THE ROLE OF STOCK MARKET IN PROMOTING ECONOMIC GROWTH IN LIBYA

Amna Khalifa Salem Edweib

(Matric No. 4100046)

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AUTHOR DECLARATION

بسم الله الرحمن الرحيم

I hereby declare that this thesis is my own work except for those reviews for which I have discussed the sources. I contend that it has not been previously or concurrently submitted to any other academic or non-academic institutions.

Date: 4th May 2015

Signature:

Name: AMNA KHALIFA SALEM EDWEIB

Matric No: 4100046

Address: Block B-13-8 Renjana Ampang Condominium, Taman Dagang Jaya, 68000 Ampang, Selangor, Kuala Lumpur, Malaysia.

BIODATA OF AUTHOR

Amna Khalifa Salem Edweib (4100046) from Libya, was born at Gherian on 4th May, 1971. She is currently residing at B-13-8 Renjana Ampang Condominium, Taman Dagang Jaya, 68000 Ampang, Selangor, Kuala Lumpur.

In 2003, she obtained her Master's in economics from al-Jabal Al-Gharbi University in Libya. In 1994, she got her Bachelor of economics from al-Jabal Al-Gharbi University, Faculty of Accounting in Libya. Currently, she is a Ph.D. candidate majoring in Economics for Financial Markets at Faculty of Economics and Muamalat Administration, USIM.

In October 2003, she became an assistant lecture for five years at Al-Jabal Al-Gharbi University, Faculty of Accounting, Department of Economics in Gherian. Since then, she had been teaching economics and finance curricula such as Principles of Economics, Microeconomics and Macroeconomics, General and International finance, Econometrics and Mathematical economics. He also participated in carrying out several workshops in the areas of econometrics and finance.

She was a member in the (Faculty of Accounting and Economics Science Journal) for the period between (2001 – 2008). She published many journals such as the role of banking sector in solving the housing problem in Libya. And The Sustainable development in Libya.

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ABSTRAK

Banyak kajian telah cuba mengkaji perhubungan di antara perkembangan pasaran saham dan pertumbuhan ekonomi. Libya adalah salah sebuah negara yang sedang membangun dengan pasaran saham yang baru muncul. Kajian ini mengkaji peranan dan sebab dan akibat (kausaliti) Pasaran Saham Libya (LSM) ke atas pertumbuhan ekonomi di Libya. Ia juga bertujuan mencapai dua objektif tambahan: untuk menilai prestasi LSM, dan untuk mengetahui sejauh mana prosedur diambil oleh pasaran untuk menarik pelabur tempatan dan asing. Untuk mencapai objektifnya, kajian ini menggunakan dua pendekatan: kaedah kuantitatif dan kualitatif. Kaedah kuantitatif termasuk Model Pembetulan Ralat Vektor atau *Vector Error Correction Model* (VECM) dalam kausaliti granger dan ujian-ujian ko-integrasi menggunakan data bulanan untuk jangkamasa tahun 2008M4 sehingga tahun 2011M2. Tambahan lagi, soalselidik telah diagih-agihkan kepada pelabur, pemain pasaran saham, pegawai-pegawai syarikat sumbangan, dan pegawai-pegawai broker untuk mengkaji prestasi LSM dan peranannya terhadap pertumbuhan ekonomi di Libya. Sementara itu, satu siri temuramah dengan pihak pengurusan atas LSM telah dijalankan untuk mendapat maklumat tentang prestasi LSM dan usaha-usaha yang diambil untuk menarik perhatian pelabur untuk melabur dalam LSM. Pasaran Saham Libya diproksikan mengikut saiz (Nisbah Kapitalisasi Pasaran atau *Market Capitalization Ratio*, MCR) dan Likuiditi (*Turnover Ratio* TR) dan IDX Indeks, sementara Produk Dalam Negara Kasar atau *Real Gross Domestic Product* (RGDP) diambil sebagai proksi untuk pertumbuhan ekonomi. Dapatan-dapatan untuk ujian kausaliti Granger dan modeling VECM menunjukkan bahawa LSM tidak mempunyai sebarang pertumbuhan yang signifikan kepada pertumbuhan ekonomi. Oleh kerana kedua-dua ujian berdasarkan kepada data perbezaan pertama, tidak ada perhubungan yang didapati di antara pasaran saham dan pertumbuhan ekonomi dalam keadaan jangka-pendek. Namun demikian, keputusan ujian ko-integrasi mendapati bahawa terdapat satu perhubungan jangka-panjang di kalangan pembolehubah. Dari keputusan ujian kausaliti Granger dan modelling VECM, nampaknya LSM tidak menyumbang secara signifikan kepada pertumbuhan ekonomi. Sebaliknya, keputusan-keputusan soalselidik dan temuramah mendapati bahawa L mempunyai satu peranan yang penting dalam pertumbuhan ekonomi. Keputusan juga mendapati bahawa prestasi LSM memuaskan hati, merujuk kepada tarikh ia ditubuhkan. Pasaran berkenaan mengambil beberapa prosedur efektif untuk menarik pelabur-pelabur tempatan dan asing untuk memperbaiki peranannya dalam pertumbuhan ekonomi di Libya. Keputusan juga menunjukkan bahawa kedua-dua responden dan penemuramah mempunyai satu pandangan yang optimistik terhadap peranan LSM kepada pertumbuhan ekonomi di negara itu disebabkan oleh usaha-usaha yang diambil untuk membangunkan pasaran itu. Kajian ini menyarankan perubahan polisi oleh kerajaan Libya untuk menggalakkan syarikat-

