

Impact of Political Crises Risks on Credit Policy in Jordan

Gaza Crisis 2023

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I. Introduction:

Studying credit policy in any region of the world requires the researcher to define the geographic area for the study.

In this study, Jordan is the targeted region for examination. Credit policy is significantly influenced by political and social conditions not only in Jordan, but understanding political crises that affect this policy is crucial. The Gaza Crisis of 2023 notably impacted Jordan's economy, particularly its credit policy. This research thus aims to explore the effects of the 2023 Gaza Crisis on credit policy in Jordan.

One of the reliable sources depicting an accurate view of financial policy is the international credit rating issued by Moody's, which assigns credit ratings to countries. In Jordan, the Jordan Banks Association relies on Moody's rating to shape credit policy.

Apart from the nature of the Gaza Crisis, this study focuses on its economic impacts on Jordan and its financial credit policies. Jordan's economic situation has been in a state of recession, exacerbated by the Gaza Crisis. Therefore, the researcher seeks to ascertain whether this recession stems from other isolated causes unrelated to this crisis. It's important to note credit rating and credit classification terminologies. Credit rating refers to "a three-digit number indicating the likelihood of an individual or company defaulting on financial obligations within the next twelve months. This rating ranges from 300 to 900, with higher credit ratings indicating lower credit risk." International credit classification is based on ratings with AAA being the highest. Other credit institutions such as Standard & Poor's and Fitch also exist.⁽¹⁾

The research path will define credit policy, explore political crises, review previous studies on the topic, and utilize a descriptive research methodology.

Previous Studies:

The Gaza Crisis remains ongoing at the time of this research, making comprehensive studies scarce. However, the researcher will focus on studies related to financial credit in general.

1. Dr. Ahmed Abdel Aziz Al-Alfi's book "Bank Credit" discusses mitigating credit risks by diversifying bank loans and facilities based on various criteria such as loan size, type of activity, borrower size, and geographic location. This study focuses on bank credit, excluding its relationship with financial crises⁽²⁾.

2. Research by Amjad Ezzat Abdel Mawjoud Isa on "Credit Policy in Banks Operating in Palestine" explores the commitment of banks to global credit standards and their impact on credit policy in Palestinian banks. The study found varying impacts and commitments to these standards among banks in Palestine, focusing on credit application conditions.

3.A study by the Arab Monetary Fund on "The Global Financial Crisis and its Impacts on Arab Economies" explored the direct effects of the 2008 global financial crisis on the economy rather than specifically on credit policy in Arab countries, diverging significantly from our current study⁽³⁾

Research Problem:

The research problem lies in the ambiguity resulting from credit risks during political crises. This ambiguity prompted the researcher to investigate the impact of these crises on credit policy in Jordan during the Gaza Crisis of 2023, which heavily affected the Middle Eastern economy in general and Jordan in particular. This ambiguity serves as a primary motivation for conducting this research. Political crises often impose pressures on credit movements, yet they may not always directly impact them; other unrelated causes may influence credit activities. Comprehensive credit information databases on bank clients and credit providers significantly aid researchers, and Jordan possesses a comprehensive credit database, facilitating this study⁽⁴⁾

The Central Bank's bulletin highlights its comprehensive credit information database, crucial for economic growth and financial inclusion. The Central Bank has established legislative and legal structures for credit information exchange systems, including temporary Credit Information Law No. 15 of 2010 and Credit Information Companies System No. 36 of 2011. The Central Bank of Jordan is responsible for licensing, supervising, and regulating these companies.⁽⁵⁾

Study Questions:

The study revolves around two main questions: financial credit and political crises. The study's questions aim to address the research problem. In summary, the study's questions are as follows:

- 1.How does financial credit in any region affected by political crises?
- 2.In what region does financial credit remain unaffected by political crises?

The researcher will answer these questions to provide recommendations and findings for future reference, relying significantly on existing intellectual resources to narrate and analyze information consistent with scientific logic governing research writing.

II. Research Methodology:

The study methodology is based on descriptive and analytical analysis of factors influencing credit processes and political crises due to the lack of data covering this topic. Extensive research exists on financial credit and political crises separately, but not together, necessitating this type of analysis.

Key Terms Related to Research:

Financial credit refers to borrowed money from a lending institution, requiring repayment with agreed-upon interest and fees, if any, within an agreed-upon time frame.

Political crises are defined as ethnic or economic conflicts affecting a specific region directly impacting humans. There are many types of these crises, but the researcher used the term financial crisis in general.

