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# The factors of the attractiveness of the capital market of Lithuania

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**Abstract**

The integration of world financial markets, the development of new information technologies, the availability and dependability of information and the competitiveness of national stock exchanges have considerably altered the functioning of capital markets within individual countries. Scientific researches indicate the recent worldwide increase in the number of enterprises with stock listings outside their national stock exchanges. The present article attempts to summarize the characteristics of attracting investments into the capital markets of European and BRIC countries as well as Lithuania, while laying emphasis on the behavior of issuers and the practice of initial public offering. It also gives an evaluation to the research performed by means of in-depth interview method, of the attitude of the existing as well as potential investors towards the existing and prospective possibilities in the IPO stock exchange of Lithuania. The article offers an evaluation of both the inner and outer factors, i.e. economic and legal, as well as conditions, the improvement of which might increase the attractiveness of Lithuanian capital market.


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*Keywords:* Capital market; initial public offering; stock exchange; listing requirements.

## 1. Introduction

The effectiveness of the capital market is an important factor in determining the economy growth of a country, by distributing capital surplus in accordance with greatest needs. The capital market as part of financial system performs three main functions, i.e. mobilizes savings, decreases the misbalance of information between the borrowers and lenders, and gives means for risk management. The development level and effectiveness of the

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capital market are important criteria which indicate the level of the development of a country, its competitiveness, as well as the opportunities for the investors to attract money should the need arise.

The problems and effectiveness of the capital market involve many factors, such as legal requirements, tax environment, behavior of the investors, the economic situation of the country, market liquidity and depth, the availability and transparency of information, the education and available knowledge of the participants of the market, the influence of globalization, as well as the competitiveness created by other countries offering services of their own markets, and many more. While analyzing Lithuanian capital market emphasis should be made on the identification of the existing problems and prospects of the capital market, on the development of the best available investment attracting models and complex problem solving alternatives, as well as on the insight of the already existing scientific studies. With the improvement of the environment and effectiveness of the capital market of the country its competitiveness would considerably expand; the conditions for the participants of the market to attract investments would improve due to the reduced costs of the attracted investments and the bigger part of the added value created with the investments staying within the country.

**The research methods** used for performing research includes analysis of literature and statistical data and the review of expert opinions on the capital market attractiveness factors.

**The object of the study** is Lithuanian capital market including both equity securities (stock market) and debt securities (bond market).

**The target** is to identify the problems of investment attraction into Lithuanian capital market and to offer constructive problem solving alternatives.

## 2. The peculiarities of investment attraction in the capital markets under the conditions of globalization

Rapid growth of capital markets opens vast possibilities for companies to attract capital. One of the most important spheres of finance management of a company is the selection of the structure of the sources of financing. The growth of a company is influenced by its capital expenses which occur due to the efficiency with which the debt capital is being used. When a company issues shares during the initial public offering (IPO) it attracts capital flows. Most efficiently it can be used for stimulating new investments in developing industries, where the value of mortgaged assets is insufficient and the investment return is vague (Plakys & Ambrusevič, 2009). The decisions of company listings are influenced by the competition among stock-exchanges for attracting shares from other countries especially with emerging markets. Such competition mostly shows itself in the relation between tax and listing conditions in the hope of the largest long-term profit (Chemmanur & Tian, 2012). The behavior of a company while making the decision in favor of a stock exchange is determined by a number of factors, the identification of which could help systemize the results of various studies published in scientific literature as well as perform a new quality analysis of the listing practice of Lithuanian companies.

The process of selecting a stock exchange starts with a vision. The following factors should be taken into consideration by a company: i) the selection of a country of the stock-exchange (home country or foreign), ii) the listing requirements of the stock exchanged under consideration, iii) prospective profit for the company, iv) the reputation of the stock exchange under consideration.

The decision made about the listing initiates relations between the company and the stock exchange. Thus, the time factor in the decision making process should be taken into consideration (Figure 1).

