Foreign Debt and Poverty

By

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I am so delighted to participate in the 2008 Social Forum hosted by the United Nations Office of the Higher Commissioner for Human Rights in Geneva. Today's meeting represents a continuation of our political, social and economic dialogue with the United Nations.

The most important question is to ask whether foreign debt plays a crucial role in influencing poverty levels

- Several observers have long argued that large external debt burden is a major cause of poverty through its effects on economic growth and human development; the Links between external debt & poverty are complex, reflecting, among other things, the multidimensional aspects of poverty.
- The **direct** impact of external debt on poverty is:
    1. The crowding out effect of debt service payments on social spending is a plausible channel. Underlying the debt relief debate is the belief that fiscal resources released by the debt relief will be channeled towards social sectors. (increasing public spending on improving the access to and quality of health, education, water, sanitation and other essential services to the poor), in the context, high levels of indebtedness, due to the attendant high

debt service can directly reduce government resources that are available for the poor, for example, health and education expenditures and expenditures on social safety nets.

2. High indebtedness could lead to a decline in new flows of external resources, as a result poverty-related spending could be curtailed, in the long run, the impact of the reduction in investment in social sectors would affect poverty through income (which Poverty is generally defined in terms of income) however, in the short run, reducing investment in social sectors would affect directly health and education outcomes.

- Also high indebtedness can **indirectly** affect poverty by reducing the growth through the investment channel by increasing uncertainties and reducing expenditures on economic infrastructure.

- The literature shows that the level of external debt has an impact on economic growth, which, in turn the key determinant of poverty, the impact of external debt on growth occurs mostly through the investment channel;
  1. The servicing of heavy debt may directly divert budgetary resources from investments necessary to stimulate economic growth.
  2. High indebtedness discourages private sector-led investment and employment and therefore growth owing to uncertainty about government actions in servicing the large external debt.
  3. High indebtedness may lead to capital fight, finally a country with high indebtedness is often perceived by international financial markets and donors as exhibiting problems of economic mismanagement and bad governance, and therefore to be risky for investment.

- Large debt stocks are typically expected to lower growth through the channel to reduce investment which is usually described by the debt overhang hypothesis.

- Outstanding debt ultimately becomes so large that the investment will be inefficiently low without sizable debt or debt service reduction, the burden of large debt sooner or later can lead to extreme scarcity in liquidity, negatively impacting upon capital formation, growth and consumption, the incentive effect of the hypothesis refers to the low public and private investment because a larger and larger share of resources is transferred abroad for debt servicing.

- However, there is one or more debt variables are significantly and negatively correlated with investment or growth.

- Economic growth plays a key role in poverty reduction, although still an ongoing debate on the extent to which growth actually effects poverty, some of them believe that growth eventually benefit the poor people and the other focuses on the reducing income inequality to combat poverty.

Foreign Debt and Poverty in Jordan

Let us start with Facts and Figures

The government of Jordan has an intense effort in reducing the Public External Debt which led to secure more funds from the general budget and foreign grants for implementing development projects and program to alleviate poverty in Jordan, in which it's resulted in reducing the poverty rate from (14.2%) in the year 2002, to (13%) in the year 2006. Although the GOJ depended in the early (1980's) on most of the foreign debts. for financing the infrastructure projects in different sectors, which led to have well established infrastructure that attracted Foreign Direct Investments, that was the reason for the increase of Total Exports which drove the economic growth to increase.

The outstanding External Public Debt (government and government-guaranteed) declined by (JD1601.6) million to reach (3651.7 JD) million at the end of June 2008 equivalent to (28.5%) as a percentage of GDP, compared to (JD 5253.3) million or (46.8%) of GDP at the end of the year 2007. this decline was mainly due to the execution of the debt buyback agreement with Paris Club members at march 2008, which led to reduce the amount of Debt around (2.4 US $) billion and (US $1) billion interest for the upcoming fourteen years.

Finally, I would like to highlight that the debt service cost in Jordan is a burden on our treasury, because this money could be used in the poverty alleviation or investments project.

THANK YOU