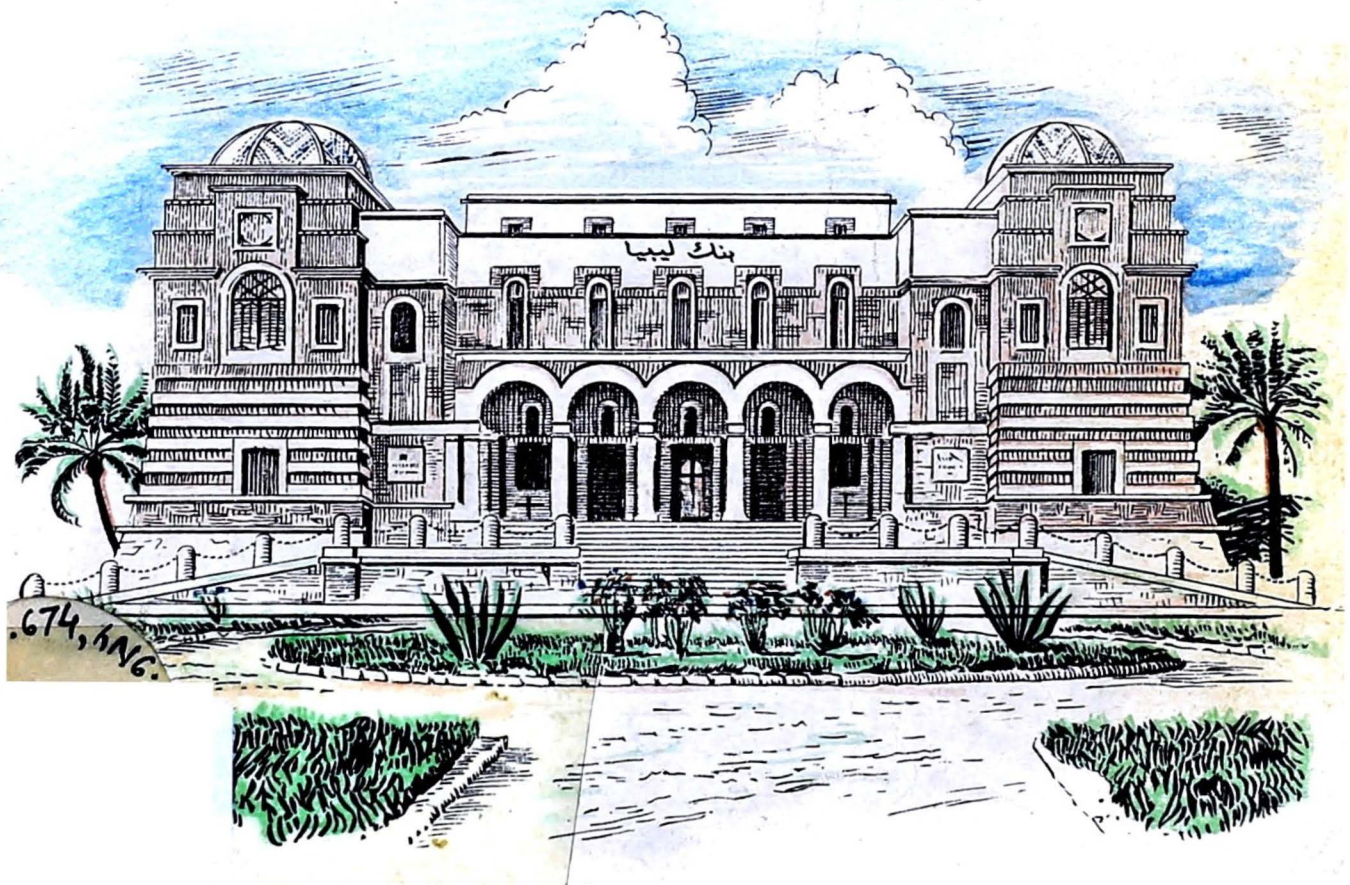




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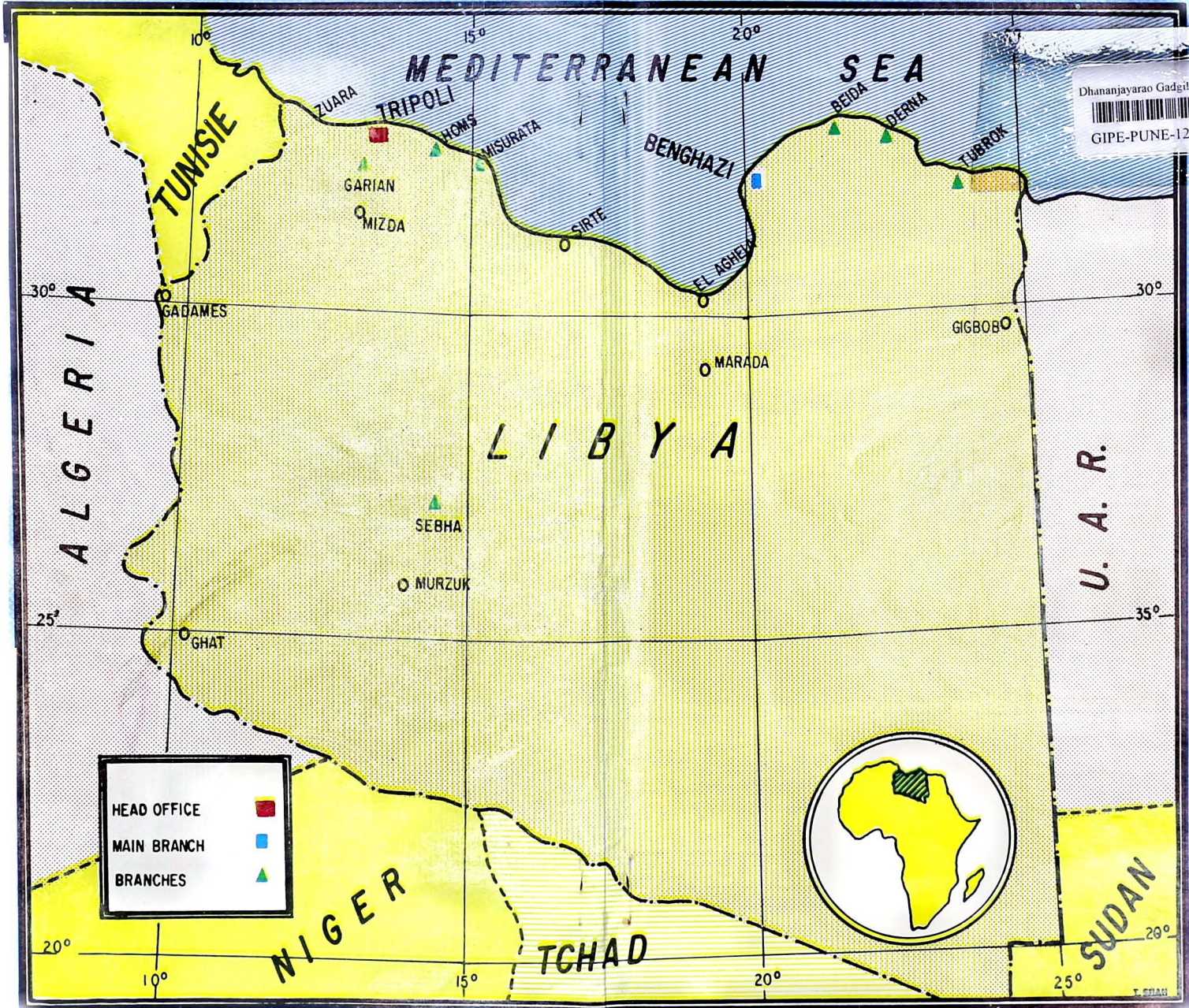
A BRIEF HISTORY OF ITS FIRST DECADE

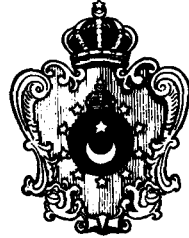
1956 - 1966



Prepared by:
Economic Research Division
Bank of Libya

BRANCHES OF BANK OF LIBYA





BANK OF LIBYA

A BRIEF HISTORY OF ITS FIRST DECADE

1956 - 1966



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Governor's Introduction

It is both my pleasure and honour to introduce this historical study covering the first ten years of the life of this institution.

The purpose of this study is to provide a factual statement of the background behind the establishment of the National Bank of Libya and a brief summary of the activities and functions of the Bank during the decade of its existence. In this summary we have placed special emphasis on the main legislative, administrative and technical reforms which have taken place in the Bank since the time of its establishment. It is our hope that this study will provide bankers, government officials, University professors and students as well as the public with valuable information regarding the evolution of a new and modern central banking in the country.

I wish to take this opportunity and express my appreciation and thanks to the Director and staff of the Economic Research Division for their dedication and hard work in the preparation of this comprehensive study.



KHALIL BENNANI
Governor

Letter of Transmittal

February 15, 1967

To His Excellency the Governor:

I have the honour to transmit the draft text of a study entitled «Bank of Libya: A Brief History of Its First Decade, 1956-66» which the Bank has decided to issue on the occasion of its Tenth Anniversary.

The study covers the high lights of the economic and institutional background leading to the establishment of the Bank, the circumstances and legal framework within which the Bank was formed, and a general review of its chief functions as a central bank as well as a pioneer commercial bank. The main accomplishments of the Bank are briefly reviewed in connection with the description of its main functions. A special emphasis is placed on the role of this institution as bankers' bank and as adviser to Government.

The original outline for this study was approved by a special Staff Committee under the Chairmanship of the Deputy Governor in the Spring of 1966. In accordance with the decision taken by that Committee, heads of Departments were requested to supply the Economic Research Division with the necessary data dealing with the activities of their respective Departments. It took several months to assemble the required data needed for this study and it was my pleasure to use some of this data in developing the contents of this study.

On behalf of the Economic Research Staff, I wish to express our thanks to all those who have assisted in the preparation of this study. We hope that it will fulfill the purpose for which it is intended as well as provide a focal point around which future studies on the development of central banking in this country may be formulated.

Yours sincerely,



Ali A. ATTIGA
Director, Economic Research Division

Chapter 1

The Economic and Institutional Background

CHAPTER I

The Economic and Institutional Background

From 1943 to the attainment of complete independence on the 24th of December 1951 Libya was governed by the British in Tripolitania and Cyrenaica and by the French in the Fezzan. Each of these three regions was governed independently from the others and the financial and economic relations between the three regions were greatly similar to the relation between independent states. Each of the regions had its own system and procedures of exports and imports, its own regulation of internal economic activities and its own currency.

Although both Tripolitania and Cyrenaica were governed by the same power, each of the two regions used a different currency. Thus, while in Cyrenaica the Italian Lire was replaced by the Egyptian pound, in Tripolitania the British Military Administration issued a special currency, the so-called Military Authority Pound, and later replaced it by the Military Authority Lire (MAL) in place of the Italian currency. In the Fezzan the French Military Authority used the old Algerian Franc which was issued by the old Banque d'Algers. Barclays Bank was authorized to be the Bank of issue for the Egyptian pound in Cyrenaica and for the British Military currency in Tripolitania.

The division of their country into three autonomous states was the source of grievance, agitation and hardship among the Libyan people. Custom barriers, exchange control restrictions and various administrative «red tape» were used to regulate the trade relations between the three regions of the same country. Traditional economic ties and trade relations were in many cases handicapped by such sharp political and economic division.

The Libyan people, led by their dedicated leader, King Idris I, could not allow this intolerable situation to continue for long. Demands for com-

plete independence and unification came from all parts of the country and groups of various political orientation were united in their demand for complete independence of all of Libya under the leadership of King Idris I. It would not be of an immediate interest to follow the very interesting and heroic struggle of the Libyan people for independence. Suffice to say that the strong determination and the heroic struggle of the Libyan people, with the aid of the Arab States and other friendly countries, led to the recognition of Libya's complete and full sovereign rights over its affairs. Such recognition was expressed in the United Nations General Assembly resolution of 21st November 1949. With the expert advice of the United Nations, various measures were taken to prepare the legal, administrative and economic framework of the new Libyan state. Under the auspices of the United Nations Commission for Libya, a group of experts representing Egypt, France, Italy, the United Kingdom and the United States and a representative of then Provisional Libyan Government held a series of meetings in London and Geneva in 1951 to discuss the monetary, fiscal and economic development problem which required adequate solutions before the new nation could make significant progress with its political independence.

To facilitate the task of the expert group in regard to the monetary problems a technical report dealing with the question of currency unification in Libya was prepared by two experts of the International Monetary Fund(*). The Report consisted of two parts; part one dealt with the main recommendation for the unification of currency and the nature and composition of the new Libyan currency as well as the machinery which will manage the issue of the currency, while part two of the Report contained a general survey of the economic and financial condition of the country, just prior to Independence. The survey showed that the predominant characteristic of the economies of the three regions of Libya was their subsistence agricultural and pastoral activities. The relatively monetised sector was largely owned and managed by foreign interests and personnel. The external trade of the country was confined to the export of a few agricultural products and livestock, and the import of certain essential commodity such as cloth, rice, sugar, tea and other foodstuffs. There was a consistent trade deficit in the three regions throughout the period under review.

* Currency Unification in Libya, by G.A. Blowers and A.N. Maclead, International Monetary Fund, May 1951.

It was estimated in 1950 that the total currency in circulation in Tripolitania was about one billion MAL, or just little over two million pound Sterling while demand deposits were about half that figure. The total currency in circulation in Cyrenaica was estimated at one million Egyptian pound and bank deposits were about one quarter of a million. Since in the Fezzan the economy was largely not monetized and since there were no banking facilities money supply in that region could not have been more than the equivalent of about one hundred thousand pound Sterling. Thus, the total money supply in the three regions combined was less than the equivalent of 4.5 million pound Sterling in 1950/51.

Total national income for all of Libya during the same period was estimated at 15 million pound, of which agricultural production contributed the major part. The public budgets of the Provinces were largely in deficit, especially beginning with 1950 when steps were being taken to form the Provisional Libyan Government. Barclays Bank provided the only banking facilities in both Tripolitania and Cyrenaica, while in the Fezzan there was only the postal saving system. In addition to its commercial banking functions, Barclays Bank acted as banker to Government and it was also entrusted with all foreign exchange transactions in the two regions. Banque d'Alger performed the functions of central banking in the Fezzan.

Against this rather precarious economic situation and difficult currency arrangement the IMF Report outlined the main recommendations with regard to the composition, issue and management of the new unified Libyan currency. The Report recommended that the new currency unit should be equal in value to four shilling Sterling or 0.56 Dollars and its par value should be defined as 0.407,656 grams of fine gold. The new currency should consist of one hundred parts, its notes should be issued in denomination of 500, 100, 50, 10, 5 and one unit, while coin should be in denomination of 0.50, 0.10, 0.05 and 0.01 units. It was recommended that there should be a currency cover of one hundred per cent in foreign exchange, while the appropriate name for the new currency was left to the choice of the Provisional Libyan Government.

With regard to institutional arrangement necessary for the issue and

management of the new currency the Report recommended that the Provisional Libyan Government, in consultation with the administering powers should establish a provisional currency authority to be formally known as the «Libyan Currency Authority» which was to undertake the initial steps for the issue of the new currency.

These and other recommendations of the Report were discussed in detail by the expert group meeting in Geneva. While there was general agreement as to the institutional arrangement suggested there was considerable disagreement on matters of substance, such as the nature and composition of the new currency, the question of its backing and its relation to the Sterling Area. The discussion, however, came to an end when the Provisional Libyan Government informed the expert group of its decision to join the Sterling Area and to have the new currency issued in units of one Libyan Pounds which will have a parity value equal to the pound Sterling and will consist of one hundred piastres, and each piastre will consist of ten milliems. The representative of the Libyan Government also stated that his Government wishes to have the new currency one hundred per cent backed by Sterling securities.

The Provisional Libyan Government agreed to the recommendations of the meeting of experts, that preparatory currency committee be established for the purpose of making all the necessary arrangements for the first issue of the Libyan currency and for the establishment of the Libyan Currency Commission which will manage the currency after the formal achievement of Independence. It was agreed that the Committee should be chaired by a British national and that its membership should consist of two Libyan representatives, one French, one Italian and three British in addition to the chairman. The Committee held its first three meetings in Geneva beginning the 31st of May 1951 and its subsequent meetings in London, the last of which was on the 17th December 1951. The task of the Committee consisted of making arrangement for the production of the new notes and coins, the provision of offices for the Currency Authority in London and in Libya, the appointment of agent, and currency offices', strong room accommodation, and arranging for the distribution of the new currency notes in preparation for their eventual issue. The Committee made the necessary arrangements for strong room and office facilities in London and Libya. Arrangements were also tentatively made with Barclays Bank for the distribution of the new currency in Libya.

When the Committee completed all these arrangements it turned to



the discussion of the draft Libyan Currency Law which was accepted with certain minor amendments. With the proclamation of this Law on the 24th October 1951 and with the formal establishment of the Libyan Currency Commission in February 1952 the Preparatory Currency Committee ceased to exist.

Article 14 of the Libyan Currency Law specified that the new currency will be issued in the following denominations: ten Libyan pounds, five pounds, one pound, half a pound, one quarter of a pound, ten piastres and five piastres. The denominations for coins consisted of two piastres, one piastre, five milliemes, two milliemes and one millieme. Article 12 of the same Law fixed the rate of exchange between the Military Authority Lire and the Libyan pound at 480 MAL to one Libyan pound, while the rates for the Egyptian pound and the Algerian franc were left to the decision of the Currency Commission. The Commission, with the approval of the Libyan Government fixed these rates at 97½ Egyptian piastres to one Libyan pound and 980 Algerian francs to one Libyan pound.

Bradburry Wilkinson & Co. Ltd. were commissioned to print the denominations of ten, five, one and half pounds, while the printing of the one quarter of a pound and the ten and five piastres notes were given to Thomas De La Rue & Co. Ltd. The coins, which were made of cupro-nickle and bronze were manufactured by the Royal Mint.

For the financing of the operations of the Preparatory Currency Committee and the initial expenses of the Currency Commission a loan of 150,000 pound Sterling was obtained from the British Government at two per cent interest per annum.

Article 2 of the Libyan Currency Law established the Currency Commission as a body corporate. Articles 3 to 7 specified the membership of the Commission, its jurisdictions, locations, offices, agents and other matters of organization.

The first membership of the Commission was composed of three British representatives, one of whom was Sir Reader Bullard as chairman, two Libyan representatives, Dr. A. N. Aneizi and Ess. S. B. Sharmit, and one representative from each of France, Italy and Egypt. The Libyan representatives were changed several times during the life of the Commission and when Sir Reader Bullard resigned from his chairmanship H.E. Mahmoud Bey Muntatsser, Libyan Ambassador to London, was appointed chairman



of the Commission. The two most important functions of the Commission were the management of the currency issue, redemption and the investment of accumulated currency reserves. The Commission began issuing the Libyan national currency on the 24th March, 1952 in exchange for the three currencies which had been circulating in the three regions of Libya at the specified rates. This process was formally completed on the 24th June, 1952. The total volume of notes received in exchange for the Libyan currency was as follows:

MAL. 1,216,247,049; Egyptian pounds, 1,113,749; Algerian francs, 141,377,493.

These currencies were passed to the British Government in exchange for one hundred per cent Sterling backing for the first issue of Libyan currency in accordance with the terms of the Temporary Financial Agreement between the British and the Libyan Governments signed on 13th December, 1951.

Barclays Bank D.C.O. was appointed as the Commission agent, in Libya and in London for the issue of currency and for keeping the accounts of the Commission, while investment decisions were made directly by the Commission at its headquarters in London. The accounts of the Federal and State Governments were also kept by Barclays Bank, during that period. Thus in effect, Barclays Bank was performing some of the traditional functions of central banking on behalf of the Libyan Government and its Currency Commission.

Within its important but rather limited role the Commission performed its duties satisfactorily, but as the Libyan economy began to respond to the stimulus of economic development and various public policies associated with an independent state it became clear that the structure of the Commission was not designed to cope with the monetary and fiscal requirements of this new situation. Thus total assets of commercial banks operating in the country increased from £L. 4.05 million at the end of 1951 to nearly £L. 13.7 million at the end of 1955, while money supply increased from 7.1 million at the end of 1952 to nearly £L.9.9 million at the end of 1955. With this significant monetary expansion and with the realization that Government fiscal policy and development plans can not be effectively implemented without a proper monetary institution the need for an autonomous central bank could no longer be ignored.

The case for establishing a central bank was clearly expressed in a Government policy memorandum prepared in 1954 and submitted to the Currency Commission in October of the same year as an explanation of the reasons why the Libyan Government decided to establish a central bank. Although the memorandum consists of six pages it would be sufficient for our purpose to quote the following paragraphs:—

(1) «The desirability of establishing a Libyan National Bank rests on four principal grounds:

- (i) to hold Government funds;
- (ii) to manage Libyan currency;
- (iii) to control the utilization of Foreign Exchange and to supervise the country's balance of payments;
- (iv) to act as a Central Clearing Bank.

(2) «At present there is no indigenous bank in Libya and all banks operating there are branches of foreign banks. This situation is a perfectly workable one but on the other hand it is customary for all sovereign states to have within their borders a national bank in order to carry out the principal functions referring to the above.

«The practice of establishing national banks does not rest even mainly on prestige, though there is a prestige aspect to the matter.

«A national bank enablese the Government of the country to control the monetary policy of the country more closely and enables the Government to exercise a very real control over the banking policy and the financial facilities extended by the banks in its territory, which in the absence of a national bank it is unable to do. A national bank, through the rates of interest which it fixes for its own bills or short-term moneys, can virtually control the interest rates charged by the other banks operating in the territory. In Libya, generally speaking, the interest rates charged by the banks at present operating there are considerably higher than customarily prevails in European countries, or indeed in most parts of the world. The effect of this is that industry and commerce in Libya has to pay an unduly high price for banking accomodation often required to carry through its transactions. The only way in which the Libyan Government could intervene would be by legislation limiting the interest rates. If this were done it might restrict even more than at present is the case of the financial credit

facilities available. If Libya possessed a national bank, however, it could, by providing the necessary credit facilities at lower rates of interest, compel other banks to come into line with the lower rates approved by the bank.

(3) «At present the Libyan Currency is managed by the Libyan Currency Board, a statutory body set up by Libyan Law. It has a British Secretary and its office is situated in London. It has two Libyan members whose presence is essential at meetings of the Commission in order that there may be a quorum. It has a British Chairman and one other British member, a French member and an Italian member. De jure it is a Libyan organization but de facto it is not. If a National bank were established it would replace the Currency Commission in the management of the Libyan Currency. The «Bank» would hold the currency reserve and would also be responsible for the currency backing and for the investments which represent that backing. The bank would also be responsible to ensure, by the monetary policy which it adopted under the direction of the Government of Libya, (to



Internal view of the Central Banking hall in the Main Office — Tripoli.

which the bank would of course always be free to render expert advice) that the balance of payments of the country, through its trading and other activities, was not such as to lead to any adverse movement in the foreign exchange».

As we shall see in the next chapter the National Bank of Libya was officially established by Law No. 30 of 1955 and it began official business in Tripoli in April 1956. In order to complete the arrangements of handing over the business of the Currency Commission to the new bank it was decided to appoint the Commission as an agent of the bank and to postpone its dissolution until all necessary arrangements were satisfactorily completed. The Commission held its last formal meeting on Monday 8th October 1956 in London under the chairmanship of H.E. Mahmoud Bey Muntasser. At that meeting Dr. A.N. Aneizi, the first Governor of the National Bank of Libya, expressed his thanks and appreciation of the Commission's work.



Internal view in the Commercial Banking Division Tripoli

Chapter 2

Formation of the National Bank of Libya

CHAPTER II

Formation of the National Bank of Libya

In order to expedite the establishment of the nation's central bank on sound technical foundations the Government requested the services of banking experts from Egypt, Turkey, France, the United States of America, and Great Britain. The experts were formally appointed by the Government as members of a technical committee under the Chairmanship of Mr. C.J. Pyke, who was then the Banking Commissioner to the Federal Government. The Committee prepared draft legislations for the creation of the National Bank of Libya, the National Agricultural Bank and it also drafted laws for Commercial Banking and Exchange Control.



Internal view — Bank of Libya — Benghazi

Although the formal genesis of the central bank of Libya is traceable to the labours of this Committee, it is interesting to recall in this context that even in the pre-independence days of the Libyan National Movement some thought was given in the highest quarters to this aspect of national reconstruction.

The National Bank of Libya Law was passed on the 26th of April, 1955, and Dr. A.N. Aneizi, then Minister of Finance, was appointed Governor by Royal Decree on the same date. The appointment of a Libyan as the first Governor of the Central Bank was a happy event, which was gratifying to public opinion and was instrumental in giving an auspicious start to the operations of the bank.

A further Royal Decree was issued on September 1, 1955 appointing Mr. W.P. Waller as Deputy Governor. Mr. Waller had resigned from the Bank of England, where he was head of the Exchange Control Office for Scotland and Northern Ireland, in order to take up his new office on the 15th of August, 1955.