Ratio $(t_1-t_0)/(t_2-t_1)$ of the vision of a company listing and the relations between the company and the stock exchange, could serve as a criterion for the evaluation of the ability of the stock exchange to attract the company and maintain cooperation. The goal of every stock exchange is to attract as many companies as possible for the listing. Therefore, stock exchanges should consider the following factors: i) attaching the reputation of the stock exchange to the listing standards and their influence in the companies' choice making decision; ii) the competitiveness of the stock exchange; iii) the best surveillance structure of the stock exchange; iv) the ability of the stock exchange to attract foreign companies. The relations between a company and a stock exchange can be analyzed from the perspective of expectations: both the company and the stock exchange expect profit (Lee, 2012).

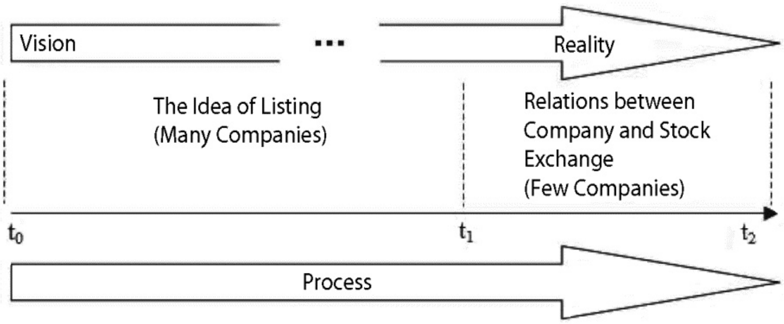


Fig. 1. The process of establishing and maintaining relations between a company and a stock exchange (Source: compiled by the authors)

Companies in search for new markets under the conditions of entire globalization show considerable qualitative changes in their investment behavior. The preliminary results of the studies published in scientific literature indicate a recent growth in the number of companies choosing to list their shares in foreign stock exchanges. For example, many European companies list their shares in the New York Stock Exchange (NYSE). Companies from the countries of emerging markets or economies, such as India, China, and Israel, list their shares in various stock exchanges of Europe, Asia, and the US (Mudambi, Mudambi, Khurshed, & Goergen, 2012; Luo, Fang, & Esqueda, 2012; Lau & Lin, 2012). As early as before the beginning of the financial crisis experts have stated that the behavior of the issuers is determined by a number of factors, the assessment of which is extremely complicated due to the differences in the issuers approach towards the prestige of the stock exchange, listing fees, rules, and various requirements (Bayar & Chemmanur, 2011). Future investors are cautious and before deciding to invest, try to thoroughly analyze the advantages and disadvantages of stock exchanges.

The financial crisis of 2008 has confused the investment laws earlier discovered by the scientists, and has altered the traditional behavioral logics of the issuers and investors: listing in foreign stock exchanges still remains one of the most important factors influencing world economy under the conditions of globalization (Dimovski, Philavanh & Brooks, 2011). For example, the BRIC countries and other emerging markets offer more opportunities to attract issuers to the financial centers in their respective countries. The geography of investment banks also show considerable changes, such as: after multiple failures, the controlling interests of a number of US banks have shifted into the hands of Asian investors. The growing Chinese economy increases the demand to strengthen its securities market by opening it to foreign investors and issuers. Thus, the global foreign capital market and the geography of financial centers are considerably affected. The reorganization of investment banks which has followed the financial crisis, adds more uncertainty to the future of the IPO market. The tendency of the globalization of financial markets being particularly obvious in the recent years creates the need for an integral global legal basis which would regulate the securities market. The coordination of the existing methods of the regulation of capital markets should be based on the deep analysis of various economic systems of finance management and the behavior of issuers (Chemmanur & Krishnan, 2012; Abrahamson, Jenkinson, & Jones, 2011; Brau, Couch, & Sutton, 2012). Therefore, having in mind the process of globalization and the interests of individual countries, the peculiarities of investment attraction in capital markets require a more complex definition.

