

THE PERFORMANCE OF LIBYAN STOCK MARKET

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Abstract

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The objective of this paper is to answer the following question: To what extent Libyan stock market developed to contribute to economic growth in Libya? This can be evaluated by using many financial indicators, these include stock market size, activity and efficiency, as well as the study including the regulatory framework, and information technology (IT) set in place by the market authorities. However, descriptive and comparative method was used. The results indicated that, despite the modest progress made in a very short time regarding all indicators which the paper calculated, however, it can be said that Libyan stock market remain largely underdeveloped, small and relatively inefficient. Its market capitalization to GDP is very low and investors have no access to long-term capital. In addition, the market still have very low liquidity and investors still have a limited choice of financial instruments and face liquidity problems. In the end of this paper was its conclusion a set of recommendations that can be used in developing a program that aims to speed the development of Libyan stock market and increase its efficiency

Libyan stock market (LSM), performance, Turnover ratio, Liquidity ratio, information technology (IT), Arab stock markets

Strong stock markets and institutions play an important role in supporting economic development, because they enhance the exchange of goods and services, the mobilization of resources (both domestic and international), the efficient allocation of factors of production, and the diversification of risk. The economic literature shows strong evidence of a positive relationship between developed financial markets and economic growth (Levine, 1997). Also according to (Rose, 1997), for his definition to advanced financial system is composed of participants, securities, markets, trading arrangements and regulations, the securities sometimes called investment products traded in the financial market, any financial transaction creates securities, which are simultaneously a financial asset to the holder and a financial liability to the issuer. It can classify securities in many ways, for example, classify according to their ownership and there income payments. An organized financial market is a place where securities are created and transferred. Financial markets might be classified in a number of ways such as, Money v. Capital markets and Primary v. Secondary markets. The

money markets deal in securities with less than one year to maturity whereas the Capital Markets deal in securities with more than one year to maturity. The primary market is the new issues market, when an investment bank brings a new company to floatation, its shares are issued on the primary market. If this company subsequently decides to gear up by issuing bonds, these are floated on the primary market. Similarly, if a company decides to expand using either equity finance or bond finance, the additional shares or bonds are floated on the primary market. The secondary market is the market in which existing securities are subsequently traded. Any market is expected to play an important and significant role in the process of economic and social development through the collection of individual and institutional savings and provide the required source of finance for existing and potential investors (Rose, 1997). The economic literature indicates that many factors helped the financial markets to be in the top during 1990s in many countries. Increasing the role of private sector in economic activity, advanced technology and telecommunication, the appearance of new financial tools, trade

liberalization, floating the exchange rates, and liberalization of financial institutions and banking from bureaucracy are determined by these factors. Many studies have taken the importance of financial markets for economic development because of their contributions in real economic growth rate (Levin, 2004). Similarly, several countries in Latin America have made good progress in developing their financial markets. Pension and mutual funds in Chile have helped lengthening maturities and deepening financial markets. Similarly, both Brazil and Chile have developed foreign exchange derivative markets which are among the most sophisticated and transparent in the world. These developments are helping to enhance stability and economic growth. In recent years, a number of developing countries, concerned with the International Finance Corporation (IFC) and the World Bank, have taken steps to establish capital markets. The volume traded in these markets has grown rapidly, in a number of cases, the market is already larger than in some developed European markets. These emerging Capital Markets now in existence in approximately fifty countries are being monitored and reported on by IFC, whereas in 1996 over 60 developing countries had stock markets compared with half the number in 1985 (Blommeston, 1997), however, most of the Arab countries reconsidered the role of stock markets in the early 1990s, by attempting to revitalize dormant existing markets, such as Egyptian, Saudi or Kuwaiti stock markets, or launching new ones, such as Dubai and Abu Dhabi, Syria, Libya. These actions aimed at developing their financial systems in order to stimulate economic growth and foster international integration. Overall, the pace of changes has been gradual and slow, and

capital markets remain dominated by the banking systems. Nonetheless, different steps have made some growth in terms of capitalization and the number of listed companies, data come from (Arab Monetary Fund, 2010), noting that the Arab stock market capitalization jumped from US \$ 32,459 million to US \$ 880,157 billion in 2010, their total value traded increased from US \$ 734 million to US \$ 373,896 billion in 2010, and total number of listed companies is more than doubled. Tab. I, shows a summary of the main indicators for 15 Arab stock markets in 2010. Moreover, the world stock market standards, shows that Arab stock markets are small, accounting (0.7) percent of the world total market capitalization, whereas (7.6) percent of the emerging stock markets during the period of 1990–2000. Recently, in Libya many economist and financial authorities and also many studies which done recently have recognized that the establishment of capital markets is necessary for improving medium and long term financial intermediation, enhancing savings mobilization, augmenting financial sector competition, facilitating the conduct of monetary policy through indirect instrument, and attracting much needed foreign capital. In this context, The Libyan Stock Market (LSM), established in 2007, by the Decree of the General People's Committee No (134), LSM is under the supervision of Secretary for the People's Committee for Economy, Trade and Investment (Ministry of Economy), LSM is organized as a corporation and acting as an exchange, a depository center and a capital market. However, Launching the Electronic Trading in 03-April-2008 with an opening index of 1000 points. Despite, the recentness of its establishment, this paper seeks to answer the following question: To what extent

