LIBYA

Despite limited improvements, the Libyan economy still remains far below potential, hindered by the persistence of violent political conflict. The twin deficits remain large and lacking any framework for corrective measures, exacerbating the instability of the macroeconomic framework. Inflation accelerated, eroding further the purchasing power of the population. Over the medium term, the challenges go beyond reconstruction to addressing pre-2011 development gaps, diversifying the economy, and promoting private sector development.

Recent developments

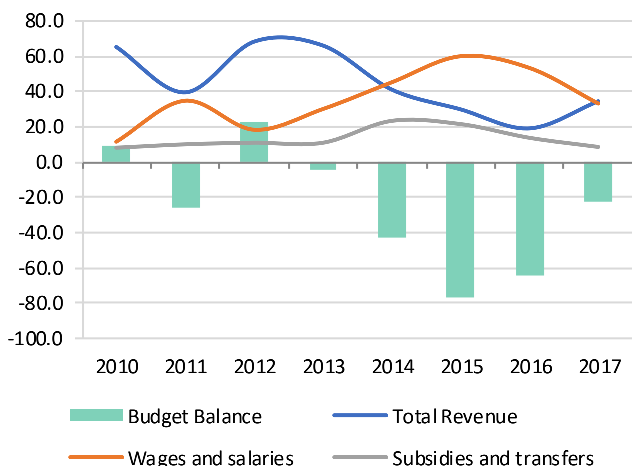
Despite strong growth performance driven by the oil sector, the Libyan economy is still suffering from political strife that hinders it from reaching its potential. Following four years of recession, the Libyan economy recovered in 2017-H1, thanks to the resumption in the production of hydrocarbon products after the repossession from militias of the main oil fields last year. The non-hydrocarbon sectors remained sluggish inhibited by lack of funds and security. GDP is expected to increase by 25.6 percent in 2017, allowing income per capita to substantially improve to 65 percent of its 2010 level after losing more than half of its value.

Prices of almost all commodities continued to increase over the first half of 2017, which further depleted the purchasing power of the population. Inflation hit a record level of 28.5 percent over 2017-H1 following the 25.9 percent registered last year. Inflation is mainly driven by acute shortages in the supply chains of basic commodities, speculation in the expanding black markets, the de facto removal of food subsidies due to lack of funds, and the strong devaluation of the LYD in the parallel markets. High inflation coupled with weak performance of non-hydrocarbon sectors are likely to have increased poverty and exacerbated socio-economic exclusion.

Although improving, public finances are expected to remain strained in 2017, impacted by continued political uncertainties. Budget revenues are expected to jump strongly in 2017 thanks to the higher hydrocarbon output. They will reach LYD 24.6 billion or 34.6 percent of GDP. However, revenues are just enough to cover public wages (33.3 percent of GDP), which are still high despite efforts to remove duplicate payments from the payroll through extending and enforcing the use of the national identification system. Subsidies (8.9 percent of GDP) continue to absorb a significant amount of budget resources, while capital expenditures remain weak. Overall, the budget deficit is expected to remain high at 22 percent of GDP (63.9 percent of GDP in 2016). The deficit is being financed mainly through borrowing from the CBL. The domestic debt has quickly increased to reach LYD 53.7 billion end March 2017.

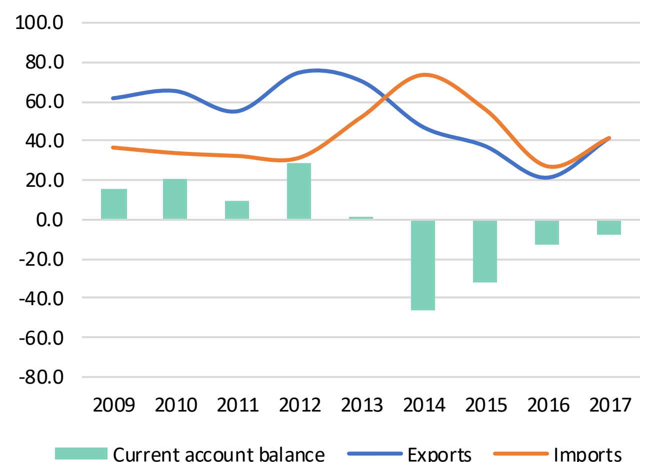
The balance of payments is also improving, but continues to suffer from the ongoing political deadlock and low oil prices. The relative improvement of security around the main oil facilities allowed Libya to substantially increase oil export to an average 0.62 million bpd over the first 7 months of 2017, but 1 million barrels per day is achievable with better security conditions. However, production is still encouraging when compared to just 0.27 million bpd in the same period of 2016. Thus, revenues are expected to triple in 2017 to reach US$20.8 billion. This performance is not enough for a sustainable current account considering the high dependence of Libya on imports to meet consumption and intermediate goods requirements. Indeed, imports are expected to recover strongly this year, which will

