

EBS/86/74

CONFIDENTIAL

March 28, 1986

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

There is attached for the information of the Executive Directors a paper on a recent change in the exchange arrangements of the Libyan dinar.

Mr. Karamali (ext. 4531) is available to answer technical or factual questions relating to this paper.

Att: (1)

INTERNATIONAL MONETARY FUND

Socialist People's Libyan Arab Jamahiriya--
Exchange Arrangements

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 J.T. Boorman

March 28, 1986

In the attached communication, dated March 18, 1986, the Central Bank of Libya has informed the Fund that, with effect from March 18, 1986, the Libyan dinar (LD) is pegged to the SDR at the rate of LD 1 = SDR 2.80. The buying and selling rates of the Libyan dinar for currencies are, with effect from March 18, 1986, determined on the basis of the daily calculations of the rates of exchange for the SDR against major currencies, as provided by the Fund. The new exchange rate represents a devaluation of the Libyan dinar of 4.2 percent against the U.S. dollar.

Since February 1973, the Libyan dinar had been pegged to the U.S. dollar, at the rate of LD 0.29605 = US\$1. This policy led to a sharp appreciation of 97.6 percent in the nominal effective exchange rate of the Libyan dinar between 1980 and the first quarter of 1985. From then until January 1986, the nominal effective exchange rate depreciated by 17.6 percent, mainly reflecting the weakening of the U.S. dollar. 1/

The economy and finances of the Socialist People's Libyan Arab Jamahiriya continue to be strongly influenced by developments in the international oil market. The balance of payments was in substantial deficit during 1981-84, mainly reflecting the halving of oil revenues in this period. After a particularly large deficit in 1981 (US\$5.1 billion), the authorities succeeded in containing the deficit to more moderate proportions (some US\$1.8 billion in 1984) by severely cutting government expenditure and restraining imports. 2/ There was an increase in gross international reserves during 1985, but data on the balance of payments are not yet available. The balance of payments is likely to come under renewed pressure following the sharp decline in the price of oil since January 1986.

1/ Movements in the real effective exchange rate cannot be provided, since detailed data on costs and prices are not available and even data on movements in the consumer price index are not available for recent periods.

2/ Since the industrial sector of the Jamahiriya is of limited scope, government expenditure has a particularly high import content.

During the Executive Board discussion that concluded the 1985 Article IV consultation on June 3, 1985, Executive Directors observed that the increasing external constraints on the Jamahiriya would eventually have to be addressed in a comprehensive manner. They encouraged the authorities to continue their efforts to diversify the economy and assess closely the need for appropriate exchange rate adjustment in support of such diversification.

The small depreciation of the Libyan dinar against the U.S. dollar inherent in the recent measure is, in the staff's view, in the right direction and, in combination with the recent decline in the dollar, will tend to reduce pressures for further restrictions on external payments. The staff hopes that the authorities will continue to review the appropriateness of current exchange rate policies in light of economic developments and exercise flexibility as circumstances may require. The next Article IV consultation discussions are scheduled to be held by March 1987.

Attachment

MARCH 18, 1986

TLX NO. 2223

TO: MANAGING DIRECTOR
INTERFUND
WASHINGTON

WE ARE WRITING TO ADVISE THAT THE APPROPRIATE AUTHORITY IN THE SOCIALIST PEOPLE'S LIBYAN ARAB JAMAHIRIYA HAS ISSUED A RESOLUTION PEGGING THE LIBYAN DINAR TO SDRS AT THE RATE OF SDR 2.80 PER ONE LIBYAN DINAR. HENCE THE BUYING AND SELLING RATES OF THE LIBYAN DINAR WILL AS FROM TODAY, TUESDAY, 18TH MARCH 1986, BE BASED ON THE RATES OF EXCHANGE OF THE SDR VERSUS MAJOR CURRENCIES AS RECEIVED FROM THE IMF.

REGARDS

BANKLIBYA

TRIPOLI