# Of Tanks and Banks: Stopping a Dangerous Escalation in Libya

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Headquarters
**International Crisis Group**
Avenue Louise 149 • 1050 Brussels, Belgium
Tel: +32 2 502 90 38 • Fax: +32 2 502 50 38
brussels@crisisgroup.org

*Preventing War. Shaping Peace.*

## Table of Contents

# Principal Findings

**What's new?** A neglected banking crisis in Libya is coming to a head just as forces under Field Marshal Khalifa Haftar are trying to capture Tripoli. A protracted conflict will hinder efforts to reunify the divided banking system, fuelling prospects of a financial implosion and economic war alongside the military one.

**Why did it happen?** The looming crisis is a direct consequence of a four-year split between the Central Bank in Tripoli and its eastern branch, dating from the broader political divide that emerged in 2014. Haftar's desire to seize control of the Central Bank and state assets possibly contributed to the timing of his offensive.

**Why does it matter?** Should the Central Bank freeze the operations of two key commercial banks because of falling reserves, the move could destabilise the east-based government and interrupt funding for Haftar-led forces. This would deepen the political divide between competing authorities in east and west and produce severe economic blowback throughout the country.

**What should be done?** In addition to a ceasefire, Libya's warring sides should, at a minimum, reach agreement on standardising commercial banking operations in the east and work toward the Central Bank's reunification. Libya's foreign partners should offer expert advice and prioritise resolving the financial crisis in negotiations.

# Executive Summary

As forces loyal to east-based military commander Khalifa Haftar battle armed groups in western Libya nominally loyal to the Tripoli-based government, a neglected and possibly explosive banking crisis could further destabilise the country. In April, the Tripoli-based Central Bank of Libya started enforcing restrictions on several eastern state-owned commercial banks, which together cover 30 per cent of Libya's commercial banking needs. Such restrictions loomed prior to Haftar's offensive, which may partly have been inspired by a spiralling banking feud rooted in Libya's 2014 political split. If the Central Bank further tightens restrictive measures, this would compromise the east-based government's ability to pay employees and Haftar's forces. This in turn could prompt Haftar to cut oil exports from areas he controls and ignite an economic war. Averting such a crisis requires a settlement between the Central Bank in Tripoli and its eastern branch in Benghazi, operating autonomously since 2014, on how to account for commercial bank transactions. Libya's international partners should work toward that goal.

The battle for Tripoli has already caused at least 300 deaths and displaced tens of thousands in a month of fighting. Haftar's Libyan National Army's (LNA) offensive, which began in early April, so far has foundered on the capital's periphery in the face of fierce resistance from armed groups aligned with the UN-backed Government of National Accord. Both sides project confidence that they will prevail with military and financial support from their respective foreign sponsors. They have also rejected mediation by external neutral parties such as the UN. All signs point to a prolonged, highly destructive, stalemate.

Against the backdrop of ongoing fighting, the authorities in Tripoli evince little appetite for responding to the imminent banking crisis. They know they have the advantage of exclusive access to state funds accruing from oil sales, and that a concession from their side would save the very banks that have helped bankroll the military forces now besieging them. The Tripoli authorities may indeed be tempted to let the banking crisis come to a head, or even take additional measures such as interrupting salary payments to east-based civil servants currently on Tripoli's payroll, in order to halt funding streams to the east, thereby hamstringing the LNA's ability to carry on the fight.

Such a strategy could make military sense, but it would also compound Libya's lingering economic crisis by orders of magnitude, with grave social, economic and political repercussions for the entire country. The commercial banks' growing troubles could cause mass panic, aggravate an existing liquidity crisis and impede service delivery as key state companies and private firms, which hold accounts with these banks, may no longer be able to process payments or issue letters of credit to import the essential goods on which Libya is highly dependent.

A financial squeeze in the east could also reignite fighting over Libya's sole source of revenue: its oil. In the short term, Haftar could ask his wealthy regional backers – mainly the United Arab Emirates (UAE) and Saudi Arabia – to bankroll his war effort, but as the battle wears on, the east-based government could decide to shut down the country's oil fields and export terminals, most of which are under LNA

control. This would deepen the de facto split between east and west, including the rift in the banking sector, and possibly become a prelude to partition. All these developments would vastly complicate efforts to reach a political settlement to the Libyan conflict overall.

To prevent such a catastrophic scenario, Libya's competing military coalitions in the east and west should urgently agree to a ceasefire and then promptly launch negotiations between the Central Bank's rival governors to settle the dispute over how to account for financial transactions in the east. Outside actors should press the parties to embark on this course of action and offer expert advice. The U.S. in particular should use its historical leverage over Libya's financial and oil sectors and its newly declared sympathy for Haftar to usher the parties toward a financial settlement. This is an essential step that should support simultaneous political and military-to-military negotiations over reunifying governing institutions, including reconsolidating the Central Bank and appointing new bank governor.

Ultimately, only the reunification of Libya's rival governments and state institutions, including its financial ones, can bring the stability that its citizens crave. Reunification by military means on which Haftar and his backers appear to be betting is likely to backfire. The promise of a financial settlement might make the difference Libyan parties need to agree to a ceasefire and put political negotiations back on track.

**Tripoli/Benghazi/Brussels, 20 May 2019**

# Of Tanks and Banks: Stopping a Dangerous Escalation in Libya

## I. Introduction: The Making of a Banking Crisis

In 2014, Libya suffered a political crisis that split the country into two rival parliaments and governments: the Interim Government headed by Prime Minister Abdullah al-Thinni in the east, which enjoyed international recognition until December 2015; and a Tripoli-based government. Subsequently, in the December 2015 UN-brokered Skhirat agreement, Libyan negotiators established a Government of National Accord in Tripoli, with a Presidency Council headed by Faiez Serraj, to which the UN Security Council extended international recognition. Nevertheless, the Thinni government continued to operate in the east, backing the Libyan National Army (LNA) forces of Field Marshal Khalifa Haftar.[1] The 2014 political crisis also triggered a rift in the Central Bank between Governor Siddiq Elkebir in Tripoli and his deputy, Ali al-Hibri, who proceeded to operate the bank's Benghazi branch autonomously.[2]

The rift in the Central Bank prompted a dispute between Libya's two power centres, Tripoli and Benghazi, over how state revenues (mainly from oil sales) are allocated. Three related developments escalated this disagreement. The first was the Central Bank's 2014 decision to disconnect the Benghazi branch from its automated electronic payment system, which prompted the latter to resort to a parallel manual accounting system.[3] The Central Bank has declared it does not recognise the Benghazi branch's parallel accounting system, but the parliament based in the eastern city of Tobruk has said it does, and east-based authorities consider transactions conducted through it as valid under Libyan law.[4]

The second was the east-based government's decision to authorise the Benghazi branch to expand the bank's monetary base (by printing cash and putting into circulation money funded through bonds and treasury bills not backed by actual capital) without the Central Bank's approval in order to pay public-sector salaries and make other payments in areas under their control, including for the LNA.[5] Such payments have amounted to approximately nine billion dinars ($6.4 billion) a year since 2015.[6]

[1] On Libya's 2014 political crisis that gave rise to two rival governments in Tripoli and eastern Libya, see Crisis Group Middle East and North Africa Report N°157, *Libya: Getting Geneva Right*, 26 February 2015, and Crisis Group Middle East and North Africa Report N°170, *The Libyan Political Agreement: Time for a Reset*, 4 November 2019.
[2] On the split of the Central Bank, see Crisis Group Middle East and North Africa Report N°165, *The Prize: Fighting for Libya's Energy Wealth*, 3 December 2015, and Crisis Group Middle East and North Africa Report N°189, *After the Showdown in Libya's Oil Crescent*, 9 August 2018.
[3] Crisis Group written correspondence with Central Bank eastern branch official, March 2019.
[4] Crisis Group interview, Siddiq Elkebir, Central Bank governor, Tunis, 9 January 2019. Crisis Group interviews, House of Representatives members, Tobruk, October 2015; Benghazi, 2017-2018.
[5] Crisis Group interviews, ministers of the east-based government, Benghazi and Bayda, November 2018.
[6] Crisis Group interviews, officials of the Central Bank's Benghazi branch, March 2019. See Figure 1 for the breakdown of government expenditure in the east.

To make these payments, the east-based government has used commercial banks that have their headquarters and most of their branches in the east, from where they can cater to the east-based government's newly recruited employees and security forces.[7] Three banks in particular – the state-owned National Commercial Bank and the Wahda Bank, and the small private Commerce and Development Bank – process the bulk of these payments, which together account for 30 per cent of Libya's commercial banking needs.[8] As a result of such operations, these banks have accumulated reserves and credits with the Central Bank's Benghazi branch, which the Central Bank in Tripoli does not recognise.[9]

The third development was the October 2018 introduction by the Tripoli government of financial measures that liberalised the purchase of foreign currency throughout the country at a new, higher rate.[10] This drained these three above-mentioned banks' reserves with the Central Bank, which debited their accounts in local currency. Cumulatively, these three developments are dipping the east-based commercial banks into an acute crisis as their deposited reserves with the Central Bank have dropped close to the minimum required by law – 20 per cent of their total deposits. If they were to go below it – as appears imminent or may have happened already – the Central Bank could impose restrictions on them, mainly on foreign currency purchases, that would limit their ability to make payments; or it could even let their reserves completely run out, at which point the banks by default would be unable to operate.

In late April, Central Bank officials in Tripoli imposed limitations and special control mechanisms on foreign currency transactions on the Wahda Bank and Commerce and Development Bank, as well as two smaller banks.[11] The Central Bank claimed the measures constituted due diligence to prevent fraudulent transactions, but representatives of one of the targeted banks and the officials of the Central Bank's Benghazi branch argue they are retaliatory measures singling out eastern banks, specifically those whose reserves with the Central Bank in Tripoli are drying up.[12] The restrictions already imposed, and additional ones expected to follow, including on other banks such as the National Commercial Bank, would block these banks from bankrolling the east-based authorities, and also affect their operations in the rest of the country.

The gathering banking crisis has yet to garner much public attention, but some officials in the Central Bank, its eastern branch and the three affected commercial banks first sounded the alarm in March.[13] Given the timing of Haftar's advance on

[7] Crisis Group interviews, Benghazi, March 2019.
[8] Crisis Group interviews, Central Bank officials, Tripoli and Benghazi, 2018-2019; representatives of the Wahda Bank, Benghazi, March 2019.
[9] Crisis Group interviews, Benghazi, March 2019.
[10] Presidency Council decree 1300/2018, 12 September 2018. See footnote 33.
[11] Central Bank of Libya, clarification note published 29 April 2019. The Commerce and Development Bank has been under Central Bank restrictive measures already since 2016. Crisis Group interviews, Commerce and Development Bank officials, Benghazi, 11 March 2019. Aside from the two aforementioned banks, two other institutions were affected: Oasis Bank (*Masraf al-Waha*) and Arab Consensus Bank (*Masraf al-Ijmaa al-Arabi).* The Central Bank in Tripoli say a committee will have to approve any letter of credit from the targeted institutions.
[12] Crisis Group interview, Wahda Bank representative, Tunis, 30 April 2019; Crisis Group written exchange, official with ties to the Central Bank's Tripoli headquarters, 30 April 2019.
[13] Crisis Group interviews, Benghazi, March 2019.

