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### How small markets can fight liquidity issues?



Ivana Galić, CEO, Budapest, 26.5.2016.



**Consequences**

- Reduced market liquidity
- Lack of best execution
- Increased transaction costs
- Reduced market depth
- Lack of resilience in times of stress

**Internal and External Factors**

**We decided to fight.**

- SEE LINK project was supported and largely funded by ERM's own's funds
- Company founded in 2016 due to low return
- Simple local companies tend to perform well
- Simple idea, innovation
- One can talk to your stakeholders, members (as they are sensitive through hard times)

**Member Exchanges**

**How does it work?**

**What do we expect for future?**

- Great interest from exchanges to build links to be served
- Making our members to have something
- Start of formalisation in terms of EU-regulation, rules, laws
- Self-funded quick growth period is coming when market is really

**Many obstacles, different strategies to overcome them**

# How small markets can fight liquidity issues?



**Ivana Gažić, CEO, Budapest, 26.5.2016.**



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### How small markets can fight liquidity issues?



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#### Consequences

- Undercapitalisation
- Lack of local resources
- Lack of local financial products
- Lack of local expertise
- Lack of resources to support innovation
- Lack of resources to support innovation

#### Internal and External Finance

#### We decided to fight.

- SEE LINK project was supported and largely funded by ESM's own's funds
- Company founded in 2010 due to low return
- Simple local companies tend to perform well
- Simple idea, innovation
- One can talk to your stakeholders, members (as they are sensitive through hard times)

#### Member Exchanges

#### How does it work?

#### What do we expect for future?

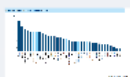
- Great interest from exchanges to build teams to be served
- Making our members to have something
- Start of harmonisation in terms of CEI's regulations
- Self-funded quick growth period is certainly needed to apply

**Many obstacles, different strategies to overcome them**

# Internal and External "Enemies"

**Many exchanges in our region have smaller role in local economy that they should have.**

- Poor economic performance of individual economies
- Lack of privatization efforts due to transitional political model
- Poor financial literacy
- Bankcentric financing model
- History of privatization created companies with small free float
- Mandatory listing resulted in lack of quality issues on the exchanges
- Pension fund industry - underdeveloped or harmed by state measures
- Due to wear financial system, economies are much more vulnerable to external shocks
- Sit and wait strategy does not help



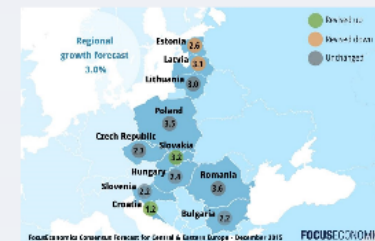
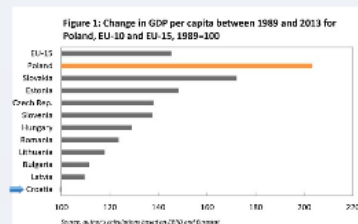
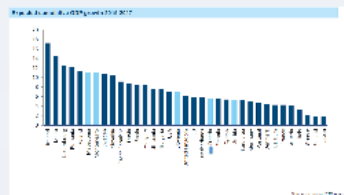
**We are small, but applying rules of the game designed for big ones.**

- Legislation created on EU level is suitable for big entities, not small ones (laws on transparency, market operators, investment firms)
- MIFID II will affect exchanges in extensive way, not totally clear yet
- Strong consolidation in regulated markets world
- Cost of technology is becoming unbearable for small exchanges
- Capital market union

