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The Socialist People's Libyan Arab Jamahiriya: 2003 Article IV Consultation—Staff Report; Staff Statement; and Public Information Notice on the Executive Board Discussion

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2003 Article IV consultation with the Socialist People's Libyan Arab Jamahiriya, the following documents have been released and are included in this package:

- the staff report for the 2003 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **May 15, 2003,** with the officials of the Socialist People's Libyan Arab Jamahiriya on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on July 22, 2003.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a staff statement of **August 18, 2003** updating information on recent developments.

- a Public Information Notice (PIN) summarizing the **views of the Executive Board as expressed during its August 18, 2003 discussion** of the staff report that concluded the Article IV consultation.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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SOCIALIST PEOPLE'S LIBYAN ARAB JAMAHIRIYA

Staff Report for the 2003 Article IV Consultation

Prepared by the Staff Representatives for the 2003 Consultation with the Socialist People's Libyan Arab Jamahiriya

Approved by Mohammad Shadman-Valavi and Anthony R. Boote

July 22, 2003

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GLOSSARY

AML	Anti-Money Laundering
CBL	Central Bank of Libya
CPI	Consumer Price Index
IDA	International Development Association
FAD	Fiscal Affairs Department
GDDS	General Data Dissemination System
GDP	Gross Domestic Product
GMR	Great Man-Made River
GPC	General People's Congress
HIPC	Highly Indebted Poor Country
IBRD	International Bank of Reconstruction and Development
IFC	International Finance Corporation
IMF	International Monetary Fund
MED	Middle Eastern Department
MENA	Middle East and North Africa
MFD	Monetary and Financial Systems Department
MIGA	Multilateral International Guarantee Agency
NASCO	National Supply Corporation
NPLs	Nonperforming Loans
OPEC	Organization of Petroleum Exporting Countries
ORF	Oil Reserve Fund
PIN	Public Information Notice
REER	Real Effective Exchange Rate
TA	Technical Assistance
WEO	World Economic Outlook
WTO	World Trade Organization

Executive Summary

Developments in 2002

Economic developments in 2002 were impacted by the unification of the exchange rate, liberalization of the external sector, and accommodating fiscal and credit policies in an environment of continuing high oil prices. Despite an expansionary fiscal policy, non-oil gross domestic product (GDP) growth remained modest, and deflation continued with a 9.8 percent decline in the consumer price index (CPI). The non-oil budget deficit widened by about 3.0 percentage points of GDP, and the external current account shifted to a deficit for the first time since 1998 as imports soared by 40 percent. Gross official reserves decreased slightly to about $13.7 billion (18.7 months of imports).

Policy discussions

Discussions were open and frank and took place at a time of internal debate on the scope and modalities of future reform following exchange rate unification and external trade liberalization in 2002. The authorities agreed with the staff that, without corrective measures, growth will remain modest and would not be sufficient to absorb the projected 3.5 percent annual growth of the labor force. Also, they seem to recognize the limitations of state-led development, but emphasized that given Libya's priority to preserve its overall social system, economic reform will be gradual and limited in scope. They requested technical assistance from the International Monetary Fund (IMF) in statistics, financial programming, development of money markets and financial instruments, and tax reform; and expressed interest in receiving technical assistance from the World Bank in public enterprises and civil service reform.

The authorities were very receptive to staff's policy advice and implemented some important measures recommended by the staff, including the elimination of the Great Man-Made River (GMR) exchange tax, which is levied on private foreign exchange transactions, and the devaluation of the exchange rate by 15 percent. Also, the advanced import deposit requirements were eliminated and replaced by a prudential regulation limiting the use of bank credit for import purposes. In June 2003, Libya accepted its obligations under Article VIII of the IMF Articles of Agreement. For the first time, the authorities have agreed to publish the staff report and a Public Information Notice (PIN).

Staff appraisal

Under the current policy stance, non-oil GDP growth is projected to be sluggish and dominated by the public sector. Given the widespread inefficiencies in the latter, which controls about 70 percent of GDP, significantly higher investment rates would be required over time to maintain the current level of economic growth. If Libya is to achieve higher growth rates and diversify its economy, the dominant role of the public sector needs to be significantly scaled down. The staff commends the authorities for the recently implemented measures and urges them to take advantage of the current favorable macroeconomic environment to implement wide-ranging reforms within the framework of a comprehensive and well-sequenced medium-term program to correct the cost/price structure, foster productivity growth, and ultimately generate higher rates of growth and employment.

The country's isolation, in part as a result of the UN sanctions imposed until April 1999, has taken its toll on the development of the economy, the quality of institutions, and the policymaking environment. The staff indicated the willingness of the IMF to work with the authorities and in conjunction with the World Bank on the design and implementation of the reform program and to provide the necessary technical assistance.

I. Introduction

1. A mission visited Tripoli from April 29 through May 15, 2003 to conduct the 2003 Article IV consultation discussions.[1] **Discussions focused on the appropriate stance of fiscal and monetary policies, and on the reforms needed to achieve a sustained increase in economic growth to provide employment for the rapidly expanding labor force.** The staff stressed that the loosening of the fiscal stance since 2001 is not a sustainable policy for fostering higher rates of growth. Furthermore, in a medium-term environment of lower projected oil prices, expansionary fiscal policy would generate pressure on the exchange rate and reserves, contributing to a reemergence of inflation. For these reasons, the staff urged the authorities to tighten fiscal policy.

2. **In concluding the last consultation on May 6, 2002, Executive Directors welcomed the unification of the exchange rates and the adoption of supporting measures, particularly the elimination of foreign exchange rationing and import licensing requirements.** However, they noted that higher non-oil growth was needed to absorb the rapidly growing labor force, and urged the authorities to widen and deepen their reform agenda and to promote private sector development in order to achieve sustainable higher growth rates. On data issues, Directors noted that persistent weaknesses, particularly in the fiscal area, remained and that expeditious efforts were needed to improve the statistical system.[2]

3. **Limited progress in improving Libya's statistical base has been made.** However, significant weaknesses remain in terms of coverage, consistency, periodicity, and timeliness, all of which have hampered the staff's ability to conduct economic analysis and effective surveillance.

II. Background and Recent Developments

A. Background[3]

4. **The Libyan economy depends heavily on the oil sector, and remains largely state controlled and regulated.** On average, oil earnings constituted about 95 percent of exports

[1]The mission consisted of Messrs. Elhage (head), Mikhael, Mahyoub, and Ms. Farhan (all MED); Mr. Abdallah (STA); and Mr. Nascimento (PDR). Mr. Abed (Director, MED) joined the policy discussions.

[2]Libya's relations with the Fund and the World Bank are summarized in Appendices I and II, respectively. Data issues are covered in Appendix III, and recent changes to the exchange and trade regimes can be found in Appendix IV. The structure of the budget is discussed in Appendix V. Appendix VI includes the PIN.

[3]Libya's social indicators are favorable by Middle East and North Africa (MENA) standards (Table 1).

and 60 percent of budgetary revenue in 1997–2002. Non-oil and private economic activities remain hindered by a complex regulatory regime, widespread government intervention, and restrictive labor market practices, as well as by a legacy of policy reversals.

5. **Since the suspension of the UN sanctions in 1999, Libya has been encouraging foreign investment in selected sectors, particularly hydrocarbons.** However, progress is hindered by continued U.S. sanctions which were extended until 2006. Nevertheless, Libya is reportedly edging closer to a settlement on the Lockerbie bombing. Ties with Europe were strengthened by visits of several senior European officials during the past year and by the hosting of a Euro-Maghreb meeting in May 2002.

6. **Fund surveillance in recent years has focused on policies to overhaul the incentive and regulatory regimes, exchange system and trade reforms, investment and labor market liberalization, as well as on improving the reliability of economic data.** Progress in these areas has generally been limited, with periods of encouragement and easing of restrictions alternated with periods of crackdown on the informal sector, cross-border trade, and curtailment of private sector activity in general.

B. Developments in 2002[4]

7. **Measures to strengthen banking supervision were adopted and a new draft law on tax reform is under consideration.** The appointment of reformist figures at key ministerial posts since 2002 seems to indicate wide support for economic reform by senior decision makers. However, economic measures are not implemented within a coherent medium-term framework of macroeconomic and structural reforms, and government intervention and control remain widespread in the economy.

Real sector

8. **Real GDP stagnated in 2002,** reflecting a 7.6 percent decline in oil production, as mandated by the Organization of Petroleum Exporting Countries (OPEC), and a 2.9 percent growth in the non-oil sector (Figure 1, Table 2).[5] Non-oil GDP growth was driven largely by rapid growth in construction, transportation, communications, and storage. The CPI declined by 9.8 percent, driven mostly by increased competition resulting from trade liberalization and exemptions from all taxes and customs duties granted to public enterprises (Box 1).

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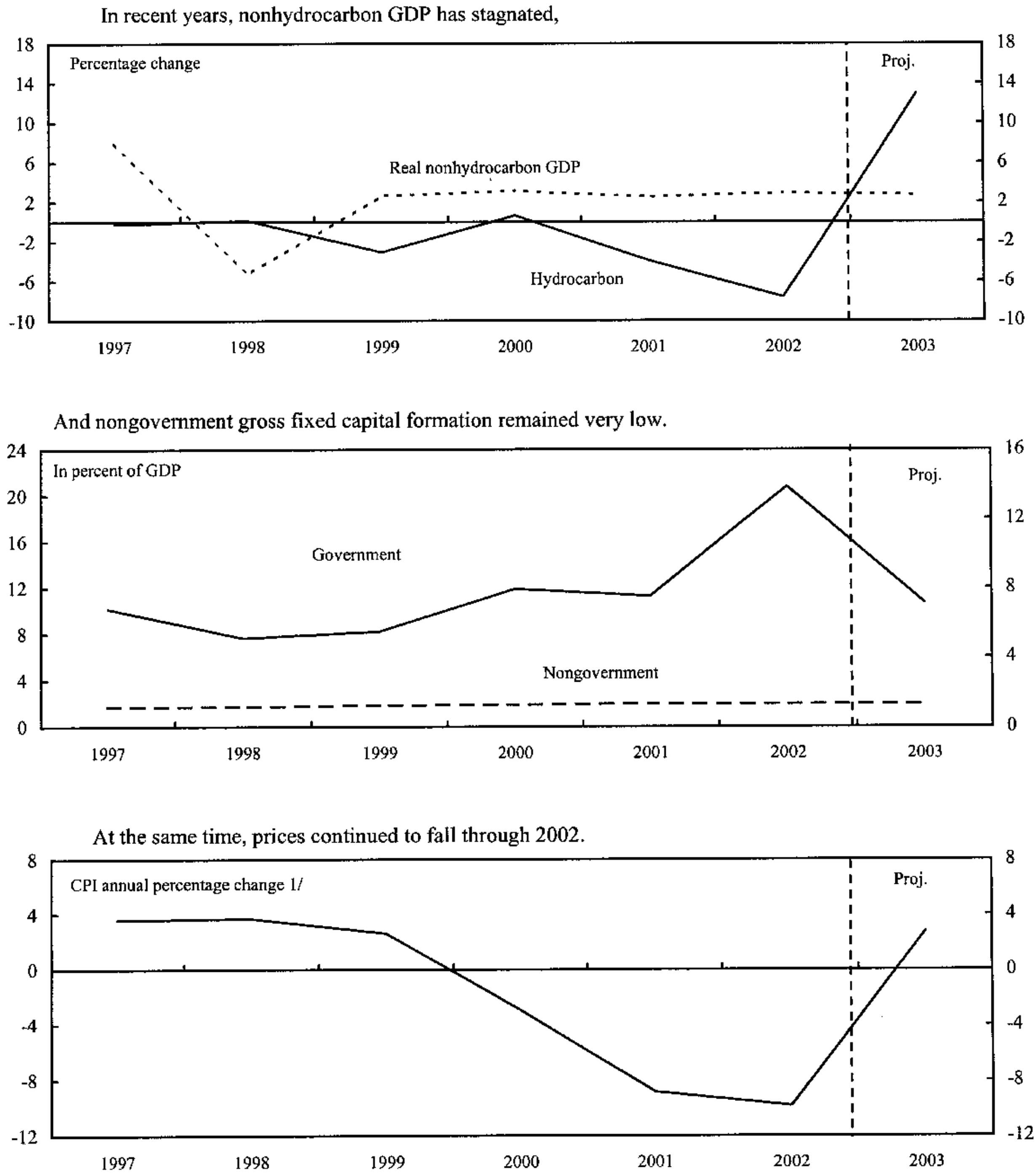
[4] Only developments since the issuance of last year's staff report (www.imf.org) are mentioned in this report.

[5] The accuracy of the national accounts data is marred by weaknesses in the quality of data.

Figure 1. Libya: Selected Economic Indicators, 1997–2003



Sources: Libyan authorities; and Fund staff estimates.

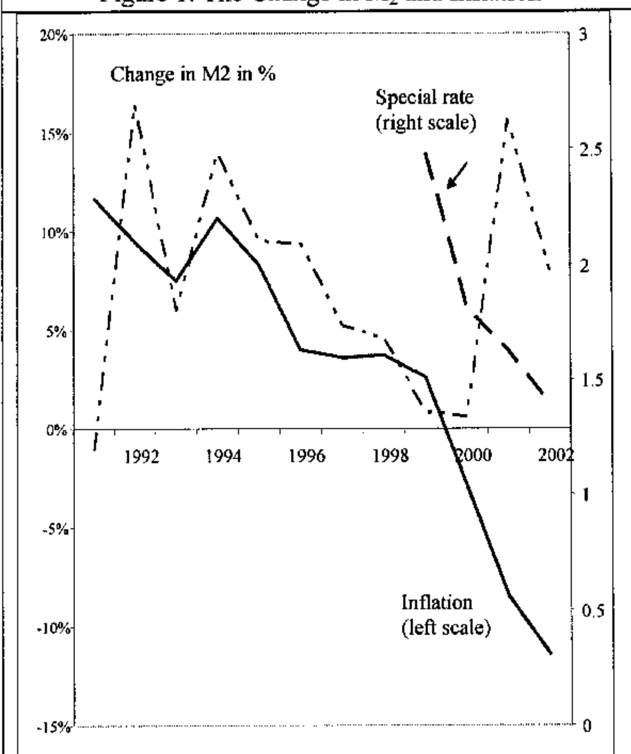
1/ New series beginning 2000.

Box 1. Inflation Determinants in Libya[1]

Prior to 2000, a strong correlation existed between the increase in money supply and the inflation rate (Figure 1). However, during 2000–02, Libya witnessed an annual average deflation rate of 7.2 percent, while money supply increased on average by 9.2 percent annually. The main factors behind the decline in prices since 2000 were the following: (i) the appreciation of the special exchange rate; (ii) public enterprise exemptions from all taxes and customs duties; and (iii) trade liberalization. Imports at the special exchange rate accounted for about 24 percent of the CPI basket (Figure 2). In addition, the price of about 23 percent of the basket—subsidized items and government imports—is set administratively, and the difference between costs and prices charged is absorbed by the budget. Locally produced commodities and services, mainly utilities, health care, and education, account for 40 percent of the CPI basket and are produced by public enterprises that have not increased their prices, mainly because wages have remained unchanged since 1981.

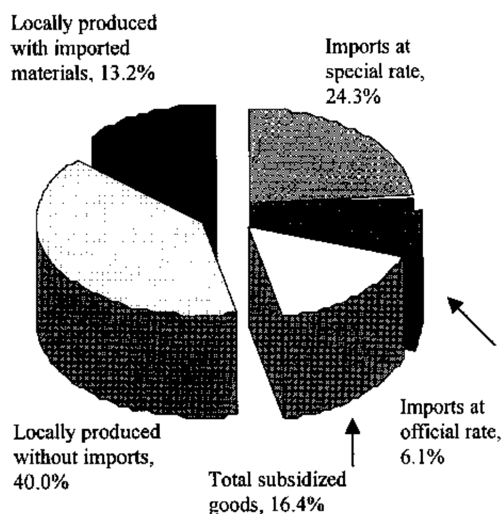
Given the composition of the CPI basket, the main driving force that resulted in deflation since 2000 has been the drop in prices of imported goods at the special rate, which appreciated by 132 percent during February 1999–May 2003, from LD/$ 2.78 to LD/$1.20. With the unification of the exchange rates, the main factor that led to deflation during 2000–02 no longer exists.

Figure 1. The Change in M_2 and Inflation



Source: Libyan authorities.

Figure 2. Composition of the CPI Basket of Goods



Sources: Libyan authorities; and Fund staff estimates.

[1]For detailed discussions on this issue, see the paper on "Determinants of Money Supply and Inflation in Libya" in the forthcoming *Selected Issues and Statistical Appendix* paper.