Crisis management is the use of crisis as a tool to achieve the arrangement of an area in the absence of a tool of crisis.

Credit rating is an index used by financial companies to study when granting a type of pro in indicates past commitments the client and credibility to financial bligations.

Analysis:

In the latest bulletin on Jordan's economic indicators released at the end of 2022, national exports increased by 44%, totaling 6.169 billion Jordanian Dinars compared to 4.283 billion Dinars in the same period of 2021. As for the trade deficit, it rose by 32.8% in 2022 to reach 8.137 billion Dinars, up from 6.125 billion Dinars in 2021. The industrial producer price index reached a record high in 2022, increasing by 15.7% to 153.06 points compared to 122.78 points in the previous year. Tourism income for the kingdom also saw a significant rise by 115% to 5.3 billion dollars by the end of 2022, attributed to an increase in tourists to 4.6 million compared to the previous period. Remittances from expatriates increased by 0.6% in 2022, reaching 16.7 billion dollars, sufficient to cover the kingdom's imports for over seven months.

Deposits in banks increased by 2.4 billion Dinars in 2022, growing by 6.1% to reach 41.9 billion Dinars, while credit facilities granted by banks increased by 2.3 billion Dinars in the same year, a growth rate of 6.7% to reach 32.3 billion Dinars. Foreign direct investment into the kingdom rose by 96.9% in the first half of 2022 to 548.4 million dollars. Travel data from the international airport group indicated a 75.5% growth in travel compared to 2021, with Queen Alia Airport handling about 7.1 million passengers in 2022. Real estate trading volume in the kingdom also increased by 23% in 2022 to 4.875 billion Dinars. According to statistical data, unemployment in Jordan decreased by 2.2% in 2022 to 22.6%, while the consumer price index rose by 4.22%. The market capitalization of listed stocks on the Amman Financial Market reached 18.025 billion Dinars in 2022, up from 15.495 billion Dinars in 2021.

Credit Facilities:

Individuals' debt at Jordanian banks continued to rise by the end of 2023, reaching 11.8 billion Dinars compared to 10.9 billion Dinars at the end of 2022, an increase of 8.6%. According to the Central Bank bulletin, the number of borrowers from banks reached approximately 1.22 million borrowers, up from 1.17 million in 2022, an increase of 4.3%. These figures indicate a significant presence of various lending institutions in Jordan, including banks, lending institutions, and financing houses, reflecting a robust credit environment where Jordanian banks typically require high-value guarantees for credit facilities.

Regarding Jordan's long-term credit rating, Moody's upgraded it to B1 for the first time in 21 years, with a stable outlook of Ba3, reflecting effective macroeconomic and public financial management and risk mitigation measures. Moody's also affirmed the stability of public financial indicators in the coming years, projecting the government budget deficit to range between 1.5% to 2% of GDP in 2024 and 2025, compared to 2.1% in 2023 and 2% in 2022.

III. Conclusion:

The researcher reached several conclusions after completing this study:

1. The credit situation in any country is directly affected by any crisis it faces, typically with negative implications, albeit varying greatly depending on the strength and resilience of the economy.
2. Credit laws and regulations are contingent upon the scale and duration of any financial crisis a country experiences, as observed during the Gaza 2023 crisis
3. Despite the political crisis, there was significant demand for loans among citizens, although caution prevailed among institutions regarding lending .
4. The primary driver for citizens' increased borrowing was inflation accompanying the crisis, resulting in higher debt burdens, mostly used for basic needs.

5. There is a lack of specific financial and monetary policies guiding citizens during political crises, resulting in significant side effects, differing greatly from countries with proactive precautionary measures.

Recommendations:

The researcher proposed several recommendations that, if implemented, could yield significantly positive outcomes for both citizens and the country's credit strength:

1. Responsible entities should establish a pre-planned contingency plan for credit in case of any political crisis affecting the country directly or indirectly, as seen in the Gaza 2023 crisis.
2. Crisis management frameworks should be activated in the absence of alternative credit plans during political crises, demonstrating that well-managed crises have far less impact.
3. Efforts should focus on activating savings within the country as a means of preserving credit value, reducing dependency on borrowing during crises.
4. Emphasis should be placed on comprehensive credit education in universities, given the pivotal role of developing economies in credit utilization.
5. Consider establishing state-owned lending institutions to offer loans without being affected by global interest rate fluctuations, ensuring minimal interest burden on citizens during economic downturns.

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