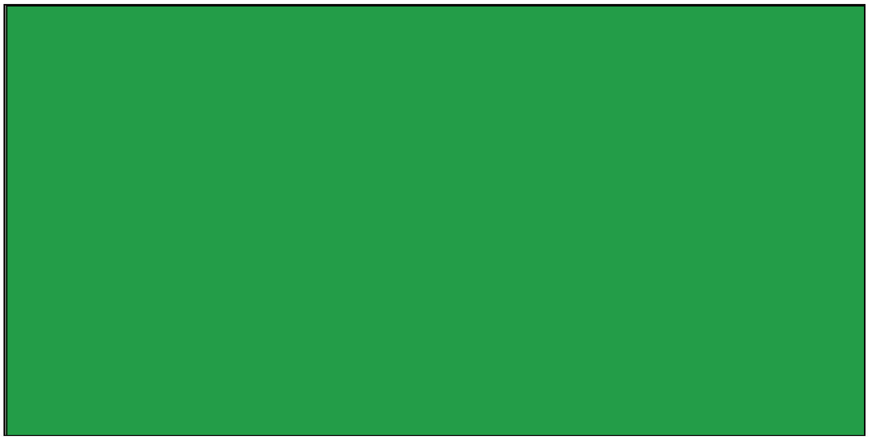
Rabobank

Country update **LIBYA**



Summary

Last February, protests against the Libyan leader Muammar Qaddafi spiralled into a civil war between Qaddafi's security forces and supporters of the interim Transitional National Council (TNC) that seek to topple Qaddafi's regime, as well as NATO forces siding with the TNC. The conflict has killed thousands and has crippled the Libyan economy. Oil production has come to an abrupt halt, as have oil exports, while a nation-wide credit squeeze forced banks to close their doors. In addition, foreign investors pulled out and diplomats and tourists fled the country. Although NATO countries are ready to negotiate their way out of this war, the TNC is unlikely to accept any deal that allows Qaddafi to stay in the country. The consequent deadlock is likely to protract for some time, further obstructing economic activity. On a brighter note, once the conflict is settled, Libyans hold both the economic (i.e. oil revenues) and human resources needed to revive their economy.

Things to watch:

- Outcome of the civil war
- Economic recovery once peace is restored

Author: **Anouk Ruhaak**
Country Risk Research
Economic Research Department
Rabobank Nederland

Contact details: P.O.Box 17100, 3500 HG Utrecht, The Netherlands
+31-(0)30-21-64860
A.N.Ruhaak@rn.rabobank.nl

Libya

National facts		
Type of government	Socialist People's Republic	
Capital	Tripoli	
Surface area (thousand sq km)	1,760	
Population (millions)	6.4	
Main languages	Arabic and Berber (97%)	
	Italian and English	
Main religions	Sunni Muslim (97%)	
	Other (3%)	
Head of State (president)	Muammar Qadhafi	
Head of Government (prime-minister)	Baghdadi al-Mahmudi	
Monetary unit	LYD (Libyan dinar)	
Economy		2010
Economic size	*bn USD*	*% world total*
Nominal GDP	79	0.13
Nominal GDP at PPP	123	0.17
Export value of goods and services	47	0.25
IMF quotum (in mln SDR)	1124	0.52
Economic structure	*2010*	*5-year av.*
Real GDP growth	3.3	4.7
Industry (% of GDP)	62	76
Services (% of GDP)	35	22
Agriculture (% of GDP)	3	2
Standards of living	*USD*	*% world av.*
Nominal GDP per head	12096	123
Nominal GDP per head at PPP	18807	160
Real GDP per head	8994	113

