LIBYA

Table 1	2020
Population, million	6.9
GDP, current US$ billion	26.2
GDP per capita, current US$	3813.3
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).

Libya entered 2021 as a divided nation aspiring for recovery and healing. With intensifying conflict and a blockade of oil terminals and fields, the economy registered one of the worst performances in recent records for the most part of 2020. Starting in mid-September, a rapprochement between political/military factions brought much-needed relief to the economy, capping the GDP plunge at 31.3 percent, annually. The election of a unity government in early 2021 has rekindled hope, but, the reunification agenda faces formidable challenges ahead.

Key conditions and challenges

In 2020, Libya effectively remained a divided nation, where competing political and military factions operated redundant and often conflicting systems of governance. The Government of National Accord (GNA) controlled western regions around Tripoli and the Interim Government (IG), backed by the Libyan National Army (LNA), controlled other regions. The Central Bank in Tripoli controlled the country's money supply and reserves, while the eastern branch mimicked its currency printing function. The National Oil Company in Tripoli was solely responsible for oil exports; but the Petroleum Facilities Guard, which protects oil assets, was divided between western and eastern forces. These divisions, with culminating coordination problems, have proven to be devastating for Libyans. A 9-month blockade that began in January 2020 cut the country's crude oil output to an average 228,000 barrels per day during the blockade, less than one-sixth of 2019 values. For an acutely undiversified economy where hydrocarbons comprise over 60 percent of GDP and 90 percent of fiscal revenues, this dealt a heavy blow, leading to a near-complete scrapping of development expenditures. With severely limited health infrastructure and services after years of conflict, the COVID-19 pandemic added to the strife faced by Libyans. A recent World Food Programme (WFP)-World Bank (WB) survey showed that 10 percent of Libyans had inadequate food consumption in December 2020. Food insecurity was higher in the Eastern and Southern regions, with deteriorating trends in Tobruk, Murzuq and Alkufra since May 2020.

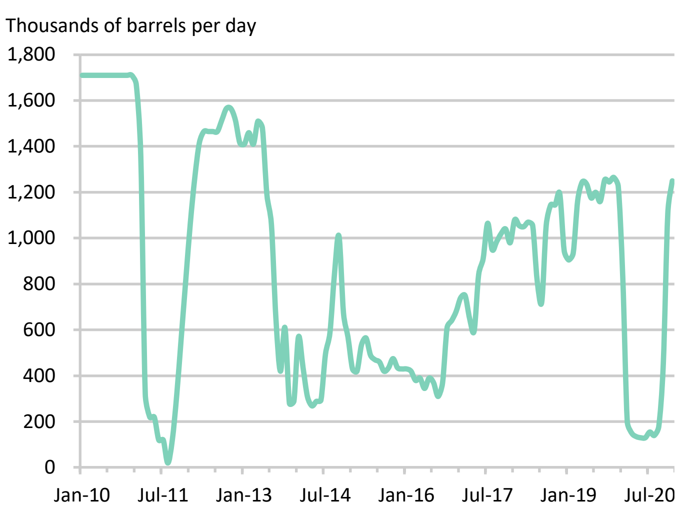
There is reason for cautious optimism for recovery and healing, but downside risks abound. A ceasefire agreement of October 2020 helped resume oil production to 1.25 million barrels per day by December. In mid-November, parties also agreed to hold parliamentary and presidential elections in December 2021 and commissioned a three-member Presidency Council to form a Government of National Unity and facilitate the transition. However, the underlying political and economic divisions pose surmounting challenges and competing international influences can still derail the process.

Recent developments

For the most part of 2020, the performance of the Libyan economy was the worst in recent records. Even with the rebounding oil proceeds in the last quarter, the economy could not recover its earlier losses, and registered a 31.3 percent real decrease in GDP. On average, oil production in 2020 is estimated at 405,000 barrels per day, roughly a third of actual output in 2019 (Figure 1).

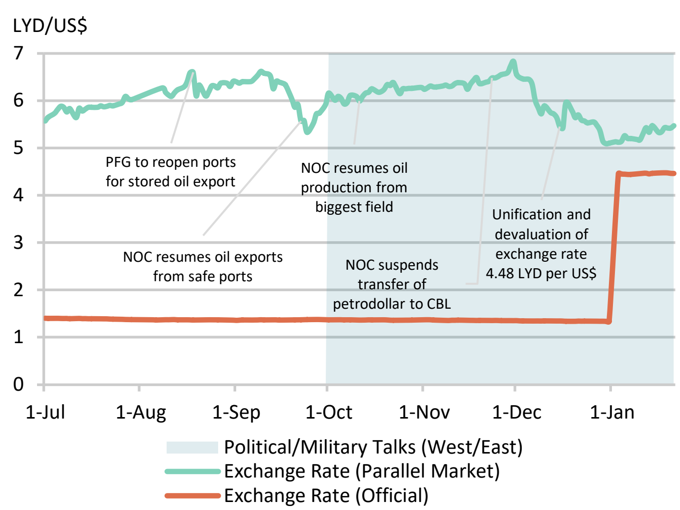
Total fiscal revenues stood at LYD 23 billion in 2020, about 40 percent of those in 2019. The plunge in oil revenues translated

FIGURE 1 Libya / Oil production



Sources: US Energy Information Administration.

