

# Increasing Debt Burden adversely Impact Social Expenditure and Human Rights

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ESCWA Note

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Debt financing can contribute to countries' economic development, depending on many factors, such as the terms and conditions of loans, the prudent usage of loan funds, and the effective management of debt.<sup>1</sup> Unfortunately, it is not the case in many countries worldwide, and in the Arab region, especially those highly indebted. Debt finance is often used inefficiently that adversely affect economic growth, productivity, and collection of revenues; thus, the fulfillment of debt service obligations had to be undertaken at the expense of public services and social investment, hindering social well-being and the realization of human rights.

The connection between rising debt, lack of growth and deprivation of human rights in the Arab region demonstrates such a phenomenon. The average annual growth of public debt has steeply increased over the past decade and remained higher than the growth rate of GDP in the region<sup>2</sup> (figure 1). In middle-income countries,<sup>3</sup> the gross public debt, in US Dollar, has more than doubled over the past decade, as it increased from \$250 billion in 2008 to \$531 billion in 2018, while GDP increased only 30 percent during the same period, from \$527 to \$677 billion, and revenues to GDP ratio remained sluggish.

The high accumulation of debt and rising share of external debt has led to increasing debt service burden, as high as 42 percent of revenues in Lebanon, for instance, in 2018, which drains significant resources that could

Figure 1. Arab region average (growth %)

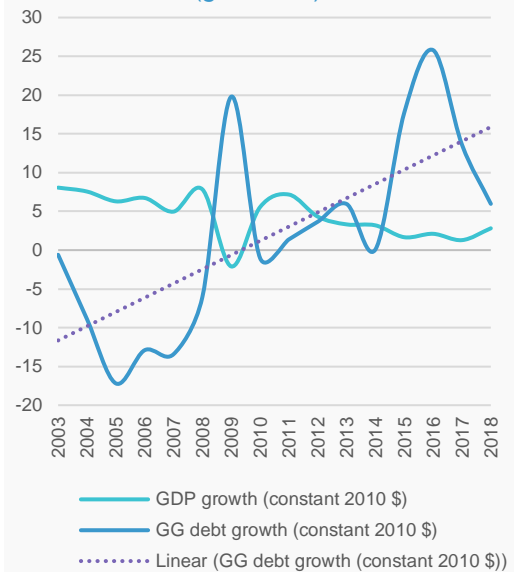
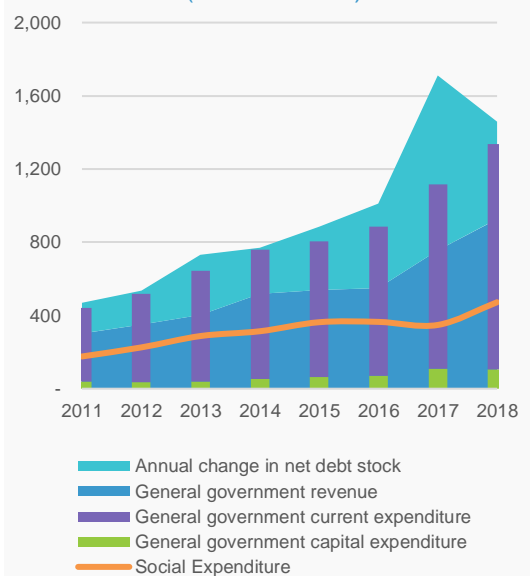


Figure 2. Egypt (in billion EGP)



<sup>1</sup> HRC. (2011). *Report of the Independent Expert on the effects of foreign debt and other related international financial obligations of States on the full enjoyment of all human rights, particularly economic, social and cultural rights.*  
<sup>2</sup> Sarangi, N. (2020). *Fiscal Policy Response to Public debt and Debt Sustainability in Arab States.* ESCWA Working Paper  
<sup>3</sup> Middle-income countries in the Arab region include Algeria, Egypt, Jordan, Lebanon, Morocco, and Tunisia.

have been spent on healthcare or other productive investments. The accumulation of debt is associated with governance deficits and inefficiencies in government spending in the region, mainly when a large part of debt is used to finance increasing current spending.

For instance, in Egypt, current expenditure increased from 400 billion EGP to 1,230 billion EGP over the period between 2011 to 2018, while capital expenditure increased from about 40 to 105 billion EGP only during the same period. In this sense, a large share of increasing current expenditure is effectively financed from debt financing, while revenues fall short of meeting expenditures (figure 2). In 2018, around 30 percent of Egypt’s current expenditure could have been effectively financed from debt. Public social expenditure on health, education, and social protection increased, from 176 to 472 billion EGP between 2011 and 2018, but the increase is not as fast as total current expenditure. The increasing current expenditure being financed by debt financing is evident in case of Jordan and Tunisia as well, reaching around 27 percent and 29 percent in 2018, respectively (figures 3 and 4).<sup>4</sup>

