

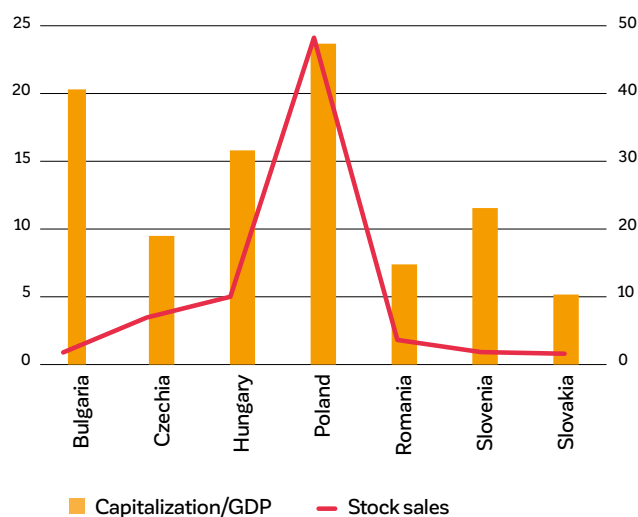
Development of capital markets in the Central and Eastern Europe region

Poland has the best developed capital market among the CEE economies. / Poland is the only country of CEE region classified as a developed market. Czechia, Hungary and Romania are still regarded as emerging markets, while Bulgaria, Croatia, Slovakia and Slovenia are classified as a still lower group – frontier markets. / The first phase of COVID-19-related falls on the Warsaw Stock Exchange occurred already by the end of February, when the WIG index dropped by 14% within five business days.

Poland has the best developed capital market among the analysed CEE economies. Poland has the best developed capital market among the analysed CEE economies. The leading role of our country is visible nominally, which may be explained by a large size of the Polish economy. However, even after the WSE capitalisation is adjusted by GDP, the great significance of the Warsaw stock market in the CEE region is still evident.

Since 24 September 2018 the Polish capital market has been classified as developed, while before it was rated as an emerging market. Thus, Poland found itself in one group with Western Europe countries, such as Germany, France, the Netherlands, Spain, Italy or Great Britain. The rating of our country is positive for all the index components, including gross national product per capita (according to the World Bank data), creditworthiness, regulatory environment, foreign exchange market and capital market (the highest share in the index) and clearing and fiduciary services. Poland is the only country of CEE region classified as a developed market. Czechia, Hungary and Romania (reclassification planned from September 2020) are still regarded as emerging markets,

FIGURE 1. Capitalisation of national companies' stocks in relation to GDP (% – left axis) and volume of stock sales (EUR billion – right axis) for 7 CEE economies*



* Data for 2018

Source: own study by SGH Warsaw School of Economics based on data of ECB.

while Bulgaria, Croatia, Slovakia and Slovenia are classified as a still lower group – frontier markets. Promotion to the group of developed markets means recognition of changes carried out so far, and better perception of the Polish capital market by the investors, also foreign ones.

CAPITAL MARKETS IN CEE AND COVID-19

Capital markets were very quick to respond to the news about COVID-19 pandemic. Stock markets all over the world, including those in the CEE region, saw rapid sales of stocks. This resulted in a sharp drop of market indices, connected with decrease in capitalisation on individual markets. The first phase of stock price drops on the Warsaw Stock Exchange occurred already in the end of February, when the WIG index dropped by 14% within five business days. It was followed by a slight recovery, but due to bad news WIG started to fall again (by 28% in six business days), reaching the lowest value of 37,164.02 (closing value) on 12 March 2020. Since then the index was slowly growing until the end of May. WIG gained in total almost 30%, but is still significantly lower than at the end of 2019, just before the information about the pandemic. Similar trends could be observed on the remaining 7 stock exchanges of the CEE region (Tables 1 and 2). The sale off of stocks automatically translated into greater volume of trading, especially in March 2020. This is presented in Table 3. The only exception is Bulgaria, where the drops in relation to December 2019 are explained by the so-called base effect.

