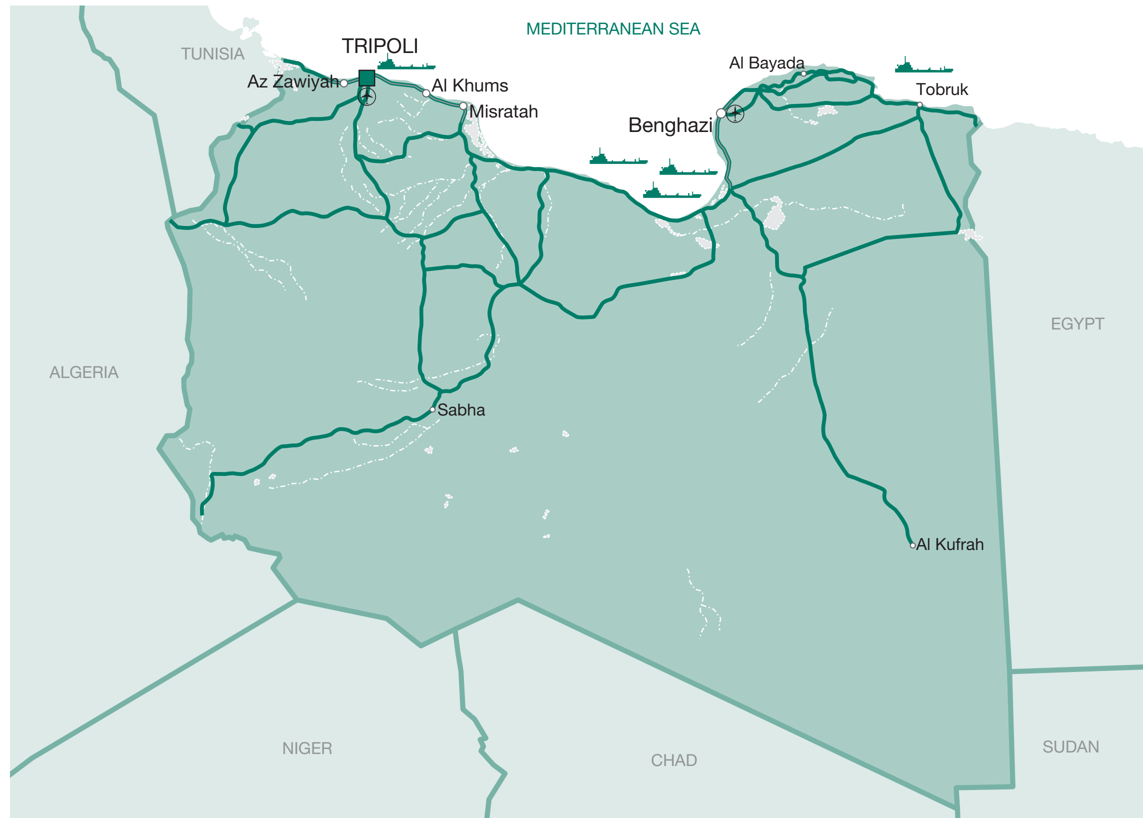
Libya

key figures

- Land area, thousands of km²: 1 760
- Population, thousands (2008): 6 294
- GDP per capita, PPP valuation, USD (2008): 14 369
- Life expectancy (2008): 74.1
- Illiteracy rate (2008): 13