I: Arab Stock Market indicators 2010

Market	Value Traded (Million U.S. \$)	Shares Traded (Million)	Market Capitalization (Million U.S. \$)	No. of Contracts	Turnover (%)
ABU DHABI SECURITIES MARKET	6,601.6718	15,449.3355	63,108.27	276453	10.4609
AMMAN STOCK EXCHANGE	3,895.2920	3,948.4484	26,639.74	1281540	14.6221
BAHRAIN STOCK EXCHANGE	233.3184	471.6858	16,575.93	9844	1.4076
BEIRUT STOCK EXCHANGE	492.4028	74.2229	16,487.66	13892	2.9865
CASABLANCA STOCK EXCHANGE	7,360.8587	186.6818	61,070.94	211781	12.0530
DAMASCUS SECURITIES EXCHANGE	155.6796	16.6102	1,512.73	39727	10.2913
DOHA SECURITIES MARKET	20,345.8898	1,991.368	125,540.17	1018838	16.2067
DUBAI FINANCIAL MARKET	8,637.0045	24,844.8656	49,013.87	438748	17.6216
EGYPT CAPITAL MARKET	17,830.0514	16,508.6649	48,853.97	5394960	36.4966
KUWAIT STOCK MARKET	20,557.2543	37,526.8675	100,311.48	602797	20.4934
MUSCAT SECURITIES MARKET	2,499.8601	2,307.9738	19,626.17	348925	12.7374
PALESTINE SECURITIES EXCHANGE	342.0373	172.737	3,775.20	59898	12.3248
SAUDI STOCK MARKET	283,873.2971	47,201.9207	338,986.75	11222951	83.7417
TUNIS STOCK EXCHANGE	1,072.3674	227.6117	9,654.41	377877	11.1075
LIBYAN STOCK MARKET	147.06	6.069	3,014.22	9607	0.05
Totals	373,896.9852	150,928.9938	880,157.28	21298231	42.4807

Sources: Arab monetary fund, annual report, 2010

Libyan stock market developed to contribute to economic growth in Libya? Also the paper will examine the regulatory framework and information system launched in LSM. The relation between stock market and economic growth have been extensively studied and debated. However, due to unavailability of data about indicators of Libyan stock market because of the recentness of its establishment. Thus, this paper will try to examine some indicators such as market size, liquidity, efficiency, which also widely founded in the literature by (Levine, 2000) to measure and evaluate the performance of Libyan stock market, during the period 2007–2010, in order to compare this market with some stock markets of Arab area and to determinate the trend of the performance of LSM and its contribute to the economic development. The paper is organized as follows, the first section introduction, the second section material and methodology, the third section briefly review of the literature, the forth section discusses and compares the major developments of Libyan stock market since its establishment in 2007, focusing on recent performance, while the final section provides some conclusions.

MATERIAL AND METHODS

According to the financial management theory, financial market performance can be evaluated by using many financial indicators. These include stock market size, activity and efficiency, for example (Demirgüç-Kunt and Ross and Levine, 1999), among others have introduced a new database of financial development indicators to evaluate or analyze the financial market performance. As an indicator of the size of the stock market, they use the stock market capitalization to GDP ratio, to measure the activity or liquidity of stock markets, they used stock market total value traded to GDP, they also used the stock market turnover ratio as efficiency indicator of stock markets, it measures the activity or liquidity of a stock market relative to its size. However, Despite the recentness of Libyan stock market establishment, this study seeks to answer the following question: To what extent Libyan stock market developed to contribute to economic growth in Libya? The relation between stock market and economic growth is widely studied in the literature, it's usually uses empirical model to measure that relation, however, unavailability of long time data series for Libyan stock market is due to the recentness of its establishment. So this paper is trying to examine the performance of the Libyan stock market by same indicators mentioned above which have been used to measure the financial market's performance, such as market size, liquidity, and efficiency. This study is limited only to four years' time data series. But nevertheless this study is important since there have been no studies on Libyan stock market yet. And also it should be noted that indeed the empirical study about the relation between the economic growth and financial

market in Libya is needed in future. This paper also examined the Regulatory Framework of Libyan stock market and information technology which launched in LSM. The data in this study was collected from LSM annual reports and Arab monetary fund, some of the data are in local currency, some in US dollars, it should be noticed that 1 US \$ equals 1.250 Libyan dinar in 2010. Descriptive statistics and comparative method was used To achieve the objective of the paper.

Literature Review

Recent studies suggest that, over the past two decades, stock market liquidity has been a catalyst for long-run growth in developing countries (Levin and Sara Zervos, 1998). Without a liquid stock market, many profitable long-term investments would not been undertaken because savers would be reluctant to tie up their investments for long periods of time. In contrast, a liquid equity market allows savers to sell their shares easily, thereby permitting firms to raise equity capital on favorable terms, by facilitating longer-term, more profitable investments, a liquid market improves the allocation of capital and enhance prospects for long-term economic growth. Also its find in the literature that the impact of financial market on economic growth, (Levine and Zervos, 1996) examines whether there is a strong empirical association between stock market development and long-run economic growth. The study used pooled cross-country time-series regression of forty-one countries from 1976 to 1993 to evaluate this association. (Demirgüç-Kunt and Levine, 1996) by conglomerating measures such as stock market size, liquidity, and integration with world markets, into index of stock market development, the growth rate of Gross Domestic Product (GDP) per capita was regressed on a variety of variables designed to control for initial conditions, political stability, investment in human capital, and macroeconomic conditions, and include the conglomerated index of stock market development. The finding was that a strong correlation between overall stock market development and long-run economic growth exist. This means that the result is consistent with the theories that imply a positive relationship between stock market development and economic growth. Efforts were also made by (Nyong, 1997) to develop an aggregate index of capital market development and use it to determine its relationship with long-run economic growth in Nigeria. The study employed a time series data from 1970 to 1994, for measures of capital market development the ratio of market capitalization to GDP (in percentage), the ratio of total value of transactions on the main stock exchange to GDP (in percentage), the value of equities transaction relative to GDP and listings were used, the four measures were combined into one overall composite index of capital market development using principal component analysis, a measure of financial market depth (which is the ratio of broad money to stock of

