

## Libya: East not quite meeting west

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- After nearly a decade of armed conflict in Libya, an interim government was formally recognised in March 2021 following last year's ceasefire.
- While several reforms have been pushed through, many have lagged due to political infighting.
- With elections scheduled for this December and instability already ramping up, some choppy waters lie ahead for the fractured nation.

### Domestic politics in drift

Libya's UN-backed interim government finds itself on unsteady ground. The eastern-based parliament passed a vote of no confidence in the unity government, while strongman Field Marshal Khalifa Haftar has thrown his hat in the ring ahead of the elections. With polling delays looking likely, instability is certainly on the cards.

- Overall, 89 out of 113 MPs in the eastern-based parliament withdrew their support for Prime Minister Abdul Hamid Dbeibeh and his cabinet.
  - However, the Tripoli-based High Council of State (HCS) rejected parliament's vote.
  - The vote is an indication of the rifts in the political caste, rifts which are only widening.
  - This signals an unwelcome return to instability ahead of elections due to go ahead in December.
- Although the election roadmap has been approved by the country's unity government, delays are almost certain. Electoral laws have already been contested by the country's eastern and western factions.
  - The foreign minister, Najla al-Mangoush, stated at the end of August that she did not rule out postponing the elections.
  - The HCS also proposed delaying elections by a year.
  - Even if the polls do go ahead, we could see some additional instability after the results are determined if some political parties do loose seats.
    - There is always a risk that there will be attempts to delegitimise and contest the outcome.
- The infrastructure surrounding Libya's banking system continues to crumble, leaving Libyans frustrated. Indeed, carrying out transactions is close to impossible.
  - Such inefficiencies are inevitably going to impact the economy negatively.
- Reforms have been slow-moving and are continuing to stall. The reunification of the central banks (a measure promised by the unity government in March 2021) remains in its nascent stages.
  - Following the fall of Libya's former leader Colonel Muammar al-Gadhafi (in office 1969-2011), the country splintered politically and militarily within three years along an east-west divide. The eastern bloc established its own state institutions in opposition to the internationally-recognised west.

Libya: Macroeconomic Indicators <sup>1</sup>					
	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	17.9	13.2	-59.7	131.0	5.4
Crude Oil Production (M bpd)	1.0	1.1	0.3	1.0	1.1
Oil GDP Growth (%)	19.4	13.7	-72.7	233.3	5.0
Non-oil GDP Growth (%)	4.0	-5.0	-9.0	5.0	2.0
CPI Inflation (%)	-1.2	4.6	22.3	18.2	14.2
Fiscal Balance (% of GDP)	-23.3	-24.0	-103.0	0.3	-0.1
C/A Balance (% of GDP)	1.8	2.3	-11.4	3.9	0.2
Total Gov't. Gross Debt (% of GDP)	...	...	...	...	...
Total Gross External Debt (% of GDP)	...	...	...	...	...
Gross Official Reserves (Mos. of Imports)	...	...	...	...	...
Nominal GDP (USD B)	41.4	39.8	21.8	24.3	25.9
Population (Millions)	6.7	6.8	6.8	7.0	7.1

- The awkward situation exposed contention with regard to spending, as well as confusion as to whether debts would be nationalised.

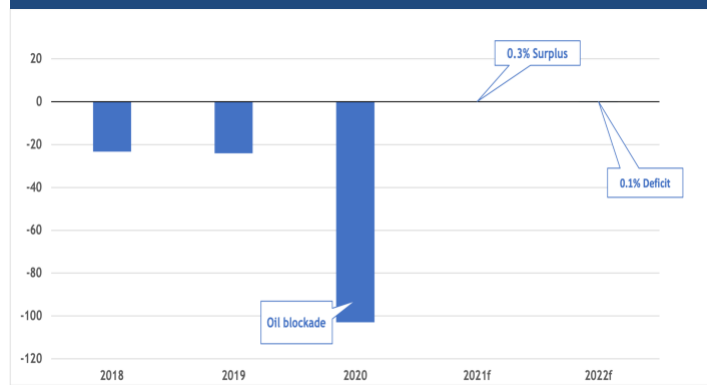
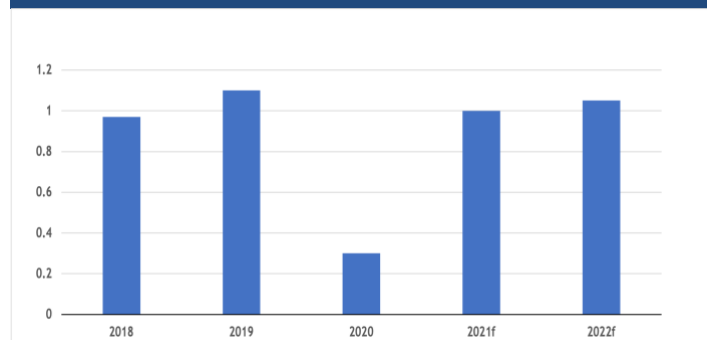
### Economic boost still on track, for now