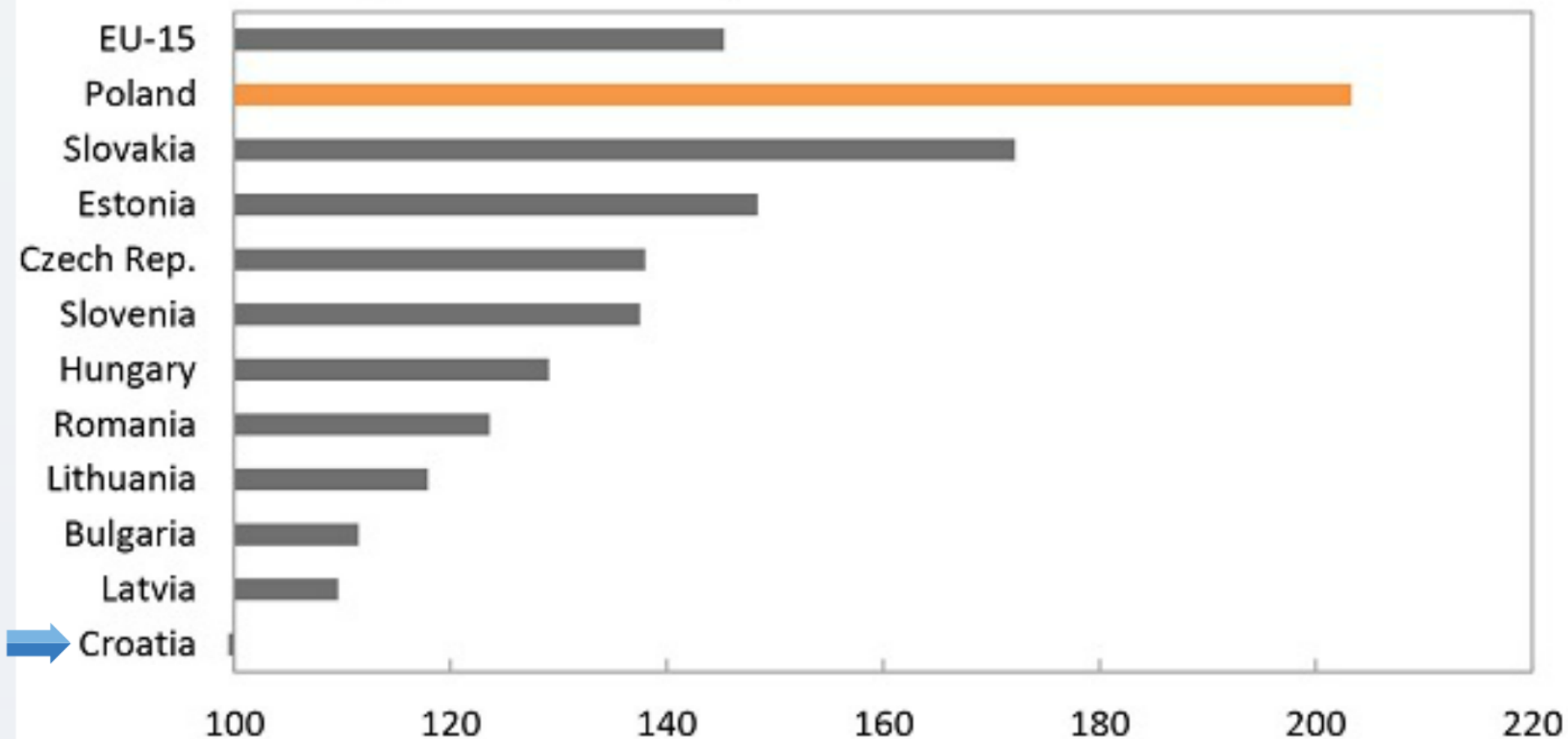


## Many exchanges in our region have smaller role in local economy that they should have.

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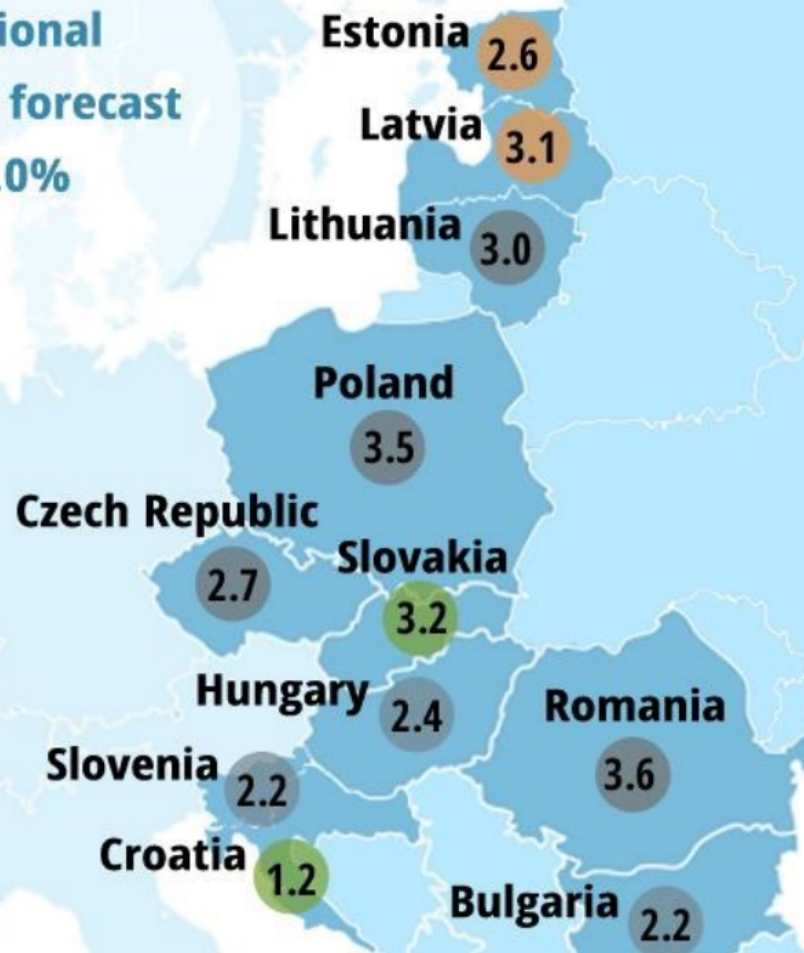
**Figure 1: Change in GDP per capita between 1989 and 2013 for Poland, EU-10 and EU-15, 1989=100**



