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The Socialist People's Libyan Arab Jamahiriya: 2005 Article IV Consultation—Staff Report; and Public Information Notice on the Executive Board Discussion

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2005 Article IV consultation with The Socialist People's Libyan Arab Jamahiriya, the following documents have been released and are included in this package:

- the staff report for the 2005 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on December 14, 2005, with the officials of The Socialist People's Libyan Arab Jamahiriya on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 1, 2006. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its March 17, 2006 discussion of the staff report that concluded the Article IV consultation.

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

Selected Issue—Medium-Term Economic Reform Strategy, and Statistical Appendix

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

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INTERNATIONAL MONETARY FUND

THE SOCIALIST PEOPLE'S LIBYAN ARAB JAMAHIRIYA

Staff Report for the 2005 Article IV Consultation

Prepared by the Staff Representatives for the 2005 Consultation with
The Socialist People's Libyan Arab Jamahiriya

Approved by Lorenzo L. Pérez and Anthony R. Boote

March 1, 2006

- Discussions for the 2005 Article IV consultation were held in Tripoli from November 30 to December 14, 2005. The staff team comprised Messrs. Elhage (head), Abdoun, Soueid, Imam, and Ms. ten Berge (all MCD).
- The mission met with Mr. Zlitni, Secretary of the General Planning Council, Prime Minister Ghanem, Secretary of Finance El-Huwej, Secretary of Planning Jehaimi, Secretary of Economy Ejuweir, Central Bank Governor Menesi, Deputy Governor Ekdara, and other senior officials.
- In concluding the last consultation on January 28, 2005, Executive Directors welcomed the authorities' increased efforts to reform the economy, but emphasized the need to speed up Libya's transition to a market economy, and stressed that proper planning, coordination, and sequencing of policies are essential for the success of this transition. In view of Libya's severe human resource constraints and weak institutions, Directors supported the authorities' request for technical assistance from the IMF in support of the country's economic and financial reforms, with due regard given to their absorptive capacity. Directors agreed that in the short term, reforms should focus on developing market-based monetary instruments, restructuring the banking system, liberalizing prices, strengthening budgetary management, and reforming the subsidy system.
- In June 2003, Libya notified the IMF of its decision to accept its obligations under Article VIII, Sections 2(a), 3, and 4 of the IMF's Articles of Agreement. LEG and MFD are awaiting the necessary clarifications from the authorities before the review can be completed.
- Since January 2002, the Libyan dinar has been pegged to the SDR. In June 2003, the exchange rate was devalued by 15 percent to LD 1 = SDR 0.5175.
- Libya's statistical base suffers from important shortcomings that hamper staff's ability to conduct effective surveillance. While some limited progress has been achieved in reporting fiscal, monetary, and balance of payments data to the Fund, significant weaknesses remain in the area of prices and national accounts.
- Libya's relations with the IMF and the World Bank are summarized in Appendices I and II, respectively. Data issues are covered in Appendix III, and Appendix IV consists of the draft background section of the Public Information Notice (PIN).

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Executive Summary

Developments in 2004–05

In 2004–05, Libya's macroeconomic performance was satisfactory with relatively strong economic growth, and large fiscal and external surpluses reflecting favorable developments in the oil market. Some progress was made on structural reform, including the significant streamlining of the tariff schedule, the partial liberalization of interest rates, the broadening of the privatization program and the scope for foreign investments, and the launching of the privatization of a major public bank. However, reform implementation continues to suffer from the absence of a comprehensive medium-term plan and the lack of coordination between government institutions.

Views of the authorities

The authorities were in general agreement with staff on the need for Libya to pursue more vigorously and in a coordinated manner its structural reform agenda. The draft Medium Term Strategy (MTS) to reform Libya's economy that has been prepared by staff at the authorities' request has been well received. The authorities are aware that, given the magnitude of the reform challenges and the country's human capacity constraints, the implementation of the MTS will require massive technical assistance that Libya will need to finance for the most part.

Staff appraisal

Libya's financial conditions are expected to remain favorable in the medium run, owing to positive prospects in the world oil market, but the outlook for the non–oil economy remains mixed under current policies. Staff urges the authorities to use the MTS as a blueprint to reform Libya's economy**.**

In the fiscal area, three categories of reforms are required, including (i) bringing total control of fiscal policy under the responsibility of the ministry of finance by unifying the government's budgets and abolishing extrabudgetary operations; (ii) enhancing the quality of government spending by strengthening the budgetary process, and broadening the non-oil tax base; and (iii) improving the management of the country's oil wealth by establishing a stabilization and savings fund to replace the existing oil reserve fund and investment fund.

In the monetary area, staff encouraged the Central Bank of Libya (CBL) to increase its reliance on indirect monetary instruments by fully liberalizing interest rates, issuing CDs, and reactivating the interbank money market. Also, it recommended that the CBL reconsider its bank restructuring approach and adopt the strategy recommended by staff, including the establishment of a bank restructuring agency that would take over ownership of commercial banks, which in staff's view is key for the success of this strategy.

As regards **structural reform,** the main issues that need to be tackled include integrating the consumption tax and fees on imported goods in the tariff rates; advancing preparations for the WTO accession discussions; enacting a privatization law; and, for foreign investment, using a clear negative list, removing the US$50 million floor, and simplifying procedures and speeding-up the approval and registration process.

Staff welcomed Libya's **intention to participate in the financing of the Exogenous Shock Facility.** It reiterated its recommendation that Libya reconsider its **withdrawal from the HIPC Initiative** and integrate its debt relief plan in the multilateral framework of the latter.

Staff reiterated the need to **establish a high inter-ministerial oversight committee** that will be in charge of coordinating the government's reform efforts. Staff urged the authorities to **thoroughly restructure the statistical system,** with priority given to the establishment of a National Statistical Council and the creation of a National Statistical Agency.

I. Introduction and Recent Developments

1. **Overcoming the long legacy of centralized economic management, excessive reliance on the public sector, and heavy dependence on oil poses a formidable challenge for Libya.** Since the lifting of international sanctions, which lasted more than ten years, Libya has decided to undertake comprehensive structural reforms and accelerate its transition to a market economy.[1] While progress has been made in recent years to liberalize the economy, the latter remains largely state controlled and not diversified. Three quarters of employment is still in the public sector, private investment is minuscule (2 percent of GDP), and the oil sector remains dominant.[2] Libya's social indicators are favorable by Middle East and North Africa (MENA) standards (Table 1).

2. **In 2004–05, Fund surveillance** focused on the need to overhaul the incentive and regulatory regimes, reform trade, fiscal and monetary policies, restructure banks; and improve the reliability of economic data. During these years, the authorities passed new tax and banking laws, partially liberalized interest rates, streamlined the customs tariff, significantly improved business application procedures, and broadened the privatization program and the scope of foreign direct investment.

3. **Fund relations with Libya have been stepped-up recently**. Following the Executive Board's decision in early 2005 to support Libya's request for technical assistance from the IMF in support of the country's economic and financial reform efforts, several IMF missions visited Tripoli to assess the country's reform requirements and provide economic and financial advice.[3]

4. **In July 2005, a staff team met with Libya's Leader Qadhafi** who stressed Libya's determination to reform and modernize its economy, and praised the enhanced relationship with the IMF.

5. **Libya's cooperation with the World Bank has proceeded more slowly than was expected.** However, prospects for resumed cooperation appear to have improved recently.[4]

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[1] The UN sanctions and all U.S. Libya-specific trade sanctions were lifted in September 2003 and September 2004, respectively.

[2] In 2000-05, the oil sector contributed about 56 percent of GDP, 97 percent of the country's exports of goods, and 80 percent of government revenue.

[3] Including missions from FAD, the Middle East Technical Assistance Center (METAC), MFD, and STA.

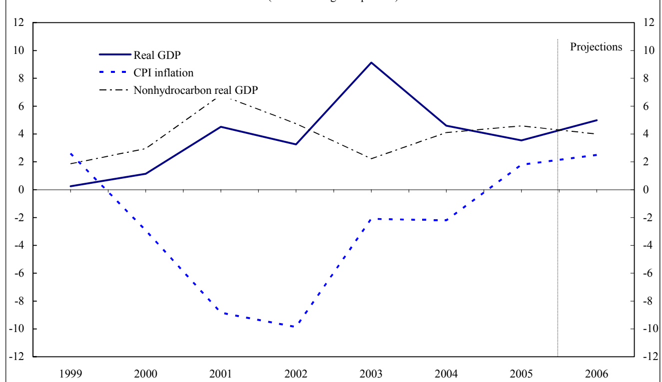
[4] A Bank mission visited Tripoli during November 30–December 1, 2005 to discuss future Bank involvement in Libya's reform process. The mission reached an agreement with the authorities on the need to move to intensive technical assistance in the Bank's main areas of expertise. Also, an IFC mission visited Tripoli during November 8–9, 2005, to identify/discuss potential IFC technical assistance provision.

II. Developments During 2004–05

A. Economic Developments in 2004

6. **In 2004**, **Libya's macroeconomic performance was satisfactory** with strong economic growth and large fiscal and external current account surpluses, reflecting higher oil prices (31 percent) and increased oil output (5.6 percent) (Table 2, Figure 1). Overall, real GDP grew an estimated 4½ percent, with a 4 percent increase in the non-oil sector's value added. Growth in the construction, utilities, and mining sectors reached 5 percent, boosted by increased government spending. Also, major gains were registered in the trade and service sectors (5–6 percent) as a result of the liberalization of external trade and the marked resumption of foreign tourism. According to official data, consumer prices declined by 2.2 percent (Table 2).[5]

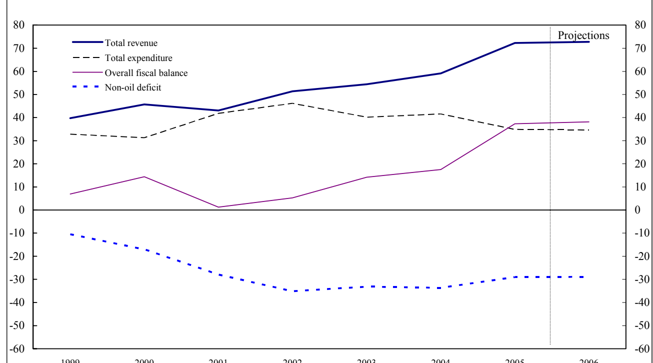
Figure 1. Libya: Real GDP and Inflation, 1999–2006
(Annual changes in percent)



Sources: Libyan Authorities; and Fund staff estimates.

7. **The fiscal stance continued to be expansionary, with a non-oil fiscal deficit of 33½ percent of GDP** (Table 3, Figure 2). However, reflecting high oil revenues (about 51 percent of GDP) the overall fiscal surplus rose to about 17½ percent of GDP. Non-oil revenue increased by about 1 percentage point of GDP, owing to strong collections by customs, in conjunction with increased imports, and improvements in revenue administration. Total expenditure and net lending declined by ½ percent of GDP, as the surge in capital expenditure (8 percent of GDP), due to the implementation of a number of public projects,[6] was more than offset by a sharp drop in extrabudgetary current expenditure.

Figure 2. Libya: General Government Operations, 1999–2006
(In percent of GDP)



Sources: Libyan Authorities; and Fund staff estimates.

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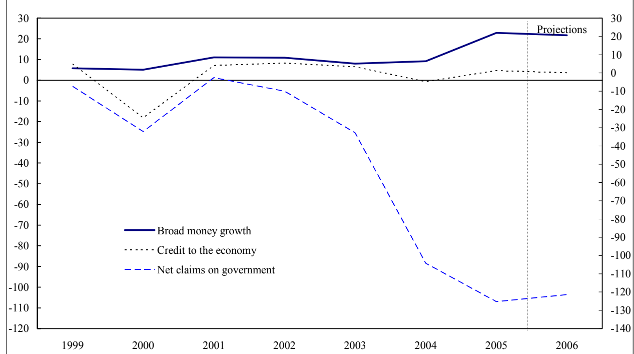
[5] In staff's view, the current CPI, whose weights date back to 1992, under-estimates inflation. Implementation of the new CPI, based on a 2003 household survey, has been delayed because of technical difficulties.

[6] Including the completion of a gas pipeline (540 kilometers) connecting Italy to Libya, which was inaugurated in October 2004 at a cost of some Euro 5.2 billion, about half of which was financed by Libya.

