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**THE RELATIONSHIP BETWEEN THE ISLAMIC BANKS AND THE
CENTRAL BANK IN LIBYA**

MASTER'S THESIS

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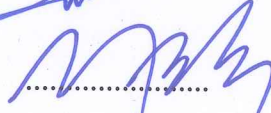
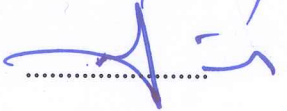
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I hereby declare that this submission is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person or material which must a substantial extent been accepted for the award of any other degree or diploma at any university or other institute of higher learning, except where due acknowledgement has been made in the text.

Abdemanam Ali A. ELMASMARI

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TABLE OF CONTENTS

CERTIFICATION STATEMENT.....	i
ACKNOWLEDGEMENT	ii
TABLE OF CONTENTS	iii
LIST OF FIGURES	vi
INTRODUCTION	1

CHAPTER ONE

1. CENTRAL BANKS AND ISLAMIC BANKS	3
1.1 Central Banks: Concept and Emergence.....	3
1.1.1 Functions of Central Banks	4
1.1.2 Features and Characteristics of Central Bank	6
1.2 Commercial Banks.....	9
1.3 The Definition of the Islamic Banks	10
1.3.1 Origins and Evolution of the Islamic Banks	11
1.3.2 Functions and Services of the Islamic Banks	12
1.3.3 Islamic Banks in Islamic Non-Arab Countries	22
1.3.4 Islamic Banks in Non-Islamic Countries	23

CHAPTER TWO

2. THE RELATION OF THE ISLAMIC BANKS WITH THE CENTRAL BANKS.....	24
2.1 The Relation Issue with Islamic Banks	24
2.2 The Models of the Islamic Banks in Terms of Their Relationship with the Central Banks.....	25
2.3 The Regulations that Organize the Work of the Islamic Banks in Libya	26

2.4 The Challenges that Face the Islamic Banks.....	28
2.4.1 The Difficulties that Face the Islamic Banks	28
2.4.2 Challenges and Obstacles that Face the Islamic Banking Systems in Libya	29
2.4.3 The Appropriate of Monetary Authority of the Islamic Banking Procedures in Libya	30
2.5 Definition of the Libyan Banking System.....	34
2.6 The Relation of the Libyan Central Bank with the Banks operations.....	35
2.7 The Role of Libyan Central Bank in Managing and Ordering the Banking Activity.....	35
2.8 The Reality of the Islamic Banking in the Libyan Bank.....	36
2.9 The Monitoring Tools of the Libyan Central Bank on the Licensed Banks	37
2.9.1 Reserve Requirements of Cash.....	37
2.9.2 Legal Cash.....	38
2.9.3 The Proportion of Credit / Deposit	39
2.9.4 Ceilings and Concentrations of Credits.....	39
2.9.5 Interest Rate.....	40
2.9.6 Rediscount Rate	40
2.9.7 Open Market Operations.....	40
2.9.8 Lending Banks	41
2.9.9 Inspection of banks.....	41
2.9.10 Office Monitoring	42

CHAPTER THREE

3. THE RELATIONSHIP BETWEEN THE ISLAMIC BANKS AND CENTRAL BANK IN LIBYA	43
3.1 Literature Review	44
3.2 Research Problem.....	46
3.3 Research Questions.....	46
3.4 Research Importance.....	46
3.5 Research Goals.....	47
3.6 Research Hypotheses	48

3.7 The Research Sample and Boundaries	48
3.8 Resources of data collection (the research tools)	48
3.9 Analyzing the Data and Results Discussion.....	49
3.10 Checking the Research Hypotheses.....	62
RESULTS AND RECOMMANDATIONS	64
Results	64
Recommendations.....	66
REFERENCES	68
ABSTRACT.....	73
ÖZET	75
AUTOBIOGRAPHY	77
APPENDICES A.....	78
Questionnaire of the Study	78

LIST OF FIGURES

Figure 1 . The general process of profiting.....	15
Figure 2. The general process of sharecropping	16
Figure 3. The general process of industrialization.....	18
Figure 4. The general process of leasing	19
Figure 5. The gender of study sample.....	49
Figure 6. The age of the study sample	50
Figure 7. The qualifications of the study sample	50
Figure 8. Compulsory Cash Reserve	51
Figure 9. The amount of legal liquidity that must be kept by the Islamic banks.....	52
Figure 10. The components of numerator and denominator.....	52
Figure 11. Identification for the amounts of given loans.....	53
Figure 12. The rate of interest paid by the Islamic banks on the agents accounts....	54
Figure 13. Deal with re-discount rate by the Islamic bank branches.....	55
Figure 14 . Selling and buying the governmental securities by the Islamic bank branches	56
Figure 15. The deal of the Islamic bank to offer the necessary liquidity.....	57
Figure 16 . The Islamic banks get loans from the Libyan central bank.....	57
Figure 17 . The inspection procedures of the central bank on the Islamic banks	58
Figure 18 . The periodic data provided by the Islamic bank branches to the central bank.....	58
Figure 19. Authorize the risks of the banks by the Libyan Islamic bank branches ..	59
Figure 20. The bulletin section of the Islamic bank branches work n in Libya.....	60
Figure 21. The deducting money by the Islamic bank from the achieved profits	60
Figure 22. The Islamic bank are committed by the least amount of capital	61
Figure 23. The Islamic bank face a competition from the traditional banks	61
Figure 24. The legal framework to organize the work of the Islamic bank.....	62

INTRODUCTION

Generally, banks are considered of the basic and economic buildings in any state according to what provide of financials for many types of investments and the provision of various functions such as money deposits, the internal and external financing and other types of banking operations (Nazih Hammad 2004: 283). As it is known from the previous studies and the most important of these studies the study of (Mezdour, 2010: 1-62) which stated that the central bank must be in charge of issuing the currency policies, supervise and implement them and monitor the banks operate inside the state whether they are traditional or Islamic banks in order to guarantee the decisions and directions issuing from it. Therefore, it will be ensured that the smooth functioning of their work which achieve the purposes of the currency policies and to check their finances and protect the depositors rights. Thus, the banks operate in the state are subject to the control and monitor by the central banks whether in direct or indirect way as the central bank is considered the authority which through the banks receive the decisions that role their work procedures.

Since the middle of the twentieth century, a new organization has been emerged to the banks which include foundations, goals and special characteristics regarding to the banks in general which called the Islamic Banks. The Islamic banks operate according to the Islamic law and far from the usury interests where the new strategies are emerged to organize the work of these banks and adopted by the countries whether on the Islamic, Arab or global level because these banks provided great trust and safety to the dealers and because of the multiple gains which led to their popularity (Walid Oujan, 2003: 71). Therefore, it is important to know the most important things which characterize the Islamic banks from the traditional banks are that the Islamic banks are multi-functional banks and do not deal with lending and borrowing but they operate on a risk-taking bases and participate in the profit and the relationship between them and their dealers is trading and participation relationship and do not use the money in its currency image but they deal by good, services and

the trading operations and their financing in kind not monetary and the capital participate in the risks and bear it alone unless proven the infringement of the speculator (Ahmed Sefer, 2006: 149).

Thus, the need to organize the relationship between the central bank and Islamic banks are emerged where some countries gave the Islamic banks the working freedom in the highlight of the Islamic sharia and others associate the Islamic banks with the central bank in the borders of the prominent rules which applied on the traditional banks. So, it is natural that the curriculum of the central bank and its monitoring modes which it follows in monitoring the traditional banks with the thought which rule these banks and their work curriculum. However, the previous studies state that this curriculum do not consist with the modes which depended by the Islamic banks in conducting their activities because they effect negatively on the volume of income which distribute on the owners of investment accounts at these banks.

Thus, this research comes in order to attempt to know the application standards and the controlling tools (monetary policy) that prepare by the central bank including the monitoring tools in the Islamic banks and find solutions and suggestions by modifying some legislation operations that organize the relationship between the central bank and the Islamic banks in Libya.

CHAPTER ONE

1. CENTRAL BANKS AND ISLAMIC BANKS

1.1 Central Banks: Concept and Emergence

The purpose behind the emergence of the Islamic banks are the desires of the governments in the intervention in the banking activity, organize and manage the operations of monetary issuing which were adopted previously by the commercial banks. The commercial banks expanded in issuing certificates and deposits receipts where their size were increasing than the deposit volume of the banking. Thus, the central banks at the beginning of their work are called release banks because they took over the tasks of issuing monetary and organize it by the borders and conditions that decided by the government. The central banks started gradually to take over the monitoring task on the banking activity and direct it which suit with the goals of the economic policy of the state. In addition, the central banks took over the other responsibilities and tasks (Al- Musawi, 1992: 244).

The central banks emerged as commercial banks and then changed into Public banks which owned by the state. The Sweden Central Bank is considered one of the oldest central banks in the world where it is found in 1656 and reorganized as a bank for the state in 1668. However, the England bank which is found in 1694 is considered the first bank that applied the concepts and functions of the central bank and thanks to it in developing the concepts of central banking.

Later, the creation of the central banks in the world are succeeded especially in Europe where the French Bank is established in 1800, Fenland 1811, Holland 1814, Austria 1817, Denmark 1818 and Belgium 1850 (Hashad, 1994: 28). In the rest of the world, the Russian Governmental Bank established in 1860 and the Japanese Bank in 1882 while the Federal Reserve Banks in the United States founded to

perform the ask of the central bank between 1913 and 1914 and then the Canadian bank in the end of 1934 (Al-Zubaidi, 1922:195-196).

During the twentieth century, the foundation of the central banks continued across the world and the most important event that helped on the creation of these banks is the international financial conference that held in Brussels in 1920 and which recommended in its final report that the countries that did not established central banks should create like these banks as fast as possible not only for the purpose of install the banking stability in the banking and cash systems but also for the international collaboration. Thus, after the number of the central banks in the world in 1700 are just two banks as we see while in 1990 it is 161 central banks (Al-Fouly and Shihap, 1999:197).

1.1.1 Functions of Central Banks

The central bank in any banking system performs many functions, but these functions can be summarized as follows:

a) Issuing Bank

The first bank for issuing in the world was the England bank which established in 1664 and its role was promoted in the issuing after Robert Bill law in 1844 which calls that the issued money must become represented to the quantity of the gold that existed in the bank saves with quantity covered by the governmental bonds (Simon, 1984: 20).

The England Bank is established, as we mentioned before, not as a government bank, but as an institution with special privilege, to make it able to lend the government. In fact, the government allowed it to monopoly partly of issuing monetary paper, under the legislation in 1833. It is announced that its monetary papers are the only legal currency. After that it became the only issuing bank, in 1946, it has been nationalization of the Bank of England and it has become a part of the state system. The definition of monetary in British was the part that doesn't pay a benefit for governmental loans (Al-Jazar, 1990:35).

The central bank goes to issue the legal central monetary, or even written in two cases:

- 1- Central bank issuing money without having a relation to bank need of liquidity, which means a central money not loaned, in cases:
 - A- The deficit in state spending (investment and working expenditure), that's by direct loan of the general treasury, or by buying state bonds from central banks.
 - B- When there is an excess in the balance of payments which means the entering of short-term and long-term capitals and excess in the commercial balance.
- 2- The central bank issuing money to fulfil the needs of the banks to the cash which is the central borrowed money and the banks resort to that by re-deducting their bonds to the cash market. Here the central bank borrowed them in exchange of specific conditions.

The debts of the central bank on the general save are considered the basic source to issue and establish the money in the Anglo - Saxon countries where the great importance of the general debts and bonds that represent the main means in the cash market (Ya'adil, 2000:103).

b) Country's Bank and Its Adviser

The central bank in each country performs the function of the state agent and its advisor in the financial issues. The central bank manages the banking accounts for the governmental organizations and institutions and provides loans for the government and wait the collection of tax and other incomes. Also, it evaluates the reserves of the country for the foreign currencies where it sells and buy the foreign currencies and control the external conversion as a mean to reserve the stability of the national currency. As well as, it performs the external loans of the state in addition to its role as a representative in the external relationships, whether in the central banks or the international cash organizations such as International Monetary Fund, The World Bank and International Settlements Bank. Moreover, it helps the state in implementing the different cash policies to fix the problems and economic crises and thus, the name of State Bank came into use.

c) Bank of Banks

According to its exist on the top of the pyramid in the banking device for any country, the central bank practicing the domination on the different public banks of

the state where it preserves legal reserves balances in order to protect the money of the depositors from the risk of bankruptcy of these banks. Furthermore, it preserves current accounts of these banks which enable it to implement the clearing operations between their accounts that emerge from dealing with each other. Enter within this function the implementation of the central bank towards the banks the function of what is called the last resort of lending where the commercial banks resort to redemption of the securities at the price of the redemption or get from it loans and advance payments with specific interest when they need to cash. At this way, the central bank will be able to control the prices of interest even in indirect way and we will see that when we mention on how to use the tool of redeem in the banking control (Koch, 1995: 89)

d) Credit Watch

We saw from the goals of unifying the issue and its restriction at the central bank which enable it from controlling the size of the total credit that given by the banks especially that the commercial banks are common of what is called the cash expansion and derivation of deposits and thus to give the largest amount of loans and deposits in order to achieve more profits.

It must be mentioned here that there is a difference between the controls on the banks and the controls on the deposits where the first one looks to each bank separately while the second one looks on the total area despite the financial position for each of the existing banks. Controlling the banks treat the credit policy for these banks while the controlling of the credit treats the cash phenomenon that resulted from his policy despite the cash of the banking assets and the ability of the banks to fulfill their commitments or the repayments of its debts (Koche, 1995:109).

1.1.2 Features and Characteristics of Central Bank

The central bank may differ in terms of the form and functions from one state to another but it is characterized in all of the cases at some characteristics and basic properties that available in most of the central banks in the world except some exceptions, including:

a) The Uniqueness of Central bank

Practically, it is noticed that the central banks for most of the countries in the world its uniqueness which means the existing of one central bank that authorized to issue the cash and organizing the trading and deposit. If there are central banks in the governorates, provinces or states, they do not exceed to just branches for the main central bank that existed in the capital in order to facilitate the tasks and work only. However, the central bank may be numerous and the United States is almost configuring the only exception in this field where it contains about 12 regional institution for the cash issuing. Despite that it means only the division of the work and does not deny the concept of the central bank uniqueness where these institutions are subject to specific central authority which is the union of these banks within what is called Federal Reserve System. This union is considered the authorized power to take decisions and draw the policy associated with cash and deposit affairs and it is committed for all the units of issuing the cash.

b) The Ownership of Central Bank for the State

Before the year of 1936, there were few number of the central banks that owned completely by the state and between 1936 and 1945, the central banks are nationalized in some countries. Between almost all of the new central banks which founded during that period, they were established from the beginning as independent organizations and after the Second World War, the nationalization of the central banks has expanded.

In spite of this direction, it is still in some countries which have not nationalized their central banks or at least completely. In other word, there are central banks founded in private ownership, governmental or joint with the private sector and continued at this situation until today. The existing of the private ownership did not effect on the implementation of the central banks to their functions at the best way.

c) The Independence of the Central Bank

The independence of the central bank is represented by give it the full independence in managing the cash policy by separating it from any pressures of the executive authority in terms of give it the full freedom in executing the cash policies. In other hand, this concept is the most association concept with the practicing of the central banks of their work in the current time.

Most of the studies which been conducted about the independence of the central focus about a set of standards with difference in the arrangement or the relative weight including (Fouly and Shehab, 1999: 234-235):

- The extent of the central bank commitment in financing the deficit in the governmental spending. Also, the extent of its commitment in purchasing tools of the government debt in direct way and the extent of its commitment by giving governmental facilities for the government and its organizations.
- The extent of the government power in appointing and isolating the central bank governor, the director board members, the period of their office, the extent of their stay in their positions, the extent of the government representation at the councils, the extent of their representation adequacy at the participation in the discussion, the right in the voting and objection on the decisions or stop until displayed on the financial minister or council of ministers and the power of the government about the budget of the central bank.
- The goal of prices stability and the value of the currency. Does it the unique goal? Or main goal with other goals? The extent of the central bank ability on achieving that.
- The extent of the central bank subordination for accounting and accountability.

The central banks for Germany, Switzerland and the united states are the most models in terms of the independence according to most of the studies that conducted at this subject and this is due to the oldest of the legislation the belong to them. As well as, New Zealand experiment that promoted more in accordance with the issued law in 1989 which consider modern concept for the other countries in addition to the organizing of the European Central Bank according to Maastricht Treaty in 1992 which is considered more advanced model in confirming the independence of the central banks.

d) Authorizing the Central Bank to Supervise on the Monetary Policy

The monetary policy is defined in the broad concept as the political power towards the monetary system of the judged community. Also, in the narrow concept it is

defined as the management of monetary system in order to reach into specific goals that achieve the welfare of the whole people. The central banks are the responsible authority on placing and applying the monetary policy (A-Khaliq and Kareem, 1992:179).

The monetary policy goals are represented by:

- Preserve the stability of internal prices which means curbing inflation.
- Achieve the largest averages to operate the workforce.
- Increase the economic growth and thus increase the product and national income in order to rise the living level of the individuals.
- Preserve the currency price and the exchange prices.
- Preserve the external balance of payments (Fouly and Shehab, 1999:234-235).

