



LIBYA

June 2023

2023 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR LIBYA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2023 Article IV consultation with Libya, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the International Monetary Fund for the Executive Board's consideration on May 24, 2023, following discussions with the Libyan authorities on economic developments and policies, which concluded on March 17, 2023. Based on information available at the time of these discussions, the staff report was completed on May 5, 2023.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Libya.

The documents listed below have been or will be separately released:

Selected Issues

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Washington, D.C.



IMF Executive Board Concludes 2023 Article IV Consultation with Libya

FOR IMMEDIATE RELEASE

Washington, DC – May 25, 2023: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with Libya on Wednesday, May 24, 2023.

The Article IV consultation took place after a decade-long hiatus. The fragmentation of the country that followed the fall of the Ghaddafi regime in 2011 effectively suspended the production of key economic indicators and complicated policymaking, resulting in difficulties in conducting Article IV consultations. The authorities have recently made commendable progress towards improving data sharing and collection, and transparency. Together with the flexibility afforded by the IMF's new Fragile and Conflict-Affected States ([FCS](#)) strategy, this has paved the way for a resumption of Article IV consultations.

Libya's institutional framework has helped the country through a period of significant macroeconomic volatility and turmoil. There have been exceptional swings in oil production and revenues since 2011. Despite this, the Central Bank of Libya has managed to maintain a large stock of international reserves, supported by a combination of a fixed exchange rate, capital controls, and various other temporary arrangements.

The economy contracted sharply in 2020 due to an oil blockade and a decline in oil prices, resulting in ballooning external and fiscal deficits, and declining foreign exchange reserves. More recently, a rebound in oil prices and the resumption of oil production has resulted in budget and current account surpluses in both 2021 and 2022. Gross Domestic Product—which closely tracks oil production—remained volatile. Inflation has been relatively subdued despite a sizable depreciation of the dinar in 2021 and rising global commodity prices, rising from 2.9 percent in 2021 to 4.5 percent in 2022.

Libya's economic fortunes will hinge on oil and gas production for the foreseeable future. Hydrocarbon production is projected to grow by around 15 percent in 2023 following an increase in oil production from 1 million barrels per day in 2022 to around 1.2 million barrels per day in 2023 and increase gradually thereafter. Looking ahead, assuming fiscal spending remains contained, the baseline projection is for fiscal and external surpluses to gradually decline over coming years. The key risks to the outlook are lower oil prices due to lower-than-expected global growth, and renewed conflict and/or social unrest that leads to disruptions in oil production.

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.

Executive Board Assessment²

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the resumption of Article IV consultations with Libya following a 10-year hiatus caused by political turmoil and commended the authorities for their efforts to reengage with the Fund despite lingering political challenges. They noted the limitations to policy implementation arising from political fragmentation and urged the authorities to intensify efforts to resolve conflicts and address the substantial economic challenges. Directors concurred that substantial capacity development would be needed to modernize fiscal frameworks and monetary and financial sector policies, enhance data provision, and support economic diversification.

Directors observed that Libya is heavily reliant on oil and gas production, and therefore subject to considerable volatility and downside risks from the global green transition. They noted that the key medium-term challenge is to diversify away from hydrocarbons and to promote stronger and more inclusive private sector-led growth. They encouraged the authorities to enhance transparency, strengthen institutions and address corruption and governance concerns to support these efforts. Directors highlighted the importance of enhancing data provision and statistical capacity.

Directors called for an agreed and transparent budget to support policy credibility and macroeconomic stability and help preserve intergenerational prosperity. They noted the importance of improving public financial management, avoiding procyclical spending, diversifying the tax base, gradually reforming untargeted energy subsidies to make room for additional social spending and infrastructure development, strengthening management of state-owned enterprises, and building a medium-term framework.

Directors observed that reunification of the central bank is crucial for strengthening monetary policy, supporting financial stability, and fostering private sector development. They noted that frequent changes to the currency peg should be avoided to maintain confidence in the exchange rate as the nominal anchor. Maintaining the peg would also allow the central bank to better protect foreign exchange reserves amid elevated political and security risks.

Directors commended the central bank for introducing wide-ranging regulations aimed at modernizing the financial sector, while noting the challenges associated with limited capacity. They encouraged the authorities to continue to strengthen the AML/CFT framework, closely monitor the capitalization of banks, reopen the property registry to enable banks to mitigate credit risk and assess borrower creditworthiness, and divest holdings of the Central Bank of Libya in commercial banks over the longer run to allow them to operate independently. Given the current prohibition on interest, Directors agreed that further development of Islamic finance products, as well as Islamic finance-compliant instruments to help manage system liquidity and support monetary policy, would help mobilize credit to the private sector.

It is recommended that the next Article IV consultation with Libya be held on the standard 12-month cycle.

² At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

Table 1. Libya: Selected Economic Indicators, 2018-2028

	2018	2019	2020	2021	Est.			Proj.			
					2022	2023	2024	2025	2026	2027	2028
(Annual percentage change, unless otherwise indicated)											
National income and prices											
Real GDP (at market price)	7.9	-11.2	-29.5	28.3	-11.4	18.8	8.2	7.4	4.7	2.5	2.6
Nonhydrocarbon	-8.5	-11.6	-19.4	5.9	-1.2	17.1	7.9	6.8	6.6	6.4	6.3
Hydrocarbon	21.0	-10.9	-35.5	45.0	-17.0	20.0	8.3	7.7	3.6	-0.1	0.0
Nominal GDP in billions of Libyan dinars 1/	104.7	96.8	65.1	159.0	178.5	198.8	210.0	221.9	231.6	236.8	242.9
GDP deflator	3.6	4.2	-4.8	90.4	26.8	-6.3	-2.3	-1.6	-0.3	-0.2	0.0
CPI inflation											
Period average	14.0	-2.9	1.5	2.9	4.5	3.4	2.9	2.9	2.9	2.9	2.9
End of period	-1.2	0.2	2.8	3.7	4.1	2.9	2.9	2.9	2.9	2.9	2.9
(In percent of GDP)											
Central government finances											
Revenues	46.9	59.2	35.1	79.5	100.0	64.4	62.4	61.4	59.0	56.3	53.6
Of which: Hydrocarbon	32.0	32.4	8.1	78.1	97.9	62.1	60.4	59.4	57.0	54.1	51.3
Surtax on foreign exchange purchases 2/	12.6	24.2	23.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure and net lending	37.6	47.3	57.3	64.7	76.5	55.8	53.5	52.5	50.9	50.5	49.8
Of which: Capital expenditures	3.3	4.8	2.8	10.9	3.6	3.3	3.1	2.9	2.8	2.7	2.7
Overall balance	9.4	11.9	-22.3	14.8	23.6	8.5	8.9	8.8	8.1	5.8	3.8
(Annual percentage change unless otherwise indicated)											
Money and credit											
Base Money	-8.5	-14.2	2.2	2.8	-1.3	15.8	5.2	8.3	9.0	9.2	10.0
Currency in circulation	12.5	5.6	8.3	-20.0	-1.4	16.2	2.9	4.7	2.2	1.5	5.0
Money and quasi-money	-0.8	-2.4	16.0	-20.3	...	...	...	...	...	...	...
Net credit to the government (Libyan Dinar, billion)	-8.4	-20.4	-1.4	-94.1	...	...	...	...	...	...	...
Credit to the economy (% of GDP)	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
(In billions of U.S. dollars; unless otherwise indicated)											
Balance of payments											
Exports	29.8	29.1	10.3	28.0	31.2	27.6	27.8	28.9	29.4	28.9	28.5
Of which: Hydrocarbon	28.9	27.5	7.5	25.7	29.1	25.5	26.2	27.3	27.5	26.8	26.1
Imports	13.8	17.7	8.0	18.6	15.0	12.9	13.0	13.4	13.3	13.1	12.7
Current account balance	11.3	4.6	-4.0	-1.9	5.4	7.6	10.2	10.5	10.3	9.4	9.4
(As percent of GDP)	14.7	6.7	-8.5	-5.4	14.7	18.4	23.5	22.7	21.2	18.9	18.3
Capital Account (including E&O)	-4.1	-5.2	-7.5	9.3	3.3	-4.1	-6.3	-6.4	-6.4	-6.5	-7.4
Overall balance	6.3	-1.6	-6.6	7.4	8.8	3.5	3.9	4.1	3.9	2.9	1.9
Reserves											
Gross official reserves	77.6	76.0	69.4	77.7	82.0	85.5	89.4	93.5	97.4	100.3	102.2
In months of next year's imports	37.2	63.8	29.0	40.4	49.6	67.1	76.0	78.2	83.9	89.9	94.0
Gross official reserves in percentage of Broad Money	97.0	97.7	73.8	354.9	358.8	362.4	365.5	365.5	363.4	356.5	345.1
Total foreign assets (including LIA investments)	149.9	149.1	142.7	151.1	156.4	161.8	167.4	172.9	177.9	181.8	184.8
Exchange rate											
Official exchange rate (LD/US\$, period average)	1.37	1.40	1.39	4.51	4.81	...	...	...	...	...	...
Parallel market exchange rate (LD/US\$, period average)	6.15	4.28	5.57	5.06	5.08	...	...	...	...	...	...
Parallel market exchange rate (LD/US\$, end of period)	4.42	4.08	5.05	5.03	5.18	...	...	...	...	...	...
Crude oil production (millions of barrels per day - mbd)	0.97	1.10	0.30	1.2	1.0	1.20	1.30	1.40	1.45	1.45	1.45
Of which: Exports	0.79	0.89	0.24	1.0	0.8	0.98	1.06	1.14	1.18	1.18	1.18
Crude oil price (US\$/bbl, WEO adjusted for Libya)	68.5	57.1	37.8	64.4	89.6	68.0	64.1	62.3	60.8	59.4	58.0

Sources: Libyan authorities; and IMF staff estimates and projections

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

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



LIBYA

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION

May 5, 2023

KEY ISSUES

Context. This is the first Article IV Consultation since 2013. Libya's institutional framework has helped the country through a period of significant macroeconomic volatility and turmoil. There have been exceptional swings in oil production and revenues since the fall of the Ghaddafi regime in 2011. Despite this, the measures taken by the Central Bank of Libya, including the currency's devaluation in 2021, helped maintain a large buffer of international reserves. The stability of the exchange rate will remain an important anchor for monetary policy going forward.

Outlook and Risks. Libya's economic fortunes will hinge on oil and gas production for the foreseeable future. Hydrocarbon production is projected to grow by around 15 percent in 2023 following an increase in activity after an oil blockade limited production in 2022. Assuming fiscal spending remains contained, the baseline projection is for gradually declining fiscal and external surpluses over coming years. The key risks to the outlook are lower oil prices due to lower-than-expected global growth, renewed conflict and/or social unrest that leads to disruptions in oil production, and procyclical spending that could complicate policymaking.

Recommendations. Libya needs a clear economic vision for the future. Policymaking has become increasingly myopic and opaque and policy coordination among key economic institutions has been undermined by years of political uncertainty. There is an urgent need for an agreed upon budget to improve transparency and policy credibility. Procyclical spending threatens macroeconomic stability and intergenerational equity and should be avoided. Meanwhile, Libya faces the daunting challenge of reducing its reliance on hydrocarbons while fostering stronger and more inclusive private sector-led growth. Structural reform efforts should focus on strengthening institutions, addressing corruption and governance concerns, and developing a more purposeful and transparent economic strategy for the future. This would be an opportunity to rally the population behind a clear plan to optimize the use of oil revenue to achieve economic diversification and improve living standards and inclusivity.

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

Discussions took place in Tunis, Tunisia during March 11-17, 2023. The mission comprised Messrs. Gershenson (head), Ghawi, and Matheson, and Ms. Rupavatharam (all MCD). Mr. Sassanpour (OED) participated in most meetings. Ms. Korman and Ms. Pecherkina (MCD) supported the preparation of this report. The mission met with Central Bank Governor El-Kaber, Minister of Finance Khaled Al-Mabrouk Abdullah, Minister of the Economy Mohammed Ali AlHawig, Minister of Labor and Rehabilitation Ali Alabed Abuazom, Minister of Planning Muhammad Al-Zaidani , Head of the Audit Bureau Khaled Shakshak, representatives from the National Oil Corporation, the banking sector, and other government and central bank officials.

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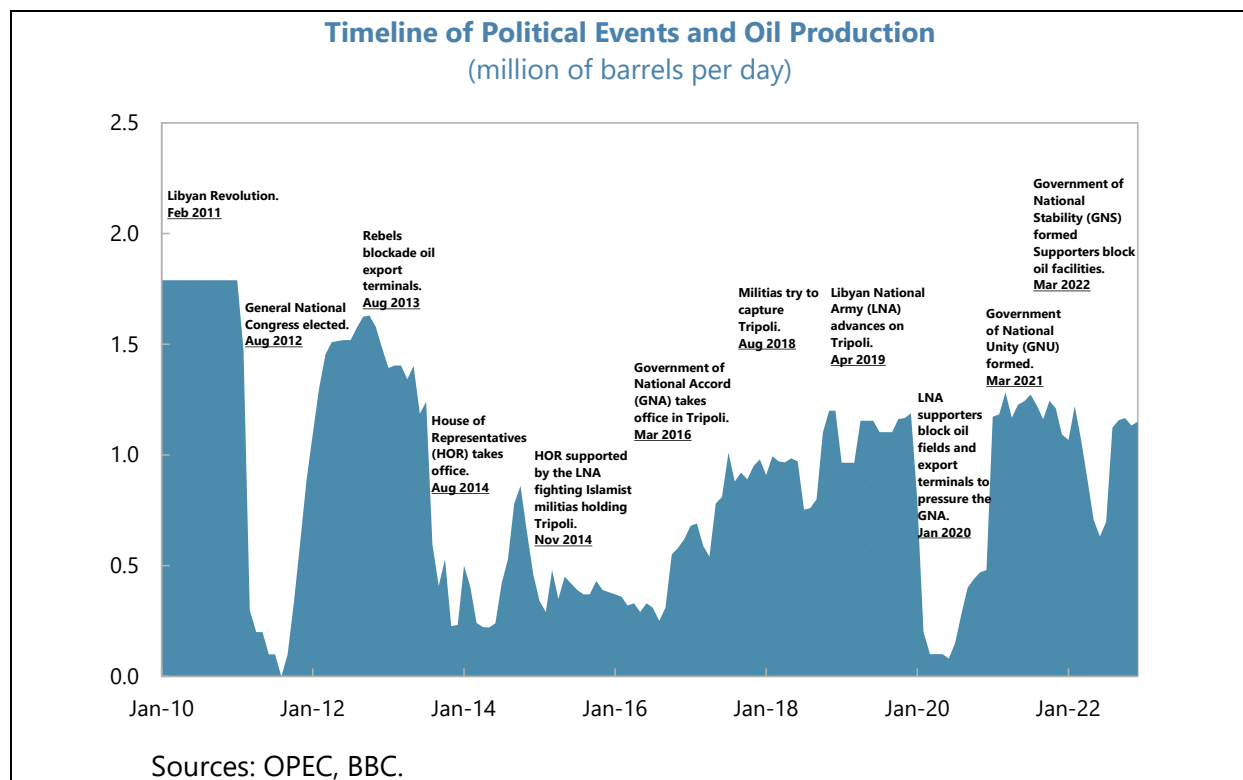
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CONTEXT

1. Libya is a wealthy but fragile state that is heavily reliant on oil and gas production.

Libya's real GDP per capita is among the highest in Africa due to its vast oil and gas reserves. Hydrocarbons make up around 95 percent of exports and government revenue. Government spending is dominated by public sector salaries, with around 2.2 million people—one-third of the population—notionally employed by the public sector.¹ Libyans also enjoy generous subsidies and grants, which amount to around one quarter of fiscal spending.

