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The Socialist People's Libyan Arab Jamahiriya: 2006 Article IV Consultation—Staff Report; Staff Statement; 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 2006 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 2006 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on February 1, 2007, 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 April 3, 2007. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF;

- a staff statement of April 19, 2007 updating information on recent developments;

- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its April 20, 2007 discussion of the staff report that concluded the Article IV consultation; and

- 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.

Statistical Appendix

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

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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THE SOCIALIST PEOPLE'S LIBYAN ARAB JAMAHIRIYA

Staff Report for the 2006 Article IV Consultation

Prepared by the Staff Representatives for the 2006 Consultation with
The Socialist People's Libyan Arab Jamahiriya

Approved by Adam Bennett and Anthony R. Boote

April 3, 2007

- Discussions for the 2006 Article IV consultation were held in Tripoli during November 1–16, 2006, and January 29–February 1, 2007.
- The staff team comprised Messrs. Elhage (head), Abdoun, Hussein, and Aleisa.
- The mission met with Mr. Zlitni, Secretary of the General Planning Council, Secretary of Finance Menesi, Secretary of Planning Jehaimi, Secretary of Economy Saffi, Mr. Bengdara, Governor of the Central Bank of Libya (CBL), and other senior officials.
- Libya's acceptance of the obligations of Article VIII, Sections 2(a), 3, and 4 of the Fund's Articles of Agreement: staff's standard review of Libya's foreign exchange system is still in progress. Since January 2002, the Libyan dinar has been pegged to the SDR. In June 2003, the exchange rate was devalued by 15 percent to LD 1 = SDR 0.5175.
- Outreach activities: the mission gave a presentation at the General Planning Council on Libya's reform requirements and staff's recommendations.

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EXECUTIVE SUMMARY

1. **The Staff Report** for the 2006 Article IV consultation focuses on: (i) the impact of the fiscal loosening in 2007 on macroeconomic stability; (ii) strengthening public financial management and developing a strategy for an efficient use of hydrocarbon revenues; and (iii) the transformation and modernization of the banking system.

2. **Developments in 2006** were characterized by strong economic growth and large fiscal and external surpluses. Progress in structural reform included the elimination of most import monopolies and the partial liberalization of foreign direct investment (FDI) in the non-oil sector.

3. **Views of the authorities:** the country's comfortable financial position has generated strong social and political pressure to improve the country's social conditions and increase job creation. The authorities have decided to: (i) increase government spending by more than 50 percent in 2007, with a wage increase in the civil service of about 80 percent; (ii) establish the Libyan Investment Authority (LIA) to centralize oil revenue management; (iii) boost economic growth and job creation by investing LIA resources in strategic sectors; and (iv) transfer the public banks to the Social and Economic Development Fund (SEDF), with the mandate to privatize.

4. **Staff appraisal:** the discussions underscored the differences of view between staff and the authorities on the 2007 fiscal stance, oil revenue management, and bank restructuring.

- **Libya's medium-term financial outlook** is expected to remain strong, with large fiscal and external surpluses, and limited downside risks.

- **The loosening of fiscal conditions in 2007** poses a serious challenge to macroeconomic stability; staff's advice was to limit the wage increase in 2007 to 15 percent. Following the adoption of the budget, staff recommended granting the wage increase in four installments over an 18-month period; establishing a quarterly review of budget execution and strengthening project disbursement procedures; and developing a wage policy in line with productivity performance in the non-oil sector.

- **Hydrocarbon revenue management:** the LIA decree should be revised, and include rules for the accumulation and withdrawal of resources, and the establishment of operating and asset management regulations. Staff advises against using LIA resources to expand the public sector.

- **Exchange rate, money and bank restructuring:** the Libyan dinar's peg to the SDR has served Libya well and the rate of the peg has been broadly appropriate. In light of the envisaged fiscal expansion, the CBL should tighten monetary policy, and rely more on market-based monetary management. Libya's eventual move to greater exchange rate flexibility in the medium term should be gradual as the CBL will need to switch to indirect monetary management and develop expertise in managing foreign exchange markets. The CBL should reconsider its bank restructuring approach and establish an independent and specialized bank restructuring agency.

- **Structural reform:** actions that are needed to enhance private sector development include continuing trade reform, full liberalization of non-oil FDI, and increased labor market flexibility.

- Staff urges the authorities to **restructure the statistical system,** with priority given to the establishment of a National Statistical Council and the creation of a National Statistical Agency.

I. Introduction

1. **Libya is a hydrocarbon rich country, but has one of the least diversified economies in the Maghreb region and among the oil producing countries** (Table 1 and Figure 1). It has a long legacy of central economic management and excessive reliance on the public sector, and started its transition to a market economy in 2002, after ten years of international economic sanctions related to the Lockerbie bombing of 1988. Since then, Libya has made efforts to liberalize its economy and foreign trade,[1] achieving increasing economic growth while maintaining macroeconomic stability. The country's current comfortable financial situation provides an ideal opportunity to deepen structural reform, and accelerate the transition to a market economy. Libya's social indicators are favorable by Middle East and North Africa (MENA) standards (Table 2).

Table 1. Libya: Comparative Indicators, 2006

(In percent of GDP unless otherwise specified)

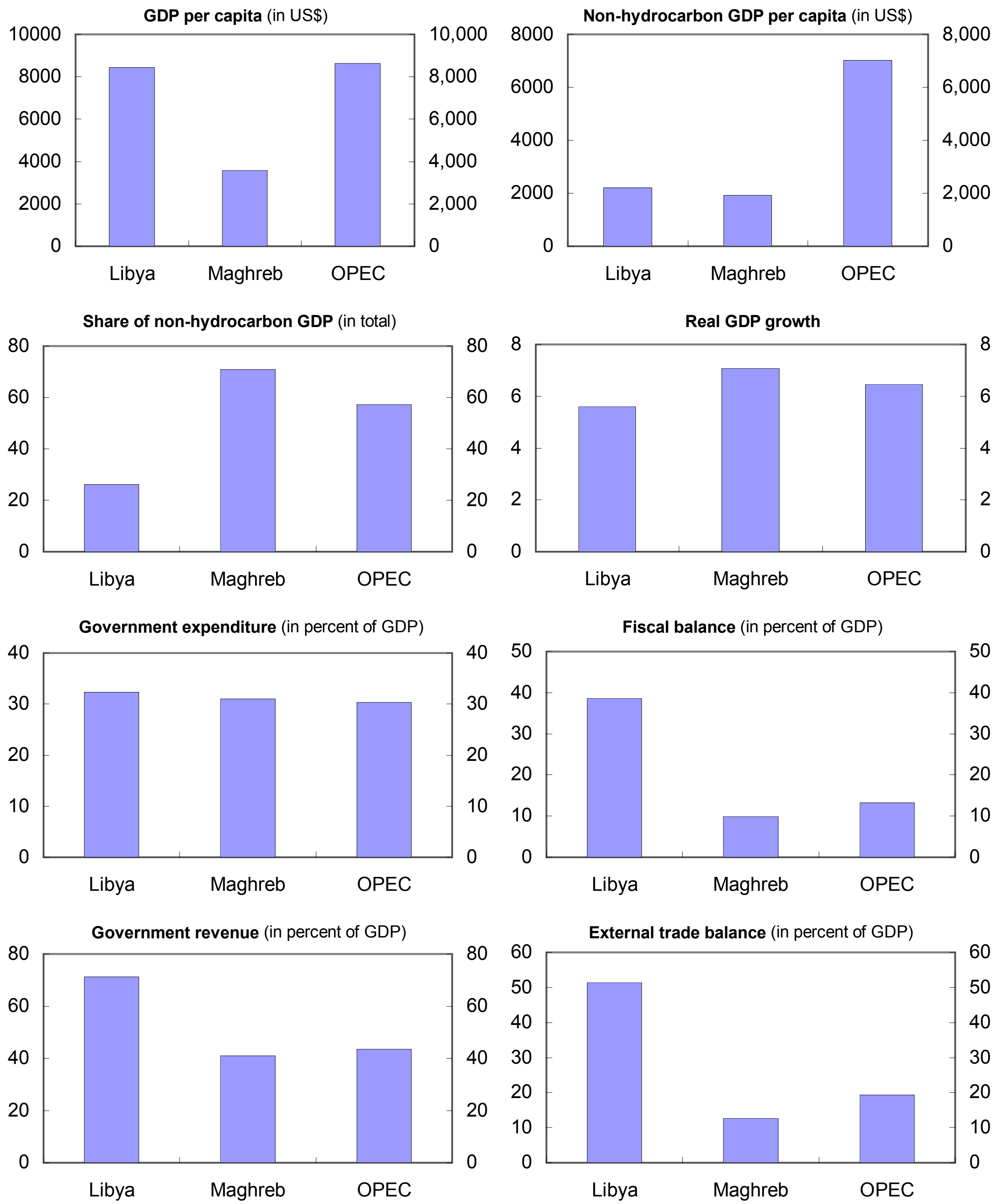
	Libya	Maghreb 1/	OPEC 2/ 3/
GDP per capita (in US$)	8,430	3,577	8,641
Non-hydrocarbon GDP per capita (in US$)	2,211	1,935	7,022
Share of non-hydrocarbon GDP (in total)	26.2	71.4	57.3
Real GDP growth	5.6	7.1	6.5
Government expenditure	32.3	31.1	30.3
Fiscal position (deficit -)	38.6	9.9	13.3
Government revenue	71.2	41.0	43.6
External trade balance (deficit -)	51.5	12.6	19.3

Sources: WEO; and Fund staff estimates.
1/ Maghreb: Algeria, Libya, Mauritania, Morocco, and Tunisia.
2/ OPEC: Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, UAE, and Venezuela.
3/ Excluding Iraq.

2. **The main political developments in 2006-07** include: (i) two cabinet reshuffles; (ii) the implementation of a major administrative reform that strengthens the role of the central government and aims to improve governance; and (iii) the reestablishment of full diplomatic relations with the United States.

[1] See IMF Country Report Nos. 06/136 and 05/83.

Figure 1. Libya: Comparative Indicators, 2006

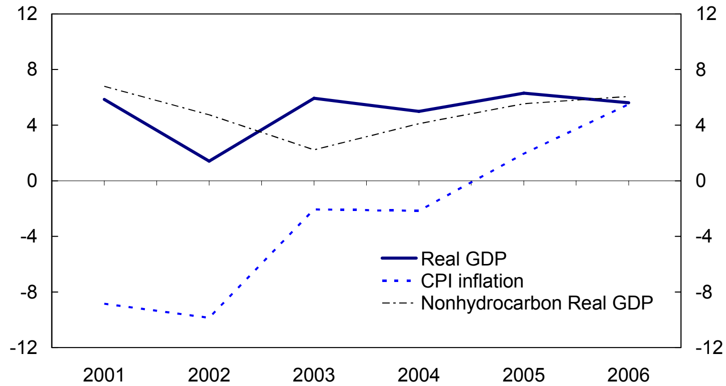


Sources: *World Economic Outlook* , 2006; and Fund staff estimates.

