Background Briefing:
Structured Dialogue Economic Track

The purpose of the Structured Dialogue is to develop a set of (1) concrete recommendations on immediate policy and governance issues to prepare a conducive environment for elections, and (2) policy and legislative proposals to address long-term conflict drivers with a view to formulating a unified national vision that will shape the path to stability. Members of the Economic Track have agreed to tackle the following sets of issues:

Financial governance and public financial management

Sound financial governance and effective public financial management are essential for economic stability, reliable public services, and public trust in state institutions. In Libya, these foundations remain critically fragile, largely due to the prolonged absence of a unified, rules-based national budget, but also due to prologued political and institutional fragmentation. Since 2014, public spending has been managed through fragmented arrangements such as temporary allocations, off-budget mechanisms, and parallel financing. These practices have weakened fiscal discipline, reduced transparency and oversight, and made long-term planning extremely difficult.

Public spending is heavily constrained with limited room for adjustments. In 2025, salaries accounted for nearly **54 per cent** of total expenditure, while subsidies represented about **25 per cent**. This leaves very limited fiscal space for priority areas such as infrastructure, healthcare, education, and economic development. Fuel subsidies are a particularly heavy burden, estimated by some sources at up to USD 9 billion per year. Weak governance and oversight have allowed significant leakages and smuggling, with losses linked to fuel-related distortions estimated at USD 3-5 billion in 2024 alone. These losses place additional pressure on public finances and foreign-currency reserves.

Public debt has increased sharply. According to official documents from the House of Representatives, total public debt reached approximately **LYD 303 billion** by the end of 2025. This reflects persistent overspending, unfunded commitments, and weak controls over expenditure.

Macroeconomic vulnerabilities further compound these challenges. Oil revenues and royalties account for around **85.4 per cent** of government income, leaving fiscal planning highly exposed to global oil price fluctuations and production disruptions. Non-oil revenues from taxes, customs, and telecommunications remain marginal at about **2.4 per cent**. In 2025, oil revenues and royalties transferred to the Central Bank of Libya amounted to USD 22.1 billion, while foreign currency uses reached USD 31.1 billion, creating a deficit of approximately **USD 9.0 billion**. This deficit was covered through returns on the Central Bank's deposits, bond portfolio, and gold holdings. Without stronger non-oil revenues and better control of import demand, continued reliance on reserve income risks steadily eroding Libya's external buffers.

At the household level, inflation and chronic liquidity shortages continue to weaken purchasing power and undermine confidence in financial institutions. Small businesses and the informal economy are particularly affected. In the absence of a unified,

transparent, and balanced budget framework, these pressures risk further destabilising public finances and widening disparities in service delivery across regions. Continued reliance on oil revenues and reserves to finance structural deficits would steadily erode fiscal buffers, constraining the state's ability to absorb economic shocks and sustain essential public and financial services.

Risks if not addressed: If these weaknesses persist, Libya faces dangerous risks of fiscal instability, declining foreign-currency reserves, and further accumulation of unsustainable public debt. Continued reliance on oil revenues and reserves to cover structural deficits could limit the state's ability to respond to economic shocks and finance essential services.

Guiding Questions

- What practical steps are needed to move from fragmented spending practices to a unified, transparent national budget?
- How can payroll and subsidy expenditures be managed more sustainably while preventing adverse impact on vulnerable households and groups, particularly women?
- What minimum financial reporting standards should apply to all public entities to improve transparency?

Management of oil and sovereign resources and transition away from a rentier economy

Libya's economy remains overwhelmingly dependent on oil and gas. Hydrocarbon revenues provide the bulk of government income and foreign-exchange earnings, making the sector's governance a matter of national stability. The National Oil Corporation (NOC) and its subsidiaries, therefore, play a critical role not only in maintaining production, but also in protecting public resources that belong to all Libyans. Despite this central role, long-standing governance and transparency challenges continue to weaken the sector.

Key concerns include limited public disclosure of production levels, revenues, and financial flows; weaknesses in procurement and contracting processes; and operational risks linked to ageing infrastructure and insufficient maintenance. Together, these shortcomings increase the likelihood of production disruptions, distortions and volatile revenues, which directly affect the state's ability to pay salaries, finance subsidies, and deliver basic services. Recent efforts by the NOC to improve transparency and reporting are an important step forward, but these gains will only be sustained if they are supported by clear disclosure standards, independent oversight, and consistent institutional backing.

Libya's sovereign assets, primarily managed by the Libyan Investment Authority (LIA), face similarly complex challenges. International asset freezes were intended to safeguard national wealth, yet prolonged restrictions have contributed to a gradual erosion of asset value through inflation, weak returns, and ongoing custodial costs. At the same time, political fragmentation and limited oversight mean that any premature or

poorly governed access to these assets could expose them to mismanagement, political capture, or corruption, undermining their role as a strategic reserve for future generations.

