LIBYA

Table 1	**2019**
Population, million	6.6
GDP, current US$ billion	51.7
GDP per capita, current US$	7815.7
School enrollment, primary (% gross)[a]	109.0
Life expectancy at birth, years[a]	72.7

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) WDI for School enrollment (2006); Life expectancy (2018).

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 August 2020), which threatens to further suppress the economy. A political resolution is needed to implement the required reforms for a private sector driven growth and jobs generation.

Recent developments

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. As military confrontations escalated, oil production decreased from 1.2 million bpd in December 2019 bpd to 0.1 million bpd in April 2020 (Figure 1), choking the lifeline of the economy.

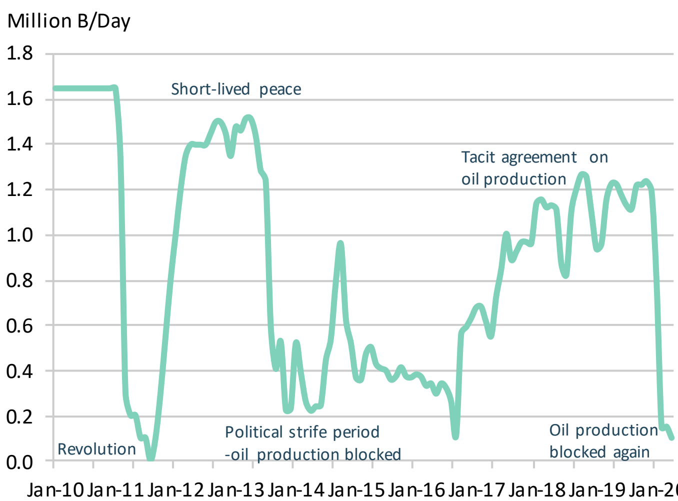
Despite higher oil revenues and forex fees, public finances remained under stress in 2019, constrained by higher and rigid expenditures. In particular, the wage bill continued to increase, reflecting a plethoric public sector and rising real salaries. The financing gap in 2019 would have been very high without a fee on hard currency transactions (183 percent) introduced in September 2018. 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).

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 size. Only LD 6 billion are expected from oil proceeds, less than a fifth of 2019 proceeds. Nonoil revenues (LD 3.2 billion) seem overly optimistic given the dire political, social, and economic context and weak tax and customs administration.

After years of high inflation, the consumer price index (CPI) declined in 2019 as parallel market exchange rate premia decreased. CPI fell by 2.2 percent over 2019 compared to the high inflation of 21.6 percent on average over 2016–18. Inflation picked up in the first two quarters of 2020, reaching 1.3 percent by April, as the conflict and shortages intensified.

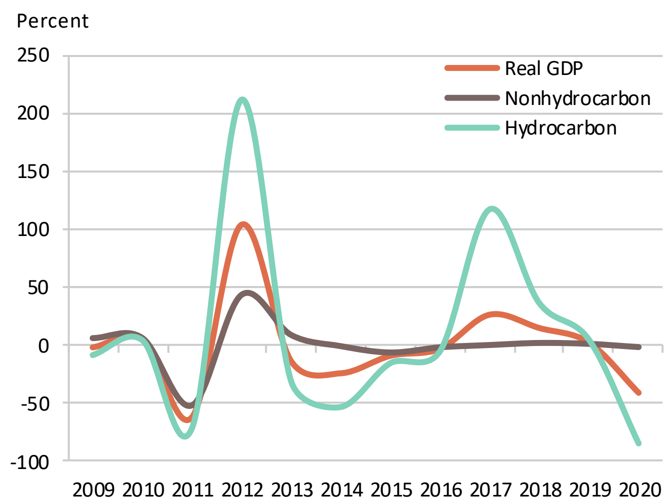
Libya's currency continues to suffer in the parallel market because of political uncertainties and macroeconomic instability. The official exchange rate of the Libyan dinar against the US dollar stood at 1.37 in August 2020, depreciating by 1.1 percent compared to that in August 2018. The parallel exchange market often diverges, however, from official rates. The introduction of the forex fee, 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 by bringing parallel market rates from LD/US$9.2 in 2017 to LD/US$4.0 in 2019. The fee rate was reduced to 163 percent in August

FIGURE 1 Libya / Oil production



Sources: US Energy Information Administration.

FIGURE 2 Libya / GDP growth rate



Sources: Country authorities.

2019 as the parallel exchange rate steadily converged toward the taxed official one. Prompted by weak macroeconomic fundamentals, the lack of oil exports, decline of global oil prices, 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.

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.

According to a joint World Bank-WFP mobile phone survey conducted in October 2019 and April 2020, a large share of households in Libya faced multiple deprivations even before the onset of the COVID-19 pandemic. A third of respondents had their utilities cut off in the month prior to the survey, half of respondents either did not have access to a bank account or were not able to withdraw money for the prior three months, and 65 percent did not have access to food subsidized by the government. With increasing incidence of Covid-19, these conditions have likely deteriorated further since then.

Outlook

In the absence of significant improvements on the ground, the economic downturn will deepen. If the inability, or severely limited capacity, to produce and export oil might well prevail over the rest of 2020 despite the recent efforts to restart the production, Libya is expected to produce a daily average of only 0.17 million barrels in 2020, which is less than one-seventh of last year's production. As a result, GDP is expected to shrink by 41 percent this year (Figure 2). 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 (Table 2). Consequently, reserves will be further declining this year. Given the extreme volatility and unpredictability surrounding the determinants of economic trends, it is not sensible to produce forecasts beyond the immediate horizon.

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 its income. It might also face lower supply of equipment and final consumption goods, which would disrupt further basic services delivery and increase the hardship of the population. Third, as the COVID-19 infection spreads in Libya, containing the infection will become increasingly challenging for the rapidly weakening 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.

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

	2017	2018	2019	2020 e
Real GDP growth, at constant market prices	26.7	15.1	2.5	-40.9
Private Consumption	2.8	3.6	1.7	-15.4
Government Consumption	14.1	0.0	2.7	-6.4
Gross Fixed Capital Investment	31.6	28.8	17.1	-25.2
Exports, Goods and Services	82.6	32.2	33.6	-82.0
Imports, Goods and Services	25.5	23.8	43.9	-34.0
Inflation (Consumer Price Index)	28.4	9.3	-3.0	-2.0
Current Account Balance (% of GDP)	11.7	21.4	11.6	-52.6
Fiscal Balance (% of GDP)	-28.4	0.7	9.9	-59.3
Debt (% of GDP)	82.0	59.5	48.8	155.3
Primary Balance (% of GDP)	-28.4	0.7	9.9	-59.3

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