Country Report

Libya

November 2009

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26 Red Lion Square
London WC1R 4HQ
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The Economist Intelligence Unit

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London
The Economist Intelligence Unit
26 Red Lion Square
London
WC1R 4HQ
United Kingdom
Tel: (44.20) 7576 8000
Fax: (44.20) 7576 8500
E-mail: london@eiu.com

New York
The Economist Intelligence Unit
The Economist Building
111 West 57th Street
New York
NY 10019, US
Tel: (1.212) 554 0600
Fax: (1.212) 586 0248
E-mail: newyork@eiu.com

Hong Kong
The Economist Intelligence Unit
60/F, Central Plaza
18 Harbour Road
Wanchai
Hong Kong
Tel: (852) 2585 3888
Fax: (852) 2802 7638
E-mail: hongkong@eiu.com

Website: **www.eiu.com**

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Libya

Executive summary

3 Highlights

Outlook for 2010-11

4 Political outlook
5 Economic policy outlook
7 Economic forecast

Monthly review: November 2009

10 The political scene
11 Economic policy
13 Economic performance

Data and charts

16 Annual data and forecast
17 Quarterly data
18 Monthly data
19 Annual trends charts
20 Monthly trends charts
21 Comparative economic indicators

Country snapshot

22 Basic data
23 Political structure

Editors: Rory Fyfe (editor); David Butter (consulting editor)
Editorial closing date: November 10th 2009
All queries: Tel: (44.20) 7576 8000 E-mail: london@eiu.com
Next report: To request the latest schedule, e-mail schedule@eiu.com

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Executive summary

Highlights

November 2009

Outlook for 2010-11

- Political power will remain vested in the Libyan leader, Colonel Muammar Qadhafi. Libya will retain its unique *jamahiriya* (republic of the people) system, but the structures of government will undergo halting reform.
- Colonel Qadhafi's most likely successor is his son, Saif al-Islam Qadhafi, a reformer who was appointed as general co-ordinator of the Popular Social Command with powers over parliament and the executive in October 2009.
- Relations with the US and EU will be subject to periodic bouts of tension, despite the resolution of the Lockerbie affair and scrapping of Libya's weapons of mass destruction programme.
- The hydrocarbons sector will dominate the economy, but non-oil growth will be strong. However, the government's inconsistent and unwelcoming policies risk deterring international oil companies and other investors.
- We expect real GDP growth to rise to 4.6% in 2010 owing to raised OPEC output quotas, strong non-oil sector growth and government investment, with a smaller increase to 4.7% in 2011 as the global recovery slows.
- We expect inflation to rise to an average of 5.3% over the forecast period, as international oil and non-oil commodity prices, particularly for food, rise.
- The current account will record a surplus of 25% of GDP in 2010—compared with an estimated 15% in 2009—although this will fall to 18% in 2011 as a result of lower average annual oil prices.

Monthly review

- Foreign relations have continued to be sullied by a series of disagreements, many of which are associated with the period when Libya was excluded from the international community.
- Libya has come close to finalising a US$1bn arms deal that includes the purchase of 20 fighter jets from Russia.
- Shokri Ghanem has been reinstated as chairman of the National Oil Corporation, having resigned only one month previously.
- The government has announced plans to build two major "energy cities" including hydrocarbons infrastructure and tourism facilities. The cities are expected to add up to 32,000 jobs.
- Government deposits in the banking system have slowed and negative domestic credit has contracted, but financial intermediation within the banking system remains poor, although reforms are planned.
- Consumer price inflation continued to slow during the third quarter of 2009 as imported food prices and housing costs have stabilised.

Outlook for 2010-11

Political outlook

Domestic politics

The Libyan leader, Colonel Muammar Qadhafi, has ruthlessly repressed political dissent, and there are now few real domestic threats to his rule. Colonel Qadhafi celebrated the 40th anniversary of his seizure of power in September 2009. There is no agreed process in place for the transfer of power but the appointment of Colonel Qadhafi's second-eldest son, Saif al-Islam Qadhafi, as general co-ordinator of the Popular Social Command in October 2009 has made him the most likely successor, and gives him powers that are equivalent to being head of state. Saif Qadhafi is the country's leading reformist, and his new position affords him control over parliament and the executive and a mandate to implement his economic reform programme. Colonel Qadhafi is likely to withdraw slowly from domestic politics, investing more time in his symbolic role as "king of kings of Africa". Other possible successors include Mutassim Qadhafi, Libya's national security adviser, who has recently accompanied his father on state visits and met the US secretary of state, Hillary Clinton, in April. Little is known about Mutassim Qadhafi, but he is thought to be central to Libya's domestic security structure. However, the succession is unlikely to become a pressing issue while Colonel Qadhafi retains power, which he is likely to do throughout the forecast period.

Significant political reform is unlikely. Colonel Qadhafi remains wedded to Libya's opaque and ineffective *jamahiriya* (republic of the people) system and continues to manipulate its structure to maintain the illusion of democracy—as demonstrated in early 2009 by the apparent rejection by the local-level Basic People's Congresses and the General People's Congress (akin to a national parliament) of his flagship economic policy, the Wealth Distribution Programme (WDP), which would have dismantled the existing government bureaucracy and devolved the distribution of hydrocarbons revenue to local-level administrative structures. In reality, the Libyan leader will continue to deny any individual minister the opportunity to build up a personal power base. Saif Qadhafi's appointment as, in effect, head of state may have partly been intended to counterbalance conservative and vested interests within the regime.

Although there is little immediate threat to the ruling elite, should the socioeconomic environment deteriorate further through, for example, rising unemployment, collapsing oil prices or growing inequality, the government could be faced with increased unrest. Feelings of political exclusion have been exacerbated by the collapse of the WDP and the eradication of Libya's privately owned media, which was nationalised in June 2009. However, with the economy expected to remain relatively strong and the opposition, with the exception of domestic Islamists, either in exile or lacking clout and coherence, the prospect of any threat to the regime appears limited.

The greatest fear for the authorities remains the potential challenge from home-grown Islamist militant groups, in light of regionwide concerns over the threat posed by al-Qaida affiliates and past Islamist-inspired assassination attempts against Colonel Qadhafi. Reconciliation and rehabilitation negotiations have proceeded secretly. The largest local militant organisation, the Libyan Islamic Fighting Group, has denied its affiliation with al-Qaida and renounced violence. However, these concessions were made by imprisoned members of the group, making it difficult to establish whether they are genuine. To combat the growing threat from al-Qaida in the Islamic Maghreb, regional co-operation is likely to increase.

International relations

Colonel Qadhafi will continue to seek to strengthen ties with the US and the EU, particularly Italy, while sporadically voicing anti-Western rhetoric and engaging with countries viewed as rivals of the US, such as Russia. International relations with a number of countries have been soured following the release of the man convicted of the 1988 bombing of a plane over Lockerbie, Scotland, Abdulbaset al-Megrahi, whose warm reception in Libya aroused international condemnation and caused a number of past disagreements to resurface. However, these disagreements are unlikely to have a significant long-term impact. In practice, economic imperatives, mainly in the oil and gas sectors, are likely to dictate relations with the West. Libya also harbours ambitions, particularly since it took on the one-year position of head of the African Union in February 2009, to lead Africa towards continental unity. The growing wealth of the Libyan Investment Authority, a sovereign wealth fund, and its increasingly strategic objectives will help to increase Libya's international clout.

