منتدى الاستراتيجيات الأردني
JORDAN STRATEGY FORUM

Public Debt in Jordan
Is it Sustainable?
December 2019

#Policy_Brief

/JordanStrategyForumJSF @JSFJordan

1. Introduction

All governments spend money on education, health care, infrastructure, defense, and many other goods and services. To meet their obligations, it is normal for governments to borrow. Indeed, borrowing is an important tool for financing investments, and for meeting short-term imbalances between expenditures and revenues. Governments can also borrow to increase spending during periods of weak economic performance (countercyclical fiscal policy). **However, "high" public debt can impede economic growth.**

Within the context of the subject matter of public debt, both the World Bank and International Monetary Fund (IMF) work together to support countries to achieve their development goals without building up high or excessive levels of debt. Their work uses a tool called **"Debt Sustainability Analysis (DSA)"** to assess individual countries. Such analysis assesses "how a country's current level of debt and prospective borrowing affect its present and future ability to meet debt service obligations".

Relative to the above-mentioned observations, it is useful to note that the IMF has recently (May 2019) published its "second review under the extended Fund Facility for Jordan". This Report contains a separate section about **DEBT SUSTAINABILITY**.

2. Some Observations

In this policy brief, the JSF's objective is to outline some observations about public debt in Jordan, and some of the main findings of the IMF debt sustainability analysis of Jordan. Based on this effort, a number of recommendations are provided.

First, since 2012, gross public debt has been on a rising trend. More unfortunate, however, is the fact that public debt to GDP ratio has also been increasing consistently (Figure 2).

Figure 1: Gross Public Debt (JD Billion)

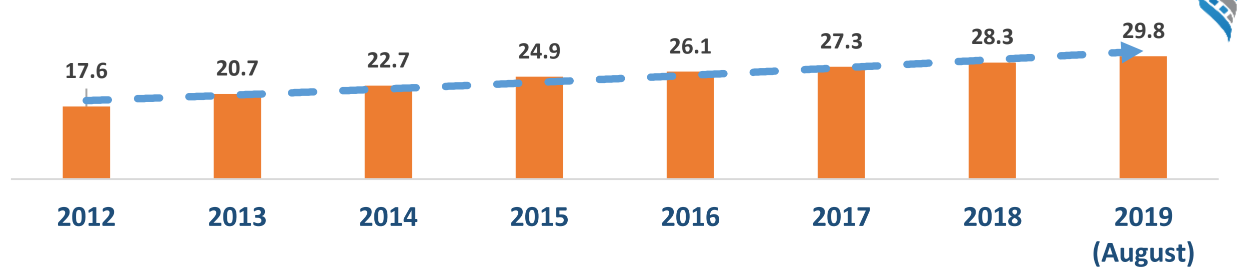
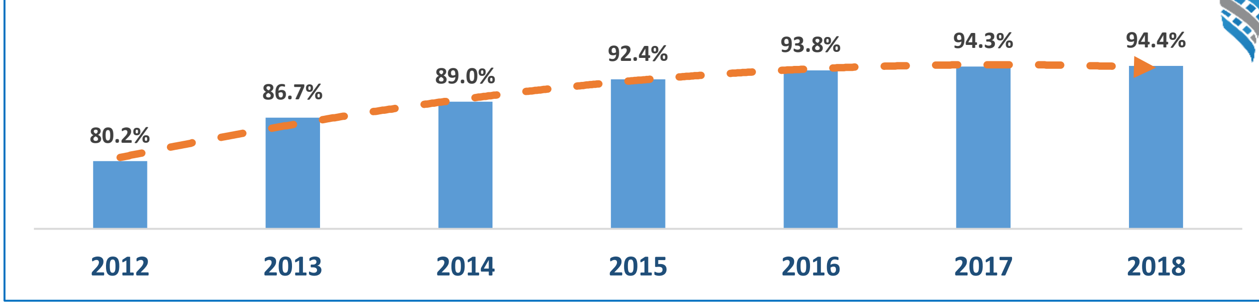
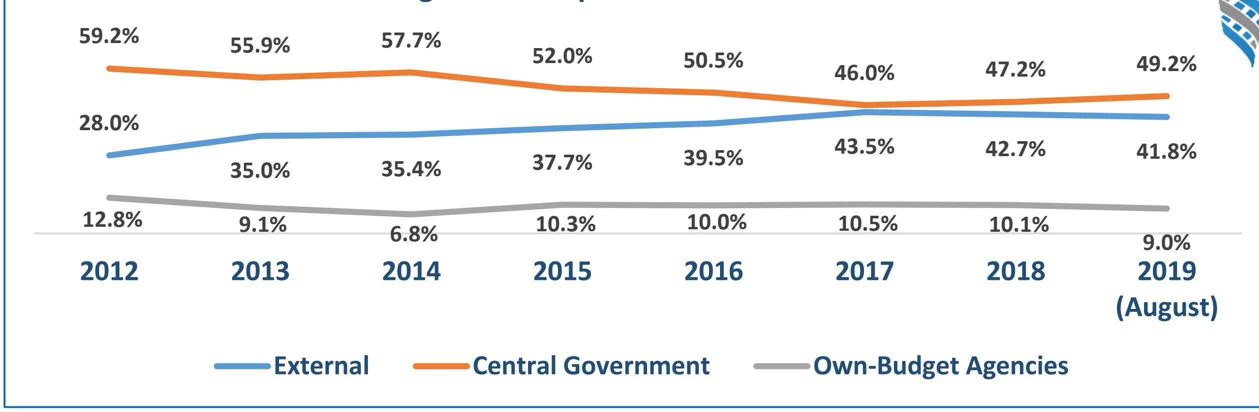