Tripoli, which kicked off in early April, it is quite possible that financial pressures helped motivate his decision to launch the offensive: he may have bet on a quick march into the capital to gain control of the central government and reconsolidate the Central Bank under his control. Such an outcome would have forced the Central Bank to accept all the liabilities of its eastern branch (which has openly supported the offensive) and given Haftar continued access to state funds. It also would have satisfied some of Haftar's foreign backers, who accuse the Central Bank in Tripoli of bankrolling militias and Islamist groups they oppose.[14] If Haftar's offensive fails, however, he may have little choice but to call on his foreign backers to bankroll public finances in the east. In the meantime, Haftar's ongoing attempt to capture the capital by force is providing Tripoli-based authorities with a justification to let the financial crisis unfold and possibly even take additional steps to curb all domestic funding streams to those attacking Tripoli.

This report is based on scores of interviews with Libyan banking and government officials based in eastern and western Libya in the first quarter of 2019. It also builds on Crisis Group's research into the financial aspects of the Libyan political crisis, ongoing since 2014.

[14] Haftar and east-based authorities often accuse the Central Bank of bankrolling armed groups that are openly anti-LNA and militias they accuse of being terrorist groups. Crisis Group interview, officials in Eastern Libya, Benghazi and Bayda, 2018-2019. See also, Crisis Group Middle East and North Africa Report N° 189, *After the Showdown in Libya's Oil Crescent*, 9 August 2018. Egyptian officials tend to echo these accusations, and express a broader concern that Libya's oil revenues accruing to the Central Bank could be funnelled to what Egypt considers terrorist groups in Libya or elsewhere. Crisis Group interviews, Egyptian diplomats, Tunis, January and March 2019.

# II. From Political to Financial Rift

## A. *Divided Banks*

The origin of the financial crisis lies in the September 2014 decision by the House of Representatives (HoR), which had installed itself in Tobruk in August after contested general elections two months earlier, to appoint the Central Bank's former deputy governor, Ali al-Hibri, as interim governor, replacing Siddiq Elkebir. In reality, Hibri became the head of the Central Bank's branch in Benghazi, now operating autonomously, while Elkebir remained in office in Tripoli.[15] Consequently, the competing governments in east and west began operating separate – and conflicting – monetary and fiscal policies.

The Central Bank retaliated in October 2014, disconnecting its eastern branch from its automated clearing system (Real-Time Gross Settlement, or RTGS), which all Libyan commercial banks use to manage their accounts with the Central Bank. Prior to 2014, the Central Bank had three operating branches – in Tripoli, Benghazi and Sebha; of these, Tripoli and Benghazi were linked to the RTGS. This meant that the two branches could process and clear both government and private payments to ministries, companies and individual account holders with commercial banks.[16]

The Central Bank took this step to prevent east-based authorities from accessing government accounts and funds (both reserves and oil revenues).[17] The Tripoli-based

[15] In early September 2014, the Tobruk-based House of Representatives (HoR) summoned Central Bank Governor Siddiq Elkebir for a hearing, which he refused to attend, sending in his place Deputy Governor Ali al-Hibri. Elkebir's absence and his refusal to transfer funds to the HoR led HoR members on 14 September 2014 to dismiss Elkebir as Central Bank governor and appoint Hibri as interim governor instead. Tripoli authorities did not recognise the HoR's decision, and Elkebir continued as governor in Tripoli, with international backing, while Hibri worked autonomously out of the bank's eastern branch. The two men did not meet again until almost four years later, at the UN's request. In the meantime, the eastern branch relocated from Benghazi to Bayda following the destruction of its Benghazi office during fighting in the city between 2014 and 2017. A newly built Benghazi Central Bank branch was inaugurated in late 2018, and operations now take place in both Bayda and Benghazi. Crisis Group interviews, officials and former officials of both the Central Bank and its eastern branch, Tripoli, Tobruk and Benghazi, 2014-2018. On 19 December 2017, the HoR appointed a Libyan banker close to Hibri, Mohamed Shukri, as the new Central Bank governor, officially to replace Elkebir. However, Shukri never took office, claiming he would only do so if allowed to operate from Tripoli, but Tripoli-based authorities did not recognise his appointment, claiming it violated the UN-backed Libyan Political Agreement (a position also backed by the UN). As a result, Hibri continues to operate at the helm of the Central Bank's Benghazi branch, and Elkebir remains the internationally-recognised governor in Tripoli.

[16] Crisis Group interviews, entrepreneurs and advisers to the Central Bank and its eastern branch, Tunis, Tripoli and Benghazi, 2018-2019.

[17] Soon after installing itself in Tobruk in early August 2014, the HoR wrote to the Central Bank branch in Benghazi requesting that some 85 million dinars ($61 million) held in five separate accounts of the General National Congress (GNC), the Tripoli-based parliament elected in 2012, be transferred to a newly created HoR bank account in Tobruk. Letter no. 14/2014 from HoR President Aghila Saleh to the Central Bank branch in Benghazi, dated 30 August 2014. But the Central Bank refused to do so. Allegedly, the HoR had hoped to secure access to a special Central Bank reserve (*mujannab*) account inherited from the Qadhafi era, which held a staggering thirteen billion dinars ($10 billion) in late 2014, according to Hibri. This account appears to have been created by Law 13 of 2010, "regulating the Libyan Investment Authority" to hold surplus oil revenues. Hibri

parliament (General National Congress, GNC, elected in 2012) viewed the newly elected HoR as illegitimate. The decision to cut Benghazi off from the RTGS predates the November 2014 ruling of the Tripoli-based Supreme Court, in effect declaring the June 2014 HoR election unconstitutional; this subsequently gave the Central Bank cover to treat the HoR-backed government in the east as illegitimate and consider all HoR decisions related to banking, including its requests for budget disbursements, null and void.[18] The Central Bank's decision was especially aimed at preventing the disbursement of funds to Haftar's incipient LNA, which the HoR backed but the Tripoli authorities deemed illegal. However, the Central Bank kept on its payroll all public-sector employees hired before the 2014 political crisis, including many in the east, and kept commercial banks, including those in the east, connected to the RTGS system.

Despite being deprived of state financing and access to oil revenues, which accrued solely to the coffers of the internationally-recognised Central Bank in Tripoli, authorities in the east continued to operate with the HoR's support and found other ways to fund themselves. Initially, they were able to obtain loans from Libyan commercial banks, and later, in 2015, bonds (or Treasury bills) underwritten by the Interim Government's ministry of finance and the Central Bank's eastern branch.[19] East-based

has stated that in September 2014, when he took part in meetings in Tobruk, he had suggested to some HoR members that they use funds in this account to finance their budgets, and admitted that he had not consulted with Elkebir before making this suggestion. Crisis Group interview, Ali al-Hibri, Tunis, July 2018. According to Hibri, the GNC had previously tapped into this account to cover five billion dinars ($3.5 billion) worth of allowances for fighters and for family allowances for the Muslim holy month of Ramadan, but this claim could not be verified and it remains unclear whether funds in this *mujannab* account were ever accessed.

[18] On 23 October 2014, the HoR approved the Thinni government's 2015 budget proposal, hoping that this would overcome all legal impediments invoked by the Central Bank to prevent it from disbursing funds to the eastern government. This was understandable, since Libyan law requires parliamentary approval of the budget for funds to be allocated to the government. But the Central Bank did not change its stance on funding to authorities in the east; it has not recognised any of the budgets presented by the HoR (nor, in fact, those by the GNC, elected in 2012, which continued to operate in Tripoli after the contested 2014 elections until it was replaced following the December 2015 Skhirat agreement). Instead, in late 2014, the Central Bank decided unilaterally on what funds to disburse, using the previous (2013) budget as reference. Crisis Group interviews, HoR members, Tobruk, 2014.

[19] There has been no public disclosure of how the issuance of these bonds and treasury bills occurred and on what terms, which is an important point of contention with Tripoli, where authorities, including the Central Bank, continue to consider the bills and bonds illegal. A copy of one such bill shown by the Central Bank's Benghazi branch to Crisis Group reads: "Treasury Order (إذن خزانة) no. 6. Pay to the Central Bank of Libya 250 million Libyan dinar only and no more with 3 per cent annual interest rate. Maturity date 31 December 2020. Signed by the Minister of Finance and Planning, and dated 1 January 2018". Crisis Group interviews, Ali al-Hibri, Benghazi, November 2018; and advisers to the Central Bank, Tripoli, May and November 2018. Apparently, this treasury order allowed the eastern government to fund itself through debt obligation of money it does not have physically but nominally on the assumption that it is a legal government. One third of this debt was backed by freshly printed cash that the eastern Central Bank put in circulation through the commercial banks, but the remainder appears to be fiat currency. In turn, the Central Bank's Benghazi branch credits the eastern government's account on the claim it has a legal basis for such operations (see footnote 15). Under normal conditions, bonds are purchased by institutional investors, banks or citizens, but in the case of eastern Libya the extent to which commercial banks have purchased

authorities offset some of this debt by printing and putting into circulation ten billion dinars ($7 billion) worth of banknotes throughout 2015-2018 independently from the Central Bank in Tripoli.[20] The funding stream to the east-based authorities continued even after the 2016 installation of the Government of National Accord (GNA) in Tripoli, which the UN Security Council, but not the HoR, recognised. The suspension of the Benghazi branch from the Central Bank's automated clearing system continues until this day, giving rise to parallel yet overlapping financial systems in eastern and western Libya (see Appendix B).

## B. *Parallel Financial Systems*

The aforementioned bonds and Treasury bills written out between 2015 and 2018 created an east-based public debt, not authorised by the Central Bank in Tripoli, amounting to 35 billion dinars ($25 billion), or almost nine billion dinars ($6 billion) a year.[21] The east-based government uses approximately 65 per cent of its funds to finance its operations, including the salaries of employees it hired after the 2014 political crisis (who are not included in the Tripoli budget) as well as employees hired before the crisis but cut off from the Tripoli payment system for technical and political reasons after 2014.[22] It uses another 30 per cent to cover the LNA's opera-

these bonds remains unclear; ordinary citizens are definitely not involved. Crisis Group interviews, bankers, residents, Benghazi and Bayda, 2016-2018.

