Libya: A decade of woes at dusk

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- **Tremendous strides have been made in bridging the country's east–west divide during the last few months. The latest includes government formation and a unified interim budget.**
- **This is paving the way for Libya to rebuild its fiscal buffers and increase stability in its oil production, as the NOC plans to reach output levels not seen since 2009.**
- **The continued presence of contradictory international players – mainly Turkey on one side and Russia on the other – and the inability to clamp down on militias remain the predominant risks to peace.**

Bridging the divide

Prime Minister Abdulhamid Dbeibeh has formed a government with strong support from the country's parliament, marking a pivotal moment in Libya's recent history.

➢ After years of civil war, which divided the country to the brink of partition, Libya has finally had a breakthrough with the formation of an interim Government of National Unity (GNU). The new Prime Minister, along with his Presidential Council, began formal duties this week, and will govern until elections in December.
  - The last time unification in the splintered country was attempted was in 2015 when a previous national unity Government was formed following UN negotiations in Skhirat, Morocco.
    - This agreement, however, fell apart within months after General Khalifa Haftar captured the country's oil crescent.

➢ This time around, UN efforts have prevailed following an informal ceasefire in October 2020. The UN-backed Libya Political Dialogue Forum set out the roadmap to interim elections with the nomination of Dbeibeh confirmed last month.
  - Even though there was a delay in presenting his cabinet, the country's House of Representatives (HoR) approved the cabinet with 132 votes in favour and 2 opposed.
    - The HoR, the country's parliament, convened for a joint session this year, the first time they have assembled since 2014.
  - The government make-up is immensely bloated and includes superfluous ministries that would likely have been combined were it not for the desire to placate the country's factions.

➢ This mirrors post-conflict government formation we have seen previously elsewhere in the MENA region, including in Iraq and Lebanon where new governments had to accommodate various political factions and religious groups.

Table 1 - Libya's Macroeconomic Indicators[1]

	2017	2018	2019	2020	2021f
Real GDP Growth (%)	64.0	17.9	9.9	-66.7	76.0
Crude Oil Production (M Bpd)	0.8	1.0	1.1	0.3	0.6
Oil GDP Growth (%)*	107.6	19.4	13.7	-72.7	100.0
Non-oil GDP Growth (%)*	-21.5	9.9	-11.7	-22.6	14.7
CPI Inflation (%)	28.0	-1.2	4.6	22.3	15.1
Fiscal Balance (% of GDP)	-43.5	-0.2	2.2	-102.9	-43.2
C/A Balance (% of GDP)	8.0	1.8	-0.1	-12.0	-7.1
Total Gov't. Gross Debt (% of GDP)	...	...	...	...	...
Total Gross Extrn'l Debt (% of GDP)	...	...	...	...	...
Gross Official Reserves (Months of Imports)	...	...	...	...	...
Nominal GDP (USD B)	30.2	41.4	39.8	21.8	31.8
Population (Millions)	6.5	6.6	6.7	6.8	6.8

  - Players who were prominent previously, including Khalifa Haftar's Libyan National Army (LNA), have been side-lined in the cabinet.
  - General Haftar's influence in the country has begun to wane, and we are likely to see his role at the forefront dwindle in the coming days.
    - Taking the reins of the Presidential Council is Mohamed Menfi, a former diplomat hailing from the country's east.
    - The head of the Presidential Council arguably has disproportionate power in the country, with control of the country's military. Menfi is a new player to watch in the country.

➢ Nevertheless, the roadmap has already faced instability this month after allegations of attempted vote-buying of values up to 200K USD for Libyan Political Dialogue Forum (LPDF) members to throw their support behind Dbeibeh.
  - While his office has denied the allegations, noise around the issue created the first doubts about the legitimacy and transparency of the government transition into question.

Libya become yet another regional arena for proxy wars, since General Gaddafi was ousted in 2011.

➢ The government in the east, the Libyan National Army (LNA) has been supported by Egypt, Russia, France and the UAE. The government in the west, the Government of National Accord (GNA) has been backed by Turkey and international organisations such as the UN.
  - Russia and Turkey have provided support in the form of mercenaries, while the UAE has largely provided aerial support.

➢ Foreign players have maintained the presence of mercenaries from all over the continent, such as forces deployed by Russia's Wagner group, despite official endorsement of the peace process by the leaders of the involved countries.
  - US secretary of state, Antony Blinken, recently reiterated that it was crucial that the mercenaries leave, supporting the UN's departure demands.
    - The 5+5 security talks' 23 January withdrawal deadline passed with no change on the ground.[2]
    - 23 January was the deadline set by the 5+5 joint military commission for troop withdrawal upon signing the ceasefire in October.
  - While the interim PM has made the withdrawal of foreign mercenaries a priority in the country, he cannot achieve this without the support of the international community.

[1] Arabia Monitor; IMF.

[2] The 5+5 is a UN-managed joint military commission made up of five senior officers appointed by the Government of National Accord (GNA) and five senior officers appointed by the Libyan National Army (LNA).

