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July 5, 1994

To: Members of the Executive Board

From: The Acting Secretary

Subject: Socialist People's Libyan Arab Jamahiriya - Staff Report for the 1994 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1994 Article IV consultation with Libya, which is tentatively scheduled for discussion on Wednesday, July 27, 1994. A draft decision appears on page 21.

Mr. Jbili (ext. 36973) or Mr. Duran (ext. 38655) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Unless the Documents Preparation Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the African Development Bank (AfDB), following its consideration by the Executive Board.

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INTERNATIONAL MONETARY FUND

Socialist People's Libyan Arab Jamahiriya

Staff Report for the 1994 Article IV Consultation

Prepared by the Staff Representatives for the
1994 Consultation with Libya

Approved by S. Hitti and Joaquin Pujol

July 1, 1994

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I. Introduction

The 1994 Article IV consultation discussions with the Socialist People's Libyan Arab Jamahiriya (hereafter referred to as Libya) were held in Tripoli during the period April 30-May 15, 1994. 1/ Libya is on the 24-month consultation cycle. The last consultation discussions were held in August 1991 and the staff report (SM/91/213) was considered by the Executive Board on November 27, 1991. 2/ On that occasion, Executive Directors commended the authorities for the steps taken to encourage private sector participation in economic activity. Directors emphasized, however, that the economy was still subject to extensive controls that impeded market signals and contributed to a misallocation of resources, and called for a greater relaxation of these controls. They noted that structural reforms would need to be underpinned by comprehensive macroeconomic policies and, in particular, a cautious expenditure policy.

Appendix I contains basic data; a summary statement on relations with the Fund is presented in Appendix II; and Appendix III covers the status of economic and financial data. At present, the World Bank has no lending activity in Libya.

II. Background and Recent Economic Developments

1. Background

Libya, a member of OPEC, is a major oil producer and exporter with proven oil reserves expected to last around 100 years at the current rate of production. In addition to crude oil production, Libya has a considerable potential for production and export of gas, refined petroleum products, and petrochemicals. Economic activity is dominated by developments in the oil sector. During the period 1985-90 the petroleum sector accounted, on average, for around 25 percent of nominal GDP, over 50 percent of total public revenues, and 96 percent of all exports. After peaking at about US$21 billion in 1980, oil export receipts fell to less than US$6 billion in 1988, but recovered somewhat, to about US$9 billion in 1989-90. This resulted in large fiscal and balance of payments deficits, to which the authorities responded with severe public expenditure cuts and compression of imports, through intensified restrictions.

1/ The Libyan representatives included the Secretary of Economy and Trade, the Governor of the Central Bank of Libya, and other senior officials of the relevant Secretariats concerned with economic and financial matters. The staff representatives were Messrs. Jbili (head), Duran, Al-Yousuf (all of MED), Mr. Al-Atrash (PDR), Mr. Kanesa-Thasan (consultant), and Ms. Hyde (administrative assistant, PDR).

2/ Libya continues to avail itself of the transitional arrangements of Article XIV. An Article XIV consultation was conducted in December 1993 in accordance with the requirements of Article XIV (see SM/93/263). Notifications of delays have been issued, most recently on March 1, 1994 (EBD/94/38).

Efforts at achieving broader-based economic growth have aimed at developing the petrochemical industry, in which Libya has a comparative advantage, and promoting non-oil activities, particularly agriculture. A massive irrigation and water distribution scheme, the Great Man-Made River Project (GMR), was launched in 1984 to overcome water shortages and support agricultural expansion. The project, which is estimated to cost US$25 billion, is expected to be completed over 20-25 years in several phases; the first one was completed in 1991. 1/ The development of the manufacturing sector remains constrained by large unused capacity and low productivity, while trade and transportation have grown in recent years and increased their share in total GDP.

Following several years of extensive state participation in economic activity, steps have been taken since 1987 to encourage wider participation of private entities in the economic process and to diversify the economy away from oil activity. Thus, borders with neighboring countries were opened up in 1988 and 1989, regulations for travel abroad for Libyans were relaxed, a greater inflow of foreign workers was permitted, and a number of production and service units were transferred to the private sector. An early positive response was brought about in 1988-89 in the form of higher growth rates in the non-oil sectors, the activities of which were fostered by a relatively well developed transportation network and low energy costs. However, overall economic efficiency remained constrained by pervasive controls and regulations that led to distorted market signals, repressed inflation, misallocation of resources, and parallel market activity. In recent years, these controls and regulations have been strengthened in reaction to the reduced oil revenues and the impact of the United Nations economic sanctions.

2. Recent economic developments

Economic developments in Libya over the period 1991-93 reflected closely developments in the oil sector, and changes in the fiscal policy stance, as well as the impact of the increased role of the private sector in economic activity.

Following a peak in oil production and exports in 1991 in the aftermath of the Middle East crisis, Libya's oil export receipts declined steadily, from about US$10.7 billion in 1990 to US$7.7 billion in 1993, largely on account of lower export volumes under the OPEC quota and lower oil market prices (Table 1 and Chart 1). The current account position, which was in near balance in 1991, came under pressure in the subsequent years from the drop in oil revenue, the strong demand for imports emanating from the public and the private sectors, and since 1992, from the effect of the UN economic sanctions. In 1993, the current account moved to a deficit of about 3.7 percent of GDP (Table 2 and Chart 2). Traditionally, Libya's services and private transfers account has recorded sizable deficits. However, after

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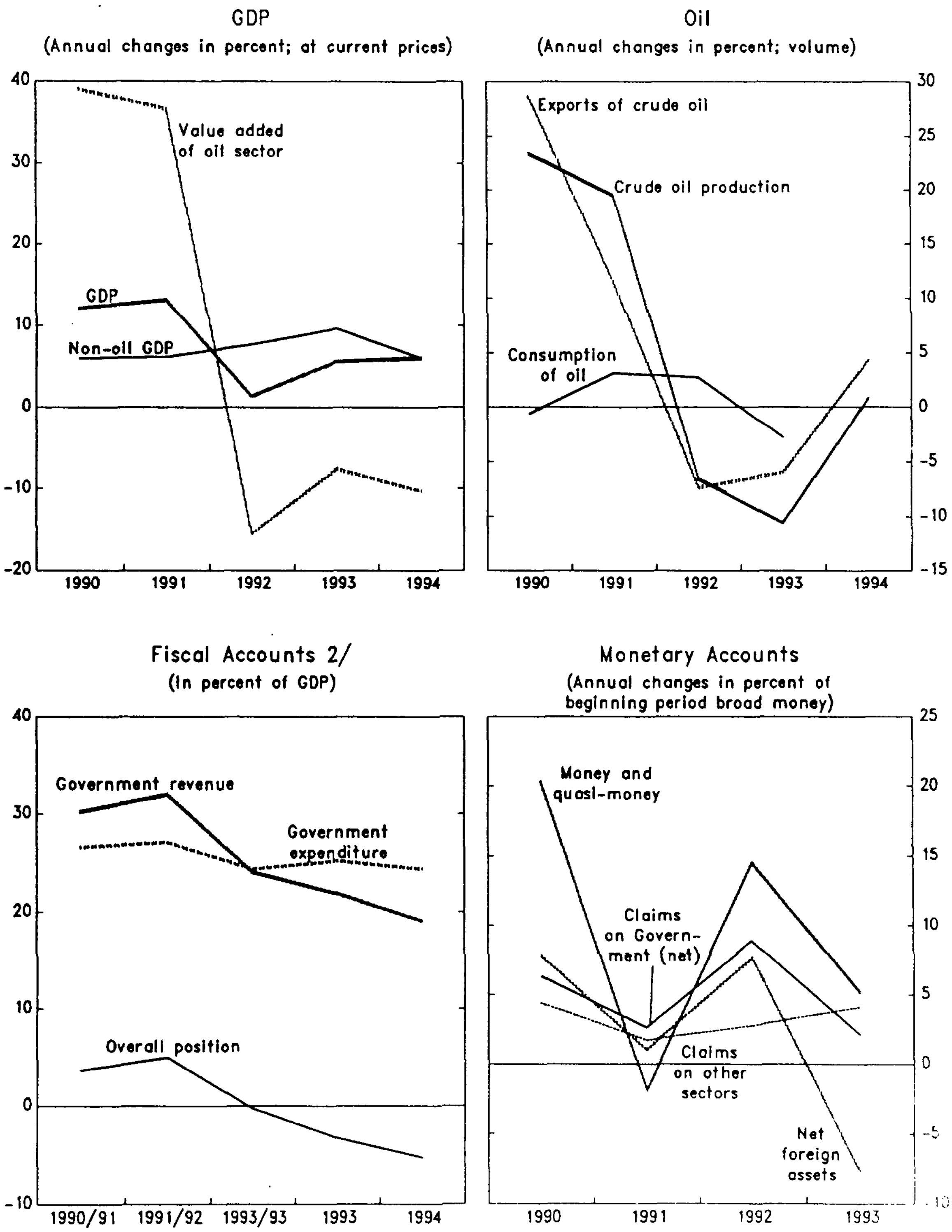
1/ It is envisaged that the distribution system to farmers will begin operations in 1994.

CHART 1

SOCIALIST PEOPLE'S LIBYAN ARAB JAMAHIRIYA

SELECTED ECONOMIC INDICATORS, 1990-94 1/



Sources: Data provided by the authorities; and staff estimates and projections.

1/ Data for 1991-93 are preliminary, and for 1994 are projected.

