LIBYA ECONOMIC MONITOR

WORLD BANK GROUP

Libya
Economic Monitor

Issue #1: July 2020

WORLD BANK GROUP

TABLE OF CONTENTS

List of Figures

List of Tables

List of Boxes

EXECUTIVE SUMMARY

The Libyan economy has recently been hit by four overlapping shocks: an intensifying conflict that suffocates economic activity, the closure of oil fields that puts the country's major income-generating activity largely on hold, decreasing oil prices that reduce income from oil production in surviving fields, and the COVID-19 pandemic (with 3,438 confirmed cases and 73 deaths as of July 2020), which threatens to further suppress the economy. This monitoring note, first in the biannual series, takes stock of recent economic trends emanating from these shocks. The note aims to inform parties concerned with the well-being of Libyan citizens by providing a systematic overview of the conditions on the ground.

The attack on Tripoli in early 2019 and the blockade of the country's major oil ports and terminals in January 2020 generated the most serious political, economic, and humanitarian crisis faced by Libya since 2011. The economic impact was already felt in 2019 as real GDP growth slowed sharply to 2.5 percent, down from what seemed a promising steady recovery during 2017–18, with a record growth performance of 20.8 percent on average. Worse yet, Libya is expected to suffer from a deep recession in 2020. At the same time, after many years of high inflation, prices started to recede in 2019 because of falling parallel market exchange rate premia driven by concomitant actions by the government and the Central Bank of Libya (CBL), establishing a fee on hard currency transactions (183 percent) while easing access to foreign exchange (forex).

Despite higher oil revenues and forex fees, public finances remained under stress in 2019, constrained by higher and rigid expenditures. In particular, the wage bill continued to increase, reflecting a plethoric public sector and rising real salaries. The financing gap in 2019 would have been very high without forex fees that generated a windfall to bridge the gap. Consequently, the budget ran a small surplus after six years in a row of deficits. Libya's gross domestic debt declined slightly but remains high (144 percent of gross domestic product [GDP]).

In 2019, the current account continued to register surpluses for the third year in a row. This surplus is due to the persistence of the CBL rationing policy to limit supply of hard currency to essential imports only. The higher hydrocarbon revenues also contribute to the surplus. Despite the current account surplus, foreign reserves of the CBL declined by the end of 2019. The dramatic drop in foreign direct investments (FDIs) since 2014 has also contributed to the pressure on foreign reserves.

The Libyan dinar (LD) continues to suffer in the parallel market because of political uncertainties and macroeconomic instability. In the first two quarters of 2020, the LD in the parallel market lost 54 percent of its value, following the forex restrictions implemented by the CBL with increasing uncertainty surrounding the macroeconomic framework.

Looking forward, as the inability, or severely limited capacity, to produce and export oil might well prevail over the rest of 2020 because of the firm closure of oil ports and terminals, GDP growth is expected to slow further this year. The adopted budget for 2020 partially reflects this dire situation, with a large forecasted deficit, the highest in recent years. Likewise, the current account is expected to run astronomic deficits in 2020–21. Consequently, reserves will be further declining this year.

Risks in Libya are high because the conflict has become a proxy one with involved countries having conflicting agendas. At the time of this note's preparation, a military escalation with both sides amassing military equipment and troops around Sirte reinforced the downside risks going forward. An alternative scenario that can surmount the current adversity and uncertainty would entail a revitalized national political will to unite the country and its institutions, and to implement the critical policies and reforms to strengthen institutions, stabilize the macroeconomic framework, and diversify the economy.

1

RECENT DEVELOPMENTS

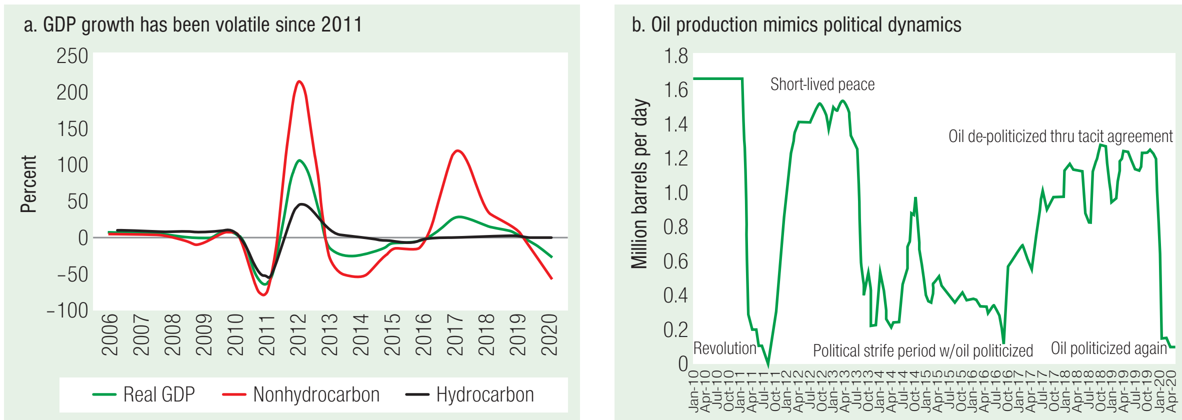
In Libya, socioeconomic developments are largely driven by political-military dynamics. Recently, two major events have driven key economic outcomes: the 2019 attack on Tripoli and the closure of the country's major oil ports and terminals in January 2020. Together, these two events constitute the most serious political, economic, and humanitarian crisis facing Libya since 2011. Adding the decreases in oil prices that reduce income from oil production in surviving fields, and the increasingly prevalent COVID-19 pandemic, which threatens to further suppress the economy, it is clear that Libyans are facing a quadruple shock that threatens their well-being at a fundamental level.

