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**DOMESTIC DEBT, EXTERNAL DEBT AND ECONOMIC GROWTH OF JORDAN**

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**ABSTRACT**

*The present study explores the relationship between domestic debt, external debt and economic growth of Jordan measured by real gross domestic product by using quarterly time series data for the period (2004 Q<sub>1</sub> to 2014 Q<sub>2</sub>). The study used unit root test, Cointegration test, causality test, VAR and VEC models, Impulse response function and variance decomposition function to examine the study hypotheses. The study found that external debt has a positive and significant impact on economic growth of Jordan, while domestic debt is mostly having a negative significant impact on economic growth. The Cointegration test shows that there is a long run relationship between economic growth and domestic and external debt. While the causality test shows that there is a unidirectional relationship running from external debt to economic growth, which means that external debt leads to economic growth.*

**KEYWORDS**

economic growth, external debt, domestic debt, Jordan, causality, cointegration, VAR, VECM.

**1. INTRODUCTION**

The public debt considered as a main source to cover the public budget deficit and it is a tool of fiscal policy used for the management of the national economy. Economists split between supporters and opponents of this policy. Proponents said that the public debt is a key source of public revenue and economic growth. Opponents said that the public debt dispels government savings and affect negatively on economic competition.

The continued increase in the public budget deficit leads governments to borrowing to combat the deficit, which increases the size of the public debt, its burden and its consequences. This leads to problems in the management of the local economy and problems in the management of public debt, which it considered as one of the most important problems that currently facing Jordan.

The main reason of the external debt of developing countries is to fill the gap between savings and investment (Chenery, 1966). Developing countries that have a deficit of balance trade encouraged to borrow from developed countries and rich countries as well as from international institutions to stimulate economic growth. In the same context Gohar, Bhutto, and Butt (2012) wrote that developing countries borrow from countries and institutions to finance the deficit in the public budget in order to promote economic growth and poverty reduction. Also Apere (2014), Hameed, Ashraf, and Chaudhary (2008) Ogunment (2011) and Ayadi and Ayadi (2008) wrote that external borrowing is ought to accelerate economic growth especially when domestic financial resources are not enough and to be supported by foreign funds. While soludo (2003) wrote that countries borrow for macroeconomics reason such as higher investment, higher consumption i.e. education and health or to finance temporary balance of payment deficit to lower nominal interest rates results from the shortage of domestic long term credit or to overcome budget constraint.

The purpose of this study is to explore the relationship between domestic debt (DD), external debt (XD) and economic growth of Jordan measured by real gross domestic product (GDP) by using Cointegration test, Granger causality test, VAR and VEC models. The rest of the study is arranged as follow: section 2, literature review, section 3 data and methodology, section 4 empirical analysis and results discussion and section 5 conclusions.

**2. LITERATURE REVIEW**

A large number of scholar's have found that the external debt has a negative and significant effect on economic growth those scholar's referred that to the presence of debt overhang (Krugman, 1988; Sachs, 1989, Apere, 2014).

Kasidi and Said (2013) investigated the impact of external debt on economic growth of Tanzania for the period of 1990-2010. The study showed that there is positive and significant impact of the external debt on GDP while debt service payment has a negative and significant impact on GDP. The Cointegration test shows that there is no long run relationship between external debt and GDP.

Sulaiman and Azeez (2012) examined the effect of the external debt on economic growth of Nigerian. They used gross domestic product (GDP) as the endogenous variable measuring economic growth and external debt, inflation, and exchange rate as the exogenous variables. They used annual data for the period 1970 to 2010. For examining their study hypotheses, they used Ordinary Least Square (OLS), Augmented Dickey-Fuller (ADF) Unit Root test, Johansen Co-integration test and Error Correction Method (ECM). The cointegration test shows that long-run equilibrium relationship exist among the variables. They found that external debt has a positive and significant effect on Nigerian economic growth. The findings from the error correction method show that external debt has contributed positively to the Nigerian economy. The study recommends that government should ensure economic and political stability and external debt should be acquired largely for economic reasons rather than social or political reasons.

Tunde, (2012) examined the causality between public debt and economic growth in Nigeria for the 1970 to 2010. He used Augmented Dickey Fuller and Philip Perron test. Co-integration test and Vector Autoregressive (VAR). He found that there is a bi-directional causality between public debt and economic growth in Nigeria. They are positively related if the government used the external debt for development of the economy.

