

Analysis of the Relationship between State Budget and Trade Balance of Libyan Economy (Period: 2000 – 2008)

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Abstract

The subject of the relationship between state budget and trade balance is important as economic subject, not only at the level of developing countries, but also at of advanced ones, too. Such importance emerged clearly when 1980s witnessed in United States of America a deficit in both state budget and trade balance, which was called at that time as the twin or dual deficit. We can say that the analysis of relationship between state budget and trade balance states the extent of mutual effect between financial and trade policies of any economy, namely; any change in the outcome of either one may affect the other in the same degree. To put in other words, the instruments of financial policy represented by total incomes and total expenditures can affect the trade balance through the movement of exports and imports and vice-versa. One tracing properties and features of Libyan economy may remark its dependence greatly on the public sector in financing developmental projects and making development generally, as well as its dependence on incomes to supply consumer and investment goods. Further, it depends in collecting its incomes of foreign currency on exports of chief source which is crude oil. So, study and analysis of relationship between state budget and trade balance of Libyan economy means to study and analyze relationship of public sector through the state budget, with the external sector expressed as the external trade through trade balance. The paper was processed within the framework of the Research Project of MSM 6046070906 "The economics of Czech agricultural resources and their effective use within the framework of multifunctional agri-food systems".

Key words

State budget, trade balance, Libya, trade policy, fiscal policy.

Anotace

Vztah mezi státním rozpočtem a obchodní bilancí je mimořádně důležitý, a to nejen pro rozvojové země, ale též pro ty vyspělé. Významost takového vztahu se jednoznačně ukázala během 80. let, ve Spojených státech amerických, kde byly v deficitu jak státní rozpočet, tak obchodní bilance. Lze říci, že analýza vztahu mezi státním rozpočtem a obchodní bilancí, popisuje vzájemné působení mezi fiskální a obchodní politikou každého hospodářství. Jakákoli změna ve fiskální politice ovlivňuje obchodní bilanci, stejně tak změna obchodní politiky má přímý dopad na státní rozpočet. Nástroje fiskální politiky, zastoupené celkovými příjmy a výdaji, mají mimořádný vliv na obchodní bilanci, a to prostřednictvím změny množství vývozu a dovozu, kde též pozice obchodní bilance ovlivňuje stav veřejných financí. Analýza charakteristik libyjské ekonomiky, jednoznačně ukazuje závislost jejího vývoje a růstu na veřejný sektor. Zároveň je evidentní závislost dovozu spotřebního i investičního zboží na veřejných příjmech státního rozpočtu. Tato ekonomika je též velmi závislá na vývozu ropy, jako na jediném zdroji příjmu cizích měn, tolik potřebných pro dovoz potravin. V této práci se zabýváme vztahem mezi státním rozpočtem a obchodní bilancí, jinými slovy vztahem mezi veřejnými financemi a vnějším sektorem libyjské ekonomiky.

Poznatky prezentované v článku jsou výsledkem řešení grantu MSM 6046070906 "Ekonomika zdrojů českého zemědělství a jejich efektivní využívání v rámci multifunkčních zemědělskopotravinářských systémů".

Klíčová slova

Státní rozpočet, obchodní bilance, Libye, obchodní politika, fiskální politika.

Introduction

Libyan Economy is characterized with dependence on crude oil revenues in financing economic activity whether through operating expenses or expenses of transformation (investment), and supplying imports of consumer and productive goods. As a result, the instruments of financial and trade policy play fundamental part in the process of economic development of Libyan economy. Recently, it has been noticed that there was unprecedented increase of total incomes accompanied with increase of averages of public expense especially the one of transformation, for the sake of commencing in improving and performance of different developmental projects aiming at achieving economic and social growth, and considerable development have occurred in the sector of external trade through increase in value of both exports and imports, which led to maximization of vulnerability of Libyan economy towards abroad, especially under non-existence of restrictions on imports and foreign spending. Such remarkable changes undergone by Libyan economy require study and analysis of relationship between its state budget and trade balance.

Aims and Methodology

It aims to analyze the relationship between the state budget and trade balance in the period: 2000 – 2008, for the sake of measuring mutual effects between fiscal and trade policies. Importance of this research lies in dealing with an important economic matter, which is relationship of state budget with trade budget, so as to contribute to set fiscal and trade policy sufficient to generate growth and improve performance and development of national economy.

Through the content of the problem of the research and aims of the research, the hypotheses of the research can be stated as follows:

Libyan economy depends on the sector of oil in providing revenues of foreign currency. Therefore; any promotion occurs to prices of crude oil in global market leads to increase of public revenues, then to increase in public expenditure. Libyan economy depends essentially on imports of consumption and investment goods, and any change in averages of public expenditure results in change in size and content of imports in the same trend. There is an obvious relation between state budget and

trade balance, but it is directly affected by changes occurring in global prices of oil.

To achieve the aim of the research and study its hypotheses, the analytic plan has been adopted through available data on state budget and trade balance of Libyan economy within 2000 – 2008.

Framework of the Research

- theoretical framework of relationship between state budget and trade balance
- analysis of extent of economic vulnerability of Libyan economy during 2000 – 2008
- analysis of status of state budget of Libyan economy during 2000 – 2008
- analysis of status of trade balance of Libyan economy during 2000 – 2008
- analysis of mutual effect between state budget and items of trade balance during 2000 – 2008
- trends of rate of both net of state budget and trade balance to nominal national outcome during 2000 – 2008

1 - Theoretical Framework of Relationship Between State Budget and Trade Balance

Some economic concepts⁽¹⁾ refer that it is possible to use shrinking or expansive fiscal policy. As for deficit in trade balance, it is possible that state follows shrinking financial policy represented in raising levels of taxes, reduction of public expenditure or both. Such matter may lead to minimizing economic activity which would extend to economy in multiple effect.

As a consequence, consumption of goods and services, including imported consumption and productive goods, would minimize, the other one. Besides, reduction of total demand locally may direct productive capability towards production of export goods, which means promotion of state of trade balance through usage of such financial policy, but in case of opulence, what happens is absolutely opposite.

¹ *Murdakhai Kerianin, Inter. Economy is Policies Entrance, translated by Moh'd Ibrahim Mansour & Ali Masoud Atia, Riadh, Mars House, 2007, p.p.308-308.*

This can be explained by the following equation of national calculations(2):

$$Y = C + I + G + (X-M).....(1)$$

$$Y = S + C + T.....(2)$$

$$(X - M) = S + (T-G) - I.....(3)$$

$$(X-M) = (T-G) + (S-I).....(4),$$

where:

Y = national income

C = consumption spending

I = Investment spending on plant, equipment, etc.