The note aims to document the economic conditions on the ground. An immediate consequence of conflict situations is often the absence of systematic information regarding the conditions on the ground. The "Libya Economic and Social Monitoring Note" series aims to gather and interpret pertinent data in a systematic manner to inform parties concerned with the well-being of Libyan citizens. It should, however, be noted that, with frequent and abnormally large shocks, economic indicators can exhibit major volatilities. For example, GDP was about US$50 billion in 2019 and is projected to shrink by about 41 percent in 2020. Thus, many indicators that are typically analyzed as a share of GDP fluctuate significantly over years. Given extreme uncertainties going forward, the note refrains from projecting socioeconomic indicators in a forward-looking manner.

Conflict dynamics and economic performance are intertwined. Libya suffered from a deep recession over 2013–16, with GDP dropping by 12.7 percent on average over the period. The slump was mostly driven by the blockade of several oil facilities leading to limited oil production—about 0.6 million barrels per day (bpd) on average versus a potential of 1.6 million bpd (figure 1). Subsequently, following international pressure in October 2016, a tacit agreement between the two main parties in conflict allowed the oil sector to substantially increase its production to 1.2 million bpd by the end of 2019. This performance was nevertheless still only three-fourths of potential, because the attack on Tripoli foiled the goal of the National Oil Corporation (NOC) to reach the country's potential. In this context, real GDP growth slowed sharply to 2.5 percent in 2019, down from its best performance of 20.8 percent on average reached during 2017–18.

After years of high inflation, the consumer price index (CPI) declined in 2019 as parallel market exchange rate premia decreased. The concomitant actions by the government and the CBL establishing a fee on hard currency transactions (183

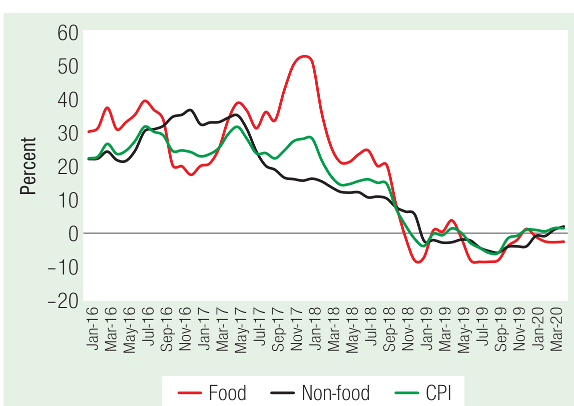
FIGURE 1 • GDP Growth and Oil Production, Libya



Source: Libya's authorities, U.S. Energy Information Administration, and World Bank staff calculations and estimates.

percent) in September 2019, while easing access to foreign exchange—especially for essential imports and for family allowance—allowed a steady convergence of parallel and official taxed exchange rates. The forex fee generated substantial revenues for the government, which translated into reduced cash advances from the CBL to finance the budget, and thus more resources for the CBL to ease financing for the private sector. In this context, prices of the main commodities started to fall. In fact, the CPI fell by 2.2 percent over 2019 compared to the high inflation of 21.6 percent on average over 2016–18 (figure 2). The deflation was driven mainly by dropping prices for clothing (minus 12.8 percent), food (minus 4.0 percent), communication services (minus 3.1 percent), transport services (minus 2.3 percent), and house furniture (minus 2.0 percent). Inflation picked up in the first two quarters of 2020, reaching 1.3 percent by April, as the conflict and shortages intensified.[1]

FIGURE 2 • Libya's Inflation Has Been High and Driven by Macro Instability, 2016-20



Source: Libya's authorities and World Bank staff estimates.
Note: CPI = consumer price index.

Currently, Libya has two separate budgets managed by the two existing governments. The Government of National Accord (GNA), recognized by the international community and running part of the country from the capital, Tripoli, continued to manage all revenues and expenditures that existed before the conflict, including wages and salaries of public employees registered in the central payroll. The Interim Government (IG) operating from Benghazi in the East and backed by the internationally recognized House of Representatives (HoR) manages its own budget that covers its own extra spending only, with no revenues (table 1). In Tripoli, the CBL plays the de facto role of the Treasury, centralizing revenues, both from taxes and fees and from oil sales, and paying expenditures of Tripoli's GNA. In addition to its high deficit-to-GDP ratio during the revolution in 2011,

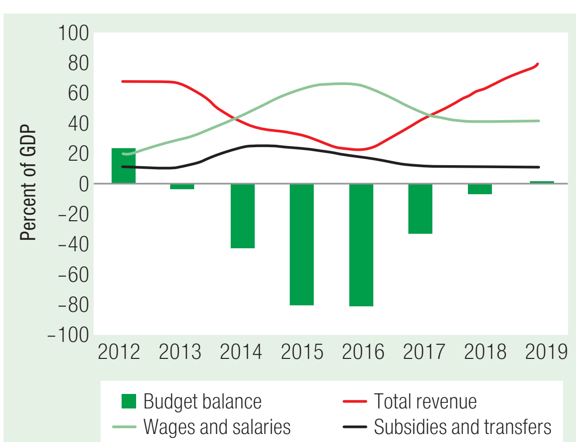
1 For instance, a rapid market assessment by REACH found that 48 percent of 21 cities from all regions of Libya covered in the assessment suffered food shortages and 86 percent experienced price hikes (an increase greater than 20 percent) in March 2020.

the budget suffered systematic deficits during the 2013–18 period, with double-digit deficits in four out of six years. The small surplus recorded last year was possible only because of the windfall of the forex fee (183 percent) hitting foreign exchange transactions and instituted in September 2018.

