

## OVERVIEW OF THE DEVELOPMENT OF THE LITHUANIAN SECURITIES MARKET

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**Abstract.** *The purpose of this article is to review the evolution of the securities market and its development prospects, highlighting the differences and regular similarities of separate development stages. The attention of the article is firmly focused on the disclosure of the relation between the origins of the securities market and its further formation with the main steps in the development of the Lithuanian financial market instruments and the economic and political development of the country. The methods used include logical and comparative analysis of scientific literature and legal acts, study and generalisation of statistical data.*

**Keywords:** *financial instruments, evolution of the securities market, future development of the securities market.*

## Introduction

Securities market, also called the market of financial instruments, is a constituent part of the economy, which allows re-distribution of financial resources between separate economic entities. As a result, companies can accumulate the necessary funds, whereas households and other economic entities are able to invest and expect a return on investment. The behaviour of the markets of financial instruments makes it possible to judge of the country's overall economic situation: rising stock prices show positive investor expectations and potential economic growth, and vice versa – falling share prices mark poor activity and prospects for the companies and for the national economy. Economic processes related to the market of financial instruments not only influence trade inside the country, but also attract foreign and institutional investors, whose capital contributes much to the creation of economic welfare, and increases the liquidity and global competitiveness of the market in financial instruments.

The financial market and financial instruments were analysed by the following Lithuanian scientists: Rastenienė<sup>1</sup>, Jasienė, Paškevičius<sup>2</sup>, Mačerinskienė, Volodzkienė<sup>3</sup>, Kononovič<sup>4</sup>, Cibulskienė, Grigaliūnienė, Petrauskienė<sup>5</sup>, Rutkauskas, Stasitytė<sup>6</sup>, Kancerevyčius<sup>7</sup>, Garbaravičius, Kuodis<sup>8</sup>, etc. There is a need to have a wider range of research works on the development and prospects of the Lithuanian financial instruments' market. In addition to the data published by the above-mentioned researchers, the article provides some yet unpublished data prepared by the author of this study.

It is important to know the origins of the market of financial instruments, the main stages of its development, because these are the basic steps leading us to the modern financial market and to its understanding, and the starting point for further development of this market – these are the main problems of this research, the disclosure of which will make it easier for financial instruments market participants to take the right investment decisions and probably attract new potential investors. The attention of the study is focused on the disclosure of the origins of the financial market in Lithuania and the analysis of its major development stages by analysing comparative historical

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- 1 Rastenienė, A. *Vertybinių popierių rinka*. Lietuvos laisvosios rinkos institutas, 1998, p. 61
  - 2 Jasienė, M.; Paškevičius, A. Lietuvos pinigų ir kapitalo rinkų tarpusavio sąveiką lemiančių veiksnių analizė. *Verslas: teorija ir praktika*. 2010, 11(2): 107–115.
  - 3 Mačerinskienė, I.; Volodzkienė, L. Investicinių fondų klasifikavimo ypatumai. *Business Development Possibilities in the New European Area: international conference, 21–22 September, 2006, Vilnius, Lithuania : scientific proceedings/ Vilnius University, Wrocław University of Economics, Brno University of Technology ... [et al.]*. Pt. 2. Vilnius: Vilnius University, 2006, p. 289–302.
  - 4 Kononovič, A. *Bendrovių valdymas, akcininkų susirinkimai, vertybiniai popieriai*. Vilnius: Vilniaus universiteto leidykla, 2001.
  - 5 Cibulskienė, D.; Grigaliūnienė, Ž.; Petrauskienė, D. The Estimation of IPO's Efficiency. *Socialiniai tyrimai*. Šiauliai: VŠĮ Šiaulių universiteto leidykla, 2009.
  - 6 Rutkauskas, A.V.; Stasitytė, V. Optimal portfolio search using efficient surface and three-dimensional utility function. *Technological and economic development of economy*. 2011, 17 (2): 291–312.
  - 7 Kancerevyčius, G. *Finansai ir investicijos*. III atnaujintas leidimas. Kaunas: Smaltija. 2009, p. 904.
  - 8 Kuodis, R.; Garbaravičius, T. Lietuvos finansų sektoriaus struktūra ir funkcionavimas. *Pinigų studijos*. 2002, 1.

data against other macro-economic indicators and potential development prospects. *The purpose* of the research is to examine and classify by periods the stages of formation of the securities market in Lithuania, to reveal their role in the financial system, and the future development of the market of financial instruments.

*The objectives of the study:*

1. Disclosure of the development stages of the securities market in Lithuania.
2. Definition of the status of modern financial instruments market in Lithuania.
3. Provision of the potential prospects for the Lithuanian financial instruments market.

*Methods of research:* logical and comparative analysis of scientific literature and legal acts, study and generalisation of statistical data.

