

Accounting for Libya's Economic Growth: Past Recent and Near Future

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Abstract

The aim of this paper is to explore which economic growth is essential for a strong, well-developed and efficient accounting in Libya. In connection with understanding the significance of subjective matter, this study seeks to explore the development of the accounting framework, assess recent efforts to create new deregulation, institutions and attract further foreign investment that could modernise the economic, and offer suggestions for growth that could stimulate additional economic development. In the main, the paper provides an assessment of the quality and effectiveness of the operation for the economic and infrastructure of the alternative framework called growth accounting to obtain a different perspective on the sources of economic growth.

This study's results will be useful in reaching policy decisions to develop accounting to increase economic growth in developing countries or/ emerging economies, in general, and within Libya, in particular. Furthermore, providing empirical evidence regarding this critical issue within specific emerging economies will add to the literature on economic reform related to the role of accounting framework development and its influence on economic growth and, thus, initiate an exciting topic for study.

Keywords: Libya, Accounting, Economic growth, Cobb-Douglas production function.

1. Introduction

In fact, Libya, akin to other nations, had long suffered from deficiencies in the economy due to its political stance and UN sanctions, which had resulted in a high rate of inflation, a balance of payments' deficit, and low employment and growth rates, ultimately combining to create an imbalance in the economy. Problems of irregularity in supply and demand have a negative impact on prices and balance of payments. Similarly, the fiscal policy tends to exceed the level of expenditure. For that reason, fiscal and monetary reforms constituted the core of the programme in its first stage, whereas structural reforms constituted the core aim of the remainder of the programme in the medium term. Therefore, in 1999, an economic reform programme was urgently needed to ensure improved economic performance, which has now been achieved to steer the post-sanction Libyan economy away from the edge of collapse. Nonetheless, there remains much for this reform programme to do before it can yield fruit due to numerous obstacles, such as the sharp decrease in oil prices, shortage of trained labour and the structural weakness in the financial system. However, similar to many other emerging countries, the economic reform programme was set with clear overall objectives, these being to accelerate the rate in the growth of the economy and to increase standards of living for the Libyan population. To achieve those objectives, a high level of investment is required which, it can be argued, demands a strong and healthy accounting framework capable of more attracting both *domestic and foreign investments*.

There followed the challenges of devising a strategic policy that would aim to achieve sustainable development of the economic growth theory deals with the determination of living standards, a matter which is of the greatest significance to human welfare. It should be observed that economic growth, which is defined in this work as growth in real per capita gross domestic product (*GDP*), is not the only factor which determines economic development; other significant determinants are the distribution of wealth, access to health care and education, among others. However, economic growth is a key condition, and it is sustained economic growth is necessary for a continued increase in the average standard of living. By the mid-twentieth century, the generally accepted approach to modelling growth was one based on neo-classical growth theory, as exemplified in the work of Solow (1956), Swan (1956) and Cass (1965). This type of framework assumes a neoclassical production function with a constant return to scale, diminishing returns to each input (labour and capital) and an easy flexibility of substitution between the inputs.

The neo-classical growth model is therefore a reasonably uncomplicated general equilibrium model that leads an economy to its steady-state vital role in ensuring confluence to such a steady state. However, it also implies that in the steady state, there is a fixed capital-labour ratio, and zero productivity of capital, and therefore growth-generated endogenous factors (*i.e.* capital accumulation) are zero. This model has been named as exogenous growth model, as in it the steady-state rate can be positive if an exogenous force such as technological development affects the system. This model does not offer a useful framework for understanding economic forces and policies, as it assumes that the rate of technological progress is exogenous; financial factors cannot, therefore, influence the rate of economic growth, but only the equilibrium level of capital stock per worker. Solow's (1956) conclusion was that although poor countries will grow more rapidly than rich ones, both will move towards the same level of per capita income as per capita growth in the steady state relies completely on exogenous technological progress available to all countries. Hence, all countries will grow at the same rate (Agenor & Montiel 1999). In sum, Gross (2001) states that the main conclusion of Solow's growth model is that only exogenously unexplained technical progress or changes in demographic factors can have an effect on growth once the steady state is achieved. While the per capita income will be increased by an increase in the saving rate or any policy change affecting the economy, long-run growth will not.