Despite higher oil revenues and forex fees, public finances remained under stress in 2019. The lack of sustainability of the budget is inherent in the structure of revenues and expenditures. On the one hand, the budget depends heavily on one major source of revenues, which is linked to volatile hydrocarbon activities; on the other hand, it is constrained by the rigid and inefficient structure of expenditures. Both structures make the budget very fragile to domestic and external shocks (figure 3).

With excessive hydrocarbon dependence, the emerging gap in oil revenues has been patched with forex transaction fees that, by design, cannot provide a long-term remedy. In Libya, hydrocarbon revenues have been the predominant source of fiscal revenues. In parallel to the threat of diminishing oil revenues, however, authorities introduced forex transactions fees as a temporary measure to fight speculations of hard currency in the parallel market and its associated hyperinflation. In 2019, revenues from the hydrocarbon sector represented 54.7 percent of total revenues (92.6 percent without the temporary forex fees). Overall, despite the temporary measures, current revenues were not enough to cover the wage bill and subsidies.

FIGURE 3 • Libya's Budget Remains under Stress Despite Foreign Exchange Windfall, 2012-19



Source: Libya's authorities and World Bank staff estimates.

The wage bill continued to increase despite shrinking revenues. The public sector wage bill in Libya (LD 30.5 billion, or 42 percent of GDP) reflects a bloated public sector (2 million public employees out of a population of 6.6 million) and rising real salaries. Subsidies remained high (LD 7.9 billion, or 10.8 percent of GDP), with the largest part supporting consumer prices of petroleum products. Being regressive, subsidies encourage overconsumption—including by foreign consumers—and international smuggling. The financing gap would have been very high without forex fees that generated a windfall to bridge the gap. Proceeds from the forex fee reached LD 23.4 billion, which represented more than 32 percent of GDP. Consequently, the budget ran a small surplus (1.7 percent of GDP) in 2019 after six years in a row of deficits. Libya's gross domestic debt declined slightly but remains high at 144 percent of GDP.

In 2019, the current account continued to register surpluses for the third year in a row. This surplus is due to the persistence of the CBL rationing policy to limit supply of hard currency to essential imports only, and the forex fee contributed to curbing import demand by households and businesses. Higher hydrocarbon revenues (US$31.7 billion) also contribute to the surplus. The surplus was lower, however, than that recorded in 2018 (11.6 versus 21.4 percent of GDP). Despite the current account surplus, foreign reserves of the CBL declined by US$2.9 billion, reaching US$79.8 billion at the end of 2019 (from US$124 billion in 2012). The fall in foreign reserves is probably due to households holding dollars as a safe saving instrument after the family hard currency allowance was doubled to US$1,000 per person per year. Households benefited from allowances exceeding US$7.6 billion in 2019. The high allowance is likely to encourage speculation, given that the family allowance is exempt from the forex fee, which is fueling black market activities.

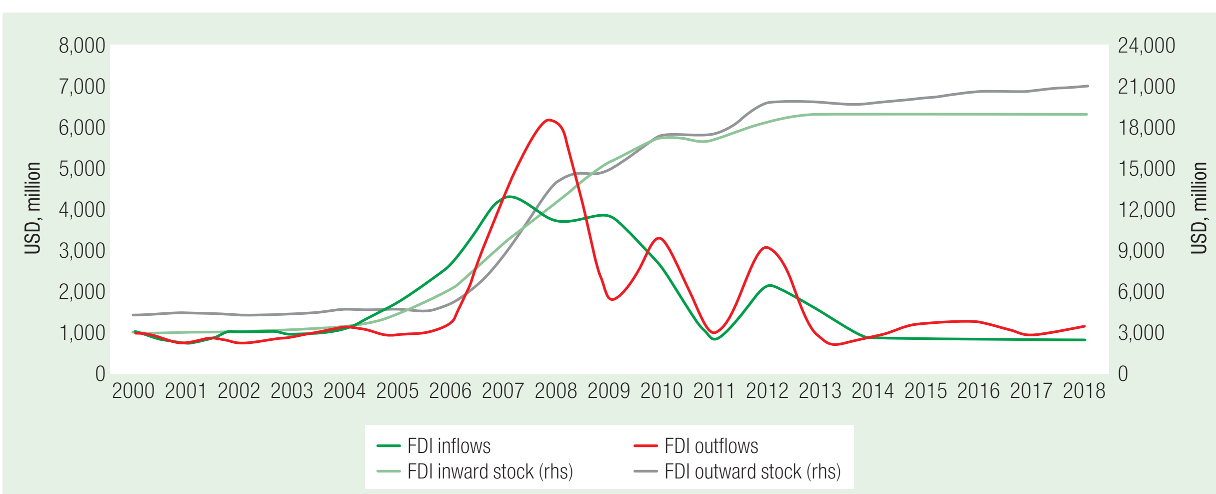
The dramatic drop of FDIs since 2014 has also contributed to the pressure on foreign reserves. FDIs had been increasing steadily since the

TABLE 1 • Libya's Budget Execution, by Region
(percent of GDP)

