One Day Before Benghazi Rebellion. IMF Commends Qadhafi Government.

Read IMF Report on Libya

By IMF
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IMF Executive Board Concludes 2010 Article IV Consultation with the Socialist People's Libyan Arab Jamahiriya

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On February 9, 2011, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Socialist People's Libyan Arab Jamahiriya.[1]

Background

Nonhydrocarbon growth has been solid, against the backdrop of high domestic demand. It grew by an estimated 6 percent in 2009, mainly driven by investments in construction and in services. Meanwhile, hydrocarbon output declined significantly due to compliance with the OPEC quota, resulting in a contraction of overall real Gross Domestic Product (GDP) by an estimated 1.6 percent. Overall growth increased markedly by an estimated 10 percent in 2010 reflecting a sharp increase in oil production. Nonhydrocarbon growth also strengthened (to about 7 percent) as a result of large public expenditures. However, unemployment has remained high, particularly among the youth. Inflation is estimated to have picked up to about 4.5 percent in 2010 as higher oil revenue increased domestic liquidity and international commodity prices increased.

After a sharp decline in 2009, the fiscal surplus is estimated to have increased in 2010 mainly owing to the recovery in oil revenue. The fiscal surplus narrowed substantially to about 7 percent of GDP in 2009 as a result of a sharp decline in oil revenue that more than offset the reduction in public outlays. The latter reflects the net effect of a large decline in capital spending and a smaller increase in current outlays. In 2010, current expenditure increased by an estimated 19 percent compared to 2009, largely due to full explicit accounting of energy subsidies and a 15 percent increase in the wage bill. The ongoing prioritization of investment projects has allowed for an increase in capital expenditure by an estimated 18 percent.

The external current account surplus increased to an estimated 20 percent of GDP in 2010, from 16 percent of GDP in 2009. Export earnings rebounded in line with the recovery in crude oil output and prices. Imports, while also picking up due to strong domestic demand, have been steadier and remain about a third lower than exports. Net foreign assets of the Central Bank of Libya (CBL) and the LIA are estimated to have reached $150 billion at end–2010 (the equivalent of almost 160 percent of GDP).

Broad money is estimated to have grown by about 10 percent in 2010, compared to 11 percent in 2009. Commercial bank lending to the private sector and nonfinancial public enterprises has been constrained by lack of adequate borrower documentation, tightening of regulation, and high liquidity at public enterprises. The latter's demand for bank services has been largely limited to letter of credits and guarantees. Excess liquidity has remained high in the banking system, and financial intermediation is weak compared to neighboring countries.

An ambitious program to privatize banks and develop the nascent financial sector is underway. Banks have been partially privatized, interest rates decontrolled, and competition encouraged. Ongoing efforts to restructure and modernize the CBL are underway with assistance from the Fund. Capital and financial markets, however, are still underdeveloped with a very limited role in the economy. There are no markets for government or private debt and the foreign exchange market is small.

Structural reforms in other areas have progressed. The passing in early 2010 of a number of far- reaching laws bodes well for fostering private sector development and attracting foreign direct investment. The success of the new laws, however, hinges on promoting inter-agency coordination and open consultation with the legal and business communities, and establishing permanent bodies to monitor, assess, and oversee implementation. A comprehensive civil service reform is needed to facilitate more effective wage and employment policies that would address the needs of a young and growing labor force.

Recent developments in neighboring Egypt and Tunisia have had limited economic impact on Libya so far. To counter the impact of higher global food prices, the government abolished, on January 16, taxes and custom duties on locally-produced and imported food products. Later in January, the government also announced the creation of a large multi-billion dollar fund for investment and local development that will focus on providing housing for the growing population.

Executive Board Assessment

Executive Directors agreed with the thrust of the staff appraisal. They welcomed Libya's strong macroeconomic performance and the progress on enhancing the role of the private sector and supporting growth in the non-oil economy. The fiscal and external balances remain in substantial surplus and are expected to strengthen further over the medium term, and the outlook for Libya's economy remains favorable. Directors saw as the main challenges the need to provide employment opportunities for a young and growing labor force, and the steadfast implementation of reforms to diversify the economy and reduce the high dependence on oil revenue.

Directors supported the overall fiscal stance and noted that the increase in capital spending in 2010 will support private sector development. At the same time, they emphasized the need to contain the increase in current spending and ensure the quality of spending. Directors also encouraged the authorities to cast fiscal policy in a medium-term framework to minimize the impact of oil price volatility.