## 3. The problems of Lithuanian capital market and the availability of their analysis

The survey of the problems of Lithuanian issuers seeking a listing in the Vilnius securities stock exchange and executing initial public offering is being done in the context of the development of the securities stock exchanges of the three Baltic States. According to Lieksnis (2011), the securities stock exchanges of the Baltic States have undergone many changes related to the process of globalization. Those stock exchanges have become part of the OMX group of the world largest securities stock exchange company NASDAQ. According to the 2010 figures, this group had 3700 listed companies, while the three Baltic stock markets and the Central Depository was managed by

NASDAQ OMX. By the type of management the Central Stock Depository was considered to be exceptional. In the middle of the same year the Baltic Main list had 36 public enterprises, with another 54 on the Baltic Secondary list. Back then it was maintained that stock exchanges lacked sufficient turnover and there was a shortage of new listing positions. The same author thinks that the main tendency of enhancing the attractiveness of investments in shares should be the study of how the methods determining profitability are being applied in the Baltic stock exchanges.

The NASDAQ OMX group manages the entire US NASDAQ stock exchange, the NASDAQ Nordic (the Helsinki, Copenhagen, Stockholm, and Iceland stock exchanges), NASDAQ Baltic (the Vilnius, Riga, and Tallinn stock exchanges), the "First North", and the "First North Baltic" (with unlisted shares). Notably, the NASDAQ market is the world leader in the trade of electronics. According to Gudonytė and Tvaronavičienė (2012), globalization has an increasing effect on stock markets due to which regional and national stock exchanges decline. Intensive competition forces securities stock exchanges to merge thus decreasing operating expenses and expanding trade volume.

The authors of this paper ascertain that the analysis of the situation of the Baltic stock exchanges is being performed sporadically and that scientific literature offers no publications on continuous studies. Past ten years offer no more than ten articles dealing with the problems of the changes of investments in the Baltic capital markets and the behavior of issuers (Lyn & Zychovitz, 2004; Devyžis & Jankauskas, 2007; Norvaišienė & Stankevičienė, 2007; Stasiukonytė & Vasiliauskaitė, 2008; Plakys & Ambrusevic, 2009; Lieksnis, 2010; Paškevičius & Sačilka, 2010; Mongrut, Paškevičius, Dubinskas, Kovalevskaja, & Fuenzalida, 2010; Lieksnis, 2011; Paškevičius & Norkaitytė, 2011; Paškevičius & Mickevičiūtė, 2011; Gudonytė & Tvaronavičienė, 2012).

Stasiukonytė and Vasiliauskaitė (2008) have concluded a noteworthy study of the integration of securities markets of the Baltic and Scandinavian regions. Using the Granger Causality test, the authors have determined the effectiveness and causality of the relations between the Baltic and Scandinavian securities markets. They arrive to the conclusion that the process of integration within the regions tend to increase while the interregional integration declines. They also have noted that these changes undoubtedly have an effect on the rest of securities markets. An article by Plakys and Ambrusevic (2009) discusses the nature of activities of the companies listed in the Lithuanian stock exchange, with the emphasis on the fact that the Lithuanian stock exchange is not orientated towards the companies associated with the development of technologies. Other articles associate the results of the study with the tendencies of the development of the NASDAQ OMX; however they do not deal with the behavior of issuers and neglect the peculiarities of the IPO in the Baltic region.

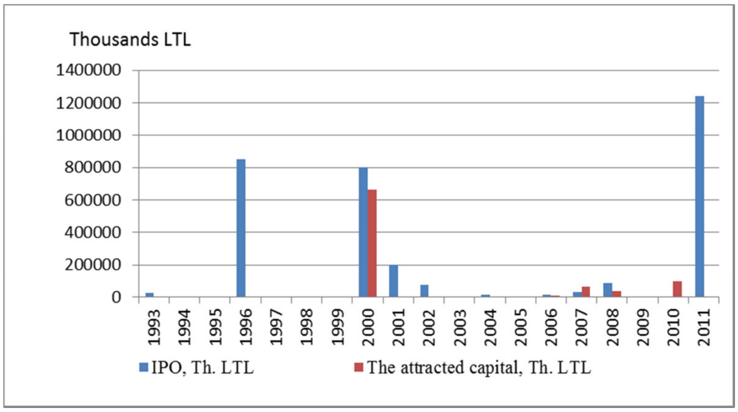


Fig. 2. The initial public offerings performed in the OMX Vilnius stock exchange and the attracted capital
(Source: compiled by the authors according to www.nasdaqomxbaltic.com., May 15, 2013)