Rais and Anwar (2012) examined the impact of public debt (external and domestic debt) on economic growth of Pakistan for the period 1972- 2010. They used per capita income as a proxy for economic growth and external debt to GDP ratio and domestic debt to GDP ratio as measures for public debt and they used multiple linear regression to examine their study hypotheses. They found that external debt and domestic debt have both a negative and significant impact on economic growth and they referred that to both external debt, domestic debt are not well managed and not efficiently used.

Rahman, Bashar and Dey (2012) investigated the relationship between external debt and economic growth in Bangladesh for the period 1972 to 2010, by using Cointegration test and Granger Causality test; they found that there is a positive significant correlation between Gross Domestic Products (GDP) and External Debt. The result of Granger's Causality test implies that there is a bi-directional causality runs from external debt to economic growth and from economic growth to external debt.

Oke and Sulaiman (2012) invstigated the impact of external debt on economic growth and the volume of investment in Nigeria between 1980 and 2008. They found that there is a positive relationship between external debt, economic growth and investment.

Amassoma (2011) investigated the causality relationship between external debt, domestic debt and economic growth in Nigeria for the 1970 to 2009 and used a Vector Autoregressive (VAR) and a Vector Error Correction (VEC) models. He found that there is not a long-run relationship between domestic debt and economic growth, while there is a long run relationship between external debt and economic growth, Amassoma also found a bi-directional causality between domestic debt and economic growth and a unidirectional causality from economic growth to external debt in Nigeria.

Malik, Hayat and Hayat (2010) investigated the impact of external debt on economic growth of Pakistan for the period 1972-2005. They found that external debt has a negative and significant impact on economic growth. They also found that debt servicing has significant and negative impact on GDP growth.



Adofu and Abula (2010) examined the relationship between domestic debt and economic growth in Nigeria for the period 1986 – 2005. They found domestic debt has a negative relationship with economic growth.

Reinhart and Rogoff's (2010b) showed that high levels of debt are negatively correlated with economic growth, but that there is no correlation between debt and growth when public debt is below 90 percent of GDP. They showed the threshold effect by using annual data about public debt and GDP for 20 advanced countries for the period 1946 to 2009. They divided the study sample into four groups, first, countries in which public debt to GDP is less than 30 percent of GDP. Second, countries in which the public debt to GDP is between 30 percent and 60 percent of GDP. Third, countries in which the public debt to GDP is between 60 percent to 90 percent of GDP and four, countries in which public debt to GDP is more than 90 percent of GDP. They computed the median and the GDP growth for each group. They found that no a big difference between the first three groups but they found that median and the GDP growth is lower for the fourth group countries which have a public debt to GDP greater than 90 percent of GDP.

Checherita and Rother (2010) examined the impact of government debt on per-capita GDP growth in twelve-euro area countries for the 1970 to 2009. They found a non-linear impact of debt on growth with a turning point beyond which the government debt-to-GDP ratio has a harmful impact on long-term growth at about 90-100% of GDP. They suggested that public debt has a negative impact on economic growth for the levels of 70 percent to 80 percent of GDP. They also showed that the annual change of the public debt ratio and the budget deficit-to-GDP ratio are negatively and linearly associated with per-capita GDP growth. The channels through which government debt (level or change) is found to have an impact on economic growth rate are private saving; public investment; total factor productivity and sovereign long-term nominal and real interest rates.

Liew, and Puah (2010) investigated the effect of external debt and domestic debt on the economic growth of Malaysia for the period 1970 to 2006. Using Co-integration test, Granger causality test. They found that external debt as well as domestic have a negative impact on economic growth of Malaysia. Moreover, they found that causality running from debt to economic growth of Malaysia.

Abdelmawla and Mohammed (2005) examined the impact of external debt on economic growth of Sudan for the period of 1978 to 2001. The study found that export has a significant positive impact on economic growth, while external debt and inflation have negative impact on Sudan's economic growth.

