LIBYA

Table 1	2017
Population, million	6.4
GDP, US$ billion	48.5
GDP per capita, US$	7541
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 political status quo characterized by non-functioning institutions and insecurity is persistent, raising uncertainties on any foreseeable resolution of the political conflict. The macroeconomic stance is unstable. Growth is volatile with high inflation, worsening the hardship of the population. Delayed fiscal and monetary reforms keeps public finances and balance of payments unsustainable, eroding further foreign reserves. Political resolution can enable reforms conducive to a private sector driven growth and jobs generation for sustainable shared prosperity.

Recent developments

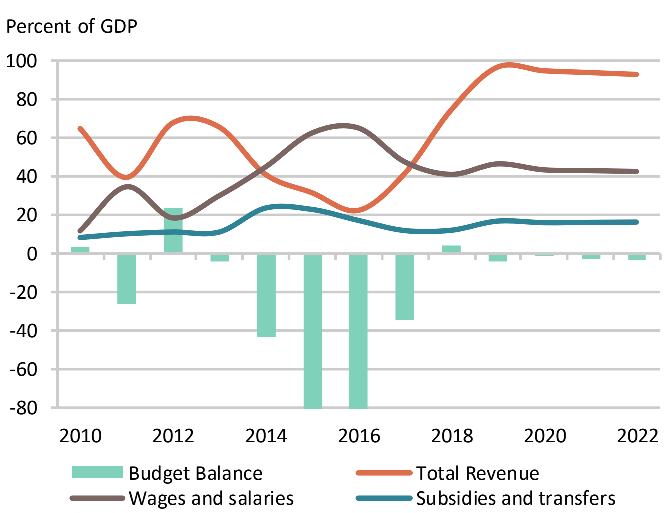
As the oil sector is the major source of growth, economic activities remain constrained by recurrent clashes around oil infrastructure aiming to control oil wealth. The ambition of the country to raise oil production to 1.6 million barrels per day (bpd) proved overly optimistic, as this objective is systematically disrupted by political rivalries. The associated lack of security and reforms hinders investment and development of the private sector. In this context, Libya produced less than 1 million bpd on average in 2018, generating an economic growth of 7.8 percent after a record growth of 26.7 percent in 2017. This relative economic performance followed four years of recession over 2013-16.

Inflation strongly decelerated in 2018, but prices of most goods and services remain high due to supply chains disruptions and still active parallel markets. The high fee (183 percent) on foreign exchange transactions instituted last September contributed to limiting speculation and smuggling, thus reducing pressure on prices. Consequently, inflation slowed down to 9.3 percent in 2018, following record inflation in 2016-17 (27.2 in average). The cumulative inflation over the last four years has badly affected real incomes that lost more than half of their purchasing power. This has almost certainly pushed more Libyans into poverty and hardship and worsened inequality.

Thanks to the unbudgeted proceeds from the new fee on hard currency transactions, public finances ran a surplus in 2018 (3.9 percent of GDP), the first after five years of high deficits. Oil revenues increased to LYD 33.5 billion (50.8 percent of GDP), but are still insufficient to cover the wage bill and subsidy outlays. On the expenditure side, the wage bill remains one of the highest in the world (41.3 percent of GDP), reflecting a bloated public sector. The costly subsidies (12 percent of GDP) continued to waste budget resources on inefficient expenditures that are mainly benefiting non-poor and smugglers. The reform of the subsidy system is delayed again for lack of consensus among the parties in conflict trying to prevent rivals from extending their electoral base. Capital expenditures are still low (6.7 percent of GDP) compared to those of 2010 (30.9 percent of GDP), generating serious social and economic infrastructure gaps.

