NORTH AFRICA

Regional Debt Profile

2018

1. INTRODUCTION

The North Africa sub-region according to the United Nations Economic Commission for Africa (UNECA) has seven member states, namely: Algeria, Egypt, Libya, Mauritania, Morocco, Sudan and Tunisia. At a global level these countries, except for Mauritania, are classified under the Middle East and North Africa (MENA) region. The region is home to the Arab Maghreb Union (AMU) which was established in 1989 and comprise of five founding members, that is, Algeria, Libya, Mauritania, Morocco and Tunisia under the Treaty of Marrakesh. This Union aimed to promote cooperation and integration among the Arab states of North Africa through negotiating trade relationships and eventually achieving a unified customs regime and a common market where there is free circulation of products and capital.

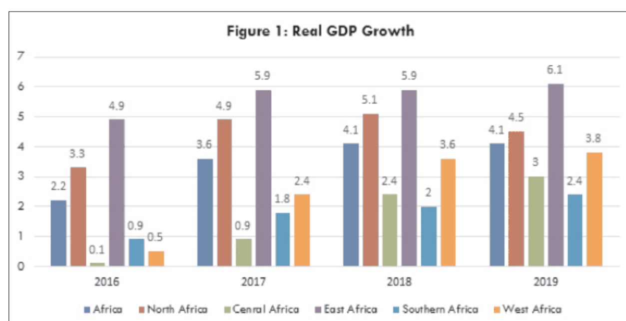
The North African economies thrive on a rich base of natural resources as the region is endowed with minerals, oil and gas. Most of the North Africa countries such as Libya and Algeria are known for large reserves of oil and gas at continental level and even contribute significantly at global level. This is a clear indication that the extractives sector has a big role to play in the economic performance of the region and also the commodity prices have got a bearing on the development financing strategy in the region.

2. REGIONAL ECONOMIC OUTLOOK

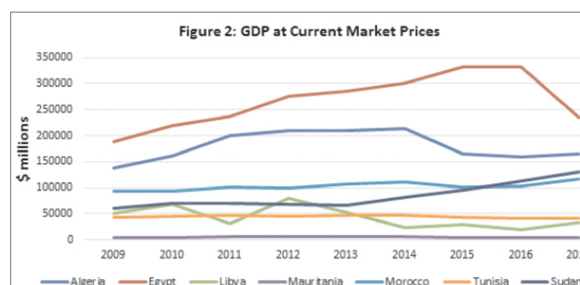
The North African Sub Region besides being diversely endowed with oil and minerals is the transit centre to southern Europe which justifies it being part of the MENA. The economic development of the region has been largely affected by a series of anti-government protests, uprisings and armed conflicts known as

the Arab Spring, which began in 2010. This was highlighted by sharp declines in Gross Domestic Product and rising unemployment in countries such as Egypt, Libya, Mauritania and Tunisia. In addition to this, the economic performance of the region has been greatly impacted by price shocks with GDP averaging 2.1% between 2011 and 2015. However, North Africa according to the African Development Bank Outlook 2018 has been the second best performing region after East Africa with a real GDP growth rate of 3.3% and 4.9% in 2016 and 2017 respectively, estimated to be 5.1% in 2018 and projected to slow down to 4.5% in 2019. This is illustrated in Figure 1 below. Inflation has accelerated reflecting an increase in international prices.

