

Economic and Social Commission for Western Asia

Debt, Fiscal Policy and Social Expenditure in the Arab Region

Regional Conference

Special Drawing Rights and Beyond: The Future of Development Finance, Fiscal Spending and Inequality in the Arab region

Organised by Oxfam in partnership with ESCWA, ANND, FES and AWC
Beirut – UN House, 12 January 2023



UNITED NATIONS

الاسواق
ESCWA

Shared Prosperity **Dignified Life**



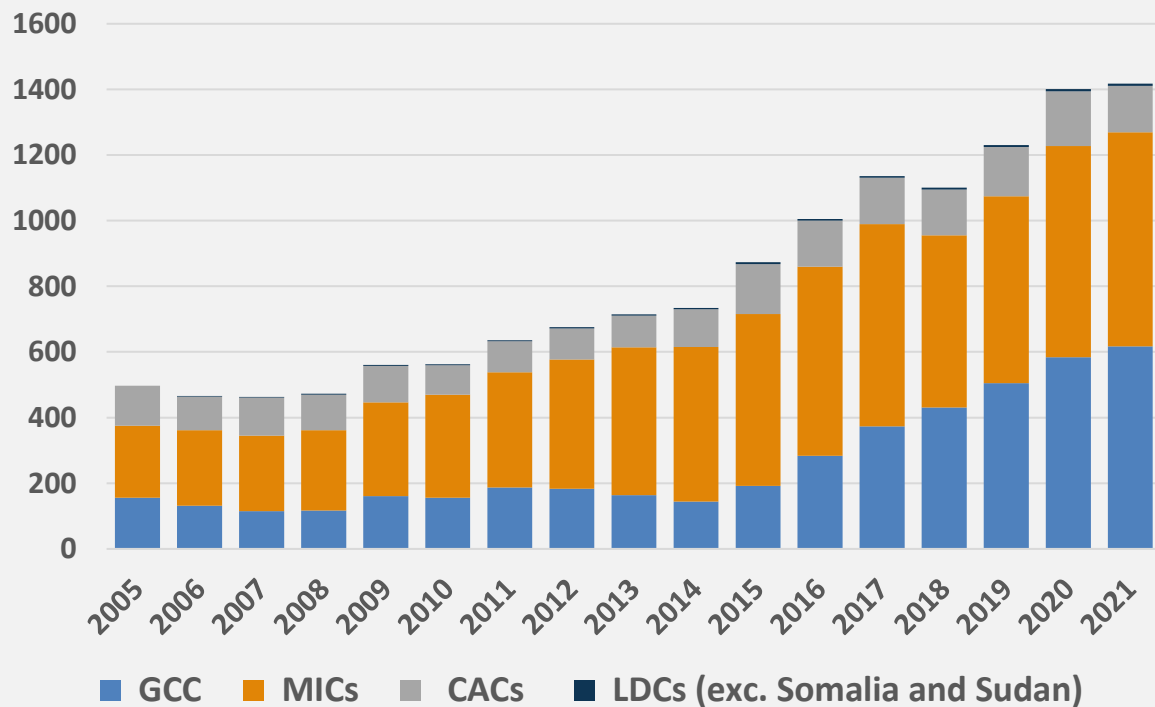
Niranjan Sarangi, Senior Economic Affairs Officer,
ESCWA

Outline

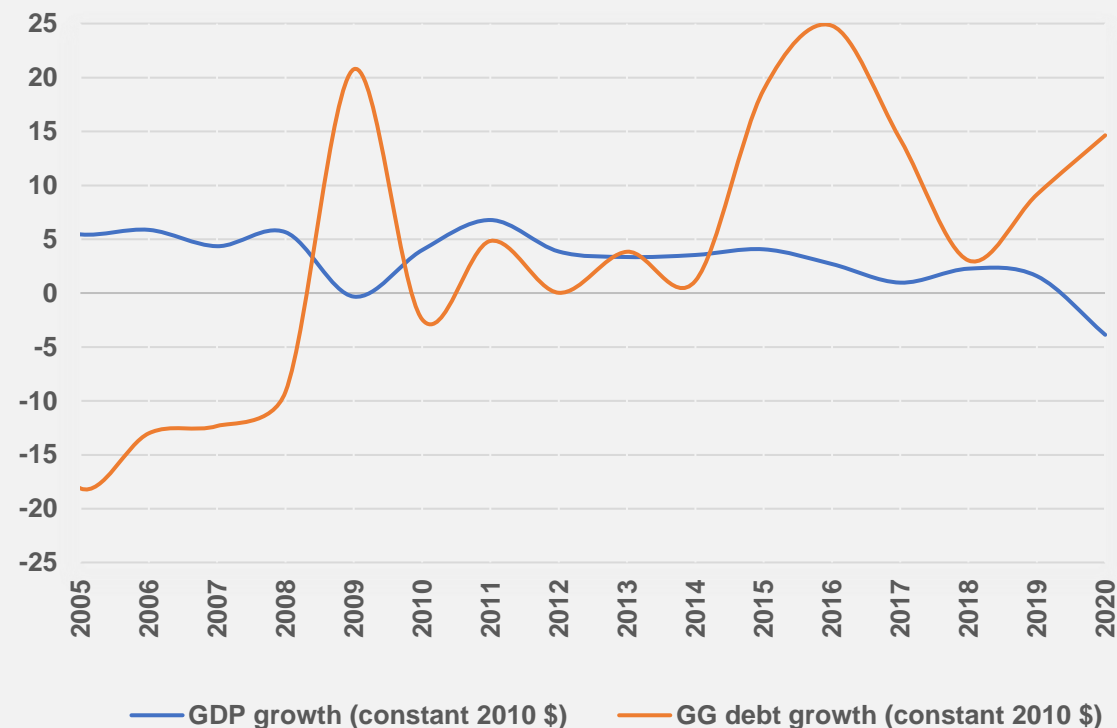
- 1. Average annual growth of public debt in the Arab region has steeply increased over the past decade and remained higher than the growth rate of GDP, resulting in lower public revenues and higher debt service payments.**
- 2. Persistent fiscal deficits and liquidity challenges constrain most countries adequate financing for social services, and also social spending in the Arab Region remained less efficient than the Global average.**
- 3. New SDR allocations are helpful but these are far below what is required to finance equitable and sustainable recovery. Share of concessional lending in external public debt is declining.**
- 4. High debt and debt service burdens adversely impact the present as well as the future generation and accentuates inequality in access to public services and economic opportunities over time.**
- 5. ESCWA initiatives - to inform policy choices at national and international levels addressing the challenges in the areas of debt and fiscal policy reforms.**

