INTERNATIONAL MONETARY FUND

Staff Country Reports

September 2009
IMF Country Report No. 09/294

Socialist People's Libyan Arab Jamahiriya: 2009 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for the Socialist People's Libyan Arab Jamahiriya

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 2009 Article IV consultation with the Socialist People's Libyan Arab Jamahiriya, the following documents have been released and are included in this package:

- The staff report for the 2009 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on June 1, 2009, with the officials of the Socialist People's Libyan Arab Jamahiriya on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 20, 2009. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its August 5, 2009 discussion of the staff report that concluded the Article IV consultation.

- A statement by the Executive Director for the Socialist People's Libyan Arab Jamahiriya.

The document listed below has been or will be separately released.

Mission's Concluding Statement

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

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org Internet: http://www.imf.org

Price: $18.00 a copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

THE SOCIALIST PEOPLE'S LIBYAN ARAB JAMAHIRIYA

Staff Report for the 2009 Article IV Consultation

Prepared by the Staff Representatives for the 2009 Consultation with
The Socialist People's Libyan Arab Jamahiriya

Approved by Amor Tahari and David Marston

July 20, 2009

- Discussions for the 2009 Article IV consultation were held in Tripoli during May 17—June 1, 2009. The staff team comprised Messrs. Sakr (Head), Dridi, and El-Said (all MCD), and Mr. Al-Hassan (MCM). Mr. Ahmed participated in the policy discussions during May 31−June 1, 2009.

- The mission met with Messrs. Zlitni, Minister of Planning and Finance; Bengdara, Governor of the Central Bank of Libya, and other senior officials and representatives of the private sector.

- The 2008 consultation report is available at http://www.imf.org/external/pubs/ft/scr/2008/cr08302.pdf.

- Libya has accepted the obligations of Article VIII and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.

EXECUTIVE SUMMARY

The consultation discussions focused on assessing the impact of the global financial crisis on the Libyan economy and the need to enhance the quality of public expenditure and public finance management, address the factors contributing to the excess liquidity in the banking sector, and advance structural reforms to support non-oil growth, diversification, and employment creation.

Economic developments and outlook

Libya's macroeconomic performance in 2008 was strong, with real GDP growth at about 4 percent, and record fiscal and external surpluses. The outlook has been adversely affected by the global crisis mostly through a decline in oil prices and output. However, the large public expenditure program for 2009 will help moderate the impact on non-oil growth. Overall growth is projected to decelerate to about 2 percent in 2009, but non-oil growth is projected to remain buoyant, at around 6 percent. The sharp drop in oil prices will reduce the fiscal and external current account surpluses. The outlook is projected to improve gradually over the medium term with the global recovery. This outlook is subject to downside risks relating to a further worsening in global economic conditions or a wavering of the efforts to improve the quality of public expenditure and advance structural reforms.

Authorities' views

- The impact of the global crisis has been limited to the decline in oil revenue. However, it provides some opportunities as projects can be implemented at lower costs than during the boom.
- Efforts to stabilize public spending and enhance its quality will continue.
- Investment funds have a role to play in the diversification strategy. They are intended to operate on a commercial basis and in areas where the private sector has minor involvement.
- Implementation of financial sector and other structural reforms will continue to promote the private sector and create viable employment opportunities.

Staff's recommendations

- Greater emphasis should be placed on the quality and composition of public expenditure, including by limiting the growth of current expenditure.
- The proliferation of investment funds outside the budget increases the risk of complicating public expenditure management, incurring potential losses, and crowding out the private sector.
- Reducing the large excess liquidity, in particular by establishing a Treasury Single Account (TSA) and limiting on-lending by the specialized credit institutions (SCIs), would give more traction to monetary policy.
- The commendable efforts to reform the financial sector and enhance the monetary policy framework should continue, including by extending the range of maturities and developing an auction mechanism for the certificates of deposit (CDs) of the Central Bank of Libya (CBL).
- The dinar's peg to the SDR continues to serve Libya well.

I. Background and Recent Developments

A. Introduction

1. **The discussions were held against the backdrop of declining oil revenue, a small decline in public expenditure, and moderate deceleration in non-oil growth.** The ongoing normalization of diplomatic relations with the U.S. and the EU since 2007 continues to contribute to foreign investors' interest, particularly in the hydrocarbon, banking, and infrastructure sectors. Further spending under the Wealth Distribution Program (WDP), which was launched in March 2008 to distribute part of the oil wealth to the population and reduce the size of the government, has been put on hold over concerns about its potential impact on inflation and the provision of basic public services.

2. **Past Fund policy advice** has centered on the need to restore fiscal prudence, strengthen oil revenue management, develop a well-designed strategy to restructure public commercial banks, and advance structural reforms. The authorities have launched a number of initiatives over the past few years to address these issues and modernize the economy. Notable progress has been made in bank privatization, sovereign wealth management, budget unification, and encouraging the private sector. These achievements have contributed to the favorable sovereign ratings assigned to the country earlier this year by international rating agencies. At the same time, important challenges remain to be addressed in order to achieve the authorities' objectives of increasing non-oil growth and creating viable employment opportunities. These challenges include improving public finance management, further advancing financial sector reforms, enhancing the regulatory framework, and accelerating structural reforms to reduce the size of the government and promote private sector development.

B. Recent Economic Developments

3. **The impact of the global financial crisis on Libya has been thus far limited to the decline in oil revenue.** This was due to the lack of exposure of domestic banks to the global financial system. In addition, Libya's foreign assets consist mainly of foreign reserves, and the portfolio of the Libyan Investment Authority (LIA). The LIA started its operations in June 2007 and a large part of its assets consists of bank deposits.

4. **Macroeconomic performance was strong in 2008.** Preliminary data indicate that real GDP grew by about 3.8 percent. Non-oil growth was broad-based and estimated at 8 percent. Oil output increased slightly at the first three quarters of the year then declined in the last quarter in line with OPEC's quota reduction. As a result, production for the year as a whole was similar to its 2007 level. Inflation rose in 2008 to about 10 percent due to higher international commodity prices and a marked increase in public expenditure.

5. **The fiscal surplus remained at about 25 percent of GDP in 2008.** Revenue increased by 37 percent due to higher oil prices and enhanced tax administration. At the same

time, overall expenditure rose by 45 percent, reflecting large increases in both current and capital outlays. Spending under the WDP was limited to LD 3.3 billion (about 3 percent of GDP), compared to LD 4.6 billion approved in the budget.

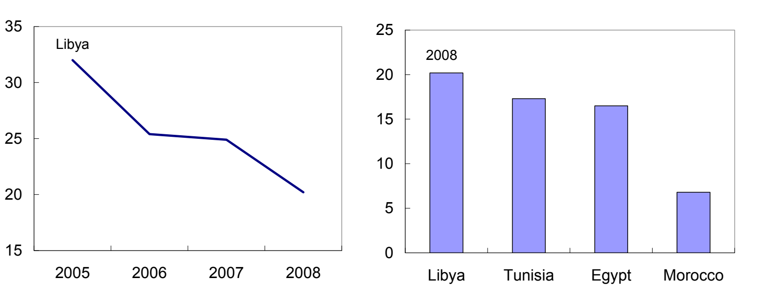
6. **The external current account surplus remained high, at about 41 percent of GDP in 2008.** The rapid increase in imports of goods and services (30 percent) was more than offset by a sharp rise in oil receipts, resulting in a further build up of the net foreign assets of the CBL and the LIA to about $136 billion. The real effective exchange rate of the dinar appreciated by about 6 percent in 2008, and averaged 8 percent in the twelve months to March 2009.

7. **Broad money growth accelerated to about 48 percent in 2008**, reflecting the rapid increase in net foreign assets and in public expenditure, including on-lending by SCIs. Bank credit to the economy increased by about 12.5 percent. Bank deposits rose by about 65 percent and mostly constituted of demand deposits of public entities. Interest rates remained low and became largely negative in real terms with the rise in inflation.

8. **Bank restructuring and privatization continued to make progress.** An asset management company to deal with bad loans has been established, capital requirements are being raised, and smaller banks are being encouraged to seek well-established foreign strategic partners. The CBL licensed two new banks with foreign participation. In addition, the authorities privatized 15 percent of one of the remaining two large public banks by issuing an IPO.

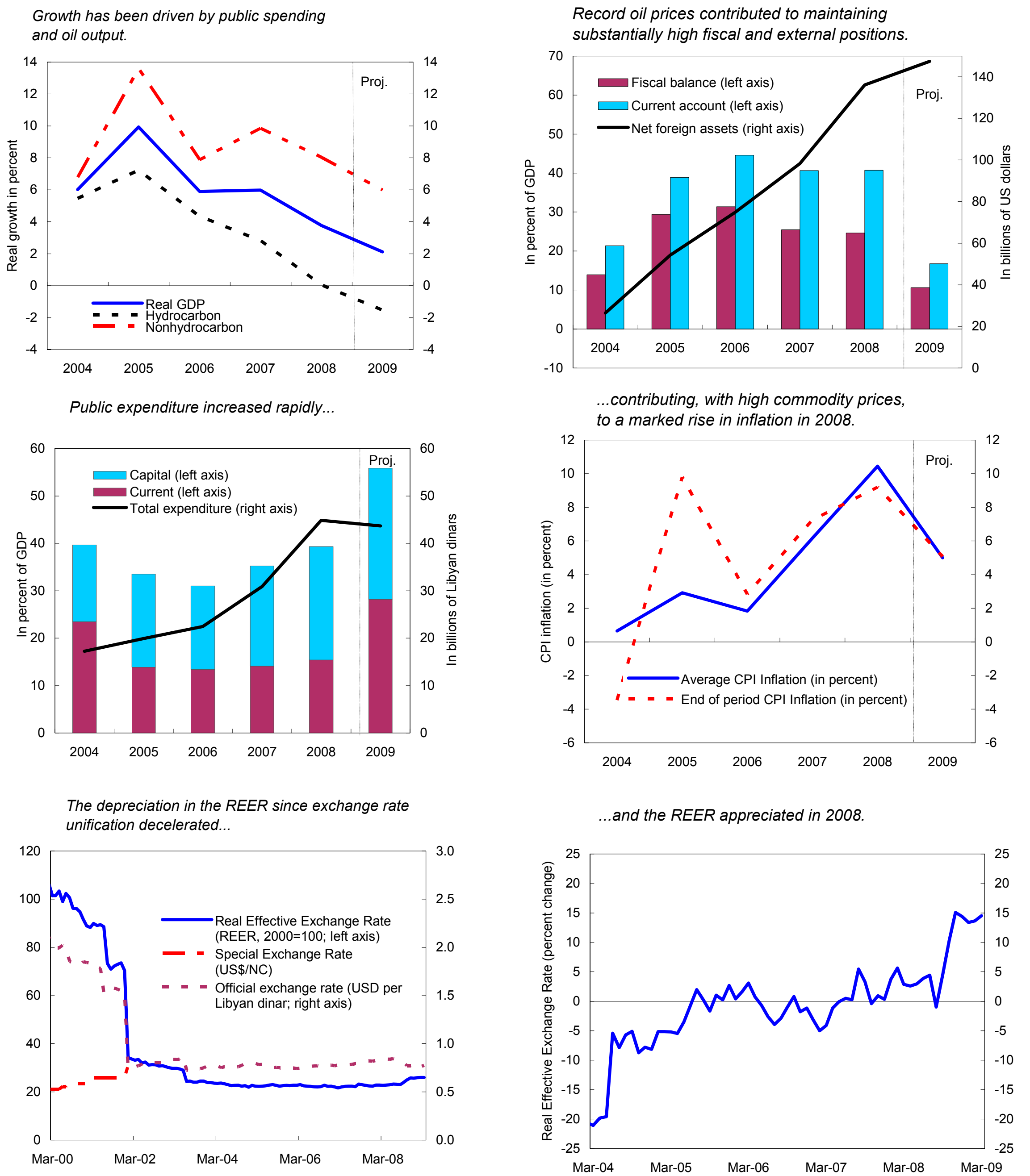
9. **Commercial banks are well capitalized and profitable, but the quality of their assets needs further improvement.** Their overall capital adequacy ratio stood at about 16 percent at end-2008, and profitability has been increasing. This mainly reflects the large interest income on banks' holdings at the CBL. However, nonperforming loans (NPLs) constituted about 20 percent of total loans. While this ratio has declined, it remains among the highest in the MENA region.

