

C O U N T R Y B R I E F



Middle East & North Africa - Libya

The Libyan economy is largely dominated by the hydrocarbons sector, which accounts for more than 70 percent of GDP, about 97 percent of foreign exchange earnings and 90 percent of government revenue. Gross national income per capita increased from USD 5,870 in 2005 to 9,620 in 2008. Life expectancy at birth is 74 years. Libya boasts some of the highest literacy rates in North Africa (estimated at around 84 percent) and has made substantial improvements in the past two decades, cutting female youth illiteracy from 39 percent in 1980 to 4 percent in 2007. Unemployment, however, is estimated at at least 30 percent and it affects particularly the young. Despite massive investment in agriculture and non-petroleum-related industry, the percentage of Libya's GDP derived from oil has remained fairly constant and economic diversification is therefore an important challenge for Libya's sustainable development. The Government has shared with the Bank its plans to pursue diversification by strengthening the financial sector to create a regional hub. Recently, water shortages are another critical challenge in the country and have led to an ambitious project of water redistribution, the Great Man-made River, launched in 1984 and completed in 2007.

A major political reform of the State was launched in March 2008, involving fundamental changes in its economic and institutional organization. The reform intends to ensure better transfer of oil wealth to the population in order to improve living standards. A new administrative structure of the State is also being put in place and oil rents directly distributed to the population through a Wealth Distribution Program (the WDP program has been postponed until its implications for inflation and the provision of basic public services are better understood-- i.e. should be limited in scope and replace existing subsidies with more efficient well-targeted transfers), this is consistent with the authorities' policy to rationalize public investment. Civil service is expected to continue downsizing while private sector would be given a greater role. Efforts to create a local private sector and to attract more international investors into the non-oil economy are underway with a focus on improving the administrative and legal business environment. Decision has been made in early March 2009, however, to delay implementation of this plan, given the challenges that it presents. These complex reforms involve critical areas including fiscal administration, civil service, public financial management, subsidy rationalization, trade, private sector participation in service delivery, privatization of state banks and international capitalization of local commercial banks, diversification of sources of energy.

In parallel to its efforts to open its economy to the rest of the world and foster trade integration, Libya has also taken up one of the rotating seats in the 15-member UN Security Council. Last February 4, Gaddafi was elected as chairman of the African Union.

Economic Developments

In 2008, the rate of growth was 7%, as renewed dynamism continues within the hydrocarbon and other sectors. The oil windfall has allowed authorities to preserve sound fiscal and external balances. The fiscal surplus reached 26 % of GDP and the current account surplus reached 34 % of GDP. As lower oil prices appear in 2009, lower surpluses are expected. However, in a phenomenon similar to its neighbors, inflation is running higher than its historical rates, averaging two digits (it rose to almost 11% in 2008). The inflationary surge is associated to imported food prices, higher public salaries, and the large investment program. In response, authorities are containing public expenditure and sterilizing excess

liquidity and inflation was on decline end-last year. While more recent figures are not available, inflation is likely to have receded in the first semester of 2009, following global trends.

Privatization efforts have continued in 2008, albeit at a slow pace. Two of five state owned banks have been merged, and an additional bank was sold to foreign investors in 2008, another having been sold in 2007. Financial depth remains shallow in the country and in only the developing stages. The Libyan Investment Authority (LIA) issued a decree in March 2008, which takes into account several IMF recommendations on integrating the LIA with the budget and increasing transparency. The Gulf Corporation Council (GCC) country investors continue to show interest in investing in Libya, including in sectors outside of hydrocarbons. Trade and foreign relations are improving with the West and should stimulate further interest in international investment in the country. The country is also taking decisive steps to request WTO membership with Bank support.

World Bank Group Activities

After UN sanctions were lifted on Libya (2003), the World Bank re-engaged with the country and produced a Country Economic Memorandum (CEM) in 2005-2006. This engagement led, in July 2007, to the signing between the Bank and the National Planning Council (NPC) of a Memorandum of Understanding on a Technical Cooperation Agreement (TCA) for a Joint Economic Advisory Program (JEAP) to support Libya's reform process through reimbursable technical assistance and studies. The TCA was initiated with a total budget of \$1 million contributed jointly by the World Bank (25%) and the NPC (75%) and it has been implemented successfully for the past two years with activities including a Public Expenditure Review, technical assistance on Doing Business, Investment Climate Assessment, Trade Facilitation, Statistical Capacity Building, Technical Assistance to the Central Bank, Privatization and WTO accession assistance. In addition, a Reserves Advisory Management Program (RAMP) is ongoing with the Central Bank; a separate IT modernization program was also signed with ISG on a fee for service agreement. The Cooperation Agreement has been renewed at the request of the People's General Secretariat of Planning and Finance and a broader framework of engagement is currently being discussed.

A new Memorandum of Understanding on a Strategic Partnership Program was requested by the Authorities and signed with the Secretary of Planning and Finance in August 2009. The new activities will continue to be implemented under a Reimbursable Technical Assistance Arrangement. The new MoU envisages the opening of a Government-funded World Bank Liaison Office and a Public Information Center in Tripoli and activities extending to Public Sector Reform and Economic Diversification. The new Program builds on the analysis of the Public Expenditure Review (PER), recently completed, prepared in response to the Authorities' request to review their public expenditure management procedures in the context of their sizable Public Investment Plan (PIP) scheduled for 2008-2012. The new MoU is expected to open the dialogue to a strategic engagement, possibly through a Country Partnership Program.

The International Finance Corporation (IFC) currently provides advisory services on the new Leasing Law and Public Private Partnership arrangements and is exploring further opportunities in the country. The IFC is exploring new areas of cooperation with Libya.

All dollar figures are in US dollar equivalents. **September 2009**

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