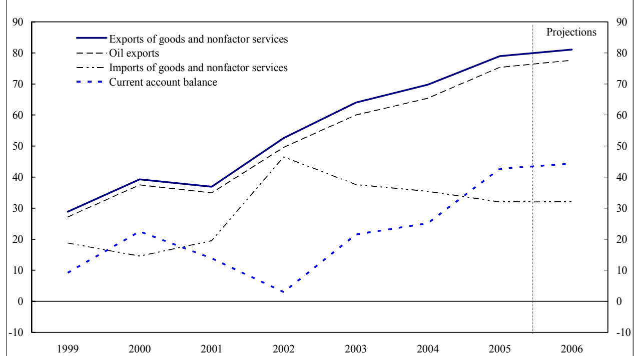
8. **Broad money grew 9.2 percent** (Table 4, Figure 3). As a result of the improved government financial situation, the government's net creditor position with the banking system was about 50 percent of GDP. Overall credit to the economy declined by 1 percent,[7] resulting in the credit-to-GDP ratio declining to 21 percent from 28 percent in 2003.[8] The CBL kept its refinance rate at 4 percent, but the economic relevance of monetary policy instruments, including interest rates, remained very limited, as lending and deposit rates were largely administered.

Figure 3. Libya: Monetary Indicators, 1999–2006
(Annual changes in percent of beginning-of-the-year money stock)



Sources: Libyan Authorities; and Fund staff estimates.

Figure 4. Libya: External Sector, 1999–2006
(In percent of GDP)



Sources: Libyan Authorities; and Fund staff estimates.

9. The favorable developments in the oil market contributed to a significant improvement in the **external current account surplus** which reached about 24 percent of GDP. Oil export earnings increased by 41 percent to about US$20 billion, and non-oil exports, mainly petrochemicals, also increased markedly. Reflecting higher capital expenditures, imports grew 22 percent to US$8.8 billion. Overall, gross international reserves reached about 24 months of 2005 imports (Table 5, Figure 4).

B. Economic and Policy Developments in 2005

Economic developments

10. **In 2005, macroeconomic performance remained relatively strong.** Real GDP growth was about 3½ percent, and the fiscal and external current account surpluses are estimated at 32½ percent and 41 percent of GDP, respectively. For the first time since 1999, official data show positive consumer inflation of about 2.5 percent.

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[7] This decline is mainly due to the government's buy-back of LD 0.8 billion of public enterprises' bank debt. Excluding the debt buy-back, credit to the economy grew 9.4 percent, with credit to public enterprise growing 17 percent. The increase in credit to the private sector remained modest (3½ percent).

[8] Libya's ratio is well below the level in most other Maghreb and oil-producing countries. In 2004, this ratio was 74 percent in Kuwait, an average of 67 percent in Morocco and Tunisia, and 64 percent in the UAE.

11. Contrary to previous years, **overall economic growth in 2005** is estimated to have been generated mainly in the non-oil economy (4½ percent). While activity in the oil sector grew only 1½ percent due to output capacity constraints, pick-up in the nonhydrocarbon sector's activity was essentially the result of increased government expenditure. The main sectors that registered strong growth include trade, hotels, and transportation (7 percent); and construction and services (5 percent). Gains in agriculture remained modest (2.5 percent), but the manufacturing sector registered its first positive growth in five years (1.8 percent).

12. **Based on preliminary data,** oil revenues reached 68 percent of GDP. Non-oil revenue is estimated to have declined by about 15 percent because of the nontransfer of the interest on the Oil Reserve Fund (ORF) balances by the CBL, and lower collections by customs and local governments, partly reflecting the downside effects of the new tax law and customs tariff.[9] Excluding the payments for the Lockerbie settlement, government spending increased by about 33 percent, reflecting a sharp increase in the wage bill (25 percent) and an improved execution of the development budget. The non-oil fiscal deficit widened to 35 percent of GDP.[10]

13. **Monetary developments** were characterized by strong broad money growth (29 percent). Both money and quasi-money grew markedly, by 33 percent and 20 percent, respectively. These developments reflected a remonetization of the economy consistent with improved domestic economic conditions and increased public confidence following the lifting of sanctions, and the sharp increase in credit to public enterprises (23 percent).[11] Overall, the commercial banks remained highly liquid and increased their excess reserves with the CBL.[12] With the sustained improvement in the government's financial situation, the government's net creditor position with the banking system reached 70 percent of GDP. While bank credit to the private sector grew only modestly (about 3 percent), most of the private sector credit needs were met by the government through specialized banks.[13]

[9] The new tax law, which was passed in March 2004, reduces the top marginal tax rate on wages and salaries, and increases exemptions. The new tariff schedule was introduced in mid-2005 (see paragraph 16).

[10] Government spending excluding the payments for the Lockerbie settlement increased by LD 5.2 billion, including LD1.6 billion (2.9 percent of GDP) in the form of a transfer to the specialized banks in mid-December 2005, which will be disbursed only in 2006. The non-oil fiscal deficit, excluding the payments for the Lockerbie settlement, was 30.2 percent of GDP in 2004.

[11] Also, these high growth rates reflect the fact that the funds transferred to the specialized banks have been placed in the specialized banks' accounts with commercial banks, making them part of broad money.

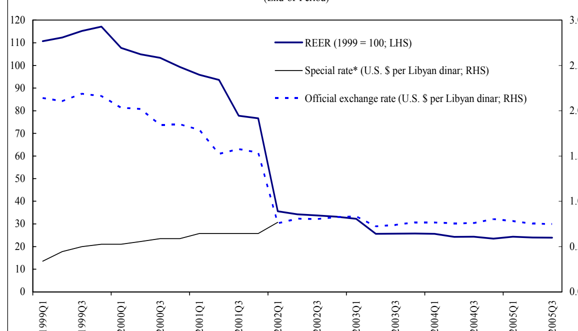
[12] By end-2005, total banks' deposits with the CBL reached about 58 percent of total bank deposits, up from about 50 percent in 2004; regular banks' reserves were about 17 percent of total bank deposits, as against 12 percent in 2004.

[13] During the first nine months of 2005, new loans by specialized banks totaled LD 1 billion. Because the latter are not commercial banks, these loans are not captured in the monetary survey. As of end-September 2005, the stock of these loans was equivalent to about 25 percent of outstanding bank credit to the economy.

14. **On the external side,** the widening of the current account surplus reflects mainly strong hydrocarbon exports, which increased by 48 percent to about US$29 billion. Imports grew 24 percent to some US$11 billion, boosted by increased domestic demand. Overall, gross international reserves rose to about 32 months of 2006 imports.

15. Since January 2002, the Libyan dinar has been pegged to the SDR. Reflecting the movements in the U.S. dollar/Euro rate, the **exchange rate of the Libyan dinar** depreciated by a cumulative 4 percent against the US dollar in 2004–05. During the same period, the Real Effective Exchange (REER) based on the official CPI rate declined by 7 percent (Figure 5).

Figure 5. Libya: Exchange Rate Developments, 1999Q1–2005Q3
(End-of-Period)



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

Policy developments

16. **In 2005, the authorities continued to implement measures to reform and open up the economy.** The government significantly streamlined the customs tariff, and eased restrictions on external trade by downsizing the negative import list from 31 items to 17 items. The new tariff schedule has only two rates (10 percent for tobacco products and 0 percent for all other products), but all imported goods are now subject to a 4 percent service fee. In the meantime, the production and consumption tax was increased to 25–50 percent for imported goods and reduced to 2 percent for domestically produced goods.[14] Also, the government created an investment fund (IF) to manage part of the government's oil revenues.

17. **In the monetary and banking area,** the authorities passed: (i) a new banking law which reinforces the independence of the CBL and gives it authority to allow foreign banks to operate in Libya; and (ii) an Anti Money Laundering (AML) law. As of August 2005, banks were granted autonomy to determine freely interest rates on deposits and to set lending rates within a band of 250 basis points above the discount rate (currently at 4 percent). In practice, owing to high bank liquidity, deposit rates remained generally low, in the order of 1–1½ percent, while there were no pressures on lending rates. Also, the CBL issued a number of decrees to improve the operations of commercial banks, launched the privatization of Sahara Bank, and recapitalized three of the five commercial banks it owns.

18. As regards **structural reform**, major progress has been made in simplifying business application procedures in order to facilitate and accelerate business creation. In particular, a one-stop window has been established and a 30-day limit for application approval set with

[14] This tax applies to a list of 81 products that are both produced locally and imported. The previous rates were 10–50 percent for the imported goods and 4 percent for locally produced goods. Due to data limitations, staff was not able to assess the net impact of this measure on overall protection.

the obligation for the administration to notify any refusal through a notary public. The privatization program and foreign investment's scope of activity have been broadened to include downstream activities in the oil, health, transportation, and insurance sectors. Also, joint ventures between Libyan and foreign investors are now permitted to benefit from the incentives of Law 5.[15] Overall, a total of 216 enterprises have been slated for privatization and 144 are to be liquidated. Thus far, 66 small enterprises have been sold.

19. **Concerning external debt,** Libya has taken steps toward regularizing its relations with external creditors. In 2004–05, disputed claims with creditors in Germany, Spain and the United Kingdom have been settled. Discussions with other foreign creditors are ongoing. These claims pertain to disputed payments resulting from the imposition of UN sanctions on Libya.

20. Following its withdrawal **from the HIPC Initiative**, Libya has developed its own debt relief plan. By end-2005, rescheduling agreements were reached with a number of HIPC countries including Uganda, Tanzania, and Benin, and negotiations with Nicaragua were ongoing. The authorities provided staff with detailed information on Libya's claims on other countries. They indicated that Libyan law does not allow the government to cancel the principal of any outstanding loan. Because of this limitation, the authorities' relief plan relies on various modalities, including debt to equity/real estate swaps, rescheduling of principal and interest cancellation.

III. Report on the Discussions

A. Medium-Term Outlook

21. Macroeconomic policy discussions focused primarily on **the need to reform the economy and strengthen capacity building in order to set the stage for sustainable growth of the non-oil economy and increase job creation.** While the authorities did not elaborate on their medium-term economic development plan, which is at an early stage of preparation, they reaffirmed their determination to implement structural reforms and enhance the role of the private sector in the economy.

22. Staff agreed with the authorities that **Libya's financial outlook for the medium term does not raise any sustainability concerns,** owing mainly to the projected favorable developments in the oil sector. However, it stressed that the economic outlook—mainly the expansion of the non-oil economy and job creation—will depend largely on the reforms that would be implemented by the authorities. Staff pointed out that continuation of current policies characterized by uncoordinated reform measures is likely to result in subdued economic growth over the medium term. It argued that the growth of the non–oil economy in

[15] Investment incentives under this law include an exemption from corporate income tax for up to eight years, and exemptions from customs duties and taxes on imports of equipment for the execution and operation of investment projects.

recent years was mainly driven by fiscal stimulus and is not sustainable if not supported by comprehensive structural reforms, which remain the best recipe for increased investment and sustained economic growth.

23. Staff presented **its macroeconomic projections based on the continuation of current policies,** which indicate that during 2006–10, real GDP growth would be about 4.5 percent per year on average, reflecting an average annual growth rate of about 7 percent in the oil sector and modest growth in the non-oil economy of 3¼ percent per year on average.[16] Annual CPI inflation is projected to stabilize at 3–4 percent, assuming there is no slippage in the fiscal stance. Both the fiscal and external current account balances will continue to register large annual surpluses, averaging about 35 percent and 41 percent of GDP, respectively. The build-up of these surpluses reflects the limited absorptive capacity of the economy, particularly the projected low investment and growth levels (Table 6).