Libya: Nonperforming Loans-to-Gross Loans Ratios (In percent)



Sources: Country authorities.

Figure 1. Libya: Recent Macroeconomic Developments



Source: Libyan Authorities; and Fund staff estimates and projections.

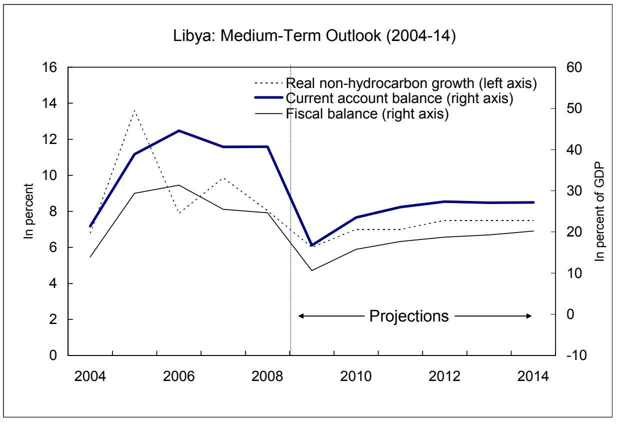
II. Outlook and Risks

10. **Real GDP growth is projected to decelerate to about 2 percent in 2009**, mainly reflecting an expected reduction in oil production by about 1.5 percent. However, the maintenance of large public expenditure is expected to help sustain non-oil growth at around 6 percent. Inflation is projected to decelerate substantially in 2009 (to about 5 percent; it averaged 5.2 percent in January–April) in line with the decline in international commodity prices, and to moderate further over the medium term.

11. **The overall fiscal position is expected to register a surplus of about 10 percent of GDP** in 2009 despite the projected decline in oil revenue by almost 40 percent. This is due to the projected small decline in public outlays after the very large increases in recent years. The small decline in overall expenditure reflects a 20 percent reduction in capital spending and a 25 percent increase in current outlays.

12. **In line with the above developments, the external current account surplus is projected to narrow to about 17 percent of GDP in 2009.** As a result of OPEC's output cuts and the sharp decline in oil prices, oil exports are expected to fall by about 40 percent. Imports, on the other hand, are projected to increase by about 6 percent, broadly in line with non-oil GDP growth. Net foreign assets of the CBL and the LIA will continue to increase, to about $150 billion (equivalent to almost 250 percent of GDP) by end-2009.

13. **Libya's economic growth and financial position are expected to strengthen over the medium-term** as a result of higher oil receipts projections, the upgrading of the infrastructure, and continued interest of foreign investors. Oil production is envisaged to increase to almost 2.5 million barrels per day by 2014 on account of large investments and the utilization of advanced technologies by foreign partners. Taking into account the authorities' intention to continue to prioritize public expenditure, it is projected to slightly decline as a percent of GDP. The fiscal surplus is, thus, expected to increase to 20 percent of GDP over the medium-term, while the external current account surplus is projected to reach 27 percent.



14. **The medium-term outlook described above is subject to downside risks** relating to a further worsening in global economic conditions or a wavering of the efforts to improve the quality of public expenditure and advance structural reforms. In particular, a more severe global recession could lead to a further reduction in both oil and non-oil growth. The

prospects for inward foreign investment may also weaken. If these risks materialize, economic growth, as well as the fiscal and external balances, would be lower than the above projections. For example, a 20 percent reduction in oil prices relative to the baseline scenario would lead to a reduction in the fiscal and current account surpluses by about 10 percentage points of GDP.

III. Policy Discussions

15. **Against the above background, the policy discussions focused on** the need to enhance the quality of public expenditure and public finance management, address the factors contributing to excess liquidity, and advance structural reforms.

A. Fiscal Policy

16. **Based on the 2009 budget, staff projects a small nominal decline in public expenditure**, putting an end to three years of large fiscal expansion. Current expenditure is envisaged to increase by about 25 percent, compared to 2008, mostly on account of transfers related to the Economic and Social Development Fund (ESDF) and a 16 percent projected increase in the wage bill. The latter is due in large part to the return to the civil service payroll of a portion of the public employees that were previously transferred to a central labor office for retrenchment to the private sector. Apparent increases in other current outlays mostly reflect improvements in classification and increased external grants to lower income countries. On the other hand, capital outlays are projected to decline by about 20 percent, consistent with the authorities' policy to rationalize public investment.

17. **The authorities are taking steps to improve public financial management** in line with staff's recommendations and the ongoing World Bank public expenditure review. In this regard, the recent merging of the ministries of planning and finance is a welcome step which will help enhance public expenditure planning, monitoring, and control. At the same time, the 2009 budget allocated the equivalent of about 5 percent of GDP to public investment funds outside the new ministry. The authorities believe that these funds fulfill specific diversification needs and offer greater flexibility than the cumbersome budget expenditure process. These funds are intended to strictly operate on a commercial basis and engage in activities where the private sector has minor involvement. At the same time, the authorities expressed their intention of streamlining the bank accounts of government entities.

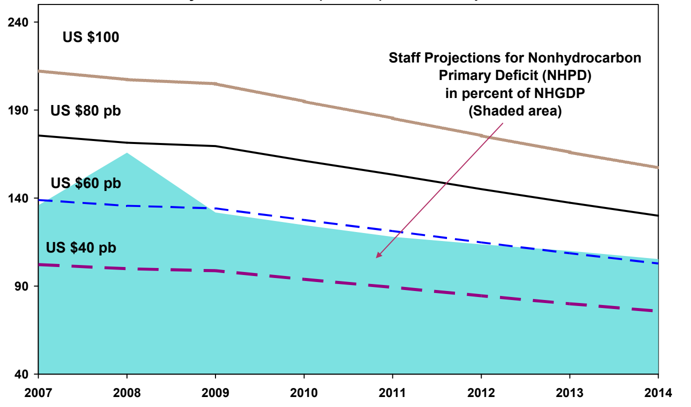
18. **The authorities intend to continue to improve the LIA's regulatory framework.** An LIA decree was issued in 2008, incorporating many of staff's recommendations. While the LIA continues to invest mostly abroad, some of its investments are being channeled to the Libyan oil sector and to the LD 16 billion Libyan Development and Investment Fund, which was established in March 2009 in partnership with the CBL and the private sector.

Box 1. Libya: Fiscal Sustainability Analysis

Staff updated the fiscal sustainability assessment to reflect oil price developments and the authorities' revised public expenditure plans. The analysis utilizes the permanent income approach, which requires saving part of the oil wealth (in a stabilization fund or elsewhere) to ensure intergenerational equity.

Based on this approach, at current oil prices of $60-80 per barrel, Libya's expenditure plans, as envisaged by the Ministry of Planning and Finance (MoPF), are sustainable. The analysis compares Libya's expenditure plans to the derived sustainable levels at oil prices in the $40-100 range. The results show that Libya's public expenditure plans remain sustainable even if oil prices decline to $60 per barrel over the medium-term.

Libya: Nonhydrocarbon Primary Deficit (NHPD) Projections In percent of Nonhydrocarbon GDP (NHGDP) at different price levels



Source: Staff estimates.

Given the uncertainty associated with oil prices and other assumptions used in the analysis, the results should be interpreted with caution and updated periodically. In addition to sustainability considerations, the fiscal stance needs to be guided by the objective of maintaining macroeconomic stability and achieving economic and social development goals. The authorities should place increasing emphasis on the quality and composition of expenditure in order to enhance its effectiveness. If oil prices decline below $60 per barrel, the authorities would need to revisit their public expenditure program, taking into consideration all the above objectives and not only the long-term sustainability indicative benchmarks.

Libya: Sustaniable Overall Public Expenditure Envelop under Different Oil Price Scenarios, 2007-14
(in billions of LD) 1/

	2007	2008	2009	2010	2011	2012	2013	2014
Estimated sustainable nonhydrocarbon primary deficit (Real)								
Low ($40 pb)	19.9	20.2	20.6	20.9	21.3	21.7	22.0	22.4
Per-capita (in '000 US dollars)	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Derived sustainable public expenditure								
Low ($40 pb)	23.9	28.0	33.1	35.6	38.1	40.6	43.3	46.2
Medium ($60 pb) 2/	31.0	36.0	41.7	44.9	48.0	51.1	54.4	58.0
High ($80 pb)	38.1	44.1	50.4	54.3	57.9	61.6	65.5	69.7
High ($100 pb)	45.2	52.1	59.1	63.6	67.8	72.1	76.6	81.5
Nonhydrocarbon primary revenue	4.0	5.5	8.8	9.6	10.4	11.3	12.3	13.4
Public expenditures	30.9	44.8	43.7	47.0	50.6	54.7	59.2	64.2
Needed adjustment in public expenditure								
Low($40 pb)	7.0	16.9	10.6	11.3	12.6	14.1	15.9	18.0
Medium ($60 pb) 2/	-0.1	8.8	1.9	2.0	2.6	3.6	4.8	6.2
High ($80 pb)	-7.2	0.7	-6.8	-7.3	-7.3	-6.9	-6.4	-5.5
High ($100 pb)	-45.2	-52.1	-59.1	-63.6	-67.8	-72.1	-76.6	-81.5

Sources: Libyan authorities; and Fund staff estimates and projections.
1/ Using 2008 period average exchange rate.
2/ Libya's average crude oil export price over the past five years is about $63 per barrel

Box 2. Libya: Treasury Single Account: A Tool for Improving Public Finance Management (PFM)

Some progress has been made in implementing the strategy recommended by staff in 2006 to strengthen PFM in Libya. Examples include the budget unification, improvements in the budget classification, and the establishment of a macrofiscal unit. However, the MoPF lacks centralized control over the government's cash resources. Considerable balances, including from previous years' budget allocations, lie idle for extended periods in the numerous bank accounts of spending agencies. At the same time, the treasury often calls on the CBL for advances to fund expenditure programs early in the fiscal year. Establishing a TSA will help remedy these problems and improve expenditure control. A TSA would also facilitate better fiscal and monetary policy coordination. TSA arrangements exist in neighboring countries, including Algeria, Egypt, and Tunisia.

A TSA is typically held at the central bank although it can encompass several subaccounts, which may be held at branches of the central bank or commercial banks. However, the balances of such subaccounts would be cleared at the end of every day.

TSA arrangements could range from a very centralized structure to a completely decentralized structure. Under a centralized model (such as in France, and some Francophone African countries), requests for payments are prepared by individual budget agencies and sent to a centralized Treasury, which controls them and plans their payment. This model has the advantage of synergy between cash management on the one hand, and expenditure control and transaction accounting on the other. Under the decentralized model (such as in Sweden and some Anglo-Saxon countries), budget agencies process and make payments directly to suppliers (and account for these transactions), but the payments are disbursed from the TSA. This process is facilitated by electronic links between spending agencies, the central bank (or commercial banks), and the Treasury. The Treasury sets the cash limits (monthly or quarterly) for the total amount of payments that could be undertaken by a particular budget agency, but does not control individual transactions. This model makes the spending agency responsible for internal control and management, while maintaining central control of cash through the TSA.

