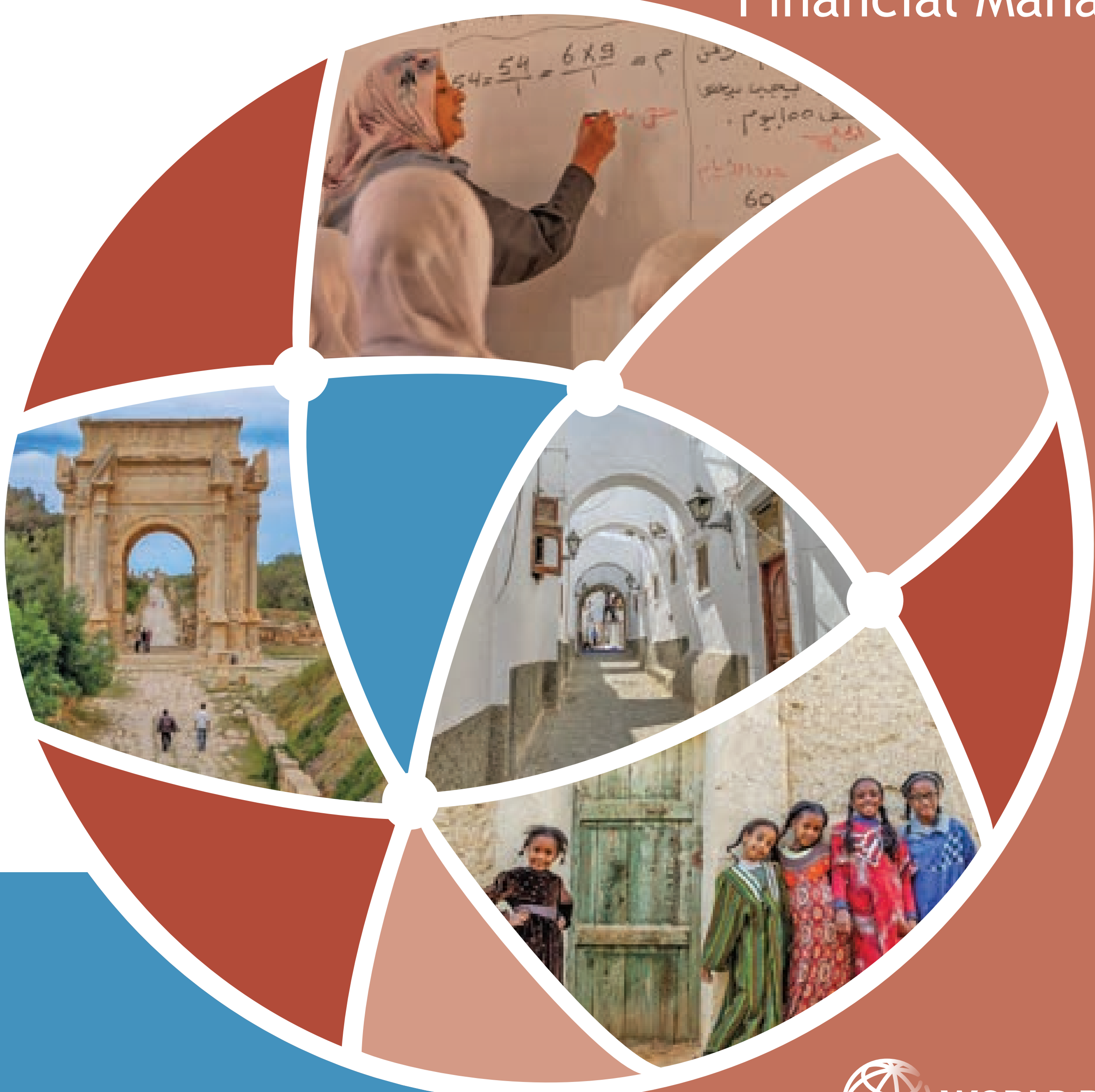
LIBYA ECONOMIC MONITOR

Setting the Path Towards Accountability and Transparency in Public Financial Management

Fall 2025



WORLD BANK GROUP

Libya
Economic Monitor

Setting the Path Towards Accountability and Transparency in Public Financial Management

Fall 2025

Middle East, North Africa, Afghanistan, and Pakistan (MENAAP) Region

1818 H Street NW
Washington DC 20433
Telephone: 202-473-1000
Internet: www.worldbank.org

Cover photos: “Shades of Libya: Contrasts, Hope, and Resilience”, World Bank, Feb 2025

Publication design and layout by The Word Express, Inc.

CONTENTS

List of Figures

List of Tables

List of Boxes

ABBREVIATIONS

BTI	Bertelsmann Transformation Index
CBL	Central Bank of Libya
CPI	Consumer Price Index
EFI	Economic Fitness Index
FCV	Fragile, Conflict, and Violence
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNI	Gross National Income
GNS	Government of National Stability
GNU	Government of National Unity
HoR	House of Representatives
ILO	International Labor Organization
IMF	International Monetary Fund
LEM	Libya Economic Monitor
LYD	Libyan Dinar
Mbpd	Million barrels per day
MENA	Middle East and North Africa
NOC	National Oil Corporation
SCM	Synthetic Control Method
TFP	Total Factor Productivity
USD	United States Dollar
WBG	World Bank Group

PREFACE

The Libya Economic Monitor (LEM) is the product of the Middle East and North Africa unit in the Economic Policy Global Practice at the World Bank Group. It provides an update on key economic developments and policies and presents Libya's economic outlook. It is intended for a wide audience, including policymakers, business leaders, financial market participants, and the community of analysts and professionals engaged in Libya. The data cut-off for this report is **November 1, 2025.**

The Macroeconomics section of the report was led by Khaled Alhmoud (Senior Economist, Task Team Lead) and co-authored by Zied Ouelhazi and Mohamad Habib Zitouna (Economists). The Special Focus section was prepared by Holy Tiana Rame (Senior Governance Specialist). The authors received invaluable comments on preliminary drafts of the report from Abdoulaye Sy (Lead Economist). The authors are grateful to Ekaterina Georgieva Stefanova (Senior Program Assistant) for administrative support.

The LEM was completed under the guidance of Jasmin Chakeri and Clelia Rontoyanni (Practice Managers) and Henriette von Kaltenborn-Stachau (Resident Representative for Libya). Ahmadou Moustapha Ndiaye (Division Director) authorized the publication.

The findings, interpretations, and conclusions expressed in this report are those of the World Bank staff and do not necessarily reflect the views of the Executive Board of The World Bank or the governments they represent.

For questions and comments on the content of this publication, please contact Khaled Alhmoud (kalhmoud@worldbank.org). For media communication, please contact Estelle Allano (eallano@worldbank.org).

Translation Services by Hammouda Salhi.

EXECUTIVE SUMMARY

Libya's economic performance during the first nine months of 2025 has been marked by a strong rebound in overall GDP driven primarily by the recovery and expansion of the oil sector. Following the 2024 Central Bank of Libya (CBL) crisis—which triggered a sharp contraction in oil GDP and a slowed overall GDP growth—oil production surged during the first nine months of 2025, averaging 1.3 million barrels per day, an increase of 17 percent year-on-year. With the strong performance in oil activity, the non-oil sectors remained robust, supported by both private and public consumption. Despite persistent structural, security, and political challenges these trends reflect the positive impact of increased investments and ongoing maintenance in oil projects, alongside gradual improvements in security conditions.

On the fiscal front, public finances have shown improvement, with the GNU's fiscal surplus widening to 3.6 percent of GDP during the first nine months of 2025, compared to 0.7 percent in the same period of 2024. This was achieved despite softer oil prices, as higher oil production and the April 2024 devaluation of the Libyan dinar boosted hydrocarbon revenues by 33 percent, offsetting declines in tax revenues. However, public expenditure continued to rise, driven by increases in the wage bill and subsidies, while capital spending declined sharply. In the external sector, the merchandise trade surplus contracted by 16 percent in the first half of 2025, reflecting lower oil export receipts and higher imports, particularly for development and reconstruction projects.

Looking ahead, the economy is projected to register strong growth in 2025 assuming stable security conditions for the rest of the year. Real GDP is projected to grow by 13.3 percent in 2025, driven primarily by the boost of oil sector activities by 17.4 percent, and moderate to 3.5 percent in 2026 and 3.9 percent in 2027 as oil output stabilizes. The non-oil GDP is also expected to remain robust, growing by 6.8 percent, supported by resilient private and public consumption. The fiscal position is anticipated to improve, with the fiscal surplus reaching 3.8 percent of GDP in 2025 and averaging 3.5 percent in the medium term. Meanwhile, the current account deficit is expected to narrow to 2 percent of GDP in 2025, before returning to a surplus of 3 percent by 2027 as oil receipts recover.

However, the outlook faces significant downside and upside risks. The main challenges stem from persistent political fragmentation, institutional divisions, and the absence of a unified national budget, all of which undermine macro-fiscal management and economic stability. Externally, a sharper-than-expected slowdown in global growth or further declines in oil prices could adversely affect fiscal and external balances. Conversely, improvements in political stability or a recovery in global oil demand could boost economic prospects. In the medium term, the primary challenge remains diversifying the economy and reducing dependence on hydrocarbons, while climate-related shocks and regional instability add further layers of risk to Libya's economic trajectory.

The Special Focus section of this report, entitled: "Setting the Path Towards Accountability and Transparency in Public Financial Management" examines Libya's Public Financial Management (PFM) system, highlighting challenges from institutional fragmentation, oil dependency, and weak financial controls. Using the Public Expenditure and Financial Accountability (PEFA) framework, Libya's PFM is benchmarked against other fragile and conflict-affected states, revealing deficits in budget preparation, execution, and reporting. The analysis identifies successful reform strategies from peer countries, emphasizing the adoption of a Treasury Single Account, improved cash management, and revised budget classification. Progress hinges on political consensus and institutional collaboration. The ongoing PEFA assessment offers an opportunity to refine the reform agenda and foster stakeholder dialogue for a more transparent, resilient PFM system.

1

RECENT ECONOMIC DEVELOPMENTS

Conflict and Institutional Developments

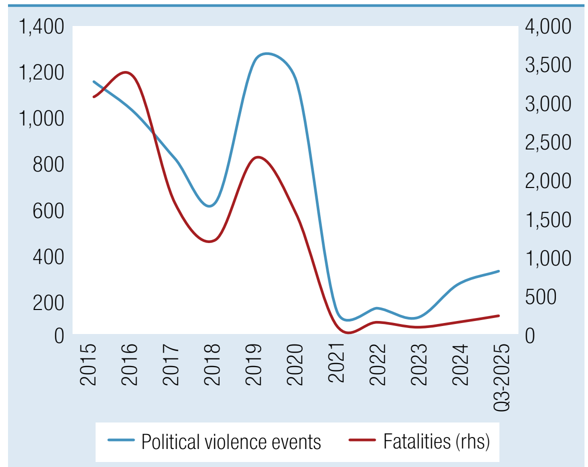
Libya's political landscape remained stalled by entrenched rivalries between the Government of National Unity (GNU) in Tripoli and the eastern-based Government of National Stability (GNS). Efforts to advance national elections have been hampered by deep disagreements and ongoing institutional fragmentation. The announcement of a revised UN-supported political roadmap in August, backed by both the Security Council and the African Union, signaled renewed international commitment to ending the transitional phase and facilitating a structured national dialogue with clear emphasis on institutional unification and an 18-month timeframe toward elections. Notable progress was achieved when 26 municipalities succeeded in holding elections despite security and political challenges while voting in 16 municipalities was suspended by the eastern authorities, including in key cities such as Benghazi and Tobruk in the East and Sabha in the South.