Economic policy outlook

Policy trends

Economic reform has been, and is likely to remain, limited during the forecast period. Even in his elevated position, it will take considerable time for Saif Qadhafi to establish himself and to implement his vision for economic development. Any reform will face stiff resistance from vested interests, as some regime insiders are reluctant to relax their control over large swathes of the state-dominated economy—which has slowed progress on increasing private-sector and foreign-investor participation in the economy. However, there have been some privatisations and reform, particularly in the banking sector. Two state-owned banks have been partly sold off and another sale is expected before the end of 2009. Two new banking licences are expected, with foreign participation, which will help to modernise the sector along with technical assistance from the IMF and World Bank. Bank lending to the private sector increased by 58% between mid-2007 and mid-2009, which is set to continue and will help the small private sector to expand. The government is also nominally committed to streamlining the bureaucracy, although pledges to transfer thousands of civil servants to the private sector and increase transparency in the public finances have not been carried through.

The whims of Colonel Qadhafi will continue to create uncertainty in policymaking, which will deter investors, even in the oil sector. During 2009 the government hinted that it might nationalise the hydrocarbons sector; issued a decree requiring foreign companies to have Libyan nationals as their chief executives; and blocked the sale of Verenex—a Canadian company that had recently discovered oil—to a Chinese national oil company, while acquiring Verenex itself at a reduced price. The resignation of the reform-minded Shokri Ghanem, the chairman of the National Oil Corporation and *de facto* oil minister, in September 2009, and his reinstatement in October 2009 has added to the confusion and behind-the-scenes disagreements between policymakers. Despite the award of dozens of exploration permits, drilling success has been limited, and when exploration has been successful—as with Verenex—there have been impediments to developing the discoveries. This has eroded the formerly positive perceptions for hydrocarbons potential and for investment throughout the economy. Foreign investment, which is vital for the country's development, is therefore likely to become harder and more expensive for Libya to obtain, and some major foreign companies may withdraw.

Fiscal policy

In recent years high oil revenue has been deployed to overhaul the country's dilapidated infrastructure and the budget balance has been comfortably in surplus. Lower average oil prices in 2009 have led to less revenue, while spending has been maintained, leading to an estimated deficit of 2.2% of GDP. Growth in expenditure is expected to pick up in 2010 as revenue increases owing to slightly higher oil prices and an increase in OPEC production quotas. Efforts to cut the size of the civil service have been postponed and a pay increase is planned, also increasing spending. However, delayed project implementation will limit disbursements, and there will be some reductions in subsidies. Spending is forecast to fall slightly in 2011 as a drop in international oil prices leads to restraint. Therefore, a fiscal surplus of 4.8% of GDP is expected in 2010, followed by a lower surplus of 2.9% of GDP in 2011.

Monetary policy

Although Libya has historically pursued a largely passive monetary policy, mainly as the currency is pegged to the IMF's special drawing rights (SDR), the Central Bank of Libya has recently stepped up efforts to reduce excess liquidity by raising benchmark interest rates by 1 percentage point in 2008, increasing bank reserve requirements and introducing certificates of deposit with 91-day maturities. Pressure on the Central Bank to overhaul its approach to monetary policy and regulation of financial services is likely to increase as the banking sector is liberalised. State-subsidised credit institutions are currently crowding out commercial bank lending, and efforts will be made to reform them.

Economic forecast

International assumptions

International assumptions summary
(% unless otherwise indicated)

	2008	2009	2010	2011
Real GDP growth				
World	2.8	-1.2	3.2	3.4
OECD	0.6	-3.5	1.7	1.5
EU27	0.7	-4.2	0.8	1.1
Exchange rates				
US$ effective (2000=100)	92.5	99.0	94.6	92.1
US$:€	1.470	1.396	1.423	1.398
¥:US$	103.4	93.8	90.0	89.0
Financial indicators				
US$ 3-month commercial paper rate	2.18	0.25	0.55	1.50
€ 3-month interbank rate	4.65	1.22	1.08	2.50
Commodity prices				
Oil (Brent; US$/b)	97.7	61.9	75.0	70.0
Gold (US$/troy oz)	870.2	960.2	1,043.8	976.3
Food, feedstuffs & beverages (% change in US$ terms)	29.5	-20.9	2.7	-0.8
Industrial raw materials (% change in US$ terms)	-5.1	-26.6	18.8	3.1

Note. Regional GDP growth rates weighted using purchasing power parity exchange rates.

Our forecast for global economic growth has remained largely unchanged from last month and fiscal and monetary stimulus packages will continue to drive GDP growth. We expect world real GDP growth at purchasing power parity exchange rates to be 3.2% in 2010. The fading effect of the stimulus packages in some economies will hold back global growth in 2011, but we still expect it to rise to 3.4%. Our forecast for growth in the euro area—the main market for Libyan exports—is unchanged at 0.8% at market exchange rates for 2010 and 1% for 2011. We have raised our forecast for world trade growth to an average of 5.1% in 2010-11, as global trade has picked up, and we expect restocking to occur in OECD countries. Our oil price forecast remains broadly unchanged. Brent Blend is expected to average US$75/barrel in 2010 and US$70/b in 2011. The US dollar is forecast to strengthen from US$1.42:€1 in 2010 to US$1.40:€1 in 2011.

Economic growth

Libyan real GDP growth will increase from an estimated 4% in 2009 to 4.6% in 2010 as OPEC production quotas are lifted. The global economic recovery is expected to slow in 2011 and we therefore only expect a small increase in growth to 4.7%. The non-oil sector is also set to grow rapidly, albeit from a low base, supported by government infrastructure investment programmes, particularly in the construction, utilities and transport sectors. Moves to raise the proportion of locals in the workforce could further stimulate greater private consumption and help to kick-start private-sector economic activity along with the acceleration in bank lending to the private sector.

The Libyan economy will nevertheless continue to be dependent on the hydrocarbons sector for future expansion. Development work and new oil exploration will move forward slowly in an attempt to boost production capacity, although export volumes will remain well below 2008 levels in the short term owing to lower demand growth and OPEC production quotas. Investment and imports related to oil and gas developments will therefore grow to some extent in 2010-11, provided that international oil companies are not significantly deterred by the recent threats to nationalise foreign oil operations or subsequent regulations that aim to give the Libyan government greater control over the development of hydrocarbons assets. There is also strong foreign interest in the broader investment opportunities that Libya offers, although the slowness and unpredictability of economic reform will dampen the enthusiasm of international investors.

Inflation

After years of negative or low inflation, consumer prices picked up sharply in 2007-08 as the government slowly relaxed its control over the domestic market and economic growth strengthened. With domestic liquidity having risen steeply on the back of high oil prices, inflation averaged 10.4% in 2008, according to Central Bank figures. Lower prices for imported goods and commodities—with lower international food prices having the largest impact—and lower consumer demand will have caused inflation to fall to an estimated 2% in 2009, and consumer prices contracted by 0.6% in the year to September. Inflation is forecast to pick up again to an annual average of 5.3% in 2010-11 as expected reductions in subsidies are implemented, consumer confidence returns and higher oil revenue increases domestic liquidity. A slightly stronger Libyan dinar is likely to temper imported inflation during 2010-11.

Exchange rates

The dinar is pegged to the SDR and is managed through tight official controls. The country's huge stocks of foreign reserves—US$96bn at the end of July 2009—mean that the authorities will be able to defend the exchange-rate regime should any pressure on the currency arise over the forecast period. We expect the SDR, which strengthened against the dollar in 2008 but has weakened during 2009, to appreciate slightly in the remainder of the forecast period. The dinar is forecast to appreciate slightly to an average of LD1.23:US$1 in 2010-11 from an estimated LD1.25:US$1 in 2009.

