Economic and Social Commission for Western Asia

Developing Debt Optimization Strategies to Enhance Fiscal Space in Arab States

Regional Inception Workshop

**Organised by UN ESCWA in collaboration with UNCTAD
Beirut, 27-28 July 2022**

UNITED NATIONS
الاسكوا
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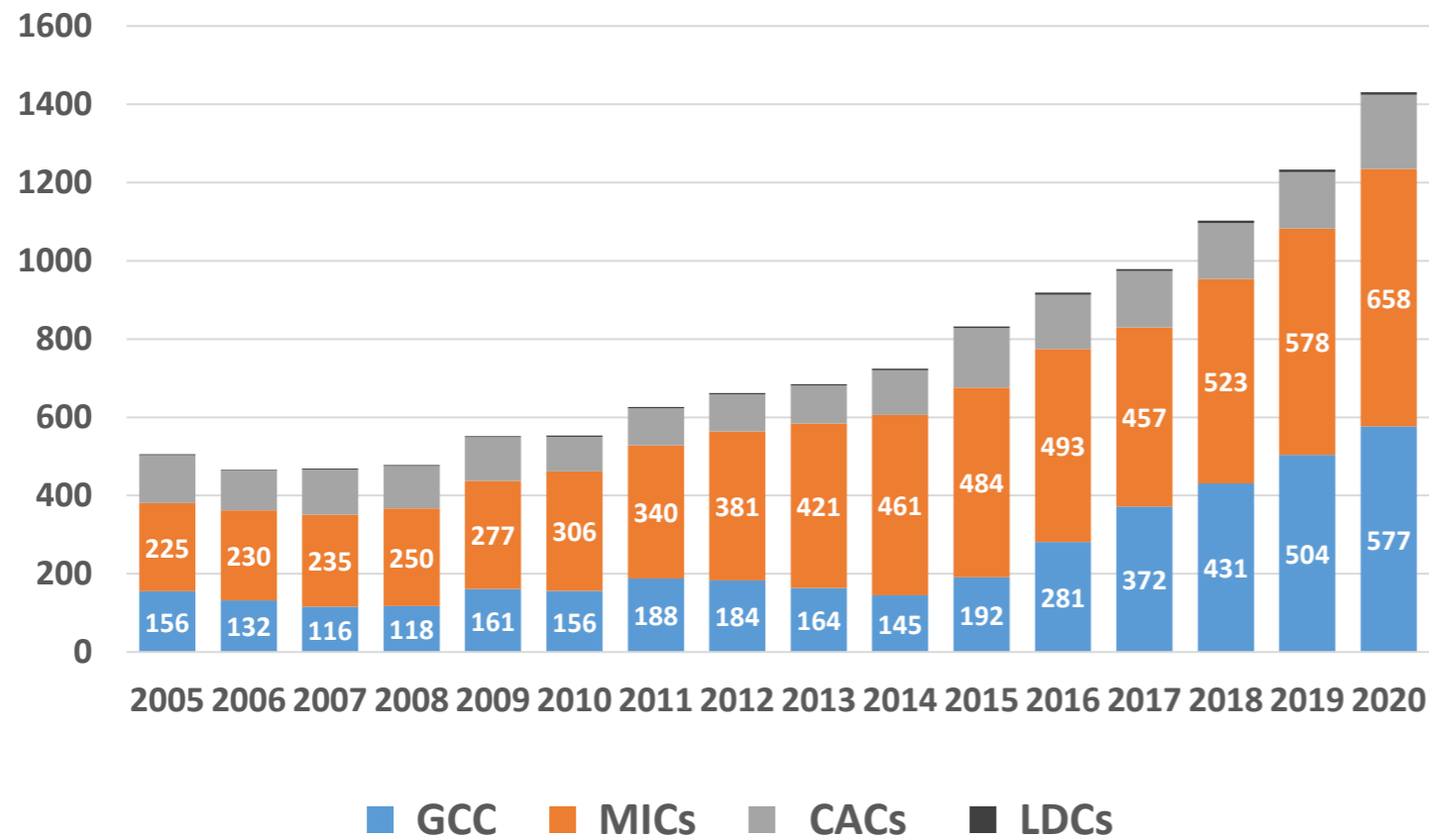
Shared Prosperity Dignified Life

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Project Coordinator

Outline

I. **Context**

II. **ESCWA-UNCTAD Project on Developing Debt Optimization Strategies**

III. **Timeline: Project Outputs and Activities**

Arab region debt stocks over the past decade: a fast rising trend

General Government Gross debt (Billion USD)

Chart: General Government Gross debt (Billion USD), stacked bars showing GCC, MICs, CACs, LDCs from 2005 to 2020.

| Year	GCC	MICs
2005	156	225
2006	132	230
2007	116	235
2008	118	250
2009	161	277
2010	156	306
2011	188	340
2012	184	381
2013	164	421
2014	145	461
2015	192	484
2016	281	493
2017	372	457
2018	431	523
2019	504	578
2020	577	658

Legend: ■ GCC ■ MICs ■ CACs ■ LDCs

Debt stocks in the region have more than doubled since 2008; Reached $1.4 trillion in 2020, and increasing with the adverse impact of the COVID-19 and war in Ukraine.

GCC $576 billion
MICs $658 billion

GCC $117 billion
MICs $250 billion
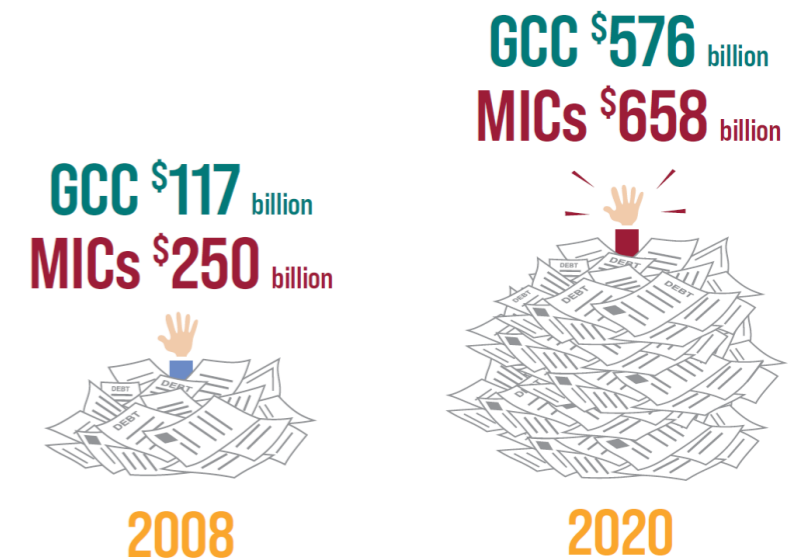
2008

2020

Sources: ESCWA 2021; ESCWA 2020.