The failure of Libyan authorities to pass a unified national budget for 2025 is indicative of the country's enduring political and institutional divisions. Despite recurrent calls from the international community, rival governments and parliament have not been able to reach consensus on the framework or implementation of fiscal policy. The GNU continues to spend based on monthly allocation on essential items, excluding capital expenditure and development projects. The GNS submitted a budget proposal exceeding LYD 174 billion (74.3 percent of GDP), which was intended to cover all regions and public spending needs. However, questions persist regarding transparency, the balance between recurrent and capital expenditures, and whether the draft adequately addresses urgent economic challenges, such as health, education, and infrastructure. The CBL expressed concern over inconsistent revenue projections and dual parallel spending by competing authorities. The recent signing of the Unified Development Program Agreement between the House of Representatives and the High State Council establishes a clear framework for unifying spending channels and allocating funds for development projects. The agreement, and its momentum, marks an important milestone in the process of realizing a comprehensive and unified budget. The persistent absence of a unified national budget significantly undermines macro-fiscal management, perpetuates fiscal fragmentation, and reduces transparency, threatening economic stability, weakening fiscal discipline, and complicating the delivery of essential public services and investments necessary to support Libya's recovery (more details provided in the Special Focus section of this report).

The political divide, institutional fragmentation, and absence of unified budget impeded the capacity of Libyan authorities to deliver essential public services to its citizens. For example, the health sector remains under considerable strain, with notable disparities in service access and persistent infrastructure challenges despite reform efforts. Around 18 percent of primary health care facilities are reportedly closed due to lack of maintenance, human resource shortages, and physical damage, among other challenges, resulting in diminished availability of essential health services, especially in conflict-affected and remote areas.[1] Many school buildings require urgent rehabilitation due to physical damage, lack of maintenance, or repurposing for non-educational uses, with shortages of classrooms and facilities.[2] Utility service availability shows gradual improvement, but remains vulnerable to significant infrastructure disruptions, particularly in electricity and water supply systems. Several cities continue to face periodic blackouts due to generation deficits and aging grid infrastructure, especially during peak summer demand. Cities from Benghazi to Tobruk experienced prolonged blackouts for days at a time during summer 2025. Major water supply disruptions have been driven by vandalism, fuel shortages, and deteriorating infrastructure, leading to significant service interruptions in multiple districts.[3,4]

Security conditions reflected persistent instability particularly in and around Tripoli and the coastal west (Figure 1). The assassination of an influential militia commander in Tripoli in May 2025 triggered heavy fighting between rival militias around Tripoli area. Intense urban clashes led to the suspension of civilian flights, school closures, and damage to residential areas with further violence reported during mass protests over the city's deteriorating security conditions. While national ceasefire arrangements generally remained intact, the fragmentation of security institutions and frequent militia competition continue to pose risks for both political stability and economic prospects.

FIGURE 1 • Security Conditions Deteriorated during 2025 Compared to 2024



Source: ACLED.

Economic Growth and Hydrocarbon Sector

Following the 2024 slowdown, the economy shows clear signs of recovery during the first 9 months of 2025, supported by stronger oil sector activity. Following the resolution of the CBL crisis in September 2024, which led to the shutdown of oil fields and export terminals for two months, oil production rebounded to 1.3 mbpd by the end of December—resulting in average production of 1.1 mbpd for the whole year. Consequently, oil GDP contracted by 5.5 percent in 2024 leading to slower GDP growth, which stood at 1.4 percent (Figure 2). During the first

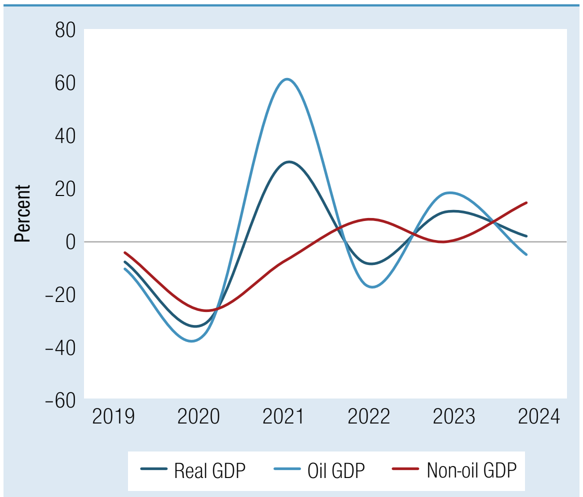
[1] Ministry of Health (2023): Update of the availability of essential health services and functionality status of public health facilities of Libya. Ministry of Health, Libya–Information Health Center, Tripoli, Libya.

[2] European Training Foundation (2024) Key policy developments in education, training and employment Libya 2024.

[3] UN OCHA (2023–2025) Libya humanitarian situation report.

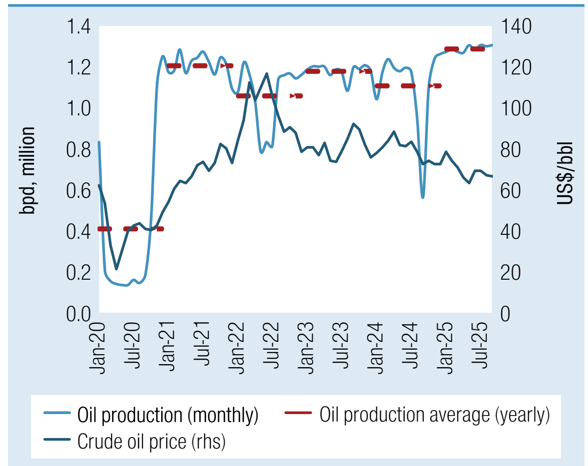
[4] AfDB (2024) Infrastructure diagnostic and country brief for Libya.

FIGURE 2 • The CBL Crisis Heavily Affected Economic Growth in 2024



Source: World Bank staff estimates.

FIGURE 3 • Oil Production Registered a Marked Recovery in 2025 Despite Fragile Security Context



Source: World Bank staff estimates.

three quarters of 2025, oil output continued to average 1.3 mbpd (+17 percent y-o-y) to reflect higher production levels resulting from increased investments and maintenance projects in the oil sector undertaken in 2023 and 2024 (Figure 3).

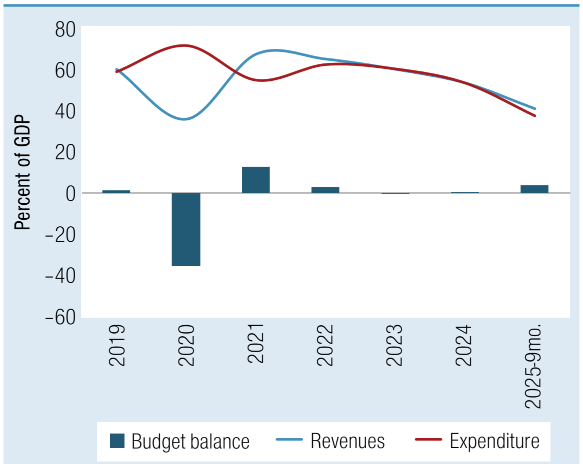
Libya's oil sector has recently drawn increased interest from international oil companies. The country's first oil bidding round in 17 years drew major international companies like BP, Shell, Chevron, and TotalEnergies. Eni, the Italian oil company, has resumed offshore exploration. Global partners such as BP, ExxonMobil, and Turkish Petroleum Corporation signed memorandums of understanding to advance exploration and technical studies in key fields and offshore areas. The GNU has undertaken regulatory reforms,[5] and increased transparency, to attract foreign investment even amid ongoing political challenges.

To mitigate substantial dependence on hydrocarbons, the country also embarked on a diversification strategy and undertook initiatives to promote non-oil growth. Central to the strategy are structural reforms that prioritize the improvement of the investment climate, private sector participation, and deepening Libya's participation in global value chains, with an ambitious national growth target exceeding 8 percent. Reforms to regulatory frameworks, business registration, and property rights were implemented[6] to stimulate investments and promote growth across several sectors, including agriculture, manufacturing, information technology, and renewable energy. Initiatives at the regional level, such as the reconstruction projects in Benghazi and Derna, the reactivation of the Sirte Free Zone, and the establishment of large-scale "Agricultural Circles" in Wadi Al-Shati seek to strengthen local economic development, logistics, and trade.

5 Reforms include the launch of the fifth-generation Exploration and Production Sharing Agreement (EPSA V), featuring more favorable terms for international oil companies, the replacement of older and less predictable revenue-sharing and contractual frameworks with new competitive ones, the establishment of a dedicated online platform (Virtual Data Room) for licensing rounds, providing secure and confidential access to technical, legal, and financial data for prospective investors, and the digitalization of bidding and tracking systems, allowing foreign investors to monitor project progress and financial flows more transparently.

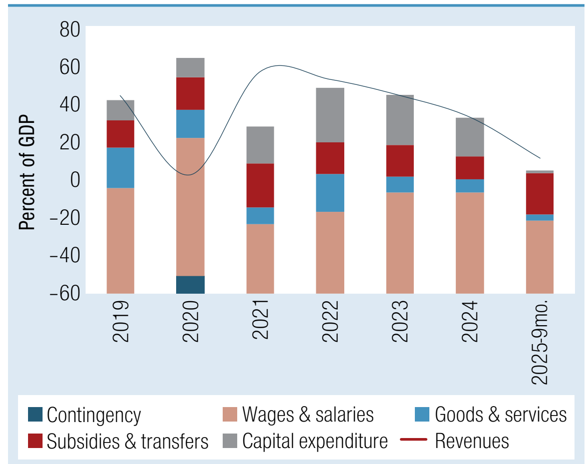
6 Libyan authorities developed digital guides and platforms to accelerate companies' registration, reducing the process for domestic enterprises to two weeks, and standardizing requirements nationwide for all applicants, In addition, authorities introduced new administrative regulations for property registration, notably clarifying the rules for land ownership transfers, and established updated procedures for trademark re-registration, annual renewals, and the priority of rights for previous owners.

FIGURE 4 • The GNU Registered a Widened Surplus during the First Nine Months of 2025…



Source: Libyan authorities (CBL, MoF), World Bank staff calculation.

FIGURE 5 • …however, Spending Continues to Be Heavily Skewed to Recurrent Expenditures



Source: Libyan authorities (CBL, MoF), World Bank staff calculation.

Public Finances

Libya faces severe fiscal sustainability challenges stemming from political fragmentation and the absence of a unified budget, high spending, and heavy dependence on oil revenues. The GNU's budget has not been approved by the HoR since 2021 with public spending continues to be covered on monthly-allocations basis funded by hydrocarbon revenues through the CBL. Conversely, the GNS budget has been approved by the HoR since 2022 but lacks access to the nation's hydrocarbon revenues and continues to finance itself through opaque channels. This parallel fiscal management poses challenges in terms of oversight, worsens fiscal imbalances, undermines macroeconomic stability, and puts a strain on foreign reserves (see Special Focus section).

