



Summary

Libya is among the countries with the highest real GDP per capita on the African continent. Its high ranking in the index of human development is very much out of sync with other governance indicators, where Libya scores dismally. Internal stability largely depends on the presence and the will of current leader Colonel Kaddafi, who is in power since a coup in 1969. Lower oil prices represent a social and political risk for the medium term. Internationally, rapprochement politics to the West are still pursued. Economic diversification is considered necessary as Libya fully depends on oil export revenues and most domestically used material goods are imported (including 80% of foods). The government is undertaking modest steps to liberalise and privatise the economy. Libya has historically had a relatively low external debt. Debt is dwarfed when set against official reserves (even excluding the government wealth fund). Debt and liquidity ratios remain very comfortable in 2009. Also Libya's willingness to pay foreign debt has improved as it is regularising its relations with external creditors. Its long-term willingness is however in doubt and the main cause of the relatively low ratings.

Things to watch:

- Preparation of succession of Kaddafi
- Impact of lower oil prices on living standards

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Libya			
National facts		Social and governance indicators	
Type of government	authoritarian state	Human Development Index (rank)	52 / 179
Capital	Tripoli	Ease of doing business (rank)	n.a./ 181
Surface area (thousand sq km)	1,759,540	Economic freedom index (rank)	171 / 179
Population (millions)	6.2	Corruption perceptions index (rank)	152 / 180
Main languages	Berber and Arab (97%)	Press freedom index (rank)	160 / 169
Main religions	Sunni Islam (97%)	Gini index (income distribution)	n.a.
		Population below \$1 per day (PPP)	n.a.
		Foreign trade (2008)	
Head of State (president)	Kaddafi	Main export partners (%)	
Head of Government (prime-minister)	al-MAHMUDI	Main import partners (%)	
Monetary unit	Libyan dinar (LYD)	Italy	41
		Germany	12
		US	7
		Spain	7
		Italy	13
		Germany	5
		China	5
		Tunisia	4
Economy (2008)		Main export products (%)	
Economic size		Main import products (%)	
	<i>bn USD</i>	<i>% world total</i>	
Nominal GDP	68	0.11	Crude oil
Nominal GDP at PPP	103	0.15	
Export value of goods and services	61	0.31	
IMF quota (in mln SDR)	1124	0.52	
Economic structure		Main import products (%)	
	<i>2007</i>	<i>5-year av.</i>	
Real GDP growth	6.3	6.1	Intermediate goods
Agriculture (% of GDP)	2	3	Capital goods
Industry (% of GDP)	71	77	Consumer goods
Services (% of GDP)	27	20	Fuels
Standards of living		Openness of the economy	
	<i>USD</i>	<i>% world av.</i>	
Nominal GDP per head	10768	111	Export value of G&S (% of GDP)
Nominal GDP per head at PPP	16431	148	Import value of G&S (% of GDP)
Real GDP per head	8187	102	Inward FDI (% of GDP)
			3.6

Source: EIU, CIA World factbook, UN, Heritage foundation, Transparency International, Reporters without borders, World Bank.

Economic structure and growth

The Libyan economy depends primarily upon revenues from the oil sector, which contributes virtually all (99%) of merchandise export earnings. The energy sector provides some 70% of GDP and around 90% of public sector revenues. The lower world hydrocarbon prices throughout 2009 will reduce Libyan export revenues and government tax income in 2009. After years of 5% to 6% p.a. of real GDP growth, 2009 and 2010 are likely to be modest with real output growth rates of 3% and just below 5% respectively. Although oil production volumes will stabilise, their (projected) price is so much reduced that the GDP derived from oil exploitation is likely to contract by over 60% in 2009. Overall nominal GDP is estimated to shrink by 45% from USD 68bn in 2008 to USD 37bn in 2009, but -as stated- economic activity in real terms will increase in 2009.