Budget items	2015			2016			2017			2018			2019		
	West	East	Total	West	East	Total	West	East	Total	West	East	Total	West	East	Total
Total revenue	**30.9**	**0.7**	**31.6**	**22.3**	**0.1**	**22.4**	**41.5**		**41.5**	**61.5**		**61.5**	**78.8**		**78.8**
Hydrocarbon	27.6		27.6	17.0		17.0	36.4		36.4	46.6		46.6	43.1		43.1
Nonhydrocarbon	3.3	0.7	4.1	5.3	0.1	5.4	5.2		5.2	3.4		3.4	3.5		3.5
Tax revenue	1.9		1.9	2.1		2.1	1.9		1.9	2.1		2.1	1.7		1.7
Taxes on income and profits	1.7		1.7	2.0		2.0	1.6		1.6	1.5		1.5	1.3		1.3
Customs duties	0.1		0.1	0.2		0.2	0.3		0.3	0.6		0.6	0.4		0.4
Nontax revenue	1.5	0.7	2.2	3.2	0.1	3.3	3.3		3.3	1.3		1.3	1.8		1.8
Foreign exchange fees										11.5		11.5	32.2		32.2
Total expenditure	**93.7**	**18.9**	**112.5**	**80.1**	**22.5**	**102.6**	**61.9**	**12.7**	**74.6**	**54.7**	**13.7**	**68.4**	**63.3**	**13.8**	**77.1**
Current expenditure, of which:	**83.6**	**15.1**	**98.8**	**75.3**	**16.1**	**91.4**	**58.3**	**11.6**	**69.9**	**5**	**10.8**	**60.8**	57.0	11.9	68.8
Wages and salaries	52.8	9.9	62.7	52.4	12.9	65.3	38.4	9.4	47.8	32.9	7.6	40.5	33.7	8.2	41.9
Expenditure on goods and services	9.4	3.6	13.0	6.8	1.9	8.7	8.6	1.5	10.1	7.9	1.9	9.8	13.4	2.8	16.1
Subsidies and transfers	21.4	1.7	23.1	16.0	1.3	17.4	11.3	0.8	12.1	9.2	1.2	10.5	9.9	0.9	10.8
Capital expenditure	**1**	**3.7**	**13.8**	**4.8**	**6.4**	**11.2**	**3.6**	**1.1**	**4.7**	**4.7**	**2.9**	**7.7**	**6.4**	**1.9**	**8.3**
Contingency reserve				1.0		1.0	1.4		1.4						
Overall balance	**-62.7**	**-18.1**	**-80.9**	**-58.8**	**-22.4**	**-81.2**	**-21.8**	**-12.7**	**-34.5**	**6.8**	**-13.7**	**-7.0**	**15.5**	**-13.8**	**1.7**

Source: Libya's authorities and World Bank staff estimates.

FIGURE 4 • Substantial Fall of Inward and Outward Direct Investment, Libya, 2000–18



Source: United Nations Conference on Trade and Development and World Bank staff calculations.
Note: FDI = foreign direct investment.

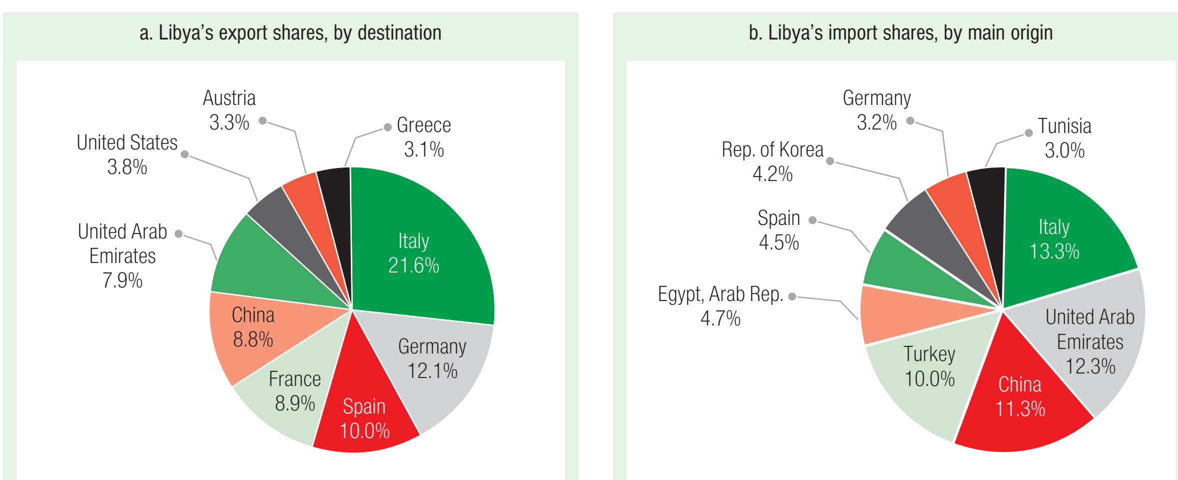
lifting of United Nations sanctions in 2004 before their crash during the revolution and afterward (figure 4). Despite huge investment potentials in many sectors—including in energy and construction—no inward FDIs have flowed into the country since 2014, given uncertainties and lack of security. As a result, FDI stock in the country has remained unchanged since 2013, at US$18.5 billion. At the same time, Libya's investment in the rest of the world, very dynamic in the past, slowed down markedly over the period. Total stock of Libya's investment edged up to US$20.6 billion.

The country suffers from weakly diversified trade in terms of goods and markets. Export proceeds remain dependent on one major natural resource—oil—and a few destination markets, which makes the Libyan economy vulnerable to domestic and external shocks of a volatile oil sector. Oil revenues represented on average 90 percent of total goods revenues over the last five years. Libya's exports are also very concentrated in a few markets: six countries are the destination of almost 70 percent of Libya's exports (figure 5, panel a). Imports suffer from the same weaknesses, because they rely on a few markets and products (figure 5, panel b). Over the last five years, most of Libya's imports concern food and fuels, representing 37 percent of total imports. Six countries alone exported 56 percent of Libya's imports over the same period.

