CHOSEN ASPECTS OF GLOBALISATION
OF POLISH CAPITAL MARKET

Introduction

Globalisation of economy in its general meaning is a process of creating the world economy which is characterised by a free flow of goods, services and manufacturing factors. Economical dependence between countries was visible when the Wall Street Stock Exchange collapsed in 1929 and the global collapsing came to existence. Nowadays the world economical structure is even more sophisticated and the strength and quantity of the connections show the necessity of common problem solving.

From the 90s due to liquidation of a separate system of socialist countries we can talk about a diffusion of a common economy model, which accelerates the globalisation process. Its main features are: world currency system, development of integration structures, growth of international corporations, companies and capital connections, consolidations of institutions, establishing and strengthening organisations which create the economical world order and unification of global law. Apart from the national level we can also distinguish the regional level of globalisation. One of the circles of Polish economy, which obviously is in a process of globalisation (regional as well as international) is Polish capital market, which consists of security and banking markets

In this article we will present chosen aspects of globalisation which are specific for this market since Poland started to follow the way of transformation. We will specify them from the perspective of the suppliers of capital, takers and other organising and regulating agents. We will focus on the existing connections, similarities, unified solutions, international co-operation and nets of capital connections.

We can distinguish several fields where one may observe globalisation processes. There is globalisation with relation to: institutions (combining several separate subjects into one and making the new one more powerful), available instruments (introducing completely new instruments, which are present on the global markets for some time), flows of capital. Globalisation processes are also driven by changes in Polish law or influence creation of completely new rules. This unification of law leads to the growing similarity between economies. However, the fields listed above do not exist separately from the others, mostly they penetrate one another.

1. Institutional globalisation

Institutional globalisation is understood as a co-operation or even a uniting of separate institutions into one in order to become more powerful and gain more possibilities. Many institutions are forced to exceed the borders of their own country (Zarządzanie firmą, 1999). Integration process of capital markets of different countries leads to creation of an effective market of exchanging information, downsizing the costs as well as unifying technical, legal and social aspects of their activities in associated countries. This process brings lots of opportunities especially for the developing countries.
like Poland. We can base on the solutions that had already been implemented in other economies. This can prevent us from making mistakes that had been discovered in some situations. This gives a big advantage for a faster development. On the other hand the disadvantage is that there are no national inventions, only following others.

Warsaw Stock Exchange is a crucial element of Polish capital market. The native companies regard it not only as a place of gaining capital for their activities but also as an indicator of a prestige of a quoted company. On the other hand many others, also foreign firms, see the opportunity to invest their money and carry on an active investing to improve their own financial results. Therefore the development of Stock Exchange, a continuing progress, implementing new solutions is a very important factor for a development of the whole economy, which at the same time makes it global.

The history of stock exchanges in Poland goes back to 1817 when the first and biggest Polish Stock Exchange was opened in Warsaw. Between the First and Second World War there were also smaller ones in Katowice, Kraków, Lwów, Łódź, Poznań and Wilno. After 1945 there were attempts to re-activate the activity of Polish Stock Exchange but its existence was not acceptable in the imposed system of controlled economy. In September 1989 a new, non-communistic government started a programme of re-building free market economy. A break of fifty years in functioning of Polish capital market created a situation of a total lack of institutions and proper laws. In practice it meant that there was no experience, no specialised knowledge, but it also created a huge opportunity for development. Considering a few alternative solutions it was decided to use the modern foreign legal and institutional regulations. The observed standardisation and globalisation of capital markets all over the world did not give any chances for original national models. The advantage of this choice was and still is that the whole process was much faster and the solutions that were adapted were already checked. Creating new procedures in just few months was possible due to help of Société de Bourses Françaises (French Stock Exchange) and Central French Deposit SICOVAM. This way Poland adopted the French model.