The National Bank of Libya Law which contained 52 Articles regulated the organization and operations of the new bank, whose general objects under Article 6 were «to regulate the issue of bank notes and coins, to keep reserves with a view to maintaining monetary stability in Libya and the external value of the Libyan Pound, to influence the credit situation to the Kingdom's advantage and to act as banker to the Government, and to the Provincial Administrations». The scope and objectives of the Law were not too ambitious keeping in view the requirements of an embryonic central bank. Likewise, its initial organization was relatively modest.

Even so, in one respect the Law made a radical departure from the conventional pattern of central bank statutes in permitting the bank to undertake ordinary commercial banking business in accordance with Article 29, but subject to strict limits which among other prohibited «clean» credits or the granting of credit against commercial securities and stipulated that loans against Government Securities or basic commodities should not exceed 60 per cent of their market value and the period of such loans should not exceed three months. Notwithstanding these constraints the creation of the commercial banking section of the National Bank of Libya implied a willingness on the part of the authorities to fill a gap in the local banking system in as much as there was no Libyan commercial bank to date. It was also hoped that in due course the bank would increasingly cater

to the requirements of such areas and customers as were neglected by the old established expatriate banks who naturally tended to take up the cream of the banking business represented by the finance of foreign trade. There was pressing need to meet the credit and banking requirements of the Libyan public and the Libyan business community especially in the finance of domestic trade and economic activity. On the other hand, it is equally pertinent to stress that the assumption of commercial banking functions by the nascent central bank of Libya did not cause any excessive raising of eyebrows by the foreign banks who were assured that there would be no unfair competition with them even apart from the statutory limits on banking business which were not applicable to other commercial banks. Possibly the autonomous nature of the new bank also helped to allay any fears of rivalry with the existing banks. These circumstances also helped to create a climate of close understanding and cooperation between the National Bank and the commercial banks, a factor which also helped the new central bank in building up its prestige and influence, and above all, in creating the right environment for the exercise of moral suasion on the banking community, which was the only available instrument of credit policy at a time when conditions were not quite ripe for the exercise of formal statutory powers of regulating the commercial banks.

In fulfillment of its general objectives, the bank was divided, following the conventional model of banks deriving from the Bank of England's traditions, into an Issue Department which was to be independent of the Banking Department. No doubt purists may demur to the need for what is in the ultimate analysis a historical survival, namely the division of a central bank into two separate departments with separate assets and liabilities.

Admittedly, a central bank is an organic indivisible unit whose real position can be assessed by aggregating the assets of both the departments in relation to their combined liabilities. On the other hand there may have been some administrative and legal advantages in this separation, in so far as the Issue Department became the legal successor of the former Libyan Currency Commission, assuming its assets and liabilities. In a country with a new currency there was also some merit in the arrangement which showed separately the assets backing the currency liabilities.

The system of cent per cent foreign exchange cover in the Libyan currency remained virtually unchanged under the new dispensation except for the stipulation that investment in British Government securities were not

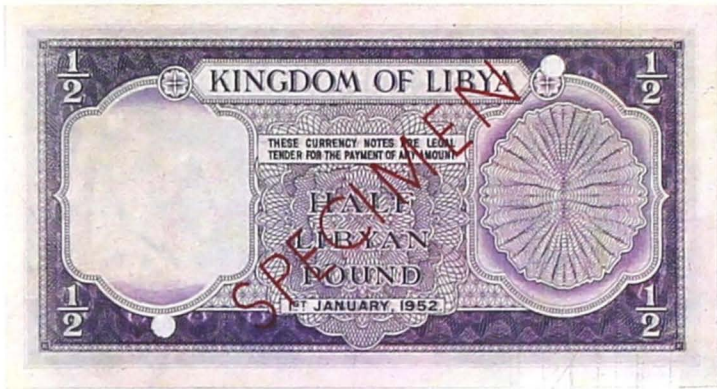


to exceed 70 per cent of the cover, and were to be within a 5 year maturity (but 15 years for 20 per cent only of the cover). In keeping with Libya's membership of the sterling area the Law provided for the major part of the currency cover to be held in sterling. But a conspicuous lacuna was the absence of any provision for a fiduciary issue of Libyan currency which had the effect of withholding the prerogative of discretionary creation of purchasing power from the new central bank.

The capital of the bank which was paid up before the bank opened for business originally consisted of £L. 500,000 allocated by the Government of Libya from funds earmarked for this purpose from the Libyan-American Reconstruction Commission. Subsequently an additional payment of £L. 200,000 was made from the same source raising the total paid-up capital to £L. 700,000 out of the authorized capital of one million Libyan pounds. This further instalment of the capital was also made before the bank commenced operations. Also there was provision under Article 7 for offer of either part or whole of the remaining portion of the authorized capital to the public at the discretion of the bank in agreement with the Government. As there was subsequently no offer of the bank's capital to the public, the bank functioned as a fully Government owned institution.

A good deal of spade work had to be done in regard to staff, premises and organization before the bank could formally open for business on the first of April 1956. Naturally when the first members of the Board were appointed by the Council of Ministers on the 31st of March 1956, the scrutiny and approval of administrative arrangements made considerable demands on their time and attention. Not the least of these chores was the drafting of regulations for the good order and management of the bank, including the rules and conditions of service for the staff.

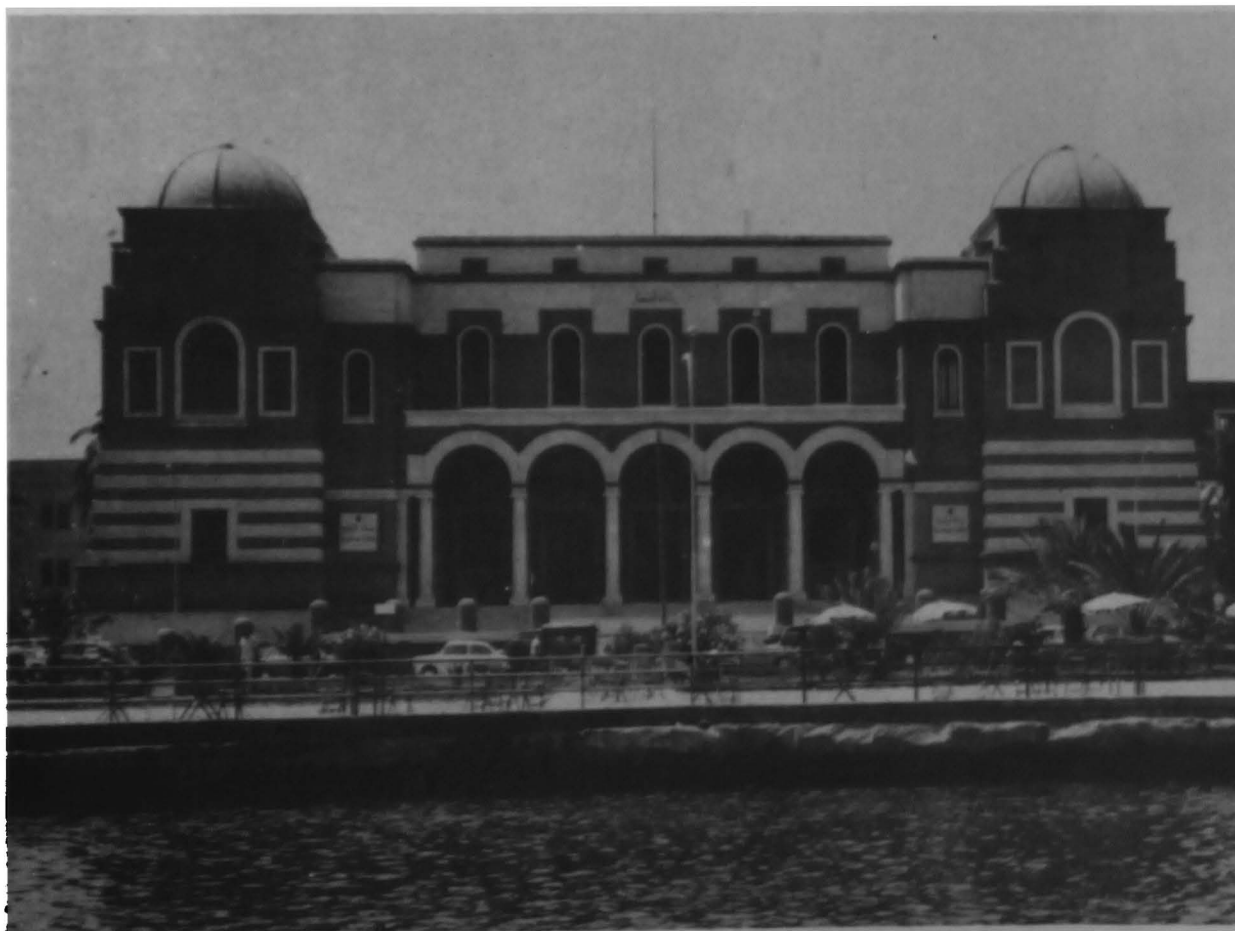
The most acute teething troubles of the bank arose from the difficulties of recruiting competent and experienced staff, and to a lesser extent from the lack of suitable accommodation and premises in a war ravaged economy. It was none too easy to find suitable staff from among Libyans, considering the known deficiencies in this respect arising from years of neglect of education by the earlier colonial regimes, and the fact that there were hardly any Libyans with a background of banking, except for a few who were employed by expatriate banks after the Allied occupation. Recourse was therefore made to recruitment of expatriates to posts that could not be filled by Libyans. At the same time arrangements were made to



provide for training facilities for Libyans in banking practice and the English language.

In regard to premises also the position was not too comfortable. The bank was, however, fortunate to have for its Tripoli offices the building of the former Italian Cassa di Risparmio, a well constructed structure which not only occupied a commanding sight on the sea but also possessed good strong room accommodation. But despite the repairs and alterations the premises were not quite adequate for the requirements of the Bank, specially as the upper floor continued to be occupied by the Supreme Court of the Government of Libya, until 1963, when the Court was moved to a new premises.

On the whole the new born central bank of independent Libya began life under favourable auspices and even its teething troubles were perhaps no more than cries of a lusty and healthy infant.



The Main Office of the Bank of Libya which overlooks the sea — Tripoli

The new bank began its work with four separate departments under the over-all supervision of a General Manager and the Board of Directors. These were the Issue Department, the Banking Department, the Accounts Department and the Secretary's Department. As each of these departments has undergone several important changes since their establishment the following chapters will present a summary of these changes.





A building in the staff accommodation quarter — Benghazi

Chapter 3

The Issue and Management of Currency

CHAPTER III

THE ISSUE AND MANAGEMENT OF CURRENCY

As we have seen in Chapter I the initial issue and management of currency was entrusted to the Libyan Currency Commission and the Commission in turn appointed Barclays Bank as its principal agent for its day-to-day operations. With the establishment of the National Bank of Libya, a separate Issue Department was organized in such a way as to perform all the functions of the former Currency Commission and its agents. As the legal successor of the Commission the Issue Department received the assets and assumed the liabilities of the Commission on the 31st of March 1956. On that date the total assets of the Commission were valued at £L. 5,160,956, which was exactly equal to the amount of currency in circulation. The total currency cover was invested in Sterling securities, treasury bills and bank deposits, all in Sterling. In accordance with the Law the assets of the Issue Department are valued separately at the end of each financial year and after the usual provisions for contingencies, depreciation and exceptional expenditure the excess income is divided into 80 per cent for the Government and 20 per cent for the Bank.

During the first year of its existence the Bank provided all the necessary services for the issue and redemption of currency. Since the Bank had no offices in Benghazi during its first year of operation Barclays Bank was appointed as the agent for the issue and redemption of Libyan currency in the Eastern part of Libya (Cyrenaica). From the beginning the Bank followed a policy of hastening the withdrawal of notes which are unfit for use in order to improve the standard of the currency. At the same time the Bank began making arrangement for the issue of new notes which will bear the name of the National Bank of Libya as the new issuing authority, but in order to avoid un-necessary expenditure it was planned that the stock of existing notes should be utilized while arrangements for the new issue are being carried out.



Total currency in circulation increased from nearly £L. 5.161 million when the Bank opened for business to almost £L. 6.117 million a year later and by the end of March 1958 it increased by over one million pound. During its second year of operation the Bank was able to open its joint Chief Office in Benghazi and a branch in Sebha. With these developments the nation's central bank was able to operate all the necessary services for the issue and management of currency throughout the Kingdom and to dispense with the services of Barclays Bank as an agent.

In pursing its policy to improve the standard of the currency the Bank made the following statement in its Second Annual Report, page 9:— «The efforts made to improve the standard of currency in day-to-day use by withdrawing from circulation notes which are too dirty to handle satisfactorily have made good progress and our thanks are due to the commercial banks who have cooperated in the sorting process. It is, of course, the two smallest denominations which are mainly affected and their actual life is in any case rather short. Consideration has therefore been given to a proposal that coins should be substituted for these notes and preliminary arrangements for this are already in hand».

Although arrangements for the new coins began as early as 1958 it was not legally possible to undertake this measure until the amendment of the Law establishing the National Bank of Libya, and the new coins were not introduced until the first of October 1965.

On the occasion of the Seventh Anniversary of Independence on December 24, 1958 the first issue of bank-notes of ten and five pounds denominations, bearing the name of the National Bank of Libya as the issuing authority was made. Almost a year later, 22nd November 1959, the Bank issued its first one pound and half pound bank-notes. All of these notes were signed by the Governor of the Bank.

The introduction of these new notes was made gradual and only as the old notes of the Currency Commission became unfit for circulation and as stocks became exhausted. This process of replacement continued until 1962 when the Bank issued new notes of the highest four denominations bearing the signature of the new Governor of the Bank, H.E. Mr. Khalil Bennani. These notes were issued for circulation in March 1962 and together with the first issue of the Bank they continued to replace the notes issued by the Currency Commission in 1952 and 1955.



In response to increasing business activities and the rapid rate of monetization of the economy as well as inflationary trends brought about by discovery of oil, total currency in circulation increased from about £L.5.161 million when the National Bank of Libya assumed responsibility for the issue and management of currency to nearly £L. 14.734 million at the end of March 1962. Due to the limited use of cheques and because of certain traditional tendencies for hoarding bank-notes the demand for bank-notes of ten and five pounds was increasing at a faster rate than for the smaller denominations.

In 1962 the Bank decided to withdraw the one quarter of a pound bank-note from circulation because it was felt that with the existence of ten and five piastres bank-notes it was rather redundant and only gave rise to extra expenses. The process of withdrawal continued until the amount in circulation dropped to £L. 16,849 at the end of March 1963 and almost to nothing by 1965. Also in 1962 the Bank printed a new quantity of half pound bank-notes with red series and number and they were put in circulation early in 1963. At the same time the Bank decided to withdraw from circulation the first and second issue of these notes issued by the Currency Commission.

The fourth major issue of Libyan Currency was made in February 1964, almost a year after the promulgation of the new Banking Law No. 4 of 1963. This Law replaced Law No. 30 of 1955 establishing the National Bank of Libya and the Banking Law of 1958. With regard to currency the Law abolished the piastre as a currency unit and it defined the standard unit of the currency as the Libyan pound, which is divided into one thousand milliemes. The Law also substituted Bank of Libya for the National Bank of Libya as the official name of the Bank of issue.

In accordance with these legal changes the Bank printed new bank-notes of the highest four denominations bearing its new name. In the new notes reference was made to the Banking Law of 1963 in place of Law No. 30 of 1955 and the Libyan pound insignia (£L) was added, while the colour, design and size of the notes remained the same.

The Banking Law of 1963, by abolishing the piastre as a unit of currency made it possible to change the coinage system in accordance with the observations made in the Second Annual Report of the National Bank of Libya regarding the desirability of replacing the ten and five piastre bank-notes with coins of 100 and 50 milliemes. The new coins which consisted of 100, 50, 20, 10, 5, 2 and 1 milliemes were issued for circulation

on the first of October 1965. In order to withdraw the one piastre from circulation the Bank had announced that it will cease to have the power of legal tender by the end of 1966.

CURRENCY ISSUED 1952-1966

£L.

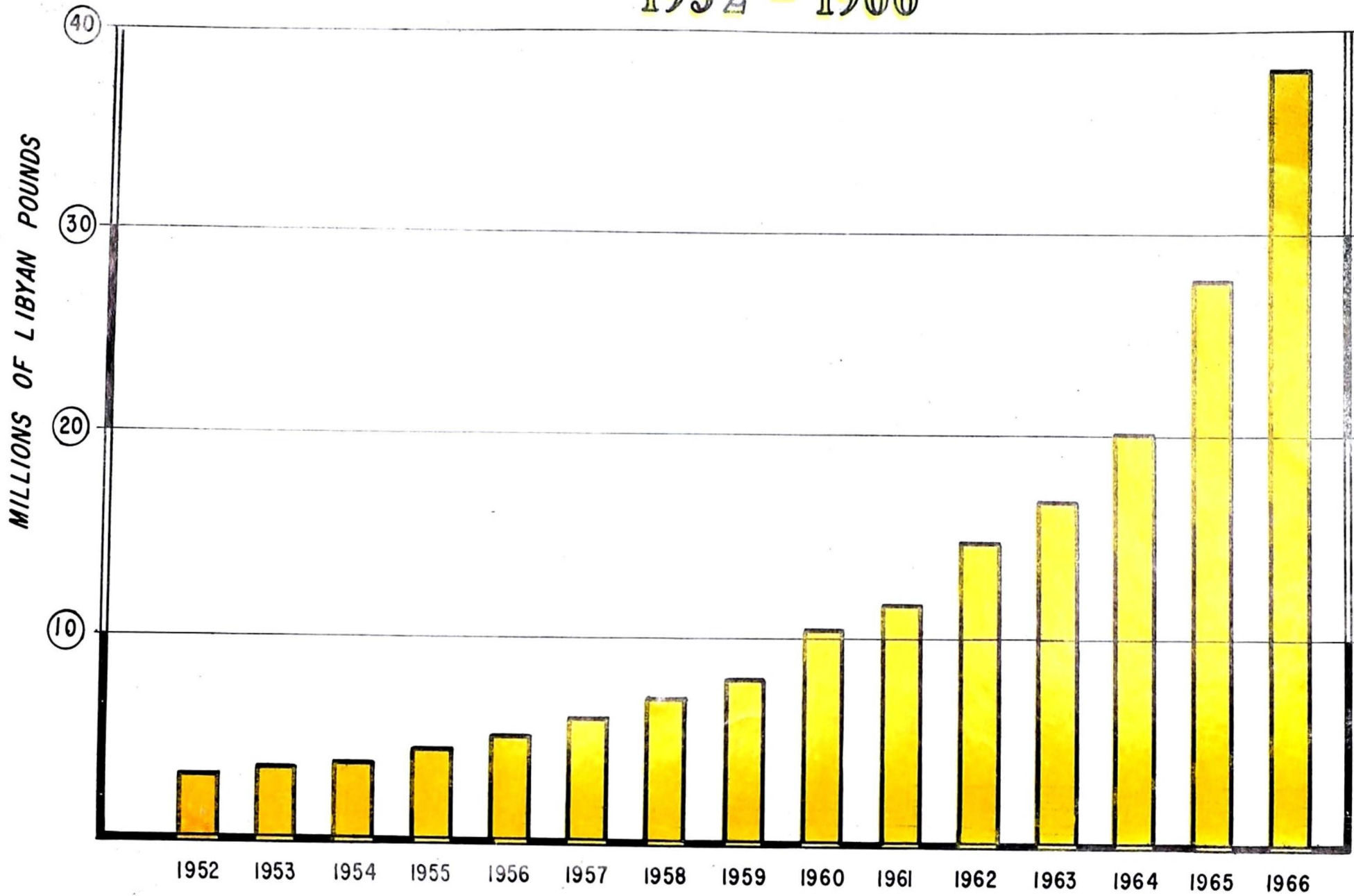
End of Period	Bank-notes	Coins	Total
June 1952	—	—	3,368,067
March 1953	3,591,896	49,819	3,641,715
» 1954	3,908,123	50,683	3,958,806
» 1955	4,510,154	55,652	4,565,806
» 1956	5,097,225	63,731	5,169,956
» 1957	6,043,414	73,106	6,116,520
» 1958	7,100,628	85,892	7,186,520
» 1959	7,950,138	91,382	8,041,520
» 1960	10,292,328	109,192	10,401,520
» 1961	11,608,148	123,362	11,731,520
» 1962	14,592,668	140,852	14,733,520
» 1963	16,744,008	155,992	16,900,000
» 1964	20,110,593	179,407	20,290,000
» 1965	27,623,918	206,082	27,830,000
» 1966	37,685,468	424,532	38,110,000

Source: Issue Dept.

It is of interest to note that total currency in circulation increased from little over five million pounds when the National Bank of Libya was established to more than £L. 38 million ten years later, giving an average yearly increase of 3.3 million pounds. This rapid increase in currency circulation meant that more staff and time were required for the process of currency issue and redemption. For example, the number of currency notes destroyed as unfit for circulation in the financial year 1964/65 was five million, of which more than three million were ten and five piastre notes. The replacement of these two denominations with coins will surely reduce the work and expenses connected with currency issue and redemption.

CURRENCY ISSUED

1952 - 1966





The Composition of Currency Cover

It will be recalled that the composition and extent of currency cover was decided by the Provisional Libyan Government during the meetings of experts held in Geneva in 1951. At that time the Government representatives announced that Libya wishes to be a member of the Sterling Area and that its new currency shall be backed by Sterling assets up to one hundred per cent, if necessary. In accordance with Article 4 (f) of the Temporary Financial Agreement between the Libyan and the British Governments concluded on 13th December 1951 the United Kingdom agreed to provide one hundred per cent sterling backing for the initial issue of the Libyan Currency, in exchange for the three currencies which were legal tender just prior to Independence.

The Libyan Currency Law which was promulgated on the 24th October 1951 formalized the composition and extent of the currency cover in Article 6 (h) which states, among other things, that «At no time may holdings of assets in currencies other than Sterling exceed twenty-five per cent of total reserves». In actual fact, however, the Libyan Currency Commission decided to invest all of its reserves in Sterling assets, except for a token investment in Italian Treasury bills, which was made in 1953 and liquidated just prior to the transfer of the Commission's assets and liabilities to the National Bank of Libya.

The twenty five per cent maximum limit on investment of currency cover in assets other than Sterling, which was required by Article 6 (h) of the Libyan Currency Law of 1951 was retained unchanged in Law No. 30, Article 29 (e) establishing the National Bank of Libya. The investment pattern of the currency cover from the establishment of the Bank until the promulgation of the Banking Law of 1963 was composed of about ninety per cent in Sterling assets and the rest in dollar deposits.

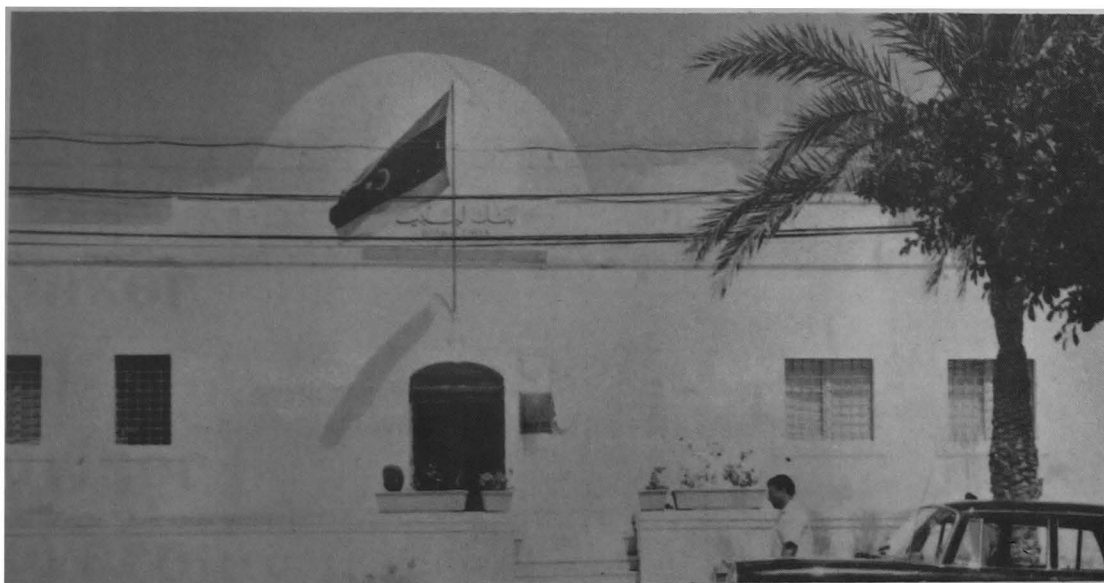
The Banking Law of 1963 made a major and important change in the pattern of currency cover by the introduction of gold as an item of currency cover and by dropping the limit on investment in assets other than Sterling and by allowing for the first time, investment in securities of the Libyan Government up to ten per cent of the total currency cover. Thus Article 31 states: «Notes and coins in circulation shall always be covered by the following assets:

1. Gold bullion, gold coins or foreign currencies convertible under the Articles of Agreement of the International Monetary Fund or other con.

vertible currencies provided that the overall total does not exceed twenty five per cent of the total assets of the Issue Department.

