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A REGIONAL CAPITAL MARKET

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1. INTRODUCTION

In many developing countries the main sources of funding for medium and long-term projects are the domestic savings mobilized by commercial banks; supplemented by foreign savings in the form of loans from multilateral and bilateral institutions or from foreign banks with only a small part of investments funded by domestic or foreign equity capital. Thus, firms face problems when interest rates begin to rise and the debt service payments start to strain the cash flow of the entity, thereby increasing vulnerability. With this in mind, Caribbean Community (CARICOM) policymakers have recognized the need for an integrated capital market to serve the needs of the Region. They recognize that the main functions of money and capital markets are to establish a balance between debt and equity, generate risk capital, encourage innovation and reduce the potential for financial instability. Regional policymakers have been concerned about the shortage of resources at the regional level and have attempted to address that shortage in several fora.

The idea for the development of a Regional Capital Market emerged in 1989 on the initiative of the Government of Jamaica . A Regional capital market was seen as an integral part of the deepening and widening of the integration process in CARICOM. That idea was supported by a Meeting of the Conference of Heads of Government which recognized that the participation by all territories was a medium to long term objective which would serve to *inter alia:*

(i) promote the movement of capital across the Region;

(ii) increase investment opportunities;

(iii) encourage optimum financing for CARICOM firms;

(iv) increase the attractiveness of the region as an area for investment, both by regional and non-regional investors.

The Grand Anse Declaration agreed to a scheme for the movement of capital across the Region starting at first with activities on the three existing exchanges. A scheme was worked out and implemented in April 1991 under which the stock exchanges of Barbados, Jamaica and Trinidad and Tobago undertook to cross list and cross trade stocks. This provided the basis for the creation of an integrated capital market in CARICOM. Cross border trading was initially facilitated by a foreign exchange float provided by each Central Bank.

The three exchanges have been engaged in cross border activity involving the trading of securities listed on the three exchanges. Cross-border trading commenced briskly but has been constrained by *inter alia* the inadequacies of the legal and regulatory framework, the lack of a supporting infrastructure and system and the relative narrowness and underdeveloped nature of the market in terms of financial instruments available for cross border trade.

Capital market institutions are seen as an important part of the financial infrastructure needed to facilitate sustained growth and development of our economies; particularly because of their ability to mobilize domestic savings and to use those funds for long-term purposes, unlike commercial banks for example which operate in the short end of the financial market. Capital markets can also channel foreign savings into the local economy.

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The extent to which this is possible depends on the legal arrangements for non nationals to trade in stocks as well as other securities, the economic, social and political stability of the country and the supporting infrastructure and systems.

In this paper we will look at the development of the capital market in the CARICOM Region, focusing primarily on the initiatives which are being taken to create a Regional Capital Market. At the time the decision was taken to create a regional capital market it was agreed that initially, efforts should focus on the regional stock exchange. We shall concentrate on the benefits to be derived from the creation of a Regional capital market, the factors affecting cross border flows and the impediments to the growth of the market.

Section one of the paper is an introduction to the subject and looks briefly at the *raison d'etre* for capital markets and the initiatives which have been taken to develop the market. Section two looks at the characteristics of the capital market in CARICOM. In this section we looked at the institutions operating in the market. In section three we look briefly at the aims of the regional capital market which we think are important as the Region moves towards a Single Market and Economy with one of its objective being the free movement of capital across the Region. Section four of the paper looks at the impediments to the development of the regional capital exchange. It recognizes that there are some impediments to the development of the regional capital market and that regional efforts would be needed to remove or lessen the impact of such impediments. In section five we list the current activities being undertaken by the CARICOM Secretariat relating to the development of an integrated capital market in CARICOM.

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Section six contains the conclusions, observations and recommendations. The final section of the paper is an appendix showing the level of cross-border activity on the regional stock exchange since its inception in 1991.

2. THE CAPITAL MARKET IN THE CARIBBEAN

The capital market in the Caribbean is relatively underdeveloped and segmented. The most important institutions active in the capital market of the Caribbean are:

(a) Central Banks

The Central Bank is expected to be an official autonomous institution whose principal duties are those of regulating bank credit and the volume of money holding, managing the country's international reserve and acting as the financial agent of the government. The above is true for the Central Banks of Barbados, Belize, Guyana, Jamaica and Trinidad and Tobago. For the Eastern Caribbean Central Bank (ECCB), which covers six Organisation of Eastern Caribbean States (OECS) countries, the role is slightly different. However, the differences will not be spelt out here as this note is not intended to focus on the role of the Central Bank but rather on the integration of capital markets.

