



# LIBYA

July 2024

## 2024 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR LIBYA

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 2024 Article IV consultation with Libya, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its July 1, 2024 consideration of the staff report that concluded the Article IV consultation with Libya.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 1, 2024, following discussions that ended on May 10, 2024, with the officials of Libya on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 30, 2024.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for Libya.

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**International Monetary Fund**  
**Washington, D.C.**



## IMF Executive Board Concludes 2024 Article IV Consultation with Libya

FOR IMMEDIATE RELEASE

**Washington, DC – July 1, 2024:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation<sup>1</sup> with Libya on Monday, July 1, 2024.

Libya remains a fragile state trapped in political uncertainty, but the episodes of active conflict have become less frequent. Several shocks have hit the country, but their impact on GDP growth has been muted. Tropical storm Daniel struck Eastern Libya in September 2023, leading to devastating floods, catastrophic damage, and a tragic loss of life. The disaster, however, had only a small impact on economic growth, since Libya's GDP is mainly based on energy exports.

In 2023, real GDP is estimated to have expanded by 10 percent, largely owing to a rebound from the oil production stoppages of 2022. The current account surplus declined, in line with the fall in oil prices, but reserves remained at a comfortable level. Government revenues also declined, despite the boost in oil production. Fiscal expenditures, on the other hand, surged, driven by the expansion in the wage bill and energy subsidies. Reported inflation remained low, despite the depreciation of the parallel market exchange rate, due to the prevalence of administered prices and the limited geographic coverage of the available price indices.

In response to the fiscal expansion and the resulting pressure on foreign reserves, the CBL tightened the restrictions on the issuance of letters of credit and lowered the limits on individuals' foreign exchange purchases. Furthermore, a temporary 27 percent tax was imposed on all foreign exchange purchases.

The outlook continues to be dominated by the dynamics of hydrocarbon production. The baseline projection is for declining fiscal and external balances over the coming years, in line with a projected decline in global oil prices. The CBL is expected to maintain the current stock of international reserves, and the country will continue to have no public debt as conventionally understood. However, the balance of risks is tilted to the downside, and uncertainty remains high due to the continuing political stalemate and possible geopolitical spillovers.

### Executive Board Assessment<sup>2</sup>

Executive Directors agreed with the thrust of the staff appraisal. While welcoming the generally positive outlook, they stressed the significant economic and political challenges arising from Libya's fragility, prevailing political uncertainty, and hydrocarbon sector

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<sup>1</sup> 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.

<sup>2</sup> 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. An explanation of any qualifiers used in summings up can be found here: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

dependence. Noting that risks are tilted to the downside, Directors emphasized the need to strengthen fiscal and monetary policy coordination and implement reforms to promote stronger, more inclusive private sector-led growth. They agreed on the importance of implementing critical capacity development (CD) through improved coordination with international partners.

Directors underscored the need to strengthen the fiscal framework and address the procyclical spending bias to support macroeconomic resilience and improve resource wealth management. They recommended efforts to increase fiscal transparency, improve tax administration and compliance, strengthen budget preparation, and enhance the public financial management framework. Directors emphasized the need to strengthen the management of state-owned enterprises to reduce fiscal risk.

Directors underscored the need for a durable political settlement to underpin continued progress on the reunification of the central bank. They highlighted the need to maintain the integrity of the payments system and implement regulatory and governance reforms in the banking sector, including to strengthen the AML/CFT framework. Directors recognized that enhancing macroeconomic policy credibility through stronger policy coordination would help to reduce the gap between official and parallel market exchange rates. They also noted that addressing underlying exchange rate pressures would require improved fiscal expenditure controls and that proper fiscal budgeting would help to avoid procyclical spending and reduce the risk of a potential loss of reserves.

Directors noted the recent progress on governance indicators and highlighted the need for substantial further progress. In this regard, Directors welcomed the planned comprehensive review of governance, anticorruption, and the rule of law, and looked forward to an update in the next Article IV consultation. Noting that data gaps continue to hamper the ability to conduct analysis and provide policy advice, Directors underscored the need to enhance data provision and statistical capacity, supported by Fund CD. The establishment of a coordinating body to facilitate CD provision and implementation would help to avoid duplication and support better information-sharing across institutions.

## Libya: Selected Economic and Financial Indicators, 2021–29

	2021	2022	Est. 2023	2024	2025	Proj. 2026	2027	2028	2029
(Annual percentage change, unless otherwise indicated)									
National income and prices									
Real GDP (at market price)	28.3	-8.3	10.2	7.8	6.9	4.2	2.0	2.1	2.3
Nonhydrocarbon	5.9	7.9	-0.6	3.8	5.6	5.3	5.6	5.8	6.0
Hydrocarbon	45.0	-17.0	17.8	10.2	7.7	3.6	0.0	0.0	0.0
Nominal GDP in billions of Libyan dinars 1/	159.0	208.2	212.0	221.9	232.3	240.3	244.5	250.6	258.6
Nominal GDP in billions of U.S. dollars 1/	35.2	43.3	44.0	46.0	48.3	50.2	51.3	52.8	54.4
Per capita GDP in thousands of U.S. dollars	5.2	6.4	6.4	6.7	6.9	7.1	7.2	7.3	7.5
GDP deflator	90.4	42.7	-11.4	1.4	-2.1	-0.7	-0.7	-0.3	0.9
CPI inflation									
Period average	2.9	4.5	2.4	2.6	2.6	2.6	2.6	2.6	2.6
End of period	3.7	4.1	2.6	2.6	2.6	2.6	2.6	2.6	2.6
(In percent of GDP)									
Central government finances									
Revenues	79.5	85.8	73.5	64.6	63.3	60.8	57.3	53.7	50.3
Of which: Hydrocarbon	78.1	83.9	71.5	62.9	61.6	59.0	55.5	51.8	48.3
Expenditure and net lending	64.7	62.2	65.3	63.1	62.1	60.3	57.2	53.7	50.3
Of which: Capital expenditures	10.9	8.4	8.7	5.4	5.7	5.8	4.7	3.7	3.2
Overall balance	14.8	23.6	8.2	1.5	1.3	0.5	0.1	0.0	0.0
Overall balance (in billions of U.S. dollars)	5.2	10.2	3.6	0.7	0.6	0.3	0.0	0.0	0.0
Nonhydrocarbon balance	-63.3	-60.3	-63.3	-61.4	-60.4	-58.5	-55.4	-51.8	-48.3
(Annual percentage change unless otherwise indicated)									
Money and credit									
Base Money	2.8	-16.9	47.9	24.1	8.3	9.0	9.3	10.0	10.3
Currency in circulation	-20.0	-1.4	37.6	10.3	4.7	2.2	1.5	5.0	5.0
Money and quasi-money	-20.3	12.0	28.3	3.5	4.0	4.5	4.5	5.0	5.0
Net credit to the government (Libyan Dinar, billion)	-94.1	-114.9	-110.9	-114.8	-117.8	-119.0	-118.6	-118.4	-118.4
Credit to the economy (% of GDP)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
(In billions of U.S. dollars; unless otherwise indicated)									
Balance of payments									
Exports	32.3	37.5	31.4	31.6	32.1	31.8	30.6	29.7	28.8
Of which: Hydrocarbon	31.0	36.2	29.0	29.5	30.0	29.7	28.4	27.3	26.2
Imports	17.0	17.2	17.6	19.1	19.5	19.3	18.1	17.4	17.2
Current account balance	5.7	12.4	6.4	6.8	7.0	6.3	6.2	6.2	5.7
(As percent of GDP)	16.1	28.6	14.5	14.9	14.5	12.5	12.2	11.7	10.5
Capital Account (including E&O)	-7.0	-7.2	-2.8	-6.1	-6.4	-6.0	-6.2	-6.2	-5.7
Overall balance	1.1	4.7	3.6	0.7	0.6	0.3	0.0	0.0	0.0
Reserves									
Gross official reserves	69.4	74.1	78.3	79.0	79.5	79.8	79.8	79.8	79.8
In months of next year's imports	32.2	33.6	34.6	34.0	33.9	34.5	36.9	38.5	39.0
Gross official reserves in percentage of Broad Money	317.0	318.2	261.3	254.3	245.0	234.6	223.5	212.4	202.2
Total foreign assets	79.7	84.2	88.5	89.3	89.9	90.2	90.2	90.2	90.2
Exchange rate									
Official exchange rate (LD/US\$, period average)	4.5	4.8	4.8	...	...	...	...	...	...
Parallel market exchange rate (LD/US\$, period average)	5.1	5.1	5.3	...	...	...	...	...	...
Parallel market exchange rate (LD/US\$, end of period)	5.0	5.1	6.1	...	...	...	...	...	...
Crude oil production (millions of barrels per day - mbd)	1.2	1.0	1.2	1.3	1.4	1.5	1.5	1.5	1.5
Of which: Exports	1.0	0.8	1.0	1.1	1.1	1.2	1.2	1.2	1.2
Crude oil price (US\$/bbl, WEO adjusted for Libya)	64.4	89.6	75.0	72.3	68.6	65.9	63.3	60.8	58.4

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

1/ National accounts data have been revised to reflect recent updates from the authorities. Nominal GDP data are at market prices.

2/ Assumes the CBL transfers LD 15.8 billion (27.4 percent of GDP) in FX surtax revenues in 2019 (out of the LD 20-25 billion it expects to collect) to the Ministry of Finance.



# LIBYA

## STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION

May 30, 2024

### KEY ISSUES

**Context.** Libya remains a fragile state trapped in political uncertainty. Episodes of active conflict have become less frequent, but the country remains *de facto* divided between the West and the East and fragmented among various militias with competing objectives. The political economy constraints and inadequate capacity hinder the authorities' ability to implement Fund policy advice.

**Recommendations.** Libya needs to manage public expenditure consistent with its macroeconomic constraints, and requires proper budgeting to avoid procyclical spending, and improve coordination between fiscal and monetary policies. Completing the central bank reunification remains key to maintaining financial stability, along with reforms on strengthening monetary policy and updates to the banking supervision framework. Building capacity, including to address the severe data gaps, and strengthening institutions would facilitate macroeconomic policy design and implementation. In the medium term, the key objective remains the diversification away from hydrocarbons while promoting stronger and more inclusive private sector growth.

**Past advice.** The authorities and staff have been in broad agreement on the macroeconomic policy objectives, including the need for proper budgeting and strengthening of public financial management, and the necessity of diversifying away from hydrocarbons in the medium term. The CBL has been proactive in strengthening the prudential framework, including issuing guidance for banks to increase capital, reinforcing the Financial Information Unit (FIU), and promoting financial inclusion through enhancements in electronic payments. Owing to persistent fragilities, the pace of reform has not kept up with the authorities' plans and staff recommendations.

Approved By  
**Subir Lall (MCD) and  
 Boileau Loko (SPR)**

Discussions took place in Tunis, Tunisia during May 1–10, 2024. The mission comprised Messrs. Gershenson (head) and Apostolou, and Mmes. ElShazly and Rupavatharam (all MCD). Mr. Ghawi (MCD) prepared the first draft of the Country Engagement Strategy. Mr. Sassanpour (OED) participated in the meetings. Mmes. Korman and Cerna Rubinstein (both MCD) supported the preparation of this report. The mission met with Central Bank Governor El Kaber, Deputy Governor Al-Barasi, Minister of Labor and Rehabilitation Ali Alabed Abuazom, Head of the Audit Bureau Khaled Shakshak, representatives from the National Oil Corporation, the banking sector, and other government and central bank officials.

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## CONTEXT

**1. Libya remains a fragile state trapped in political uncertainty.** In 2021, the rival factions agreed to support the transition Government of National Unity (GNU), but the envisaged elections are yet to take place. While the GNU has maintained control of Tripoli, and the episodes of active conflict have become less frequent, the country remains *de facto* divided between the West and the East and fragmented among various militias with competing objectives.

**2. The reunification of the central bank has advanced.** In 2023, the Central Bank of Libya (CBL) agreed to accept the past obligations of its Eastern branch. Accordingly, some US\$9 billion in commercial banks' balances at the Eastern branch has already been consolidated. The reunification efforts have also led to improved coordination in the areas of monetary policy, banking system liquidity and supervision. As long as the agreement holds, monetary policy is *de facto* coordinated across the country, even though the payment systems remain separate.

## RECENT MACROECONOMIC DEVELOPMENTS

**3. Several shocks have hit Libya, but their impact on GDP growth has been muted.** Tropical storm Daniel struck Eastern Libya in September 2023, leading to devastating floods, catastrophic damage, and tragic loss of life. The disaster, however, had only a small impact on economic growth, since Libya's GDP is mainly based on energy exports.<sup>1</sup> Similarly, the conflict in Gaza and the Red Sea shipping disruptions did not affect Libya's economy meaningfully. In 2023, real GDP is estimated to have expanded by 10 percent, largely owing to a rebound from the oil production stoppages of 2022.

