EBD/86/141

May 9, 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. Huh (ext. 8525) 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 Arrangements

Prepared by the Middle Eastern
and Exchange and Trade Relations Departments

(In consultation with the Legal Department)

Approved by A.S. Shaalan and J.T. Boorman

May 8, 1986

In the attached communication, dated May 1, 1986, the Central Bank of Libya has notified the Fund of the introduction of margins of ±7.5 percent within which the exchange rate of the Libyan dinar (LD) may fluctuate about its fixed relationship to the SDR. 1/ With effect from May 1, 1986, the exchange rate has been depreciated to the maximum extent permissible within the new margins, i.e. to LD 1 = SDR 2.60465. The official buying and selling exchange rates of the Libyan dinar for U.S. dollars and other currencies are determined on the basis of the Fund's daily calculation of the U.S. dollar/SDR rate.

The depreciation of the Libyan dinar against the U.S. dollar resulting from the recent measure is, in the staff's view, in the right direction. It will tend to reduce pressures for further restrictions on external payments, and contribute to the promotion of economic diversification. Between the first quarter of 1985 and January 1986, the nominal effective exchange rate of the Libyan dinar depreciated by 17.6 percent, mainly reflecting the weakening of the U.S. dollar. Although partly offset by a further weakening of the U.S. dollar against the SDR since the change in the pegging arrangement on March 18, 1986, the recent changes in the exchange rate against the SDR have brought about a cumulative depreciation of the Libyan dinar against the U.S. dollar of 9.5 percent between March 17 and May 1, 1986. The staff hopes that the authorities will continue to review the appropriateness of current exchange rate policies in light of economic developments and to exercise flexibility. The next Article IV consultation discussions are scheduled to be held by March 1987.

Attachment

1/ The Board was notified on March 28, 1986 (EBS/86/74) that effective March 18, 1986, the Libyan dinar was pegged to the SDR at the rate of LD 1 = SDR 2.80; previously, the Libyan dinar had been pegged to the U.S. dollar at the rate of LD 0.29605 = US$1. The Board was further notified on April 16, 1986 (EBD/86/112) that the Libyan authorities had proposed that the representative rate for the Libyan dinar under Rule O-2(b)(iii) be its fixed relationship to the SDR and the Board's approval was recorded on April 22, 1986.

ATTACHMENT

Interfund
Washington, D.C.
May 1, 1986

PLEASE BE INFORMED THAT THE LIBYAN AUTHORITY ANNOUNCED TO OPERATE AN EXCHANGE SYSTEM THROUGH MAINTAINING A MARGIN OF 7.5 PERCENT ON EITHER SIDE OF THE SDR PEG. THE REPRESENTATIVE EXCHANGE RATE IS DETERMINED AT MAXIMUM THAT IS 1 SDR = LD 0.383929 AS FROM THE FIRST OF MAY 1986.

THE OFFICIAL BUYING AND SELLING EXCHANGE RATES OF THE LD IN TERMS OF US DOLLARS AND OTHER CURRENCIES BASED ON THE SDR VALUE OF THE US DOLLARS AND OTHER CURRENCIES PUBLISHED BY THE FUND WILL BE CALCULATED DAILY AROUND THE ABOVE MENTIONED RATE (1 SDR = LD 0.383929).

REGARDS

SALEM M. JUEILY
DEPUTY GOVERNOR
BANK OF LIBYA

Received in Cable Room May 1, 1986