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Socioeconomic impact of currency devaluation

Libya



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Introduction

Households, especially the most vulnerable, were challenged by multiple shocks in 2020: a pandemic, intensification of conflict, depletion in oil revenues amid several blockades on oil ports, lack of job opportunities, and a liquidity crisis where 85 percent of households were unable to withdraw any cash from banks¹. As of February 2021, a total of 604,307 people was estimated to be food insecure², of which 41 percent are WFP beneficiaries.

On the 23rd of October 2020, the two opposing forces – the Government of National Accord (GNA) and Haftar's Libyan National Army (LNA) – came into a ceasefire agreement ending an 8-month blockade on oil ports. The agreement allowed for a board meeting between the divided central banks for the first time in five years. The board decided to apply a devalued exchange rate across the country, at a rate of 4.48 Libyan dinars (LYD) to the U.S. dollar (USD) starting from the 3rd of January 2021³. In December 2020, the post-tax official rate was set at LYD 3.5/USD and the informal rate reached LYD 5.8/USD.

A currency devaluation means that imports will get more expensive and this might trickle down to domestic retail prices, reducing the purchasing power of households, especially the vulnerable. In this paper, we assess the political situation, the wider macroeconomic context (oil sector, GDP growth, accounts imbalances, and structure of external sector), and developments in the cost of minimum expenditure basket (MEB) and its food components to understand whether the country is in a position to sustain imports; to safeguard the livelihoods of the most vulnerable; and where the exchange rate might be headed looking ahead.

The analysis in each section presents the current situation (*status quo*) and forecasts for 2021. Furthermore, two main scenarios are presented to understand how purchasing power of households might be affected by the interplaying multiple factors.

¹ [JMMI Report, November 2020](#)

² [MSNA/HNO 2021](#)

³ [Reuters: Libya's divided central bank agrees exchange rate after first meeting in years, December 2020](#)

Key findings & recommendations

- Political stability and revenues from the oil sector proved to be the key drivers of economic growth. They play a role not only on how much the currency devaluation will affect general price level, but they can also determine fluctuations of local currency in the first place⁴.
- The political conflict and diminishing oil revenues resulted into the most severe economic contraction since 2011 (-41 percent in 2020). The recent ceasefire agreement between the two opposing forces and the formation of a new presidential council are expected to lead to political stability in 2021, with positive effects on the oil industry. Following the ceasefire agreement, the oil sector recorded an instant rebound in oil production levels; Q-o-Q⁵ production increase by 658 percent, passing from an average of 121 thousand barrels per day in Q3 2020 up to 917 in Q4 2020. Oil production and oil prices continued increasing in the first two months of 2021 as well.
- Political stability, oil revenues, and government budget balance are very interlinked. The government budget ran into deficits in 2011 (end of Gaddafi's rule), 2014 (political instability leading to the establishment of two rival governments), and 2020 (intensified conflict and blockades on oil). If the ceasefire agreement holds in 2021, oil revenues are predicted to be restored to 2010 level (pre-crisis) and the government budget could record a surplus in 2021. This might reduce the risk of income loss for most workers – the majority of whom are government employees. Nevertheless, currency devaluation forced the government to lift the 163 percent tax on the sale of foreign currency (the second most important income source for the government). Given the importance of oil and tax revenues from sale of foreign currency, the overall balance of government budget will mainly rely on the net effect of changes in these two particular revenues against any upcoming governmental decisions towards expenditures.
- Currency devaluation is expected to result into an increase in prices of imported goods. Increased import costs will be channeled to traders, wholesalers, and will eventually lead to an increase in the retail price of imported goods. Being an essential commodity, food has an inelastic demand curve. This means that households (the end consumers) will eventually bear the burden of the devaluation as they will pay a higher price to access the same quantity of food they used to buy before the devaluation took place.

⁴ i.e. political stability and recovery in the oil sector will increase oil exports and the supply of hard currency; excessive supply of hard currency will eventually appreciate the local currency and stabilize prices or at least curtail the magnitude by which prices increase.

