LIBYA

Table 1	2017
Population, million	6.9
GDP, US$ billion	38.1
GDP per capita, US$	5971
Life expectancy[a]	75.2
School enrollment, primary[b]	114.4

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent WDI value (2012).
(b) Most recent WDI value (2006).

The persistence of violent conflict is generating a heavy toll for the economy and the population as political uncertainties continue to weigh negatively on economic performance constraining it to reach stabilization, let alone recovery. Growth remains volatile and inflation is high eroding real incomes. Expenditure inefficiencies are keeping the twin deficits high, resulting in continual pressure on foreign reserves. A political resolution is needed to implement the required reforms for a private sector driven growth and jobs generation, the only path for sustainable shared prosperity.

Recent developments

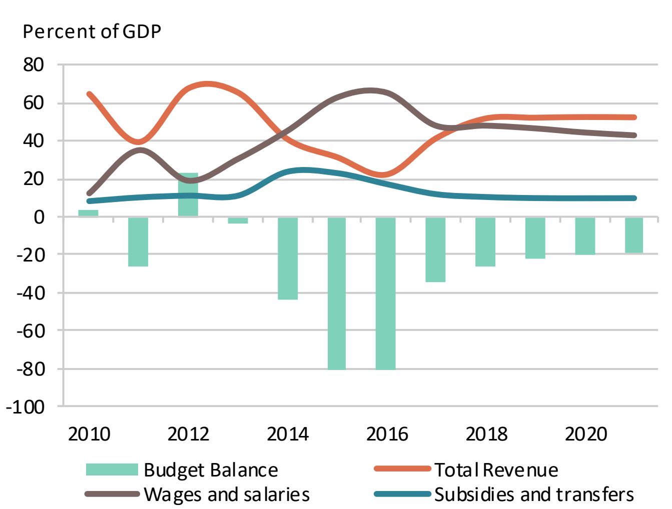
Given its high reliance on hydrocarbon activities, the performance of the Libyan economy remains strongly affected by security conditions, especially around the main oil fields and terminals. Improved political and security arrangements reached during the second half of 2017 allowed Libya to more than double its production of oil and to register record growth last year (up 26.7 percent) after four years of recession. But this dynamic has not been sustained over the first half of 2018. In fact, oil production stagnated around 1 million barrels per day (bpd) over the first 5 months before abruptly dropping to only 0.7 million bpd in June following the attack and temporary control of the oil fields and terminals in the East by militias who badly damaged oil infrastructure and oil reservoirs. Assuming the authorities can fix the damaged oil infrastructure over the second half of the year, it is expected that GDP will grow at 7.2 percent in 2018, driven on the supply side by higher oil output that could recover to around 1 million bpd by end 2018, and on the demand side by higher government expenditures and investment.

Although declining, inflation remains high reflecting market disruptions due to supply shortages of goods and services along with still very active parallel markets, including of currency exchange. The consumer price index increased by 17.6 percent over the first 4 months of 2018 (vs. 26.9 percent the same period last year). Thanks to the relative improvement of the exchange rate in the parallel market induced by increased supply of foreign currency through the official rate inflation is expected to slow to around 15 percent for the whole year 2018. But the cumulative inflation over the last four years has adversly affected Libyan households who lost almost 80 percent of their purchasing power. This has almost certainly pushed more Libyans into poverty and hardship and worsened inequality.

Public finances are expected to improve slightly but the inflexibility of current expenditures and volatile oil revenues keep the overall fiscal stance under severe stress. Oil revenues are expected to significantly improve this year (47 percent of GDP), yet they will barely suffice to cover the high and increasing wage bill, which will hit 48 percent of GDP. The rising wage bill reflects both salary increases and additional hiring, which in turn are linked to pressure on the public payroll as a stabilizing instrument in a context of multi-factional conflict. Subsidies will remain high (10.6 percent of GDP) given the complex political economy that delays the needed reform of the system in a context of resource competition. The budget deficit, while slightly improving, will remain high at around 26 percent of GDP in 2018 (34.5 percent of GDP in 2017). The deficit is expected to be financed through cash advances from the Tripoli Central Bank and issuing government bonds in the East.

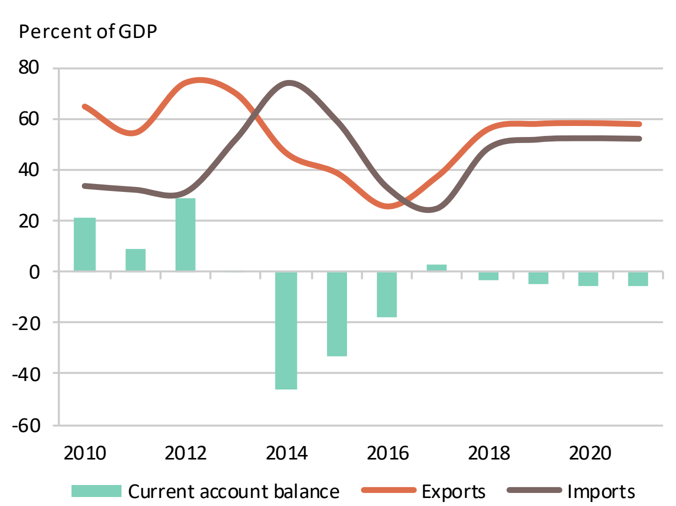
The balance of payments deficit reflects the large public sector deficit and the economy's heavy reliance on imported consumption and intermediate goods, including refined fuel. This will transform

FIGURE 1 Libya / Public finances



Sources: Government of Libya and World Bank staff estimates.