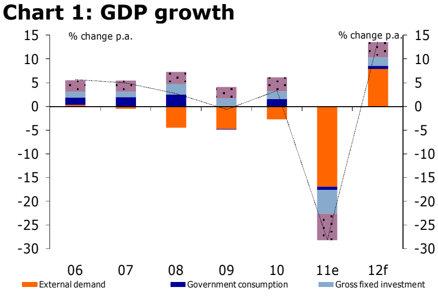
Social and governance indicators			rank / total
Human Development Index (rank)			53 / 169
Ease of doing business (rank)			n.a. / 183
Economic freedom index (rank)			173 / 179
Corruption perceptions index (rank)			146 / 178
Press freedom index (rank)			160 / 178
Gini index (income distribution)			n.a.
Population below $1.25 a day (PPP)			n.a.
Foreign trade			2010
Main export partners (%)		*Main import partners (%)*	
Italy	37	Italy	17
Germany	8	China	10
France	8	Germany	9
Spain	8	Turkey	5
Main export products (%)			
Hydrocarbon products (% share)			97
Main import products (%)			2006
Machinery & transport equipment (% share)			49
Foodstuffs & livestock (% share)			13
Miscellaneous products (% share)			7
Chemical materials (% share)			7
Openness of the economy			2009
Export value of G&S (% of GDP)			59
Import value of G&S (% of GDP)			38
Inward FDI (% of GDP)			3.1

Source: EIU, CIA World Factbook, UN, Heritage Foundation, Transparency International, Reporters Without Borders, World Bank.

Introduction and update

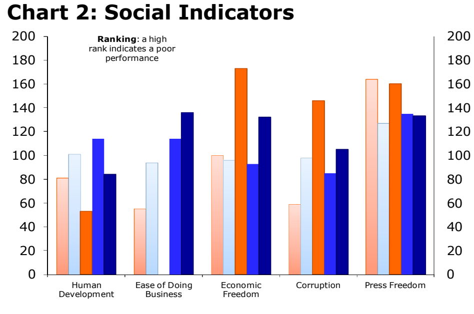
Enormous oil wealth could not guarantee political stability in 60-year-old Libya, as social unrest snowballed into civil war last February. Protestors demanded a change of leadership and a chance to develop the country's economic and political system. However, Qaddafi's refusal to step down resulted in a conflict that has crippled the Libyan economy. Oil production has come to an abrupt halt, as have oil exports, while a nation-wide credit squeeze forced banks to close their doors. In addition, foreign investors pulled out and diplomats and tourists fled the country. Finally, the war and international sanctions are obstructing imports, causing food shortages and inflated commodity prices domestically. The outcome of the war will depend on the ability of Qaddafi and the Transitional National Council (TNC) to ensure the loyalty of their armies, and on the NATO's willingness to continue to support the TNC's rebel army.

Chart 1: GDP growth



Source: EIU

Chart 2: Social Indicators



Ranking, a higher score implies a worse performance. Source: See factsheet above

Nonetheless, it is highly likely that Qaddafi and his regime will eventually be toppled. What will happen to the country once Qaddafi is gone is much less clear. Many questions remain; Will the country fall apart? Will the different tribes find a way to work together? Will a new Qaddafi arise? One thing is certain: the road to political, social and economic stability will be a bumpy one.

Fearless and ready for change

It took surprisingly little persuasion to mobilize Libya's population. Inspired by the events in Egypt and Libya, Libyans took to the street to protest against Qaddafi's cultivated persona, his repressing regime, a widespread practice of nepotism, rampant corruption, unemployment and housing shortages. Anti-Qaddafi sentiments were further fuelled by the fact that Qaddafi had squandered the oil revenues that, in the eyes of many Libyans, could have turned Libya into another Dubai. The protests started in Libya's eastern and second-largest city Benghazi. Once the genie was out of the bottle it could not be put back in. Protests quickly spread to other parts of the country, while Qaddafi's appalling efforts to beat down the protests only led to the mobilization of more protesters.

However, despite their tremendous will power, the opposition initially stood little chance against Qaddafi's armed forces. Over the last 30 years, Qaddafi has build a complex and fragmented political system, the Jamahiriya. In theory, the Jamahiriya is based on an anti-capitalist ideal for a society that includes all. In reality, it has become a bureaucratic framework for uncontrolled power. Especially the fact that Qaddafi never assigned himself an official title and therefore has never been part of the political apparatus (but instead calls himself the 'Leader of the Revolution') has added to his power. It has placed him in a position to pass orders without being held accountable. Unfortunately, the effectiveness of this system in repressing social unrest would have ensured a rapid defeat of the opposition by Qaddafi's special security force, were it not for the involvement of the UN and later NATO.