II. Developments in 2006

3. **In 2006, economic conditions continued to be satisfactory.** Real GDP grew about 5½ percent, reflecting an increase of 4½ percent in the value added of the hydrocarbon sector, and a buoyant non-oil economy (6 percent) boosted by increased government spending and the liberalization of the trade, service, and tourism sectors. However, preliminary end-year data indicate that annual CPI inflation accelerated in the last quarter reaching 7.2 percent (year on year) in December (Table 3 and Figure 2).

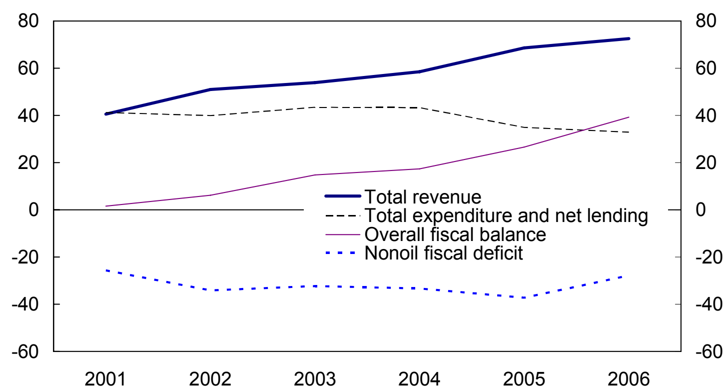
Figure 2. Libya: Real GDP and Inflation
(Annual changes in percent)



Sources: Libyan authorities; and Fund staff estimates.

4. **Based on preliminary data, the consolidated government operations** registered a record overall cash surplus of about 39 percent of GDP, owing to a substantial increase (of 25 percent) in hydrocarbon revenues. Non-oil revenue performance grew even faster at 33 percent, partly owing to the reform of tax and customs administration currently underway. Government spending increased by about 12 percent, owing to: (i) a marked increase in the wage bill (14 percent), reflecting new hiring in the regions, and an average increase of 60 percent in the wages of university teachers, doctors, and members of the security forces; and (ii) an improved execution of the development budget (87 percent). Development spending increased to about 17 percent of GDP, concentrated on infrastructure and construction (42 percent), social sectors (32 percent), and hydrocarbons (19 percent) (Table 4 and Figure 3).

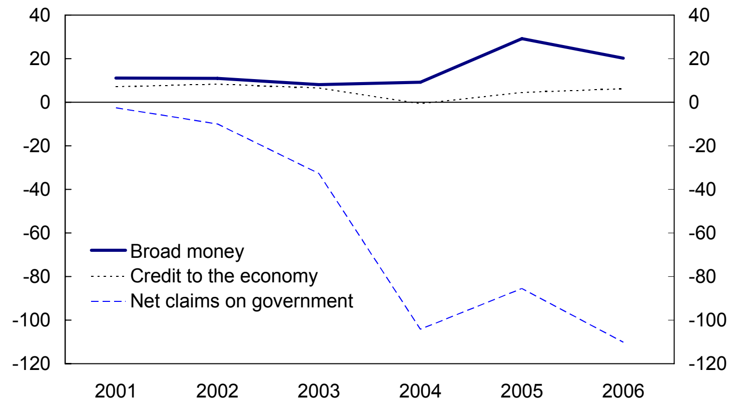
Figure 3. Libya: General Government Operations
(In percent of GDP)



Sources: Libyan authorities; and Fund staff estimates.

5. **Broad money grew by about 20 percent**, reflecting mainly the impact of the nominal increase in the non-oil fiscal deficit on money supply and a sustained increase in credit to public enterprises (of over 20 percent). Bank credit to the private sector grew about 7 percent, the highest growth rate since 2000 (Table 5 and Figure 4).[2]

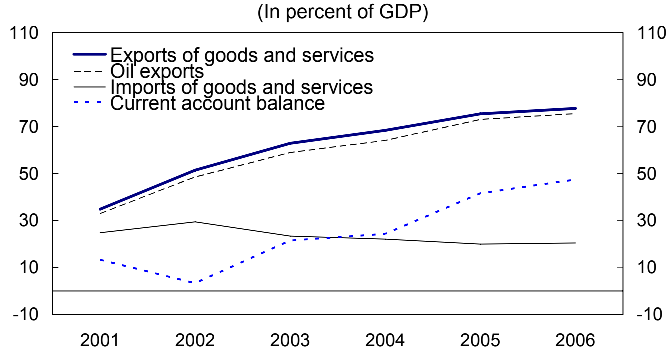
Figure 4. Libya: Monetary Indicators
(Annual changes in percent of beginning-of-the-year money stock)



Sources: Libyan authorities; and Fund staff estimates.

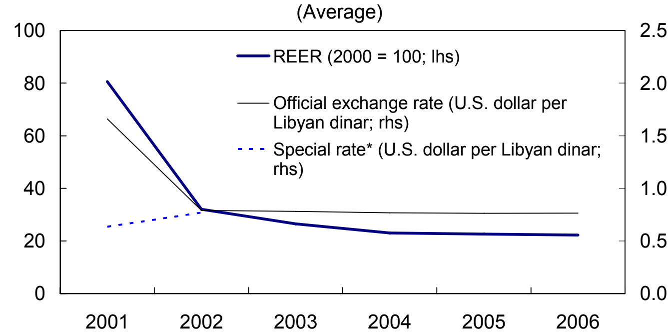
6. **On the external side,** the current account surplus is estimated to have reached about 48½ percent of GDP, reflecting the growth of hydrocarbon exports resulting from higher export prices and volumes. Import growth was robust (18 percent) reflecting rising domestic demand, including increased government spending. Gross international reserves reached about $59 billion (29 months of 2007 imports) (Table 6 and Figure 5), and the real effective exchange rate (REER), based on the official CPI, remained stable (Figure 6).

Figure 5. Libya: External Sector
(In percent of GDP)



Sources: Libyan authorities; and Fund staff estimates.

Figure 6. Libya: Exchange Rate Developments
(Average)



Sources: Libyan authorities; and Fund staff estimates.
*In February 1999, the parallel market rate was legalized for some transactions and called the "special" rate. The exchange rate was unified in January 2002.

7. **Structural reform continued with the implementation of a wide range of measures.** These reforms covered international trade and finance, banking and payments systems, fiscal management and taxation, and data collection (Box 1).

[2] In terms of GDP, bank credit to the private sector (15 percent) remains well below the level in Kuwait (59 percent), Tunisia (65 percent), Morocco (66 percent), and the UAE (70 percent).

Box 1. Libya: Measures Implemented in 2006

- Reduction of the floor on non-oil FDI from US$50 million to US$1.5 million.
- State import monopolies are limited to petroleum products and weaponry.
- Import bans for religious, health, and ecological reasons restricted to ten products.
- Merger of 21 regional banks and development of a plan to restructure the public commercial banks.
- Acceleration of efforts to strengthen banking supervision and modernize the payment system.
- Establishment of a Large Taxpayers Office (LTO).
- Establishment of the LIA to centralize oil revenue management.
- Reduction of the consumption tax to 15-25 percent, exemption of all intermediate goods from the consumption tax, and some capital and intermediate goods from the 4 percent import service fee.
- Opening of 51 offices across the country to expedite approval of business permits.
- Downward adjustment of electricity tariffs for domestic use by enlarging the lowest tariff's bracket.
- Establishment of a negative list for non-oil FDI limited to retail and wholesale trade, and importation.
- Issuance of a decree requiring that all FDI in the non-oil sector be undertaken through joint ventures with a minimum Libyan participation of 35 percent.
- The ministry of planning's national accounts unit has been reactivated, and field surveys have been developed.

III. Report on the Discussions

A. Medium-Term Outlook (2007-11)

8. **The discussions took place at a time when Libya is facing difficult challenges of transition.** Economic reform lacked a clear direction with: (i) the temptation to use the country's substantial oil revenues to expand the public sector, on the one hand; and (ii) on the other hand, the recognized need to further liberalize the economy, enhance private sector development, and improve the business climate.

9. **The authorities stressed that the country's comfortable financial position has generated strong social and political pressure to improve the country's social conditions and increase job creation.** The authorities have responded with decisions to: (i) more than double the minimum wage, and increase wages in the civil service (frozen since 1981) by about 80 percent on average; (ii) give public enterprises more autonomy in recruitment and

wage policy; (iii) launch a vast program of rehabilitation and enhancement of the economic and social infrastructure; and (iv) increase state intervention in strategic economic sectors.

10. **Staff urged the authorities to revise downward their budgetary appropriations for 2007,** stressing the short- and medium-term macroeconomic risks that the projected spending entails. Given the country's projected large fiscal surpluses and the inadequate coverage of basic social services, staff supported an increase in nonwage expenditure of 15 percent. Also, in view of the government's intention to cut the size of the civil service, and recognizing that government wages are low, staff supported an increase in wages of about 15 percent.

11. **The authorities elaborated only in general terms on their medium-term macroeconomic and policy framework.** In their view, Libya's medium-term economic outlook remains highly favorable, owing to the projected increase in hydrocarbon export volumes, and expected positive effects of public spending on economic growth and job creation. They stressed that they were not as concerned as staff about the macroeconomic implications of the 2007 budget, arguing that: (i) the nonwage appropriations, which have been increased by more than 50 percent, will certainly not be fully executed due to limited implementation capacity; (ii) the wage increase in the civil service will not spread to private enterprises, whose wages are already relatively high; and (iii) contrary to staff estimates, the inflationary impact of the wage increase would not exceed 10 percent, owing to the high import content of the consumers' basket. Staff argued that the CPI would increase by 15-20 percent in 2007,[3] even assuming an import content of the consumer basket of 70 percent.

12. **The authorities did not comment on staff's medium-term scenario** (2007-11). This assumes the return to a prudent policy stance starting in 2008 and slow progress in structural reform.[4] In particular, staff has assumed an average annual increase in expenditure of about 12 percent in 2008-11, consistent with the annual increases in 2005-06 and the economy's limited absorptive capacity.[5] As a result, the non-oil fiscal deficit is projected to average 32 percent of GDP, well below the ceiling for Libya's long-term sustainable non-oil

[3] Staff's estimate is based on: (i) a labor content of the non-oil GDP of 80 percent; and (ii) increases in the economy's average wage and import prices of 60 percent and 4 percent, respectively.

