

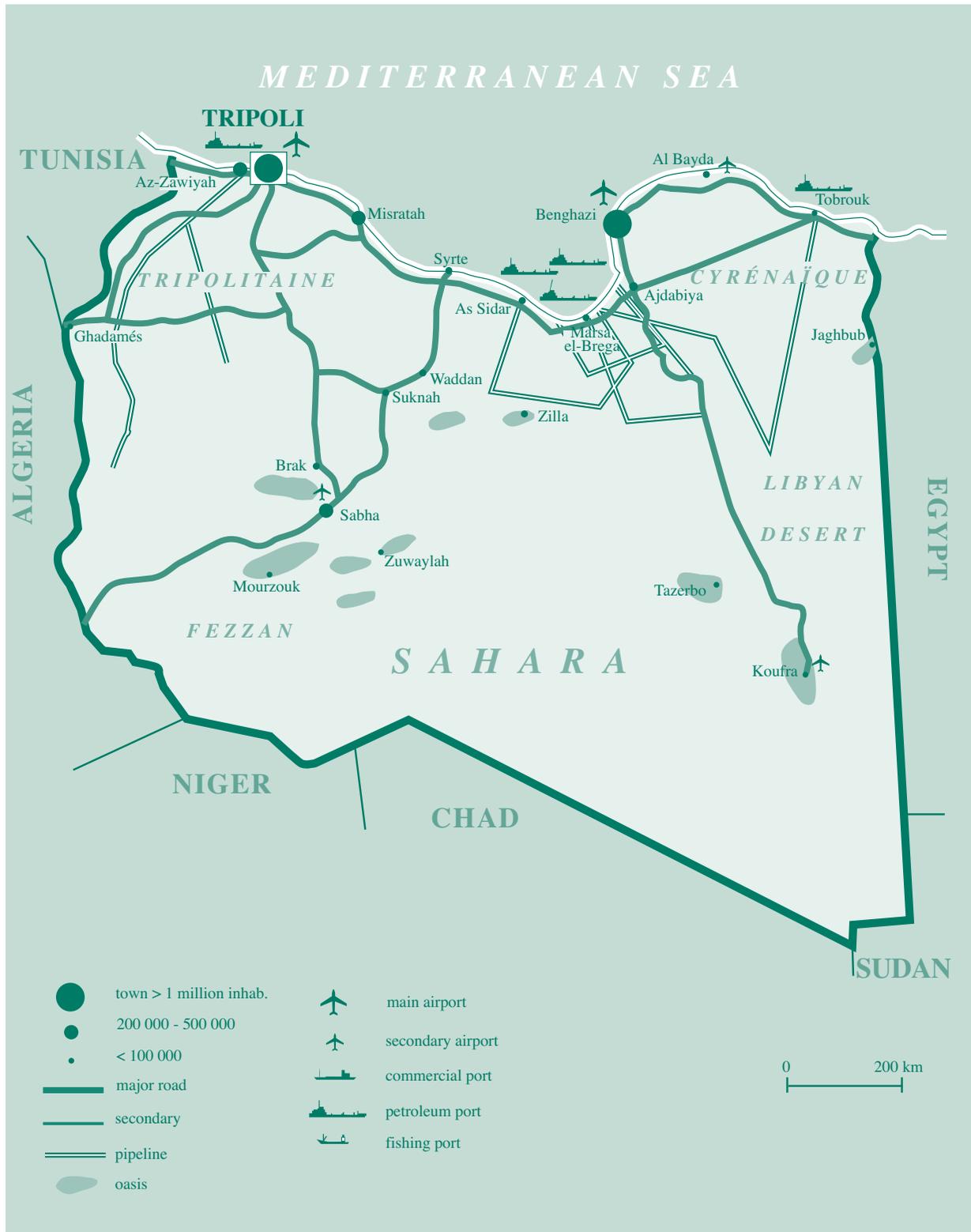
# Libya



## key figures

|  |       |
|--|-------|
| • Land area, thousands of km <sup>2</sup>            | 1 760 |
| • Population, thousands (2007)                       | 6 160 |
| • GDP per capita, USD at constant 2000 prices (2007) | 8 362 |
| • Life expectancy (2007)                             | 63.7  |
| • Illiteracy rate (2007)                             | 14.6  |

