LIBYA

Economic Research
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EXECUTIVE SUMMARY

Libya's economy, almost entirely dependent on oil and gas exports, has struggled since 2014 given security and political instability, disruptions in oil productions, and decline in global oil prices. The economy shrank by an estimated 60% of GDP in 2020 amid a military blockade on oilfields, paired with declining global oil prices. The economy is forecast to grow by 38.6% in 2021 amid a strong recovery in oil prices and domestic oil output.

Libyan oil and gas production, which accounts for nearly 60 % of aggregate economic output and more than 90% of fiscal and export revenues fell rapidly from the start of 2020, as military commander Khalifa Haftar imposed a blockade in January 2020 on the country's oilfields in a bid to weaken Tripoli-based **Government of National Accord** (**GNA**). Libyan oil production fell close to levels recorded during the civil war in the first month of 2020. However, a notable recovery was recorded after the lifting of Haftar's blockade in August 2020, which paired with an increase in global oil demand at the time. On the political side GNA never won support of the eastern parliament and GNA hand power to **Government of National Unity (GNU)** on 05.02.2021

Nonetheless, lower oil revenues for most of the year took its toll on both oil and non-oil economy, with the current account deficit widening to 11.4% of GDP in 2020 from just 2.3% in 2019. The blockade was estimated to wipe off 40% of Libya's fiscal revenues in 2020 down to LYD23 billion (World Bank). The government cut its own expenditures by 22% on the year in 2020 to LYD36.2 billion, with a considerable reduction in public sector employees. Wages and salaries account for around 60% of Libya's government budget, one of the highest. A smaller government budget also meant lower subsidies for essential products, which paired with rising global food prices, pushed the inflation rate up to 22.3 % in 2020 from 4.6%. Continued inflation and low oil production exacerbated poverty in a country already ravaged by civil war and repeated terrorist attacks.

The output will remain volatile given that political instability will be protracted over the coming years. Moreover, low oil prices will result in a sharp deceleration in the value of oil exports going forward. This will lead international investors to shy away from the industry, despite huge potential. At the same time, Libya's potential as an energy exporter will lead future governments to focus on the development of the sector at the expense of other segments of the economy, damaging the sustainability of the Libyan domestic economy.

Libya's 6.5 million population includes a work force of 2.5 million. Agriculture's share in Libya's economy is negligible, accounting for 1.8% of GDP and employing 19% of the workforce (World Bank). Main products include wheat, barley, olives, dates, citrus, vegetables, peanuts, soybeans and cattle. Arid climate conditions and the poor quality of the soil severely limit agricultural production.

Industry is the backbone of the Libyan economy because of the strong petrochemical industry. It accounts for 77.5% of GDP, employing 21.7% of the active population (World Bank). Production includes petroleum, petrochemicals, aluminium, iron, steel, food processing, textiles, handicrafts and cement. Services account for 20.7% of GDP and its share in total employment stands at 59.5% (World Bank).

1. LIBYA'S SWOT ANALYSIS

Strengths

- Substantial hydrocarbon reserves.
- Sizable sovereign wealth fund assets (although these are currently under sanctions).
- The international community, and particularly Europe and the Middle East, has a direct stake in ensuring that political stability returns to North Africa.
- A small population and large resource wealth mean that the government will most likely be able to continue to provide subsidies and public sector jobs to many local citizens, reducing risks of a popular uprising.

Weaknesses

- A significant amount of productive capacity has been lost, and it will take many years for the economy to return to levels seen prior to 2011.
- Huge investment is needed across infrastructure given the damage caused by the ongoing conflict.
- A complete lack of institutional capacity will hamper reconstruction efforts.
- The process of disarming, restructuring and unifying the country's numerous security forces will take many years. In the meantime, clashes between various militias will likely remain a regular occurrence.

Opportunities

- Should the political situation improve, transport and utility infrastructure would be two of the key growth areas over the coming decade given the scale of reconstruction needs.
- Hydrocarbon sector investment would also be likely to flow in, helping to expand output.
- Libya's political blocs have the rare opportunity to build political institutions from scratch.

Threats

- Risks of a prolonged, full-blown civil war persist - the consequences of which could lead to economic collapse.
- 'Lower for longer' oil prices would reduce Libyan foreign currency earnings and fiscal revenues.
- The involvement of external actors in Libya's local conflict risks prolonging the stalemate between the eastern and western factions.
- The presence of offshoots of al-Qaeda and Islamic State will continue to destabilise Libya for years to come.