24. **Although the medium-term outlook is based on historically high levels of oil price and production assumptions, the downside risks are somewhat limited.** Indeed, on the assumption of an oil price that is US$15 a barrel below the WEO spot price trajectory, staff estimates indicate that the fiscal and external current account would still record large surpluses during the entire projection period—on average 22 percent and 27 percent of GDP, respectively (Figure 6).[17]

25. Staff stressed that the projected trends underscore an **increase in Libya's already high dependency on oil**, with large non-oil fiscal deficits (about 29 percent of GDP on average), and very modest non-oil private investment (2 percent of GDP). It noted that the projected levels of growth and investment in the non-oil sector are among the lowest in neighboring countries and other oil countries, well below the country's potential, and not sufficient to generate enough employment opportunities for the rapidly increasing Libyan labor force (about 4 percent per year). [18]

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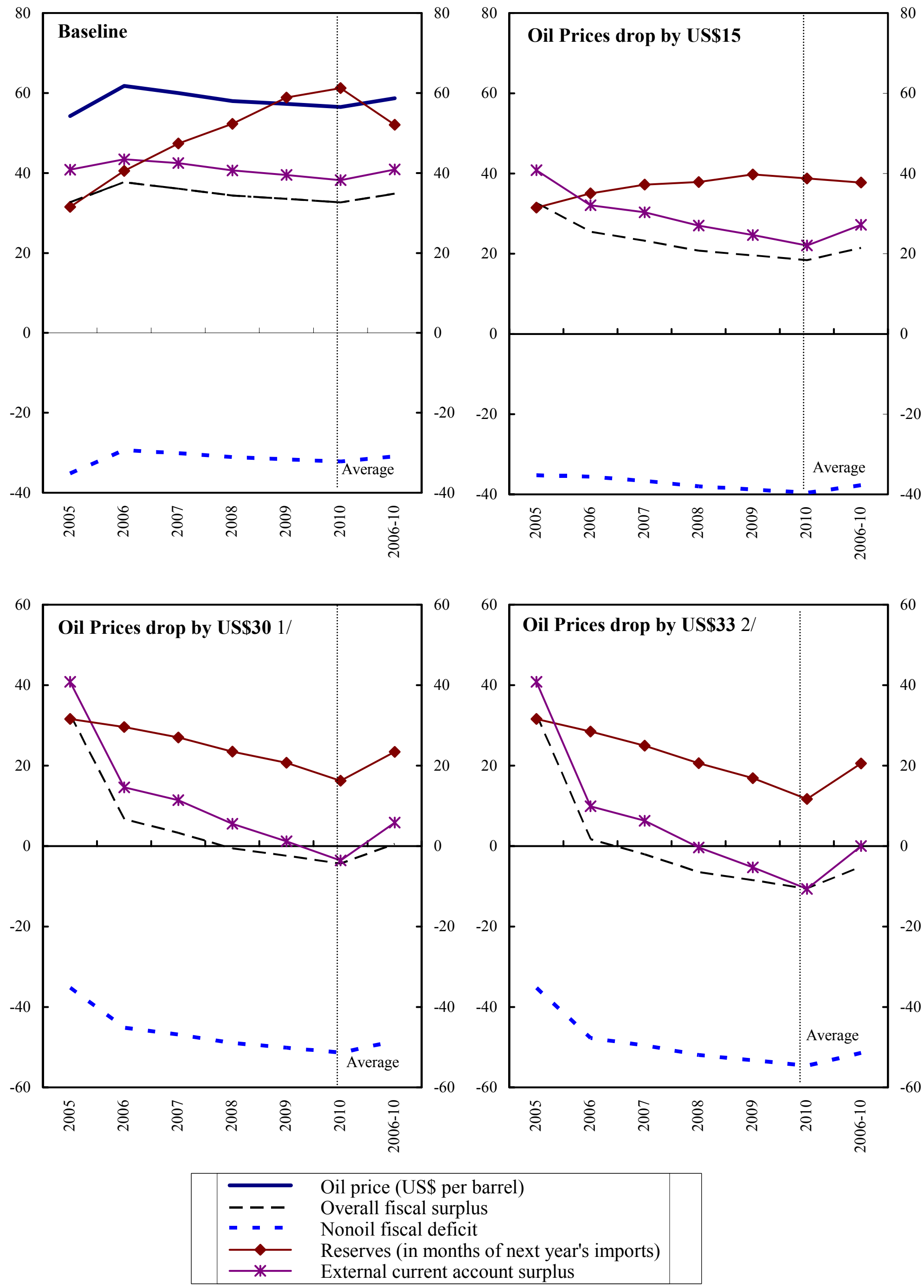
[16] As a result of an ambitious investment program in the oil sector (in both exploration and rehabilitation of the existing infrastructure), output capacity is projected to rise from the present 1.65 million barrels per day to about 2.25 million barrels per day by 2010.

[17] Other things being equal, it will take a decline in the oil price of US$30 below the WEO spot price trajectory for the fiscal surplus to be fully absorbed; for the external current account, the required drop is US$33.

[18] Studies on countries in the MENA area show that, on average, for each 1 percent growth in the non-oil economy, employment increases by about 0.7 percent.

Figure 1. Libya: Sensitivity Analysis, 2005–10



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

26. **In order to address the above challenges and improve the country's economic prospects**, **staff recommended the development of a comprehensive reform program.** To that effect, it submitted for the authorities' consideration **a draft Medium-Term Strategy (MTS) to reform the economy that it had prepared at their request**. The MTS's various components constituted staff's core recommendations (Box 1).

27. **The authorities were in broad agreement with staff's assessment, but did not indicate whether and when they will start implementation of the proposed reforms.** Staff agreed with the authorities that given the magnitude of the challenges and social constraints faced by Libya, prioritization and sequencing of reforms and technical assistance support were key for the success of the proposed strategy.

B. Fiscal Policy

28. **The authorities highlighted their relative spending restraint in recent years,** stressing that high oil prices have not led to spending booms. Staff concurred with the authorities' assessment, and welcomed their decision to eliminate extrabudgetary spending from the ORF.[19] However, it emphasized the need to strengthen the budgetary process which continues to suffer from lack of transparency, the persistence of netting-out operations, and the absence of medium-term planning. In this context, the authorities indicated their strong resolve to address the netting-out issue in 2006.

29. **The authorities indicated that their import tariff reform of August 2005 has been well received by the private sector.** Staff noted that while this reform is expected to boost trade and economic growth, it could also result in short-run revenue loss that would add to the shortfalls already expected from the new tax law. The possible revenue loss would need to be partly offset by broadening the tax base and increasing efficiency in revenue collection.[20] Consequently, staff encouraged the authorities to implement staff's recommendations on strengthening tax policy and revenue administration. The authorities indicated that they have already started to implement staff's recommendations on revenue administration and requested follow-up TA in this area.

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[19] This decision was taken after the adoption of the LD 3 billion multi-year lending program (see paragraph 30).

[20] Staff's preliminary assessment is that the revenue shortfalls associated with the new tax law and tariff could be substantial. Non-oil tax revenue collections are estimated to have declined by about 5 percent in 2005, in a context of increased economic activity and imports; customs revenue declined by 14 percent despite an estimated increase in imports by about 25 percent.

30. Staff reviewed progress in the implementation of **the government's LD 3 billion multi-year lending program** financed with ORF resources through the specialized banks.[21] Staff reiterated its recommendation that this operation be undertaken through the commercial banks and that any interest rate subsidy be granted through the budget. The MoF agreed with staff, but pointed to the CBL's reluctance to have the commercial banks finance this program as the main reason for its undertaking through the specialized banks.[22] The CBL argued that because of the lack of collaterals and guarantees, the commercial banks would not be able to recover these loans. Staff urged the CBL and the MoF to work out a mechanism that would allow the commercial banks' participation in this program.

31. Staff reviewed a **summary of the draft current and development budgets for 2006**, which point to an increase in expenditure of about 17 percent. It agreed with the authorities on the need to increase public expenditure in order to start addressing the population's considerable social needs. To that effect, it recommended that the large part of this increase be dedicated to raising education and health standards, developing physical infrastructure, funding greater targeted social outlays, and clearing all government arrears.[23] Staff stressed, however, that because of the economy's limited absorptive capacity, due attention should be given to the potential inflationary impact of the proposed increase in government spending. Also, staff emphasized the need to (i) increase the execution rate of the government's investment program; and (ii) improve the quality of spending by streamlining project preparation and selection, and enhancing monitoring of project execution. Staff projects that for 2006 the overall fiscal surplus will reach about 38 percent of GDP, with a non-oil fiscal deficit of about 29 percent of GDP.[24]

[21] This program is composed of subsidized loans to households, and private farmers and entrepreneurs. During the first nine months of 2005, the specialized banks' disbursements amounted to LD 1 billion.

[22] In Libya, public commercial banks are owned by the CBL. This operation could have helped the commercial banks recycle part of their excess liquidity, estimated at LD 6.8 billion (34 percent of broad money) at end-December 2005.

[23] Staff has identified LD 1 billion of arrears owed to the social security fund. In addition staff was informed that on average the government pays only 30 percent of its electricity bill.

[24] This level is well below the ceiling for Libya's long term sustainable non-oil fiscal deficit, estimated by staff to be about 55 percent of GDP, in the current circumstances.

Box 1. Libya: Proposed Medium-Term Economic Reform Strategy [25]

The Medium-Term Strategy (MTS) to reform Libya's economy proposed by staff aims to maintain macroeconomic stability and rationalize the use of the country's oil wealth, accelerate the transition to a market economy, and establish a solid basis for the development of the non-oil economy. It could be implemented over a 5–6 year period in two phases of 2–3 years each.

I. **PHASE I (2006–08):** During this phase, priority should be given to accelerating the transition to a market economy by (i) consolidating public finances and streamlining budgetary management; (ii) developing indirect monetary instruments and enhancing the role of the central bank; (iii) removing remaining external trade restrictions; (iv) completing price liberalization and rationalizing the subsidy system; (v) implementing a vigorous and coherent privatization program; and (vi) improving the business climate. The main recommended reforms include:

I.1. **Public finance**

- Develop a unified consolidated budget under the responsibility of the ministry of finance (MoF); establish a stabilization and savings fund; modernize the treasury system; strengthen budgetary procedures; develop medium-term expenditure frameworks, reform the procurement code; and strengthen preparation and monitoring of the public investment programs.
- Simplify the tax system; develop tax payment arrangements for corporations; reduce tax rates; limit exemptions; restructure the tax and customs departments; establish a large taxpayer unit; upgrade controls; strengthen human resource development; and upgrade office buildings and equipment.
- Undertake a census of the civil service and a study of the social security system.

I.2. **Monetary reforms and bank restructuring**

- Terminate directed credit allocations; fully liberalize interest rates; put credit subsidies on budget; issue CBL bills; and allow commercial banks to issue CDs.
- Upgrade on-site and off-site supervision; improve the accounting and financial reporting systems; strengthen credit risk assessment; strengthen the prudential supervisory framework and include specialized banks; and develop capacity building and staff training.
- Transfer public banks' ownership to a bank restructuring agency; consolidate the 48 regional banks into one entity; complete the due diligence process; start the restructuring/privatization process of the state-owned banks; and develop a plan to open up the banking sector to external competition.
- Reform existing legislation on accounting and bookkeeping, and bankruptcy, in line with international standards; and complete the modernization of the payment system.

I.3. **Structural reform**

- Abolish remaining state import monopolies; replace nonreligious and non-health-related import bans with import tariffs; simplify customs procedures; and bring institutions, laws, and regulations related to international trade and investment in line with international standards.
- Remove the remaining controls on price and profit margins; put all subsidies on budget and develop a plan to gradually reduce them over time.
- Strengthen the independence of the privatization agency, and enact a privatization law.
- Amend the foreign investment law: use a negative list; streamline the approval process; regroup all

[25] For a detailed discussion of the MTS, see Selected Issue: Medium-Term Economic Reform Strategy, and Statistical Appendix, Appendix II (www.imf.org).

tax incentives in the tax code in order to harmonize tax incentives across all investors; and replace tax holidays or exemptions by tax credits, tax allowances, or accelerated depreciation.

Box 1. Libya: Medium-Term Economic Reform Strategy for Libya (Cont'd)

- Develop a plan to reform the education and health systems; undertake a study on poverty; and develop a social safety net for the segments of the population most affected by structural reform.
- Create a national statistical council; establish a national statistical agency; and prepare a multi-year statistical work program, including a multi-year recruitment and training program.

II. **Phase II (2008–10):** During this phase, the focus will be on consolidating the reform process by (i) advancing economic diversification and promoting sectoral reforms in the agricultural, industrial, and services (including tourism) sectors; (ii) reforming the civil service and the social security system; (iii) further strengthening the social safety net; and (iv) improving governance. As several of these reforms require major technical work and large consensus building, preparations should start early in the reform process, so that implementation begins before the end of the first phase of reforms.1/

II.1. **Economic diversification and sectoral policies**

- Build up a sound investment climate; complete the privatization program; complete the restructuring of the banking system and develop financial markets; develop a land reform plan and revamp the existing legal framework for industrial land; reform the labor code; improve government services in the agricultural sector, and improve rural infrastructure.

II.2. **Civil service, social sectors, and governance**

- Initiate a reform of the civil service; implement comprehensive reforms in the education and health sectors; and develop a reform package to restructure and strengthen the social security system.
- Strengthen the institutional framework by establishing a strong and independent audit agency and an efficient judiciary.

III. **Implementation of the MTS, Fund technical assistance and other**

- Implementation of the MTS will require its decomposition into annual programs, including the required technical assistance for the implementation of the recommended reforms and a performance monitoring system.
- Regarding the provision of Fund TA, available options include (i) the placing of short and long-term resident advisors; and/or (ii) frequent visits from the Fund's functional departments and METAC staff. Libya would have to cover most of the cost of the TA arranged/provided by the Fund.
- The establishment of a High Inter-Ministerial Economic Team (HIT) to coordinate the government's reform efforts is key to the success of the MTS. The HIT could be aided in its task by a technical committee responsible for data collection and analysis, and technical policy formulation.
- The sustainability of the reform process requires that the government establish a permanent and constructive dialogue with civil society, including the business community, in order to explain and, hence, increase adherence to and effectiveness of its policies.

