AFRODAD

NORTH AFRICA

REGIONAL DEBT PROFILE 2019

1. INTRODUCTION

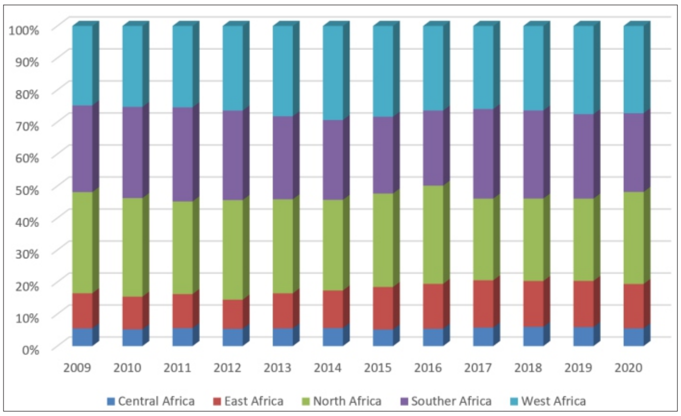
The North Africa sub-region according to the AfDB has six member states, namely: Algeria, Egypt, Libya, Mauritania, Morocco and Tunisia. It is home to about 242 million people (2019 estimate AfDB) which is about 16% of Africa's population but surprisingly it accounts for about 29% of Africa's GDP. The population grows at an average rate of 1.7% and the GDP between 2009 and 2018 was growing at an average rate of 1.56% per annum. Egypt host the majority of the population in the region accounting for 49% while Mauritania has the lowest proportion of 2%. However, in terms of population growth Mauritania has an average of 3% per annum which is the highest in the region. Generally the region is dominated by Arab people sharing same language, religion (Muslim) and these countries usually interact more with other Arab countries in the Middle East. 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 six economies have some disparities: with four economies depending on natural resources; Algeria and Libya largely depend on oil, Mauritania rely on metals and gold and Morocco rely phosphates. Egypt and Tunisia have no much natural resource endowments but they have significant manufacturing (manufacturing contribute about 20% to their GDP). Over the past years the region has been volatile largely affected by a series of anti-government protests, uprisings and armed conflicts known as the Arab Spring, which began in 2010 together with fluctuations in commodity prices. 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. All the countries in the region except Mauritania are middle income countries with per capita income above US$3000. However, North Africa according to the African Development Bank Outlook 2019 has been the second best performing region after East Africa with an estimated real GDP growth rate of 4.4% and 4.3% in 2019 and 2020 respectively.

Figure 1: GDP By region in US$ Millions: 2009-2020



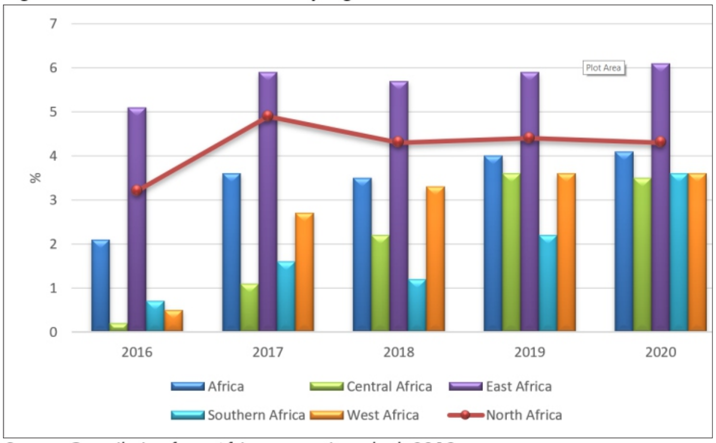
Source: AfDB Socio-economic database. 2019 figures are estimates while 2020 figures are projections

Figure 1 above shows that over the period 2009-2019 North Africa contributed about 29% to Africa's GDP per annum on average. However, its contribution has been declining over the years. Egypt contributes about 50% of the region's GDP.

Growth in North Africa region has been fluctuating although it second to East Africa and it is well above the average for Africa. The major drivers of growth in the region high commodity prices which increases productivity in the extractive sector. Political stability is important for tourism (especially in Egypt, Tunisia and Libya) and it encourages private sector investment.

Egypt which is estimated to grow by 5.5% in 2019 and projected to grow by 4.3% in 2020 is expected to drive growth in the region together with Mauritania. Better prospects in gas production and tourism are expected to anchor the growth in Egypt while in Mauritania the rise in gold prices is expected to boost production. Only in these two countries has growth reduced unemployment level. Other countries in the region that have low growth rates face rising unemployment levels.