2. ECONOMIC OUTLOOK

Main Economic Indicators					
	2015	2016	2017	2018	2019
Nominal GDP, USD bn	28	26	38	53	52
Real GDP growth, % y-o-y	-8.86	-2.80	26.68	15.13	2.54
Consumer price inflation, % y-o-y, ave	n/a	n/a	n/a	n/a	4,6
Budget balance, % of GDP	-130.8	-113.18	-43.46	-0.19	2.19
Current account balance, % of GDP	-33.57	-17.96	11.68	21.43	n/a

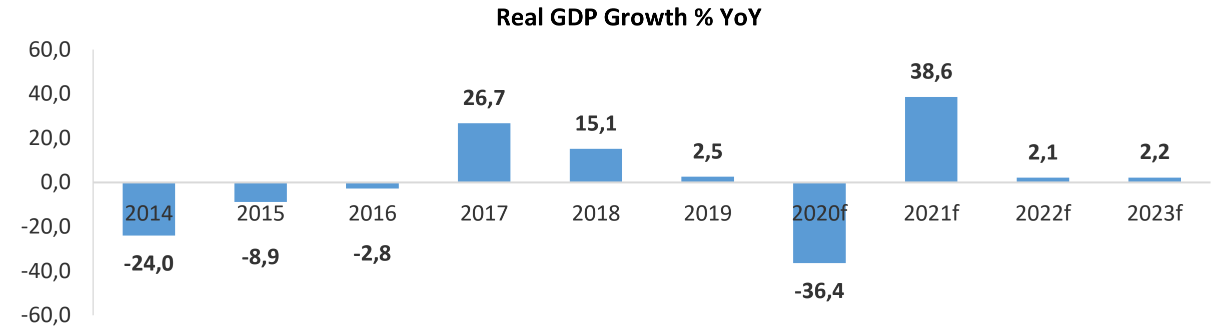
Source: World bank

A&T Bank View: *Strong Libyan economic recovery will be driven by oil and rising domestic demand. The real GDP growth forecasted to 38.6% in 2021 in Libya. A rapid recovery in oil production following the removal of a blockade will boost exports, while a concomitant increase in oil prices will also bode well for government revenues and spending. Private sector domestic demand will also likely see a moderate recovery on the back of increased government spending and marginal improvements in the business environment.*

CORE VIEWS

- The real GDP growth forecasted 38.6% in 2021 in Libya, an upward revision from previous forecast of 21.4%. A rapid recovery in oil production following the removal of a blockade will boost exports, while a concomitant increase in oil prices will also bode well for government revenues and spending. Private sector domestic demand will also likely see a moderate recovery on the back of increased government spending and marginal improvements in the business environment.
- Libya's fiscal deficit expected to decline to 19.5% of GDP in 2021, from an estimated deficit of 58.8% in 2020. Oil revenues will rise significantly on the back of a resumption in production and rising oil prices while non-oil revenues will increase alongside rising non-oil economic activity. Budget spending will be outlined in a unified budget agreed with input from both sides in the country's recently paused civil war. Spending plans expected to be expansionary. Financing for the shortfall will likely come from bilateral partners, which means the country's large debt load is unlikely to rise too significantly.
- Inflation expected to rise from 4,6 % in 2019 to 22,3 % in 2020 and to 15 % by the end of the year 2021. A devaluation of the official exchange rate will lead to imported inflationary pressures, especially for food, which makes up 38.8% of the consumer price basket. Over the longer term, inflationary pressures from the devaluation will begin to be offset by increased supply of FX on official markets and by a more efficient allocation of FX.

The outlook for the oil sector has improved significantly since production came back online in August 2020 when a blockade of the country's export facilities was lifted. Production, which fell to below 100,000 barrels per day (bpd) after the Libyan National Army (LNA) blocked exports in January 2020, has risen rapidly back to pre-blockade levels. According to OPEC data, output registered 1.2mn bpd in December 2020, a similar level to 12-months earlier, before exports and production were disrupted. The LNA had imposed restrictions as part of its military campaign against the Tripoli-based Government of National Accord (GNA). The two sides agreed to a ceasefire in August, which was swiftly followed by a lifting of the blockade. Although it's not known how much progress will be made on the path towards a sustainable peace and an eventual reunification, nonetheless oil production expected to remain online. The rapid uptick in production expected to increase from 462,000bpd (Barrels per day) in 2020 to 993,900bpd in 2021. In addition to rising production, oil prices expected to be higher in 2021, averaging USD53.00/barrel compared to USD43.20/ barrel in 2020. Oil income made up 55 % of total government revenues in 2019 and the resumption in production and increase in prices will have a material positive impact on budget resources. Furthermore, as part of transition negotiations, the Government of National Accord (GNA) and the Libya National Army (LNA)-backed House of Representatives have stated that they are working on delivering a unified budget to be implemented by the transitional government. Although the transitional team is likely to face significant challenges amid a volatile domestic political backdrop, a unified budget will unlock efficiencies and savings that will allow resources to be allocated more efficiently than in recent years.



Source: World bank f:forecast

Increased government budget resources bode well for domestic demand as a result of rising public sector wages, transfers and government investment. Although this will be offset to some extent by rising inflation on the back of currency devaluation, domestic demand will overall recover in 2021.

