

Sovereign Debt Dynamics in the Arab Region

Putting Rights at the
Center of Debt Debates

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Abbreviations

AAAA	Addis Ababa Action Agenda
AfDB	African Development Fund
BoP	Balance of Payments
CSOs	Civil Society Organisations
DSF	Debt Sustainability Framework
DSM	Climate/SDGs Debt Swap Mechanism
Eurodad	European Network on Debt and Development
ESG	Environmental, Social and Governance
FEES	Financial, Economic, Environmental, and Social
GDP	Gross Domestic Product
GSDR	Global Sovereign Debt Roundtable
GSSS	Green, Social, Sustainability, and Sustainability-linked bonds"
HIPC	The Heavily Indebted Poor Countries
ICMA	International Capital Market Association
IDA	The World Bank's International Development Association
IDB	Inter-American Development Bank
IFIs	International Financial Institutions
IMF	International Monetary Fund
KSA	Kingdom of Saudi Arabia
LICs	Low-Income Countries
LMICs	Low- and Middle-income Countries
MDBs	Multilateral Development Banks
MDRI	Multilateral Debt Relief Initiative
MENA	Middle East and North Africa
MICs	Middle-Income Countries
OECD	Organisation for Economic Co-operation and Development
PPG	Public and Publicly Guaranteed
PRSP	Poverty Reduction Strategy Paper
PV	Present Value
SDGs	Sustainable Development Goals
SMEs	Small and Medium-Sized Enterprises
SOEs	State-Owned Enterprises
SSA	Sub-Saharan Africa
UAE	United Arab Emirates
UN	United Nations
UNCTAD	UN Trade and Development (formerly, UN Conference on Trade and Development)
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
UNECLAC	United Nations Economic Commission for Latin America and the Caribbean
UNESCAP	United Nations Economic and Social Commission for Western Asia
WB	World Bank

“

«In being born every being is born as debt owed to the gods, the saints, the Fathers and to men. If one makes a sacrifice, it is because of a debt owing to the gods from birth ... If one recites a sacred text, it is because of a debt owing to the saints ... If one wishes for offspring, it is because of a debt due to fathers from birth ... And if one gives hospitality, it is because it is a debt owing to men.»

Satapatha Brahmana 1.7.12, 1-6 (quoted in Graeber 2011, p. 43)

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1. Introduction

Public debt, often approached with caution, can be a beneficial tool for advancing the public good and safeguarding social and economic rights. Governments borrow money for various reasons, including financing infrastructure projects, stimulating economic growth, as well as addressing emergencies (UNDP 2020).

During periods of economic downturn, public debt can be used as a counter-cyclical fiscal policy to inject liquidity into the economy, stimulate aggregate demand, and help an economy mitigate the adverse effects of a recession. This was evident during the 2007-08 financial crisis as well as the Covid-19 pandemic, where many governments increased borrowing to fund stimulus packages that helped their economies and societies cope with economic and health crises (Blanchard et al. 2010; IMF 2021). It can also be pivotal in advancing intergenerational equity. For instance, debt-financed investments in infrastructure, health and education, as well as climate change adaptation and mitigation can have significant positive externalities that benefit both current and future generations (Barro, 1979; Gramlich 1994).

However, rapidly growing debt levels may serve as a warning signal. Global public¹ debt, which includes both domestic and external general government debt, reached US\$102 trillion in 2024, about 93% of global GDP, marking a US\$5 trillion increase from 2023 (UNCTAD 2025). It is projected to rise to 100% of GDP by 2030, surpassing the pandemic peak and significantly increasing financing needs (IMF 2025). The rapidly growing² public debt represents a disproportionate burden on the developing world.

Today, low-income countries (LICs) and many middle-income countries (MICs) continue to struggle under heavy debt burdens, undermining their ability to create the conditions necessary for realizing economic and social rights, including the right to development. This challenge is compounded by the sharp increase in global financing needs, both to respond to a series of complex, interlinked crises and to advance sustainable development and climate commitments. According to the 2023 World Investment Report (UNCTAD 2023b), developing countries face an annual investment gap of \$4 trillion to achieve the Sustainable Development Goals (SDGs) by 2030, a significant increase from the pre-pandemic estimate of \$2.5 trillion. In 2023, developing countries faced a second consecutive year of net resource outflow, paying \$25 billion more in debt servicing to external creditors than they received in new disbursements (UNCTAD 2025), a negative net resource transfer that poses serious risks to development and ultimately shifts the burden onto people. This widening financing gap is further compounded by a decline in international project finance, as well as a global shift in spending toward militarization and defense, which continues to divert capital away from development priorities and exacerbate the financing gap (UNGA 2024).

In the Arab region, public debt trends broadly mirror global patterns. Over the past decade, public debt has risen sharply, reaching USD 1.5 trillion in 2022, around half of regional GDP (UNCTAD 2025). MICs such as Algeria, Egypt, Jordan, Lebanon, Morocco, and Tunisia accounted for approximately half of this total, with their combined debt standing at USD 699 billion in 2022³. LDCs, including Comoros, Djibouti, Mauritania, Somalia, Sudan, and Yemen, continue to face significant debt-related risks despite having benefited from some debt relief⁴ earlier in the decade (UNCTAD 2023). Debt service costs have also grown relative to exports and government revenues. In 2021, at least half of Arab countries spent more than 9.3% of their exports and 9.4% of their government revenues on external debt service (UNCTAD 2023). These pressures heighten liquidity constraints and limit the resources available for development spending.

Rising debt levels in the Arab region have raised concerns among stakeholders, including civil society organizations (CSOs), about the sustainability of fiscal conditions. Growing debt service obligations are limiting governments' ability to fund essential public services and development priorities. The resulting fiscal constraints risk deepening social and economic challenges, highlighting the urgent need for a more sustainable, rights-based approach to debt management, supported by stronger international cooperation to protect development and social stability, and uphold economic and social rights.

This paper examines the evolving landscape of sovereign debt in the Arab region, analyzing key trends and sustainability challenges in comparison with global patterns. It analyzes the determinants of debt buildup in the region, provides a rights-based critique of current international debt resolution frameworks, and explores alternative approaches that move beyond austerity-driven conditionality. The paper also underscores the importance of domestic resource mobilization in achieving sustainable debt outcomes and highlights the role of civil society in advancing a more equitable and effective global debt governance framework.

The structure of this paper is as follows. The next section explores major trends in sovereign debt across the Arab region in relation to global patterns, highlighting the main challenges to debt sustainability. Section three examines the human rights implications of debt buildup and provides a rights- and development-based critique of current debt sustainability frameworks. Section four analyses the key drivers of rising debt, looking at both domestic political economy factors and external determinants, including the unequal structure of the international financial system. The final section concludes with key policy implications.

2. Sovereign Debt Realities and Trends in the Arab Region: A Comparative Overview

Several Arab states face high and unsustainable debt levels, exacerbated by multifaceted regional challenges. These include a slow economic recovery from the COVID-19 pandemic, limited fiscal space, geopolitical shocks, and increased military spending. According to a UNDP (2020) report, the impact of these shocks on debt accumulation is immediate and severe, with potential long-term negative effects due to the structural nature of the problem. The critical state of debt sustainability is evident in the macroeconomic indicators related to sovereign debt, both in their levels and their trajectories over time.

2.1 Aggregate Public Debt

The overall debt outlook in the region is mirrored in the high and rising public debt to GDP ratios since 2010.

Figure 1: Ratio of Public Debt-to-GDP

Figure 1a: Public Debt-to-GDP Ratio by Region and Country, 2024

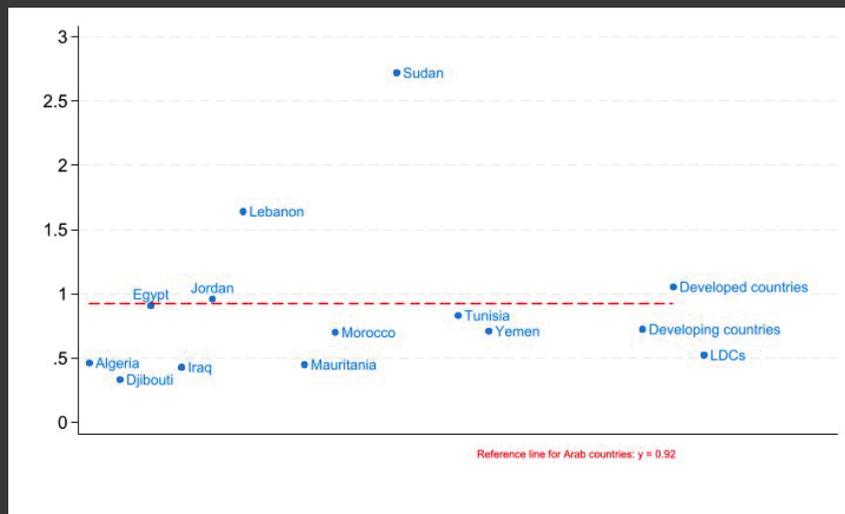
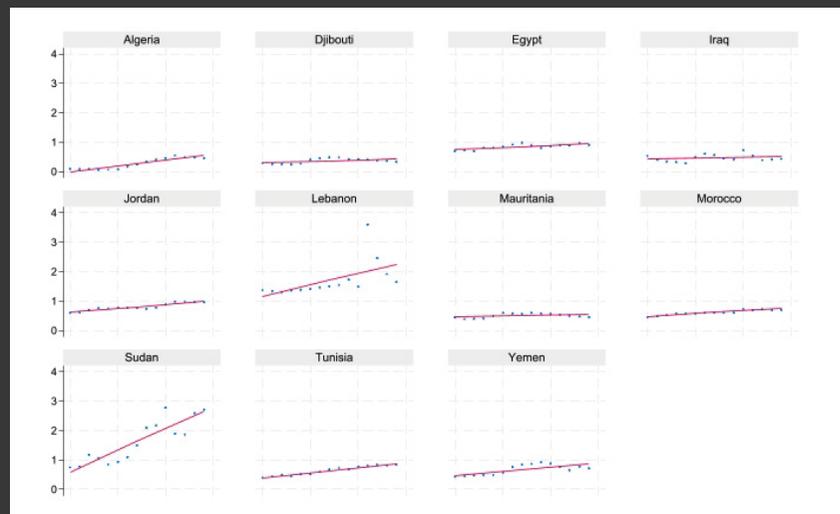


Figure 1b: Evolution of Public Debt-to-GDP Ratios, Selected Arab Countries, 2010–2024



Source: Author's calculations based on data from UNCTAD (2025), *A World of Debt Database*.