Directors commended the efforts to strengthen public financial management, including the new and simplified income tax law and the effective unification of the current and investment budgets. They encouraged the authorities to carry on with their plans to establish a treasury single account, improve the consistency of budget classification, and streamline procedures to enhance expenditure management. These steps would also facilitate fiscal and monetary policy coordination.

Directors welcomed the introduction by the Central Bank of Libya (CBL) of a new 28-day certificate of deposit and its establishment of an overnight facility as steps to enhance the monetary policy framework. They noted the importance of addressing the factors behind the large excess liquidity in the banking system, including by establishing the treasury single account and reforming the specialized credit institutions (SCIs) with a view to reducing their on-lending activities and curtailing budget allocations. Directors encouraged the authorities to continue to strengthen bank supervision, with a focus on capacity building and enhancing coordination between on-site and off-site supervision units.

Directors agreed that the dinar’s peg to the Special Drawing Rights (SDR) remains appropriate by providing a strong monetary anchor. They noted the staff’s assessment that the dinar’s exchange rate is broadly aligned with fundamentals.

Directors welcomed the passing of the Libyan Investment Authority law, which enhances its regulatory and operational framework. While recognizing the role that investment funds are playing as part of Libya’s diversification strategy, Directors noted that investment funds outside the budget can complicate public expenditure management. It would also be important to ensure that the CBL’s involvement with these funds does not conflict with monetary policy objectives.

Directors encouraged the authorities to further advance structural reforms to support private sector development. They commended the authorities for their ambitious reform agenda, and looked forward to the effective implementation of the many important laws passed in the last year, complemented by policies aimed at adapting the labor force to the economic transformation.

Directors encouraged the authorities to continue to improve economic and financial statistics.

Libya: Selected Economic and Financial Indicators, 2006–10

(Quota = SDR 1,123.7 million)

Population (million) = 6.3 (2009)

Prel.

2006
2007
2008
2009
2010

(Annual percentage change, unless otherwise indicated)

National income and prices

Real GDP

5.9
6.0
2.8
-1.6
10.3

Nonhydrocarbon

7.9
9.9
7.9
6.0
7.0

Hydrocarbon

4.3
2.8
-1.6
-8.9
14.0

Per capita GDP in thousands of U.S. dollars

9.5
11.8
14.3
9.5
12.1

CPI inflation

1.4
6.2
10.4
2.4
4.5

(In percent of GDP)

Central government finances

Revenue

64.1
66.0
70.1
59.3
61.0

Hydrocarbon

59.3
59.8
63.4
52.8
55.0

Nonhydrocarbon

4.9
6.3
6.7
6.5
6.0

Expenditure and net lending

31.0

37.4
39.8
52.3
48.1

Current expenditure

13.4
14.1
15.6
24.5
22.6

Capital expenditure

17.6
23.2
24.2
27.9
25.5

Overall balance

33.1
28.6
30.3
7.0
12.9

Non-oil balance (deficit -)

-26.2
-31.1
-33.1
-45.9
-42.1

(Changes as a percent of beginning of the year money stock)

Monetary indicators

Money and quasi-money

15.0
37.3

47.3
11.1
10.0

Discount rate 1

4.0
4.0
5.0
4.0
3.0

Credit to the economy

4.9
6.9
7.2
3.7
2.8

(In billions of U.S. dollars; unless otherwise indicated)

External sector

Exports

42.8
49.0
62.1
37.1
47.8

Of which: hydrocarbons

41.7
47.8
60.7
35.7
46.3

Imports

12.7
17.2
20.9

22.0
25.3

Current account balance

28.1
29.8
37.1
9.4
15.5

(Inpercent of GDP)

49.7
41.7
41.7
15.6
19.9

Total foreign assets (incl. LIA investments)

74.8
100.4
127.2
137.3
152.4

Of which: gross official reserves

59.3
79.4
92.3
98.7
105.4

In months of next year’s imports

35.6
38.2
40.9
38.1
36.9

Exchange rate 2

Official exchange rate (LD/US$, period average)

1.28
1.22
1.27
1.25
1.24

Official exchange rate (LD/US$, end of period)

1.29
1.22
1.25
1.24
1.27

Real effective exchange rate (change in percent)

-1.1
0.7
4.5
5.4
-0.45

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

1 The 2010 data are for end-July.

2 The 2010 data are for November.

1 Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

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