[1] Given that many of the reforms in Phase II (and some in Phase I) fall in the World Bank's areas of expertise, the authorities are encouraged to seek the Bank's assistance for their design and implementation.

32. The authorities agreed with staff that **the establishment of a Stabilization and Savings Fund (SSF)** to replace the ORF and the IF, is key to strengthening management of the country's oil wealth and maintaining macroeconomic stability.[26] They argued, however, that establishing the SSF by law would take up to two years, as this would require that the draft law be discussed by the country's Basic People's Congresses (BPCs), before it is sent to the General People's Congress (GPC).[27]Also, they disagreed with staff's recommendation not to allow the SSF to invest domestically. Staff argued that all public investment should be channeled through the budget. In addition, investing the SSF's resources abroad would be consistent with the government's divestiture strategy and could be justified by the need to sterilize these resources in order to avoid the transmission of oil-revenue volatility to the economy. Staff noted that the two draft decrees on the SSF prepared by the MoF and the CBL needed significant revisions in order to meet the requirements for a successful SSF.[28] It reiterated the need to establish an SSF along the lines it recommended. In particular, the law establishing the SSF should state the nature and source of its resources and the rules governing the accumulation and use of these resources; and stipulate guidelines for the establishment of operating and asset management regulations.[29]

33. Finally, staff discussed **the medium-term fiscal outlook**, and expressed its concern that the authorities continue to use the civil service to reduce unemployment. Also, it stressed that while the government's overall fiscal position is projected to remain comfortable, mainly as a result of strong oil revenues, the structure of the budget needs to be rationalized and fiscal policy geared toward maintaining macroeconomic stability. To that effect, **three categories of reforms are required**, including measures to (i) bring total control of fiscal policy under the responsibility of the ministry of finance and improve transparency in government operations; (ii) enhance the quality of government spending and broaden the non-oil tax base; and (iii) improve the management of the country's oil wealth in order to reduce the overall fiscal vulnerability to oil shocks. The authorities agreed with staff's recommendations, and recognized the need for a comprehensive reform of the civil service. They indicated that working groups would be established to implement the recommended measures.[30]

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[26] Staff's reservations about the IF stem from the fact that the decree establishing the IF lacks a clear definition of the fund's objectives and the rules governing the accumulation and use of its resources, and allows the fund to invest domestically.

[27] The BPCs are the local parliaments; there are 450 BPCs in Libya. The GPC is the national parliament.

[28] Under the MoF draft, there are no clear withdrawal rules and the SSF is allowed to invest domestically. Under the CBL's draft, SSF assets are merged with the bank's reserves, and the CBL can withdraw from the Fund to cover the government's needs in foreign exchange.

[29] For a more detailed discussion on the SSF, see Selected Issue: Medium-Term Economic Reform Strategy, and Statistical Appendix, Appendix II (www.imf.org).

[30] The issues to be covered include revenue administration, customs administration, and expenditure management and control. A fourth group will take up the issue of government finance statistics.

C. Monetary Policy and Financial Sector Development

34. **Staff welcomed the CBL's recent partial liberalization of interest rates** as an important first step in the CBL's progressive move to indirect monetary management. In view of the success of this first phase, it advocated a swift shift to full interest rate liberalization, stressing that the banks and the MoF would need to work out a mechanism to address the issue of interest rate subsidies. Staff encouraged the CBL to press ahead with other market-based monetary reforms, starting with the issuance of CDs, and the reactivation of the interbank money market as a first step toward the development of open market operations. It also recommended that the CBL reinforce its daily monetary management, and improve its economic monitoring capabilities. The CBL agreed with staff's recommendations and reiterated its request for the posting of a long-term advisor to support its reform efforts. Also, it requested Fund TA to develop a CD market.

35. **The CBL noted the progress made in implementing its plan to strengthen banking supervision** developed with the assistance of the Fund's Middle East Technical Assistance Center (METAC). It expressed its satisfaction with METAC's TA and requested that it be maintained in 2006. The CBL's plan aims to upgrade and improve the on-site and off-site inspection systems, develop new key prudential regulations in line with Basel requirements and international best practice, and strengthen capacity building. Achievements so far include developing a new set of financial statements consistent with International Financial Reporting Standards; upgrading loan classification and provisioning, and credit filing; and improving liquidity risk management.

36. **On bank restructuring, the CBL indicated that its decision to recapitalize some of the commercial banks and tackle the nonperforming loans issue** aims to strengthen the banks' balance sheets and enhance their attractiveness for privatization. Staff argued that these actions should have been part of a more diligent restructuring program. To that end, it urged the authorities to reconsider their overall approach, stressing that the lack of interest by the private sector in the privatization of Sahara Bank is already an indication that this approach is not appropriate.[31] Accordingly, staff recommended that the restructuring/ privatization of the state-owned banks be done along the lines of the strategy developed by the MFD TA mission on bank restructuring of June 2005.[32] In particular, staff stressed that the establishment of an independent bank restructuring agency that would take over ownership of public commercial banks is a critical condition for the success of the proposed strategy. In view of the above, staff recommended that the privatization of Wahda Bank, currently at an advanced preparation stage, be delayed.

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[31] The privatization of Sahara Bank was launched without any restructuring of the bank or proper valuation of the bank's balance sheet. While this operation started on June 12, as of end-September 2005 only 15 percent of offered shares had been sold.

[32] For more details, see Selected Issue: Medium-Term Economic Reform Strategy, and Statistical Appendix, Appendix III (www.imf.org).

37. The authorities were appreciative of the IMF's comments on **Libya's recently passed AML law**. They indicated their intention to request Fund TA in order to amend the law along the lines recommended by staff.

D. Exchange Rate and Article VIII Issues

38. **Staff agreed with the authorities that the current exchange rate regime is serving Libya well**, and the current rate of the Libyan dinar is broadly appropriate; the fact that non-oil exports are currently low reflects mainly lack of structural reform and investment, rather than an overvaluation of the exchange rate. This view was shared by the Chairman of the Chamber of Commerce who confirmed the absence of a parallel exchange rate market, or any delay or restriction on access to foreign exchange for current account transactions.[33] Staff recommended, however, that the authorities closely monitor the dinar's exchange rate and be prepared to change the level of the peg as necessary to absorb shocks and avoid real appreciation. To that effect, staff stressed the importance of developing better data on the non-oil economy, in order to better assess its competitiveness.

39. **For the medium term, as structural and macroeconomic reforms progress and the non-oil economy starts to develop**, staff recommended that the authorities consider the feasibility of switching to a more flexible exchange rate regime. This would give them more room to maneuver in response to sharp changes in oil prices and better accommodate the development of the non-oil economy. To keep the authorities' options regarding the exchange rate regime open, staff advised them to start developing the needed institutions, including in foreign exchange markets and risk management and intervention policies, that will allow them to move to a more flexible exchange rate regime.

40. **With regard to Libya's acceptance of the obligations of Article VIII**, Sections 2(a), 3, and 4 of the Fund's Articles of Agreement, LEG and MFD are awaiting the necessary clarifications from the authorities before the review can be completed.

E. Trade Reform

41. **Staff welcomed the progress that has been made in reforming and simplifying the trade system.** It encouraged the authorities to take advantage of the country's strong balance of payments to further liberalize external trade and terminate the remaining state import monopolies. In particular**,** staff argued that the recent increase in the consumption tax on imported commodities exacerbates the discriminatory nature of this tax and raises protection, while reducing transparency in import duties and probably aggravating governance problems by limiting competition and encouraging smuggling. Staff stressed that this tax was not consistent with the national treatment under the WTO basic principle, and recommended that it be integrated into the tariff rate structure, and gradually eliminated at a

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[33] The Chamber of Commerce is an independent nongovernment agency.

later stage.[34] Also, staff recommended that competition be allowed in key sectors, including telecommunications and transportation.

42. **The authorities are aware that WTO accession discussions will place a high demand on administrative resources.** In this connection, they have formed a working group to undertake a thorough review of all laws, regulations, and policies that affect international trade and investment, and prepare the Memorandum of the Foreign Trade Regime. In order to speed-up this process, staff encouraged the authorities to seek technical assistance from foreign experts, including World Bank experts, who have helped other countries in similar processes.

F. Pricing and Subsidy Policies

43. **Staff confirmed that state-owned companies now face competition from the private sector**, which can freely import or produce goods that were previously under public monopoly.[35] It urged the authorities to officially abolish the price and profit margin controls which still remain in a number of markets but are not enforced. Staff agreed with the authorities that a limited number of goods which are not sufficiently exposed to competition could remain under a temporary pricing formula, but recommended the establishment of a timetable for the gradual elimination of this pricing option.

44. Staff encouraged the authorities to **gradually streamline the subsidy system** (Box 2).[36] It recommended that the energy and water subsidies be tackled by first undertaking a comprehensive study to assess their size and distribution by main recipients; and at a later stage, implementing a plan to reduce them over time. Staff agreed with the authorities that given its political sensitivity, the reduction of these subsidies could only be gradual and in conjunction with the development of a social safety net. As a first step in that direction, the authorities raised prices of domestic petroleum products in 2005 by 22 percent on average. As regards food subsidies, staff advised the authorities to continue their campaign to garner public support for their plan to replace the current system with a cash subsidy, which was rejected by the BPC in early 2005. The authorities indicated that they remain confident that, as the public debate develops, there will be more support for their proposed reform.

[34] Staff raised also the issue of the incorporation of the 4 percent service fee into the tariff schedule. The authorities expressed their reluctance to this proposal, stressing that this fee was put outside the tariff schedule in order to apply to all imported goods, including from countries that have a free-trade agreement with Libya.

[35] The remaining import monopolies are on tobacco, veterinary medicines, and vaccines.

[36] The subsidy system includes both implicit subsidies in the form of fixed low consumer prices for petroleum products, natural gas, electricity, and water; and explicit subsidies, mainly for food items. Regarding the latter, five essential food staples are currently subsidized at a cost of about 2 percent of GDP.

G. Privatization and Foreign Direct Investment (FDI)

45. Staff stressed that **encouraging private sector development**, and in particular strengthening Small and Medium Enterprises (SMEs), is key to promoting economic diversification, an objective that will require long and sustained efforts. To that effect, it recommended that priority be given to enhancing the government's privatization strategy, removing all the remaining monopolies and other impediments to economic competition, and attracting foreign investment.

46. **As regards the strengthening of the government's privatization strategy,** staff stressed the need for (i) enacting a privatization law that would give the privatization agency a legal existence and an explicit mandate; (ii) allowing investors to acquire a significant share of capital and have corporate control over the privatized companies; and (iii) basing the sale process on competitive bidding.

Box 2. Quasi-fiscal Deficit in the Energy Sector, 2004

Libya is endowed with considerable energy resources, with proven oil and natural gas reserves estimated at about 39 billion barrels and 1.5 trillion cubic meters, respectively. Because energy prices are very low, energy consumption remains high, and is among the highest in the Maghreb countries.

There is a large quasi-fiscal deficit in the electricity sector, as measured by the difference between the cost recovery price-value of energy delivered to users and actual revenue.[1/] It includes commercial losses due to nonbilled consumption, nonpayment, and technical losses. The collection rate is 59 percent, and technical losses are 11 percent. The government increased electricity prices in June 2004 for the first time in seven years; the increase on average was 30 percent for households and 45 percent for businesses and municipalities. For other sectors, prices remained unchanged.

The quasi-fiscal deficit for natural gas and petroleum products measures the difference between domestic prices and international prices.

Quasi-Fiscal Deficit in the Energy Sector, 2004

	In LD million	In percent of GDP
Quasi-fiscal deficit	**5,581**	**14.2**
Electricity and natural gas	2,575	6.5
Mispricing	1,194	3.0
Commercial losses (lack of metering)	850	2.2
Commercial losses (on billing)	208	0.5
Technical losses	323	0.8
Petroleum products	3,006	7.6

Sources: The Libyan authorities; and staff estimates.
1/ Based on a cost of US 17 cents per kwh.

47. Staff welcomed the authorities' decision to **broaden the scope for FDI,** but warned that the impact of this reform would be limited if not supplemented by additional key reforms to improve the business climate and encourage foreign investment and technology. The latter include (i) removing the US$50 million floor on foreign investment, a requirement that disqualifies most foreign investments in the non-oil sector; (ii) replacing the current system of a positive list with a clear negative list; (iii) simplifying procedures and speeding-up the approval and registration process; and (iv) promoting a more competitive business environment by fostering easier access to land and strengthening bankruptcy laws.

