LIBYA ECONOMIC MONITOR

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ABBREVIATIONS

BSC	Bureau of Statistics and Census
CBL	Central Bank of Libya
CMWG	Cash & Market Working Group
COVID-19	Corona Virus Disease 2019
CPI	Consumer Price Index
GDP	Gross Domestic Product
GNI	Gross National Income
GNS	Government of National Stability
GNU	Government of National Unity
HDI	Human Development Index
IMF	International Monetary Fund
JMMI	Joint Market Monitoring Initiative
LYD	Libyan dinar
MBD	Million Barrels per Day
MEB	Minimum Expenditure Basket
MENA	Middle East and North Africa
MSNA	Multi-Sectoral Needs Assessment
NOC	National Oil Company
OCHA	Office For the Coordination of Humanitarian Affairs
OFDA	Office of U.S. Foreign Disaster Assistance
OPEC	Organization of Petroleum Exporting Countries
PHC	Primary Healthcare
SDR	Special Drawing Rights
U.N.	United Nations
UNHCR	United Nations High Commissioner for Refugees
US$	U.S. dollar
WFP	World Food Programme
WHO	World Health Organization
y-o-y	Year on year

PREFACE

This report is the product of the Middle East and North Africa (MENA) Region of the World Bank Group. The report was prepared by Dalia Al Kadi (Senior Economist), Zied Ouelhazi (Economist), Mohammad al Akkaoui (Economist), and Ali Ibrahim Almelhem (Economist). This report was prepared under the direction of Jesko S. Hentschel (Country Director), Henriette von Kaltenborn-Stachau (Resident Representative), Eric Le Borgne (Practice Manager), and Abdoulaye Sy (Lead Economist).

The findings, interpretations, and conclusions expressed in this Monitor are those of World Bank staff and do not necessarily reflect the views of the Executive Board of The World Bank or the governments they represent.

EXECUTIVE SUMMARY

Libya is struggling to cope with a trifecta of crises, including the civil conflict, the COVID-19 pandemic and most recently, the impact of the Russia-Ukraine crisis. Notwithstanding the tempering of conflict intensity since 2021, the Libyan economy has been battered by the conflict. GDP per capita estimates in 2021 stood at about half of its value in 2010 before the start of the conflict. Since 2020, the population has been hit by multiple waves of the COVID-19 pandemic. The health system, already affected by a decade of conflict, has struggled to deliver the necessary access and quality of care amid a raging pandemic. While Libya has reported a marked decline in COVID-19 cases and deaths since March 2022, the vaccination rate remains low (32.3 percent of the population were vaccinated, and 17 percent were fully vaccinated by end-May 2022). In addition, food insecurity has worsened, precipitated by the Russia-Ukraine crisis and the resulting shortages and price increases for staple foods in the domestic market.

While Libya witnessed a significant rebound in economic growth in 2021, it has been experiencing volatility in the hydrocarbon sector, the mainstay of the economy, in 2022. Oil production in 2021 accelerated rapidly (an average of 1.2 million barrels per day (mb/d) compared to 0.4 mb/d in 2020) following the lifting of the oil export blockade that lasted for much of the year in 2020. However, as the postponement of national elections in December 2021 was accompanied by heightened political and security uncertainty, oil production dipped during the first quarter of 2022, a level that was 4.4 percent lower than the 2021 average. It has since declined further during the second quarter of the year.

Despite the significant limitations faced by the two key sources of data on prices, they offer a consistent story of increasing inflationary pressures during 2021 and through the first quarter of 2022. The two key sources of data on prices are the official CPI inflation rate and the inflation of the Minimum Expenditure Basket (MEB)[1] measured by the REACH initiative. Official CPI inflation figures are likely a gross underestimate of the actual inflation rate as they rely on data collected primarily from Tripoli, given the challenges associated with data collection across the country in a complex political and security landscape. The MEB inflation rate suffers from its limitations, including the narrow scope of products in the basket, questions of national representativeness of the rate, and underestimation due to measuring the lowest available price for each

[1] The MEB is the minimum culturally adjusted items required to support a Libyan household for a month. The MEB is measured by the REACH initiative on a monthly basis and across most local markets in the country.

product in the basket. Regardless, figures from these sources reveal increasing inflationary pressures. The official inflation rate recorded an estimated 2.8 percent in 2021 compared to 1.4 percent in 2020 and −2.2 percent in 2019. In 2022, it progressively increased, reaching 5.7 percent in March 2022 compared to the same month in 2021. By May 2022, the MEB was 32.2 percent higher than in May 2021 and 49.5 percent higher than in March 2020 at the start of the COVID-19 pandemic.

Prices of essential goods (food and drinks, housing, electricity, water, gas and other fuels, and transportation) are the main contributors to Libya's higher official inflation rate since 2021. Disruption of supply chains due to the civil conflict and COVID-19 containment measures and the reliance on costly alternative sources of water and electricity generation contributed to price increases. The Russia-Ukraine crisis has also contributed to inflationary pressures in the past months through its impact on food prices. Libya relies significantly on wheat and cereal imports from Russia and Ukraine (54 percent of wheat and meslin imports, 65 percent of barley imports, and 72 percent of maize or corn imports).[2] In the wake of the Russia-Ukraine crisis, the inflation rate of the food portion of the MEB shot up to 40.6 percent year-on-year in April 2022 before declining to a still high 31 percent in May 2022. The median cost of the food portion of the MEB in May 2022 stood at 14 percent higher than the pre-crisis level in February 2022. The price of the cheapest brand of flour was 17 percent higher in May 2022 than in February 2022. Prices of couscous and bread in May 2022 were 80 percent and 34 percent higher, respectively, compared to February 2022. This translates into higher inflation and likely lower consumption and could push vulnerable and poor households that are mainly net food buyers further into poverty and situations of hunger.

The fiscal balance witnessed a massive reversal from a 64.1 percent of GDP deficit in 2020 to a 10.6 percent of GDP surplus in 2021. This resulted from the jump in oil production and prices and the exchange rate devaluation (much of the spending (particularly wages) was denominated in LYD, whereas 98 percent of revenues in 2021 were sourced from hydrocarbons denominated in US$). As a result, government spending in LYD increased by 87 percent in 2021 with rises across all major budget categories or chapters; however, given the 70 percent depreciation of the exchange rate in January 2021, this represented a spending drop of 44 percent in USD equivalent.

The fiscal spending outlook for 2022 is uncertain. Without an approved budget, the Government of National Unity has been spending on essential line items (wages and salaries of civil servants, social transfers, subsidies) based on the 1/12 rule, with limited accountability and transparency. The House of Representatives' recent approval of the GNS budget increases pressure on the Central bank of Libya (CBL) regarding transfer of funds to the two rival governments. Declining oil revenues and the decision to retain revenues in the Libya Foreign Bank account of the National Oil Company rather than transferring them to the CBL limit the authorities' ability to finance spending.

Libya's debt stock is large but manageable as long as hydrocarbon production and exports persist. At the end of 2021, the public debt stock was estimated at LYD 156 billion, representing 83 percent of GDP. Public debt is domestic and denominated in LYD. In contrast, government revenues are primarily sourced from oil exports denominated in USD. It is expected that the ease of servicing state liabilities has increased since 2021 due to the increase in hydrocarbon revenues and the strong depreciation of the official exchange rate in early 2021.

Libya's trade and current account balances rebounded in 2021 and early 2022, thanks to recovering oil exports and receipts. In 2021, Libya's exports more than tripled as global oil prices soared and oil export volumes recovered following the removal of the 2020 blockade on oil export terminals. Consequently, despite doubling goods imports compared to 2020, the trade balance is estimated to have recorded a surplus of 21.7 percent of GDP in 2021 (compared to a deficit of 14.7 percent in 2020). Similarly, the current account reversed course, from a deficit of 15.3 percent of GDP in 2020 to a surplus

[2] Average over 2016–20.

of 21.1 percent in 2021. Data on trade in goods for January and February 2022 reveal a trade surplus of US$ 5.3 billion.

Net international reserves remain at a comfortable level. Estimates reveal that Libya's reserve position remains very comfortable, with reserves in 2021 at 46 months of imports and 3.7 times broad money (M2), thanks to the steady inflow of U.S. dollars in the form of hydrocarbon export revenues. Since the devaluation of the exchange rate in January 2021, the wedge between the official and black-market rates has narrowed significantly. The official rate remained relatively stable throughout 2021, but depreciation pressures are increasing, with the dinar experiencing a 7.4 percent devaluation since January 2021 (4.6 percent devaluation since end-2021). Libya's liquidity crisis persists, with adverse implications for households and businesses.

The economic outlook is uncertain. It is impossible to forecast economic outcomes with any degree of confidence due to the high uncertainty surrounding political and security developments. However, if Libya manages to maintain or ramp up oil production and exports compared to 2021, or at least avoid extended disruptions, it could benefit from soaring global oil prices, which would translate into strong economic growth, higher fiscal revenues and an inflow of hard currency. This would positively affect the trade, current account, and fiscal balances.

Downside risks are high. The primary downside risk is a backslide into violence and armed conflict. Further outbreaks of COVID-19 and/or the emergence of new variants pose a risk. The war in Ukraine may lead to further supply chain disruptions and sharper than expected agricultural product price increases. High global fuel prices may raise the prices of other imported goods, leading consumers' purchasing power to decline and likely resulting in lower consumption, increased food insecurity, and greater use of negative coping mechanisms by vulnerable households. The presence of rival governments in the East and West, and ongoing negotiations around the management and use of oil revenues, may complicate government spending, thereby impeding the state's ability to deliver public services and finance development projects. A sharper than expected slowdown in global growth could reduce global oil demand, resulting in reduced exports, government revenues, economic growth, fiscal and current account balances, and foreign reserves.