G = government spending on goods and services

X = exports , M = imports, T = taxes, S = Private savings, (T – G) = Public savings

By re-arrangement of equation sto obtain net exports, we get:

Equation (4) expresses in the left side the trade balance, but in the right side it expresses net public savings, to which added net of private savings (S-I). It is also noticed from equation (4) that surplus of level of imports over than exports leads to deficit of trade balance. On the level of state budget, surplus of public expenditure over public imports leads to occurrence of deficit in it, and occurrence of the opposite leads to excess in both (X-M) and (T-G). It is worthy to mention that private sector of Libyan economy does not play fundamental part in economic activity, un comparison with public one. So, effect of net private savings (S-I) on trade balance (X-M) in Libyan economy can be excluded under the existence of public sector dominating most of economic activity. By re-arranging equation (4), we can get the following one:

$$(T-G) = (X-M) - (S-I).....(5)$$

From equation (5) it is clear that state of budget can be affected by status of trade balance as well as by the difference between saving and investment for private sector. Under the absence

of big role of private sector in Libyan economy, the trade policy has big impact on state budget. When restricting movement of imports directing to inside by maximizing customs, imposing restrictions on quantities of imports or by censorship on foreign exchange, these lead to increase in prices of imported merchandises, which in its turn, minimizes the size of imports through reduction of demand on them, causing promotion of state of trade balance. It is expected that public expenditure on imported merchandises tends to decrease with increase of outcome of public revenues, especially if imports have been restricted by imposing raise of customs duties, which leads to promote state of state budget.

From the above, it is clear that it is necessary to apply economic policies affecting both state budget and trade balance, in a manner that achieves economic stability without occurrence of any deformations. Deficit of state’s budget, if accompanied with surplus of trade balance, is a guarantee of occurrence of equilibrium in its general frame,(3) and vice-versa. But occurrence of deficit in both state budget and trade balance may lead to undesirable economic effects. And in case of surplus of them, this might apparently appear happy event, but this may not express success of economic policies relating to state budget and trade balance. This can hide defect or absence of prosperity of economy via minimization of imports and state expenditure, or dependence of economy on a source about to exhaust as a financer of exports and public revenues.

2 - Analysis of Extent of Economic Vulnerability of Libyan Economy During 2000 – 2008

In view of data of Table (1), we notice that extent of economic vulnerability in Libya was fluctuating in this period: 2000 – 2003, where it has decreased from (44.8%) in 2000 to (43%) in 2001. This was due to decline of exports toward nominal national output from (33.4%) in 2000 to (30.5%) in 2001.

² Sami Khalil, *Theory of Macroeconomics, Kuwait, 1999, p.p.149-150.*

³ Mahmoud Dagher & Salam El-shami, *Research Paper titled (Analysis of Relationship between Public & External Sectors in Libya), Alsatel Journal, Issue 3, Misurata, 7 Oct., University, 2007, p.121.*

the reason was decline of oil exports from (30.5%) in 2000 to (23%.1) in 2001, due to decline of oil prices in international markets in 2001. Besides, increase of national output has its effect in reduction of extent of vulnerability. But in 2002 the extent of vulnerability of Libyan economy to abroad has arisen to (72.3%) despite continuance of rise of nominal national output, but rise of exports and imports has the biggest effect, which has been reflected in form of rise of economic vulnerability, where rate of exports to nominal national output has raised to (41.2%), of which oil exports formed (33.4%), and (31.0%) as for imports. The reason of increase of value of both exports and imports of Libyan economy in 2002 was amendment and standardization of exchange rate since begging of the year as one of policies of economic reform.

In 2003, extent of vulnerability has again declined to reach (68.8%) despite rise of rate of total exports as well as oil exports to national output, but reduction in value of imports and rise of nominal national output had an effect that exceeded the one of rise in exports size on extent of economic vulnerability, causing to decrease them.

As for the years following 2003, particularly 2004 – 2008, they had undergone continuous rise in extent of economic vulnerability reaching highest rate (98.1%) in 2008, this was due to continuous increase in rate of exports rate to nominal national output of the same period, for it reached acme (72.7%) in 2008, the oil exports formed (71.2%) of such rate, under the unprecedented and continuous rises in prices of crude oil in international markets in 2004 – 2008. it is worthy to mention that rate of imports to nominal national output was fluctuating in that period despite rise of imports continuously, that's due to fluctuation of rises in both nominal national output and value of imports.

3- Analysis of Status of State Budget of Libyan Economy During 2000 – 2008

Total Revenues

Total revenues have achieved remarkable rise in 2001 – 2002, where annual average of their growth in 2001, in comparison with 2000 (28%.7), while such average in 2002, in comparison with 2001, was (42%.9). such rise was due to increase of oil revenues in total of total revenues from (47.3%) in 2000 to (60.1%) in 2001, and to (76.4%) in 2002. further,

average of annual growth of oil revenues in 2001 was (63.5%) and (81.8%) in 2002. it is worthy to mention that despite decline of non-oil imports in 2001-2002 in (2.6%) and (15.6%) respectively, the impact of increase of oil revenues on total revenues was higher, due to their trend to increase.

As in 2003, and despite increase in non-oil revenues in (103.2%) in comparison with 2002, the level of total revenues has decreased in (533.9\$) million, rated (6.2%) in comparison with 2002. This was due to decline of oil revenues in (2622.0) million dinars, rated (40.0%) in comparison with 2002.

As for period from 2004-2008, it witnessed continuous increase in total revenues, but its average was fluctuating, in view of fluctuation of average of increase in oil revenues. In general, average of growth of total revenues between 2004-2008 was (33.2%), while average of growth of oil revenues during the same period was (34.0%) Concerning non-oil revenues, they have decreased in 2004 and 2005 in (23.8%) and (12.9%) respectively. But the years 2006, 2007, and 2008, annual average of growth has witnessed remarkable rise, reaching (29.1%), (34.2%) and (76.1%) respectively, but mean of contribution of non-oil revenues in total of revenues in 2004-2008 remained low, reaching (9.8%), so the mean of share of oil revenues out of total revenues of the same period (90.2%), asserting dominance of oil revenues over total ones.

The considerable development witnessed by crude oil prices and increase its revenues have their impact in increase of total revenues of Libyan economy.

