

A Miniscule Exploration of the Libyan Stock Market

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Abstract

The formation of the Libyan Stock Market (LSM) has been greatly affected by instability in the country. The stock market has been active, inactive, active and inactive since its inception in 2006. On the other end, there has been a growing concern and existence of constant pressure to activate the stock market for the benefit of the economy. The factional disagreements and a weak security environment that persist pose heavy challenges for developing and re-activating the stock market. The economic outlook for Libya remains uncertain. It remains difficult to forecast economic outcomes with any degree of confidence because of high uncertainty linked to political and security developments. The times when the stock market was active, significant contribution was brought to the economy, and such has been confirmed by many stakeholders. If re-activated the LSM is expected to play vital role in capital supply for investment, which in turn drive economic development in Libya. For effective contribution, LSM should be established on strong and stable foundations.

Keywords: Conflict, Development, Economic Growth, Financial Sector, Libya, Stock Market.

JEL Codes: B26, D74, E44, G18, G28, N27, O16, O55.

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1. INTRODUCTION

The empirically proven advantages of fueling economic development through well-developed financial markets has led to many countries choosing to develop stock exchanges for their respective nations. In confirmation Aljbiri (2012) narrated that strong stock markets together with institutions play a crucial role in promoting economic development. The Libyan stock market (LSM) was developed in 2006, being one of the young stock markets in Africa. The LSM was set up under the supervision of the People's Committee for Economics, Trade and Investment (PCETI) within the Ministry of Economy.

The LSM was developed to contribute to economic growth in Libya. The decision to develop the LSM became cemented after signs of rapid development were noticed following the removal of United Nations (UN) and United States (US) sanctions a few years before its inception (Masoud, 2009). The sanctions were lifted altogether in 2003 (Alkhurmani, Alias and Daud; 2017). Further recorded in Libya Financial Sector Review (LFSR) (2020), the sanctions resolution, oil prices drop, and probably some other

factors drove the government to opt for a more open economy.

The study primarily focuses on describing and explaining the formulation of the LSM, the closure of the LSM, and the need to have it re-activated. The existing data, facts, and knowledge of the stock market was utilized by the study, followed by a critical analysis and evaluations to derive meaning for policy derivation. The factors and issues surrounding the LSM were looked at in an effort to discover appropriate way forward to resuscitate stability and development. The general importance of stock markets in various nations as observed by previous research contributed to strengthen the significance of undertaking the current research. Libya should never be left operating with no stock market – the barring factors should be explored and solutions sought.

The paper is organized into eight sections; (1) introduction, (2) a glimpse of Libya and its neighbours, (3) development of the LSM and its economic contribution, (4) Libyan economy and the over reliance on the oil sector, (5) financial sector composition, (6) corruption and stock market development, (7) prospects

of the LSM, and (8) conclusion and policy recommendations.

2. A Glimpse of Libya and Its Neighbours

Libya is one nation that shares borders with many other nations. Its neighbours are Egypt, Sudan,

Chad, Niger, Algeria and Tunisia. Libya also has coastal area formulated by the Mediterranean Sea. Libya is a vast territory, being the third largest nation in Africa and having about 90 percent of its land uninhabited and mostly desert (El-Gamaty, 2018).



Figure 1: Libya and its Neighbours

Figure 1 above shows Libya and its neighbours including the sea. Libya has long been a destination for millions of people from its neighbouring countries, Algeria aside, who are seeking work and good income from their resource rich neighbour with a low population. In support Mahuni, Taru and Bonga (2020) narrated that Libya has acted as entryway to migrants who make their risky journey to Europe and this has raised burden to the economy as cases of trafficking, and terrorism by gangs are on the rise. All the neighbours of Libya have developed stock markets, Algeria, Egypt, Sudan; with Chad being a member of the Bourse des Valeurs Mobilières de l'Afrique Centrale (BVMAC) and Niger a member of Bourse Régionale des Valeurs Mobilières (BRVM). In terms of economic integration in Africa, Libya is part of three Regional Economic Communities (RECs) namely Arab Maghreb Union (AMA) with five member countries, Common Market for Eastern and Southern Africa (COMESA) with nineteen member countries and Community of Sahel- Saharan States (CEN- SAD) with twenty-four member countries. It remains weakly understood why conflict persist in Libya given its association with many other nations and the mandate and objectives of the RECs.

