

# Sources and Uses of Funds in the Libyan Commercial Banks

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## **Abstract**

The commercial banks Libyan and business in general in various states vital and effective role in supporting the economic and social development, as it works to attract funds from various sources, and direct these funds to the investment outlets and support the transition and to provide credit facilities to finance development projects, plans, consistent economic and social policies in the state, in order to increase production efficiency of physical, human and financial resources, and make a profit at the lowest cost.

And from this role and through the informed researcher on what has been published in books and sources on the subject of sources and uses of funds in commercial banks, and also through personal interviews conducted by a researcher with the existing banking work CBB Libya, and the importance of the saw researcher presenting the subject in the form of a simple search, where he dealt with through a realistic view of the sources and uses of funds in the Libyan commercial banks and the Central Bank of Libya.

**Key words** commercial banks, funds, capital, reserves, deposits, Central Bank of Libya

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## **1. INTRODUCTION**

Commercial banks have contributed to support the transition plans and has provided credit facilities of different types of financing for development projects, as the Libyan commercial banks first entered the mortgage lending field, in the form of grants mortgage loans directly to urban development loans and housing for low-income people, which aimed to solve the housing problem, and loans for the development of the tourism sector, and loans for the shack dwellers, as commercial banks have entered a new arena, was to participate in the creation and establishment of some companies and joint ventures, related to the trade and services sector, also played the Central Bank of Libya as banks Bank - and give attention to support the banking and monetary policy in the State - an important role in providing credit facilities to commercial banks, either through re-commercial paper discount, or make loans, and was the issuance of law No. (1) for the year 1993 in banks and cash and great credit impact in improving the banking activity and the development of performance because of the important role that contributed to the law in banking regulation, and support for the Libyan banking sector and strengthening the powers of the central bank in the areas of follow-up of the banks and control.

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## 2. THE SOURCES OF FUNDS IN THE LIBYAN COMMERCIAL BANK

Commercial banks sources are divided into two parts:

### *1 - Self-sources (internal)*

They represent the sources of the bank's obligations toward him, whether they are owners of private or public sources. These include paid-up capital and reserves and undistributed profits.

- Paid-up capital

Represents a commitment to the bank as a legal personality in front of the owner of the capital must distinguish between the paid-up capital and authorized capital or the nominal capital.

It is intended capital paid the first nucleus that starts out bank activity and configuring the necessary fixed money supplies and what it requires of spending on the conduct of its business as it represents the amount that appears in the budget, it is not rewind to the shareholders in the event of bank failure or liquidated, not after the fulfillment of all obligations, the importance of being a source of confidence of depositors and to support the financial position of the Bank in strengthening its relations with its clients and correspondents abroad, while the nominal capital or unauthorized is the sum of total capital, which was issued by the decision to create or establish a bank (Altoergi, 2008).

And Article (53) of the Libyan Banking Law that commercial banks take the form of a Libyan joint stock company at least its capital office in which about three million dinars distributed shares at par per share, including the value of not more than ten dinars where natural persons and public and private legal contribute according to the rules and conditions determined by a decision of the General People's Committee (Law No. (1) for the year 2005).

Of course, the paid-up capital is not in commercial banks' relative importance to remember for the total sources of funds, but rather the fundamental importance stems from being a source of confidence of dealers with private owners of the deposit, and in support of these banks centers in its relations with its correspondents abroad.

- Reserves and undistributed profits

Reserve "is the amounts that have been deducted by the bank over the years from profits earned during the period." (Al-Shammari, 1998, pp. 124).

And commercial bank reserves are divided into two types:

- Legal reserves

It reserves that are committed to the commercial banks have created under the bank, cash and credit, which stated in its article Law (57) on each bank to maintain a reserve of capital and he has to leave before the earnings announcement an amount not less than 50% of the net profits to the said reserve to be a half-head money paid and then go after that amount is equal to 25% of net profits to reserve even mentioned even with paid-up capital.

