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CONTAINS CONFIDENTIAL
INFORMATION

April 7, 1992

To: Members of the Executive Board
From: The Secretary
Subject: Socialist People's Libyan Arab Jamahiriya - Exchange Arrangement

Attached for the information of the Executive Directors is a paper on a recent change in the exchange arrangement for the Libyan dinar.

Mr. Tareq (ext. 7116) is available to answer technical or factual questions relating to this paper.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Socialist People's Libyan Arab Jamahiriya -- Exchange Arrangement

Prepared by the Middle Eastern Department and
the Exchange and Trade Relations Department

(In consultation with other Departments)

Approved by A.S. Shaalan and S. Kanesa-Thanan

April 3, 1992

In the attached communication dated March 31, 1992, the Governor of the Central Bank of the Socialist People's Libyan Arab Jamahiriya (herein referred to as the Jamahiriya) notifies the Fund of a widening of the band within which the exchange rate of the Libyan dinar (LD) may fluctuate around its central rate vis-a-vis the SDR. Specifically, the margins have been increased from 7.5 percent on either side of the central rate of LD 1 = SDR 2.80 to 11 percent. ^{1/} In addition, with effect from March 24, 1992, the exchange rate of the Libyan dinar has been depreciated to the maximum extent possible within the new band, i.e. to LD 1 = SDR 2.52252 from LD 1 = SDR 2.60465. The exchange rates of the Libyan dinar vis-a-vis other major currencies continue to be determined on the basis of the prevailing SDR value of these currencies.

The last Article IV consultation with the Jamahiriya was concluded on November 27, 1991. ^{2/} As noted in the staff report for this consultation, there were indications of overvaluation of the exchange rate of the Libyan dinar, with medium-term balance of payments projections pointing to excess

^{1/} 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 (EBS/86/74, 3/28/86). The buying and selling rates of the Libyan dinar in terms of other major currencies were henceforth determined on the basis of the daily calculations of the rates of exchange for the SDR against these currencies as provided by the Fund. As notified to the Board in EBD/86/141 (5/9/86), the authorities availed themselves, with effect from May 1, 1986, of margins of 7.5 percent on either side of the central rate of LD 1 = SDR 2.80 within which the exchange rate of the Libyan dinar might fluctuate. At that time, the authorities depreciated the exchange rate to the maximum extent permissible within the new margins, i.e., to LD 1 = SDR 2.60465.

^{2/} SM/91/213 (10/31/91) and SM/91/217 (11/12/91); the Chairman's summing up has been circulated as SUR/91/107. The Jamahiriya is on the 24-month Article IV consultation cycle.

demand in the foreign exchange market at the prevailing official rate. 1/ Accordingly, the staff had discussed with the authorities the merit of more appropriate pricing of foreign exchange, supported by appropriate financial and domestic pricing policies, in view of the need to promote emerging non-oil activities (both for export and for import substitution), restrain import demand and lessen reliance on inefficient administrative controls. The change in the exchange arrangement announced by the authorities of the Jamahiriya results in a devaluation of some 3 percent of the Libyan dinar against the SDR.

Attachment

1/ As noted in SM/91/213, the Libyan dinar was reportedly trading at a much lower rate in unofficial markets.

Processed: March 31, 1992
Sender: Central Bank of Libya
Tripoli

INTERFUND WASHINGTON
ATTENTION MANAGING DIRECTOR

PLEASE BE INFORMED THAT THE LIBYAN APPROPRIATE AUTHORITY ANNOUNCED TO WIDEN THE MARGIN OF 7.5 PERCENT TO 11 PERCENT ON EITHER SIDE OF THE SDR PEG. THE REPRESENTATIVE EXCHANGE RATE IS DETERMINED AT MAXIMUM, THAT IS (1 SDR= LD 0.396429) AS FROM 24TH OF MARCH 1992. OTHER THINGS BEING THE SAME AS MENTIONED IN OUR TELEX OF THE FIRST OF MAY 1986.

BEST REGARDS

DR A ZLITNI
GOVERNOR OF THE CENTRAL BANK OF LIBYA