External sector

Libya's current account is dominated by hydrocarbons exports. Recent actual current-account data for 2008 were lower than estimated, and we have revised down our expectations for the current-account surplus. Goods export earnings are expected to grow to an average of US$41bn in 2010-11 from an estimated US$33bn in 2009 owing to higher oil prices and production increases. Goods imports will remain relatively stable at an average of US$25bn in 2010-11, depressed by lower commodity costs but sustained by demand for inputs for government development projects. Consequently, we forecast that the trade surplus will widen from US$9.9bn in 2009 to US$18.3bn in 2010, before narrowing to US$13.6bn in 2011. The services account is mainly composed of oil-sector payments abroad, which will follow trends in the sector. We therefore expect the services deficit to remain relatively constant at an average of US$3.8bn in 2010-11. The income surplus is forecast to increase owing to growth in payments from Libya's rapidly expanding investments abroad and slower growth of inward foreign investment. The total current-account surplus is therefore expected to rise from an estimated US$6.9bn (15% of GDP) in 2009 to

US$15bn (25% of GDP) in 2010 and US$11bn in 2011, roughly following the trend in oil prices.

Forecast summary

(% unless otherwise indicated)

	2008[a]	2009[b]	2010[c]	2011[c]
Real GDP growth	5.9[b]	4.0	4.6	4.7
Oil production ('000 b/d)	1,721	1,553	1,670	1,660
Oil exports (US$ bn)	55.7[b]	29.3	38.3	35.4
Consumer price inflation (av)	10.4	2.0	5.3	5.4
Consumer price inflation (year-end)	9.8	-1.2	7.0	6.1
Deposit rate	2.5	2.5	2.5	3.0
Government balance (% of GDP)	29.9[b]	-2.2	4.8	2.9
Exports of goods fob (US$ bn)	62.0	32.6	42.6	39.4
Imports of goods fob (US$ bn)	21.7	22.7	24.3	25.8
Current-account balance (US$ bn)	35.7	6.9	15.5	10.9
Current-account balance (% of GDP)	47.3[b]	14.7	25.5	17.9
External debt (year-end; US$ bn)	5.6[b]	6.0	6.6	7.2
Exchange rate LD:US$ (av)	1.22	1.25	1.23	1.24
Exchange rate LD:€ (av)	1.80	1.74	1.75	1.73
Exchange rate LD:¥100 (av)	1.18	1.33	1.37	1.39
Exchange rate LD:SDR (av)	1.94	1.93	1.93	1.93

[a] Actual. [b] Economist Intelligence Unit estimates. [c] Economist Intelligence Unit forecasts.

Monthly review: November 2009

The political scene

Foreign relations continue to be sullied by the past

Despite being reintegrated into the international community, following a period of political exclusion from the 1980s until the early 2000s, Libya's foreign relations continue to be sullied by past events. Many of the issues that have damaged Libya's relations in the past have resurfaced as they have come under renewed international scrutiny following the release of Abdulbaset al-Megrahi, the only man to be convicted of the 1988 bombing of a plane over the Scottish town of Lockerbie, whose warm reception in Libya following his release aroused international condemnation.

In October negotiations between the UK and Libya over compensation for victims of attacks carried out by the Irish Republican Army (IRA)—a militant Irish independence organisation—came close to resolution after a delegation of British MPs travelled to the Libyan capital, Tripoli, to conclude discussions with the Libyan government. The UK claims stem from Libya's supply of large quantities of Semtex explosive to the IRA during its bombing campaign in the 1980s and early 1990s. One of the delegation, Jeffrey Donaldson, said that there appeared to be growing recognition by Libyans that there is a need to resolve the matter. Speculation in the press suggests that the Libyan government may be prepared to pay as much as £1bn (US$1.7bn) in compensation to victims of republican violence and their families. However, progress with the discussions is unclear; in September, Saif al-Islam Qadhafi, the son of the Libyan leader, Colonel Muammar Qadhafi, stated that Libya would fight any such claims in court.

Separately, the Libyan government is in discussions with the British authorities over the unresolved shooting of a British policewoman, Yvonne Fletcher, outside the Libyan Embassy in 1984. In late October Colonel Qadhafi apologised publicly for the killing, but failed to say whether he would co-operate with London's Metropolitan Police in their investigations. In 1999 Libya "accepted general responsibility for the actions of those within the (embassy) ... and expressed deep regret to the family", to whom it agreed to pay compensation. A police report into the shooting, published in 2007, claimed that the police had sufficient evidence to charge two suspects involved in the incident. Libyan authorities have resisted persistent attempts by the Metropolitan Police to travel to Libya and question suspects there.

Elsewhere, Libya's row with Switzerland refuses to die down. Relations between the two countries were badly strained when Colonel Qadhafi's son, Hannibal Qadhafi, was arrested in a Geneva hotel in July 2008 after an altercation with his staff (August 2008, The political scene). Having issued an apology over the incident, the Swiss government expected in return that the Libyan authorities would allow the release of two Swiss nationals, who have been barred from leaving Libya. However, this is yet to take place. In late October a Swiss parliamentary commission recommended that a tougher stance be taken against Libya, by restricting visas issued to Libyans seeking to travel to Switzerland. It also suspended a deal that had been struck with Libya over the restoration of relations, although it rejected a proposal to sever diplomatic ties.

The Swiss are clearly becoming increasingly exasperated. Since the deadline for the return of their nationals expired in August, the Libyan authorities somehow persuaded the two Swiss nationals to leave their refuge in the Swiss embassy; they have not been seen since. A communiqué issued by the Swiss cabinet expressed its irritation over Libya's "systematic refusal" to honour deals. Micheline Calmy-Rey, the Swiss foreign minister, went so far as to accuse Libya of "kidnapping" its nationals.

There have also been reports that Libyan relations with Canada have gone sour. In late October Libya was reported to have ceased issuing visas to Canadians after a cancellation of a stopover in Canada by Colonel Qadhafi, following his attendance at a UN summit in New York in September. A possible reason given for the cancellation of Colonel Qadhafi's brief stopover was that he had learnt that the Canadian prime minister, Stephen Harper, had refused to meet him and was sending his foreign minister, Lawrence Cannon, instead to meet the Libyan leader and express to him Canada's displeasure over the celebrations for the homecoming of Lockerbie bomber, Abdulbaset al-Megrahi.

Libya close to finalising US$1bn arms deal with Russia

Following LAVEX-2009, a Libyan aviation exhibition that was held in Tripoli in mid-October, it transpired that Libya and Russia are close to finalising a large arms deal, worth up to US$1bn. The contract covers an order for up to 20 fighter jets—between 12 and 15 Su-35 multipurpose fighters, four Su-30s and six Yak-130 combat training planes—and is in addition to existing contracts under which Russia is supplying military equipment for the army and navy, including upgrades to Libya's range of Russian tanks.

In the past, Libya has struggled to purchase military equipment, and much of its current arsenal is obsolete, having been purchased from the former USSR during the 1970s. As part of its deal to renounce its weapons of mass destruction programme, Libya secured an agreement from the US and other Western countries, including the UK, allowing it to rebuild its conventional arsenal. Both the UK and the US are both know to be interested in selling Libya military equipment, and the French are also known to be pushing hard to sell Libya fighter jets, helicopters, patrol boats and armoured vehicles in an even bigger deal worth more than US$5bn. Apart from the need to upgrade Libya's existing stock of equipment, the government is also keen to raise its military capabilities to match those of its North African neighbours.

Economic policy

Shokri Ghanem is reinstated as chairman of NOC

At the end of October, Shokri Ghanem, who only a month earlier had resigned from his post as chairman of the National Oil Corporation (NOC), was unexpectedly reinstated in his former position. His departure from his post came as a surprise and no reason has been given publicly. Similarly, his reinstatement was just as surprising and came without a clear explanation.