2. Securities including Treasury Bills issued or guaranteed by the Libyan Government maturing within fifteen years provided that such securities do not exceed ten per cent of the total assets of the Issue Department.
3. Treasury Bills issued by foreign governments whose currencies may be held under Para (1) of this Article.
4. Securities issued or guaranteed by foreign governments whose currencies may be held under Para (1) of this Article maturing within five years provided that the value of such securities does not exceed sixty five per cent of the total assets of the Issue Department. Within this limit the Board of Directors of the Bank may hold foreign securities maturing within fifteen years, provided the value of such securities does not exceed fifteen per cent of the total assets of the Issue Department».

In accordance with these important legal and policy changes the currency cover became more diversified and less rigid than was the case under the old Law. Thus by the end of the Bank's eighth year of operations gold made up for about 10 per cent of the currency cover, while 74 per cent was invested in time deposits and securities in the Sterling market and 16 per cent in other currencies. At the end of the tenth year of operations, the gold coverage was nearly 25 per cent, while 40 per cent was invested in Sterling securities and 35 per cent in other currencies.



Bank of Libya — Homs

Chapter 4

**Banker
and
Adviser to
Government**

CHAPTER IV

BANKER AND ADVISER TO GOVERNMENT

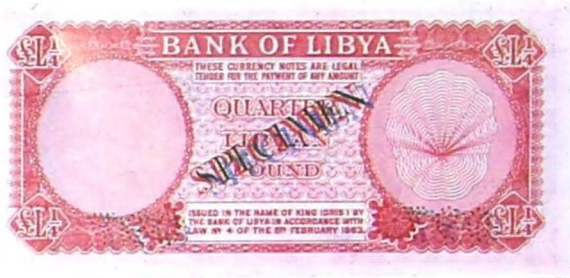
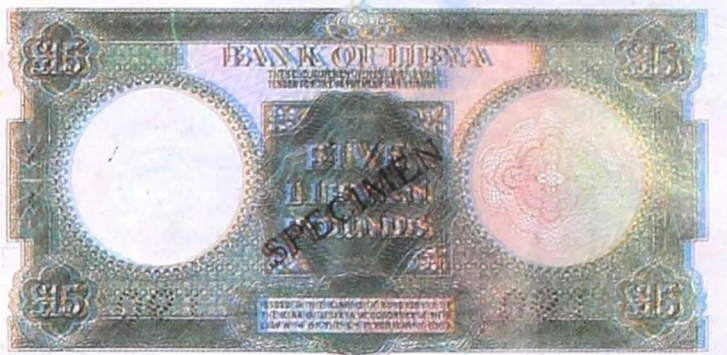
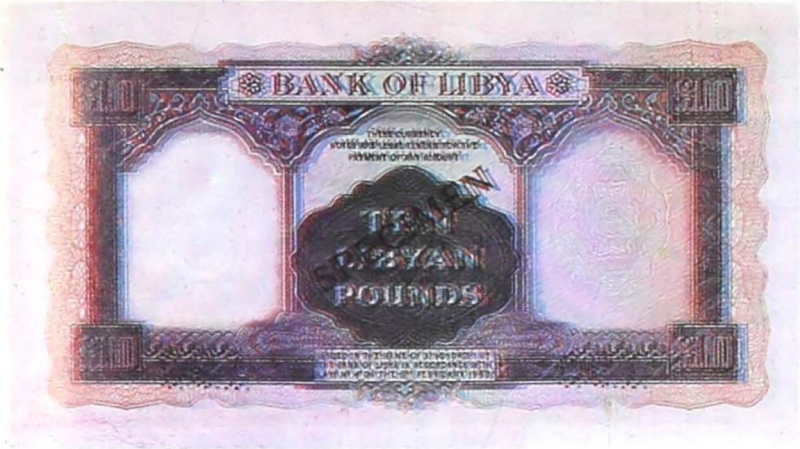
Among the traditional functions of central banks is to provide all banking services required by the Government and its autonomous bodies. Another related function of central banks is to serve as an adviser to Government in the formulation of economic and financial policies of the State. Article 6 of Law No. 30 of 1955 establishing the National Bank of Libya states that the general objectives of the Bank shall be, among other things, «to act as banker to the Government, and to the Provincial Administrations». Part VIII of the same Law, Articles 39-44, states the specific details of the Bank's relations with the Government. Article 39 states that «the Government and the Provincial Administrations shall entrust the Bank with all their remittance, exchange and banking transactions both at home and abroad. It also required that the banking accounts and balances of the Government and the Provincial Administrations and, when practicable, the accounts of Government and provincial undertakings and judicial balances, shall be kept at the Bank.

When the Bank opened for business on the first of April 1956, in Tripoli, steps were taken to take over the accounts of the Government and the Provincial Administrations from the commercial banks (mainly Barclays Bank D.C.O.). At the end of the first financial year the Bank Federal and Provincial accounts showed a balance of £L. 1,123,000. The transfer of Government accounts to the National Bank was made gradual in order not to have a disruptive effect on the economy of the country or the activities of the commercial banks. This was a chief policy objective mentioned in the Bank's First Annual Report. Part three of the Report states that: «The Law provides, of course, that Government balances shall be kept with the National Bank and the transfer of these was made easier because it had been foreseen and allowed for by the bank mainly concerned; nevertheless it

was undertaken in stages and the full effects will not appear in the accounts for another year as, and until the Benghazi Office is open, Government and Administrative balances in Cyrenaica are still held by the Commercial Banks».

The Bank's joint Chief Office in Benghazi was formally opened in August 1957 and steps were taken to take over the accounts of the Government held with commercial banks in that city. The Federal Government moved to Benghazi towards the end of 1957 and its main accounts were transferred there. The accounts of the Provincial Administration of Fezzan were held by the National Bank since the opening of its Sebha Branch in April 1957. By the end of the Bank's second financial year the total Federal and Provincial balances were £L. 4,625,000. Although the Law requires that all Government accounts must be kept with the National Bank the Provincial Administrations and the Federal Government continued to keep a few accounts with commercial banks. Most of the public and semi-public autonomous bodies continued to keep their accounts with commercial banks. In order not to put pressure on the liquidity of the commercial banks the National Bank did not request the transfer of these balances during the transitional period. But with the increasing flow of funds from oil activities there was considerable improvement in the liquidity of commercial banks. With this development and with the enactment of the Banking Law of 1963, which states in Article 18 that «The Bank shall be the banker for the Government, Provinces and public concerns with body corporate; it shall undertake their banking transactions and they shall deposit their balances therewith»... the Bank of Libya formally requested that all outstanding Government balances with commercial banks should be transferred to it immediately. The Bank's request was accepted and all Government accounts were transferred to the Bank as of October 1965.

Article 24 of the Law establishing the National Bank required that the Bank should act as an agent for the Government under the Exchange Control Law. Since there is a separate chapter on Exchange Control it will suffice here to note that the Bank began performing this function as of 18th January 1958. In its role as a Government agent and correspondent the Bank played an active role in providing the necessary information and leading the negotiations which took place prior to Libya's taking membership in the International Monetary Fund, the International Bank for Reconstruction and Development, the International Finance Corporation and the International Development Association. In speaking of the Bank's role



in this connection the Third Annual Report of the Bank states on page 18 that: «The National Bank has been active in fostering this association on behalf of the Government of Libya in keeping with our duties under the National Bank Law . . . Accordingly, the Bank transacts the business of the United Kingdom of Libya with these organizations and acts as their depository here». Keeping in mind the pre-oil conditions in Libya the Report goes on to say that: «Membership of these Institutions will be a source of strength to the country in the years to come when, as the pace of development gathers momentum, the need for drawing on external sources of short-term and long-term credit both for the public and private sectors becomes more acute».

In its capacity as banker to the Government the National Bank undertook to manage and invest the nation's foreign exchange reserves in such a way as to safeguard its security and liquidity and at the same time insure that the investment yield the maximum return possible. Throughout the first ten years of the Bank's existence the bulk of its investment was either in sterling or dollar. Prior to the amendment of the National Bank Law nearly 80 per cent of all investment were made in sterling assets, but since the enactment of the Banking Law of 1963 more and more investment were made in dollar and recently in other convertible currencies.

Although the achievement of the Central Bank can not be measured in terms of direct monetary profits it is noteworthy that the Bank which began operation with an authorized capital of one million, of which only £L. 700,000 were paid up, has made a total gross profit of £L. 14,546,369 during its first decade of operation. After deduction of operational expenses and investment in fixed assets the total net profit during this period was £L. 6,759,687 of which £L. 4,528,231 went to Government and £L. 2,231,456 were added to the reserves of the Bank. Thus even as a purely investment venture the Bank of Libya has been a great success, giving an average net return of over 95 per cent per year on invested capital during the first ten years of its life. The Government's own share in the profit of the Bank have amounted to more than 60 per cent per annum of the original capital invested in the Bank. In its capacity as banker to Government the Bank has extended short-term accommodation to Government to finance temporary budgetary deficits within the terms of its enabling legislations.

Although this most impressive monetary gain is important in itself the most significant achievements of the Bank have been in the area of

SUMMARY OF PROFIT AND LOSS ACCOUNTS

Year ended	Gross profit After interest paid	General and Administrative Expenses	Provision ⁽¹⁾ & depreciation etc.	Net Profit		
				Total	Share of Govt.	Added to the Bank's Reserves
31/3/57	485,884	116,756	142,168	226,960	41,395	185,565
31/3/58	641,901	130,465	142,345	396,091	87,994	308,097
31/3/59	707,678	166,618	118,979	422,081	236,570	185,511
31/3/60	927,852	183,475	181,268	563,109	445,100	118,009
31/3/61	1,200,036	256,827	431,086	512,123	394,881	117,242
31/3/62	1,537,911	313,990	578,412	645,509	517,179	128,330
31/3/63	1,432,505	404,468	294,823	733,214	552,172	181,042
31/3/64	1,599,357	532,110	287,547	779,700	598,635	181,065
31/3/65	2,320,028	594,794	738,334	986,900	752,555	234,345
31/3/66	3,693,217 ⁽²⁾	795,400	1,403,817	1,494,000	901,750	592,250
Total	14,546,369	3,494,903	4,318,779	6,759,687	4,528,231	2,231,456

⁽¹⁾ Includes depreciation and amortization, provisions and amounts set aside for cost of new promises and equipment.

⁽²⁾ Including £L. 294,896 for released provisions for income tax



A building in the staff accommodation quarter facing the sea — Tripoli

various technical and advisory services which it has provided for the Government, the banking sector and the economy at large. Some of these services have already been discussed in the previous two chapters, others will be discussed in the remaining sections of this publication.

As the National Bank developed its technical competence in its capacity as banker to Government it began to exercise its legal jurisdiction as a Central Bank. Since the Government consisted of Federal and Provincial entities the role of the Bank as banker to Government became very delicate. Thus whenever the Bank wished to enforce a certain banking procedure or take a certain stand on certain policy issues the Provincial Administrations tended to look at the Bank as a Federal Bank rather than belonging to both the Federal and the Provinces. This was especially true in all cases where there was a sharp difference of points of view between the Federal Government and the Provinces. The fact that Article 36 of the Constitution prior to its amendment in 1963, listed the Central Bank as a Federal Bank was used by the Provincial Authorities to support their position that the National Bank should confine its activities within the Constitutional limits of the Federal Government. Some even went as far as to argue that the National Bank Law of 1955 was unconstitutional because it required that the National Bank shall serve as banker to Government and the Provincial Administrations. Those who held this position called for the establishment of separate Provincial Banks to serve the Provincial Administrations in the field of central banking and in the execution of Article 38 of the old Constitution, in regard to banking. If this position had won the argument and realized its objective the National Bank of Libya would have been reduced to a mere monetary agency of the Federal Government, incapable of performing its central banking functions. Fortunately however, the situation was saved by the unification of the Government structure in 1963, when the Constitution was amended in such a way as to abolish the existence of the Provinces as Constitutional entities. With this happy development all banking matters became vested with the Libyan Government and the National Bank of Libya. Together with this most important change the National Bank of Libya Law was amended early in 1963 in order to give full powers and strengthen and consolidate all central banking functions in the Bank of Libya, as a real Central Bank.

In retrospect it is evident that the Constitutional controversy over the jurisdiction of the National Bank of Libya and the Federal Government in the area of banking has hindered the effectiveness of the Bank as banker to Government. As we shall see in the Chapter dealing with the relations

with commercial banks this constitutional issue had also greatly hampered the efforts of the Bank in the development and control of the banking sector. In fact it was not possible for the Bank to exercise any substantial powers in this field until the promulgation of the Banking Law of 1963.

The Advisory Role of the Bank

In its capacity as a banker and adviser to Government the Bank has played an active role on all major Government Committees dealing with economic development, foreign trade, finance and other domestic economic problems. The Bank was also represented on many Government delegations to International and Regional Conferences and seminars dealing with economics, finance, banking and statistics.

As adviser to Government the Bank has been very concerned from the time of its establishment with such important economic issues as inflation, oil, economic development, foreign trade, urban planning, rural-urban migration, public finance, real estate speculation and many other economic and financial problems. The Bank prepared specific studies and sent many policy memoranda to the Government stating its position and recommending certain policy action with regard to each of these problems. Because of the overwhelming importance of the role of the Bank as an adviser to Government it is deemed necessary to record here the official view points of the Bank as they were expressed in its various Annual Reports and in several important memoranda which were sent to Government with the objective of assisting it to adopt the required policy with regard to several major economic problems which are still present in the Libyan economy. Many of the views and ideas expressed are still relevant even today and can still be used to cope with certain undesirable features of our oil dominated economy.

In the Bank's First Annual Report it was stated that for a proper study of the country's financial and economic condition it would be necessary to collect and analyze the required data, for which a Research section is needed in the Bank. In the Second Annual Report the Bank calls attention to the problem of rising rents, rural-urban migration and the inflationary tendencies which began to appear with the start of oil activities. On the subject of inflation the Bank expresses its position in the following paragraph: «There is no doubt that inflationary tendencies do exist and the rise in National Bank's discount rate by one per cent at the beginning of October was a warning signal against the possible consequences of un-

wise spending and of trying to do too much too soon. The Government's policy is to keep the cost of credit to legitimate borrowers as low as possible but they must take into account all the factors which are at work and which affect the national interest». On the same page the Bank makes the following important announcement on its role as adviser to Government: «We take pleasure in mentioning that the Bank, during the year under review, has been able to fulfil one of its most delicate and important functions as the principal adviser to the Government in financial and economic matters. This important duty has been discharged in a spirit of close cooperation with the Ministries of Finance and National Economy which are responsible for the policy of Government in these fields, and we have every confidence that the future will reflect a continuance of this cooperation which is so necessary for the furtherance of the common wealth and the welfare of our beloved country».

In such optimistic spirit and idealistic attitude the Bank proceeded to provide the Government with the necessary data and advice on certain key economic and financial problems. The problems of inflation, economic development, foreign trade, the impact of oil and the uneven urban growth have all continued to be the central point of attention in all of the Bank's Annual Reports and some of them were the subject of detail studies whose results were supplied to Government and subsequently published.

The idea of conducting a comprehensive survey of the Libyan economy which was supported by the Bank as mentioned above was finally formulated in 1958. The Government assigned this task to the World Bank and the National Bank of Libya was appointed by the Government as the agency representing the Libyan Government in the organization of the survey and the coordination of its various aspects. The Bank took advantage of this opportunity by appointing a number of new Libyan graduates in economics to work with the World Bank Survey Mission. The idea was that these graduates will facilitate the local contacts of the Mission and at the same time get the desired training in the collection and analysis of economic data. With this kind of training these graduates would then be able to form the initial professional staff of the Bank's Research Department, which was formally established toward the end of 1958. With the establishment of the Research Department the Bank was better equipped to provide the many needs of the Survey Mission of the World Bank. Judging from the tribute paid by the leader of the Mission Mr. P.S. Narayan Prasad it is evident that the Bank did an excellent job in facilitating the task of the Mission, in its capacity as an agent to Government and as a cen-

tral bank.

At a press conference held in Benghazi on 13th April 1959, just prior to the departure of the Mission, Mr. Prasad made the following statement regarding the role of the National Bank in the conduct of the survey: «The National Bank has done a most wonderful job of organization in seeing the Mission through different parts of the country, getting them to meet officials and people in all parts of Libya and its cooperation has been for us the most helpful single piece of work explaining the success of our study of the Libyan economy in so short a period».

In its Third Annual Report for the year ended 31 March 1959 the Bank returns to the problem of inflation and makes certain definite policy recommendations as to how to control it. With regard to the Bank's role as adviser to Government the Report makes the following statement: «alongside the development of these traditional functions of a central bank, the Bank has also been strengthening its role of financial and economic adviser to the Government on day-to-day matters and new problems arising from and through participation in various committees connected with financial, general economic and commercial policies»...

The Fourth Annual Report of the Bank was mainly devoted to the problems and relationship between oil, inflation and economic development. In the Governor's introduction to the Report it is pointed out that monetary measures by themselves can not cope with the problem of inflation. It recommended that appropriate fiscal, trade and development policies, such as the revision of the tax system, and the creation of capital market, be adopted in order to compliment and reinforce the Bank's anti-inflationary policy.

With regard to oil wealth the Governor's introduction concludes with the following valuable advice: Finally I must stress, once more, a point I have made so often before, that Libya must not rest on the discovery of oil. For reasons of the highest social and economic importance the new wealth must be used wisely to develop to the maximum extent possible all our natural resources — agriculture, fisheries and industries based on them, and our ample tourist attractions. If we do not do this purposefully and with energy there will be little benefit for our people as a whole. We have enough evidence of the consequences of the unwise use of oil revenues and we must profit by other countries' experience».

On the significance and place of oil in the Libyan economy the Report

makes the following statement: «It would be a mistake to think that the discovery, exploitation and exportation of oil is a simple matter; or that the existence of oil is wealth in itself which can benefit all our people without proper care and hard work. We believe that it is impossible to reach prosperity and abundance by the mere exportation of oil. Money in itself is not wealth — it is only one of the means to wealth and money by itself is not enough. There is no substitute for hard work, sacrifice and dedication in the process of changing our beloved country to productive land and utilizing our manpower for worth-while purposes ». The Report goes on to point the problem of uneven urban-rural growth, harmful speculation involving large area of productive agricultural land, mal distribution of income and the need for the acceleration of training programmes and the educational system in order to quickly increase the supply of skilled labour and professional personnel.

The interesting and complex subject of inflation and economic development continued to engage the active interest of the Bank, throughout the first ten years of its existence. The Research staff of the Bank conducted detail studies on this subject and the Governor and Board of Directors continued to freely transmit their ideas and policy recommendations to Government. An important study on the subject of inflation in Libya was published early in 1961 and it was followed by several memoranda recommending certain lines of policy. On its part the Bank has spared no effort to use all the usual monetary tools within its power to control undesirable monetary expansion, but it has always been aware that these measures alone are insufficient to reach the desired objective. The specific monetary measures which the Bank has adopted since its establishment will be discussed in the chapter dealing with monetary policies.

On the danger of inflation and the measures needed to control it H.E. Governor Khalil Bennani made the following observations in his very important introduction to the Seventh Annual Report of the Bank for the year ended 31st March 1963 :-

«I cannot finish this introduction without mentioning the present and foreseeable danger of inflation. This institution has spared no effort to identify the causes of inflation in our economy and to suggest possible methods of controlling it. We fully recognize that in a developing country such as our own, with substantial inflow of foreign exchange, there is likely to be an inflationary trend in any case. But it is highly important to take preventive measures against excessive inflation. We should seek to con-

control inflation and avoid the mistakes of certain other oil exporting countries where inflation became so excessive that it was no longer possible to control it with ordinary methods.

«As was stated in our previous reports the most essential requirement for financial stability is the rapid development and full integration of appropriate monetary, fiscal, commercial and development policies. An integral part of such a policy should be the raising of our internal output of foodstuffs and other consumer goods. The questions of an equitable system of taxation and fair distribution of income are also essential in this respect. The encouragement of personal and institutional savings will also help to direct funds away from immediate consumption and into productive investment. With this objective in view, the National Bank, in cooperation with all commercial banks in the country, initiated a saving campaign, which proved to be successful.

«The welcomed constitutional changes which have unified our form of Government should make the task of formulating and implementing an effective anti-inflation policy more feasible and considerably easier. These historical changes which were made under the reign of our beloved and most dedicated leader, King Idris I, mark a new era in our national development. May God give our beloved King a long and healthy life and may this nation continue to progress under his wise and devoted leadership».

Governor Bennani return to the subject of inflation and economic development in his introduction to the Tenth Annual Report, which concludes the period under review, for the year ended March 1966. In commenting on the rapid monetary expansion associated with development and policy of the Bank of Libya in this respect the Governor makes the following remarks :

«With the continued expansion of business, and with most of the projects of the Five Year Development Plan entering the execution stage the monetary expansion and the inflationary trends have continued during the year under review. All signs indicate that this inflationary trend is seriously increasing unless effective measures are taken to check it. Just before the publication of this report, the Bank has taken certain measures relating to raising the ratio of liquidity and legal reserves to help the Government in this respect. It imposed certain selective credit control measures on credits for less productive purposes (real estate, luxuries, and durable consumer goods). It is hoped that these measures will contribute, although

partially, to the control of this inflationary trend. Monetary measures alone are certainly not sufficient to deal with the situation and hence, we have to say again what has repeatedly been stated in previous reports that the expenditures of the public, private, and oil companies must be so organized as to reduce the non-productive expenditure and encourage the production of more local goods and services. This should be accompanied with a tax system which helps control the inflation, ensures an even distribution of national income, and finance a greater part of Government Administrative expenditure instead of total reliance on oil revenue.

«To ensure an effective implementation of these arrangements, they should be put in force with immediate effect in a way that ensures their coordination with the development policy».

Other subjects of great national importance on which the Bank has provided the Government with timely advice and recommendation are the destruction of agricultural land by unorganized urban expansion and excessive speculation, the effect of too liberal import policy on domestic production, the need for medium and long-term development credit facilities, the housing and rent problems, the need to survey our water resources, the development of the nation's manpower resources and many other subjects dealing with national, bilateral and international economic and financial matters. In fact this general review of the role of the Bank as banker and adviser to Government is an illustrative rather than an exhaustive summary.

It is evident from this factual summary that the Bank has always endeavoured to serve the Government in the best possible way, in its role as banker and adviser. It has been careful to frankly point out, even at the risk of losing popularity, all the current and foreseeable economic trends. It never hesitated to recommend bold and far-reaching economic and financial policies regardless of any special vested interests that may or may not be in favour of such policy. Whether or not many of the Bank's recommendations have always been welcomed or acted upon depends on circumstances and factors which are entirely extraneous to the Bank and over which it has no control. It is sufficient for the Bank that, since its establishment, it has spared no effort to perform its duties as adviser to Government with utmost technical care and moral integrity.





Chapter 5

**Pioneer
Libyan
Commercial Bank**

CHAPTER V

PIONEER LIBYAN COMMERCIAL BANK

The Government memorandum presenting the case for the establishment of the National Bank of Libya included a cautious suggestion that the new bank may also undertake some limited commercial transactions. Paragraph five of the memorandum says the following: «It is thought that the Libyan National Bank should also undertake current and deposit accounts business for customers. It is desirable to encourage the banking habit in Libya and it might well be that many Libyans would be prepared to hold accounts with a National Bank who are not prepared to hold accounts with branches of foreign banks».

Thus from the very beginning, the reasons for the introduction of such a rather unconventional idea of having a central bank undertake commercial business were based on the need for promoting banking habits throughout the country as well as the desirability of introducing Libyan interests and personnel to the field of commercial banking. This idea was discussed in details and after it had gained general acceptance it was formalized in Part V of the National Bank Law. However, there were deliberate restrictions in order that the new bank would not be a serious competitor to commercial banks, or make mere monetary profit as its main objective. Instead it was intended that the new bank would play the role of a pioneer Libyan commercial bank on an experimental basis and within such limits as would assure the private commercial banks that there would be no unfair competition practiced by the National Bank, whose main objective is to supervise commercial banks and be their lender of last resort.

For the conduct of the commercial banking business permitted by the Bank statutes a separate section was established within the Banking Department. The First Annual Report of the Bank says that this section «caters for the needs of firms, companies and private individuals who wish

to entrust their business to what is at present the only purely Libyan institution which provides full banking facilities. Naturally there are restrictions on certain types of transactions, e.g., the duration of advances and the types of security that may be accepted as cover for advances or overdrafts are specifically limited»... The Bank's balance sheet at the end of March 1957 showed that the total loans and advances granted during the Bank's first year of operation was £L. 17,786 and bills discounted amounted to £L. 29,613. Total demand, time and saving deposits amounted to £L. 4,271,844. Of these deposits over one million pounds represented United States dollar deposits and another million pounds belonged to the Federal and Provincial Administration while the rest belonged to semi-autonomous bodies and private individuals.

During the Bank's second year of operation a branch office was opened in Sebha and the joint Chief Office was opened in Benghazi.

With the opening of these offices the volume of commercial business increased accordingly and by the end of March 1958 total loans and advances increased to £L. 187,440 compared with less than £L. 18,000 a year earlier, while bills discounted and re-discounted increased from £L. 29,614 at the end of March 1957 to £L. 163,023 a year later. The following table gives a brief summary of commercial banking activities of the Bank of Libya from the time of its establishment to the end of its tenth year of operation.