⁵ Q-o-Q: Quarter over Quarter

- A significant proportion of domestic demand for cereals (especially wheat followed by barley and maize) is met through imports. In 2019, a total of 1.3 million tons of wheat, barley, and maize were imported and only 0.2 million tons of those three cereals were produced, suggesting high price volatility for this commodity.
- Prior to currency devaluation, most traders used to access USD at either post-tax official rate (LYD 3.5 per USD) or the parallel rate (LYD 5.8 per USD) in December 2020. A currency devaluation to LYD 4.48 per USD is 28 percent higher than post-tax official rates; yet, 23 percent lower than the parallel rate. The rate by which import costs will increase is subject to the relative dependency of a particular category on imports and the actual rate by which traders used to import (how much of total cost in LYD was exchanged at parallel market and how much was exchanged at post-tax official rate).
- In January 2021, the minimum expenditure basket (MEB) and its food component witnessed minor fluctuations; however, preliminary data in February 2021 showed a 6 percent increase for both. Monthly price variations were more pronounced for food items of the MEB that are heavily dependent on imports. Vegetable oils – whose demand is met only through imports – witnessed the highest monthly increase (up 33 percent compared with January 2021). Wheat flour increased by 20 percent, and dairy products (condensed milk and milk) increased by 20 and 11 percent respectively. On the contrary, lamb meat increased slightly (up 3 percent) because local production plays a significant role to meet local demand.
- Price increases of imported food items were not only linked to currency value losses, but also developments in international prices of wheat, vegetable oil, and dairy products. Prices of those three food categories have been rising considerably since mid-2020, reaching multiyear highs. Vegetable oils witnessed the most serve increase in prices (up 70 percent compared to June 2020, when prices started to increase).
- At the regional level, price variations across East, West, and South regions followed the same pattern observed at the national average. Therefore, we can expect that any economic or political shocks will have similar effects – in terms of direction and timing – in each region. Yet, the magnitude of this impact might be different.
- Despite similar patterns in price fluctuations, South region has been recording the most expensive MEB (higher than the national average by 20 percent in February 2021), compared with East and the West (lower than the national average by 5 and 4 percent, respectively). Such variations between three regions are worth a revision of assistance level or modalities, suggesting an approach adjusted to the regional level variations rather than to the national average.

- For the overall impact on households 'purchasing power, there are two scenarios.
 - In the first scenario- which assumes political stability and recovery in the oil sector-, purchasing power of households could be challenged by potential price increases, however, income flows and subsidies will minimize the pitfalls of price increases.
 - In the second scenario- which assumes conflict intensification and further turmoil for the oil sector-, Purchasing power of households will be hit dramatically through price increases and potential income reduction or loss, especially if the government will not have the resources to extend social protection schemes.

Political developments in the country

Libya's complex socio-political context has developed into an increasingly protracted conflict since the ouster of Muammar Gaddafi, back in 2011. The end of Gaddafi's regime did not lead to stability as forms of localized armed conflict for the control of key strategic and economic resources persisted in conjunction with the emergence of Islamic State⁶.

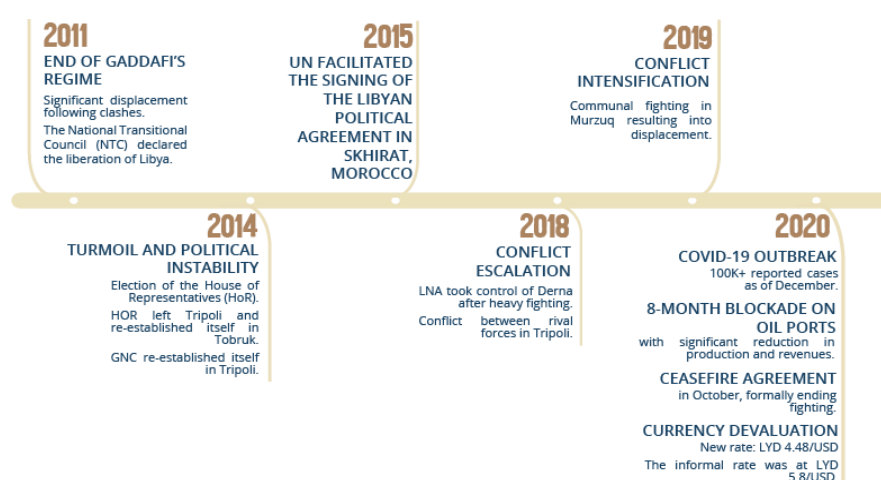
Protracted turmoil and political gridlock affected the outcome of the 2014 elections, leading to the disintegration of the General National Congress (GNC) into two rival governments, each having its own banking systems and armed factions. The Government of National Accord (GNA) established itself in Tripoli, and the House of Representatives led by general Khalifa Haftar – the commander of the Libyan National Army (LNA) – left Tripoli and re-established in eastern Tobruk⁷.

