, fourteen 180-day T-bills and ten 365-day T-bills. Two 5-year notes were also auctioned.

The Government of St Vincent and the Grenadines was the market leader during the period, raising \$308.0 million from 11 Treasury bills. This accounted for 31.7% of the total proceeds from RGSM auctions. The Government of Saint Lucia followed, raising \$291.2 million, or 29.9% of the RGSM proceeds, from the auction of 18 issues. The Government of Antigua & Barbuda raised \$201.3 million from 13 issues, accounting for 20.7% of total RGSM proceeds.



The RGSM continues to be an important source of funding for regional Governments, with \$16.2 billion raised from November 2002 to March 2021. Saint Lucia and St Vincent and the Grenadines have issued securities with aggregate values of \$5.4 billion and \$5.2 billion, respectively.

Secondary Market Activity

During the year under review, 30.7 million units of securities were traded with an aggregate value of \$31.3 million in 107 transactions. This represented an increase in volume and value compared to the 18.9 million units of securities that traded at a value of \$27.7 million in the 2020 financial year. The number of trades fell markedly, however, from the 236 transactions recorded in the previous year.

Fixed Income Securities

There were 33 trades in fixed income securities during the year, in which 30.6 million units traded at a value of \$30.9 million. This volume was significantly higher than the comparable year of 2020 when 16.6 million units traded at \$17.2 million in 22 transactions. Securities issued by the Government of Saint Lucia accounted for 100% of trading activity during the year.

FIXED INCOME SECURITIES TRADING ECSE

Market Activity	2020/2021	2019/2020
Transactions	33	22
Volume Traded (Units)	30,639,000	16,641,500
Value Traded (US\$)	11,610,144	6,451,985

Equities

Activity in the equities market declined sharply in the financial year ended 31 March 2021. During the year there were 74 equities transactions in which 79,788 shares traded at a value of \$0.3 million. In comparison, in the previous financial year, 2.3 million shares traded at a value of \$10.5 million in 214 trades

transactions. Trades of SLH were the main contributor to the activity in the equities market, accounting for 23,126 or 28.9% and \$44,184 or 15.9% of traded value.

TABLE 4. EQUITIES TRADING ECSE

Market Activity	2020/2021	2019/2020
Transactions	74	214
Volume Traded (Units)	79,788	2,281,681
Value Traded (US\$)	106,952	3,917,529

Conclusion

The financial system in the Eastern Caribbean is anchored in the legendary fixed exchange rate against the United States dollar since 1965. The credibility provided by this arrangement provides market participants and policymakers with an anchor as they undertake their various financial activities. In addition to the exchange rate anchor the financial system benefits from the sophistication and credibility of the Eastern Caribbean Central Bank and the Eastern Caribbean Regulatory Commission. These two regulatory bodies have consistently ensured best in class regulations and trading platforms.

Similar to the case of Barbados the financial system is bank dominated where the banks provide a wide range of modern and sophisticated banking services and the available evidence points to modest costs of financial intermediation. A major difference from the Barbados case is the relatively large number of indigenous as opposed to foreign-owned banks. Again, as in the Barbados case, the Eastern Caribbean is well served by sophisticated insurance companies, and credit unions, however, mutual funds and the private pensions sector are largely absent. Similar to the Barbados case, despite the presence of modern institutions and legislation there are few listings on the stock exchange, even fewer corporate bonds issues and limited trading of securities. In the Eastern Caribbean market activity is dominated by the government debt market with relatively little private sector securities either listed or actively traded. The main purpose of the financial system is to facilitate the movement of funds from savers to investors and facilitate the management of financial risks. As such the financial system in the Eastern Caribbean faces an urgent need to build on the legendary fixed exchange rate, modern trading infrastructure and strong regulatory environment and deliver solutions that channels savings to the private sector and facilitate the management of a wider range of financial risks.

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Jamaica's Capital Market Development

INTRODUCTION: MACROECONOMIC BACKGROUND

Jamaica was a colonized sovereign prior to 1962, but with its newly gained independence came uncharted waters and a new set of challenges from the economic and fiscal perspectives as a sovereign state. Nevertheless, there were also new dawns. In 1962, the Jamaican capital market saw the establishment of the Kingston Stock Market, the country's first formal securities market. This preceded the launch of the Jamaica Stock Exchange (JSE) in 1969, which became the English Caribbean's first stock market. Over the years the Jamaican economy has weathered a few macroeconomic crises, namely the economic shock triggered by adverse weather conditions, financial sector collapse, and two debt exchange programs which resulted in the need for changes to macroeconomic policies, and financial support from the International Monetary Fund, Inter-American Development Bank, and other multilateral partners. During these periods, the economy was plagued with low and deteriorating economic growth, in addition to weak fiscal and current account balances and high interest rates.

However, these events have typically proven to be a catalyst for the development of the capital market in Jamaica, highlighting areas for regulatory strengthening, improved fiscal and monetary policy, and the need for widening and deepening of the capital provision to uncover opportunities and generate greater value within the market. For the discussion below, we will outline specific periods of crisis the Jamaican economy has encountered and highlight how the capital market expanded and developed during these periods. Additionally, we will note future prospects for the development of the capital markets and regulatory strengthening required for the deepening and widening of market activities.

Jamaica's Financial Sector Crisis (1990s) and Financial Liberalization

Prior to the 1990s (1986–1990), the financial sector registered solid performance with real growth of 19%, which surpassed the developments reported by its Latin American counterparts, who had growth of 7.2% during the same period. The drivers of this expansion stemmed primarily from the number of merchant¹ and commercial banks, building societies, insurance companies, investment houses, and asset managers, increasing from 36 to 57 between 1980 and 1997, and total assets increasing from J\$2.5 billion to J\$192.6 billion (US\$1.4 billion to US\$5.205 billion) (Chen Young, 1998). The surge in merchant banks particularly was due to ease of entry as stipulated under the Protection of Depositors Act, which allowed for

¹Merchant banks are deposit-taking institutions licensed under the Banking Services Act. During the 1990s, merchant banks pioneered lease financing, which had certain tax advantages because write-offs were permitted on lease payments. This avenue of financing allowed companies to raise capital to acquire new assets as well as to refinance existing assets. Merchant banks took a special interest in providing advice on company restructurings, takeovers, and acquisitions, especially in the privatization of major GoJ assets such as Jamaica Telephone Company, Radio Jamaica, Caribbean Cement Company, and the National Commercial Bank.

minimal capitalization and few restrictions on the scope of operations in terms of loans and investment, and lower liquid reserve requirements relative to commercial banks. These entities were also instrumental in the development financing primarily for new hotel developments and privatization of key government entities. The local equities market was also at its zenith during the early 1990s, being recognized by International Finance Corporation as the number one performing stock market,² with an index gain of 202%. This was supported by increased liquidity levels in the market based on the developments seen in the overall financial sector.

As we moved closer to the mid-1990s, the Jamaican financial sector became fraught with challenges as the Government of Jamaica (GoJ) pursued the path of structural adjustment and embarked on a program of trade and financial liberalization (King, 2001). The program, which was implemented on a piecemeal basis during the 1980s, continued and involved the liberalization of the exchange rate, removal of credit controls, and the phasing out of the statutory reserve requirement of commercial banks, which had traditionally been used to finance the fiscal deficit. During this period there were attempts to reform the interest rate policy, which started with the central bank introducing a market-determined interest rate instrument Certificate of Deposit (BoJ CD) to facilitate its open market operations. Additionally, the country's national treasury subsequently engaged in a policy of switching the national debt portfolio from international to domestic creditors during the ensuing years. By 1995, the domestic debt was almost up to its pre-inflation level and fiscal deficits after that year were financed by new domestic borrowing. Given the environment of materially increasing interest rates, this drove an overall increase in the interest cost of private and public sector debt and the debt servicing profile of the GoJ ballooned (King, 2001).

The reintroduction of financial liberalization itself wasn't necessarily the issue; it was more about the pace of the implementation as well as the lack of regulatory strengthening that should have accompanied it. Financial liberalization should have shifted the onus to the private sector to be the chief providers of capital and facilitate a market environment where this would be executed in the most efficient manner. This appeared to be the case during the initial stages of the implementation as there was an expansion of the financial sector which resulted in an increase in the number of financial institutions—both banking and nonbanking—offering services. In its formative stages, financial liberalization coincided with an expansion in credit to private sector, which increased on average by 36% between 1990 to 1995. Most of the capital was directed towards the real estate sector with loans to construction and development accounting for approximately 20% of total credit offered. This sector along with the stock market, which grew in capitalization in 1997 by over 641 times relative to that of the 1980s, represented the primary beneficiaries of the new financial regime. However, this was to be short lived, as the lack of proper oversight proved to be a debilitating factor when the mismatch between short-term funding and long-term investments and volatile investments, primarily a function of the insurance industry, resulted in a liquidity squeeze that crippled the entire financial system leading to the failure of several institutions. This was further compounded by the declining economy and the sustained high interest rates (more than 40% for five-plus consecutive years). The problem faced by the banks was essentially that of bad debts, while for life insurance companies the difficulties were caused by investments in equities, real estate, and hotels (Chen-Young, 1998). Increased debt load was a consequence of the collapse in the financial sector and unveiled the ramifications