2. Applying the Growth-Accounting Framework

Growth accounting provides a framework for allocating changes in a country's observed output into the contributions from changes in its factor inputs capital and labour and a residual, typically called total factor productivity. The latter is best interpreted as a measure of gains in the efficiency with which the factor inputs are used. As Robert Solow's (1957) have been made perhaps the most important contribution to the development of growth accounting (Dornbusch & Fischer 1994; Agenor & Montiel 1999; Gross 2001), whose model was developed in a setting where prices assume that supply is equal to demand. The model presumes the supply of goods and services on a production function with constant returns to scale and imperfect substitution between production, capital and labour factors. As discussed in more detail in (Dornbusch & Fischer 1994; Agenor & Montiel 1999; Bosworth & Collins 2003), we essentially assume a Cobb-Douglas production function with fixed factor shares:

$$Y(L, K) = AK^\alpha L^{1-\alpha} \quad (1)$$

where Y = is output; K = capital; L = number of workers employed in the production process, A = "technological progress" and often refer to this as the "technology" term, it is also sometimes known as Total Factor Productivity (TFP). while α and $(1-\alpha)$ are the elasticity's of output with respect to capital and labour, respectively, then the basic growth accounting formula is:

$$\Delta \ln(Y/L) = \alpha \Delta \ln(K/L) + \Delta \ln A \quad (2)$$

Output elasticity measures the responsiveness of output to any alteration in the levels of labour or capital used in production, all other things being equal. For instance, if $\alpha = 0.10$, a 1% increase in labour would result in an increase in output of around 0.10% increase. As Griliches (1996: 1328) said, "This clarified the meaning of what were heretofore relatively arcane index number calculations and brought the subject from the periphery of the field to the center", but the word "clarified" may assume too much: it implies that Solow's mathematical-neoclassical framework for constructing a productivity index was what the earlier author had in mind but did not fully articulate.

According to Denison (1962), an application model on steady growth was driven by accounting for the residual. This developed an explicit measurement of the contribution of labour productivity growth, in particular thorough the effect of education on earnings using the production function:

$$Y = AK^\alpha (LE)^{1-\alpha} \quad (3)$$

$$\Delta \ln(Y/L) = \alpha [\Delta \ln(K/L)] + (1-\alpha) \Delta \ln E + \Delta \ln A \quad (4)$$

where $\Delta \ln(Y/L)$, the growth in output per worker into the contributions of growth in capital per worker $\Delta \ln(K/L)$, while $\Delta \ln E$ increase in education per worker, and a residual measure of the contribution of improvements in total factor productivity $\Delta \ln A$. Since we are usually at least as interested in the growth of standards of living and output per worker as in the growth rate of total GDP, this form of the growth-accounting framework is often more useful. According to Swan (1956), the steady-state is a condition of the economy in which output and capital per worker do not alter change over time because the rate of new capital production

from invested savings is precisely equal to the rate of existing capital depreciation.

3. What Do Aggregate Growth Accounts Show?

The most significant aspect in the rate of growth phenomenon is that of real *GDP*, which considers the volume of goods and services produced. Consider an economy producing an output of real *GDP* by combining inputs: labour, equipment (also termed physical capital) to which could be additional land for agricultural production. Growth theory, for instance, the study of economic growth across countries and over time seeks to establish whether production is higher due to greater inputs, or whether inputs become more productive over time, or both. It additionally requests what the contribution of each factor is. As illustrated in Figure 1, these five factors of sources of growth rate, along with the total factor productivity growth are discussed subsequently.

