

## THE INFLUENCE OF THE SITUATION IN LIBYA ON WORLD ECONOMY

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Events that occur in the Middle East will go down in history. It becomes evident that what is happening in the Arab world is comparable to the great revolutions of the XVIII century. No revolution, striving for freedom, equality and fraternity, can do without victims or damage, moral and material damage.

But what's interesting: the revolutionary events that began in Tunisia and exchanging on Egypt, did not frighten foreign investors to the same extent as that which occurs in Libya last month. During this period the price of oil has increased by 12%. Securities exchanges around the world reacted by the great decrease in quotations, the dollar strengthened. It always happens in a period of political and economic instability.

The Civil War in Libya has provoked the growth of world oil prices and caused losses of energy and building companies as well as producers of arms.

In the current situation, a new oil shock –is the worst thing that can happen to the western economy, which still has not recovered from the recent crisis and suffers from financial troubles and unemployment. This may cause the next round of global crisis.

So, is Libya important for the world economy?

From the economical point of view the Libyan economy is not particularly valuable. Libyan oil is only 1,7% of global oil production. The missing 1.6 million barrels of oil a day other OPEC countries can easily compensate. For example, only Saudi Arabia could produce three million barrels per day additionally in case of need.

The main reason of the increased nervousness of exchange investors is the fear that events in other Middle Eastern countries will evolve Libyan scenario. For example, the unrest in Bahrain is much more important to the global energy market. First of all, because Bahrain neighbors to Saudi Arabia, which is the largest supplier of oil in OPEC.

Currently, Libya is the first in Africa in proven oil reserves of 5 billion tons, and the fourth largest in reserves of natural gas amounting to 1.49 trillion cubic meters. In Libyan territory oil is extracted in an average of 1.6 million barrels per day and 1.3 million barrels are exported. Moreover, Libya is an important supplier of oil to the countries of Southern Europe. About one-third of all oil and gas produced in Libya is delivered to Italy. Libyan oil amounts about a quarter of all oil that Italy buys abroad. For Germany, Libya is the third most important oil supplier after Russia and Norway with a share of about 8%. The share of Libyan oil and gas in hydrocarbon imports of all EU exceeds 10%.

General Director of the Italian oil company ENI, Paolo Scaroni, said that because of the political crisis, oil production in Libya decreased by 75%, which is 1.2 million barrels per day.

Reduction of oil supplies from Libya led to a serious rise in oil prices on world markets. After the Libyan armed conflicts, it was the first time since August 2008 that the cost of black gold has exceeded the psychological level of \$ 100 per barrel. In two days, prices have risen by more than 6%. The cost of Brent oil reached \$ 119.79, and the price of WTI oil rose to \$ 101.15.

For Russia the increased price of black gold is generally a positive factor, but for the world economy it is the path to recession. Rising oil prices will increase production costs of

governmental enterprises, reduce their profits and limit their investment opportunities. Consumers will spend more money on fuel and fuel that will reduce their buying power. High inflation may force the ECB to raise the base interest rate, which will limit lending and lead to slower economic growth.

The growth of oil prices will increase production expenses of companies, reduce their profits and limit their investment opportunities. Consumers will spend more money on petrol and fuel that will reduce their buying power. High inflation may force the European Central Bank to raise basic interest rate, which will limit lending and lead to slowdown of economic growth rates.

Meanwhile, some experts predict that the growth of world oil prices may not stop at current levels. Analyst Wang Tao predicts that in 2011 oil quotations Brent may rise to the level of \$158 per barrel, almost \$10 above the historical record at \$147.5 per barrel. In this case, petroleum of mark WTI, he estimates, could increase in price to \$159 per barrel.

The expert of German Chamber of Commerce Felix Noygart has calculated for edition "Frankfurter Allgemeine", that increase of the prices by 1% costs the German economy about 0.5 billion euro, so even at current prices, it is possible talk about 15 billion euro of additional expenses to the economy. The same is true for other energy-consuming European countries.

Losses are also threatening companies from Italy, which has developed closer economical relations in recent years with former colonies than most other European countries. There are also about 30-40 companies from Germany in Libya. The largest of them, Siemens, is involved in the electricity sector. Annual revenues for the Libyan subdivision of Siemens are about EUR160 million

"The Middle East in the near future will not calm down, so metals, food and energy will become more expensive" - believes the expert of "Abird" Igor Zyryanov. Annual growth of prices in the metals sector he estimates at 25-40% level. In this case, the precious metals can rise in price slower than nickel, copper, aluminum, and zinc. Investors abandoning the risky assets, started to buy gold whose prices are increased by 0,8% - to \$ 1,429.63 per ounce on March 21, and silver which increased by 2% - to \$ 35.9563 per ounce. In the beginning of March gold reached an absolute record \$ 1,444.95 per ounce.

Is necessary to admit that the war in Libya makes a threat to some business projects of Russia such as the sale of weapons in the amount of \$ 4 billion (in the same position were gun makers from Italy and France) and the construction of high-speed railroad between Sirte and Benghazi in the amount of 2,2 billion euro. However, the loss of these projects can be covered by windfall oil revenues. Economists estimate that for every \$ 10 increase in oil prices in relation to the average price of a year, Russia receives \$ 20 billion revenues.

Russia also uses the events in the Middle East, to prove that it is more reliable partner and energy supplier than the Middle East countries and North Africa, trying to restore the reputation, adversely affected by the two cut-offs of gas supplies to Ukraine.

For Russia, at the first glance growth in oil prices means a rise in budget revenues from the import of black gold. Last week, Finance Minister Alexei Kudrin suggested that the cost of oil at \$ 100 per barrel, Russia could reach the non-deficit budget in two years, in 2014, but not in 2015 as it planned earlier. In 2010, revenues from the fuel and energy complex in Russia's budget exceeded 4 trillion rubles.

At the government meeting on February 22, Prime Minister Vladimir Putin announced that in case of the average oil price at \$ 93 per barrel, the Reserve Fund could double this year and reach 1.45 trillion rubles.

However, if the average oil price this year will be \$ 110 per barrel, inflation could reach 13%, despite the fact that in 2010 it amounted 8,8%.

So what's the problem?

The danger is that rising oil prices are not guaranteed with market conditions - there is no great economical demand with an increase in consumption. The higher increase of oil prices today, the higher will be the rate of decline. At the same time, today the market has the tools to curb oil prices. OPEC, in particular, can increase the quota of oil production, which is slightly cool the market.

Libya for years has been isolated from the rest of the world both politically and economically. International integration of Libya has resumed a few years ago. Militant statements of Muammar Qaddafi and the murder of thousands of demonstrators have caused disturbance of international investors. Many investors are using weakness resulting from the Libya unrest as an opportunity to own quality names that enjoy strong earnings momentum and economic leverage.

The whole world is now closely monitoring the situation in Libya. New EU sanctions against the regime of Libyan leader Muammar Gaddafi came into force. The sanctions include the freezing of Libyan assets of 15 companies, major oil company of the country and its five subsidiary companies, banks, television, and industrial enterprises.

In addition, the EU imposed a visa ban for 18 Libyans, including Gaddafi. The EU tightened the embargo on arms supplies to Libya and imposed a ban on flights of the Libyan airlines in European airspace.

In the current situation, the war in Libya should end as quickly as possible, because the second wave of crisis the world will not cope with.