2/ The fiscal years 1990/91 to 1992/93 cover the period April 1 - March 31. The 1994 fiscal year is on a calendar year basis, while figures for 1993 are annualized on basis of developments during the last nine months of 1993.

Table 1. Socialist People's Libyan Arab Jamahiriya: Selected Economic and Financial Indicators, 1990–94

	1990	1991	1992	1993	Proj. 1994
	(Annual percentage change; unless otherwise indicated)				
Production and prices					
GDP at current prices	12.1	13.1	1.3	5.6	6.0
Non–oil GDP at constant prices 1/	–1.0	–3.6	–1.0	–3.2	–5.0
Oil production 2/	23.4	19.5	–6.6	–10.6	0.8
Consumer prices: annual average	8.6	11.7	...	...	...
External sector (in U.S. dollars)					
Exports, f.o.b.	60.4	–2.8	–5.3	–15.6	–16.1
Of which: oil	63.2	–4.8	–8.7	–17.2	–10.3
Imports, f.o.b.	22.5	9.4	–6.2	9.6	–19.0
Exports, volume	27.3	12.7	–3.6	–4.6	–2.7
Of which: oil	28.6	12.6	–7.2	–5.8	4.1
Imports, volume	17.8	7.7	–10.7	–0.3	–25.0
Terms of trade (deterioration –) 3/	21.1	–16.0	–6.5	–19.6	–18.1
Nominal effective exchange rate	–3.8	4.7	–1.8	6.7	...
General government budget 4/					
Total revenue	17.6	19.6	–23.7	–4.1	–7.6
Oil	43.8	11.9	–43.2	–15.6	0.9
Non–oil	–14.9	35.9	9.8	6.2	–4.1
Total expenditure	–10.6	14.8	–8.6	9.0	2.7
Current	–7.7	11.4	–8.1	8.5	0.9
Capital 5/	–18.6	23.9	–9.8	10.2	6.9
Money and credit					
Net domestic assets 6/	12.5	–2.9	6.9	13.1	...
Net credit to government 6/	6.3	2.6	8.9	2.1	...
Credit to other sectors 6/	4.4	1.7	2.7	4.1	...
Money and quasi–money (M2)	20.3	–1.9	14.5	5.2	...
Velocity (M2/GDP)	1.6	1.8	1.6	1.6	...
Interest rate on Central Bank advances 7/	5.0	5.0	5.0	5.0	...
Deposit rate (1 year deposits) 7/	6.0	6.0	6.0	6.0	...
	(In percent of GDP)				
General government budget 4/					
Revenue	30.2	32.0	24.1	21.9	19.1
Expenditure	26.6	27.1	24.4	25.2	24.4
Overall position	3.6	4.9	–0.3	–3.3	–5.3
Bank financing	3.6	3.1	2.7	1.2	2.2
External current account	5.5	--	2.9	–3.7	–2.9
	(In million of U.S. dollars)				
Overall balance of payments	1,694	250	1,038	–2,066	...
Gross official reserves (end–period)	5,974	5,932	6,234	3,915	...
(in months of imports)	9.0	8.2	10.2	5.7	...
	(In millions of Libyan dinars)				
GDP at current prices	9,734	11,007	11,144	11,771	12,482

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

1/ Preliminary staff estimates and projections.
2/ Million barrels per day.
3/ Preliminary staff estimates and projections.
4/ Data for years 1990, 1991, and 1992 are those for the fiscal years 1990/91, 1991/92, and 1992/93 respectively, which cover the period April 1–March 31.
5/ Including GMR.
6/ In percent of beginning period broad money.
7/ Percent per annum; end of year.

Table 2. Socialist People's Libyan Arab Jamahiriya: Balance of Payments, 1990–94

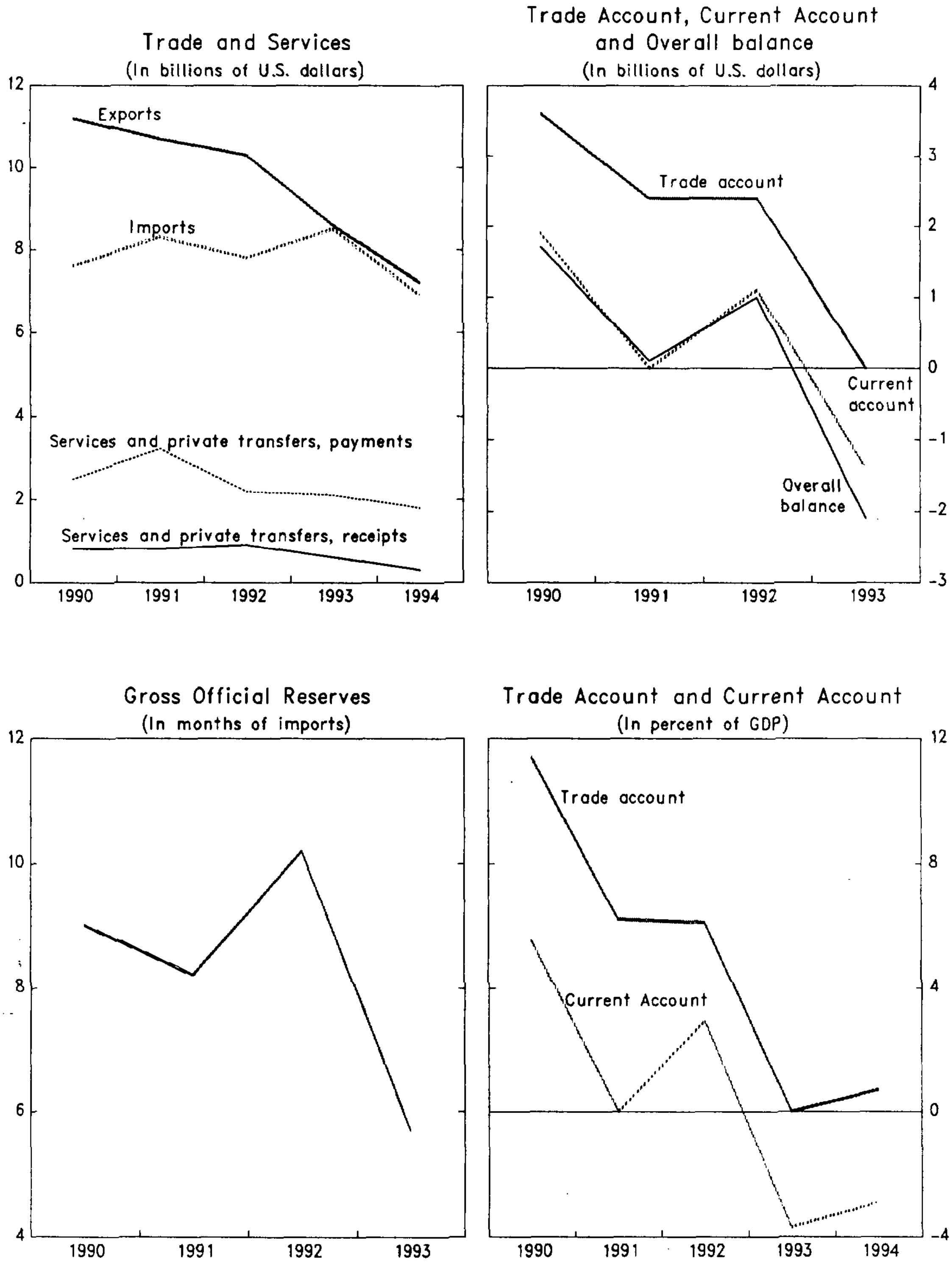
(In millions of U.S. dollars)

	1990	1991	Prel. 1992	Prel. 1993	Proj. 1994 1/
Trade account	3,570	2,438	2,381	46	282
Exports (f.o.b.)	11,155	10,733	10,160	8,572	7,188
Oil sector 2/	10,731	10,217	9,332	7,723	6,926
Other exports	424	515	827	849	263
Imports (f.o.b.)	−7,585	−8,295	−7,778 3/	−8,527 3/	−6,906
Services and transfers (net)	−1,665	−2,456	−1,236	−1,450	−1,426
Receipts	784	753	880	633	333
Investment income	667	653	774	545	260
Other	117	99	107	88	74
Payments	−2,449	−3,208	−2,166	−2,083	−1,759
Oil sector services and transfers	−435	−614	−616	−625	−612
Freight and insurance	−378	−442	−387	−420	−340
Travel and transportation	−508	−904	−176	−160	−128
Other government services	−456	−463	−457	−446	−288
Remittances of foreign workers	−492	−570	−337	−288	−279
Other	−180	−214	−144	−144	−112
Current account balance	1,905	−18	1,145	−1,405	−1,144
Capital account balance (net) (including official transfers)	−618	55	332	40	...
Oil sector	159	93	102	113	...
Other private	−22	−35	143	98	...
Official transfers and capital	−755	−4	87	−171	...
Official transfers/grants	−35	−89	−106 4/	−96	...
Foreign investment banks 5/	−715	85	−102	297	...
Other loans extended	−5	1	2	2	...
Other	--	--	291	−373 6/	...
Errors and omissions	118	176	154	−391	...
Counterpart to valuation adjustment 7/	289	37	−593	−311	...
Overall balance	1,694	250	1,038	−2,066	...
Reserve movements (assets increase −)	−1,694	−250	−1,038	2,066	...
Central Bank	1,696	−345	−450	2,551	...
Commercial banks	2	95	−588	−484	...
Memorandum items:					
US$/LD (end of period)	3.7055	3.7258	3.319	3.0768	...
US$/LD (period average)	3.5363	3.5649	3.515	3.2048	...
Import to GDP ratio (in percent)	22.0	21.1	19.9	22.6	17.3
Current account balance to GDP (in percent)	5.5	--	2.9	−3.7	−2.9
Gross official reserves (in months of imports)	9.0	8.2	10.2	5.7	...