1. Regional GDP growth, on average, remained sluggish and declined over the years; Public debt grew at a rapid pace, reaching over \$1.4 trillion in 2021

General Government Gross debt (Billion USD)

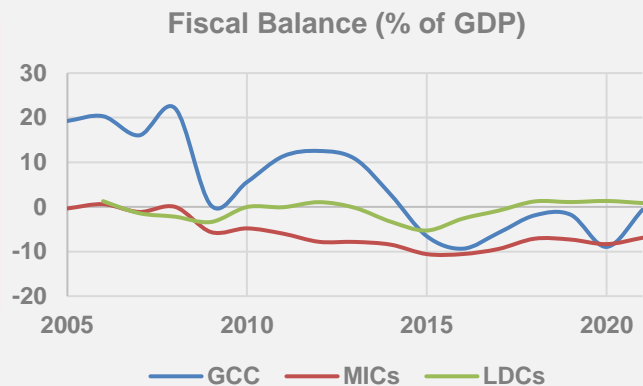


GDP Growth vs. Growth of Public Debt in the Arab Region (year on year percentage changes)

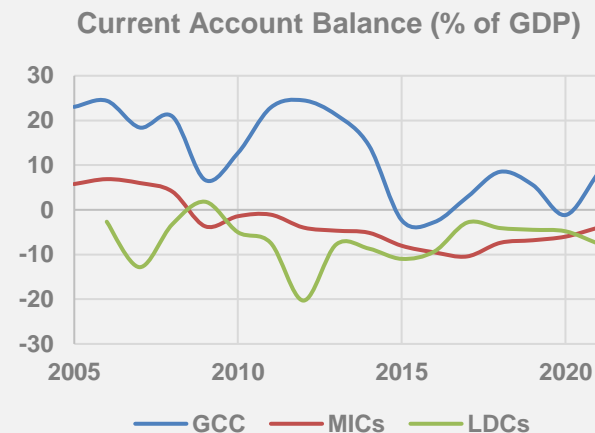


2. Constrained fiscal space and liquidity challenges are apparent in the Arab region's inability to respond to pandemic fallout, which adversely affected equity in pace of recovery across countries.

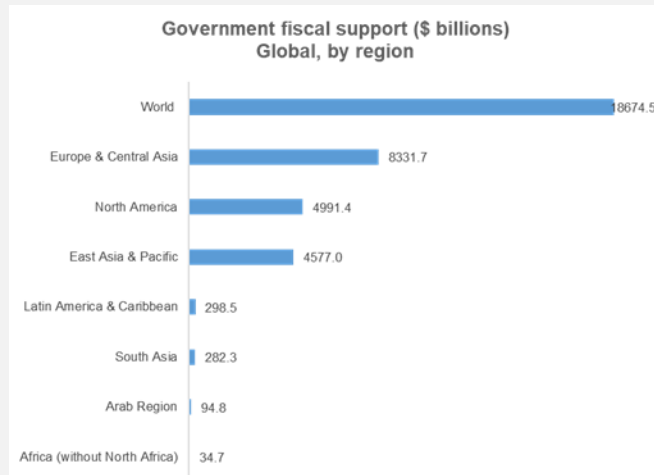
High fiscal deficit leading to increasing public debt



