Poland on the dynamic sustainable economic growth path

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Poland has seen strong economic growth over the past decades, with income levels converging towards richer European countries. However, as in the rest of the world, the COVID-19 crisis had a significant impact on the Polish economy, ending a growth streak going back to 1992. As the world emerges from the pandemic, maintaining the economic momentum from previous years will be crucial. Capital markets will play a key role in this process, enabling companies to access capital for investment and innovation. This is true not only in the recovery from the COVID-19 crisis, but also for the broader challenge of the green and digital transitions.

Poland's growth record comes partly off the back of its active capital markets. It has one of the largest equity markets in the Central and Eastern European (CEE) region, accounting for 54% of its total market capitalisation. It is the only EU member state to rank in the global top 10 in terms of number of initial public offerings (IPOs) over the last ten years. In 2018, the market was promoted from Emerging to Developed status by global index providers. Institutional investor participation in the market is significant, with 35% of the market capitalisation in the hands of institutional investors, in line with other advanced European markets. The country has also been a frontrunner in enabling smaller companies to access capital markets with its SME Growth Market *NewConnect*, which is now the second largest such market in Europe, representing 20% of all European companies on these markets. In terms of governance, the stock exchange adopted a new Code of Best Practices in 2021 which, among other things, aims at strengthening corporate disclosure related to ESG.

Still, in spite of its successes, Poland faces significant challenges. The investment rate of non-financial corporations is among the lowest in the CEE region, and research and development spending is half of the EU average, trailing regional peers. The number of IPOs has decreased substantially since before the crisis. As an effect, Poland's share of total IPO proceeds in the region has fallen sharply in recent years. Some years have seen more delistings than new listings, resulting in a shrinking number of listed companies. Corporate bonds have short maturities and low turnover, with debt markets being dominated by financial companies.

In order to overcome these challenges, it is crucial to continue developing the capital market and the corporate ecosystem at large. The aftermath of the COVID-19 crisis provides an opportunity to give impetus to this process. Indeed, capital market developments during 2020 give reason for optimism, as Poland's share of IPO proceeds in the CEE region bounced back sharply and already listed companies continued to use capital markets to access financing. This is indicative of the strength and resilience of Polish equity markets. The existing infrastructure provides an excellent platform from which to build a globally competitive capital market that can serve the corporate sector following international best practices such as the *G20/OECD Principles of Corporate Governance.*

Capital market development is also an important part of broader European integration. Poland has already taken steps in the right direction with its capital market strategy, launched in 2019. Throughout this process, the key function of a capital market should be kept in mind, namely to put resources to their most productive uses and thereby increase prosperity in society. The transition to a low-carbon, digital economy sits at the heart of this ambition. It is a great challenge indeed, but with an improved toolbox, it can be ensured that money and efforts are going to the right causes. That is why stronger capital markets are important: for a greener, more resilient and more integrated Europe.

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