Figure 2: Africa Real GDP Growth by region 2016 – 2020



Source: Compilation from Africa economic outlook 2019

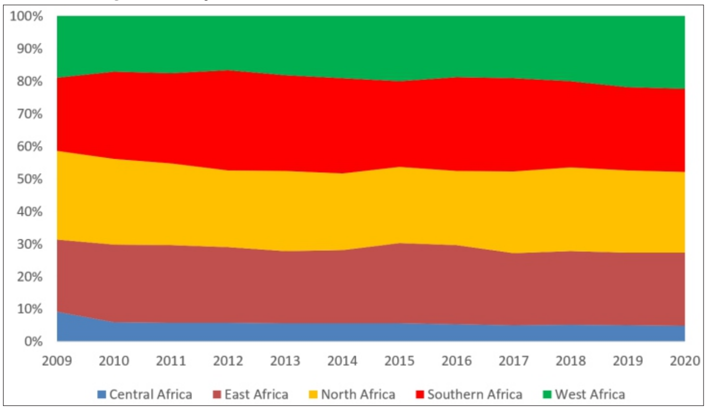
Naturally in the countries that are resource rich mining contributes over 50% of GDP with Libya generating over 80% of GDP from mining alone.

Services have also gained dominance in the region accounting for a great share of GDP especially tourism and telecommunication. About 85% of growth in the region has been driven by domestic consumption although there is variation across countries.

3. PUBLIC DEBT TRENDS IN THE NORTH AFRICA

The North African region accounts for about 24.7% on average of Africa's total PPG external debt between 2009 to 2018 as shown in Figure 3. This appears to be in line with the level of economic activities generated in the region. Compared to other regions, North Africa's share has been fairly stable over the years.

Figure 3: Proportion of PPG External Debt: 2009-2020



AfDB Socio-Economic database 1960-2020. 2019 is an estimate while 2020 figures are projections

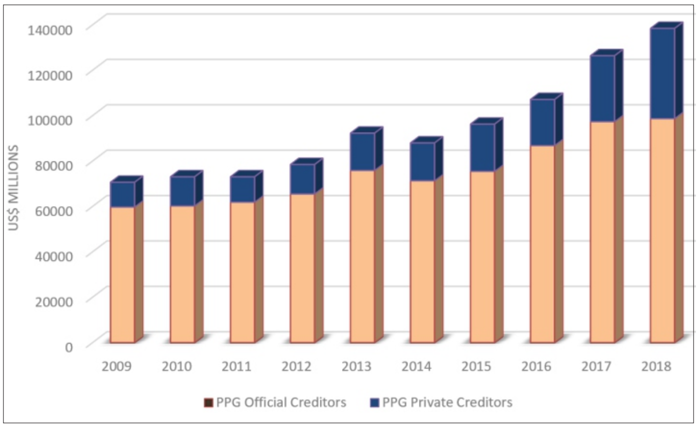
Table 1 below shows external debt stock of in North Africa. External debt has been growing at an average rate of 8.7% per annum between 2009 and 2018 with a peak growth of 19% in 2016 and a minimum of -0.2% in 2014. Egypt and Tunisia experienced double digit growth in debt stock in recent years which then drives the region's debt growth The increase in external debt is mainly due to the need to stabilise the economy when fiscal budget occur because of fall in commodity prices. The key drivers of public debt in the region includes amongst others, fluctuating commodity prices, infrastructure developments, increasing fiscal deficits and negative output gap.

Table 1: External Debt Stock in the North African Region (public and publicly guaranteed), 2009-2018 in US$ Millions

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Algeria	4050	3636	3083	2469	2072	1810	1187	1866	1904	1724
Egypt	31429	32243	30771	31991	42302	37120	44178	53371	65899	79143
Mauritania	1991	2302	2486	2896	3089	3129	3364	3570	3728	3710
Morocco	21635	23684	25269	28848	33084	34455	35425	36698	41469	40803
Tunisia	17557	17182	17386	18726	18622	18091	18903	19682	23904	24289
Total	**76663**	**79048**	**78995**	**84931**	**99170**	**94606**	**103058**	**115189**	**136905**	**149671**
Growth (%)	**9.4**	**4.2**	**0.2**	**11.6**	**11.2**	**-0.2**	**7.2**	**19.0**	**15.7**	**8.2**

*Compilation based on World Bank data 2019 *Libya debt statistics not available*

Figure 4: External Debt Stock composition in the North African Region (PPG), 2009-2018 in US$ Millions



Compilation based on World Bank data 2019

The above figure shows that in absolute terms official creditors constitute the bulk of the region's debt although it has been declining in recent years while private creditors accelerated. Between 2009-2018 official credits grew by 6% on average per annum with a peak of 15.8% in 2013 and a minimum of -6% in 2014. About 50% of official credit goes to Egypt while Mauritania accounts for only 4% on average. Official credit grew by about 65.2% between 2009 and 2018 while private credit grew by 264.4%. Private credit on average grew by 15.1% per annum with a peak of 42.9% in 2017 and a minimum of -12.8 in 2011. In growth terms private credit grew by more than double the rate of official credit which tend to be more concentrated in low income countries than middle income countries.

