

# **The Libyan Economy and Growth Prospects**

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## **Abstract**

During the 10 years that followed the February 17 revolution, Libya, which has the largest oil reserves in Africa, has suffered from war and division, as a result of competition for power and governance between its western and eastern parts and the spread of weapons among militias. Its economy collapsed, as most of its population turned into poor and refugees in the countries of the world.

Although those years were heavy on the level of political and social transformations, they were carriers of real opportunities to establish an economic development path that would be a lever for the advancement of other vital sectors, such as education, health and technology, which were marginalized by the Gaddafi regime for decades in exchange for its dependence on oil rent revenues as a primary source of state finance.

Keywords: finance, Lybia, developing economies

## **Introduction**

The Libyan economy shares the developing economies in its suffering from a heavy legacy of structural imbalances that resulted from the dominance of the oil sector on the main contribution to the gross domestic product and the volume of exports, at the expense of the relative underdevelopment in other productive activities, especially industry, and the weak productive efficiency of the labor component (the scarcity of skilled labor). This weakness in the industrial

sector provided the opportunity for the service sector to absorb the bulk of the workers in marginal activities that are low or no production (ESCWA, 2020).

In this research paper, we will tackle the subject of the economic growth of the Libyan economy and the effects the “Arab spring” had on the economic system, we will try to determine to which level the economy has been effected and also to tackle the hypothesis saying that the Libyan economy can be saved after more than 11 years of constant conflicts.

### **Why is Libya Classified as a Developing Country and on What Basis?**

Economists and experts classify developing countries as those countries that depend for their economy on a single sector as a source of domestic product or national income. exports and that this commodity is greatly affected by changes in its prices in the global market, and it is known that oil is the main commodity in Libya, which constitutes 70-75% of total exports, in addition to the low standard of living of the individual, which is reflected in the decline in the average per capita income, which is the most important measure In the classification of countries between developing and developed (Coface, 2022).

### **The Economy of Libya and the Gaddafi Regime**

The economy of any country is linked to the existing political system in it. Libya has suffered for 42 years from a dictatorial and arrogant political system that has led to the deterioration of its economic situation among the rest of the oil-producing countries, and the wheel of development in it has been delayed even if it achieved periods of growth and economic recovery due to the adoption of a methodology that made it depend on one main commodity, namely Oil as a source of income, in addition to the marginalization of economic resources that can generate income for the state and contribute to the development process, such as manufacturing industries and human resources.

At the end of the seventies, the Libyan economy relied on socialism and the policy of state domination of economic life directly, as it is the main controller of production and distribution, and the public sector dominated economic and social development projects. The development was delayed until the General People’s Committee (Prime Minister) announced in 2003 a decision to

privatize more than 360 public sector companies as of January 1, 2004, which is a major economic transformation for the Libyan state. Despite these radical changes, Libya remained behind economically and is attributed This is due to the low standard of living and the low level of public services, as well as the weakness of the administrative peace, the spread of administrative and financial corruption in state institutions, the high rates of unemployment and disguised unemployment. However, this legacy has accumulated many economic problems that brought economic activity to a state of paralysis that had the greatest impact on the poor living conditions For citizens during and after the fall of the Gaddafi regime (Fitzgerald, 2021).

### **Post-Revolution Libya's Economy**

In 2010, oil in Libya constituted about 94% of Libya's foreign exchange earnings, 60% of government revenues, and 30% of GDP. Libya was producing 1.65 million barrels per day from a reserve rate of 41.5 billion barrels, and in the 2011 plan it intended to increase productivity by about 3 million barrels per day, and the average per capita income in that period was 4400 dinars. But what happened in February 2011 exceeded expectations. At the beginning of the revolution, the Libyans dreamed of a prosperous future and a luxurious economic life, but in light of the trends that erupted before the killing of Gaddafi, which had an impact on the production of the oil sector, which was disrupted for months, which led to the deterioration of living conditions and a lack of liquidity in banks. However, this situation changed after the killing of Gaddafi and the control of the revolutionary forces over the oil ports in the east of the country. After the killing of Gaddafi and the declaration of liberation, Libyan oil exports returned to levels close to the pre-war period by the third quarter of 2012, and the authorities spent that time on post-war reconstruction and health care. For war-affected revolutionaries, wages, salaries, and public sector support were raised, but the government's budget doubled in the first three years.