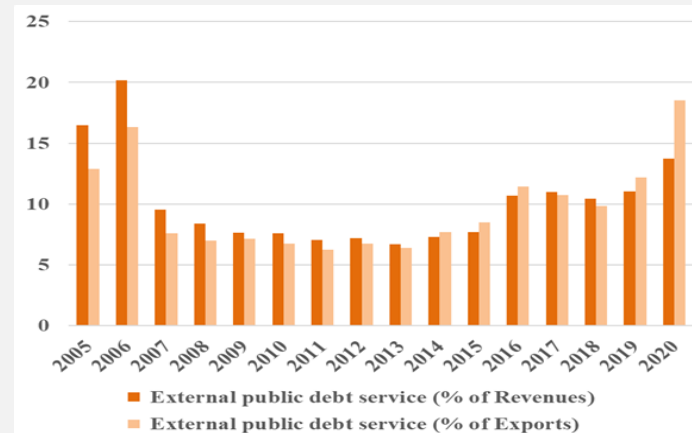
Foreign currency liquidity constrained



Low stimulus compared to global average



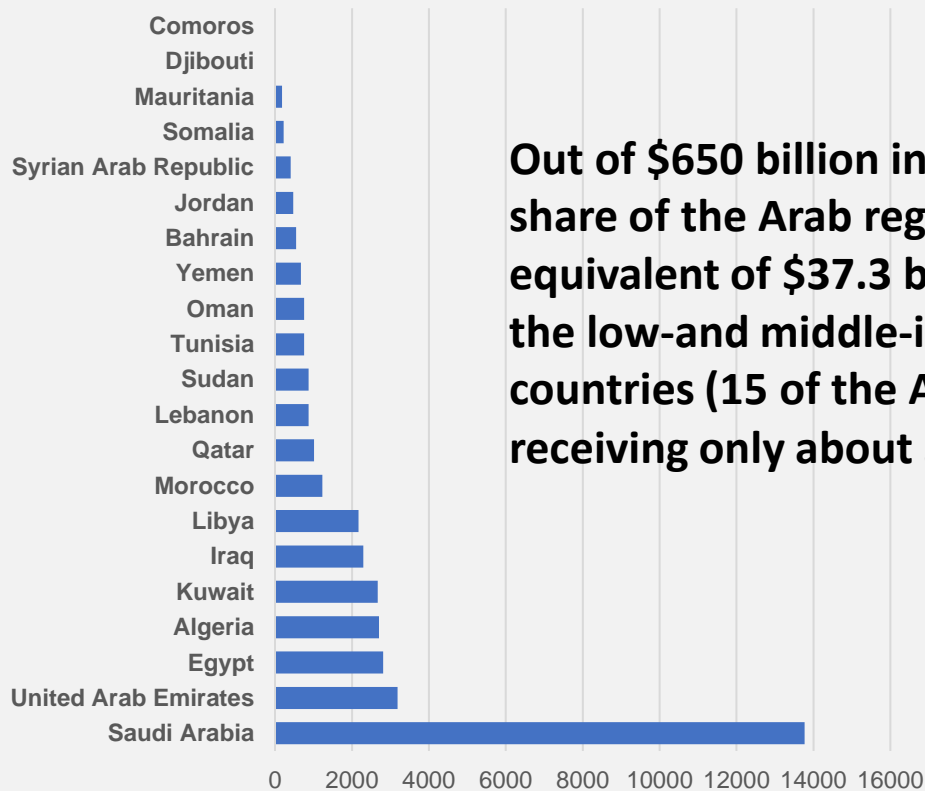
High and rising debt service of MICs, especially external debt service



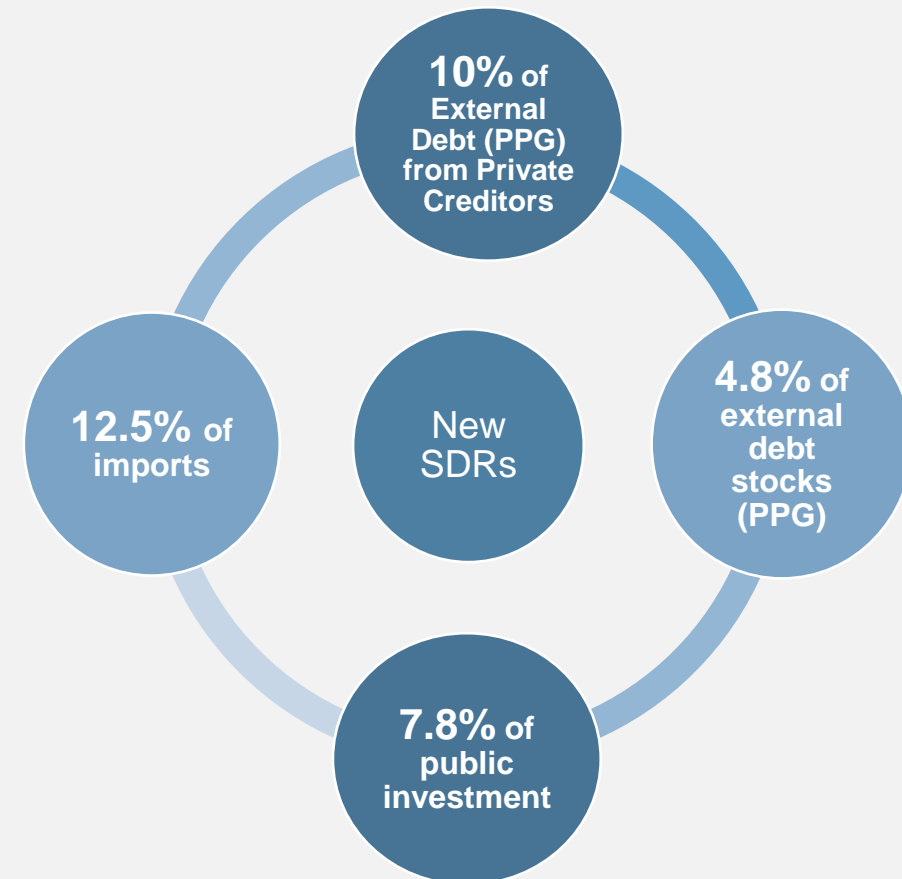
3. New SDR allocations are helpful but these are far below what is required to finance equitable and sustainable recovery

New SDRs as a share of key macroeconomic indicators of low and middle income countries in the region, on average

2021 Allocation (million USD)



Out of \$650 billion in total, the share of the Arab region was equivalent of \$37.3 billion, with the low-and middle-income countries (15 of the Arab States) receiving only about \$15 billion.



Source: Calculations based on [IMF SDR-Tracker](#) and World Bank ([IDS](#) and [WDI](#) databases)

4. Landscape of social expenditures in the Arab states

ESCWA Social Expenditure Monitor (SEM):

The SEM presents a new framework of measuring social expenditures aligned with the SDGs.

The SEM has SEVEN Dimensions of Social Policy Expenditures.

