Libya: Open for business

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- **In the past two months, Libya has witnessed intense diplomatic outreach, with many promises made, and old fault lines crossed. Political positions have also been revised.**
- **Going forward, we expect disruption to the oil sector to be localised. Production stability will still require steadfast cooperation between domestic institutions, critical for regaining the interest of foreign investors.**
- **The continued presence of contradictory international players – mainly Turkey on one side and Russia on the other – and randomly active militias remain the predominant risks to peace.**

Change is afoot

There has been a flurry of diplomatic activity in Libya since the Government of National Unity (GNU) took its seat last month. Although we expect some teething problems in the coming months, the country is moving in a promising direction.

- Domestically, Dbeibeh's attempts to appease Libya's various factions is reflected in his government's make-up. His bloated cabinet underscores this strategy, as does his reluctance to assign anyone the role of defence minister.
- The role is a challenging one to fill. Whomever Dbeibeh chooses should maintain a position of neutrality regarding both Turkey's military presence in Tripolitania and General Haftar's presence in Cyrenaica.
  - Dbeibeh is trying to act as a conciliator and Libyans have welcomed the idea of a "businessman" in office instead of a military strongman. However, there are those who remain wary of his history.
  - The Dbeibeh family, originally from Misrata, is one of the richest in the country. Its wealth comes from close ties with the former ruler, Colonel Muammar al-Gadhafi, who awarded the family lucrative construction contracts.
  - Dbeibeh is also accused of nepotism. Indeed, he has chosen his cousin and two brothers-in-law as delegates to accompany him on his first foreign tour.
- Nonetheless the interim prime minister has garnered support from the international community. In the past few weeks, government officials from Europe and the wider MENA region arrived in the capital Tripoli to welcome the new government into office.
  - The Italian prime minister Mario Draghi was in Tripoli last week. He chose the former Italian colony for his first foreign tour.
  - Draghi underscored that Italy's was the only diplomatic mission to stay open in Libya throughout the conflict. He promised increased cooperation between the two countries.
- France and Spain have reopened their embassies in the capital, while Greece and Malta are set to reopen theirs soon.
- Notably, China is also set to reopen its embassy in Tripoli and is expected to open a consulate in Benghazi.
  - Sino-Libyan cooperation ran deep during the Gadhafi years, with estimated contracts valued at USD 20B. Beijing's interests took a hit after these projects were stalled during the conflict but are now likely to pick up again.

Table 1 - Libya Macroeconomic Indicators[1]

	2017	2018	2019	2020	2021f
Real GDP Growth (%)	64.0	17.9	9.9	-66.7	76.0
Crude Oil Production (M Bpd)	0.8	1.0	1.1	0.3	0.6
Oil GDP Growth (%)*	107.6	19.4	13.7	-72.7	100.0
Non-oil GDP Growth (%)*	-21.5	9.9	-11.7	-22.6	14.7
CPI Inflation (%)	28.0	-1.2	4.6	22.3	15.1
Fiscal Balance (% of GDP)	-43.5	-0.2	2.2	-102.9	-43.2
C/A Balance (% of GDP)	8.0	1.8	-0.1	-12.0	-7.1
Total Gov't. Gross Debt (% of GDP)	...	...	...	...	...
Total Gross Extrn'l Debt (% of GDP)	...	...	...	...	...
Gross Official Reserves (Months of Imports)	...	...	...	...	...
Nominal GDP (USD B)	30.2	41.4	39.8	21.8	31.8
Population (Millions)	6.5	6.6	6.7	6.8	6.8

- Ties with regional neighbours are also set to expand after Dbeibeh's tour of GCC countries finished last week. Most recently, he also visited Ankara to meet with Turkey's President Recep Tayyip Erdogan.
  - Like those of China, Turkish projects in Libya were stalled due to the civil war. However, Turkey maintained a presence in the country.
  - Turkey provided military support and supplied fighters to the UN-backed Government of National Accord (GNA). Ankara is now set to profit from its help and secure contracts to rebuild the country.
- With General Haftar's dwindling capacity to expand his grip on power, the security situation remains contingent on the predominantly Russian- and Turkish-backed foreign mercenaries who remain in-country.
  - While fighting has waned, it is unlikely these players will leave Libya in the near future. As per the October 2020 ceasefire agreement, the deadline for the departure of foreign mercenaries was January this year.
  - It is likely these mercenaries will stay, even after the projected term of the interim government.
  - With their presence largely formalised, their sponsors will now be looking to leverage their presence in the country to generate economic returns.

A crescent of light

Economic growth will naturally stem from Libya's improving political situation. While the outlook depends on the willingness of different factions to maintain stability, the new state budget suggests Libya could be on track to rebuilding its battered economy.

- The promise of peace and the prospect of resumed oil production provide grounds for optimism going forward. The IMF expects 2021 GDP at 76% and 55% in 2022. This is a glaring contrast to 2020's contraction of 31%, the sharpest in recent history.
- Details of the new interim 2021 state budget draft reveal that revamping the oil sector is Libya's top priority. If approved by parliament, this will be the first unified budget since 2014.
  - The USD 22B 2021 draft budget allocated USD 1.6B to the National Oil Corporation (NOC), a third of total expenditure granted to development projects.
  - The 2021 spending plan estimates oil revenues at USD 20B, accounting for 80% of the total USD 25B in revenues.

[1] Arabia Monitor; IMF.