During the first nine months of 2025, the GNU's fiscal surplus widened to 3.6 compared to 0.7 percent of GDP during the same period of 2024 (Figure 4). Despite softening oil prices witnessed in 2025, higher levels of oil production and the devaluation of the Libyan dinar against the US dollar in April 2025[7] (meaning more Libyan dinars per US dollar) resulted in hydrocarbon revenues increasing by 33 percent during the first 3 quarters of 2025. This increase compensated for the 20 percent fall in tax revenues (1.2 percent of total revenues), driven by a 23 percent reduction in taxes on income and profits, resulting in total revenues reaching LYD 94 billion (+32 percent y-o-y). However, public expenditures grew at a slower pace (+23 percent) due to a 12 percent increase in the wage bill and a 145 percent increase in subsidies and social transfers following the termination of the oil-for-fuel barter system in April 2025.[8] Expenditures remain skewed towards current spending at the expense of reconstruction and growth-enhancing capital spending, which declined by 68 percent during the same period (Figure 5).

An effective fiscal framework hinges on enhancing transparency, modernizing tax administration, and implementing robust digital solutions. The CBL's launch of the Instant Salary Payment platform marks a significant step toward improving

7 In April 2025, the CBL devaluated the LYD by 13.3 percent from 0.1555 SDR per LYD (4.48 LYD per USD) to 0.1349 SDR per LYD (5.5677 LYD per USD).

8 Under the barter system, crude oil was exchanged for refined fuels at favorable terms, effectively subsidizing fuel supply without explicit cash outlays. The termination of the barter system eliminated this hidden subsidy, requiring explicit budget allocations for imported fuel and related subsidies. Consequently, the termination of the barter system resulted in an increase in reported fuel-related expenditures within the national budget.

BOX 1: SUBSIDIES REFORM AND UNIVERSAL CASH TRANSFER: IRAN AS A CASE STUDY

Iran's experience with energy subsidies reform offers valuable lessons in balancing economic efficiency and social protection, for countries such as Libya facing similar challenges. Both are major energy exporters with unsustainable subsidy burdens and related illicit trade. Based on OPEC data, and prior to subsidy removal, Iran's petroleum exports averaged 70 percent of total exports of goods and services during 2005–2009, while Libya's oil exports averaged 90 percent during 2021–2024. Prior to reform, oil subsidies in Iran reached 20 percent of GDP in 2009 according to the International Energy Agency. Meanwhile, Libya's oil subsidies also reached 20 percent of GDP in 2024 according to the IMF (Article IV, July 2025). Like Iran at the start of its reform, Libya lacks robust targeting and payment infrastructure.

Iran initiated reforms as part of a wider structural policy agenda to rationalize resource use, beyond merely addressing fiscal pressures. Persistently high domestic energy consumption, declining oil exports, and low domestic fuel prices that encouraged smuggling prompted the need to reform gasoline, electricity, water, and bread subsidies, all of which had become unsustainable.

The government adopted a phased and rationed approach beginning in 2010, with substantial cuts to indirect subsidies and the introduction of nearly universal cash transfers. Implementation relied on widespread access to civil registration and national ID systems, allowing accurate identification of individuals and households. Rather than targeting the poor, administrative complexities and fears of public unrest led to a quasi-universal approach, so all citizens could apply for transfers. While small and medium-sized enterprises faced challenges from high energy costs and inadequate support, the universal transfer was instrumental in easing household welfare losses and limiting resistance.

Transfers were paid directly into bank accounts, ensuring timeliness and minimizing leakages. Before any price adjustment, cash transfers were deposited into household bank accounts, financed by revenue from subsidy reductions. Around 80 percent of these savings were redistributed as bi-monthly payments to households.

Sequencing was pivotal to the success of the reform. Public information campaigns came ahead of reforms to explain the adverse effects of low energy prices and the compensatory nature of forthcoming cash transfers. Gradual price adjustments over five years aimed to bring prices up to 90 percent of international levels. The benefit level was set high—at roughly 30 percent of median household income—and reached 97 percent of the population, continuing for over a decade before reform adjustments ended the program in 2022.

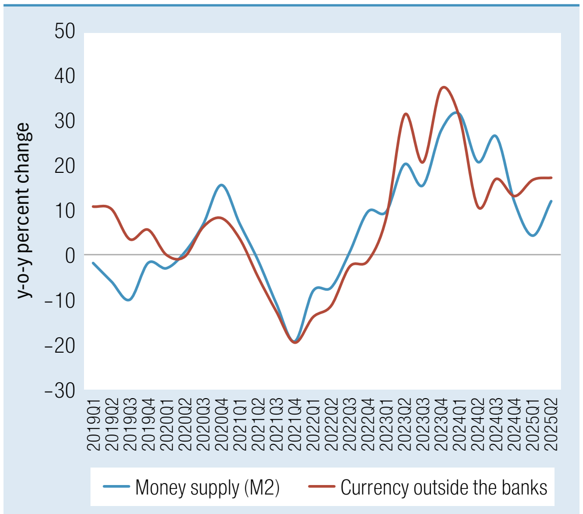
Like Iran, Libya may prioritize universal or quasi-universal cash transfers to cushion initial reform impacts in the absence of sophisticated targeting systems. Key lessons include using reliable identification for benefit delivery, sequencing reforms with robust communications, and ensuring that compensation measures are visible and timely to maintain public trust. The new platform "Your Instant Salary" provides a good opportunity for the development of digital cash transfer system. However, sustained fiscal sustainability may eventually require introducing better targeting and complementary support for businesses, particularly those disproportionately affected by rising energy costs.

public sector payroll efficiency and transparency and a positive infrastructural development which may serve as a channel for compensatory transfers if fuel subsidies are phased out (See the case of Iran – Box 1). In addition, the authorities have initiated reforms to modernize the tax system and strengthen the organizational structure of the tax authority. International institutions continuously stress the need to further strengthen fiscal transparency, public expenditures reform, and a coherent economic policy to ensure fiscal sustainability and address persistent governance challenges.

Monetary Sector and Inflation

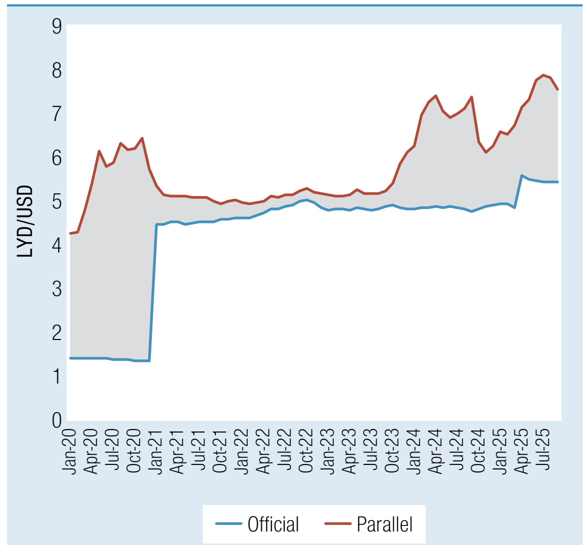
The CBL significantly curbed the growth of money supply (M2) during the first eight months of 2025. According to official CBL data, M2 rose by only 1.5 percent during the first eight months of the year, a sharp deceleration from 11.8 percent in 2024, reflecting the impact of raising mandatory reserve requirements and the issuance of both conventional and Mudaraba-based deposit certificates in line with Islamic finance principles. The CBL has so far withdrawn from circulation older LYD 50, 20, 5 and 1 banknotes, estimated at LYD 47 billion, of which LYD 10 billion were issued through unofficial channels while, at the same time, injecting LYD 25 billion in the banking system and is planning to further inject additional LYD 14 billion by the end of 2025 followed by LYD 21 billion in 2026. Nonetheless, currency held outside the banking sector still climbed by 8.9 percent, albeit down from 13.3 percent in 2024, underscoring persistent lack of confidence by the public

FIGURE 6 • Money Supply and Currency Outside the Banks Continued to Grow, Albeit, at a Slower Pace…



Source: Central Bank of Libya, World Bank staff calculation.

FIGURE 7 • …while the Gap between Official and Parallel Exchange Rates Widened



Source: Central Bank of Libya, World Bank staff calculation.

in the banking system and prevailing preference for cash holdings (Figure 6). The CBL is accelerating the development of electronic payment tools to reduce cash dependency and enhance the efficiency of financial transactions.

The foreign exchange market experienced heightened volatility during the first 3 quarters of 2025, marked by a widening gap between official and parallel exchange rates amid persistent political and economic uncertainty. Despite the devaluation of the LYD in April 2025 and tighter restrictions on access to foreign currency, the spread between the two markets expanded from 28 percent in April to 39 percent by September, peaking at 45 percent in July (Figure 7). In response, the CBL issued Circular No. 10 of 2025 which reduces annual personal currency purchase limits from US$4,000 to US$2,000, introduces strict regulations for prepaid cards and international transfers, and sets specific restrictive rules for education and medical-related foreign remittances.

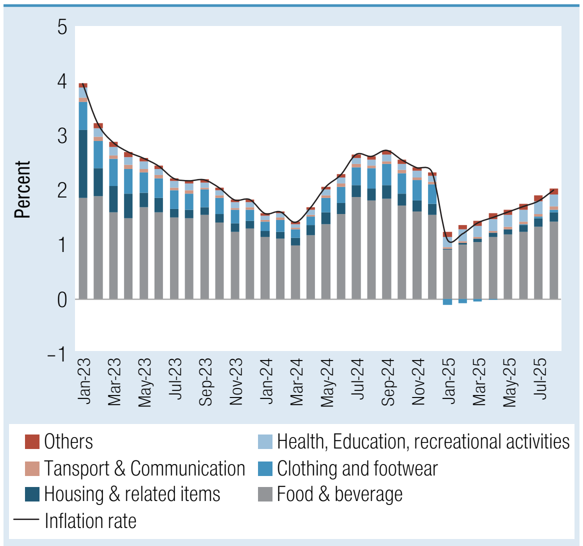
Inflation accelerated during the first eight months of 2025 but remains subdued at 1.5 percent according to the new Consumer Price Index (CPI) methodology implemented in January 2025.[9] Inflation was mainly driven by food and beverages prices contributing 1.2 percent to overall inflation (Figure 8). Average cost of food calculated under the Minimum Expenditure Basket (MEB), which is reported by the World Food Program, increased by 1.4 percent during Jan-May 2025 suggesting overall consistent averages with the new CPI methodology. However, food costs under the MEB report higher monthly volatility than the CPI (Figure 9).

External Sector

The first half of 2025 witnessed a notable weakening of external sector performance, as the trade surplus contracted 16 percent (in US$) compared to the same period in 2024 (Figure 10). The narrowing surplus primarily reflects a 2.6 percent decline in exports driven by lower oil export receipts alongside a 9 percent increase in imports. The import growth is fueled by higher government expenditure on development and reconstruction projects in the

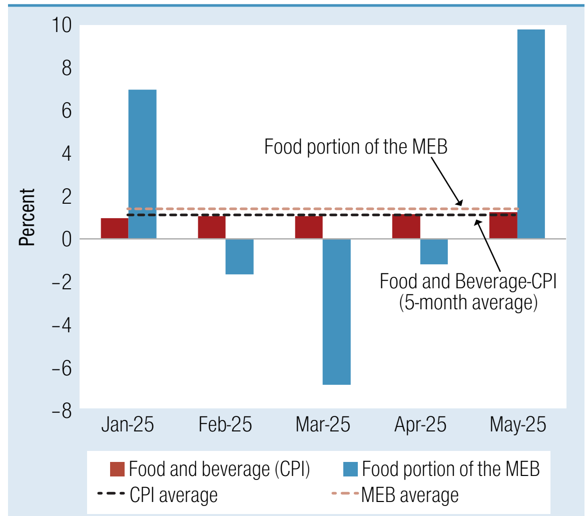
[9] The BSC updated the basket of goods and services and their respective weights based on the Household Income and Expenditures Survey (HIES) conducted in 2022. The calculation of the CPI uses 2024 prices as a new base year. It also expanded the geographical coverage to 7 regions across Libya.

