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SITUATION BRIEF: THE LIBYAN CONFLICT AND ITS IMPACT ON EGYPT AND TUNISIA

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Note: The views expressed in this paper are those of the authors and do not necessarily reflect the views of the United Nations Secretariat.

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Introduction

Since the 2011 uprisings, the Libyan Government has been struggling to build State institutions, draft a new constitution and provide essential services to the population in the midst of protracted financial, political and security crises, notably the integration of numerous armed militias into the armed forces.

Parliamentary elections were held on 20 June 2014, but the Government was unable to extend its authority beyond Tripoli. Local councils are currently managing civilian and administrative affairs, and local military councils and militias are overseeing security, in view of the absence or weakness of public institutions. Significantly, local militias, in particular those that formed the rebel army, continue to retain power on the ground and have been the most influential players on the Libyan scene.

It is therefore vital that the central Government include the various tribes, local councils and militias in the State-building exercise to guarantee viability. The challenge is to negotiate the restoration of core Government functions and mandates to the central authority. The Government, which has adopted a decentralized system of governance, needs to develop an integrated programme to convince the numerous councils and militias to give up the prerogatives they acquired during the uprisings. However, towns and cities have been running themselves since the collapse of the former regime and retain an inherited mistrust of the central Government, which has been unable to guarantee citizen security and offer financial and social incentives, such as integrated development programmes. Instead, security remains in the hands of various militias that vie for control of national assets and resources, especially oil. These factors, along with external considerations, have led to the outbreak of the most recent armed conflict between rival factions in Libya.

Since July 2014, political instability and armed violence have intensified around the capital city of Tripoli and the second largest city of Bengazi. The evacuation of foreign nationals, including United Nations staff and diplomatic corps, is under way. Since 30 July 2014, there has been no political thrust to resolve the conflict, despite a recent agreement between the Government and opposition militias to resume crude oil production and export.

The present brief provides a snapshot of the economic situation in Libya and reviews the main challenges the Libyan economy is facing. It also highlights the impact of the Libyan conflict on two neighbouring countries, namely Egypt and Tunisia.

I. EROSION OF THE LIBYAN CENTRAL GOVERNMENT

The Libyan economy has traditionally been dependent on oil. In 2012, the sector accounted for 65.3 per cent of gross domestic product (GDP); 98 per cent of total exports; and 95 per cent of government revenues.

Libyan crude oil production and exports regained their pre-2011 levels in 2012, until the first half of 2013. According to official statistics, the production level in 2012 stood at 1.5 million barrels per day (bpd) and the export level stood at 1.3 million bpd. The sabotage of port terminals and production facilities by opposition groups, which began in August 2013, significantly reduced the export level to 200,000 bpd in the second half of 2013. The amount of crude oil that Libya produces has fluctuated between 200,000 bpd and 700,000 bpd since 2013. On 29 July 2014, the Oil Ministry reportedly stated that the production level was at 500,000 bpd. Despite the intense fighting in Tripoli and Bengazi, a Ministry official confirmed that all its oilfields were secure.[1]

The ongoing conflict is expected to negatively affect the Libyan economy in three ways. Firstly, although fighting factions seem to have agreed not to damage energy-related installations, the current chaos might lead to their eventual destruction. Increasing domestic transport difficulties have already reduced the

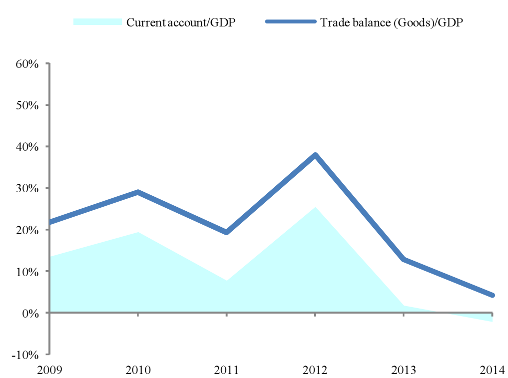
[1] See www.reuters.com/article/2014/07/29/us-libya-security-oil-idUSKBN0FY1V920140729.

operational level of the country's refineries and impacted the distribution of fuel products. Moreover, the Brega Petroleum Company's storage depot in Tripoli was set alight during an attack, further limiting the supply of fuel products. According to a Libyan newspaper, the price of gasoline went up from LD 0.15/litre to LD 5/litre (LD 1.23 = $1). No effect is expected on inflation but the situation will impact people's daily lives and increase poverty and discontent.

Secondly, although domestic demand continued to rise throughout the initial instability that began in 2011, it is currently dropping because of the ongoing armed violence. The emerging private sector cannot sustain the losses incurred by the deteriorating security situation. Business sentiment and consumer confidence have crashed and are not expected to recover in the short-run.