1

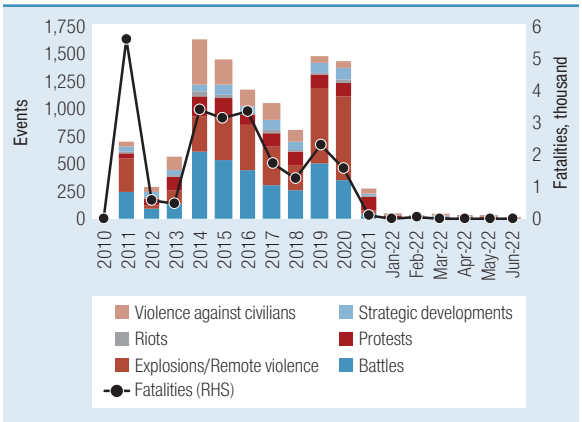
CONFLICT SITUATION OVERVIEW

After a decade mired in conflict, Libya was able to turn—temporarily—a corner in 2021. A ceasefire agreed upon in October 2020 persisted, and a unified interim government—the Government of National Unity (GNU)—was formed in March 2021. The frequency of conflict events sharply decreased (239 in 2021 compared to an average of 1,199 for 2014–2020), and fatalities dropped by 95 percent compared to the period between 2014 and 2020 (115 in 2021 compared to an average of 2,364 for 2014–2020) (Figure 1). The authorities initiated efforts to reunify competing public institutions in the East and West, including the Central Bank of Libya. Oil production recovered to 2019 levels (1.2 million barrels per day—mb/d on average in 2021) following a 9-month-long blockade on oil export terminals in 2020. An exchange rate devaluation in January 2021 largely removed the wide and growing wedge between the black market and official rates.

The year 2022 has brought a return to political division and rising risks of a backslide into conflict, albeit with comparatively few conflict events and fatalities to date. Initially scheduled for December 2021, national elections have been postponed, and there is no agreement on a new date nor the legal and constitutional basis for the elections. As a result, political and security tensions and oil production disruptions have escalated. In addition, the eastern-based House of Representatives has granted confidence to a new cabinet, the Government of National Stability (GNS). In contrast, the GNU considers that its mandate does not end until national elections occur. As a result, Libya finds itself again with two parallel governments in the East and West, with negative implications for policy making, economic recovery, and security. Nevertheless, conflict events' frequency and intensity remain contained compared with the pre-2021 conflict period.

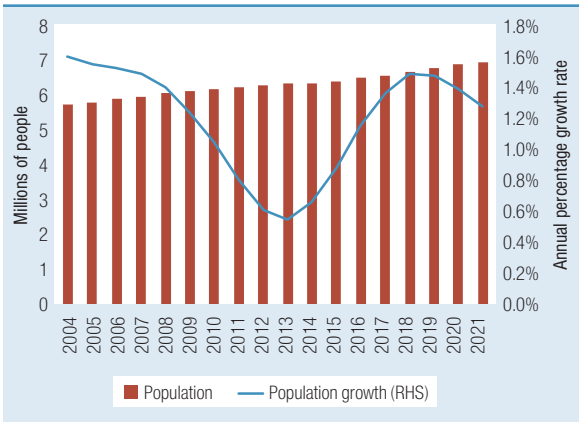
Notwithstanding the recent tempering of conflict intensity, the Libyan economy has been battered by the conflict. GDP growth has experienced significant volatility owing to the conflict and its impact on oil production and exports, recording estimated high double-digit contractions and expansions in most conflict years. Volatility aside, Libya's real GDP has sharply declined since 2011, diverging significantly from the upward trend for countries in the Middle East and North Africa region, as well as FCV countries and countries at a similar level of income (Figure 3). Despite recovering

FIGURE 1 • Conflict Events and Fatalities



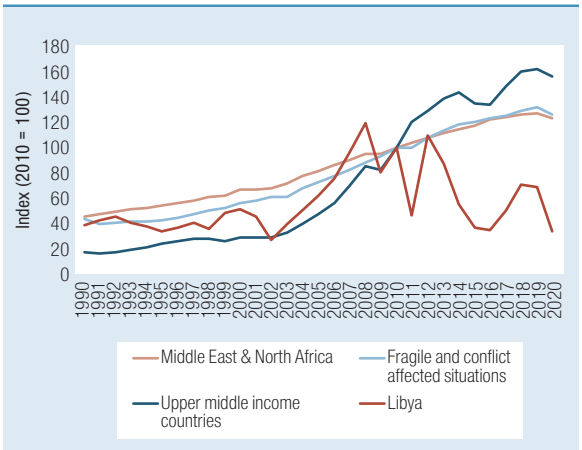
Source: Armed Conflict Locations and Event Data.

FIGURE 2 • Population and Population Growth



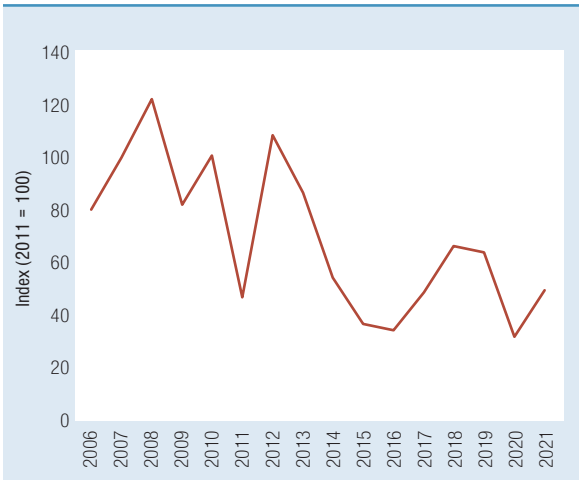
Source: World Development Indicators, MFMOD, and World Bank team estimates.

FIGURE 3 • Evolution of Real GDP Compared to Benchmarks



Source: World Development Indicators, MFMOD, and World Bank team estimates.

FIGURE 4 • GDP Per Capita

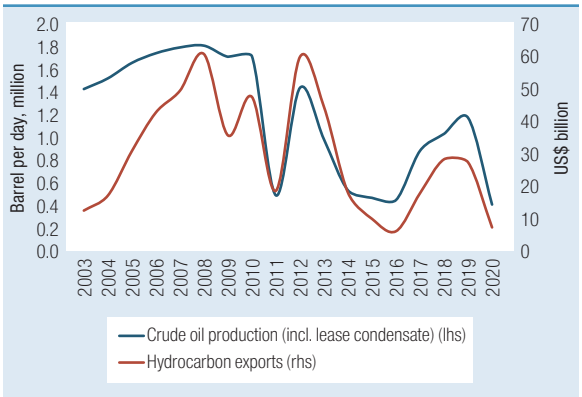


Source: World Development Indicators, MFMOD, and World Bank team estimates.

somewhat in 2021, real GDP for that year is estimated at about half of the pre-conflict GDP in 2010. GDP per capita in 2021 stood at about half of its value in 2010 before the start of the conflict (Figure 4).

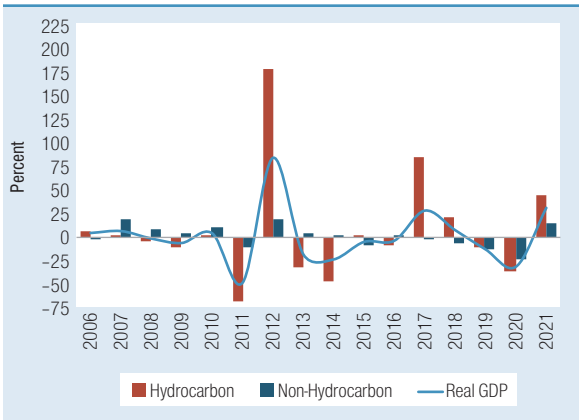
Both the hydrocarbon and non-hydrocarbon sectors experienced a massive decline. The hydrocarbon sector, the mainstay of the economy, took a significant hit. Oil production and exports dropped and became increasingly volatile due to blockades and conflict events. These interrupted production and damaged oil production and export infrastructure, poor maintenance, and limited investments in oil exploration and production capacity expansion (Figure 5). Despite the easing of the conflict situation in 2021 and the rebound in oil production, average production in 2021 remained 29 percent below the pre-conflict level in 2010. According to estimates by the Ministry of Planning, the value-added of the non-hydrocarbon sector in 2019 was 13 percent lower than its pre-crisis level in 2010. This downturn in the non-hydrocarbon sector reflected the critical role of hydrocarbon revenues in financing government expenditures and supporting aggregate demand—hydrocarbon revenues comprised 81 percent of government revenues over the past decade (Figure 6). As hydrocarbon production and exports

FIGURE 5 • Oil Production and Exports



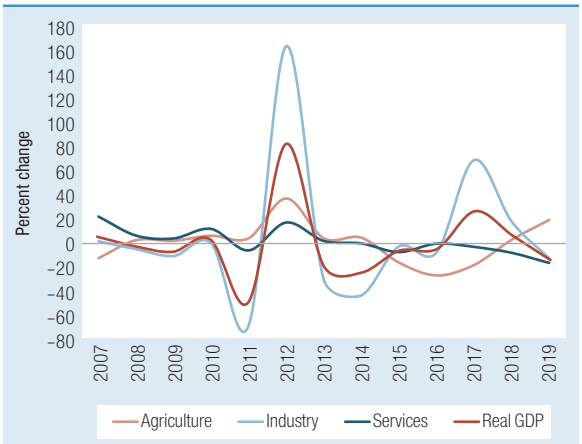
Source: Organization of the Petroleum Exporting Countries (oil production) and Central Bank of Libya (hydrocarbon exports).

FIGURE 6 • Real GDP Growth *(% change)*



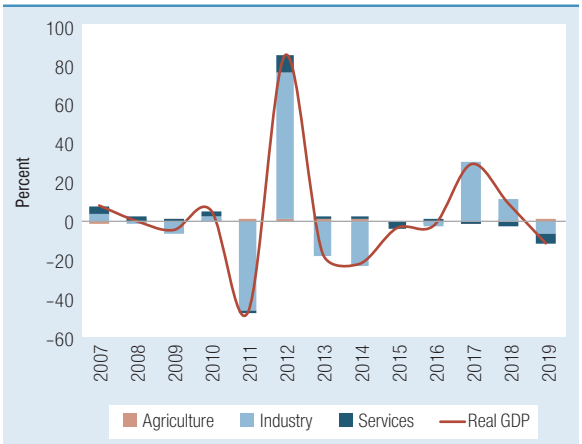
Source: Libyan authorities and World Bank team estimates.

FIGURE 7 • Real GDP and Sectoral Growth Rates *(percent change, annual)*



Source: Ministry of Planning, World Bank staff calculations.
Note: Industry sector includes mining and quarring activities such as hydrocarbon production.