**4. The year 2023 saw a fiscal expansion.** Owing to a 30-percent fall in hydrocarbon prices, government revenues declined, despite the concurrent 20-percent boost to oil production. Fiscal expenditures nevertheless surged, driven by an almost 30 percent increase in the wage bill and higher-than-expected energy subsidies (the latter despite the lower oil prices). Reflecting this expansion, public debt increased, and the money supply has grown at its fastest pace since the fall of the Ghaddafi regime.

**Text Table 1. Fiscal Revenues and Expenditures**

	2022	2023	percent change
<b>Revenues</b>	<b>178,561</b>	<b>155,911</b>	<b>-13%</b>
<b>Expenditures</b>	<b>129,448</b>	<b>138,500</b>	<b>7%</b>
Salaries	47,100	60,000	27%
Subsidies	55,848	51,000	-9%
Development, Goods and Services	26,500	27,500	4%
<b>Balance</b>	<b>49,113</b>	<b>17,411</b>	<b>-65%</b>
Balance as a % of GDP	24%	8%	

Sources: Central Bank of Libya; IMF Staff Calculations.

<sup>1</sup> World Bank estimates the losses and damages from the disaster at US\$1.7 billion (3.6 percent of GDP). See World Bank, 2023. *Libya Storm and Flooding 2023: Rapid Damage and Needs Assessment*. Washington, DC.

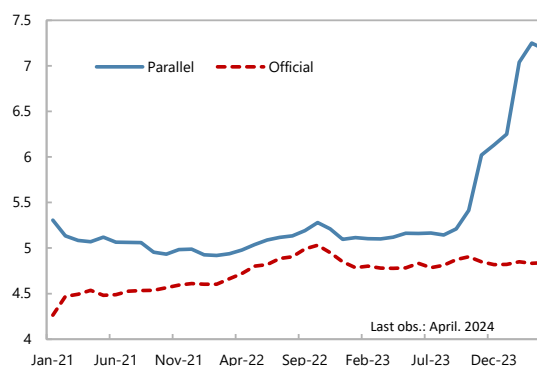


## 5. The authorities have been trying to reduce the use of foreign exchange.

In February 2024, responding to pressure on foreign reserves, the CBL tightened the restrictions on the issuance of letters of credit and lowered the limits on individuals' foreign exchange purchases, resulting in the widening gap between the parallel and the official exchange rates. In early 2024, the authorities imposed a temporary 27 percent tax on all foreign exchange purchases, while announcing the relaxation of some of the previously-enacted restrictions on imports of non-essential goods and services. The tax is to be applied until end-2024, although the rate could be adjusted earlier if deemed necessary.<sup>2</sup>

### Exchange Rates

(Monthly average)

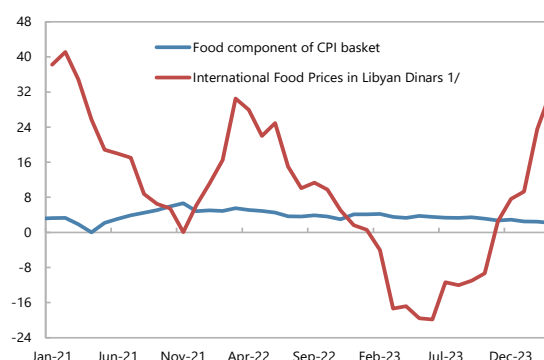


Sources: Central Bank of Libya; Libya Observer.

**6. Reported inflation stayed low despite the depreciation of the parallel exchange rate.** With prices of most goods and services either subsidized or administered, reported inflation tends not to track exchange rate movements, even though imports are estimated to constitute around one half of the consumption basket. Moreover, the reported CPI has limited product and geographic coverage. The authorities are working on expanding coverage and updating the CPI basket with the new index which is expected to be available in 2025.

### Food Inflation

(Percent, year on year)



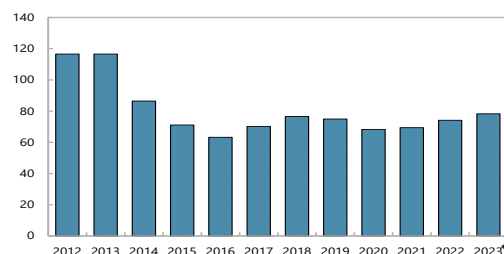
Sources: Central Bank of Libya; Food and Agriculture Organization (FAO).

1/ Adjusted for the parallel market exchange rate.

<sup>2</sup> Staff is currently engaging with the authorities to assess Libya's exchange system to determine if these measures are inconsistent with Article VIII obligations.

**7. In 2023, the current account surplus is estimated to have declined in line with the fall in oil prices.**<sup>3</sup> Libya's external position was broadly in line with fundamentals and desirable policy settings (see Annex II) and the CBL has maintained reserves at a comfortably high level, at around three years of imports.

**Gross Official Reserves**  
(Billions of US Dollars)



Sources: Central Bank of Libya; IMF Staff Estimates.  
\* 34.4 months of imports

## OUTLOOK AND RISKS

**8. The outlook is dominated by the dynamics of hydrocarbon production,** which is projected to reach 1.5 million barrels per day by 2026. GDP is estimated to grow by close to 8 percent in 2024 and continue to expand at lower rates in the outer years. The baseline projection is for declining fiscal and external balances over the coming years in line with a projected decline in global oil prices. Consequently, the CBL is expected to maintain the current stock of international reserves and the country will continue to have no public debt in the standard sense (see Annex III).

**9. The balance of risks is tilted to the downside and uncertainty remains high due to the continuing political stalemate and possible geopolitical spillovers** (Annex I). Risks identified during the preceding Article IV Consultation have partially materialized, notably those related to the absence of an approved budget (see *IMF Country Report 23/201*). The key global risk is lower oil prices due to lower-than-expected growth worldwide, but higher global food prices remain a significant source of risk for Libya and could lead to higher inflation, add to the fiscal burden through higher subsidies, and lead to social discontent and renewed migration pressures. In the medium term, failure to diversify away from hydrocarbons could lead to substantially lower fiscal revenues and undermine the country's prospects. Libya also faces the risk that the transition to clean energy technology happens faster than anticipated, posing a risk of disorderly adjustment given the heavy dependence on hydrocarbons.

## POLICY DISCUSSIONS

*In the short term, proper budgeting would help (i) mitigate the procyclical bias in spending and (ii) improve coordination between fiscal and monetary policies. In the medium term, the key policy objective remains the diversification away from hydrocarbons while promoting stronger and more inclusive private sector growth. Policy discussions focused on: (i) fiscal expenditures; (ii) reunification of the central bank; (iii) policy framework for the financial sector; and (iv) governance and capacity building. A stable political and security environment and the*

<sup>3</sup> The authorities do not have the ability to accurately measure imports in the Eastern part of the country. Annex V discussed Libya's data shortcomings in the external sector.

*institutional development, including with the support from the Fund and other partners, are necessary for the successful implementation of reforms.*

## **A. Improving Policy Coordination Through Proper Budgeting**

**10. Avoiding the procyclical spending bias and strengthening Libya's fiscal framework would enhance macroeconomic resilience and reduce volatility in activity and output.** Proper budgeting—based on macroeconomic forecasts, fiscal policy objectives and spending priorities—would assist in delinking spending from revenue volatility and improve the management of Libya's resource wealth.<sup>4</sup> In this regard, improving costing tools and developing a fiscal framework for resource management would be an important first step. This could be followed in the medium term by payroll analysis, harmonization of public investment and recurrent budget processes, and production of more complete budget-related reports. Reducing distortions due to high public sector wages and subsidies would improve incentives and resource allocation, fostering capital formation and employment opportunities outside the public sector. Spending should be reprioritized to enhance growth and efficiency and support intergenerational equity, while tax policy should aim to diversify sources of revenue away from oil.

**11. Identifying the budgetary impact of state-owned enterprises (SOEs) is needed for understanding fiscal risks.** Given Libya's complex SOE ownership, streamlining ownership structures and tighter control, especially of state-owned public banks, are necessary for understanding risks of higher-than-anticipated transfers to SOEs in the form of subsidies, loans, equity, or lower government revenue. A stock-taking of existing public sector bank accounts and the development of a roadmap toward a Treasury Single Account would be a useful first step. Over the medium term, the authorities should consider a gradual and selective process of privatization that is conducive to private sector development and diversification away from hydrocarbons.

## **B. Completing Central Bank Reunification and Maintaining Financial Stability**

**12. Full reunification of the central bank remains a key objective,** and it requires integration of the payment system and unification of the accounting procedures. Limiting monetary financing by the CBL's Eastern branch will alleviate pressure on the exchange rate and on banking sector liquidity and will facilitate policy coordination. Implementing the CBL's regulatory and governance reforms in the banking sector will strengthen the banks and help to maintain financial stability.

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<sup>4</sup> The slow response to the floods in the East is an example of the failure to mobilize fiscal resources promptly and of the lack of policy coordination among key economic institutions.

**13. The absence of a durable political settlement remains an important obstacle to reunification.** International experience suggests that political reconciliation is necessary for a successful reunification, and that the CBL, as a key economic institution, has an important role to play in facilitating the transition from fragmentation in Libya (see Box 1).

**14. The authorities should address the underlying pressures on the exchange rate.** The central bank should preserve the efficient functioning of the foreign exchange market, since the exchange rate is the key macroeconomic anchor, given the lack of other policy instruments. Measures to influence the demand for foreign exchange should be carefully assessed and weighed against the potential impact on the parallel market, inflation and reserves.<sup>5</sup> In the absence of conventional monetary policy tools, controlling fiscal expenditure would be the preferred policy response consistent with Libya's macroeconomic policy framework. Furthermore, the central bank should maintain the integrity of the means of payment, and the recent steps to withdraw the compromised banknotes from circulation are welcome but the authorities should make sure that alternative modes of payment are available and that those unbanked are not penalized.

#### Box 1. Germany: Unification of the Central Bank in 1990

**There is limited international experience with central bank reunification, but the most prominent case is that of Germany.** During the Cold War, Germany was divided into two political entities, West Germany and East Germany, each with its own central bank and currency (the Deutsche Mark and the Eastern Mark, respectively). The West German Bundesbank was a conventional central bank with independence in setting monetary and credit policies (R. Effros, *Current Legal Issues Affecting Central Banks, Volume III*, 1994). The East German Staatsbank—not an independent institution—was responsible for the implementation of monetary and credit policies in addition to having commercial bank functions. The Staatsbank issued banknotes and coins, set the official exchange rate between foreign currencies and the Eastern Mark, and provided banking services to the state-owned enterprises (*IMF Occasional Paper 90/75*).

**The two central banks were merged as part of the national reunification process.** The Bundesbank was represented in the commission—which included delegates from both West and East—that established the modalities of German reunification (Bundesbank, *German monetary union: historical background*, 2015).<sup>1/</sup> The treaty reunifying Germany created a political, economic, and currency union between the two German states. The Deutsche Mark became the sole legal tender, and the Bundesbank was made responsible for monetary and currency policy within the newly unified country.

<sup>1/</sup> Among the technical issues to be resolved was the conversion rate between the Eastern Mark and the Deutsch Mark. The conversion rate was important for the assets, liabilities, and capital of the banks in the East, and for setting the starting wages in the East relative to those in the West.

**15. Promoting financial stability and strengthening monetary policy requires a comprehensive reform of the banking sector.** Staff outlined a roadmap for such a reform in

<sup>5</sup> The Selected Issues Paper quantifies the exchange market pressures on the Libyan dinar.

the course of the 2023 Article IV Consultation, with suggestions in various areas: structural (central bank reunification, banks' disclosure requirements); banking law (establishment of a financial stability committee; development of Islamic finance); governance (fit and proper requirements; separation between CBL's ownership and supervisory functions); improving the anti-money laundering and combating financing terrorism (AML/CFT) framework and supervision (address AML/CFT control failures and poor reporting of suspicious activities); and others (see *IMF Country Report No. 23/202*). The CBL has been proactive in strengthening the prudential framework, including issuing guidance for banks to increase capital, reinforcing the Financial Information Unit (FIU), and promoting financial inclusion through enhancements in electronic payments.<sup>6</sup> Further work is needed to ensure compliance and to strengthen the banking sector.

## C. Strengthening Institutions and Building Capacity

**16. Governance reforms throughout the public sector are necessary** (Box 2). Despite recent progress on some governance indicators, corruption is perceived to be an important concern in Libya, and further reforms for improving governance, the rule of law, anticorruption institutions and the legal framework would be essential. Enhancing the anticorruption framework, devising an efficient national anti-corruption strategy and their effective implementation is also needed. In compliance with the 2018 Policy for Enhanced Engagement on Governance, the 2025 Article IV consultation is expected to undertake a comprehensive review of governance, anticorruption, and the rule of law.

**17. The IMF will continue to provide capacity development assistance but better coordination on the authorities' part is needed.** Significant data gaps continue to affect staff's ability to conduct analysis and provide policy advice. Capacity development (CD) is needed for compiling national accounts and PFM reforms, including strengthening macro-fiscal and budget preparation functions and improving cash management controls and oversight, need to be prioritized and sequenced. CD for statistics should prioritize national accounts and the external sector due to significant gaps in these areas (see Annex V). Given that capacity development is being delivered by multiple providers (the IFIs, including the Fund, and other organizations), there is a need for the authorities to set up a coordinating body to facilitate CD provision and implementation, to avoid duplication, and to support better information-sharing across institutions.

