



The Libyan Banking System

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Introduction

The Libyan authorities started to liberalise the national banking system in the mid-1990s by permitting private ownership of banks. But it is only since 2001—with the liberalisation of foreign trade—that banks have experienced substantial changes in the banking system. Private sector clients no longer have to work through the large state-owned monopolies, and the commercial banks themselves are free to develop banking relationships abroad. They connected to SWIFT in 2001 and no longer need to use Libyan Arab Foreign Bank to make foreign payments. However, competition between the five State-Owned Commercial Banks (SOCBs) has yet to emerge, and there is only one privately owned bank. Tight central controls have been in place for too long for an immediate take-off of innovative practices. But the private sector bank is installing a modern integrated banking system that is sure to attract large volumes of business from enterprises that want to use an efficient payments system. Moreover, the United Nations trade embargo has been suspended and foreign banks can apply to open high-tech branches in Libya so long as there is reciprocity in their home market. These changes will prompt the other banks to seek ways to improve their efficiency. The government has raised the prospect of mergers between SOCBs, possible privatisations and/or sales to foreign banks. However, the relatively low efficiency of SOCBs, probable massive under-provisioning and over-staffing resemble the situation of state-owned banks in transition countries around 1990. This implies that—over the medium term—foreign banks would be more interested in joint ventures, and it will take SOCBs several years for them to stem the loss of business from more progressive clients. We expect rapid developments in the financial sector, providing many opportunities as Libya re-establishes its position in the world economy.