On 17th December 2015, the United Nations facilitated the signing of the Libyan Political Agreement to end hostilities and bring unity to national institutions. Yet, rivalries continue to impair the success of the agreement⁸, whose effectiveness was questioned in 2017 by Haftar, marking the failure of reconciliation talks between the two opposing coalitions⁹.

After an escalation between July and August with LNA taking over control of Derna and increased fighting in Tripoli, tensions between the two conflicting authorities eased by end of 2018. However, conflict reignited in the Western region in 2019 and tensions continued into 2020, until the 23rd October, when the GNA and Haftar came into a ceasefire agreement, ending a 8-month blockade on oil ports¹⁰. The formation of a new presidential council was concluded in early February 2021; a formation of a transitional government will follow. The continued conflict since 2011, has caused casualties, displacement and destruction of key infrastructure. In 2020,

the blockade of the oil sector for most of the year coupled with restrictions to curb the spread of the COVID-19 have further deteriorated the already weak economic situation, with a negative impact on food security.

Figure 1: Timeline of key events, 2011-2020



Source: National and international press

⁶ [The Guardian: Libya's transitional rulers' hand over power to elected assembly, August 2012](#)

⁷ [United States Institute of Peace: Libya Timeline: Since Qaddafi's Ouster](#)

⁸ [Al Arabiya: Libyan deal on course, but who is on board?, 25 December, 2015](#)

⁹ [BBC: Libya Profile – Timeline, April 2019](#)

¹⁰ [Ahram: Foreign forces ignore Libya exit deadline under fragile truce, January 2021](#)

Oil revenues and GDP growth rates

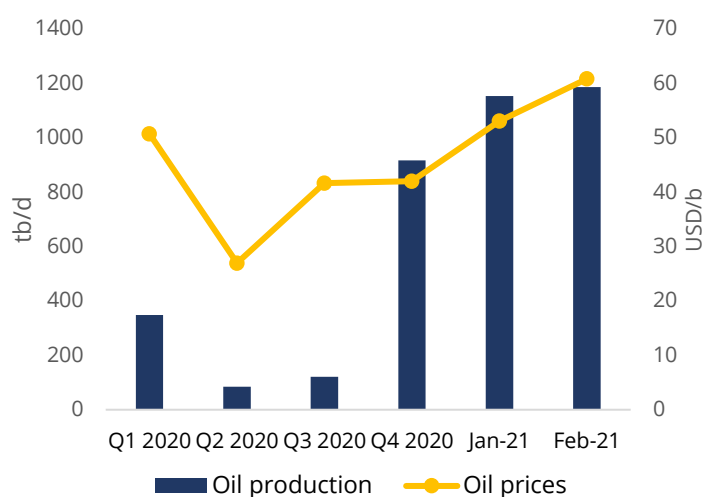
The extractive sector plays a key role in the economy; oil revenues captured 55 percent of total government revenues in 2019¹¹, 98 percent of total exports in 2019¹², and 42.4 percent of total GDP in 2018¹³. The year 2020 witnessed a massive drop in both oil prices and production (down 37 and 66 percent, respectively) against 2019 levels. The slump in oil prices was associated with a global decline in demand following COVID-19, while the drop in oil production was linked to an OPEC agreement to cut off production, and more importantly, intensive blockades on Libya's major oil ports and terminals starting January 2020. The political conflict and diminishing oil revenues resulted into the most severe economic contraction since 2011 (-41 percent in 2020¹⁴). The economic collapse had adverse effects on the non-hydrocarbon economy as well; water shortages were prevalent, with reported sabotage of water wells. Power outages persisted throughout 2020; only 13 of 27 power plants were functioning¹⁵.

The ceasefire agreement that was implemented in October 2020, had an instant rebound impact on oil production levels; Q-o-Q production increased by 658 percent, passing from an average of 121 thousand barrels per day in Q3 2020 up to 917 in Q4 2020¹⁶. In February 2021, oil production recorded 1,186 thousand barrels per day (131 percent higher than February 2020 average).

If the agreement holds in 2021 and the regain in global oil prices persist¹⁷, oil revenues will increase substantially and hence government revenues. *Source: OPEC monthly bulletins*

The increase in government revenues might reduce the risk of income loss for most workers – the majority of whom are government employees. In addition, the country – that relies heavily on oil exports – will experience an increase in foreign reserves and supply of USD, which should make the local currency stronger. This can mitigate – to an extent – the negative repercussions of currency devaluation.

Figure 2: oil production and prices in 2020 and 2021



¹¹ [Quarterly economic reports Q3 2020, Central bank of Libya](#). Oil revenues share data in 2020 was excluded due to the massive drop in production and because 2020 data covers the first nine months of the year only. Nevertheless, oil revenues made 24 percent of total government revenues in the first 9m of 2020.