From the previous empirical studies, it observed that some studies focused on the relationship between public debt and economic growth, and between external and or domestic debt and economic growth. Some studies focused on the causality between public debt and economic growth. This study examined the relationship between public debt (external debt, domestic debt) and economic growth by using Cointegration test. The causality between public debt (external debt, domestic debt) and economic growth. In addition, the study examined the impact of the public debt (external debt and domestic debt) on economic growth of Jordan by using VAR and VEC models and impulse and Variance decomposition functions.

### 3. DATA AND METHODOLOGY

#### 3.1 DATA SOURCES

This study used quarterly time series data for the period 2004 Q<sub>1</sub> to 2014 Q<sub>4</sub>. Quarterly Real Gross Domestic Product (RGDP) used as an indicator for economic growth of Jordan, Quarterly external debt (XD) measured by total sum of external borrowing of Jordan, and Quarterly domestic debt (DD) measured by total sum of domestic borrowing of Jordan. We choose this period because the public debt of Jordan (domestic debt as well as external debt) witnessed a high increased. In spite, the public debt reduced to lower levels by the end of year 2000 since the government adopted a number of economic reform programs through the period 1989 to 2003 and used some of the privatization program revenues to pay debt. However, after that the government faced many financial problem, which imposed the government to finance the public deficit from both domestic debt and external debt. All the data collected from the Central Bank of Jordan database (central bank of Jordan, 2014).

#### 3.2 STUDY VARIABLES

3.2.1 Real gross domestic product (RGDP): the gross domestic product at basic prices used as an indicator for economic growth. Governments overall the world used all possible policies to have a good economic growth rates, since an increase in economic growth well increase employment for all available production resources and increasing income for all sectors as well as people and this will increase governments revenues through different taxes imposed in the economy. Economic development also attracts domestic as well as foreign investors to invest in the existing projects through stock markets or establishing new projects to achieve profits (Campbell and Hopenhayn, 2003; Fasvely, Greenaway, and Yu, 2007).

3.2.2 Domestic debt (DD): the total amount of Jordan Government borrowing from domestic market. Government used domestic borrowing to avoid inflation, external crisis and to carry the danger of excess domestic borrowing. It is well known that the government domestic borrowing leads to crowding out effect, which reduces the credit available for private sector and makes a negative pressure on domestic interest rate (Apere, 2014).

3.2.3 External Debt (XD) the total amount of Jordan government borrowing from abroad. The government borrows from abroad for reasons related to public budget deficit, current account deficit and the shortage in the domestic investment, Gohar, Bhutto and Butt (2012).

#### 3.3 THE METHODOLOGY

##### 3.3.1 VAR Model

In order to observe the overall impact of external debt on economic growth of Jordan the equation estimated growth model as suggested by Amassoma. (2011) with some modification to meet the study goals. This study is looking to find an evidence on the relationship between domestic debt, external debt and real GDP the indicator of economic growth of Jordan. The dynamical relationship among domestic debt, external debt and real GDP is investigated by using Vector Autoregressive model (VAR) or Vector Error-Correction Model (VECM). Since a vector error correction model is a special form of the VAR model for I (1) variables which are cointegrated (Griffiths, Hill, and Lim, 2008). VAR model describes a system of equations in which each variable is a function of its own lag and the lag of the other variables in the system (Al-qudah, 2014).

According to Johansen Cointegration Test the study variables are cointegrated have a long run relationship, therefore the study used the restricted VAR model (vector error correction model) (Al-qudah, 2014). The final form of the Vector Error-Correction Model (VECM) was selected according to the approach suggested in (Maddala, 1992; Antonios, 2010).

$$\Delta \text{RGDP} = \beta_1 + \sum_{i=1}^n \beta_2 \Delta \text{RGDP}_{t-i} + \sum_{i=1}^n \beta_3 \Delta \text{DD}_{t-i} + \sum_{i=1}^n \beta_4 \Delta \text{XD}_{t-i} + \lambda \text{ECt} - i + \epsilon_t$$

where  $\Delta$  is the first difference,  $\text{ECt-1}$  is the error correction term lagged one period,  $\lambda$  is the short-run coefficient of the error correction term ( $-1 < \lambda < 0$ ),  $\epsilon_t$  is the error term. GDP: Real Gross Domestic Product (proxy for economic growth) DD: domestic debt, XD: external debt, t: time.  $\beta_1$ : intercept of relationship in the model (constant), and  $\beta_2, \beta_3, \beta_4$ : Coefficients.