The OMX Vilnius stock exchange data taken from the official site and regrouped by the authors (Fig. 2) show that both the total stock and the amount of the capital attracted during the initial public share offering are extremely small. The table also shows that within the last ten years the number of share offerings has decreased.

Another phenomenon worth analyzing is the initial public offerings of Lithuanian companies in foreign countries without listing shares in the Vilnius stock exchange. The biggest competitor of the Vilnius stock exchange is the Warsaw stock exchange WSE, where three Lithuanian enterprises within the past few years have successfully distributed their shares. Table 1 shows the share offerings of Lithuanian companies in the WSE.

Table 1. Share offerings of Lithuanian companies in the WSE

| Issuer | Abbreviation | Nominal value, PLN | Amount of issue, units | Beginning of listing | Capital attracted by IPO, in LTL |
|---|---|---|---|---|---|
| AVIA SOLUTIONS GROUP AB | ASG | 55,15 | 5893333 | 03.2011 | ND |
| AGROWILL GROUP AB | AWG | 1,2 | 84820986 | 07.2011 | ND |
| AB INTER RAO LIETUVA | IRL | 25,75 | 20000000 | 12.2012 | 96700000 |

(Source: compiled by the authors according to www.gpw.pl., May 15, 2013).

In 2011 AB bank Snoras listed its shares in the German XETRA stock exchange, and also was seeking listing in the London LSE stock exchange. At the same time, one can notice a tendency for the companies of Lithuanian capital to consider cross listing, while the Agrovil group has already done that by seeking listings in the stock exchanges of both Vilnius and Warsaw.

## 4. Specific characteristics of European capital markets

Historically, the economic system of Central and Eastern Europe (CEE) has formed two types of financial system: i) market type (Anglo-Saxon), and ii) bank type (Germanic). The Anglo-Saxon model is characteristically being associated with the symbol of capitalism, while the Germanic type has noticeable characteristics of centralized economy, where bank deposits are treated solely as the instrument for investing, and bank credits are considered to be the source of outside financing. Since those two models often tend to be compared and their advantages sought after in the economic system of an actual country, the differences between financial markets and the bank system are most often defined in the process of the realization of main financial functions, such as mobilizing savings, reducing informational asymmetry between lenders and borrowers, and supplying means of risk management. Kurach (2010) has concluded that financial markets are more ready for innovational activity, despite the fact that the CEE countries are dominated by the bank type system.

The conclusion based on the studies of a number of specialists maintains that the development of the stock market is mainly influenced by the following factors: GDP, modernization rate, stock market liquidity, inflation level. Also, the development of a share market is positively influenced by the factors which can be defined by qualitative indices, such as political risk, judiciary system, and administrative quality. Apart from the above mentioned factors, the newest scientific publications observe the increase of the activeness of institutional investors which can be related to the pension reform in the EU countries. The conclusion suggests that the pension reform has propelled securities markets (Yartey, 2008; Kurach, 2010).

The dynamics of the indices of securities market capitalization in the period from 1996 through 2006 show the obvious speed of the development of capital markets. Since the consequences of the 2008 financial crisis are not yet adequately analyzed by the experts, the post-crisis capitalization indices should not in all fairness be compared to those of the 1996–2006 period.

Having in mind that large and complex systems tend to be inertial, we believe that the tendencies of securities market capitalization and the development of capital markets should not undergo considerable changes.