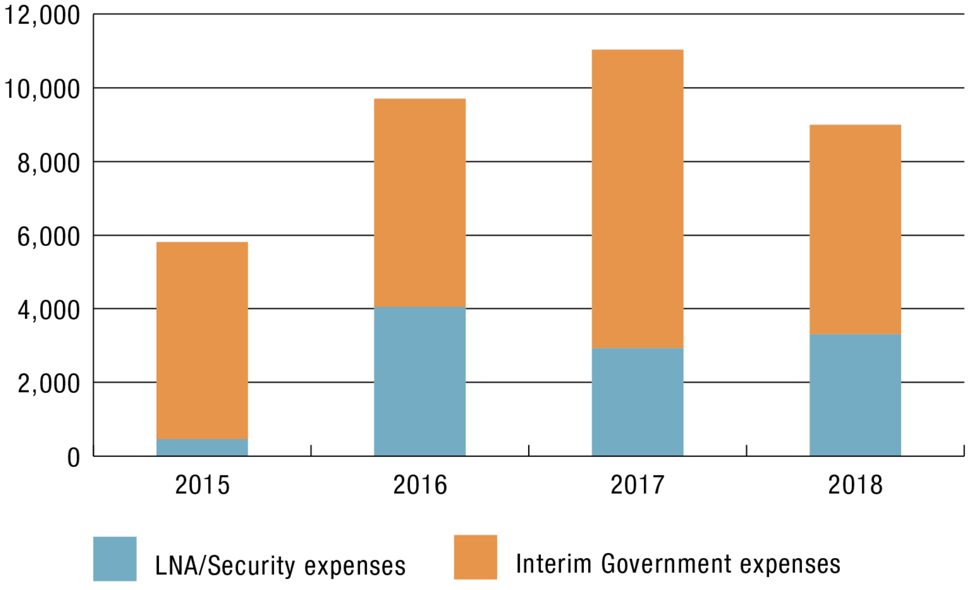
[20] Eastern authorities contracted a Russian company to print the banknotes, whereas the Central Bank in Tripoli continued to print in the UK. Both sides sought to alleviate a severe liquidity crisis that hit Libya in 2014 by increasing the money supply, but queues at banks continued. See Aiden Lewis, "Separate banknotes symbols of Libyan disunity, financial disarray", Reuters, 3 June 2016.

[21] Crisis Group interview, Ali al-Hibri, HoR-appointed Central Bank interim governor, Benghazi, 14 March 2019. On the east's debt, see also Ulf Lessing, "Debts pile up as rival Libyan governments struggle for power", Reuters, 6 March 2019.

[22] Public-sector salary payments are a thorny issue that the Tripoli government and its eastern rival have each used to accuse the other of malfeasance. In 2014-2015, the eastern government claimed Tripoli had cut off easterners from the salary payment system; Tripoli retorted that it covered the salaries of all public employees, including those in the east. It emerged over time that the difference in views was linked partly to the fact that government ministries in charge of overseeing the employee database and the Central Bank, which disburses payments, suspended salary payments to those who did not conform to new directives from Tripoli requiring public-sector employees to submit their national ID number to their employer. The Tripoli authorities had adopted this measure to prevent civil servants from receiving more than one salary simultaneously from the state, which is illegal and had emerged as a widespread problem in 2013. Officials in the east argued that many easterners were unable to obtain a national ID number in 2014, when fighting in Benghazi closed down many government offices, including those in charge of issuing the national ID number. Crisis Group interviews, east-based officials, Tripoli-based officials, Bayda, Benghazi and Tripoli, 2015-2019. Since 2017, the World Bank, together with finance ministry officials from both the Tripoli and eastern governments, has been spearheading efforts to unify the two governments' budget. Thanks to this, the salaries of many employees thus far paid by the eastern government, including those hired after 2014, have been transferred to the Tripoli wage bill. Yet many still remain on the eastern payroll. As of March 2019, for example, the government in Tripoli had started paying many employees working for the east's interior ministry forces out of its own budget, while the police, criminal investigations unit and internal security directorate in the east were still receiving salaries from the east's coffers. Crisis Group interview, Ibrahim Bu Snaf, interior minister of the east-based

tional costs and salaries (most of which are not covered by the Tripoli budget).[23] The Central Bank's Benghazi branch calculates the breakdown of its civilian versus military expenditures between 2015 and 2018 as follows:

**Figure 1: Interim government (based in eastern Libya) expenditure 2015-2018 (in millions LYD)**




Source: Central Bank of Libya, Benghazi branch, March 2019 (unpublished source; the full breakdown of the figures is available in Appendix C of this report).

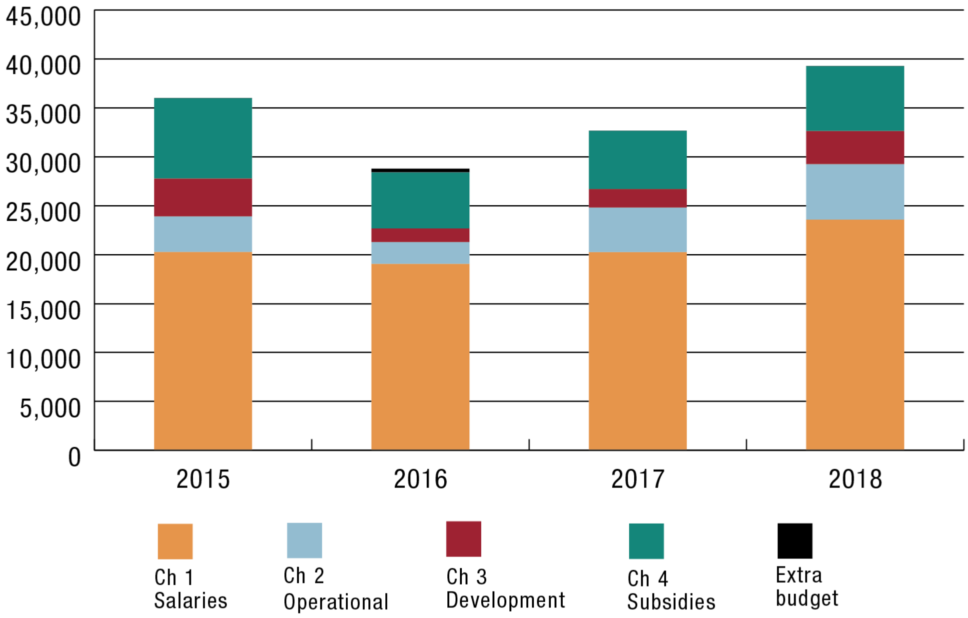
Throughout this same period, the Tripoli-based government's budget averaged 36 billion dinars (slightly over $25 billion) a year. Oil revenues are the Tripoli government's main source of income, but due to a shortfall in hydrocarbon production and exports, Tripoli has also faced a budget deficit, which has oscillated, averaging fifteen billion dinars ($10 billion) a year. In early 2019, the Central Bank indicated that the Tripoli government's total cumulative outstanding debt to it was 62 billion dinars ($44 billion).[24] The breakdown of the Tripoli government's expenditures, which shows that over half of its disbursements go toward salary payments, is as follows:

government, Benghazi, 11 March 2019. Salaries accounted for over half of both the Tripoli and eastern government's budgets throughout 2014-2018.

[23] LNA salaries are covered as follows: LNA military officers listed in the defence ministry's employee database prior to 2014 continue to receive a basic salary from Tripoli, but additionally they receive a top-up from the eastern government, while salaries of post-2014 LNA recruits are paid entirely out of the eastern budget. Crisis Group interview, finance ministry officials, Bayda and Tripoli, 2018-2019.

[24] Loans & Advances to Treasury in "Assets & Liabilities of Central Bank of Libya", Table no. 5, *Central Bank of Libya Economic Bulletin, 4th quarter 2018*.

**Figure 2: Expenditure of the Tripoli-based government 2015-2018 (in millions LYD)**




Source: *Central Bank of Libya Economic Bulletin, 4th quarter 2018*, Table 29 (the full breakdown of the figures is available in Appendix D of this report).

The Tripoli government's budget covers most public-sector employees, including many civil servants and some LNA and other security officers in eastern Libya who were already on the public payroll prior to the 2014 crisis.[25] The government makes its salary payments by issuing electronic checks via the RTGS, which it processes through commercial banks across Libya. These payments, like all other transactions through electronic payment systems, including wire transfers, are first transferred from the Tripoli government's main account to the deposit accounts that commercial banks keep with the Central Bank.

This is not the case for the east-based government's expenditures after 2014. The Central Bank's Benghazi branch, acting autonomously, writes out manual checks to government offices or companies, but they are cleared by commercial banks where customers have their accounts and pass through escrow (parallel) accounts that do not communicate with the automated electronic clearing system used in Tripoli. The result is a parallel system to account for commercial bank credits and debits with the Central Bank's eastern branch. All Libyan commercial banks with branches in the east therefore operate two parallel systems: RTGS for "legal" transactions sanctioned by the Central Bank in Tripoli, and a manual one for other transactions (which Tripoli considers "rogue" operations) with the eastern branch. According to Siddiq Elkebir, the Central Bank governor, referring to the December 2015 Libyan Political Agreement that brought to power the Government of National Accord, "All of this [the bonds underwritten by the eastern authorities] is illegal, because it was not envis-

[25] See footnotes 22 and 23.

aged in the Skhirat agreement"; moreover, he said, the Central Bank does not recognise the manual clearing procedure adopted in the east.[26]

Bank managers say that according to Libyan banking law they cannot refuse to process the manually issued checks from the Central Bank's eastern branch or from commercial banks.[27] Ali al-Hibri, the eastern branch's governor, agrees.[28] All commercial banks, including Libya's largest bank, Jumhuriya Bank, headquartered in western Libya, have had to keep manual accounts with the Central Bank's eastern branch. However, two banks in particular – the state-owned National Commercial Wahda Banks – and a third, smaller private bank, the Commerce and Development Bank, have processed the bulk of the east-based government's payments by virtue of being headquartered in the east and having the greatest number of branches and clients in that region. This explains why these banks in particular are affected by the dual payment clearing system they must operate with the Central Bank and its eastern branch: using RTGS in Tripoli and manual in the east.

The processing of the east-based government's payments and other commercial transactions has resulted over time in an accumulation of growing financial obligations by the Central Bank's eastern branch to these commercial banks.[29] The key

[26] Crisis Group interview, Tunis, 9 January 2019. Elkebir's position is backed by a number of UN Security Council resolutions, which consider illegitimate any institution outside the framework of the December 2015 Libyan Political Agreement. In resolution 2256 (2015), the UN Security Council "calls upon Member States, particularly those in the region, to continue to urge all parties in Libya to engage constructively with the Government of National Accord and all other institutions included in the Libyan Political Agreement and calls upon Member States to cease support to and official contact with parallel institutions that claim to be the legitimate authority but are outside of the Agreement as specified by it". Similar wording appears in UN Security Council resolutions 2278 (2016) and 2362 (2017). Conversely, the HoR considers the Libyan Political Agreement invalid, including the special financial arrangements stated in it which allow the Tripoli government to issue and approve its budget without parliamentary approval. Crisis Group interviews, east-based officials, Benghazi and Bayda, 2018.