Heavy reliance on oil revenues has reinforced a rentier economic model in which the state distributes income rather than generates broad-based growth. This model limits economic diversification, weakens private-sector development, and leaves the economy highly vulnerable to oil price shocks and production disruptions. Moving away from this pattern requires stronger governance of oil revenues, greater transparency in how they are managed and spent, and a gradual expansion of non-oil economic activity. It also requires managing sovereign wealth in line with clear, long-term national development priorities rather than short-term political pressures.

Risks if not addressed: If these issues remain unresolved, Libya risks continued economic volatility, repeated fiscal crises, and further erosion of public trust. Weak governance of oil revenues and sovereign assets could accelerate resource depletion without delivering lasting development benefits, while exposure to oil shocks may force abrupt policy measures that harm households and businesses.

Guiding Questions

- What transparency standards should govern oil production, revenues, and contracts?
- What safeguards are needed to ensure sovereign assets are protected and aligned with long-term development goals?
- How can oil revenues be used more effectively to support economic diversification?
- How can Libya’s energy management integrate environmental sustainability, including climate and ecological risks, to ensure long-term national resilience?

Economic restructuring, private sector stimulation, and diversification (including subsidies reform)

Non-oil economic activity in Libya remains very limited. Agriculture, manufacturing, and services together account for less than **10 per cent of GDP**, while most jobs are concentrated in the public sector and state-owned enterprises. This economic structure limits productivity and stifles job creation, particularly for young people, women, and persons with disabilities. As a result, many Libyans depend on public employment not because it is efficient, but because alternative opportunities are scarce. The overall unemployment rate reached **18.6 per cent** of the labour force, placing Libya among the countries with the highest unemployment rates globally and reflecting deep-seated structural and macroeconomic challenges. Unemployment is significantly higher among women, young people, and in the southern region.

The private sector faces multiple and persistent obstacles. Businesses struggle to access finance due to chronic liquidity shortages and low levels of bank lending, which stand at around **12 per cent of GDP**. Entrepreneurs also face complex regulations, unclear

property and land ownership rights, outdated commercial laws, and weak enforcement of contracts. These challenges discourage investment, keep many firms informal, and raise the cost of doing business. Gaps in digital infrastructure and uneven access to e-government services across regions further increase transaction costs and deepen economic fragmentation.

Subsidies, especially fuel subsidies, continue to distort economic incentives. Although designed to support households, they largely benefit higher-income groups, encourage waste and smuggling, and place a heavy burden on public finances. International experience shows that subsidy reform can support growth and fairness if it is gradual, well sequenced, and accompanied by targeted social protection measures that protect low-income and vulnerable households.

Digital transformation and greater financial inclusion offer important opportunities to unlock non-oil growth. Expanding digital payments, online public services, and access to formal financial products can reduce red tape, lower business costs, and improve transparency. These reforms can also help small and medium-sized enterprises grow and create jobs, while reducing reliance on cash and strengthening oversight, provided consumer protection, accessibility, and trust in digital systems are ensured.

Risks if not addressed: If non-oil sectors remain underdeveloped, Libya risks deepening unemployment, especially among women and youth, and increasing long-term dependence on public wages and oil revenues. Continued barriers to private sector growth may push more economic activity into informality, weaken productivity, and limit income opportunities outside the state.

Guiding Questions

- What reforms could most effectively improve the business environment for SMEs and job opportunities, including for women, youth and persons with disabilities?
- How can subsidy reform be designed to protect low income households while reducing fiscal waste?
- What role can digitalisation play in supporting private s-ector growth and transparency?

Balanced Development, State Building, and Economic Justice

Libya's oil and gas wealth remains highly centralised, with most revenues managed at the national, central, level. This has contributed to persistent regional inequalities and widespread perceptions of exclusion. Uneven distribution of resources affects access to basic services, infrastructure investment, and economic opportunities, weakening trust in public institutions and fuelling competition over state revenues rather than cooperation around shared national priorities.

The absence of a transparent, rules-based system for sharing national wealth has also limited long-term planning and weakened local governance. Public infrastructure and services are unevenly developed across the country, with southern and conflict-affected

regions particularly underserved. Within these areas, women, youth and persons with disabilities face additional obstacles in accessing public services, employment, and economic opportunities, deepening social and economic disparities.