Libya



Commercial Port
Petroleum Port
Fishing Port
Airport
Divided Highway
Main Road

National Capital (2 189 000 In. 2007)
over 800 000
over 200 000
over 50 000

0 km 75 150 225 km

Libya

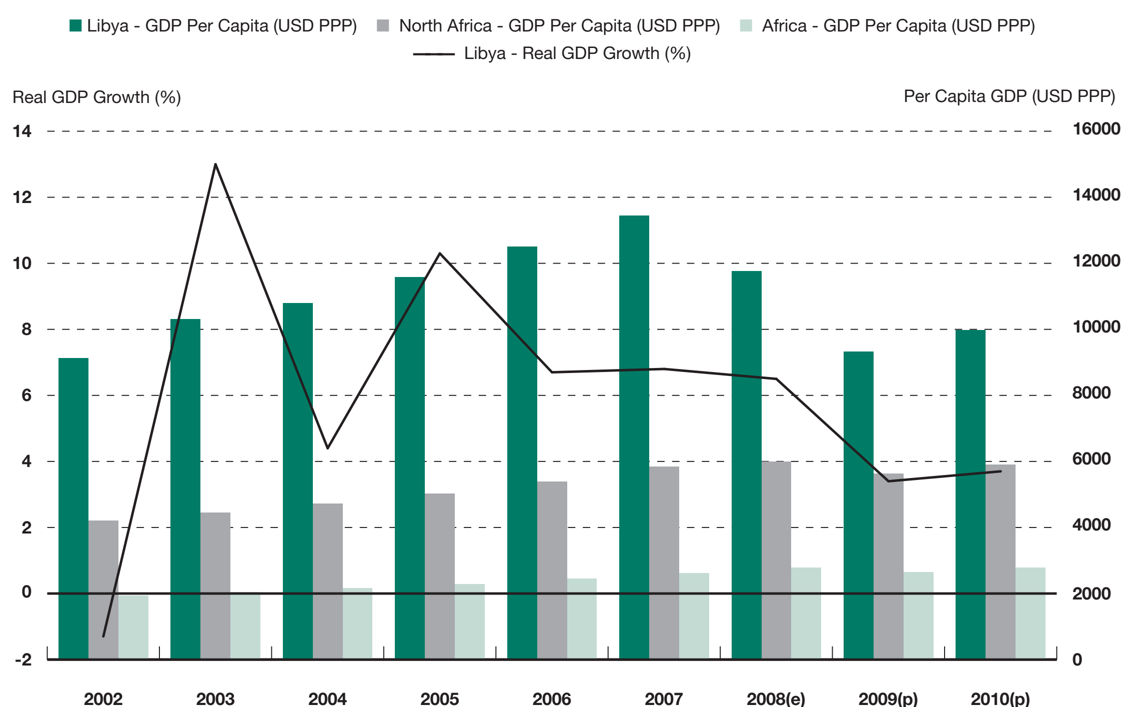
LIBYA'S ECONOMY IS HEAVILY DEPENDENT on revenues from natural resources with an oil sector that provides nearly all of its export earnings and constitutes more than two-thirds of GDP. This lack of diversification, however, means that its economic growth depends on the international oil market. In 2008, real GDP growth is estimated to have been 6.5 per cent, down from 6.8 per cent in 2007 and is forecast to slow to around 3.4 per cent in 2009.

The international economic sanctions imposed both by the United Nations (1992-99) and the United States (1986-2006) had serious effects on the productivity of all sectors and in particular of the oil fields. Since the ending of the sanctions; Libya has begun a process of economic reforms in order to modernise the economy, expand its oil and gas industry and reintegrate with the international community. Initial steps include applying for World Trade Organization (WTO) membership, cautiously reducing subsidies, and announcing plans for privatisation.

Libya's failure to diversify its economy makes it vulnerable to the fall in oil and gas prices.

Despite acceleration in inflation particularly by the fourth quarter of 2008, economic performance remained robust following higher past oil prices of 2007/08,

Figure 1 - Real GDP Growth and Per Capita GDP
(USD/PPP at current prices)



Source: IMF and local authorities' data; estimates (e) and projections (p) based on ADB authors' calculations.

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continued easing of exchange controls and liberalised foreign trade, restructuring of the public sector and the banking system and further progress on privatisation.

The recent collapse in oil prices is particularly worrying since it could create difficulties in funding the recently adopted USD 84 billion (US dollars) infrastructure programme intended to stimulate and diversify the economy. However, Libya currently has USD 35.7 billion of net foreign assets, thanks to the high energy prices of 2008, which could provide a buffer until prices recover in 2010 or 2011.

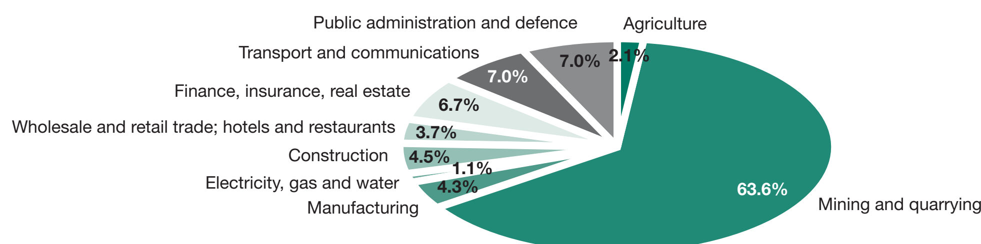
Recent Economic Developments

Real GDP grew by 6.5 per cent in 2008, supported by an expansion in the hydrocarbon sector (3.9 per cent) and a rapid increase in non-oil activities (10.3 per cent). Growth was particularly pronounced in construction, transportation, and trade. At the same time, after a period of deflation from 1999 to 2005, average inflation increased substantially to 11.5 per cent due to the unification of the exchange rate and to government efforts to liberalise trade. More recent inflation was largely driven by higher food prices and a marked increase in public expenditure and in public and private sector salaries. Inflation accelerated further by the end of 2008, averaging about 14.5 per cent in the fourth quarter 2008 according to Libya's General Authority for Information (GAI). That put inflation at the highest level for decades, as the government's continuous trimming of fuel and food subsidies fed through into the consumer price index and international non-oil commodity prices soared. In addition to the fuel and food components in the consumer price index, housing prices also increased.

The country's economic growth is driven by exports, government investment and public consumption, all dependent directly or indirectly on the energy sector. In 2008, for example, oil and gas provided more than 98 per cent of export earnings and 75 per cent of government revenue. Real GDP growth was an estimated 6.5 per cent in 2008, down from 6.8 per cent in 2007, with 3.4 per cent predicted for 2009 due to the collapse of oil prices in the late 2008 and the subsequent reduction in OPEC crude oil production quotas.

