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The Evolution of Jordan's Public Debt & Its Management's Strategy for the Years (2010-2014)

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Abstract

This study aimed to identify the size of the Jordanian public debt and its increase during the period (2010-2014) and its management's strategy. To reach this goal, the study has been divided into four sections, the first section deals with the concept of public debt, and the second one reviews the classification of public debt, while the third one offers a presentation of the indicators of public debt's size and the rate of its growth and components. The study concludes with a review of public debt management's strategy through analysis of legal texts which dealt with its management's strategy.

The study found that the period 2010-2014 witnessed significant developments in the size of the public debt as public debt increased by 80%, indicating that the public debt in Jordan tends to increase not decrease despite the existence of a strategy for the management of public debt in Jordan through a defined special law.

Key words: public debt, Strategic Management.

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Introduction

With aggravation of the problem of the external public debt on developing countries and the increasing of seriousness of its effects on the economies of these countries, this problem has taken great interest by researchers and decision-makers in developed and developing countries alike.

Although the phenomenon of the external debt is not considered a modern occurred phenomenon, it is beginning to worsen rapidly since the beginning of the seventies of the last century. It also gained seriously political, social and economic dimensions.

There is a large increase in the debt owed by developing countries stunningly size، Where the International Monetary Fund and other international organizations' reports indicate that there are growing numbers in indebted countries that delay to meet their foreign debt obligations year after year.(Al-Shara and et al,1991, P.231-232) indicate that the indebted countries will be exposed in the near future to a more critical dilemma, where it is feared, that these countries cannot get additional foreign resources because of the increased vulnerability of international confidence in their performance, and the deterioration of its financial credibility. Accordingly, this study aims to identify the Jordanian public debt and its management's strategy for the years (2010-2014).

The Problem and Questions of the Study

The governments of countries resort to borrowing to meet the private and the public requirements, and to achieve the objectives varying from a state to another. (Al-Tarawneh and Abdul Razzaq, 2002) indicate that the Jordanian economy witnessed economic difficulties that have been caused by economic and political developments at the regional and international levels resulting from the decline in external employees' remittances, the clear slump in the amount of Arab aids, the rising size of the external debt and the increasing of public budget deficit and the balance of payments.

(Abumadallah and Al-Ajalah, 2013, p. 269) suggested that the high debts' relationship to growth is a negative relationship, which leads to the destruction of confidence in the economic reforms and thus to the sustainability of any economic strategy. Hence, the problem of the study can be formulated in the following two questions.

1.Has the Jordanian public debt's size been in a state of danger during the study?

2. Is there a certain strategy for the management of the Jordanian public debt?

Importance of the Study and its Objectives

Debt is considered the most important and current problem facing the Jordanian economy, where its continuation or worsening will result in social and political economic consequences. Thus, the importance of this study stems from the importance of the subject that it is investigating which is the increase of Jordan's public debt & its management's strategy. This comes from addressing several sub-points representing as a whole "The General Objective of the study", and these points are:

First: to highlight on the size of the Jordanian public debt and its evolution during the period (2010-2014).

Second: to identify the management's strategy of the Jordanian public debt.

Third: To end up with scientific conclusions based on the results of the study, to take advantage of them regarding the policies required to be followed to reduce the effects of increasing the public debt in Jordan.

Procedural definitions

The following are the most important procedural definitions used in this study:

First: **public debt**: public debt can be defined as an obligation on a debtor which has a public feature, and is divided into two main sections: the external debt and the domestic debt. It is known that external debt's sources include international organizations, foreign governments and foreign financial institutions. The domestic debt's sources include the central bank, commercial banks and non-bank sources. (Al-Hijjawi, 2004 p. 204)

Second: Strategic Management is defined as a set of decisions and actions result in the development and implementation of strategies designed to achieve the organization's goals. Strategic management focuses on the key and far-reaching issues that impact on the organization. It includes the planning, implementation and follow-up of the organization's strategies. (Al-Durra, and Jaradat, 2014 p. 25)

Scope and Limits of the Study

1. Field of study focuses on the Jordanian economy and specifically in the increase of public debt and its relationship to economic indicators.