FIGURE 2 Libya / Balance of payments indicators



Sources: Government of Libya and World Bank staff estimates.

the small current account surplus registered in 2017 (2.5 percent of GDP) into a deficit of around 3 percent of GDP this year. Foreign reserves will stabilize as selected foreign investment in the oil sector and elevated oil prices will cover most of the current account deficit, allowing the Central Bank to stave off further drain on reserves.

Outlook

The status quo scenario determined by delayed resolution of the political strife and the persistence of the internal division makes sustained stabilization unlikely. This situation is characterized by recurring clashes around oil terminals and in large cities, with the result that any nascent recovery triggers further resource competition. In this context, Libya can only manage to resume oil production to a daily average of 1 million barrel per day (bpd) by the end of this year and keep production around this level over the next few years, which will represent only 2/3rd of potential. GDP will grow at 6.8 percent in 2019 (a catch-up effect) and an average 2 percent over 2020-21, resulting in a GDP per capita at 62.5 percent of its 2010 level. Even in this modestly optimistic baseline, inflation is expected to be around 10 percent, adding to stress on the official exchange rate. The twin deficits will remain high, with budget deficits at more than 20 percent of GDP in average, and current account deficits at 5 percent of GDP. The Central Bank is expected to resist declines in reserves, but reserves will though slightly drop to around US$75 billion by end 2021 (from US$78.4 billion end 2017). This assumes that the current extremely fragile bargain regarding the Central Bank's apolitical role can be maintained.

Risks and challenges

The current political standoff and its associated economic and social outcomes impose severe hardship on Libyan citizens and migrants, reinforced by the grim outlook. An alternative scenario that can surmount the current adversity and uncertainty would entail a revitalized political will to unite the country and its institutions. This would be the foundation for the needed critical reforms to stabilize the macroeconomic and fiscal frameworks. In the medium term, diversifying the economy would simulate private job growth and improve the wellbeing of the population. The main policies include reforming the subsidy system, rightsizing the public sector, reforming the tax system, consolidating the financial sector, and rebuilding damaged infrastructure and restoring public services. Under this scenario, Libya can progressively restore its oil production level to pre-revolution potential (1.6 million bpd) by end 2021 leading GDP to grow by an average 11 percent over the period and inflation slowdown to around 5 percent. Both the budget and balance of payments would be in surplus by end 2021. This scenario will allow Libya to restart building up its foreign reserves starting in 2020. Real GDP per capita will improve to 77.5 percent of its pre-revolution level.

Although there is no systematic study on poverty and very little evidence on the current well-being of Libyan households, conditions are inimical to poverty reduction. The sharp decline in oil exports starting in 2011 has severely impacted public services. Worsening conditions also contribute to the erratic power supply and the recurrent food shortages. The parallel currency premium is already reflected in the prices of many products, including essential food and medicine. In contrast, vast rents created by access to dollars at the official rate and to petroleum products at official prices are contributing to inequality and incentives for conflict, while the associated economic distortions spill over to Tunisia.

TABLE 2 Libya / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2016 e	2017 e	2018 f	2019 f	2020 f	2021 f
Real GDP growth, at constant market prices	-2.8	26.7	7.2	6.8	2.5	1.4
Private Consumption	-24.8	-1.6	0.0	0.5	-3.6	-3.3
Government Consumption	-15.8	35.3	6.8	2.9	2.1	1.7
Gross Fixed Capital Investment	-6.1	22.4	80.7	20.5	8.2	4.3
Exports, Goods and Services	-27.0	71.1	47.5	12.2	3.0	0.3
Imports, Goods and Services	-43.9	11.6	101.0	16.2	4.2	1.0
Real GDP growth, at constant factor prices						
Hydrocarbon	-5.4	116.8	10.5	12.4	3.2	0.5
Non-hydrocarbon	-2.0	0.0	5.0	3.0	2.0	2.0
Inflation (Consumer Price Index)	25.9	28.4	15.0	10.0	10.0	10.0
Current Account Balance (% of GDP)	-18.0	2.5	-2.9	-5.0	-5.4	-5.6
Fiscal Balance (% of GDP)	-81.2	-34.5	-25.9	-22.6	-20.0	-19.0

Source: World Bank, Macroeconomics, Trade and Investment Global Practice, and Poverty Global Practice.
Notes: e = estimate, f = forecast.