منتدى الاستراتيجيات الأردني
JORDAN STRATEGY FORUM

The 2023 General Budget Law: What is New?

December 2022

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The Jordan Strategy Forum (JSF) is a not-for-profit organization, which represents a group of Jordanian private sector companies that are active in corporate and social responsibility (CSR) and in promoting Jordan's economic growth. JSF's members are active private sector institutions, who demonstrate a genuine will to be part of a dialogue on economic and social issues that concern Jordanian citizens. The Jordan Strategy Forum promotes a strong Jordanian private sector that is profitable, employs Jordanians, pays taxes and supports comprehensive economic growth in Jordan.

The JSF also offers a rare opportunity and space for the private sector to have evidence-based debate with the public sector and decision-makers with the aim to increase awareness, strengthening the future of the Jordanian economy and applying best practices.

For more information about the Jordan Strategy Forum, please visit our website at www.jsf.org or contact us via email at info@jsf.org. Please visit our Facebook page at Facebook.com/JordanStrategyForumJSF or our Twitter account @JSFJordan for continuous updates aboutJordan Strategy Forum.

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1. Background

In all economies, governments get involved in economic activity. The **budget is a policy document which reflects how any government intends to prioritize and achieve its annual (and multi-annual) objectives.** After all, all governments raise revenues (tax and non-tax) and spend them on the provision of a variety of public goods and services, such as health care, education, law and order, and others. All governments, and with varying degrees of involvement and efficiency, use **the BUDGET / FISCAL POLICY** to influence the performance of their respective economies.

Basic economic sense asserts that **unless fiscal policy is conducive to economic growth and development, the private sector cannot become an instrumental partner in this process.** After all, it is fiscal policy that sets the framework within which the private sector operates. If this is the case, one should ask one simple question:

What is a good budget? What is a good fiscal policy? A good budget or a good fiscal policy should:

1. Promote real economic growth and reduce poverty and inequality (income and opportunity).

2. Improve the allocational and efficiency of resources. This can be done only when public spending on the provision of public goods and services is sufficient and efficient.

3. Maintain macroeconomic stability. The budget should be able to accelerate economic growth when it is weak. In addition, the government should keep its fiscal deficit and debt on sustainable paths. Otherwise, the issue of public debt itself would become a major source of macroeconomic instability.

4. Any government should have in place strong and robust public institutions. After all, it is the civil service that develops and delivers public programs / services, informs policymaking, and provides evidence-based advice to the government.

On 30 November 2022, and before referring it to Parliament, the Council of Ministers, headed by the Prime Minister, approved the Draft General Budget for the fiscal year 2023. Currently, it is being discussed by the members of parliament.

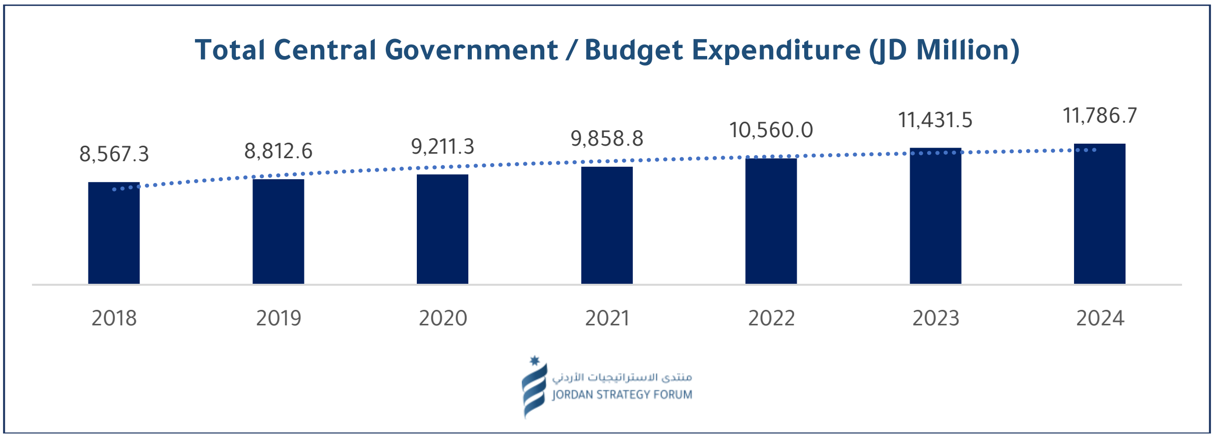
The objectives this Policy Paper, published by the Jordan Strategy Forum (JSF), are to outline some of the main features of the 2023 Draft General Budget Law, raise a few concerns about the 2023 Draft General Budget Law, and to recommend some policy options.

