United Nations
Economic Commission for Africa

ECA POLICY BRIEF

Debt management and sustainable finance in North Africa

I. Introduction

As is the case for other African subregions, North Africa has witnessed a sharp increase in public debt levels in the past decade. That rise has been driven by a combination of factors, including, most notably, the economic fallout from the global response to the coronavirus disease (COVID-19) pandemic, which, coupled with ongoing regional and global challenges, has intensified fiscal pressures on Governments across the subregion. The conflict between the Russian Federation and Ukraine, for example, has caused disruptions in global energy markets, leading to price volatility and placing national budgets under increasing strain. Similarly, regional conflicts such as those in the Sudan and Gaza, combined with the impact of climate change on agriculture and energy production, have further compounded the vulnerabilities of economies in the subregion.

Many Governments in North Africa have found it increasingly difficult to balance their national budgets and have frequently been compelled to redirect their limited resources away from essential social programmes and productive investments. The average debt-to-gross domestic product (GDP) ratio for the subregion as a whole has increased significantly in recent years, rising from 79.7 per cent in 2019 to 88.4 per cent in 2023.[1] Some individual countries in the subregion, including Egypt, Morocco, the Sudan and Tunisia, witnessed an increase in their debt-to-GDP ratios of more than 80 per cent during that period. In addition to that rising debt burden, high and increasing debt servicing costs and exchange rate volatility have further undermined public finances, stifling economic growth and crowding out private sector investment.

One of the most pressing challenges North Africa is facing is the intersection between climate change and debt sustainability. The subregion is particularly vulnerable to climate-related shocks, including extreme weather events, rising temperatures and water scarcity. Despite the growing recognition of climate change as a significant factor in debt dynamics, debt sustainability assessments often fail to account for its potential impact.

The subregion's fiscal outlook remains uncertain. Economic growth, which, in 2025, is projected to reach only 3.6 per cent, is likely to be constrained by ongoing structural reforms, political instability and global economic uncertainty. As the subregion seeks to achieve its climate and development objectives, effective debt management strategies, including cost-effective borrowing and better debt optimization modalities, will be critical.

The present policy brief contains an overview of public debt dynamics in North Africa, including an assessment of their implications for economic growth and climate resilience, and policy recommendations that are intended to guide Governments in North Africa towards more sustainable debt management practices.

1 "Socioeconomic development landscape: North Africa subregional profile 2023–2024" (ECA/SRO-NA/ICSOE/39/3-ECA/SRO-WA/IC-SOE/27/3). Available at https://knowledgehub-sro-na.uneca.org/wp-content/uploads/2024/11/Subregional-profile-2024-En.pdf.

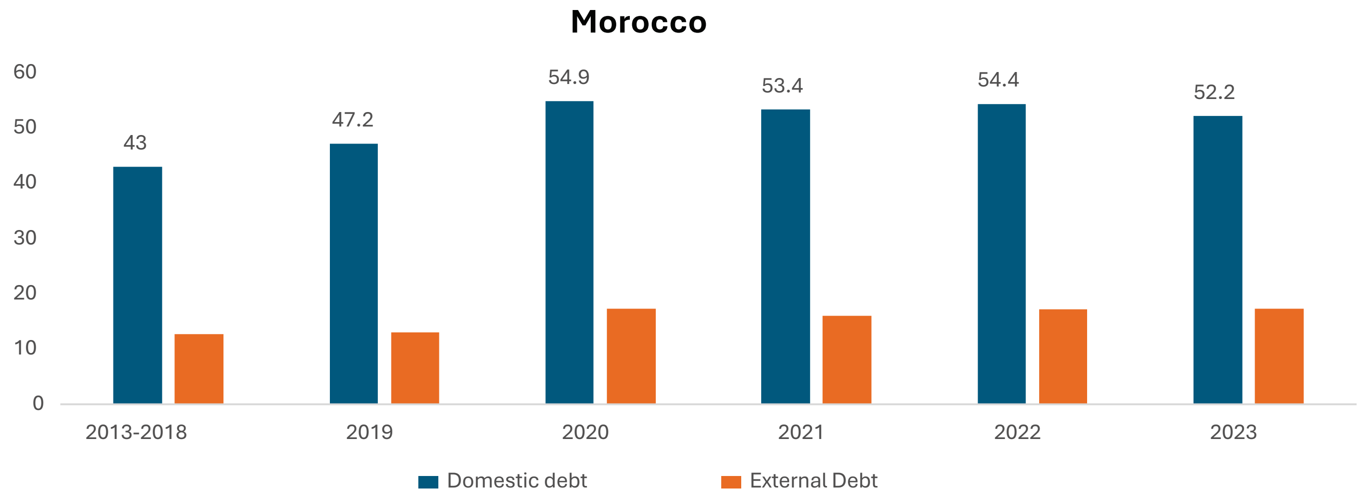
II. Public debt dynamics in North Africa