The Central Bank operates in the capital market mainly to regulate the supply of money through the various instruments and tools at its disposal. In some countries it is very active in the market for government securities while in others it deals in other long term financial instruments.

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(b) Commercial Banks

In the Caribbean there are a number of commercial banks. These include private commercial banks, government-owned banks, semi private banks and branches of foreign commercial banks. These banks collect a considerable volume of savings from the public through the various savings instruments. Commercial banks activities are essentially short-term although in a number of cases the facilities extended are converted to medium- or long-term loans by automatic renewal. In addition, they make medium- and long-term loans to some extent for the purchase of certain capital goods or for the promotion of productive activities. Commercial banks in the Region although they are primarily money market institutions also operate as part of the capital market.

To the extent that the commercial banks, shares are listed on the exchanges they add some breadth to the market.

The commercial banks activity in the Caribbean is gradually changing, banks are now willing to cross border and to diversify their own portfolio. Banks in the OECS have been actively engaged in the commercial paper market in the larger territories and in particular Jamaica and Trinidad and Tobago. They have also established branch operations in other territories and in other cases have entered into joint ownership. This is adding some breadth to the market by increasing the number of savings instruments available to investors.

(c) The Stock Market

The stock market, as part of the capital market is divided into two sections with clearly defined and different operative functions and characteristics.

The issue market or primary market refers to transactions in newly issued securities while the secondary market is concerned with the transfer of pre-existing financial assets. Basically the secondary market permits trading in outstanding stocks and bonds already sold to the public. The magnitude and efficiency of the secondary market exert a strong influence on the primary market. An active, well organized and efficient secondary market is often considered a precondition for the existence of a fully functioning primary market. The degree of acceptance by investors of newly issued securities will depend largely on the facilities existing in the secondary market for their future disposal. Thus the secondary market exists to provide liquidity for the financial assets negotiated in the primary market.

Many factors determine the volume of securities trading and in general, the role of the stock exchange in the capital market. These factors are directly or indirectly related to the economic, financial and social aspect of the Region and the level of development of the individual countries. Therefore, when examining the operating efficiency of the Caribbean Stock exchange (Barbados, Jamaica and Trinidad and Tobago) it will be necessary to bear in mind the socio-economic framework within which they function. A more exhaustive treatment of the operations on the regional stock exchange is given in the appendix at the end of the paper. Presently the number of shares listed on the stock exchanges is limited and to date only one company the Canadian Imperial bank of Commerce (West Indies) Ltd has cross listed on all three stock exchanges. And that was done in 1994.

(d) Merchant Banks/Investment banks

In the Caribbean, Jamaica has a well developed Merchant Banking Sector and one is emerging in Trinidad and Tobago. These institutions provide a number of capital market functions of which the more important are:

(i) mobilization of long-term and short-term capital for investment projects;

(ii) underwriting of new issues;

(iii) trading in the secondary market;

(iv) investment and portfolio management.

(e) Trust Companies

The operations of trust companies are ancillary to those of the commercial banks to which most are closely related. This is more so in the larger territories of the Caribbean where they undertake the medium- and long-term borrowing and lending of the commercial banks. Trust companies cater to larger savers and attract medium-term finance from other financial institutions. They also provide long-term financing to the productive sectors. Their operations have not yet cross border.

(f) Mortgage Banks

This term is used broadly to cover all institutions that exist for the sole purpose of granting mortgages for the purchase of real estate. Where the mortgage bank exists as in the case of

Jamaica, they provide mortgage financing to recognized institutions such as building societies and will also service the primary mortgage market as well as the secondary mortgage market. Other mortgage institutions provide finance directly for that purpose. In the OECS the Home Mortgage Bank has just recently started operations.

(g) Insurance Companies

The insurance industry plays an important role in the financial system of the Region. This is even more so in the larger territories where the industry is relatively more advanced and well developed. The industry is important in the mobilization of household savings and transfers a large part of those savings into various long-term investment projects. Insurance companies are an important source of medium- and long-term domestic finance and as such play a crucial role in the local capital market.