1.2 Commercial Banks

The commercial banks can be defined as unspecialized credit institutions which receive the retiring credits of the individuals when asked or after a short-term and deal basically in the short-term deposit.

The commercial banks are considered the oldest bank in terms of emergence and then they represent the basic pillar for the banking system according to their number and size. Thus, the commercial bank looks like any banking system where its top represented by the central bank and its base represents in the commercial banks. The most important resources of the commercial bank is represented by the capital, deposits and debts resulted from borrowing. In terms of the capital it is represented by the value of the traditional stocks of the bank plus the undistributed or retained profits from the past year.

The importance of the capital in the commercial bank is represented by its functions which can be summarized as follow:

1. Protect the money of the depositors against the decrease of the assets value which means the absorption of the losses that may occur in the assets.
2. Help the bank to continue and survive even in the lost cases conditioning that these losses may not exceed specific range.

3. Give the bank an opportunity to enter in more dangerous operations such as the use of securities.
4. Financing the purchase of the static assets such as real estate, machines and equipment which necessary to operate the bank.

In spite of this importance, it is noticed that practically the minimum size of the capital of the commercial bank as compared with the total of the other resources where the percentage of the capital to the total of assets for this bank does not exceed 7% and this means that the percentage of 93% of the total assets of the bank is financed by the depositors and creditors. While the deposits only finances about 85% from the total assets of the bank. In general, the percentage of the capital to the total value of the assets represent about 1 to 15 at the maximum in most of the banks especially that the modern standards for the adequacy of the capital calls to its increase of the deposits represents the maximum relative weight in the resources of the commercial bank, the current deposits operates the greatest part of them where this type of deposits represent about 60% of the total resources of the bank (Atteya, 1987: 92).

1.3 The Definition of the Islamic Banks

The definitions of the Islamic banks are varied and versified and differed from one author to another and we will try to talk about some of these definitions just for examples not for restriction as follows:

1. A financial organization to collect and employing money within the Islamic law scope which serve in building the Islamic Integration Community to achieve the following:
 - a. Attract money and mobilize savings that available in the Islamic country and develop the saving awareness.
 - b. Direct money to the investment operations that serve the goals of the national and social development in the Islamic country.
 - c. Doing business and banking services according to Islamic Sharia free of usury and exploitation which solve short-term funding problem (Abo Majed, 1998: 29-30)

2. It is an organization which does not deal with interest and usury as take and give and committed in its different activities in the rules of Islamic Sharia (Khalaf, 2006: 92).

While Dr. Ahmed Najar has defined the Islamic banks as “an entity and bowl which mix proper investment thought, and money looks about proper profit to come out of it paths embody the fundamentals of the Islamic economic and transfer its concepts from the theory to the application and from the conception to the reality where it attracts the capitals which could be unemployed to come out to them owns to deal through it from dealing with houses who may found impressment to dealing with them. (Najar, 1980: 164). Furthermore, there are many other definitions which are short and long but their contents (as we mentioned earlier) are same. It is noticed from the previous definitions the prolongation and some of them are considered the Islamic banks are establishing just when they are not dealing with usury interest and such of these definitions are limited because they are not only what distinguish the Islamic banks from others are just to not dealing with usury but there may be legitimate irregularities and do not contain usurious interests. Thus, we find that the best and proper definition of the Islamic bank is a commercial organization deal in different banking business within the laws of Islamic sharia scope (Salim, 1985: 7-8).

1.3.1 Origins and Evolution of the Islamic Banks

The origins of the Islamic banks came to fulfill the desire of the Islamic communities in finding a formula to the banking deal away from the usurious deal that represented in the rate of interest. The history of the Islamic banking deal is back to 1940 when originated in Malaysia the saving funds that work without interest and in 1950, the methodical thinking started to emergence in Pakistan in order to place funding formulas that take into consideration the Islamic affairs. However, the period of thinking has taken a long time and has not found applied port accept in Egypt (Lachemi, Syagh, 2003: 23). The experiment of the Egyptian city of Mmayit Ghamar started in 1963 by constructing Islamic local saving bank and then construct branches to it in each city and then collecting the savings of people through this bank under the supervision of Mmayit Ghamar bank and these saving are employing to serve them at their need regions. The thanks to create this project belongs to the Egyptian

economic scientist Prof. Dr. Ahmed Najjar who found the political support to the idea of creating the bank at one of the members of the Revolutionary Command. Then, a presidential decree was issued under No.1961/17 that gave him the permission in creating it in the specified place at Mmayit Ghamar city. Before the decree of the issue, many administrative, social and field studies have been performed which paved the way for its release. Its doors opened in 1963 and five important branches have opened and hold the same naming in 1965. However, this experiment has been failed and disrupted because of the tendentious rumors raised around. In 1966, Omdurman University decided to teach the Islamic economic course by delegating a group of scientists who they were came out in a bank project without interest and this project provided to the Sudan's central bank for adoption but some conditions occurred that prevented its implementation. As well as, in 1975 the Islamic Development Bank created in Jeddah city aims to support the economic development and social progress to the communities of the Islamic countries members and Dubai Islamic Bank that founded by governmental decree issued by the state of Dubai. In 1977, Sudanese and Egyptian Faisal Bank has been founded and Kuwait Finance House in addition to the establishment of the international union of Islamic banks that locates in Mecca that approved from the Islamic countries in the ninth meeting of foreign ministers of Islamic states that held in the city of Dakar, Senegal in 1978.

In 1978, the Jordan Islamic Bank for Finance and Investment has been founded under temporary special law with number 13 until 1985 where there is permanent decision has made belongs to it and registered as a contribution company in 1986. In 1979, the Bahrain Islamic bank has been established according to the decree number 2 and commenced its operations in November of the same year. As well as, in 1983, the Faisal's Islamic bank has been established. Also, Qatar knew the first Islamic bank in 1982 which is Qatar Islamic bank and then in 1988 the Islamization of Al Rajhi Bank has been done in KSA (Zaatari, 1991: 15-16).

1.3.2 Functions and Services of the Islamic Banks

The Islamic banks practice their functions by taking advantages from the transactions of the Islamic jurisprudence and take advantage of the scientific experiments of the usurious banks which do not interfere with the Islamic Sharia and

then the extrapolation of jurisprudence in the new aspects of the banking transactions through diligence and deduction.

The functions and services that can be provided by the Islamic banks can be summarized as follows:

1.3.2.1 The Acceptance of Deposits

The deposits are considered one of the more important money resources to any bank and there are two types of deposits in the Islamic banks which are:

- 1. Credit deposits (non-investment):** They are the money that deposit by them owns in the bank on the form of secretariat to keep it for the purposes of daily and commercial transactions and not for the purpose of investment.
- 2. Investment credit:** they are the money that deposited by them owns in the bank for the purpose of the investment of these moneys where the owner of the banks invests these monies in legitimacy ways and the contract that signed by the depositor and the bank is speculative contract which means the money will share the profit and loss. The investment credit maybe under demand request or delayed to unknown time which maybe short, medium or long and it maybe a general in all types of investment or specialized in specific investment and the profit ration is different according to each type. (Khalaf, 2001: 275-281).

1.3.2.2 Financing

One of the most important formulas that practice by the Islamic banks include:

1.3.2.3 The Financing Formulas in the Islamic Bank

The financing formulas in the Islamic banks are varied and we will try to mention their importance as follows:

- 1. Ticks (speculative):**

Definition:

If one pays to another dinars or dirhams for trafficked and he got some profit, they have to share between each other according to the condition which was a half, two-thirds or quarter or known part.

How to employ it in the Islamic banks

The functioning process will be at the following way:

- First form: The Islamic bank may finance some project and another part will work at this job of the project.
- Second form: the financing maybe from a part and the work by the Islamic bank.

2. Musharaka

Definition: the partnership means the thing became between two which cannot be unique to any one of them.

How to employ it in the Islamic banks

It can be employed through financing the deal or the diminishing participation that ended in the ownership or through financing in the continuous participation in the fixed and current capital.

3. Silm

Definition

Sell something described in the disclosure that is postponed in other than its gender (AL-Kashnawi, 2000: 311).

How to employ it in the Islamic banks

In our age, the safety is considered a financial tool with high efficiency in the Islamic economic and in the activities of the Islamic banks in terms of their flexibility and response to the different financing needs both the short-term, middle-term and long-term financing and their responses to different and multiple demands of agents both from the Agricultural, commercial or industrial producers, entrepreneur or traders and its responses to financing the operating consumptions and others. The employing of hand over contract in the Islamic banks will be at the following ways:

The first form: The paying of the Islamic bank to the dealer immediately and receive the good later in specific and agreed time and it is the form that done with the traders, farmers, industrialists, entrepreneurs and others who practicing economic activities.

The second form: the selling of the central bank which it was agreed to sell in the hand over formula to a third party and the Islamic bank gets on profit according to the selling and buying processes together.

The third form: the selling of the central bank the hand over in installments. Thus, it gives the hand over on the form of installments and payments and the capital too on the form of installments and payments (Felih Hasan Khalaf, 2001: 348-349).

4. Murabaha

Definition

It means the selling in the capital and with known profit.

How to employ it in the Islamic banks

It works at the following form:

The first form: the deal of the Islamic bank with dealer who wishes to buy good or real estate which owned by the bank with dealing on the quantity of the profit that will be added on the purchase price of the bank or the cost that protect instead of the good or real estate.

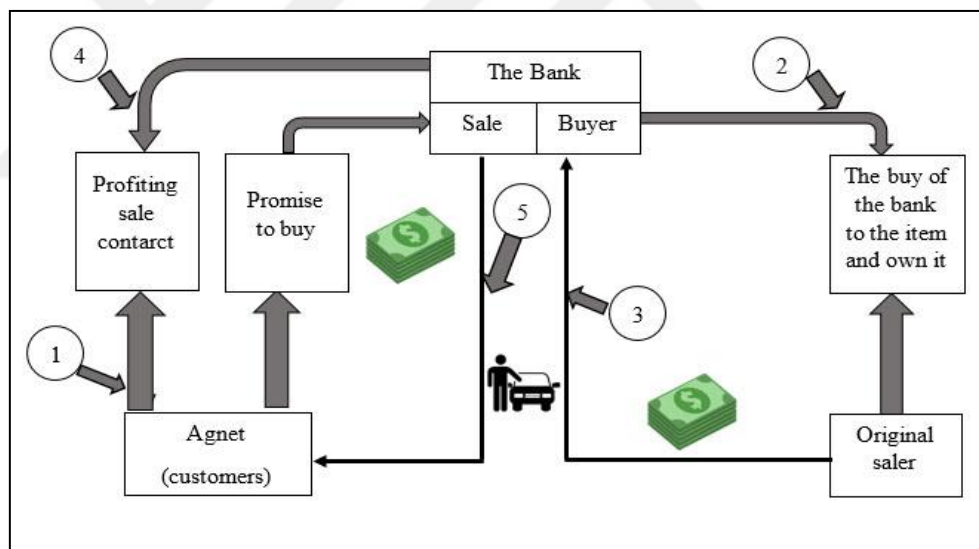


Figure 1. The general process of profiting

The second form: the asking of the client from the bank to buy specific good that determines its descriptions and cost that he will pay to the bank added to it specific profit in return of the bank to buy the good and sell it for him (Khalaf, 2001: 307).

5. Muzara'a

Definition

It has many definitions which can be summarized as follows:

- The sharecropping is one type of the contracts.
- This contract looks like the contracts of the companies.
- It targets the development and utilization through plant breeding.
- The development in which is division agreed between the owner of the earth and the worker on it.

How to employ it in the Islamic banks

It works at the following form:

The first form: The Islamic bank provides the funding (machines, seeds, fertilizers and pesticides) and the earth. The farmer works and this form takes a form of the speculation.

The second form: The Islamic bank provides the funding, farmer provides the earth and work, and each one of them get on pre-agreed ratio.

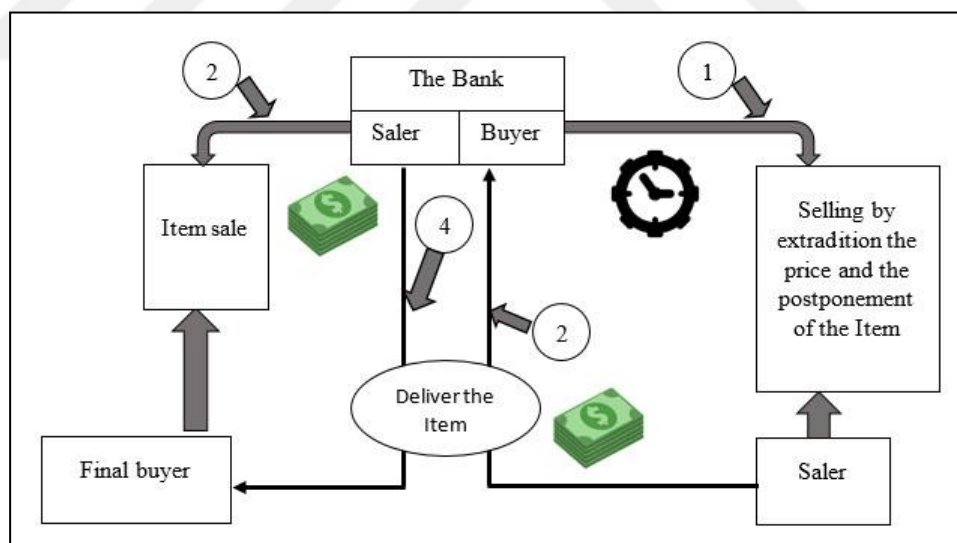


Figure 2. The general process of sharecropping

The third form: the multiplicity of sharecropping parties that the bank provides the funding, the owner of the earth provides the earth and the farmer provides the work and each one of them get on pre-agreed ratio (Khalaf, 2001: 368-369).

6. **Almusaqa**

Definition

There are many definitions to this term including:

- A contract on serving the trees.
- The man can give the tree to who serve it and the income of it will be divided between them.

How to employ it in the Islamic banks

It works at the following form:

The first form: the earth and trees belong to the bank and facilities and work from the other party.

The second form: the earth, trees and work from one party and facilities from the Islamic bank.

The third form: the earth, trees and facilities from one party and the work from the other party.

The fourth form: the facilities from the Islamic bank which provides fund and earth, trees from other party and the work from another party.

The fifth form: each party participates in the earth, facilities and work (Khalaf, 2002: 371-372).

7. **Istisnaa**

Definition

Istisnaa represents a job contract according to specific conditions.

Its conditions

The Industrialization contract must include the following:

- Determine the manufactured type, quantity and required specifications.
- Its terms must be determined.
- It is possible at the industrialization contracts to postpone the whole price or installment it into determined and specified time of the installments.

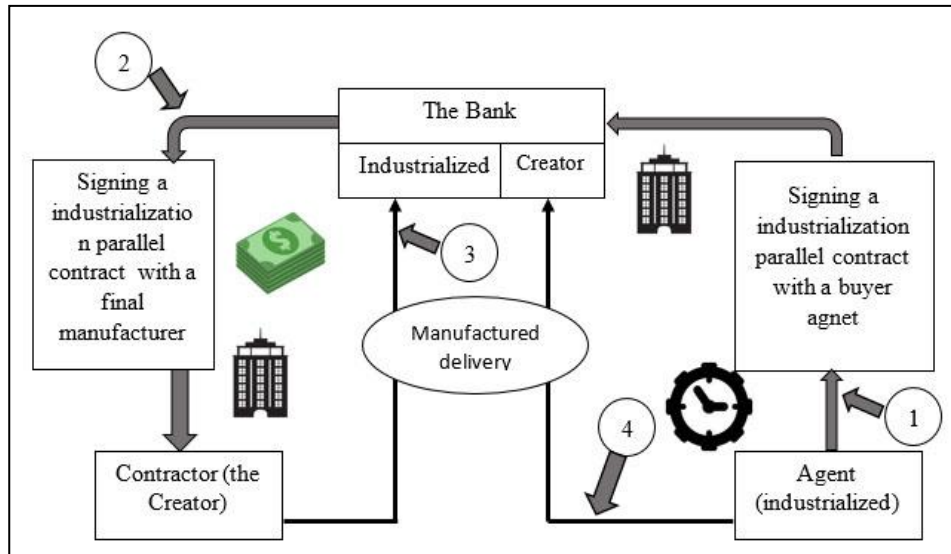


Figure 3. The general process of industrialization

- The industrialization contract may include a penalty clause under the agreement between the parties if there are no compelling circumstances (a decision of Islamic Jurisprudence Academy with number 7/3/67 that held in its ninth cycle (1992))

How to employ it in the Islamic banks?

It works at the following form:

The first form: the request of the Islamic bank from the constructor of specific project such as specific building and finance it according to specifications that determined by the bank and when receive it, he can sell or rent it in a form that ends with the ownership and get profit from it.

The second form: the industrialization is financed by the Islamic bank and implemented by factories where their ownerships belong to the bank or companies belong to it (Khalaf, 2002: 403-404).

8. Leasing

8.1 Definition

The ownership of known benefit into known time and compensation.