Total Expenses

Total expenses recorded raise in 2001 in comparison with 2000, where average of annual growth of such expenses was (7.3%). This was due to increase of current expenses amounting (443.4) million dinars, rating (14.1%), while expenses of transformation decreased in rate of (0.1%) during the same year, to reduce their contribution to total total expenses from (29.4%) in 2000 to (27.3%) in 2001.

Total expenses have also achieved remarkable rise in 2002 in comparison with 2001, by (2855.4) million dinars, namely (50.7%). This was due to

Year	Exports	Oil exports	Imports	Size of trade exchange	nominal national output	Rate of exports to output	Rate of oil exports to output	Rate of imports to output	Extent of economic vulnerability
2000	6160.0	5630.3	2106.0	8266.0	18456.9	33.4	30.5	11.4	44.8
2001	6591.0	4992.0	2895.0	9486.0	21618.7	30.5	23.1	13.4	43.9
2002	12511.0	10121.2	9408.0	21919.0	30330.5	41.2	33.4	31.0	72.3
2003	16483.4	15857.4	9216.0	25699.4	37360.7	44.1	42.4	24.7	68.8
2004	22619.4	21479.4	11398.4	34017.8	48105.4	47.0	44.7	23.7	70.7
2005	37791.9	36612.9	14637.9	52429.8	66450.7	56.9	55.1	22.0	78.9
2006	51552.4	50268.6	15674.2	67226.6	80729.9	63.9	62.3	19.4	83.3
2007	59182.2	57760.9	22303.8	81486.0	89260.3	66.3	64.7	25.0	91.3
2008*	76818.0	75291.8	26856.3	103674.3	105728.4	72.7	71.2	25.4	98.1

Source: -Abduallah Moh'd Shamia, Research titled "Libyan Exports & Their Role in Economy", Economic Researches Journal, Vol.3, Issue 2, Benghazi, Center of Economic Sciences Researches, 2005.
Central Bank of Libya, Economic Leaflet, several issues.

Table 1: Extent of economic vulnerability of Libyan economy to abroad (million dinars).

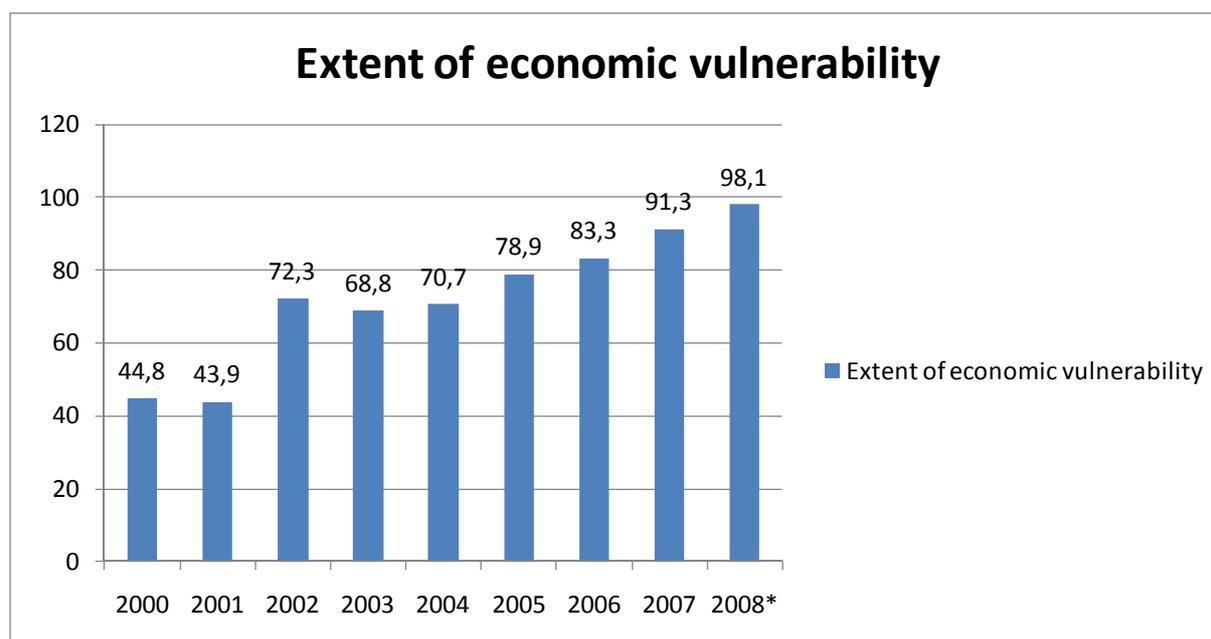


Figure 1: Extent of economic vulnerability of Libyan economy to abroad.

increase of expenses of transformation in rate (140.5%) in addition to increase of current expenses rating (17.1%), and rate of transformation expenses to total expenditure has rose rating (43.6%) in 2002 in comparison with (27.3%) in 2002.

In 2003, decrease occurred in level of total expenses in comparison with 2002 which was

parallel to reduction in total revenues of the same year. Level of total expenses has decreased from (8487.0) million dinars in 2002 to (6866.2) million dinars in 2003, with decrease rate of (19.1%), due to decrease of both current expenses and of transformation ones rating (15.0%) and (31.7%) respectively in view of decrease of total revenues during the same year.

Description	2000	2001	2001	2003	2004	2005	2006	2007	2008
Total incomes:	4662.2	5998.8	8574.1	8040.2	23087.0	37106.0	47088.0	53366.3	72741.2
-oil	2203.0	3603.0	6551.0	392.0	19956.0	34378.0	43566.0	48638.3	64417.0
-non-oil	2459.2	2395.8	2023.1	4111.2	3131.0	2728.0	3522.0	4728.0	8324.2
Rate of oil incomes to total incomes (%)	47.3	60.1	76.4	48.9	86.4	92.6	92.5	91.1	88.6
Average of growth of oil incomes (%)	--	63.5	81.8	-40.0	407.9	72.3	26.7	11.6	32.4
Average of growth of non-oil incomes (%)	--	-2.6	-15.6	103.2	-23.8	-12.9	29.1	34.2	76.1
Average of growth of total incomes (%)	--	28.7	42.9	-6.2	187.1	60.7	26.9	13.3	36.3
Total expenses:	5250.2	5631.6	8487.0	6866.2	17230.0	21343.0	21378.0	30883.0	4415.5
-operational	3153.2	3596.6	4210.3	3577.7	6720.0	8282.0	9054.0	11890.0	11874.8
-transformation	1541.0	1539.0	3701.7	2530.0	6718.0	10273.0	11039.0	18993.0	28903.3
-distribution of wealth	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3337.4
-extra	556.0	496.0	575.0	758.5	3792.0	2788.0	1285.0	0.0	0.0
Rate of expenses pf transformation to total expenses (%)	29.4	27.3	43.6	36.8	39.0	48.1	51.6	61.5	65.5
Average of growth of transformation expenses (%)	--	-0.1	140.5	-31.7	165.5	52.9	7.5	72.1	52.2
Average of growth of operation expenses (%)	--	14.1	17.1	-15.0	87.8	23.2	9.3	31.3	-0.1
Average of growth of total incomes (%)	--	7.3	50.7	-19.1	150.9	23.9	0.2	44.5	42.8
The balance of state budget	-588.0	367.2	87.1	1174.0	5857.0	15763.0	25710.0	22483.3	28625.7
Average of growth of surplus (%)	--	--	-76.3	1247.9	398.9	169.1	63.1	-12.6	27.3

