The Effect of Informational Efficiency on the Lebanese Financial Market

Beirut Stock Exchange – an empirical study

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الملخص:

تعتبر مساهمة الدراسة الحالية هامة لفهم كفاءة الأسواق المالية الناشئة. حيث أن الدراسات التي أُجريت حول كفاءة المعلومات في الأسواق الصغيرة قليلة، حيث تميل غالبية الدراسات نحو الأسواق المالية في البلدان المتقدمة. تعيد الدراسة الحالية النظر في جودة تقييم الأصول المالية المدرجة في البورصة اللبنانية. في كفاءة الأسواق، لا يمكن تحقيق الأرباح من خلال الإعتماد على المعلومات المتاحة، لأن أسعار الأوراق المالية تؤثر بشكل صحيح وفوري. وبالتالي، فإن الأثر العملي هام من حيث اختيار استراتيجيات الاستثمار ، وإدارة المحافظ، والتحليل المالي للشركات المدرجة.

أخيرًا ، تهدف الدراسة الحالية إلى إيجاد تدابير لتعزيز وتطوير بورصة بيروت(BSE) . ومن الجدير بالذكر أن البحث يأخذ في الاعتبار علامات الضعف على المستويات القانونية والمؤسسية والمالية والتي تؤثر على درجة كفاءة بورصة بيروت للأوراق المالية.

الكلمات المفتاحية: الكفاءة المعلوماتية، الأسواق المالية، الأرباح السابقة، الأرباح المستقبلية، سرعات أسعار الأوراق المالية، والمعلومات الخاصة.

Abstract:

The contribution of this study is very important to understand the efficiency of the emerging financial markets. Few studies on the informational efficiency were carried out on small markets, as the majority of studies lean towards the developed countries' financial markets. This paper revisits the

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quality of valuation of the financial assets listed on the Lebanese stock market. In an efficient market, realizing profits through relying on the available information is unachievable, since the prices of securities integrate the latter correctly and instantaneously. Consequently, the practical implications are important in terms of the selection of investment strategies, portfolio management, and financial analysis of listed companies.

Finally, the current study aims at finding measures to boost and develop the Beirut Stock Exchange (BSE). It is worth noting that the research takes into account the signs of weakness that the BSE shows at legal, institutional, and financial levels and that influence its degree of efficiency.

General Methodological Framework

The stock market represents a meeting point between the supply and the demand of financial assets via a centralized quotation system. It is essential in financing economies as it contributes to increasing the utility of both investors and savers.

The theoretical economic literature identifies three levels of the concept of financial market efficiency (Walter, 2006) distinguish between functional efficiency, rational behavior of actors, and informational efficiency.

Introduction

1. The title of the current study

Beirut's geographical and strategic position, banking secrecy, lack of capital controls and unrestricted currency convertibility are all factors that may lead Lebanon to develop a comparative advantage as a regional financial market.

The hypothesis of the financial market efficiency has been one of the main lines of research in financial theory for the last three decades. The simplest of definitions is the one used by (Eugene, 1965) stating that a market in which prices always 'fully reflect' available information is called efficient. Hence the title of this study:

The Effect of Informational Efficiency on the Lebanese Financial Market
(Beirut Stock Exchange)

2. Literature Reviews

- (Bouattour, Mondher, 2012)*, Efficience informationnelle, sous-réaction à l'information et effet de disposition : Une approche expérimentale.*

    A study carried out on testing the weak form of efficiency, it shows that an investor cannot profitably anticipate future prices while using the sequence of past prices. The aforementioned tests aim to assess the random path of stock prices. The aim is to show that prices follow a "random walk". The latter illustrates that predicting future fluctuations using technical analysis methods is unachievable since future price changes cannot be predicted on the basis of historical series. Two types of tests can be performed to validate efficiency in its weak form:

- Tests verifying the independence of successive variations of stock market prices.

- Tests verifying a random walk of stock market prices.

3. The Problem of the current study

Market efficiency represents the keystone of all financial theories. The work, which seeks the valuation of financial assets and options, and studies the foundations of organizational finance, is indeed based, implicitly or explicitly, on the hypothesis of efficient financial markets. The efficient market hypothesis is an essential pillar of the financial theory. Hence the problem:

Can we speak about efficiency in the framework of the BSE?