FIGURE 8 • Sectoral Contribution to Annual Real GDP Growth *(percent)*



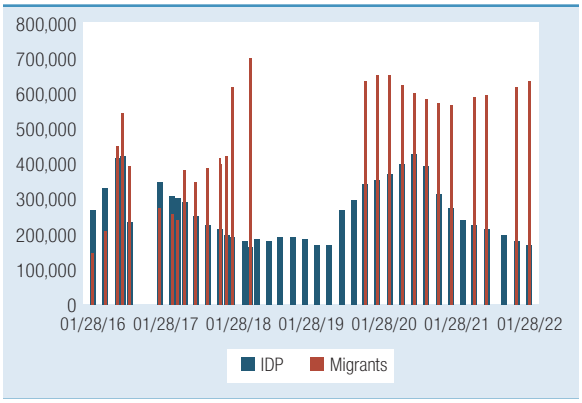
Source: Ministry of Planning, World Bank staff calculations.
Note: Industry sector includes mining and quarring activities such as hydrocarbon production.

fell, so did government revenues and, in turn, government expenditures.

Estimates by the Ministry of Planning reveal the impact of the conflict on the agriculture and services sectors. The agriculture sector experienced volatile growth during the conflict, with output continuing to grow during 2011–2014, declining by 18 percent on average over the period 2015–2017, characterized by a high intensity of conflict, and then starting to recover. According to the REACH initiative's Multi-Sectoral Needs Assessment survey in August-September 2021, 79 percent of households that used to engage in agricultural activities during the pre-conflict period reported that they had halted their agricultural production activity. The conflict negatively impacted the service sector, registering a fast-tracking decline of an estimated 27 percent during the 2015–2019 period, recording an estimated value-added of 27 percent lower in 2019 than in 2015 (10 percent lower in 2019 than in 2010). The poor performance of the service sector was mainly driven by a sharp decrease in gross value added of trade, repair, accommodation, food, financial and insurance activities, public administration, and defense sectors (Figures 7 and 8).

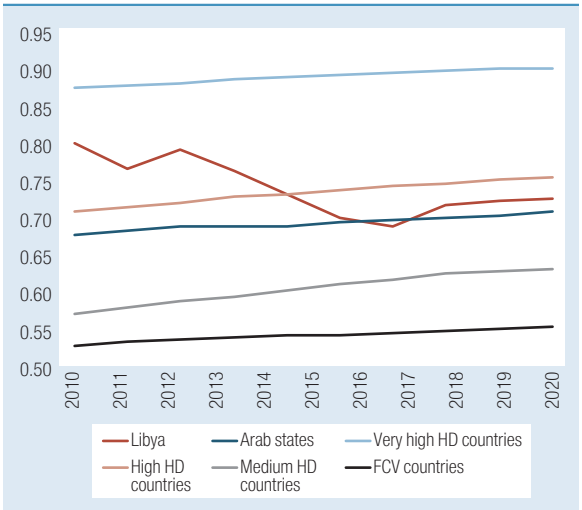
Deteriorating security and economic conditions negatively affected the welfare of Libyans.

FIGURE 9 • IDP and Migrant Individuals



Source: International Organization for Migration (IOM), Displacement Tracking Matrix
Notes: Between start-February 2018 and the end August 2019, the IOM ran only one survey in Libya in the context of updating its displacement tracking matrix; the U.N. Migration Agency defines a migrant as any person who is moving or has moved across an international border or within a State away from their habitual place of residence, regardless of (1) the person's legal status; (2) whether the movement is voluntary or involuntary; (3) what the causes for the movement are; or (4) what the length of stay is.

FIGURE 10 • Libya and Comparators' Human Development Index



Source: United Nations Development Programme.

The conflict drove Libyans to leave their homes. While data pre-2016 is not available, figures from the International Organization for Migration reveal that during the 2016–2021 period, the total number of internally displaced people (IDPs) peaked at around 425,000 in June 2016 before progressively declining to 168,000 in January 2022 (Figure 9). Alongside migrants residing in Libya (approximately 635,000 in early 2022), IDPs were especially vulnerable. Data on the incidence of poverty is not available in recent years due to the difficulty of data collection during the conflict. However, 9.1 percent of the population of twenty assessed municipalities were multidimensionally poor, with IDPs suffering from significantly higher multi-dimenstional poverty rates (25.9 percent) (UNFPA, 2018). The main factors contributing to such poverty were unemployment, dependency, and chronic diseases. Meanwhile, the 2019 Multi-Sectoral Needs Assessment found that 61 percent of households (490,000 households, 2.5 million individuals) experienced a living standard[3] and capacity gap.[4] In other words, 61 percent of households could not meet their basic needs in one or more sectors and/or relied on negative, unsustainable coping mechanisms to meet these needs. In addition, 53 percent of Libyan households in the selected provinces had a severe to the extreme capacity gap.

Libya's level of human development, as measured by the Human Development Index (HDI), has taken a hit throughout the conflict. The HDI is a composite statistic developed by the United Nations Development Programme to provide an overall indication of the quality of life and opportunity, incorporating human health (life expectancy), education level, and per capita income.[5] According to the HDI, the Libyan war has resulted in significant development losses; pre-war Libya's HDI stood at 0.798 in 2010, making it more than halfway between very high and high development countries; at its lowest point in 2016, it stood at 0.687 (Figure 10). Nonetheless, this

3 The Living Standard Gap score identifies the proportion of households that cannot meet their basic needs in the assessed sectors, as well as the severity of these needs. Sectors covered are livelihood, food security, shelter and non-food items, WASH, health, education and protection (REACH, 2019).

4 The Capacity Gap score identifies households that may not currently have one or more living standard gaps, but which are maintaining their living standards by relying on negative coping mechanisms, and which may eventually develop living standard gaps once their available coping mechanisms have been exhausted. (REACH, 2019)

5 An HDI level lower than 0.55 is considered low and a level higher than 0.8 is considered very high.

HDI rank remained higher than average for FCV and medium human development countries. The HDI recovered somewhat post-2016, bringing it closer to, yet still below, that of high human development countries.

Worryingly, Libya's protracted conflict led to a decrease in the expected years of schooling. Expected years of schooling dropped from 14 to 13 years during 2010–19, from one year below very high development countries' average to one year below high development countries' average. However, mean years of schooling rose slightly over the same period, indicating that a child born in Libya today is likely to have fewer years of schooling than those born in 2010. In contrast, expected years of schooling rose over this same period across Libya's comparators, including FCV countries.

This deterioration of education outcomes is partly driven by reduced availability of functional schools, household economic difficulties, and poor policy coordination. According to UN OCHA, 245 schools (around 5 percent of total schools in the country) were destroyed or damaged due to the armed conflict in 2021, down from 507 in 2016. Another 23 schools served as temporary shelters for IDPs compared to 51 in 2016. Despite this improvement over the past five years, the reduced availability of schools due to destruction, damage, in addition to constraints to school access due to movement restrictions and the presence of mines and unidentified explosive objects has led to school overcrowding, thereby compromising the quality of the learning environment. Schools in urban areas have substantial student populations (up to 2,000 students in some primary schools). This has necessitated the adoption of a shift system to accommodate all students. The degradation of livelihood conditions of both Libyans and migrants has also affected their children's access to education services, as many were unable to afford school fees or needed their children to work to contribute to the household income (REACH, 2022). Political division and the creation of a parallel Ministry of Education in the East have led to a lack of coordination and timeliness in the design and implementation of sector policies, programs, and projects (Espeut et al., forthcoming 2022).

The armed conflict placed extreme stress on an already vulnerable health sector. The World Health Organization's (WHO) most recent Service Availability and Assessment report for Libya in 2017 revealed that 20 percent of the country's 1,355 primary healthcare (PHC) facilities had closed due to disrepair, inaccessibility due to conflict, physical damage, or occupation by other parties. Only one-third of PHC facilities were fully functional. Only 16 percent of PHCs and 44 percent of hospitals had basic readiness to deliver essential medicines. Only about 40 percent of PHC facilities offered basic maternal and childcare, and only about half were diagnosed and treated for diabetes (51 percent), cardiovascular diseases (48 percent), and chronic respiratory diseases (45 percent). Basic infrastructure (electricity, water, sewerage, and telecommunications) is not consistently available for health facilities. Severe shortages in medicines persist. While healthcare worker availability pre-conflict was on par with MENA countries, Libya now faces shortages in medical professionals (bachelor-degree nurses, family practitioners, mental health practitioners, etc.) and a surplus of many others, with negative implications for the quality of care. Access to healthcare services is unequal across regions and urban-rural areas, and individuals with differing employment and migrant statuses (Kak et al. forthcoming, 2022). The COVID-19 pandemic further overwhelmed the health system.

Water infrastructure has suffered significant damage and destruction, leading to limited production and service capacity, widespread water shortages, and increased unit operating costs. Constrained government budgets during the conflict years also translated into a considerable reduction in the budget allocation for critical inputs, including chemicals and energy, which led to diminished services and poor infrastructure maintenance. As a result, by 2019, only 64 percent of the population had access to safe drinking water compared to 95 percent in 2011. Furthermore, water supply services dropped from 24 hours a day to 8 hours or less per day in 2020 across all main urban areas. In addition, most wastewater treatment plants are out-of-order, with severe implications for public health. A rough estimate of the financial losses incurred by the sector between 2012 and 2019 due to the conflict is at least US$ 2.8 billion, including 47 percent incurred by urban dwellers due

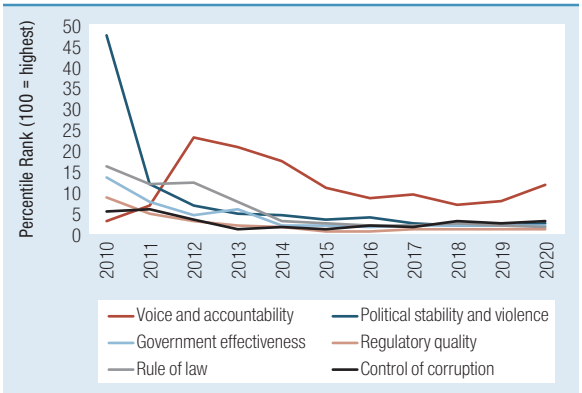
to drinking water rationing, 21 percent incurred by the Man-Made River Project because of lack of payment for delivered water and higher unit production costs, 15 percent due to infrastructure damage and destruction, and 12 percent incurred by irrigation farmers due to the cost of operating local pumps (Rammel and Requena, forthcoming 2022).

The conflict caused severe damage to the electricity sector's infrastructure and disrupted the electricity supply. Economic shocks associated with the conflict and the COVID-19 pandemic also affected supply. Surveyed Libyan and migrant households who access electricity mainly from the general grid reported 7.3 and 5.3 hours of power blackouts per day, respectively, during the week preceding data collection[6] (REACH initiative, 2022a).