Figure 2: Gross Public Debt to GDP Ratio



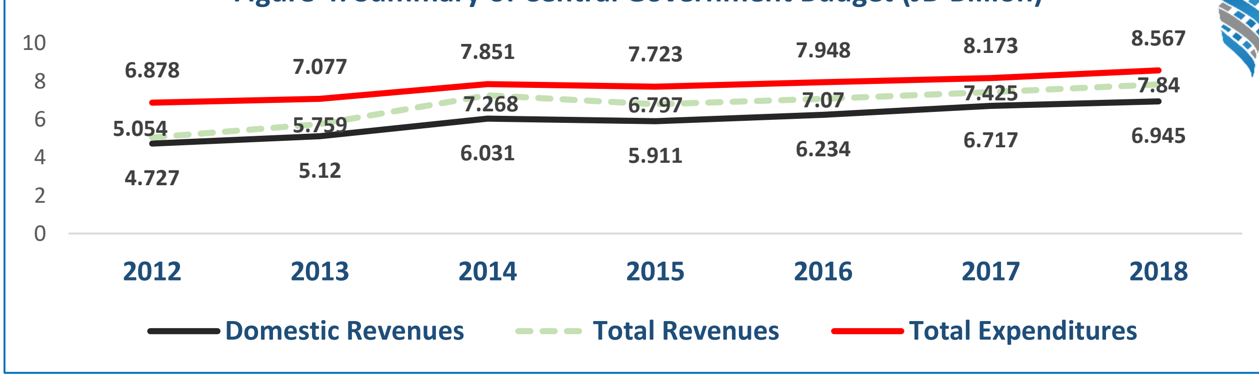
Second, the ratio of external public debt to total public debt has increased from 28.0% in 2012 to more than 41% by the end of August 2019.

