

Evaluation of the performance of the stock market in Egypt during the period 2004-2010



Commerce

KEYWORDS : Egypt- stock market- release market- trading market- foreign investment- evaluation

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ABSTRACT

The stock market affects the investment market, as the stock market is an important port for financial investments in shares and bonds. The stock markets as well have great importance in attracting capital and moving investment and economic activity and pump priming it through recycling capital and activating business, but the role of these markets in Egypt still faces many obstacles as a result of the financial market which is not active or developed and does not cope with the recent developments in global financial markets, which was reflected negatively on attracting investment and the movement and finance of business, and the movement and flows of capital. The main objective of the research is in evaluating the performance of the stock market in Egypt during the period (2004-2010) through analyzing the development of the release and trading market during that period and evaluating the performance of each market separately in light of some of the financial indexes and finding out the strengths and weaknesses and trying to repair and develop the weaknesses and strengthen the strengths of the Egyptian capital market. The research is based on the following hypotheses: Weakness of the release and trading market in Egypt which is due to the prevalence of the establishment of the closed joint-stock companies. There is a big gap between the amount of money directed to invest in the stock through the Stock Exchange, and the size of the money used for deposits in the banking system of Egypt. To achieve the objectives of the research an approach to the descriptive and quantitative economic analysis has been relied on while analyzing the evaluation of the performance of the stock market in Egypt with the use of some statistical methods.

1. Introduction:

The financial markets represent a vital center in the modern economic systems, as it depends on the activity of the public and private sectors in the compilation of capital to finance economic development plans and strengthen the objectives of fiscal and monetary policies through these particularly important markets. According to their activity, they serve as a reflective mirror for systems and economic policies in any state. Financial markets play an important role in the sectors of the national economy, in addition to that they represent one of the important sources to provide investment for various economic sectors where there are untapped liquidity, as well as their vital importance to finance sectors facing a deficit in the cash liquidity (Jenette Rutterford, 1997) and the mutual relationship between each of the financial market and the level of economic activity is the same, the more the financial system of the state develop and become more linked to a booming financial market this leads to the development and progress of the economic activity as the financial market can lead to the increase of economic growth rates and with the increasing growth rates, savings and investment increase. The growth of this market is a fundamental requirement for economic development of any country, especially those countries that adopt a program for the privatization of several public sector companies, and where the dominant role of the state in economic life retreats (Bank Misr, 1997). The financial markets are defined as "the framework which combines saved units that are willing to invest and deficit units that are in need of funds for the purpose of investment through specialized groups working in the market on condition of the availability of effective communication channels (Frederic S. Mishkin, 2001). Financial markets are characterized by extreme sensitivity as they are the first to be affected by recession or boom and in all normal circumstances the stock price is determined by demand and supply factors like any other commodity (Ohison, J.A, 1997)

Egypt is one of the developing countries that have sought to adoption of the financial markets as dictated by economic conditions through the direction to liberalize its economy, and begin to abandon the dominance of the public sector and open the way for the private sector through privatization programs. In an attempt to revive the role of the market and re-activate it to perform its developmental role in collecting savings and directing them to different investment fields, the Egyptian government issued several laws, and introduced a lot of amendments to legislation affecting the stock market, in order to increase the investor's confidence in the Egyptian economy, where the role of the stock market has increased - especially with the beginning of the nineties - with Egypt adopting the economic reform program as a basic and effective means that helps to implement the objectives of this program. The lack of a developed stock mar-

ket in Egypt even before the early nineties is one of the reasons which are responsible for the low savings rate (Ashraf Shams Al-Din, 2004). Taking into account the Egyptian program to liberalize the economy, it is expected that the Egyptian stock market will effectively contribute to the development of the saving habits, and direct savings towards the available national investment opportunities. But the problem which remains raised for Egypt is how to make those financial markets with impressive effectiveness that encourage private investment and optimal employment for investments.

2. Research Importance:

The importance of this research lies in that the stock market is a mechanism designed to create continuous streams of financial flows which are necessary to meet the urgent needs of the various production units, along with the growing importance of the stock market for the implementation of Egypt's economic reform program by encouraging private investment where the stock market is characterized ,more than any other channel, by being able to attract any amount of savings whatever they dwindled. This is because the exported finance has values that suit different savers, which results in broadening the base of savers, and filling a large amount of financial resources, that turn into financial flows to companies and organizations engaged in different economic activities, which means increasing real investments and increasing employment opportunities, and creating new incomes, which lead to more savings (Abd El -Hamid Sedek Abd El- Bar, 1994).The stock market is regarded as the reflective mirror of the public economic situation in Egypt, and the stability of these markets is a measure of the success of monetary and fiscal policies, and therefore the attempt to understand and interpret fluctuations in stock prices and the indexes direction and their relationship with monetary and fiscal variables is considered an important issue that requires researchers to face them, in order to access to realistic models that govern the mutual influences between the case of these markets and the economic performance in Egypt.

3. Research Problem:

The stock market affects the investment market, as the stock market is an important port for financial investments in shares and bonds. The stock markets as well have great importance in attracting capital and moving investment and economic activity and pump priming it through recycling capital and activating business, but the role of these markets in Egypt still faces many obstacles as a result of the financial market which is not active or developed and does not cope with the recent developments in global financial markets, which was reflected negatively on attracting investment and the movement and finance of business, and the movement and flows of capital. In light of the

foregoing, the research problem is in the following fundamental questions: What is the effect of the prevalence of the phenomenon of establishing stock companies opened only to the release and trading market in Egypt? Is there a gap between the amount of money directed to invest in the stock market through the Stock Exchange, and the size of the funds used for deposits in the Egyptian banking system? What is the percentage of the initial versions of shares and bonds to GDP in Egypt? What are the most important indexes to measure the performance of the stock market in Egypt? What is the role of foreign investment in the Egyptian Stock Exchange?

4. Research Hypothesis:

The research is based on the following hypotheses:

- Weakness of the release and trading market in Egypt which is due to the prevalence of the establishment of the closed joint-stock companies.
- There is a big gap between the amount of money directed to invest in the stock through the Stock Exchange, and the size of the money used for deposits in the banking system of Egypt.
- The ratio of the first releases of shares and bonds to GDP in Egypt is limited because the government has resorted to cover part of the fiscal deficit through the issuance of securities which are not negotiable in the stock market, such as treasury bills.

5. Research Objective:

The main objective of the research is in evaluating the performance of the stock market in Egypt during the period (2004-2010) through analyzing the development of the release and trading market during that period and evaluating the performance of each market separately in light of some of the financial indexes (the general index of shares prices, market value, and trading volume, stock turnover, and number of companies) and finding out the strengths and weaknesses and trying to repair and develop the weaknesses and strengthen the strengths of the Egyptian capital market, in addition to identifying the most important indexes to measure the performance of the stock market in Egypt as well as the role of foreign investment in the Egyptian Stock Exchange, and finally the review of the most important results and recommendations.

6. Research Approach:

To answer the problem posed in the research and access to whether the research hypothesis is right or wrong, and achieve the objectives of the research an approach to the descriptive and quantitative economic analysis has been relied on while analyzing the evaluation of the performance of the stock market in Egypt with the use of some statistical methods such as the percentages of the analysis of published data from the reports and the economic and statistical releases of the Central Bank of Egypt, the General Authority for the capital market in Egypt, the Egyptian Stock Exchange Web on the international network, the Central Agency for public Mobilization and Statistics, and the Council of Ministers - the Center for information and decision Support in Egypt. Research sources also depend on references which are available in both Arabic and foreign books, studies and scientific researches in this field.

7. Research Limitation:

Research limitation is confined to the development and evaluation of the stock market in Egypt with a review of the most important indexes for measuring stock market activity and the role of foreign investment in the Egyptian Stock Exchange. As for the time frame for the search, it is limited to analyze the evaluation of the performance of the stock market in Egypt during the period (2004 - 2010).

8 - Research Plan:

The research plan consists of five parts:

First: Development and evaluation of release market in Egypt during the period (2004-2010).

Second: Development and evaluation of trading market in Egypt during the period (2004-2010).

Third: Indexes to measure stock market activity in Egypt.

Fourth: The role of foreign investment in the Egyptian Stock Exchange.

Fifth: Results and recommendations.