syarikat dan rakyat Libya sebagai pelabur-pelabur prospektif untuk melabur dalam pasaran saham berkenaan. Di samping itu, mereka perlu memberi sokongan kepada pasaran untuk bertindak, untuk menarik perhatian pelabur-pelabur tempatan dan asing. Kajian ini adalah satu tambahan yang penting kepada kajian-kajian yang jarang dilakukan ke atas pasaran modal di Libya.

Kata Kunci: Pasaran Saham Libya, Kausaliti, Pertumbuhan Ekonomi, GDP.

ABSTRACT

Many studies have attempted to investigate the relationship among stock market development and economic growth. Libya is one of the development countries with a very emerging stock market. This research examines the role and causal effect of Libyan Stock Market (LSM) on economic growth in Libya. It also aims at achieving two additional objectives: to evaluate the LSM performance, and to know the extent of the procedures taken by the market to attract local and foreign investors. To achieve its objectives, this research uses two approaches: quantitative and qualitative methods. Quantitative methods include Vector Error Correction Model VECM, granger causality and co-integration tests using monthly data for the period of year 2008:M4 to year 2011:M2. In addition, questionnaires were distributed to the investors, stock market players, contribution companies' officers, and brokerage officers to examine the performance of LSM and its role towards economic growth of Libya. Meanwhile, a series of interviews with the LSM top management were conducted to acquire information on the performance of LSM and measures taken to attract investors to invest in LSM. Libyan Stock Market is proxied by size (Market Capitalization Ratio MCR) and Liquidity (Turnover Ratio TR) and Index IDX, while Real Gross Domestic Product (RGDP) was taken as a proxy for economic growth. The findings of Granger causality test and VECM modelling indicate that LSM has no significant contribution towards economic growth. Since both tests are based on first-difference data, no relationship between the stock market and economic growth in the short term behaviour was found. However, the result of co-integration test found that there is long run relation among the variables. From the results of Granger causality test and VECM modelling, it seems that LSM has not significantly contributed to economic growth. In contrast, questionnaire and interview results found that L has a significant role in economic growth. The results also found that the performance of the LSM is satisfactory, given its recent establishment date, and the market undertook effective procedures to attract local and foreign investors to improve its role in economic growth in Libya. The results indicate that respondents and interviewees hold an optimistic view of the role of LSM towards Libya's economic growth due to the measures currently taken to develop the market. This research recommends for policy changes by the Libyan government to encourage companies and Libyan people as prospective investors to invest in the stock market. Besides, they have to support the

market to take steps in order to attract the local and foreign investors. This study considers one of the few studies that employ cointegration test to examine the long run linkage between the stock market and economic growth in Libya. On the other hand, in usual, empirical studies using quantitative methods to study the relations. However, this study has used qualitative and quantitative methods to investigate the relationship between the two fields. The contribution of this study also will be beneficial, both academically and professionally. Academically, this study is the first study that examines the causal relationship between Libyan Stock Market and economic growth. Professionally, managers will further seek out the practical implications offered by this research in their actual relationships with their stock market performance. Furthermore, this study is a scientific research that could be used by the regulators to move forward since LSM has little experience as compared to other markets in the other countries. The results of this research, especially on the development measures taken by LSM, are expected to provide more confidence to the investors that would encourage them to invest in the stock market in Libya. In addition to that, the present study would contribute significantly to the literature by examining the nascent operation of LSM and its contribution to the economic growth.

Keywords: Libyan Stock Market, Causality, Economic Growth, GDP.