External sector

9. **The external current account shifted to a deficit for the first time since 1998** as import payments—notably for consumption goods—soared by almost 40 percent to $7.4 billion (Figure 2, Table 3),[6] while export receipts fell by about 8 percent, driven by a decline in oil exports. The appreciation of the special exchange rate in advance to its unification with the official rate on January 1, 2002 (Box 2) and the export ban on some domestically produced goods contributed to the decline of non-oil exports.[7]

10. **Public sector imports, which represent about 73 percent of total imports, increased by an estimated 38 percent.** Most of these imports (about 75 percent) are financed from the budget and the remaining imports are those of public enterprises which were provided foreign exchange at the pre-unification official rate at end-2001;[8] they also were exempted from taxes and customs in 2002.[9] **Private imports increased by an estimated 43 percent,** reflecting the continuing appreciation of the exchange rate, the elimination of import licensing, and the easing of restrictions on individuals' purchase of foreign exchange.[10] These decisions appear to have unleashed a strong pent-up demand for imports.[11]

11. The balance of payments registered a small surplus, allowing the banking system to build up net foreign assets. **The net external reserve position of the CBL, however, declined by about $130 million, to about 11.0 billion.**[12] Reserve management policy remained conservative, with liquidity and safety considerations guiding placement of international reserves.[13]

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[6]Imported consumer and capital goods increased by 49 percent and 33 percent, respectively.

[7]The ban was introduced to ease shortages of fish and vegetables in the domestic market.

[8]At end-2001, the central bank of Libya (CBL) provisioned public enterprises with $2.0 billion at the pre-unification official rate of LD 0.65 per $1.0 to cover their imports. Public enterprises used $1.3 billion of this amount in 2002.

[9] These exemptions are temporary and subject to renewal every year.

[10]The CBL reported foreign exchange cash sales of $2.1 billion in 2002.

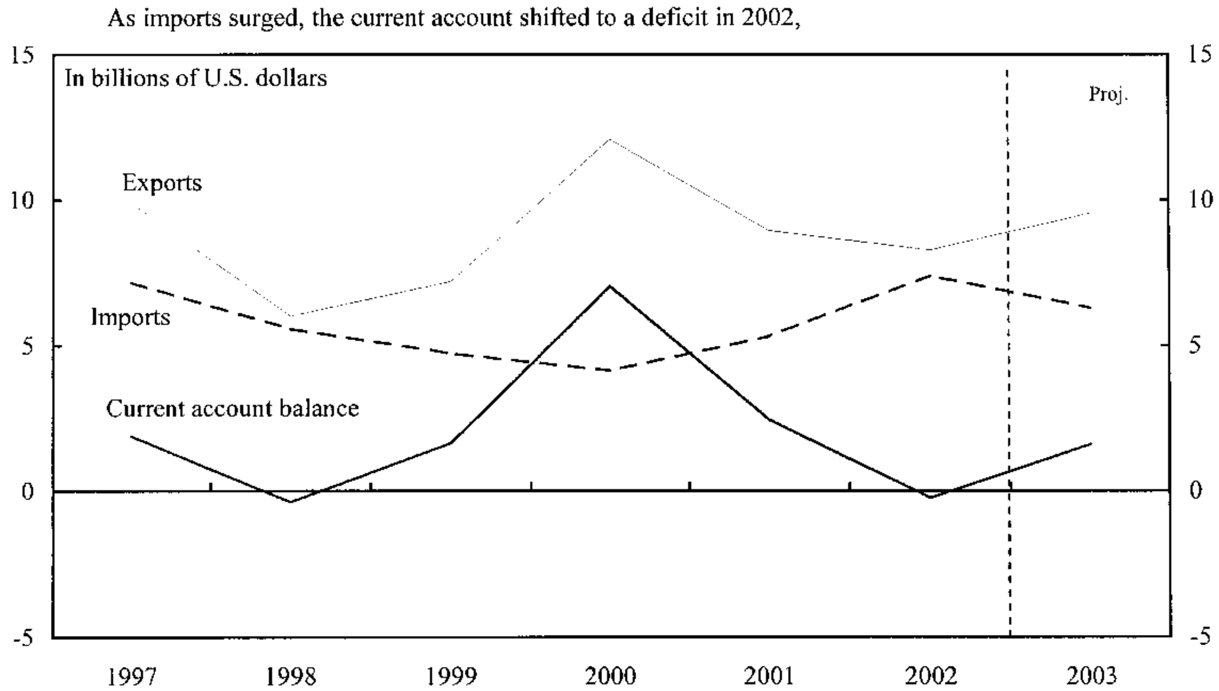
[11]Since its introduction in 1999 and up to the unification of the exchange rates at the beginning of 2002, the special exchange rate at which the private sector operated has continuously appreciated, making it costly to hold inventories.

[12]Excluding foreign reserves of the Libyan Arab Foreign Bank, estimated at about $6.7 billion.

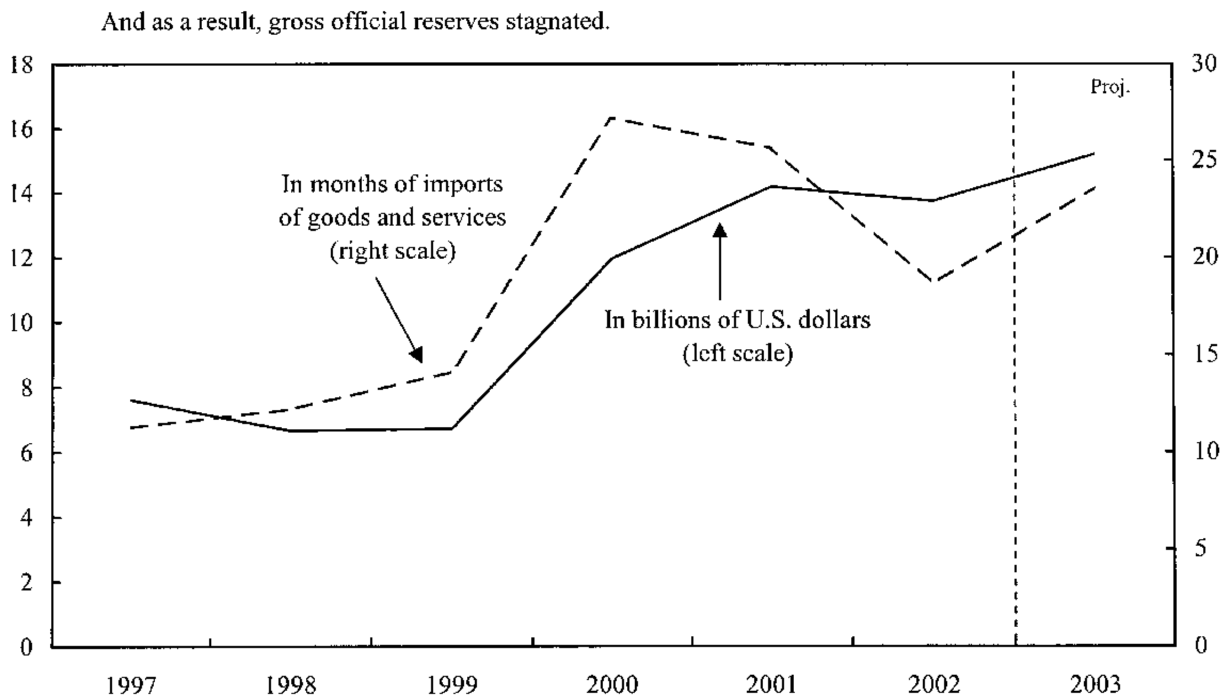
[13]CBL reported that 70–80 percent of international reserve holdings were in euro, reflecting the effect of U.S. sanctions.

Figure 2. Libya: External Sector Developments, 1997–2003

As imports surged, the current account shifted to a deficit in 2002,



And as a result, gross official reserves stagnated.



Sources: Libyan authorities; and Fund staff estimates.

Box 2. Exchange Rate Assessment, 2002[1]

In February 1999, the CBL introduced a dual exchange rate regime by establishing a "special" rate close to the prevailing parallel market rate, to be used for transactions related to personal imports, travel, medical treatment abroad, and pilgrimage. The special rate was introduced at LD 1 = $0.36 compared with the official rate of LD 1 = $2.15 at that time.

Since then, the exchange rate policy aimed at gradually narrowing the spread between the official and the special rates through stepwise depreciations of the official rate and appreciations of the special rate (Figure 1), while simultaneously shifting an increasing share of transactions to the special rate. On January 1, 2002, Libya unified the exchange rate system through a one-step devaluation of the official rate. The exchange rate was unified at LD 1 = SDR 0.608, and since January 1, 2002, the CBL has been supplying the market with its need for foreign exchange at that rate.

Staff examined several REER indices to assess the appropriateness of the exchange rate level following unification. Although results should be interpreted with caution due to severe data constrains and deficiencies, results suggest that the Libyan dinar seemed overvalued during 1999–2002 by:

- **15 percent** for the whole economy, oil and non-oil, after adjusting for differential labor productivity growth between Libya and its trading partners (a differential unfavorable to Libya) and for substantial terms of trade improvements in recent years resulting from higher oil prices (Figure 2).
- **Significantly more than 15 percent for the non-oil economy**.

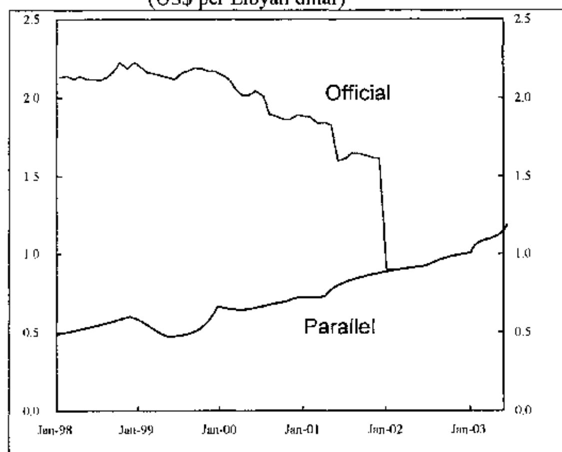
To restore external competitiveness, staff recommended the following measures:

- **A 15 percent depreciation** of the exchange rate applied to public sector transactions; and
- **Structural measures:**

  (a) to increase flexibility in product and labor markets (e.g., eliminating current laws and regulations governing price control; promoting merit-based pay increase, etc.); and

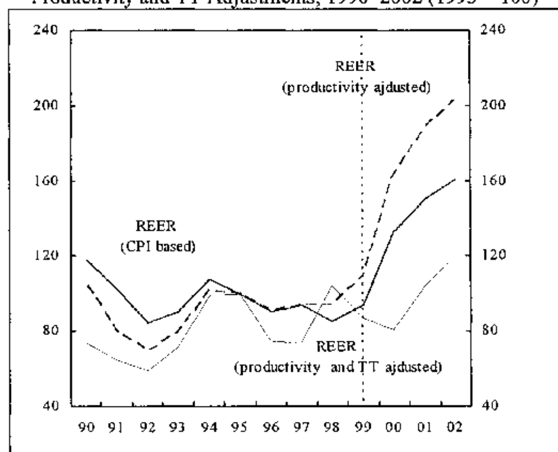
  (b) to further open up foreign trade by gradually eliminating nontrade barriers (NTBs), trade monopolies, products under an export ban, and import prohibition.

Figure 1. Exchange Rate Developments, 1998–2003 (US$ per Libyan dinar)



Source: Central Bank of Libya.

Figure 2. REER based on CPI and the Parallel Rate, with Productivity and TT Adjustments, 1990–2002 (1995 = 100)



Sources: Information Notice System; and Fund staff estimates.

[1]For detailed discussions on this issue, see the paper on "Assessment of External Competitiveness" in the forthcoming *Selected Issues and Statistical Appendix* paper.

12. **Libya took steps to regularize relations with its external creditors in 2002.**[14] Disputed claims were settled with Italy's Export Guarantee Agency and discussions are ongoing with credit agencies of other European countries. No new developments have been reported for disputes with foreign companies, which relate to the period of imposition of UN sanctions, and which involve claims and counter claims on both sides.

Public finance

13. **The fiscal stance remained expansionary in 2002, with the non-oil fiscal deficit widening from about 29 percent of GDP in 2001 to 32 percent in 2002** (Figure 3, Table 4,). Capital expenditure increased by 3.2 percent of GDP, resulting mainly from expenditure on development projects in communications, construction, health, housing, and education.

14. On the revenue side, oil revenue in Libyan dinar terms was boosted by the large devaluation of the official exchange rate at the beginning of 2002. However, tax revenue decreased and customs revenue stagnated despite the surge in imports, mainly as a result of widespread exemptions granted to public enterprises in 2002. As a result, total revenue increased by only 2.5 percent of GDP. **The overall consolidated budget position registered a surplus of 4 percent of GDP in 2002. The budget position excluding the Oil Reserve Fund (ORF)[15] allocation registered a deficit of about 5 percent of GDP.**

15. **The authorities intend to revise the tax system** and a draft law on tax reform will be submitted to the General People's Congress (GPC) in 2003. The focus of the reform is on broadening the tax base and lowering tax evasion by substantially reducing marginal income tax rates for individuals and companies, and increasing the threshold of nontaxable income for fixed income earners. This would also help align domestic tax rates with rates prevailing in neighboring Arab countries. However, numerous tax and customs tariff exemptions would remain in place.

Monetary developments

16. **In 2002, the government took advantage of the higher oil revenue in Libyan dinar (LD) terms to become a net lender relative to the banking sector, from a position of net borrower in 2001** (Figure 4, Table 5). In percent of initial money stock, growth in bank claims on public enterprises jumped from about 9 percent in 2001 to about 17.5 percent in 2002, while growth in claims on the private sector dropped to zero. Broad money growth

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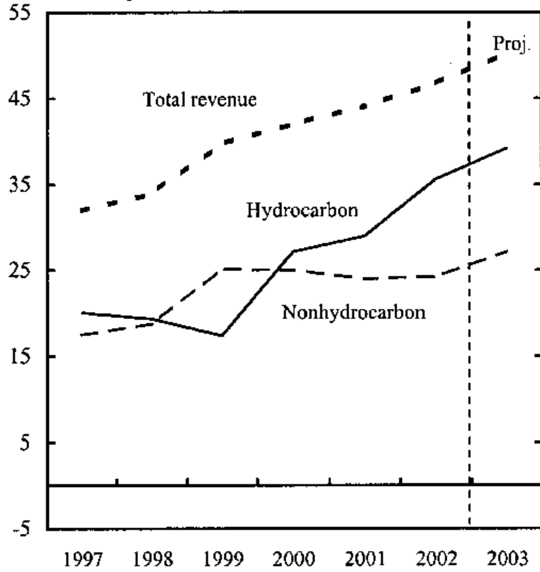
[14]No reliable external debt data is available.

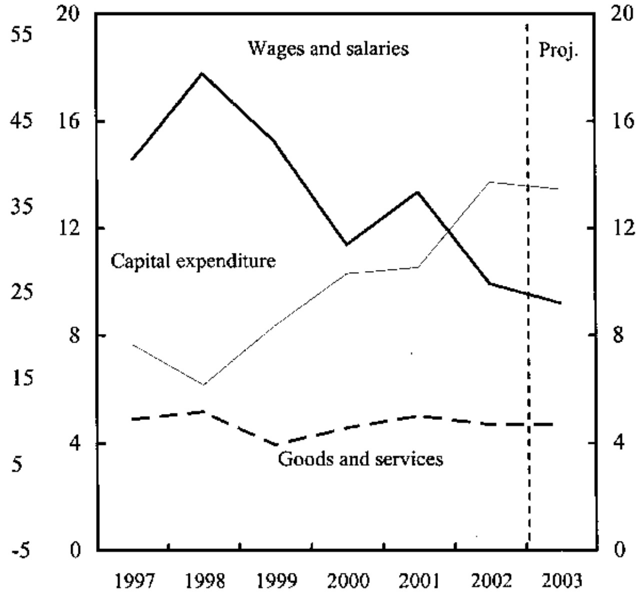
[15]The ORF is a government account managed by the CBL which accumulates oil revenue in excess of the level determined by the budgetary oil price. The ORF is not integrated into the budget and its operations are not transparent. At end-December 2002, its total assets amounted to $8.86 billion.

