

## CHAPTER SIX

# CONCLUSION AND RECOMMENDATIONS

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## CHAPTER SIX

### CONCLUSION AND RECOMMENDATIONS

#### 6.1 INTRODUCTION

The increasing significance of the relationship between stock market development and economic growth to study the role and performance of stock market development in economic growth has been reinforced by the researchers. The current study is an attempt to explore the extension of this relationship between LSM development and economic growth. Size and liquidity variables are used to measure LSM development as independent variables to examine their impact on RGDP as the dependent variable of economic growth empirically, for the period of 2008:M4 to 2011:M2 using qualitative and quantitative methods. This chapter is the conclusion chapter of the study. It explains the summary of the qualitative and quantitative findings in addition to the suggestions and recommendations for future research.

#### 6.2 SUMMARY

This research used both primary and secondary data based on qualitative and quantitative methods. The primary data collected from the qualitative analysis that employed by the interview with some experts in the LSM as well as from distribution of the questionnaire to its players, contributing sectors, brokerage officers and investors.

The questionnaire is distributed face-to-face with all the LSM respondents in a branch of Tripoli while the researcher sent it via email to the respondents in the branch of Benghazi. The questionnaires comprise of three sections with specific questions. Before the questionnaire distribution, the name list of the respondents is given according to the LSM society based on their contribution volume in the market. On

the other hand, the interview also conducted face-to-face with four of the main stock market players.

In addition, Secondary data were collected from the various sources. The LSM reports, publications and its website were the main sources of its data. Meanwhile, the data of RGDP are collected from Central Bank of Libya and National Centre for Information and Documentation, International Monetary Fund, World Bank and Arab Monetary fund.

On the other hand, it should be to say that the semi structured interview and survey questionnaire are employed to achieve all the study goals. While, the empirical analyses are conducted to achieve the first objective only, because the second and third objectives can be achieved via face to face and through the specific questions with LSM society.

Due to lack of monthly data availability, annual data were collected for RGDP variable. This situation led to the use of an interpolation method to generate monthly data from annual data. The LSM variables (independent variables) were available in monthly frequency. The index year is 2008 because this year is an active year, and it is also the year when the LSM started using electronic trading that promoted LSM to improve its activity. The study employed three techniques of analysis, namely VECM, Granger causality test and co-integration test. Contingency tables were used in summarising the results of the interviews.

### 6.3 SUMMARY OF DISCUSSION

This study examines the causal relationship between the LSM development and economic growth and the role of LSM in promoting Economic growth in Libya. It also investigate the performance of LSM and the measures taken by it to attract local and foreign investors. The study used qualitative and quantitative analyses to achieve these objectives. Granger causality test, co-integration test and VECM are employed to examine the causal linkage between the two fields. The trend of the general stock market index, stock market size and liquidity are used to measure LSM development. Meanwhile RGDP are used to measure the economic growth. The significance of the

empirical findings is dependent on the estimated variables. Most empirical studies examine the linkage among stock market development and economic growth using different estimation proxies. The most popular appreciation measures for financial market development are the stock market size, liquidity and the general stock index. The general stock market index reflects the trend of stock market development in synchronism with the low-interest rate and the investment growth. Theory provides conflicting aspects for the effect of stock market development on economic growth or vice-versa. A number of empirical studies have focused on investigating the causal relationship between economic growth and stock market development. However, this study is the study concentrated on this issue in Libya.

The findings of previous empirical studies on finance-growth nexus differ, depending on the measures of financial development, the sample period, the examined countries, and the estimation method. This study, based on its quantitative results, is in line with the findings of Aljbiri (2012) that LSM is still in its infant stage and does not contribute to economic growth significantly. (Ake, 2010) investigated the same issue for Cameroonian Stock Market (DSE) using empirical analysis covering the period 2006 until 2010. He found that there is no relationship between DSE and economic growth in Cameroon.

This study used the survey questionnaire and the semi structured interview to examine the role of LSM in promoting economic growth, its performance and the measures taken by LSM to attract local and foreign investors. The qualitative findings of the present research are consistent with Masoud (2009), which reported that there is a positive relationship between LSM economic growth in Libya positively. This research also conducted that LSM performance is good comparing with its establishment date, in addition to that, LSM had taken serious measures to attract local and foreign investors.

