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Market Analysis Report

WFP VAM | Food Security Analysis

LIBYA | January - October 2018

HIGHLIGHTS

- Crude oil production pushed the Libyan economy up in 2017-2018, with a revival in oil output and a pick-up in global oil prices. This led to a tripling of public revenues and a trade surplus in 2017 (after 3 years of deficit) with a relatively small increase in imports.
- Food prices continuously increased in the last year: the cost of main food commodities increased on average by 15 percent in October 2018 when compared to the same month in 2017. However, recent economic reforms already show signs of having a positive impact on imports and food prices.
- Strong geographical differences are observed in food price dynamics, with the Southern region being the most expensive area for most products.
- The high volatility of bread and wheat flour prices are impacting the most vulnerable. Disruptions in the national subsidy system could be the main driver of consumer price fluctuation.



ECONOMIC PERFORMANCE

Following four years of economic recession, in 2017 the Gross Domestic Product (GDP) in Libya was estimated at [55 percent growth](#) compared to the previous year.¹ The improved performance was driven by a revival in oil output and a pick-up in global oil prices.

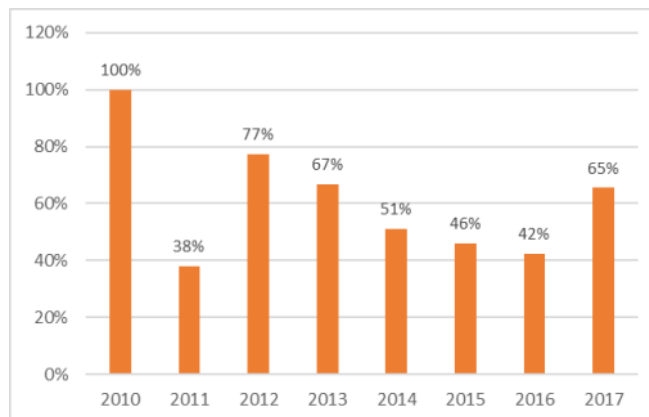
Despite a large improvement in the economic performance of the country in 2017, GDP is still 35% lower when compared to 2010 baseline (please see **Graph 1**).

Crude oil production is the key component of the economy and was the main driver of GDP growth in Libya in 2017. As shown in the **Graph 2**, [oil production](#) during 2016 was 400 thousand barrels lower per day (BBL/D/1K) and started to increase only in the last quarter 2016.²

Oil production was stable during 2017-2018 after reaching a peak of 1003 BBL/D/1K in July 2017. However, in June 2018 production decreased sharply by 25% to 721 BBL/D/1K, which was the lowest level since May 2017. Following a further decrease of 7% in July 2018, oil production picked up sharply by 38.2% in August 2018, reaching 926 BBL/D/1K. In September 2018, Libya crude oil production reached the highest monthly level for the last years, up to 1053 BBL/D/1K.

Crude Oil Production pushed up the Libyan economy in 2017-2018 with a revival in oil output and a pick-up in global oil prices.

Graph 1. GDP dynamics compared to 2010 baseline, %



Graph 2: Libya Oil Production in 2016-2018, BBL/D/1K



PUBLIC FINANCE

Economic improvement had an impact on the public finances of the country. Public revenues almost tripled in 2017 to 22.3 billion Libyan dinars (LYD) from 8.6 billion a year earlier. The positive dynamic remained in the first half of 2018, with public revenues reaching 16.7 billion LYD. Oil revenues in the first half of 2018 reached 15.6 billion, which is more than double the 6.8 billion revenue in the first half of 2017. Share of oil revenues in 2017 was equal to 86 percent, and in the first half of 2018 it accounted for more than 93% of revenues.³

Deficit of the government budget was estimated to be 26 percent of the country's GDP in 2017.⁴ As was reported by the [World Bank](#), the deficit is being financed mainly through cash advances from the Central Bank of Libya. The domestic debt has quickly increased to reach LYD 59 billion end September 2017, up from LYD 1 billion in 2010. However, a large decrease of budget deficit to LYD 0.2 billion was reported by [Central Bank of Libya](#) in first half 2018.⁵

Despite subsidies increasing total public expenditure from LYD 5.7 billion in 2016 to 6 billion in 2017 (share in total expenditure decreased from 20 to 18 percent), it is still far from 2015 (8.2 billion) or 2014 (12.4 billion) levels. Slight increase of subsidies could be observed in the first half of 2018 to LYD 3.2 billion. However, the efficiency of public subsidies is unknown.

Public finance might be one of the main economic risks for price stability and social protection in the country, though there was a large improvement in the first half of 2018. Oil revenues play a key role in public finance.