Sources: Central Bank of Libya; and staff estimates.

1/ Projections for 1994 are those of the authorities, adjusted for oil export prices in line with the June 1993 WEO oil price projections.
2/ Includes estimates for gas exports from 1991 onwards.
3/ Includes estimates of unrecorded trade with neighboring countries. The counter–entry is in "Other exports" and "Other private capital".
4/ Includes grants for earthquake relief to an Arab country and other grants.
5/ Libyan Arab Foreign Bank (LAFB) and Libyan Arab Foreign Investment Company (LAFIC). For LAFB, data are on fiscal year basis in 1991–93.
6/ Including an outflow of US$417 million prepayment of imports.
7/ Differences between changes in reserves valued at end–period exchange rate and balance of payments data converted from Libyan dinars using period average exchange rate.

CHART 2
SOCIALIST PEOPLE'S LIBYAN ARAB JAMAHIRIYA
SELECTED EXTERNAL INDICATORS, 1990-94



Sources: Data provided by the Libyan authorities; and staff estimates and projections.

1991, the deficits narrowed substantially, owing to a significant decline in travel and transportation payments. In 1992, the Libyan authorities suspended, on a temporary basis, the selling of foreign exchange to travelers, which resulted in a drop of 80 percent in travel payments compared with 1991. 1/ Capital flows fluctuated in 1991-93, although the account was in surplus. There was a significant inflow of funds in 1993, possibly associated with the liquidation of some foreign assets by the specialized banks (Libyan Arab Foreign Bank and Libyan Arab Foreign Investment Bank). The Libyan representatives indicated that Libya had not borrowed from abroad in recent years and that it had no external payments arrears. 2/

Developments in the fiscal area followed a pattern similar to that of the oil sector (Table 3 and Chart 3). Higher oil revenues after the Middle East crisis resulted in a swing in the overall position (including the operations of the GMR) from a deficit of 4.7 percent of GDP in 1989/90 to a surplus of about 5 percent in 1991/92. This was followed by a deterioration in subsequent years when the overall position moved to a deficit of over 3 percent of GDP in 1993. Total expenditures (mainly development expenditure) fell by about 2 percent of GDP during the period 1991/92-1993. Non-oil revenue in relation to GDP stagnated in recent years, reflecting the lack of revenue measures to counter the decline in oil revenues in recent years.

The rate of change in domestic liquidity has varied considerably over the period 1990-93 (Table 4 and Chart 1). During the same period, the growth of net domestic assets of the banking system registered large variations, with the increase in some years reflecting sizable government bank borrowing. In 1993, broad money rose by 5.2 percent, in line with the increase in nominal GDP. With the growth of net domestic assets accelerating to 13.0 percent in 1993 up from 6.9 percent in 1992, net foreign assets of the banking system fell by the equivalent of 7.8 percent of beginning-period broad money. The authorities promulgated a new banking law in 1993, which provides for the introduction of a modern framework for monetary policy, and enhanced supervision of commercial banks by the Central Bank. Interest rates are fixed at levels which have not changed since 1980, and are negative in real terms.

Economic performance across sectors has been uneven, with a particularly marked expansion in the trade sector, where measures to encourage the private sector were first initiated in 1988. Agricultural output was affected by adverse weather conditions in 1992-93 and cereal

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1/ In 1992 the policy of allowing private individuals to import goods on the "commodity budget" list from Arab countries up to a maximum of LD 3,000 a year was discontinued. See Section VI of the background report on recent economic developments for a discussion of recent changes in Libya's trade and exchange system.

2/ OECD data indicate that Libya's debt amounted to US$4.6 billion in 1991, mostly owed to the former Soviet Union countries and to private banks.

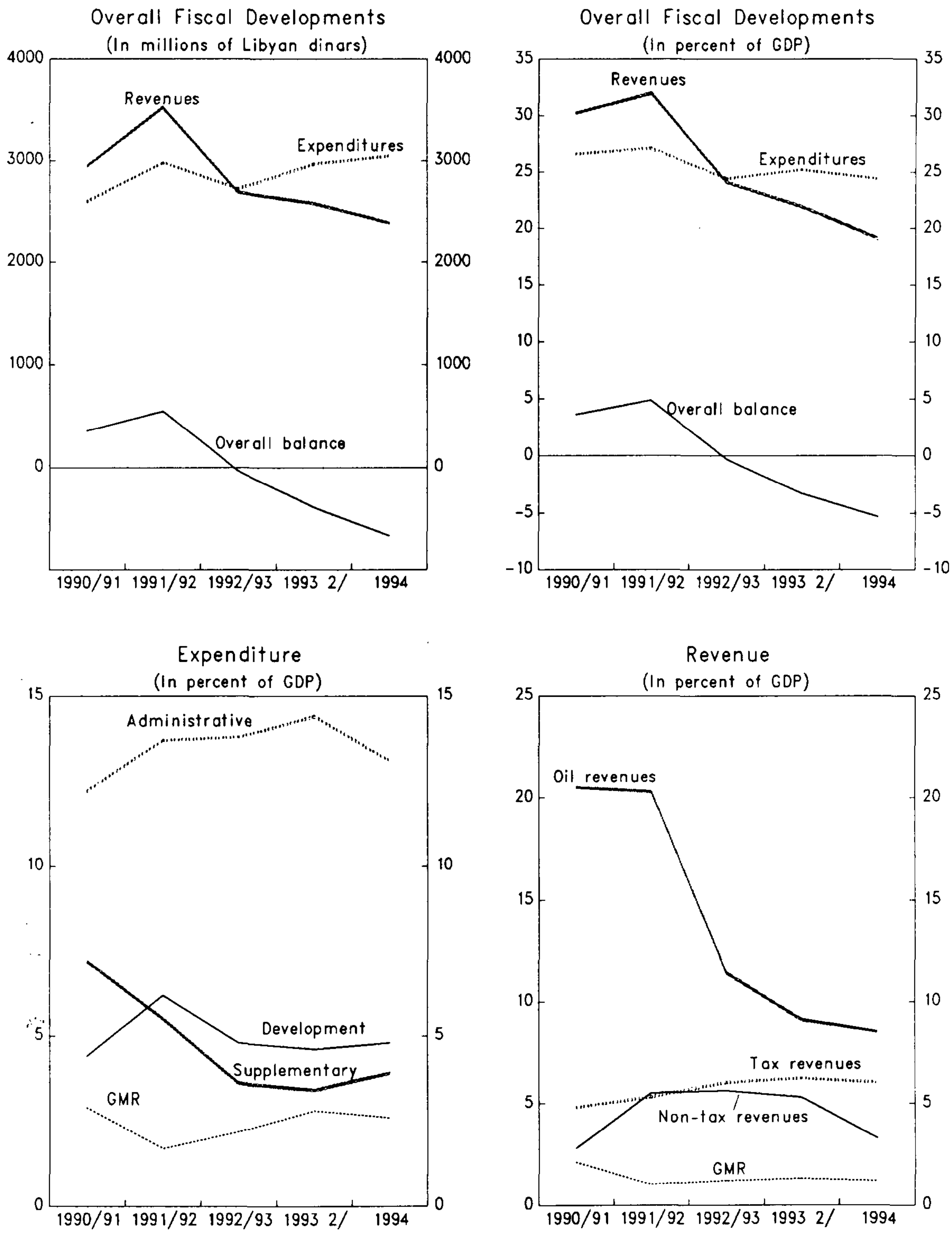
Table 3. Socialist People's Libyan Arab Jamahiriya: Summary Consolidated Fiscal Operations, 1990/91–1994 1/

	1990/91	Prov. 1991/92	Prel. 1992/93	Prel. 1993 1/	Budget 1994	Proj. 1994
			(In millions of Libyan dinars)			
Revenues	2,944	3,522	2,686	2,577	2,514	2,382
Oil	1,993	2,230	1,267	1,069	1,020	1,066
Non–oil	951	1,292	1,419	1,507	1,494	1,317
Tax	468	585	666	732	865	748
Non–tax 2/	276	600	620	620	473	413
GMR	208	107	133	155	155	155
Expenditures	2,594	2,978	2,722	2,967	3,346	3,046
Current	1,892	2,108	1,937	2,102	2,120	2,120
Administrative	1,192	1,508	1,534	1,699	1,630	1,630
Wages and salaries	850	1,118	1,202	1,325	832	...
Goods and services	342	390	331	374	348	...
Other	...	...	...	...	450 3/	...
Supplementary 4/	700	600	403	403	490	490
Food subsidies (net)	54	27	22	41	30	30
Other	646	574	381	363	460	460
Development	424	682	540	540	900	600
GMR	278	188	245	325	325	325
Overall position	350	544	–36	–390	–832	–663
Financing	–350	–544	36	390	832	663
Banking system (net) 5/	353	348	323	144	662	494
GMR bank borrowing	70	81	112	170	170	170
Discrepancy 6/	–774	–973	–398	76	--	--
			(In percent of GDP)			
Revenues	30.2	32.0	24.1	21.9	20.1	19.1
Oil	20.5	20.3	11.4	9.1	8.2	8.5
Non–oil	9.8	11.7	12.7	12.8	12.0	10.5
Tax	4.8	5.3	6.0	6.2	6.9	6.0
Non–tax	2.8	5.5	5.6	5.3	3.8	3.3
GMR	2.1	1.0	1.2	1.3	1.2	1.2
Expenditures	26.6	27.1	24.4	25.2	26.8	24.4
Current	19.4	19.1	17.4	17.9	17.0	17.0
Administrative	12.2	13.7	13.8	14.4	13.1	13.1
Supplementary	7.2	5.5	3.6	3.4	3.9	3.9
Development	4.4	6.2	4.8	4.6	7.2	4.8
GMR	2.9	1.7	2.2	2.8	2.6	2.6
Overall position	3.6	4.9	–0.3	–3.3	–6.7	–5.3

Source: Data provided by the Libyan authorities; and Fund staff estimates and projections.

