LIBYA ECONOMIC MONITOR

Spring 2021

WORLD BANK GROUP
Middle East and North Africa Region

Libya Economic Monitor

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ABBREVIATIONS

CBL	Central Bank of Libya
COVAX	COVID-19 Vaccine Access Facility
COVID-19	Coronavirus Disease 2019
GDP	Gross Domestic Product
GNA	Government of National Accord
IG	Interim Government
IMF	International Monetary Fund
IOM	U.N. International Organization for Migration
JMMI	Joint Market Monitoring Initiative
LNA	Libyan National Army
LYD	Libyan dinar
MBD	Million Barrels per Day
MEB	Minimum Expenditure Basket
NOC	National Oil Company
NTL	Night-time Light
OCHA	U.N. Office for the Coordination of Humanitarian Affairs
OPEC	Organization of Petroleum Exporting Countries
PFG	Petroleum Facilities Guard
SDR	Special Drawing Rights
U.N.	United Nations
US$	U.S. dollar
WFP	World Food Programme
WHO	World Health Organization

PREFACE

This report is the product of the Middle East and North Africa (MENA) Region of the World Bank Group.

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EXECUTIVE SUMMARY

Libya entered 2020 as a divided nation, with competing political and military factions operating redundant and often conflicting systems of governance. The Government of National Accord (GNA) controlled the country's western regions around the capital Tripoli, while the Interim Government (IG), backed by the Libyan National Army (LNA), controlled most of the eastern, central, and southern parts of the country. The separate controlling bodies operated on separate budgets. The Central Bank of Libya was divided into parallel branches with Central Bank of Libya in Tripoli controlling the country's money supply and foreign reserves, with the branch in the east mimicking the central bank's currency printing function. The National Oil Corporation, based in Tripoli, is solely responsible for oil exports; but the Petroleum Facilities Guard, which secures the country's oil assets, is divided into rival western and eastern forces.

For the most part of 2020, the performance of the Libyan economy was the worst in recent records. In January 2020, a blockade of oil terminals and oil fields began that lasted nine months, cutting oil output to about 228,000 barrels per day. This was less than one-sixth of 2019 values and comparable to the lows experienced subsequent to 2014 after the country's civil war. The impact of the blockade, however, was felt with greater immediacy. For the acutely undiversified Libyan economy, which counts on oil and gas for over 60 percent of aggregate economic output and over 90 percent of both fiscal revenues and merchandise exports, the results were debilitating. "Lost" revenues from the blockade amounted to around US$11 billion for the year, according to the Central Bank of Libya in Tripoli. Altogether (including the non-oil effects of the oil blockade), total fiscal revenues stood at Libyan Dinar (LYD) 23 billion in 2020, according to the Ministry of Finance in Tripoli, some 40 percent of total revenues earned in 2019. These problems were also conflated by the COVID-19 pandemic, which inflicted further economic and social dislocation on a war-torn country with little health related infrastructure and few basic health services.

The plunge in oil revenues sharply reduced government spending. The Tripoli-based government cut total expenditures by 22 percent from LYD 46.1 billion in 2019 to LYD 36.2 billion in 2020, with wages and salaries accounting for the bulk of expenditures—LYD 21.9 billion or 61 percent. GNA announced a decision to cut the salaries of high-ranking political officials by 40 percent starting in January 2020, and that of all public sector employees by 20 percent starting in April 2020, but it is not clear whether these decisions were implemented or not. Subsidies, including those for fuel, electricity, water and sewage, sanitation, and medical supply reached LYD 5.6 billion, or 16 percent of total expenditures. Development expenditures were minuscule for the year, LYD 1.8 billion or five percent of total

expenditures, compared to LYD 4.6 billion in 2019. All capital expenditures projects for 2020 were essentially canceled.

Starting in mid-September, growing signs of rapprochement between political/military factions brought much-needed relief to the economy, albeit an inadequate one. With a ceasefire agreement between the Government of National Accord (GNA) and the Libyan National Army (LNA) in October 2020, oil production and exports rebounded. Al Sharara and El Feel oilfields restarted production and the Sidra and Ras Lanuf ports reopened, enabling the National Oil Corporation to quickly ramp up oil production to 453,000 barrels per day in October, 1.108 million barrels per day in November, and 1.25 million barrels per day in December. On average, the oil production in 2020 is estimated at 405,000 barrels per day, roughly a third of actual output in 2019 and under a fourth of the highest output in the last decade reported at 1.7 million barrels per day.

Overall, the 2020 contraction of the Libyan economy is estimated at about 31 percent. The precipitous fall in hydrocarbon output damaged the country's external balance and fiscal position in 2020, filtering through to weaker government spending, reduced private consumption, and lower imports. The economic collapse also had adverse effects on the non-hydrocarbon economy. Water shortages were prevalent, with reports of sabotage of water wells. Power outages persisted throughout the year; only 13 of 27 power plants were functioning. As late as mid-December 2020, three months after ports were reopened, the government was still urging consumers to stop queueing at gasoline stations. The collapse of oil revenues strained the ability of the monetary and fiscal authorities to defend the country's currency peg, and on December 16 for the first time in five years, the board of directors of the Central Bank of Libya, agreed to devalue the currency from LYD 1.00 = SDR 0.5175 to LYD 1.00 = SDR 0.156 effective January 3, 2021, with the equivalent rate to the U.S. dollar at LYD 4.48 = US$1.00 using the current US$1.44 = SDR 1.00 rate. The new rate aims to apply to all governmental, commercial, and personal foreign exchange transactions, and largely remove the growing wedge between black market and official rates, also rendering the foreign exchange transactions surcharge unnecessary.

The economic contraction in 2020 exacerbated the effects of the long-running conflict on social conditions and poverty outcomes in the country. Since the beginning of the conflict, more than half of the health facilities in Libya were either destroyed or were forced to close as a result of shortages of medicine and supplies as well as a lack of health personnel. Similarly, about 6 percent of schools were closed and many more were diverted for use as emergency shelters for displaced families. In 2020, these trends deepened the socio-economic strife faced by Libyans. The number of people with humanitarian needs—food, health services, and protection—rose in 2020 over 2019. The number of food insecure people doubled from 2019 to 2020 to reach 699,000 people (nine percent of the population), with significant increases recorded among both displaced and non-displaced Libyans, according to the U.N. Office for the Coordination of Humanitarian Affairs (OCHA). All of these challenges were compounded by the outbreak of COVID-19 and the measures taken to contain the disease including workplace shutdowns, school closures, and restraints on mobility. The effects were worse among displaced persons, immigrants, and refugees.

A recent array of negotiations and agreements foresees a way forward after a decade of military conflict and political strife. Following the ceasefire agreement between the GNA and the LNA, the U.N. Support Mission in Libya confirmed in mid-November that the GNA and the LNA had agreed to hold parliamentary and presidential elections in December 2021. The breakthrough was achieved through the Libyan Political Dialogue Forum, a meeting of 75 Libyan delegates held in Tunisia, with a three-member Presidency Council headed by Mohamed al-Mnefi and a Prime Minister, Abdelhamid Dabeiba, tasked with forming a Government of National Unity, that will in turn prepare Libya for general elections. In addition to these developments, several economic agreements have also come into fruition. The National Oil Corporation and the western and eastern forces of the Petroleum Facilities Guard agreed in November 2020 to unify the latter's operations to protect the

oil industry's assets across the country. Budget unification talks between the GNA and the Interim Government (IG) began in mid-January.

There is reason for cautious optimism for recovery and healing, but downside risks abound. The ceasefire agreement of October 2020 stipulated that all military units and armed groups withdraw from the front lines, with foreign fighters and mercenaries transferred to Tripoli and Benghazi before leaving Libya by January 23, 2021. However, the underlying political and economic division of the country has complex roots and competing international influences can make a difference in outcomes. With major uncertainties associated with these dynamics, projecting future economic trends is a daunting task. However, if the current rapprochement remains on track, a significant economic recovery from the 2020 slump is within reach in 2021. In light of major maintenance problems that will limit oil production, a 1.1 million barrel per day (MBD) production is possible. As a result, GDP growth is forecast at 67 percent in 2021 in real terms. Higher international oil prices—the Bank forecasts crude oil prices to rise to US$44 per barrel in 2021 from US$41 per barrel in 2020—will help support overall rebound in oil output, leading to stronger government consumption and investment, and in turn supporting a recovery in private consumption.

The agenda for social policy, institutional reform, and public action is full and needs urgent attention. In addition to the conflict-driven challenges and neglect, Libyans are also increasingly affected by the COVID-19 pandemic. With relaxation of containment measures, the spread of the virus has accelerated. As of end-January 2021, there were 118,632 confirmed cases and 1,877 reported deaths due to COVID-19. This problem is probably under-monitored and compounded by an incapacitated health sector. More than one in three health facilities in Benghazi and one in six in Tripoli were damaged or destroyed, and nearly 20 percent were closed. Surviving health centers face critical gaps in medicines and supplies, as well as a loss of health workers, many of whom were from overseas and have fled amid the violence. In the overall ranking of the Global Health Security Index, Libya ranks 168 out of 195 countries. With these challenges, the rollout of vaccines for the virus will likely be slow by regional standards, with delays related to territorial insecurity, lack of cold storage facilities, and strained public finances.

1

RECENT DEVELOPMENTS

Economic Developments

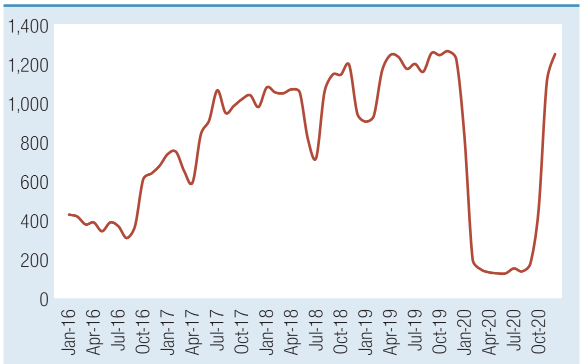
The Libyan economy contracted by about 31 percent in 2020. Oil exports have been the mainstay of the economy since they began over five decades ago, and accounted for roughly 60 percent of GDP in 2019. In 2020, however, a drastic cutback in oil and gas production (Figure 1) and exports shrunk the economy after three years of growth over 2017–19 (Figure 2).[1] With hydrocarbons accounting for 95 percent of merchandise exports and 93 percent of fiscal revenues (excluding foreign exchange fees), the precipitous fall in hydrocarbon output damaged the country's external balance and fiscal position in 2020, resulting in weaker government spending, reduced private consumption, and lower imports. The economic collapse had adverse effects on the non-hydrocarbon economy and the value of the currency, straining the ability of the monetary and fiscal authorities to defend the country's currency peg. The overall drag on the economy is reflected in night-time light data, a proxy measure for economic activity (Box 1).