The legal reserve of the most important monetary policy pursued by the central bank to regulate and manage the credit, especially in countries that lack the fiscal and monetary tools to a wide market, so as to counter the emerging threat from the increasing likelihood of unexpected withdrawals which may be his commercial banks

Sometimes, a percentage of the deposit determined in accordance with the law and shall be deposited in a current account with the central bank, which requires the Central Bank of Libya raise this percentage if you want to limit the expansion of the granting of credit and the impact on the money supply and reduction in cases of expansion in the granting of this credit.

- Other reserves

It is optional reserves that commercial banks formed voluntarily to strengthen their financial positions and to strengthen their capital.

It is also the commercial banks to hold part of their annual profits and not distributed to shareholders, "and for the purpose of capital to support the profits undistributed increase investment strength of the bank, because they are not subject to the requirements of a portion of them to keep with the central bank." (Hindi, 2002, pp. 109).

### *2- Sources of non-self (external)*

They represent obligations of the bank to third parties, whether they are individuals or entities or facilities or other banks which include various types of deposits and borrowing from banks, these sources are divided into:

- Deposits

The deposits, the main source of the components of the sources of commercial banks and the deposit is a debt owed to the owners at the disposal of commercial banks and is obtained by commercial banks on deposits of two sources of deposit individuals for their money in banks and as a result of bank lending to individuals (Al-Shammari, 1998, p 124).

The deposits can be divided into the following types:

1. *The current deposits (demand)*

It deposits withdrawn when demand for them by instruments do not pay him benefits as the commercial banks are keen to retain a significant part of them in a liquid form and employ the remaining part in short-term investments transferable by the opponent (eg diskette 0.1984) and this explains the retention of commercial banks higher percentage of reserve reserves compared to other types of deposits.

2. *Fixed deposits (for)*

It is intended fixed "those deposits, which is the bank obliged to pay at a later date on the deposit, to be agreed upon between the bank and the depositor deposits and therefore do not pose an immediate obligation to the bank, as it retains against which the Central Bank increased by less reserves compared to the current deposits." (Al-Shammari, 1998, p 126)

For that commercial banks maintain cash reserves of 7.5% against these deposits with the Central Bank of Libya, compared with cash reserves held by 15% on current deposits.

Fixed deposits (term) of two types, namely:

- Fixed deposits (term)

The commitment from the bank to pay for the deposit amount after the expiry of the period agreed between the depositor and the bank and the bank pays interest to the applicant by the price.

- Notify the deposits.

They are required to notify the depositor or the bank's commitment to notice before an appropriate time from the date withdrawn and the bank to pay an interest rates them.

In Libya, the interest rate varies on time deposits with commercial banks between 4.5% to 9%, according to the decision of the Central Bank of Libya, issued in the month (April) in 1980, according to the duration of the deposit as shown in the following table.

**Table 1 Interest rates on deposits in Libya**

Demand deposits and current accounts	Do not pay interest
Time deposits	
1- notify in 10 days	4.5 % per annum
2- notify more than 10 days and 30 days without	4.75 % per annum
3- For the period from one month to less than 3 months	5.00 % per annum
4- For a period of 3 months to less than 6 months	5.25 % per annum
5- For a period of 3 months to less than a year	5.50 % per annum
6- for a period of one year	6.00 % per annum
7- For a period of two years	7.00 % per annum
8- for 3 years	8.00 % per annum
9- for a period of 4 years and older	9.00 % per annum

**Source:** The Central Bank of Libya Magazine

### 3. *Savings deposits*

The deposits in the savings that are deposited by the depositors in savings accounts rather than leaving it idle (chunky) in their lockers, and requires this type of deposits in the bank, regardless provide each applicant in which credit and debit payments and the assumption of commercial banks to prove in many different countries of the world book interest in this type of deposit as reflecting the larger and important part of the optional savings to domestic sector. Also increased, and their development in any given society is only a reflection of the increasing awareness and growth and development of the banking savings habits.

However, the interest rate on this type prices of deposits are often relatively low compared to other time deposits, as set interest rates for savings accounts of a natural person 5% minimum 0.6% maximum It should be noted here that the tax law has exempted interest on balances of savings accounts less than five thousand dinars from all taxes and fees as stipulated Law No. (1) for the year 1993 on the banks, cash and credit also to this exemption without any identification of the value of these balances to encourage this type of deposit.