North Africa is characterized by a complex and evolving debt landscape, with many countries in the subregion under fiscal pressure as a result of economic uncertainty, external shocks and rising public spending demands. The impact of climate change has further exacerbated fiscal pressure, reducing per capita GDP growth by between 5 and 15 per cent annually.[2] The Sudan, for example, has experienced a dramatic surge in its debt-to-GDP ratio, which has surpassed 300 per cent, signalling a deep fiscal crisis. The debt burden of Egypt has also increased steadily, with the debt-to-GDP ratio now exceeding 90 per cent[3] and almost 35 per cent of that country's revenue earmarked for debt servicing payments.[4] Meanwhile, public debt in Tunisia increased from 67.3 per cent of GDP in 2019 to 83.7 per cent in 2024.[5]

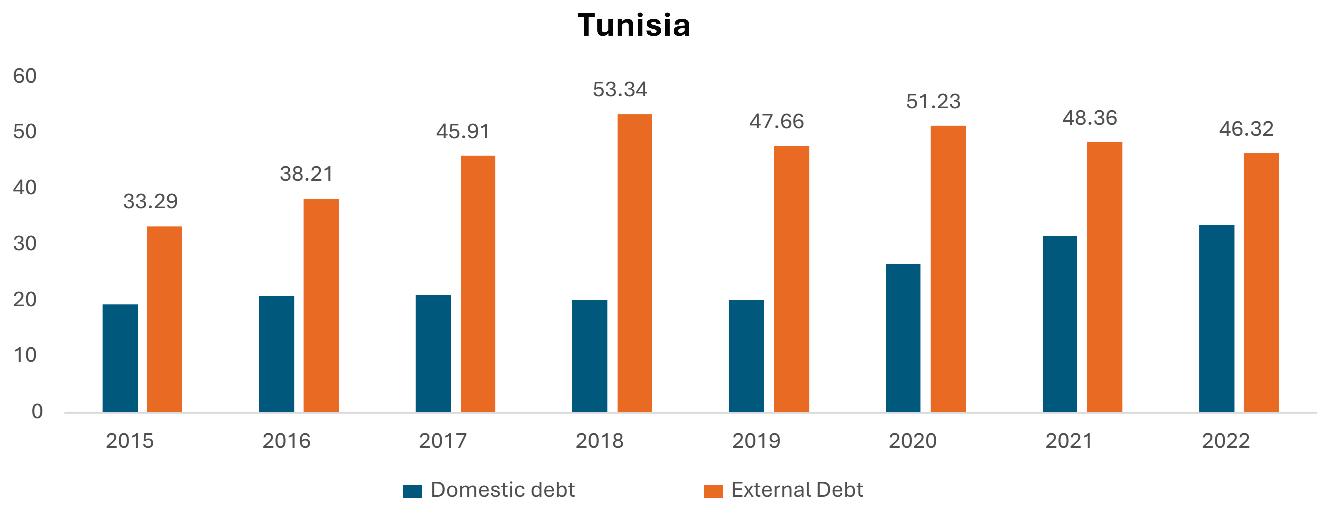
In contrast to the more acute fiscal pressures faced by the Sudan, Egypt and Tunisia, debt levels remain relatively stable or are in decline in other North African countries. Mauritania, for instance, has experienced fluctuations in its debt servicing costs, which spiked in 2021 before gradually declining. Morocco, on the other hand, has successfully maintained a stable debt-to-GDP ratio. That stability is largely attributed to the country's diversified economy and its relatively balanced fiscal policies, which have helped to mitigate the risks associated with rising debt. Algeria stands out as the subregion's best performer in terms of debt management and has the lowest debt levels in North Africa.