1/ The fiscal years 1990–91 to 1992–93 cover the period April 1–March 31. There was no budget for 1993/94 and, since the 1994 fiscal year was made to coincide with the calander year, the last nine months of 1993 represented a transitory period. The figures for 1993 shown in this table were annualized for comparison purposes.
2/ The figures for 1992–93 and 1993 are estimates.
3/ Relates to the costs of retrenchment of the civil service.
4/ Beginning with the 1992–93 budget, this item has been designated as defense expenditures and subsidy allocations.
5/ From the monetary data.
6/ Includes holdings of Treasury Bills by the Social Security Fund and classification discrepancies.

CHART 3
SOCIALIST PEOPLE'S LIBYAN ARAB JAMAHIRIYA
CONSOLIDATED FISCAL DEVELOPMENTS, 1990/91-1994 1/



Sources: Data provided by the Libyan authorities; and staff projections.

1/ Figures include the financial operations of the Great Man-Made River (GMR). The 1994 figures are staff projections.
2/ The fiscal years 1990/91 to 1992/93 cover the period April 1 - March 31. There was no budget for 1993/94 and, since the 1994 fiscal year was made to coincide with the calender year, the last nine months of 1993 represented a transitory perio.d The figures for 1993 shown in this chart were annualized for comparison purposes.

Table 4. Socialist People's Libyan Arab Jamahiriya:
Factors Affecting Changes in Money and Quasi–Money, 1990–93

Changes During Period	1990	1991	1992	1993
	(In millions of Libyan dinars)			
Foreign assets (net)	397.8	60.8	464.1	–537.7
Domestic assets (net)	642.5	–180.7	413.8	898.8
Claims on the Treasury (net)	324.0	160.1	534.7	144.2
Claims on other sectors 1/	227.5	103.4	163.2	280.6
Other items (net)	91.0	–444.2	–284.2	474.0
Broad money	1,040.4	–119.9	877.8	361.1
Money	963.5	–202.9	725.7	216.7
Quasi–money	76.9	83.0	152.2	144.4
	(Annual rate of change in percent)			
Broad money	20.3	–1.9	14.5	5.2
Money	26.2	–4.4	16.3	4.2
Quasi–money	5.4	5.5	9.6	8.3
	(Changes in percent of initial stock of broad money)			
Foreign assets (net)	7.8	1.0	7.7	–7.8
Claims on the Treasury (net)	6.3	2.6	8.9	2.1
Claims on other sectors 1/	4.4	1.7	2.7	4.1
Other items (net)	1.8	–7.2	–4.7	6.9

Source: Data provided by the Central Bank of Libya.

1/ Including bank credit to the GMR.

production was hampered by less attractive marketing conditions, including payment delays of official procurement agencies. National accounts data, which are available only at current market prices and suffer from incomplete coverage and possible accounting deficiencies, indicate that non-oil GDP is estimated to have increased by about 7 percent per annum on average during 1990-93. Based on staff estimates of price deflators during this period, real non-oil GDP may have contracted by 2 percent per annum on average. Consumer price data are not available, but broad indications are that the rate of inflation may have accelerated from around 9-12 percent in 1990-91 to more than 20-25 percent in 1992-93.

Since March 1986, the Libyan dinar has been pegged to the SDR at an initial rate of LD 1 = SDR 2.80. Effective May 1986, a margin of 7.5 percent on either side of the rate was introduced and the rate was set at the lower end of this band at LD 1 = SDR 2.605, where it remained until early 1992. Since early March 1992, the authorities have widened the margin on four occasions, the last of which was in August 1993, when the spread was set at 25 percent around the pegged rate and the dinar was depreciated to the maximum extent possible within this band, i.e., to LD 1 = SDR 2.24. The nominal effective exchange rate of the Libyan dinar has appreciated by about 10 percent over the past three years (Chart 4). Indications on price developments suggest that the inflation rate in Libya was much higher than in partner countries during this period, implying a substantial real appreciation of the Libyan dinar. There are indications that a significant amount of border trade and other transactions take place at the parallel market rate, which is about 9-10 times the official rate.

On April 15, 1992, the United Nations imposed economic sanctions on Libya that included a ban on all international air links to the country and an arms embargo. Following renewals in April and August 1993, the United Nations, on November 11, extended and strengthened the sanctions. The new sanctions, which became effective on December 1, 1993, cover (i) a ban on the supply of goods and services to the local aviation sector; (ii) an embargo on the sale of selected items destined for the downstream oil and gas sectors; and (iii) a freeze on Libya's international assets, with the exception of the proceeds from exports of oil, gas, and agricultural products, which are deposited in parallel (external) accounts and are freely usable. 1/ These sanctions have reportedly affected various economic activities, in particular the oil industry, the transportation sector, and manufacturing. Direct losses since the onset of the sanctions are estimated by the Libyan authorities at about US$2.4 billion as of April 1993.

Libya is a signatory member of the Arab Maghreb Union (AMU), which was established in 1989, and which aims inter alia at a gradual move toward the free circulation of goods, services, and factors of production among member

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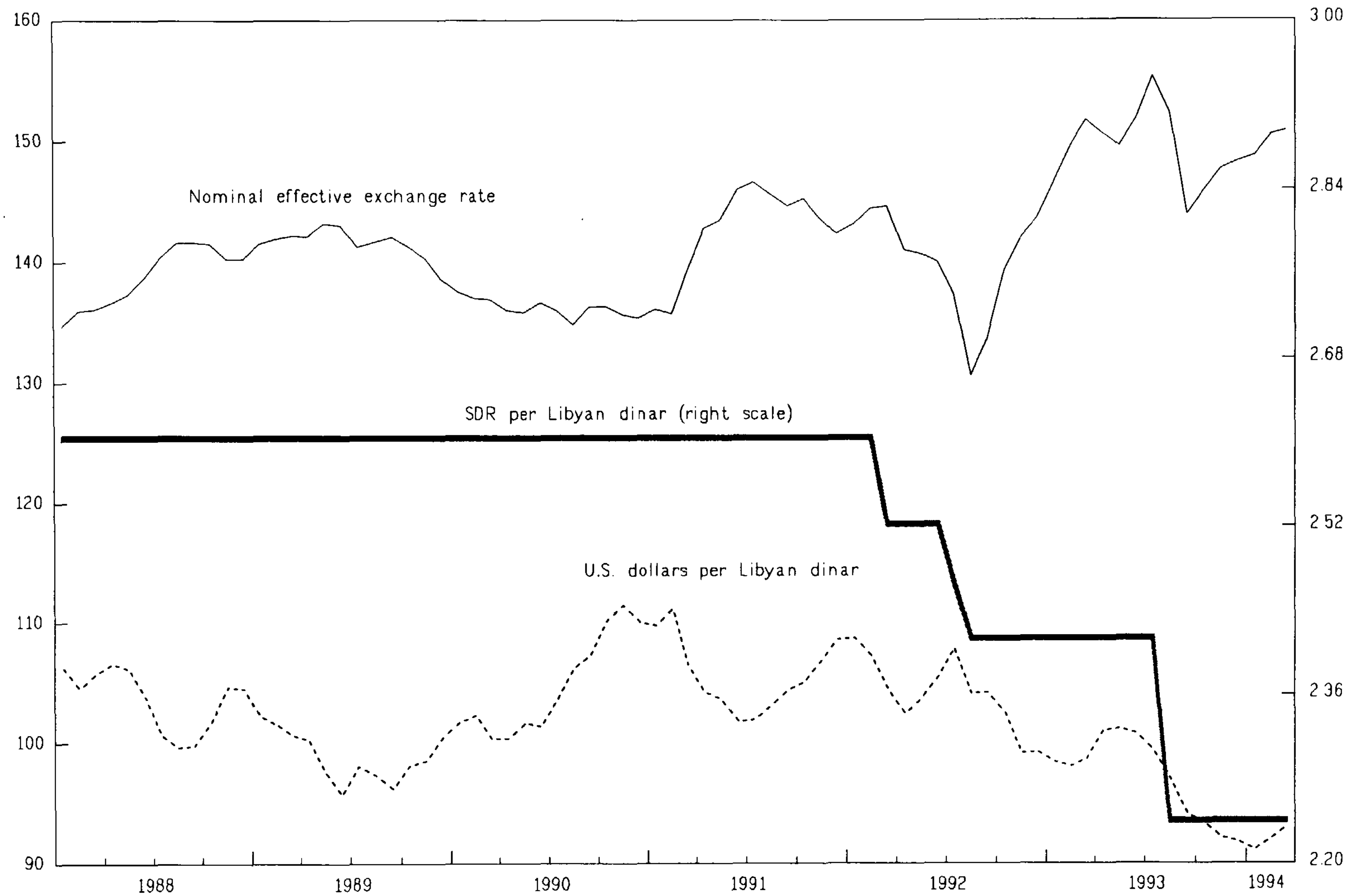
1/ In 1986, the U.S. Government imposed a freeze on Libya's accounts in the United States and with U.S. banks, which was subsequently renewed and further extended in 1991 to cover transfers between offshore banks and accounts owned, or controlled, by Libya.

