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Event Report

"The Warsaw Stock Exchange and the Development of Capital Markets in Central and Eastern Europe": A Presentation by Ludwik Sobolewski

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On February 20, 2008, Columbia Business School's Jerome A. Chazen Institute of International Business welcomed Ludwik Sobolewski, president of the Warsaw Stock Exchange, to campus to speak about the ongoing development of the leading stock exchange in Central Europe and the growth of capital markets in the region.

"Sixteen or 17 years ago, there was nothing in terms of a free economy in Poland," Ludwik Sobolewski said, underscoring how far Poland has come economically since the founding of the exchange in April 1991. "Everything had to be constructed," he said. "All infrastructure had to be built or rebuilt." Economically encumbered for decades after World War II as a Communist state under Soviet control, Poland has worked assiduously to liberalize its economy since overthrowing Communist rule in 1989. Rich with symbolism, the exchange once was located in the swept-out former headquarters of the Polish Communist Party.

No sooner had the exchange played an important role in the creation of a functioning local capital market than a brand-new, arguably bigger, challenge emerged: competing economically as part of the European Union. "There are a lot of stock exchanges in Europe," Mr. Sobolewski said. "Everybody competes with everybody. It's a highly competitive environment."

Such competitiveness appears only to have whetted Mr. Sobolewski's appetite for expanding the reach of the Warsaw Stock Exchange. "The exchange's aim is to become an exchange that goes beyond being local, to Central and Eastern Europe," he said. "It's important to attract companies from the region. The perception of international investors is important. It's a matter of survival in this competitive environment."

Mr. Sobolewski attributed the functional reality of the Warsaw Stock Exchange's operating as a cross-border exchange to two factors. First, he cited relevant EU regulations that are effectively harmonized. "If everything is identical in this regard, it reduces cost and increases the safety of transactions," Mr. Sobolewski said. Second, he credited technological advancements for making such cross-border transactions cost-effective and secure.

Currently, the exchange has 351 listed companies with a combined market value of $336 billion, with 24 non-Polish companies accounting for approximately one-third of this value. Mr. Sobolewski pointed out that the Exchange has even attracted companies from Spain, Italy and Germany, that is, from countries beyond Central and Eastern Europe. One important selling point? "We're cheaper than London or Frankfurt," he said.

Last year, the exchange created a trading platform called New Connect for small, "higher risk, higher return" companies. "This is a platform for companies to whom the London Stock Exchange says no," he said. According to the *Financial Times,* institutional investors have largely said no to these companies as well, showing little investment interest in these securities, though that may change over time.

Now numbering 34 companies, New Connect will add 80 new companies this year. Mr. Sobolewski said he anticipates that the number of listed companies on the platform will soon rival the number on the main exchange, which itself continues to attract many new companies. "Last year, the exchange added 81 new companies, the second-best in Europe after the London Stock Exchange," he said. He expects that, despite the spreading malaise of the credit crunch, the exchange will add another 70 companies this year.

In response to a question on liquidity, Mr. Sobolewski acknowledged that for many companies on the exchange "much of the capitalization is frozen in the state treasury." However, he added that "the government is selling its remaining stakes in listed companies, and once that's complete, liquidity will be significantly improved."

Mr. Sobolewski also noted that certain current technical mechanisms remain outdated and need to be improved. For example, short selling may not be conducted electronically because of a particular securities regulation, one that he anticipates will be replaced this July with a new regulation that will permit electronic short selling, a development that will improve liquidity in the market.

Other factors influence liquidity as well, Mr. Sobolewski continued. "Liquidity depends a lot on the quality and quantity of information between listed companies and investors," he said, allowing that some of the foreign companies listed on the exchange have been somewhat illiquid given the relatively lower quantity of information on these companies in the hands many of the exchange's investors. Mr. Sobolewski said he remains hopeful that the exchange's efforts to disseminate S&P research and other documentation on these companies will generate additional interest in—and trading of—these securities among the exchange's investors.

In response to a question on the capacity of Central Europe to have an abundance of exchanges, Mr. Sobolewski said he anticipates that, in the long run, there will be one regional exchange for all regional blue-chip companies and that a variety of distributed smaller exchanges will focus more on local companies in their respective areas. "Branding is important," he said. "We must attract domestic and international companies and build a strong network of intermediaries." Should the Warsaw Stock Exchange become *the* long-term regional exchange for Central and Eastern Europe, it will be due in no small part to the tireless efforts and unfettered determination of Mr. Sobolewski himself.

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