The direction of causal linkage between stock market development and economic growth is considered as a significant issue under consideration in future studies. More interest should be focused on this issue due to the newly established stock markets in the emerging economies. Post-Arab Spring situation has affected LSM and opened up a new field to make the study more appealing because of the changing of Libyan's

economic circumstances. Based on its objective investigation, the findings are summarized in the following section.

## **6.4 RESEARCH OBJECTIVES ACHIEVEMENT**

### **6.4.1 The First Research Objective: Examine the Role and Causal Effect of Libyan Stock Market on Economic Growth.**

#### **6.4.1.1 Qualitative Results (Semi Structure Interview)**

The study conducted a semi-structured interview with the head of Libya's Capital Market, Dr. Mohammed Karroud and three of department managers, the results confirmed that LSM has a positive role in promoting economic growth. These results came from the answers of interviewees in which all agreed that this role is positive, and the LSM has a good contribution to economic growth, that means the achievement of the first objective of this study.

#### **6.4.1.2 Survey Questionnaire Results**

The first part of the quantitative analysis is a data collection survey questionnaire which has consistent results with that of the interviews mentioned earlier. According to the respondents' answers LSM has a positive role in promoting economic growth, despite its establishment date and limited potential with big challenges faced. Based on these results it should be said that the first objective has achieved.

#### **6.4.1.3 Empirical Results**

Using the ADF unit root test, the study considered all variables as the endogenous variables, and found that all variables are stationary in the first difference except Turnover Ratio (TR), which is stationary at level. This study included both the constant and trend terms in the test equation and uses the SIC for the optimum lag order in the ADF test.

The findings of the proved that the series is non-stationary when the variables are defined in levels except for TR. However, the non-stationary components were removed in first difference in all cases, which considered that these variables are

integrated of order 1. Accordingly, this study used the Johansen-Juselius co-integration test and provided the trace and maximal Eigenvalue test statistic and 5% critical value. In the test system, the study sets the lag order to 4 as suggested by lag order selection criteria of AIC, SIC and QH. Both statistics suggest two co-integrating vectors, which indicated that there is a long run relation between the four variables. The results of co-integration rules out non-causality between the variables it means that there must be causally in at least one direction.

### 1- Co-integration Test Results

Both statistics suggest two co-integrating vectors, which indicated that there is a long run relation between the four variables. The results of co-integration rules out non-causality between the variables it means that there must be causally in at least one direction in the long run, it means that the first objective is achieved even in the long term.

### 2- Granger Causality Test Results

The study employed Granger causality test. The findings of the Granger causality test indicated that LSM and economic growth variables are independent of each other, which indicated that the presence of the un-directional causality relationship between LSM market and economic growth in the short run. The fact that only one model is statistically significant indicates that there is a role of the stock market in promoting economic growth in Libya, but it is not strong enough, perhaps due to the short duration of data.

### 3- Vector Error Correction Model (VECM) Results

To re-affirmed the causal direction from LSM to economic growth, the researcher estimated VECM model and with 4 lags. According to the VECM findings, in the long-run, the coefficients of Stock Market Index (IDX), Market Capitalization Ratio (MCR) and Turnover Ratio (TR) are statistically significant which mean that LSM development has a significant impact on economic growth in the long-run behaviour. However, the coefficients have small values that provide little support to the view that LSM development is promoting the economic growth significantly. In addition to that

the efficient of MCR has a negative value which indicates that changes in MCR has a negative effect on economic growth because MCR is too small relative to RGDP. One possible explanation could to be, there are other country-specific exogenous factors crucial in determining the linkage, but have been omitted from the model; which require further investigation. These findings indicate that the first objective of this study has achieved in the long run except for MCR which has a negative effect on economic growth. So, the study recommended rising the market capitalization to have higher economic growth. According to the above results, the figure 6.1 below illustrates the achievement of the first objective based on the proposition and hypotheses acceptable:

Table 6.1: The First Objective Achievement Based on the Interview's First Proposition and the First Hypothesis of the Questionnaire Acceptable