8.2 How to employ it in the Islamic banks

It works at the following form:

8.3 The first form: the renting of the Islamic bank for machines and equipment's to the industrialists and construction and drilling machines for the entrepreneur, vehicles and cars for the transporters and others.

8.4 The second form: renting persons and institutions for the Islamic bank in keeping the money bills and valuable things, collecting checks and others in exchange with wage which is taken by the bank for the services that performed to the dealers (Khalaf, 2002: 387-388).

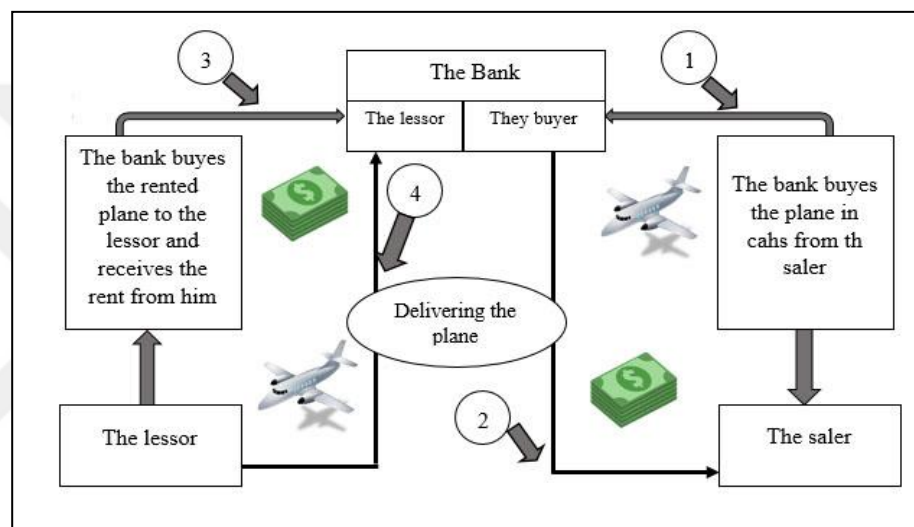


Figure 4. The general process of leasing

1.3.2.3 The Investment

The Islamic banks invest the money by different formulas including purchase of securities and trafficking in gold, silver, currencies and goods as long as it consistent with the principles of Islamic sharia.

1.3.2.4 Providing a Variety of Banking Services

The Islamic banks provide most of the traditional banking services that provided by the usurious banks such as bank transfers, collecting checks, opening letters of credit, issuing guarantees, and renting iron funds and so on.

1.3.2.5 Providing social, Cultural and Educational Services

The social, cultural and educational services are reflected in many issues including:

1. Stand by with the learners: where the Islamic Banks seek to help them at their obstacles and not to issue them just if they face difficulty to pay the installments due, and give them the time to reach into solutions that guaranty the continuous of the dealers with the guaranty of the depositors' rights.

2. Well loan: in order to help those in need to manage their daily life without any interests for humanitarian purposes of marriage, treatment, depts., disasters, accidents and the incidence of deaths and other. The Well Loan does not exist in the usurious bank and nor in the capitalist thought.

3. Zakat Fund: Zakat contributes in the social life and work on poverty eradication, decrease its risks and open work opportunities. Thus, most of the Islamic banks established Zakat fund and make it separate in its management and accounts from the bank and placed to the fund a list and supervising the implantation of it Fatwa and Sharia Supervisory Board within the Bank.

4. Cultural and educational services: including the establishment of institutes, issuing the scientific magazines, for example, the establishment of the Islamic bank to the Islamic institute for researches and training and the issuing of Dubai Islamic Bank the monthly Islamic Economic Magazine. As well as, the Islamic bank are establishing the scientific conferences, participation and help the researchers in the field of Islamic Economic.

1.3.2.6 Goals of the Islamic Banks

The goal of the Islamic bank representing in the movements of potentials in the community to reach into the maximum possible productivity in order to ensure the desired change in Islamic law.

There is no doubt that the movement of the potentials in the society wherever the types of these energies both human, material and others represent a goal that Islamic banks seek to achieve (Abdul Hamid, 1983: 153).

Thus, the Islamic banks work on achieving multiple goals in the Islamic Sharia framework in general regarding the provisions of financial transactions. The most important goals of the Islamic banking include:

- 1. Ideological Goals:** the ideological goals stem from the succession rule and from the fact that money is the money of God and the banking transactions must be compatible with Islamic sharia law and the Islamic bank must find the Islamic alternative for the whole transactions to raise the embarrassments on the Muslims (Kafrawi, 2011: 143). The Islamic banks takes from Islamic faith basis for its work and derives from it all of its being and ingredients (Hadeel, 2011: 4). Consequently, the Islamic bank works on raising the needs of individuals and fulfill them in proper ways in terms of providing the banking services which compatible with their real need and religious beliefs. Thus, it guarantees to them the material and moral satisfactions at the same time (Ahmed, 2006: 90).
- 2. Ethical goals:** The Islamic banks aims to constitute and develop the good manners and behavior stemming from ethical values to the dealers in order to cleansing the economy from the evil that injures it from the interest-based system (Jabeer, 2001: 73-74).
- 3. Social goals:** the social goals are represented in the harmonization between achieving the economic and social income at the same time by directing the Islamic banks to invest in chosen projects according to economic and social standards to achieve the maximum possible income, the activation of Zakat and a spirit of social solidarity, some free-interest loans that contributes in solving the problems of many beneficiaries or the contribution in projects with social nature. Thus, achieving these social goals would boost confidence to the dealers and interests in the industry of Islamic banking (Abo Baker, 2012: 68-69).
- 4. Development, economic and financial goals:** The Islamic bank contribute effectively in achieving a set of development, economic and financial goals representing in providing the basic needs of the communities, achieve the balanced economic growth to the whole sectors and in the form, that allows the interest in the least developed regions to achieve the economic security to these communities and exit from economic, political, cultural and social dependence prison (Raheem, 2002: 222-231). The banking system is able to solve the economic development problems which compatible with the doctrine of the nation and its cultural aspiration and configures a strong motivation to launch the energies in the Islamic countries and open the way to the innovation and

creativity through privileged economic mode that achieve the progress justice and stability (Ahmed, 1980: 85).

Furthermore, the Islamic banks aims to deploy and develop savings awareness and rationalize behaviors agreement among individuals in order to excess mobilization of resources and money idle capital and attract and deploy them in the economical fields that increase their incomes and productivity in the way that contributes in constructing proper economic base to the whole society according to the determined Islamic formulas of employment and invent new formulas which compatible with Islamic sharia and commensurate with variables that occurred in the banking market and guaranty the optimal investment to the resources of the bank. Moreover, the Islamic banks contribute effectively in achieving the economic and monetary stability and process the phenomenon of inflation (Ba'dash, Saied, 1990: 5). However, the main objective of the Islamic banks is still to achieve the profitability (as they consider economic institutions before everything and not charity organizations) (Aysa, Mirzaqa, Sharif, 2003: 4).

From the above, the top goals of Islamic bank are the commitment with sharia regulations. Thus, it uses the business ways that compatible with Islamic regulations in order to achieve economic, cultural, financial, social and behavioral shift from Islamic perspective which achieves the development in accordance with the purposes of legitimacy standards.

1.3.3 Islamic Banks in Islamic Non-Arab Countries

Many Islamic banks has been established at these countries such as Iran which has transformed all of its banks into Islamic banks under the chapter 43 of law 1983 which setoff the interest of banks in rewards taken by banks instead of what they are doing of business and services and the same thing in Pakistan where the Pakistani Islamic Thought Council has supervised the replacement of the Islamic regime in place of interest system (Maliki, 1990: 86-92).

1.3.4 Islamic Banks in Non-Islamic Countries

The resounding success that achieved by the Islamic banks have impressed too much of dealers and depositors which resulted in establishing Islamic banks in non-Islamic countries such as the Islamic House of Money in Switzerland that established in 27/07/1981 and started its actual activity in 1982. Also, the International Islamic Bank in Denmark which got the permission in 1983 in addition the Al-Baraka group in UK in 1981. However, the obstacles that faced Al-Baraka group led to close it by the Central Bank in UK in 1993 arguing the bank's ownership, management, ownership and the combination of the owner group. There are no doubts that these are administrative reasons and nothing to do with success or failure of the bank. Furthermore, the international holding company established in Luxembourg of the Islamic banking job in 1978. Also, Kipris Islamic Bank is established in Cyprus in 1982 in the Turkish region which exploited by the students who study in the Islamic economic institute in Cyprus to enhance their training in order to apply the best concepts of the Islamic banks (Maliki, 1990: 80-85).

CHAPTER TWO

2. THE RELATION OF THE ISLAMIC BANKS WITH THE CENTRAL BANKS

The Islamic banks in many countries work as part of the banking system and the rules and instructions applied on them as the rules applied on the traditional banks with some exceptions without taken into considerations the privacy of their foundations under which the Islamic banks work that effect negatively on their works and most of the Islamic banks have been founded as contribution companies but their legal references are diversified. The relation of the Islamic banks with central banks exceed the direct ordering and monitoring issues because of the central bank in the state is the responsible on applying the monetary policy of the state and exercise the control on the banks where it is placing the rules and instructions of the banks in general. However, the central bank does not take into consideration that Islamic banks work according to the economic and financial concepts that compatible with the Islamic Sharia laws. Thus, the Islamic banks need to special exceptions since the moment decision to license. In the Islamic world, there are models of the regulatory frameworks that represent the relation of Islamic banks with the central banks (Hasan, 2004: 507-509).

2.1 The Relation Issue with Islamic Banks

It represented in the countries that changed their financial and banking system which compatible with the Islamic Sharia laws that is called (Islamization of the Banking System) and these countries include Sudan, Iran and Pakistan and the relation here based on the integration and determined by controls and rules that suit with the activity concepts of Islamic banking.

2.2 The Models of the Islamic Banks in Terms of Their Relationship with the Central Banks

Currently, there are about two hundred institution and Islamic bank. However, they can be divided into four groups in terms of their relationship with the central banks as follows:

- **First group:** Represented by the countries that changed their banks completely to Islamic banks including the central banks themselves and these countries are Pakistan, Sudan and Iran and these banks are emerged with the banking system and they have not any problems caused the fluctuations of the political situations. In Sudan, the change of the governmental policy led to deprive the Islamic banks from facilities were their own. As well as, the central banks tried to place the operations of the Islamic banks under its control completely. So, the relation with the central bank marred by some caution and sometimes cramping (Haydar, 1994:13).
- **Second group:** Represented by the countries that gave the Islamic banks special care. They issued to them special laws that determine their relationship with the central bank with remain of the traditional banking system unchanged such as Turkey, UAE, Malaysia. In Malaysia, the Islamic bank law is issued in 1982 and the law included the process of authorization and supervision by the central bank similarly to what is going on in the traditional banks with some modifications that necessitated by the nature of the Islamic bank activity.
- **Third group:** they are the set of the Islamic banks that issued to them temporary or exceptional laws and got on express or implied exemptions completely or relatively and including the Islamic banks that created in Egypt, Libya, Bahrain, Kuwait and Philippines. Kuwait Finance House is not subject to any oversight from the central bank. While, in Philippines the law of the Honesty bank issued and included special understandings between the Honesty bank and central bank in terms of the rate of cash, cash reserves and the Honesty bank exempted of applying the central bank rules associated with the interests, loans or any tool that hold the interest nature (Shehata, 1994: 14-15).
- **Fourth group:** The set of banks that created without specific regulations which governed and without exempted them from the traditional banking systems

such as Denmark and Libya. Where in Denmark the international Islamic bank is established after negotiations with the authorities reached at the end to mutual understanding on the basis that the monetary authorities cannot exempt the bank from the banking laws that work at that country. As well as, the management of the bank can direct the Islamic banking job within the banking laws that work at that country (Atiya, 2003:55).

2.3 The Regulations that Organize the Work of the Islamic Banks in Libya

In Libya, the articles from 50-59 for the year of 2000 belong to the banks laws which worked until now started the work in 1/8/2000. The law of the article materials that organize the work of the Islamic banks inside Libya where the law has determined the goals of the Islamic bank which are providing the banking services and finance and investment services that are not based on the interest. As well as, provide the services aimed to revive the images of organizer social solidarity on the bases of the mutual benefit. The mentioned law has addressed to the matters that must be taken into consideration when the Islamic bank practicing the banking jobs and take into consideration that these jobs and activities must be compatible with the approved doctrinal views and not based on the rate of interest. Furthermore, these materials have determined the jobs and services of the Islamic banks that provide them as follows:

1. **The acceptance of deposits and accounts:** In the Libyan dinar and different foreign currencies on the form of current accounts and under the request and the accounts of the joint investment.
2. **Investment Portfolio:** Which is a pot savings and the bank accept in it the amount of money from the agents to manage and invest them on behalf of them and the investment portfolio are always associated to specific project or deal and its income varies and determined according to the size of the activity.
3. **The investments:** The Islamic bank is investing his money in multiple investment channels which include speculation in stocks, participation and the direct investment such as buying real estate, cars, machines, leasing and others.

4. Practice the others banking business based on non-interest at all of its known types or used both to his account and other accounts inside and outside Libya.
5. Acting as the chosen guardian to manage the companies and implement the wills according to the provisions of Islamic Sharia law.
6. Acting as the proxy in the field of social services that aim to increase the ties of coherence between groups and individuals including provide the loans or create or manage the allocated funds for social purposes.
7. Establishing companies and the ownership of the moveable and immovable funds and sell, leasing and rental them including land Reclamation, for agriculture, tourism and housing.
8. The establishment of insurance funds and exchange insurance to the benefit of the Islamic bank or to who deal with it in different fields.
9. Property Management and other assets which can be managed by the banks on the basis of the agency paid.

Under the article (58) of the new law of banks that the bank should be restricted under the laws of Islamic Sharia by appointing a board called (Sharia Supervisory Board) in a decision from the general board of the contributors and its members should not be less than three persons and its opinion will be obligatory to the Islamic bank. The general board is responsible on the following tasks:

1. Monitoring the job of the Islamic bank and its activities in terms of their restriction under the Islamic laws.
2. Give the opinion in the formulas of the contracts that necessary to its job and activities.
3. Consider the matters assigned to it according to the orders of the central bank that issued to this purpose (the banks laws number (28) for the year (2010), 2000: 18-22).

2.4 The Challenges that Face the Islamic Banks

There are many challenges which face the Islamic banks. The most important of these challenges can be summarized as follow:

2.4.1 The Difficulties that Face the Islamic Banks

One of the most important problems that face most of the Islamic banks include the following:

1. The central banks apply on the Islamic banks the same rate of monetary despite the different components of percentage numerator. Some researchers see that the Islamic banks are not dealing in the governmental bonds and they are one of the numerator percentage components and suggest considering the stocks within the numerator percentage components instead of the governmental bonds (Shehata, 1994: 17). Many researchers at the Islamic economics agree on the continuous of this rate because it does not contain on what depends on Usurious Dealing and it achieves the safety in managing the money at the Islamic banks (Naser, 1996: 101).
2. The central bank applying on the Islamic banks the same cash reserve requirements. So, many Islamic researchers and bankers see following about that:
 - a) Retaining full reserve (100%).
 - b) Applying the cash reserve ratio on the current accounts only.
 - c) Applying cash reserve ratio as applied on the traditional banks (Kamel, 1992: 27).
3. The difficulty of getting funds from the central banks when necessary. So, some researchers in the Islamic economic see that the central banks are going to place their money in the Speculative format with the Islamic bank and take some profit differ from the profit from other agents in order to stay some profit to the Islamic bank. Some central banks have investment deposited in the Islamic banks at some countries including Bangladesh and Mauritania
4. The lack of benefit of the Islamic banks from the rediscount where this tool interferes with the nature of the Islamic bank works because they are from the usury that is forbidden in Islam. Some researchers at the Islamic banks suggested that to cancel the price of the rediscount rate where it means the

controlling of introducing the money. Thus, the variable which through we can implement monetary policy in the Islamic economic is the money supply (Shawesh, 2002: 7).

5. The opposes of the central banks to conducting the opening markets operations with the nature of the Islamic banks works because the government bonds are exporting in the price of the interest and some researchers at the Islamic banks see that the central bank use the bonds of profitability and borrowing which is legitimately possible instead of the bonds (Al-Amaydah, 1991: 116).
6. The rate of capital to the deposits applied on the Islamic banks as applied on the traditional banks. While, the copyrights\ the total of assess is relatively high in the Islamic banks as compared with the traditional banks because of the increase of participations and precautions. So, some Islamic researchers see that the rate of the capitals to the deposits in the Islamic banks must be different than the traditional banks (Monem, 1996: 30).
7. The central banks depend in applying the financial penalties and fines such as the lack of mandatory cash reserve on using the price of the interest and this collides explicitly with the concept of proscription to deal with the interest in the Islamic banks and some researchers at the Islamic economic see that these fines and penalties be severed (which means determined amount of money) (Sartawi, 2005: 20).