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<sup>6</sup> The law that prohibits the charging of interest by the banks has technically been rescinded in December 2023 by the House of Representatives.

## Box 2. Taking Stock of Libya's Governance Challenges

**Governance indicators deteriorated following the 2011 Revolution and remain below the MENA average.** In 2023, Transparency International ranked Libya below the MENA average in terms of corruption perception, signaling significant corruption vulnerabilities.<sup>1/</sup> The World Bank ranks Libya below the MENA averages in rule of law, regulatory quality, control of corruptions, and voice and accountability (D. Kaufmann and A. Kraay, *Worldwide Governance Indicators*, 2023 Update).

**More recently, while governance has further deteriorated in some dimensions, Libya has made small but encouraging progress in others,** namely control of corruption and regulatory quality. The authorities have also made progress toward (i) transparency in data dissemination and (ii) adopting international best practices in data reporting. Libya has not made progress to launch the National Summary Data Page, and the IMF is assisting the authorities by providing capacity development in several related areas, including public financial management, tax, and customs.

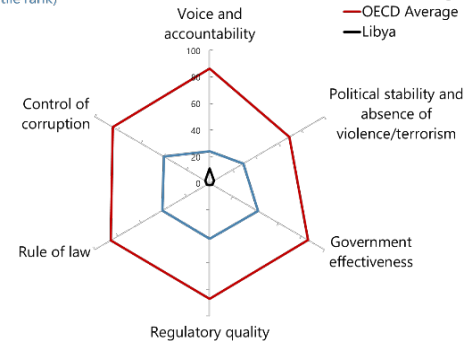
**Confronting corruption effectively and strengthening the rule of law will require a range of actions to prevent corruption more effectively and strengthen governance.** Those

actions should include steps to strengthen the anticorruption legal framework so that it is aligned with Libya's obligations under the United Nations Convention Against Corruption, along with work on creating effective systems for preventing conflict of interests and asset declarations. Libya would also benefit from adopting and implementing an updated National Anticorruption Strategy, with adequate monitoring mechanisms. These actions will need to be combined with complementary acts to address governance weaknesses.

1/ The accuracy of the index can be biased by experts' views (instead of facts on corruption). Non-IMF indicators provide qualitative information about corruption. They do not represent the IMF's assessment of the level of corruption in Libya.

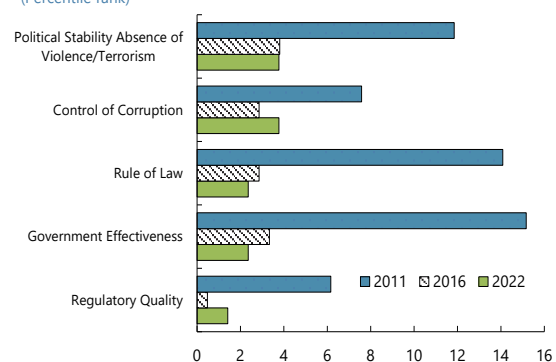
2/ Lower ranking denotes deterioration.

**World Governance Indicators, 2022**  
(Percentile rank)



Sources: WGI Database, World Bank.

**Libya: World Governance Indicators**  
(Percentile rank)



Sources: World Bank.

## D. Policies for Diversifying Away from Hydrocarbon and Private Sector Development

### 18. The longer-term economic strategy should aim to diversify away from hydrocarbons and to foster stronger and more inclusive private sector-led growth.

Structural reform efforts should focus on strengthening institutions and the rule of law and developing a clear economic vision for the country. A plan is needed to scale up development spending to alleviate growth bottlenecks and reduce fiscal costs associated with high spending

on public sector wages and subsidies.<sup>7</sup> The authorities should capitalize on Libya's comparative advantages (location, landmass, natural resources, and access to energy and labor) to promote development of labor-intensive non-oil economic activity (see Annex IV).

## AUTHORITIES' VIEWS

**19. The authorities were broadly in agreement with the staff's views.** They agreed with the macroeconomic policy objectives for Libya outlined in the staff report, including the need for a unified budget, curbing public expenditure, reforming energy subsidies as well as diversifying away from hydrocarbons in the medium term.

**20. The authorities highlighted the continued progress on the reunification of the central bank.** Authorities stated that significant progress has been accomplished over the past year in the reunification process across most departments and noted that achieving a *de-facto* full reunification requires a comprehensive political reconciliation at the national level.

**21. They expressed their concern about the increase in public spending.** The recent untargeted expansion in fiscal spending, especially on wages and subsidies, is putting pressure on the exchange rate and depleting the country's reserves. The authorities agreed that a unified approved budget will help identify spending priorities and improve resource allocation, thus avoiding ad hoc spending and thereby fostering sustainability.

**22. The exchange rate is currently the nominal anchor for the Libyan economy.** The CBL underscored the critical role of the exchange rate in the stability of the economy and stated that the decision to impose a tax on foreign exchange purchases is intended as a temporary measure to safeguard the country's reserves. The authorities maintained that while the tax may cause distortions in the exchange system, it was the only way to curb the ongoing pressure on foreign reserves and will be removed as soon as spending is restrained.

**23. Reforming energy subsidies remains a priority in the medium-term.** The authorities conceded that the current untargeted fuel subsidies disproportionately benefit select groups and drain the country's resources and deplete the wealth of future generations. However, they realize that the political economy constraints currently hinder implementation of such a reform.

**24. In the medium term, diversifying away from hydrocarbons and developing the private sector will be key.** The volatility in oil prices and the transition to green energy is

<sup>7</sup> Almost 90 percent of the formally employed population work for the public sector, with estimates of the unemployment rate ranging from 15 and 19 percent. These numbers exclude the reportedly large pool of informal migrant labor. Energy subsidies account for about one quarter of government spending.

especially critical to Libya and highlights the need to diversify the economy and utilize available resources to develop new industries through the private sector.

**25. The central bank reiterated its commitment to enhancing financial sector regulation and supervision.** The CBL has already taken steps to strengthen banking supervision, including directing banks to raise their capital, developing the FIU and the AML/CFT framework, and remains committed to continued progress in this regard. Furthermore, the CBL's decision to withdraw the 50-dinar banknotes from circulation was necessary to preserve the credibility of the currency and build confidence in the banking system.

**26. The authorities recognize that governance needs to improve.** They agreed that more reforms need to be undertaken to enhance governance, combat corruption, and increase transparency and accountability. They look forward to the planned comprehensive review of governance discussions next year during the 2025 Article IV consultations.

**27. Improving data availability and quality is crucial.** The authorities underlined the progress already achieved in data quality and availability for external statistics and monetary and financial statistics, and for fiscal outturns. Furthermore, the authorities are working on updating the current CPI basket and expanding its coverage as well as providing updated labor statistics. The authorities agree, however, that more work needs to be done to produce and report key macroeconomic data in a timely and consistent manner and will continue to seek the IMF's technical assistance in this regard.

**28. The authorities expressed the need for further capacity development in several areas.** They are grateful for the technical assistance provided by the IMF and agreed to better coordinate to make optimal use of the support offered from all international partners. They expressed their need for assistance on budget preparation, monetary policy, national accounts, labor market statistics, CPI rebasing, developing the macro-fiscal unit and PFM functions.

## STAFF APPRAISAL

**29. The dynamics of hydrocarbon production and exports is going to determine Libya's available resource envelope in the short and medium term.** The relatively benign baseline projection—of declining fiscal and external balances—is in line with a projected decline in global oil prices. Lack of fiscal prudence is an important downside risk, one that has partially materialized in the last year. Other notable risks are the volatility of world oil prices (and hence fiscal revenues) and the faster-than-expected worldwide transition to clean energy technology. In the longer term, the authorities need to focus on creating a solid foundation for non-hydrocarbon private sector-led growth by way of strengthening institutions and the rule of law and by investing in the country's productive capacity.



**30. A durable political settlement is needed to complete the reunification of the central bank.** The authorities are to be commended for the steps already taken, including the improved coordination in the areas of monetary policy, banking system liquidity and supervision. Full reunification will, to a large extent, depend on the pace of political reconciliation and require integrating the payment system and unifying the central bank's accounting procedures.

**31. Better coordination between fiscal and monetary policies would help to enhance macroeconomic policy credibility and decrease the gap between official and parallel market exchange rates.**

- Addressing the underlying pressures on the exchange rate by controlling fiscal expenditure would be the preferred response consistent with Libya's current macroeconomic policy framework. An agreed-upon budget is vital to manage Libya's resources, and proper budgeting would help to avoid procyclical spending and reduce risks from a potential loss of reserves.
- Preserving adequate foreign exchange reserves and the efficient functioning of the foreign exchange market is key. Measures to influence the use of foreign exchange should be carefully assessed and weighed against the potential impact on the parallel market, inflation, and reserves.

**32. Further steps to maintain the integrity of the means of payment and reform the banking sector are needed.** Improving NPL reporting, monitoring the capitalization of banks, and divesting from commercial banks would enhance financial intermediation. The CBL has been proactively enhancing the prudential framework and has been guiding banks to increase their capital ratio, and has strengthened the Financial Information Unit, and taken steps to promote financial inclusion. Further work is needed to ensure compliance and to strengthen the banking sector, including a national assessment of money laundering and terrorist financing risks to identify priorities for AML/CFT mitigation measures. There is a pressing need to reduce banks' operational risk, conduct a national assessment of ML/TF risks and strengthen AML/CFT supervision, reform legal and administrative procedures and further develop Islamic finance products. The central bank should maintain the integrity of the means of payment, and the steps the authorities' withdrawal of all 50-dinar notes from circulation, given the significant number of counterfeit bills, are welcome, but the authorities need to make sure that the alternative modes of payment are available.

**33. Strengthening of the fiscal framework is needed.** Reforms are needed to build institutional capacity by increasing transparency and improving tax administration and compliance. Stock-taking of existing public sector bank accounts and the establishment of a Treasury Single Account are required, and a gradual and selective process of privatization to promote private sector development and aid in the diversification of the economy away from hydrocarbons. Strengthening macro-fiscal and budget preparation functions, and broader PFM

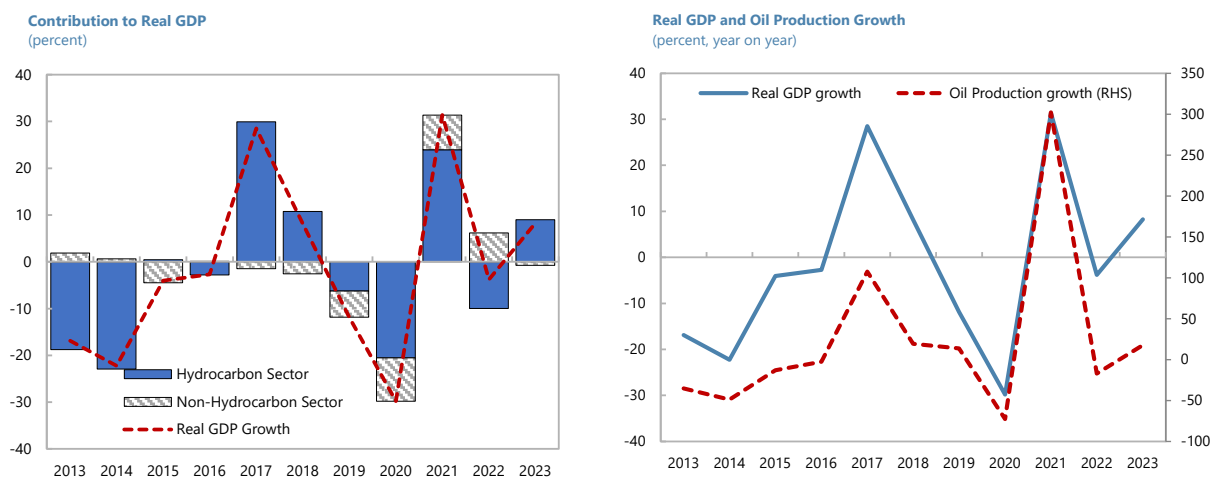
framework reforms are essential to improve expenditure controls and ensure proper budgeting.

**34. Despite recent progress on some governance indicators, further reforms are needed.** Corruption is perceived to be an important concern and Libya is ranked below the MENA average in terms of corruption perceptions. Confronting corruption effectively and strengthening the rule of law will require a range of actions to prevent corruption more effectively and strengthen governance. Those actions include steps to strengthen the anticorruption legal framework and align it with Libya's obligations under the United Nations Convention Against Corruption. Libya would benefit from adopting and implementing an updated National Anticorruption Strategy, with adequate monitoring mechanisms. In compliance with the 2018 Policy for Enhanced Engagement on Governance, the 2025 Article IV consultation is expected to undertake a comprehensive review of governance, anticorruption, and the rule of law.

