

LIBYA

Key conditions and challenges

Table 1 2020

Population, million	6.9
GDP, current US\$ billion	25.4
GDP per capita, current US\$	3681.2
School enrollment, primary (% gross) ^a	109.0
Life expectancy at birth, years ^a	72.9
Total GHG Emissions (mtCO ₂ e)	75.4

Source: WDI, Macro Poverty Outlook, and official data.
(a) WDI for School enrollment (2006); Life expectancy (2019).

Libya made significant progress towards ending its decade-long conflict and moving towards reunification in 2021. This resulted in a strong rebound of oil production and economic activity, and a consequent upswing in fiscal, trade, and current account balances. Nevertheless, households still struggle with food insecurity, poverty, and poor public service delivery. Challenges with organizing national elections for December 2021 raise the specter of a deteriorating political and security situation which would threaten progress towards peace and recovery.

The year 2021 marked a turning point in Libya's decade-long conflict. A ceasefire agreed in October 2020 has persisted and a unified interim government – the Government of National Unity (GNU) – was formed in March. Oil production has recovered to 2019 levels (1.2 million barrels per day – mb/d) and an exchange rate devaluation in January 2021 largely removed the wide and growing wedge between black market and official rates.

The authorities initiated efforts to reunify competing public institutions in the East and West, but significant challenges remain. A financial review of the Central Bank in Tripoli and the Bayda branch has been finalized; the next steps are formidable and require political agreement on unification under a single decision making authority, in addition to unifying balance sheets, policy making, regulatory and supervision processes, and operations. Efforts to approve a unified 2021 budget, the first since 2014, have been protracted, with multiple drafts submitted by the GNU and rejected by the House of Representatives since March 2021. The process has been mired with disagreements around the size of total expenditures, capital projects, wage hikes, salaries of the Libyan National Army, *inter alia*.

The country's protracted liquidity crisis persists, albeit with some improvement in 2021. Due to the conflict and consequent

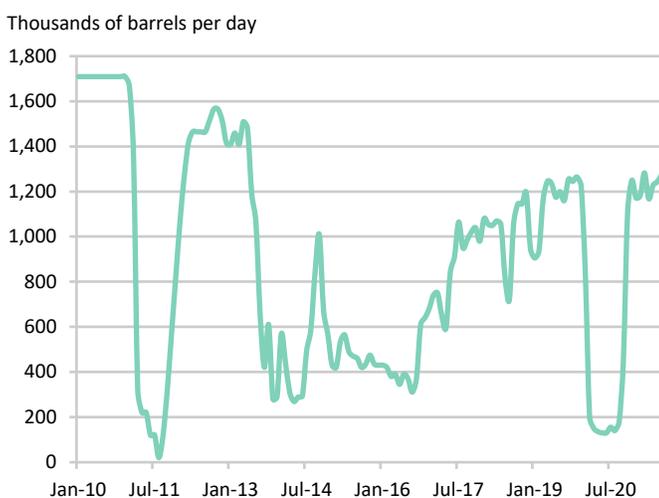
decline in confidence in the banking sector, Libyans have had a strong preference for holding cash outside banks. This resulted in an almost doubling of currency outside the banking system as a share of broad money supply in 2020 compared to 2010. Survey data from April 2021 by the Joint Market Monitoring Initiative, however, reveal some improvements in access to cash in the West, where 43 percent of interviewed households reported being able to withdraw sufficient cash to meet needs, compared to 12 percent in November 2020.

Libya's health system infrastructure is incapacitated following a decade of war, with implications for the population's access to quality care amid a raging pandemic. The COVID-19 vaccination rollout severely lags regional comparators. By end-August, only 15 percent of the population had been vaccinated, with 1 percent fully vaccinated, which may delay the recovery of economic activity from the impact of the pandemic.

Security in Libya is fragile, with violence, protests, riots, and kidnappings remaining commonplace. The presence of numerous militias, mercenaries and foreign forces poses a considerable threat to stability.

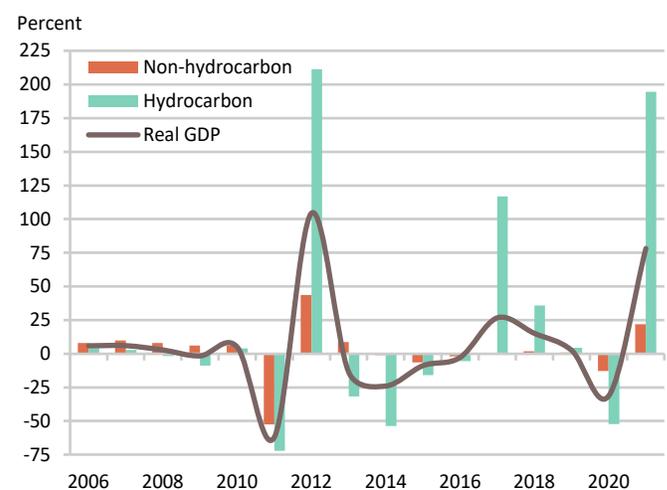
Efforts are underway to develop the legal framework and constitutional basis for national parliamentary and presidential elections. However, the divergence of views and interests among competing political actors and militias is resulting in escalating tensions that could risk derailing or delaying the process, with adverse implications for Libya's path towards recovery and reconstruction.

