# NORTH Africa

## Regional Debt Profile 2017

## 1. Introduction

The North Africa sub-region is composed of Morocco, Algeria, Egypt, Libya, Mauritania, Sudan, and Tunisia. Within the region is the Arab Maghreb Union (AMU) established in 1989 (Treaty of Marrakesh) by five founding members, Algeria, Tunisia, Morocco, Libya and Mauritania. The objective was 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 Africa/Maghreb region collectively boasts large phosphate, oil and gas reserves which drive the economies of member states. The region is also endowed with abundant natural resources. Algeria and Libya have the largest reserves of oil and gas area, while Mauritania has a significant mining sector. Libya is both a member of both Common Market for Eastern and Southern Africa (COMESA) and AMU. Egypt is the largest country in the region because of the size of its economy and membership in COMESA. All countries in the region but Mauritania are part of the Middle East and North Africa (MENA) region. The Arab Spring, a series of anti-government protests, uprisings and armed conflicts which began in 2010 had a huge effect on the economic development of the region. Countries of Libya, Tunisia, Egypt and Mauritania were greatly affected as they experienced sharp declines in Gross Domestic Product and rising unemployment.

## 2. REGIONAL ECONOMIC OUTLOOK

The North African Sub Region is diversely endowed with oil and minerals. Gas and oil revenues represent the bulk of fiscal and export revenues. The region being a transit centre to southern Europe has a higher degree of economic integration with the European Union. Economic growth in the region has however generally suffered since 2011 due to vulnerabilities to price shocks as well as political and security challenges. GDP has averaged 2.1% between 2011-2015 compared to 5% between 2003 and 2008. Inflation has accelerated reflecting an increase in international prices.

**Table 1: Macroeconomic developments in Africa, Real GDP growth (%)**

| | 2008-12 | 2013 | 2014 | 2015 | 2016(e) |
|---|---|---|---|---|---|
| North Africa | 4.4 | 1.7 | 1.5 | 3.3 | 3.0 |
| Central Africa | 4.9 | 4.0 | 6.0 | 3.6 | 0.8 |
| East Africa | 5.6 | 7.2 | 5.9 | 6.5 | 5.3 |
| Southern Africa | 3.1 | 3.7 | 2.8 | 1.9 | 1.1 |
| West Africa | 6.2 | 5.7 | 6.1 | 3.3 | 0.4 |

*Compilation based on African Development Bank data 2017*

**Table 2: Economic Indicators (2011-2014 averages)**

| | GDP Growth (%) | Inflation (%) | Public Debt(% of GDP) |
|---|---|---|---|
| Algeria | 3.2 | 4.9 | 8.5 |
| Egypt | 2.3 | 9.2 | 78.9 |
| Libya | -22.3 | 8.1 | - |
| Mauritania | 5.7 | 4.6 | 74.0 |
| Morocco | 3.8 | 1.1 | 58.6 |
| Tunisia | 2.9 | 4.9 | 47.3 |
| Sudan | 1.5 | 31.6 | 83.1 |

*Compilation based on World Bank data 2015*

The fastest growing economies in the region have been Mauritania and Morocco. In Mauritania economic growth has been driven mainly by iron ore production, the country`s main export and in Morocco by agricultural cereal production. The region`s growth has been stalled by Libya and Sudan. Libya's growth performance has been volatile reflecting the impact of the political conflict on oil production which accounts for about 70% of the country's GDP. This is exacerbated by the lack of diversification of the Libyan economy causing the country to be in a recession since 2013. Continued armed conflict in Sudan is hindering economic activity and thus constraining growth.

## 3. PUBLIC DEBT TRENDS IN THE NORTH AFRICA

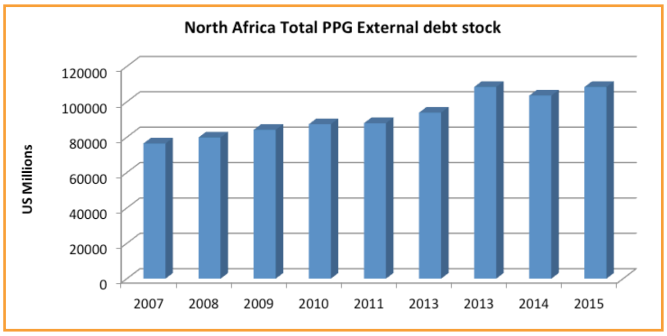
As shown in Table 3 and Figure 1 below, in terms of public and publicly guaranteed (PPG) debt, the regional total stock increased from $80.449 billion in 2007 to 108.357 billion in 2015. The highest contributor to the external debt in North Africa is Egypt which held about 38 % of the regional total external debt as of December 2015. The country with the least external borrowing was Algeria contributing only 1 % of the total external debt at the end of 2015. The key drivers of public debt accumulation in the North Africa are the following; increasing fiscal deficits, increased military and security expenditures; negative output gaps; the need for infrastructure development and external shocks.