## 1. The concept of securities

The term “securities” or “financial instrument” has a number of various definitions. According to Dubil<sup>9</sup>, financial instruments are classified into: fixed income securities, equities (stocks), derivatives (futures, swaps, options, exchange-traded funds), etc. Fabozzi<sup>10</sup> and Fabozzi and Peterson<sup>11</sup> classify financial instruments into securities (shares), derivatives and short-term and long-term debt securities. A set of basic legal acts on securities by Bloomenthal<sup>12</sup> defining the financial instruments and the system for their trading, which, besides other documents, includes the US Securities Act, the Act on the Stock Exchange and Investor protection Act is the most thorough underlying publication. For the purposes of this article, I am going to mostly follow the abbreviated definition provided in the Law of the Republic of Lithuania on Markets in Financial Instruments<sup>13</sup>: a financial instrument means any of the following instruments: transferable securities, money market instruments, securities of collective investment undertakings, options, futures, swaps, forward rate agreements and any other derivative instruments relating to securities, currencies, interest rates or yields, also other derivative instruments and financial indices; options, futures, swaps, forward rate agreements and other derivative contracts relating to commodities and any other derivative contracts, and financial contracts for differences.

Only equities have remained as the “original” financial instruments in the today’s Lithuanian financial market, whereas debt financial instruments often have the features of a derivative (e.g. the Lithuanian bank bonds are linked with the raw materials price index). It should be noted that the concept of financial instrument as used in the study

9 Dubil, R. *An arbitrage guide to financial markes*. Jon Wiley & Sons Ltd. 2004, p. 8–310.

10 Farbozzi, F. J. *The handbook financial instruments*. Jon Wiley & Sons Inc. 2002, p. 67–805.

11 Farbozzi, F. J.; Peterson, P. P. *Financial Management and Analysis*. Jon Wiley & Sons Inc. 2003, p. 27–533.

12 Bloomenthal, H. S. *Securities Law Handbook*. CBC a division Thomson Legal Publishing Inc. 1995, p. 1–59.

13 Law of the Republic of Lithuania on Markets in Financial Instruments [interactive]. [accessed on 28-02-2013]. <[http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc\\_l?p\\_id=423819](http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc_l?p_id=423819)>.

includes securities and other financial instruments, and is much more modern and wider than the concept of securities.

The financial intermediaries licensed in Lithuania from the above spectrum of the financial instruments can offer all financial instruments traded on and off the regulated market of Lithuania and act as agents in almost all financial instruments markets of the world.

There is no single answer to why a new investor enters the market and what are the reasons for such entry; however, certain generalisation can be made. Investment financial instruments may be treated as business where monetary funds are “employed” and a return on investment or at least protection against inflation is expected in the future. A part of the reasoning of the activity may be simulated using different scientific tools, and according to Lungeberg<sup>14</sup>, only he who knows well and who is able to use his mathematical knowledge can make correct calculations that lead to successful investment decisions.

“One can draw an analogy to design and high fashion - there is art of investment“. You can rely on Robinson’s<sup>15</sup> “crystal ball” theory, which covers a scale of assessment criteria, according to which the investment is assessed. It is possible to invest independently or hire professional financial intermediaries after inquiring about their licence and professional level. In addition to the above-mentioned authors, it can be said that it is rather difficult to learn directly from the past price fluctuations of the financial instruments and the financial crises, as they differ each time, the “memory” of the financial market is short, whereas speculative wishes are hard to measure. Let us review the stages in the development of the Lithuanian securities.

## 2. Development of the Securities Market in Lithuania

When analysing the origins of the financial market, the term “securities” will be used, whereas when analysing the current financial market and its development prospects, the term “financial instruments” will be employed.

### 2.1. The Lithuanian Securities Market from its Origins to 1940

According to Laurinavičius<sup>16</sup>, offering of shares in Lithuania started in the first half of the 19th century, after the first joint-stock company in Klaipėda had been established, the securities market, however, was formed only at the end of the 19th century, when establishment of joint stock companies became massive. The development of the Lithuanian economy in the 19th century was closely related to the economic and financial situation in the Russian Empire, as after the third partition of the Lithuanian-

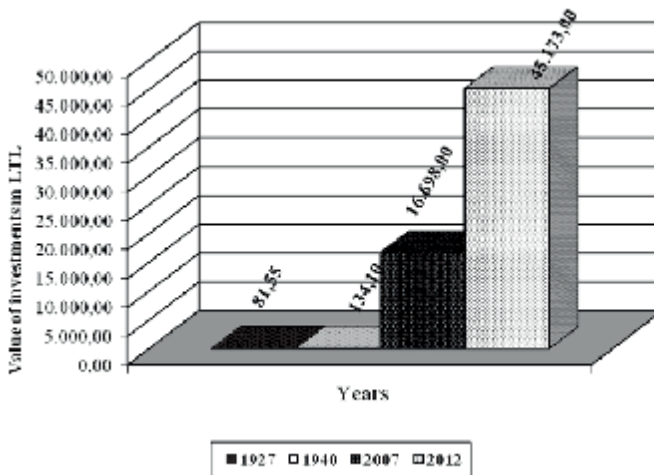
14 Lungeberg, D. G. *Investment science*. New York: Oxford University Press, Inc. 1998, p. 1–134.