(h) Specialized Financial Institutions: Finance Companies, Development Banks, Unit Trust

To help provide the financial resources required by some sectors of the economy specialized financial institutions have been established the lending of which is directed to investments that would otherwise not be funded. These institutions ranged from the larger development banks to the smaller finance houses. In the Caribbean there are a number of development banks at the national level and at the regional level there is the Caribbean Development Bank (CDB). Loans by these institutions are usually medium to long term and in the case of development banks the rates were often concessionary.

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Thus there exist some of the constraints for developing a regional capital market. Cross border transactions to a limited extent have begun in some areas but not developed in others. The insurance industry is the oldest facilitator of cross border flows.

Indigenous commercial banks have not followed that lead except in a few cases for example Citizens bank caribbean banking Corporation and Republic bank of Trinidad and Tobago. Initiatives have also been taken by National Commercial Bank in Jamaica to cross border, with operations in Cayman Islands. The initiatives by the indigenous commercial banks are important in that they do not have a network of branches as do the foreign owned commercial banks which can operate cross border more formally. With the decision to more closely link and integrate the regional financial market the infrastructure to facilitate the free movement of capital and consequentially of related services and skills is a prerequisite for success. The issues relating to the development of the regional stock exchange illustrate the point.

3. THE AIMS OF THE REGIONAL CAPITAL MARKET

The development of the regional capital market; as originally conceived was to assist in the provision of financing to the productive sectors of the economies of the Region. It would provide breadth to the narrow national markets and hence diversity and greater security of investment. Such a market should operate

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cross border with as little restrictions as possible to the flow of resources. In that regard the regional capital market was meant to include two elements:

(i) a stock market; and

(ii) a market in other financial instruments such as bonds, futures and debentures;

(iii) increase the flow of capital for new investment in the Region;

(iv) stemming the external flight of capital through the opportunities offered by a wider regional market;

(v) improve the operations of existing and new stock exchanges through an increase in the volume of traded stocks and therefore enhancing the liquidity of existing stock;

(vi) increase the flow of foreign savings to the Region by opening up the capital markets of the Region to cross border investment. It is likely that Caribbean nationals living abroad would take the opportunity to invest in the wider market thus diversifying their portfolio;

(vii) encourage the expansion of domestic savings by increasing the number of financial instruments available;

(viii) encourage the diversification of investment options available to the investor;

(ix) provide equity capital for companies;

(x) improve the efficiency and effectiveness of the mobilization of savings and facilitate their use for long term investment;

(xi) make financial resources more readily accessible to the productive sectors;

(xii) reduce market imperfections by promoting increased competition among firms;

The main function is therefore to increase and channel the flow of long term funds to the productive sectors according to the dictates of the market.

The efficient mobilization of both foreign and domestic resources and the channelling of those resources into productive activities are critical to accelerating the process of economic growth and development in CARICOM Member States. The productive sectors and major infrastructural development activities require long-term resources which are not readily available through the commercial banking system; consequently there is a need for an infrastructure capable of providing such resources. A well functioning capital market is an important instrument in this regard. CARICOM countries suffer from the lack of a sufficiently well developed capital market. This has been recognized in a number of fora, the latest being by the working Group on Financing Caribbean Development. Countries of the Region suffer from relatively low savings rate and thus there is a high dependence on

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foreign inflows either directly or indirectly. The economies have a dominance of a large number of private family firms or foreign owned businesses which rely extensively on private sources of financing. These firms also exhibit a preference for debt-financing over equity financing. This has tended to limit the number of public firms operating in the market.

Historically the Region has financed its investment in the productive sectors by reinvestment of corporate surplus, commercial bank financing, long-term financing from specialized institutions such as the development banks or agricultural credit banks, and very rarely, through direct equity participation. In the case of investment in infrastructure the traditional sources have been foreign loans and grants to the public sector, domestic fiscal surplus and borrowing from the domestic banking system as well as from a number of institutional investors.

The corporate sector in the Caribbean no doubt has a decisive role to play in economic development, and the ultimate development of the capital market. Their financial requirements are crucial to the development and sustainability of the market. At the same time, high domestic interest rates in some countries tended to reduce the availability and attractiveness of local financing especially for those firms operating in a competitive market environment. As a result, there is an increasing need to mobilize resources both at the domestic level and across the Region. Because of the narrowness of the market in the Region firms have limited access to medium- and long-term financing and even more limited possibilities of raising funds through securities issues. In fact the number of financial products are considered limited if the Region is to attract foreign investors and provide the level of financial assistance needed by local firms to ensure efficiency.

