KPMG
cutting through complexity

Libya

High Growth Markets country profile

After the fall of the Qadhafi regime, Libya is transforming itself into a functional, representative democracy. Real gross domestic product (GDP) growth is expected to increase from -2.6 percent in 2014 to 2.5 percent in 2015, and grow at an average annual rate of 5.1 percent between 2016 and 2018, as a more permanent government is formed, security is restored and reconstruction investment gathers pace.

Country overview

Geography and climate

- **Location:** northern Africa, bordering the Mediterranean Sea, between Egypt, Tunisia and Algeria
- **Climate:** Mediterranean along the coast; dry, extreme desert in the interior
- **Regions:** 22 districts
- **Major cities:** Tripoli (1.1 million) (2009)

Political system

- **Type of government:** transitional
- **Capital:** Tripoli

Population, language and religion

- **Population:** 6.2 million
- **Urban population:** 77.7%
- **Demographics:** 0–14 years: 26.9%; 15–24 years: 68.3%; 65 years and over: 3.9%
- **Official language:** Arabic
- **Prominant religions:** Muslim, Christian, Buddhist, Hindu, Jewish, folk religion

Currency and central banking

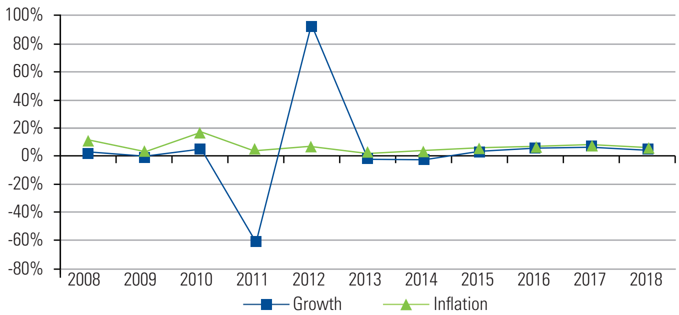
- **Local currency:** Libyan Dinar (LYD)
- **Exchange rate:** LYD1 = US$0.7933 (1 April 2014)
- **Interest rate (average annual rate):** 3.8% (2014); 4.1% (2013); 5% (2012); 5% (2011); 5% (2010); 5% (2009)
- **Foreign exchange reserves:** US$120.9 billion (2013 estimate)
- **Total debt (2013):** external: US$6.32 billion; internal public debt: 4.8% of GDP (2013 estimate)

Business environment

Economic environment

- **GDP in 2013 was US$93.9 billion.** Real GDP growth is forecast to increase from -2.6% in 2014 to 2.5% in 2015, as a more permanent government restores a degree of stability. As these conditions persist, average annual growth of 5.1 percent is expected between 2016–2018.
- **Foreign direct investment (FDI) (billions):** inbound: US$4.1 (2008); US$0.5 (2013); US$1.9 (2018 forecast) outbound: US$5.9 (2008); US$2.6 (2013); US$4.1 (2018 forecast)
- **Exports free on board (FOB) (billions):** US$61 (2012); US$34.9 (2013); US$62.1 (2018 forecast)
- **Imports FOB (billions):** US$25.6 (2012); US$25.3 (2013); US$48 (2018 forecast)
- **Sector breakdown:** service sector: 37.9%; industrial sector: 59.8%; agriculture sector: 2.3%
- **Trade balance (billions):** surplus of US$35.4 (2012); US$9.5 (2013); US$14.1 (2018 forecast)
- **Stock exchanges:** Libyan Stock Market (LSM)

GDP growth and inflation (average consumer price index (CPI))



Source: Economist Intelligence Unit, 2014

Investment climate

Key considerations

- **Fiscal and monetary policy:** Following the collapse of the Qadhafi regime, Libya faces political uncertainty; a situation expected to persist until the end of 2015 as the country continues its transitional phase. Central government should play a prominent role in reconstruction, bringing in market-oriented reforms. Fiscal policy is likely to remain expansionary in 2014–2015 to minimize social unrest. Public investment will probably take second place as government spending focuses on subsidies and public sector wage increases. General government expenditure is forecast to increase from 69.9 percent of GDP in 2013 to 72.9 percent of GDP in 2014.
- **Competition policy:** During 2014–2015, a new law regulating public-private partnerships is anticipated, to broaden the financing scope for Libya's development and infrastructure projects. The government may also reform fuel and food subsidies. Looking forward to 2016–2018, a third mobile-phone license is likely to be awarded, while investment in new infrastructure projects should boost private sector participation in the economy.
- **FDI policy:** Foreign investment in the oil and gas sector has been strong. While the current coalition government has been unable to implement structural reforms, future governments are likely to follow more liberal policies, and FDI could pick up between 2016–2018. The next bidding round for exploration licenses in 2014–2015 is set to include softer terms, to make the oil sector more attractive. 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 period from 2016–2018, opportunities for foreign companies are likely to expand as the 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 to encourage FDI and expansion of the private sector.
- **Foreign trade and exchange controls:** Libya mostly has a large structural trade surplus. In 2013, exports amounted to US$34.9 billion while imports were US$25.3 billion, leaving a trade balance of US$9.5 billion. Hydrocarbons account for the largest share of exports. The country has relatively restrictive foreign trade and exchange controls, which are likely to continue, limiting business expansion. During 2014–2015, the Central Bank of Libya should continue to ease restrictions on foreign currency transfers abroad. New free zones are forecast in coastal areas and borders in 2016–2018. The country could continue working towards an Association Agreement with the European Union (EU), as well as towards World Trade Organization (WTO) membership.
- **Financing policy:** Libya faces some challenges such as political uncertainty, undeveloped policy towards private enterprise and poor access to local sources of finance. Qadhafi-era banking laws still persist, which has slowed progress in financial sector reforms. In the years 2014–2015, the entry of foreign banks is likely to remain restricted until the new constitution is drafted. The gradual introduction of Islamic banking should take place during 2016–2018, probably in parallel with a conventional banking system. The Central Bank may encourage greater bank lending to the private sector, and ease entry for foreign banks to boost mobilization of financial resources to fund infrastructure investments.
- **Taxes:** Law 9, 2010 on investment promotion leaves foreign companies exempt from corporation tax for 5 years and from taxes on imports of equipment that is essential to the execution and operation of investment projects. A new tax law was enacted in 2010 that reduced tax on corporate profits to a flat rate of 20 percent. It also reduced income tax for employees; those earning under US$763 a month pay 5 percent in tax, while those with income above the threshold pay 10 percent. No substantial changes to the tax system are likely until a permanent government is installed in 2014–2015. The new government may attempt to streamline the tax system, but should continue to apply existing legislation in the interim.

KPMG in Libya

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KPMG in Libya aims to respond to complex business challenges facing customers and to take a comprehensive approach that spans professional disciplines, industry sectors and national boundaries.

For more information, please visit the KPMG in Libya website: kpmg.com/africa/en/kpmg-in-africa/libya

Sources: Economist Intelligence Unit, 2014; Central Intelligence Agency, 2014; Libyan Stock Market, 2014

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