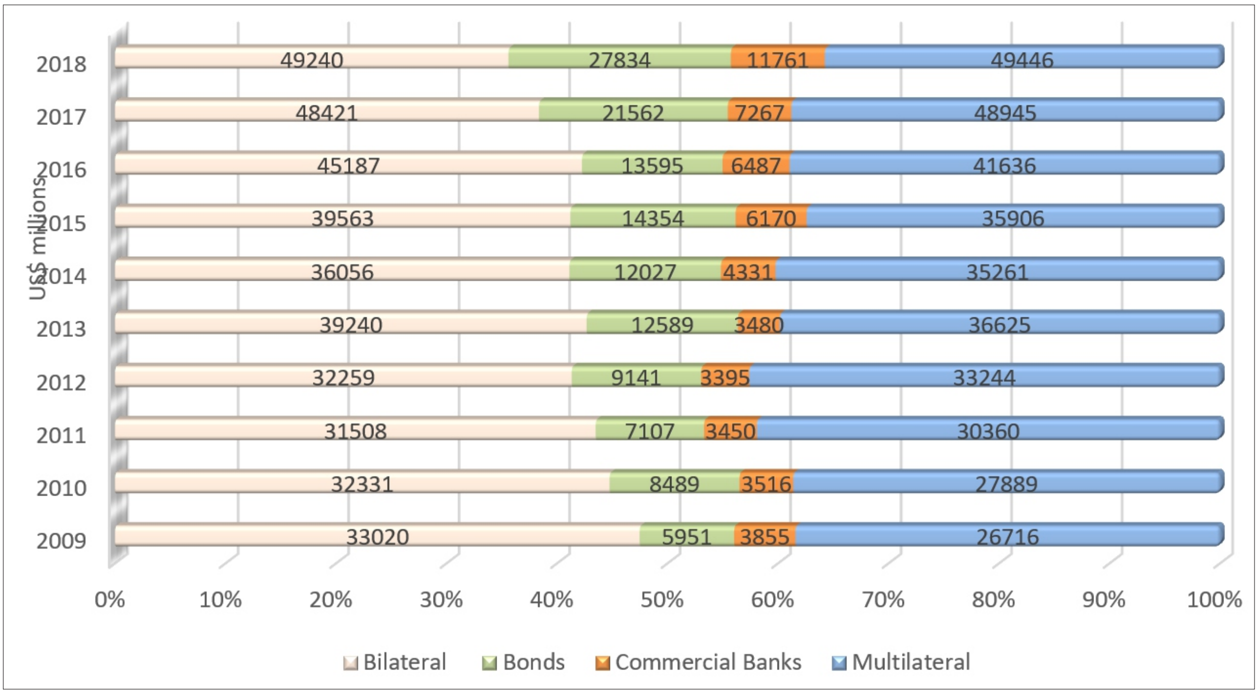
Table 2 Average growth of Official and Private Credit 2009-2018

	Average Growth of Official Credit (%)	Average Growth of Private Credit (%)	Average Contribution to Official debt	Average contribution to Private Credit
Algeria	0.9	-34.9	2.079431	2.417351
Egypt	7.5	35.4	49.33784	32.79154
Mauritania	9.3	-20.0	4.230036	0.012265
Morocco	4.9	17.9	27.42275	36.7475
Tunisia	4.8	4.8	16.92994	28.03134
N. Africa	**6.0**	**15.1**		

Compilation from World Bank database 2019

As shown in the table above the major contributors to private debt Morocco, Egypt and Tunisia which borrowed mainly by raising bonds on the financial market. There are some countries such as Algeria which receive less multilateral credit and at the same time do not borrow from the private creditors. This may imply heavy reliance on domestic resources and such countries have huge foreign reserves. Mauritania has a high growth rate of official credit and negative growth in private credit because it still qualifies for most concessionary loans from multilateral institutions.