Public social expenditure, as a share of GDP, has been low and declined in several middle-income countries in the region over the past decade (figure 5). Similarly, the growth in real per capita social expenditure has been decreasing in many countries (figure 6), which

Figure 3. Jordan  
(in billion JD)

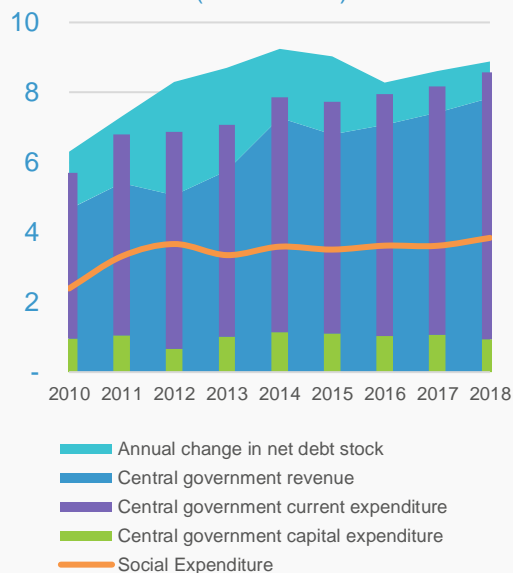
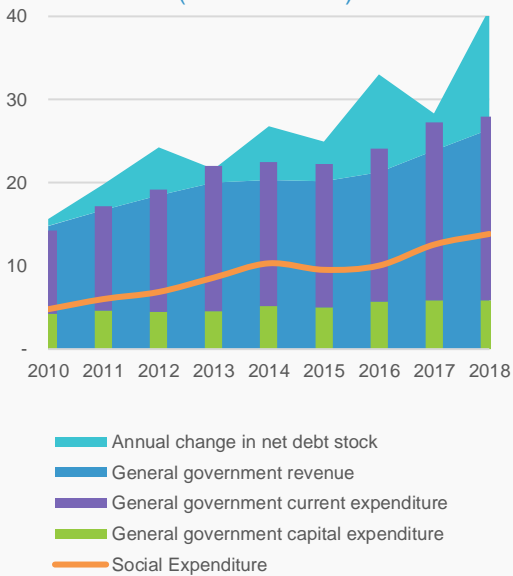


Figure 4. Tunisia  
(in billion TND)



<sup>4</sup> A broader definition of public social expenditure is to align it with the SDGs approach, proposed by ESCWA Social Expenditure Monitor, which covers seven broad areas of social development, including: Education; Health and nutrition; Housing and community amenities; Labour market/employment generation; Social protection and food security; Art, culture and sports; Environmental protection. ESCWA report on social expenditure is currently being prepared ([E/ESCWA/EC.6/2019/8/Rev.1](#)).

means there is less scope for public social expenditures to improve public services in critical areas that are essential for achieving the SDGs.

A good proportion of Egypt, Jordan, and Tunisia's debt were allocated to finance the fiscal deficit resulting from the governments' high current expenditure bills. Much of the increase in social expenditure came in the form of salaries and subsidies on ad hoc basis to counter societal dissatisfaction and public protests, which prevailed following both the global economic slowdown and the crisis in many parts of the region. The spending had little contribution on growth and human development, while investment on health, education and productive sectors remained negligent.<sup>5</sup>

These trends indicate to gross inefficiencies in the usage of debt or inefficient debt management. It not only increased debt service burden at present, but also burdened the future generation. The inefficiencies deprived the citizens of the potential benefits that could have happened from debt financing had the debt been used into growth enhancing sectors. From this perspective, debt financing has adversely impacted the realization of human rights and the future prospects of citizens. While debt finance remains an important source of financing sustainable development, countries need to assess their effectiveness and efficiency with regards to their impact on social development, poverty and inequality, and the realization of human rights.

<sup>5</sup> ESCWA, (2017). *Rethinking Fiscal Policy for the Arab Region*. Beirut: United Nations Economic and Social Commission for Western Asia, pp. 1-132.

Figure 5. Social expenditure as a share of GDP

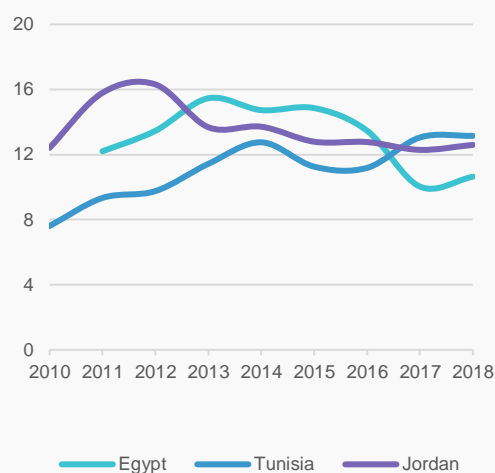


Figure 6. Growth in real social expenditure per capita

