



42.45	26.07	27.08	+0.46	2.09%	34.841M
27.15	21.71	22.47	-1.26	-5.12%	8.842M
22.59	22.74	23.37	+12.40	3.27%	1.104M
23.97	377.43	391.55	+0.74	0.78%	82.022M
391.70	93.96	95.61	+0.42	1.69%	7.433M
95.67	24.74	25.22	+0.30	1.22%	
25.32	24.89	24.35			
24.82					



The Impact of New Zealand's Capital Market Constraints on Productivity and Growth

Research questions

- Why do capital markets matter for productivity?
- Why might the performance of NZ's capital markets explain part of the productivity paradox?
- What evidence is there that NZ's capital markets are under-performing?
- What might appropriate policy responses look like?
- Directions for future research?

A typology of (equity) capital sources

Capital Source	Description	Risk / Return
Private equity (PE)	Target mature investments that are able to generate positive cash flows	Moderate
Angel investment	Target early stage investments that may be cash flow negative	High
Venture capital (VC)	Target early stage / start-up companies that may be beginning to generate positive cash flows	Very High

Why might the performance of NZ's capital markets explain the productivity paradox?

- “Rules of thumb” that help in the process of matching capital providers with capital seekers might not work well for NZ growth businesses
- Home bias: could hurt NZ as a net importer of capital
- Learning externalities: innovative firms fail to capture the full value created through “learning by doing”

What evidence is there that NZ's capital markets are under-performing?

- Interviewed export focused, growing NZ businesses about their experience accessing capital to expand
- Businesses have clear views on the attractiveness and viability of different capital sources
- High costs of accessing international capital markets, including relocation
- Thin domestic markets for private equity, in the sense of a limited number of market participants rather than lack of capital

What evidence is there that NZ's capital markets are under-performing? (2)

	Capital Needs (demand)				
	Risk / Return	Export start-up, cash-flow negative	Small business, export-led growth	Established business, export-led growth	Established exporter, targeting growth
Annual Turnover		< \$5 million	\$5 - \$15 million	> \$15 million	> \$15 million
Venture capital	Very high		✓ Transaction costs may be too high	✓	
Angel investors	High	✓	✓ More interested in smaller firms		
Private equity for growth firms	Moderate			✓ Interest lower for smaller firms	✓

What might appropriate policy responses look like?

- Interesting parallels with emerging markets – which also face capital market constraints, but for quite different reasons
- Meeting part of the transaction costs for New Zealand-focused funds to compensate for scale effects
- Provide seed support for New Zealand-focused private equity funds to provide demonstration effects

Directions for future research?

- Level v growth effects
- Empirical work on the effect of high real interest rates on growth
- Impacts of attracting offshore capital for NZ

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