# Libya



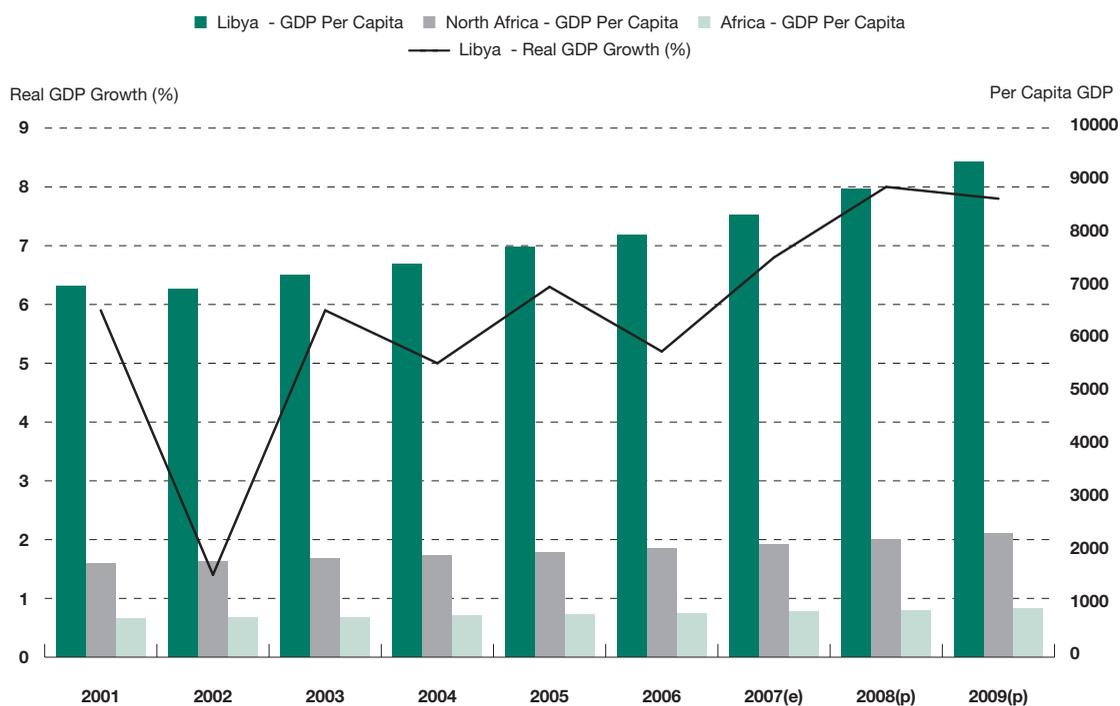
# Libya

LIBYA'S ECONOMY FACES THE PROBLEM of all oil-dependent economies, namely that its meagre diversification puts the country's economic growth, government investment programmes and macroeconomic indicators at the mercy of fluctuations in the energy market. Another problem, typical of countries making the transition to a market economy, is that its weak institutions, unsuitable legal system and structural rigidity slow down the reforms needed.

In addition, Libya was for many years subject to international economic sanctions imposed by the United Nations (1992-99) and the United States (1986-2006). The overall result has been Libya's isolation from world trade, keeping away the foreign direct investment (FDI) that such a country traditionally needs for its oil and gas industry.

**A process of liberalisation and public-sector reform is underway.**

**Figure 1 - Real GDP Growth and Per Capita GDP**  
(USD at constant 2000 prices)



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

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## Recent Economic Developments

During the past few years, and particularly in 2007, Libya has enjoyed higher oil prices, further eased exchange controls and liberalised foreign trade, restructured the public sector and the banking system

and focused more on privatisation. Inflation has also returned, after a period of deflation from 1999 to 2005.