Access data: <https://sem.unescwa.org/>

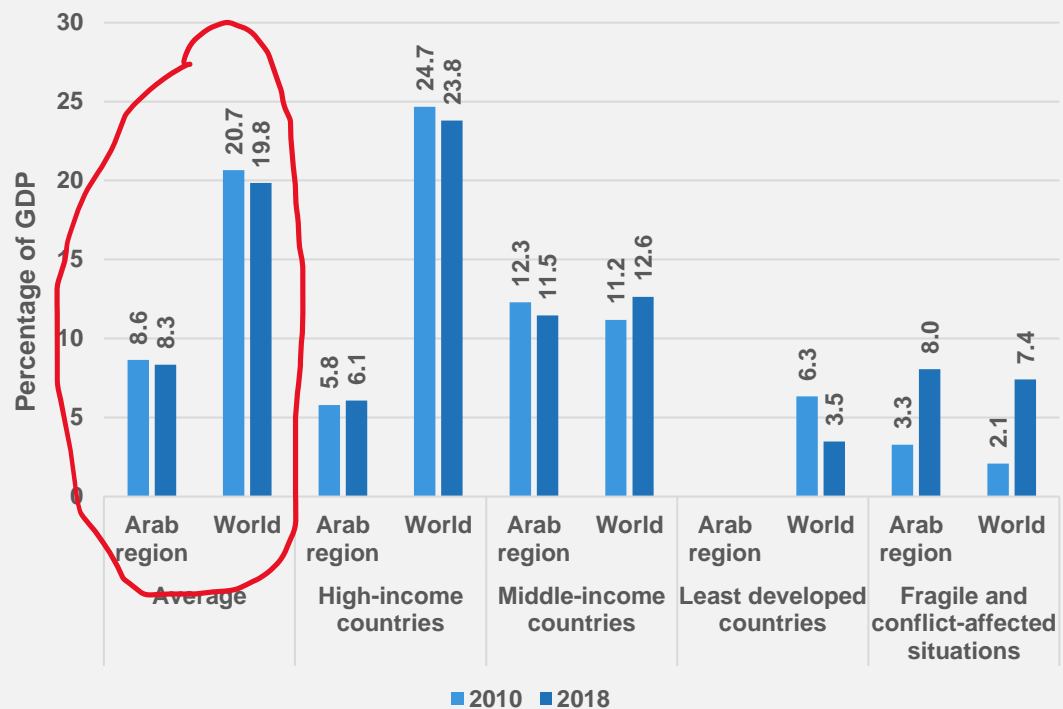


Sources: ESCWA 2019. Link

Also See ESCWA, UNDP and UNICEF [Social Expenditure Monitor for Arab States](#)

5. On average, public social expenditure in the Arab region on health, education and social protection, as a share of GDP, is lower than the global

Public social expenditure as a percentage of GDP, based on health, education and social protection (HES)



Public expenditure as a share of GDP

34.6%
Arab region

35.7%
World



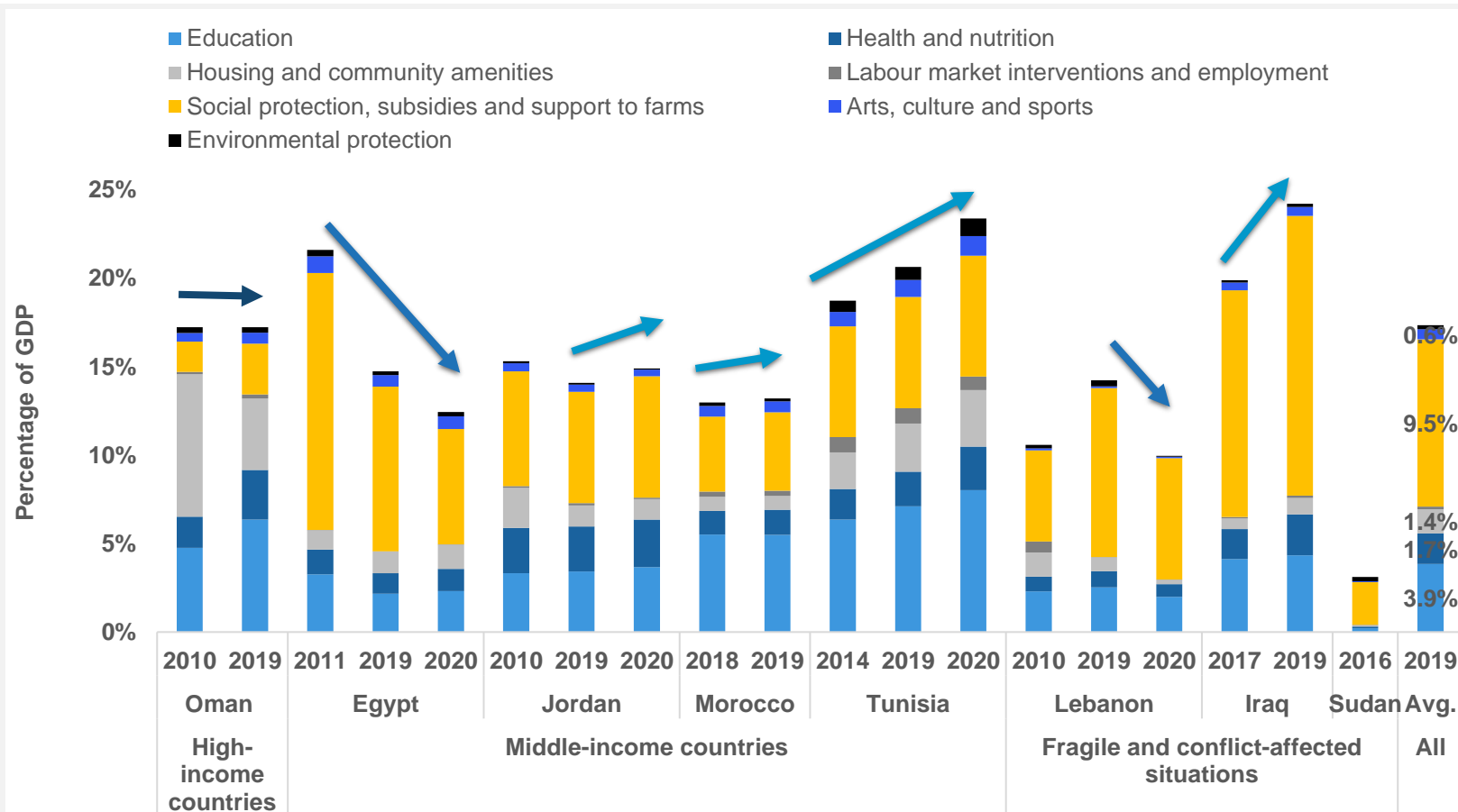
Source: ESCWA, UNDP and UNICEF [Social Expenditure Monitor for Arab States](#)