Figure 1: Africa Real GDP Growth by region 2016– 2019



The developments in the region are attributed to the recovery in oil production by Libya as its GDP in 2017 increased by 55.1% though the output still remain 30% below the prior 2011 production levels. Egypt continued to record stable growth, of 4.1% in 2017, down slightly from 4.3% in 2016. The projected increase in growth is a result of return of foreign direct investment (FDI) and net exports which increased after the liberalisation of the exchange rate. Algeria sustained the effects of fall in oil prices on the economy through widening fiscal and monetary space as the government reduced its expenditure from 42% of GDP in 2016 to 36% of GDP in 2017. This is all shown in Figure 2 below:



Compilation based on African Development Bank data 2018

3. PUBLIC DEBT TRENDS IN THE NORTH AFRICA

The North African region saw external debt stocks rise 16.3% in 2017, as the 23.7% increase in debt stock of Egypt was offset by 4% increase in Algeria. As shown in Table 1 and Figure 3 below, the total public and publicly guaranteed (PPG) debt in the region has been on an increasing trend since 2014. The key drivers of public debt in the region includes amongst others, fluctuating commodity prices, lack of infrastructure developments, increasing fiscal deficits and negative output gap. Egypt continues to be the highest contributor to the increasing regional external debt stock whilst Algeria continues to be the least in terms of external borrowing in the North African region.

Table 1: External Debt Stock in the North African Region (public and publicly guaranteed), 2009-2017 in US$ Millions

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Algeria	3068	2669	2266	1647	1452	1125	870	1653	1714
Egypt	31316	32156	30724	31945	42261	37033	40893	51683	63950
Mauritania	1984	2301	2485	2901	3102	3131	3254	3563	3834
Morocco	19223	21059	22392	25106	28280	29817	29728	30175	33314
Sudan	13707	14444	15093	15697	16402	15922	15772	15553	15878
Tunisia	14852	14671	14931	16569	16879	16475	17839	18137	21780
TOTALS	**84150**	**87300**	**87890**	**93865**	**108376**	**103503**	**108357**	**120764**	**140470**

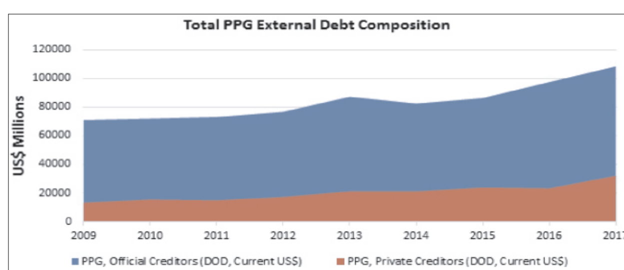
**Libya debt statistics not available. Compilation based on World Bank data 2018*

Figure 3: External Debt Stock in the North African Region (public and publicly guaranteed), 2009-2017 in US$ Millions

Compilation based on World Bank data 2018

External regional debt stock has been steadily increasing since 2009. PPG external debt increased by 67% from 2009 to 2017. Most North African countries has experienced increasing budget deficits and were left with infrastructure development lags following the Arab Spring which began in 2010. Therefore, the rise in external debt in North Africa has mainly been due to increased need to support large budget deficits and financing of infrastructural projects.

Figure 4: External Debt Stock composition in the North African Region (public and publicly guaranteed), 2009-2017 in US$ Millions



Compilation based on World Bank data 2018

Figure 4 above shows that on average about 81% of the PPG external debt between 2009 and 2017 has been from official creditors. Countries in the region have been opting to seek larger financial assistance from the IMF and World Bank which carries lower risk than the private creditors.

Figure 5: Share of public and publicly guaranteed external debt, 2009-2017 in percentage

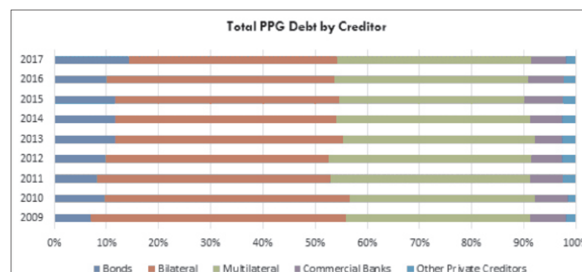


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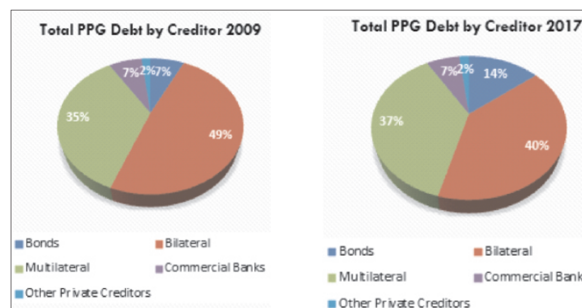
Figure 6: Total PPG Debt by Creditor 20089 and 2017