1. Tradingeconomics cited as source Central Bank of Libya

2. OPEC, Monthly Oil Market Reports

3. Central Bank of Libya, Economic Bulletin 2nd Quarter 2018

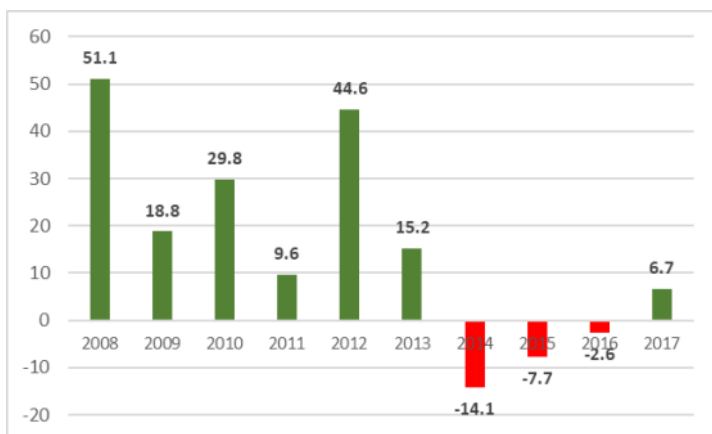
4. World Bank, Libya's Economic Outlook - April 2018

5. Central Bank of Libya, Economic Bulletin 2nd Quarter 2018

BALANCE OF TRADE

Libya recorded a trade surplus of LYD 6.7 billion in 2017 after 3 years of negative balance (**Graph 3**).⁶ The country runs trade surpluses as a result of significant exports of oil. Export levels more than doubled in 2017 when compared to 2016, while imports increased only slightly by 9.3%.

Graph 3: Libya balance of trade, LYD billions



Increase of export and trade balance could have positive effects on the exchange rate. On the other hand, Libya is highly dependent on the import of food and other consumption commodities. The imports indicator is one of the key indicators used to estimate consumption in the country. Despite the increase in the amount of imports in 2017 to LYD 13.2 billion, it is much less than what it was in 2015 (LYD 22.7 billion) or 2014 (LYD 38.6 billion).

Given the significant import dependence of almost all consumption commodities (especially food), it can be assumed that the real consumption of households has declined significantly in recent years.

CURRENCY EXCHANGE RATE

Official currency exchange rate in Libya during 2017 was stable with around 1.3-1.4 Libyan dinars per US dollar (USD/LYD). However, in the parallel market, the exchange rate reached its peak at 9.2 USD/LYD in November 2017.⁷ Improved economic performance in 2017 led to a strengthening of the Libyan dinar on the parallel market in early 2018. Meanwhile, in May the Libyan dinar on the parallel market devaluated 7 percent when compared to April 2018 and reached 6.8 per US dollar. Despite the decrease of crude oil production in June-July 2018, the exchange rate seems to be stable even with a slight strengthening to 6.4 per US dollar in August.

In September 2018, the [Central Bank of Libya imposed](#) a new 183 percent tax / levy on the official sale of foreign currency.⁸ The levy applies to official foreign currency sales and does not apply to the black market exchange rate. The [new foreign currency levy in effect devalues](#) the Libyan dinar and raises the exchange rate of 1 USD to LYD 3.90 from the official LYD 1.38 per dollar exchange rate.⁹

Graph 4: Exchange rate dynamics, USD/LYD



Following modifications of the exchange rate policy coupled with increasing oil exports, the value of the Libyan dinar appreciated on the parallel market to 5.3 against USD in October 2018.

General strengthening of the local currency could have positive effects on the import of food and other consumer products into the country.

6. Central Bank of Libya, Economic Bulletin 4th Quarter 2017
 7. Parallel market rates are collected from Ewan Libya www.ewanlibya.ly each mid-month
 8. Libya Joint Market Monitoring Initiative (JMMI), September 2018 Report
 9. The independent Libya online daily – Libya Herald

INFLATION RATE

According to the [Statistics and Census Bureau of Libya](#), inflation rate in 2017 was recorded at 28.5 percent, following 25.9 percent in 2016.¹⁰ On the other hand, food inflation rates were higher with 35.1 and 29.8 percent accordingly. However, during the first four months in 2018, inflation started to slow down each month, reaching 12.1 percent rate in April 2018 compared to April 2017, while food inflation was recorded at 18.3 percent. The inflation rate in Libya was recorded at 8.6 percent in September 2018 and costs of food increased 13.4 percent in September of 2018 as compared to the same month in the previous year. The highest level of yearly food inflation was recorded in December 2017, when it reached 49.7 percent.

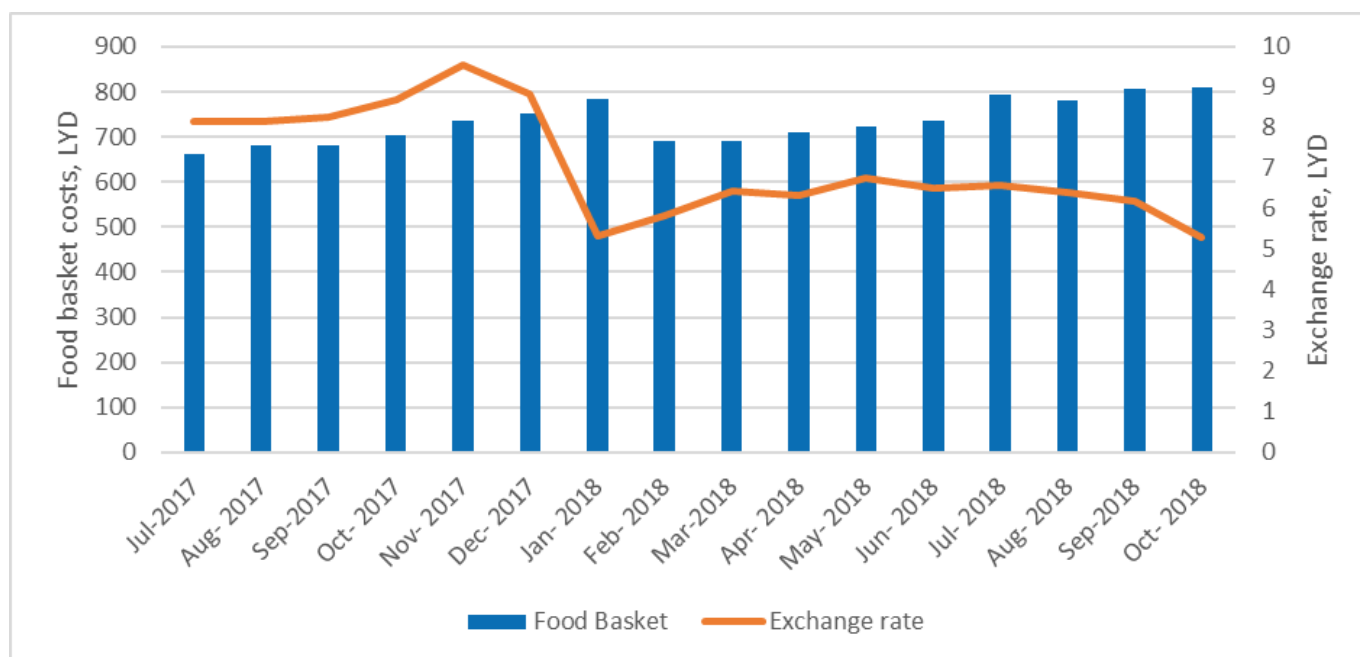
As food in Libya is mainly imported, food inflation is highly dependent on currency exchange rate dynamics, import and tax policies of the country and other constraints for importers to bring food into the market.