Libya is the third largest African oil producer with the largest proven reserves in the continent. The oil and gas sector dominates the economy, contributing to 63.6 per cent of GDP in 2007 up from 62.5 per cent of GDP in 2001. However, exploration and development in the oil and gas sector suffered during the years of international sanctions. Production between the 1980s and 2003 was not matched by new exploration due to lack of foreign and local investment, shortage of spare parts and poor maintenance of existing oilfields. Production capacity fell from 3.3 million barrels a day (b/d) in 1970 to 1.73 million in 2007 and 1.2 million in 2008. The lifting of sanctions, especially by the US, has opened the way for new exploration by foreign firms and upgrading and better maintenance of old oilfields. This should enable Libya to increase its estimated 41.5 billion barrels of reserves in both the

Figure 2 - **GDP by Sector in 2007** (percentage)



Source: Authors' estimates based on National Direction of Statistics.

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short and long terms and to boost oil and gas production and export capacity. The government has drafted an ambitious 2008-12 programme to make up for reserves exhausted between 1980 and 2005. New exploration permits will be granted in an effort to increase reserves to a level compatible with the country's post-2015 production strategy. The target is to have new reserves of 6.5 billion barrels by 2010, allowing production of 2.9 million b/d by 2015.

With 52.7 trillion cubic feet of natural gas reserves, Libya is fourth in Africa in terms of natural gas production and reserves. Libya's export capacity fell during the 1990s, when four power plants were connected to the national gas network, and rose again only in 2004 when an undersea gas pipeline to Italy was laid. The project to lay a pipeline to Tunisia has been delayed by technical supply problems.

Libyan gas production was most recently estimated at 54.7 billion cubic feet in the first quarter of 2008, but 59.7 per cent of it was flared due to lack of marketing capacity. Improved use of gas-liquid separation methods could greatly increase exports despite a sharp rise in local consumption. The 2010 production target is 113.4 billion cubic feet, but this target was revised downwards at the beginning of 2009.

In the past few years there have been noticeable efforts by the government to diversify the economy. Even though private sector activity can partly explain the recovery in the non-oil/gas sector, productive services and infrastructure (excluding construction) still account for half the non-oil/gas sector's growth; such sectors being heavily dependent on government investment and other activities which are linked to the national budget. Exports of non-hydrocarbon goods and services contribute very little to growth.

The non-oil/gas sector (26 per cent of GDP) has recovered somewhat from lengthy stagnation and even recession in the 1990s and grew by an estimated 8.1 per cent in 2008 (up from 7.5 per cent in 2007). The sector has been helped by continued high government spending, as well as increased imports due to unification of exchange rates and trade liberalisation, and contributed 77 per cent of GDP growth in 2008.

Agriculture, mining and manufacturing accounted in total for only 7 per cent of GDP growth in 2007, yet agriculture received 7 per cent of the development budget and industry 16 per cent. The dependence of overall growth on the oil and gas sector and its earnings also shows up in the composition of demand. Net exports (36 per cent) and consumption (37.8 per cent)

Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**9.8**	**26.2**	**14.8**	**5.5**	**9.6**	**3.7**	**1.5**	**2.7**
Public	7.8	19.3	14.0	5.0	5.0	2.6	1.0	1.0
Private	1.9	6.8	17.0	7.0	22.0	1.1	0.5	1.7
Consumption	**57.8**	**37.8**	**10.3**	**8.5**	**3.9**	**7.1**	**6.1**	**3.0**
Public	19.2	11.8	4.2	3.5	3.5	0.6	0.5	0.5
Private	38.6	26.0	11.9	9.7	4.0	6.5	5.6	2.5
External demand	**32.4**	**36.0**				**-4.4**	**-4.2**	**-2.0**
Exports	45.6	65.6	-0.8	-4.6	2.4	-0.2	-0.9	0.4
Imports	-13.1	-29.5	26.3	17.2	11.2	-4.2	-3.3	-2.4
Real GDP growth						**6.5**	**3.4**	**3.7**

Source: Local authorities' data; estimates (e) and projections (p) based on ADB authors' calculations.

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figured very prominently in 2007 overall demand, while investment was only 26.2 per cent. Public consumption was 11.8 per cent of GDP in 2008 and private consumption 26 per cent in 2007. Public investment was much greater than private investment illustrating the important role of government consumption and investment in growth, driven as it is by the government-controlled oil and gas sector. Hydrocarbons accounted for most of the 13.6 per cent growth in the country's nominal export earnings in 2008.

Investment grew by 14.8 per cent at constant prices in 2008 and consumption by 10.3 per cent; exports decreased 0.8 per cent while imports grew by 26.3 per cent. Consumption contributed 7.1 per cent to the overall growth rate of 6.5 per cent in 2008, investment 3.7 per cent while exports and imports made a negative contribution of respectively 0.2 per cent, and 4.2 per cent. Due to the drop in production and exports needed to comply with the recently agreed lowering of quotas by OPEC, the external sector is projected to account for a reduction of 4.2 per cent of GDP growth in 2009, but is expected to be less of a drag on the economy in 2010.