First objective: Examine the role and relationship between LSM and economic growth		
1- Semi structure interview		
Proposition	Accepted	Not accepted
LSM has a role in promoting economic growth	Yes	No
2- Survey questionnaire		
H <sub>0</sub> : Libyan stock market does not have a role in economic growth	No	Yes
H <sub>1</sub> : Libyan stock market has a positive role in economic growth	Yes	No
3- Co-integration test		
H <sub>0</sub> : LSM development (MCR, IDX, TR) doesn't have a relationship with economic growth (RGDP)	No	Yes
H <sub>1</sub> : LSM development (MCR, IDX, TR) has a relationship with economic growth (RGDP)	Yes	No
4- Granger causality test		
H <sub>0</sub> : LSM development (MCR, IDX, TR) does not Granger cause economic growth (RGDP)	No	Yes
H <sub>1</sub> : LSM development (MCR, IDX, TR) is Granger cause economic growth (RGDP)	Yes	No
3- Vector Error Correction Model		
	Hypotheses acceptable	
	In short run	In long run
First hypothesis		
H <sub>0</sub> = Market Capitalization Ratio (MCR) has no impact on RGDP	Yes	No

$H_1$ = Market Capitalization Ratio (MCR) has an impact on RGDP	No	No
<b>Second hypothesis</b>		
$H_0$ = Turnover Ratio (TR) has no impact on RGDP	Yes	No
$H_1$ = Turnover Ratio (TR) has a significant impact on RGDP	No	Yes
<b>Third hypothesis</b>		
$H_0$ = Index (IDX) has no impact on RGDP	Yes	No
$H_1$ = Index (IDX) has a positive significant impact on RGDP	No	Yes

## 6.4.2 Second Objective: The Performance of Libyan Stock Market Compared with Its Establishment Date

### 6.4.2.1 Semi Structured Interview Results

Regarding to the second objective, based on the interviewees answers the qualitative analysis found that the performance of LSM is becoming better compared with its age and it will be better if it takes some urgent procedures to promote its activity.

### 6.4.2.2 Survey Questionnaire Results

Based on the respondent's answers, the study found that the performance of LSM during the study years became well compared with its establishment date. It means rejecting the null hypothesis and accept the alternative one. The table below, 6.2 shows the achievement of the second objective based on the acceptance of the second proposition of the interview and the second hypothesis of the questionnaire.

Table 6.2: The Second Objective Achievement Based on the Interview's Second Proposition and the Second Hypothesis of the Questionnaire Acceptable

<b>Second objective: Evaluate the performance of LSM as a catalyst for Libya's economic growth</b>		
<b>1- Semi structure interview</b>		
<b>Second Proposition</b>	<b>Accepted</b>	<b>Not accepted</b>
<b>Libyan Stock Market performance is good comparing with its establishment date</b>	Yes	No
<b>2- Survey questionnaire</b>		

<b>H<sub>1</sub> = Market Capitalization Ratio (MCR) has an impact on RGDP</b>	No	No
<b>Second hypothesis</b>		
<b>H<sub>0</sub> = Turnover Ratio (TR) has no impact on RGDP</b>	Yes	No
<b>H<sub>1</sub> = Turnover Ratio (TR) has a significant impact on RGDP</b>	No	Yes
<b>Third hypothesis</b>		
<b>H<sub>0</sub> = Index (IDX) has no impact on RGDP</b>	Yes	No
<b>H<sub>1</sub> = Index (IDX) has a positive significant impact on RGDP</b>	No	Yes

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Table 6.2: The Second Objective Achievement Based on the Interview's Second Proposition and the Second Hypothesis of the Questionnaire Acceptable

<b>Second objective: Evaluate the performance of LSM as a catalyst for Libya's economic growth</b>		
<b>1- Semi structure interview</b>		
<b>Second Proposition</b>	<b>Accepted</b>	<b>Not accepted</b>
<b>Libyan Stock Market performance is good comparing with its establishment date</b>	Yes	No
<b>2- Survey questionnaire</b>		

<b>H<sub>0</sub>: The performance of Libyan Stock Market is still weak</b>	No	Yes
<b>H<sub>1</sub>: Libyan Stock Market performance is good comparing with its establishment date</b>	Yes	No

### 6.4.3 Third Objective: Libyan Stock Market Has Taken A serious Measures to Attract Local and Foreign Investors

#### 6.4.3.1 Semi Structured Interview Results

Regarding to the third objective and based on the interviewees answers, the study found that LSM has taken serious measures in order to attract new local and foreign investors, especially with the lack sufficient contribution of foreign investors. They mentioned that the number of local investors would be much higher than the existing one if the market encouraged them through certain measures such as opening up Islamic branches in it. In addition, starting the implementation of some of the plans that ensure and strongly support the achievement of this objective is necessary. Therefore, based on the results of the interviewees, the present study answered the study objective as shown in table 6.3 below.