Part I: development and evaluation of the release market in Egypt during the period (2004-2010):

The savings of the household sector represent the most important components of the total domestic savings, so the government's success in mobilizing savings depends on the extent of stability and confidence that is to be provided for the release market. In light of the success of the policy of encouraging domestic savings, the stock market energy is determined. If the release market is active and stable and has great confidence, that will attract savings either directly (through the purchase of securities, any IPO companies), or indirectly (through banks and insurance companies, which invest part of their funds in the purchase of securities).

First: the development of the release market in Egypt during the period (2004 - 2010):

The statistics of the General Authority for the Capital Market - during the period 1990-2010 refer to the growth of the release market as the market has witnessed establishing a number of joint-stock companies which raised their shares for the first time in the market, or existing companies that introduced new shares to increase their capital, and also witnessed during this period the privatization of a number of public sector companies within the framework of the economic reform program, and the required value of these shares has been covered both by their founders in a full part or by subtracting the part of the stock to cover their value in an IPO (Yossry Gerages, 1997). To identify the development of the release market in Egypt, some indexes can be used and most importantly the following:

1 - Development of Number of listed companies in Egypt during the period (2004 - 2010):

The release market in Egypt includes four different groups of companies, which are: companies which are established under the Investment Law No. (43) for the year 1974, which is about the investment of Arabic and foreign capital and Free Zones, as amended by Law No. 230 of 1989, which was replaced by the law of incentives and investment guarantees No. (8) for the year 1997. They also include companies which are established under Law No. (26) for the year 1954, which was canceled and replaced by the Companies Law No. (159) for the year 1981. They also include companies established under the partial nationalization law No. (118) for the year 1961, with the contribution of the government in some companies with a share of not less than 50% of the capital and finally, the mixed sector companies in which the individuals do not own any part of the capital, in addition to the companies which are subject to the general business law No. (203) for the year 1991 (Hala El Said, 2001).

Table no. (1) shows decline in the number of companies listed in the Stock Exchange from about (803) companies at the end of 2004 to about (333) companies in 2009 and then to about (215) companies at the end of 2010. This decline is because the new companies which have been restricted, and write-off a number of companies that were not committed to the conditions and standards set for being in the stock market, and the strict application of the principles of corporate governance. In spite of the decrease in the number of listed companies, the market value of the shares remained consistently high, reflecting the recovery of the trading market. The data also indicate an increase in the number of restricted stocks (about 6252) million shares at the end of 2004 to about 29002 million shares at the end of 2010, with an annual increase ratio of 363.9% during that period which refers to the rising volume of shares offered for sale in the release market, reflecting activity in the stock supply during the period (2004 -2010), which increased significantly from 2006 to 2010 (General Authority for the Capital Market, annual reports). It is also clear from the table that the escalation of the annual change in the supreme capital of listed companies,

which has risen from (103 273) million pounds at the end of 2004 to about (151 463) million pounds at the end of 2008, then dropped to (142 421) million pounds at the end of 2010 due to the negative effects of the global financial crisis. Despite the disparity of this change during the period, it was in the same direction, reflecting an increase in the invested capital as new releases, which its annual growth rate has reached about 32% at the end of 2010. On the other hand, the data in the table indicate the high market capital of listed companies from (234 165) million pounds in 2004 to about (768 226) million pounds in 2007, and then dropped to (489 144) million pounds in 2010, and the rate of decline represents about 36.3% due to the results of the financial crisis in 2008.

Table no. (1): The listed companies in the stock market during the period (2004-2010) (Quantitative is in million shares, and the value is in million pounds)

The Year Statement	The Number of Listed companies (company)	The Total Initial Releases	The Number of the Listed Shares at the End of the Year	The Supreme Capital of the Listed Companies	The Market Capital of the Listed Companies
2004	803	96.5	6252	103273	234165
2005	770	108.2	6985	106142	456059
2006	656	109.1	10457	118643	534070
2007	544	121.0	14993	137155	768226
2008	377	138.0	19859	151463	474431
2009	333	149.5	22430	149587	500263
2010	215	134.7	29002	142421	489144

Source: General Authority for Financial Control - the annual report of the Central Bank of Egypt.

Although the previous indexes reflect the boom in terms of number of companies, number of shares, and the value of restricted capital, the control of the number of closed listed companies (family), which its owners retain the possession of their securities without putting them into circulation, leads to a narrow range market, and the weakness of the movement, as opposed to companies with IPO that will expand the market, since they are based mainly on attracting savings of small savers who seek to take advantage of the return generated from the securities, as well as the high value of the securities in the market (Najla Zekry, 2003).

2 - The annual development of the initial releases of the value of shares in Egypt during the period (2004-2010):

Despite the positive developments witnessed by the release market in releasing shares during that period, especially since the enactment of Law No. (95) for the year 1992, the prevalence of the phenomenon of establishing closed companies, and consequently their own founders having most releases of the new subscribed shares and the following releases also when capital increases, represents point of weakness which is not only for the release market, but also for the trading market. Table no. (1) shows the increase in the value of the new releases of shares and bonds of 96.5 billion pounds in 2004 to reach 134.7 billion pounds in 2010. From the above it is clear that the release market depends on some companies that put up for public subscription in order to cover its capital, and some companies that put slices of them to the public subscription in the context of the continuation of the privatization program, which reflects the limited investment in companies of public subscription, which are targeted by law (95) for the year 1992 capital market to

contribute to increase their number in order to ensure wider market.

3 - The annual development of the value of the initial releases of the bonds in Egypt during the period (2004-2010):

The bonds represent loans committed by their issuer whether it was a company, a bank or government and bondholders are creditors of these entities with the value of their bonds and the investment is in order to get a return in the form of coupons on a regular basis during the period of maturity of the bond, in addition to the potential liquidity of the bond in any time as in the case of trading in the Stock Exchange, and all the company's assets become a guarantor of the bonds in case of bankruptcy (Monir Hindy, 2006). Bonds are about 70% of the trading volume in most financial markets in the world, but the Egyptian bond market seems to be limited for this important stock, where it was limited by number of government securities issued by the government to fill part of the budget deficit or to finance certain projects. The issued governmental securities are divided into bonds which are restricted in the Stock Exchange including the development bonds in U.S. dollars and housing, and bonds of national development in dollars, and others which are not restricted in the Stock Exchange, and subscribed by the direct financial institutions, banking and non-banking, in addition to investment receipts administered by the National Bank of Egypt for the government (Banque du Caire, 1999). With regard to the companies bonds, before the issuance of the Capital Market Law No. (95) for the year 1992 there was only one bond, which is the bond of the Egyptian Real Estate Bank, issued in 1951 for 50 years, with an annual interest rate of 3%. Following the release of the Capital Market Law No. (95) for the year 1992, some Egyptian joint-stock companies have released a group of bonds, such as the bonds of Victoria United Hotels Company, the bonds of El Sharkeya Hoehst firm, the bonds of the Egyptian Real Estate Bank, the bonds of Commercial International Bank and other banks and joint- stock companies (Ahmed Abdu Selim, 1998).

Table no. (2) shows the annual development of bond releases during the period (2006-2010), where it is clear that the total bonds issued in 2006/2007 amounted to about 15.3 billion pounds, and then in 2009 reached nearly 28 billion, then rose in 2010 to about 47.9 billion pounds. The number of transactions in U.S. dollars has seen a clear reduction of 10 transactions in 2006/2007 to 9 transactions in 2008/2009, and the market value of bonds in dollars also decreased from 23.5 thousand dollars in 2006/2007 to about 1.3 thousand dollars in 2008 / 2009, which indicates a lack of demand by investors and companies on the bonds in dollar compared to bonds in Egyptian pound due to the attractive large returns of shares that are more than the returns of bonds (Amani Abd El Wahab, 2006). Despite the fall in the value of the new releases of bonds in 2006, they have witnessed rise mainly because the government put up bonds - Treasury bills - to finance the budget deficit, as the bulk of the bonds releases are governmental bond releases. The ratio of governmental bond releases to the total bond releases during that period was about 76%, and the rest 24% is bonds issued by companies and banks, attributed to the psychological preference of savers for instruments issued and guaranteed by the government which means that there is a tremendous development in the volume of private bonds issued after 2004, which refers to the promising future possibilities of this market. There is also number of measures which can activate the bonds market in Egypt, including the following (Ihab Eldesoky, 2000):

- Activating the entities that want to release bonds and convincing them that the release of bonds is one of the bank loans in the case of long-term financing.
- Decreasing the nominal value of the bonds and the diversity of maturity dates of bonds, which allows the investor to choose the maturity date that suits him.