4. The Questions of the current study

- How do past earnings predict future earnings based on informational efficiency of the Beirut Stock Exchange?

- How quickly do stock prices reflect public information based on information efficiency in the Beirut Stock Exchange?

- Do some investors have private information that is not fully reflected in Beirut Stock Exchange prices?

5. The usefulness of the current study

Financial market efficiency has been extensively discussed and has given rise to a whole stream of research. The reason is that efficiency has financing implications. Although it is commonly applied to most developed countries' stock exchange markets, few studies have been conducted on emerging

financial markets. These studies have focused mainly on those in Southeast Asia and Latin America.

For this reason, I'm proposing to analyze the informational efficiency effect on the Lebanese financial market building upon the Beirut Stock Exchange.

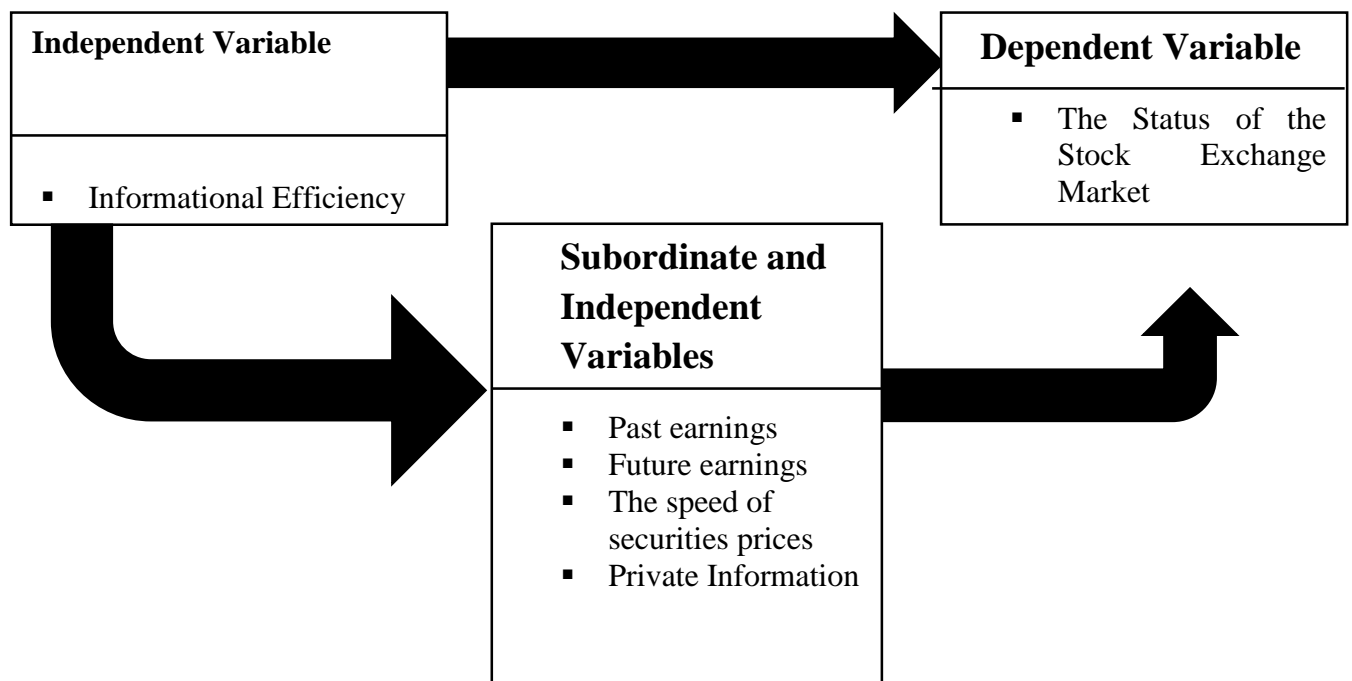## 6. The Purpose of the current study

Financial market efficiency is the fundamental of modern financial theory. It has become the central concept in the financial literature over the past three decades. The purpose of this work is to study the efficiency of the Beirut Stock Exchange.

After this diagnosis of the Beirut Stock Exchange, we will try to answer this question: Is the Beirut Stock Exchange efficient?