15 Robinson, R. *Crystal balls for investor strategy*. Sunday Mail. The Brisbane, 2006.

16 Laurinavičius, V. *Vertybiniai popieriai Lietuvoje. Akcijos ir lakštai. 1872–1940*. Lietuvos banko muziejaus leidinys. Vilnius: Lietuvos bankas, 2001, p. 1–272.

Polish Commonwealth in 1795 a large part of the territory was overtaken by Russia. The 19th century Russia saw the strengthening of the state credit system, the establishment of joint-stock companies, and the rise of mortgage banks and joint-stock commercial banks. The joint-stock land banks, which extended loans against the pledged immovable property, started emerging. Among such pioneers in the Russian Empire was Vilnius Land Bank, established in 1872. Its main capital (1 200 000 Roubles) consisted of 4 800 shares 250 roubles each.

After the restoration of the statehood of Lithuania on 16 February 1918, the financial, economic and political situation of the country was unstable. On 26 July 1919, the Government of Lithuania announced about the first 4.5 percent short-term state internal borrowing in the amount of 30 million Marks (Auksinas). The law passed on 29 October 1920 authorised the Ministry of Finance to issue 3.6 percent Extraordinary State Treasury Notes for the Country's Defence Needs in the amount of 100 million Auksinas. On 31 December 1927, the debt of the Lithuanian Treasury to investors was 81.55 million Litass, including foreign debt, which accounted for 80.5 million Litass. The internal and foreign debt per capita amounted to 37.59 Litass. With the reduction of external threats and stabilisation of the economic situation in the country, borrowing was rather moderate, and loans were used for specific purposes only. On 1 January 1940, the total debt of the State Treasury amounted to 134.1 m Litass. The dynamics of the internal and external debt of the Lithuanian state (LTL m) in the period from 1927 to 2012 is illustrated in Fig. 1.



Source: compiled by the author and with reference to the data from the Department of Statistics<sup>17</sup>

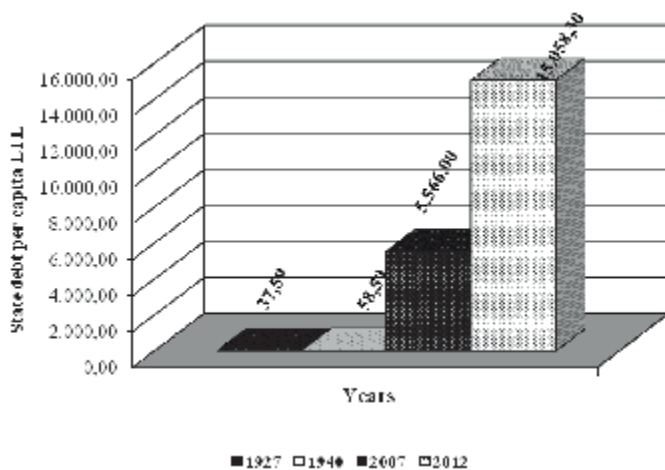
Fig. 1. Dynamics of the internal and external state debt in 1927-2012 in LTL m.

17 Statistical databases on 1993–2012 in Lithuania. The Department of Statistics (Statistics Lithuania) [interactive]. [accessed on 11-05-2012]. <<http://db1.stat.gov.lt/statbank/default.asp?w=1440>>.

As seen from Fig. 1, the growth of the state debt is purposeful and consistent. It should be noted that the total internal and external debt of Lithuania has grown in particular over the past five years; debt growth in that period amounted to almost LTL 30 billion or increased somewhat less than thrice.

Comparing the state debt of the last century and the present day debt, one should mention that at the time of the introduction of the Litas and throughout the entire inter-war period our national currency was one of the most stable in the world. The value of the Litas in terms of gold equivalent in 1922 made up 1 LTL = 0.151 g of gold,<sup>18</sup> correspondingly, the average wholesale gold price in 2012 fluctuates 1 LTL = 0.0072 g<sup>19</sup>. It means that currently the Litas is “cheaper” than its predecessor by a factor of 20 in terms of gold equivalent.

There is no National Debt Clock in the capital of Lithuania like in the US<sup>20</sup>, neither is there any information placard on debt, like in Warsaw, that was installed at the initiative of a Polish professor. However, the burden of the public debt per capita in Lithuania, irrespective of age, sex or nature of activity, has increased quite considerably, and if the public debt was divided among actually working people, the tax burden would have increased by far more times. The dynamics of the public debt in the period 1927–2012 per capita is shown in Fig. 2.