Gross Public Debt (as a percentage of GDP)
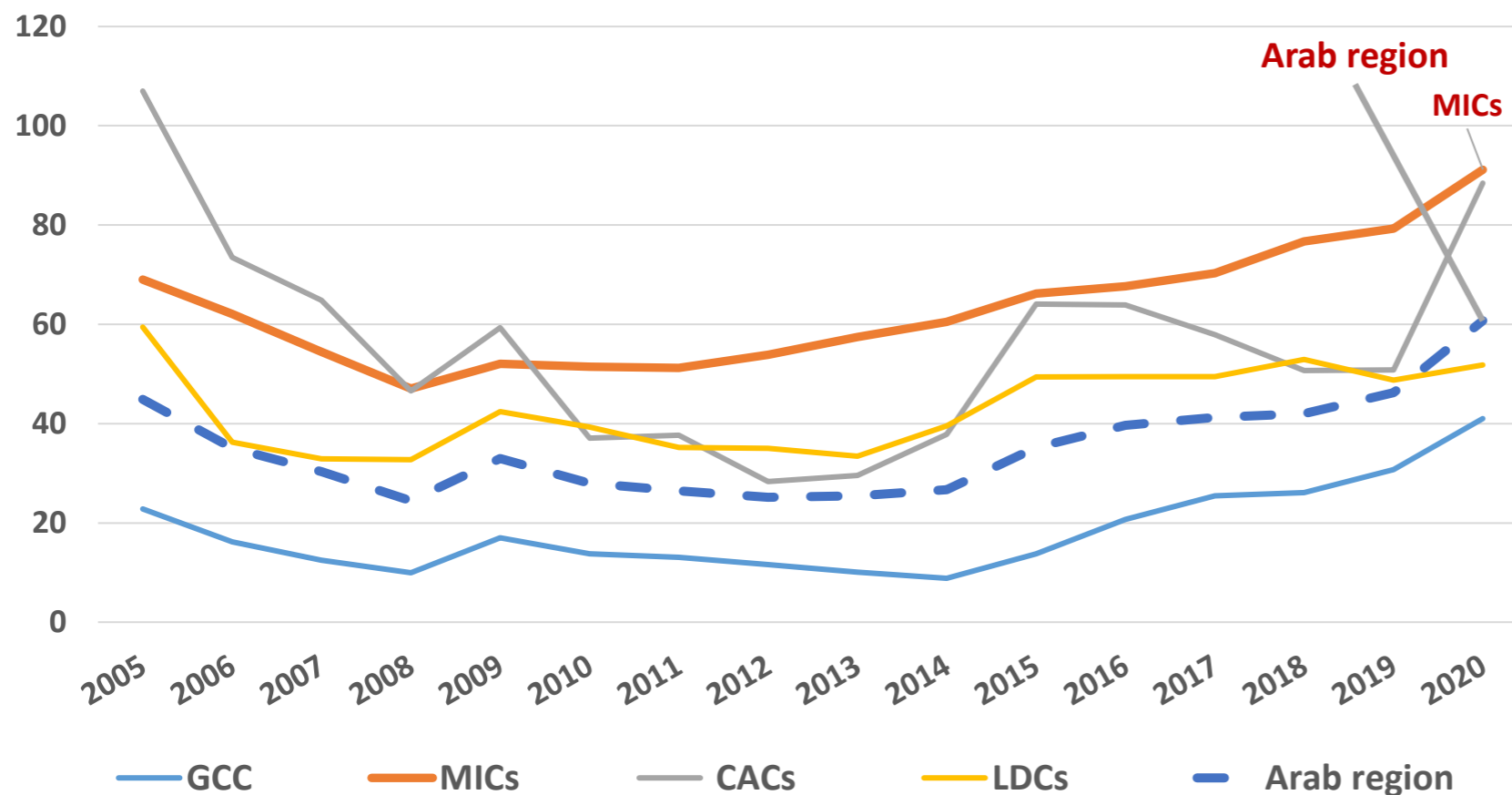
Arab region public debt:
60% of GDP in 2020,
up from 25% in 2008
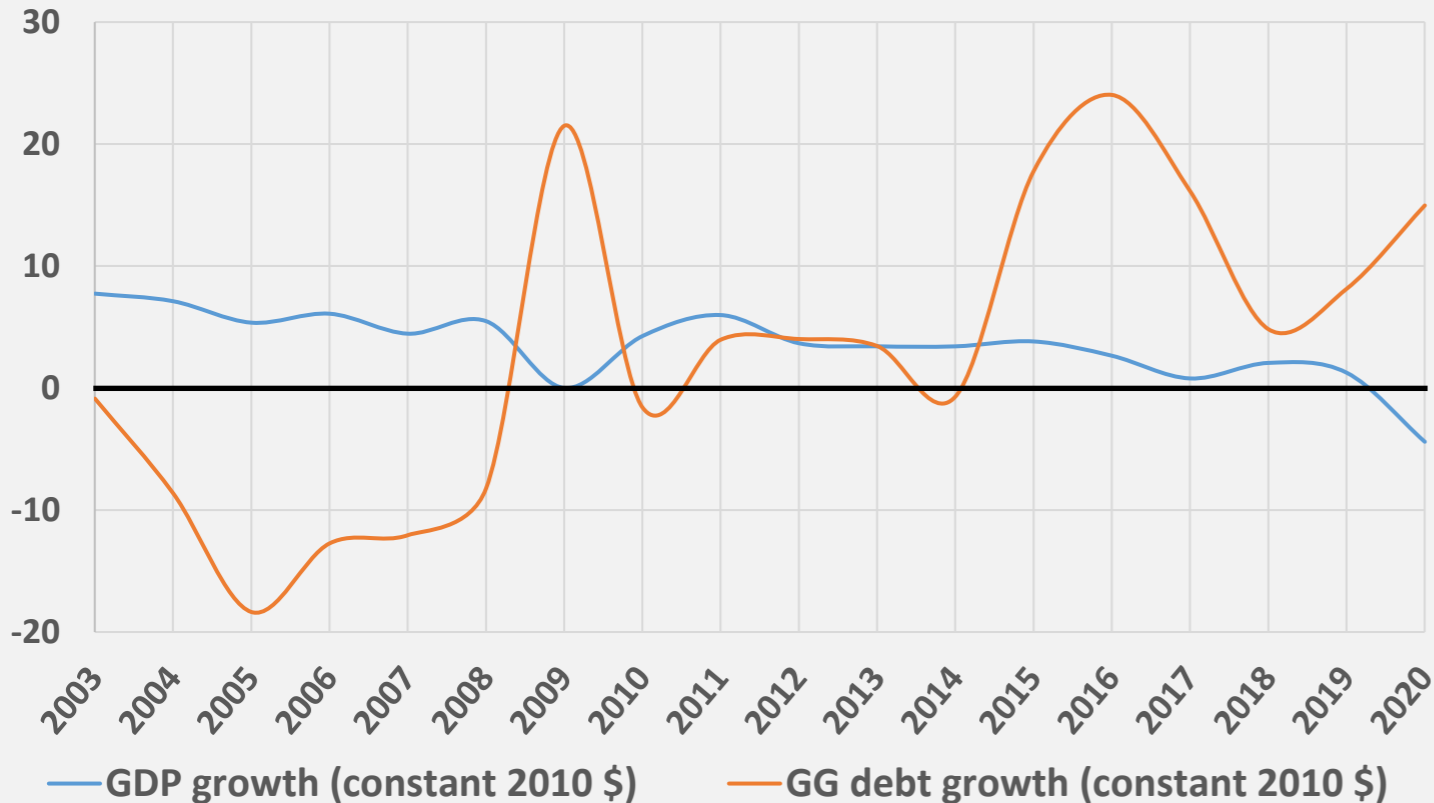
GCC : **41% (2020)**
10% (2008)

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

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

Sources: ESCWA 2021; ESCWA 2020.

Growth of Public Debt in the Arab Region

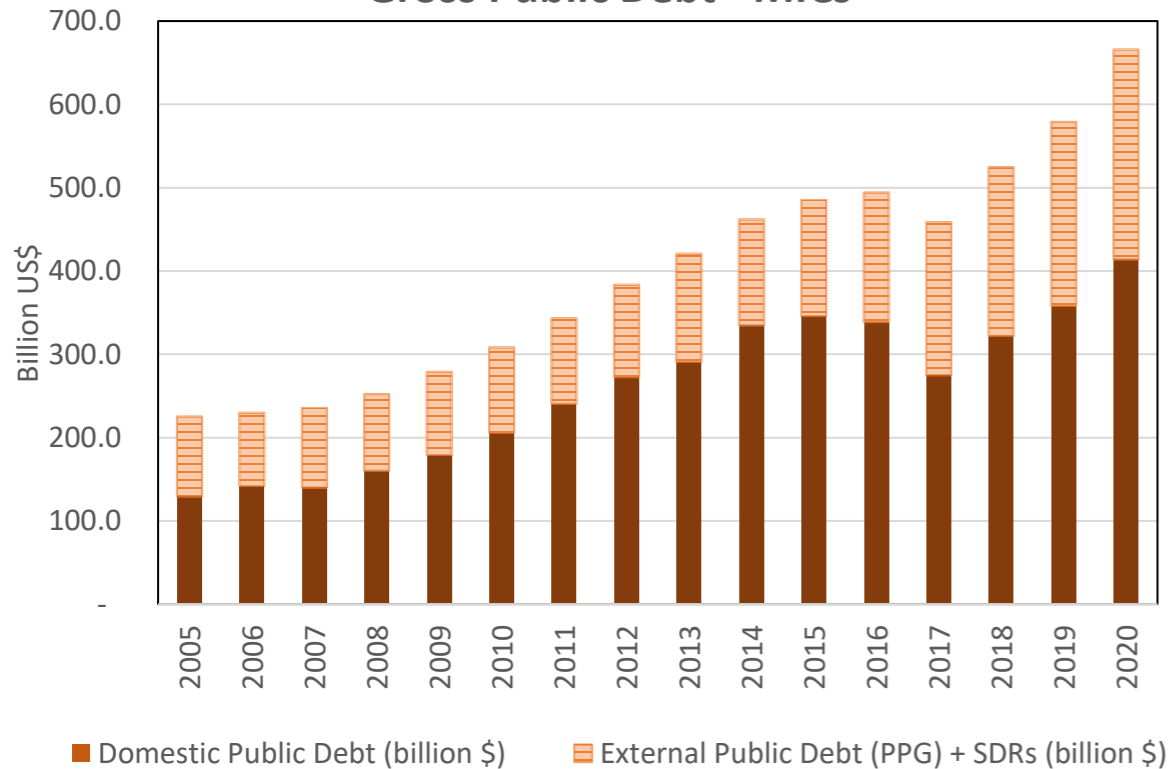**GDP Growth vs. Growth of Public Debt in the Arab Region** (year on year percentage changes)

— GDP growth (constant 2010 $)   — GG debt growth (constant 2010 $)

Risk of debt unsustainability in the region increased

Growth fell below zero

Debt increased

Sources: ESCWA 2021; ESCWA 2020.