Source: Central Bank of Libya, Economic Leaflet, several issues.

Table 2: Status of state budget of Libyan economy in 2000 – 2008, (million dinars).

As for the period: 2004 – 2008, the total expenses have achieved continuous increase whose average characterized with fluctuation, according to turnings over occurring in averages of increase achieved in both operating and transformation (investment) expenses. Average of growth of total expenses over 2004 – 2008 was (26.5%), and rate of expenses of transformation to total total expenditure after 2005 was (59.5%) in average, due to increase of totall expenditure on projects of

infrastructure, service, productive and crediting different projects⁽¹⁴⁾.

Net of State Budget

¹⁴ Central Bank of Libya, Annual Report, 2007, p.46.

State budget has achieved continuous revenues over 2001 – 2008, but they were fluctuating relating to transaction of total revenues and total expenses of the same period. By tracing data, we notice that 2001 has witnessed surplus of balance of (367.2) million dinars after undergoing deficit of (588.0) million dinars in 2000 and decrease in 2002 of (280.1) million dinars, namely; rate of (76.3%) comparing with 2001, this was due to increase of total expenditure in a manner bigger than increase in total revenues of the same period, because of the big increase in transformation expenses amounting (140.5%) in comparison with 2001, then surplus of budget has again arisen continuously in 2003 – 2006, but average of such increase was fluctuant according to movement of total revenues and total expenses. In 2007, surplus of state budget has decreased (3226.7) million dinars in a rate of (12.6%) in comparison with 2006, due to increase of total expenditure of 2007 in a rate of (44.5%), for increase of total revenues whose rate was (13.3%) over the same year, comparing with 2006. in 2008, surplus of budget has again arisen reaching (28.6%) million dinars for (22.5) million dinars over 2007, in a rate of (27.3%). It was noticeable that increase of oil and non-oil revenues, as well as decrease of operating expenditures and of average of increase of transformation expenditures have the eminent impact in rise of surplus of state budget over 2000.

4 - Analysis of Status Trade Balance of Libyan Economy in 2000 – 2008

Exports

Data of Table (3) refer to scope of dominance of oil exports on total exports over 2000 – 2008, where they exceeded (90.0%) of total of exports in most of research years, except 2001 and 2002 when such rate was (75.7%) and (80.9%) which means that national economy is greatly effected by alterations occurring in national market of oil, and such alterations undergo outside factors uncontrollable in the inside.

In view of status of total Libyan exports over 2000 – 2008, it is noticeable that they have achieved continuous increases, but average of such increase was fluctuant due to fluctuations in increases of both oil and non-oil exports. In 2001, average of growth of total exports was (7.0%) which was lowest average of growth over the period of the research. That was a result of decrease of oil exports due to decrease of oil prices in that period, where average of growth of oil exports was (11.3%), but development in non-oil exports has led to rise in value of total exports comparing with 2000.

As for 2002, policy of amending and standardization of exchange rate applied since beginning of the year, and slight rise resulted in prices of raw oil played significant role in rise

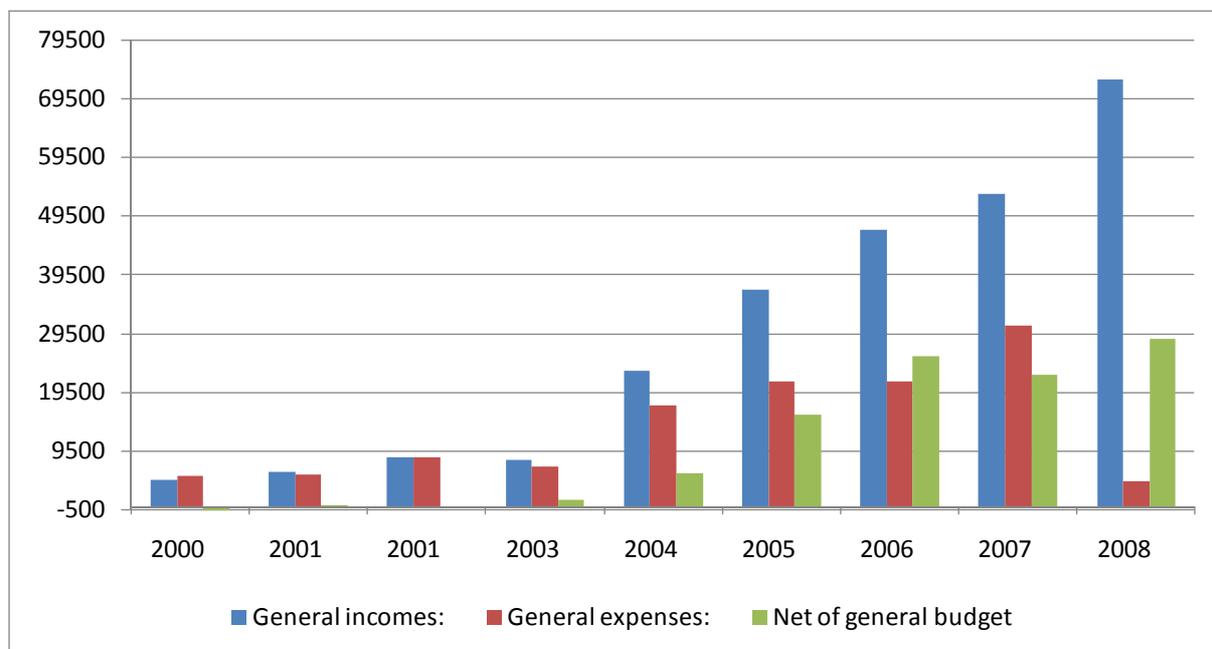


Figure 2: Status of state budget of Libyan economy.

of value of exports⁽¹²⁾ whose annual average of growth was (89.8%) which represents biggest growth of exports over period of the study. It is worthy to mention that average of growth of oil exports over the same year was approximately (102.7%).