Such factors as the GDP growth, the bank sector development, market liquidity, fiscal balance, and overall geographical and economic environment, have positive impact on securities market capitalization. However, a number of questions are yet to be dealt by the specialists. These questions fall into the following three groups: i) what factors influence market liquidity? ii) which institutional factors of securities markets should be specified as essential and how should they be studied? iii) where to find the answer to the question of why debt securities markets, and especially corporative debt securities markets, are relatively poorly developed in the CEE countries? The search for the answers to this kind of questions is aggravated primarily by the relativity of the creation and application of econometric models due to strong correlation between different institutional variables. Despite the fact that companies know how to apply international accounting standards, this issue still causes problems to foreign investors. Other issues to be studied are the importance of organizing the stock market and the influence of the tax system. Besides, little study is being done in the evaluation of the results of the bond market which reflect the capital cost abilities in different periods of redemption (Kurach, 2010). Therefore it is essential to study and evaluate the securities markets of the CEE countries in the context of their historic development, the fluctuations of macroeconomic indices, legislation, and the investors' behavior.

## 5. Behavioral peculiarities of the issuers of the BRIC countries and the survey of practices in other IPO countries

In the financial markets of the past decade, much attention has been attached to the attraction of the issuers of the BRIC countries to the stock exchanges of New York, London, and Luxembourg. A number of scientific studies deal with the financial results of these stock exchanges and the behavior of the BRIC issuers (Wójcik & Burger, 2010; Tavendale, 2012; Clark & Wójcik, 2007; Edison & Warnock, 2008; Hung, Wong, & Zhang, 2008; Piotroski & Srinivasan, 2008; Karmel, 2006; Sarre, 2007; Yeandle, Horne, & Danev, 2009). The following statistical data have aroused scientific interest as regards attracting capital from those countries to foreign stock exchanges: in 2007, 73 percent of the companies from Russia, Brazil, India, and China were listed in foreign stock-exchanges (Bank of New York Mellon, 2007), while the 2008 data show that the BRIC countries' listings in foreign stock exchanges made up about 20 percent of all company listings worldwide outside their native countries. In the opinion of, Wójcik and Burger (2010), the four BRIC countries with company listings in foreign stock exchanges and three other countries (the United States, the United Kingdom, and Luxembourg) represent that part of foreign listings which is subject to biggest changes. Scientific studies approach the processes of foreign listing of the BRIC countries in three sections: listing sizes, geographical distribution of issuers and stock exchanges, and listing goal (Jain & Singh, 2012).

The choice of the companies from the BRIC countries to have listings in the United States, the United Kingdom, and Luxembourg is associated with listing costs, listing regulations, and the standardized presentation of financial reports. Piotroski and Srinivasan (2008) have noticed that the LSE AIM does not have strict listing rules in comparison with the regulations of the Luxembourg stock exchange; however the US stock exchanges have the strictest regulations which have been coordinated with the provisions of the Sarbanes-Oxley Act. Foreign listing is associated with attracting foreign capital and investors; therefore every stock exchange is in the IPO of foreign companies. In 2008, the USA covered 40 percent of the global capitalization of the stock market and was the leader in the number of large investors attracted. The majority of investors in the US stock exchanges were from China and Brazil. The Luxembourg stock exchange attracted investors mostly from India, while the London stock exchange attracted investors from Russia, India, and China. A number of specialists while dealing with the peculiarities of foreign listing have noticed that stock exchanges actively lure foreign investors in attempts to reach the issuers of their countries. The relationship between the import and export markets also plays a significant role in this process (Sarkissian & Schill, 2004). For instance, Brazilian companies are less interested in the European market, while Russian companies show less interest in the markets of the USA. Thus, we can conclude that the listings in the London, Luxembourg, and the USA stock exchanges are predominantly of foreign issuers, and that economic geography has influence on the companies' choice of a country to be listed in.

Wójcik and Burger (2010) have generalized the peculiarities of foreign listings of the BRIC countries which they have associated with the domination of the large financial centers in Brazil and Russia. Meanwhile, the significance of financial centers in India and China is not overwhelming. It has also been noted that small companies tend to choose secondary stock exchanges for milder surveillance and accountability requirements.