[27] Crisis Group interview, Marai al-Barasi, chairman of the Wahda Bank, Benghazi, 12 March 2019. Libya's banking system is governed by law 1 of 2005 (amended by Law No. 46 of 2012), an English translation of which is available at https://bit.ly/2HVPBUA. Art. 11, par 2, states: "The [Central] Bank may provide temporary advances to the public treasury to cover any temporary deficit in general budget revenues based on terms agreed between the Central Bank of Libya and the Financial Secretariat". The east-based government and the Central Bank's Benghazi branch claim they are legitimate by virtue of having been recognised by the Tobruk-based HoR. The Benghazi branch also argues that the majority of the Central Bank's board of directors, appointed prior to the 2014 split, are allied with the east-based authorities, and that they hold regular board meetings with the majority of directors present. The Central Bank does not consider these meetings legitimate. Benghazi-based officials appear thus to be using the loyalty of some Central Bank board members to back its credit policies. Art. 16 of the banking law states: "The Central Bank of Libya's board of directors shall be responsible for discharging the authorities relating to the achievement of the Central Bank of Libya's goals and purposes. It shall also be responsible for formulating and implementing monetary, credit and banking policies within the scope of the government's general policy".

[28] Crisis Group interview, Ali al-Hibri, Benghazi, 14 March 2019.

[29] Bankers and businesspeople in the east point out that eastern government payments made through commercial banks were not the only type of transaction that commercial banks carried out with the Central Bank's eastern branch: even normal commercial transactions from and to clients with accounts in eastern Libya were accounted for in the manual clearing system and were credited to the banks' accounts with the Central Bank's eastern branch. Crisis Group interviews, managers at

consequence of this is that these commercial banks have amassed reserves and deposits with the Central Bank's eastern branch, while simultaneously carrying out other transactions through the Central Bank in Tripoli, where their reserves and deposits dwindled over time.

As a result of this dual payment clearing system, commercial banks maintained their primary deposit reserves with the Central Bank in Tripoli and carried out many transactions with it, while also doing business with the Central Bank's eastern branch and accumulating other reserves (credit) with the latter. These two sets of commercial bank credits and deposits appear to be very similar, with one critical difference: the government in Tripoli and, by extension, international institutions, recognise the Central Bank's reserves but not the eastern branch's. This means that they also do not recognise the credits commercial banks have accumulated in the east. In practice, the Tripoli government has no oversight of the eastern branch's reserves, and those funds reflect the eastern government asserting its authority to sell Treasury bills and print currency without Tripoli's permission. Over time, commercial banks accumulated 21 billion dinars ($15 billion) worth of credit with the eastern branch, 65 per cent of it belonging to the three aforementioned banks.[30] Table 1 shows the latter's accounts in detail as these stood in August 2018.

**Table 1: Commercial bank deposits with Central Bank in Tripoli and its eastern branch in million LYD (as of 31 August 2018) and required (legal) deposits with CBL Tripoli in million LYD (as of 31 December 2018)**

| Name | Tripoli CBL (actual deposits) | Benghazi CBL (as credit) | Total |
|---|---|---|---|
| National Commercial Bank | 4,897 | 9,199 | 14,096 |
| Wahda Bank | 6,514 | 2,532 | 9,046 |
| Commerce and Development bank | 2,092 | 2,019 | 4,111 |
| **Required (legal) deposits (20% of total volume) in CBL Tripoli as of 31 December 2018** | | | |
| National Commercial Bank | 3,779 | | |
| Wahda Bank | 3,753 | | |
| Commerce and Development bank | 1,747 | | |

Source: Central Bank of Libya, Benghazi branch, March 2019 (unpublished)

The unusual dual clearing system reflects the complex side effects of Libya's political crisis. But from a financial point of view it was not an immediate problem as long as the commercial banks were able to maintain the legally required minimum deposits

the Wahda and Mutawasit Banks, Benghazi, 12 March 2019; Crisis Group phone interview, Husni Bey, Libyan businessman, Tripoli, 30 March 2019.

[30] Crisis Group interview, Ali al-Hibri, Benghazi, 13 March 2019. Note that the figure Hibri quoted as being the total reserves that commercial banks have with the Central Bank's eastern branch amount to 21 billion, not 35 billion, dinars; the latter figure pertains to the total reserves accumulated by the east-based authorities after the Central Bank's eastern branch debited the commercial banks for the purchase of ten billion dinars ($7.1 billion) worth of banknotes that the east-based government had printed in Russia between 2015 and 2018 and put back into Libya's banking system, as well as four billion dinars worth of Certificates of Deposit. Crisis Group interview, Ali al-Hibri, Benghazi, 14 March 2019. However, the Central Bank governor in Tripoli claims that the total reserves that commercial banks claim to have with the Central Bank's Benghazi branch amount to 25 billion dinars. Crisis Group interview, Siddiq Elkebir, Tunis, 9 January 2019.

(20 per cent of each bank's total deposits) with the Central Bank, which they did (Table 1, required deposits table). In fact, even as these banks accumulated reserves with the Central Bank's eastern branch, their deposits with the Central Bank itself remained relatively stable between 2015 and 2018, staying above the 20 per cent threshold. This suggests that the dual clearing system could have continued without affecting the commercial banks' overall operations.

## III. Toward Climax: The September 2018 Financial Measures

The discrepancy in the commercial banks' accounts with the two branches of the Central Bank worsened when the Tripoli government adopted an economic reform package it referred to as "financial measures" in September 2018 in an effort to liberalise access to letters of credit (which the Central Bank had capped since 2014), reduce black market transactions and improve liquidity in the banks.[31] The main component of these measures was the imposition of a hefty 183 per cent service fee on top of the official exchange rate for all foreign currency purchases involving commercial and personal transactions. While the official exchange rate remained at 1.39 dinar to the dollar, the imposition of the fee in effect created a second official exchange rate of 3.90 dinars to the dollar. This measure came into effect in October 2018 when the Central Bank started authorising letters of credit requests.[32]

The east-based authorities initially applauded the financial measures adopted by Tripoli, because they had long called for a more open system to award letters of credit and for devaluing the dinar to reduce the black market exchange rate, which had reached seven dinars to the dollar.[33] Prior to these reforms, most Libyans and small traders could only access foreign currency through the black market; for the east-based government it was the sole means to access foreign currency, since the Central Bank's eastern branch did not hold any.

However, these measures, but especially the new fee, accelerated the problems derived from the dual settlement system and triggered an unanticipated backlash: they put an immediate strain on commercial banks' accounts with the Central Bank, the country's only repository of foreign currency. Even an east-based bank has to draw on its reserves with the Central Bank to acquire foreign currency. Commercial banks were affected to different degrees, but the National Commercial Bank and the Wahda Bank were hit hardest because of the volume of their transactions. In Hibri's

[31] "Libya's Economic Reforms Fall Short", Crisis Group EU Watchlist 2018 – Third Update, 25 October 2018. The new financial measures authorised the Central Bank to liberalise letters of credit requests based on the new fee-based rate, but also exempted government bodies from this. They also gave the green light to the Central Bank to bankroll a $500 family allowance per person, as well as other foreign currency payments.

[32] Presidency Council decree 1300/2018, 12 September 2018, announced the financial measures and the imposition of a fee-based system on future foreign currency transactions, as well as some exceptions to the fee-based system. The exact fee rate (set at 183 percent of the official exchange rate) was established by "Decree of the President of the Presidency Council 1/2018, 19 September". In early October 2018, banks started to issue letters of credit based on this new rate. Crisis Group interview, Central Bank officials and businesspeople, Tripoli and Misrata, October-November 2018.

[33] Crisis Group interviews, Central Bank officials and east-based government officials, Benghazi and Bayda, November 2018. The east-based officials said they would have preferred a proper devaluation of the dinar, for which they had been pressing for almost two years, but acknowledged that the fee-based system was a step in the right direction. International experts also advocated a devaluation of the dinar and noted that the service fee model went against international best practices. The government in Tripoli countered that a regular devaluation would be impossible while the Central Bank remained split and state institutions deadlocked. Crisis Group interviews, Tripoli-based politicians, Central Bank officials, Tripoli, October 2018; foreign economists, Tunis, November 2018-January 2019.

words: "Had [Tripoli] kept the previous exchange rate for the purchase of foreign currency, the problem would have taken three years to surface. But with the financial measures introduced in October, the depletion of commercial banks' reserves in Tripoli accelerated".[34] The extra cost for letters of credit purchased between October and December 2018 caused a sudden reduction in these banks' deposits (up to 50 per cent for some banks, according to the Central Bank's Benghazi branch) placing them below or very close to the required minimum.[35]

Normally, when commercial banks' reserves go below the required minimum, the Central Bank can decide in the first instance to restrict their transactions, for example limiting foreign currency trading or reducing to a minimum the amount of funds that can be transferred; if funds are depleted completely, it could suspend all of the banks' operations. Should the Central Bank decide to help prevent a commercial bank from going bust, however, it could lend it funds to increase its reserves (similar to a bail-out), or reduce the required minimum deposits. When eastern banks started sounding the alarm bells in early 2019, the Tripoli authorities did not pursue any preventive measure, and refused even to acknowledge the problem publicly. Instead, it allowed the commercial banks' reserves to drop further.[36]

The drain on reserves continued after January 2019, when the banks processed other authorised foreign currency transactions, whether letters of credit or family allowances and money allocated for personal use.[37] Exact figures for these transactions' total costs are not available but are likely considerable. The Wahda Bank alone stated that it has received $500 million (almost 700 million dinars) worth of requests from its clients for family allowances. Because of these and other transactions, the bank's deposits with the Central Bank have declined further compared to the estimated figures at the end of 2018; as of mid-March 2019, they stood between one to

[34] Crisis Group interview, Benghazi, 14 March 2019. The Central Bank's Benghazi branch shared with Crisis Group the unpublished figures of foreign-currency purchases carried out by the three aforementioned banks between October and December 2018.

[35] The Central Bank's Benghazi branch shared with Crisis Group the commercial banks' estimated reserves as of 31 December 2018. Crisis Group interview, Ali al-Hibri, Benghazi, 14 March 2019.

[36] Crisis Group interviews, Tripoli-based Central Bank and government officials, Tripoli, April 2019.

