

Capital markets key to economic growth

Analysis. Capital markets involve entities and their activities that gather funds from companies and individuals to make them available to those companies that need them.

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KEY ISSUE

Market capitalisation (Market Cap) is the most recent market value of a company's outstanding shares. Market Cap is equal to the current share price multiplied by the number of shares outstanding. The ratio of a company's or sector's market Cap to the GDP will more accurately illustrate its contribution to the national economy.

Capital markets refer to the section of the financial sector that is involved with the raising of long term capital.

They basically transfer money from individuals and entities that have a surplus who are called savers to entities that currently have a deficit called borrowers. The underlying principle is that some people or entities have money that they don't want to consume currently but will need at some point in future where as other entities have current need for money to make investments that will generate income in the future but lack those funds.

The savers are linked to the borrowers through a variety of market intermediaries such as investment banks, brokers, stock exchanges, custodians, fund managers and many others. The capital is transferred through a range of instruments such as Equity financing, bonds,

"What is paramount is that everyone from a small individual saver to the large companies, Government and every stakeholder needs to do their part as we continue to drive the capital markets development agenda,"

Bob Musinguzi,
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syndicated loans, commercial paper, depository receipts, derivatives, unit trusts.

For purposes of this article, we shall define development as a process by which low income national economies are transformed into modern industrial economies. One of the key drivers of the above transformations is capital markets. It's often argued that a country is as advanced as the state and sophistication of its capital markets. The capital markets play very important

roles in the above transformations.

Inculcating saving as a habit in the country. Savings refers to postponement of consumption. Instead of spending today, entities and individuals opt to spend in future. The reasons for this are wide ranging but the principal one is to prepare for a rainy day. In the case of individuals, it could be about preparing for times when they won't be in positions to work (retirement) where as entities could be preparing for huge

investment outlays or as a buffer for a downturn in economic cycles. This is done through channels such as purchase of insurance, participating in pension schemes, Purchase of Unit trusts among others.

Capital markets are widely held as the most efficient allocators of resources in an economy. This is because investors always put their money in any activity that will ensure returns.

By analyzing companies' financial statements and prospectuses, investors are in position to project which companies or sectors are in position to give good returns for their investment.

This by default indicates that the resources have been put to good use. This doesn't mean that vital sectors with limited returns will be left behind.

Capital markets also reduce on cost of capital and funds. This is because investors will want to commit their money to channels that provide the most returns. Based on the fact that the more you invest the more the returns, the potential investors will be encouraged to save more. This will increase on the money available for investment. Following the law of demand

and supply, with increased supply and availability of funds their price will subsequently come down.

One of the biggest challenges to businesses in Uganda is succession and continuity beyond the life time and ability of the founder. Among the key check points for a company to take part in the capital markets is the soundness and robustness of its corporate governance structure. This is aimed at creating a distinct demarcation between the company and its owners ensure that the company's business is run in a transparent and consistent manner, and to also answer the succession question both in terms of owners and management.

Capital markets also provide a means to measure the production efficiency and capacity of the economy. This is normally through the comparison of the stock exchange's market capitalisation to the country's GDP. Market capitalisation (Market Cap) is the most recent market value of a company's outstanding shares.

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