2. The country has been mired in conflict and political uncertainty since the fall of the Ghaddafi regime in 2011. After several years of internal conflict that began in 2014, the warring factions agreed to support the transition Government of National Unity (GNU) in February 2021. The GNU had the mandate to hold presidential and parliamentary elections, originally slated for December 2021. In the context of delayed elections, an East-based competing regime, the "Government of National Stability" (GNS), was formed in early 2022. While the GNU has maintained control of Tripoli and key economic institutions—and is widely recognized by the international community—the country remains fragmented among various militias with competing objectives.



¹ As part of a recent review of the public sector salary structure, the Ministry of Finance has found that around 2.2 million people receive public sector wages (not including employees of state-owned enterprises). In addition, new employment data presented by the Ministry of Labor show that around 90 percent of all workers were employed by the public sector in 2022. There are reports that the number of informal migrant workers could be around 2 million—a number approaching the size of the formal labor force—but the true size of the migrant population cannot be verified.

3. Nevertheless, Libya’s institutional framework has helped the country through a period of significant macroeconomic volatility and turmoil. There have been exceptional swings in oil production and revenues since the revolution. Despite this, the Central Bank of Libya (CBL) has managed to maintain a large stock of international reserves, supported by a combination of a fixed exchange rate, capital controls, and various temporary arrangements.² Libya has no public debt, and resorts to monetary financing to cover deficits in the years when oil revenues fall short of expenditures.³

4. A period of relative stability and recent improvements in data availability have allowed Article IV consultations to resume after a decade-long hiatus. The fragmentation of the country effectively suspended the production of key economic indicators and hampered policymaking, resulting in delays in Article IV consultations.⁴ In recent months, the authorities have improved data collection, sharing, and transparency. Together with the flexibility afforded by the IMF’s new Fragile and Conflict-Affected States strategy, this has paved the way for a resumption of Article IV consultations. However, the feasibility of implementing policy advice remains severely hampered by the country’s fragmentation. In addition to re-starting surveillance, staff will continue to offer capacity development—while being mindful of absorption constraints—to enhance macroeconomic management and better prepare the country for post-conflict rebuilding efforts.

RECENT MACROECONOMIC DEVELOPMENTS

5. The economy contracted sharply in 2020 due to an oil blockade and a decline in oil prices. As part of a failed campaign to capture Tripoli in 2019–20, the East-based Libyan National Army instigated a blockade of oil fields and export terminals that lasted nine months and reduced oil output by three quarters to about 0.3 million barrels per day in 2020. The blockade coincided with pandemic containment measures around the world that led to a decline in global oil prices. All this resulted in a 30-percent contraction in nominal GDP, ballooning external and fiscal deficits, and declining foreign exchange reserves.

6. After several years of depreciating pressures, the Libyan dinar (LYD) was devalued in early 2021. A parallel market for foreign exchange was thriving between 2016 and 2020, in the wake of the 2015 oil price plunge and capital control measures taken by the CBL to preserve foreign reserves. After the devaluation of the official rate in January 2021 (from 1.44 to 4.48 LYD to 1 USD)

² For example, a tax on foreign exchange transactions helped to boost government revenue and support reserves between 2016 and 2020.

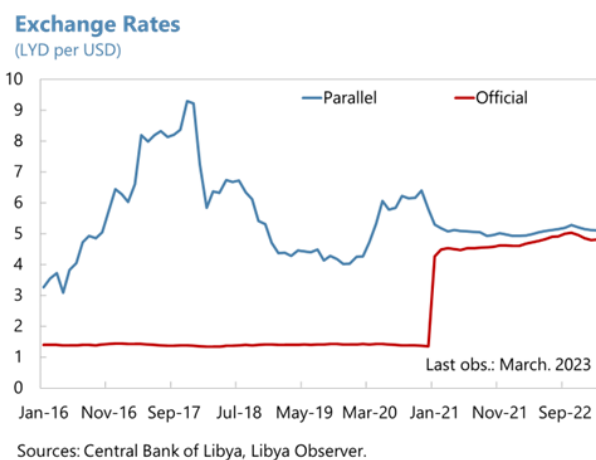
³ Under budget law, the central bank can provide advances to the government up to one fifth of estimated revenues in the budget, and the advances should be repaid at the end of the fiscal year. However, over recent years the government has resorted to monetary financing to cover deficits in years where oil revenues have fallen short of expenditures. According to the CBL, the government was indebted to the CBL to the tune of 90.5 percent of GDP in 2022. However, this is not debt in the standard sense. It is denominated in domestic currency, carries no interest, has no repayment schedule, and can be forgiven using administrative procedures without any economic implications.

⁴ During that period, engagement has been largely limited to capacity development.

and the relaxation of capital controls, the difference between the parallel-market rate (now around 4.75 LYD to 1 USD) and the official rate declined significantly.⁵

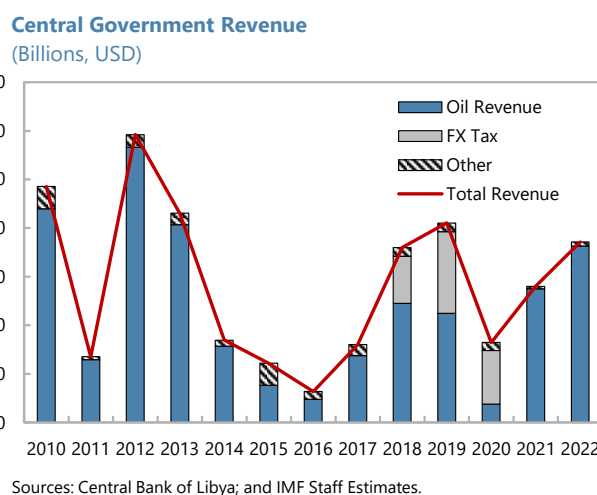
7. Inflation has remained relatively subdued despite the sizable depreciation of the dinar and rising global commodity prices.

Inflation has risen from 1.5 percent in 2020 to 4.5 percent in 2022, largely due to rising global food-price inflation. Pass-through of the depreciation of the official exchange rate to domestic prices has been muted by an appreciation of the parallel exchange rate, which had largely been used to price imports prior to the devaluation. To help contain inflation, the government has also imposed price controls on essential products.



8. A rebound in oil prices and the resumption of oil production resulted in budget surpluses in both 2021 and 2022.

Higher oil prices, increased production, and improvements in the security situation boosted revenue in 2021 and 2022, which more than offset the impact of the removal of a tax on foreign exchange transactions after the devaluation.⁶ Capital expenditures, however, have been constrained because the GNU has not had an approved budget, with spending based on an adjusted 2019 budget instead.⁷ This situation resulted in limited capital spending and fiscal surpluses in 2021 and 2022 (US\$4.4 billion and US\$6.4 billion, respectively).



9. The recent spending allocation to the National Oil Corporation (NOC) will help strengthen oil and gas production.

⁵ The dinar is pegged to the SDR. Since January 2021, the official rate has been SDR 0.1555 per LYD 1. The parallel foreign exchange market continues to function due to the persistence of some capital controls—such as an annual limit on foreign exchange withdrawals for individuals and a requirement that the CBL approve letters of credit for importers—and due to the intermittent shortages of physical dollar liquidity.

⁶ This tax was introduced prior to the devaluation to raise revenues and alleviate the pressure on foreign exchange reserves.

⁷ In the absence of an approved budget, spending is set at one twelfth of the annual spending specified in the most-recently approved budget (2019), but allocations have been routinely adjusted using measures with little or no oversight. The GNS in turn has an approved budget for 2022 but is not able to execute it, since the GNS does not have access to the government accounts at the CBL.

package of around US\$7 billion, which includes funds to clear a backlog of payments to suppliers and maintenance companies. It also includes around US\$3.5 billion for development spending that is expected to increase oil and gas production to 2 million barrels per day over the next 3 to 5 years.

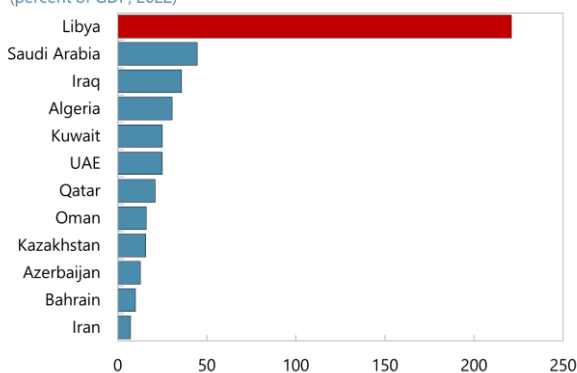
10. Some revenues and expenditures have been omitted from the official fiscal accounts in the absence of an approved budget. Since 2021, the impact of a rise in the cost of fuel subsidies has been netted against oil revenue in the financial accounts of the NOC. These subsidies amounted to US\$8.5 billion in 2022, significantly above the number reported in the fiscal accounts (US\$1 billion). In addition, US\$5.5 billion in reported development spending for 2022 remains unspent in an account at the CBL⁸. The tables at the end of this report adjust for these discrepancies.

11. The current account moved from a deficit in 2020 to widening surpluses in 2021 and 2022, in line with the recovery in oil revenues.

As a result, there was a significant accumulation of foreign exchange reserves between 2020 and 2022 (around US\$12 billion) Libya's gross official reserves remain very high by any metric, standing at US\$82 billion at the end of 2022, more than 200 percent of GDP and covering more than 4 years of imports.⁹ In 2022, Libya's external position was broadly in line with the fundamentals and desirable policy settings (see Annex II). Libya also has no public debt in the standard sense. Its notional public debt represents the cumulative monetary financing of past fiscal deficits (see Annex III).

Gross International Reserves

(percent of GDP, 2022)



Sources: National Authorities.

12. Currency leakages have become more pronounced. The CBL only provides foreign currency through letters of credit (LCs) issued by banks under the CBL's oversight. Banks' liquidity problems and delays in processing LCs have contributed to a large and growing informal sector. The informal sector uses the parallel exchange rate to finance imports, with more than one third of imports currently being financed outside the banking system.

13. The central bank has been under pressure to revalue the currency. Higher oil prices and rising import costs have led to calls from the public and the GNS to revalue the dinar. The CBL is resisting these pressures and is committed to revisiting this issue only after the country's political stalemate is resolved. The reluctance to modify the peg also stems from the concerns that

⁸ Fiscal revenue and expenditure are reported on the cash basis.

⁹ In addition to these reserves, Libya also has a sovereign wealth fund (the Libyan Investment Authority, LIA) with assets of around US\$70 billion. However, the LIA has been under U.N. sanctions (and therefore not available to the authorities) since 2011.

procyclical and untargeted spending, as well as politically induced volatility in oil production, will lead to the erosion of reserves and threaten the value of the dinar in the medium term.

14. Progress towards reunifying the central bank has been slow. Prior to the formation of the GNU in March 2021, the banking system and monetary policy had effectively been split between the West and the East of the country. A process of reunification of the CBL started in 2021, with the GNU resuming to pay salaries in the East, and the CBL resuming the shipment of currency notes. This process stalled for several months in mid-2022 amid a rise in political tensions but had restarted by early 2023. In addition, monetary financing of around US\$1.5 billion took place in 2023 by the Eastern branch of the CBL to finance the GNS.

15. There have been liquidity concerns in the banking system. The currency previously issued in the East is widely accepted across the country at face value. However, banks cannot use this liquidity to access foreign exchange at the CBL and as a result have drawn on their reserves in the West, contributing to rising liquidity challenges. To prevent bank failures and address the liquidity shortage, the CBL has provided liquidity against bank balances at its Eastern Branch (close to US\$7 billion) as part of the central bank reunification process.¹⁰ With around US\$10.5 billion of bank settlement balances estimated to remain in the East, the CBL may need to continue providing liquidity against these balances to preserve financial stability.

16. An easing of macroprudential measures has supported credit growth. The currency devaluation allowed the CBL to remove some of the macroprudential measures that were previously put in place to contain inflationary pressures. This has supported credit growth. For example, the CBL has reduced the minimum local currency cash collateral required for issuing LCs from 100 to 30 percent. However, despite strong credit growth of 15 percent in 2021 and 10 percent in 2022, credit remains low at around 11 percent of GDP.

OUTLOOK AND RISKS

17. Libya's economic fortunes will hinge on oil and gas production for the foreseeable future. Hydrocarbon production is projected to grow by around 15 percent in 2023 following an increase in oil production from 1 million barrels per day (mbd) in 2022 to around 1.2 mbd in 2023. Production is expected to gradually increase to around 1.5 mbd by 2026. The sharp increase in oil production in 2023 reflects a resumption of activity after the 2022 oil blockade. As a result, real GDP is projected to grow by 18.8 percent in 2023 after contracting by 11.4 percent in 2022. Annual CPI inflation is estimated to have peaked in 2022 and is expected to converge to around 3 percent over the medium term. Looking ahead, assuming fiscal spending remains contained, the baseline projection is for gradually declining fiscal and external surpluses over the coming years in line with a

¹⁰ The CBL in Tripoli provided liquidity to the commercial banks using their balances in the East as a collateral. More recently, some of the banks' balances in the East were directly transferred to the CBL in Tripoli.

projected decline in global oil prices. Consequently, gross official reserves are projected to rise from US\$85.5 billion in 2023 to US\$102.2 billion in 2028, surpassing the previous peak reached in 2014.