The country's economic growth is driven by government investment and spending, along with imports, and is far from being diversified or independent

of the energy sector. Real GDP growth since 1992 has followed oil prices and export earnings and was an estimated 6.8 per cent in 2007 (5.6 per cent in 2006), with 8 per cent predicted for 2008 if oil prices continue to soar. Dependence on the oil and gas sector is still growing, with the price of Libya's oil at USD 63 a barrel in 2007 and probably higher in 2008. Oil and gas provided more than 99 per cent of all export earnings and 78 per cent of government revenue in 2007. Such enormous dependence makes the economy vulnerable to oil price changes, but since prospects are very good, government investment programmes will probably attract substantial funding between 2008 and 2012.

The oil and gas sector dominates Libya's growth, contributing 74 per cent of GDP in 2006, a dramatic turnaround since 2001, when the non-oil/gas sector accounted for 62.5 per cent of GDP. The oil and gas sector contributed 1.86 percentage points (22 per cent) of GDP growth in 2006.

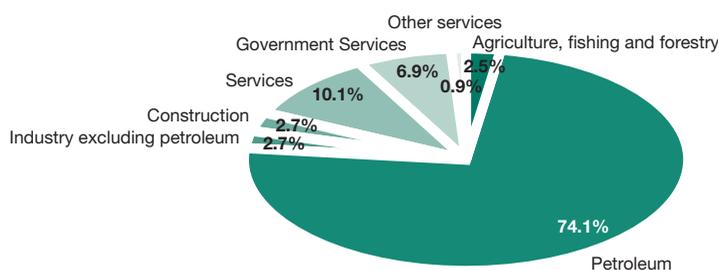
Exploration and development in the oil and gas sector suffered during the years of international sanctions. Production between the 1980s and 2003 was not matched by new exploration due to lack of foreign and local investment, shortage of spare parts and poor maintenance of existing oilfields. Production capacity fell from 3.3 million barrels a day (b/d) in 1970 to 1.73 million in 2007. The lifting of sanctions, especially by the United States, has opened the way for new exploration by foreign firms and upgrading and better maintenance of old oilfields. This will enable Libya to increase its estimated 15.4 billion barrels of

reserves in both the 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 over the 2010-15 period.

Libya has 1 490 billion m<sup>3</sup> of natural gas reserves, but export capacity had fallen since 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 948 million m<sup>3</sup> a year, but 57 per cent of it is burned off 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 3.716 billion m<sup>3</sup>.

The non-oil/gas sector (26 per cent of GDP) has recovered somewhat from lengthy stagnation and even recession in the 1990s and is now growing strongly, by an estimated 7.5 per cent in 2007 (up from 6.65 per cent in 2006). 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 78 per cent of national economic growth in 2006.

Figure 2 - GDP by Sector in 2006 (percentage)



Source: Authors' estimates based on National Statistics Office data.

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Table 1 - Demand Composition

|                                | Percentage of GDP<br>(current prices) |             | Percentage changes,<br>volume |             |             | Contribution to real<br>GDP growth |             |             |
|--------------------------------|---------------------------------------|-------------|-------------------------------|-------------|-------------|------------------------------------|-------------|-------------|
|                                | 1999                                  | 2006        | 2007(e)                       | 2008(p)     | 2009(p)     | 2007(e)                            | 2008(p)     | 2009(p)     |
| <b>Gross capital formation</b> | <b>7.3</b>                            | <b>13.1</b> | <b>8.7</b>                    | <b>8.0</b>  | <b>6.3</b>  | <b>1.3</b>                         | <b>1.2</b>  | <b>1.0</b>  |
| Public                         | 5.3                                   | 10.9        | 8.5                           | 8.0         | 6.0         | 1.1                                | 1.0         | 0.8         |
| Private                        | 2.1                                   | 2.2         | 10.0                          | 8.0         | 8.0         | 0.3                                | 0.2         | 0.2         |
| <b>Consumption</b>             | <b>77.8</b>                           | <b>40.1</b> | <b>9.4</b>                    | <b>11.9</b> | <b>12.7</b> | <b>7.9</b>                         | <b>10.2</b> | <b>11.3</b> |
| Public                         | 22.6                                  | 16.1        | 5.3                           | 4.6         | 3.3         | 1.1                                | 1.0         | 0.6         |
| Private                        | 55.2                                  | 24.0        | 10.8                          | 14.2        | 15.5        | 6.8                                | 9.2         | 10.6        |
| <b>External demand</b>         | <b>14.9</b>                           | <b>46.8</b> |                               |             |             | <b>-2.4</b>                        | <b>-3.4</b> | <b>-4.5</b> |
| Exports                        | 31.7                                  | 78.0        | 7.3                           | 5.5         | 4.5         | 1.4                                | 1.1         | 0.9         |
| Imports                        | -16.8                                 | -31.3       | 20.8                          | 21.7        | 22.8        | -3.8                               | -4.5        | -5.3        |
| <b>Real GDP growth</b>         |                                       |             |                               |             |             | <b>6.8</b>                         | <b>8.0</b>  | <b>7.8</b>  |