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The benefits for investors of equity investment in emerging markets depend on the trade off between the expected rate of return and the associated risks. To assess this trade off a number of factors are important including the efficiency of the domestic capital market.

Some of the most interesting academic research for sometime in the area of financial market is related to whether or not markets are efficient. In an efficient market there is adequate and timely information which allows investors to make their decision based on available information. To be efficient there must be an adequate number of both buyers and sellers. This aspect was missing from the domestic market thus the search for a regional solution.

In the past, Caribbean governments were unwilling to rely completely on the market to perform the function of transferring funds from savers to borrowers in an effort to promote economic growth. And in a number of countries government intervenes either directly through government controlled financial institutions by securing inexpensive funding for their own activities or indirectly through the control of interest rates, directing credit to priority areas. The net result of such market interventions is to reduce the funds available to others needing such funds, discourage domestic savings in the form of financial assets; leading to investment in real estate and foreign assets and a further weakening of the capital markets of countries. Those actions also lead to economic inefficiencies which in the long run undermine the development of the financial sector.

In recent years some countries have been allowing market forces to determine the allocation of financial resources and have been relying more on the private sector and market signals to establish interest rates, prices and to some extent exchange rates. In some countries interest rate control has become more flexible, direct credit programmes have been curtailed, foreign exchange regulations have been relaxed and some of the state owned enterprises have been privatized, thus making it easier for the growth and development of the regional capital market.

4. IMPEDIMENTS TO THE DEVELOPMENT OF THE REGIONAL CAPITAL MARKET

Foreign investors face many barriers when investing abroad. Barriers to cross border investment tend to be related to the domestic policies pursued by the economies in the Region.

There are some barriers to the development of the capital market in CARICOM with the major constraints to that development being both direct and indirect. The direct ones are legal governing aspects of property ownership. This arises from the different national regimes and the different treatment of foreign investors, and taxation. Another direct impediment to the growth of the market has to do with the regulatory framework. The indirect barriers relate to the availability of information to the investors and the amount of protection given to investors. Cumbersome and expensive settlement system also affect the growth of the market. Coupled with these are other impediments which are considered common to emerging markets and are specific to the Caribbean. These include liquidity risk, currency risk and macroeconomic instability. And finally the structure of the ownership of the business itself.

In the Caribbean firms are dominant and such firms are reluctant to admit new equity capital for fear of the dilution of control. Some of these firms have achieved what they regard as optimum size and do not wish to expand their operations. Firms

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wanting to expand often do so from retained earnings or short-term commercial bank credits thus often effectively limiting the number of private firms operating in the market and retarding the growth of a vibrant capital market.

The requirements for the development of capital markets as well as the elements of a properly functioning securities market are important considerations to be examined as the region moves towards an integrated capital market. In fact the ideal environment for a regional capital market is on in which factors of production can move freely between Member States. Ideally an economic union is considered a necessary condition for the operation of an integrated capital market. However in the absence of an economic union it might be useful to set certain conditions which will facilitate the effective operations of a Regional Capital Market. These include:

(i) the ability of investors to trade in financial instruments across the Region and to clear and settle promptly;

(ii) an updated harmonized company laws;

(iii) harmonization of audit and accounting standards;

(iv) harmonized securities legislation which would include provision for an oversight body;

(v) the constant creation and promotion of companies and the encouragement of private companies to list on the stock exchanges;

(vi) a CARICOM Investment code.

For a CARICOM capital market to develop and grow there must be an environment which is conducive for such growth. One in which there is a large number of investors and instruments or investment options.

There is a two-fold constraint to the strengthening of relations among the capital markets of the Caribbean Community; economic on one hand and legal and institutional on the other.

The stage of economic development of most CARICOM countries does not yet provide the necessary basis for a significant network of equity capital flows within the Region. Fundamentally, the limited supply of private securities in the Caribbean is somehow related to the small size and limited horizons of many local businesses. The capital market in the Region should be viewed and assessed in relation to the (countries) limited economic and financial development of the countries and specific measures for fostering the growth of the securities market should be introduced as part of a general programme of economic and financial development.