7. The variables of the current study

Table 1: The variables of the current study and their natures

Table 1: The variables of this study and their natures

Independent Variable	Dependent Variable
▪ Informational Efficiency	▪ The Status of the Stock Exchange Market

Subordinate and Independent Variables

- ▪ Past earnings
- ▪ Future earnings
- ▪ The speed of securities prices
- ▪ Private Information

Source: Prepared by the researcher according to the requirements of the field study.

8. The methodology the current study

Approaches and tools: The approach of this research can be presented by the following steps: literature review, basic data collection, preparatory treatments for the tests, the choice of appropriate tests, the treatments and the tool used, the analysis of the results, the contribution of the work, and finally the writing.

- This means that the study method is descriptive.

9. The hypotheses of the current study

The main hypothesis:

- There is a statistically significant relationship between information efficiency and the state of the Beirut Stock Exchange.

This hypothesis is divided into four sub-hypotheses:

- There is a statistically significant relationship between the information efficiency of the Beirut Stock Exchange and past earnings.
- There is a statistically significant relationship between the information efficiency of the Beirut Stock Exchange and future earnings.
- There is a statistically significant relationship between the information efficiency of the Beirut Stock Exchange and the speed of securities prices.

- There is a statistically significant relationship between the information efficiency of the Beirut Stock Exchange and private information.

10. The limits of the current study

- Subject limitation: Demonstrate the degree of informational efficiency in Beirut Stock Exchange.

- Time limitation: The study covers the period between 2010 and 2019 because the required data are available. The paper also revisits the date of the establishment of the BSE and the following events in order to understand the current state of the BSE.

- Space limitation: The study is limited to Lebanon, in particular to BSE.

1- **The choice of the sample:**

The choice of the sample was not made randomly. It is based on several criteria:

- Insure the representativeness of the difference sectors,
- Retain shares regularly listed during the study period,
- Give priority to stocks with the highest market capitalization and trading volume.

1-The Lebanese stock market

1-I: The Beirut Stock Exchange

In the early **1980s**, the world was marked by an environment leaning towards the deregulation and liberalization of economies.

To gain transparency and reinforce its credibility, the Beirut Stock Exchange, on 10 July 2003[2], has adopted an electronic quotation system that "allows the processing of 1000 transactions per second". In this context, (Le courtier, 2003)[3] underlines that the French assistance endeavors to promote cooperation and help Beirut regain its regional role.

During an IPO, the company benefits directly or indirectly from the following advantages:

- Increasing the company's financial resources, modifying its financing structure, and giving it the resources essential for its development, as well as the means to proceed with the repayment of its debt.

- Improving the company's reputation on the financial and commercial level.

- Evaluating the company's actual performance, particularly in the event of a sale or merger. However, these benefits are not free of charge; there are costs to be borne by the company during an IPO. They are generally linked to the mandatory disclosure of information before and after the IPO (annual report, prospectus, advertising campaign ...).

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[2] The Minister of Finance, Fouad SANIORA, inaugurated the new electronic trading system of the Beirut Stock Exchange on July 10, 2003, in the presence of the French Ambassador, Philippe Le courtier.

[3] The new equipment was 90% financed by a donation from France, under a protocol signed in 1995 between representatives Beirut Stock Exchange and La Bourse de Paris.

- Decreasing in distributed profit: Following a capital increase, the profit is distributed among several shareholders. It therefore leads to a decrease (dilution) of the profit per shareholder.
- Dilution of decision-making power and control.
- Adaptation to the complicated rules of the stock market.
- The IPO must therefore be considered as a strategic investment and not as an end in itself.

- **Initial Public Offering (IPO) Procedures**

The initial public offering of securities admitted to the Beirut Stock Exchange is carried out by one of the following three methods:

1. Offer at a minimum (Ex "offering for sale").
2. Firm price offer (Ex "public offer for sale").
3. Direct listing (ex "ordinary procedure").

    The three largest market capitalizations (Solidère, AUDI Bank and BLOM).

1-II: General presentation of the Beirut Stock Exchange

The legislative decree n° 1509, dated July 2, **1920**, issued by Colonel Niger, gave birth to the commercial stock exchange in Beirut[4]. Since its establishment, operations within the BSE were limited to simple monetary transactions in foreign currency and gold (Resolution 315 of December 24, 1920) until the listing of Franco-Lebanese companies on the stock exchange in **1935**.