[4] Under this scenario: (i) the hydrocarbon sector is projected to grow 10 percent per year on average; (ii) growth of the non-oil economy is projected at 6 percent per year on average, mainly driven by fiscal stimulus; (iii) inflation would recede progressively after 2007 to stabilize around 4 percent by end-2011; and (iv) Libya will continue to accumulate large fiscal and external surpluses averaging 26 percent and 25 percent of GDP, respectively.

[5] Available data indicate that, in Libya, capital expenditure represents a larger share of GDP than in comparator countries, with a lower impact on economic growth, which may reflect low efficiency in government spending partly resulting from the economy's limited absorptive capacity.

fiscal deficit estimated by staff to be about 50 percent of GDP.[6] These projections underscore that Libya's medium-term financial outlook has only limited downside risks. In particular, even under an oil price US$15 a barrel below the WEO spot prices, the fiscal and external current account balances would still record large surpluses during the entire projection period (Figure 7).[7]

B. Fiscal Policy

13. **The 2007 budget, adopted in late January 2007, provides for total expenditure of about 42 percent of GDP, a nominal increase of 54 percent over the 2006 fiscal outturn.** The current budget has been increased by 25 percent, including a nonmilitary wage bill growing by about 60 percent; excluding the redundant staff who are kept on the payroll but will not receive the wage increase, the average wage increase is about 80 percent. The development budget, which has been increased by 73 percent, places a particular emphasis on the priority sectors of infrastructure, education, health, human resource development, and hydrocarbons. With an estimated total revenue of about 67 percent of GDP, the overall fiscal surplus is projected at about 25 percent of GDP, and the non-oil fiscal deficit at 34 percent of GDP.

14. **In order to implement the wage increase in the civil service,** the authorities have: (i) reduced the subsidies budget by about 23 percent; and (ii) developed a plan to streamline the civil service, including the termination of about 300,000 redundant staff out of a total of about 910,000 staff. Terminated staff will be granted severance packages, including the payment of their salaries during three years, free training, and access to subsidized loans to establish businesses. The authorities stressed that the wage increase will be effective only after the redundant staff have been officially terminated; a civil service census is currently in progress to that effect. Staff strongly recommended a gradual implementation of the wage increase.

15. **The authorities have established the LIA to centralize oil revenue management.** The LIA is under the authority of the office of the prime minister, and charged with the investment of the financial assets of six extrabudgetary funds.[8] It can invest domestically and abroad in a wide range of activities and its resources could be used to support the budget if oil prices drop below the budget oil price.

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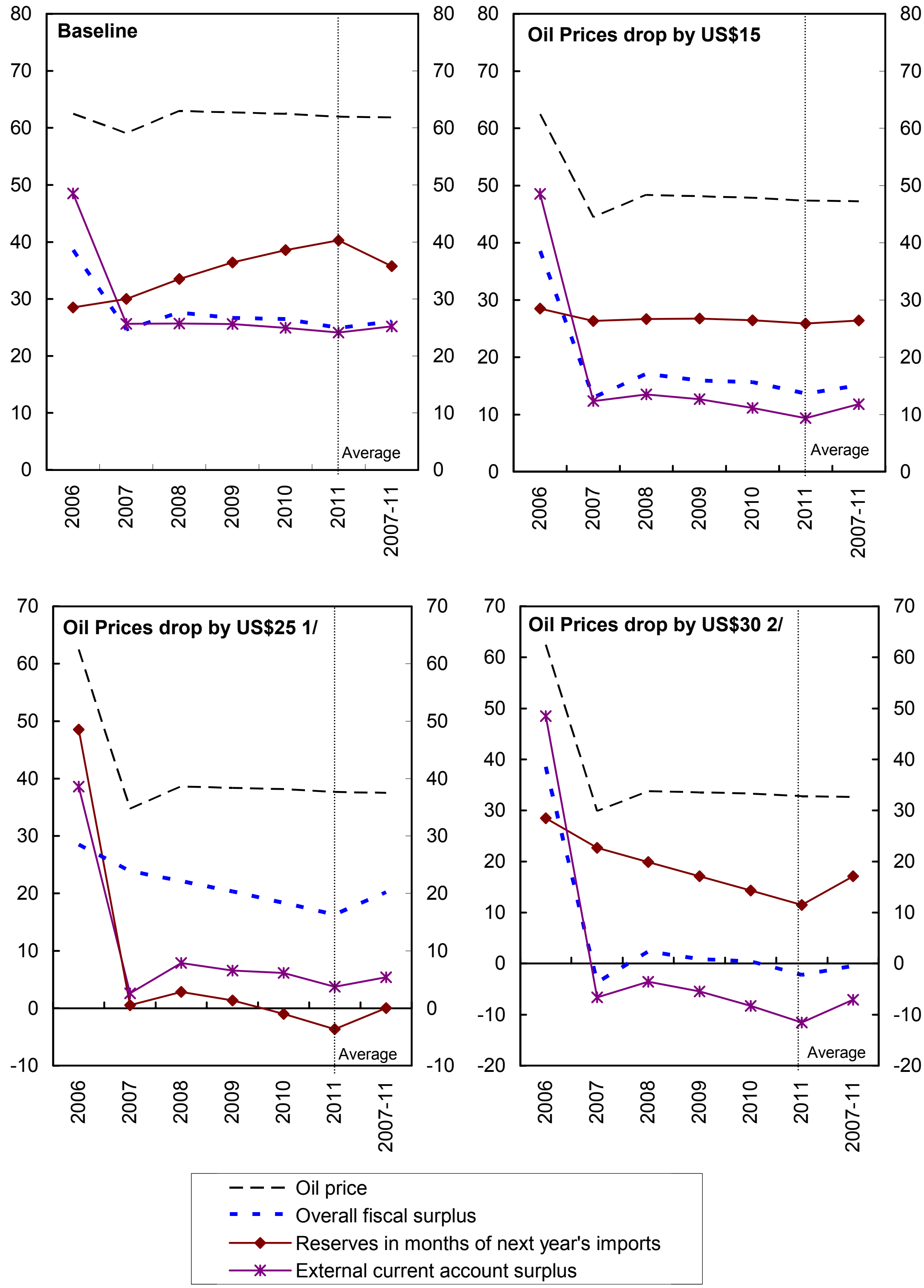
[6] This non-oil fiscal deficit remains sustainable in the long run, even if oil prices fall US$25 below WEO prices.

[7] Other things being equal, it will take a decline in the oil price of US$30 below WEO prices for the fiscal surplus to be fully absorbed; for the external current account, the required drop is US$25.

[8] Including the Oil Reserve Fund (ORF), the Long-Term Investment Portfolio, the Libya Africa Investment Fund (LAIF), the SEDF, the Libya Financial Investment Company, and the Oil Investment Company.

Figure 7. Libya: Sensitivity Analysis, 2006-2011
(In percent of GDP)



Source: Libyan authorities; and Fund staff estimates.
1/ Overall fiscal balance is close to zero.
2/ External current account surplus is close to zero.

16. **Staff considered that the establishment of the LIA will further complicate fiscal management and affect the coherence of fiscal policy.** It argued that the decree establishing the LIA does not address the issue of oil revenue management, nor does it adequately establish rules for the transfer and withdrawal of resources.

17. **The authorities underscored the recent improvements in budget preparation,** including the incorporation of the subsidies and defense budgets into the current budget, and better coordination between the ministries of finance and planning. They reiterated that the operations of the various government funds are kept outside the budget mainly for efficiency reasons, given the complexity and cumbersome nature of Libya's budgetary process.[9]

18. **The authorities indicated that the implementation of staff recommendations on strengthening revenue administration** have already resulted in higher collections. To further improve performance, they requested additional Fund technical assistance (TA) support to improve the monitoring and control of exemptions. Staff noted that progress in reform remained slow, and implementation did not fully reflect staff recommendations.

C. Monetary Policy and Financial Sector Development

19. **In 2006, the authorities gave priority to the restructuring of the banking system and strengthening of banking supervision,** while keeping the monetary framework unchanged since the partial liberalization of interest rates in September 2005. They emphasized that the CBL is working closely with a specialized international private firm to restructure the public commercial banks and design an entry strategy for foreign banks. A plan is being developed to transfer ownership of the public commercial banks from the CBL to the SEDF, with a mandate to privatize with a possible participation of foreign banks. So far, one bank has been transferred and the transfer of another bank is under discussion.

20. **Staff welcomed the authorities' intention to allow foreign banks to operate in Libya**, but strongly advised against the involvement of the SEDF in the restructuring of the banking system, arguing that the SEDF's purpose is largely of a social nature and that it does not have the expertise to restructure banks. Also, the authorities should reform the status of the specialized banks, which continue to lend on noncommercial grounds.

21. **The authorities have also expressed their intention to restructure and modernize the CBL** and requested the Fund's support. To that effect, an MCM mission visited Tripoli in February 2007, and reached agreement on a framework for TA to support this process. Also, the authorities expressed their satisfaction with the TA on banking supervision provided by the Middle East Technical Assistance Center, and indicated that progress continues in the modernization of the domestic payment system.

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[9] In 2006, the LAIF and SEDF received about US$11 billion from the ORF.

D. External Sector Issues

22. **Staff agreed with the authorities that the current exchange rate regime is serving Libya well,** and the rate of the Libyan dinar has been, in recent years, appropriate and consistent with the country's macroeconomic stability; the low level of non-oil exports reflects mainly lack of structural reform and investment. This view was shared by private importers who confirmed the absence of a parallel market or any delay or restriction on access to foreign exchange for current account transactions. Staff cautioned, however, that the acceleration of inflation at the end of 2006 could be an early indication of upward pressures on the exchange rate related to the fiscal and monetary expansions. Staff stressed that these pressures will increase in 2007 with the envisaged loosening of the fiscal stance. Regarding the medium term, the continued increase in oil revenues is expected to place upward pressure on Libya's real effective exchange rate, with adverse effects on the non-oil tradable sector that would need to be addressed through far-reaching reforms to improve the business environment and enhance productivity.

23. **The CBL is studying the option of moving to greater exchange rate flexibility**, and sought staff's advice on this issue. Staff stressed that such a move would need to be gradual and over the medium term, as the CBL would first have to switch to market-based monetary management and develop expertise in foreign exchange markets, risk management, and intervention policies.

E. Trade Reform and Private Sector Development

24. **The authorities agreed with staff on the need to reform Libya's legal and regulatory environment** and make it more supportive of private investment and other commercial activities. They indicated that, over the medium term, they intend to implement international accounting standards and expedite the government's privatization program.

25. **The authorities emphasized that they simplified the trade regime further in 2006,** by reducing the number of state import monopolies, limiting the number of import bans, and cutting by half the consumption tax rate on imported goods. They indicated, however, that they do not plan to incorporate all taxes and fees on imports into the tariff rate in the short run. Regarding Libya's WTO accession discussions, the authorities indicated that the Memorandum of Foreign Trade Regime is well advanced, and expect negotiations to start in the second half of 2007.

