

LITHUANIAN CAPITAL MARKET: CHALLENGES OF ATTRACTING THE INVESTMENTS

Хоча нормативно-правова база литовського ринку капіталу є добре збалансованою і відповідає вимогам ЄС, органи нагляду за ринком ефективно функціонують, Вільнюська фондова біржа інтегрована в систему торгівлі NASDAQ, основна мета ринку капіталу, яка визначається як накопичення коштів для інвестування в малі та середні підприємства, не реалізована. Тому метою даної роботи є аналіз факторів, що впливають на розвиток литовського ринку капіталів, та визначення шляхів підвищення його ефективності.

Ключові слова: ринок капіталу, інвестиції, біржа, фактори, розвиток.

Хотя нормативно-правовая база литовского рынка капитала является хорошо сбалансированной и отвечает требованиям ЕС, органы надзора за рынком эффективно функционируют, Вильнюсская фондовая биржа интегрирована в систему торговли NASDAQ, основная цель рынка капитала, которая определяется как накопление средств для инвестирования в малые и средние предприятия, не реализована. Поэтому целью данной работы является анализ факторов, влияющих на развитие литовского рынка капиталов, и определение путей повышения его эффективности.

Ключевые слова: рынок капитала, инвестиции, биржа, факторы, развитие.

Although the regulatory framework of Lithuanian capital market is well balanced and meets the requirements of EU, market surveillance authorities are effectively functioning, Vilnius Stock Exchange is integrated into the NASDAQ trading system, the main objective of capital market, defined as accumulation of funds to investments into SMEs, is not implemented. Therefore the objective of this paper is to analyze the factors influencing Lithuanian capital market development issues and identify the ways to increase its efficiency.

Keywords: Capital market, investments, stock exchange, factors, development.

The problem is illustrated by recent statistics. In 2011, Lithuania marked a significant intensification of the private capital markets: positive business results, and three new Lithuanian private sector players coming to market in 2010, contributed to a significant initial investment growth. Meanwhile, the additional investment (called add-on) value was much lower: in 2011, Lithuanian private capital market has not been fulfilled with anyone portfolio company sale or set up of a new fund [1]. Foreign investors in Lithuania also did not make any of this type of transactions during the last year, except only one of EUR 1.5 million value of the portfolio company sale in the 2010. The vast majority of transactions have been initiated by local private equity firms, so as seen from the foreign perspective, Lithuania still remains a relatively untapped market [1]. In the year 2011 Lithuania's private equity sector has not created any new fund, while in 2010 with the JEREMIE initiative it was set up three new EUR 48.2 million value funds – Lithuania SME Fund I (Baltcap), Business Angels Fund I and I LitCapital [1]. Comparing data of the year 2010 and 2011, a conclusion could be drawn about loss of market share of the mutual fund registered in Lithuania, competing with foreign funds. It means that necessary for business development funds are leaving the country, limiting the credit to capital markets.

Another inefficient private funding instrument is the pension funds. In 2011 in Lithuania there were invested 31.72% (1.29 billion LTL) of II tier pension fund assets, meanwhile abroad – 68.28% (2.79 billion LTL) of them. In 2010 investment was respectively 28.04 and 71.96% of the II tier pension fund assets [3]. Guiding people's financial resources (savings), focusing on accounts of credit institutions or institutional investors (pension and investment funds) portfolios, the recent statistics show little investment of Lithuanian business companies, others by targeting foreign business finance.

The paper confirms the problems observed in Lithuanian businesses: lack the financial resources to lead the initial public offering, shares abroad (Warsaw) Stock Exchanges cases (eg, Avia Solutions Group, Agrowill Group). Warsaw Stock Exchange by concentrating large-capitalization companies, which attracts many foreign investors, issuers, creates favorable conditions for successful underwriting and financial resources to attract. Meanwhile, the potential loss of the Vilnius Stock Exchange issuers reduces liquidity and attractiveness of the large in-

ternational institutional investors, impairing functioning and development of local capital market.

The inclusion of the international capital into the market consequences the local capital (local reduction in the capital by investing in foreign funds, foreign capital in the country and the lack of a mixed capital company) and highlights the complex factors and conditions that determine the situation in the capital market, the need of analysis and offers for more successful absorption of local and foreign capital.

Economic theory identifies the purpose of capital market as long-term debt, which matures for more than one year. Capital market – a market that is designed to provide long-term investment for businesses, consumers and government. Capital market development depends on the total environment, from the country risk assessment and internal conditions affecting this market.

There are no uniform country risk assessment methods. In most cases taken into account:

- social;
- political;
- macroeconomic;
- specific economic factors.

Political risk is determined depending on the country's preparations for the implementation of international commitments to allow foreign investors, providing them with a variety of conditions. Economic risk is assessed by its potential to fulfill these obligations and in accordance with its economic and financial dependence on other countries. Social factors are employment, inflation, criminal situation. Inflation – the decrease in the value of real money, operating and investment.