A moderate improvement in the business environment is expected, which will support an uptick in activity by domestic businesses and consumers. While the transition towards reunification will proceed as smoothly as the UN-backed plan suggests, a return to the levels of conflict seen before the August ceasefire is not expected. There will continue to be areas of cooperation and coordination in certain areas that will bode well for the business environment. For instance, the Central Bank of Libya has announced plans to move to single exchange rate following the first full board meeting in six years, involving directors from the LNA and GNA branches, which took place in December 2020. Up until that decision, there was a dual exchange official exchange rate fixed at LDY 1.4 /USD for public sector transactions and LDY 3.9 /USD for private sector transactions. From January 3, the rate was set at LDY 4.5 /USD for all transactions. The change in the exchange rate regime will reduce opportunity for corruption and rent seeking while the devaluation should also increase the supply of foreign currency available in formal markets. This should help to drive down the parallel market (unofficial market) exchange rate, which was LDY 5.35 /USD in mid-December according to a Reuters news article. The Central Bank of Libya's (CBL) decision to unify and devalue the country's exchange rate will be the main driver of the acceleration in inflation.

The devaluation will lead to inflationary pressures on imported goods. Food prices account for 38.8% of the consumer price basket and a large proportion of this is imported following the decimation of domestic production capacity during the civil war. On average, the country imports three-quarters of the 1.3mn tonnes of wheat consumed (mainly in bread) in a year. As a result of the devaluation, bread prices had reportedly increased by 32% m-o-m in January. Although the authorities ordered this increase to be reversed, high local currency costs of imported products will inevitably lead to higher prices across the board for imported goods. Once market participants become more comfortable with it, the change in the exchange rate regime will increase the volume of foreign currency that is available on the official market, reducing small businesses dependence on the parallel market. This may reduce inflationary pressures from the official devaluation later on in the year and into 2022. Gauging the volume of FX traded on official versus parallel markets is difficult given the absence of official data. That said, a relatively wide spread between the official and parallel market rates suggests that FX volumes have been light on official markets.

Libya faces considerable hurdles in the drive for a more durable economic recovery following the resumption of oil production and exports. The country's political leaders should address three short-term challenges in the policy agenda for economic development. ***First***, the National Oil Corporation and the Central Bank of Libya should reach an urgent solution on the oil revenues held offshore at the Libyan Foreign Bank. While fiscal transparency is a worthy objective, the impasse over oil revenue deposits risks damaging government activities and fiscal operations. ***Second***, Government of National Unity (the GNU) established on 05.02.2021 should realise a reasonable budget for the remainder of 2021 that is consistent with the country's development priorities and aligned with its institutional capacity. ***Third***, the competing branches of the Central Bank of Libya should advance the second generation of monetary reforms after the devaluation of the official rate in January. *The next items on the agenda are the unification of the two branches of the central bank, the integration of the payments systems in the west and the east and the resolution of liquidity problems both in the banking system and in the wider economy.*

3. FOREIGN DIRECT INVESTMENT (FDI)

Libya's development has traditionally relied on a number of positive factors, such as the abundance of oil and gas resources, a young and relatively small population (6.5 million inhabitants) and a strategic geographical location between Europe, Africa and the Gulf Region. Nevertheless, the ongoing civil war, along with the country's bureaucratic burden, low-skilled workforce and low level of economic diversification constitute severe challenges. The 2020 World Investment Report published by UNCTAD estimated Libya's 2019 FDI stock at USD18.4 billion (around 42.4% of the country's GDP).

Libya's industrial sector is based on oil refining, petrochemicals and iron & steel. Foreign investment mainly targets the oil industry and is vulnerable to the changes in the market. As central Tripoli comes under greater threat of devastation, other parts of the country appear to be attracting investment. Misrata, once known internationally for suffering a protracted siege in 2011, is once again a bustling commercial centre. Benghazi has received significant foreign investment to rebuilt the city the long conflict. By contrast, the World Bank's 2020 Doing Business report ranks Libya as the 186th easiest country to do business in out of 190 countries. Transparency International also ranks Libya as the 7th least transparent country (173rd out of 180) in its 2019 Corruption Perceptions Index.

The country has vast potential investment opportunities across various sectors, including infrastructure, power and manufacturing. Nevertheless, Libya's social, political and economic situation is inhospitable for foreign investors. Libya had in effect two opposing governments, while various militia groups control large swathes of the territory, made the country's policies towards FDI unclear. Government of National Unity (the GNU) established on 05.02.2021, will help the country's development priorities. *Conditioned on a return to political and security stability that could allow the government to implement a comprehensive reform programme to rebuild the economic and social infrastructures, Libya's investment potential is massive.* Overall, however, current challenges weigh heavily on its attractiveness as there is very limited scope that Libya will emerge out of its crisis over the short-to-medium term. As a result, Libya is ranking in 13th position out of 18 MENA states for Investment Openness.

As a result of ongoing political violence, a significant degree of human and physical productive capacity throughout the Libyan economy has been lost. Road, housing and utility infrastructure has suffered considerable damage and will take years to repair even under the most stable of political environments. Moreover, given the importance of the hydrocarbon industry, damage to oil production and refining infrastructure due to the fighting will pose significant long-term challenges. The general disorder and instability in the aftermath of the civil war have not created a favourable atmosphere for FDI. Consequently, in nominal terms, the country places above war-torn regional counterparts such as Syria and Yemen as well as Kuwait. Although Libya's oil wealth once attracted considerable foreign investment interest, the country's relatively poor performance in this category reflects continued hesitation on the part of foreign investors to participate in the economy. In the short-to-medium term, globally low oil prices will weigh on potential inward investment into the hydrocarbons sector.