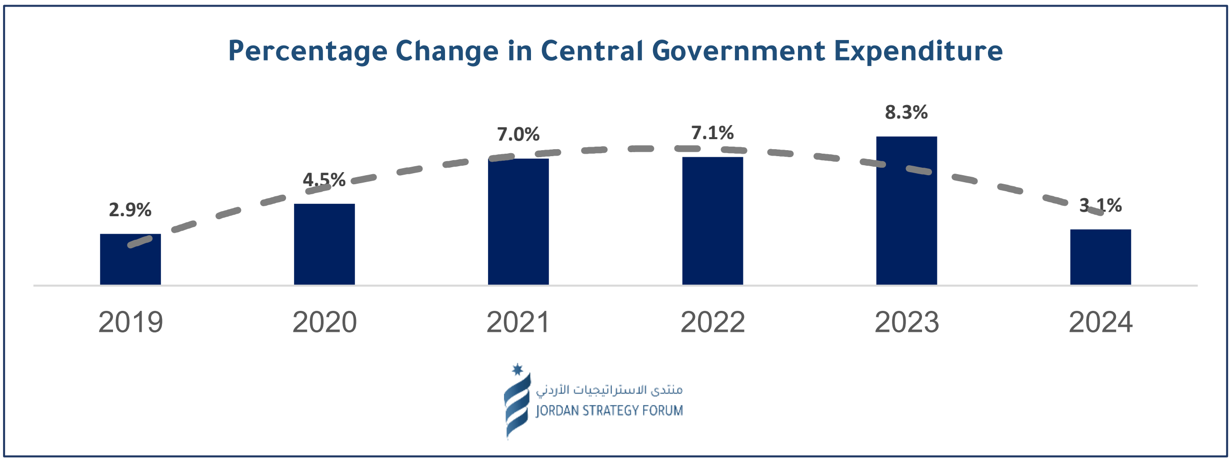
2. The 2023 Draft General Budget: Some Observations

Based on the Draft General Budget Law for the Year 2023, we outline below some observations.

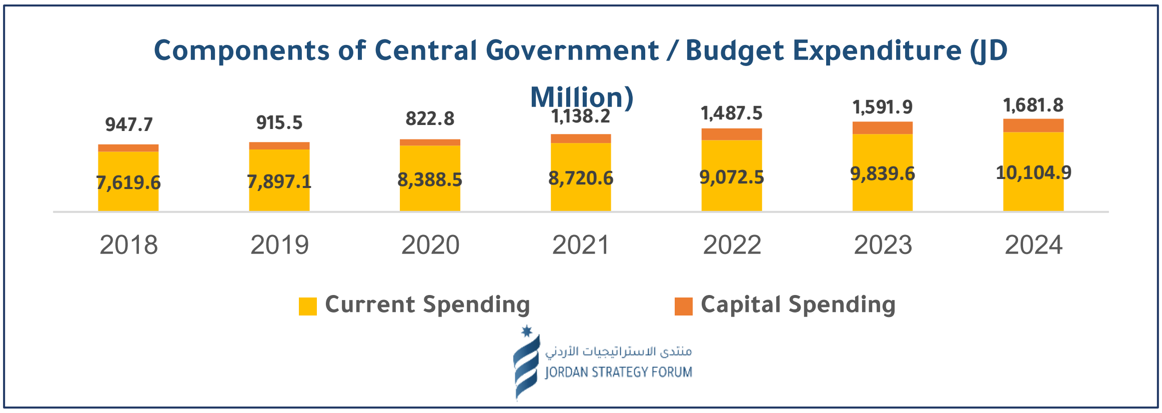
First, on average, the 2023 budget brought nothing new to public expenditure.