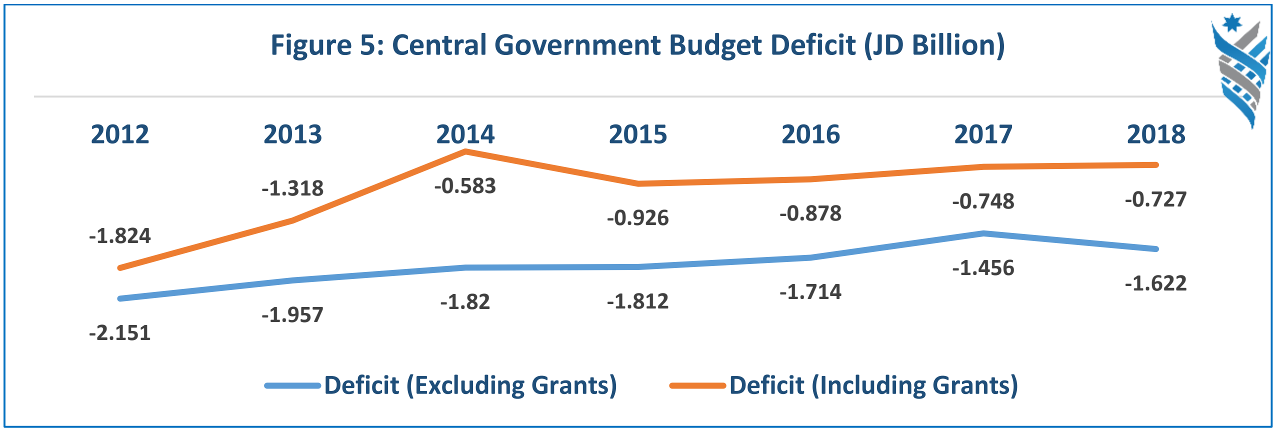
Figure 3: Composition of Public Debt



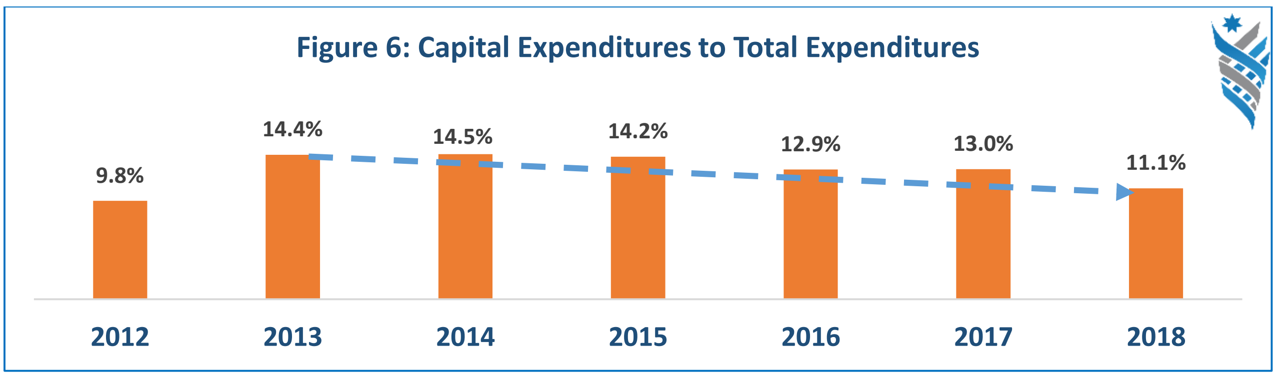
Third, as one might expect, the increase in public debt is largely due to the persistent budget deficits (Figures 4 and 5).

Figure 4: Summary of Central Government Budget (JD Billion)



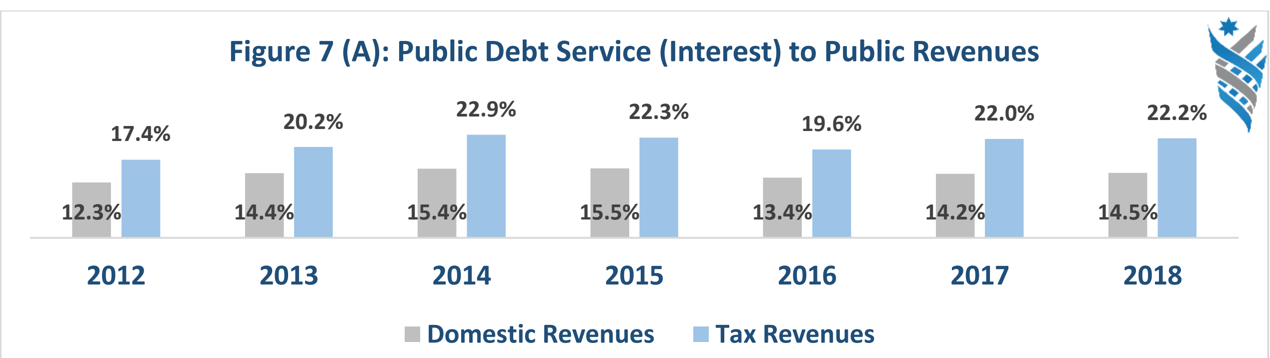


Fourth, within the context of the consistent budget deficits, it is unfortunate to note that since 2013, capital to total public expenditures has been decreasing (Figure 6). In other words, the increases in current spending is the reason for the increase in public debt.