Table (2): the movement of bond dealing in the stock market during the period (2006 - 2010)

2009/2010			2008/2009			2007/2008			2006/2007			Statement
Market Value in millions	Quantity in thousands	Number of Transaction	Market Value in millions	Quantity in thousands	Number of Transaction	Market Value in millions	Quantity in thousands	Number of Transaction	Market Value in millions	Quantity in thousands	Number of Transaction	
47889	46493	1218	28014	102846	24	23941	23172	1100	15266	16628	923	Bonds (pounds)
47889	46493	1218	28014	102846	24	23941	23172	1100	15266	16628	923	Inside the cabin
-	-	-	-	-	-	-	-	-	-	-	-	OTC
-	-	-	1.3	13	9	10	0.1	1	23.5	209	10	Bonds (U.S. \$)
-	-	-	1.3	13	9	10	0.1	1	21.3	207.3	9	Inside the cabin
-	-	-	-	-	-	-	-	-	2.1	2.2	1	OTC

Source: General Authority for Financial Control - the annual report of the Central Bank of Egypt.

II: Evaluation of the role of Egypt's release market during the period (2004-2010):

The active release market contributes in financing the process of social and economic development by helping to increase and encourage savings and convert it into long-term investments. If all the new releases, which include releases of establishing new companies or increasing the capital for the existing companies, in addition to bonds, have been determined, the positive effects associated with the activation of the market, which should also have a positive impact on the economic development efforts would have appeared clearly (Mohamed Abdel Rahim El Shafaey, 2000).

To illustrate the extent to which the release market contributes in the process of economic development in Egypt during the

study period (2004-2010), several indexes can be used as follows:

1 - The relative importance of the initial releases to GDP:

Table No. (3) indicates that the percentage of the initial releases of shares and bonds to GDP in Egypt during the period (2004-2010), has ranged between 16-27.1%, which is very modest, and this means twice of the size of the primary market and humility of the tools raised by it, where the ratio in 2004 reached 25.3% and then increased in 2005 to 27.1%, and then fell to about 25.6 in 2006, then rose to 28.1% in 2008, and then declined significantly due to the global financial crisis and the negative results that came forward in this field to reach 18.8% in 2009 and continued to decline to record 16% in 2010.

Table no. (3): the development of the ratio of the initial releases to GDP, domestic savings and fixed investment during the period (2004-2010). (the value is in billion LE)

The Year Statement	The Total Initial Releases (1)	GDP (2)	Gross Domestic Savings (3)	Gross fixed investment (4)	non-current deposits (5)	1/2 %	1/3 %	1/4 %	1/5 %
2004	96.5	381.0	75.6	82.2	233.6	25.3	127.7	117.4	41.3
2005	108.2	398.5	84.6	96.8	283.0	27.1	127.9	111.8	38.2
2006	109.1	426.1	105.7	115.7	314.1	25.6	103.2	94.3	34.7
2007	121.0	456.2	121.2	155.3	377.4	26.5	100.0	78.0	32.0
2008	138.0	490.4	146.5	200.5	436.2	28.1	94.2	68.9	31.6
2009	149.5	796.8	129.1	200	481.0	18.8	115.8	74.8	31.0
2010	134.7	837.8	172.1	253.3	545.3	16.0	78.3	53.2	24.7

Source: Central Bank of Egypt - Annual Reports

The decline of the annual value of the initial releases of either shares or bonds, as well as their ratio can be returned to GDP, especially in the period prior to the issuance of Law No. (95) for the year 1992 to the following:

- The absence of many financial institutions that contribute to the revitalization and increasing the effectiveness of the release market, such as companies of Trustees of IPO, and financial leasing companies, which work on establishing and promoting projects with what is available of their unusual funding sources, technical knowledge and financial experiences (Mahmoud Sobh, 2000).
- Bond releases are small because the public authorities have depended on the state budget to cover the deficit, rather than bond offering directly for IPO, on the one hand, coupled with the government's resorting to cover part of the fiscal deficit through the issuance of securities which are not negotiable in the stock market, such as treasury bills (Mohamed Saleh El-Henawy, Jalal Ibrahim, 2002).

2 - The relative importance of the initial releases to fixed investment:

Table No. (3) shows that the percentage of the primary market contribution to finance investments in Egypt during the period (2004-2010) was good at the beginning of the year 2004/2005, and became weak after that. It should be noted that this ratio ranged between 53.2-118.8% during the period (2004-2010),

where the ratio was 117.4% in 2004 and fell to 94.3% in 2006 and then continued to decline significantly to reach 68.9% in 2008, and with the influence of the global financial crisis declined to reach 53.2 in 2010 which means the ineffectiveness of the role of the primary market in mobilizing and directing savings to finance investments, and the majority of the investments has not been financed through IPO in the form of new shares or bonds, but by other ways and not by the stock market. It is noted that there are several factors combined to lead to the weakness of the role of the stock market through the release market in financing the fixed investment, perhaps the most important ones are (NBE, 2005):

- The direction of many economic units to the cash market to provide the necessary funding, due to the diversity of lending forms offered by its banking system, and more easily procedures and concessions, than funding through the stock market.
- Many projects took the legal form of individual companies (individual - Solidarity - limited by shares), as well as limited liability companies, which are characterized by their ability to break into the stock market, in addition to what had been said about that the private sector resorted to prefer the establishment of joint stock companies with the family-style (closed), and therefore did not contribute to the revitalization of the release market (Hussein Alasrj, 2005).

- The global financial crisis since mid-2008 and the negative consequences that came forward, particularly on the financial sector and the stock market.

In spite of this lower ratio since 2009/2010 due to the negative consequences of the global financial crisis to reach about 53.2%, the growth of this ratio gives an indication of the growing role of stock release in financing the gross fixed investment and positive future prospects in this regard.

3 - The relative importance of primary releases to the gross domestic savings:

Table (3) shows that the highest percentage of primary releases of the shares and bonds to the gross domestic savings during the period (2004-2010), was in 2005, reaching about 127.9%, while the lowest percentage was in 2010, which amounted to about 78.3%. The ratio was 127.7% in 2004 and then declined to reach about 103.2% in 2006, and then in 2008 to about 94.2% and rose again in 2009 to about 115.8%, and then declined to 78.3% in 2010. From the above it can be said, that the ratio of the primary releases of shares and bonds to the gross domestic savings during the period (2004-2010), is a volatile ratio, but increasingly, which confirms that there will be response if the release market has more tools and institutions working on revitalization and enhancing its effectiveness to be able to perform their role in mobilizing, developing and directing savings towards the productive investment (Rasha Awad Mosaad, 2006).

4 - The relative importance of the primary releases to the long-term deposits in the banking system:

To measure the efficiency of the stock market, it has to be able to collect and redirect savings towards investments which are restricted to the community, and the long-term investments come in the forefront of these investment. One of the favorable factors in the Egyptian economy is that the volume of non-current deposits in the banking system exceeds the size of the current deposits, which means that there are latent energy savings can be employed in the stock market in long-term investments (Mohamed Saleh El-Henawy, 2003). Despite that, the ratio average of the total volume of the stocks issued to the total non-current saving deposits (long-term) in Egypt during the years (2004-2010), is estimated as about 37.2%, as shown in Table (3). Thus, there is a great deal of long-term savings which are accumulated annually and can be re-employed annually in the form of stocks through the release market, and the highest ratio was about 41.3% in 2004, which means that the banks have savings

, which do not find investment opportunities in suitable productive projects. It is noted that this ratio has begun to decline since 2004, where it amounted to about 38.2% in 2005, then to 34.7% in 2006, and culminated in 2010 to reach about 24.7%. Despite this lower ratio during 2010 for reaching 24.7%, the upward trend confirms that the release market has the energy to absorb and attract much more of these long-term deposits, and reuse them through the stocks in the fields of long-term investment as required.

