منتدى الاستراتيجيات الأردني
JORDAN STRATEGY FORUM

Public Debt in Jordan

March 2022

1. Background

COVID-19 has forced governments all over the world to implement a myriad of monetary and fiscal policy measures to contain not only the human, but also the economic implications of the virus. These measures, and with varying degrees, have resulted in fiscal deterioration in advanced economies, emerging markets, and in developing economies. Indeed, COVID-19 has left a legacy of record-high public debt. In addition, and based on the International Monetary Fund's (IMF) "Fiscal Monitor" / October 2021, public debt is expected / projected to remain "high" in 2022.

General Government Debt to GDP Ratio / 2019 - 2022			
Year	**Advanced Economies**	**Emerging Market Economies**	**Low-Income Developing Countries**
2019	103.8%	54.7%	44.2%
2020	122.7%	64.0%	49.9%
2021	121.6%	64.3%	50.2%
2022	119.3%	65.8%	49.8%

It is accurate to argue that fiscal policy (public spending and public revenues) was used to save lives, support economies, preserve jobs, avoid waves of bankruptcies, fund development needs, and to even manage social tensions. Indeed, if governments across the globe had not taken action, the social and economic consequences would have been a lot more devastating.

The Jordanian economy is part and parcel of the global economy. To limit the human and economic impact of the COVID-19 pandemic, the Jordanian government has also implemented a number of fiscal and monetary measures. Irrespective of what these measures are, the fact remains that as public spending has increased and local revenues decreased, the budget deficit widened, and public debt has increased from 95.2% of GDP in 2019 to 106.5% in 2020.

The pandemic has illustrated to all Jordanians the benefits of adopting fiscal support programs during the 2020 recession. However, the accumulated public debt should not be forgotten. **In the new normal, the balancing act between the benefits and costs of public debt accumulation should be tilted toward its costs.** Indeed, one should not forget that public debt involves various costs like interest payments, constraints that debt may impose on public policy space and effectiveness, and the possible crowding out of private sector investment from the credit market.

The Jordan Strategy Forum (JSF), in this Policy Brief, sheds some light on the status of public debt in Jordan and outlines several recommendations whose objective is to alleviate the impact of this burden (debt) on the Jordanian economy.

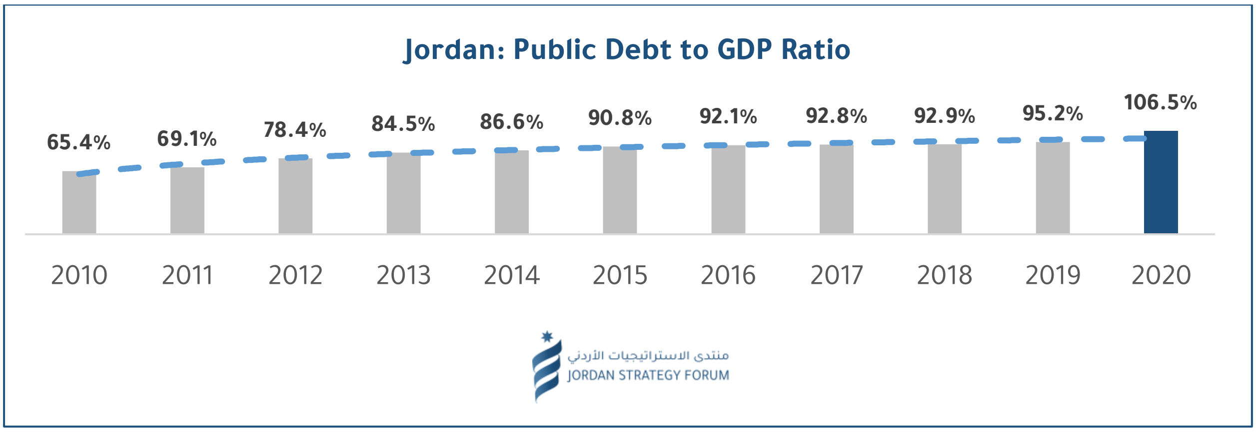
2. Public Debt in Jordan: Some Observations

To put public debt into perspective, economists use debt-to-GDP ratio. If the ratio is **"low",** it implies that the country will have little issues paying off its debts. If, on the other hand, the ratio is **"high",** it can imply that the country has a higher probability of default risk.