Bank of Libya — Sebha

BANK OF LIBYA

Summary of Commercial Banking Activities

Activities	56/57	57/58	58/59	59/60	60/61	61/62	62/63	63/64	64/65	65/66
Current Accounts (Number at end of period)	237	875	1,405	1,498	2,126	2,594	3,814	4,611	5,596	7,225
Up to £L. 50	—	—	—	—	—	—	—	—	2,743	4,063
Over £L. 50	—	—	—	—	—	—	—	—	2,853	3,162
(Credit balance at end of period) £L. '000	94	350	360	440	718	1,245	1,590	2,760	2,569	4,444
Up to £L. 50	—	—	—	—	—	—	—	—	83	31
Over £L. 50	—	—	—	—	—	—	—	—	2,486	4,413
Time deposits (excluding banks at end of period) £L. '000	N.A.	216	342	262	320	1,724	3,236	5,312	8,292	1,673
Savings accounts (Number at end of period)	120	314	544	677	1,280	1,582	2,258	3,537	6,072	7,242
Up to £L. 50	—	—	—	—	—	—	—	—	3,493	4,445
Over £L. 50	—	—	—	—	—	—	—	—	2,579	3,197
(Balances at end of period) £L. '000	4	12	24	39	75	107	185	327	569	878
Up to £L. 50	—	—	—	—	—	—	—	—	52	40
Over £L. 50	—	—	—	—	—	—	—	—	517	838
Overdrafts, advances, bills discounted £L. '000 (Outstanding at end of period)	47	350	359	457	718	1,296	1,518	2,494	5,204	7,736
Documentary credits opened (Number during the period)	127	405	510	653	734	830	836	854	1,125	1,836
Drafts, cheques, mail and telegraphic transfers sold (Number at end of period)	975	2,920	6,960	9,894	10,537	18,623	19,710	28,463	13,939	19,869
Travellers' cheques issued (Number at end of period) (1)	3690	4,693	14,581	18,611	36,498	40,047	71,503	83,451	92,225	113,373
Inward bills for collection received No. during the period)	69	606	1,170	1,400	1,480	1,536	1,945	3,350	3,414	6,093

Source: Annual Reports of the Board of Directors 1956-66.

(1) Including instrument issued to pilgrims.

It can be seen from this table that there was a rapid expansion in the volume of commercial credit granted by the Bank beginning with 1961. Thus the total value of outstanding credit facilities almost doubled between the end of 1961 and 1962. While the increase in credit was moderate during the following year it again increased by more than two folds during the financial year 1964/65 and it rose by more than 50 per cent during the following year, giving a total of £L. 7,860 million at the end of March 1966. The reasons and circumstances which brought about these significant changes will be discussed later in this chapter. It will suffice here to note that from 1956 to 1961 the Bank's own commercial credit policy was rather restrictive, in accordance with the original idea of not giving serious competition to the other commercial banks. As we shall see later this policy underwent several significant changes.

Although the National Bank's original purpose in entering the field of commercial banking was to promote the establishment of Libyan banking institutions and to train the necessary staff in the banking profession the Bank quickly realized that when put to practice the Law proved to be too restrictive for the sound realization of the Bank's original objectives. This fact was expressed in the Third Annual Report of the Bank which says the following: «As already mentioned elsewhere in this report the National Bank of Libya is still the only Libyan institution conducting commercial banking in this country. The special reasons for the dual role of the National Bank are well known; but it has been found that the statutes framed in this concept have, in practice, limited unduly the scope of the commercial business. If that business is to be developed, in the interest of the Libyan people, some revision of the statutes is required».

We shall see later how the statutes was finally revised, but for the moment we shall review the commercial banking activities of the National Bank from the date of its establishment to the end of March 1963. With the growing Government activities in Beida and in accordance with the Bank's policy to spread commercial banking habits a branch was opened in Beida in June 1962. Thus from 1956 to June 1962 the commercial banking activities of the National Bank were naturally confined to Tripoli, Benghazi, and Sebha and with the opening of the Beida branch these activities were extended to that area, although the main function of the Beida branch has been more in the area of providing the Government with the needed banking facilities than in purely commercial banking transactions.

During the first three years of the Bank's existence the total volume of credit facilities given never reached a half million pound, while custo-

mers' deposits reached more than £L. 700,000 by the end of the third year. Wholesale, retail trading and construction activities were the recipient of more than 60 per cent of the total credit granted. These together with certain industrial activities received more than 90 per cent of total credit. Credit facilities showed a substantial increase during the fourth year of the Bank's operation, reflecting in part the Bank's concern for the expansion of its commercial banking function. Almost all of the increase went to trading and construction activities. By the end of March 1962 total credit extended rose to £L. 1.273 million compared with £L. 715,000 a year earlier and only £L. 355,000 two years before. Credit granted for construction and industrial activities more than doubled, while there was a slight decrease in lending for general trading purpose during the fifth year of the Bank's operations. Credit granted to hotels, restaurant and entertainment concerns jumped from £L. 13,000 at the end of March 1961 to £L. 381,000 a year later. This was due to certain loans extended by the Bank and guaranteed by the Government. The loans were for the construction of the Libya Palace Hotel in Tripoli, the Riviera Hotel in Benghazi and the improvement of the Government hotel in Shahat. Although these loans were classified under hotels they can actually be regarded as loans for construction, in spite of their special terms and circumstances.



Bank of Libya — Garian

BANK OF LIBYA

Distribution of Credit Facilities According to Purpose

31 December 1958 — '31 March 1966

£L. '000

End of Purpose	Dec. 1958	March 1959	March 1960	March 1961	March 1962	March 1963	March 1964	March 1965	March 1966
General Commerce (Wholesale and Retail)	119	147	174	251	246	228	526	1,172	1,178
Construction	117	52	75	167	331	346	736	1,811	1,894
Manufacture	72	74	75	90	182	193	182	420	1,107
Petroleum	—	—	—	—	—	80	—	—	588
Agriculture	70	27	31	15	13	26	30	31	18
Public Utilities	—	—	—	—	—	90	330	513	260
Motor Vehicles Transportation Services	33	20	25	65	71	51	84	575	855
Hotels, Restaurants, Boarding Houses and Entertainment	9	11	9	14	381	400	401	134	372
Professional and Private Individuals	—	—	13	84	—	58	184	315	293
Buildings (Mortgages)	—	—	—	—	—	2	—	172	902
Other Items	19	28	55	32	72	44	21	61	269
TOTAL	389	359	457	718	1,296	1,518	2,494	5,204	7,736

It is evident from the above table that the Bank has consistently tried to fulfill certain gaps in the credit facilities of the banking system. Thus, whereas commercial banks in general have always granted more than 50 per cent of their total credit for general trading purpose the National Bank has maintained its lending in this area to a reasonable limit, while increasing its lending for construction and industrial activities. By following this policy the Bank wished to assist in the general development of the economy and at the same time avoid entering into competition with other commercial banks in areas where they are providing adequate credit facilities.

Beginning in 1959 the Governor of the Bank initiated a series of discussions concerning the National Bank's experience with commercial banking, with the aim of formulating a sound policy for the future. These internal policy discussions were undertaken from time to time for a period of nearly one year. After a full evaluation of the Bank's experience with joining central and commercial banking functions it was generally agreed that while it was wise to initiate commercial banking activities in the National Bank the time has come for a clear separation of these two functions with the aim of establishing an entirely separate commercial bank. There was considerable discussion as to the form and structure of this institution. Should it be purely private or entirely Government owned or mixed? Then there was the question of whether the Bank should be wholly Libyan owned or have foreign participation. After considerable discussions of the pros and cons of these basic questions there was a unanimous agreement within the National Bank that the new institution should be formed by the joint participation of private Libyan interest, the National Bank of Libya and one or more internationally famous foreign banks.

It was thought that this combination would give the new institution a majority, perhaps 80 per cent, Libyan capital participation and at the same time provide it with the guidance and experience of the National Bank as well as the technical expertise of certain well known foreign banks. In this combination the National Bank was prepared to transfer all of its commercial banking activities, their assets and liabilities, to this new institution.

In order to promote this idea and to induce certain foreign banks to enter into such combination, the National Bank adopted a policy of refusing to approve any application for the opening of new branches of banks already operating in the country. It was argued that the market can not accommodate any more foreign banks and that national interest requires that any more branches should be at least 51 per cent Libyan owned. This wise policy in accordance with the Banking Law of 1963 left the door

open for the existing foreign banks to Libyanize their local branches, but it made Libyanization a necessary requirement for new banks to enter the Libyan market.

There were many who, for various reasons, argued against the wisdom of this policy and considerable pressure was brought to bear upon the Bank to adopt a different attitude, but the Bank stood firm in its defense of the Libyanization policy. In the chapters dealing with relations with commercial banks and with monetary policy the Bank's Libyanization policy will be discussed, but here we need mention only the fact that one immediate dividend of the Bank's policy in this regard was the acceptance of two large foreign banks, which had heretofore been pressing for opening branches, of the National Bank's idea for the Libyan-foreign combination of the proposed Libyan commercial bank.

With this important step taken the Governor of the Bank held a series of meetings with prominent Libyan businessmen in Tripoli and Benghazi during 1960. The object of these meetings was to explain the National Bank's policy with regard to the development of Libyan commercial banking institution. After introducing the National Bank's proposal for the establishment of a new Libyan commercial bank and urging all those present to adopt it, the Governor opened the discussion on various aspects of the proposal. Certain businessmen were in favour of the proposal as presented by the Bank, while a few others were opposed to it, and still there were others who demanded some fundamental changes in the proposal, which were not acceptable to the National Bank and also to the would be foreign participants.

Although these exploratory discussions with Libyan businessmen did not reach any definite conclusions they served to bring out the question of Libyan participation in commercial banking for general public discussion. In this sense these meetings proved to be the starting point in the process of arousing the interest of Libyan businessmen and the public in general in the field of commercial banking, its requirements and benefits. From that time on the question of Libyan participation in the banking sector became an issue of public interest, in which the national press took an active part. As we shall see in the next chapter many Libyans ultimately participated in the Libyanization of several foreign banks.

The National Bank's original proposal to contribute its commercial banking section to the creation of a separate commercial bank, in which both Libyan private and foreign interest would be partners together with the Bank remained unimplemented. Its chief value at that time was in the

initiation and the stimulation of discussion among Libyan businessmen regarding the pros and cons of entering the banking field, which heretofore had been the exclusive prerogative of foreign banks.

When the Bank's proposal failed to materialize, as originally conceived, it was decided that the Bank should recommend to Government the creation of a Government owned commercial bank which will begin its business with the commercial banking activities of the National Bank. A draft legislation enabling the creation of such a bank was prepared. It was envisaged that the ownership of such a bank should be ultimately private, but that in the beginning it could be publicly owned and when there is sufficient interest among the public to participate in the banking business the capital shares of the bank can be sold to private individuals. This proposal was recommended to Government by the National Bank, but no action was taken to implement it. In the meantime the top management of the Bank changed hands early in 1961 and with this change the question of how to best separate the commercial banking functions of the National Bank was temporarily postponed. With this postponement the Bank management turned to the complex question of how to amend the National Bank of Libya Law of 1955, in order to increase the powers and effectiveness of the Bank as a real central bank and at the same time enable it to carry on commercial banking business on less restrictive terms and conditions. With regard to this latter function it was generally agreed in the Bank that the amended legislation should only give a general enabling statement permitting the National Bank to conduct commercial business, leaving the details of the terms and conditions of such business to a basic regulation issued by the Minister of Finance upon the recommendation of the Board of Directors of the Bank. This will enable the new Law to be basically a legislation of a modern central bank, permit more flexibility in the conduct of commercial banking, and when the time comes to separate the commercial activities into an independent institution there would be no need to amend the central banking legislation.

In accordance with this thinking, Article 22 of Banking Law No. 4 of 1963 enabled the Bank of Libya to conduct commercial business on the basis of the following procedure. «The Minister (Finance) shall specify by agreement with the Board of the Bank the ordinary commercial operations which may be undertaken by the Bank together with the conditions under which such operations shall be undertaken provided that the accounts of such operations shall be kept separate and distinct from all other accounts». In order to assure the commercial banks of fair deal the same

Article states that «In making commercial loans the Bank may not use the deposits of commercial banks or their reserves provided for in Article 36 and 37».

On the basis of Article 22 a basic regulation was prepared and in agreement with the Board of Directors of the Bank the Minister of Finance issued it on 13th of June 1963. The Regulation of the commercial operations of the Bank of Libya, as it was called, removed some of the severe restrictions on commercial business specified in Article 24 of the old Law. The maturity period of eligible commercial bills and promisory notes was lengthened and the terms of advances and overdrafts were made more flexible. In general the policy now was to give the new commercial banking division as much freedom of operations as enjoyed by other commercial banks. In fact this policy is stated in part X of Article One, which says that the Bank of Libya may «undertake all other business normally carried out by commercial banks».



Bank of Libya — Misurata

This policy was adopted in order to expand the Libyan share of commercial banking, provide the country with banking facilities in the interior and give the opportunity to more Libyan young men to learn the art of

BANK OF LIBYA

COMMERCIAL BANKING DIVISION

£L. '000

END OF	ASSETS							CONTRA ACCOUNTS	LIABILITIES					TOTAL ASSETS OR LIABILITIES	
	Cas on Hand		Deposits		Advances and Overdrafts	Bills Discounted and Negotiated	Fixed and Other Assets		Special Provision	Other Provision	Deposits				Other Liabilities
	Libyan Currency	Foreign Currency	Bank of Libya Central	Banks Abroad							Demand	Time	Saving		
Dec. 1963	94	39	7,902	—	1,781	330	1	1,149	—	190	1,977	7,379	271	330	11,296
Dec. 1964	45	22	7,373	—	3,972	767	3	2,602	—	437	2,421	8,295	506	523	14,784
Dec. 1965	1,176	58	1,328	491	5,913	1,191	495	8,155	1,000	785	4,699	2,100	813	1,255	18,807
Jan. 1966	769	54	1,837	274	5,981	1,259	293	8,189	1,000	785	4,919	2,213	847	703	18,656
Feb. 1966	973	68	2,688	145	6,359	1,253	359	8,331	1,000	785	5,403	2,704	838	1,115	20,176
March 1966	252	129	2,620	220	6,582	1,279	431	8,088	1,000	1,120	4,905	2,373	879	1,236	19,601
April 1966	313	99	18,302	586	6,811	1,241	497	9,323	1,000	1,120	20,898	2,921	908	1,002	37,172
May 1966	374	29	3,794	380	6,833	1,379	696	8,497	1,000	1,120	6,745	2,740	936	944	21,982
June 1966	286	61	2,815	267	6,931	1,653	605	9,625	1,000	1,120	5,966	2,655	967	910	22,243
July 1966	378	26	2,604	135	7,340	1,883	461	10,355	1,000	1,120	6,065	2,495	999	1,148	23,182
Aug. 1966	342	83	2,368	124	7,556	1,839	536	10,367	1,000	1,120	6,111	2,459	1,020	1,129	23,206

commercial banking. In the implementation of this policy and in accordance with the requirement of the Law a separate and distinct Commercial Banking Division was created, with separate assets and liabilities. This action helped to assure other commercial banks that the Bank of Libya will not practice any unfair competition by using its vast resources as a central bank in commercial lending. It also helped to promote specialization within the Bank and prepare the framework for the ultimate separation of the commercial banking activities from the Bank of Libya.



*The Bank of Libya (Commercial Banking Division)
Shuhada Sq. — Tripoli*

Following its policy of expanding commercial banking activities in the main towns the Bank opened a branch in Derna on 21st November 1963 and another in Misurata on the 1st December of the same year. This was followed by the opening of a branch in Garian on the 1st of February 1964 and another branch in Tobruk on 1st December of the same year. The latest branch was opened for business in Homs on 9th April 1966. These branches have not only provided the local business communities and the public at large with modern banking facilities in certain places for the first time in history, but they have also greatly facilitated the transactions of the central Government and local administrations, and reduced the need for transporting large quantities of bank-notes by the Treasury and other public bodies such as the Police and the Army.

With this network of branches and with the relative freedom on commercial transactions given by the new legislation the Bank of Libya adopted a policy of expansion in its commercial business in order to provide the economy with more credit and cope with the various pressures demanding more credit for construction, imports and other business activities. Thus from the end of March 1963, when the new Law became effective, to the end of March 1966 total credit extended by the Bank increased from £L. 1.502 million to £L. 7.860 million, giving an increase of more than six folds in three years.

As a result of this rapid expansion the total assets of the commercial banking division increased from little over eleven million pounds at the end of 1963 to £L. 19.6 million at the end of March 1966. The distribution of credit facilities among the different branches of the Bank is shown below:

**Distribution of Credit Facilities Among
Different Branches of the Bank, 1964-66**

£L. '000

End Of	Tripoli	Benghazi	Sebha	Beida	Derna	Missurata	Garian	Tobruk	Total
March 1964	1,796	659	4	18	11	4	2	—	2,494
March 1965	3,615	1,413	13	67	41	12	10	33	5,204
March 1966	4,989	2,106	45	101	116	35	55	289	7,736

In order to accommodate this very rapid expansion in commercial banking, especially in Tripoli and Benghazi the Bank began its search for new suitable premises where to conduct the commercial banking business. Fortunately it has succeeded in purchasing the front-half of a large building located in Tripoli's main Square, Maidan Al Shuhada. The building has been reconditioned for the needs of a commercial bank and on the 9th of October, 1966 the Bank of Libya transferred all of its commercial banking business in Tripoli to that building.

While expanding its commercial business, beginning in 1963 the Bank of Libya also revived its earlier policy of Libyanizing the foreign commercial banks already operating in the country. As we shall see in the next chapter this policy has led to good results and paid high dividends in terms of promoting the interest of the nation.



Bank of Libya — Beida

Chapter 6

**Banker's
Bank**

CHAPTER VI

BANKERS' BANK

One of the most essential functions of a modern central bank is the supervision of commercial banks, which are the creators of credit money. Since the primary function of a central bank is the exercise of discretionary control over monetary expansion and contraction in accordance with the needs of the economy it cannot accomplish this function without the necessary legal and moral control and influence on the activities of commercial banks. In short it must have the necessary legal powers and resources which would enable it to act as a real bankers' bank.

Unfortunately the Law establishing the National Bank of Libya was very deficient in this respect. In fact it gave the nation's new central bank no power to regulate the activities of commercial banks or even collect the various banking data necessary for the formulation of sound monetary policy. Part VII of the Law deals with the relations of the National Bank with commercial banks. Article 38 requires the National Bank to facilitate the clearing of cheques and other credit instruments for the banks operating in Libya. It specifies that a Clearing House should be established and managed by the National Bank and it defines the various functions of this Clearing House. Part (iii) of this Article speaks of monthly returns which were to be submitted to the National Bank under the then proposed Banking Law and it requires the National Bank to publish a consolidated statement of these returns at the end of every month in the official Gazette. Finally part (iv) of this Article states that «The Bank, in its banking operations, shall at all times have regard to the general welfare of the community and shall also have a duty to ensure that the public enjoy reasonable banking service. To this end it shall so far as necessary cooperate with and seek the cooperation of those banks operating in Libya under the Banking Law. The Bank shall at all times set the highest standards for the conduct of banking business».

In essence the National Bank Law gave the new central bank no legal powers over the activities of commercial banks. On the contrary it

placed certain responsibility on the new Bank regarding the standard of banking service offered to the public, without giving it any legal basis on which to intervene. Instead of requiring the cooperation of commercial banks with the new central bank the Law made it the legal duty of the National Bank to cooperate with other banks operating in the country. In short, the Law dealt with the duties of the National Bank in its relations with commercial banks without neither specifying its legal rights nor the duties of the commercial banks in this relationship. Even the collection of meager banking data by the National Bank was authorized only under the power of the Banking Law, which did not come into effect until the 20th of November 1958. The only commercial banking legislations which existed before that date were Regulation No. 211 of 1950 issued by the British Administration in Tripolitania and a similar regulation in Cyrenaica. The banking business in the Fezzan was hardly in existence. After independence the regulatory powers contained in these regulations were transferred to the Provincial Nazarats of Finance and Economy, where the National Bank, regarded constitutionally as a Federal Bank, had no jurisdiction.

Despite these very severe legal limitations, however, the top management of the Bank approached the relations with commercial banks with tremendous wisdom and foresight, combined with considerable modesty. Thus even before the Bank was officially opened for business steps were initiated to build up the new institution as bankers' bank. This was done by calling a meeting of all commercial banks' managers with the Governor, Deputy Governor and certain senior officials of the National Bank. The meeting was held on 4th January 1956, three months before the National Bank was officially opened for business. Dr. A.N. Aneizi, Governor of the National Bank presided over the meeting and it was attended by all managers of commercial banks operating in the country. Essayed Fadel ben Zikri, Chairman of the Board of Directors of the National Agricultural Bank and Mr. Pyke, Banking Commissioner in the Federal Government were also present at the meeting.

The Governor of the National Bank opened the meeting by welcoming the participants and he emphasized that the meeting was intended to be very informal, since the National Bank had no real standing until it was opened for business. He expressed the hope «that a spirit of cooperation would grow up between the commercial banks and the National Bank and he believed the periodical meeting between them — at which both sides could air their problems — would help to foster that spirit». As we shall see later this policy as expressed by the Governor played an import-

ant role in fostering a spirit of trust and confidence between the National Bank and the commercial banks. Since the National Bank has no specific legal jurisdiction over the activities of commercial banks this policy was the only alternative available to the Bank for establishing its influence as a bankers' bank. Indeed, it was much to the credit of the Bank's management that this alternative was skillfully and diplomatically used to enhance the status of the National Bank and to build up its reputation as a central bank, in spite of all the severe legal limitations within which it had to work.

At the first meeting of the Governor with commercial banks' managers certain questions were raised as to the future of commercial banking legislation in the country, specifically when will the new banking Law be promulgated. There was unanimous agreement that the National Bank should establish a Clearing House as soon as possible. After that, the Governor raised the question of the weekly rest day. He said that the National Bank would be closed on Fridays and he expressed his wish to have a uniform rest day for all of the banks operating in Libya. Although this question was discussed at length no final decision was reached, but in a sense the National Bank has already begun to play its role as a bankers' bank.

The Governor concluded his first meeting with commercial banks' managers by saying that he looked forward to further meetings, a suggestion which was unanimously supported by all present. In his view all the banking profession were here for the same purpose of serving the community. If the National Bank and the commercial banks could cooperate in the fulfilment of that purpose he felt that these efforts would be crowned with success.

In this optimistic spirit the Governor convened his second meeting with the managers of commercial banks on the 28th March 1956, just a few days before the official opening of the National Bank. The Governor began the informal discussion by stating that although the National Bank will open for business on 1st April he was sure that it should not be expected to function perfectly from the beginning, but the Bank will approach its tasks slowly and progressively. He then requested the commercial banks to submit monthly banking data (assets and liabilities) on time in order that the aggregate assets and liabilities of the banking sector can be prepared as soon as possible after the end of the month. The discussion then turned to the draft rules for the management of the Clearing House. It was agreed that a final decision on these rules will be postponed to another meeting.

The third meeting was held in a less than one month, on 26th April. Unlike previous meetings this time there was a prepared agenda which began with the final draft of the rules for the Tripoli Clearing House. These rules were passed unanimously, after certain minor amendments. The next item on the agenda was the idea of establishing a local Bankers' Association. The Governor introduced this very important idea by saying that he was pleased to know that Banks had reached agreement on certain common rates, e.g., for documentary credit and hoped that this would be the basis for an Association with its implications of written and unwritten rules. He said that the National Bank would welcome such a development and, though it would wish to leave the Banks to reconcile minor points of difference between themselves, it would stand ready to act as a court of appeal in the event of any major disagreement. Despite this encouragement, however, there was no agreement among the managers of commercial banks, who belonged to five different countries, regarding the establishment of a formal Banker's Association. The Governor concluded the discussion by saying that while he fully realized that with seven banks, having perhaps seven different views agreement would not be easy, but that he had hoped that perhaps because of the birth of the National Bank, agreement was more likely to be reached now than ever before. Nevertheless, he assured all those present that it would be the National Bank's policy to help collaborate in a friendly spirit with all the Banks in the interest



Bank of Libya — Derna

of the general economy of the country. With these remarks the question of a local Bankers' Association was left unsettled and to this day there is still no such institution in the country.

The third meeting was concluded by a general discussion of the proposed National Bank discount policy and certain other aspects of central banking. As these were consultative discussions no decision were necessary on specific subjects. A general consensus of the commercial bankers regarding the proposed National Bank's central banking policy was assessed and this was of considerable help to the Bank in formulating its policy.

At the fourth meeting which was held on 11th September 1956 the whole question of the volume and kind of credit facilities offered by the bank was the central theme of the discussion. By this time the relationship between the National Bank and commercial banks has grown to a point where the management of the National Bank felt it was time to push forward with the role of the Bank as bankers' bank. The Governor opened the discussion by stating that one of the most important functions of a central bank was to influence the credit situation of the economy in the country's interest. He expressed concern that despite the establishment of the National Bank and the Government policy to provide the necessary credit facilities the situation remained unchanged. Although the National Bank offers discount facilities at $4\frac{1}{2}$ per cent no bank had so far made use of this facility; yet the economy is short of certain kinds of credit and the interest rate charged on loans is still high. The Governor expressed his belief that there must be a gentleman's agreement that the National Bank's function would be implemented by the action of the National Bank on the one side and the attitude of the local banks on the other.