Source: compiled by the author and with reference to the data from the Statistics Department<sup>21</sup>

Fig. 2. Dynamics of the public internal and external debt per capita in Lithuania in LTL million in the period between 1927 and 2012

- 18 Lietuvos banko ir lito įvedimo 85-erių metų sukaktis [interactive]. [accessed on 02-12-2012]. <<http://www.archyvai.lt/exhibitions/litui85/p11.htm>>.
- 19 Pasaulinės aukso kainos bankams [interactive]. [accessed on 02-12-2012]. <[http://www.gold.org/government\\_affairs/](http://www.gold.org/government_affairs/)>.
- 20 The National Debt Clock in midtown New York.
- 21 Statistical databases on 1993–2012 in Lithuania. The Department of Statistics (Statistics Lithuania) [interactive]. [accessed on 11-05-2012]. <<http://db1.stat.gov.lt/statbank/default.asp?w=1440>>.

The data given in Fig. 2 clearly show an increase of public debt burden per capita in Lithuania. According to the data shown for the period of 1927-1940, the debt increased twice, however, it accounted for an amount under LTL 59. Currently public debt exceeds LTL 15 thousand, and the growth rate in 2007-2012 exceeded LTL 10 thousand per capita in Lithuania.

The progress in trade and industry in our country coincided with the operation of the first joint-stock commercial banks. On 1 April 1926, the trading registers at the regional courts of Klaipėda recorded 38 operating joint-stock companies with the stock capital of LTL 27.66: two of them were founded as far back as the 19th century, nine were established in the period from 1900 to 1921, 11 – in 1922, 12 – in 1923, 3 – in 1924 and 1 – in 1925.

On 31 December 1931, there were 121 joint-stock companies in Lithuania operating with the stock capital of LTL 134 million, including 33 joint-stock companies in Klaipėda region.

In 1923-1940, the stock exchange was operating in Kaunas traded in foreign exchange, Government securities, corporate bonds and equities. Fig. 3 presents average monthly interest rates of securities in May 1940.

**Vertybinių popierių kursai Kauno Biržoj**  
Mėnesiniai vidurkiai.

	Valstybės paskolos lakštai			Žemės Banko įkailto pask. lakštai					1937 m. V. Iždo pasi- žadėjimo lakštai			Akcijos		
	Laisvės paskol. bonai	1935 4,5%	1936 4,5%	IV serijos 3,6%	V serijos 3,6%	VI serijos 4%	VII serijos 4,5%	VIII serijos 4,5%	II serija	III serija	IV serija	Lietu- vos Bankas	Lietu- vos Cikrus	Maistas
Nominalas	\$100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00
1938 I	588,50	96,06	95,17	88,17	88,10	94,19	89,20	—	94,42	89,49	84,82	91,20	73,81	42,00
II	586,10	96,06	95,25	89,14	89,00	95,00	89,20	—	94,74	89,83	85,14	98,90	75,00	44,40
III	585,14	96,06	95,25	89,20	89,00	95,00	89,88	—	95,30	90,31	85,61	98,90	77,50	50,00
IV	588,91	96,06	95,25	89,21	89,03	95,00	89,88	—	95,75	90,50	85,80	100,75	77,68	50,68
V	588,88	96,88	95,85	89,54	89,45	95,35	89,34	—	95,90	90,53	85,83	100,24	79,69	47,38
VI	588,50	96,88	95,85	90,50	90,00	96,50	90,00	—	96,56	91,50	86,70	100,13	80,61	44,41
VII	588,50	96,88	95,85	90,50	90,00	96,50	90,00	—	96,82	91,55	86,70	100,15	80,75	44,50
VIII	588,88	96,32	95,35	90,50	90,00	96,50	80,00	—	97,25	91,58	86,74	100,45	80,83	44,87
IX	589,00	96,35	95,35	90,75	90,25	96,75	90,00	—	97,75	91,80	86,93	100,83	77,33	44,31
X	589,00	96,39	95,31	90,50	90,00	96,50	90,00	—	98,33	92,33	87,19	102,07	75,50	44,21
XI	589,00	96,40	95,34	90,54	90,08	96,54	90,00	—	98,92	92,90	87,25	103,21	75,35	44,48
XII	589,00	96,40	95,35	90,75	90,50	96,75	90,00	—	99,42	93,42	87,44	103,95	74,50	45,58
1939 I	588,92	96,50	95,40	90,75	90,50	96,75	90,00	—	99,85	93,98	87,98	104,50	74,50	45,29
II	590,00	96,50	95,40	90,75	90,50	96,78	90,00	—	—	94,52	88,52	102,00	74,50	44,50
III	590,00	96,50	95,45	90,75	90,50	96,99	90,00	93,00	—	95,23	89,25	99,50	74,21	44,07
IV	590,00	96,75	95,65	91,125	90,875	97,00	90,00	93,00	—	95,275	89,275	99,50	72,67	41,75
V	587,15	96,46	95,36	90,98	90,79	97,15	90,23	93,00	—	95,98	89,98	98,31	66,00	36,00
VI	585,00	96,25	95,15	90,875	90,375	97,125	90,125	93,00	—	96,04	90,00	97,04	66,00	36,00
VII	585,00	96,25	95,15	90,875	90,375	97,125	90,125	93,00	—	96,46	90,48	97,00	65,925	35,50
VIII	585,00	96,37	95,23	90,79	90,37	97,125	90,08	93,00	—	97,23	91,23	97,17	66,04	33,38
IX	585,00	96,40	95,25	90,375	89,925	96,875	89,825	93,00	—	97,50	91,50	97,50	64,94	33,06
X	586,17	96,40	95,25	90,375	89,925	96,875	89,825	93,00	—	97,60	91,60	97,50	59,50	31,00
XI	585,00	96,40	95,25	90,375	89,925	96,875	89,825	93,00	—	97,75	91,75	97,50	59,50	31,50
XII	585,44	96,41	95,28	90,375	89,919	96,875	89,831	92,89	—	98,00	92,09	97,875	59,50	31,50
1940 I	—	—	—	—	—	—	—	—	—	—	—	—	—	—
II	—	89,56	88,56	87,81	85,56	96,50	85,125	89,00	—	—	91,25	91,38	62,19	34,38
III	—	90,00	88,83	87,75	85,50	96,50	85,10	89,00	—	—	93,00	83,56	62,50	35,00
IV	—	90,00	88,76	87,73	85,50	96,50	85,09	89,00	—	—	93,05	83,55	62,50	35,00