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The major changes highlighted in the North African region between 2009 and 2017 as shown in Figure 6 above in regards to creditor profile are that there has been a 100% increase in the share of bonds from 7% of the total PPG debt in 2009 to 14% of the total PPG debt in 2017. Though bilateral and multilateral debt are the major sources of total PPG debt in the region there has been a notable decline in bilateral creditors from 49% of total PPG debt in 2009 to 40% of total PPG debt in 2017. A few countries in the region which include Egypt, Morocco and Tunisia have been issuing bonds since 2007. The dominance of bilateral credit signifies the sub-region`s need for larger amounts of financing without policy conditionalities.

3.1 Selected individual country Debt analysis

In selecting countries for further debt analysis debt ratios which indicate potential debt related risks were used. Debt ratios are considered in conjunction with key economic and financial variables such as expected growth and interest rates, which determine their trend in medium-term

scenarios. For the purposes of this debt profile we shall consider 3 debt ratios, i.e. debt-to-exports, debt service-to-exports and debt-to-Gross National Income (GNI) ratio.

The debt-to-exports ratio is the ratio of total outstanding debt at the end of the year to the economy's exports of goods and services. Debt to exports has the advantage that exports provide the basis for debt repayments. Debt to exports is less volatile than other ratios hence allows a more meaningful inference of the trend. This ratio is adopted as a measure of sustainability because an increasing debt-to-exports ratio over time, for a given interest rate, implies that total debt is growing faster than the economy's basic source of external income, signalling that the country may have problems meeting its debt obligations in the future. A growing ratio when the level of debt is already high indicates a greater burden of servicing the debt and may suggest that a country is on an unsustainable path.

The external debt to GNI indicator measures the liabilities of the public sector for external debt of a country in relation to its total income (GNI). Although external borrowing is a method of supplementing savings and financing the investment gap in a country, an unsustainable debt burden will ultimately hinder development.

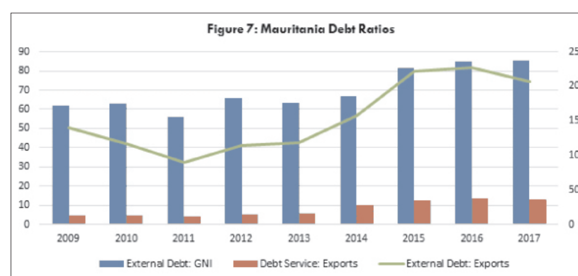
The debt service to exports ratio is used as an indicator of debt sustainability because it indicates how much of a country's export revenue will be used up in servicing its debt and how vulnerable the payment of debt-service obligations is to an unexpected fall in export proceeds. The higher the share of short-term credit in the overall debt, the larger and more vulnerable the annual flow of debt service obligations. Debt service ratios may rise due to a fall in exports; fall in commodity prices, increased borrowing and higher interest rates.

For individual country analysis, the analysis was based on countries whose debt ratios are signalling that debt service difficulties are likely to occur. These are countries whose external debt: to exports is above 150% or external debt to GNI is above 50%.In most cases countries with high external debt to exports ratio and high external debt to GNI ratios have a rising debt service ratio which can be regarded as a sign of an imminent debt crisis.

Most of the countries in the North region exhibit low risk of debt distress, but for countries such as Mauritania and Sudan there is high risk of debt distress whilst Tunisia should be on guard to monitor its rising external debt levels and ratios.