FIGURE 8 • Inflation is Mainly Driven by Food and Beverages Prices



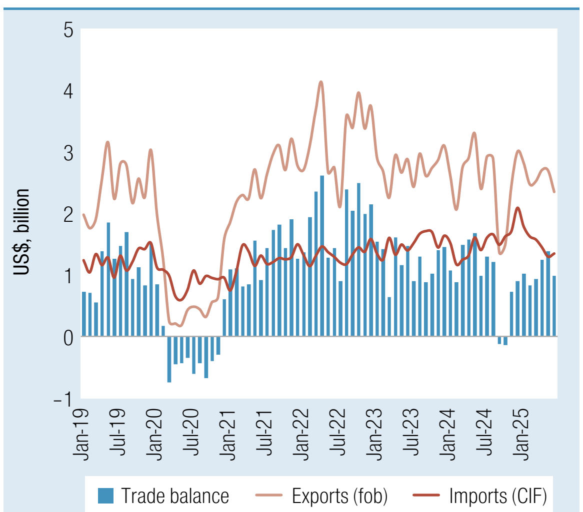
Source: Central Bank of Libya, World Bank staff estimates and calculation.

FIGURE 9 • Food Items under MEB Demonstrate Higher Monthly Volatility Compared to CPI



Source: REACH, WFP, World Bank staff calculation.

FIGURE 10 • Merchandise Trade Surplus Contracted due to Falling Oil Receipts and Higher Imports



Source: IMF.

eastern regions of Libya, the suspension of crude oil swap arrangements and the resumption of fuel and refined product imports, and an uptick in private consumption.

Libya has undertaken a series of trade and foreign exchange measures aimed at safeguarding its foreign currency reserves and reducing black market and illicit trade activities. The CBL, in coordination with the Ministry of Economy, now strictly limits Letters of Credit to essential goods, while banning the re-export of items with more than 70 percent foreign content to prevent trade-based money laundering and protect hard currency reserves. These efforts are complemented by the deployment of digital customs systems, goods pre-classification, and tracking technologies to monitor trade flows, as well as new transit policies requiring prior approvals, financial guarantees, and the destruction of non-compliant shipments. Small traders may import goods up to US$100,000 outside the banking system if they provide proof of funds, whereas larger transactions must comply with formal banking procedures under new ceilings for Letters of Credits of US$5 million for industrial, US$3 million for commercial, and US$1 million for service imports. Despite the ambition of these policies, they carry risks of fueling illicit trade for non-essential goods and face enforcement challenges due to resistance to banking-only trade rules that may foster the diversion of unofficial trade to alternative routes and ports.

BOX 2: TRADE DATA: NEED FOR QUALITY TRADE REPORTING

International trade underpins Libya's economic model. Exports, mainly hydrocarbons, represent the main source of fiscal revenues and foreign reserves that support stability of the exchange rate and financing of imports. Imports, on the other hand, are central for household consumption and business operations and compensate for the weak domestic production base. Precision in trade reporting is therefore essential to inform budget planning, foreign exchange management, and long-term development strategies that depend on external sector performance.

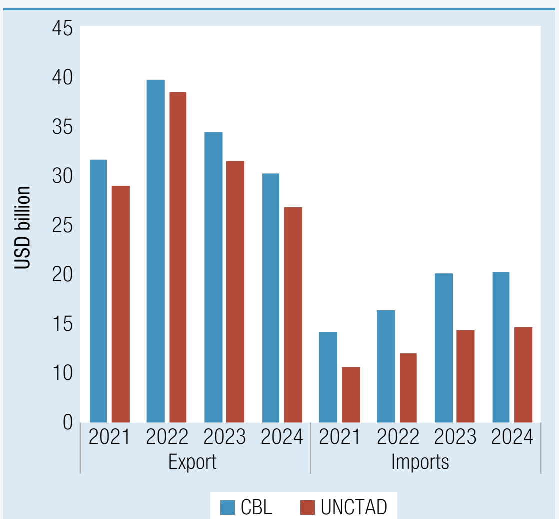
Accurate trade data are fundamental for effective economic policymaking and international engagement. Reliable statistics on exports and imports provide the empirical foundation for assessing a country's external competitiveness, designing tariff and industrial policies, and projecting fiscal and current account balances. Moreover, credible trade data enhance transparency, helps detect illicit trade and mis-invoicing, and strengthens international trust and compliance with trade agreements. Inaccurate or inconsistent trade data can distort macroeconomic indicators, misguide resource allocation, and weaken assessments of trade performance and diversification efforts.

Libyan trade data exhibits discrepancies when compared with UNCTAD and IMTS data. Comparing Libyan official trade data with international sources (Figure B2.1)[a] suggests that exports and imports reported by the CBL are 7.1 and 24.5 percent, respectively, higher than those reported by the United Nations Conference on Trade and Development (UNCTAD) over 2021–2024. Deeper investigation in UNCTAD's data and utilizing mirror trade data approach,[b] the analysis reveals that exports are over-reported in 2021–2022 (by 1.1 and 4.7 percent, respectively) while under-reported in 2023 and 2024 (by −1.4 and −4.4 percent, respectively, Figure B2.2). Meanwhile, imports are consistently under-reported by a significant amount—averaging −43.9 percent during 2021–2024.

Comparing mirror trade data with Libya's major trading partners[c] shows that while exports to China and Spain are over-reported during 2021–2024, exports to the United Kingdom, the United States, and Türkiye are highly under-reported during the same period (Figure B2.3). On the other hand, Libyan imports are highly under-reported with the top 10 partners reporting discrepancies ranging from 15.5 to 25.6 percent over 2021–2024 (Figure B2.4).

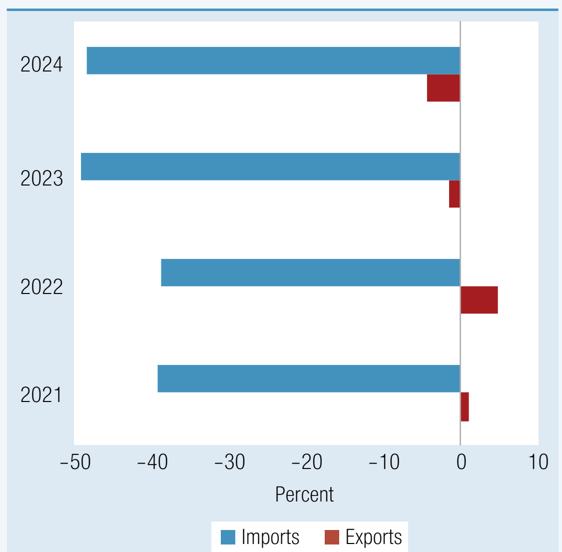
Discrepancies in trade reporting reflect a mix of structural, administrative, and contextual factors rather than deliberate manipulation. Fragmented institutional arrangements, marked by parallel authorities and incomplete public accounts, limits the consistency of national statistics and hinders accurate measurement of cross-border trade flows. For example, the use of oil-for-fuel swap mechanisms and off-budget transactions may have distorted accurate reporting of export and imports values and obscured the fiscal effect of commodity trade. Furthermore, weak border controls and significant informal trade may have also contributed to persistent under-recording of trade as evident by the persistent gaps between partner-reported and official data. Additionally, administrative capacity constraints, outdated

FIGURE B.2.1 • Trade Data Discrepancies between Official and International Sources *(USD billion)*



Source: CBL, UNCTAD.

FIGURE B.2.2 • Discrepancies in Trade Flows between Libya and the Rest of the World *(Percent)*



Source: UNCTAD, World Bank staff calculation.

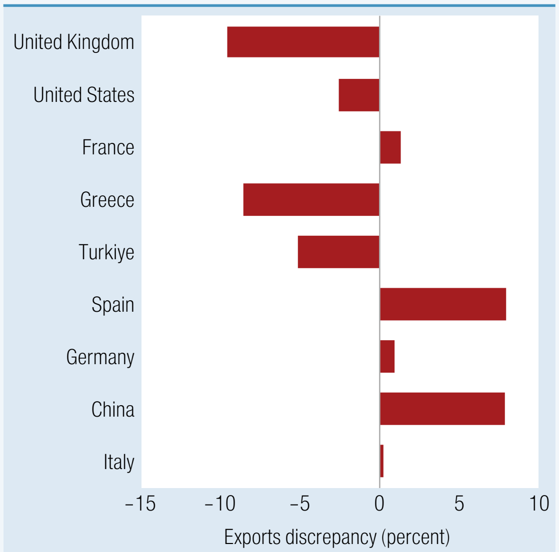
(continued on next page)

BOX 2: TRADE DATA: NEED FOR QUALITY TRADE REPORTING *(continued)*

customs systems, and exchange-rate management policies may have further influenced the classification and timing of trade records leading to under-reporting of imports and occasional over-statement of exports.

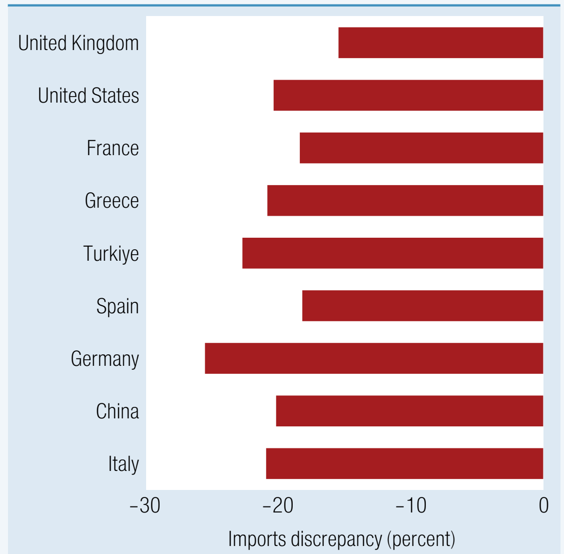
Accurate trade data is crucial for macroeconomic management. They enable policymakers to assess the external position, manage fiscal plans, and track the overall performance of non-oil sectors. Strengthening institutional coordination, enhancing data integration across statistics-producing agencies, and upgrading customs information systems are essential to improve transparency and reliability in Libya's external sector and better inform diversification strategies.

FIGURE B.2.3 • Libyan Exports Exhibit Discrepancies at the Level of Partner Countries (2021-2024)



Source: UNCTAD, World Bank staff calculations.

FIGURE B.2.4 • Libyan Imports are under-Reported Relative to Country Partners (2021-2024)



Source: UNCTAD, World Bank staff calculations.

[a] CBL data is also compared to International Monetary Fund's International Merchandise Trade Statistics (IMTS) data. Due to the absence of discrepancies when compared to the UNCTAD data, IMF's data is not reported in Figure B1.