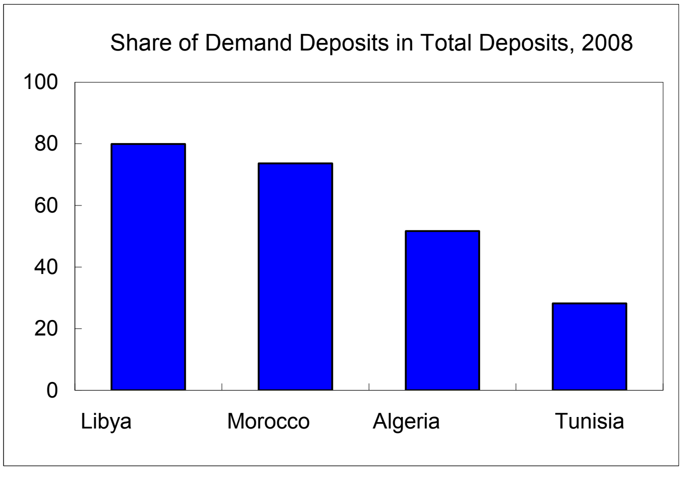
Crucial steps are needed to facilitate the establishment of a TSA. Bank accounts of government institutions should be closed and the legal basis for the TSA put in place. In addition, an IT system should be installed connecting the spending entities, the Treasury, the CBL, and commercial banks (if needed) in order to enable the making of payments and settlement of subaccounts at the end of each day. Furthermore, it would be important to draw a comprehensive chart of accounts and provide training to TSA users.

B. Monetary Policy and Financial Sector Reform

19. **In response to the moderate economic slowdown, the CBL reduced interest rate on its discount facilities and CDs.** The former was reduced by 100 basis points (to 4 percent) and the latter by 75 basis points (to 1.75 percent) in April 2009. Lending rates have turned positive in 2009, with the decline in inflation.

20. **Progress is being made in enhancing the monetary policy framework.** The CBL introduced its own CDs, with Fund technical assistance in May 2008. These CDs are issued on a weekly basis for a single maturity (91 days) at a fixed rate. Furthermore, the CBL is undergoing a restructuring and modernization program, with Fund technical support, to enhance its research, forecasting, and monetary policy implementation capabilities.

21. **However, structural factors are impeding the effectiveness of monetary policy instruments.** Most importantly, large demand deposits of public entities and on-lending of government funds by SCIs have been contributing to a liquidity overhang. These deposits earn no interest and basically serve to channel the state budget allocations to various public entities. Banks invest these funds in CBL's CDs, in part for maturity matching purposes. Therefore, the decisions underlying this situation have very low sensitivity to interest rates.

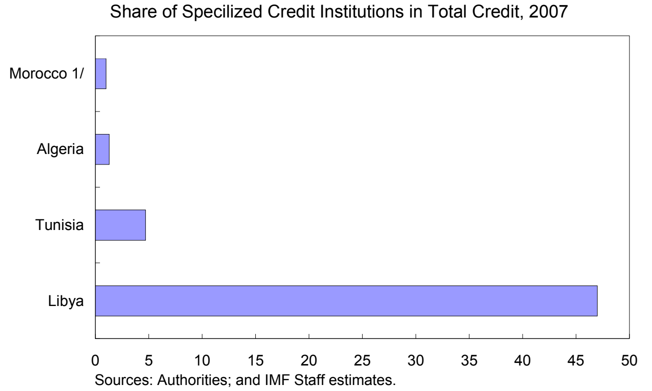


22. **The authorities are taking measures to contain SCIs' lending by reducing their funding from the state budget.** The allocation for these institutions in the 2009 budget was reduced to less than LD 1 billion, from about LD 1.5 billion in the 2008 budget. A diagnostic study of the SCIs has been launched in order to guide the reform strategy. It is expected to be completed later in 2009.

23. **Bank supervision continues to be strengthened**, with Fund technical support. Emphasis is being placed on: (i) enhancing off-site and on-site supervision procedures; (ii) strengthening the skills of supervisors; (iii) improving supervisory reporting by banks to the CBL; (iv) enhancing the calculation of prudential ratios and regulations; (v) strengthening licensing procedures for banks and change in ownership structure; and (vi) improving IT systems to facilitate effective supervision. Furthermore, a credit bureau has been established recently, and a financial stability report will be produced soon.

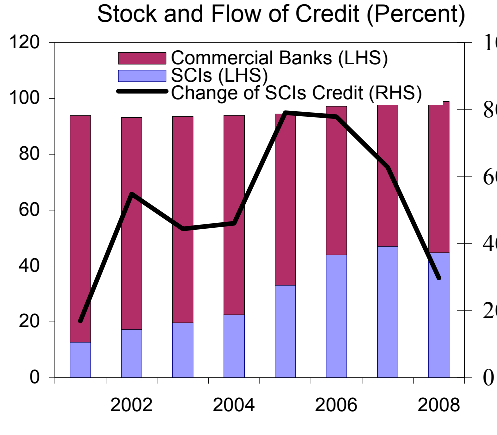
Box 3. Libya: Reforming Specialized Credit Institutions

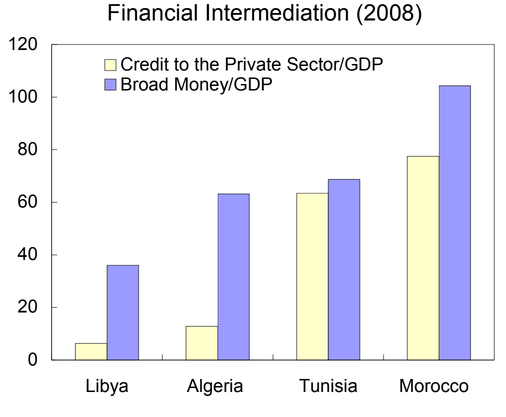
The scope of SCIs' operations in Libya has gone beyond international and regional norms. The SCIs, which are basically development banks, were established between 1970s and 1980s. They focused on providing subsidized credit to residential real estate, agriculture, and small enterprises. Since then, their role has expanded substantially. Their share in total outstanding credit increased from 13 percent in 2001 to almost 50 percent in 2007. This is about 40 and 10 times more than their relative size in Morocco and Tunisia, respectively.

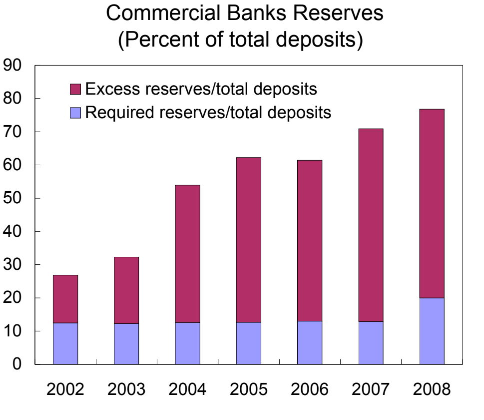


Sources: Authorities; and IMF Staff estimates.
1/ Share in total assets of banks.

The SCIs have been crowding out commercial banks' credit. The playing field is uneven due to the zero cost of funding for SCIs and their lax lending standards and minimal lending interest rates. As a result, SCIs' share of new credit increased from 17 percent in 2001 to 65 percent in 2007. This has impeded financial intermediation by commercial banks, which remains low by regional standards. Furthermore, through their on-lending, SCIs indirectly contributed to a liquidity overhang which reduces the effectiveness of monetary policy instruments.







The process of reforming such institutions is often difficult. Converting them into commercial banks is not an easy task. They typically lack the required expertise and potentially have a large amount of non-performing loans. A credible strategy to reform SCIs should be based on the following key principles: (i) reducing the scope and size of their operations; (ii) ensuring effective supervision by the CBL to preserve the financial stability of the banking sector and safeguard public funds; (iii) strengthening corporate governance and management of these institutions; and (iv) ensuring that SCIs are externally audited and comply with international accounting standards.

C. External Sector Issues

24. **Staff's econometric estimates indicate that the dinar's real effective exchange rate has shifted from a moderate undervaluation in 2008 to a moderate overvaluation in 2009**, in line with developments in oil prices. These estimates, however, suffer from data and methodological shortcomings and cannot accurately point to the appropriate level of the equilibrium real effective exchange rate.

25. **The dinar's peg to the SDR has served Libya well.** This arrangement provides a strong monetary anchor, while allowing some flexibility in the dinar's exchange rate vis-à-vis individual major currencies. Furthermore, the SDR offers the advantage of being a transparent and straight-forward basket that is not vulnerable to pressure for change based on short-term developments in Libya's trading pattern.

D. Structural Reforms and Other Issues

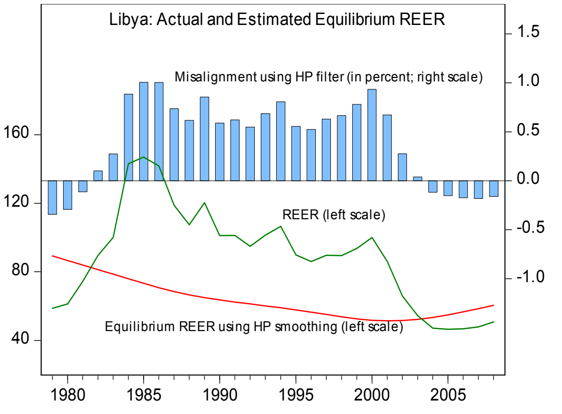
26. **Progress has been made in customs and tax administration.** Large tax payers offices have been established and customs inspection is being automated. However, the "service fee" on imports has been increased from 4 to 10 percent, and other ear-marked fees remain in place. Furthermore, corporate tax is subject to many brackets, and can reach as high as 45 percent.

27. **Some progress has been made in improving economic and financial statistics.** In this connection, a household budget survey was completed in 2008, a work program is being implemented to establish a producer price index with Fund technical support. In addition, concrete steps have been recently made to improve inter-agency cooperation on external trade statistics, and monetary statistics are being enhanced. Further enhancing the compilation and quality of data continues to be hampered by insufficient coordination between different government agencies and staffing limitations.

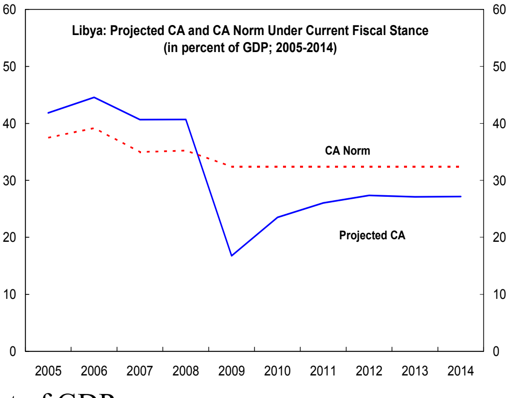
Box 4. Libya: Exchange Rate Assessment

Staff's econometric estimates suggest that the dinar real effective exchange rate has shifted from a moderate undervaluation in 2008 to a moderate overvaluation in 2009. This is consistent with the change in fundamentals in line with the decline in oil prices. However, the results, which utilize CGER methodologies[1/], are subject to significant data and methodological shortcoming, given the predominance of oil exports in the Libyan economy.

The equilibrium real effective exchange rate (ERER) methodology is not forward looking and can only estimate the equilibrium rate at end-2008 when oil prices where considerably higher than present prices. The results point to a moderate undervaluation by 16 percent of the dinar in 2008, which is consistent with past staff estimates.



The macroeconomic balance (MB) approach indicates that Libya's external current account surplus projections are below their norm starting in 2009, implying an overvaluation of the exchange rate. Based on a panel regression for oil-exporting countries, the estimated current account norm for Libya is a surplus of about 32 percent of GDP. This compares with a projected surplus of about 27 percent over the medium term.



The external sustainability (ES) approach also indicates an overvaluation. The results imply an overvaluation in the 12-13 percent range, depending on the assumptions used. In particular, the outcome depends on whether the objective is to keep constant the annuity from oil wealth in real terms, in real terms per capita, or as a percent of GDP.

[1/] "Methodology for CGER Exchange Rate Assessments," IMF, November 2006 www.imf.org/external/np/pp/eng/2006/110806.pdf).