Appreciation of the model used in Poland was declared in December 1991 when Warsaw Stock Exchange (WSE) was appointed a correspondent of FIBV (Fédération Internationale des Bourses de Valeurs). In 1994 WSE became a full member of this organisation, which groups all of the most important stock exchanges in the world. Since 1992 WSE has been a correspondent of Federation of European Stock Exchanges (FESE). WSE was also appointed a member of IOSCO (International Organisation of Securities Commissions). Another example of globalisation was acknowledging WSE by American Securities and Exchange Commission in 1997. It stated that WSE is fully prepared to meet the investing requirements of American financial institutions. In this category we are the first country of our region which gained such a status. In August 2001 an agreement of co-operation was signed with National Stock Exchange of Lithuania and in February 2002 with international stock exchange alliance called Euronext about mutual membership and access. It allows members of WSE an access to instruments quoted in Euronext and the other way round. Due to such a solution our stock exchange entered the global process of consolidation of capital market.

All these activities have one thing in common – they make WSE closer with other stock exchanges and start the wider co-operation with them. A very important step forward was made by signing an agreement with London and Paris Stock Exchanges.

1 www.gpw.com.pl
about co-operation and information exchange regarding the stocks quoted on those markets at the same time. This is the opportunity for Polish capital market to enter a European dealing floor.

The running consolidation process of stock exchanges itself must be characterized as the biggest thread for prosperity of Polish capital market and WSE in particular. If WSE did not join the process its significance would be marginalised and majority of trade of polish shares would move directly to big European, American or worldwide trading platforms.

Trying to provide and obtain full information is another act of globalisation and a chance for the Polish capital market to gain interesting solutions. WSE shows the quotations in real time in the Reuters service. Apart from the basic news it shows also the value of indexes and sub-indexes (like MIDWIG) and TechWIG (which construction is based on NASDAQ - National Association of Securities Dealers Automated Quotations).

One of the important events was implementing in November 2000 a new quotation system – WARSET. The old one was no longer up to European standards. The strength of the current system is that it offers to investors a whole new variety of orders and makes the net work fast because orders are sent directly to the floor. It is not a new system – it is used also in many other countries so it is compatible with solutions of other stock exchanges worldwide.

The WSE is not the only institution in Poland where one can buy and sell financial instruments. There is also Central Offers Board (CeTO) and Warsaw Commodity Market and Polish Financial Market.

Central Offers Board (modelled on the American Other The Counter market) was created in February 1996 and is designed especially for small businesses wanting to gain capital for the development. It is also a place where bonds are listed and one of CeTo projects worth to be mentioned is establishment of Electronic Treasury Securities Market.

The main shareholder and partner is Warsaw Stock Exchange. Such an owner is a chance for development as it may help to arrange a broader market. On the other hand when many foreign stock exchanges consolidate and globalize their influence it is doubtful that the shares should be quoted on more than market. The choice would be to connect their efforts and create one strong institution.

Warsaw Commodity Market (WCM) S.A was created on 25th July 1995. From the very beginning it co-operated closely with the biggest commodity market in the world - Chicago Board of Trade. In October 2000 WCM went through the process of privatisation, thanks to which 98 % of the shareholders’ equity is in the hands of private shareholders. In 2001 there was a consolidation of the regional commodity markets in which WCM took an active part and became the biggest institution of its kind in the country and one of the biggest strengths of WCM is a possibility to make business via Internet. Such features will certainly allow development in the future and implementation of further improvements – this is also an opportunity to start co-operation with similar foreign institutions.

Securities and Exchange Commission (SEC) is a board created to control and to regulate the functioning of national capital market. Practically from the beginning of its existence it engages into development of international co-operation. Nowadays it is a member of International Organisation of Securities Commissions (IOSCO). It signed more than a dozen of mutual agreements, which allow exchanging information about controlled firms with other controlling institutions. It gives the opportunity to exchange information with all the countries where Euronext operates.
National Depository for Securities (NDS) is a central institution in Poland which is responsible for keeping and registering publicly traded securities, collecting interest and dividends, issuing depository receipts, facilitating settlement and clearing of transactions. Globalisation in this institution is visible mostly in basing the functioning on the best foreign patterns. NDS works with international companies and institutions. One of them is CEECSDA (Central and Eastern European Central Securities Depositories and Clearing Houses Association). Another one is ANNA (Association of National Numbering Agencies). Following the international trends Deposit works on implementing new depository and clearing system – fully compatible with European demands.

2. Globalisation of instruments

Globalisation of instruments, in some aspects closely related to institutional globalisation, depends on implementing completely new instruments to the market. Those instruments are present on the global markets and their introduction to our market is an attempt to make it more and more similar to the foreign ones.