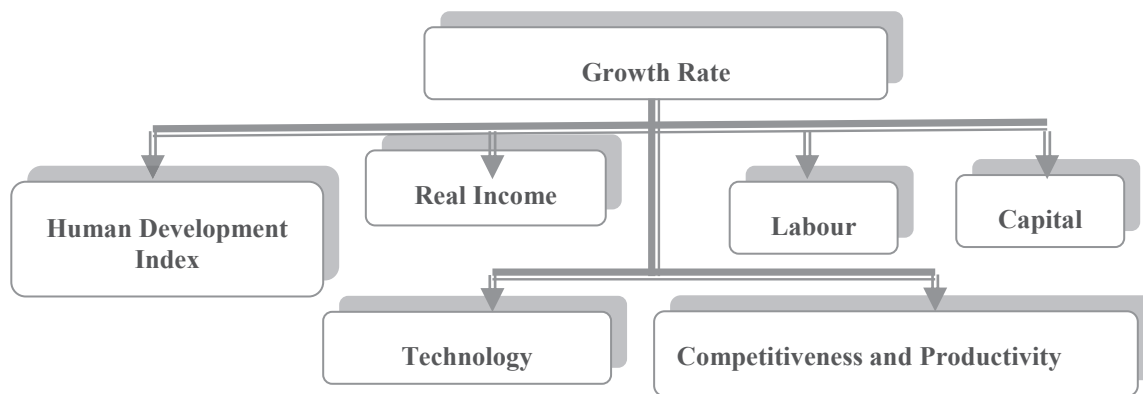


Figure 1. Potential Sources of Growth Rate

Source: Author 2013.

3.1 Human Development Index

The Human Development Index (HDI) is used to measure the quality of life among all nations of the world (Libya Review 2006). Libya has two great advantages, namely the oil sector and its small indigenous population (see Table.1). The HDI has been compiled since the 1990s by the United Nations Development Programme (UNDP) on a regular basis, in which Libya was ranked 58th among 162 countries in the human development index in 2001, and determined as medium in terms of human development (Libya Review 2006). It was 61st out of 175 in 2003 and 64th out of 159 in 2004 (UNDP 2004, 2006). The HDI is a composite of several indicators which measure a country's achievements in three key areas of human development i.e. longevity, knowledge and education, besides economic standard of living (see Figure 2).

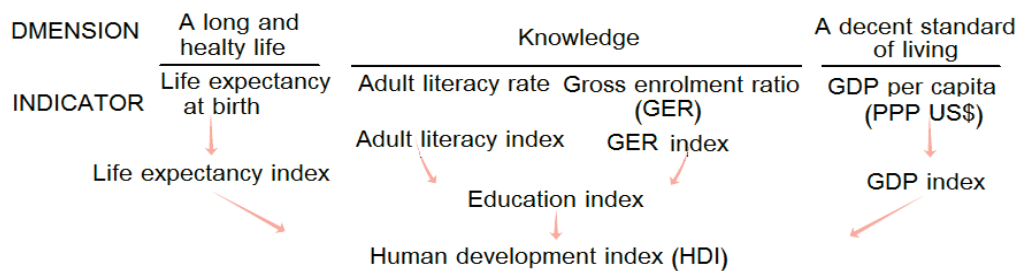


Figure 2. Human Development Index Process

Source: Human Development Report (2007/2008).

Regarding development in population and education during the 1962-2000 period, Table 1 displays the total population estimated at 1,560,000 in 1962. Over the period 1970-1982 the number of Libyans grew at an average annual rate of 4 per cent. During 1984-1995 the estimated population was 5.8 million, reflecting an average population growth rate of 2.7 per cent (UN 2005), whilst the rate of decrease of non-Libyan

citizens during the period 1983-1990 was negative and the Libyan population continued to increase at the same rate of 4.1 *per cent*, than decline to 2.7 *per cent* over the period 1995-2000.