6. Public Social Expenditure on Seven Dimensions of SEM: Ranges between 10-20 per cent of GDP

On average, social expenditure in all seven dimensions was 17.4 per cent in 2019.

- ❑ Environmental protection: <1 per cent
- ❑ Labor market interventions: <1 per cent
- ❑ Arts, culture, and sports: <1 per cent
- ❑ Health: 1-2 per cent
- ❑ Housing: 1-8 per cent
- ❑ Education: 2-7 per cent
- ❑ Social Protection, Subsidies and Support to Farm: 2-16 per cent

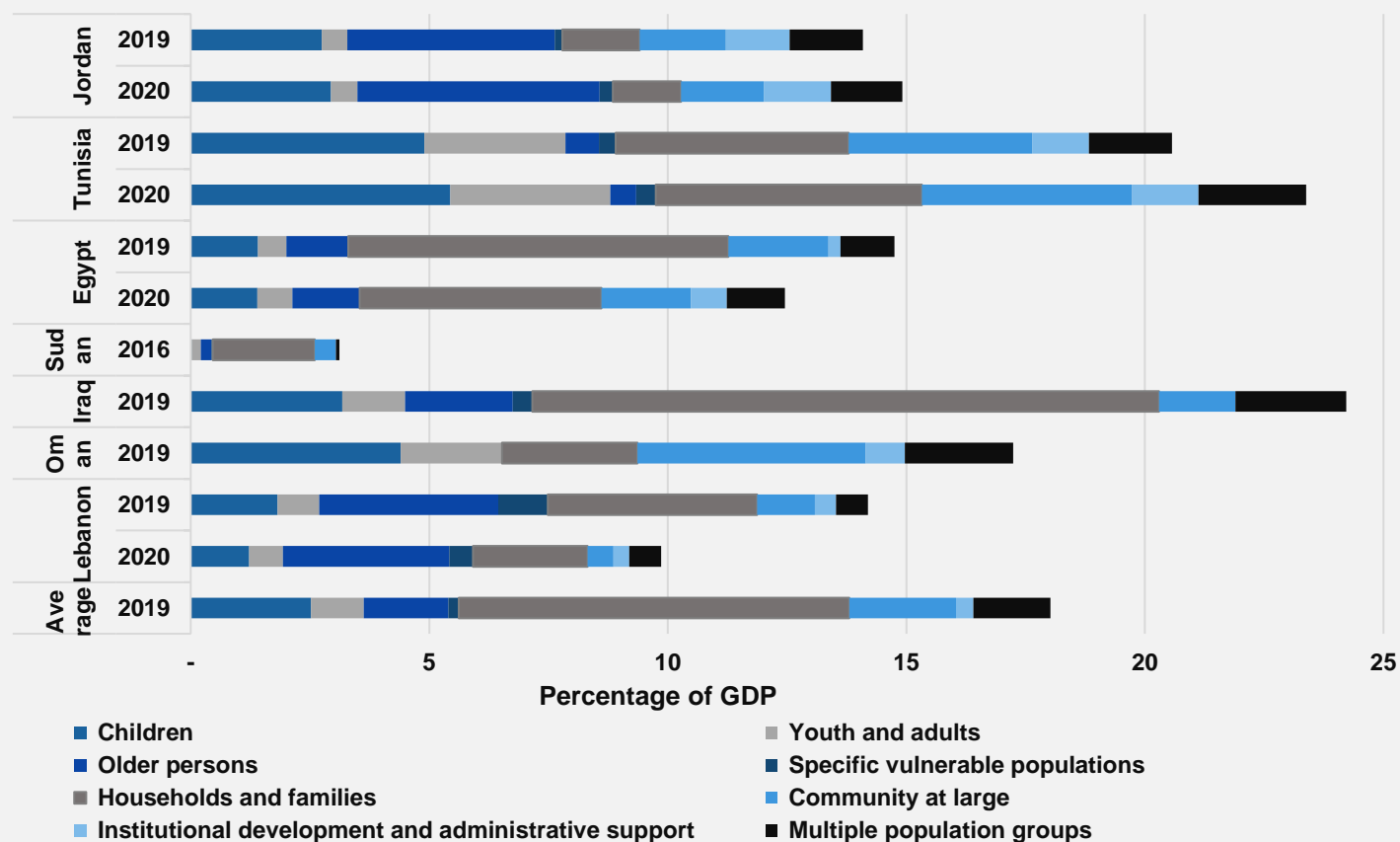
**No clear trend across countries
Higher social expenditures in some countries are largely due to subsidies**



Source: ESCWA, UNDP and UNICEF [Social Expenditure Monitor for Arab States](#)

7. Targeting Budgets to Women, Children and Vulnerable Populations have Remained a Challenge

Households and families benefit particularly in countries with extensive subsidies



Targeted expenditures to:
Specific vulnerable populations (0.22% of GDP in 2019).