ملخص البحث

حاولت العديد من الدراسات البحث في العلاقة بين تطور سوق المال والنمو الإقتصادي. ليبيا هي إحدى الدول النامية مع سوق حديث جداً. هذه الدراسة تبحث في دوروتأثير سببية سوق الأوراق المالية الليبي على النمو الإقتصادي في ليبيا. هي أيضاً تهدف إلى إنجاز هدفين إضافيين: تقييم أداء سوق الاوراق المالية الليبي , ومدى الإجراءات التي اتخذها هذا السوق من أجل جذب المستثمرين المحليين والأجانب. من أجل تحقيق هذه الأهداف استخدمت الدراسة منهجين للتحليل: التحليل الكيفي والتحليل الكمي.

التحليل الكيفي يتجسد في المقابلة الشخصية مع المدير العام لسوق المال الليبي وأربع من مدراء الإدارات في السوق للتعرف على دور السوق في دعم الغقتصاد الليبي، وتقييم أدائه، والإجراءات التي اتخذها السوق من أجل اجتذاب المستثمرين المحليين والأجانب. أما التحليل الكمي فيتجسد في اختبار التكامل المشترك واختبار السببية ونموذج تصحيح الخطأ. وذلك باستخدام بيانات شهرية خلال الفترة من أبريل 2008 حتى فبراير 2011. لتقييم دور سوق المال الليبي وفيما إذا كان سبباً في النمو الإقتصادي في ليبيا. بالإضافة إلى الإستبيان الذي قامت الباحثة بإجرائه مع عينة من موظفي سوق المال الليبي، وموطفي الشركات المساهمة بالسوق، وموظفي شركات الوساطة بالإضافة إلى المستثمرين. وذلك للبحث في دور سوق المال الليبي في دعم النمو الإقتصادي في ليبيا، وتقييم أدائه، والإجراءات التي يتخذها من أجل إستقطاب المستثمرين المحليين والأجانب للإستثمار في السوق.

توصلت الدراسة إلى نتائج مختلفة، فنتائج إختبار التكامل المشترك اثبتت أن هناك علاقة بين سوق المال الليبي والنمو الإقتصادي على المدى الطويل. أما نتائج إختبار السببية ونموذج تصحيح الخطأ فقد أثبتت بأن هذه العلاقة صغيرة جداً ولا تكاد تذكر في المدى القصير. مما يثبت أن مساهمة سوق الأوراق المالية الليبي في النمو الإقتصادي ضعيفة جداً. وبالمقابل أثبتت نتائج المقابلة الشخصية والإستبيان أن سوق الأوراق الماليلة الليبي له دور إيجابي في دعم النمو الإقتصادي، وأن أداء السوق جيد مقارنة بتاريخ إنشائه، بالإضافة إلى أن السوق اتخذ إجراءات جادة من أجل إستقطاب المستثمرين المحليين والأجانب.

توصي الدراسة الحكومة الليبية باتخاذ السياسات من أجل دعم سوق المال الليبي من خلال تحفيز الشركات والأفراد للإستثمار في السوق، والزج بالقطاعات الكبرى في الإقتصاد للمساهمة في السوق، وكذلك مساعته في اتخاذ المزيد من الإجراءات لإستقطاب المستثمرين المحليين والأجانب.

هذه الدراسة تعتبر إضافة مهمة في هذا المجال نظراً لندرة الدراسات التي تتناول هذا الموضوع في ليبيا بصفة خاصة. وتعتبر هذه الدراسة من الدراسات القليلة التي استخدمت تحليل الإرتباط لإختبار العلاقة طويلة الأجل بين سوق المال والنمو الإقتصادي في ليبيا. من ناحية أخرى – في العادة – فإن الدراسات التجريبية تستخدم طرق التحليل الكمية في اختبار العلاقات إلا أن هذه الدراسة استخدمت الطريقتين الكمية والكيفية لدراسة تلك العلاقة. إن مساهمة هذه الدراسة مفيدة أكاديمياً وحِرفياً. فمن الناحية الأكاديمية هذه الدراسة هي الدراسة الأولى من نوعها التي درست العلاقة السببية بين سوق المال الليبي والإقتصاد الليبي. أماحِرفياً فإن هذا البحث سيكون مفيداً جداً للمديرين في سوق المال في كيفية التعامل مع سوق المال وكيفية تحسين أدائه.

