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May 22, 2023

**Statement by Mr. Nicholl and Mr. Moaniba on Libya
(Preliminary)
Executive Board Meeting
May 24, 2023**

We thank staff for an informative report and Mr. Bijani and Mr. Sassanpour for a helpful staff statement. We broadly concur with the thrust of staff's recommendations and would like to provide the following comments.

Libya's economy is one that has been dramatically disrupted by civil and political conflicts since the fall of the Ghaddafi regime in 2011. We applaud staff's engagement with the authorities and comprehensive assessment during the first Article IV consultation undertaken since 2013. The pandemic containment measures introduced by the authorities in 2020, aggravated by the blockade and decline in oil prices, led to a sharp contraction in GDP, elevated external and fiscal deficits and declining foreign reserves. The rebound in oil prices revived oil production and economic activity in 2021 and 2022. The economy's outlook for the future will depend heavily on global oil prices and political stability as reported. **We agree with staff that a clear and credible economic vision for Libya's future is paramount to anchor collective reform efforts and policy coordination. A medium-to-long term economic strategy is therefore critically needed.**

Fiscal stability is a priority in the medium term; this would be underpinned by a spending prioritization strategy and fiscal framework. We urge the authorities to work on having an approved budget in place as soon as possible. Operating with an unenacted budget does not only cause complications such as delays in budget execution but lacks the authority to stabilize fiscal objectives and efforts. Furthermore, it is important to prevent unnecessary procyclical spending that can destabilize the economy. This includes a reform framework that is required for subsidies to reduce distortions and enhance market efficiency. Moreover,

subsidies should be well-targeted on the most vulnerable and exclude the wealthier consumers. The fiscal framework should be improved to streamline the budgetary process and ensure existing challenges to the budget approval are addressed. We share staff's view that the budgetary process should take into account intergenerational equity.

Prudent steps toward achieving financial stability and maintaining stable central bank policy regimes will support efforts to stabilize foreign exchange reserve vulnerability.

To protect foreign exchange reserves, the Central Bank of Libya (CBL) needs to avoid frequently changing the currency peg. We welcome the progress and work undertaken by CBL in updating the financial sector regulations and improving supervision, enhancing prudential requirements through circulars, establishing the new reporting platform for data collection and strengthened offsite supervision, and improving Basel II and III implementation. Despite such progress, we encourage the authorities to expedite efforts to align the AML/CFT framework with the FATF recommendations, autonomize the FIU's operation, closely monitor the capitalization of banks, and reopen the property registry to enable banks to mitigate credit risk and assess the creditworthiness of borrowers. We strongly echo staff's call for the CBL to divest from commercial banks to allow them to operate independently. As a financial regulator with substantial ownerships in commercial banks, this is a clear conflict of interest.

Improved capacity building (CD) and structural reforms are instrumental in fostering the country's long term economic sustainability. Strengthening public financial management is key to enhancing cash management controls and oversight which in turn can lead to more transparency and less corruption. We emphasize the need for modernizing IT infrastructure and the domestic financial system to facilitate data driven decision making, monitoring, and reporting. CD to enhance the authorities' statistical capacity should be one of the priorities. Considering this, we would welcome the Fund's strengthened assistance to Libya in this area. Finally, we want to reiterate staff's vision for revenues from oil production to be used to underpin economic diversification and key infrastructure improvements.