Part II: Development and evaluation of the trading market in Egypt during the period (2004-2010):

A trading market is of great importance as the market in which they are dealing with all restricted stocks and previously released stocks in the release market and help in the completion of the financial transactions between buyers and sellers of financial assets easily with the possibility of converting these assets into cash at any time (Abdel Ghaffar Hanafy, Rasmia Qryaks, 2000).

First: The development of the volume of the trading market in Egypt during the period 2004-2010:

The trading market in Egypt has witnessed a major development during the period (2004-2010) and there are several indexes to identify the extent of this development and of the most important indexes:

1 - Development of annual trading volume in Egypt during the period 2004-2010:

The activity of the release market directly affected the trading market, where the release market is the main supporter of the trading market. Table no. (4), which shows the development of the annual trading in Egypt during the period (2003-2010), declares that the steady growth in the annual trading of stocks, listed or not, has risen from about 1421 million stocks in 2003, all of them are restricted shares and bonds in the stock market, to about 33 429 million stocks in 2010. The traded stocks recorded the highest volume of trading in 2009 on a volume of 36602 million stocks. The daily average of the number of the traded stocks during the same year was 162.1 million stocks, then the daily average of the number of the traded stocks dropped in 2010 to reach about 106 million stocks. The increasing growth in trading volume in the period (2003-2010), means keeping pace with the general trend of the continued growth of the volume of the Egyptian stock market after a period of economic reform.

Table (4): The development of the volume and value of trading of stocks during the period (2003-2010)

The Year Statement	The Number of the Traded Stocks (in million stocks)	The Total Value of Trading in the Stock Exchange (in million pounds)	The Total Value of Trading of the Restricted Shares and Bonds (in million pounds)	The Daily Average of the Number of the Traded Stocks (in million stocks)	The Average of the Trading Value in the Stock Exchange (in million pounds)	The Value of Trading of the Restricted Stocks in the Stock Exchange (in million pounds)
2003	1421.5	27783	23039.2	4.3	119.3	23.4
2004	24346	42373	36124	6.8	111.6	22.3
2005	5311.2	160332	150859.5	13	336.1	76.2
2006	9082.3	287090	271111	28.4	1035.2	242.6
2007	15098.3	363526	321847	48.925	1141.4	260.4
2008	25556	529624	475881	79	2214	546
2009	36602	448260	333516	162.1	1147	282
2010	33429	321360	273104	106	1272	317

Source: General Authority for Financial Control - the annual report of the Central Bank of Egypt.

2 - Development of the annual trade value in Egypt:

Table (4), which illustrates the value of annual trading in Egypt during the period (2003 - 2010), declares that the tremendous growth in the annual trading value of the stocks, restricted or not, has increased from about 23.4 billion pounds in 2003, all of them are restricted shares and bonds in the Stock Exchange, to about 317 billion pounds in 2010. The total value of trading of the stocks, restricted or not in the Stock Exchange has risen from about 27.7 billion pounds in 2003 to about 321.3 billion

pounds in 2010, with an increase of about 1060%. The total trading value of restricted shares and bonds has risen from 23.03 billion pounds in 2003 to about 273.1 billion pounds in 2010, with an increase of about 1086%. This was reflected on the average of the daily trading value, which rose from about 119.3 million pounds in 2003 to 336.1 million pounds in 2005 to rise significantly since 2006 up to about 1.0352 billion pounds, and then continued to rise up to 1272 million pounds in 2010.

3-The development of Stock Exchange capitalization ratio in Egypt:

Capitalization of the Stock Exchange means the average of the market price per share multiplied by the number of shares listed on the Stock Exchange. Table (5) shows the continued increase in the market value of listed shares in Cairo and Alexandria Stock Exchange (stock capitalization), where this value rose continuously and significantly from about 234.1 billion pounds in 2004 to about 489.1 billion pounds in 2010 and increased from 234.1 billion pounds in 2004 to reach 456 billion pounds in 2005 and then to 768.2 billion pounds in 2007, and then declined by 36.3% to 489.1 billion in 2010.

Table (5): The development of Stock Exchange capitalization ratio to the total of the gross domestic product and domestic liquidity during the period (2004-2010) (the value in LE billion)

The Statement Year	Market Capital of Stock Exchange (1)	GDP (2)	Domestic Liquidity (3)	1/2 (%)	1/3 (%)
2004	234.1	381.0	434.9	61.4	53.8
2005	456.0	398.5	493.9	114.4	92.3
2006	534.0	426.1	560.4	125.3	95.3
2007	768.2	456.2	662.7	168.3	116.0
2008	474.4	490.4	766.7	96.7	61.9
2009	500.2	796.8	831.2	62.8	60.1
2010	489.1	837.8	917.5	58.4	53.3

Source: Central Bank of Egypt - Annual Reports

4 - Development of the relative size of the trading market:

In order to study the relative size of the trading market during the period (2004-2010), two indexes have to be used:

A - The development of Stock Exchange capitalization ratio to GDP:

Table No. (5), which illustrates the development of Stock Exchange capitalization ratio to GDP, declares that this ratio has risen from about 61.4% in 2004 to about 168.3% in 2007, with a growth rate of about 174% during that period. By the end of 2008 and because of the consequences of the global financial crisis, this percentage dropped significantly to reach about 96.7% in 2008 and then to about 58.4% in 2010 with a rate of decline of about 65.3% when it is compared to 2007.

Despite this steady increase in that ratio except for the period after 2008, due to the global financial crisis, it is still weak, especially when it is compared to what has been achieved in the markets of other countries, as the value of the capitalization of Stock Exchange has exceeded value of GDP in many countries, where the ratio, for example, has reached about 184%, 136.6% in both Malaysia and Mexico, respectively, in 1998.

B - The development of Stock Exchange capitalization ratio to domestic liquidity:

Table No. 5, which shows the development of Stock Exchange capitalization ratio to domestic liquidity in Egypt during the period (2004-2010), declares that this ratio has risen from about 53.8% in 2004 to about 116% in 2007, and then declined significantly after directly the global financial crisis to reach about 53.3% in 2010 with a rate of decline which reached about 54% when it is compared to 2007. Despite this continuing increase in the percentage of stock capitalization to domestic liquidity in Egypt, in the period before the global crisis, it is still weak when it is compared with what has been achieved in the markets of other countries, where this percentage is more than 100% in many developed countries, as it reached about 134%, 126.5% in each of the United Kingdom, and the United States, respectively, in 1994.

From the above it is clear that the size of stocks in the trading market is still low in comparison with the size of restricted stocks, which means that only a small fraction of restricted stocks in the market can be traded, and the largest percentage of the listed companies, which their capital consists of shares

of the closed companies, is not actually negotiable, where the percentage of closed companies to the total listed companies ranged between 70% -85% and trading in the Stock Exchange is actually deprived from them. If we add to that the shareholding companies that is put in for public subscription, in which their capital shares are often offered in the creation time of the company, so the holders of shares of the company in fact have to own these shares until the production processes start and the company begins cashing its profits ,so the "market value" will not be affected and the holders of the shares can benefit, and then we find that the trading market was suffering from low volume of shares offered for trading in it. On the other hand, most traded bonds in the trading market are governmental which are development bonds in U.S. dollars, housing bonds, and bonds of national development with " variable yielding " It could be argued that, although the trading market is active during the study period, the size of the market is still small(Mohamed Sameh Abd El- Hady , 1995).

II: Evaluation of the role of the trading market in Egypt:

Within the scope of the trading market in Egypt securities in all their forms (previously issued in the primary market) are handled. This boom was not the result of chance, but it was the result of a package of measures during this period aimed at supporting the stock activity whether these actions are related to the organizational structure or seeking to provide greater transparency to reassure investors inside and outside. Although the primary market is the first step in the movement of financial activity, it does not achieve the reassurance the investor seeks to through the investment in securities, which is in the availability of cash liquidity of his securities when they are offered for sale, which encourages the allocation of a high percentage of savings to invest in long-term securities and this is only through the trading market, which aims to facilitate the trading of securities, and to ensure disposition without restriction or difficulty (Abdel Majeed Almhilmy, 2006). relative energy of trading market is one of the most important indexes used in evaluating this market, and the ratio of the transaction value to the total value of annual deposits in the banking system is also an important index to evaluate the role of the trading market, and one of the most important indexes is the following (Mohamed Fakhry Mekky 1996):

1 - Ratio of the transaction value to GDP in the trading market:

Table No. (6) illustrates that the ratio of the transaction value in the trading market to GDP including the cost of production factors in Egypt during 2004/2005 was modest. This ratio has ranged between 9.5% -37.9% during both years, but they started to increase since 2006, which has witnessed a boom in the transaction value from what it was in previous years, reaching 63.7%, and continued to increase in the following years to reach 70%, 97% in 2007, 2008, respectively. Due to the consequences of the global financial crisis, it decreased during 2009, reaching about 41.9%, and then declined significantly in 2010 to 32.6% with a ratio of decline reaching about 66.4% in comparison with 2008. From the above we can say that there is an increasing preference for investing in the stock market in Egypt, and growing ability to attract savings year after year.