Gross public debt: Domestic vs. external borrowings

Gross Public Debt - MICs

Gross Public Debt – Selected LDCs

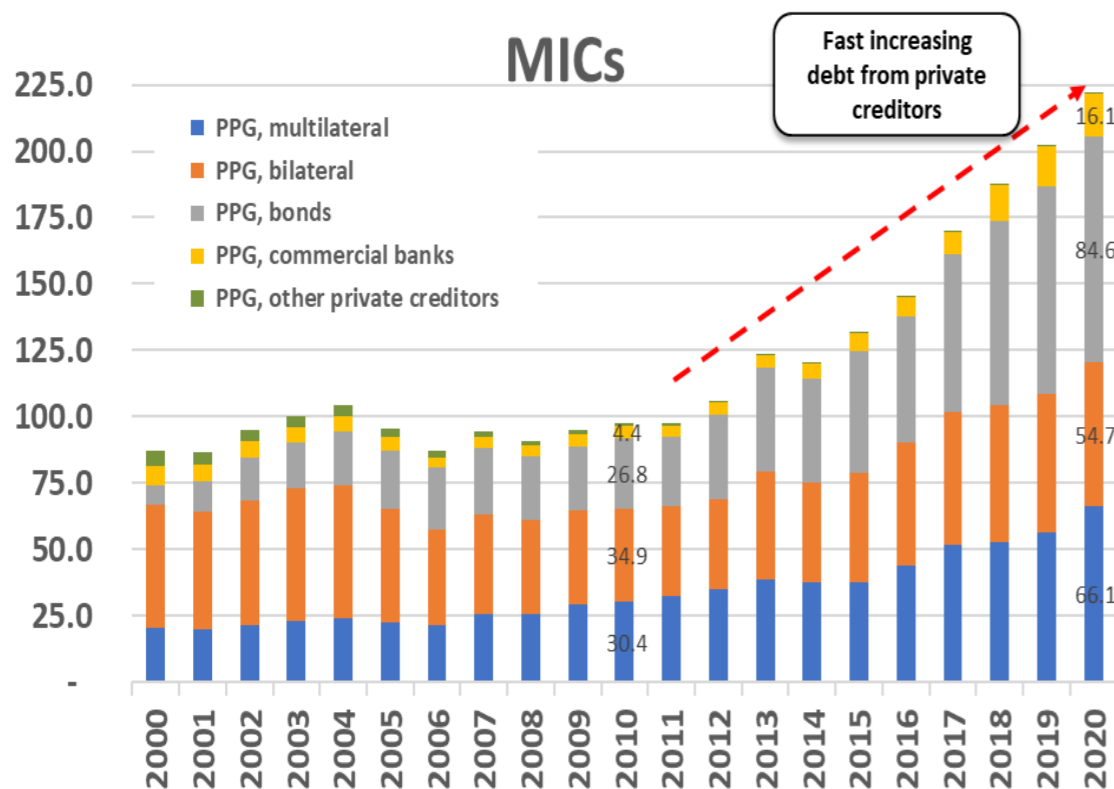■ Domestic Public Debt (billion $)   ▤ External Public Debt (PPG) + SDRs (billion $)
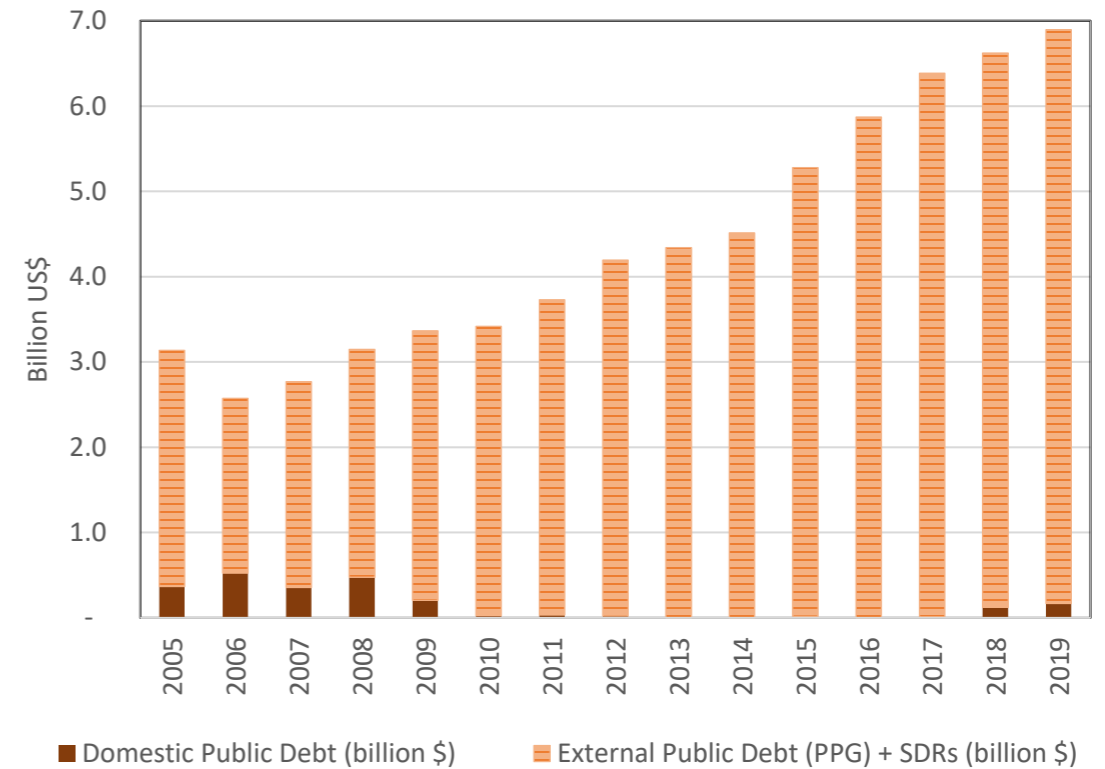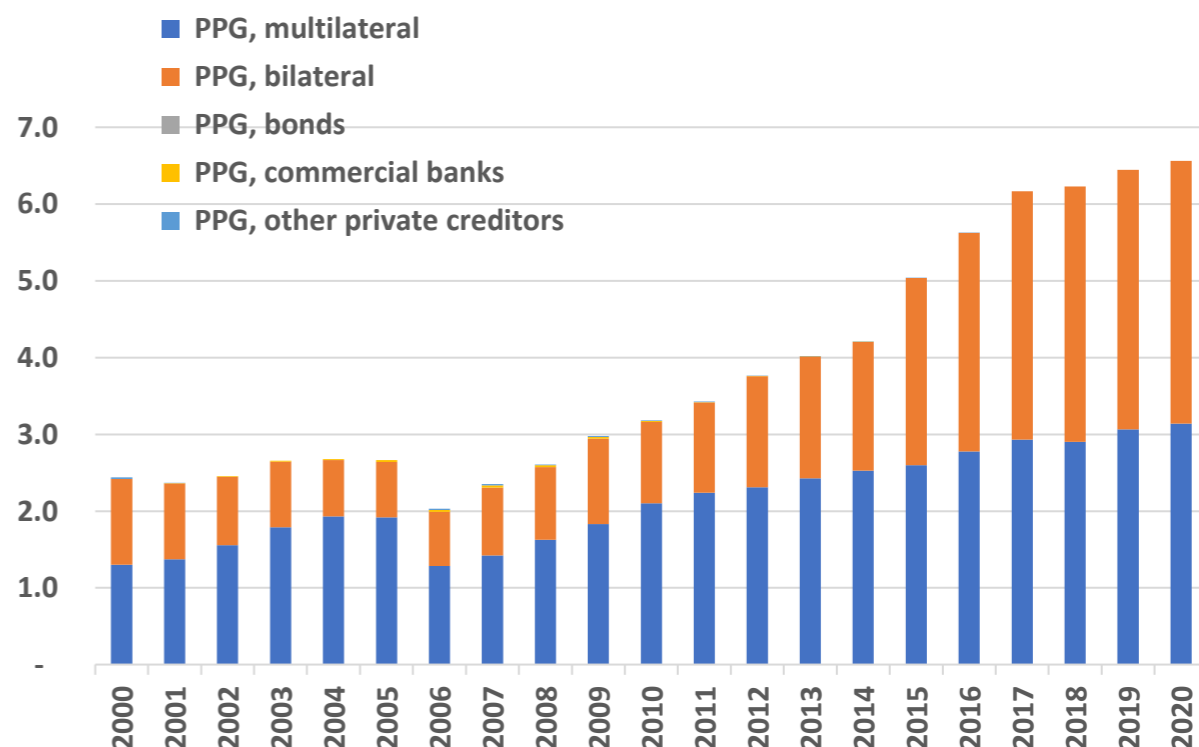
Sources: ESCWA 2021; ESCWA 2020.