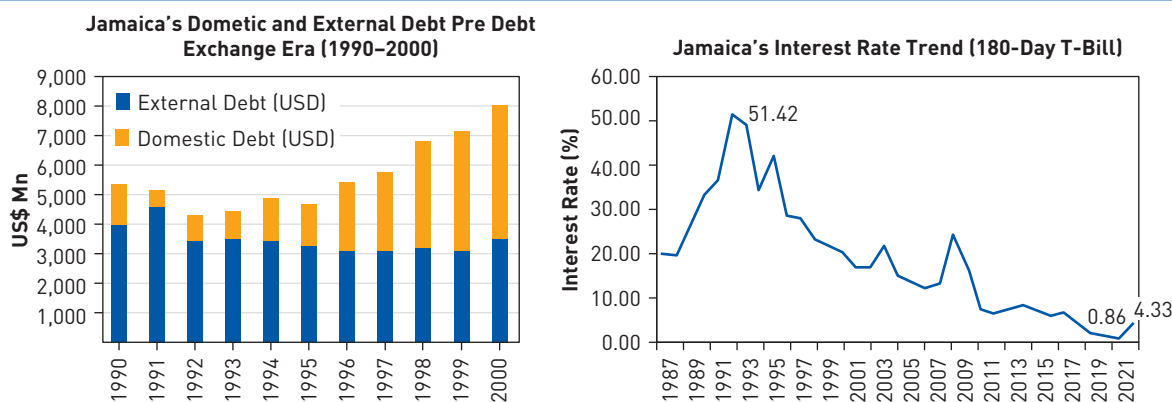
²Listing requirements for the stock exchange include prospectus or other document of offer, Articles of Incorporation, certified copy of the resolution of the directors or shareholders authorizing application for listing, quarterly financial statements at intervals not exceeding three months within 45 days of end of the period, submit audited financial statements within 90 days of the company's financial year-end.

of an overly hawkish monetary policy stance, weak corporate and regulatory governance, poor central bank regulations, supervision, and deficiencies such as poor risk management of the failed indigenous banks. This had adverse implications for the rate of growth in domestic savings, and thus on the amount of funds available for investment.

Given the severity of the financial crisis, interest rates pushed higher (44%-61% per annum), and government borrowing increased significantly as the government sought to fund the fiscal deficits driven by bailing out failed financial institutions, which changed the fiscal landscape (support of J\$73.5 billion which increased the government’s annual burden by another 12%, bringing total debt to GDP to about 65%) and to avert a run on several smaller banks given the lack of confidence in the financial system (Figure 1). Given the need for constant funding by the government, coupled with the higher rates that were being offered on “risk-free assets,” a quintessential crowding-out effect ensued. This environment was not supportive and conducive to investor-led growth, and as such, conditions in the capital market continued to decay. The significant deterioration in the economic landscape triggered the need for support from multilateral partners.

Coming out of the financial crisis, the major lesson learnt was the need to address the regulatory dilemma to ensure that the regulations are supportive of the dynamics of the thriving financial sector. As such, the Financial Services Commission (FSC) was instituted in 2001. The main objective of the FSC is to facilitate regulation and supervision for the nonbanking sector in the areas of insurance, securities, and pensions. These added regulations for the nonbanking sector were instituted as a protection for the wider investing public; support an efficient, transparent, and fair market; and ensure that local regulations are in line with international standards, while at the same time providing risk mitigating mechanisms for the sector.

FIGURE 1. DEBT AND INTEREST RATE TREND



Source: Ministry of Finance & Planning

Source: Bank of Jamaica

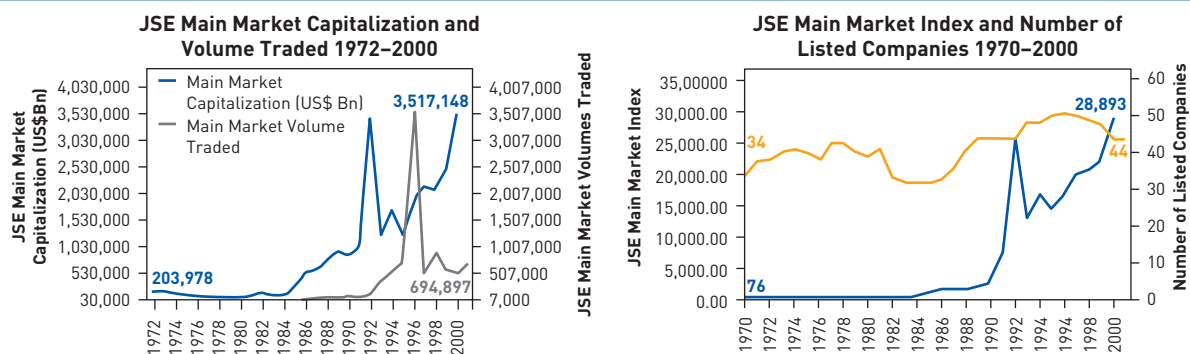
Jamaica's Engagement with the International Monetary Fund Support (IMF) and Supporting Multilaterals (2000s)

With the major fall-out of the financial system and with the GoJ having to provide support to the sector, the fiscal position worsened with heightened debt levels. There was also the legacy of the impact of higher inflation rates, which averaged approximately 40%. The GoJ then embarked on an economic growth program geared towards reversing the debt trajectory and setting the economy in line for stronger levels of growth going forward. In line with this agenda the authorities requested a staff monitored program with the IMF over a two-year period (IMF, 2001). Major facets of the program included debt consolidation and reduction, financial sector reform, structural reforms to drive economic growth, and monetary and exchange rate policies to lower the inflationary charge and interest rates, and restore economic competitiveness.

This was a positive signal to the market, creditors, and donors to Jamaica. This fiscal trajectory and the impact on the market was astounding. As with the implementation of a growth-led strategy, we note that the funds under management for the securities industry increased at an average rate of 14.8% over the first half of the 2000s. The equities market also posted increases up to 2005, improving by 39.8% over the first half of 2005 (Figure 2).

To further strengthen the securities industry, amendment of the collective investment scheme regulations was undertaken during 2003, which entailed the FSC embarking on a review of mutual funds regulations. These amendments were geared towards improvements to facilitate the development of mutual funds within the local market. Provisions were also made for the strengthening of the pension schemes with the passage of the Pensions Act, 2004 ("the Pensions Act") and amendments to the Pensions (Superannuation Funds and Retirement Schemes) Act during 2005. This regulation outlines minimum operating standards for pension plans with focus on investments, trust deeds and rules surrounding these, other matters of governance

FIGURE 2. JAMAICA STOCK EXCHANGE MAIN MARKET CAPITALIZATION AND LISTINGS



Source: Jamaica Stock Exchange

and operational standardization, registration, and licensing of respective plans. Other phases of the pension reform were set to include adjustments to key areas of the Pensions (Superannuation Funds and Retirement Schemes) Act, to allow for pension portability, maximum vesting periods, hardship withdrawals, pension pay-out products, and allowance for pensioners to participate in more than one pension arrangement.

Global Financial Crisis and Consecutive Debt Exchange

With the onset of 2008, the global financial landscape was plunged into trepid waters. On a global scale there were reduced levels of credit availability both for the private sector and government. The strength and tenacity of the financial sector was again put to the test. Given the credit crunch in the Jamaican market, facilities were implemented by the Central Bank to assist financial entities to meet margin calls on external loans. Additionally, liquidity buffers that were held by most financial institutions quickly eroded based on the extent and severity of the financial crisis with deteriorating economic productivity and rising unemployment leading to non-performing loan levels tracking northward. Investment portfolios for banks, insurance companies and securities dealers had significant exposure to GoJ bonds, and with the weakening in the macroeconomic agenda, the probability of credit event increased in likelihood. The effects were felt across all spectrums of the capital market, with significant reduction in private placements (down 10.6%), funds under management by securities dealers (down 1.7%) and the equities market with maximum deterioration of 31.9% over 2008–2011.

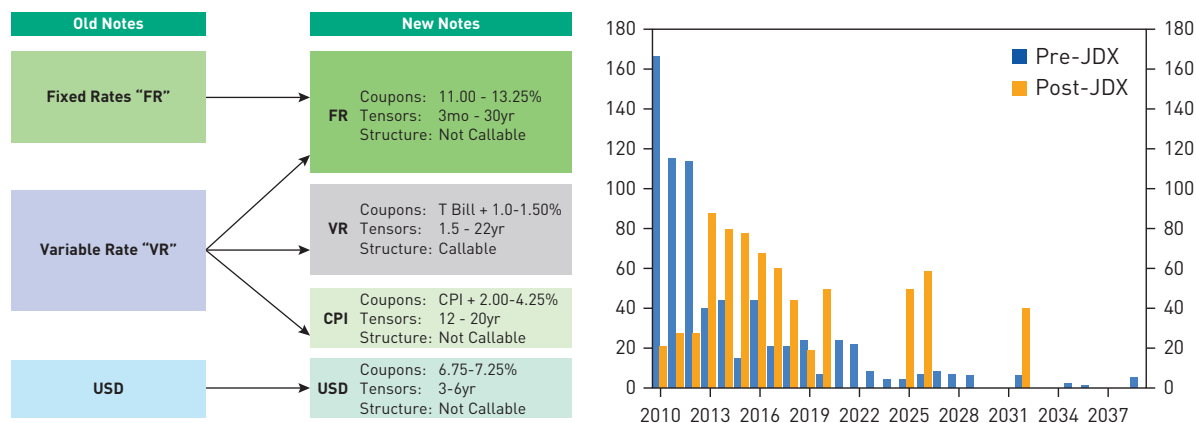
Economic sustainability was threatened given the frailty of the GoJ's fiscal position. This was exacerbated by higher debt servicing cost as creditors required higher risk premiums for GoJ debt along with significant deterioration in the currency and net international reserve, and exorbitant upward shifts in interest rates given a substantial liquidity crunch. Hence, the GoJ had to seek financing from multilateral partners to make payments on global bonds which matured in 2009 (IMF, 2010). Rising uncertainties about external and fiscal sustainability resulted in the government facing difficulties to roll over maturing domestic debt obligations, as investors decided to switch to foreign-currency assets (IMF, 2010). With these developments credit rating agencies quickly signalled the possibility of a selective default on the part of the GoJ debt.