Constraints to the market have been identified in a number of fora and include:

(i) the existence of the aliens landholding legislation which restrict the ownership of property in the particular Member State by non nationals;

(ii) different financial legislation;

(iii) inadequate information flow;

(iv) cumbersome and expensive settlement arrangements.

So far some important barriers have been removed, the alien landholding Act in Trinidad and Tobago being the most important. For years that Act prevented non-nationals of Trinidad and Tobago from outright ownership of assets in that country. However this and other legal and regulatory blocks are yet to be removed across the Region. The recent signing and ratification of the CARICOM Double Taxation Agreement has served to give added fillip to the Regional Capital Market.

5. CURRENT ACTIVITIES RELATING TO THE DEVELOPMENT OF AN INTEGRATED CAPITAL MARKET IN CARICOM

In 1992, the programme for the establishment of a CARICOM Single Market and Economy was approved. This programme included activities aimed at achieving financial integration, and at facilitating the free movement of services, labour and capital. This complemented the decision of 1989 to develop a CARICOM Capital Market commencing with the gradual integration of the three Stock Exchanges at the time that is, the Barbados Securities exchange, the Jamaica Stock exchange and the Trinidad and Tobago stock exchange.

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In the context of an integrated financial market and the free movement of capital within CARICOM, the Standing Committee of Ministers of Finance (SCMF), agreed to:

(i) the deepening of the capital market to include not just a regional stock exchange trading in equities but other financial instruments such as bonds, treasury bills and debentures;

(ii) the widening to include markets in the Wider Caribbean;

(iii) the identification and acquisition of systems to facilitate efficient, cost-effective cross-border trading; and

(iv) approaching the Organisation of American States (OAS) and the International Development Bank (IDB) for funding to undertake work to achieve the above.

In this context the CARICOM Secretariat has initiated a number of projects aimed at both widening and deepening the market.

These include:

(i) In 1994 IDB under its Multilateral Investment Fund approved technical cooperation funding for the execution of a project for the harmonization of capital markets in the Caribbean. The project is intended to support short term actions aimed at establishing appropriate regional standards for trading, clearing and settlement and the implementation of arrangements for the self regulation of the individual exchanges. The beneficiaries are The Bahamas, Barbados, The Dominican Republic Jamaica and Trinidad and Tobago. The project is administered by a steering committee comprising the managers of the stock exchanges in the participating territories and is chaired by the Manager of the Jamaica Stock exchange.

The efforts under the project are meant to augment investors safeguard, facilitate linking existing exchanges in the Caribbean thus benefitting investors and issuers of securities in the region and opening up possibilities for future integration between Central America and Caribbean exchanges.
Specifically the MIF resources will be used to design and implement in each country:

(a) An automated trading system and a central securities depository.

(b) A self regulatory framework for each exchange where the exchange will adopt appropriate self regulatory procedures including appropriate disclosure of prospectus information.

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(c) The purchase of hardware and software as well as the procurement of resources for evaluation of the system.

(d) a diagnostic of the main issues to be addressed to foster the integration of stock exchanges.

(ii) In October 1994, the IDB approved a project, submitted by the Jamaica Stock Exchange, to develop a central securities depository and a self-regulatory framework for existing stock markets in the Bahamas, Barbados, the Dominican Republic, Jamaica, and Trinidad and Tobago, and an action plan for their harmonization. Other IDB funds being channeled through the Eastern Caribbean Central Bank are being used to facilitate the establishment of an Eastern Caribbean stock exchange and its linkage to existing Caribbean stock exchanges.

(iii) Simultaneously with these activities, initiatives are being pursued for the promotion of trade and investment between CARICOM and the Group of Three (G-3) countries (Mexico, Colombia, and Venezuela), following the signing of a Plan of Action for cooperation by the Heads of State and Government of CARICOM, and the G-3 and for the establishment of an Association of Caribbean States- formally operationalized in

August 1995 which will *inter alia* seek to encourage greater economic integration among the countries in and bordering on the Caribbean sea.

The importance of economic integration and capital market development for prosperity is also underscored in the Declaration of Principles adopted during the Summit of the Americas in Miami, to which CARICOM Governments subscribe. In order to promote investment the Declaration calls for building more open, transparent and integrated markets, and promoting the development and progressive integration of capital markets. In the Declaration of Principles the availability of capital at competitive rates is regarded as being essential to finance private sector investment. This is seen as a vital ingredient in economic development.