#### 6.4.3.2 Survey Questionnaire Results

Regarding to the third objective achievement the findings indicated that LSM took significant measures to attract foreign and local investors and it has plans to improve its performance. Even though the presence of LSM is still limited. However, the recent advertisements and publicities to create public awareness towards its roles in economic growth is starting to be noticed. The table 6.3 below illustrates the second goal achievement based on the interview's third proposition and the third hypothesis of the questionnaire.

Table 6.3: The Third Objective Achievement Based on the Interview's Third Proposition and the Third Hypothesis of the Questionnaire Acceptable

Second objective: Evaluate the performance of LSM as a catalyst for Libya's economic growth.		
1- Semi structure interview		
Third Proposition	Accepted	Not accepted
Libyan Stock Market made serious measures to attract local and foreign investors	Yes	No
2- Survey questionnaire		
H <sub>0</sub> : Libyan Stock Market does not take serious measures to attract local and foreign investors	No	Yes
H <sub>1</sub> : Libyan Stock Market has taken serious measures to attract local and foreign investors	Yes	No

The agreement in the results between the two methods, interview and questionnaire, come from the people who deal directly with the LSM and who are familiar with the situation of the market. This result also came from the optimistic thinking of the respondents about the future based on the current situation of LSM. So it is natural to obtain the same results from the two methods, despite the fact that one of them is quantitative, and the other is qualitative.

On the other hand, it should be noted that the banking and insurance are the pioneers in the Libyan Stock Market. However, there are plans to offer other sectors for trading in the market and help those who have a fiscal deficit to upgrade their performance and able to achieve up to the market competition level. There are plans by the authority to link these investments with LSM to improve the level of other services and investments as a whole, and finally achieve the best results. The respondents also optimistic that LSM will perform better if other sectors join the market; particularly oil, telecommunication and agricultural sectors.

According to the results of previous quantitative and qualitative analysis, it is noticeable that the findings of the interview and questionnaire which are based on the answers of the study respondents are that the LSM has a positive role in the economic growth in Libya. Meanwhile the empirical analysis which is based on historical data

for LSM variables as the independent variables and RGDP as the dependent variable, and which consist the VECM, causality test and co-integration test found the different results. This result is that there is no relationship among the LSM and economic growth in the short term, and the role of the LSM in the economic growth is negligible. However, in the long run and based on the cointegration test, the study found that LSM has a significant impact on economic growth.

Besides data constraint, results might differ due to the fact that the respondents and interviewees have enough knowledge about the real situation of the LSM, and they have an optimistic view about its performance in the long run. In addition, their responses might be shaped or influenced by the expectation of the future. On the other hand, the empirical analysis also found that there is a linkage between LSM in the long-term. Hence, even though the short run results are different, there are evidences of growth-finance nexus relationship in the long horizon based on empirical and survey results.

In brief, this research has successfully achieved its objectives and answered its questions pertaining to the examination of the role of LSM in promoting economic growth and evaluate the stock market performance in Libya. Despite the difference of the results levels such as, questionnaire and interview found that there is a positive role of LSM in promoting economic growth and the relationship between the two fields is strong, the Granger causality test and VECM indicated that there is no significant relationship in the short run. Meanwhile, co-integration test and VECM found that there is a significant relationship between the LSM and economic growth in the long run.

Although almost all research has limitations, these might be explored in future studies based on the scope of the research. With these limitations, this study should merely be perceived as a contribution to continue the research in LSM performance and its role in economic growth because this field suffers from the scarcity of this type of studies. A limitation of this study can be achieved and discussed via three fields: theoretically; empirically; methodologically.

The major complexity with this research is that no studies have been previously performed regarding the causal relationship among LSM and economic growth in Libya. That would add to the originality and value of this research as this research will not have the added benefit of learning from others' mistakes. In addition to that, there was a lack of literature concerning the stock market performance and its role in promoting economic growth in Libya in particular. Most of the available literature was related to developed and developing countries such as Latin America, Eastern Europe, and developed countries, for example, UK and US.

In his study Masoud (2013), found that there is a positive relationship between efficient stock markets and economic growth, in the short and long horizon, and there is an indirect transmission mechanism evidence through the impact of stock market development on investment. They can be considered as a channel, which provide a service that enhances economic growth. The results are consistent with the empirical and theoretical predictions.