money to GDP) was also included as control. The result of the study was that capital market development is negatively and significantly correlated with long-run growth in Nigeria. The result also showed that there exists bi-directional causality between capital market development and economic growth. Moreover, the issue of market efficiency, as introduced by (Fama, 1965, 1970), remains the most important from resource allocation and portfolio investment point of view. Efficient mature markets are generally found to be weak-form efficient. Conclusions for emerging markets are very mixed and generally support the idea of a departure from weak efficiency. Furthermore, conventional efficiency tests are recently seen to be inappropriate in emerging markets for many reasons such as thinness, the nature of the participants, lack of liquidity, the microstructure of markets and for the evolving nature of their markets. Actually, authorities in those markets eager to improve efficiency by enhancing regulatory environment, transparency and liquidity. (Mecagni and Sourial, 1999) and (Hassan *et al.*, 2003), used GARCH processes in order to take into account non-linear and infrequent trading in the Egyptian and Kuwaiti stock markets respectively. Both find evidence for significant departure from the efficient market hypothesis, even though (Hassan *et al.*, 2003) show that Kuwaiti stock market efficiency improves towards the last sub-period of the 1990s. (Abu-Sharia and Junankar, 2003) they answered the following question Do stock markets and economic reform have an effect on economic growth and, if so, how? And, how can Arab economies benefit from stock market development? They found that there was a positive relationship between stock market development (as measured by the log of the Turnover Ratio) and economic growth when they estimated a model with fixed effects. However, this relationship was statistically significant only at the ten percent level, they also found that the lesser the public rights the slower of growth rate. This is an interesting finding that suggests that a pursuit of liberalization in terms of civil and public rights should help economic growth as well as being desirable in its own right. Another study (Eltony, Babiker, 2005) have found that the Arab capital markets' experience demonstrated that institutions have a vital role and positively influenced the process of Arab financial sector liberalization, it also emphasizes the notion that strong and effective Institutions are very important ingredient for building and developing strong and sound equity market. For the Arab countries there is a particularly strong case for institutions development. This suggests, improving the quality of institutions should be an integral part of any effort aiming at enhancing stock markets efficiency and their contribution to economic development in the Arab region (Abdmoulah, 2009). A Test of Evolving weak-form Efficiency using GARCH-M approach along with state-space time-varying parameters is

implemented for 11 Arab stock markets for periods ending in March 2009. All markets show high sensitivity to the past shocks and are found to be weak-form inefficient, as the efficiency does not improve towards the first quarter of 2009 and negatively reacts to contemporaneous crises. This contrasts with developed markets and reveals the ineffectiveness of the reforms undertaken during the last decade and calls for serious reflection to boost the markets, improve their liquidity and counteract the shortcomings of the large individual trading. With respect to Libya due to recentness of establishment of the stock market there is a little studies founded in the literature concerning the Libyan stock market for example (Aljbiri, 2008) his contribution is about the importance of the establishment the Libyan stock market, the results show firstly, that the establishment of Libyan stock market will improve the performance of the Libyan economy, secondly, the establishment of LSM will help to attract more foreign direct investment and enhance the investment climate, thirdly, the establishment of LSM will support and accelerate the privatization program thus, accelerating Libya's future growth. Generally speaking, Libya needs to establish its stock market urgently and to make comprehensive economic and financial reforms. As well (Ellabbar, Havard, 2007) concluded that it is very important for Libya to establish a capital market but the main problem is that the environment is not yet suitable. (Zainab A., 2008) determined that Libyan culture which is based on clans and tribes suggests a low level of trust outside the clan or the tribe, as a result, aggregate Libyan society may have a lower level of trust in the Libyan stock market. A perspective based on Islam would, in general, be more appropriate to stock market development (at least as far as trust is concerned. The need is to bring a (Qur'an) perspective and harness it to a regulatory framework that serves to build a general climate of trust in the stock market and its operations. (Najeb M. H., 2009), used The empirical study investigates the determinants of economic reform and stock market performance within the Libyan economy utilizing data from three different sources and a multi-method approach. This would serve development needs in Libya well. The key findings are, first, the economic reform programme variables have an impact upon various features of the stock market performance variables within a linear regression model, second, stock market development has a significant effect on economic growth, and this effect remains strong even after controlling for banking sector and other control variables using a growth model, third, although the evidence largely supports the view that there is a stable, long-term equilibrium relationship between the evolution of the stock market and the evolution of the economy, it provides no support for the view that the stock market is a leading sector in the process of Libya's economic development. The evidence supports the view that the relation

between stock market development and economic growth in emerging economies is bi-directional. The findings describe that the stock market and the banking sector in Libya in particular and emerging economies in general are complementary rather than substitutes in providing financial services to the economy.