Table 1. Libya's Population (Libyan and Non-Libyan) during the 1962-2000

Description	Annual Growth Rate								Percentage Total			
	1962	1970	1973	1978	1980	1984	1990	2000	1962 1969	1970 1982	1983 1990	1995 2000
Total Population	1,560	2,006	2,348.8	3,014	3,245.8	3,643	4,380.0	5,200.0	3.3	5.5	2.0	3.4
Libyan	1,511	1,922	2,146.0	2,598	2,804.6	3,231	4,177.2	4,823.0	3.2	4.1	4.1	2.7
Non-Libyan	49	84.0	202.8	416.5	441.2	411.5	202.8	477	8.7	21.1	-13.0	-9.6
Libyan as (%) of total	96.9	95.8	91.4	86.2	86.4	88.7	95.4	92.75	NA	NA	NA	NA
Non-Libyan as (%) of total	3.1	4.2	8.6	13.8	13.6	11.3	4.6	9.17	NA	NA	NA	NA

Source: General planning council, economic and social indicators (1962-2000).

The number of enrolled students as a proportion of the total Libyan population increased from 19 *per cent* in 1970 to 32 *per cent* in 1990. The number of students under 15 years old among the total student population was 95 *per cent* in 1970 and decreased to 83 *per cent* by 1990. The proportion of students aged 15 years and over was relatively low, as reported in Table 2.

Table 2. Educational Enrolment in Libya during the 1969-1990

Description	Academic Years								Average Growth Rate	
	1969 1970	1972 1973	1975 1977	1979 1980	1982 1983	1985 1986	1989 1990	1970 1980	1981 1990	
Total number of students	3,665	5,404	7,363	9,589	1,092	12,455	13,757	10.2	3.7	
Students as (%) of total population	19.1	25.2	30.6	34.2	34.6	37.0	33.2	30.6	35	
Students under 15 years old (%) of total	94.7	93.8	92.3	90.0	87.1	85.1	83.2	9.6	2.9	
Students over 15 years (%) of total	5.3	6.2	7.7	10.0	12.9	14.9	16.8	17.5	9.4	

Source: General planning council, economic and social indicators (1962-2000).

Porter & Chairman (2006) documented that the most significant key steps of the Libyan education system contributed to the overall society's well-being. Libya has one of the highest literacy rates in the Arab world at 82 *per cent* of all adults and 97 *per cent* in age group 15 to 24. Figure 3 shows the most significant comparison of primary and secondary school enrolment ratios between Libya and MENA countries.

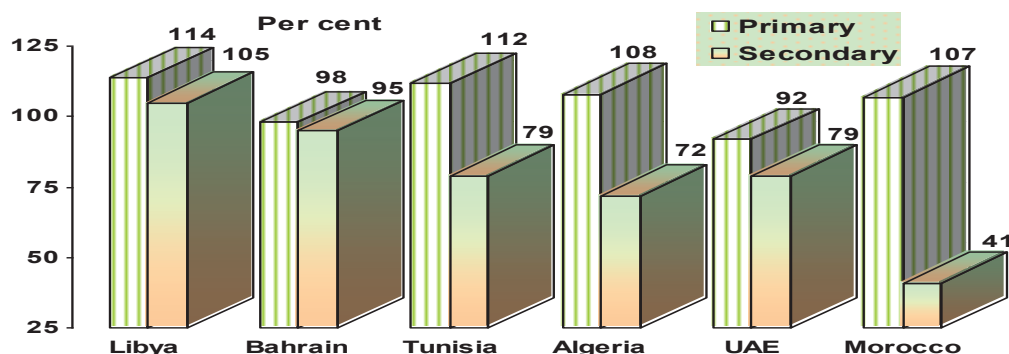


Figure 3. Primary and Secondary School Across Arab Countries, 2001-2002

Source: Porter & Chairman (2006).