Although many fundamental points of banking policy were discussed at this meeting and although the National Bank's status as a central bank was considerably enhanced there were no definite decisions taken regarding the credit situation in the country. It was felt that the commercial banks had appreciated the National Bank's ultimate objective, but that the situation should be further consolidated at a future meeting.

Between September 1956 and February 1961 there were fourteen more consultative meetings held with commercial banks. Important as these meetings were it will not be advisable to discuss their proceedings in details. It is only necessary to keep in mind that during this period such meetings provided the only means by which the National Bank could exercise any influence on the activities of commercial banks. They also provided the opportunity for the Bank's top management to gather the view

points of commercial bankers, many of whom had experience in the country pre-dating the establishment of the National Bank. Many topics of considerable importance, dealing with central banking, agriculture and industrial credit, foreign trade and general development problems were freely discussed and debated at these meetings. The question of the need for rapid Libyanization of commercial bank's staff was constantly raised by the National Bank at these meetings. The need for organized and systematic training of Libyans in the field of banking was often stressed by the Governor. He proposed to the commercial banks the speedy establishment of a banking institute designed to provide certain theoretical training for those who are working in the banking field to supplement their practical experience. It was proposed that such an institute should be owned and jointly managed by the commercial banks and the National Bank and many of its teaching staff would come from the senior employees of the local banks and the National Bank.

Viewed in historical prospective these consultative bankers meetings served their purpose satisfactorily. They enabled the National Bank to exercise considerable influence through moral suasion and they gave it the opportunity to benefit from the experience of the more senior commercial bankers in the country. But important as these achievements are they provided no adequate substitute for the necessary legal powers which a central bank must have in its relations with the banking community. For this reason it was quickly felt by the National Bank's management that certain legal authorities must be conferred upon the nation's central bank, enabling it to perform its functions as bankers' bank. In other words these consultative bankers meetings **were not enough**. It was generally agreed that moral suasion backed by certain **legal prerogatives** would be far more effective in accomplishing the desired end.

The Banking Law of 1958

In 1958 two events took place which enhanced somewhat the legal status of the National Bank in its relations with commercial banks. One of these was the transfer of the management of exchange control from the Provinces to the National Bank, in its capacity as a Government agency. The other event was the enactment of the nation's first legislation dealing with commercial banking. The Law became effective on the 20th of November 1958. This Law specified certain requirements regarding commercial banks' capital, reserves, liquidity, banking practices, credit policy and many other aspects of commercial banking. Article 9 (i) of the Law even

gave the Minister of Finance the right to call for the deposit of certain compulsory reserves if he so decides after consultation with the Governor of the National Bank. Although these aspects of the Law marked an important beginning from a historical point of view, in the formulation of a sound banking policy, they were so loosely worded that they left many questions un-answered. A more serious limitation was the fact that the Law designated the Minister of Finance rather than the National Bank as the executive authority in the implementation of its various provisions. The Bank's role was largely advisory under the terms of this Law. Nevertheless, the National Bank tried to make the best of the situation by continuing the exercise of its moral influence with commercial banks and at the same time persuading the Government to make use of the Banking Law in such a way as to enhance the position of Government and the Bank in dealing with the activities of commercial banks. In practice, however, this policy ran into grave difficulties, which could not be resolved until the amendment of the Constitution in December 1962.

Constitutional Controversy

Soon after the promulgation of Banking Law in 1958 the Province of Cyrenaica sent a formal protest to the Federal Government challenging the constitutionality of the Law. Tripolitania and Fezzan followed suit. It was argued by the Provinces that commercial banking came under the joint powers listed in Article 38 of the Constitution, in which the Federal Government has legislative powers and the Provinces have the responsibility for execution, under the overall supervision of the Federal Government. Instead of recognizing this constitutional requirement the Banking Law of 1958 gave the executive powers to the Minister of Finance, and through him in certain cases to the National Bank. The Federal Government and the National Bank provided a counter argument which is based on the premise that banks have the power to influence the supply of currency and that since currency is a Federal prerogative banks should also be under its jurisdiction. It was also argued that the National Bank Law required that it shall be the banker for the Federal Government as well as the Provincial Administrations.

However, the provinces were not convinced. They maintained that constitutionally speaking the National Bank is a Federal Bank and that the Provinces should be entrusted with the implementation of the Law instead of the Minister of Finance. While this very complicated constitutional argument went on, the commercial banks were able to continue their business as they wished without any significant supervision from any source, be it

Federal or Provincial. The National Bank's previous progressive efforts to build up its status as a bankers' bank were greatly weakened by this argument. The situation was made even more difficult by the rumors that the Provincial Authorities were contemplating the establishment of their own central banks to execute any future banking legislations. These unhappy developments greatly handicapped the role of the National Bank, in its relation with commercial banks. Whereas in the beginning commercial banks were convinced that gradually the National Bank would acquire more and more legal authority as a central bank they now began to wonder if they would have to deal with Provincial central banks whose policies and practice may differ from one another. Whether or not the commercial banks were in favour of this development it is hard to judge, but it requires little speculation to conclude that the banks must have enjoyed their freedom to do as they wished, while the constitutional argument was getting more and more complicated.

The Creation of A Banking System

In reviewing the banking situation in 1960 the National Bank realized in more clear terms than ever before that there was no banking system in the country and that as long as such a system is absent it would be impossible for it to act as bankers' bank. It was also fully realized that the first essential step in the creation of such a system would be the enactment of a banking legislation designed to establish separate financial and legal entities of the local branches of foreign banks, promote the establishment of Libyan banks and give the National Bank the usual legal jurisdictions associated with central banking. The objective was the creation of a genuine national banking system in which the National Bank would be able to effectively act as bankers' bank. With this highly commendable objective in mind the National Bank initiated systematic review of the existing banking legislation, which ultimately led to the drafting of a new banking law. The draft law was under official consideration for over a year, but it was finally enacted by a unanimous vote of Parliament early in 1963.

The Banking Law No. 4 of 1963

It was indeed very fortunate that the enactment of this rather important banking legislation occurred about the same time as the nation's Constitution was being amended in such a way as to eliminate the Provinces as political entities and thereby establishing a unitary form of Government in place of the Federal system. It was now certain that with this fundamental change the new legislation will not face any constitutional objections.

The new Law conferred upon the Bank of Libya the legal power to make use of all the normal central banking tools as circumstances required. As other aspects of the Law will be reviewed in the chapter dealing with monetary policies, only the sections dealing with the relations between the Bank of Libya and the commercial banks will be discussed here.

One of the most important legal requirements introduced by the new Law was the provision that each bank operating in Libya whether Libyan or a branch of a foreign bank must have its own separate capital and reserves. In order to facilitate the establishment of Libyan banks the Law specified that while a foreign bank whose head office is abroad must have at least half a million Libyan pounds as capital in Libya while the amount of capital required of banks incorporated in Libya was reduced by half. The Law also required that at least half of the profits must be added to reserves kept in Libya until such reserves are equal to the paid up capital. The requirement gave the local banks the financial entity which is a prerequisite for the creation of a national banking system. The legal entity of the system was specified in various articles of the Law. In order to provide the new system with the necessary conditions with which it can be purposefully managed the Law gave the Bank the full powers of a central bank, including the power of inspection and the initiation of punitive action where appropriate.

Article 35 of the Law deals with the scope of regulatory powers conferred upon the Bank of Libya. Since this gives a good idea of the kind of relationship of the Central Bank with the banking community under the new Law the full text of the Article is quoted below:

«The Board may as the credit situation requires lay down general rules for the control and supervision of commercial banks to regulate the following:

- (1) Methods used in assessing the various assets of banks.
- (2) Fixing of the proportion and kind of liquid funds which must be maintained by banks.
- (3) Determining the channels in which banks are prohibited to invest their funds.
- (4) Fixing reserves to be available against assets subject to great fluctuations in value.
- (5) Fixing the proportions of advances to the value of security and determining the kind of such security.

- 6) Fixing bank charges collected from or paid to customers in any manner whatsoever.
- 7) Determining maximum interest rates on all creditor and debtor accounts and arrear charges.
- 8) Determining the permitted difference to be maintained between the interest rate or the rediscount rate as fixed by the Bank of Libya and the discount rates charged by banks to their customers if the credit documents are eligible for rediscount or as collateral for a loan.
- 9) Fixing the percentage of each type of credit in relation to the total of these operations and determining the maximum amounts and durations of credit operations, investments or letters of credit in respect of all or some of these operations.
- 10) Determining the minimum limit of cash margin for opening documentary credits in general or in respect of a specific kind thereof.
- 11) Prescribing the statements to be published and the manner of such publication».

Now that the Bank of Libya has obtained the necessary legal jurisdiction associated with a modern central bank, it resumed its early policy of holding informal meetings with the commercial bankers designed to facilitate the exchange of ideas and experiences regarding the nation's banking needs. The resumption of these meetings also provided the opportunity for commercial bankers to become familiar with the monetary policy and general attitude of the Bank of Libya regarding banking.

The first several meetings which were held in 1963 were devoted chiefly to explain the procedure in which the various aspects of the Law will be implemented and the way in which certain articles in the Law should be interpreted. Several statistical forms for reporting banking data were discussed and approved at these meetings. Differences of opinion regarding the meaning of various monetary measures prepared by the Bank of Libya were discussed and generally settled.

After completing the necessary preliminary measures associated with the implementation of the new Law and establishing the radically changed relationship between the central bank and its banking system, the Bank of Libya was now fully equipped to resume its active interest in certain areas of high national importance. One of these areas was the promotion of training Libyans in the art of banking. For this purpose, the Bank of Libya had proposed the establishment of a Banking Institute as early as 1956,

but now with its greatly enhanced position as a bankers' bank it revived its proposal with even more vigour and determination. Although to date there is still no such institution in existence, the prospects for its early establishment are brighter now than ever.

Another subject of great national significance, which had been adopted by the Bank in 1960-61 but was now reactivated, was the policy of Libyanization of the banking community. The new Law gave this community a definite shape and it established the broad principles and objectives within which it can develop and grow. The desirability of integrating the ownership and management of the banking system with the over-all needs and resources of the Libyan economy is beyond doubt. It was only a question of how to promote the achievement of this commendable goal. Both the Government and the Bank had decided that to begin with only the force of moral suasion and voluntary means will be used to initiate and promote the process of Libyanization of existing commercial banks. In order to increase the effectiveness of this approach the Bank of Libya made it a policy not to permit any more foreign banks to establish branches in Libya while the process of Libyanization is being pursued.

In accordance with this policy, the Bank began informal discussion with existing foreign banks and with Libyan businessmen, with the aim of inducing both sides to enter into association in the form of Libyanized banks, where Libyan nationals will hold at least 51 per cent of the capital stock. In pursuing this policy the Bank encountered many difficulties and had to overcome some major institutional obstacles, but before the end of the year two banks, one Italian and the other French, formally accepted the Bank's policy and announced their intention to begin immediately the process of establishing local banks with majority Libyan shareholders.

Towards the end of 1963 the Bank of Libya decided to formally announce its policy of bank Libyanization and to inform the public and the business community of results achieved in pursuit of this policy. The Deputy Governor of the Bank, Mr. Ali Giuma Mouzughhi, held a press conference on the 14th of November 1963 in which he made an important historical statement regarding the Libyanization policy of the Bank and the main assumptions and historical facts upon which this policy is based. The statement provides a brief summary of commercial banking development in the country and it gives a full exposition of the Bank's policy with regard to Libyanization of the banking system and its voluntary approach to this very important national issue.

The Sahar Bank, amalgamating the Banco di Sicilia local branch and the Bank of America plus Libyan participation up to 51 per cent of the paid up capital, was officially opened for business on 11th July 1964. This was closely followed by the opening of the Société Africaine de Banque on 11th September 1964. This new Libyan bank absorbed the former French Société de Banque in combination with 51 per cent Libyan participation in the capital stock. In addition to the Libyanization of these two banks 1964 saw the birth of a new bank consisting of 51 per cent Libyan interest and 49 per cent owned by the Eastern Bank. The Commercial Bank opened for business on the 16th of June 1964.

With the success of these two experiments the British Bank of the Middle East became seriously interested in Libyanizing its local branch. This development was of course, solicited and strongly encouraged by the Bank of Libya. The advantages of this venture were fully explained to the interested Libyan partners and to the BBME as well. With this encouragement and keeping in mind the long term interest of their bank in Libya the British Bank of the Middle East voluntarily undertook to Libyanize their local branch. A new bank bearing the name of Bank of North Africa with a paid up capital of one million Libyan pounds, 49 per cent of which was subscribed by the BBME and the rest by Libyan investors was officially opened for business on 1st January 1966. Following this happy development and in response to the Bank of Libya strong appeal Bank Misr initiated steps to Libyanize their branch, but due to certain delays and changes in the selection of their Libyan partners and subscribers the process of Libyanization is still under completion. Also Banco di Napoli has agreed to Libyanize and began discussion with the interested Libyan investors as well as with certain foreign banking circles. It is hoped that the Libyanization of these two banks will be completed before the middle of 1967. When this is accomplished there will be only three banks, Banco di Roma, Barclays Bank (D.C.O.) and the Arab Bank, as pure branches of foreign banks, although having their own capital and reserves separate from their head offices. It is hoped and expected that these banks will realize their long-run interest and follow the good example of the banks which have Libyanized. It is expected that Libya must sooner or later have the bulk of its banking business in the hands of Libyan banks or banks which are at least 51 per cent Libyan. This transformation could be made easier and more agreeable to all concerned if the remaining foreign banks would voluntarily agree to Libyanize their branches as soon as possible. Such action could only serve to further consolidate their already strong position and enhance their reputation as well as further their long-run interest.

Judging from the experience of the three banks which have already Libyanized it is now evident that the policy of Libyanization pursued by the Bank of Libya has proved to be theoretically sound and practically feasible. Initial reservations and fears expressed by many observers and the foreign banks themselves regarding the willingness of the Libyan business community and public to invest in banking ventures proved unfounded. No bank experienced any difficulties in finding subscribers. On the contrary in some cases there were more subscribers than the shares floated, a situation which led to closing the subscription list only a few weeks after its opening. In response to this situation and in recognition of its growing business, the Sahara Bank raised its paid up capital to half million pounds in 1965, all of which was subscribed within a few days. Although the minimum capital required for a Libyan bank is only £L. 250,000 the Bank of North Africa was established with a capital of one million pounds. Again there was no shortage of willing investors. Because of the retention of most of the staff of the former foreign branches the technical level of the Libyanized branches was not adversely affected, although there is a general shortage of qualified banking personnel in the country. The volume of business transacted by these Libyan banks is increasing and the long-term trends are in their favour. The Bank of Libya felt proud of this success.

Since the establishment of the new Commercial Bank, S.A.L. in 1964 the commercial banking sector consists of nine banks, four of which are Libyan, two are in process of Libyanization and three are still branches of foreign banks. In addition there is the Commercial Banking Division of the Bank of Libya, as discussed in the previous chapter. There are also two Government specialized banks, the National Agricultural Bank and the Industrial and Real Estate Bank.

With this structure of the banking system, which is becoming more and more home oriented and with the legal jurisdiction given by the Banking Law of 1963 and with the establishment of the Banking Control Department, with its power of inspection the Bank of Libya has come a long way from where it began in 1956. At that time the banking structure consisted of mere agents of foreign banks, with no domestic capital or reserves or common grounds of identity with the Libyan economy. In addition to such highly unsatisfactory banking structure the National Bank of Libya was given no legal powers with which to organize reform. As we have seen earlier it had to rely solely on the use of moral suasion and the personalities of its management in dealing with commercial banks. Fortunately, however, all this is now history and the Bank of Libya today is intrusted with

the full powers of a genuine central bank. It is sparing no effort to make use of its powers in the best possible interest of the Libyan economy and people.



Bank of Libya — Tobruk

Chapter 7

Exchange Control

CHAPTER VII

EXCHANGE CONTROL

Prior to Independence the British Administration applied the Sterling Area exchange restrictions in Tripolitania and Cyrenaica , while the French Administration used a different system of exchange control in the Fezzan. Although both Cyrenaica and Tripolitania were under the British Administration, currency transactions between the two territories were subject to exchange restrictions, especially during the immediate post war period. The French Resident issued exchange permits for currency transactions between Fezzan and Libya's other two regions.

This system of separate exchange control for each of the country's three regions continued, with all its problems and inconveniences, until the achievement of Independence and the unification of the currency issued by the new state. It will be recalled that Libya announced its historic decision to join the Sterling Area at the Meeting of Experts held in Geneva under the auspices of the United Nations in 1951. With this decision it agreed to apply the foreign exchange restrictions relevant to the Sterling Area, with some minor modifications designed to accomodate its special circumstances and historical trade relations. The essence of the Sterling Area consists of the pooling of foreign exchange reserves under the management of the Bank of England using London as the clearing center for payments between member countries and in general coordinanting the exchange restrictions of member countries with the needs of the Sterling Area as a whole.

With the Independence of Libya the responsibility for the administration of exchange control was transferred to the Provincial Administrations, in accordance with Article 38 of the Constitution. The Provincial Authorities applied the pre-independence legislations regarding exchange control, but they had full powers to adapt the regulations to suit the local needs of their territories. This meant that exchange restrictions continued to vary from one region to another even after the achievement of Independence and

the unification of currency. Such situation was most unsatisfactory for all concerned and many voices were raised both within the Government and in the business community calling for the unification and simplification of exchange control procedures. The Libyan Currency Commission made a similar recommendation to the Libyan Government.

In view of these developments the Government requested the Technical committee, established for the preparation of the national Bank of Libya, to prepare a draft exchange control Law. The Law was prepared in 1955 and enacted on the 13th of September 1955. Article One of this Law states that:—

(1) «Transactions in foreign currency, transfers of currency from or to Libya and of liabilities expressed in foreign currency, shall be prohibited; except on the conditions and in the manner to be laid down by regulation of the Minister of Finance and through such banks as he may authorise for the purpose.

(2) Persons who are not resident in Libya, or their agents, may not effect transactions in Libyan currency or transfer or sell Libyan securities, bonds or coupons except on conditions and in a manner to be laid down by regulation of the Minister of Finance and through Banks authorised for the purpose.

(3) All foreign currency granted may be used only for the purpose for which it was allocated».

While the Law states that the Minister of Finance is charged with the enforcement of its various provisions subject to the approval of the Council of Ministers, part two of Article 7 of the Law says that «the Minister of Finance, by regulation, may appoint the officials, body or department to be entrusted with the enforcement of the provisions of this Law». Article 12 of the Law repealed all the former Italian and British legislations dealing with exchange control.

Although the Law charged the Federal Minister of Finance for the enforcement of exchange control the Provinces continued to administer exchange restrictions until the issuance of the Basic Exchange Control Regulations mentioned in Articles one and seven of the Law. Prior to the enactment of these regulations the National Bank made several requests to the Government regarding the desirability and necessity of transferring the administration of exchange control from the Provincial Authorities to the Bank. It argued that the job of a central bank can not be adequately per-

formed unless foreign exchange transactions came within its jurisdictions. The Bank pointed out Article 24 of its enabling Law which states that it may act as agent of the Government under the Exchange Control Law. Initially there was some resistance from the Provincial Administrations to the Bank's request, but after considerable discussions and correspondence it was agreed to transfer the administration of exchange control to the Bank.

The Exchange Control Regulations were approved by the Council of Ministers on 13th October 1957, two years after the enactment of the Law itself. Article One of the Regulations stated that «the National Bank of Libya is hereby appointed to operate the Exchange Control Law of 1955 and administer the regulations». Thus while the national currency was unified in 1952 the exchange control legislations were not unified until 1955 and the unification of the administrative procedures for the enforcement of the legislations had to wait until the beginning of 1958.

The Second Annual Report of the Board of Directors of the Bank makes the following policy observations in connection with its taking over the responsibility for the administration of exchange control.

«The Regulations referred to in the exchange Control Law of 1955 were not finally approved until late in 1957, so responsibility for its administration did not pass from the Government to the National Bank until the 18th January 1958. A great deal of preparatory work had to be done by the senior officials of the Bank and long hours have been necessary in order to give the speedy and efficient service which is our aim. The number of different types of application form has been reduced to a minimum and, to avoid delay in the issue of permits, authority has been given to the commercial banks to deal with many of the routine types of application, e.g. payment for imports, travel, etc., without prior reference to the National Bank.

«Since Exchange Control policy is governed by national policy it follows that, as the nation's requirements change the administration of Exchange Control must remain flexible. Libya's membership in the Sterling Area and her expressed wish to encourage the influx of foreign capital are but two aspects of national policy having direct bearing upon Exchange Control. For example, the introduction of the Non-Resident A/c system is designed to meet these requirements and at the same time simplify administration; certainly a few initial difficulties have been experienced but when people become familiar with the system they will realize that it is designed not only to protect the rights of everybody but also to minimize

procedural formalities. Obviously the first few months are likely to produce various problems and although the main object must always be to prevent Libya's foreign exchange reserves from being used for purposes which do not serve the national interest, it is our intention that legitimate business transactions shall be facilitated in every way possible.

«We are glad to say that commercial banks, business men and the public in general have expressed approval of these new Regulations which are designed for the public interest and to protect our currency by enforcing the terms of the Exchange Control Law».

Initially the manager of the Issue Department was given the responsibility for the administration of exchange control but the nature of the work involved and the volume of business requiring exchange permits made it necessary to establish a separate Exchange Control Department with specialized staff. The first three managers of this department were all recruited on secondment basis from the Bank of England, but in 1961 a Libyan was appointed to this post.

During the first year of exchange control operations in the Bank priority was given to the formulation of exchange control policy, and the adaptation of control procedures and formalities in accordance with the local needs of the economy. It was agreed that the exchange control system should be simple and efficient. In pursuit of this objective, decentralization of control was initiated by the delegation of authority to the commercial banks with regard to the regular routine transactions such as payment for imports, travel and certain invisible remittances without prior reference to Exchange Control Department.

In accordance with the procedure applicable in the Sterling Area, a system of Resident — Non-Resident Accounts was introduced in order to gain efficiency and provide for the needs of the economy. In addition, the procedures for foreign exchange transactions were simplified and unified throughout the country and the formalities considerably reduced.

Prior to the Suez crisis in 1956 there was practically no exchange control between Libya and other members of the Sterling Area, but with that event it was felt that for political reasons there may be people who wish to transfer their capital abroad and that the Sterling Area provided a convenient outlet. In order to cope with this situation, certain kinds of restrictions were placed upon capital transactions and other unusual remittances within the scheduled territories without affecting the general conditions of Libya's membership in the Sterling Area.

One of the main problems the Exchange Control Department had to face from the date of its establishment was the implementation of Article 15 of the Libyan/Italian Property Agreement, ratified on the 15th December 1957.

The Agreement affected Italian nationals who were resident in Libya prior to the 15th December 1950 and left, or were intending to leave Libya to return permanently to Italy at any time between the 10th June 1940 and the 15th December 1961. The practice adopted in this connection was to allow, subject to certain conditions laid down by the Government, the transfer of the capital of the Italian nationals in Libya to the extent of £L. 5,000 — per person, provided the aggregate capital transferred did not exceed £L. 300,000. — in any one year, in accordance with the terms of the bilateral agreement.

The appropriate machinery was immediately established to administer the quota referred to in Article 15 of the Agreement, and the applications by Italian nationals qualifying under the terms of such Agreement were given consideration promptly. But the exchange Control had very soon to face serious difficulties, owing to the limitation of the annual quota allocated. The yearly quota of £L. 300,000. — was too small in relation to the capital which Italian nationals wished to transfer, with the result that the capital of many of them was semi-blocked in banks in Libya awaiting permission for transfer. This had given rise to illegal channels of remittances which meant a substantial increase in the offer of the Libyan pound in free money markets abroad, particularly in Italy, which in turn led to the depreciation of our currency abroad. In addition to the above undesirable consequences, the delay in transferring the funds was contributing to the reluctance of many Italian nationals to continue the liquidation of their properties in Libya.

Early in 1960 the foreign exchange position of the National Bank was such as to enable it to make up any decrease in foreign reserves ensuing from the transfer abroad of the proceeds of the sale of Italian nationals' property, which were in the nature of blocked deposits and forming substantial part of the funds at the disposal of certain local banks for the expansion of domestic credit.

It was therefore essential to adopt, as quickly as possible, suitable measures which would accomplish the following:—

1. To remove the pressure on the Libyan Pound in foreign markets.

2. To increase the offer of immovable property owned by Italian nationals, thus enabling Libyans to purchase this property at the lowest possible price.
3. To provide some sort of stability for Italian residents in Libya wishing to stay on.
4. To alleviate credit pressure in the local monetary market.