2 - Ratio of the transaction value to gross domestic savings in the trading market:

Table No. (6) illustrates that the ratio of the transaction value in the trading market to gross domestic savings including the cost of production factors in Egypt during the period (2004 - 2010), was good except for 2004, where the ratio was about 47.8%, then rose to 178.4 % in 2005, with an increase of approximately 273.2%, and then continued to rise to reach 256.4% in 2006, then reached its peak in 2008 about 324.8%, and then began to decline to about 258.4 in 2009 and then to about 158.7% in 2010 . This indicates that there was a tendency for savers to favor to employ their money in the form of deposits in banks at the expense of investing it in the trading market during 2004, while this trend started to change since 2005 -2010, which means that there is a shift towards investment in the stock market, and it appears more clearly in comparing the ratio of the transaction

value in the stock market with the total annual deposits in the banking system during the study period.

Table (6): The developments of total value of stocks traded to the total of both GDP and domestic savings and deposits during the period (2004-2010) (value in billion pounds)

The Year Statement	The Total Trading Value (1)	GDP (2)	The Gross Domestic Savings (3)	The Total Deposits (4)	1/2 %	1/3 %	1/4 %
2004	36.1	381.0	75.6	461.7	9.5	47.8	7.8
2005	150.9	398.5	84.6	519.7	37.9	178.4	29.0
2006	271.1	426.1	105.7	568.8	63.7	256.4	47.7
2007	321.8	456.2	121.2	650.0	70.5	265.5	49.5
2008	475.9	490.4	146.5	747.2	97.0	324.8	63.7
2009	333.6	796.8	129.1	809.7	41.9	258.4	41.2
2010	273.1	837.8	172.1	892.4	32.6	158.7	30.6

Source: Annual Report of the Central Bank of Egypt

3 - Ratio of the transaction value in the trading market to the total deposits in the Egyptian banking system:

Table No. (6) which shows the development of the ratio of the transaction value in the trading market to the total annual deposits in the banking system of Egypt during the period (2004-2010), where the ratio in 2004 reached 7.8% and then increased to about 29% in 2005, then amounted to 47.7% in 2006, with an increase of approximately 51.5% in comparison with 2004, and then continued to increase to about 49.5% in 2007 and about 63.7% in 2008, and then began to decline to reach 41.2% in 2009, with a ratio of decline of about 35.3% in comparison with 2008, then decreased to about 30.6% in 2010, with a ratio of decline of about 52% in comparison with 2008. In spite of the doubling of the annual transaction value in the trading market during this period, in comparing this value with the value of annual deposits in the banking system it is obvious that this ratio was low, which means that there was a big difference between the amount of money directed to invest in securities through the stock market, and the size of the funds used as deposits in the banking system, and this reflects the extent of demand of individuals and enterprises to invest their money in banks with their high benefits and revenues in comparison with investing in securities with their high risk (Salah Zein El Din, 1994).

Part III: Indexes for measuring stock market activity in Egypt:

There are many indexes used to track the movement of the capital market and measure development of share prices in the Egyptian market, including official indexes (issued by Egyptian Capital Market Authority), and perhaps the most important one is the general index of the capital market, the Egyptian Stock Exchange index CASE 30, released by Cairo and Alexandria Stock Exchange in March 2003, financial sectors indexes, and indexes of banks ... Etc., and there are Standard & Poor's Global and the index of Standard & Poor's, and the index of MSCI (Morgan Stanley), some of which are indexes released by local economic and financial institutions and, authorities such as Al-Ahram El-Ektsady, indexes of Egyptian Finance Group (Hermes), indexes of Alaalm Elyom, and the index of Dow Jones EGX Egypt Titans 20, which represents all the traded shares in the Egyptian Stock Exchange with the Egyptian origin except for shares that have not been in trading for a period of 20 days or more during the previous three months to choose the shares that represent the index, etc. (Mohamed Othman Ismail, 2005).

One of the latest and most prominent indexes of the Egyptian Stock Exchange is the index of (Cairo and Alexandria Stock Exchange) CASE/50 which includes the best 50 companies which are trading their shares in the Stock Exchange in terms of liquidity. This index depends on two indexes, one is for the price and the other is for the (GDP), as CASE/ 50 measures the return on investment through the increase and decrease in the market value of the shares through any increase and decrease in the capital value of the shares, while Total Return Index CASE/50 measures the return on investment, which takes into account the return of distributions and capital benefit or loss. Thus the

investor will have the indexes that enable him to evaluate the capital performance and the return of re-investment in shares. CASE index is calculated by using the idea of weighting of the capital value of the market (Mohamed Saleh El-Henawy, Galal Ibrahim, 2002).

First: The stock market indexes in Egypt:

The stock market play a major role in evaluating the performance of the market, and following its trends, and the external and internal events have affected the main indexes of the market. The performance of the stock market has improved since 2004, and this is illustrated by the high value of the index Case 30, and the high index of the capital market in addition to the improvement of the performance of GDRs and the documents that are traded externally. In order to realize the development of the performance of the stock market in Egypt the stock market indexes, which include the following indexes, must be followed (Khaled Al-Rawy, 2004):

1- Case Local Index:

This index declares the general level of prices of shares of local companies listed in the Egyptian Stock Exchange weighted by the market value of the shares of listed companies, as this index becomes important for the various dealers in the market. The investor can follow this index to identify investment opportunities within the market, as well as comparing the efficiency of the financial markets through this index as well as identifying the activity of the market by comparing it to previous years.

The stock market indexes play a major role in the evaluation of the performance of the market, and following its daily trends. The main market indexes have been reflected by the events in the stock market. With regard to the general index of the stock market, table (7) indicates that the index has witnessed during the nineties a relative stability, but it began to rise since 2004, reaching 803.18 points, then rose in 2005 to reach 1221.17 points, and then to 2238.93 points in 2006 and continued to increase to exceed 3412.27 points in 2008. At the beginning of 2009, the index began to decline to reach 1573.11 points, and then continued to decline in 2010 to reach 1503.51 points, due to the effects of the global financial crisis and the declining growth rates in the Egyptian economy. This rise was a result of continuous efforts to develop the governing legislation, laws and regulations, and the approach of privatization and transferring the ownership of this market gradually to the private sector, as well as the contribution to the economic reforms adopted by the Egyptian government to promote commercial and economic activity, which positively affected the performance of companies listed in stock markets and enhanced opportunities to attract foreign investment to this market (Salah Abu Taleb, 2003). The increase in the value of Case30 index is due to the speculation and the collapse of the Gulf markets (Saudi and Kuwaiti markets and the market of UAE) and a slowdown in the privatization program, or because the market has reached the stage of the bubble for most of the shares (Al-Ahram newspaper, 2006). The performance of the Stock Exchange has sharply declined during period from February to mid-March 2006, which is attributed to the impact of the retreat of Gulf's Stock Exchanges on the performance of the Egyptian Stock Exchange and many investors from the Gulf withdrew part of their portfolios from the Egyptian Stock Exchange to cover their financial positions, which mainly depended on loans. In addition to the selling pressure in the Egyptian Stock Exchange due to profit taking as well as offering "license" of the third company for Mobile Services (Etisalat) for bidding, in which UAE company won after a long marathon with the Egyptian, Arab and foreign companies, and then selling the land "Sidy Abd El- Rahman" and the increase in foreign investment in the Stock Exchange (the Arab Monetary Fund, 2007).