¹² [Quarterly economic reports Q3 2020, Central bank of Libya](#). Latest available data.

¹³ [World Bank Development Indicators](#). Latest available in 2020.

¹⁴ [World Bank Economic Outlook, October 2020 update](#)

¹⁵ Libya overview, World Bank, [link](#)

¹⁶ [OPEC monthly reports](#)

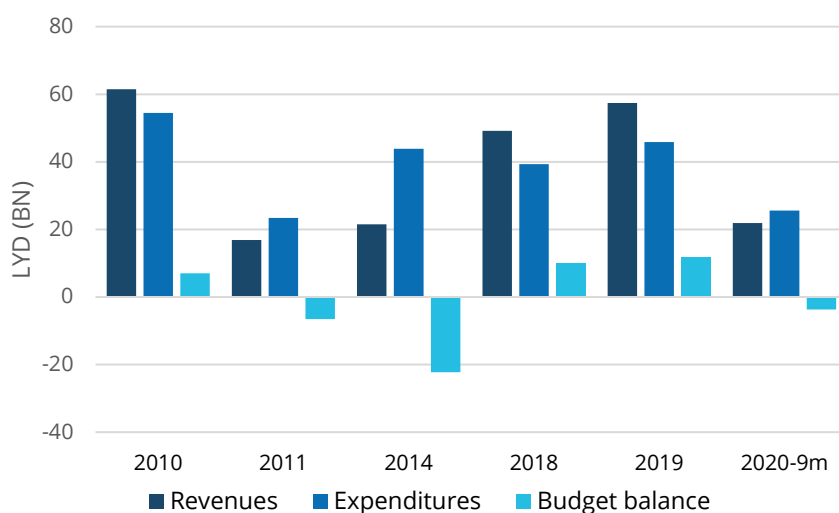
¹⁷ On March the 5th, Europe Brent Spot Price recorded 70 USD per barrel- the second highest record since January 2020. If this trend persisted during 2021, oil prices in Libya will continue increasing in 2021 reaching pre-crisis levels in 2010 (USD 79/barrel).

Government imbalances

The decision of the Tripoli-based government to reduce total expenditure by 22 percent¹⁸ did not offset the substantial decline in revenues from the oil sector, as government budget recorded a deficit of LYD -3.7 bn in the first 9 months of 2020¹⁹.

The below figure shows the interlinkage between political stability, oil revenues, and budget balance. The government budget ran into deficits in 2011 (end of Gaddafi's regime), 2014 (political instability leading to the establishment of two rival governments), and 2020 (intensified conflict and blockades on oil). If the ceasefire agreement holds in 2021, oil revenues are predicted to be restored to 2010 levels (pre-crisis)²⁰ and the government budget could record a surplus.

Figure 3: Government budget



Source: Central Bank of Libya

Nevertheless, currency devaluation forced the government to lift the imposed 163 percent tax on the sale of foreign currency through official channels (i.e. banks)²¹. These taxes were the second most important income source for the government since its implementation in September 2018²². A 163 percent tax on the sale of foreign currency made the total cost of 1 USD equivalent to LYD 3.5 in December 2020. If the same 163 percent was applied to the new exchange rate (USD/LYD 4.48), the actual cost of 1 dollar would be LYD 11.8²³,

¹⁸ Libya overview, World Bank, [link](#)

¹⁹ See previous section for reasons behind significant drop in oil revenues.

²⁰ In 2010, oil production averaged 1,560 thousand barrels per day, while in 2020, the average was 369 only. Total oil revenues in 2010 (56 bn LYD) surpassed the sum of both oil revenues and taxes from sale of foreign currency in 2019 (55 bn LYD). Please refer to figure 4 for further details.

²¹ <https://www.reuters.com/article/libya-currency-idINKBN2980BJ>

²² [Quarterly economic reports Q3 2020, Central bank of Libya](#)

²³ $11.8 = 4.48 * (1 + 1.63)$

leaving buyers no option but to resort to the parallel market for a more competitive rate of USD/LYD 5.4 (as of January 2021²⁴).

This tax acted as an effective devaluation to the currency; US dollars were available – for most traders – at LYD 3.5 through official channels (i.e. banks) and at LYD 5.8 in the parallel market in December 2020. Therefore, the recent devaluation to 4.48 USD/LYD is higher than the 3.5 of banks but still lower than the 5.8 of the parallel market.