H. Strengthening the Statistical System

48. **Libya's statistical system remains weak, which requires the development of an effective long-term program of reforms to strengthen the institutional framework and build-up a strong and reliable statistical system.** Key reforms recommended by staff include (i) establishing a National Statistical Council that would ensure coordination among data producing agencies, discuss and approve the national statistical work program, and monitor progress in building a high quality statistical system; (ii) creating a National Statistical Agency with the authority to produce and disseminate official statistics and coordinate the national statistical work program; (iii) increasing financial resources devoted to statistical activities and strengthening human resource development and training; and (iv) participating in the IMF's General Data Dissemination Standards (GDDS), and using the latter as a framework for statistical development. The authorities agreed with staff's recommendations and requested a resident advisor on national income accounts.[37] In February 2006, they officially announced their participation in the GDDS and appointed a national GDDS coordinator.

I. Other Issues

49. The authorities informed staff that they have started to implement their own debt relief plan for Libya's poorest debtors, including HIPC countries. They restated their position that they could not bypass the BPC's decision to reject Libya's participation in the HIPC Initiative. Staff reiterated its recommendation **that Libya reconsider its withdrawal from the HIPC Initiative** and integrate its debt relief plan in the multilateral framework of the latter.

50. **The authorities informed staff that they intend to participate in the financing of the Exogenous Shocks Facility (ESF)**. Staff provided the authorities with the additional information they requested on this facility.

51. Staff reiterated its earlier recommendation to **establish a high inter-ministerial oversight committee that will be in charge of coordinating the government's reform**

[37] An expert has been identified by the Fund's STA department and is scheduled to start his assignment shortly.

efforts. Such a committee will help clarify the reform responsibilities of the CBL and the MoF and ease the current tensions between these institutions.

52. **Staff discussed the issue of Libya's TA needs and their financing,** and informed the authorities about the two available options: (i) the TA provided by the IMF would be on reimbursement basis; or (ii) Libya could establish at the IMF a TA-sub-account that would be used to finance the TA provided and/or arranged by the IMF. The authorities agreed to cover most of the cost of the country's required TA needs, and indicated that they will inform staff about their preferred option at a later stage.

IV. Staff Appraisal

53. There have been **some encouraging developments in Libya since the freezing of the UN sanctions in 1999.** Macroeconomic performance has been increasingly strong, aided by a favorable external environment, and various reform measures to liberalize the economy have been implemented. Progress in developing a market economy has been slow and discontinuous nonetheless, and the government has yet to clearly break from past shortcomings in policy formulation and implementation.

54. **Libya's economic and financial conditions are expected to remain favorable** in the short to medium run, owing mainly to positive prospects in the world oil market, but the outlook for the non-oil economy remains mixed. While the projected expansion of the oil sector is expected to impact positively on the rest of the economy, the latter will, however, continue to operate below its potential if the weaknesses of the government's reform approach are not redressed.

55. **Prospects for far-reaching economic reform in Libya have improved significantly since the 2004 Article IV consultation.** However, overcoming the long legacy of centralized economic management and heavy dependence on oil poses a formidable challenge to the government, requiring a well calibrated reform strategy, strong technical capacity, and enhanced intra-governmental coordination—all requirements that Libya has yet to meet. To that effect, the authorities are urged to adopt the measures to reform Libya's economy proposed by staff in the MTS. To avoid overstretching the already limited administrative capacity, prioritization and sequencing of reforms, better intra-governmental coordination, and a comprehensive technical assistance program in support of the recommended strategy are needed.

56. **In the fiscal area,** improving budgetary management and control and implementing a prudent fiscal policy are key to maintaining macroeconomic stability. To that effect, control of fiscal policy should be brought under the responsibility of the ministry of finance by unifying the government's budgets and officially abolishing all extrabudgetary operations. Given that very large fiscal surpluses are being generated at the same time that basic social needs have not been met adequately, staff supports an increase in public expenditure on basic infrastructure and social services, taking into account absorptive capacity. At the same time it is crucial to promptly eliminate all outstanding government arrears, including arrears toward

the social security fund and the electricity company. Also, it is important to bolster institutional capacities and accountability in order to ensure increased spending efficiency. In particular, budget preparation, execution, and monitoring need to be considerably reinforced, and budgetary discipline enhanced.

57. **As part of the proposed reform strategy, the ORF and the IF need to be replaced by a Savings and Stabilization Fund (SSF),** with strict rules governing its revenue and expenditure policies. Such rules need to be fully enforced, and assessment of performance would need to be done periodically.

58. **The CBL's partial liberalization of interest rates is welcome as an important first step in the CBL's gradual move to indirect monetary management.** Staff encourages the authorities to fully liberalize interest rates and to press ahead with other needed monetary reforms, including eliminating directed credit, issuing CDs, and reactivating the interbank money market. It is also important to continue to strengthen bank supervision and to ensure adequate asset classification and provisioning, in line with international best practices.

59. **The authorities' bank restructuring approach needs to be reconsidered in light of the recommendations of the June 2005 MFD TA mission on bank restructuring.** In particular, the establishment of an independent bank restructuring agency that would take over ownership of public commercial banks is a critical condition for the success of the proposed reform strategy.

60. **The current exchange rate regime is serving Libya well and the current rate of the Libyan dinar is broadly appropriate.** Nevertheless, the authorities should be prepared to revalue the peg as necessary in response to market forces, while taking into consideration the need to preserve the economy's competitiveness. Also, exchange rate policy will need to be kept under review as structural and macroeconomic reforms progress.

61. **Progress continues to be made in reforming the trade regime.** However, additional reform measures are needed, including terminating the remaining state import monopolies, and integrating all taxes and fees on imports in the tariff rates and undertaking a gradual reduction in the latter. In order to speed up preparations for WTO accession discussions, the authorities are encouraged to seek technical assistance from outside experts, including World Bank experts, who have helped other countries in similar processes.

62. **Promoting economic diversification** remains an objective that will require long and sustained efforts. Priority should be given to enhancing the government's privatization strategy and attracting foreign investment. Also, it is necessary to enact a privatization law, and, for foreign investment, use a clear negative list and remove the US$50 million floor.

63. **Libya's statistical system is in need of a thorough restructuring.** In this process, priority should be given to the establishment of a National Statistical Council to improve coordination among data producers, and the creation of a National Statistical Agency with

the authority to produce and disseminate official statistics. While data provision is adequate for overall surveillance purposes, data shortcomings remain in some key areas.

64. **There is an urgent need to establish a high inter-ministerial oversight committee that will be in charge of coordinating the government's reform efforts.** This committee will be key for the successful implementation of the recommended reforms.

65. **Staff welcomes the authorities' intention to participate in the financing of the ESF** and encourages them to make their decision official. Staff reiterates its recommendation **that Libya reconsider its withdrawal from the HIPC Initiative** and integrate its debt relief plan in the multilateral framework of the latter.

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

Table 1. Libya: Demographic, Social, and Human Development Indicators, 1998–2003

	Units	1998	1999	2000	2001	2002	2003	MENA 1/ 2003
Demographic indicators								
Population	Millions	5.04	5.14	5.24	5.34	5.45	5.56	293.2
Aged 0–14	Percent of total	39.2	38.4	33.9	33.5	33.0	32.5	35.4
Aged 15–64	Percent of total	57.8	58.5	62.7	63.0	63.4	63.8	60.8
Aged 65 and above	Percent of total	3.0	3.1	3.4	3.5	3.6	3.7	3.8
Age dependency 2/	Ratio	0.64	0.62	0.60	0.59	0.58	0.57	0.67
Urban population	Percent of total	86.7	87.2	87.6	87.9	88.2	88.5	72.4
Social indicators								
Total labor force	Millions	1.67	1.72	1.78	1.82	1.87	1.93	105.5
Male	Percent of total	77.6	77.1	76.6	76.2	75.8	75.3	72.9
Female	Percent of total	22.4	22.9	23.4	23.8	24.2	24.7	27.1
Life expectancy at birth	Years	...	...	71.5	...	72.3	72.7	71.0
Male	Years	...	...	69.3	...	69.9	70.1	69.2
Female	Years	...	...	73.8	...	74.9	75.3	72.9
Infant mortality rate	Per 1,000 live births	...	...	17.0	...	16.0	13.0	30.4
Immunization rate								
Measles	Percent of under 12 months	92.0	92.0	92.0	93.0	91.0	91.0	94.7
DPT	Percent of under 12 months	95.0	94.0	94.0	94.0	93.0	93.0	94.5
Education indicators								
Adult literacy rate (ages 15 and above)	Percent of total	77.8	78.8	79.9	80.8	81.7	...	76.6 3/
Male	Percent of Male	89.4	90.1	90.8	91.3	91.8	...	84.4 3/
Female	Percent of Female	65.0	66.5	68.1	69.3	70.7	...	68.1 3/
Human development indicators								
Human development index (HDI) 4/ 5/	Index	0.760	0.770	0.772	...	0.794	0.799	0.734
Gender-related development index (GDI) 5/ 6/	Index	0.738	0.748	0.753	...	...	...	0.689

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

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

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

3/ Literacy rates are for 2002.

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

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

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

Table 2. Libya: Basic Economic and Financial Indicators, 2001–06

(Quota = SDR 1,123.7 million)
Population (million): 5.6 (2003)

	2001	2002	2003	2004	Est. 2005	Proj. 2006
	(Annual percentage change, unless otherwise specified)					
National income and prices						
Real GDP 1/	4.5	3.3	9.1	4.6	3.5	5.0
Real non-hydrocarbon GDP 1/ 2/	6.8	4.7	2.2	4.1	4.6	4.0
Nominal GDP in billions of Libyan Dinars	18.1	24.4	30.0	39.4	51.2	61.1
Nominal GDP in billions of U.S. dollars 3/	30.0	19.2	23.4	30.2	39.2	45.0
Per capita GDP in thousands of U.S. dollars 3/	5.6	3.5	4.2	5.3	6.8	7.6
CPI inflation	-8.8	-9.9	-2.1	-2.2	2.5	3.0
	(In percent of GDP)					
Central government finances						
Revenue	43.1	51.4	54.4	59.1	73.0	72.1
Of which: Hydrocarbon	29.1	40.4	47.4	51.2	67.8	67.0
Expenditure and net lending	44.3	41.2	44.6	44.0	41.2	34.4
Of which: capital expenditure	10.0	13.7	9.4	17.6	19.3	20.0
Overall position (deficit -)	1.2	5.2	14.2	17.5	32.6	37.7
Non-oil deficit	-27.9	-35.1	-33.1	-33.6	-35.3	-29.4
Non-oil deficit (in percent of nonoil GDP at factor cost)	-44.8	-72.1	-80.3	-95.9	-117.5	-108.3
	(Changes as a percent of beginning of the year money stock)					
Money and credit						
Money and quasi-money	11.1	10.9	8.1	9.2	28.6	8.4
Net credit to the government	-2.6	-10.0	-32.8	-104.2	-107.1	-114.5
Deposit rate (1-year deposits, in percent)	5.5	5.5	5.5	4.5	--	--
	(In billions of U.S. dollars; unless otherwise indicated)					
Balance of payments						
Exports, f.o.b.	10.9	9.7	14.5	20.6	30.1	35.9
Of which: hydrocarbons	10.5	9.5	14.0	19.7	29.2	34.9
Imports, f.o.b.	4.8	7.4	7.2	8.8	10.9	12.9
Current account balance	4.1	0.6	5.0	7.3	16.0	19.6
(As percent of GDP)	13.8	2.9	21.5	24.2	40.8	43.4
Overall balance (deficit -)	1.3	0.3	3.1	6.1	13.6	17.2
(As percent of GDP)	4.5	1.6	13.3	20.4	34.8	38.1
Reserves						
Gross official reserves	14.1	15.0	19.5	25.6	39.3	56.4
(In months of next year's imports of GNFS)	19.0	20.5	21.9	23.9	31.5	40.5
Exchange rate						
Official exchange rate (LD/US$, period average)	0.6	1.27	1.28	1.30	1.31	...
Official exchange rate (LD/US$, end of period)	0.7	1.21	1.30	1.24	1.36	...
Special market rate (LD/US$, end of period) 4/	1.6	...	...	...	...	...
Spread = special rate/official rate (LD/US$, end of period)	2.5	...	...	...	...	...
Libya crude oil production (millions of barrels per day)	1.316	1.200	1.534	1.620	1.643	1.750
Libyan crude oil price (US$/bbl)	23.3	24.4	28.2	36.9	53.7	60.0

Sources: Libyan authorities and Fund staff estimates and projections.
1/ Growth rates are related to GDP at factor cost.
2/ Up to 2002, data reflect the authorities' estimates, which in staff view could be over-estimated. For 2003 onwards, data are staff estimates and projections.
3/ At official exchange rate prior to 2002.
4/ Previously the parallel market. It was legalized for some transactions in February 1999.