The blockade of oil and gas export ports, beginning in January and lifted in mid-September, cut oil production to less than a third their levels in 2019. The blockade was directed by the LNA, which controls the oil-rich east of the country, and it was enforced by the eastern faction of the Petroleum Facilities Guard, the force tasked with protecting the country's energy infrastructure. The blockade of eastern oil ports and the shut-ins at core southwestern oilfields reduced oil production from 1.169 MBD in 2019 to an average 228,000 barrels per day in the first nine months of 2020. A ceasefire agreement struck between the GNA-aligned Presidential Council of Libya and the LNA in mid-September allowed the Al Sharara and El Feel oilfields to restart and the Sidra and Ras Lanuf ports to reopen, enabling the National Oil Corporation to quickly ramp up oil production to 453,000 barrels per day in October, 1.108 MBD in November, and 1.25 MBD in December. Overall, the average oil production in 2020 is estimated at 405,000 barrels per day, roughly a third of actual output in 2019 and under a fourth of the highest annual output achieved in the last decade (1.7 million barrels per day in 2010).

Non-oil activity did not compensate for the downturn in the oil sector. Although systematic

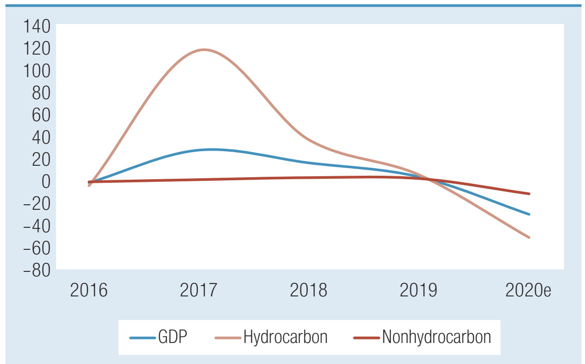
[1] Libya last reported official national accounts data in 2014. GDP data cited in this report are World Bank staff estimates.

FIGURE 1 • Oil Production
Million Barrels per Day



Source: World Bank staff estimates.

FIGURE 2 • GDP Growth
Percent Year-on-Year



Source: World Bank staff estimates.

data on non-oil activity is not generally available either on the demand or production side, certain partial figures indicate that the non-oil sectors could not have lifted the economy during the blockade. Cereal crop production in the country was 5 percent lower in 2020 than in 2019 and crop yield was 12 percent below average, according to the Food and Agriculture Organization of the United Nations. Insecurity, expensive inputs including seeds and tools and machinery, and utility malfunctions hampered farm production. Water shortages were prevalent in 2020, with reports of sabotage of water wells. Power outages persisted throughout the year; only 13 of 27 power plants were functioning. As late as mid-December 2020, three months after ports were reopened, the government was still urging consumers to stop queueing at gasoline stations; the fuel crunch had been addressed with the arrival of the Anwar Africa

BOX 1. MONITORING THE LIBYAN ECONOMY FROM SPACE

“The first casualty of war is truth” said the U.S. Senator Hiram Johnson during the First World War. Unfortunately, this observation still holds true today. In modern fragile and conflict affected situations, either by necessity or by design, economic and social data can quickly become sparse. Libya has not been an exception. With the prolonged conflict, the country’s statistical capacity has taken a heavy blow, and reliable information regarding national accounts, spatial aspects of the economy, and key socio-demographic indicators have become inaccessible.

But technological progress has begun to facilitate remedies to this problem, albeit in an imperfect manner. With advances in satellite imagery, and the public availability of systematically collected data, using various remote-sensing indicators as proxy indicators of economic activity has become more acceptable among economists. This approach can shed light on spatial dynamics of economic activity in Libya.

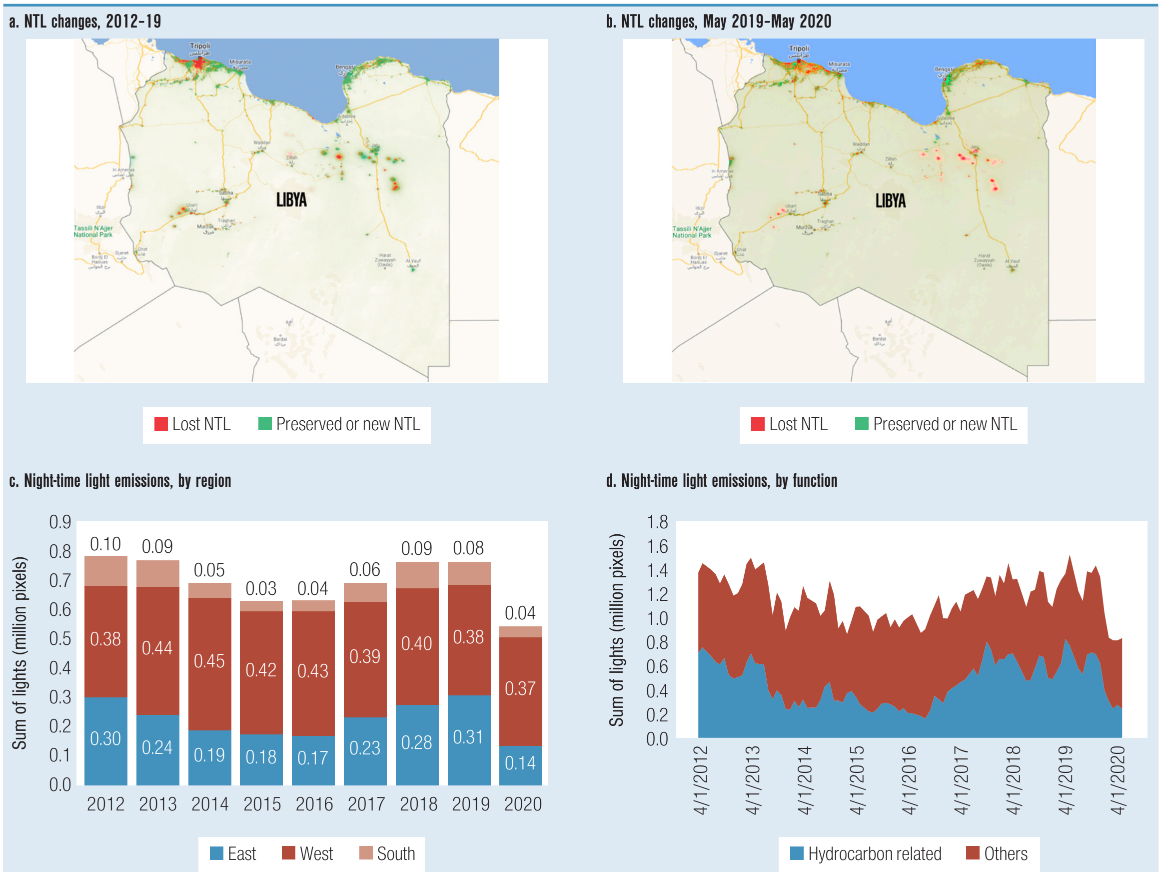
For the purposes of this *Libya Economic Monitor*, we explore using low-light imaging (night-time light emissions – NTL) satellite data, the Visible Infrared Imaging Radiometer Suite, collected by the National Aeronautics and Space Administration and the National Oceanic and Atmospheric Administration, to analyze the light-emission changes over time. This data series helps to analyze both long-term (2012–2020) and short-term (2019-May 2020) changes. Figure B1.1 below shows the trends.

Between 2012 and 2019, the Libyan NTL series exhibited a U-shaped pattern. The series was in a gradual decline from the start of tracking, but this trend accelerated with the onset of the conflict in 2014. By 2016, about 20 percent of the NTLs from 2012 were lost. A large portion of these losses were concentrated in the eastern part of the country (Figure B1.1, Panel a and Panel c), and were primarily driven by NTL around major oil fields (flaring and other production driven emissions) (Figure B1.1, Panel d). At the lowest point between 2012 and 2016, the NTL around major oil fields in the East was only at 20 percent of its 2012 value. From 2016 until 2019, the trends were gradually reversed, and as the NTLs in eastern oil fields rebounded, the aggregate light emissions in Libya recovered almost all losses and reached back to its 2012 level. In this period, there were some localized losses in western Libya (in Southern Tripoli, for example), however, these were offset with gains in NTL in other localized settings.

(continued on next page)

BOX 1. MONITORING THE LIBYAN ECONOMY FROM SPACE *(continued)*

FIGURE B1.1 • Night-Time Light Emissions in Libya



Source: World Bank staff estimations using data from the National Aeronautics and Space Administration and the National Oceanic and Atmospheric Administration .

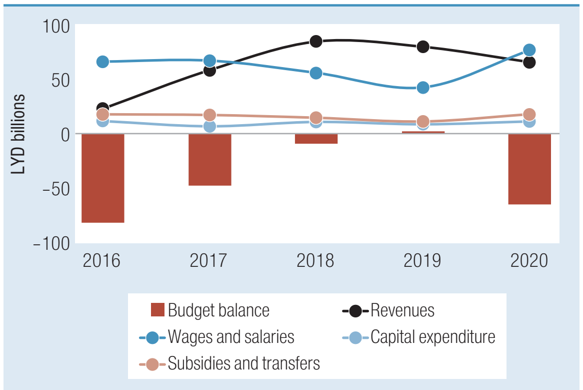
Between 2019 and May 2020 (the last available data point), the Libyan NTLs took another dive, this time by about 45 percent, in what constituted the most rapid decline in a single year since the first civil war in the last decade. This was again largely driven by hydrocarbon activity, which lost about 80 percent of NTL associated with it in the process.

These trends are overall well correlated with aggregate data on GDP and crude oil production. Thus, although more recent NTL data is not available at this stage, based on administrative data on oil production, we expect the NTL series to exhibit an imperfect rebound towards the end of 2020. Overall, the NTL data remains promising in analyzing the temporal and spatial dynamics of economic activity especially in Libya where the hydrocarbon economy has a large footprint of light emissions.

tanker at the port of Tripoli, the government assured. However disparate, these numbers and indicators convey the idea that non-oil activity was weak if not dormant in 2020.

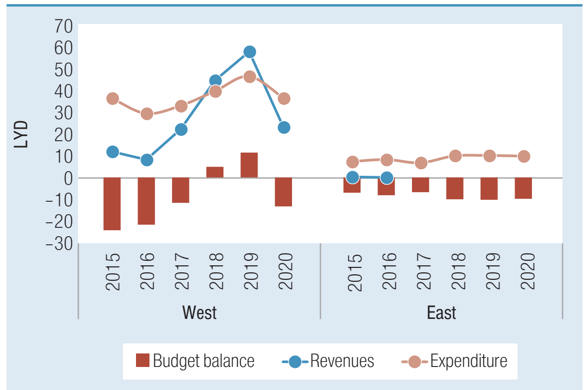
The oil production cutback had a catastrophic effect on government revenues in 2020. "Lost" revenues from the blockade amounted to around US$11 billion for the year, according to the Central Bank of Libya in Tripoli which also acts as the *de facto* Treasury. All revenues—hydrocarbon revenues, taxes on income and profits, customs duties, and foreign exchange fees—accrue to the GNA. Hydrocarbon revenues were LYD 5.3 billion for the year, well under a tenth of hydrocarbon revenues

FIGURE 3 • Government Revenues and Expenditures
LYD Billions



Source: Government estimates (revenues and expenditures) and World Bank staff estimates (percent of GDP).