For estimation process, we used econometric software E Views 6 provided by Quantitative Micro Software.

##### 3.3.2 Study Hypotheses

The study has the following alternative hypotheses:

H1: There is a significant relationship between domestic debt and economic growth measured by real GDP.

H2: There is a significant relationship between external debt and economic growth measured by real GDP.

### 4. ESTIMATION AND ANALYSIS

#### 4.1 UNIT ROOT TEST

The study performed a unit root test for quarterly Real Gross Domestic Product (RGDP) of Jordan, quarterly external debt (XD), quarterly domestic debt (DD) by using the Augmented Dickey-Fuller (ADF) developed by Dickey and Fuller (1981) and Phillips Perron (PP) tests developed by Phillips and Perron (1988). This is important because most time series exhibit non-Stationarity behaviors in their level form, which often postures a serious problem to econometric analysis and may therefore lead to spurious result if appropriate measures are not taken (Amassoma, 2011). If the time series are stationary at level VAR model is used.

However, if they are not stationary at level and the Cointegration equations are statistically significant VECM is used; otherwise, VAR model is used (Eryigit, 2012 and Toraman et al., 2011, Al-Qudah, 2014).

From Table (1) the results of Augmented Dickey Fuller (ADF) unit root test, when we test for unit root test at level and (non, trend, trend and intercept) all variables are not stationary in their level, after the first difference only external debt is stationary and all variables are stationary after the second difference. This enables us to avoid the problems of spurious regressions that are associated with non-stationary time series models.

TABLE 1: AUGMENTED DICKEY FULLER (ADF) UNIT ROOT TEST

Variable	Calculated ADF Statistics	5% ADF Critical Value	Probability	Order of Integration	Stationary/ Not Stationary
RGDP	1.165439	-1.95012	0.9343	I(0)	Not stationary
DD	1.39565	-2.935	0.9987	I(0)	Not stationary
XD	1.530016	-1.9491	0.9669	I(0)	Not stationary
RGDP	1.165439	-1.95012	0.9343	I(1)	Not stationary
DD	-1.61637	-1.94961	0.0991	I(1)	Not stationary
XD	-4.14682	-1.94932	0.0001	I(1)	Stationary
RGDP	-5.3105	-1.951	0.0000	I(2)	Stationary
DD	-12.4648	-1.94961	0.0000	I(2)	Stationary
XD	-7.48215	-1.94986	0.0000	I(2)	Stationary

4.2 LAG SELECTED

The lag selection criteria is used to select the optimum lag because it is necessary to avoid over parameterizing model, (Al-Eitan 2012, al-qudah, 2014). The optimal lag is necessary to perform Cointegration test, Granger Causality test, VAR and VECM. To determine the appropriate number of lag length. VAR lag order selection criteria is used. The lag selection criteria results are shown in Table (2). We use Akaike Information Criteria (AIC), Schwarz information Criterion (SC) criteria and Hannan-Quinn information criterion (HQ). Which indicate that the optimal lag is (4) lags.

TABLE 2: VAR LAG ORDER SELECTION CRITERIA

Endogenous variables: RGDP, DD, XD

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-907.9254	NA	1.91E+18	50.60697	50.73893	50.65302
1	-770.4878	244.3335	1.52E+15	43.47154	43.99938	43.65577
2	-756.8404	21.98755	1.19E+15	43.21335	44.13707	43.53576
3	-725.7761	44.87056	3.61E+14	41.98756	43.30716	42.44814
4	-708.5353	22.02992*	2.42E+14	41.52974	43.24522*	42.12849*
5	-697.6489	12.09604	2.40E+14*	41.42494*	43.5363	42.16186
6	-689.2557	7.926903	2.90E+14	41.45865	43.96589	42.33374

\* indicates lag order selected by the criterion

LR: sequential modified LR test statistic (each test at 5% level)

FPE: Final prediction error

AIC: Akaike information criterion

SC: Schwarz information criterion

HQ: Hannan-Quinn information criterion

4.3 COINTEGRATION TEST

After testing for unit roots, we proceed to test for co-integration (long run relationship between variables). The Johansen co-integration test is applied to examine the long-run relationship between the variables. The Trace test as well as Max-eigenvalue test indicates (1) cointegrating equation at the 0.05 level. This imply that there is a long run relationship between domestic debt (DD), external debt (XD) and real GDP. So we have to use vector autoregressive model (VECM) which it is a restricted (VAR). This result is consistent with result of Sulaiman and Azeez (2012), Kasidi and Said (2013).