It appears that Saif al-Islam, in his new role as general co-ordinator of the Popular Social Command, was instrumental in getting Mr Ghanem reinstated. Saif Qadhafi and Mr Ghanem are supporters of each other and the primary reformists within the senior echelons of the Libyan regime. Mr Ghanem's resignation, which most probably resulted from differences between him and more conservative elements in the hierarchy—most notably Baghdadi al-Mahmudi, the prime minister—principally over the sale of Verenex, a Canadian company, which was disrupted by the NOC (July 2009, Economic policy), and which raised deep concerns among the international oil companies operating in Libya that the government was adopting a more hardline approach towards their operations. Foreign oil companies view Mr Ghanem as a pragmatist, who understands the need to create an environment conducive to doing business. The announcement that Mr Ghanem was to be reinstated was made following a meeting at NOC headquarters that included Saif al-Islam, Mr Ghanem and Mr Mahmudi. It appears that Saif al-Islam now exercises enough power within Libya to get Mr Ghanem reinstated in an attempt to rectify the negative signals that were being sent to international investors. It is also possible, given his new role, that he was able to pull rank on Mr Mahmudi. The episode appears to be part of an ongoing tussle between reformists and conservatives within the Libyan regime, which is becoming increasingly prominent and is having a growing impact on the uncertainty of the public policy environment.

Adding to this uncertainty is the creation of the new Supreme Council for Energy Affairs, which will be chaired by Mr Mahmudi, indicating that he has not been totally sidelined. It is likely that the new body will be more active and influential than the former Supreme Council for Oil and Gas Affairs, which was largely ineffectual and left the running of the hydrocarbons sector predominantly in the hands of Mr Ghanem at the NOC. Mutassim Qadhafi, a younger son of Colonel Qadhafi and head of the National Security Council, has also been reserved a seat on the board of the new energy council. Unlike his brother, Mutassim Qadhafi is thought to be more of a conservative and is taking an increasingly predominant role within state affairs, challenging Saif Qadhafi as a leading contender to succeed his father.

The government announces plans for energy cities

In mid-October, the Libyan government announced plans to build two huge "energy cities", designed to completely restructure the country's existing oil and gas facilities at Ras Lanuf and Marsa al-Brega. According to *MEED*, a regional business magazine, the scheme will cost some US$54bn, providing a central focus for foreign investment into the country. In addition to the major hydrocarbons facilities, the project includes the construction of a large town, as well as a nearby luxury tourist resort. Libya's Economic Development Board is in the process of drawing up tax and other incentives to attract investors to the scheme, which has been touted as having more opportunities than the free zones that already exist in the country. Crucially, the project will also create up to 32,000 jobs. In early October Libya's Planning Council issued a report urging the government to take more active steps to provide employment for the country's rapidly rising population.

Economic performance

Domestic credit indicates poor performance of banking sector

In the second quarter of 2009, the year-on-year growth in government deposits within the banking system fell to 2.5%—measured by the increase in net claims on the central government—their lowest levels for eight years, most probably owing to the slump in oil prices at the beginning of the year and the resultant fall in government oil revenue. The slight lag indicates that government deposits should pick up again in coming months, as the oil price has climbed consistently throughout the year from its nadir in January. Government deposits remain significantly larger than all types of borrowing, leaving the country in the anomalous situation of having a negative figure for overall domestic credit. However, the slowdown in government deposit growth, combined with a rise in lending, has led to monthly contractions in negative domestic credit since March—with the exception of May—the first time it contracted in almost a decade. However, at LD49bn (US$40bn) in July, it is clear that there remains a large sum of cash sitting idle in the country's bank vaults.

This money would be better utilised if banks were able to lend it on domestically. There have been significant improvements in the banking sector in recent years; the government has eased regulations and imported foreign technical expertise. Most recently, in early October, the Central Bank of Libya announced that it was set to privatise its fourth local bank and offer two or three licences for the establishment of new banks (October 2009, Economic policy). The IMF, in its recent Article IV report, also praised the government for its progress in banking sector reform, highlighting moves to raise capital requirements and to set up an asset management company to deal with bad loans. However, despite being well capitalised and profitable, Libya's commercial banks have one of the highest ratios of non-performing loans in the Middle East and North Africa at around 20%, although this should improve as reforms and efforts to improve the efficiency of the banks are implemented.

The ability of Libya's commercial banks to lend is currently being impaired by the specialised credit institutions (SCIs). These are effectively development banks, which inject subsidised credit into key sectors, such as agriculture and real estate. However, since the easing of sanctions, their role has expanded considerably and they currently account for around 50% of total credit, up from 13% in 2001. Their share of new credit rose from 17% in 2001 to 65% in 2007. However, the poor lending standards of the SCIs have led to them have a particularly high percentage of non-performing loans. As cheaper credit is available through these institutions, they have also been crowding out lending from commercial banks, which has delayed the development of an efficient banking sector.

According to the IMF, the government needs to push through reforms of the SCIs, in order to allow for greater financial intermediation by the mainstream commercial banks. It suggests reducing their size, ensuring more effective oversight and strengthening corporate governance. But given their current size, reform will be complicated. As a start, the government has reduced their allocations in the 2009 budget to less than LD1bn, from LD1.5bn in 2008. Building a developed, sophisticated local credit market is essential to Libya's overall economic development. As can be seen from the data for domestic credit, the level of lending in Libya is still very limited; claims on non-financial public enterprises and the private sector combined amounts to less than 20% of GDP. In neighbouring Tunisia and Morocco, lending to the private sector alone totals more than 75% of GDP.

Domestic credit

(LD bn unless otherwise indicated)

	2007	2008				2009	
	Year	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr
Claims on central government (net)	-63.3	-70.5	-67.0	-73.7	-70.6	-76.0	-68.7
% change, year on year	17.9	20.6	10.6	16.1	11.6	7.8	2.5
Claims on non-financial public enterprises	6.9	7.5	7.7	5.7	5.9	7.2	8.5
% change, year on year	14.6	18.5	24.4	-16.7	-14.6	-3.5	10.4
Claims on private sector	5.1	5.5	6.1	7.2	7.7	7.7	7.9
% change, year on year	7.8	12.1	19.1	44.8	51.4	40.6	29.3
Domestic credit	-51.3	-57.5	-53.2	-60.7	-57.0	-61.1	-52.3
% change, year on year	19.5	21.7	8	17.7	11.2	6.1	-1.7

Source: IMF, *International Financial Statistics*.

Inflation continues to slow

Consumer prices have continued their downward trajectory in the third quarter of this year. The average monthly year-on-year rise in consumer prices slowed to just 0.6% during the third quarter of 2009. The rise in consumer prices has slowed each successive quarter since the first three months of 2008, when it reached a high of 11.8%.

Given the heavy weighting in the Libyan consumer price basket of food and beverages—it accounts for more than one-third of the basket—it is clear that the fall in the price of food, which is mainly imported, is the primary factor driving down overall inflation. At the beginning of 2008, when global commodity prices peaked, year-on-year growth in the price of food and beverages was running at 28%. By the third quarter of this year, this rate had plummeted to just 0.1%. Housing costs, another key item in the consumer price basket, have fallen from a quarterly average of over 6% at the end of last year to a contraction of 0.3% year on year in the quarter to September 2009.