2.4.2 Challenges and Obstacles that Face the Islamic Banking Systems in Libya

In addition to what the Islamic banking face in general of difficulties and challenges, the Islamic banking in Libya encountered many difficulties. The most important of these difficulties are the lack of legislation and administrative measures associated with the Islamic banking which take into account its environment and organizational structure and guaranty to it the performing of its role on the best way. While, about the procedures that the Libyan central bank conduct, they are issued on the form of decisions and leaflets circulated to the commercial banks and the banking device in general and assigned to serve in accordance whereby. These legislations are issued according to the requirements of monetary and banking

conditions while achieving the goals that the central bank seek to perform. This can be done in the frame of tools and procedures allowed and laid down by the legislation in force and implementing regulations in charge of monetary authorities to act under which. Always, these legislations have not been designed according to the requirements and privacy of Islamic banks.

In this regard, the Board of the Central Bank of Libya took many decisions which we will try to review some of them in order to verify the extent of the treatment of central bank to the banks and banking branches that provide Islamic services and funds “Excellence in composition and work tools” that fit with its nature and distinguish them from the other working banks and prepare the opportunities of growth and successful.

2.4.3 The Appropriate of Monetary Authority of the Islamic Banking Procedures in Libya

- 1. Compulsory cash reserve rates:** The monetary authorities in Libya imposes on the banks and branches that provide Islamic banking services and funds in Libya to keep the same reserve rate that impose on the other banks on all the types of the deposit liabilities and investment accounts. “the decision number (68) in 2007 refers about unify the compulsory cash reserve rate on the deposit liabilities of the commercial banks and reserve them in the Libyan central bank with percentage of 15% from the deposit liabilities to each commercial bank” and include demand deposits to the whole worked banks in addition to the time and saving deposits despite of their types.
- 2. Legal cash ratio:** The Libyan monetary authorities ask the banks and branches that provide Islamic banking services and funds the same rate of legal cash that the traditional banks reserve. Which indicates on the decision of the Board of Libyan Bank Directors' Decision with number (78) in 2008 to determine the required rate of cash that must be reserved to not be less than 25% from the summation of the deposit liabilities to each commercial bank. So, it does not differ between the banks work in the field of service providing and Islamic banking funds.
- 3. Rediscount rate:** The monetary authorities in Libya deal with the banks and branches that provide Islamic funds and services in Libya to rediscount rate

with the Libyan central bank to provide the required cash when necessity. Which indicated by the Board of Libyan Bank Directors' Decision with number (8) in 2004 about declining the rediscount rate at Libyan Central Bank from 5.0% to 4.0%. As well as, Governing Council resolution with number (26) in (2008) about raising the rediscount rate into 5.0% and at this decision it does not differ between the banks work in the field of providing the Islamic banking funds and services and traditional banks.

- 4. Unify and liberalization the borrower rate of interest:** Central Bank of Libya liberate debit rate of interest and deal with the banks and branches that provide Islamic services and funds in Libya in terms of determining the rate of interest that charge from the loans at the same way that the bank deals with banks which do not provide Islamic services and funds. So, through the way of calculating the rate of interest on the loans where the decision of the Board of Libyan Bank Directors' Decision with number (26) in 2007 to liberate the rate of interest and decision number (39) in 2005 about unify the mechanism of calculating the borrower rate of interest on all the loans and facilities that given by the commercial banks. On the basis of rediscount rate of interest at the Libyan central bank plus a rate that does not exceed on 2.5%. So, it places the branches and banks that provide Islamic fund and services in critical situation to violate the regulations of the Libyan central bank or violate their basic systems that prohibit them to deal with banking interest.
- 5. The liberalization of creditors' interest rates (on deposits):** The creditors rate of interest determined by the negotiations between the related bank and its customer. In this regard, Governing Council resolution with number (36) in 2005 about the liberalization of creditors rate of interest (on deposits) and left the negotiations between the associated bank and its customer which give the commercial banks more freedom of competition in dealing at these prices. This is considered a positive thing for the banks and branches which provide the Islamic services and funds where it permits to determine the rate fits and charged by the provided funds in the form of creditors. This situation is classified to the benefits of the Islamic banking but the mechanism and the way to calculate these interests are subject into technical considerations that

consider the rate of interest or discount are the basic to their job and this confuse the banking job. As well as, the situation about determining the interest on the participations and speculations and the extent to permit locate in the controversial in terms of procedures and interests. However, the central banks find fault in accept or dealing with it. Also, this applies on the Libyan central banks and the banks that depend on the Islamic banking where the legislation and procedures that depended do not include mechanisms adjust the dealing with these formulas of funds.

6. The rate of interest on the deposits of commercial banks at the Libyan

central bank: The monetary authorities in Libya do not allow banks and branches that provide Islamic services and funds to work if they suffer from a deficit in the cash just to resort to borrow from it and this matter is forbidden to deal with it according to their basic systems. This situation is confirmed by the decision of the Board of Libyan Bank Directors' Decision with number (15) in 2005 about declining the rate of interest that guaranteed by the Libyan central bank on the deposits of the commercial banks from 2.5% to 1.75% in order to encourage these banks to search on local investment areas and funds that help in achieving the desired economic growth. However, this encouragement does not effect at the same quantity on the banks that depend of the Islamic banking because they are not dealing by the rate of interest and do not deposit their money at this way and purpose at the Libyan central bank. Thus, this situation requires to think about developing new tools and alternatives that help these banks on investing their cash at the central bank. Also, one of the most successful of these tools what allow to these banks to open investment accounts on the way of speculation that investing within the central bank portfolio and their incomes are shared with specific rate with the central bank that represents the role of speculator.

7. Issues deposit certificate of the Libyan central bank:

The Libyan central bank does not take into account the privacy of the other banks and branches that provide Islamic services and facilities to the lack of their dealing with tools depend on the rate of interest as the basic of their job. As well as, the Libyan central banks do not allow them to open investment of the surplus of

their cash both in buying and selling the governmental papers that issued by the Libyan central bank as similar to deposit certificates. This is mentioned by the decision of the Board of Libyan Bank Directors' Decision with number (67) in 2007 to the permission of the Libyan central bank to issue deposit certificates of Libyan central bank. The interest is determined based on the rate of interest and this is forbidden to the banks that depend on the Islamic banking from the chance of get benefit to invest their surplus of cash.

8. Liberalization of commissions prices charged by banks: The Libyan central bank according to the leaflet number (2005/3) to the commercial banks to renew the commissions charged by the services that provide to their customers. This situation is servicing the banks and branches which provide Islamic services and funds to their customers and open the way to determine the rate of interest the charged by the banking services which compatible with the requirements and necessities.

9. Determine the credit ceiling of the Islamic banks: The decision of the Board of Libyan Bank Directors' Decision with number (48) in 2006 determined a ceiling to the working banks to what give of loans, cash and non-cash facilities to each situation with percentage of 20% from the total capital and unallocated reserves of the bank. This confirms of what mentioned that Libyan central bank is determined to the banks and branches that provide Islamic services and banking funds in Libya the same ceilings of funds and given loans that demined to the banks which do not provide Islamic services and banking funds.

10. Reconsider the foundations and criteria for classification of commercial bank debt and determine allocations needed to address them: The decision of the Board of Libyan Bank Directors' Decision with number (47) in 2006 includes the classifications of the depts. and determine the allocations and its decision with number (47) in 2006 about the standards of the credit risk management as a classification to the standards that categorize the banking risks faced by the operating banks which results in a group of commitments towards the central bank and related authorities. However, the central bank at this situation does not tack into account the privacy of the

banks which depended the Islamic banking due to that their funded are determined by different standards and circumstances that requires to the necessity of doing some modifications at this field. If that has not achieved, we can say that the central bank imposes the banks and branches that provide Islamic services and funds to authorize the banking risks at the same way that imposes on the traditional banks. As well as, it imposes to deduct that part or the rate from their annual profits as allocations to face the distressed debts which imposed on the other banks. So, this thing need to be reconsidered which achieves to the central bank of activating its monitoring and supervision on these institutions and these banks have their right in regulatory and supervisory structured suitable environment.

4. Finally, we can conclude that the legislations and regulatory that depended by the Libyan monetary authorities have not been designed to take into account the nature of Islamic banking which necessities to reconsider these legislations and procedures in substantially to achieve and guaranty the suitable, appropriate and structured environment to better performance to the Islamic banking and achieve the positive contribution in raising the efficiency of banking device especially and ecomania in general (the banks laws number (28) for the year (2010), 2000: 23-28).]

2.5 Definition of the Libyan Banking System

The Libyan banking system has established since the fifties of the last century under the frame that is known as the Libyan Monetary Committee in 1951 which was not particularly supervising on any one of the national banks, according to the dominance of the foreign banks on the banking sector and the lack of national banks that effect basically in the banking sector. So, according to that the Libyan Banking System is generated and started its activity in 1/04/1956 and replaced the Libyan Monetary Committee. One of its functions was to preserve the currency that issued in Sterling assets and at the beginning of its activities he has not any role in monitoring money supply, bank credit or monitoring the banks. At that time, the national banks were not initiated effectively in the economic life. There was need to develop the role of the central bank to face the monetary boom that endangered of inflation caused by

the invention and exporting of oil. At this regard, there is a law issued in 1963 that order the banking system and determine the modes and tools of managing the monetary policies. After the Libyan revolution in 1961, the efforts directed toward the nationalization of the banking sector and prepare it to conduct more effective role in the economic development and the foreign banks have turned to national banks and owned by the Libyan people and many Libyan banks have been generated including The National Bank, Sahara Bank, National Commercial Bank, Wahda bank and Jumhouria Bank. What distinguishes these banks that they were founded on the ruins of foreign banks also, most of these banks were owned by the public sector.

In the last period, the monetary authorities have turned into extending the ownership of the banking sectors and open the way to the private sector in order to win a part of the banking sector. As well as, the way has opened to the foreign sector to contribute in owning and manage a part of the Libyan Banking Sector. Recently, these efforts are resulted in selling 19% of the Wahda Bank to Arab Bank and achieve to these two banks increases in their share according to their expected share and allowed to be owned (the economic bulletin, 2009: 34-40)

2.6 The Relation of the Libyan Central Bank with the Banks operations

The Libyan central bank uses many direct and indirect tools to manage the monetary policies which achieve the overall economic goals and guaranty the safety of the monetary and banking system. At this frame, the Libyan Central Banks retain the mandatory cash reserve that require from the other commercial banks as a percentage of their customers' deposits. As well as, the Libyan Central Bank in order to find investment tools to the cash surplus it accepts the temporal deposits of these banks in exchange of benefits paying to these banks. As well as, the Libyan central bank is considered the last resort to the commercial banks where it can give unordinary loans in facing any exceptional circumstances threaten the banking and monetary stability in Libya.

2.7 The Role of Libyan Central Bank in Managing and Ordering the Banking Activity

The Libyan Central Bank examines and analysis the financial centers of the commercial banks and ensure that they are keeping the required percentages in terms

of the legal mandatory cash reserve. As well as, the bank issues the direct orders to the commercial banks in terms of credit granted by the banking sector. Moreover, the employees in the Libyan Central Bank inspect the commercial banks and their branches and check their registers to ensure the safety of their financial situation and the accuracy of data forwarded to them and the appropriateness of their banking services. Also, the Libyan central bank provides its services to the commercial banks as an organizer, supervisor and manager in the field of clearing the instruments and credit risks.

2.8 The Reality of the Islamic Banking in the Libyan Bank

The Libyan banking system is new to the Islamic banking and the beginning started from Jumhouria Bank which started the work on the Islamic funding formulas and investment “the alternatives banking products, the formal name certified from the Libyan Central Bank” since the beginning of 2009. This was in the permission of the Libyan central bank to the commercial banks worked in opening their windows to provide the Islamic banking for funding and services according to the publication number (09/2009) that issued from the Libyan Central Bank on 29/08/2009 about the alternatives banking products. The publication has defined the alternative banking services as the tools, funding formulas and investments which compatible with Islamic law and determined them in the following formulas:

- Funding on the bases of profit.
- Funding on the bases of speculative.
- Funding on the bases of participation.
- Allowed to the possibility of dealing later in other formulas such as leasing conditioned to study them and prepare their contracts and requirements”.

Thus, Jumhouria Bank that leading the Islamic banking job on the bases of Islamic windows and dealing with profit formulas of buying in some goods including cars, computers and others. As well as, many of the working other banks are enrolled the Islamic banking and provide the profit formula to the order or buying including the National Commercial Bank. Recently, in 2010 Jumhouria Bank thinking to expand the circle of Islamic banking in terms of contracts and included the preparation of studies about activating additional funding formulas and funding

different and greater activates, moreover, the efforts currently are focusing on the direction of opening additional and independent branches banking and this year it aims to open from 6-10 branches at the level of Libya.

2.9 The Monitoring Tools of the Libyan Central Bank on the Licensed Banks

The central banks including the Libyan Central Bank are always using many means to achieve their goals that associated to the licensed banks including:

1. Regulate the amount of credit and its type to respond to the requirements of economic growth and the monetary stability.
2. Working as banks to the licensed banks.
3. Monitoring the banks to ensure the safety of their financial position and guaranty the rights of the depositors and shareholders.

Thus, the Libyan Central Bank use many means and tools in order to perform its functions and achieves its goals which described in the following sections.

2.9.1 Reserve Requirements of Cash

The article of (42) of the Libyan Central Bank laws and its modifications organizing the methods that the Libyan Central Bank dealing with mandatory cash reserve that assumed on the licensed banks, where the paragraph (A) of this article states that “the Libyan central bank must ask the licensed banks to deposit mandatory cash reserve to it with specific percentage from its different deposits and must not be less than of 5% and does increase of 35% and the central bank must deposit the mandatory cash reserve in current account or on the form of deposit or for a period of time and there is no ability to take from this account more the prescribed percentage without the approval of the Libyan Central Bank. The Libyan central bank asked he licensed banks to retain the mandatory cash reserve in the percentage of 60% as the form of deposit subject to notice to two days and 40% on the form of current account. As well as, the central banks determined the applied percentage on the banks by 8% as of 1/1/2002.

In terms of the application of Libyan Central Bank to the immediate gross settlement system, the Libyan Central Bank decided to merge the requirements of mandatory cash reserve in the opening account where the balance of the bank shows

including the minimum balance that cannot be disposed which is (80%) and not to allow to decline the actual balance of the bank from this percentage. The Libyan Central Bank calculating a penalty which does not increase from 1% from the value of shortfall for every single day that shortfall continues (Libyan Central Bank, 1985: 19).

2.9.2 Legal Cash

One of the cash tools that used by the Libyan central bank is controlling the percentage of cash. The cash and deposit is proportionated inversely. The problem of cash is one of the most important problems that face the processes of banking deposits because of the conflict between the goal of profitability and cash. So, if the bank aims to decrease the size of the deposit that given by the banks, it is intentionally to raise the percentage of legal cash that must be kept by the banks. While, if the central bank aims to increase the credit size that given by the banks, it declines this percentage and the bank will be able to expand the percentages of loans. The Libyan Central Banks is determined the minimum to the percentage of the legal cash that must be abide by the banks by 30% where the way to calculate the percentage is as follows:

Percentage Numerator Components:

1. Coins and Libyan papers cash.
2. The balances of the banks at the Libyan Central Bank.
3. The balances of banks at the other banks inside Libya subtracted from them the deposits of the banks inside Libya including the deposits of the Libyan central bank at these banks with transferring the result of the clearing to the denominator of the ratio if it is negative.
4. The balances of the banks at the banks outside Libya subtracted from them the deposits of those banks at the banks outside Libya (including balances and the deposits of the center and branches outside Libya) with transferring the result of the clearing to the denominator of the ratio if it is negative.
5. Governmental bonds or by the guarantee of the government and repayable in a maximum period of 3 months.

6. Governmental bonds or by the guarantee of the government and payable in a period exceeding 3 months.

Percentage Denominator Components:

1. Deposits of the customers at the bank at all kinds.
2. Amounts that borrowed by the bank, whatever their source.
3. Checks, money orders and raffles in the fee payment (A note of the Libyan central bank to the licensed banks, 1985).

2.9.3 The Proportion of Credit / Deposit

The imposition of this proportion by the Libyan Central Bank aims to determine the percentage of the credit that given by the licensed banks to the size of the deposits that have, where that credit should exceed specific ratio and this percentage ranged between 70%-90% during the period during 1974 to 1995 according to the prevailing economic conditions. The central bank cancelled this percentage in 1995 within its frame of work to adopt the indirect mode in managing the monetary policy (A note of the Libyan central bank to the licensed banks, 1996: 38-39).

2.9.4 Ceilings and Concentrations of Credits

The policy or managing the ceilings of credits is occupied a prominent place among the monetary arms that adopted by the Libyan central bank in 1992 when the Libyan central bank forced to adjust the size of the credit facilities within the borders and lines that decided by the economic correction program and determined the size of the credit facilities that given in Dinar and foreign currencies by the licensed banks which do not exceed to ten doubles of the capital and reserves. The facilities here mean the loans, advances, current account, promissory, any other facilities and the banks investments in Loan bonds and stocks. While the terms capital and reserves refer to the paid-up capital, compulsory and optional reserves and retained earnings (A note of the Libyan central bank to the licensed banks with number, 1996). During the year of 1995 hg central banks cancelled the ceiling of the credit that been mentioned above (A note of the Libyan central bank to the licensed banks with number, 1992: 42-44).