[37] Libyan families are entitled to apply through their local bank for a $500 per person family allowance annually, calculated at the official 1.39 dinar to the dollar exchange rate. As part of the September 2018 "financial measures", the government authorised an additional $10,000 per person annually for personal use, calculated at 3.9 dinars to the dollar. The Central Bank deemed the family allowance at the official rate, applied in 2017 and 2018, as a temporary solution to compensate Libyans for the spike in living costs since 2014 and the impossibility to purchase foreign currency at local banks. Many Libyans used this allowance, charged on debit cards, to withdraw foreign currency abroad and return to Libya with cash in hand, which they then sold on the black market, making a profit between three to five times the initial foreign currency purchase at the official rate (depending on the black market rate at the time). The decision to allow the purchase of $10,000 at the new fee-based rate was intended to facilitate access to foreign currency for Libyans travelling abroad or small shop owners needing to buy foreign goods, in light of the fact that Libyan banks are prevented from selling foreign currency to their customers due to shortages in foreign bank notes.

two billion dinars, while its reserves with the Central Bank's eastern branch increased to between five and six billion dinars in the same period.[38]

The National Commercial Bank's reserves with the Central Bank also dipped, but by how much is contested: according to the Central Bank's Benghazi branch, they stood between two to three billion dinars in March 2019, while its reserves with the Benghazi branch remained high, approximately nine billion dinars. For their part, National Commercial Bank managers in Tripoli claim that its reserves with the Central Bank were just over four billion dinars.[39] Despite the discrepancy, these figures suggest that the two banks are coming dangerously close to the legally required minimum, which could prompt the Central Bank to take action against them, likely in the form of limitations on foreign currency transactions or restrictions on wire transfers.[40]

Central Bank and government officials in Tripoli either minimise the problem with the commercial banks and their reserves, or deny that there is one. Yet, Central Bank-published data reflect the fact that there has been a sudden dive in the total volume of commercial banks' reserves in Tripoli since the implementation of the financial measures in 2018. In the three months between October and December 2018, commercial banks' total actual deposits with the Central Bank dropped by over 10 per cent from 101 billion dinars in September to 93 billion dinars at year end (as seen in Table 2).[41]

**Table 2: Total commercial bank deposits (in millions LYD)**

| | Actual Deposits | Legal Requirement | Required Reserves |
|---|---|---|---|
| 2007 | 24,806 | 20% | 3,138 |
| 2011 | 58,480 | 20% | 11,696 |
| 2014 | 78,911 | 20% | 15,782 |
| 2016 | 83,408 | 20% | 16,682 |
| 2017 | 95,939 | 20% | 19,188 |
| 2018 Q1 | 96,753 | 20% | 19,351 |
| 2018 Q2 | 103,794 | 20% | 20,759 |
| 2018 Q3 | 106,409 | 20% | 21,282 |
| 31.10.2018 | 101,145 | 20% | 20,229 |
| 30.11.2018 | 99,552 | 20% | 19,910 |
| 31.12.2018 | 93,707 | 20% | 18,742 |

Source: *Central Bank of Libya Economic Bulletin, 4th quarter 2018*, Classification of Commercial Banks' Deposits, Table 8.

[38] Crisis Group interview, Marai al-Barasi, chairman of the Wahda Bank, Benghazi, 12 March 2019. Managers of these banks in Tripoli, however, state that their current reserves stand at 2.2 billion dinars. Crisis Group phone interview, UN official, Tripoli, 1 April 2019.

[39] Crisis Group interview, Ali al-Hibri, Benghazi, 14 March 2019; Crisis Group phone interview, UN official, Tripoli, 1 April 2019.

[40] In late April, the Central Bank already started curbing the Wahda Bank's access to foreign currency, alleging it had processed fraudulent transactions (and not because of the drawdown of reserves, which the Central Bank continued to acknowledge publicly). See footnote 11.

[41] "Classification of Commercial Banks Deposits", table no. 5, *Central Bank of Libya Economic Bulletin*, 4th quarter 2018.

The drop in dinar deposits is linked to an increase in the purchase of foreign currency and the transfer of funds abroad. (For every U.S. dollar a commercial bank purchases from the Central Bank, the latter debits the bank's accounts the equivalent in Libyan dinars based on the exchange rate set by the Central Bank.) This is not limited to banks in the east: banks in western Libya are also purchasing high volumes of foreign currency to cover imports of consumer goods and relocate capital abroad. But the eastern banks are affected more because a higher proportion of their reserve deposits is held in the Central Bank's Benghazi branch, which Tripoli does not recognise.

Data for the first three months of 2019 are not yet publicly available but, when and if released they are likely to show a further drop in overall reserve deposits with the Central Bank. With the start of Ramadan in early May, the demand for letters of credit increased because people shop more during the festivities, putting a further strain on commercial banks' accounts with the Central Bank. In mid-March 2019, Marai al-Barasi, chairman of the Wahda Bank, began to ring the alarm bells:

> We will face a real problem very soon. The demand for foreign currency is high and our reserves with the Central Bank are low. In about one month, the problem will become more apparent, and we will reach a point where we will not be able to cover any further requests [for allowances and letters of credit]. The depletion of our deposits in Tripoli might even affect salary payments. And what happens then, I really don't know.[42]

[42] Crisis Group interview, Benghazi, 12 March 2019.

## IV. Staving Off an All-out Banking Crisis

Sharply restricting the two commercial banks' foreign currency transactions could have grave repercussions. How the crisis will unfold is unclear, in part because no specialist has seriously looked into the problems affecting these banks, much less tried to tackle them.[43] Yet a consensus is emerging among the few who follow the looming banking crisis that it could worsen Libya's already severe liquidity problems, again raise the black market foreign exchange rate and in turn spur inflation.[44] Service delivery is likely to be affected as well, because many state-owned companies (such as the electricity company or the east-based AGOCO oil company) and private companies that have accounts with these banks might be unable to process imports, including of spare parts, or fulfil payments of service contracts for the maintenance of their infrastructure. Such a development would affect the entire banking sector, especially if there is a rush on banks across the country. An open question is whether this will also affect salary payments for government employees.[45]

Speaking in mid-March, just weeks before Haftar-led forces launched their offensive on Tripoli, Hibri painted an apocalyptic picture of what might happen: "A state of panic is possible. There could even be a second revolution here", he said, referring to a possible uprising against Tripoli. He also warned that "if no solution is found for these

[43] Highlighting the uncertainties, a London-based Libyan economist said: "It is not easy to understand how this will affect the economy, because we have a conventional way of understanding the banking sector, which really does not apply in Libya where distortionary policies are in place. […] As long as the Central Bank maintains the charade and ignores the legal reserve requirement, it can keep the banking sector and payments artificially alive, but there will still be severe constraints, which will hit back sooner rather than later". Crisis Group phone interview, Ahmed Jehani, London, 28 March 2019.

[44] Between 2015 and late 2018, Libyans were hit hard by severe cash shortages in the banks, which prompted all banks to limit monthly cash withdrawals. These limitations varied from bank to bank and depended on the location (the south was most affected), but when the shortage was at its worst in 2017-2018, it ranged from 200 to 500 dinars ($140 to $350) per person. Between 2015 and 2018, both the Central Bank and its Benghazi branch printed money (respectively, thirteen billion and ten billion dinars) to increase the cash supply to banks, but the problems remained, albeit less grave. The financial measures introduced in October 2018 improved cash availability in many banks, especially in western Libya, but as of March 2019, Libyans across the country were queuing for hours to withdraw cash from their accounts. In March 2019, individual withdrawals ranged from 1,000 to 2,000 dinars ($700 to $1,400). Crisis Group interviews, Libyan account holders, Tripoli, Benghazi, Khoms, Misrata, 2017-2018; and Central Bank officials, Benghazi, 2018-2019. Data on banknotes printed by the Central Bank in Tripoli available in "Denominations of Coins and Notes issued", *Central Bank of Libya Economic Bulletin, 4th quarter 2018*, Table no. 4; data on banknotes printed by the Central Bank's Benghazi branch provided by the branch (unpublished). Crisis Group phone interviews, Western economists, Tripoli, Tunis, London, January-February 2019.

[45] Managers of the Wahda Bank feared that this crisis could also affect public-sector salary payments across the country, something some Libyan economists also agreed could happen. This could affect all civil servants, including those with accounts at commercial banks not currently in the spotlight. Explaining why, an economist said: "Monthly salaries are signed off on by each minister, who authorises the transfer of payments in bulk to the various commercial banks at which employees have their accounts, and the banks then credit employees' accounts. If these two banks face restrictive measures on operations, how can a minister sign off on salary disbursements to account holders with other banks but not to the Wahda Bank or the National Commercial Bank? It just cannot happen". Crisis Group phone interview, Ahmed Jehani, London, 28 March 2019.

banks, the LNA is likely to react", suggesting that this could lead to another showdown at Libya's oil terminals and oil fields or even accelerate an LNA advance toward Tripoli.[46] An official working with the Central Bank's governor in Tripoli acknowledged that citizens might panic if the commercial banks' operations were restricted.[47]

If the banks fail, the political and military implications would be equally grave, as this would dramatically reduce the eastern government's funding stream and by extension the LNA's. This could add to the confrontational narrative against the authorities in Tripoli, with Haftar supporters accusing it not only of funding Islamist armed groups but of intentionally bankrupting the east-based government, the LNA and private companies – actions they say would retroactively justify the assault on the capital.[48]

In the short term, a cut in the east's funding streams would most likely force eastern authorities to seek external funding to bankroll the public-sector. The most probable financiers would be Saudi Arabia and the United Arab Emirates (UAE). Riyadh appears to have already lent some financial support to the LNA to kick-start the offensive on Tripoli, but not for LNA or eastern government personnel salaries or operational costs, which the east-based government continues to pay.[49] But if the commercial banks that have helped bankroll the eastern government were to face restrictions as expected, the eastern authorities might call on their external backers to cover all public-sector expenditures. Alternatively, they could opt to print more cash to increase the money supply, though this would accelerate inflationary pressures. But these are short-term solutions that would do little to address the banking crisis, nor reconcile the dual payment clearance system. Local commercial banks would still be prevented from processing international payment orders as long as their reserves with the Central Bank remained under the legal threshold.

