



منتدى الاستراتيجيات الأردني  
JORDAN STRATEGY FORUM

# The Minimum Wage in Jordan: Nominal Wage & Productivity Enhancement

March 2020

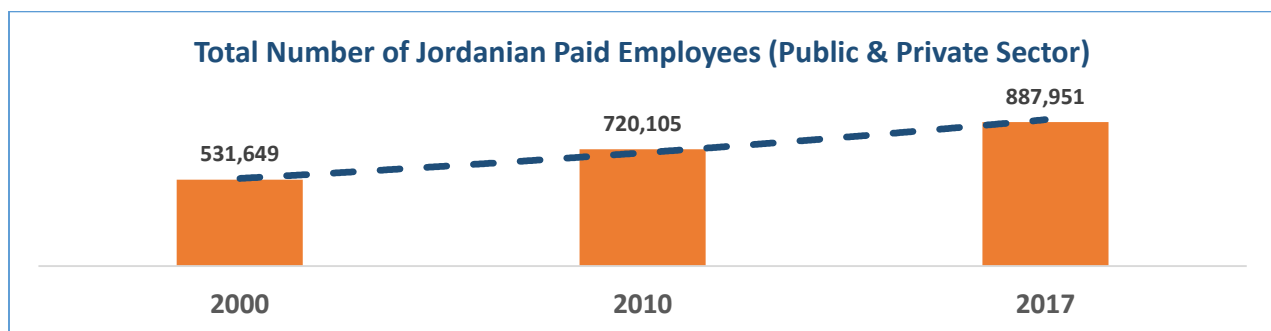


**#Policy\_Brief**

## 1. Introduction

It is probably accurate to state that wages are the most common source of income for people. Indeed, for employees in general, wages constitute their main element of income. It can also be stated that wage differentiation is the norm. Different occupations and different industries pay for employees' time at uneven rates. In addition, the dynamics of wages are determined by a myriad of factors including the balance of strength between employees and employers, past and present profitability of employers, changes in labour productivity, sales and employment perspectives, past and expected inflation rates, and others. In fact, Department of Statistics data reveals that 85.2% of the workforce in Jordan are employees.