[b] The mirror trade data approach consists of comparing exports from Libya to the partner country/group of countries as reported by Libya to imports of the partner country/group of countries from Libya as reported by the partner country/group of countries. With regards to imports, the comparison is done between the imports from the partner country/group of countries as reported by Libya to exports from the partner country/group of countries to Libya as reported by the partner country/group of countries. Since exports are reported on FOB basis and imports on CIF basis, exports are adjusted by a factor of 10 percent (IMF 1993).

2

OUTLOOK AND RISKS

The country's economic outlook remains highly dependent on movements in energy markets and on domestic security and political environment. During 2021–2024, the oil sector accounted for more than 60 percent of GDP while oil receipts contributed 90 percent of total government revenues and total exports. Recent global projections suggest an economic slowdown driven by escalating trade tensions and heightened policy uncertainty (Figure 11). Consequently, oil prices are expected to soften this year, averaging $68 per barrel—down by $13 per barrel compared to 2024 (Figure 12).

The economy is projected to grow by 13.3 percent in 2025, driven primarily by the expansion of oil sector activities. Oil production is expected to average 1.3 mbpd per day in 2025—17.4 percent higher than the 2024 average of 1.1 mbpd—supporting the strong rebound in GDP (Figure 13). As oil output continues to rise in 2026 and 2027, reaching 1.35 and 1.4 mbpd, GDP growth is expected to moderate to 3.5 and 3.9 percent, respectively. Meanwhile, non-oil GDP growth is anticipated to remain robust at around 6.8 percent in 2025 supported by both private and public consumption before easing to an average of 3.5 percent in 2026–2027.

Inflation is expected to remain stable in 2025 despite the recent devaluation of the currency. Inflation is projected to hover around 2 percent during 2025–2027 (Figure 14). Moderating global commodity prices in concert with the extensive subsidy system in Libya are expected to offset inflationary pressures and shield households from any imported inflation.

The fiscal position of the GNU is projected to improve in 2025 and remain stable over the medium term. Higher oil production accompanied by the recent devaluation of the Libyan dinar against the dollar (more LYD per USD) are expected to more than offset the decline in oil prices resulting in 37 percent higher oil revenues for the budget. On the other hand, expenditures are projected to continue their upward trajectory (+19.5 percent) in 2025 driven primarily by wages and salaries and transfers before moderating to 3 percent in the medium term. Based on the above, the fiscal balance is anticipated to record a surplus of 3.8 percent of GDP in 2025 and average 3.5 percent of GDP in the medium term (Figure 15). Implementing a unified budget remains a key priority, essential for improving fiscal discipline, supporting consolidation, and strengthening fiscal credibility and transparency (see Special Focus section for details).

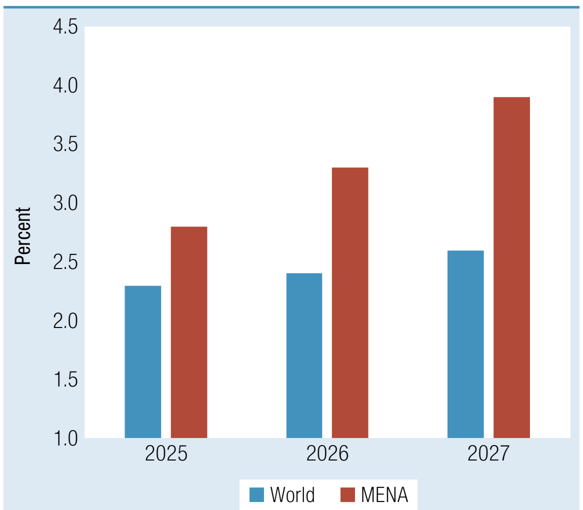
BOX 3: GLOBAL, REGIONAL, AND ENERGY MARKET PROSPECTS

According to the Global Economic Prospects (June 2025), global growth is projected at 2.3 percent in 2025 and 2.4 percent in 2026, compared with 2.8 percent in 2023 and 2024. These forecasts represent a 0.5 percentage point downward revision from January 2025 projections reflecting increased trade barriers and heightened policy uncertainty. Growth could turn out to be lower if trade restrictions escalate or if policy uncertainty persists, which could also result in a build-up of financial stress. Other downside risks include weaker-than-expected growth in major economies with adverse global spillovers, worsening conflicts, and extreme weather events. On the upside, uncertainty and trade barriers could diminish if major economies reach lasting agreements that address trade tensions.

Meanwhile, the MENAAP regional growth is projected to average 2.8 percent in 2025 and 3.3 percent in 2026, up from 2.3 percent in 2024 (MENAAP Economic Update, October 2025). Economic activity is expected to pick up in the GCC, with the latest forecasts pointing to a 3.5 percent growth rate in 2025—up from 2.2 percent in 2024. This momentum is supported by the accelerated phasing out of OPEC+ production cuts, and by robust expansion in non-oil sectors. In contrast, the region's developing oil exporters face a more subdued outlook, with growth expected to drop to 0.5 percent in 2025—down sharply from 2.5 percent in 2024—due to conflict disruptions and oil production adjustments. Growth in developing oil importers is forecast to increase from 2.2 percent in 2024 to 3.7 percent in 2025, reflecting stronger private consumption, investment activity, and a rebound in agriculture and tourism, as well as macroeconomic reforms and external assistance. However, some economies continue to cope with the aftermath of natural disasters and limited access to international finance, underscoring the region's vulnerability to shocks.

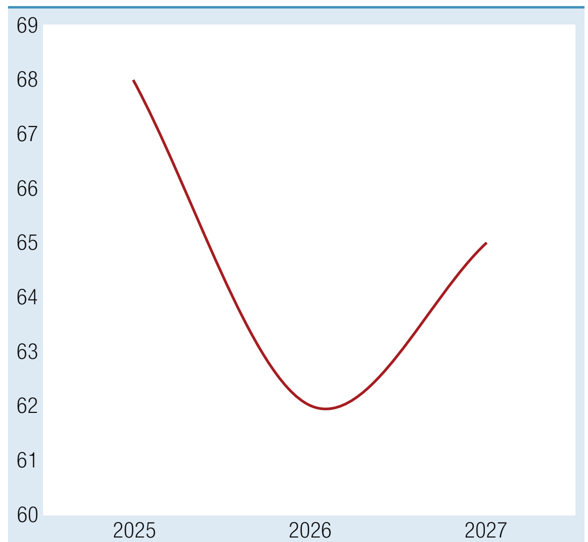
Based on the global and regional outlook, crude oil prices are expected to average $68 per barrel in 2025—a decline of $13 per barrel from 2024—and $62 and $65 per barrel in 2026 and 2027, respectively (Commodity Markets Outlook, October 2025).

FIGURE 11 • Global Economic Slowdown is Anticipated, but the MENAAP Region is Spared...



Source: Global Economic Prospects, June 2025 and MENAAP Economic Update October 2025, World Bank.

FIGURE 12 • ...as a Result, Downward Pressure is Building Up on Oil Prices

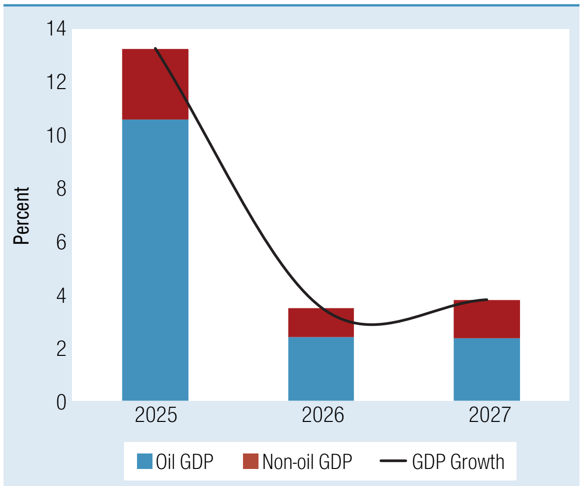


Source: Commodity Markets Outlook, October 2025, World Bank.

Similarly, the current account deficit is expected to narrow to 2 percent of GDP in 2025 (Figure 16). Despite a widening trade deficit resulting from falling oil exports in US dollars (–1 percent) and growing imports (+8 percent), the ratio of current account deficit to GDP is expected to narrow to around 2 percent in 2025 driven by the strong anticipated GDP performance. By 2027, and with the recovery of oil receipts, the external balance position is expected to improve and turn into a surplus of 3 percent of GDP.

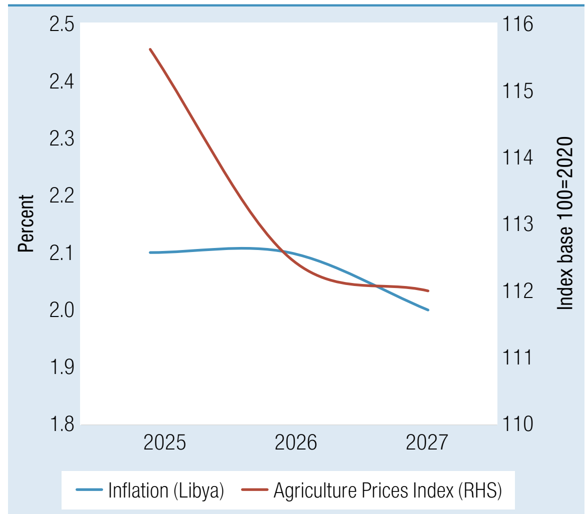
However, the above outlook remains subject to significant downside and upside risks. A sustained improvement in political stability and national consensus would represent a major upside for the country's economy and its population. Exter-

FIGURE 13 • GDP Growth is Anticipated to Pick-Up Driven Primarily by the Expansion of Oil Sector…



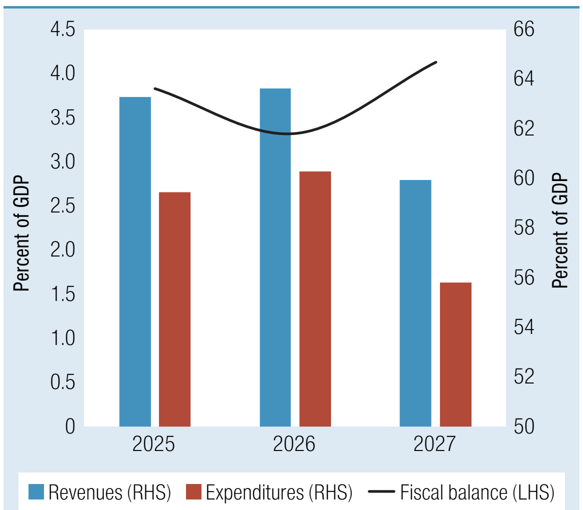
Source: Macro Poverty Outlook, October 2025.

FIGURE 14 • …while Inflation Remains Stable to Reflect Softening Commodity Prices



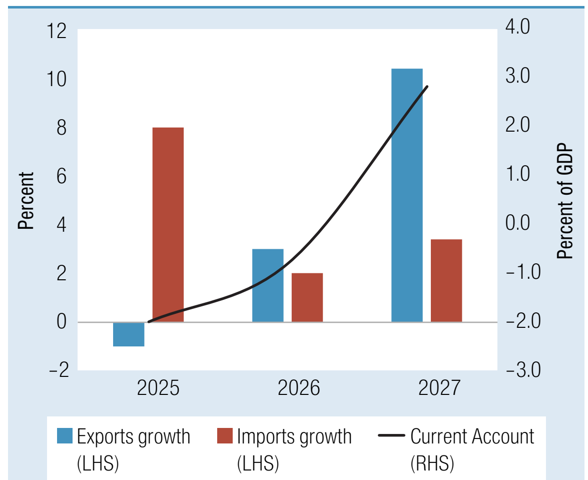
Source: Macro poverty Outlook, October 2025.