Libya's dismal governance performance deteriorated further throughout the conflict. Libya's historical pre-conflict performance on key governance indicators left much desired. For example, its percentile ranking on five of six indices published under the Worldwide Governance Indicators (voice and accountability, government effectiveness, the rule of law, regulatory quality, and control of corruption) was below 20 (100 being the highest) in 2010. In addition, the country was at the 48th percentile in the political stability and violence index in 2010. Unsurprisingly, Libya's lackluster rankings plummeted further on five of the six indices since the start of the conflict, the exception being the index for voice and accountability, which experienced a slight increase (Figure 11).

While poor state legitimacy pre-dated the conflict, this situation has been further exacerbated during the conflict period. Libya had a legacy of weak institutions and social contracts, systemic marginalization of specific communities, and corruption, among others, before the start of the conflict. For much of the past decade, the Libyan state has operated in the presence of two rival governments in the East and West, with adverse implications for state legitimacy and the quality and efficacy of policy making and public service delivery. Political institutions today lack legitimacy without a national legal and constitutional framework for national elections. The return in spring 2022 of two rival governments in the East and West increases the risk of a roll-back of recent progress at reunification by some state institutions, including the Central Bank.

FIGURE 11 • Worldwide Governance Indicators *(percentile rank)*



Source: Worldwide Governance Indicators.

Competition and conflict between elites in the East and West have resulted in the development of parallel state institutions and a struggle over the control of governing bodies. This has allowed a degree of autonomy for leading state institutions, including the Central Bank of Libya (CBL) and the National Oil Company (NOC)—and a continuing lack of oversight of others—Libya Investment Authority (LIA) and the Organization for Development of Administrative Centers (ODAC).

The state lacks a monopoly on the use of force, resulting in high levels of insecurity and instability. Since 2011, Libya has experienced a proliferation of armed groups and competition by political groups seeking support from these groups. In addition, criminal networks and terrorist groups are active in the country, and primarily open borders have allowed a surge of illicit and illegal trade to neighboring countries and Europe.

[6] Quantitative data collection for the MSNA took place between June 14, 2021 and July 31, 2021.

2

RECENT ECONOMIC DEVELOPMENTS

Volatile Oil Production and, in Turn, Economic Activity

GDP data recently published by the authorities reveal economic growth trends over much of the conflict period that is roughly similar to World Bank estimates. Libyan authorities have recently published their estimates of national GDP for the period between 2006 and 2019. This included publishing data in detail for the first time during much of the conflict (2014–2019). The authorities' significant efforts to construct this time series, despite the challenges with data collection during the conflict period, will enhance the abilities of policymakers, development partners, and researchers to understand better the evolution of the Libyan economy over the past two decades and to inform policy for the coming years. This data reveals real growth trends roughly in line (in terms of directionality and orders of magnitude) with the economic growth estimates that the World Bank had been producing. However, given the high degree of uncertainty around macroeconomic estimates during the conflict period, estimates from various sources are expected to vary.

World Bank estimates of economic activity in 2021 reveal a significant growth rebound. This primarily resulted from the acceleration of oil production (average of 1.2 million barrels per day (mb/d) compared to 0.4 mb/d in 2020) following the lifting of the oil export blockade that lasted for much of the year in 2020 (Figures 5 and 6).

However, oil production and exports, the primary drivers of economic activity, have been volatile since the end-2021 due to weather-induced port closures, infrastructure maintenance issues, and shutdowns by armed groups. After a decline in oil production in December 2021 as the postponement of national elections was accompanied by heightened political and security uncertainty, production dipped further in January. It averaged 1.08 million barrels/day (mbd) (compared to a 2021 average of 1.21 mbd) due to an ongoing blockade of export terminals by the Petroleum Facilities Guard and weather-induced port closures, and poor maintenance of oil tanks damaged by armed conflict. Following the formation of the Government of National Stability (GNS), further protests and blockades dealt a blow to oil production and resulted in a decline in oil production and revenues. As a result, oil production

BOX 1: THE MEDIAN COST OF THE MINIMUM EXPENDITURE BASKET (MEB) AS AN ALTERNATIVE MEASURE OF INFLATION IN LIBYA

The median cost of the MEB is measured by the REACH initiative and serves as a source of data on prices in Libya. The median cost of MEB calculation and monitoring is part of the Joint Market Monitoring Initiative (JMMI) created by the Libya Cash & Market Working Group (CMWG) in June 2017. The JMMI aims to inform cash-based interventions and better understand market dynamics in Libya. The initiative is led by REACH and supported by the CMWG members. It is funded by the Office of U.S. Foreign Disaster Assistance (OFDA) and the United Nations High Commissioner for Refugees (UNHCR). The MEB is the minimum culturally adjusted basket required to support a Libyan household for a month on a regular or seasonal basis. Its median cost is the monetary threshold for what is needed to cover these essential needs (U.N. World Food Programme, Minimum Expenditure Baskets – Guidance Note, 2020). For Libya, the basket includes 18 food items, five non-food items, and cooking fuel, the quantities of which reflect the needs of a household of 5.2 persons. Data on the median cost of the MEB is collected monthly and is available starting January 2018.

The methodology is based on purposive monthly sampling targeting 658 shops in 34 critical urban areas across Libya. Data collection targets urban areas throughout Libya to ensure coverage of markets that serve as commercial hubs for surrounding regions. Markets and shops that are included in the sample are chosen to ensure that (1) they are large enough to sell most assessed items, (2) they are located in different areas within the assessed city or municipality, and (3) their prices are a good indicator of the general price levels in the assessed regions. Price data are collected from the same shops whenever possible each month to ensure comparability across months.

In each assessed market, at least four prices per item are collected from different shops to ensure the quality and consistency of collected data. Enumerators record the cheapest available price for each item, but do not require a specific brand, as brand availability may vary.

The MEB's cost calculation is based on "location median" to minimize the effects of outliers and differing amounts of data among assessed locations. At least four lowest prices per item are collected in each assessed location. Within each assessed location, the REACH initiative first calculates the median prices of all assessed items, then calculates the median cost of the MEB by multiplying the median price of each item in the MEB by the quantity identified to respond to the basic needs of a Libyan household.

The median cost of the MEB has important limitations, and thus MEB inflation rates must be interpreted with caution. Prices indicate the time frame they were collected and the general price levels in each assessed location. Data is collected on the lowest available price for each item and does not capture prices of middle-market and upmarket goods. Consequently, MEB inflation rates are not necessarily representative at the level of provinces or regions. Even at the city level, price data should be interpreted with caution, particularly in larger cities with substantial variation in neighborhoods' socioeconomic groups.

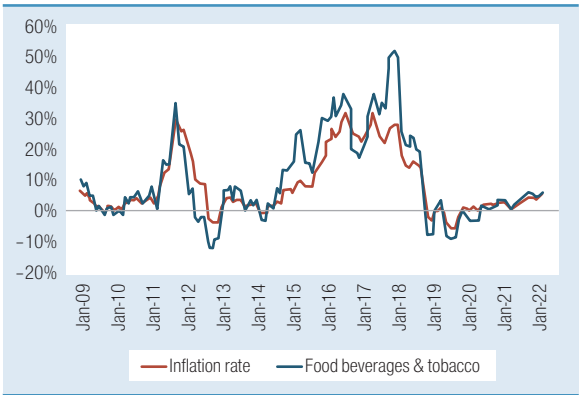
during the first quarter of 2022 was around 4.4 percent lower than the 2021 average and reportedly declined further during April and May 2022.

Escalating Inflation

Both available sources of data on prices suffer from significant limitations. The two key sources of data on prices in Libya are the official CPI inflation rate and the inflation of the Minimum Expenditure Basket (MEB) measured by the REACH initiative (see Box 1). Official CPI inflation figures are likely a gross underestimate of the true inflation rate as they relied during much of the conflict period on data collected primarily from Tripoli, given the challenges associated with data collection across the country in a complex political and security landscape. The MEB is the minimum culturally adjusted items required to support a Libyan household for a month. The REACH initiative measures the MEB monthly and across most local markets in the country. The MEB inflation rate suffers from its limitations, including the narrow scope of products in the basket, questions of national representativeness of the rate, and underestimation due to measuring the lowest available price for each product in the basket.

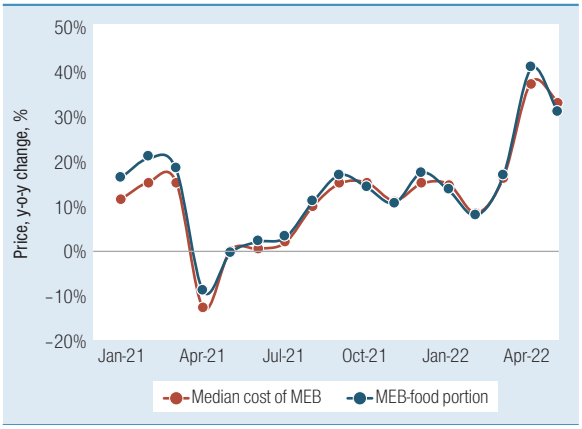
Despite their limitations, these data sources offer a consistent story of increasing inflationary pressures during 2021 and through the first quarter of 2022. The official inflation rate recorded an estimated 2.8 percent in 2021 compared to 1.4 percent in 2020 and –2.2 percent in 2019. In 2022, inflation progressively increased, reaching 5.7 percent in March 2022 compared to the same month in 2021 (Figure 12). As previously stated, these official rates are likely a gross underestimate. On the other hand, the MEB inflation rate reached the double digits year-on-year in early 2021 following the devaluation of the exchange

FIGURE 12 • Overall Inflation Rate & Food and Drink Inflation Rate
(% change, y-o-y)



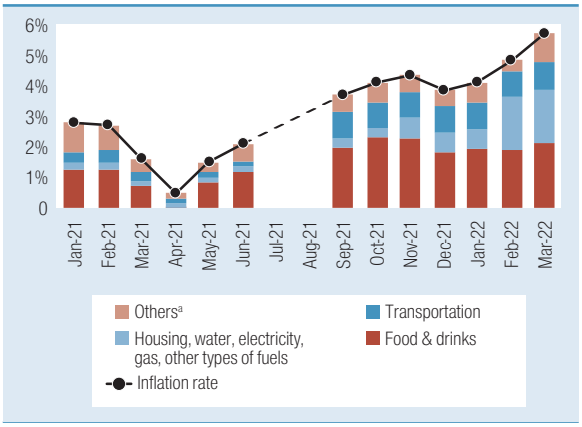
Source: Bureau of Statistics and Census (BSC), World Bank staff calculations.