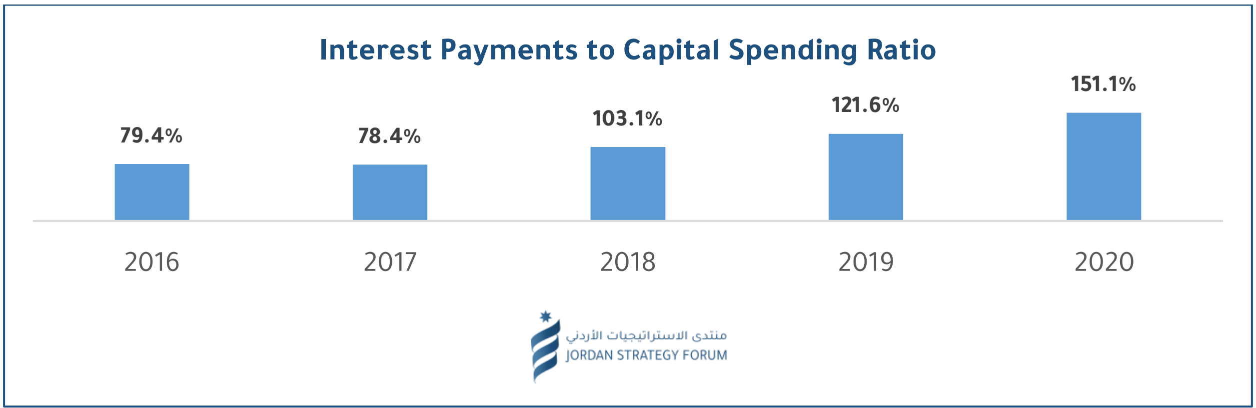
Within the context of high or low public debt, it is useful to note that while debt-to-GDP ratio of any country cannot grow without limit, there is no pre-determined debt target. However, while macroeconomic theory does not prescribe a specific debt target, the World Bank estimates that the threshold for government debt stands at 77% of GDP. Above this ratio, public debt might become harmful to economic growth.

Below, we outline a number of observations about Jordan's public debt.

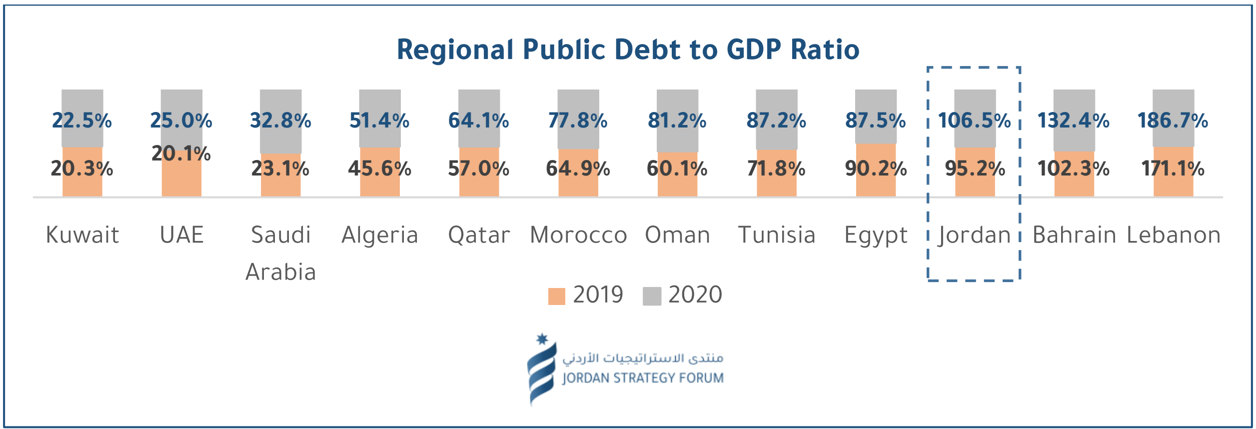
1. Public debt to GDP ratio has been rising well-before COVID-19. The virus, with its economic implications, has only increased this ratio from 95.2% in 2019 to 106.5% in 2020. In November 2021, total public debt stood at JD 35.35 billion. This is equivalent to about JD 3,200 for every person in the country.