Between May 2014-February 2021, Libya has been under at least two competing governments, such that policy disparity and inconsistency pose heightened risks to foreign investors. This has resulted in the split of the **National Oil Company** (NOC), Libya's state-owned oil producer and exporter. Given the primacy of oil in Libya's economy, the NOC is the key to investment in the most important sector in the country. While its headquarters have always been in Tripoli, the internationally recognised government in Tobruk announced the creation of its own eastern NOC in December 2015, declaring that all oil firms must deal solely with it. This caused investors to hesitate to engage in long-term contracts with either faction.

A new draft law will cap foreign ownership of companies in Libya at 49 %, reduced from 65 % under the Qadhafi regime. However, the majority of foreign ownership will be authorised in some industries, such as IT, health, education, heavy industry and real estate. Businesses in other sectors will be allowed 100 % foreign ownership if a minimum capital requirement of LYD5 million is reached. This means that opportunities for foreign investment in Libya will be restricted, particularly for small- or medium-sized businesses which cannot afford the minimum capital requirement, while the potential returns for investors will also be limited. In addition, while foreign investors are allowed to form joint stock companies (JSC) with Libyan shareholders, there is a minimum capital requirement of LYD1 million for such ventures which could discourage small businesses. The government has stated that no one, whether Libyan or foreign entity, can have more than a 10% shareholding in a JSC. Another obstacle to FDI is the law which states that foreign companies must have been operating for at least 10 years in order to set up in Libya.

On the other hand, there have been some post-revolution FDI success stories in Libya. For example, UK-based department store Debenhams set up a franchise in Tripoli in September 2013, US-based fast-food chain Cinnabon is now operating in the country, and Chinese companies have begun building railways and housing. *The construction industry remains one of the major attractions for FDI due to the rebuilding necessary as a result of the civil war, although continuing instability means investment in this sector is high risk.*

Foreign investment in the oil and gas sector has been relatively strong. Future governments are likely to follow more liberal policies and FDI could pick up once political turbulence passes over. However, foreign companies are still deterred by lax security. Due to their geographical proximity, European firms may be willing to take more investment risks than US oil firms. In the long run, opportunities for foreign companies are likely to expand as the possible new government undertakes new infrastructure projects, post-conflict reconstruction and expansion in electricity and water production. The government is also expected to introduce some pro-business reforms, including the expansion of free zones in coastal areas and borders, to encourage FDI and expansion of the private sector.

Foreign Direct Investment In Libya					
Indicator Name	2015	2016	2017	2018	2019
FDI inflows, USDmn	0	0	0	0	0
FDI inflows, % of GDP	0	0	0	0	0
FDI outflows, USDmn	395	440	-295	276	345
FDI outflows, % of GDP	1.42	1.68	-0.78	0.52	0.66
Net portfolio investment, USDmn	-523	-1,444	257	-25	0
Net FDI, USDmn	395	440	-295	276	0

Source: World Bank

3.1. What to consider if you invest in Libya?

Strong Points

- Its geographical location: the country is in the centre of a triangle formed by Europe, Africa and the Arab countries of the Middle East.
- Considerable natural resources.
- Liberalisation policies which favour private investment and should revitalize Libya's economy.
- Low level of foreign debt.
- Its dynamic demography.

Weak Points

- Political instability and ongoing violences in Tripoli, which continue to threaten the democratic process of elections.
- The south of the country faces the proliferation of trafficking (humans, weapons, drugs)
- Omnipresence of the State in the economy;
- The country's extreme dependency on oil resources.
- An inefficient administration which hinders the development of the private sector.
- Lack of loans and a control of prices and exchanges, constraining economic growth.
- Imports restrictions causing shortage of basic goods and food products.
- A high unemployment rate estimated to 25%, mainly among the youth.

3.2. Government Measures to Motivate or Restrict FDI

The Lybian Investment Law is designed to encourage the investment of national and foreign capital in Libya. Tax benefits are granted to companies that can contribute to the diversification of the local economy, the development of rural areas, the increase of employment, etc. The tax exemptions applicable to companies registered/governed by the Investment Law include a five-year exemption from income tax; an exemption from tax on distributions and gains arising from a merger, sale or change in the legal form of the enterprise; an exemption for profits generated from the activities of the enterprise, provided the profits are reinvested; an exemption from customs duties on machinery and equipment; and an exemption from stamp duty.

A free zone has been established in Misrata (Qasr Hamad port area). Foreign investors in Libya are required to have an agent in the country; in addition, it is difficult to find a good business partner and there is an absence of reliable statistics for marketing studies. Tourism, industry, health, services or agriculture are sectors defined by the General People's Committee as being open to foreign investment. Advantages such as tax exemptions are reserved for projects carried out within the framework of this law. However, the percentage held by Libyans or Libyan companies within the framework of this law cannot be less than 51%.