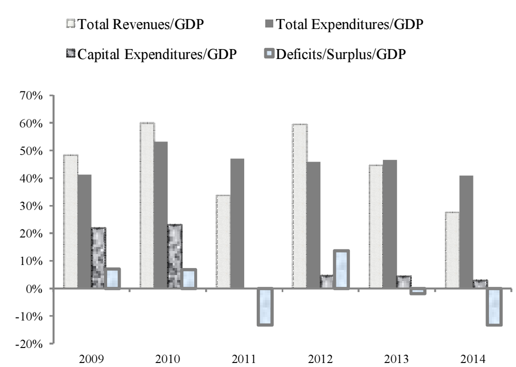
Thirdly, the violence could have a detrimental effect on government management capacity, which has maintained the living standard of Libyans for the past three years despite the intensifying armed conflict. To stabilize the post-2011 economic situation, the Libyan Government spent 22 per cent of the 2012 budget on subsidies. Total Government subsidy expenditures for 2013 and 2014 are also estimated as significant. Consequently, the consumer price inflation rate has remained low – 6.1 per cent in 2012 and 2.6 per cent in 2013. The Government is likely to mark budget deficits because of these increased subsidy payments. If government management capacity to collect oil export revenues and control prices through the subsidy system collapses, Libyans will suffer a significant deterioration in their living standards.

Figure 1. Balance of payments



Source: Central Bank of Libya. Figures for 2013 and 2014 reflect ESCWA staff estimates.

Figure 2. Fiscal positions



Source: Central Bank of Libya. Figures for 2013 and 2014 reflect ESCWA staff estimates.

The Government has warned of the possibility of State collapse and of an impending humanitarian and environmental disaster as a result of the shelling of a petroleum storage facility, where close to 6 million litres of fossil fuels are still burning. The Government fears that fires might spread to other petroleum storage facilities (since this document was written, another storage facility was engulfed in flames). It is particularly worried about the massive gas storage facility in Tripoli, which supplies Libyan homes with gas. A team of Italian specialists was able to extinguish the fires at two storage facilities, while many are still threatened by clashes in their vicinity that could result in an environmental disaster. Several countries have already asked their nationals in Libya to leave.

II. ECONOMIC SITUATION IN TUNISIA BEFORE THE LIBYAN CRISIS

Before the recent events in Libya, the Tunisian Government was planning to initiate an economic take-off. The Tunisian economy did not regain its pre-revolution growth path between 14 January 2011 and December 2013. It was averaging 4.4 per cent growth from 2001 to 2010, dropping to 1.6 per cent between 2011 and 2013.

Figure 3. Quarterly growth rate since 2001

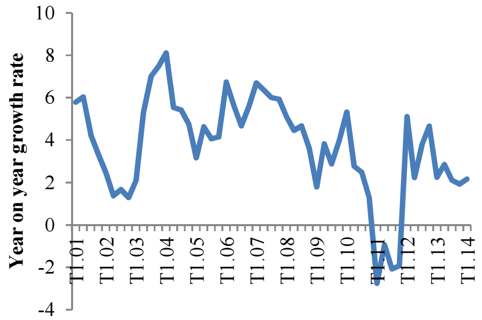
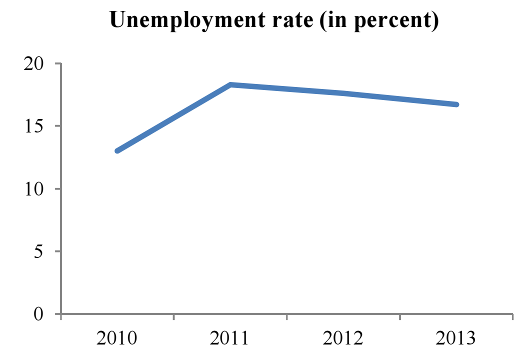


Figure 4. Unemployment rate since 2010



Source: National Institute of Statistics.

This slow growth has led to insufficient job creation and an increase in the unemployment rate to 18.3 per cent since 2011. To ease social tension, successive Governments have implemented an aggressive and exceptional public recruitment programme, employing 20,000 civil servants in 2011 and 12,000 in 2012. This plan succeeded in slowly reducing unemployment in 2012 and 2013, but not to the 2010 level.