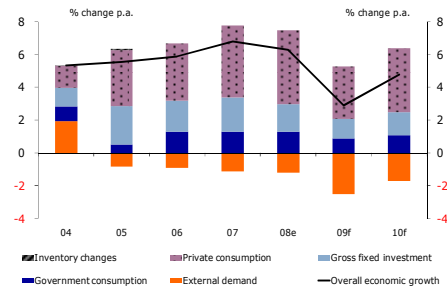
The non-oil manufacturing and construction sectors, which account for more than 20% of GDP, have expanded from processing mostly agricultural products to include the production of petrochemicals, iron, steel, and aluminium. Construction work is reported to show steady growth and attracts hundreds of thousands of irregular immigrants to the country. The government is also actively promoting the legal arrival of skilled labour from places like Sri Lanka; recently a contract for 100,000 temporary labourers was agreed.

Climate conditions and poor soils severely limit agricultural output. Libya's imports are heavily skewed towards basic consumer goods: about 75% of its food is foreign-grown. Libya's primary agricultural water source remains the Great Manmade River Project, but significant resources are being invested in desalination research to meet growing water demands.

Drivers of GDP growth were and will continue to be domestic expenditures. As real import growth exceeds real export growth, the external sector is the only and usual drain on growth. Energy

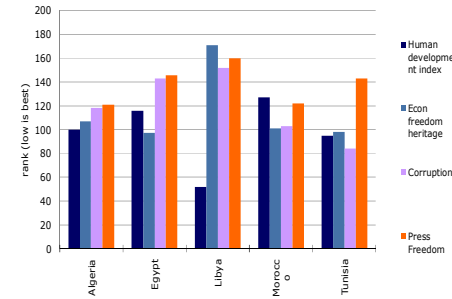
production and export volumes will stabilise in 2009 as world demand is shrinking, but the lower energy prices (see chart 5) imply that merchandise export values may possibly contract to a third of its value of 2008.

Chart 1: Growth performance



Source: EIU

Chart 2: Social and governance indicators in regional perspective



Source: EIU

Political and social situation

Until 1911 Libya was part of the Ottoman Empire, later it fell under Italian rule and gained formal independence only in 1951. A 1969 military coup brought Kaddafi to power; he presented himself as a revolutionary and visionary leader and established his own political system. This is a combination of socialism, Islam and tribal practices and is supposed to be a unique form of direct democracy. This system is now being geared toward 'people's capitalism' with much more emphasis on private initiative and foreign investment than under the previous set-up.

During the 1970s, 1980s and 1990s Libya's oil revenues were suspected to have been used to support terrorism outside Libya. The country was politically and economically isolated from the Western economies by means of international sanctions. These were only fully lifted in 2006 after Libya accepted responsibility and paid indemnities to western states for redistribution to the victims and their relatives. Although diplomatic relations are formalised, there are not many countries with which the Libyan government can claim to share a more than superficial and uneasy friendship.

After almost 40 years in power, President Kaddafi, now 67 years old, is still the sole leader of Libya. In case of his death, a power struggle is likely and civil unrest is possible, as he has no clear successor. Domestic groups and tribes could be able to strive for power. Small domestic Islamist opposition groups have made failed attempts to overthrow the regime in the past.

In terms of international governance scores Libya ranks dismally. Chart 2 shows that although for development indicators (health, education etc) its ranks among the best 25% of approximately 180 countries, it is also placed among the worst performers in terms of corruption, economic and press freedom. Libya is doing worse than its North African neighbours in mentioned respects.

About 90% of the registered population is considered Libyan. Despite an unemployment rate estimated to be around 30%, there are over half a million legal temporary non-local workers employed in the construction and oil sectors. Additionally, an estimated one million illegal immigrants, mainly from sub-Saharan African origin, are waiting to use Libya as a transit station for a better economic future in Europe.

Libya currently has stable relations with its direct neighbours, but also dormant claims to areas in south-eastern Algeria and Niger. Various Chadian rebels reside in southern Libya, but these are effectively not a concern for the authorities.

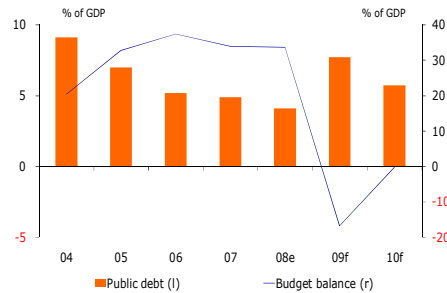
Substantial revenues from the energy sector coupled with a small population (just 6 million inhabitants) give Libya one of the highest levels of per capita GDPs in Africa (2008: USD 10.800 p.a.). However, only a part of this income benefitted the lower ranks of society. Much of it was

stored in reserve funds (or wealth funds). Despite the statistically halving of income per capita in 2009, private consumption will continue growing from its level of nominally USD 3,500 per annum in 2008. The material living standard is about two or three times as high as that in the neighbouring countries.