CHART 4

SOCIALIST PEOPLE'S LIBYAN ARAB JAMAHIRIYA

EXCHANGE RATE INDICES, 1988 - 1994 1/

(1980=100)



Source: IMF, Information Notice System.

1/ An increase in the index reflects an appreciation.

countries. 1/ As a result, economic ties among the members have increased over the years, as reflected in the growth of intraregional trade, increased inter-AMU movement of labor, and a rising number of joint ventures.

The economic data base in Libya suffers from serious deficiencies in key areas, such as national accounts, price data, balance of payments, and fiscal accounts (see Appendix III). Technical assistance was provided by the Fund in the areas of balance of payments accounting and monetary statistics in 1990; the recommendations in both areas have been only partly implemented.

III. Report on the Discussions

The consultation discussions in Tripoli took place against the background of the drop in oil revenues and the economic impact of the United Nations sanctions. At the same time, a high level of government spending and strong private sector demand contributed to generating large financial imbalances, leading to a sharp depreciation of the Libyan dinar in the parallel market. The discussions were hampered by weaknesses in the data base, as mentioned above, the lack of clearly defined macroeconomic objectives for 1994 and beyond, and the uncertainties associated with the sanctions. Nonetheless, the mission and the Libyan representatives agreed that a coherent macroeconomic policy was needed to adjust the economy to the new resource constraints and strengthen the momentum of liberalization and private sector development.

1. Oil sector developments and policies

Libya's crude oil production capacity stands at 1.7 million barrels per day (mbd), which allows it to fully use its current OPEC quota of 1.4 mbd. The Libyan representatives were optimistic about the prospects of discovering further oil reserves and expanding the production of existing fields, although they believed that the sanctions had increased exploration and production costs and created an element of uncertainty. The Libyan representatives reiterated that the official policies with respect to oil production and prices continued to be based on adherence to OPEC decisions. Prices for Libyan light crudes averaged US$23.5 per barrel in 1990 before gradually declining to US$16.8 per barrel in 1993.

Domestic prices of petroleum products have remained unchanged since 1980, except for gas oil prices, which were raised by 50 percent in 1987 and premium gasoline prices, which were raised by 17 percent in 1991. In April 1994, the prices of kerosene, gas oil, and liquified petroleum gas

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1/ The other member countries are Algeria, Mauritania, Morocco, and Tunisia; a complete review of the AMU arrangements and experience is contained in Mohamed Finaish and Eric Bell, "The Arab Maghreb Union" IMF Working Paper, WP/94/55, May 1994.

(LPG) were raised by 50 percent, 47 percent, and 25 percent, respectively. At the official exchange rate, the prices of most petroleum products exceed international market prices and involve an element of taxation.

The Libyan representatives indicated that the UN-imposed sanctions had adversely affected the oil sector, in the form of lowering production and consumption of jet fuel and reducing foreign investment and participation in the oil industry; the latter, they believed, resulted in higher costs in the production and exploration of oil. The strengthened sanctions, in effect since December 1993, might have substantive repercussions on exploration as they involved an embargo on the sale of selected spare parts destined for the downstream oil and gas sectors. Nevertheless, the representatives indicated that Libya had not yet experienced any problems in marketing its petroleum products and that it was expected to fully use its OPEC export quota.

2. Non-oil sector developments and policies

Tentative projections indicate that non-oil GDP may decline in real terms by about 5 percent in 1994, reflecting the reduced availability of imported inputs and equipment and the loss of access to export markets owing to the sanctions, as well as to manpower constraints in the construction sector (Table 1). The Libyan representatives indicated that, while Libya would continue to rely on the oil and gas sectors for many years to come, it would step up its efforts to diversify and enhance the growth of the non-oil sector by increasing the rate of utilization of the investments in infrastructure, industry, and agriculture; enhancing labor productivity; and expanding the scope for private domestic and foreign investment. Recent measures included the introduction in September 1992 of the privatization law, which governs the transfer of ownership of some industrial activities to the private sector, the provision of incentives in the form of tax holidays, and increased access for the private sector to credit through the agricultural and development banks. Joint manufacturing arrangements and cooperatives have been established and private retailing activities have been facilitated. In the agricultural sector, where already about 90 percent of activity is in the hands of the private sector, the program of transferring production and service units to partnerships formed by workers will be continued with a view to increasing productivity. The Libyan representatives pointed out that the private sector was expanding its role in light industries, in the fishing sector, and in trade activities, as evidenced by the increase in production units in recent years.

The staff welcomed the authorities' actions to promote private sector participation in economic activity and their resolve to continue with such a policy to help overcome the economic and financial difficulties facing the country. Despite the implementation of measures in various sectors, however, there was a need for a more supportive and better coordinated macroeconomic policy stance. In particular, the staff stressed that the economic environment was still not fully hospitable to private sector initiative, particularly in view of extensive controls and complex regulations in effect in the areas of prices, credit, external trade, and foreign exchange. It recommended significant additional easing of the complex regulations governing economic activity, and the phasing out of subsidies in order to promote a competitive environment. The Libyan representatives pointed out that subsidies for fertilizers, seeds, fuel, and pesticides, in the agricultural sector, had been eliminated; in addition, producers had been given greater latitude in selecting lines of production and marketing outlets. Furthermore, the authorities were considering charging user fees for water from the GMR.

3. Fiscal developments and policies

Preliminary estimates indicate that the widening of the overall fiscal deficit (including the net financial position of the GMR) by about 3 percent of GDP in 1993 was largely due to the decline in oil revenue, which was only partially compensated for by an increase in non-oil revenue. The budget deficit was financed largely by borrowing from the banking system with some nonbank borrowing in the form of sale of treasury bills to the Social Security Fund. At the same time, work on the GMR project was faced with growing financial deficits, which had necessitated increased recourse to bank financing.

The staff pointed out that the income tax structure, with high marginal rates and its schedular nature, was clearly in need of modernization. It urged the authorities to consider undertaking a comprehensive review of the tax system with a view to improving its efficiency and equity. The staff also noted that the revenue from taxes on imports as a ratio to GDP, (about 2 percent of GDP), was smaller than that of other countries, including major oil exporters. In addition, excise taxes on imported petroleum products and on certain domestically produced goods, stamp duties, and charges for public services have not been adjusted in the period under review. The Libyan representatives stated that Libya had, for many years, waived customs duties on imports from Arab and some non-Arab countries. In addition, in the period 1988-93 Libya had removed land border controls and many dutiable imports had entered the country duty free. In 1994, however, border monitoring and import duties were reimposed.

On the expenditure side, budgetary expenditures fell by the equivalent of 1.4 percent of GDP over the period 1990/91-1992/93, largely on account of cuts in current expenditure. With regard to the latter, there was a reallocation from "supplementary" expenditures--which consist largely of defense, food subsidies, and unclassified foreign expenditures--toward administrative expenditures--which consist of wages and salaries, and goods and services. The staff welcomed the reductions in supplementary and defense expenditures. 1/ Despite the wage freeze in effect since 1981, the wage bill had increased by more than 50 percent during the period 1990/91-1992/93, reflecting the impact of hiring and internal promotions. The staff pointed out that the deterioration in real wages in the

1/ A breakdown of supplementary expenditure between defense and nondefense expenditure was not available.

administration could be a source of low productivity and encouraged the authorities to undertake a comprehensive reform of the civil service aimed at containing the growth of expenditure on wages and salaries, while motivating government employees. The authorities indicated that such a plan was envisaged in the 1994 budget.

The staff also encouraged the authorities to make the development budget more comprehensive and transparent. It indicated that, given the significant economic and fiscal impact of the GMR and the fact that it is financed from general taxation and bank borrowing, its operations should be consolidated with those of the Central Government. The staff also urged the authorities to present fiscal data on a commitment or a payment order basis, instead of a cash basis, as is done currently, with a proper accounting for payments arrears. 1/

Under the 1994 budget, the overall deficit is estimated to increase to about 6.7 percent of GDP, or twice the size of the deficit in 1993 on an annualized basis. 2/ The budget provides for a slight decline in oil revenue and almost no change in non-oil revenue from the previous year, despite additional revenue measures equivalent to 1.3 percent of GDP. The bulk of the revenue increase will accrue from excise taxes, which had been extended earlier this year to domestically produced as well as imported petroleum products and to certain other goods. Projections for 1994 made by the representatives and the staff suggest that while the budget estimates of oil revenue appear attainable, non-oil revenues could turn out to be about 12 percent lower than budgeted on account of possible difficulties in collecting revenue from the newly introduced excise tax, as well as lower public enterprise surpluses caused by the slowdown in economic activity. While welcoming the attempt at raising non-oil revenue, the staff advised the authorities to consider a broad-based general sales tax and to strengthen tax administration and improve revenue collection.

Total expenditure, including the GMR, is budgeted to increase by 13 percent, compared to the annualized estimate for 1993; development and supplementary expenditures (mainly expenditure on subsidies and defense outlays) are estimated to rise by about 67 percent and 22 percent, respectively. Administrative expenditures are budgeted to fall by about 4 percent, mainly through a civil service retrenchment scheme that aims at permanently reducing the size of the civil service and the wage bill. Under this scheme, civil servants will be given incentives and financial assistance to undertake productive activities in the private sector. The

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1/ No information was available on any outstanding domestic arrears; however, the staff believes that budgeted development expenditure in each year may include settlements of payments arrears on projects completed in previous years.