The integration of financial markets offers the choice of capital markets, an alternative which is especially attractive to the companies interested in performing initial public offerings (IPO) in foreign markets. A big number of scientific articles dealing with the practice of the IPO in different countries identify the motivation and tendencies of the choice for the companies to list in foreign stock exchanges (Luo, Fang, & Esqueda, 2012; (Ragozzino & Reuer, 2011).

A company chooses a stock exchange to perform its initial public offering based on many factors. Due to some undefinable factors being treated as probable or due to the lack of the methods of their evaluation, the emphasis is laid on the factors which are most often discussed in scientific studies or dealt with in practice. King Fung Tsang (King Fung Tsang, 2010) in his study on why China has chosen to list in the New York and Hong Kong stock exchanges has underlined three major factors: i) the initial listing requirements with the emphasis on financial requirements; ii) the announced stock exchange requirements with the emphasis on the requirements in the listing documents and the accountability to follow the requirements after the listing; iii) listing risk. The author also notices that there are very few scientific studies with the results of the comparison of the conditions of China's listings in the Hong Kong (HKSE) and the New York (NYSE and NASDAQ) stock exchanges. Besides, he underlines that the few published researches significantly lack a thorough analysis of listing regulations (Fung, 2006; Daniels, 1996). King (2010) points out the main requirements of the securities listing in the Hong Kong stock exchange: i) profit which goes to the shareholder; ii) market capitalization; iii) income; iv) cash flows.

A share issuer has to have the trade statistics for the past three years of the stock exchange and has to meet requirements of one of the tests: profit, market capitalization/income, or market capitalization/cash flow test. The company has to assure a corresponding profit level to its shareholders. Meanwhile, the New York Securities and Exchange Commission (SEC) does not provide any financial listing criteria. However, like in Hong Kong, the New York NYSE and NASDAQ give a selection of corresponding regulations. Despite the differences in jurisdiction all stock exchanges make use of similar indicators: income, capital income, and cash flows. Financial analysts point out that the NYSE financial requirements are firmer than those of the NASDAQ (Shultheis, Day, Jewis, Linquist, & O'Connor, 2008). Chinese enterprises seeking listings in the NASDAQ have to meet the following financial requirements: i) capital ownership; ii) market value of listed instruments or total assets and total income; iii) income from continuous activity before taxes; iv) history of activity. Chinese companies listed in Hong Kong basically meet the NASDAQ global market financial requirements; however, the companies listed in the NASDAQ global market do not have to meet the HKSE financial criteria.

The lower NASDAQ requirements of financial indicators make the New York stock exchange more attractive that the HKSE. However, the companies listed in Hong Kong relate their expectations to lower risks. The goal of the Growth Enterprise Market is to attract as many companies as possible to list in Hong Kong. Thus, the New York system has a lower financial risk, absolute publicity, and strict requirements. It has to be also noted that the Hong Kong investors feel safer, especially in the case of the IPO, when the issuers of foreign stocks have not publicly traded their shares before and the investors have little information about the value of the listed company.

During the first boom of Chinese economy, much attention in the United States of America was paid to the "China Concepts Stock". Investors were especially interested in the motivation of Chinese companies to invest in the USA (Luo, Fang, & Esqueda, 2012). The results of the analysis of the Chinese cross listing depository bonds have shown the tendency of single listing domination. The conclusion suggests that stricter listing requirements and accountability standards help Chinese companies improve the quality of operational activity and management. Chinese stock issuers have noticeably been motivated to seek cross listings in the United States of America. Chinese issuers faced with two different listing choices should compare each other on the basis of common criteria but also regarding the established listing practices peculiar to the Chinese companies. Relative vagueness in the Chinese stock market concerning the regulation of the new IPO system encouraged companies to take wider interest in other stock exchanges.

## 6. Analysis of the problems of investment attraction to the Lithuanian capital market

The efficiency and activity of capital markets depend on many factors. These are: legal, tax, and economic environments, the availability and dependability of information, the behavior and knowledge of the participants of the market, competitiveness with other markets, the depth and liquidity of the market, globalization, and many more. In order to evaluate the existing situation and identify problems one should analyze different factors, constantly evaluate the insights of the already completed scientific studies, survey the opinion of the market participants, analyze the successfully functioning models, and evaluate the possibilities of their application, adapt them on demand, and perform the comparative analysis of the capital markets of other countries.