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

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The government has been trying to diversify the economy for the past few years, with no tangible results, but the effort remains an important part of the country's new economic strategy. Private sector activity may partly explain the recovery in the non-oil/gas sector, but productive services and infrastructure (excluding construction) in fact account for half the non-oil/gas sector's growth and these sectors are heavily dependent on government investment and other activity linked to the national budget. The traded goods sector (excluding oil and gas) contributes very little to growth, illustrating Libya's real problems of diversification. Agriculture, mining and manufacturing accounted respectively for only 0.24, 0.29 and 0.11 percentage points (about 10 per cent in total) of GDP growth in 2006, yet agriculture gets 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 (46.8 per cent) and consumption (40.1 per cent) figured very prominently in 2006 overall demand, while investment was only 13.1 per cent. Investment grew 8.7 per cent in 2007, consumption 9.4 per cent, exports 7.3 per cent and imports 20.8 per cent. Consumption contributed 7.9 percentage points to the overall growth rate of 6.8 per cent in 2007, investment 1.3 points and exports 1.4 points, while imports made a negative contribution of 3.8 points.

Public consumption was a sizeable 16.1 per cent of GDP in 2006 and private consumption 24 per cent. Public investment (10.9 per cent) was much greater than private investment (only 2.2 per cent). This illustrates the important role of government consumption and investment in growth, especially when 99 per cent of exports are from the government-controlled oil and gas sector.

## Macroeconomic Policies

Libya has abundant liquidity due to oil and gas revenue. The effects of this liquidity are mainly visible in budgetary and monetary policy and in Libya's external financial position.

### Fiscal Policy

The rise in oil and gas revenue ended the budget deficits of the 1990s. The 2006 budget surplus was 39 per cent of GDP and oil and gas revenue 66.3 per cent of GDP, compared with just 5.4 per cent contributed by the non-oil/gas sector. Higher oil prices will further increase the surplus and the dominance of oil and gas revenue over other income.

The healthy budget situation enabled the government in 2004 to repay its debts to the banks and

Table 2 - Public Finances (percentage of GDP)

|  | 1999        | 2004        | 2005        | 2006        | 2007(e)     | 2008(p)     | 2009(p)     |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Total revenue and grants<sup>a</sup></b>          | <b>35.5</b> | <b>58.5</b> | <b>68.6</b> | <b>71.7</b> | <b>73.6</b> | <b>79.2</b> | <b>80.1</b> |
| Tax revenue  | 17.7        | 4.1         | 2.8         | 2.7         | 2.9         | 3.0         | 3.4         |
| Oil revenue  | 15.6        | 50.6        | 63.7        | 66.3        | 68.1        | 73.4        | 74.0        |
| <b>Total expenditure and net lending<sup>a</sup></b> | <b>29.5</b> | <b>43.3</b> | <b>34.9</b> | <b>32.6</b> | <b>33.5</b> | <b>31.9</b> | <b>34.1</b> |
| Current expenditure                                  | 23.3        | 25.6        | 15.1        | 14.8        | 14.9        | 13.9        | 14.7        |
| <i>Excluding interest</i>                            | 23.3        | 25.6        | 15.1        | 14.8        | 14.9        | 13.9        | 14.7        |
| Wages and salaries                                   | 13.7        | 8.7         | 7.3         | 7.0         | 6.7         | 6.0         | 6.1         |
| Interest   | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         |
| Capital expenditure                                  | 6.2         | 17.4        | 15.4        | 16.9        | 17.8        | 17.3        | 18.8        |
| <b>Primary balance</b>                               | <b>6.0</b>  | <b>15.2</b> | <b>33.7</b> | <b>39.2</b> | <b>40.2</b> | <b>47.3</b> | <b>46.0</b> |
| <b>Overall balance</b>                               | <b>6.0</b>  | <b>15.2</b> | <b>33.7</b> | <b>39.2</b> | <b>40.2</b> | <b>47.3</b> | <b>46.0</b> |

a. Only major items are reported.