Since 1991 (the year when WSE was opened) there has been made a huge progress on this field. On the first quotation there were only 5 stocks and quotation took place only once a week. Then steadily more and more instruments and papers appeared on the floor. Nowadays there are more than 200 stocks. The next step forward is to quote also shares of foreign companies.

On WSE there are currently listed also many various bonds like: government bonds, corporation bonds, municipal bonds and bonds issued in National Funds Programme organised by European Bank of Investments (EBI). This last fact shows how far international our capital market is becoming.

CeTO market is less developed - there are only about more than 20 stocks and several kinds of corporate bonds, but this numbers increase steadily.

One of interesting instruments introduced to WSE is short selling. In case of this risky and complicated instrument the order of buying and sale is reversed. First the investor sells stocks which are borrowed from a broker. Then he re-buys them to repay the debt, hopefully at the lower price. Although this instrument has been present for three years it is not widely used, but it is a field that can be explored and developed in the future to the stage it is developed on the western markets.

Another group of instruments widely used on developed markets is derivatives. In Poland they are becoming more and more popular and they possess the biggest potential for gaining a still greater importance. On Polish market we find currently futures and forward contracts, warrants and options. Out of two types of contracts, futures contracts play bigger role on the market.

Nowadays on WSE and CeTO there are index, shares/stocks and currency contracts though the last ones lack liquidity. WSE is ready to present new contracts if only the investors showed any specific demand. Probably in the nearest future introduction of share and index options will be announced. In the filed of derivatives one may observe how internationalised our market is as WSE is a leader in Central and Eastern Europe in a volume of futures traded.

Another instrument which is very popular in western countries is mortgage bond. Such bonds are issued by designated mortgage banks and the basis of the issue is the debt of issuer protected by the mortgage on the property. Polish market of mortgage bonds is in a young state of development but has huge possibilities to make a big progress in a situation of shortages of flats in Poland.
3. Globalisation of regulations

Since Poland entered the path of transformation into market economy Polish law has changed several times from acts setting market economy through acts making our law similar to international law (especially European) until reaching the level of accessing European Union and adapting the law of this institution. Legislation processes that are taking place are an example of globalisation and internationalisation because they introduce in Poland world regulations due to institutions, instruments and functioning rules of capital market. Such a way of globalizing the market is mostly the source of development opportunities because it creates the basis of existence of the market in the first place and then implements solutions that had been already used and checked. Those solutions attract foreign investors, make it more modern and much safer and also unify the rules so that investing becomes easier.

Since from the very beginning our legal and organisational solutions were mostly in conformity with world rules because the created law was based almost on all the EU directives (Sytniewski, 2000), and market controlling system modelled on American solutions and on EU directives (Charakterystyka i regulacje…, 2002) as well.

First legal step that enabled formation of regulated Polish capital market similar to the market economy countries was enacting on 22nd March 1991 the law ‘Law on a public trade of securities and trust funds’. This act allowed the globalisation of capital flows first at the regional level and then at the international level. WSE has steadily become the most important place of securities trade in the region.

The rules delivered by this act were partly changed to harmonise them with EU solutions by ‘Law on a public trade of securities’, enacted on 21st August 1997. New act, widening the definition of securities, gave the opportunity to introduce subscription rights, depository receipts and securities issued on the basis of foreign law.

The amendment of the above act allowed issuing Polish depository receipts. Introduced regulations of abroad issues and dual listing created the possibility to quote foreign securities in Poland and trading Polish stocks abroad. The act finally regulated all the matters concerning the short sale. Next change in the law regulating Polish capital market took place in 1998 and brought further opportunities – new instruments (e.g. securities issued by foreign companies), institutions and investing techniques.

All those solutions visibly widened the circle of available instruments for native and foreign investors. Due to the ‘Bonds’ Act’ enacted in 1995 investors in Poland can put their money in almost global range of the most important financial instruments and this is without a question the most important aspect which enables the development.

The acts brought also changes that were to improve investors’ protection. The opportunities for developing the market created by high protection and clear law were appreciated by American Securities and Exchange Commission which announced WSE to be the first one in our region to meet the requirements of American financial institutions (Sytniewski, 2000).