Increasing external debt: Who holds?
The changing composition of external debt in MICs

External public debt by creditor type ($ billion)

External public debt by creditor type ($ billion) LDCs

Declining concessional debt share from official creditors
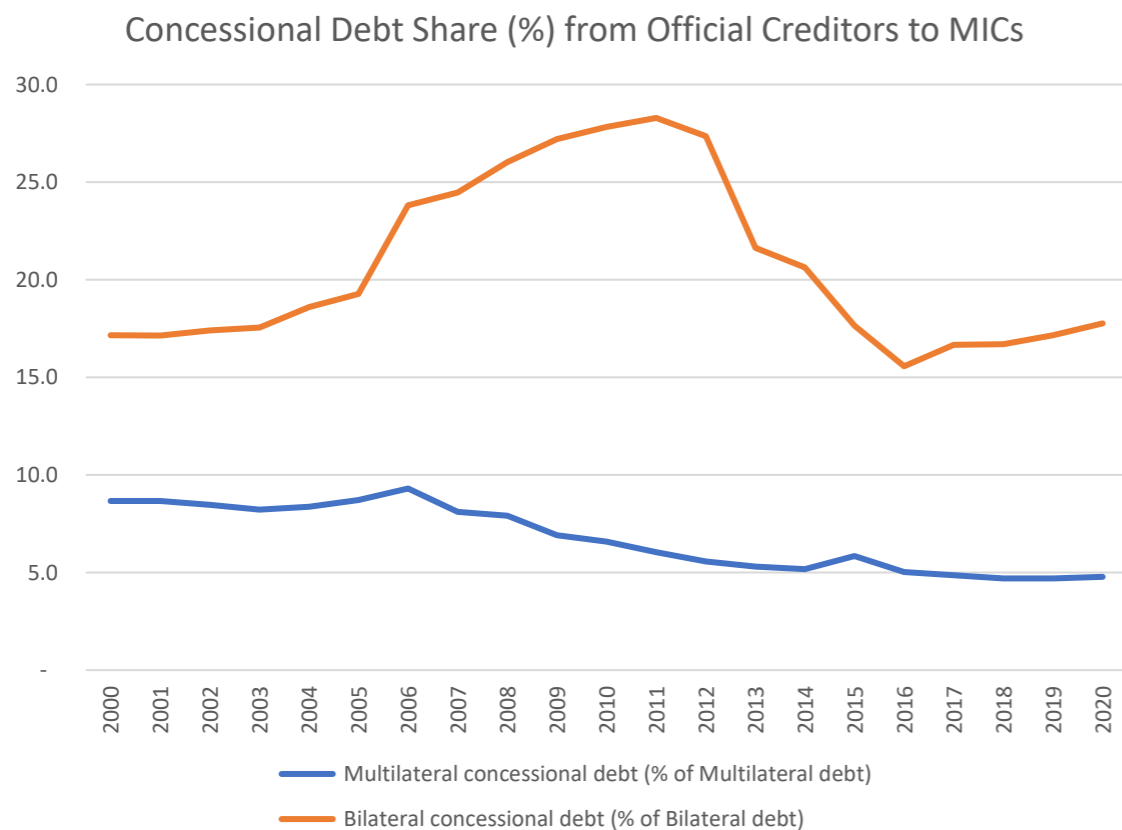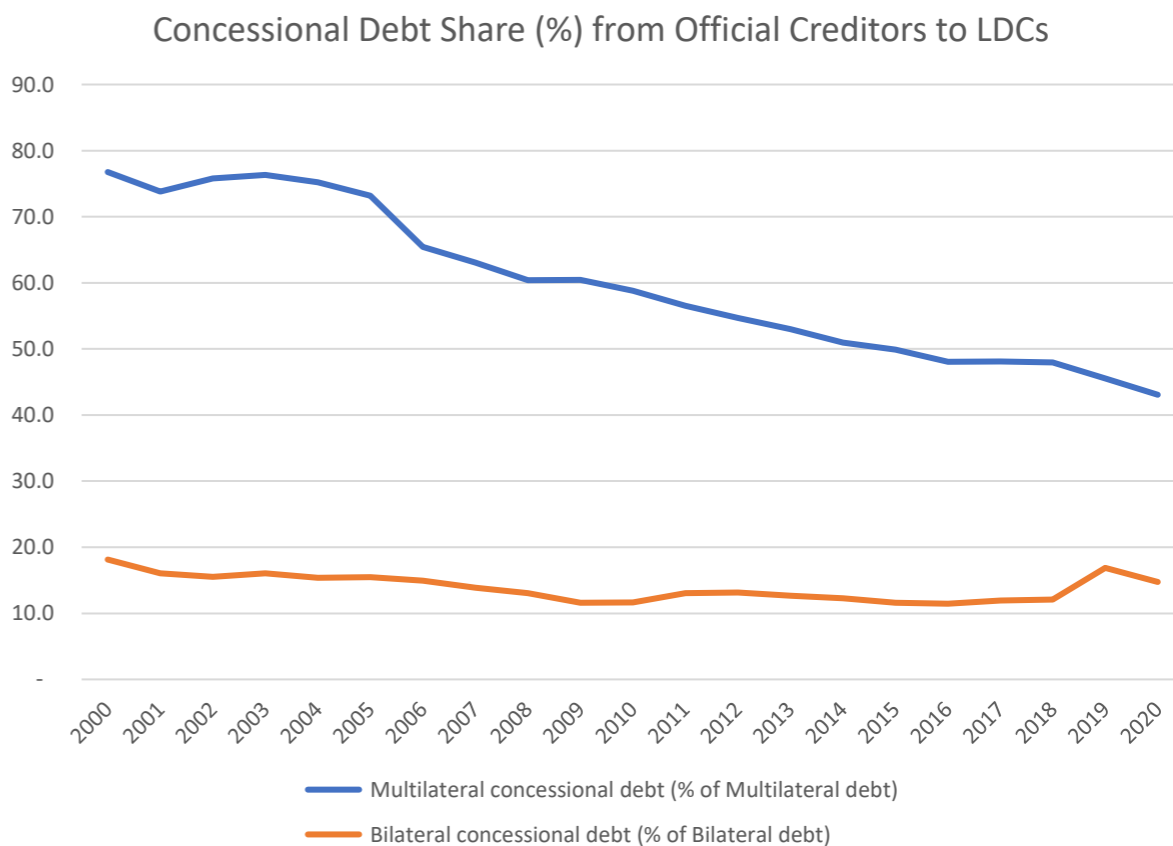
Increasing Debt Service vs. Revenues / Exports