IV. Staff Appraisal

28. **The impact of the global crisis on Libya has been limited thus far to the decline in oil revenue.** Notwithstanding that decline, the fiscal and external positions remain in substantial surpluses and non-oil growth remained buoyant. This was largely due to prudent macroeconomic policies and ongoing structural reforms.

29. **Staff welcomes the authorities' overall fiscal stance, which strikes an appropriate balance between short-and long-term considerations.** The small decline in public expenditure planned for 2009 is a clear break with the very large increases in recent years, which have raised concerns about expenditure quality. At the same time, it reflects an appropriate decision to avoid that the sharp decline in oil revenue translates into an abrupt reduction in public expenditure, with adverse implications for domestic economic activity and vital social and economic development programs.

30. **The authorities should focus on improving the quality and composition of expenditure.** In this connection, they are encouraged to reconsider the planned significant increase in the wage bill in 2009. The return to the civil service payroll of a portion of the large number of public employees that were being retrenched goes against the intention to reduce the size of the government and to encourage the private sector.

31. **It is crucial to continue to advance the efforts to strengthen public finance management.** The recent merging of the ministries of finance and planning was a step in the right direction. It would be important in the period ahead to improve the legal and administrative framework governing the state budget, with a view to streamlining and modernizing procedures. This would reduce the need for implementing investment programs through funds outside the MoPF. While these funds offer greater flexibility than budgetary expenditure, they increase the magnitude of quasi-fiscal operations. Furthermore, they can become under pressure to deviate from their well-intended objectives. A proliferation of such funds would complicate public expenditure management, increase the potential for losses and price distortions, and crowd out the private sector. Strategic projects that are not sought by the private sector should be implemented either through the state budget or in the context of public-private partnerships with adequate safeguards.

32. **The staff welcomes the government's intention to enhance its cash management and expenditure control.** Establishing a TSA would support this effort, and also facilitate fiscal and monetary policy coordination. Staff stands ready to provide detailed technical advice in support of establishing a TSA, enhancing the classification of expenditure, and casting the annual state budget within a medium-term framework.

33. **The mission welcomes the decision to postpone the implementation of the WDP.** Staff recommends that if the WDP program goes forward, it should be limited in scope and replace, to the extent possible, existing subsidies with more efficient well-targeted transfers.

34. **The transparent start of the LIA in 2007 was encouraging.** It would be important to continue to enhance the LIA's operational and legal framework. In this connection, to best serve its core objectives, the focus of the LIA should be on conservative investments abroad on a commercial basis.

35. **The introduction of CBL's CDs in May 2008 has been an important step toward enhancing the monetary policy framework.** The staff supports the authorities' plans to

extend the range of the CDs maturities, especially for shorter maturities, and develop an auction mechanism for them. Ongoing efforts to modernize the CBL and enhance the payments system would also help lay down the infrastructure to support the design, implementation, and effectiveness of monetary policy.

36. **It is crucial to address the factors behind the large excess liquidity in the banking system in order to increase the effectiveness of monetary policy tools.** In particular, priority should be accorded to establishing the TSA and reducing on-lending by SCIs.

37. **Staff welcomes the ongoing efforts to strengthen bank supervision.** Further efforts are, however, needed to (i) enhance supervisory reporting; (ii) improve on-site supervision techniques to make them more effective and risk-focused; and (iii) continue to improve regulations and standards.

38. **The dinar's peg to the SDR continues to serve the economy well.** This arrangement provides a strong monetary anchor, while allowing some flexibility in the dinar's exchange rate vis-à-vis individual major currencies. The dinar appears to be moderately overvalued, but this is likely to be partly transitory in view of the projected decline in the current account surplus toward its medium term norm. Furthermore, the apparent moderate overvaluation is based on econometric estimates that suffer from serious data and methodological shortcomings, and are thus not reliable.

39. **Staff encourages the authorities to further advance structural reforms.** In this connection, the progress made in customs and tax administration is welcome. Furthermore, the recent decision to streamline customs exemptions is a move in the right direction. However, it would be important to adopt low income and corporate tax and customs rates, with very few brackets and limited exemptions. In addition, it would be useful to modernize the tax system, with a view to gradually moving to self-assessment and risk-based auditing. It would also be important to further enhance the regulatory framework in order to improve the business climate. These reforms would support private sector growth, diversification, and the creation of viable employment opportunities.

40. **While data provision is adequate for surveillance, the authorities are encouraged to continue to improve economic and financial statistics** in order to facilitate better monitoring and analysis of developments to guide policy formulation.

41. **It is proposed that the next Article IV consultation with Libya take place on the standard 12-month cycle.**

Table 1. Libya: Selected Economic and Financial Indicators, 2005–10

	2005	2006	2007	Prel. 2008	Proj. 2009	Proj. 2010
	(Annual percentage change, unless otherwise indicated)					
National income and prices						
Real GDP	9.9	5.9	6.0	3.8	2.1	5.4
Nonhydrocarbon	13.6	7.9	9.9	8.0	6.0	7.0
Hydrocarbon	7.2	4.3	2.8	0.0	-1.5	3.7
Nominal GDP in billions of Libyan Dinars	59.5	72.3	87.6	114.0	78.2	95.6
Nominal GDP in billions of U.S. dollars	44.0	56.5	71.7	89.9	59.9	73.2
Per capita GDP in thousands of U.S. dollars	7.5	9.5	11.8	14.5	9.5	11.3
CPI inflation (average)	2.9	1.4	6.2	10.4	5.0	4.5
	(In percent of GDP)					
Central government finances						
Revenue	62.9	62.4	60.8	64.0	66.5	64.9
Expenditure and net lending	33.5	31.0	35.3	39.3	55.9	49.1
Overall balance	29.4	31.4	25.5	24.6	10.6	15.8
Non-oil balance	-29.1	-26.2	-29.0	-32.7	-42.6	-37.2
Non-oil balance (in percent of non-oil GDP)	-130.4	-135.3	-136.0	-165.8	-131.8	-124.6
	(Change in percent)					
Money and credit						
Money and quasi-money	10.6	16.0	40.1	47.8	14.0	18.0
Net credit to the government	-97.3	-60.9	-22.2	-17.7	-16.5	-15.8
Credit to the economy	7.7	11.6	14.5	12.5	13.7	15.6
Discount rate 1/	4.0	4.0	4.0	5.0	4.0	…
	(In billions of U.S. dollars; unless otherwise indicated)					
Balance of payments						
Exports	31.4	39.2	47.0	62.0	37.5	47.4
Imports	11.2	13.1	17.7	21.7	23.0	24.8
Current account balance	17.1	25.2	29.1	36.6	10.0	17.2
(As percent of GDP)	38.9	44.6	40.7	40.7	16.8	23.5
Overall balance	13.8	19.8	20.2	16.8	5.3	12.1
Reserves						
Total foreign assets (NFA + LIA investments)	54.3	74.8	98.3	136.1	147.4	166.1
Net international reserves	38.4	52.7	48.5	49.4	53.4	57.6
In months of next year's imports	28.9	31.0	22.9	22.0	22.0	22.0
Exchange rate 1/						
Official exchange rate (LD/US$, period average)	1.35	1.28	1.22	1.27	1.31	…
Official exchange rate (LD/US$, end of period)	1.35	1.29	1.22	1.25	1.30	…
Real effective exchange rate (change in percent)	-1.8	-0.6	-0.3	6.0	8.2	…
Crude oil production (millions of barrels per day)	1.69	1.76	1.81	1.81	1.78	1.85
Libyan crude oil price (US$/bbl)	51.9	62.5	69.3	96.7	58.7	72.7
Memorandum item:						
Total loans disbursed by SCIs (change in percent)	62.2	75.2	27.6	9.6	...	...

Sources: Libyan authorities and Fund staff estimates and projections.
1/ The 2009 data are for end-March.

Table 2. Libya: Consolidated Fiscal Operations, 2005–10

	2005	2006	2007	Budget 1/ 2008	2008	Budget 1/ 2009	Proj.2/ 2009	Proj.2/ 2010
				(In millions of Libyan dinars)				
Total Revenue	37,413	45,153	53,222	51,015	72,898	43,705	51,984	62,037
Hydrocarbon	34,764	41,630	47,747	43,048	65,365	35,499	41,632	50,630
Nonhydrocarbon	2,650	3,523	5,475	7,967	7,532	8,206	10,353	11,408
Tax Revenue	1,526	1,786	2,531	3,020	3,531	4,234	4,350	4,817
Taxes on income and profits	397	691	1,376	2,169	2,790	3,000	3,100	3,456
Taxes on international trade	517	527	528	600	499	1,000	1,000	1,080
Other taxes and fees	611	569	627	251	241	234	250	280
Nontax Revenue	1,124	1,736	2,944	4,947	4,002	3,972	6,002	6,591
of which: LIA	…	…	1,438	3,000	2,021	1,527	1,527	1,803
Total Expenditure	19,930	22,449	30,881	50,542	44,835	45,972	43,678	46,961
Current expenditure	8,245	9,693	12,375	19,050	17,579	22,683	22,039	24,179
Wages and salaries	4,258	4,772	7,316	7,890	7,764	9,018	8,874	9,717
Other 3/	2,391	2,652	2,962	3,086	2,829	3,950	3,450	3,777
Subsidies and transfers	1,497	1,564	2,097	8,074	6,986	9,715	9,715	10,684
Subsidies 4/	1,050	1,050	1,006	1,300	1,300	3,302	3,302	3,533
Social Security Fund and other obligations		514	1,091	2,152	2,349	2,913	2,913	3,248
Other transfers 5/	…	…	…	4,622	3,337	3,500	3,500	3,903
Capital expenditure	11,685	12,756	18,506	31,491	27,257	23,289	21,639	22,782
Development budget	7,570	10,079	12,137	27,475	22,610	20,000	18,500	19,333
National Oil Company 6/	930	1,138	2,903	2,516	2,227	1,500	1,500	1,800
GMR 7/	765	960	1,231	1,081	1,070	789	789	1,000
Net lending	2,420	580	2,235	1,500	1,350	1,000	850	650
Overall balance	17,483	22,704	22,341	474	28,062	-2,267	8,306	15,077
Financing	-17,483	-22,704	-22,341	607	-28,062	2,268	-8,306	-15,077
Banking system	-17,485	-21,590	-12,671	607	-12,325	-2,992	-13,566	-15,077
Surplus carried over	0	0	-3,200	607	820	6,788	6,788	0
Other	-17,485	-21,590	-9,471	0	-13,144	-9,780	-20,354	-15,077
Nonbank financing	2	-1,114	-10,901	0	-15,738	5,260	-1,527	…
				(In percent of GDP)				
Total Revenue	62.9	62.4	60.8	44.8	64.0	55.9	66.5	64.9
Hydrocarbon	58.5	57.5	54.5	37.8	57.4	45.4	53.3	52.9
Nonhydrocarbon	4.5	4.9	6.3	7.0	6.6	10.5	13.2	11.9
Total Expenditure	33.5	31.0	35.3	44.3	39.3	58.8	55.9	49.1
Current expenditure	13.9	13.4	14.1	16.7	15.4	29.0	28.2	25.3
Wage and salaries	7.2	6.6	8.4	6.9	6.8	11.5	11.4	10.2
Subsidies and transfers	2.5	2.2	2.4	7.1	6.1	12.4	12.4	11.2
Capital expenditure	19.7	17.6	21.1	27.6	23.9	29.8	27.7	23.8
Overall balance	29.4	31.4	25.5	0.4	24.6	-2.9	10.6	15.8

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

1/ Based on staff's classification.
2/ Based on staff's projections of prices and production.
3/ For 2008, includes an estimate of LD 500 for National Oil Company other spending.
4/ Prior to 2008 includes subsides for food and medicine. Starting 2008, also includes fuel, electricity, and water subsides.
5/ Covers allocations budgeted to the Wealth Distribution Program in 2008. With the posponment of the program, LD 1.2 billion out of the LD 3.3 in 2008 were allocated to the Economic and Social Development Fund (ESDF). In 2009, the amount is budgeted for the ESDF.
6/ For 2005 and 2006 the numbers are for extrabudgetary capital spending financed through the oil reserve fund. For 2008 staff excludes wages (million LD 1073) and an estimate for Other (million LD 500). For 2009 Budget includes million LD 1,000 financed by borrowing.
7/ For 2008 excludes wages and other spending for million LD 34 and million LD 39, respectively.