Table 3. Libya: Consolidated Fiscal Operations, 2001–06

	2001	2002	2003	2004	Est. 2005	Proj. 2006
	(In millions of Libyan dinars)					
Total Revenue	7,814	12,572	16,336	23,272	37,433	44,022
Hydrocarbon 1/	5,286	9,872	14,228	20,141	34,763	40,936
Of which: Oil Reserve Fund	1,719	2,549	4,583	9,225	17,337	23,553
Nonhydrocarbon 2/	2,528	2,700	2,108	3,131	2,671	3,086
Nonhydrocarbon Tax Revenue	2,056	1,150	725	1,617	1,542	1,800
Taxes on income and profits	381	506	...	309	397	507
Taxes on international trade	1,531	379	385	602	517	603
Other tax revenue	143	266	...	705	628	690
Nontax Revenue	179	944	962	1,222	877	1,011
GMR Revenue	294	606	421	292	251	276
Total expenditure and net lending	8,038	10,063	13,396	17,332	21,107	21,022
Total Expenditure	8,038	10,063	13,396	17,231	18,319	21,022
Current expenditure	6,226	6,724	10,564	10,298	8,420	8,799
Administrative budget	3,537	4,183	4,228	5,611	7,072	7,799
Expenditure on goods and services	3,161	3,684	3,499	4,780	6,022	6,696
Wages and salaries	2,297	2,546	2,812	3,577	4,455	4,721
Other purchases of goods and services	863	1,139	688	1,202	1,567	1,975
Interest Payments	75	0	0	0	0	0
Subsidies and other current transfers	301	499	728	832	1,050	1,103
Defense	...	...	...	894	981	1,000
Extrabudgetary current expenditure	2,689	2,541	6,336	3,792	368	0
Oil Reserve Fund 3/	2,193	1,966	5,636	3,792	368	0
Defense	496	575	700	...	...	...
Capital expenditure	1,813	3,339	2,832	6,933	9,899	12,223
Development budget	1,539	2,936	2,204	6,135	9,073	11,342
Extrabudgetary capital expenditure	274	403	628	798	826	882
Net lending	0	0	0	102	2,788	0
Errors and Omissions 4/	-447	1,229	-1,333	-961	-357	0
Overall balance	223	1,280	4,273	6,901	16,683	23,000
Overall balance (excluding Oil Reserve Fund revenue)	-1,495	-1,269	-310	-2,324	-654	-553
Nonhydrocarbon balance	-5,063	-8,592	-9,955	-13,240	-18,079	-17,936
Domestic Financing	-223	-1,280	-4,273	-6,901	-16,683	-23,000
Banking system	-213	-1,134	-4,207	-6,654	-16,191	-22,600
Nonbank financing	-10	-147	-66	-247	-492	-400
	(In percent of GDP)					
Total Revenue	43.1	51.4	54.4	59.1	73.0	72.1
Hydrocarbon 1/	29.1	40.4	47.4	51.2	67.8	67.0
Nonhydrocarbon 2/	13.9	11.0	7.0	8.0	5.2	5.1
Total Expenditure and net lending	44.3	41.2	44.6	44.0	41.2	34.4
Total Expenditure	44.3	41.2	44.6	43.8	35.7	34.4
O/w: Current expenditure	34.3	27.5	35.2	26.2	16.4	14.4
Wage bill	12.7	10.4	9.4	9.1	8.7	7.7
Subsidies	1.7	2.0	2.4	2.1	2.0	1.8
Capital expenditure	10.0	13.7	9.4	17.6	19.3	20.0
Budgetary expenditure	28.0	29.1	21.4	32.1	33.4	33.0
Extra-budgetary expenditure	13.9	17.1	18.7	9.2	1.6	1.4
Net lending	0.0	0.0	0.0	0.3	5.4	0.0
Errors aand omissions	-2.5	5.0	-4.4	-2.4	-0.7	0.0

Sources: Ministry of finance; and staff estimates and projections.
1/ The difference between total oil revenue and the ORF allocations represents the budgetary oil revenues.
2/ Net of income taxes and includes the contributions to the social security fund.
3/ ORF expenditure for 2003 and 2004 includes payments for the Lockerbie Settlement of LD 1,388 million and LD 1,404 million, respectively.
4/ Corresponds to operations (net) not accounted for.

Table 4. Libya: Monetary Survey, 2001–06 1/

	2001	2002	2003	2004	Est. 2005	Proj. 2006
	(In millions of Libyan dinars)					
Net foreign assets	9,976	19,123	27,123	34,237	56,423	79,702
Central bank	9,410	18,440	26,573	33,066	54,448	77,726
Foreign assets	9,414	18,444	26,578	33,073	54,460	77,741
Foreign liabilities	4	4	5	7	12	15
Deposit money banks	566	683	550	1,171	1,976	1,976
Foreign assets	623	778	794	1,312	2,047	2,047
Foreign liabilities	57	94	244	141	72	72
Net domestic assets	1,745	-6,119	-13,071	-18,893	-36,684	-58,311
Domestic credit	7,092	6,899	3,486	-11,253	-26,998	-48,625
Net claims on government	616	-555	-4,820	-19,465	-35,902	-58,502
Central bank claims 2/	7,151	7,010	7,012	828	828	828
Governments' deposits with central bank	7,765	8,587	12,964	19,519	35,893	58,493
Commercial banks' claims 2/	1,811	1,811	1,811	373	373	373
Governments' deposits with comm. banks	582	788	678	1,147	1,210	1,210
Claims on the rest of the economy	6,477	7,453	8,305	8,212	8,903	9,877
Claims on nonfinancial public enterprise 2/	1,831	2,838	3,784	3,477	4,278	4,791
Claims on private sector	4,492	4,438	4,298	4,452	4,573	5,033
Claims on specialized banking institutions	78	82	77	67	45	45
Claims on nonbank financial instit.	76	96	146	215	7	7
Other items (net) 2/	-5,347	-13,018	-16,557	-7,640	-9,686	-9,686
Broad money	11,721	13,004	14,052	15,344	19,739	21,391
Money	7,704	8,705	9,029	10,537	13,968	...
Currency in circulation	2,560	2,614	2,764	2,613	3,311	...
Demand deposits (other than government)	5,144	6,092	6,266	7,924	10,657	...
Quasi-money	4,018	4,299	5,023	4,807	5,771	...
Memorandum items:						
Net Claims on the Government excl. SSF	1,057	-77	-4,284	-18,938	-35,129	-57,729
	(Annual rate of change in percent)					
Broad money	11.1	10.9	8.1	9.2	28.6	8.4
Money	3.6	13.0	3.7	16.7	32.6	...
Quasi-money	28.7	7.0	16.8	-4.3	20.1	...
Net claims on Government	-30.6	-190.1	769.0	303.9	84.4	62.9
Claims on nonfinancial public enterprises	40.8	55.0	33.3	-8.1	23.0	12.0
	(Percent change over beginning broad money stock)					
Net foreign assets	20.9	78.0	61.5	50.6	144.6	117.9
Domestic credit	4.6	-1.7	-26.2	-104.9	-102.6	-109.6
Net claims on government	-2.6	-10.0	-32.8	-104.2	-107.1	-114.5
Claims on the economy	7.1	8.3	6.6	-0.7	4.5	4.9
Claims on nonfinancial public enterprises	5.0	8.6	7.3	-2.2	5.2	2.6
Claims on private sector	2.0	-0.5	-1.1	1.1	0.8	2.3
	(As percent of GDP)					
Domestic credit	39.1	28.2	11.6	-28.6	-52.7	-79.6
Net claims on the government	3.4	-2.3	-16.0	-49.5	-70.1	-95.8
Broad money	64.6	53.2	46.8	39.0	38.5	35.0
Nominal GDP (in billions of Libyan dinars)	18.1	24.4	30.0	39.4	51.2	61.1

Source: Central Bank of Libya

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

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

Table 5. Libya: Balance of Payments, 2001–10

(In millions of US dollars unless otherwise specified)

	2001	2002	2003	2004	Est. 2005	Projections 2006	2007	2008	2009	2010
1. Current Account	4,145	566	5,036	7,303	15,985	19,552	20,053	20,088	20,719	21,261
A. Goods and Services	5,217	1,172	6,170	10,355	17,758	21,538	21,305	20,783	20,911	20,899
a. Goods	6,067	2,309	7,325	11,832	19,234	23,019	22,929	22,567	22,872	23,058
Exports (fob)	10,892	9,717	14,525	20,600	30,110	35,935	37,396	38,769	41,019	43,383
Hydrocarbon sector 1/	10,472	9,534	14,037	19,723	29,210	34,936	36,311	37,596	39,749	42,008
Other exports	420	184	489	877	900	1,000	1,084	1,174	1,269	1,375
Imports (fob)	-4,825	-7,408	-7,200	-8,768	-10,875	-12,917	-14,467	-16,203	-18,147	-20,325
of which: Oil sector imports	-752	-626	-950	-1,271	-1,378	-1,648	-1,833	-2,050	-2,319	-2,622
b. Services	-850	-1,137	-1,155	-1,477	-1,476	-1,480	-1,624	-1,784	-1,961	-2,159
Debit	1,033	1,539	1,597	1,914	1,970	2,039	2,256	2,497	2,768	3,071
Credit	183	402	442	437	494	558	631	714	807	912
Freight and insurance for imports	-263	-343	-540	-658	-816	-969	-1,085	-1,215	-1,361	-1,524
Travel	-494	-628	-352	-368	-381	-400	-418	-437	-456	-476
Transportation	-169	-83	-104	-85	-68	-80	-89	-98	-109	-122
Government services (other)	-209	-190	43	45	47	49	51	53	56	58
Private services (other)	-79	-100	-202	-134	-70	-80	-83	-86	-91	-95
Of which: Hydrocarbon sector	-49	-23	-23	-33	-48	-58	-60	-62	-66	-69
B. Income	-240	265	540	-543	-870	-726	-361	226	766	1,357
Direct investment income 2/	-747	-585	-845	-1,634	-2,551	-2,894	-3,172	-3,268	-3,445	-3,629
Other investment income	507	850	1,385	1,091	1,681	2,167	2,812	3,494	4,211	4,986
Government sector	414	740	1,263	966	1,549	2,029	2,667	3,343	4,053	4,822
Private sector	93	110	122	125	132	139	145	151	158	165
C. Current transfers	-832	-872	-1,673	-2,509	-903	-1,260	-891	-921	-958	-996
General government 3/	0	0	-1,174	-1,741	-115	-400	0	0	0	0
Private	-832	-872	-499	-768	-788	-860	-891	-921	-958	-996
Oil sector	-127	-105	-156	-210	-259	-310	-322	-333	-352	-372
Other sectors (workers transfers abroad)	-705	-767	-343	-558	-529	-550	-569	-588	-605	-623
2. Capital and Financial Account	-976	89	-167	-1,023	-2,349	-2,396	-2,613	-2,850	-3,110	-3,395
Direct investment	-308	281	79	-643	-1,503	-1,533	-1,686	-1,855	-2,040	-2,244
Portfolio investment	-1,358	72	-607	-187	-448	-457	-479	-503	-529	-555
Other investment	690	-264	361	-193	-399	-407	-448	-492	-542	-596
3. Errors and Omissions and Other Capital	-1,831	-341	-1,748	-134	0	0	0	0	0	0
4. Overall Balance	1,338	314	3,122	6,146	13,636	17,156	17,440	17,238	17,608	17,866
5. Reserve items	-1,338	-314	-3,122	-6146	13636	17156	17440	17238	17608	17866
Memorandum items:										
Official exchange rate, LD/US$ (pa)	0.61	1.27	1.28	1.30	1.31	1.36	1.36	1.36	1.36	1.36
Official exchange rate, LD/US$ (eop)	0.65	1.21	1.30	1.24	1.36	1.36	1.36	1.36	1.36	1.36
Gross official reserves (in billions of US$)	14.1	15.0	19.5	25.62	39.26	56.41	73.85	91.09	108.70	126.57
Gross official reserves, in months of next year's imports of GNFS	19.0	20.5	21.9	23.94	31.50	40.48	47.39	52.26	58.84	61.24
Current account balance (in percent of GDP)	13.8	2.9	21.5	24.21	40.82	43.44	42.44	40.64	39.50	38.19
Overall balance of payments (in percent of GDP)	4.5	1.6	13.3	20.38	34.82	38.11	36.91	34.88	33.57	32.09
Nominal GDP (in billions of US$, pa)	30.0	19.2	23.4	30.16	39.16	45.01	47.25	49.43	52.45	55.67