FIGURE 1 Libya / Low revenues, exacerbated by high wage bill and subsidies are deteriorating public finance, in % of GDP



Sources: Government of Libya and World Bank staff estimates.

FIGURE 2 Libya / Turmoil in the hydrocarbon sector and consumption driven imports deteriorating the balance of payments, in % of GDP



Sources: Government of Libya and World Bank staff estimates.

keep the current account deficit high at an estimated 8.3 percent of GDP. To finance the deficit, Libya will need to draw further on foreign reserves. The latter will drop to around US$67.5 billion by end 2017, compared to US$ 123.5 billion by end 2012. The official exchange rate of the Libyan Dinar against the US$ has been kept stable around its SDR peg, while the LYD in the parallel market lost 82.5 percent of its value due to weak monetary-fiscal inconsistency and lack of policy credibility.

Outlook

A more favorable economic outlook depends crucially on the progress in resolving the political stalemate, which has divided the country, and improved security. The status quo will eventually lead the Libyan economy to insolvency. At the current pace of spending, if the context of conflict and insecurity persists, foreign exchange reserves will continue towards exhaustion, a prospect which is already affecting expectations. Over the medium term, subject to resumed peace and security, growth is projected to continue and become more broad-based over 2019-20. Both the fiscal and current account balances will significantly improve, with the budget and the current account running surpluses expected from 2020 onwards. Foreign reserves will average around US$60 billion during 2018-20.

Risks and challenges

The baseline macroeconomic scenario presented above is very fragile because it reflects coping through rapid depletion of buffers. This calls for immediate actions to bring current expenditures under control, especially the wage bill and subsidies, and improve governance of the financial sector, which will also contribute to price stability. Over the medium term, the country needs broader and deeper structural reforms to stabilize the macroeconomic framework and promote private sector-led job creation. In particular, there is a need to improve tax revenues and the management of public financial and human resources, promoting the development and diversification of the private sector, reforming the financial sector, and improving the business environment.

The focus on Libya as a transit route for migrants has obscured an IDP crisis in the country. The high number of internally displaced persons (IDPs) with limited prospects of return is creating a strain on provision of services. According to the IOM, in June 2017 there were 226,164 IDPs, 33 percent displaced in 2011-14. Host communities have absorbed the bulk of the IDPs, however, as the situation becomes protracted, their resources and basic services have become scarce and overstretched. Potential for return is minimal in safe areas because the overall security situation has not allowed for international assessment and assistance. For most of the internally displaced communities — including people displaced since the onset of the crisis in 2011 — there is no immediate prospect to return given the prevailing inter-community tensions.

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

	2014	2015	2016 e	2017 f	2018 f	2019 f
Real GDP growth, at constant market prices	-24.0	-6.1	-17.2	15.8	20.1	20.1
Private Consumption	-24.0	-6.1	-0.7	2.6	2.8	2.8
Government Consumption	-32.1	-4.6	-32.3	-28.0	-10.9	-10.9
Gross Fixed Capital Investment	9.2	9.7	-8.0	23.6	89.8	89.8
Exports, Goods and Services	-67.8	-27.1	-18.1	112.4	44.6	44.6
Imports, Goods and Services	-24.2	3.4	-3.5	8.7	4.8	4.8
Inflation (Consumer Price Index)	2.4	9.2	3.5	3.0	2.7	2.7
Current Account Balance (% of GDP)	-48.1	-64.9	-94.5	-119.1	-86.4	-58.1
Fiscal Balance (% of GDP)	-43.5	-77.1	-87.1	-53.1	-16.3	13.7
Debt (% of GDP)	39.3	127.0	286.1	313.4	235.2	176.5
Primary Balance (% of GDP)	-41.8	-76.4	-85.1	-51.0	-14.7	14.9

Sources: World Bank, Macroeconomics and Fiscal Management Global Practice, and Poverty Global Practice.
Notes: e = estimate, f = forecast.