18. The outlook is subject to significant uncertainty and downside risks (Annex I). The key global risk is lower oil prices due to lower-than-expected global growth. Beyond this, the most important risk is that continued political gridlock sparks renewed conflict and/or social unrest that leads to disruptions in oil production, which would cause significant revenue volatility and complicate fiscal policy. The absence of an approved budget and the potential for higher current expenditures could reduce fiscal surpluses, further delay reforms, and put downward pressure on reserves. Risks to medium-term outlook relate to Libya's ability to diversify its economy away from oil and gas, as the world transitions toward clean energy.

19. The division of the central bank is expected remain a key risk to macroeconomic and financial stability in the short term. The potential for further monetary financing by the CBL's Eastern branch could exacerbate liquidity stress in the banking system, put pressure on foreign exchange reserves, and increase risks of disorderly adjustment.

POLICY DISCUSSIONS

Libya needs a clear economic vision for the future. Policymaking has become increasingly myopic and opaque, and policy coordination among key economic institutions has been undermined by years of political uncertainty. There is an urgent need for an agreed-upon budget to improve transparency and policy credibility. Procyclical spending threatens macroeconomic stability and intergenerational equity and should be avoided. The overarching policy objective should be diversification away from hydrocarbons while fostering stronger and more inclusive private sector growth. Policy discussions focused on: (i) the policy framework; (ii) fiscal policy; (iii) the monetary and financial sector; and (iv) transparency and statistical capacity building. Crucially, the success of reforms will hinge on achieving a stable political and security environment and developing institutional capacity.

A. Policy Framework

20. Libya needs a medium-term economic strategy that clearly articulates a way forward for the nation. This would be an opportunity to rally the public behind a clear plan to optimize the use of oil revenue to achieve economic diversification and highlight a break from the Ghaddafi -era policies that fostered rent-seeking behavior, corruption, and government opacity.

21. Diversification away from hydrocarbons should be the overarching strategic objective. The speed at which the international community is mobilizing to reduce carbon emissions and recent leaps in clean energy technology pose a risk of disorderly adjustment for economies heavily dependent on oil. Libya is at risk of falling behind these important global trends. Transition away from hydrocarbons requires enhancing productivity in the hydrocarbon sector while harnessing its revenues to improve infrastructure and expand other sectors of the economy such as

manufacturing, tourism, agriculture, communications and information, and financial services. Early reforms should focus on eliminating distortions and inefficiencies in markets, improving the transparency of the public accounts, strengthening governance, and promoting private sector innovation and growth. To preserve economic stability, this structural transformation will need to be incremental to exploit synergies and will require institutional change that goes hand and hand with private sector development.

22. To sustain and consolidate the transition to market-led growth, second generation reforms should aim to better align the interests of the state, markets, and society over time.

This will require a credible commitment to policies consistent with a more inclusive growth model, including new institutions and laws to protect the collective interests of society, addressing corruption, modernizing institutional frameworks and policy tools, as well as sustained and consistent adherence to the rule of law.

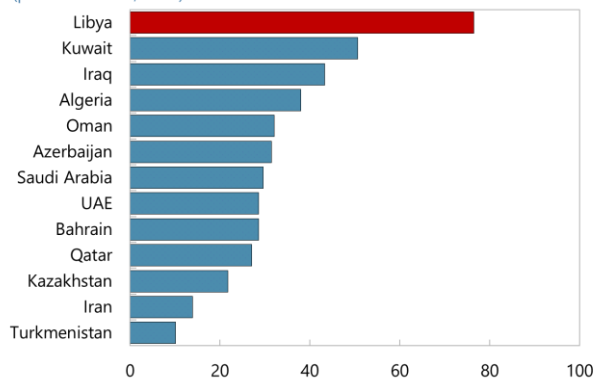
B. Fiscal Policy

23. There is an urgent need for an agreed-upon budget. The absence of an approved budget has undermined policy coordination among key economic institutions and eroded policy credibility. Spending allocations have routinely been increased in an opaque and myopic way with little or no consideration for complications that might arise if oil revenues fall short of expectations.

24. Spending should be reprioritized to enhance medium-term growth and efficiency.

Procyclical spending threatens macroeconomic stability and intergenerational equity and should be avoided. Development expenditure should be scaled up while considering the institutional capacity of the economy to enhance efficiency. Libya has substantial infrastructure needs that it should address to alleviate bottlenecks and boost private-sector development. Reducing distortions due to high public sector wages and subsidies would improve incentives and resource allocation, leading to an increase in private capital formation and fostering the growth of employment opportunities outside the public sector.

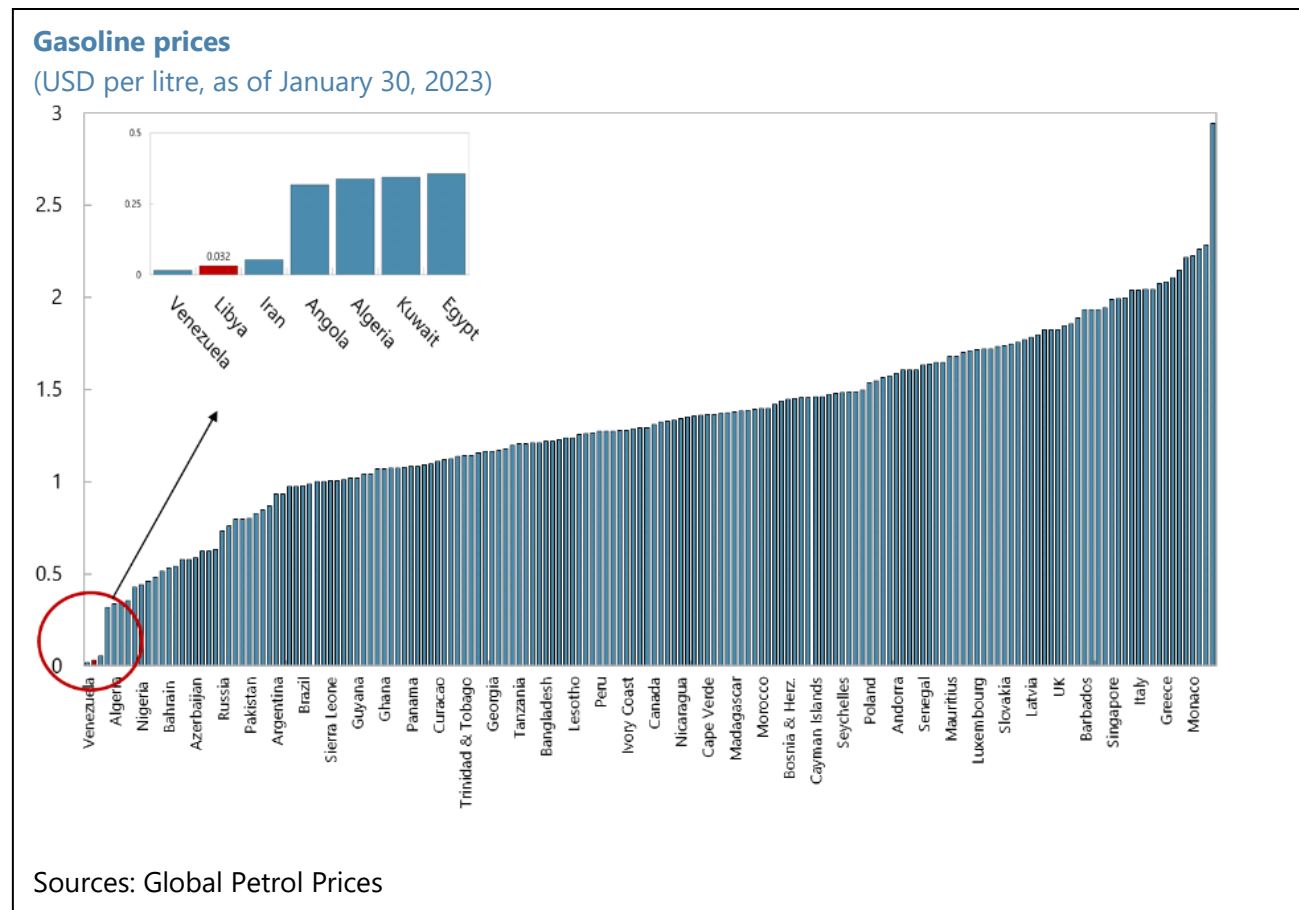
Total expenditure and net lending
(percent of GDP, 2022)



Sources: National Authorities.

25. A strategy is needed to reform subsidies. The domestic price of gasoline is at the same level as it was in 1978—currently just US 3 cents per liter, the second lowest in the world—and low energy prices are also contributing to widespread corruption at the border and smuggling. These subsidies are not targeted, benefiting wealthier consumers more than others, and come at a significant fiscal cost. Removing subsidies and using the resulting revenue gains for better targeted social spending and productive investments would achieve economic diversification and improve

living standards and inclusivity. While subsidy reform is particularly difficult in the Libyan context, there are some lessons that can be drawn from successful reforms in other countries (see Box 1).



Box 1. Energy Subsidy Reforms

According to Coady and others (2018), energy subsidy reforms could have substantial revenue and welfare gains across the Middle East and North Africa region (10 percent and 4 percent of GDP, respectively), and have a positive impact on CO2 emissions.^{1/} Country experiences suggest successful energy subsidy reforms include:

- A comprehensive plan with clear long-term objectives;
- Transparent and extensive communication and consultation with stakeholders to clearly illustrate the wider benefits of reform;
- Price increases that are gradually phased-in over time;
- Targeted measures to protect the poor;
- Measures to reform the energy sector (especially state-owned enterprises) and support energy-intensive sectors;
- Institutional reforms that depoliticize energy pricing, such as the introduction of automatic pricing mechanisms.

1/ Coady, D., Parry, I., and Shang, B. (2018), 'Energy Price Reform: Lessons for Policymakers', *Review of Environmental Economics and Policy*, 12, (2) 197-219. See <https://www.journals.uchicago.edu/doi/epdf/10.1093/reep/rey004>.

26. Libya needs to enhance its fiscal framework. The budgetary process—a legacy of the Ghaddafi regime—is myopic and divorced from macroeconomic forecasts. There is neither a requirement for fiscal planning nor a clear mechanism to establish fiscal policy objectives and spending priorities. As a result, the budget is used as a largely redistributive tool (with oil revenues converted to public sector wages and subsidies) while having only a limited role as a conduit of sound macroeconomic policy. Libya needs a fiscal framework designed to support intergenerational equity by delinking spending from revenue volatility and improving the management of its vast resource wealth.

27. Comprehensive reforms are needed to strengthen the public financial management (PFM) framework. Despite the political challenges, the authorities must not lose sight of key issues that need to be addressed in the PFM framework. These include:

- Weak cash management controls and oversight;
- An outdated and fragmented legal framework that lacks clear descriptions of roles, responsibilities, and processes;
- A lack of a strategic medium-term focus in policy making;
- A predominantly paper-based process that evolved over years to address emerging needs but not well-defined in the legal framework;

- A lack of modern IT systems to support decision making, execution, monitoring, accounting, and reporting;
- Practices and tools not in line with modern international standards, such as a comprehensive chart of accounts and a single Treasury account system.

28. Comprehensive tax administration reform and tighter control of customs operations is needed to mobilize non-oil revenues. Tax administration reform should focus on strengthening compliance. For example, exemptions from customs duties, are widespread with no tight controls. Expanding targeted post-clearance audits on end-use exemptions, along with tighter control procedures at the approval phase, could be a key step towards increasing non-oil revenues.

29. Tighter control over state-owned enterprises (SOEs) is needed. The Audit Bureau puts the number of SOEs in Libya at around 2,000, and this number has been growing. SOE ownership and control is particularly complex in Libya. While the Ministry of Finance (MoF) fully owns some SOEs, others are owned through government investment vehicles or through the central bank (such as the public banks). Profitable SOEs have not paid dividends to the MoF since 2010, while loss-making entities receive budget support to pay wages. Streamlining ownership structures and creating a specialist unit within the MoF to oversee the SOEs would help to capture their impact on the fiscal position and enhance monitoring and oversight. Over the medium term, the authorities should consider a gradual and selective process of privatization that is conducive to private sector development.

C. Monetary and Financial Sector

30. The reunification of the central bank would be a crucial step towards achieving financial stability and fostering private sector development. Monetary policy has been complicated by the ongoing central bank divide between the West and the East, which has increased pressure on the banking system. Continued efforts by the authorities to reunify the central bank would mitigate liquidity risks, boost confidence in the banking sector, and foster private sector development.

31. To maintain public confidence in the nominal anchor, frequent changes of the currency peg should be avoided. The exchange rate serves as a key tool for monetary policy in the absence of conventional instruments, and the CBL needs to protect foreign exchange reserves to maintain macroeconomic stability amid political and security risks. The CBL introduced capital control measures to preserve foreign currency reserves in 2015, and the devaluation of the dinar in 2021 allowed some of these restrictions to be relaxed. Staff is currently engaging with the authorities to assess Libya's exchange system to determine if any measures the authorities have introduced are inconsistent with their obligations under Article VIII.

32. The central bank should take concrete steps towards divesting from commercial banks. The CBL owns the four major banks in Libya, which account for approximately 70 percent of total banking system assets and 80 percent of total credit provided. The CBL's ownership of banks

creates a conflict of interest between a shareholder's profit maximization incentive and the regulator's prudential mandate. Until such time when it is possible for the CBL to relinquish ownership of banks, it should establish strong internal safeguards to limit this conflict of interest and ensure that the banks are managed on an arms-length basis.