RESULTS AND DISCUSSION

Libyan Stock Market (LSM)

The Libyan Stock market (LSM) was established by Decision No. (134) of the General People's Committee (GPC), in 2007, to form a joint stock company with capital of 20 million Libyan dinars, divided into 2 million shares with a nominal value of 10 LD per share. Libyan stock market is considered as joint stock company consists of members who owned shares in this company, the membership in LSM is not free which means that LSM gets the membership fees and annual subscriptions, the membership fees are paid once, while the subscriptions are to be paid annually in the beginning of each financial year. According to the decree of General people's committee for economy and commerce and investment No. (332) for the year 2006, the market get the membership fees from its members in the amount of (0.0006) from subscribed capital stock and must be not less than two thousand dinar, and not more than twenty thousand dinar. In addition, to get the annual subscription from its members in amount of (0.0004) from the subscribed capital stock and must not be less than one thousand dinar and not more than ten thousand dinar. However, LSM recently Joining the membership of the following:

- (ASEA) Arab Securities Exchange Association.
- (AMEDA) African and Middle East Depository Agency.
- (ANN) Association of Numbering Agencies.
- (AAE) Association of African Exchange
- (WFE) World Federation of Exchanges.

Regulatory Framework of LSM

The Libyan stock Market is well regulated, currently having a number of legislation that govern the establishment and operation of companies within the market. From the beginning of the establishment of the Libyan stock market, it was adopting the more developing systems and avoid mistakes which other markets have made. For this reason LSM has prepared regulations and rules governing the market operations to have fair trading and to protect both sellers and buyers rights, the law of stock market aimed to organize and develop companies and economical institutions, setting up regulations for establishment of companies properly and to provide the needed finance to these companies. The law of stock market aims to enact the concepts of transparency, disclosure, and

to protect the investors from non-market risk. In addition, to deepen the investment in all sectors, Libyan government have made impressive changes in recent years via issuing many acts such as:

- The Law concerning the encouragement of foreign capital investment (law No. 5 of 1997), as amended by (Law No. 7 for the year 2003).
- The Law concerning the practice of economic activities, specifying the tools for practicing economical activities exemplified in individuals and public companies (law No. 21 of 2001).
- The Law regarding regulation of Transit Commerce and Free Zones (law No. 9 of 2000).
- Banking Law (law No. 1 of 2005).
- Law on Combating Money Laundering (law No. 2 of 2005).

Law No. (11) of 2010 On Capital Market

The Libyan Stock Market established by a regulation issued by the Libyan administration, now the Libyan Stock Market is regulated and governed by a new law which has been issued under No. 11/2010. With a number of 101 articles law No. 11 regulates many issues include organization of the Stock Market Authority and the Libyan Stock Market Co, also provides the rules regarding issuance, listing, disclosure, exchange, electronic signature, investment management, establishment of investment funds, organization of arbitration and conciliation board. Libyan stock market now established an independent regulatory and supervisory authority, it is regulating pursuant to the Libyan administration as mentioned above, now also have separated institutions in charge of supervising and organizing the main functions, such as listing, settling, or trading. Libya have a more sophisticated structure, and is one of the factors allowing them to be members of the World Federation of Exchanges. The new Libyan stock market law has provided some aspects which can be summarized as follows:

- The fifth chapter on article No. 47 deals with the establishment of investment funds by the banks.
- Article No. 75 deals with some agreed-upon incentives for companies listed on the market Give those papers listed in the tables of the market and that no deal on its securities, including at least Than sixty days a year, the following incentives:
 1. Exemption from income tax for up to 5 years.
 2. Reduction of income tax by 50% after the end of the period prescribed for the exemption as long as the insert.
 3. Exemption shall not exceed 50% of the value of customs duties or charges having equivalent effect to it.
- Article No. 79 focuses on trading securities abroad.
- Article No. 80 speaks about the establishment of a fund to protect investors.

To summarize, the development of Libyan stock markets, within a sound regulatory framework,

requires improve regulations and achieve international standards for capital markets. In other word, to reach the goal of developing Libyan stock market, Libya have to consider reducing the disparities among rules and regulations. Policies would need to be put in place to minimize the costs of dealing with diverse regulatory systems so as to attract both domestic and foreign investors.

Information Technology Development in LSM

In April 2008, the Libyan Stock market launched its Automated Trading System(ATS) based on the Egyptian model. This new computerized system was designed to make the market more efficient and transparent. This new computerized system complements the Central Clearing Depository System (CCDS) which was introduced in 2008. From the beginning of establishing, LSM has implemented the new system of information technology in order to work with specifications and standards of international stock market. These IT such as installing the technical equipment (servers) to operate the main system of the market and connecting them by fibers optics. And installing the electronic system related to trading, depository, clearing and monitory, forming internal computer net with the market standards and protecting it by protected programs. This besides preparing bank data related to technical department in the market connecting them by net, however, it could be said that a lot of agreements were concluded done in this regard for example, signing a contract about income and install trading, clearing and control systems, signing an understanding memo with (NCDX), and (MCX) Exchange in India, also cooperation agreement with London stock market, as well as an agreement with Arab society of certified accountants in Jordan, all these efforts to deepen the efficiency, however, the data comes from annual report of LSM showing that more than 6.075 million Libyan dinar the cost of technical equipment's in LSM. So it can be noted that Libyan stock market has learned from international and other Arab counties in capital markets to develop the market regarding to (IT), this of course will help to increase the efficiency in the market.

Evaluation of LSM Performance

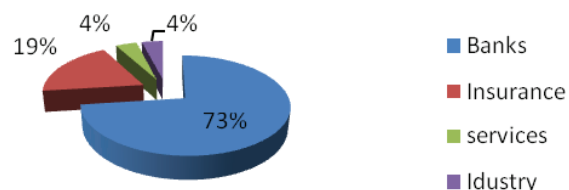
Market Structure

The Libyan stock market currently lists 12 companies, divided into four sectors, each of which has its own specialty, they are:

- Banking Sector.
- Insurance Sector.
- Investment and Financial Services.
- Industrial Sector.