علاوة على ذلك، فإن هذه الدراسة يمكن استخدامها من قبل المنظمين للمضي قدما خاصةً وإن سوق المال الليبي ليست لديه الخبرة الكافية مقارنةً بالأسواق المالية الأخرى. من ناحية أخرى فإن نتائج هذه الدراسة خاصة تلك المتعلقة بالإجراءات المتخذة لإجتذاب المستثمرين سوف مما تمنح المزيد من الثقة للمستثمرين ويشجعهم على الإستثمارفي سوق الاوراق المالية الليبي. وتأتي أهمية هذه الدراسة أيضاً من خلال دراسة هذا السوق الوليد ومساهمته في النمو الإقتصادي في ليبيا.

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ABBREVIATION

ACC	**Ahlia Cement Company**
AGB	Al-Gomhoriya Bank
ASB	Al-Sahara Bank
ATS	Automated Trading System
AWB	Al-Wahda Bank
CBL	Central Bank of Libya
CCDS	Central Clearing Depository System
CERA	Cambridge Energy Research Associates
CG	Capital Growth
CIA	Central Intelligence Agency
ECB	European Central Bank
DJIA	Dow Jones Industrial index
EMH	Efficient Market Hypothesis
EPSA	Exploration and Production Sharing Agreements
ESDF	Economic and Social Development Fund
ETS	Electronic Trading System
FDI	Foreign Direct Investment
GBT	Green Book Theory
GPC	General People's Committee
GPC	General Public Conference
HRW	Human rights Watch
IFC	International Financial Corporation
IMF	International Monetary Fund
IMS	International Monetary Statistics
IPO	Initial Public Offering
KLCI	Kuala Lumpur Composite index
KLSE	Kuala Lumpur Stock Exchange
LCID	Libyan Centre for Information and Documentation
LIC	Libya Insurance Company

LSM	Libyan Stock Market
LSMC	Libyan Stock Market Company
LYD	Libyan Dinars
MENA	Middle East and North Africa
NASR	National Authority for Scientific Research
NOC	National Oil Company
NYSE	New York Stock Exchange
ODI	Overseas Development Institute
OPEC	Organisation of Petroleum Exporting Countries
PG	Productivity growth
PhD	Doctor of Philosophy
SAMA	Saudi Arabia Monetary Agency
SGF	Settlement Guarantee Fund
TDB	Trade and Development Bank
TFP	Total Factor Productivity
UAE	United Arab Emirates
UN	United Nation
UK	United Kingdom
US	United States
USM	Ukrainian stock Market
WFE	World Federation of Exchanges
WTO	World Trade Organisation

Variables

CPI	Consumer Production Index
DFR	Default Return spread
DFY	Default Yield spread
EDUC	Education
EXCR	Exchange Rate
GDP	Gross domestic Product

GLBM	Growth Rate of real Broad Money
GLDCR	Growth Rate of Domestic Credit as a Ratio of GDP (nominal)
GLMR	Growth rate of money supply as a ratio of GDP (nominal)
GLPOP	Growth rate of population
GLPY	Growth rate of real per capita income
GLRDC	Growth rate of real domestic credit
GLRGDP	Growth rate of real GDP
GLRINVR	Growth Rate of Real Investment as a Ratio of GDP
GLRM	Growth rate of real money supply
GLQMR	Growth rate of quasi – money supply as a ratio of GDP (nominal)
GMM	Generalized-Method- of Moments
IC	Initial Capital
IDX	Libyan Stock Market Index
INVt	Investment
INFL	Inflation
LABt	Lapor
LR	Likelihood ratio
LOAN	Industrial and Commercial Loans
LTR	Long-Term Return
LTY	Long-Term Yield
MCR	Market Capitalization Ratio
NTIS	Net Equity Expansion
PE	Primary school Enrolment
RGDP	Real Gross Domestic Product
RIP	Real Industrial Production
SC	Schwarz Criterion
SER	Secondary Enrolment Ratio
SMDEX	Stock Market Development Index
SVAR	Stock variance

TBL	Treasury Bill rate
TCt	Total Credit
TMS	Term Spread
TR	Turnover Ratio
TRADEt	Trade

Mathematical Operators

ADF	Augmented Dickey–Fuller
ARDL	Autoregressive Distributed Lags
BVAR	Bi- Variate Vector auto-Regressive
CT	Co-integration Test
ECM	Error-Correction Model
GCT	Granger Causality Test
HDGM	Harrod-Domar Growth Model
LBQST	Autocorrelation Ljung - Box Q - Statistic Test
OLS	the Ordinary Least Square
RT	Runs Test
SPSS	Statistical Package for the Social Sciences
URT	Unit Root Test
VAR	Vector Auto Regression
VECM	Vector Error Correction Model