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May 22, 2023

Joint Statement by Mr. Roman, Mr. Trott, Mr. Benac, and Ms. Rogers 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. We strongly welcome this Article IV consultation, despite data access challenges and political complexities, and we support IMF's continued engagement in Libya, in line with the IMF's FCV strategy, and the authority's appetite to engage. Publishing the report will be a further indication of progress, and we encourage the authorities to do so.

We fully agree with the importance of developing a clear medium term economic strategy to guide the economy, and a strong, and well sequenced approach to diversification away from the hydrocarbon sector in the medium to long term. However, as noted in the report, a resolution to the political and security challenges and progress towards reunification and long-lasting peace, which are critically important for Libya's economic outlook, will also likely be prerequisites for its ability to implement the strategy. *In light of this, we would welcome staff views on the relative merits of a concerted effort across the reform areas highlighted, versus an even more strictly prioritized baseline, with scope to then bring wider reforms forward, if feasible.*

An agreed and transparent budget that supports macroeconomic stability, is informed by a development strategy and preserves intergenerational prosperity is paramount. The extremely high dependency on the oil sector results in a highly volatile revenue stream, while the absence of an approved budget prevents the efficient channeling of these resources towards development expenditure. Against this background, we underline the key role of the technical assistance provided by the IMF, together with other partners, to support the authorities to develop a budget, build a medium-term economic framework and improve public financial management, while diversifying the tax base. Such progress will be important steps in forming a new social contract. We also welcome the investment and maintenance budget allocated to the National Oil Company but underline the challenges it faces to absorb and use these resources in an effective way. We encourage the authorities to actively pursue a more progressive subsidy system, while reducing its overall cost, to allow for more investment in health and education services, and in areas that can spur on private sector growth and job creation. We note the recent initial steps taken towards this in the Buff statement, and the wider efforts with support from the World Bank. *Could staff elaborate on the current mechanisms used to save oil revenues for future generations without a functioning Sovereign Wealth Fund? Could staff provide further detail of the sectors that offer potential for non-hydrocarbon growth in Libya?*

We agree with the emphasis placed on the importance of a high functioning, technocratic central bank unencumbered by additional and inappropriate responsibilities. Given the consequences of the current geographical divide for banking sector stability, we urge all stakeholders in Libya to take the necessary steps for the swift reunification of Central Bank's operations and to end monetary financing when possible. We note that staff recommend maintaining the exchange rate peg, which is assessed to be currently aligned to market fundamentals, as an important anchor for monetary policy going forward. We positively note the authority's agreement that state ownership of the majority of the banking sector complicates the central bank's ability to provide robust oversight, as well as stifling innovation and limiting the provision of private sector credit.

We welcome the deeper analysis on the financial sector. Measures in this area, along with reforms to remove the legal and administrative barriers to credit intermediation outlined in staff's report, will be instrumental for private sector development and, as a result, advance the agenda of economic diversification. We support the critically important recommendations for strengthening the sector, including efforts to bolster AML/CTF supervision and further align with the FATF recommendations. State divestment of the banking sector should be done in a way that is well-sequenced with the necessary recapitalization. Transparent access to foreign exchange will also be key to boost trade. To that end, we also underline the need for more transparency in the allocation process of letters of credit. Finally, we encourage the authorities to continue leveraging the Fund and other partners' technical assistance to enhance the availability and reliability of data, including on international reserves.