Figure 4: Structure of government revenues

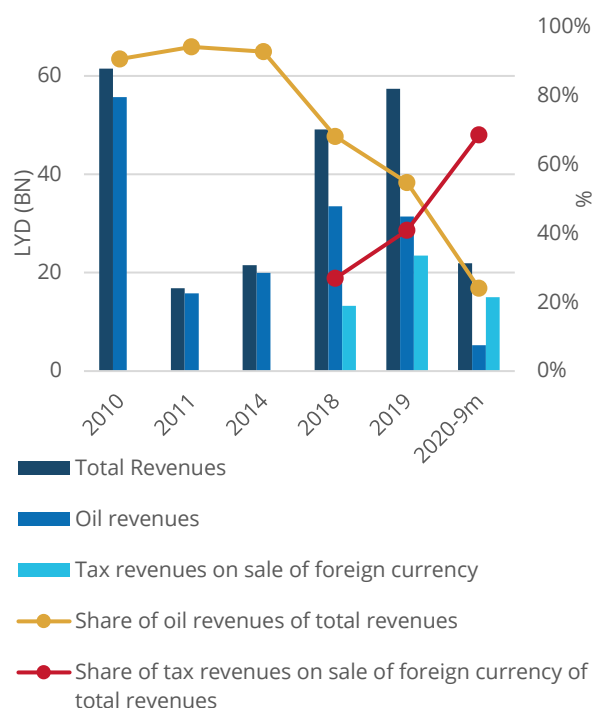
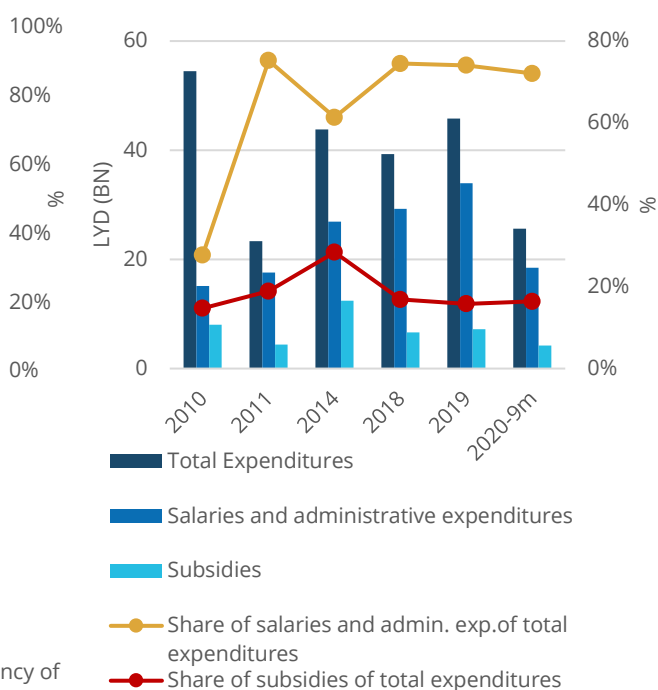


Figure 5: Structure of government expenditures



Source: Central Bank of Libya

The cut in revenues from taxes on the sale of foreign currency could widen budget deficits further if oil revenues and total expenditures did not change. As an alternative, the government can resort to the option of cutting public expenditures. In the first 9 months of 2020, salaries and administrative expenditures followed by subsidies²⁵ captured the lion share of government expenditures (accounting for 72 and 16 percent, respectively). It is worth noting that fuel is the main subsidized commodity in Libya (accounting for 61 percent of total subsidies cost). No food subsidies are applicable in Libya, yet, potential fuel subsidies removal will be translated into higher transportation costs and eventually higher food prices.

²⁴ Al Ain newspaper

²⁵ The remaining 39 percent of total subsidies cost is allocated to medical (15 percent), electricity (13 percent), public service (7 percent), and water and sanitation (4 percent)

To minimize government expenditures, the government could resort to one of the following: (i) decreasing salaries, (ii) laying off some workers, or (iii) cutting subsidies. Either option will reduce households' earnings, which will eventually negatively affect the purchasing power of households.

Given the importance of oil and tax revenues from sale of foreign currency, the overall balance of government budget will mainly rely on the net effect of changes in these two particular revenues against any upcoming governmental decisions towards expenditures.

Government imbalances as a percent of GDP were predicted to widen significantly in 2020. Fiscal deficit was forecasted to record a deficit of 59.3 (compared to a surplus of 9.9 percent in 2019). Additionally, government debt in 2020 was anticipated to soar to 155.3 percent of GDP, compared to 48.8 percent of GDP in 2019²⁶. The foreseen recovery in the economy is also likely to have a positive effect on fiscal balance and government debt.