In 2024, the average public debt-to-GDP ratio in the Arab region was higher than that of developing countries and in least developed countries (LDCs), but lower than in developed countries⁵, as shown in Figure 1a. Since 2010, this ratio has, on average, increased in many Arab countries such as Algeria, Egypt, Iraq, Jordan, Lebanon, Morocco, Sudan, Tunisia and Yemen (Figure 1b). This rise is mainly driven by financing needs, stagnating domestic revenue mobilization, and a global environment of low interest rates over the past decade.

The rising debt-to-GDP ratios have been accompanied by an increase in debt servicing commitments. Figure 2a shows that in 2024, the average ratio of public debt interest payments to revenues in the Arab region exceeded that of both developing and developed countries. Figure 2b further illustrates how this ratio has evolved in selected Arab countries⁶ since 2010. It has steadily increased over this period, especially in Algeria, Egypt, Jordan and Lebanon.

Figure 2: Ratio of Public Debt Interest Payments to Government Revenue

Figure 2a: Debt Interest-to-Revenue Ratio by Region and Country, 2024

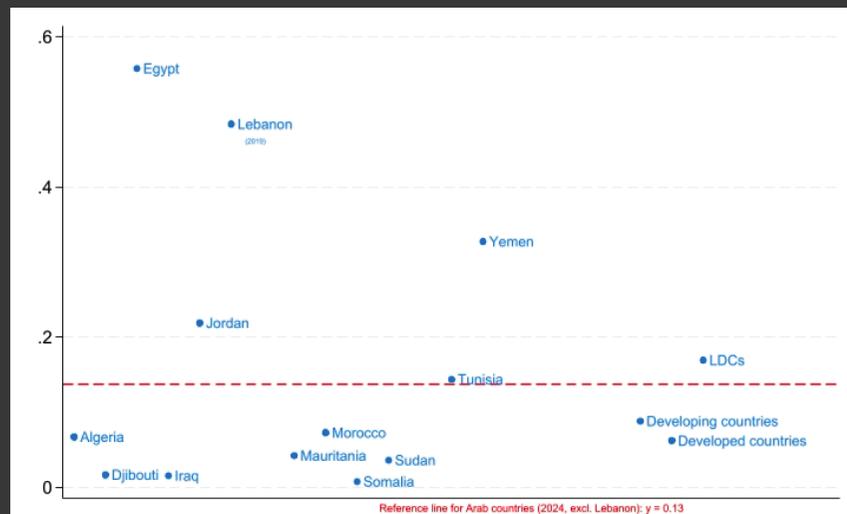
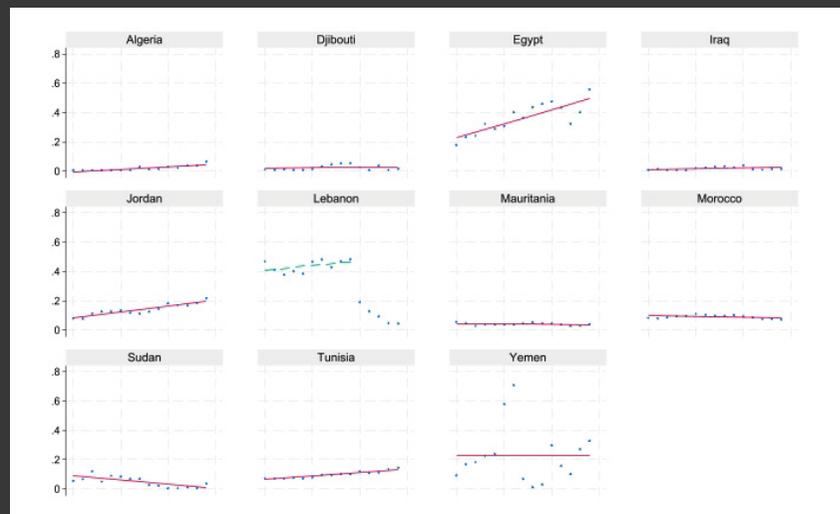


Figure 2b: Evolution of Debt Interest-to-Revenue Ratios, Selected Arab Countries, 2010–2024



Source: Author's calculations based on data from UNCTAD (2025), *A World of Debt Database*.

The surge in interest payments in the region has squeezed budgets for critical areas such as education and health. As Figure 3a and 3b below show, in 2024 average interest payments across Arab countries amounted to more than 54% of education spending, well above the developing-country average. In Lebanon, Egypt, and Jordan, governments devoted more to servicing debt than to education.

The picture is even starker for health: average interest payments exceeded 110% of health spending, with Lebanon, Egypt, Jordan, and Yemen each allocating more to debt service than to health services.

This raises serious concerns that mounting debt burdens are diverting scarce public resources from human development, risking countries' ability to adequately meet the needs of their people.

Figure 3: Ratio of Public Debt Interest Payments to Education and Health Spending

Figure 3a: Interest Payments to Education Spending Ratio by Region and Country, Latest Year

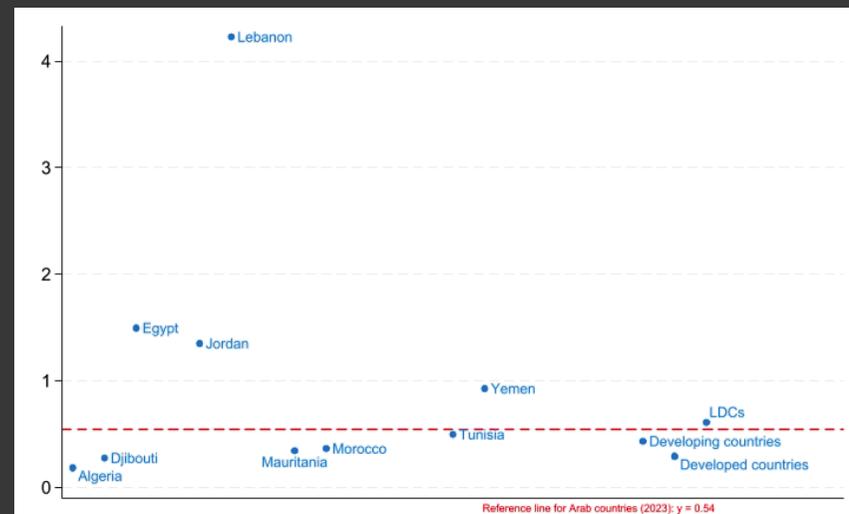
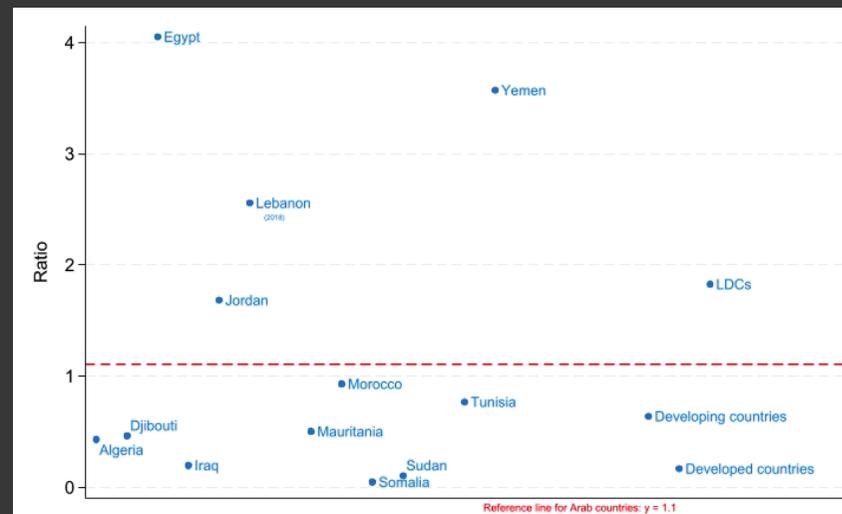


Figure 3b: Interest Payments to Health Spending Ratio by Region and Country, 2023



Source: Author's calculations based on data from UNCTAD (2025), A World of Debt Database.
 Notes: Ratios in Figure 3a are calculated using the most recent data available.

2.2 External Aspects of Public Debt

External public debt has broader implications for a country's economic stability, including obligations to foreign creditors that can affect access to global financial markets (Albinet & Kessler 2022; Albinet et al. 2023). Additionally, the impact of external debt is more pronounced during economic crises, as countries may struggle to meet foreign currency obligations, potentially leading to defaults and further economic and social instability.

