OUTLINE

PUBLIC DEBT IN THE ARAB REGION: IT’S SIZE, COMPOSITION, AND CHANGING PATTERNS

KEY DRIVERS OF DEBT ACCUMULATION IN THE REGION

LIQUIDITY SHORTAGE AND DEBT: OBSTACLES TO RECOVERY

CONCLUSIONS AND POLICY RECOMMENDATIONS
Arab region debt stocks over the past decade: a fast rising trend

Debt stocks in the region have more than doubled since 2008; Reached $1.4 trillion in 2020. COVID-19 exacerbates situation.
Gross Public Debt (as a percentage of GDP)

Arab region public debt: 60% of GDP in 2020, up from 25% in 2008

GCC: 41% (2020)
10% (2008)

MICs: 91% (2020)
47% (2008)

LDCs: 52% (2020)
32% (2008)

COVID-19 compounded the underlying development challenges in the Least Developed Countries (LDCs) and Conflict-Affected countries (CACs).
GDP growth vs. growth of public debt in the Arab region (year on year percentage changes)

Risk of debt unsustainability in the region increased:
- Growth fell below zero
- Debt increased

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The changing composition of debt - MICs

- Increasing external debt;
- Changing profile of external debt -- Increasing share of debt from private creditors;
- Declining concessional debt share from official creditors.

External public debt by creditor type ($ billion)

- PPG, other private creditors
- PPG, commercial banks
- PPG, bonds
- PPG, bilateral
- PPG, multilateral

More than $100 billion increase in borrowing

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Declining access to concessional debt

**MICs**

- Multilateral concessional debt (% of multilateral debt)
- Bilateral concessional debt (% of bilateral debt)

**LDCs**

- Multilateral concessional debt (% of multilateral debt)
- Bilateral concessional debt (% of bilateral debt)
Increasing debt service burden

In the MICs, debt service is consuming about $20 billion, which is almost 20% of their exports. The share is much higher than the global average (6.4%).
KEY DRIVERS OF DEBT ACCUMULATION IN THE REGION
Twin deficits: Persistent in MICs and LDCs

High and persistent primary deficits for MICs and LDCs in the Arab region are among the key drivers of debt accumulation.

Persistent current account deficits in the MICs and LDCs add to the liquidity challenge in foreign currency and drive their external borrowing.
Lack of effective fiscal and monetary response

Monetary policy: Several countries have witnessed interest rates higher than their economic growth rate.

Fiscal policy response: Lax primary balance management is associated with increasing debt to GDP.

Interest rate – Growth difference (percentage points, nominal)
Impact of COVID-19: Loss of Economic Growth (percentage per annum), 2020-2023

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Estimates for 2020 indicate a severe contraction of economies in the Arab region of -6 percent as compared to the pre-COVID-19 projected rate of 2.5 percent.
LIQUIDITY SHORTAGE AND DEBT: OBSTACLES TO RECOVERY
COVID-19 Government Stimulus (% GDP)

Arab Governments have extended $95 billion (4% of their GDP of 2020)

Governments worldwide have extended $19 trillion (22% of their GDP of 2020)

Regional average (4%) well below the 22% global average with heterogenous national response to the crisis.

https://tracker.unescwa.org/
Higher loss of working hours and significantly higher loss of per capita GDP, with low fiscal support, in the Arab region as compared to global average.
New SDR allocations to the region are far below what is required to catch up to global average fiscal support of Governments (as a share of GDP)

The region received about $37.3 billion SDRs.

Estimated financing requirement: $462 billion.
CONCLUSIONS AND POLICY RECOMMENDATIONS
Conclusions and Recommendations – official creditors

◦ Official creditors are called upon to extend the period and scope of the moratorium on debt service payments under DSSI until the end of 2022, considering the prolonged impact of COVID-19.

◦ Multilateral development banks and international financial institutions are called upon to participate in DSSI; create mechanism for private creditors participation in DSSI.

◦ IMF member States must consider the adoption of mechanisms to re-channel unused SDRs from advanced to developing countries on a needs basis, going beyond the existing quota system that favours high-income countries.

◦ Developed countries are called upon to bridge the inequality gap in fiscal stimulus between developing and developed countries, by improving official development assistance (ODA) to finance recovery from the pandemic.

◦ Official creditors are urged to enhance access to concessional lending.
Conclusions and Recommendations – Member States

- **Improve debt management practices** through improved debt data quality and risk analysis of debt instruments, including modelling scenarios of debt sustainability such as working out debt stabilizing scenarios over the medium term.

- **Coordinate with monetary policy** to ensure the necessary conditions to maximize the value of fiscal measures – better fiscal-monetary policy coordination.

- **Improve overall public finance management** through effective medium-term expenditure frameworks and medium-term revenue frameworks.

- **Operationalize innovative debt relief instruments**, such as the ESCWA Climate/SDGs Debt Swap/Donor Nexus Initiative.

- **ESCWA calls upon member States to establish a debt management support group at the regional level, the Arab Debt Management Group (ADMG)**, to promote peer learning and share lessons on improved debt management practices toward improving macroeconomic stability and fiscal space for financing the SDGs.
Thank you!
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