Figure 3. Libya: Fiscal Developments, 1997–2003
(In percent of GDP)

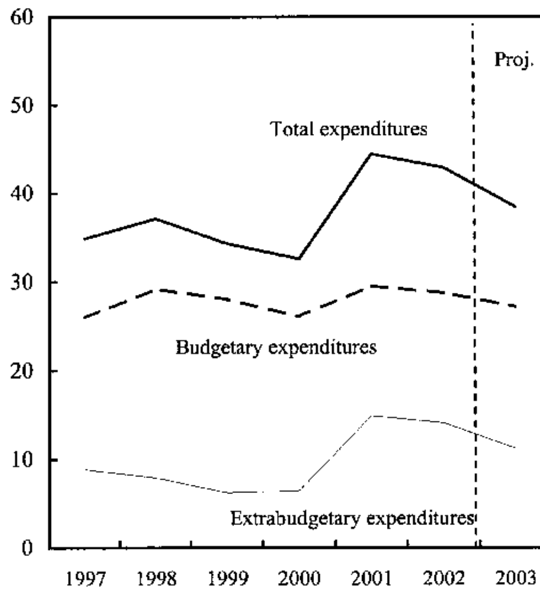
Revenue increased in 2002 mostly on account of increased oil revenue, resulting from the devaluation of the official exchange rate,



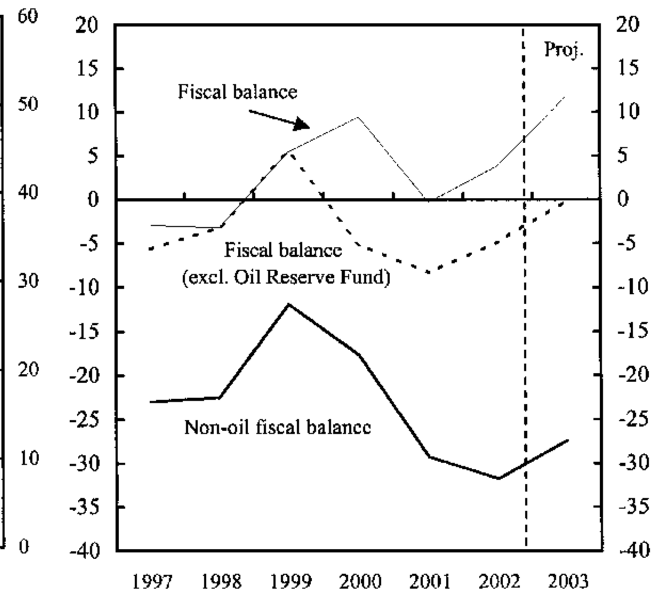
And current expenditure fell,[1] mainly as a result of a decline in wages and salaries, while capital expenditure increased.



Extrabudgetary expenditure fell slightly.



The non-oil fiscal deficit increased.

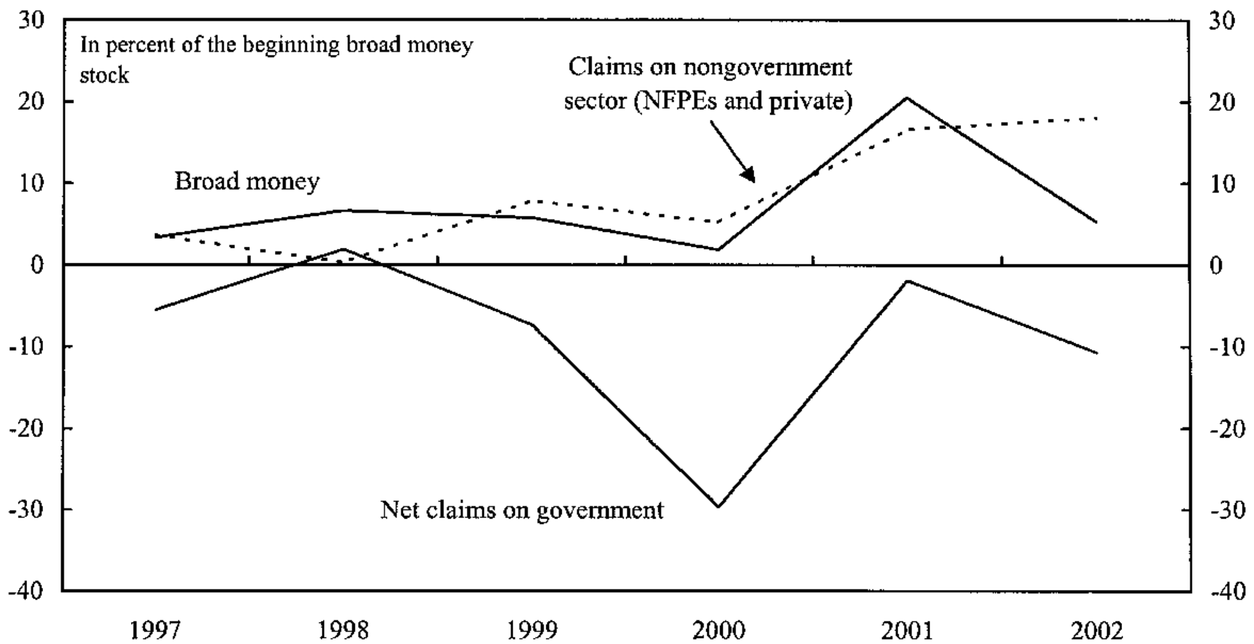


Sources: Libyan authorities; and Fund staff estimates.

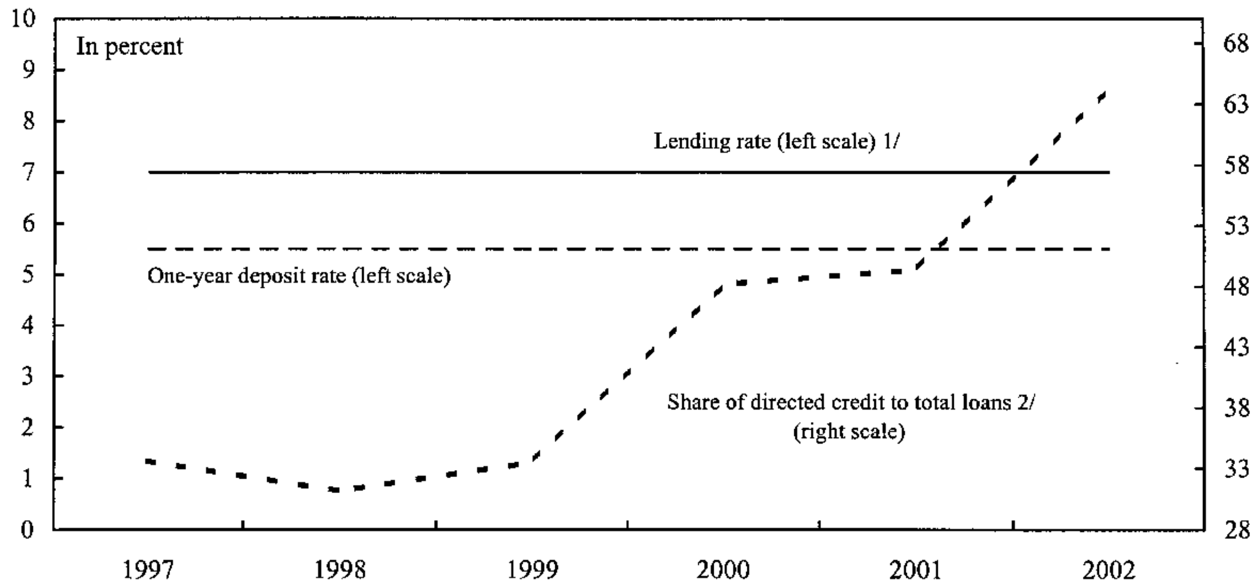
1/ Current expenditures in nominal terms increased by more than 20 percent, but the decline as a percent of GDP reflects mainly the increase in nominal GDP in LD terms following the devaluation.

Figure 4. Libya: Monetary Developments, 1997–2002

Broad money growth decelerated, the government continued to improve its position with the banking system, and bank claims on the nonfinancial public enterprises (NFPEs) sector jumped.



Interest rates remain unchanged, and directed credit continued.



Sources: Libyan authorities; and Fund staff estimates.
1/ Lending rate on secured loans.
2/ Extended by the banking system.

decelerated from about 20.5 percent in 2001 to about 5.3 percent in 2002. No progress has been made in implementing the recommendations of the 2001 Monetary and Financial Systems Department (MFD) technical assistance mission on monetary policy.[16]

17. **There was some progress in the banking sector reform agenda.** In line with the recommendations of the 2001 MFD mission on banking supervision, a number of measures to strengthen banking supervision were adopted in 2002. They included the following: (i) higher frequency of on-site inspections; and (ii) inspections of banks' headquarters in addition to branches. However, despite progress in the recovery rate of bad loans, the level of nonperforming loans (NPLs) in the banking sector remained high in 2002.[17]

18. **Two new private commercial banks and one private regional bank were licensed in 2002,** and preparations are under way for the privatization of a public bank. Another commercial bank is being considered for privatization. A committee to examine the restructuring of banks was established in 2002.

19. **An Anti-Money Laundering (AML) draft law is being prepared** for submission to the GPC. In the meantime, AML decrees have been issued to banks, and specialized units were established in all banks to track suspicious accounts or transactions. These units report to a special unit within the CBL's banking supervision department.

Structural developments

20. **There was limited progress on public enterprise reform in 2002.** The committee in charge of restructuring public enterprises reviewed seven enterprises and restructured them into 48 independent entities, 26 of which are ready for privatization.[18]

21. **Regarding pricing policy,** aside from the 12 commodities imported by the national supply corporations (NASCO) and prices of utilities and domestic petroleum, two goods remain subject to enforced price controls (iron rods and cement). The prices of all other goods are in practice market-determined. However, the pricing control law, although not currently enforced, has not been abolished.

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[16]The main recommendations of MFD are listed in Appendix VI (www.imf.org).

[17]The MFD mission of August 2001 reported 30 percent NPLs, which included real estate loans granted by commercial banks. The authorities' data, which do not include housing loans, put NPLs at 10.2 percent of total loans in 2002.

[18]Privatization in Libya currently implies a change in ownership of individual manufacturing plants. A minimum requirement for employee ownership is imposed, and workers' ownership is encouraged through savings schemes for the purpose of buying shares in privatized enterprises. Residents and nonresidents are allowed to participate within limitations imposed on ownership. The GPC decides on the price at which the units will be sold.

22. **The extensive subsidy system has remained in place.** The government intends to gradually move away from generalized subsidies to targeted assistance to vulnerable segments of the population, but no concrete plans are currently in place.

C. Economic Outlook for 2003

23. **Notwithstanding the less expansionary fiscal stance projected in 2003, economic prospects appear favorable, reflecting projected increases in oil prices and production.** At the time of the consultation discussion, the draft budget law for 2003 was still being debated. Reflecting tightened expenditure in the first four months of 2003 and discussions with the authorities about the prospects for the year as a whole, staff projected a decline in the non-oil deficit of 5 percentage points of GDP to about 27 percent. The recently adopted budget, which reflects severe pressures from Libya's leadership to save most of the oil revenue in 2003 and stricter limits and control on expenditure, depicts an even more contractionary stance, with a non-oil fiscal deficit of 19 percent of GDP. The staff believes that some of the expenditure cutbacks and restraints outlined in the budget may be difficult to achieve.[19]

24. **Reflecting the projected increase in oil exports and a decline in imports, the external current account would register a surplus of about 8 percent of GDP.** In the staff's view, the surge in imports in 2002 is not expected to reoccur in 2003 for two reasons: (i) most of the pre-unification private sector pent-up demand has already materialized; and (ii) public enterprises have already spent most of the foreign exchange provisioned at the pre-unification rate. Real non-oil GDP is projected to expand by about 2.5 percent, in line with recent years, while prices are projected to increase by about 3.0 percent, ending the deflation seen in recent years.

III. Policy Issues and Discussions

25. **Discussions were open and frank and took place at a time of internal debate on the scope and modalities of future reform,** following exchange rate unification and external trade liberalization in 2002. The authorities agreed with the staff that, under the current policy stance, the economy will not generate sufficient growth to absorb the growth of the labor force. More fundamentally, they recognized the limitations of state-led development financed by oil revenues and sought advice on how to promote private activities in the economy. The authorities have requested technical assistance from the Fund in statistics, financial programming, development of money markets and financial instruments, and tax reform; and expressed interest in receiving technical assistance from the World Bank in public enterprises and civil service reform.

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[19]After further discussions with the authorities, a statement on the budget will be issued prior to the Board meeting.

26. **The authorities were receptive to the staff policy advice and, in June 2003, they implemented some important measures recommended by the staff,** including the elimination of the Great Man-Made River (GMR) exchange tax,[20] levied only on private foreign exchange transactions, and devaluation of the exchange rate by 15 percent. Also, the advanced import deposit requirements were reportedly replaced by a prudential regulation limiting the use of bank credit for import purposes. In addition, in a speech to parliament on June 13, 2003, the Libyan leader called for privatization of public activities, including the oil industry.

A. Medium-Term Outlook

27. **Libya's medium-term outlook (Figure 5, Table 6) does not raise any immediate sustainability concerns.**[21] The baseline scenario developed by the staff assumes a continuation of the current policy stance of gradualism in reforming the economy. It assumes a contractionary policy stance in 2003, with strong external current account and fiscal surpluses. In 2004 and beyond, lower oil revenues, based on the World Economic Outlook's (WEO) oil projections, would lead to a narrowing of the fiscal surplus that would gradually weaken the balance of the ORF over the medium term, if corrective measures are not implemented. On average, the external current account is expected to register a slight surplus over the period. Modest non-oil real GDP growth of about 2.5 percent is projected, which will not generate enough jobs to absorb labor force growth (Box 3). Owing to data limitations, the staff was not able to estimate the fiscal cost associated with restructuring public enterprises and banks.

28. **The external position becomes vulnerable to a sharp and sustained drop in oil prices (Figure 6).** A sensitivity analysis based on a decline of $3 per barrel from the current WEO oil prices starting in 2004 shows that, without corrective measures, external current account deficits would emerge and increase gradually to reach 7.0 percent of GDP in 2008. This would result in a drop of reserves to about 11 months of imports in 2008.

29. To reduce the economy's reliance on oil revenue and improve its growth prospects, competitiveness, and diversification, the authorities are urged to deepen and broaden their reform agenda. This agenda would include, at an early stage, measures aimed at improving the macroeconomic management through: (i) bringing domestic prices in line with world prices while addressing explicitly in the budget the impact of price realignments on vulnerable groups, public enterprises, and public banks; (ii) implementing tariff reform and establishing an agenda to reform public enterprises; (iii) improving the conduct of monetary policy within a well-defined framework and developing indirect monetary instruments and

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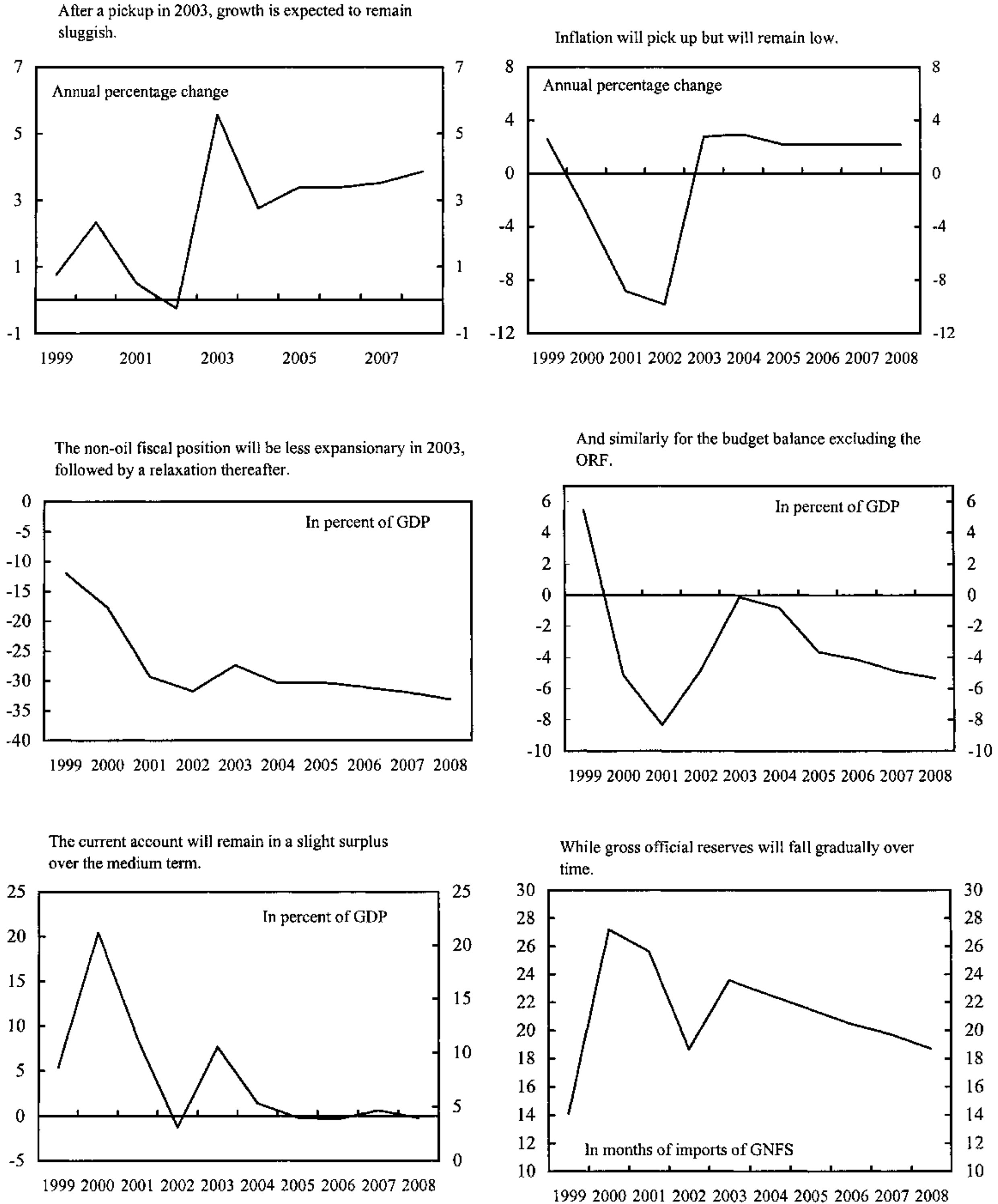
[20]With the elimination of the GMR exchange tax, the corresponding 15 percent subsidy paid on sales of foreign exchange by the private sector is automatically eliminated.