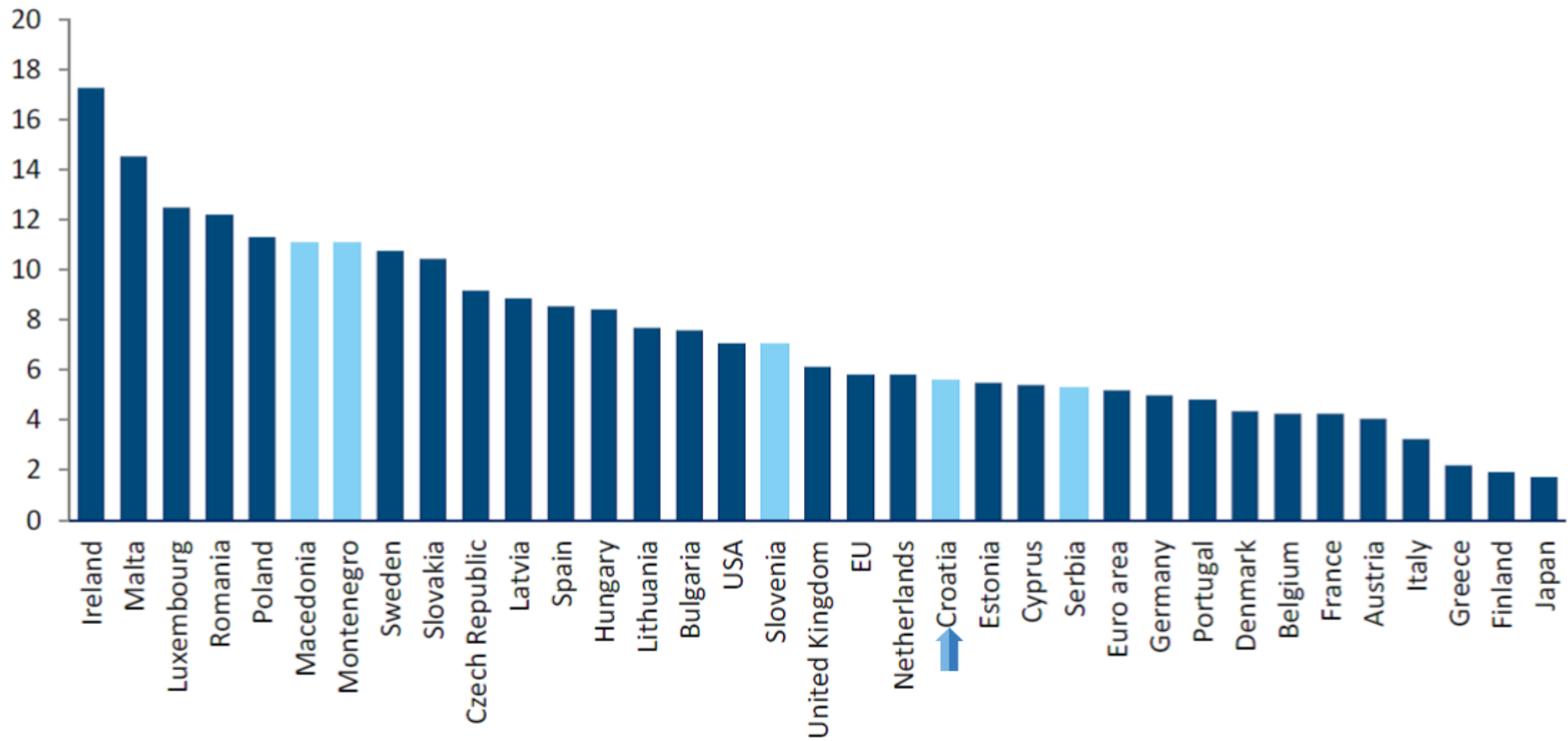
*Source: author's calculations based on EBRD and Eurostat*