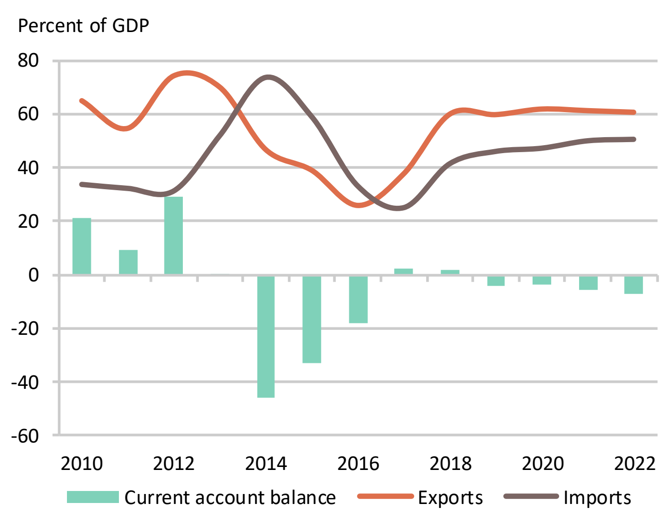
The current account is estimated to have registered a small surplus in 2018, underpinned by higher oil revenues and still constrained imports. Higher oil exports and prices allowed revenues to more than double in 2018 (US 27.6 billion) compared to the previous year's, while imports were repressed by the high fee (183 percent) instituted on hard currency transactions and the CBL's control of access to foreign exchange. As a result, the current account run a surplus of 1.7 percent of GDP (2.5 percent of GDP in 2017). Foreign reserves accumulated for the second year in a row, reaching US 79.2 billion end 2018.

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.

Outlook

The status quo scenario determined by resource competition in a context of delayed resolution of the political strife and the persistence of internal division and inoperative institutions makes stabilization unlikely. This fragile situation is weakened further by recurring clashes around oil terminals and in large cities, mostly aiming to gain control over oil wealth. In this context, Libya can only manage to keep oil production to a daily average of 1 million bpd during 2019 and 1.1 million bpd over the next few years, which will represent 2/3rd of potential. GDP is projected to grow at 4 percent in 2019 and 6 percent in 2020 (a catch-up effect) and an average 1.3 percent over 2021-22, resulting in a real GDP per capita at 64 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. Internal and external imbalances would persist, with the budget deficit projected at around 3 percent of GDP in average including the extra revenues generated by the foreign exchange fee, and current account deficit at 5 percent of GDP. The Central Bank is expected to continue to protect reserves, limiting their fall to around US$76.5 billion by end 2022 (from US$79.2 billion end 2018). This assumes that the current fragile bargain regarding the Central Bank's apolitical role can be maintained.

An alternative scenario that can surmount the current adversity would entail a revitalized political will to unite the country and its institutions. Under this scenario, Libya can progressively restore its oil production level to pre-revolution potential (1.6 million bpd) by end 2022, leading GDP to grow by an average 9 percent over the period and inflation down to around 5 percent. Both the budget and balance of payments would be in surplus by end 2020. This scenario would allow Libya to build up its foreign reserves starting in 2020. Real GDP per capita would improve to nearly 80 percent of its pre-revolution level.

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. The main challenge facing Libya is to keep the country united to prevent it from falling into fragmentation and accelerating violence. The alternative scenario needs a political resolution enabling a cohesive state that could implement the critical policies and reforms to strengthen institutions, stabilize the macroeconomic framework, and diversify the economy to generate enough private jobs and improve the wellbeing of the population. The main policies include renewing state governance, rebuilding infrastructure and restoring public services, while improving economic institutions through reforming the subsidy system, rightsizing the public sector, reforming the tax system, and consolidating the financial sector.

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. Worsening economic conditions contribute to poor public services, erratic power supply and 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 neighboring countries.

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

	2016 e	2017 e	2018 e	2019 f	2020 f	2021 f
Real GDP growth, at constant market prices	-2.8	26.7	7.8	4.0	6.0	1.3
Private Consumption	-24.8	-3.8	1.2	1.8	2.0	1.5
Government Consumption	-29.8	14.1	14.5	11.6	6.2	1.5
Gross Fixed Capital Investment	4.3	30.5	63.1	9.8	7.7	2.3
Exports, Goods and Services	-27.0	71.1	56.4	5.1	10.9	0.2
Imports, Goods and Services	-42.4	9.4	111.2	11.1	8.6	1.7
Real GDP growth, at constant factor prices						
Hydrocarbon	-5.4	116.8	17.2	5.3	11.2	0.5
Non-hydrocarbon	-2.0	0.0	1.8	3.0	2.0	2.0
Inflation (Consumer Price Index)	25.9	28.4	9.3	10.0	10.0	10.0
Current Account Balance (% of GDP)	-18.0	2.5	1.7	-3.9	-3.6	-5.6
Fiscal Balance (% of GDP)	-81.2	-34.5	3.9	-4.2	-1.5	-2.9

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