External Sector

In 2019, hydrocarbons led the export sector with 98 percent of total exports at a value of LYD 38 bn. Food imports²⁷ bill reached LYD 5.4 bn (26 percent of total imports); mainly led by cereals (wheat and barley), dairy products, and live animals. In terms of imports/exports share, total imports comprised 62 percent of total exports and food imports represented 14 percent of total exports²⁸.

Between 2017 and 2019, the external sector has recorded current account and trade balance surpluses driven by increased hydrocarbon export revenues. Although data for 2020 has not been released yet, the external sector is foreseen to record deficits attributed to the witnessed annual significant drop in both oil production (66 percent) and oil prices (37 percent). According to World Bank's latest estimates²⁹, current account is predicted to record a deficit equivalent to 52.6 percent of GDP. Moreover, total value of goods and services exports (mainly led by hydrocarbon exports) is to decrease annually by 82 percent.

In terms of net flow of foreign currency, the government recorded a deficit (12.2 bn USD) in the first 9 months of 2020, as expenses paid by the government in foreign currency surpassed revenues from oil exports – the main source of foreign currency in Libya³⁰.

If the country experiences political stability and a new government is formed, exports (mainly oil) are expected to witness a significant recovery. On the imports front, currency devaluation is expected to cause an increase in prices of imported goods. Increased import costs will be channeled to traders, wholesalers,

²⁶ [World bank economic outlook, October 2020 update](#)

²⁷ Food and beverages combine food and live animals, animal and vegetable oil, and beverages and tobacco. As a percent of total imports, food and live animals comprised 22 percent, beverages and tobacco represented 3 percent, and animal and vegetable oil made 1 percent in 2019.

²⁸ Total value of food exports is negligible compared to food imports value; LYD 0.05 bn against LYD 5.4 bn.

²⁹ [World bank economic outlook, October 2020 update](#)

³⁰ [Quarterly economic reports Q3 2020, Central bank of Libya](#)

and will eventually lead to an increase in the retail price of imported goods. Being an essential commodity, food has an inelastic demand curve³¹. This means that households (the end consumers) will eventually bear the burden of the devaluation as they will pay a higher price to access the same quantity of food they used to buy before the devaluation took place.

A significant proportion of domestic demand for cereals (especially wheat followed by barley and maize) is met through imports. In 2019, a total of 1.3 million tons of wheat, barley, and maize were imported and only 0.2 million tons of those three cereals were produced, suggesting high price volatility for this commodity.

In terms of livestock, sheep is the main imported stock (1.04 million heads in 2019); yet, local production reached 7.6 million. In addition, livestock production exceeded 10.6 million heads against only 1.1 million imported heads. This suggests a higher resilience for livestock to price transmissions compared to cereals.

The demand for animal and vegetable oils are solely met through imports, reflecting the high vulnerability of oil prices to potential increase in import costs. Dairy imports represent 67 percent of total production at a value of 159k tonnes in 2019 which indicates that dairy imports are less resilient than livestock, however, more resilient than animal and vegetable oils.

Prior to currency devaluation, most traders used to access USD at either post-tax official rate (LYD 3.5 per USD) or the parallel rate (LYD 5.8 per USD) in December 2020. A currency devaluation to LYD 4.48 per USD is 28 percent higher than post-tax official rates, yet, 23 percent lower than parallel rate³². The rate by which import costs will increase is subject to the relative dependency of a particular category to imports and the actual rate by which traders used to import (how much of total cost in LYD was exchanged at parallel market and how much was exchanged at post-tax official rate).

Impact on food prices

In January 2021, the MEB and its food component³³ witnessed minor fluctuations; however, preliminary data in February 2021 showed a 6 percent increase for both. Monthly price variations³⁴ were more pronounced for food items of the MEB that are imported. Vegetable oils – whose demand is solely met through imports – witnessed the highest monthly increase (up 33 percent in February 2021). Wheat flour increased by 20 percent, and dairy products (condensed milk and milk) increased by 20 and 11 percent respectively. On the contrary, lamb meat increased only slightly (up 3 percent), because local production plays a significant role to meet local demand³⁵.

³¹ i.e. demand is not expected to be significantly affected by change in prices.

³² This excludes traders that could still access USD at pre-tax official rates (LYD 1.34 per USD).