The CARICOM Secretariat and the OAS have been cooperating to undertake studies designed to facilitate the integration of financial markets in the Caribbean Region and Group of Three (G3) countries.

The OAS and the CARICOM Secretariat have identified areas of collaboration, which include support for CARICOM financial market integration and in 1994 approval was had for the implementation of Phase I of a project

Integration of Financial Markets in CARICOM. The project seeks to complement existing initiatives related to the widening and deepening of financial markets in the Caribbean and to support activities for the integration of the financial markets within the context of a CARICOM Single Market. Although all CARICOM countries are considered, the project focuses on recommending a strategy for the integration of the financial markets of The Bahamas, Barbados, Jamaica, Trinidad and Tobago and the OECS countries. The feasibility of integrating the financial market of the Caribbean Region with the G3 markets (Venezuela, Colombia, Mexico) is also being studied.

(iv) However, in order to complete several important aspect that cannot be covered under Phase I a second phase to the project **Integration of Financial Markets in CARICOM,** Phase II is being undertaken.

The second phase will seek to implement selected elements of the Phase I project, to elaborate the activities for the development and integration of the financial market of the CARICOM countries of Belize, Guyana and Suriname (not covered in phase I) and to study the domestic money and capital markets of the Wider Caribbean to include the five countries of Central America (Guatemala, El Salvador,

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Honduras, Nicaragua, Costa Rica) the G-3 countries (Mexico, Colombia, Venezuela) and Panama.

The focus of the Phase II Project/ study will be:

(i) to determine the need for private sector initiatives and government actions to widen and deepen the capital markets of the countries encompassing the Wider Caribbean and to examine and to examine opportunities for greater cooperation between CARICOM, G3 countries and the countries of Central America;

(ii) to lock at steps that have been taken by the market/and or policy makers in CARICOM and what further action may be necessary to enhance access to the international capital markets including markets in the wider Caribbean Region.

(iii) to examine the opportunities and policies for increasing activity on the capital markets and in particular the stock exchanges by including privatization issues.

The Working Group on Financing Caribbean Development has done a considerable amount of work in the area of capital market development focussing on developing appropriate saving instruments. The recommendations of the

Working Group were accepted at the last meeting of the conference of Heads of Government of the Caribbean community.

(iv) In 1993 the subcommittee of the Regional capital market recognized that an impediment to the growth of the market was the limited amount of instruments available from wide across the Region and designed a project to address that issue. The submission to the IDB has been incorporated into a much wider project **The Caribbean Deepening and Widening Project** which should begin shortly.

Also at the regional level the CARICOM double taxation agreement has been signed and ratified by the requisite number of countries to make it operational. This is aimed at removing identified barriers to the free low of investments cross border.

7. CONCLUSIONS OBSERVATIONS AND RECOMMENDATIONS

Macroeconomic stability is the fundamental requirement for the development and growth of the capital market. An important element for sustained economic development has been identified as the attainment of the Single Market and Economy in the Region. Included among the objectives of the Single Market and Economy is the free movement of capital across the Region. Member states have taken steps towards the reform of the financial system. Such reform include flexibility in the control of interest rates, direct credit programmes have been curtailed, foreign exchange regulations relaxed and a number of state owned enterprises have been privatized thus reducing the demand of the public sector's demand for credit from the banking system. However for financial sector reform to be effective it should be undertaken together with macroeconomic reforms. Where this is not done countries run the risk of the resulting economic disequilibria putting pressure for a return to controls on the financial system.

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CROSS BORDER TRADE ON THE REGIONAL

Stock Exchange 1994

Activities on the Regional stock exchange in 1994 showed significant improvements over 1993. Improvements were recorded in all areas of activity cross border and were perhaps a reflection of the relatively more stable economic condition experienced during 1994. For example exchange rates were relatively stable throughout the Region, thus removing some of the concerns about foreign exchange losses on cross border transactions.

For the twelve-month period ended December 1994, 8.9m shares were purchased on the regional stock exchange compared to 1.5m in 1993 while 1.5m was sold in 1994 as against 234,120 in 1993.