FIGURE 13 • MEB and Food-MEB Inflation Rate
(% change, y-o-y)



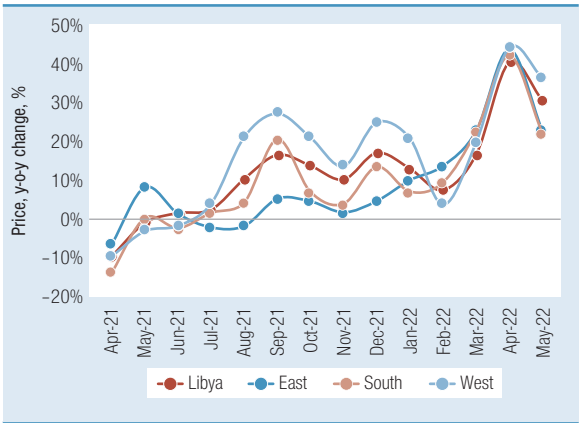
Source: Bureau of Statistics and Census (BSC), World Bank staff calculations.

FIGURE 14 • Contribution to Inflation Rate by Spending Category



Source: Bureau of Statistics and Census (BSC), World Bank staff calculations.
[a] Others encompasses categories of goods and services such as clothes and shoes, house equipments and furniture, telecommunicaion, culture and entertainment, education, health, hotels and restaurants and other goods and services

FIGURE 15 • Food-MEB Inflation Rate by Region
(% change, y-o-y)



Source: REACH Initiative and World Bank staff calculations.

rate but stabilized by the middle of 2021 (Figure 13). During the year's second half, MEB inflation escalated again, averaging 10.5 percent year on year. This inflationary trend accelerated further in 2022, particularly following the start of the Russia-Ukraine conflict and averaged 21.1 percent year on year. In May 2022, the MEB was 32.2 percent higher than in May 2021 and 49.5 percent higher than in March 2020 at the start of the COVID-19 pandemic. MEB inflation over the past year was especially pronounced in the West.

Prices of essential goods and services are the main contributors to Libya's higher official inflation rate since 2021. This includes the prices of food and drinks, housing, electricity, water, gas and other fuels, and transportation (Figure 14). These prices rose in 2021 and accelerated during the year's second half and through the first quarter of 2022. Supply chain disruptions due to the civil conflict and COVID-19 containment measures contributed to food and fuel price increases. In addition, damaged water and electricity infrastructure due to the conflict forced Libyans to turn to costly alternative sources of water and electricity generation, which also contributed to price increases.

The Russia-Ukraine crisis has contributed to inflationary pressures in the past months through

its impact on food prices (see Annex). Libya relies significantly on wheat and cereal imports from Russia and Ukraine (54 percent of wheat imports, 65 percent of barley imports, and 72 percent of maize or corn imports).[7] In the wake of the Russia-Ukraine crisis, food and drink prices rose significantly, registering 5.5 percent inflation year-on-year in March 2022, according to official inflation data from the BSC. After declining during the first two months of the year, the inflation rate of the food portion of the MEB shot up to 40.6 percent year-on-year in April 2022 before declining somewhat to 31 percent in May 2022. The median cost of the food portion of the MEB in May 2022 stood at 14 percent higher than the pre-crisis level in February 2022 (Figure 13).

The impact of the crisis on food prices seems to have affected the country's West significantly more than other regions. The median cost of the food portion of the MEB in the West remained 22 percent higher in May 2022 than in February 2022 (compared to 9 percent higher in the East and 4 percent higher in the South) (Figure 4). Price increases have reportedly been fueled by higher demand in the West and hoarding of basic staples due to concerns about potential shortages.

The authorities are implementing measures to ensure food availability around the country and limit food price increases. The Ministry of Economy and Trade in the Government of National Unity (GNU) is preparing a food security strategy to help the country cope with the food crisis. The authorities requested mill owners, agri-food businesses and commodity importers to create a three-month strategic stock of staple foods. The GNU tightened its price control measures by increasing the frequency of control visits to significant markets in Libya. It ordered and imposed a total ban on fish exports. To support local markets, the authorities have also been working with the governments of Turkey, Russia, and other countries to import grains and flour and with Tunisian counterparts to increase the bilateral trade of drugs and food. In its draft budget, the GNS, a rival government to GNU, reintroduced food subsidies worth LYD 900 million.

Price inflation has had a significant impact on Libyan households. According to a phone survey conducted by the World Food Program (WFP) in August-September 2021, more than half of surveyed households reported having experienced shocks in the last 12 months, with 38 percent reporting reduced ability to produce or purchase food. For households that experienced shocks, price fluctuations and increases (37 percent) rank highest among the types of shock experienced. Since the conduct of this survey, inflation has increased significantly, with further adverse impacts on the population's purchasing power and wellbeing.

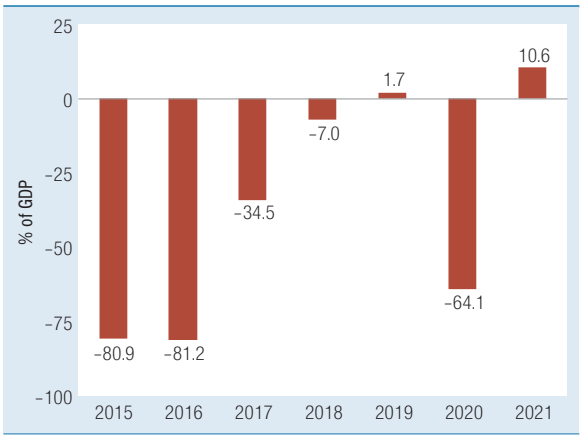
Strong 2021 Fiscal Surplus and Uncertain 2022 Spending and Revenue Arrangements

The fiscal balance witnessed a massive reversal from a 64.1 percent of GDP deficit in 2020 to a 10.6 percent of GDP surplus in 2021 (Figure 16). This resulted from the jump in oil production and prices and the exchange rate devaluation (much of the spending (particularly wages) was denominated in LYD, whereas 98 percent of revenues in 2021 were sourced from hydrocarbons denominated in US$). As a result, government spending in LYD increased by 87 percent in 2021 with rises across all major budget categories or chapters (Figure 17); however, given the 70 percent depreciation of the exchange rate in January 2021, this represented a spending drop of 44 percent in USD equivalent.

The GNU continues to spend on essential line items without an approved 2022 budget. The GNU has not submitted a draft budget to the HoR and is unlikely to do so in light of the political divisions and the HoR's backing of the GNS. In budgeting its spending, the GNU has been following the 1/12 rule. The GNU has been issuing authorizations through the Ministry of Finance to the Central Bank of Libya to disburse payments for its expenditures, the legal basis of which is uncertain in the absence of an approved budget. The CBL has been disbursing funds to finance essential spending, including wages and salaries of civil servants, social transfers, subsidies, etc.

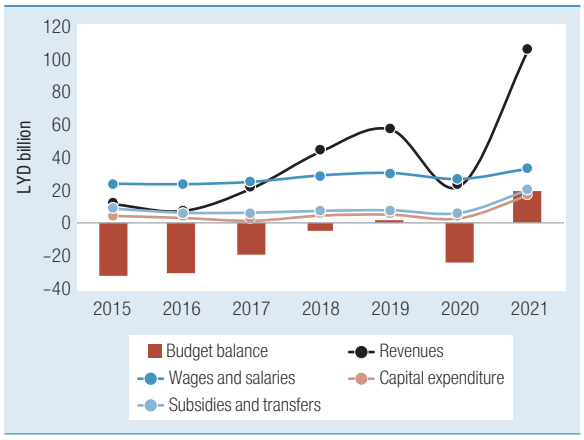
[7] Average over 2016–20.

FIGURE 16 • Budget Balance (share of GDP, *LYD billions)*



Source: Libyan authorities, World Bank staff calculations.

FIGURE 17 • Government Revenues and Expenditures



Source: Libyan authorities, World Bank staff calculations.

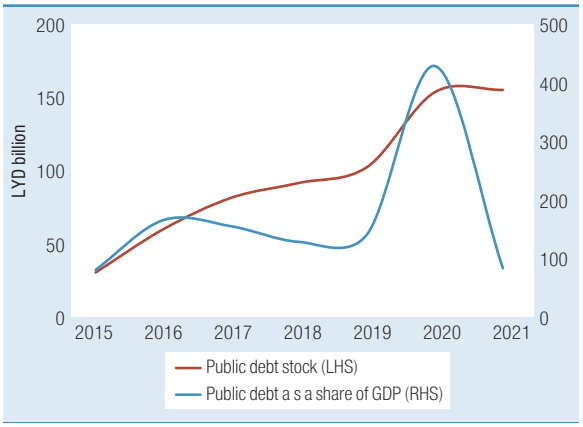
During the first five months of 2022, the GNU ran a fiscal surplus of LYD 12.1 billion. Data published by the CBL reveals that total revenues amounted to LYD 43.2 billion, with hydrocarbon revenues constituting 90 percent. This substantial revenue performance results from high oil production and exports and elevated international oil prices. Wages and salaries, and subsidies capture 53 and 28 percent of total spending, respectively, whereas capital spending was not undertaken. If the GNU continued spending at this pace for the rest of the year, wages and salaries would record a 19 percent nominal increase over 2021 spending.

The HoR, meanwhile, approved on June 17, 2022, the draft national budget for FY2022 presented by the GNS. The GNS projects that total spending (excluding National Oil Corporation) will be 4.5 percent higher in 2022 than in 2021. In contrast, total revenues are forecasted to record a level 10 percent lower than during the previous year, likely due to production and export interruptions and despite soaring international oil prices. Accordingly, the GNS is projecting a positive overall fiscal balance of LYD 5.4 billion by the end of 2022.

The issue of transparency in oil revenue management has come to the fore as hydrocarbon revenues soar and competing governments aim to access them to finance spending. Earlier in the year, the GNU had agreed with the NOC to ensure the automatic transfer of oil export revenues from NOC's Libyan Foreign Bank account to the government's general revenue account at CBL. However, in May 2022, the HoR issued a decision requesting the NOC to freeze oil revenues at the Libyan Foreign Bank escrow account until a transparent revenue management mechanism is agreed upon.

