The current report reviews the recent developments on Poland's capital market and provides an overall picture of the current trends and the outlook for the country's equity and debt markets.

Poland’s capital market is the largest and the most developed in the CEE region mainly because of the government's long-term efforts and consistent policy. In the first eight months of 2014, the Warsaw Stock Exchange (WSE) accounted for 66.5% of the number of equity trades via the electronic order book and for 56.6% of the turnover in the region. Poland's T-bond market is the deepest state debt market in CEE and the non-Treasury bond market is growing fast. However, the capital market has faced several major challenges this year, the outcome of which will steer its future direction.

Key points:

- Polish bond and equity markets suffered from the overall withdrawal of funds from emerging markets due to reduced risk appetite in view of the US QE tapering and the escalation of the Russia/Ukraine conflict. As a neighbour to Ukraine, Poland is one of the most affected countries from the crisis, as its geographical proximity plays a crucial role for investors in case of risk growth in the region. In addition to worsened investor sentiment due to the geopolitical crisis, Poland's strong trade relations with Moscow cause significant losses to companies due to the sanctions against and from Russia.
- The ECB's monetary loosening and the highly probable further rate cut by the Polish central bank later this year, is likely to underpin a fall in T-bond yields, which should encourage investing in higher yielding non-Treasury bonds and equities.
- Among important domestic developments, the recent regulatory change that reduced the role of Polish open pension funds on the capital market and the end of the big privatisation deals have contributed to a significant reduction of trading activity and low liquidity on the stock exchange as well as to a considerable slowdown in IPO activity. In addition, Polish corporate earnings have failed to impress despite the significant strengthening of the economy.
- These developments have put pressure on decision-makers to seek ways to support the further development of the WSE and enhance its regional significance. Low liquidity has been defined as the key problem and one of the solutions is set to be a regulatory change, which will stimulate banks to invest in corporate bonds and equities. WSE shelved plans to merge with its biggest regional rival, the Vienna Stock Exchange, saying it will focus on organic growth by developing its international business, increasing attractiveness to market participants, and enhancing shareholder value.

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