While analyzing the existing situation of the Lithuanian capital markets, a study of statistical data related to the investment in the capital market (Figure 2) as well as the survey of the experts has been performed with the help of the in-depth interview method. Representatives of the existing and potential issuers, employees of the securities market, and the potential stock buyers participated in the survey and were asked to evaluate the strong and weak sides of the IPO of Lithuanian companies in seeking listings in the Vilnius securities market and performing the initial public offering.

The outcome of the study shows that Lithuania has no developed capital market, because bank loans are the main instrument of business and economy financing. With the developed capital market companies could attract money in the stock exchange during the initial or secondary stock offering.

According to the 2011 data, the ratio of the capitalization of the Lithuanian stock market to the GDP was 9.5 percent, while the EU average was 43.1 percent, thus rating the Lithuanian capital market as undeveloped. The countries of economic cooperation and development have the 71.8 percent ratio of stock capitalization to the GDP. However, Lithuania is also considerably lagging behind the Eastern European countries, where capital markets have been developed almost simultaneously. The Baltic States are being considerably surpassed by Poland, Hungary, and the Czech Republic. In 2012 Lithuania was surpassed by Estonia in the market capitalization and GDP ratio, while Latvia was falling behind with the 3.8 percent of the market capitalization and GDP ratio. According to the World Bank data, Lithuania is lagging behind the EU average also in the stock turnover.

In order to attract foreign investors in the domestic market, the stock market of the country firstly should be interesting to the local investors, as the basis and grounds of the capital market are the institutional investors, only to be followed by foreign investors. The absence of the basis of local institutional investors prevents major foreign investments. A number of countries, Poland among them, consider the retirement funds as major institutional investors, therefore trying to keep their capital within the country in order to strengthen their own rather than foreign economy. For instance, Iceland does not follow the EU principles of free capital movement, thus preventing the capital to leave the country after the latter economic crisis. In 2011 the ratio of the market capitalization to the GDP in Iceland was 14.4 percent with the tendency of yearly introductions of new companies into the market. Finland invests 30 to 40 percent of the raised capital into the stocks of listed companies assuming that the investments into local enterprises create jobs and increase the number of the contributors to the future retirement funds.

The experts having participated in the Lithuanian Survey are stressing the necessity to pay attention to the structure of the investments of the retirement fund. For example, tier II pillar pension funds in Lithuania have accumulated about 4.7 billion LTL, which equals to 4 percent of the GDP. Based on the Lithuanian Bank statistics, the capital investments of these funds into stocks and collective investment undertakings before 2012 were equal to 34 percent of their value. The direct investments in the stocks were under 1 percent, thus the major investment went through the collective investment undertakings. The entire asset of the pension fund is distributed through more than 100 states worldwide. Meanwhile in Lithuania, the direct and indirect investments into the stocks of Lithuanian companies made up only about 0.5 of the value of the entire pension fund portfolio. In 2012 this number was even smaller – as little as 0.2 percent of the fund assets value of 4.4 billion LTL. One has to realize the importance of where to invest the pension fund capital, because it greatly affects both the local capital market and the entire economy.

A model should be found which would encourage investing the bulk part of the pension fund to the Lithuanian capital market and would increase its liquidity, decrease the shallowness and boost its turnover ratios. Experts have noticed that such voluntary capital redirection could not be so easily possible in a country with foreign banks domination. Since most of the decisions regarding tier II pillar pension funds investments are made in Stockholm rather than Vilnius, and banks in their turn are not interested in making separate investment plans for separate countries.