Figure 4: Ratio of External Public Debt-to-GDP

Figure 4a: External Debt-to-GDP Ratio by Region and Country, 2023

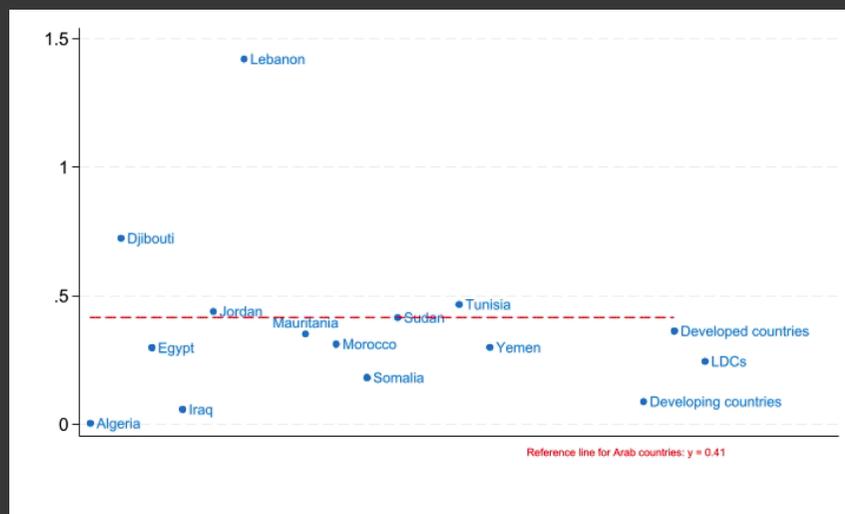
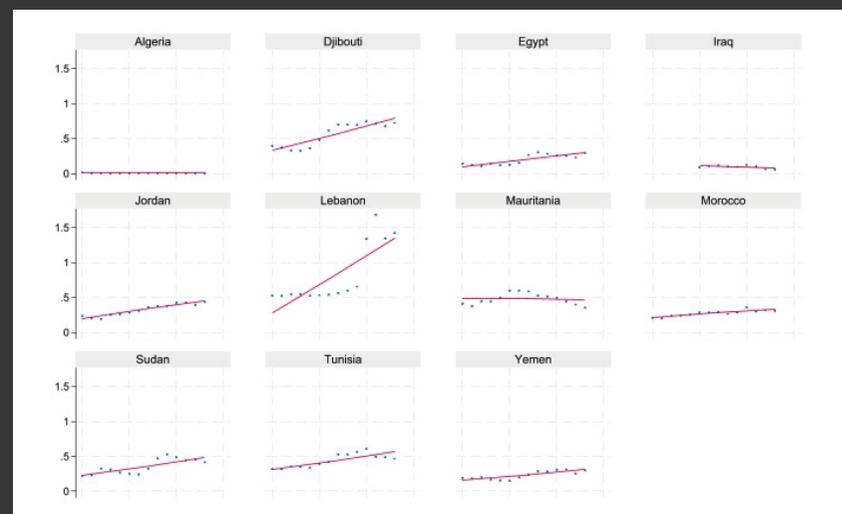


Figure 4b: Evolution of External Debt-to-GDP Ratios, Selected Arab Countries, 2010–2023



Source: Author's calculations based on data from UNCTAD (2025), *A World of Debt Database*.

In 2023, the average external public debt-to-GDP ratio in the Arab region exceeded that of all three development categories (developing, least developed, and developed countries), as shown in Figure 4a. Moreover, Figure 4b illustrates that external debt-to-GDP ratios have been rising on average over the past decade in Djibouti, Egypt, Iraq, Jordan, Lebanon, Morocco, Sudan, Tunisia, and Yemen. This upward trend highlights the region's growing external liquidity needs. According to the United Nations Economic and Social Commission for Western Asia (UNESCWA, 2021), Egypt, Jordan, and Tunisia⁷ collectively borrowed more than \$10 billion in 2020 under the IMF's short- and medium-term lending mechanisms to meet urgent external liquidity requirements for imports.

Another widely used indicator⁸ is external debt service relative to exports, which serves as a proxy for assessing a country's liquidity risk (IMF, 2018). Examining its trajectory provides valuable insights into the evolving liquidity challenges facing Arab economies.

Figure 5: External Public Debt Service (% of Exports) in MENA (Excl. High Income), LMICs, and Selected Arab Countries

Figure 5a: External Debt Service: MENA vs. LMICs, 2010–2023

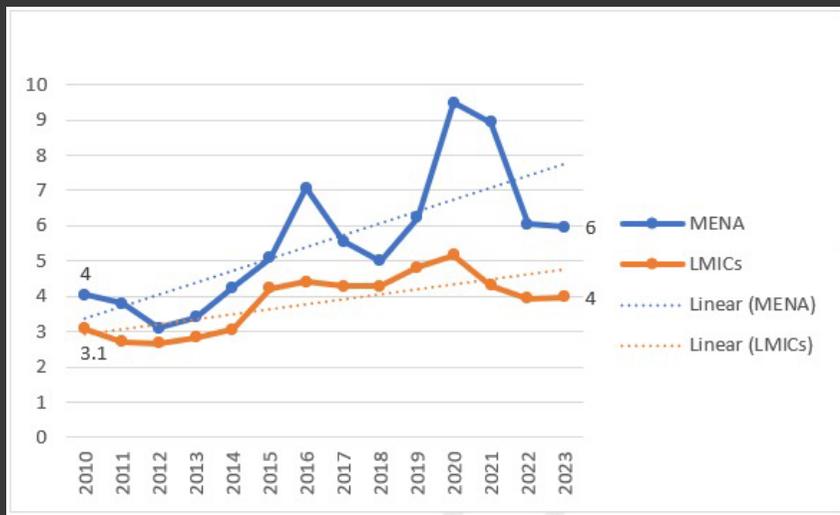
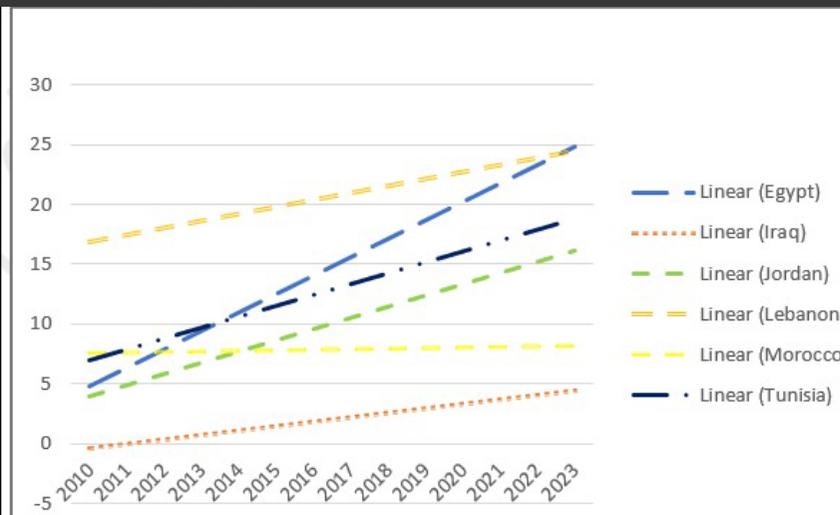


Figure 5b: External Debt Service: Selected Arab Countries, 2010–2023



Source: Author's calculations based on data from the World Bank's International Debt Statistics (IDS) database.

Notes: Figure 4-b shows trendlines for External Public and Publicly Guaranteed (PPG) Debt Service (% of Exports) from 2023–2010 in selected Arab countries, indicating the direction of change without reflecting exact data points. For Lebanon, the trend reflects data up to 2019; the country defaulted on its debt in 2020 and has stopped servicing its external debt (Eurobonds) since then.

Over the past decade, the region has experienced a substantial increase in debt-servicing commitments. As shown in Figure 5a, external public debt service, measured as a proportion of exports, rose from around 4% in 2010 to 6% in 2023, corresponding to a compound annual growth rate (CAGR) of 3.06%. This increase is notably more pronounced than in low- and middle-income countries (LMICs), where the proportion rose from 3.1% to 4% over the same period, reflecting a CAGR of 1.99%.

A similar pattern is evident in six selected Arab countries, including Egypt, Iraq, Jordan, Lebanon, Morocco, and Tunisia. As shown in Figure 5b, average external public debt service as a share of exports followed an upward trajectory between 2010 and 2023, reflecting a steady rise in debt-servicing commitments across these economies.

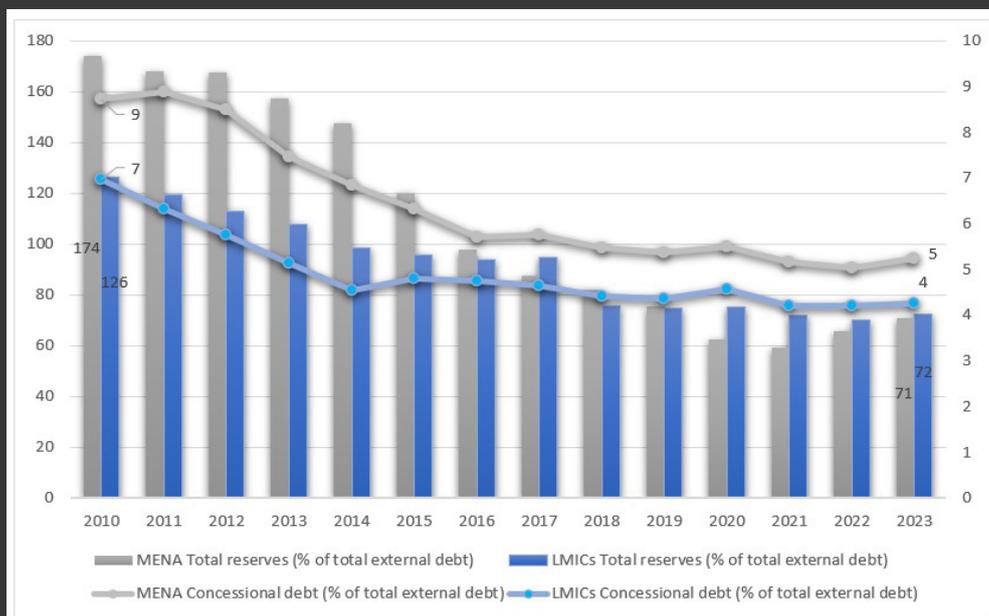
There are two significant aspects related to the increase in external debt and its servicing. First, it signifies a dependency on foreign creditors, whether official or private, which can undermine the country's financial sovereignty due to the potential conditionality imposed by these lenders. Second, external debt is often denominated in foreign currencies, thereby increasing the country's exposure to exchange rate risks; if the local currency depreciates, the cost of repaying the external debt escalates. Additionally, rising external debt can signal impending debt crises for some of these countries for reasons beyond financial sovereignty and exchange rate risks. These reasons include a higher burden of debt service⁹, social and economic instability, and undermined access to capital markets. As external debt grows, so does the cost of servicing it. For Arab countries with limited fiscal space, such as Lebanon, Egypt and Jordan, the rising debt-service burden signals illiquidity, that is, a lack of liquid assets to meet short-term liabilities. In the case of Lebanon, it signals insolvency due to the country's deep-seated financial crisis. This burden can crowd out essential public spending on infrastructure, health, education, and other social services, thereby making the realization of economic and social rights more challenging. This can lead to public discontent and socio-economic instability. Furthermore, high levels of external debt can affect a country's credit rating, making it more expensive and difficult to access international capital markets. Investors who agree to lend to these countries will demand higher interest rates due to their perception of a higher risk of default, thereby increasing the cost of borrowing and exacerbating the debt situation.