In early September 2014, Al-Thinni's government under the authority of Parliament dismissed the Governor of the Central Bank of Libya, Al-Siddiq Al-Kabir and replaced him with Ali Al-Hibri. By the parliaments and the two governments, while al-Thani deals with the federal militias to keep the eastern ports open, and this was a mutual benefit. For the House of Representatives and al-Thani's government, this enabled them to obtain funding requests, and for the Central Bank of

Libya and the National Oil Corporation, this enabled them to increase oil revenues from the eastern fields. However, this arrangement did not last long. By October 2014, three interrelated factors contributed to the escalation of control over the three Libyan institutions:

- First: The Central Bank refused to disburse the required funds, except for salaries and direct support to the government in the east, which prompted Al-Thani's government to search for alternative ways, including establishing a new administration for the Central Bank of Libya independent of Tripoli, but it did not succeed in controlling bank balances. Meanwhile, Al-Thani's government began to Borrowing from commercial banks in the East.
- Second: Al-Thinni's government called for a change in the management of the Libyan Investment Corporation and appointed board member Hassan Bu Hadi to replace Ben Yaza, and the Tripoli government considered this illegal, and thus a parallel conflict erupted over the institution that led to a legal battle for the exchange of accusations between two governments and two administrations.
- Third: The Supreme Court ruling in favor of the Tripoli Conference that the 2014 elections were illegal, and thus the conference considered that Parliament is illegitimate and does not have the right to control these institutions.

From the steel grip of Gaddafi, Libya fell into the arms of political chaos and field conflict between military militias and extremist organizations, which were the internal enemy that opposed the development of the state, achieving the goals of prosperity and economic growth, and destroying the aspirations of the Libyan people. And accelerating to witness a decline of about 307 billion dinars in 2016 after it was 770 billion dinars in 2011, during which inflation rates jumped from 9.5% to 24% during the same period. All of these factors contributed mainly to the deterioration of the economic situation and the suspension of most economic activities, especially industry. The manufacturing sector, the agricultural sector, the building and construction sector, the tourism sector, the deterioration of the education and health sector, as well as the deterioration of the level of oil production, which resulted in a sharp decline in total exports and the erosion of foreign reserves. It lost a large part of its value against foreign currencies, and the lack of liquidity in banks and banks and merchants resorting to trading also contributed. This in turn led to the revival of the black market, the decline in the purchasing power of the consumer and the disappearance of a large

part of the goods in the market, which negatively affected the living conditions of citizens, especially from the middle-class groups, which carried. It owes a lot of debt, which threatens most of this group with poverty and bankruptcy, as well as the bad humanitarian situation in the country, which makes a murky view of future economic prospects in the medium term, with the circumstances surrounding the country. A strategy to renounce violence, disarm, spread peace, and reform the defense and security sector, in addition to the agreement and political reform of a country that is on the verge of collapse. The situation that Libya is going through today is far from falsification, deception and illusory policies to solve its economic and financial crisis, which the dual government is trying to promote (Mezran, 2013).

Exiting the political, economic and social tunnel that Libya entered after the fall of Gaddafi requires doing the following:

1. Unifying the political and military administration of the country.
2. Increasing oil production and speeding up its export to raise the level of revenues.
3. Increasing revenue from taxes.
4. Take rational measures to solve the problem of financial liquidity.

## **Conclusion**

The magical solution to the state of the Libyan economy cannot be summed up in a set of instructions or waiting for a stage to follow the current stage, that the civil war and conflict made the rebuilding of the economic system a matter that requires a real popular will and political will from all grass,

The process of rebuilding the banking and economic infrastructure will be one of the challenges that the conflicting Libyan governments must find a solution to.

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