33. The central bank has made good progress towards updating financial sector regulations and improving supervision, but implementation challenges remain. In 2022, the CBL issued several circulars aimed at enhancing prudential requirements at the banks in the areas of capital, liquidity, and asset quality, and some progress has been made towards Basel II and III implementation. The CBL has also completed work on a new reporting platform that will improve bank data collection and strengthen offsite supervision. Regulations aimed at improving governance and compliance have also been introduced. To be effective, the pace of the reform should be gradual and dependent on implementation and monitoring capacity. This would prevent banks from being overwhelmed by new regulations and strengthen compliance and resilience to improve the functioning and reputation of the sector.

34. Strengthening AML/CFT supervision, increasing the resources allocated to the Financial Intelligence Unit (FIU) and enhancing its autonomy, would reduce financial crime. The AML/CFT framework should be further aligned to the Financial Action Task Force (FATF) recommendations.¹¹ The low number of suspicious activities reports (SAR) submitted to the FIU indicates weak AML/CFT controls at banks, and the backlog of SARs implies inadequate resources at the FIU to investigate suspicious transactions. The CBL should take steps to ensure full implementation of the AML/CFT regulations, and address AML/CFT control failure at banks. FIU operational autonomy should be enhanced, and its resources increased to deal with SAR filings, especially once AML/CFT controls at banks improve, and the number of filings rises.

35. Banks are likely in need of recapitalization. At face value, the banking sector has ample capital (the capital adequacy ratio is around 16 percent), but this is largely due to deficiencies in asset impairment recognition and provisioning. In addition, over 60 percent of banks' assets are exposures to the CBL that do not have capital requirements. In this context, if banks increase credit supply to the economy by shifting exposures from the CBL to private sector borrowers (who have positive risk weights), the new assets will quickly erode the existing capital buffers. The 2021 devaluation of the LYD has also increased the value of foreign currency-denominated exposures and caused some banks to breach large exposure limits.

36. Underdeveloped legal and administrative procedures impede credit intermediation. To mitigate credit risk and assess the creditworthiness of borrowers, banks rely on a system that includes a credit information bureau and a property registry. However, this information is often outdated and not always used.¹² The closure of the property registry in 2011, the lack of ownership records during the Ghaddafi regime, and weak rule of law, have all had a profound effect on credit

¹¹ See "[The FATF Recommendations \(fatf-gafi.org\)](https://www.fatf-gafi.org)" as amended in February 2023.

¹² A recent CBL circular (4/2023) reaffirms the process to update and use the information in the credit registry, but it is too early to evaluate the impact of this circular on credit intermediation.

growth by depriving banks' access to viable collateral. The authorities should endeavor to develop a plan to reopen the property registry as soon as possible.

37. Unless the authorities wish to revisit the 2013 prohibition on interest, further development of Islamic finance products is needed to mobilize credit. In 2013, the authorities abruptly introduced a law that prohibited charging interest. Since there had been no adequate preparation to ensure a smooth transition to Islamic banking, the already-weak credit intermediation was hampered further.¹³ A decade later, banks are still struggling to develop Islamic finance products, and credit to the private sector is only slightly above its 2014 level. The CBL is also yet to introduce Islamic finance-compliant instruments to manage system liquidity and support monetary policy.

D. Data Adequacy Assessment and Statistical Capacity Building

38. Data provision has serious shortcomings that significantly hamper surveillance. Despite recent improvements in data quality, coverage and timeliness, there are still significant gaps that impact staff's ability to conduct analysis and provide policy advice. A lack of coordination among authorities responsible for preparing and disseminating key economic data creates significant delays and inconsistencies. Many economic surveys were paused after the revolution and have not been restarted due to political instability, funding constraints, and low response rates.

39. Capacity development is needed to improve macroeconomic and financial statistics. Fund support is required to update the compilation practices in line with international statistical guidelines and to improve data quality and dissemination:

- Compiling **national accounts** estimates in line with the 2008 System of National Accounts would help improve coverage of economic activity and international comparability of data.
- The **CPI** should be updated using the results of the upcoming Household Budget Survey (HBS) to better capture changing consumption patterns.
- For **both national accounts and CPI**, capacity development is needed for survey design and improving the quality of estimates.
- Improvements are also needed in the **balance of payments** and **international investment position** statistics.
- Over time, **government finance** statistics should be enhanced to expand coverage to all government units, align revenue and expenditure concepts with the Government Finance Statistics Manual (GFSM) 2014, fully reconcile above- and below-the-line data and stocks and flows of assets and liabilities, and move towards recording fiscal activity on an accrual basis.

¹³ See *IMF Country Report 13/150*.

- To better monitor strengths and vulnerabilities in the financial sector, an expanded list of **financial soundness indicators** (FSI) based on the 2019 FSI guide should be produced and published.

AUTHORITIES' VIEWS

40. The authorities were in broad agreement with staff's macroeconomic assessment. They agreed that oil revenues are expected to support fiscal and external balances in the short term. They also agreed that fiscal restraint is necessary amid continued uncertainty and associated risks to oil revenues. The authorities highlighted the potential to increase non-oil revenue by enforcing existing tax and custom laws and by collecting dividends from SOEs.

41. The authorities agreed that there is an urgent need for a clear economic vision for the country. This would entail the eventual diversification away from hydrocarbons to promote private sector development and reduce spending on public sector wages and subsidies. They stressed that the ongoing political and security situation make such a strategy difficult to design and implement but welcomed the Fund's advice in this area.

42. Efforts to reform the fiscal framework will continue. The authorities have successfully removed some food subsidies in recent years. However, plans to reform fuel subsidies have been fraught by political divisions and the lack of public support. Recent spending increases have been procyclical and will be difficult to unwind if oil revenues decline. In this context, the authorities acknowledge the need for an agreed-upon budget to better prioritize spending over the medium term. This entails continued efforts to reform and modernize the PFM framework, improve fiscal transparency, including through tighter control over SOEs, and strengthen tax administration. The authorities noted that they would welcome further technical assistance and capacity development in these areas.

43. The reunification of the central bank is crucial but faces challenges. The authorities agree that the division of the central bank has complicated policymaking and increased risks to financial stability. While the reunification process is expected to continue, it remains subject to significant political risks beyond the control of the central bank.

44. Libya is committed to maintaining its currency peg to the SDR. The authorities welcomed staff's assessment that Libya's external position is broadly in line with the medium-term fundamentals and desired policy settings and agreed that frequent changes to the currency peg should be avoided to maintain economic and financial stability, and to protect reserves.

45. The central bank is committed to enhancing financial sector regulation and supervision. Great efforts have already been made towards strengthening regulation and supervision, including through enhancements to the AML/CFT framework and adopting international standards and best practices. The authorities agree that the key challenge now is implementation, which will require developing human capital at the banks and upgrading processes,

systems, and controls. The CBL is improving its own supervisory capacity in collaboration with international partners.

46. The central bank agreed that banks need recapitalization. The CBL is aware of the need to recapitalize the banks to support credit growth and has taken steps toward establishing the true NPL numbers. This will be followed by a study to identify capital shortfalls and develop plan to recapitalize the banks.

47. The central bank recognizes the need to develop Islamic finance products. There is a need to further develop these products to mobilize credit to the private sector. The authorities welcome the Fund's advice in this area through technical assistance and capacity development.

48. The central bank plans to eventually divest from commercial banks. The CBL ownership of banks creates conflicts of interest and complicates governance. The CBL noted the difficulties divesting in the current environment but agreed it should be a medium-term objective.

49. The authorities agreed that legal and administrative processes require improvement. The ability of banks to provide credit hinges on the availability of viable collateral and reactivating the property registry is a key element of that. The credit information is updated with delays and not used systematically to assess credit. The authorities noted challenges in the current environment such as weak ownership rights before the 2011 revolution and the current security situation. The CBL has taken steps to strengthen reporting to the credit information center and encourage its use by banks in credit assessment.

50. The authorities recognize the need to continue enhancing transparency and statistical capacity. Significant efforts have been made toward improving data provision and transparency. The authorities appreciate that these efforts have been recognized by the Fund. Libya remains committed to continued progress on this front with the help of further capacity development support from the Fund and other partners.

STAFF APPRAISAL

51. Libya's economic fortunes will be tied to oil and gas production for the foreseeable future. Assuming fiscal spending remains contained, fiscal and external surpluses are expected to gradually decline over the coming years. However, this outlook is subject to considerable risks, the most important of which relate to volatility in oil revenues.

52. The key medium-term challenge is to diversify away from hydrocarbons while fostering stronger and more inclusive private sector growth. Structural reform efforts should focus on strengthening institutions and the rule of law and developing a clear economic vision for the country. Procyclical spending should be avoided to guard against risks from lower oil revenues and a potential loss of reserves. To this end, Libya urgently needs an agreed-upon budget to improve transparency and better manage its fiscal position. At the same time, a medium-term plan is needed to scale up development spending to alleviate growth bottlenecks and reduce fiscal costs

associated with very high spending on public sector wages and subsidies. This would require comprehensive reforms to strengthen the PFM framework with a view towards building transparency, institutional capacity, and strengthening tax administration and compliance.

53. To maintain public confidence in the nominal anchor, the central bank should continue in its efforts to reunify and avoid frequent changes to the currency peg. The reunification of the central bank is a crucial step towards achieving financial stability and fostering private sector development. Keeping the peg unchanged would allow the central bank to protect foreign exchange reserves and maintain macroeconomic stability amid political and security risks. In 2022, Libya's external position was broadly in line with the fundamentals and desirable policy settings.

54. Steps must be taken to improve credit intermediation. The central bank should be commended for introducing wide-ranging regulations aimed at modernizing the financial sector. The challenge now is to implement these new regulations in an environment of limited capacity. The central bank has also made progress in improving its systems, including bank reporting platform, and should strive to continue these efforts. To enhance monitoring and supervision, the central bank will likely need to develop a roadmap for recapitalizing the banking sector to better facilitate the flow of credit to the economy. In addition, the central bank, as the owner of the major commercial banks, should introduce measures to limit conflict of interest and, for the medium term, a plan to eventually divest from the sector. Finally, the reactivation of the property registry is essential for the banks to be able to clearly establish the creditworthiness of borrowers.

55. Unless the authorities wish to revisit the 2013 prohibition on interest, further development of Islamic finance products is needed to mobilize credit. Banks should be encouraged to develop Islamic finance products that meet the needs of their customers. The CBL should also introduce Islamic finance-compliant instruments to help manage system liquidity and support monetary policy.

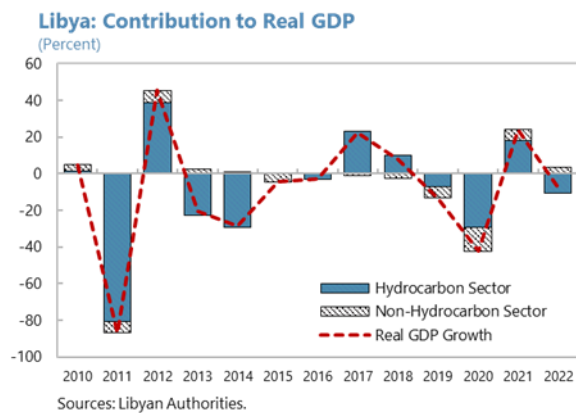
56. There is a need to enhance data provision and statistical capacity. Data compilation and reporting remains weak, and responsibilities are spread over several agencies. In this context, capacity development and enhancing information-sharing and coordination across agencies is of crucial importance.

57. Staff is engaging with the authorities to assess compliance with obligations under Article VIII of the Fund's Articles of Agreement. There are potential Article VIII concerns, including the existence of parallel market premium related to the restrictions on the provision of foreign exchange. To the extent any of the measures are inconsistent with Article VIII, staff will encourage the authorities to either eliminate them or request their approval by the Board, if the authorities meet the approval criteria.

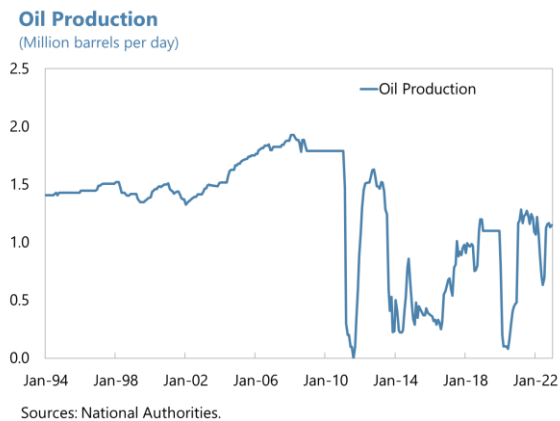
58. Staff recommends that the next Article IV consultation be held on the standard 12-month cycle.

Figure 1. Real Sector

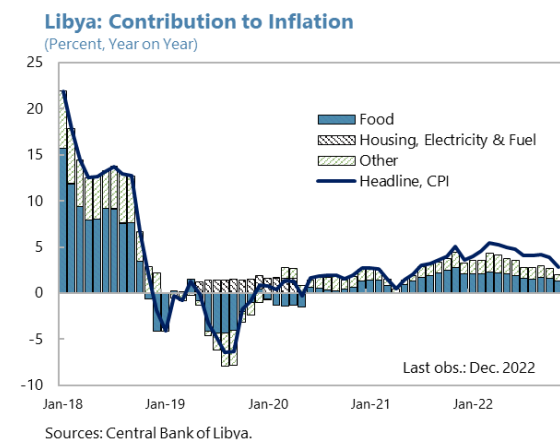
GDP is heavily dependent on oil production...



and oil production has been erratic since the revolution.



Food price controls and fuel subsidies have contributed to subdued import-price inflation...



and inflation has remained fairly stable.