Table 1

Total Volume of Cross Border Transactions
1991-1994

Year	Volume Bought	No. of Transactions	Volume Sold	No. of Transactions
1994	8,731,479	137	1,536,899	65
1993	1,525,680	140	234,120	14
1992	756,023	49	1,888,019	228
1991	11,876,296	1,334	1,492,537	229

Source: Compiled from Stock Exchange reports 1991-1994.

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Table 2

AVERAGE SIZE OF TRANSACTIONS

1991-1994

Year	Average Size of Purchase Transactions	Average Size of Sales Transactions
1994	63,700	24,000
1993	11,000	17,000
1992	15,000	8,200
1991	8,900	6,500

Source: Compiled from Table 1

Of the total volume of 8.7m shares bought in 1994, 6.6m or 76.24 per cent was purchased on the Jamaica stock exchange by Trinidad and Tobago investors - the remainder being purchased on the Trinidad and Tobago stock exchange.A total of 1,536,899 shares were sold cross border with 84.43 per cent taking place on the Trinidad and Tobago stock exchange, the remainder took place on the Jamaican stock exchange.

The Jamaica and Trinidad and Tobago stock exchanges remain the most active for cross-border trade in 1994, continuing the pattern set since the inception of cross-border activity in 1991 when 66 per cent of all purchases were on the Trinidad and Tobago stock exchange and 98.56 per cent of all sales transactions. For the twelve-month period ended 31 December 1994, Barbados, transactions on the Trinidad and Tobago stock exchange totalled 1,974,207 shares purchased, amounting to TT$4,319,151 and a total of 789,925 shares sold which amounted to TT$2,413,138.

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There was no activity by other regional investors on the Barbados Securities Exchange in 1994. One contributing factor was perhaps the fact that no new listings took place on the exchange. In addition overall volume of trade on the local exchange remained relatively low.

Jamaican investors, in 1994, bought 100,020 shares on the Trinidad and Tobago stock exchange, valued at TT$234,130 and sold 507,658 shares valued at TT$1,207,557. Jamaica is now the largest equity market of the Region.

The year saw Jamaican investors as net sellers on the Trinidad and Tobago stock exchange. A total of 11 transactions were entered into for the purchase of shares and 15 for sales by Jamaican investors. The average size of each transaction was 9,000 valued at approximately TT$22,000 per transaction. On the sale side, the average size of a transaction was 34,000 shares valued at TT$80,000 each. Stocks purchased by Jamaican investors on the Trinidad and Tobago stock exchange in 1994 average TT$2.43 per share and TT$2.38 for those sold.

During 1994, Trinidad and Tobago investors entered into 80 transactions for the purchase of 6,605,101 shares on the Jamaica stock exchange valued at J$33,839,986 and 23 transactions for the sale of 239,314 shares valued at J$2,371,329. The average size of a Trinidad and Tobago transaction on the Jamaica stock exchange was 82,000 valued at J$423,000 or J$5.16 per share. At the same time, the average size of a sales transaction was 10,000 shares at a cost of approximately J$103,000 or J$10,31 per share.

For 1994, the size of the transaction by investors in Barbados on the Trinidad and Tobago stock exchange represented an increase in excess of 100 per cent over 1993 and a 93 per cent increase was recorded in the size of each sales transaction over that of 1993. Slight reductions, however, were recorded in the price per share, bought and sold, by Barbadian investors in the Trinidad and Tobago market. The average price moved from TT$3.00 per share for purchase in 1993 to TT$2.19 in 1994 and for sale, the price moved from TT$5.10 to TT$3.05 in 1994.

Table 3

LEVEL OF TRADE ON THE REGIONAL STOCK EXCHANGE 1991-1994

(%)

	1991		1992		1993		1994	
	% of Purchase	% of Sale	% of Purchase	% of Sale	% of Purchase	% of Sale	% of Purchase	% of Sale
Barbados	33.59	1.31	NIL	0.07	0.45	-	-	-
Jamaica	0.05	0.13	10.31	0.15	16.92	-	76.24	15.57
Trinidad and Tobago	66.36	98.56	89.69	99.78	82.63	100.00	23.76	84.43
TOTAL	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: Compiled from information supplied by the stock exchanges.