The Tunisian Government implemented a “Go and stop’” programme in 2012 and 2013; the strategy involves increasing public investment and recruitment over two years, then adopting restrictive fiscal policies in the third year. The aim was to counterbalance the decrease in private demand to reassure private investors during the transition period and to foster a strong private sector to lead the domestic economy from 2014. Meanwhile, political uncertainty and the failure of the political class in 2013 to define a clear transition agenda and set a date for legislative and presidential elections affected the business climate and alarmed private investors. The International Monetary Fund, Moody’s Investors Services and Standard and Poor’s Financial Services recognized that bad economic performance in Tunisia was mainly to blame on the deteriorating political situation, which attained its paroxysm after the assassination of two left-wing leaders, Mr. Chokri Belaid and Mr. Mohamed Brahmi. Consequently, private investment remained weak and the “stop” phase became hard to implement. The policy therefore generated a large public deficit and increased public debt.

Figure 5. Central government deficit

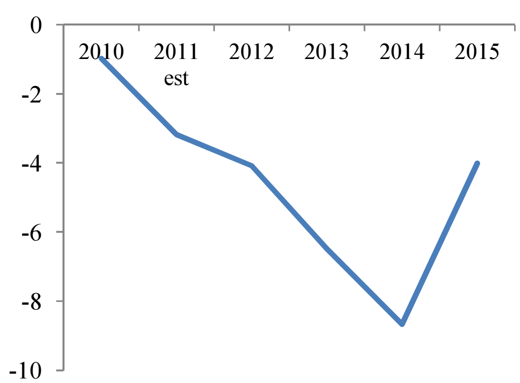
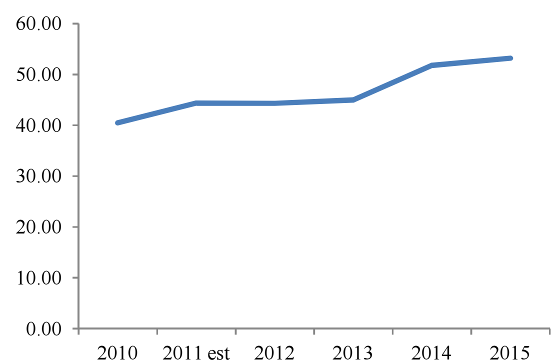


Figure 6. General government debt



Source: International Monetary Fund, 2013 estimates.

Since January 2014, Tunisian stakeholders have succeeded in establishing a clear political roadmap thanks to the National Dialogue. A consensual solution was found entailing the nomination of a technocratic Government for one year, the establishment of an independent electoral commission (ISIE), the adoption of a new constitution and the setting of election dates. This clarification of the transition path has reassured local and foreign partners, thus paving the way for 2015 to be the take-off year for the Tunisian economy. The growth rate was estimated to reach 4.5 per cent in 2015 and 7 per cent in 2016, and the public deficit is expected to drop to 4 per cent in 2014. However, the current Libyan crisis has created a new wave of uncertainty that could jeopardize this optimistic scenario.

III. ECONOMIC SITUATION IN EGYPT BEFORE THE LIBYAN CRISIS

The Libyan crisis is unfolding at a time when Egypt is experiencing economic difficulties. Over the last three years, Egyptian economic growth rates have been low at around 2 per cent. During the third quarter of 2013, a slight rise in economic activity was recorded, mainly owing to an improvement in the performance of two key sectors, namely manufacturing and construction, despite the contraction of the tourism and petroleum sectors. Recent developments have led international agencies to strengthen their growth forecasts, which were formerly moderate because of risks surrounding the recovery in the Euro area and the softening growth in emerging markets. The Economic and Social Commission for Western Asia (ESCWA) expects growth to rise from 2.1 per cent in 2013 to 2.4 per cent in 2014 and 3.3 per cent in 2015. However, the Egyptian economy is far from reaching its pre-crisis levels of 7.2 per cent in 2008 and 5.1 per cent in 2010.

Unemployment remains the most pressing issue in Egypt. It increased from 9 per cent in 2010 to 13.2 per cent in 2013, with youth unemployment exceeding 30 per cent. Egypt has to create 700.000 new jobs a year to keep these rates constant, which is not an achievable target considering current growth prospects. This would require an improved business climate and revived private investment, whose level has remained low despite renewed optimism for economic recovery after three years of losses brought on by the second Egyptian revolution in mid-2013.