[21]Indicators of external vulnerability are shown in Table 7.

Figure 5. Libya: Illustrative Medium-Term Scenario, 1999–2008



Sources: Libyan authorities; and Fund staff estimates.

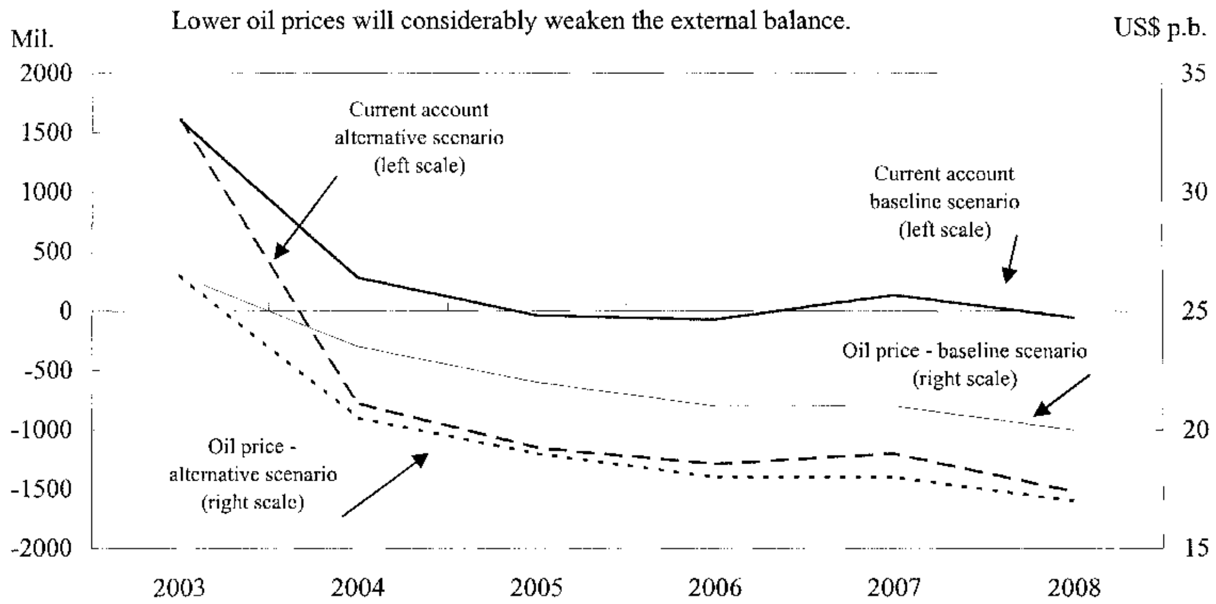
Box 3. Labor Issues in Libya

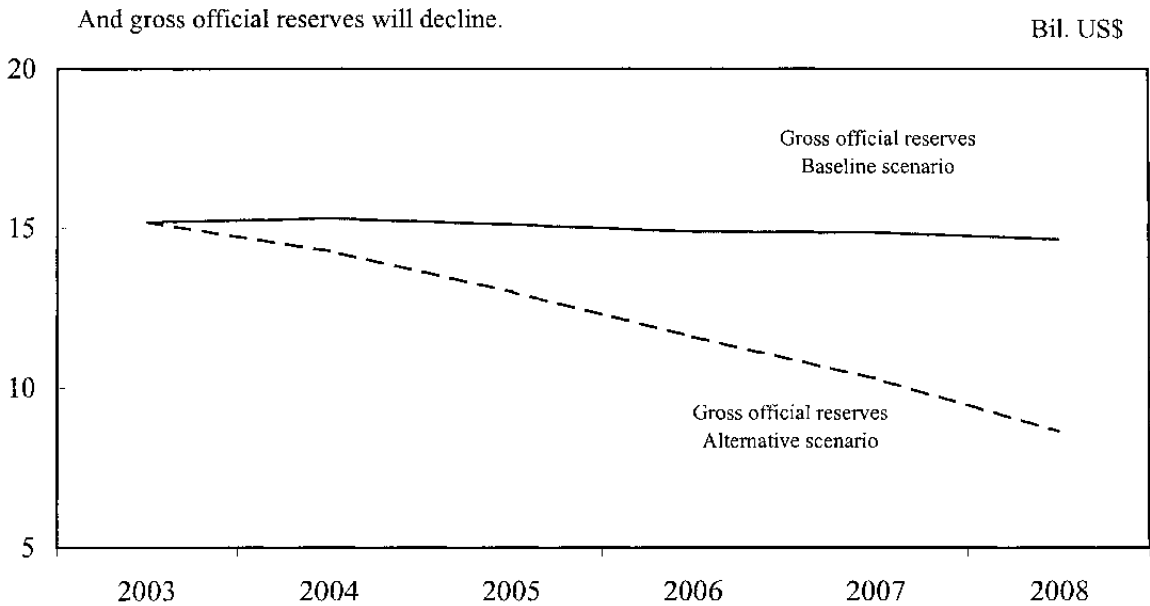
High population growth over the last 30 years has translated into high rates of growth in the labor force. Libya's population grew at rates of about 4 percent during the 1970s and early 1980s, before decelerating to under 3 percent in the 1990s. As a result, the working-age population and the labor force have been growing at about 3.5–4.0 percent per year in the 1990s and are projected to continue growing at those rates well past the current decade.

Public sector employment grew massively in the 1990s to absorb labor force growth. Considering the very small size of Libya's private sector and consistently weak non-oil growth, employment growth was predominantly driven by a very fast growth in the size of the public sector. In 2001, government civil service and public sector employment represented 53 percent and 24 percent of total employment of Libyan nationals, respectively. As a result of increased hiring, the government's wage bill grew by over 10 percent per year on average over 1996–2001 and increased as a share of GDP from an average of 12.5 percent over 1985–96 to a peak of 18 percent in 1998, before tapering off to an average of 13.5 percent over 1999–2001. In order to contain the wage bill, nominal wages have remained frozen since 1981 and, instead, purchasing power has increased over the years through the provision of free housing, education, and healthcare; and heavily subsidized food and utility prices, and more recently during 1999–2001 through the appreciation of the special exchange rate at which private sector goods and services are traded.

The authorities recognize that the above policies are detrimental to labor productivity and are unsustainable and that the civil service attrition measures adopted, so far, are inadequate to address the problem. Public sector employment policies have reached their limit, with clear evidence of overemployment and a continuous fall in public sector labor productivity. In addition, the mismatch of the educational system with the needs of the market has resulted in the perpetuation of a large pool of expatriate workers, with typically better-suited education and higher productivity, despite the bias of the rigid labor market regulations in favor of hiring Libyan workers. Census data for 2000 show that the share of expatriates earning over LD 300 ($200) per month was 20 percent, compared with only 12 percent for Libyan nationals. In the absence of employment opportunities in the private sector, Libyans have preferred to hold on to their public sector jobs despite a campaign to encourage their conversion to entrepreneurship. Also, decentralization has generated severe pressures by regional governments to expand employment. The staff estimates that, to absorb the new entrants to the labor force, the non-oil GDP will have to grow by at least 5 percent annually over the medium term.

Figure 6. Libya: Alternative Medium-Term Scenario, 2003–08[1/]





Sources: Libyan authorities; and Fund staff estimates.

1/ Alternative scenario at US$3 per barrel of oil less than the baseline scenario starting in 2004.

money markets; and (iv) strengthening the banking system. In the second stage, structural reforms that require longer technical preparations would need to be implemented, including: (i) privatization and restructuring of publicly owned enterprises and banks; (ii) rationalizing the system of subsidies and transfers; (iii) legal and regulatory reforms; (iv) civil service reform; and (v) tax and customs administrations reforms. **Staff advised the authorities to seek technical assistance from the Fund and the World Bank in implementing the above reform agenda.**

B. Exchange Rate Policy

30. **Taking into account productivity differential[22] and terms-of-trade changes, the Real Effective Exchange Rate (REER) appears to have appreciated in real terms.[23]** Staff stressed that during the pre-unification period 1999–2001, the successive stepwise appreciations of the special rate, at which the private sector operated, led to its sharp appreciation in real terms.

31. **While it is difficult to assess the appropriate exchange rate for Libya in view of the existing price rigidities,** the staff stressed that exchange rate policy together with structural reform should aim at promoting domestic production and non-oil exports. This could be achieved by adjusting the exchange rate to reverse some of the real appreciation since 1999, and accompanying this adjustment by structural reforms to improve labor productivity and competitiveness of the economy.

32. **The staff recommended that the GMR exchange tax, which is levied only on private foreign exchange transactions, be eliminated.** However, the staff stressed that the exchange rate at which the private sector transacts should remain at its current level and, instead, the exchange rate at which public sector transacts be devalued by the amount of the tax. The resulting windfall in oil revenue (in LD terms) could be earmarked within the budget to provide alternative financing for the GMR and to finance public enterprises restructuring.

33. **In June 2003, the authorities eliminated the GMR tax and devalued the exchange rate by 15 percent.** However, since the 2003 budget was prepared at the pre-June 2003 exchange rate, the resulting windfall in oil revenue (in LD terms) would not be reflected in the budget. Instead, the authorities have informed the staff that such a windfall will be held in an account earmarked for providing alternative financing for the GMR and financing public enterprises restructuring.

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[22] For detailed discussions, see the paper on "Assessment of External Competitiveness" in the forthcoming *Selected Issues and Statistical Appendix* paper.

[23] Prior to the June 2003 devaluation.

C. Fiscal Policy and Public Finance Reform

34. **Fiscal policy continues to be shaped by the availability of oil revenues and the need to support employment and the subsidy system.** As a result, a bloated government civil service, which represents about half of total employment, has developed. A lack of transparency of the budget process and the absence of medium-term planning, together with expenditure pressures arising from the devolution of power to the regions, have considerably weakened the capacity of the authorities to conduct an effective fiscal policy. In addition, widespread tax exemptions have weakened the non-oil tax base.

35. **The staff stressed that fiscal policy has not been supportive of exchange rate stability.** The continuation in 2002 of the expansionary fiscal policy initiated in 2001 has contributed to the surge in imports and increased the budget's vulnerability to adverse developments in the oil market. Fiscal stimulus, if not accompanied by structural reforms to increase the efficiency and competitiveness of the economy, cannot by itself generate sustainable growth.

36. The ORF has not fulfilled its implicit mandate of saving oil revenue during periods of high oil prices and smoothing out expenditure. A surge in extrabudgetary expenditure financed by the ORF has taken place in 2001 and continued in 2002, resulting in a net drawdown of the stock of the ORF in 2002 (excluding reinvested income from the ORF investment). Furthermore, this expenditure has taken place on a discretionary basis outside the supervision and control of the budget. **The staff urged the authorities to increase the transparency and accountability of the ORF operations, and to better integrate it within the overall budgetary process.**[24]

37. **Fiscal decentralization has added significant expenditure pressures and weakened budgetary control.** The wage bill increase in 2001 resulting from massive hiring by the regions point to some loss of budgetary control over regional expenditure. The staff urged the authorities to strengthen budgetary oversight over the expenditures of the regions and their ability to appropriate central government revenue and access financing. The authorities agreed with the staff on the importance of restraining expenditures at the regional level, particularly in view of the regions' tendency to inflate their proposed expenditure allocation in the budget process and to hold on to revenue collected locally instead of transferring it to the central tax administration.

38. **Staff called for a review of the 70/30 expenditure rule, which, by linking capital outlays to budgetary oil revenues, induces procyclical expenditures policies and**

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[24]For a discussion of the various options available to reform the ORF, including the addition of a permanent saving component, see the paper on "Oil Fund for Savings and Stabilization: Reform Options for Libya" in the forthcoming *Selected Issues and Statistical Appendix* paper.

promotes inefficiencies in development expenditures.[25] Instead, alternative approaches to expenditure that could target specifically identified sectors such as education or health, without distorting the overall budget allocation, were recommended. Although the authorities agreed with the staff, they stressed that political consensus is required in order to change this law.

39. **The authorities are urged to cast their fiscal policy in a medium-term framework** that takes into account the nonrenewable nature of Libya's hydrocarbon resources, the desired level of intergenerational redistribution, and the need to avoid procyclical expenditures. In particular, the authorities should develop the annual budget within a framework of a three- to five-year rolling plan based on realistic oil price assumptions, and smooth out expenditure over that period.

D. Monetary Policy

40. **The staff called for stepped-up efforts to remove direct controls** (e.g., ceiling on interest rates, sectoral directed credit), and create market-based instruments, such as CBL certificates or treasury bills, **to enhance the conduct of monetary policy**. In this connection, the staff urged the authorities to accelerate the implementation of the recommendations of the 2001 MFD technical assistance mission and consider establishing a permanent monetary policy committee to assess monetary developments and design a monetary policy framework.

E. Financial Sector Development and Soundness

41. **Notwithstanding recent efforts to strengthen banking supervision and the payments system, Libya's banking system remains inefficient.** The authorities agreed with the mission that the Libyan banking system needs to be modernized and banks given greater autonomy. In this respect, they expect the current privatization drive to lead to increased competition and efficiency.

42. **Banking supervision and prudential requirements need to be improved.** All banks except one comply with the CBL-mandated minimum capital adequacy ratio of 8 percent. The authorities agreed with the staff on the urgent need to reform the banking sector and indicated that they have stepped-up efforts to monitor and improve bank loan quality, arrange workouts of NPLs, and increase the capital adequacy ratio. The staff underscored the need to take into account the potential budgetary costs of strengthening banks' balance sheets.

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[25]The structure of Libya's budget, including a discussion of the 70/30 rule, is discussed in Appendix V.

F. Deregulation and Privatization

43. **The dominant role of the public sector needs to be streamlined significantly to foster growth and create employment opportunities.** In this connection, the authorities have initiated a process of structural reforms, albeit at a slow pace. Investment laws are being revised, with incentives for investors that include five-year exemptions from taxes and custom tariffs, and the full repatriation of profits. Furthermore, infrastructure is being modernized and free zones are planned. A number of enterprises have been identified for restructuring, and their balance sheets assessed by an external auditor as a first step prior to their sale. Moreover, Libya has signed numerous investment agreements with a number of countries to encourage foreign direct investment and harmonize taxes.

44. In the wake of exchange rate unification in 2002 and the June 2003 devaluation, public enterprises will soon face a sharp increase in the cost of their inputs that were imported at the pre-unification official rate, as well as competition from cheaper imports. As a result, they are likely to face mounting losses that may impose an additional burden on the balance sheets of public banks already saddled with sizeable NPLs. These could represent a significant source of potential liabilities for the budget that could put pressure on the authorities to reimpose restrictions. **Owing to data limitations, the staff has not been able to assess the conditions of public enterprises and their aggregate losses.**

45. **The staff recommended that the liabilities of public enterprises be carefully assessed and their losses covered by the budget in an explicit and transparent manner.** The staff also stressed that the authorities should not resort to restrictions to protect inefficient public enterprises, but instead, in order to improve their profitability, all remaining constraints on their operations should be phased out by granting them full autonomy in employment decisions, wage and pricing policies, and financial planning and operations. The authorities were urged to revisit their approach to privatization since it has not been successful, and to seek technical assistance on public sector and civil service reforms from the World Bank.

