**Subject: Libya - Flash Report -  EWG Meeting on 01/04/22 in Tunis (Budget Execution, Budget priorities, Reunification process)Libya -- Flash – EWG Meeting on 17/3/22 in Tripoli (Budget Execution and Priorities/Agenda enclosed)**

**FACTS**

* The EWG co-chairs [US (Amb. Norland), Egypt (Amb. Tamer), UNSMIL (SASG Williams) and EU (Amb. Sabadell)] convened the meeting as a follow up of the 17 March meeting in Tripoli, to continue exchanges, in particular, on budget execution, on the identification of budget priorities and the challenges for their financing, as well as on the reunification process of the Central Bank of Libya (CBL).
* In addition to the co-chairs, the meeting was attended by representatives of the CBL (including Governor Kabir), National Oil Corporation, NOC (including its chairman, Sanallah) and the Ministry of Finance, as well as by members of the Technical Committee, of the House of Representatives (HoR) Finance Committee, and of Presidential Council.
* In their **opening remarks**, the EWG co-chairs stressed in particular: i) the importance of the economy as a possible driver for peace, stability and growth; ii) the need to deal properly with economic issues at a moment of particular complexity in Libya, with contested legitimacy between key political actors and institutions, a risk of a practical disunion of the country, and a danger of instability/violence;  iii) the overall geopolitical situation following Russia’s aggression on Ukraine and its consequences, also for Libya; iv) the importance of the oil sector in the country, and the a risk that the internal political situation may affect oil production and export, depriving Libyans from the only practical source of income, precisely at the time when the benefits would be higher and needs for foodstuff import more pressing; v) the importance to ensure continued funding of critical government services and obligations - in this context, it is critical that (oil) revenues are ensured and properly used to respond to fundamental needs (payment of salaries, some services, subsidies, NOC maintenance and development needs; vi) necessary to establish transparent mechanisms, agreed by all stakeholders, guaranteeing that resources/revenues contribute to peace, stability and economic growth for the benefit of all in Libya (and not to the contrary).
* CBL Governor Kabir gave an overview on **budget execution**, updating the figures provided at the 17/3 meeting. No particular developments have taken place as regards the revenue influx from NOC (7 billion USD stalled at Libya’s Foreign Bank (LFB)). The CBL is consequently running a technical deficit of over 4 billion USD. This issue needs to be addressed.
* The importance of identifying **budget priorities** was stressed by the EWG co-chairs. Participants agreed that it is necessary to overcome current blockages and that expenditures under  chapter 1 of the budget structure (salaries); chapter 4 (subsidies); and to ensure that NOC can afford maintenance and (some of its) development expenses so as to maintain/increase oil and gas production, are particularly relevant. In this context, NOC presented its maintenance and development needs. Participants also consider it essential that a transparent system to ensure financial flows and oversight of their use be established. Dialogue towards this end should be pursued.
* As regards the **reunification process**, CBL Governor Kabir reiterated the positive outlook presented on 17 March. A solution for the re-activation of the mutual clearing system is now within reach.
* **Participants concluded** that despite some diverging opinions, the meeting was positive, providing useful technical elements in the context of a positive atmosphere on which to build; agreed that dialogue and transparency is crucial to overcome the current challenges, as well as to promote mutual confidence; concurred that political will and constructive solutions should prevail over formalistic procedures. **EWG co-chairs reiterated** the importance of that economy plays in favour of peace, stability and growth for the benefit of all Libyan citizens (not in favour of conflict and division). Even if no decisions were taken, the meeting was considered a valuable step towards concrete solutions. The EWG co-chairs underlined their readiness to promote continued dialogue and to support Libyan stakeholders in this endeavour.
* EWG Co-chairs are finalising a **statement**, which will be published shortly (we will circulate it as soon as available).

**COMMENTS/ASSESSMENT**

* There was consensus among all participants that the current political crisis in Libya requires concerted efforts to ensure that, pending the normalisation of the political situation in the country (including through the adoption of a proper budget), the Libyan state is able to respond to obligations (salaries, subsidies, etc.) and that NOC, as a central economic actor, is able to operate and to contribute to the wealth of the country (maintenance, increased production & exports, collection and redistribution of oil revenue).
* Financial flows should not be used as a weapon (blockages, diversion, etc.). It is important that a mechanism, transparent, auditable, open and agreed by all stakeholders, is agreed and made operational so as to address the current blockages and to prevent similar problems in the future. The release of revenues held by the Libyan Foreign Bank (LFB) to the CBL for critical government spending, and also for NOC maintenance and development, is central. The information on maintenance and investment plans provided by NOC during the meeting can be useful to de-block the situation.
* The meeting allowed conceptual progress towards the idea of encapsulating the economy and providing a basic agreement on the management of oil income, separating it from political disagreements. In order to do so, Libyan stakeholders, with the support of the EWG, would jointly confirm critical expenditures (salaries, subsidies, NOC needs) and agree to a mechanism ensuring their financing. Applicable in the short term, such an approach would contribute to the stability of Libya, would be beneficial for confidence and consensus building, and would hopefully prevent escalation, in particular the risk of oil blockades.
* This approach could also include a system to preserve the excess income (potentially tens of billions of Euros only this year) for future investment. International guarantees could ensure that these funds will not be misappropriated.
* The meeting was also an opportunity to recall that the independence and apolitical nature of key economic instances and operators (notably CBL, NOC and the Libyan Investment Agency, LIA) should be ensured.
* With the agreement of Libyan stakeholders, these consultations could lead to the organisation of regular, structured meetings on the economic tack. As necessary, this dialogue could address other sensitive issues such as the debt of the Eastern Branch of the Central Bank or the Libyan National Army (LNA) debt.

*Signed-off: José Antonio SABADELL, HoD*