The money supply declined in 2019 (minus 2 percent), driven mainly by falling demand deposits (minus 7.5 percent). Demand deposits declined for the second year in a row, reflecting customers' continued negative fears about the liquidity of the banking system and their preference for cash. In this context, currency circulating outside the banking system continued to rise, albeit at a slower pace. Following five years of frenetic demand for cash by customers—which almost tripled the amount of cash outside banks over 2013–18—currency in circulation increased again by 3.5 percent in 2019. The main counterparty source explaining the falling money supply was the drop in net credit to the government (minus 7.1 percent), which reflected the budget surplus recorded in 2019. Net foreign reserves also declined, but marginally, whereas credits to the economy improved by 3.6 percent after their fall over the previous three years. The division of the country's financial institutions also complicates the problem (see box 1).

Libya's currency continues to suffer in the parallel market because of political uncertainties and macroeconomic instability. The official exchange rate of the Libyan dinar against the US dollar stood at 1.37 in August 2020, depreciating by 1.1 percent compared to that in August 2018. The depreciation of the Libyan dinar with respect to the US dollar mirrors the fluctuations of the US

FIGURE 5 • Libya's Trade Suffers from Lack of Diversification in Products and Partners



Source: United Nations Comtrade Database and World Bank staff calculations.

BOX 1 • Libya's Financial Institutions

Libya's financial sector remains heavily dominated by banks, especially state banks. Commercial banks represent 81 percent of the assets in the financial sector. These in turn are dominated by a handful of poorly functioning state banks. The five state banks hold over 90 percent of Libya's deposits, thanks to both the channeling of government salaries mainly through state banks and the many hidden advantages given state banks, including the broad perception of implicit deposit guarantees. Consumer account penetration is technically high, given salary deposits, but financial intermediation beyond salary transfers is extremely narrow. Private sector businesses are largely excluded from the formal financial sector.

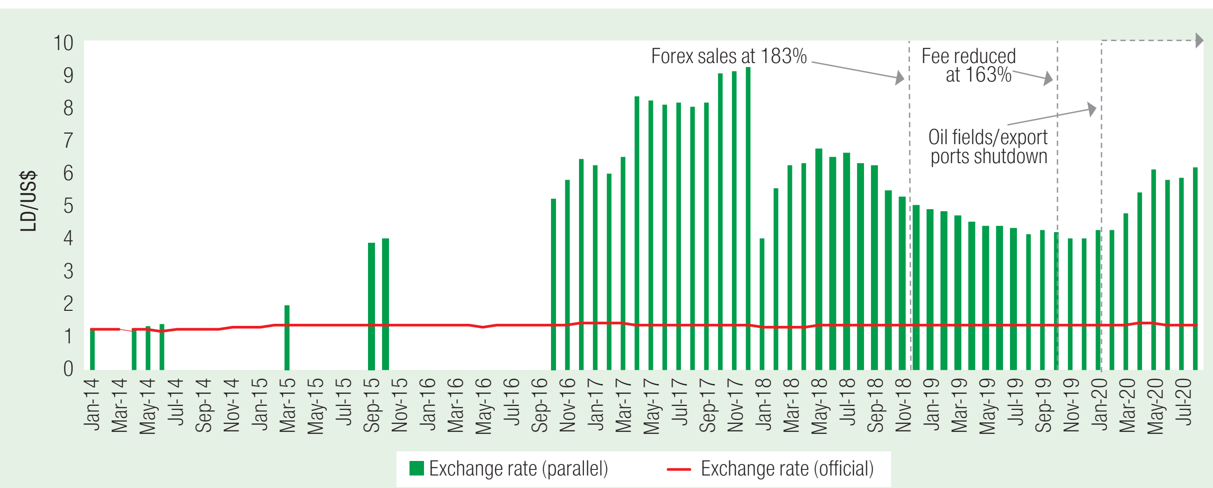
The Central Bank of Libya is the shareholder of public banks, and the regulatory agency of the banking sector. This dual role prompts obvious conflicts of interest, including potential forbearance to the benefit of state-owned banks, as well as granting credit to well-connected beneficiaries.

The split in the central banks has impaired normal central bank functioning and has had an impact on the financial sector in many different ways. Most important, the split has stymied control over monetary and fiscal policy because the Eastern branch of the Central Bank prints money and issues bonds without central authority. Spending of the Eastern authorities on salaries, goods and services, and so on is partially financed by the government in Tripoli, whereas the rest is funded through money printing and borrowing independent of Tripoli. Performance of full bank supervision of banks headquartered in the East is not possible, even though the three banks headquartered in Bayda represent up to a third of banking activity. Management of foreign currency decisions has become very challenging, because of both a lack of control of funds and an inability to reach formal decisions (for example on dinar devaluation). A dual payment system has also been created: banks in the West process payments via the real-time gross settlement system (RTGS), while banks in the East perform transactions manually because the Eastern branch of the Central Bank has been disconnected from RTGS .

Source: World Bank Libya Financial Sector Review (2020).

dollar to the Special Drawing Rights (SDR). To ensure the stability of its currency, the Libyan government pegged the Libyan dinar to the SDR at a fixed exchange rate. Under this pegged regime, one LD equals 0.5175 units of the SDR since 2003. The parallel exchange market often diverges, however, from official rates. The introduction of the 183 percent fee on forex transactions in 2018 helped to bring parallel market rates from LD/US$9.2 in 2017 to LD/US$4.0 in 2019 (figure 6). The fee rate was reduced to 163 percent in August 2019 as the parallel exchange rate steadily converged toward the taxed official one. The

FIGURE 6 • The Libyan Dinar Recovered Partially after Easing Exchange Policy, 2014–20



Source: Official exchange rate from the Central Bank of Libya; parallel market exchange rate compiled by World Bank staff.
Note: forex = foreign exchange; LD = Libyan dinar.

new fee system is not applied systematically to all transactions, with some public sector purchases and all family allowances exempted from the fee. As a result, although this move allowed constraining parallel market activities, it translated also into a two-system exchange regime, with potential risk of abuse and economic distortions. With ongoing fighting around Tripoli and subsequent failure of parties to reach an agreement, the discrepancy between the official and parallel market rates has been aggravated in 2020. Prompted by weak macroeconomic fundamentals, the lack of oil exports (oil field shutdown in January 2020), decline of global oil prices (reaching US$31 billion per barrel, UK Brent crude), and foreign currency sales restrictions imposed by the CBL, the Libyan dinar in the parallel market lost 54 percent of its value in the first half of 2020, reaching LD/US$6.17 in August 2020.