2.9.5 Interest Rate

The interest rate represents the amounts that charged by the banks in exchange for loans and advances to their customers. So, if the monetary policy aims to decline the size of the credit, the bank will raise the interest and the borrowing cost become high and the coming customers to ask the loans will decrease. Thus, the credit currencies will be decreased. If the central bank wants to increase the credit size, it works on decrease the amount of interest and the cost of getting money becomes relatively low which encourage the agents on asking the loans and the banks will work on expanding in granting credits facilities. The Libyan Central Bank does not interfere in determining the rate of interest that paid by the licensed banks on the deposits of the customers and not on those charged on credit facilities but the freedom left to the banks to determine the rate of interest since 1990 (A note of the Libyan central bank to the licensed banks with number, 1990: 31-32).

2.9.6 Rediscount Rate

The central bank has the ability to affect the size of the credit by changing the rediscount rate where raising the discount rate means instruct the banks to expand the credits. The discount rate is the interest rate where the commercial banks dealing whereby with the central bank. So, if a commercial bank wants to increase his cash balance, it will resort to the central bank ask it to rediscount to some commercial papers and bonds in his possession according to the determined conditions of the discount rate processes by the central bank and the central bank will deduct them depending on the interests' rate determined by it which called the discount rate. If the central bank raised the discount rate, the commercial banks will transfer these burdens to their agents by raising the interest rate on the loans which resulting on declining the desire of the individuals in getting the credit. Thus, the credit size will be decreased and vice versa if the central bank has decreased the discount rate.

2.9.7 Open Market Operations

The central can resort to the open market operations to monitor the credit in the national economy. The open market means that the entering of the central bank as a seller or buyer to the governmental financial papers aiming to effect on the monetary

display where at the time of the decline of the commercial activities level and the suffer of the government from the economic recession, the central banks enters the black market to buy the governmental monetary papers which resulted to increase the display of the monetary, increase the monetary balances at the commercial banks that lead to increase their ability to give the credits. Furthermore, increasing the quantity of the money that available at individuals lead to increase the demand on the goods and services leading to increase the operating and production. On the contrary, if the country witnesses a status of inflation and the raising of prices in the national economic, the central bank enters the stock markets as a seller to the governmental monetary papers leading to decrease the display of the monetary and withdraw the cash from the commercial banks as price to these papers which decrease their ability to give the credits.

2.9.8 Lending Banks

The Libyan central bank gives the licensed banks credits facilities after ensuring the need of the licensed bank to monetary that makes it implement its obligations where the central banks works as a last refuge to the loans. As well as, the Libyan central bank grants the licensed banks that suffer from financial and banking problems which effect on its cash credits facilities if confirmed that the business results of this bank showed losses for two succeeded years and after ensuring the reasons of those losses. These facilities are not given without a package of corrective procedures that placed by the central bank and abide by the licensed bank and given for a specific period of time which fits with the corrective procedures that placed and the central bank consistent with the licensed bank on how to repay.

2.9.9 Inspection of banks

The central bank appoints one or more than one employee to check the registers of any authorized bank to ensure form the safety of its financial situation and to maintain depositors' money. As well as, the banks must prepare financial settings Semi-annual and annual which reflect their operations and their financial situations according to the proper accounting procedures. As well as, each bank must appoint

an independent external auditor from the list that determined by the central bank between the auditors who categorized as the highest degree and give his opinion in the final prepared accounts by the bank and the justice of these data and inform the central bank if he discovered fundamental matters effect on the situation of that bank.

2.9.10 Office Monitoring

The central bank asks the licensed banks to provide it with periodic data such as monthly statements of assets and liabilities on special form preparing by the control department of the banking system in the central bank and the central bank analysis the basic data in the monthly statement such as the deposits and its classifications and facilities to ensure the commitment of the licensed bank in the percentages and instructions that issued by the central bank. As well as, the central bank asks the licensed banks to provide it the budget of the licensed bank after the approval from the general authority of the bank audited by a legal auditor and the central bank will study this budget and analysis it to assess the financial situation of that bank. Furthermore, the central bank asks from each bank the authorization of the banking risks by providing the central bank the names of agents who their value of the granted facilities more than 30000 dinars to collect these data and provide the bank when they ask about that agent in case of asking to get credits facilities from the other banks to assess the facilities that the agent got from all the banks in Libya to make that bank able to assess his situation and study his guarantees carefully and ensure of his adequate compared with the required credit (instructions issued by the Libyan central bank, 2009: 50-65).

CHAPTER THREE

3. THE RELATIONSHIP BETWEEN THE ISLAMIC BANKS AND CENTRAL BANK IN LIBYA

The central bank as it is the government bank take care of placing the monetary policies and supervise their implementations and control the public banks inside the country whether they are traditional or Islamic banks in order to guaranty the decisions implementation and directives issued by it to guaranty its proper functioning which achieve the purposes of the monetary policies and ensure their financial conditions to protect the rights of the depositors. Also, guaranty that the banks work in the country will be under the central bank control both in direct or indirect way as it is considered the destination where these banks receive the directives that control their work system. As well as, control the banks that deal with the money of the others mainly and their main money does not represent except small percentage from the total of their resources and thus, the importance of the central bank come into use which control the business of these banks.

The different policies of the central bank directly effect on the movement and the activity of the banks work in the country. The size and nature of this effect depend on the type and nature of the control tools that depended by the central bank and the extent that these tools suit with the modes and financial nature of these banks. Thus, it is clear that the curriculum of the central bank and its control modes that it follows are compatible with the thought that judge these banks and their business curriculum and the modes that depended to conduct their different business. However, this curriculum does not compatible with the modes that depended by the Islamic banks which most of them suffer from their subject to the same monetary policies tools that apply on the traditional banks and some of these tools that based on the usury such as re-discount price and the last borrower and some of them procedural that do not take into consideration the nature and structure of the Islamic banks such as the credit ratios that imposed by the central banks (Hattab, 2002: 10).

3.1 Literature Review

Abu Yusuf, (2013) has presented a study which aimed to find a suggested formula to the relation of traditional central banks with Islamic banks both by suggestion specific organizational structure for the central bank and the necessity of configuring unified body for the Sharia supervisory on the Islamic banks that following the central bank. In addition to activating the issuing and trading of the Islamic securities to manage the cash flow better and modify some regulating legislation of the Islamic bank job in the manner that would address the imbalances that marred the relation between the traditional central banks and Islamic banks (Abu Yusuf, 2013: 1-60).

Mohammed Khalaf, (2011) presented a study aimed to release the legitimate and economic evaluation for the relation of the central bank with the Islamic banks in Libya and the researched reached that the central bank in Libya has taken into account the privacy of the Islamic banks in terms of modifying some monitoring tools that are not suitable and their nature of work such as the current cash and the discount rate by allowing the Islamic banks to own immovable and movable assets and solve the last resort of liquidity problem. Thus, at this the central bank contributed in overcoming many problems that Islamic banks suffer in other countries (Khalaf, 2011: 1-74).

Masdoor, (2010) presented a study that specialized to know if the supervision of the central bank on the traditional banks is the same policy that applied on the Islamic banks as a prelude to determine the distinction between the supervision on the Islamic banks and the supervision on the traditional banks. The study recommended to the importance of working on the distinction among the supervision on the traditional banks and the supervision on the Islamic banks compared to what is imposed on the traditional banks in addition to the coordination between the Islamic banks to provide the cash to each other when necessary (Masdoor, 2010: 1-62).

Ahmed and Mohammed, (2009) the study sought to provide some alternatives to solve a basic problem that face the Islamic banks when facing the cash problem. The Islamic banks cannot take advantage from the job of the central bank as a last resort

medic to the banks that suffer from a deficit in the cash because they are working on the basis of interest that is forbidden in Islam and it is refused by the Islamic banks which enforce the Islamic banks to keep high amounts of cash that came with negatives results on their profiting (Ahmed and Mohammed, 2009: 1-71).

Sulayman Nasir, (2005) this study sought to ensure emphasize of the multiplicity of supervisory roles imposed on the Islamic banks which requires the multiplicity in the proposed solutions. Also, the researcher showed that the Islamic bank will not be without the existence of Islamic banking system with the possibility of taking the double system in the job (Nasir, 2005: 1-3).

Islam, Alam and Hussien, (2014) proposed a study which compares the profiting indicators between the Islamic banks and traditional banks in Bangladesh. ROA and ROE have been used and generally showed that the traditional banks more profitable than the Islamic banks where the averages of ROA and ROE are (1.91%) and (20.76%) and at the same order at the traditional banks compared with (1.56%) and (17.15%) at the Islamic banks. This belong to the job nature of the traditional banks that depend on transforming the risks instead of the participation at the risks as the case of the Islamic banks.

Zahir, Wawnjyna, Wafan and Wyjnbyrghyn, (2012) proposed a study that came to measure the extent of effecting the Islamic banks and traditional banks by the currency policy in Pakistan. The variables of the bank assets and the size of its cash have been depended. In addition to the nature of its activity through the period between 2002-2010. The results confirmed that the lending operations in small traditional banks with high amount of cash are less effected as compared with the small traditional banks with low cash. As well as, it is noticed that the big banks are not significantly affected by the cash policy tools according to its high flexibility in managing the cash. While the Islamic banks are considered small and applies on then what apply on the small traditional banks (Zahir, Wawnjyna, Wafan and Wyjnbyrghyn, 2012: 1).

3.2 Research Problem

The Libyan central bank applies modes and controlling tools on the banks, branches and Islamic windows and traditional banks the same monetary policy according to the mandatory cash reserves, legal liquidity, credit limits, re-deduction and other mandatory political tools which applied by the central bank that do not consist with the nature and structure of Islamic banks and their windows. Then it is supposed that these issues effect negatively on the performance of the banks and Islamic windows and reflect in decreasing the ratios of profit distribution on the investment accounts at these banks and Islamic windows and branches.

3.3 Research Questions

Are the same curriculum, modes and tools that followed by the central bank in controlling the traditional banks are suited to be applied on the Islamic banks?

The answer of this question represents the basic pillar of the research pillars according to the basic differences between the curriculum and modes of the central bank work and the curriculum and modes of the Islamic banks.

The problem is represented that the application standards and control tools (monetary policy) that prepare by the central bank to control the operations of the traditional banks are considered a main obstacle to the work of the Islamic banks. Then, they effect negatively on the performance of the Islamic banks and branches and may reflect negatively on the percentages of distributing the profits on the investment accounts at these Islamic banks and branches.

This represents the core problem of the research and its basic questions that the researcher tried to find solutions and suggestions through modifying some processes and legislations that organize the relationships between the central and Islamic banks.

3.4 Research Importance

The importance of this study comes from the significant and increased importance that occupied by the Islamic banks as they consider a part of the global banking system and suitable alternative in terms of the dealing mechanism with the financing and banking issues which compatible with Islamic Sharia and represented

by assigning the participation in the profit and lost in replacement of borrow with interest that put them in a situation able to face the effects of challenges that face their work . Also, the importance of this study is highlighted in its dealing with the challenges face the Islamic banks with the central banks in the highlight of the globalization, financing and banking liberalization where the Islamic banks brought more of deposits and saves and the reality points to their rapid growth.

3.5 Research Goals

This study aims to state the extent of prevailing banking legislations suitability to organize the relationship between the Islamic banks work in Libya from one hand and the Libyan central bank from another hand and the attempt to suggest a set of modifications that must be conducted on these legislations to suit with the nature of the Islamic banking and banks, fulfill their Sharia and economic needs and open the way in the positive contribution of the growth and monetary and economic stability.

The research goals can be summarized as follow:

1. Study the relationship between the central and Islamic banks through the difficulties and challenges face he Islamic banks in general and in Libyan specially.
2. Clarify the concept of Libyan central bank control and state its main tools and the motivations of their applications.
3. Provide the suitable recommendations that aim to apply controlling tools suit with the Islamic banking business in Libya which take into consideration the different nature of these banks and Islamic branches than the traditional banks.
4. The contribution in richness the scientific research in the field of Islamic economic and Islamic banks.

3.6 Research Hypotheses

1. The Libyan central bank applies monitoring procedures and monetary policies tools on the Islamic banks differ from those applied on the traditional banks.
2. The monitoring procedures and monetary policies tools which applied by the Libyan central bank suit the work procedures of the Islamic banking branches and take into consideration their different nature.
3. The volume of the profits that achieved by the banks and Islamic banking branches in Libya effect negatively by the controlling procedures and the traditional monetary policies and tools that applied by the Libyan central bank and reflect negatively on the income volume which will be distributed on the owners of investment accounts at these banks and branches.

3.7 The Research Sample and Boundaries

Spatial boundaries:

While the research is application in the Islamic banks work in Libya, its society will be limited to those associated and deal with the controlling tools of the central bank on the Islamic banks and branches work in Libya.

Temporal Borders

The period of the study. Thus, the study sample includes the following:

- Workers and officials in the Libyan central bank.
- Workers and officials in the Islamic banking branch in Tripoli city that belong to the republic bank.

3.8 Resources of data collection (the research tools)

The researcher during his research on collecting the data depended on many methods as follow:

1. Study the laws and systems that organize the business of the Islamic banks in Libya.
2. The personal interviews with the workers in the senior management of the banks and Islamic banking branches and the workers in controlling the

Islamic banks in the controlling office in the Libyan banking device and Libyan central bank.

3. The use of questionnaire for each of the officials of the banks managements and the Islamic banking branches in Libya who deal directly in applying the monetary policies that used by the central bank in controlling the banks and the official of the control unit on Islamic banks at the control office in the Libyan banking device and Libyan central bank.

3.9 Analyzing the Data and Results Discussion

This section addresses the display and analyze of the data results which have been gotten from the answers on questions that included by the questionnaire where there are 20 questions are prepared and distributed on the workers in the Libyan central bank and the workers in the unique independent and separate branch of the Islamic banking that belong to the Republic Bank which is the pioneer in providing the Islamic banking and financing.

A) Gender

Figure 5 shows the study sample and we can notice that most of the study sample are male with percentage of 84% and the rest of the study sample are female with percentage of 16%.

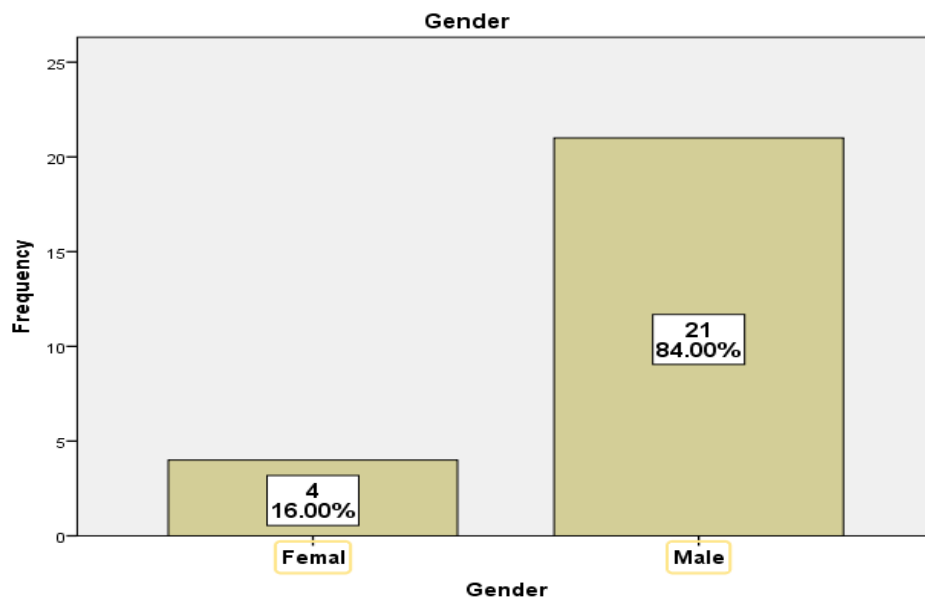


Figure 5. The gender of study sample

B) Age

Figure 6 shows the age of the study sample. So, it is clear that most of the study sample age are more than 40 years old with percentage of 48%.

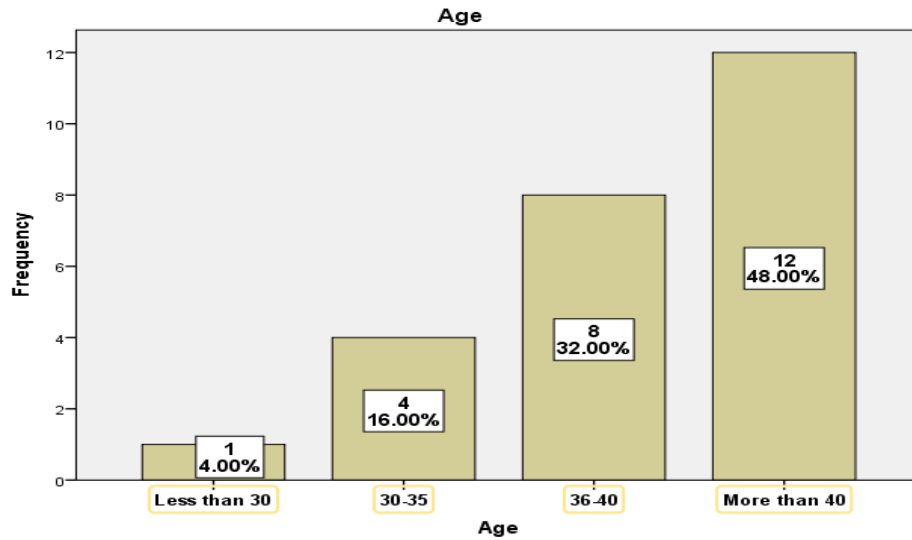


Figure 6. The age of the study sample

C) Qualifications

Figure 7 shows the qualifications of the study sample. It is clear that most of the study sample have bachelor degree with percentage of 52%.