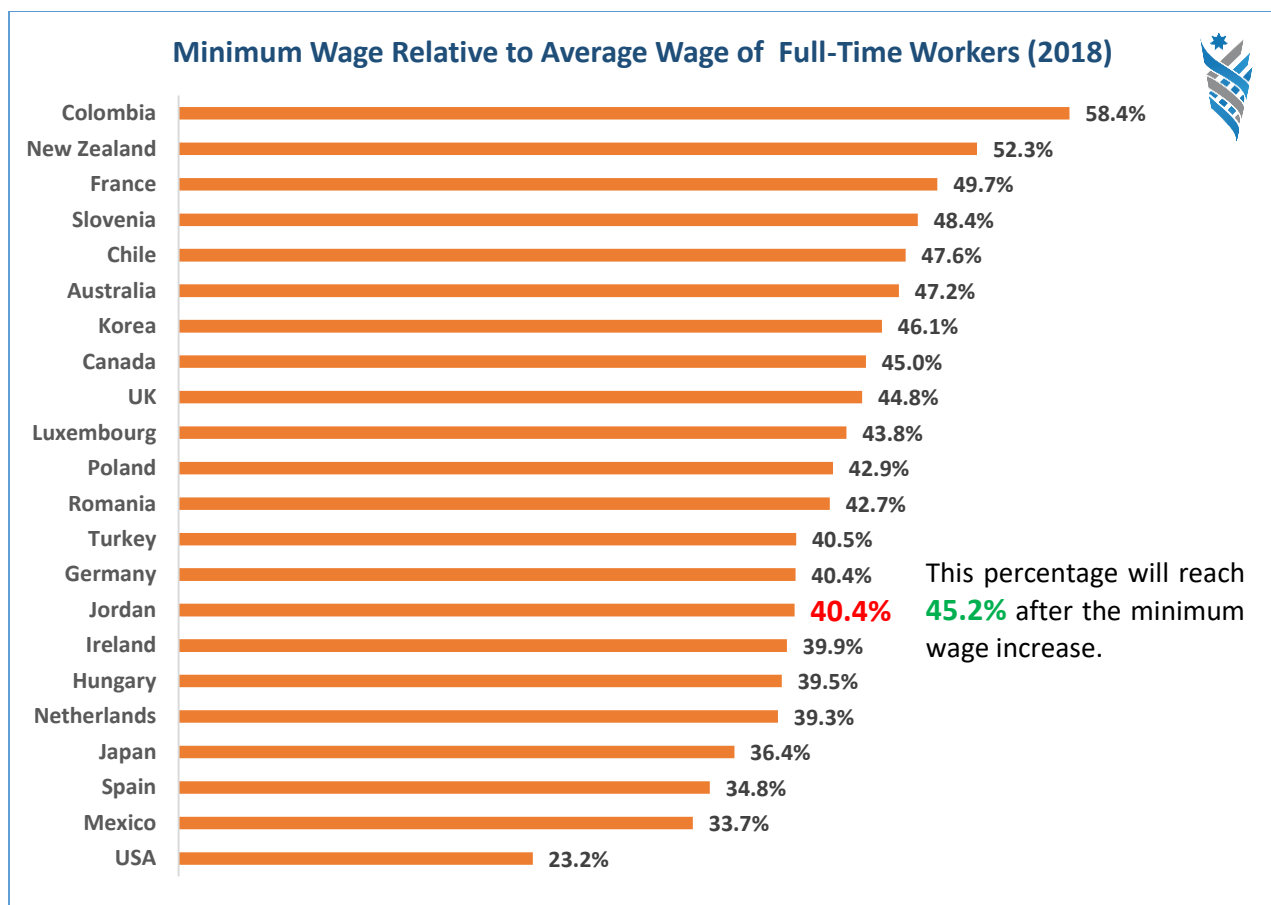
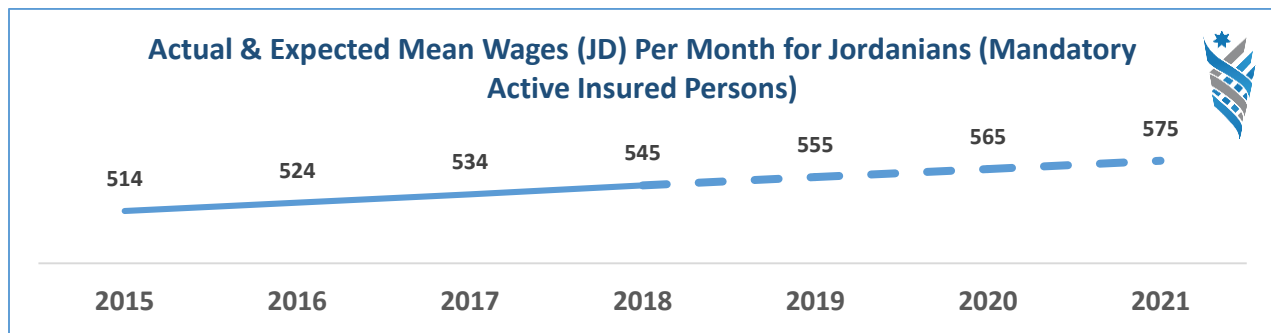
Within the context of the above-mentioned observations, it is useful to note that that total number of paid Jordanian employees has increased from 531,649 in 2000 to 887,951 in 2017 (Department of Statistics). Whilst there is no data for 2019/2020, this number has definitely increased, and remains an important part of the Jordanian economy.



## 2. Some Observations

Now that the government has decided to increase the minimum wage from JD 220 to JD 260 effective in January 2021, it is useful to shed some light on this decision.

The overall mean monthly wage of Jordanians who are active and mandatory insured (Social Security Corporation) has increased from JD514 (2015) to JD524 (2016), to JD534 (2017) and to JD545 (2018). Based on these increases, we can expect that the mean wage in 2021 will be equal to JD575. Within this context, the fact that the government has increased the minimum wage from JD220 to JD260 (effective in January 2021), we can also expect that the ratio of the minimum wage to the overall mean wage to increase from 40.4% (JD220 / JD545) in 2018 to 45.2% (JD260 / JD575) in 2021. The 40.4% or the 45.2% are somewhat close to the mean of many countries (OECD Data).