One month after the start of the riots, the international community, and especially France, became increasingly concerned about the human rights abuses (e.g. the alleged bombing of civilians) performed by Qaddafi's forces. Moreover, the fact that Libya is endowed with the world's seventh largest oil reserve may have caused further unease. This is why, in March 2011, the UN Security Council agreed to enforce a no-fly zone over Libya, safeguarding the opposition from Qaddafi's air force. The UN mission was subsequently handed over to NATO. Instead of merely enforcing the no-fly zone, NATO actively attacked various Qaddafi-owned targets, killing his youngest son and other family members.

Aside from military support, Western countries also provided the rebels with political and economic support. A couple of dozen countries, including France, the US and the UK, were quick to recognize the rebels, by that time semi-organized into the Transitional National Council, as the official representatives of the Libyan people. In addition, they are further aiding the rebel council through the provision of loans and grants.

With NATO help the rebels regained control over large parts of the country. However, the matching strength of Qaddafi's security forces and the NATO-backed opposition has created a deadlock that is expected to endure for some time. The deadlock effectively splits the country in two. The rebels control most of the eastern heartlands and western mountains, while Qaddafi is still in control of most of the southern region, including the capital Tripoli.

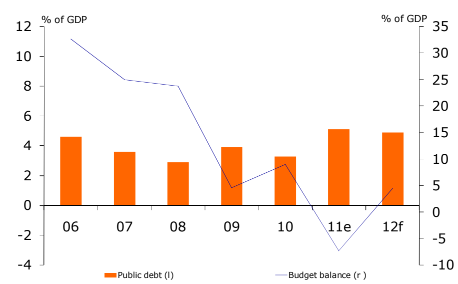
Meanwhile, NATO members are increasingly concerned about the costs of the war, as fiscal problems at home render it politically and economically difficult to defend their costly involvement in Libya. In addition, the fact that the war has already caused a large number of civilian deaths is putting further pressure on Western forces to seek a "political" solution. Thus, international pressure to negotiate a way out of the war is gaining momentum. However, despite various diplomatic efforts, Qaddafi has not shown any interest in leaving the country. He is willing to hand over power in return for protection and the opportunity to stay in the country and is demanding his son should be allowed to participate in upcoming elections. For the opposition such a deal is unacceptable. The consequent deadlock is likely to endure for some time. Nonetheless, one way or another, it seems extremely unlikely that Qaddafi will be allowed to stay in power. Instead, we expect that power will be handed over to the TNC at some point in time.

From conflict to prosperity?

As the situation depicted above gives little reason for optimism, we expect further conflict and further economic distress in the immediate future. However, in the medium term, Libya's prospects are more upbeat. Any new government stands to inherit a country with enormous economic potential and the resources needed to swiftly rebuild the economy.

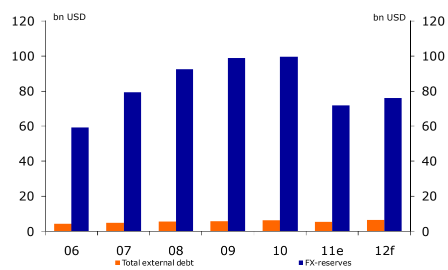
First of all, the country is endowed with the world's seventh-largest confirmed oil reserve. In normal years, the oil sector accounts for upwards of 50% of GDP and 75% of public revenue. The inflow of oil revenues has contributed to the country's wealth: with a real GDP per capita of USD 8,994 (2010), Libya is considered the richest country in North Africa. Moreover, oil revenues also kept both external and public debt levels below 10% of GDP, while boosting foreign exchange reserves, which in 2010 covered roughly 40 months of imports. Once the crisis is resolved we expect the damaged oil installations can and will be easily rebooted, enabling the country to rapidly generate an income. Secondly, Libya's work force is relatively educated, as indicated by the country's high ranking on the Human development index (53rd out of 169 countries) and the country's high literacy rate of around 95%. This bodes well for the future, since a skilled work force is well equipped to rebuild the economy and jump start economic growth.

Chart 3: Public finances



Source: EIU

Chart 4: FX-Reserves and external debt



Source: EIU

Thirdly, if Qaddafi is indeed overturned, a new government would get a chance to create new political institutions from the ground up. This situation holds certain benefits over that in for instance Egypt, where relics of the old regime are proving hard to remove and real change seems unlikely. In contrast, Libyans the opportunity to fully shape their own political future. Nonetheless, doing so may proof difficult. A new government will not only inherit economic wealth, but also a deeply divided country. Libya is made up of three distinct regions, as well as roughly 140 tribes. While in the Eastern region anti-Qaddafi sentiments are particularly strong, in other parts of the country there are still many tribes loyal to Qaddafi. Overcoming these division and Libya's long-standing experience with nepotism could proof difficult. In addition to building inclusive political institutions, a new government will also have to address the issues raised during the protests. These include complaints over the country's high unemployment rate, housing shortages and the lack of social development.