TABLE 3: UNRESTRICTED COINTEGRATION RANK TEST (TRACE)

Hypothesized		Trace	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.506531	35.28796	29.79707	0.0105
At most 1	0.148777	9.155024	15.49471	0.3513
At most 2	0.082729	3.195025	3.841466	0.0739

Trace test indicates 1 cointegrating equation (s) at the 0.05 level

\* denotes rejection of the hypothesis at the 0.05 level

\*\*MacKinnon-Haug-Michelis (1999) p-values

TABLE 4: UNRESTRICTED COINTEGRATION RANK TEST (MAXIMUM EIGENVALUE)

Hypothesized		Max-Eigen	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.506531	26.13294	21.13162	0.0091
At most 1	0.148777	5.959999	14.2646	0.6183
At most 2	0.082729	3.195025	3.841466	0.0739

Max-eigenvalue test indicates (1) cointegrating equation (s) at the 0.05 level

\* denotes rejection of the hypothesis at the 0.05 level

\*\*MacKinnon-Haug-Michelis (1999) p-values

4.5 PAIRWISE GRANGER CAUSALITY TESTS

After the unit root test and the Cointegration test are established, the study employed Pairwise Granger causality test, to know the direction of causality between public debt (domestic debt, external debt) and economic growth in the economy of Jordan. Whether domestic debt causes real GDP or real GDP causes domestic debt. External debt causes real GDP, or real GDP causes external debt, and domestic debt causes external debt or external debt causes domestic debt, since this causality may be bidirectional or unidirectional between study variables.

H0: domestic debt does not Granger cause Real GDP and vice versa.

H1: domestic debt does Granger cause Real GDP and vice versa.

H0: external debt does not Granger cause Real GDP and vice versa.

H1: external debt does Granger cause Real GDP and vice versa.

H0: domestic debt does not Granger cause external debt and vice versa.

H1: domestic debt does Granger cause external debt and vice versa.

To test the above hypotheses, we use (F- statistic) If the P value is less than 5%, we reject null hypothesis and accept alternative hypothesis. From Table (5), we can see that external debt does Granger cause real GDP, since F-statistic is (5.68563) and P value is (0.0017) which is less than 5% so we can reject H0 and accept H1 that means external debt causes economic growth of Jordan. Therefore, there is a unidirectional causality running from external debt to real GDP of Jordan the indicator of economic growth. While domestic debt does not Granger cause Real GDP since F-statistic is (1.14504) and P value is (0.3552) so we accept H0 and reject H1 that means domestic debt does not cause real GDP. and there is a bi-directional causality between external debt and domestic debt, this means that both external debt and domestic debt leads to one another. This result consistent with results of ( Leiw and Puah, 2010; Tunde, 2012; Rahma, Bashar and Dey, 2012).

TABLE 5: PAIRWISE GRANGER CAUSALITY TESTS

Null Hypothesis:	Obs	F-Statistic	Prob.
DD does not Granger Cause RGDP	38	1.14504	0.3552
RGDP does not Granger Cause DD		1.98536	0.1231
XD does not Granger Cause RGDP	38	5.68563	0.0017
RGDP does not Granger Cause XD		2.41221	0.0718
XD does not Granger Cause DD	38	3.1742	0.028
DD does not Granger Cause XD		2.98148	0.0354

4.6 IMPULSE RESPONSE FUNCTION

Sims (1980) suggested the use of impulse response and variance decomposition to help in explaining the VAR system response to shocks that represent positive residuals of standard deviation unit in each equation in the system. A one random shock in the VAR system produces a series of reactions over time in all variables in the VAR system. Impulse response functions calculate these reactions (Alqudah, 2014).