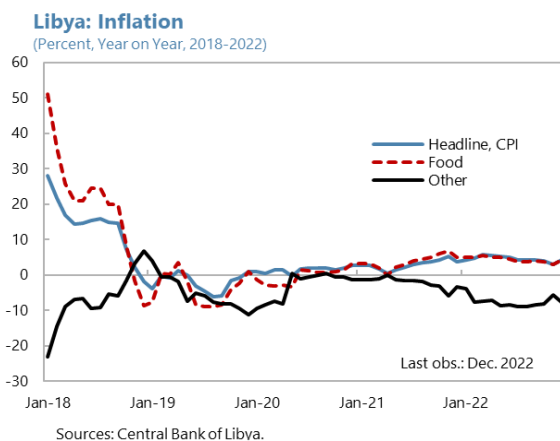
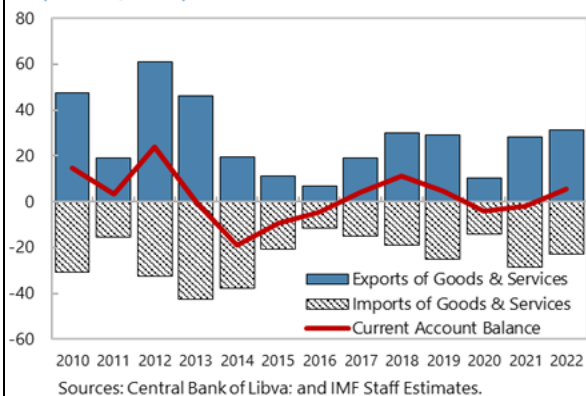


Figure 2. External Sector

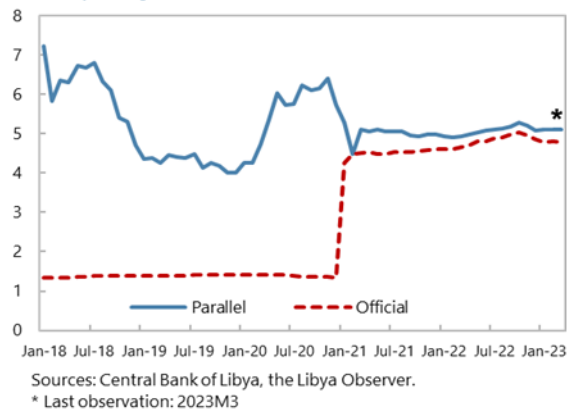
Current account was in surplus in 2021-22 due to higher oil prices and production.

Libya: Current Account Deficit
(US Dollar, billions)



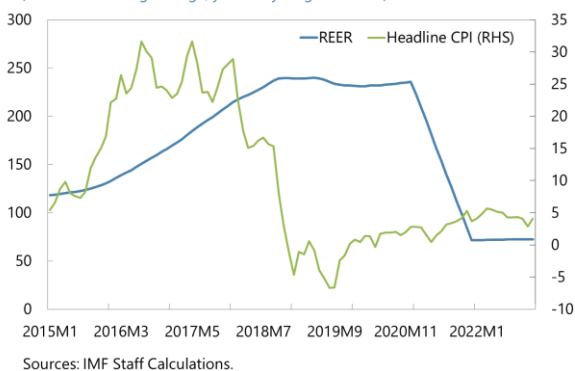
Currency devaluation and easing of capital controls narrowed the gap between the official and parallel exchange rates.

Libya: Exchange Rates
(Monthly Average)



The real effective exchange rate had been appreciating for several years before the devaluation.

Real Effective Exchange Rate and Headline CPI
(12-month moving average, year-on-year growth rate)



Libya's largest trading partners are in Europe due to geographic proximity.

Share of Libya Exports by Country, 2020
(Percent)

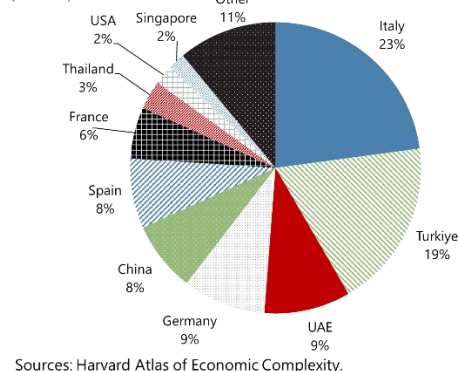
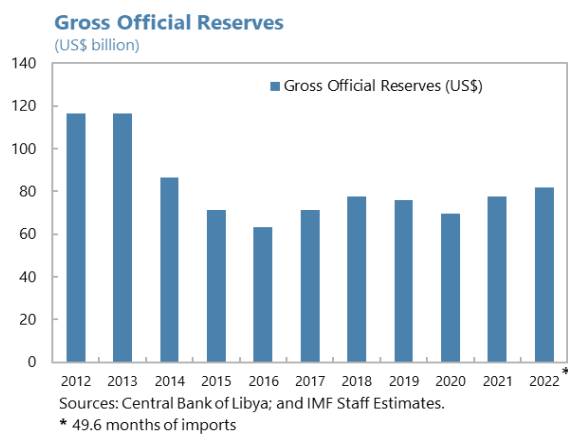


Figure 3. Monetary Sector

Gross official reserves are high and have been rising since 2020.



Liquidity shortages and diminished trust in the banking sector have increased cash in circulation over the past decade.

Currency in circulation (percent of broad money)

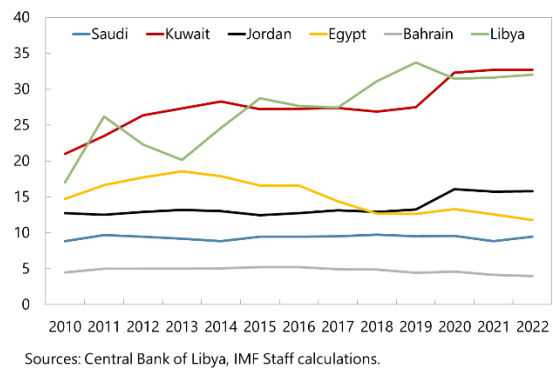
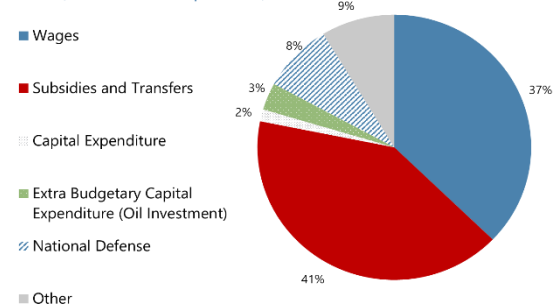


Figure 4. Libya: Fiscal Sector

Wages and subsidies dominate fiscal spending...

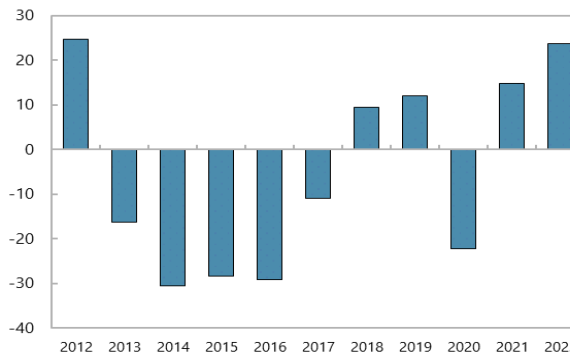
Libya: Composition of Expenditure: 2022
(Percent of Total Expenditure)



Sources: Central Bank of Libya; IMF Staff Estimates.

The fiscal position improved in 2021 and 2022 with the recovery in revenues from hydrocarbons.

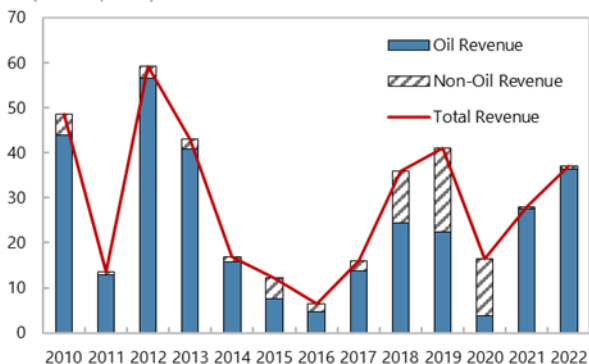
Fiscal Balance
(Percent of GDP)



Sources: Central Bank of Libya, Ministry of Finance; and IMF Staff Estimates.

Non-oil revenues are typically very small but were boosted from 2018-20 by a tax on foreign exchange transactions.

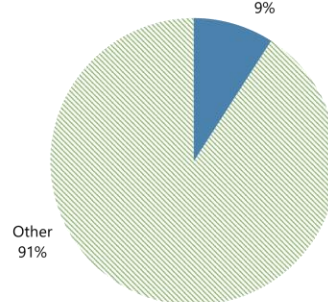
Libya: Central Government Revenue
(Billions, USD)



Sources: Central Bank of Libya; and IMF Staff Estimates.

Imports constitute a large share of GDP but revenue from customs is very low.

Contribution to non-oil revenue
(percent, year to November 2022)



Sources: National Authorities.

Table 1. Libya: Selected Economic Indicators, 2018-2028

	2018	2019	2020	2021	Est.			Proj.			
					2022	2023	2024	2025	2026	2027	2028
(Annual percentage change, unless otherwise indicated)											
National income and prices											
Real GDP (at market price)	7.9	-11.2	-29.5	28.3	-11.4	18.8	8.2	7.4	4.7	2.5	2.6
Nonhydrocarbon	-8.5	-11.6	-19.4	5.9	-1.2	17.1	7.9	6.8	6.6	6.4	6.3
Hydrocarbon	21.0	-10.9	-35.5	45.0	-17.0	20.0	8.3	7.7	3.6	-0.1	0.0
Nominal GDP in billions of Libyan dinars 1/	104.7	96.8	65.1	159.0	178.5	198.8	210.0	221.9	231.6	236.8	242.9
GDP deflator	3.6	4.2	-4.8	90.4	26.8	-6.3	-2.3	-1.6	-0.3	-0.2	0.0
CPI inflation											
Period average	14.0	-2.9	1.5	2.9	4.5	3.4	2.9	2.9	2.9	2.9	2.9
End of period	-1.2	0.2	2.8	3.7	4.1	2.9	2.9	2.9	2.9	2.9	2.9
(In percent of GDP)											
Central government finances											
Revenues	46.9	59.2	35.1	79.5	100.0	64.4	62.4	61.4	59.0	56.3	53.6
Of which: Hydrocarbon	32.0	32.4	8.1	78.1	97.9	62.1	60.4	59.4	57.0	54.1	51.3
Surtax on foreign exchange purchases 2/	12.6	24.2	23.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure and net lending	37.6	47.3	57.3	64.7	76.5	55.8	53.5	52.5	50.9	50.5	49.8
Of which: Capital expenditures	3.3	4.8	2.8	10.9	3.6	3.3	3.1	2.9	2.8	2.7	2.7
Overall balance	9.4	11.9	-22.3	14.8	23.6	8.5	8.9	8.8	8.1	5.8	3.8
(Annual percentage change unless otherwise indicated)											
Money and credit											
Base Money	-8.5	-14.2	2.2	2.8	-1.3	15.8	5.2	8.3	9.0	9.2	10.0
Currency in circulation	12.5	5.6	8.3	-20.0	-1.4	16.2	2.9	4.7	2.2	1.5	5.0
Money and quasi-money	-0.8	-2.4	16.0	-20.3	...	...	...	...	...	...	...
Net credit to the government (Libyan Dinar, billion)	-8.4	-20.4	-1.4	-94.1	...	...	...	...	...	...	...
Credit to the economy (% of GDP)	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
(In billions of U.S. dollars; unless otherwise indicated)											
Balance of payments											
Exports	29.8	29.1	10.3	28.0	31.2	27.6	27.8	28.9	29.4	28.9	28.5
Of which: Hydrocarbon	28.9	27.5	7.5	25.7	29.1	25.5	26.2	27.3	27.5	26.8	26.1
Imports	13.8	17.7	8.0	18.6	15.0	12.9	13.0	13.4	13.3	13.1	12.7
Current account balance	11.3	4.6	-4.0	-1.9	5.4	7.6	10.2	10.5	10.3	9.4	9.4
(As percent of GDP)	14.7	6.7	-8.5	-5.4	14.7	18.4	23.5	22.7	21.2	18.9	18.3
Capital Account (including E&O)	-4.1	-5.2	-7.5	9.3	3.3	-4.1	-6.3	-6.4	-6.4	-6.5	-7.4
Overall balance	6.3	-1.6	-6.6	7.4	8.8	3.5	3.9	4.1	3.9	2.9	1.9
Reserves											
Gross official reserves	77.6	76.0	69.4	77.7	82.0	85.5	89.4	93.5	97.4	100.3	102.2
In months of next year's imports	37.2	63.8	29.0	40.4	49.6	67.1	76.0	78.2	83.9	89.9	94.0
Gross official reserves in percentage of Broad Money	97.0	97.7	73.8	354.9	358.8	362.4	365.5	365.5	363.4	356.5	345.1
Total foreign assets (including LIA investments)	149.9	149.1	142.7	151.1	156.4	161.8	167.4	172.9	177.9	181.8	184.8
Exchange rate											
Official exchange rate (LD/US\$, period average)	1.37	1.40	1.39	4.51	4.81	...	...	...	...	...	...
Parallel market exchange rate (LD/US\$, period average)	6.15	4.28	5.57	5.06	5.08	...	...	...	...	...	...
Parallel market exchange rate (LD/US\$, end of period)	4.42	4.08	5.05	5.03	5.18	...	...	...	...	...	...
Crude oil production (millions of barrels per day - mbd)											
Of which: Exports	0.97	1.10	0.30	1.2	1.0	1.20	1.30	1.40	1.45	1.45	1.45
Crude oil price (US\$/bbl, WEO adjusted for Libya)	0.79	0.89	0.24	1.0	0.8	0.98	1.06	1.14	1.18	1.18	1.18
	68.5	57.1	37.8	64.4	89.6	68.0	64.1	62.3	60.8	59.4	58.0