26. **The authorities stressed that the reduction in food subsidies in 2007** is a first step toward the replacement of the current system with a cash subsidy. They indicated that, given

its political sensitivity, the reduction of the energy and water subsidies will be done over the medium term, gradually and in conjunction with the development of a social safety net.[10]

F. Other Issues

27. **The authorities are keen to improve the country's statistical system.** Their efforts include participating in the IMF's General Data Dissemination Standards (GDDS) (February 2006) and reinforcing the national account division at the ministry of planning. They expressed their satisfaction with the TA provided by the long-term resident advisor recommended by the Fund.

28. **Staff received confirmation that rescheduling agreements have been reached with a number of Heavily Indebted Poor Countries** (HIPCs) including Uganda, Tanzania, and Benin, but that negotiations with Nicaragua have not been successful (leading Libya to initiate litigation procedures). The authorities were encouraged by their recent contacts with the new Nicaraguan government and expect that this dispute will be settled amicably.

IV. Staff Appraisal

29. **In the space of a few years, since the lifting of the UN sanctions, Libya has succeeded in increasing economic growth while maintaining macroeconomic stability.** However, this improvement was mainly the result of fiscal stimulus, as the legacy of three decades of central economic management and ten years of international economic sanctions continue to hinder Libya's transition to a market economy. The 2006 Article IV consultation discussions confirmed the lack of clear direction in Libya's economic reforms, and underscored major differences of view between the authorities and staff in key areas, including the 2007 fiscal stance, oil revenue management, and bank restructuring.

30. **Libya's medium-term financial outlook is expected to remain strong**. But the maturing of Libya's economic expansion will depend largely on the authorities' policy stance, the scope of their reform agenda, and their determination to avoid past shortcomings in policy formulation and implementation. In order to foster non-oil growth and address high unemployment, the authorities need to maintain macroeconomic stability, strengthen oil revenue management, reform the banking system, and improve the business climate, as recommended by staff in the medium-term strategy (MTS) to reform Libya's economy and the 2006 report on strengthening public financial management (PFM) that it has prepared at the authorities' request.[11]

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[10] The quasi-fiscal deficit in the energy sector was estimated at about 15 percent of GDP in 2005.

[11] See IMF Country Report No. 06/137.

31. **Staff welcomes the authorities' intentions to improve the business environment and enhance private sector development,** but cautions that these objectives would be difficult to reach if macroeconomic stability is absent. In staff's view, the loosening of fiscal conditions in 2007 poses a serious challenge to macroeconomic stability, given the economy's limited absorptive capacity and the contagion effects of the wage increase in the civil service on public and private enterprises. The adverse effects include an inflation rate exceeding 15 percent in 2007 and rising further over the medium term, strong pressures on interest rates, and the deterioration of the competitiveness of the non-oil economy. All these are ingredients that would slow structural reform, inhibit private sector development, deter foreign investors, and limit job creation, whereas the gains in non-oil economic growth will remain fragile and unsustainable in the long run.

32. **Libya urgently needs to restore fiscal prudence and develop a noninflationary wage policy linking government wage increases to productivity performance in the non-oil sector**. Staff regrets that its advice to limit the wage increase in 2007 to about 15 percent has not been followed by the authorities. In order to limit the adverse effects of the budget, staff recommends that the authorities' proposed wage increase be granted in four installments over an 18-month period, including a labor cost neutral installment by reducing the income tax rate on wages. To prevent slippages in the implementation of the budget, the authorities should establish quarterly reviews of budget execution, including physical reviews of projects, and strengthen project disbursement procedures. For the medium term, staff urges the authorities to implement the recommendations of the 2006 PFM mission, including improving the planning and budgetary presentation of the consolidated budget; strengthening project selection and assessing recurrent costs; and revising the budgetary nomenclature.

33. **Staff welcomes the progress achieved in budget preparation.** The staff noted, however, that the budgetary process continues to suffer from incomplete coverage with major financial government operations being undertaken outside the budget; and the lack of a medium-term perspective. The authorities were urged to implement staff recommendations to address these two weaknesses included in the PFM report.

34. **Libya needs to develop a comprehensive strategy to strengthen oil revenue management.** To that effect, the LIA's current format should be significantly revised. In particular, there is a need to stipulate guidelines for the establishment of operating and asset management regulations; and address the governance, transparency, and accountability issues related to the management of the LIA.

35. **Staff reiterates that all government investments should be undertaken through the budget.** It stresses that the authorities' intention to use the LIA to expand the public sector could lead to the marginalization of the private sector. Libya needs to focus on developing its physical infrastructure and human capital, improving basic public services, and continuing with trade reforms consistent with its strategy for WTO accession. These

actions would generate, over time, substantial productivity gains and cost reduction that would promote private investment and economic diversification, and boost job creation.

36. **Staff encourages the authorities to accelerate their efforts to streamline and modernize revenue administration,** and ensure that implementation is in line with staff recommendations. It urges the authorities to give priority and devote more resources to this operation.

37. **In light of the envisaged fiscal expansion, most of the burden of controlling inflation will fall on the CBL.** To that effect, the CBL is urged to tighten monetary policy and consider far-reaching reforms to strengthen the monetary framework. Recommended measures include liberalizing interest rates and keeping them positive in real terms, rehabilitating the interbank market, and developing market-based instruments to absorb excess liquidity.

38. **The current exchange rate regime is serving Libya well, and the rate of the Libyan dinar has been broadly appropriate.** Regarding the medium term, Libya's eventual move to greater exchange rate flexibility would need to be gradual, and preceded by a switch to market-based monetary management, and the development of an expertise in foreign exchange markets.

39. **The Libyan banking system remains weak and in need of extensive restructuring.** While the CBL's objective to privatize the public commercial banks is commendable, its strategy, centered on the transfer of the public commercial banks to the SEDF, contains significant risks. To ensure the intended outcome of a vibrant and competitive banking sector that can support non-oil growth and job creation, the authorities are urged to reconsider their approach and adopt the strategy recommended by staff, including the establishment of a specialized and independent bank restructuring agency that would take over ownership of the public commercial banks.

40. **Staff encourages the CBL to continue its efforts to modernize the payment system, enhance banks' efficiency, and reduce the cost of financial intermediation.** It welcomes the authorities' intention to restructure the CBL, and supports the CBL's request for TA in this area.

41. **Staff encourages the authorities to continue their efforts to reform the trade regime,** including integrating all taxes and fees on imports into the tariff rates. It emphasizes the advantages of anchoring reform through multilateral commitment via WTO accession and a possible association agreement with the EU. This would help reduce policy uncertainty and bolster investor confidence. In this context, staff advises that the authorities' decision to restrict FDI in the non-oil sector to joint ventures with a minimum Libyan participation of 35 percent could be counterproductive and deter foreign investors. Other key actions that are needed to enhance private sector development include a comprehensive land reform, increased labor market flexibility, and implementation of international accounting standards.

42. **Libya's efforts to improve its statistical system should continue with reforms at the institutional level.** Staff reiterates that the establishment of a National Statistical Council to improve coordination among data producers, and the creation of a National Statistical Agency with the authority to produce and disseminate official statistics, are key actions in this regard.

43. **Since 2004, the Fund has provided Libya with a large amount of TA**, but in a number of areas—bank restructuring and oil revenue management—implementation deviated from staff's recommendations. Staff is of the view that unless there is tangible progress on implementation of staff recommendations, future Fund TA provision should be limited to areas not covered by previous TA and essential in preserving macroeconomic stability, or where staff advice has been followed.

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

Table 2. Libya: Demographic, Social, and Human Development Indicators, 1998–2005

	Units	1998	1999	2000	2001	2002	2003	2004	2005	MENA 1/ 2005
Demographic indicators										
Population	Millions	5.10	5.20	5.31	5.41	5.52	5.63	5.74	5.85	301.9
Aged 0–14	Percent of total	35.1	33.9	32.9	32.0	31.3	30.8	30.4	30.1	34.3
Aged 15–64	Percent of total	61.7	62.7	63.6	64.4	64.9	65.4	65.7	65.9	61.8
Aged 65 and above	Percent of total	3.2	3.4	3.5	3.6	3.7	3.8	4.0	4.1	4.0
Age dependency 2/	Ratio	0.62	0.59	0.57	0.55	0.54	0.53	0.52	0.52	0.63
Urban population	Percent of total	82.3	82.7	83.1	83.4	83.8	84.1	84.5	84.8	68.9
Social indicators										
Total labor force	Millions	1.76	1.84	1.92	1.99	2.06	2.14	2.25	2.34	108.0
Male	Percent of total	77.5	76.9	76.2	75.9	75.5	75.3	73.7	72.9	74.5
Female	Percent of total	22.5	23.1	23.8	24.1	24.5	24.7	26.3	27.1	25.5
Life expectancy at birth	Years	...	...	73.1	...	73.7	73.9	74.1	...	70.4 3/
Male	Years	...	...	70.9	...	71.4	71.6	71.8	...	68.7 3/
Female	Years	...	...	75.5	...	76.1	76.3	76.5	...	72.2 3/
Infant mortality rate	Per 1,000 live births	...	...	20.0	...	...	...	18.0	...	32.7 3/
Immunization rate										
Measles	Percent of under 12 months	92.0	92.0	92.0	93.0	91.0	95.0	99.0	...	91.7 3/
DPT	Percent of under 12 months	95.0	94.0	94.0	94.0	93.0	95.0	97.0	...	91.7 3/
Education indicators										
Adult literacy rate (ages 15 and above)	Percent of total	77.8	78.8	79.9	80.8	81.7	...	...	...	77.3 3/
Male	Percent of male	89.4	90.1	90.8	91.3	91.8	...	...	...	85.0 3/
Female	Percent of female	65.0	66.5	68.1	69.3	70.7	...	...	...	69.3 3/
Human development indicators										
Human development index (HDI) 4/ 5/	Index	0.760	0.770	0.772	...	0.794	0.799	0.798	...	0.713 3/
Gender-related development index (GDI) 5/ 6/	Index	0.738	0.748	0.753	...	...	...	...	...	0.710 3/

Sources: World Bank *World Development Indicators* , 2006 and UNDP's *Human Development Report* , 2005.

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

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

3/ Data is for 2004.