**35. There is a need to enhance data provision and statistical capacity.** Serious data gaps continue to significantly hamper staff's ability to conduct analysis and provide policy advice. Capacity development is needed for compiling national accounts. Economic surveys have been paused after the revolution and have not restarted which creates data weaknesses that impede the quality of staff analysis and policy advice. There is a need for the authorities to set up a coordinating body to facilitate CD provision and implementation and to avoid duplication, as CD is being delivered by multiple providers (the IFIs, including the Fund, and other organizations).

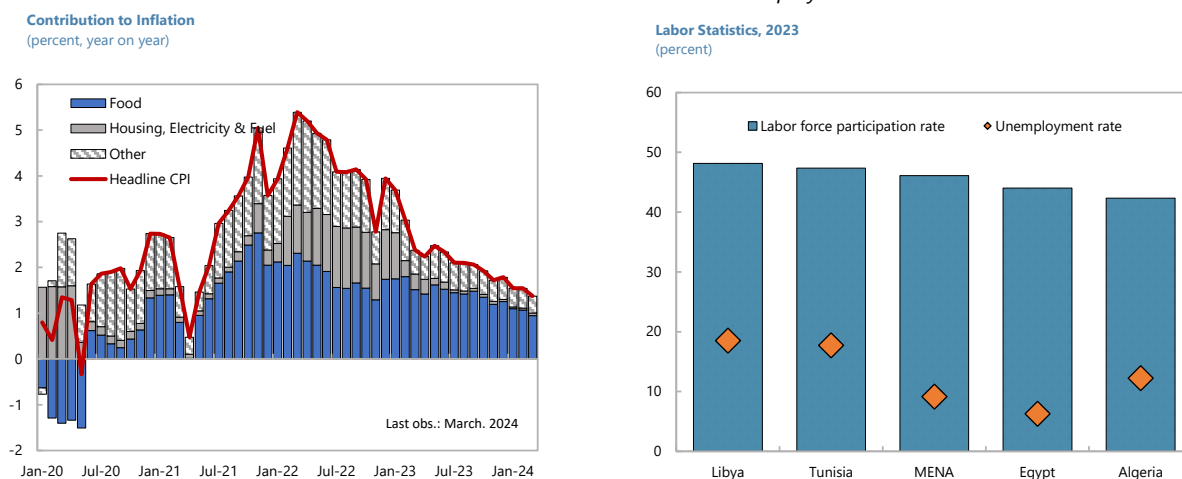
**36. Staff is currently engaging with the authorities to assess Libya's exchange system** to determine if any measures the authorities have introduced are inconsistent with their obligations under Article VIII.

**37. Staff recommends that the next Article IV consultation be held on the standard 12-month cycle.**

**Figure 1. Libya: Real Sector***Hydrocarbon sector drives economic output.*

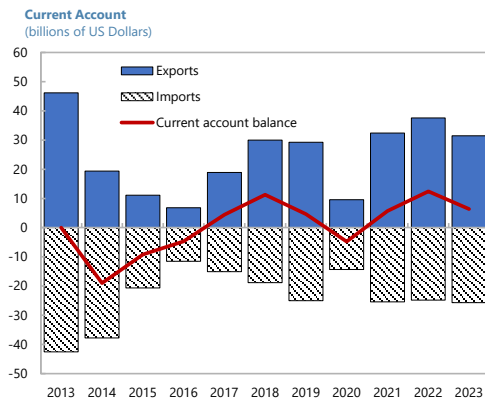
Sources: Libyan Authorities.

Sources: Libyan Authorities, OPEC.

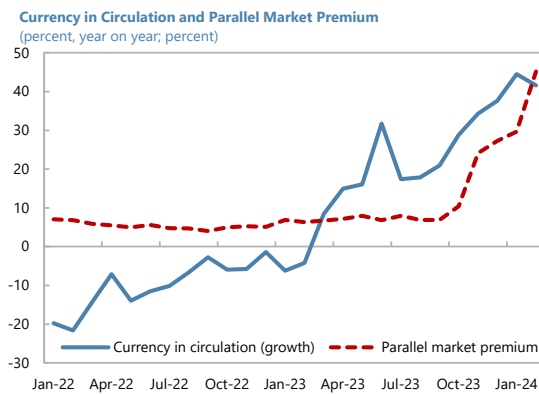
*Measured inflation remains low**Labor force participation is high by the regional standards, but so is unemployment.*

Sources: Central Bank of Libya.

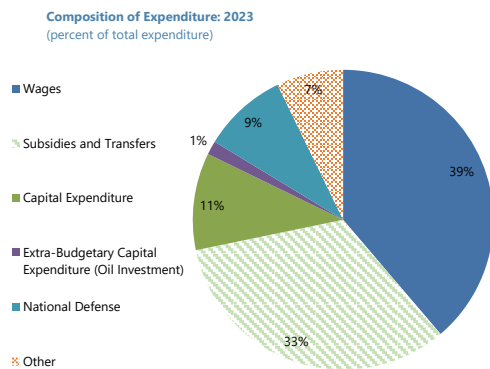
Sources: World Bank (ILO Estimates).

**Figure 2. Libya: Macroeconomic Developments***Current account remains in surplus...*

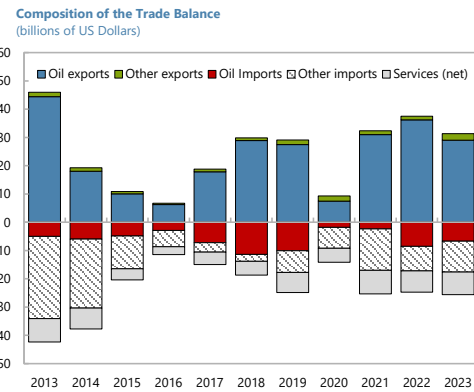
Sources: Central Bank of Libya; IMF Staff Estimates.

*Growth in currency in circulation moved in tandem with the parallel market premium...*

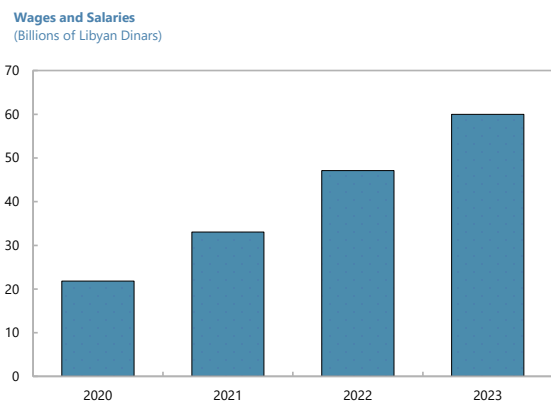
Sources: Central Bank of Libya; IMF Staff Estimates.

*Wages and subsidies comprise the bulk of expenditures...*

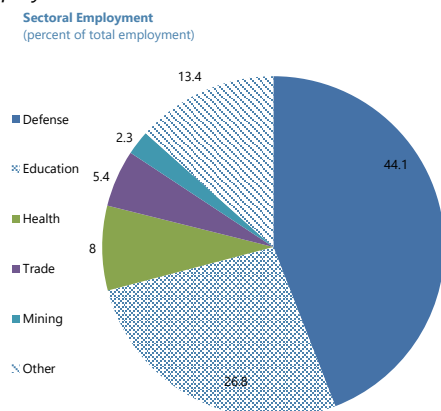
Sources: Central Bank of Libya; IMF Staff Estimates.

*...with oil sales financing imports.*

Sources: Central Bank of Libya; IMF Staff Estimates.

*...and higher wage expenditure.*

Source: Central Bank of Libya.

*Defense and education account for two-thirds of total employment...*

Sources: Libyan Bureau of Statistics and Census.

Table 1. Libya: Selected Economic Indicators, 2021–2030

			Est.		Proj.					
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
(Annual percentage change, unless otherwise indicated)										
National income and prices										
Real GDP (at market price)	28.3	-8.3	10.2	7.8	6.9	4.2	2.0	2.1	2.3	2.5
Nonhydrocarbon	5.9	7.9	-0.6	3.8	5.6	5.3	5.6	5.8	6.0	6.3
Hydrocarbon	45.0	-17.0	17.8	10.2	7.7	3.6	0.0	0.0	0.0	0.0
Nominal GDP in billions of Libyan dinars 1/	159.0	208.2	212.0	221.9	232.3	240.3	244.5	250.6	258.6	270.8
Nominal GDP in billions of U.S. dollars 1/	35.2	43.3	44.0	46.0	48.3	50.2	51.3	52.8	54.4	57.0
Per capita GDP in thousands of U.S. dollars	5.2	6.4	6.4	6.7	6.9	7.1	7.2	7.3	7.5	0.0
GDP deflator	90.4	42.7	-11.4	1.4	-2.1	-0.7	-0.7	-0.3	0.9	3.2
CPI inflation										
Period average	2.9	4.5	2.4	2.6	2.6	2.6	2.6	2.6	2.6	2.6
End of period	3.7	4.1	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6
(In percent of GDP)										
Central government finances										
Revenues	79.5	85.8	73.5	64.6	63.3	60.8	57.3	53.7	50.3	46.4
Of which: Hydrocarbon	78.1	83.9	71.5	62.9	61.6	59.0	55.5	51.8	48.3	44.4
Expenditure and net lending	64.7	62.2	65.3	63.1	62.1	60.3	57.2	53.7	50.3	45.2
Of which: Capital expenditures	10.9	8.4	8.7	5.4	5.7	5.8	4.7	3.7	3.2	2.7
Overall balance	14.8	23.6	8.2	1.5	1.3	0.5	0.1	0.0	0.0	1.2
Overall balance (in billions of U.S. dollars)	5.2	10.2	3.6	0.7	0.6	0.3	0.0	0.0	0.0	0.7
Nonhydrocarbon balance	-63.3	-60.3	-63.3	-61.4	-60.4	-58.5	-55.4	-51.8	-48.3	-43.2
(Annual percentage change unless otherwise indicated)										
Money and credit										
Base Money	2.8	-16.9	47.9	24.1	8.3	9.0	9.3	10.0	10.3	16.7
Currency in circulation	-20.0	-1.4	37.6	10.3	4.7	2.2	1.5	5.0	5.0	5.0
Money and quasi-money	-20.3	12.0	28.3	3.5	4.0	4.5	4.5	5.0	5.0	5.0
Net credit to the government (Libyan Dinar, billion)	-94.1	-114.9	-110.9	-114.8	-117.8	-119.0	-118.6	-118.4	-118.4	-121.7
Credit to the economy (% of GDP)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
(In billions of U.S. dollars; unless otherwise indicated)										
Balance of payments										
Exports	32.3	37.5	31.4	31.6	32.1	31.8	30.6	29.7	28.8	27.7
Of which: Hydrocarbon	31.0	36.2	29.0	29.5	30.0	29.7	28.4	27.3	26.2	25.2
Imports	17.0	17.2	17.6	19.1	19.5	19.3	18.1	17.4	17.2	16.7
Current account balance	5.7	12.4	6.4	6.8	7.0	6.3	6.2	6.2	5.7	5.4
(As percent of GDP)	16.1	28.6	14.5	14.9	14.5	12.5	12.2	11.7	10.5	9.5
Capital Account (including E&O)	-7.0	-7.2	-2.8	-6.1	-6.4	-6.0	-6.2	-6.2	-5.7	-4.7
Overall balance	1.1	4.7	3.6	0.7	0.6	0.3	0.0	0.0	0.0	0.7
Reserves										
Gross official reserves	69.4	74.1	78.3	79.0	79.5	79.8	79.8	79.8	79.8	80.6
In months of next year's imports	32.2	33.6	34.6	34.0	33.9	34.5	36.9	38.5	39.0	40.2
Gross official reserves in percentage of Broad Money	317.0	318.2	261.3	254.3	245.0	234.6	223.5	212.4	202.2	194.3
Total foreign assets	79.7	84.2	88.5	89.3	89.9	90.2	90.2	90.2	90.2	91.0
Exchange rate										
Official exchange rate (LD/US\$, period average)	4.5	4.8	4.8	...	...	...	...	...	...	...
Parallel market exchange rate (LD/US\$, period average)	5.1	5.1	5.3	...	...	...	...	...	...	...
Parallel market exchange rate (LD/US\$, end of period)	5.0	5.1	6.1	...	...	...	...	...	...	...
Crude oil production (millions of barrels per day - mbd)	1.2	1.0	1.2	1.3	1.4	1.5	1.5	1.5	1.5	1.5
Of which: Exports	1.0	0.8	1.0	1.1	1.1	1.2	1.2	1.2	1.2	1.2
Crude oil price (US\$/bbl, WEO adjusted for Libya)	64.4	89.6	75.0	72.3	68.6	65.9	63.3	60.8	58.4	56.1

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

1/ National accounts data have been revised to reflect recent updates from the authorities. Nominal GDP data are at market prices.