Sources: Libyan authorities; and IMF staff estimates and projections

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

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

Table 2. Libya: Fiscal Sector

	2018	2019	2020	2021	Est.			Proj.			2028
					2022	2023	2024	2025	2026	2027	
(In millions of Libyan dinars)											
Total Revenue and Grants	49,143	57,365	22,818	126,451	178,561	127,964	131,026	136,134	136,656	133,269	130,222
Hydrocarbon Revenue	33,476	31,395	5,280	124,200	174,720	123,504	126,918	131,708	131,886	128,129	124,681
Nonhydrocarbon Revenue	15,667	25,971	17,538	2,251	3,841	4,460	4,108	4,426	4,770	5,140	5,541
Total expenditure and net lending	39,311	45,813	37,310	102,876	136,459	110,994	112,269	116,549	117,906	119,478	121,063
Total Expenditure	39,311	45,813	37,310	102,876	136,459	110,994	112,269	116,549	117,906	119,478	121,063
Current expenditure, of which:	35,896	41,176	35,509	85,485	129,959	104,494	105,769	110,049	111,406	112,978	114,563
Wages	23,606	24,512	21,817	33,065	50,800	50,800	52,832	54,945	56,044	57,165	58,308
Goods and services	5,663	9,429	3,565	7,999	23,311	23,311	23,311	23,311	23,311	23,311	23,311
Subsidies and transfers	6,627	7,235	5,600	37,930	55,848	30,383	29,626	31,793	32,051	32,503	32,944
Capital expenditure	3,415	4,638	1,801	17,390	6,500	6,500	6,500	6,500	6,500	6,500	6,500
Overall balance	9,832	11,552	-14,492	23,576	42,102	16,970	18,757	19,585	18,750	13,791	9,159
(In percent of nominal GDP)											
Total Revenue	46.9	59.2	35.1	79.5	100.0	64.4	62.4	61.4	59.0	56.3	53.6
Hydrocarbon	32.0	32.4	8.1	78.1	97.9	62.1	60.4	59.4	57.0	54.1	51.3
Nonhydrocarbon	15.0	26.8	27.0	1.4	2.2	2.2	2.0	2.0	2.1	2.2	2.3
Total expenditure and net lending	37.6	47.3	57.3	64.7	76.5	55.8	53.5	52.5	50.9	50.5	49.8
Total Expenditure	37.6	47.3	57.3	64.7	76.5	55.8	53.5	52.5	50.9	50.5	49.8
Current expenditure, of which:	34.3	42.5	54.6	53.8	72.8	52.6	50.4	49.6	48.1	47.7	47.2
Wages	22.6	25.3	33.5	20.8	28.5	25.6	25.2	24.8	24.2	24.1	24.0
Goods and services	5.4	9.7	5.5	5.0	13.1	11.7	11.1	10.5	10.1	9.8	9.6
Subsidies and transfers	6.3	7.5	8.6	23.9	31.3	15.3	14.1	14.3	13.8	13.7	13.6
Capital expenditure	3.3	4.8	2.8	10.9	3.6	3.3	3.1	2.9	2.8	2.7	2.7
Overall balance	9.4	11.9	-22.3	14.8	23.6	8.5	8.9	8.8	8.1	5.8	3.8
Memo item:											
Nominal GDP (in millions of Libyan dinars)	104,674	96,836	65,065	158,989	178,484	198,767	209,998	221,866	231,560	236,764	242,931
Nonhydrocarbon nominal GDP (in millions of Libyan dinars)	60,587	57,890	59,481	39,888	45,279	49,379	53,851	58,728	64,047	69,847	76,173

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

Table 3. Libya: Monetary Sector

	2018	2019	2020	2021	Est. 2022
(In millions of Libyan Dinar)					
Broad money	111,566	108,889	126,271	100,656	110,561
Money	108,246	105,569	122,950	97,335	107,239
Quasi-money	3,320	3,320	3,320	3,320	3,321
Net claims on government	-8,352	-20,389	-1,374	-94,087	-136,678
Claims on the economy	17,405	18,173	18,289	21,138	24,827
Claims on nonfinancial public enterprises	5,244	6,104	5,931	6,692	7,962
Claims on the private sector	11,648	11,304	11,633	13,717	16,215
Net foreign assets	116,256	114,306	101,088	359,934	399,369
Domestic credit	9,053	-2,216	16,915	-72,949	-111,851
Net claims on government	-8,352	-20,389	-1,374	-94,087	-136,678
(Change in percent)					
Broad money	-0.8	-2.4	16.0	-20.3	9.8
Money	-0.8	-2.5	16.5	-20.8	10.2
Quasi-money	0.0	0.0	0.0	0.0	0.0
Net claims on government	305.8	-144.1	93.3	-6746.9	-45.3
Claims on the economy	-4.7	4.4	0.6	15.6	17.5
Claims on nonfinancial public enterprises	-6.0	16.4	-2.8	12.8	19.0
Claims on the private sector	-4.2	-2.9	2.9	17.9	18.2
(Percent change over beginning broad money stock)					
Net foreign assets	9.4	-1.7	-12.1	205.0	39.2
Domestic credit	-11.8	-10.1	17.6	-71.2	-38.6
Net claims on government	-11.0	-10.8	17.5	-73.4	-42.3
Claims on the economy	-0.8	0.7	0.1	2.3	3.7
Claims on nonfinancial public enterprises	-0.3	0.8	-0.2	0.6	1.3
Claims on the private sector	-0.5	-0.3	0.3	1.7	2.5
Sources: Central Bank of Libya; and Fund staff estimates and projections.					

Table 4. Libya: External Sector

	2018	2019	2020	Est.			Proj.				
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	(In millions of U.S. dollars)										
Current account	11,274	4,642	-3,976	-1,896	5,441	7,588	10,236	10,494	10,273	9,405	9,365
Goods and services	11,113	4,243	-3,814	-568	8,212	7,828	8,384	9,092	9,608	9,492	9,585
Goods	16,041	11,339	2,285	9,351	16,190	14,684	14,732	15,590	16,079	15,847	15,775
Exports (f.o.b)	29,825	29,075	10,308	27,978	31,171	27,558	27,779	28,946	29,378	28,907	28,497
Hydrocarbon	28,930	27,465	7,483	25,727	29,132	25,516	26,207	27,308	27,456	26,766	26,144
Others	895	1,610	2,825	2,251	2,039	2,041	1,572	1,638	1,922	2,141	2,353
Imports (f.o.b)	-13,784	-17,737	-8,023	-18,627	-14,981	-12,874	-13,047	-13,356	-13,299	-13,061	-12,723
Services	-4,928	-7,096	-6,099	-9,920	-7,978	-6,856	-6,348	-6,498	-6,471	-6,355	-6,190
Receipts	134	167	162	131	105	91	92	94	94	92	89
Payments	-5,062	-7,263	-6,261	-10,051	-8,083	-6,946	-6,440	-6,592	-6,564	-6,447	-6,280
Income, of which:	913	1,442	776	-329	-1,444	831	2,935	2,525	1,786	1,028	891
Direct investment income	-1,177	-1,107	-220	-1,419	-1,685	-1,476	-1,516	-1,579	-1,579	-1,579	-1,579
Other investment income	2,038	2,317	1,042	985	149	2,232	4,394	4,072	3,359	2,632	2,529
Current transfers	-752	-1,044	-939	-999	-1,327	-1,072	-1,083	-1,124	-1,121	-1,115	-1,110
Capital and financial account	-2,837	-3,430	-5,785	-4,766	3,315	-4,069	-6,348	-6,418	-6,355	-6,513	-7,437
Direct investment (net)	-276	269	-351	-399	-439	-483	-531	-585	-643	-707	-778
Portfolio investment (net)	25	786	177	212	254	305	366	439	527	633	759
Other investment (net)	-2,587	-4,485	-5,610	-4,736	3,500	-3,891	-6,183	-6,273	-6,239	-6,438	-7,418
Errors and omissions	-2,115	-2,828	3,155	14,034	0	0	0	0	0	0	0
Overall balance	6,322	-1,616	-6,606	7,372	8,756	3,519	3,888	4,076	3,918	2,892	1,928
Memorandum items											
Total foreign assets (in billions of U.S. dollars)	144.9	144.0	137.7	146.1	151.3	156.7	162.4	167.8	172.9	176.8	179.8
LIA investments outside CBL	67.3	68.1	68.3	68.4	69.3	71.2	73.0	74.4	75.5	76.5	77.6
Gross official reserves (in billions of U.S. dollars)	77.6	76.0	69.4	77.7	82.0	85.5	89.4	93.5	97.4	100.3	102.2
in months of next year's imports	37.2	63.8	29.0	40.4	49.6	52.7	53.8	56.5	59.9	63.3	67.2

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

Table 5. Libya: Financial Soundness Indicators

	2018	2019	2020	2021
Core Set:				
Regulatory capital to risk-weighted assets	17.8	18.4	19.2	16.6
Nonperforming loans net of provisions to capital	5.1	0.8	n.a.	n.a.
Nonperforming loans to gross loans	21	21	21	21
Return on assets	1	0.7	0.5	0.9
Return on equity	20.9	12.3	9.8	18.5
Liquid assets to total assets	74.3	71.9	72.1	68.4
Liquid assets to short-term liabilities	108.6	102.4	101.6	n.a.
Net open position in foreign exchange to capital and reserves	103.4	99.2	51.7	n.a.
Encouraged Set:				
Capital to assets	4.6	5.5	4.9	4.7
Average lending rate	0.0	0.0	0.0	n.a.
Average deposits rate	0.0	0.0	0.0	n.a.
Spread over 3-month deposit rate	0.0	0.0	0.0	n.a.
Foreign-currency-denominated assets to total assets	6.2	5.5	3.1	n.a.
Foreign-currency-denominated liabilities to total assets	0.5	0.1	0.2	n.a.
Loan provisions to nonperforming loans	90.4	98.6	99.4	89.2
Ratio of banks' lending to banks' capital	254.1	276.8	272.5	309.3

Source: Central Bank of Libya.

Annex I. Risk Assessment Matrix¹

Risk	Likelihood	Expected Impact if Risk Materializes	Policy Response and Recommendations
Global Risks			
Intensification of regional conflict(s). Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, refugee flows, FDI and financial flows, and payment systems.	High	Low	Initiate targeted support for the most vulnerable to protect against rising food prices. Accommodate demand on FX and provide domestic liquidity as needed.
		Higher food prices could add to fiscal spending through higher indirect subsidies, or could lead to social discontent if price pressures are not contained. Higher energy prices, on the other hand, would reduce fiscal and external vulnerabilities.	
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts and export restrictions) and demand fluctuations (e.g., reflecting China reopening) causes recurrent commodity price volatility, external and fiscal pressures, and social and economic instability.	High	Medium	Initiate energy subsidy reform, replacing broad subsidies with targeted support for the most vulnerable. Replace untargeted grants and allowances with well-designed social support programs
		Higher food prices add to fiscal pressures through higher indirect subsidies, while lower energy prices would significantly erode fiscal space and weaken the external position.	
Social discontent. Supply shocks, high inflation, real wage drops, and spillovers from crises in other countries worsen inequality, trigger social unrest, and give rise to financing pressures and damaging populist policies with possible spillovers to other EMDEs. This exacerbates imbalances, slows growth, and triggers market repricing.	High	High	Proceed with wide ranging governance and anti-corruption reforms, build adequate fiscal and FX reserve buffers, adopt a medium-term fiscal anchor, and transparently communicate fiscal goals to the public.
		The fragile status quo could revert into active conflict and oil blockades to be used again to exert political pressure. This would endanger fiscal sustainability and exacerbate external imbalances.	
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth slowdown, with outright recessions in some countries, spillovers through trade and financial channels, and downward pressures on some commodity prices.	Medium	High	Avoid procyclicality of fiscal spending by reducing wasteful current spending and build fiscal space to allow for gradual adjustment. Replace broad subsidies with targeted social support to the
		Sharp global growth slowdown leading to a sustained decline in oil and gas prices would significantly weaken the fiscal and external positions.	
Deepening geo-economic fragmentation. Broader and deeper conflict(s) and weakened international cooperation lead to a more rapid reconfiguration of trade and FDI, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.	High	Medium	Accelerate fiscal and structural reforms to boost potential growth, by incentivizing the diversification of the export base away from oil and enhancing the competitiveness of the non-oil export sector.
		Deepening geoeconomic fragmentation and geopolitical tensions could disrupt trade flows and hamper economic diversification attempts. Libya could nevertheless benefit in the short-term if there is, an increase in hydrocarbon prices.	
Extreme climate events. Extreme climate events cause more severe than expected damage to infrastructure (especially in smaller vulnerable economies) and loss of human lives and livelihoods, amplifying supply chain disruptions and inflationary pressures, causing water and food shortages, and reducing growth.	Medium	Medium	Invest in climate-resilient infrastructure and agriculture Accelerate economic diversification away from hydrocarbons.
		Libya is vulnerable, like other countries in North Africa, to climate shocks. In addition to the impact on lives and livelihoods, these shocks could entail large fiscal costs and add to inflationary pressures.	
Domestic Risks			
Political instability turns into active conflict. Delays in holding presidential and parliamentary elections could lead to active conflict and further blockades of oil facilities and export terminals.	High	High	Clearly communicate plans for elections and initiate reforms to target subsidies and share oil wealth more equitably.
		Fiscal and external positions would deteriorate, leading to loss of FX reserves and financial sector instability.	
Wasteful fiscal spending to gain popular support. In the absence of a political solution, political rivals could engage in more wasteful current expenditure such as grants and allowances to shore up support.	High	High	Phase out broad-based allowances and grants and, if needed, replace them with social support measures that target the vulnerable. Increase capital expenditure to rebuild necessary infrastructure, and initiate structural reforms that will strengthen the private sector and create jobs.
		Higher current expenditure will put the fiscal position on an unsustainable path, leaving the country vulnerable to future shocks.	

¹The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Annex II. External Sector Assessment

Overall Assessment: *Libya's external position in 2022 was broadly in line with the levels implied by fundamentals and desirable policy settings. Based on results from the EBA-lite current account (CA) model, the CA gap is estimated at -0.6 percent. The external position is heavily reliant on hydrocarbon exports. Foreign exchange reserves are adequate and are expected to grow further in the short term.*

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

Current Account

Background. Libya's current account is largely dependent on hydrocarbons, with the share of hydrocarbons in total exports being over 90 percent. The current account balance improved in 2022, from a deficit of 5.4 percent of GDP in 2021 to a surplus of 14.7 percent of GDP in 2022. This improvement is driven primarily by the increase in oil prices. In the years when oil revenues were low, import controls were introduced to help protect reserves and support the external balance. Over the medium-term, a projected increase in hydrocarbon production to 1.45 million barrels per day will offset an expected decline in oil prices to maintain exports.

Assessment. The EBA-lite current account (CA) model estimate for the current account gap is -0.6 percent. Using an elasticity of -0.3, the result points to an overvaluation of Libya's real effective exchange rate by approximately 1.7 percent. This assessment of the current account balance is broadly in line with the level implied by fundamentals and desirable policy settings. Going forward, exchange rate stability and higher hydrocarbon production would help maintain the current account balance closer to the norm as hydrocarbon prices gradually decline.