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[4] The first president of the administrative committee was Marcel HANMOGLO, a Turkish man working in transport and maritime trade.

In **1974**, all economic sectors in Lebanon witnessed a remarkable expansion which was reflected in the BSE.

Stock prices, especially the safest ones, recorded exceptional increases, 52 companies were listed on the Beirut Stock Exchange this year.

During the first months of 1975, the stock exchange resisted despite the political and security events Lebanon was going through.

In August 1983, the Lebanese government officially closed the Beirut Stock Exchange.

Towards the end of the war in 1991, negotiations started to reopen the Beirut Stock Exchange, but they were not progressing as the new government had other priorities. On July 21, 1994, the Beirut Stock Exchange reopened its doors. On January 22, 1996, trading began with 3 out of the 42 companies that were registered before the stock exchange market closed in 1983, with a total capitalization of $398,900,000. In 1997, the Beirut Stock Exchange was linked to the Cairo Stock Exchange and the Kuwait Stock Exchange. Similarly, several agreements were concluded with "La bourse de Paris". Currently 16 companies are listed on the Beirut Stock Exchange. Their distribution by sector of activity is as follows:

a. <u>**Reconstruction and development**</u>

   a) Solidère S.A.L. (Lebanese Company for Development and Reconstruction). 2 shares (A and B)

b. <u>**Banking**</u>

   a) Banque libanaise pour le commerce S.A.L (BLC)

b) Bank Audi S.A.L.

c) Bank of Beirut S.A.L.

d) Byblos Bank S.A.L.

e) Banque européenne pour le moyen orient S.A.L. (BEMO)

f) BLOM Bank S.A.L. (Banque libanaise et d'outre-mer)

c. Trading

a) Rasamny- younis motor company (RYMCO)

d. Manufacturing

a) Ciments Blancs S.A.L.

b) Uniceramic

c) Holcim S.A.L.

e. Investment Funds

a) Lebanon holdings

b) Beirut interbank fund

c) Beirut lira fund

d) Beirut Golden income

e) Beirut Global income

There are currently 11 companies listed on the Beirut Stock Exchange.

2: The different actors of the Beirut Stock Exchange

2-I: The actors of the Beirut Stock Exchange

The Beirut Stock Exchange is a public company with legal personality and financial autonomy. The internal organization of the Beirut Stock Exchange is organized around three departments:

- The Studies and Relations Department.
- The Administrative and Financial Department.
- The third department, Stock Exchange Operations.

2-II: Beirut Stock Exchange Intermediaries

In the financial markets, there are **two types of stock exchange intermediaries**. The first type concerns the role of simple broker, executing buy and sell orders from their clients in return for remuneration consisting mainly of commissions (**order-driven system**). The second type concerns those who act as "**market makers**". Market makers play the role of counterpart of the buy and sell orders they receive from customers and are remunerated by the difference between the sale price and the purchase price of securities (**quote-driven system**). Stock exchange intermediation in Lebanon is ensured by the **first system**.

The efficiency of the Beirut Stock Exchange

3-I The functioning of the Lebanese stock market

At the international level, there are two types of organization regarding market intermediation: order-driven markets and quote-driven market.

The Beirut Stock Exchange adopts an order-driven market system. To understand how it works, it is important to analyze its structure, the organization of its listing system, the degree of automation of its trading procedures, the order execution, the determination of asset prices, the settlement operations and the various transaction costs.

3-II: Structure of the Beirut Stock Exchange Markets

A stock market is called centralized when all orders for a security must be transmitted in the same place (physical or virtual, trading floor or computer).

3-III: Listing methods

The Beirut Stock Exchange started by adopting the only fixing system for quotation. This system consists in fixing for a security. Fixings have resulted in the comparison of buy and sell orders accumulated since the opening of the central order book without resulting in transactions. Transactions are then possible during a defined period.

a- Quotation by Fixing

b- Quotation Continuously

3-IV: Securities transaction costs

Transactions on the stock market require the payment of transaction costs. Commissions are to be paid on each purchase or sale transaction on the markets.

