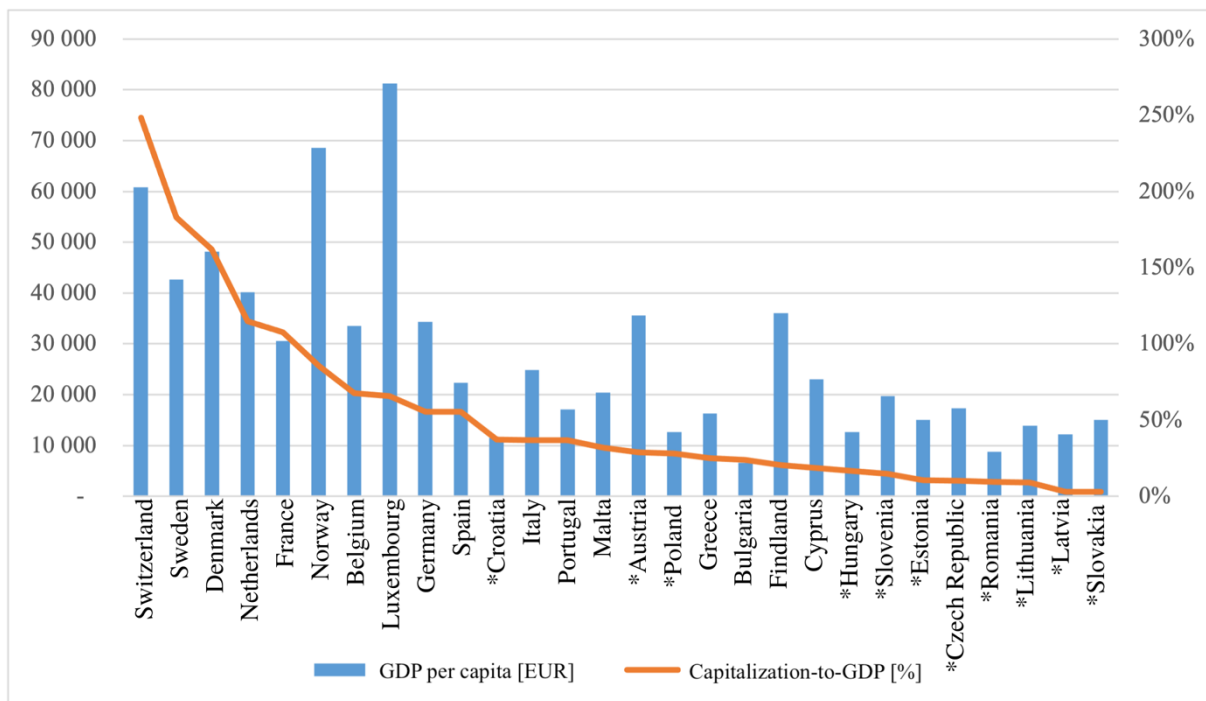


## Marek DIETL: Capital markets of the Three Seas region – (un)used potential

**There are two poles of fast economic growth in the European Union – Ireland in the West and the twelve countries of the Three Seas Initiative whose economies have grown by 2.8% per annum since they joined the EU. International investors are yet to use the full potential of that rapid pace of development in the region.**

It does not take a keen observer of economics to notice that there is a relationship between economic growth and stock quotations. In spite of hundreds of papers written to explain the correlation we still do not know whether it is the capital market that drives growth or whether strong stock exchanges are the result of economic prosperity. The most likely explanation seems to be that there is a sort of feedback between the two. Public capital markets are the perfect tool for turning savings into investment, but investment will only make sense if one can expect attractive returns and these are related to economic growth.

As we analyse the relationship between GDP per capita and the share of market capitalisation of listed companies in the GDP figures of different countries in the European Economic Area, it becomes clear that “rich” countries also have “larger” capital markets. In the Three Seas countries such markets are usually less developed than it might seem from the state of their economies.