G. Trade Regime

46. **Libya's trade regime has been simplified.** With the elimination of import licensing requirements and the foreign exchange budget, Libya has taken important steps in opening up its trade sector. However, import tariffs still range between zero and 425 percent, a wide dispersion by international standards.[26] The staff stressed that, if Libya is to reap the benefits of open trade, it should scale down sharply the current list of prohibited import (40 items)

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[26]Owing to the unavailability of detailed data, the current effective tariff rate could not be computed. Based on data for 2000, Libya's trade restrictiveness index ranked 10 (highest). However, in the staff's view, given the major recent trade reform measures, Libya's rank is likely to be lower than the above.

and export bans, eliminate import monopolies, phase out bilateral payment agreements, and reduce the dispersion and level of tariffs.

47. **The staff welcomed the authorities' objective of establishing free-trade arrangements with Arab countries,** but encouraged them to include a program for multilateral liberalization to help avoid trade diversion. Such a program would also facilitate Libya's application for World Trade Organization (WTO) membership.

H. Arrears and External Debt

48. **The authorities are continuing discussions with both official and private creditors to settle disputed payments.** The staff urged the authorities to speed up the regularization of disputed claims with all remaining creditors, underlining that regularization of the relations with the creditors is key to attracting foreign investment, lowering the high insurance premium currently required from prospective investors, and fostering confidence.

I. Highly Indebted Poor Countries Initiative

49. **The staff commended the authorities on their participation in the Highly Indebted Poor Countries (HIPC) initiative** and looked forward to Libya's collaboration in implementing the initiative with debtor countries that have reached the completion point. The staff informed the authorities that the Fund stands ready to assist them in this respect.

J. Data Issues

50. **The authorities have made some progress in improving the statistical data base, particularly in the monetary sector,** with the inclusion of regional banks in the monetary survey and the ongoing consolidation of the Libyan Arab Foreign Bank. However, for effective surveillance to take place, further efforts are urgently needed in the remaining sectors. On the fiscal side, budgetary data need to be reclassified in an analytical framework that would also include extrabudgetary accounts within a consolidated presentation to provide a more accurate picture. Also, important discrepancies between fiscal balance and monetary financing persist, and intersectoral consistency between real, fiscal, and balance of payments data could be improved. There is no reporting system to the Middle Eastern Department (MED) between Article IV mission visits. In addition, the staff encourages the authorities to supply Fund staff, to the extent possible, with a core set of indicators on a regular basis, including external debt, and intensify efforts to enhance data coverage.

51. **The authorities agreed with the staff that further improvements in the database are needed to improve the monitoring of economic developments and provide a stronger foundation for macroeconomic management.** The authorities requested a technical assistance mission in Government Finance Statistics from the Fund's Statistics Department. The staff encouraged the authorities to participate in the General Data Dissemination System (GDDS), which would provide a useful framework for improving the economic and financial data base.

K. Article VIII Issues

52. **The staff urged the authorities to remove all restrictions under Article VIII.** In June 2003, the authorities informed the staff that they have eliminated the GMR exchange tax and the subsidy counterpart, respectively, on purchases and sales of foreign exchange by the private sector, and the advance deposit requirements of 50 percent on letters of credit for both private and public sectors. Also, the authorities informed the Fund of Libya's decision to accept its obligations under Article VIII.[27] With Libya's acceptance of Article VIII obligations, the exchange restrictions previously maintained in accordance with Article XIV become subject to Fund approval under Article VIII. These include restrictions on invisible payments related to the transfer of remittances and exchange restrictions arising from bilateral payment arrangements. However, no specific timetable for their removal has been provided.

L. Other Issues

53. **The authorities requested technical assistance from the Fund** in statistics, financial programming, development of money markets and financial market instruments, and tax reform. In the past, the authorities have established a good track record in implementing technical assistance (TA) recommendations in areas of importance to them, particularly in monetary statistics and banking supervision.

54. For the first time, the authorities agreed to publish the staff report and a PIN.

IV. Staff Appraisal

55. **Despite recently implemented reform measures, the Libyan economy remains saddled with extensive controls, restrictions, and subsidies that continue to distort prices and resource allocations, hinder efficiency and competitiveness, and impede the performance of the economy.** These, together with state dominance in economic activities, would need to be reduced to pave the way for higher economic growth and employment opportunities for the rapidly growing domestic labor force. Wide-ranging reforms aimed at further liberalizing the economy, reducing reliance on oil revenues, and encouraging private sector development need to be implemented.

56. **The staff welcomes the elimination of the GMR tax, the devaluation of the exchange rate, and the removal of advanced import deposit requirements.** In the staff's

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[27]Ordinarily, staff examines the exchange system of a member accepting Article VIII obligations before information of the member's acceptance is communicated to the Executive Board. Staff examined Libya's exchange system in the Article IV mission which ended on May 15, 2003. Thereafter, Libya reportedly revised some of its exchange measures before notifying the Fund that it accepts its obligations under Article VIII. Since the Article IV consultation mission, staff have not had a further opportunity to examine Libya's exchange system.

view, these are significant measures which would simplify the exchange system and reverse some of the appreciation in the REER that took place since 1999. The decision to publish the staff report and a PIN is a major step towards enhancing transparency and expresses the will to open up to the international community. The staff is also encouraged by the recent declarations of the Libyan leadership stressing the need to reform the public sector and accelerate the pace of privatization. In the staff's view, those are indications that the process of reform in Libya has taken a renewed priority. This is particularly welcome, as in the wake of exchange rate unification in 2002, the pace of reforms had slowed down significantly.

57. **In 2001–02, fiscal policy exerted pressure on official reserves.** The continuation in 2002 of the expansionary fiscal policy initiated in 2001 has contributed to the surge in imports, stagnation in the CBL's official reserves, and increased the budget's vulnerability to adverse developments in the oil market. Fiscal stimulus, if not accompanied by structural reforms to increase the efficiency and competitiveness of the economy, cannot increase Libya's economic growth on a sustainable basis.

58. **In the staff's view, the fiscal policy stance should be cast in a medium-term framework that takes into account the nonrenewable nature of Libya's hydrocarbon resources, the desired level of intergenerational redistribution, and the need to avoid procyclical expenditures.** To this effect, while the staff welcomes the less expansionary non-oil fiscal stance projected for 2003, it believes that such an outcome should result from casting the budget within a coordinated medium-term plan. In order to strengthen budget management and control, the operations of the ORF should be integrated into the budget, the 70/30 rule relaxed, and safeguards established as to the level and composition of the regions' expenditures and their ability to appropriate central government taxes, raise their own taxes and fees, or access financing.

59. **The key challenge facing the authorities in the medium and long term is to achieve sustainable high rates of economic growth to generate employment opportunities for a rapidly growing labor force.** Under current economic policies of state-led development financed by oil revenues, growth will continue to be sluggish and dominated by the public sector. Given the size of that sector and its widespread inefficiencies, significantly higher rates of investment would be required over time just to sustain the current level of economic growth. **If Libya is to achieve higher growth rates and diversify its economy, the dominant role of the public sector needs to be significantly scaled down.**

60. **A firm commitment of the authorities to the reform process is crucial to achieve the above objective, in view of the past track record of policy reversals. In particular, the authorities are urged to build on the recently implemented measures and take advantage of the current favorable macroeconomic environment to implement wide ranging reforms within the framework of a comprehensive and well-sequenced medium-term program.** In the short run, the reform agenda should aim at improving the macroeconomic management, removing remaining trade restrictions, bringing domestic prices in line with world prices and addressing explicitly in the budget the impact of price

realignments on vulnerable groups, public enterprises, and public banks. In the second stage, structural reforms that require longer technical preparations would need to be implemented, including (i) public enterprises restructuring; (ii) reforming the system of subsidies and transfers, legal and regulatory reforms, civil service reform, tax and customs administration reforms; and (iii) the restructuring of public banks. The authorities are also urged to revisit their approach to privatization since it has not been successful.

61. **There is an urgent need to step up efforts to improve the functioning of monetary policy through the removal of direct controls and the establishment of market-based instruments,** such as CBL certificates or treasury bills. In this connection, the staff welcomes the authorities' request for a TA mission from MFD on the development of money markets and monetary policy instruments. Additional efforts are needed to address the weak bank supervision system and strengthen prudential requirements.

62. **The exchange system and the level of the peg will have to be kept under review.** It is essential that, exchange rate adjustments occur, as necessary, in response to market forces, while taking into account the level of CBL reserves and movements in the real effective exchange rate.

63. **The regularization of disputed claims between Libya and its creditors should be accelerated.** While staff acknowledges that the related issues are complex, it believes that a faster pace of regularization of disputed claims with all remaining creditors will be key to fostering confidence and encouraging trade and much needed foreign investment.

64. **The authorities have achieved some progress in improving the statistical data base,** particularly in the monetary accounts, but much remains to be done in other sectors. Most importantly, for effective surveillance to take place, further efforts are urgently needed on the fiscal side to improve the coverage, classification, and recording of transactions, in order to present fiscal data in a meaningful analytical framework. Also, important intersectoral discrepancies remain. Staff welcomed the authorities' intention to bring about major improvements in these areas and encouraged them to participate in the Fund's GDDS.

65. **The staff commends the authorities on Libya's decision to accept its obligations under Article VIII.** In this connection, the authorities are urged to remove the remaining exchange restrictions now subject to approval under Article VIII which were previously maintained in accordance with Article XIV. Those include restrictions on invisible payments related to transfers of remittances and exchange restrictions arising from bilateral payment arrangements. In the absence of a timetable for the removal of these exchange restrictions, the staff does not recommend that the Executive Board grant approval for their retention.

66. It is proposed that the next Article IV consultation take place on the standard 12-month cycle.

Table 1. Libya: Demographic, Social, and Human Development Indicators, 1997–2000

	Units	Libya				MENA 1/
		1997	1998	1999	2000	2000
Demographic indicators						
Population	Millions	5.0	5.1	5.2	5.3	295.2
Aged 0–14	Percent of total	36.9	35.9	34.9	33.9	37.8
Aged 15–64	Percent of total	60.0	61.0	61.8	62.7	58.6
Aged 65 and above	Percent of total	3.1	3.2	3.3	3.4	3.6
Age dependency 2/	Ratio	0.8	0.7	0.7	0.7	0.7
Urban population	Percent of total	86.2	86.7	87.1	87.6	58.2
Social indicators						
Total labor force	Millions	1.4	1.4	1.5	1.5	99.0
Male	Percent of total labor force	78.3	77.9	77.4	76.9	72.3
Female	Percent of total labor force	21.7	22.1	22.6	23.1	27.7
Life expectancy at birth	Years	70.2	...	...	71.0	67.9
Male	Years	68.3	...	...	68.8	66.5
Female	Years	72.2	...	...	73.4	69.4
Infant mortality rate	Per 1,000 live births	28.0	...	...	26.2	43.1
Immunization rate						
Measles	Percent under 12 months	92.0	93.0	...	...	91.2 3/
DPT	Percent under 12 months	96.0	97.0	...	...	91.9 3/
Education indicators						
Adult illiteracy rate	Percent	23.3	22.2	21.1	20.0	35.2
Male	Percent	11.3	10.6	9.9	9.2	24.8
Female	Percent	36.5	34.9	33.4	31.8	46.0
Human development indicators						
Human development index (HDI) 4/ 5/	Index	...	0.760	0.770	0.772	0.653
Gender-related development index (GDI) 5/ 6/	Index	...	0.738	0.748	0.753	0.682 3/

Sources: World Bank's World Development Indicators, 2002, and UNDP's Human Development Report, 2002.

1/ Middle East and North Africa (MENA) (16 countries): Algeria, Bahrain, Djibouti, Egypt, Iran, Iraq, Jordan, Lebanon, Libya, Morocco, Oman, Saudi Arabia, Syria, Tunisia, West Bank and Gaza, and Yemen.

2/ Population under the age of 15 and over the age of 65 as a share of the total working age population.

3/ MENA data refers to 1999.

4/ Human Development Indicators (HDI) measure average achievements in basic human development in one simple composite index. Its value ranges from 0 to 1.

5/ The MENA region for HDI and GDI refers to 16 countries: Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, the United Arab Emirates, and Yemen.

6/ Gender Development Index (GDI) measures achievements in the same dimensions and uses the same variables as the HDI does, but takes account of inequality in achievement between men and women.

Table 2. Libya: Basic Economic and Financial Indicators, 1997–2003

(Quota = SDR 1,123.7 million)
Population: 5.41 million (2001)
Per capita GDP: US$5,261 (2001)

	1997	1998	1999	2000	2001	Est. 2002	Proj. 2003
	(Percentage change; unless otherwise indicated)						
National income and prices							
Real GDP	5.2	-3.6	0.7	2.3	0.5	-0.2	5.6
GDP in billions of U.S. dollars 1/	37.1	31.3	30.4	34.4	28.5	19.2	21.0
Real non-oil GDP	8.0	-5.3	2.6	3.1	2.5	2.9	2.7
CPI	3.6	3.7	2.6	-2.9	-8.8	-9.8	2.8
	(In percent of GDP)						
Central government finances							
Revenue	35.6	34.8	39.8	42.1	44.1	46.7	50.2
Of which: hydrocarbon	23.7	20.0	17.4	27.2	29.0	35.6	39.2
Expenditure	36.0	38.9	34.3	32.6	44.4	42.9	38.4
Of which: capital expenditure	7.6	6.2	8.3	10.3	10.5	13.7	13.5
Overall position (deficit -)	-0.4	-4.1	5.5	9.5	-0.3	3.9	11.8
Nonhydrocarbon balance (deficit -)	-23.0	-22.5	-11.9	-17.7	-29.3	-31.8	-27.4
	(Changes as a percent of beginning broad money stock)						
Money and credit							
Money and quasi-money	3.4	6.7	5.8	1.9	20.5	5.3	...
Net credit to the government	-5.4	1.9	-7.3	-29.7	-1.9	-10.7	...
Deposit rate (1-year deposits, in percent)	5.5	5.5	5.5	5.5	5.5	5.5	...
	(In billions of U.S. dollars; unless otherwise indicated)						
Balance of payments							
Exports, f.o.b.	9.9	6.0	7.2	12.1	9.0	8.3	9.6
Of which: hydrocarbon	9.1	5.6	6.7	11.6	8.5	8.1	9.4
Imports, f.o.b.	7.2	5.6	4.7	4.1	5.3	7.4	6.3
Current account balance	1.9	-0.4	1.6	7.0	2.4	-0.2	1.6
(As percent of GDP)	5.1	-1.2	5.4	20.5	8.6	-1.2	7.6
Overall balance (deficit -)	0.4	-0.4	0.4	5.8	1.0	0.2	1.5
Reserves							
Gross official reserves	7.6	6.7	6.7	12.0	14.2	13.7	15.2
(In months of imports of GNFS)	7.8	8.5	14.1	27.2	25.6	18.7	23.6
Exchange rate							
Official exchange rate (LD/US$, period average)	0.4	0.4	0.5	0.5	0.6	1.3	...
Official exchange rate (LD/US$, end of period)	0.4	0.5	0.5	0.5	0.7	1.2	...
Special market rate (LD/US$, end of period) 2/	2.2	3.3	1.9	1.9	1.6	...	...
Spread = special rate/official rate (LD/US$, end of period)	5.7	7.4	4.1	3.5	2.4	...	...
Libyan crude oil export unit value							
(U.S. dollars per billions of barrels)	19.0	12.9	17.9	28.0	24.1	24.4	25.9

Sources: Libyan authorities; and Fund staff estimates and projections.

1/ At the official exchange rate prior to 2002.

2/ Starting February 1999, the parallel market rate was legalized for some transactions and called the "special" rate.