Source: provided according to the bulletin of the Bank of Lithuania<sup>22</sup>

Fig. 3. Monthly average interest rates of securities in May 1940

22 Lietuvos banko biuletenis. 1940 m. gegužės 24 d., Nr. 48.

Fig. 3 provides the data of the currency and commodities exchange, which operated in Kaunas, at one of the last trading sessions in May 1940 that show trading took place in the Lithuanian Government's fixed income securities and promissory notes, Land Bank's (Žemės Bankas) mortgage bonds, also Bank of Lithuania's shares<sup>23</sup> and ordinary registered shares of the companies Lietuvos Cukrus and Maistas. For the purpose of comparison, today's structure of the quoted securities is described in the next chapter of this study.

The annexation of Lithuania by the Soviet Union on 15 June 1940 caused essential changes in the political and economic life of the country. The nationalisation of credit institutions and industrial enterprises, which started on 23 July 1940 upon adoption by the People's Seimas of the declaration on the nationalisation of banks and large-scale industry, marked the beginning of the breakdown of the securities market. During the nationalisation of banks, all valuables held in the banks were nationalised, including securities. After the nationalisation of credit institutions and industrial enterprises, upon closing of the Stock Exchange in Kaunas, the securities market of sovereign Lithuania, which had been developing throughout the period of 20 years, broke down.

## 2.2. The Lithuanian Securities Market Within the Composition of the Soviet Union

Radical transformation of the entire financial system took pace with the incorporation of Lithuania in the Soviet Union on 15 June 1940. According to Laurinavičius<sup>24</sup>, the Bank of Lithuania (together with other banks and credit institutions and joint-stock companies) was nationalised on 1 August 1940: shareholders lost their capital, residents – the valuables kept in safes. The Bank of Lithuania was named as the Lithuanian office of the State Bank of the Soviet Union. Part of the monetary silver was shipped away from Lithuania to Moscow. The commodity prices, the tariffs of wages and salaries and taxes effective in the Soviet Union were introduced in Lithuania, and the budget of Lithuania became an integral part of the budget of the Soviet Union. On 22 June 1941, Germany declared war against the Soviet Union. Within few days, German military units occupied the territory of Lithuania. The occupational authorities immediately introduced their own financial system and money – Reichmarks. In 1944, the Soviet army returned to Lithuania. The Republican office of the State Bank of the Soviet Union was re-established, while the German money and the financial system were replaced by the Soviet equivalents.

The financial system of the fifth decade of the last century was far remote from the financial traditions of the tsarist Russia. It declined the short-term revitalising reforms of the new economic policy, which resulted in the closure in 1930 of the securities and commodities exchanges, while private companies were nationalised. According to

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23 Currently the Bank of Lithuania has no share capital and its shares are not traded on the stock exchange NASDAQ OMX. Vilnius.

24 Laurinavičius, V., *supra* note 16, p. 1–272.



Bakušev<sup>25</sup>, the securities market was composed of public debt securities, and their trading was sluggish. After the start of the WW2, the Soviet Union, as well as many countries participating in the war, felt a tremendous need to borrow for war purposes, as a result it issued military bonds. For example, by 1945 the Soviet Union, including Lithuania, distributed the issue of Government debt securities in the amount of 72 bn Roubles with the maturity of 20 years, the annual interest rate of 4%. As the WW2 was over, the Soviet Union borrowed for the restoration of various industries. The distribution of bonds, like the financial system as a whole, were under the influence of ideology, for example, a part of the wages was paid in bonds of seven issues distributed in the period of 1946 to 1957. In such a “voluntary-forced” way the range of state creditors was extended and the payment of a part of wages was frozen for 20 years.