TABLE 1. Dynamics of major market indices in the CEE region between January and May 2020.*

Specification	Value – end of 2019	Dynamics Dec 2019 = 100 (%)				
		1	2	3	4	5
Poland – WIG	57,832.88	2.8	-0.4	-24.2	-21.8	-19.1
Hungary – BUX	46,082.82	-0.7	-1.4	-21.9	-26.3	-21.8
Czech Republic – PX	1,115.63	2.4	-1.3	-23.6	-23.8	-19.6
Slovakia – SAX	351.14	0.5	2.0	-3.0	-6.1	0.3
Romania – BET	9,977.33	1.2	0.5	-18.0	-19.7	-15.2
Bulgaria – SOFIX	568.14	5.3	1.9	-17.2	-20.0	-18.0
Slovenia – SBITOP	921.14	4.9	5.4	-14.9	-15.2	-11.3
Croatia – CROBEX	2,017.43	2.0	-0.6	-25.9	-21.8	-21.5

* Average data for individual months.

Source: own study based on data published by the stock exchanges.

Last year chairmen of stock exchanges of 7 CEE countries (Poland, Czech Republic, Hungary, Slovakia, Romania, Slovenia, Croatia) took a breakthrough decision that will definitely contribute to closer cooperation in our part of Europe. On 4 September 2019 they signed a letter of intent about launching a new index – CEEplus, or the Three Seas index. The initiative was announced on the last year's 29th Economic Forum in Krynica.

The index portfolio comprises over 100 most liquid companies listed on the regulated markets of stock exchanges of the Central and Eastern Europe region: Bratislava, Bucharest, Budapest, Ljubljana, Prague, Warsaw and Zagreb. Companies are included in the index based on the liquidity criterion: their mean trading volume per session has to be at least EUR 90 thousand for 6 consecutive months. The share of the companies in the index is established on the basis of the number of outstanding shares, taking into account certain limits, e.g. the biggest company cannot have a share exceeding 10%, and companies with a share exceeding 5% cannot account for more than a total of 40% of the index. Additionally, companies from one country cannot account for more than 50% of the index portfolio, which in practice refers only to companies listed on the Warsaw Stock Exchange. The base value of the index is 1 000 points and was established pursuant to data of 30 August 2019.

Further changes of indices, capitalisation and trading volume on the capital markets in the CEE region will depend on, among others, the rate of uncertainty and incoming macroeconomic data that will reflect the influence of the pandemic on the real sphere of the economy.

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TABLE 2. Dynamics of capitalisation value of national companies on the major stock exchanges of the CEE region between January and May 2020*

Country	Value (EUR bn) – end of 2019	Dynamics 30 Dec 2019 = 100 (%)				
		1	2	3	4	5
Poland	129.2	-2.0	-14.2	-26.5	-20.1	-16.3
Hungary	29.4	-7.0	-13.0	-32.3	-28.7	-30.3
Czech Republic	23.4	-2.7	-12.6	-24.9	-18.5	-17.2
Slovakia	2.8	-6.3	-5.3	-9.5	-12.1	-10.1
Romania	37.8	-1.0	-10.3	-33.5	-28.0	-23.5
Bulgaria	4.1	0.2	-2.6	-15.1	-11.3	-9.9
Slovenia	7.1	4.2	-2.0	-20.1	-13.3	-9.5
Croatia	19.9	1.7	-1.7	-14.8	-12.0	-9.7

* Data for the end of each month.

Source: own study based on data published by the stock exchanges.

TABLE 3. Dynamics of stock trading volume on the major stock exchanges of the CEE region between January and May 2020*

Country	Value (EUR million) – Dec 2019	Dynamics Dec 2019 = 100 (%)				
		1	2	3	4	5
Poland	3,217.4	31.7	25.8	86.6	71.0	48.9
Hungary	695.0	9.8	31.6	117.9	58.8	12.2
Czech Republic	293.7	-2.9	58.2	182.8	62.4	36.0
Romania	107.6	89.4	68.5	206.4	67.9	37.3
Bulgaria	11.0	-46.3	-53.3	-6.5	-24.0	-50.7
Slovenia	30.2	19.2	12.6	108.1	-2.4	-4.5
Croatia	15.8	41.3	195.0	340.8	117.7	-1.2

*The juxtaposition does not include Slovakia due to negligibly low volume of stock trading.

Source: own study based on data published by the stock exchanges.