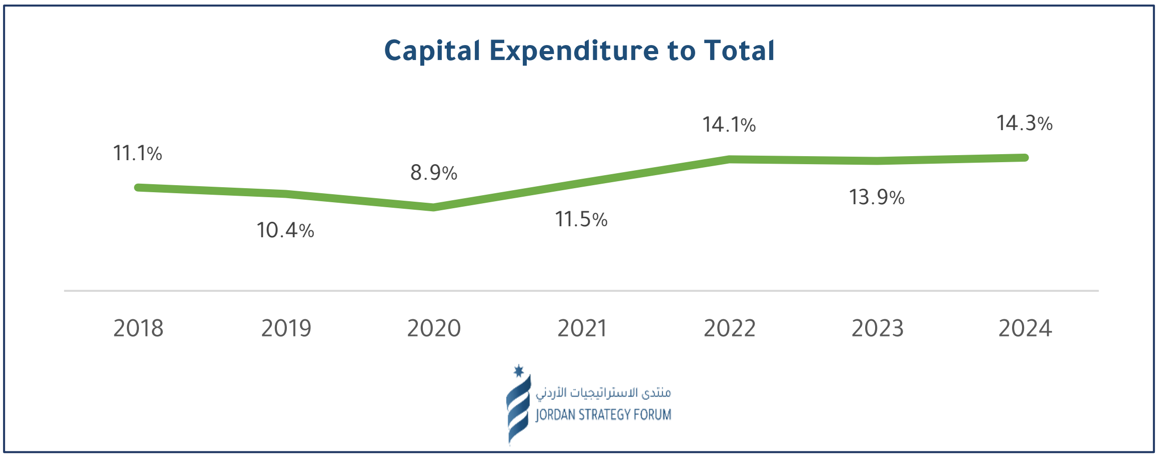
1. Just like in previous years, total public spending, at least in nominal terms, is expected to increase from JD 10.6 billion in 2022 to JD 11.4 billion in 2023 or by 8.3%. **The reported increases since 2019, and before, is a sign of incremental budgeting.** Incremental budgeting is a traditional method whereby the budget takes the actual spending in the previous year and adjusts it by an incremental amount. Following the 8.3% increase in public spending in 2023, the indicative growth rate in this item will fall to 3.1% in 2024.



