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Libya: Economically damaging stalemate at best, sustained violence at worst

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- **Libya's new civil war is not only threatening any progress in building a stable state, it is in danger of turning into a regional proxy war.**
- **The IMF expects 2019 real GDP at 4.3% based on oil production at around 1 Mb/d. But such growth will be difficult to attain in a country in conflict and with the oil sector subject to constant supply disruptions.**
- **Hoping to restore its oil industry to full capacity, Libya is extending its links with China for assistance. It has signed a memorandum of understanding with the China National Petroleum Corporation covering investments and trading of Libyan's oilfield services.**

Table 1 - Libya Macroeconomic Indicators[1]

	2015	2016	2017	2018	2019f
Real GDP Growth (%)	-13.0	-7.4	64.0	17.9	4.3
Crude Oil Production (M Bpd)	0.4	0.3	0.8	0.9	1.2
Oil GDP Growth (%)*	-14.6	-5.4	116.8	10.5	12.4
Non-oil GDP Growth (%)*	-3.0	-2.0	0.0	5.0	3.0
CPI Inflation (%)	9.8	25.9	28.5	23.1	15.0
Fiscal Balance (% of GDP)	-131.0	-113.3	-43.0	-7.4	-10.9
C/A Balance (% of GDP)	54.4	-24.7	7.9	2.0	-0.2
Total Gov't. Gross Debt (% of GDP)	189.3	189.7	140.8	102.5	104.8
Total Gross Extrn'l Debt (% of GDP)	18.8	20.6	...	...	...
Gross Official Reserves (Months of Imports)	30.8	19.8	...	...	...
Nominal GDP (USD B)	17.2	18.5	30.6	43.6	45.0
Population (Millions)	6.2	6.2	6.3	6.4	6.5

Stopped in its tracks by war

The likelihood of Libya achieving any degree of normality has diminished rapidly, to be replaced by an economically damaging stalemate at best, sustained violence at worst.

- Neither the internationally recognised Government of National Accord (GNA) in Tripoli nor the Libyan National Army (LNA) of General Khalifa Haftar have the military wherewithal to defeat each other decisively.
  - This was shown clearly by the failure of the LNA to capture Tripoli earlier this year, despite reaching the outskirts. It was followed by the recapture by GNA forces of Gharyan, a strategic town south of the capital.
  - Haftar does hold vast swathes of Libya, but with various levels of control. He sometimes relies on local tribal militia who are not keen to move out of their own regions.
  - The GNA of Prime Minister Fayez al-Sarraj has full control of Libya's navy but ground forces are factionalised. Indeed, many of Tripoli's militia support the GNA because they are paid to, meaning loyalty is sometimes based on money, not ideology.
  - The GNA, meanwhile, has control of the central bank and therefore of oil revenues. While Haftar controls many of the oilfields and export facilities he has been forced to accept that the Tripoli-based National Oil Company has a monopoly on production and export.
  - Without major outside intervention, this situation is likely to continue.
- The new civil war is in danger of turning into a regional proxy war, if it has not done so already.
  - Egypt, the UAE and Saudi Arabia are to varying degrees supportive of Haftar (while sometimes calling for a peaceful settlement).
  - They primarily see Haftar as a bulwark against the Muslim Brotherhood, which, while much diminished in Libya, has members advising the GNA through the High State Council.
  - Turkey and Qatar -- which are both open and encouraging to political Islam -- oppose Haftar.
    - This reflects the same kind of dynamics seen in the GCC boycott of Qatar and the war in Yemen.
    - There is evidence that weapons are being supplied by both sides, including drones for aerial attack. Pictures have emerged, for example, of Turkish armoured personnel carriers arriving in Tripoli, while there have been drone attacks on both sides, despite previous lack of such weaponry in Libya.
- The Big Powers are no less divided on Libya, giving mixed signals.
  - Russia has supported the GNA at the United Nations, but also backed Haftar, hosting one of his top aides in Moscow
  - Washington is split, with US President Donald Trump and his National Security Council tending towards Haftar given Trump's favouring of strongman leaders and his close relations with Egyptian President Abdel Fattah el-Sisi and Abu Dhabi's Crown Prince Mohammed bin Zayed. The State Department, however, has kept policy favouring the GNA. Looking ahead, though, Libya is probably not a big enough issue in the US for these differences to erupt.
    - Sarraj was the first Libyan leader ever to be hosted in the Oval office, although Trump has also telephoned Haftar.
  - Britain remains firmly behind the GNA, but has been less present on the world stage given its overwhelming focus on Brexit and internal politics.
    - London successfully extradited an alleged Manchester bomber from Libya, although the process took 18 months. The extradition was seen as a move by the GNA to show it was a responsible government on the world stage
  - France is playing what has been described as a "double game" in Libya. It supports the UN plan and has hosted Sarraj and Haftar together; but it unofficially sees Haftar as a stronger bulwark against Islamists in Niger, Chad and Mali.[2]

[1] Arabia Monitor; IMF.
[2] Politico.

