



MINISTRY OF FINANCE AND THE PUBLIC SERVICE

Presentation by the Honourable Audley Shaw, CD, MP

At the 42nd Annual Conference of the International Organization of Securities Commissions

On

'THE ROLE OF MARKETS AND MARKET REGULATORS IN THE POST-CRISIS WORLD'

Wednesday, May 17, 2017 Montego Bay Conference Centre

Salutation:

- ✓ Chairman of IOSCO, Mr. Ashley Ian Alder
- ✓ Secretary General of IOSCO, Mr. Paul Andrews
- ✓ Members of the IOSCO Board
- ✓ Chairman of the Financial Services Commission, Mr. Howard Mitchell
- ✓ Executive Director of the FSC, Ms. Janice Holness
- ✓ Other FSC Commissioners
- ✓ Ladies and Gentlemen

Welcome to the 42nd Annual Conference of the International Organization of Securities Commissions, IOSCO.

To our foreign guests, welcome to Jamaica and I hope you find some time to enjoy our culture while meeting to discuss topical and emerging issues affecting the world's securities and futures markets.

The hosting of this conference provides a prime opportunity for Jamaica and the wider Caribbean to be recognized as pivotal stakeholders in the global securities market regulatory landscape. Indeed, we are proud that May 2017 marks the first anniversary since our Financial Services Commission, the FSC, was installed as a Board Member of the IOSCO, making Jamaica the only Caribbean country to date, with a seat on the Board. The FSC also holds the post of Co-Vice Chair of the Inter-American Regional Committee.

Through these avenues the FSC is positioned to positively influence the development of global standards for securities regulation and to drive compliance and growth in the domestic market.

The Local Landscape

This conference provides an opportunity to show the significant strides that Jamaica has made in positioning itself as a country with a stable economy and a robust financial regulatory framework.

As we turn our attention to the role of the markets and market regulators, I must highlight that Jamaica's financial and capital markets are sound and are strictly regulated in compliance with world standards. In accordance with the Securities Act, securities regulation has continued to focus on monitoring the solvency and market conduct of licensed entities through a programme of routine and special examinations and stock market surveillance. The FSC has worked assiduously in protecting investors, ensuring that our market is fair, efficient and transparent, reducing systemic risk, and promoting investor education.

Ladies and Gentlemen, given this strong regulatory framework coupled with a sound banking system and competent financial stability oversight, I can proudly proclaim that Jamaica is open for business. The government has been ensuring that Jamaica is receptive to financial and real sector investors in our journey to increase productivity and attain sustained economic development and prosperity.

Our investment environment has been improving significantly in recent years, resulting in stronger net foreign direct investment inflows. The economy is on the right track. GDP growth accelerated to 1.4 per cent, the highest in 4 years.

Jamaica is ranked as the 75th most competitive country in the world out of 138 countries according to the 2016-2017 edition of the Global Competitiveness Report, published by the World Economic Forum. We have moved up 32 points from 107th in 2012. Our improved ranking reflects our concerted effort to reduce or eliminate bureaucratic red tape for businesses.

The country's ranking in the World Bank's Ease of Doing Business Survey has also improved to 67th in 2017. In 2013, we were ranked 94th out of 190 countries. Jamaica ranked as the 83rd least corrupt nation out of 175 countries, according to the 2016 Corruption Perceptions Index reported by Transparency International.

Jamaica's investment climate is also viewed very highly at the local level, as is evidenced by the latest Business Confidence Index for December 2016. This showed a 15.4 percent increase compared with the index in the last quarter of 2015. Interestingly as well, 2016 saw the best four quarters recorded in the last 15 years.

Ladies and gentlemen, I should also emphasize that the government's tight fiscal policy and commitment to sound macroeconomic policies have also aided the investment climate.

The Government's primary surplus ended the fiscal year 2016/17 at 7.5% of GDP, outperforming the 7% target driven by stronger tax revenues and expenditure containment.

Additionally, inflation is well contained, averaging 2.4 percent over the twelve months through to March 2017.

In the financial sector, asset quality improved significantly during 2016. Non-performing loans to total loans declined from 4.1% at the end of 2015 to 2.9%. This outperformed the global average of 3.9%).

Ladies and gentlemen, I must highlight the performance of our local stock market and its growing importance as a source of financing for local and regional companies.

The Jamaica Stock Exchange continues to reach unprecedented heights, following the on its success of 2015 when it was recognized by Bloomberg as the number one performing index globally. The JSE topped 92 markets tracked by that global financial research company.

The Jamaica Stock Exchange launched the Junior Stock Market in April, 2009 under my watch as Minister of Finance. I am proud of the growth of the Junior stock exchange since its inception.

The Junior Market Index, which gauges the performance of the stocks that are listed on the market as a whole, stood in April 2009 at 100 points and by December 2015 reached 1,791 points.

For 2017, the performance continues on the upward trend. Up to March 2017, the main index increased by 16.41 per cent with the Junior Market increasing by 15.50 per cent. Capitalization for the Junior market has increased by 52.31 per cent from the start of the year.