FIGURE 4 • Government Revenues and Expenditures, West and East
LYD Billions



Source: Government estimates.

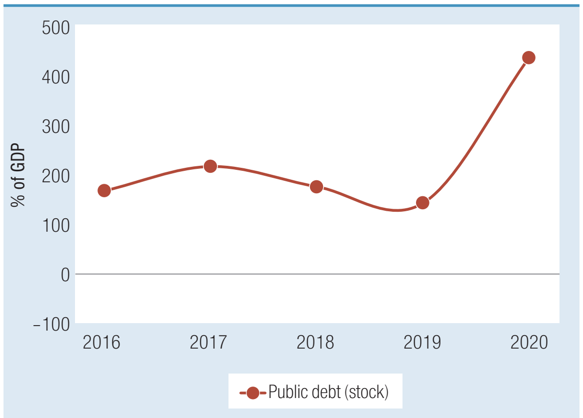
of LYD 31.4 billion in 2019. Non-hydrocarbon revenues, consisting principally of tax revenues but also including customs fees, telecommunications revenues, the central bank's profits, local fuel sales, and other revenue items, were LYD 2.5 billion for the year, roughly the same as in 2019. A surtax on foreign currency sales for commercial and personal purposes, introduced in 2018 and accounting for a sizable 40 percent of all revenues last year, earned LYD 15.2 billion for 2020, about two-thirds of the LYD 23.4 billion in 2019. Approximately LYD 13.7 billion of the surtax was allocated upfront to pay off public debt, leaving LYD 1.6 billion to fund development expenditures in the budget. Altogether, total revenues stood at LYD 23 billion in 2020 (Figure 3),[2] some 40 percent of total revenues earned in 2019.

The adverse impact of the oil revenue losses on government finances was compounded by a decision by the National Oil Corporation to temporarily freeze transfers from oil revenues late in the year. In November 2020, the state oil company alleged that US$3.7 billion in oil revenue deposited at the Central Bank of Libya from January to October 2020 had not been accounted for in the official data, which showed only US$1.7 billion of oil revenue during the period. The company declared that oil revenue would no longer be deposited at the central bank accounts until the central bank provided transparency and established clear mechanisms for tracking expenditures. The oil revenue would instead be held in escrow at the Libya Foreign Bank, the offshore bank fully owned by the central bank. The withholding of oil revenue from the Central Bank of Libya affected the ability of the government to meet obligations toward the end of the year. The freeze also triggered a depreciation of the Libyan dinar in the parallel market to LYD 7 = US$1 in end-November, the highest disparity from the official rate since 2017.

The plunge in revenues had a dramatic effect on government spending. The West cut total expenditures by 22 percent from LYD 46.1 billion in 2019 to LYD 36.2 billion in 2020 (Figure 4), with wages

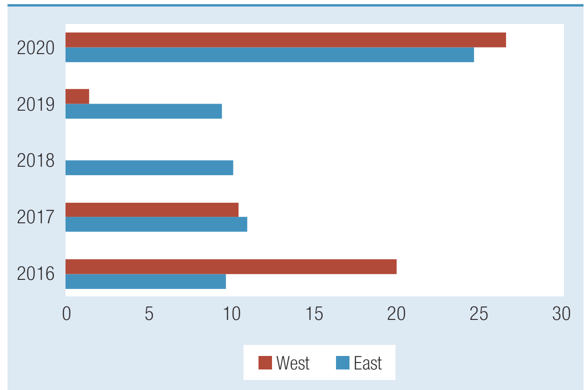
[2] Data on revenues cited in this report are from the Ministry of Finance. The Ministry of Finance, which acts as the fiscal authority, and the Central Bank of Libya, which acts as the *de facto* Treasury, differ in their accounting and reporting of fiscal revenues, which has been attributed only to the West. Although the Ministry of Finance treats all proceeds of the surtax on foreign exchange transactions as fiscal revenue, the Central Bank of Libya considers only the portion that is available to finance the budget as fiscal revenue, excluding the part which is set aside to pay public debt. Moreover, the Central Bank of Libya adjusts the Ministry of Finance's cash accounting by excluding oil revenues received in January each year for exports shipped in December in the previous year and telecommunications fees received in January for services rendered in December.

FIGURE 5 • Government Debt Stock
% of GDP



Source: Government estimates (debt stock) and World Bank staff estimates (percent of GDP).

FIGURE 6 • Government Debt Flows, West and East
LYD Billions



Source: Government estimates.

and salaries accounting for the bulk of expenditures for the year—LYD 21.9 billion or 61 percent. The GNA had announced a decision to cut the salaries of high-ranking political officials by 40 percent starting in January 2020 and of all public sector employees by 20 percent starting in April 2020, but it is not clear whether the decision was implemented for either group. Subsidies reached LYD 5.6 billion, or 16 percent of total expenditures. The GNA had reportedly decided to implement the reform of the fuel subsidy system previously adopted in 2015 and replace it with a universal cash transfer system, but fuel subsidy expenditures remained at LYD 3.4 billion for the year. Apart from fuel, other items in the subsidy list included electricity, water and sewage, sanitation, and medical supply. Development expenditures were miniscule for the year, LYD 1.8 billion or five percent of total expenditures, compared to LYD 4.6 billion in 2019. All capital expenditures projects for 2020 were virtually scrapped.

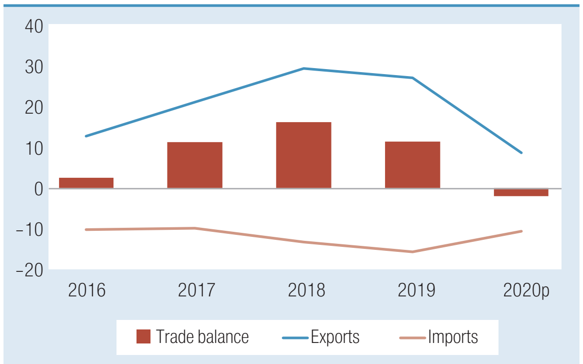
Deprived of national oil revenues, the East managed to maintain government spending in 2020 at its level in 2019. Expenditures by the IG were only marginally lower at LYD 9.7 billion in 2020, compared to LYD 10 billion in 2019. Government spending in the East is a fraction of that in the West, averaging a fifth to a fourth of spending in the West over the five-year period from 2015 to 2019. As in the West, salaries and wages were the largest expenditure in the East, claiming 51 percent of total spending at LYD 5 billion in 2020. Expenditures on goods and services of LYD 2 billion were 20 percent of total expenditures, compared to 10 percent of total expenditures in the West. The IG allocated proportionately less to subsidies than the GNA, both in 2020 and in the preceding five years. Rather, the IG spent more on capital investment that the GNA, both in levels and percentage of expenditure terms

Government debt is large. Revenues, excluding set-asides for debt payment, barely covered a fifth of government expenditures in the West, forcing the government to turn to the Central Bank of Libya anew for deficit financing of LYD 26.7 billion.[3] With the IG lacking access to state oil revenues, spending in the East was financed almost entirely by bond issuance in 2020, in the amount of LYD 9.7 billion. Total debt stock stood at an estimated at LYD 154 billion in end-2020 (Figure 5) and has been calculated as the cumulation of debt flows over the years (Figure 6).[4] Government debt in the West is placed at LYD 84 billion, following

3 Data on expenditures cited in this report are from the Ministry of Finance. As with revenues, the Ministry of Finance and the Central Bank of Libya also differ in their accounting and reporting of expenditures.

4 Debt data are based on government, IMF, and World Bank staff estimates (Schaeffer and Ouelhazi, "Libya: An Economy in Fiscal and Monetary Crisis" 2021).

FIGURE 7 • Exports and Imports of Goods
US$ Billion



Source: IMF, *Direction of Trade Statistics*.
Note: p=preliminary. Data for 2020 are for January-October.

deficits in 2013–17 and again in 2020. Government debt in the East is calculated at LYD 71 billion from annual deficits since 2015. In addition, the government owes LYD 26 billion in accrued family benefits, LYD 19 billion in delayed benefit payments, and LYD 8 billion in dues to the Social Security Fund. Overall, including these payables, total liabilities are estimated at LYD 207 billion at end-2020. In Libya, reported government debt is almost completely domestic, and any public obligations with third parties are unknown.

Export receipts collapsed with the oil facilities blockade. Exports amounted to US$8.9 billion in January-October 2020, some 61 percent lower than over the same period in 2019 (Figure 7).[5] Imports were lower too, but less dramatically than exports. Imports amounted to US$10.5 billion in January-October 2020, about 15 percent lower than over the same period in 2019. About 40 percent of Libya's imports are consumer goods and another 40 percent are intermediate goods. The heavy concentration of consumer and intermediate goods in the import basket implies that goods imports cannot be readily pared without substantial economic consequences. The trade account was in deficit, at US$2 billion in January-October 2020, reversing a surplus of US$9.9 billion over the same period in 2019. Prior to 2020, the last time Libya posted an annual goods trade deficit was 1962.

International reserves remain adequate by most headline metrics. The latest data available for international reserves is US$49 billion in end-September 2020.[6] Reserves are 60 months imports of goods, using goods imports data for 2019 before imports were slightly trimmed in 2020. The global average is 11 months of imports; the average for countries in the Middle East and North Africa is 20 months of imports. Reserves are 197 percent of (1.97 times) broad money (M2), which was LYD 111.7 billion in end-June 2020, according to data from the Central Bank of Libya. The average is 15 percent for 116 countries for which data is available. This ratio is especially useful for assessing reserve adequacy under fixed exchange rate regimes where credibility needs to be established.

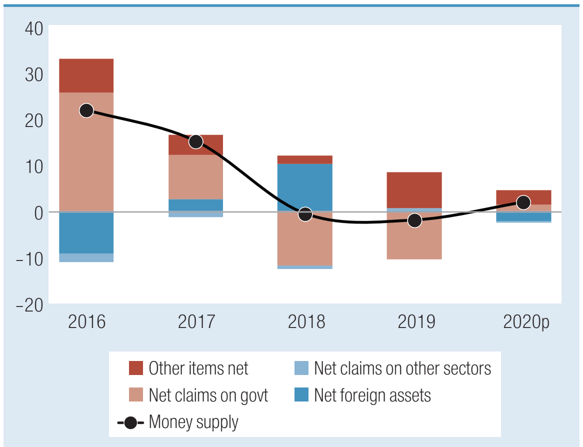
The long-running liquidity crisis continues to fester. Households are reportedly not able to withdraw sufficient amounts of cash to meet their basic needs—only four percent of respondents in a survey reported being able to make purchases using cash withdrawn from banks over the past month. Meanwhile, vendors continued to demand cash—more than half covered by the same survey reported accepting only cash. Inability to access money service providers, a poorly functioning internet, and recurrent power shortages hindered the use of electronic payments. Money supply gained two percent in September 2020 from end-2019 (Figure 8), with currency in circulation outside banks dropping by around LYD 870 million (Figure 9). Net foreign reserves declined, reflecting the fall in exports, while net credit to the government rose, reflecting the increase in the deficit.