FIGURE 2 Libya / Official and parallel market exchange rates



Sources: Authorities, and World Bank calculations.

into lower government spending, LYD 45.9 billion as opposed to LYD 56.2 billion a year ago, about 20 percent reduction in nominal terms. Subsidies, including those for fuel, electricity, water and sewage, sanitation, and medical supply reached LYD 5.6 billion, or 16 percent of total expenditures. Development expenditures were miniscule for the year, LYD 1.8 billion or five percent of total expenditures, compared to LYD 4.6 billion in 2019. All capital expenditures projects for 2020 were essentially canceled. Despite that, however, the overall fiscal balance recorded a deficit of 64.4 percent of GDP.

The collapse of oil revenues strained the ability of the monetary and fiscal authorities to defend the country's currency peg, and on December 16, for the first time in five years, the board of directors of the Central Bank of Libya, agreed to devalue the currency from LYD 1.00 = SDR 0.5175 to LYD 1.00 = SDR 0.156 effective January 3, 2021, with the equivalent rate to the U.S. dollar at LYD 4.48 = US$1.00 using the current US$1.44 = SDR 1.00 rate (Figure 2). The new rate aims to apply to all governmental, commercial, and personal foreign exchange transactions, and largely remove the growing wedge between black market and official rates, also rendering the foreign exchange transactions surcharge unnecessary.

The movements in exchange rates also affected consumer prices in Libya, where domestic food supply relies heavily on imports (e.g., 90 percent of cereals are imported). In December, the price of the Minimum Expenditure Basket (MEB) was 12.8 percent higher than pre-COVID prices in March, while the East (755 LYD) and the South (856 LYD) exceeded the national average (710 LYD). According to the WFP-WB survey, households reported the high prices as the most significant shock they experienced within the past year.

Outlook

With looming uncertainties, projecting future economic trends is a daunting task. However, if the current rapprochement remains on track, a significant economic recovery from the 2020 slump is within reach in the forthcoming year. With major maintenance problems still pending, oil production is projected to reach 1.1 million barrel per day (MBD) in 2021. This would lead to a rebound in real GDP growth, to 67 percent in 2021. In terms of level of GDP, the economy would still be 23 percent smaller than that in 2010, the year prior to the start of the conflict.

With a US$44 per barrel average oil price projection, the country is still expected to run a twin deficit in 2021, that is a 9 percent of GDP fiscal deficit (overall balance) and a 6.2 percent of GDP current account deficit. Higher international oil prices would help further support the overall rebound in oil output, filtering through stronger government consumption and investment, and in turn supporting a recovery in private consumption.

With deep reliance on imports, the recent currency devaluation is expected to "pass-through" on domestic prices in 2021. However, the presence of an expansive FX black-market will limit this effect because a de facto devaluation was already embedded in the black market rates. Overall, a 12 percent CPI is expected in 2021.

The agenda for social policy and institutional reform is full and needs urgent attention. Besides peace and stability, the country needs urgent infrastructure investments. Operationalizing 14 of 27 non-functioning power plants will cost about US$1.1 billion. Budget plans for 2021 include a possible allocation for repairs over the next two years however the budget has not been adopted yet. Libyans are also increasingly affected by the COVID-19 pandemic. With relaxation of containment measures, the spread of the virus has accelerated. As of end-January 2021, there were 116,064 confirmed cases and 1,802 reported deaths due to COVID-19. The true incidence of the disease is almost certainly under-monitored and compounded by an incapacitated health sector, which will slow down the rollout of vaccines even by regional standards. Overall, any potential progress in these areas would be curtailed should the reunification process stall.

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

	2018	2019	2020 e	2021 f
Real GDP growth, at constant market prices	15.1	2.5	-31.3	66.7
Private Consumption	3.6	1.7	-12.8	32.5
Government Consumption	0.0	2.7	-21.6	18.3
Gross Fixed Capital Investment	28.8	17.1	-12.7	40.8
Exports, Goods and Services	32.2	33.6	-64.8	171.6
Imports, Goods and Services	23.8	43.9	-27.5	40.3
Inflation (Consumer Price Index)	9.3	-3.0	-2.0	12.0
Exchange Rate (USD/LYD)	1.4	1.4	1.4	4.5
Current Account Balance (% of GDP)	21.4	11.6	-46.4	-6.2
Fiscal Balance (% of GDP)	-7.0	1.7	-64.4	-9.0
Crude Oil (million bpd)	1.0	1.2	0.4	1.1

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