Table 3. Libya: Monetary Survey, 2005–10

	2005	2006	2007	2008	Proj. 2009	Proj. 2010
	(In millions of Libyan dinars)					
Net foreign assets	56,422	79,434	100,744	124,830	138,410	154,845
Central bank	54,448	77,241	98,305	121,257	133,150	148,866
Foreign assets	54,460	77,253	98,323	121,269	133,165	148,882
Foreign liabilities	12	13	17	12	15	16
Deposit money banks	1,974	2,193	2,438	3,573	5,260	5,978
Foreign assets	2,046	2,297	2,458	3,705	5,400	6,100
Foreign liabilities	72	105	19	132	140	122
Net domestic assets	-40,948	-61,490	-75,604	-87,679	-96,057	-104,869
Domestic credit	-26,611	-47,178	-58,414	-69,328	-81,152	-93,976
Net claims on government	-35,459	-57,048	-69,719	-82,044	-95,610	-110,687
Central bank claims	64	1,795	2,399	141	164	190
Government deposits with central bank	33,038	55,043	67,257	72,603	84,608	97,950
Commercial banks' claims	373	373	328	174	203	235
Governments' deposits with commercial banks	2,858	4,174	5,189	9,756	11,369	13,162
Claims on the rest of the economy	8,848	9,871	11,305	12,716	14,458	16,711
Claims on nonfinancial public enterprise	4,271	5,128	6,019	4,972	5,320	5,746
Claims on the private sector	4,576	4,742	5,286	7,744	9,138	10,966
Claims on specialized banking institutions	0	0	0	0	0	0
Claims on nonbank financial institutions	0	0	0	0	0	0
Other items (net)	-14,337	-14,312	-17,190	-18,351	-14,905	-10,893
Broad money	15,475	17,943	25,140	37,151	42,353	49,976
Money	12,077	13,725	18,387	26,573	30,093	35,387
Currency in circulation	3,309	3,933	4,581	5,608	6,670	7,844
Demand deposits	8,769	9,792	13,806	20,965	23,422	27,543
Quasi-money	3,397	4,219	6,753	10,578	12,260	14,589
	(Change in percent)					
Broad money	10.6	16.0	40.1	47.8	14.0	18.0
Money	14.6	13.6	34.0	44.5	13.2	17.6
Quasi-money	-1.7	24.2	60.1	56.7	15.9	19.0
Net claims on government	-97.3	-60.9	-22.2	-17.7	-16.5	-15.8
Claims on the economy	7.7	11.6	14.5	12.5	13.7	15.6
	(Percent change over beginning broad money stock)					
Net foreign assets	158.6	148.7	118.8	95.8	36.6	38.8
Domestic credit	-120.4	-132.9	-62.6	-43.4	-31.8	-30.3
Net claims on government	-125.0	-139.5	-70.6	-49.0	-36.5	-35.6
Claims on the economy	4.5	6.6	8.0	5.6	4.7	5.3

Sources: Central Bank of Libya; and staff projections.

Table 4. Libya: Balance of Payments, 2005–10

(In millions of U.S. dollars)

				Prel.	Proj.	
	2005	2006	2007	2008	2009	2010
Current account	17,119	25,179	29,144	36,601	10,037	17,219
In percent of GDP	38.9	44.6	40.7	40.7	16.8	23.5
Goods and services	18,359	24,230	27,618	37,718	11,783	19,624
Goods	20,175	26,125	29,269	40,292	14,512	22,571
Exports (f.o.b)	31,358	39,187	46,970	61,950	37,469	47,365
Hydrocarbon sector	30,458	38,207	45,801	60,711	36,168	45,999
Other exports	900	980	1,169	1,239	1,301	1,366
Imports (f.o.b)	-11,183	-13,062	-17,701	-21,658	-22,957	-24,794
Services	-1,816	-1,895	-1,650	-2,574	-2,728	-2,947
Receipts	534	967	1,064	1,170	1,240	1,339
Payments	-2,350	-2,862	-2,714	-3,744	-3,969	-4,286
Income	-281	1,075	2,267	365	-375	-865
Direct investment income	-1,834	-2,278	-2,326	-3,368	-3,840	-4,628
Other investment income	1,553	3,353	4,593	3,733	3,465	3,763
Current transfers	-959	-126	-741	-1,482	-1,371	-1,540
General government	-112	926	544	-75	-79	-83
Private	-847	-1,052	-1,285	-1,407	-1,293	-1,457
Oil sector	-259	-220	-370	-400	-238	-303
Workers Remittances	-588	-832	-957	-1,007	-1,054	-1,154
Capital and financial account	21	-4,992	-9,554	-21,039	-4,736	-5,128
Direct investment	1,448	1,479	756	-1,777	1,264	1,472
Portfolio investment	-393	-1,960	-1,440	-10,964	-4,000	-4,400
Other investment	-1,034	-4,511	-8,870	-8,298	-2,000	-2,200
Errors and omissions	-3,377	-348	596	1,269	0	0
Overall balance	13,764	19,839	20,187	16,831	5,301	12,090
In percent of GDP	31.3	35.1	28.2	18.7	8.9	16.5
Memorandum Items (in billions of US$)						
Total foreign assets (NFA + LIA investments)	54.3	74.8	98.3	136.1	147.4	166.1
LIA investments (not included in NFA)	14.0	14.7	18.0	39.0	45.0	51.6
Net foreign assets at CBL	40.3	60.1	80.3	97.1	102.4	114.5
Deposits by LIA/ORF and the government a	1.9	7.4	31.8	47.7	49.1	56.9
Net international reserves	38.4	52.7	48.5	49.4	53.4	57.6
In months of next year's imports	28.9	31.0	22.9	22.0	22.0	22.0
Nonhydrocarbon exports (growth in percent)	2.6	8.9	19.3	6.0	5.0	6.0
Imports (growth in percent)	36.4	11.6	22.3	29.1	6.0	8.0

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

Table 5. Libya: Illustrative Medium-Term Scenario, 2005–14

	2005	2006	2007	Prel. 2008	Projections 2009	2010	2011	2012	2013	2014
	(In percent of GDP unless otherwise indicated)									
Real GDP growth rate (in percent)	9.9	5.9	6.0	3.8	2.1	5.4	6.2	7.6	7.3	7.1
Real nonhydrocarbon GDP (in percent)	13.6	7.9	9.9	8.0	6.0	7.0	7.0	7.5	7.5	7.5
Crude oil production (in millions of barrels/day)	1.69	1.76	1.81	1.81	1.78	1.85	1.95	2.10	2.25	2.40
WEO oil price (US$ per barrel)	53.4	64.3	71.1	97.0	60.5	74.5	78.0	80.0	81.3	82.5
CPI (percent change; average)	2.9	1.4	6.2	10.4	5.0	4.5	3.5	3.0	3.0	3.0
Total revenue, *of which:*	62.9	62.4	60.8	64.0	66.5	64.9	65.6	65.4	65.4	65.9
Hydrocarbon	58.5	57.5	54.5	57.4	53.3	52.9	53.3	53.4	53.5	53.7
Nonhydrocarbon	4.5	4.9	6.3	6.6	13.2	11.9	12.3	12.0	11.9	12.3
Total expenditure	33.5	31.0	35.3	39.3	55.9	49.1	47.9	46.7	46.1	45.7
Current	13.9	13.4	14.1	15.4	28.2	25.3	24.9	24.7	24.6	24.5
Capital	19.7	17.6	21.1	23.9	27.7	23.8	23.0	22.0	21.5	21.2
Overall budget balance	29.4	31.4	25.5	24.6	10.6	15.8	17.7	18.7	19.3	20.2
Nonhydrocarbon balance (deficit -)	-29.1	-26.2	-29.0	-32.7	-42.6	-37.2	-35.6	-34.6	-34.2	-33.5
Consumption 1/	31.4	34.5	37.0	30.2	46.1	42.0	40.9	40.6	40.4	40.2
Private	20.4	24.0	25.2	20.9	30.4	27.9	27.1	26.9	26.8	26.8
Public	11.1	10.5	11.7	9.3	15.8	14.1	13.8	13.8	13.6	13.5
Gross Domestic Investment	24.0	20.7	25.0	27.9	34.2	31.2	31.2	31.2	31.7	32.5
Private	4.6	4.0	5.2	5.9	8.7	9.3	10.0	11.0	12.0	13.0
Public	19.4	16.7	19.8	22.0	25.5	21.9	21.1	20.2	19.7	19.5
Gross savings 1/	62.9	65.3	65.6	68.6	50.9	54.7	57.2	58.6	58.8	59.7
Private	16.7	18.1	18.5	20.0	12.6	15.1	16.5	17.8	18.1	18.2
Public	49.1	49.0	46.6	48.5	38.3	39.6	40.7	40.7	40.8	41.4
Saving/investment gap	38.9	44.6	40.7	40.7	16.8	23.5	26.0	27.4	27.1	27.2
Real per capita private consumption (in Libyan Dinars)	2,221	3,082	3,618	3,462	3,222	3,401	3,453	3,615	3,769	3,913

Sources: Libyan authorities; and Fund staff estimates and projections.
1/ The shift in the distribution of consumption (and savings) between the public and the private sectors in 2008 reflects mostly transfers under the Wealth Distribution Program.

Table 6. Libya: Financial Soundness Indicators, 2005-2008 1/

	2005	2006	2007	2008
Core set:				
Regulatory capital to risk weighted assets	19.1	17.2	17.6	16.2
Nonperforming loans net of provisions to capital	76.2	57.3	50.2	40.5
Nonperforming loans to gross loans	32.0	25.4	24.9	20.2
Return on assets	1.0	1.2	1.2	1.3
Retun on equity	18.6	22.2	26.6	32.9
Liquid assets to total assets	56.8	57.9	67.9	73.4
Liquid assets to short-term liabilities	107.6	104.3	117.2	124.0
Net open position in foreign exchange to capital	170.9	175.0	127.6	164.8
Encourged set:				
Capital to assets	6.0	5.8	4.4	3.8
Foreign currency dominated asseets to total liabilities	0.3	0.4	0.1	0.3

Source: Central Bank of Libya
1/ FSIs need to be interpreted with caution due to remaining deficiencies in banks' implementation of International Financial Reporting Standards. The figures are for the largest five banks representing 95 percent of total commercial banks' assets in 2008

INTERNATIONAL MONETARY FUND

THE SOCIALIST PEOPLE'S LIBYAN ARAB JAMAHIRIYA

2009 Article IV Consultation

Informational Annex

Prepared by the Middle East and Central Asia Department
(in consultation with other departments)

July 20, 2009

Contents Page

ANNEX I. LIBYA: FUND RELATIONS
(As of May 31, 2009)

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

II.	**General Resources Account:**	**SDR Million**	**Percent of Quota**
	Quota	1,123.70	100.00
	Fund holdings of currency	728.18	64.80
	Reserve position in Fund	395.53	35.20

III.	**SDR Department:**	**SDR Million**	**Percent of Allocation**
	Net cumulative allocation	58.77	100.00
	Holdings	588.11	1000.68

IV. **Outstanding Purchases and Loans:** None

V. **Latest Financial Arrangements:** None

VI. **Projected Obligations to Fund:** None

VII. **Exchange Rate Arrangement:**

On January 1, 2002, the authorities adopted a conventional fixed peg to the SDR at a rate of LD 1 = SDR 0.608. In June 2003, the exchange rate was devalued by 15 percent to LD 1 = SDR 0.5175. From February 14, 1999 to December 31, 2001, a dual exchange rate system was in place, with an "official" exchange rate pegged to the SDR, and a "special" exchange rate pegged to the U.S. dollar.