TABLE 1. JAMAICA DEBT EXCHANGE STRUCTURE

Type	Eligible Amount US\$ bn	Average Coupon Before	Average Coupon After	Coupon Reduction	Average Maturity Before (Years)	Average Maturity After (Years)	Interest Before US\$bn	Interest After US\$bn	Savings
Fixed Rate	2.21	18.1%	12.4%	5.7%	5.1	6.0	0.40	0.27	0.13
Variable Rate	3.53	19.0%	12.1%	6.9%	5.3	9.5	0.67	0.42	0.26
USD	0.85	9.2%	7.0%	2.2%	1.4	4.5	0.08	0.06	0.02
Total	6.59	17.5%	11.4%	6.1%	4.7	7.0	1.15	0.75	0.40

Source: International Monetary Fund Article Fourteen

To alleviate the possible devastating effect on Jamaica, the GoJ resorted to the Jamaica Debt Exchange (JDX), which was launched in January 2010 and concluded in February 2010 (Figure 3). The initiative

FIGURE 3. PRE- AND POST-JAMAICA DEBT EXCHANGE GOJ INTEREST RATE AND MATURITY DEBT PROFILE

Source: Ministry of Finance & Planning

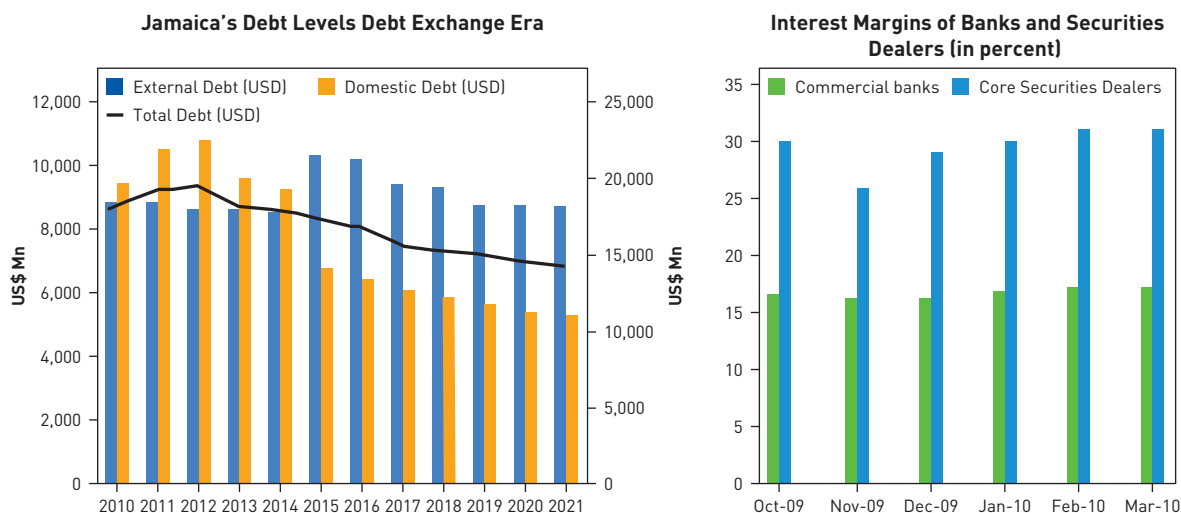
sought to reduce the fiscal burden of domestic debt service on the central government by exchanging high-interest, short-maturity debt instruments for lower-interest and longer-maturity tenors, which still offered domestic investors positive real rates of return. The initiative did not reduce the nominal value of the securities held by domestic investors; rather it has reduced the present value of the returns from the securities. The focus of the debt exchange program was thus on liquidity rather than solvency. The debt exchange consisted of the entire stock of domestic debt—345 instruments—which were consolidated into 24 new instruments (Table 1). Average interest rates were reduced from 17% per annum to 11% per annum; average debt maturities were extended by 2.5 years (UNDP, 2010).

The strong participation in the debt exchange from market players was a positive signal across the market. It was noted that bonds traded above par in the post-JDX period provided an important boost to the institution's balance sheets and underlying capital positions (Figure 4). These positive market developments in combination with efforts by financial institutions to reduce operating costs and minimize JDX-related interest earnings loss helped preserve capital positions (IMF, 2010). In addition to the rebounding in the capital market, a US\$1.27 billion 24-month Stand-By Arrangement was approved by the IMF Executive Board for Jamaica. This was another welcomed development in support of Jamaica's economic recovery.

The Agreement's core initiatives included achieving fiscal sustainability (tax reform and expenditure containment measures), structural reform supporting fiscal responsibility, initiation of a central treasury management system, and public sector reform. The program was intended to be growth centred. The capital market was seen as a major area of focus in driving growth, particularly for small and medium-sized entities. No capital market facility was in place prior to 2011 to accommodate this significant component of the market in raising equity capital.

The Jamaica Junior Market (Junior Market) was then initiated, which was complemented with attractive tax incentives to stoke its development. The incentives for listing on the Junior Market go on to include, inter alia, elevating of the company's profile, increasing the opportunity for additional capital raises, and perhaps the most important, benefiting from the associated tax incentives. Under an amendment to the Income Tax Act in 2016, new listings on the Junior Market continued to benefit from a tax amnesty that

FIGURE 4. JAMAICA DEBT LEVELS DURING DEBT EXCHANGE ERA



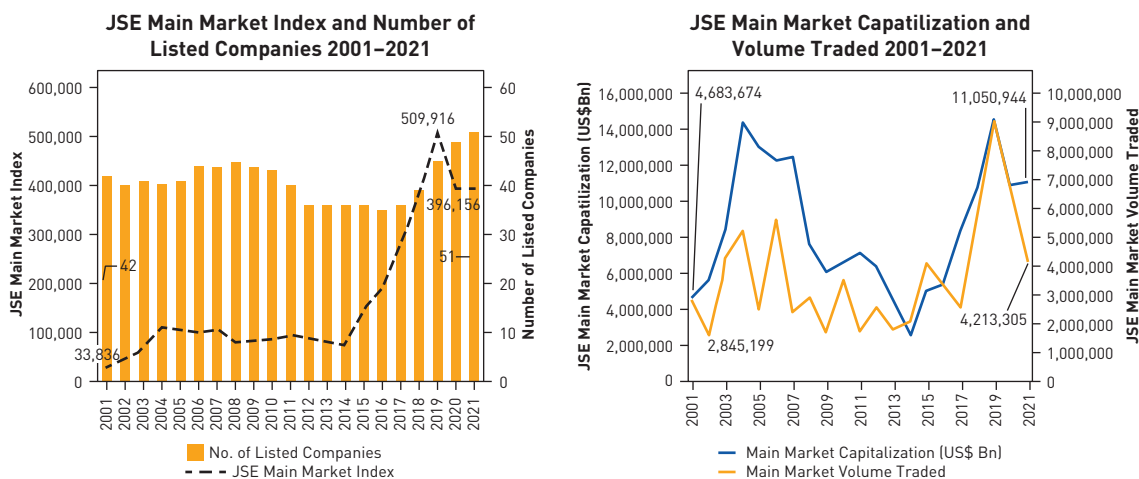
Source: Ministry of Finance Jamaica

Source: International Monetary Fund Article Fourteen

exempts them from payment of income tax for the first five years of listing and payment of only 50% of the tax due in the following five years—provided that they remain listed for 15 years. Essentially, newly listed companies can immediately retain and reinvest more of their income in their growth along with all the benefits from the additional visibility of being a public company.

This introduction of this equity market sub-index was a key initiative to promote capital allocation to small and medium-sized enterprises with the aim of magnifying their influence on economic development. Within

FIGURE 5. JAMAICA STOCK EXCHANGE MARKET CAPITALIZATION AND VOLUMES



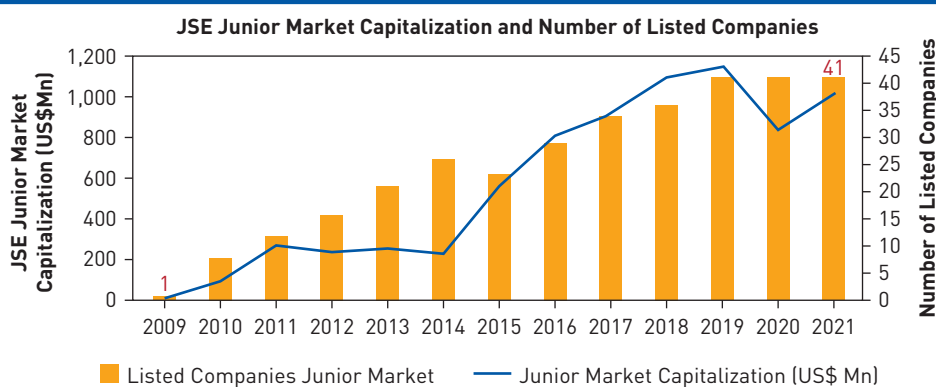
Source: Jamaica Stock Exchange

a two-year period, market capitalization and listing for the Junior Market (Figure 6) quickly moved from JMD755 million and 1 participant, respectively, to JMD24 billion and 12 participants, respectively.