Figure 7. Annual growth rate since 2003

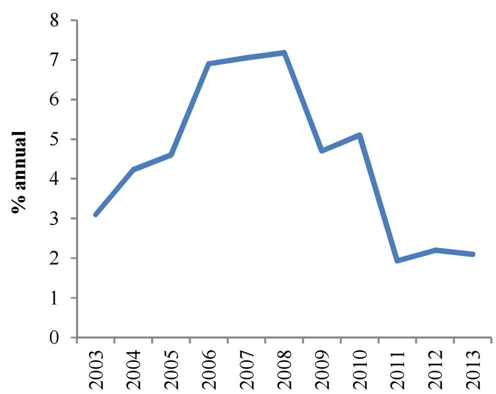
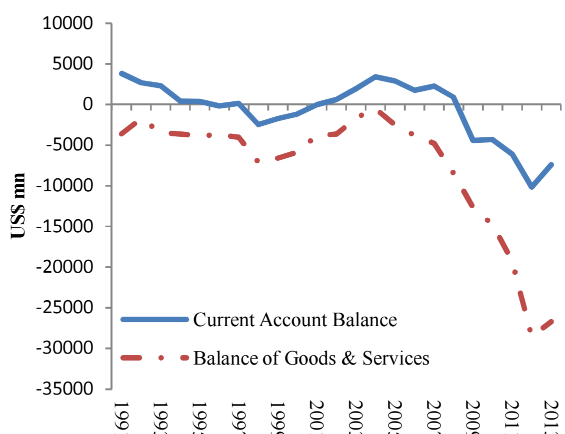


Figure 8. Current account and goods and services balances



Source: Central Bank of Egypt.

At the external level, the balance of payments recorded a surplus in 2013, owing to a slight improvement in tourism (3.5 per cent) and transportation (7 per cent) receipts. Exports were boosted by 3.6 per cent as competitiveness improved following a depreciation of the Egyptian pound and a 7 per cent increase in oil products. The current account deficit was sizably reduced owing to unrequited transfers, mainly workers' remittances and net official transfers, primarily from Kuwait, Saudi Arabia and the United Arab Emirates. Such remittances have increased by 3.9 per cent, but this is strongly counter-cyclical and increases when a country's economic or political situation worsens. The regime change unlocked Egyptian access to aid from Gulf Cooperation Council (GCC) countries, helping to stabilize the external value of the pound and restore Egyptian foreign reserves, which are currently very low at around 3.5 months of imports.

On the fiscal front, the Egyptian fiscal deficit currently accounts for 13.6 per cent of GDP after it soared to 44 per cent during the 2013 fiscal year. The Government declared its aim to reduce it to 9.1 per cent of GDP in the 2014 fiscal year, but the figures for the first seven months of 2014 show a potential annual deficit of 11 per cent of GDP, despite the financial assistance granted by GCC countries. Although fiscal challenges are increasing, the interim Government has little room for manoeuvre to counteract the deficit. A populist stance was adopted and, to ease social tensions, the Government is focusing on job creation through public investment in housing programmes and infrastructure; improving security and reducing uncertainty to encourage private investment; and offering financial assistance to public enterprises to increase capacity utilization. It also offered a 64 per cent salary increase to public servants, which encouraged private sector employers to follow suit, especially given that average wages in the private sector are only about two-thirds of those in the public sector.

Subsidies absorb a large part of Egyptian financial resources and the Government has revised up the prices of several regulated items within the consumer price index (CPI) basket as part of the 2014/2015 fiscal consolidation plan, including fuel, electricity and tobacco. Although fiscal consolidation will improve fiscal sustainability over the medium-term, a relative price increase is inevitable. The direct first-round effect of such price adjustments will lead to a level upwards shift in the headline CPI for July 2014, while the indirect and second round effects could be reflected in both the headline and core inflation rates during the quarter ending in September 2014 at varying degrees, which pose an upside risk to the inflation outlook. In view of this, although the possibility of a sharp rebound in international food prices is unlikely in the light of recent global developments, the Monetary Policy Committee implemented a pre-emptive rate hike to anchor inflation expectations and limit a general price increase. Although this move might look justified in a double-digit inflation context, it will more than likely have a detrimental impact on the economy in the medium-term.

Figure 9. Government deficit

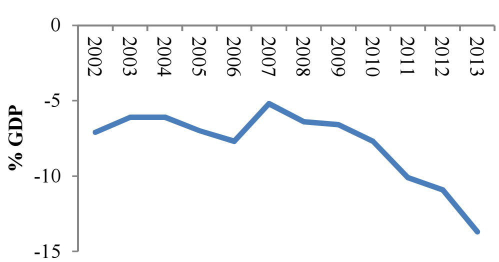
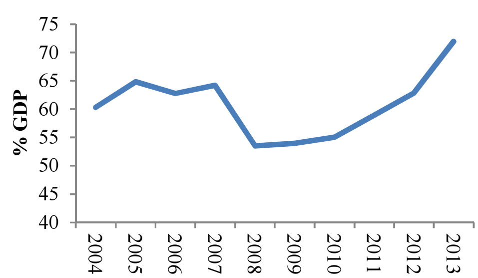


Figure 10. General government debt



Source: Central Bank of Egypt.