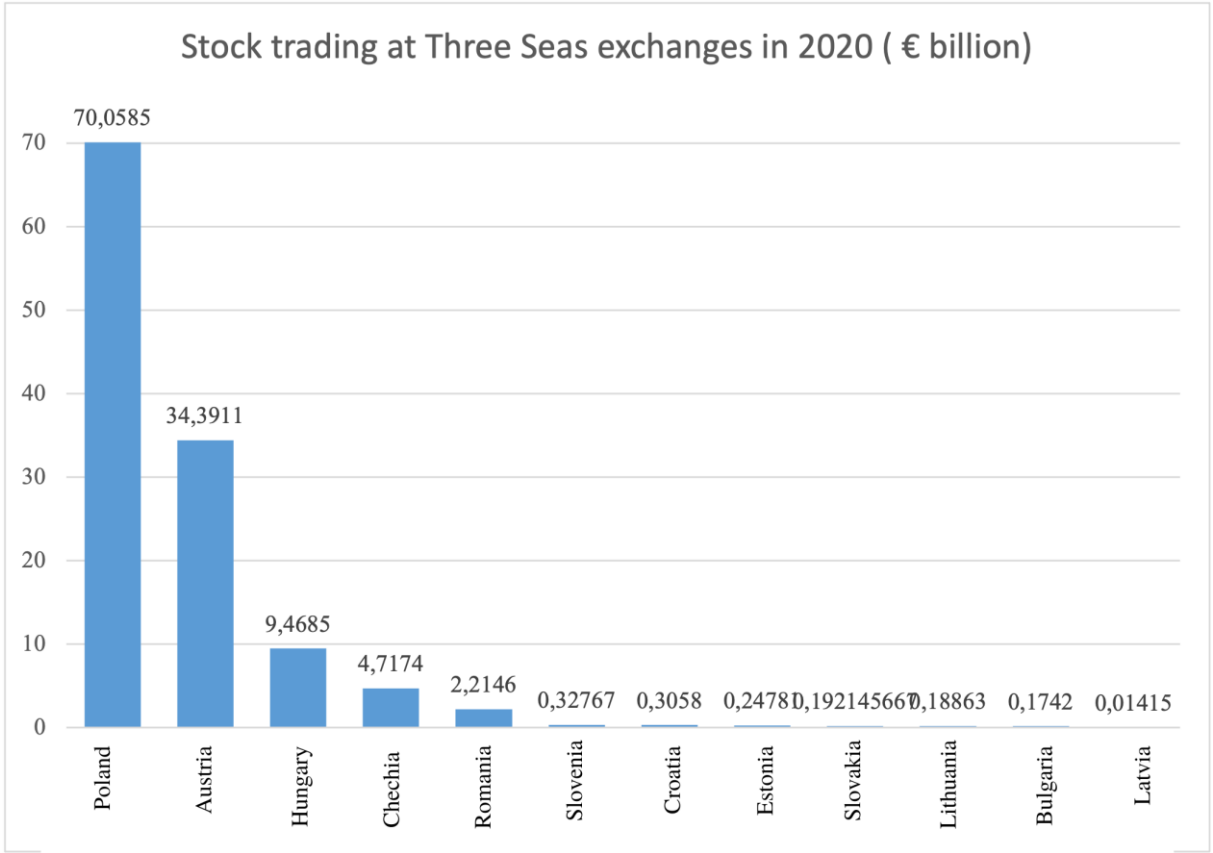


Source: FESE, CEICData, stock exchanges sites, World Bank

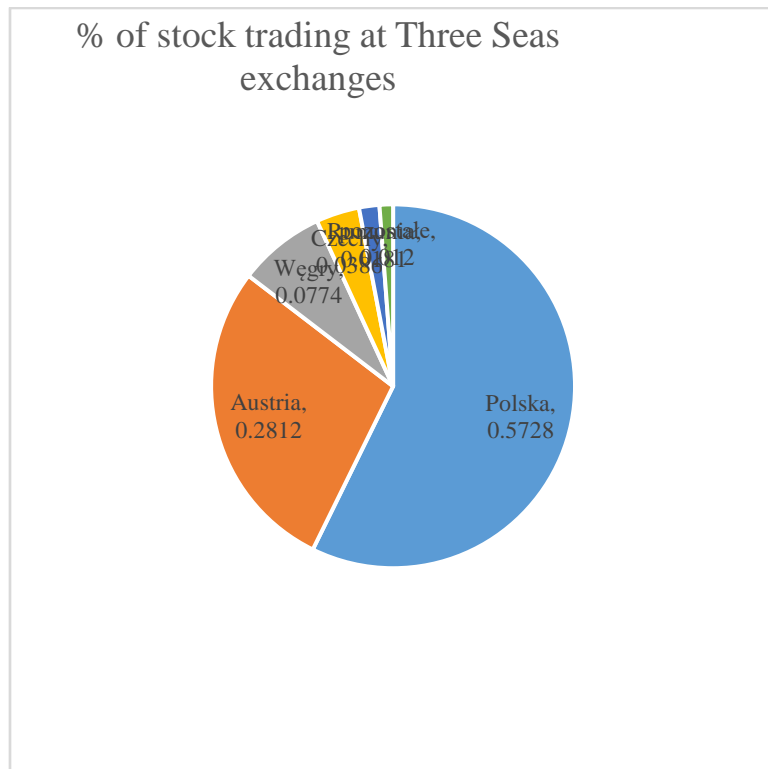
A country that has grown fast and yet has quite a large capital market compared to its GDP is Poland. Over the last 30 years, Polish GDP more than tripled which implies real economic growth of an average 4% per annum. Nominal growth was of course higher, amounting to over 11.5% annually. At the same time, over the three decades, the main stock exchange index, WIG, grew at an average rate of over 15%. This seems to be the secret of success – the Warsaw Stock Exchange lists companies that develop better from the “national average,” attracting investors whose presence encourages more successful companies to float on the market.

In spite of Poland’s undisputed success, its capital market still has a lot of growth potential. The share of capitalisation in GDP oscillates between 30% and 40%, a figure that is twice lower than in the so-called old EU countries. The potential in the other countries of the Three Seas Initiative is even higher. Excluding Austria and Poland, the average market capitalisation-to-GDP ratio ranges between 15% and 20% notwithstanding the excellent economic results of the last three decades.

Even though the companies listed on the Three Seas stock exchanges flourish, their ability to attract investors and, consequently, other companies is undermined by the economies of scale. Almost 85% of turnover is generated by the three biggest markets in the region, which is why it seems necessary that they should cooperate more closely. A joint offer for global investors will provide dynamic companies with an opportunity to raise regional capital that will not try to control them.



Sources: FESE, stock markets



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One example of such cooperation is the CEEplus index. Introduced in 2019, it now covers 153 companies from seven countries of the region: Poland, Croatia, the Czech Republic, Romania, Slovakia, Slovenia and Hungary. Due to its diversity of countries and industries, the index attracts growing interest from funds and investors from all over the world.

