

Stock market development

Polish experience and implications for Belarus

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The simplest and the most consequential question: why do you need a stock market?

Poland: privatization by IPOs, with a broad public ownership of stock by both, unsophisticated and sophisticated investors

Wrong answer: focusing on the stock exchange as a symbol of market economy, rather than a level playing field for issuers and investors, efficient and safe back-office for trade, and effective regulation.

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Five questions to follow:

- Question 1. How much market consolidation?
- Question 2. How safe transactions and payment?
- Question 3. What is sufficient information?
- Question 4. What is effective supervision?
- Question 5. What corporate governance of the market?

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In Poland, the answer to these five questions resulted in:

- Single stock exchange - Warsaw Stock Exchange created and owned by the state
- The Central Depository responsible for the management and supervision of the depository-settlement-payment system; licensed brokers and brokerage houses
- Formal prospectus
- Licensed advisors
- State Securities and Exchange Commission

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- **How it works after 25 years:**
- Poland used very well the advantage of “lagging behind” and avoided creating many traditional institutions of mature markets
- Polish stock market still has strong technological and governance fundamentals
- The trust of investors regarding transparency of the market and safety of transactions is not questioned

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How it works after 25 years (cont):

- In response to ICT changes and resulting cross-border trade, response of institutions responsible for the Polish capital market has been not sufficient.
- Privatization of the WSE in 2010 has not reached results expected to achieve. There is no strategic investor who would include WSE into a recognized subnet of the global market. Continued control by the State Treasury sent a wrong signal to investors.
- Consolidation in 2006 of the supervision of the whole financial sector followed international trends but created less focused and politically weaker institution

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How it works after 25 years (cont):

- Extending and diversifying of the supply of stock beyond privatization was not sufficient. Market created for new firms, NewConnect, after promising start in 2007, stagnated after few years, both in a number of firms and trade volumes
- Marginalization of Open Pension Funds, major institutional investors, had negative effect on demand for stock