Libya

Selection of economic indicators	2006	2007	2008	2009	2010	2011e	2012f
Key country risk indicators							
GDP (% real change pa)	5.6	5.0	2.7	-0.7	3.3	-28.2	13.6
Consumer prices (average % change pa)	1.8	6.3	10.4	2.4	2.5	6.1	5.2
Current account balance (% of GDP)	39.9	38.9	37.5	13.6	20.4	-11.4	4.6
Total foreign exchange reserves (mln USD)	59289	79405	92313	98725	99645	71790	76100
Economic growth							
GDP (% real change pa)	5.6	5.0	2.7	-0.7	3.3	-28.2	13.6
Gross fixed investment (% real change pa)	8.5	7.5	13.1	9.0	8.6	-24.0	8.0
Private consumption (real % change pa)	3.9	3.8	4.2	4.1	4.4	-8.5	3.8
Government consumption (% real change pa)	8.5	10.5	13.0	-0.4	7.0	-3.2	2.4
Exports of G&S (% real change pa)	8.6	6.3	-7.0	-12.0	0.1	-83.0	172.7
Imports of G&S (% real change pa)	8.5	9.0	8.2	4.5	8.6	-10.5	5.0
Economic policy							
Budget balance (% of GDP)	32.7	24.9	23.7	4.6	9.0	-7.3	4.5
Public debt (% of GDP)	5	4	3	4	3	5	5
Money market interest rate (%)	4.0	4.0	4.0	5.0	5.0	5.0	5.5
M2 growth (% change pa)	14	38	49	17	-1	-21	20
Consumer prices (average % change pa)	1.8	6.3	10.4	2.4	2.5	6.1	5.2
Exchange rate LCU to USD (average)	1.3	1.3	1.2	1.3	1.3	1.2	1.2
Recorded unemployment (%)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Balance of payments (mln USD)							
Current account balance	23884	28511	35702	9381	16158	-5880	3030
Trade balance	25968	29269	40292	15053	21664	-5200	4100
Export value of goods	39187	46970	61950	37055	46310	8840	22360
Import value of goods	13219	17701	21658	22002	24647	14050	18260
Services balance	-2075	-2556	-4136	-4678	-4698	-430	-880
Income balance	-595	2017	586	578	737	150	360
Transfer balance	586	-219	-1040	-1572	-1545	-400	-550
Net direct investment flows	1590	756	-1777	546	1083	-160	260
Net portfolio investment flows	-5198	-1440	-10964	-1722	-2583	-260	-400
Change in international reserves	19781	20116	12909	6412	920	-27850	4310
External position (mln USD)							
Total foreign debt	4456	4957	5607	5884	6386	5280	6480
Short-term debt	1652	2213	2707	2750	3081	1700	2300
Total debt service due, incl. short-term debt	2492	2824	3462	4034	4359	4770	3450
Total foreign exchange reserves	59289	79405	92313	98725	99645	71790	76100
Key ratios for balance of payments, external solvency and external liquidity							
Trade balance (% of GDP)	43.3	39.9	42.3	21.9	27.4	-10.1	6.2
Current account balance (% of GDP)	39.9	38.9	37.5	13.6	20.4	-11.4	4.6
Inward FDI (% of GDP)	3.4	6.4	4.3	2.5	3.1	0.2	0.9
Foreign debt (% of GDP)	7	7	6	9	8	10	10
Foreign debt (% of XGSIT)	10	9	8	15	13	55	28
Debt service ratio (% of XGSIT)	6	5	5	10	9	50	15
Interest service ratio incl. arrears (% of XGSIT)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
FX-reserves import cover (months)	30.0	34.9	36.6	40.9	39.8	82.1	44.7
FX-reserves debt service cover (%)	2379	2811	2667	2448	2286	1505	2204
Liquidity ratio	387	432	434	395	406	564	416

Source: EIU