The LNA's siege on Tripoli has also hardened positions in the capital, where officials increasingly are talking about taking all possible measures to curb the LNA's financial resources, including by removing LNA military officers from the Tripoli payroll and even stopping paying the salaries of civil sector employees in the east. Speaking in late April, the interior minister in Tripoli said: "We have the database of all public-sector employees, and we can suspend salary payments to all those based in the east. And we should. Let them understand the consequence of their actions".[50] The immediate impact of such punitive measures would be to increase the east-

[46] Crisis Group interview, Benghazi, 14 March 2019. In mid-2018, another feud between the LNA and authorities in Tripoli prompted the LNA to shut down oil export terminals in eastern Libya. See Crisis Group, *After the Showdown in Libya's Oil Crescent*, op. cit.
[47] Crisis Group interview, Tunis, January 2019.
[48] Crisis Group phone interview, supporter of the LNA familiar with the banks' problems, Benghazi, 15 April 2019.
[49] Jared Malsin and Summer Said, "Saudi Arabia Promised Support to Libyan Warlord in Push to Seize Tripoli", *Wall Street Journal*, 12 April 2019. How much Riyadh has given to Haftar remains unknown. A Western diplomat speculated it could be as much as $1 billion. Crisis Group interview, Tunis, April 2019.
[50] Crisis Group interview, Fathi Bash Agha, Misrata, 26 April 2019. Officials in Tripoli and a foreign diplomat confirmed that Serraj had approved the decision to cut off salary payments to some east-based government employees, but clarified that the decision had not yet been implemented. Crisis Group interviews, officials, businessmen, Western diplomat, Tripoli, 27-29 April 2019.

based government's disbursement requirements well beyond the current level of its expenditures – approximately $6 billion a year.

In the long term, if the deep military and political rift continues without a major shift on the ground, the east-based government may place its bets on seeking access to Libya's oil revenues and connecting the east-based banks, including the Central Bank's Benghazi branch, to the international banking system. Whether it can do so is questionable, as both oil trading and access to Swift, the international wire transfer system used across the world, are highly dependent on U.S. approval. Over the years, Washington has repeatedly reaffirmed the principle that Libya's financial institutions should remain undivided and that its government should be reunified. U.S. officials never legitimised the eastern government or the Central Bank's Benghazi branch; the U.S. Treasury only has maintained contact with the Tripoli-based Central Bank governor.[51] In many respects, the U.S.'s firm stance on this matter has ensured that Libya's oil revenues would solely accrue to the Central Bank in Tripoli, and thus to the UN-backed government, over the past years. But with U.S. President Donald Trump signalling his support for Haftar in mid-April, thus aligning the U.S.'s position with that Saudi Arabia, the UAE and Egypt, a change of policy vis-à-vis Libya's finances and oil sector has become conceivable.[52]

Before the LNA's offensive, two controversial approaches were floated to resolve the banking crisis. The first, strongly backed by the east-based government, would be to persuade the Central Bank to recognise the credit commercial banks have accrued with its eastern branch.[53] This means that the Central Bank would absorb all or part of the east-based government's debts (approximately 35 billion dinars) and possibly also reconnect the Central Bank's eastern branch to the automated payment settlement system. Such a proposal would face fierce resistance in Tripoli. The Central Bank's governor, Siddiq Elkebir, is on record as stating: "No way! No amount of screaming will get it done", referring to both recognising the east-based government's debt and reconnecting the Benghazi branch to the Central Bank's clearing system.[54] Elkebir is refusing to do so because he neither trusts the sources of funds in the east nor the accuracy with which they are being reported, given the Central Bank's lack of oversight over the manual accounting system. The launch of the assault on Tripoli can only have hardened his position.

Another alternative – extreme, and only vaguely mooted – approach would be to have the banks "face the consequences of their actions": let them fail.[55] This remains a conjecture for now but could quickly turn into de facto policy if the Central Bank continues not to take action and the LNA military offensive continues, openly sup-

[51] Since 2016, U.S. officials, supported by the U.S. Treasury, have been leading what is called the "Libyan Economic Dialogue", bringing together the heads of Libya's financial institutions. This only involved UN-backed institutions as recognised by the 2015 Libyan Political Agreement. It never involved east-based authorities nor the Central Bank branch in Benghazi. Crisis Group interviews, Central bank officials, Western diplomats, 2017-2019.
[52] Samer al-Atrush, "Trump Has a New Favorite Strongman in Khalifa Haftar", *Bloomberg Businessweek*, 3 May 2019.
[53] Crisis Group interviews, representatives of the Central Bank's Benghazi branch, east-based government officials, Benghazi, 11-14 March 2019.
[54] Crisis Group interview, Tunis, 9 January 2019.
[55] Crisis Group interview, Libyan familiar with the problem affecting the banks, Tunis, 9 January 2019.

ported by the Central Bank's Benghazi branch.[56] But all the parties concerned are aware that this could trigger serious social unrest and precipitate a profound economic crisis with political and even military repercussions for almost everyone, including in western Libya.

Prior to the offensive, the east-based government proposed a third, middle-ground solution. It consists of changing how to account for foreign currency transactions. Rather than debiting the commercial banks' reserves with the Central Bank for these transactions' entire cost at the 3.90 dinars to the dollar exchange rate, they propose splitting this into two separate portions: one equivalent to the official 1.4 dinar to the dollar rate, to be debited to the commercial banks' reserves with the Central Bank; and the other, with the fee added, to be debited to the credit these banks have accrued with the Central Bank's eastern branch.[57] They argue that when the Tripoli authorities imposed the additional fee, they intended to use revenues accrued from it to cover the 63 billion dinar government debt with the Central Bank. Now, they say, the Government of National Accord should use these funds to cover the eastern debt as well in order to slow the rate at which the commercial banks' reserves with the Central Bank are depleting, while also drawing down on the reserves these banks have accrued with the Central Bank's eastern branch.

So far the authorities in Tripoli have ignored such proposals. To the contrary, on 20 March 2019 (before the offensive), the Tripoli government decided to use fifteen billion dinars ($11 billion) generated from foreign currency fees to cover one third of its 2019 budget.[58] The same day it also ordered that another five billion dinars ($3.5 billion) generated from foreign currency fees be used to pay back a portion of its accumulated debt with the Central Bank, and yet another five billion dinars ($3.5 billion) to finance future development projects that the Tripoli-based Presidency Council will oversee.[59] There has been no mention of allocations for eastern debt repayment. Since the start of the military offensive in early April, the Central Bank has allocated a gargantuan two billion dinars ($1.4 billion) to support the war effort of Tripoli government-allied forces.[60]

Although informed of the risks and implications of the problems affecting the commercial banks even prior to Haftar's march on Tripoli, neither the Central Bank governor nor his advisers have offered a concrete proposal on how to prevent a full-fledged banking crisis. International actors who track Libya's economic woes have

[56] Central Bank of Libya (eastern branch) statement 2/2019, dated 7 April 2019.
[57] Crisis Group interview, Ali al-Hibri, governor of the Central Bank's eastern branch, Benghazi, 14 March 2019. Hibri wrote at least two official letters addressed to Faiez Serraj, president of the Tripoli-based Presidency Council, asking that a portion of revenues generated from the foreign-exchange fees be used to cover the eastern debt.
[58] Presidency Council decree 375/2019, 20 March 2019. The total budget is 46.8 billion dinars ($33 billion). Other sources of revenue to finance the budget are 26.4 billion dinars ($18 billion) from oil sales and a meager 1.2 billion dinars ($800 million) from taxes and other sources of government revenue.
[59] Presidency Council decree 377/2019, 20 March 2019 (on debt repayment); and Presidency Council decree 376/2019, 20 March 2019 (on development projects). Commenting on these two decrees, a consultant working with the Central Bank's Benghazi branch said that they "will increase the problems between east and west". Crisis Group phone interview, 29 March 2019.
[60] Crisis Group phone interview, Tripoli-based politician, 10 April 2019.

remained either largely oblivious to this specific problem or were unable to persuade the Central Bank and finance ministry in Tripoli to address it.[61] Yet without immediate steps to rectify the situation, the commercial banks are bound to fail and the dispute over the allocation of oil revenues will come back with a vengeance, prolonging the war.

With a decisive victory by either side unlikely, outside actors, especially the warring sides' respective foreign backers, should persuade the two rival governments to accept a ceasefire in place and kick-start negotiations to settle their financial dispute as an immediate priority. Currently there is strong opposition to this inside Libya: both sides view the fighting around Tripoli as an existential fight and have refused to even consider a cessation of hostilities or external mediation. The LNA is adamant it wants to seize the capital and place the state's financial institutions under its control. Likewise, Tripoli-aligned forces say they are determined to push the LNA back to eastern Libya and undermine the east's financial standing. These positions point to a possible protracted, expensive stalemate that could precipitate further external involvement and continued violence on multiple fronts across the country.

The two sides are taking a serious risk. Letting the crisis – the LNA's military offensive and the Central Bank's punitive measures – unfold in the current circumstances could redound negatively to both of them: it could devastate urban areas and severely harm the economy, increase liquidity problems, send prices skyrocketing and give a boost to black market trading. The prime beneficiaries would be military actors and black market traders, while hardest hit will be ordinary Libyans across the country. In the long term, it could give way to a much broader financial and resource war.

Foreign capitals and the UN should press the parties toward a ceasefire. To this end, Haftar's backers in the Gulf should make it clear they do not intend to bankroll the east-based government if its accounts run dry, as appears possible, let alone give further financial support to the offensive. This could provide the necessary incentive for the LNA to halt its assault on Tripoli and agree to negotiate. Similarly, European capitals and regional backers of the Tripoli coalition need to pressure Serraj to agree to a ceasefire.

At the same time, the U.S. should exercise its leverage over the Central Bank in Tripoli, with which it has a preferential relation, to persuade it to resolve the banking problems affecting eastern Libya. Without a nudge from Washington, authorities in Tripoli are unlikely voluntarily negotiate a financial compromise. This would require Washington to return to a more even-handed approach to the Libyan conflict: rather than signalling military support for Haftar and (ambivalent) political recognition of Serraj, the Trump administration, with technical advice from the U.S. Treasury, should use its political capital and financial leverage to press the two sides toward a settlement of the banking crisis. The UN and international financial institutions such as the World Bank and the International Monetary Fund (IMF) should also offer expert advice.

[61] Crisis Group interviews, UNSMIL officials and international economists, Tunis, January-March 2019.

Clearly, such a financial negotiation cannot happen in isolation; it will have to go hand in hand with political and military talks aimed at bridging the rifts across the country. But the offer of a financial track would increase the chances of persuading the parties to accept a ceasefire. Moreover, any future negotiations risk being pro forma if there is no attempt to also redress the financial imbalances that are a key driver of both the political and military conflict in Libya. To this end, several steps should be taken:

- The rival governors of the Central Bank and its Benghazi branch should reaffirm their commitment to an external audit of the Bank, as they had promised to the UN special envoy in August 2018. The UN should urgently work to overcome technical delays that have held up this process.
- In the meantime, the UN should convene a technical meeting of the rival governors, officials from the parallel finance ministries and Libyan financial experts. The goal would be for them to sketch out technical solutions to both the banking crisis and the host of problems that have accumulated since the 2014 split of the Central Bank, including how to standardise commercial banking operations in the east. This meeting should take place in the presence of specialists from the World Bank, the IMF and the U.S. Treasury, and possibly also of other European or regional financial institutions with relevant expertise. The UN should consider seeking the technical guidance of a senior and respected former Central Bank governor to help lead this process.
- Those negotiating a solution to the Libyan crisis also should establish a new procedure to select a consensual Central Bank governor to overcome the deadlock in the process envisioned in the Libyan Political Agreement. This point should be covered by any future political talks.

