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INFORMATION

December 27, 1988

To: Members of the Executive Board

From: The Secretary

Subject: Socialist People's Libyan Arab Jamahiriya - Staff Report for
the 1988 Article XIV Consultation

It is not proposed to bring the attached staff report for the 1988 Article XIV consultation with the Socialist People's Libyan Arab Jamahiriya to the agenda of the Executive Board for discussion unless an Executive Director so requests by noon on Friday, December 30, 1988. In the absence of such a request, the proposed decision that appears on page 5 will be deemed approved by the Executive Board, and it will be so recorded in the minutes of the next meeting thereafter.

Mr. Handy (ext. 7073) 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

Staff Report for the 1988 Article XIV Consultation

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

(In consultation with the Legal Department)

Approved by S.H. Hitti and S. Kanesa-Thasan

December 23, 1988

I. Introduction and Recent Developments

The last Article IV (and Article XIV) consultation discussions with the Socialist People's Libyan Arab Jamahiriya were held in Tripoli during the period June 13-18, 1987. The staff report (SM/87/196) was discussed by the Executive Board on October 9, 1987.

The Socialist People's Libyan Arab Jamahiriya continues to avail itself of the transitional arrangements under Article XIV of the Articles of Agreement. The decision (No. 8705-(87/144)) 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 and 3, and in concluding the 1987 Article XIV consultation with the Socialist People's Libyan Arab Jamahiriya, in the light of the 1987 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 maintains restrictions on the making of payments and transfers for current international transactions in accordance with Article XIV. The present exchange regime also involves a multiple currency practice and exchange restrictions subject to Article VIII, as described in SM/87/208. With recent changes, access to foreign exchange for some invisible payments has become more restrictive. The Fund urges the authorities to liberalize the exchange system and to eliminate the multiple currency practice as soon as possible.

The Socialist People's Libyan Arab Jamahiriya is on a 24-month cycle for Article IV consultations. The next Article IV consultation discussions with the Socialist People's Libyan Arab Jamahiriya are expected to be held by June 1989.

Aside from the removal of a few items (including fruits) from the prohibited list of imports in early 1988, the Jamahiriya's exchange and trade system has been unchanged since the last consultation. ^{1/} Nor has there been any change in the pegging arrangement; the Libyan dinar continues to be pegged to the SDR at the rate of LD 1.00 = SDR 2.80 within margins of 7.5 percent. The exchange rate of the dinar against the U.S. dollar has appreciated from LD 1 = US\$3.3288 at end-June 1987 to LD 1 = US\$3.5589 by end-November 1988. Over the same period, the import weighted nominal exchange rate rose by some 15 percent (Chart 1). In the absence of price data no series for the real effective exchange rate can be calculated.

The authorities are seeking to diversify the economy away from its heavy dependence upon oil. To this end, the authorities are permitting the transfer of ownership of some industries to workers and are encouraging the establishment of industrial ventures as partnerships between individuals working on a cooperative basis. In addition, over the past few months the authorities have permitted a substantial relaxation of restrictions on private activities by allowing individuals to open retail outlets in an effort to improve distribution. Public enterprises, however, continue to handle all import activities. The evident revival of private activity has been facilitated by a reopening of the borders to migrant Arab workers.