It should be noted that Government bonds at a time were like lottery tickets, implying that an additional remuneration could be possible in addition to the due interest – to a certain extent it was a hybrid debt instrument. The Soviet State borrowing in domestic market began to decline from 1957, and after the restoration of Lithuania’s independence on 11 March 1990, borrowing was practically disappearing.

### 2.3. Modern Securities Market in Lithuania

After the restoration of independence in 1990 and the launching of the economic reform based on mass privatisation of state ownership, it was very important to prepare the basis for the efficient structure, which would allow the newly emerged shareholders execute transactions with their own shares. Thus, according to Pečiulis and Šiaudinis<sup>26</sup>, the restoration of the securities market in Lithuania resulted from the change of the economic regime. In February 1991, the Supreme Council of Lithuania adopted the Law on Primary Privatisation, and the second half of 1991 saw the beginning of mass privatisation. During this process, through several stages of privatisation the state-owned capital was divided mainly into ordinary shares and 1.5 million of the Lithuanian population became their owners. By Decision No. 646 of the Government of Lithuania dated 3 September 1992, the National Stock Exchange of Lithuania (NSEL) was established. The first trading session of the Stock Exchange took place on 14 September 1993, the same month the Central Securities Depository of Lithuania started operating within the structure of the NSEL (currently its name has been changed to NASDAQ OMX Vilnius). The NSEL, which operated merely for two hours twice a week, was mainly a symbolic institution in the first years of operation, however it was growing and set the conditions for the parties to a transaction to find each other, and for those interested in investment it provided a possibility to access standardised trading information. The constantly growing exchange was hit by the 1998 Russian

25 Bakušev, V. V. *Formirovanie mekhanizma rynka cennykh bumag: (Politiko-upravlencheskij aspekt privatizacii)* [The formation of a securities market: (Political and administrative aspects of privatisation)]. Moskva: Luch, 1993, p. 1–49.

26 Pečiulis, S.; Šiaudinis, S. *Įvadas į vertybinių popierių rinką*. Vilnius: Lietuvos bankininkystės, draudimo ir finansų institutas, 1997, p. 1–126.

crisis; it also experience negative influence from the explosion of “dot com” information technology bubble in the US. Privatisation of “Lietuvos Telekomas” in 2000 resulted in considerable frustration and distrust in the capital market of investors, when having paid over LTL 3 for one share, they soon were able to obtain only less than LTL 1 for it, and on that amount the investor also had to pay commission to the financial intermediary.

According to Stiglitz<sup>27</sup>, a new, US born global financial crisis, with its negative peak in 2008 is an ordinary and, according to modern economic theory, inevitable sequence of events that swept through the rest of the world. This is the second global financial shock of this scale after the Great Recession. A new wave of the global financial crisis did not bypass the Lithuanian financial instruments market in 2007-2008; its negative impact can still be felt today. During the time being, many FBF (financial brokerage firms) were acquired by larger firms or they otherwise disappeared, the number of issuers (due to changes in the legal basis) also noticeably reduced after re-registering into private limited liability companies and bankruptcies. Nevertheless, capitalisation and turnover of the Stock Exchange were constantly changing with slight pauses, real trade took place not only on the corporate bonds market, but also on Government securities, equities and funds markets. According to the data of 11 May 2012, the equities list<sup>28</sup> included 33 financial instruments, the bonds list<sup>29</sup> – 24 respectively, whereas the Baltic funds list (NASDAQ OMX Vilnius) had 1 listed position.

The total financial instruments market capitalisation is often compared with the gross domestic product (GDP). Financial instruments market capitalisation is mainly of two types – the overall capitalisation of the issues registered with the Central Securities Depository of Lithuania (CSDL) and the capitalisation of the issuers listed on the NASDAQ OMX Vilnius. In contrast to registration, listing is not mandatory for CSDL companies and other issuers of financial instruments; as a result the capitalisation of listed companies is lower. Fig. 4 presents the dynamics of the change in capitalisation of CSDL, NASDAQ OMX Vilnius and the GDP from the origins in 1993 to the end of 2011.