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

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to stop printing money to finance public spending. Taxes on production were replaced by a sales tax (15-25 per cent) as a first step towards a value added tax; the sales tax also applies to imports, on top of the existing 4 per cent import tax.

The country has an overall budget surplus, but when oil and gas are excluded it still runs a big deficit, though the latter decreased between 2001 and 2006. Non-oil/gas revenue represented 7.5 per cent of total revenue, mainly sales tax (36.7 per cent), customs duties (19.3 per cent) and other income taxes (44 per cent). This structure illustrates Libya's policy stance of low taxes and trade liberalisation. Private sector growth doubled the take from income and profits taxes between 2001 and 2006 and tripled the yield of other income taxes. This new revenue easily made up for the 70 per cent drop in customs receipts between 2001 and 2003.

An oil and gas revenue fund was set up in 1995 as a way to save money and stabilise the economy, but since then the non-oil/gas deficit has grown whenever oil and gas revenue has increased and sometimes shrunk when it has declined. The deficit is due to the scale of government spending, which amounted to more than 32 per cent of GDP in 2006, much higher than in rapid-growth countries in the Middle East and North Africa, such as Tunisia, or in the transition economies of eastern Europe and central Asia.

Libya's economy has performed better than others (notably those in transition countries) in some macroeconomic aggregates and less well in others. Libya spent 16.9 per cent of its GDP on investment in 2006, much more than other such countries, most of which spent less than 7 per cent. This investment spending was probably not very effective, however, due to the economy's small capacity to absorb it. The national wage bill for government workers has been frozen since 1981 and was only 7 per cent of GDP in 2006, but this will change substantially with the big salary increase in 2007, which will feed inflation in coming years and probably erode factor productivity, thus discouraging investment.

Direct subsidies (mainly of food items) and social transfers (including those from the social security fund) amounted to only 2.4 per cent of GDP in 2006. Other transition economies, with stronger social security traditions, budget more than 15 per cent of GDP for social transfers. However, indirect transfers are very large in Libya, especially through fixed low consumer prices (e.g. for petrol) and low prices charged to producers (e.g. for fuel oil used to generate electricity). State firms charge less than the market price, an advantage the consumer could also have obtained through direct government subsidies.

These subsidies greatly undermine efficiency, especially as some categories of government spending

are proving difficult to reduce. The funds could have been better used to boost productive spending (such as building infrastructure and human capital) or to increase household income through direct transfers or lower taxes, which would encourage private consumption or savings and thus raise consumers' standard of living. Experience has shown that subsidising energy and infrastructure has a very dubious effect on income distribution. The government could also make these subsidies more transparent in the national budget.

Extra-budgetary spending fell sharply from 15.2 per cent of GDP in 2001 to 2.6 per cent in 2006 as budget discipline tightened, 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 money is really available, so they can set taxes and make trade-offs between different funding sources.

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

Changes in the monetary base are mainly due to liquidity changes in the economy and the way the monetary authorities manage them. The base increased by a modest 15 per cent in 2006 and then by 30 per cent in third-quarter 2007. The latter was due to a slight (5 per cent) rise in money in circulation in the third quarter. Deposits by public enterprises also fell 15 per cent while regional commercial bank deposits rose 43 per cent. A big increase in net foreign exchange movements had less effect on the money supply than

in past years, as a large proportion of these funds are held by the Treasury and thus do not add to the money supply. However, higher deposits by other sectors made lending easier.

Internal liquidity, in terms of broad money supply, soared 22 per cent in 2007 due to a 23.6 per cent rise in narrow money (M1) as more cash became available to the public (M1 had increased by only 5.9 per cent in 2005). A 20.7 per cent increase in near-money was due to higher savings and term deposits, as well as deposits of currency and guarantees for letters of credit.