Credit from commercial banks declined in the first half of 2020, leveling the small annual gain in 2019. Outstanding credit by commercial banks for various economic activities stood at LYD 16.7 billion in end-June 2020, two percent lower than LYD 16.9 billion in end-2019, which was less than a quarter of GDP according to data from the Central Bank of Libya. Six state-owned banks, including three

[5] Monthly data on exports and imports for 2019 and 2020 are from the IMF, *Direction of Trade Statistics*. The Central Bank of Libya and the U.N. Conference on Trade and Development also report Libya trade data, but the data are not yet available for any period in 2020.

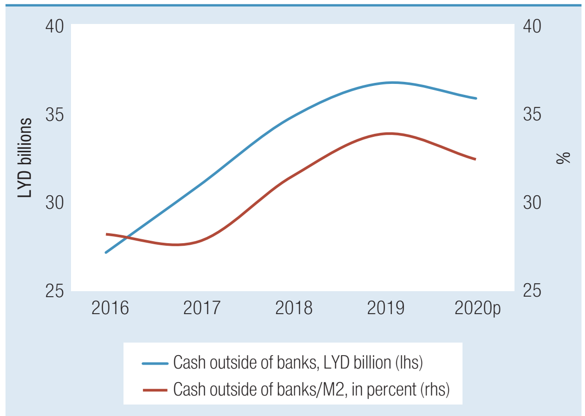
[6] Reserves data for 2020 are IMF staff estimates (Schaeffer and Ouelhazi, "Libya: An Economy in Fiscal and Monetary Crisis" 2021).

FIGURE 8 • Money Supply
Annual Change, in Percent



Source: Central Bank of Libya.
Note: p = preliminary. Data up to September 2020.

FIGURE 9 • Currency Outside of Banks
LYD Billions and Annual Change in Percent

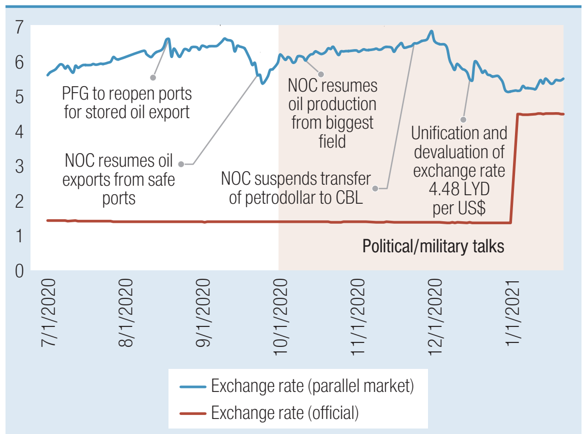


Source: Central Bank of Libya.
Note: p = preliminary. Data up to September 2020

which are co-owned with private interests, dominate the banking system, but perform little financial intermediation beyond servicing state financial activity and holding salary deposits. Another 13 private banks are smaller and even lower functioning, earning the larger part of their revenues from foreign exchange trading and transfers and incurring large losses from poor lending decisions and practices.

Libya's currency peg came under severe pressure from the drastic oil production and export cutbacks in 2020. The Libyan dinar had been pegged to the Special Drawing Rights (SDR) since 1986, and at an official exchange rate of LYD 1.00 = SDR 0.5175 since 2003. Meeting on December 16 for the first time in five years, the board of directors of the Central Bank of Libya, divided between western and eastern branches, agreed to devalue the currency and apply the new single rate across the country. The decision followed the "Economic Dialogue", held in Geneva, convened by the United Nations and co-presided by Egypt, the United States, and the European Union, the latter two acting as co-chairs of the Economic Working Group on Libya of the Berlin Process, to discuss, among others, currency reform including the unification of the exchange rate. The new official exchange rate was set LYD 1.00 = SDR 0.156 effective January 3, 2021. The equivalent rate to the U.S. dollar is LYD 4.48 = US$1.00 using the current US$1.44 = SDR 1.00 rate (Figure 10). The

FIGURE 10 • Exchange Rate
LYD/US$



Source: Central Bank of Libya.

new rate applies to all governmental, commercial, and personal foreign exchange transactions.

In the parallel market, where the rate diverges significantly from the official rate, the Libyan dinar had been highly volatile throughout 2020. The volatility was fed by uncertainties surrounding political and military talks in Tunisia, Switzerland, and Morocco, continuing liquidity problems in the banking sector, the demand for import financing, and the decision by the National Oil Corporation to suspend the deposit of oil revenues at the Central Bank of Libya in Tripoli, which manages

the dollar accounts where all sales by the National Oil Corporation are collected. The parallel market rate in the western areas, which stood at LYD 4.19 = US$1 at the beginning of the year, depreciated to LYD 6.50 =US$1in May as fighting between the GNA and LNA forces intensified, appreciated to LYD 5.52 = US$1 on September 26 when the National Oil Corporation resumed exports from safe ports, depreciated to LYD 6.38 = US$1 on November 12 as the National Oil Corporation stopped deposits of oil revenues at the Central Bank of Libya in Tripoli, and appreciated to LYD 5.96 = US$1 on December 17 the day after the central bank agreed to devalue the official rate beginning in January 2021.

The devaluation of the official exchange rate effectively eliminates the need for the surtax on foreign exchange transactions. First imposed in September 2018, the surtax aimed to narrow the difference between the parallel market rate and the official rate on commercial and personal transactions covered by the tax. The redundancy of the surtax implies that there will not be any foreign exchange fee revenues in 2021. The devaluation is also expected to have other effects on the economy moving forward. The U.S. dollar equivalent value of the LYD 154 billion government debt, which would have been US$110 billion before the devaluation of the Libyan dinar, stands at US$34.4 billion at the new exchange rate. Although all of government debt is domestic, the debt is still effectively serviced with external receipts (oil revenues), making the debt less costly to the government. The devaluation is also expected to boost the inflation rate, both by stimulating domestic demand and by increasing the price of imports. In emerging market and developing economies, the median value of the exchange rate pass-through was +0.08 over the period from 1998 to 2017.[7] The increase in prices in Libya from the 220 percent devaluation of the Libyan dinar in January 2021 will likely be less than implied by this ratio.[8]

Notwithstanding the economic downturn, consumer prices likely rose in 2020. The full-year report of consumer prices remains incomplete as the Central Bank of Libya has only reported official data for the first quarter of 2020 (a 0.9 percent inflation rate for the quarter). However, survey data indicate that disruptions from the intensified conflict in the west and the south, the temporary stoppage in foreign currency transactions by the central bank, and the outbreak of the COVID-19 crisis boosted prices for essential goods in the first half of the year (Box 2). Rising demand from internally displaced persons boosted prices for essential goods in the east in the second half of the year.

Social Developments

Years of military and civil strife in Libya, punctuated by the economic downturn in 2020, have worsened social and poverty outcomes in the general population and among migrant communities. The ongoing conflict and the deteriorating economic conditions constrained the delivery of basic social services to the general population and to migrants. Some 1.3 million people (17.6 percent of the total population) needed humanitarian assistance in 2020, and the number is expected to reach 1.8 million in 2021, according to OCHA.[9] Among those in need, 40 percent were women and 35 percent were children. Notably, 60 percent were either internally displaced persons, returnees, migrants, or refugees. Those in the "severe" and "extreme needs" category represented 17 percent of all people in need. Most of the needs reported were for health services (92 percent of all people in need), food security (54 percent), and protection (38 percent). The needs reported and their severity as well as the factors associated with

[7] Ha, Stoecker, and Yilmazkuday, *Inflation and Exchange Rate Pass-Through*, World Bank Policy Research Working Paper 8780, 2019. The exchange rate pass-through ratio is defined as the percentage increase in consumer prices associated with a one percent depreciation of the effective exchange rate after one year.

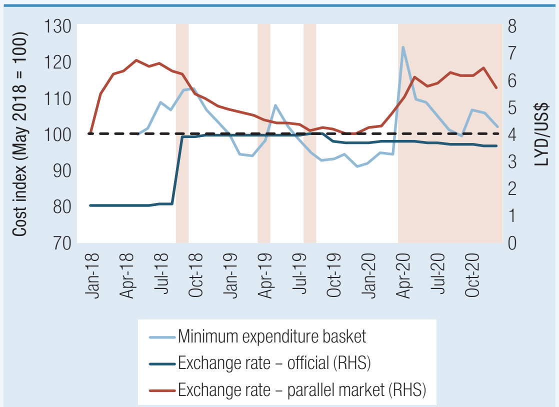
[8] Libya has had a sizable parallel foreign exchange market for some period; rate changes in the parallel market would have passed through to prices over time. Moreover, the surtax on foreign exchange transactions effectively devalued the currency in 2018, at least for commercial and personal transactions; there would have been price effects since that time.

[9] U.N. Office of the Coordinator of Humanitarian Affairs, *Humanitarian Needs Overview – Libya, 2021.*

BOX 2. THE COST OF LIVING IN LIBYA: AN ANALYSIS BASED ON THE COST OF A MINIMUM EXPENDITURE BASKET (MEB)* FOR THE AVERAGE HOUSEHOLD

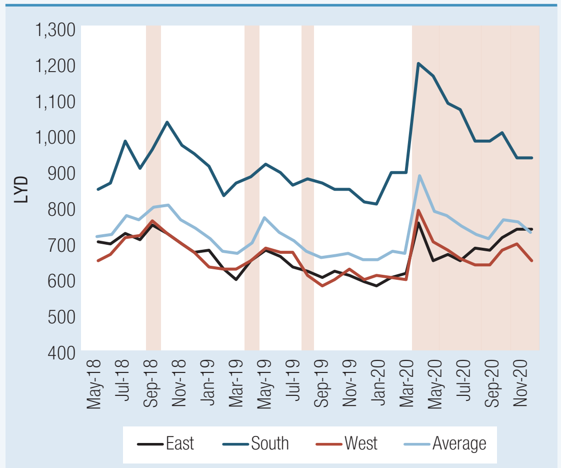
Prices of essential goods, which rose significantly in the beginning of 2020 but decreased during the second half of the year, remained higher in 2020 than in 2019. The average median cost of the MEB increased on average by three percent during the first quarter and 36 percent in April compared to December 2019 (Figure B2.1). The average median cost of the MEB then decreased by three percent on average compared to April 2020. The cost of food items and cooking fuel led to this variation. In the first months of 2020 intensified conflict in the west of Libya disrupted supply routes. The Central Bank of Libya halted foreign currency transactions in March, impeding the flow of goods into the country and spurring demand for foreign exchange in the parallel market. In response to the COVID-19 crisis, the authorities stockpiled essential goods in March disrupting the markets. By June 2020, hostilities in the southern regions of Tripoli ended. Market logistical barriers were lifted. The oil blockade negotiations began. Fuel prices declined.