Shortly thereafter in 2013/14, the fiscal position pivoted southward, as the Jamaican government again faced a fiscal squeeze with a pressing need for another debt exchange. Additionally, there were balance of payments pressures which needed to be alleviated in quick succession. The GoJ was in a critical position because if a National Debt Exchange (NDX) was not undertaken, the government would have had to pay out today J\$119.2 billion to bondholders, which represented J\$89.2 billion for principal on maturing bonds and J\$30 billion in interest payments (*Jamaica Observer*, 2013) (Figure 7). Jamaica was again in need of support from the multilateral partners and was required to adhere to even greater stipulations and focus on fiscal responsibility, tax reform, and public sector transformation. The capital market was yet again on its knees with the JSE Main Market tumbling by close to 30%, while the Junior Market fell by a max of 6% in 2012 and 5% in 2014, while the private placements were the hardest hit with a 66% reduction in placements in 2013. Valuations for local and global bonds were again compromised.

The market rallied in support of the government, again allowing the GoJ to roll the principal due into the new NDX bonds. The criteria of exchange were that the 12.5% fixed-rate Jamaica dollar bond would be exchanged for a new fixed-rate bond paying interest of 7.25% and maturing in 2016. Additionally, the maturing 6.75% US-denominated bond will be exchanged for a new bond paying interest of 5.25% and maturing in 2020. It was noted that bond issuance under the NDX was oversubscribed, with no adverse effects on the yield curve and the financial sector. This was due to a strong market consensus across the financial sector in support of the direction by the Government of Jamaica to restructure its obligations to stem significant fall-out of the financial industry (Table 2). This was supported by the development of the Economic Programme Oversight Committee (EPOC)³ which continues to monitor overall macroeconomic development on a quarterly basis.

FIGURE 6. JAMAICA JUNIOR MARKET CAPITALIZATION AND LISTED COMPANIES



Source: Jamaica Stock Exchange

³The EPOC was established in 2013 to monitor the implementation of Jamaica's economic reform measures under its agreement with the International Monetary Fund. The committee is comprised of 11 representatives from the private and public sectors and civil society. The objective of the committee is to access information from the GoJ to track fiscal, monetary, and financial sector indicators with the aim of preserving the macroeconomic stability achieved under prior IMF Agreement and renewed focus on growth and job creation while maintaining fiscal responsibility.

TABLE 2. JAMAICA GOVERNMENT DEBT DISAGGREGATED POST DEBT ERA

Jamaica's Debt Disaggregated by Term and Instrument							
US\$ millions	2015	2016	2017	2018	2019	2020	2021
Central Government Gross Debt	10,701.60	17,400.84	16,776.92	15,825.60	14,864.80	14,623.17	14,478.00
Domestic Debt	63.91	7,024.88	6,620.75	5,889.00	5,611.43	5,443.30	5,313.60
Short Term	589.6	571.31	605.31	453.51	752.81	258.29	193.55
J\$ Benchmark Notes	501.83	533.25	527.43	384.15	675.11	185.74	127.13
US\$ Denominated Notes & Loans	54.50	0.00	0.00	0.00	0.00	0.00	0.00
T-Bills	33.22	38.06	62.40	69.33	77.70	72.21	66.41
Commercial Bank & Public Sector							
Entity Loans			15.48	0.02	0.00	0.35	0.00
Long Term	7,106.31	6,453.57	6,015.44	5,435.50	4,858.62	5,185.01	5,120.05
J\$ Benchmark Notes	6,502.04	5,907.08	5,997.21	5,433.53	4,857.49	5,185.01	5,120.05
US\$ Denominated Notes & Loans	580.42	526.37	0.00	0.00	0.00	0.00	0.00
Commercial Bank & Public Sector							
Entity Loans	23.85	20.11	18.23	1.97	1.14	0.00	0.00
Other	0.00	0.00	0.00	0.00	0.00	0.00	0.00
External Debt	10,637.69	10,375.96	10,156.17	9,936.59	9,253.37	9,179.87	9,164.40
Short Term	326.40	133.00	53.80	120.20	42.90	16.94	6.00
Bilateral	79.90	28.40	30.40	23.80	20.70	10.94	3.10
Multilateral	161.90	10.20	15.80	5.70	11.70	4.80	2.90
Commercial Bank	67.20	15.40	7.60	2.50	10.50	0.00	0.00
Other Commercial	1.60	0.00	0.00	0.00	0.00	0.00	0.00
Bonds	15.80	79.00	0.00	88.20	0.00	1.20	0.00
Long Term	10,311.29	10,242.96	10,102.37	9,816.39	9,210.47	9,162.93	9,158.40
Bilateral	782.24	703.08	687.66	699.00	763.10	720.03	702.50
Multilateral	3,528.15	3,703.72	3,121.07	3,116.76	3,044.37	3,060.30	3,105.10
Commercial Bank	289.74	216.58	142.84	46.30	0.00	0.00	0.00
Other Commercial	11.49	9.90	8.90	8.90	0.00	0.00	0.00
Bonds	5,669.67	5,609.68	6,141.90	5,954.33	5,403.00	5,382.60	5,350.80

Source: Bank of Jamaica

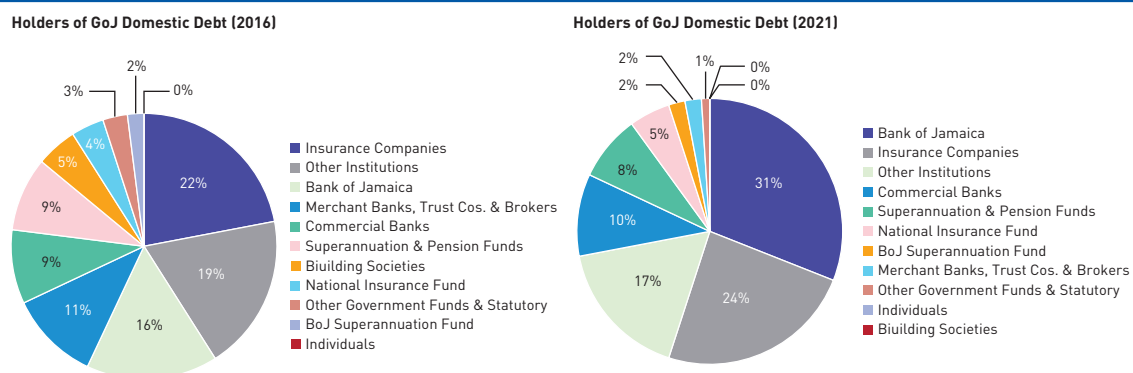
Post Debt Exchange Era

With the swift implementation of the multilateral plan, the drive was to boost private sector-led growth, increase economic competitiveness, strengthen the social safety net, debt sustainability, and the securing of funding for private investment through strengthening the financial system and less crowding out from the government sector. Economic progress slowly took form, evidenced by improved inflation and interest rate environment, foreign exchange rate, labor market statistics, and fiscal stability with the reform of the tax system and expenditure containment measures. All aspects of the capital market improved with the fiscal consolidation program in place and with confidence restored in the general economic environment.

The resilience of the financial sector was further strengthened, with the imposition of regulations to improve the governance structure, access to information and financial stability through the Banking Services Act. This was undertaken through the strengthening of the legal and regulatory framework for retail repo transaction of securities' dealers—which financed the acquisition of long-term government bonds with short-term, deposit-like investments—was improved by transitioning all retail repo contracts to a trust (IMF Article Fourteen, 2016). It was also noted that backstop facilities for securities dealers were established and the minimum size of the transaction size for repos increased. There were also improvements in secondary market trading which facilitated improve financial intermediation.

During the post-debt era, there was a revitalization of all aspects of the capital market which blossomed with the low interest rate environment. Additionally, there was less crowding out of the private sector; as with the fiscal consolidation program being streamlined, we note significant improvement in private sector investment. Strong real returns were generated across all aspects in the market with rising valuation for both local and Eurobonds. The Jamaican equities market for all indices (Figure 5), outperformed all exchanges in the world with record growth levels in the market and was named the top performing stock market in the world by Bloomberg in 2015 and 2018. The Main Market reported significant increases over the period; however, the Junior Mmarket was also a stellar performer during this period based on its returns. The JSE Junior Market also facilitated greater market participation especially on the part of retail investors, as investment by institutional clients was already deeply entrenched in the fabric of the Main

FIGURE 7. JAMAICA GOVERNMENT HOLDERS



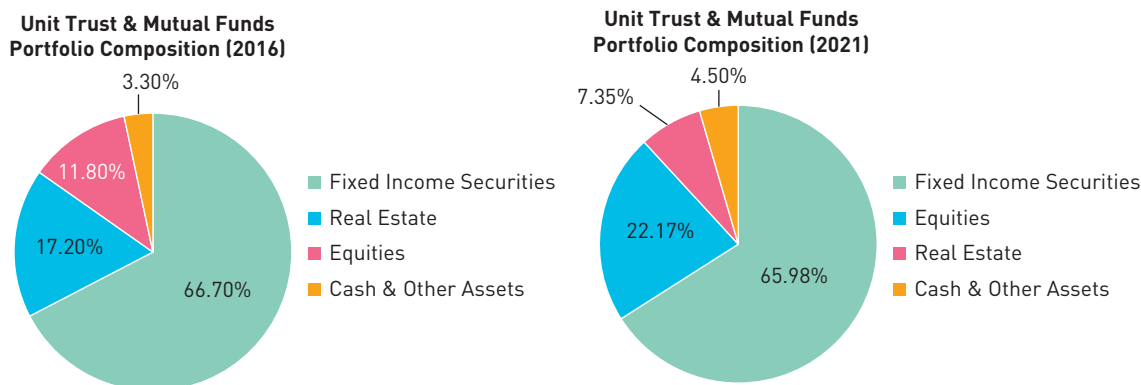
Source: Ministry of Finance Jamaica

Market. There was a noticeable increase in vibrance of initial public offerings with the listing of several IPOs spanning various issue sizes and industry sectors. The increase in retail investor base was further supported by these market developments. With these developments, we have seen the increased diversification of sectoral disaggregation in both the main and junior indices. From a risk-adjusted perspective, when we look at data over the past decade (December 2012 to 2021), we see where the Junior Index, from a point-to-point perspective, returned 358% or grew at a compound annual growth rate (CAGR) of 16.47% compared to the 316% or 15.31% CAGR of the Main Index. However, when we look at the volatility, the data reveals that the Junior Market returns over the last decade produced an annualized standard deviation of 19.13%, which was 569 bps above that of the Main Market (13.44%) over the same period. The lower volatility of the Main Market also translated to better risk-adjusted returns as indicated by the higher Sharpe Ratio—a risk-adjusted performance indicator—of 0.79 compared to the 0.62 ratio of the Junior Market. Overall, the performance of these indices was indicative of the tremendous value that the equity markets created during the post debt exchange era.