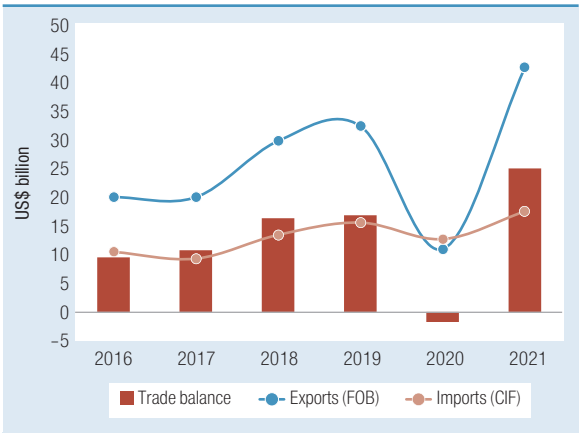
Libya's debt stock is large but manageable as long as hydrocarbon production and exports persist. At the end of 2021, the public debt stock was estimated at LYD 156.3 billion, representing 83 percent of GDP (Figure 18). Public debt is domestic and denominated in LYD, whereas government

FIGURE 18 • Public Debt Stock in Libya



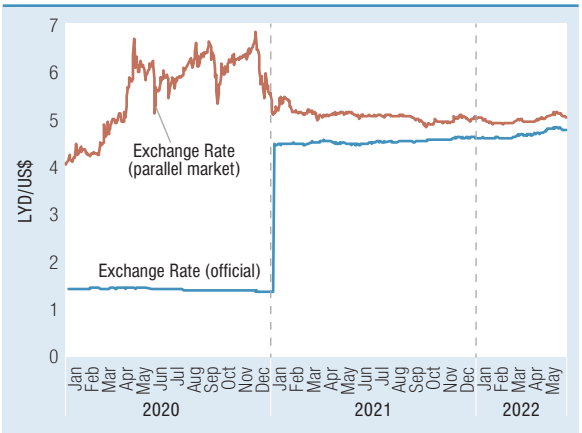
Source: CBL, World Bank staff calculations.

FIGURE 19 • Trade in Goods (in US$ Billion)



Source: Direction of Trade Statistics – IMF.

FIGURE 20 • Official and Parallel Exchange Rates



Source: CBL.

revenues are primarily sourced from oil exports denominated in US$. It is expected that the ease of servicing state liabilities has increased since 2021 due to the increase in hydrocarbon revenues, and the depreciation of the official exchange rate depreciated by almost 70 percent in early 2021. The GNS's budget for 2022 reveals plans to repay LYD 12 billion of public debt 2022.

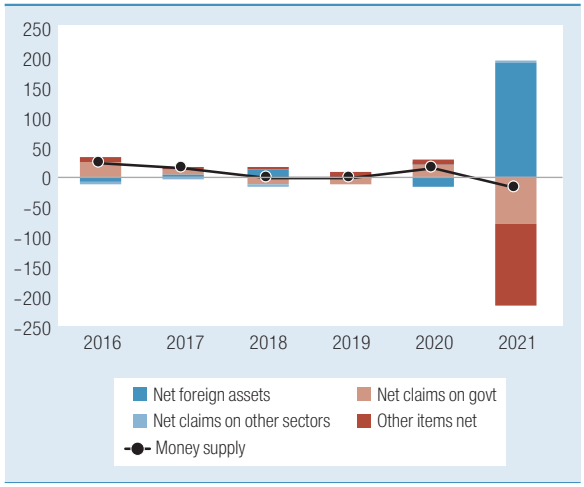
Rebound in External Balances and Persistence of Liquidity Crisis

Libya's trade balance and current account balance rebounded in 2021 and through early 2022, thanks to the recovery of oil exports and receipts. In 2021, Libya's exports more than tripled as global oil prices soared and oil export volumes recovered following the removal of the 2020 blockade on oil export terminals (Figure 19). Consequently, despite doubling goods imports compared to 2020, the trade balance is estimated to have recorded a surplus of 21.7 percent of GDP (compared to a deficit of 14.7 percent in 2020). Similarly, the current account reversed course, from a deficit of 15.3 percent of GDP in 2020 to a surplus of 21.1 percent in 2021. Data on trade in goods for January and February 2022 reveal a trade surplus of US$ 5.3 billion.

Net international reserves remain at a comfortable level. In end-September 2020, the IMF estimated net foreign reserves at around 75 billion USD. While more recent data on net international reserves are not readily available, estimates reveal that Libya's reserve position remains very comfortable, with reserves in 2021 at 46 months of imports and 3.7 times broad money (M2), thanks to the steady inflow of U.S. dollars in the form of hydrocarbon export revenues. In addition, the government of Libya is actively discussing with the U.N. sanction committee the unfreezing of the Libya Investment Authority's (LIA – sovereign wealth fund) frozen assets. Libya has US$ 53.6 billion in frozen overseas assets, of which US$ 33.5 billion are in cash, and US$ 20.1 billion are in investments.

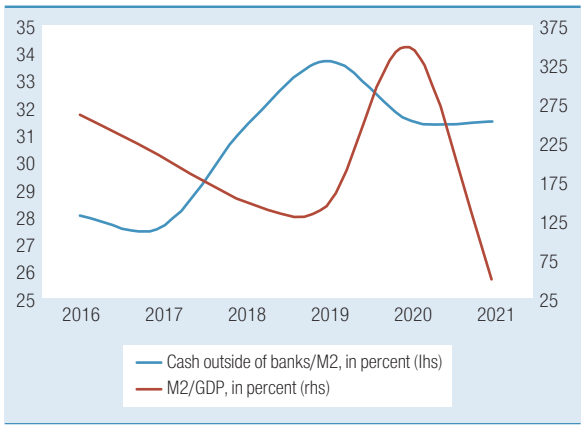
While the official exchange rate has remained relatively stable since the 2021 devaluation, it has experienced some depreciation, particularly over the past 6 months. Since the devaluation of the exchange rate in January 2021, the wedge between the official and black-market rates has narrowed significantly. In December 2020, the black-market rate was 4.3 times the official exchange rate. It dropped to 1.06 times the official rate by May 2022 (Figure 20). The official rate remained relatively stable throughout 2021, depreciating 3.2 percent from the new official exchange rate of LYD 1.00 = SDR 0.156, which became effective on January 3, 2021 (with the equivalent rate to the U.S. dollar at LYD 4.458 = US$1.00 in January 2021). Over the first months of 2022, the pace of this depreciation trend has accelerated, with the official exchange rate reaching 4.789 LYD per US$ in May. This represents a 7.4 percent

FIGURE 21 • Money Supply
(annual change in percent)



Source: Libyan authorities, World Bank staff calculations.

FIGURE 22 • Broad Money as a Share of GDP and Currency Outside of Banks as a Share of Broad Money
(in percent)



Source: Libyan authorities, World Bank staff calculations.

devaluation since January 2021 (4.6 percent since end-2021). This devaluation trend may be driven, at least in part, by the increasing political and security tensions in the country and the associated oil production and oil export volatility.

The liquidity crisis persists; after a rapid expansion of the money supply in 2020, broad money shrunk by 20 percent in 2021, recording a 7.3 percent lower than in 2019 (Figure 11). Underlying this 20 percent drop is a double-digit percentage point drop in net claims on government, a triple-digit percent drop in net other items, and a triple-digit percent increase in net foreign assets (Figure 21). These massive shifts were likely primarily driven by the exchange rate depreciation in January 2021 and the rebound in oil export receipts, which led to budget and current account surpluses. Demand deposits and currency in circulation outside the banks shrunk by a similar rate to that of broad money (–21 percent and –20 percent, respectively), which led the ratio of currency in circulation to broad money to hold steady at 31.6 percent (Figure 22).

3

SOCIAL DEVELOPMENTS

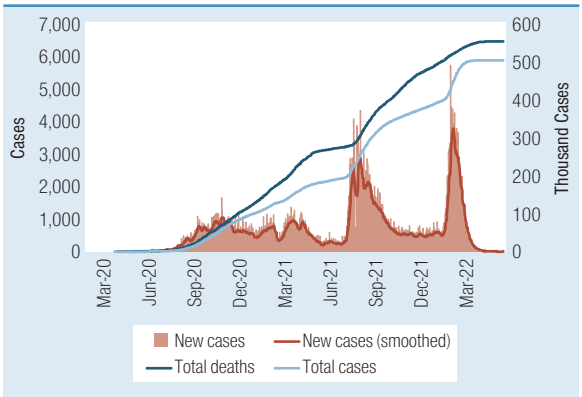
Improving the Humanitarian and Epidemiological Situation

Humanitarian conditions in Libya improved somewhat over 2021, but vulnerabilities persist. The signing of the ceasefire agreement in late 2020 and the formation of the GNU laid the ground for increased stability and general improvements in access and mobility across the country, thereby reducing the number of people in need of humanitarian assistance. According to the U.N. Office for the Coordination of Humanitarian Affairs (OCHA), the number of people needing targeted humanitarian aid is projected to record 803,000 in 2022, 36 percent lower than the 2021 figure. This represents 9.8 percent of the population, of which 66 percent are Libyans, 29 percent are migrants, and 5 percent are refugees. Of these individuals, 24 percent are women, and 36 percent are children. According to the MSNA from the REACH initiative, priority needs include access to cash, medical care and food.[8] Major factors determining vulnerabilities of the Libyan population include a lack of access to essential services and restrictions on movement. Migrants continue to face protection risks and issues with access to critical services and shelter.

Libya has reported a marked decline in case incidence and deaths linked to the COVID-19 pandemic since March 2022, while overall vaccination coverage remains low. The average number of new cases dropped to 5 per day, whereas average deaths almost reached zero per day during April and May 2022, their lowest levels since the beginning of the pandemic. As of May 31, 2022, total cases and deaths reached 50,2016 and 6,430, respectively (Figure 23). In addition, the number of people vaccinated reached 32.3 percent, whereas only 17 percent were fully vaccinated by the end of May 2022, compared to 63 percent and 53 percent in Morocco and Tunisia, respectively (Figure 24).

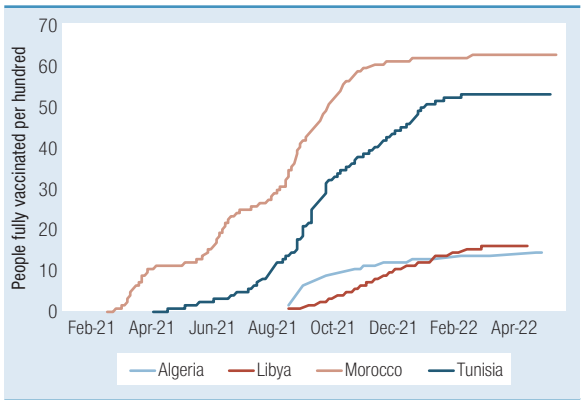
[8] Results of the REACH Initiative's Multi-Sector Needs Assessment in Libya in 2021 (MSNA) should be interpreted as indicative. Due to challenges associated with the COVID-19 pandemic and the security context, the survey sample is non-random and non-representative.