2

CURRENT SITUATION

The ongoing fight around Tripoli and the subsequent failure of political rivals to reach a sustained peace deal have taken a heavy toll on the economy, which is exacerbated by the COVID-19 pandemic. The political stalemate has been complicated further by the involvement in the Libyan conflict of external parties with diverging agendas and interests. Under such conditions, a sustained stabilization seems to be unlikely in the short term. As of the end of April 2020, no positive development shows that a sustained political agreement would be reached this year, albeit it appears that an agreement between the two sides could be reached on starting limited oil exports. In the absence of such agreement translating into significant improvements on the ground, Libya would produce a daily average of only 0.17 million barrels in 2020, which is less than one-seventh of last year's production, and GDP would collapse by 41 percent in 2020, the second-steepest decline ever after that of 2011. The assumption of a tacit oil deal by the end of 2020 would allow GDP to rebound by 41.7 percent in 2021. Deflation is expected to persist over 2020–21 (at minus 1.5 percent on average) as parallel market exchange rates converge further toward the official.

The 2020 budget depicts a huge deficit due to high and rigid expenditures in a context of the domestic and global health and economic crisis, resulting in oil supply and demand shocks. On March 20, GNA adopted a budget for 2020 underlying a deficit of LD 29.2 billion (LD 19.3 billion for Tripoli and LD 9.9 billion for Beyda), representing 90.6 percent of GDP, the highest deficit ever. The budget estimated an amount of LD 19.2 billion as total revenues for 2020 (59.5 percent of GDP), almost a third of last year's share (table 2). Only LD 6 billion are expected from oil proceeds, less than a fifth of 2019 proceeds. No budget figures were released regarding the expected revenues from the forex fee, despite its being one of the major revenue items since its institution in 2018. The budget meeting held in Rome in late January 2020 projected the forex proceeds at LD 10 billion, which is low compared to proceeds of the previous two years. Nonoil revenues (LD 3.2 billion) seem overly optimistic given the dire political, social, and economic context and weak tax and customs administration.

Despite the expected collapse of most major revenue sources, the GNA and the IG were unable to adjust expenditures considering the difficult situation. Expenditures remain high, reflecting their rigidity, and are estimated at LD 48.4 billion, or 150 percent of GDP. The wage bill is still the main expenditure item, although the budgeted amount is slightly lower than in past years, certainly due in part to the decision in September 2019 to cut the salaries of high-ranking political officials by 40 percent starting in January 2020. The budgeted wage bill amounts to LD 27.8 billion, or 86 percent of GDP,

TABLE 2 • Libya's Adopted Budget 2020 and Its Execution over January-June, by Region

	2019 budget			2020 budget					
	Actual			Adopted			Execution Jan–June		
LD, million	West	East	Total	West	East	Total	West	East*	Total
Total revenue	**57,365**		**57,365**	**19,191**		**19,191**	**14,657**		**14,657**
Hydrocarbon	31,395		31,395	6,000		6,000	2,165		2,165
Nonhydrocarbon	2,523		2,523	3,525		3,525	892		892
Tax revenue	1,242		1,242	1,698		1,698	289		289
Taxes on income and profits	945		945	1,299		1,299	210		210
Customs duties	296.3		296.3	399		399	79		79
Nontax revenue	1,281		1,281	1,491		1,491	603		603
Surtax on foreign exchange	23,447		23,447	10,000		10,000	11,600		11,600
Total expenditure and net lending	**46,113**	**10,042**	**56,155**	**38,500**	**9,934**	**48,434**	**15,645**	**3,311**	**18,956**
Current expenditure, of which:	41,475	8,658	50,133	31,400	8,534	39,934	13,271	2,845	16,116
Wages and salaries	24,512	5,981	30,493	21,800	5,981	27,781	9,213	1,994	11,207
Expenditure on goods and services	9,728	2,013	11,741	4,000	2,013	6,013	1,187	671	1,858
Subsidies and transfers	7,235	664	7,899	5,600	540	6,140	2,871	180	3,051
Capital expenditure	**4,638**	**1,384**	**6,022**	**2,100**	**1,400**	**3,500**	**579**	**467**	**1,046**
Contingency reserve				5,000		5,000	1,795		1,795
Overall balance	**11,253**	**–10,042**	**1,211**	**–19,309**	**–9,934**	**–29,243**	**–988**	**–3,311**	**–4,299**

Source: Libya's authorities.
Note: LD = Libyan dinar. *Data for East is from Jan–Apr period.

and represents 57.4 percent of total expenditures. *This is the costliest wage bill in the world, which makes the Libyan public sector the least cost-efficient*. Expenditures on goods and other services also remain high at LD 6 billion (18.6 percent of GDP); nonetheless, they are substantially lower than those of the last few years and are insufficient to maintain delivery and ensure quality of public services. Regressive and inefficient subsidies (LD 6.1 billion, or 19 percent of GDP), especially those supporting prices of fuel consumption, keep draining budget resources. High and rigid recurrent expenditures leave little room for capital investments, which have been at a minimum since 2011. They are estimated at LD 3.5 billion, or 10.8 percent of GDP.

