

Comparative Studies of North African Financial Markets

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Abstract. *This research conducts a comprehensive analysis of North African financial markets, exploring their intricacies, strengths, and weaknesses while focusing on potential future developments. Examining historical evolution, regulatory landscapes, market participants and overall performance across all North African countries from 2010 to 2023, the study utilizes statistical analyses as its methodological approach. North Africa's stock markets exhibit unique characteristics distinguishing them from developed and emerging markets, marked by underperformance and challenges rooted in legislative, regulatory, and economic factors. Obstacles include a weak financial sector, insufficient financial intermediation, low investor awareness, limited political will, and financial solvency vulnerabilities. Despite efforts to activate and integrate securities markets, results remain modest, necessitating fundamental elements for an enhanced investment climate. Empirical findings emphasize the necessity for tailored economic policies and market reforms in response to the varied performance of North African exchanges. Governments in the region must prioritize evaluating and adjusting policies hindering the fluid flow of funds from stock exchanges to the broader economy. Upholding political stability and embracing good governance are vital for attracting investments and aligning exchanges with national economic growth objectives. North Africa's stock exchanges stand at a pivotal juncture, where the intricate interplay of political and economic dynamics will shape their contributions to regional development. Through understanding nuanced dynamics, implementing targeted reforms, and capitalizing on opportunities, North Africa can unlock the full potential of its financial markets, fostering sustainable and inclusive economic growth.*

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Introduction

North Africa comprises a diverse region with several emerging economies boasting significant potential for economic growth and development. In recent years, the region's financial markets have witnessed substantial growth and diversification, attracting increasing attention from investors and businesses globally. This research aims to provide a comprehensive overview of North African financial markets, comparing and contrasting their structures, performance, and prospects.

North Africa, a tapestry woven from ancient sands and vibrant modernity, boasts a rising chorus of financial markets. Egypt, Morocco, Tunisia, Algeria, and Libya - each nation a beat in this evolving economic symphony. Their financial sectors, shaped by history's whispers, politics' thunder, and the steady drumbeat of economics, have danced to a dynamic rhythm. Yet, beneath the surface, intricacies intertwine, whispering tales of potential and peril.

In this fertile ground of promise and challenge, a comparative analysis beckons. A closer look at each market's structure, its triumphant notes and discordant stumbles, reveals a deeper understanding of their interconnected melody. For the global investor, navigating this complex score becomes an essential pursuit. Policymakers, too, must listen closely, attuning their strategies to the market's ever-shifting harmonies. The global financial landscape is witnessing increased interest in emerging markets, and North Africa presents a compelling case due to its unique blend of economic potential and challenges. Understanding the nuances of financial markets in this region is crucial for investors, policymakers, and researchers alike.

Objectives of the Study:

This study aims to provide a comprehensive and comparative analysis of the financial markets in North Africa, focusing on Egypt, Morocco, Tunisia, Algeria, and Libya. Specifically, it aims to:

Analyze the structures and regulatory frameworks of stock exchanges and banking systems across the five countries. This includes examining their governance models, listing requirements, trading mechanisms, supervisory bodies, and relevant regulations.

Evaluate the performance metrics of key financial institutions. This includes analyzing stock exchange indices, bank profitability ratios, and other relevant indicators to assess the efficiency and stability of these markets.

Identify common challenges and opportunities faced by the region's financial markets. This involves exploring factors such as economic growth, political stability, technological advancements, and regulatory hurdles.

Offer strategic insights for policymakers, investors, and other stakeholders. The study aims to provide actionable recommendations to enhance market efficiency, attract foreign investment, and promote further financial market development in North Africa.

Importance of the Study

This study focuses on the five major economies of North Africa: Egypt, Morocco, Tunisia, Algeria, and Libya.

The analysis covers both stock exchanges and banking systems, as well as key economic indicators that influence their performance.

The study employs a comprehensive approach, including detailed examination of regulatory frameworks, policy environments, and market dynamics.

This research contributes to a deeper understanding of the economic dynamics at play in North Africa, particularly those related to financial markets.