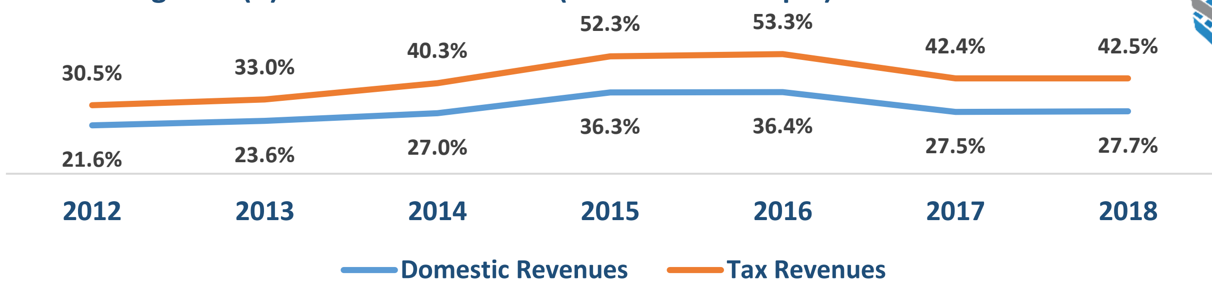
Fifth, the service of public debt is becoming "heavy":

a) Interest payments on public debt has increased from 12.3% of total domestic revenues in 2012 to more than 14% by the end of 2018. More serious, however, is the fact that interest payments have increased from 17.4% of total tax revenues to 22.2% by the end of 2018!



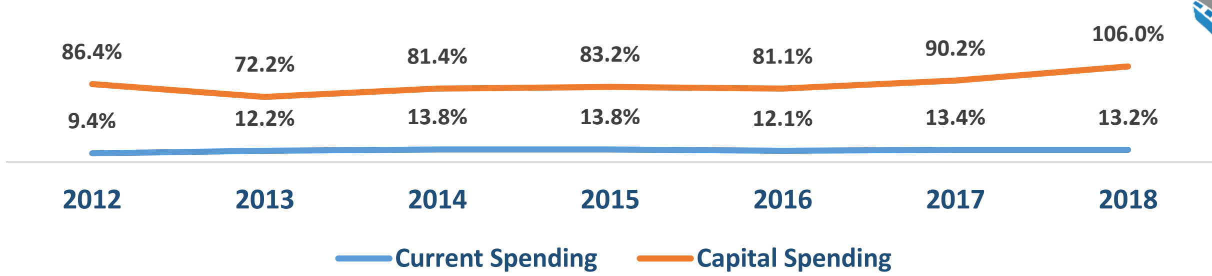
b) Interest payments and principle on public debt has increased from 30.5% of total tax revenues in 2012 to more than 42% by the end of 2018.

Figure 7 (B): Public Debt Service (Interest & Principle) to Public Revenues



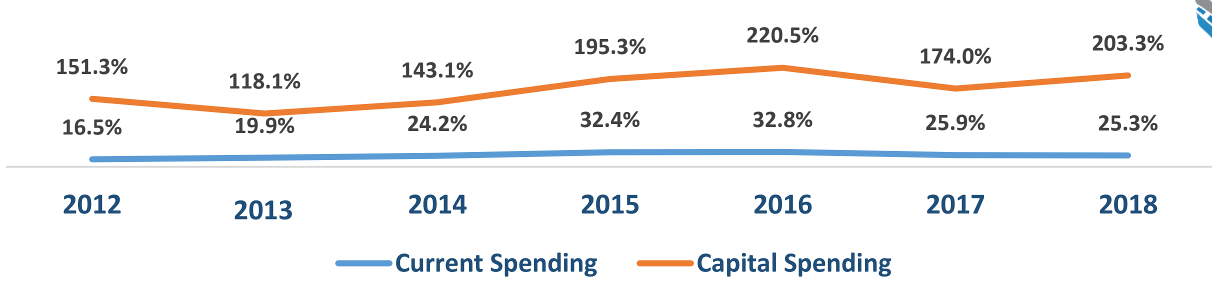
c) Interest payments on public debt has increased from 9.4% of current public spending in 2012 to more than 13% by the end of 2018. Moreover, interest payments have exceeded the capital component of public spending reaching a level of 106%.