2.3 Debt Composition and Characteristics

2.3.1 Reserves and concessional borrowing

Evaluating a developing country's capacity to manage external debt involves analyzing its foreign reserves¹⁰ and concessional¹¹ borrowing as a percentage of total external debt. A higher proportion of concessional debt and total reserves generally indicates a stronger ability to service debt and avoid liquidity crises.

Figure 6: Total Reserves and Concessional Debt (% of Total External Debt) in MENA (Excl. High Income) and LMICs



Source: Author's calculations based on data from the World Bank's International Debt Statistics (IDS) database.

The borrowing pattern in the region has shifted, with a decline in the share of concessional loans in total external debt over the past decade. As shown in Figure 6, this decrease is particularly evident in MENA (excluding high-income countries), where the ratio fell from 9% in 2010 to 5% in 2023. The reduction is sharper than in LMICs, where the ratio declined from 7% to 4% over the same period.

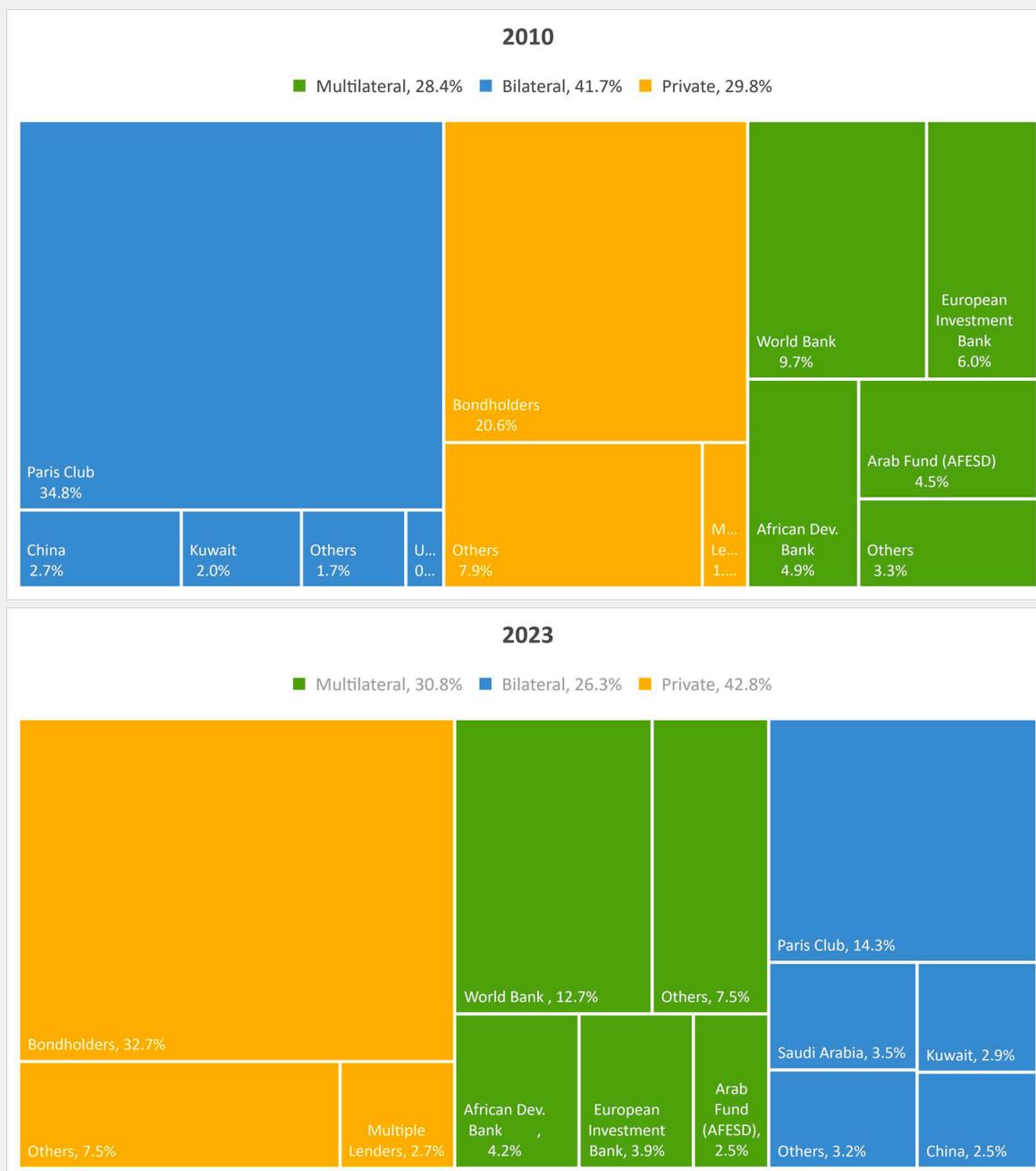
A similar trend appears in total reserves as a percentage of external debt, which dropped from 174% to 71% in the region, compared to a fall from 126% to 72% in LMICs.

These shifts pose serious challenges to the ability of MENA countries to manage debt without jeopardizing their capacity to finance development and uphold economic and social rights. Reliance on more expensive borrowing in place of concessional financing increases debt burdens, while shrinking reserves weaken the capacity to absorb external shocks and meet debt obligations. The resulting financial strain risks triggering austerity measures, with cuts to social services that disproportionately affect vulnerable populations, deepen poverty, and undermine economic and social rights.

2.3.2 Creditor Composition of Public Debt

The increase in external debt in Arab states over the better part of the past two decades has been marked by a noticeable trend: a significant rise in the share of debt owed to private creditors, alongside a declining share owed to bilateral creditors, particularly the Paris Club. This can be seen in Figure 7 below.

Figure 7: Creditor Composition of PPG Debt in MENA (Excl High Income), 2010 vs 2023



Source: Author's calculations based on data from the World Bank's International Debt Statistics (IDS) database.

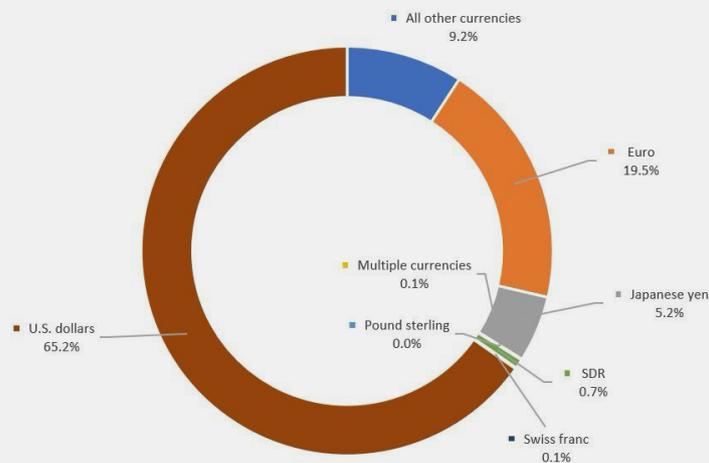
This dynamic, characterized by the rising role of private creditors at the expense of official debt, reflects a broader global financing agenda which, since the Addis Ababa Action Agenda (AAAA) in 2015, has emphasized mobilizing private sector resources to address the development financing gap.

While this agenda highlights the value of leveraging private finance, it also raises questions about how to balance the need for capital with the risks of private debt, including exposure to market fluctuations and the absence of concessional or flexible terms for developing countries (see figure 6). Borrowing countries can be left vulnerable to market volatility, as private debt is highly sensitive to market conditions and investor sentiment, which may result in higher interest rates and debt servicing costs. Stiglitz and Rashid (2020) note that private creditors often withdraw their investments at the first signs of shocks or crises, creating pressure on domestic currencies and leading to depreciations. Another concern is that private debt generally involves shorter maturities, which can intensify refinancing challenges and trigger liquidity pressures. Governments in distress may turn to shorter maturities to signal reform credibility (Missale and Blanchard, 1994). Yet, as Chen et al. (2019) explain, the maturity structure of debt is critical because short-term debt, defined as maturing within a year, increases the likelihood of a rollover crisis¹² when economic conditions deteriorate or global shocks occur. Finally, private creditors are often reluctant to offer flexible terms or engage in restructuring, which can constrain a country’s ability to adopt necessary policy measures in periods of distress (Lee 2020).

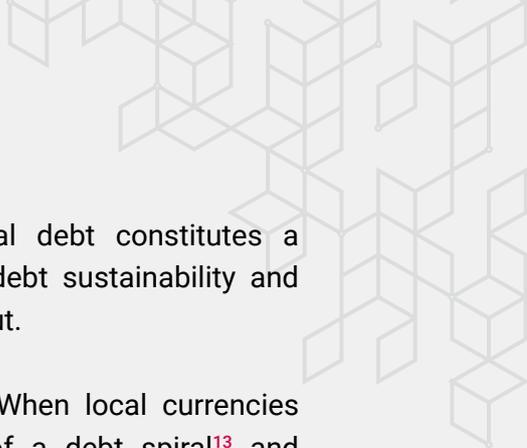
2.3.3 Currency Composition of Public Debt

Another source of vulnerability lies in the currency composition of external debt in the region, with approximately 85% denominated in US dollars and euros in 2023, as illustrated in Figure 8 below.

Figure 8: Currency Composition of PPG Debt in MENA (Excluding High Income), 2023



Source: Author's calculations based on data from the World Bank's International Debt Statistics (IDS) database.



The predominance of foreign currency-denominated external debt constitutes a structural vulnerability for Arab countries, undermining both debt sustainability and prospects for sustainable development. Two key issues stand out.

First, it exposes these countries to exchange rate volatility. When local currencies depreciate, debt servicing costs increase, raising the risk of a debt spiral¹³ and compelling governments to borrow more to meet their obligations. This diverts scarce resources away from health, education, social protection, and climate action, which are essential for realizing human rights and achieving sustainable development.

Second, high levels of foreign currency debt reduce the policy space available to governments and central banks. Rather than focusing on unemployment, poverty, inequality, and climate challenges, authorities may be pressured to prioritize exchange rate stability in order to manage repayments. This dynamic limits states' capacity to meet social and environmental obligations and shifts the adjustment burden onto citizens.