Consumer prices

(% change, year on year)

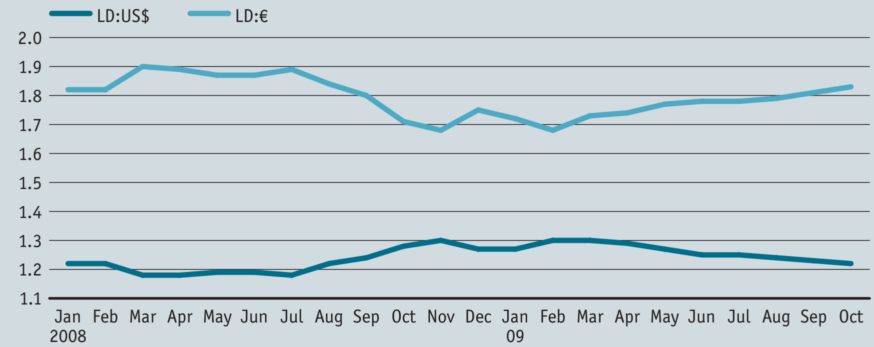
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	Annual av
2005	-2.3	2.4	4.1	8.1	**3.1**
2006	2.3	2.9	0.2	1.8	**1.8**
2007	2.9	5.2	8.5	8.4	**6.3**
2008	11.8	11.1	9.9	8.8	**10.4**
2009	5.8	2.5	0.6	n/a	n/a

Source: National Authority for Information.

Libya suffered from deflation between 2000 and 2003, and the risk of another deflationary period is increasing. In other economies, deflation would cause a slump in demand, as consumers wait for prices to fall before making purchases, and a drop in productivity, leading ultimately to higher unemployment. However, in Libya, movements in consumer prices are generally dictated by the price of essential imported goods and commodities, for which demand is relatively inelastic and will therefore remain buoyant despite expectations of price changes. Furthermore, non-oil domestic production in Libya is generally subsidised and the government is likely to support demand. Therefore, domestic demand and output are likely to be sustained in a deflationary environment in Libya.

The exchange rate is an important factor that influences prices. The Libyan dinar is pegged to the IMF's special drawing rights (SDR), a basket of currencies which includes the US dollar and the euro. The consequence of the weakening US dollar since February 2009 has led to an appreciation of the Libyan dinar against the dollar. A major consequence of this is that the value of Libya's exports in dinar terms are lowered, so that fewer dinars are received as oil income for each barrel of oil sold abroad, which is deflationary as it slows the growth in money supply. Meanwhile, the weak dollar has also caused the dinar to depreciate against the euro. Most of Libya's imports originate in the EU, and the depreciation should have increased the cost of imports. However, falling commodity prices have more than counteracted this effect.

Monthly exchange rates



Source: IMF, *International Financial Statistics*.

Data and charts

Annual data and forecast

	2005[a]	2006[b]	2007[b]	2008[b]	2009[b]	2010[c]	2011[c]
GDP							
Nominal GDP (US$ m)	42,820	52,297	54,845	75,524	46,723	60,713	60,784
Nominal GDP (LD m)	56,025	68,696	69,250	92,408	58,290	74,713	75,149
Real GDP growth (%)	5.6	5.9	5.6	5.9	4.0	4.6	4.7
Expenditure on GDP (% real change)							
Private consumption	5.3	5.5	5.4	6.6	6.1	6.2	6.1
Government consumption	2.9	7.5	7.1	7.2	6.7	6.1	6.1
Gross fixed investment	17.6	13.0	12.4	9.9	8.3	6.9	7.0
Exports of goods & services	3.3	3.0	3.0	3.0	-4.9	2.0	1.9
Imports of goods & services	6.6	6.5	7.0	7.3	3.9	8.1	7.5
Origin of GDP (% real change)							
Agriculture	2.5	9.9	4.0	2.0	2.7	2.2	2.0
Industry	6.4	5.1	9.1	8.2	4.5	5.9	5.8
Services	6.0	5.2	2.4	4.2	3.6	3.6	3.9
Population and income							
Population (m)	5.9	6.1[a]	6.2[a]	6.3	6.4	6.5	6.7
GDP per head (US$ at PPP)	13,493[b]	14,304	15,299	16,407	17,488	18,572	19,216
Fiscal indicators (% of GDP)							
Public-sector revenue	66.8	68.5	78.1	78.7	75.6	70.8	67.7
Public-sector expenditure	34.0	31.1	44.8	48.8	77.9	66.0	64.8
Public-sector balance	32.8	37.4	33.4	29.9	-2.2	4.8	2.9
Net public debt	7.0[b]	5.2	4.8	3.7	5.7	4.8	4.9
Prices and financial indicators							
Exchange rate LD:US$ (end-period)	1.35	1.28[a]	1.22[a]	1.25[a]	1.21	1.24	1.23
Exchange rate LD:€ (end-period)	1.59	1.70[a]	1.79[a]	1.74[a]	1.78	1.72	1.73
Consumer prices (end-period, %)	2.9[b]	1.8[a]	6.3[a]	10.4[a]	2.0	5.3	5.4
Stock of money M1 (% change)	31.8	15.5[a]	42.4[a]	51.4[a]	20.0	17.5	19.0
Stock of money M2 (% change)	29.0	14.1[a]	38.0[a]	49.2[a]	18.9	17.5	18.7
Lending interest rate (av; %)	6.3	6.7[a]	6.0[a]	6.0[a]	6.0	6.5	7.0
Deposit interest rate (av; %)	2.1	2.5[a]	2.5[a]	2.5[a]	2.5	2.5	3.0
Current account (US$ m)							
Trade balance	17,675	24,254[a]	29,269[a]	40,292[a]	9,880	18,311	13,587
Goods: exports fob	28,849	37,473[a]	46,970[a]	61,950[a]	32,621	42,644	39,380
Goods: imports fob	-11,174	-13,219[a]	-17,701[a]	-21,658[a]	-22,741	-24,333	-25,793
Services balance	-1,815	-2,075[a]	-2,556[a]	-4,136[a]	-3,505	-3,673	-3,848
Income balance	-281	-595[a]	2,017[a]	586[a]	1,482	1,798	2,162
Current transfers balance	-634	586[a]	-219[a]	-1,040[a]	-983	-960	-994
Current-account balance	14,945	22,170[a]	28,511[a]	35,702[a]	6,874	15,477	10,907
External debt (US$ m)							
Debt stock	4,291[b]	4,456	4,957	5,611	5,982	6,561	7,203
Debt service paid	978[b]	1,095	1,172	1,207	1,269	1,343	1,445
Principal repayments	790[b]	840	890	940	1,015	1,090	1,140
Interest	188[b]	255	282	267	254	253	305
International reserves (US$ m)							
Total international reserves	39,702	59,483[a]	79,599[a]	92,508[a]	98,970	102,921	103,435

[a] Actual. [b] Economist Intelligence Unit estimates. [c] Economist Intelligence Unit forecasts.

Source: IMF, *International Financial Statistics*.