For the above reasons the National Bank had requested and obtained authority from Government by decision of the Council of Ministers on the 12th May 1960 to allocate special quotas up to an overall limit of two million Pounds, to be used as follows:—

- a) for the release in full of the funds restricted under Article 15 of the Libyan/Italian Agreement which were held with banks in blocked accounts,
- b) for the remittance in full of the sale proceeds of real estate, industrial and commercial establishments in Libya by Italian to Libyan nationals, provided the sale/purchase was effected by the 31st December 1960.

Trade and Payments Agreement with Egypt

Libya's first Trade and Payments Agreement was concluded with Egypt on 30th January 1957 and came into operation on 14th February 1957. The fundamental purpose of the Payments Agreement was to «facilitate trade and payments between the two countries». In fact, the agreement was concluded with the aim of maintaining a certain volume of trade between the two countries — when temporary circumstances, such as foreign exchange and other restrictions, prevent the use of normal channels of payments. For the implementation of the clearing operations, the National Bank of Libya, and the National Bank of Egypt were designated as the agencies representing the two Governments. The original rate of exchange between the two currencies was fixed at £E. 0.975 for each Libyan Pound. Outstanding balances were payable in Sterling or any other currency acceptable to the creditor and at his request. But no provision was made in the Agreement for any variation in the exchange value of either of the two currencies in terms of Sterling.

The Suez Canal crisis had, at that time, caused some anxiety both in domestic and foreign free markets concerning the Egyptian Pound. The trend of note circulation, the bank money figures and the behaviour of prices were indicating that inflationary pressures were gathering strength

rapidly in Egypt. It was assumed that the Egyptian Pound was therefore over-valued at official parity rates.

In fact, the Egyptian authorities had introduced as a remedy currency arrangement by a premium for export proceeds in convertible currencies. But the Libyan Pound was not considered in the same category as the Pound Sterling, so far as the premium under their exchange regulations for convertible currencies was concerned. As a direct consequence of this measure, Egyptian merchants were encouraged to export to countries other than Libya in order to obtain the premium. Egyptian goods were then imported from third countries against convertible currencies. Also Egyptian importers were obtaining third country goods from Libya for payment outside the bilateral clearing accounts thus avoiding payment of exchange premium for purchases of convertible currencies. These practices meant that while our balances in Egyptian pounds were increasing, we were unable to use them for the payments of imports from Egypt.

When the Agreement was concluded, it was anticipated that the balance would be in favour of Egypt; while this was the case in the beginning, the balance changed in Libya's favour during 1958 and by the end of 1960 the balance in favour of Libya was over two million pounds.

This development made it essential to do everything possible to ensure the continuity of the trade between the two countries. Accordingly, the necessary steps were taken to reach settlement of the outstanding balances and to initiate formal discussions for the amendment of the Agreement.

Following negotiations between representatives of the two Governments, it was agreed to replace the existing agreement, to be terminated as from the close of business on 31 st May 1960, by a new agreement to come into force on the 1st June 1960. The new agreement specified that the clearing account between the National Bank of Libya and the National Bank of Egypt was to be expressed in Sterling. At the same time, it was agreed to convert the existing balance in favour of Libya from Egyptian Pounds into Sterling, to be settled in three installments payable in 1960, and half-yearly installments ending December 1962.

Under the new agreement the clearing Sterling was given the same treatment as the convertible Sterling, as far as the premia were concerned, so that the difficulties previously experienced were eliminated and the trade between the two sister countries was rechanneled into its normal course.

We now turn to other aspects of exchange control.

The Fourth Annual Report of the Bank provides the following summary of the main developments in the area of exchange control that had taken place up to that date. It also states the general policy of the Government and the Bank with regard to exchange liberalization. Thus the Report states:—

«On the technical aspects of Exchange Control, the principal changes in our measures during the period under review have been:—

(a) Increased supervision, in cooperation with the Customs Authorities and the banks, over the receipt of export proceeds to ensure they are repatriated to Libya in the appropriate currency and within six months.

(b) Some alleviation in the use of blocked funds of non-residents by allowing remittances abroad at a fixed annual rate and their use for personal expenditure within Libya by the holders and their dependants, and for investment here.

(c) A considerable increase in the allowances for education abroad.

(d) A survey of foreign commission earnings by commercial agents operating in Libya to ensure the repatriation to Libya of such foreign currency earnings in accordance with the Exchange Control Law and Regulations.

The National Bank has also made the following proposals to the Government:—

(e) A reduction in the amount of Libyan currency notes which travellers may take out of the country (with a corresponding increase in the basic travel allowance) while maintaining the present import limit for such notes. The purpose of this is to reduce the amount of Libyan currency notes circulating abroad and consequently to raise the, at present, depreciated rate at which they are dealt in.

(f) An increase in the over-all annual amount of transfers abroad under the terms of the Libyan-Italian Property Agreement. It has been found that the present annual quota of £L. 300,000 is insufficient and that Italians who would like to dispose of their property are thus deferring sales. If the annual quota were increased a more rapid turnover of property to Libyans would be achieved, and in addition compensation deals involving a depreciation of our currency abroad would be reduced.

«The National Bank has also made a considerable advance over the year in the compilation of exchange control statistics which form an important aspect of the statistical services on which economic analyses can be made».

In order to reduce the supply of Libyan bank-notes abroad Articles 7 and 8 of the Exchange Control Regulations of 1957 were amended at the request of the Bank. The amendment reduced the value of bank-notes which may be taken out of the country by bona fide travellers from £L. 50 to 20 adding the balance to the foreign exchange quota granted under the basic travel allowance. These amendments came into effect as of 1st November 1961.

With the initiation of oil exports in 1961 and the rapid monetary expansion, which accompanied it, the necessity for an overall review of the existing exchange control policy and procedures became evident. Such review was carried out in a series of technical meetings within the Bank in 1962-63. One result of these discussions was the recommendation that the responsibility for the administration of exchange control should be vested in the Bank by Law rather than delegated by the Minister of Finance. It was argued that the Bank can not be responsible for the maintenance of the internal and external value of the currency without the necessary legal authority to formulate policy and adopt administrative decisions in regard to foreign exchange transactions. For the sake of continuity and objectivity it is necessary that such authority be conferred upon the Bank as one of its original functions instead of the system of delegated authority where the Bank acted on an agency basis.

Fortunately the Bank's point of view was accepted by the Government and it was incorporated in the new Banking Law of 1963. Thus Article 17 of the Law states: «The Bank shall undertake monetary control and supervise Libyan internal and external transfers of currency and shall be entrusted with the powers vested in the Minister of Finance under the provisions of the Decree issued on the 13th of September 1955 governing exchange control».

Upon the promulgation of this Law the Bank made a general review of the Exchange Control Law of 1955 and its regulations and basic notices. The object of the review was to introduce simplification, promote efficiency and accuracy in the over-all system of exchange control. An important outcome of that review was the issuance of a number of notices and press releases dealing with holdings of properties, securities and other assets by non-residents in Libya and by residents abroad. The object of this effort was

to collect the necessary data on the foreign assets and liabilities, the capital inflow and outflow and the income arising from such capital movement and investments.

These measures were followed by a series of steps designed to further simplify exchange control procedures and promote efficiency within the over-all requirement of the Law. For example, the following changes were introduced during the financial year 1964/65:

- (a) All blocked accounts up to the 31st December 1963 and belonging to people who had left Libya for good were released.
- (b) In order to further facilitate the sale of foreign property in the country it was decided that the proceeds of such sales may be remitted freely subject always to tax liabilities and other legal commitments.
- (c) The basic annual travel quota was increased from £L. 140 to £L. 300 per person for non-business travel and half this amount for their dependent but for business the quota was raised to £L. 250 per trip provided that the maximum allowed will not exceed £L. 2,500 per half calendar year.

In addition to these liberalizations, the Bank spent considerable time and effort in the explanation of exchange control procedures and the reasons for their existence through personal contacts and public media. During the tenth year of the Bank's operation there were further simplifications with regard to deferred payments for imports and the further delegation of authority to commercial banks. The benefits of these measures can be seen in the decrease in the number of applications submitted for approval. Thus, whereas in the year 1964/65 there were nearly 29,000 such applications, the figure went down to little over 25,000 for the following year while the total value of these applications increased by 24 per cent. Blocked accounts up to June, 1965 were released during the year 1965/66.

In concluding this brief summary of the Bank's role in Exchange Control it is important to note that during the first decade of its life the Bank has been able to unify the legislations and administrative procedures dealing with exchange control, create a modern system of supervision and assume the responsibility for its administration as an integral part of its central banking functions.

The next decade will undoubtedly see many economic and social changes in the country and with such changes it will be equally certain that the Bank will continue its flexible and forward-looking approach in the foreign exchange field.

Chapter 8

**Dealer
in
Commercial Gold**

CHAPTER VIII

DEALER IN COMMERCIAL GOLD

Due to the strong connection between trading in gold and the inflow and outflow of funds, the National Bank of Libya became highly interested in the subject of commercial trading in gold. After a preliminary investigation it became evident that the commercial gold market in this country was highly disorganized and that the public had no protection whatsoever as to the quality and standard of gold assayed in the local market. There was also evidence that considerable amounts of imported gold bullion enter into the black market and is then smuggled out of the country, taking advantage of its relatively low price in comparison with the other neighbouring markets.

In view of this situation the Bank decided to advise the Government on ways and means of reforming the gold market in the interest of the economy as a whole and in order to protect the public from illegal dealings and the debasement of the precious metal. Thus, the representative of the Bank on the «Import and Export Advisory Council» formally raised the question of trading in gold in the Spring of 1961. The representative of the Bank after explaining the technical relationship between trading in gold and monetary policy stressed the following points:—

1. The lack of effective control on the quality of imported gold bullion and on its methods of processing, a fact which makes it possible for goldsmiths to exploit the public whose traditional form of saving is gold.
2. Some of the gold which enters the country for domestic use is re-exported, thus causing a loss in foreign exchange.
3. The fact that gold will eventually become part of Libya's currency cover require that trading in gold be centrally organized.
4. Finally, the low standard of gold smithery will certainly continue un-

less the local gold market is better organized and its technical standard is considerably raised.

With these points in mind, and since the purchase and sale of gold is one of the policy measures to which a central bank can resort in order to influence monetary trends, the Bank proposed that it should be given the sole responsibility for the import of gold bullion. The Bank would then organize the sale of gold bullion to qualified jewelers, in accordance with the procedure to be organized and agreed upon by the competent public authorities. Thus, instead of the Provinces issuing import licences directly to jewelers within the limits prescribed by the Ministry of National Economy, the Bank will import the gold bullion in accordance with the estimated requirements of the local market and sell it to jewelers, taking account of their business activities and technical capabilities. The sale of gold bullion will be limited to the amounts required for local jewelers, thus preventing black market dealings in gold. The technical standard of gold processing would be periodically inspected by experienced market assayers, in cooperation with the Bank. The market assayer would keep formal documents for the sales effected in the market and approve all the processed gold before it can enter the market.

The Import and Export Advisory Council accepted in principal the proposals raised by the Bank's representative and recommended their implementation. Specifically the Council made the following recommendations:

1. The importation of unprocessed gold should be restricted to the National Bank of Libya.
2. The Bank shall sell the gold bullions to jewelers who hold valid licences from the competent authorities in their respective Provinces.
3. The sale price shall be equal to the prevailing price in the international gold exchange market, on the day the sale is effected, plus direct administrative expenses including custom duties.
4. The National Bank shall keep a register in which the quantity of gold sold will be recorded, together with the names of purchasers, their quotas and the sale price.
5. There were other technical procedures established for the purpose of insuring high technical standard of gold processing.

On the 5th of August 1962 the Minister of National Economy issued a decision authorizing the National Bank to import unprocessed gold and

It is to local jewelers in accordance with the above mentioned procedures. It was emphasized that the Bank will keep the sale of gold at the lowest possible price, provided that it will not suffer any financial loss. It was agreed that a certain commission would be charged by the Bank in order to meet the cost of insurance, staff, and equipment connected with the importation and distribution of gold. The first shipment of commercial gold imported by the Bank took place in November 1962 and it was sold in February of the following year. The quotas of gold bullions were fixed in 1963, in accordance with the jewelers' potentialities and technical capabilities. Three years later, these quotas were adjusted as follows:—

1. The quotas of all jewelers who had been dealing with the Bank since 1963 were increased by one third of the amount drawn during 1965.
2. For the new jewelers who started dealing with the Bank in 1965, the quota was fixed at 36 kg. per jeweler.
3. The quotas of all jewelers which were below 36 kg. per annum, even after the one third increase, were raised to 36 kg. in order that their share would not be less than the new jewelers.

The quantity of gold imports increased from 850 k.g. in 1963 to 1950 k.g. in the following year, and it jumped to 4100 k.g. in the first ten months of 1966. The corresponding values of these imports were £L. 398,061 in 1963, £L. 915,704 in 1964, and £L. 919,206 during the first ten months of 1966. The number of jewelers dealing with the Bank rose from 72 in 1963 to 120 in 1966.

Since February, 1963 when the Bank of Libya became the sole seller of gold in Libya, it maintained the sale price of gold to jewelers at £L. 479 a kilogram. But the average price per kilogram of imported gold (C.I.F.) including customs duty showed a slight change during this period. It amounted to £L. 468.307 in 1963 (excluding administrative expenses), and to £L. 469.592 in 1964 and £L. 466.334 in 1965, thus increasing by 0.27 per cent in 1964, decreasing by 0.70 per cent in 1965. The monthly average of C.I.F. imported gold price including the custom duties paid to the Government has slightly decreased during September and October. The total custom duties paid to the Government in respect of gold imports which included the 15 per cent custom duty, the 2 per cent surtax (cancelled in 1964), and the stamp duty, amounted to £L. 54,167 in 1963, £L. 124,604 in 1964, and £L. 127,739 in 1965.

The demand for gold has increased considerably and more quantities

of fine gold are being bought from the Bank of Libya to face this demand. This rise in the sales of gold occurred rapidly and the quantities purchased went up from 834.5 k.g. in 1963 to 1826.5 k.g. in 1964, 2171.5 k.g. in 1965 and 3932 k.g. in the first ten months of 1966.

This rapid increase of the demand for fine gold in Libya is attributed to the increase of income and the peoples' tradition of hoarding gold instead of bank saving or utilizing other fruitful channels of investment.

It is generally agreed that the centralization of the gold imports in the Bank of Libya has been beneficial to the gold industry, as well as to the economy as a whole. These benefits have included economy of scale in the import of gold, the prevention of gold smuggling and the raising of the technical standards of gold processing.

However, despite these substantial improvements, the local facilities for processing gold are still both inadequate and inefficient. This fact has led to the re-export of gold bullion for processing abroad, thus leading to increase in its cost, as well as allowing for the possibility of smuggling. The Bank has repeatedly recommended the urgent implementation of a program designed to develop the local gold industry. Recently the Ministry of Industry has shown great interest in this matter, and now it encourages goldsmiths to establish modern gold factories. It also facilitates the recruitment of skilled personnel from abroad, whenever it is necessary. With these encouraging trends it is hoped that eventually the local gold market will achieve a high technical standard, comparable to other gold markets in the world. The Bank of Libya will do its utmost towards the achievement of this goal.



Chapter 9

Monetary Policy

CHAPTER IX

MONETARY POLICY

The evolution of monetary policy in this country began with the establishment of the National Bank of Libya. Prior to this important event it was not feasible to formulate or implement a sound monetary policy, but when the National Bank of Libya became a reality it became possible to begin working on the foundation of a modern monetary policy designed to promote economic growth with monetary stability. Unfortunately, however, this process had to proceed very slowly due to the limited legal jurisdictions given to the new central bank, as discussed in Chapter VI. Another important reason in this connection was the highly undeveloped state of the money market and the lack of coordination among the activities of the various levels of Government, Federal and Provincial, as well as the private sector.

Despite these serious limitations, the National Bank lost no time in tackling the problems of monetary policy in order to assist the Government in the management of the economy. The first monetary problem with which the Bank became concerned was the evidence of inflationary tendency in the economy. Our review in this chapter will be confined to the way in which the Bank has made use of the monetary tools available to it in its effort to be a positive force in the development of the national economy in general and the monetary system in particular.

As we have already seen, the monetary tools which were available to the National Bank from the time of its establishment until 1963 consisted of the rediscount rate and certain controls over liquidity, which the Bank may exercise in accordance with certain conditions specified in the Banking Law of 1958. In addition to this the Bank had, of course, full freedom to use the power of moral suasion in dealing with monetary policy.

In dealing with inflationary policy, the Bank began by calling the Government's attention to the problem and its serious repercussions, then as a warning signal it raised the rediscount rate from 4 to 5 per cent in October, 1957. It was hoped that this would help to restrict monetary expansion, but it soon became evident that the general liquidity of the economy was unaffected and inflationary trends continued unabated. Funds were flowing into the economy from the oil sector and the Government, which was at that time receiving increasing amounts of foreign aid. These sources of funds were not affected by the raising of the rediscount rate. Moreover, it was rather difficult to persuade the responsible authorities to follow a policy of monetary strain in the face of expanding oil exploration and economic and social development needs. Faced with this situation, the Bank turned to an assessment of its own legislation and to the need for a general revision of these legislations with the object of enabling it to pursue a more effective monetary policy in accordance with the needs of the economy.

In reviewing its achievements and problems as a central bank, the Board of Directors made the following statement in its Third Annual Report:—

«The record of our achievements has been not unimpressive considering the enormous initial difficulties and obstacles besetting the path of a new central bank in an underdeveloped economy. But it is of the essence of central banking that it is a ceaseless adaptation to changing conditions and problems. Laws and practices which might have been wholly appropriate at the inception of a central bank are often outmoded by the march of events. It is from this point of view that we will have soon to undertake a comprehensive review of the extent to which the National Bank's statutes, policies and techniques need to be revised in the light of the current and prospective requirements of the Libyan economy. We must be in a position to effectively discharge our functions as a central bank in a developing economy both from the stand point of managing the monetary sector and furthering development. Such an overall assessment is indeed overdue considering the extent to which the situation today differs from that prevailing when our present statutes were drafted. All this will obviously necessitate an equally positive approach to the other vital question of developing our commercial banking business. We have indeed a special responsibility as the only Libyan bank in this field, particularly in catering to the needs of the under-banked sectors of the economy».

Following the publication of this report, the Bank began to expand its collection of various economic data and make more regular systematic

analyses of economic trends (which was made possible by the establishment of its Research Department) with the object of formulating sound monetary policy and providing the Government with the appropriate advice. As a result of this policy, the Bank became better informed of economic conditions in the country and at the same time, it became more convinced of the need for revising its Law in order to give it more jurisdiction in the field of monetary policy. In the meantime, the Bank continued to search for whatever means available to combat the inflationary trends which were by 1960 threatening the economy with serious consequences. In February, 1960, the Bank made a general review of its credit and monetary policy. It specifically examined the question of why banks did not resort to the National Bank for borrowing funds. It was found that one of the factors which contributed to this situation was the access which local banks had to the resources of their head offices abroad. Thus, each local foreign bank was freely borrowing from its head office to increase its liquid funds. It was obvious that as long as such a situation continued, the National Bank would never be able to «influence the credit situation to the Kingdom's advantage» as its Law requires.

As a corrective measure, local banks were required not to borrow from their head office without the prior permission of the National Bank. At the same time, the Bank made certain attempts to raise liquidity requirements and introduce compulsory reserves as authorized by the Banking Law of 1958, but no progress was made in this direction due to jurisdictional problems and differences in points of view between the Ministries of Finance, National Economy and the National Bank.

The Fourth Annual Report for the year ended March, 1960 gave the first comprehensive survey of economic trends in the country that was ever made by a public authority. After giving ample evidence of inflationary trends and their harmful repercussions, the Report turns to the severe limitations within which the Bank had to implement its monetary policy and it calls for the reform of the monetary system. The following paragraphs taken from the Bank's Fourth Annual Report clearly summarize its position regarding monetary policy in 1960:—

«Because of the 100 per cent foreign reserve system, the Bank cannot regulate credit expansion by commercial banks because of lack of an effective rediscount rate, open market operations and fractional reserve deposits. Thus, without major reforms of our monetary system, (some of which have already been initiated) it would not be possible for the National Bank to assume its full responsibility as a Central Bank. However,

until such reforms are brought about, the National Bank is taking steps, within its existing authority, to gain some control over the extent to which banks can expand the money supply through credit extension. This means that it would be necessary for the National Bank to gain some control over the source of loanable funds upon which commercial banks expand their credit. As an initial step in this direction, banks have been instructed to eliminate their system of borrowing from their head offices, by means of an overdraft, and to turn to the National Bank for their needs.

«Other qualitative and quantitative credit controls may be necessary in order to discourage excessive lending in times of inflation and to channel credit to productive enterprises. Qualitative controls are specially important in an economy like ours, where the tertiary sector is expanding at the expense of the primary and secondary sectors. When the Government decides to implement a policy of balanced growth between these three sectors and to provide the necessary financial institutions, qualitative controls on credit extended by Commercial Banks to finance imports and other related activities may help to accomplish the desired objective. Nearly 60 per cent of total credit extended by banks, from November, 1958 through to December, 1959, went to general commerce. It is evident that there is plenty of room for qualitative credit controls in this area.

«It is necessary to emphasize, however, that monetary policy by itself, even if developed to the highest level of refinement, cannot effectively control inflation or direct available funds to productive enterprises. Adequate fiscal and commercial policies are absolutely essential in dealing with problems of this nature. We therefore strongly urge that the Government take immediate steps toward the formulation and implementation of effective fiscal and commercial policies designed to promote the development of our economy. The National Bank would be only too happy to provide whatever information and advice it can in the formulation and execution of such policies».

In pursuit of its anti-inflationary policy, the Bank raised further its rediscount rate from 5 to 6 per cent in August, 1960. Although this measure had no direct impact on the banks' liquidity, they took this opportunity and raised their debit rates by one per cent, which when added to certain other charges and commissions amounted to 11 per cent in some cases. This rather high interest rate, approaching the level of usury, was met with opposition from business quarters. The commercial banks tended to blame the whole situation on the National Bank. The business community responded by calling for a reversal of the National Bank's policy. The Bank

maintained that it was its duty to restrict credit expansion in the face of inflationary trends, but it explained that the raising of interest by commercial banks was unjustified under the circumstances of the money market at that time. Although the National Bank raised the rediscount rate as a warning signal, this did not raise the cost of loanable funds for the banks because they did not and were not in need to borrow from the National Bank. This means that while the price of loanable funds for the banks remained the same, the banks raised the price of their credit facilities to their customers and continued their policy of credit expansion, while blaming the National Bank for the increase in their interest rate. In other words, the banks were exploiting the situation to their best possible advantage.

In order to correct this situation, the Bank brought back its rediscount rate to 5 per cent in February, 1961, thus calling upon the commercial banks to reduce their rates to the levels existing prior to August, 1960. Although the use of the rediscount rate in 1957, 1960 and 1961 did not, as expected, accomplish the restriction of monetary expansion, it did provide an opportunity for the Bank to become better informed of the merits and demerits of using this traditional monetary tool under the conditions of the Libyan economy. It also provided the necessary conditions for studying the impact of interest on credit expansion and contraction. From the data that was available at that time it was evident that Libyan businessmen were not deterred by high interest rates in their borrowing habits. Usually, they were more concerned with the size of the loan and the repayment terms than with interest charges. This traditional habit was further reinforced by the rising level of business profits and the general conditions of the market, which made it possible to pass on the costs of borrowed funds to the ultimate consumer, however high these costs might be.

Under these circumstances, raising the rediscount rate would only give the commercial banks the opportunity to charge higher interests without necessarily having any restrictive impact on credit facilities. In order to limit the commercial banks' ability to raise the interest rates, it became necessary to legally fix the maximum interest rate which commercial banks may charge their customers. But neither the National Bank Law of 1955 nor the Banking Law of 1958 gave legal power to the National Bank or any other authority to determine interest rates. Therefore, this could only be done after the Banking Law 1963 came into effect, which in Article 35 (7) and (8) made provisions to this effect, as mentioned in Chapter VI.

This Banking Law gave the Bank many more tools to implement monetary policy. In addition to the rediscount rate, which was retained from

the old Law, the Bank of Libya was given the power to require compulsory legal reserves on deposit liabilities ranging from 10 to 40 per cent on demand deposits and 5 to 20 per cent on time and saving deposits. The Bank can also undertake direct qualitative and quantitative credit control in order to promote monetary stability and economic growth. The authority to conduct open-market operations as an instrument of monetary policy was given by the Law to the Bank. Another element of monetary policy introduced by the Law of 1963 was the modification of currency cover to include gold, convertible currencies and Libyan Government securities up to 10 per cent of total currency issued. This provides the Bank with some flexibility in the management of currency and the investment of its counterpart in foreign assets. The inclusion of Libyan Government securities as currency cover has paved the way for the initiation of open market operations in the future, thus enabling the Bank to make use of an important instrument of monetary policy.

As soon as the new Law was promulgated, the Bank began to make use of its various provisions in the implementation of its monetary policy. Following the principle of gradual adaptation to modern central banking techniques of monetary control, the Bank decided to require only the minimum limit of legal reserves on deposit liability. Maximum interest rate on bank credit was fixed in relation to the rediscount rate of the Bank of Libya. The rate for secured loans was fixed at 2 per cent above the rediscount rate and for unsecured credit, such as overdrafts, at 2½ per cent. With this relationship the Bank of Libya can directly change the maximum interest rates chargeable by the banking system by raising or lowering its own rediscount rate.