A trend in debt management in North Africa is an increasing reliance by countries with limited access to external financing, such as Egypt, Morocco and Tunisia, on domestic borrowing. It should be noted, however, that domestic debt, with its shorter maturities and higher interest rates, can also place public finances under strain and crowd out private sector investment. In Tunisia, for example, domestic debt now accounts for over 50 per cent of total public debt, limiting the resources available for critical investments in infrastructure, healthcare and education. The evolution over time of domestic and external debt burdens in Morocco and Tunisia is illustrated in figure I, while the evolution of debt servicing costs in Egypt and in selected countries in the subregion is illustrated in figures II and III, respectively.

Figure I Evolution of domestic and external debt burdens, Morocco and Tunisia (Percentage of gross domestic product)

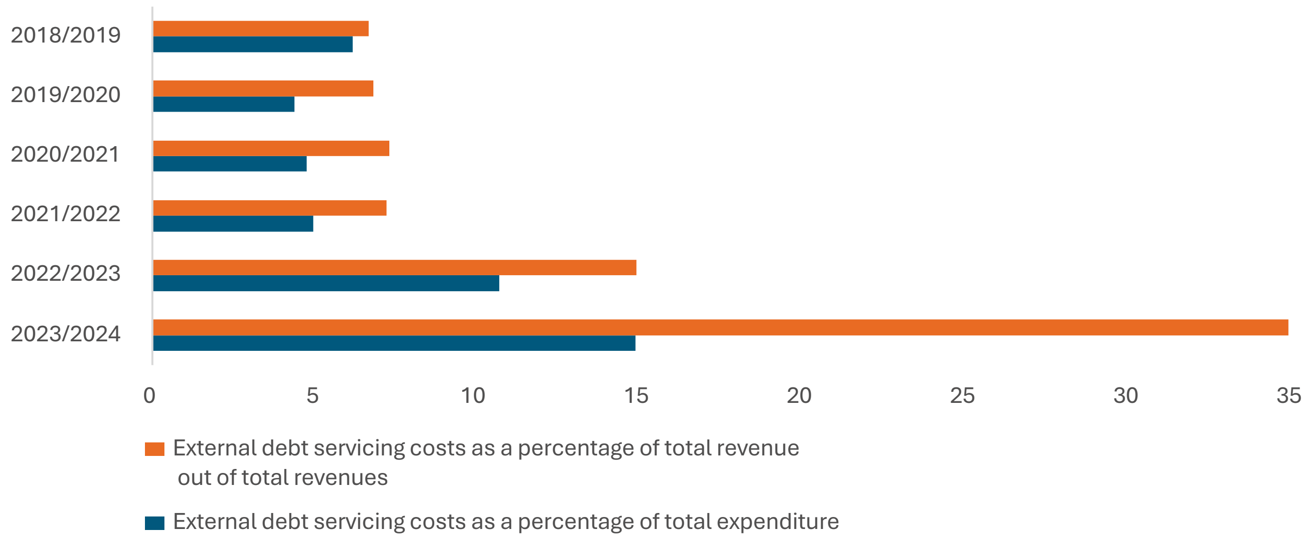


2 African Union and Organisation for Economic Co-operation and Development (OECD), Africa's Development Dynamics 2023: Investing in Sustainable Development (Addis Ababa, African Union; Paris, OECD Publishing, Paris, 2023).
3 International Monetary Fund, World Economic Outlook: Policy Pivot, Rising Threats (Washington, D.C., October 2024).
4 Egypt, Ministry of Finance, "External debt", Public Debt database. Available at: mof.gov.eg/en/posts/publicDept/601acd1f10ca760007b20d25/External%20Debt (accessed on 21 February 2025).
5 International Monetary Fund, World Economic Outlook: Policy Pivot, Rising Threats.