At the beginning, the market composition was heavily depending upon financial sector companies, with banks and insurance attracting the largest share of investment flows. Also in 2010, Banking sector

was the dominate sector in the market, representing 73 percent of market capitalization, followed by insurance companies 19 percent, financial service 4 percent, industry 2 percent, see Fig. 1, however, most of these companies which were listed on Libyan stock market are public companies and most of them suffering from many problems, For example, in terms of disclosure, financial deficit, accounting standards. It was clear that the companies which were listed in LSM were not the profitable companies in Libyan economy. Since the beginning, the government has used banks and insurance companies to jumpstart the Libyan Stock Market (LSM) and privatization efforts in general, slowly feeding them into the private sector, in addition, the number of publicly traded and exchange-listed firms is typically quite low, relative to the number of firms in the economy, Libya has many profitable company such as the telecoms and industrial categories, both linked to highly profitable growth sectors are set to attract domestic and foreign investors, pushing up daily trading volumes and market capitalization. Telecoms companies (Libyana and Al Madar), (the Libyan Iron and Steel Company) in 2010 the Libyan stock markets are expected to acquire more depth and sector diversity, the sale of as many as 40% of stakes in two government-owned mobile phone networks, Libyana and Almadar, is expected to surpass previous IPO proceeds, as well as Oil companies, both private and public, might be listed in the stock market, if the basic conditions are available. However, the annual report of LSM 2010 indicated that there are more than 22 companies listed in sub-table when the conditions will be ready and they are from different sectors. Besides, it can be noted that Libyan stock market has not diversified the types of financial instruments, because only one instrument exist for investors which are shares, bond instrument does not exist yet, and also few companies mainly (banks, insurance) that listed in the market, which means that the most profitable companies doesn't come to the LSM yet. The LSM still needs an international custodian for foreign funds and a significant amount of legislative clarity regarding the repatriation of funds, but these are to be imminently resolved. With the government steadily working to privatize up to 375 national companies in the coming years, most of which will be listed in the market.



1: *Libyan stock market structure as capitalization*
Sources: Libyan stock market annual reports, 2010

Market Capitalization

Common index often used, as a measure of stock market size is the market capitalization. Market capitalization equals the total value of all listed shares. In terms of economic significance, the assumption is that market size and the ability to mobilize capital and diversify risk are positively correlated. For the four years covered by the study (2007-2010) the lowest market capitalization was 330 million in 2007 with highest capitalization of 3.6 billion in 2010, the trend is shown in Tab. II. However, it can be said that market capitalization of Libyan stock market has been doubled 3 times during this very short time. But also the table indicates to the fact that the market capitalization ratio is too small especially if compared to international standards for example this ratio reached 184% in Malaysia and 136%, and Mexico, in 1998. (Porras, Barika, 2006) identified a number of factors that account for lack of interest by Libyan companies being listed in the market such as cost of public quotation, and reluctance to dilute ownership and control through public quotation, as well as stringent requirement for listing.

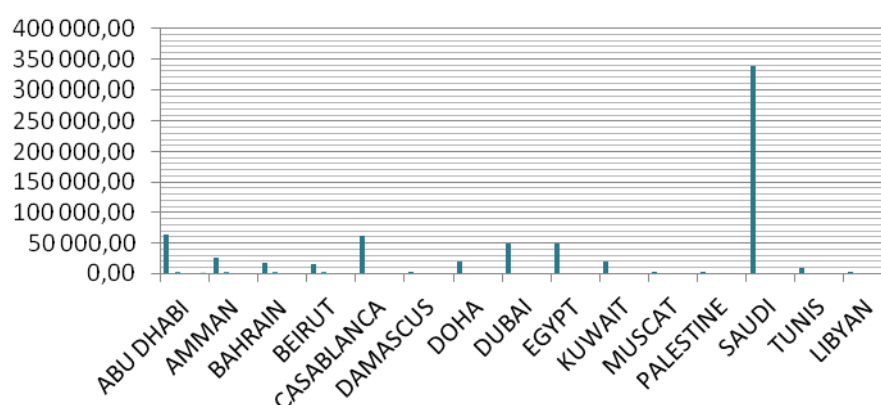
Compared to Arabic level the Tab. I, Indicates that Saudi Arabia, Kuwait and Doha have the highest market capitalization of the 15 Arab stock markets at the end of 2010, where the Saudi stock market is the largest in the region. Among the Arab stock markets Libya has the smallest market capitalization in terms of percent of GDP. In spite of this, the Bahrain stock market is the first with respect to capitalization to GDP ratio, about 100.4 percent followed by Kuwait and Jordan, 66.1 and 64.7 percent's respectively. However, the Arab market capitalization accounted about 60 percent for banking, investment, insurance and real estate firms, compared to 24 percent in the other emerging markets. Less than 20 percent of Arab markets capitalization is in manufacturing, compared to an average of 36 percent in the other emerging markets (Azzam, 1999).