Informed Investment Decisions: Investors can gain valuable insights into the diverse landscape of North African financial markets, enabling them to make informed decisions and identify potential opportunities.

Research Methodology

The study employs a mixed-method approach, combining qualitative and analysis technique.

I. Market History and Regulations:

1.1. Algeria:

Algeria has a deep-rooted financial history dating back to the colonial period. However, the progress of its financial market faced setbacks due to historical political instability and economic sanctions. Recent efforts have been directed towards market modernization and attracting foreign investment.

In the aftermath of economic reforms in the 1990s, as Algeria transitioned towards a market-based economy, the legal framework for its securities market was established. Legislative Decree No. 93-10 of May 23, 1993, laid the foundation, subsequently modified and complemented by Law No. 03-04 of February 17, 2003 (Benfodil & K, 2016). The Algiers Stock Exchange, inaugurated in 1999, marking its 23rd year, prompts a reevaluation of strategies by public authorities (Elalamy & A. A. El-Sahli, 2012). The existing emphasis on the bond market has fallen short of expectations, necessitating a more comprehensive set of reforms.

Building upon the examination of the capital structure of stock-exchange-listed companies, such as the Soidal group, EGH El Aurassi, and Erriadh (before being delisted), reveals noteworthy observations. Notably, most shareholders, hovering around 80%, are holding companies. This raises questions about the impact of an initial public offering (IPO) on the companies' ownership structure, as well as the associated benefits and advantages acquired.

Conversely, an analysis of stock market activity underscores a prevalence of the debt securities sector over equity securities. Operations involving bonds significantly surpass those involving shares, contributing to the Algiers Stock Exchange's characterization as a relatively illiquid and unappealing market. A comparative study of the three stock markets, drawing on data from annual reports, underscores a disheartening reality that defines the Algerian Stock Market and underscores its rudimentary position in the national economy.

Upon scrutinizing the data from activity reports published by the three stock exchanges (in local currency), a glaring disparity emerges, emphasizing the shortcomings of the Algiers stock market in comparison to neighboring markets. These statistical findings emphasize that the Algerian financial market remains the least robust among Maghreb stock exchanges, holding the lowest rank within the African Maghreb region concerning liquidity and the limited number of listed companies. This persistently restricted number of companies on the Algiers stock exchange has experienced minimal change over a span of twenty-four years, significantly impacting the exchange's liquidity.

1.2. Egypt:

The Egyptian financial market is the most developed in North Africa, with a long history and a diverse range of financial instruments. However, it has faced challenges related to political instability and economic reforms.

The roots of the Egyptian financial markets can be traced back to the early 20th century. The Alexandria Stock Exchange, established in 1883, served as a pioneer. However, it was the Cairo and Alexandria Stock Exchanges, founded in 1903 (Ibrahim, 2021), that laid the foundation for the modern Egyptian Stock Exchange (EGX).

Over the decades, the Egyptian financial markets experienced growth and expansion. The establishment of the Capital Market Authority (CMA) in 1992 aimed to regulate and supervise the securities industry, fostering a more organized and transparent market.

In the 21st century, the Egyptian financial markets witnessed significant developments. The adoption of electronic trading systems enhanced market efficiency, attracting both domestic and foreign investors. The EGX became increasingly integrated with global markets, reflecting Egypt's commitment to international financial standards (Abdel-Latif & Abdel-Rahman, M. S, 2011).

The Egyptian financial markets faced challenges after the 2011 revolution, with periods of volatility and uncertainty. However, the resilience of the markets was demonstrated as they rebounded, showcasing their ability to adapt to changing political and economic conditions.

The regulation and supervision of Egyptian financial markets are carried out by the Capital Market Authority (CMA), which was established in 1992. The CMA is responsible for licensing, disclosure, and compliance with market rules.

In 2009, the CMA was merged with several other regulatory bodies to form the Egyptian Financial Supervisory Authority (EFSA). The EFSA is the primary regulatory authority for non-banking financial markets, including the capital market.