Article 17 of the new Law gave the Bank the authority to control and supervise the internal and external transfer of currency. This provided the Bank with still another powerful instrument of monetary policy. Article 31, and several other Articles of the Law, provided the Bank with other useful instruments of monetary policy which may be employed as and when institutional and economic conditions make it necessary and practicable to act. In order to make certain that the central bank's policy and directives are being fully implemented and that the banking system is following a sound management and credit policy, Article 40 of the new Law states that «the Bank of Libya may at any time inspect the books, documents and accounts of banks in their premises...» A new Banking Control Department was established for the implementation of the various Articles of the Law regarding banking control, including the power of inspection.

Armed with all the modern instruments of monetary policy and working within the overall limitations of the Libyan economy, the Bank continued its quest for monetary stability in the face of rapidly rising income and expectations brought about by the sudden exploitation of oil wealth leased under concessions to foreign companies. H. E. Governor Bennani makes the following statement in this connection in his introduction to the Bank's Eighth Annual Report:—

«The Bank of Libya continued to warn against the consequences of inflation and suggested appropriate solutions to overcome this problem. The Bank presented during the year a comprehensive study to the Government in this respect. In addition, the Bank of Libya directed its monetary and credit policy towards combating inflation supported by the powers bestowed on it in the new Banking Law and the cooperation of commercial banks...»

Although the Bank of Libya never ceased to call attention to the dangers of inflation and it has always tried to make use of its monetary authority to combat inflation, monetary expansion continued largely unaffected through the first four years of the present decade. This relative ineffectiveness of anti-inflationary monetary policy was caused by the substantial increase in public expenditure and the flow of funds from the oil sector. Under these conditions the limitations of monetary policy were fully recognized by the Governor of the Bank in his introduction to the Ninth Annual Report. Thus he states, «The Bank has always been mindful of the need for vigilance on the monetary front and among other measures, the Board of Directors of the Bank has decided this year that liquid assets shall be maintained at all times at a level not below 20 per cent of each bank's deposits and other liabilities including borrowings from banks abroad. However, the limitations of manipulating monetary policy are well brought out in Libyan conditions in as much as it is difficult for monetary policy alone to wholly offset monetary influences arising from such external factors as the net balance of payments position. The Bank, therefore, continued to emphasize that the onerous task of controlling and eliminating the persistent inflation in Libya devolves on a combination of measures embracing fiscal, physical and monetary controls».



Chapter 10

**Research
and
Statistics**

CHAPTER X

RESEARCH AND STATISTICS

As soon as the National Bank of Libya was established, it became evident that the Bank could not properly undertake its responsibility in the field of monetary policy and as adviser to the Government without an adequate research staff specialized in economics and statistics. Thus, the First Annual Report of the Bank states that, «Article 6 of the Law requires the Bank to influence the credit situation to the Kingdom's advantage... This work requires continuous study of up-to-date statistics and will therefore call for the establishment of a Research Section, which it is hoped to start as soon as possible».

More than a year after the publication of the Bank's First Annual Report, was spent in trying to locate a qualified economist who could initiate the technical aspects of establishing research activities within the Bank. In this connection, the Second Annual Report of the Bank makes the following statement, «In our last Report we mentioned that it was hoped to «start a Research Section which would work in close collaboration with the Central Statistics Office of the Government. This is still the intention, but so far, it has not been found possible to carry it out, mainly because a suitable expert from overseas has not yet become available to organize the work. However, the United Nations now advises us that it hopes to provide a qualified expert in the near future. A fresh Economic Survey of Libya has been decided upon and is about to be undertaken with the National Bank designated as the appropriate «action agency». In connection with this survey, a research section in the Bank will become urgently necessary and will therefore be given priority» (page 7).

Thus, by mere coincidence, the establishment of the Research Department and the undertaking of a survey of the Libyan economy by the World Bank became closely interconnected. The National Bank felt that such a De-

partment must be established in time to discharge its responsibility as an action agency in the Survey, and the World Bank welcomed early establishment of the Research Department in order to facilitate the task of its Survey Mission. With the support of the World Bank, and at the request of the National Bank of Libya, the United Nations nominated an economist, on secondment from the Central Bank of Ceylon, for six months. He was recruited through the Technical Assistance Programme of the United Nations and began his work with the National Bank in June 1958. At the same time, the National Bank recruited five Libyan graduates, three in economics, one in agriculture and one in literature. These graduates formed the initial Libyan staff of the Research Department and, together with the United Nations expert economist, they began to establish the Department. Although various technical and administrative needs of the Department were organized on paper, the first year of the Department's existence was almost wholly devoted to the service of the Bank Survey Mission. The Libyan graduates accompanied the Mission on its various visits in different parts of the country. They acted as liaison officers and assisted the mission in the collection of various data and in making numerous local contacts with Government officials, businessmen, farmers, labourers and various other interested groups. The expert economist from the United Nations supervised the work of the Libyan graduates and, in addition, he devoted most of his time to organizational and policy questions within the Bank, in its capacity as banker and adviser to the Government. At the end of his six months secondment period, the United Nations expert economist went back to the Central Bank of Ceylon and was replaced by an economist on one-year secondment from the Reserve Bank of India on the basis of a direct arrangement between the two institutions. He began his work in January 1959, in a dual capacity as Economic Adviser to the Bank and Head of the Economic Research Department.

1959 was a year of progress for the Research Department as it began to organize its activities in a systematic fashion. Banking data which had heretofore been collected by the Secretariat's Department were transferred to the Research Department, a nucleus of a research library was formed and the research staff began to represent the Bank on various Government Committees and delegations to regional and international conferences. In the field of monetary policy, the Department took the lead in initiating technical discussion of the then existing monetary system in the country and it made important recommendations calling for its reform. With these activities, the role of the Department began to develop in the right direction. This healthy development was largely due to the vigorous

support given by the Governor to the idea of economic research in the National Bank from the very beginning. Thus, in his introduction to the Third Annual Report, he outlines his concept of the task of the Research Department in the following paragraph:

«The work of this Department will not be confined to the collection and interpretation of economic data alone, but will extend to providing informed technical advice on monetary, financial and other economic affairs on which the task of devising a sound economic policy should be based. Thus, the Department will be of service not only to the Bank itself, but also to Departments of Federal and Provincial Government, other economic and financial institutions and to the public at large».

With this broad frame of reference, the Research Department proceeded to expand its work, train its staff and develop its Library. In September, 1959 two more Libyans were recruited, one with a BA degree in Economics and the other with a Ph. D. The latter was appointed Assistant Economic Adviser. When the economist on secondment from the Reserve Bank of India departed in January, 1960, the Assistant Economic Adviser took charge of research activities in the Bank.

Although another economic adviser was soon recruited, his work remained largely separate from research proper. In recognition of this fact and in order to provide a further push to the activities of the Research Department, it was decided in August, 1960 to formally separate the office of the Economic Adviser from the Research Department. At the same time, the Assistant Economic Adviser was appointed Director of the Research Department, thus becoming the first technical Department in the Bank to be Libyanized at the top — only two years from the time of its establishment.

When the office of the Governor was moved from Benghazi to Tripoli, following the movement of the Federal Government, it became necessary to move the research staff with it. The chief problem in this connection, however, was the lack of space in the Tripoli office for the proper accommodation of the Research Department and its staff. Fortunately, the Board of Directors promptly decided to construct an annex to the Bank's main building for this purpose. The speedy completion of this annex was given a top priority and in October, 1960 the Research Department was officially moved into its present premises. At that time, the research staff consisted of seven Libyan graduates, including the Director and one expatriate economist. Of the Libyan graduates, there were two on study and training fellowship abroad.

Research Activities

The Research Department has concentrated its attention, since its establishment, on its primary function of compiling, classifying and analysing banking and monetary statistics and preparing certain economic reports requested by the Bank or by other local and international institutions. As has been mentioned, in the early days of the Department the research staff had accompanied the IBRD Survey Mission. Moreover, the establishment of the Research Department had a direct impact on the improvement of the Annual Report of the Bank in form and subject. The Third Annual Report for the year ended 31st March, 1959 was published in book form and included new subjects pertaining to economic development in Libya and more analysis and details than in the preceding reports. Despite the shortage of staff, the Department began, in November, 1958 to compile certain banking and monetary-statistical data in the form of time series which were published in the Annual Reports of the Bank. The Fourth Annual Report of the Bank was the first Report to include statistical data about money supply and velocity of money, which are essential for studying monetary policy in the country. The Report also covered international economic development, to give the Libyan readers a general idea about world economy.

The research activities of the Bank were crowned with the publication of an economic bulletin on July, 1961 as an effort to analyse Libyan economy and provide various statistical data as a reference for further studies and research on the Libyan economy. Both the scope and contents of the bulletin have expanded and improved considerably since its initiation. It is now the only source of systematic monetary data in the country.

The Department gave special attention to the compilation and classification of economic data covering the period prior to the establishment of the Bank and especially during the last ten years. Thus, end of year data covering assets and liabilities of commercial banks in Libya for the period 1943-57 were collected, analysed and published in the Bulletin. Similarly, foreign trade statistics and the balance of trade, on an annual basis as of 1945 up to 1964 and on a monthly basis as of 1963, were also assembled. Moreover, continuous improvements in the classifications of statistical data and the expansion of their scope were being achieved as the research staff gained in experience and in their theoretical training. Economic data on the oil industry in Libya were collected and analysed for regular publication in the bulletin. The data was collected in cooperation with the oil companies, Ministry of Petroleum Affairs and oil marketing firms.

Economic data, published by the Census and Statistics Department of the Ministry of Economy and Trade, are closely followed and analysed by the research staff.

Recognizing the importance of Insurance Companies' statistics for economic analysis, the Bank started, as of 1959, to contact insurance companies in order to obtain systematic data, which were then published in the Economic Bulletin in an article analysing insurance statistics covering the period from 1959 to 1965. The Bank intends to continue this activity.

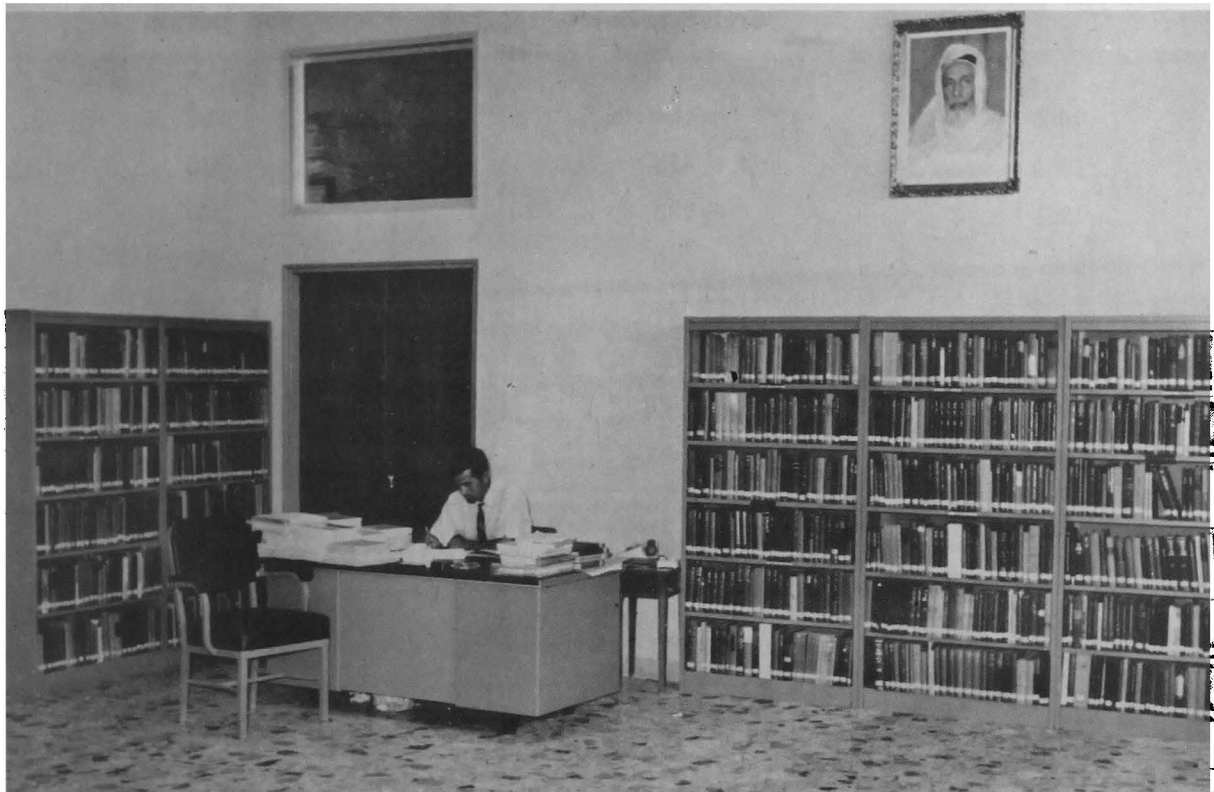
In view of the good reputation which the Bank enjoys in the field of economic research, the demand from some Government Departments and Ministries for having some of their personnel trained in this field has increased. The Bank, in pursuance of its policy of spreading the scientific research habit in the country, welcomed these requests. An official from the Development Council spent a six month training period in the Department, from December 1, 1962 to May 31, 1963, and two from the Ministry of Petroleum spent six months; the first starting from August 3, 1964 and the second from August 17, 1964.

The research activities of the Bank are not confined within its Department. The Research staff participated in several committees such as the Central Statistics Committee, the Foreign Capital Investment Committee, Export and Import Council, the various ad hoc planning committees from 1960 to 1962, the Joint Planning Committee and several other meetings related to national economic matters, such as the Family Budget Survey, and the discussion on the new tax law.

Two officials from the Department helped in compiling the preliminary data for the industrial survey which was conducted in 1964. Moreover, the Bank contributed a great deal in assisting the Statistics & Census Department in the preparation of the annual Balance of Payments. The Bank also gave assistance to all governmental or semi-governmental organizations and to others whenever asked to do so. It also sent, free of charge, the monthly bulletin and its studies to all those who requested them whether in Libya or abroad. While the Bank stenciled only 200 copies in July, 1961, the number increased to 500 copies at the end of 1961. In view of this increasing demand for the bulletin, the Bank decided to have it printed so that it could be maintained. The 10th edition (April, 1962) was the first to be printed, and consisted of 1,000 copies. There was a further increase in the demand for the Bulletin in 1965, which made the Bank increase publication to 1,500 copies at the beginning of 1966. The Annual Report

was distributed on a wider range than the Monthly Bulletin, both locally and internationally.

The Bank did not neglect long-term research, despite the shortage in staff qualified for this type of research. It published a study on inflation in March, 1961 which has become a basic reference for the systematic study of inflationary trends in the country. Another study, pertaining to the development of public finance in the country, from 1944-63, was published in August, 1965. In view of the importance of these two studies, 4,000 copies were printed in Arabic and the same number in English so that the largest possible number of people could benefit from them. It is noteworthy to state here that the first printing of the study on inflation is almost out of stock. Furthermore, the Bank carried out an analytical study of the European Common Market, which was ready for printing at the beginning of 1965. But certain changes in the European Common Market led to the postponement of its printing until its revision. The Bank also intends to issue a summary of all economic statistics available. This study will take the form of a time series (monthly and annually) which will cover a period beginning from the earliest date on which information is available until the end of 1965.



Side view of the Library in the Economic Research Division

The Research Library of the Bank has made important contribution to the development of economic research in this country. The nucleus of the Library was founded before the Research Department was established. It used to be a section in the Archives Department under the Secretariat of the Bank. The number of books then did not exceed fifty. At the beginning of 1960 it was merged with the Research Library, at which time the total number of books and periodicals did not exceed 200. An official from the Archives Department was transferred to the Library, where he was later trained on library affairs by an expert from the United Nations, once a week during 1960, and by another expert for a short period at the beginning of 1961. In May, 1962, a new Libyan official, specialized in library affairs, was appointed and is still supervising the Library and classifying its books. The number of books, periodicals, magazines and newspapers which the Library receives has increased at a very rapid rate. The following table shows this increase.

The Number of Books in the Research Library

At the end of	Increase during the period under review	Number at the end of the period
1959	Unknown	200
1960	415	615
1961	730	1,345
1962	240	1,585
1963	755	2,340
1964	500	2,840
1965	200	3,040
1966	80	3,120

N.B. Excluding the periodicals and magazines.

The research Library enjoyed a distinctive position in government circles, especially with regard to its organization and the classification of its books. This led to an increasing demand for having the officials of Government Departments trained in the Library. Among those trained in the Research Library were two officials from the Ministry of Planning and Development, one of them spent three months from March 15, 1964 and the

second spent one month from July 10, 1965. Then, the Librarian himself was seconded to organize the Library of that Ministry. Furthermore, an official from the Ministry of Industry was trained for a period of three months. An official from the Department of Statistics and Census and a lady official from the Ministry of Labour and Social Affairs were trained for varied periods.

In view of this increasing demand for training in the Research Library and due to the increase in the work of the Library itself, the Bank had to postpone certain training requests pending the completion of the planned expansion in the Library.

As for the Bank's activities abroad, the Bank, in addition to participating in economic conferences, especially the Annual Meetings of the Board of Governors of the International Monetary Fund and the World Bank, regularly sends banking and monetary statistics and other data pertaining to different economic aspects for publication in Libya's page in the **International Financial Statistics** issued by the International Monetary Fund. The Bank also sends monthly statistics to I.M.F. on the foreign exchange reserves of the Bank of Libya and a report on these reserves at the end of April of each year.



Another view of Library in the Economic Research Division

**Administration
and
Personnel**

CHAPTER XI

ADMINISTRATION AND PERSONNEL

The Board of Directors

Articles 12 to 23 of the National Bank Law of 1955 provide the general legal framework for the administration of the Bank and the affairs of its personnel. Thus Article 12 states, «The general administration of the affairs and business of the Bank shall be entrusted to a Board of Directors which may exercise all powers and do all acts of the Bank. The Board shall make regulations not inconsistent with the provisions of this Law for the good order and management of the Bank. These regulations shall include the basic provisions relating to conditions of service and discipline of the staff, and shall be submitted to the Minister and shall come into force after his approval and on their publication in the Official Gazette. The Board shall also make rules and detailed dispositions relating to the remuneration and conditions of service; provided that they are not inconsistent with the aforesaid regulations», and Article 14 goes on to state that, «The Governor of the Bank, or in his absence, the Deputy Governor, shall on behalf of the Board, be in permanent control of the administration of the affairs and business of the Bank with authority to give decisions and exercise all powers and do all acts which within the limits prescribed by this Law and the regulations may be exercised or done by the Bank. The Governor and the Deputy Governor shall be answerable to the Board for their acts and decisions».

The work of the Bank was divided administratively into four major Departments: the Issue Department, the Banking Department, the Accounts Department, and the Secretariat Department. The Banking Department included separate sections for commercial banking and Government accounts. In 1958 a separate Exchange Control Department was established and later in the same year an Economic Research Department was also added to the Bank's administrative and technical machinery.

In addition to the Governor and Deputy Governor, the Law provided for a General Manager who is regarded as the Chief Executive Officer of the Bank, responsible for its daily operations and answerable to the Governor and Deputy Governor. Other senior posts established by the Board, soon after its appointment, consisted of a Deputy General Manager, with a Manager and an Assistant Manager for each of the Bank's major Departments.

In view of the extreme shortage of qualified and experienced Libyan personnel, it was decided to recruit expatriate officials for all these posts. Thus, except for the Governor and the five members of the Board of Directors, all of the senior executives of the Bank were non-Libyans. The First Annual Report of the Board included the following paragraph regarding its staff policy and objectives:

«As far as staff is concerned, it has always been the intention not only to employ as many Libyans as possible right from the start but to have a wholly Libyan staff as soon as this becomes reasonably possible. Such an aim is undoubtedly right but to achieve the desired result will take time because, until the benefits of education become more widespread, there are not enough suitable candidates available. Banking is a difficult and delicate subject and nobody can become expert without a long and varied experience even after his studies. This the National Bank fully recognizes and plans are in hand to provide special facilities for those who show themselves likely to benefit from such opportunities whether it be free lessons in English or a period of training with an overseas bank. Meanwhile it has naturally been necessary to engage experienced officials from overseas to organize and carry on the work of the Bank on sound lines. These officials are here for a limited period only and are anxious to pass on their knowledge to suitable Libyan successors as soon as these are available, but for the time being we are dependent on their help and are grateful to them for the valuable work which they are doing».

In fulfillment of this policy, the Bank continued to search for qualified Libyans and initiated a programme of in-service training and a system of scholarship for training and higher study abroad. This proved to be effective and the Bank was soon able to begin Libyanizing its senior posts with qualified Libyans. Thus, the post of Deputy General Manager was Libyanized in 1958 and the Secretariat Department was completely Libyanized in 1959. Also, in the same year, a Libyan was appointed to the post of Assistant Economic Adviser, and in 1960 the post of Director of the Economic Research Department was Libyanized. The most important development

in this process of Libyanization was the appointment of a Libyan for the post of Deputy Governor in January, 1961. With this very significant step all members of the Board of Directors became Libyan nationals. This move increased the effectiveness of the Board as a governing body concerned with policy formulation. Other members of the Board have always consisted of notable businessmen and community leaders*, which has helped to keep the Bank's policy better oriented towards the realities of the market and the real needs of the economy.

The Law requires that the Board should meet at least once a month under the chairmanship of the Governor or, in his absence, the Deputy Governor. These meetings have been held with consistent regularity and they provide the main forum for the review of the Bank's progress and the formulation of its policy and work plans.



Meeting room of the Board of Directors

* For a list of names and terms of office of Board Members, see appendix on page 135.

In March, 1961 Mr. Khalil Bennani, who was Deputy Chief of the Royal Diwan, was appointed Governor of the Bank to replace Dr. Ali A. Aneizi who had been Governor since 1955. The staff of the Bank held a reception to bid farewell to Governor Aneizi and to welcome his successor.

A statement of farewell to Governor Aneizi was presented by a representative of the staff.

Dr. Aneizi replied that he leaves the Bank with the satisfaction that he had succeeded in establishing the nation's most important monetary institution on a very firm foundation and with the expectation that his successor, Mr. Khalil Bennani, would surely improve upon what had already been accomplished as well as lead the Bank further towards achieving its cherished objective of establishing a sound national banking system. Governor Bennani in reply to his predecessor's statement, said that he will, to the best of his ability and knowledge and with the cooperation of his colleagues, work and see that all the necessary objectives of our banking system in general are well accomplished within the shortest possible time. As we have seen in the previous chapter, the Bank entered into a new phase of its role as a Central Bank in 1962/63. This new phase with its ever expanding volume of banking transactions, as well as its administrative and technical needs in decision making and supervision, necessitated expansion in space and staff.

At the end of the Bank's first year of operation, its total professional and clerical staff was 73 of whom 18 were expatriates. This increased to 194 of whom 27 were expatriates at the end of March, 1963. Of the Libyan staff, 15 were University graduates; whereas there were no graduates employed by the Bank before 1958. With the enactment of the Banking Law of 1963, which, among other things, called for the separation of commercial banking business from central banking activities, there was a further need for more staff. Thus, by the end of March, 1964 the total staff increased to 278 employees. This was the largest increase in staff recruitment for any single year since the Bank's establishment. It will be recalled that during that year three new branches were opened; Derna, Misurata and Garian, all of which required new staff to replace those who were transferred from the head office and the main branch in Benghazi to these new branches. The increase in staff the following year was only slight, but there was a noticeable increase in the year 1965/66, which was the Bank's tenth year. Thus, at the end of March, 1966, the total staff of the Bank was 326, of whom 30 were expatriate employees. The expatriate staff consisted of 12 professional banking employees and 18 in

secretarial work and typing. The total Libyan staff was 296, of whom 25 were University graduates. The educational standard of most of the other Libyan employees was above the preparatory school level. Many of them have been and still are continuing their educational improvement by attending night classes or by taking correspondence courses on the University level.

The training of the Bank's staff was one of the main policy objectives often expressed in the Bank's official and unofficial statements. In its Fourth Annual Report, the Board of Directors states its staff training policy in the following words:

«Our plans for equipping our Libyan staff to assume positions of higher responsibility in the National Bank are proceeding well. A senior official is serving as an Alternate Executive Director in the International Monetary Fund. We are continuing to recruit men of superior educational qualifications; training «on the job» is showing very good results, and in addition full advantage is being taken of courses offered by the international financial institutions and by banks abroad. The closest attention will continue to be given to these important matters.

«Two of our graduate research officers are on training courses with the World Bank and the International Monetary Fund; and Banking Department officials are on secondment to banks abroad.

«Within the National Bank we are pursuing a policy of rotation of staff to the maximum extent possible commensurate with efficient performance; and training within the various departments has been intensified.

«All these initiatives are providing very beneficial results as the recent review of staff reports has shown».