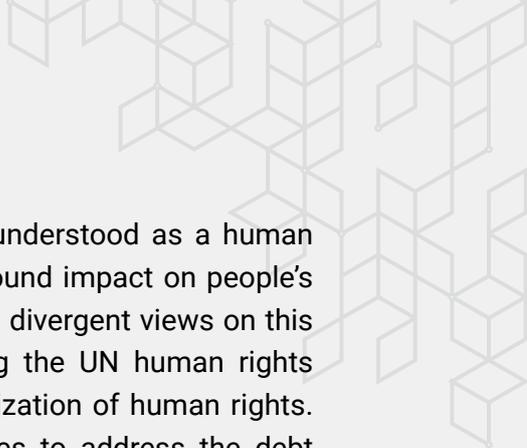
3. Debt and Human Rights in the Arab Region

3.1 Implications for Human Rights

In many developing countries, debt repayment often comes at the expense of basic human rights, including the rights to food, health, education, adequate housing, and work (Stephen 2008; Lumina 2013). According to the United Nations Financing for Sustainable Development Report (UN 2024), approximately 3.3 billion people live in countries where government spending on interest payments exceeds expenditures on health or education. This suggests that heavy debt burdens and debt servicing frequently divert resources from essential social services, impeding LMICs' ability to advance sustainable development and climate ambitions. The situation in the Arab region follows a similar pattern, where sovereign debt creates conditions that constrain development prospects and risk undermining countries' capacity to realize economic and social rights, as well as the right to development.

Increasing debt servicing commitments among Arab countries undermine national ownership of development strategies, which is central to the right to development. Genuine ownership requires that governments be able to freely design and lead strategies based on the needs of their societies, particularly the most vulnerable. Yet chronic aid dependence and heavy indebtedness weaken this autonomy. Debtor countries are frequently compelled to accept stringent conditions attached to new loans or debt relief, including the privatization of state-owned enterprises (SOEs), expenditure cuts, wage ceilings, user fees for basic services, and a range of economic and structural reforms mandated by IFIs.

The shrinking fiscal space for public investment in essential services disproportionately affects women and reinforces existing gender inequalities, as rising debt servicing obligations are often accompanied by austerity measures that reduce spending on healthcare, education, and social protection, which are essential to women's well-being (Sibeko 2022). This is particularly harmful in a region where female labor force participation (FLFP) was only 19% in 2021 compared to a global average of 47% (Sherry et al. 2023), and where women perform nearly five times more unpaid care work than men (Kaboub and Elajmi 2024). Public sector retrenchment further restricts employment opportunities, especially given the public sector's historic role as a major employer of women in the region. These impacts fall most heavily on rural women, single mothers, and female-headed households, deepening their economic and social vulnerability. In war-affected areas, these impacts are magnified, as women face compounded vulnerabilities while remaining largely excluded from policy responses.



This raises an important question: should sovereign debt be understood as a human rights issue rather than solely an economic one, given its profound impact on people's rights and well-being? Developed and developing countries hold divergent views on this matter, with developed (creditor) countries generally opposing the UN human rights bodies' consideration of the impact of foreign debt on the realization of human rights. They argue that these bodies are not the "appropriate" entities to address the debt problem (Lumina 2013).

This stance is inconsistent with the principle that all human rights are indivisible, universal, and interrelated. The Declaration on the Right to Development underscores the equal importance of civil, political, economic, social, and cultural rights for development. States' human rights obligations are relevant in the context of external debt, and ensuring basic human rights may take precedence over debt servicing, particularly when debt payments hinder the fulfillment of these rights. Significant gaps in basic human rights remain, including millions of children out of school, high child mortality rates, and lack of access to clean water and sanitation.

Box 1: Can Innovative Finance Deliver on Debt, Climate and Development?

Innovative finance is increasingly promoted as a means to address persistent challenges in mobilizing resources for sustainable development, particularly where traditional financing options are insufficient, inaccessible, or in decline (UNESCWA 2021, 2022a; UNESCWA, ECA & ECLAC 2025). The approach centres on the use of debt instruments such as debt-for-climate swaps, blended finance, and thematic or sustainability-linked bonds, including environmental, social and governance (ESG) bonds to help close financing gaps and leverage new sources of capital.

According to UNESCWA, ECA and ECLAC (2025), global sustainable finance markets are evolving to meet growing demand for climate- and SDG-aligned investments, expanding to include instruments such as green, social, sustainability, and sustainability-linked bonds (GSSS), debt-for-climate/SDG swaps, and blended finance mechanisms. Advocates argue that, when underpinned by credible frameworks and aligned with the International Capital Market Association (ICMA) standards, which are the leading voluntary guidelines for sustainable finance, these tools can mobilize private capital while enhancing market integrity and comparability.

However, CSOs working at the intersection of human rights, debt, and climate justice caution that innovative financing instruments offer only limited debt relief compared to comprehensive restructurings or cancellation (Standing 2023; Debt Justice 2025). They view these tools as part of the broader financialisation of development, often diverting scarce public resources to de-risk private investors (Gabor 2018). Their complex, jargon-heavy nature hinders civil society and policymakers from fully understanding their operation, limiting informed debate on human rights impacts. Concerns include greenwashing—presenting instruments as more sustainable than they are to attract investors—and adding to already unsustainable debt in the Global South, enabling wealth transfer to rentiers in the Global North.

In the Arab region, Egypt's first sovereign green bond was originally planned at US\$500 million but attracted orders totaling US\$4.93 billion, prompting the government to increase the bond by 50% to US\$750 million (Standing 2023). This raised questions over whether the extra borrowing was truly warranted by sustainable development financing needs and underscored broader risks of ESG bonds, including the potential for over-borrowing driven by strong investor demand and the vested interests of financial service providers and intermediaries. In Jordan, Tunisia, and Mauritania, CSOs have raised concerns over proposed climate/SDG debt swap programmes currently in development. Debt Justice (2025) finds that such swaps reduce debt seven times less than restructurings, while Gabon's 2023 debt-for-nature swap even increased debt by over US\$66 million (Woolfenden 2025).

Although innovative instruments present a novel approach to linking debt relief with climate objectives, their capacity to deliver substantive debt reduction, uphold human rights, and advance sustainable development remains contested. Evidence suggests that full debt relief is often more effective, though harder to justify financially (Linsley-Parrish 2024). CSOs therefore emphasise the need to demystify such instruments, address integrity and transparency issues, and prioritise grant-based, rights-aligned financing, with a central demand for a fair UN-led debt workout mechanism as a systemic solution to achieving debt justice, protecting rights, and advancing sustainable development.

3.2 Rethinking Debt Sustainability: Limitations of the Mainstream Framework

Debt is considered sustainable¹⁴ when a country can repay its current and future debt without defaulting or needing special financial assistance. In other words, the country must be able to meet its debt payments without having to continually issue new debt, as in a Ponzi scheme (Hakura 2020). In contrast, debt becomes unsustainable when fiscal policy can no longer respond effectively to rising debt levels, leading to worsening financial conditions (Willems & Zettlemeyer 2022).

Debt sustainability is commonly assessed through two main dimensions: liquidity and solvency (UNDP 2020). Liquidity measures a country's ability to meet its short-term obligations using available liquid assets. Solvency evaluates whether a country can continue servicing its debt over the medium to long term without facing financial distress or the risk of default.

Existing debt sustainability Analyses¹⁵ (DSAs), particularly those developed by the International Monetary Fund (IMF) and the World Bank, typically follow this logic: assessing whether debt-related challenges arise from illiquidity or insolvency. They¹⁶ focus primarily on evaluating the vulnerability of the country to a payments crisis and define debt sustainability as a situation where the borrower is expected to continue servicing its debts without needing to make drastic future changes to its income and spending levels. Based on such assessments, strategies can be designed to guide LMICs in making borrowing decisions that align their financing needs with their current and future repayment capacities. For instance, if a country is found to be insolvent, debt restructuring or relief is considered necessary. If the problem is one of illiquidity, the recommended response is to provide additional liquidity¹⁷ support to help sustain debt repayments.

In line with this framework, the 2024 progress report of the Global Sovereign Debt Roundtable (GSDR)—a platform co-chaired by the IMF, the World Bank, and the G20 Presidency that aims to improve the global debt resolution process for countries in distress—argued that “solvency risks seem broadly contained,” citing the low incidence of defaults and the continued ability of developing countries to meet debt repayments (World Bank 2024).

However, two important caveats must be considered.

First, low default rates do not necessarily reflect sound social and economic conditions. Many heavily indebted countries, operating under lending programs from international financial institutions (IFIs) and multilateral development banks (MDBs), are required to implement austerity measures that involve significant cuts to public spending. However, decades of fiscal austerity and other neoliberal policies have contributed to widening

social inequalities and growing political discontent. This discontent is further reflected in a deepening global crisis of institutional trust, with more than half of the world's population expressing little or no confidence in their governments. According to UNDESA (2025), 57% of people report having low or no trust in their government. In several Arab countries, these risks are compounded by ongoing geopolitical tensions, military escalations, and deteriorating security conditions that severely constrain fiscal space. Under such conditions, countries can quickly shift from liquidity challenges to full-blown debt crises.

Second, existing DSAs tend to focus primarily on external debt, often overlooking the substantial and growing burden of domestic debt. For example, IMF–World Bank assessments exclude the total public debt service-to-revenue ratio, an indicator many civil society organizations (CSOs) view as essential for accurately assessing debt sustainability. This omission is critical, as domestic debt can carry high servicing costs and often crowds out private investment. According to a UNICEF (2022) report, all seven Arab countries—Djibouti, Egypt, Lebanon, Morocco, Sudan, Tunisia, and Yemen—spend more on debt service than on health, with the exception of Sudan. All except Tunisia also spend more on debt service than on education.

While DSAs may offer a useful starting point, they are insufficient on their own. Civil society actors across the Arab region argue that a debt crisis is already underway. This crisis is not solely defined by liquidity versus solvency, or by the presence of sovereign default. Rather, it is reflected in the broader consequences of austerity measures, including cuts to public services that are fundamental to human rights, such as healthcare, quality education, infrastructure, and climate mitigation. It is also seen in the economic stagnation affecting many countries in the region, driven by rising debt service burdens. According to the World Economic Forum, 14 Arab countries had not achieved a single SDG by 2022 (Abulenein 2024). Moreover, a UNESCWA (2024) report estimates that, at the current pace, the region would need an additional 60 years to achieve the SDGs, highlighting the urgent need for accelerated and targeted action. Viewed in this context, debt in the region is rapidly approaching the threshold of unsustainability and may have already crossed it.