Table 2: Over-the-counter transaction will incur a commission of 7.5 ‰

Transactions	Commissions
Transaction ≤100000 $	4 per mille

100000$<Transaction ≤1000000$	2.5 ‰
1000000$< Transaction ≤50000000$	1 ‰
≥ 5000000$	1/10000

Source: (www.bse.com.lb, 2021)

The distribution of commissions is as follows:

36% to the Beirut Stock Exchange, 64% to the intermediary.

3-V: Principles of settlement – delivery

All purchases and sales of securities are subject to capital settlement and delivery of securities. These two operations are carried out by the central depository (MIDCLEAR).

3-VI: Main indicators and market capitalization

A- The main indicators of the Lebanese stock market

Since the reopening of the Beirut Stock Exchange, the Lebanese authorities have carried out various reforms to improve the listing situation. In 2003, a new quotation system was introduced and a new law concerning the creation of UCITS was passed.

B- Market capitalization or market size

The capitalization calculated by the Bank of Lebanon is different from that calculated by the Beirut Stock Exchange.

As far as exchanged securities are concerned, Solidère continues to take the share with 62.9% of exchanged transactions (in value). As for banking sector shares, Bloom Bank shares accounted for the largest amount of stock market transactions.

4: The degree of Beirut Stock Exchange informational efficiency

The informational efficiency of financial markets has long been one of the most debated research topics in finance. According to (Eugene, 1965) a market can be qualified as informationally efficient, if the prices of the assets which are treated in it fully reflect all available information concerning these assets". (Eugene, FAMA, 1970) defined three forms of efficiency: the weak form, the semi-strong form, and the strong form. These define three forms of empirical tests according to (Eugene, Fama, 1991):

The predictability, which verifies whether it is possible to predict future earnings from securities, based on information on historical price series, on dividends, on the Price Earnings Ratio, and on interest rates.

Event tests that make it possible to verify whether all publicly available information (information contained in the annual financial statements, issue prospectuses, announcements of bonus issues, etc.) is already contained in the share prices.

The private information tests that measure whether all the information held by insiders is fully integrated into the share prices.

In fact, for each form of informational efficiency, it is obviously no longer possible for an investor to exploit the corresponding type of information to achieve an excess return, i.e. a return greater than the compensation for risk.

Any study of the evolution of prices or rates of return must begin with an analysis of the empirical distributions of the observed stocks. The hypothesis of normality of the earnings of the securities listed on the Beirut

Stock Exchange must be tested. However, before starting this analysis, it is important to look at the database that will be used in our work. In order to do so, the following steps are proposed:

- The choice of the sample
- Data collection
- Preparatory calculations for statistical tests.

Preparatory calculations for statistical tests

a- Calculation of the value index

The index is a synthetic indicator of the overall evolution of listed securities. It is established on a daily and monthly basis in order to reflect the behavior of the Beirut Stock Exchange. It is calculated daily from the current capitalization of the day and that of the baseline year 1997.

Basic formula: The formula for calculating the index is as follows:

$$I = 100 x \frac{\sum_{i=1}^{N} Q_i^t P_i^t}{\sum_{i=1}^{N} Q_i^0 P_i^0} \quad , \quad \sum_{i=1}^{N} Q_i^t P_i^t : \text{ Current Capitalization}, \quad \sum_{i=1}^{N} Q_i^0 P_i^0 : \text{ Baseline}$$

Capitalization

Q: Quantity of securities of value i admitted at the end of the day.

P: Price of value i at the end of the day.

Q: Quantity of securities of value i admitted at the end of the baseline day of January 22, 1997.

Current market capitalization takes into account, by the same nature of its definition, any changes affecting our sample. Only the baseline

capitalization needs to be adjusted to take these movements into account. This implies that the global value index must be adjusted systematically each time a change affects the observed values in order to preserve consistency.

b- Calculation of Earnings

1- The earnings on securities

The price of a share often varies according to the company's results. As a result, the measurement of the profitability of the shares links the variation in price in a period to the dividend policy. The rate of return on an RT share is the sum of capital gains and dividends relative to the share price at the beginning of the period. Formally:

$$R_i^t = \frac{P_{i,t} - P_{i,t-1} + D_{i,t}}{P_{i,t-1}}$$

Where:

R_i^t: The profitability of share i at period t,

$P_{i,t}$: The price of share i at the end of the period (t),

$P_{i,t-1}$: The price of share i at period (t-1),

$D_{i,t}$: Dividend on share i received during period (t).