FOOD PRICES

As was indicated above, food inflation is still considered high in the country in 2018. Further analysis of prices is done based on the data of the Joint Market Monitoring Initiative in Libya led by [REACH](#). Collection of data started in June 2017, which allows for annual comparisons, however geographical coverage of markets at the early stages of the monitoring was lower.

The cost of the main food commodities (food basket)¹¹ in the country increased by 15 percent in October 2018 when compared to the same month in 2017.¹² The gradual increase of prices happened in 2017 and average food basket cost reached its peak to LYD 783 in January 2018 (see **Graph 5**). In February 2018, following significant strengthening of local currency, the food basket cost decreased by 11.7 percent to 692 Libyan dinars. During February and July 2018 food basket value gradually grew each month, reaching the highest level of LYD 793 in July 2018. Food basket cost increased by 9 percent in July 2018, when compared to previous months. In October 2018 food basket slightly increased reaching LYD 811, the highest level observed. Recent strengthening of national currency is already showing positive impacts on food prices: REACH is reporting a decrease of 3.4% on the median food basket in November 2018.¹³

Graph 5: Food basket average costs and currency exchange dynamics.



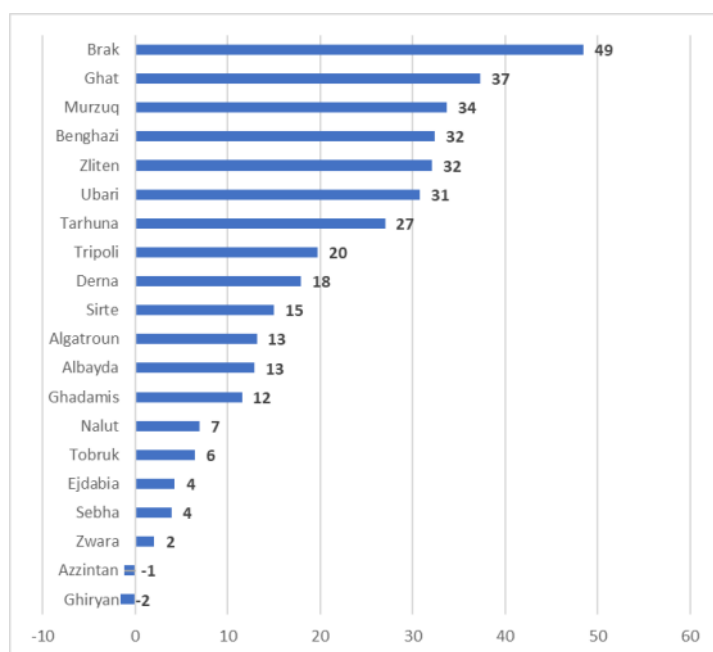
10. Statistics and Census Bureau of Libya

11. Monitored monthly food basket is culturally adjusted group of food items required to support a six-person Libyan household for one month. It includes bread 38 kg, rice 12.5 kg, pasta 11 kg, couscous 6.5 kg, beans 7 kg, chicken 9 kg, tuna 4.5 kg, eggs 4.5 kg, milk 10 L, tomatoes 12 kg, potatoes 14 kg, onions 8 kg, peppers 5 kg, tomato paste 7 kg, black tea 2 kg, vegetable oil 6 L, sugar 2 kg and salt 1 kg

12. Limitation of comparison is different market monitoring coverage. Only 7 markets were covered in August 2017, while 29 in August 2018

13. http://www.reachresourcecentre.info/system/files/resource-documents/reach_lby_situationoverview_jmimi_november2018_v2.pdf

Graph 6: Change of food basket costs by monitored market, October 2017 to October 2018



On the regional level, price trends developed differently last year (please see **Graph 6**). The largest increase in October 2018 when compared to same month 2017 happened in Brak (49 percent), Ghat (37 percent) and Murzuq (34 percent). On the other hand, food prices slightly changed over the year in Ghiryan, Azzintan, Zwara, Sebha and Ejdabia.