FIGURE 23 • COVID-19 Cases and Deaths



Source: Our World in Data.

FIGURE 24 • Regional COVID-19 Vaccination Rate



Source: Our World in Data.

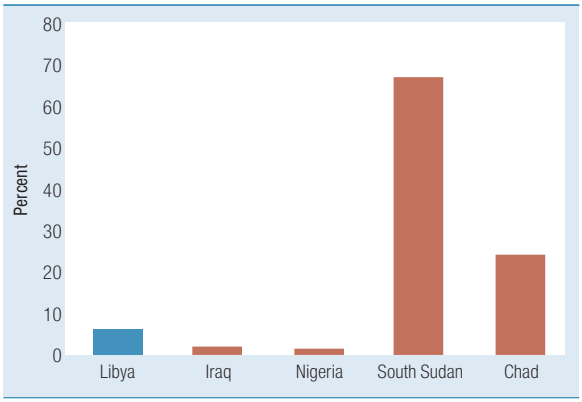
Challenges in Meeting Essential Food and Non-Food Needs

Loss of jobs and sources of income due to the conflict, economic downturn and COVID-19 containment measures have forced households to adopt coping strategies, which are negative in most cases, to meet their basic needs. According to the REACH initiative, 63 percent and 49 percent of Libyans and non-Libyans surveyed in mid-2021, respectively, reported having used or exhausted livelihood coping strategies classified as crisis or emergency strategies, thereby hindering their capacity to respond to potential future shocks. Libyans' most widespread coping strategies included taking on an additional job (44% of households), reducing health expenses and selling productive household assets. Different coping strategies frequently employed by migrants and refugees included taking on additional working hours, spending savings, reducing expenditures on essential non-food items, borrowing, begging for money, or doing illegal work. However, it is necessary to note that these findings are indicative and might not be nationally representative.

The COVID-19 pandemic and the Russia-Ukraine crisis have exacerbated the food security crisis for a population already grappling with conflict and an associated economic downturn. According to OCHA, more than 511,000 people (accounting for 6.2 percent of the total population, including migrants and refugees) were estimated to be food insecure and in need of assistance during the first five months of 2022. Comparing Libya to other oil-intensive countries experiencing a medium-intensity fragile and conflict situation reveals that food insecurity is worse than in Iraq and Nigeria but better than in its neighbor Chad (Figure 25). A WFP phone survey conducted in August-September 2021 showed that 8 percent of Libyan households had inadequate food consumption. Data from the REACH initiative's MSNA conducted during the summer of 2021 reveals that 13 percent of Libyan households faced food insecurity, with assessed households in the South being the most exposed (27 percent). Meanwhile, 22 percent of internally displaced and returnee households experienced food insecurity, compared to 11 percent of non-displaced households and 17 percent of assessed migrant households. These figures are indicative but might not be nationally representative due to sampling challenges. Food insecurity is reportedly driven primarily by the inability to cover essential expenses financially. Over a quarter of assessed households reported trouble meeting basic food needs the month before the interview due to unaffordability.[9] Key informant interviews conducted by REACH during October and November 2021 found that high food prices and low income are

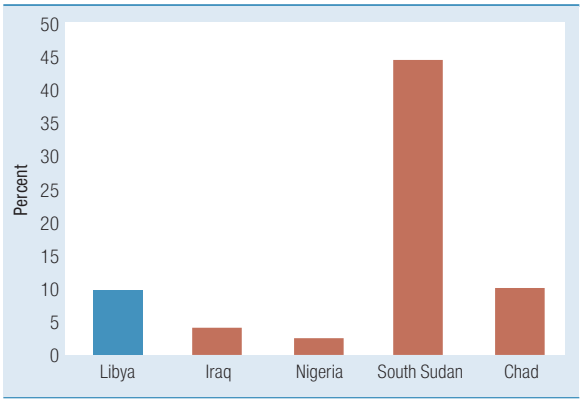
[9] Results of the MSNA are indicative and cannot confidently be considered representative of the population, due to the sampling challenges associated with data collection by phone due to COVID-19 contingency measures.

FIGURE 25 • People in Need of Emergency Humanitarian Food Assistance as a Share of Total Population



Source: OCHA, Humanitarian Needs Overview – Country Reports 2022.
Note: Libya is benchmarked against oil-intensive/exporter countries (IMF classification) that are experiencing fragile and conflict situations with medium-intensity conflict (World Bank classification in 2022).

FIGURE 26 • People in Need of Essential Primary Healthcare as a Share of Total Population



Source: OCHA, Humanitarian Needs Overview – Country Reports 2022.
Note: Libya is benchmarked against oil intensive/exporters (IMF classification) that are experiencing a fragile and conflict situation with medium-intensity conflict (World Bank classification in 2022).

Libyans' main drivers of food security needs. While more recent data on food security is not available, the situation has likely taken a turn for the worse since the start of the Russia-Ukraine crisis, which resulted in a further escalation in food prices, particularly the prices of basic food staples (see Box 2).

Libyans and non-Libyans adopted one or more negative food-based coping mechanisms to maintain some level of food security. Relying on less preferred and less expensive foods, reducing the number of meals eaten in a day and limiting food portion size for all household members at mealtimes were the primary coping mechanisms cited by both Libyans and non-Libyans. The reduced coping strategies index was low for more than 85 percent of interviewed households in the summer of 2021 but is likely to have worsened throughout 2022 to date.

Limited Access to Basic Public Services

Access and quality of healthcare services are challenging following consecutive waves of the COVID-19 pandemic and a decade of conflict. The United Nations Office for the Coordination of Humanitarian Affairs (OCHA) projected that over 800,000 people, or 9.7 percent of the total population, including migrants and refugees, would lack consistent access to primary and secondary healthcare services in 2022. Libya is performing better than South Sudan and neighboring Chad while lagging Iraq and Nigeria (Figure 26). However, the lack of sufficient public funding impacted health facilities' ability to remain operational. The REACH initiative found that 56 percent of households that needed healthcare in the three months before data collection could not access it due to poor quality of health services or lack of medicines at the health facility, in addition to the high cost of health services. For non-Libyans, among the 18 percent who needed healthcare, the main barriers to accessing health services include security concerns to travel to and at the health facility, lack of medicines, overcrowding and financial affordability.

National shortages of vaccines, essential medicines, and mental health services are alarming. Libya faces a shortage of general vaccines, including measles, Mumps, Rubella and Polio, which raises the risk of severe outbreaks of vaccine-preventable diseases. The scarcity of essential medications for HIV, acute diarrhea and dysentery, and Leishmaniasis risk the effective treatment and containment of the spread of these diseases. Meanwhile, access to critical mental health services in a country experiencing an ongoing conflict and pandemic is limited, especially in the South.

The COVID-19 pandemic and the deterioration of livelihood conditions negatively affected Libyans' and non Libyans' access to education services. As reported by REACH, for 11 and 35 percent of Libyan and non-Libyans households with at least one child not enrolled in school, respectively, the lack of means for school fees, transport, materials, and food is the main barrier. Moreover, for migrants and refugees, the need for salaried child labor is an important additional barrier (22 percent). On the other hand, attendance has been affected by school closures due to COVID-19 containment measures. In addition, difficult working conditions have impacted education continuity due to teacher strikes in different regions. Furthermore, access to distance education and online learning materials remained challenging for Libyans and non-Libyans, according to OCHA.

A lack of repair and maintenance, continued attacks, and forced shutdowns of water facilities added extra strain on the already aging water infrastructure and further degradation of services availability. The lack of financial provisions for the water and sanitation sector limited and delayed infrastructure repair and rehabilitation, as well as support for the procurement of much-needed supplies. Prolonged electricity cuts have further affected the continuous flow of safe drinking water, while indiscriminate attacks on water structures resulted in the temporary shutdown of several water stations. As per the REACH initiative, surveyed Libyan and non-Libyan households relied on alternative water sources such as bottled water, protected wells and taps accessible to the public to meet their daily needs. According to OCHA estimates, over 380,000 people 4.6 percent of the total population) would need access to safe water in 2022, 15 percent less than in 2021.

Armed conflict and a lack of public funding have led to severe damage to the electricity infrastructure and disruption of electricity supply. Surveyed Libyan and migrant households who accessed electricity mainly from the general grid reported 7.3 and 5.3 hours of power blackouts per day, respectively, during the week preceding data collection, according to the REACH initiative. The World Bank estimates the total present value of economic loss caused by electricity supply shortfalls at US$ 15.8 billion from 2010–2018 (Loksha and Qaradaghi, 2022). The General Electricity Company of Libya (GECOL) is actively working on developing and diversifying its capacity for electricity production. The company announced that once all development works at power stations in Tripoli, Misrata and Tobruk are completed, production capacity would reach 7400 MW. In addition, GECOL signed a memorandum of understanding with Total Energy to develop a solar electricity plant in the South of Misrata with a 500 MW generation capacity.

4

OUTLOOK & RISKS

It is impossible to forecast economic outcomes in Libya with any degree of confidence due to the high uncertainty surrounding political and security developments. In this section, we attempt to highlight key factors that may positively or adversely impact the outlook for Libya.

The hydrocarbon sector's performance will be a crucial determinant of economic activity and fiscal and external performance. Suppose Libya manages to ramp up production and avoid extended disruptions. In that case, it could benefit from soaring global oil prices, which would translate into strong economic growth, higher fiscal revenues and an inflow of hard currency. This would positively affect the trade, current account, and fiscal balances. Steep global oil prices could encourage greater investment by foreign oil companies; however, foreign investment in the hydrocarbon sector remains subject to high levels of uncertainty associated with the turbulent political and security situation. Significant spending commitments are unlikely during the current period of heightened political instability and will likely only follow the successful completion of parliamentary and presidential elections.

The primary downside risk, perhaps, is that of a backslide into violence and armed conflict. Political tensions relating to national elections and rival governments are high. A deterioration of the security situation or shocks to the global economy or commodity prices would adversely impact economic activity and household welfare.

A deterioration of the country's epidemiological situation could broadly impact Libya's outlook. While the COVID-19 case numbers in Libya are at the lowest level since the beginning of the pandemic, the low level of vaccination and testing in the country is a concern, as is the limited capacity of the health system to deliver services to the population. Moreover, further outbreaks of COVID-19 and/or the emergence of new variants pose a risk to Libya's economic and social outlook.