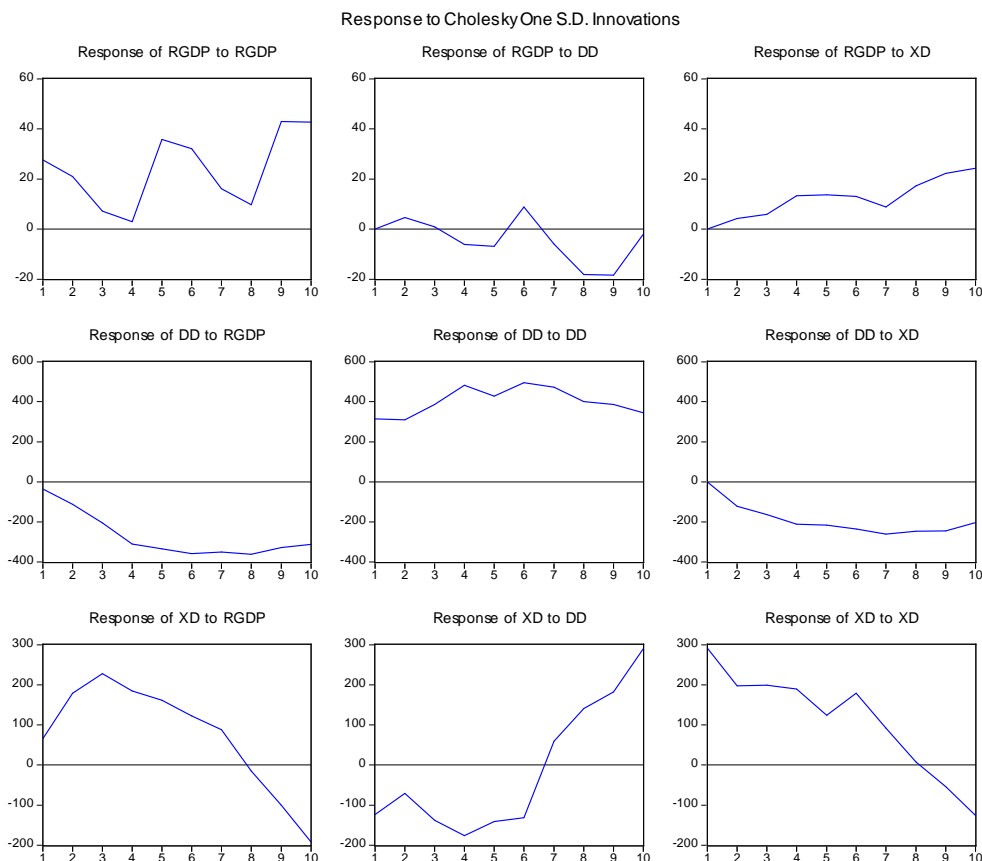
We applied the Impulse Response Function based on VEC model to find real GDP responds to own shocks, external debt shocks and domestic debt shocks. Plotting the response to Cholesky one standard deviation functions is a practical way to explore the response of each variable to a shock immediately or with various lags (Eryigit, 2012, Alqudah, 2014). Figure (1) shows the impulse-responses results for a positive shock of one standard deviation of real GDP, external debt and domestic debt to real GDP, external debt and domestic debt.

From Figure (1), the response of real GDP to own shocks. It is well illustrated that real GDP reacts positively to own shocks for the (10) quarters. but this response is not constant since the response ranged between increasing and decreasing and this is due to the economic growth in Jordan is not growing at a steady and sustainable way influenced by internal, regional and international economic and political conditions.

The response of real GDP to domestic debt shocks. It shows that domestic debt has a positive effect on real GDP for the (1, 2 and 3) quarters but it has a negative effect on real GDP for the other quarter the negative effect is very strong for the (8 and 9) quarters. So the domestic debt effect is mostly negative and significant this could be attribute to the fact the domestic debt is used for capital projects such as construction of roads, schools, hospitals etc. instead of used it in boosting economic and enhancing economic growth. In addition, it is well known that the internal debt leads to the crowding out effect. The crowding out of the public sector to the private sector on the funds available to finance private enterprises from the banking sector, and this leads to slower the private sector ability to grow and maximize profits. this is reflected negatively on the government taxes returns, which increases government needs of borrowing to finance public deficit, financing installments due and current expenditure. This leads to enter the economy in case of decline and contraction because of the absorption of liquidity from the economy. This result consistent with result of (Abdelmawla and Mohammed, 2003; Malik, Hayat and Hayat, 2010; Dofu and Abula, 2010 and Leiw and Puah, 2010) and they referred that to the bad management and efficiency of the domestic debt.