3.2 Real Income

Real individual income is viewed as the return either in the form of a share in production or a paid salary. It is

the wage a worker receives in return for his participation in the production process along with other production elements. Table 3 displays developments in average real and monetary individual incomes in transforming the industrial sector from 1970 to 2000. Average annual individual income reached 4,412 LYD in 1970. It generally increased over the period till it reached 24,705 LYD in 2000, with an annual rate equal to 5.7 *per cent* during the same period. Average real individual income fluctuated during the period 1970 to 2000; it was 37,076 LYD in 1970, reaching a peak of 64,338 LYD in 1976. It continued to fluctuate, reaching its minimum of 17,691 LYD in 1999 and increasing again to 22,439 LYD in 2000.

Average real individual income increased because the increase in average monetary individual income was greater than that of prices. The average real individual income decreased because the increase in average monetary individual income was less than the increase in prices. Relative stability in salaries resulting from Law no.15 of 1981 is the underlying reason for the decrease in average real individual income. Individual income level decreased from 10,981 US\$ in 1980 to 5,141 US\$ in 2001. However, at the same time, individual income doubled in industrial countries and many developing countries that succeeded in their development plans.

Table 3. Development in Average Cash Income and Average Real Income per Person in the Manufacturing Sector during the 1970-2000

Year	Average annual cash income per person ^a	Average annual real income per person (1997 value) ^b
1970	441.2	3707.6
1975	875.4	5955.1
1980	1234.5	4156.6
1985	1918.7	4099.8
1990	2177.0	2762.7
1995	2365.5	2446.2
1999	2397.1	1769.1
2000 (Est.)	2470.5	2243.9

Notice a: Average cash income per person: Total salaries and pay / total number of employees.

Notice b: Average real income per person: Average cash income per person / Price index.

Source: GPC for planning and national accounts (1970-1999).

3.3 Labour Force

Table 4 displays development in the employment of the labour force in the transforming industries' sector, compared with employment of labour forces in other sectors from 1970 to 2004. In addition, the labour force in various manufacturing industries increased from 20.4 thousand workers in 1970 to 103 thousand workers in 1984. It noticeably declined after that reaching 75 thousand workers in 1985 and then rose to 169.9 thousand workers in 2000. Decline in the labour force in 1985 was due to the execution of GPC decrees in 1984 concerning reduction of the non-Libyan labour force employed on a contractual basis. These decrees were the result of the relative decline in income from exported raw oil, and a decrease in the development budget and restrictions on the transfer of foreign currency abroad.

Table 4. Contribution of the Labour Force in Economic Sectors during the 1970-2004

(Thousands)

Eco. Sector Year	Oil and Natural Gas		Agricultural		Manufacturing Industry		Other Sectors		All Sectors	
	volume	%	volume	%	volume	%	Volume	%	volume	%
1970	10.0	2.3	126.0	29.1	20.4	4.7	277.1	63.9	433.5	100
1975	10.7	1.6	133.4	19.7	32.9	4.9	500.1	73.9	677.1	100
1980	13.7	1.7	153.4	18.9	58.0	7.1	587.7	72.3	812.8	100
1985	14.0	1.6	177.0	19.8	75.0	8.4	629.0	70.3	895.0	100
1990	16.9	1.7	188.9	18.5	99.4	9.8	713.4	70.0	1,018.6	100
1995	19.8	1.7	212.7	17.9	124.5	10.5	829.5	69.9	1,186.5	100
1999	38.7	2.9	232.0	16.8	163.7	11.8	949.4	68.6	1,383.8	100
2000	39.9	2.8	239.1	16.5	169.6	11.7	996.4	68.9	1,445.0	100
2004	43.9	2.7	113.4	7.1	188.8	11.8	1,253.9	78.4	1,600.0	100

Source: General planning council, economic and social indicators (1962-2000); IMF (2006).

Table 5 also presents the contribution of employment (Libyan and non-Libyan) to all economic sectors during the period 1999-2004.