The Capital Market Law (Law No. 95 of 1992) provides the legal framework for Egyptian financial markets. It covers issues related to securities, stock exchanges, and the role of regulatory bodies.

The EGX Listing Rules define the specific requirements that companies must meet to be listed on the exchange. These requirements cover disclosure requirements, financial reporting, and corporate governance. Regulatory authorities actively monitor market activities, investigate potential violations, and enforce market regulations.

In recent years, Egypt has undertaken reforms to modernize its financial markets. These reforms aim to improve transparency, streamline administrative processes, and attract foreign investment.

1.3. Morocco:

After gaining independence from French and Spanish rule in 1956, Morocco embarked on a journey of economic development. The financial markets, particularly the Casablanca Stock Exchange, became integral to this process. The exchange witnessed a gradual expansion, both in terms of the number of listed companies and the diversity of financial instruments.

The regulatory framework for Moroccan financial markets has undergone continuous refinement to address evolving market complexities and align with international best practices. The establishment of the Moroccan Capital Market Authority (Autorité Marocaine du Marché des Capitaux - AMMC) in 1993 marked a pivotal step in this direction, empowering the organization to regulate, supervise, and ensure transparency and investor protection within the securities markets (Bougrine & Boukhalifa, H., 2019).

Capital Market Law (Law No. 41-05): Enacted in 2006, this law serves as the bedrock of the Moroccan capital market. It defines securities, market operations, and the roles and powers of regulatory bodies, ensuring a robust and transparent financial landscape (Elalamy H. & A. A. El-Sahli, 2012).

1.4. Tunisia:

From humble beginnings as a platform for government bonds, Tunisia's financial markets have embarked on a remarkable journey of diversification and development. The Bourse des Valeurs Mobilières de Tunis (BVMT), established in 1969, has witnessed the nation's economic evolution firsthand, growing alongside its listed companies and financial instruments.

The post-revolution era marked a significant turning point. Driven by a thirst for transparency and efficiency, reforms separated regulatory and trading functions and ushered in a new era of modernization. The Capital Market Authority (CMA), established in 2013, became the guardian of investor protection and market stability, while technological advancements like electronic trading platforms streamlined operations and improved accessibility.

Diversification became a key focus. Attracting new listings, developing Islamic finance offerings, and fostering a vibrant ecosystem for small and medium-sized enterprises (SMEs) were prioritized. However, challenges remain. The market depth, while steadily increasing, still lags behind regional peers, and access to finance for SMEs continues to be an obstacle (Boukhalifa & H. Bougrine, 2020).

Despite these hurdles, the future of Tunisian financial markets is bright. Government reforms aimed at improving the business environment and attracting foreign investment offer a strong foundation for growth. Regional integration efforts with neighboring countries and the continued adoption of innovative technologies will further enhance market efficiency and transparency (Ben Naceur & S., & Jouini., 2016).

Tunisia's financial markets has been relatively stable and resilient in recent years. The market is characterized by a well-developed banking sector and a growing insurance industry.

1.5. Libya:

Creation of the Libyan financial market can be traced back to the early 2000s, when the Libyan government began to implement a series of economic reforms aimed at opening up the country's economy to the private sector. These reforms included the privatization of state-owned enterprises, the development of a legal framework for the financial sector, and the establishment of a stock exchange. The Libyan Stock Exchange (LSE) was officially established in 2006 by a decree from the General People's Committee (GPC). The exchange was initially located in Tripoli, the capital of Libya, and it began trading in 2007.

The early years of the LSE were marked by a number of challenges, including a lack of investor interest, a limited number of listed companies, and a weak regulatory framework. However, the exchange gradually began to grow in size and activity, and by 2011 it had a market capitalization of around \$1 billion. The 2011 Libyan Civil War had a devastating impact on the Libyan financial market. The war led to the closure of the LSE, the destruction of many financial institutions, and the flight of capital from the country.

The LSE reopened in 2014, but it has struggled to regain its pre-war momentum. The exchange remains relatively small, with a market capitalization of around \$200 million.