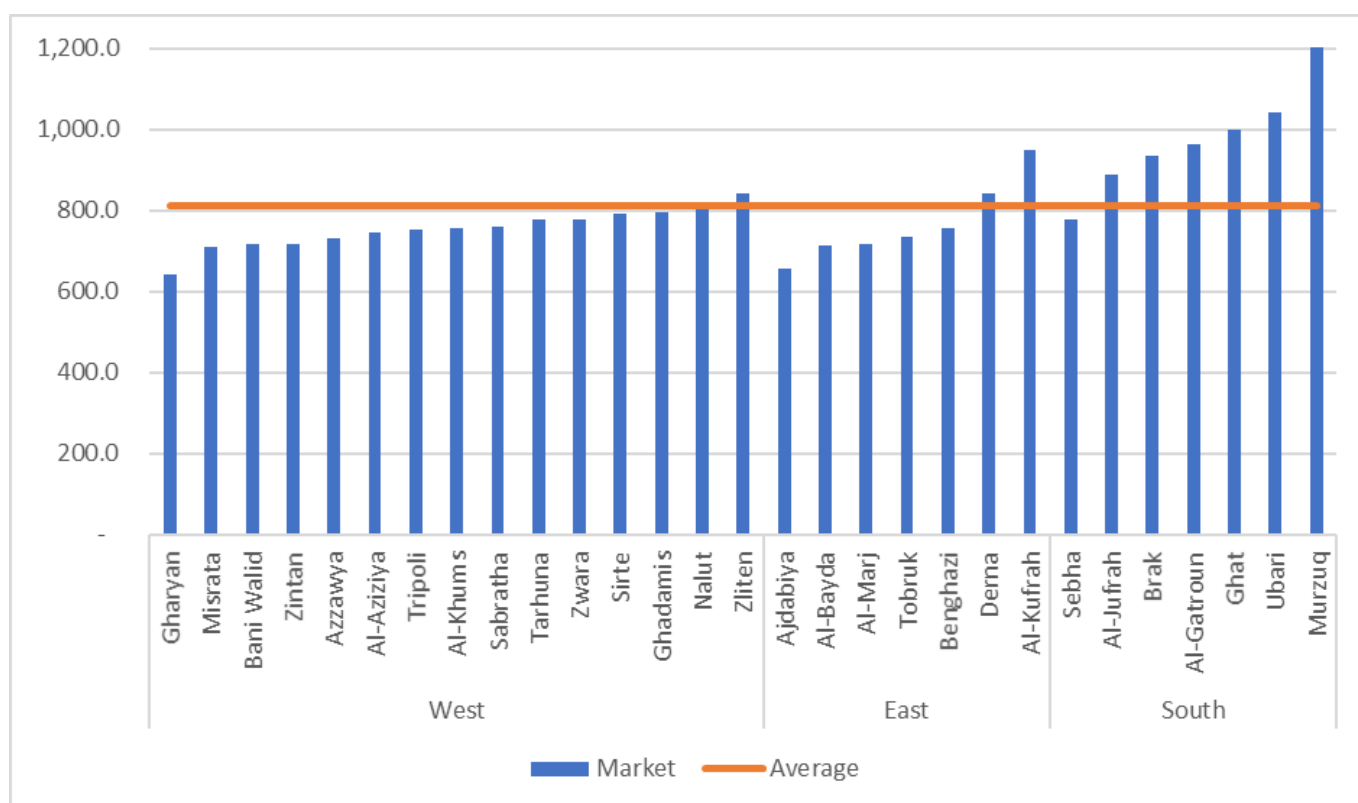
Different regional price trends for 2017-2018 could indicate a weak integration of the markets and large regional differences in prices.

As shown in **Graph 7**, the cheapest food basket in October 2018 was in Gharyan, while the most expensive was in Murzuq. The most expensive food basket in the country cost 86 percent higher, when compared to cheapest value and 48 percent higher when compared to the average in the country. In August 2018, the difference between most expensive and cheapest was 45 percent, and October analysis indicates a strengthening of price polarization of markets.

The highest prices were found on the markets in the South (Murzuq, Ubari, Ghat) of the country, while the difference between West and East markets is relatively small and on average stands only for 1.4 percent. Despite a small difference between the average food basket cost in West and East, there are large differences within these two regions. The difference of food basket cost in western Zliten and Gharyan is 31 percent, while in eastern Ajdabiya and Al-Kufrah it is 45 percent.

Generally, **Graph 7** indicates food prices are lower geographically on the markets in the North, while higher in the South.

Graph 7: Food basket cost difference by monitored market in October 2018, LYD



Comparison of food prices in Benghazi and Tripoli could provide more of an explanation on the regional differences as these are the two main ports cities in the country. **Table 1** shows the difference between prices in Tripoli city and Benghazi in October 2018. Prices for most of the commodities are quite different. Prices for beans, chicken, lamb, vegetable oil, tea and wheat flour are higher in Benghazi while in Tripoli prices are higher for bread, milk, potatoes and salt. Generally, in October 2018 the overall cost of the food basket was almost the same in Tripoli when compared to Benghazi, while in August it was 5 percent higher. The reason for price differences between markets could be very diverse and might include subsidies, diversity of suppliers, terms of delivery etc.