Youth and adults (1.1 % of GDP in 2019).

The older persons (1.77% of GDP in 2019)

Household and families benefit largely due to general subsidies; how equitable depends on type of intervention

Data on targeting budgets to beneficiaries is often unclear; SEM provides a framework of tagging budget lines to beneficiaries.

Source: ESCWA, UNDP and UNICEF [Social Expenditure Monitor for Arab States](#)

8. Current expenditure takes a dominant share in social expenditures which undermines investments in infrastructure, productivity and job creation



Capital expenditure made up only around

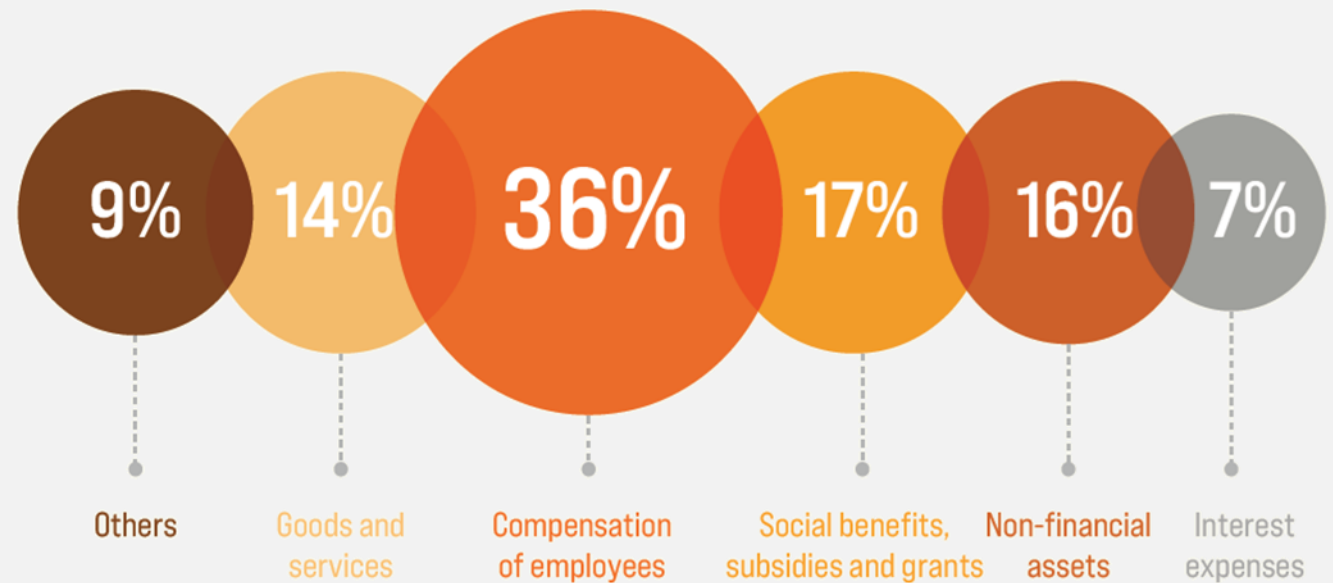
1/5 of social expenditure in 2019 in countries with SEM data