Number of Listed Companies

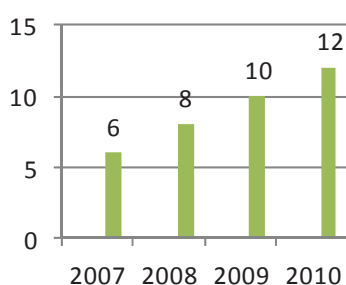
With regards to the number of listed companies data come from Arab monetary fund indicates that Amman market is by far the largest market established in 1999 has 276 companies, followed by Egypt was established in 1903 and has 228 and Kuwait, see Fig. 4, in the Libyan stock market the number of listed companies increased from 8 companies in 2007, to 12 company in 2010, see Fig. 3, but it should be mentioned that There are 22 listed companies in the Sub-Table, according to this indicator The Libyan market is the smallest, with exception of Beirut 11 company, because Libyan stock is relatively new that was established in 2007. in fact, it's clear that few companies listed in Libyan stock market according to this indicator even if compared with the Arabic stock market rank, maybe this due to recentness of the establishment of the market, however, it can be said that the risk is high in the market and the principle of diversification cannot be available for the investors, due to the limited listed companies in LSM. To conclude in future that the move by Libyan government towards privatization and market reforms will help and strengthen the stock market as the number of listings has increased. Besides, that new law through article 67 will provide some incentives for companies listed on the market give those papers listed in the tables of the market and that no deal on its securities, including at least Than sixty days a year, see details discuss above, however, these incentives will expand and increase the companies to be listed in future.

Liquidity

Basically, liquidity refers to the ease with which an asset (in this case securities) can be turned into cash through an efficient market. That is, the ability to easily buy and sell securities. (Demirgüç-Kunt and Levine, 1996) identified two main reasons why liquidity is important in the characterization of stock market. The first is that liquidity relates to the riskiness of the investment. An investment is deemed to be less risky where investors are able to

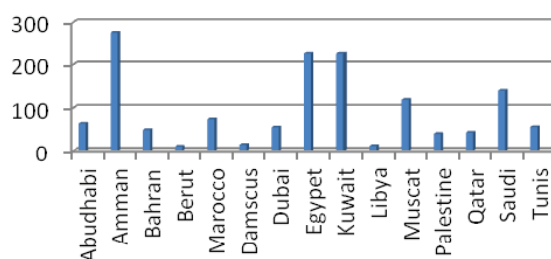


2: Market capitalization of Arab stock markets 2010 (Million US \$)
Source: Arab monetary fund, annual report, 2010



3: Listed companies in LSM

Sources: Arab monetary fund, annual reports



4: Listed companies in Arab stock

Sources: Libyan stock market, annual reports

alter their portfolios quickly and cheaply. While the second, theoretically, allocation of capital is more efficient and as such liquid market enhances long-term economic growth. Added to the points above (Osinubi, 1998), pointed out that liquidity of the stock market facilitates profitable interaction between the stock market and the money market in that shares become easily acceptable as collateral for bank lending thereby boosting credit and investment. There are two main measures of liquidity, total value traded ratio and turnover ratio.

- Total value traded ratio is the total value of shares traded on the Stock market exchange divided by GDP. It measures trading of equities as a share of national output. Normally, it should positively reflect liquidity on an economy wide basis. The Libyan stock market has recorded low rate of liquidity with 0.002 percent for the year of 2010. But this ratio improved during the period of the study.
- Turnover ratio is the value of total shares divided by capitalization. High turnover reflects low transaction costs. The Libyan stock market turnover ratio for the period under study has recorded of 0.05 in a year of 2010. These two main measures are set out in column 5 and 6 of Tab. II. However, this low index is an indication of relative illiquidity and stunting of the overall growth of the market. So it's clear that the two most widely used indicators to measure the liquidity, the ratio of the value of traded stock to GDP and the stock turnover measured by the value of traded stock as a percentage of total capitalization. Both

measures suggest that Libyan stock market have clear liquidity problems when compared to even the other Arab stock markets, Saudi Arabia has the best turnover ratio 83.7 percent, followed by Egypt 36.4%, Kuwait 20.4%, Dubai 17.6%, and Doha 16.2% respectively, see Tab. I.

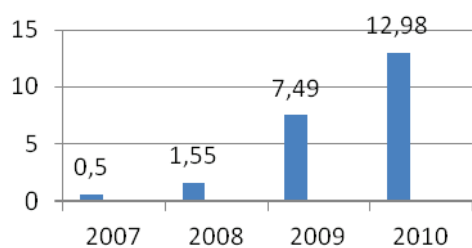
Libyan stock market is vary much regarding to its liquidity as measured by value and shares traded. Indeed, the column 5 show lowest ratio during the period of study which mean that the Libyan stock market is still underdeveloped. Thus, liquidity is totally provided by limit orders traders, moreover, a major factor behind the low turnover is that many investors, particularly institutional ones, tend to acquire shares in order to hold them as saving instruments. By the same token, speculators have disproportionate influence on the market. In these circumstances, the share prices suffer from larger fluctuations then they would in deeper markets. Besides, market authorities are still implementing reforms aiming at increasing the transparency and the efficiency of the market by imposing disclosure rules, by revealing part of the order book, and by the registration of brokerage companies. (Najeb, 2009) pointed out The relatively low liquidity in Libyan stock market due to the many factors such as the current method of trading on the exchange, there are no markets and that tends to limit the size of trades that can be executed, also a substantial government's share portfolio, a significant portion of which is not traded, and the relative lack and under-development of institutional investors, e.g. pension funds, and mutual funds.

