

COUNTRY PROFILE:**THE GREAT SOCIALIST PEOPLE'S LIBYAN ARAB JAMAHIRIYA****DATED:****MARCH 2008****CREDIT GUARANTEE:**

IES/02 ATTACHMENT A

	<i>Country Rating</i>	<i>U/W Method</i>
<i>Short-term</i>	<i>ZZ</i>	Off cover

Recent Political Highlights

- The Arab world's longest-serving leader, Colonel Muammar Qadhafi remains firmly in control. The Economist predicts that in the absence of any threat to his rule, the most significant concern over Libya's future stability will remain the leader's health. Having positioned himself as the country's leading reformist and winning the ear of Colonel Qadhafi, Saif al-Islam Qadhafi -one of his sons, is best placed to succeed his father despite official denials that he is being groomed for the leadership role.

Recent Economic Highlights

- The lifting of US and international sanctions in 2003-04 promised to herald the dawn of a new era of economic growth in Libya, but plans to diversify the economy and promote sustainable growth have largely failed and bureaucratic paralysis is still hindering the country's economic development. In February last year, Saif al-Islam launched a major reform drive involving the privatisation of state enterprises and heavy investment in training but there is little clarity as to how the programme will be implemented.
- Libya's parliament passed a 49.47 billion dinars (from 31 billion dinars in 2007) budget for 2008 aimed at giving Libyans a direct share in oil wealth after Col Qadhafi said economic development was too slow. Many Libyans are still waiting to benefit from soaring oil revenues and rising foreign investment following Tripoli's 2003 return to the main stream of international politics. Despite ownership of Africa's largest oil reserves, the state-dominated economy has long been enfeebled by an old-fashioned centralised management, a primitive banking sector, corruption and red tape. In an angry tirade against graft and mismanagement, Col Qadhafi suggested that government ministries must be abolished and their powers handed over to the people. He said that the \$37bn budget allocated to the errant ministries should instead be shared among the people so that they can manage their own affairs.
- A report by the IMF highlighted that the economic outlook for Libya was bright but cautioned the government to contain spending, especially when it came to public-sector wages. A large increase in spending had pushed inflation to about 11% in Q3'07. The EIU forecasts inflation at 6.3% this year.
- The IMF forecast Libya's economy to grow 8.8% in 2008 from 6.8% in 2007, buoyed by growth in both the oil and non-oil sectors. The EIU forecasts growth of around 6.2% in 2008-09. The hydrocarbons industry will continue to underpin future economic growth, although the authorities are pushing for greater diversification, initially by opening up the stagnant banking sector, aviation and tourism; big oil and gas companies have been quick to answer the call but projects in other sectors have been slow to develop.
- Libya wants to become a major gas producer and aims to raise production to 3 billion cubic feet per day (bcfd) by 2010 up from 2.7bcfd now. Libya has some of the biggest gas reserves in the world with estimates of around 50 trillion cubic feet. However experts say reserves could be as much as 100 trillion cubic feet. Demand for its gas has grown as Europe seeks to curb its dependence on Russia and because gas produces less of the carbon emissions blamed for global warming.

Latest Trade Developments

- Main trading commodities: crude oil, refined petroleum products, natural gas and chemicals.
- Main imports: machinery, semi-finished goods, food, transport equipment and consumer products.
- Major trading partners: Italy, Germany, Spain, Turkey, France, US, Tunisia, UK, South Korea and China.
- SA's exports to Libya amounted to R40.4m in 2006 and R46.2m in the year-to-November 2007. Imports from Libya amounted to R2.4m in 2006 and R412.000 in the year-to-November 2007.
- Libya has opened its doors for Sri Lankan migrant workers with a major share of the country's foreign job market being offered to skilled Sri Lankan labour, according to a memorandum of understanding signed between the two countries. Sri Lankans will be offered lucrative opportunities mainly in the construction, port, oil and tourism sectors.
- The European Commission proposed the opening of negotiations on boosting EU relations with Libya, with the aim of completing the first ever framework for ties by the end of the year. The EU is seeking to diversify its sources of oil and gas, and better control illegal immigrants from Africa who regularly pass through the Libya on their way to Europe by sea, a particular problem for Italy and Malta. According to the EU Trade Commissioner Peter Mandelson, an ambitious free trade agreement would intensify cooperation between the EU and Libya on trade and economic issues and would further deepen their relationship.

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