By mid-April 2020, facing a new reality of a possible lengthy blockade of oil facilities and its corollary of a collapse in revenues, the GNA resorted finally to enacting new fiscal measures aiming to control expenditures and reduce the deficit. The GNA adopted a decree that allows a salary cut of 20 percent across the whole public sector starting in April 2020. The 20 percent salary cut would ensure permanent annual savings of LD 4.2 billion, or 12.9 percent of GDP. It is not clear whether the IG will also be willing to implement this decision. The GNA also decided to undertake the reform of the fuel subsidy system, which it had adopted by decree in 2015 but was not able to roll out. A universal cash transfer would replace the fuel subsidy program, which may reduce the expected savings depending on the amount that will be transferred to households. The subsidy reform would correct associated distortions, however, including overconsumption of fuels and smuggling—but whether it can be implemented given the current situation in the country remains to be seen.

TABLE 3 • Libya's External Stance Remains under Stress, 2016–20

US$, billion	2016	2017	2018	2019	2020
Exports	6.8	18.9	29.9	33.3	3.3
Hydrocarbons	6.2	18.0	29.0	31.7	3.2
Imports	8.7	10.6	13.8	19.2	12.6
Services balance	–2.8	–4.5	–4.9	–8.4	–2.6
Credit	0.1	0.1	0.1	0.2	0.3
Net factor income	0.8	1.3	0.9	0.9	0.9
Net current transfers	–0.8	–0.7	–0.8	–0.8	–0.9
Current account balance	**–4.7**	**4.4**	**11.3**	**5.8**	**–11.9**
As percent of GDP	**–18.0**	**11.7**	**21.4**	**11.3**	**-51.4**
Net official reserves	**70.0**	**78.4**	**82.6**	**79.8**	**72.6**

Source: World Bank staff calculations.

The outcome of the budget execution over the first six months of 2020 reveals mixed results. Although expenditures seem to be aligned with budgeted amounts, and for some spending items even below the forecasts, realized tax proceeds are short of the predicted revenues. This finding confirms the assessment made previously, that projected tax revenues were overly optimistic given the ongoing difficult context and weak tax administration. The high oil proceeds also are misleading and cannot be the basis for extrapolation over the rest of the year, because oil production was at full technical capacity over most of January, before coming to almost a halt as of January 20. Forex fee proceeds show resilience to the shocks, generating more than LD 11.6 billion over the January–June period. Those developments may augur some improvements of the budget deficit, which will be further supported by the effect of the subsidy reform and salary cut measures. Nevertheless, low capital investments could limit public service delivery, including health services, at a time of the potentially deadly COVID-19 infection.

The balance of payments will remain dependent on hydrocarbon revenues. The country will also be dependent on imports of fuels, food, and equipment. Export revenues are expected to dwindle to US$3.3 billion in 2020, a 10th of those of 2019 (table 3). Imports also will decline in 2020, but not as strongly given their downward rigidity, and then increase slightly thereafter. This initial decline will occur despite the CBL's efforts to enforce its imports-rationing policy aiming to prevent the drain of reserves. In this context, the current account is expected to run high deficits in 2020 (51.4 percent of GDP). Most of the financing gap will be covered by drawing on reserves, which will decline to US$72.6 billion at the end of 2020.

The Road Ahead: Risks and Challenges

Risks to the economic outlook are unusually high and tilted to the downside. First, peace and stability seem elusive given the conflicting agendas of the foreign countries supporting the main parties involved in the fight for power and wealth, which would delay recovery and stability. The disruption of oil production and export may continue for a longer period with disastrous economic and social consequences. Second, the ongoing spread of COVID-19 infection in Europe is disrupting both demand and supply of commodities. Libya may suffer from lower demand for oil, reducing Libya's income. It might also face lower supply of equipment and final consumption goods, which would disrupt further basic services delivery and increase the

A large share of households in Libya faced multiple deprivations even before the onset of the COVID-19 pandemic. The World Food Programme and the World Bank jointly piloted two rounds of a mobile phone survey in Libya in October 2019 and April 2020. In the October 2019 survey round, which was the last conducted before the COVID-19 outbreak, although few respondents reported suffering from poor food consumption, a large group reported other types of deprivation. Table B2.1 shows that over half of respondents either did not have access to a bank account or were not able to withdraw money for the prior three months, did not have access to food subsidized by the government, and lived in a governorate in which at least five fatalities had occurred in the month before the survey. Furthermore, relative to the share with poor food consumption, there were much larger shares of respondents who had had power or water cut for at least one day in the month before the survey, had school-aged children who do not all attend school during the school year, were displaced by the conflict, or did not have legal access to work in the country. Table B2.1 shows that nearly all respondents (97 percent) faced at least one deprivation (sum of all eight shares); however, 62 percent of respondents reported facing at least three deprivations and 36 percent reported facing at least four deprivations. Thus, households are facing stress in a variety of dimensions.

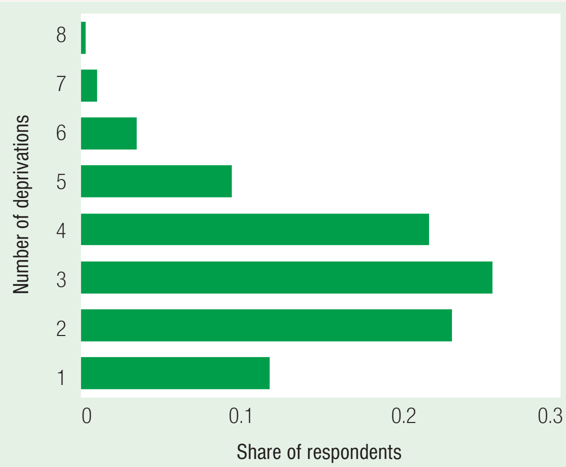
There were clear regional differences in deprivation profiles. Surveys show that, out of eight governorates with data, four governorates (Jufra, Murqup, Murzuq, and Tripoli) have more than 75 percent of respondents facing at least three deprivations, and two governorates (AlKufra and Tobruk) have less than 40 percent. Note, however, that not only the number but also the severity of deprivations are important. For example, the two governorates with the lowest share of respondents experiencing three or more deprivations—Alkufra and Tobruk—each has the highest share of deprivation in particular dimensions. For instance, 39 percent of respondents in Alkufra did not send all of their school-aged children to school in the past month, and 86 percent of respondents in Tobruk had access to water suspended for at least one day in past month.