## V. Conclusion

Finding a solution to Libya's looming banking crisis is necessary and urgent. Today's predicament is the product of the 2014 political crisis and the increasingly polarised relations between west and east that flowed from it, which have soured and deepened since then. It is also the direct consequence of policy decisions that further entrenched political, military and financial divides. The Central Bank's 2014 decision to cut off its Benghazi branch from the automated payment settlement system was aimed at preventing authorities in eastern Libya from tapping into the country's financial assets. Tripoli achieved its objective, but in doing so it triggered a profound split inside the Central Bank and unleashed a powerful sense of disenfranchisement in the east. It also prompted Tripoli's rivals to find other means through which to bankroll themselves and to expand their claims of sovereignty. This polarised the political scene further, deepened the military rift between east and west, exacerbated Libya's economic crisis and contributed to the current war in the capital.

Similarly, attempts to address liquidity problems and the black market's distortionary effects prompted the 2018 financial measures, especially the imposition of a hefty fee on foreign exchange transactions. This financially sensible move had unintended and unanticipated consequences: the rapid depletion of reserve deposits that banks headquartered in eastern Libya hold with the Central Bank in Tripoli.

Remedial steps are both possible and necessary. But this would require that the warring parties, with the active support of international partners, agree to a ceasefire. This in turn would make negotiations on a financial settlement possible. Yet a ceasefire is less likely if, alongside necessary political and military talks, foreign stakeholders in the Libyan crisis fail to propose and pledge support for a solution to the financial crisis.

Failing to address the banking crisis would not only likely prolong the war; it also would have severe repercussions for Libya as a whole. The primary victims of the banking crisis would be account holders, meaning ordinary citizens, but also the broader economy, which had started to emerge slowly from a six-year downturn only earlier this year. Moreover, the warring parties' foreign supporters might find that they would be asked to bankroll their proxies, especially in the east, allowing the fight to drag on without a decisive winner. This, of course, would have disastrous implications for Libya's ability to finally extricate itself from its post-2011 upheaval.

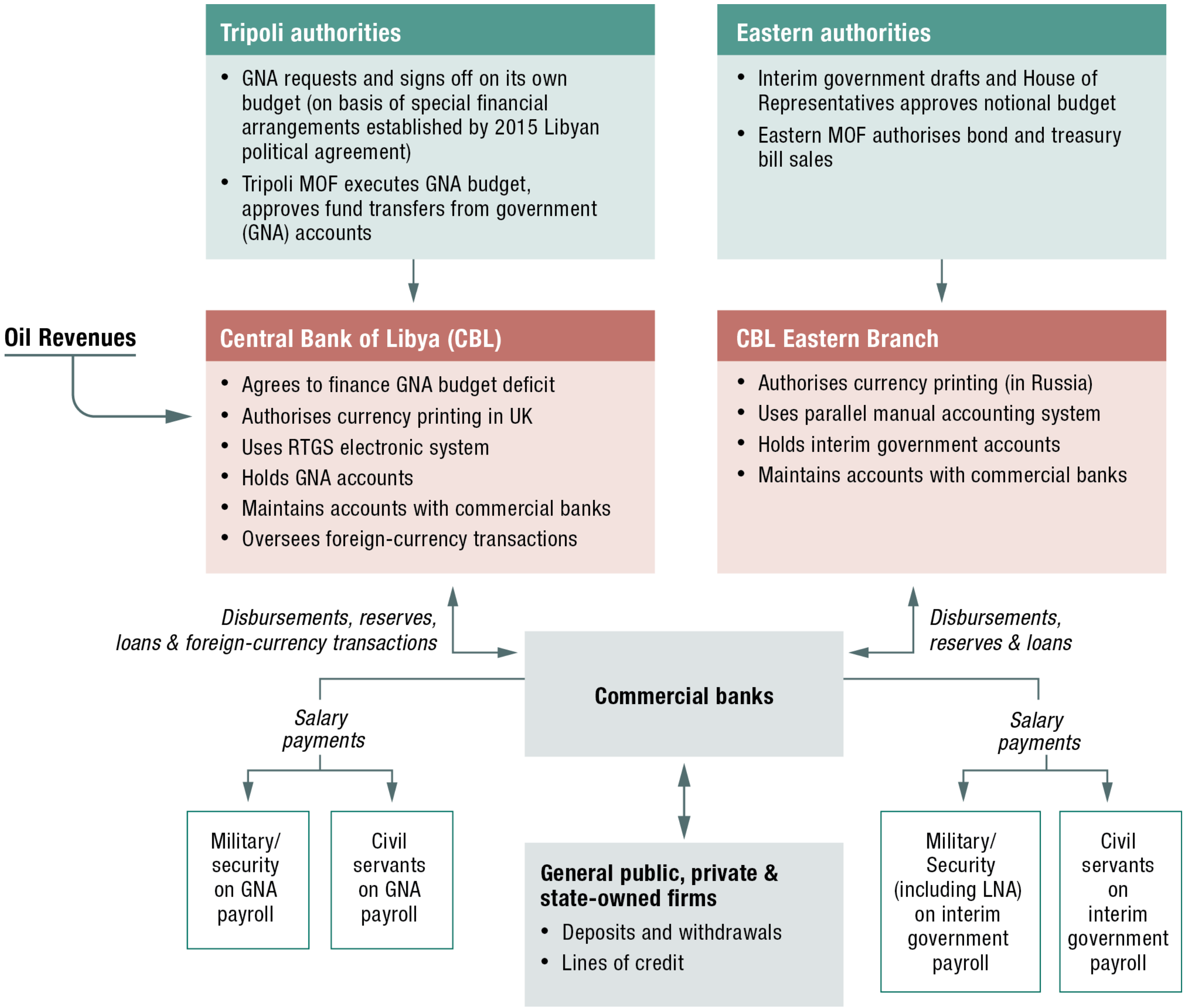
**Tripoli/Benghazi/Brussels, 20 May 2019**

## Appendix A: Map of Libya


Map No. 3787 Rev. 10 United Nations
November 2015

Department of Field Support
Geospatial Information Section (formerly Cartographic Section)

## Appendix B: Financial Flow Chart




GNA The Government of National Accord
HOR House of Representatives
LNA Libyan National Army
MOF Ministry of Finance

# Appendix C: Interim (Eastern) Government Expenditure 2015-2018 (in millions LYD)

| | 2015 | 2016 | 2017 | 2018 | |
|---|---|---|---|---|---|
| INCOME | 0 | 0 | 0 | 0 | |
| EXPENDITURE | | | | | |
| **Budget category/Year** | **2015** | **2016** | **2017** | **2018** | **Total** |
| **Chapter 1: Salaries** | | | | | |
| General/Government | 4,115 | 5,026 | 5,215 | 3,738 | 18,094 |
| Army and Security forces | 0 | 1,616 | 1,792 | 1,800 | 5,208 |
| Social Security Fund | 326 | 0 | 0 | 0 | 326 |
| **Subtotal** | **4,441** | **6,642** | **7,007** | **5,538** | **23,628** |
| **Chapter 2: Operational** | | | | | |
| General/Government | 510 | 445 | 2,175 | 833 | 3,963 |
| Army and Security Forces | 458 | 2,431 | 833 | 1,200 | 4,922 |
| **Sub total** | **968** | **2,876** | **3,008** | **2,033** | **8,885** |
| **Chapter 3: Development** | | | | | |
| General/Government | 0 | 166 | 120 | 907 | 1,193 |
| Army and Security Forces | 0 | 0 | 300 | 303 | 603 |
| **Subtotal** | **0** | **166** | **420** | **1,210** | **1,796** |
| **Chapter 4: Subsidies** | | | | | |
| General/Government | 409 | 19 | 600 | 216 | 1,244 |
| Army and Security Forces | 0 | 0 | 0 | 0 | 0 |
| **Subtotal** | **409** | **19** | **600** | **216** | **1,244** |
| **Total/year** | **5,818** | **9,703** | **11,035** | **8,997** | **35,553** |

Source: Central Bank of Libya, Benghazi branch, March 2019 (unpublished).

## Appendix D: Tripoli Government Actual Revenue and Expenditure 2014-2018 (in millions LYD)

| | **2014** | **2015** | **2016** | **2017** | **2018** |
|---|---|---|---|---|---|
| REVENUES | | | | | |
| Oil | 19,977 | 10,598 | 6,666 | 19,209 | 33,476 |
| Non-oil | 1,567 | 6,246 | 1,930 | 3,129 | 2,435 |
| **Total** | **21,543** | **16,843** | **8,595** | **22,338** | **35,911** |
| EXPENDITURE | | | | | |
| Chapter 1: Salaries | 23,632 | 20,307 | 19,093 | 20,293 | 23,607 |
| Chapter 2: Operational | 3,260 | 3,626 | 2,223 | 4,541 | 5,663 |
| Chapter: 3 Development | 4,482 | 3,862 | 1,398 | 1,888 | 3,390 |
| Chapter: 4 Subsidies | 12,440 | 8,220 | 5,724 | 5,970 | 6,627 |
| Extra budget | 0 | 0 | 350 | 0 | 0 |
| **Total** | **43,814** | **36,015** | **28,788** | **32,692** | **39,286** |
| Deficit | 22,271 | 19,172 | 20,193 | 10,354 | 3,375 |

Data from CBL Economic Bulletin 4Q 2018, pg 61

## Appendix E: About the International Crisis Group

The International Crisis Group (Crisis Group) is an independent, non-profit, non-governmental organisation, with some 120 staff members on five continents, working through field-based analysis and high-level advocacy to prevent and resolve deadly conflict.

Crisis Group's approach is grounded in field research. Teams of political analysts are located within or close by countries or regions at risk of outbreak, escalation or recurrence of violent conflict. Based on information and assessments from the field, it produces analytical reports containing practical recommendations targeted at key international, regional and national decision-takers. Crisis Group also publishes *CrisisWatch*, a monthly early-warning bulletin, providing a succinct regular update on the state of play in up to 70 situations of conflict or potential conflict around the world.

Crisis Group's reports are distributed widely by email and made available simultaneously on its website, www.crisisgroup.org. Crisis Group works closely with governments and those who influence them, including the media, to highlight its crisis analyses and to generate support for its policy prescriptions.