Last year (1994) was good for cross-border transactions in the equity market especially on the Jamaica stock exchange. It also represented the first time that the level of purchase transactions was greater than that on the Trinidad and Tobago exchange - possibly indicative of confidence in the Jamaican market brought about by some level of stability in the value of the Jamaican dollar against the US dollar. During 1994, there were no

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changes in the value of the Jamaican dollar. The high level of activity on the exchange and perhaps due to a greater flow of information between the markets.

Market Potential

In 1994, the regional equity market recorded a turn around from a year earlier. However, the relatively small size of the Market, limited number of listed companies as well as low level of liquidity are clearly negatives for continued growth.

Market Capitalization

The regional Stock Exchange which is made up of the Jamaica Stock Exchange, the Trinidad and Tobago Stock Exchange and the Barbados Securities Exchange was capitalised at approximately US$2,967.606.7MN in 1994 up from US$2,106,300.3MN in 1993. The Jamaica Stock Exchange was the largest, capitalised at approximately US$1,750,123.2M or 59% of total Market Capitalization. The Trinidad and Tobago Market is the second largest with a capitalization of approximately US$691,771.6M in 1994 and US$509,086.6M in 1993. Barbados' Market which is a much smaller Market than that of Jamaica's and Trinidad and Tobago's was capitalised at approximately US$517,711.91 in 1994 and US$328,143.7M in 1993.

Table No. 4

MARKET CAPITALIZATION, END OF PERIOD 1991-1994, US$

Stock Market	1991		1992		1993		1994	
		% of Total		% of Total		% of Total		%
Barbados	308.273.8	15.13	259,167.7	6.09	328,143.7	15.58	517,711.9	17.45
Jamaica	1057843.6	51.93	3482,999.1	81.83	1269,070	60.25	1758,123.2	59.24
Trinidad and Tobago	670.982.4	32.94	514,080.6	12.08	509,086.6	24.17	691,771.6	23.31
TOTAL	2037.09.8	100.00	4256,247.4	100.00	2106,300.3	100.00	2967,606.7	100.00

Source: Compiled from information supplied by Stock Exchange

Number of Listed Companies

Last year (1994) saw an increase in the number of firms listed on the Regional Stock Exchange. The largest number continued to be listed on the Jamaica Stock Exchange which has, consistently since 1991 had more than 50 per cent of the listed companies available for regional investors in equity.

Table 5

NUMBER OF LISTED COMPANIES 1991-1994

	1991		1992		1993		1994	
		% of Total		% of Total		% of Total		% of Total
Barbados	14	16.09	15	16.48	16	17.39	19	19.79
Jamaica	44	50.57	48	52.57	50	54.35	50	52.08
Trinidad and Tobago	29	33.34	28	30.77	26	28.26	27	28.13
TOTAL:	87	100.00	91	100.00	92	100.00	96	100.00

Source: Compiled from Stock Market Reports

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The Potential for Further Growth

There is some appeal to investing cross border. Why then has this not happened on a large scale?

The Regional Stock Exchange has shown some signs of growth since its inception in 1991 even though this growth has been uneven, as between years and countries. This leads to the question of what more can be done to encourage additional cross border participation in the equity market.

Relative to the past, cross border activity is becoming attractive to investors. The level of cross border activity in 1994 was an improvement on past performance and thus encouraging for both policy-makers and firms wishing to obtain equity financing.

As the Regional Market becomes more active as has been the case in 1994, it is more likely that new companies will list their shares on the national exchange. Both Market Capitalization and number of listed companies will then increase.

Conclusions and Recommendations

Although positive growth was recorded with respect to the regional stock exchange in 1994, every effort should be made to make the market more vibrant.

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In this regard, it is felt that:

(i) more use be made of the print media to provide profiles of companies listed on the three exchanges;and to provide relevant information to assist the investor to make informed investment decision;

(ii) policy-makers adopt or put in place uniform investors protection safeguards, including disclosure requirements, accounting standards and custody and settlement procedures. These safeguards can be adopted relatively easily especially when relying on self regulations.

(iii) efforts to include activity by countries without stock exchanges should be expedited;

(iv) Removal of barriers to the integration of the capital markets. The Capital Markets are not yet fully integrated - as there still remains certain barriers. Included are -

(a) some uncertainties about sustainability of macro-economic stability in some member states which can and is often an important deterrent to the flow of cross border investment;

(b) various degrees of exchange controls; and

(c) the lack of a high quality regulatory framework.

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