Capital market development is characterized by:

- Foreign capital and its influence as a major factor leading to the capital markets and economic development;
- the influence of globalization – a wider and easier access to capital;
- Foreign investment growth;
- Effective use of local capital and redistribution;
- capital market institutions and roles;
- Education of local investors and others.

The participation of foreign equity and its influence is one of the key factors that determine the national capital market and all the country's economic development. The level of foreign capital investment shows the country's economic and political attractiveness and its potential.

Foreign capital positions in Lithuania can be defined in several ways:

- total investment in the economy of Lithuania;
- their impact on different sectors of the economy;
- the National Stock Exchange;
- Foreign investors' share of new capital inflows.

Schröder [5], in the context of Central and Eastern European capital markets, says that the most important factors influencing the development of financial markets can be attributed to macroeconomic indicators such as economic growth, savings, productivity, inflation and state budget deficits. In his view, a significant impact on the capital markets is done by foreign investors, who affect supply and demand balance.

Teresienė [6], analyzing the Lithuanian stock market, examines the factors that determine the stock price fluctuations. One of the major factors drew investors' psychology.

Rafael and Tvaronavičienė [4] distinguish three main groups of factors affecting stock price fluctuations: political and economic, social and psychological conditions. The authors identify factors such as gross national product or industrial production volume index, as important factors in the share and its profitability growth.

Jasienė ir Paškevičius [2] say that one of the most important determinants of stock prices changes is the rate of competitive investment instruments such as government securities, bank deposits and others.

This paper aims to break down all other authors' identified indicators into 6 groups: globalization, macroeconomic, organizational, financial, social, psychological.

Table 1. Capital market development and interference factors

Group	Factor
Globalization – G	Foreign investors coming into the market (g1), foreign direct investment (g2), cross-border transactions (g3), domestic firms issue on foreign exchange (g4);
Macro-economic – Q	Economic growth (GDP) (q1), savings (q2), labor productivity (q3), inflation (q4) and the state budget deficit (q5), industrial production index (q6), the business cycles (q7), the domestic debt (q8), the foreign debt (q9);
Organizational – H	Vilnius Stock Exchange performance (h1), the number of shares, (h2), the number of government securities issues, the number of foreign investors (h3), capital market participants (h4);
Financial – F	Interest rate of overnight transactions (f1), government securities (f2), bank deposits (f3), broad money (f4), balance of payments (f5) and foreign status (f6), average annual interest rate of deposits in litas (f7), average annual interest rate of loans in litas (f8), the European Central Bank interest rate (f9);
Social – Z	Employment (z1), unemployment (z2), level of living (z3);
Psychological – X	Investors' expectations (x1), market confidence indices (x2);

Source: Schröder 2001, Teresienė 2009, Rafael ir Tvaronavičienė 2005, Jasienė ir Paškevičius 2010.

Conclusion. To conclude with, there is a variety of factors, which are more or less essential for the functioning and development of capital market. Different authors highlight different aspects. In order to confirm or refute the theoretical considerations of the relationship between the determinants of venture capital market and impact of interference issues on capital market development and expansion, a complex analysis should be enforceable: correlation, multiple regression and multiple analysis.

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EXTERNAL SHOCKS ON ECONOMIC GROWTH OF UKRAINE: THEORETICAL BACKGROUNDS AND EMPIRICAL TESTING

У статті розглядаються впливи зовнішніх шоків на економічне зростання в Україні. Розглянуто основні зовнішні шоки зростання в Україні. Побудовано економетричну модель для тестування впливу зовнішніх шоків на економічне зростання в Україні.

Ключові слова: економічне зростання, світова економічна криза, макроекономічні шоки, економетричне моделювання.

В статье рассматриваются воздействия внешних шоков на экономический рост в Украине. Анализируются основные внешние шоки роста в Украине. Построена эконометрическая модель для тестирования влияния внешних шоков на экономический рост в Украине.

Ключевые слова: экономический рост, мировой экономический кризис, макроэкономические шоки, эконометрическое моделирование.

In the article the external shocks impact on economic growth of Ukraine is analyzed. The main external shocks on the Ukraine's growth are considered. The econometric model of external shocks impact on economic growth of Ukraine was built.

Keywords: economic growth, world economic crisis, macroeconomic shocks, econometric modeling.

Research urgency. The world economic crisis of 2007-2010 years had a significant negative impact on the economy of Ukraine. The current state of global economy is characterized by increasing risks of recurrence of the global

recession. The source of these risks is primarily economic processes in the developed countries – the U.S. and the EU. Nowadays as managing Director of International Monetary Fund Christine Lagarde admits, "the world is more closely-