FIGURE 15 • Fiscal Position is Expected to Improve in 2025-2027



Source: Macro Poverty Outlook, October 2025.

FIGURE 16 • …while the Current Account Deficit is Expected to Narrow before Reaching a Surplus in 2027



Source: Macro Poverty Outlook, October 2025.

nally, a sharper-than-expected slowdown in global growth or a full unwinding of voluntary oil supply cuts by OPEC+ could place further downward pressure on oil prices. Conversely, a recovery in global growth—potentially supported by easing trade barriers—could boost demand for commodities and support higher oil prices. Geopolitical risks are also two-sided: while intensification of regional conflicts could disrupt trade, foreign direct investment, and financial flows, it could simultaneously drive oil prices upward, creating windfall revenues. In the medium term, however, the primary economic challenge remains diversifying the economy and reducing dependence on hydrocarbons, which constitute a source of both internal and external vulnerability. Climate-related shocks add an additional layer of risk, with the potential to cause loss of life, severe infrastructure damage, lower economic growth, and heightened financial instability.

TABLE 1 • Key Macroeconomic Indicators, 2022–2027

Variable	2022	2023	2024	2025	2026	2027
Real GDP Growth, at constant market prices	−8.3	10.2	1.9	13.3	3.5	3.9
Agriculture	10.0	6.8	−0.9	2.0	2.3	2.2
Industry	−17.0	17.8	−5.5	17.4	3.8	3.7
Services	7.8	−1.0	15.2	7.1	3.0	4.0
Inflation (Consumer Price Index)	4.5	2.4	2.1	2.1	2.1	2.0
Current Account Balance (% of GDP)	22.2	4.2	−4.3	−2.0	−0.8	2.8
Fiscal Balance (% of GDP)	2.7	−0.1	0.1	3.8	3.3	4.1
Oil GDP Growth	−17.0	17.8	−5.5	17.4	3.8	3.7
Non-Oil GDP Growth	7.9	−0.6	14.3	6.8	2.9	4.0

3

SPECIAL FOCUS: SETTING THE PATH TOWARDS ACCOUNTABILITY AND TRANSPARENCY IN PUBLIC FINANCIAL MANAGEMENT (PFM)

Summary and Key Take-Aways

- Institutional fragmentation, parallel budget structures, and a heavy reliance on oil revenues hinder proper public financial management and make fiscal planning highly vulnerable to external shocks. Years of instability have weakened fiscal discipline and service delivery, highlighting the urgent need for coherent and transparent PFM reforms to restore public trust and support economic stabilization.
- This report uses the Public Expenditure and Financial Accountability (PEFA) framework to benchmark Libya against other fragile and conflict-affected states. The results show lags in budget preparation, execution, and reporting. Some peer countries with similar challenges have made notable progress by focusing on strengthening budget execution, internal controls, and financial reporting, offering valuable lessons for Libya's reform efforts.
- While there is no single best practice in sequencing or approach, the experiences of other countries demonstrate that FCS (fragile and conflict-affected situations) status alone is not an obstacle to PFM reform, if such reforms target key bottlenecks.
- Libya's reform agenda prioritizes the creation of a Treasury Single Account, improved cash management, and a revised budget classification system. However, successful implementation depends on political consensus and institutional collaboration. The ongoing PEFA assessment provides a critical opportunity to refine the reform roadmap and foster stakeholder dialogue for a more resilient and transparent PFM system.

An Introduction to PFM

A sound PFM framework enables a government to allocate resources efficiently, execute spending in line with priorities, and report results transparently. Years of institutional fragmentation, parallel budget structures, and weak financial controls have undermined fiscal discipline, service delivery, and public trust. Restoring confidence in government institutions requires rebuilding the foundations of a coherent and transparent PFM system. Such reforms are central to achieving economic stability and to strengthening the social contract with citizens.

Libya faces unique challenges. During 2021–2024, hydrocarbons accounted for more than 90 percent of exports and government revenues. This structural dependency exposes the fiscal framework to high volatility linked to global oil price fluctuations, and production disruptions. The absence of significant non-oil revenue sources limits the government's ability to plan and execute expenditure predictably, making fiscal sustainability highly vulnerable to economic shocks.

We compare key features of the Libyan PFM system with other FCS countries and apply lessons from PFM reforms those countries to the Libyan context. The analysis is based on the latest PEFA assessments for the countries included in the World Bank's FCS list for fiscal year 2025.[10] It also builds on the findings of a World Bank study[11] on PFM reforms in post-conflict countries. In early 2025, the Ministry of Finance (MoF) of the Government of National Unity (GNU) agreed to undertake a PEFA assessment with the technical support of the World Bank (see Box 4 for details on PEFA pillars). This section is informed by the ongoing assessment's preliminary findings.

[10] Out of 39 countries on the FY25 FCS list, data is available for 23 that undertook a PEFA assessment since 2016: Afghanistan, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Democratic Republic of Congo, Republic of Congo, Ethiopia, Iraq, Kosovo, Mali, Mozambique, Myanmar, Niger, Nigeria, Papua New Guinea, Sao Tome and Principe, Sudan, Timor Leste, Ukraine, West Bank and Gaza, Zimbabwe.

[11] Public financial management reforms in post-conflict countries: synthesis report (English). Washington, DC: World Bank. http://documents.worldbank.org/curated/en/945231468340162289.

BOX 4: THE SEVEN PILLARS OF PFM PERFORMANCE IN THE PEFA METHODOLOGY

The PEFA framework assesses the performance of a country's PFM system. It provides a standardized, evidence-based methodology that measures and monitors performance against seven pillars, which define the key elements of a PFM system.[a]

Pillar I. Budget reliability. The government budget is realistic and is implemented as intended. This is measured by comparing actual revenues and expenditures (the immediate results of the PFM system) with the original approved budget.

Pillar II. Transparency of public finances. Information on PFM is comprehensive, consistent, and accessible to users. This is achieved through comprehensive budget classification, transparency of all government revenue and expenditure including intergovernmental transfers, published information on service delivery performance, and ready access to fiscal and budget documentation.

Pillar III. Management of assets and liabilities. Effective management of assets and liabilities ensures that public investments provide value for money, assets are recorded and managed, fiscal risks are identified, and debts and guarantees are prudently planned, approved, and monitored.

Pillar IV. Policy-based fiscal strategy and budgeting. The fiscal strategy and the budget are prepared with due regard to government fiscal policies, strategic plans, and adequate macroeconomic and fiscal projections.

Pillar V. Predictability and control in budget execution. The budget is implemented within a system of effective standards, processes, and internal controls, ensuring that resources are obtained and used as intended.

Pillar VI. Accounting and reporting. Accurate and reliable records are maintained, and information is produced and disseminated at appropriate times to meet decision-making, management, and reporting needs.

Pillar VII. External scrutiny and audit. Public finances are independently reviewed and there is external follow-up on the implementation of recommendations for improvement by the executive.

[a] Pillars are further broken into 31 indicators. PEFA scores are awarded based on a four-point ordinal scale: A, B, C, or D, from highest to lowest, according to detailed criteria based on international standards and PFM good practices. Score C reflects the basic level of performance, consistent with good international practices.

How do Libya's Main PFM Features Compare with other FCS Countries?

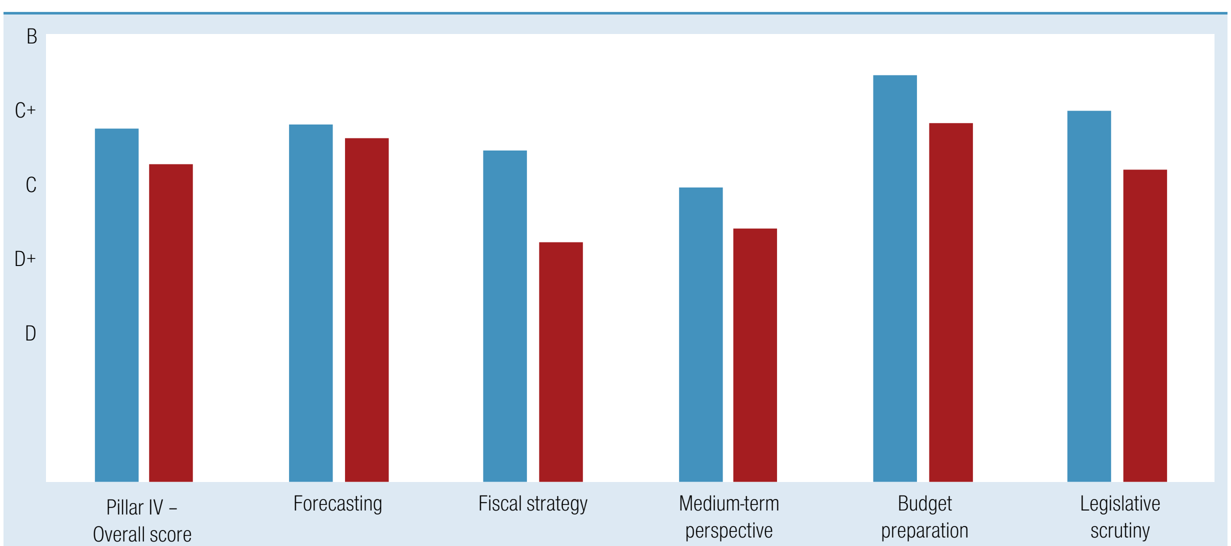
Drawing on the PEFA methodology, this analysis benchmarks Libya's performance against other FCS countries, highlighting both areas of relative weakness and common challenges. It focuses on the core areas for which research shows a greater focus in reform sequencing in FCS settings: **Budget Preparation** (PEFA Pillar IV), **Budget Execution** (PEFA Pillar V), and **Budget Reporting** (PEFA Pillar VI).

Budget Preparation: Policy-Based Fiscal Strategy and Budgeting

The absence of a unified fiscal strategy and budget covering the GNU and the GNS impairs the country's ability to design and implement fiscal policies, strategic plans, and adequate macroeconomic and fiscal projections. The GNU and GNS prepare their budget in parallel and independently. The GNS has prepared a General Budget approved by the House of Representatives (HoR) since 2021, while the GNU follows an approach known as "Financial Arrangements" issued by a Ministerial Council Decree. The GNU budget is funded by revenue from the National Oil Corporation, whereas the financing sources for GNS expenditures remain opaque. In the absence of a timely adoption of budgets by the HoR, the State Financial Law (Article 8) allows for monthly spending on budget Chapter 1 (wages and salaries), Chapter 3 (development and capital projects) and Chapter 4 (grants and subsidies) equivalent to one-twelfth of the allocations from the previous year. As per the Libya Political Agreement, the GNU is allowed to spend on essentials items only, i.e., chapters 1, 2, and 4. While a macro-fiscal unit in the MoF was established in 2017, budgeting does not rely either on macroeconomic and fiscal forecasting nor on a fiscal strategy; budgeting is incremental with no medium-term perspective.