3.3. Trade and investment risk SWOT

Strengths

- Tax holidays of five years, as well as exemptions from stamp and customs duties, are available to foreign businesses under the Investment Law.
- Locating in free trade zones will save on overheads due to tax exemptions and locally priced fuel.
- Libya’s various trade agreements, including with major trading partners, gives its businesses preferential access to various international markets.

Weaknesses

- Continuing political instability and concomitant policy inertia creates a difficult environment in which to operate a business.
- The underdeveloped nature of the domestic banking sector and poor connectivity to international financial markets limits the availability of credit in Libya.
- Onerous tax obligations for businesses increase costs and the amount of working time lost to bureaucratic procedures.

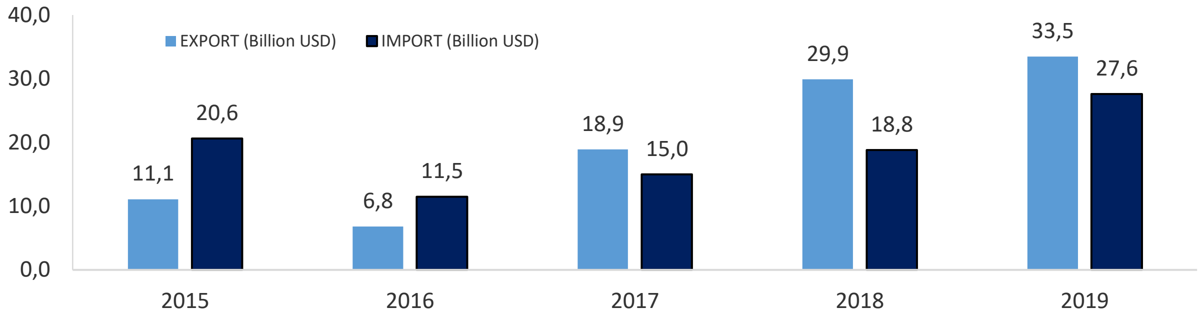
Opportunities

- Reasonably high import value and import market growth represent a large demand for goods being brought into the country.
- The desperate need for rebuilding ensures opportunities for foreign investment in the construction industry, although this remains a high risk at present.
- A resolution to Libya's leadership crisis would pave way for the unfreezing of USD67bn owned by the Libyan Investment Authority, which would be used to fund infrastructure development and economic diversification.

Threats

- The prevalence of non-tariff barriers to trade makes it more difficult to bring goods into the country and sell them at a competitive rate.
- Government bureaucracy is extremely complex and difficult to navigate for investors.
- Continuing fighting will lead to further damage to key infrastructure and public institutions, which would take long to rebuild.

4. FOREIGN TRADE OUTLOOK



Source : World Bank

Libya has historically had a large structural trade surplus; however, since 2011 trade volumes have been very volatile largely due to weak security and policy inertia. Although Libya has the highest proportion of exports and imports in the MENA region at 93.1% and 97.7% of GDP respectively, overall trade volumes are not that competitive. Total exports and imports came in at USD61 billion in 2019, which is higher than only seven other countries out of the 18 states in the MENA region. This was however way below the regional average of USD139 billion. Continued political instability and intense fighting remain the main cause of disruptions to oil production and export.

The value of product exports (USD33.5 billion) outweighed imports (USD27.6 billion) in 2019 (latest available figures) of which more than 97% of exports were hydrocarbons, indicating a poorly diversified export base. Despite the country having exported more than it imports in 2019, the slump in global oil prices coupled with regular production disruptions, in the short-to-medium term imports expected to exceed exports.

Traditionally, Libya's top exports have heavily been dominated by hydrocarbons and crude petroleum products (crude and refined petroleum and petroleum gas), gold and nitrogenous fertiliser. This is due to lack of economic diversification, which has left the economy heavily dependent on oil and gas. In 2018, chemical, industrial and fuel exports amounted to USD28.7bn, representing about 98% of total exports. As with many other Arab nations in the region, Libya experienced a political (Arab Spring) revolution in 2011 followed by a civil war that led to a collapse of the country's regime leading to a slump in economic activity. For instance, the 2017 value of hydrocarbons and crude petroleum products exports represented only about 48% of industrial and fuel products exports. Although exports have recovered, coming in at 75% of their 2010 values in 2018, the balance of risks is to the downside due to the ongoing conflict. Due to the historic success of the oil industry, other sectors in Libya have been overlooked and much of the country's potential in other economic sectors such as tourism, alternative energy and services has not been exploited. This carries with it the risks normally associated with any highly undiversified economy, such as volatile trade flows, foreign currency and price volatility.

Libya's main merchandise imports are food and agricultural products for consumption purposes, machinery and intermediate manufactured goods as well as refined petroleum fuel imports given the country's limited refining and manufacturing capacity. While imports are relatively diversified, the fact that Libya relies almost entirely on imports of all products carries significant risks. This dependence on imports leaves the country exposed to risks such as price increases, exposure to geopolitical threats that may disrupt supplies and imported inflation. In addition, the country depends heavily on oil revenues to support its import, meaning that the country’s imports are exposed to factors affecting the oil market.