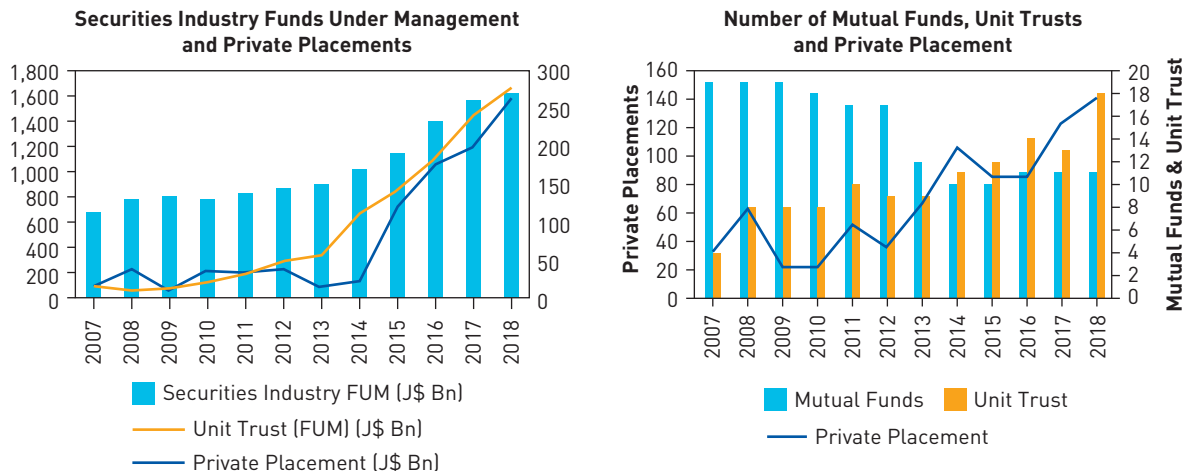
With increased profitability in the equities market, we note that mutual funds diversified to include a larger share being invested in by mutual funds. (Figure 8). The secondary market also thrived, while private placements in the form of corporate debt improved significantly. Private sector borrowings saw significant growth during the period, driving increased investment and signaling the achievement of reduced crowding out of markets by the government (Figure 9). The real estate sector has also been another success story as lower interest rates and increased economic metrics supported the investment and affordability in the market. Further refinements were undertaken for the governance of collective investment schemes and pension.

During the COVID-19 pandemic, as with all other economies, the J&E markets suffered a precipitous fall, declining by 24% in March 2020 and there were no issuances by listed companies until September 2020. Private placements were almost nonexistent, and bonds came under significant pressure as both commodities and service-driven economies were in a bind. Nevertheless, the real estate market for Jamaica did not suffer the same fate, which drove investors to seek ventures in these forms of alternative investment. For the stock market, pandemic favorites, which include consumer staples and utilities, continued outperforming despite near-term headwinds from supply chain disruptions and higher input prices. Though the Main

FIGURE 8. JAMAICA UNIT TRUST & MUTUAL FUNDS PORTFOLIO COMPOSITION



Source: Financial Services Commission

FIGURE 9. SECURITIES INDUSTRY FUNDS UNDER MANAGEMENT AND PRIVATE PLACEMENTS

Source: Financial Services Commission (2001–2021)

Market has not since returned to levels prior to the onset of the pandemic, there has been signs of resurgence in market appetite indicated by APOs and IPOS across the Junior and Main markets.

Improvement in Financial Infrastructure

Despite the challenges faced within the macroeconomic environment, there have been significant developments in terms of the infrastructure to support the advances in market services. One of the major developments was a National Payments System, which was created by the Bank of Jamaica (BOJ) in 2002 and implemented progressively over the years to facilitate the electronic processing of debit and credit payments between participating financial institutions. This included the Automated Clearing House, which facilitates the clearing and settlement of checks, direct debits, and credits. Additionally, there was the JamClear - Real Time Gross Settlement (RTGS) system designed to facilitate the processing of large-value and time critical payments and transfers between deposit-taking institutions, primary dealers, the Accountant General's Department, the Jamaica Central Depository, and the BoJ. The JamClear - Central Securities was implemented, which supports an authentic record of BoJ and GoJ domestic securities in addition to a wide range of depository functions and settlement of funds through JamClear RTGS.⁴ The major benefits associated with this infrastructure include reduction in costs of payments, faster and easier payment processing, reduction in fraud, improved reconciliation of accounts, and ease of tracking of payments. For foreign exchange, the JamClear - Foreign Exchange Trading Platform was implemented in 2020, which provides real-time electronic foreign exchange trading.

Credit reporting was another instrumental facet of the overall improvement in the development of the financial sector. The credit reporting legislation in 2010 established the framework for credit reporting in

⁴The depository functions include the registration and settlement of auction results from the primary market; sales and purchases; exchange of custodian, registration, cancellation, and execution of pledges; registration, management, and execution of repurchase and reverse repurchase agreements; payments of interest; and coupons.

Jamaica to ensure that this is done through reasonable procedures that meet the needs of commerce for credit information in a manner that is fair and equitable to the consumer. To date, there are currently three licensed credit bureaus in operation. Major credit information providers to credit bureaus include banks, other financial institutions, micro-credit entities, and even hire purchase companies.

There has also been the issue of access to banking and credit primarily for the micro, small and medium enterprises (MSME). Based on the MSME policy, the intent is to introduce financing options that are less dependent on the provision of traditional collateral. This includes: (1) the promotion of the on-lending of funds to micro-enterprises without the need for traditional collateral; (2) provision of financing for the business clusters using the group guarantee, which eliminates the need for individual collateral; and (3) the implementation of Secured Transaction Framework to increase the range of personal properties that can be used as security for loans.

A major historical development for the financial services sector was the independence of the Central Bank in 2020. With the onset of this regulatory change, there is the transfer of the power to set monetary policy from the governor to a new monetary policy committee (MPC). The law establishes the Bank of Jamaica's first mandate as price stability, with a secondary mandate to secure financial stability. The Minister of Finance of Jamaica will no longer have the power to issue direction on monetary policy. The MPC seek to achieve and maintain price stability through the achievement of an inflation target set by the Minister of Finance in consultation with the governor of the Bank, as required under the Act.

In summary, there have been significant developments in the Jamaican capital markets, which have been resilient despite facing several economic shocks. There have been numerous learnings which emanated from the tumultuous financial crisis, from which stronger regulations have been put in place to bolster the financial services sector and general capital markets during the period of collapse in the 1990s. During the 2000s, the global financial crisis presented challenges, however, with the support of the International Monetary Fund and other key multilateral partners supported a macro-sustainability program in addition to the nation engaging two debt exchange programs, which placed it on a path of fiscal prudence and macroeconomic stability. Improvements in the macroeconomic platform presented a launching pad for improvements in the capital markets, with local corporate bond market and equities market being bolstered by lower interest rates and greater price stability. Regulations were developed to support significant improvements in both the fixed income and equities markets, especially the development of the Junior Stock Market and the record performance for the Main Market. Other important infrastructure continues to be implemented to support the development of the capital market, improving access to credit and the ease of movement of cash across the financial sector.

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The Trinidad and Tobago (T&T) Capital Markets: Challenges and Opportunities

EXECUTIVE SUMMARY

Trinidad and Tobago's (T&T) financial ecosystem can be characterized as bank-centric, with the domestic capital market largely underutilized for capital needs to support growth and development, particularly on the part of corporates. The relative infrequency of primary issues, particularly corporate bond issues, is reflective of an underdeveloped capital market. Consequently, secondary market activity has faced significant limitations, which has largely perpetuated the “buy and hold” strategy amongst investors, reinforcing the long-standing illiquidity of the market.

Despite these challenges, systemically the financial sector remains strong. According to the Central Bank of Trinidad and Tobago, Financial Stability Report 2020, “The domestic financial sector remained resilient throughout 2020 despite the contraction in economic activity. Total financial sector assets, which were approximately TTD 350 billion (USD 51.9 billion equivalent) as at December 31 2020 continued to be dominated by the banking, insurance and pension segments. These sectors collectively accounted for approximately 77 per cent of total domestic financial assets as at December 2020. Financial soundness indicators (FSIs) in the banking and long-term insurance industries demonstrated adequate capital and liquidity buffers amidst declining profitability and moderate erosion in asset quality.”ⁱ

Whilst market participation by both investors and issuers has notably improved over the years, we believe that a major hurdle to increased investor participation continues to be investor confidence. We see scope for improvement in transparency and information availability within the domestic market, which will allow investors to make more informed decisions whilst fostering a greater sense of trust, and hence market participation, amongst the investing public.

Within the region, we see greater opportunities to create more linkages of the local capital market with key capital market players such as Jamaica, which can promote a freer flow of capital and lead to benefits from economies of scale.

On the regulatory front, whilst the Central Bank of Trinidad and Tobago (CBTT) has made strides in promoting financial stability of the domestic capital market by expanding the regulatory framework, we see further opportunities to widen and deepen the existing framework to encourage innovation and market development.