It also fosters joint marketing activities and a common position on EU regulatory solutions in the area of capital markets. So far big players had more bargaining power which, combined with some proposals from the European Commission, could simply annihilate smaller stock exchanges.

The area of cooperation that is specifically important for the WSE is technology. The stock exchanges in the region are already testing some of our solutions. In the future our export product will be a unique transaction system adapted to the specific nature of small stock exchanges that will make it possible to create a single technological ecosystem for the capital markets of this part of Europe.

The WSE also holds the Three Seas Stock Exchanges Conference, a platform dedicated to the exchange of experiences. We are glad that, for this year's edition of the conference, we are joined by the stock exchanges from Bulgaria and Austria as well as guests from outside the Three Seas Initiative: Armenia, Greece and Georgia.

The Warsaw Stock Exchange is currently the undisputed leader of the group. Two decades ago, the Athens Stock Exchange was four times larger than the WSE in terms of capitalization and over two times larger in terms of turnover. Today, it is the stock exchange in Warsaw that is four times larger than the one in Greece. This breakneck pace of growth gave Poland unique know-how on how to develop capital markets. However, we do not perceive our position as one

of privileged domination, but rather as a commitment to support the evolution of capital markets across the region.

The Three Seas Initiative was launched to address the gaps in the transport and transmission infrastructure on the North-South axis. As it was being developed, we noticed similar shortcomings in capital markets. While cooperation between regional stock markets and the largest markets in the West thrived on many levels, relations between the northern and southern parts of the region were very weak.

It is high time to change this for the benefit of the thousands of regional companies who want to raise capital and the investors who look for an opportunity to multiply their savings. Acting with caution and courage as the leader of the region, the Warsaw Stock Exchange is ready to take on this challenge.

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