Macroeconomic Policies

Fiscal Policy

In 2008, oil revenues represented 57.8 per cent of GDP, compared with only 2.8 per cent of GDP contributed by other sources. Higher oil prices of early 2008 further increased the surplus and the dominance of oil and gas revenue over other income.

Private sector growth caused the revenue from income and profits taxes to more than double between 2001 and 2008 and that from other taxes to more than triple.

Libya spent 18.8 per cent of its GDP on public investment in 2008, much more than other similar countries, most of which spent less than 10 per cent. In view of the limited absorptive capacity of the economy, the increased public expenditure on investment and other programmes has created strong inflationary pressure. Public sector wages and salaries represented 7.8 per cent of GDP in 2008 while government purchases of goods and services were 3.4 per cent of GDP in the same year. In 2007, total expenditure increased from 29.5 per cent to 35.2 per cent with implementation of the Wealth Distribution Programme (WDP) which is intended at directly sharing the oil surplus, and remained high at 32.3 per cent in 2008. However, the recent nosedive in oil prices is expected to hit spending plans despite the existence of the oil and gas revenue fund set up in 1995.

In 2007, inflationary pressures intensified, caused in part by the increase in food prices and a rise in public spending. In 2008, the government also reduced the levels of fuel and food subsidies, which fed through into the consumer price index. Housing prices also increased. To contain the rising inflation, the authorities made efforts to tighten the fiscal stance by limiting the rapid increase in public expenditure.

Prior to 2001, the composition of the budget between current and capital expenditure followed a 70/30 rule. In 2008, however, current expenditure was 13.5 per cent of GDP, down from 14.2 per cent in 2007; whereas capital expenditure increased from 18.5 per cent of GDP in 2007 to 26.6 per cent of GDP in 2008.

During the period of higher oil revenues of early 2007, Libya's fiscal surplus narrowed to 26.2 per cent of GDP, compared to 35.5 per cent in 2006, it reached 34.5 per cent in 2008 and following the downturn in oil prices. This reflected a rapid increase in virtually all expenditure items, albeit at a slightly slower rate than what was envisaged in the budget. The decision to raise public sector wages brought about an increase in the wage bill of around 50 per cent. Capital expenditure also grew rapidly.

Extra-budgetary spending fell sharply from 15.2 per cent of GDP in 2001 to 2.6 per cent in 2006/7 as budget discipline improved, with better monitoring of execution. The new transparency also helps in drafting budget policy. When all income and expenditure are listed in the budget, decision makers know how much

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Table 2 - **Public Finances** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Total revenue and grants[a]	**41.3**	**62.9**	**65.1**	**61.4**	**66.8**	**47.4**	**48.9**
Tax revenue	11.8	2.6	2.5	2.9	3.0	4.0	4.0
Oil revenue	28.4	58.5	60.2	55.2	60.2	40.5	41.8
Total expenditure and net lending[a]	**28.2**	**32.1**	**29.5**	**35.2**	**32.3**	**46.4**	**46.3**
Current expenditure	19.0	13.9	13.4	14.2	13.5	19.8	19.9
Excluding interest	*19.0*	*13.9*	*13.4*	*14.2*	*13.5*	*19.8*	*19.9*
Wages and salaries	10.2	7.2	6.6	8.3	7.8	11.9	12.0
Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	9.2	14.1	15.3	18.5	18.8	26.6	26.4
Primary balance	**13.0**	**30.9**	**35.5**	**26.2**	**34.5**	**0.9**	**2.6**
Overall balance	**13.0**	**30.9**	**35.5**	**26.2**	**34.5**	**0.9**	**2.6**

a. Only major items are reported.
Source: Data from GIA Libya 2008; estimates (e) and projections (p) based on authors' calculations.

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money is really available, so they can set taxes and make trade-offs between different funding sources.

With current oil prices hovering around USD 50 a barrel since hitting an all-time high of above USD 147 a barrel in July 2008, export revenues are expected to fall sharply in 2009 entailing in turn a sharp drop in oil income which contributes more than 90 per cent of Libya's public revenue. As a result, the fiscal surplus is expected to drop dramatically to 0.9 per cent of GDP in 2009.

The Central Bank of Libya (CBL) recently indicated that Libya had originally budgeted to sell its oil at USD 45 a barrel in 2008, up USD 20 from 2007. However, in the course of 2008 it raised the assumption to USD 113 and in its 2009 budget assumed a further increase to USD 122. The large increase in public expenditure budgeted for 2009 will have to be revised downwards or financed by drawing down reserves.

The appropriate or optimal level of a country's public spending is hard to define because it depends on cultural factors and the efficiency of both social security and public spending. As Libya's allocation of public funds is greatly distorted by substantial extra-budgetary spending, indirect subsidies and excessive decentralisation, the potential for gains in spending efficiency seems appreciable. More efficient public spending would allow better management of the non-oil/gas budgetary deficit, which is essential for macroeconomic stability and the sustainability of public spending in view of the unpredictability of oil and gas revenue.