4. The Political Economy of Sovereign Debt in the Arab Region

Sovereign debt dynamics in the Arab region are shaped by a complex interplay of economic, political, and social factors, with sharp contrasts between rich, oil-exporting countries and low- to middle-income, non-oil-exporting countries (LMICs). In oil-rich countries such as the Kingdom of Saudi Arabia (KSA), Kuwait, and the United Arab Emirates (UAE), debt levels largely depend on oil revenues, which fluctuate with global prices. High oil prices reduce deficits and debt, while low prices often lead to borrowing to sustain public spending. Between 2010 and 2022, the average public debt-to-GDP ratio remained relatively low: 8.1% in Kuwait, 13.6% in KSA, and 23.3% in the UAE (UNCTAD 2023c).

In contrast, the region's LMICs, despite having more diversified economies, are more vulnerable to external shocks such as global commodity price volatility, trade disruptions, and tourism slumps, all of which reduce revenue and increase the need for borrowing (World Bank 2020). These countries have limited fiscal space, and their debt challenges have been compounded by the scarcity of low-interest financing and a decline in unconditional financial aid from oil-rich neighbors (Mazarei 2023). Rising interest rates have increased the cost of debt servicing, especially when borrowing is used to cover recurrent expenditures rather than finance productive investments.

This section will examine the domestic dynamics and drivers of debt through selected country examples, followed by an exploration of the role of the international financial architecture in shaping these trends.

4.1 Domestic Dynamics of Sovereign Debt in Select Arab Countries

This section outlines three key features that characterize sovereign debt dynamics in Arab countries, using selected country examples to illustrate how these interconnected patterns vary across different national contexts.

Firstly, in several Arab countries, a large share of public spending goes toward recurrent costs, including civil servant wages, subsidies, support for state-owned enterprises (SOEs), and debt interest payments. While these expenditures may contribute to short-term political stability, they often reflect the interests of powerful elites and add to rising debt without addressing core structural weaknesses. The challenge is in how governments respond. Austerity measures are frequently adopted without distinguishing between beneficial spending, such as social services and public investment that improve quality of life and stimulate economic growth, and inefficient

spending rooted in corruption or poor governance. This indiscriminate approach risks increasing inequality, undermining economic and social rights and limiting the potential for sustainable long-term development.

Iraq resonates with this dynamic, as its economy remains structurally dependent on volatile oil revenues, which account for over 85% of the government's budget and 42% of GDP (World Bank, n.d.). According to civil society actors, public debt has increased primarily due to continued reliance on domestic and external borrowing, driven largely by political pressures to maintain redistributive spending. This occurs within a context of pervasive corruption and institutional fragmentation, which further constrain the government's ability to reorient spending toward long-term development (Al-Mashhadani 2025). The push for austerity measures, without distinguishing between essential expenditures and wasteful or politically motivated spending, risks deepening existing inequalities and undermining economic and social rights in the country.

In Jordan, public debt has increased significantly in recent years, largely due to a prolonged dependence on external aid and borrowing to finance recurring fiscal deficits within a fragile economic structure and regressive tax system ((Al-Ajlouni 2023; Awad 2025). The country relies heavily on indirect taxes, such as high sales taxes, while income and wealth taxes remain limited, placing a disproportionate burden on lower-income groups. Moreover, Jordan's fixed and costly exchange rate regime has heightened vulnerability to global interest rate hikes and US dollar fluctuations, which increase the cost of external debt servicing, pressure foreign reserves, and weaken the state's ability to invest in essential services like health, education, and infrastructure.

Secondly, a key aspect of public debt in many Arab countries is that a substantial portion is held domestically. This poses a significant challenge for debt reduction efforts, as it would involve distributing considerable financial losses among domestic stakeholders, including the government, the central bank, commercial banks, and other influential actors. Such a process is often politically sensitive and difficult to carry out, particularly in contexts characterized by fragmented governance and competing elite interests.

Lebanon exemplifies this dynamic. Its 2020 sovereign default¹⁸ followed one of the world's most severe financial and economic crises since the mid-1800s (World Bank 2022). The crisis, described as a "deliberate depression" (World Bank 2020a), stemmed from a post-civil war political economy that used fiscal policy for elite capture, supported by a fixed exchange rate regime maintained through high interest rates to attract foreign inflows. This model, resembling a Ponzi scheme with political elites and the banking sector at its core (Gaspard 2022, 2024; Gebara 2025), created an illusion of macro-financial stability but led to an unsustainable buildup of debt and, ultimately, sovereign default. With most public debt held domestically¹⁹, particularly by banks, the political cost of distributing losses has prevented any meaningful reform or restructuring to date, despite the country enduring losses several times greater than its GDP over the past three years (Diwan 2023).

In Tunisia, the constitutional and political crises, in addition to maintaining exchange rate stability despite being unaffordable, has spawned economic uncertainty and higher borrowing costs. Accordingly, Tunisia has become dependent on large inflows of grants and loans from the international community, especially from official creditors who supported the country's democratic transition (Yerkes et al. 2022). Yet, the delicate balance of power between Tunisia's labor unions and political leadership prevented either side from dominating the other, making it difficult to introduce the economic reforms each saw as necessary to address the country's economic and debt challenges.

Thirdly, debt accumulation in the region is deeply rooted in the structural composition of its economies and the manner of integration into the global economy. The region's heavy reliance on foreign financial inflows, rather than high-value-added exports, exposes it to the volatility of global economic fluctuations and external shocks, including geopolitical tensions. This inherent vulnerability is closely tied to the specific nature of economic activities and productive sectors within the region. As these productive capacities decline, the region's competitiveness and position in global trade are adversely affected. This decline initiates a vicious cycle where reduced productivity further weakens the region's economic standing, leading to increased reliance on debt. Consequently, this process exacerbates debt accumulation and significantly contributes to the unsustainability of debt in the region.

In Egypt, fiscal deficits have averaged 9.5 percent of GDP over the past decade, leading to the accumulation of substantial public debt (Helwa 2024). This stems in part from reliance on volatile revenue sources such as tourism, the Suez Canal, and remittances, alongside a fragmented budgetary landscape²⁰. Adding to this volatility is Egypt's dependence on short-term "hot money"²¹ inflows, which, although not conventionally classified as debt, exert significant pressure during episodes of capital flight and exacerbate external borrowing risks (Ramadan 2025). Recent geopolitical shocks, including the war in Gaza and the Red Sea shipping crisis, have further intensified fiscal pressures, heightening exposure to interest rate hikes and rollover risks while constraining social protection spending.

In Morocco, although not currently in debt distress, rising borrowing, particularly domestic, reflects growing reliance on public financing to compensate for limited resources and economic growth that has often fallen short of development targets. Consequently, public debt poses a long-term constraint on fiscal space and the state's capacity to uphold constitutional rights such as education, health, and social protection. Civil society actors attribute this trend to capital-intensive industrial strategies, agricultural policies that prioritize exports over food security, and the persistent marginalization of small and medium-sized enterprises (SMEs), all of which have hindered inclusive growth and contributed to sustained public debt accumulation (Mekouar 2025).

Box 2: The Cost of Inaction in Lebanon

According to the World Bank (2022a), Lebanon's severe economic and financial crisis has resulted in losses exceeding US\$72 billion, which is more than three times the GDP of 2021. A financial sector bailout is unfeasible due to inadequate public funds, with public assets worth only a fraction of the estimated financial losses. Despite this situation, Lebanese political and economic leaders have avoided implementing substantial reforms necessary to distribute these losses fairly and initiate recovery.

Lebanon's politico-economic system rests on a fragile sectarian balance, breeding a consociational form of government (Sherry 2021). Disrupting this balance could result in conflict and severe polarization, potentially causing violence. Moreover, the Lebanese politico-sectarian leadership derives legitimacy from confessional and sectarian identity rather than developmental visions or comprehensive political projects. Within each sect, various economic groups with competing interests exist, and genuine economic reform would undermine the interests of some groups while supporting others within the same sect. Economic policy instruments, such as fiscal, monetary, and exchange rate policies, are fundamentally political tools that determine which groups' rights are upheld and which are undermined.

Consequently, the political and sectarian leadership lacks the incentive to implement reforms that might weaken their legitimacy within their respective sects. Additionally, the delicate sectarian balance ensures that no single political group is strong enough to dominate and enforce the necessary reforms. This political economy has prolonged the crisis in the country, placing the burden of financial sector adjustment on smaller depositors, local labor, and small businesses (World Bank 2021).

4.2 International Dynamics of Sovereign Debt: An Unequal International Financial Architecture

The mainstream narrative often attributes the occurrence of debt crises in developing countries to poor debt management and policy choices on the part of national governments. However, this perspective is increasingly losing ground. Two key factors challenge this view (UNCTAD 2019, 2023, 2023a). First, external factors such as high interest rates, global price volatility and deteriorating terms of trade have contributed significantly to the accumulation of debt, which unevenly burdens poorer countries. Second, structural imbalances in the international financial architecture, including resource asymmetries between developing-country borrowers and advanced-country lenders, force many governments to rely on costly debt to fill financing gaps for sustainable development. These structural shortcomings are rooted in a global economic governance system that was designed in 1945 for a very different world and is now ill-equipped to address present-day challenges such as climate change, widening inequalities, demographic shifts, and ongoing geopolitical and economic transformations. As a result, it has become increasingly misaligned with global development needs and realities.

The historical evolution of sovereign debt in the Arab region reflects the consequences of this misalignment. A major turning point occurred during the 1973–74 oil crisis, when soaring oil prices enabled oil-exporting countries to accumulate large current account surpluses (Sherry et al. 2024). These surpluses were deposited in Western banks and subsequently on-lent to developing, oil-importing economies (Boughton 2000). Between 1973 and 1978, international bank lending tripled, and developing country debt rose from USD 130 billion to approximately USD 612 billion by 1982 (IMF 1984), driven by negative real interest rates and minimal lending conditions.