More reforms are needed to stabilize the fiscal situation but the interim Government does not have the power to implement them, and the adopted populist stance prevents the undertaking of any structural economic reform. It is doubtful that Egyptian aspirations for a fundamental change, bringing about meaningful employment creation and poverty reduction, will be met in the short-run. However, polls show strong support for the new regime. A referendum on an amended constitution, held in mid-January 2014, resulted in a 98 per cent "yes" vote, signalling broad approval for the charter and for the manifesto of the new Government.

When the current Libyan crisis erupted, Egypt had already welcomed 127,733 refugees from the

Syrian Arab Republic, not including those who crossed the frontier legally but without registering as refugees, given that visa requirements were only imposed on Syrians in June 2013. Furthermore, poverty was on the rise, reaching 26.3 per cent in the fiscal year 2013 compared to 25.2 per cent the year before.

IV. IMPACT OF THE LIBYAN CRISIS ON EGYPT AND TUNISIA

A correlation analysis of Egypt, Libya and Tunisia over the period 1995-2013 reveals a close relationship between their GDP levels. Despite the structural differences between them, this correlation primarily arises as a consequence of their strong economic ties. It should be noted that the linkages between Egypt and Libya seemed to weaken during the 2000s, but ties between Libya and Tunisia remained steady. The following analysis will explore these spill-overs in more detail, focusing on the following five channels: balance of payments, trade (formal and informal), tourism, worker remittances and refugees. The situations in Egypt and Tunisia are viewed in parallel.

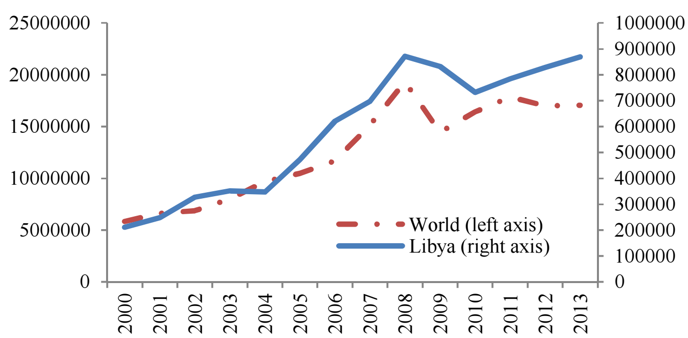
A. TRADE

Europe absorbs almost 80 per cent of Tunisian trade; low European growth has consequently depressed the Tunisian economy. Any further trade disruption will negatively affect the country's economic growth. Although Libya receives only 5 per cent of Tunisian exports, this represented 35.4 per cent of Tunisian GDP on average over the period 2008-2013. Exports increased by 23.6 per cent per year between 2000 and 2013, against 14.7 per cent for total Tunisian exports. Until recently, the dynamism of Tunisian exports towards Libya, boosted by various initiatives such as the development of a single window and other trade facilitation measures, helped compensate for the loss on the European market (figure 11).

Commercial ties between the two countries have proven resilient. In 2009 and 2010, a similar situation occurred where Tunisian exports to Libya fell by 7 per cent and 12 per cent respectively, but rebounded very quickly thereafter. Nevertheless, the current Libyan crisis will jeopardize Tunisian economic development over the medium and long-term.

Libya and Tunisia have developed strong diplomatic ties, with economic and trade implications. On 11 June 2013, an agreement was reached to deliver gas and 650,000 barrels of crude oil to the Tunisian market on a monthly basis, starting from January 2014. Tunisia is largely dependent on these imports but recent production disruptions will probably prevent the Libyan Government from meeting those commitments. Until recently, Libya was supplying more than 25 per cent of Tunisian fuel needs at a preferential price.

Figure 11. Tunisian exports to Libya and the world, thousands of USD



Source: United Nations Conference on Trade and Development database.

B. INFORMAL TRADE

A recent study showed that, although informal trade of petroleum products, food products, textiles and electronic goods accounts for a small fraction of total Tunisian trade, bilateral informal trade flows between Libya and Tunisia are quite sizable and could equal as much as half of all Tunisian trade with Libya. Informal trade between the two countries mainly takes place through the border crossing of Ras Ajdir. Its closure, on account of the deteriorating security situation in Libya, has had huge repercussions, given that informal trade in the region is an important activity involving a large number of people, including transporters, street vendors, seasonal traders, currency exchangers, wholesalers and Tunisian consumers, for whom this activity ensures the affordability of a large number of goods. Moreover, various goods from China and Turkey enter Tunisia through Libya because of custom and consumer tax differences of up to 78 per cent. As instability hinders Libyan formal trade routes, informal trade has become even more vital for the import of necessary goods and for the exports that provide foreign exchange earnings.