Quarterly data

	2007	2008				2009		
	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr
Prices								
Consumer prices (2003=100)	116.5	120.7	122.4	124.7	126.8	127.7	125.5	125.4
Consumer prices (% change, year on year)	8.4	11.8	11.1	9.8	8.8	5.8	2.5	0.6
Financial indicators								
Exchange rate LD:US$ (end-period)	1.22	1.18	1.18	1.24	1.25	1.29	1.24	1.23
Deposit rate (av; %)	2.5	2.5	2.5	2.5	2.5	2.5	2.5	n/a
Lending rate (av; %)	6.0	6.0	6.0	6.0	6.0	6.0	6.0	n/a
Money market rate (av; %)	4.0	4.0	4.0	4.0	4.0	5.0	5.0	n/a
M1 (end-period; LD m)	22,014	22,555	29,851	32,796	33,323	31,110	34,973	n/a
M1 (% change, year on year)	42.4	46.4	81.9	70.8	51.4	37.9	17.2	n/a
M2 (end-period; LD m)	25,908	26,601	34,329	37,534	38,653	37,092	40,662	n/a
M2 (% change, year on year)	38.0	40.9	71.8	65.8	49.2	39.4	18.4	n/a
Sectoral trends								
Crude oil production (m barrels/day)	1.74	1.76	1.74	1.68	1.72	1.58	1.53	1.55
Crude oil production (% change, year on year)	0.0	4.1	3.0	-1.2	-1.1	-0.1	0.9	1.9
Foreign trade & reserves (US$ m)								
Exports fob	12,977	15,284	17,930	18,522	11,105	7,299	8,792	n/a
Imports fob[a]	-3,785	-3,929	-4,859	-5,729	-4,721	-4,554	-4,962	n/a
Trade balance	9,192	11,355	13,072	12,793	6,384	2,746	3,829	n/a
Reserves excl gold (end–period)	79,405	87,143	90,802	97,605	92,313	91,075	91,663	n/a

[a] Data do not include defence imports.

Sources: International Energy Agency, *Monthly Oil Market Report*; IMF, *International Financial Statistics*, *Direction of Trade Statistics*.

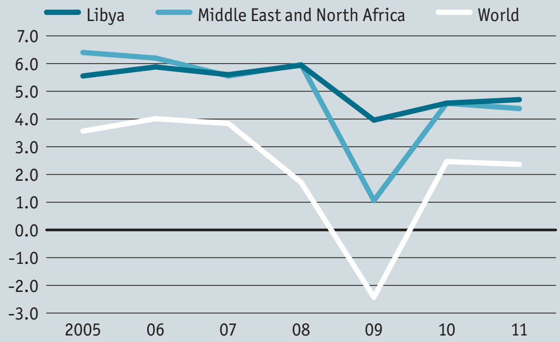
Monthly data

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate LD:US$ (av)												
2007	1.29	1.29	1.28	1.27	1.27	1.28	1.26	1.26	1.25	1.24	1.22	1.23
2008	1.22	1.22	1.18	1.18	1.19	1.19	1.18	1.22	1.24	1.28	1.30	1.27
2009	1.27	1.30	1.30	1.29	1.27	1.25	1.25	1.24	1.23	n/a	n/a	n/a
Exchange rate LD:US$ (end-period)												
2007	1.30	1.28	1.28	1.27	1.28	1.28	1.26	1.26	1.24	1.23	1.22	1.22
2008	1.21	1.20	1.18	1.19	1.19	1.18	1.19	1.23	1.24	1.30	1.30	1.25
2009	1.28	1.32	1.29	1.29	1.25	1.24	1.24	1.24	1.22	n/a	n/a	n/a
Exchange rate LD:€ (end-period)												
2007	1.68	1.70	1.71	1.73	1.72	1.73	1.73	1.72	1.77	1.78	1.78	1.79
2008	1.80	1.82	1.86	1.85	1.86	1.86	1.86	1.81	1.75	1.65	1.65	1.75
2009	1.64	1.67	1.71	1.71	1.76	1.75	1.78	n/a	1.79	n/a	n/a	n/a
M1 (% change, year on year)												
2007	10.9	7.9	17.5	22.5	12.5	20.4	28.8	33.3	29.4	34.7	44.4	42.4
2008	54.4	50.9	46.4	57.7	99.6	81.9	69.6	40.2	70.8	49.9	57.5	51.4
2009	42.7	44.2	37.9	36.2	10.0	17.2	21.6	n/a	n/a	n/a	n/a	n/a
M2 (% change, year on year)												
2007	9.9	6.4	15.2	18.4	11.4	17.8	22.8	28.9	25.8	29.8	40.1	38.0
2008	44.2	42.7	40.9	52.9	85.6	71.8	62.6	37.8	65.8	50.0	53.6	49.2
2009	45.7	45.1	39.4	35.0	12.3	18.4	23.1	n/a	n/a	n/a	n/a	n/a
Deposit rate (%)												
2007	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
2008	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
2009	2.5	2.5	2.5	2.5	2.5	2.5	2.5	n/a	n/a	n/a	n/a	n/a
Lending rate (%)												
2007	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
2008	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
2009	6.0	6.0	6.0	6.0	6.0	6.0	6.0	n/a	n/a	n/a	n/a	n/a
Goods exports fob (US$ m)												
2007	2,980	3,117	3,005	3,111	3,504	3,515	4,310	4,147	3,527	3,942	4,421	4,614
2008	5,354	4,902	5,028	6,066	5,423	6,441	7,065	6,586	4,872	4,838	3,183	3,084
2009	2,443	2,494	2,362	3,070	2,819	2,903	n/a	n/a	n/a	n/a	n/a	n/a
Goods imports cif (US$ m)												
2007	914	784	1,022	990	1,123	1,086	1,069	1,076	1,176	1,184	1,242	1,360
2008	1,237	1,229	1,463	1,586	1,648	1,624	2,134	1,806	1,789	1,817	1,427	1,477
2009	1,401	1,375	1,778	1,593	1,727	1,643	n/a	n/a	n/a	n/a	n/a	n/a
Trade balance fob-cif (US$ m)												
2007	2,066	2,333	1,983	2,121	2,380	2,429	3,241	3,071	2,351	2,758	3,179	3,255
2008	4,117	3,674	3,564	4,480	3,775	4,817	4,931	4,780	3,082	3,021	1,756	1,607
2009	1,042	1,119	584	1,478	1,092	1,260	n/a	n/a	n/a	n/a	n/a	n/a
Foreign-exchange reserves excl gold (US$ m)												
2007	61,364	63,621	65,421	65,610	66,960	69,153	71,783	75,019	75,891	78,960	80,390	79,405
2008	82,276	83,293	87,143	89,049	89,983	90,802	94,510	94,365	97,605	89,864	89,223	92,313
2009	90,401	90,423	91,075	93,996	93,635	91,663	95,378	n/a	n/a	n/a	n/a	n/a

Sources: IMF, *International Financial Statistics*; *Direction of Trade Statistics*; Haver Analytics.

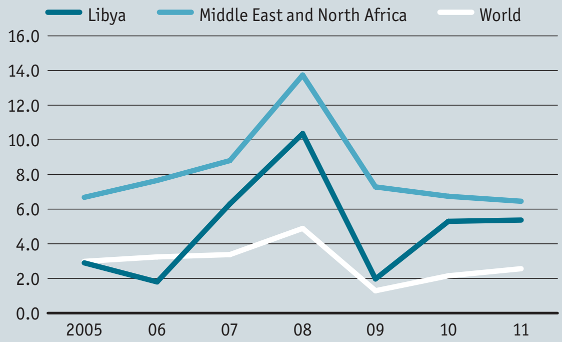
Annual trends charts

Real GDP growth
(% change)



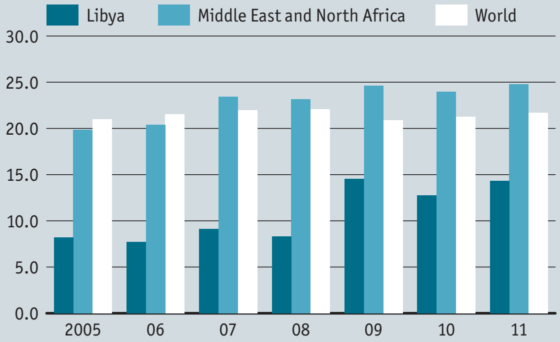
Source: Economist Intelligence Unit.