Compared with FCS that have undertaken PEFA assessments, Libya's performance related to policy-based fiscal strategy and budgeting appears to fall below the average. Around 70 percent of the sample countries rely on a robust budget preparation process with budget and budget documents going through adequate legislative scrutiny for half of the sample. Several countries, including Ukraine, have established robust macroeconomic and fiscal forecasts. However, most FCS countries face similar challenges as Libya in developing a fiscal strategy and adopting a medium-term perspective (see Figure 17).

FIGURE 17 • Budget Preparation *(PEFA Pillar IV)* Scores for FCS Countries (2016-2024)



Note: "All" represents average scores from 109 countries with at least one PEFA assessment applying the 2016 framework.

TABLE 2 • Budget Preparation PEFA Scores for Selected FCS Countries

FCS countries[a]	Latest PEFA Scores	Previous PEFA Scores	Performance and change over time[b]
Iraq	B+	C+	Improvements are due to (i) the more timely issuance of the budget call circular and (ii) the provision of total budget expenditure and administrative ceilings.
West Bank and Gaza	C	D+	Improvements are due to the approval of expenditure ceilings by the Cabinet before completion of budget submissions by budgetary units.
Kosovo	B+	A	Due to the political situation, there was a delay in the submission of the 2020 Budget. This resulted in a deterioration of the PEFA score.
Ukraine	B	B	No change
Cameroon	C+	D+	Improvements are due to a clearer and more comprehensive budget circular, with ceilings approved by the Cabinet before the issuance of the circular.
Ethiopia	B	A	The performance deteriorated. In the period covered by the previous PEFA assessment, ceilings were approved by the Council of Ministers before the budget circular was issued to budgetary units.

[a] FCS countries that are classified as UMIC or LMIC, and for which the score is C or higher.
[b] Sources: PEFA reports.

TABLE 3 • Forecasting[a] PEFA Scores for Selected FCS Countries[b]

FCS countries[c]	Latest PEFA Scores	Previous PEFA Scores	Performance and performance change over time[d]
Iraq	C+		The macro-fiscal forecasts do not include either a quantitative or qualitative assessment of the impact of alternative macroeconomic assumptions.
Kosovo	B		Forecasts did not include interest rates.
Ukraine	A	B+	The details provided to the legislature as part of the budget submission process improved. They included an explanation of the assumptions underlying the macroeconomic forecasts as well as three scenarios.
Timor Leste	C		Only the revised baseline scenario is included in the budget submission to Parliament. The underlying assumptions for that scenario are not presented.
Cameroon	B	D	Information on key macroeconomic indicators improved. The last assessment showed that they cover the three required years.
Ethiopia	B		The macro-fiscal forecasts prepared by the government include a qualitative assessment of the impact of alternative macroeconomic assumptions.

[a] Assessment of forecasting is a feature that was introduced in 2016 by PEFA. Thus, there is no prior score when the previous PEFA assessment was undertaken before 2016.
[b] For all countries presented in the table: (i)Forecasts of key macroeconomic indicators prepared; (ii) Forecasts of main fiscal indicators prepared, incl. revenues by type, aggregate expenditure and budget balance; (iii) Forecasts cover fiscal year and two following fiscal years. Together with the underlying assumptions, macroeconomic and fiscal forecasts are included in the documentation submitted to the legislature.
[c] FCS countries that are classified as UMIC or LMIC, and for which the score is C or higher.
[d] Sources: PEFA reports.

Budget Execution: Predictability and Control in Budget Execution

Libya's current processes and systems do not enable effective control over expenditure during budget execution. The GNU's expenditure management processes are highly deconcentrated and involve several entities: (i) the Treasury, (ii) the financial services payment centers operating as deconcentrated branches of the Treasury, (iii) spending units, and (iv) the CBL. For each budget chapter,[12] the Treasury releases the appropriations in the form of a lump-sum transfer from its accounts at the CBL to

[12] Monthly for chapter 1, quarterly for chapter 2 (Goods and Services) and chapter 4, and as required for chapter 3.

spending units accounts held at commercial banks. These spending units[13] are responsible for managing all expenditure transactions and related controls according to their own procedures. Payment authorizations are handled by financial controllers, who are assigned by the Treasury to the spending units and operate from the financial services payment centers.[14]

There is no consolidation of cash in bank accounts, and no cash flow forecasts are prepared. As a result, there is no basis for informing the release of funds, and no predictability of the availability of funds for the spending units. The information systems used by the MoF do not support monitoring and control at the level of individual transactions. Separate information systems are used across the processes from budget approval to data reporting and all operate in stand-alone mode, requiring manual interventions and duplication of data entry.

Oil revenue is collected by the National Oil Company and transferred to the CBL into the GNU main revenue account after applying the government's share. Revenue collected by the Tax Authority is also deposited into the main revenue account held at the CBL. That account is used to fund allotment payments.

FCS countries in the sample achieve their highest scores in Pillar V, which focuses on the predictability and control of budget execution (see Figure 18). The top-performing FCS countries have established robust internal control mechanisms and procedures to ensure compliance with laws, regulations, and policies for non-salary expenditure. Notably, Kosovo, Ukraine, and Timor-Leste demonstrate the strongest practices in this regard (see Table 4). Practices remain inconsistent for payroll. Additionally, a few FCS countries in the sample regularly consolidate their bank and cash balances through a Treasury Single Account—Ukraine and Kosovo do so daily —(see Table 5) and use cash forecasting and monitoring based on monthly updates of actual inflows and outflows. Enhancing internal control mechanisms and procedures and establishing a Treasury Single Account should support Libya's efforts during budget execution.

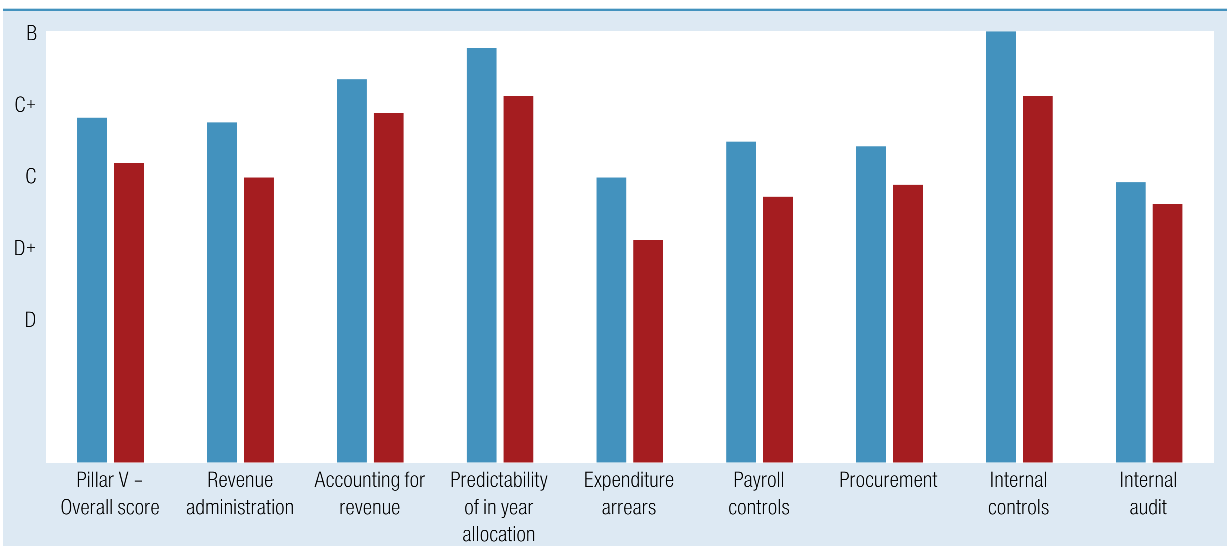
Accounting and Reporting

Libya's PFM system faces significant challenges in ensuring accurate and timely oversight of budget execution, with manual processes and limited

13 Spending units may be a ministry or an affiliate, an agency, a service delivery unit such as a university or hospital, or a financial service control center.

14 There are 99 financial services payment centers, from where Financial Controllers are operating.

FIGURE 18 • Predictability and Control of Budget Execution (*PEFA Pillar V)* Scores for FCS Countries (2016-2024)



Note: "All" represents the average scores from 109 countries that had at least one PEFA assessment applying the latest framework from 2016.

TABLE 4 • Internal Controls PEFA Scores for Selected FCS Countries[a]

FCS countries[b]	Latest PEFA Scores	Previous PEFA Scores	Performance and performance change over time[c]
West Bank and Gaza	B		At the time, the IFMIS limited expenditure commitments according to quarterly budget appropriations (ceilings), but not according to actual cash availability.
Kosovo	A		The introduction of the Book of Processes in 2017 strengthened internal control systems.
Ukraine	B+		Compliance of payments with rules and procedures improved. Exceptions are not allowed.
Timor Leste	B+		Segregation of duties is prescribed but enforced unevenly due to insufficient resources and capacity.
Cameroon	B	C+	Compliance of payments with rules and procedures improved.
Ethiopia	B		The IFMIS was being rolled out at time of the PEFA assessment. Part of the controls were still manual as commitment controls had not been fully implemented in the new system.

[a] For all countries presented in the table below: (i) Segregation of duties is prescribed throughout the expenditure process with responsibilities clearly laid down for most key steps. (ii) Expenditure commitment procedures exist, and they are partially effective. Most payments are compliant with regular payment procedures, with the majority of exceptions properly authorized and justified.
[b] FCS countries that are classified as UMIC or LMIC, and for which the score is C or higher.
[c] Sources: PEFA reports.

TABLE 5 • Cash Management and Predictability of in-Year Resource Allocation

FCS countries[a]	Last PEFA Scores	Previous PEFA Scores	Performance and performance change over time[b]
Iraq	C+		There was no Treasury Single Account (TSA) in place at the time of the assessment. Consolidation of cash balances took place monthly.
West Bank and Gaza	C+		At the time of assessment, the consolidation of cash balances took place daily to ensure zero balances in government accounts held at the Central Bank. However, some accounts remained outside the consolidation.
Kosovo	A		There is a TSA, and all cash balances are consolidated daily
Ukraine	A	B+	There is a TSA and cash balances are consolidated daily. The main improvements are linked to the reduction in the number and significance of in-year adjustments to the annual budget.
Timor Leste	B+		There is a TSA, and all cash balances are consolidated daily.
Cameroon	C	C	There was no change in performance. The TSA was still under implementation.
Ethiopia			At the time of the assessment, a TSA was in place but some accounts representing around 25% of the total cash remained outside of the TSA. Consolidation of cash balances took place monthly.
Nigeria	B		There is a TSA, and all cash balances are consolidated daily. A cash flow forecast is prepared for the fiscal year but is not updated during the year.

[a] FCS countries that are classified as UMIC or LMIC, and for which the score is C or higher.
[b] Sources: PEFA reports.

controls undermining data reliability. Compared to its FCS peers, Libya struggles to produce consolidated and timely financial reports and would highly benefit from adopting practices seen in countries such as Kosovo, Ukraine, and the West Bank and Gaza. These countries have succeeded in producing timely and reliable financial reports that support greater transparency and oversight.