Economic policy

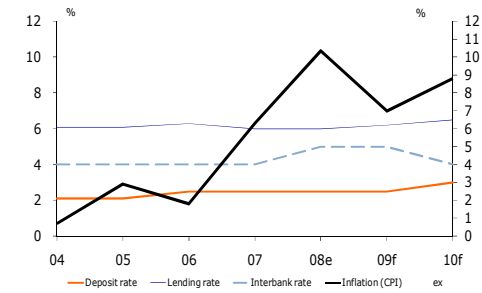
Overall, the government is very dominant in the economic process. However, since the thaw in international relations some ten years ago, Libya made initial steps towards liberalising the socialist-oriented economy. These steps include applying for WTO membership, reducing some subsidies and announcing plans for privatisation. They still represent little more than the groundwork for a transition to a more market-based economy. The privatisation of the banking sector is progressing slowly. Especially state banks are underdeveloped and fragile. Market-oriented financial intermediation is low as the private sector credit is small in terms of GDP (just 10%). A tangible effect of the lifting of international trade and financial sanctions are rise in the foreign direct investment, which came on stream, especially in the energy sector, construction and in tourism along the Mediterranean Sea.

Chart 3: Public finances



Source: EIU

Chart 4: Interest and inflation rates



Source: Ecwin

Fiscal revenues are almost fully derived from oil and gas sales. Thanks to high world energy prices, Libya can increase spending on public sector wages and infrastructure without endangering high fiscal surpluses. Government expenditures may have reached 50% of GDP in 2008. With revenues at over 86% of GDP, the surplus of 2008 reached 35% of GDP, not unlike previous years. However, the current year will show a substantial one-time fiscal deficit of close to 16% of GDP as this year's average oil price will be half as high as in 2008.

Gross public debt is negligible at only 7% of GDP in 2008. The value of the large net public assets are not known but are estimated to amount to several times annual GDP. This 'people's ownership' is posing a problem. A Wealth Distribution Program (WDP) was launched in March 2008 to distribute part of the oil wealth to the population, reduce the size of the government and create a Libyan style of 'people's capitalism'. Disbursements were planned in the form of both cash and shares in projects, but the implementation was overwhelmingly rejected by the local level people's gatherings in February 2009. Also Kaddafi himself now seems to have lost enthusiasm for this (generally considered unworkable) programme and in the light of the leader's change of mind, the overall democratic rejection may have been orchestrated anyway.

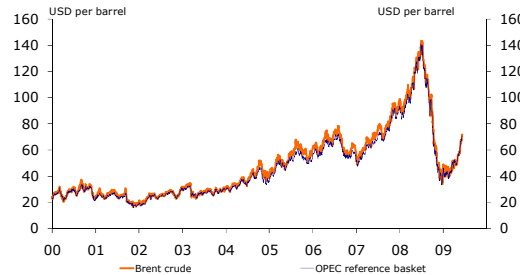
After years of low inflation of 1% to 3 % p.a., consumer prices increased substantially by over 10% in 2008, largely driven by higher food prices and a marked increase in public expenditure. Inflation may decelerate in 2009 and 2010, averaging about 8 percent, as imported inflation will decrease and import taxes are effectively lowered while the currency will remain stable.

Also interest rates remained stable at a low level, despite having become negative in real terms with the rise in inflation since mid-2007. Monetary policy is successful in maintaining the external value of the Dinar. The Libyan dinar is pegged to the artificial IMF currency SDR, which is a basket of leading world currencies. This peg can easily be defended given the huge FX reserves at the central bank that covered by the end of 2008 over 200% of the broad money stock (M2).