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 Central Bank of Libya (CBL).

The country's foreign exchange system has gone through four major phases: attachment to the gold standard (1952-86), attachment 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 exchange rate has been fixed throughout, with periodic devaluations by the central bank.

The CBL finished unifying the exchange rate in January 2002 and pegged it 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-oil/gas sectors more internationally competitive, with a view to future regional and international integration.

The dinar has continued to fall, losing more than half its 2002 value. This feeds inflation by making imports dearer (imported inflation) and disturbing the trade balance (imports becoming dearer in relation to exports), while increasing the dinar value of oil and gas revenue and thus artificially inflating government revenue.

What should the country's exchange policy be? How can the dinar be stabilised? The crucial choice is between continuing to tie it to SDRs or moving towards a managed floating rate. Exchange rate stability will also depend on how competitive the economy is, how successfully it has been diversified and whether inflationary pressures have eased.

The consumer price index shows 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 second-quarter 2005, increasing from 2 per cent in 2005 to 3.4 per cent in 2006, and an expected 7 per cent in 2007 and 2008, as the effect of exchange rate unification and trade liberalisation fades. The renewed inflation is fuelled by wage increases and higher public investment, both of which will continue in 2008 and present a serious inflation problem for the economy. The revival of the services sector to meet increased demand has pushed up its prices. The sector may become the motor of inflation in the next few years and lead to "Dutch disease", which Libya has avoided to this point.

Inflation might have been higher without the reduction in import prices caused by tariff cuts and lower

sales taxes. The budget surpluses since 2000 have also helped curb inflation, as the government no longer needs to print money. Oddly, the relationship between budget deficit and inflation has always been inverted in Libya. The budget deficits of the 1980s were followed by modest 3.2 per cent inflation, but when the deficits shrank in the 1990s inflation rose to 9.8 per cent. Exchange rate unification in the late 1990s helped to stabilise this relationship.

### External Position

The internal and external balances both follow oil price changes. The current account has shown a surplus for the past two decades, except in 1993 and in 1998. The surpluses in the 1990s were due to import controls, and those in the 2000s to oil and gas revenue. Even exchange rate unification and trade liberalisation had little effect on this. The current account surplus in 2005 was 41.6 per cent of GDP. This situation will continue as long as oil prices are high and exchange policy continues to take currency reserves and oil and gas revenue into account.

The external position is comfortable, with foreign exchange reserves hitting a record USD 62 billion in 2006, and the 2007 and 2008 figures are expected to be even higher. Reserves in 2006 were equivalent to 49 months of imports at 2006 prices, even though imports were far higher from 2002 to 2006 than during the 1999-2001 period.

The 2005 trade surplus was USD 18.7 billion (48 per cent of GDP), reflecting higher oil prices that more than offset a 24 per cent rise in imports. The lifting of

Table 3 - **Current Account** (percentage of GDP)

|                                | 1999       | 2004        | 2005        | 2006        | 2007(e)     | 2008(p)     | 2009(p)     |
|--------------------------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Trade balance                  | 12.0       | 38.2        | 48.2        | 51.8        | 50.5        | 52.3        | 47.0        |
| Exports of goods (f.o.b.)      | 26.0       | 67.0        | 74.2        | 77.7        | 79.3        | 83.7        | 84.4        |
| Imports of goods (f.o.b.)      | 14.0       | 28.8        | 26.1        | 25.9        | 28.8        | 31.5        | 37.4        |
| Services                       | -2.7       | -4.8        | -4.4        | -4.4        | -6.0        | -5.9        | -6.4        |
| Factor income                  | -2.4       | -0.8        | -0.7        | 0.1         | 1.8         | 2.0         | 2.8         |
| Current transfers              | -0.6       | -8.2        | -1.5        | 1.3         | -1.8        | -1.8        | -1.9        |
| <b>Current account balance</b> | <b>6.3</b> | <b>24.3</b> | <b>41.6</b> | <b>48.8</b> | <b>44.5</b> | <b>46.6</b> | <b>41.5</b> |