While Libya's relationship with the West has suffered from political instability and the imposition of sanctions, the EU remains the top destination for its exported products.

Over 56 % of Libyan exports went to four EU markets in 2019 (Italy, France, Spain and Germany). This highlights that the country has a poorly diversified mix of export partners in terms of geographical spread, which exposes it to localised risks such as slow growth in the EU. In particular, the future of the EU remains highly uncertain, given the rise of nationalists sentiment in some member states that have become increasingly Eurosceptic. This was also highlighted by the UK's decision to withdraw from the grouping. The EU’s internal challenges are going to weigh heavily on its unity, which risks undermining growth across members states as economic policy becomes dominated by politics.

The severity of the Covid-19 outbreak in key EU member states, such as Italy and Spain in 2020, will further test the EU's resilience in addition to undermining its growth over the short-to-medium term. As a result, any slowdown in EU economic growth will be negative for Libyan exports due to low demand of its product this would bring.

Outside of Europe, China is the only country to feature in Libya's top five export partners. Libyan exports to China have grown significantly over the past five years, from USD945 million in 2015 to over USD4.4 billion in 2019.

By contrast, Libya has a better diversified mix of import partners in terms of geographical spread, which lessens its vulnerability to region specific factors in terms of import supply. Turkey, UAE, China, Spain and Italy were the top five source countries for products imported into Libya in 2019. Egypt and Tunisia used to be Libya's top two import partners in the region but intermittent border closures due to terrorist activities and instability in Libya have significantly disrupted trade flows with its neighbours. Libya's imports from the EU, which mainly consists of agricultural products, food, mineral fuels, machinery and transport equipment reflect the absence of a substantial manufacturing base for intermediate and consumer goods. Nevertheless, as highlighted above, Libya still relies on export revenue to fund its imports, leaving these highly susceptible to low oil prices that would hurt oil revenues.

Libya Foreign Trade Indicators

Indicator Name	2015	2016	2017	2018	2019
Exports, USDbn	11	7	19	30	34
Exports, USDbn, % y-o-y	9	-27	129	22	17
Exports, % of GDP	40	26	50	57	64
Imports, USDbn	21	12	15	19	28
Imports, USD, % y-o-y	-38	-42	27	24	44
Imports, % of GDP	74	44	40	36	53
Net trade, USDbn	-10	-5	4	11	6
Balance of trade , USD, % y-o-y	-50	-51	-183	185	-47
Balance of trade, % of GDP	-38.5	-13.2	7.5	21.2	3.5

Import Partners in 2019	Value (bn USD)	Shares (%)
World	28	100
Turkey	1,9	7
UAE	1	5
China	1	5
Italy	1	5
Spain	1	3

Export Partners in 2019	Value (bn USD)	Shares (%)
World	34	100
Italy	10	29
China	5	14
Spain	3	9
France	3	8
UAE	1	3

Import Products in 2019	Value (bn USD)	Shares (%)
All products	28	100.0
Mineral fuels	4	13
Elect.Machinery	1	9
Vehicles	1	9
Machinery	1	7
Cereal	1	3

Export Products in 2019	Value (bn USD)	Shares (%)
All products	34	100
Mineral fuels	28	97
Pearl prec.metal	1	4
Iron and steel	0	1
Copper	0	0,2
Org.chemical	0	0,2

Source : World bank

5. BANKING SECTOR OUTLOOK

Libyan banks can only offer limited financial products, loans are often made on the basis of personal connections (rather than business plans), and public bank managers lack clear incentives to expand their portfolios. The lack of adequate formal financing vehicles acts as a handbrake on Libya's development, hampering both the completion of existing projects and the start of new ones.

The banking system in Libya is dominated by four banks: Jamahiriya Bank, Wahda Bank, Sahara Bank and the National Commercial Bank, which comprise around 90% of Libya's banking sector assets as of 2017 (latest available figures). The two largest banks in the country are the Jamahiriya Bank and the National Commercial Bank, control at least 72% of all assets in the banking sector.

Local banks offer a limited range of financial products and loans are often made on the basis of personal connections, making it difficult for foreign businesses to acquire credit.

Libyan commercial banks are allowed to open foreign exchange accounts and conduct cash payments and transfers in foreign currency. Commercial banks operating in Libya may grant credit in foreign exchange and conduct foreign exchange transactions with one another, and they must be granted a licence by the CBL. Foreign exchange facilities are available at most large hotels and airports, and ATMs are becoming more widely available.

It will allow the CBL to provide foreign exchange liquidity to banks, which will normalise commercial banking operations in the medium term. In order to improve market liquidity, the central bank would need to increase the number of supervisory and regulatory measures to ensure a stabilised macroeconomic environment and cohesive political structures need to be formed over the medium term. The restructuring of the financial sector can further aid increased FDI in Libya.