External Public Debt Service Burden for MICs
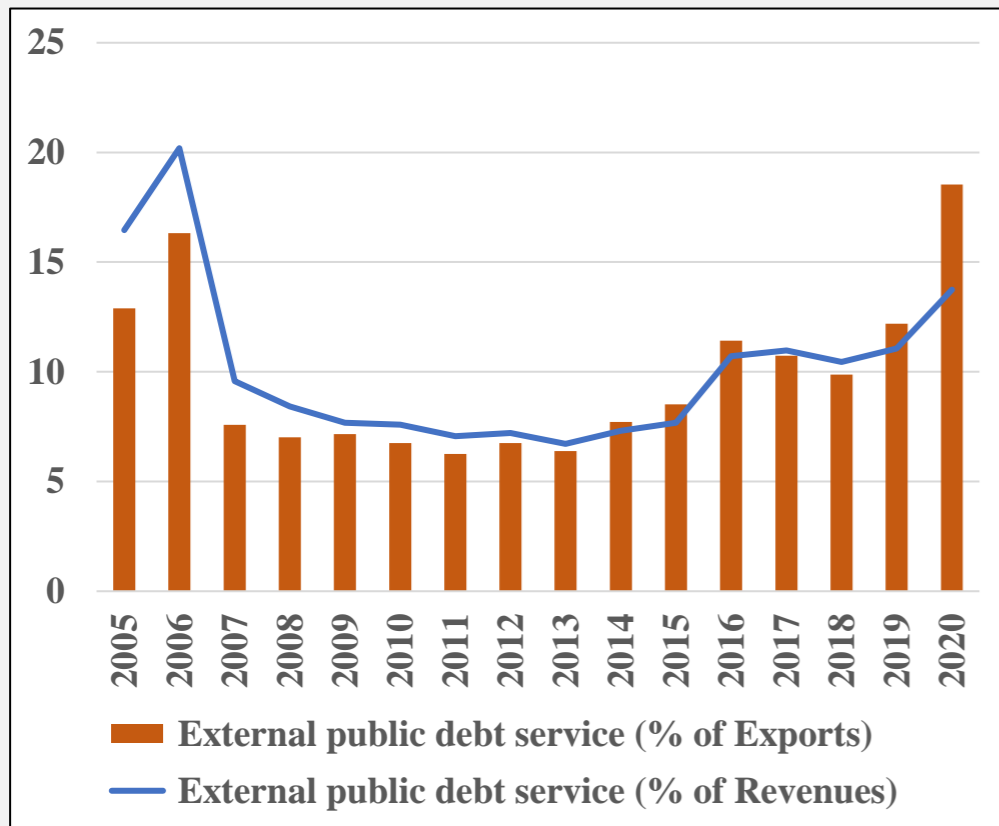
External Public Debt Service Burden for LDCs
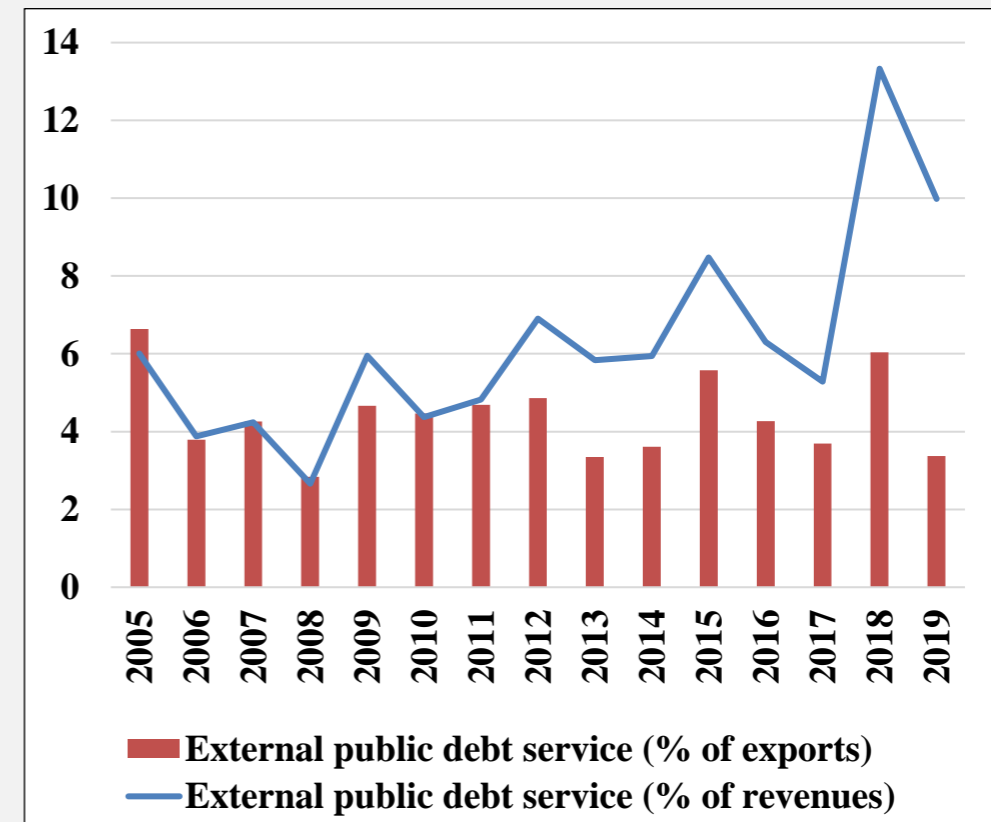
The increasing debt and debt service burden strains fiscal space, which could have otherwise been invested in health and education and essential services and other important social areas.

Sources: ESCWA 2021; ESCWA 2020.

Twin deficits: Persistent in MICs and LDCs

Primary balance (percentage of GDP)

Current account balance (percentage of GDP)
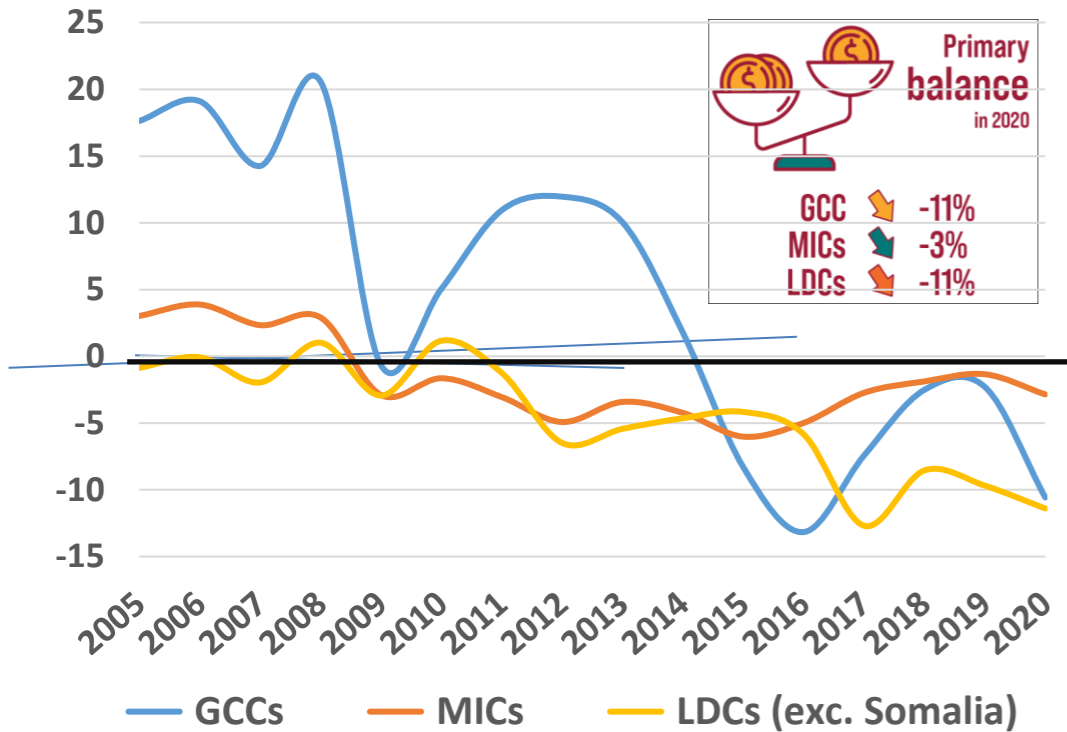
High and persistent primary deficits for MICs and LDCs in the Arab region are among the key drivers of debt accumulation.
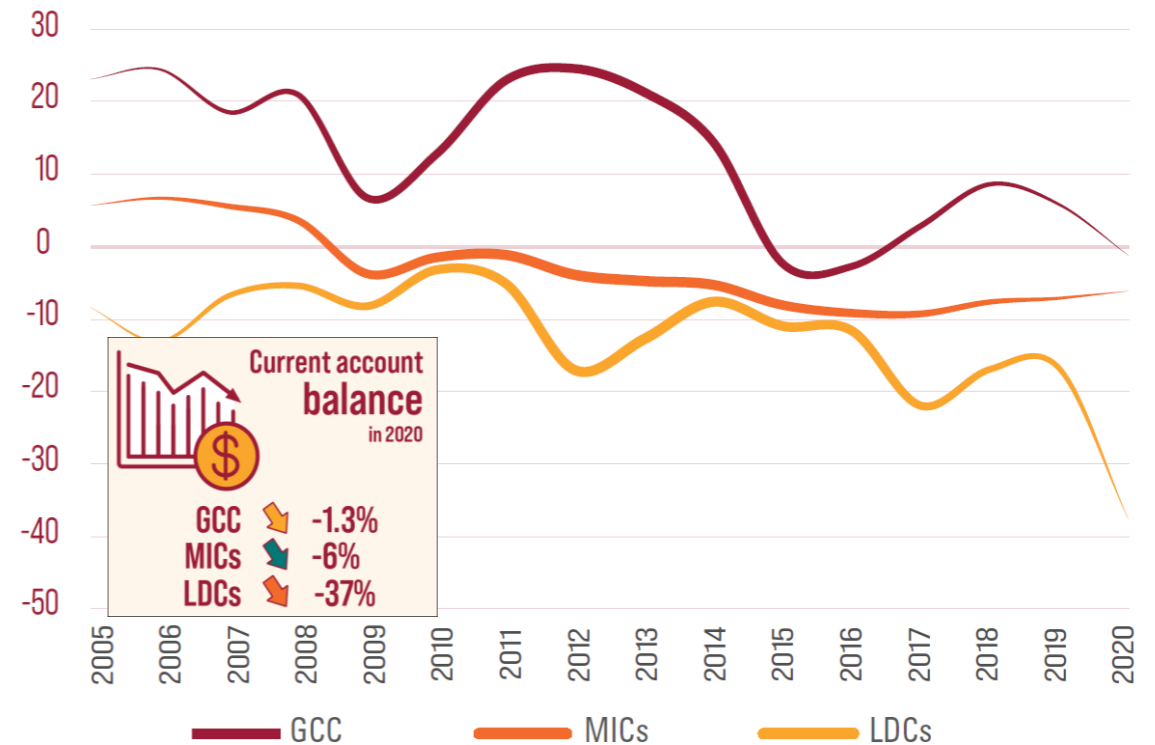
Persistent current account deficits in the MICs and LDCs add to the liquidity challenge in foreign currency and drive their external borrowing.

Sources: ESCWA 2021; ESCWA 2020.

