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GRAY/23/4812

May 22, 2023

**Statement by Mr. Naka and Ms. Fukuda on Libya
(Preliminary)
Executive Board Meeting
May 24, 2023**

We thank staff for the informative report and Mr. Bijani and Mr. Sassanpour for their helpful Buff statement.

Continued dependence on hydrocarbon has been weighing on medium-term stable growth. We very much welcome the first Article IV Consultation for Libya since 2013. Although we note the Central Bank of Libya's efforts to sustain external stability and adequate international reserves, it is worrisome that the economy has experienced large swings, with oil and gas production susceptible to the security situation. Since this concentration continues to pose significant risks to the outlook, we agree with the overarching policy objective to diversify the economy and catalyze private-led growth. We acknowledge the difficulties in gaining political support for the relevant reforms and encourage staff to closely engage with the authorities to find a feasible way building on this Article IV Consultation discussion. *We also believe that the FCS strategy could be helpful in anchoring the engagement and would like to hear staff view on prospects for CES preparation.*

We strongly agree with staff that Libya urgently needs to strengthen its fiscal framework to allow transparent and strategic budgeting. Absence of an agreed-upon budget has been weakening the authorities' ability to allocate spendings effectively with a medium-term perspective. In particular, we share staff's concern for procyclical spendings on the back of the recovery of hydrocarbon production. Rather, the authorities should consider spending reprioritization with increased emphasis on capital projects to meet substantial infrastructure needs while balancing against the public wages and distortive subsidies. *We invite staff to comment on Libya's public investment management practices.* We also see a compelling case to enhance PFM and reform the tax administration with a view to improve fiscal efficiency and cultivate non-oil revenues.

The priority should be given to the reunification of the Central Bank of Libya (CBL), which would be essential for financial stability and credit intermediation. The division

of the central bank has led to policy complication and pressures on the banking sector, and to this end, we urge the authorities to accelerate the reunification efforts. Despite the heightened pressure to revalue dinar, we note the critical role of the currency peg as the nominal anchor for the economy, and we encourage staff to continue close engagement with the CBL to address the heightened pressures on the external sector. *Considering the repeated use of monetary financing, governance of the CBL is concerning and we would appreciate staff's comment on this front.* We concur with staff that there remains a considerable room to support credit growth, and the CBL should promote measures to ensure healthy credit provision by ensuring banks' risk assessment, including reopening of the property registry, and by preparing for banking sector recapitalization. The CBL is also encouraged to take a step-by-step approach to enforce the reform on regulations and supervision.

Data adequacy is key for the Fund's effective policy advice, and we encourage the authorities to leverage the Fund CD to enhance capacity. We sympathize with the authorities regarding domestic difficulties in economic surveys and note a lack of interagency coordination as another challenge. We agree with staff on the need to support the authorities' efforts on statistics. The Fund CD could be of a significant help on this front, but given potential capacity constraints, those technical supports need be well-sequenced.

Finally, we also look forward to detailed policy discussions on structural policies as the Fund engagement deepens going forward.