2. The study' time limits: these limits cover the period (2010-2014).

Hypotheses of the Study

Based on the problem of the study and its questions, hypotheses of the study have been formulated with the nihilistic form as follows:

The first hypothesis HO1: Jordan's public debt has not reached to the stage of danger.

The second hypothesis HO2: There is no strategy for the management of the Jordanian public debt.

Study Approach

Based on the study hypotheses, objectives and nature of the study, the focus will be on the economic analytical approach, and the legislative (legal) approach in the identification and interpretation of research's phenomena and its variables and what is produced by the reality of the Jordanian economy.

The Theoretical Framework and Previous Studies

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Concept of Public Debt

The 2nd article of The Public Debt Management Law No. 26 of 2001 defined the public debt as "the outstanding balance of unpaid direct and indirect obligations valued in Jordanian Dinars payable by the government". Thus, the researcher believes that the public debt is the balance of direct and indirect obligations payable at maturity.

The governments of the countries may resort to borrowing to meet the public and private requirements and to achieve the goals and objectives varying from one state to another, which can be summarized as follow:

1. Borrowing to finance the deficit in the state's budget: where the total deficit represents the size of required governmental borrowing as well as the revenues and grants to cover the total public expenditure and borrowing's net.

2. Borrowing to improve the rate of economic growth: The Jordanian government conducts an external borrowing to help achieve the highest rate of economic growth through supplementing domestic savings with flows of foreign exchange and its investment to achieve a high growth rate of GDP. Countries, which suffer a lack of domestic savings, resort to this kind of borrowing.

3. Borrowing to pay financial claims resulted from international transactions where the settlement of financial claims is practiced between countries by using foreign currencies. At a given time, it may not be available for some countries to own the value of financial claim resulted from the foreign currency, which requires the government to borrow to provide foreign currency at the time.

4. Borrowing to help financing the cost of capital projects: where some governments borrow to finance the cost of capital projects that enable the government to achieve productivity enough to cover the cost of external borrowing.

(Maaytah, 1995) assumes that the external debt does not significantly contribute to the promotion of economic growth in Jordan. In a study conducted by (Momani, 1995), it was found that an insufficiency of domestic savings and the budget deficit and trade balance are the most important motives of external borrowing. In addition, the foreign loans have positive results on some of the variables and negative ones on the other, but they generally help to achieve high rates.

Public Debt Rating

Public debt can be classified into

First: the classification of public debt by type of debt's method.

Yearbook of financial statistics for the governments issued by the International Monetary Fund incudes a classification of public debt by a debt's method as follows:

A) external and domestic debts include

1. Long-term bonds.

2. Bonds and short-term and governmental securities

3. Long-term loans.

4. Short-term loans and advances.

5. Other liabilities.

Second: the classification of debt by creditors:

Yearbook of financial statistics for the governments issued by the International Monetary Fund incudes a classification of owed public debt by creditors as follows:

A) Domestic Debt: it includes:

1. Other levels of government.

2. Central Bank.

3. Cash deposits' banks.

4. Other local sources.

5. Non-financial private sector.

6. Settlements of conditions in the estimation of the value.

B) External Debt: It includes:

1. International credit institutions.

2. Foreign governments.

3. Other external debt.

4. Banking loans and advances.

5. Credits to suppliers.

6. Other items.

7. Adjustments of discrepancies in currency rates.

In a study conducted by (Al-Shara et al, 1991) it was found that changes could be made in monetary and fiscal policy in terms of tax reform and reducing the public budget's deficit by reducing public spending and determining the government's borrowing, curbing inflation and continuity to follow the policy of liberalization of interest because of its positive effects on the long term.

In a study conducted by (Al-Tarawneh and Abdul Razzaq,2002), they stressed on the necessity to focus on the increasing of saving from all its sources and mitigation of imported luxurious consumption in order to increase savings possible in terms of rationalizing the use of hard currency on the other hand.

What distinguishes this study?

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The previous studies have focused on the impact of external borrowing for the Jordanian economy and foreign debt in terms of its impact on the Jordanian economy, its course and determinants. While this study examined the increase of Jordan's public debt and its management's strategy as well as its focus on the economic and legal analytical approach (Legislative) to analyze the hypotheses of the study to get to the explanations of the reality of the Jordanian economy.

Results of the Study and Testing of Hypotheses

Testing of the First Hypothesis

HO1: Jordan's public debt did not reach the state of danger.