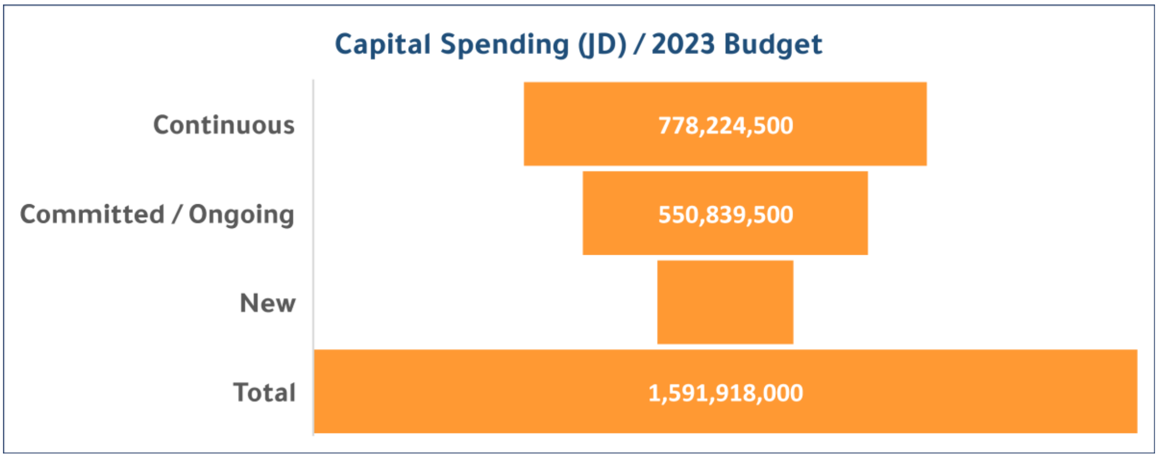


2. It is encouraging to note that capital expenditure to total expenditure is expected to remain close to its 2022 proportion. The 2024 indicative proportion is expected to increase to 14.3%.





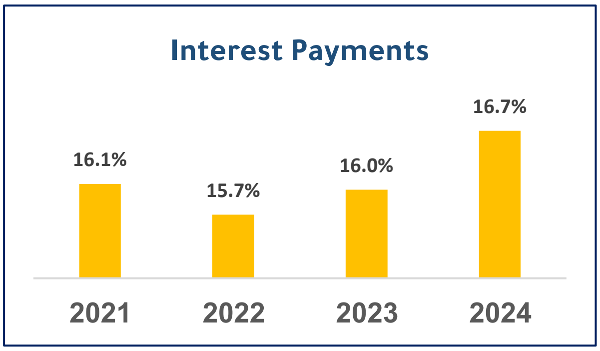
3. As far as capital spending is concerned, it is important to note that the 2023 figure (JD 1,591.9 million) is composed of JD 262.9 million in new capital investment, JD 550.8 million ongoing, and JD 778.2 million continuous. It is more important to note, however, that the number of the **"NEW"** capital investment projects in the fiscal year 2023 is about 199 projects. This implies that the mean size of capital investment is equal to JD 8.0 million. In other words, just like in previous budgets, capital investment is spread too thin.

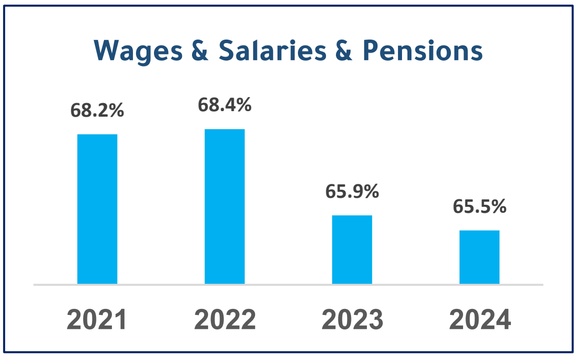


4. Based on the economic classification of current expenditures for the actual years 2021 and 2022, 2023 budget, and the 2024 indicative figures, one can realize that a limited number of spending items account for a large proportion of total. For example, wages and salaries and pensions account for about 65% of current spending. Together with interest payments on public debt (local and foreign), these spending items are budgeted to account for 82% of total current spending.

