

## Poland's capital markets

Last year saw some spectacular IPO successes on the Warsaw Stock Exchange, ACQ finds out why.



Mr Grzegorz Pokrzywka

**Kubas Kos Gaertner Law Firm was established in 1995. KKG's strong position has been confirmed by the many awards in the rankings of independent analysts and media in Poland and abroad. For many years, KKG has obtained recommendations in the field of civil and commercial court disputes. ACQ Magazine spoke to Grzegorz Pokrzywka, an associate at KKG.**

### What was 2010 like for the markets in Poland?

Back in 2010, which was called "a year of transition", many investors were looking towards 2011 as the first year of "normality" in the global economics. Evidence of these beliefs in 2010 could be seen in the IPO's of the Warsaw Stock Exchange and PKO Bank Polski (the biggest retail bank in Poland), which both had spectacular success. These expectations turned out to be correct, since almost all macroeconomic factors returned to the levels preceding the worst moments of the crisis, even though the Polish economy did not in fact suffer as much as our European neighbors. The former is correct also with respect to the main index of the Warsaw Stock Exchange – WIG, which recently reached a level 100% higher than during the slump of February 2009.

### How did Poland fare during the recession?

It would be too much to say that the financial crises and recession left Poland untouched. Like many of its European neighbours, Poland is currently experiencing an escalation of the public debt as a late effect of the crisis. The sudden rise in the level of Poland's present sovereign debt is caused, among other factors, by the slowdown of the economy which has driven the ratio of public debt to GDP over 50%.

Since one of commonly indicated sources of this sizable deficit are the structural problems of the public financial sector – such as pension liabilities, last week's months's public debates in Poland were dominated by discussions about the reform of the open pension fund system initiated by the government.

### How does this affect the capital markets in Poland?

As these funds' inflows are independent from the actual sentiments of the market participants, they constitute a significant player on the local capital

market (i.e. Warsaw Stock Exchange) and bring much of its stability, mitigating the impact of the financial crisis on the financial market in Poland. The proposed legislation, which was in the meantime passed by the parliament, provides for a reduction of the funds' inflow to help reduce the public debt. Nevertheless a simultaneous growth of the respective part of the funds' assets, which are going to be invested in equities (in contrary to the present legislation with prescribes investing them in gilts) will probably neutralise its potentially negative impact on the Polish capital markets.

### What do you see for the road ahead in 2011?

As predicted by many, the post-crisis aftershocks will remain a significant topic, driving the attention of market participants and influencing the whole Euroland's financial markets in 2011. For that reason the high level of sovereign debt and potential price inflation in the emerging markets, such as Poland, can be identified as a substantial risk, which may lead to periods of market volatility in 2011.

All that should not overcome the conclusion that the increase in dividend payments and constant growth of corporate earnings, as well as strong overall sentiments, prove that the post-crisis economy is healthy enough to overcome potentially harmful, unexpected episodes, such as the earthquake and nuclear crisis in Japan, the political unrest in the Middle East and an overall fiscal situation in most European countries.

Although a great deal of optimism could have already been observed on the capital markets in the present year, as already mentioned - not without reason, one should remain sensible and carefully observe the situation on the financial markets, due to the presence of some unknown factors, such as e.g. the outcome of the quantitative easing policy of the FED or the question how the Europe is going to cope with the increasing fiscal problems of the PIIGS countries.

#### DETAILS



Kubas  
Kos  
Gaertner

Warsaw PL 00-609  
"Focus" Building  
al. Armii Ludowej 26  
T: +48 22 321 83 00  
F: +48 22 321 83 02  
E: warszawa@kkg.pl  
W: www.kkg.pl