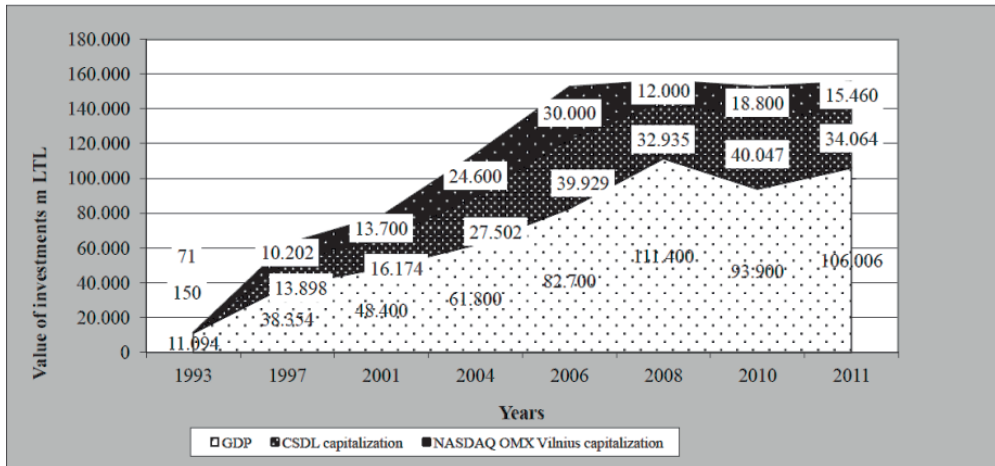
According to the data provided in Fig. 4, it is possible to keep track of regular total growth of the financial market and GDP up until 2006, and starting from 2007, the capitalisation of the financial market of listed bonds dramatically fell by more than twice from LTL 30 m to LTL 12 m, total CSDL capitalisation declined by LTL 7 bn, whereas well before the end of 2008 the GDP increased by almost LTL 20 bn. Different directions of the change in capitalisation are demonstrated in the subsequent years 2010 and 2011 – given the general economic instability, the directions of changes in the value of different economic sectors do not coincide due to the specialised nature of activity, different risk factors and calculation methodology.

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27 Stiglitz, J. E. *Freefall: Free Markets, and the Sinking of the Global Economy*. Penquin Book Ltd., 2010, p. 1–58.

28 NASDAQ OMX Vilnius maintains the main equity list and secondary equity list.

29 NASDAQ OMX Vilnius debt securities list includes Government and bank bonds.



**Source:** compiled by the author and with reference to the data from the Department of Statistics<sup>30</sup>, NASDAQ OMX Vilnius<sup>31</sup>, Central Securities Depository of Lithuania<sup>32</sup>

*Fig. 4.* Dynamics of the change in capitalisation of CSDL, NASDAQ OMX Vilnius and GDP from 1993 to the end of 2011

Cooperation in the financial markets maintained among the exchanges and depositories of the three Baltic States and Poland as well as the European Depository of Luxembourg (clearstream) is constantly expanding, and the year 2012 marks continued integration in the NASDAQ OMX group. At present, the NASDAQ OMX Group, Inc. is one of the largest exchange operators in the world. It delivers trading services in financial instruments, exchange technology and public company services across six continents. The Group offers trading across multiple asset classes, including equities, derivatives, debt securities, commodities, structured products and exchange traded funds. Integration of the Lithuanian financial sector into international units is a consistent and inevitable process, characterised by many challenges and innovations. The waters of the global financial ocean that the Lithuanian financial market will run into, of course, depend on the global trends and on the correct solutions of local financial market participants.

30 Statistical databases on 1993-2012 in Lithuania. The Department of Statistics (Statistics Lithuania) [interactive]. [accessed on 11-05-2012] <<http://db1.stat.gov.lt/statbank/default.asp?w=1440>>.

31 AB NASDAQ OMX Vilnius [interactive]. [accessed on 12-05-2012]. <<http://www.nasdaqomxbaltic.com/lt/birzu-informacija/apie-mus/leidiniai/>>.

32 AB Lietuvos centrinis vertybinių popierių depozitoriumas. Veiklos statistika, metinės ataskaitos [interactive]. [accessed on 19-07-2012]. <<http://www.csd.lt/lt/aktualijos/statistika/>>.

### 3. Future Development of the Financial Instruments Market in Lithuania

Supervision of Lithuanian banks as the main intermediaries of public trading in financial instruments was strengthened well before the 2008 financial crisis, by applying Capital Adequacy Directive KPD II<sup>33</sup> from 2002. The cooperation agreement signed in 2000 by the three supervisory institutions resulted in the incorporation of the Insurance Supervisory Commission and Securities Commission into the Bank of Lithuania at the beginning of 2012. The final integration process should be concluded by the end of the year. Correspondingly, the participants of the financial market must at last come to terms with the fact that from 2012 they are going to partly finance the centralised supervisory activity of the Bank of Lithuania with their contributions.

It is obvious that the optimisation of the supervisory activity will not revitalise the market of financial instruments, of which the bankruptcy procedure of the Bank Snoras in 2012 served as an example. Presently, the outlook for the illiquid and passive Lithuanian market of equities, bonds, funds and other financial instruments is obscure. The forecasts of financial analysts rarely meet the reliability criteria, they are often subject to adjustments and misleading. This is partly due to the risk of the modern financial instruments market, which means unpredictability. According to risk expert Danielsson<sup>34</sup>, the financial market risk can be predicted with the help of programming, simulation and logical analysis. Thus, there can be a rather wide range of development scenarios for the Lithuanian market of financial instruments. I am going to avoid the precise figures and categorical provisions – they rarely prove to be true.