Table 1. Difference between food prices in Tripoli city and Benghazi in October 2018, LYD

COMMODITY	Tripoli	Benghazi	Difference
Beans, 400 g	2.5	2.88	15%
Bread (wheat), 5 pcs	2.5	1.46	-42%
Chickpeas, 400 g	3	3	0%
Couscous, KG	3.25	3.13	-4%
Eggs, 30 pcs	13.5	13	-4%
Fish (tuna, canned), 200 g	4.85	4.25	-12%
Meat (chicken), KG	10.83	12	11%
Meat (lamb), KG	30	36.5	22%
Milk, L	3.25	2.5	-23%
Milk (condensed), 200 ml	3.85	2.75	-29%
Oil (vegetable), L	4.75	5.25	11%
Onions, KG	2.25	1.5	-33%
Pasta, 500 g	1.25	1.25	0%
Peppers, KG	4.25	4.75	12%
Potatoes, KG	2.5	1.5	-40%
Rice, KG	3.25	4.5	38%
Salt, KG	1.13	1	-12%
Sugar, KG	3.63	3.5	-4%
Tea (black), 250 g	6.38	9	41%
Tea (green), 250 g	3.75	5	33%
Tomatoes, KG	2.5	3	20%
Tomatoes (paste), 400 g	2	3	50%
Water (drinking), L	0.88	2	127%
Wheat flour, KG	3	3.38	13%
Food Basket	755	754	0%

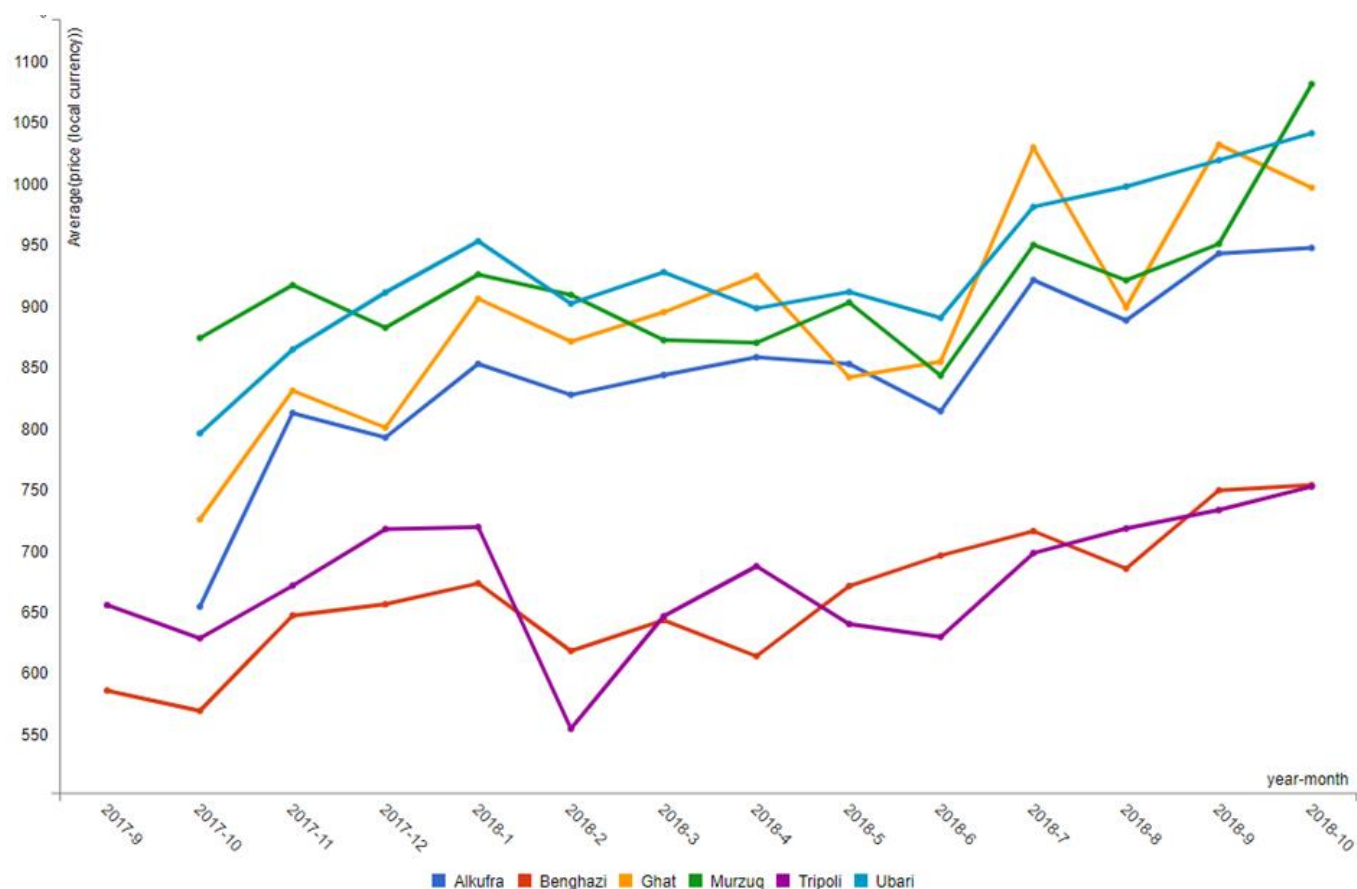
no significant difference between two markets (up to 5%)

price higher (more than 5%)

price lower (more than 5%)

The difference of food basket cost in the South and North of the country is illustrated in **Graph 8**. Food prices in all southern governorates are much higher when compared to the northern governorates. Despite the difference in prices, trends are generally similar for North and South. Similarity of trends between all geographical areas could follow currency exchange dynamics, however price difference could reflect import deliveries to various ports of the country, stock changes in warehouses, demand behaviours etc. Those price trends could be observed for Tripoli and Benghazi, where trends are similar, however the dynamic of monthly price change is different. A sharp increase of prices happened in July 2018 (and can be observed in **Graph 8**) in all governorates, except for Benghazi where prices increased only slightly. A large price jump happened in Murzuq in October 2018.