After 2002, particularly in 2003 – 2008, oil exports have begun to take the biggest rate of total Libyan exports. Mean of rate of their contribution to total exports was (97.3%) as a result of successive and unprecedented rises in prices of oil in international markets, which led to clear promotion in total Libyan exports whose compound average of growth over 2003 – 2008 was (36.0%), where compound average of growth of oil and non-oil exports over the same period was (36.5%) and (19.7%). Despite average of growth in non-oil exports over 2003 – 2008 was bigger than average of growth of oil exports over the same period, the mean of their contribution to total exports has not exceeded (2.7%).

Imports

Libyan imports have achieved continuous rise over 2000 – 2008 except in 2003 in which value of imports has decreased comparing with 2000. In 2001, average of growth of imports was (37.5%) achieving increase of (789.0) million dinars in comparison with 2000, in 2002, imports have increased in rate of (225.0), namely; (6513.0) million dinars in comparison with 2001. It was clear that average of growth of imports over 2001 – 2002 was bigger than of one of growth of exports over such years, due to cancellation of work in import budget in 2002, removal of significant portion of restrictions on transfer, and allowing private activity to import accordingly,⁽¹³⁾ in addition to state's adoption of policy of amending and standardization of exchange rate since beginning of 2002.

In 2003, imports have decreased (2.0%) amounting (192.0) million dinars, comparing with 2002.

despite that, imports of 2003 were sufficient to satisfy the desired demand⁽¹⁴⁾

Rise in imports has returned greatly in 2004 – 2008 where their average of growth over that period was (23.9%), as result of rise of investment activity in Libyan economy.

Trade Balance

Trade balance represents result (outcome) of movement of exports and imports of an economy over a time period. When tracing data of Libyan trade balance, we notice that it has achieved continuous excesses over 2000 – 2008, but quantity of such excess has decreased in 2001 and 2002 by (8.8%) and (16.0%), due to rise of imports in a quantity bigger than rise of exports over such two years.

After 2002, particularly the period 2003 – 2008, rises in excess of trade balance have succeeded in fluctuant averages according to movement of exports and imports. Average of compound growth of excess was (47.0%).

It is worthy to mention that such has been achieved as a result of promotion of incomes of exporting raw oil in view of rise of its prices level in international markets over such period.

We can say that trade policy has witnessed significant developments over 2000 - 2008. Prior to 2002, Libyan economy used to follow policy of manufacture directed to satisfy need of local market, so principle of quantity protection has been adopted, by organizing action of importing via importing balance, in a manner that no merchandise that can be produced locally may be imported except in the quantity that satisfy need of local demand, in view of inefficiency of local production.¹⁵

But such policy of protection has undergone radical changes at beginning of 2002 via cancellation of import budget, as well as decrease of customs tariff of big number of goods.⁽¹⁶⁾

¹² Central Bank of Libya, *Annual Report, 2002*, p.39 & p. 88.

¹³ General People's Committee of Planning, *Survey of Economic & Social Trends in Libya (1990-2004)*, 2005, p.16.

¹⁵ General People's Committee of Planning, *previous reference*, p.17.

¹⁶ *Ibid.*, p.30. ¹⁰ *Ibid.*, p.30-31.

Despite cancellation of quantity protection meets requirements of liberalizing trade and international economic integration, it causes local economy to face many problems, among which:

- rise in extent of economic vulnerability, which is undergone by Libyan economy. Such rate reached (98.1%) in 2008.
- Decrease in rate of competition ability of merchandise sectors in favor of imported products, which led to deterioration of many local industries, in addition to feeling of local consumer of preference of imported product in comparison with the imported one.
- This may lead to deterioration of payments balance and state budget and their tendency to deficit, as well as the negative impact on economic growth and living level, especially under deterioration of oil prices in international markets.

5 - Analysis of Mutual Effect between Items of state Budget and of Trade Balance over the Period 2000 – 2008

From data of Table (4), it is clear that there is tangible and distinguished relation between items of state budget and ones of trade balance. There is a coordination between movement of exports and total incomes, in addition to compromise between development of status of total expense and movement of imports, which led to creation of compromise between both excess of state budget and excess of trade balance.

We can trace annual growth averages from items of state budget and of trade balance stated in Table (4), which represent mirror reflecting the relation between state budget and trade balance in Libyan economy. We can explain that through: 1. Trends of average of growth of exports and total incomes despite their fluctuations, were compromising in most years

2. Trends of average of growth of incomes and total expenses despite their fluctuations, were compromising in most years

3. As a result of these two points, averages of growth of both excess of total budget and excess of

trade balance were coordinating and in almost one trend.

The significant developments which occurred on the level of state budget and trade balance have happened in a manner parallel to oil developments in global markets through unprecedented rises of raw oil prices especially over 2004 – 2008, which led to increase of value of Libyan exports, consequently to rise of total incomes especially incomes, leading to increase in levels of total expense particularly of transformation. Since Libyan economy greatly depends on imports in meeting need of local demand on consumer and investment goods, then increase of expenses of transformation and operational expenses has led to increase of level of imports.

6-The Trends of Rate of net State Budget and Trade Balance to National Output over 2000 – 2008

It is known that result of movement of exports and imports are represented in excess or deficit in trade balance. The matter is so concerning result of movement of total incomes and total expense which represents excess or deficit of state budget. In view of noticeable promotion occurred in situations of oil affairs through rise of their prices over 2000 – 2008, Libyan economy has achieved continuous excesses in both state budget and trade balance over the same period. To know the relation between excess of state budget and trade balance, they have been related to nominal national output, as stated in Table (5). We see that rate of excess of state budget to nominal national output has decreased in 2002 to (0.3%) for (1.7%) in 2001, after 2002, specifically in 2003 – 2006, such rate started to continuously rise, while decreased in 2007 by (25.2%) for (31.8%) in 2006, then rate of total incomes to nominal national output of 2008 has risen to (27.1%). On the other hand, rate of excess of trade balance to nominal national output has acted the same conduction of rate of excess of state budget to nominal national output, where it has decreased in 2002 to (10.2%) for (17.1%) in 2001. after 2002, specifically in 2003 – 2006, such rate started to continuously rise, while decreased in 2007 by (41.3%) for (44.4%) in 2006, then rate of excess of trade balance to nominal national output of 2008 has risen to (47.3%).