Table 1 below can summarize the increase of the size of the public debt and the rate of its growth and components:

Statement	2010	2011	2012	2013	2014
Public Total Debt	11.4623	13.40107	16.5809	19.0968	20.555.5
Growth Rate %	18.7	16.9	23.7	15.2	7.6

The increase of the size of the public debt and its components for the years (2010 - 2014) (millions of dinars).

Public debt has soared from 11.4623 million dinars in 2010 to 20.555.5 million dinars in 2014, and by an increase rate of almost 80%, which indicates that the public debt in Jordan tends to increase rather than decrease The effect which consolidates the evolution of size of public debt and its members to get to the point of crisis that will lead to aggravation of the financial crisis and its repercussions.

Testing of the Second Hypothesis

HO2: There is no strategy for the management of the Jordanian public debt. This hypothesis was tested through an analysis of legal texts that dealt with the management's strategy of Jordanian public debt, if any. With refereeing to the Public Debt Management Law No. (26) of 2001, it was found that:

First: Article (3)

A. The formed Committee shall be chaired by the Minister with the membership of each the Minister of Planning and the Governor.

B. The Committee shall have the following duties and rights which should be raised to the Council of Ministers for ratification :

1. Establish the general framework of policies and strategies for public debt management.

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2. Determine clear long and short-term objectives for public debt management.

3. Review the suggestions and recommendations of the concerned government authorities and the Directorate and make the appropriate decisions in this respect.

Second: Article (10)

Government borrowing shall be restricted to the following objectives:

A. To finance the General Budget Deficit.

B. To support the balance of payments.

C. To finance projects of national priority those are included in the General Budget.

D. To provide the necessary funds listed in the General Budget or any temporary law issued to deal with disasters and emergencies.

E. To restructure the internal and external debt.

Third: Article (14)

Sufficient funds to meet public debt and its obligations shall be earmarked in the General Budget Law.

Fourth: Article (16)

The Central Bank shall be responsible for public debt issuance and the Governor shall, in an agreed upon manner, provide the Minister with monthly reports on the situation of this debt.

Fifth: Article (17)

Government securities shall be traded in the Amman Stock Exchange and may be traded elsewhere, based on the provisions of Article (17) of the Act.

Sixth: Article (18)

The Government shall not provide financial guarantees for any party except in exceptional and justified cases for investment related to the projects of national interest and Government entities provided that the Council of Ministers, upon recommendations from the Minister, approves the issuance of such guarantees.

Seventh: Article (9)

A.Taking into consideration the contents of any other related law, the Minister shall be authorized by the Council of Ministers to borrow on behalf of the Government interest in accordance with the provisions of this law provided that an approval of the Council of Ministers is obtained on each case of borrowing .

B. Despite of what is stated in paragraph (A) of this article, the Minister of Planning may, in coordination with the Minister, borrow in accordance with the National Planning Council Law provided that the Council of Ministers approval is acquired through a joint recommendation from the Ministers of Finance and Planning .

From the above-mentioned and after the analysis of legal texts, we find that the government has paid a full attention to the public debt's management through Peremptory and due applicable legal rules that included policies and strategies for public debt management. Therefore, nihilistic hypothesis (HO2) is rejected and while the alternative hypothesis is accepted, and this means that there is a sufficient strategy for the Jordanian public debt management.

Results and recommendations

Results

Based on analysis and discussions, the study found the following results:

1. The period 2010-2014 witnessed significant developments in the size of the public debt, as the size of the public debt increased from 11.4623 million dinars in 2010 to 20.5555 million dinars in 2014, and by an increase rate of almost 80%.

2. The results of the study indicated the presence of a strategy for the management of the Jordanian public debt through peremptory, lawful and applicable rules under the Public Debt Management Law No. (26) of 2001.

Recommendations

* Increasing the efficiency and effectiveness of public debt through:

A. Development of an integrated strategy for the management of public debt that includes a clear mechanism to borrow and in line with the expected financial potentialities.

B. The search for new sources to finance the deficit through strengthening the role of local revenues, related laws and policies and effectively accessing to the surplus in the budget.

C. The interest with concessional- conditioned external debt and its guidance for the development of infrastructure, promotion of investment and supporting of the productive sectors.

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