2-(EGX 30):

The name of the main index of the Egyptian Stock Exchange (Case 30) has been modified to become (EGX 30), in line with the amendment of the legal name of Stock Exchange which has changed from Cairo and Alexandria Stock Exchange to the Egyptian Stock Exchange, and in the context of the ef-

forts of the Egyptian Stock Exchange to develop means of accessing to information and the various indexes to measure the performance of the Egyptian market, the Egyptian Stock Exchange launched two new indexes: the first is (EGX 70), which began on March 1, 2009 and measures the performance of most active seventy companies in the Egyptian market after excluding thirty companies included in the index (EGX 30) and the second is (EGX 100), which began on August 2, 2009 and measures the performance of the hundred companies included in the previous two indexes.

The data contained in Table No. (7) declares an increase in the index in February 2006 to record 8139 points, then it fell to reach 4658.21 points in July of the same year. With increasing confidence of local and foreign investors in the performance of the Egyptian economy, it reverted rising up to 7161 points in 2007 and then rose significantly in March 2008 to 11357.4 points, then dropped to reach 9827.3 in June of the same year, and continued to decline in 2009 to reach 4193.9 points (March), 5702.9 points (June), and then re-rose slightly to 6806.1 points in March 2010, and decreased again in June of the same year to reach 6033.1 points.

Table (7): Egyptian stock indexes during the period (2004-2010)

The End of June	2004	2005	2006	2007	2008	2009	2010
Turnover Ratio %	150.48	33.06	50.69	53.4	58.5	71.9	66.5
Capital Market General Index (Point)	803.18	1221.17	2238.9	2380.8	3412.27	1573.11	1503.51
EGX 30	2568	6324.7	4658.2	7161	9827.3	5702.9	6033.1
EGX 70	-	-	-	-	-	623.1	527.7
EGX 100	-	-	-	-	-	-	908.7

Source: Monthly Bulletin of the Egyptian Stock Exchange.

The decrease is mainly because the transactions in the Stock Exchange have been affected by rumors that accompanied the economic resolutions taken by the Egyptian government in May 2008, in addition to the negative effects of the global financial crisis and its consequences as a large number of foreign investors sold part of their investments in the Egyptian Stock Exchange to face losses in global markets. However, the index took an upward trend after that, in the light of measures taken, locally and globally, to accommodate repercussions of the crisis, as well as the low prices of stocks that attracted the investors and prevented the continuation of the downward trend of the index. The index of General Authority for Capital Market has the same direction as the main index, and recorded a rate of decline of 53.2% to reach 1558.1 points at the end of June 2009. For the new price index EGX 70, it recorded 623.1 points on the same date (Central Bank of Egypt, 2008/2009). The increase in the degree of openness of the Egyptian Stock Exchange to capital markets in the world as a result of continuous development of propaganda for the Egyptian Stock Exchange abroad to attract more investments, has helped to create a growing interest on the part of international financial institutions to invest in the Egyptian market and provide it with developed financial instruments through releasing documents derived from the index CASE 30 and are recorded and traded in a number of global stock markets, such as (www.egyptianstocks.com): Investment Bank Documents ABN - AMRO - Deutsche Bank Documents - Goldman Sachs Documents.

3 - Index of the most active ten companies:

Measuring the most active ten companies is used as an index of the rising Stock Exchanges by measuring the volume of transactions for the most active ten companies in the market, where this index reflects the extent of focusing on a limited number of companies in the transactions. The statistics of the transactions in Cairo and Alexandria show the development in this index in 2004, where the trading volume, which means the value of the shares of the most active ten companies to the market value of the traded stocks in the Stock Exchange, has reached 66.2%. This measure has developed in 2006 to reach 57.5%, and the lower percentage of the index indicates the development because of the entry of other companies to the intense activity in the transaction of stocks in the two Stock Exchanges. The ratio of the market value of the listed shares of the most active ten companies in the two Stock Exchanges to the market value of the whole listed shares in 2003 has reached about 19% and fell in 2004 to about 14%. All previous ratios and indexes reflect the growth in the activity of other companies in the two Stock Exchanges (the annual report of the Egyptian Stock Exchange, 2007).

4-Turnover Ratio Index (%):

The turnover ratio of stocks reflects the market value of shares traded to the market value of shares listed in the Stock Exchange. The greater the demand for liquidity, sale and purchase of stocks in the Stock Exchange was, this ratio increased. This ratio refers to the number of times in which the stocks are traded during the year. If this ratio equals one or 100%, it means that the stock is traded on average of once a year, but if it is less than one or less than 100%, this means that the trading is slow (NBE, 2005).

This index is one of the most important and the most adopted indexes in most of the fiscal studies, and refers to the liquidity of the financial market as well, and also indicates the level of costs for deals and transactions within the market, as representing the value of shares traded (volumes) to the market value. If the rise of the value of traded shares is greater than the rise of the market value, the value of this index goes up referring to the high degree of liquidity of the financial market, so the turnover ratio depends on the value of each the trading volume and the market value (Ameen Lotfy, 2004). The improved performance of the stock market has been reflected on the rise of turnover ratio, the data contained in Table No. (7) indicate a rise of turnover ratio from 13.40% in 2003 to 33.6% in 2005 and then continued to rise significantly, reaching 71.9% in 2009, then dropped slightly to reach 66.5% in 2010, and this ratio indicates the slow trading. The increase in the turnover ratio can be a result of the rise of the value of traded stocks with growth rates which are higher than the growth rates of the market capital during that period, leading to encouraging savers to acquire financial assets as well as motivating investors to expand the activity. The slow trading can be due to the large number of closed (family) companies, which the trading of their shares are confined to a limited number of investors.

5-Market Capitalization Index:

Most economic analysts focus on that market capitalization ratio (market value) is closely linked to mobilizing capital and diversify of risks. Thus, this index reflects the level of activity. The rise in the value of this index shows the high level of the market (market size), in terms of increasing the number of shares and companies included therein or higher prices, or both reflecting the higher economic activity (Mohsen El-Khudairy, 2005). This development can be traced to the economic and political reforms, and the market response to the rapid governmental privatization program which led to the increase in the foreign institutions interest in the Egyptian market and the best performance of companies which has been reflected in the increasing profits, which in turn led to higher prices for the shares of companies and then a big increase in market value.

6-Trading Volume Index:

This index reflects the actual trading volume of shares subscribed for in the market and the financial market liquidity, and then liquidity of the whole economy. This index complements the market capitalization index that reflects the market volume and is measured by the market value of the stocks listed in the Stock Exchange. The volume of market capital in Cairo and Alexandria Stock Exchange has reached about 268.4 billion pounds at the end of January 2005 with an increase of 52.1% from the last year. This is one of the highest standard levels of the activity of the Egyptian Stock Exchange. This great development is because of the high market value and the value of traded shares, as well as the role of the economic policy of the Egyptian government, which helped to develop the Egyptian financial market to attract the local and foreign capital, and then stimulate them to invest in long-term projects (Ashraf Shams El Din, 2004).

7 - The index of the ability of liquidity of Stocks:

To meet the investor’s need for liquidity, one of the indexes of the ability of liquidity of stocks is the trading hours per week, so the hours of work in the cabin of securities reach 20 hours a week.

8 - The index of the number of companies listed in the Egyptian Stock Exchange:

Law No. 203 of 1991 for public business sector companies determined 314 public institutions and companies belonging to the public business sector to put up for public subscription. When 51% of any public sector company is privatized, it is transmitted automatically to the provisions of Law No. 159 of 1981. The increase in the number of companies listed in the Egyptian Stock Exchange is already clarified in the first part.

9-Global Depository Receipts (GDR):

Global Depository Receipts (GDR) represent a channel to insert a local company within a wider area, namely the international investment community, as well as it increases the ability of the state to liberalize its markets and then integrated them into the global markets. GDR represent shares with Egyptian release restricted in the external financial markets as one of the funding channels for the stock market of the state, where they are traded in the international financial markets and are considered a negotiable financial instrument in those markets. Thus, the receipts are traded as a substitute for original stocks in the international capital markets such as London Stock Exchange, Luxembourg Stock Exchange or New York Stock Exchange. GDR are released in order to increase the capital which is characterized by the following (IFC1993):

- Allowing the company to enter the global markets which leads to the diversity of the company’s shareholders.
- Helping the domestic stock market to expand by expanding and diversifying the investors base, which helps to increase or stabilize the share price.
- Helping in increasing the capital significantly which the local market may not be able to provide.
- Strengthening the company’s position at the level of global markets and enhancing the company’s products and services outside.
- Depository receipts can be used as a tool to finance takeovers and mergers.