The Libyan government has taken a number of steps to revitalize the financial market, including:

- Improving the regulatory framework for the financial sector
- Attracting new listings to the LSE
- Promoting the LSE to international investors

These efforts have had some success, and the LSE has seen a modest increase in activity in recent years. However, the exchange still faces a number of challenges, including political instability, economic uncertainty, and a lack of investor confidence. The future of the Libyan financial market is uncertain. However, if the government is able to address the challenges facing the exchange, it has the potential to play a significant role in the country's economic development.

Table1. Number of listed companies on North Africa stocks exchanges

Listed companies	2010	2011	2012	2013	2014	2015		2016	2017	2018	2019	2020	2021	2022	2023
Algiers stock exchanges	3	4	4	4	4	5	6	6	6	7	7	8	9	9	9
Moroccan stock exchange	72	72	74	78	78	77		78	78	78	80	80	80	80	80
Tunisia stock exchange	75	80	87	77	76	80		81	83	82	80	80	80	82	82
Libyan stocks exchange	10	39	/	/	/	/		15	20	20	22	24	26	28	30
Egyptian stock exchanges	259	223	219	217	218	222		222	228	227	224	218	217	217	217

Source: developed by the authors MF&ZK 2023.

Comparative Analysis of Stock Exchanges:

Comparing the North Africa stock exchanges based on annual reports paints a stark picture of the Algerian market's limitations. While Morocco boasts 76 listed companies and Tunis holds 80, Algiers remains stagnant at a mere handful, a number that has hardly changed in 24 years. This severely hampers the exchange's liquidity and limits its ability to play a vital role in financing the economy. The question begs: what deters economic actors from joining the Algiers exchange? What policies and measures are needed to address this critical issue?

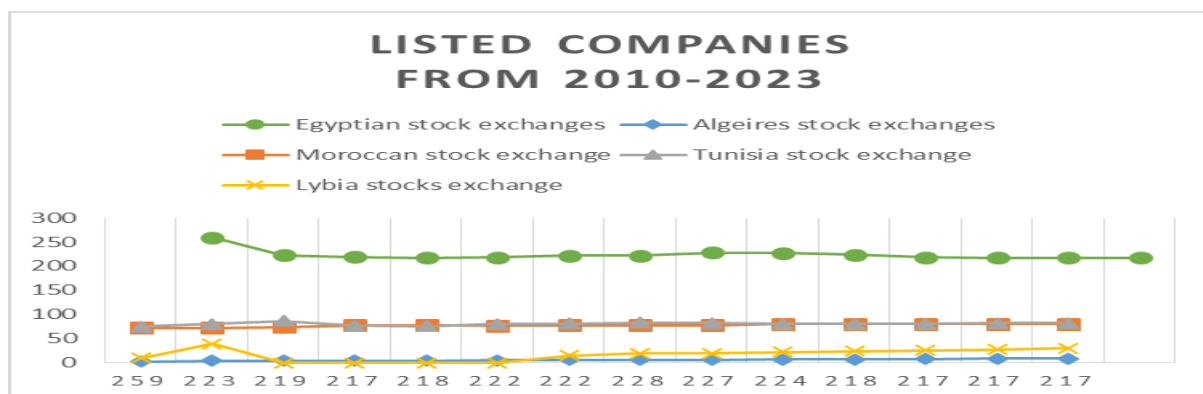


Figure 1. Number of listed companies (North Africa stock exchanges) from 2010 to 2023.

Sources: developed by the authors MF&ZK 2023.

A stark contrast emerges when comparing the market capitalizations of the Algiers, Tunis, Morocco, Libya and Egyptian stock exchanges. While Egypt reigns supreme with a 218 listed companies, Libya and Algeria trail far behind at 30 and 9 listed companies respectively. This gap is particularly striking given the similar number of listed companies in Algiers and Libya.

2. The Evolution of the Level of Market Capitalisation:

Refers to the total value of all outstanding shares of a publicly traded company or the combined value of all companies listed on an exchange. It is calculated by multiplying the current market price of a company's stock by the number of outstanding shares.