2/ Since the 1994 fiscal year was made to coincide with the calendar year, the last nine months of 1993 represented a transitory period for which data were provided separately. Annualized data were estimated for comparison purposes.

full details of the scheme had not been finalized during the mission's stay, but preliminary indications are that it would cost about LD 450 million and would reduce the wage bill by about 37 percent on a permanent basis. The staff welcomed the authorities' decision to scale back the size of the civil service and underlined that a comprehensive reform of the civil service should be undertaken and should aim at having a smaller but well-paid and well-motivated civil service.

The Libyan representatives indicated that they had adopted a three-year public investment plan (1994-96) aimed at rationalizing domestic investment through improved control of public development expenditure and better integration of projects of the public and private sectors. The investment program will essentially be limited to completing projects in progress; projects not yet started will be eliminated, and stalled projects will be canceled. The Libyan representatives pointed out that, in light of the work underway to reassess investment priorities, cuts in development and supplementary expenditure would be introduced during the second half of 1994. 1/

While welcoming the consolidation of investment projects in a three-year program, the staff underlined the importance of casting investment expenditure in a macroeconomic framework, improving the selection and monitoring of projects, tailoring total investment outlays to available resources, and adopting economic efficiency principles in the implementation of projects. It pointed out that in the absence of major cuts in public investment expenditure during the second half of the year, the consolidated overall fiscal deficit for 1994 is estimated at close to LD 660 million or the equivalent of 5.3 percent of GDP.

The staff expressed concern that such a fiscal stance was not compatible with the current resource constraints faced by Libya and was likely to aggravate an already very difficult balance of payments situation. It urged the authorities to review their fiscal policy for the remainder of 1994 in a medium-term perspective in order to reduce the fiscal deficit and adjust domestic demand to available resources.

4. Monetary developments and policy

The Libyan representatives indicated that credit expansion in 1994 would reflect the increase in bank financing of the GMR project, the program for supporting the reintegration of civil servants in the private sector, and other bank financing of the budget deficit. The staff noted that

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1/ No specific information was available, however, on the size of the cuts and their timing; it was indicated that, based on the past record of project implementation, actual development expenditure in that year may be lower than the budgeted amount of LD 900 million.

after covering the needs of the Treasury and the GMR, there would be little room for expanding credit to the private sector if the loss of net foreign assets of the banking system were to be contained.

The staff observed that monetary policy had been conducted without a monetary program consistent with balance of payments and inflation objectives. Limits imposed on the global and sectoral credit expansion of individual banks were largely dictated by general economic and social objectives, while interest rates, which had not been changed since 1981, were highly negative in real terms. With a view to addressing the distortions created by credit rationing, the Libyan representatives stated that a possible adjustment of interest rates was under consideration. They also underlined the significance of the new banking law that had been promulgated in 1993. The new law provides for enhanced supervision of commercial banks by the Central Bank and opens the possibility for the private sector to engage in banking activity, which would help encourage competition among banks.

The staff agreed that the implementation of the new banking law would be an important step in making monetary policy more effective and in strengthening the banking system. It stressed the importance of conducting monetary policy on the basis of an explicit monetary program, and encouraged the authorities to move to a more flexible interest rate policy so as to improve the allocation of resources and promote the mobilization of private financial savings. In this respect, the introduction of new financial instruments would facilitate the financing of the private sector and encourage the development of a financial market.

5. External sector policy

The balance of payments came under pressure during 1993, reflecting the drop in oil revenues, the effect of the sanctions, and strong demand from the public and private sectors. The trade balance surplus, which had stood at US$2.4 billion in 1992, almost disappeared in 1993 with the drop in oil revenue accounting for more than two thirds of the deterioration, and higher imports accounting for the remainder. Thus, the current account position shifted from a surplus of US$1.1 billion to a deficit of US$1.4 billion and the overall balance was estimated to have recorded a deficit of about US$2.1 billion.

The Libyan representatives indicated the initial UN sanctions imposed in April 1992 had an impact on the balance of payments, mostly in the form of higher import payments associated with difficulties of opening letters of credit. These had resulted in an increase in import prices of about 10 percent in 1993, and in substantial prepayments for imports. The uncertainties associated with the sanctions were believed to have also resulted in inventory accumulation, a more rapid depreciation of the exchange rate in the parallel market, and lower investment. Because of the air embargo, the exports of perishable items, particularly to some Middle Eastern countries, may have also been adversely affected. The Libyan representatives believed that the intensification of the sanctions in

December 1993 were likely to harm further the economy. For the balance of payments, the primary impact of the intensification would be to reduce substantially exports of non-oil and nonagricultural products and, given the freeze on Libya's assets abroad, to reduce available foreign exchange for the financing of imports.

The prospects for 1994 and beyond were difficult to gauge in light of the absence of clearly defined medium-term macroeconomic objectives and policies, and the uncertainties regarding the economic sanctions. The balance of payments estimates for 1994 are highly tentative and involve a considerable degree of uncertainty with regard to the nature and timing of possible fiscal, monetary, and exchange rate measures that may be put in place to contain the deterioration in the balance of payments. The Libyan representatives concurred that, with oil prices estimated at about US$14.5 per barrel on average for 1994, and given Libya's current export quota of about 1.4 million mbd, oil revenue would decline further, by about 10 percent, to US$6.9 billion. They estimated that non-oil exports would plummet by nearly 70 percent, reflecting the effect of the sanctions and the curtailment earlier this year of certain exports to neighboring countries, some of which are subsidized. With regard to imports, the Libyan representatives indicated that efforts would be made to protect foreign exchange through cuts in government expenditure and through direct controls of imports under the commodity and foreign exchange budgets. These measures would help improve the trade deficit by compressing imports by nearly 20 percent. As the existing restrictions on travel would be continued, given the balance of payments constraints caused by the UN sanctions, the deficit in net service payments and transfers is estimated to remain at about the 1993 level, and the current account deficit is expected to be reduced by close to 1 percentage point of GDP, to 2.9 percent. 1/

The mission was not in a position to prepare and discuss with the authorities illustrative medium-term balance-of-payments scenarios because of the uncertainties regarding the UN sanctions and the lack of clearly defined macroeconomic policies and objectives. However, it pointed out that, given the medium-term prospects in oil markets, the external current account deficit would come under pressure if the economy were to return to a positive real growth rate during the period 1995-97. Without corrective measures, the balance of payments position would deteriorate in the next few years, putting increased pressure on the country's external reserve position. 2/ Accordingly, the staff saw the need to reduce aggregate demand and foster non-oil exports. It cautioned, however, against further

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1/ Since the discussions in Tripoli, the outlook for oil prices for the remainder of 1994 and the medium-term has improved, as indicated in the June 1994 WEO projections. Accordingly, average oil prices for Libyan crude could exceed $16 per barrel in 1994, resulting in an increase in oil exports by US$1 billion in that year.

2/ Taking into account the higher oil export prices under the more recent WEO projections, the current account deficits could amount to about US$0.5 billion per annum on average in 1995-97.

recourse to controls and restrictions, which would impede private sector development, exacerbate inflationary pressure, and intensify parallel market activity.

The staff stressed the need for a comprehensive macroeconomic program of adjustment and reform, including an exchange rate adjustment, in order to protect the country's external reserves in an orderly manner while maintaining private sector confidence and minimizing the adverse impact on the vulnerable groups of the population. The staff also underscored the need for a broad convergence of Libya's economic policies with those of its neighbors--especially with regard to the rate of inflation and competitiveness--which would help foster intra-regional trade, in the context of the AMU. The Libyan representatives shared the staff's views on the need to develop a coherent macroeconomic approach that would help adjust the economy to the resource constraints while achieving the objectives of growth and private sector developments.

The present exchange system of Libya is complex and restrictive, and the official exchange rate is highly overvalued. Significant and expanding amounts of trade and other transactions are taking place in the parallel market, where the exchange rate has depreciated significantly since 1990. The staff underscored that the current exchange rate policy serves more as an instrument of pricing and subsidization, rather than as an instrument of macroeconomic policy and that the highly overvalued official rate results in a distorted and inefficient allocation of scarce resources. In particular, it creates a strong bias against the development of non-oil exports and of services, and an excessive demand for imports to the detriment of domestic substitutes. Furthermore, it results in the draining away of Libya's foreign exchange resources and tradeable products to neighboring countries through smuggling and border trade, involving items that are heavily subsidized in Libya. An adjustment of the exchange rate to a realistic level is needed as part of a broad program of economic reform. The staff underscored that the success of any exchange rate action hinges on the credibility of the new exchange rate and on the strength of the accompanying adjustment measures. It noted that Libya has the advantage of the cash flow from oil exports, which could help counter any short-term erratic pressures on the exchange rate.

The Libyan representatives were concerned about the potential impact of a large adjustment in the exchange rate on the cost of living of low-income sections of the population, especially through a rise in the prices of essential consumer items, which are currently fixed at levels even below their cost at the official exchange rate. The staff pointed out that Libya seemed to have an effective system of decentralized rationing of essential consumption goods operating through cooperatives, which could be used to soften the impact of an exchange rate adjustment on the vulnerable groups of the population, with the cost of the subsidy being an open charge on the budget. The adjustment would also eliminate, or at least substantially reduce, the scope for smuggling these items to neighboring countries.