Description	2000	2001	2001	2003	2004	2005	2006	2007	2008
exports:	6160.0	6591.0	1251	16483.	22619.	37791.9	51552.4	59182.	7681
-oil	5630.3	4992.0	1012	15857.	21479.	36612.9	50268.6	57760.	7528
-non-oil	529.7	1599.0	2389.	626.0	1140.0	1179.0	1283.8	1421.3	1536.
Rate of oil exports to total exports (%)	91.4	75.7	80.9	96.2	95.0	96.9	97.5	97.6	98.0
Average of growth of oil exports (%)	--	-11.3	102.7	56.7	35.5	70.5	37.3	14.9	30.3
Average of growth of exports (%)	--	7.0	89.8	31.8	37.2	67.1	36.4	14.8	29.8
imports:	2106.0	2895.0	9408.	9216.0	11398.	14637.9	15674.2	22303.	2685
Average of imports growth (%)	--	37.5	225.0	-2.0	23.7	28.4	7.1	42.3	20.4
Trade balance	4054.0	3696.0	3103.	7267.4	11221.	23154.0	3578.2	36878.	4996
Average of trade balance growth	--	-8.8	-16.0	134.2	54.4	106.3	55.0	2.8	35.5

Source: Abdullah Mohamed Shamia, research titled "Libyan Exports & Their Role In economy", Economic Researches Journal, 3rd Vol., issue 2, Benghazi, Center of Researches of Economic Researches, 2005.
Central Bank of Libya, economic Leaflet, different issues.

Table 3: Status of trade balance of Libyan economy over 2000 – 2008, (million dinars).

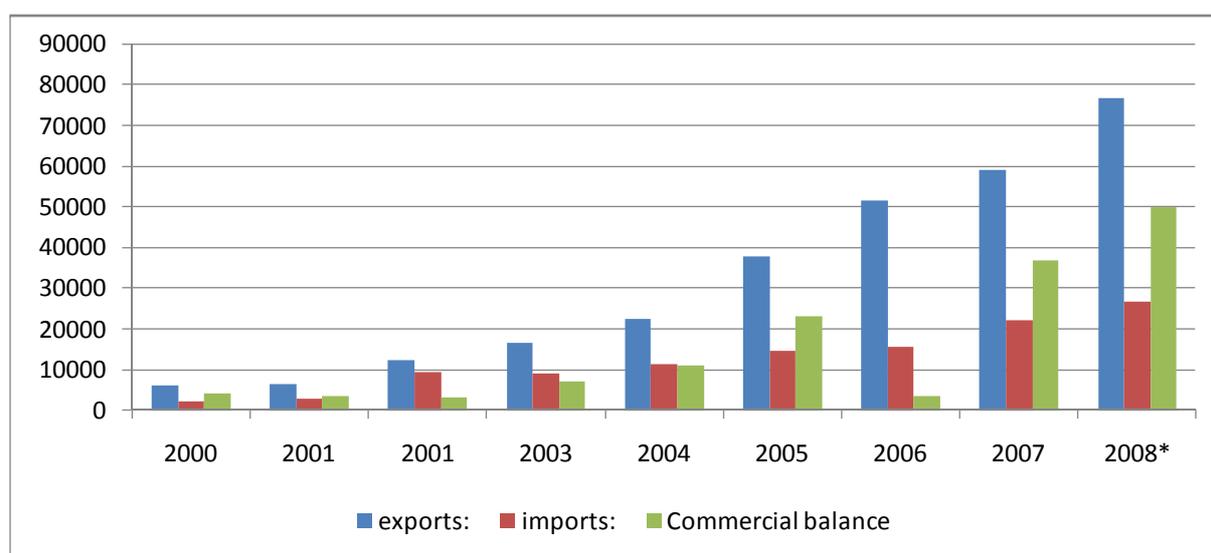


Figure 3: Trade Balance in Libyan Economy.

Through the above analysis, we see that rate of the aforementioned excesses to nominal national output has gone in most years of research in one direction, expressing existence of relation between

movements of state budget via movement of total incomes, and between movements of trade balance via movement of exports and imports

Year	Exports	Imports	Trade balance	Income	Expenses	The balance of state budget	Average of exports growth	Average of imports growth	Average of trade balance growth	Average of incomes growth	Average of expenses growth	Average growth of state budget
2000	6160	216	4054	4662.2	5250.2	-588	-	-	-	-	-	-
2001	6591	2895	3696	5998.8	5631.6	367.2	7	37.5	-8.8	28.7	7.3	-162.4
2002	12511	9408	3103	8574.1	8487	87.1	89.8	225	-16	42.9	50.7	-76.3
2003	16483.4	9216	7267.4	8040.2	6866.2	1174	31.8	-2	134.2	-6.2	-19.1	1247.9
2004	22619.4	11398.4	11221	23087	17230	5857	37.2	23.7	54.4	187.1	150.9	398.9
2005	37791.9	14637.9	23154	37106	21343	15763	67.1	28.4	106.3	60.7	23.9	169.1
2006	51552.4	15674.2	35878.2	47088	21378	25710	36.4	7.1	55	26.9	0.2	63.1
2007	59182.2	22303.8	36878.4	53366.3	30883	22483.3	14.8	42.3	2.8	13.3	44.5	-12.6
2008	76818	26856.3	49961.7	72741.2	44115.5	28625.7	29.8	20.4	35.5	36.3	42.8	27.3

Source: Tables (2) and (3)

Table 4: Mutual effect between items of state budget and trade balance over the period 2000 – 2008, (million dinars).