Consumer price inflation
(av; %)



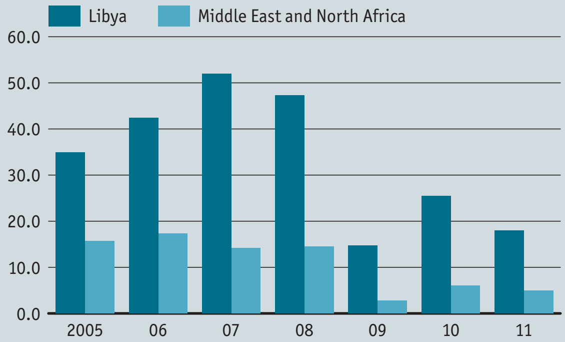
Source: Economist Intelligence Unit.

Gross fixed investment
(% of GDP)



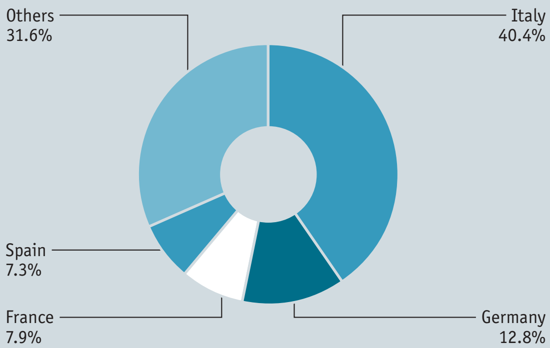
Source: Economist Intelligence Unit.

Current-account balance
(% of GDP)



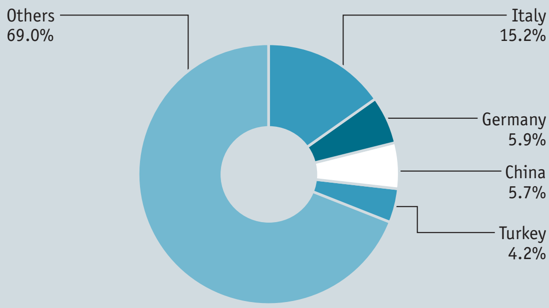
Source: Economist Intelligence Unit.

Leading markets, 2008
(share of total)



Source: Economist Intelligence Unit.

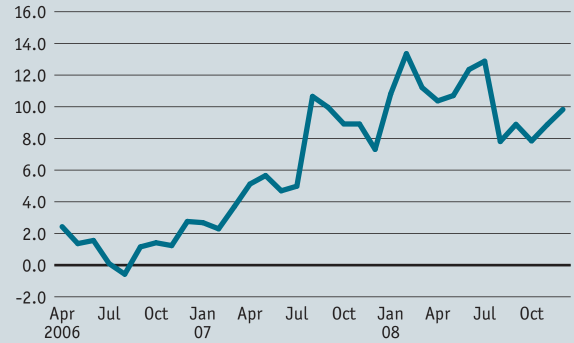
Leading suppliers, 2008
(share of total)



Source: Economist Intelligence Unit.

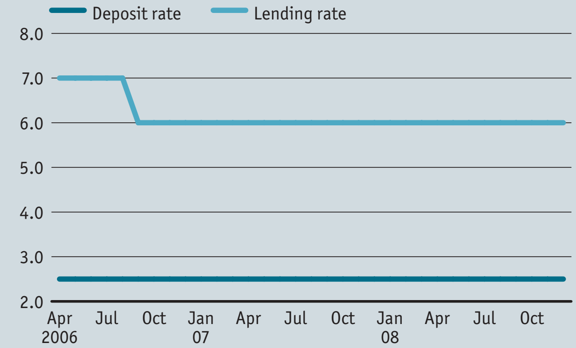
Monthly trends charts

Consumer price inflation
(% change, year on year)



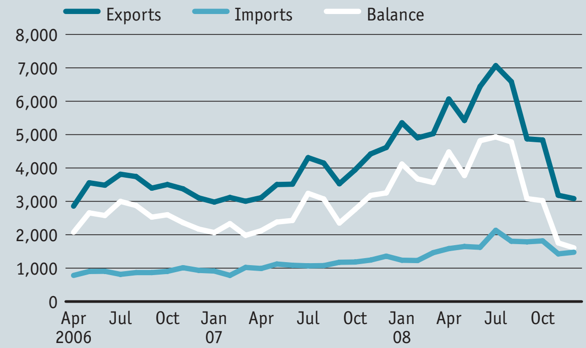
Source: Economist Intelligence Unit.

Interest rates
(av; %)



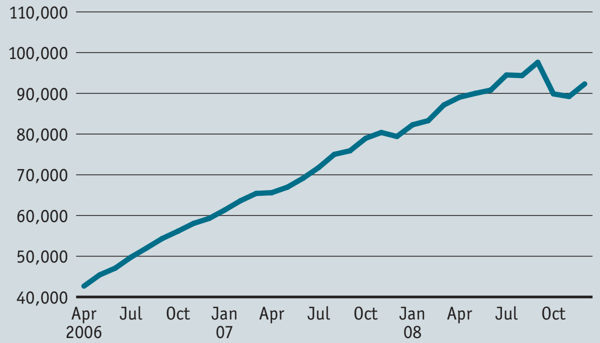
Source: Economist Intelligence Unit.

Foreign trade
(US$ m; goods only)



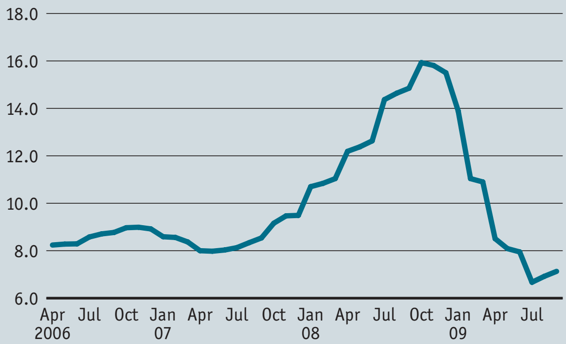
Source: Economist Intelligence Unit.

Foreign-exchange reserves
(US$ m)



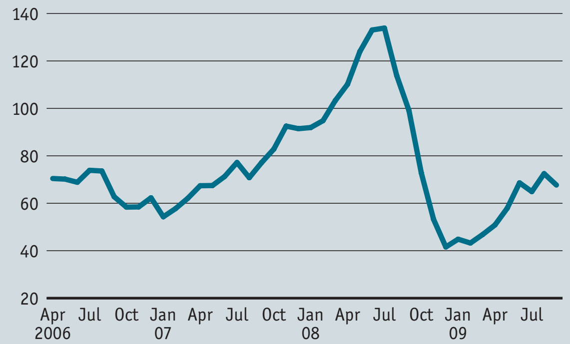
Source: Economist Intelligence Unit.

Natural gas: Europe price
(US$/BTU m)



Source: Economist Intelligence Unit.

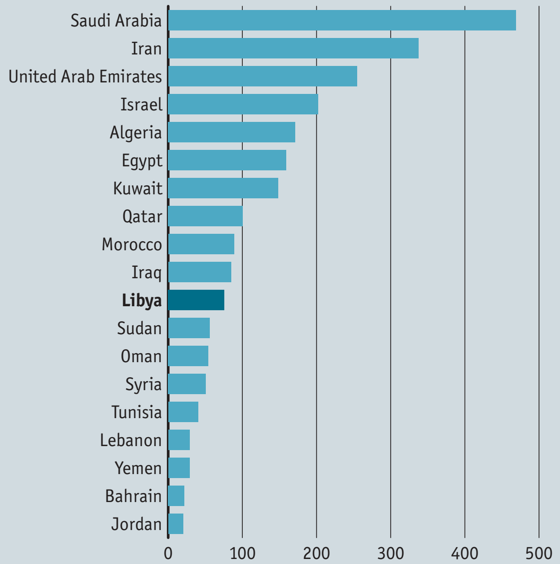
Oil: Brent crude price
(US$/b; av)



Source: Economist Intelligence Unit.