Balance of Payments

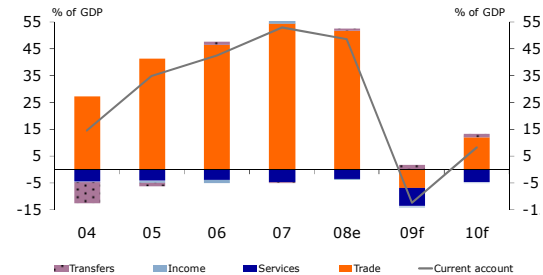
A staggering 99% of exports are oil and gas and imports comprise to a very large extent all that is consumed and invested domestically, since the economy lacks an industrial base. Relative to merchandise trade flows the non-merchandise exports (of services, incomes and transfers/remittances) are of little significance for balance of payments of this the oil-only economy.

Chart 5: Oil prices



Source: EIU

Chart 6: Current account



Source: Ecwin

With energy prices at a much lower level than in 2008, but with consumption and investment still going strong, the trade balance will show a small deficit in 2009. After years of surpluses on the current account in the order of 30% to 50% of GDP, the balance of the current account is likely to be negative (at 6% of GDP) in 2009, the first deficit since the mid-nineties. With oil prices just slightly recovering, the surplus will re-appear in 2010 (see chart 6).

Inward foreign direct investment (FDI) represents around 4% of GDP and a fifth of total gross investment. It is about twice as large as outward FDI. Inward portfolio investment is negligible, but outward flows are substantial. Libya is a growing creditor state, increasingly active on the international financial equity and bond markets. Reported portfolio investment outflows reached around 10% of GDP in 2008.

Despite the structurally large direct and portfolio investment outflows, official reserves have also grown over the years: from USD 14bn in 2001 to USD 92bn in 2008. Chart 8 shows that the growth of the reserves position of Libya will stall in 2009 and 2010, but they still provide sufficient cushion for debt repayments in the years thereafter.

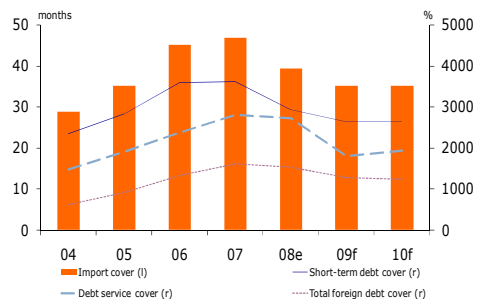
External position

Libya has historically had a relatively low external debt. However, with a great need for investments in infrastructure projects and the lifting of UN sanctions and trade embargos, Libya’s external debt has increased by 50% from USD 4bn in 2004 to USD 6billion in 2008. It may rise further in the coming years as Libya slowly opens up for foreign capital. However, in terms of GDP and export revenues, this steep increase is not worrying. Their levels in 2008 of 9% and 9% respectively are by all means very comfortable. Due to substantially lower nominal GDP and export revenues in 2009, they will roughly double to 16% and 22% respectively, which are still acceptable levels.



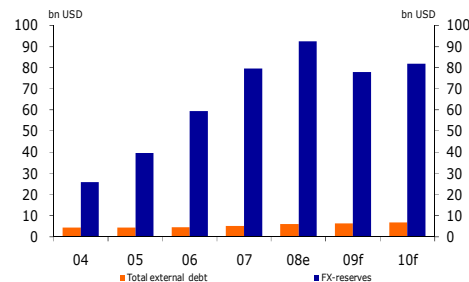
Country report LIBYA

Chart 7: External liquidity



Source: EIU

Chart 8: Debt and reserves



Source: EIU

All medium- and long-term foreign debt (USD 3bn) is to the public sector, there is no data as to the type of creditors (private, official, multilateral) of this debt. Debt service was low at 6% of exports, although rising to a still acceptable 17% of exports in 2009. No arrears are reported.

Libya's ability to honour its external foreign currency obligations is exceptionally strong; foreign exchange reserves reached a level of USD 92bn by the end of 2008 covering 47 months of merchandise imports in 2008. These reserves represented more than two years of gross national income of 2009. Currently, a temporary decline of the reserves is expected to USD 78bn till the end of 2009.

Apart from the abundant official reserves the country has equally abundant oil-based wealth funds. The Libyan Investment Authority (LIA) was established in March 2007 with the mandate to invest its funds abroad on a commercial basis. As a starter, LIA's initial endowments are in the order of \$40-50 billion or roughly a full one year's GDP.