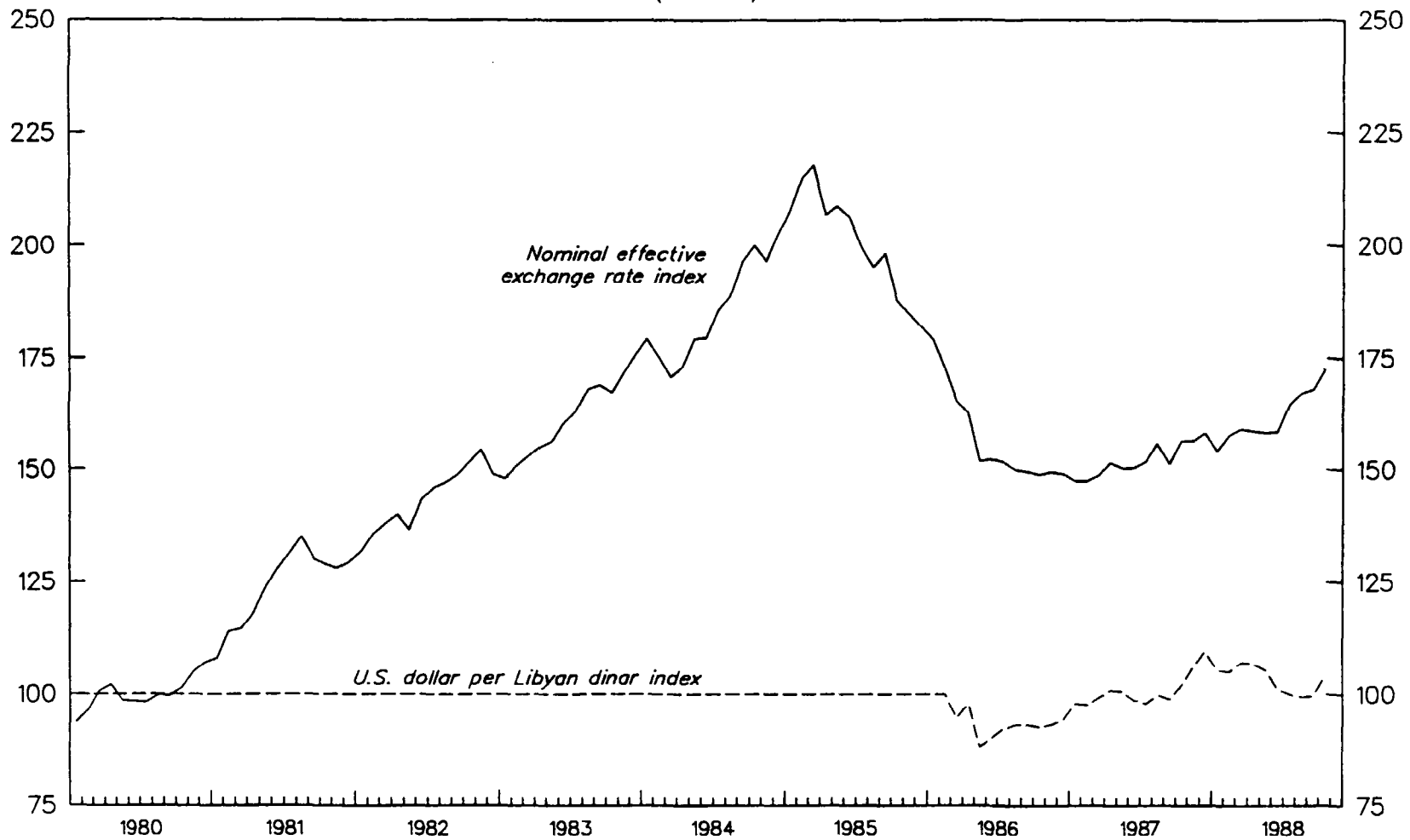
In the external sector tentative estimates for 1987 indicate that the external accounts were in approximate balance (Table 1). A narrowing of the trade surplus (reflecting mainly a surge in import payments) together with a widening of the deficit on services account resulted in a current account deficit of the order of 5 percent of GDP in contrast to a small surplus in 1986. The balance of payments estimates imply a surplus on the capital account which may reflect errors and omissions and valuation gains. At end-1987, official foreign reserves (excluding gold) stood at about US\$5.8 billion, or the equivalent of some 14 months of estimated imports in 1987. A portion of the official reserves continues to be blocked by the United States. The Jamahiriya has no external debt.

II. Staff Appraisal

The staff is of the view that the recent measures to facilitate private initiative in economic activity and improve distribution constitute important steps in the direction of fostering diversification and more balanced development of the economy. Further measures, including improved access to financing and foreign exchange, ability to

^{1/} A description of the system is given in Socialist People's Libyan Arab Jamahiriya--Recent Economic Developments (SM/87/208, 8/14/87) and in the Annual Report on Exchange Arrangements and Exchange Restrictions, 1988.