Assessments as of April 2020 preliminarily suggest that the impact of COVID-19 has been limited in labor and goods markets. A new round of data collection in April 2020 was hampered by COVID-19 and Ramadan, which significantly reduced the sample size. According to the limited evidence provided by this round, however, deprivations—aside from poor school attendance due to the closure of all schools—seem to be similar to those of the first round. The share of respondents who had poor food consumption and did not have a bank account, as well as the average number of days with cuts to the availability of power or water in the past month, all remained nearly identical across the two survey rounds. In both rounds, the vast majority of households had adequate access to food and basic services. Approximately 6–7 percent of households had poor food consumption, and 5 percent of households did not have a bank account. Although the average number of days without power or water was between three and eight, the median household experienced no service disruptions over the previous month in both surveys. It should, however, be noted that the pandemic was still in its early phases at the time of data collection. As time passes and the number of new infections in Libya potentially increases, it is possible that household welfare could significantly suffer.

TABLE B2.1 • Share of Respondents Who Face Deprivations, October 2019
(percent)

Deprivation reported	Share
Share reporting poor food consumption in the past month	0.07
Share without access to bank withdrawals in the past three months	0.54
Share not able to legally work	0.09
Share without access in the past month to food shops subsidized by the government	0.65
Share whose electricity was cut in the past month	0.35
Share whose water was cut in the past month	0.33
Share displaced by the conflict	0.21
Share with not all school-aged children attending school	0.26
Share living in a governorate with at least five fatalities in the past month	0.51

Share of Libyan households reporting deprivations



hardship of the population. Third, as the COVID-19 infection spreads in Libya, containing the infection will become increasingly challenging for the decrepit health system. At the time of this note's preparation, a military escalation with both sides amassing military equipment and troops around Sirte reinforced the downside risks going forward. An alternative scenario that can surmount the current adversity and uncertainty would entail a revitalized political will to unite the country and its institutions. The political resolution would enable a cohesive state that could implement critical policies and reforms to strengthen institutions, stabilize the macroeconomic framework, and diversify the economy to generate enough private jobs. 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.

APPENDIX

SELECTED MACROECONOMIC INDICATORS

(percentage change, unless otherwise indicated)

	Est	Est	Est	Est	Proj
	2016	2017	2018	2019	2020
National income and prices					
Real GDP, growth	**−2.8**	**26.7**	**15.1**	**2.5**	**−41.0**
Nonhydrocarbon	−2.0	0.0	1.8	1.0	−2.0
Hydrocarbon	−5.4	116.9	35.9	4.3	−85.1
Nominal GDP (LD, billion)	36.4	52.8	71.8	72.5	32.3
Nominal GDP (US$, billion)	26.2	38.1	52.8	51.9	23.1
Per capita GDP (US$, 1,000)	4.1	5.9	8.1	7.9	3.5
CPI inflation (percent)	25.9	28.4	9.3	−2.2	−2.0
Central government finances			**(% of GDP)**		
Revenues	22.4	41.5	61.5	79.1	61.5
Hydrocarbon	17.0	36.4	46.6	43.3	9.4
Expenditures	102.6	74.6	68.4	77.4	121.2
Capital expenditure	11.2	4.7	7.7	8.3	7.7
Overall balance	**−81.2**	**−34.5**	**−7.0**	**1.7**	**−59.7**
Money and credit					
Money and quasi-money	22.5	15.6	−0.6	−2.0	–
Net credit to the government	10.1	22.1	8.2	−7.1	–
Credit to the economy	−6.8	−6.7	−4.7	3.6	–

(continued on next page)

SELECTED MACROECONOMIC INDICATORS

(percentage change, unless otherwise indicated) *(continued)*

	Est 2016	Est 2017	Est 2018	Est 2019	Proj 2020
Balance of payments			**(US$, billion)**		
Exports	6.8	18.9	29.9	33.3	3.3
Hydrocarbons	6.2	18.0	29.0	31.7	3.2
Imports	8.7	10.6	13.8	19.2	12.6
Current account balance	−4.7	4.4	11.3	5.8	−11.9
In percent of GDP	**−18.0**	**11.7**	**21.4**	**11.3**	**−51.4**
Reserves			**(US$, billion)**		
Total foreign assets (including LIA investments)	130.1	132.7	139.9	143.4	136.3
Gross official reserves	70.0	78.4	82.6	79.8	72.6
In months of next year goods imports	79.3	68.0	51.7	75.7	48.0
Exchange rates					
Official exchange rate (LD/US$, pa)	1.390	1.385	1.360	1.398	–
Crude oil production (million bpd)	0.378	0.818	1.108	1.150	0.166
Exports	0.305	0.788	1.007	0.920	0.149
Crude oil price (US$/b)	42.8	52.8	68.4	65.0	40.0

Source: World Bank staff calculations.
Note: b = barrel; bpd = barrels per day; CPI = consumer price index; LD = Libyan dinar; LIA = Libyan Investment Authority ; pa = per annum; — = not available.

WORLD BANK GROUP
1818 H Street, NW
Washington, DC 20433