FIGURE B2.1 • The Cost of the Minimum Expenditure Basket Increased During 2020 Compared to December 2019 ...



Sources: REACH Initiative – Libya Joint Market Monitoring Initiative, Central Bank of Libya, and World Bank staff estimates.

FIGURE B2.2 • ... with Variation across Regions Compared to the Average



Sources: REACH Initiative – Libya Joint Market Monitoring Initiative, Central Bank of Libya, and World Bank staff estimates.

The cost of living varied across regions with higher costs in the southern regions of Libya. The average median cost of the MEB in the south was 34 percent higher than the national average and 50 percent higher than in the west during 2020 (Figure B2.2). While running below the average, the average cost in the east was only 2 percent higher than in Tripoli. Beginning in April 2019, the conflict in the south of Tripoli led to a logistical isolation created by checkpoints and road blockages, which increased transaction costs and food and cooking fuel prices. Compared to the other regions, the average median cost of the MEB in the east rose steadily during the second half of 2020 due to increased demand from internally displaced persons escaping intensified insecurity.

* The Minimum Expenditure Basket is defined as what a household requires in order to meet their essential needs, on a regular or seasonal basis, and its cost—it sets a monetary threshold for what is needed to cover these essential needs (U.N. World Food Programme, *Minimum Expenditure Baskets – Guidance Note,* 2020). For Libya, the basket includes 18 food items, five non-food items, and cooking fuel, the quantities of which reflect the needs of a household of 5.2 persons. The MEB was drawn by the Libya Cash and Market Working Group, a community of humanitarian groups supporting and coordinating humanitarian cash and market interventions in the country. The group established the Libya Joint Market Monitoring Initiative (JMMI) in 2017, aiming to inform cash-based interventions and better understand market dynamics in the country. The JMMI has produced cost data for the MEB since January 2018.

these needs differed from one group of the population to another. However, "conflict," "access to services," and "deteriorating quality of services" emerged as common factors for the general population, while "discrimination" and "international humanitarian law/human rights violations" hindered the capacity of migrants and refugees to meet their needs.

The conflict has adversely affected the usability of health facilities. More than half of healthcare facilities that were operational in 2019,

have closed especially in rural areas due to security threats and a lack of funds, according to the OCHA. Meanwhile, the remaining operating healthcare facilities have faced critical gaps in medicines and supplies, as well as an acute shortage of health workers. Over the second half of 2019 and the first half of 2020, Libya recorded 28 attacks on medical facilities, ambulances, and medical personnel. The Al Khadra Hospital in Tripoli, assigned to receive patients with COVID-19, was struck by rockets on four separate occasions in early April 2020. The fragmentation of the country into competing governments and militia-controlled areas has eroded stewardship and governance in the health sector. Health budgets have been sharply reduced due to the country's budgetary crisis. In the overall ranking on the Global Health Security Index,[10] Libya ranks 168 out of 195 countries, 42 out of 54 African countries, and 46 out of 56 upper middle-income countries.

The education sector has suffered from the protracted conflict and from underinvestment. A total 287 schools—six percent of all schools—have been damaged or destroyed and 27 schools are used as shelters for displaced families, according to the OCHA. Some of the functioning schools lack adequate drinking facilities (25 percent), handwashing facilities (15 percent) and gender-segregated toilets (35 percent). According to the survey conducted by the REACH Initiative,[11] households with enrolled children reported that schools lacked transportation (12 percent), needed teachers or learning materials (11 percent), offered poor quality of teaching (12 percent), and suffered from overcrowding due to the presence of displaced families (12 percent). Internally displaced families and returnees who had lost, or did not have, their identification documents faced additional barriers in enrolling their children in schools. According to the OCHA, some 316,000 children and 10,000 teachers are estimated to need assistance. These include 55,000 displaced persons, 73,000 returnees, 146,000 non-displaced Libyans, 36,000 migrants and 6,000 refugees. The numbers increased by 157 percent from 2019.

Instability across the country caused a significant negative impact on food security in 2020. The conflict affected food availability and cost. Approximately 699,000 people (nine percent of the population) were considered food insecure in 2020, almost double the number in 2019, with significant increases recorded among both displaced and non-displaced Libyans, according to the OCHA. With persistent insecurity and conflict, displaced people were forced to abandon their homes and livelihoods, losing their jobs and income in their search for safety. Almost a third of all migrants and refugees were food insecure, with the highest number reported among migrants in Benghazi and refugees in Tripoli. Libyans, migrants, and refugees adopted one or more coping mechanisms to maintain some level of food security: buying less expensive food, reducing the number or size of meals, or prioritizing children for food with the adults reducing their own food consumption, according to the World Food Programme (WFP)[12] and the U.N. International Organization of Migration (IOM).[13]

Recent surveys also confirm the level of social strife faced by Libyans. Data from the WB-WFP Libya Food, Security and Nutrition Survey collected amidst the COVID 19 pandemic—between 8 December 2020 to 6 January 2021—in eight Libyan municipalities (Tripoli, Tobruk, Almargeb, Nalut, Aljufra, Murzuq, Zwara and Alkufra) from 1000 randomly sampled households consisting of 11

[10] Produced by the Nuclear Threat Initiative, the Johns Hopkins Center for Health Security, and the Economist Intelligence Unit, the index is the comprehensive assessment and benchmarking of global health security capabilities across 195 countries that comprise the States Parties to the World Health Organization (WHO) International Health Regulations (https://www.ghsindex.org/).

[11] REACH Initiative, *Multi-Sector Needs Assessment in Libya,* December 2020. The survey conducted from June to August 2020 covered 6,061 households with different status (non-displaced, internally displaced, and returnees) in 22 districts. The sample was not representative. The REACH Initiative is a humanitarian organization providing data, information, and analysis on the humanitarian situation in various countries and territories in the context of crisis, disaster, and displacement.

[12] World Food Programme, *Mobile Vulnerability Analysis and Mapping (mVAM) Bulletin No. 4, April–May 2020.*

[13] U.N. International Organization for Migration, *Migrant Emergency Food Security Report, Libya, 2020.*

percent displaced persons showed that 10 percent of Libyans had inadequate food consumption (poor and borderline food consumption). Food insecurity was found to be higher in the Eastern and Southern regions. There was an increase in food insecurity reported in Tobruk (32 percent), Murzuq (23 percent) and Alkufra (15 percent) compared to May 2020. On average, households reported consuming pulses and fruits on the least number of days. Households in Alkufra, Murzuq and Tobruk reported to have consumed these on only two days in the previous week.

Given the fragile and vulnerable nature of the country, the COVID-19 pandemic could not have hit at a worse time. The pandemic has exacted a heavy economic and social toll on the country, exacerbating already difficult conditions. Containment measures led to job losses and reduction in household incomes, notably among migrants and refugees. Border closures, mobility restrictions, and curfews disrupted trade and dislocated markets, resulting in higher prices for food, basic goods, and essential services. Loss of employment and delays in the payment of salaries and wages for those still at work diminished the people's capacity to provide for their basic needs and forced many households to adopt negative coping mechanisms to maintain food consumption. COVID-19 also affected people's access to various social services. The authorities implemented measures to control the spread of the pandemic and to cope with its socioeconomic impact but these measures lacked coordination and effectiveness.

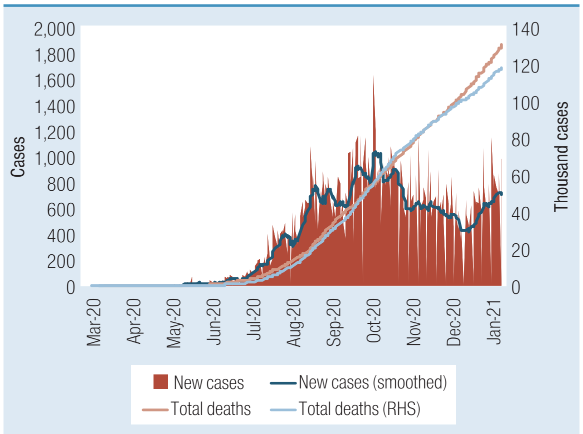
The relaxation of containment measures accelerated the spread of COVID-19 cases in Libya during the second half of 2020. The first confirmed case of COVID-19 was reported on March 24. The number of new cases grew slowly during the second quarter of 2020 with an average of eight new cases per day. During the second half of 2020, the number of new confirmed cases climbed quickly, reaching a peak of 1,603 daily confirmed cases on October 25 (Figure 11). As of end-January 2021, there were 118,632 confirmed cases and 1,877 reported deaths due to COVID-19. However, the true scale of the pandemic is likely far higher than reported because the limited testing capacity is concentrated in Benghazi and Tripoli. The relaxation of government's containment measures in the west during the second half of 2020 accelerated the spread of the pandemic in the country.

National and local authorities implemented stringent containment measures to control the spread of the disease in line with international experience. A range of containment measures were implemented prior to the identification of the first confirmed COVID-19 case, including closing schools, encouraging people to work from home, canceling public events, restricting very large gatherings, and requiring the quarantine of arrivals from high-risk regions. These measures were tightened with the diagnosis of the first case and were complemented by curfew, confinement, border closure, and restrictions on internal movement (Figure 12). As the curve remained flat, the authorities adopted more targeted measures. On May 28, the government either required or recommended that people stay at home. On July 7, the authorities relaxed restrictions on work from home for some economic sectors and categories of workers. On July 27, Libya reopened its borders for travelers arriving from some regions.

Libya posted the highest number of confirmed cases and the second highest number of deaths per million population among the Maghreb countries in 2020. Continued relaxation of containment measures in July to November 2020 raised the number of cases to 14,594 per million by end-December 2020, the highest among the Maghreb countries (Figure 13). The retightening of containment measures beginning in December 2020 slowed down the spread of the disease but to a lower extent than in Morocco. Libya registered a steady increase in number of deaths over the second half of 2020 totaling 274 deaths per million by the end of January 2021, exhibiting almost the same trend as Morocco but far below Tunisia (Figure 14).[14]

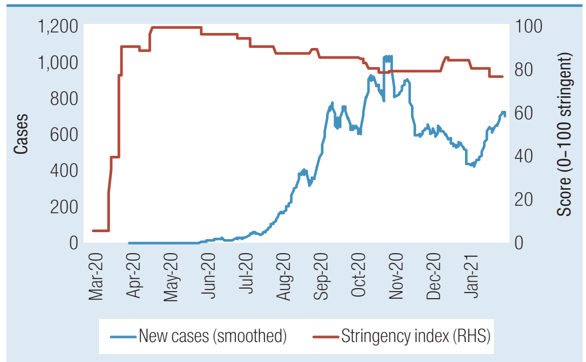
[14] A breakdown of COVID-19 data by demographic characteristics and health status of the affected and deceased population is arguably needed for a better understanding of the observed differences among the Maghreb countries.