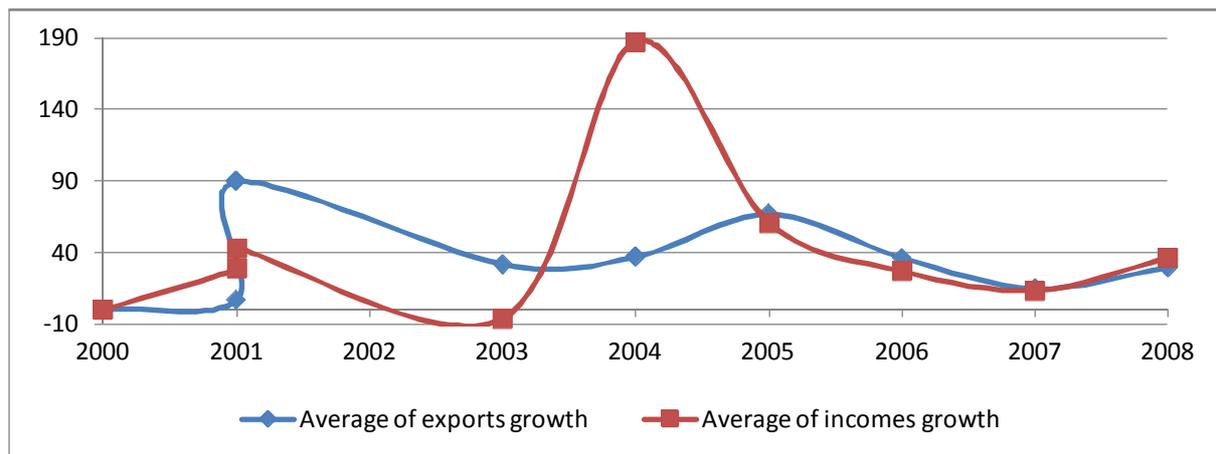


Figure 4-A: The relation between total incomes and exports.

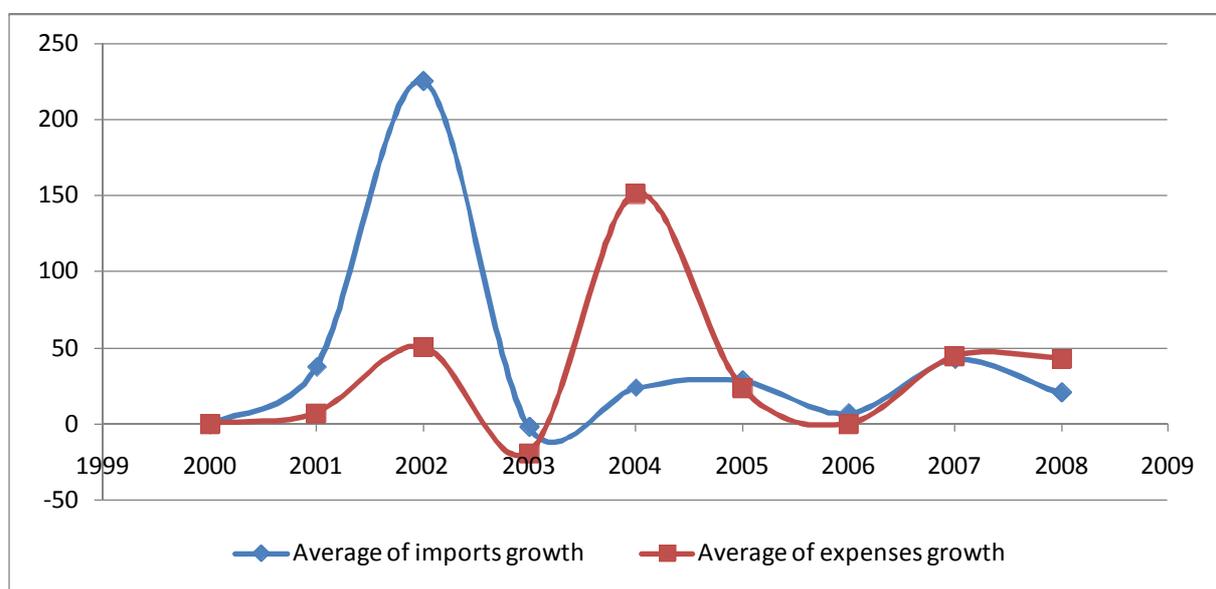


Figure 4-B: The relation between total expenses and imports.

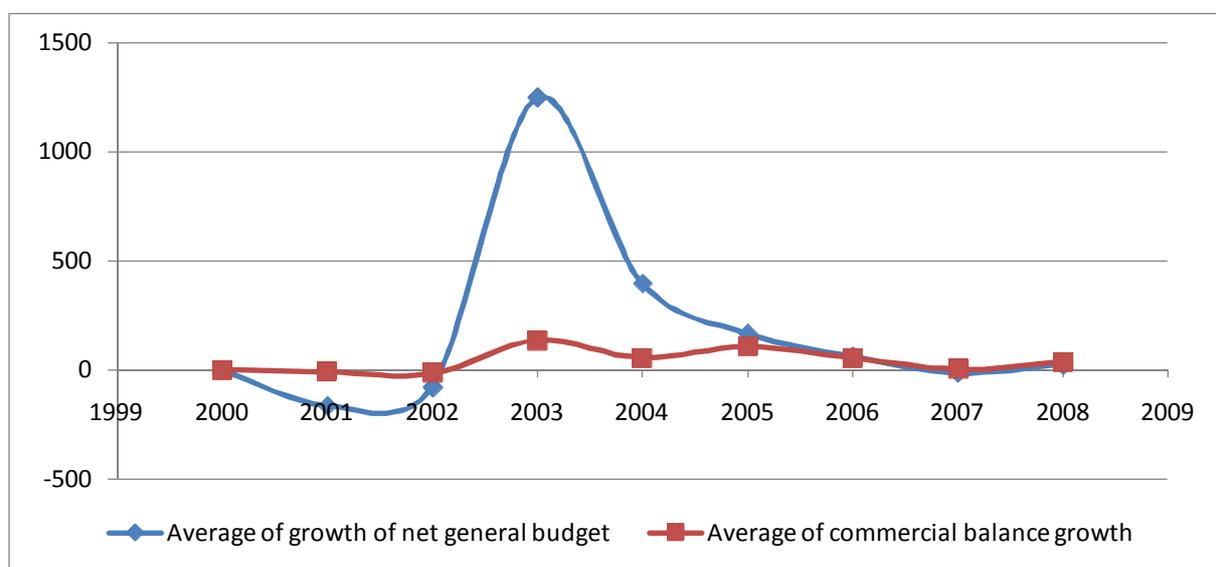


Figure 4-C: The relation between the balance of state budget and trade balance.

