

## Libya: The tragedy of endowment

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- Prime Minister Fayez al-Saraj's internationally-recognised government has made substantial gains in Libya's conflict, securing Tripoli and the country's west. But the battle is far from over.
- The civil war has turned into a full-fledged proxy war with foreign powers funnelling in arms and mercenaries for control of Libya's coastlines and oil fields.
- The presence of international players -- mainly Turkey on one side and Russia and Egypt on the other -- means fighting is in the cards for the foreseeable future.

### Foreign ambitions fuel Libya's feud

We may be seeing the end of the road for eastern military leader General Khalifa Haftar; he has neither been able to secure the military rule he has been seeking nor make any gains in his offensive in the country's west.

- However, despite the internationally supported Government of National Accord's (GNA) recent victories, the road to a stable state remains long and bumpy.
- Although the country's capital is in GNA hands, al-Saraj's militias are divided by tribe and by diverging ideologies. Splintered support on the ground could cause trouble in the future, with conflicting demands for the makeup of any future government.
- GNA forces have now turned east to zones around Sirte. Haftar's Libyan National Army (LNA) is still holding onto much of oil-producing eastern and central Libya, and he is in a defensive mode around Sirte.
  - Haftar's main foreign backer, Russia, is thought to have had a part in revising the general's strategy to curtail his offensive and instead hold on to the territory he has left.
- Foreign stakeholders invested in the region are unlikely to back down. Both Russia (LNA) and Turkey (GNA) have increased their presence in recent months via military support. Egypt is becoming more bellicose.
  - Talks between Turkey and Russia have been postponed. Instead, Turkish officials met with GNA officials to discuss future energy contracts and payment for Turkey's past energy work.
    - Although this means a proxy war is essentially being played out, we do not believe the fragile relationship will escalate into a direct conflict outside the civil warring parties.
    - Both Russia and Turkey are at least publicly committed to dialogue, content with carving up spheres of influence in Libya.
    - Libya will of course continue to suffer the consequences of this international struggle.
  - Egypt's President Abdel Fattah al-Sisi has threatened military intervention in Libya if the GNA's Turkish-backed forces capture Sirte, a gateway to Libya's ports and oil terminals.

Table 1 – Libya Macroeconomic Indicators<sup>1</sup>

	2016	2017	2018	2019	2020f
Real GDP Growth (%)	-7.4	64.0	17.9	9.9	-58.7
Crude Oil Production (M Bpd)	0.3	0.8	1.0	1.1	0.4
Oil GDP Growth (%)*	...	...	...	...	...
Non-oil GDP Growth (%)*	...	...	...	...	...
CPI Inflation (%)	25.9	28.0	-1.2	4.6	22.3
Fiscal Balance (% of GDP)	-113.3	-43.5	-0.2	8.8	-7.2
C/A Balance (% of GDP)	-24.7	8.0	1.8	-0.3	-6.6
Total Gov't. Gross Debt (% of GDP)	...	...	...	...	...
Total Gross Extr'n'l Debt (% of GDP)	20.6	...	...	...	...
Gross Official Reserves (Months of Imports)	19.8	...	...	...	...
Nominal GDP (USD B)	18.5	30.2	41.4	39.8	23.0
Population (Millions)	6.4	6.5	6.6	6.7	6.8

- Sirte and much of the oil crescent have been in Haftar's control but after the GNA held on to and secured Tripoli, it began to advance east.
- Sisi's tough talk is most likely a move to slow the advance as he pushes to launch negotiations.
- Boots on the ground would be the last option for Egypt but it would surely complicate and prolong the conflict even further with all the mercenaries from different sides that are already involved.
- Turkey's gains in Libya have sounded alarm bells for Egypt, which considers Ankara to be a regional adversary because it supports the Muslim Brotherhood, which Sisi, then an army general, removed from power in 2013.

### Oil industry caught in the tug of war

Haftar is still in control of the country's oil crescent. But even if al-Saraj's militias are successful in their current offensive, a full or sustained return of Libyan oil to international markets is unlikely.

- Oil output fell to 82 Kb/d in April, due to blockades enforced by the LNA at key export terminals and major producing fields, such as Sharara and El-Feel, secured by LNA rival and GNA-supporter Petroleum Facilities Guard.
  - Production restarted at the largest oil field -- Sharara -- on 7 June, but it was shut down again three days later after an attack by armed militias.
- Oil proceeds go through the National Oil Corporation (NOC) then through the central bank -- both part of the GNA. This has prompted Haftar -- who wants more money allocated to territories under his control -- to attempt to export crude without NOC involvement.
  - According to a UN Security Council resolution, only the NOC is authorised to export crude so every time Haftar tries, the transaction is blocked.
- While Haftar may be on the back foot, the war continues to drain Libya of its main source of revenue. Losses from the supply stoppages and the global price war have hampered the government's ability to import medical supplies needed for COVID-19.
- Overall, the war has brought economic and social destruction to a country that on paper should have thrived after the 2011 revolution, given its geography and population, oil resources, and sovereign wealth. Instead, the IMF expects the economy to contract by 58.7% this year.

<sup>1</sup> Arabia Monitor; IMF.

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