- **Borrowing**

Commercial banks resort usually to borrow when you need additional financial resources to finance banking operations or to meet the increase in demand for loans, and usually this kind are borrowing from the central bank or other commercial banks (domestic and foreign) and often borrow from these banks have short-term and the price of a certain interest (Alhaceh, 1995, pp. 47).

"It was the amounts borrowed from the central bank or other banks are not subject to the requirements of the legal reserve, which is determined by the central bank and therefore represents an additional investment power of commercial banks." (Hindi, 2001, pp. 112).

- 1) *Borrowing from commercial banks*

This represents borrowing obligations on the bank toward the rest of the banks that borrowed them, whether domestic or foreign, could be borrowing in the form of current accounts or for favors commercial banks borrow from each other before resorting to the Central Bank due to lower interest rates on these loans Price.

- 2) *Borrowing from the central bank*

When commercial banks fail to meet lending to commercial banks, they resort to the lender of last resort, a central bank, and uses the central bank lending as a means for the purpose of control over banking activity and credit to commercial banks and have it as the case of economic and monetary prevailing conditions, responds to requests for lending in the case of desire revitalization of the economic situation and create as much of the economic boom, and on the contrary, it refrains from expanding and responding to requests for lending provided by commercial banks during periods of inflation. (Al-Shammari, 1998, pp. 128)

And resort to commercial banks borrow from the central bank, either to fill a temporary shortfall in liquidity, or to expand in the granting of loans to various economic sectors of industry, construction and others, against the so-called interest rate and the bank rate is 5.5%.

### 3. USES OF FUNDS IN COMMERCIAL BANKS

This represents one side of the budget, which the asset side of any uses that will employ the funds for the way where we note that commercial banks' assets in descending order according to the degree of liquidity they begin to cash present Balkhozaün represents the highest degree of liquidity and ending of fixed assets which the least liquidity (Altoergi, 2008; Raisova et al., 2014; Michalski 2008, 2009, 2010, 2014; Bem et al. 2014; Szczygiel et al. 2015). Divided and uses of funds in commercial banks in accordance with the degree of liquidity into five main groups, namely:

1. Liquid assets

Known as liquid assets with full liquidity, liquidity or are self-contained and can be termed the first line of defense consists of these assets from cash balances, which are as follows:

- Cash on hand: and include the Bank of banknotes, as well as of his money to help, and each bank is keen to retain sufficient cash to meet the daily needs of the clouds.
- Accounts or balances with the Central Bank: It is comparable to the liquidity and money this item represents the type of present cash reserve, which represents a certain percentage of the amount of deposits held by banks.
- Balances with banks and correspondents: The cash balances owes the bank by other banks are important for the bank to conduct some banking business, as well as to facilitate international trade and so when you open letters of guarantee and letters of credit, and bank experience works that have balances local and foreign to banks, especially in areas where it has no branches.

And measured the extent of the possibility of liquid converted into ready cash assets as soon as possible without incurring any losses, and differ in terms of the liquid assets of the banking system of its provisions to last. Liquidity should be considered as asset type investment, that is a hedging against the risk (Šoltés and Gavurová, 2013, 2015).

Which include liquid assets by the Central Bank of Libya, the definition of the beginning of her 21 (May) in 1970 - the following items:

Cash in the fund and foreign coins, and demand deposits and for the commercial banks with the Central Bank of Libya and demand deposits and in order to have other commercial banks, and within the components of these items bonds and bills Libyan treasury before they turn to religion in a codified but these bonds and notes were excluded from the asset components liquid from the month (May 1989) in the implementation of the decision of the Board of the Central Bank of Libya in this regard (Brion, 2003, pp. 22-23).