**Table 3: External Debt Stock in the North African Region (public and publicly guaranteed), 2007-2015 in US$ Millions**

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|
| Algeria | 4033 | 3301 | 3068 | 2669 | 2266 | 1647 | 1452 | 1125 | 870 |
| Egypt | 32075 | 30735 | 31316 | 32156 | 30724 | 31945 | 42261 | 37033 | 40893 |
| Mauritania | 1437 | 1669 | 1984 | 2301 | 2485 | 2901 | 3102 | 3131 | 3254 |
| Morocco | 15650 | 16538 | 19223 | 21059 | 22392 | 25106 | 28280 | 29817 | 29728 |
| Sudan | 12738 | 13120 | 13707 | 14444 | 15093 | 15697 | 16402 | 15922 | 15772 |
| Tunisia | 14517 | 14451 | 14852 | 14671 | 14931 | 16569 | 16879 | 16475 | 17839 |
| **TOTALS** | **80449** | **79813** | **84150** | **87300** | **87890** | **93865** | **108376** | **103503** | **108357** |

**Libya debt statistics not available* *Compilation based on World Bank data 2017*

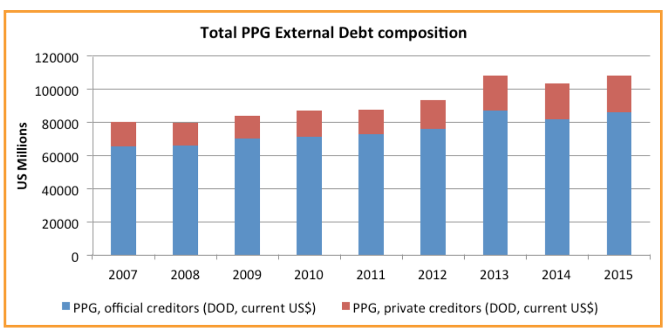
**Figure 1: External Debt Stock in the North African Region (public and publicly guaranteed), 2007-2015 in US$ Millions**




*Compilation based on World Bank data 2017*

External regional debt stock has been steadily increasing since 2007. PPG external debt increased by 35% from 2007 to 2013. 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. In 2016 Egypt, the highest contributor of external debt in the region negotiated for a US$12 billion loan with the IMF and World Bank which will further increase the region`s debt level in the future.

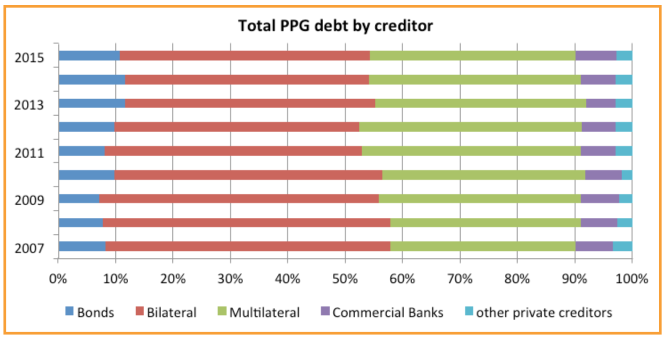
**Figure 2: External Debt Stock composition in the North African Region (public and publicly guaranteed), 2007-2015 in US$ Millions**




*Compilation based on World Bank data 2017*

Figure 2 above shows that about 80% of the PPG external debt between 2007-2015 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 3: Share of public and publicly guaranteed external debt, 2007-2015 in percentage**




*Compilation based on World Bank Data 2017*

As shown in Figure 3 above the regional external debt has mainly been concentrated in form of bilateral and multilateral credit. The dominance of bilateral credit signifies the sub-region`s need for larger amounts of financing without policy conditionalities. A few countries in the region which include Egypt, Morocco and Tunisia have been issuing bonds since 2007. However the growth in bond issuance has been minimal as North African countries have been tapping in the international markets in small amounts due to the higher debt servicing costs associated with bonds. International bonds with a bullet repayment structure can lead to phases of soaring debt servicing obligations and demand competent public debt management which is still a major challenge in many bond issuances in countries.

### 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.

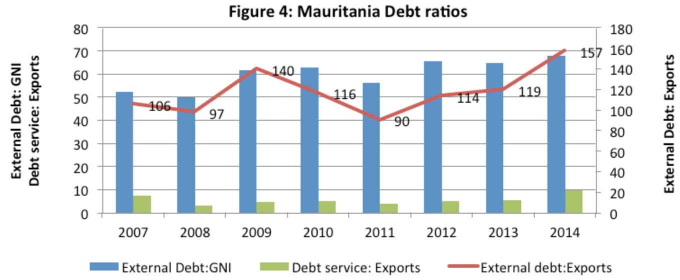
For individual country analysis, the analysis was based on countries whose debt ratios are signalling that debt service difficulties are likely to occur. These are countries whose external debt: to exports is above 150% or external debt to GNI is above 50%.In most cases countries with high external debt 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 2007 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 end-2008 total external debt amounted to US$1.669billion which represented about 50% of GNI. Debt increased between 2012 and 2014 as the central government put in place large investment projects to address Mauritania's infrastructure gap. By 2015 the external debt to exports ratio had peaked to 215.6 %from 157.4% in 2014.