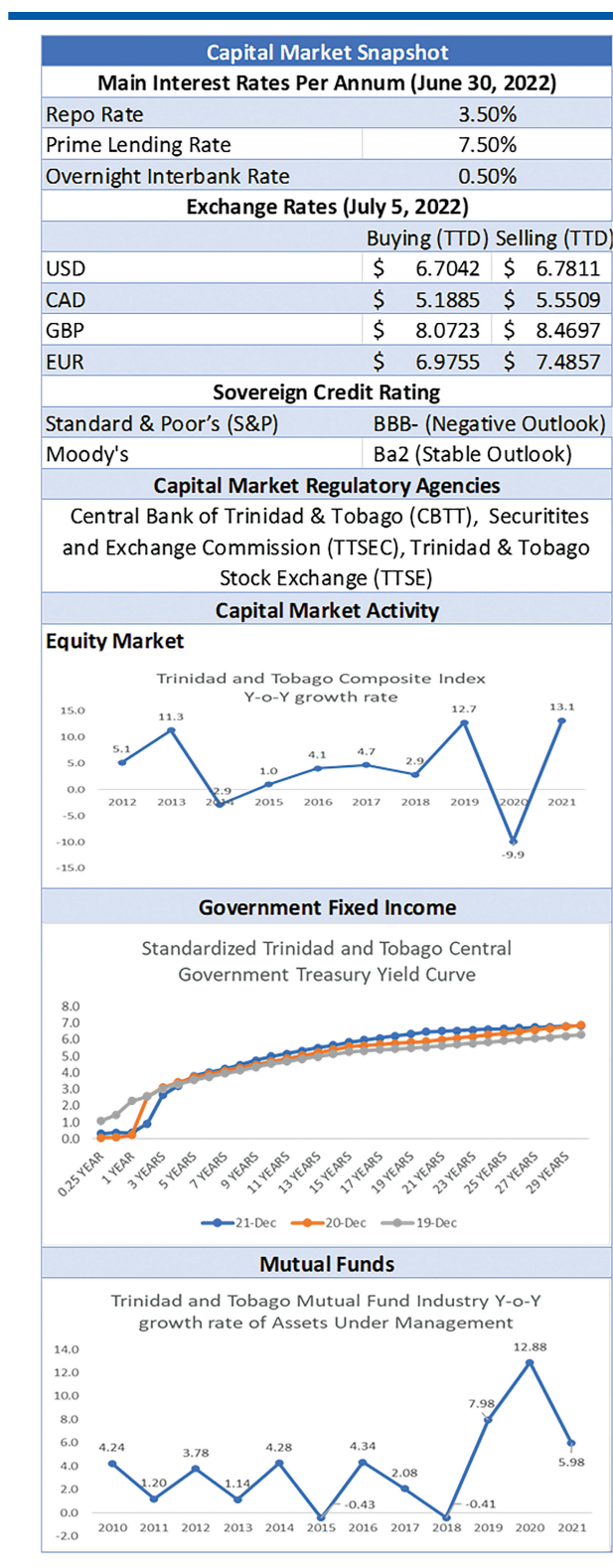
Amongst the proposed solutions, we are of the view that more supportive measures are needed to encourage a higher level of new corporate bond issues and trading of these issues on the secondary market. Further, increased incentives, fiscal and otherwise, are likely to promote more corporate and Small and Medium Enterprise (SME) listings, adding to the level of market activity. A more focused effort on divestment of viable state enterprises on the part of the government has the potential to widen market participation and create more investment opportunities.

Markets will also benefit from greater discretion afforded to the regulators, allowing for timelier responses to emerging systemic risks, critical in the increasingly dynamic global and domestic environment. A closer working relationship amongst the relevant players is needed, perhaps initiated and coordinated by the T&T Securities Dealers Association, and the formation of a Capital Market Development Committee with representatives from the key stakeholders could be instrumental in leading the changes needed.

The T&T Economy

Trinidad and Tobago (T&T) are the two southernmost islands of the Caribbean chain and lie just seven miles off the northeastern coast of Venezuela. The islands are outside of the usual path of hurricanes and have largely been spared the annual weather-related events that some other countries have endured. The population is estimated to be 1.4 million people.ⁱⁱ

“The expansion of T&T’s oil industry in the 1950s moved the country from a sugar-based to an energy-based economy. The vast petroleum and natural gas reserves have enabled the country to develop downstream industries such as the production of liquefied natural gas,



methanol and nitrogenous fertilizers. The country also has strong financial services, manufacturing, and wholesale & retail distribution sectors. Tourism is a growing sector in the economy.”ⁱⁱⁱ

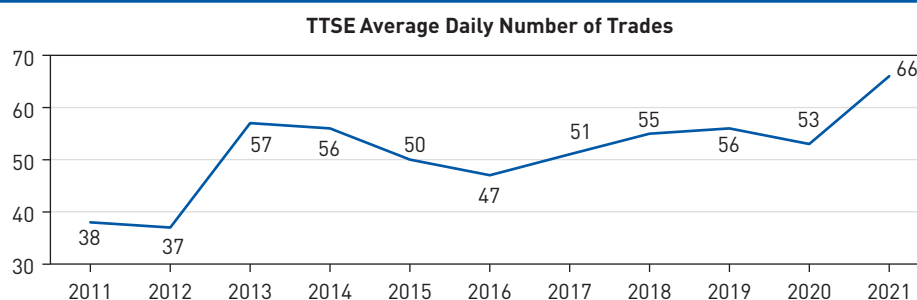
T&T maintains an investment grade rating both from the global rating agency Standard & Poor’s and the regional rating agency Caribbean Information and Credit Rating Services Limited (CariCRIS). The major factors underlying T&T’s rating are:^{iv} (1) it is a large regional economy and is reasonably well-diversified compared to its Caribbean peers; (2) it maintains a satisfactory financial sector, and monetary and exchange rate conditions; (3) the country has a comfortable debt service coverage ratio; and (4) the country has strong underlying balance of payment characteristics and adequate international reserves as well as a robust sovereign wealth fund. Constraining factors include: (1) fiscal performance is linked to energy supply and prices, which can be volatile; and (2) social vulnerabilities persist, worsened by rising unemployment and crime levels.

State of Capital Market – Depth & Transparency

Trinidad and Tobago’s Capital Market (the Market) comprises the comprehensive institutional and regulatory framework which facilitates the interaction of investors in the purchase and sale of securities. The Market is largely facilitated by the Trinidad and Tobago Stock Exchange (TTSE) and involves transactions in three main types of securities: fixed income, equities and mutual funds. The main players in the Market include the Trinidad and Tobago Securities and Exchange Commission (TTSEC), hereinafter referred to as the Commission; the Government of Trinidad and Tobago (GORTT), corporate issuers, merchant banks/arrangers, mutual fund management companies, securities investment firms, investment advisory firms, investors, and a host of brokers, dealers, and traders.

Although established 40 years ago, trading on the TTSE remains thin and shallow, both in terms of equities and fixed income securities, with the government being the dominant issuer of listed fixed income securities. As of December 2021, there were 31 firms listed on the TTSE with average daily trades increasing by 74% over the past 10 years; from 38 in 2011 to 66 in 2021 as seen in Figure 1. Over the same period, there has been a decline in the number of listed firms from 36 to 31. Of the 31 listed firms, 25 belong to the First Tier Market, which is arranged by industry segment (see Table 1).

FIGURE 1.



Source: Compilation from Trinidad and Tobago Stock Exchange (TTSE) Annual Reports.

TABLE 1. FIRMS BY INDUSTRY SEGMENT

Industry Segment	# of First Tier Listed Firms	% of First Tier Listed Firms
Banks	5	20
Conglomerates	3	12
Energy	1	4
Manufacturing	7	28
Non-banking/Finance	4	16
Property	1	4
Trading	4	16
Total	25	100

Notably, T&T's largest contributor to GDP, the energy sector, which accounted for an average of 30.6% of real GDP over the 3-year period 2019–2021, is only represented by one listed firm on the First Tier market, equivalent to only 4% of the total First Tier listed firms.

Development of adequate liquidity in the market has been a major challenge for the TTSE, given T&T's "low volume" environment. While facilitation of trades among institutional investors has been common in the past, such a facilitation, on a large scale, has not been afforded to individual investors. One of the issues has been the relatively high transaction costs on the exchange, and another being scope for improvement in the ease of transactions. Adding to the dynamic is the unwillingness of investors to sell securities with poor fundamentals because of the strong buy-and-hold thrust. Further, owing to the lack of liquidity, it is not uncommon to see large blocks of shares being immediately bought up as they become available with little regard to underlying fundamentals.

These conditions undermine the major goal of financial markets; that is, price discovery. Consequently, prevailing security prices, particularly in the equities market, often do not represent equilibrium pricing. Limited primary activity has led to limited secondary market activity and has resulted in a buy-and-hold approach amongst individual and institutional investors. It is therefore not difficult to see how the lack of liquidity in the market itself can lead to a vicious cycle of depressed market participation. The introduction of one or two market makers, who will buy and sell securities in the market on an ongoing basis, operating within transparent guidelines and strong regulatory oversight, may be a useful solution to boosting liquidity in the market.

Adding to these challenges is the increasing reliance on the participation of government in capital markets, more so in the bond market. Growth in the primary fixed income market continues to be driven by government issuances via the banking sector, which has the role of both market maker and investor. Further, primary issuances largely take the form of private placements, compounding the problem of limited secondary market activity.

Whilst there are several benefits to private placements, such as the speed with which the government can raise funds or more competitive rates of interest from financial institutions (if the capital is raised domestically), the lack of transparency with this mode of financing also bears on the confidence placed in the domestic capital markets and the consequent lower levels of participation.