The data contained in Table No. (8) refers to that there are 14 Egyptian companies that have receipts restricted in the global Stock Exchanges. Egypt has begun in the issuance of GDR in July 1996, and put them up for trading in “London” international Stock Exchange and the Egyptian GDR represent five sectors among twenty sectors, namely the sectors of finance, industry, chemicals, food and beverage, the first release of the Commercial International Bank was 9.9 million receipts, followed by a number of other releases. The biggest of those releases was Holding for Financial Investment Company (Lakah Group) in July 1999, where it released about 35 million GDR (Rasha Mosaad Awad, 2006).

The Ministry of Foreign Trade and Industry (the economy at that time) released a special index to follow up the performance of the Egyptian GDR in the global market, in order to monitor the level and direction of the performance of the depository receipts. In first place was the receipts of Holding “EFG-Hermes”, which has made the largest rises, with an increase of 1,000%, followed by the rise of the receipts of Orascom for Construction and Industry (209%), and came in third place the receipts of Orascom Telecom Holding (OTH), with an increase of 153%. The rest of the international receipts have risen by less ratios as the receipt of Ezz Steel rose by about 89%, then the receipt of Egypt International Bank by about 72%, Commercial International Bank by about 55%, Paints and Chemical Industries (Pachin) by about 34% and finally Lakah Group by about 26%. 2005 has witnessed the trading of the receipt of Telecom Egypt in “London” Stock Exchange by the end of December 2005, and the number of receipts has reached 8.5 million receipts to join other nine receipts e traded in London Stock Exchange. May 2010 also witnessed the trading of the receipt of Remco for Tourist Villages Construction, and New York Bank is considered the main Bank of for the deposit, and the Commercial International Bank is the main bank for conservation, and subtractions of depository receipts vary from one company to another.

Table (8): GDR Restricted Receipts in the global Stock Exchanges (1996-2010)

Price In Pound End of		Price In dollar End of		The Amount in the Release Date(thousands)	Replacement Ratio	Conservation Banks	Deposit Banks	Release Date	Company
June 2010	June 2009	June 2010	June 2009						
67.55	49.00	12.20	7.78	9999	1.00	Commercial International Bank-HSBC	Bank of New York	7/1996	Commercial International Bank-Egypt
35.73	32.82	5.80	4.55	7310	1.00	“	“	7/1996	Suez Cement
48.50	30.51	2.80	2.80	6297	3.00	“	“	10/1997	Paints and Chemical Industries (Pachin)
29.20	22.73	11.10	7.90	4324	0.50	“	“	8/1998	EFG-Hermes
17.58	12.10	32.50	32.50	573	0.33	“	“	6/1999	Ezz Steel
-	-	0.44	0.44	35000	0.33	“	“	7/1999	Investment Holding (Group Lakah)*
4.98	29.91	4.40	26.60	11713	0.20	“	“	7/2000	Orascom Telecom Holding (OTH)**
227.44	190.99	38.70	32.51	50	1.00	“	“	8/2002	Orascom Construction Industries***
13.02	15.17	3.00	4.00	8796	1.00	“	“	11/2004	Lecico Egypt
15.74	16.16	15.50	14.20	8522	0.20	“	“	12/2005	Telecom Egypt
0.43	0.71	1.72	-	5625	0.25	“	“	2/2008	NAHO

4.89	7.56	4.70	-	5435	0.20	"	"	5/2008	Palm Hills Developments
39.22	-	34.43	-	100	0.20	"	"	5/2009	GB Auto
3.90	-	-	-	1000	0.20	"	"	5/2010	Remco for Tourist Villages Construction

Source: Monthly Bulletin of the Egyptian Stock Exchange.

* Price for this receipt represents the closing price on March 3, 2005.

** Replacement rate has been changed to become 5 local shares for one depository receipt starting from April 12, 2007.

*** Replacement rate has been changed to become one local share compared to one depository receipt starting from May 7, 2005.

It should be noted that the Egyptian Stock Exchange has occupied the forefront of emerging markets and Arab alike as the best performance during 2005, as the Egyptian market was over other financial markets released by the major global institutions. Egypt also came in the first place, according to the index of (Standard & Poor's Global (S & P / IFCG) with an increase of 155.9%. As for the index of Standard & Poor's Investment S & P / IFCG Egypt came in the first place with an increase of 158.8%, while on the index of Morgan Stanley (MsCI) the Egyptian Stock Exchange has assumed the forefront with a growth ratio of 155.2% (the annual report of the Egyptian Stock Exchange, 2005). It should be noted that the Newsweek magazine chose Egypt among the top ten markets globally and The Economist magazine, also announced that the Egyptian Stock Exchange recorded the best performance during 2005 among emerging markets which are 27 markets around the world monitored by the magazine as the Egyptian Stock Exchange gained 125% in U.S. dollar. This makes 2005 the most important year in the history of the Egyptian Stock Exchange.

Part IV: the role of foreign investment in the Egyptian Stock Exchange:

The Egyptian market gives foreign investors, whether they are individuals or institutions, the opportunity to invest easily in the Egyptian stocks and without any restrictions on the free movement of capital and foreign currency or converting them. In addition to that, it allows the foreign stocks to be listed under the Listing Rules in the Stock Exchange and to be traded under the same conditions, which the local stocks are subject to while allowing foreigner mediators to work in the Egyptian market without any discrimination in treatment from the administrative and legal systems between them and the local enterprises and to enjoy the tax privileges itself as exempting profits of international investment funds from general income tax. This has led to encouraging foreign investors and foreign funds to buy Egyptian stocks and the increase of foreign contributions in transaction movement (Samir Abd El-Hamid Radwan, 1996). The interest of the Egyptian government and the Stock Exchange in Egypt to develop the market and liberate it to the outside world and foreign markets led to the increasing degree of mutual influence and interdependence with these markets. The privatization program also helped to make the Egyptian market more attractive among the emerging markets, especially for foreign investors, individuals or institutions, which contributed to the increase in the flow of foreign investment into the Egyptian Stock Exchange with the increasing movement of development and modernization that is taking place in the Egyptian Stock Exchange on its way to become the most important financial center in the Middle East (Nagy Khashaba, 1993).

The number of investors and their nationalities was varied, and the number increased by 16.4% in 2010 in comparison with 2005. The foreign investors dominated about 30% of the total transactions in the Egyptian market, achieving a net purchase estimated as about 5.2 billion pounds in 2010, if it is compared to the net buying of 3.9 billion in 2005. Foreign investors took advantage of the strong performance of the Egyptian Stock Exchange when it is compared to the performance of emerging markets, and they pumped investments that exceeded 38 billion pounds to dominate almost 16% of the total transactions in the

Stock Exchange (General Authority for Capital Market, 2006). The number of companies listed in the Egyptian Stock Exchange in which foreign investors contribute is 310 companies, which represents 42% of the total number of companies listed in the Stock Exchange in 2005 which are about 70 companies. The total value of the market capital of companies in which foreign investors contribute is 411 billion Egyptian pounds, representing 90% of the total market capital of the listed companies in the Stock Exchange in the same year, which is valued as 456 billion pounds. The total value of foreign-owned capital market amounted to 184 billion Egyptian pounds, which represent about 45% of the total market capital of companies in which foreigners contribute, amounting to 411 billion pounds. Thus, it is considered an impressive ratio in the events in the Stock Exchanges to a large extent and changes them up and down (the Ministry of Economy and Foreign Trade, 2006). The percentage of foreign ownership of stocks in the Egyptian capital market was about 26.9% in June 2005, and then rose to 28.4% in June 2006. The percentage of foreign contribution of the total trade value was about 20.5% in 2004, and then declined slightly to reach 19.2% in 2006.