FIGURE 11 • Cumulative COVID-19 Cases and Deaths



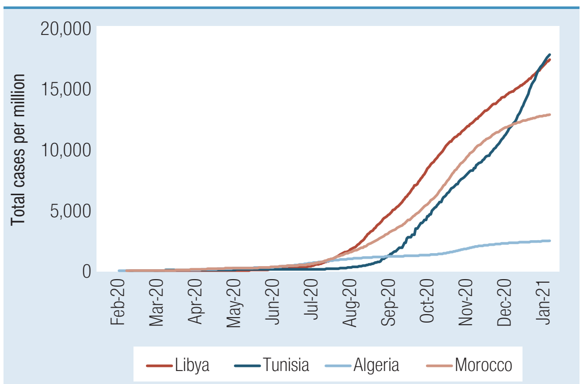
Source: European Centre for Disease Prevention and Control, COVID-19 Situation Update Worldwide.

FIGURE 12 • Stringency Index and Cumulative COVID-19 Cases



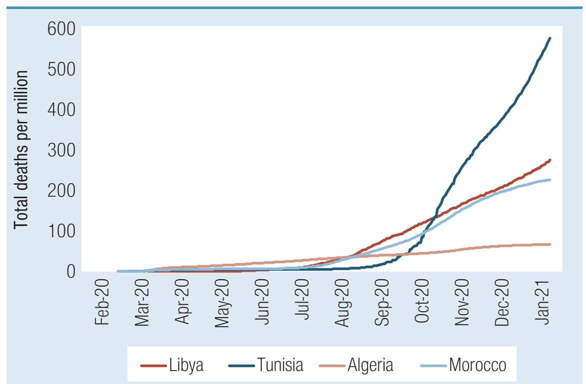
Source: European Centre for Disease Prevention and Control, COVID-19 Situation Update Worldwide.
Note: The stringency index is a composite measure based on nine indicators of government responses to the pandemic, including school closures, workplace closures, and travel bans, scaled to a value from 0 to 100 (100 = strictest measure).

FIGURE 13 • Cumulative COVID-19 Cases in the Maghreb Region *Per million population*



Source: European Centre for Disease Prevention and Control, COVID-19 Situation Update Worldwide.

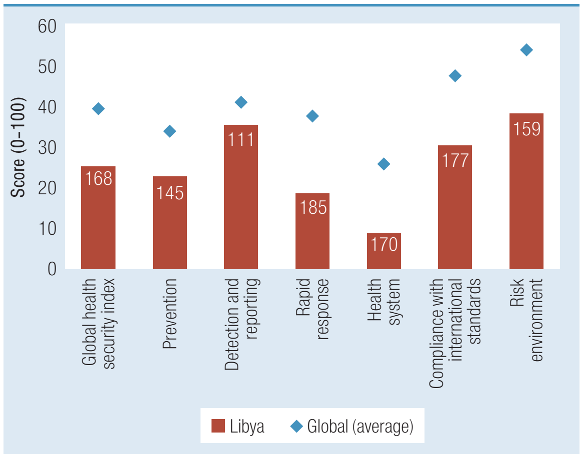
FIGURE 14 • Cumulative COVID-19 Deaths in the Maghreb Region *Per Million Population*



Source: European Centre for Disease Prevention and Control, COVID-19 Situation Update Worldwide.

The pandemic additionally strains the country's already fragile health system. Libya's low rank on numerous indicators pertaining to epidemic and pandemic preparedness in the Global Health Security Index underlines the weak capacity of the health system to address the COVID-19 crisis (Figure 15). Laboratory testing for COVID-19 faced persistent and acute shortages of test kits. Libya adopted a targeted testing policy and limited contact tracing. People with COVID-19 symptoms that met a specific criterion—being a key worker, was admitted to a hospital, came into contact with a known case, or returned from overseas—were tested. Many hospitals across the country regularly suspended operations due to high rates of COVID-19 infection among staff and patients. Furthermore, many health workers refused to report for duty due to a lack of protective equipment, inadequate infection protection and control measures, or because they had not been paid for work rendered. The government allocated an additional budget of LYD 1.2 billion for emergency investment in the health sector, about 2.7 percent of total expenditures in 2020.

FIGURE 15 • Libya's Score on the Global Health Security Index in 2019
Index score (0-100, 100 = most favorable health security conditions)



Source: Nuclear Threat Initiative, Johns Hopkins Center for Health Security, and Economist Intelligence Unit, Global Health Security Index 2019 – Building Collective Action and Accountability.
Note: Numbers above the bars indicate Libya's country rank, among 195 countries.

The disease outbreak puts an additional burden on the economy, drawing only a limited response from the government because of the lack of fiscal space. The Libyan economy had been severely impacted by the blockade of oil production and exports beginning in January 2020. Information on the non-oil sector remained scarce, according to a survey by the REACH Initiative,[15] but the loss of jobs due to COVID-19 was prominently mentioned. Among households with members working (88 percent of survey respondents), 18 percent reported that their place of work closed due to COVID-19, two percent were not able to travel to their place of work, and one percent claimed that their employer was no longer able to pay salaries. Migrants and refugees were most likely employed through daily labor or temporary work. About 22 percent of migrants and refugees reported their workplace had closed, while roughly 20 percent saw their salaries cut due to the pandemic. Unemployment among this group climbed from 17 percent in February to 27 percent in August 2020. Adding to the lack of available government funds, the due date for income taxes was pushed back, and renters of public building were exempted from paying user charges and fees

The pandemic has degraded the living standard of the population, forcing many to adopt negative coping strategies. The disruption of global supply chains and the decline of international trade led to shortages of basic food items such as wheat products, vegetables, and eggs. Additionally, hygiene products, including latex gloves, face masks, hand sanitizers, and alcohol-based cleaning products, were commonly reported as scarce, leading to price spikes in these products in major cities across Libya. Increasing unemployment and underemployment due to the pandemic further hindered the ability of households, especially migrants and refugees, to meet their basic needs. Libyan households as well as migrants and refugees resorted to negative coping strategies, including by selling non-productive assets, drawing down savings, borrowing money, reducing spending on health and education, or begging. Internally displaced households adopted more severe strategies such as selling their land or dwellings, worsening their vulnerability. Migrants and refugees may have also withdrawn their children from school to enable the children to contribute to household economic activity, according to the OCHA. In April 2020, the Central Bank of Libya allocated US$400 million for letters of credit for food and pharmaceutical products to address shortages in these goods. It also accelerated the process for issuing these instruments, both to respond to the heath crisis and to prepare for the month of Ramadan.

Mobility restrictions and curfews negatively affected access to basic health services. Health services for non-communicable diseases are generally unavailable in the country, putting those with pre-existing health conditions at a higher risk to the effects of the COVID-19 infection. Persons with disabilities have faced significant challenges in accessing health services because of the concentration of these services in Benghazi, Misrata, Sebha, and Tripoli. Around 52 percent of displaced households reported issues in accessing health services and paying for them, according to the REACH Initiative. For returnees, migrants, and refugees, the lack of official documents

15 REACH Initiative, *Multi-Sector Needs Assessment in Libya,* December 2020.

proved to be an additional barrier to their ability to access health and education services.

The closure of schools to control the spread of the virus severely disrupted education in 2020. The authorities implemented distance learning classes through television and other online platforms as well as through distributions of printed educational materials. However, about 81 percent of households reported that their children could not access these resources, according to the REACH Initiative. Displaced persons faced particularly severe challenges, with 86 percent reporting their children being unable to access these educational opportunities. The numbers were even higher for migrants and refugees, with 89 percent being unable to access distance learning resources, and more notably for those from Sub-Saharan countries, with 100 percent being unable to access distance learning resources. In Libya, school buildings also function as social service facilities for conflict-affected children and adolescents, allowing them to access various services including school feeding programs, recreational activities, and psychosocial support services. The closure of schools has disrupted these services. Moreover, the prolonged closure of schools also has put additional pressure on parents who have to carry the additional burden of homeschooling and managing the negative impact of confinement on their children.

Addressing the local economic and social impacts of the COVID-19 pandemic will require active collaboration between the government and international organizations. Libya has joined the COVID-19 Vaccine Access (COVAX) Facility, the multilateral risk-sharing mechanism led by the World Health Organization for pooled vaccine procurement and distribution that aims to ensure equitable access to vaccines for 190 participating countries. The Audit Bureau in Tripoli approved a purchase order of two million doses of the vaccine for US$9.6 million. The United States government has slated assistance worth US$18.2 million to Libya's COVID-19 response, with emergency assistance from the U.S. Agency for International Development of US$14.7 million and humanitarian aid from the U.S. Department of State for vulnerable communities, including refugees, migrants and host communities, of US$3.5 million. The rollout of vaccines for the virus will likely be slow by regional standards, with delays related to territorial insecurity, lack of cold storage facilities, and strained public finances.

2

OUTLOOK

Economic Policy Agenda

Libya faces considerable hurdles in the drive for a more durable economic recovery following the resumption of oil production and exports. The country's political leaders must address three short-term challenges in the policy agenda. First, the National Oil Corporation and the Central Bank of Libya must reach an urgent solution on the oil revenues held offshore at the Libya Foreign Bank. While fiscal transparency is a worthy objective, the impasse over oil revenue deposits risks damaging government activities and fiscal operations. Second, the GNA in the west and the IG in the east must cobble together not only a unified but, more importantly, a reasonable budget for the remainder of 2021 that is consistent with the country's development priorities and aligned with its institutional capacity. While they have struck an agreement for a unified budget for January-February 2021, they have left budget unification plans for the remainder of the year in limbo. Third, the competing branches of the Central Bank of Libya should advance the second generation of monetary reforms after the devaluation of the official rate in January. The next items on the agenda are the unification of the two branches of the central bank; the integration of the payments systems in the west and the east, and the resolution of liquidity problems both in the banking system and in the wider economy.

The ring-fencing of oil revenues at an escrow account at the Libya Foreign Bank poses a dilemma to the country's fiscal authorities. While the Ministry of Finance agrees with the National Oil Corporation that a transparent accounting of oil revenue deposits at the Central Bank of Libya is necessary, the protracted revenue freeze means that budget execution will be doubly difficult moving forward. The Economic Working Group on Libya of the Berlin Process had similarly affirmed the legitimacy of the demand for transparency but fell short of brokering a durable solution to the issue at its December meeting. To meet budgetary funding requirements, GNA can conceivably contract for loans from the central bank to cover spending in the year on basic budgetary items including salaries, public services, and subsidies. It will also likely be able to dip into the country's foreign reserves. But any bridge financing arrangement can only be temporary and creates more fiscal issues that it solves.

An agreement between the National Oil Corporation and the Central Bank of Libya on the unfreezing of the oil revenues is urgently needed.

The IG had not inserted itself in the tussle between the oil corporation and the central bank, but did point out in December that it had called for a fair distribution of oil revenues as early as 2015. The review of spending from central bank oil revenue accounts in past years was one of three original demands of the LNA following the blockade of oil ports in January, the other two being the opening of a special bank account for oil revenue in a country outside Libya for equitable distribution and preventing oil revenue from funding "terrorism and mercenaries." The confluence of interests over the oil revenues implies that apart from forensic accounting, the underlying contest is over the control and distribution of the oil revenue itself.