Lack of effective fiscal and monetary response

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

Interest rate – Growth difference (percentage points, nominal)

Value	Year	Country
-4.3	2019	Tunisia
-6.7	2018	Tunisia
-1.9	2009-2017	Tunisia
0.2	2019	Morocco
-0.4	2018	Morocco
0.4	2009-2017	Morocco
1.2	2018	Lebanon
2.5	2017	Lebanon
-1.4	2008-2016	Lebanon
0.9	2019	Jordan
0.6	2018	Jordan
-2.3	2009-2017	Jordan
2.6	2020	Egypt
-7.6	2019	Egypt
-7	2010-2018	Egypt
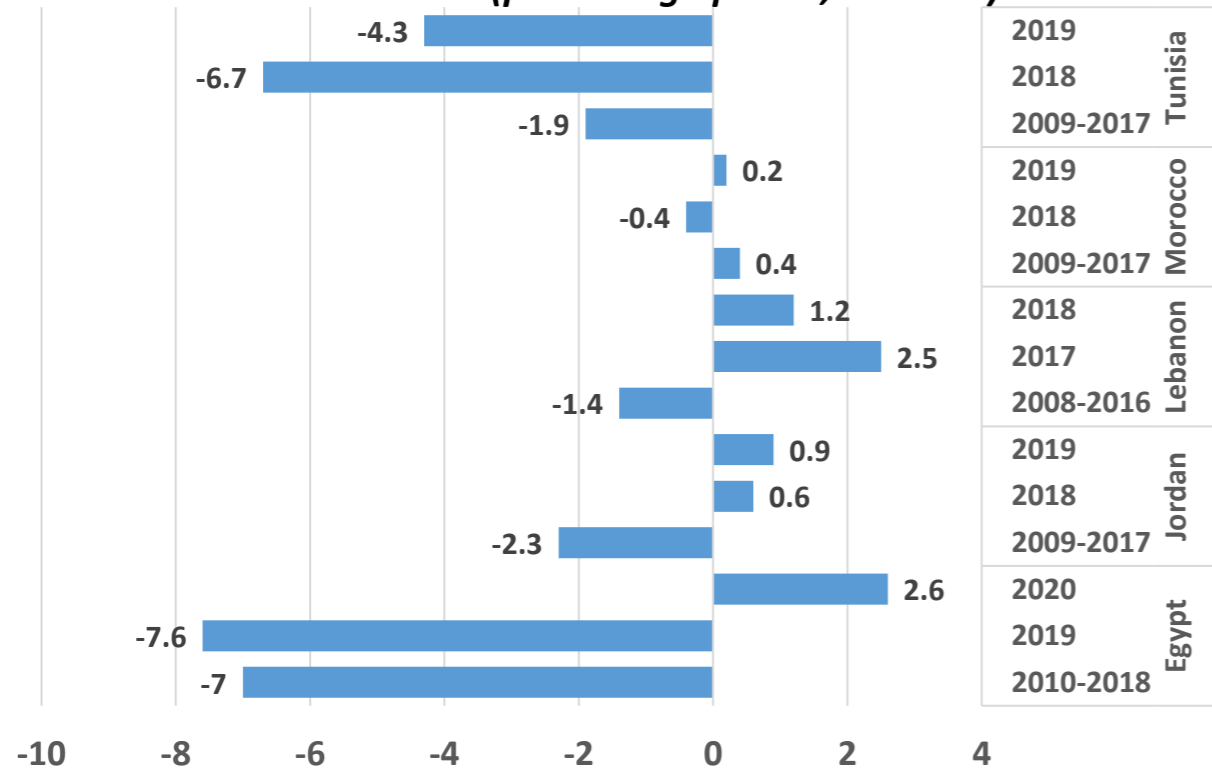
Fiscal policy response: Lax primary balance management is associated with increasing debt to GDP

Sources: ESCWA 2021; ESCWA 2020.
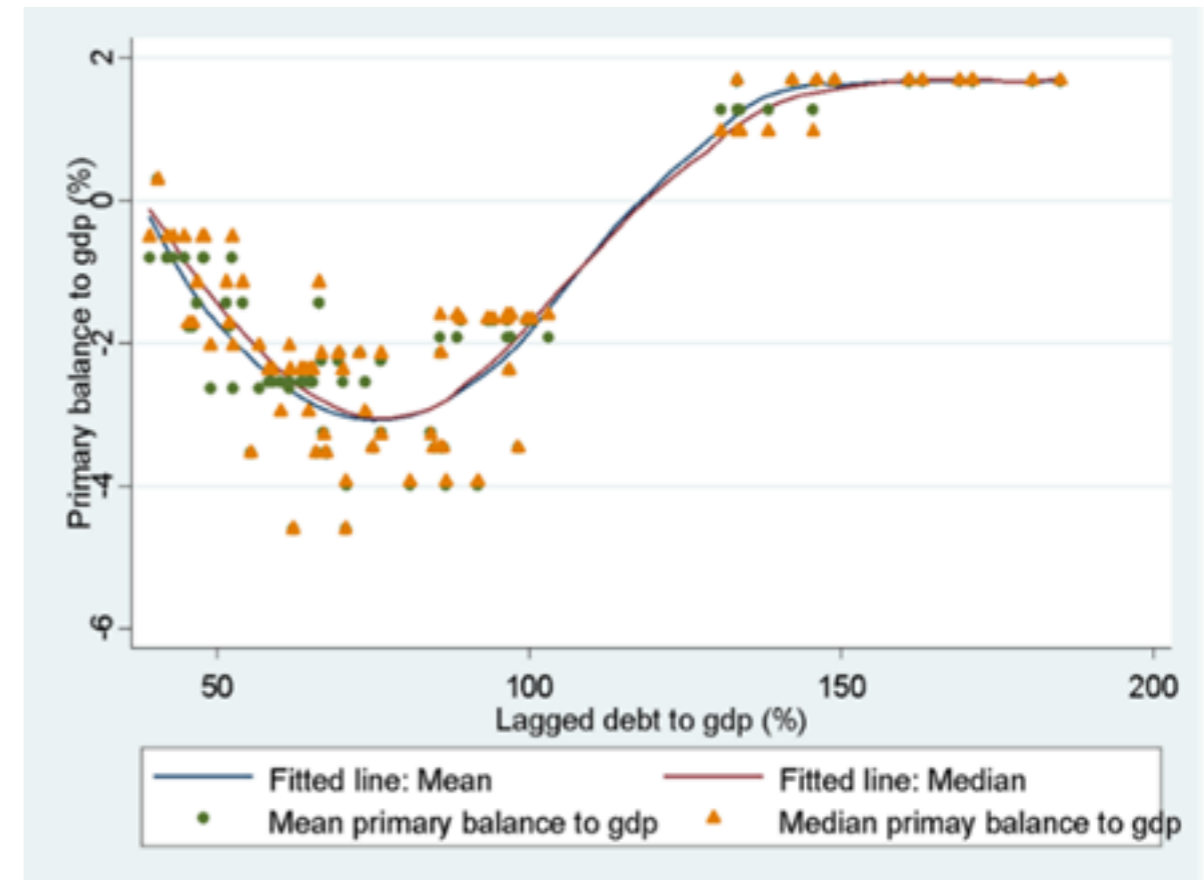
Impact of COVID-19: Loss of Economic Growth (percentage per annum), 2020-2023
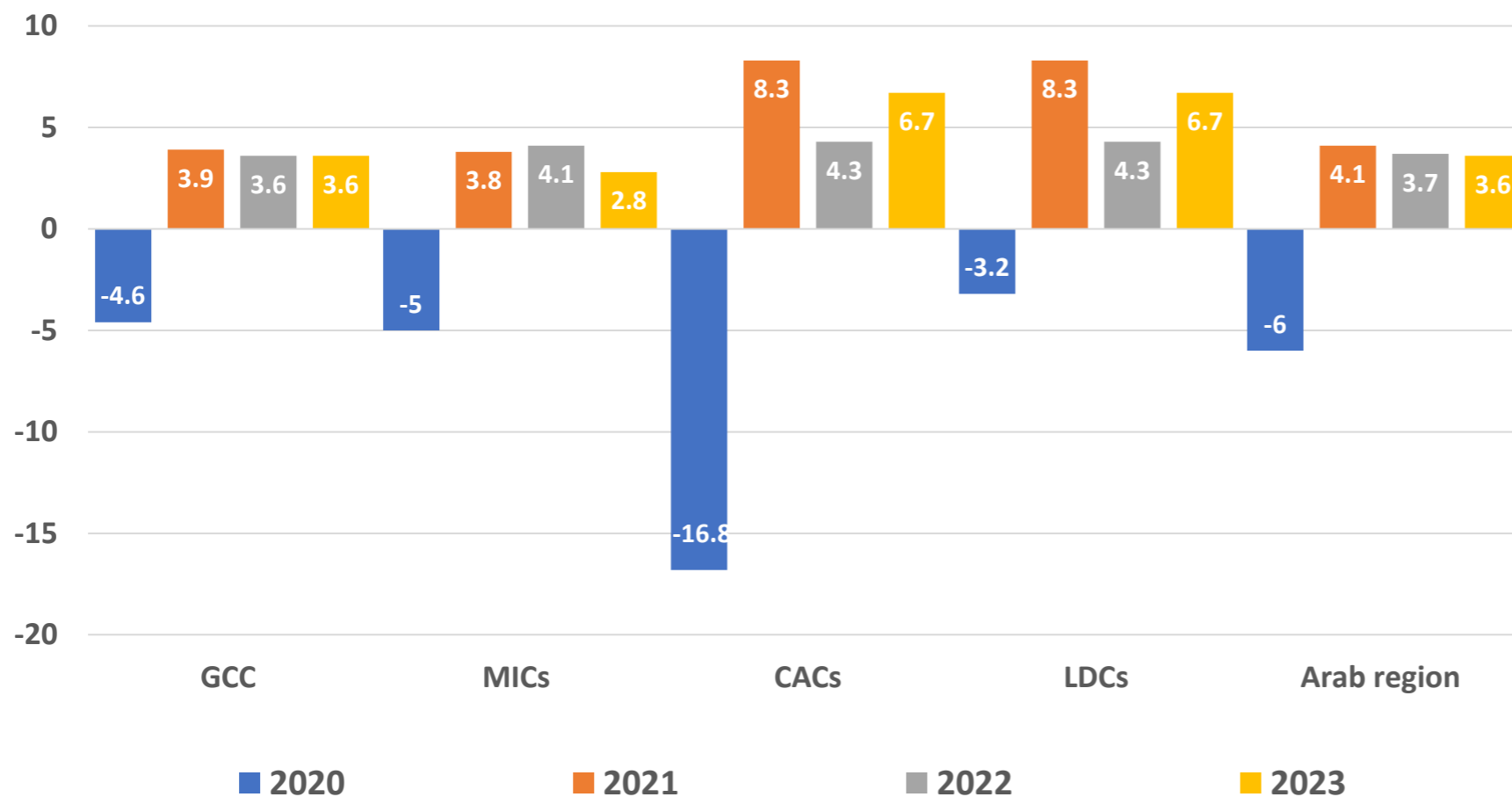
Estimates for 2020 indicate a severe contraction of economies in the Arab region of -6 percent as compared to the pre-COVID-19 projected rate of 2.5 percent