Other aspects of higher protection are regulations of new Investing Funds Act of 1997, which created a new legal construction of a fund (Socha, 2000), separating managers from the capital that had been given to the fund.

The possibility to create new fund’s types was given and the significance of individual investors in Poland was strengthened as it takes place in developed countries. In 1997 there was also enacted the rules, which became the basis for creation of pension
funds. Nowadays both of the mentioned institutions are active investors on capital market thus chance for the further development.

We should also remember about bigger competition between brokerage houses as another opportunity of attracting new investors. Foreign brokerage houses can also be active on Polish capital market if they have an agreement of Polish Securities and Exchange Commission.

As the only threat in this field one can recognise taxation of profits gained on the capital market. It is conformable to the world tendencies but the dividend and deposit tax as well as planned to be introduced next year 19% tax of the income gained on the Stock Exchange may discourage potential investors from putting their money in capital market.

The last regulation having the biggest influence on Polish capital market globalisation is The Foreign Currency Exchange Act (27th July 2002). It abolishes lots of limits in capital flow between Poland and other countries (Pajewska, 2003). This is certainly the chance for development because it gives the opportunity to invest freely on EU and OECD markets and the other way round without any special permission. Thanks to this amendment Poles have got a free access to global securities market and to almost all stock exchanges.

The other change is the possibility to open an investment account and use the services of foreign brokerage houses, which means lower interests, quicker access and sometimes higher quality of services.

Given by the law permission to possess foreign bank account is another act of globalisation and liberalisation worth to underline.

Apart from examples of globalisation given above one can also observe liberalisation tendencies in banking industry, where EU banks will be allowed to operate in Poland and Polish banks to enter the EU market. They also give the access non-banking institutions to this industry (Kywult, Zduńczyk, 2002).

4. Capital relationship globalisation

There are some manifestations of globalisation in this area. Firstly one may observe considerable involvement of foreign capital in either bonds or shares in Polish market. The involvement includes also depository receipts issued by domestic companies and issue of eurobonds as well. One should notice also changes in polish banking system and known from global markets consolidating processes among entities involved in security market.

One of the clearest manifestations of Polish market globalisation is a share of foreign investors in turnover of Polish stock exchange. The share amounted to 38%, 39%, 34%, 28%, 34% and 35% (Problem i wyzwania..., 2003) in consecutive years between 1997 and 2002. As far as the stake of foreign capital invested in Polish companies listed on WSE is concerned it is now majority one reaching 55% (Buszko, 2003) and mainly in big companies. This is a striking example of the market internationalisation, which was achieved mainly by a considerable inflow of foreign investment in the last decade, amounting to from 1.5 billion zloty to 10.7 billion zloty. Such situation is an opportunity on one hand and threat on the other one. Capital inflow makes our market more liquid, the stock valuation should be more precise and direct involvement in companies gives them the necessary know-how. The threat that may be seen is a loss of control by Poles over Polish companies, what is an inevitable result of running an open economy.

Not only foreigners were buying shares in Warsaw, also Polish companies listed on WSE offered their shares to foreign investors by issuing depository receipts. The first
company which decided to do so was Bank Gdański. In December 1995 a depository contract was signed with the Bank of New York, which is a depository bank chosen most often during the issue programme. Until now Agora, Bank Handlowy, BIG-BG, Exbud, KGHM, Kredyt Bank PBI, Mostostal Export, Mostostal Warszawa, Netia, Orfe, PBK, Pekao, PKN Orlen, Prokom, Softbank, Stalexport, Telekomunikacja Polska and Universal decided to issue their 2 to 33% as ADR or GDR. London Stock Exchange, American PORTAL, OTC,NASDAQ and Luxembourg Stock Exchange (Deryło, Nawrot, Rozłucki, 2003) are the markets where their DRs are listed. DR issue is perceived by companies as another opportunity to gain capital for development, increase a company’s prestige and find more accurate valuation. On the other hand some people may be concerned about the fact that moving quotations abroad companies decrease turnover volume on WSE, which is an unfavourable process.

There is also chance for increasing the turnover on WSE as it is very likely that Poles will be able to buy on Polish stock exchange shares of foreign companies. Recently (Krywult, Zduńczyk, 2002) Bank Austria Creditanstalt and Stream Communications announced their plans to enter WSE.