II: Market Capitalization Ratio, Value Traded Ratio and Turnover Ratio

year	Market Capitalization (1)	Cross Domestic Product (2)	Market Capitalization Ratio (3) = (1/2)	Total value of domestic Shares Traded (4)	Value Traded Ratio (Liquidity) (5) = (4/2)	Turnover Ratio* ¹ (6)
	Million LD	Million LD	%	Million LD	%	%
2007	330.400	8984.6	0.004	0.254	0.00003	0.07
2008	991.430	106371.6	0.008	37.49	0.0003	0.03
2009	2.140.980	86288.9	0.02	74.44	0.0008	0.04
2010	3.014.220	92801.0	0.03	147.06	0.002	0.05

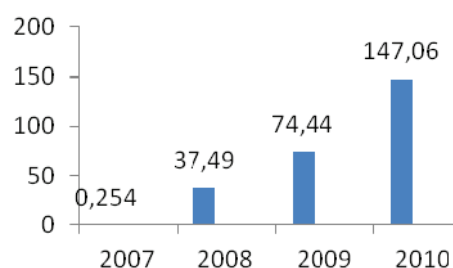
* Turnover Ratio (%) = value traded of listed securities / market capitalization

Sources: Libyan stock market annual reports, various years



5: Value traded LSM(M.LD)

Sources: Libyan stock market annual reports



6: Number shares traded LSM(M.LD)

Sources: Libyan stock market annual reports

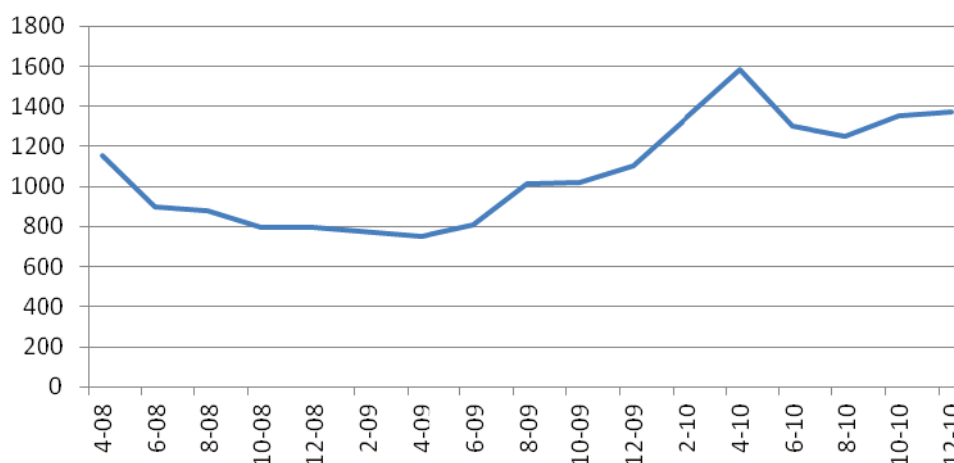
Value traded

Fig. 5, 6, above shows that the trading volume increased rapidly from 37.4 million Libyan dinars in 2008 to reach 147.0 million Libyan dinar in 2010, and 1.5 million shares were traded and increased to 12.9 million in 2010. However, while there are 12 companies listed, trading concentrated in less than 6 companies, also the value traded ratio reached 0.02 percent of GDP compared with 0.00004 percent in 2007. In deep details, in 2010 the movement of trading is high compared to 2009, it is recorded during the period the total volume of 12,985,236 shares, compared to the size reached 7,490,718 shares in 2009 and an increase of 168.62%. The total trading during the year 2010 amount of 147,067,913.480 dinars compared to 74,444,109.600 dinars during the previous year. Trading market and consists of four main sectors, the banking sector, insurance sector and the investment sector and financial services, and industry have been the inclusion of new papers and the main table and the identification of the banking sector are the National Commercial Bank and the Bank of the Mediterranean. It was the largest volume of trading of the share of the banking sector the number of 4,388,083 shares, which accounted for 72.30% of the total shares traded a total value of 59,823,106 dinars, up 76.75% of the total value traded. And has been the most active banks in the banking sector

in terms of the number of shares traded is the Al-Jamhuriya Bank the number of 1,260,176 shares valued at 16,734,255.240, valuable while the second sector is the insurance sector and the record amount of 819.868 shares traded increased by 13.51% of the total shares traded and the value of 9,934,897 dinars. The investment sector came third in the standings for the sectors and the record volume of 838,116 shares and 13.81% by value of 7,911,371 dinars. Besides, it could be said, despite these improvements but it still in contrast compared with Arabic market level. Unless we taking the recentness of establishing in our consideration. However, it can be mentioned the lack of awareness of goals, aims, benefits and work mechanisms of the stock market which is due the new mess of the experience in Libya and the lack of any previous experiences in this field with regards to the majority of investors, it is of paramount importance that awareness and educative campaigns are conducted on all sectors of society.

LSM Index

Regarding with LSM index, It should be noted that Libyan stock market introduced its electronic trading system (ETS) in 03/04/2008, The index is currently composed of banks and financial services companies, including Sahara bank and Wahda bank, both of which were privatized via the LSM



7: Libyan stock market Index (2008–2010) (Points)

Sources: Libyan stock market annual reports, various years

and the Gumhouria bank, Bank of Commerce and Development (C&D), Assaray Bank, Libya Insurance Company (LIC), United Insurance and Sahara Insurance company, also Libyan stock market company, Ahlia cement company (ACC), with the LSM index starting from a base of 1000 in April and closing at 940.44 in June after a high of 1284.21 and a low of 874.14 points, down by 203.25 points, or 20%, its clear that the second quarter of the year 2008 was relatively volatile and perhaps the most important reasons behind the decline during 2008 is the grades or oscillating movement of the Ayaar of companies involved in the calculation of the index. During 2009 the Libyan stock market index has jumped by 40% on August reaching 1015.93 points and continued in this level till the end of the year, Despite the global crisis, the LSM managed two successful IPOs in 2009, while sell-offs were limited to the 10–15% range. In 2010 The LSM index has jumped by 80% on April, reaching 1600 points, which represent the highest level since 2008, then it closed the year at 1354 points, the banking index went up by 134 percent, insurance by 98 percent, services by 78 percent, and industry by 15 percent, however, The performance of the Libyan stock market during 2009–2010 was exceptional and unprecedented.