The issue was not the availability of capital itself, but rather the absence of coordinated global oversight to ensure that debt contributed to sustainable development. Instead, debt accumulation was shaped by ad hoc and inadequate policy responses, as evidenced in the aftermath of the oil crisis. This uncoordinated buildup of debt ultimately contributed to the global debt crisis of the early 1980s. Falling commodity prices, rising interest rates, and a stronger US dollar triggered a wave of defaults in at least 21 countries by 1983 (Stambuli 1998).

In response to the debt crisis, the IMF promoted "concerted lending," providing loans to defaulting countries on the condition that major international banks also extended additional financing or rolled over existing loans. At the same time, debtor countries were required to negotiate reductions or restructurings of their debt with participating private creditors (Boughton 2000). As commercial banks became increasingly reluctant

to engage in negotiations, the IMF shifted in 1989 to lend directly to countries in default, thereby assuming a more central role in crisis management and sovereign debt restructuring (Wells 1993; Díaz-Cassou et al. 2008). In the decades that followed, sovereign debt management efforts continued to evolve, prompting the expansion of IMF lending facilities and the involvement of other international institutions such as the World Bank, the African Development Bank (ADB), and the G20. Mechanisms²² such as the Heavily Indebted Poor Countries Initiative (HIPC), the Multilateral Debt Relief Initiative (MDRI), and collective action clauses²³ (CACs) were introduced to support debt resolution and facilitate bondholder coordination.

Despite this historical evolution, the global financial architecture has failed to introduce reforms capable of addressing the systemic inequalities embedded in the international financial system, and it remains inadequate in preventing recurrent sovereign debt crises or enabling long-term sustainable development, particularly in developing countries (UNCTAD 2023a). According to an UNCTAD (2023c) report, these nations face higher borrowing costs in financial markets, resulting in a substantial portion of public revenue being diverted to debt servicing instead of critical investments in health, education, and social protection. Recurring financial and sovereign debt crises, including the 1997 Asian financial crisis, the 2008 global financial crisis, the Eurozone debt crisis, and more recent crises in countries such as Argentina, Lebanon, Zambia, and Sri Lanka, highlight the system's inability to ensure stability and support progress toward sustainable development. At the same time, investment in global public goods such as pandemic preparedness and climate mitigation remains insufficient. These issues are further compounded by an international tax system that fails to curb large-scale tax avoidance and evasion. According to a report by UNESCWA (2022), an estimated \$7.6 trillion in untaxed private wealth is hidden in tax havens globally, with the Arab region also experiencing significant revenue losses due to tax competition and various forms of tax abuse. Each year, the region loses approximately \$8.9 billion in public revenue due to corporate tax abuse. Between 1980 and 2020, it forfeited over \$50 billion in tax revenues as corporate income tax (CIT) rates were nearly halved in an effort to attract global investment, yet with little effect on foreign direct investment (FDI). In 2019, the region could have generated an additional \$2.3 billion by applying a 15% global minimum corporate tax rate on undertaxed multinational corporations.

These interconnected failures highlight the urgent need to reform a global financial system that was never designed to address today's complex challenges. For many developing countries, including those in the Arab region, the current international financial architecture reinforces a cycle of debt dependency and fiscal vulnerability, limiting their ability to invest in long-term development priorities such as climate resilience, health and education systems, and social protection (UNCTAD 2019a). Restricted access to affordable, long-term financing undermines national efforts to advance development objectives, while structural asymmetries in the system continue to undermine the realization of economic and social rights.

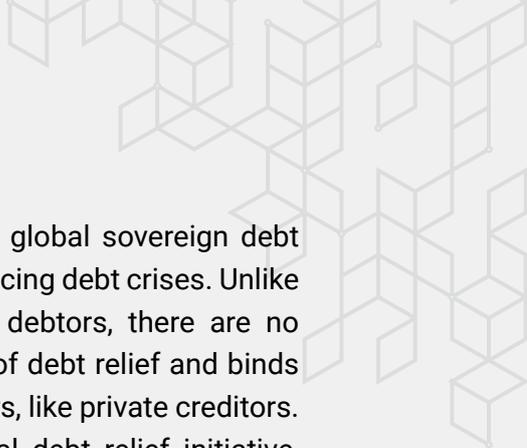
5. Conclusion and the Way Forward

The debt crisis in the Arab region, as well as in developing countries, is a multifaceted problem encompassing economic, political, social, and historical dimensions, which cannot be adequately addressed through economic and technical approaches alone. However, IFI- and creditor-driven policy responses have overlooked this complexity, prioritizing narrow economic considerations over human rights. This oversight is regrettable.

The Declaration on the Right to Development underscores the importance of country ownership in national development strategies, with Article 3.1 stating that "States have the primary responsibility for creating national and international conditions that are favorable to the realization of the right to development for all peoples" (UNGA 1986, p. 2, cited in Lumina 2013).

Effective solutions to the debt crisis must address its root causes and involve shared responsibility between creditors and debtors, emphasizing sustainable development and the realization of all human rights. In other words, a human rights-based approach to external debt management requires DSAs to consider the human rights implications of debt accumulation and servicing. Moreover, reinforcing the principle of shared responsibility is essential, as both debtors and creditors must work together to prevent and resolve unsustainable debt situations.

The IMF has a crucial role to play in this area. Given the risks posed to sovereign debt sustainability by climate change and other financial, economic, environmental, and social (FEES) factors, it is essential for the IMF to integrate these considerations into DSAs. This integration requires the development of suitable metrics and models, as well as the establishment of rights-based criteria to guide the necessary judgments in any DSA (Bradlow et al. 2024). This process should be participatory, with an active role for CSOs in shaping the social priorities that should be considered in the rights-based model of the DSAs. Additionally, instead of prescribing austerity as a universal remedy for debt crises, significant countercyclical spending and increased health and social expenditures should be considered. This is particularly urgent given the substantial financial requirements for advancing sustainable development across low-, middle-, and high-income countries, including Arab countries, which are further strained by the severe impacts of multiple concurrent crises. Without such changes, commercial and national interests will continue to overshadow the needs of millions, rendering the rights and freedoms enshrined in the Universal Declaration of Human Rights unattainable.



Debt sustainability is further complicated by the absence of a global sovereign debt resolution system with fair and clear rules to support countries facing debt crises. Unlike corporate insolvency laws, which provide minimum rights to debtors, there are no equivalent regulations for nations. This leads to the avoidance of debt relief and binds only some creditors, such as official ones, while leaving out others, like private creditors. It is therefore essential to implement an enhanced multilateral debt relief initiative, accompanied by a fundamental restructuring of the international financial architecture and an improved G20 Common Framework. Strengthening the Common Framework would be a positive step toward ensuring equitable treatment of debtors and increasing private sector participation in debt restructuring. However, this must proceed in parallel with broader reforms that ensure meaningful democratic participation.

Progressive actors at national, regional, and global levels remain committed to push for structural reforms in the global financial system. In the Arab region, these efforts focus on strengthening regional mobilization and linking it to global movements that prioritize social justice and human rights in the development financing agenda. Within this context, key priorities include supporting ongoing negotiations for a UN convention on international tax cooperation to create a fair and inclusive global tax system. Equally important, advocacy efforts should focus on advancing an intergovernmental process to establish a UN Framework Convention on Sovereign Debt, an essential step toward a fairer, more inclusive, and development-oriented debt architecture.

Last but not least, domestic economic and institutional reforms are indispensable. By enhancing trust in institutions and fostering confidence in the future, such reforms make it easier to mobilize collective action and build a coalition for meaningful change. This coalition would help forge a social agreement that eases resistance to change by providing security to those who fear losing out, while encouraging active support by instilling hope for a brighter future among those who stand to benefit. Achieving this balance requires wise and visionary leadership capable of guiding societies through difficult transitions.

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Notes

¹Public debt is the total debt incurred by the general and/or central government, as outlined in the IMF's 2011 Public Debt Statistics: Guide for Compilers.

²The recent surge in public debt stems largely from the COVID-19 pandemic and the Russia-Ukraine war, which drove expansionary fiscal policies, inflation, and interest rate hikes that increased borrowing costs for developing countries. However, its longer-term rise reflects structural factors, including weak institutions, political economy constraints, and systemic flaws in the global economic architecture.

³There have been no updated figures since Lebanon's sovereign debt default in 2020, but according to UNCTAD (2025), including Lebanon would increase the total to about USD 800 billion.

⁴In 2021, Sudan had about 90% of its debt, or roughly USD 50 billion, cancelled (UNESCWA 2023), while Comoros, Djibouti, Mauritania and Yemen benefited from a temporary suspension of debt service under the Debt Service Suspension Initiative (DSSI) between May 2020 and December 2021 (UNCTAD 2025).

⁵In developed countries, higher debt-to-GDP ratios do not necessarily indicate poor debt sustainability. They often reflect more developed financial markets and easier access to credit, which facilitate borrowing. Developed countries also have greater capacity to manage and service debt, as a significant portion of their public debt is domestic, owed to their own citizens and institutions, and typically denominated in local currency.

⁶In Yemen, the sharp fluctuations are largely driven by drastic shifts in revenues linked to conflict, the accumulation of arrears, and episodic aid inflows, which together caused abrupt swings in the relevant debt ratios during different episodes over the 2010–2024 period. In Sudan, by contrast, the persistent downward trend stems mainly from the accumulation of arrears (with most interest not actually paid) and, more recently, from the temporary suspension of debt service following initial HIPC-related steps that were later stalled after the October 2021 conflict, which froze much of the anticipated debt relief.

⁷Tunisia has recently severed ties with the IMF, resulting in a complete rupture of a decades-long relationship.

⁸This indicator is included in the IMF–World Bank Low-Income Country Debt Sustainability Framework (LIC-DSF), which relies on several key ratio indicators with established thresholds. These function as an alert system for debt sustainability and help determine whether the risk arises from liquidity or solvency issues. The thresholds are listed in Table A.1 in Appendix 1.

⁹PPG debt service refers to the sum of principal repayments and interest payments made in currency, goods, or services on long-term public debt and long-term private debt guaranteed by the government.

¹⁰Total reserves consist of foreign exchange, gold, and SDRs, indicating a country's strength in managing external debt and economic resilience.

¹¹Concessional debt involves loans with favorable terms, such as low interest rates and extended repayment periods, often provided by international institutions or developed countries.