Discussions on unification of the budget provides a good opportunity to reform the public financial management system in the country. Talks began on January 14 in Brega. Currently, Libya has two separate budgets managed by two competing governments. The GNA, recognized by the U.N. under the Libyan Political Agreement of 2015, manages all revenues and expenditures that existed before the country splintered and broke into competing political and military factions in 2014. The revenues are headlined by oil revenues earned by the National Oil Corporation, the state-owned body that controls most aspects of the oil and gas industry and is the sole internationally recognized authority for oil and gas exports. The expenditures include wages and salaries of public sector employees registered in the central payroll. The IG, backed by the House of Representatives which is also recognized as the parliament by the U.N. under the Libyan Political Agreement, has no revenues but has a separate budget that covers its own extra spending only. Funding is drawn from bond sales to banks by the western branch of the central bank and issuances by the western branch of currency printed abroad.

At the time this Economic Monitor was written, the budget unification talks had produced an agreement on a two-month unified budget for January-February 2021. In discussions with the United Nations and the World Bank, the Ministry of Finance in Tripoli and in Beyda and the Central Bank of Libya agreed on LYD 9.1 billion in total spending for January and February, including allocations of LYD 4.7 billion for salaries and wages, LYD 850 million for recurrent expenditures, LYD 2.25 billion for subsidies, and LYD 200 million for development spending. Also included in the agreement is an allocation of LYD 1.5 billion for the National Oil Corporation. Decision on a unified budget for the remainder of 2021 is being reserved for the country's new executive authority, which will ultimately authorize the budget for the year.

The outline of a potentially broader budget unification agreement raises several thorny issues and daunting challenges. The unification of salaries and wages will need to address the question of whether the unified budget covers the competing military forces. Arguably, a decision will depend on progress with the military talks. The consolidation of development spending should give impetus to infrastructure investment. However, it has long been recognized that capital expenditures will not grow until an authentic unified government is formed to rebuild the war-torn nation. Hence, an agreement on development spending will depend on progress with the political negotiations. Moreover, Libya must deal with a legacy of unfinished capital projects and construction contracts, estimated at around US$154 billion. Any write-off would result in a fiscal overhang, in addition to a likely stress to the banking system, considering that many of these projects received full-value payment guarantees from local banks. The budget unification plan also includes the creation of a contingency budget to cover emergency expenditures. Joint decision processes for the use of contingency resources are as yet undefined.

The task of rationalizing fiscal policy appears even more formidable. Libya's public finances are fundamentally unsustainable. Reflecting the singular reliance of the economy on oil and gas, hydrocarbon revenues had made up 85 percent of total government revenues in 2015–17, before a tax on foreign exchange transactions was introduced as a temporary measure in 2018, grabbing a 40 percent share of total revenues and reducing the share of hydrocarbon revenues to a still hefty 55 percent share of total revenues in 2019. The heavy dependence of government finances on hydrocarbon revenues will likely persist until Libya achieves a more diversified economy, a gargantuan task even for the

advanced-economy oil and gas producers of the Gulf Cooperation Council, which have accelerated their economic diversification efforts with ambitious *Vision* policies and programs in recent years. More strikingly, Libya's expenditure structure is highly rigid even as hydrocarbon revenues are volatile. The wage bill accounted for 61 percent of total expenditures for the costliest and least cost-efficient public sector in the world. Subsidies cover the gamut of fuel, electricity, water and sewage, and sanitation subsidies and amounted to 16 percent of total expenditures in 2020.

The unification of the western and eastern branches of the Central Bank of Libya should help strengthen the governance framework for the effective conduct of monetary policy. Libya has two parallel central bank branches, the western branch in Tripoli and the eastern branch created in 2014 in Beyda. Recognized internationally as the country's sole monetary authority, the Central Bank of Libya in Tripoli print dinars, controls the country's foreign exchange reserves, and is responsible for the receipt of the country's oil revenues. The eastern branch, which has sold bonds to commercial banks, issued dinars reportedly printed from overseas, and even exported some commodities, struggles to provide liquidity to the eastern part of the country, and has also reportedly accumulated vast amounts of debt.

The currency and monetary reform agenda remains full even after the devaluation and unification of the official exchange rate in January 2021. The U.N. had long considered an international audit of the parallel central bank branches to be a critical step in the economic normalization process. After a lengthy delay, the U.N. finalized the contract with Deloitte, the international accounting firm, to handle the audit in July 2020. The board of directors of the Central Bank of Libya had also pledged at its December meeting to cooperate with an international review of the bank that will pave the way for the unification of the two branches. The audit is underway; it will remain to be seen whether the findings and conclusions will satisfy the demand for a complete accounting of past oil revenue deposits, first raised by the LNA at the onset of the oil blockade in January 2020 and last repeated by the National Oil Corporation when it halted the transfer of oil revenues to the central bank in November 2020.

2021 Scenario

In 2021, the Libyan economy is expected to partially recover from the slump in 2020. GDP growth is forecast at 67 percent in 2021 in real terms. Oil and gas output will remain the main driver of economic growth in 2021. Higher international oil prices—the Bank forecasts crude oil prices to rise to US$44 per barrel in 2021from US$41 per barrel in 2020[16]—will help support the overall rebound in oil output, filtering through stronger government consumption and investment, and in turn supporting a recovery in private consumption. Growth in the non-oil sector will remain subdued, impeded by ongoing fighting, poor provision of services, including power, and the lingering effects of the COVID-19 pandemic. The government may look to improve the non-oil sector when fighting stops, security improves, and a unified government emerges, although the sector will remain a small proportion of GDP.

Official projections of oil production for 2021 are on the high side. Soon after the oil blockade was lifted, the National Oil Corporation projected that production would rise to 1.6 MBD by end-2021, half a million barrels per day more than output in 2019 and virtually equal to Libya's potential capacity. World oil demand, which contracted by 9.8 million barrels per day year-on-year in 2020 compared to 2019, is forecast to rebound by 5.9 million barrels per day in 2021, according to the Organization of Petroleum Exporting Countries (OPEC), which generates 40 percent of world crude oil and 16 percent of world natural gas production. At a meeting in December 2020, the 23-nation coalition of OPEC and non-OPEC producers participating in the Declaration of Cooperation, more widely known as the OPEC+, renewed their decision to gradually return

[16] World Bank, *Global Economic Prospects,* January 2021. The average of the Brent, Dubai, and West Texas Intermediate prices. The oil price forecast for 2021 is conservatively set, compared to recent oil price data.

some two million barrels per day withdrawn from the market in 2020. They will reduce the current idling of some eight percent of global output by 0.5 million barrels per day from 7.7 to 7.2 million barrels per day beginning in January 2021. The group is scheduled to meet monthly.[17] Libya, which joined OPEC in 1962, will likely remain unaffected by these decisions as it has been granted exemption from various OPEC+ production cutbacks since 2017. But years of damage and disrepair will make a return to 1.6 million barrels per day, last achieved in January 2011, difficult and unlikely.

A more moderate output of around 1.1 million barrels per day is feasible for 2021. Even that target may be volatile, however, and will invariably be subject to the durability of the ceasefire agreement between the GNA and the LNA. The National Oil Corporation has recently encouraged international oil companies to return to the country, but so far only ENI, the Italian oil major and main foreign producer, has agreed to do so. Over the short- to medium-term, Libya will have to undertake extensive repairs to assets damaged by insecurity and neglect as well as expand capacity in existing fields to add to output and exports. Libya has Africa's largest proven oil reserves (the world's ninth largest), at 48.4 billion barrels in end-2019, representing 2.8 percent of the global total.[18] It also has Africa's fifth largest proven gas reserves (the world's 20th largest), at 50.5 trillion cubic feet, representing 0.7 percent of the global total. But economic sanctions and civil war have left the country's reserves largely unexplored. The National Oil Corporation reported talks in December with Total, the French oil major, on oilfield projects in the Sirte basin, and with ENI, on the offshore gas field in Bahr Esalam. The former would add 300,000 barrels per day to oil production, and the latter, 100 million cubic feet per day to gas production. But any headway with foreign investment will undoubtedly depend on progress with political reconciliation and economic stabilization.

A pickup in non-oil activity will depend on investment in infrastructure. Libya is in acute need of infrastructure investments. The financial needs to get 14 of 27 non-functioning power plants operational are estimated at roughly US$1.1 billion. Budget plans for 2021 include a possible allocation of LYD 4.5 billion for the General Electric Company of Libya for capital repairs at generation, transmission, and distribution facilities over the next two years. However, continued military conflict and political disagreements would depress attempts to improve electricity generation, water supply, and other basic utilities, prolonging the suffering of Libyans.

The recovery of oil output, albeit less rapid than officially projected, will likely help narrow the fiscal deficit from LYD 22.9 billion in 2020 to a forecast LYD 11.7 billion in 2021. The uptake in hydrocarbon revenues will compensate for the loss of revenues from the surtax on foreign exchange transactions, a temporary measure that has outlived its necessity with the currency devaluation. The West and the East have recently negotiated a spending program totaling LYD 77 billion for 2021 (Table 1). The overall budget plan is some 68 percent higher than spending in 2020 and rises across all expenditure categories. Most notably, capital expenditures are targeted to rise fourfold to LYD 17 billion in 2021 from LYD 3.9 billion in 2020.

Libya might still record a fiscal deficit despite the rise in output and prices. The fiscal breakeven oil price[19] for Libya for 2021 remains higher than the forecast oil price (Figure 16), according to calculations by the International Monetary Fund.[20] The government

[17] At their meeting in January, the group agreed to revise their division of adjustments, with Russia raising its production target by 65,000 barrels per day in February and another 65,000 barrels per day in March, while Saudi Arabia would cut its production target by 1.0 million barrels per day in February and March. The Saudi decision effectively postpones the reversion of past cutbacks to a later date. It has had the effect of tightening supplies at the beginning of 2021 and boosting prices to US$64 per barrel (Brent) in end-February from US$52 per barrel in end-December.

[18] British Petroleum, *Annual Statistical Revue of World Energy 2020.*

[19] The oil price at which the fiscal balance is zero.

[20] IMF, *Regional Economic Outlook Update: Middle East and Central Asia – Statistical Appendix,* October 2020. Calculations of the fiscal breakeven oil price were made based on data available and forecasts made by the IMF at the time of the publication of the report and may have changed since then.