Another cause for concern has been the overall overreliance of the capital market on government-issued securities. As of December 2020, sovereign exposures represented approximately 22% of banks, insurers, and pension plans' combined assets.^v This high sovereign concentration in the financial system poses additional systemic risks in light of the economic conditions. This situation speaks directly to the need for greater financial deepening in our capital markets.

A cultural aversion to risk is deeply entrenched in the T&T investor base, which has served to hinder the broad acceptance and advancement of capital market activities in T&T. The high-profile failure of a few financial institutions dating back to the 1970s may have made investors “gun shy,” leading to conservation of capital as their primary objective as opposed to optimal risk-adjusted returns. The latter, along with a general reluctance on the part of borrowers to share information in the public domain and/or give up some “control,” as would be required for debt/equity raises through the capital market, have facilitated a bank-centric financial environment and stifled capital market development.

A United States dollar (USD) shortage pervades in the country, and the dearth of local currency investment options is encouraging the conversion of TTD to USD where available, as investors seek out investment alternatives. This in turn is further exacerbating the USD shortage problem. The limited supply of USD and foreign exchange in general is also indirectly negatively impacting returns on investment portfolios, as investors are forced to hold cash, as there is limited opportunity to source suitable assets in other jurisdictions without access to foreign exchange.

Despite these challenges, there have been some encouraging developments. The exchange has been focused on improving its support for listing of SMEs in recognition of the contribution of this sector to sustained economic growth. This is a further thrust toward deepening of the local capital market and the broader goal of economic diversification. Steps have also been taken to provide enhanced technological services to facilitate greater accessibility to trading for both individuals and companies via the rollout of the online trading platform in July 2020. Increased digitization has been linked to increased domestic as well as international participation. Going forward, we see these improvements as important strides toward a more transparent and efficient capital market.

MARKET REGULATION

The Trinidad and Tobago Securities and Exchange Commission

Regulation of the capital market of Trinidad and Tobago is primarily administered by the TTSEC. The Commission was established by the 1995 Securities Industries Act, which established rules for trading of equities and fixed income instruments. This Act was replaced by the Securities Act 2012 (SA 2012) with the aim of promoting greater trading efficiency, investor protection and reducing systemic risk. More specifically, the TTSEC is responsible for protecting investors from “unfair, improper or fraudulent practices and fostering a fair and efficient securities market”.^{vi}

Of particular importance in the all-encompassing activities of the TTSEC is the focus on enforcement as a direct means to uphold transparency and confidence in the capital market of T&T. The TTSEC is empowered by the Act to take enforcement action against noncompliance, conduct hearings, issue orders on trading of securities, and prepare market participation guidelines, among other operations. The aim is to ensure that all market actors are appropriately registered, compliant with all relevant legislation, and that the securities market operates with a high level of transparency, with the aim of fostering greater investor confidence. To accomplish this, the TTSEC engages in a comprehensive set of regulatory activities to regulate the local securities market, some of which are outlined below.

In addressing the issue of noncompliance, for example, guided by the SA 2012, there is specific provision for addressing market manipulation and insider trading. The TTSEC is empowered to take enforcement action against these practices. The TTSEC is also tasked with the responsibility of direct market intervention in instances where a security is being traded in connection with a distribution contrary to the SA 2012 or a prospectus contains a misrepresentation, among other instances. Under such circumstances the TTSEC may issue the order that all trading in connection with such securities may cease for a period. Meeting these and other objectives helps to foster a higher level of confidence in the domestic securities market.

The role of the TTSEC has become even more critical as the securities industry evolves due to increasing role of Fintech, which has enabled the adoption of new financial products on a wider scale in the domestic market. In recognition of the pervasive nature of Fintech, the Commission has adopted a broad-based approach to ensuring capital market integrity. Accordingly, the TTSEC has developed a policy position on Fintech that is premised on four fundamental pillars: stakeholder collaboration, knowledge, regulatory supervision, and security.^{vii} With this approach the TTSEC aims to harness the improved efficiency brought about by integrating Fintech into market operations whilst maintaining the appropriate institutional structures to reduce risks to investors and the domestic capital market.

The Trinidad and Tobago Stock Exchange

Functioning under the regulatory oversight of the TTSEC, the TTSE is registered under the SA 2012 as a self-regulatory organization. This regulatory framework affords the TTSE the power to create and enforce industry and professional regulations and standards on its own. Specifically, the TTSE is responsible for developing rules and guidelines for the operations within the local stock market; the rules and guidelines are followed by the brokerage firms and listed companies. Whilst all market actors, such as issuers, underwriters, investment advisers, stockbrokers, and dealers, must register with the Commission, the TTSE regulates trading on the secondary market as well as the activities of the members of the Exchange.

Market participants have long raised the concern of the need for the TTSEC to address areas which pose material systemic risk. One such area is that of mutual fund regulation. While these funds have gained popularity amongst individual and corporate investors, who perceive them as low risk, they operate in a surprisingly less strict regulatory environment. To their benefit the Commission has sought to address this issue by the development of Collective Investment Scheme By-Laws. The final draft was issued in April 2021, with no further developments since then. Investors have also taken issue with the lack of transparency in the OTC fixed income market, which makes the management of risk and fundamental analysis prohibitive in many instances. Another need is for modernization in the oversight of pension funds.

Local pension plans, which reportedly hold assets (local bonds and equities) of the order of TTD55 billion (USD8.1 billion), are severely restricted in the type of investments they can make. For example, a plan currently cannot invest directly in a company that is not listed on the local stock exchange. This obviously points to pension plans missing out on good investment opportunities, thereby limiting the ability of these plans to remain fully funded and contribute in a stronger way to the growth of the economy.

Going forward, we believe that addressing these issues will pave the way for a stronger regulatory framework for the capital markets. Further, it is our view that the efficiency of financial sector regulators would be significantly improved by the provision of greater decision-making authority to facilitate more real-time interventions in the market when needed and to implement, on their own, amendments to regulations and guidelines as needed, without the need for governmental approval. The slow pace of legislative improvements in the financial sector has been a drag on the overall effectiveness of the regulators. The New Insurance Act of 2018 was finally proclaimed in December 2020 and became effective on 1 January 2021, after close to 15 years from when the initial draft was prepared and presented. This situation presents both challenges and opportunities for further development of Trinidad and Tobago's capital markets.

Availability and Knowledge of Financial Products

The availability of financial products continues to be closely linked to the three major product offerings: fixed income, mutual funds and repurchase agreements.

Fixed Income. The market for fixed income product offerings is particularly thin since most of the funds are raised by government, with a recent trend for private placements and shorter-term maturities. This has severely hindered the ability of individual and corporate investors to participate in fixed income investment/trading on the exchange. For the second half of 2021, eight bonds were privately issued, totaling TTD7,175.0 million (USD1,063 million equivalent). The central government was the primary borrower with four issues; three state enterprises and one private entity also accessed the market over the same period.^{viii}

The issue of the lack of participation of corporates in the primary debt market can in large part be attributed to the ease of access to bank loans. From a regulatory standpoint, it is often more convenient for companies to comply with the requirements of this type of funding, as opposed to formal bond agreements which may require minimum debt service ratios to protect investors and much more information disclosure. For those companies already listed on the stock exchange, this decision may be easier considering that they are already accustomed to a higher level of transparency and financial disclosure. For new issues, however, the requirements can be somewhat onerous.

The lack of long-term bond issuances puts pressure on long-term portfolios such as life insurance funds and pension plans, which require these bonds to meet specific actuarial targets. There is a greater need, and indeed the level of liquidity exists in the system, for long-term corporate and government bond issuances to ease the pressure on funds such as pension plans, which are mandated to invest in low-risk, long-term investments to meet their goals. Indeed, the government should be taking the lead by regularly issuing in the market security offerings across the entire maturity spectrum, paving the way for an accurate and up-to-date government yield curve, and ultimately improved price discovery for all fixed income securities.

Mutual Funds. Mutual funds, on the other hand, have become the primary vehicles for individual investors to invest in fixed income and equity investments. As of December 2021, the industry's assets under management (AUM) stood at TTD63 billion (USD9.3 billion).^{ix} Overall, the market has seen tremendous growth within the past five years, with AUM growing by over 31% from TTD48 billion (USD7.1 billion) in 2016.

The largest supplier of mutual funds is the Unit Trust Corporation (TTUTC), a Statutory Corporation with just under 25 billion in funds under management as of December 2021.^x This represents roughly 40% of the mutual fund market share. In January 2016, the company's Calypso Macro Index Fund became the first index fund to list on the TTSE.

With respect to the investment structure, income funds continued to dominate; however, they accounted for a decreasing share of the industry. On the other hand, the share of money market funds has increased notably, reflecting the demand by investors for liquidity and shorter-term investment products. Also, while there are significantly more floating NAV mutual funds operating in the industry, approximately 57% of the industry's assets under management are held in fixed NAV funds, again reflective of the risk-averse nature of local investors, for whom preservation of capital is paramount.

Mutual funds are mainly denominated in TTD and USD currencies. As of June 2021, investments in domestic currency stood at around TTD34 billion (USD5.0 billion), whilst USD investments stood at around TTD29 billion (USD4.3 billion), highlighting the exposure of these funds to fluctuation in the USD. Additionally, on average, investments in local government securities and state agencies dominate the portfolios of these funds, representing approximately 44% of the mutual fund industry's portfolio composition as of June 2021. Holding the second largest share of portfolio investments are foreign securities, which accounted for 33% of investments during the same period.^{xi}

These industry findings point to the high level of exposure to the additional risks associated with investing in government bonds and foreign securities, considering weakening fundamentals for the global economy arising from increasing inflationary pressures and Central Bank tightening of monetary policies. They also speak to the need for greater deepening in capital markets.