Market capitalization is a crucial metric for several reasons: It reflects a company's size and relative importance within an industry or market. Larger companies, with higher market caps, tend to have greater financial resources, brand recognition, and influence and used to track the performance of stock markets and economies. Rising market caps across a market or sector can indicate economic growth and investor confidence, while declining market caps can signal trouble.

It is imperative to acknowledge that the financial information pertaining to the Libyan financial market has been excluded from the subsequent analysis. This omission stems from the unavailability of financial data during the study period, attributable to the closure of the Libyan financial market amid civil unrest and a military coup d'état. This contextual exclusion underscores the necessity for a nuanced approach to market analysis, considering geopolitical events and their impacts on financial markets.

Table 2. Evolution of Market capitalization/ GDP (World Bank)

	Algeria		Morocco		Tunisia		Egypt	
	GDP	Cap/GDP	GDP	Cap/GDP	GDP	Cap/GDP	GDP	Cap/GDP
2010	161207270185,00	0,07%	93216746661,00	74%	46206091938,00	23%	20650000000,00	38.49%
2011	200013052199,00	0,10%	101370474295,00	59%	48122744708,00	20%	23220000000,00	48.22%
2012	209058991952,00	0,08%	98266306615,00	5%	47311159485,00	19%	25802304506,00	52.81%
2013	209755003251,00	0,08%	106825649872,00	50%	48684187850,00	18%	294300453234,00	106.80%
2014	213810024944,00	0,08%	119131365761,00	44%	50271072628,00	17%	308100345299,00	22.93%
2015	165979279236,00	0,87%	110414366621,00	42%	45780077488,00	19%	331700542177,00	16.76%
2016	160034163871,00	0,26%	111572673937,00	52%	44360754190,00	2%	333700265100,00	10.02%
2017	170097014589,00	0,21%	118540548906,00	57%	42163966273,00	19%	355600214009,00	18.74%
2018	174910878623,00	0,21%	127341174715,00	48%	42685972269,00	20%	399200587902,00	16.00%
2019	171767403748,00	0,21%	128919944681,00	51%	41906113686,00	20%	419300093567,00	13.87%
2020	145009181491,00	0,21%	121348138320,00	54%	42537832456,00	20%	5243006612345,00	10.77%
2021	172834234665,00	0,20%	114200987324,00	52%	11580000000,00	47%	4254357628981,00	12%
2022	1850001238,00	0,22%	12400000000,00	49%	12290000000,00	18%	4762340980076,00	11%

Source: developed by the authors MF&ZK 2023.

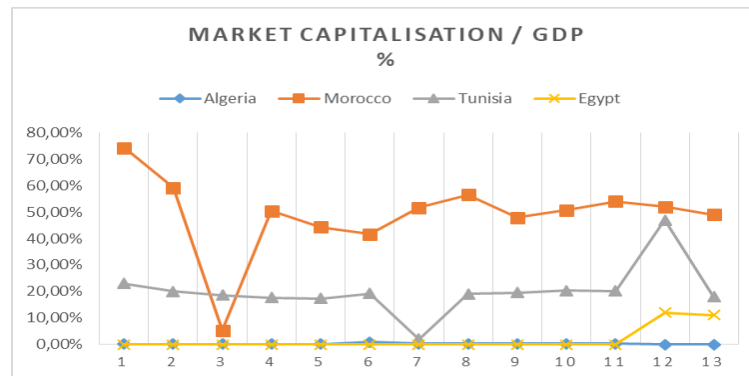


Figure2. Market capitalisation /GDP for North Africa market

Source: developed by the authors MF&ZK 2023.

The stock exchanges of North Africa pulsate with the intricate dance of political and economic dynamics, casting a profound influence on their performance and shaping the developmental trajectories of their

respective nations. A comparative scrutiny of Algeria, Morocco, Tunisia, and Egypt offers valuable insights, unraveling potential avenues to amplify their contributions to economic growth.