TABLE 1 • Government Revenues and Expenditures
LYD Billions

	2017			2018			2019			2020			2021
	West	East	Total	West	East	Total	West	East	Total	West	East	Total	Total
Total revenue	21.9		21.9	44.1		44.1	57.4		57.4	23.0		23.0	65.3
Hydrocarbon	19.2		19.2	33.5		33.5	31.4		31.4	5.3		5.3	62.7
Nonhydrocarbon	2.7		2.7	2.4		2.4	2.5		2.5	2.5		2.5	2.6
Tax revenue	1.0		1.0	1.5		1.5	1.2		1.2	1.3		1.3	1.4
On income	0.8		0.8	1.1		1.1	0.9		0.9	1.1		1.1	1.2
Customs duties	0.2		0.2	0.4		0.4	0.3		0.3	0.2		0.2	0.2
Nontax revenue	1.7		1.7	0.9		0.9	1.3		1.3	1.2		1.2	1.3
FX fee				8.2		8.2	23.4		23.4	15.2		15.2	
Total expenditure	32.7	6.7	39.4	39.3	9.9	49.2	46.1	10.0	56.2	36.2	9.7	45.9	77.0
Current exp.	30.8	6.1	36.9	35.9	7.8	43.6	41.5	8.7	50.1	31.0	7.6	38.7	60.0
Wages & salaries	20.3	4.9	25.2	23.6	5.5	29.1	24.5	6.0	30.5	21.9	5.0	26.9	32.0
On goods & services	4.5	0.8	5.3	5.7	1.4	7.0	9.7	2.0	11.7	3.5	2.0	5.6	11.0
Subsidies & transfers	6.0	0.4	6.4	6.6	0.9	7.5	7.2	0.7	7.9	5.6	0.6	6.2	17.0
Capital exp.	1.9	0.6	2.5	3.4	2.1	5.5	4.6	1.4	6.0	1.8	2.1	3.9	17.0
Contingency res.	0.7		0.7							3.4		3.4	
Overall balance	−11.5	−6.7	−18.2	4.9	−9.9	−5.0	11.3	−10	1.2	−13.2	−9.7	−22.9	−11.7

had previously obtained loans from the Central Bank of Libya to finance the fiscal deficit. The government also has the option to tap into foreign reserves, which stood at US$49 billion in end-September 2020, according to estimates by the International Monetary Fund. Meanwhile, because of economic sanctions imposed by the U.N. on Libya in 2011, the assets of the Libyan Investment Authority remain frozen. The assets of the sovereign wealth fund were valued at US$68 billion in end-2012, according to the last audit.

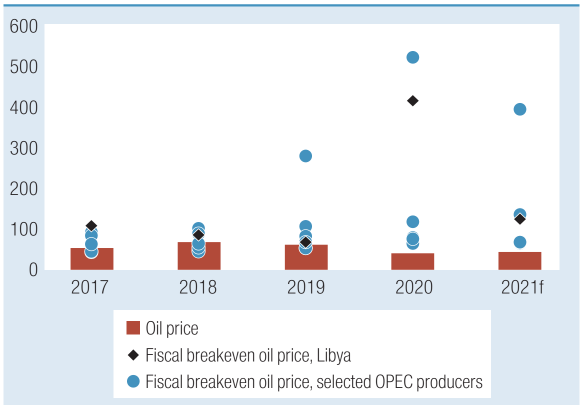
Plans for the retirement of public debt held by the Central Bank of Libya remain tentative. At the "Economic Dialogue" in Geneva, the Central Bank of Libya agreed to provide a debt reduction plan to its board of directors and to the Ministry of Finance. The proposal would reportedly target reducing the LYD 154 billion of government debt to zero by end-2021. The reduction in the U.S. dollar value of government debt following the devaluation of the Libyan dinar should make the effort less costly to the central bank.

The recovery in oil output and prices will help strengthen Libya's external position. Libya may still post a current account deficit, however, in part because of the country's persistent services deficit. Summary data for 2018, the last year for which reliable information is available, indicate that Libya posted US$5.1 billion of service imports, compared to a small US$134 million of service exports.[21] The principal service imports were: personal travel (US$2 billion), transportation services (US$1.3 billion), and insurance services (US$1.2 billion). The country's external breakeven oil price[22] remains above the forecast oil price for

21 The Observatory of Economic Complexity (https://oec.world/en/profile/country/lby#trade-services), based on data from the U.N. International Trade Statistics Database.

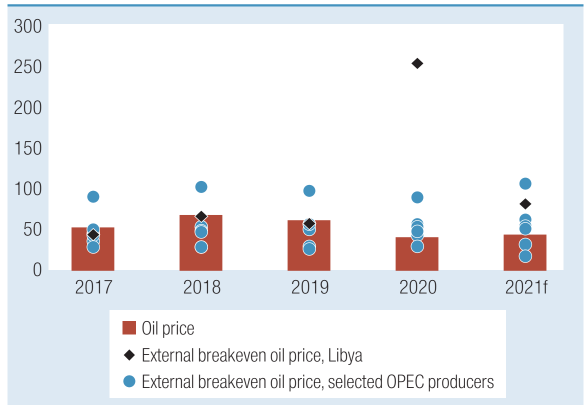
22 The oil price at which the current account balance is zero.

FIGURE 16 • Fiscal Breakeven Price of Oil
US$ per Barrel



Source: IMF, Regional Economic Outlook Update: Middle East and Central Asia – Statistical Appendix, October 2020.
Note: f = forecast

FIGURE 17 • External Breakeven Price of Oil
US$ per Barrel



Source: IMF, Regional Economic Outlook Update: Middle East and Central Asia – Statistical Appendix, October 2020.
Note: f = forecast

2021, according to calculations by the International Monetary Fund (Figure 17).[23]

The country's protracted liquidity crisis and bifurcated payments system requires critical attention from a unified central bank. The shortage of cash at banks has hit the eastern areas of the country hard. Anecdotal evidence indicate that residents and businesses have resorted to borrowing cash from third parties, dividing payments into installments, selling certified checks at discounts in the black market, and exchanging checks in dollars for different values (depending on which bank had issued the checks). The Central Bank of Libya at Tripoli had long blocked the breakaway eastern branch from most clearing operations beginning in 2014. A central bank plan to expand the electronic payments system from currently 6,000 point-of-payment sites to 50,000 sites within two years will help address the problem. The central bank will issue additional mobile payment licenses in the first half of 2021 and intends to contract with a fintech firm to help expand the electronic payments system. The central bank has also agreed to develop a plan to retire up to LYD 10 billion of antiquated currencies in circulation; old currencies will be returned to banks and exchanged for demand deposits. Meanwhile, the central bank has recently agreed to provide LYD 5 billion in loans to the banks in the east at preferential rates to help clear the backlog of uncleared checks in the banking system.

The poor state of the banking system implies that the availability of domestic credit will remain weak. Managers at state banks, which dominate the system, lack clear incentives to expand their portfolios. Small private banks can only offer limited financial products. At both sets of financial institutions, loans are often made on the basis of personal connections rather than business plans. Lack of financing acts as a brake on development, hampering the completion of existing projects and the start of new ones. The credit crunch has been damaging in the housing sector, where small scale projects have languished for lack of steady funding streams. The Bank ranked Libya 186 out of 190 countries on ease of getting credit in 2019.[24]

Premised on a steady improvement in oil production, the baseline forecast for an economic recovery in 2021 is subject to considerable downside risks. The crude oil production level of 1.25 MBD achieved in December 2020 dipped in

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23 IMF, *Regional Economic Outlook Update: Middle East and Central Asia – Statistical Appendix,* October 2020. Calculations of the external breakeven oil price were made based on data available and forecasts made by the IMF at the time of the publication of the report and may have changed since then.

24 World Bank, *Doing Business 2020 – Comparing Business Regulation in 190 Countries*.

January 2021 after 200,000 barrels per day were taken offline in mid-month as emergency repairs were made to the pipeline from the Waha oilfields in the Sirte Basin to Sidra port. The National Oil Corporation reopened the pipeline in the last week of January but emphasized that the problem reflected the wider state of disrepair of the country's oil infrastructure. Meanwhile, crude oil price forecasts are subject to considerable downside as well as upside risks. Oil prices surged to US$61 per barrel in mid-February, after the OPEC+ suppliers opened their joint technical committee meeting and Saudi Arabia offered to cut its production target by 1.0 million barrels per day in February and March. However, oil demand is expected to remain bumpy in the year as COVID-19 vaccine rollouts have been slower than expected globally and new virus variants are stoking concerns of more lockdowns across the world.

APPENDIX

Selected Macroeconomic Indicators
Percentage change, unless otherwise indicated

	2017	2018	2019	2020e	2021f
National income and prices					
Real GDP, growth	26.7	15.1	2.5	−31.3	66.7
Hydrocarbon	116.9	35.9	4.3	−52.3	137.2
Nonhydrocarbon	0.0	1.8	1.0	−12.8	32.5
Nominal GDP, LYD billion	52.8	71.8	72.8	35.5	129.3
Nominal GDP, US$ billion	38.1	52.8	51.7	25.4	28.9
CPI inflation	28.4	9.3	−2.2	−2.0	12.0
Central government finances					
Revenues, LYD billion	21.9	44.1	57.4	23.0	65.3
Hydrocarbon, LYD billion	19.2	33.5	31.4	5.3	62.7
Expenditures, LYD billion	39.4	49.2	56.2	45.9	77.0
Capital expenditures, LYD billion	2.5	5.5	6.0	3.9	17.0
Overall balance, LYD billion	−18.2	−5.0	1.2	−22.9	−11.7
Money and credit					
Money and quasi-money	15.6	−0.6	−2.0	2.0	–
Net credit to the government	9.9	−12.2	−10.4	1.4	–
Credit to the economy	−1.4	−0.8	0.7	−0.4	–
Balance of payments					
Exports, US$ billion	18.7	29.1	27.0	6.9	20.1
Hydrocarbons, US$ billion	17.8	27.9	26.3	6.6	19.1
Imports, US$ billion	10.5	13.4	17.2	12.6	18.1

(continued on next page)

Selected Macroeconomic Indicators
Percentage change, unless otherwise indicated *(continued)*

	2017	2018	2019	2020e	2021f
Current account balance, US$ billion	4.4	11.3	6.0	−8.8	−4.2
In percent of GDP	13.7	6.9	−20.8	−8.8	13.7
Reserves					
Total foreign assets, US$ billion	142.6	148.5	147.0	117.0	–
Net official reserves, US$ billion	74.6	80.5	79.0	49.0	–
In months imports	85	72	55	60	–
Exchange rate					
Official exchange rate, LYD/US$	1.39	1.36	1.40	1.40	4.48
Crude oil					
Production, million bpd	0.878	1.027	1.169	0.405	1.100
Exports, million bpd	0.787	1.007	1.036	0.365	0.990
Oil price, US$ per barrel	52.8	68.4	61.4	41.3	44.0

Sources: For 2020 forecasts – World Bank staff estimates. For 2016–2019 historical data – World Bank staff estimates (national accounts); Ministry of Finance and Central Bank of Libya (fiscal accounts); Central Bank of Libya (monetary accounts); IMF Direction of Trade Statistics (trade accounts); IMF International Financial Statistics (net official reserves); Central Bank of Libya (exchange rate); and World Bank staff estimates (crude oil data).
Note: US$68 billion of assets of the Libya Investment Authority (last reported in 2012) were added to net official reserves to arrive at total foreign assets.

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