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

Table 6. Libya: Illustrative Medium-Term Scenario, 2001–10

	2001	2002	2003	2004	Est. 2005	Projections 2006	2007	2008	2009	2010
					(Assumptions)					
Crude oil production (in millions of barrels/day)	1.32	1.20	1.53	1.62	1.64	1.75	1.86	1.99	2.12	2.25
Hydrocarbon exports (in billions of US$)	10.5	9.5	14.0	19.7	29.2	34.9	36.3	37.6	39.7	42.0
Libyan crude oil export price (US$ per barrel)	23.3	24.4	28.2	36.9	53.7	60.0	58.3	56.4	55.7	54.9
(based on WEO assumptions of December 2004)										
					(In percent of GDP; unless otherwise indicated)					
Official exchange rate (LD/US$, eop)	0.65	1.21	1.30	1.24	1.36	1.36	1.36	1.36	1.36	1.36
Official exchange rate (LD/US$, p.a.)	0.61	1.27	1.28	1.30	1.31	1.36	1.36	1.36	1.36	1.36
CPI (percent change)	-8.8	-9.9	-2.1	-2.2	2.5	3.0	3.5	3.5	3.5	3.5
GDP deflator (percent change)	0.1	31.5	16.0	25.5	29.3	13.6	-0.1	-0.3	1.3	1.2
Gross domestic investment	12.3	34.2	10.0	15.3	18.3	18.8	19.7	20.7	21.4	22.2
Nongovernment	2.2	22.5	2.0	1.7	2.0	1.8	1.9	2.0	2.1	2.2
Government	10.1	11.7	8.1	13.6	16.4	16.9	17.8	18.7	19.4	20.1
National saving	26.1	37.2	31.5	39.5	59.2	62.2	62.1	61.3	60.9	60.4
Nongovernment	17.4	13.2	12.3	6.5	2.5	4.5	5.1	4.9	4.6	4.1
Government	8.8	23.9	19.2	33.0	56.6	57.7	57.0	56.4	56.4	56.3
Saving-investment gap	13.8	2.9	21.5	24.2	40.8	43.4	42.4	40.6	39.5	38.2
Nongovernment	15.2	-9.3	10.4	4.8	0.6	2.7	3.2	2.9	2.5	1.9
Government	-1.4	12.2	11.2	19.4	40.3	40.7	39.3	37.7	37.0	36.3
Real GDP growth rate at factor cost (in percent)	4.5	3.3	9.1	4.6	3.5	5.0	4.6	4.4	4.3	4.4
Real nonhydrocarbon GDP growth rates, at factor cost (in percent)	6.8	4.7	2.2	4.1	4.6	4.0	3.5	3.2	3.0	3.0
Total revenue, of which:	43.1	51.4	54.4	59.1	73.0	72.1	71.5	71.1	71.0	71.0
Hydrocarbon revenue	29.1	40.4	47.4	51.2	67.8	67.0	66.2	65.4	65.1	64.9
Total expenditure	44.3	41.2	44.6	44.0	41.2	34.4	35.5	36.7	37.5	38.3
Current	34.3	27.5	35.2	26.2	16.4	14.4	14.5	14.7	14.7	14.6
Capital	10.0	13.7	9.4	17.6	19.3	20.0	21.0	22.1	22.9	23.7
Overall budget balance	1.2	5.2	14.2	17.5	32.6	37.7	36.1	34.3	33.5	32.6
(excluding the ORF revenue)	-8.2	-5.2	-1.0	-5.9	-1.3	-0.9	-1.2	-1.6	-1.9	-2.3
Non-hydrocarbon balance (deficit -)	-27.9	-35.1	-33.1	-33.6	-35.3	-29.4	-30.1	-31.1	-31.6	-32.2
					(In millions of U.S. dollars; unless otherwise indicated)					
Exports, f.o.b., of which:	10,892	9,717	14,525	20,600	30,110	35,935	37,396	38,769	41,019	43,383
Non-oil exports	420	184	489	877	900	1,000	1,084	1,174	1,269	1,375
Imports	-4,825	-7,408	-7,200	-8,768	-10,875	-12,917	-14,467	-16,203	-18,147	-20,325
Current account balance	4,145	566	5,036	7,303	15,985	19,552	20,053	20,088	20,719	21,261
(in percent of GDP)	13.8	2.9	21.5	24.2	40.8	43.4	42.4	40.6	39.5	38.2
Official reserves	14,139	15,029	19,493	25,623	39,259	56,414	73,854	91,092	108,700	126,566
(in months of next year's imports of GNFS)	19.0	20.5	21.9	23.9	31.5	40.5	47.4	52.3	58.8	61.2

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

LIBYA: FUND RELATIONS
(As of December 31, 2005)

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

II. General Resources Account:	SDR Million	Percent of Quota
Quota	1123.70	100.0
Fund holdings of currency	728.20	64.8
Reserve position in Fund	395.51	35.2

III. SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	58.77	100.0
Holdings	494.88	842.05

IV. Outstanding Purchases and Loans: None

V. Latest Financial Arrangements: None

VI. Projected Obligations to Fund: None

VII. Exchange Rate Arrangement

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

VIII. Exchange System

In June 2003, the authorities eliminated the restrictions that gave rise to multiple currency practices. Libya accepted its obligations under Article VIII, Sections 2(a), 3, and 4 of the Articles of Agreement in June 2003. MFD and LEG are awaiting the necessary clarifications from the authorities before the review can be completed.

IX. Article IV Consultation

Libya is on a 12-month consultation cycle. The last Article IV staff report was discussed by the Executive Board in January 2005. The 2005 Article IV consultation discussions were held in Tripoli during November 30-December 14, 2005.

X. Technical Assistance

1. February 1985: STA mission in monetary statistics.
2. September 1985: STA mission in price, trade, and non-oil production statistics.
3. March 1990: STA mission in money and banking and balance of payments statistics.
4. February 1998: STA multisector statistics mission.
5. August 2001: MAE mission in monetary operations, banking supervision and payment system.
6. December 2003: Two-week course on financial programming (INS and MCD).
7. February 2004: FAD mission on strengthening tax policy and revenue administration.
8. May 2004: MFD mission on monetary policy operations and introduction of financial instruments and markets.
9. June 2005: MFD mission on financial sector reform including bank restructuring.
10. June 2005: STA multisector mission on government finance statistics (GFS) and national accounts statistics (first part).
11. July 2005: FAD mission on reform of tax and customs directorates.
12. August/September 2005: STA multisector statistics on monetary and balance of payments statistics (second part).
13. Five missions by Middle East Technical Assistance Centre (METAC) on banking supervision (May, July, August and September 2005).

LIBYA: RELATIONS WITH THE WORLD BANK GROUP

Prepared by the World Bank staff

(As of February 1, 2006)

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

2. At the request of the Libyan authorities, a Bank economic mission visited Libya in July 2004 to prepare a Country Economic Report. The mission focused on the following areas: macroeconomic performance, investment climate, public enterprise reform, trade policy and customs administration, financial sector reform, social protection, and public finance management. A draft Country Economic Report, reflecting the mission's findings and assessment of policy reform options, was delivered to the Libyan authorities in November 2004.

3. A Bank mission, led by the Director of the Maghreb Department and the Chief Economist of the Middle East and North Africa Region, visited Libya in November 2005 to discuss follow-up to the report and explore Libyan interest in further assistance from the World Bank Group. Overall, the authorities expressed appreciation of the Country Economic Report and its main messages and recommendations. It was agreed that a Bank mission would visit Libya in March 2006 to update and finalize the Report. At the request of the authorities, the mission made proposals for further assistance in public finance management, private sector development, financial sector reform, and social protection. These proposals and the possible instruments for Bank assistance are currently under review by the Libyan authorities.

LIBYA: STATISTICAL ISSUES

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

A 2005 (June 4-9 and August 27-September 3) multisector mission examined the conceptual and compilation procedures for national accounts, price indices, foreign trade, money and banking, and government finance; developed recommendations for improvement in these systems; and urged Libya to expedite participation in the General Data Dissemination System (GDDS). The mission prepared a short-term action plan to be implemented by the authorities.

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

National accounts

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

To improve the national accounts, the 2005 STA mission made several recommendations including: (i) establishing a National Statistical Agency to produce and disseminate official statistics and coordinate the national statistical program; (ii) creating a National Statistical Council as a legally empowered interagency coordination committee to oversee compilation of national accounts statistics; (iii) transferring responsibility for the national accounts from the National Planning Council to the Census and Statistical Department of the National Information and Documentation Agency (NIDA) and creating 6–10 additional permanent staff positions; (iv) prioritizing implementation of the *1993 System of National Accounts* and outlining entailed data requirements; (v) improving the questionnaires used for the construction and manufacturing surveys and the establishments frame; (vi) initiating regular surveys of major services activities, agricultural output, and public and private construction; and (vii) improving estimates for transport, storage, and communication companies (by including the three airline companies, shipping establishments, and telecommunication enterprises in the services sector), and for trade margin (by excluding margin of goods not channeled through wholesale or retail trade).

Price statistics

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

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

Monetary, banking, and financial statistics

While the timeliness and quality of monetary data reported to the *IFS* have improved, some deficiencies remain. To enhance monetary, banking, and financial statistics, the 2005 STA mission made the following recommendations: (i) reclassify Libyan Foreign Bank as a resident financial institution under other depository corporations and include it in the monetary survey; (ii) reclassify specialized development banks, in case they start issuance of depository liabilities, and include them in the monetary survey; (iii) reclassify the Libyan Foreign Investment Company as a resident financial institution under other financial corporations; (iv) exclude contingent positions such as those arising from issuance of letters of credit from the CBL's and other banks' monetary accounts and revise monetary data retroactively (which the CBL has already implemented); (v) treat provision of funds from the government's Oil Reserve Fund at CBL as withdrawals from the government deposit account (or treat it as loan/advance to government in case of an overdraft) instead of sourcing them from the valuation adjustment account; (vi) adopt market-based valuation of financial instruments and accrual accounting procedures for adding accruing interest to the value of the instrument; (vii) revalue CBL's holdings of monetary gold at end-period gold market prices; (viii) identify all Fund-related accounts in the CBL's balance sheet as per IMF Finance Department instructions; and (ix) revise/develop report forms for banks that would contain a sufficient breakdown of positions by currency of denomination, instrument, and sector of counterparty needed for the implementation of the Standardized Report Forms (SRFs) for monetary statistics.

Fiscal data

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

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

Balance of payments

The authorities resumed, in 2000, the reporting to STA of annual data in accordance with the presentation of the fifth edition of the *Balance of Payments Manual (BPM5)*. However, the reported data suffer from deficiencies, mainly due to (i) generally unclear methodology; (ii) outdated surveys as sources for primary data; (iii) lack of component detail; (iv) lack of comprehensive coverage for trade data; and (v) methodological flaws in the compilation of the financial account.

To improve the balance of payments statistics, the 2005 STA mission made the following recommendations: (i) include provisions in the Bank Law for mandatory reporting by all resident sectors of data needed for compilation of balance of payments (with the CBL as the legally authorized compiling agency and with penalties for noncompliance, misreporting, breach of confidentiality, etc.); (ii) institutionalize regular co-ordination meetings of the CBL with NIDA, the ministry of finance (customs department), the ministry of planning and other ministries/agencies and private sector enterprises that can provide external sector source data; (iii) urge high-level staff to seek training opportunities, including IMF courses on balance of payments statistics; and (iv) develop computer programs for compiling balance of payments statistics in *BPM5* format and move to electronic reporting by reporting agencies. In addition, a number of actions were proposed aimed at (i) bringing balance of payments compilation in line with the *BPM5* on residency/nonresidency criteria, recording basis (accrual principle), valuation (market price), coverage etc.; (ii) improving the source data including by conducting surveys on foreign direct investment, services, and transfers and a survey to establish a business registry; (iii) improving the coverage of foreign direct investment and portfolio investment data by surveying relevant foreign-based oil companies and companies outside the hydrocarbon sector; (iv) improving the coverage of the income account by including all transactions of the Libyan Foreign Bank and the oil companies employing nonresidents; and (v) compiling foreign trade statistics using internationally accepted concepts and definitions.