³³ The reference food basket includes 7 kg of beans, 38 kg of bread, 6.5 kg of couscous, 4.5 pcs of eggs (30 pcs), 4.5 kg of tuna, 9 kg of chicken meat, 10 litres of milk, 6 litres of vegetable oil, 8 kg of onions, 11 kg of pasta, 5 kg of green peppers, 14 kg of potatoes, 12.5 kg of rice, 1 kg of salt, 2 kg of sugar, 2 kg of black tea, 12 kg of tomatoes and 7 kg of tomato paste

³⁴ February 2021 in comparison with January 2021

³⁵ Please refer to external sector section

Price increases of food imported items were not only linked to currency value losses, but also developments in international prices of wheat, vegetable oil, and dairy products. Prices of those three food categories have been rising considerably since mid-2020, reaching multi year highs. In February 2021, the price of vegetable oils witnessed the most serve increase either monthly (up 6.2 percent) or annually (up 51 percent) or compared to mid-year of 2020 (up 70 percent), when prices started increasing.

Table 1: Food prices indices, international market

Item	Monthly variation	Annual variation	February 2021/June 2020
Cereals	1.2%	26.5%	30.0%
Oils	6.2%	51.0%	70.1%
Dairy	1.7%	9.9%	14.9%

Source: [FAQ](#)

Prior to the recent currency devaluation, the government imposed 183 percent tax fee³⁶ on currency exchanges in September 2018, when the cost of 1 USD went up to LYD 3.9 instead of LYD 1.4. Back then, monthly variations in MEB recorded minimal increases of 1 and 2 percent in September and October 2018. The relative price stability of food commodity groups in the global market in 2018 mitigated the increase in food import costs, cost of food component of MEB and total MEB cost. Between October and September 2018, the price of cereals in the international market increased by 1 percent, while both dairy and vegetable oils witnessed a monthly price decrease of 5 and 1 percent respectively.

In addition, the imposed taxes narrowed the gap between official and parallel exchange rates, passing from a difference of LYD 5 in August 2018 to LYD 1.5 in October 2018. The decreasing difference between the two rates controlled somehow currency speculations that used to put downward pressures on the local currency and increase price levels³⁷. The recent currency devaluation had similar effects as the month of February 2021 witnessed the smallest gap between the official and parallel exchange rates (LYD 0.63).

Above and beyond the factor of trends in international markets, we tried to understand the role of conflict in determining the final impact on price levels. The cost of minimum expenditure basket (MEB) was relatively stable over the past two years except for prices spikes in some months. In 2019, exceptional increases between March and May 2019 were linked to intensified clashes in Tripoli. The pandemic and highest record of conflict-related events³⁸ in April 2020 contributed to the highest m-o-m³⁹ increase in 2020 (up 14 percent).

³⁶ The government firstly imposed 183 percent tax on the sale of foreign currency in September 2018, but then the tax rate decreased to 163 percent in August 2019.

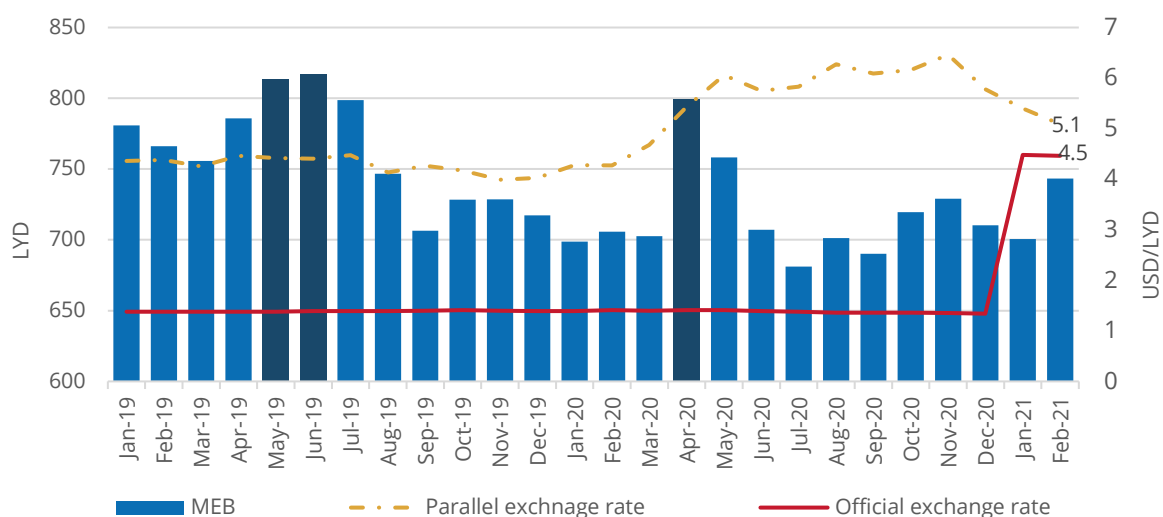
³⁷ The average cost of MEB from May to December in 2018 was 18 percent higher than the corresponding average in 2020. Data on MEB was available since May 2018 only.