The response of Real GDP for external debt, the graph shows that the external debt has a positive and significant effect on real GDP; this could be attributed to the fact that the external borrowing has been channeled to highly productive activities that would increase the overall output of the economy and enhancing economic growth. This result is consistent with result of (Suleiman and Azeez, 2012; Tude, 2012; Rahman, Bashar and Dey, 2012; Kasidi and said 2013, and Oke and Sulaiman, 2012) they attributed this positive significant impact for the well managing of the external debt and using it in productive projects.

FIGURE 1: RESPONSE TO CHOLESKY ONE STANDARD DEVIATION (SD) INNOVATION



**4.7 VARIANCE DECOMPOSITION OF REAL GDP**

Vector Autoregressive (VAR) system is characterized by its ability of forecasting especially the short-term one. Variance decomposition shows how much a random shock to one innovation is responsible for forecasting the other innovation subsequent fluctuation that is not accounted by its own prior fluctuation (Sims, 1980; Al-Qudah, 2014). Therefore, the study used the variance decomposition function as the second method to estimate the dynamic response of real GDP, domestic debt (DD) and external debt to an unexpected change for the variable its self or the change in other variables. The study developed variance decomposition under VEC environment to examine how real GDP, respond to own and domestic debt (DD) and external debt (XD) shocks, over a period of 10 quarters. Table (6) shows the variance decomposition of real GDP.

**TABLE 6: VARIANCE DECOMPOSITION OF REAL GDP**

Variance Decomposition of RGDP				
	S.E.	RGDP	DD	XD
1	0.276012	100	0	0
2	0.3517687	96.89339	1.705611	1.400998
3	0.3638318	94.44719	1.650746	3.902068
4	0.3932594	81.36287	3.8676	14.76953
5	0.5529377	82.93525	3.544414	13.52034
6	0.6583571	82.28206	4.273732	13.44421
7	0.6859625	81.26144	4.693958	14.0446
8	0.7366446	72.20736	10.12533	17.66731
9	0.9002326	71.08278	10.98741	17.92981
10	1.02527	72.06651	8.512969	19.42052

From Table (6) in the first quarter, 100% of the change in real GDP expressed by its own shocks, 0.00% of the change expressed by domestic debt and external debt. In the third quarter, 94.4% of the change in real GDP expressed by its own shocks, 1.65% and 3.9% of the change are expressed by domestic debt (DD) and external debt (EX) respectively. It can be seen that in quarter (5) 82.2% of the change in real GDP expressed by its own shocks, 3.5% and 13.5% of the change are explained by domestic debt and external debt respectively. While in quarter (10) 72% of the change in real GDP expressed by its own shocks, 8.5% and 19.4% of the change expressed by domestic debt and external debt. So, external debt has a higher impact on real GDP. This result confirms the result of impulse response and granger causality test.

From Table (7) concerning the response of domestic debt (DD) to its own shocks is 98.74% of the change in domestic debt expressed by its own shocks in the first quarter. In quarter 10 56.6% of change in domestic debt expressed by its own shocks while 29% and 14% of the change in domestic debt (DD) expressed by real GDP and external debt (XD) respectively.

**TABLE 7: VARIANCE DECOMPOSITION OF DOMESTIC DEBT (DD)**

Variance Decomposition of DD				
Period	S.E.	RGDP	DD	XD
1	3.173489	1.257926	98.74207	0
2	4.728597	6.22054	87.21171	6.56775
3	6.646088	12.69109	77.87216	9.436746
4	9.030775	18.70088	70.71074	10.58838
5	1.07536	22.79335	65.69574	11.51091
6	1.258741	24.69086	63.42909	11.88005
7	1.413896	25.72614	61.45975	12.81411
8	1.533129	27.42723	59.1082	13.46457
9	1.632751	28.20483	57.68699	14.10817
10	1.709874	29.04073	56.6684	14.29087

From table (8) concerning the response of external debt (XD) to its own shocks is 81.2% of change in external debt is expressed by its own shocks while 4.1% and 14.5% of the change in external debt expressed by real GDP and domestic debt.