The Crisis Group Board of Trustees – which includes prominent figures from the fields of politics, diplomacy, business and the media – is directly involved in helping to bring the reports and recommendations to the attention of senior policymakers around the world. Crisis Group is chaired by former UN Deputy Secretary-General and Administrator of the United Nations Development Programme (UNDP), Lord (Mark) Malloch-Brown.

Crisis Group's President & CEO, Robert Malley, took up the post on 1 January 2018. Malley was formerly Crisis Group's Middle East and North Africa Program Director and most recently was a Special Assistant to former U.S. President Barack Obama as well as Senior Adviser to the President for the Counter-ISIL Campaign, and White House Coordinator for the Middle East, North Africa and the Gulf region. Previously, he served as President Bill Clinton's Special Assistant for Israeli-Palestinian Affairs.

Crisis Group's international headquarters is in Brussels, and the organisation has offices in seven other locations: Bogotá, Dakar, Istanbul, Nairobi, London, New York, and Washington, DC. It has presences in the following locations: Abuja, Algiers, Bangkok, Beirut, Caracas, Gaza City, Guatemala City, Hong Kong, Jerusalem, Johannesburg, Juba, Mexico City, New Delhi, Rabat, Tbilisi, Toronto, Tripoli, Tunis, and Yangon.

Crisis Group receives financial support from a wide range of governments, foundations, and private sources. Currently Crisis Group holds relationships with the following governmental departments and agencies: Australian Department of Foreign Affairs and Trade, Austrian Development Agency, Danish Ministry of Foreign Affairs, Dutch Ministry of Foreign Affairs, European Union Emergency Trust Fund for Africa, European Union Instrument contributing to Stability and Peace, Finnish Ministry for Foreign Affairs, French Development Agency, French Ministry of Europe and Foreign Affairs, Germany Federal Foreign Office, Irish Aid, Japan International Cooperation Agency, Principality of Liechtenstein, Luxembourg Ministry of Foreign Affairs, New Zealand Ministry of Foreign Affairs and Trade, Norwegian Ministry of Foreign Affairs, Qatar Ministry of Foreign Affairs, Swedish Ministry of Foreign Affairs, the Swiss Federal Department of Foreign Affairs, the UK Department for International Development, and the United Arab Emirates Ministry of Foreign Affairs and International Cooperation.

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**May 2019**

## Appendix F: Reports and Briefings on the Middle East and North Africa since 2016

### Special Reports and Briefings

*Exploiting Disorder: al-Qaeda and the Islamic State*, Special Report N°1, 14 March 2016 (also available in Arabic and French).

*Seizing the Moment: From Early Warning to Early Action*, Special Report N°2, 22 June 2016.

*Counter-terrorism Pitfalls: What the U.S. Fight against ISIS and al-Qaeda Should Avoid*, Special Report N°3, 22 March 2017.

*Council of Despair? The Fragmentation of UN Diplomacy,* Special Briefing N°1, 30 April 2019.

### Israel/Palestine

*How to Preserve the Fragile Calm at Jerusalem's Holy Esplanade*, Middle East Briefing N°48, 7 April 2016 (also available in Arabic and Hebrew).

*Israel/Palestine: Parameters for a Two-State Settlement*, Middle East Report N°172, 28 November 2016 (also available in Arabic).

*Israel, Hizbollah and Iran: Preventing Another War in Syria*, Middle East Report N°182, 8 February 2018 (also available in Arabic).

*Averting War in Gaza*, Middle East Briefing N°60, 20 July 2018 (also available in Arabic).

*Rebuilding the Gaza Ceasefire*, Middle East Report N°191, 16 November 2018 (also available in Arabic).

*Defusing the Crisis at Jerusalem's Gate of Mercy*, Middle East Briefing N°67, 3 April 2019 (also available in Arabic)

### Iraq/Syria/Lebanon

*Arsal in the Crosshairs: The Predicament of a Small Lebanese Border Town*, Middle East Briefing N°46, 23 February 2016 (also available in Arabic).

*Russia's Choice in Syria*, Middle East Briefing N°47, 29 March 2016 (also available in Arabic).

*Steps Toward Stabilising Syria's Northern Border*, Middle East Briefing N°49, 8 April 2016 (also available in Arabic).

*Fight or Flight: The Desperate Plight of Iraq's "Generation 2000"*, Middle East Report N°169, 8 August 2016 (also available in Arabic).

*Hizbollah's Syria Conundrum*, Middle East Report N°175, 14 March 2017 (also available in Arabic and Farsi).

*Fighting ISIS: The Road to and beyond Raqqa*, Middle East Briefing N°53, 28 April 2017 (also available in Arabic).

*The PKK's Fateful Choice in Northern Syria*, Middle East Report N°176, 4 May 2017 (also available in Arabic).

*Oil and Borders: How to Fix Iraq's Kurdish Crisis*, Middle East Briefing N°55, 17 October 2017 (also available in Arabic).

*Averting Disaster in Syria's Idlib Province*, Middle East Briefing N°56, 9 February 2018 (also available in Arabic).

*Winning the Post-ISIS Battle for Iraq in Sinjar*, Middle East Report N°183, 20 February 2018 (also available in Arabic).

*Saudi Arabia: Back to Baghdad*, Middle East Report N°186, 22 May 2018 (also available in Arabic).

*Keeping the Calm in Southern Syria*, Middle East Report N°187, 21 June 2018 (also available in Arabic).

*Iraq's Paramilitary Groups: The Challenge of Rebuilding a Functioning State*, Middle East Report N°188, 30 July 2018 (also available in Arabic).

*How to Cope with Iraq's Summer Brushfire*, Middle East Briefing N°61, 31 July 2018.

*Saving Idlib from Destruction,* Middle East Briefing N°63, 3 September 2018 (also available in Arabic).

*Prospects for a Deal to Stabilise Syria's North East*, Middle East Report N°190, 5 September 2018 (also available in Arabic).

*Reviving UN Mediation on Iraq's Disputed Internal Boundaries*, Middle East Report N°194, 14 December 2018 (also available in Arabic).

*Avoiding a Free-for-all in Syria's North East*, Middle East Briefing N°66, 21 December 2018 (also available in Arabic).

*Lessons from the Syrian State's Return to the South,* Middle East Report N°196, 25 February 2019.

*The Best of Bad Options for Syria's Idlib*, Middle East Report N°197, 14 March 2019 (also available in Arabic).

*After Iraqi Kurdistan's Thwarted Independence Bid,* Middle East Report N°199, 27 March 2019 (also available in Arabic and Kurdish).

### North Africa

*Tunisia: Transitional Justice and the Fight Against Corruption*, Middle East and North Africa Report N°168, 3 May 2016 (also available in Arabic and French).

*Jihadist Violence in Tunisia: The Urgent Need for a National Strategy*, Middle East and North Africa Briefing N°50, 22 June 2016 (also available in French and Arabic).

*The Libyan Political Agreement: Time for a Reset*, Middle East and North Africa Report N°170, 4 November 2016 (also available in Arabic).

*Algeria's South: Trouble's Bellwether*, Middle East and North Africa Report N°171, 21 November 2016 (also available in Arabic and French).

*Blocked Transition: Corruption and Regionalism in Tunisia*, Middle East and North Africa Report N°177, 10 May 2017 (only available in French and Arabic).

*How the Islamic State Rose, Fell and Could Rise Again in the Maghreb*, Middle East and North Africa Report N°178, 24 July 2017 (also available in Arabic and French).

*How Libya's Fezzan Became Europe's New Border*, Middle East and North Africa Report N°179, 31 July 2017 (also available in Arabic).

*Stemming Tunisia's Authoritarian Drift*, Middle East and North Africa Report N°180, 11 January 2018 (also available in French and Arabic).

*Libya's Unhealthy Focus on Personalities,* Middle East and North Africa Briefing N°57, 8 May 2018.

*Making the Best of France's Libya Summit*, Middle East and North Africa Briefing N°58, 28 May 2018 (also available in French).

*Restoring Public Confidence in Tunisia's Political System*, Middle East and North Africa Briefing N°62, 2 August 2018 (also available in French and Arabic).

*After the Showdown in Libya's Oil Crescent,* Middle East and North Africa Report N°189, 9 August 2018 (also available in Arabic).

*Breaking Algeria's Economic Paralysis*, Middle East and North Africa Report N°192, 19 November 2018 (also available in Arabic and French).

*Decentralisation in Tunisia: Consolidating Democracy without Weakening the State*, Middle East and North Africa Report N°198, 26 March 2019 (only available in French).

*Addressing the Rise of Libya's Madkhali-Salafis*, Middle East and North Africa Report N°200, 25 April 2019 (also available in Arabic).

*Post-Bouteflika Algeria: Growing Protests, Signs of Repression*, Middle East and North Africa Briefing N°68, 26 April 2019 (also available in French and Arabic)

### Iran/Yemen/Gulf

*Yemen: Is Peace Possible?*, Middle East Report N°167, 9 February 2016 (also available in Arabic).

*Turkey and Iran: Bitter Friends, Bosom Rivals*, Middle East Briefing N°51, 13 December 2016 (also available in Farsi).

*Implementing the Iran Nuclear Deal: A Status Report*, Middle East Report N°173, 16 January 2017 (also available in Farsi).

*Yemen's al-Qaeda: Expanding the Base*, Middle East Report N°174, 2 February 2017 (also available in Arabic).

*Instruments of Pain (I): Conflict and Famine in Yemen*, Middle East Briefing N°52, 13 April 2017 (also available in Arabic).

*Discord in Yemen's North Could Be a Chance for Peace*, Middle East Briefing N°54, 11 October 2017 (also available in Arabic).

*The Iran Nuclear Deal at Two: A Status Report*, Middle East Report N°181, 16 January 2018 (also available in Arabic and Farsi).

*Iran's Priorities in a Turbulent Middle East,* Middle East Report N°184, 13 April 2018 (also available in Arabic).

*How Europe Can Save the Iran Nuclear Deal,* Middle East Report N°185, 2 May 2018 (also available in Persian and Arabic).

*Yemen: Averting a Destructive Battle for Hodeida,* Middle East Briefing N°59, 11 June 2018.

*The Illogic of the U.S. Sanctions Snapback on Iran*, Middle East Briefing N°64, 2 November 2018 (also available in Arabic).

*The United Arab Emirates in the Horn of Africa*, Middle East Briefing N°65, 6 November 2018 (also available in Arabic).

*How to Halt Yemen's Slide into Famine*, Middle East Report N°193, 21 November 2018 (also available in Arabic).

*On Thin Ice: The Iran Nuclear Deal at Three*, Middle East Report N°195, 16 January 2019 (also available in Farsi and Arabic).

## Appendix G: International Crisis Group Board of Trustees