If the rate of return is small enough, then:

$$R_i^t = \log(P_{i,t} + D_{i,t}) - \log P_{i,t-1}$$

- The use of the logarithm allows to have distribution laws closer to the normal law.
- Another advantage of logarithmic earnings is the perfect additivity over successive time intervals.

2- Market Earnings

From the calculated index, which reflects the evolution of all the values, we were able to calculate the earnings on the market.

$$R_{m,t} = \frac{I_t - I_{t-1}}{I_{t-1}}$$

I_t : Index at period t,

I_{t-1} : Index at period t-1

$R_{m,t}$: The market rate of return for the period t.

3- The study of the characteristics of the distribution of daily earnings

Skewness measures the symmetry of the probability distribution of earnings. A negative skewness coefficient means skewness to the left (wider tail to the left), the magnitude of negative variations from the arithmetic mean is larger than the magnitude of positive variations. A positive skewness coefficient means a skewness to the right (wider tail to the right), the magnitude of the positive variations is more important than that of the negative variations.

$$Sk_i = \frac{1/N \sum_{i=1}^{N} (Ri - \overline{Ri})^3}{[1/N \sum_{i=1}^{N} (R_i - \overline{R})^2]^{\frac{3}{4}}}$$

With:

N: The number of observations

$\overline{R_i} = \frac{1}{N} \sum_{i=1}^{N} R_{i,t}$: The arithmetic means of the earnings on security i.

5: Predictability of earnings and Anomalies in the Lebanese stock market.

Testing the random walk hypothesis is one of the simplest methods of testing the unpredictability of courses. This hypothesis assumes that security prices cannot be predicted from the distribution of past prices. This hypothesis explains that "In this case, the best prediction of tomorrow's price is based on today's price."

The search for anomalies and seasonality in stock market earnings has been carried out in priority on the markets of developed countries. They have notably highlighted a size effect, a Monday effect and a January effect.

(CLAESSENS S, and all, 1995) Sought the presence of certain anomalies and seasonalities in stock market earnings in twenty emerging markets. They found a size effect not specific to small-cap firms and did not detect a month-of-year effect. The purpose of this section is to verify the existence of anomalies on the Lebanese stock market.

1-The size effect

To identify the size effect, she classified the sample values by level of market capitalization. And for each date, 3 portfolios were constructed.

- The first one is made up of large capitalization securities,
- The second is made up of mid-cap securities,
- The third is made up of small capitalization securities.

The size effect analysis is studied by looking at the daily earnings of the three portfolios formed. The table below shows the general composition of our three portfolios.

Table 3: Statistics by capitalization class on the Lebanese stock market in 2019

Portfolio 1		Portfolio 2		Portfolio 3	
Large Capitalization		**Mid-capitalization**		**Small Capitalization**	
Securities	Capitalization	Securities	Capitalization	Securities	Capitalization
Solidère	1352000000	BLC	40000000	Ciment blanc	13000000
Holcim	157000000	Audi	52000000	Lebanon holdings	9000000
BOB	108000000	BGI	38000000	BEMO	18000000
Byblos	105000000				
Total	1722000000	Total	130000000	Total	40 000000
Average	430500000	Moyenne	43 333333	Average	13 333333

Source: (www.bse.com.lb, 2021)

Based on these three capitalization classes, a daily earnings analysis is carried out. The table below shows the characteristics of the daily earnings of the three capitalization classes.

Table 4: Statistics by capitalization class on the Lebanese market 2019.

Portfolios	1	2	3
Numbers of data samples	6860	5280	5200
Negative Earnings	22,455%	15,45%	7,45%
Zero Earnings	53%	68,23%	83,22%
Positive Earnings	24.5%	16,32%	9,33%
Average Daily Earnings	15.5 %	-1,7%	-8,31%
Annual Volatility	12%	18%	43.5%

Source: (www.bse.com.lb, 2021)

The percentage of zero earnings is an indicator of market liquidity. Prices vary very little from one day to the next due to the low volume of transactions. The result is a high rate of zero earnings. This phenomenon is one of the characteristics of emerging markets.