Depending on the macroeconomic factors and the ongoing financial crisis, the Lithuanian financial market is going to maintain the general trends of the European Union – fragile rise and slowdown. Lacking deep investment traditions and with weak market capitalisation, Lithuania will be obliged to enhance cooperation with rather strong neighbouring Scandinavian and Polish markets in financial instruments. Scandinavians who dominate the banking sector have more weight in the financial market and they are likely to strengthen their influence in the future.

The financial instruments market in Lithuania will have to take promotive measures, otherwise a rather scarce capital meant for investment will leak to other financial markets. There may be some relative policy protecting local market, for example, formation of a larger part of pension fund portfolio in the local market, also the formation of municipal debt securities market, and a more active investor education.

One can expect a wider opening of the Lithuanian financial market to foreign financial intermediaries, development of the possibility of double listing of financial instruments, as well as active policy to attract foreign issuers to NASDAQ OMX Vilnius.

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33 CAD II - Capital Adequacy Directive [interactive]. [accessed on 12-05-2012]. <<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CONSLEG:2006L0049:20110104:EN:PDF>>.

34 Danielsson, J. *Financial Risk Forecasting: The Theory and Practice of Forecasting Market Risk with Implementation in R and Matlab*. Jon Wiley & Sons Inc, 2011.

## Conclusions

1. *Financial instruments market is a general indicator of the economic status of the country.* The changing Lithuanian financial sector as a general indicator of economic “health” shows the signs of both “overheat” and “deep stagnation”, affecting the activity and welfare of all economic entities – a reduction of the comparable value of this sector in the country’s GDP from 37 to 32% is noticed in the period from 1997 to 2011. The financial instruments market in our country is still emerging, its development, level of maturity and the range of the financial instruments depends on the sophistication and actual economic needs of the market participants.

2. *Financial instruments provide information for the analysis of the existing situation and for the prediction of future developments.* A review of the stages of development of the Lithuanian securities market – from the first half of the 19th century to 1918, 1918–1940, 1940–1990, 1990–2012, makes it possible to conclude that it is rather difficult to learn directly from the previous price fluctuations of the financial instruments and the financial crises, as they differ each time, the “memory” of the financial market is short, whereas speculative wishes are difficult to measure. However, aware of the history of development of the financial instrument, it is possible to minimise the damage that may be brought by the storms in the global financial markets, so as to save the fragile financial sector from collapse.

3. *Fostering the expansion of the financial instruments market requires focused support and development.* It has been established that it is necessary to promote investor activity and the development of the entire financial sector. It is necessary to develop the financial instruments market in Lithuania, promote investor education, attract issuers with new issues to the market, enhance international integration of the trading and settlement systems (promoting double listing), and improve the activity of institutions supervising financial markets.

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## LIETUVOS VERTYBINIŲ POPIERIŲ RINKOS RAIDA IR VYSTYMO SI PERSPEKTYVOS

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**Santrauka.** Straipsnyje narinėjama vertybinių popierių rinka Lietuvoje, apžvelgiami evoliuciniai etapai ir vystymosi perspektyvos, akcentuojami atskirų vystymosi etapų skirtumai bei panašumai, kuriuos ištyrus galima pateikti ir minėtos rinkos ateities įžvalgas. Pagrindinis akcentas straipsnyje skiriamas vertybinių popierių rinkos ištakų bei jos ryšio su Lietuvos finansų rinkos ir visos šalies ekonominio bei valstybingumo formavimosi žingsniais atskleidimui.

Straipsnį sudaro trys skyriai: pirmame išanginiame nagrinėjama vertybinių popierių sąvoka ir investavimo motyvai, antrame pateikiama finansinių priemonių periodizacija, atsižvelgiant į Lietuvos vertybinių popierių rinkos vystymosi etapus – nuo 19 a. iki 1918 m., 1918–1940 m., 1940–1990 m., 1990–2012 m., trečiame pateikiamos vertybinių popierių rinkos ir viso finansinio sektoriaus, neatsiejamo nuo visos šalies ekonomikos, vystymosi perspektyvos ir veiksniai, kurie galėtų paskatinti šio vystymosi pagreitį.

Straipsnyje pateiktas tyrimas remiasi literatūros sąrašė nurodytais šaltiniais bei šio straipsnio autoriaus daugelį metų atliekamais ir skelbtais <http://www.csdl.lt/lt/aktualijos/statistika/> bei dar neskelbtais skaičiavimais.

**Reikšminiai žodžiai:** finansinės priemonės, vertybinių popierių rinkos raida, vystymosi perspektyvos.

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