Table 2. Libya: Fiscal Sector, 2021–2029

	Est.			Proj.					
	2021	2022	2023	2024	2025	2026	2027	2028	2029
(In millions of Libyan dinars)									
Total Revenue and Grants	126,451	178,561	155,911	143,434	147,172	146,063	140,123	134,633	130,019
Hydrocarbon Revenue	124,200	174,720	151,700	139,681	143,219	141,893	135,707	129,944	125,026
Nonhydrocarbon Revenue	2,251	3,841	4,211	3,754	3,953	4,170	4,416	4,689	4,993
Total expenditure and net lending	102,876	129,448	138,500	140,050	144,245	144,833	139,990	134,554	130,014
Total Expenditure	102,876	129,448	138,500	140,050	144,245	144,833	139,990	134,554	130,014
Current expenditure, of which:	85,485	111,948	120,000	128,050	131,045	130,973	128,412	125,325	121,692
Wages	33,065	47,100	60,000	62,400	65,520	67,635	68,135	68,793	68,922
Goods and services	7,999	9,000	9,000	9,900	10,890	11,435	12,006	12,607	13,237
Subsidies and transfers	37,930	55,848	51,000	55,750	54,635	51,903	48,270	43,926	39,533
Capital expenditure	17,390	17,500	18,500	12,000	13,200	13,860	11,579	9,229	8,322
Overall balance	23,576	49,113	17,411	3,384	2,927	1,230	133	78	5
(In percent of nominal GDP)									
Total Revenue	79.5	85.8	73.5	64.6	63.3	60.8	57.3	53.7	50.3
Hydrocarbon	78.1	83.9	71.5	62.9	61.6	59.0	55.5	51.8	48.3
Nonhydrocarbon	1.4	1.8	2.0	1.7	1.7	1.7	1.8	1.9	1.9
Total expenditure and net lending	64.7	62.2	65.3	63.1	62.1	60.3	57.2	53.7	50.3
Total Expenditure	64.7	62.2	65.3	63.1	62.1	60.3	57.2	53.7	50.3
Current expenditure, of which:	53.8	53.8	56.6	57.7	56.4	54.5	52.5	50.0	47.1
Wages	20.8	22.6	28.3	28.1	28.2	28.1	27.9	27.4	26.6
Goods and services	5.0	4.3	4.2	4.5	4.7	4.8	4.9	5.0	5.1
Subsidies and transfers	23.9	26.8	24.1	25.1	23.5	21.6	19.7	17.5	15.3
Capital expenditure	10.9	8.4	8.7	5.4	5.7	5.8	4.7	3.7	3.2
Overall balance	14.8	23.6	8.2	1.5	1.3	0.5	0.1	0.0	0.0
Memo item:									
Nominal GDP (in millions of Libyan dinars)	158,989	208,152	212,044	221,912	232,320	240,319	244,549	250,635	258,630
Nonhydrocarbon nominal GDP (in millions of Libyan dinars)	39,888	48,213	49,183	51,852	55,258	59,001	63,243	67,986	73,296

Sources: Ministry of Finance; and Fund staff estimates and projections.

Table 3. Libya: Monetary Sector, 2018–2023

	2018	2019	2020	2021	2022	2023
(In millions of Libyan dinars)						
Broad money	111,566	108,889	126,271	100,656	112,714	144,577
Money	108,246	105,569	122,950	97,335	109,393	141,255
Quasi-money	3,320	3,320	3,320	3,320	3,321	3,322
Net claims on government	-8,352	-20,389	-1,374	-94,087	-114,914	-110,858
Claims on the rest of the economy	17,405	18,173	18,289	21,138	49,881	52,127
Claims on nonfinancial public enterprise	5,244	6,104	5,931	6,692	9,235	8,178
Claims on the private sector	11,648	11,304	11,633	13,717	22,311	25,890
Net foreign assets	116,256	114,306	101,088	359,934	374,804	394,182
Domestic credit	9,053	-2,216	16,915	-72,949	-65,033	-58,731
Net claims on government	-8,352	-20,389	-1,374	-94,087	-114,914	-110,858
(Change in percent)						
Broad money	-0.8	-2.4	16.0	-20.3	12.0	28.3
Money	-0.8	-2.5	16.5	-20.8	12.4	29.1
Quasi-money	0.0	0.0	0.0	0.0	0.0	0.0
Net claims on government	305.8	-144.1	93.3	-6746.9	-22.1	3.5
Claims on the economy	-4.7	4.4	0.6	15.6	136.0	4.5
Claims on nonfinancial public enterprises	-6.0	16.4	-2.8	12.8	38.0	-11.4
Claims on the private sector	-4.2	-2.9	2.9	17.9	62.6	16.0
(Percent change over beginning broad money stock)						
Net foreign assets	9.4	-1.7	-12.1	205.0	14.8	17.2
Domestic credit	-11.8	-10.1	17.6	-71.2	7.9	5.6
Net claims on government	-11.0	-10.8	17.5	-73.4	-20.7	3.6
Claims on the economy	-0.8	0.7	0.1	2.3	28.6	2.0
Claims on nonfinancial public enterprises	-0.3	0.8	-0.2	0.6	2.5	-0.9
Claims on the private sector	-0.5	-0.3	0.3	1.7	8.5	3.2

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

Table 4. Libya: External Sector, 2021–2029

	2021	2022	Est. 2023	2024	2025	Proj. 2026	2027	2028	2029
	(In millions of U.S. dollars)								
Current account	5,683	12,401	6,390	6,835	7,020	6,295	6,237	6,178	5,712
Goods and services	6,983	12,787	5,752	4,051	4,264	4,282	4,792	4,877	4,324
Goods	15,361	20,343	13,785	12,441	12,579	12,510	12,507	12,293	11,646
Exports (f.o.b)	32,343	37,519	31,363	31,567	32,103	31,829	30,624	29,705	28,839
Hydrocarbon	30,975	36,232	29,040	29,502	30,003	29,747	28,355	27,252	26,217
Others	1,367	1,287	2,323	2,065	2,100	2,082	2,268	2,453	2,622
Imports (f.o.b)	-16,981	-17,176	-17,579	-19,126	-19,525	-19,320	-18,116	-17,412	-17,193
Services	-8,378	-7,556	-8,033	-8,390	-8,315	-8,228	-7,715	-7,416	-7,322
Receipts	83	84	86	94	96	95	89	85	84
Payments	-8,461	-7,640	-8,119	-8,484	-8,411	-8,323	-7,804	-7,501	-7,406
Income, of which:	-538	270	1,322	3,474	3,466	2,721	2,149	2,001	2,084
Direct investment income	-1,419	-1,422	-1,581	-1,669	-1,718	-1,718	-1,718	-1,718	-1,718
Other investment income	747	1,560	2,120	4,314	4,307	3,511	2,884	2,679	2,700
Current transfers	-762	-656	-683	-690	-710	-708	-704	-700	-696
Capital and financial account	-6,428	-5,113	-2,780	-6,133	-6,410	-6,038	-6,209	-6,162	-5,711
Direct investment (net)	378	-285	458	503	554	609	670	737	811
Portfolio investment (net)	-914	-1,106	-1,162	-1,220	-1,281	-1,345	-1,412	-1,483	-1,557
Other investment (net)	-5,892	-3,721	-2,075	-5,417	-5,683	-5,302	-5,467	-5,416	-4,965
Errors and omissions	1,855	-2,572	0	0	0	0	0	0	0
Overall balance	1,110	4,716	3,611	701	609	257	28	16	1
Memorandum items									
Total foreign assets (in billions of U.S. dollars) 1/	79.7	84.2	88.5	89.3	89.9	90.2	90.2	90.2	90.2
Gross official reserves (in billions of U.S. dollars) 2/	69.4	74.1	78.3	79.0	79.5	79.8	79.8	79.8	79.8
in months of next year's imports	33.6	34.6	34.0	33.9	34.5	36.9	38.5	39.0	40.2

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

1/ Total foreign assets exclude Libyan Investment Authority (LIA) assets.

2/ Gross official reserves include LIA deposits at the CBL of about USD 20 billion.



**Table 5. Libya: Financial Soundness Indicators, 2018–2023**

	2018	2019	2020	2021	2022	2023
Core Set:						
Regulatory capital to risk-weighted assets	17.8	18.4	19.2	16.6	15.7	15.3
Nonperforming loans net of provisions to capital	5.1	0.8	0	n.a.	n.a.	n.a.
Nonperforming loans to gross loans	21.00	34.2	34.1	29.6	24.1	22.2
Return on assets	1.00	0.7	0.5	0.9	0.6	0.7
Return on equity	20.9	12.3	9.8	18.5	10.7	12.1
Liquid assets to total assets	74.3	71.9	72.1	68.4	66.7	66.9
Liquid assets to short-term liabilities	108.6	83.7	86.4	91.2	83.2	70.8
Net open position in foreign exchange to capital and reserves	103.4	99.2	51.7	n.a.	n.a.	n.a.
Encouraged Set:						
Capital to assets	4.6	5.5	4.9	4.7	5.2	6.1
Average lending rate	0.0	0.0	0.0	n.a.	n.a.	n.a.
Average deposits rate	0.0	0.0	0.0	n.a.	n.a.	n.a.
Spread over 3-month deposit rate	0.0	0.0	0.0	n.a.	n.a.	n.a.
Foreign-currency-denominated assets to total assets	6.2	5.5	3.1	n.a.	n.a.	n.a.
Foreign-currency-denominated liabilities to total assets	0.5	0.1	0.2	n.a.	n.a.	n.a.
Loan provisions to nonperforming loans	90.4	98.6	99.4	89.2	84.1	n.a.
Ratio of banks' lending to banks' capital	254.1	276.8	272.5	309.3	270.2	n.a.

Source: Central Bank of Libya.

## Annex I. Risk Assessment Matrix

Risk	Likelihood	Expected Impact if Risk Materializes	Policy Response and Recommendations
<b>Global Risks</b>			
<b>Intensification of regional conflicts.</b> Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade, FDI and financial flows, payment systems, and increase refugee flows.	High	<b>Low-Medium</b> Higher food prices add to fiscal burden through higher indirect subsidies or social discontent if domestic price pressures are not contained, while higher energy prices would reduce fiscal and external vulnerabilities.	Initiate targeted support for the most vulnerable to protect against rising food prices. Accommodate demand on FX and provide domestic liquidity as needed.
<b>Commodity price volatility.</b> A succession of supply disruptions and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, cross-border spillovers, and social and economic instability.	High	<b>Medium</b> Higher food prices add to fiscal burden through higher indirect subsidies, while lower energy prices would significantly erode fiscal space and weaken the external position.	Initiate energy subsidy reform, replacing broad subsidies with targeted support for the most vulnerable. Replace untariffed grants and allowances with well designed social support programs targeting the most vulnerable
<b>Abrupt global slowdown.</b> Global and idiosyncratic risk factors cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation triggering sudden stops in EMDEs.	Medium	<b>High</b> Sharp global growth slowdown leading to sustained decline in oil and gas prices will turn current account and the overall balance surpluses into deficit and significantly weaken the fiscal and external positions.	Avoid procyclicality of fiscal spending by reducing wasteful current spending and build fiscal space to allow for gradual adjustment. Replace broad subsidies with targeted social support to the vulnerable.
<b>Deepening geoeconomic fragmentation.</b> Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth.	High	<b>Medium</b> Deepening geoeconomic fragmentation could disrupt trade flows and hamper economic diversification attempts. Libya could nevertheless benefit in the short-term if there is, an increase in hydrocarbon prices	Accelerate fiscal and structural reforms to boost potential growth, by incentivizing the diversification of the export base away from oil and enhancing the competitiveness of the non-oil export sector.
<b>Extreme climate events.</b> Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	Medium	<b>High</b> Libya is vulnerable, recently experiencing deadly floods, to climate shocks. In addition to the impact on lives and livelihoods, these shocks could entail large fiscal costs and add to inflationary pressures.	Invest in climate-resilient infrastructure and agriculture Accelerate economic diversification away from hydrocarbons.
<b>Social discontent.</b> High inflation, real income loss, spillovers from conflicts (including migration), worsening inequality, and disputed elections cause social unrest and detrimental populist policies. This exacerbates imbalances, slows growth, and leads to policy uncertainty and market repricing.	Medium	<b>High</b> The fragile status quo could revert into active conflict and oil blockades to be used again to exert political pressure. This would endanger fiscal sustainability and exacerbate external imbalances.	Proceed with wide ranging governance and anti-corruption reforms, build adequate fiscal and FX reserve buffers, adopt a medium-term fiscal anchor, and transparently communicate fiscal goals to the public.
<b>Domestic Risks</b>			
<b>Political instability turns into active conflict.</b> Political tensions could lead to active conflict or the reuse of oil facilities and export terminal blockade to push political demands.	High	<b>High</b> Fiscal and external positions deteriorate leading to loss of FX reserves and financial sector instability.	Initiate reforms to target subsidies and share oil wealth more equitably across the country.
<b>Wasteful fiscal spending to gain popular support.</b> In the absence of a political solution, political rivals could engage in more wasteful current expenditure such as grants and allowances to shore up support.	High	<b>High</b> Higher current expenditure will put the fiscal position on an unsustainable path and erode available fiscal space from the oil windfall, leaving the country vulnerable to future shocks.	Phase out broad-based allowances and grants and, if needed, replace them with social support measures that target the vulnerable. Increase capital expenditure to rebuild necessary infrastructure, and initiate structural reforms that will strengthen the private sector and create jobs.