Table no. (9) shows foreign ownership of the stocks in the Egyptian capital market, where the value of shares owned by foreign investors has reached 163.056 billion pounds in June 2006, representing 47.5% of the market capital, which is estimated as 343.565 billion pounds. The increase in the value of shares owned by foreigners was 23.2% if it is compared to June 2005. The number of shares owned by foreigners in June 2008 increased by 80.6% to the number of shares in June 2007, where the amount of shares owned by foreign investors has reached 2.554 million paper in June 2008. Thus, they represent 28.4% of the total number of shares. It is also noticed that there is a significant increase in the amount of shares owned by foreigners as the increase was about 90.9% from June 2007. The data also indicate the continued demand of foreigners in the Egyptian Stock Exchange, with a total net value of transactions in 2006/2007 of about 21.2061 billion pounds, and then declined to reach in 2010 about 5004 million pounds, these transactions have resulted in net sales amounted to about 50.8 billions, if it is compared to net purchases amounting to 72.094.2 in 2006/2007 and then the net sales increased to reach 59.417 billions, and the net purchases dropped to reach 64.421 billion pounds in 2009/2010. The net volume of stocks of the transactions of foreign investors in the stock market in 2006 /2007 was about 464 million sheets and then dropped to reach 346 million sheets in 2009/2010 with a ratio of decline of about 25.4%. The number of transactions that have been implemented in the market in Egyptian pound were about 178 688 in 2006/2007 and then declined to reach 131 934 in 2009/2010 with a ratio of decline of about 26.2%. By tracking the movement of transactions of foreign investors in the Egyptian Stock Exchange, buying and selling, as well as following the directions of those transactions chronologically and on the sector level the volume of transactions traded, the quantity and value of traded shares, some of the following results can be reached (Cairo and Alexandria Stock Exchange Website, 2006):

- The presence of foreign investors spread across most economic sectors, with a little bit focus on the sectors of banking, cement, and oil, as well as communications, which represent the most dynamic and successful sector in the national economy.
- Political stability and positive economic indexes are of the main factors for attracting foreign investors' transactions and developing them.
- The monetary stability in terms of the stability of the currency and the increase in cash backup and low interest rates, is one of the important factors to increase the transaction of foreign investors in Egypt.

Table (9): Foreign investors' transactions in the stock market in Egypt during the period (2006-2010)

The Year	2006/2007		2007/2008		2008/2009		2009/2010	
	L.E	\$	L.E	\$	L.E	\$	L.E	\$
number transactions (unit) of	178688	11162	157788	2486	- 77401	-10194	131934	6747
Purchases	765591	42678	1220528	54001	849530	36818	1055605	47196
Sales	586903	31516	1062740	51515	926931	47012	923671	40449
The amount of stocks (million)	464	-276	261	- 16	- 404	- 72	346	30
The amount of stocks (million)	1710	216	3968	354	2808	159	4241	243
Purchases	1246	492	2807	370	3212	231	3895	213
Sales	21206.1	-1264.2	-7140	309	- 2875	- 85	5004	106

Source: General Authority for Financial Control - the monthly report of the capital market.

Part V: Results and recommendations: In the framework of what is explained above a range of results can be extracted, including:

- In spite of the positive developments that release market witnessed in the field of releasing shares during the study period, the prevalence of the establishment of the closed joint-stock companies represents a weakness point for the release market in Egypt. It also suffers from the weakness of the size of bond releases; in addition to that, the most part of it is the release of governmental bonds.
- The number of companies listed in the stock decreased from about (803) companies at the end of 2004 to about 333 companies in 2009 and then to about 215 companies at the end of 2010. This decline is due to adding new companies and removing a number of companies that have not been committed to the conditions and standards set for being in the Stock Exchange, and the strict application of the principles of governance
- The percentage of the initial releases of shares and bonds to GDP in Egypt during the period (2004-2010) was about 16-27.1%, which is very modest. This means the weakness of the size of the primary market and humility of the tools because of the absence of many financial institutions that contribute to stimulate and increase the effectiveness of the release market, and the government resorting, in order to cover part of the fiscal deficit, to release stocks that are not negotiable in the stock market, such as the treasury bills.
- A low share of the primary market to finance investments in Egypt during the period (2004-2010) means the ineffectiveness of the role of the primary market in mobilizing and directing savings to finance investments. The majority of the investments has not been financed through new subscriptions in the form of new shares or bonds, but by other ways rather than the stock market, due to the trend of many economic units to the cash market for the provision of necessary finance, and the resort of the private sector to prefer the establishment of domestic (closed) joint-stock companies, and therefore they did not contribute to the revitalization of the release market.
- Despite the increase in stock capitalization ratio to GDP except for the period after 2008, due to the global financial crisis, it is still weak, especially when it is compared to what has been achieved in other markets. The value of stock capitalization has exceeded the value of GDP in many states, where the ratio, for example, was about 184%, 136.6% in both Malaysia and Mexico, respectively.
- Despite the increase in stock capitalization ratio to domestic liquidity in Egypt, in the period before the global crisis, it is still weak when it is compared with what has been achieved in the markets of other countries, where this ratio was more than 100% in many developed countries, reaching about 134%, 126.5% in each of the United Kingdom, and the United States respectively.
- There is a large gap between the amount of money directed to invest in stocks through the Stock Exchange and the size of the money used as deposits in the banking system during the study period in which the ratio of the annual transac-

tion value to total the annual deposits did not exceed 2% in many years during this period.

- Twice the size of the stocks in the trading market for the size of restricted stocks means that only a fraction of the restricted shares can be traded in the market. The largest percentage of listed companies (closed companies) is not actually a subject to trading, where that the percentage of closed companies to the total listed companies ranged from 70% -85%. Thus, the trading market in the Stock Exchange is actually deprived from them.
- The attention of the Egyptian government and the Stock Exchange in Egypt led to develop the market and liberate it to the outside world and the foreign markets to increase the degree of mutual influence and interdependence with these markets, and the privatization program also helped the Egyptian market to become more attractive among the emerging markets, especially for foreign investors, whether they are individuals or institutions, which has contributed to increasing the flow of foreign investments to the Egyptian Stock Exchange as the foreign investors dominated about 30% of the total transactions in the Egyptian market.

In the light of previous results the research recommendations are as the following:

- Developing the institutional structure of the General Authority for capital market in line with the supervisory role assigned to it and re-formation of the functional ties in the organizational structure in order to achieve the desired goals.
- Developing mechanisms and supervisory tools available to the General Authority for capital market and supporting them with systems and tools that are appropriate to the current and future stage of development of the market.
- The establishment of mechanisms to spread the resolutions of the General Authority for capital market for more transparency in their transactions and informing customers in the Stock Exchange, including the resolutions issued by the Authority continuously.
- The entry of modern technologies in the field of Stock Exchange, information systems and decision making support in the General Authority for capital market in order to facilitate its role in market supervision.
- Comprehensive disclosure of all necessary information about the Egyptian listed companies, to get to know the result of the activity and the forecasts for the future status of these companies and continuity chances.
- Supervising the organization and trading of stocks, in order to prevent speculation, and facilitate the exchange and transfer of ownership.
- Working on multiple issuers of securities and adjusting the rhythm of work in the unregulated market.
- The necessity of expanding investment in the IPO companies targeted by the law (95) for the year 1992 for the capital market to contribute to increase their number to ensure expanding the market and reducing the prevalence of the phenomenon of establishing closed companies.
- The need to work on increasing the value of annual initial releases, shares or bonds, as well as their ratio to GDP through convincing and encouraging financial institutions to contribute to the revitalization and to increase the effec-

tiveness of the release market, such as subscription Trustees companies, and financial leasing companies for establishing projects and promoting them with what is available of unusual financing sources, technical knowledge and financial experiences.

- Reducing the government resorting to cover part of the fiscal deficit through the issuance of securities which are not negotiable in the stock market, such as treasury bills and the need for expansion of the bond offering directly to the IPO.
- Working on strengthening the release market by providing more tools and institutions to work on revitalizing and increasing its effectiveness to be able to play a role in the mobilization of savings and the development of long-term deposits, and reusing them through securities in the fields of long-term investment.

- Activating the trading market in the Stock Exchange by making use of the largest percentage of the shares of listed companies (closed companies) which are not actually negotiable.
- Working on the continuous efforts to develop legislation, laws and regulations that govern the work of the Egyptian Stock Exchange, and adopting privatization approach and ownership transfer of this market gradually to the private sector, along with the deepening of economic reforms of the Egyptian government in promoting economic activity and working on degree of openness of the Egyptian Stock Exchange on capital markets in the world .
- Enhancing the role of the economic policy of the Egyptian government, including helping to develop the Egyptian financial market to become attractive to domestic and foreign capital, and then stimulate investment in long-term projects.

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