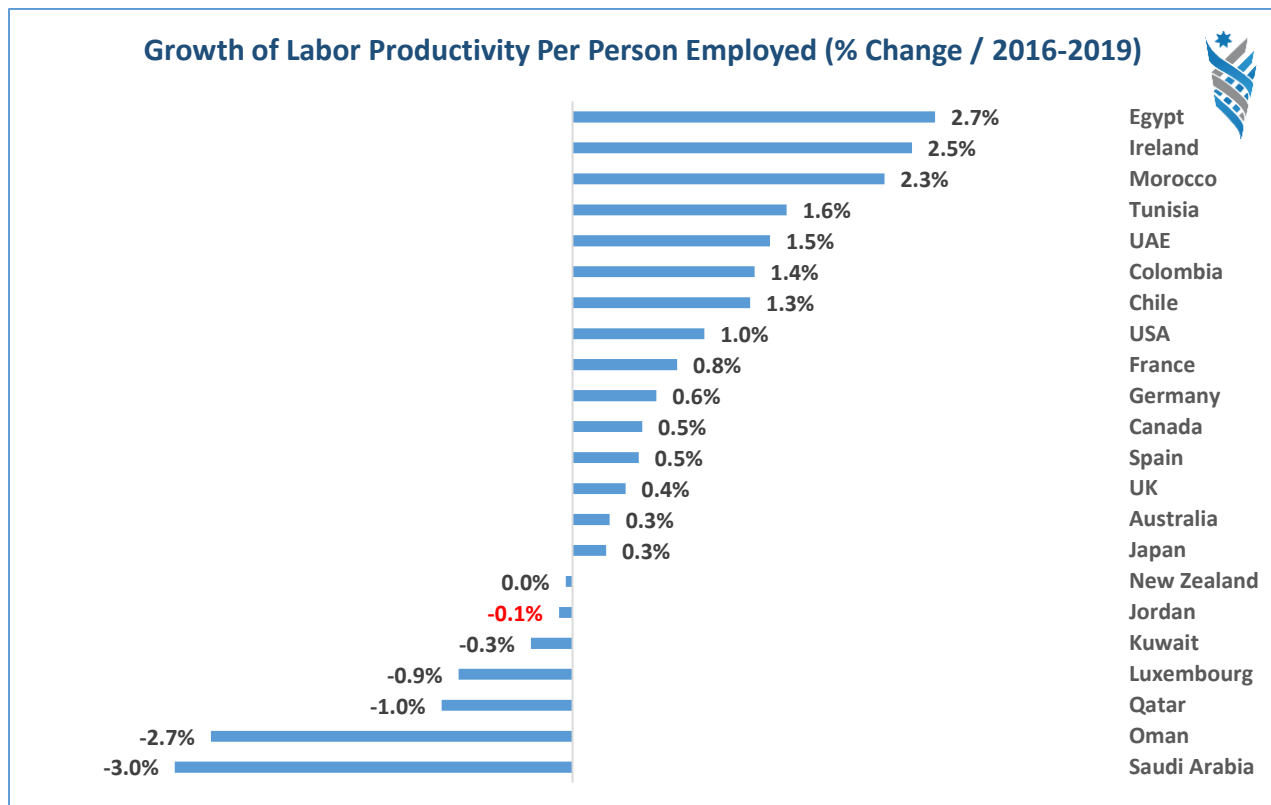


### 3. IN A NUTSHELL

Now that the government has increased the minimum wage, relevant stakeholders, should examine the effects of this increase on a myriad of issues including wages, employment levels, informal economy, gender pay gap, and poverty. In addition, the research effort should also monitor the impact of the new minimum wage on prices, household consumption, investment, and competitiveness of national exports.

Within this context, it is also important to note that unless **“labor productivity”** is improving, any increases in the minimum wage might result in higher inflation rates, additionally the size of

informal employment might increase to avoid paying the newly suggested minimum wage. Based on the data provided by the “Conference Board”, it is unfortunate to note that the mean annual change of labor productivity per person employed in Jordan has been negative. This observation implies that an increase in the minimum wage might resolve some social issues especially for those Jordanians who earn relatively low wages. Indeed, based on the 2018 Annual Report (Jordan Social Security Corporation), we can state that that 14% of the socially insured and active Jordanians earn less than JD 260 a month. However, the negative growth in productivity is the real issue that would enhance competitiveness. This is why effort must be put to increase labor productivity and try to link any future increases in the minimum wage (and other wages) with measures that enhance productivity to avoid any adverse consequences of increases in wages on, for example, inflationary pressure. Moreover, future increases in minimum wage must consider economic performance indicators and the economy competitiveness where wages bill is a critical factor in the competitiveness of the industrial and services sector.





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