Current expenditure takes a dominant share

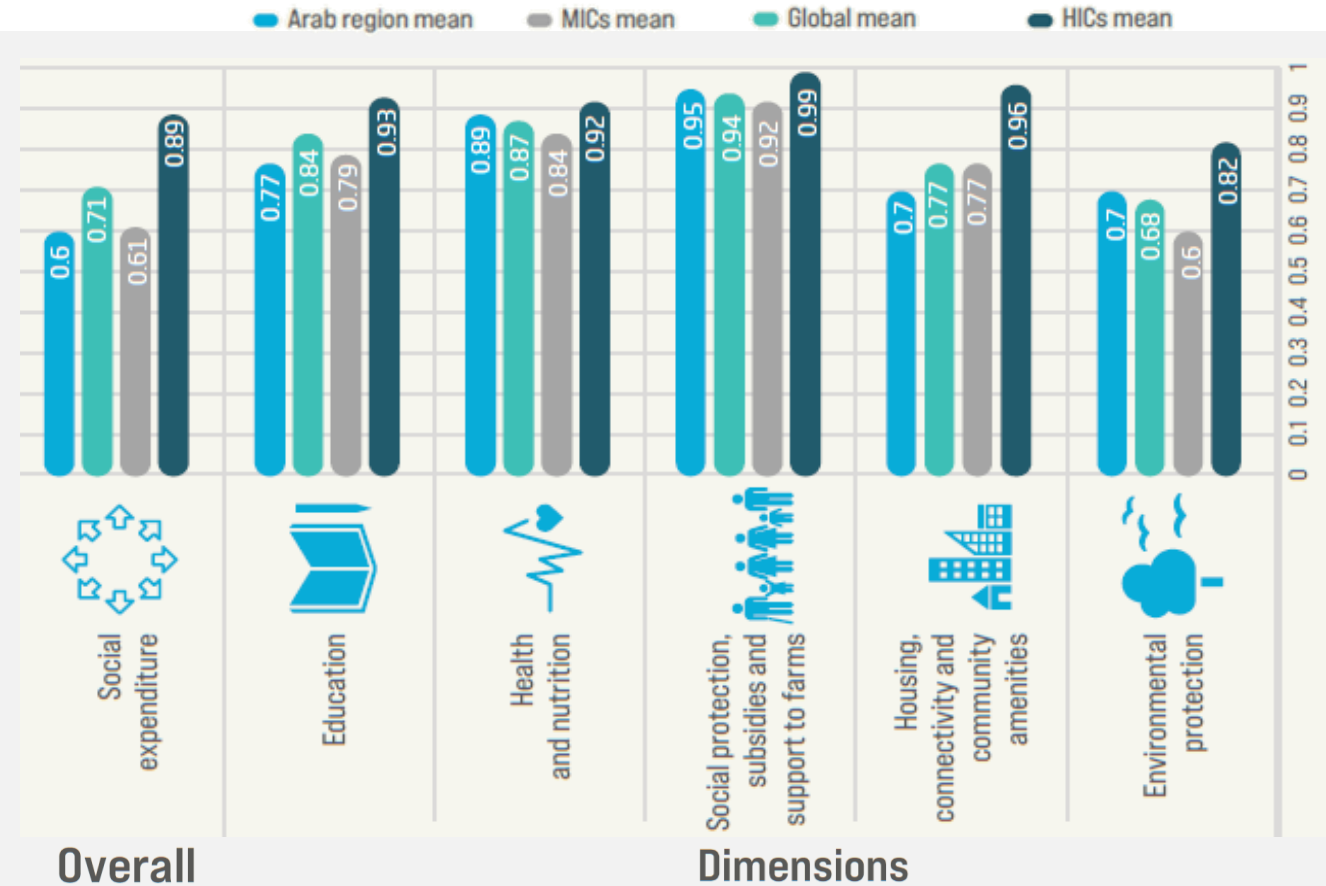
80% in social expenditures

The economic composition of public expenditure in the Arab region, 2019



9. Spending in the Arab Region remained less efficient than the Global average; significantly falls behind top performing high-income countries

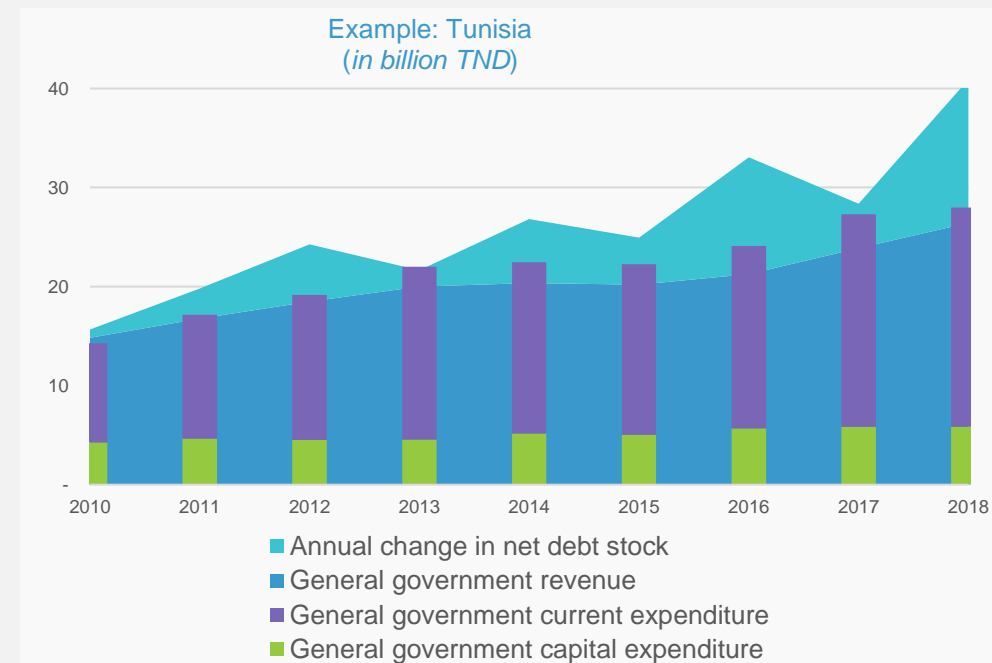
- Social spending efficiency of Arab states, on average, is 0.60, against global average of 0.71; high-income countries' average of 0.89.



Source: ESCWA, UNDP and UNICEF [Social Expenditure Monitor for Arab States](#)

10. The accumulation of debt is associated with inefficiencies in expenditures, since a good proportion of debt in the Arab region were allocated to finance the high current expenditure bills

- Large share of increasing current expenditure is effectively financed from debt financing, while revenues fall short of meeting expenditures, Example Tunisia
- These trends indicate to gross inefficiencies in the usage of debt. It not only increased debt service burden at present, but also burden the future generation.