¹²Rollover risk is a risk associated with the refinancing of debt as it approaches maturity. In this context, a debt obligation is rolled over into new debt, usually with higher interest rates. Numerous studies have demonstrated a strong correlation between high levels of short-term debt and an increased frequency of financial crises (Eichengreen & Hausmann 1999; Rodrik & Velasco 2000; Tirole 2003; Brunnermeier 2009; Jeanne 2009; Raddatz 2010; Rose & Spiegel 2011; Gourinchas & Obstfeld 2012; Lane & Milesi-Ferretti 2012).

¹³A debt spiral is a situation where rising debt servicing costs lead to more borrowing to repay existing debt, resulting in ever-rising debt burdens.

¹⁴According to the IMF (2012), a country's fiscal stance is typically regarded as sustainable if it consistently meets the intertemporal budget constraint. This means that the current debt does not exceed the discounted value of future primary surpluses.

¹⁵Multilateral organizations such as the IMF and the World Bank use frameworks known as debt sustainability analyses (DSAs) to assess a country's debt sustainability within its broader macroeconomic context, considering factors such as fiscal and monetary policies. UNDP (2020, p.23) offers a summary review of the various approaches used for evaluating debt sustainability.

¹⁶DSAs play a vital role in the IMF's Article IV consultations with individual member countries. They are also essential for informing decisions about balance of payments (BoP) assistance under Article V of the Articles of Agreement (Bradlow et al. 2024).

¹⁷For debt financing to be sustainable, it must generate economic growth that exceeds the interest rate on the debt, supported by concessional or affordable liquidity and by reliable access to financing during economic downturns. This is particularly important for the Arab region, where real GDP growth declined from 5.5% in 2022 to 1.3% in 2023 (IMF Regional Economic Outlook 2024).

¹⁸As Sherry (2020) argues, Lebanon's default was the predictable outcome of over three decades of unsustainable political and economic trajectories. The default occurred when the government failed to repay a US\$1.2 billion Eurobond that matured on 9 March 2020.

¹⁹Desperate for cash, Lebanese banks began selling sovereign USD-denominated debt (Eurobonds) to foreign investors, including vulture funds, as early as January 2019. They offloaded \$1.2 billion before October 2019, \$3.5 billion between the October 17 uprising and the March 2020 default, and \$1.4 billion after the default. In total, over \$6.1 billion—nearly 40% of their holdings—was sold, severely weakening Lebanon's position in upcoming debt restructuring talks (Noe & Halabi 2022). As for the Lebanese Lira-denominated debt, its share in Lebanon's total public debt has declined significantly since 2019, due to severe currency depreciation, with the Lira losing over 98% of its value against the US dollar.

²⁰Various streams of public funds, particularly those from certain SOEs, are not integrated into the national budget (Mandour 2023).

²¹Hot money refers to short-term, speculative foreign capital that flows into government bonds and other high-yield assets when local interest rates are attractive, but exits rapidly during periods of perceived risk such as political instability, currency devaluation, or global shocks, creating currency pressure and financing risks.

²²Appendix 2 presents a summary of selected debt relief mechanisms.

²³CACs allow a supermajority of bondholders, usually 75%, to approve changes to the terms of a bond. Once this threshold is met, the agreed restructuring terms become legally binding on all bondholders, including those who voted against it (Chung & Papaioannou 2021).

²⁴The thresholds used in the IMF-World Bank LIC-DSF often face criticism for their arbitrary nature and limited ability to predict default risk. Furthermore, there is no justification for maintaining fixed thresholds over time, especially given the continuously changing macroeconomic environment. However, they can serve as practical benchmarks. As Albinet and Kessler (2022) argue, they can influence the World Bank's loan/grant mix under the Sustainable Development Finance Policy, and can be used to inform its non-concessional borrowing limits. The IMF also uses these thresholds to establish debt restructuring targets.

²⁵According to the World Bank (2024), to date, the HIPC Initiative and the MDRI have collectively delivered over \$100 billion in debt relief to 37 countries, primarily in Sub-Saharan Africa (SSA). Despite these significant efforts, challenges remain in preventing the recurrence of unsustainable debt levels. The HIPC Initiative, initiated by the World Bank, IMF, and other creditors, offers debt reduction to countries that meet stringent criteria, ensuring they maintain manageable debt levels and support sustainable economic development.

Appendix 1: Indicative Thresholds for Liquidity vs Solvency Risks (IMF-WB LIC-DSF)

The IMF-World Bank Low Income Country-Debt Sustainability Framework (LIC-DSF) employs benchmarks for public debt to identify risks stemming from broader debt exposures. It relies on four key ratio indicators, each with established thresholds, functioning as an alert system for debt sustainability. These indicators and their respective thresholds are used to evaluate whether a country is in a "risky zone" concerning debt sustainability and to determine if the risk originates from liquidity or solvency issues. The four indicators are as follows (IMF, 2018): i) external PPG debt-service-to-exports ratio; ii) external PPG debt-service-to-revenues ratio; iii) present Value (PV) of PPG external debt-to-GDP ratio; and iv) PV of PPG external-debt-to-exports ratio.

It is important to note that the thresholds²⁴ used in the LIC-DSF are primarily designed for low-income countries (LICs). Therefore, these thresholds do not apply to middle-income countries (MICs) in the region. Nonetheless, analyzing the trends of these indicators can serve as a practical tool to evaluate whether a country is on a risky path regarding debt sustainability—that is, whether the country is facing issues that have to do more with illiquidity or insolvency.

Table A.1: IMF/World Bank's PPG External Debt Thresholds

Debt Carrying Capacity (CI classification)	PV of PPG external debt in percent of		PPG external debt service in percent of	
	GDP	Exports	Exports	Revenue
Weak				
Medium	30	140	10	14
Strong	40	180	15	18
Medium	55	240	21	23

Source: Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries (IMF 2018, p.30).

Appendix 2: A Summary and Critique of Selected Debt Relief Initiatives

Over the years, several initiatives at the global level have aimed to address the challenges of sovereign debt and provide relief to heavily indebted countries. These efforts have sought to establish frameworks for managing sovereign debt crises, promote economic stability, and support the development of the world's poorest nations. The following are some of the key initiatives (IMF 2017, 2023; World Bank 2024a).

The Heavily Indebted Poor Countries (HIPC) Initiative, launched by the IMF and World Bank in 1996, aims to provide sufficient debt relief to poor countries burdened with unsustainable debt, thereby reducing their external debt repayments to manageable levels. Eligible countries must complete a two-stage process, including policy reforms and the implementation of a Poverty Reduction Strategy Paper (PRSP), to qualify for full debt relief.

In 2005, the HIPC Initiative was expanded with the introduction of the Multilateral Debt Relief Initiative (MDRI)²⁵ to further advance progress toward the United Nations' Sustainable Development Goals. The MDRI, adopted by the IMF in late 2005, enacts a G-8 proposal for 100% debt cancellation from the IMF, the World Bank's International Development Association (IDA), and the African Development Fund (AfDB) for countries that meet the HIPC Initiative's completion criteria. This allows countries completing the HIPC process to receive full debt cancellation on eligible debts from these institutions. Additionally, in 2007, the Inter-American Development Bank provided extra debt relief to the five heavily indebted poor countries in the Western Hemisphere, beyond the HIPC provisions.

Concerns have been raised by CSOs that the HIPC Initiative and the MDRI may not fully address human rights issues. Although these programs offer substantial debt relief, they often require economic reforms that can lead to austerity measures in poorer nations, potentially reducing social spending on essential services such as health and education. This reduction can impair debtor nations' ability to meet their human rights obligations, particularly in ensuring adequate access to basic services. To effectively incorporate human rights considerations, comprehensive approaches that prioritize social protection and sustainable development alongside debt relief are essential.

In 2015, the UN General Assembly adopted the Basic Principles on Sovereign Debt Restructuring Processes (UNGA 2015). These principles focus on transparency, impartiality, equitable treatment, sovereign immunity, legitimacy, and sustainability, aiming to create a fair and sustainable framework for managing sovereign debt crises. With support from 136 nations and opposition from six, this resolution marks significant progress towards an international debt restructuring framework. Despite concerns from

developed nations about enforcing contractual obligations, proponents believe it enhances financial stability and promotes economic development.

In April 2020, the G20 launched the Debt Service Suspension Initiative (DSSI) in response to the economic impact of the COVID-19 pandemic. Supported by the World Bank and the International Monetary Fund (IMF), the initiative aimed to provide temporary relief to the world's poorest countries by suspending debt-service payments from May 2020 to December 2021. This allowed these countries to redirect financial resources toward pandemic response efforts. Despite offering short-term relief, the DSSI faced challenges, including the reluctance of private creditors to participate and its failure to address the systemic issues underlying the debt crisis in the global south (Fresnillo 2020).

To address the shortcomings of the DSSI and provide a more comprehensive framework for debt restructuring in low-income countries (LICs), while ensuring broader creditor participation, the G20 launched the Common Framework in May 2020 (Club de Paris, 2020). For civil society actors in the Global South, the Common Framework for Debt Treatments beyond the DSSI raises concerns about its capacity to address debt vulnerabilities while safeguarding human rights. Its effectiveness in ensuring access to essential services such as health, education, and housing remains uncertain, while the limited transparency and inclusiveness of its decision-making processes pose accountability challenges. Furthermore, the framework's reliance on IMF-supported programs, which frequently prioritize fiscal consolidation, may constrain social spending. Finally, the exclusion of MICs experiencing mounting debt challenges risks reinforcing inequalities and undermining the protection of economic and social rights (Munevar, 2020; Fresnillo, 2021).

In the Arab region, the UNESCWA initiated the Climate/SDGs Debt Swap Mechanism (DSM) to address debt burdens, enhance climate finance, and promote the SDGs. This mechanism converts national debt payments into investments in climate-resilient projects through collaboration among debtors, creditors, and donors. Benefits include debt relief for debtor countries, increased investment in climate projects, and accelerated progress toward SDGs and the Paris Agreement. Creditors gain from reduced default risk, while supporting climate projects without transaction costs (UNESCWA 2022a). However, the process may face challenges, including the complexity of negotiations between creditors and debtors, especially when specific conditions are attached to the use of swap funds. This raises questions about the nature of conditionality and its implications for human rights and the right of Arab states to prioritize social spending.

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