CHART 1
SOCIALIST PEOPLE'S LIBYAN ARAB JAMAHIRIYA
EXCHANGE RATE INDICES
(1980=100)



Source: International Monetary Fund, Information Notice System.



Table 1. Socialist People's Libyan Arab Jamahiriya
Summary Balance of Payments, 1982-87 1/

(In millions of U.S. dollars)

	1982	1983	1984	1985	1986 <u>2/</u>	1987 <u>3/</u>
1. Merchandise trade	<u>2,725.2</u>	<u>3,369.7</u>	<u>2,564.1</u>	<u>4,648.5</u>	<u>1,559.0</u>	<u>710.0</u>
Exports	<u>13,701.0</u>	<u>12,348.2</u>	<u>11,027.8</u>	<u>10,353.3</u>	<u>5,593.0</u>	<u>5,801.0</u>
Imports	<u>-10,975.8</u>	<u>-8,978.5</u>	<u>-8,463.8</u>	<u>-5,704.8</u>	<u>-4,034.0</u>	<u>-5,091.0</u>
2. Services and private transfers (net)	<u>-4,207.0</u>	<u>-4,853.9</u>	<u>-4,007.8</u>	<u>-2,524.2</u>	<u>-1,430.0</u>	<u>-1,735.0</u>
3. Current account balance (1+2)	<u>-1,481.8</u>	<u>-1,484.2</u>	<u>-1,443.7</u>	<u>2,124.3</u>	<u>129.0</u>	<u>-1,025.0</u>
4. Capital account including official transfers <u>4/</u>	<u>-798.2</u>	<u>-413.4</u>	<u>-262.8</u>	<u>477.6</u>	<u>-523.0</u> <u>5/</u>	<u>1,021.0</u> <u>5/</u>
5. Overall balance (3+4+5)	<u>-2,280.0</u>	<u>-1,897.6</u>	<u>-1,706.5</u>	<u>2,601.9</u>	<u>-394.0</u>	<u>-4.0</u>

Source: Central Bank of Libya.

1/ Converted from Libyan dinars at LD 1 = US\$3.3778 for 1981-85, at LD 1 = US\$3.179 for 1986, and at LD 1 = 3.37 for 1987.

2/ Preliminary.

3/ Provisional estimate.

4/ Includes errors and omissions.

5/ Includes valuation adjustment.

set remunerative prices, and greater autonomy for enterprises within the framework of the Jamahiriya, are needed to facilitate further improvements in the economy. Meanwhile, the measures taken to date together with steps to expand the supply of imported goods will have implications for the balance of payments. With continued uncertainty surrounding the prospects for the world oil market and a desire on the part of the authorities to avoid large reserve losses, the authorities will have to stand ready to utilize the principal economic policy weapons under their control--particularly in the fiscal, monetary, and exchange areas--flexibly and pragmatically. In this regard, the staff urges the authorities to persist in avoiding an intensification of trade or exchange restrictions and to ease existing restrictions at an early date.

The 10 percent fee on all foreign exchange transfers results in a multiple currency practice subject to Fund approval under Article VIII. Similarly, the reductions of foreign exchange allowances for certain travel abroad and for transfer of remittances are intensification of restrictions subject to Fund approval under Article VIII. Other exchange restrictions are maintained under the transitional arrangement of Article XIV. In the absence of plans to eliminate the multiple currency practice and exchange restrictions subject to Article VIII, the staff does not propose approval for their retention.

III. 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 1988 Article XIV consultation with the Socialist People's Libyan Arab Jamahiriya.

(2) The Socialist People's Libyan Arab Jamahiriya maintains restrictions on the making of payments and transfers for current international transactions in accordance with Article XIV. The present exchange system also involves a multiple currency practice and exchange restrictions subject to Article VIII, as described in SM/87/196 and SM/87/208. The Fund urges the authorities to liberalize the exchange system and to eliminate the multiple currency practice as soon as possible.