Libya continues to maintain restrictions on the making of payments and transfers for current international transactions in accordance with Article XIV, namely restrictions on a range of invisible payments, related in particular to education abroad, the transfer of dividends, technical assistance, and training. There are also restrictions on payments for travel abroad and remittances by nonresidents, which are subject to Fund approval under Article VIII, Section 2(a). In addition, Libya maintains a bilateral payments arrangement with Malta. 1/ Libya also maintains multiple currency practices that are subject to Fund approval under Article VIII, Section 3, arising from a 10 percent fee that has been levied since 1985 on outward foreign exchange transfers for the purpose of financing the GMR Project and an advance import deposit equal to 20 percent of import value required before a letter of credit can be opened. The staff urged the authorities to initiate the lifting of the exchange restrictions and multiple currency practices with a view to moving toward acceptance of the obligations under Article VIII of the Articles of Agreement. The Libyan representatives explained that some of the restrictions on invisible payments, such as those on travel and transfer of remittances, are maintained to protect Libya's foreign exchange in response to the UN-imposed sanctions and would be eliminated upon the lifting of those sanctions.

IV. Staff Appraisal

The deterioration in Libya's economic and financial situation has highlighted the economy's excessive dependence on oil revenue and its vulnerability to exogenous shocks, in particular the decline in oil market prices. This has been aggravated by the impact of the United Nations-imposed economic sanctions, which were strengthened in December 1993. At the same time, while available resources were shrinking, government spending and demand for foreign exchange by the private sector remained relatively high, leading to sizable fiscal and balance of payments deficits. The manner in which the authorities address these imbalances will be of crucial importance not only to restore growth and a stable macroeconomic environment, but also to pursue the Government's key objectives of encouraging private sector involvement in economic activity, diversifying the economy away from the hydrocarbon sector, and promoting open trade and economic relations with neighboring countries.

The policy shift toward encouraging private sector initiative, developing non-oil activities, and opening up borders with neighboring countries has started to bear fruit as evidenced by the larger participation in economic activity by individuals and private partnerships, in particular

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1/ While individuals have the option to settle transactions through normal commercial channels, the balances outstanding between the two central banks under the arrangement are settled on a yearly basis. This constitutes an Article VIII restriction as it gives rise to undue delays in the availability or use of foreign exchange for current international transactions.

in retail distribution, services, light industry, and fishing. The pursuit of these efforts is more urgent now, given the uncertain outlook for oil export prices. Such efforts would need to shift emphasis from the provision of cheap capital and generous incentives and subsidies to improving competitiveness, increasing labor productivity, and more generally achieving convergence with Libya's partners in the Arab Maghreb Union, some of which have made significant progress in these areas.

The staff is of the view that the authorities should adopt a coherent macroeconomic approach to policy making under which quantified medium-term objectives and appropriate adjustment and structural policies would be formulated and implemented as soon as possible. An integral element of this approach is the need to contain the growth of domestic demand, promote a more efficient allocation of resources and relax controls and complex government regulations. The staff is encouraged to learn that the authorities are keenly interested in improving macroeconomic management and developing a coherent framework under which adjustment and reform measures would be formulated and implemented.

The staff recommends that the authorities review fiscal policy for the remainder of 1994 and beyond in the context of such a medium-term adjustment strategy. In this regard, the authorities should move promptly to cut expenditure, particularly the wage bill, subsidies, and non-productive expenditures. The staff encourages the authorities to complete the preparation of the civil service reform and to implement it rapidly. At the same time, the wage freeze that had been in effect since 1981 should be ended in order to better motivate the civil servants who remain on the government payroll. With regard to development expenditure, the staff welcomes the authorities' intention to reduce and rationalize public sector investments; project selection should be based on economic efficiency considerations, including the likely impact on economic growth, employment, and the balance of payments. Given the resource constraints with which Libya is faced, a close review of current and prospective investment projects should be undertaken.

On the revenue side, there is room to increase tax revenue in order to offset partially the decline in oil revenue. The staff would urge the authorities to undertake a comprehensive review of the tax system with a view to modernizing and streamlining the income tax structure, as well as excise duties, and to consider introducing a broad-based general sales tax. Efforts should also be made to widen the tax base and enhance tax administration. The staff welcomes the fact that the budget is now cast in a more comprehensive framework to encompass the bulk of revenues and capital expenditure. It encourages the authorities to integrate the activities of the GMR in the budget accounts and to improve the accuracy and timeliness of fiscal data.

Noting that the passive monetary policy of recent years has not been conducive to an improved allocation of resources and a mobilization of domestic savings, the staff underscores the need to pursue monetary policy in the context of a macroeconomic framework, and to move away from directed credit and administratively set interest rates. Elimination of credit rationing and a realistic interest rate policy would help improve the allocation of resources and encourage the mobilization of private financial savings. The new banking law that became effective in 1993 is a step in the right direction, and should help improve monetary management and strengthen bank supervision by the Central Bank. The staff welcomes the authorities' intention to introduce new financial instruments, with a view to promoting the mobilization of domestic savings and the development of the financial market. These steps should be complemented by efforts to encourage competition among banks in light of the opening of bank activity to the private sector.

The authorities are aware that the pressure on the balance of payments will continue because of the uncertain prospects in oil markets and the rising needs for foreign exchange by the public and private sectors, and the impact of the UN sanctions. Unless these pressures are addressed adequately in the context of a medium-term adjustment strategy, Libya will be faced with the prospect of mounting pressures on its external reserves, with a detrimental effect on growth and price stability, an outcome that cannot be averted by tightening import controls and restrictions on foreign exchange. The staff is encouraged by the authorities' resolve not to reverse the policy of promoting private sector activity and to continue with the economic diversification away from the oil sector. The staff would stress the importance of curtailing imports through appropriate demand management and exchange rate policies, while relaxing controls on imports and foreign exchange.

The authorities realize that the present exchange rate is highly overvalued and the development of parallel market activity reflects the intensification of distortions in the economy. The staff is of the view that the exchange rate policy should be geared to the achievement of broader economic objectives in terms of growth, productivity, economic diversification, and competitiveness. An adjustment in the official exchange rate is needed as part of a broad program of economic reform, with adequate safeguards to protect the vulnerable groups. Alternative measures such as an intensification of trade and exchange restrictions would aggravate the distortions in the economy, widen further the gap between the official and parallel market rates, and result in an acceleration of inflation.

In addition to the restrictions maintained in accordance with Article XIV, Libya's present exchange system involves restrictions on travel allowances and remittances abroad by nonresidents, and multiple currency practices arising from the imposition of a 10 percent fee on foreign exchange transactions, and an advanced import deposit required before opening a letter of credit, that are subject to Fund approval under Article VIII. Libya also retains a bilateral payment arrangement with a Fund member that involves features subject to approval under Article VIII. In the absence of a timetable for eliminating these restrictions and the multiple currency practices, the staff does not recommend their approval by the Executive Board.

The formulation of appropriate macroeconomic policies will most likely be hampered by data deficiencies in all the key areas. The staff is encouraged by the authorities' resolve to improve the data base, and strongly recommends that immediate efforts be taken in this respect.

The authorities stated that their preference was to remain on a 24-month cycle, and the staff recommends that the next Article IV consultation with Libya be held on that basis.

V. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Fund takes this Decision relating to exchange measures of the Socialist People's Libyan Arab Jamahiriya subject to Article VIII, Sections 2(a) and 3, and in concluding the 1994 Article XIV consultation with the Socialist People's Libyan Arab Jamahiriya, in light of the 1994 Article IV consultation with the Socialist People's Libyan Arab Jamahiriya conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance Over Exchange Rate Policies).

2. The Socialist People's Libyan Arab Jamahiriya continues to maintain restrictions on the making of payments and transfers for current international transactions in accordance with Article XIV, except for the multiple currency practices and exchange restrictions as described in SM/94/171,that are subject to Fund approval under Article VIII, Sections 2(a) and 3. Libya also retains a bilateral payment arrangement with a Fund member that involves features subject to Fund approval under Article VIII. The Fund urges the authorities to liberalize the exchange system and to eliminate the exchange restrictions and the multiple currency practices as soon as possible.

Libya--Basic Data

I. Social and Demographic Indicators 1/

Area		Population	Density
1.76 million square kilometers		4.9 million (1992) Rate of growth (percent): 3.5	2.8 per sq km

GDP per capita (1992) US$8,048

Population characteristics (1992)		Energy consumption (1992)	
Life expectancy at birth	63 years	Energy consumption per capita (kg of oil equivalent)	2,164
Infant mortality (per thousand)	68		
Child death rate (per thousand)	83		

Health (1992)		Education (1984)	
Population per physician	743	Primary and intermediate school enrollment (in percent of age group)	66
Population per hospital bed	244		

II. Economic and Financial Indicators

	1989	1990	1991	1992	1993	Proj. 1994
Oil sector						
Crude production (mbd) 2/	1.13	1.39	1.65	1.55	1.39	1.40
Oil exports (US$ billions)	6.58	10.73	10.22	9.33	7.72	6.93
Average sale price of crude oil (US$ per barrel)	18.32	23.25	20.52	19.27	15.82	14.50
			(In percent)			
Ratios to GDP (at current market prices)						
Total government revenue	28.8	30.2	32.0	24.1	21.9	19.1
Total government expenditure	33.5	26.6	27.1	24.4	25.2	24.4
Fiscal position	-4.7	3.6	4.9	-0.3	-3.3	-5.3
Money and quasi-money	58.9	63.2	54.8	62.0	61.8	...
Exports, f.o.b.	24.0	32.4	27.4	25.9	22.7	18.0
Imports, f.o.b.	21.4	22.0	21.1	19.9	22.6	17.3
Current account balance	3.5	5.5	--	2.9	-3.7	-2.9
			(In thousands)			
Employment	995.2	1,018.6	1,012.5	1,044.9	...	...
Nationals	842.5	879.4	927.2	967.9	...	...
Expatriate labor	152.7	139.2	85.3	77.0	...	...