Figure 8 (A): Public Debt Service (Interest) to Public Spending

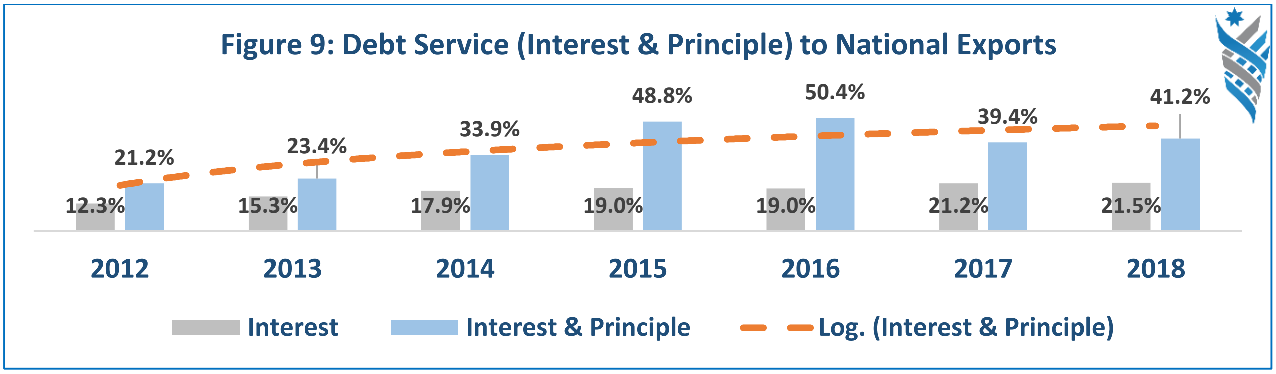


d) Interest payments and principle on public debt has already become more than double the capital component of public spending (203.3%).

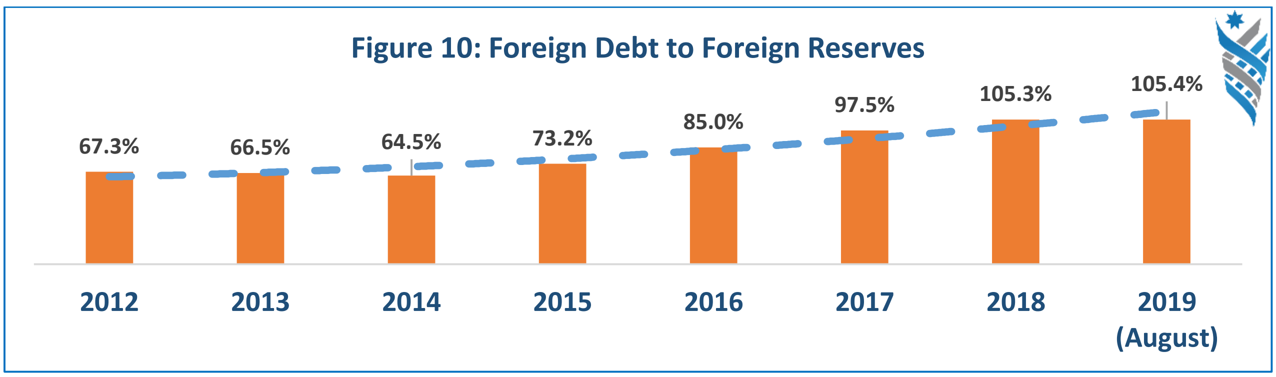
Figure 8 (B): Public Debt Service (Interest & Principle) to Public Spending



e) Interest payments on public debt constitute a large proportion of **national exports of goods**. Indeed, the ratio of public debt interest and principle payments has increased from 21.1% in 2012 to more than 41% by the end of 2018.



f) Jordan's foreign debt to foreign reserves ratio has been persistently increasing. By the end of 2018, this ratio has passed the 100% mark.



Sixth, relative to the all of the above-mentioned observations, one can only conclude that Jordan's public debt is becoming a powerful impediment to real economic growth. **Indeed, the 2018 public debt to GDP ratio (94.4%) is way above the IMF's debt threshold (70%) for countries in the income bracket of Jordan.** Within this context, it is informative to note that in the 2019 IMF's debt sustainability analysis of Jordan, the report states that "Jordan's public debt is sustainable, but risks are substantial". Indeed, three quotations from the report are worth stating:

a) "The projected decline in public debt remains fragile, vulnerable to lower growth, real exchange rate depreciation, and higher borrowing costs".

b) "Under a growth shock, entailing a cumulative growth decline of 2.1 percentage points in 2020–21, which in turn leads to a cumulative primary balance deterioration of 1 percent of GDP, the debt-to-GDP ratio reaches 96 percent in 2021".

c) "A real exchange rate shock calibrated to close the estimated 20 percent overvaluation would also push the debt ratio to about 99 percent of GDP by 2020".

d) "Higher borrowing costs, equivalent to those observed during 2012 (an increase of 350 basis points), would leave the debt-to-GDP ratio about 5 percentage points higher than under the baseline by 2024".