In conclusion, it should be mentioned that the quantitative results agree with the study hypotheses. On the other hand, the questionnaire results addressed that LSM has a positive role in promoting economic growth, this means rejecting the null hypothesis and accept the alternative hypothesis which is LSM has a positive role in promoting economic growth. Also, about the second hypothesis the questionnaire results indicated that LSM performance is good comparing with its establishment date, this means rejecting the null hypothesis and accept the alternative hypothesis. In addition to that, based on the questionnaire findings, LSM made serious measures to attract local and foreign investors, it means rejecting the null hypothesis and accept the alternative hypothesis.

On the other hand, Based on the results of the other three quantitative methods, the study achieved its objective which is to investigate the causal relationship between LSM and economic growth and the role of LSM in promoting economic growth. Regarding to Granger causality test and vector error correction model the study found that there is a negligible causal relationship among LSM and economic growth in the short run. Meanwhile, cointegration test result indicated that there is a long run

linkage between the two fields except in MCR which have a negative effect on economic growth in the long run.

## 6.5 SUGGESTIONS AND RECOMMENDATIONS

Based on the above findings, a number of recommendations are put forward by the researcher. They are divided into three themes; regulatory measures to attract investors and infrastructure, measures to encourage investors participation and infrastructure recommendations. Each one is explained next.

### 6.5.1 Regulatory Recommendations

In order to develop the LSM, this study recommends that the government should confirm on the removal of any obstacles that can prevent the development of the LSM including tax, legal and regulatory impediments because they are sometimes disincentives to investment. In addition to that, the study recommends LSM discussion makers to introduce a modern Securities' Law to create a regulatory body by separating the regulatory function from the technical side of it. Simulating Amman Stock Market's successful experience to attract the confidence to invest in it is necessary.

Furthermore, the regulation of LSM should be edited regarding foreign participation and remove most restrictions on foreign participation in listed companies. Libyan stock Market already started to do that through reduction of the tax on foreign investors by 10 percent. However, the issue needs more attractive measures because the foreign investors' contribution is too small its equivalent 0.9% as a buyer and 0.7% as a seller in the year of 2010 ( LSM 2010, annual report). So, this contribution should be increased due to its significant effects on LSM develop.

On the other hand, Policy makers and regulatory bodies should implement formulate policies that will appeal to investors and benefit from the real sector of the economy necessary fund for production. It would also encourage listing of companies that contribute largely to GDP in the national stock market.

Besides, Libyan government should employ suitable trade policies that promote the inflow of international capital and foreign investment to enhance the production capacity of the country. Moreover, LSM management should improve the capacity of the market in order to check and prevent sharp practices by market operators in order to safeguard the interest of shareholders. In addition, Libyan government should create an enabling environment for investment, such as enforcing the rule of law, and completing the process of updating economic legislation that will provide a suitable climate to LSM to attract more investors.

This study also recommends the Libyan government to adopt sound economic and financial policies in order to achieve faster development and to derive maximum benefit from the oil imports to provide more channels to pump money to the LSM through the contribution of the oil companies in the market.

#### **6.5.2 Measures to Encourage Investors' Participation**

The findings suggest that the Libyan government should formulate financial policies to encourage companies to contribute in the market and develop financial stock market culture. Besides, they have to support the market to take its measures in order to attract the local and foreign investors. Furthermore, there are three important elements of a stock market which can promote economic growth. These elements are increasing savings and investments, improving the productivity of investments, and raising the profitability of existing capital stock.

The study also recommends focusing on the factors that help to revitalize the market and require the listed companies to provide full disclosure of information and provision of justice. This procedure could be through making listed companies in the LSM issue the half-yearly budgets that will allow investors to assess continuous situation and have more confidence of these companies, and thus make stock prices reflect the depth and reality of these companies. These requirements will attract more investors to the market.

The Libyan stock market can be developed through providing sound information and protection for all investors. However, the improvements have to be made to boost

confidence on market regulations, transaction security, pricing rules and financial protection for shareholders. The government should establish incentives for the domestic entrepreneurs, particularly those in the export sector. In addition, it can also provide detailed statistics that help the researchers to conduct in-depth studies on the impact and roles of LSM that will contribute to formulating suitable policies and take the right steps that lead to attracting foreign investments.