Graph 8. Different trends of food basket costs in northern and southern governorates of Libya, LYD



As imports mainly come through the ports of Tripoli, Misrata and Benghazi, logistics and delivery related costs might be the main reason for south-north price difference in the country. However, security and border constraints (check points etc.) could also play a role in some cases.

There are significant variances in the dynamics of prices of individual commodities.

Price trends for some commodities on a national level are shown in the **Table 2**. Data indicates that rice and egg prices increased gradually through year, while the price of sugar price is going down slightly when compared to previous month and year. Meat (chicken) went down by 8% in October 2018, however is still 17 percent higher when compared to same month last year.

The largest impact on the food basket costs spike in July 2018 was the increase of the price of vegetable oil. The range of

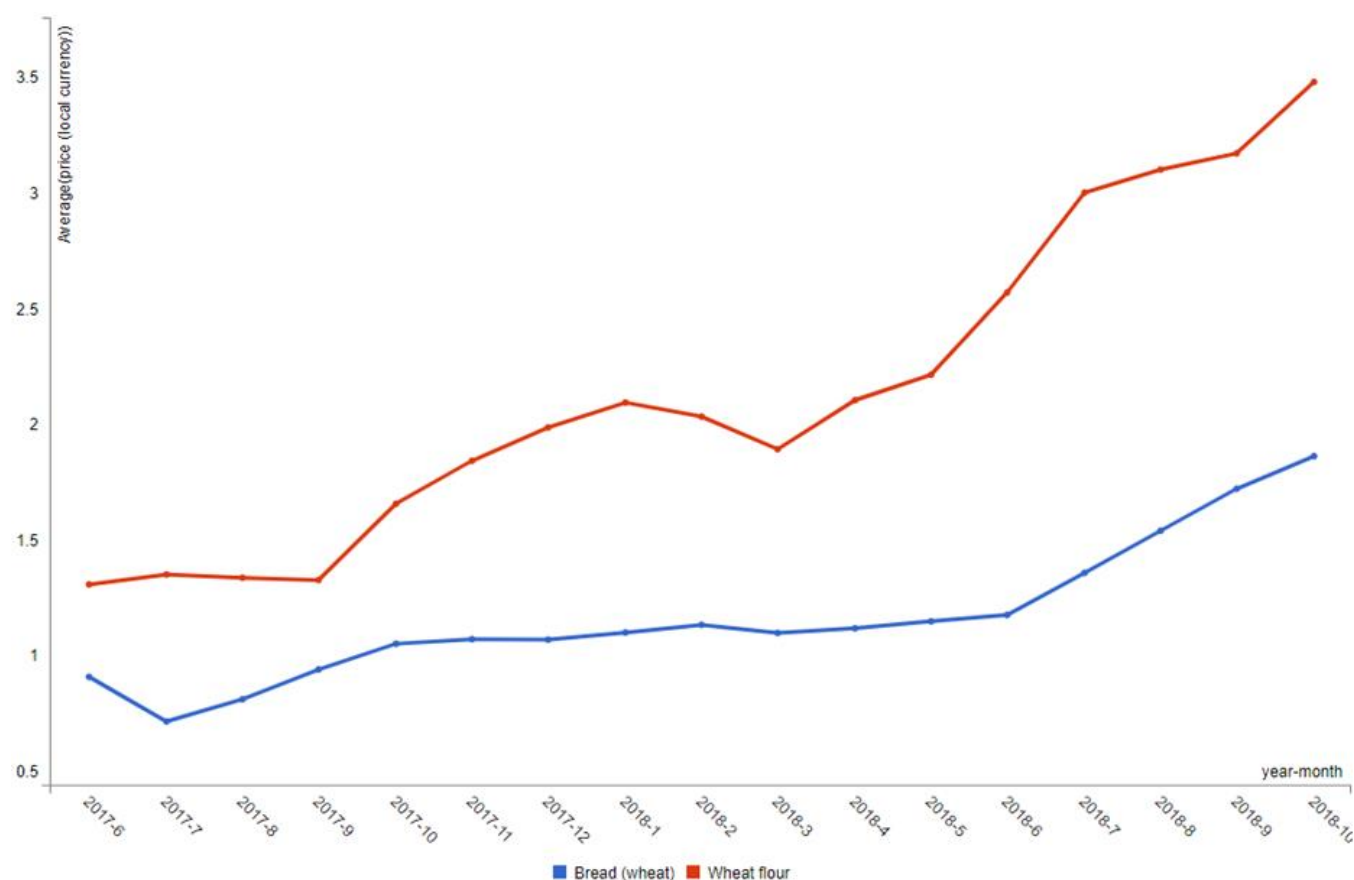
Table 2. Price change for some commodities in Libya as of October 2018, LYD