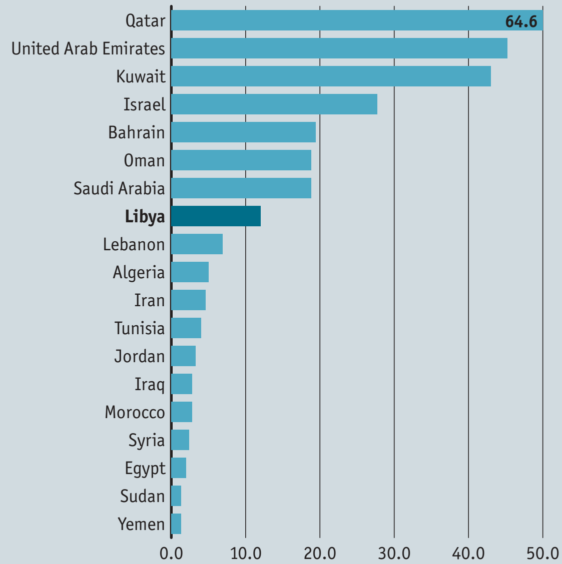
Comparative economic indicators, 2008

Gross domestic product
(US$ bn; market exchange rates)



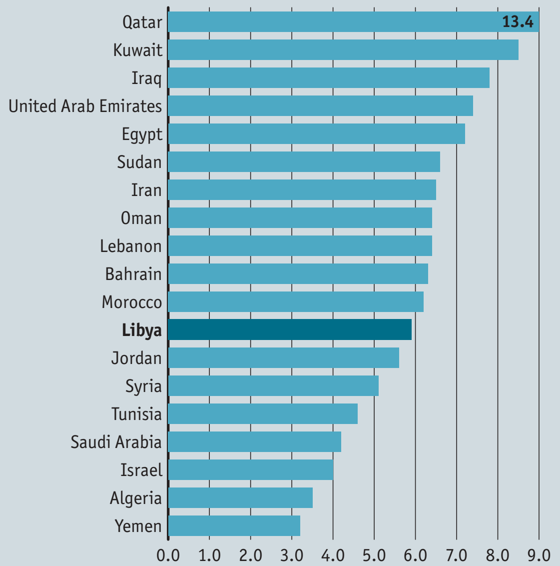
Sources: Economist Intelligence Unit estimates; national sources.

Gross domestic product per head
(US$ '000; market exchange rates)



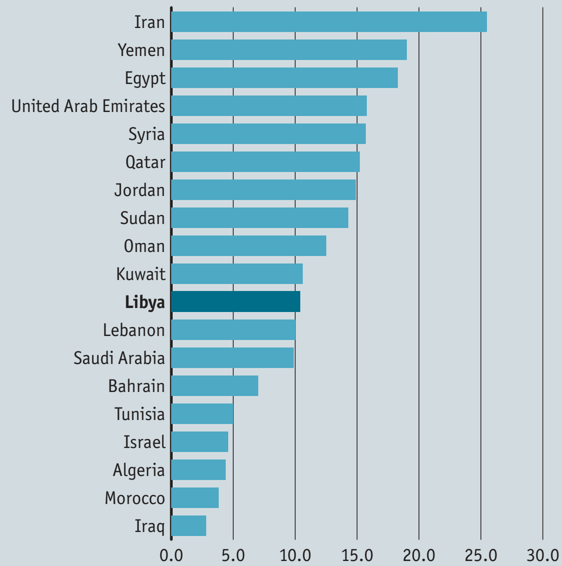
Sources: Economist Intelligence Unit estimates; national sources.

Gross domestic product
(% change, year on year)



Sources: Economist Intelligence Unit estimates; national sources.

Consumer prices
(% change, year on year)



Sources: Economist Intelligence Unit estimates; national sources.

Country snapshot

Basic data

Land area 1,759,540 sq km

Population 6.16m (2007 mid-year estimate, IMF)

Main towns Population in '000 (2003 estimates, National Authority for Information and Documentation)

Tripoli (capital)	1,149
Benghazi	636
Misurata	360
Al Mirqab	328
Al Bitnan	142
Sebha	126

Climate Hot and dry with mild winters

Weather in Tripoli Hottest month, August, 22-30°C (average daily minimum and maximum); coldest month, January, 8-16°C; driest month, July, 1 mm average rainfall; wettest month, December, 94 mm average rainfall

Language Arabic

Measures Metric

Currency Libyan dinar (LD) = 1,000 dirham. Average official exchange rate in 2008: LD1.22:US$1

Time 2 hours ahead of GMT

Public holidays Commercial offices and government establishments are closed on Fridays. Other than the usual Islamic celebrations, national holidays include Declaration of the People's Power Day (March 3rd); Evacuation Day (June 11th); Revolution Day (July 23rd); and National Day (September 1st)

Political structure

Official name The Great Socialist People's Libyan Arab Jamahiriya

Form of state Since 1977 Libya has been a *jamahiriya* (republic of the people) in accordance with the Third Universal Theory propounded by Colonel Muammar Qadhafi in his *Green Book*, which is a blend of socialist and Islamic theories inspired by tribal traditions. The *jamahiriya* system defines the political and social order, which is also governed by the Holy Quran. The General People's Congress is the highest legislative body. In 1992 Colonel Qadhafi changed the political structure by dividing Libya into 1,500 *mahallat* (communes), each with its own budget and legislative and executive powers, formerly vested in the Basic People's Congresses. The *mahallat* and the congresses are supervised by Revolutionary Committees directed by secretaries, who are chosen personally by Colonel Qadhafi

Head of state Colonel Qadhafi was appointed supreme leader by the General People's Congress in March 1990 after taking power in a coup in 1969

Saif Qadhafi was appointed general coordinator of the Popular Social Command in October 2009 with power over the legislature

Executive In 2000 Colonel Qadhafi abolished most central government executive functions, devolving responsibilities to the 26 municipal councils that make up the General People's Congress. Centralised control is maintained over the economy, finance, defence and security, energy, infrastructure, foreign affairs, social security and trade portfolios, the heads of which all report directly to the prime minister's office

Legislature The General People's Congress, delegates to which are chosen by the Basic People's Congresses

	Secretary of General People's Committee (prime minister)	Baghdadi al-Mahmudi
Key ministers	**Agriculture & fisheries**	Abu Bakr al-Mabruk al-Mansouri
	Communications	Mohammed Ali Zeidan
	Economy, industry & trade	Mohammed Ali al-Huwaij
	Education & scientific research	Abdel-Kabir al-Fakhri
	Foreign affairs & international co-operation	Mousa Kousa
	Finance & planning	Abdel-Hafez Zleitni
	Health & environment	Mohammed Mahmoud al-Hijazi
	Industry & mines	Ali Yusuf Zikri
	Justice	Mustafa Mohammed Abdel-Jalil
	National security	Abdel-Fattah al-Ubaidi
	Social affairs	Ibrahim al-Zarruq
	Utilities	Matouq Mohammed Matouq
Secretariat of the General People's Congress	**Energy**	Ali Shamikh Mohammed
	Foreign affairs	Suleiman Sasi al-Shahumi
	Popular Committees	Asbia Ali Asbia
	Popular Congresses	Ibrahim Abderrahman Abjad
	Secretary (speaker)	Mubarak al-Shamikh

National Oil Corporation chairman Shokri Ghanem

Central Bank governor Farhat Omar Bengdara