The economic impact of closing the border is difficult to estimate but the following simple evaluation can shed light on the matter. The unemployment rate in Délégation de Ben Gardane, Tunisia, is 2 percentage points below the governorate average of 11 per cent. Up to 20 per cent of the active population is involved in informal trade, making this sector the largest employer in the area. Around 83 per cent are residents of Ben Gardane, typically men in their thirties who have a primary or secondary education and an average of four dependents. Rough calculations show that the annual income of such households is around 250 Tunisian dinars, which is below the national poverty line. Furthermore, a report released by the United Nations Development Programme states that 10,000 to 15,000 families have received no income since February 2011, which might be a consequence of the Libyan crisis.[2]

C. A DELICATE BALANCE OF PAYMENTS SITUATION

Both Egypt and Tunisia have had significant balance of payments problems since 2011. The Egyptian pound and the Tunisian dinar have been depreciating against the dollar over the last three years. This devaluation severely limits the latitude of macroeconomic policy management as an option for an expansionary policy mix, which is essential to buoy domestic demand and reduce unemployment.

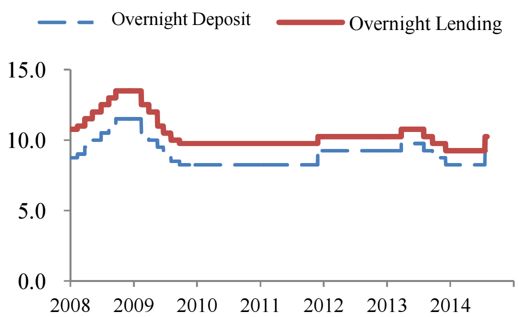
Both countries are maintaining a fiscal austerity stance, including the implementation of subsidy reform in the current fiscal year. They are also maintaining a tight monetary stance to defend national currency values and mitigate inflationary pressures from rising import prices. On 26 June 2014, the Central Bank of Tunisia raised its key policy interest rate from 4.5 per cent to 4.75 per cent. On 20 July 2014, the Central Bank of Egypt raised a set of policy interest rates by one percentage point (100 basis points) – the overnight deposit rate rose from 8.25 per cent to 9.25 per cent and the overnight lending rate increased from 9.25 per cent to 10.25 per cent.

These fiscal and monetary stances are popular in both countries, but Egypt and Tunisia are compelled to take them regardless, because of their fragile balance of payments situations. For this reason, any small economic impact from the Libyan crisis could have significant consequences for both countries.

One opportunity that the current conflict in Libya could provide is an increased outflow of foreign direct investment from Libya to Egypt. Undoubtedly, the current unrest represents a push factor, "pushing" funds out of Libya, but it is unclear whether Egypt has the pull factor to attract these funds.

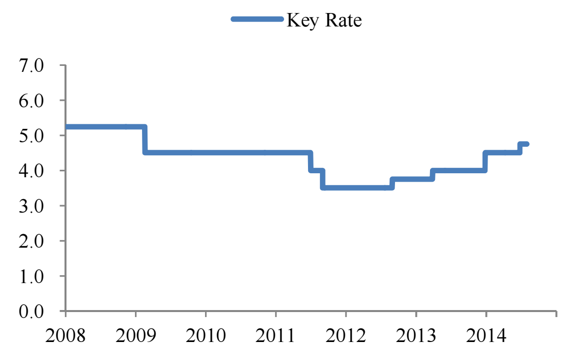
[2] Ayadi, Lotfi et al. (2013). *Estimating informal trade across Tunisia's land borders*. The World Bank, Policy Research Working Paper No. WPS 6731.

Figure 12. Egyptian interest rate policy



Source: Central Bank of Egypt.

Figure 13. Tunisian interest rate policy



Source: Central Bank of Tunisia.

D. Tourism

The tourism sector is crucial to the Tunisian economy. In 2010, tourism receipts covered 56 per cent of the trade deficit and provided 19 per cent of foreign exchange earnings. In 2013, the travel and tourism sector's contribution reached 7.3 per cent of GDP. However, if various induced economic impacts are included, such as investment, the supply chain and induced income, this contribution reaches 15.2 per cent of GDP and 6.6 per cent of employment, employing over 400,000 individuals.

Figure 14. Contribution of the travel and tourism sector to Tunisian GDP and employment

Source: Tunisia: Travel and Tourism Economic Impact 2014, World Travel and Tourism Council.