The percentage of zero earnings is higher for small capitalizations; it exceeds 83.22% while it is equal to 53% for very large capitalizations. The range of earnings, which represents the difference between the maximum and minimum earnings, is greater for large-cap portfolios.

On average, large caps are the best-performing; they generate an annual return of 15.5% compared to -8.31% for small caps.

2-The day of the week effect

Return per day of the week is given by regression with the following dichotomous variables: $R_{i,t=\alpha_1} + \sum_{j=2}^{5} \alpha_1 D_{j,t} + \varepsilon_{i,t}$

With: $D_{j,t} = 1$ if t is day j, and zero otherwise,

J= 2 for Tuesday, j = 3 for Wednesday, etc.

α_1 = measures the average earnings of Monday,

The coefficients $\alpha_2,....\alpha_5$ represent the excess earnings of the other days of the week (Tuesday, Wednesday, Thursday, Friday and Saturday) over Monday. The average earnings of the other days of the week can be obtained by adding the corresponding coefficient αj to α1.

The regression equation is therefore applied to all securities as well as to the general index of the Beirut Stock Exchange for the period between 22-01-2019 to 29-12-2019.

Table 5: The obtained results

	Monday α_1	Tuesday α_2	Wednesday α_3	Thursday α_4	Friday α_5
Index	0.074	-0.012	-0.054	-0.008	-0.052
Solidère A	0.275	0.032	0.065	1.058	-0.981
Solidère B	-0.102	-0.034	0.209	-0.1908	0.0089
BLC	0.0768	-0.0079	-0.045	0.054	-0.2010
Audi	0.0254	0.0565	0.076	0.098	0.009
BOB	0.0891	0.435	-0.0342	-0.2591	0.2533
BLOM	-0.054	-0.212	-0.098	0.1088	-0.098
Uniceramic	-0.125	-0.005	-0.0341	0.1313	0.1020
Eternit	-0.0036	0.0453	0.2142	-0.713	-0.309
Rymco	0.58	-0.09	-0.098	0.125	-0.0289
Lebanon H	-0.0980	-0.1188	0.0388	-0.455	0.0476

Source: (www.bse.com.lb, 2021)

All coefficients are non-significantly different from zero at the 5% threshold.

According to this table, the study is published that the profitability of Monday, especially for the general stock exchange index, is high compared to other days of the week. Accordingly, the return of the index on Monday is 0.074, while it is 0.062 on Tuesday (0.074 - 0.012), 0.02 on Wednesday and 0.022 on Thursday. Therefore, the return on Monday, which is the first trading day of the week, is calculated as the logarithmic difference between Monday's

closing price and the last price of the previous week, i.e. Friday. This return is calculated over two consecutive working days, but over three calendar days.

Reasons for narrowness and Strategies to improve this sector

6: Reasons for the narrowness of the Beirut Stock Exchange

The diagnosis of the Lebanese stock market consists in noting its signs of weakness and identifying the causes. However, the narrowness can be identified on three levels:

At the economic and financial level

- Preferential recourse to debt.
- The low competitiveness of stock market investments: The low return on stock market assets in comparison with that of alternative investments; the remuneration of treasury bonds is around 10% today. This remuneration, which was around 17% in 2000 and 35% previously, has a crowding out effect compared to stock market investments. Moreover, the interest rates charged by banks to attract savings are very high.
- Taxation and attractiveness of the stock exchange investment: According to article 18 of the law number 520 dated June 1996, fiduciary operations are exempted from taxes, dividends are subject to a 5% tax and then capital gains are subject to a 10% tax on income from movable capital as a variable annuity gain. This tax is high compared to other regional stock

exchanges and may affect the attractiveness of the Beirut Stock Exchange.

- Lack of savings.
- Lack of diversification in the products offered to savers.

At the legal and institutional level

- Total lack of confidence in the audit institutions in matters of stock exchange operations, this is due to the inability of the audit institutions to properly supervise exchanges and daily operations.
- Insufficient legislative and institutional provisions relating to the organization and functioning of the stock market.
- The lack of a professional, independent and specialized regulatory authority similar to the French Financial Markets Authority (FMA) officially established in November 2003 after the merger of the Commission des Operations de Bourse (COB) and the Financial Markets Council (FMC). The French Financial market authority inherits the competences of these two institutions: protection of savings invested in financial products, investor information, and the proper functioning of the markets.