Table 5. Contribution of Employment during the 1999-2004

(Thousands)

All Sectors	1999	2000	2001	2004
Total employment	1,383.8	1,445.0	1,458.4	1,600.0
<i>of which:</i>				
Libyans	1,203.9	1,257.1	1,335.4	1,543.1
Non-Libyans	179.9	187.9	123.0	56.9
Growth rates, in per cent				
Memorandum items:				
<i>Total employment</i>	4.5	4.4	0.9	9.7
<i>of which:</i>				
Libyans	4.5	4.4	6.2	15.6
Non-Libyans	4.5	4.4	-34.5	-53.7

Source: IMF (2006).

Although efforts have been made by the private sector regarding the labour force, it is still incapable of solving the unemployment issue. The reason for this is restrictions imposed on its activities by the government. Unemployment rates increased from 5.4 *per cent* in 1998 to 10.4 *per cent* in 2001. Table 6 displays unemployment rates from 1998 to 2001 as indicated by the Secretary of the GPC at the labour force conference held in Tripoli in May 2004. He stated that there is unemployment within the Libyan economic representing more than 30 *per cent* of the labour force.

Table 6. Percentage of Unemployment during the 1998-2001

(Thousands)

Year	Labour force	Registered as Job Seekers	Unemployment Rate (per cent)
1998	1,000,685	54,527	5.4
1999	1,045,566	95,133	9.1
2000	1,079,768	85,537	9.7
2001	1,116,002	115,475	10.4

Source: GPC (2004).

3.4 Capital Structure

Capital structure is the primary constant driver of industrial development; therefore, additional funds were employed in transforming the industrial sector during 3 and 5-year development plans, along with transformation of budgets. Table 7 shows the contribution of capital structure to the Libyan economy. The following can be depicted:

- Total real fixed capital structure in transforming industries reached around 157,767 million LYD during the period 1970-2005. Fixed investments reached 13.8 per cent of the total real capital structure in the economy equivalent to 123,388 million LYD.
- Increased fixed capital during the preparation period of developmental plans from 789 million LYD in 1970 to 8,265 million LYD at the end of the first 3-year plan 1973-1975. This then increased to 14,448 million LYD at the end of the first 5-year plan 1976-1980. Finally, it increased to its highest level at the beginning of the second 5-year plan 1981-1985, reaching 16,195 million LYD in 1981. It started falling due to decrease in oil returns during this period; this can also be attributed to ceasing developmental plans and depending on current budgets from 1985 to 2000.
- The increase in investment expenditure resulting in the expansion of transforming industries' contribution to real GDP in this sector rose from 779 million LYD in 1970 to 6,928 million LYD in 2005.

Although, from the previous discussion, the industrial sector increase almost multiplied tenfold its contribution to the GDP from 1970 to 2005 it did not exceed 45 *per cent*, which is considered as a low figure and does not match its share in the real capital structure. This minor contribution is due to several factors, some of which are problems caused by lack of spare parts, raw materials, expertise, and low

average real individual income.

Table 7. Contribution of Capital Structure during the period 1970-2005

(Millions LYD, price index of 1997)

Year	Transformational Industry sector	All Sectors	Ratio of Transformational Industry Sector to the Total Sectors (<i>per cent</i>)
1970	789	20,395	3.9
1975	8,265	71,748	11.5
1980	14,448	92,822	15.6
1981	16,195	86,378	18.8
1985	4,596	33,293	13.8
1990	557	15,514	3.6
1995	1,771	13,641	13.0
1999	856	13,850	6.2
2000	366	19,928	1.8
2005	6,928	26,691	26.0

Source: CBL (1966-2000); CBL 2006.

3.5 Technology

Technology is central to competitiveness in modern business activity with high-performance, lowering of functional costs and enabling efficiency improvements in the financial market to develop new products and produce services more quickly for the consumer (CBL 2004). During 1995 Libya had a capacity of 400,000 lines of telecommunication network. The number of connected telephone lines in 1996 was about 380,000, which resulted in telephone density of 6.79 *per cent* per hundred people (Network Wizards 2004). In addition, during this interval, mobile phone systems became operational and active with limited access and coverage. Since 1997 Libyan Telecom Technology (LTT) was the first company launched nationally to commence working on the project of communications and information technology with the result that the entire telecommunication system was modernised offering high-quality service to people. In 1999 the internet was used by fewer than 300 users; this has increased in number gradually with good customer service.