Commodity	Current Month	Previous Period				% Change From the Previous Period				Direction of Change			
		1 M	3 M	6 M	1 Yr	1 M	3 M	6 M	1 Yr	1 M (+/- 5%)	3 M (+/-10%)	6 M (+/-10%)	1 Yr (+/-10%)
Rice	4.25	4.07	4.00	3.71	3.35	4%	6%	15%	27%	▲	▲	▲	▲
Eggs	13.16	12.81	11.16	12.26	10.83	3%	18%	7%	22%	▲	▲	▲	▲
Meat (chicken)	12.87	13.98	13.39	13.07	10.99	-8%	-4%	-2%	17%	▼	▲	▲	▲
Oil (vegetable)	5.65	6.31	7.92	3.60	3.71	-10%	-29%	57%	52%	▼	▼	▲	▲
Sugar	3.70	3.85	4.18	3.76	3.97	-4%	-11%	-2%	-7%	▲	▼	▲	▲
Pasta	1.82	1.85	1.71	1.53	1.65	-2%	6%	19%	10%	▲	▲	▲	▲
Tomatoes	2.90	2.35	3.15	2.56	2.24	23%	-8%	13%	29%	▲	▲	▲	▲

price for vegetable oil was between LYD 3-4 during the last year until June 2018, when price experienced an extreme jump. Prices in all governorates on average doubled from LYD 3.7 to 8 per liter in July 2018 (**Table 2**). In October however, the price of vegetable oil decreased to LYD 5.6, which is still 50 percent higher when compared to the same of previous year.

Price trends of wheat bread and flour look very similar in October 2018, with flour prices increasing by 8.1 percent and bread increasing by 9.7 percent. However, as shown in **Graph 9**, bread price grows slower when compared to flour. Prices for bread were relatively stable until July 2018, when they started to increase rapidly until October 2018. On the other hand, wheat flour price started its uptrend already in October 2017 with a temporary decrease during February-March 2018.

Graph 9. Price trends of bread and flour, LYD



Prices for wheat flour were more dynamic with the increase equal to 110 percent in October 2018 when compared to October 2017, reaching on average LYD 3.5 for 1 kg, while bread price went up for the same period by 76 percent.

This could indicate a presence of price control and/or subsidy support for bread production.

According to [REACH April 2018 report](#),¹⁴ despite the increase in the price of wheat flour, prices of bread were mostly unaffected due to strict price controls, though bakeries were showing signs of strain. In Tripoli, many bakeries went on strike to demand the provision of subsidies for wheat flour at earlier levels, reported in [REACH June 2018 report](#)¹⁵ In Benghazi, bakeries that formerly sold bags of 6-7 pieces of bread for 1 LYD were now selling 4-piece bags for the same price (which corresponds to \$0.17 USD for 1 loaf of bread at the official exchange rate).

The government subsidizes wheat flour imports by allowing importers or mills to benefit from the official exchange rate (though *Letter of Credits*) which makes the import USD price up to four times cheaper than if using the parallel rate or

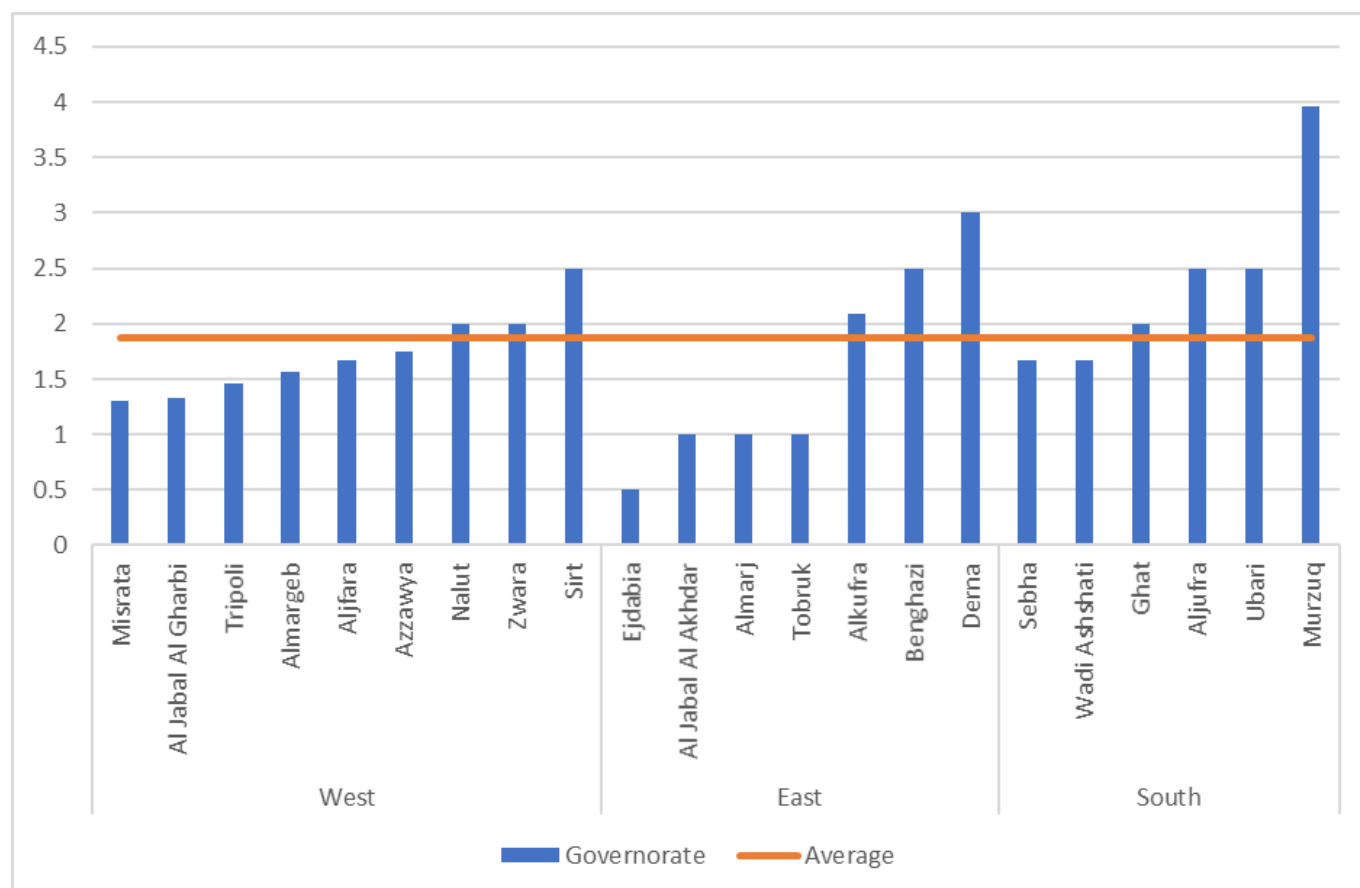
14. Libya Joint Market Monitoring Initiative, April 2018