3.1.1 Mauritania

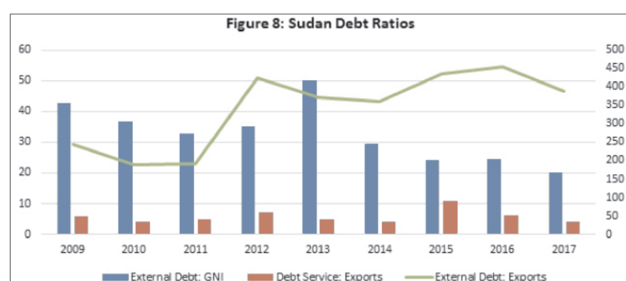
Public debt in Mauritania has been increasing since 2009 and is mostly of an external nature, in the form of official lending with multilateral or bilateral institutions. Mauritania reached its completion point under the Heavily Indebted Poor Countries (HIPC) initiative in 2002 and received Multilateral Debt Relief Initiative (MDRI) assistance in 2006. As at the end-2009 total external debt amounted to US$1.992billion which represented about 62% of GNI. Debt has been increasing since 2009 to 2017 and this could be attributed to the central government activities between 2012 and 2014 as they put in place large investment projects to address Mauritania's infrastructure gap. The external debt to exports ratio reached its peak in 2016 at 227.2% before falling to 207.3% in 2017.



Compilation based on World Bank data 2018

3.1.2 Sudan

Sudan's political instability has been of great significance to both the country's economic performance and debt profiling. The external PPG debt increased from $13.752 billion in 2009 to $15.878 billion in 2017. There is also a significant increase in the external debt to exports ratio with a range of 245% to 455.2% between 2009 and 2017, which signals the country`s vulnerability to external shocks. Latest IMF Debt Sustainability Analysis for 2018 continue to show Sudan as country in debt distress. Most of the country`s external debt is in arrears. Sudan has been largely cut off from access to external financing due to its arrears with the creditors. The bulk of Sudan`s debt is public and publicly guaranteed mainly owed to bilateral creditors such as the Paris Club.

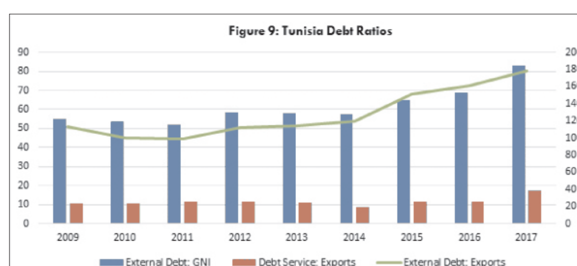


Compilation based on World Bank data 2018

3.1.3 Tunisia

Tunisia experienced a political transition and this is yet to be followed by an economic transition. The country have got a challenging external position characterised by widening trade and current account deficits, depressed FDI and shrinking international reserves. As a reflection of this, Tunisia's external debt increased from $14.852 billion in 2009 to $21.780 billion in 2017 marking a 47% increase. Tunisia's external debt slightly declined in the years prior to the January 2011 revolution due to the HIPC and MDRI initiatives but has risen gradually since then to above 60% of GNI in 2017. Expansionary fiscal policy in combination with low economic activity and a weaker currency has led to a rising general government debt with foreign external debt constituting around 60%, making public finances vulnerable to further currency depreciation.

Tunisia is one of the three bond issuing countries in the North African region. In 2016, Tunisia issued a $500 million bond which will further increase its external debt levels. A mitigating factor however is that Tunisia`s debt service is relatively modest as a very large part of the overall debt is on concessional



Compilation based on World Bank data 2018

3.2 Domestic Debt

While countries have moved to replace declining aid flows by accessing non-concessional resources and seeking bilateral financing from emerging lenders such as the BRICS countries, recent data shows a steady rise in the ratio of domestic debt to GDP, implying that Governments are increasingly turning to domestic debt markets to meet net borrowing requirements. Domestic debt in Africa increased from 11 per cent of GDP in 1995 to around 19 per cent at the end of 2013. North Africa, just like the African continent at large, witnessed significant developments in domestic debt and debt markets.