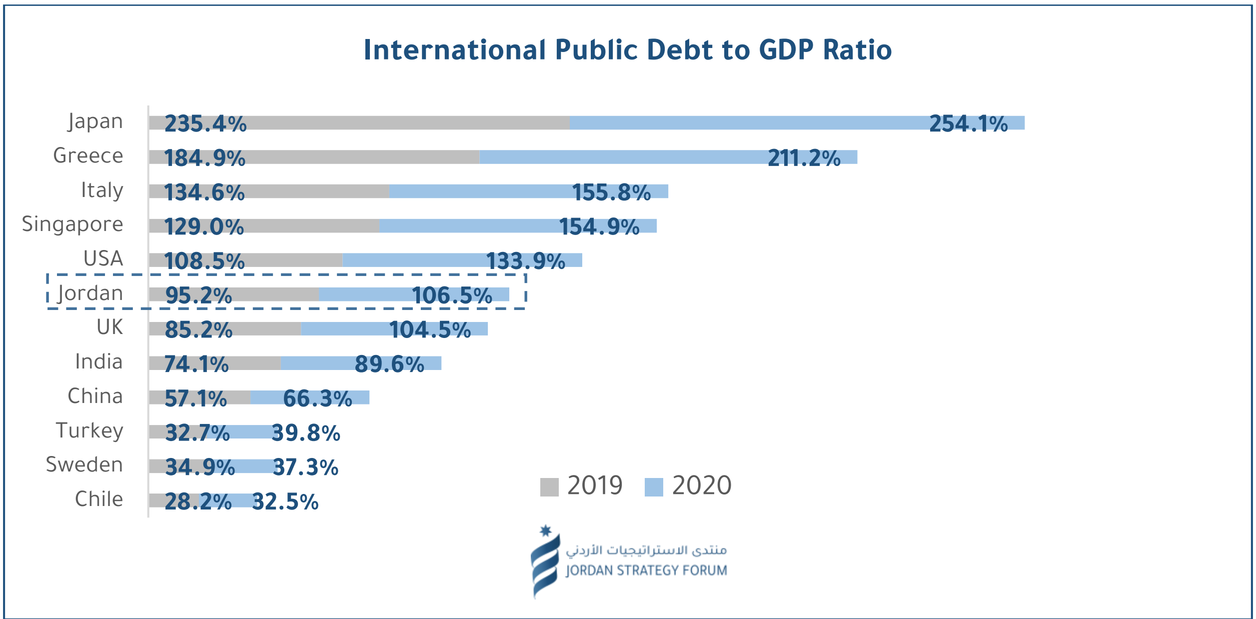
2. Interest payments on public debt to the capital-spending component of the central government has increased from 79.4% in 2016 to 151.1% in 2020, or by about JD 3 billion.



3. Regionally, public debt to GDP ratio in Jordan is relatively high. Public debt to GDP ratios in Bahrain and Lebanon only are higher than in Jordan.



4. Internationally, public debt to GDP ratio is Jordan is also relatively high. Indeed, it is much higher than in, for example, Chile (32.5%), Turkey (39.8%), and India (89.6%).



5. Foreign public debt to total public debt has increased from 37.7% in 2015 to 42.7% in 2020.

Relative to the socio-economic challenges facing the Jordanian economy, one wonders what policy options are available to reduce the public debt to GDP ratio. Within this context, the following three observations are worth raising.

1. The government should not forget the impact of rising interest rates on the status quo of its debt. Indeed, as commonly known, the US Federal Reserve intends to raise interest rates 3 to 4 times during the fiscal year 2022, and another 3 to 4 times in 2023. Naturally, such increases imply that interest payments on Jordan's public debt will increase reciprocally.