In general, Libya contains the lowest percentage of internet users compared with other Arab nations. Table 8 indicates the estimated number of internet users in 2007, and the total percentage of users in the country. Libya's growth rate of 1,950.0 *per cent* in internet use is high compared to other Arab countries (see Table 8 and Figure 4). This indicates the alteration in the country's development of internet and technology infrastructure.

Table 8. The Contribution of Technology Communication Usage in Selected Arab Countries

Country	Population (2007 Est.)	Internet Users Dec.2000	Internet Users 2007	Population (Penetration) Percentage	Percentage of Users	Use growth (2000-2007) Percentage
Libya	6,293,910	10,000	205,000	3.3	0.6	1,950.0
Egypt	72,478,498	450,000	5,000,000	6.9	15.3	1,011.1
Tunisia	10,342,253	100,000	953,000	9.2	2.9	853.8
Jordan	5,375,307	127,300	629,500	11.7	3.2	394.5
Kuwait	2,730,603	150,000	700,000	25.6	3.6	366.7
Saudi Arabia	24,069,943	200,000	2,540,000	10.6	13.1	1,170.0
UAE	3,981,978	735,000	1,397,200	35.1	7.2	90.1

Source: Internet World Stats (2007).

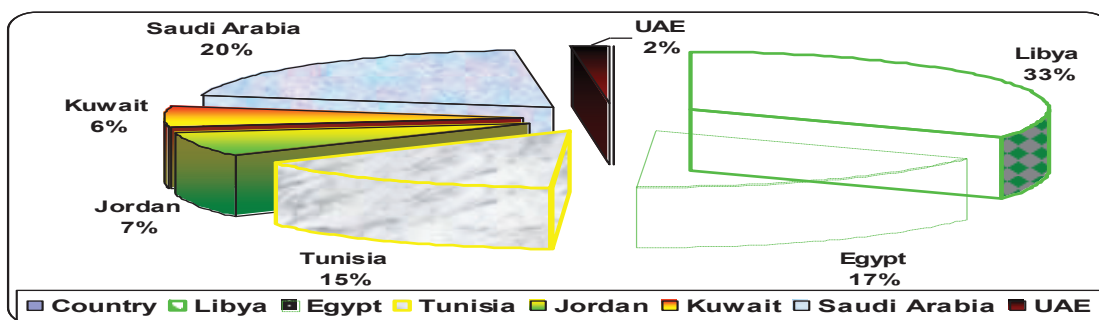


Figure 4. Internet usage Growth Rate (*per cent*) in Arab Countries during 2000-2007

Source: Developed for this study from Table 8.

The wide use information and communication technology considered to be fundamental within a society because, without them, the complexity of existing information systems and technology innovation would not be effective in the regional areas of business.

3.6 Competitiveness and Productivity

Competitiveness, as defined by Porter and Chairman (2006:19-20) is, “*a country’s share of world markets for its products [...] it treats the ability to sell on world markets as an end goal instead of a tool to active prosperity. Exports are based on low wages or a cheap currency*”. The previous discussion suggests that periods with the highest growth rates in the first oil period of 1962-1969 was a consequence economic competitiveness, but growth rates during the oil price shock period of 1970-1982 were relatively slow. Negative and lower growth rates during that period reflect an era of political instability and poor adjustment to reversal of the boom oil conditions. Rapid growth rates during the period of 1962-1969 were mainly attributable to constant growth in the contribution of factor input, where technical changes seemed insignificant.