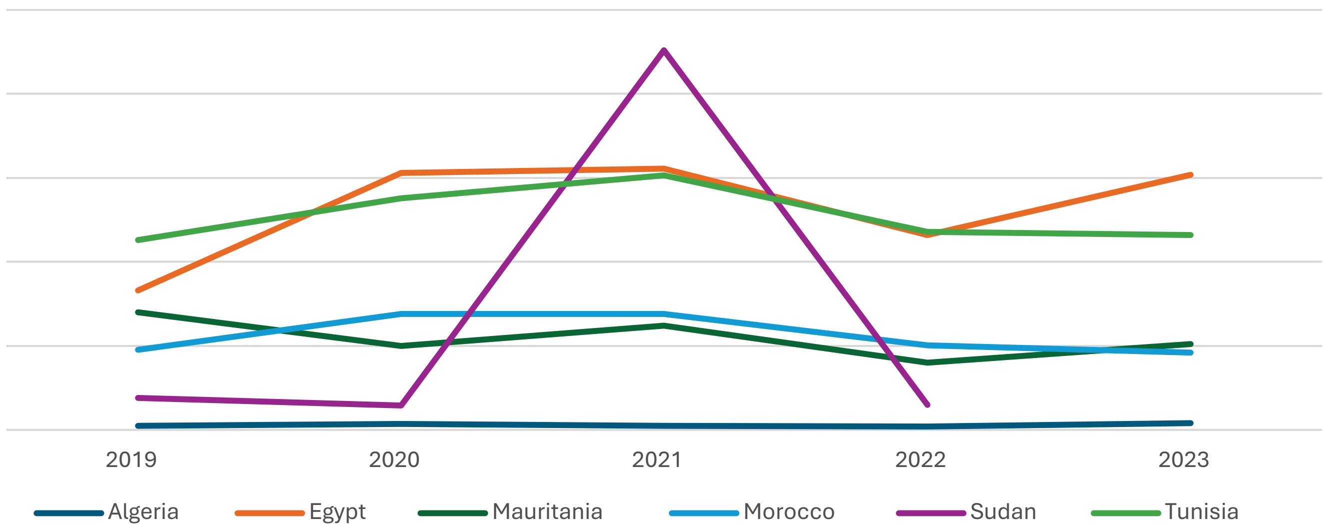
Sources: Morocco, Ministry of Economy and Finance, Draft Budget Law for the 2025 Financial Year: Economic and Financial Report (2024). Available at: www.finances.gov.ma/ Publication/ db/2025/Rapport-economique-financier_Fr.pdf; Tunisia, Ministry of Finance, Report on Public Debt (2024). Available at: www.gbo.tn/fr/taxonomy/term/118.

Figure II Evolution of debt servicing costs in Egypt (Percentage of total revenue and of total expenditure)



Source: Egypt, Ministry of Finance, "External debt", Public Debt database. Available at: mof.gov.eg/en/posts/ publicDept/601acd1f10ca760007b20d25/External%20Debt (accessed on 21 February 2025).

Figure III Evolution of debt servicing costs in selected countries in the North Africa subregion (Percentage of total export revenue)



Source: International Monetary Fund, "Total debt service (% of exports of goods, services and primary income)", International Debt Statistics database. Available at: https://data.worldbank.org/indicator/ DT.TDS.DECT.EX.ZS (accessed on 21 February 2025).

Many countries in North Africa are also borrowing heavily from abroad to finance infrastructure projects and accelerate efforts to attain the Sustainable Development Goals. It should be noted that some 67 per cent of total external debt in Africa is concentrated in just 10 African countries, with Egypt, Morocco, the Sudan and Tunisia accounting for 14.5 per cent, 5.9 per cent, 3.4 per cent and 3.1 per cent, respectively, of that 67 per cent.[6] Rising global interest rates and exchange rate risks, which have increased the cost of borrowing and limited access to affordable finance, are increasingly threatening the sustainability of debt burdens in many countries.