Proposals for decentralisation and revenue-sharing seek to address these challenges by allocating clear and predictable shares of national revenues to central, regional, and municipal levels. International experience shows that successful systems balance *vertical equity* - fair distribution of resources between different levels of government - with *horizontal equity* - fairness across regions. Using social, demographic, and development indicators in allocation formulas can help ensure that resources reach areas with the greatest needs and reduce both regional and social inequalities.

Looking ahead, demographic pressures, the global energy transition, and growing climate risks - including floods, droughts, and water scarcity - make balanced and resilient development even more urgent. A coherent, long-term national development vision can help transform Libya's resource wealth from a source of division into a foundation for national cohesion, economic justice, and sustainable state building.

Risks if not addressed: If regional disparities and perceptions of exclusion persist, Libya risks deepening social fragmentation and continued competition over oil revenues. Unequal development may further weaken trust in state institutions, undermine local governance, and exacerbate instability and conflicts, particularly in marginalised regions. Over time, failure to pursue balanced and inclusive development could limit the country's ability to manage climate and economic shocks, delaying state building and reducing prospects for lasting peace and national unity.

Guiding Questions

- What principles should guide fair and transparent wealth sharing across regions and economic justice for all, including women, youth and persons with disabilities?
- How can decentralisation strengthen local service delivery while preserving national coherence?
- How can development planning address the specific needs of women, disability, and regional disparities simultaneously?
- How can balanced development and state-building efforts integrate mitigating climate and environmental risks to ensure long-term resilience and equitable access to services across all regions?

Economic Policies and Macroeconomic Stability

Libya's economic stability continues to be weakened by high inflation, persistent cash shortages, and imbalances in the foreign-exchange market. Although the official exchange rate was adjusted twice in less than a year, a large gap with the parallel market remains. This gap reflects deeper structural problems, ongoing pressure on public finances, and low confidence in economic management.

The banking sector remains fragile and struggles to support economic activity. Banks face chronic liquidity shortages, provide limited credit to businesses and households, and continue to be affected by governance and capacity constraints. Incomplete institutional unification and political interference further undermines the effectiveness of the sector. Strengthening banking supervision, modernising regulations, improving governance, and restoring public trust are essential steps toward a more stable and functional financial system.

Effective coordination between monetary and fiscal policy is critical to restoring macroeconomic stability. When government spending, borrowing, and monetary decisions are not aligned, inflationary pressures increase, liquidity problems worsen, and foreign-exchange imbalances persist. Without credible and consistent economic policies, uncertainty will continue to discourage investment, weaken private-sector growth, and erode household purchasing power.

Risks if not addressed: If these challenges remain unresolved, Libya risks prolonged inflation, deeper currency distortions, and continued strain on the banking system. Persistent instability could further reduce confidence in the dinar and in financial institutions, pushing more economic activity into informality and cash-based transactions. Over time, this would limit investment, increase the cost of living, and undermine prospects for sustainable growth and economic recovery.

Guiding Questions

- What measures could help restore confidence in the banking system?
- How can monetary and fiscal policies be better coordinated to stabilise prices and liquidity?
- What steps are needed to reduce the gap between official and parallel exchange rates?

Economic Transparency and Accountability

Transparency and accountability are essential for protecting public money and rebuilding trust between citizens and the state. In Libya, several institutions are formally responsible for oversight, including the National Audit Bureau, the Administrative Control Authority, and the National Anti-Corruption Commission. However, the oversight landscape itself is fragmented, with parallel structures, overlapping mandates, and uneven authority across regions. Political interference, pressure from armed actors, and capacity gaps further limit the effectiveness and credibility of these institutions.

Weak coordination between oversight bodies, financial and economic institutions, and law-enforcement agencies reduces the impact of audits and investigations. Differences in practices, procedures, and reporting standards across regions undermine consistency and allow gaps in accountability. Limited public access to budgetary, financial, and economic data further constrains transparency and public scrutiny. Unifying and harmonising oversight institutions, procedures, and standards nationwide - while

safeguarding institutional independence - is critical to restoring effective and impartial oversight.

Civil society organisations and the private sector can play a vital supporting role in monitoring public spending and safeguarding the integrity of public institutions. For this role to be meaningful, they must have safe and reliable access to information, protected reporting and whistleblowing channels, and genuine opportunities to contribute to decision-making processes, including in leadership appointments within oversight bodies.

Risks if not addressed: If oversight institutions remain fragmented and weak, misuse of public resources and corruption risks will persist, deepening public mistrust. Inconsistent oversight across regions may entrench impunity, distort competition, and discourage domestic and foreign investment.

Guiding Questions

- How can oversight institutions be strengthened and better coordinated? How can representation of all segments of society be guaranteed?
- What information should be publicly disclosed to improve accountability?
- How can civil society and the private sector be empowered to safely monitor public resources and hold oversight institutions to high standards of integrity?