In addition, one of the important factors in the stock market is its liquidity. LSM should improve this factor which will lead to improving local participation, both at individual and company level. It is recommended that the Libyan Government finds ways of encouraging local savers to put their savings in the stock market so that economic growth can further improve. Local contribution can also be encouraged through local companies, particularly through the participation in the stock market of private institutions, and small and medium entrepreneurs as these enterprises make up a large portion of the Libyan business sector. There are still a large number of small and medium private companies which are currently not listed in the LSM.

### 6.5.3 Infrastructure Recommendations

The study recommends spending more time, money and effort to raise awareness of investment through all suitable means of education and communication. Focus on the curriculum is one of the means necessary to interpret the concepts of saving and investment, and persuade the savers by the advantages of investing their money in the stock market. Indeed, the management of the LSM has started the implementation of the program of seminars and workshops in Libyan universities and LSM location, for the deployment of investment awareness culture among the masses of students. The study recommends continuing this approach in future.

The study also recommends LSM to increase the average of MCR to change its effect on RGDP from negative to positive. To improve the market role in promoting economic growth.

In addition, LSM should diversify the types of financial instruments available to investors, especially Sukuk or Islamic bonds, and make Islamic products available to

those who are seeking Shariah-Complaint Hence, it is imperative for the LSM to open in order to attract them.

Libyan government should invest more and improve the nation's infrastructure in order to create a suitable environment for businesses to grow, increase the productivity and efficiency, and develop the rate of firms' growth.

Moreover, the LSM should improve the trading system so as to increase the helping to the investors to purchase and sell shares, thus guaranteeing liquidity on the stock market. Moreover, stock market reformation policies, perhaps give further support to the economy and may be a key enabler and catalyst of economic growth.

One of the important recommendations of this study is to set up an on-line trading system for foreign investors directly payable by credit card, to enhance their contribution in LSM. In addition, LSM should promote Libyan shares in external markets, particularly in countries, especially Egypt and Gulf States, that host large Libyan communities.

Based on one of the interviewees' opinion of Mr. Mohammad Alhooni, LSM should continue to issue the Annual Directory of listed public contributing companies, and distribute it to investors in other countries through Libyan Embassies and Representative Offices.

The study also recommended that LSM should enhance the role of local brokerage firms and encourages them to continue their advance, especially in the area of online trading, to expand their external relations and to link themselves to global brokerage firms in order to attract foreign investments. Also, it should be linked LSM with satellite channels and other media outlets, that cover LSM news inside and abroad, and enhance and ensure application of the principles of governance in the LSM, brokerage and listed companies, and follow latest international accounting standards where needed.

One of the important recommendations of this study is LSM management must take all measures to make the pioneer sectors in Libya contribute to the market, especially

the most important sectors such as, oil, industry, telecommunications, agriculture and building sectors due to the large contribution of these sectors in the Libyan economy.

## 6.6 KNOWLEDGE CONTRIBUTION

This study seeks to make an original contribution to knowledge by investigating the impact of LSM and its performance on economic growth in an emerging economy. The results of the study enrich the literature of a developing country and add to the studies conducted in some Arab countries and some of the African countries such as Cameroon.

This research provides an important introduction to this area and has attempted to explore its significance for the economy and business. A critical review has been added to this research in order to enrich the existing body of literature and assisted the researcher in obtaining new ideas and perspectives. Moreover, this study explored the macroeconomics growth and development variables and in the application of a series of research models of the linkage between stock market performance and the economic growth.

### 6.6.1 Theoretical Contribution

The present study is one of the first studies of its type in this critical area. It has explored many new ideas by targeting the whole of LSM society undertaking a statistically detailed data analysis and interpreting and justifying the study results and evidence that can make as directions for future research. On the other hand, the literature was discussed, summarized, categorized and analysed using a methodical and comprehensive technique. The contribution of the present study extends beyond the descriptive analysis by measuring aspects of the literature and offering suggestions for improving the quality of the empirical work investigated undertaken in the area of stock market performance and its role in economic growth in Libya.

Libya is still in the incipient stages of its financial liberalization and reform, but it is moving quickly; as a result, of the removal of the United Nation (UN) and United States (USA) sanctions within the last two decades, and there are signs of rapid development. However, this research has some limitations since the literature on

finance-growth nexus in Libya is scarce. Most of the available literature in this area focus on developing countries such as African countries, Eastern Europe, Latin America and developed countries, for example, United Kingdom and United States.