Libya: Model Estimates for 2022 (in percent of GDP)	
	CA model 1/ (in percent of GDP)
CA-Actual	14.7
Cyclical contributions (from model) (-)	4.7
Natural disasters and conflicts (-)	0.1
Adjusted CA	9.9
CA Norm (from model) 3/	10.5
Adjustments to the norm (-)	0.0
Adjusted CA Norm	10.5
CA Gap	-0.6
o/w Relative policy gap	21.7
Elasticity	-0.3
REER Gap (in percent)	1.7
1/ Based on the EBA-lite 3.0 methodology	
2/ Cyclically adjusted, including multilateral consistency adjustments.	
Real Exchange Rate	
<p>Background. The dinar is pegged to the SDR. Since January 2021, the official rate has been SDR 0.1555 per LYD 1. The real effective exchange rate depreciated sharply due to a currency devaluation in January 2021 and has since been relatively stable.</p> <p>Assessment. Consistent with the staff CA gap and based on an elasticity of -0.3, staff assesses the REER to be overvalued by about 1.7 percent. Exchange rate movements have a limited impact on competitiveness in the short run as oil is the main exported product and there is limited substitutability between imports and domestically produced products.</p>	
Capital and Financial Accounts: Flows and Policy Measures	
<p>Background. The capital and financial accounts are primarily driven by other investments, concentrated in the oil sector in the form of reinvestments by oil companies.</p> <p>Assessment. Diversification of the economy away from hydrocarbons and development of the private sector would help to increase and better channel investments. Efforts to improve the business climate and policy predictability could help attract more investments over the medium term.</p>	
FX Intervention and Reserves Level	
<p>Background. Libya's gross official reserves remain very high by any metric, standing at US\$82 billion at the end of 2022, more than 200 percent of GDP and covering more than 4 years of imports. Assuming fiscal spending remains contained, reserves are projected rise further as current account surpluses gradually decline, reaching more than US\$100 billion by 2028.</p> <p>Assessment. Reserves play a dual role of providing buffers for precautionary motives and savings for future generations. Against the backdrop of heightened political and security risks, reserves are adequate for these purposes.</p>	

Annex III. Debt Sustainability Analysis

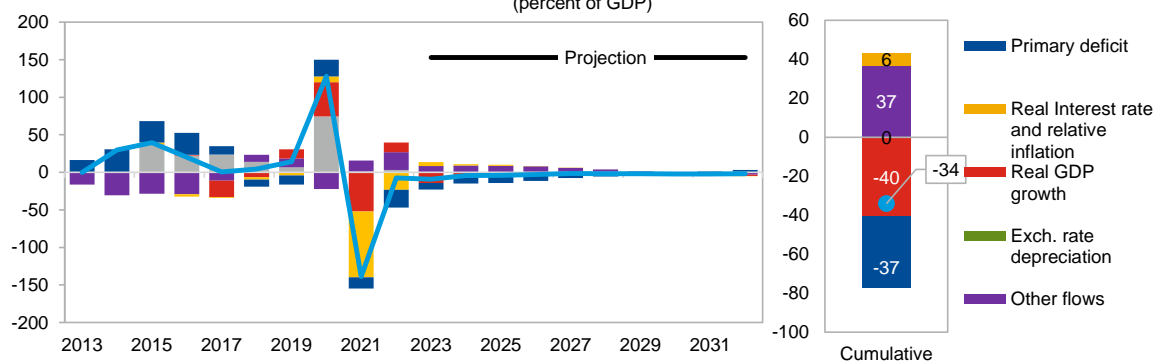
Libya: Baseline scenario

(percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Public debt	90.5	81.3	76.9	72.8	69.7	68.2	66.5	64.5	62.4	60.4	58.4
Change in public debt	-7.4	-9.2	-4.3	-4.1	-3.0	-1.5	-1.7	-1.9	-2.1	-2.1	-2.0
Contribution of identified flows	-10.7	-9.2	-4.3	-4.1	-3.0	-1.5	-1.7	-1.9	-2.1	-2.1	-2.0
Primary deficit	-23.6	-8.5	-8.9	-8.8	-8.1	-5.8	-3.8	-1.9	-0.1	1.6	3.2
Noninterest revenues	100.0	64.4	62.4	61.4	59.0	56.3	53.6	51.1	48.5	46.0	43.7
Noninterest expenditures	76.5	55.8	53.5	52.5	50.9	50.5	49.8	49.1	48.4	47.6	46.8
Automatic debt dynamics	-10.7	-9.2	-4.3	-4.1	-3.0	-1.5	-1.7	-1.9	-2.1	-2.1	-2.0
Real interest rate and relative inflation	-23.3	5.1	1.8	1.2	0.2	0.1	0.0	-0.3	-0.4	-0.4	-0.4
Real interest rate	-23.3	5.1	1.8	1.2	0.2	0.1	0.0	-0.3	-0.4	-0.4	-0.4
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	12.6	-14.3	-6.1	-5.3	-3.3	-1.7	-1.7	-1.7	-1.7	-1.6	-1.6
Real exchange rate	0.0	...	...	...	...	...	...	...	...	...	...
Other identified flows	23.6	8.5	8.9	8.8	8.1	5.8	3.8	1.9	0.1	-1.6	-3.2
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	23.6	8.5	8.9	8.8	8.1	5.8	3.8	1.9	0.1	-1.6	-3.2
Contribution of residual	3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	-23.6	-8.5	-8.9	-8.8	-8.1	-5.8	-3.8	-1.9	-0.1	1.6	3.2
of which: debt service	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Local currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo:											
Real GDP growth (percent)	-11.4	18.8	8.2	7.4	4.7	2.5	2.6	2.6	2.7	2.7	2.7
Inflation (GDP deflator; percent)	26.8	-6.3	-2.3	-1.6	-0.3	-0.2	0.0	0.4	0.7	0.7	0.7
Nominal GDP growth (percent)	12.3	11.4	5.7	5.7	4.4	2.2	2.6	3.0	3.4	3.4	3.4
Effective interest rate (percent)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Contribution to change in public debt

(percent of GDP)



Staff commentary: Under budget law, the central bank can provide advances to the government up to one fifth of estimated revenues in the budget, and the advances should be repaid at the end of the fiscal year. However, over recent years the government has resorted to monetary financing to cover deficits in years where oil revenues have fallen short of expenditures. According to the CBL, the government was indebted to the CBL to the tune of 90.5 percent of GDP in 2022. However, this is not debt in the standard sense. It is denominated in domestic currency, carries no interest, has no repayment schedule, and can be forgiven using administrative procedures without any economic implications.



LIBYA

May 3, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

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

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FUND RELATIONS

(As of December 31, 2022)

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

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

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

Outstanding Purchases and Loans: None

Latest Financial Arrangements: None

Projected Payments to Fund¹

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

	Forthcoming				
	2023	2024	2025	2026	2027
Principal					
Charges/Interest	0.03	0.03	0.03	0.03	0.03
Total	0.03	0.03	0.03	0.03	0.03

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

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

Exchange Rate Arrangements

The de jure and de facto exchange rate arrangements are a conventional peg vis-à-vis the SDR. In June 2003, the Central Bank of Libya (CBL) adopted a conventional fixed peg to the SDR at a rate of LD 1 = SDR 0.5175 and Libya accepted its obligations under Article VIII, Sections 2(a), 3, and 4 of the Articles of Agreement. On April 30, 2015, controls were imposed on foreign currency, that required the CBL approval for import letters of credit (LCs) and limited the amount of foreign currency for personal use. On January 3, 2021, the CBL devalued the LD to the rate of LD 1= SDR 0.1555 and relaxed currency controls by increasing the limits available for LCs and allowing access to FX for SMEs through a preloaded card. As a result, the official and the parallel exchange rates moved closer and only a small gap of around 6 percent remains. Staff is currently engaging with the authorities to assess Libya's exchange system to determine if any measures the authorities have introduced are inconsistent with their obligations under Article VIII. To the extent any of the measures are inconsistent with Article VIII, staff will encourage the authorities to either eliminate them or request their approval by the Board, if the authorities meet the approval criteria.

Article IV Consultations

The last Article IV staff report (13/150) was discussed by the Executive Board on May 17, 2013. At that time Libya was on a 12-month consultation cycle. However, no Article IV consultation have been conducted in the intervening years due to civil unrest and data limitations.

Technical Assistance

Since the previous Article IV in 2013, the primary mode of engagement with the authorities was through technical assistance, the missions fielded mainly in Tunis and Amman and covered the following areas AML/CFT, Public Financial Management (PFM), revenue administration, national accounts, balance of payments and price statistics, financial regulation, and supervision. The following TA missions took place in 2021, 2022 and first two months of 2023.

1. February 2023: METAC mission on the compilation of Producer Price Indices (PPIs).
2. January 2023: METAC mission on the digitalization of the tax administration (Second mission).
3. December 2022: FAD/METAC mission on reviewing public financial management framework and identifying reform priorities and further CD needs.
4. November 2022-February 2023: FAD Peripatetic advisor for ASYCUDA functionalities development.
5. November 2022: METAC mission on the digitalization of the tax administration (first mission).
6. August 2022: METAC/FAD mission on the implementation of core custom functions in ASYCUDA World (AW) IT management system.
7. August 2022: METAC study tour of Port in Jordan by Libyan officials about the use of customs automated system
8. July 2022: STA mission on compiling the monetary and financial statistics for the central bank and depository corporations.

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

FSAP Participation, ROSCs, and OFC Assessments

N/A

RELATIONS WITH THE WORLD BANK GROUP

(As of February 1, 2023)

The activities of the World Bank Group in Libya can be found at:

<https://www.worldbank.org/en/country/libya/overview#2>

STATISTICAL ISSUES

(As of December 31, 2022)

I. Assessment of Data Adequacy for Surveillance

General

Data provision has serious shortcomings that significantly hamper surveillance. Since 2021, the authorities stepped up data collection, analysis, and dissemination, which have led to a significant improvement in data adequacy. However, timeliness of submission, quality, frequency, and coverage of data, including geographical coverage, could be improved. Mechanisms for periodic data collection and sharing between authorities are deficient, and better coordination is required to improve the consistency between national accounts, government statistics, balance of payments, and monetary statistics. Financial soundness indicators (FSIs) and the international investment position (IIP) are not compiled, the national accounts and the BOP data rely heavily on estimates in the absence of many economic surveys and data sources, and the CPI is based on household budget surveys (HBSs) that only cover the Tripoli area.

National Accounts and Price Statistics

The structure of national accounts statistics broadly follows the *System of National Accounts 1993*. The National Bureau for Statistics and Census (NBSC) published a 2006–2019 time series of GDP and estimates for 2020 and 2021, for the first time since 2014. The sources and methods used to compile the estimates are not clear and there is a dearth of data, whether from administrative or survey sources which suffer from low response rate and restricted access to firms. Most surveys for national accounts stopped in 2011. The last establishment census was conducted in 2012, the last “industry” survey was conducted in 2012 (2016 for large establishments); and the last agricultural census in 2007. Major political, economic, and demographic changes have since taken place in Libya and there is a pressing need to restart periodic surveys and the authorities should adopt the *System of National Accounts 2008*. Additional statistics that could be compiled include import and export price indices, industrial production indices, construction activity, and national disposable income.

The NBSC compiles and disseminates a consumer price index (CPI) which broadly corresponds to international standards. The weights of the CPI are based on periodic HBSs, the most recent was conducted during 2008, covering the Tripoli region only. From 2018, the Classification of Individual Consumption by Purpose 1999 (COICOP) has been used to classify the goods and services included in the CPI. The current basket needs to be updated to reflect both the changes that have occurred in the consumer market and current consumer preferences. NBSC is working on a new HBS that will cover households across Libya with results expected by mid-2023.

Government Finance Statistics

Libya’s fiscal data is compiled and presented in a national presentation, which is somewhat aligned with the framework of the *Government Finance Statistics Manual 1986 (GFSM 1986)*. The revenue part is

presented based on a breakdown classification of oil revenues that represent more than 90 percent of total revenues, other sovereign revenues (including taxes and customs), and dues from previous years. The expenditures are presented according to Five chapters: 1) Wages 2) Operational expenses 3) Developmental projects and programs (investments) 4) Subsidies and 5) Extraordinary/emergency financial arrangements. The expenditure data is also presented according to administrative classification, each entity is then organized according to the economic classification chapters as well. The authorities are strongly encouraged to adopt GFSM 2014, the current international guideline for fiscal reporting, which provides data that is more standardized, transparent, consistent, and comparable. The authorities are also encouraged to report annual fiscal data for publication in the *Government Finance Statistics Yearbook* and sub-annual fiscal data for inclusion in *International Finance Statistics*.

External Sector Statistics

The Central Bank of Libya (CBL) compiles the BOP annually and has recently adopted the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6) but some data quality and frequency need to be addressed. There international investment position (IIP) is not compiled. The authorities are strongly encouraged to compile the IIP and improve the data quality and timeliness of the BOP.

Monetary and Financial Statistics

STA has conducted a first TA mission on the monetary and financial statistics to the CBL in August 2022. Subsequently, the MFS data based on the IMF's templates, the Standardized Report Forms (SRFs) for the central bank (1SR) and the other depository corporations (2SR) and conforming with the international standards have been reported and disseminated on the IMF's website.

CBL has reported data until 2019 on some key series of the Financial Access Survey (FAS), including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

Financial Sector Surveillance

The CBL publishes a limited set of financial soundness indicators (FSIs) but has not yet reported to STA the FSIs based on the 2019 FSIs Guide. The authorities are strongly encouraged to compile and report FSIs.

II. Data Standards and Quality

Libya participates in the IMF Enhanced General Data Dissemination System (e-GDDS), the first tier in the IMF Data Standards Initiatives aimed at promoting data transparency, but the country does not yet disseminate the economic data recommended under the e-GDDS through a National Summary Data Page.