Table 3. Libya: Balance of Payments, 1997–2003

	1997	1998	1999	2000	2001	2002	Proj. 2003
	(In millions of U.S. dollars)						
Current account	1,878	-372	1,645	7,047	2,438	-238	1,605
Goods and services	1,833	-475	1,554	6,859	2,426	-477	1,922
Goods	2,722	448	2,473	7,956	3,642	872	3,269
Exports (f.o.b.)	9,900	6,024	7,208	12,088	8,954	8,280	9,551
Hydrocarbon sector 1/	9,120	5,598	6,738	11,638	8,537	8,096	9,374
Other exports	780	427	470	450	417	184	177
Imports (f.o.b.)	-7,178	-5,576	-4,735	-4,132	-5,312	-7,408	-6,282
Services	-889	-923	-920	-1,097	-1,216	-1,349	-1,347
Debit	922	968	978	1,147	1,328	1,429	1,452
Credit	33	46	59	51	113	96	105
Income	286	356	307	430	447	555	28
Direct investment income	-222	-137	-145	-284	-224	-307	-311
Of which: hydrocarbon sector	-236	-160	-167	-284	-224	-95	-100
Other investment income	508	493	452	714	671	861	339
Current transfers	-241	-253	-216	-241	-435	-316	-345
Of which: private	-233	-235	-210	-198	-370	-328	-358
Oil sector	-20	-15	-18	-20	-25	-12	-14
Other sectors (workers' transfers abroad)	-213	-219	-193	-177	-344	-316	-344
Capital and financial account	-888	-531	-558	-715	-1,685	-338	-146
Direct investment (net)	-366	-435	-351	-216	-285	-206	-206
Portfolio investment	-777	-203	-3	-210	-993	0	0
Other investment	254	106	-205	-289	-407	-131	60
Errors and omissions	-630	486	-667	-388	286	786	0
Overall balance	360	-417	419	5,771	1,038	210	1,459
Reserve items	-3,802	3,084	-349	-5,771	-1,038	-210	-1,459
Memorandum items:							
Official exchange rate, LD/US$ (per annum)	0.38	0.41	0.46	0.51	0.60	1.27	1.26 2/
Official exchange rate, LD/US$ (end of period)	0.39	0.45	0.46	0.54	0.65	1.21	1.26 2/
Gross official reserves (in millions of U.S. dollars)	7,612	6,657	6,721	11,966	14,182	13,735	15,194
Gross official reserves (in months of imports of GNFS)	11.3	12.2	14.1	27.2	25.6	18.7	23.6
Current account balance (in percent of GDP)	5.1	-1.2	5.4	20.5	8.6	-1.2	7.6
Overall balance of payments (in percent of GDP)	1.0	-1.3	1.4	16.8	3.6	1.1	7.0
Nominal GDP (in millions of U.S. dollars, per annum)	37,082	31,341	30,447	34,441	28,462	19,204	20,986
Nominal nonhydrocarbon GDP (in millions of U.S. dollars, per annum)	25,273	24,488	21,842	20,546	17,959	8,804	8,515

Sources: Central Bank of Libya; and Fund staff estimates and projections.

1/ Includes oil, gas, petroleum products, and petrochemicals.

2/ As of end-April 2003.

Table 4. Libya: Consolidated Fiscal Operations, 1997–2003 1/

	1997	1998	1999	2000	2001	2002	Proj. 2003
	(In millions of Libyan dinars)						
Total revenue	4,525	4,328	5,622	7,384	7,589	11,362	13,290
Hydrocarbon 2/	2,838	2,460	2,460	4,766	4,984	8,662	10,374
Of which: Oil Reserve Fund	382	0	0	2,563	1,377	2,111	3,160
Nonhydrocarbon 3/	1,687	1,868	2,551	2,618	2,605	2,700	2,916
Budgetary revenue	3,859	4,044	5,242	4,505	5,842	8,645	9,168
Hydrocarbon budget allocation	2,456	2,460	2,460	2,203	3,607	6,551	7,214
Nonhydrocarbon tax revenue	982	1,143	2,509	2,061	2,056	1,150	1,159
Taxes on income and profits	336	376	338	337	381	506	...
Domestic taxes on goods and services	...	...	...	...	...	...	...
Taxes on international trade	546	653	2,026	1,586	1,531	379	320
Customs duties	357	388	363	...	...	...	...
Exchange profits 4/	0	100	1,443	1,186	1,163	0	0
Other tax revenue	100	114	145	139	143	266	0
Of which: stamp taxes	88	104	135	130	137	258	...
Nontax revenue	421	441	273	241	179	944	795
Extrabudgetary revenue	666	284	381	2,878	1,747	2,717	4,122
Reserve fund allocation	382	0	0	2,563	1,377	2,111	3,160
GMR revenue	394	364	381	316	371	884	962
Consolidation of GMR revenue 5/	-110	-80	0	0	0	-278	0
Total expenditure and net lending	4,937	4,733	4,849	5,720	7,642	10,423	10,162
Total expenditure	4,937	4,733	4,849	5,720	7,642	10,423	10,162
Current expenditure	3,855	3,947	3,669	3,913	5,830	7,085	6,601
Administrative budget	3,037	3,164	2,967	3,044	3,537	4,050	4,375
Of which: allocations to the regions	...	1,679	1,502	1,884	2,063	1,972	...
Expenditure on goods and services	2,754	2,924	2,714	2,801	3,161	3,552	3,676
Wages and salaries 6/	2,062	2,264	2,158	1,999	2,297	2,413	2,437
Other purchases of goods and services	692	660	556	802	863	1,139	1,239
Interest payments 7/	123	123	123	0	75	0	123
Subsidies and other current transfers	160	117	130	243	301	499	576
Food subsidies	160	117	130	130	140	431	476
Other current transfers	0	0	0	113	161	67	100
Extrabudgetary current expenditure	819	784	702	869	2,293	3,034	2,226
Oil Reserve Fund	241	109	167	313	1,797	2,459	1,600
Defense	577	675	535	556	496	575	626
Capital expenditure	1,082	785	1,180	1,807	1,813	3,339	3,561
Development budget	645	555	1,001	1,541	1,539	2,936	2,820
Of which: executed by the regions	...	...	...	793	805	1,244	...
Extrabudgetary capital expenditure	437	231	179	266	274	403	741
GMR 8/	547	311	210	366	351	681	741
Consolidation	-110	-80	-31	-100	-77	-278	0
Overall balance	-413	-405	773	1,663	-53	939	3,128
Overall position (excluding Oil Reserve Fund revenue)	-794	-405	773	-900	-1,430	-1,172	-32
Nonhydrocarbon position	-3,250	-2,865	-1,687	-3,103	-5,037	-7,723	-7,246

Table 4. Libya: Consolidated Fiscal Operations, 1997–2003 1/ (concluded)

	1997	1998	1999	2000	2001	2002	Proj. 2003
	(In millions of Libyan dinars)						
Domestic financing	413	405	-773	-1,663	53	-939	-3,128
Banking system 9/	-469	170	-697	-2,981	-195	-1,317	-3,128
Nonbank financing and discrepancies 10/	881	235	-76	1,318	248	378	0
Memorandum items:							
Nonhydrocarbon revenue in percent of NH GDP	17.5	18.8	25.2	25.0	24.0	24.2	27.2
Excluding exchange profits	17.5	17.8	10.9	13.7	13.3	24.2	27.2
Overall balance in percent of GDP	-2.9	-3.2	5.5	9.5	-0.3	3.9	11.8
Overall balance (excluding Oil Reserve Fund revenue) (in percent of GDP)	-5.6	-3.2	5.5	-5.1	-8.3	-4.8	-0.1
Nonhydrocarbon balance (in percent of GDP)	-23.0	-22.5	-11.9	-17.7	-29.3	-31.8	-27.4
Gross domestic debt (in millions of Libyan dinars)	8,233	8,862	9,062	8,646	10,076	11,248	10,206
Gross domestic debt in percent of GDP	58.2	69.6	64.1	49.3	58.6	46.3	38.6
Nominal GDP	14,149	12,741	14,138	17,550	17,196	24,309	26,451
Nonhydrocarbon GDP	9,643	9,955	10,142	10,470	10,851	11,145	10,732
Libyan crude oil prices (US$/barrel)	19.0	12.9	17.9	28.0	24.1	24.4	25.9
	(In percent of GDP)						
Total revenue	32.0	34.0	39.8	42.1	44.1	46.7	50.2
Hydrocarbon revenue	20.1	19.3	17.4	27.2	29.0	35.6	39.2
Extrabudgetary revenue	4.7	2.2	2.7	16.4	10.2	11.2	15.6
Tax revenue	6.9	9.0	17.7	11.7	12.0	4.7	4.4
Nontax revenue	3.0	3.5	1.9	1.4	1.0	3.9	3.0
Total expenditure	34.9	37.1	34.3	32.6	44.4	42.9	38.4
Current	27.2	31.0	26.0	22.3	33.9	29.1	25.0
Budgetary	21.5	24.8	21.0	17.3	20.6	16.7	16.5
Extrabudgetary	5.8	6.2	5.0	5.0	13.3	12.5	8.4
Capital	7.6	6.2	8.3	10.3	10.5	13.7	13.5
Budgetary	4.6	4.4	7.1	8.8	8.9	12.1	10.7
Extrabudgetary	3.1	1.8	1.3	1.5	1.6	1.7	2.8

Sources: Libyan budget laws and budget execution reports; Libyan Secretariat of Finance, and Fund staff estimates.

1/ Fiscal accounts are prepared on a cash basis.
2/ Net of the National Oil Company revenues and expenditures.
3/ Includes extrabudgetary operations except for the Jihad fund. Also, it does not include taxes on the government wage bill.
4/ Profits from the sale of foreign exchange at the special rate by the central bank.
5/ Eliminates the double counting from the consolidation of the treasury and GMR accounts.
6/ Net of income taxes and includes the contributions to the social security fund.
7/ The interest-bearing public debt is constant. Advances by the central bank do not carry interest.
8/ Includes both current and capital expenditures.
9/ Based on data from the monetary survey.
10/ Includes residual financing items.

Table 5. Libya: Monetary Survey, 1997–2002 1/

	1997	1998	1999	2000	2001	2002
	(In millions of Libyan dinars)					
Net foreign assets	1,522	1,767	1,935	5,410	6,921	14,743
Central bank	2,340	2,546	2,603	5,834	7,933	15,895
Foreign assets	3,693	3,776	3,963	7,419	9,606	19,193
Foreign liabilities	1,354	1,230	1,360	1,585	1,673	3,298
Deposit money banks	-817	-779	-667	-423	-1,012	-1,152
Foreign assets	557	277	344	461	620	778
Foreign liabilities	1,374	1,056	1,011	884	1,633	1,930
Domestic credit	11,416	11,612	11,665	9,211	10,712	11,623
Net claims on government	4,643	4,813	4,116	1,135	940	-377
Central bank claims	6,968	7,651	7,301	7,009	6,828	6,359
Governments' deposits with central bank	3,796	4,304	4,661	7,285	7,439	7,936
Commercial banks' claims	1,761	1,761	1,761	1,766	1,811	1,811
Governments' deposits with commercial banks	290	294	285	355	259	609
Claims on the rest of the economy	6,773	6,799	7,549	8,076	9,772	11,999
Claims on nonfinancial public enterprises	3,818	3,546	3,748	4,245	5,164	7,324
Claims on private sector	2,933	3,183	3,634	3,639	4,482	4,525
Claims on other banking institutions	21	70	77	94	50	82
Claims on nonbank financial institutions	0	0	90	98	76	70
Other items (net)	-4,033	-3,881	-3,555	-4,385	-5,298	-13,378
Broad money	8,905	9,497	10,046	10,236	12,335	12,987
Money	6,521	6,893	7,167	7,243	8,271	8,894
Currency in circulation	2,534	2,699	2,635	2,699	2,560	2,614
Demand deposits (other than government)	3,987	4,194	4,532	4,543	5,712	6,281
Quasi-money	2,384	2,604	2,880	2,993	4,063	4,093
Of which: restricted deposits	782	665	703	939	1,479	1,855
	(Annual rate of change in percent)					
Memorandum items:						
Broad money	3.4	6.7	5.8	1.9	20.5	5.3
Money	4.5	5.7	4.0	1.1	14.2	7.5
Quasi-money	0.5	9.2	10.6	3.9	35.8	0.7
Net claims on government	-9.2	3.7	-14.5	-72.4	-17.2	-140.0
Claims on nonfinancial public enterprises	4.3	-7.1	5.7	13.2	21.7	41.8
	(Percent change over beginning broad money stock)					
Net foreign assets	9.6	2.7	1.8	34.6	14.8	63.4
Domestic credit	-1.8	2.2	0.6	-24.4	14.7	7.4
Net claims on government	-5.4	1.9	-7.3	-29.7	-1.9	-10.7
Claims on the economy	3.7	0.3	7.9	5.2	16.6	18.1
Claims on nonfinancial public enterprises	1.8	-3.1	2.1	4.9	9.0	17.5
Claims on private sector	1.7	2.8	4.7	0.1	8.2	0.3
Other items (net)	-4.4	1.7	3.4	-8.3	-8.9	-65.5
	(As percent of GDP)					
Domestic credit	80.7	91.1	82.5	52.5	62.3	47.8
Net claims on the government	32.8	37.8	29.1	6.5	5.5	-1.5
Broad money	62.9	74.5	71.1	58.3	71.7	53.4
Nominal GDP (in millions of Libyan dinars)	14,149	12,741	14,138	17,550	17,196	24,309

Source: Central Bank of Libya.

1/ Starting in 2000, data includes regional banks.

Table 6. Libya: Illustrative Medium-Term Scenario, 1999–2008

	1999	2000	2001	2002	Projections 2003	2004	2005	2006	2007	2008
					(Assumptions)					
Crude oil production (in millions of barrels/day)	1.3	1.4	1.3	1.2	1.4	1.4	1.4	1.5	1.6	1.7
Hydrocarbon exports (in billions of U.S. dollars)	7.1	10.9	8.5	8.7	9.4	8.6	8.4	8.4	8.9	9.0
Libyan crude oil export price (U.S. dollars per barrel) 1/	17.9	28.0	24.1	24.4	25.9	23.0	21.5	20.5	20.5	19.5
					(In percent of GDP; unless otherwise indicated)					
Official exchange rate (LD/US$, end of period)	0.46	0.54	0.65	1.21	1.26	1.38	1.38	1.38	1.38	1.39
Official exchange rate (LD/US$, per annum)	0.46	0.51	0.60	1.27	1.26	1.38	1.38	1.38	1.38	1.39
CPI (percent change)	2.6	-2.9	-8.8	-9.8	2.8	2.9	2.2	2.2	2.2	2.2
GDP deflator (percent change)	10.1	21.3	-2.5	41.7	3.1	0.4	-1.0	-0.3	1.2	-0.3
Gross domestic investment	11.2	13.0	13.0	14.5	14.2	17.6	16.3	16.5	16.6	17.0
Nongovernment	2.3	2.1	2.3	2.7	2.7	2.7	2.7	2.8	2.8	2.8
Government	8.9	10.9	10.7	11.7	11.5	14.9	13.5	13.7	13.8	14.2
National saving	16.6	33.5	21.5	13.2	21.8	19.0	16.1	16.1	17.2	16.8
Nongovernment	2.8	13.7	11.3	-4.4	-3.5	-5.8	-5.3	-3.4	-1.7	-0.7
Government	13.8	19.8	10.2	17.6	25.3	24.8	21.3	19.5	18.9	17.5
Saving-investment gap	5.4	20.5	8.6	-1.2	7.6	1.4	-0.2	-0.3	0.6	-0.2
Nongovernment	0.5	11.6	9.0	-7.1	-6.1	-8.5	-8.0	-6.1	-4.5	-3.5
Government	4.9	8.9	-0.5	5.8	13.8	9.9	7.8	5.8	5.1	3.2
Real GDP growth rate (in percent)	0.7	2.3	0.5	-0.2	5.6	2.8	3.4	3.4	3.5	3.9
Real nonhydrocarbon GDP growth rates (in percent)	2.6	3.1	2.5	2.9	2.7	2.5	2.6	2.6	2.6	2.6
Total revenue	39.8	42.1	44.1	46.7	50.2	49.2	47.1	46.0	45.8	45.2
Of which: hydrocarbon revenue	17.4	27.2	29.0	35.6	39.2	37.7	35.8	34.5	34.7	33.9
Total expenditure	34.3	32.6	44.4	42.9	38.4	41.9	41.6	42.5	43.1	44.4
Current	26.0	22.3	33.9	29.1	25.0	24.5	25.7	26.5	26.9	27.7
Capital	8.3	10.3	10.5	13.7	13.5	17.4	15.8	16.0	16.2	16.6
Overall budget balance	5.5	9.5	-0.3	3.9	11.8	7.3	5.5	3.5	2.7	0.8
(excluding the ORF revenue)	5.5	-5.1	-8.3	-4.8	-0.1	-0.8	-3.6	-4.1	-4.9	-5.3
Nonhydrocarbon balance (deficit -)	-11.9	-17.7	-29.3	-31.8	-27.4	-30.4	-30.3	-31.1	-31.9	-33.1
					(In millions of U.S. dollars; unless otherwise indicated)					
Exports, f.o.b.	7,208	12,088	8,954	8,280	9,551	8,765	8,613	8,642	9,117	9,259
Of which: non-oil exports	470	450	417	184	177	191	205	218	226	239
Imports	-4,735	-4,132	-5,312	-7,408	-6,282	-6,656	-6,881	-7,114	-7,365	-7,649
Current account balance	1,645	7,047	2,438	-238	1,605	276	-37	-72	133	-53
(in percent of GDP)	5.4	20.5	8.6	-1.2	7.6	1.4	-0.2	-0.3	0.6	-0.2
Official reserves	6,721	11,966	14,182	13,735	15,194	15,316	15,128	14,906	14,876	14,657
(in months of imports of GNFS)	14.1	27.2	25.6	18.7	23.6	22.5	21.5	20.5	19.7	18.7

Sources: Libyan authorities; and Fund staff estimates and projections.