To summarize, The most indicators have been shown in Tab. I. the Libya stock market rank the lowest among of 15 Arab stock markets during 2010, with respect to market size, capitalization, whereas for the turnover liquidity indicator also Libyan stock market rank the lowest among a 15 markets. As well as the number of listed companies Libyan stock market has lowest number of companies in 2010. Nonetheless, a number of Arab markets (Egypt, Kuwait, Doha, Saudi Arabia and) appear to have experienced steady improvement in the trend of their liquidity and capitalization and number of listing companies. However, despite the improvement of Libyan stock market during this very short time of its experience over the four years considering the turnover measure, and liquidity and number of listing companies but yet the extent of these improvements is far less than that experienced by the Arab stock markets. With the exception of the (Damascus) due to recentness of establishment. Despite of the small size, illiquidity, Libyan stock market have recorded solid performances lately. It must also be noted that modest progress has been registered in the development of regulation that govern the market as well as information technology. In recent years, Libyan government have introduced, as part of wider financial sector reforms, new laws enabling the emergence of sound financial system. In coming years Libya have great potential to mark a crucial stage in the development of capital markets. As more companies come to the market, the Libyan stock market will become more diversified and liquidated, with capitalization levels expected to double in the next few years, Privatization and new regulation will remain among

the driving forces behind new listings. However, the market is likely to attract greater interest from private companies seeking to raise capital. Foreign investor interest is likely to increase over this period as the regulatory environment becomes more open to capital inflows from outside the country.

Recommendations To Speed the Development of LSM

Based on the above findings, a number of recommendations can be made. These are:

- Raising awareness of investment through all means of education and communication, and perhaps focus on the curriculum is one of the means necessary to instill the concepts of saving and investment, the management of the Libyan stock market has really begun a program of seminars and workshops in Libyan universities for the deployment of investment awareness among the masses of students, which I recommend to continue in this approach.
- Focus on the factors helping to revitalize the market as disclosure full of information and provision of justice, could be to require listed companies in the market on the version of the budgets of half-yearly, in addition to the annual budgets, an important role in this area, which allows investors to access continuously situation of companies and thus make stock prices reflect the depth and reality of these companies.
- Emphasis on corporate governance standards and adoption of latest international accounting standards where needed.
- Libyan stock market should diversify the types of financial instruments available to investors such as Islamic bonds, and make Islamic products available to the investors.
- Reviewing the regulation of LSM regarding to foreign participation and removing most restrictions on foreign participation in listed companies.
- A number of institutional and structural reforms needed including, an effective privatization plan, a macroeconomic environment that is conducive to increase the private sector share in the economy.

CONCLUSION

Stock market development is a multi-dimensional concept. It is usually measured by stock market size, liquidity, volatility, efficiency, integration with world capital markets, and the legal rules (regulation and supervision) in the market. While financial market in Libya have been in existence for the last four years, there have been limited studies on evaluation of financial market performance in Libya. Thus, to fill this gap, The paper has analyzed and evaluated the Libyan experience with stock market during the period (2007–2010), moreover, the paper went further than to review the challenges which are facing this relatively new concept, however. The

most important findings of this paper is that, despite this a considerable development of LSM recently, yet most indicators have been shown in Tab. I. that Libyan stock market ranks the lowest among all markets during 2010, with respect to market size, capitalization, whereas for the turnover liquidity indicator also Libyan stock market rank the lowest among all markets. As well as the number of listed companies Libyan stock market has lowest number of companies in 2010. Also with regard to market capitalization as percentage of GDP is as low as 0.003 in Libya. However, Libyan stock market remain largely underdeveloped, small and largely inefficient, illiquid when compared with other Arab stock markets, but nevertheless, Libyan stock market have recorded solid performances lately, despite the problems of small size and low liquidity, and the

inefficient, Libyan stock market perform well in terms of regulations and information technology, due to the assistance from the international and other Arab counties experiences, even the regulatory aspect should be improved regarding to foreign participations. Finally, this paper concluded that Libyan stock market is not well functioning yet and does not contribute to economic growth significantly, but the establishment of the Libyan stock market was a major step on the path of developing financial resources through the creation of a sound capital market. Therefore, the paper suggest that Libyan stock market authority should focus on factors to revitalize the market as disclosure full of information and provision of justice, as well as institutional and structural reforms needed.

SUMMARY

This paper deals with issue of evaluation of financial market in Libya, the main goal of the paper is to answer the following question, to what extent the Libyan stock market developed, The development of the capital markets is measured in a number of ways such as, the number of stock exchange listed companies, market capitalization and intensity of the use of the securities markets also by the relationship between market capitalization and GDP. However, the descriptive statistics and comparative method is applied. The key findings of this paper is that, Libyan stock market remain largely underdeveloped, small and largely inefficient, illiquid compared with other Arab stock markets, which mean that Libyan stock market is not well functioning yet and does not contribute to economic growth significantly, and in the end of the paper suggested necessary recommendations to Speed the development of Libyan stock market.

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