At the sociological level

- Family character of Lebanese companies: Lebanese companies, regardless of their size, are, for the most part, family-owned. Their management is ensured by the main shareholders, contrary to companies

in developed countries which, even if they are family-owned, are managed by managers who do not hold shares in the capital. The nature of these companies means that the family or group managing them is keen to retain the majority of the shares and usually has recourse to bank loans rather than financing through the financial market. This is out of fear of losing a relative majority in the ownership of the shares and, at the same time, administrative control of the company.

7: Strategies to improve this sector

Finally, and if the study has shown that the main causes of the narrowness and weakness of the stock market are structural, their origin lies at the level of all the components of the environment whether economic, legal or sociological.

Beirut's geographical and strategic position, banking secrecy, the absence of capital controls, and the unrestricted convertibility of the currency are factors that may lead Lebanon to develop a comparative advantage as a regional financial market.

- **Privatization**: It is recognized that there is a symmetrical relationship between privatization and the development of financial markets, as privatization has important consequences that support directly and indirectly the development of the financial market. It allows the depth of the market to promote its liquidity, attract foreign investment and improve the economic environment. The number of countries that have

carried out privatization operations is impressive; over the last ten years, more than a hundred countries have privatized some of their public enterprises.

- **Creation of a national financial market council:** An autonomous financial market regulatory and supervisory authority similar to the COB should be created. Its role would be to protect savers, remove obstacles, issue general rules and regulations relating to the proper functioning of the market, as well as ensuring full transparency of the agents operating on this market and disseminating the culture of the capital markets.

- **Creation of an information center:** One of the necessary conditions for efficient markets is the availability of information. In Lebanon, the economic indicators that are indispensable for a good financial analysis remain, if they exist, unreliable.

- **Easing the conditions for listing on the stock exchange**: Most Lebanese companies are small or medium sized. Reducing the conditions for listing on the stock exchange market is crucial so that small and medium sized companies can have access to it.

- **Tax reform:** The Lebanese tax system is reputed for its moderation, thus, according to article 18 of law number 520 of June 6, 1996, fiduciary operations are exempt from taxes, dividends are subject to a 5% tax and capital gains are subject to a 10% tax on income from securities. The adoption of light tax measures certainly contributes to the creation of a more favorable environment.

- **Change of mentality:** The Lebanese, over the years, have invested their savings in traditional ways and have been reluctant to invest in long-term projects. They are almost absent from the daily functioning of the stock exchange. It is therefore necessary to try to change this mentality: it is necessary to use the media to inform the public about the advantages of the stock markets and to provide at the university level a quality education specialized in financial subjects.

- **Accounting reform:** Lebanese companies must start practicing full transparency and "full disclosure". Joint Stock companies must understand that the publication of their real figures is not a violation of professional secrecy, but a necessity, if we want to have a modern stock exchange. At the same time, Lebanon must start adopting standardized accounting rules in order to establish uniformity in the balance sheet of these companies.

- Improving the quality of the information produced and disseminated through the empowerment of auditors, accountants and business leaders: The lack of information and familiarization of businesses and the Lebanese public with activities, products, development and results of the stock market first constitute a preliminary obstacle to the interest they might have in it, and thus to the investment of savings on this market. For this reason, an effort must be made to contribute to the development of information and financial culture in Lebanon.

General Conclusion

In this context, Lebanon has no choice but to support its development strategy on a developed stock market. The Lebanese authorities have implemented financial reforms aimed at attracting capital to finance reconstruction and developing the stock market so that Beirut can play the important financial role at the regional level. Reconstruction projects have helped attract capital and generate a relative development of the stock market. If this project has shown that the main causes of the narrowness and weakness of the stock market are structural, their origin lies in all the components of the environment, be they economic, legal or sociological. The COB, now renamed the Authority of Financial markets.

Strength and weakness of the online stock market: there is a strong chance that this share will increase due to several factors: speed, cost, speed and ease of access, services offered better dissemination of information, and better knowledge of financial techniques.

The use of NICTs in the management of purchasing and provisioning developed during the 1990s, first with EDI and then with the Internet.

A dynamic stock market is a permissive condition for a well-functioning economy.

Does the current state of the Beirut Stock Exchange meet these criteria?

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