Despite relative stability in the general level of prices in the value of the national currency, the Libyan economy suffers from low productivity in non-oil sectors of agriculture and industry as estimated by the World Bank in 2004 (-2 *per cent*). Low productivity standards in all economic activities outside the oil and gas sector, consequently weak, also meet competitiveness of the national economy in these sectors. For Total Factor Productivity growth (TFP) estimates, homogenous production function with constant returns to scale is used. Factor shares are utilised as weights upon the assumption that factor suppleness is represented by factor shares. The results provided in Table 9 illustrate that TFP was negative during the pre-oil boom over the period 1969-1972. This negative value can be explained by production disruption of the political changes associated with the Libyan revolution. During the recovery period of output growth was largely credited to the inputs of factors in which TFP was negative over the post 1991-2006 period. The negative value for this period can be explained by both production disruption and moderate growth rates of factor inputs. On the whole, the increase in productivity in Libya seems insignificant during the recovery period despite Libya’s access to imported technology. Failure of productivity growth can be explained partly by the economy’s limited absorptive activity and partly by failure to obtain the most suitable technology.

Table 9. Contribution of Factor Output and TFP Growth in the Libyan Economy during the 1969-2000

Years	Growth in Output	Contribution of		TFP
		Labour	Capital	
1969-1972	10.5	19.3	5.3	-14.1
1973-1982	15.9	13.6	10.9	-8.6
1983-1990	-1.0	-1.8	5.3	-4.5
1991-2000	8.8	9.0	7.9	-8.1
2001-2006	7.6	8.1	5.8	-6.2

Source: National Authority Information and Documentation (1975) and CBL 2007.

The significance of measuring productivity and efficiency level helps to increase the effectiveness of the industry, where production of output can be increased and of better quality, using equal or fewer resources or inputs. While such an introduction affecting long-term TFP growth depends on factors of the current level of human capital, it may increase investment and, therefore, output growth as well (Baier *et al.* 2004). Use the accounting of growth in economic history and consolidated the big two messages that were certainly not understandable when Solow (1957) appeared. The first changes, the famous and long-term technology such as the invention of the steam engine raise the growth rate of labour productivity significantly only with a big difference. Secondly, the idea quit propagated by Rostow (1960, 1963) is seriously misleading as a description of the transition to modern economic growth in the old industrial economies.

4. Conclusion

Given what has been said in previous discussion about Libya's unique position as a country with much to offered economic reform and the role of accounting framework in economic growth, and enable reader to understand a global destination that very little known, either geographically, sociologically, politically or economically. This study will considered as a step towards the theoretical and empirical building of framework methods will provide a significant contribution to knowledge to understanding of Libya's economic reform and the case for accounting growth. The review of the literature in this study has revealed gaps and the need for more empirical studies to be conducted as therefore, this study has given more intention to extents the empirical work will conducted in this study and fills some of the gaps in the literature of Libyan economy in piratical and other developing nations in general. Nevertheless, this study can be described as a significant exploratory study that includes crucial issues which need to be barriers to understanding or a temptation/ requirement to judge some practices as 'better' than others for economic reform effective approach and implement successful accounting performance and economic growth.

Overall, Libya still has some way to go with its macro-economic situation such as: a high rate of unemployment, low rate of domestic saving and low ratio of investment to GDP including key governance indicators: regulatory and corruption. Competition law additionally did not exist in the market. The IMF's Executive Board (2005: 68) stated it, "*welcomed the authorities' increased reform efforts but noted that much needs to be done to transform the country into a market economy [...] In the short run, policies should focus on developing market-based monetary instruments, restructuring the banking system, liberalising prices, strengthening budgetary management and procedures, and reforming the subsidy system [...] A prudent medium-term fiscal framework would help reduce the large non-oil deficit by strengthening the non-oil tax base, including reducing tax exemptions and streaming spending. The authorities should also move toward greater budget transparency and consolidate in the budget all extra budgetary operations.*" The Libyan government should evidently improve all the aforementioned areas for action to provide a healthy business environment and develop economic growth, including data-bank of works. The country's legislation needs to develop too. Further, at the micro-economic level, skills and physical infrastructure require improvement. Customer demand is limited at present.

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