LIBYA: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE
AS OF FEBRUARY 15, 2006

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]
Exchange Rates	Jan. 2006	January 2006	M	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Nov. 2005	January 2006	M	M	M
Reserve/Base Money	Dec. 2005	February 2006	M	M	M
Broad Money	Dec. 2005	February 2006	M	M	M
Central Bank Balance Sheet	Dec. 2005	February 2006	M	M	M
Consolidated Balance Sheet of the Banking System	Dec. 2005	February 2006	M	M	M
Interest Rates[2]	Dec. 2005	February 2006	M	M	M
Consumer Price Index	Sept. 2005	December 2005	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	Dec. 2005	February 2006	A	A	A
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	Dec. 2005	February 2006	A	A	A
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec. 2005	February 2006	A	A	A
External Current Account Balance	2004	December 2005	A	A	A
Exports and Imports of Goods and Services	2004	December 2005	A	A	A
GDP/GNP	2004		A	A	A
Gross External Debt	Nov. 2000	Nov. 2000	NA	NA	NA

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA)

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

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

On March 17, 2006, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Socialist People's Libyan Arab Jamahiriya.[1]

Background

Since the lifting in 2003–04 of the international sanctions, which lasted more than 10 years, Libya has decided to undertake comprehensive structural reforms and accelerate its transition to a market economy. While progress has been made in recent years to liberalize the economy, it remains largely state controlled and not diversified. Three quarters of employment is still in the public sector, private investment is minuscule (2 percent of GDP), and the oil sector remains dominant.

In 2004, Libya's macroeconomic performance was satisfactory, owing mainly to higher oil prices (31 percent) and increased oil output (5.6 percent). Real GDP grew 4½ percent, while consumer prices declined (-2.2 percent). The favorable developments in the oil market contributed to a significant improvement in the external current account surplus, which reached some 24 percent of GDP. Gross international reserves rose to about 24 months of 2005 imports.

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

The fiscal stance continued to be expansionary, with a large non-oil fiscal deficit of 33½ percent of GDP. However, reflecting high oil prices, the overall fiscal surplus reached 17½ percent of GDP. Non-oil revenue increased by about 1 percentage point of GDP, owing to strong collections by customs reflecting increased imports and some improvements in revenue administration. Total expenditure and net lending declined by ½ percent of GDP, as the surge in capital expenditure (8 percent of GDP), due to the implementation of a number of public projects, was more than offset by a sharp drop in extrabudgetary current expenditure.

Broad money grew 9.2 percent. As a result of the improved government financial situation, the government's net creditor position with the banking system was about 50 percent of GDP. Overall credit to the economy declined by 1 percent, mainly reflecting a government buy-back of public enterprises' bank debt and a limited increase in credit to the private sector.

In 2005, macroeconomic performance remained relatively strong. Real GDP growth was about 3½ percent, and inflation low (2.5 percent). In contrast to previous years, economic growth is estimated to have been generated mainly in the non-oil economy (4½ percent). While activity in the oil sector grew only 1½ percent, due to output capacity constraints, the pick-up in activity in the non-oil sector was essentially the result of the increase in government spending. The main sectors that registered strong growth include trade, hotels, and transportation (7 percent); and construction and services (5 percent). Gains in agriculture remained modest (2.5 percent), but the manufacturing sector registered its first positive growth in five years (1.8 percent).

Based on preliminary data, the overall fiscal surplus reached 32½ percent of GDP, reflecting strong oil revenues (68 percent of GDP) and reduced expenditure (in terms of GDP). Non-oil revenue is estimated to have declined by about 15 percent, notably because of the nontransfer of the interest on the Oil Reserve Fund balances by the Central Bank of Libya (CBL); and lower collections by customs and local governments, partly reflecting the downside effects of the new tax law and customs tariff. Overall, the non-oil fiscal deficit widened to 35 percent of GDP.

Monetary developments were characterized by strong broad money growth (29 percent). Both money and quasi-money grew markedly, by 33 percent and 20 percent, respectively. These developments also reflect a remonetization of the economy consistent with improved domestic economic conditions and increased public confidence following the lifting of sanctions, and the sharp increase in bank credit to public enterprises (23 percent). With the sustained improvement in the government's financial situation, the government's net creditor position with the banking system reached 70 percent of GDP. While bank credit to the private sector grew only modestly (about 3 percent), most of the private sector credit needs were met by the government through specialized banks.

On the external side, the widening of the current account surplus to 41 percent of GDP reflected mainly strong hydrocarbon exports, which increased by 48 percent to about US$29 billion. Imports grew 24 percent to some US$11 billion, boosted by increased domestic demand. Overall, gross international reserves rose to about 32 months of 2006 imports.

In 2005, the authorities continued to implement measures to reform and open up the economy. The government streamlined the customs tariff, and eased restrictions on external trade by downsizing the negative import list from 31 items to 17 items. The new tariff schedule has only two rates (10 percent for tobacco products and 0 percent for all other products), but all imported goods are now subject to a 4 percent service fee. In the meantime, the production and consumption tax was increased to 25–50 percent for imported goods and reduced to 2 percent for domestically produced goods. Also, the government created an investment fund (IF) to manage part of the government's oil revenues.

In the monetary and banking area, the authorities passed: (i) a new banking law which reinforces the independence of the CBL and gives it the authority to allow foreign banks to operate in Libya; and (ii) an Anti Money Laundering (AML) law. As of August 2005, banks were granted autonomy to determine freely interest rates on deposits and to set lending rates within a band of 250 basis points above the discount rate (currently at 4 percent). The CBL also launched the privatization of Sahara Bank and recapitalized three commercial banks.

As regards structural reform, major progress has been made in simplifying business application procedures. In particular, a one stop-window has been established, and a 30-day limit has been set for application approval with the obligation for the administration to notify any refusal through a notary public. The privatization program and foreign investment's scope of activity have been broadened to include downstream activities in the oil, health, transportation, and insurance sectors. Also, joint ventures between Libyan and foreign investors are now permitted to benefit from the incentives of Law 5 related to domestic investment. Overall, a total of 216 enterprises have been slated for privatization, and 144 are to be liquidated. Thus far, 66 small enterprises have been sold.

Libya has taken steps towards regularizing its relations with external creditors. In 2004–05 disputed claims with creditors in Germany, Spain and the United Kingdom have been settled. Discussions with other foreign creditors are ongoing.

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

Executive Board Assessment

Directors welcomed Libya's continued strong macroeconomic performance during 2004–05, which had benefited from favorable developments in the world oil market. Both the fiscal and external current account balances registered large surpluses, and international reserves increased considerably. Directors commended recent structural reform initiatives, including the streamlining of the tariff schedule, the partial liberalization of interest rates, and the broadening of the privatization program and the scope for foreign investments.

Directors stressed the importance of accelerating progress towards the establishment of a market economy and sustained growth and job creation in the non-oil economy, noting that reform efforts have so far suffered from the absence of a comprehensive medium-term plan that is consistently implemented. Accordingly, they urged the authorities to take advantage of the good opportunity afforded by Libya's comfortable financial situation to pursue their reform agenda vigorously, with the medium-term strategy prepared by staff at the authorities' request as a blueprint. Directors were encouraged by the authorities' recognition of the need to move forward along these lines.

They stressed that successful implementation will depend on careful prioritization and sequencing, as well as effective coordination among institutions—in particular between the central bank and the ministry of finance—including through the establishment of a high inter-ministerial oversight committee.

Directors noted that improving budgetary management and implementing a prudent fiscal policy are key to maintaining macroeconomic stability. They recommended that control of fiscal policy be brought under the responsibility of the ministry of finance by unifying the government's budgets and officially abolishing all extrabudgetary operations. The authorities should also persevere with the implementation of fiscal reforms, by strengthening expenditure management and control, streamlining the tax system, and modernizing and improving revenue administration. To ensure long-term fiscal sustainability, Directors urged the authorities to strengthen the management of Libya's oil wealth by replacing the existing Oil Reserve Fund and Investment Fund by a Savings and Stabilization Fund. The revenue and expenditure policies of such a fund should be governed by strict and fully enforced rules, and its performance should be periodically assessed.

Directors supported the authorities' decision to increase public expenditure on basic infrastructure and social services, in order to improve coverage of the population's basic social needs. They stressed, however, that such spending should take into account the economy's absorptive capacity, while institutional capacities and accountability should be strengthened in order to ensure increased efficiency. In particular, budget preparation, execution, and monitoring need to be considerably reinforced and budgetary discipline enhanced. Beyond this, Directors urged that all outstanding government arrears be eliminated and no new arrears be accumulated.

Directors welcomed the partial liberalization of interest rates by the CBL, as well as the new banking law, which strengthens the central bank's independence and grants the CBL authority to allow foreign banks to operate. They encouraged the authorities to move to indirect monetary management, starting with full interest rate liberalization. Other required reforms include eliminating directed credit, reactivating the interbank money market, and strengthening banking supervision in line with international best practices. Directors considered the restructuring and modernization of the banking sector to be key to the development of the financial sector. They urged the authorities to implement a strategy for the restructuring of the state-owned banks, in line with staff recommendations, including the establishment of an independent bank restructuring agency that would take over ownership of public commercial banks.

Directors noted that Libya is well served by the current exchange rate regime pegging the Libyan dinar to the SDR, and that the current rate of the dinar is broadly appropriate. Going forward, due consideration should be given to adjustments in response to market developments, while preserving the economy's competitiveness. Over the longer-run, Directors recommended that exchange rate policy be kept under review as structural and macroeconomic reforms progress.

Directors welcomed the progress made in reforming the trade regime, and encouraged the authorities to terminate the remaining state import monopolies. They recommended that import taxation be streamlined by integrating all taxes and fees on imports in the tariff rates, which would be gradually reduced at a later stage. Directors encouraged the authorities to accelerate preparations for WTO accession discussions, and to seek technical assistance from outside experts in this endeavor.

Directors underscored that economic diversification will require a sustained effort including, in particular, enhancements to the government's privatization strategy, and improved conditions for foreign investment. They urged the authorities to enact a privatization law that will give the privatization agency a legal status and an explicit mandate. As regards foreign investment, Directors recommended replacing the current positive list with a clear and streamlined negative list, and removing the US$50 million floor on investment that, de facto, disqualifies most foreign investments in the non-oil sector. They also encouraged the authorities to gradually streamline the subsidy system.

Directors welcomed Libya's recent decision to participate in the Fund's General Data Dissemination System (GDDS) and to use the latter as a framework for statistical development. They encouraged the authorities to undertake a thorough restructuring of Libya's statistical system, giving priority to the establishment of a National Statistical Council and the creation of a National Statistical Agency.

Directors welcomed the authorities' close collaboration with the Fund staff. They stressed that, in view of its severe human resource constraints and weak institutions, Libya will need further significant technical assistance to advance its economic reform agenda. In this regard, Directors welcomed Libya's decision to cover most of the cost of the country's required technical assistance.

Directors welcomed Libya's intention to participate in the financing of the Exogenous Shocks Facility and the progress made in improving relations with external creditors. They encouraged the authorities to reconsider Libya's withdrawal from the HIPC Initiative and integrate its debt relief plan in the multilateral framework of the latter.

Libya: Basic Economic and Financial Indicators, 2000–04

(Quota = SDR1,123.7 million)
Population (million): 5.67 million (2004)
Per capita GDP: US$5,271 (2004)

	2001	2002	2003	2004	Prel. 2005
	(Annual percent changes)				
National income and prices					
Real GDP	4.5	3.3	9.1	4.6	3.5
Real nonhydrocarbon GDP	6.8	4.7	2.2	4.1	4.6
CPI inflation	-8.8	-9.9	-2.1	-2.2	2.5
	(In percent of GDP)				
Central government finances					
Revenue	43.1	51.4	54.4	59.1	73.0
Expenditure and net lending	44.3	41.2	44.6	44.0	41.2
Errors and omissions 2/	-2.5	5.0	-4.4	-2.4	-0.7
Overall fiscal balance	1.2	5.2	14.2	17.5	32.6
Nonhydrocarbon balance (deficit -)	-27.9	-35.1	-33.1	-33.6	-35.3
	(Annual percent changes, unless otherwise specified)				
Monetary Indicators					
Broad Money	11.1	10.9	8.1	9.2	28.6
Deposit rates (1 year-deposits, in percent)	5.5	5.5	5.5	4.5	4.5
	(In billions of dollars, unless otherwise specified)				
External Sector					
Exports of goods	10.9	9.7	14.5	20.6	30.1
Imports of goods	4.8	7.4	7.2	8.8	10.9
Current account balance	4.1	0.6	5.0	7.3	16.0
(As percent of GDP)	13.8	2.9	21.5	24.2	40.8
Gross official reserves	14.1	15.0	19.5	25.6	39.3
(In months of next year's imports)	19.0	20.5	21.9	23.9	31.5

Sources: Libyan authorities; and Fund staff estimates.
2/ Correspond to fiscal operations (net) not captured in available fiscal data.