List of Libyan Banks (February 2020)			
	Bank	Main ownership	Location
1	Jumhouria Bank	State	Tripoli
2	National Commercial Bank	State	Bayda
3	Shara Bank	State-Mixed	Tripoli
4	Wadha Bank	State-Mixed	Benghazi
5	North Africa Bank	State-Mixed	Tripoli
6	Bank of Commerce &Development	Private	Benghazi
7	Aman Bank for Commerce and Investment	Private	Tripoli
8	Wafa Bank	Private	Tripoli
9	Al Waha Bank	Private	Tripoli
10	Alejma'a Al Arabi	Private	Benghazi
11	Assaray Bank Trade & Investment Bank	Private	Tripoli
12	Mediteranean Bank	Private	Benghazi
13	United Bank for Commerce & Investment	Private	Tripoli
14	Arap Commercial Bank	Private	Tripoli
15	First Gulf Libyan Bank	Private	Tripoli
16	Libyan Foreign bank	State	Tripoli
17	Nuran Bank	Private	Tripoli
18	Libyan Islamic Bank	Private	Tripoli

Source : World Bank Group

5.1. Key Financial Sector Highlights

- Split in the central bank resulting in 2 central banks in Tripoli and Bayda.
- Majority of banks headquartered in the West and reporting to CBL Tripoli. Banks headquartered in the East control about a third of banking activity and report to the central bank in Bayda. CBL (Tripoli) has limited visibility on their activities. All banks have operations in both East and West of the country and they hold reserves at CBL Tripoli and in Bayda.
- Banking sector controls over 80 % of financial sector assets.
- 19 banks, 6 of which are state-owned. Public banks are owned by CBL, they dominate the banking system and control approximately 90 % of deposits.
- Banking system assets- LYD124 billion (2018), out of which loans and credits are LYD 16 billion (13%). 87% of deposits are short-term.
- Capital adequacy ratio was above 15% over the last 6 years.
- National Deposit Guarantee Fund established in 2005 under oversight of CBL. Covers up to LYD 250,000 for current accounts.
- In 2013 Law #1 was adopted prohibiting interest on all civil and commercial transactions, which led to reduction in credit extension.
- 22 insurance companies (top 2 control 60% of the industry assets).
- Libyan stock exchange was founded in 2006 but has been inactive since 2014 due to political instability.
- 1 leasing company focused on automobile leasing.
- First microfinance institution established with donor funding in 2019.
- Law #4 of 2016 established legal basis for sukuk, but none issued to date.
- Specialized Credit Institutions; These include Savings and Real Estate Investment Bank, Agriculture Bank, Development Bank and Rifi (Rural) Bank.
- State Owned Funds: Libyan Investment Authority (Sovereign Wealth Fund), Libyan Economic and Social Development Fund and Libyan Internal Investment and Development Fund.
- Libyan Credit Information Center created in 2009. Provides limited information.
- Dysfunctional land registry and no movable assets registry.
- Payment infrastructure: National switch has been instituted but not all banks are yet connected. Volume of transactions processed through the national switch has been increasing. There are 11,453 POS and over 500,000 customers.
- Credit to private sector as 17.7 % of GDP (2018).
- While two thirds of Libyans have an account, most of the accounts are limited just to receiving wages.
- Saving and borrowing rates are high (60% and 50%, respectively) but largely informal.
- Refugees and migrants are excluded from formal financial services.

6. TURKEY & LIBYA RELATIONS

Libya – Turkey foreign trade relationship				
Years	Export (USDmn)	Import (USDmn)	Trade Balance (USDmn)	Trade Volume (USDmn)
2017	915	232	683	1,147
2018	1,583	372	1,211	1,955
2019	2,069	484	1,585	2,553
2020*	1,653	1,674	-21	3,327
2021*	642	152	490	794

*:January – March 2021

The main products in Turkey's export to Libya in 2020		
Product	Million USD	%
Total	1,540	100
Plastic	147	8.9
Furniture	147	8.9
Pearl, precious metal	111	6.7
Machinery	98	5.9
Animal or vegetable fats or oil	87	5.3
Electrical machinery	78	4.7
Articals of apparel/clothing knitted	74	4.5
Articals of apparel/clothing	64	3.9
Carpets	59	3.6
Articals of iron and steel	43	2.6

The main products in Turkey's import from Libya in 2020		
Product	Million USD	%
Total	1,667	100
Pearl, precious metal	1,320	79.0
Iron and steel	179	10.7
Copper	100	6.0
Aluminnium	36	2.1
Mineral fuels	21	1.3
Inorganic chemical	3	0.2
Leather	3	0.2
Fertiliser	3	0.2
Salt, sulphur, earth	2	0.1
Fish	1	0.1

Source : Turkstat-Tuik

The High Level Strategic Cooperation Council (YDSK) meeting between Turkey and Libya was held in Ankara on April 12, 2021. President of republic of Turkey Recep Tayyip Erdoğan and the Libyan Prime Minister of National Unity Government Abdul Hamid Dbeibeh signed 5 agreements. The common interests of both countries, regional stability and cooperation, and maritime jurisdiction areas in the Mediterranean were highlighted in the agreements. The parties exchanged information on the smooth realization of the political process leading to the general elections planned on 24 December 2021. The parties exchanged information that the problems in Libya can be resolved through political methods under the leadership and ownership of Libyans, and emphasized that the elected Presidential Council and the National Unity Government are the only legitimate management structures in Libya. The two countries agreed to carry out the necessary field investigations with the aim of restarting Turkish Airlines flights to Libya, and confirmed their goal of increasing the bilateral trade volume to USD5 billion.