## Annex II. External Sector Assessment

**Overall Assessment:** Libya's external position in 2023 was broadly in line with the levels implied by fundamentals and desirable policy settings. Based on results from the EBA-lite current account (CA) model, the CA gap is estimated at -1 percent. The external position is heavily reliant on hydrocarbon exports. Foreign exchange reserves are adequate.

**Potential Policy Responses:** A focus on maintaining the stability of the exchange rate by controlling fiscal expenditure (in the absence of other monetary policy tools), while fostering economic diversification and encouraging private sector competition, would help ensure external sustainability over the medium-term. Diversification would be crucial to minimize risks from fluctuations in the hydrocarbon sector.

### Current Account

#### Libya: Model Estimates for 2023 (in percent of GDP)

	CA model 1/ (in percent of GDP)
<b>CA-Actual</b>	<b>14.5</b>
Cyclical contributions (from model) (-)	1.4
Natural disasters and conflicts (-)	1.0
<b>Adjusted CA</b>	<b>12.1</b>
<b>CA Norm</b> (from model) 2/	<b>13.1</b>
<b>Adjusted CA Norm</b>	<b>13.1</b>
<b>CA Gap</b>	<b>-1.0</b>
o/w Relative policy gap	7.6
Elasticity	-0.3
<b>REER Gap</b> (in percent)	<b>3.1</b>
1/ Based on the EBA-lite 3.0 methodology	
2/ Cyclically adjusted, including multilateral consistency adjustments.	

**Background.** Libya's current account is largely dependent on hydrocarbons, with the share of hydrocarbons in total exports being over 90 percent. The current account surplus is estimated to have declined from 28.6 percent of GDP in 2022 to 14.5 percent of GDP in 2023. This decline is driven primarily by the decrease in oil prices. Over the medium-term, a projected increase in hydrocarbon production to 1.5 million barrels per day will not be sufficient to offset an expected decline in oil prices.

**Assessment.** The EBA-lite current account (CA) model estimate for the current account gap is -1 percent. Using an elasticity of -0.3, the result points to an overvaluation of Libya's real effective exchange rate by approximately 3.1 percent. This assessment of the current account balance is broadly in line with the level implied by fundamentals and desirable policy settings.

### Real Exchange Rate

**Background.** The dinar is pegged to the SDR. Since January 2021, the official rate has been SDR 0.1555 per LYD 1.

**Assessment.** Consistent with the staff CA gap and based on an elasticity of -0.3, staff assesses the REER to be overvalued by about 3.1 percent. Exchange rate movements have a limited impact on competitiveness in the short run as oil is the main exported product and there is limited substitutability between imports and domestically produced products.

### Capital and Financial Accounts: Flows and Policy Measures

**Background.** The capital and financial accounts are primarily driven by other investments, concentrated in the oil sector in the form of reinvestments by oil companies.

**Assessment.** Diversification of the economy away from hydrocarbons and development of the private sector would help to increase and better channel investments. Efforts to improve the business climate and policy predictability could help attract more investments over the medium term.

### FX Intervention and Reserves Level

**Background.** Libya's gross official reserves remain very high by any metric, standing at US\$78.3 billion at the end of 2023, more than 200 percent of GDP and covering more than 3 years of imports. Assuming fiscal spending remains contained, reserves are projected to rise slowly as current account surpluses gradually decline, reaching more than US\$79.8 billion by 2029.

**Assessment.** Reserves play a dual role of providing buffers for precautionary motives and savings for future generations. Against the backdrop of heightened political and security risks, reserves are adequate for these purposes.

## Annex III. Debt Sustainability Analysis

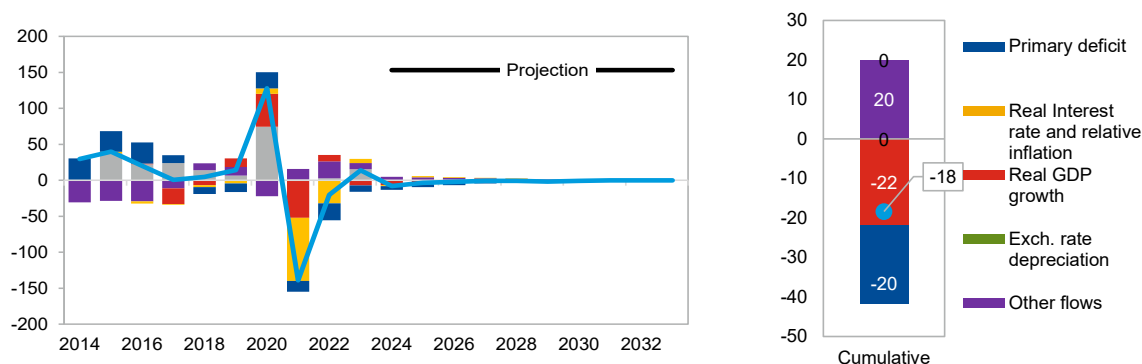
### Libya: Base Scenario

(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection		
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Public debt	91.5	83.4	79.9	77.6	76.8	76.0	74.0	73.2	n.a.	n.a.
Change in public debt	13.9	-8.1	-3.5	-2.3	-0.8	-0.8	-1.9	-0.9	n.a.	n.a.
Contribution of identified flows	-1.4	-8.1	-3.5	-2.3	-0.8	-0.8	-1.9	-0.9	n.a.	n.a.
Primary deficit	-8.7	-5.0	-4.0	-3.6	-2.9	-2.1	-1.8	-0.4	n.a.	n.a.
Noninterest revenues	73.5	61.6	60.6	58.4	55.4	52.7	49.6	47.4	n.a.	n.a.
Noninterest expenditures	64.8	56.6	56.6	54.8	52.6	50.5	47.8	47.0	n.a.	n.a.
Automatic debt dynamics	-1.4	-8.1	-3.5	-2.3	-0.8	-0.8	-1.9	-0.9	n.a.	n.a.
Real interest rate and relative inflation	5.7	-1.5	1.9	0.9	0.7	0.8	-0.2	0.9	n.a.	n.a.
Real interest rate	5.7	-1.5	1.9	0.9	0.7	0.8	-0.2	0.9	n.a.	n.a.
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	n.a.	n.a.
Real growth rate	-7.2	-6.6	-5.4	-3.2	-1.5	-1.6	-1.7	-1.8	n.a.	n.a.
Real exchange rate	0.0	...	...	...	...	...	...	...	...	...
Other identified flows	8.7	5.0	4.0	3.6	2.9	2.1	1.8	0.4	n.a.	n.a.
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	n.a.	n.a.
Other transactions	8.7	5.0	4.0	3.6	2.9	2.1	1.8	0.4	n.a.	n.a.
Contribution of residual	15.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	n.a.	n.a.
Gross financing needs	-8.7	-5.0	-4.0	-3.6	-2.9	-2.1	-1.8	-0.4	n.a.	n.a.
of which: debt service	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	n.a.	n.a.
Local currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	n.a.	n.a.
Foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	n.a.	n.a.
Memo:										
Real GDP growth (percent)	10.2	7.8	6.9	4.2	2.0	2.1	2.3	2.5	n.a.	n.a.
Inflation (GDP deflator; percent)	-7.5	1.8	-2.4	-1.1	-0.9	-1.0	0.3	-1.3	n.a.	n.a.
Nominal GDP growth (percent)	1.9	9.7	4.4	3.0	1.0	1.1	2.6	1.2	n.a.	n.a.
Effective interest rate (percent)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	n.a.	n.a.

### Contribution to Change in Public Debt

(Percent of GDP)



Staff commentary: Under budget law, the central bank can provide advances to the government up to one fifth of estimated revenues in the budget, and the advances should be repaid at the end of the fiscal year. However, over recent years the government has resorted to monetary financing to cover deficits in years where oil revenues have fallen short of expenditures. This is not debt in the standard sense. It is denominated in domestic currency, carries no interest, has no repayment schedule, and can be forgiven using administrative procedures without any economic implications.

## Annex IV. Country Engagement Strategy<sup>1</sup>

*Libya is a fragile state with an enormous potential. The main policy priorities outlined below center around a longer-term economic strategy to diversify away from hydrocarbons and to foster stronger and more inclusive private sector-led growth. These priorities are aligned with those in the Staff Report.*

### A. Context

**1. The political situation remains unsettled.** In 2021, after several years of open conflict, the competing factions agreed to support the transition Government of National Unity (GNU). The country, however, has remained fragmented. To maintain social stability, the authorities follow a policy of equal but untargeted distribution of the country's hydrocarbon wealth.

### B. Drivers of Fragility and Constraints to Reform

**2. The post-Revolution collapse of the state strengthened tribal influence across Libya and renewed regional rivalries.** Major cities in the West, including Tripoli, are controlled by competing militias that are nominally incorporated into the security forces and put on the public payroll, but continue to operate outside the law. The lack of government monopoly over the use of force, involvement of regional powers, and a fragmented security environment contribute to Libya's fragility.

**3. Economic institutions are weakened by political interference and continued divisions and operate under difficult circumstances.** The National Oil Corporation (NOC), for example, is vulnerable to frequent oil field blockades. Institutions responsible for economic statistics struggle to collect data across the country, and regionally-collected revenues are routinely delayed in reaching the Ministry of Finance. There is a lack of accountability mechanisms, including an almost inoperative judiciary and a very weak civil society and media oversight.

**4. Climate change combined with underinvestment in critical infrastructure have had devastating effects.** In September, storm Daniel—fueled by warmer-than-usual water in the Mediterranean—struck Libya, with some areas receiving the yearly dose of rainfall in a day. The Eastern city of Derna was the most affected after two dams collapsed, washing away parts of the city. The rebuilding efforts have started but are complicated by the country's political divide.

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<sup>1</sup> This Annex summarizes the Country Engagement Strategy (CES) for Libya. The CES—prepared in line with the *IMF Strategy for Fragile and Conflict Affected States* (see *IMF Policy Paper 22/4*)—provides an overview of the drivers of fragility, constraints to reform, opportunities and sources of resilience, and reform priorities that inform the strategy for Fund engagement. The CES draws insights from exchanges with the authorities, development partners, and other stakeholders.



years, a few institutions with good access to financial resources managed to recruit and retain qualified staff and are able to absorb CD. Other institutions also appear to be eager to develop their systems and staff, but in many cases lack sufficient resources, including financial and qualified human capital. Most development partners are present in Libya, and some are based in neighboring Tunisia. Due to the prevailing security situation, the Fund has provided CD in alternative location such as Jordan and Tunisia, as well as virtually.

## D. Engagement Strategy

**8. The Fund stands ready to support Libya in rebuilding its economy for the benefit of all citizens.** Libya faces daunting economic challenges. These include an almost complete reliance on revenues from oil and gas production, a bloated public sector, broad untargeted subsidies and social benefits, weak financial intermediation, high informality, and an underdeveloped private sector. The Fund will continue to provide policy advice tailored to Libya's fragile situation and aimed at initiating reforms in these key areas.

**9. Revenue diversification is one of Libya's overarching fiscal challenges.** A heavy reliance on revenues from oil and gas has been a key source of volatility in Libya's fiscal position over recent years. Diversifying revenue sources by improving tax and customs revenue collection and widening the tax base would help to stabilize revenues and help to promote fiscal sustainability. The Fund is providing TA on public financial management (PFM), budget preparation, tax administration, compliance, and digitization, upgrade the custom's systems and processes, and can assist with the introduction and calibration of a value added tax (VAT).

**10. Reforms to subsidies and social benefits are crucial to support long-term fiscal sustainability.** The Fund will work closely with the authorities by providing technical assistance to help Libya transition from a costly and inefficient system of subsidies and social benefits to a more targeted and efficient system that promotes fairness and better protects the most vulnerable. Any fiscal savings from this transition can be channeled to development expenditure, including rebuilding infrastructure, and improving health and education and other services.

**11. Monetary policy and the financial sector should be strengthened to promote development.** A law that prohibits interest rates from being levied, the CBL divide, and the civil war has prevented the CBL from developing Islamic finance instruments to manage excess system liquidity and complicated the issuance of key prudential and conduct regulations. Authorities should work to develop Islamic monetary policy tools, address weak governance in the financial sector, strengthen regulations and supervision, increase capacity, and remove impediments to credit growth.

**12. The Fund will continue to support capacity building at Libyan institutions.** The CD strategy emphasizes building and improving capacity at key Libyan institutions, such as the CBL, MoF, Ministry of Planning, and the National Bureau of Statistics and Census. The strategy



focuses on training staff to use the latest frameworks, tools, and methods to guide economic policy making, strengthening governance and anticorruption measures, improving economic data through survey design and data collection, supporting the budget preparation process, and strengthening PFM. IMF staff collaborates with other IFIs and international partners to facilitate capacity development and to avoid duplication, and to support better information-sharing across institutions.