- The USD 3.9B oil revenues which were withheld by the NOC in 2020 amid clashes with the Central Bank of Libya (CBL) form part of this year's budget.

➢ Libya's exemption from OPEC+ production cuts and a gradual flow of oil revenues amid rising prices mean higher spending is key to restoring infrastructure and stabilising production. This may also create surprising and much-needed fiscal space.
- Since the ceasefire agreement, Libya has managed to reach its 1.3M bpd target. The NOC aims to increase production by another 150k bpd to reach 1.45M bpd by the year's end. It intends to increase this further to 1.6M bpd by 2023, and to 2.1M bpd by 2025.
- This surpasses Libya's peak since the revolution in 2011, when production levels reached 1.3M bpd. It also goes far beyond the average of 0.89M bpd over the past five years.[2]

➢ However, the situation remains fluid. Progress is dependent on the security of Libya's oil facilities, as well as on the continued receipt of sufficient revenues for oil field maintenance and repairs.
- Oil exports could be interrupted following threats by the Petroleum Facilities Guard (PFG) to shut down export operations at Sharara oil field, Libya's largest, over unpaid wages.
- It is not uncommon for Libyan oil workers to put pressure on field and port operations during pay disputes. However, the situation at Sharara could impact the NOC's ability to meet this year's production target.

➢ Meanwhile, Libya's former OPEC spokesperson, Mohamed Aoun, has been appointed the Minister of Oil and Gas. This is a new position that did not exist under the previous government.
- It remains to be seen whether Dbeibeh's appointment strategy will reap rewards or introduce yet another element to the NOC-CBL rivalry; it is important to note that oil revenues will now be paid to the new ministry.
- Concerns relating to this strategy and the constancy of resumed oil production put pressure on Libya's fiscal position.
- Libya's fiscal balance is likely to remain unpredictable, at least until lingering security issues are resolved. This comes despite forecasts by the IMF that the deficit will narrow to 43% of GDP this year from a high of 102% in 2020.

➢ The rejection of the draft budget and the implementation of budgetary targets under a temporary government due to last until elections on 24 December entails further downside risks. This casts doubt on whether reforms by the CBL will take full effect.

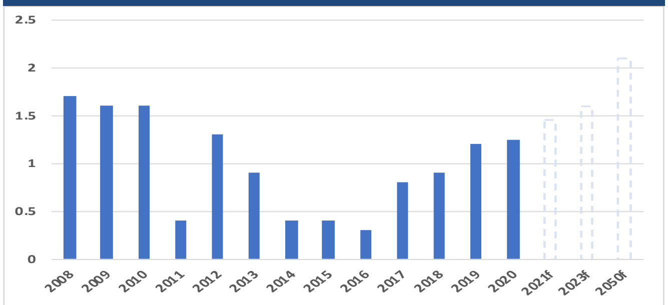
All eye a piece of Libya's post-war pie

The selection of a transitional unity government marks a pivotal moment in improving Libya's business environment and attracting foreign investment.

➢ Libya's business environment has long been stifled, as has its attractiveness to foreign investment. However, the picture appears to be blossoming under the GNU. Commercial barriers are being addressed and the country is set to reengage with global markets.

[2] The rise in oil production will be supported by the opening of two new oil fields in the Sirte and Ghadames Basins. The NOC is also working to restart production at oil fields which were previously shut due to attacks by Islamic State in 2015.

Figure 1 – Libyan Oil Production (Mb/d)[3]



- Discussions are ongoing to replace the chairman of the Libyan Investment Authority (LIA), the country's sovereign wealth fund. Since the imposition of UN sanctions on the LIA, its assets are said to total USD 67B.
  - The current chairman, Ali Mahmoud, has held the position since 2013, exceeding the five-year legal limit.
- This change by Dbeibeh follows criticism of the LIA's opaque management. It is desperately needed to regain the international community's trust in Libya as the country works to unlock its frozen overseas assets.

➢ Reforms have also long been requested by the UNSMIL. We see this change as a key step in rebuilding the country's subdued FDI flows.
- Anticipated improvement will be anchored by the CBL's new fixed exchange rate, which is set to reduce currency risk for entities seeking to trade with and invest in Libya.
- Since 2011, FDI inflows have been on a continuous decline, averaging 1.2% of GDP. Prior to that, and since 2000, the ten-year average was 2.2% of GDP, USD 1.86B per annum.

➢ We are already witnessing a return of foreign contracts to Libya. An uptick in domestic activity will be key to strengthening FDI inflows to levels similar to 2007's peak of USD 4.7B.
- Egypt has started to increase its links with several Libyan chambers of commerce and has plans to link Benghazi to its high-speed electric railway project. It also intends to build a road to sub-Saharan Africa through Libya.
- Turkey could also be a major actor in Libya's reconstruction as it aims to bolster its position in the Libyan market. The Turkish company Karanfil Group has recently completed the first phase of what is set to become Libya's largest cement factory.
  - To date, USD 10M has been spent on the facility, with a further USD 50M set to be invested.
- EU countries including Greece, Italy and Germany are reactivating agreements in several sectors, such as energy, healthcare and maritime.

➢ Renewed interest from foreign investors bodes well for Libya's business environment going forward. However, much more work needs to be done, including the implementation of stricter anti-corruption measures to ensure transparency in business dealings. This will also mitigate previous risks related to fraudulent letters of credit in the trade sector.

[3] Arabia Monitor; NOC.

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