**Regional  
growth forecast  
3.0%**

- Revised up
- Revised down
- Unchanged



## Expected cumulative GDP growth 2015-2017



Source: EC spring 2016 forecast



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# Consequences

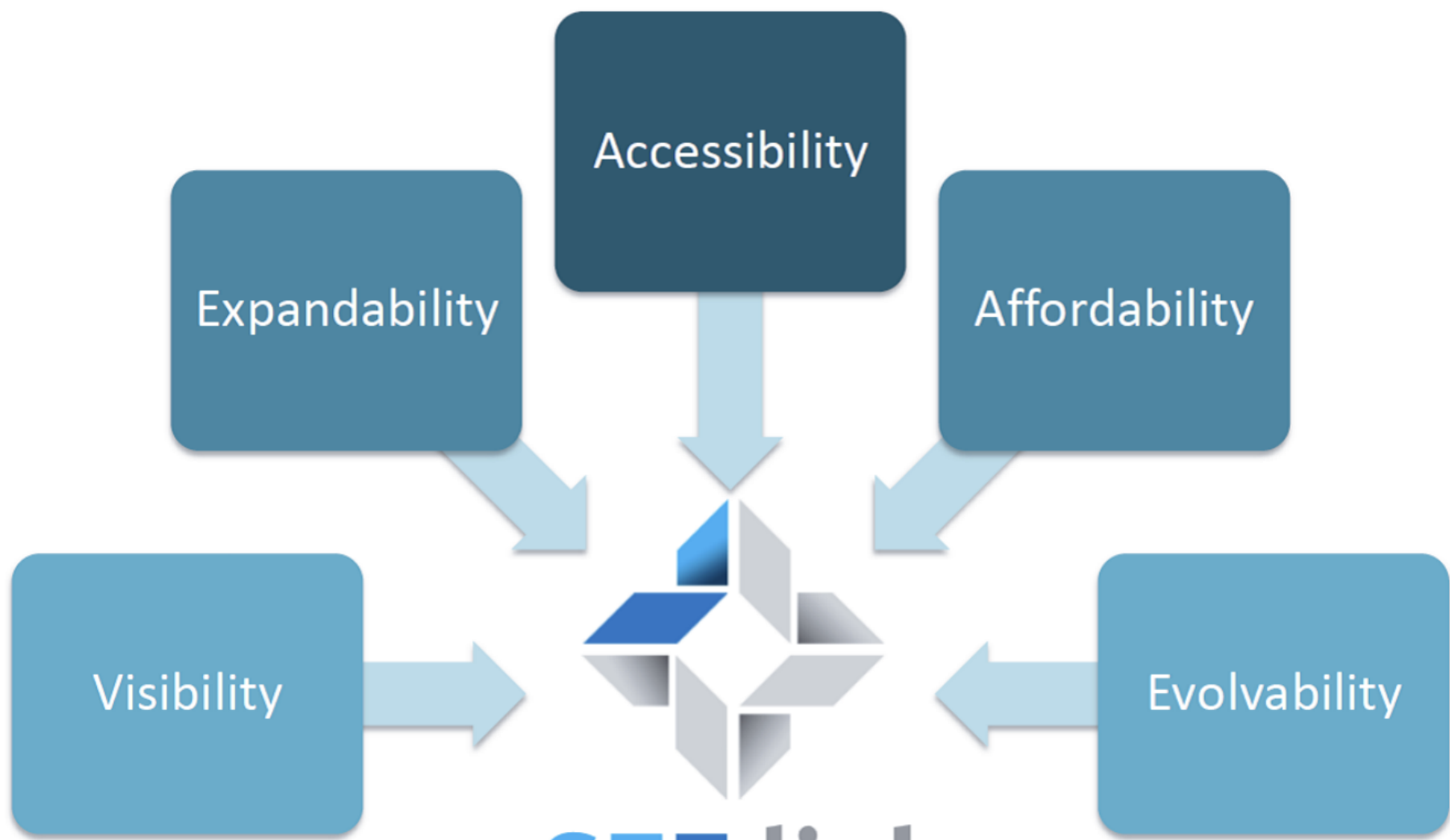
- Inadequate markets to serve needs of local economies
- So small and from different political and economical backgrounds that we are not able to consolidate
- Lack of resources to develop undermine business performance of exchanges in long term