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

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

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

Table 3. Libya: Basic Economic and Financial Indicators, 2002–07

(Quota = SDR 1,123.7 million)
Population (million): 5.85 (2005)

	2002	2003	2004	Est. 2005	Prel. 2006	Proj. 2007
	(Annual percentage change, unless otherwise specified)					
National income and prices						
Real GDP 1/	1.4	5.9	5.0	6.3	5.6	7.9
Non-hydrocarbons 1/ 2/	4.7	2.2	4.1	5.5	6.1	8.0
Hydrocarbons 1/ 2/	-7.9	17.7	7.4	8.3	4.4	7.4
Nominal GDP in billions of Libyan dinars	25.2	30.8	39.8	54.5	66.1	78.4
Nominal GDP in billions of U.S. dollars 3/	19.8	24.0	30.5	41.7	50.3	60.8
Per capita GDP in thousands of U.S. dollars 3/	3.6	4.3	5.3	7.1	8.4	10.0
CPI inflation (average)	-9.9	-2.1	-2.2	2.0	3.4	16.2
CPI inflation (e-o-p)	-7.3	-1.3	-3.5	3.0	7.2	...
	(In percent of GDP)					
Central government finances						
Revenue	51.0	53.9	58.5	68.6	71.2	66.5
Of which: hydrocarbon	40.3	47.1	50.6	63.7	65.9	58.1
Expenditure and net lending	39.9	43.4	43.3	34.9	32.3	41.9
Of which: capital expenditure	13.2	9.2	17.4	15.4	16.8	24.4
Overall position (deficit -)	6.2	14.8	17.4	30.0	38.6	24.6
Non-oil deficit	-34.1	-32.3	-33.3	-33.7	-27.3	-33.5
Non-oil deficit (in percent of nonoil GDP)	-72.1	-80.3	-95.9	-118.4	-104.4	-91.8
	(Changes as a percent of beginning of the year money stock)					
Money and credit						
Money and quasi-money	10.9	8.1	9.2	29.2	20.2	28.4
Net credit to the government	-10.0	-32.8	-104.2	-85.5	-110.2	-78.9
Credit to the economy	8.3	6.6	-0.7	4.5	6.2	15.9
Of which: credit to the private sector	-0.5	-1.1	1.1	0.8	1.6	5.1
Deposit rate (1-year deposits, in percent)	5.5	5.5	4.5	4.5	...	...
	(In billions of U.S. dollars; unless otherwise indicated)					
Balance of payments						
Exports, f.o.b.	9.8	14.6	20.4	30.9	38.8	39.8
Of which: hydrocarbons	9.6	14.2	19.5	30.4	38.3	39.1
Imports, f.o.b.	7.4	7.2	8.8	10.9	12.9	20.7
Current account balance	0.7	5.2	7.4	17.3	24.4	15.6
(As percent of GDP)	3.3	21.5	24.3	41.6	48.5	25.6
Overall balance (deficit -)	0.3	3.1	4.6	15.4	18.7	16.4
(As percent of GDP)	1.6	13.0	15.2	37.0	37.1	26.9
Reserves						
Gross official reserves	14.3	19.5	25.6	39.3	59.2	75.6
(In months of next year's imports of GNFS)	19.4	21.9	23.3	30.2	28.5	30.0
Exchange rate						
Official exchange rate (LD/US$, period average)	1.27	1.28	1.30	1.31	1.31	1.29
Official exchange rate (LD/US$, end of period)	1.21	1.30	1.24	1.35	1.28	1.29
Libya crude oil production (millions of barrels per day)	1.30	1.53	1.62	1.69	1.75	1.89
Libyan crude oil price (US$/bbl)	24.4	28.2	36.9	51.9	62.5	59.1

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

1/ Growth rates are related to GDP at factor cost.

2/ Up to 2002, data reflect the authorities' estimates, which in staff view could be over-estimated. For 2003 onwards, data are staff estimates and projections.

3/ At official exchange rate prior to 2002.

Table 4. Libya: Consolidated Fiscal Operations, 2002-2007

	2002	2003	2004	2005	2006 Prel.	2007 Proj.
			(In millions of Libyan dinars)			
Total Revenue	12,850	16,614	23,272	37,413	47,088	52,122
Hydrocarbon 1/	10,150	14,506	20,141	34,764	43,566	45,546
Nonhydrocarbon 2/	2,700	2,108	3,131	2,650	3,523	6,576
Nonhydrocarbon tax revenue	1,150	725	1,617	1,526	1,786	2,909
Taxes on income and profits	506	70	309	397	691	1,142
Taxes on international trade	379	385	602	517	527	826
Other tax revenue	266	270	705	611	569	941
Nontax revenue	944	962	1,222	873	1,464	3,218
GMR revenue	606	421	292	251	272	450
Total expenditure and net lending	10,063	13,396	17,230	19,060	21,377	32,843
Total expenditure	10,063	13,396	17,129	16,640	20,797	32,243
Current expenditure	6,724	10,564	10,195	8,245	9,693	13,072
Administrative budget	4,183	4,228	5,611	7,166	8,219	12,265
Expenditure on goods and services	3,684	3,499	4,647	5,669	6,655	10,259
Wages and salaries	2,546	2,812	3,445	4,007	4,575	7,187
Other purchases of goods and services	1,139	688	1,202	1,662	2,080	3,072
Subsidies and other current transfers	499	728	964	1,497	1,564	2,006
Food subsidies	431	480	832	1,050	1,050	806
Other currrent transfers	67	248	132	447	514	1,200
Defense	...	...	894	981	769	807
Extrabudgetary current expenditure	2,541	6,336	3,690	99	705	0
Oil reserve fund 3/	1,966	5,636	3,690	99	705	0
Defense	575	700	...	...	...	...
Capital expenditure	3,339	2,832	6,933	8,395	11,105	19,170
Development budget	2,936	2,204	6,135	7,570	10,079	19,170
Extrabudgetary capital expenditure	403	628	798	825	1,026	0
Net lending	0	0	102	2,420	580	600
Errors and omissions 4/	1,229	-1,333	-859	1,979	213	0
Overall balance	1,559	4,552	6,901	16,374	25,498	19,279
Nonhydrocarbon balance	-8,592	-9,955	-13,240	-18,389	-18,068	-26,267
Domestic financing	-1,559	-4,552	-6,901	-16,375	-25,498	-19,279
Banking system	-1,134	-4,207	-6,654	-15,877	-19,874	-18,814
Nonbank financing 5/	-425	-344	-247	-498	-5,624	-465
			(In percent of GDP)			
Total revenue	51.0	53.9	58.5	68.6	71.2	66.5
Hydrocarbon 1/	40.3	47.1	50.6	63.7	65.9	58.1
Nonhydrocarbon 2/	10.7	6.8	7.9	4.9	5.3	8.4
Total expenditure and net lending	39.9	43.4	43.3	34.9	32.3	41.9
Total expenditure	39.9	43.4	43.1	30.5	31.5	41.1
Of which: current expenditure	26.7	34.3	25.6	15.1	14.7	16.7
Wage bill	10.1	9.1	8.7	7.3	6.9	9.2
Subsidies and other transfers	2.0	2.4	2.4	2.7	2.4	2.6
Capital expenditure	13.2	9.2	17.4	15.4	16.8	24.4
Budgetary expenditure	28.2	20.9	31.8	28.8	28.8	41.1
Extra-budgetary expenditure	11.7	22.6	11.3	1.7	2.6	0.0
Net lending	0.0	0.0	0.3	4.4	0.9	0.8
Errors aand omissions	4.9	-4.3	-2.2	3.6	0.3	0.0

Sources: Ministry of Finance; and Fund staff estimates and projections.
1/ The difference between total oil revenue and the ORF allocations represents the budgetary oil revenues.
2/ Net of income taxes and includes the contributions to the social security fund.
3/ ORF expenditure for 2003 and 2004 includes payments for the Lockerbie Settlement of LD 1,388 million and LD 1,404 million, respectively.
4/ Corresponds to operations (net) not accounted for.
5/ For 2006, includes exceptional oil receipts (+LD 1.6 billion in the form of fees paid by some foreign oil companies) and transfers to the LAIF (-LD 6.8 billion).

Table 5. Libya: Monetary Survey, 2002–07 1/

	2002	2003	2004	2005	2006	2007
					Prel.	Proj.
	(In millions of Libyan dinars)					
Net foreign assets	19,123	27,123	34,237	56,422	79,435	101,057
Central bank	18,440	26,573	33,066	54,448	77,241	98,863
Foreign assets	18,444	26,578	33,073	54,460	77,253	98,875
Foreign liabilities	4	5	7	12	13	13
Deposit money banks	683	550	1,171	1,974	2,195	2,195
Foreign assets	778	794	1,312	2,046	2,299	2,299
Foreign liabilities	94	244	141	72	105	105
Net domestic assets	-6,119	-13,071	-18,893	-36,600	-55,600	-70,443
Domestic credit	6,899	3,486	-11,253	-23,688	-44,312	-59,331
Net claims on government	-555	-4,820	-19,465	-32,588	-54,438	-73,251
Central bank claims 2/	7,010	7,012	828	828	828	828
Governments' deposits with central bank	8,587	12,964	19,519	32,563	53,721	72,534
Commercial banks' claims 2/	1,811	1,811	373	373	373	373
Governments' deposits with comm. banks	788	678	1,147	1,227	1,918	1,918
Claims on the rest of the economy	7,453	8,305	8,212	8,900	10,125	13,920
Claims on nonfinancial public enterprise 2/	2,838	3,784	3,477	4,271	5,148	7,722
Claims on private sector	4,438	4,298	4,452	4,576	4,891	6,112
Claims on specialized banking institutions	82	77	67	45	75	75
Claims on nonbank financial instit.	96	146	215	7	11	11
Other items (net) 2/	-13,018	-16,557	-7,640	-12,912	-11,288	-11,112
Broad money	13,004	14,052	15,344	19,822	23,835	30,615
Money	8,705	9,029	10,537	14,028	16,491	...
Currency in circulation	2,614	2,764	2,613	3,309	3,920	...
Demand deposits (other than government)	6,092	6,266	7,924	10,719	12,571	16,039
Quasi-money	4,299	5,023	4,807	5,794	7,344	9,433
Memorandum items:						
Net Claims on the Government excl. SSF 3/	-77	-4,284	-18,938	-31,815	-53,168	-71,981
	(Annual rate of change in percent)					
Broad money	10.9	8.1	9.2	29.2	20.2	28.4
Money	13.0	3.7	16.7	33.1	17.6	...
Quasi-money	7.0	16.8	-4.3	20.5	26.8	...
Net claims on government	-190.1	769.0	303.9	67.4	67.0	34.6
Claims on nonfinancial public enterprises	55.0	33.3	-8.1	22.8	20.5	50.0
Credit to the economy	-190.1	769.0	303.9	67.4	67.0	25.0
	(Percent change over beginning broad money stock)					
Net foreign assets	78.0	61.5	50.6	144.6	116.1	90.7
Domestic credit	-1.7	-26.2	-104.9	-81.0	-104.0	-63.0
Net claims on government	-10.0	-32.8	-104.2	-85.5	-110.2	-78.9
Claims on the economy	8.3	6.6	-0.7	4.5	6.2	15.9
Claims on nonfinancial public enterprises	8.6	7.3	-2.2	5.2	4.4	10.8
Claims on private sector	-0.5	-1.1	1.1	0.8	1.6	5.1
	(As percent of GDP)					
Domestic credit	27.4	11.3	-28.3	-43.4	-67.0	-75.7
Net claims on the government	-2.2	-15.6	-48.9	-59.8	-82.3	-93.4
Broad money	51.6	45.6	38.6	36.3	36.1	39.0
Nominal GDP (in millions of Libyan dinars)	25,200	30,831	39,769	54,540	66,112	78,411

Source: Central Bank of Libya.