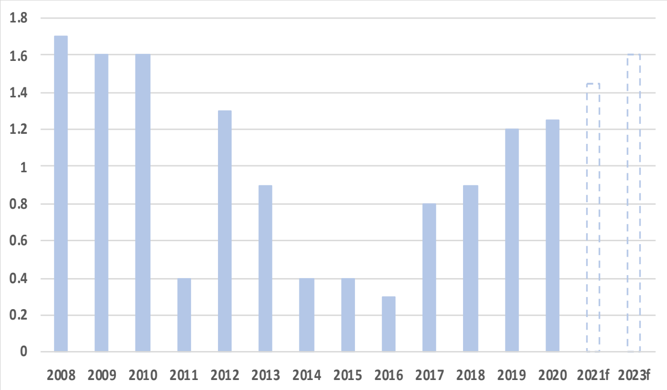
- With the diplomatic bandwidth of international organisations returning, including the reinstatement of a permanent envoy in the county after a hiatus, this helps ensure that government reform efforts are buttressed.
  - A permanent UN envoy to the country, Jan Kubis, was selected to fill the role of temporary envoy Stephanie Williams.
    - Williams has been in the role since Ghassan Salame's departure in March of last year.
- While we may see some more turbulence before Libyans head to the polls in December, the progress we have seen shows promise for stability in the country that has not been seen in nearly a decade.

Oil comeback has legs

The agreement on a unified state budget, along with the Central Bank of Libya's (CBL) reforms, indicates that Libya is on the right path to reducing its liquidity crisis and rebuilding its battered economy. But all this remains heavily contingent on the willingness of the various factions to maintain political stability in the country.

- A new unified two-month budget was established for 2021 – the first time since 2014. This was achieved through the United Nations Support Mission in Libya (UNSMIL), with the support of international financial institutions.
  - The interim budget revenue and expenditure figures are not yet available as a full-year budget will be drawn up by the end of the year.
  - Such a breakthrough, nonetheless, coupled with the series of economic reforms including the reactivation of CBL's Board of Directors, and the progress made in its financial review, could support recovery this year and provide stability for the country's oil market.
- These reforms are crucial after the Libyan economy saw its worst performance in recent history in 2020, contracting by 31% from 9.9% in 2019.
  - This was mainly on the back of the nine-month oil blockade beginning in January 2020, which cut oil output to about 228k bpd compared with 1.2M bpd in 2019.
  - This was less than a sixth of 2019 output levels and on par with the lows after the 2014 civil war.
- The plunge in oil revenue, combined with the pandemic, took a heavy toll on government spending in 2020. It has strained the ability of the monetary authorities to support the Libyan dinar.
  - Oil revenue losses amounted to USD 11B in 2020, with USD 5B in total fiscal revenue – this made up 40% of 2019's total revenue.
    - Oil and gas account for over 60% of Libya's total economic output and 90% of both fiscal revenue and exports.
  - The Tripoli-based GNA government, perforce, cut total expenditures by 22% YoY to USD 8.4B in 2020.
    - Wages and salaries accounted for the bulk of total expenditures at 61%, while subsidies accounted for 16%.
- The bright spot is Libya's return to international oil markets following the October ceasefire. With oil revenue gradually flowing in when oil prices are on the rise, this could create fiscal space that surprises on the upside, in the yet-to-be passed 2021 state budget.

Table 2 – Libyan Oil Production (Mb/d)[3]



  - Since the agreement, Libya managed to reach its 1.3M bpd target. The National Oil Corporation (NOC) aims to increase production by another 150k bpd to reach 1.45M bpd by the end of 2021.
  - This surpasses Libya's peak since the revolution in year 2012, when production levels reached 1.3M bpd and far beyond the average of 0.89M bpd over the past five years.
- Additionally, Mustafa Sanallah, the NOC chairman, announced that production is set to rise to 1.6M bpd in the next two years and reach 2.1M bpd by 2025 – a level not seen since 2008.
  - The rise in production will be supported by the opening of two new oil fields in the Sirte and Ghadames Basin. NOC is also working on restarting production at oil fields that were previously shut by the Islamic State attacks in 2015.
  - This achievement will be conditional on the security of the country's oil facilities and the ability to allocate finances for field maintenance and repairs.
  - This is because the current diplomatic processes are unlikely to shift the military balance of power on the ground or prevent militias such as the Petroleum Facilities Guards from threatening export blockades again.
- Despite this, the appointment of an interim government provides NOC with cautious optimism about its ability to meet this year's target and to fix its energy infrastructure.
  - The NOC is due to receive USD 2B from the USD 9B emergency budget that the government plans to provide to state institutions.
  - The CBL is set to transfer the funds under the interim financial arrangement until the 2021 unified budget is approved.
- Meanwhile, for the first time in five years, the CBL has agreed to integrate the country's exchange rates. This augurs well for easing Libya's liquidity crisis.
  - The CBL is divided into parallel branches, with the CBL in GNA's Tripoli controlling the money supply and foreign reserves and the branch in the LNA's east mimicking its currency printing function.
- After trading on the parallel market for 7.03 LYD to the USD at the end of 2020, a figure not seen since 2017, the new FX rate, which came into effect in January, is 4.48 LYD to 1 USD.
  - The new rate applies to all government, commercial, and personal foreign exchange transactions and is set to close the growing gap between the parallel market and official rates.

[3] Arabia Monitor; NOC.

- More will be needed, however, to keep the parallel market from thriving given the dollar shortage across domestic banks.

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