Inflationary and food security risks are elevated. As a result of Libya's heavy dependence on food imports, specifically from Ukraine and Russia, food security in the country has been significantly impacted by the Russia-Ukraine crisis. Since the start of the crisis, Libya has been facing wheat and cereals supply disruptions, shortages, speculative

behaviors by producers and traders along the supply chain, and higher prices. The likelihood of resuming Ukrainian wheat imports is uncertain, whereas other large importers, including India, have imposed a ban on exports to ensure their food security. The war in Ukraine may lead to further supply chain disruptions and sharper than expected agricultural product price increases. In addition, high global fuel prices may raise the prices of other imported goods. With higher inflation, consumers' purchasing power will decline, likely resulting in lower consumption, increased food insecurity, and greater use of negative coping mechanisms by vulnerable households. The authorities hope to reinstate food subsidies to mitigate the impact of food price inflation on the population. However, potential delays due to political tensions and/or inadequate state capacity to swiftly roll out food subsidies across the country could increase social tensions.

Competition between rival governments will likely continue to impact the functioning of state institutions. For example, the presence of two competing governments in the East and West and ongoing negotiations around the management and use of oil revenues may complicate government spending. In turn, this would impede the state's ability to deliver public services and finance development projects that are sorely needed following a decade of conflict.

Libya is also vulnerable to the risk of a downturn in the global economy. As the world economy continues to grapple with a series of shocks, including the COVID-19 pandemic, the Russia-Ukraine crisis, ongoing lockdowns in China, and their impact on commodity prices, supply chains, inflation, and financial conditions, the risk of a global economic slowdown, and potentially stagflation, is rising. A sharper than expected slowdown in global growth could reduce global oil demand, thereby translating into reduced exports and government revenues for Libya, with knock-on effects on economic growth, fiscal and current account balances, and foreign reserves.

ANNEX: THE IMPACT OF THE RUSSIA-UKRAINE CRISIS ON LIBYA

The Russia-Ukraine crisis will affect Libya in the short term due to the impact on global oil and wheat prices. As a significant wheat importer from Ukraine, Libya is facing supply disruptions, higher wheat prices, higher inflation, and lower consumption. On the other hand, as a hydrocarbon exporter, Libya is benefiting from soaring global oil prices, which directly translate into higher hydrocarbon and fiscal revenues and an increased inflow of hard currency, which positively affects fiscal and current account balances. This analysis assumes the persistence of oil production despite the political turmoil the country is experiencing. In the long-term, assuming progress towards peace and stability in Libya, the country could benefit from increased hydrocarbon production and export revenues as Europe diversifies its energy import sources.

Effect on Trade Volumes and Prices

Given the Libyan economy's heavy reliance on the oil sector, high global oil prices in response to the Russia-Ukraine crisis will have a significant positive impact on the country. Despite its volatility during the past decade of conflict, hydrocarbon GDP comprises over half of the country's total GDP. Hydrocarbon exports averaged 95 percent of total Libyan exports during the previous decade. In addition, hydrocarbon revenues comprised 98 percent of fiscal revenues in 2021.

While production levels are not expected to increase, the dramatic rise in global oil prices could increase Libya's export revenues, if it maintains a reasonable volume of oil exports. In the short run, Libya may not manage to expand oil production in a significant way to benefit further from the rise in oil prices. Security incidents have been causing significant disruptions to production and political tensions. Their spillovers on fiscal policy making continue to limit financing of infrastructure maintenance, hydrocarbon exploration, and other investments to expand production and export capacity. Indeed, oil production has experienced significant volatility and disruption since the postponement of national elections initially planned for December 2021. Nevertheless, the oil price per barrel in 2022 is projected to average almost 45 percent higher than in 2021. Higher oil prices alone will result in a considerable increase in export revenues. The inflow of hard currency, sourced primarily from hydrocarbon exports, will also rise. Hydrocarbon revenues would only decline should production levels drop below an estimated 2022 average of 0.78 mbpd.

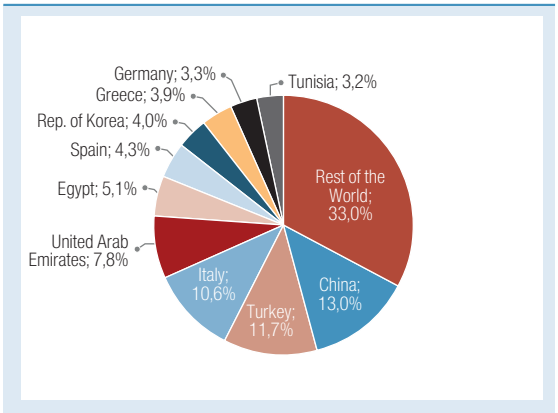
The crisis also impacts the price and availability of imported wheat and cereals. While Libyan exports to Russia and Ukraine are minuscule, Libya relies significantly on wheat and cereal imports from these countries. For example, 54 percent of Libya's wheat and meslin imports are sourced from Russia and Ukraine, 65 percent of barley imports and 72

percent of maize or corn imports (Figure A.3). The ongoing crisis is likely to adversely impact, at least in the short-term, the supply of wheat and cereals to Libya until Libyan traders find alternative sources.

Effect on Domestic Prices

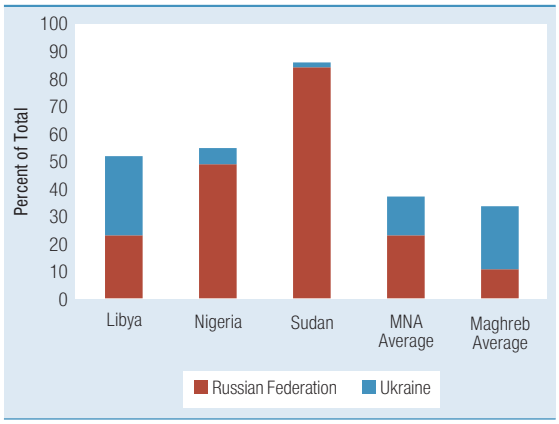
Whereas fuel subsidies will limit the pass-through of higher global oil prices to Libyans, the prices of wheat and related products have increased significantly. Due to generous state subsidies, fuel and electricity prices are likely less affected by the crisis than food prices. Meanwhile, Libya continues to rely heavily on imports to meet domestic food demand (90 percent of cereals and wheat are imported), and much of these imported cereals and wheat are sourced from Russia and Ukraine. In the wake of the Russia-Ukraine crisis, the prices of staple goods, including wheat derivatives, have hit record highs. Data from the REACH initiative reveals that the price of the cheapest brand of flour was 17 percent higher in May 2022 than in February 2022. Prices of couscous and bread increased drastically following the start of the crisis, reaching in May 2022 levels that were 80 percent and 34 percent higher, respectively,

FIGURE A.1 • Composition of Libya's Imports by Source Country *(average 2016-2020)*



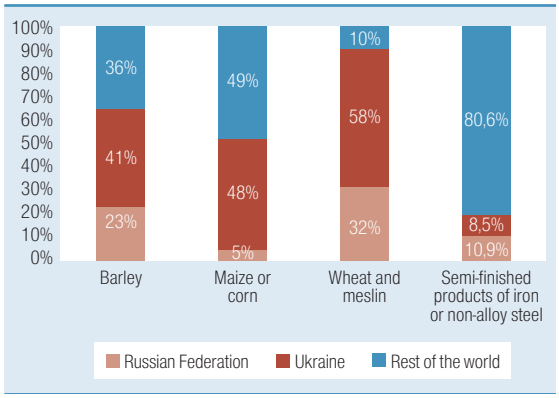
Source: UN Comtrade and World Bank staff calculations.

FIGURE A.2 • Libya and Comparator's Wheat Imports by Source Country *(average 2016-2020)*



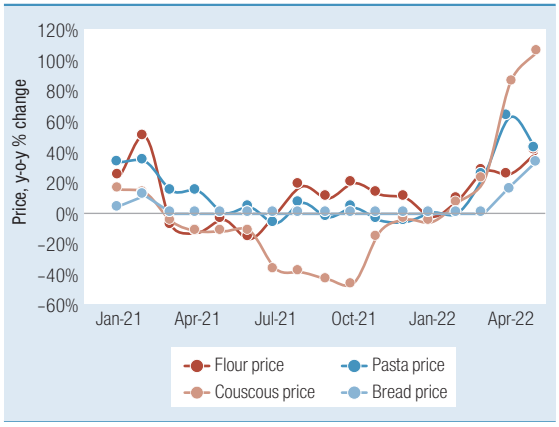
Source: UN Comtrade and World Bank staff calculations.
Note: the Middle East & North Africa (MNA) average does not include Djibouti and Iraq.

FIGURE A.3 • Share of Libyan Wheat and Cereal Imports from Russia and Ukraine *(average 2016-2020)*



Source: UN Comtrade and World Bank staff calculations.

FIGURE A.4 • Inflation Rate for Basic Staples *(y-o-y %)*



Source: REACH Initiative and World Bank staff calculations.

compared to February 2022 (Figure A.4). This rise in prices translates into higher inflation and lower consumption by a population already reeling from the impact of the civil conflict and the COVID-19 pandemic on prices, poverty, and food security. It could push vulnerable and poor households that are mainly net food buyers further into poverty and hunger.

Effects on Fiscal and Current Account Balances

The impact of the Russia-Ukraine crisis on fiscal and current account balances in the short term will depend on Libya's ability to maintain oil production and exports. The increase in global wheat and food prices will raise the import bill for Libya in 2022; however this could be more than compensated for through increased oil export revenues, with a resulting net gain in the trade balance and current account balance if Libya manages to reverse the trend of oil production disruptions that have plagues the sector during the past few months. Fiscal balances could also be positively impacted by the Russia-Ukraine crisis if oil production and exports recover, thereby allowing Libya to take advantage of record high global oil prices to increase irs hydrocarbon revenues. That could more than offset the projected increase in spending on fuel subsidies and on the rising cost of electricity generation and other fuel-related costs of public service provision.

Effects on Growth

The Russia-Ukraine crisis will positively impact Libyan growth in the short and long term. In the short term, Libyan growth should be positively affected by the Russia-Ukraine crisis through its effect on oil prices. This assumes that Libya's political and security situation remains stable enough to allow for consistent oil production, despite the challenges associated with holding national parliamentary and presidential elections. In the long term, contingent on positive progress towards peace and stability in Libya, the hydrocarbon sector could experience increased investment in production infrastructure and maintenance and more significant investment by foreign firms. This would support increased production capacity, potentially allowing Libya to benefit from European efforts to diversify the sources of their energy imports.

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