Monetary Policy

The monetary base increased by a modest 32 per cent in 2007 and then by 23 per cent in the third quarter of 2008. The latter was due to a slight rise in money in circulation and in the cash in vault in the third quarter. Deposits with the CBL also fell 9.5 per cent during the first quarter of 2008 while regional commercial bank deposits rose 13.5 per cent in the first quarter of 2008. An increase in net foreign exchange movements had less effect on the money supply than in past years, as a large proportion of these inflows were held by the Treasury and thus did not add to the money supply.

Libya's foreign exchange policy has greatly altered since it left the sterling zone in 1971. The value of the dinar (LYD) has been periodically adjusted, either gradually or abruptly, owing to the highly interventionist exchange policy of the CBL.

The country's foreign exchange system has gone through four major phrases: adherence to the gold

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standard (1952-86), pegged to the International Monetary Fund's special drawing rights (SDR) (1986-94), a period with two fixed exchange rates (1994-2001) and a gradual return to a single fixed rate (starting in February 1999).

The CBL finished unifying the exchange rate in January 2002 and pegged it to a basket of currencies at LYD 1 = SDR 0.608 (an effective devaluation of more than 50 per cent) and LYD 1 = USD 0.826 (a devaluation of 46 per cent). This narrowed the gap between the official and black market rates, curbed the Dinar's rise between 1994 and 2002 and made non-hydrocarbon sectors more internationally competitive.

The consumer price index shows that inflation was kept under control until 2004 through price controls and a wage freeze imposed in 1981. Cost-driven deflation appeared in 2004 in the wake of exchange rate unification between February 1999 and January 2002, which reduced the price of imports, previously valued at a special exchange rate. The deflationary trend increased when customs duties were halved and state firms exempted from paying duty to make up for the January 2002 devaluation.

Inflation returned in 2005 and reached 6.7 per cent in 2007 as the moderating effects of early exchange rate unification and trade liberalisation faded away. The renewed inflation is fuelled by wage increases and higher public investment. Inflation reached its highest level in decades, 14.5 per cent in the fourth quarter of 2008.

In 2009-10 inflation is expected to fall to about 7 per cent, partly due to the ongoing drop in global non-oil commodity prices and to further declines in the prices of imports of refined oil products.

External Position

The 2008 trade surplus represented 39.2 per cent of GDP, reflecting high oil prices that more than offset the rise in imports to 28 per cent of GDP. The lifting of quantity restrictions on imports and the end of controls on capital, as well as private sector growth, stimulated demand for imports, in addition to the demand generated by higher public investment spending.

The current account surplus in 2008 is estimated at 32.3 per cent of GDP down from 34.1 per cent in 2007. This development was evidently due to the further increase in imports in 2008 resulting from an increased demand and a stable exchange rate.

The external position is comfortable; with foreign exchange reserves reaching a record of USD 94.8 billion in December 2007 and which are estimated to have increased further in 2008. Reserves in 2007 were equivalent to 33.1 months imports of GNFS at 2008 prices. However, the present outlook is subject to downside risks, especially if oil prices turn out lower than the USD 50 per barrel assumed for 2009 or the resolve to limit public expenditure growth (including in the context of the WDP) wavers. If these risks

Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	24.5	44.4	47.4	38.9	39.2	10.6	9.8
Exports of goods (f.o.b.)	35.3	69.0	71.1	63.8	67.2	48.9	49.5
Imports of goods (f.o.b.)	10.8	24.6	23.7	24.9	28.0	38.4	39.6
Services	-1.9	-4.0	-3.4	-2.7	-2.9	-5.2	-6.0
Factor income	-0.5	-0.6	2.0	0.0	-1.8	0.3	4.9
Current transfers	-1.5	-1.4	-0.2	-2.0	-2.2	-2.4	-2.2
Current account balance	**20.6**	**38.4**	**45.8**	**34.1**	**32.3**	**3.3**	**6.5**

Source: Local authorities' data; estimates (e) and projections (p) based on ADB authors' calculations.