Although State-owned enterprises play a critical role in infrastructure development in many countries in the subregion, many of those enterprises are inefficient and unprofitable and require substantial government support to sustain their operations. This diverts public resources from essential social and economic initiatives and exacerbates the fiscal pressure on Governments.

North Africa has, moreover, been identified as one of the areas of the world that is particularly vulnerable to the impact of climate change. It has, in fact, been estimated that, by 2030, the subregion will require approximately $39 billion each year to fund climate adaptation and mitigation measures.[7] Regrettably, however, high debt servicing obligations continue to reduce the funds available for critical climate, healthcare and education initiatives, undermining the subregion's long-term economic stability.

Those facts make it clear that, despite the diverse debt profiles of countries in North Africa, the subregion as a whole faces significant fiscal challenges. Indeed, while rising debt levels in some countries threaten economic stability, other countries with more manageable debt levels continue to navigate a volatile economic environment. To address the debt challenges countries in North Africa are facing, strategic fiscal reforms and improved debt management frameworks are needed.

III. Conclusion and policy recommendations

Despite the significant differences among the debt profiles of North African countries, comprehensive strategies should be adopted to support sustainable public debt management across the subregion. Addressing long-term liabilities, optimizing debt composition and tackling structural imbalances are essential if countries in North Africa are to forestall further debt accumulation.

To improve debt management by countries in North Africa, steps must be taken to enhance the accountability and profitability of State-owned enterprises. North African countries should strive to adopt competitive business

6 African Export-Import Bank, State of Play of Debt Burden in Africa 2024: Debt Dynamics and Mounting Vulnerability (Cairo, 2024).
7 African Union and OECD, Africa's Development Dynamics 2023.

models and robust fiscal management frameworks in order to mitigate government exposure. Unprofitable State-owned enterprises that consistently fail to meet performance targets should be restructured or privatized to alleviate the fiscal pressure on Governments.

Governments in North Africa should, moreover, adopt responsible borrowing practices and foster competition among creditors to ensure that loans are secured on favourable terms. Collaboration through debtor coalitions could enhance the bargaining power of States and their loan conditions. North African countries could also promote local currency financing to mitigate the risks stemming from exchange rate volatility. Strengthening local financial markets, improving fiscal discipline and enhancing investor confidence through transparent regulatory frameworks is, moreover, likely to encourage sustainable domestic borrowing.

To manage rising domestic public debt levels, Governments in North Africa should strengthen their debt management frameworks, diversify their financing sources and improve revenue mobilization. They should also take action to lower inflation rates, make optimal use of public expenditure and promote financial market depth. Structural reforms aimed at enhancing fiscal transparency and international cooperation on debt restructuring are also crucial for maintaining economic stability.

Policymakers in North Africa should also seek to mobilize resources from abroad, and especially direct and long-term capital investment, through the adoption of a multi-pronged approach focused on creating a favourable investment climate. To attract investors, North African countries must, in particular, strengthen macroeconomic stability, bolster regulatory efficiency and enhance protections for investors. Simplified regulations, streamlined bureaucratic processes and strengthened legal frameworks will further encourage long-term investment. Given the predominance of debt denominated in foreign currencies, Governments in the subregion should prioritize the use of concessional loans and blended finance options to minimize the financial risks stemming from exchange rate volatility.

Debt-for-climate swaps are also an innovative option for North African economies with high debt burdens. Such arrangements allow countries to restructure debt in exchange for commitments to invest in climate resilience and sustainability projects, including renewable energy, sustainable water management and clean transportation initiatives. The leading role taken by Egypt in issuing green bonds serves as an example for the broader subregion, which could mobilize resources using similar financial instruments.

In conclusion, North African Governments must pursue a holistic approach to debt management by strengthening institutional frameworks, diversifying their financial strategies and fostering international cooperation. Effective debt management will enable the subregion to balance fiscal sustainability with economic growth and climate resilience, fostering long-term development.

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