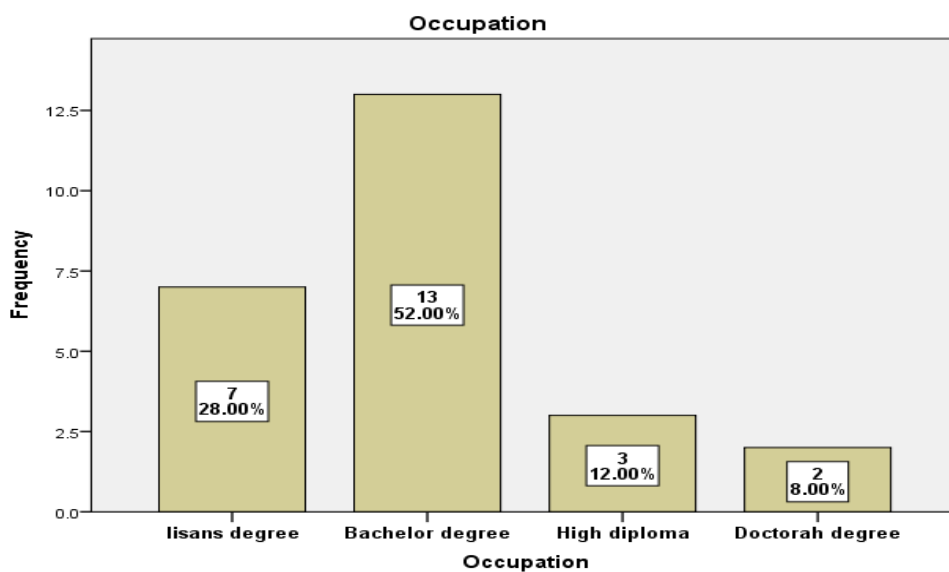


Figure 7. The qualifications of the study sample

D) Compulsory cash reserve

From analyzing the data, it is clear that the officials in the Libyan central bank and the control unit on the Islamic banks stated that with percentage of 44% (Figure 8) that the Islamic banks are asked to reserve compulsory cash reserve at the same percentage that reserve by the traditional banks at the central bank and there is no discrimination for the Islamic banks in terms of that percentage.

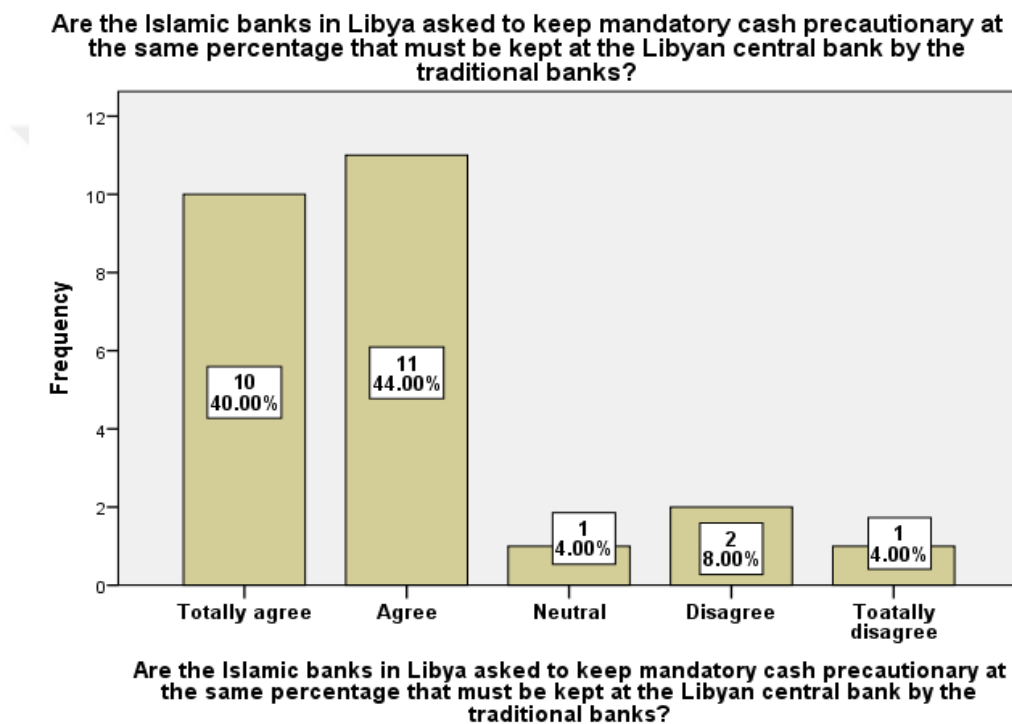


Figure 8. Compulsory Cash Reserve

Also, as showed in Figure 9, the officials in the Libyan central bank and the control unit on the Islamic banks stated that with percentage of 40% that the Islamic bank in Libya asked to keep a legal liquidity at the same percentage that must be kept by the traditional banks.

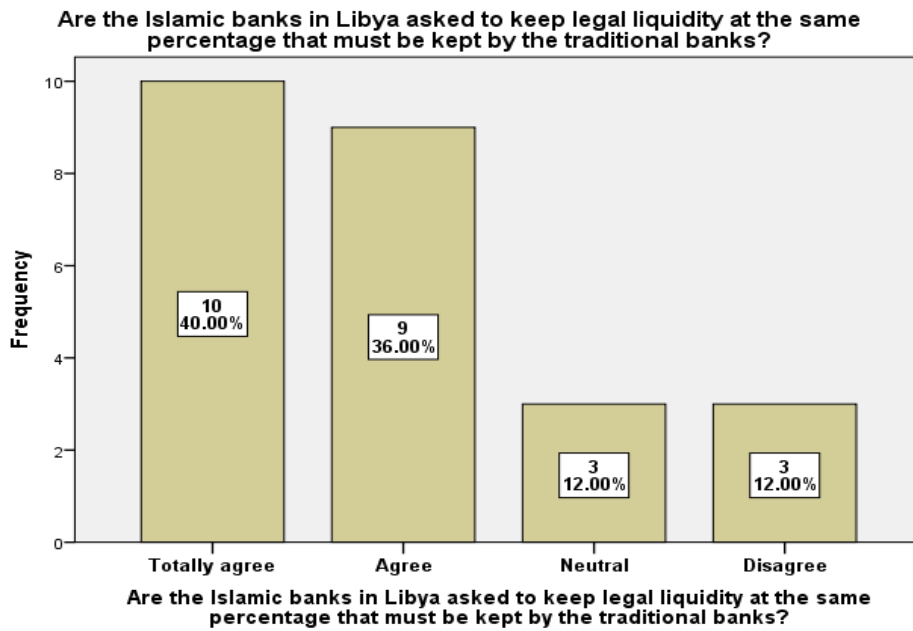


Figure 9. The amount of legal liquidity that must be kept by the Islamic banks

Moreover, in terms the components of numerator and denominator that required from the Islamic bank as the same that required from the traditional bank without taking into consideration to the difference of account nature that reserved by the Islamic banks where most of them are joint investment accounts and without taking into consideration the financing that given by the Islamic banks to their agents as stated by the officials in the Libyan central bank and the control unit on the Islamic banks with percentage of 52%.

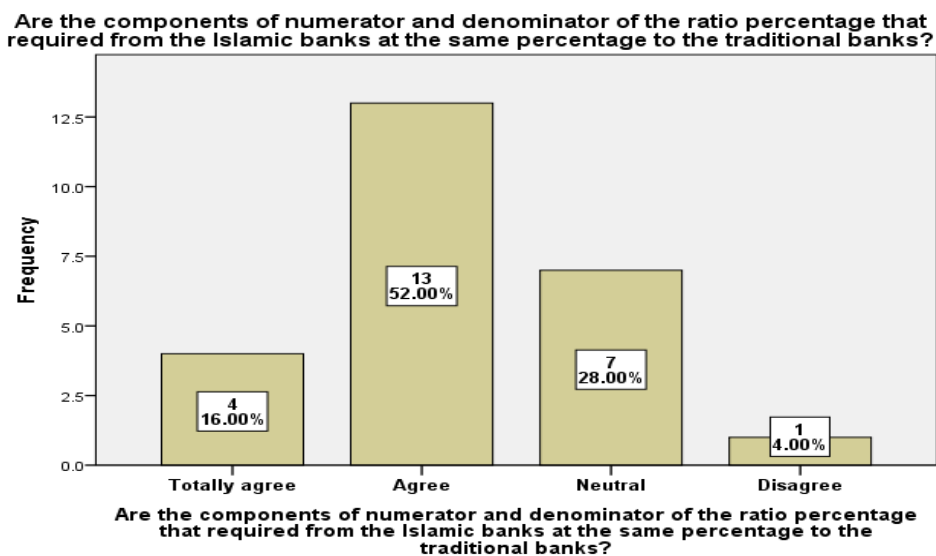


Figure 10. The components of numerator and denominator

E) Credit\deposit ratio

The Libyan central bank according to the questionnaire results with percentage of 28% (Figure 11) stated that the Libyan central bank identifies on the worked banks the percentage of loans to the deposits and as this case it deals with the banks and branches that provide Islamic banking services the same treatment that deal with the traditional banks.

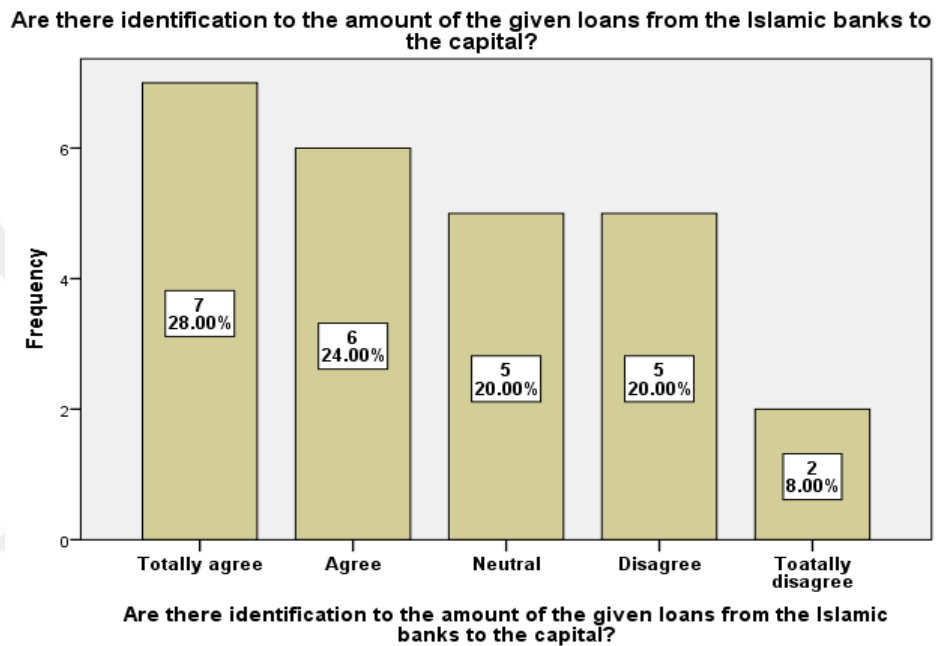


Figure 11. Identification for the amounts of given loans

F) Return paid on the accounts of customers and received on given loans

The officials in the Libyan central bank and the control unit on the Islamic banks stated with percentage of 36% that the Libyan central bank does not determine the revenues charged by the Islamic banks on the revenues that must be paid by the Islamic banks on the agents' accounts as showed in Figure 12.

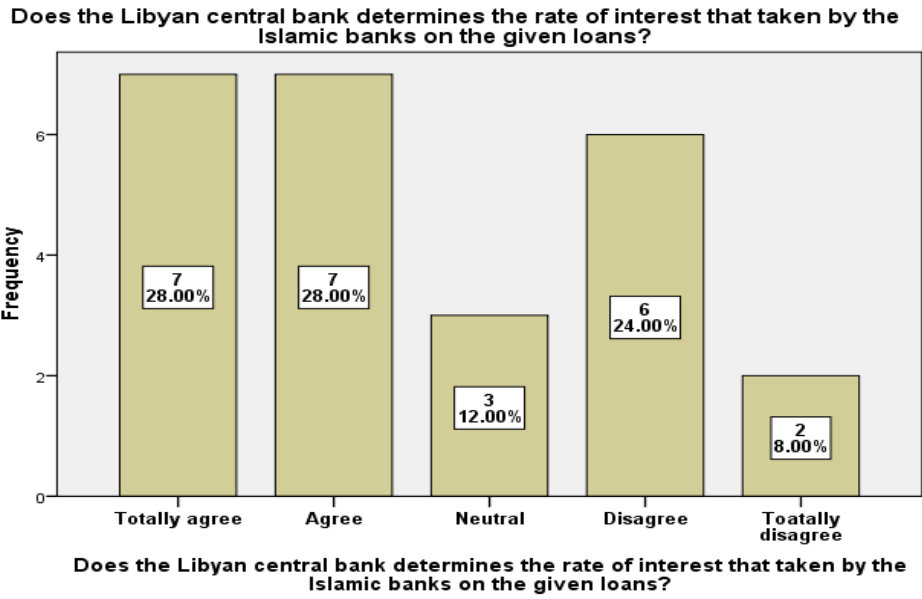


Figure 12. The rate of interest paid by the Islamic banks on the agents accounts

G) Re-discount rate

About 28% (Figure 13) of the participants in the survey in the two Islamic bank branches work in Libya and the Libyan central bank stated that the Islamic banks branches in Libya must not deal with re-discount rate with the Libyan central bank to provide the required liquidity if they needed. When they asked about the alternative that given by the central bank, they stated that the Libyan central bank does not provided any alternatives for the Islamic banks instead of get benefit from re-discount policy and this enforce the Islamic banks to reserve a high liquidity ratio to face the agents demand on the cash.

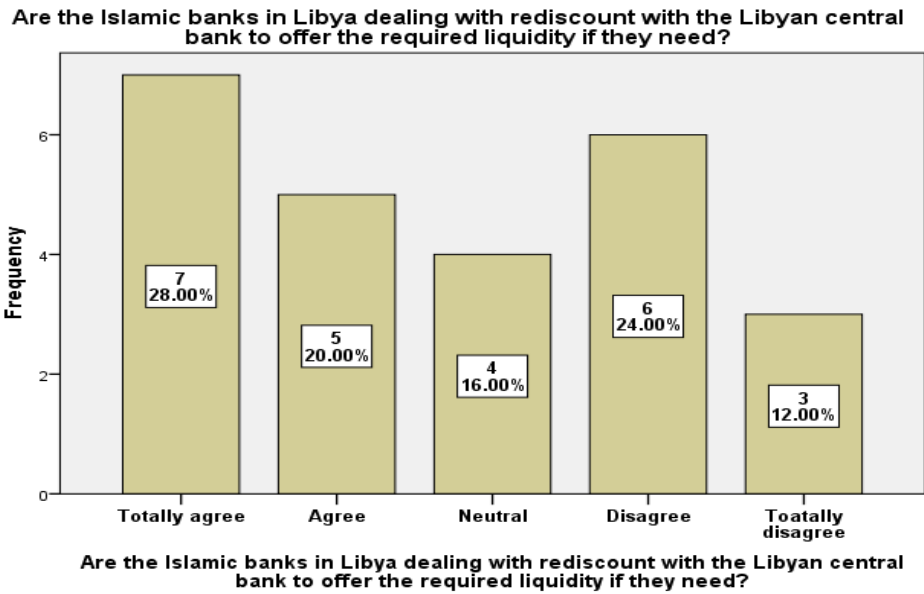


Figure 13. Deal with re-discount rate by the Islamic bank branches

H) Open market operations

The Islamic bank branches must not deal with selling and buying the governmental securities that issued by the Libyan central bank or the bonds that issued by the cash authorities on behalf of the government treasury. At this regard there are about 32% (Figure 14) of the asked people stated that the Islamic banks do not deal and they must not deal at these securities and when they asked about the alternative that provided by the Libyan central bank for the Islamic bank branches to invest the monetary surplus at the governmental securities, they stated that the Libyan central bank does not provide any alternative and thus, the workers in the Islamic banks suggested that the Libyan central bank must issue the Islamic bonding bonds for developmental projects funded by the government that participate in the profit and loss and does not hold interest prices and written by the Islamic banks to invest the cash surplus instead of governmental securities.