1/ Data include the local ("regional") banks.

2/ In 2004, data reflect the government's debt buyback operation.

3/ Consistent with the corresponding aggregate in the fiscal table, except for 2004. For the latter, the difference represents the amount of the debt buy back operation reflected in the monetary table but not in the fiscal table.

Table 6. Libya: Balance of Payments, 2002–2011

(In millions of U.S. dollars)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
					Prel.	Projections				
1. Current account	652	5,158	7,410	17,325	24,419	15,574	18,433	20,366	21,712	23,052
A. Goods and services	1,259	6,292	10,165	18,240	23,728	15,597	18,261	19,689	20,404	21,098
a. Goods	2,395	7,447	11,642	20,072	25,905	19,083	22,496	24,469	25,828	27,278
Exports (fob)	9,803	14,647	20,410	30,948	38,831	39,781	47,635	52,845	58,030	63,965
Hydrocarbon sector 1/	9,620	14,159	19,533	30,448	38,251	39,119	46,883	51,997	57,080	62,976
Other exports	184	489	877	500	579	663	752	848	950	988
Imports (fob)	-7,408	-7,200	-8,768	-10,875	-12,925	-20,698	-25,140	-28,376	-32,202	-36,687
Of which: oil sector imports	-626	-950	-1,271	-1,378	-2,800	-3,271	-4,103	-5,144	-6,455	-8,107
b. Services	-1,137	-1,155	-1,477	-1,832	-2,177	-3,487	-4,235	-4,780	-5,424	-6,180
Debit	1,539	1,597	1,914	2,320	2,699	4,239	5,103	5,711	6,428	7,266
Credit	402	442	437	488	522	752	868	930	1,003	1,086
B. Income	265	540	-246	-281	45	1,033	1,428	2,087	2,865	3,672
Direct investment income 2/	-585	-845	-1,337	-1,834	-2,303	-2,428	-2,972	-3,367	-3,755	-4,205
Other investment income	850	1,385	1,091	1,553	2,348	3,461	4,400	5,454	6,620	7,878
Government sector	740	1,263	966	1,403	2,190	3,295	4,227	5,272	6,429	7,677
Private sector	110	122	125	150	158	165	174	182	191	201
C. Current transfers	-872	-1,673	-2,509	-634	646	-1,055	-1,256	-1,411	-1,557	-1,718
General government 3/	0	-1,174	-1,741	-112	1,190	-120	-126	-132	-139	-146
Private	-872	-499	-768	-522	-544	-935	-1,130	-1,278	-1,418	-1,572
Oil sector	-105	-156	-210	-259	-280	-286	-343	-381	-418	-461
Other sectors (workers transfers abroad)	-767	-343	-558	-588	-534	-927	-1,073	-1,193	-1,304	-1,424
2. Capital and financial account	78	-316	-1,830	72	-4,544	780	1,119	1,697	2,435	3,376
Direct investment	281	79	-643	1,499	1,551	1,942	2,313	2,926	3,701	4,680
Portfolio investment	-72	-607	-187	-393	-5,210	-500	-500	-500	-500	-500
Other investment	-131	212	-1,000	-1,034	-885	-662	-695	-729	-766	-804
3. Errors and omissions and other capital	-416	-1,720	-944	-1,975	-1,188	0	0	0	0	0
4. Overall balance	314	3,122	4,637	15,422	18,687	16,355	19,552	22,063	24,147	26,428
5. Reserve items	-314	-3,122	-4,637	-15,422	-18,687	-16,355	-19,552	-22,063	-24,147	-26,428
Memorandum items:										
Official exchange rate, LD/US$ (pa)	1.27	1.28	1.30	1.31	1.31	1.29	1.29	1.28	1.28	1.27
Official exchange rate, LD/US$ (eop)	1.21	1.30	1.24	1.35	1.28	1.29	1.29	1.28	1.28	1.27
Gross official reserves (in billions of US$)	14.3	19.5	25.6	39.3	59.2	75.6	95.1	117.2	141.3	167.8
Gross official reserves, in months of next year's imports	19.4	21.9	23.3	30.2	28.5	30.0	33.5	36.4	38.6	40.3
Current account balance (in percent of GDP)	3.3	21.5	24.3	41.6	48.5	25.6	25.7	25.6	24.9	24.1
Overall balance of payments (in percent of GDP)	1.6	13.0	15.2	37.0	37.1	26.9	27.2	27.7	27.7	27.7
Nominal GDP (in billions of US$)	19.8	24.0	30.5	41.7	50.3	60.8	71.8	79.6	87.1	95.6
Nominal nonhydrocarbon GDP (in millions of US$)	9,549	9,798	10,946	11,932	13,203	22,909	26,534	29,494	32,252	35,212

Sources: Central Bank of Libya; and Fund staff estimates and projections.
1/ Includes foreign partners' oil share.
2/ Includes partner's profit remittances from oil investment.
3/ For 2003 and 2004, includes payments for the Lockerbie Settlement of US$1,076 million and US$1,080 million, respectively.

Table 7. Libya: Illustrative Medium-Term Scenario, 2002–2011

				Est.	Projections					
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
(Assumptions)										
Crude oil production (in millions of barrels/day)	1.30	1.53	1.62	1.69	1.75	1.89	2.13	2.36	2.60	2.88
Hydrocarbon exports (in billions of US$)	9.6	14.2	19.5	30.4	38.3	39.1	46.9	52.0	57.1	63.0
Libyan crude oil export price (US$ per barrel)	24.4	28.2	36.9	51.9	62.5	59.1	62.9	62.7	62.5	62.0
(In percent of GDP; unless otherwise indicated)										
Official exchange rate (LD/US$, eop)	1.21	1.30	1.24	1.35	1.28	1.29	1.29	1.28	1.28	1.27
Official exchange rate (LD/US$, p.a.)	1.27	1.28	1.30	1.31	1.31	1.29	1.29	1.28	1.28	1.27
CPI (percent change; average)	-9.9	-2.1	-2.2	2.0	3.4	16.2	6.9	5.0	3.8	3.7
GDP deflator (percent change)	41.2	16.3	24.0	31.2	15.6	7.2	8.5	2.8	2.1	1.9
Real GDP growth rate (in percent) 1/	1.4	5.9	5.0	6.3	5.6	7.9	8.1	6.9	6.4	6.8
Real nonhydrocarbon GDP (in percent) 1/	4.7	2.2	4.1	5.5	6.1	8.0	6.6	5.5	5.1	5.3
Total revenue, *of which:*	51.0	53.9	58.5	68.6	71.2	66.5	66.7	66.5	66.5	66.5
Hydrocarbon revenue	40.3	47.1	50.6	63.7	65.9	58.1	58.6	58.4	58.4	58.5
Total expenditure	39.9	43.4	43.3	34.9	32.3	41.9	39.1	39.8	40.0	41.6
Current	26.7	34.3	25.6	15.1	14.7	16.7	15.0	14.5	13.0	12.9
Capital	13.2	9.2	17.4	15.4	16.8	24.4	24.1	25.3	27.0	28.7
Overall budget balance	6.2	14.8	17.4	26.5	38.6	24.6	27.6	26.7	26.5	24.9
Non-hydrocarbon balance (deficit -)	-34.1	-32.3	-33.3	-37.2	-27.3	-33.5	-31.0	-31.7	-31.9	-33.6
(In millions of U.S. dollars; unless otherwise indicated)										
Exports, f.o.b., *of which:*	9,803	14,647	20,410	30,948	38,831	39,781	47,635	52,845	58,030	63,965
Non-oil exports	184	489	877	500	579	663	752	848	950	988
Imports	7,408	7,200	8,768	10,875	12,925	20,698	25,140	28,376	32,202	36,687
Current account balance	652	5,158	7,410	17,325	24,419	15,574	18,433	20,366	21,712	23,052
(In percent of GDP)	3.3	21.5	24.3	41.6	48.5	25.6	25.7	25.6	24.9	24.1
Official reserves	14,259	19,493	25,623	39,331	59,212	75,566	95,118	117,181	141,328	167,755
(In months of next year's imports of goods and services)	19.4	21.9	23.3	30.2	28.5	30.0	33.5	36.4	38.6	40.3

Sources: Libyan authorities; and Fund staff estimates and projections.
1/ At factor costs

INTERNATIONAL MONETARY FUND

THE SOCIALIST PEOPLE'S LIBYAN ARAB JAMAHIRIYA—ANNEXES TO THE 2006 ARTICLE IV CONSULTATION STAFF REPORT

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Annexes:

ANNEX I. LIBYA: FUND RELATIONS
(As of February 28, 2007)

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	728.20	64.80
	Reserve position in Fund	395.51	35.20

III.	**SDR Department:**	**SDR Million**	**Percent of Allocation**
	Net cumulative allocation	58.77	100.00
	Holdings	531.77	904.81

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. Staff's standard review of Libya's foreign exchange system is still in progress.

IX. **Article IV Consultation:**

Libya is on a 12-month consultation cycle. The last Article IV staff report (SM/06/87) was discussed by the Executive Board in March 2006.

X. **Technical Assistance:**

1. February 1985: STA mission in monetary statistics.

2. September 1985: STA mission in price, trade, and non-oil production statistics.

3. March 1990: STA mission in money and banking and balance of payments statistics.

4. February 1998: STA multisector statistics mission.

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

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

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

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

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

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

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

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

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

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

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

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

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

18. October/November 2006: Mission by the Monetary and Capital Markets Department (MCM) and the Legal Department to complete the standard review of the foreign exchange system under the Fund's Article VIII.

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

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

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

ANNEX II. LIBYA: RELATIONS WITH THE WORLD BANK GROUP

Prepared by the World Bank staff
(As of February 28, 2007)

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. A Bank mission, led by the Director of the Maghreb Department and the Chief Economist of the Middle East and North Africa Region, visited Libya in November 2005 to discuss follow-up to a draft Country Economic Report and explore Libyan interest in further assistance from the World Bank Group. Overall, the authorities expressed appreciation for the report and its main messages and recommendations. At the request of the authorities, the mission made proposals for further assistance in public finance management, private sector development, financial sector reform, and social protection.