FIGURE 1 Libya / Oil production



Source: Organization of the Petroleum Exporting Countries.

FIGURE 2 Libya / Real annual GDP growth



Sources: Libyan authorities and World Bank staff estimates.

Recent developments

Following a massive contraction of the hydrocarbon sector in 2020, driven by intensifying conflict and a blockade of oil terminals and fields, the sector, and in turn the Libyan economy overall, are witnessing a significant rebound. Oil production has averaged 1.2 mb/d during the first half of 2021, compared to an average of 0.3 mb/d during the first 9 months of 2020 and 0.9 mb/d during the fourth quarter of the year (during which the oil blockade was lifted). Libyans continue to struggle with poverty and food insecurity. More than half of households reported their household income cannot cover basic expenses (WFP-WB survey, April 2021). While prices of essential goods have been stable in 2021, the price of the Minimum Expenditure Basket (MEB)^{1/} in May 2021 was 12.3 percentage points higher than in March 2020. Rising food costs could have major impacts on vulnerable households, pushing those least able to cope further into poverty and hunger. In fact, an April 2021 WFP-WB survey revealed that 14 percent of Libyans have inadequate food consumption, with food insecurity highest in the South (19 percent). Fiscal data for the first seven months of 2021 reveals total expenditures of around

LYD 31 billion and total revenues of 40.6 billion LYD. These figures, which imply a budget surplus for the period, contrast sharply with the large fiscal deficit recorded in 2020 (64.4 percent of GDP). The ease of servicing state liabilities has increased as well in 2021, as liabilities are denominated in LYD (the official exchange rate depreciated by almost 70 percent in early 2021) whereas the vast majority of government revenues are sourced from oil exports denominated in US\$.

Following the lifting of the oil blockade in late 2020 and the resilience of global oil prices, hydrocarbon export receipts and in turn the trade balance and current account balance are on an upward swing. Data for January-April 2021 reveal a goods trade surplus of US\$4.2 billion.

Outlook

Should the political process progress positively and the security situation remain stable, Libya will continue its path of economic recovery. In the coming months, if presidential and parliamentary elections and the reunification of public institutions proceed, and oil production persists, Libya is projected to record a GDP growth rate of 78.2 percent in 2021. In turn, trade and current account balances are projected

to record double digit surpluses as a share of GDP. The fiscal balance may record a surplus as well given the strong rebound of oil production and exports and following the devaluation of the currency (which has reduced the cost of financing public sector salaries and goods and services using dollar-denominated oil revenues). This, however, will depend on whether there are any major deviations in spending patterns compared to the first half of the year.

Risks to the economic outlook are significant and tilted to the downside. The risk of a deteriorating political and security situation looms large over the coming months in light of tensions surrounding the elections and subsequent formation of a new government. Should this risk materialize, it would dampen the effect of the economic recovery recorded to date in 2021. Any adverse impact of the COVID-19 pandemic on the global economic outlook and in turn global oil prices, would have a major impact on the Libyan economy, as would a worsening of the epidemiological situation in the country.

^{1/} The MEB represents the minimum culturally adjusted group of items required to support a five-person Libyan household for one month. The MEB is measured by the REACH initiative.

TABLE 2 Libya / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2018	2019	2020	2021 e
Real GDP growth, at constant market prices	15.1	2.5	-31.3	78.2
Private Consumption	3.6	1.7	-12.8	40.7
Government Consumption	0.0	2.7	-21.6	8.1
Gross Fixed Capital Investment	28.8	17.1	-12.7	33.2
Exports, Goods and Services	32.2	33.6	-64.8	195.0
Imports, Goods and Services	23.8	43.9	-27.5	27.4
Real GDP growth, at constant factor prices	15.1	2.5	-31.3	78.2
Hydrocarbon GDP	35.9	4.3	-52.3	194.7
Non-Hydrocarbon GDP	1.8	1.0	-12.8	21.9
Exchange Rate (USD/LYD)	1.4	1.4	1.4	4.5
Current Account Balance (% of GDP)	21.4	11.6	-34.8	19.7
Fiscal Balance (% of GDP)	-7.0	1.7	-64.4	11.9
Crude oil production (million barrels per day)	1.0	1.2	0.4	1.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.

Notes: e = estimate, f = forecast.