# We decided to fight.

- SEE LINK project was supported and largely funded by EBRD's donor's funds
- Company founded in Macedonia due to tax reason
- Largely local companies hired to perform work
- Simple idea, innovation
- Give something to your stakeholders (members) so that they can survive through hard times





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# Member Exchanges

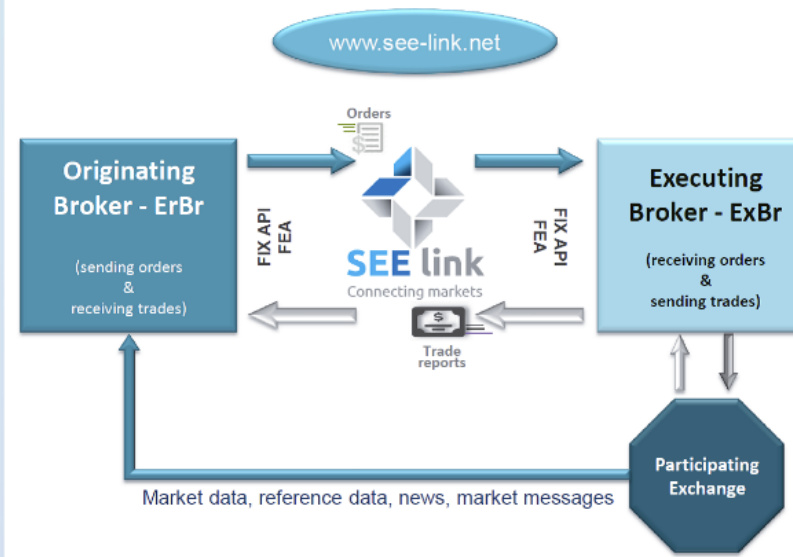
## Founders



## New members

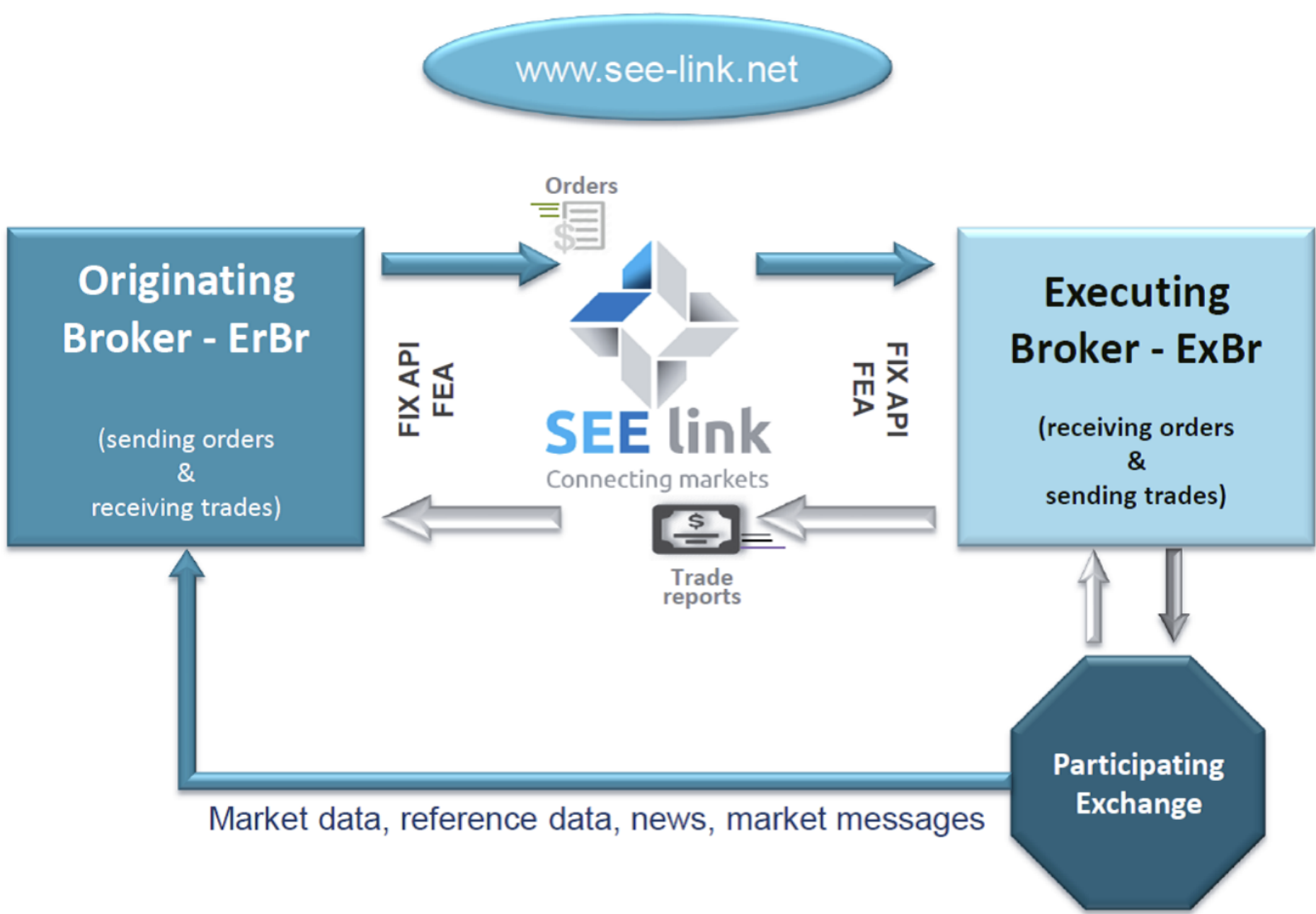


# How does it work?

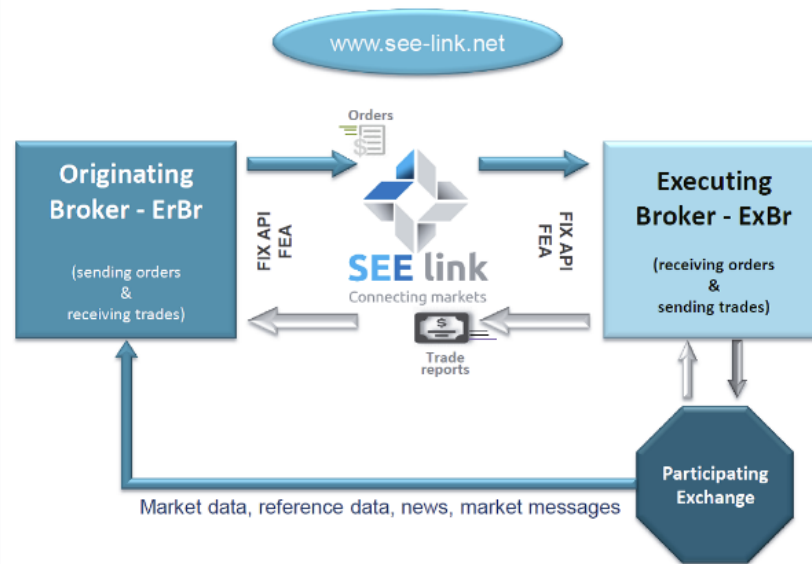


## Practical problems:

- Clearing and settlement
- Language
- Brokers
- Lack of internal resources



# How does it work?



## Practical problems:

- Clearing and settlement
- Language
- Brokers
- Lack of internal resources



## What do we expect for future?

- Great interest from exchanges: technical issues to be solved
- Mobilizing our membership base: demanding
- Start of harmonization in terms of C&S: might take years
- Self financing once grace period is over: which model to apply



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**Consequences**

- Reduced market liquidity
- Lack of best execution
- Increased transaction costs
- Reduced market transparency
- Lack of investor confidence
- Reduced market resilience

**Internal and External "Solutions"**

**We decided to fight.**

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**Member Exchanges**

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**What do we expect for future?**

- Great interest from exchanges to build links to be served
- Making our members to have something
- Start of formalisation in terms of CSRs might take years
- Self-funded quick gross period is certainly needed to apply

**Many obstacles, different strategies to overcome them**