Following this announced policy, the Bank organized a general programme of training during the first two years of its existence. The programme first relied chiefly on training facilities available in the country, which could be utilized to supplement the employees' daily work. Chief among these facilities were the language training courses offered by the British Council, the U.N. Technical and Clerical Center and the United States Information Center. There were also the regular Government Secondary School Classes, which offered an opportunity for pursuing regular secondary education curriculum. In addition to these formal training facilities, the Bank made arrangements with several commercial banks for on-the-job training of its junior employees.

Within the Bank, there was a policy of giving the staff the maximum opportunity for on-the-job training. This was done by rotating the staff among its different departments and sections in order to give them an over-all view of the functions of the Bank as a whole before they settled down to a more specialized job. Organized lectures and seminars dealing with banking, economics, finance and accounting were also held on several occasions for the benefit of the staff.

On-the-job training within the Bank, and other training facilities offered in Libya, provided a useful background for the selection of promising employees who could benefit from further formal training abroad. From the first year of its operation, the Bank made use of training facilities offered by foreign institutions. Promising bank employees were sent for practical training with central and commercial banks in England, West Germany, France, Italy, U.A.R., Austria and U.S.A. Qualified staff members have also taken part in various short-term courses offered by international institutions such as the International Monetary Fund, World Bank Economic Development Institute and other United Nations training programmes. More than ten University graduates, most of whom were in research, were sent for higher educational programmes leading to the Masters Degree in economics.

The fruits of the Bank's training efforts are evident in terms of the quality of its senior staff and the increasing responsibilities assumed by the Libyan staff in the management of the Bank. Thus, while at the end of the Bank's first year of operation five of the six heads of Departments and sections were expatriates, the situation changed by the end of the Bank's tenth year to a position where only three of the twelve heads of Departments and sections were non-Libyans. At the end of the Bank's second year of operation, there were no Libyan branch managers, but by the end of the tenth year, only one of the nine branch managers was non-Libyan.

However, the rapid expansion in the Bank's daily work, with its increased responsibility after the enactment of the Banking Law of 1963, as well as the oil inflated economy, have placed heavy pressure on the available staff. Also, the increasing job opportunities for qualified young men in Government and the private sector have made it more difficult for the Bank to attract the necessary number and quality of new recruits. Faced with these circumstances, the Bank had to concentrate its available staff on performing its daily functions. This meant that fewer staff members and less time were available for training than before. It is hoped that this

will be temporary and as soon as the staff situation improves, training programmes will be resumed on an even larger scope than had been possible in the past. Only in this way can the Bank hope to continue its pioneering spirit of hard work and dedication in the process of building a efficient modern banking system capable of serving the varied needs of our expanding economy. In short, the rapid and efficient training of the Bank's staff has been and shall continue to be one of the foremost policy objectives of the top administration.

The Bank has also taken significant steps in promoting staff welfare through better medical treatment facilities, pension terms and housing. In the field of housing the Bank has built a number of apartment buildings for its staff in Benghazi and has bought two large buildings and a number of villas-houses in Tripoli.

These houses are let to the staff on a highly subsidized basis in order to enable them to enjoy the comfort of an adequate home in the face of rapidly rising rents. All of this is done in the belief that the strength of the Bank depends entirely on the dedication and efficiency of its staff; and that this in turn, depends on the kind of educational, moral and material investment made on behalf of the staff. Indeed, it was because of such policy that the administration of the Bank has moved from expatriate to Libyan personnel in a relatively short period of time, despite the more than three-folds increase in the volume of work of this institution during the last six years.



Appendices

**GOVERNOR, DEPUTY GOVERNOR, AND MEMBERS
OF BOARD OF DIRECTORS**

Governor and Chairman of the Board

Dr. A. N. Aneizi	From	26/ 4/1955	To	11/ 3/1961
Ess. Khalil Bennani	»	27/ 3/1961		

Deputy Governor

Mr. W. P. Waller	»	15/ 8/1955	»	20/ 9/1965
» R. J. Cunnel	»	20/ 9/1960	»	30/10/1960
Ess. Aly J. Mouzughi	»	26/ 1/1961		

Directors

Ess. Mohammed Abu Degiagia	»	1/ 4/1956	»	6/12/1956
» Mansur Ben Barca	»	1/ 4/1956	»	19/ 7/1958
» Salem Ender	»	1/ 4/1956	»	31/ 3/ 962
» Hussen Abdulmalik	»	1/ 4/1956	»	31/ 3/1960
» Mohammed Megerisi	»	1/ 4/1956	»	1/ 3/1961
» Suleiman Zunni	»	26/12/1956	»	13/ 3/1962
» Hassan Swesi	»	25/ 3/1959	»	25/ 3/1961
» Al- Munir Al-Arusi	»	1/ 4/1960	»	31/ 3/1963
» Al Haj Taher Bredah	»	1/ 4/1961		
» Abdul Aziz Zaghallai	»	1/ 4/1961	»	31/10/1964
» Mohammed Mahfud	»	1/ 4/1962		
» Mohammed Ben Sued	»	1/ 4/1962		
» Abdul Rahman Helmi Assaied	»	1/ 4/1963		
» Farag Abu Garara	»	11/ 9/1963	»	19/ 7/1965
» Shamsiddin Mohsen	»	20/ 7/1965		
» Mohamed M. El-Mahjoub	»	16/ 2/1966		

BRANCHES AND OFFICES OF THE BANK OF LIBYA

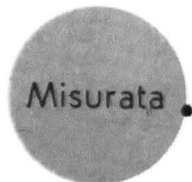
Central Bank :



Main Branch :



Branches :



DIRECTORS, BRANCH MANAGERS AND HEADS OF DEPARTMENTS

<u>Economic Research Division</u> :	Dr. Ali A. Attiga	— Director
	K. M. Sherlala	— Deputy Director
<u>Central Banking Division</u> :	Muhammad Yusuf	— Director
	Giuma Said	— Deputy Director
<u>Exchange Control</u> :	Giuma Said	— Manager
<u>Central Banking Department</u> :	Muhamed Rabeie	— Manager
<u>Tripoli Issue Department</u> :	Yahia Baruni	— Manager
<u>Main Issue Department</u> :	Abubaker Turki	— Acting Manager
<u>Account Division</u> :	Hylke Stillebroer	— Director
	Bashir Sherif	— Deputy Director
	Ahmed I. Moghsi	— Deputy Director
<u>Establishment Department</u> :	Muhamed Zarti	— Manager
<u>Internal Auditor</u> :	Ibrahim Feituri	
<u>Administrative Secretary</u> :	Fathi N. Swesi	
<u>Commercial Banking Division</u> :	Issa H. Aghabi	— Director
<u>Superintendent Eastern Branches</u> :	C.E.W. Barlow	

<u>Tripoli Main Branch</u> :	Akram M. Nosh	— Manager
<u>Benghazi Main Branch</u> :	Regeb A. Misellati	— Manager
<u>Sebha Branch</u> :	Saddig Hejjaji	— Acting Manager
<u>Beida Branch</u> :	Mohamed S. Kleif	— Manager
<u>Derna Branch</u> :	Muftah Radwan	— Acting Manager
<u>Misurata Branch</u> :	Abdalla Abdulaziz	— Acting Manager
<u>Garian Branch</u> :	Aiad Daheim	— Manager
<u>Tobruk Branch</u> :	Yousef A. Hassadi	— Manager
<u>Homs Branch</u> :	Yahia I. Mokaddamy	— Manager

CHRONOLOGY OF IMPORTANT EVENTS

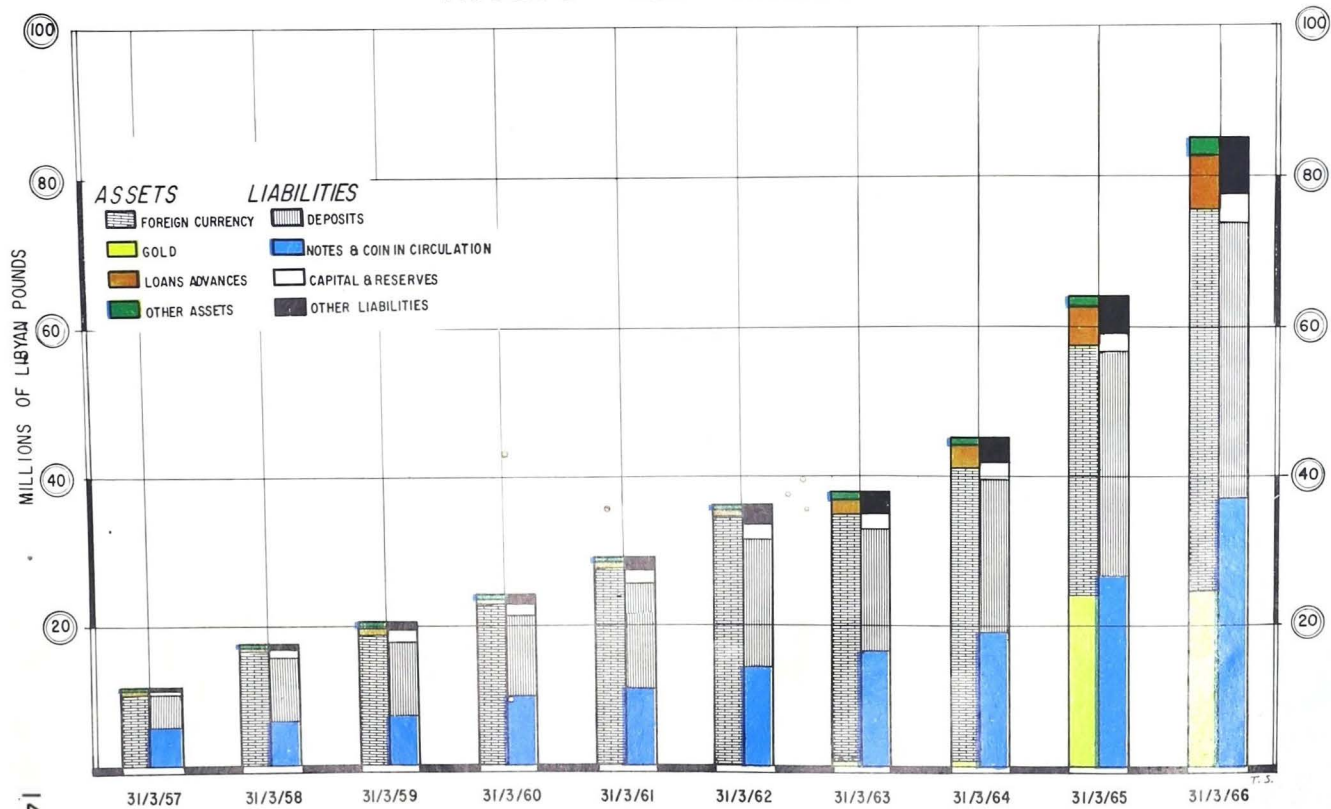
- November 21st, 1949** : U.N. General Assembly passed resolution of independence for Libya.
- May 31st, 1951** : First meeting of the Preparatory Currency Committee in Geneva.
- October 7th, 1951** : Proclamation of the Libyan Constitution.
- October 24th, 1951** : Proclamation of the Libyan Currency Law.
- December 13th, 1951** : Temporary Financial Agreement between Libya and the U.K. Signed.
- December 24th, 1951** : Announcement of independence.
- February 12th, 1952** : Establishment of the Libyan Currency Commission.
- March 24th, 1952** : Issue of first Libyan national currency.
- June 24th, 1952** : New national currency replaced old currencies in all Libya.
- April 26th, 1955** : The National Bank's Law passed.
- April 26th, 1955** : Dr. A. N. Aneizi appointed first Governor of the Bank.
- September 13th, 1955** : Enactment of the Exchange Control Law.
- March 31st, 1956** : First members of Board of Directors appointed.
- April 1st, 1956** : The National Bank officially started business in Tripoli.
- October 8th, 1956** : The Libyan Currency Commission held its last meeting in London.
- April 1st, 1957** : Sebha branch opened for business.
- August 9th, 1957** : Benghazi office opened for business.
- October 13th, 1957** : Exchange Control Regulations approved.
- January 18th, 1958** : Bank started performing its function in Exchange Control.

- June, 1958** : Establishment of Economic Research Department.
- November 20th, 1958** : Banking Law of 1958 became effective.
- December 24th, 1958** : First issue of bank-notes of ten and five pounds denominations.
- November 22nd, 1959** : First issue of bank-notes of one pound and ½ pound.
- January 26th, 1961** : H. E. Aly J. Mouzughi Appointed Deputy Governor.
- March 27th, 1961** : H. E. Khalil Bennani appointed Governor.
- November 1st, 1961** : Exchange Control Regulations amended.
- June 5th, 1962** : Beida branch opened for business.
- August 5th, 1962** : The Bank intrusted with the importing of unprocessed gold.
- December 7th, 1962** : First Constitutional amendment transferring Joint powers listed in Article 38 of the constitution to The Federal Government.
- April 15th, 1963** : Banking Law No. 4 of 1963 became effective.
- April 25th, 1963** : Promulgation and issue of Law No. 1 of 1963 abolishing Federal form of Government and establishing Unitary system.
- November 21st, 1963** : Derna branch opened for business.
- December 1st, 1963** : Misurata branch opened for business.
- February 1st, 1964** : Garian branch opened for business.
- December 1st, 1964** : Tobruk Branch opened for business.
- June 16th, 1964** : The Commercial Bank opened for business.
- July 11th, 1964** : Sahara Bank opened for business.
- September 11th, 1964** : Société Africaine de Banque opened for business.
- October 1st, 1965.** : Introduction of new coins.
- January 1st, 1966** : The Bank of North Africa opened for business.
- April 6th, 1966** : Homs Branch opened for business.
- October 9th, 1966** : Transfer of Commercial Banking Division after Separation between Central and Commercial Banking activities of Bank of Libya.

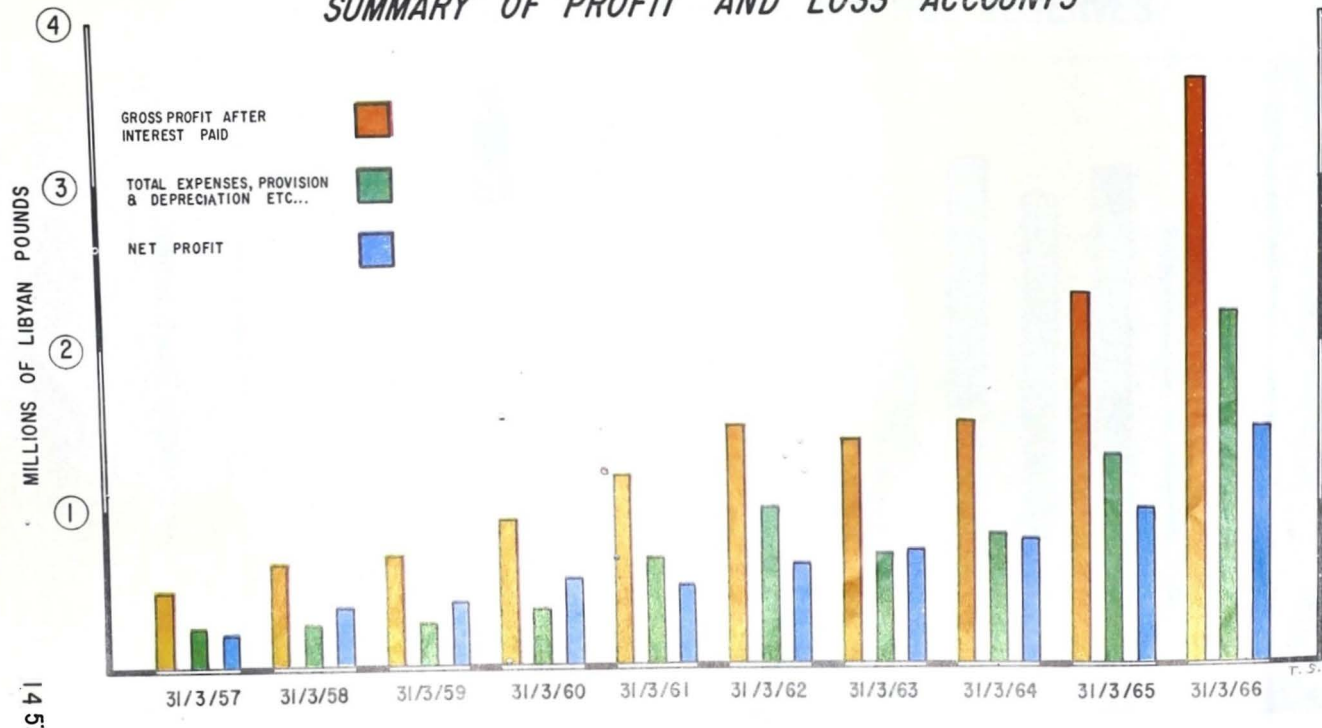
Charts

BANK OF LIBYA

ASSETS and LIABILITIES

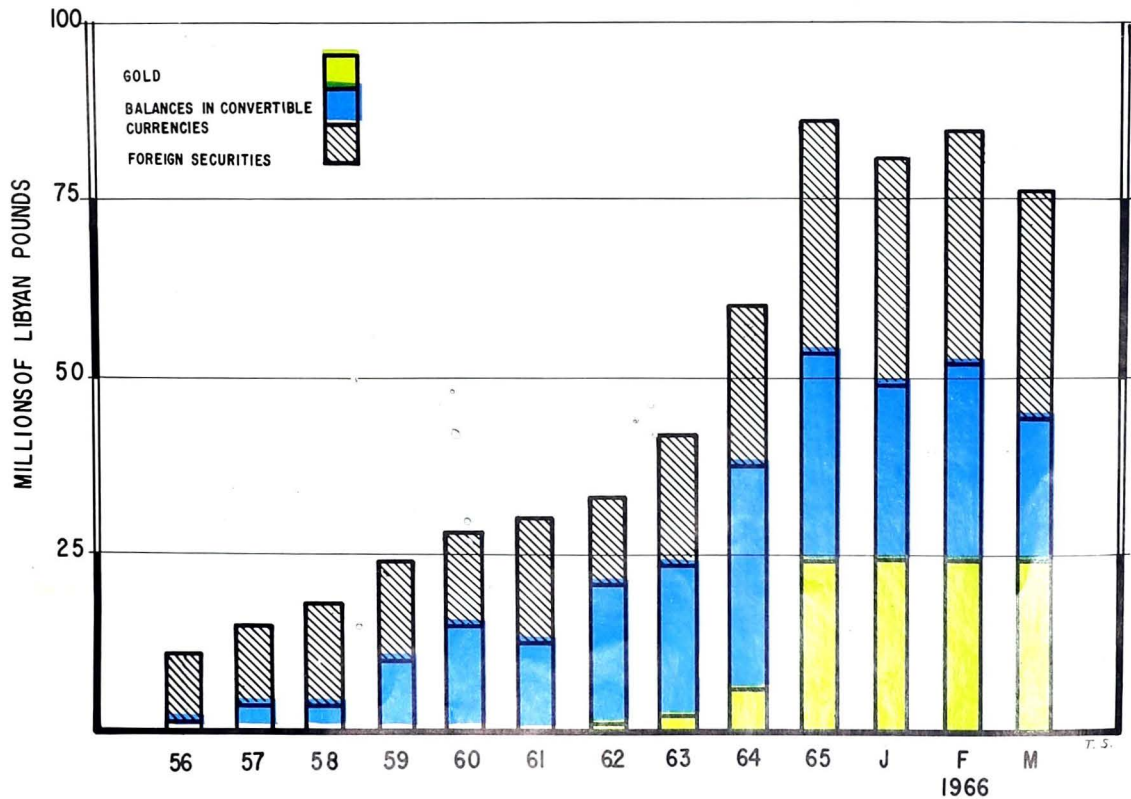


SUMMARY OF PROFIT AND LOSS ACCOUNTS

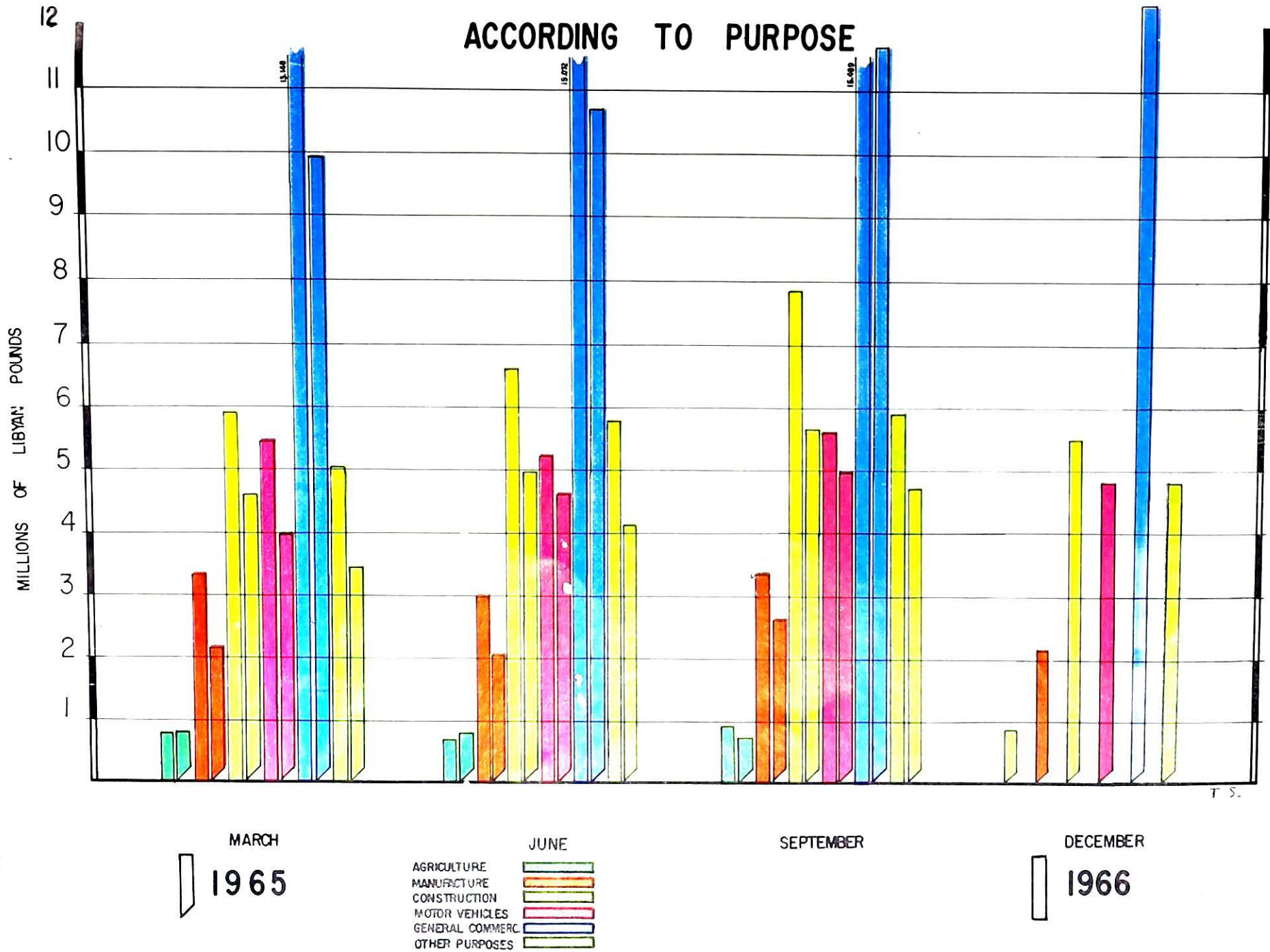


BANK OF LIBYA

GOLD AND FOREIGN EXCHANGE RESERVES



DISTRIBUTION OF BANK CREDIT ACCORDING TO PURPOSE



CORRECTIONS

Page	Para	Line	Wrong	Correct
14	2	3	pound ten	pound, ten
26	4	3	accommodation	accomodation
36	5	6	10, 5, 2 and 1	10, 5, and 1
54	4	1	return	returns
65	3	1	taken	taken,
65	3	10	proposal.	proposal,
75	1	17	al Bank.	al Bank,
79	1	12	owned ond	owned and
79	2	9	conferred pon	conferred upon
80	1	15	resolved	resolved
80	2	1	of Banking Law	of the Banking Law
81	3	1	neoctment	enactment
82	2	6	in Libya while the.	in Libya, the
84	3	2	foreign bans	foreign banks
85	1	1	The Sahar Bank	The Sahara Bank
90	2	8	accomodate	accommodate
96	2	2	arrangement by a pre- mium	arrangements by gran- ting a premium
96	2	9	payment outside	payment through
96	5	9	and half-yearly	and four half-yearly
98	5	2	notices	notices.
104	1	1	ll it to	sell it to
104	5	4	919, 206	1,919,206
111	2	11	through to December	through December
113	3	11	premises . . . » A	premises . . . » A
116	2	2	port, was	port was
117	1	15	the Bank	the World Bank
120	5	12	consited	consisted
129	3	9	ofour	of our
132	1	4	a efficient	an efficient
136	1	1	Central Bank	Head Office
140	3	2	denominations	denominations bearing the name of the Na- tional Bank of Libya
140	4	2	½ pound .	½ pound bearing the name of the National Bank of Libya
149	1	1	Distribution of Bank Credit	Distribution of Credit Facilities