The study has brought out the major problem of the Lithuanian capital market being the liquidity on the stocks of Lithuanian companies. Should the need to sell a larger amount of shares from the fund arise, a considerable fluctuation of the prices of stocks would occur which would discourage both the politicians and the fund participants. The nonexistence of the privatization of new companies forms a vicious circle with nowhere to invest, no way to redeem the capital should the need arise, and with huge price fluctuations. The World Bank has analyzed the Lithuanian pension funds and has concluded that the risk of investing the pension funds into company stocks is too high. In this case the group of managing enterprise should be much bigger; the fund participants should periodically pay visits to the companies which have received investments. However, better investing results are always related to higher risks. Due to investments in Lithuania, the market could be successfully propelled which could also increase the liquidity thus making investing in Lithuania less risky, as it has happened in the neighboring Poland.

All experts stress the need for the developed capital market. However, there is no model showing the amount of investments in Lithuania which is necessary to keep the capital of the participants of the pension funds safe and to noticeably stimulate the economy. In this case a certain contradiction also cannot be avoided: the system which would obligate the managers of the pension funds to invest in Lithuania legally could not be realized, having in mind the example with Poland. The European Union Court of Justice has ruled the case against Poland which has not fulfilled the commitments of free capital movement by limiting investments. However, the member states are allowed to establish more thorough rules for the organizations within their territories if those rules are based on risk limitation. Meanwhile in Lithuania with the shallow stock exchange of low liquidity, the requirement to invest more in this market could even more increase the risk instead of decreasing it. Therefore, other ways of stimulating the redirection of the capital of the pension funds into the Lithuanian capital market should be found.

In Lithuania, the main instrument of financing business and economy are bank loans, however, other forms, such as risk capital, company bonds, and stock markets, should also exist which would help achieve constant growth. When banks start fulfilling the "Basel III" requirements and their regulations become stricter, loans will become more expensive. With these changes, companies will have to find ways to attract capital in the market during the initial or secondary stock distribution. This could create an opportunity to finance growth and create new jobs.

The authors of the present article have noticed that while performing the analysis of the Lithuanian capital market as compared to the capital markets of other countries, certain criteria for market selection should be established, to make the comparison of the markets possible and adequate. Such aspects as the differences of legal regulation, economic situation and environment, the market depth and liquidity, information dissemination and transparency, the behavior and education of the participants of the market, and the effect of globalization should be subject to comparison.

To achieve results in forming an actual model of investment attraction into the capital market, one should study the already existing successful models, perform their evaluation, and consider the possibilities to adapt them in the local market. Having taken into consideration the analysis of the existing situation in the Lithuanian capital market and having assessed the advantages and shortcomings of foreign markets, we can make a conclusion that there is a strong need to form an optimal model for investment attraction into Lithuanian capital market, which could be applied to the attraction of both Lithuanian and foreign investments.

## 7. Conclusions

- Many factors determine the efficiency and activity of capital markets. The legal, economic, and tax environment, the availability and dependability of information, the behavior and knowledge of the participants of the market, competition with other markets, market depth and liquidity, and globalization being a few among many others.
- Lithuanian capital market analysis has shown that the biggest competitor of the Vilnius stock exchange is the Warsaw stock exchange WSE, where three Lithuanian enterprises within the past few years have successfully issued their shares.
- The survey of the peculiarities of foreign listings of the BRIC countries has shown the tendency for biggest Brazilian companies which are listed in New York stock exchange to represent such industries as raw materials, utilities, consumer goods and services. Russian oil and gas companies mostly are listed in the London stock exchange, while small technological companies from India choose London and Luxembourg stock exchanges. China with its biggest potential of economic growth and the leadership in foreign stock exchanges by the number of listed companies, more often chooses the stock exchanges of New York and London.
- The study has brought out the major problem of the Lithuanian capital market which is the stock liquidity of the Lithuanian enterprises alongside the investment structure of Lithuanian pension funds. In Lithuania, the main instrument of financing business and economy are bank loans, however, other forms, such as risk capital, company bonds, and stock markets, should also exist which would help achieve constant growth.

- To achieve better efficiency of capital market, it is necessary to involve business and government, as well as educate participants, since common practice of financing business and projects through bank loans is not only a matter of habit but could be as well as lack of knowledge.

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