The Algiers Stock Exchange's minute market capitalization to GDP ratio (0.21% in 2020) suggests a potential disconnection between the bourse and the national economy. Delving into the nuances of political reforms, governance practices, and policy impacts on investor confidence becomes imperative in comprehending this divergence. With an average annual GDP growth of 0.03%, the Algiers Stock Exchange emerges as an untapped opportunity, poised to evolve into a more robust engine for development. Overcoming regulatory obstacles and streamlining economic policies hindering its capacity to finance the economy could unlock substantial growth potential. Through this lens of analysis, Morocco's political stability emerges as a linchpin for its remarkable stock exchange performance, boasting an enviable average annual growth rate of 10%. This stability nurtures investor confidence, attracts capital, and propels economic development. The Casablanca Stock Exchange stands out in its adeptness at mobilizing capital for economic growth, evident in the remarkable expansion of its market capitalization to GDP ratio (CAGR=10%). Policies promoting market participation, fostering investment, and encouraging economic diversification likely underpin this success story. For Tunisia, the political landscape has undergone significant shifts in recent years, notably with the Arab Spring and subsequent developments impacting the stock exchange's performance. A critical examination of how these factors influenced investor behavior and market dynamics becomes imperative.

In Egypt, the confluence of political stability and ongoing economic reforms has recently bolstered investor confidence. This is palpable in the Egyptian Exchange's market capitalization surpassing expectations and its GDP experiencing steady growth in both 2021 and 2022. While Egypt's stock exchange exhibits promising signs, the disjunction between nominal and real GDP underscores the impact of inflation on economic value. Addressing inflationary pressures could fortify the exchange's role in mobilizing capital for sustainable economic growth.

3. Result and discussion

The diverse performance exhibited by these exchanges emphasizes the imperative for customized economic policies and market reforms tailored to the distinct challenges and opportunities within each country.

Governments throughout North Africa should prioritize the assessment and adjustment of policies that impede the seamless flow of funds from stock exchanges into the broader economy. Upholding political stability and embracing good governance remains paramount, serving as a cornerstone for attracting investments and aligning these exchanges with national economic growth objectives. North Africa's stock exchanges find themselves at a crucial juncture, where the intricate interplay of political and economic dynamics will shape their forthcoming contributions to regional development. By comprehending the nuanced dynamics influencing each exchange, implementing bespoke reforms, and capitalizing on identified opportunities, North Africa stands poised to unlock the complete potential of these financial engines, propelling sustainable and inclusive economic growth.

Conclusion

In its journey since inception in 1993, the Algiers Stock Exchange has grappled with formidable challenges stemming from an unfavorable economic, political, and social environment. These constraints, manifesting both internally and externally, have impeded its development, with low liquidity arising from a limited number of traded securities standing out as a notable impediment. This liquidity challenge severely hampers the exchange's mission to furnish essential funds for the national economy. Addressing these obstacles requires collaborative efforts from stakeholders, encompassing initiatives such as attracting savings to listed companies, revitalizing privatization through stock exchange mechanisms, fostering a stock market culture, and undertaking comprehensive financial reforms to alleviate bureaucratic constraints. In the comparative analysis, several commonalities and differences among North African financial markets emerged. Shared historical trajectories, regulatory approaches, and the presence of common market participants and financial instruments form the commonalities. However, distinctions in development levels, regulatory environments, market structures, and performance underscore the diverse landscape of these markets. The conclusions drawn from this analysis emphasize the need for a nuanced understanding to foster effective regional economic development. Identifying challenges and opportunities within these markets becomes paramount, providing a roadmap for potential improvements in efficiency, competitiveness, and overall performance. The strategic

recommendations proposed for the Algiers Stock Exchange, including regulatory reforms, market infrastructure development, and investment-friendly policies, align seamlessly with broader regional challenges and opportunities identified in the comparative analysis.

In summation, a holistic approach, entailing tailored reforms, regulatory enhancements, and collaborative endeavors among North African nations, stands as the key to unlocking the full potential of their financial markets. This collective effort holds the promise of fostering sustainable economic growth and regional development. As the Algiers Stock Exchange confronts its specific challenges, it has the potential to evolve into an integral player within this broader regional transformation.

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