Following Libyan Prime Minister Abdul Hamid Dbeibeh's two-day official visit to the capital Ankara, an increase in trade and business development is expected between two countries. As some projects by Turkish firms were interrupted during the disorder in Libya, especially construction projects, the Libyan government is ready to support their completion and encourage new ones.

According to the head of Turkey's Foreign Economic Relations Board (DEIK), Turkish businesses will undertake new projects in the energy, healthcare, and construction sectors in Libya as promised during the prime minister's visit to the Turkish capital Ankara. The meeting also covered opening a Libyan Embassy in the capital Ankara and a Turkish Consulate in Benghazi, north-eastern Libya, as well as enabling visa-free visits for Turkish nationals and signing a free trade pact between the two countries.

Next Turkish-Libyan meeting under DEİK, on a sectoral basis, will be held in Libya in May 2021 after Ramadan (Eid al-Fitr). Turkish companies and business-people have a long-established relationship and substantial experience with Libya. One of Libya's current issues is energy shortage. This was one of the important topics discussed during the roundtable meeting. The country has serious oil-related needs, including refineries that Turkish businesses should invest in. Bearing this in mind, Turkish investments in Libya should be considered not only in construction but also in the energy sector. The trade volume between the two countries topped USD3.3 billion in 2020. The five agreements signed in Ankara to boost cooperation included the field of media, construction and power plants. Besides power plant construction, also electricity distribution is on Turkish business people's agenda. The meeting also addressed cooperation in the healthcare sector. Libya's health minister will continue negotiations with Turkish companies for both hospital construction and management.

On 04.05.2021, the Libyan government announced that it created a fund for the reconstruction of cities affected by the war in recent years. According to a statement by the Government of National Unity, a fund of 1.5 billion Libyan dinars (around USD335 million) has been created for the reconstruction of Benghazi, the second largest city in Libya and eastern part of Derna city. The reconstruction fund, a legal entity based in Benghazi, aims to reconstruct the regions destroyed by the war and to repair the damage to the infrastructure and buildings. The fund will also undertake the task of determining priorities, establishing a mechanism for the payment of compensation, contracting for rubble removal and maintenance works, as well as coordination with local authorities for urban development of devastated areas.

Turkey's largest import partner in northern Africa is Libya with USD1.7 billion amount in 2020. Turkey's third largest export partner in the northern Africa is Libya with USD1.6 billion (after Egypt and Morocco). The trade volume between the two countries increased from USD2.6 billion in 2019 to USD3.3 billion in 2020. Trade balance was in favour of Turkey in 2019. However, as the import from Libya increased to three-folds in 2020, the trade balance turned in favour of Libya. Turkey's overall exports are primarily plastic, furniture and precious metal. Libya mainly exports precious metal, iron and steel and cooper to Turkey.

According to TUİK data, yearly export volume based payment types to Libya in 2020 is totally USD1.6 billion. On the other hand, yearly export from Turkey to Libya which passes through banking canal is totally USD366 million in 2020. A&T Bank share in total banking channel is 88 % in 2020.

6.1. Turkey- Libya business council

Turkey-Egypt Business Council was established in 2007 under the roof of Turkey-Africa Business Councils. DEİK's counterpart is the Libyan Chamber of Commerce. Its objective is to increase trade and intensify the economic ties between the two countries. Libya economy and investment forum meeting of the Turkey-Libyan Business Council was held in November 2019 in Rabat. Political stability and great opportunities in the Libyan economy were discussed in the forum. Discussions included economic and investment issues on behalf of business people, in addition to consultations on restructuring of Libya. The size of the projects undertaken by Turkish contractors in Libya so far has exceeded USD28 billion, since the beginning of trade relations with Libya.

Turkish member of the business council are: Karanfil Dış Tic. ve Uluslararası Taşımacılık Ltd. Şti., Çamlıca Turizm ve Yatçılık A.Ş., Teknopalas Yüksek Teknoloji Sistemleri A.Ş., Adembatur Tekstil San. ve Tic. Ltd. Şti., Bosca Hukuk Bürosu, Şölen Çikolata Gıda San. Tic. A.Ş., 77 İnşaat ve Taahhüt A.Ş., Baştuğ Metalurji Sanayi A.Ş., Acarsan Holding A.Ş., Vefa Holding A.Ş., Tümen Paketleme ve Antrepo Hizmetleri Gıda ve Tarım Ürünleri İthalat İhracat Sanayi ve Tic. Ltd. Şti., Aykar Denizcilik Nakliyat Ltd. Şti., Gündüz Panjur, Roz Metal Sanayi ve Ticaret A.Ş., Kolan Hastaneler Grubu-Kln Sağlık ve Eğitim Hizm. A.Ş., Karanfil Bulding Proje Yönetimi Sanayi Tesisleri Kurulum Müşavirliği San.Tic A.Ş.