Moreover, the LSM, in the long-run, will benefit from increasing economic growth. It will determine the impact of the economic reform programme and whether financial theories, concepts and practices have been influenced by environmental factors (cultural, economic, political, and social), as in many other Middle East and North African countries (MENA). That impact will be reflected via the increase in the capital of listed companies in the market, which will help to improve its operations and increase the market profits, which will impact positively on the economic growth.

This contribution will be beneficial, both academically and professionally. From an academic prospective, this research explores the newly established stock market development for an emerging economy, covering a neglected geographical location in the context of this area. Meanwhile, the professional benefits for the involve utilising the practical implications offered by this research in their actual relationships with their stock market performance.

Finally, this study could be considered as a step towards raising and improving the comprehension of current practices and management of stock market performance and its role in promoting economic growth in the Libyan context and fill any gaps in the literature in other developing countries.

#### 6.6.2 Empirical Contribution

Due to the lack of previous empirical work examining finance-growth nexus issue in Libya, no benchmark measurements could be used in order to establish a causal relationship and the role and performance of LSM with respect to economic growth. This study, one of the few studies used both qualitative and quantitative methods via Interview, Questionnaire, *Vector Error Correction Model* (VECM), Granger causality test, and co-integration test. Hence, the current findings contribute to the existing literature and help narrow the gaps in this research literature.

Hopefully, this study will prompt others into replicating the study in other contexts in the future with the availability of data and applying the model to other emerging economies.

### 6.6.3 Methodological Contribution

This study is the first of its kind to offer a critical research by providing analysis of data that will evaluate the Libyan Stock Market roles in promoting economic growth. As a consequence, the Libyan experience could provide new insights into the debate of the effectiveness of stock market performance and the underlying conditions for its success.

Moreover, Libya has some similar characteristics to other developing countries that have also established their stock markets by the end of 2000 such as Abu Dhabi Stock Exchange, UAE and Dubai Financial Market. Moreover, there are some other countries who have established stock markets very recently, for example, during the 2005-2006 such as Comoros, Djibouti, Mauritania, Somalia, Syria and Yemen and Cameroon. This study will make two contributions in this respect. Firstly, the methodology used in this research (statistical measurement of economic variables and qualitative analysis of the progress of similar countries) can offer a method for these countries to learn from Libya's experience. Secondly, the questionnaire developed as one of the research methods will be available for researchers to adopt with appropriate modifications to take into account country-specific characteristics. This research provided a combination of various methods of data collection and analysis testing in the stock market and economic growth in Libya.

On the other hand, in general, finance researchers use empirical analysis to examine the relations, effects and impacts. This study uses qualitative method (interview) to evaluate the roles of Libyan Stock Market through some propositions in order to answer the research objectives.

Due to the lack of high-quality published databases, this research has embarked on a significant development of the application of data collection (questionnaire survey and semi-structured interviews) of the stock market performance and economic growth

in the developing country of Libya. The critical review and findings can, accordingly, be of great help to researchers and policy-makers alike. Ultimately, this study contributed to the limited studies on stock market performance and economic growth in developing countries in general.

## 6.7 CONCLUSION

This study focused on the relationship between Libyan Stock Market and economic growth by examining the causal relationship in two areas, the performance of LSM in promoting economic growth and the measures taken by LSM to attract local and foreign investors. This study used two types of approaches: qualitative method which is interviewed and quantitative method which includes a survey questionnaire; cointegration test; Granger causality test; and vector error correction model. The study reported the following results. Based on the interviews and questionnaires, the study found that there is a positive relationship between LSM and economic growth and LSM performance is good relative to its establishment date. Furthermore, the respondents opined that LSM has taken appropriate measures to attract local and foreign investors. Meanwhile, the Granger-causality test and VECM found that there is no relationship in the short run. On the other hand, the cointegration test and VECM found that there is a significant relationship between LSM and economic growth in the long run. The different results are similar to a few studies conducted on the growth-finance nexus as indicated earlier.

Based on the findings, the study recommended the Libyan government to change some policies to attract Libyan companies to be listed on the Libyan Stock Market and Libyan people as prospective investors to invest in LSM, and support it to attract more foreign investors. This study represents one of the few studies that examine the role of the stock market in promoting economic growth. The findings of this study can be used as a basis for future research, especially in the case of Libya and other countries with similar economic background and stock market development.