Libya--Basic Data (concluded)

	1989	1990	1991	1992	1993	Proj. 1994
			(In millions of Libyan dinars)			
Public finance 3/						
Total revenue	2,503	2,944	3,522	2,686	2,577	2,382
Total expenditures	2,912	2,594	2,978	2,722	2,967	3,046
Current	2,050	1,892	2,108	1,937	2,102	2,120
Capital 4/	862	702	870	785	865	925
Overall position	−408	350	544	−36	−390	−663
			(In millions of Libyan dinars)			
Money and credit (changes during period)						
Money and quasi-money	266.0	1040.4	−119.9	877.8	361.1	...
Foreign assets (net)	−315.5	397.8	60.8	464.1	−537.7	...
Domestic assets (net)	581.5	642.5	−180.7	413.8	898.8	...
Claims on Treasury (net)	451.4	324.0	160.1	534.7	144.2	...
Claims on other sectors	151.9	227.5	103.4	163.2	280.6	...
Other items (net)	−21.8	91.0	−444.2	−284.2	474.0	...
			(Annual change in percent)			
Money and quasi-money	5.5	20.3	−1.9	14.5	5.2	...
			(In millions of U.S. dollars)			
Balance of payments						
Current account balance	−1,011.4	1,905.0	−18.2	1,144.8	−1,404.7	−1,144.0
Exports, f.o.b.	6,955.6	11,155.4	10,732.5	10,159.5	8,572.2	7,188.0
Imports, f.o.b.	−6,190.2	−7,585.4	−8,294.8	−7,778.4	−8,526.7	−6,906.0
Services and private transfers (net)	−1,776.8	−1,664.9	−2,455.9	−1,236.2	−1,450.2	−1,426.0
Capital and official transfers (net)	162.0	−617.8	55.3	331.8	39.7	...
Errors and omissions (net) 5/	2,547.6	346.7	212.9	−444.9	−701.2	...
Overall balance	1,698.1	1,693.9	249.9	1,037.8	−2,066.2	...
Net external assets (end of period)	2,661.3	4,355.1	4,605.1	5,642.9	3,576.7	...
Central Bank of Libya	3,390.0	5,085.9	5,430.6	5,880.5	3,330.0	...
Commercial banks	−728.7	−730.7	−825.5	−237.6	246.7	...

Source: Data provided by the Libyan authorities; and Fund staff estimates and projections.

1/ Based on World Bank, Social Indicators of Development, 1993.
2/ Million barrels per day.
3/ The fiscal years 1989/90−1992/93 cover the period April 1 − March 31. The 1994 fiscal year is on a calendar year basis, while figures for 1993 are annualized on the basis of developments during the last nine months of 1993.
4/ Includes GMR.
5/ Includes counterpart to valuation adjustment.

Libya--Fund Relations

(As of May 31, 1994)

I. **Membership Status**

Date of membership	September 17, 1958
Status	Article XIV

A. Financial Relations

II. **General Department** (General Resources Account)

Quota	SDR 817.6 million
Total Fund holdings of Libyan dinars	SDR 498.8 million, equivalent to 61.0 percent of quota
Reserve position in the Fund	SDR 319.0 million, equivalent to 39.0 percent of quota

III. **SDR Department**

Net cumulative allocation	SDR 58.8 million
Holdings	SDR 308.5 million, equivalent to 524.9 percent of net cumulative allocation

IV. **Outstanding Purchases and Loans** None

V. **Financial Arrangements** None

VI. **Projected Obligations to Fund** None

B. Nonfinancial Relations

VII. Exchange Rate Arrangement

The Libyan dinar was pegged to the U.S. dollar at the rate of LD 0.29531 (buying) and LD 0.29679 (selling) per US$1 from February 1973 to March 17, 1986. With effect from March 18, 1986 the Libyan dinar was pegged to the SDR at the rate of LD 1 = SDR 2.80; the buying and selling rates of the Libyan dinar for currencies were henceforth determined on the basis of the daily calculations of the rates of exchange for the SDR against major currencies as provided by the Fund. With effect from May 1, 1986 the Libyan authorities availed themselves of margins of ±7.5 percent within which the exchange rate of the Libyan dinar might fluctuate about its fixed relationship with the SDR and simultaneously depreciated the exchange rate to the maximum extent permissible within the new margins, i.e., to LD 1 = SDR 2.60465. In March 1992, the margins were widened to 11 percent and the exchange rate for the dinar was set at the lower end of the margin at LD 1.0 = SDR 2.5225. The margins were widened in two steps to 16 percent in August 1992 and further to 25 percent in August 1993. The representative rate is currently set at the maximum depreciated level within the band, i.e., LD 1.0 = SDR 2.23998.

VIII. Last Article IV Consultation

The last Article IV consultation discussions were held during August 1991. The staff report (SM/91/213) was discussed by the Executive Board on November 27, 1991 (EBM/91/161). The summing up indicated a 24-month cycle for the next Article IV consultation. The Decision No. 9865-(91/161) was as follows:

1. The Fund takes this decision relating to exchange measures of the Socialist People's Libyan Arab Jamahiriya subject to Article VIII, Sections 2 (a) and 3, and in concluding the 1991 Article XIV consultation with the Socialist People's Libyan Arab Jamahiriya, in the light of the 1991 Article IV consultation with the Socialist People's Libyan Arab Jamahiriya conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Socialist People's Libyan Arab Jamahiriya continues to maintain restrictions on the making of payments and transfers for current international transactions in accordance with Article XIV, except for a multiple currency practice and exchange restrictions as described in SM/91/217, that are subject to Fund approval under Article VIII, Sections 2(a) and 3. The Fund urges the authorities to liberalize the exchange system and to eliminate the multiple currency practice as soon as possible.

The 1993 Article XIV consultation was concluded on January 5, 1994. The decision in the staff report (SM/93/263) was approved. The Decision No. 10561-(94/1), was as follows:

1. The Fund takes this decision in concluding the 1993 Article XIV consultation with the Socialist People's Libyan Arab Jamahiriya.

2. The Socialist People's Libyan Arab Jamahiriya continues to maintain restrictions on the making of payments and transfers for current international transactions in accordance with Article XIV, except for the multiple currency practice and exchange restrictions, as described in SM/93/263, that are subject to Fund approval under Article VIII, Sections 2(a) and 3. The Fund urges the authorities to liberalize the exchange restrictions maintained under Article XIV as soon as possible.

IX. Technical Assistance

A staff member from the Statistics Department visited Tripoli during February-March 1985, simultaneously with the Article IV consultation mission, to advise on the compilation and presentation of monetary statistics. In September 1985, a staff member of the Statistics Department visited Tripoli to advise on the compilation of price, trade, and non-oil production statistics. During March 1990, two staff members of the Statistics Department visited Tripoli on a technical assistance mission in money and banking and balance of payments statistics.

Libya--Statistical Issues

a. Real sector

National accounts data are compiled by the Economic Planning Department of the Secretariat of Planning and Finance whereas consumer price data are compiled by the Census and Statistics Bureau. National accounts data are available only at current factor cost and are subject to frequent and substantial revisions. The methodology for estimating value added needs to be improved as it currently relies on a combination of estimates and actual data from the accounts of a few large corporations. Data on GDP at constant prices and by expenditure categories are not available.

Data on price movements are limited to the CPI as there are no indices for GDP deflators, WPI, or unit values for exports and imports. In addition, the latest CPI available is for 1991, as data have not been collected for 1992 and 1993. Moreover, the CPI suffers from being based on the results of a 1969 household expenditure survey which are out-of-date by now. A new Household Income and Expenditure Survey was conducted in 1993, the results of which will serve to construct a new CPI.

b. Government finance

Data on the financial operations of the general government (central government and the municipalities) suffer from incomplete and inconsistent coverage of fiscal transactions. Moreover, final data for the whole decade of the 1980s have only recently become available. Data for 1991 and onwards are still preliminary. The classification of fiscal data is not in accordance with the recommendations of the GFS Manual and hence are difficult to interpret. Expenditure is recorded on a cash basis and no information is available for the stock or movements of payments arrears. Finally, the coverage of government is not consistent with that in the monetary accounts and has contributed, along with timing differences, to the emergence of very large discrepancies in financing items.

c. Monetary accounts

While the balance sheets of the Central Bank and the deposit money banks are available with a reasonably short time lag, despite the technical assistance that was provided by the Fund's Statistics Department in 1990, the data suffer from inappropriate sectorization, lack of breakdown of "other items net" and inconsistent coverage of government.

d. Balance of payments

Data are compiled by the Research Department of the Central Bank on the basis of fragmented and highly tentative information. Data on imports are particularly weak as, for several years, there was no monitoring of land border trade.. The data on oil sector transactions were mostly estimated; actual data prepared by the National Oil Company (NOC), which handles most of Libya's oil transactions, were not available. Balance of payments data for the non-oil sectors were estimated largely on the basis of information received from the Central Bank and some commercial banks, as well as other sources through questionnaires. Data on private sector transactions were not collected due to lack of border monitoring and needed to be estimated based on anecdotal evidence. The data on capital movements were not classified in detail, particularly regarding amortization and disbursements. The recommendations of the 1990 Fund Technical Assistance mission have been only partly implemented.