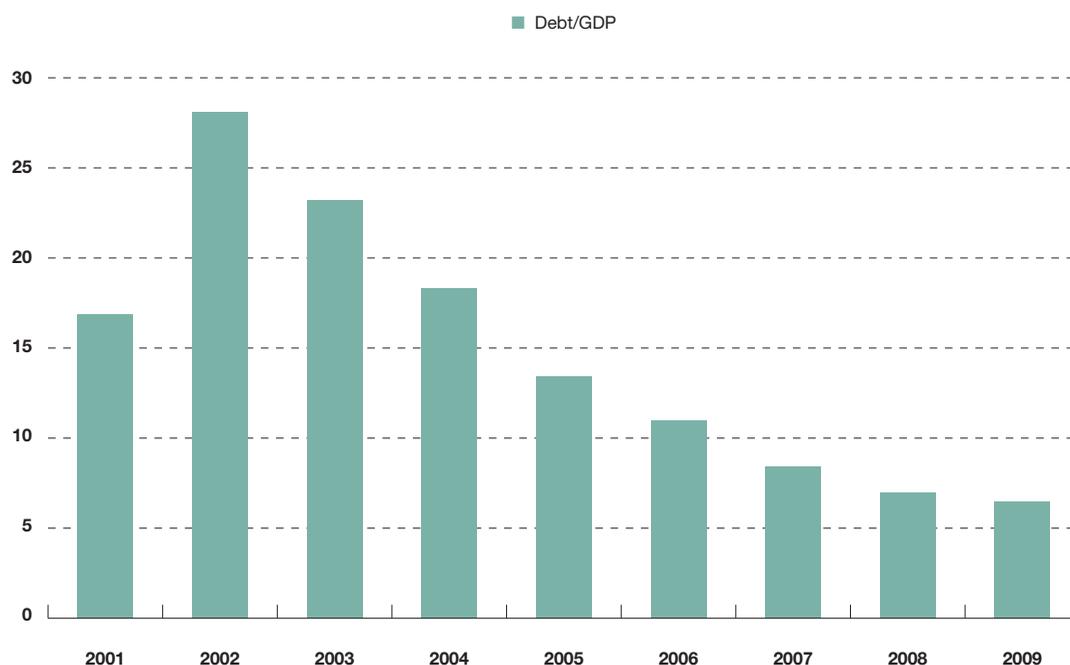
Source: IMF and local authorities' data; estimates (e) and projections (p) based on authors' calculations.

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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. Trade

liberalisation and exchange rate unification increased the volume of imports while lowering their price, which pushed down local prices and thus helped to hold inflation in check in 2005 and 2006.

**Figure 3 - Stock of Total External Debt (percentage of GDP) and Debt Service (percentage of exports of goods and services)**



Source: IMF.

StatLink  <http://dx.doi.org/10.1787/318807377048>

## Structural Issues

### Recent Developments

In recent years, the government has increasingly favoured structural reforms, especially gradual state withdrawal from productive sectors, a reduced role in the economy and greater transparency in public affairs. The reforms involve diversification, privatisation and reform of the banking and financial sector.

Diversification needs to be encouraged by growth in the non-oil/gas sector and by job creation, using oil and gas revenue to ease the transition to a market economy. Unlike other transition economies in the early 1990s, Libya has a healthy financial situation

allowing it to build the safety nets needed to cushion the effects of transition. Optimal use of oil and gas revenue will require a transparent framework for drafting and implementing the budget, tighter medium-term management of public finances and above-board handling of oil and gas income. This will bring macroeconomic stability to the transition and ensure the sustainability of the social safety nets and adequate funding for human resources development.

This strategy will require better management of oil and gas revenue, focused on stabilisation and savings. Medium-term fiscal discipline through proper monitoring of expenditure is a pre-condition for a tax system compatible with the state of the production

network. Making public spending more efficient will also require a broad range of reforms.

Privatisation and strengthening the private sector are the structural keys to transition to a market economy. 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.