Figure 5: Share of public and publicly guaranteed external debt, 2009-2018 in



Compilation based on World Bank Data 2019

Figure 6 above clearly shows that multilateral credit has been on the decline from 2013 to 2018 and similarly bilateral loans have also been declining over the period. However commercial banks and bonds debt has been increasing rapidly. From 2009-2018 bilateral debt for North Africa has been growing at 4.6% on average per annum with a peak of 21.6 in 2013 and a minimum of -8.1% in 2014. Bilateral debt grew by 49.1% between 2009 and 2018 and the main recipient is Egypt (account for 63.8% of the region's bilateral debt between 2009-2018). However, about 28.9% of bilateral debt to the region is on concessionary terms and the countries with the biggest proportion of concessionary bilateral debt are Algeria (40% on average), Mauritania (32%) and Tunisia (31%).

Multilateral has been growing at an average of 7.9% per annum between 2009-2018 with a peak of 17.6% in 2017 and a minimum of -3.7% in 2014. Comparison between 2009 and 2018 shows that multilateral debt grew by 85.1%. Morocco and Egypt accounts for the bigger chunk of region's multilateral debt with 35.7% and 33.9% respectively. About 7.9% of the region's multilateral debt is concessionary and the countries with the bigger proportion which is concessionary are Mauritania (39%) and Morocco (35.6%).

In North Africa region Algeria and Mauritania did not issue any bonds during the period since the former relies on domestic resources while the later does not have capacity to raise funds through such means. Regional debt in bonds grew at an average rate of 18.5% per annum with a peak of 58.6% in 2017 and a minimum of -5.3% in 2016. Comparing 2009 and 2018 debt in bonds grew by 367.8%. The major contributors to the bonds debt in the region are Egypt and Tunisia with 38% and 36% respectively.

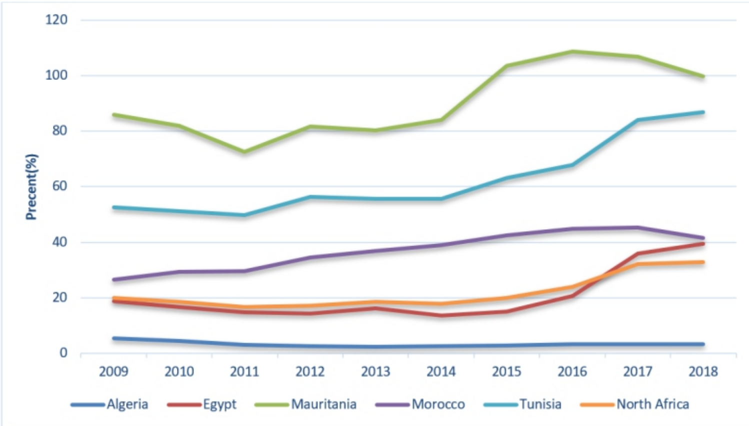
For the period 2009-2018 commercial bank debt for the region grew by 15.2% per annum on average with a peak of 61.8% in 2018 and a minimum of -1.9% in 2011. Comparing 2009 and 2018 commercial bank debt grew by 205.1%. Morocco is the biggest contributor (63.3%) to the region's commercial debt while Mauritania does not have any commercial debt.

4. Debt Ratios

4.1 Debt to GDP Ratio

During the period 2009-2018 N. Africa region's Debt to GDP ratio average was 21.8% with Algeria as the only country below the region's average while the rest of the countries are above.

Figure 6: Debt to GDP ratio 2009-2018



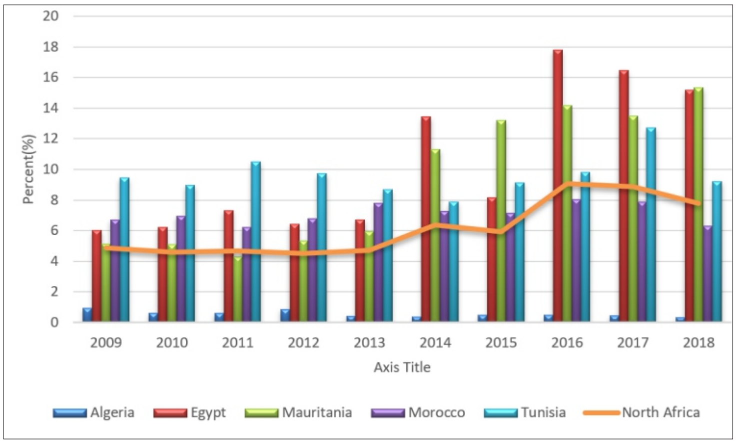
Compilation from World Bank Statistics 2019

In the region countries with high debt to GDP ratios are Mauritania (99.7% in 2018) and Tunisia (86.9% in 2018) which reflect that debt is accumulating at a higher rate than GDP which puts the countries at the risk of failing to repay the debt. Although Mauritania reflects a high ratio, the risk of failing to pay is moderated by the fact that most of its debt is from official creditors and a big proportion is on concessionary terms. However, Egypt despite the fact that it accounts for the biggest proportion in the region's debt its ration is below 50% which is an indication that the debt is used for productive purposes to spur economic growth. According to the AFRODAD Borrowing Charter, countries with debt-to-GDP ratios above 50% may end up falling into debt distress. However, the Debt to GDP ratio does not consider maturity and terms of debt repayment therefore it should be used together with other indicators.