**TABLE 8: VARIANCE DECOMPOSITION OF EXTERNAL DEBT (XD)**

Variance Decomposition of XD				
Period	S.E.	RGDP	DD	XD
1	3.235434	4.167352	14.55555	81.2771
2	4.250259	20.1242	11.18774	68.68805
3	5.39833	30.31993	13.44145	56.23862
4	6.266823	31.20387	17.90694	50.88919
5	6.738524	32.73443	19.87889	47.38669
6	7.200646	31.54327	20.756	47.70074
7	7.335438	31.82585	20.65378	47.52037
8	7.471718	30.71739	23.46892	45.81369
9	7.774601	30.02049	27.17792	42.8016
10	8.611961	29.44821	33.52252	37.02927

**5. CONCLUSIONS**

The objective of the current study is to examine the relationship between domestic debt, external debt and economic growth of Jordan measured by real GDP. In addition, examine the causality between domestic debt and real GDP and the causality between external debt and Real GDP. By using Quarterly time series data for the period (2004 Q<sub>1</sub> to 2014 Q<sub>2</sub>). The study used unit root test, Cointegration test, Granger Causality test VAR, VEC impulse response function and variance decomposition function to examine the study hypotheses.

The results of Cointegration test shows that there is a long run relationship between external debt and domestic debt and economic growth measured by real GDP.

The results of Granger causality tests show that there is a unidirectional causality between external debt and economic growth measured by real GDP. Running from external debt to real GDP. This implied that external debt leads to an economic growth. (Suleiman and Azeez, 2012; Tude, 2012; Rahman, Bashar and Dey, 2012; Kasidi and said 2013, and Oke and Sulaiman, 2012) referred that to the well managing of the external debt and using it in productive projects.

The impulse response shows that a shock to external debt has a significant and positive effect on real GDP almost after the first quarter. This due to that external debt is used in boosting economy. countries should obtain external debt basically for economic reasons rather than social or political reasons. This would increase the productivity of the countries.

The impulse response shows that a shock to domestic debt has almost a negative significant impact on real GDP. This means that domestic debt has a negative impact on economic growth. this could be attribute to the fact the domestic debt is used for capital projects such as construction of roads, schools, hospitals etc.

instead of used it in boosting economic and enhancing economic growth. In addition to the crowding out of the public sector to the private sector on the funds available to finance private enterprises from the banking sector which leads to increase interest rates and decreasing investment and private consumption and then decline economy. (Abdelmawla and Mohammed, 2003; Malik, Hayat and Hayat, 2010; Dofu and Abula, 2010 and Leiw and Puhah, 2010) referred that to the bad management and inefficiency of the domestic debt.

The response of the real GDP to its own shocks is positive and significant for the 10 quarters but this positive effect is fluctuated, this due to the Jordan economic growth is not growing steady way. Because it is affected positively and or negatively by the regional and international economic and political conditions since the Jordan economy is an opened economy where the external trade represents more than 80% of Jordan GDP.

The variance decomposition results show that real GDP is affected by external debt by a percentage greater than domestic debt. While Real GDP is highly affected by its own shocks since, it was 100% in the first year and 72% in quarter (10).

The policy implication of the study results is that external debt will stimulate economic growth of Jordan. Thus, government should rely more on external debt in stimulating growth rather than domestic debt. Under a condition, the external debt must be invested in productive projects. In addition, Jordanian policy makers' should play an effective role in monitoring Jordan's total debt position, to avoid overhang situation, which is according Reinhart and Rogoff's (2010b) is more than 90% of GDP.

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In this age of Commerce, Economics, Computer, I.T. & Management and cut throat competition, a group of intellectuals felt the need to have some platform, where young and budding managers and academicians could express their views and discuss the problems among their peers. This journal was conceived with this noble intention in view. This journal has been introduced to give an opportunity for expressing refined and innovative ideas in this field. It is our humble endeavour to provide a springboard to the upcoming specialists and give a chance to know about the latest in the sphere of research and knowledge. We have taken a small step and we hope that with the active co-operation of like-minded scholars, we shall be able to serve the society with our humble efforts.

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