Libya: Table of Common Indicators Required for Surveillance
(As of February 5, 2023)

	Date of latest observation	Date received	Frequency of Data ⁴	Frequency of Reporting ⁴	Frequency of Publication ⁴
Exchange rates	February 5, 2023	February 5, 2023	D	D	D
International reserve assets and reserve liabilities of the monetary authorities	December 2022	February 2023	M	M	M
Reserve/base money	December 2022	February 2023	M	M	M
Broad money	December 2022	February 2023	M	M	M
Central bank balance sheet	December 2022	February 2023	M	M	M
Consolidated balance sheet of the banking system	December 2022	February 2023	M	M	M
Interest rates ¹	NA	NA	NA	NA	NA
Consumer price index	December 2022	January 2023	M	M	M
Revenue, Expenditure, Balance and Composition of Financing – General Government	December 2022	January 2023	M	M	M
Revenue, expenditure, balance and composition of financing ² central government	December 2022	January 2023	M	M	M
Stocks of central government and central government-guaranteed debt ³	NA	NA	NA	NA	NA
External current account balance	December 2021	March 2022	Q	I	I
Exports and imports of goods and services	December 2021	March 2022	Q	I	I
GDP	December 2021	March 2022	A	I	I
Gross external debt	December 2021	March 2022	A	I	I
IIP	NA	NA	NA	NA	NA

¹ Libya prohibits interest since 2013.

² Foreign, domestic bank, and domestic nonbank financing.

³ No public debt.

⁴ Daily (D), weekly (W), monthly (M), quarterly (Q), annually (A), irregular (I); and not available (NA).

Statement by Mr. Bijani and Mr. Sassanpour
Libya – 2023 Article IV Consultation
Wednesday, May 24, 2023

At the outset, we would like to convey the appreciation of our Libyan authorities to Fund management and staff, and particularly Mr. Azour, for the resumption of the Article IV consultations with Libya, supported by the flexibility afforded by the Fund's strategy on Fragile and Conflict-Affected States. We would also like to thank the competent Libya team led by Mr. Gershenson for its constructive engagement with the authorities during the Article IV discussions that were preceded by a staff visit in November 2022—both held in Tunis.

The authorities highly appreciate staff's professional views and their recognition of the realities on the ground. They are in broad agreement with the staff's assessment and policy advice and intend to use the staff's sound recommendations in formulating their own reform agenda. The process has already begun.

Political and Institutional Context

Libya is emerging from over 10 years of internal political strife and a costly civil war which has come at a devastating cost for Libya's physical and human capital. The conflict in Libya has had adverse implications not only for Libya itself, but also for its neighbors and the region. Libya's political fragility is being compounded by external actors who are direct participants in the political and security realms in Libya's ongoing conflict, further aggravating the crisis. Consequently, a stable and secure Libya could have immense positive spillovers, particularly given the country's strategic location and its political and economic relations with Europe, Africa, and the Middle East.

Libyans had high aspirations after the February 2011 Revolution that nation-building could soon start through an inclusive participatory political process and establishment of new democratic institutions. Political reconciliation, however, proved elusive. The armed conflict that broke out in July 2014 and persisted until October 2020 fragmented the country and its institutions along the political divide. Two parallel governments with parallel institutions emerged. This affected the Central Bank of Libya (CBL)—always an anchor of economic stability—as its branch in Benghazi in the East became the central bank of the parallel government (later moved to Al-Bayda), but country-wide banking operations continued by resourcefulness of the CBL based in Tripoli. Even at the height of the hostilities, elements of Libya's institutional framework—notably the CBL and the Libyan National Oil Corporation—managed to help navigate the country through significant macroeconomic turmoil. The civil conflict proved very costly in terms of human lives and livelihoods, economic dislocation and destruction of infrastructure. The economic disruptions were further exacerbated by the wide fluctuations of international oil prices in 2014–15, 2020 and in 2022–23, as well as periodic stoppages of Libya's oil production and exports due to blockades of oil fields and export terminals by the powers in the East. The economy and the population suffered greatly, but the biggest loss was the opportunity for Libya to use its enormous natural wealth to build a new prosperous nation. A relatively calm political climate has prevailed since early 2021, but Libya is still some distance away from establishing nation-wide political cohesion, and democratic elections initially planned in December 2021 have been postponed because of

disagreements over the legal framework for elections. It is against this background that the 2023 Article IV Consultation discussions were held with Libya after a hiatus of 10 years.

The international community and the Fund have continued to recognize the Tripoli-based Government of National Accord, and since October 2020, the Government of National Unity (GNU) as the sole legitimate executive government in Libya, and the Governor of the CBL in Tripoli as the Governor for the Fund. Policy dialogue is conducted with the CBL and GNU representatives, although representatives of CBL-Al Bayda have also participated in discussions as part of the CBL team

Economic Context

Production and exports of oil and gas have been the core of the Libyan economy for decades. In the period prior to the 2011 Revolution, and despite the large accumulation of external reserves, the then-Libyan authorities missed the opportunity to optimize Libya's vast natural resource endowment effectively and efficiently to build a dynamic market-oriented economy to ensure intergenerational prosperity for its small and homogenous population. While the population's basic needs for food, health, education, shelter, and employment were met, the prevailing political and economic framework discouraged private sector activity, and economic development was greatly constrained by various structural deficiencies. The oil income was spent very inefficiently but was sufficient to meet the basic needs of the population and still build a strong reserve position. Libya also became a major donor and creditor to many developing countries, mostly in Africa. Many of the legacy loans are being settled now.

The post-Revolution authorities inherited many of pre-existing structural shortcomings and vulnerabilities that had been firmly entrenched in the Libyan economy for decades. Post-Revolution, and especially after the breakout of the armed conflict, the wide fluctuations in oil production, exports and prices were reflected in wide swings in economic activity, and fiscal and external balances, with the net outcome reflected in foreign reserves. In 2020, the loss of oil income was particularly acute as production fell sharply because of the blockade of oil fields by forces in the East combined with the steep decline in international oil prices because of pandemic-related demand destruction. Procyclical spending mitigated the impact of revenue shortfall on the economy at the cost of high fiscal and current account deficits and loss of reserves.

With the strong recovery of oil production and prices in 2021 and 2022, the economy rebounded sharply, and the fiscal and external balances recorded sizable surpluses, and reserves increased. Libya's oil production, if not disrupted by the internal conflict, is governed by the OPEC's production sharing agreements. The authorities are planning to increase oil production gradually from 1.2 million barrels per day (mbd) in 2023 to around 1.5 mbd by 2026. This, and further production increases, however, will be contingent on major investments in the oil sector, the evolution of world demand for oil, and OPEC's global role as the oil market stabilizer.

Fiscal Management

The authorities are cognizant of the policy vacuum and the absence of linkages between fiscal planning, macroeconomic sustainability, and a development strategy. With oil revenues determined

by a rather unpredictable production pattern and volatile international oil prices, the budget outcome is driven by spending on wages and benefits, basic government services, untargeted subsidies and transfers to loss-making state enterprises. In fact, the budget has been an important redistributive vehicle, but at a great cost. With 90 percent of all workers notionally employed by the public sector, and domestic energy prices heavily subsidized, the government policy has been to protect the population nationwide during the internal economic turmoil. The GNU has also paid for salaries of public sector employees in areas controlled by the parallel government, and the highly subsidized fuel is available at a uniform price across the country. In general, the Government seeks to provide inclusive quality public services through strengthened implementation capacity, while ensuring adequate resources to meet existing and future needs.

The authorities recognize that fuel subsidy in Libya is highly regressive primarily benefitting its wealthier population and, through smugglers operating on both sides of the porous border, the neighboring countries where fuel prices are significantly higher. The recent hikes in fuel prices in neighboring countries have further raised the incentive for smuggling at a greater cost to Libya. Increasing domestic fuel prices has been on the authorities' radar for some time, but they have found it difficult to implement reforms in the current environment. Some entrenched subsidies and benefits are very difficult to dislodge. Nevertheless, as part of the efforts to rationalize public spending, the National Economic and Social Development Board of Libya has submitted a subsidy reform proposal to the GNU suggesting a roadmap for the gradual removal of subsidies and improved targeting of direct cash transfers.

Non-oil revenues comprise only 2-3 percent of GDP,¹ but there is some limited short-term potential for increasing customs and tax revenue through better enforcement and improved administration. In 2020 Libya received Fund TA—both by HQ-based staff and by METAC—in the areas of tax and customs administration but more intensive and hands-on CD is needed. The authorities have requested Fund technical assistance in designing a VAT.

Monetary and Exchange Rate Management

Monetary developments are largely driven by large swings in net claims on government as the government resorts to (interest free) monetary financing to meet budget shortfalls. Monetary management is further complicated by the parallel government's borrowings from CBL-Al Bayda and printing bank notes on which the CBL-Tripoli has no control. The CBL has no instruments to control the monetary aggregates. Since the 2013 prohibition on interest, commercial banks have been setting their own internal rates in lending to the private sector. The CBL intends to develop Islamic finance products and has requested Fund TA.

The exchange rate continues to serve as the economy's principal anchor. While the official rate remained pegged to the SDR, a parallel market developed after the 2015 plunge in oil prices and as the CBL imposed capital controls to safeguard reserves. As the exchange rate gap widened subsequently, the CBL effectively closed the difference by imposing a tax on FX transactions, until the official exchange rate was formally devalued in relation to the SDR in January 2021—the gap narrowed and remained small. The CBL is of the view (also shared by staff) that the SDR peg at current levels is appropriate and intends to maintain it. The CBL is resisting strong political

¹ Ratios to GDP should be viewed with great caution given the high variability of the nominal GDP.

pressures to revalue the currency as the oil market conditions have improved in the last two years. The measures taken by the CBL have helped maintain a large buffer of international reserves.

Financial System

The CBL has kept the financial system functioning during the political and economic turmoil of the past decade. The progress towards the reunification of the Tripoli and Al-Bayda branches of the central bank has been uneven, reflecting the unsettled political situation, but the CBL is committed to bringing the process to fruition. The reunification is the first critical step in reform of the banking sector. The authorities acknowledge the current weaknesses in the banking sector and are addressing them. Over the last three years, the CBL has put great effort in developing the AML/CFT framework; expanding e-payment services; enhancing banking regulations, developing systems and tools; increasing transparency and disclosure; and improving commercial bank reporting, among other proactive initiatives. The CBL is also determined to review bank recapitalization requirements and intends to disinvest commercial banks under its ownership gradually over the longer run. The authorities find the Selected Issues Paper on banking sector reform very useful and will seek scaled up support from the Fund and other development partners to develop the financial sector and promote financial inclusion, especially of women and youth.

Economic Diversification and the Path Forward

The Libyan authorities fully recognize the need to reduce the economy's reliance on energy production and exports, and an often-volatile international oil market, but are also equally aware of the daunting challenges ahead. Economic diversification was not a focus area of the pre-Revolution government and the post-Revolution administrations have been in a crisis management mode from the start. The authorities agree with staff that Libya needs a clear, comprehensive long-term plan for the economy, and will strive to develop a shared vision for development and to lay the foundation for a new social contract.²

Institution building is the first building block. With that recognition, the Libyan authorities have been engaged in an active dialogue with the World Bank that together with other development partners has identified and catalogued the challenges and needs that Libya faces in different areas today, and policies that could be used as input in a planning process for the future once conditions permit.³ Moreover, as the political uncertainties and the civil conflict intensified, challenges that existed in the health sector prior to 2011, including poorly functioning health systems, limited services in remote areas, and inefficient use of health financing, the authorities have entered into an agreement for reimbursable advisory services with the World Bank Group to improve the primary health system and health financing. The Libyan authorities also intend to draw from the

² Libya has been closely engaged with the World Bank Group in this area. The World Bank Group Executive Board discussed the FY2019-21 Country Engagement Note (CEN) for Libya in February 2019, which framed a 3-year engagement strategy to address urgent priorities for recovery, while building the foundation for a new social contract and long-term transformation. More recently, in February 2023, the World Bank Group Executive Board approved the FY23-25 CEN for Libya, built on the previous CEN, centered around two pillars: namely, setting the foundation for evidence-based and inclusive policy decisions and strengthening the social contract through equitable and accountable local service delivery.

³ See, [The Long Road to Inclusive Institutions in Libya: A Sourcebook of Challenges and Needs](#); released May 18, 2023

successful experiences and avoid the pitfalls of other major oil producing countries in the area of diversification.

Data Deficiencies, Technical Assistance and Capacity Building

Libya has major data shortcomings that limit economic analysis as well as evidence-based policy making. Although there are some recent improvements in data production and dissemination, and better coordination among data-producing agencies, there are still deficiencies in macroeconomic and financial statistics, as clearly identified in the Staff Report. The Libyan authorities will continue to rely on the Fund for technical support and capacity building in the area of data collection and dissemination

Even over this difficult period, Libya has benefitted from the Fund technical advice through virtual meetings as well as in-person meetings held in neighboring countries in the areas of national accounts; PFM; financial regulations and supervision; tax and customs administration; and AML/CFT. During the Article IV discussions, the authorities requested further technical assistance and capacity development in number of areas, some of which have already been mentioned above. Related to the CBL, the TA and CD needs are: Islamic financing instruments; macroprudential tools; payments system strategy; central bank transparency; and CBDC and FinTech. Related to the Ministry of Finance, the Ministry of Economy, and the Ministry of Planning, the needs are in areas of national accounts; macro-fiscal framework and forecasting techniques; tax and customs administration; treasury single account; SOE management; subsidy reform; and VAT.

Concluding Remarks

Holding the Article-IV consultation discussion after a pause of 10 years was a major step towards bringing Libya—a major oil producer located strategically in a volatile region—back to the international financial fora. Admittedly, data deficiencies constrain economic analysis, while weaknesses in the authorities' implementation capacity amidst the current circumstances limit follow ups on staff's sound policy advice. Nonetheless, the authorities find the exercise extremely useful in showcasing the efforts in developing Libyan institutions and the challenges faced by Libya to reestablish political and social cohesion and to plan for a brighter economic future for all Libyans. The expectation is that future reports will build on this first report as data improve, policies are formed, and the authorities' implementation capacity expands. Libya is endowed with vast mineral resources that could support rebuilding its institutions and finance major investments in infrastructure and in human capital that are all critical to building a prosperous and inclusive Libya. In closing, a strong, stable and prosperous Libya is not only beneficial to its neighbors, but also to the broader international community. Promoting political, social and economic stability, and sustaining development in Libya can therefore be viewed as a global public good.

The Libyan authorities would like to express their appreciation to Fund management and staff for their agreement to re-engage formally with Libya, and once again gratefully acknowledge the Fund policy advice and technical support over the years.