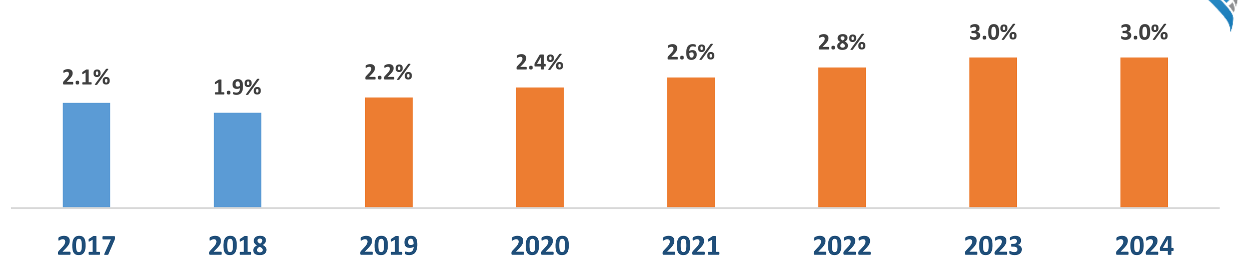
e) "The combined macro-fiscal shock, an aggregation of the shocks to real growth, interest rates, primary balance and exchange rate, would send public debt to an unsustainable path above 110 percent of GDP".

The IMF's analysis is based on several assumptions. However, the simple fact is that the debt sustainability issue must be taken very seriously, and Jordan should adopt policies that takes into consideration all possible scenarios that would combine the level of debt and its maturity, domestic versus external debt, and the targeted level of economic growth. Equally important is the country's ability to generate foreign currency at a steady rate in to mitigate the impact of any external shocks.

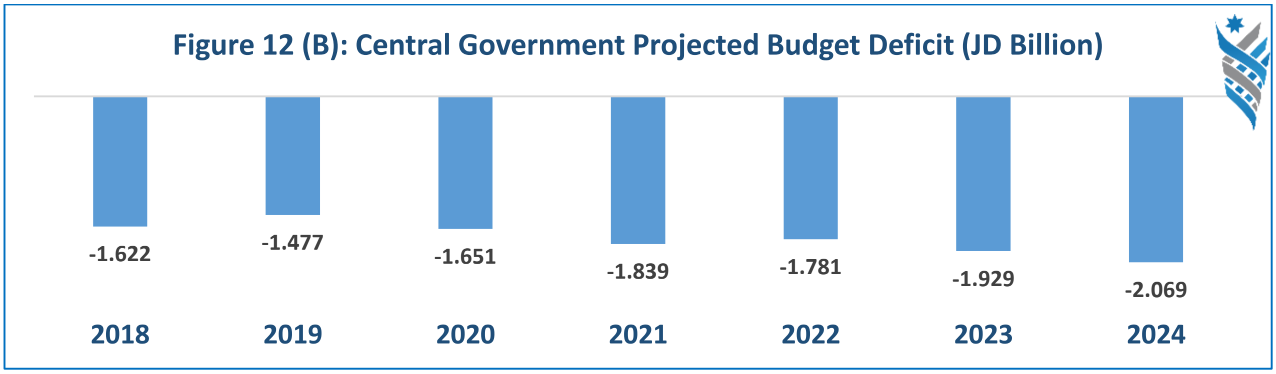
3. In a Nutshell

Based on the general observations about Jordan's public debt, and the IMF's analysis, one cannot underestimate the importance of **realizing** strong and consistent real economic growth and **improving** the fiscal mobilization process in making Jordan's public debt more sustainable.

Figure 11: Jordan's Actual & Projected Real GDP Growth Rates



It is not encouraging that the IMF's projected real economic growth rates during the period 2019-2024 will probably prove not to be sufficient! Equally discouraging are the IMF's projected fiscal operations (Figure 12A) and the projected budget deficit (Figure 12B)!



Therefore, the adoption of growth-driven approach as announced by the government recently is very relevant. However, one has to be careful that any expansionary fiscal policy should focus on boosting capital and NOT current expenditures. Moreover, and since the government does not possess adequate financial resources , it has to crowd in resources from the private sector to support its projects by adopting a clear modality to PPP projects in several sectors and without hesitation.

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