VIII. **Exchange System:**

In June 2003, the authorities eliminated the restrictions that gave rise to multiple currency practices. Libya accepted its obligations under Article VIII, Sections 2(a), 3, and 4 of the Articles of Agreement in June 2003.

IX. **Article IV Consultation:**

Libya is on a 12-month consultation cycle. The last Article IV staff report (SM/08/302) was discussed by the Executive Board in July 2008

X. **Technical Assistance:**

1. August 2001: MAE mission in monetary operations, banking supervision, and payment system.

2. December 2003: Two-week course on financial programming (INS and MCD).

3. February 2004: FAD mission on strengthening tax policy and revenue administration.

4. May 2004: MFD mission on monetary policy operations and introduction of financial instruments and markets.

5. June 2005: MFD mission on financial sector reform including bank restructuring.

6. June 2005: STA multisector mission on government finance statistics (GFS) and national accounts statistics (first part).

7. July 2005: FAD mission on reform of tax and customs directorates.

8. August/September 2005: STA multisector statistics on monetary and balance of payments statistics (second part).

9. Missions by Middle East Technical Assistance Centre (METAC) on banking supervision (May, July, August, and September 2005)

10. April 2006: FAD mission on Public Financial Management Reform.

11. June 2006: Posting of a long-term resident advisor on national accounts.

12. Two missions by METAC on banking supervision (May and August 2006).

13. Two follow-up missions by METAC on tax administration reform (August and December 2006).

14. October/November 2006: MCM and LEG mission to complete the standard review of the foreign exchange system under the Fund's Article VIII.

15. February 2007: A METAC follow-up mission on balance of payments statistics.

16. February/March 2007: Preliminary MCM mission on modernization and restructuring of the Central Bank of Libya.

17. March 2007: Two METAC missions on review of consumer price index statistics, and establishing producer price statistics, respectively.

18. July 2007: MCM mission on Sovereign Asset and Reserve Management, Monetary Policy Operations and Central Bank Accounting and Auditing.

19. November 2007: MCM mission on modernization and restructuring of the Central Bank of Libya.

20. January/February 2008: A METAC follow-up mission on balance of payments statistics.

21. February/March 2008: MCM mission on monetary operations.

22. November 2007–April 2008: Three missions by METAC on banking supervision.

23. October 2008: MCM Multi-topic Central Bank modernization mission.

24. March/April 2009: MCM mission on Modernization of the Central Bank of Libya.

ANNEX II. LIBYA: RELATIONS WITH THE WORLD BANK GROUP

Prepared by the World Bank staff

(As of July 10, 2009)

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

2. In 2007, a Technical Cooperation Agreement was signed between the Bank and the Government of Libya, with a total budget of $1 million contributed jointly by the two parties. The Agreement funds a Joint Economic Advisory Program, geared to support and further Libya's reform process, covering the period of July 1, 2007 to June 30, 2008. Activities were launched in the areas of an Investment Climate Assessment, Business and Legal Environment, and support for the development of the Libya Vision 2025. A Public Expenditure Review (PER) was also launched in August 2007, with the main mission taking place in November 2007. Completion of the first draft of the document took place in October 2008. Then, a high level seminar, attended by the entire Economic and Social Cabinet took place in December 2008. After introducing written comments from all ministries and entities, the final version of the PER was delivered to the Authorities in April 2009 for their final clearance. The PER benefits from multiple inputs by IMF staff. The IMF also had active participation in the December 2008 high level seminar.

3. Two other high-level workshops were held in 2008. The first one was on "Libya in Transition." It covered the economic strategy, oil revenue management and social transfers. The second was on "Topics of Private Sector Development" and had an active participation from the private sector.

4. A Bank mission took place in March 2008 to introduce the new Director of the Maghreb Department to the Libyan authorities, and to discuss the future work program with the country. The authorities communicated their desire to proceed with many of the recommendations derived from the PER work, but that it should take into account recent developments (the March 2, 2008 decision to reorganize the government).

5. Several activities are ongoing during CY2009: a) completion of the Public Expenditure Review; b) TA support on WTO accession, review of business regulations, and preparation of an Investment Climate Assessment; c) review and update of the 2007–2008 Memorandum of Understanding (MOU), with the new MOU covering the period 2009-11; and d) work on a new area providing TA on statistical capacity building and surveys.

Annex III. Libya: Statistical Issues

As of July 10, 2009

I. Assessment of Data Adequacy for Surveillance

General: Data provision has some shortcomings, but is broadly adequate for surveillance. Weaknesses remain in (i) the conceptual and compilation procedures underpinning the collection of statistics in the various sectors; (ii) deficiencies in coverage, periodicity, and timeliness; (iii) lack of consistency of data across sectors; and (iv) with the exception of monetary data, lack of a reporting system to facilitate updating MCD's operational database between missions. These issues are compounded by institutional weaknesses, the lack of interagency cooperation, the proliferation of agencies with unclear and often overlapping responsibilities, and unclear demarcation of responsibilities between agencies.

In 2005 a multisector mission examined the conceptual and compilation procedures for national accounts, price indices, foreign trade, money and banking, and government finance statistics. It developed recommendations for improvement in these systems, and encouraged Libya to join the General Data Dissemination System (GDDS). Libya could benefit from participation in the GDDS as a framework to improve its macroeconomic statistics and coordination among the institutions that compile them.

National Accounts: Some progress has been made in the compilation of GDP statistics by economic activity through 2004, based on the *1968 System of National Accounts*. However, the compilation process is hampered by high staff turnover and significant delays in the receipt of basic data from various sources, particularly other government agencies. In addition, many of the surveys are outdated. Annual data up to 2002 were reported to STA in 2004 and published in the *International Financial Statistics* (*IFS*); however, the estimates are not fully consistent with other data sets. A new household survey was finalized in 2003.

To improve the national accounts, the 2005 STA mission made several recommendations including: (i) establishing a National Statistical Agency to produce and disseminate official statistics and coordinate the national statistical program; (ii) creating a National Statistical Council as a legally empowered interagency coordination committee to oversee compilation of national accounts statistics; (iii) transferring responsibility for the national accounts from the National Planning Council to the Census and Statistical Department of the National Information and Documentation Agency (NIDA) and creating 6–10 additional permanent staff positions; (iv) prioritizing implementation of the *1993 System of National Accounts* and outlining entailed data requirements; (v) improving the questionnaires used for the construction and manufacturing surveys; (vi) initiating regular surveys of major services, agricultural output, and public and private construction; and (vii) improving estimates for transport, storage, and communication companies.

STA appointed a resident national accounts statistics advisor to assist in implementing STA recommendations in particular, and to improve the national accounts in general. The assignment, which began in June 2006, was for one year and renewed for another year upon the request of the authorities. The advisor focused on identifying new data sources and establishing a system to collect the necessary data. He also coordinated the formation of several technical committees to guarantee that the data obtained by national accounts compilers are consistent with the data compiled by other agencies. The advisor concluded his work in June 2008 and the authorities produced revised national accounts statistics.

Price statistics: The consumer price index (CPI) is based on weights derived from the 1992–93 household budget survey, covers only Tripoli, has 1999 as reference year, and is compiled from 2000 onwards. A new index based on a 2003 household budget survey is compiled since 2007. Both of these indices are available with a one-month lag and published on the Central Bank of Libya (CBL) website. A new household expenditure survey is being conducted between November 2007 and October 2008. The expenditure data will be used to update the CPI and further expand its geographic coverage to include eight urban and rural areas. The official index is now based on the 2003 household survey. An updated and expanded CPI with weights derived from the 2008 household budget survey is planned to be released in January 2010. Furthermore, a producer price index

(PPI) is being established in collaboration with STA and is expected to be released in 2010.

Government finance statistics: The fiscal information system remains fragmented and inconsistent with international standards in many aspects, since it was designed for administrative reporting under the government finance law, rather than for purposes of providing timely statistical information for economic planning and analysis.

To improve the fiscal data, the 2005 STA mission recommended: (i) adopting centralized management of all budgetary central government accounts at the ministry of finance; (ii) expanding coverage of central government accounts by including extra budgetary and local government operations; (iii) developing GFS metadata on concepts, scope, classifications, basis of recording, data sources, and statistical techniques for posting on the GDDS website; (iv) adopting the Fund's *2001 Government Finance Statistics Manual (GFSM)* as a coherent methodological framework for the production and dissemination of monthly, quarterly, and annual fiscal data. This would promote the recording of all assets and liabilities on accrual basis and at market values. To this end, STA has trained two CBL staff, one in 2007 and one in 2008.

Monetary statistics: While the timeliness and quality of monetary data reported for IFS have improved significantly, some methodological deficiencies remain. To enhance monetary and financial statistics, the STA missions in 2005 and 2007 made the following recommendations: (i) reclassify Libyan Foreign Bank (LFB) as a resident financial institution under other depository corporations and include LFB in the institutional coverage of the monetary survey; (ii) adopt market-based valuation of financial instruments and accrual accounting procedures for adding accruing interest to the outstanding amount of the instrument; (iii) revalue CBL's holdings of monetary gold at end-period market prices; (iv) identify all Fund-related accounts in the CBL's balance sheet as per IMF Finance Department guidelines; (v) if specialized credit institutions start issuing deposit liabilities, reclassify these institutions as other depository corporations and include them in the institutional coverage of the monetary survey; and (vi) revise/develop report forms for banks that would contain a breakdown of positions by currency of denomination, financial instrument, residency, and economic sector of counterparty consistent with the structure of the Standardized Report Forms. The CBL is currently in the process of improving classification and revising the monetary survey.

Balance of payments: Since 2000 annual balance of payments data have been regularly reported to STA in the *BPM5* format. As part of the Middle East Regional Technical Assistance Center's (METAC) work program, a long-term Regional Statistics Advisor (RSA) was appointed to help strengthen external sector statistics and to provide assistance either directly or through backstopping short-term experts. The main objective is to set up a compilation program for quarterly balance of payments statistics and for international investment position statistics by the end of 2009.

The METAC mission that visited Tripoli in 2008 found that the implementation of most recommendations was pending. The majority of the surveys of the nonbank sector and the recommendation on the interagency committee on foreign trade statistics are yet to be implemented. The need for the National Oil Company (NOC) to provide more detailed information on its import/export transactions, and for customs to address recording issues on the customs declarations forms are among the critical recommendations that require decisive action. While recognizing the importance of introducing provisions in the Bank Law for mandatory reporting by all resident sectors of data needed for compilation of balance of payments, and for increasing staff resources for balance of payments compilation, the mission noted that the current staff was equipped with the basic skills for implementing the work program agreed with METAC.

To further improve the balance of payments statistics, the 2009 RSA mission made the following recommendations: (i) continue increasing resources; (ii) institutionalize regular coordination meetings of the CBL with the General Authority of Information, and the Customs Authority to ensure consistency of external trade data among all agencies; (iii) ensure that transactions of the central bank and transactions on behalf of the Government are entered into the balance of payments statement based on the source data instead of the currently employed ad-hoc estimates; (iv) apply the internationally accepted standards in defining residency of the Libyan Foreign Bank. In addition, balance of payments data for 2002-2007 have been reviewed and adjustments were made where needed. The mission commended the authorities for their interest in participating in the Coordinated Direct Investment Survey, but expressed concern over the delay in external trade data and

the fact that the committee for reviewing the foreign trade statistics constituted by the General Secretariat of the Popular Committee ceased to exist. **International Investment Position (IIP):** Data on official reserves are available on the central bank's website and in the balance sheet of the Libyan Investment Authority. However, data on government's external debt and lending are incomplete and the compilation of a comprehensive IIP is also hindered by the lack of reliable information on the corporate and household sectors' net foreign position. The authorities are enhancing capacity to overcome these shortcomings.