3. Development of the LSM and Its Economic Contribution

A study by Edweib, Shafii and Ahmad (2013) obtained that brokers, employees and investors

significantly agreed that LSM has noticeable potential to positively contribute to Libya's economic growth. The stock market started with 7 listed companies in its main table, rose to 10 in 2008, 15 beginning of 2009, 25 by end 2009, increased to 41 in 2010 and having 12 brokerage firms (Edweib, Shafii and Ahmad; 2013). Nevertheless, the Libyan stock market authority has to improve the policy environment so that more companies from different sectors of the economy can be encouraged to participate and contribute in the market (ibid). The London Stock Exchange provided much needed support in the training of personnel for the smooth running of the Libyan Exchange; this was necessitated using the 2007 agreement. LSM worked with Amman and Cairo stock exchanges to design rules and operations (LFSR, 2020). Disruption, which led to the closure of the Libyan Exchange, was experienced from February 2011 to March 2012 caused by the Libyan civil war. Through years, concerns were the LSM's illiquidity which some reforms and policies were effected to sort the issue but reaping little success. As indicated by Bonga and Sithole (2019), development of stock markets is not only shown by rise in market capitalisation, liquidity or index performance, but the quality of services rendered in the stock market should be well improved. In 2014 again, the stock market became inactive due to political instability in the nation. Figure 2 below shows the Gross Domestic Product for Libya for period 2009 to 2020.

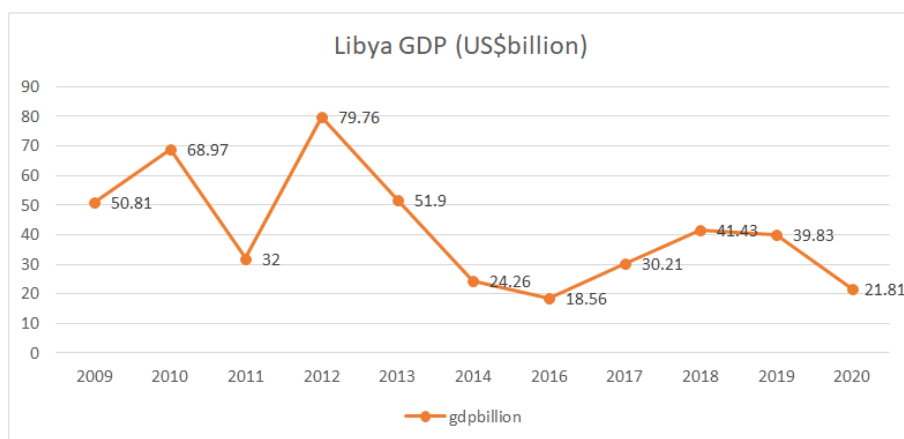


Figure 2: Gross Domestic Product for Libya (2009 – 2020)

Source: www.knoema.com

From Figure 2 above, it is clearly shown that there is no definite trend in the growth of the GDP. There exist fluctuations over the years, with a downward trend being significant. There are visible shocks being observed. When the LSM was formed, some of the aims and functions included; (1) the creation of a suitable environment for bond and share investment to benefit the economy, (2) encouraging savings and increasing investment awareness to productive sectors, (3) serving economic and social development aims through use of private savings, (4) developing rules to protect and guarantee good market conduct, (5) establishing linkage and developing cooperation with international markets, and (6) operating underwriting of shares. All the functions mean a significant contribution to the economy, when adequate support is provided.

4. Libyan Economy and the overreliance on the Oil Sector

The Libyan economy to date significantly rest on the performance of the oil sector. Accordingly, Libya is one African nation (followed by Nigeria and Algeria) with the largest verified oil reserves in Africa (LFSR, 2020). This makes Libya one of the richest countries in the world using oil reserves/population size ratio. The economy's reliance on the oil sector makes it prone to economic shocks emanating from fluctuations in oil prices. In view of this the Prebisch-Singer hypothesis prescribes developing countries to diversify their exports so that they can protect themselves from deteriorating terms of trade, slow productivity and low value added. Chenery (1979) and Syrquin (1988) also highlight that diversifying away from primary sector towards manufacturing sector makes economic growth more sustainable and sustained. Figure 3 below shows the real GDP growth and inflation rates for the period 2009 – 2020.