Allowing a new economy driven by the private sector to develop is thus essential to faster growth of the non-oil/gas sector and job creation. 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, ten commercial banks, three specialised ones and one offshore bank, the Libyan Foreign Bank (LFB). Three of the ten commercial banks – Jamahiriya Bank, National Commercial Bank and Umma Bank – are wholly owned by the CBL. The Wahda 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 four banks, the Commercial Development Bank (77.8 per cent), Wafa Bank (100 per cent), Aman Bank for Commerce and Investment (100 per cent) and the Arab Unity Bank (100 per cent). It also owns the regionally decentralised National Banking Corporation (NBC).

There are also 48 regional banks, now consolidated into a score of firms. 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. This reform is one of the major tasks of 2008.

Steps have been taken to streamline trade, among other things by eliminating the import-licensing system and a fund to subsidise foreign exchange. Tariff barriers are still in place despite many efforts towards regional and international integration. Libya is involved in several regional integration processes, including the Arab Free Trade Area and the Community of Sahel-Saharan States. It has also taken steps to join the World Trade Organisation and the Barcelona Process, which aims to set up a trans-Mediterranean free trade area.

## Political Context

The country's political system is based on a dual power structure. The "revolutionary sector" comprises revolutionary committees led by a 19-member "revolutionary command council" chaired by Muammar Gaddafi, the unelected "Guide of the Revolution" whose legitimacy derives from his part in Libya's revolution. The Jamahiriya ("republic of the masses") is composed of 1 500 local people's congresses, 32 regional people's congresses (Shabiyat) and the General People's Congress (national parliament). These legislative bodies are elected and have executive bodies – local people's committees, Shabiyat people's committees and general people's committees. The general committees act as government ministries.

Libya was internationally isolated by UN sanctions from 1992 but normalised diplomatic relations with most countries in 2007. The process of political opening led immediately to economic opening, with an inflow of FDI and technology transfers.

## Social Context and Human Resources Development

Libya's population was an estimated 5.32 million in 2006, and it is growing more slowly than in the 1980s, at 1.8 per cent. The last census (2006) showed a big rise in the over-15 age group, to 68 per cent of the total (50 per cent in 1984). More than half the population is under 20, which will put pressure on the labour market and increase the demand for social services, especially education and health care.

The working population, at 30.7 per cent of the total in 2006, is a bigger factor in the economy than in the 1990s but still small compared with other countries. This is mainly due to the high percentage of young people and the low female participation rate (though the latter is increasing). Unemployment was estimated at 14.8 per cent in 2006, down from 17.3 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 because the government continues to provide extensive social support in the form of subsidies and higher pensions, as well as social assistance in kind, such as providing cars for low-income government workers. Other indirect subsidies, such as cheap water and electricity and petrol at below world prices, also reduce 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. Some 14 per cent of the population lives below the poverty line, and the number of poor rose from 605 000 in 1993 to 739 000 in 2001. They include pensioners without extra income, widows, orphans and elderly

people without income or relatives to care for them, and government workers having a family of six or more and monthly income of less than LYD 200. State withdrawal, private sector growth and inflationary pressure pose serious threats to household purchasing power.

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 the government aims to increase it to 71 years by 2012. Illiteracy fell from 26.6 to 18.3 per cent over the period, and the overall school enrolment rate increased from 88 to 94 per cent. Despite these improvements, the overall human development index (HDI) was unchanged between 1993 and 2004, at 0.80. In the United Nations Development Programme's 2005 Human Development Report, Libya was reclassified from the group of countries with medium human development to high-HDI status, ranking 56th out of the 70 countries in the latter group. It has the highest HDI in Africa.

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, however, and most better-off Libyans went abroad for treatment, especially to Tunisia. A scandal erupted in 1999 when 393 children were infected with HIV virus in a Benghazi hospital during blood transfusions supervised by a group of Bulgarian nurses and a Palestinian doctor. The medical team were later convicted of criminal negligence and condemned to death, before international pressure brought about their release in 2007. The affair harmed Libya's diplomatic relations and was not resolved until 2007. The government has promised since 2002 to boost the health budget and improve services. According to the Human Development Report, under-five child mortality dropped from 160 per 1 000 births in 1970 to 19 in 2001, and vaccination rates are high: 99 per cent of one-year-old children have been vaccinated against tuberculosis and 93 per cent against meningitis.