1/ Based on World Economic Outlook assumptions effective June 6, 2003.

Table 7. Libya: Indicators of External Vulnerability, 1997–2003

(In percent of GDP; unless otherwise indicated)

	1997	1998	1999	2000	2001	Prel. 2002	Proj. 2003
Financial indicators							
Public sector domestic debt 1/	45.4	50.4	45.4	36.1	37.2	26.8	...
Broad money (percent change, 12-month basis)	3.4	6.7	5.8	1.9	20.5	5.3	...
Private sector credit (percent change, 12-month basis)	5.3	8.5	14.2	0.1	23.2	0.9	...
31-day treasury bill yield	...	...	...	...	...	...	...
31-day treasury bill yield (real)	...	...	...	...	...	...	...
External indicators							
Exports of G&S (percent change, 12-month basis in U.S. dollars)	2.9	-38.9	19.7	67.0	-25.3	-7.6	15.3
Imports of G&S (percent change, 12-month basis in U.S. dollars)	0.7	-19.2	-12.7	-7.6	25.8	33.1	-12.5
Terms of trade (percent change; 12-month basis)	...	...	...	...	...	...	...
Current account balance	5.1	-1.2	5.4	20.5	8.6	-1.2	7.6
Capital and financial account balance	-2.4	-1.7	-1.8	-2.1	-5.9	-1.8	-0.7
Of which							
Inward portfolio investment (debt securities, etc.)	...	...	...	...	...	...	...
Other investment (loans, trade credits, etc.)	...	...	...	...	...	...	...
Inward foreign direct investment in the form of debt or loans	...	...	...	...	...	...	...
Gross official reserves (in millions of U.S. dollars)	7,612	6,657	6,721	11,966	14,182	13,735	15,194
Central bank short-term foreign liabilities (in millions of U.S. dollars)	1,589	3,000	2,957	3,217	2,789	2,597	...
Central bank foreign currency exposure (in U.S. dollars)	...	...	...	...	...	...	...
Short-term foreign assets of the financial sector (in U.S. dollars)	...	...	...	...	...	...	...
Short-term foreign liabilities of the financial sector (in U.S. dollars)	...	...	...	...	...	...	...
Foreign currency exposure of the financial sector (in U.S. dollars)	...	...	...	...	...	...	...
Official reserves in months of imports (goods and services)	11.3	12.2	14.1	27.2	25.6	18.7	23.6
Official reserves to next year's imports 2/	12.1	12.1	13.5	19.2	16.8	18.8	19.6
Official reserves to broad money (M2) (in percent)	33.3	31.6	30.9	63.2	74.7	127.9	...
Total short-term external debt to reserves (in percent)	...	...	...	...	...	...	...
Total external debt	15.8	19.0	18.9	15.3	19.1	29.0	...
Of which: public sector debt (in millions of U.S. dollars)	...	...	...	...	...	...	...
Total external debt to exports (goods and services)	...	...	...	...	...	...	...
External interest payments to exports (goods and services)	...	...	...	...	...	...	...
External amortization payments to exports (goods and services)	...	...	...	...	...	...	...
Official exchange rate (per U.S. dollars, period average)	0.4	0.4	0.5	0.5	0.6	1.3	...
REER appreciation (official exchange rate) (-) (annual change) 3/	7.3	2.3	-16.4	5.8	-15.0	-59.7	...
REER appreciation (parallel exchange rate) (-) (annual change) 3/	4.1	-9.0	10.5	40.7	13.2	6.7	...
Financial market indicators							
Stock market index	...	...	...	...	...	...	...
Foreign currency debt rating	...	...	...	...	...	...	...
Spread of benchmark bonds (basis points; end of period)	...	...	...	...	...	...	...

Sources: Libyan authorities; and Fund staff estimates.

1/ Net domestic debt of general government.

2/ Ratio of reserves to next year's imports of goods and services (in percent).

3/ Calculated as the percentage change of the index at t relative to the index at t-1.

LIBYA: FUND RELATIONS

(As of April 30, 2003)

I. Membership Status: Joined 09/17/58; Article XIV

II. **General Resources Account**:	SDR Million	Percent of Quota
Quota	1123.70	100.0
Fund holdings of currency	728.21	64.8
Reserve position in Fund	395.51	35.2

III. **SDR Department**:	SDR Million	Percent of Allocation
Net cumulative allocation	58.77	100.00
Holdings	452.61	770.12

IV. Outstanding Purchases and Loans: None

V. Latest Financial Arrangements: None

VI Projected Obligations to Fund: N/A

VII. Exchange Rate Arrangement

On June 15, 2003, the Libyan dinar was devalued by 15 percent to LD 1 = SDR 0.5175 from LD 1= SDR 0.6080. From January 1, 2002 through June 14, 2003, the Libyan dinar was pegged to the SDR at the rate of LD 1 = SDR 0.608. From February 14, 1999 through December 31, 2001, a dual exchange rate system was in place, with an "official" exchange rate pegged to the SDR, and a "special" exchange rate pegged to the U.S. dollar. Most exchange transactions, including oil exports and most public sector imports, took place at the official exchange rate. During that period, the authorities have gradually appreciated the special exchange rate while simultaneously depreciating the official exchange rate, before unifying the two rates through a 50 percent devaluation of the official exchange rate on January 1, 2002.

VIII. Exchange System

On June 21, 2003, the authorities formally notified the Fund of their decision to accept their obligations under Article VIII. In June 2003, the authorities informed the staff that they have eliminated the restrictions that were subject to approval under Article VIII, including the 15 percent exchange tax and subsidy, respectively, on the purchases and sales of foreign exchange by the private sector, and the advanced import deposit requirements. As for the remaining restrictions previously falling under Article XIV and now falling under Article VIII, including restrictions on invisible payments related to the transfer of remittances and a few bilateral payment arrangements, the authorities informed the staff that those restrictions are no

longer enforced and they intend to eliminate them. However, no time frame for their removal has been provided.

IX. Article IV Consultation

Libya is on a 12-month consultation cycle. The last Article IV consultation discussions were held in January 2002. The staff report (SM/02/118, SM/02/120) was discussed by the Executive Board on May 6, 2002 (EBM/02/46). The recent Article IV consultation discussions took place during the period April 27–May 15, 2003.

X. Technical Assistance

1. February 1985: STA mission in monetary statistics
2. September 1985: STA mission in price, trade, and non-oil production statistics
3. March 1990: STA mission in money and banking and balance of payments statistics
4. February 1998: STA multisector statistics mission
5. August 2001: MFD mission in monetary operations, banking supervision and payment system.

LIBYA: RELATIONS WITH THE WORLD BANK GROUP

Prepared by the World Bank staff

(As of February 5, 2003)

1. Libya has been a member of the World Bank Group since 1958, joining the International Bank of Reconstruction and Development (IBRD) and International Finance Corporation (IFC) in September 1958, International Development Association (IDA) in August 1961, and Multilateral International Guarantee Association (MIGA) in April 1993. There have been no World Bank Group loans made to Libya to date as the development of the country's petroleum assets from 1960 placed Libya among capital-surplus oil-producing countries, and provided resources to build extensive infrastructure and provide social services. The last World Bank economic report on Libya was prepared in 1959.

2. At the September 1999 Annual Meetings, Libya indicated interest in obtaining training and technical assistance (TA) from the Bank. Bank regional staff then accompanied the Bank Group Executive Director for Libya to the country in early April 2000 to make initial contacts and discuss the modalities of likely collaboration. At the Spring 2000 Meetings, Libyan government representatives requested a Bank mission to identify training and TA requirements. To that end, a Bank mission visited Libya from June 17 to 27, 2000 and produced a detailed technical assistance identification report, which was shared with the Libyan authorities both in English and Arabic.

3. In 2000, the Libyan authorities invited the Bank Group (IBRD, IFC, and MIGA) to the "International Conference on Development and Investments in Libya," held in Tripoli. A mission visited Libya in February 2001 to provide TA in the form of a study on Regional Capital Markets at the request of the Libyan authorities. This was presented at the Summit for African Heads of State. During the mission, potential areas of work were identified in TA for national accounts, social and economic database management, customs modernization, small and medium enterprise development, and electronic bank payments system.

4. The Central Bank of Libya (CBL) expressed interest in pursuing TA from the World Bank to prepare a detailed implementation arrangements relating to the acquisition of a suitable Electronic Bank Payments System. An annual Framework for Technical Cooperation was signed on January 28, 2002, and the Reimbursable Technical Assistance program has been activated since.

5. Following the World Bank mission to Tripoli in April 2002 a document on a "Vision of the Future National Payment Systems" was presented to key Libyan stakeholders, whereby follow-up missions determined next steps for the work. Three new working committees have been established to undertake the detailed work: a) Banking Committee, b) Automation Committee, and c) Legal and Regulatory Committee. CBL requested and has been receiving continuing project execution and project supervision support from the WB, including the procurement of providers for the upgrading of the system which is advancing. In addition, a workshop that would bring together senior officials from Libya and from Banca D'Italia, Swiss National Bank, South African Reserve Bank, and the Saudi Arabian Monetary Authority, to discuss the National Payments System project and international practices has been proposed for early 2003.

LIBYA: STATISTICAL ISSUES

1. Libya's data base suffers from shortcomings that seriously affect the capacity of staff to conduct effective surveillance. Among these are: (i) weaknesses in the conceptual and compilation procedures underpinning the collection of statistics in the various sectors; (ii) deficiencies in data quality, coverage, periodicity, and timeliness; (iii) lack of consistency of data across sectors; and (iv) with the exception of monetary data, lack of a data reporting system to the Fund in order to update MED's operational data base between missions. The above issues are compounded by specific institutional weaknesses affecting data quality and timeliness, in particular the lack of interagency cooperation, the proliferation of agencies with unclear and often overlapping responsibilities, and the continuous reshuffling of responsibilities among agencies.

2. The February 1998 multisector STA mission examined the conceptual and compilation procedures for national accounts, price indices, foreign trade, money and banking, and government finance; and developed recommendations for improvement in these systems that would enhance the quality of the data. The mission prepared a short-term action plan to be implemented by the authorities.

3. The authorities have recently made progress in addressing some of the issues, particularly in monetary data and, to some extent, real sector data. The 2003 Article IV mission was provided in the field with revised data on monetary sector, as well as data on real sector. The new monetary data now include the balance sheets of the regional banks in the monetary survey. As for real sector data, the authorities provided the mission with monthly CPI data through March 2003.

4. Notwithstanding the above progress, major impediments to effective surveillance remain: (1) the lack of a coherent methodological framework for the compilation of government finance data; (2) substantial inconsistencies between sectors, in particular, between (i) data on budget execution and financing data from the central bank of Libya (CBL); (ii) hydrocarbon data as reported by the national oil company, the national accounts and the balance of payments; and (iii) in the treatment of Fund accounts within the CBL's balance sheet; and (3) the lack of a data reporting system to the Fund.

5. The following sections outline the current status of data compilation and reporting by sector and assess progress achieved against individual recommendations included in STA's action plan.

- **In the area of national accounts statistics,** some progress has been achieved with the compilation of GDP estimates by economic activity through 2002, based on the 1968 *System of National Accounts* (1968 SNA). However, the compilation process is hampered by high staff turnover and significant delays in the receipt of basic data from various sources, particularly from other government agencies. In addition, many of the surveys are outdated. Annual estimates up to 2000 were reported to STA in

2002 and published in IFS; however, the estimates are not fully consistent with other data sets.

- **In the area of prices,** some progress has been achieved with the resumption, after a nine-year hiatus, of the compilation of the CPI. The index is compiled using weights derived from the 1992–93 household budget survey, as recommended by the 1998 STA mission. The new CPI has a 1999 base year and is compiled for 2000 onwards. The authorities provided the mission with monthly CPI data covering the period through March 2003. The index is not reported to the Fund. Also, two STA recommendations remain to be implemented: (i) the compilation of a producer price index to use as deflator for national accounts aggregates; and (ii) the development of a consistent work program on price statistics with specific priorities and deadlines for the completion of the various tasks.

- **In money and banking statistics,** while the timeliness and quality of monetary data reported to the *International Financial Statistics* (IFS) has improved, some deficiencies remain. The CBL implemented most of the recommendations of the February 1998 STA mission pertaining to its accounts. These are: (i) the review of the analytical presentation of accounts to separately identify nonresident accounts according to the residency rather than nationality criterion; (ii) the collection of data from the newly created banks, and accounts for the various institutions (deposit money banks (DMBs), other banking institutions, offshore banks, and nonbank financial institutions) and the separate identification of the government's Social Security Fund; and (iii) the design of new call report forms. The CBL has also started consolidating the balance sheets of the regional banks with the commercial banks to be included in the monetary survey. However, weaknesses still remain with respect to the persistently high level of unclassified liabilities and the treatment of Fund accounts in the balance sheet of the CBL.

- **Regarding fiscal data,** the Libyan fiscal information system remains fragmented and inconsistent with international standards, since it has been designed for administrative reporting under the government finance law, rather than for purposes of providing timely statistical information for economic planning and analysis. None of the recommendations of the 1998 STA mission has been implemented and no fiscal data have been reported to the Fund between missions.

- **As for balance of payments data,** the authorities resumed in 2000 the reporting to STA of annual data in accordance with the presentation of the fourth edition of the *Balance of Payments Manual*. However, the reported data suffer from deficiencies, mainly on account of (i) generally unclear methodology; (ii) outdated surveys as sources for primary data; (iii) lack of component detail; (iv) lack of comprehensive coverage for trade data; and (v) methodological flaws in the compilation of the financial account.

Overview of Trade Restrictions, 2002–03

	Pre-Unification Changes	Post-Unification Status	New and Expected Measures
Restrictions on imports			
Financing requirement	The minimum advance import deposit required for opening a letter of credit has been raised for public enterprises from 25 percent to 50 percent of the value of the import.	The opening of a letter of credit requires an advance import deposit equal to at least 50 percent of the value of the import, for both private and public enterprises.	A prudential regulation now limits the use of bank credit for import purposes.
Nontariff measures	Bans on some food items has been removed and replaced by a 30 percent tariff rate. A list of ten items temporarily prohibited from import has been introduced but unevenly enforced.	All import licenses have been removed. Importers are limited to one type of commodity range according to their specialty. With the exception of goods deemed strategic (i.e., nine essential food items, medicines, petroleum products, gold, ammunitions, and veterinary equipment) retained by public corporations, all other goods may be imported by either public or private entities. A list of prohibited imports include about 40 items, but the law is not enforced for most items. About 29 goods have been removed from the list of banned items and 13 new ones added.	Some shortening of the list of prohibited imports and the list of export ban.
Import tariffs	Most tariff rates were halved in line with the 100 percent depreciation of the official rate at the unification of the exchange rate. Commercial public enterprises were fully exempted from import tariffs starting 2002.	Imports are subject to customs duties and surcharges, the latter being 10 percent of the applicable customs duties. Commercial public enterprises are fully exempted from custom tariffs. All products from Arab countries are exempt from customs duties, provided that domestic value added is at least 40 percent.	
Restrictions on exports			
Financing requirement	Export proceeds must be repatriated within three months of shipment instead of six months as before. The share of nonhydrocarbon earnings that exporters are allowed to retain was raised from 40 percent to 100 percent.	All proceeds must be repatriated in foreign currency within three months of shipment. Exporters are allowed to retain up to 100 percent of nonhydrocarbon earnings.	
Nontariff measures		Exports of nonmonetary gold (other than for processing abroad), scrap metals, and coal, as well as subsidized commodities are limited to certain public sector entities.	