Repurchase Agreements (Repo Market). Repos represent a small but growing part of the domestic capital market. Largely due to the limited availability of investment options and consequent excess liquidity in the market, there has been rapid growth of the repo market for T&T government bonds. As of June 2021, the value of the repo assets stood at approximately TTD7 billion (USD1.0 billion) with Trinidad and Tobago government securities comprising roughly 52% of total repo assets.^{xi} These securities are utilized by both retail and institutional investors.

Overall, there has been a preference for plain vanilla debt and equity investments in the domestic capital markets, which inhibits development of alternative investments such as mezzanine and private equity funding, which is critical for development of new/early-stage businesses.

Key to the deepening of capital markets is investor education. Public education has been a thrust of the TTSEC and the TTSE over the past years. Specifically, the TTSEC has been working to improve

financial literacy in the country. In recent years, the Commission has hosted educational sessions for students and supported initiatives designed to inspire the youth to engage with the capital markets. In 2019 the TTSEC launched its InvestucateTT initiative, which comprises a dedicated website for public education on investing along with a vibrant and holistic investor education program targeted to the public. To foster greater understanding of the domestic stock capital market, the TTSE has also initiated workplace and secondary school education programs. They also actively host workshops dedicated to training individuals on all aspects of capital market participation. We see these and other initiatives as steps in the right direction, laying the foundation for greater capital market participation across all investor demographics.

Level of Institutional Market Structure

The financial sector of Trinidad and Tobago consists of two main regulatory authorities, the Central Bank of Trinidad and Tobago (CBTT) and the TTSEC. The TTSEC regulates the securities market whilst the CBTT has oversight over the banking and insurance segments of the financial sector. In January 2014, the TTSEC engaged in an historic signing of a Memorandum of Understanding (MOU) with a fellow regulator in the financial sector, the CBTT. The TTSEC-CBTT MOU represents a common understanding by the two authorities about how they will consult, cooperate, and exchange information for regulatory enforcement purposes. The Memorandum will serve to promote integrity, efficiency, and financial soundness of the capital market.

Also existing in the landscape of the institutional capital market structure of Trinidad and Tobago is the Central Depository. The Trinidad and Tobago Central Depository is a subsidiary of the TTSE tasked with providing accurate accounting and settlement of all transactions passing through the Exchange. This agency brings efficiency gains to the capital markets since it facilitates the safekeeping of certificates and to enable investors buying and selling shares on the TTSE to settle such transactions through an electronic bookkeeping system. It also adds to the convenience of trading in securities and acts as an attractor to foreign investments. As the Stock Exchange moves closer to international standards, foreign investors are more likely to be open to participation in our market. The existence of this agency complements efforts to increase the breadth and depth of the domestic capital market.

Degree of Internationalization

In June 2013, the TTSEC became a full signatory to the International Organization of Securities Commission's (IOSCO's) Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (MMoU). The IOSCO is an association of commissions which regulate the world's securities markets. The MMoU is a tool used by securities regulators to help ensure effective regulation and to preserve and strengthen the international securities market. It represents a common understanding amongst its signatories about how they will consult, cooperate, and exchange information for securities regulatory enforcement purposes. By becoming a Full Signatory, Trinidad and Tobago will benefit from:

- Sharing information with foreign regulators,
- Enhanced international reputation and credibility, and
- Increased investor confidence in its market for securities.

In August 2016 Trinidad and Tobago entered a Model 1A Inter-Governmental Agreement (IGA) with the United States of America and brought the same into our local laws by the passage of the Tax Information Exchange Agreements (United States of America) Act, 2017 (TIEAA). In so doing, the country became a signatory to the Foreign Account Tax Compliance Act (FATCA), which is a tax law that requires US persons to file annual reports on any foreign account holdings. FATCA has the potential to affect any US person, whether or not their asset is denominated in USD.

Under this agreement, a participating foreign financial institution will be obligated to:

1. Obtain information to determine which account holders are US persons
2. Comply with verification and due diligence procedures on such account holders as required by the IRS, and
3. Report annually to the IRS on the name and address of each US client, as well as the largest account balance in the year and total debit and credits of any account owned by a US person or foreign entities with substantial US ownership.

Foreign financial institutions may broadly include every member of the investment community and encompass banks, credit unions, custodians, asset managers, investment funds and pension fund schemes, brokers, and insurance companies (where their products have an investment element).

Adherence to FATCA has quickly become the international standard more so due to the stiff penalties to foreign financial institutions for noncompliance. For example, if a foreign financial institution refuses to comply with these requirements, a withholding tax of 30% will be applied on all US source income of that institution, regardless of whether such payment was made for the benefit of the US account holder, for another client, or for the institution itself. This, therefore, is a significant step in compliance for capital market activity in Trinidad and Tobago.

Existence of Transaction Costs

The Trinidad and Tobago Stock Exchange generates 50% of its revenue from fees, commissions, and charges. As of December 2021, the TTSEC received TTD24 million in revenue from fees with under TTD12 million of this amount generated from transaction fees. Transaction fees are calculated at a rate of 0.21% of the transaction cost for shares traded by member firms on the buy and sell side.^x Whilst these transaction fees represent a considerable source of income for the Exchange, they may be viewed as prohibitive for investors, especially when combined with brokerage fees, which can be of the order of 1.25%. This could be contributing to the low trading volume and level of liquidity in the capital market.

Increased Role of Credit Ratings

The CBTT and the TTSE must be congratulated for their successful implementation of a platform to facilitate the electronic trading of bonds and fixed income securities. This is one of several critical initiatives undertaken by the CBTT to develop the domestic capital market, the others being the introduction of an electronic auction system for government securities in the primary market and an electronic clearing

and settlement system linked to the trading platform. The electronic trading platform is meant to facilitate in the first instance an increase in trading activity of government bonds. However, to reap the full benefit of the CBT's initiatives, there is the need to also encourage the trading of corporate bonds.

A greater use of independent credit ratings can aid in the price discovery process for corporate bonds by boosting investor confidence in participating in the market and facilitating more trading and liquidity in the corporate bond market. In the absence of analytical information about a company's financial position and corporate strategy, many would-be investors in corporate credit markets stay within the confines of the relative comfort (and lower returns) of the banking system or the government securities markets.

By virtue of enabling investors to easily compare credit risk across companies, industries, and countries, credit ratings deepen the capital market by attracting more investors into the corporate bond market. Further, credit ratings enable issuers to access funds from a wider range of investors and reduce information risk, both of which should result in more efficient pricing. By leveraging a regional rating scale, investors can compare the risk/return profiles of bond offerings from various countries in the region and make an informed investment choice. This opens up opportunities for investors in one country to participate in bond offerings in another country, which simultaneously widens the investment options for investors and deepens the investor base for issuers. It also paves the way for larger capital raises to be completed in the Caribbean, as opposed to seeking international participation, which would likely mean a lower cost of capital for the issuer.

Important Role of Market Conduct and Corporate Governance

Market conduct refers to the rules and/or guidelines which capital market participants should follow to facilitate orderly market operations and development. Good market conduct is critical for maintaining investor confidence and to reduce financial crime and protect consumers. Indeed, diminished investor confidence may have been a major contributor to the overall lack of meaningful growth in investments and capital market activity since the global financial crisis of 2008. In an effort to strengthen market conduct and overall corporate governance standards in T&T, a National Corporate Governance Code was developed in 2013 with the following objectives:

1. Enhance Business Governance and Performance;
2. Strengthen Transparency and Efficiency in the Market; and
3. Improve the Investment Culture.

The Code is founded on five key principles as taken from the OECD Corporate Governance Best Practices and were suitably adapted for the T&T market. These principles are:

Principle 1 – Establish a Framework for Effective Governance

Every company should be headed by an effective board, which is collectively responsible for the long-term success of the company.

Principle 2 – Strengthen the Composition and Performance of Board and Committees

The board should appoint a sufficient number of independent Directors capable of exercising unbiased judgment, particularly in tasks where there is a potential for conflicts of interest.

Principle 3 – Reinforce Loyalty and Independence

All directors should act honestly and in good faith, in the best interest of the company, ahead of other interests.

Principle 4 – Foster Accountability

The board should present an accurate, timely, balanced, and understandable assessment of the company's performance, position, and prospects.

Principle 5 – Strengthen Relationships with Shareholders

The board should promote constructive relationships with all shareholders that facilitate the exercise of their ownership rights and encourage their engagement with the company.

While a few state enterprises and the more progressive large corporates have adopted the Code and are engaged in implementation, a more widespread adoption is needed to meaningfully improve the level of corporate governance in T&T. Consideration should be given to making adoption of the Code mandatory for state enterprises and listed entities. Further, development and implementation of a Caribbean Corporate Governance Code would aid in our regional harmonization and integration efforts.

Conclusion

In closing, we hold the view that a closer working relationship amongst the relevant players is needed, perhaps initiated and coordinated by the T&T Securities Dealers Association, and the formation of a Capital Market Development Committee with representatives from the key stakeholders could be instrumental in leading the changes needed.

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CONTRIBUTING CFA SOCIETIES OF THE CARIBBEAN

CFA Society Jamaica coordinated the following CFA Societies contributing to this research brief:

Country Society	Website	LinkedIn
Jamaica	https://www.cfasociety.org/jamaica/home	CFA Society Jamaica LinkedIn
Trinidad	https://www.cfasociety.org/trinidadandtobago/home	CFA Society Trinidad and Tobago: Overview LinkedIn
Cayman	https://www.cfasociety.org/caymanislands/home	CFA Society Cayman Islands: Overview LinkedIn
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