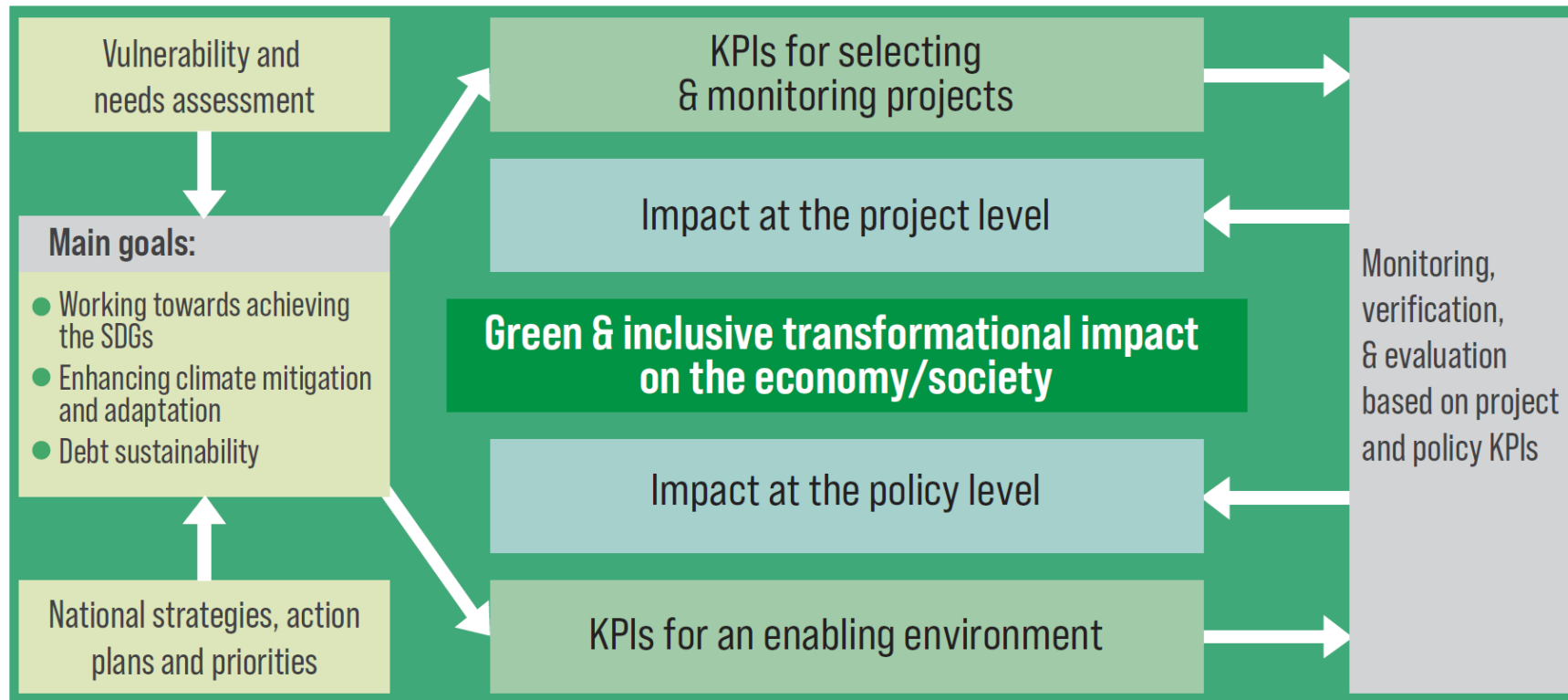


11. ESCWA Initiatives -- to Inform Policy Choices Addressing the Challenges in the Areas of Debt and Fiscal Policy Reforms

- Improve efficiency in public expenditures and steer resources toward addressing shortfalls in critical areas of social policy [Social Expenditure Monitor ([Link](#))];
- Develop credible fiscal frameworks over the medium term for revenues and expenditures. Ex. Improve tax progressivity, address tax inefficiencies, curb tax leakages, enhance social expenditure and fiscal sustainability ([Link](#));
- Optimize borrowing strategy to enhance fiscal space to finance SDGs [Developing debt optimization strategies ([link](#))]
- Operationalize innovative financing instruments, such as Climate/SDGs Debt Swap – Donor Nexus Initiative ([Link](#)).
- SDRs – IMF member states should consider the adoption of additional mechanisms, including at regional level, to rechannel unused SDRs from advanced to developing countries on the basis of their need, going beyond the existing quota system which favours high-income countries above others. ([Link](#))
- Developed countries to fulfil ODA commitments/climate finance pledges/improve concessional lending ([Link](#))

ESCWA Climate/SDGs Debt Swap – Donor Nexus Initiative

A Key Performance Indicators (KPI) Framework to Select and Monitor Climate/SDGs Debt Swap Programme



Three overarching criteria for selecting Climate/SDGs Debt Swap Programme

1. Accelerates **climate mitigation and/or adaptation actions**
2. **Targets vulnerable populations and locations** – supports the achievement of selected SDGs;
3. Scales up long-term finance: **improves debt sustainability.**

Source: ESCWA 2022. [“A regional framework for a debt swap mechanism and key performance indicators for climate action/SDGs progress in the Arab region”](#).

Social Expenditure Monitor (SEM)

#Access SEM Dashboard:

<https://sem.unescwa.org/>

#Access ESCWA (2019) methodology paper on [SEM](#): A Tool to Support Budgeting and Fiscal Policy Reform

#Access ESCWA and IMF METAC paper on Role of budgeting and SEM for Jordan (2022) ([Link](#))

Access the Report by ESCWA, UNDP and UNICEF (2022) [Social Expenditure Monitor for Arab States](#)

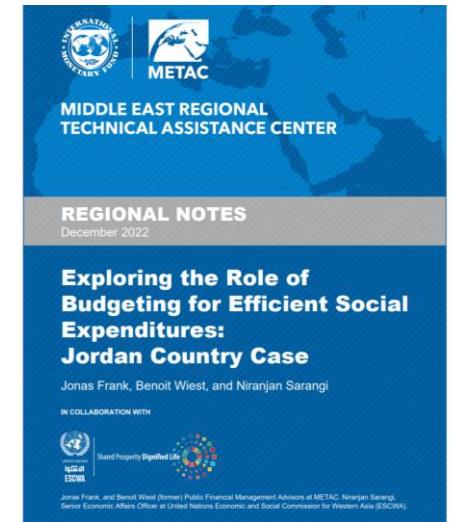


Social expenditure monitor for Arab States
A tool to support budgeting and fiscal policy reform



Social Expenditure Monitor for Arab States

Toward making budgets more equitable, efficient and effective to achieve the SDGs





Shared Prosperity **Dignified Life**



Thank you!

Comments: sarangi@un.org