	GCC	MICs	CACs	LDCs	Arab region
2020	-4.6	-5	-16.8	-3.2	-6
2021	3.9	3.8	8.3	8.3	4.1
2022	3.6	4.1	4.3	4.3	3.7
2023	3.6	2.8	6.7	6.7	3.6

Liquidity shortage and debt: Obstacle to recovery
Impact Indicators Radar: Arab region vs the global fiscal stimulus

Arab Region Impact Indicators

Loss of working hours weekly (%)
25
20
15 — 10
10
5
0
Government Fiscal Support (% GDP, 2020)
4
Loss in per capita GDP (%), 2019-2020
8
Level of stringent measures (% of days in a week, SI>0.6), 2020
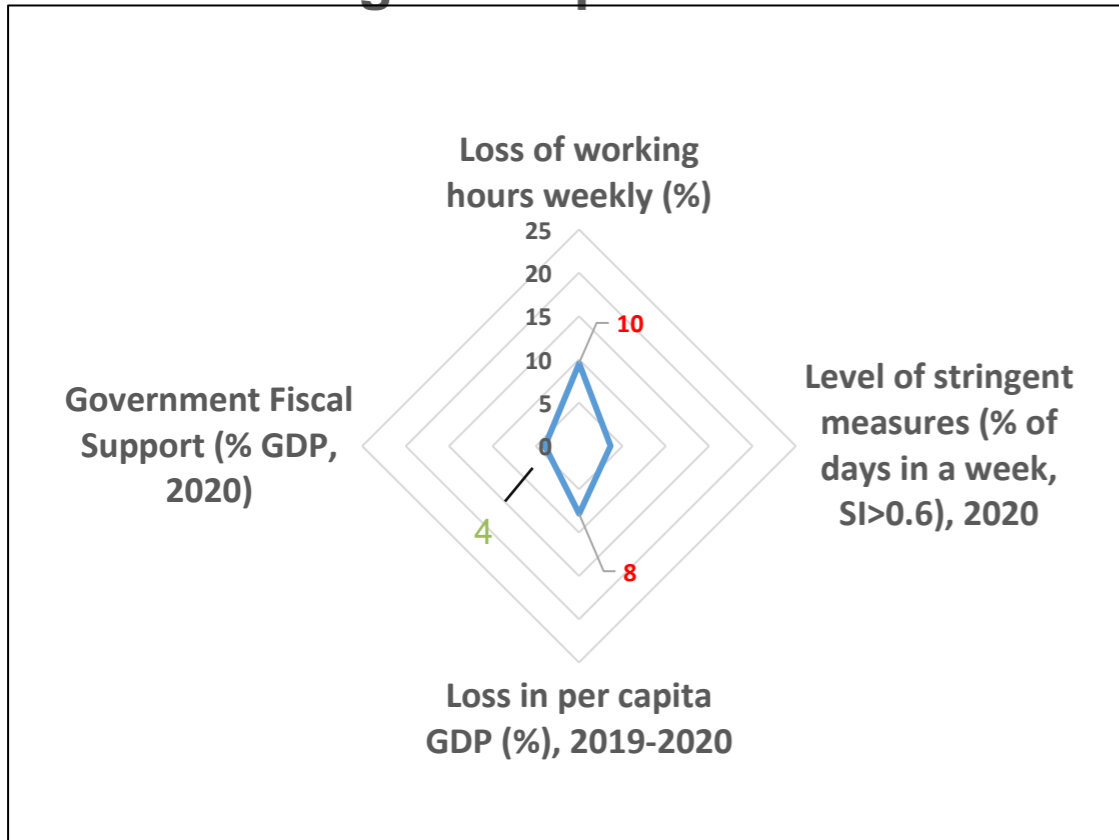
Global Impact Indicators

Loss of working hours weekly (%)
25
20
15 — 9
10
5
0
Government Fiscal Support (% GDP, 2020)
22
Loss in per capita GDP (%), 2019-2020
5
Level of stringent measures (% of days in a week, SI>0.6), 2020

https://tracker.unescwa.org/
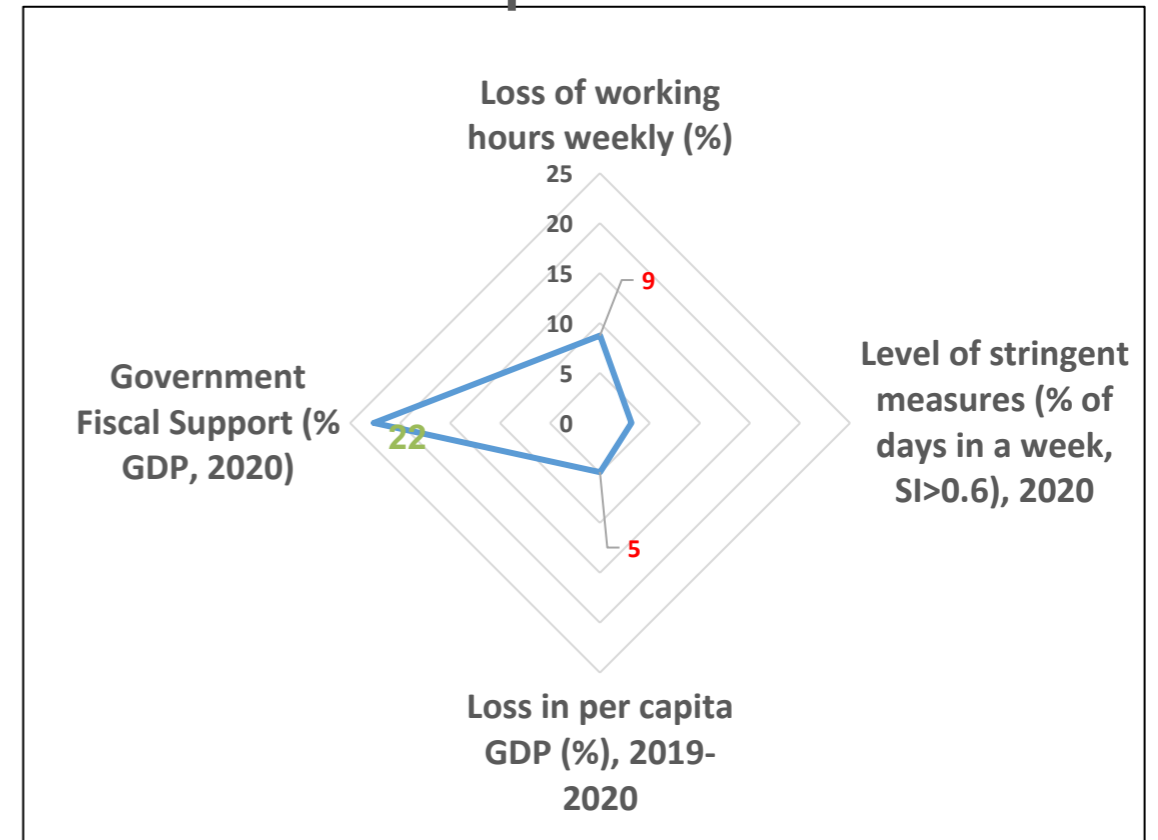
Higher loss of working hours and significantly higher loss of per capita GDP, with low fiscal support, in the Arab region as compared to global average

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)

Current and new SDR allocations based on existing quotas

Country	Value
Comoros	0.0
Djibouti	0.1
Mauritania	0.2
Somalia	0.2
Syrian Arab Republic	0.4
Jordan	0.5
Bahrain	0.5
Yemen	0.7
Tunisia	0.7
Oman	0.7
Sudan	0.8
Lebanon	0.8
Qatar	1.0
Morocco	1.2
Libya	2.1
Iraq	2.3
Algeria	2.7
Kuwait	2.7
Egypt	2.8
United Arab Emirates	3.2
Saudi Arabia	13.7

Arab countries receive
$37.3 billion
out of the $650 billion
worldwide

■ Current SDR holdings (billions of dollars)   ■ New SDR allocations based on exisiting quota (billions of dollars)

The region received about $37.3 billion SDRs.