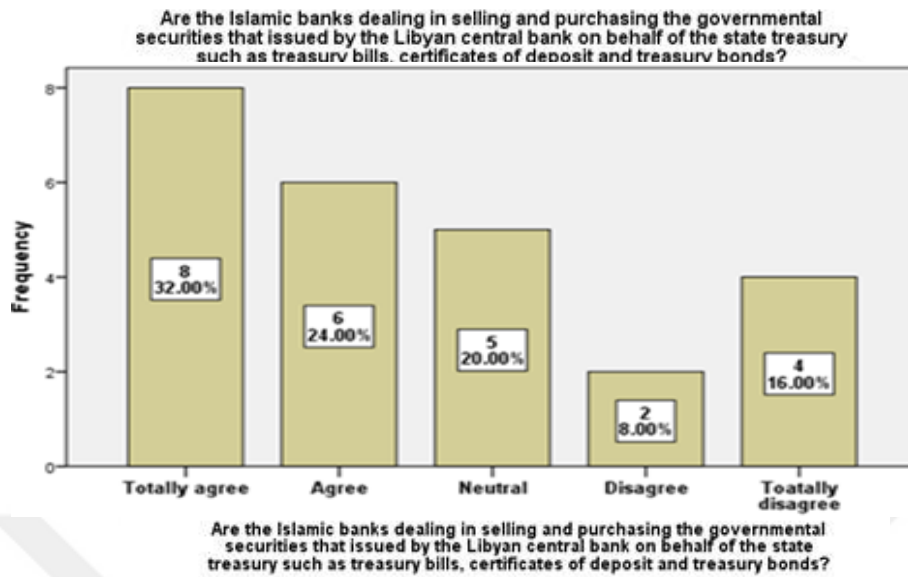


Figure 14. Selling and buying the governmental securities by the Islamic bank branches

I) Islamic Bank Lending

The asked people in the Islamic bank branches in Libya stated with percentage of 64% (Figure 15) that the Islamic bank branches in Libya cannot resort to the Libyan central bank to get lends if it is not necessary. The Islamic bank branches do not get benefit from its resorting to the central bank as a last resort to get their need of liquidity and also, they do not and they should not deal with the deposit window at the central bank to get a loan for one night or invest the surplus cash monetary of their need for 24 hours because the Libyan central bank counting an interest on the loans and lends that given by it and this is interfere with the work concept of the Islamic banks. As well as, at the same regard there are about 52% (Figure 16) of the asked officials stated that the Islamic banks cannot resort to take loans from the Libyan central bank as the Libyan central bank deals with interest rate that is forbidding in the work procedure of the Islamic banks.

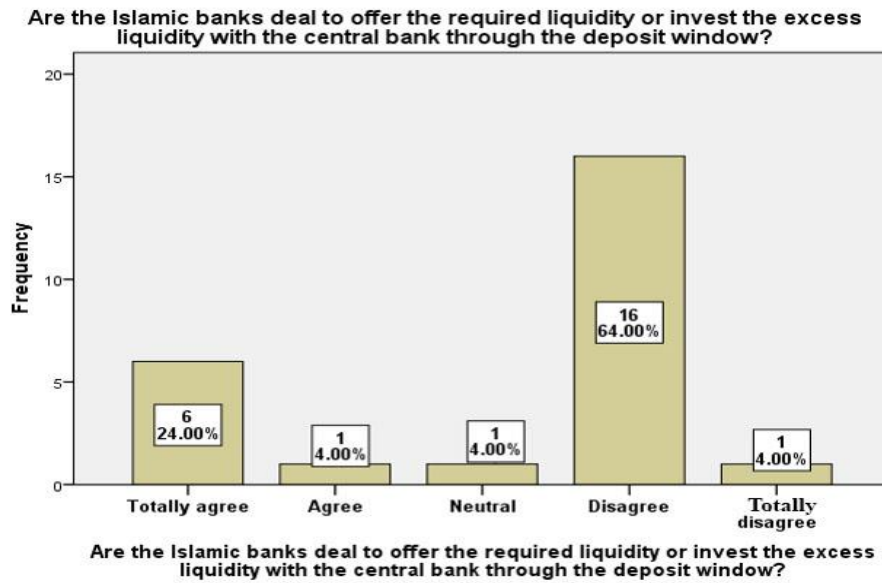


Figure 15. The deal of the Islamic bank to offer the necessary liquidity

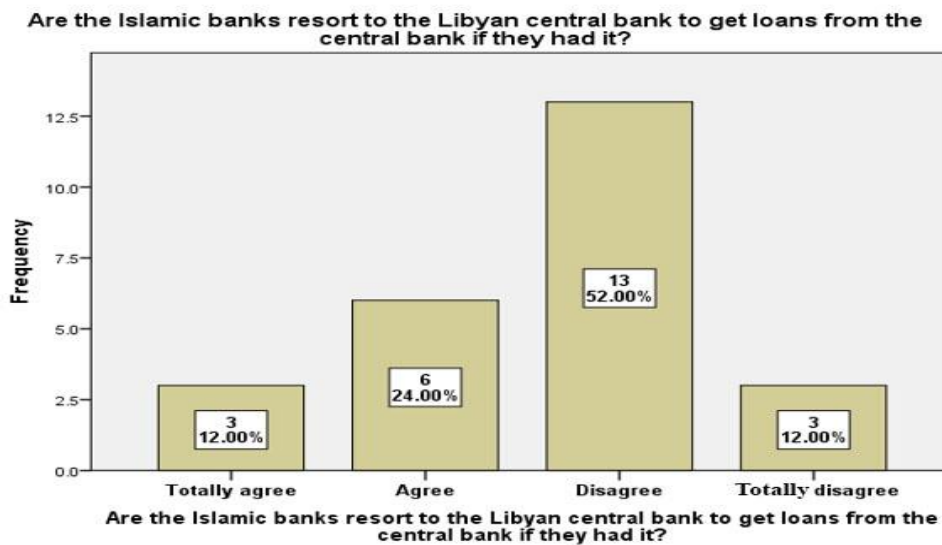


Figure 16. The Islamic banks get loans from the Libyan central bank

J) Inspection of the Islamic banks

Most of the people asked from the Islamic bank branched work in Libya and the officials in the Libyan central bank stated with percentage close from 56% (Figure 17) stated that the inspection procedures of the Islamic bank by the Libyan central

bank are the same inspection procedures applied on the traditional banks despite the difference in the work nature of the Islamic banks. As well as, the Islamic bank branches are committed of supply the central bank by the periodic data that requested by the central bank as stated by about 37% (Figure 18) of the people work in the Libyan Islamic bank branches.

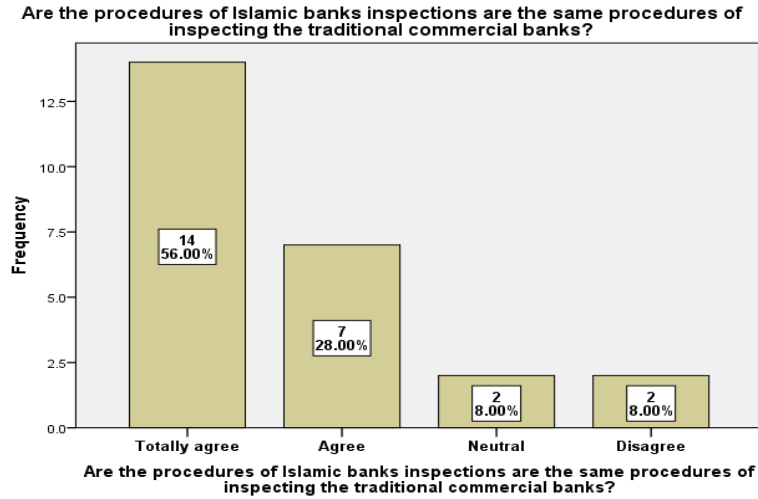


Figure 17. The inspection procedures of the central bank on the Islamic banks

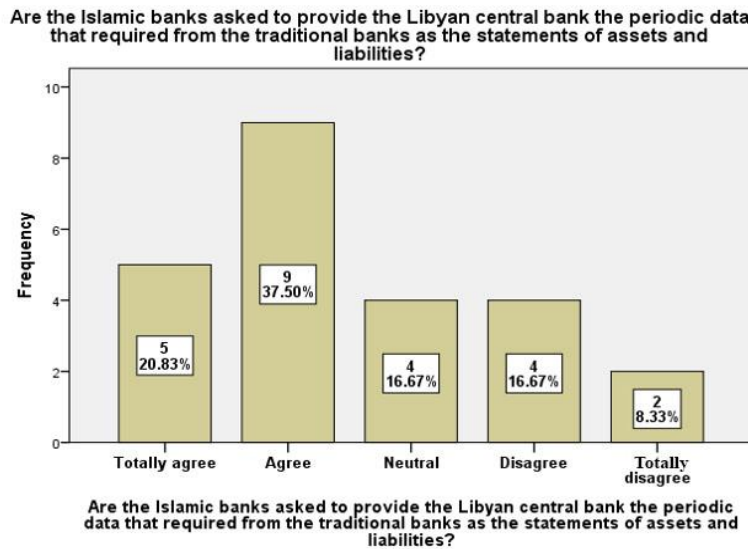


Figure 18. The periodic data provided by the Islamic bank branches to the central bank

Moreover, in terms of authorizing the risks there are about 40% (Figure 19) of officials in the Libyan central bank stated that the Islamic bank branches work in

Libya are committed to authorize the banking risks by providing the Libyan central bank by the names of agents who their given loans are exceeding 300000 Libyan dinars.

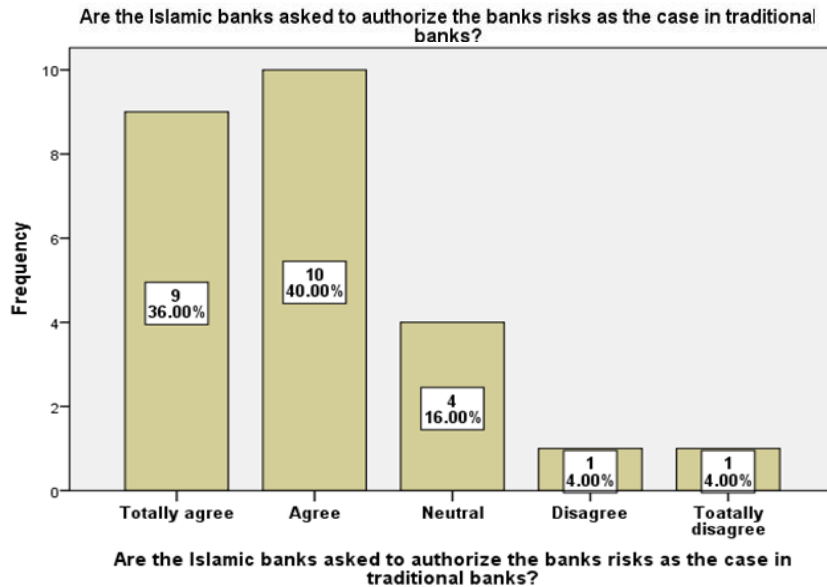


Figure 19. Authorize the risks of the banks by the Libyan Islamic bank branches

Furthermore, as stated by about 44% (Figure 20) of the officials in the Islamic bank branches and the Libyan central bank that there is no separate item for the budgets of the Islamic banks in the monthly bulletin news and also in the annual report of the Libyan central bank where the budgets of the Islamic bank branches with the traditional budgets are merged in one item despite of the different in nature of agents accounts in addition to the financings that given by the Islamic banks than the traditional banks.

Is there a separate section for the Islamic bank budgets in the monthly statistical bulletin of the central bank and the annual report of the central bank or merge within the budgets of authorized working in Libya?

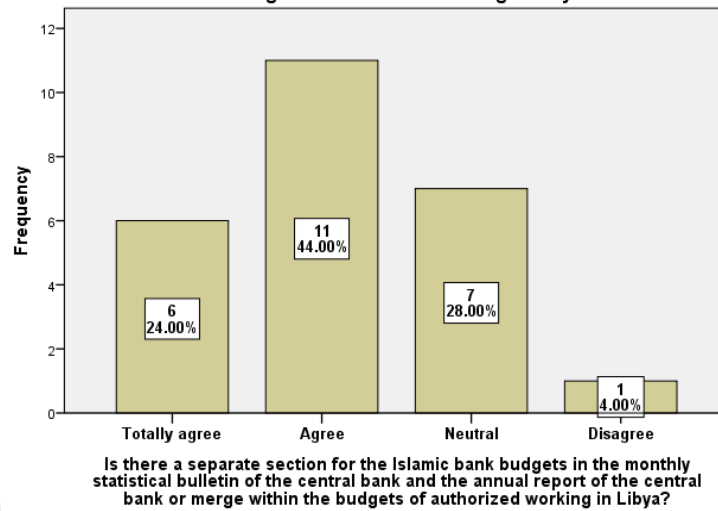


Figure 20. The bulletin section of the Islamic bank branches work n in Libya

There are about 32% (Figure 21) of the participants see that the Islamic bank branches are deducting about 10% of the net achieved profit from the investment and keep it in a special fund called risks facing fund. Also, about 40% (Figure 22) of the officials in the Islamic bank branches stated that the Islamic banks are committed by the least amount of the capital with the determined percentage of the capital in exchange of the risk assets as the case of the traditional banks.

Are the Islamic banks deducted moneys from their annual profits as bonuses to face the distressed debts?

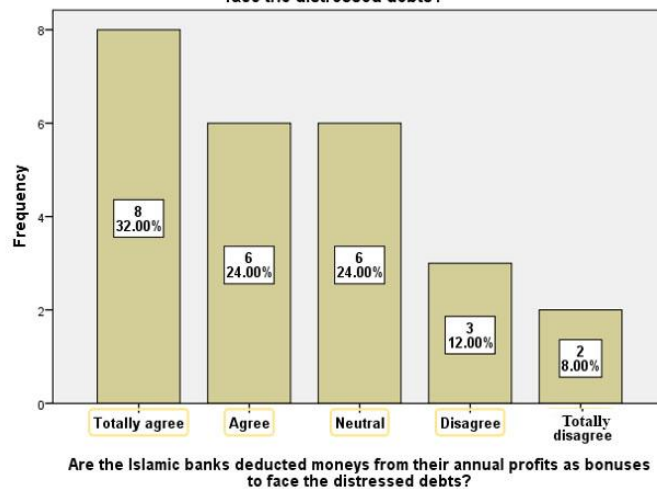


Figure 21. The deducting money by the Islamic bank from the achieved profits

Are the Islamic banks face competition by the commercial banks especially that some of these banks are started lately to open investment windows on the Islamic method?

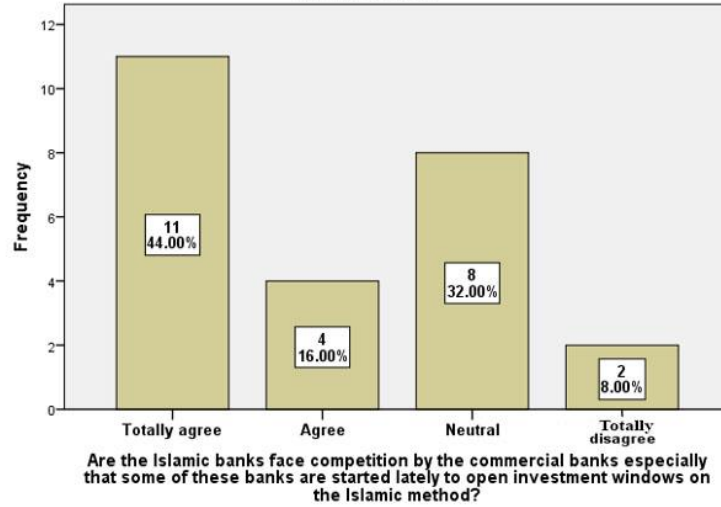


Figure 22. The Islamic bank are committed by the least amount of capital

K) Competition

The asked officials who work at the Islamic bank branches stated with percentage of (44%) stated that the Islamic banks face a competition from the traditional banks especially that the traditional banks have started recently to open investment windows on the Islamic way.

Are the Islamic banks face competition by the commercial banks especially that some of these banks are started lately to open investment windows on the Islamic method?

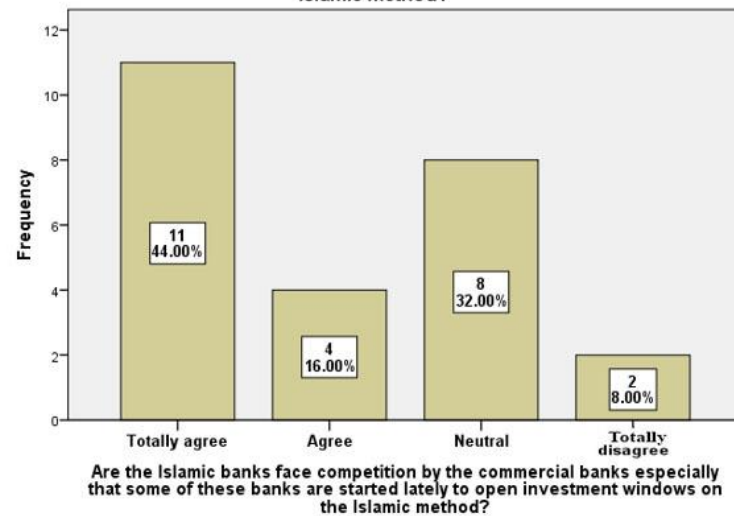


Figure 23. The Islamic bank face a competition from the traditional banks

L) The legal framework to organize the work of the Islamic bank

The official in the Islamic bank branches and the Libyan central bank stated that with percentage of 36% (Figure 24) that the chapter which belongs to the banks law number (1) for 2005 that does not contain any items related to the Islamic banks do not accommodate the possibility of managing and organize some materials belong to the Islamic banking and most of them see the necessity of depending on laws related to the Islamic bank.