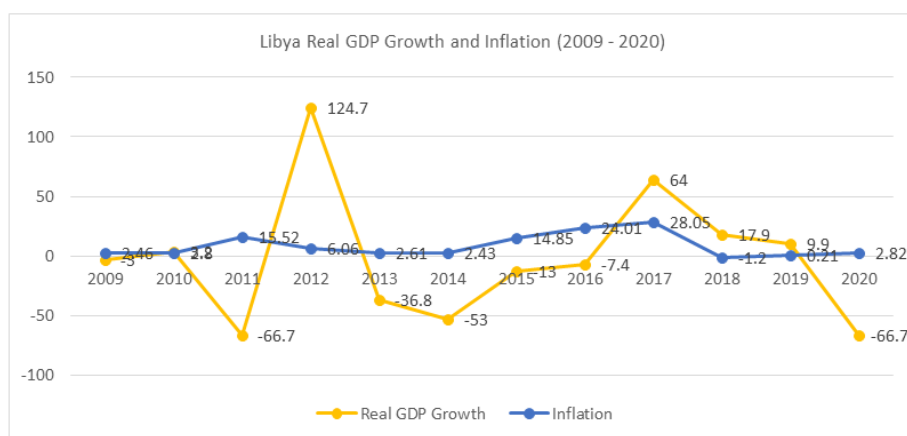


Figure 3: Libya Real GDP and Inflation Rates (2009 – 2020)

Source: www.knoema.com

From Figure 3 above the real GDP growth is significantly oscillating, indicating the presence of shocks. There is definite pattern for growth, thereby making the economy unpredictable and investor

unfriendly. The trend of the inflation is quite visible, indicating managed inflation. The divisions of the central banks in the country exist and pose challenges in the control and determination of money supply.

5. Financial Sector Composition

State banks dominate the financial sector of Libya. As indicated by LFSR (2020), five state banks hold over 90 percent of Libya's deposits, and the banking sector controls over 80 percent of financial sector assets. The banking sector should be supported by the stock market existence. Worth noting is that despite the fact that stock markets do not always

perform well, their existence and core functions offers benefits to respective societies that are never possible without them (Bonga, 2014). For example, OECD (2012) narrated that stock markets aid in the promotion of corporate governance practices among listed companies. Figure 4 below shows the amount of personal remittances into the country, to explain the faith to attain stability in the country.

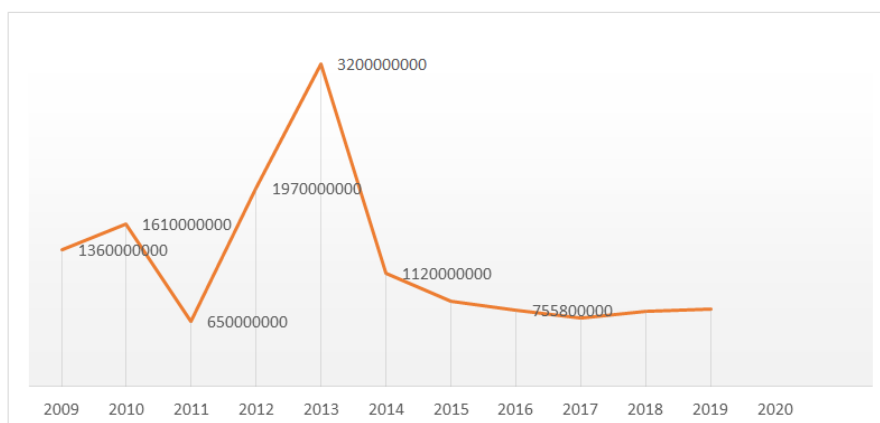


Figure 4: Personal Remittances

Source: www.knoema.com

From Figure 4 above, personal remittances have shown improvement from 2009, dropping in 2011 and significantly rising till 2013. Thereafter, the remittances dropped significantly until end of period. This may be attributed to the closure of the stock market to date. Potential investors have been left with reduced investment options. The absence of the stock market is a blow to the economy. According to Nowbutsing and Odit (2009) a stock market is an indicator of an economy's financial health. The stock market also indicates the mood of investors in a country or towards that country.

6. Corruption and Stock Market Development

There is widespread corruption in Libya, all sectors being affected. Libya, in current times, is the

fifth most corrupt country in Africa, after Sudan, Equatorial Guinea, South-Sudan, and Somalia (Chukwumeka, 2022). Corruption is one factor impacting stock market development in many countries that should receive great deal of attention. Corruption disrupts realization and development, and the ultimate costs are heavily borne by the country citizens (Bonga, 2021). In support Badi, Gallet and Maggi (2021) narrated that pathologies of Libya's oil-dependent economy compounded by corruption, black market economy, and armed groups' predation of financial institutions create heavy challenges to the economy. Figure 5 below shows the Corruption Perception Index (CPI) for Libya over the period 2009 – 2020.