Egypt and Morocco are amongst other African countries which have followed South Africa in establishing attractive portfolio investments. While some countries have had relatively low levels of domestic debt other countries have had their domestic debt rising. Egypt, an economic powerhouse in North Africa,

has an increasing domestic debt profile. As of 2010, the gross consolidated general government domestic debt was 63.8% of the GDP and it reached 86% of the GDP by June 2016.

This is mainly attributed to the need to finance the persistent budget deficits, debt servicing and consumption purposes. Domestic debt makes up the overwhelming majority of Morocco's debt. Over the period 2003 to 2017, of the total public debt more that 70% is domestic debt. Between 2003 to 2011 domestic debt averaged 42.1 as a percentage of GDP compared to external debt which was 21.0% of GDP.

The government has been focusing increasingly on the local debt market to reduce exchange rate risks and taking advantage of the drop in domestic lending rates. Algeria's external debt remains negligible, while domestic public debt has increased significantly since 2016 but remains moderate at around 20% of the GDP and this makes it one of the least indebted countries in the continent and the world.

Sudan continues to be in non-accrual state with multilateral institutions. Although the bulk of public debt in Sudan is external debt, domestic debt has been on the rise due to increased domestic financing of the budget even though by the end of 2017 domestic debt was still less than 20% of GDP. However, this is expected to rise in the medium term given the elevated deficits and limited external financing the country is facing.

Algeria and Mauritania have had the lowest levels of domestic debt. Mauritania's public debt stock is largely composed of external debt, with domestic debt only about 5 percent of GDP by end of 2016 (IMF 2018).

4. REGIONAL OUTLOOK FOR DEBT SUSTAINABILITY

According to the 2018 IMF Debt Sustainability reports, the majority of the countries in the North African Sub -Region have proved to have low risk of debt distress with the exception of Mauritania and Sudan which were cited as having a high risk of debt distress as public debt ratios remain high. AFRODAD`s external debt sustainability analysis revealed similar results as Mauritania and Sudan were found to be in high risk of debt distress.

The majority of countries in North Africa were regarded as having low risk of debt distress although for Tunisia external debt and debt ratios have been rising hence the need to guard against a possible fall of the country from the low risk debt distress category. Sudan is classified as a country in debt distress.

Figure 10: Debt sustainability analysis in North Africa – Assessing risks of debt distress

Low Risk	High Risk
Algeria	Mauritania
Egypt	
Libya	
Morocco	
Tunisia	

5. RECOMMENDATIONS

North African countries should leverage domestic and external debt without compromising debt sustainability. Therefore, North African countries need to continue strengthening macroeconomic fundamentals and pursuing structural transformation to avoid a debt trap in the future.

Public debt in North Africa is on a sustainable trajectory for most countries. However, taking into account the surfacing marked increase in the public debt ratios for countries such as Tunisia, weak external demand and slowing economic growth, this can weigh on the debt outlook. There is need for implementation of appropriate and timely fiscal consolidation measures and

measures to promote economic growth. Governments need to continuously maintain sound fiscal policies to avoid rapid accumulation of public debt. They need to uphold the principle of fiscal sustainability and continue closely monitor contingent liabilities and other debt creating flows.

Africa needs more development financing. But the build-up of debt should be consistent with countries' development needs and capacities to service the loans. Therefore, all stakeholders are not passive actors in these issues but should ensure that debt is deployed in productive investments that yield income streams for self-financing and grow the economy.

There has been a significant rise in domestic debt across African countries and domestic debt now constitutes a large share of total debt. Domestic debt is much more expensive than external debt as it consumes a large percentage of government revenue given that domestic interest rates are higher than foreign ones. This has significant negative implications for private investment, fiscal sustainability, economic growth and poverty reduction. Governments need to formulate and implement prudent domestic debt management strategies to mitigate the effects of the rising debt on the economy.

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