

Libya

Since February 2011, Libya has experienced an escalation of violence which has led the country into an armed conflict and has essentially split it into government-controlled and rebel-held areas. The recent political upheaval is likely to cause Gross Domestic Product (GDP) to face a double-digit recession after a decade of high growth culminating in an increase of 7.4% in 2010.

While uncertainties persist over how long the conflict will last, its oil endowment and international attention to Libya are likely to ensure a relatively fast recovery once the conflict is over. Before the conflict the country had made major strides towards improving the business environment but private sector activity and investor confidence have been disrupted by the political unrest.

Emerging economies had shown more interest in Libya, with Turkey and China as the most important partners among this group of countries.

After the anti-government protests of 17 February, the so called “Day of Rage”, Libya has experienced an escalation of violence which has led the country into an armed conflict which persists at present and which has seen the country effectively split between government-controlled areas in the west and areas controlled by anti-government forces in the east. The latter is backed by an international coalition which is enforcing a no-fly zone to protect from pro-Gaddafi forces.

The country is likely to pay a high price for the conflict, which has effectively paralysed the economy and led to a near halt of Libya’s oil production. With considerable oil revenues, a relatively small population and redistributive policies including an extensive social welfare system and subsidies for basic goods, Libya was enjoying the third highest Gross National Income (GNI) per capita and the highest human development index (HDI) in Africa. In 2010 the country was also enjoying a robust growth of around 7.4% and exhibited a high growth trajectory until the conflict erupted. The government had announced plans to increase oil production capacity to 2.5 million barrels per day (bpd) by 2015, but oil production and sales have been almost brought to a halt by the political unrest. At the time of writing this report, and despite the persistence of uncertainty, GDP is expected to decline by a double digit figure in 2011, but to recover again sharply in 2012, assuming the political situation stabilises.

The Libyan crisis has also already spilled over its borders and severely affected some African countries, in particular through humanitarian crises on neighbouring countries’ frontiers, the loss of remittances from millions of African migrants working in Libya and through the freezing of Libyan assets worldwide. While the global market loss of Libyan oil production has been offset by the increase in supply by other oil producers, risk premiums and associated high prices are likely to persist.

On the security and political front, there is no clear indication of either the duration or the outcome of the crisis. At the time of writing, the Libyan National Council, the self-proclaimed authority in the rebel-area in the eastern part of the country was increasingly recognised as the legitimate authority for the country, while defections in government ranks and diplomatic representations have significantly weakened Gaddafi’s hold on power. The crisis came at a time when Libya was pursuing economic liberalisation which was often accompanied by a gradual opening up of the political system. However, progress in this direction was mixed and many sections of society grew increasingly dissatisfied. Events unfolding in Tunisia and Egypt in the wake of their respective revolutions gave people confidence that a regime change was possible, unleashing a wave of protests and political upheaval.

On the human development front, the population is likely to suffer significantly from the impact of the conflict. Before the unrest, Libya was expected to achieve all the Millennium Development Goals (MDGs) within the 2015 timeframe. Although the state provided free universal health care and education to its citizens, the main challenge was to improve the quality of both. The pressing social challenges included the need to tackle high youth unemployment, to strengthen efforts to conserve Libya’s delicate environment and limited natural resources, to encourage women’s economic and social participation, and to manage irregular migration. Such challenges are likely to be even further exacerbated by the conflict.

The European Union (EU) remains Libya’s largest trading partner. But economic relations between Libya and emerging economies, notably China and Turkey, were expanding rapidly. These economic partners were particularly prominent in the fast-growing expanding construction sector as foreign construction firms have been contracted to carry-out the country’s large public infrastructure projects. Foreign Direct Investment (FDI) is still

limited, with a few exceptions in the oil sector. Libya was increasingly positioning itself as a “gateway to Africa”, an image that appeals to the wishes of Turkey and China to strengthen their economic foothold on the continent. It was also keen on using its partnerships with emerging economies to strengthen its negotiating power vis-à-vis its traditional partners. Future relationships may be further adjusted depending on the outcome of the conflict and the respective role countries would play in support of either party, with the highest dividend possibly being assigned to (or taken away from) France and the UK which have been the front-runners in supporting the no-fly zone and the rebels. By contrast China and Russia have played a much more cautious role and often criticised the military intervention.

Table 1: Macroeconomic indicators

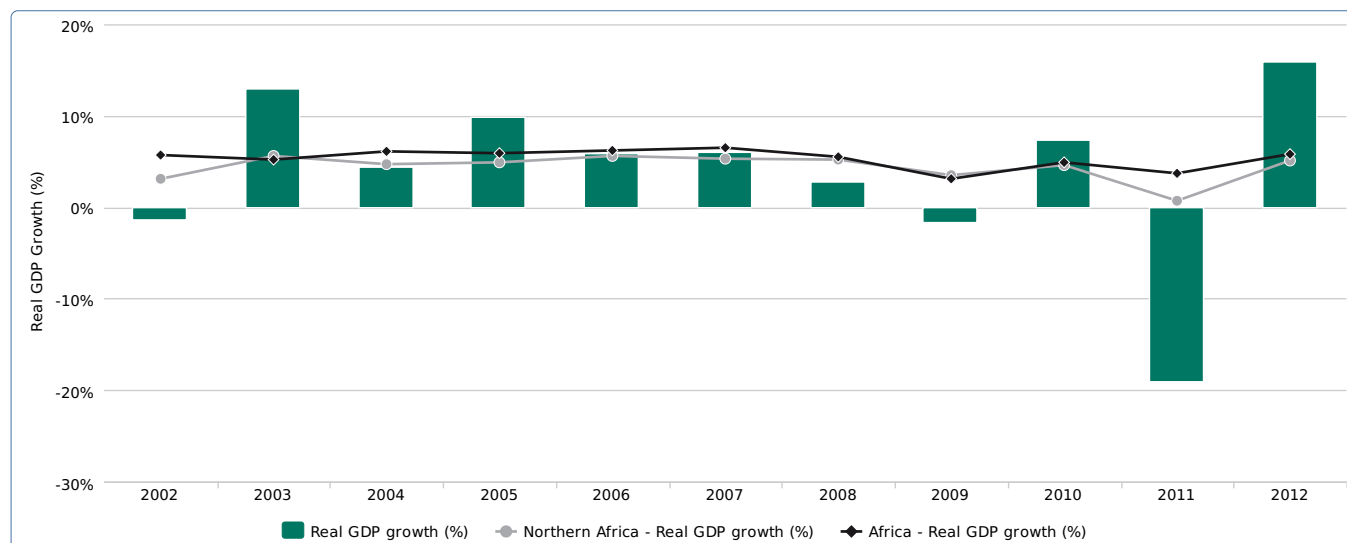
	2009	2010	2011	2012
Real GDP growth	-1.6	7.4	-19	16
CPI inflation	2.4	4.7	12.1	5.1
Budget balance % GDP	7.1	20.9	-7.1	6.8
Current account % GDP	18.5	28.4	13.7	22.7

Source: National authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Figure 1: Real GDP growth (N)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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