## 2. Commercial paper and bonds discounted

A clause that includes all paper can be deducted at the Commercial Bank, any creditor holds a paper written by what benefits the presence of religion in the interest owed after the short-term, whether the debt owed on the project or individual, can go to the bank asking him to buy this debt so that gives the bank the value of this debt before the date of maturity in which case the value of the bank after paying part of the value of the paper to him as commission discount in exchange for waiting until maturity, and these securities and bonds as follows:

- Commercial paper: the bill include minimum and authority
  - *Bill*: they are commercial paper issued by the creditor, the debtor is ordered to pay a certain amount to the holder or authorized for a particular person at a certain date, the date of maturity.
  - *Near authority*: a commercial paper issued by the debtor in the form of a declaration from his part undertakes to pay a certain amount at a certain date for a certain person or authorized holder of the paper.

And Commercial Bank pays value - commercial paper - after interest deduction is called the discount rate, a commission for the bank is waiting for the maturity, the interest is calculated on the basis of the discount on the prevailing interest rate, and enjoy this commercial paper with a high degree of liquidity.

The order of these securities does not exceed the usual several months (3-6 months) and surrounded by a powerful legislator guarantees in respect of payment, as the central bank stands ready to re-deducted always.

- Discounted bonds: It is a short-term government bonds issued in the usual three months and put up for subscription by way of bidding, and accept the banks to buy these permissions despite the meager income is generated from the given because of its extreme liquidity.

Treasury bonds are derived from the Palace of liquidity for, and the absence of risk of non-fulfillment of their value, and the Central Bank stand ready always to be converted into cash to re-deductible.

### 3. Loans and credit facilities

Credit is, any provision of loans and advances core activity of any commercial bank, Credit banking plays a vital role in the economic activity of any society, because of the funds provided by and give the banking sector to all economic sectors and there are factors affecting the banking credit size, the most important financial banks and resources, which is the capital and reserves, deposits and cash used and policies, and economic conditions prevailing in the community the size of the demand for credit (Central Bank of Libya, 2004, pp. 8).

The loans granted by the Commercial Bank of more types of assets and return a profit, and this fits with low liquidity more than others from the rest of the other assets. Therefore, the commercial banks to invest a large part of its resources in the field of loans. There is another type of short-term lending known (credit facilities) based on documentary credits provided by the borrower to the bank, which shall last, based upon open a current account to its owner, and often these documents are linked to the import and export operations.

### 4. Financial investments

Invested commercial banks part of its resources in securities represents a minimum on the others, especially government securities, bonds government comes financial investments in second place to invest for the Commercial Bank after the lending process. (Alhaceh, 2005), investment in securities to achieve both goals of profit liquidity and at the same time.

The securities include government bonds, and non-governmental bonds and shares of major industrial companies, public utilities, land and represents companies of all types of securities different from the other kind of liquidity. Therefore, the commercial banks' desire to take caution and safety not only invest in securities secured and accepted by the Central Bank.

### 5. Fixed assets and other assets

This item includes buildings, machinery necessary for the banks and equipment functions as well as other assets that do not fall within the items previously mentioned and it should be noted that the Banking Act and the Monetary and Credit No. (1) for the year 1993 Any ban on practicing next business bank in its article (22) owning real estate or rent only be necessary for managing the work of the bank or its employees or housing if the outcome of the ownership of the property and the fulfillment of his debt by a third party.

## 4. CONCLUSION

Commercial banks have played in various countries, and Libyan commercial banks specifically - especially after the nationalization of foreign where quotas and reorganization - an important role in the development of savings awareness among individuals, which is one of the core to support economic development matters, by attracting deposits of individuals, institutions and companies, and directing these resources to the different investment outlets

And out of that role and through informed researcher on what has been published in books and sources on the subject of sources and uses of funds in commercial banks, as well as through personal interviews conducted by a researcher with the existing banking work CBB Libya, and the importance it has the researcher presenting this subject in the form of a simple search modest, he dealt with through a realistic view of the sources and uses of funds in the Libyan commercial banks and the Central Bank of Libya.

Where was divided sources of funds into two self-sources (internal) is the paid-up capital, reserves, undistributed profits of others and self-sources (external) is the deposits of various types and borrowing from banks Uses divided into liquid assets such as cash on hand and accounts management of stocks in

the bank Central and balances with banks and correspondents and then, following the subject of commercial paper and of the bill and the PN, the researcher then finally discussed discounted bonds.

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