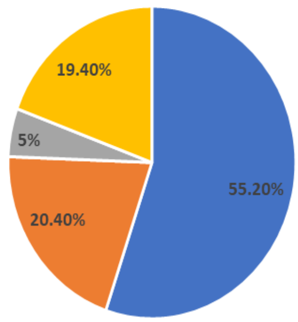
- US-manufactured Javelin anti-tank missiles were found in Haftar's HQ in Gharyan. They were traced to a batch originally supplied to the French military.

Economy shaken

This state of affairs is naturally causing economic disruption, taking its toll on civilians, disrupting water and electricity infrastructure and imperilling the oil production upon which Libya relies.

- The IMF expects 2019 real GDP at 4.3% from 2018's estimated 17.9% (which was a huge bounce reflecting earlier chaos), with oil production estimated at around 1M bp/d. But this growth will be difficult to attain with the oil sector subject to constant supply disruptions.
    - Libya's output has been hampered by technical breakdowns, protests and sabotage. On 22 July, the Sharara field -- Libya's largest oil field accounting for a quarter of the country's production -- restarted after a brief stoppage because of unexplained sabotage.
    - On 30 July, force majeure was declared at the Zawiya Port because of intervention by a local armed group, highlighting further the lack of stability.
    - Similarly, the closure of valves in the Hamada Area led the National Oil Corporation (NOC) to declare a force majeure last month. It was soon lifted, but only after a loss of 290,000 bpd of production, at an estimated cost of USD 19M.
    - Despite this kind of disruption, however, Libya's oil production averaged 952 Kb/d in 2018 up from 811 Kb/d in 2017. More recently, national output reached around 1.17 Mb/d in April and May, the best since October 2014.
- The IMF also expects inflation to slow this year, forecasting 15%. This is still unsustainable, but down from 23.1% in 2018, partly as a result of efforts by the Central Bank of Libya (CBL) to stabilise the currency.
    - The CBL inflation estimate had been an optimistic 9.3% for 2018.
    - The imposition of a 183% fee on dollar purchases and foreign exchange transactions in September 2018 reduced some pressure on prices, and also tightened the gap between official and black-market rates, helping reduce the liquidity crisis faced by banks.
    - On 30 July, Chairman of the Presidential Council Fayez Al Sarraj signed a new order cutting the fee to 163%.
- The fee hike, along with 24% higher oil revenue (which make up about 90% of total revenues and about 50% of GDP), contributed to a budget surplus last year, the first after five years of deficit. But political instability, the volatility of oil revenues and high state expenditures will make this hard to maintain.
    - With the oil price rising, the country's budget deficit more than halved in 2018 (USD 3.3B; 7.6% of GDP) compared with 2017 (USD 7.8B; 18% of GDP).

Figure 1 - Libya Total Expenditure (% of Total)[3]



    - Spending in 2019 is set 10% higher than the previous year with a balanced budget being sought by the government. But having projected a breakeven oil price of USD 71.3 pb, the IMF expects a deficit of 10.9% of GDP, higher than 2018's 7.4%.
    - The rising public-sector wage bill, which is currently the highest rate in the world at 48% of GDP and 55.2% of total expenditures reflects the overreliance on government.[4]
    - Moreover, the government's payroll and hiring have significantly increased, threatening further stress on the budget.

Without greater stability, Libya will fail to create (or reap the benefits of) needed economic reforms.

- Chief among these are promoting the private sector, cracking down on the black market, and providing funds for education and infrastructure.
- There is also a need to fulfil pledges to cut fuel subsidies, which have so far come to nought.
- The banking system is also fraught with difficulties.
    - CBL Governor Sadiq al-Kabir has said that Haftar's rapid advance hindered the provision of cash to some of Libya's banks.[5]
    - While he said that the CBL has no intention of seeing Libyan banks go bankrupt, he also admitted an "acute" need to ensure that such a financial catastrophe does not happen.

Turning to China

To restore its oil industry to full capacity, the NOC has discussed cooperative measures with China's major oil corporation, China National Petroleum Corporation.

- The two have signed an agreement covering investments and trading of Libyan's oilfield services.
- Mustafa Sanalla, chairman of the NOC, projects that with China's backing, daily production and oil revenue could grow rapidly, increasing to 300-400 Kb/d, and ultimately reaching the 2023 goal of 2.1 Mb/d.
- The NOC's partners to date are mainly European.

[3] Arabia Monitor; Central Bank of Libya.
[4] Reuters Interview, July 25.
[5] Delivered by helicopter and hence subject to being shot down.

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