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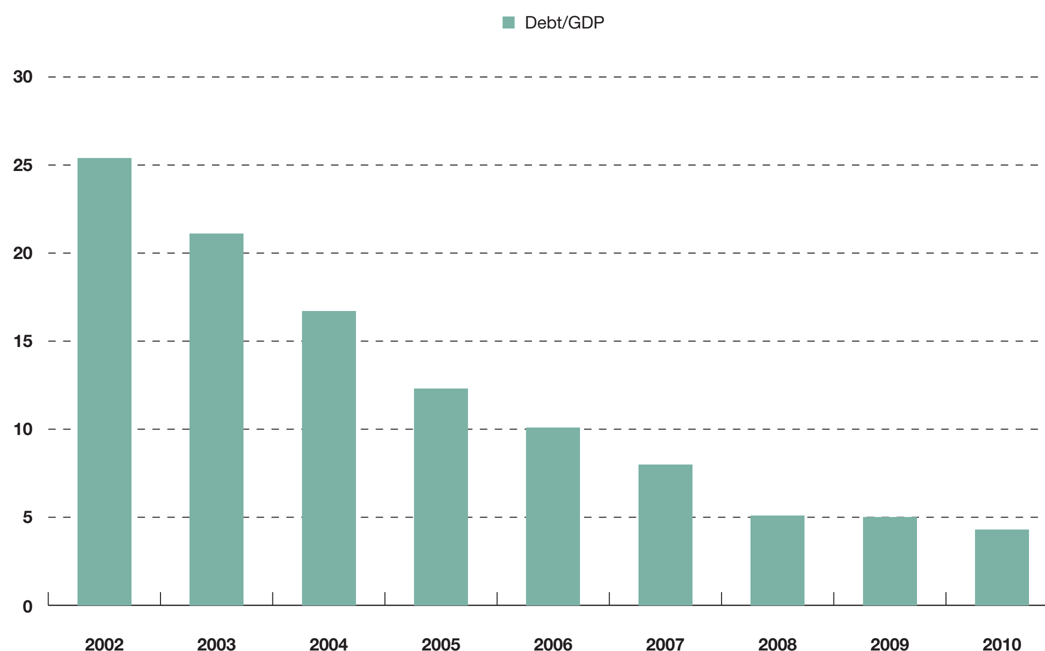
Figure 3 - **Stock of Total External Debt** (percentage of GDP)



Source: IMF.

StatLink http://dx.doi.org/10.1787/573463464714

materialise, the fiscal and external balances could be considerably weaker than the above projections, with adverse consequences on intergenerational equity, and inflation could further increase. A further acceleration in public expenditure would also likely lead to deterioration in its quality, with negative implications for the GDP growth outlook in the medium term.

Structural Issues

Private Sector Development

Privatisation and strengthening the private sector are governmental priorities. A list was made in October 2003 of 360 state-run firms that could be sold off between 2004 and 2008, ranging from steel, petrochemicals and cement to agriculture. Sixty-nine of the firms have so far been divested and the rest are being modernised in preparation for sale. The privatisation strategy will need strong institutional support if the transition to a market economy is to succeed. The biggest challenges are building a healthy investment climate, with institutions that can support more open markets and with a stronger banking system, while ensuring effective and sustainable social protection for the most vulnerable groups to make the transition easier.

Libya's banking system comprises the CBL, 10 commercial banks, three specialised ones and one offshore bank, the Libyan Foreign Bank (LFB). The Bank of Jumhuriya, the biggest bank in Libya, is wholly owned by the CBL. The Wadha Bank, in which the CBL had an 87 per cent share, sold 19 per cent of its capital to Jordan's Arab Bank in early 2008. The Sahara Bank was privatised in 2007 with France's BNP Paribas becoming a strategic shareholder. The private sector has a majority share in eight banks, the Commercial Development Bank, Wafa Bank, Aman Bank for Commerce and Investment, the Arab Unity Bank, United Bank, Saraya Bank, Mediterranean Bank and Arab commercial Bank. The private sector also owns the regionally decentralised National Banking Corporation (NBC).

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There were also 48 regional banks owned by the government. These have now been consolidated into six. The consolidation process is expected to continue until they are all part of the NBC. The three specialised banks – the Agricultural Bank, the Bank for Savings and Real Estate Investment and the Development Bank – are wholly owned by the government. The structure of the banking system is not necessarily the result of a policy of specialisation; rather, it reflects the successive strategic choices made at various stages, as well as a lack of competition that could make the sector inefficient. The banking system continues to be dominated by the public sector, which accounts for more than 90 per cent of its business. The government has begun a thorough reform of the financial sector that will mainly involve privatising state-owned banks and upgrading the payments system.

Other Recent Developments

Some progress has been made in implementing reforms aimed at achieving greater regional integration and liberalising trade. Harmonisation of financial regulations, statistical frameworks, and payment and settlement systems with other Maghreb countries is ongoing. Certification requirements for trade with these countries have also been simplified. However, while customs duties on virtually all imports have been eliminated, imports-specific production and consumption taxes, in addition to a flat 4 per cent "service" fee, are in place. Furthermore, earmarked fees on imports, albeit small, have been recently introduced. Nonetheless, the effective rate of import taxation remains very low (less than 3 per cent) due to extensive exemptions.

Innovation and ICT

Libya ranks very low on all measures of physical infrastructure quality. Aside from electricity and water, other basic infrastructure, specifically transport and communication links, are inadequate.

Information and Communication Technology (ICT) constitutes an essential part of the country's physical infrastructure, and represents one of the most important means for promoting business and entrepreneurship. The Libyan telecommunications network is, however, poor, and has suffered significantly from lack of competition and requisite expertise. The government has made it a priority area, and is embarking on measures to make it more attractive to foreign investors.