4.2 Debt service to Exports Ratio

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 is in the overall debt, the larger and more vulnerable the annual flow of debt service obligations.

Figure 7: Debt Service to Exports of Goods and Services



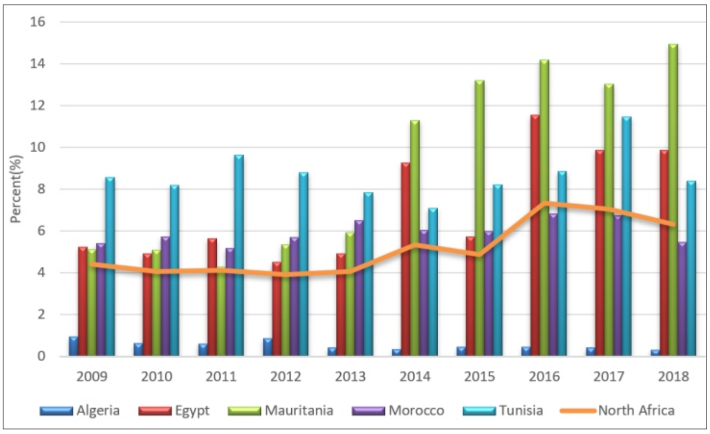
Compilation from World Bank statistics 2019

Debt service to export ratio above 5% is an indication of vulnerability to external shocks. The figure above shows that most countries in the region has debt service to exports ration well above 5% threshold with the exception of Algeria. Egypt, Mauritania and Tunisia have two digit ratios which implies that more export revenues are committed towards debt repayment which competes with other demands for productive purposes. Debt service ratios may rise due to a fall in exports; fall in commodity prices, increased borrowing and higher interest rates. There is generally an increasing trend in the debt service to export ratio during the period.

4.3 Debt Service to Exports plus remittances.

Remittances play an important role in stabilising debt service ratio. The region's average ratio for the period falls from 6% to 5%. The countries that receive significant remittances are Egypt and morocco; their average ration fall by 2% when remittances are included in the denominator. Remittances reduce the constraint on repayment by increasing foreign currency supply in the country

Figure 7 Debt service to Exports plus remittances



Compilation from World Bank Statistics 2019

4.4 Reserves to Total External Debt

Reserves play an essential role as a buffer against shocks. Morocco has high reserve ratio than the rest of countries in the region while Mauritania has low but rising ratio. The whole region has a decreasing ratio which imply vulnerability of the region to external shocks. Reserves have been declining in recent years while debt continues to rise in the region.

Table 3: Reserves as a Percent of Total PPG Debt 2009-2018

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Algeria	2008.4	2239.8	3014.5	3468.3	3711.9	3253.3	3097.1	2093.9	1710.5	1404.9
Egypt, Arab Rep.	91.1	91.4	42.4	29	29.3	28.7	26.6	30.2	39.3	39.1
Mauritania	7.2	7.6	13	22.2	21.8	13.7	16.2	16.4	16.4	17.6
Morocco	92.2	83.2	63.7	47.1	45.7	45.3	51.1	52.4	50.7	48
Tunisia	48.5	41.9	32.8	32.9	28.3	27.3	26.9	20.8	17.5	15.5
North Africa	**165.9**	**174.9**	**195.9**	**183.9**	**166.0**	**153.8**	**116.0**	**78.2**	**58.7**	**45.2**

5. Policy Recommendations

- North African countries should leverage on domestic resources like the case of Algeria.
- Public debt in North Africa is on a sustainable trajectory for most countries. However, there is need to maintain fiscal discipline and embark on growth enhancing policies that will build up foreign reserves.
- Other countries should use debt for productive purposes which boost the GDP as is the case Egypt. But the build-up of debt should be consistent with countries' development needs and capacities to service the loans.
- 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.
- Remittances are important in providing the much needed foreign currency to service the external debt. Government especially in Egypt and Tunisia should consider harnessing remittances through reducing the cost of sending money.

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