ENSURING THE ECONOMIC DEVELOPMENT OF THE COUNTRY BY DEVELOPING THE CAPITAL MARKET

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ABSTRACT

In recent times Ensuring the economic development of the country by developing the capital market. The argument that economies may be lagging and that the capital markets may not be providing the needed impetus for financial intermediation and economic progress has been put forward by few number of researchers.

Keywords: capital market, emerging economies, economic growth.

Well, that is the perk of the modern economy, specifically financial or capital markets. It's possible because of the capital market where we can collect capital to turn ideas into a billion-dollar business conglomerate, where investors and businesses meet, capital gets raised in the form of shares, bonds and long-term investments, investors can put their money to work, institutions grow, the economy prospers and the country develops. Capital Markets plays a crucial role to keep the economy functioning and the economy would collapse without it. The most advanced economies have the most efficient capital markets.

So, how does the capital market work and why is it so important for the country's development? Literally, the capital market is the kind of financial market place that facilitates the buy and sell of a wide range of long-term financial securities such as equity (shares/stocks) and debt (bonds, debentures, commercial paper and certificates of deposit) along with short term funds such as treasury bill (debt). The market where these securities are created is called the primary market and where already existing securities are traded is called a secondary market. Capital markets are the most important components and form a considerable proportion of the present-day economy. It resides in the core of capitalism as it opens the way for privatization of state-owned enterprises and financial liberation. The stock market is the main element of the capital market. Johnson (1983:32) suggested that: "The stock markets are a complex of institutions and mechanisms through which funds for purposes longer than one year are pooled and made available to business, government, and individuals and through which instruments already outstanding are transferred. The stock markets are well organized and are local, regional, national, and world-wide in scope."

Economic growth and prosperity in the modern economy are unimaginable without the efficient capital market and this is equally true for the growing economy in developing countries like Nepal. Capital market, together with banks, constitute the most prominent sources of external financing for individuals, firms and government. However, their role is not only limited to the source of finance as they are also the means of transferring and distributing the risks across the economy and facilitates the mobilization and channelling of the savings.

Capital markets and economic functions are interrelated. They represent a relationship between the disparate sectors in social society between savers and producers. The saving sector needs to employ their savings in more advantageous and ambitious projects. On the other hand, the productive sectors always require financial sources to assist them to continue to perform. This is where the capital market comes in - to transfer funds from people who have combined surplus to those who have a scarcity of funds. Therefore, suppliers of capital (investors), financial intermediaries (financial institutions or authorized individual middlemen) and users of capital (borrowers) are the three components of the capital market.
An efficient capital market represents people are more trusting of the financial system of the country. A well-functioning financial system of a country allows an economy to fully exploit its growth potential by ensuring the investments with good growth potential receive the funding in exchange for ownership and the inferior businesses are denied capital. In this way, the flow of money is transferred from the surplus group to the deficit group and is put into a productive field. The country's economic development is determined by its productivity, spending, GDP, status and effectiveness of financial institutions, trade, capital formation, employment rate and human resource which is directly affected by the efficiency of the capital market. The essay further explores the needs and roles of the capital market for the economic development of the country, especially developing countries including Nepal and attempts to discover the constraints to the efficient capital markets.

1-tabel **ABSA Africa Financial Markets Index**

ABSA Africa Financial Markets Index			
2017		2018	
Country	Aggregate Score	Country	Aggregate Score
South Africa	92	South Africa	93
Mauritius	66	Botswana	65
Botswana	65	Kenya	65
Namibia	62	Mauritius	62
Kenya	59	Nigeria	61

According to the African Capital Markets Watch 2018 report by PWC, South Africa again ranks as the most active capital market on the continent. This is supported by a strong financial markets infrastructure and robust legal and regulatory frameworks. The South African capital markets consists of:

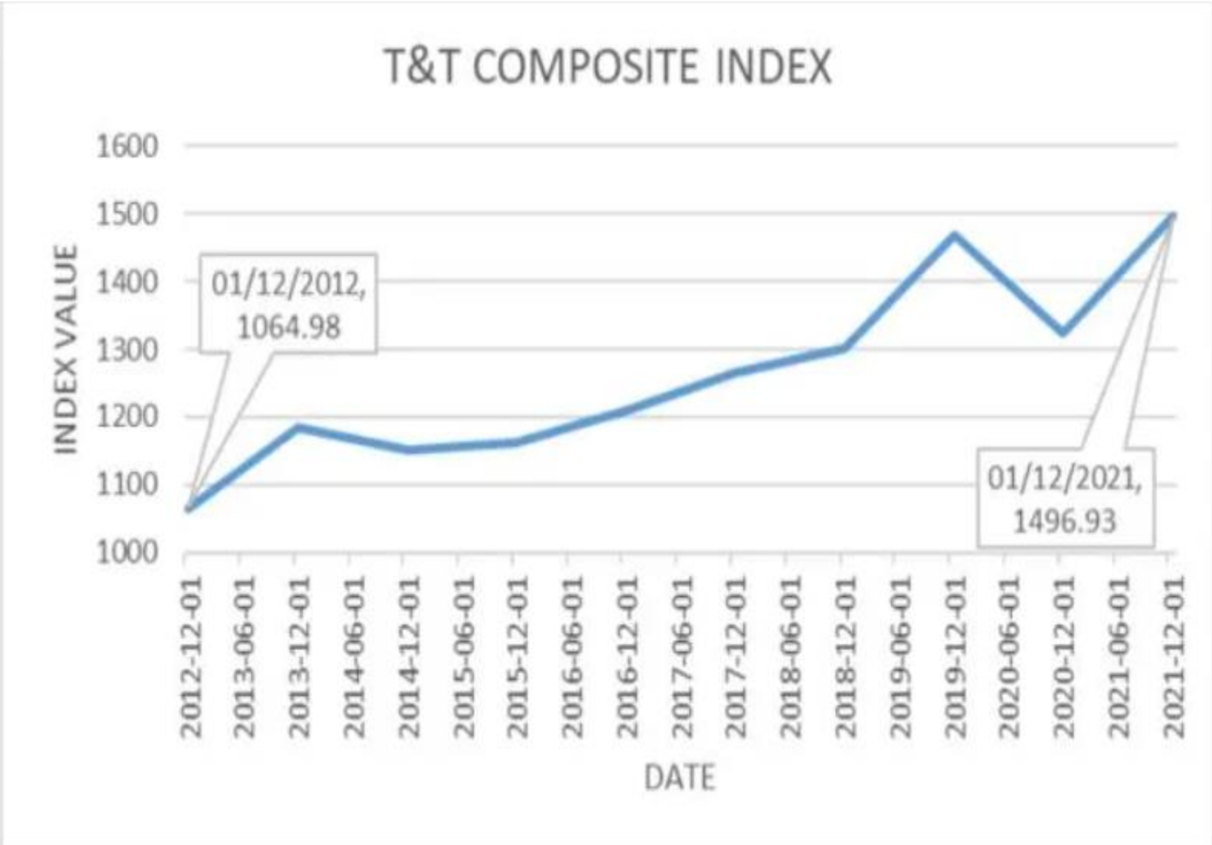
Equities: The Johannesburg Stock Exchange (JSE) is the largest exchange in Africa with over 400 listed firms and a market capitalization of USD 13.7 tn,

Bonds: The South African-listed bond market is estimated to be ZAR 2.7 tn (USD 186.4 bn). It is largely dominated by bonds issued by National Treasury, which account for 68.4% of the outstanding debt, followed by bonds issued by the financial sector (16.0%) and state-owned entities [parastatals] (11.2%). In terms of turnover, the monthly average amount traded on the JSE is ZAR 2.3 tn (USD 158.8 bn),

Derivatives: Derivatives are traded in exchanges under the umbrella of the JSE, and over-the-counter (OTC). Exchange-traded products are standardized, and free of counterparty risk. The JSE permits trading in equity, commodity (mainly agricultural), currency, and interest rate derivatives,

Real Estate: South Africa has the largest and most established REITs market in Africa. The South African listed property sector has a market capitalization of approximately ZAR 380.0 bn (USD 26.2 bn) at the end of 2016, which is 6.4% of GDP.

South Africa continues to lead capital markets in Africa, supported by a strong financial markets infrastructure and a robust legal framework. South Africa has developed its capital markets by;



1-Figure. Composite index

Additionally, the Ministry of Finance has introduced fiscal policies to incentivise the listing of SMEs. In the 2022 budget, Finance Minister Colm Imbert introduced a full tax holiday for the first five-year period for new SMEs listing on the TTSE by granting tax exemption on Business Levy and Green Fund Levy, in addition to tax incentives in the Finance Act 2020.

Below is an illustration of the performance of the T&T Composite Index over the past ten years. With the exception of the dip that would have occurred in 2020 around the same time the pandemic hit the country, the index has generally trended upwards.

There is no 'one size fits all' solution with regards to the development of capital markets. Countries with developed capital markets tend to grow more quickly, provide better financial services to all segments of their populations, and enjoy greater prospects for long-term financial and economic stability.

Improving public understanding of how Trinidad and Tobago's stock exchange and fixed-income products function is essential for the continued development of the market. Public education is required for the population to view investing as an opportunity to grow their wealth. Bond issuers, investors, intermediaries and regulatory authorities all stand to benefit from an effective and efficient capital market.

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