Around 1.8 million Libyan tourists go to Tunisia each year. An African Development Bank assessment shows that Libyan tourists in Tunisia spend on average 200-400 Tunisian dinars a week.[3] Total tourism receipts for 2009, when Libyan tourism reached a record high of 1,995,000 persons, totalled 600 million Tunisian dinars.[4]

[3] Sansi, Emanuele et al. (2011). *Impact of Libya's conflict on the Tunisian economy: a preliminary assessment*. African Development Bank (July).

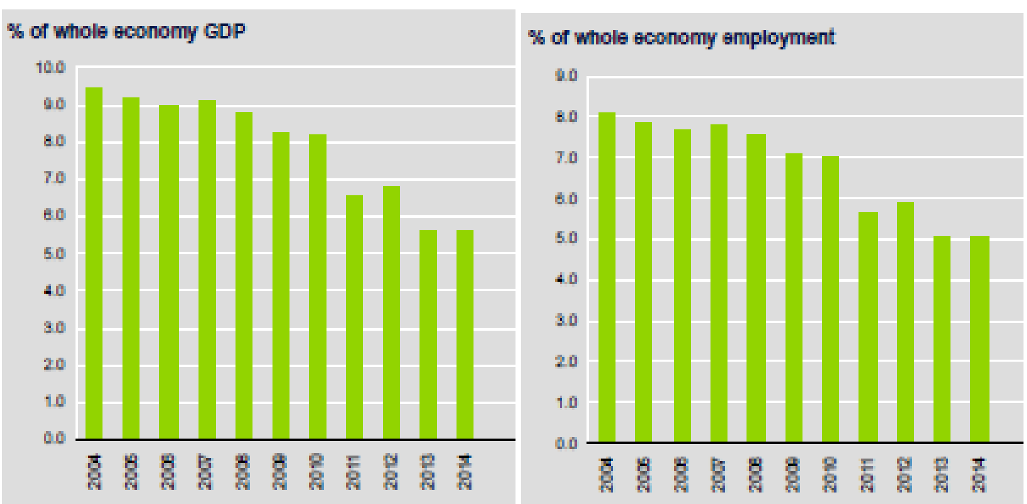
[4] World Tourism Organization Network (2014). *Yearbook of Tourism Statistics: 2014 Edition*.

Furthermore, medical tourism has recently become a strong engine of economic growth in Tunisia. The country attracted over 16,000 medical tourists from Europe in 2010. However, the main patient sources in 2009 were Libya (100,000), Algeria (60,000), Morocco and various other African countries. The African Development Bank estimated that Libyan medical tourism in Tunisia has generated around 350 million Tunisian dinars in additional receipts since the last estimations, bringing the total Libyan tourism receipts to 890 million Tunisian dinars. These flows will not necessarily dwindle but recent events in Libya could negatively impact this crucial sector of the Tunisian economy. In 2011, Libyan tourist arrivals in Tunisia dropped by 30 per cent and estimates of tourism contributions to GDP and employment were at their lowest, according to the Tunisian National Tourism Office (figure 6). However, estimations for June 2014 show an annual increase of 5.3 per cent and tourism in Tunisia should again prove rather resilient.

With regard to Egypt, Libyan tourists make up only around 5 per cent of total tourism. However, several European countries, Japan and Russia have warned their citizens against travelling to Egypt because of the unrest following the ousting of President Mohamed Morsi in July 2013. This lull in tourism has reached a critical level and booking cancellations have increased by 40 per cent. Estimates for June 2014 show an annual drop of 29.7 per cent. In 2013, tourism directly accounted for 5.6 per cent of GDP (12.6 per cent of GDP including indirect impacts) and 5.1 per cent of total employment.

Meanwhile, the number of Libyan refugees has been rapidly increasing, especially in Tunisia where they can settle freely, which might be compensating for the loss in tourism receipts. Egypt will probably not benefit from these flows, which could worsen an already-alarming economic situation.

Figure 15. Contribution of tourism to Egyptian GDP and total employment



Source: Egypt: Travel and Tourism Economic Impact 2014, World Travel and Tourism Council.

E. REFUGEES

The ability of countries to deal with refugee flows depends on several factors. Egypt and Tunisia are unstable and undergoing transition. Although both countries are signatories to the 1951 Refugee Convention Relating to the Status of Refugees and its 1967 Protocol, they lack capacities and experience in dealing with mass refugee flows, and the economic crisis in developed countries has negatively affected donor support. Thus, neither Egypt nor Tunisia is equipped to manage major refugee flows and lack national asylum systems that meet international standards.[5]

[5] It is worth noting that Morocco is starting to develop these tools and procedures.