The core of the ICT sector is the telecommunications network that supports voice and data traffic throughout the country. Rapid increases in network capacity and coverage in the last six to eight years, particularly by mobile networks, has failed to mask the fact that Libya still suffers from low levels of ICT penetration and has chronic problems in network performance. While mobile penetration reported by the General Post and Telecommunication Company (GPTC) has recently surpassed 2004 penetration levels for Egypt and Algeria, Libyan mobile use is still low compared to Tunisia and Morocco. Libya's fixed line use is more on a par with the low levels seen in the rest of the region, restricting both voice communications and Internet usage.

There are a number of services available. Landlines are available in hotels and offices although public phone booths are rare. There are two mobile phone networks, al-Madar and Libyana, and coverage is generally adequate, particularly in major urban areas. Internet, fax and international calls can be made through many hotels, and private communications centres are available in most urban areas. Connecting calls to Libya from abroad can be difficult.

Telecommunications infrastructure development is the responsibility of the state-owned GPTC, set up in 1984 and now headed by Eng. Qadhafi, a son of the Libyan leader. GPTC oversees the operation of fixed and mobile lines, as well as Libyan Internet service providers (ISPs).

GPTC has expanded landline coverage to many parts of Libya, although the quality of its infrastructure and service needs substantial improvement. In 1996, GPTC spun off the mobile phone company al-Madar

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("Orbit") and then launched a second, Libyana, in 2004. Libyana, which offered service at a fraction of Madar's rates, quickly become the provider of choice in Libya, now providing an estimated 4 million accounts (91 per cent of market share). Cell phone penetration is estimated at 75 per cent. GPTC serves as the local service provider for the Thuraya satellite phone company, including sales of handsets and SIM cards. On the user side, Nokia currently maintains an estimated 90 per cent market share for cellular and radio communications equipment.

The sector has undergone a number of organisational shifts in the last several years. In 2005, the General People's Committee (GPC) established the General Post Telecommunication and Information Technology Company of Libya (GPTITC), which encompasses Libyana and al-Madar, Libya for Telecommunication and Technology, and the GPTC. It moved to establish the Communications General Authority (CGA) in late 2006, which supervises all of the above entities and reports directly to the GPC. In October 2006, the GPTC signed a contract with Alcatel and Sirti valued at an estimated 161 million euro to upgrade Libyan network flexibility and service reliability, known as the New Generation Basic Network (NGBN). In January 2007, the Chinese firm ZTE signed a contract with GPTC to supply a CDMA2000 network with a 300,000-line capacity, expected to be deployed commercially in August 2007. In January 2008, ZTE announced a deal with LTT to build a commercial WiMAX network that will cover eight major cities in Libya, including the capital Tripoli.

GPTC has announced its intention to spend USD 10 billion on telecommunications infrastructure over the next 15 years. GPTC has also expressed interest in US technology, and US-furnished centres for training and software certification. The privatisations of al-Madar and Libyana could offer opportunities for expansion, depending on terms and conditions.

Improving network performance in both fixed and mobile telephony remains a major challenge for Libya, and this may explain the low ratings recorded in terms of the quality of services provided via telephone and fax networks. Consumers complain of low coverage, poor connections and dropped calls at peak times, while industry leaders complain that consumers and businesses "use the network selfishly". These problems are considerably more acute for both inbound and outbound international calls.

The sector lacks competition, is government-controlled and managed, and marked by the absence of world class suppliers of technology and expertise. The full responsibility for investment and management of the ICT industry lies with the government, which operates a monopoly on the various ICT divisions. Through the Libyan Post, Telecommunications and Information Technology (LPTIT), the government controls all fixed line, mobile, Internet and postal communications across the country. It also owns the al-Madar and Libyana mobile phone companies. The absence of real competition between Libyan service providers appears to have held back development of the ICT infrastructure. According to Law 8 (1990) and its subsequent revisions, there are no official barriers to private sector ICT enterprises operating in Libya. There are similarly no restrictions for foreign investment in the ICT industry as per Law 5 (1997). However, lack of clarity in both the provisions and the implementation of these laws appears to have prevented any meaningful engagement of private or foreign enterprise. Industry structure is another important challenge. There is no separation of roles between the policy maker, regulator and operators. In the past, the General Authority for Information and Telecommunication (GAIT) has been responsible for all policy, regulation and monitoring activities, whilst the holding company LPTIT which reports to GAIT controls all ICT operations through its various subsidiaries. Addressing these problems is important for facilitating the growth of the Libyan ICT sector in the future.

Political Context

Between 1969 and 1978, the government adopted a state-led path of development and introduced unique people-based administrative and governance structures. From 1979 to 1999, the government, hard hit by the

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fall in oil revenues and external sanctions, attempted to liberalise the economy and fine-tune the political structure.