II. Data Standards and Quality	
Not a General Data Dissemination System participant.	No data ROSC is available.

Libya: Table of Common Indicators Required for Surveillance
(As of July 9, 2009)

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange rates	April 2009	May 2009	M	M	M
International reserve assets and reserve liabilities of the monetary authorities[1]	March 2009	May 2009	M	M	M
Reserve/base money	March 2009	May 2009	M	M	M
Broad money	March 2009	May 2009	M	M	M
Central bank balance sheet	March 2009	May 2009	M	M	M
Consolidated balance sheet of the banking system	March 2009	May 2009	M	M	M
Interest rates[2]	March 2009	May 2009	M	M	M
Consumer price index	March 2009	May 2009	M	M	M
Revenue, expenditure, balance and composition of financing[3]—general government[4]	Dec. 2008	May 2009	A	A	A
Revenue, expenditure, balance and composition of financing[3]—central government	Dec. 2008	May 2009	A	A	A
Stocks of central government and central government-guaranteed debt[5]	Dec. 2008	May 2009	A	A	A
External current account balance	2008	May 2009	A	A	A
Exports and imports of goods and services	2008	May 2009	A	A	A
GDP/GNP	2008	May 2009	A	A	A
Gross external debt			NA	NA	NA
International Investment Postion[6/]			NA	NA	NA

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates and money market rates.
[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.] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).

INTERNATIONAL MONETARY FUND
Public Information Notice

EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 09/xx
FOR IMMEDIATE RELEASE
[Month, dd, yyyy]

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

IMF Executive Board Concludes 2009 Article IV Consultation with theSocialist People's Libyan Arab Jamahiriya

On August 5, 2009, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Socialist People's Libyan Arab Jamahiriya.[1]

Background

Libya's overall macroeconomic performance in 2008 was strong. Real GDP grew by about 3.8 percent in 2008. However, non-oil growth was broad-based and estimated at 8 percent. Oil output increased slightly at the first three quarters of the year then declined in the last quarter in line with OPEC's decision to reduce quotas. As a result, production for the year as a whole was similar to its 2007 level. Inflation rose in 2008 to about 10 percent due to higher international commodity prices and a marked increase in public expenditure.

The fiscal surplus remained at about 25 percent of GDP in 2008. Revenue increased by about 37 percent due to higher oil prices and enhanced tax administration. At the same time, overall expenditure rose by an estimated 45 percent, reflecting large increases in both current and capital outlays. Spending under the Wealth Distribution Program (WDP) was limited to LD 3.3 billion (equivalent to about 3 percent of GDP), compared to LD 4.6 billion approved in the budget

---

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. This PIN summarizes the views of the Executive Board as expressed during the August 5, 2009 Executive Board discussion based on the staff report.

The 2009 budget envisages a small nominal decline in public expenditure, putting an end to three years of large fiscal expansion. The small decline in overall expenditure reflects a 20 percent reduction in capital spending and a 25 percent increase in current outlays, which includes a 16 percent projected increase in the wage bill. The latter is due in large part to the return to the civil service payroll of a portion of the public employees that were previously transferred to a central labor office for retrenchment to the private sector. The overall fiscal position is expected to register a surplus of about 10 percent of GDP in 2009 despite the projected decline in oil revenue by almost 40 percent.

The external current account surplus remained high at about 41 percent of GDP in 2008. The rapid increase in imports (about 30 percent) was more than offset by a sharp rise in oil receipts, resulting in a further build up of the net foreign assets of the Central Bank of Libya (CBL) and the Libyan Investment Authority (LIA) to about $136 billion.

Broad money growth accelerated to about 48 percent in 2008, reflecting the substantial increase in net foreign assets and the rapid increase in public expenditure, including on-lending by the SCIs. The latter accounted for almost 50 percent of outstanding credit. Bank credit to the economy increased by about 12.5 percent. Bank deposits rose by about 65 percent. They mostly constitute of demand deposits of public entities.

Bank restructuring and privatization are making progress. An asset management company to deal with bad loans has been established, capital requirements are being raised, and smaller banks are being encouraged to seek well-established foreign strategic partners. The CBL licensed two new banks with foreign participation. In addition, the authorities privatized 15 percent of one of the remaining two large public banks by issuing an IPO.

Progress has been made in customs and tax administration. Large tax payers offices have been established and customs inspection is being automated. However, the “service fee” on imports has been increased from 4 to 10 percent, and other ear-marked fees remain in place.

Executive Board Assessment

Executive Directors welcomed Libya’s solid macroeconomic performance and the important progress in implementing structural reforms, particularly in the financial sector. The impact of the global crisis on Libya has been limited to declines in oil revenue, and non-oil growth has remained buoyant. Libya’s medium-term outlook continues to be favorable. Directors underscored the importance of further efforts to address excess liquidity, improve public financial management, and advance structural reforms that would support the authorities’ aim to diversify the economy away from oil and promote the role of the private sector.

Directors noted that the authorities’ overall fiscal stance strikes an appropriate balance between short- and long-term considerations, and that the small decline in public expenditure planned for 2009 is a clear break with the large increases in recent years. They encouraged stronger efforts to improve the quality and composition of expenditure, and limit the growth of current expenditure. Directors welcomed the authorities' decision to postpone the implementation of the Wealth Distribution Program.

Directors considered it crucial to advance the efforts to strengthen public financial management. The recent merging of the ministries of finance and planning is an important step in this direction. Directors endorsed the government's intention to establish a Treasury Single Account to enhance cash management and expenditure control and to improve coordination of fiscal and monetary policies. Going forward, modernizing the budget's legal and administrative framework to reduce extra-budgetary funds would enhance budget transparency and effectiveness. Directors encouraged the authorities to continue to enhance the legal and operational framework of the Libyan Investment Authority. To best serve its core objectives, the focus should be on conservative investments abroad.

Directors welcomed the intention of the Central Bank of Libya (CBL) to extend the maturities range of its certificates of deposit and develop an auction mechanism for them. The ongoing efforts to modernize the CBL and enhance the payments system will establish the infrastructure to support the design and implementation of monetary policy. To address large excess liquidity in the banking system, priority should be accorded to establishing quickly the Treasury Single Account and reducing on-lending by specialized credit institutions.

Directors commended the advances made in bank privatization and restructuring. In particular, they welcomed the recent establishment of an asset management company to deal with bad loans, and the partial privatization of the largest public bank. Directors welcomed the ongoing efforts to further enhance supervisory reporting, on-site supervision techniques, and regulations and standards.

Directors agreed that the dinar's peg to the SDR continues to serve Libya well. They noted that, while the dinar appears to be moderately overvalued, this is likely to be partly transitory in view of the projected decline in the external current account surplus.

Directors recognized the considerable progress achieved in liberalizing and opening the economy, supported by Fund technical assistance. They encouraged continued efforts to enhance the regulatory framework in order to further improve the business climate and promote private sector activity. The welcome strengthening in customs and tax administration needs to be accompanied by low corporate tax and customs rates, with few brackets and limited exemptions.

Directors encouraged the authorities to continue to improve economic and financial statistics.

.
Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Libya: Basic Economic and Financial Indicators, 2005-08
(Quota = SDR 1,123.7 million)
Population (million): 6.04 million (2007)
Per capita GDP: US$14,479 (2008)

	2005	2006	2007	2008 Prel.
	(Annual percent changes)			
National income and prices				
Real GDP	9.9	5.9	6.0	3.8
Nonhydrocarbons	13.6	7.9	9.9	8.0
Hydrocarbon	7.2	4.3	2.8	0.0
CPI inflation	2.9	1.4	6.2	10.4
	(In percent of GDP)			
Central government finance				
Revenue	62.9	62.4	60.8	64.0
of which : Hydrocarbons	58.5	57.5	54.5	57.4
Nonhydrocarbon	4.5	4.9	6.3	6.6
Expenditure and net lending	33.5	31.0	35.3	39.3
Current	13.9	13.4	14.1	15.4
Capital	19.7	17.6	21.1	23.9
Overall fiscal balance	29.4	31.4	25.5	24.6
Nonhydrocarbon balance (deficit -)	-29.1	-26.2	-29.0	-32.7
	(Annual percent changes, unless otherwise specified)			
Monetary indicators				
Broad money	10.6	16.0	40.1	47.8
Deposit rates (1 year deposits, in percent)	4.5	4.5	4.5	4.5
Claims on the economy	7.7	11.6	14.5	12.5
	(In billions of dollars, unless otherwise specified)			
External sector				
Exports of goods	31.4	39.2	47.0	62.0
of which: Hydrocarbons	30.5	38.2	45.8	60.7
Imports of goods	11.2	13.1	17.7	21.7
Current accounts balance	17.1	25.2	29.1	36.6
In percent of GDP	38.9	44.6	40.7	40.7
Total foreign assets (NFA + LIA investments)	54.3	74.8	98.3	136.1
of which: Net international reserves	38.4	52.7	48.5	49.4
(In months of next year's imports)	28.9	31.0	22.9	22.0
Real effective exchange rate (percent change)	-1.8	-0.6	-0.3	6.0

Sources: Libyan authorities; and Fund staff estimates.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 09/121
FOR IMMEDIATE RELEASE
September 21, 2009

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

IMF Executive Board Concludes 2009 Article IV Consultation with the Socialist People's Libyan Arab Jamahiriya

On August 5, 2009, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Socialist People's Libyan Arab Jamahiriya.[1]

Background

Libya's overall macroeconomic performance in 2008 was strong, with real GDP growing by about 3.8 percent. However, non-oil growth was broad-based and estimated at 8 percent. Oil output increased slightly at the first three quarters of the year then declined in the last quarter in line with OPEC's decision to reduce quotas. As a result, production for the year as a whole was similar to its 2007 level. Inflation rose in 2008 to about 10 percent due to higher international commodity prices and a marked increase in public expenditure.

The fiscal surplus remained at about 25 percent of GDP in 2008. Revenue increased by about 37 percent due to higher oil prices and enhanced tax and customs administration. At the same time, overall expenditure rose by an estimated 45 percent, reflecting large increases in both current and capital outlays. Spending under the Wealth Distribution Program (WDP) was limited to LD 3.3 billion (equivalent to about 3 percent of GDP), compared to LD 4.6 billion approved in the budget

The 2009 budget envisages a small nominal decline in public expenditure, putting an end to three years of large fiscal expansion. The small decline in overall expenditure reflects a 20

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. This PIN summarizes the views of the Executive Board as expressed during the August 5, 2009 Executive Board discussion based on the staff report.

Washington, D.C. 20431 • Telephone 202-623-7100 • Fax 202-623-6772 • www.imf.org

percent reduction in capital spending and a 25 percent increase in current outlays, which includes a 16 percent projected increase in the wage bill. The latter is due in large part to the return to the civil service payroll of a portion of the public employees that were previously transferred to a central labor office for retrenchment to the private sector. The overall fiscal position is expected to register a surplus of about 10 percent of GDP in 2009 despite the projected decline in oil revenue by almost 40 percent.

The external current account surplus remained high at about 41 percent of GDP in 2008. The rapid increase in imports (about 30 percent) was more than offset by a sharp rise in oil receipts, resulting in a further build up of the net foreign assets of the Central Bank of Libya (CBL) and the Libyan Investment Authority (LIA) to about US$136 billion.

Broad money growth accelerated to about 48 percent in 2008, reflecting the substantial increase in net foreign assets and the rapid increase in public expenditure, including on-lending by the Specialized Credit Institutions(SCIs). The latter accounted for almost 50 percent of outstanding credit. Bank credit to the economy increased by about 12.5 percent. Bank deposits rose by about 70 percent. They mostly constitute of demand deposits of public entities.

Bank restructuring and privatization are making progress. An asset management company to deal with bad loans has been established, capital requirements are being raised, and smaller banks are being encouraged to seek well-established foreign strategic partners. The CBL licensed two new banks with foreign participation. In addition, the authorities privatized 15 percent of one of the remaining two large public banks by issuing an IPO.