**Figure 4: Mauritania Debt ratios**

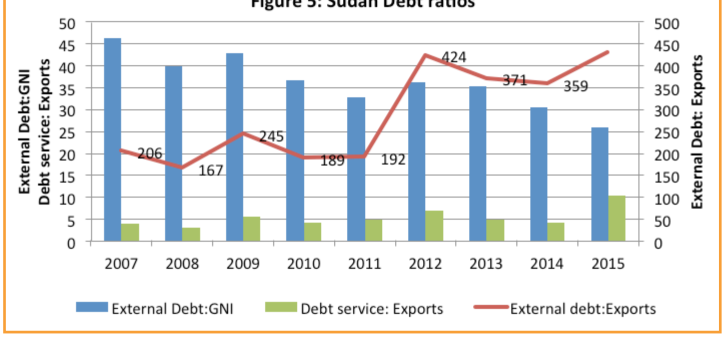



*Compilation based on World Bank data 2017*

#### 3.1.2 Sudan

Sudan's debt has been on the rise ever since the political uprisings and the succession of South Sudan in 2011. Between 2007 and 2015 external debt to exports ranged between 166.8% to a high of 430% in 2015 signalling the country`s vulnerability to external shocks. Sudan has continued to be in debt distress as its external debt ratios have remained high. 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.

**Figure 5: Sudan Debt ratios**

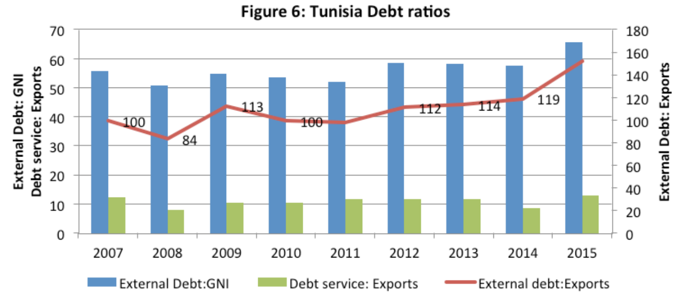



*Compilation based on World Bank data 2017*

### 3.1.3 Tunisia

Debt in Tunisia has been rising since 2007 when it was $14.517 billion to $17.839 billion at the end of 2015. Tunisia's external debt 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 2015 reflecting higher fiscal and current account deficits following a series of external shocks and rising social pressures. 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 recently returned to the international bond market and issued a $500 million bond in 2016 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 terms and the average maturity is long.

Figure 6: Tunisia Debt ratios




### 3.2 Domestic Debt

The phenomenon of domestic debt is also evident in North Africa. While some countries have had relatively low levels of domestic debt other countries have had their domestic debt rising. Between 2003 and 2011 domestic debt made up the greater part of Morocco's total debt. Between 2003 to 2011 in Morocco 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. In Egypt domestic debt increased from 63.8% of GDP in 2010 to 68% in 2011 and by 2015 it was around 77.8%. This was attributed to the decision by the government to finance increasing budget deficit by issuing treasury bills and bonds. By 2015 the domestic debt had reached $261 million. 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 2014 domestic debt was relatively low at 13% of GDP. Algeria and Mauritania have had the lowest levels of domestic debt. Algeria's domestic debt standing at 20% of GDP in 2016 and with its low levels of external debt, the country is regarded as one of the least indebted countries in the world. Mauritania's domestic debt remained low at 5% of total debt by end of 2015 and consists of treasury bills for budgetary and liquidity management purposes (African Economic Outlook 2016).

## 4. REGIONAL OUTLOOK FOR DEBT SUSTAINABILITY

According to the 2016 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.

**Figure 7: Debt sustainability analysis in North Africa – Assessing risks of debt distress**

| Low Risk | High Risk |
|---|---|
| Algeria<br>Egypt<br>Libya<br>Morocco<br>Tunisia | Mauritania<br>Sudan |

## 5. RECOMMENDATIONS

**Maintaining sound fiscal policies:** 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 to monitor contingent liabilities and other debt creating flows.

**Developing and maintaining strong institutions to control spending manage debt:** There has been a huge upsurge in domestic debt for countries such as Egypt and Morocco. Governments should seek to ensure that both the level and rate of growth in their public debt is fundamentally sustainable and can be serviced under a wide range of circumstances while meeting developmental goals. Countries such as Tunisia with increasing external debt should continuously review their capacity to issue bonds before an issuance given the high cost of borrowing on international markets.

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