But with the lifting of the international sanctions, Libya has adopted a new development approach and is renewing ties with countries with which relations were strained in the past. The stage is also set for close relations with the developed countries and an increased interest in developing its vast oil and gas resources. As part of its strongly expansionary fiscal policy, the government launched the WDP in March 2008 aimed at distributing oil revenue directly to citizens. Among other things, the WDP is meant to entail replacing some ministries with smaller administrative bodies, and ordinary Libyans are supposed to take over the ownership and management of most public entities.

Up to 90 per cent of Libya's oil goes to the European Union (EU) and European oil majors have invested heavily in Libya to help develop its hydrocarbons industry. Much of this investment is being ploughed into exploration, as only around one-quarter of the country's territory has been explored so far. However, significant investment is also being earmarked for gas infrastructure, in which Libya is particularly deficient. There are plans to build further undersea pipelines between Libya and Italy for the transportation of oil and gas. Talks are also scheduled on establishing a transparent regulatory framework for the energy sector as well as ensuring that the development of Libya's hydrocarbons industry meets the latest standards in environmental protection. Further down the line, the EU hopes to integrate Libya into an interconnected regional Euro-Mediterranean energy market for electricity and gas.

Social Context and Human Resources Development

Human development indicators have significantly advanced towards the levels required to achieve the Millennium Development Goals. Life expectancy at birth rose from 63 years in 1993 to 69 years in 2004 and then to 74.1 years in 2008. Illiteracy fell from 26.6 per cent to 13.2 per cent over the period, and the overall school enrolment rate increased from 88 per cent to 94 per cent. In the United Nations Development Programme's 2005 Human Development Report, Libya was recognised as having the highest Human Development Index (HDI) in Africa. The report reclassified Libya from the group of countries with medium human development to high-HDI status, ranking 56th out of the 70 countries in the latter group.

The government provides free health care in public hospitals and clinics. The main hospitals are in Benghazi and Tripoli. The period of international sanctions eroded health care quality. The phenomenon of public sector employment being used as a welfare distribution mechanism is common across the Libyan public sector, particularly in health and education. Experts estimate that around 30 per cent of all registered nurses are inactive. Not only is it inefficient to spend health funds on such workers, rather than on real health care resources, but there is also evidence that their presence negatively affects the quality of service to patients, due to increased bureaucracy. In medical education, poor policy decisions are leading to inefficient outcomes. Medical education has expanded massively, placing enormous pressure on scarce resources, with an ensuing decline in quality. Libya is spending too little educating too many doctors. At the same time, there is a major lack of other health workers, like pharmacists, medical technicians and trained paramedics.

According to the GAI, the total population of the country was estimated in June 2008 to be 5.5 million compared to 5.32 million recorded in the 2006 census. The data also show a rise in the over-15 age group, to 68 per cent of the total population where about 32.4 per cent is under the age of 15. This will put pressure on the government with regard to job creation and to satisfy the increasing demand for social services, education and health care.

In 2007, the formal sector employed 1.52 million people, of which 1.12 million were males and 0.518 million were females. The former figure represents 30.7 per cent of the total population in 2006. The formal economy is characterised by a relatively small

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number (43 000) employed in the oil sector, which produces most of the country's wealth, and large and growing employment (840 000) in public services. It appears that the wealth created in the energy sector is redistributed through extensive "welfare" employment in the public sector, making it much less productive. The energy sector contributes more than 69 per cent to Libya's GDP, but employs only 3 per cent of the formal workforce, despite the fact that employment in the sector grew at an estimated rate of 10 per cent between 1999 and 2007. On the other hand, public services, including education and health care, contribute only 7.6 per cent to Libya's GDP, but employs 51 per cent of the formal workforce. Employment in public services doubled between 1999 and 2007, while overall formal employment grew by only 12 per cent. Although detailed or reliable statistics are not available for the informal economy, senior government officials estimate another 1.2-1.6 million people are informally employed, mainly in the agriculture, construction and retail trade sectors. The size of the informal economy is estimated to be as much as 30-40 per cent of the official GDP.

Unemployment was estimated at 13.5 per cent in 2007, up from 7.3 per cent in 2003. Keeping it in check will be a major task in coming years, especially as the government and social sector employ 60.5 per cent of the working population.

Transition to a market economy usually involves state withdrawal from the production sector and will probably have a major social effect in Libya. Income disparities have diminished since the 1990s as the government continues to provide extensive social support in the form of subsidies and higher pensions. Other indirect subsidies, such as cheap water and electricity and petrol at below world prices, also contribute to reducing income disparities.

The transition to a market economy may bring sweeping changes to this social support network, which suggests that the state's withdrawal should be gradual. Consumer purchasing power increased significantly between 2000 and 2004 due to the deflation caused by exchange rate unification and trade liberalisation. Lately, the government has set the minimum monthly income at LYD 250. State withdrawal, private sector growth and inflationary pressure pose serious threats to household purchasing power.

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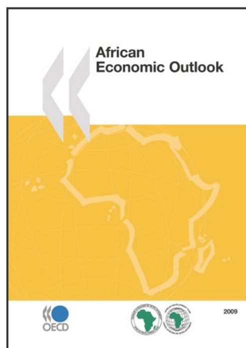

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