³⁸ Source: ACLED, a total of 347 conflict related events were recorded in the month of April 2020- the highest monthly record ever. Events are mainly related to Shelling/artillery/missile attack followed by air/drones strikes and armed clashes

³⁹ Month-over-month

This suggests that price spikes coincide with outbreaks of conflict, even if that was not associated with fluctuations in the exchange rate (i.e. case of March-May 2019).

Figure 6: MEB and exchange rates developments, 2019-2021



Source: Central Bank of Libya

Under the assumption of political stability throughout 2021, currency devaluation is expected to narrow the gap between official and parallel exchange rates, which, in turn, will (i) increase transactions through official channels, (ii) increase supply of hard currency which could lead to appreciation of local currency in the medium to long term, and (iii) stabilize prices.

At the regional level, price variations across East, West, and South followed the same pattern observed at the national average. The highest price spikes observed at the national level (between March-May 2019 and April 2020) were also reflected in each of the three regions. Therefore, we can expect that any economic or political shocks will have the same effect – in terms of direction and timing – in each region. Yet, the magnitude of this impact might be different.

Despite similar patterns in price fluctuations, the South region kept recording the most expensive MEB (higher than the national average by 20 percent in February 2021), while the cost of the MEB in East and West was lower than the national average by 5 and 4 percent, respectively. Such variations between three regions are worth a revision of assistance level or modalities, suggesting an approach adjusted to the regional level variations rather than to the national average.

Potential scenarios for currency devaluation

Political stability and oil sector proved to be the key drivers of economic growth and will also play a role in how much the currency devaluation will affect general price level and eventually purchasing power of households. Considering the above analysis, two potential scenarios might unfold in 2021 following the recent currency devaluation:

- **Scenario 1:** Political stability, following a ceasefire agreement and formation of a new government, will lead to a recovery in oil sector through increased oil production levels.
- **Scenario 2:** Intensification of conflict will result into a potential reimposition of blockades and further slump in oil production.

The below table summarizes the effect of each scenario on the overall economy (GDP), external sector, government budget and balances, prices, and how all these interplaying multiple factors will affect households' purchasing power⁴⁰.

	Scenario 1: Political stability and recovery in oil sector	Scenario 2: Political instability and turmoil for the oil sector
The overall economy	Significant recovery in the oil sector and the economy reflected in positive GDP growth rates ⁴¹ .	Further contraction in the oil sector and the economy reflected in negative GDP growth rates.
External sector	Oil exports represented 98 percent of total exports in 2019. A recovery in oil sector will increase foreign reserves and result in current account and trade surpluses. This will help finance the increased import costs following the recent currency devaluation.	Slump in oil sector will limit the inflow of foreign currency widening the gap between foreign currency inflows and outflows putting downward pressure on the value of the LYD. In addition, external sector will bleed deficits for a decrease in exports revenues and an increase in import costs.
Government budget balance	Recovery in oil revenues will ensure surplus in budget balances which helps to keep subsidies and prevent layoff of government employees or decreases in workers' salaries	Decrease in oil revenues will result in widening budget deficits and could force the government to minimize expenditures through subsidies cut or salaries cut or even lay off government employees.
Prices	Despite potential increase in import costs, the first scenario could result into a modest price increase, assuming that the better-off government finances will be capable of absorbing most of increase through surpluses. In addition, prices remained relatively stable in Libya over the past 2 years, despite political instability and fluctuating parallel exchange rates.	Prices could soar as a result of currency devaluation and further government measures to correct for its deficits (i.e. subsidies cut)
Overall impact on households	Purchasing power of households could be challenged by potential price increases, however, income flows and subsidies will minimize the pitfalls of price increases.	Purchasing power of households will be hit dramatically through price increases and potential income reduction or loss., especially if the government will not have the resources to extend social protection schemes.

⁴⁰ A more robust estimation of the overall economic impact of currency devaluation on prices and households' purchasing power requires longer time series for the data analyzed in this paper, which is not easily achievable in the case of Libya.

⁴¹ Estimates on GDP are subject to high volatility among the different sources; 76 percent according to IMF and 25.6 percent according to EIU.



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