The strongest changes in ownership structure of Polish companies active on the capital market took place in Polish banks where currently 68,3% of assets and 79% of funds of banking industry are in hands of foreign owners (Krywult, Zduńczyk, 2002). This is a result of an industry privatisation when WBK and Bank Zachodni was sold to Irish Allied Irish Bank, Pekao S.A. is now a property of Italian Unicredit, Bank Śląski belongs to Dutch ING, Bank Handlowy to CitiGroup, Kredyt Bank to KBC Bank, Commerzbank is an investor in BRE Bank, and Banco Commercial Portugues with Eureko in BIG Bank Gdański. The other globalisation manifestations in the industry are mergers and acquisitions of polish banks which is most often due to global ownership changes. They resulted in a merger of Bank Zachodni with WBK, Polish branch of ING Bank with Bank Śląski, Citibank Polska with Bank Handlowy as an effect of consolidations carried out by their owners, last year merger of BPH with PBK as consequence of acquisition of group of Bank Austria done by Bayerische Hypo- und Vereinsbank group, and also a sale of Inteligo to PKO BP by Bank Gesellschaft Berlin.

Consolidation processes touched also other entities of the capital market. First mergers among pension funds took place in 2001 when Epoka, Rodzina and Pioneer were acquired by Pekao PTE, Arka Invesco merged with Pocztylione and Skarbiec with Ego. Polsat, Dom, Kredyt Bank, Pocztylione and Sampo are thinking about sale or merger. The merger is very likely in case of PTE Dom and PTE Kredyt Bank, because of the same owner – Belgian KBC.

First merger on investment fund market was in case of two funds managed by Union Investment TFI – UniDynamic Europa FIO and UniXXI Wiek FIO (Miziolek, 2003).

Acquisition and merger activities although decrease diversity of companies and competition they create strong institutions able to survive and serve clients on a wide market.

Capital relationship is globalised also in case of bonds issued either by the Treasury or by some of the Polish companies. First eurobonds worth 250 mln USD was issued by the Treasury in 1995 (Nacewski, Zabielski, 2000). Further offerings took place every year, except 1998 and 1999 and their worth has been increasing. Foreign investors have been buying Polish bonds also directly on tenders.
Conclusions

The article presents chosen, in authors’ opinion the most important manifestations of globalisation of the Polish capital market. Enumerated aspects are not all that can be identified. This sophisticated and complex process manifests itself also in the fact of presence in Poland big international financial corporations, significant correlation between investing attitude of Polish and international (mainly American) investors, mergers on factoring market which follow international processes, cooperative banks consolidation processes an also development of e-banking.

It seems that one may characterize globalisation processes of our market as deeply joined with integration of Poland with EU. They manifest itself mainly in activities of the most important institutions of the market and in harmonizing our regulations with EU legislation. Due to integration process we are perceived by international investors as a stable and reliable partner what attracts to Poland foreign capital in form either of long-term equity involvement or as short-term investments in Polish instruments. Another result of this is a low difficulty in gaining loans abroad.

Our considerably developed capital market makes us a leader in the region and some foreign companies are thinking of public trading of their shares on our stock exchange.

In spite of substantial legislative changes the harmonisation process has not ended yet and we may still expect some changes which will make our law even more similar to international solutions.

On the Polish market one may see reflections of international trends regarding new financial instruments, consolidations and ownership changes. Due to this it is very likely that we will see in Poland further dynamic development of derivative and hybrid instruments, new public offerings and a greater popularity and importance of corporate bonds.

The main world tendency on capital market is a consolidation of international stock exchanges. In this process of creating many worldwide alliance takes part also our stock exchange by signing an agreement with Euronext. The further step may be a merger with this company, what in case of realisation of joint-venture project with NYSE consisting in creation of 24 hour global trading floor would firmly joined WSE in global net of stock exchanges.

Summing up one should state that facts given in the article support the thesis saying that the Polish capital market really is in process of globalisation with all its consequences – opportunities and threats. Whether Poland takes advantage of opportunities and eliminates unfavourable influences depends on all participants and regulating agents of this market.

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