Actual expenditure data is recorded by the spending units, but the centralization process remains predominately manual and lacks basic controls to ensure accuracy. As a result, the MoF depends on the timely submission of expense reports by the spending units' financial controllers to compile any consolidated budget execution reports. The MoF does not currently publish budget execution reports, with the most recent budget execution reports[15] available on their website covering fiscal year 2023.

Each month, the CBL publishes reports[16] detailing disbursements to spending unit by budget chapters, along with a breakdown of collected revenues by category. The December reports, typically released in the following month, serve as a consolidated annual report. There are discrepancies between the budget execution reports prepared by the MoF and the CBL expenditure and revenue reports.

The MoF does not prepare consolidated annual financial statements. The most recent consolidated financial statements for the central government submitted to the Libyan Audit Bureau (LAB) is from fiscal year 2009. Nevertheless, the LAB continues to produce annual reports on budget execution, with the latest report covering fiscal year 2023.[17]

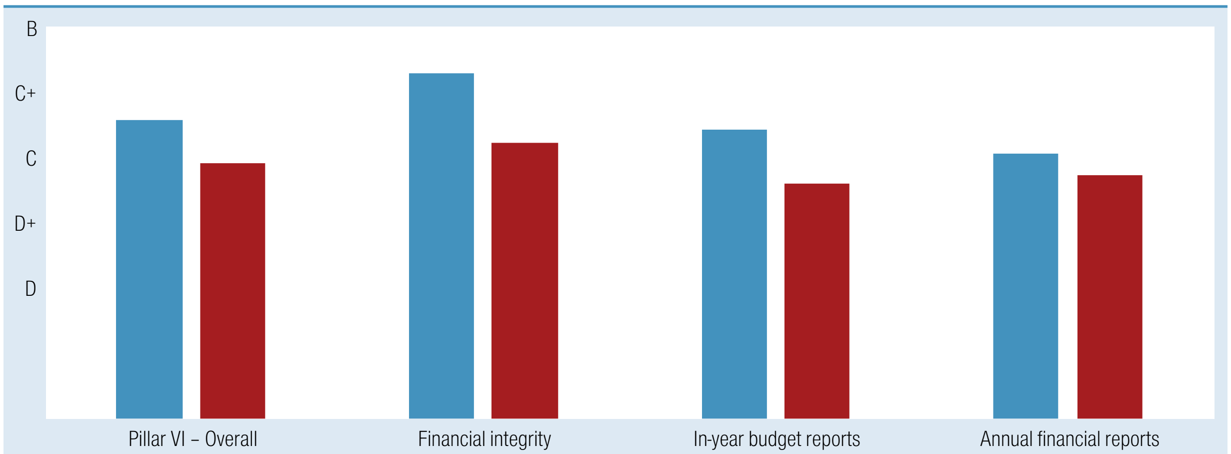
Performance under Pillar VI-Accounting and Reporting varies across FCS countries. Like Libya, some countries face ongoing challenges in producing timely and reliable in-year and annual financial reports. Notable exceptions include the West Bank and Gaza, Kosovo, and Ukraine, which published timely in-year reports that enable comparison between budget appropriations and budget execution; and Kosovo, Ukraine, and Timor-Leste , which have succeeded in preparing financial reports that meet essential standards for content and timeliness. Another aspect of this pillar is the integrity of financial data, an area where Kosovo, Ukraine, and the West Bank and Gaza demonstrate the strongest performance.

[15] For revenue, the report covers both the cash deposited in the MoF's accounts at the CBL and the amount recorded in accounting documents. For expenditure, the report presents the actual amounts spent by chapter and by spending unit.

[16] As at October 21, 2025, the latest report published on CBL's website covers September 2025.

[17] https://www.audit.gov.ly/ar/reports/.

FIGURE 19 • PEFA Pillar VI Scores for FCS Countries (2016-2024)



Note: "All" represents the average scores from 109 countries that had at least one PEFA assessment applying the latest framework from 2016.

TABLE 6 • In-Year Budget Reports PEFA Scores for Selected FCS Countries

FCS countries[a]	Latest PEFA Scores	Previous PEFA Scores	Performance and performance change over time[b]
West Bank and Gaza	B+		In-year budget reports are prepared monthly within three weeks after the end of the month. They allowed comparison with the approved budget.
Kosovo	B+		In-year budget reports are prepared monthly within two weeks after the end of the month, allowing comparison with the approved budget.
Ukraine	B+	B+	Similar features as Kosovo.

[a] FCS countries that are classified as UMIC or LMIC, and for which the score is C or higher.
[b] Sources: PEFA reports.

TABLE 7 • Annual Financial Reports PEFA Scores for Selected FCS Countries

FCS countries[a]	Latest PEFA Scores	Previous PEFA Scores	Performance and performance change over time[b]
Kosovo	A		Annual financial reports were submitted for external audit within three months of the end of the fiscal year. They were comparable with the classification used in the approved budget. They applied IPSAS cash-basis accounting standards.
Ukraine	C+	C+	Annual financial reports were submitted for external audit within three months of the end of the fiscal year. They were comparable with the classification used in the approved budget. They used National Public Sector Accounting Standards but variations with IPSAS were not explained.
Timor Leste	C+		By law, financial reports for budgetary Central Government are submitted for external audit within 7 months of the end of the fiscal year. Annual reports applied IPSAS full cash-basis accounting standards.

[a] FCS countries that are classified as UMIC or LMIC, and for which the score is C or higher.
[b] Sources: PEFA reports.

PFM Reforms: What is the Way Forward for Libya?

Our research[18] shows that government reforms tend to be more effective at improving how budgets are managed and spent, rather than how they are planned or how officials are held accountable. In times of conflict or just after, governments often focus on making sure salaries are paid on time, delivering basic public services, and directing resources toward rebuilding, rather than strictly following budget rules.

The countries studied[19] have made important progress in several areas: updating their systems for tracking government finances, setting up centralized systems to manage government cash, automating treasury operations, strengthening controls over spending commitments, and making financial reporting more transparent. Among these, updating the chart of accounts and centralizing cash management have been the most successful reforms.

What PFM Reforms are Considered in Libya?

The MoF worked closely with the World Bank to co-design targeted PFM reforms in 2023, including creating a Treasury Single Account to better manage government funds, setting up a cash management unit, and revising the budget classification system. However, these reforms have not yet been put into practice, mainly due to political instability and the need for strong cooperation among key institutions like the CBL and the wider banking sector. An enabling political environment and consensus among stakeholders are crucial for moving forward with these needed changes.

The reforms GNU decided to implement are fully aligned with the set for which other FCS countries had been relatively successful, as evidenced by the PEFA assessments cited in previous paragraphs.

- **Development of a Treasury Single Account (TSA).[20]** In 2023, the MoF and the World Bank

18 Public financial management reforms in post-conflict countries: synthesis report (English). Washington, DC: World Bank. http://documents.worldbank.org/curated/en/945231468340162289.

19 Afghanistan, Cambodia, Democratic Republic of (DR) Congo, Kosovo, Liberia, Sierra Leone, Tajikistan, and West Bank and Gaza.

20 A Treasury Single Account (TSA) is a unified structure of government bank accounts that consolidates and manages all government cash resources, typically held at the central bank. The primary role of a TSA is to provide the government with a consolidated view of its receipts, expenditures, and available cash, enabling more effective control, oversight, and utilization of public funds. It reduces fragmentation caused by multiple accounts held by various spending units in commercial banks, increases liquidity available for budget execution thereby helping to reduce payment arrears and the need for costly borrowing to cover immediate liquidity needs. It can also help improve transparency with better tracking of government spending and revenues (Fainboim Yaker, Israel and Pattanayak, Sailendra, Treasury Single

discussed the implementation of a TSA based on a design that would rely on the existing institutional structures (Treasury, financial controllers in payment centers, spending units, and CBL), the existing set of accounts in commercial banks, with improved capture of financial information.

- **Implementation of a cash management function, with the creation of a Cash Management Unit.** In 2023, the MoF considered the development of a cash management function. Services to be provided by a cash management unit leveraging the TSA were identified: ensuring that the unit receives the inputs for determining cash plans and expenditure payment limits; advising on and executing consequent short-term financing/investment operations and undertaking associated analysis and reporting.
- **Revision of the current Budget Classification–Chart of Accounts (BC–CoA).** The MoF, supported by the World Bank, worked on the revision and expansion of the current BC-CoA. In the short term, the BC-CoA would be an enabler for the TSA, given that the economic segment[21] of the BC-CoA can classify and inter-link all government bank accounts for a comprehensive TSA. In addition, the implementation of the TSA would support the daily production and collection of information directly from the CBL, with the need for greater detail compared to current CBL monthly reports on expenditures and revenue. The revised BC-CoA is also needed to produce such information.

What are the Key Success Factors and Constraints for the Implementation of PFM Reforms?

In the context of instability and widespread fragilities, an enabling political environment is key to decision-making needed for the implementation of PFM reforms. The technical engagement with the GNU has been constructive for the design of PFM reforms but implementation has been lagging. While the MoF is leading and coordinating PFM reforms, their implementation requires collaboration with stakeholders over which the leading ministry has no authority or control.

For instance, in the case of the implementation of a TSA, the setup would include the CBL and the banking sector, in addition to the MoF. Achieving the necessary institutional cohesion and collaboration requires an enabling and supportive environment. In addition to securing the engagement of a variety of stakeholders from the public and from the private sectors, reform implementation would require:

i. Preparing the environment to move towards a major change in business processes and a more transparent system;
ii. The willingness of CBL to play major coordination role during the transition process to manage the liquidity of banks, efficiency of the payment gateway, etc.; and
iii. The ability of MoF to play a central role in authorizing banks, bidding processes, banks' contract management and entire government business management.

The dialogue on PFM reforms considered the specific constraints related to the current legal and regulatory framework. While legal changes might be challenging, implementation of suggested changes could depend on detailed financial regulations, treasury circulars, and accounting rules. Throughout this process, ensuring transparency in the development and application of these regulations is essential to foster trust, accountability, and effective governance.

Account: Concept, Design, and Implementation Issues (June 2010). IMF Working Paper No. 10/143)

21 The economic classification is also known as "object" classification (wages and salaries, goods and services, transfers and subsidies, capital expenditure, and debt service).

CONCLUSION

Libya has an opportunity to strengthen its PFM system by focusing on three core areas: budget preparation, budget execution, and reporting. These are the essential building blocks for a well-functioning government and are also the main priorities identified in Libya's 2023 reform roadmaps.

Key lessons from other fragile and conflict-affected states show that successful PFM reforms start with a thorough assessment of the current system. The World Bank's study on post-conflict countries found that effective reform strategies only emerged after broad-based PFM assessments established a shared knowledge of the status quo that paved the way forward.

Libya is currently undertaking a PEFA assessment, which provides an important opportunity for the GNU to review and potentially update its reform agenda. The assessment can help confirm the priorities set in 2023 or adjust them to reflect recent developments. Importantly, the PEFA framework also addresses broader issues that impact all stages of the budget cycle, such as transparency and asset and liability management. It will be important to encourage all relevant Libyan stakeholders/ institutions to fully participate in the process.

The PEFA assessment is not just a technical exercise, it is a chance to bring stakeholders together and build consensus on the way forward. A roundtable of the findings, followed by a consultative process with all PFM stakeholders, will help identify the most critical reforms and reach consensus on the way forward.

WORLD BANK GROUP
1818 H Street, NW
Washington, DC 20433