## Annex V. Data Issues

**Table 1. Libya: Data Adequacy Assessment for Surveillance**

Data Adequacy Assessment Rating 1/							
D							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	D	B	B	D	B	D	C
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	D	C	A	D	A		
Granularity 3/	D		C	D	A		
			NA		B		
Consistency			C	D		D	
Frequency and Timeliness	D	A	A	D	B		
<p>Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.</p> <p>1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.</p> <p>2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF <i>Review of the Framework for Data Adequacy Assessment for Surveillance</i>, January 2024, Appendix I).</p> <p>3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.</p>							
A	The data provided to the Fund is adequate for surveillance.						
B	The data provided to the Fund has some shortcomings but is broadly adequate for surveillance.						
C	The data provided to the Fund has some shortcomings that somewhat hamper surveillance.						
D	The data provided to the Fund has serious shortcomings that significantly hamper surveillance.						
<p><b>Rationale for staff assessment.</b> Despite recent improvements in data quality, coverage and timeliness, there are still significant gaps that impact staff's ability to conduct analysis and provide policy advice. A lack of coordination among authorities responsible for preparing and disseminating key economic data creates significant delays and inconsistencies. Most surveys for national accounts stopped in 2011, the last establishment census was conducted in 2012, the last industry survey was conducted in 2012 (2016 for large establishments); and the last agricultural census in 2007. Major political, economic, and demographic changes have since taken place in Libya and there is a pressing need to restart periodic surveys and the authorities should adopt the System of National Accounts 2008. The rating for External Sector Statistics (ESS) is due to gaps in compilation of balance of payments statistics given the weak institutional setting due to the political uncertainties and the sizeable informal economic activities. Unavailability of sound data sources on unregistered informal transactions hamper the quality of balance of payments statistics and affect the External Sector Assessment (ESA). The sources and methods used to compile the National Account Statistics (NAS) are unclear and there is a lack of coverage and low response rate.</p>							
<p><b>Changes since the last Article IV consultation.</b> Previously identified data weaknesses remain broadly in place.</p>							
<p><b>Corrective actions and capacity development priorities.</b> To improve on ESS, actions taken included an IMF Technical Assistance Mission (November 2023) that identified key areas that require development and prepared a roadmap for addressing those gaps. Libya is expected to start reporting IIP and quarterly BOP by the end of 2024. CD for NAS includes technical assistance and increasing staff capacities for improving GDP compilation methods, implementing the supply and use (SUT) framework and implementing the 2008 SNA in the Libyan national accounts. Meanwhile CD on prices will focus on updating the CPI basket. Further capacity development is needed for compiling national accounts and an expanded list of financial soundness indicators. PFM framework reforms, including strengthening macro-fiscal and budget preparation functions, are needed to improve cash management controls and oversight.</p>							
<p><b>Use of data and/or estimates different from official statistics in the Article IV consultation.</b> Staff do not use data and/or estimates different from official statistics.</p>							
<p><b>Other data gaps.</b> Additional statistics that could be compiled include import and export price indices, industrial production indices, construction activity, and national disposable income.</p>							

**Table 2. Libya: Data Standards Initiatives**

Libya participates in the Enhanced General Data Dissemination System (e-GDDS) and first posted its metadata in December 2009 but is yet to disseminate the data recommended under the e-GDDS.

**Table 3. Libya: Table of Common Indicators Required for Surveillance**

As of May 21, 2024

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data <sup>6</sup>	Frequency of Reporting <sup>6</sup>	Expected Frequency <sup>6,7</sup>	Libya <sup>8</sup>	Expected Timeliness <sup>6,7</sup>	Libya <sup>8</sup>
Exchange Rates	15-May-24	15-May-24	D	D	D	D	...	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>	Mar-24	May-24	M	M	M	M	1M	2M
Reserve/Base Money	Mar-24	May-24	M	M	M	M	2M	5D
Broad Money	Mar-24	Jun-24	M	M	M	M	1Q	2M
Central Bank Balance Sheet	Mar-24	Jul-24	M	M	M	M	2M	5D
Consolidated Balance Sheet of the Banking System	Mar-24	Aug-24	M	M	M	M	1Q	2M
Interest Rates <sup>2</sup>	NA	NA	NA	NA	M	...	...	...
Consumer Price Index	Mar-24	May-24	M	M	M	M	2M	1W
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> –General Government <sup>4</sup>	Mar-24	Apr-24	M	M	A	...	3Q	...
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> –Central Government	Mar-24	Apr-24	M	M	Q	Q	1Q	1Y
Stocks of Central Government and Central Government-Guaranteed Debt <sup>5</sup>	NA	NA	NA	NA	Q	...	2Q	...
External Current Account Balance	Dec-23	May-24	Q	I	Q	A	1Q	6M
Exports and Imports of Goods and Services	Dec-23	May-24	Q	I	M	A	12W	4M
GDP/GNP	Dec-22	Feb-24	A	I	Q	A	1Q	1Y
Gross External Debt	Dec-21	Mar-22	A	I	Q	...	2Q	...
International Investment Position	Dec-23	May-24	A	I	A	...	3Q	...

1/ Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

2/ Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

3/ Foreign, domestic bank, and domestic nonbank financing.

4/ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

5/ Including currency and maturity composition.

6/ Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than;

7/ Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

8/ Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."



# LIBYA

May 30, 2024

## STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION— INFORMATIONAL ANNEX

Prepared By

Middle East and Central Asia Department  
(In consultation with other departments)

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## FUND RELATIONS

(As of May 30, 2024)

**Membership Status:** Joined 09/17/58; Article VIII

General Resources Account	SDR Million	Percent Quota
Quota	1,573.20	100.00
Fund holdings of currency (Exchange Rate)	1,165.00	74.05
Reserve tranche position	408.21	25.95

SDR Department	SDR Million	Percent Allocation
Net cumulative allocation	2,580.54	100.00
Holdings	3,187.33	123.51

**Outstanding Purchases and Loans:** None

**Latest Financial Arrangements:** None

### Projected Payments to Fund<sup>1</sup>

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2024	2025	2026	2027	2028
Principal					
Charges/Interest	0.03	0.03	0.03	0.03	0.03
<b>Total</b>	0.03	0.03	0.03	0.03	0.03

<sup>1</sup> When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

<b>Implementation of HIPC Initiative:</b>	Not Applicable
<b>Implementation of Multilateral Debt Relief Initiative (MDRI):</b>	Not Applicable
<b>Implementation of Catastrophe Containment and Relief (CCR):</b>	Not Applicable
<b>Safeguards Assessments:</b>	Not Applicable

### Exchange Rate Arrangements

The de jure and de facto exchange rate arrangements are a conventional peg vis-à-vis the SDR. In June 2003, the Central Bank of Libya (CBL) adopted a conventional fixed peg to the SDR at a rate of LD 1 = SDR 0.5175 and Libya accepted its obligations under Article VIII, Sections 2(a), 3, and 4 of the Articles of Agreement. On April 30, 2015, controls were imposed on foreign currency, that required the CBL approval for import letters of credit (LCs) and limited the amount of foreign currency for personal use. On January 3, 2021, the CBL devalued the LD to the rate of LD 1 = SDR 0.1555 and

relaxed currency controls by increasing the limits available for LCs and allowing access to FX for SMEs through a preloaded card. As a result, the gap between the official and the parallel exchange rates narrowed. However, the gap has been widening since November 2023, and stood at around 50 percent in March 2024. In early 2024, the authorities imposed a temporary 27 percent tax on all foreign exchange purchases, while announcing the relaxation of some of the previously enacted restrictions on imports of non-essential goods and services. Staff is currently engaging with the authorities to assess Libya's exchange system to determine if any measures the authorities have introduced are inconsistent with their obligations under Article VIII. To the extent any of the measures are inconsistent with Article VIII, staff will encourage the authorities to either eliminate them or request their approval by the Board, if the authorities meet the approval criteria.

## **Article IV Consultations**

The last Article IV staff report (23/201) was discussed by the Executive Board on May 24, 2023, after a 10-year pause due to civil unrest and data limitations. Libya is now on a 12-month consultation cycle.

## **Technical Assistance**

Since the Article IV in 2023, engagement with the authorities has continued through a Staff Visit in November 2023 and providing technical assistance. The missions fielded mainly in Tunis and Amman and covered the areas of AML/CFT, Public Financial Management (PFM), revenue administration, national accounts, balance of payments and price statistics, financial regulation, and supervision. The following TA missions took place in 2021, 2022, 2023 and first half of 2024.

1. May 2024 (upcoming): MCM TA – Islamic Banking Supervision and Regulation
2. 2023: FAD mission to review functioning of core revenue administration processes
3. 2023: FAD mission on restoring core Public Financial Management (PFM) functions
4. 2023: ICD TA on Macroeconomic frameworks – Ministry of Finance
5. 2023: STA mission – Financial Institutions
6. February 2023: METAC mission on the compilation of Producer Price Indices (PPIs).
7. January 2023: METAC mission on the digitalization of the tax administration (Second mission).
8. December 2022: FAD/METAC mission on reviewing public financial management framework and identifying reform priorities and further CD needs.
9. November 2022–February 2023: FAD Peripatetic advisor for ASYCUDA functionalities development.
10. November 2022: METAC mission on the digitalization of the tax administration (first mission).
11. August 2022: METAC/FAD mission on the implementation of core custom functions in ASYCUDA World (AW) IT management system.
12. August 2022: METAC study tour of Port in Jordan by Libyan officials about the use of customs automated system
13. July 2022: STA mission on compiling the monetary and financial statistics for the central bank and depository corporations.

14. January 2022: METAC mission on the methodology to update the CPI and developing an indicative roadmap.
15. June 2022: METAC mission on good practices of taxpayer register.
16. January 2022: METAC mission on budget preparation process and draft budget circular.
17. January 2022: METAC mission on the compilation of annual national accounts.
18. January 2022: FAD mission on Review of revenue administration reform plan and priorities.
19. November 2021: METAC mission to restore core Public Financial Management functions.
20. September 2021: METAC follow-up mission on cash forecasting.
21. April 2021: METAC mission on cash management

**FSAP Participation, ROSCs, and OFC Assessments**

N/A



# LIBYA

June 14, 2024

## STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—SUPPLEMENTARY INFORMATION

Approved By  
**Subir Lall (MCD) and  
Boileau Loko**

Prepared by the Middle East and Central Asia Department.

*This supplement provides additional information to the Staff Report (SM/24/149) circulated to the Executive Board on May 31, 2024. It sets out staff's assessment of Libya's foreign exchange system.*

1. **Staff and the Libyan authorities have had an ongoing dialogue over the past year regarding Libya's exchange system.** Staff has identified certain measures subject to Fund approval under Article VIII, Sections 2(a) and 3. These include:
  - a. An exchange restriction arising from removal of normal short-term banking and credit facilities which were hitherto available to importers for the purpose of funding their documentary credits, given that documentary credits are required to import certain goods and services in Libya;
  - b. An exchange restriction arising from the requirement to provide a tax clearance certificate and a certificate of payment of social security obligations, unrelated to the underlying transactions, in support of requests for documentary credits for imports;
  - c. An exchange restriction arising from limitations on the availability of foreign exchange for invisible transactions (personal purposes, studies abroad and medical treatment abroad);
  - d. An exchange restriction arising from limitations on the transferable percentage of the salaries of expatriate workers that can be remitted;
  - e. An exchange restriction and an MCP arising from the imposition of a 27 percent tax on all foreign exchange transactions<sup>1</sup>
2. **Authorities' views:** The authorities acknowledged that the above measures are subject to Article VIII, Sections 2(a) and 3. However, in Libya's current situation, the

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<sup>1</sup> Staff has assessed this measure as an outflow CFM. However, this measure will not be assessed for appropriateness under the Institutional View.



restrictions are necessary for balance of payments reasons as well as to curb money laundering and the financing of terrorism and smuggling. The authorities plan to ease restrictions as conditions allow.

3. **Staff recommends approval of the exchange restriction and MCP arising from the tax on FX transactions.** The 27 percent tax on all foreign exchange transactions was introduced for balance of payments reasons and does not discriminate among members. As it will sunset at end-2024, there is a timeline for removal. This measure meets the conditions for approval.

**Statement by Mr. Bijani, Executive Director for Libya  
and Mr. Sassanpour, Senior Advisor to Executive Director  
July 1, 2024**

On behalf of our Libyan authorities, we thank the staff team for constructive engagement and open and frank exchange of views during the 2024 Article IV Consultation discussions, held in Tunis. The Libyan authorities highly value the staff's professional and balanced policy advice and are in broad agreement with the staff's assessment and recommendations. They are also grateful to the IMF Executive Board and management for their continued support.

**I. Introduction**

The 2024 Article IV Consultation carried forward the discussion from the 2023 Consultation which was the first such engagement after a hiatus of ten years due to the 2014-2021 domestic armed conflict. The conflict entailed not only loss of Libyan lives and destruction of property and infrastructure but also a costly lost opportunity to rebuild the country after the upheavals of the 2011 Revolution. The progress in policy implementation since the 2023 Consultation has been mixed: while good progress has been made in some areas, including reintegration of the financial system and rebuilding institutions, little progress has been made in strengthening public financial management and addressing the fundamental weaknesses of the Libyan economy, some of which predate even the 2011 Revolution.