Description	2000	2001	2001	2003	2004	2005	2006	2007	2008*
Trade balance	4054	369	31030	726.4	11221	23154	35878.2	36878.4	49961.7
Balance of state budget	-588	367.2	87.1	1174	5857	15763	25710	22483.3	28625
Nominal national output	18456.9	21618.7	30330.5	37360.7	48105.4	66450.7	90729.9	89260.3	105728
Rate of total trade balance to nominal national output	22	17.1	10.2	19.5	23.3	34.8	44.4	41.3	47.3
Rate of the balance of state budget to nominal national output	-3.2	1.7	0.3	3.1	12.2	23.7	31.8	25.5	27.1

Source: Tables (2) and (3).

Table 5: The trends of rate of both net state budget and trade balance to national output over 2000 – 2008, (million dinars).

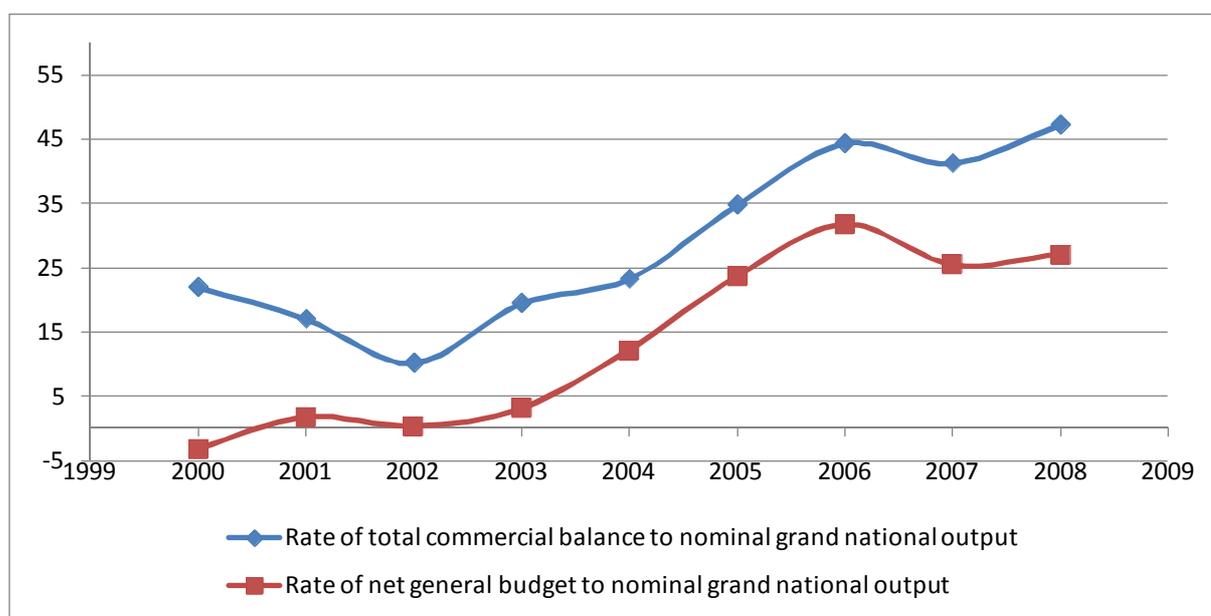


Figure 5: The trends of rate of both net state budget and trade balance to national output.

Through the above analysis, we see that rate of the aforementioned excesses to nominal national output has gone in most years of research in one direction, expressing existence of relation between movements of state budget via movement of total incomes, and between movements of trade balance via movement of exports and imports.

Conclusion

This research presented analytic exposition of the subject of relation between state budget and trade balance over the period: 2000 -2008,

through study of some aspects represented in: analysis of extent of economic vulnerability, analysis of status of trade balance, analysis of status of state budget, analysis of mutual effect of both items of state budget and ones of trade balance, and trends of rate of excess in both state budget and trade balance to nominal national output in Libyan economy, for the purpose of studying hypotheses of research and to achieve its target. Through study and analysis, it has been detected that relevant significant developments have occurred to Libyan economy. They are:

1. Libyan economy undergoes high extent of

vulnerability to external world, by dependence on foreign trade represented in exports which most of them are crude oil and imports of consumption and investment goods, which means the national output never plays fundamental role in comparison with size of foreign trade in Libyan economy. Namely; weakness of nominal national output in face of the big, continuous and renewing requirements of state and people whether in terms of consumer or investment goods.

2. Oil exports still take total Libyan exports despite the promotion occurring in non-oil exports over the period: 2003 – 2008, but such was not sufficient to rid of dominance of the exhausting resource. Mean of contribution of non-oil exports over that period did not exceed (2.7%) of total exports, and Libyan imports have not lost its share in increase over the studied period in view of cancellation of quantity restrictions on imports and censorship on foreign exchange, in continuous rise especially in last years, emphasizing dependence of Libyan economy on imports in meeting huge portion of local demand on consumer and investment goods. But in spite of increase in value of imports, the trade balance remained preserving achievement of excesses along the period of study, depending on the continuous rises of prices of crude oil in global oil markets.

3. Rise of outcome of total revenues, benefiting from rise of oil revenues in view of rise of crude oil prices in global market greatly, with simple contribution of non-oil revenues which have promoted especially in recent years of the period of the research, something that has reflected on total expenditure by continuous increase especially relating to expenses of transformation for the sake of financing different projects of development in an attempt to direct Libyan economy toward development,

promotion and minimizing dependence on oil as a chief resource of financing all sectors, economic activities, foreign trade, effort to maximize averages of growth of national output, and minimizing extent of economic vulnerability to outside. It is worthy to mention that net state budget has been greatly affected by the changes occurring in global oil markets through achieving continuous excesses over the period of 2001 – 2008.

4. The big promotion occurred in prices of raw oil has an obvious effect on oil exports then oil revenues, which led total expenditure to considerable rise. Since Libyan economy depends on imports to meet demand of its people of consumer and investment goods, increase of total expenditure has led to rise of imports. This proves scope of relation between state budget and trade balance through relation between movements of exports and total revenues and total expenditure and imports, and such relation is governed by dominance of the exhausting resource which is affected by external factors out of control of Libyan economy, something make it liable to risk in case of occurrence of any declines in oil global markets.

5. Rate of excess in both trade balance and state budget to nominal national output in most of period of the research goes in one trend, emphasizing again the mighty connection between state budget and trade balance of Libyan economy.

6. Under cancellation of role of censorship on foreign exchange and cancellation of quantity restrictions over imports, the tools of state budget represented in total revenues and total expenses become effective in restricting movement of imports as precautionary action toward any undesirable developments in oil global markets.

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