Libya's ability to pay may seem assured, the country's actual willingness to pay in the long run is less convincingly certain, as it depends largely on political developments and relations with Western countries.

Libya	2004	2005	2006	2007	2008e	2009f	2010f
Selection of economic indicators							
<i>Key country risk indicators</i>							
GDP (% real change pa)	5.4	5.6	5.9	6.8	6.3	2.9	4.8
Consumer prices (average % change pa)	0.7	2.9	1.8	6.3	10.4	7.4	8.8
Current account balance (% of GDP)	14.5	34.9	42.4	53.0	48.5	-6.1	12.1
Total foreign exchange reserves (mln USD)	25689	39508	59289	79405	92313	77760	81650
Economic growth							
GDP (% real change pa)	5.4	5.6	5.9	6.8	6.3	2.9	4.8
Gross fixed investment (% real change pa)	8.8	17.6	13.0	13.0	10.0	7.0	8.0
Private consumption (% real change pa)	2.0	5.3	5.5	7.0	7.0	5.0	6.0
Government consumption (% real change pa)	5.0	2.9	7.5	7.2	7.5	5.2	6.0
Exports of G&S (% real change pa)	7.9	3.3	3.0	3.1	3.0	-4.5	2.0
Imports of G&S (% real change pa)	2.1	6.6	6.5	7.0	7.3	4.0	7.5
Economic policy							
Budget balance (% of GDP)	20.3	32.8	37.4	34.1	33.7	-15.8	0.0
Public debt (% of GDP)	9.1	7.0	5.2	4.9	4.2	7.3	5.5
Money market interest rate (%)	4.0	4.0	4.0	4.0	4.0	5.0	4.0
M2 growth (% change pa)	14	29	14	38	49	19	22
Consumer prices (average % change pa)	0.7	2.9	1.8	6.3	10.4	7.4	8.8
Exchange rate LCU to USD (average)	1.3	1.3	1.3	1.3	1.2	1.3	1.3
Recorded unemployment (%)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Balance of payments (mln USD)							
Current account balance	4616	14945	22170	28454	32783	-2280	6320
Trade balance	8657	17675	24254	29269	34944	-410	8170
Export value of goods and services	17425	28849	37473	46970	60257	21110	30770
Import value of goods and services	8768	11174	13219	17701	25312	21520	22590
Services balance	-1477	-1815	-2075	-2567	-2427	-2300	-2390
Income balance	-55	-281	-595	1971	-197	-160	-130
Transfer balance	-2509	-634	586	-219	462	580	660
Net direct investment flows	71	910	1590	3922	1000	1080	1280
Net portfolio investment flows	-187	-393	-5198	-1409	-7220	-7550	-5780
Net debt flows	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other capital flows (negative is flight)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Change in international reserves	6105	13819	19781	20116	12909	-14560	3890
External position (mln USD)							
Total foreign debt	4130	4291	4456	4957	6068	5830	6340
Short-term debt	1096	1397	1652	2213	3164	2690	2820
Total debt service due, incl. short-term debt	1738	2074	2492	2824	3420	4460	4040
Total foreign exchange reserves	25689	39508	59289	79405	92313	77760	81650
International investment position	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total assets	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total liabilities	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Key ratios for balance of payments, external solvency and external liquidity							
Trade balance (% of GDP)	27.2	41.3	46.4	54.5	51.6	-1.1	15.6
Current account balance (% of GDP)	14.5	34.9	42.4	53.0	48.5	-6.1	12.1
Inward FDI (% of GDP)	1.1	2.4	3.9	8.7	3.6	7.3	6.0
Foreign debt (% of GDP)	13	10	9	9	9	16	12
Foreign debt (% of XGSIT)	21	14	11	10	9	22	17
International investment position (% of GDP)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt service ratio (% of XGSIT)	9	7	6	5	5	17	11
Interest service ratio incl. arrears (% of XGSIT)	1	1	1	1	0	1	1
FX-reserves import cover (months)	28.9	35.1	45.1	46.8	39.1	38.2	38.2
FX-reserves debt service cover (%)	1478	1905	2379	2812	2699	1742	2021
Liquidity ratio	281	391	471	509	443	323	355

Source: EIU data loaded 090525

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