3. A Bank economic mission visited Libya in March 2006 to finalize the Country Economic Report, which was distributed to the World Bank Executive Directors and made public in August 2006.

ANNEX III. LIBYA: STATISTICAL ISSUES

1. Data shortcomings seriously affect the capacity of staff to conduct effective surveillance. In particular, significant weaknesses remain in the area of national accounts and the balance of payments. Other shortcomings include: (i) weaknesses in 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 the Fund in order to update MCD's operational database between missions. These issues are compounded by specific institutional weaknesses, in particular the lack of interagency cooperation, the proliferation of agencies with unclear and often overlapping responsibilities, and the continuous reshuffling of responsibilities among agencies.

2. A 2005 (June 4–9 and August 27–September 3) multisector mission examined the conceptual and compilation procedures for national accounts, price indices, foreign trade, money and banking, and government finance; developed recommendations for improvement in these systems; and urged Libya to expedite participation in the General Data Dissemination System (GDDS). In February 2006, the authorities communicated their decision to participate in the GDDS and appointed a national GDDS coordinator. As a next step, GDDS metadata need to be prepared, with a view to letting the public know about current statistical practices and the plan to bring them up to international standards.

3. The following sections outline the current status of data compilation and reporting by sector, assess progress achieved thus far, and summarize key recommendations made by the 2005 STA mission.

National accounts

4. Some progress has been made in the compilation of GDP estimates 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.

5. 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 and the establishments frame; (vi) initiating regular surveys of major services, agricultural output, and public and private construction; and (vii) improving estimates for transport, storage, and communication companies (by including the three airline companies, shipping establishments, and telecommunication enterprises in the services sector), and for trade margin (by excluding margin of goods not channeled through wholesale or retail trade).

6. STA has 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, is expected to be for one year but will be reviewed after the first six months. During the first month of the assignment, the advisor focused on identifying new data sources and establishing a system to collect the necessary data. He also coordinated the formulation of several technical committees to guarantee that the data obtained by national accounts compilers are consistent with the data compiled by other agencies.

Price statistics

7. The existing index is based on weights derived from the 1992–93 household budget survey (as recommended by the 1998 STA mission), has 1999 as reference year, and is compiled from 2000 onwards. A new index based on a 2003 household budget survey is being finalized.

8. To improve the price statistics, the 2005 STA mission recommended that compilers should (i) expand the coverage of the new CPI to include Benghazi and Sabah in addition to Tripoli; (ii) align the classification system more closely with international standards (particularly by including services of owner-occupied dwellings and second-hand goods in the CPI basket); (iii) adjust seasonal items and temporarily missing items; (iv) revise all item descriptions and specify the brand name and country of origin to ensure accurate data collection; (v) replace the administrative data used to estimate rent by a sample of rental units; and (vi) develop the methodology for compiling a producer price index (to use as a deflator for national accounts).

Monetary, banking, and financial statistics

9. While the timeliness and quality of monetary data reported to the *IFS* have improved, some deficiencies remain. To enhance monetary, banking, and financial statistics, the 2005 STA mission made the following recommendations: (i) reclassify Libyan Foreign Bank as a resident financial institution under other depository corporations and include it in the monetary survey; (ii) if specialized development banks start issuance of depository liabilities, reclassify these banks as other depository corporations and include them in the coverage of the monetary survey; (iii) reclassify the Libyan Foreign Investment Company as a resident financial institution under other financial corporations; (iv) exclude contingent positions such

as those arising from issuance of letters of credit from the Central Bank of Libya's (CBL) and other banks' monetary accounts and revise monetary data retroactively (which the CBL has already implemented); (v) treat provision of funds from the government's Oil Reserve Fund at CBL as withdrawals from the government deposit account (or treat it as loan/advance to government in case of an overdraft) instead of sourcing them from the valuation adjustment account; (vi) adopt market-based valuation of financial instruments and accrual accounting procedures for adding accruing interest to the value of the instrument; (vii) revalue CBL's holdings of monetary gold at end-period gold market prices; (viii) identify all Fund-related accounts in the CBL's balance sheet as per IMF Finance Department instructions; and (ix) revise/develop report forms for banks that would contain a sufficient breakdown of positions by currency of denomination, instrument, and sector of counterparty needed for the implementation of the Standardized Report Forms (SRFs) for monetary statistics.

Fiscal data

10. The fiscal information system remains fragmented and inconsistent with international standards, 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.

11. To improve the fiscal data, the 2005 STA mission made several recommendations, including: (i) adopting centralized management at the ministry of finance of all budgetary central government accounts; (ii) expanding coverage of central government accounts by including extrabudgetary 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.

Balance of payments

12. Since 2000 Libya has been a regular reporter of annual balance of payments data to STA in *BPM5* format. Nonetheless, the balance of payments data suffer from deficiencies, mainly due to: (i) unclear methodology; (ii) outdated surveys as sources for primary data; (iii) lack of component detail; (iv) lack of comprehensive coverage for trade data; and (v) methodological flaws in the compilation of the financial account.

13. To improve the balance of payments statistics, the 2005 STA mission made the following recommendations: (i) include provisions in the Bank Law for mandatory reporting by all resident sectors of data needed for compilation of balance of payments (with the CBL as the legally authorized compiling agency and with penalties for noncompliance, misreporting, breach of confidentiality, etc); (ii) institutionalize regular coordination

meetings of the CBL with NIDA, the ministry of finance (customs department), the ministry of planning and other ministries/agencies, and private sector enterprises that can provide external sector source data; (iii) urge high-level staff to seek training opportunities, including IMF courses on balance of payments statistics; and (iv) develop computer programs for compiling balance of payments statistics in *BPM5* format and move to electronic reporting by reporting agencies. In addition, a number of actions were proposed aimed at: (i) bringing balance of payments compilation in line with the *BPM5* on residency/nonresidency criteria, recording basis (accrual principle), valuation (market price), coverage, etc; (ii) improving the source data, including by conducting surveys on foreign direct investment, services, and transfers and a survey to establish a business registry; (iii) improving the coverage of foreign direct investment and portfolio investment data by surveying relevant foreign-based oil companies and companies outside the hydrocarbon sector; (iv) improving the coverage of the income account by including all transactions of the Libyan Foreign Bank and the oil companies employing nonresidents; and (v) compiling foreign trade statistics using internationally accepted concepts and definitions.

14. A METAC mission visited the CBL, Tripoli, during February 11–22, 2007 to assess progress in developing the institutional infrastructure for compiling balance of payments statistics; provide technical advice on improving balance of payments data collection systems; and identify specific areas for further technical assistance in improving the data compilation system. Following meetings with various banks and governmental agencies, the mission drafted agency-specific forms for the CBL's use in collecting relevant source data. The mission was informed that an interagency committee was established in 2006 by the general people's committee for planning to address the issue of coverage deficiencies in external trade statistics and a report that would include comprehensive and consistent external trade data is expected to be released by mid-2007.

LIBYA: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

(As of March 14, 2007)

	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange rates	Feb. 2007	Feb. 2007	M	M	M
International reserve assets and reserve liabilities of the monetary authorities[1]	June 2006	August 2006	M	M	M
Reserve/base money	Oct. 2006	Nov. 2006	M	M	M
Broad money	Oct. 2006	Nov. 2006	M	M	M
Central bank balance sheet	Oct. 2006	Nov. 2006	M	M	M
Consolidated balance sheet of the banking system	Oct. 2006	Nov. 2006	M	M	M
Interest rates[2]	Oct. 2006	Nov. 2006	M	M	M
Consumer price index	March 2006	July 2006	M	M	M
Revenue, expenditure, balance and composition of financing[3]—general government[4]	June 2006	July 2006	M	M	A
Revenue, expenditure, balance and composition of financing[3]—central government	June 2006	July 2006	M	M	A
Stocks of central government and central government-guaranteed debt[5]	June 2006	August 2006	M	M	M
External current account balance	Dec. 2005	September 2006	A	A	A
Exports and imports of goods and services	Dec. 2005	September 2006	A	A	A
GDP/GNP	Dec. 2005	July 2005	A	A	A
Gross external debt	Nov. 2000	Nov. 2000	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, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extrabudgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).

Statement by the IMF Staff Representative
April 19, 2007

1. This statement provides information on recent developments in Libya that has become available since the staff report was circulated to the Executive Board on April 3, 2007. The thrust of the staff appraisal remains unchanged.

2. On Wednesday, April 18, the Libyan authorities informed staff verbally that they have decided to freeze the implementation of the planned wage increase in the civil service (an increase of 80 percent on average) that was to take effect this month (April 2007). The government is now reviewing this issue. In the absence of more information on the government's intentions, including the size of the wage increase and the timeframe for its implementation, staff is not yet in a position to revise its macroeconomic projections.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

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April 25, 2007

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

IMF Executive Board Concludes 2006 Article IV Consultation with The Socialist People's Libyan Arab Jamahiriya

On April 20, 2007, 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 is a hydrocarbon rich country, but has one of the least diversified economies in the Maghreb region and among the oil producing countries. It has a long legacy of central economic management and excessive reliance on the public sector, and started its transition to a market economy in 2002, after 10 years of international economic sanctions. Since then, Libya has made efforts to liberalize its economy and foreign trade, achieving increasing economic growth while maintaining macroeconomic stability.

In 2006, economic conditions continued to be satisfactory. Real GDP grew about 5½ percent, reflecting an increase of 4½ percent in the value added of the hydrocarbon sector, and a buoyant non-oil economy (6 percent) boosted by increased government spending and the liberalization of the trade, service, and tourism sectors. However, preliminary end-year data indicate that annual Consumer Price Index (CPI) inflation accelerated in the last quarter reaching 7.2 percent (year on year) in December.

Based on preliminary data, the consolidated government operations registered a record overall cash surplus of about 39 percent of GDP, owing to a substantial increase (of 25 percent) in

[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.

hydrocarbon revenues. Non-oil revenue performance grew even faster at 33 percent, partly owing to the reform of tax and customs administration currently underway. Government spending grew about 12 percent, owing to: (i) a marked increase in the wage bill, reflecting new hiring in the regions, and increases in wages for some categories of civil servants; and (ii) an improved execution of the development budget. Development spending increased to about 17 percent of GDP, concentrated on infrastructure and construction (42 percent), social sectors (32 percent), and hydrocarbons (19 percent).

Monetary developments were characterized by a strong (albeit lower than in 2005) broad money growth (about 20 percent), reflecting mainly the impact of the nominal increase in the non-oil fiscal deficit on money supply and a sustained increase in credit to public enterprises (of over 20 percent). Bank credit to the private sector grew about 7 percent, the highest growth rate since 2000.

