Libya

Recent macroeconomic and financial developments

Libya's economic recovery is gathering momentum, boosted by a large increase in hydrocarbon output in 2021. On the demand side, investment and household consumption drove growth. The economy is estimated to have grown by a huge 177.3% in 2021, after a withering contraction of 59.7% in 2020 when the country experienced multiple shocks, including political instability, a decrease in oil prices, and the rapid spread of COVID-19. The recovery in 2021 reflected the low-base effect but also progress toward political stability and the reopening of major oilfields. Inflation increased to 3.7% in 2021 from 2.8% in 2020, with rises in food prices, mainly imported. In December 2021, an initiative was launched to reconcile the monetary policy of the central bank with its Eastern branch.

In early 2021, the Libyan dinar was significantly devalued to harmonize the official and parallel market rates but prolonged conflict still affects the banking system's operating environment. The fiscal balance recorded a surplus of 13.8% of GDP in 2021, mainly due to the increase in hydrocarbon-related fiscal revenues, after a yawning deficit of 54.5% in 2020. Similarly on the current account, the resumption of oil exports generated a surplus of 21.6% in 2021 against a deficit of 20.7% in 2020. Domestic debt has increased greatly in recent years, reaching 155% of GDP in 2020. Libya received $2.1 billion of the SDR allocation, recorded at the central bank as reserve assets. The country continues to struggle with poverty and food insecurity. According to the 2021 Libyan population Multi-Sector Needs Assessment, 53% of households could not cover their basic expenses.

Outlook and risks

The outlook for economic growth remains positive. The economy is projected to grow by 3.5% in 2022 and 4.4% in 2023, depending on political stabilization, security improvements, and persistence of oil production. Inflation is projected to stay elevated at 3.7% in 2022 before falling a little to 2.4% in 2023, driven by international food prices. The fiscal balance is expected to record a surplus of 25.8% of GDP in 2022 and 17.3% in 2023 due to higher revenues from oil output. The current account surplus is projected to climb to 27.9% of GDP in 2022 on increased oil exports, before edging down to 19.1% in 2023. Downside risks include political instability, an oil blockade, social instability (more than 1.3 million need humanitarian aid), and the spread of a new COVID-19 variant. The authorities should mobilize domestic resources to support economic diversification and a clear reconstruction strategy in public infrastructure.

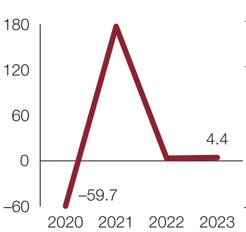
Climate change issues and policy options

Climate change and water scarcity threaten Libya's economic development and sustainability. Libya is 80 on the 2021 GCRI. The country is 95% desert and only 2% of national territory receives enough rainfall for agriculture. Agricultural productivity is hindered by harsh climatic conditions, poor soil quality, and limited renewable water resources. The country also faces other extreme weather events such as droughts, floods, sandstorms, and dust storms. The Wadi Kaam Dam entirely dried up in 2021 because of a warming climate and vandalism of major supply systems, reducing farm activities. In October 2021, flash floods and valleys runoff caused severe damages to properties and the displacement of families. International agencies, with the Libyan authorities, quickly provided aid to these families.

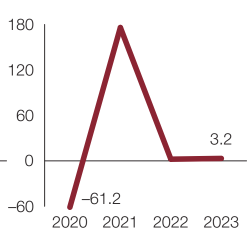
In 2021, Libya ratified the Paris Agreement; the country is preparing to develop its NDC. The energy-related plans and commitments are governed under the Strategic Plan for Renewable Energies, 2018–30, which targets 22% of electricity generation derived from renewables by 2030.

Libya has the necessary financial resources for climate adoption but needs to strengthen the capacity of its institutions to respond to climate change challenges. Political instability has hindered progress toward achieving SDG 13.

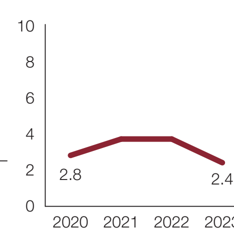
Real GDP growth (%)



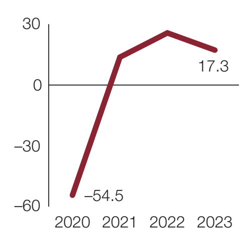
Real GDP per capita growth (%)



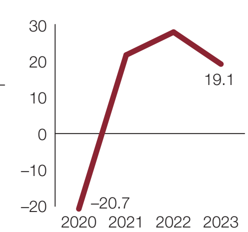
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team.