15. Libya Joint Market Monitoring Initiative, June 2018

twice cheaper since the introduction of new importation taxes in September. However, the government mechanisms to have bread and wheat flour available to customers at a government controlled price are dysfunctional. Key Informant data from WFP indicate that the network of cooperative shops (Jam'iyat) managed by the Price Stability Fund (Ministry of Economy) are only supplied sporadically. Similarly, bakeries report lack of regular access to subsidized flour.¹⁶

The difference of bread price between markets is large. The cheapest price in October 2018 was found in some places in the East (Ejdabia, Al Jabal Al Akhdar, Almarj, Tobruk), while the most expensive bread was in the South (Murzuq) (please see **Graph 10**).

Graph 10: Bread price for 5 pcs per governorate as of October 2018, LYD



The range of the price difference for bread among governorates is large in the West, East and South. It is worth to mention that prices are different on the markets inside governorates. Price for 5 pieces of bread in most of the eastern markets was LYD 0.5 and 1, while in western from LYD 1 to 1.67. In the South, prices for bread ranged from LYD 1 to 2.5. However, there are exceptions in both East and West with price range between LYD 2 and 3. In southern markets, bread prices start with LYD 1.67 and finish with extremely high level of LYD 6.25 in Murzuq. Limited range of price values and exactly the same prices in a few markets indicate possible subsidies/price control on the bread.

Comparison of bread and flour price difference shows that most subsidised bread could be in Almarj, Ejdabia, Albayda, Tobruk, Zliten, where bread is much cheaper than the national average, while flour price is more expensive than the national average.

16. <https://www.reuters.com/article/us-libya-security-economy/bread-price-hike-sharpens-economic-pain-for-libyans-idUSKBN1K22P8>



Photo: WFP/Mohamaed Ben Khalif

Reasons that could explain the wheat flour and price dynamics are:

- The capacity of mills to import wheat at a subsidized price: Letters of Credit to benefit from official exchange rate are issued discontinuously by the Central Bank;¹⁷
- The diversion of subsidised wheat and wheat flour by mills and bakeries to non-existing bakeries 'ghost bakeries'¹⁸ or smuggled to neighboring countries¹⁹; Letters of credit 'scams' to benefit from official rate hard currencies but not importing wheat have also been documented.²⁰
- Supply chain/security costs to get wheat flour from the mills that are mostly located in Tripoli and Benghazi to the rest of the country;
- Bakeries using less quantity of wheat flour to produce bread.

Annex A provides further analysis on grouping the monitored markets on dynamics and price of the bread price.

17. <https://www.libyaobserver.ly/economy/head-libyan-bakers-blames-lack-documentary-credits-bread-crisis>

18. <https://www.libyaherald.com/2018/05/30/subsidised-bread-flour-to-be-paid-for-through-e-payments-to-counter-1200-ghost-bakeries/>

19. http://www.reachresourcecentre.info/system/files/resource-documents/reach_lby_report_joint_market_analysis_initiative_october_2017.pdf

20. https://www.mercycorps.org/sites/default/files/Mercy%20Corps_Libya%20Shadow%20Economy.pdf

ANNEX A

Graph 11 shows four groups of markets based on the dynamic of the bread price between April and October 2018 and bread price in October 2018. The green circle (**first group**) on the graph combines markets where small increase of price occurred or even decrease and prices in October 2018 are lowest in the country. Negative dynamic and cheapest prices were recorded in Ejdabia, Ghiryan and Zliten. The **second group**, which is highlighted by the yellow circle, represents markets with middle level and moderate dynamics of bread prices. This group actually includes most of the monitored markets. The **third group** (orange circle) included markets with high price and moderate dynamics, such as Ubari, Sirte, Nalut and Al-Jufrah. Markets with highest prices and high dynamic could be observed in the **fourth group**, highlighted by the red circle, including Benghazi, Derna and Murzuq (this market is not on the graph, however it has highest dynamic and price).

Graph 11: Price and dynamic (April to October change) of bread price