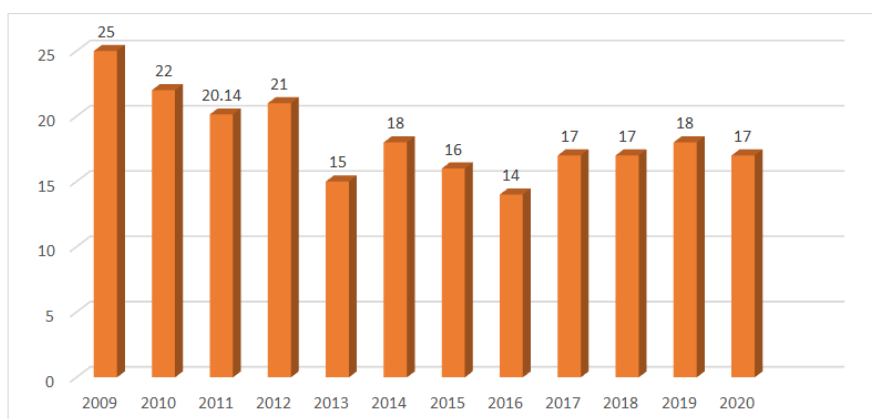


Figure 5: Corruption Perception Index (2009 – 2020)

Source: Transparency International

Figure 5 above shows that corruption in Libya is very high. The index ranks countries from 0 (most corrupt) to 100 (clean). The index shown over the period is in the lower part of the index, thereby indicating Libya a corrupt country. Where corruption is significant, development and performance of institutions including stock markets is weak. There is strong interference from politics. Corruption has become a serious world concern causing a lot of countries entering into agreements to jointly monitor corruption activities (Bonga, Chiminya and Mudzingiri; 2015). Strong policies to reduce corruption should be enacted and implemented correctly for the re-activation of the LSM to be contributive to economic growth for future Libya.

7. Prospects of the LSM

According to the African Economic Outlook (2022) the demand side showed a contributive behavior; investment and household consumption in 2021 drove growth of the economy. From such observed statistics, the relevant authorities should support mobilization of domestic resources through financial markets development in order to support economic diversification. While it remains a significant move to activate the stock market, there are a lot of factors that continue to hinder the economic development move. The multiple factors include persistence of conflict, division of central banks, division of companies between the east and west of the nation, and ultimately the lack of banking services. As indicated by World Bank (2022), the primary downside risk for Libyan development is a backslide into violence and armed conflict. Development requires good infrastructure. Infrastructure in Libya has been destroyed due to ongoing conflicts. In support Badi, Gallet and Maggi (2021) indicated that a decade of instability and conflict have led to a significant damage to Libya's infrastructure. To add World Bank (2022) indicated that armed conflict as well as lack of funding caused severe damage to electricity infrastructure and electricity supply disruption. Accordingly, Mahuni, Taru and Bonga (2020) indicated that African Union in its Agenda 2063 have already identified infrastructural development as essential to alter fortunes of the continent and its occupants.

8. CONCLUSION AND POLICY RECOMMENDATIONS

Libya for many years has been living in conflict and this has costed a lot in derailing development. Accordingly, as noted by Mochere (2022), Africa is a region of enormous economic potential only stalled by unsteady political regimes, fragile public institutions, and dull policy enactments. Libya, being an African country, and as observed is greatly caught and possess the characteristics. With significant efforts from intermediators, the taste of development and direction was felt and significant

economic progress was recorded during the stock market active days. Inclusive development was brought through the development of the financial sector. However, with re-eruption of conflict there was serious disturbance to the development path. The LSM became inactive.

The study recommends that permanent development of the stock market should be enhanced to ensure that investors are not disadvantaged in times of disputes. The stock market development should be independent from politics. The role of private sector in economic activity should be increased. Unlike the past, clarity on custodianship of foreign funds and legislative clarity regarding the repatriation of funds should be made clear. The re-launch of the LSM is likely to attract interest from foreign investors seeking great opportunities in Libya, being home to Africa's biggest proven oil reserves. The LSM has a big waiting role for promoting economic growth and the influence of local and foreign investors is a positive.

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