Progress has been made in customs and tax administration. Large taxpayers offices have been established and customs inspection is being automated. However, the “service fee” on imports has recently been increased from 4 to 10 percent, and other ear-marked fees remain in place.

Executive Board Assessment

Executive Directors welcomed Libya’s solid macroeconomic performance and the important progress in implementing structural reforms, particularly in the financial sector. The impact of the global crisis on Libya has been limited to declines in oil revenue, and non-oil growth has remained buoyant. Libya’s medium-term outlook continues to be favorable. Directors underscored the importance of further efforts to address excess liquidity, improve public financial management, and advance structural reforms that would support the authorities’ aim to diversify the economy away from oil and promote the role of the private sector.

Directors noted that the authorities’ overall fiscal stance strikes an appropriate balance between short- and long-term considerations, and that the small decline in public expenditure planned for 2009 is a clear break with the large increases in recent years. They encouraged stronger efforts to improve the quality and composition of expenditure, and limit the growth of current expenditure. Directors welcomed the authorities’ decision to postpone the implementation of the Wealth Distribution Program.

Directors considered it crucial to advance the efforts to strengthen public financial management. The recent merging of the ministries of finance and planning is an important step in this direction. Directors endorsed the government's intention to establish a Treasury Single Account to enhance cash management and expenditure control and to improve coordination of fiscal and monetary policies. Going forward, modernizing the budget's legal and administrative framework to reduce extra-budgetary funds would enhance budget transparency and effectiveness. Directors encouraged the authorities to continue to enhance the legal and operational framework of the Libyan Investment Authority. To best serve its core objectives, the focus should be on conservative investments abroad.

Directors welcomed the intention of the Central Bank of Libya (CBL) to extend the maturities range of its certificates of deposit and develop an auction mechanism for them. The ongoing efforts to modernize the CBL and enhance the payments system will establish the infrastructure to support the design and implementation of monetary policy. To address large excess liquidity in the banking system, priority should be accorded to establishing quickly the Treasury Single Account and reducing on-lending by specialized credit institutions.

Directors commended the advances made in bank privatization and restructuring. In particular, they welcomed the recent establishment of an asset management company to deal with bad loans, and the partial privatization of the largest public bank. Directors welcomed the ongoing efforts to further enhance supervisory reporting, on-site supervision techniques, and regulations and standards.

Directors agreed that the dinar's peg to the Special Drawing Right (SDR) continues to serve Libya well. They noted that, while the dinar appears to be moderately overvalued, this is likely to be partly transitory in view of the projected decline in the external current account surplus.

Directors recognized the considerable progress achieved in liberalizing and opening the economy, supported by Fund technical assistance. They encouraged continued efforts to enhance the regulatory framework in order to further improve the business climate and promote private sector activity. The welcome strengthening in customs and tax administration needs to be accompanied by low corporate tax and customs rates, with few brackets and limited exemptions.

Directors encouraged the authorities to continue to improve economic and financial statistics.

.
Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Libya: Basic Economic and Financial Indicators, 2005-08
(Quota = SDR 1,123.7 million)
Population (million): 6.04 million (2007)
Per capita GDP: US$14,479 (2008)

	2005	2006	2007	2008 Prel.
	(Annual percent changes)			
National income and prices				
Real GDP	9.9	5.9	6.0	3.8
Nonhydrocarbons	13.6	7.9	9.9	8.0
Hydrocarbon	7.2	4.3	2.8	0.0
CPI inflation	2.9	1.4	6.2	10.4
	(In percent of GDP)			
Central government finance				
Revenue	62.9	62.4	60.8	64.0
of which : Hydrocarbons	58.5	57.5	54.5	57.4
Nonhydrocarbon	4.5	4.9	6.3	6.6
Expenditure and net lending	33.5	31.0	35.3	39.3
Current	13.9	13.4	14.1	15.4
Capital	19.7	17.6	21.1	23.9
Overall fiscal balance	29.4	31.4	25.5	24.6
Nonhydrocarbon balance (deficit -)	-29.1	-26.2	-29.0	-32.7
	(Annual percent changes, unless otherwise specified)			
Monetary indicators				
Broad money	10.6	16.0	40.1	47.8
Deposit rates (1 year deposits, in percent)	4.5	4.5	4.5	4.5
Claims on the economy	7.7	11.6	14.5	12.5
	(In billions of dollars, unless otherwise specified)			
External sector				
Exports of goods	31.4	39.2	47.0	62.0
of which: Hydrocarbons	30.5	38.2	45.8	60.7
Imports of goods	11.2	13.1	17.7	21.7
Current accounts balance	17.1	25.2	29.1	36.6
In percent of GDP	38.9	44.6	40.7	40.7
Total foreign assets (NFA + LIA investments)	54.3	74.8	98.3	136.1
of which: Net international reserves	38.4	52.7	48.5	49.4
(In months of next year's imports)	28.9	31.0	22.9	22.0
Real effective exchange rate (percent change)	-1.8	-0.6	-0.3	6.0

Sources: Libyan authorities; and Fund staff estimates.

Statement by Mr. Shaalan on The Socialist People's Libyan Arab Jamahiriya
Executive Board Meeting 09/85
August 5, 2009

1. Libya is implementing a comprehensive reform program driven by the Government's decision to move away from an ownership role in the economy to that of a prudent regulator. The entire economy is undergoing a restructuring, underpinned by widespread public support. The reform program—supported by technical assistance from international institutions, in particular the IMF—aims to diversify the economy away from oil and to promote the role of the private sector. Reflecting the shift in economic policies, a private investment boom is evident and the private sector's share in the economy is growing.

Recent Developments and Outlook

2. Prudent macro-economic and foreign exchange reserve management has shielded the economy from the recent global financial market turmoil. Real GDP grew at about 4 percent in 2008, reflecting stable oil production and robust growth in the non-oil sector. Non-oil growth was broad-based and estimated at around 8 percent of GDP, benefiting from normalization of international relations and heightened foreign investor interest in the banking, services, infrastructure and hydrocarbon sectors. Inflation, which had peaked in 2008 on account of rising imported commodity prices, receded to 3.2 percent (y-o-y) at end-May 2009. Net foreign assets increased from $54 billion in 2005 to $139 billion at end-June 2009, providing a comfortable reserve cover of 22 months of imports. Consistent with this strong external position, Libya has resumed participation in the Fund's Financial Transactions Plan for the first time since 1981.

3. The impact of the global crisis on Libya's economy has been limited to a reduction in the sizeable current account and budget surpluses of recent years, while the banking sector remains unaffected. The current account surplus will likely be half of its average size of 40 percent of GDP over the past four years as international oil prices and domestic production levels decline. Similarly, the fiscal surplus will decline from an average of 25-30 percent of GDP over the past four years to about 10 percent of GDP in 2009. While overall GDP growth may drop to 2 percent, non-oil growth is expected to only moderately decline to 6 percent in 2009 and to subsequently return to the range of 7-8 percent, driven by both public and private sectors investments.

Fiscal Developments and Policies

4. The fiscal stance strikes an appropriate balance between short-term and long-term considerations and it is in line with the absorptive capacity of the economy. The 2009 budget was prepared on the basis of an oil price of $45 per barrel and will register a large surplus in the event that current oil prices persist. A modest nominal increase in current expenditure is

planned; a 14 percent increase in the wage bill reflects the reclassification of some budgetary categories as no civil service wage increases were granted in 2009. Capital expenditure is to be significantly reduced by about one quarter from its 2008 levels consistent with the authorities' policy to rationalize public investment. With the establishment of the Libyan Investment Authority, budgetary expenditure in future years will continue to be consistent with the authorities' projections of medium-term fiscal sustainability.

5. Public financial management continues to be strengthened. To improve planning, monitoring and control, the Ministries of Planning and Finance have been merged and a decision has been taken to move to a Treasury Single Account (TSA) at the Central Bank of Libya (CBL). The new investment fund established in March 2009 will operate on purely commercial basis with the aim of crowding in the private sector by focusing on public-private partnerships and investing in sectors where the private sector has not yet been active. A decree was issued in 2008 to establish a sound regulatory framework for the Libyan Investment Authority, most of whose resources are invested abroad.

Monetary Developments and Policies

6. Monetary policy has been anchored by the dinar's peg to the SDR, and it has been primarily geared toward managing excess liquidity to ensure price stability. Rising public sector spending contributed to broad money growth of 48 percent in 2008. Bank deposits rose by about 50 percent, but bank credit to the economy expanded by only 12½ percent, mainly because substantial funds, obtained from budgetary transfers, are channeled through the public specialized credit institutions. Credit extended by these institutions has expanded by 30 percent in 2008, following a 60 percent annual increase in the previous three years. Lending by the specialized credit institutions and the large public deposits in commercial banks have posed a challenge for monetary policy management.

7. To help absorb the large liquidity overhang in banks, central bank certificates of deposit (CDs) were introduced in May 2008, and the authorities plan to expand the use of CDs, especially by offering a range of shorter maturities and to develop an auction mechanism for these CDs. When inflation subsided in 2009, the CBL reduced the rate on CDs by 50 basis points to 1.75 percent, along with reducing the rate on its discount facilities by 100 basis points (to 4 percent). With these declines, lending rates, currently about 6.5 percent, turned positive in 2009. In addition to improving the management of government deposits and payments, the planned move to a TSA and the reduction in budgetary allocation to specialized credit institutions in 2009 should lead to a significant reduction in excess liquidity in the system. Interbank and secondary markets will be developed after a settlement system for securities is introduced.

Financial Sector Developments and Policies

8. As earlier indicated, the banking system has been shielded from the impact of the global financial crisis. Domestic banks had no exposure to foreign risky assets. Commercial

bank profitability is increasing, partly reflecting interest on holdings at the central bank, and they are well capitalized, with overall capital adequacy at 16 percent. Although the ratio of nonperforming loans is relatively high compared with neighboring countries, at around 20 percent, it has steadily declined from 32 percent in 2005. An asset management company has been established to deal with bad loans and minimum capital requirements are being raised. As part of a bank restructuring and privatization program, private banks have been encouraged to find foreign strategic partners and two public banks have been privatized. In addition, a comprehensive study has been prepared to reform the specialized credit institutions.

9. A broad ranging program is under way to modernize the central bank that encompasses upgrading of the monetary policy framework, establishing a functional-based organizational structure, and strengthening bank supervision. The program includes reforms aimed at enhancing research, forecasting, and monetary policy implementation capabilities through modern human resource management and a new compensation system. In addition, measures are being implemented to enhance the operation of the payment system to strengthen the infrastructure for more effective monetary policy implementation. Supervision is being enhanced through improving regulations in line with international standards, enhancing bank reporting, strengthening skills, and on-site and off-site supervisory procedures. Work is under way to produce a financial stability report. Moreover, a credit bureau has been established.

Structural Reforms for Sustained Growth

10. Considerable progress has been made in liberalizing and opening the economy, including implementing a comprehensive privatization program of state enterprises, simplifying procedures for business applications, removing customs duties, liberalizing all prices (except for wheat, rice, and flour that are sold in cooperatives), removing restrictions on external trade, and allowing foreign investment in key sectors. More than a dozen new laws have been passed including property, wage, tax, investment, and competition laws.

11. The economy has been opened to both foreign and domestic private investment. These investments are taking place in the banking, hydrocarbon, real estate, tourism and transportation sectors. Also, thousands of small privately owned retail shops have opened. The private sector share in the economy is increasing and growth in the economy is mainly coming from the non-oil economy. Underpinning these changes, is a commitment to these reforms with the aim of maintaining and enhancing social justice and expanding prosperity for all its citizens.

12. The newly established Wealth Distribution Program (WDP) aims to share the oil wealth by providing citizens funds to purchase directly from the market certain services (such as health and education) that are currently being provided by the public sector. The intention was to facilitate a shift in the provision of services from the public to the private

sector. After in depth debates in the regional parliaments last February, however, a decision was taken to place the program on hold pending further more detailed study.