On the external side, the current account surplus is estimated to have reached about 48½ percent of GDP, reflecting the growth of hydrocarbon exports resulting from higher export prices and volumes. Import growth was robust (18 percent) reflecting rising domestic demand, including increased government spending. Gross international reserves reached the equivalent of 29 months of 2007 imports of goods and services, and the Real Effective Exchange Rate (REER) based on the official CPI remained stable.

In 2006, structural reform continued with the implementation of a wide range of measures covering fiscal management and taxation, banking and payments systems, trade, and the business environment.

In the fiscal area, the authorities established the Libya Investment Authority to centralize hydrocarbon revenue management. Also, progress was made on strengthening revenue administration with the establishment of a large taxpayers office and the development of plans to streamline the tax and customs departments, strengthen controls, and upgrade office buildings and equipment.

In the monetary and banking area, the authorities developed a plan to restructure the public commercial banks, merged 21 regional banks, and accelerated efforts to strengthen banking supervision and modernize the payment system.

Efforts to liberalize trade and improve the business environment continued. In particular, the authorities: (i) halved the consumption tax on imported goods produced locally; (ii) abolished all remaining state import monopolies except those on petroleum products and weaponry; (iii) reduced the list of import bans for religious, health, and ecological reasons to 10 products; (iv) opened 51 offices across the country to expedite approval of business permits; (v) lowered the floor on Foreign Direct Investment (FDI) in the non-oil sector from US$50 million to US$1.5 million; and (vi) established a negative list for non-oil FDI limited to retail trade, wholesale trade, and importation. Also, the authorities issued a decree requiring that all FDI in the non-oil sector be undertaken through joint ventures with a minimum Libyan participation of 35 percent.

Following its withdrawal from the Heavily Indebted Poor Countries (HIPC) Initiative, Libya has developed its own debt relief plan. Rescheduling agreements were reached with a number of HIPC countries including Uganda, Tanzania, Benin, and negotiations with Nicaragua are ongoing.

Executive Board Assessment

Executive Directors were encouraged by Libya's economic performance in 2006, including strong real GDP growth, and surpluses realized on the fiscal and external current account balances. Directors also welcomed the elimination of most import monopolies. While taking note of these achievements, they observed that Libya needs to restore fiscal prudence, strengthen oil revenue management, develop a well-designed comprehensive strategy to restructure public commercial banks, and enhance the implementation of structural reforms.

Directors welcomed Libya's favorable medium-term financial outlook, which reflects the projected continuation of high hydrocarbon prices. However, they considered that the authorities' ability to maintain economic and financial stability could be undermined by the loosening of fiscal conditions in the 2007 budget. Directors stressed that, to avoid jeopardizing medium-term economic prospects, adjustments to the authorities' policy stance and reform approach will be needed.

Directors emphasized that a prudent fiscal policy is key to ensuring macroeconomic stability. They underscored the need to link government wage increases to productivity performance and calibrate nonwage government spending in line with the economy's absorptive capacity, in order to keep inflation in check. For 2007, they recommended that the envisaged increase in civil service wages be introduced with caution, possibly in installments over an eighteen-month period.

Directors urged the authorities to strengthen public financial management, including by unifying the budget and increasing its coverage, improving macro-fiscal coordination, and establishing clear operating and asset management regulations for the Libyan Investment Authority (LIA). They cautioned that investing LIA resources domestically could marginalize the private sector and be counterproductive in the medium to long run.

In responding to the envisaged fiscal expansion, Directors urged the Central Bank of Libya to tighten monetary policy to contain inflationary pressures. They recommended the liberalization of interest rates and development of market-based monetary instruments in order to strengthen the monetary framework.

Directors noted that the current exchange rate regime has served Libya well, but recommended that Libya's move to greater exchange rate flexibility be gradual, and supported and preceded by a switch to market-based monetary management.

Directors advised that the recourse to the Social and Economic Development Fund to restructure the public commercial banks contains significant risks. They reiterated the view that the establishment of an independent bank restructuring agency, along the lines recommended by staff, remains key for success.

Directors noted that the authorities have implemented few of the reforms recommended by Fund technical assistance. They indicated that future Fund technical assistance should concentrate on areas not covered previously and essential in preserving macroeconomic stability, or where technical assistance recommendations have been adopted.

Directors encouraged the authorities to reach debt relief agreements with heavily indebted poor countries on terms comparable with the HIPC Initiative.

Directors welcomed the authorities’ participation in the General Data Dissemination System and their commitment to improve the quality and timeliness of economic data.

Libya: Basic Economic and Financial Indicators, 2002-06
(Quota = SDR1,123.7 million)
Population (million): 5.85 million (2005)
Per capita GDP: US$7,121 (2005)

	2002	2003	2004	2005	Prel. 2006
National income and prices	(Annual percent changes)				
Real GDP	1.4	5.9	5.0	6.3	5.6
Real nonhydrocarbon GDP	4.7	2.2	4.1	5.5	6.1
CPI inflation (average)	-9.9	-2.1	-2.2	2.0	3.4
Central government finance	(In percent of GDP)				
Revenue	51.0	53.9	58.5	68.6	71.2
Expenditure and net lending	39.9	43.4	43.3	34.9	32.3
Overall fiscal balance	6.2	14.8	17.4	30.0	38.6
Nonhydrocarbon balance (deficit -)	-34.1	-32.3	-33.3	-33.7	-27.3
Monetary Indicators	(Annual percent changes, unless otherwise specified)				
Broad money	10.9	8.1	9.2	29.2	20.2
Deposit rates (1 year-deposits, in percent)	5.5	5.5	4.5	4.5	...
External Sector	(In billions of dollars, unless otherwise specified)				
Exports of goods	9.8	14.6	20.4	30.9	38.8
Imports of goods	7.4	7.2	8.8	10.9	12.9
Current account balance	0.7	5.2	7.4	17.3	24.4
(As percent of GDP)	3.3	21.5	24.3	41.6	48.5
Gross official reserves	14.3	19.5	25.6	39.3	59.2
(In months of next year's imports)	19.4	21.9	23.3	30.2	28.5

Sources: Libyan authorities; and IMF staff estimates.

Statement by A. Shakour Shaalan, Executive Director for The Socialist People's Libyan Arab Jamahiriya April 20, 2007

1. On behalf of the Libyan authorities, we thank staff for their continued engagement with Libya, as well as for the much appreciated technical assistance support. The authorities highly value the views of Executive Directors regarding economic developments in Libya.

Recent Developments

2. Underpinned by a fiscal stimulus, as well as the liberalization of the trade, service, and tourism sectors, overall economic activity, notably in the non-oil sector, continued to grow during the past year. This was coupled with considerable fiscal and external surpluses and a sharp rise in gross international reserves. At the same time, the authorities have sustained their structural reform effort in many areas, including fiscal management and taxation, banking and payments systems, trade, and the business environment.

3. Looking forward, the medium-term outlook for the Libyan economy remains strong. The authorities are determined to take advantage of the favorable economic environment to launch reforms aimed at achieving sustainable growth in the medium- and long-term. They are keenly aware of the challenges of transition resulting from a long period of international sanctions, the centralized and state-controlled structure of the economy, and weak human and institutional capabilities. They remain committed, however, to accelerating the transition to a market economy, and promoting private sector-led growth. Accordingly, their 2007 budget provides for substantial increases in much needed development outlays in infrastructure, education, health, and human resource development, in addition to investments in the hydrocarbon sector.

Fiscal Developments and Policies

4. Both tax and expenditure policies, as well as higher oil revenues have led to a significant strengthening of the fiscal position over the past year, with the overall fiscal surplus estimated at about 39 percent of GDP. The remarkable growth in non-oil revenues resulted in part from the ongoing tax and customs administration reform measures. Furthermore, current expenditures continued their declining trend.

5. The favorable fiscal position is, however, engendering increasing demands on the budget. The planned increase in total expenditures of about 10 percent of GDP might appear sizable. However, it should be noted that the total expenditure-to-GDP ratio will remain at the same level as in 2001. Most of the increase in expenditures is earmarked for capital outlays. Current expenditures are budgeted to increase by 2 percent of GDP, with most of the

increase earmarked for wages (which had been frozen since 1981), while subsidies will be cut back substantially. The wage increase will be conditional on a major civil service reform aimed at enhancing the efficiency of the public sector, for which a civil service census is currently under way. The reform aims at terminating about one-third or 300,000 redundant staff members, who will be granted severance payments. The authorities are confident that these measures will have a limited impact on inflation. They estimate indeed that the civil service wage increase is unlikely to spread to private sector wages, as those are already relatively high. Moreover, the consumer's basket has a large import content.

6. In the past, much needed investment spending was delayed due to insufficient implementation capacity. The authorities consider that large future investments will be required to meet Libya's pressing human, institutional and infrastructure needs. Projected expenditures in 2007 on infrastructure, education, health, and human resource development, in addition to investments in the hydrocarbon sector, will contribute to improving the investment climate and medium- and long-term growth prospects.

7. The focus on enhancing the budget preparation process was maintained in 2006. Improvements included the incorporation of the subsidies and defense budgets into the current budget, as well as better coordination between the ministries of finance and planning. Furthermore, improvements in revenue administration have already started to pay-off, and the authorities intend to seek further FAD technical assistance in the area of monitoring and control of tax exemptions.

Monetary and Financial Sector

8. The dinar's peg to the SDR continues to serve Libya well and the rate of the peg has been broadly in line with fundamentals. The Central Bank of Libya (CBL) has taken note of the staff's recommendations regarding the prerequisites that are needed if it were to decide to move toward a system of greater exchange rate flexibility. In this connection, the authorities intend to restructure and modernize the CBL, and have received favorable response for technical assistance support from MCM in this regard. Furthermore, Fund technical assistance has been instrumental in the authorities' progress in the areas of strengthening banking supervision and the modernization of the domestic payments system.

Trade Reforms and Statistical Issues

9. Continued progress has been made in trade liberalization, following the significant simplification and liberalization of the trade regime initiated in 2003. Measures adopted in 2006 included the reduction in the number of state import monopolies, limiting the number of import bans, and halving the consumption tax rate on imported goods. The authorities have made important progress in Libya's WTO accession discussions, notably with regard to

the Memorandum of Foreign Trade Regime. They expect negotiations to start in the second half of 2007.

10. The Libyan authorities remain committed to improving the quality and timeliness of economic data. They have participated in the IMF's General Data Dissemination Standards since February 2006 and have reinforced the national account division at the Ministry of Planning through the services of a long-term advisor recommended by the Fund. They are aware that further strengthening of the statistical system would be needed at the institutional level, and will be moving in that direction over the medium-term as part of their overall strategy towards restructuring the economy.