Ladies and gentlemen, let me briefly elaborate on our macroeconomic policies since these are critical to investor confidence in Jamaica.

In October 2016, we cancelled an Extended Fund Facility Arrangement with the International Monetary Fund and signed a new three-year US\$1.64 billion Precautionary Standby Arrangement (PSBA).

Under this new Arrangement, the IMF continues to support our reforms aimed at sustaining macroeconomic stability while at the same time, boosting employment and GDP growth and raising the living standards of the Jamaican people.

Critical to these objectives is bolstering the resilience of the financial system. When we say Jamaica is open for business we are serious. Consumer and business confidence are at all-time highs reflecting optimism toward the current economic environment and the future of the Jamaican economy.

We are committed, under this Arrangement to maintaining macroeconomic stability anchored by tight fiscal policy and particularly a central government primary balance surplus of 7 percent of GDP.

Under the IMF-supported programme, we are also committed to increasing our international reserves and to maintaining low inflation in line with our trading partners. As at May 8, 2017 our gross international reserves stood at US\$2.8 Billion, covering up to 36 weeks of imports.

In an effort to fuel domestic investments, the FSC has allowed a reduction in the amount of capital that the general insurance industry needs to hold for the purpose of meeting capital adequacy requirements.

The FSC undertook the necessary research and decided to move from a statutory minimum of 250 percent for the minimum capital test to 150 percent for a period of two years.

This regulatory decision will free up approximately \$36 billion for investments. The insurance companies are required to pursue local investment and growth initiatives and to provide details of the initiatives to the FSC. This is one of the conditions of the relaxation of the regulatory capital requirements.

Ladies and gentlemen this year, Jamaica will pursue a range of other initiatives to deepen the financial sector, and expand the range of financial services available here.

These include:

1. Amending the Insurance Act to facilitate the creation of a micro-insurance legislative framework. This will include crop and livestock insurance for small farmers.
2. Enacting the Microcredit Bill to provide for the licensing and regulation of small privately-owned money lending institutions;
3. Another of these initiatives is spearheading the development of Regulations for Financial Holding Companies and Consolidated Supervision under the Banking Services Act.
4. Also, creating a legislative and robust regulatory infrastructure that will establish Jamaica as a sophisticated International Financial Services Centre.
5. And finally, we will seek to create an enabling environment for a more active government bond market and other financial products to increase the robustness of the local financial market.

In this vein, I want to challenge not only the Jamaica securities regulators, but also those at the regional and international levels, to become more responsive to changes in society and the wider global economy.

Here in Jamaica we currently grapple with two emerging issues related to the society and capital market development. These issues are the promotion of financial inclusion and the continued increase in the retired-age population.

Financial Inclusion

Despite our impressive economic performance in 2016, we remain a country divided on socio-economic lines, with significant portions of our citizens and businesses struggling to obtain financial service that meet their needs.

At this time, our micro, small and medium-sized enterprises (MSMEs) continue to face restrictive credit conditions. There has been an expansion of commercial bank credit to the private sector by 14.8 per cent as at December 2016, as compared with 9.5 per cent for the 2015. However, Bank of Jamaica's Credit Conditions Survey Report shows that for the period ending September 2016, of the total private sector credit advanced, there was a reduction of the per cent allocated to small businesses, from 11 per cent for the previous quarter to 9 per cent.

The National Financial Inclusion Strategy is the Government's commitment to creating the enabling environment, which makes it easier for Jamaicans to save, to invest, to do business and obtain relevant financial products and information to empower themselves.

I know that financial inclusion has become a major concern in countries around the world. Securities regulators must expand their roles and scopes of work to enhance capital access for small and medium-sized enterprises (SMEs) and strategic sectors. I challenge the regulators gathered here today to consider that in moving toward such a goal, it is vital to improve the mobilization of financial resources by making the process more convenient and cost-effective while maintaining appropriate investor protection.

Could mobile money platforms play a significant role in broadening access to capital markets?

Increase in Retirees

A second challenge is for the regulators to ensure that the capital market provides long term investment tools with appropriate yield for our population at working age to be able to afford living expenses after their retirement.

The number of retirees will continue to increase, resulting in a higher dependency ratio which could lead to social problems and a fiscal burden to the governments. There should therefore be more diversity of financial products to satisfy savers' needs, such as a broader range of asset classes for mutual funds.

Furthermore, the authorities should promote financial literacy and educate citizens to realize the importance and necessity of savings and investment as well as the available options of investments, including equity participation that will best suit their needs especially in the medium and long-term.

Ladies and gentlemen, I do not want to pre-empt the interesting discussions that you will have over the next couple of days, but these are two prevailing concerns that I hope will form the basis of some of your deliberations. I wish for you fruitful discussions and hope that you find your participation in this conference worthwhile and for those visiting Jamaica, have an enjoyable stay.

Thank you.