Despite the slow-moving reforms, the IMF forecasts that Libya's economy is set to grow 131% this year, up from a 59.7% contraction in 2020.

- Much of this projected growth hinges on the country's oil output which was either completely shut off or interrupted for most of last year.
  - During the limited time in which oil facilities were operational, they often came under attack by mercenaries forcing them to shut down.
  - Simply put, damaged facilities lead to delayed production.
  - This risk will persist if mercenaries continue with or increase their activity.
  - Alongside the country's recent civil war, oil production (or a lack thereof) is responsible for the country's massive economic decline.
- Nonetheless, the outlook for oil production in 2021 has been much brighter, with production levels estimated to reach 1.2M bpd for most of the year compared to 390K bpd in 2020.
  - However, Libya's output slumped again this month due to political bickering at the National Oil Corporation (NOC).
  - This continues to be a downside risk.
- Fiscal breakeven oil prices declined 88% from USD 48.8 pb this year vs. USD 417.5 pb in 2020.
  - As oil prices plummeted during the pandemic and fields matured in several Middle East countries, raising production costs, the breakeven price for several producers increased.
    - Libya is typically one of the lowest-cost producers in the region, in addition to being the second largest producer of crude.
    - However, a few of the country's facilities underwent some damage thanks to infrequent use as well as sporadic attacks adding additional costs.
  - The oil blockade was another contributing factor in the highly inflated breakeven price last year.

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

- Higher oil prices and the return of global oil demand sets Libya on track to balance its budget.
- The international community continues to weigh in, doubling down on the unity government's efforts to keep Libya's transition on track.
  - France's President Emmanuel Macron announced that his country will host a Libya-focused conference on 12 November this year.
  - The French foreign minister Jean-Yves Le Drian and his German and Italian counterparts, Heiko Maas and Luigi Di Maio, will also co-host a session devoted to Libya later this month in New York City.
- Egypt is also looking to deepen ties with its neighbour to the west, having signed a plethora of deals.
  - Egypt's President Abdel Fattah Al-Sisi has called on the election process to go ahead as scheduled; he certainly intends for Egypt to act as a key player in Libya's reconstruction.
- Reconstruction projects are still open to new bidders.
  - One recent project that has gone online includes an Eni-led joint venture that will tap gas and condensate resources in the Mediterranean.
  - The bid processes for the engineering, procurement and construction of most of these facilities is under way.
  - More projects will likely be introduced over the next few months if the country's politics stabilises.
- However, some of the risks for investors from the years of armed conflict are still present, including the remaining foreign mercenaries.
- The usual 'red lines' for the interim government, such as the presence of said mercenaries, have not featured among recent discussions concerning Libya.
  - This may be because the presence of such groups has largely been formalised.
- The UN estimates there are 20K foreign fighters in Libya and has called on them to leave.
  - The US is also doubling down on the UN's efforts passing a bill that enables the sanctioning of foreign players.
    - The bill was passed this week in the House of Representatives and is called the Libya Stabilisation Act.
    - President Joe Biden can however nullify sanctions if he deems that the various parties uphold the ceasefire and are working towards a sustainable future for the country.
- Ultimately, it is in the interest of these groups to maintain the peace if they want to benefit from the reconstruction process.
- Although it is unlikely that the peace process will unravel any time soon, the situation is certainly fragile. The risk of instability will almost certainly persist until a new administration takes its seat.

Figure 1: Libya fiscal balance sheet (% of GDP)<sup>2</sup>Figure 2: Libya crude oil production (m bpd)<sup>3</sup>Figure 3: Libya real GDP growth (annual percent change)<sup>4</sup><sup>2</sup> Arabia Monitor; IMF.<sup>3</sup> Arabia Monitor; IMF.<sup>4</sup> Arabia Monitor; IMF.

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