Estimated financing requirement @global average fiscal stimulus: $462 billion.

Enhancing fiscal space for meeting expenditure needs for SDG achievement requires more borrowing, in addition to improving other means of fiscal space. However, without debt optimizing strategies, balancing borrowings versus development expenditures becomes unsustainable and affects sovereign risks adversely.

IMF DSA Framework

Risk of sovereign stress is high

Debt is unsustainable

Debt does not stabilize under baseline policies

Selected indicators of sovereign credit rating monitored by credit rating agencies (CRAs)

- Average real GDP growth (%)
- Nominal GDP ($ billion)
- GDP per capita (PPP, Intl$)
- GDP per capita (current USD)
- Consumer inflation
- General government fiscal balance/GDP
- Gross government debt/GDP

- General government debt/revenue (%)
- Foreign currency debt/general government debt (%)
- General government interest payments/revenue (%)
- General government interest payments/GDP (%)
- Current account balance
- Reserves ($Bn)
- Short term external debt (USD Bn)

Developing Debt Optimization Strategies to Enhance Fiscal Space in Arab States

ESCWA & UNCTAD

Expected Results

Expected Results

1. Improved capacity of policymakers to better understand **debt statistics and debt instruments and their association with sovereign risks**, which can inform their decisions to establish medium to long term strategies on debt finance toward improving fiscal space and financing for the SDGs (Regional).

2. Enhanced capacity of decision-makers in each project country to **formulate sustainable medium to long term debt optimization strategy** toward improving fiscal space and financing for the SDGs (National).

Key Channels

Regional workshops and **national workshops** (in project participating countries) through the next three years.

Establish a regional debt management support group, i.e., **Arab Debt Management Group (ADMG)** to enhance peer learning and exchange of best practices on debt optimization strategies.

Added Value of Project Outputs

Products/Outputs

Diagnostic report on debt management challenges in the Arab region

Debt data quality assurance methodology tool to improve debt data

Substantive assessment tool for risk analysis and modelling debt sustainability conditions in at least 2 pilot countries

"Lessons learned" report from the pilot countries with recommendations to assist other countries in the region

Value Addition

The planned products will provide member states with advanced assessments and technical analysis of debt at the regional and national levels, thus supporting an alternative formulation or policy options for developing debt optimization strategies toward enhancing fiscal space in Arab States.

Timeline: Project Outputs and Activities

ESCWA & UNCTAD

2023 & 2025
For two pilot countries, produce substantive assessment tool for risk analysis and modelling debt sustainability conditions

July 2022
Inception workshop of the project: Regional meeting

2023
Regional workshop - debt data quality; debt sustainability and risks

2024
Regional workshop - debt instruments, debt sustainability and risks

Establish a regional debt management support group (Arab Debt Management Group) that meets annually or in alternate year.

2022Q2	2022Q3	2022Q4	2023	2024	2025

2022 Q2-Q3
Diagnostic report on debt management challenges in the Arab region
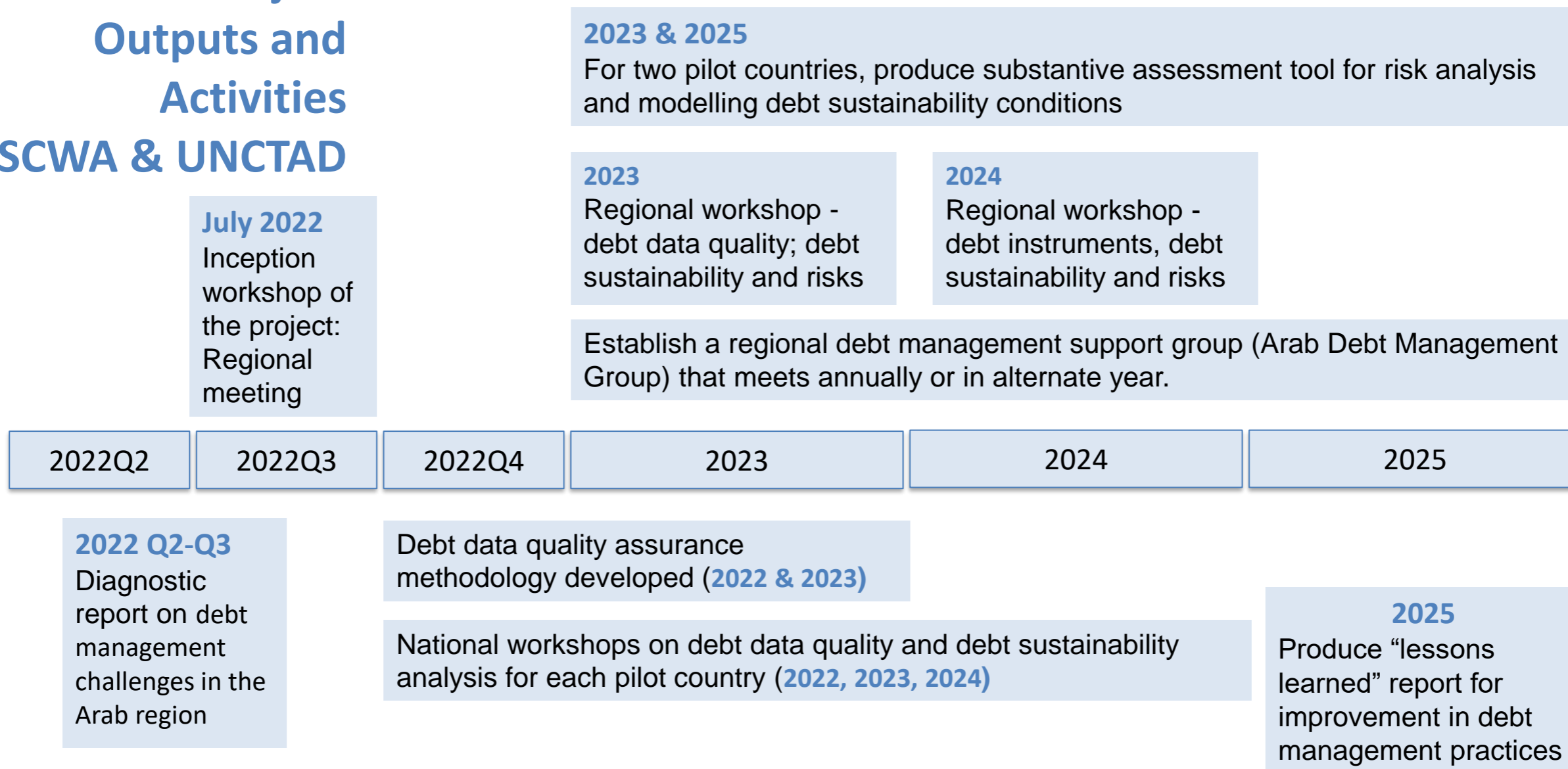
Debt data quality assurance methodology developed (**2022 & 2023**)

National workshops on debt data quality and debt sustainability analysis for each pilot country (**2022, 2023, 2024**)

2025
Produce "lessons learned" report for improvement in debt management practices

Thank You

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Added Value of Project Outputs

Workshops

Value Addition

Regional

Inception workshop

Regional workshops on improving debt data quality assurance; debt instruments and debt sustainability and risk analyses

Regional debt management support group, **Arab Debt Management Group (ADMG)**

Facilitate and improve knowledge on **developing and using tools, alternate policy options**, **a space for peer learning**, networking and advocacy for better debt management practices among member states across the region

National

National training workshops on debt data quality and debt sustainability analysis for each pilot country

National workshops will be tailored to provide **hands-on technical capacity training** to relevant government bodies on debt data quality, debt sustainability and risk analysis tools