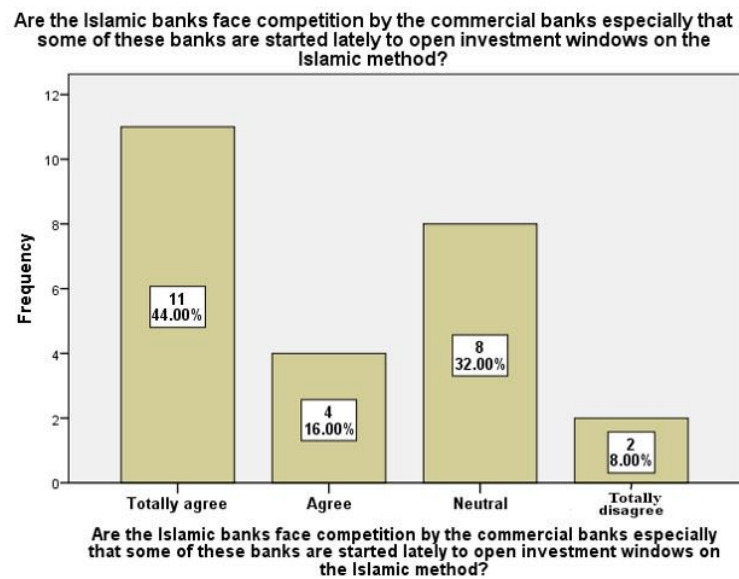


Figure 24. The legal framework to organize the work of the Islamic bank

3.10 Checking the Research Hypotheses

The first hypothesis

The Libyan central bank and the Islamic bank branches are specialized by control procedures and different cash policies tools of that applied on the traditional banks. Through the discussion of the previous results and what we have reviewed of the survey results and the instructions of the Libyan central bank, it is clear that the Libyan central bank has not specific control units to deal with the Islamic banks. Thus, it can be said that the research result refuses the first hypothesis that been mentioned.

Second hypothesis

The control procedures and the cash policies tools which applied by the Libyan central bank suit the work of the Islamic bank branches and take into consideration to its nature. Through the discussion of the previous results and what have been viewed of the Libyan central bank instructions, it is clear that the control procedures and cash policies tools that applied by the Libyan central bank do not suit with the work of Islamic banking branches and does not take into consideration its different nature and thus, the second mentioned hypothesis can be refused.

Third hypothesis

The size of the profits that achieved by the Islamic bank branches work in Libya are effected negatively by the control procedures and cash policies tools that applied by the Libyan central bank and reflected negatively on the size of incomes which bene distributed on the accounts owners at these branches. Through the discussion of the previous results and what have been viewed of the Libyan central bank instructions, it is clear that the size of profits that achieved by the Islamic bank branches in Libya are effected negatively by the control procedures and traditional cash policies tools which applied by the Libyan central bank and reflect negatively on the investment accounts owners at these branches and that is confirmed by the third mentioned hypothesis. Some of these procedures imposed by the Libyan central bank of reserving a part of the investment accounts that prepared for investment on the form of legal reserves on the investment accounts which is considered a deportation for a part of these money from the investment and decreasing of the profits which can be achieved and distributed on the investment accounts owners. Also, the issue of denying the Islamic banks to invest a part of their investment surplus liquidity because of the lack of availability of legitimate tools which can be circulated and achieve lost profits because of the available tools are designed based on the interest price which is forbidden by the Islamic sharia and prohibited by its systems and this is support the saying of accepting the third hypotheses.

RESULTS AND RECOMMENDATIONS

Results

The monetary authorities in Libya are committed to preserve a mandatory cash reserve that determine by the percentage of the agents' accounts in the local and foreign currency at the Libyan central bank and it is the same percentage on the agents accounts which applied at the traditional banks.

The monetary authorities in Libya are asked the Islamic banks branches work in Libya to reserve legal liquid assets on the form of determined legal cash. It is the same percentage that required from the traditional banks. As well as, the components of the numerator and denominator of the required ratio from the Islamic banks is the same of the components that required from the traditional banks despite the difference of the accounts nature that preserve by the Islamic banks for the agents where most of them are investment accounts that participate in the profit and loss.

The Libyan central bank does not determine the credit\deposit ratio and deposit\capital ratio in addition to, the returns charged by the Islamic banks on the given loans. As well as, the returns paid by the Islamic banks on the agents' accounts and as the case at the traditional banks that work in Libya.

The Islamic bank branches do not deal with re-discount with the central bank to provide the required liquidity if it needs to that and the Libyan central bank does not provide any alternative to the Islamic banks as an alternative on refund policy.

The Libyan Islamic banks branches do not deal with sale and buy the governmental securities that issued by the Libyan central bank on behalf of the state save such as treasury bills and certificates of deposits and the Libyan central bank does not provide to the Islamic bank branches another tools to invest the excess liquidity.

The Islamic bank branches do not resort to the Libyan central bank to borrow if necessary where they do not get benefit from the central bank to get its need of liquidity. As well as, the Islamic bank branches in Libya do not deal with the deposit window in the central bank to get loans for one night if necessary.

The Libyan central bank follow the same inspection policy that applied on the traditional bank on the Islamic banks.

The Libyan Islamic bank branches are committed to provide the Libyan central bank by the required periodic data and as the case in the traditional banks they are committed to announce the banking risks of the agents where their given loans ratio is increased from 30,000 Libyan dinars and it is the same procedure applied on the traditional banks.

There is no separate item for the Islamic bank budgets in the monthly bulletin and the annual report that issued by the Libyan central bank but the Islamic banks budgets are merged with the traditional banks budgets in spite of the differences nature of the agents' accounts at the Islamic banks and the given loans by the Islamic banks.

The Islamic banks work in Libya are committed by the least amount of the capital with the ratios apposed for the capital against risky assets as the case in the traditional banks.

The Libyan banks law number (28) for 2005 does not related to the Islamic banking by any mention and it is not enough to rethink and clarify in terms of monetary policy procedures that applied by the Libyan central bank on the Islamic banking branches work in Libya.

The Islamic banks in Libya face a competition from the traditional banks especially that these banks are started finally in opening investment windows on the Islamic banks.

Recommendations

It is assumed that the Islamic banks branches are expanding to employ the exceed liquidity in the investment projects based on Musharaka and Mudharaba concept or the acquisition of companies shares that belong to these banks or employ in the investment deposits at the Islamic banks in other countries where these banks need more liquidity.

It is assumed that the deposits of current account at the Islamic banks must subject to the same mandatory cash reserve that applied on the traditional banks and not to subject the mutual investment deposits at these banks to the same ratio but to demand to reduce at the Islamic banks because there is an account specialized to face the investment risks on all types of investment accounts and it is itself considered precaution to face the losses and an alternative from the mandatory cash reserve on these accounts.

Continue to commit the Islamic banks to reserve the same least amount of the assessed liquidity from the Libyan central bank to face the withdrawal requests at any time and especially for over-pursuit of profit a neglect the liquidity an because of it cannot in the necessity to get benefit from the central bank as a last savior. So, the Libyan central bank is asked to make modifications on how to calculate the liquidity ratio by making modifications on the components ratios by adding the investments tools which dealing by the Islamic banks such as Mudarab and Murabaha bonds that prize in sharia instead of the governmental bonds with determined interest.

Motivate the Islamic bank branches in Libya by making dialogues and communications with the central bank in order to make the Libyan central bank develops its means in the control on the Islamic banks and take its nature work means that based on Musharaka and Mudaraba into consideration in order to create means or alternatives that help in reducing the problems that faced by these banks and especially the problems of liquidity sand the last savior.

The Libyan central bank must deal the Islamic banks as specialized banks by issuing exceptions to their interest in order to be able to perform their role in the economic and social development in Libya better than it is now.

The Libyan central bank must issue Islamic bonding bonds to finance development projects that financed by the government, participate in the profit and

loss and do not contain determined interest price and written by the Islamic bank branches to invest their cash surplus instead of the governmental bonds.

Create a joint reserve fund from the Islamic banks on the local and international level in which a provision is made by specific ratio annually to supply the Islamic banks by the liquidity if necessary and invest its balance according to the Islamic method and distribute its profit on the joint banks each of them according to the contribution percentage at the fund.

Training the inspection team at the Libyan central bank on the work of the Islamic banks and educate them by the Islamic sharia concepts and some of them must be specialist in the Islamic sharia to ensure that all the Islamic banks business are homogenous with the Islamic sharia.

The control authority in the Libyan central banks must design special models to control the Islamic banks that suit with the nature of their work to avoid obstacles that faced by the central bank in merging the budgets items of the Islamic banks with the budgets of the traditional banks when preparing the collected budget to the banks work in Libya because of the differences in the accounts names and loans that deal by the Islamic banks than those deal by the traditional banks.

Include and approve independent item to the data budgets and works of the Islamic banks in the monthly bulletin and annual report and any periodic reports prepared by the Libyan central bank to be a resource of information for researchers and everyone who to know the works of the Islamic banks and announce the size of their works.

Motivate the Islamic bank branches work in Libya to increase the participation percentage of agents' accounts in the profits results.

Review the chapter that belong to the Islamic bank branches according to the banks law number (1) or 2005 by making modifications on the materials that are not compatible with the Islamic banking job or adding additional items related to make the monetary policy that applied by the Libyan central bank in terms of Islamic banking that help on suggesting and formulating and dependence on how the Islamic bank branches work on dealt by the Islamic bank branches work in Libya.

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ABSTRACT

This research aims to state the relationship of the Libyan central bank with the banks and branches of the Islamic banking work in Libya. It displays the control tools of the Libyan central bank on the banks and the authorized branches of Islamic banks work in Libya and the legislation that organize the work of these banks and branches. Then, the research shows the most problems that face by the banks and the Islamic banking branches with the central bank.

The researcher reached to the control tools that applied by the Libyan central bank on the Libyan Islamic banks and the extent of benefit of the Islamic banks from them. The research concluded by a number of recommendations which may contribute by conducting of the Libyan central bank on modifications on some control tools and entering some new elements which serving and fulfill the needs and the nature of the Islamic banks and facilitate to the Islamic banks to invest their surplus liquidity that reflect on increasing their profits and the income ratios that distributed on their agents' accounts.

The researcher hopes that this research represents the framework that contribute and help in determining the legal requirements and the necessary procedures to take care and embrace the new Islamic banking experiment and the honest efforts culminate in generating banking legislation that serve the Islamic banks and open the way to the positive participation in the monetary stability, prosperity and economic growth.

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ÖZET

Bu araştırma, Libya merkez bankasının Libya'daki İslam bankacılığı çalışmalarının bankalar ve şubeleri ile olan ilişkisini belirtmeyi amaçlıyor. Libya merkez bankasının kontrol araçlarını Libya'daki bankalarda ve İslami bankaların yetkili şubelerinde ve bu bankaların ve şubelerin çalışmalarını düzenleyen mevzuatta sergiliyor. Ardından araştırma, bankalar ve İslami bankacılık şubelerinin merkez bankasıyla yüz yüze görüldüğü en büyük sorunları gösteriyor.

Araştırmacı, Libya merkez bankası tarafından Libya İslam bankalarına uygulanan kontrol araçlarına ve İslami bankaların onlardan ne kadar fayda sağladığına ulaştı. Araştırma, Libya merkez bankasının bazı kontrol araçlarında yapılan değişiklikler üzerinde ve İslami bankaların ihtiyaç ve niteliklerini yerine getiren ve yerine getiren ve İslami bankalara yatırım yapmalarını kolaylaştıran bazı unsurlara girerek katkıda bulunabilecek bazı önerilerle sonuçlandı. kârlarını artırmaya yansıyan fazla likidite ve acentelerinin hesaplarında dağıtılan gelir oranları.

Araştırmacı, bu araştırmanın, yasal gereksinimlerin belirlenmesine katkıda bulunan ve yeni İslami bankacılık deneyimini benimsemek için gerekli prosedürleri ve dürüst çabaları İslami bankalara hizmet eden bankacılık mevzuatının oluşturulmasıyla sonuçlanan çerçeveyi temsil etmesini umuyor. Parasal istikrar, refah ve ekonomik büyümeye olumlu katkıda bulunmak.

ARSIV KAYIT BILERI

Tezin Adi : Libya'da İslami Bankalar ve Merkez Bankası Arasındaki İlişki

Tezin Yazari : Abdemanam Alı A.ELMASMARI

Tezin Danismani : Yrd.Doç. Dr. Muhammet BELEN

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AUTOBIOGRAPHY

Abdemanam Alı A.ELMASMARI, I was born in 1977, Derna- Libya. I completed my primary and secondary school education in Derna, I got my bachelor degree from Comprehensive Professional High Institute, Department of Banking and Financing in 2001 with good grade. In 2002, I got a job as an employee in Ministry of Finance. I decided to complete my master study in Karabuk University by my own decision and the Libyan Cultural Office paid the university fees only to complete my master degree at the Department of Business Administration.

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APPENDICES A

Questionnaire of the Study

Gender

Male Female

Age

Less than 30 30-35 36-40
 More than 40

Occupation

License degree Bachelor degree
 Higher Diploma Doctorate degree

Are the Islamic banks in Libya asked to keep mandatory cash precautionary at the same percentage that must be kept at the Libyan central bank by the traditional banks?

Totally Agree Agree Neutral Disagree Totally disagree

Are the Islamic banks in Libya asked to keep legal liquidity at the same percentage that must be kept by the traditional banks?

Totally Agree Agree Neutral Disagree Totally disagree

Are the components of numerator and denominator of the ratio percentage that required from the Islamic banks at the same percentage to the traditional banks?

Totally Agree **Agre** **Neutral** **Disagree**

Is there identification to the amount of the given loans from the Islamic banks to the capital?

Totally Agree **Agre** **Neutral** **Disagree** **Totally disagree**

Does the Libyan central bank determine the rate of interest that was taken by the Islamic banks on the given loans?

Totally Agree **Agre** **Neutral** **Disagree** **Totally disagree**

Does the Libyan central bank determine the rate of interest that must be paid by the Islamic banks on the agents' accounts?

Totally Agree **Agre** **Neutral** **Disagree** **Totally disagree**

Are the Islamic banks in Libya dealing with rediscount with the Libyan central bank to offer the required liquidity if they needed?

Totally Agree **Agre** **Neutral** **Disagree** **Totally disagree**

Are the Islamic banks dealing with selling and purchasing the governmental securities that issued by the Libyan central bank on behalf of the state treasury such as treasury bills, certificates of deposit and treasury bonds?

Totally Agree **Agre** **Neutral** **Disagree** **Totally disagree**

Do the Islamic banks deal to offering the required liquidity or invest the excess liquidity with the central bank through the deposit window?

Totally Agree **Agre** **Neutral** **Disagree** **Totally disagree**

Are the Islamic banks resort to the Libyan central bank to get loans from the central bank if they had it?

Totally Agree **Agre** **Neutral** **Disagree** **Totally disagree**

Are the procedures of Islamic banks inspections the same as procedures of inspecting the traditional commercial banks?

Totally Agree **Agre** **Neutral** **Disagree** **Totally disagree**

Are the Islamic banks asked to provide the Libyan central bank the periodic data that required from the traditional banks as the statements of assets and liabilities?

Totally Agree **Agre** **Neutral** **Disagree** **Totally disagree**

Are the Islamic banks asked to authorize the banks risks as the case in traditional banks?

Totally Agree **Agre** **Neutral** **Disagree** **Totally disagree**

Is there a separate section for the Islamic bank budgets in the monthly statistical bulletin of the central bank and the annual report of the central bank or merge within the budgets of authorized working in Libya?

Totally Agree **Agre** **Neutral** **Disagree** **Totally disagree**

Are the Islamic banks deducted moneys from their annual profits as bonuses to face the distressed debts?

Totally Agree **Agre** **Neutral** **Disagree** **Totally disagree**

Is the Islamic bank committed at the least amount of the capital and in the prescribed ratios of capital in exchange of risky assets?

Totally Agree **Agre** **Neutral** **Disagree** **Totally disagree**

Do the Islamic banks face competition by the commercial banks especially that some of these banks are starting lately to open investment windows on the Islamic method?

Totally Agree **Agre** **Neutral** **Disagree** **Totally disagree**

Do you think that the section which belongs to the Islamic banks law with number 28 for 2000 is enough as a legal framework to organize the work of Islamic banks in Libya?

Totally Agree **Agre** **Neutral** **Disagree** **Totally disagree**