Overview of Exchange Restrictions, 2002–03

	Pre-Unification Changes	Post-Unification Status	New Expected Measures
Foreign exchange rationing	Elimination of the foreign exchange budget under which most current transactions were regulated and supervised by the Central Bank of Libya (CBL).	With the elimination of the foreign budget, access to foreign exchange for current transactions is now unrestricted and does not require CBL approval.	
Exchange taxes	The 15 percent GMR tax has been made explicit at the unification of the exchange rate.	A tax of 15 percent is levied on the purchase of foreign exchange for the purpose of financing the GMR Project. An equivalent subsidy of 15 percent is paid back for the sale of foreign exchange. The following are exempt from this tax: (i) all transactions in foreign currency in the budget; (ii) all public enterprises; and (iii) the transferable share of the income of nonresidents on the payroll of the state.	GMR tax has been eliminated, and the exchange rate has been depreciated by 15 percent.
Payments and receipts	For money laundering control purposes, a ceiling has been imposed on the purchase of foreign currency in cash.	Residents and nonresidents are not allowed to export or import Libyan currency. For money laundering control purposes, a ceiling of $5,000 per transaction is enforced on the purchase of foreign currency in cash and a ceiling of $10,000 on the purchase of foreign currency in traveler checks. Bilateral agreements are maintained with Algeria, Malta, Morocco, and Tunisia; outstanding balances are settled in convertible currencies every 90 days.	
Residents' and nonresidents' accounts	Residents and nonresidents were allowed to buy and sell foreign exchange through their accounts for all noncommercial transfers and credit operations provided that the Libyan dinar is an intermediary. Full release of nonresident-owned capital held in blocked accounts.	Individual residents are allowed to keep foreign currencies in domestic bank accounts and to transfer balances abroad without restriction. Nonresidents who are employed in the country are permitted to open domestic accounts, which may be credited with their legitimate earnings. All other credits to nonresidents' accounts require the prior approval of the CBL.	
Invisibles and current transfers	The share of net salaries transferred by nonresidents employed by the state, state-owned enterprises, or foreign companies that is exempted from the GMR tax has been raised from 50 percent to 65 percent.	Payments for invisibles related to authorized imports are not restricted. Transfers of profits generated by foreign capital invested in projects set up in the context of Law no. 5 and approved by the Foreign Investment Board are not restricted and may be transferred freely and fully. Nonresidents employed by the state, the state-owned enterprises, and foreign companies may remit the entire amount of their net salaries, 65 percent of which is exempted from the GMR tax.	With the elimination of the GMR exchange tax in June 2003, those measures are no longer enforced, and the authorities intend to eliminate them.
Capital transactions		Purchases abroad of capital and money market instruments as well as foreign borrowing by residents requires CBL approval. Full foreign ownership is permitted in ventures set up in the context of Law no. 5 and approved by the Foreign Investment Board. Otherwise, foreign participation in industrial ventures is permitted on a minority basis.	Foreign investment is being encouraged in the context of Law no. 5.

LIBYA: STRUCTURE OF LIBYA'S BUDGET

Libya's budget law requires a balanced budget. Budgetary oil revenues are allocated to capital and current expenditures according to the 70/30 fiscal rule. This rule, which was initially designed to impose limits on the share of budgeted oil revenue that could be allocated to current expenditure, mandates that budgeted oil revenue (net of transfers to the National Oil Company to cover its operating expenses and investment plans) be allocated to cover expenditure as follows:

- Five percent for debt service, covering interest and amortization of Libya's domestic debt.

- The remaining 95 percent for expenditures of the Administrative Budget (30 percent) and the Development Budget (70 percent). The Administrative Budget includes current expenditure (typically wages and salaries, other purchases of goods and services, and subsidies and other current transfers). The Development Budget comprises capital expenditure, including health, education and housing.

In practice, current expenditure, and particularly its wages and salaries component, has grown very rapidly over time to exceed total budgeted oil revenues, while development expenditure, reflecting the limited absorptive capacity of the Libyan economy, fell short of the 70 percent rule. As a share of budgeted oil revenues (net of the 5 percent allocated to debt service), development expenditure averaged 25 percent over 1994–98, rising to an average of 50 percent over 1999–2002. Reflecting an increase in nonbudgeted expenditures and the rapid growth of the Administrative Budget, budget deficits began emerging during periods of low oil revenues.

Starting in 1995, an oil revenue budgetary rule was introduced, aimed at saving the share of oil revenue exceeding a given revenue (determined by a budget oil price forecast) into an Oil Reserve Fund (ORF). However, the ORF was not integrated in the budget, and its operations, including withdrawal rules, control and management, were never defined by law. As a result, extrabudgetary expenditure began taking place, with discretionary financing from the ORF. In 1996–99, withdrawals from the ORF were modest. However, with the drive for decentralization initiated in 1998, pressure on expenditure began building up, and the budget process undertook important changes, with a loss of some central control over expenditure items, and a weakening of revenue collection: over 50 percent of the Administrative Budget was transferred to the 26 regions, which also executed about 60 percent of the Development Budget in coordination with the central planning commission attached to the office of the prime minister. As expenditure pressures mounted, extrabudgetary expenditure financed by discretionary withdrawals from the ORF jumped from less than 2 percent of GDP in 2000 to above 10 percent in 2001 and 2002.

Statement by the IMF Staff Representative
August 18, 2003

One of the main economic developments since the return of the mission in May 2003 has been the adoption in June of the budget for 2003. Finalization of the budget was delayed by protracted discussions within the government on how to reduce the non-oil fiscal deficit. Following are the key elements of the new budget:

- Presentation-wise, **the 2003 budget departs from previous budgets in that oil receipts are not presented as revenue (with the exception of a small portion earmarked for government debt service), but rather as financing of the non-oil deficit.** In the staff's view, this presentation is welcome, since it focuses attention on the underlying non-oil balance and will help strengthen fiscal management. Indeed, the approach is similar to that proposed by the staff as an option for reforming Libya's Oil Reserve Fund (ORF) in Chapter IV of the Selected Issues paper. However, the new presentation does not address the concerns raised by the staff regarding the transparency and accountability of the ORF. In the approved budget, current expenditures are limited to projected non-oil revenues, while capital expenditures are financed from oil revenues received by the ORF.

- **The budget is much less expansionary than staff's projections for 2003,** with current expenditure about 3 percentage points of GDP below, and revenue about 5 percentage points of GDP above staff's projections. As a result, the non-oil deficit is projected to decline to 19 percent of GDP in 2003, compared with projections of about 27 percent of GDP in the staff report.

Although the staff has had the opportunity to discuss briefly the approved 2003 budget with the Libyan authorities, these discussions have not been comprehensive. The following are a number of preliminarily observations:

1. **In the staff's view, the projected fiscal consolidation is unsustainable.** The need to match non-oil revenue with current expenditure has resulted in the mobilization of all possible sources of revenue together with deep cuts in some current expenditure items. In particular, nontax revenue was inflated relative to past budgets by the inclusion of privatization proceeds and a one-off payment of deferred central bank profits for 2000–02.

2. **The staff encourages the authorities to closely monitor actual budgetary outcomes, and to stand ready to reassess their overall fiscal stance reflected in the budget, while still achieving their objective of strengthening the fiscal position.**

3. **The new budget does not adequately address concerns raised by the staff regarding budget transparency.** In particular (i) subsidies on essential goods have been

reclassified as capital expenditure; (ii) privatization receipts have been classified as revenue; and (iii) extrabudgetary expenditures remain an issue.

4. Given the importance of strengthening fiscal reporting, the staff welcomes the authorities' recent request for a technical assistance mission from the Fund on Government Finance Statistics; STA consideration is being given to the timing of this assistance.

The above new information does not fundamentally alter the thrust of the staff appraisal.

INTERNATIONAL MONETARY FUND

Public Information Notice

EXTERNAL RELATIONS DEPARTMENT

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FOR IMMEDIATE RELEASE
October 23, 2003

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes 2003 Article IV Consultation with the The Socialist People's Libyan Arab Jamahiriya

On August 18, 2003, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with The Socialist People's Libyan Arab Jamahiriya.[1]

Background

The Libyan economy depends heavily on the oil sector and remains largely state controlled and regulated. The authorities initiated in 2002 steps to liberalize the economy. On January 1, 2002, the dual exchange rate system was unified at a fixed rate of LD 1 = SDR 0.608 and the foreign exchange rationing and import licensing requirements were eliminated. Economic developments in 2002 were impacted by these developments and by the accommodating fiscal and credit policies, in an environment of continuing high oil prices. Real non-oil GDP grew by about 3 percent and deflation continued with a 9.8 percent decline in the consumer price index (CPI). The external current account shifted to a deficit for the first time since 1998, and gross official reserves decreased slightly to about US$13.7 billion (18.7 months of imports).

The fiscal stance remained expansionary in 2002, with the non-oil overall fiscal deficit widening to 32 percent in 2002 from about 29 percent of GDP in 2001. Expenditure growth in 2002 was driven by budgeted capital expenditure growth of 3.2 percent of GDP, mainly on development projects in communications, construction, health, housing, and education. On the revenue side, oil revenue in Libyan dinar terms was boosted by the large devaluation of the official exchange

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

rate at the beginning of 2002. However, tax revenue decreased and customs revenue stagnated despite a surge in imports, mainly as a result of widespread exemptions granted to public enterprises. The overall consolidated budget position registered a surplus of 4 percent of GDP.

The monetary outcome continues to be determined by the non-oil fiscal deficit and a system of directed credit. The government took advantage of the higher oil revenue in Libyan dinar terms to become a net lender in 2002 relative to the banking sector, from a position of net borrower in 2001. Broad money growth decelerated from about 20.5 percent in 2001 to about 5.3 percent in 2002. There was some progress in the banking sector reform agenda with a number of measures adopted to strengthen banking supervision. Two new private commercial banks and one private regional bank were licensed in 2002 and preparations are under way for the privatization of a public bank. Another commercial bank is being considered for privatization. A committee to examine the restructuring of banks was established in 2002.

The authorities were receptive to the Fund's policy advice and implemented important measures recommended by the staff, including the elimination of the Great Man-Made River (GMR) exchange tax, which is levied only on private foreign exchange transactions, and the devaluation of the exchange rate by 15 percent. Also, the advanced import deposit requirements were replaced by a prudential regulation limiting the use of bank credit for import purposes. In June 2003, Libya accepted its obligations under Article VIII of the IMF's Articles of Agreement.

Based on projected increases in oil prices and production, and a less expansionary fiscal stance, economic prospects for 2003 appear favorable. Real non-oil GDP is projected to expand by about 2.5 percent, while prices are projected to increase by about 3.0 percent. Strong external fiscal and current account surpluses are expected, along with a buildup in official reserves to about 24 months of imports. The key challenge facing the authorities in the medium and long term is to achieve sustainable high rates of economic growth to generate employment opportunities for a rapidly growing labor force. The authorities agreed that this goal would not be achievable without a drastic reduction in the dominant role of the public sector.

Executive Board Assessment

Executive Directors commended the Libyan authorities for the reform measures taken to liberalize the economy since the suspension of UN sanctions. They particularly welcomed Libya's acceptance of its obligations under Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement. Directors hoped that these decisions, following the close collaboration with staff during the mission, signal a turning point in Libya's relationship with the Fund.

Directors considered that the main challenge facing the authorities is generating sufficient growth and employment opportunities to absorb the rapidly growing labor force. They, therefore, welcomed the authorities' commitment to the gradual structural transformation of the economy, consistent with Libya's social system, and the recent steps taken toward liberalization and reducing the role of the state in the economy. These measures pave the way for improved resource allocation, enhanced efficiency and competition, and a higher level of economic

growth. However, existing controls and restrictions, as well as subsidies and exemptions, continue to distort economic choices and weigh on growth and employment prospects, especially in the non-oil sector.

Directors welcomed the recent elimination of the exchange tax levied only on private foreign exchange transactions, the devaluation of the exchange rate, and the elimination of the advanced import deposit requirements. These measures simplify the exchange system and will reverse some of the appreciation in the real effective exchange rate that has taken place since 1999.

Directors were encouraged by the recent declarations of the Libyan leadership stressing the need to reform the public sector and accelerate the pace of privatization. These are indications that the process of reform has become a renewed priority, and that the slowdown in the pace of reforms following the exchange rate unification in 2002 has now been reversed.

Directors emphasized that the generally favorable medium-term macroeconomic outlook does not diminish the need to implement key structural reforms if higher sustainable growth is to be achieved. Building on the recent measures, the authorities should take advantage of the current favorable macroeconomic environment to implement at an accelerated pace more wide-ranging reforms, in the context of a coherent and well-sequenced medium-term policy framework. Directors noted the importance of prioritizing reforms and publishing the intended reform agenda.

Directors noted that, in the short run, the reform agenda should aim at improving macroeconomic management, removing remaining trade restrictions, bringing domestic prices in line with world prices, and addressing explicitly in the budget the impact of price realignments on vulnerable groups, public enterprises, and public banks. In a second stage, structural reforms that require longer technical preparations would need to be implemented, including restructuring public banks and public enterprises; reforming the system of subsidies and transfers; legal and regulatory reforms; and civil service, tax, and customs administration reforms. Efforts to align education and training with job market requirements also would help to support employment. The authorities' approach to privatization should be reassessed, perhaps with World Bank assistance.

Directors noted that fiscal policy, the key to macroeconomic stability in Libya, continues to be shaped by the availability of oil revenues. They urged the authorities to implement stricter control over all extra-budgetary funds, particularly the Oil Reserve Fund, and reassess the mechanical distribution of oil revenue between capital and current expenditures. Directors welcomed the efforts to rationalize the tax system, broaden the tax base, and strengthen tax administration. They also welcomed the less expansionary non-oil fiscal stance projected for 2003, but emphasized the need for expenditure restraint to be realistic. They urged the authorities to move toward greater budget transparency and to cast the budget within a coordinated medium-term framework that takes into account the nonrenewable nature of Libya's hydrocarbon resources.

Directors welcomed the authorities' intention to develop money markets and introduce effective instruments for liquidity management. They urged the authorities to consider establishing a permanent monetary policy committee to assess monetary developments and design a monetary policy framework.

Directors emphasized the need for prompt action to correct weaknesses in banking supervision. They welcomed the steps taken to combat money laundering and the financing of terrorism, and urged the authorities to speed up the preparation of the Anti-Money Laundering Law.

Directors encouraged the authorities to keep the exchange rate system under review with a view to encouraging domestic production of non-oil exports, in conjunction with the implementation of structural reforms. They should continue to show flexibility and stand ready to promptly adjust the rate as warranted by overall developments.

Directors encouraged the authorities to reduce tariff dispersion and remove remaining trade restrictions, by scaling down the list of import and export bans, eliminating import monopolies, phasing out bilateral payments agreements, and initiating a program of multilateral liberalization.

Directors welcomed the authorities' initiatives to integrate Libya into the regional and global economy, and their intention to enter free trade agreements with Arab countries, and to join the World Trade Organization. They welcomed the authorities' efforts to regularize relations with creditors and encouraged them to expedite the clearing of all remaining external arrears. They commended Libya's participation in the Highly Indebted Poor Countries (HIPC) Initiative, and looked forward to further progress in Libya's collaboration with debtor countries that have reached the completion point.

Directors welcomed the improvements in Libya's statistical database. They emphasized, however, that its further strengthening should be accorded a high priority. They encouraged the authorities to participate in the Fund's General Data Dissemination System. In view of the need to strengthen the statistical data and to assist Libya in the design and implementation of reforms, Directors supported the authorities' request for technical assistance from the Fund in the areas of statistics, as well as on financial programming, development of money markets and financial instruments, and tax reform.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board. The Staff Report for the 2003 Article IV Consultation with the Socialist People's Libyan Arab Jamahiriya is also available.

Libya: Basic Economic and Financial Indicators, 1999–2003

	1999	2000	2001	Prel. 2002	Proj. 2003
			(Percentage change)		
National income and prices					
Real GDP	0.7	2.3	0.5	-0.2	5.6
Real non-oil GDP	2.6	3.1	2.5	2.9	2.7
CPI	2.6	-2.9	-8.8	-9.8	2.8
	(In billions of U.S. dollars; unless otherwise indicated)				
External sector					
Exports, f.o.b.	7.2	12.1	9.0	8.3	9.6
Of which: hydrocarbons	6.7	11.6	8.5	8.1	9.4
Imports, f.o.b.	4.7	4.1	5.3	7.4	6.3
Current account balance	1.6	7.0	2.4	-0.2	1.6
(In percent of GDP)	5.4	20.5	8.6	-1.2	7.6
Overall balance (deficit -)	0.4	5.8	1.0	0.2	1.5
			(In percent of GDP)		
Financial variables					
Overall government position (deficit -)	5.5	9.5	-0.3	3.9	11.8
Nonhydrocarbon balance (deficit -)	-11.9	-17.7	-29.3	-31.8	-27.4
	(Changes as a percent of beginning broad money stock)				
Money and quasi-money	5.8	1.9	20.5	5.3	...
Net credit to the government	-7.3	-29.7	-1.9	-10.7	...
Deposit rate (1-year deposits, in percent)	5.5	5.5	5.5	5.5	...

Sources: Libyan authorities; and IMF staff estimates and projections.