2. In 2020, the government of Jordan issued a $500 million at 4.95% (5-year maturity) and a $1.25 billion at 5.85% (10-year maturity) Eurobonds. Relative to this experience, it is worth noting that with Eurobonds, the Jordanian government borrows from "investors", and not from international institutions such as the International Monetary Funds or the World Bank. In other words, the fact that the terms of such issues (Eurobonds) are impacted by the credit ratings of agencies such as S&P Global Ratings (S&P), Moody's, and Fitch Group, the government should maintain a close eye on the Jordan's sovereign credit ratings.

3. During a press conference on 10 January 2022, Jordan's Finance Minister announced the decision to reduce and unify customs tariffs on goods will come into force within days. As one might expect, this decision will have an impact on the status quo of public finance, and hence on public debt. Indeed, an assessment of the potential impact this decision should be conducted.

What are the available options to the government to reduce public debt? Here, we outline five options:

A. One way to reduce the stock of debt to GDP ratio is to increase the size of the economy through economic growth. Indeed, this is a way to reduce the public debt burden. However, if one looks ahead, several factors argue for caution in relying on growth alone to decrease the debt burden. For example, what if interest rates on public debt increase by more than GDP? What if COVID-19 and its variants persist in the near future?

B. One way to reduce public debt is to enact discretionary tax rises / and or spending cuts to improve public finance. However, given present circumstances, especially the need for more public spending, especially in its capital component, this option is economically damaging. Increasing taxes and or reducing public spending would only hurt economic growth.

C. One way to reduce local public debt is for the government to put caps or ceilings on interest rates and hence, borrow at lower interest rates. This policy, however, results in savers earning rates less than the rate of inflation and is therefore, repressive. In addition, given that the Jordanian currency is fixed to the US Dollar, this policy is not really an option.

D. One way to reduce foreign public debt is to use refinancing. Again, given the global economy's economic circumstances, and the debt burden in many countries, this is not a viable option. This option, with its protracted refinancing negotiations, prolongs the loss of market access, and might undermine financial stability.

It is common knowledge that tax systems in all countries (advanced and developing) grant **"tax concessions"** to some consumers and producers. The budgetary cost of these concessions is referred to as **"tax expenditures".** Indeed, these concessions can be considered a type of expenditure because governments forgo revenues by granting concessions that are not part of the regular tax system. The following section sheds more light on this option.

3. The Case for Reforming Tax Expenditure

A. Tax concessions can take several forms. Income generated in a sector may not be taxed, or taxed at a reduced rate than other sectors.
B. Taxpayers may get targeted allowances to lower their tax liability (i.e. interest payments on a mortgage can be used to reduce tax liability).
C. Consumers / taxpayers may pay lower tax rates (sales tax) for specific goods and services.

In a Nutshell, tax expenditures across the globe come in various shapes / forms. They come in the form of tax incentives for firms, tax deductions for households, and lower rates for specific goods and services.

Irrespective of what the sources of tax expenditures are, one should be aware that tax expenditures involve a number of weaknesses (Center for Global Development):

1. Tax expenditures narrow the tax base. This is an important concern in countries where the tax base is already compressed because of large informal and agricultural sectors.

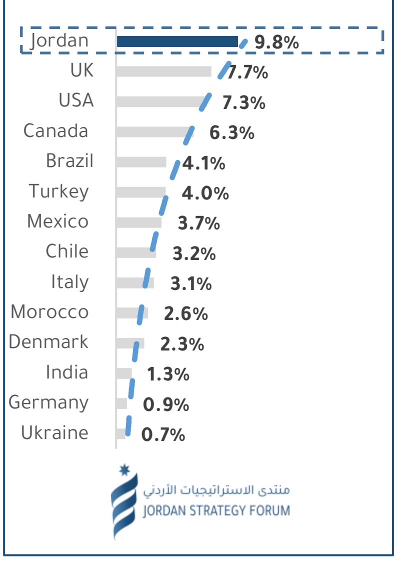
2. Tax expenditures create inequities across taxpayers as those with similar incomes and assets end up paying different levels of taxes.