Libya is a fragile state with fragmented institutions and competing authorities. The drivers of fragility in Libya are well-articulated in the staff's Country Engagement Strategy, with which the authorities are in broad agreement. Libya's continued fragility has had serious adverse economic and social implications. The political divide has been the main constraint to implementing broad-based reforms, with material progress in key reform areas remaining contingent on a durable resolution of the country's political impasse.

**II. Political Context**

After the popular uprising and the ensuing 2011 Revolution, Libya experienced a brief period of relative peace and nation rebuilding before the East-West rivalry, fueled by active direct and indirect foreign interference, triggered a seven-year armed conflict between rival factions that ended in 2021. Since then, although the political situation remains tense there has been no armed confrontation in compliance with the ceasefire agreement. During the conflict, the Fund maintained regular close contact with the Tripoli-based, UN-recognized, Government of National Accord. In 2021, after the end of the conflict, the political and regional factions agreed to support the transitional Tripoli-based, UN and internationally recognized, Government of National Unity which was given a mandate to hold national elections by end-2021. The progress towards holding national elections, however, has been impeded by persistent political disagreements over the legal framework for the elections, eligibility of presidential candidates and the security challenges facing the High National Election Commission. The United Nations has been leading the mediation efforts but the lack of international cohesiveness and collective action, and continued foreign interference in Libyan affairs, have consistently hindered these efforts.

**III. Social Context**

Libya has been a welfare state for decades maintaining social cohesion through wide distribution of hydrocarbon income among the population. The social support mechanism, however, has been very costly, untargeted and inefficient. The high public sector employment, rising public wages and generous benefits, and the highly subsidized fuel and low administered prices for food and other mass consumption items should be viewed in that context. Even during the armed conflict and since then, the Tripoli-based Ministry of Finance and the Central Bank of Libya (CBL) ensured that public sector wages of the parallel government in the East were paid in full and on time, and subsidized fuel prices were available across Libya. The authorities are fully aware of the vast resource loss and the significant price distortions and economic disincentives that the social policy has entailed. The wage bill and subsidies together account for close to two-thirds of total government spending. Moreover, the high government wages and benefits and insufficient controls have created tens of thousands of ghost workers<sup>1</sup> and the subsidized fuel prices (among the lowest in the world) have perpetuated extremely lucrative smuggling to neighboring countries (and beyond) through Libya's long porous borders.

#### **IV. Recent Economic Developments and Outlook**

Libya's growth performance, government revenue and balance of payments developments are highly dependent on hydrocarbon production and exports and volatile prices in the international energy markets. Libyan oil production, in turn, reflects the OPEC+ oil output decisions, and stoppages due to internal political and security conditions (in 2022 and the latest temporarily in January 2024). These (often unpredictable) developments have resulted in sharp fluctuations of the overall and oil-sector real GDP, but real non-oil activity has been broadly shielded by government spending, but ultimately financed by loss of foreign reserves. Despite the sharp variations of output, the rise in international food and commodity prices and depreciation of the Libyan dinar in the parallel market, inflation has been subdued as prices of most goods and services are administratively fixed at low levels. That, despite Libya importing around half of the households' consumption basket and as high as 90 percent of its cereals needs. Libya's internal and external balances—both recording sizable yet declining surpluses in recent years—reflect the dominant yet fluctuating hydrocarbon revenue and fiscal spending, with Libya's ample FX reserves continuing to absorb the domestic financial imbalances. The CBL's sizable FX holdings include the foreign assets of LIA--the Libyan Investment Authority (Libya's sovereign wealth fund)—which are managed but not owned by the CBL. The CBL's "free liquid reserves" are much lower. Additionally, a significant portion of LIA's overall foreign assets has been frozen since 2011 under a UN Security Council resolution (ostensibly for safe keeping in the aftermath of the 2011 Revolution), with LIA having authority to make investment decisions on only a portion of its assets. The frozen assets now represent a significant lost opportunity and is contrary to the declared objective of preserving Libya's assets for future generations as the inability to manage the assets has led to substantial losses.

The medium-term outlook for the Libyan economy is dependent externally on oil market developments and regional conflicts with implications for oil prices and transportation costs, and internally on the pace of progress in improving the macroeconomic policy framework and efforts to diversify the economic and export base (more below) which, in turn, are largely contingent on a durable political reconciliation. While international oil prices are forecast to stabilize at levels lower than the current levels, the authorities are planning to increase oil production from the current level of 1.2 million barrels per day

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<sup>1</sup> Public sector accounts for 90 percent of formal employment and some 2.2 million persons (about 30 percent of the total population) are on government payroll.

(mbd) to initially 1.5 mbd over the next 2-3 years and ultimately to 2 mbd over a longer horizon. The planned increase in production, however, requires large investments by the National Oil Corporation to boost the production capacity.

## **V. Policy Framework**

The authorities are fully cognizant of the sizable negative impact of fiscal profligacy on the exchange rate and reserves. Fiscal spending surged in 2023, reflecting the large (unwarranted) increase in the wage bill as well as higher-than-expected energy subsidies, financed by CBL money creation. In fact, the rate of increase in broad money in 2023 was the highest since 2011, because of uncontrolled spending, and lifted public debt to over 90 percent of GDP<sup>2</sup>. Libya has no external debt and is in fact an external creditor in view of its past generous financial support to low-income countries, mostly in Africa.

With a procyclical fiscal policy without a short- or medium-term anchor, and with the virtual absence of monetary policy instruments to control liquidity injections associated with deficit financing, the exchange rate acts as the nominal anchor for the economy. The spending surge in 2023 increased the demand for foreign exchange and exerted undue pressure on the exchange rate, with the parallel exchange rate diverging sharply from the official rate. In response, the CBL opted to impose a temporary 27 percent “fee” on the US\$ selling rate by commercial banks, effective March 15, 2024, with the proviso that foreign exchange is available for sale in all banks in Libya.<sup>3</sup> The Decree stipulates that the proceeds from the fee—temporarily parked at the CBL—are to be used to cover future development spending and/or to repay public debt. The fee expires at end-2024, conditions permitting, but could be adjusted in either direction prior to the expiration. Since the introduction of the fee, the parallel exchange rate has appreciated by 10 percent and held steady, but still has a 10 percent premium over the official rate plus the fee.

The CBL considers the fee as the second-best solution to curb the excessive demand for foreign exchange and safeguard foreign reserves. The authorities believe that the first-best solution, namely controlled spending in line with a unified approved budget, within a defined resource envelope, with clear priorities and anchored by a medium-term framework, is currently politically unfeasible. Reforming energy subsidies and the public sector administration policy remain medium-term priorities until there is sufficient political consensus on reforms. The authorities fully recognize that inaction is very costly, only benefitting the vested interest groups and encouraging smuggling at great cost to the treasury and to current and future generations of Libyans.

The imposition of the FX fee permitted the CBL to remove some of the FX restrictions that had been imposed earlier to safeguard reserves. The authorities feel that, under the current situation, the remaining restrictions are necessary for balance of payments purposes and to curb money laundering and financing of terrorism and smuggling. The restrictions will be eased or lifted as conditions permit.

## **VI. The Issue of Fifty (50) Dinar Bank Notes**

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<sup>2</sup> The public debt in Libya represents the accumulated deficit financing—it is denominated in Libyan dinar, carries no interest and has no repayment schedule. Ratios to GDP should be viewed with caution given the sharp variability of nominal GDP.

<sup>3</sup> Decree No. 15 of 2024 issued by the House of Representatives on the recommendation of the Governor of the CBL.

The 50-dinar bank note issued by the Tripoli-based CBL is the largest denomination of bank notes in circulation. In the past few years prior to 2023, similar but still distinguishable 50-dinar notes, printed abroad, began circulating in the East. As part of the broad agreement on the process of central bank reunification, the stock of these notes was frozen and the CBL accepted them at par with the CBL-issued original 50-dinar notes. In late 2023, two different sets of similar looking 50-dinar notes—clear counterfeits of unknown origin and quantity—began circulating in the East. In response, the CBL decided to withdraw all 50-dinar notes from circulation and replace the stock of CBL-issued 50-dinar notes plus the first set of redeemable notes originating in the East with newly issued 10-dinar notes, with a neutral impact on the overall liquidity once all the bills are replaced. The surrender period is through August 2024. The authorities believe that the lower denomination notes may also help to curb cross-border cash transactions mostly involving smuggling and other illicit activities.

## **VII. Central Bank Reunification and Financial Sector Stability**

The CBL has been a pillar of stability since the 2011 Revolution and especially during the 2014-2021 civil war and the political stalemate since then. The CBL, the guardian of Libyan foreign assets, ensured that all genuine FX requirements of the Libya-wide economy, especially food, medicine and essentials, were met. In late 2022, as part of the reunification process of Libyan institutions fragmented by conflict, the CBL working closely with its Eastern counterpart began the process of central bank reunification. The CBL Board was consolidated, and the governor of the central bank's eastern branch was appointed the deputy governor of the reunified CBL.

The reunification efforts have led to improved coordination in banking system liquidity, management and supervision. The CBL has been proactive in enhancing the prudential framework and guiding banks to increase their capital. The Financial Information Unit, active in investigating suspicious financial activities, including money laundering and terrorism financing, has also been strengthened significantly. Further progress in coordination in these and other areas, including integration of the payment systems and unification of accounting procedures, largely depend on the pace of political reconciliation. The authorities are determined to promote financial stability and undertake a comprehensive reform of the banking system in line with the roadmap presented by staff during the 2023 Article IV Consultation.

## **VIII. Climate and the Derna Tragedy**

With a long Mediterranean shoreline in the north and an even longer border with the Sahara, Libya is highly prone to climate-related disasters. The unprecedented heavy precipitation that contributed to the collapse of two flood-control Wadi Derna dams in September 2023 was a climatic disaster occurring, according to experts, once in a few centuries. Reportedly, over 400 mm of rain fell in 24 hours compared with an average precipitation of about 1.5 mm in the Derna region in September. The flash floods caused an unfathomable human tragedy and displacement, with 4,000 confirmed dead and 10,000 missing at sea and presumed dead, and at least 34,000 persons displaced. The initial damage and losses were estimated by the Rapid Damage and Needs Assessment (a joint report by the World Bank, UN and the EU) at 3.6 percent of Libya's 2022 GDP, and the disaster impacted about 1.5 million people. The Derna floods have brought into a sharper focus the climate-related risks that Libya and the countries in southern Mediterranean are facing, where the main climate concern is, ironically, water scarcity.

## **IX. Economic Diversification**

The authorities fully recognize the criticality of diversifying away from hydrocarbons in order to bolster the economy's resilience and reduce its exposure to oil market volatility. This is a medium-to-longer term objective where Libya could leverage its vast energy and financial resources and labor availability from Africa to strengthen the economy's non-hydrocarbon base in a process facilitated by gradually reducing the state's presence in non-strategic activities and measures encouraging greater private sector participation. There is already a large contingent of African labor working in the informal sector in Libya repatriating their earnings and savings to home countries. While industry and tourism hold long-term potential, there are more immediate opportunities in fisheries and agriculture that could be tapped which would also improve food security and reduce Libya's vulnerability to international food price shocks.

## **X. Governance Issues**

The authorities acknowledge the governance challenges that Libya is facing and agree with staff that stronger efforts are needed to improve governance, fight corruption and increase transparency and accountability. The Libya Audit Bureau—an independent office—is the overarching authority ensuring compliance of government agencies with established rules and regulations.<sup>4</sup> The authorities look forward to the planned comprehensive review of governance during the 2025 Article IV Consultation. They attach high value to the Fund staff's independent assessment since secondary assessments could be at times inadequate or even misleading<sup>5</sup>.

## **XI. Capacity Development (CD)**

Libya has an immense need for CD support and the Fund and other development partners have risen to the occasion and are responding. The authorities have expressed their appreciation to the Fund for the technical support (both HQ-based and from METAC) in their institution building efforts, strengthening tax and customs administration, and addressing Libya's substantial data gaps. The authorities have requested further technical support in budget preparation, monetary policy, national accounts, labor market statistics, CPI rebasing, PFM and developing a macro fiscal unit. They agree with staff that to optimize the technical support being received from multiple multilateral and bilateral sources better coordination is needed on their part and are determined to do so.

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<sup>4</sup> The Head of the Libya Audit Bureau and its senior officials have been regularly participating in staff discussions with the CBL and government officials during the consultations.

<sup>5</sup> In Box 2—Taking Stock of Libya's Governance Challenges—in the Staff Report, Libya's governance indicators are compared with MENA and OECD frontiers, and the year 2011 (the year of the Libyan Revolution) is used as the base year for the assessment of progress in indicators. The authorities believe that it would be more useful to compare the Libya's governance indicators to other countries emerging from protracted internal conflicts, and that 2011 may not be the best benchmark. Cases in point are indicators of "Political Stability and Absence of Violence and Terrorism," "Government Effectiveness" and "Rule of Law" are highest (strongest) in the year that witnessed foreign intervention and a violent overthrow of the Gaddafi regime.