Nonetheless, Egypt and Tunisia have managed several waves of refugees from Iraq, Libya and the Syrian Arab Republic in the past. In 2011, the conflict in Libya brought more than 343,000 people to Egypt (through Saloum), including 104,000 Egyptians; 163,000 Libyans; and almost 77,000 third country nationals. At the height of the Libyan crisis in 2011, an estimated 1 million Libyans sought refuge in Tunisia. Al Arabia newspaper reported that 8,000 Libyan nationals crossed the border into Tunisia between 28 and 30 July 2014, along with migrants of other nationalities and diplomats. The Tunisian border with Libya remains open to date, but Libyan borders with Algeria, Egypt, Chad and Niger have been closed. It seems, however, that the Tunisian Government is currently focusing its efforts on protecting Tunisian interests, which could entail the closure of the Tunisian border with Libya. Moreover, security concerns and instability in Egypt and Tunisia have stretched host communities' tolerance for the growing numbers of refugees.

F. Migrant worker remittances

The most significant consequence of the instability in Libya is the return of Egyptian migrants to Egypt. According to the International Organization for Migration, around 1.5 million Egyptians were employed in Libya before the current crisis, most of whom were low and semi-skilled workers. In 2012, around 40,000 Tunisian workers left Libya. The number of migrant workers leaving Libya is likely to rise if the conflict continues and Islamist group retaliations against Egyptians increase (a trend that has been observed recently, especially following the toppling of former President Morsi in 2013).

Undoubtedly, not all foreign workers will leave Libya but, if the fighting continues and intensifies, around 250,000 Egyptians are expected to return within the next few weeks. These workers come from very poor governorates where the income generated in Libya supports large and vulnerable families. Losing their sole source of income from will dramatically increase poverty and lead to widespread social unrest, inflationary pressure and destabilization in Egypt. The World Bank estimates that formal and informal inward remittance flows from Libya accounted for 0.89 per cent of Egyptian GDP and 0.56 per cent of Tunisian GDP in 2012.

Egyptian and Tunisian balances of payments will also be negatively affected by the situation in Libya. The two countries' foreign reserves can currently cover only 3.5 months of imports. Nevertheless, this impact is expected to be small as the Central Bank of Libya and the International Organization for Migration estimate that remittances from Libya to Egypt only total $20-33 million a year. Moreover, although workers' remittances from Libya to Egypt and Tunisia are small, their loss could affect the private sectors and labour markets in both countries, although the impact would presumably be greater in Tunisia.

Libyan citizens and foreign workers only temporarily migrate to neighbouring countries, given that most large Libyan cities are close to the Libyan borders, which are quite porous, and the current economic situations in Egypt and Tunisia do not present good economic prospects. Nevertheless, large, although short-lived, population movements could have sizable negative effects on host countries' housing markets, internal security, inflation and public goods provision. From February 2011, more than 135,000 Libyans began returning to their country and, according to the International Organization for Migration, 39.5 per cent of Tunisian workers returned to Libya in 2012.

The ongoing fighting has dashed hopes of rebuilding Libya in the near future, which would have provided the Egyptian economy with a much need "real" supply-side stimulus and helped ease the unemployment problem, especially among low and semi-skilled workers. In June 2014, the Tunisian Foreign Ministry issued a statement urging Tunisians to avoid travelling to Libya and for those living in Benghazi to leave the country.

G. Mounting security concerns

The Libyan Government has failed to disarm militias to date. The deterioration in Libya, concentrated on the eastern side of the country, is therefore a growing security challenge for Egypt and Tunisia, which are already suffering from the turmoil in Libya, including the smuggling of heavy weapons into both countries. These weapons are being used against the Governments of Egypt (Farafra massacre) and Tunisia (attack on the home of the Interior Minister, Mr. Lofti Ben Jeddou); and to finance Jihadist groups located in the Libyan Desert, compromising Egyptian security.

The upcoming elections are further exacerbating the security challenges Tunisia is facing. Consequently, the country launched a national dialogue initiative in an attempt to end the political crisis in Libya, with the aim of developing concrete proposals for joint operations and information exchanges between Libya and neighbouring countries. Representatives from Algeria, Chad, Egypt, Libya, the Niger, the Sudan, Tunisia, the League of Arab States and the African Union attended conferences held on 2 May 2014 in Algiers; 25 June 2014 in Malabo; and 13 and 14 July 2014 in Hammamet, Tunisia. During the meeting in Tunisia, two commissions were established: one for security issues, including border surveillance focusing on weapons proliferation, and a second for facilitating national dialogue.

In an interview with Al Monitor in June 2014, the Tunisian Foreign Minister, Mr. Mongi Hamdi, said "we consider that [the crisis] in Libya is an internal problem for Tunisia and we are addressing it as an internal problem, because our security is part of Libya's security … Libya's stability means stability for us".