3. Tax expenditures tend to be discretionary, and as a result, subjectively estimated and unjustified.

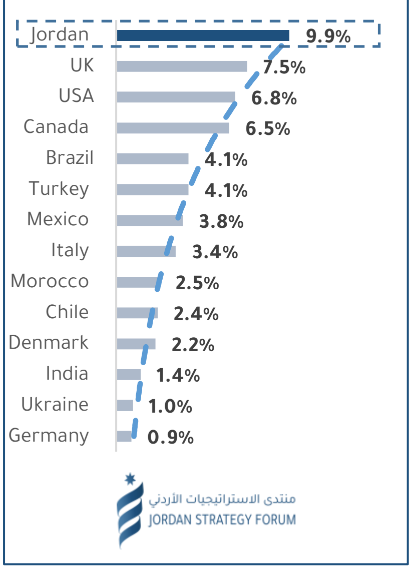
4. Tax expenditures increase the complexity of the tax code, making it opaque and increasing the cost of compliance.

5. Tax expenditures are an alternative way for government to intervene in the economy, and as with direct spending; they must be financed eventually through higher taxes or reduced spending.

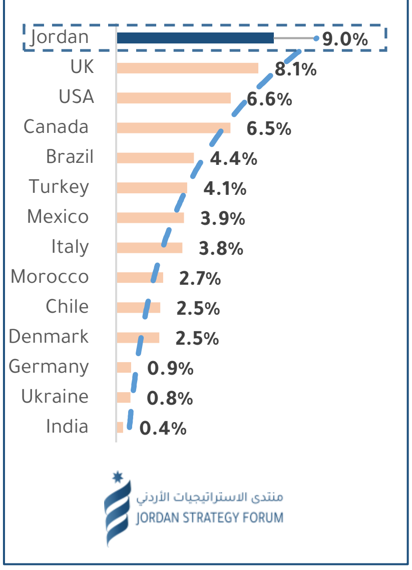
Relative to the above-mentioned observations, it is worth noting that in Jordan, according to the newly released **Global Tax Expenditures Database (GTED),** published by the Council on Economic Policies and the German Development Institute, the extent of the **"lost revenue"** to the government is relatively high. For example, while in Morocco (the only other Arab economy with data), tax expenditure to GDP ratio was equal to 2.7%, in Jordan, it was equal to 9% of GDP or about JD 2.7 billion. In addition, and for example, in 2020, the largest sources of tax expenditures in Jordan were on sales tax (local goods and services (3.42% of GDP), sales tax on imported goods (1.6% of GDP), and on custom duties (1.72% of GDP).



Revenue Foregone to GDP Ratio / 2018



Revenue Foregone to GDP Ratio / 2019



Revenue Foregone to GDP Ratio / 2020

4. Recommendations

No one doubts that if well designed, tax expenditures can achieve their stated goals. For instance, the sales tax exemption on a number of essential goods. However, with the on-going and heightened urgency in view of the challenges facing the Jordanian economy, including the rising public debt, reforming tax expenditures is vital.

1. To "build back better", a comprehensive assessment of all sources of tax expenditures in Jordan is not a luxury, it is a necessity. **If properly done, this is one short-term, medium-term, and long-term measure that can generate tax revenues without affecting the aggregate consumption in the general economy.**

2. Successive Jordanian governments have been facing growing funding needs to respond to the country's socio-economic challenges, never mind the recent challenges due to the pandemic. The government cannot afford to lose revenues to ill-designed tax breaks.

3. The government should seek all available support from the international community. For example, the government should approach the G20 and the Paris Club for possible temporary debt standstill, consider targeted debt relief in the form of debt swaps from some international lenders, and seek debt relief from some of the international lenders. It is important to note that the rise in public debt is manageable in Jordan if the correct measures are implemented.

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Public Debt to GDP in Jordan Increased

From 2016 %92.1

To 2020 %106.5

Turkey	Algeria	China	Jordan	Bahrain	Greece
%39.8	%51.4	%66.3	%106.5	%132.4	%211.2

%77

If Public Debt passes the %77, it will become a barrier to economic growth.

Per Capita Debt JD 3,200.

The estimated lost revenue is approximately JD 2.7 billion as a result of tax exemptions.

How to reduce public debt?

- Seek International Support
- Remove Tax Distortion
- Reform Tax Expenditures

Source: Jordan Strategy Forum Policy Brief "Public Debt in Jordan"

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