Economic Classification of Current Spending / JD Million

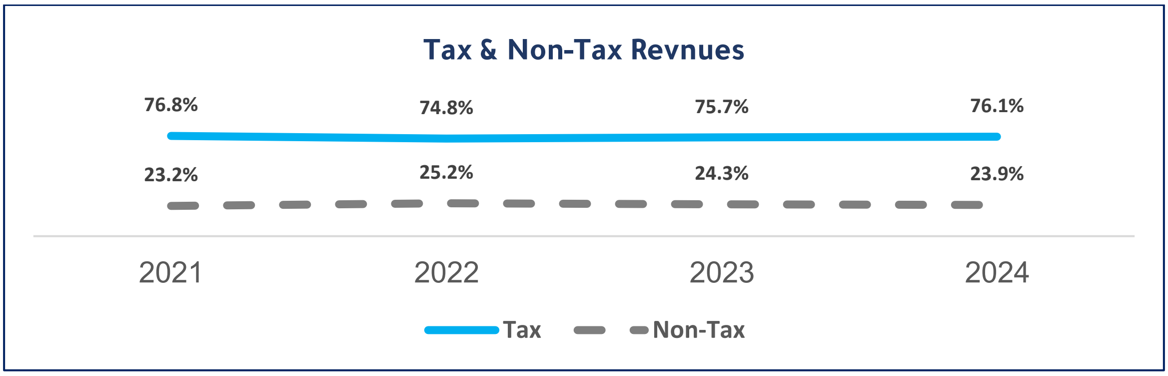
Item	2021	2022	2023	2024
Subsidies (Goods)	55.0	60.0	277.0	277.0
Social Aid	287.9	349.1	378.7	379.2
Other	426.6	413.1	440.6	441.7
Use of Goods & Services	598.5	619.9	677.2	697.2
Interest (Foreign)	**426.6**	**454.3**	**552.6**	**615.3**
Interest (Local)	**977.1**	**973.7**	**1,024.4**	**1,073.7**
Pensions	**1,605.0**	**1,655.0**	**1,679.0**	**1,729.0**
Wages & Salaries	**4,343.9**	**4,547.4**	**4,810.1**	**4,891.8**
Total Current Spending	**8,720.6**	**9,072.5**	**9,839.6**	**10,104.9**



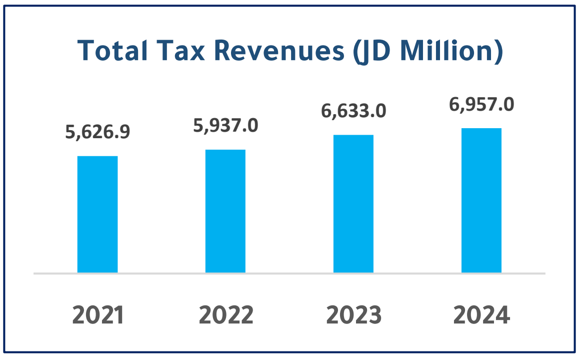


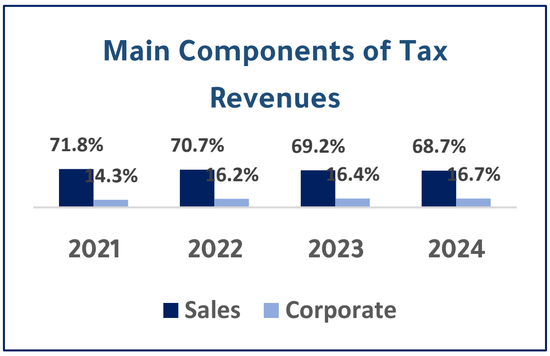
The government does not have sufficient fiscal space. The 2024 indicative numbers reflect much the same. For too long, the budget has been suffering from rigid spending items. The government does not have sufficient fiscal space. Given the current increases in the global prices of some commodities, the increase in subsidies (strategic food items) from JD 60 million in 2022 to JD 277 million in 2023 and in 2024 is encouraging. Within this context, however, one would hope that this amount will be spent on a cash basis to the poor households.

5. Tax revenues are expected to remain around 76% of total local revenues. In actual fact, the budget's indicative figures for 2024 are expected to remain much the same as well.



6. Total tax revenues are expected to increase from JD 5.9 billion in 2022 to JD 6.6 billion in 2023. Within this context, it should be noted that for too long, total tax revenues to GDP ratio have been around 15% to 16% of GDP. While this ratio is lower than that in, for example, Morocco (22%, Tunisia (22%), UK (27%), France (31%), and Denmark (46%), it should be noted that the sources of tax revenues in Jordan are highly concentrated. Indeed, sales tax revenues constitute about 70% of total tax revenues. This ratio is way higher than in Morocco (12%), Tunisia (13%), Sweden (23%), Germany (29%), Estonia (41%), and in Bulgaria (43%). Sales tax is known to be regressive and unfair. The second largest tax contributor to total tax revenues is the corporate sector.





7. Other sources of tax revenues are expected to remain much the same. In actual fact, the budget's indicative figures for 2024 are much the same.

Other Sources of Tax Revenues

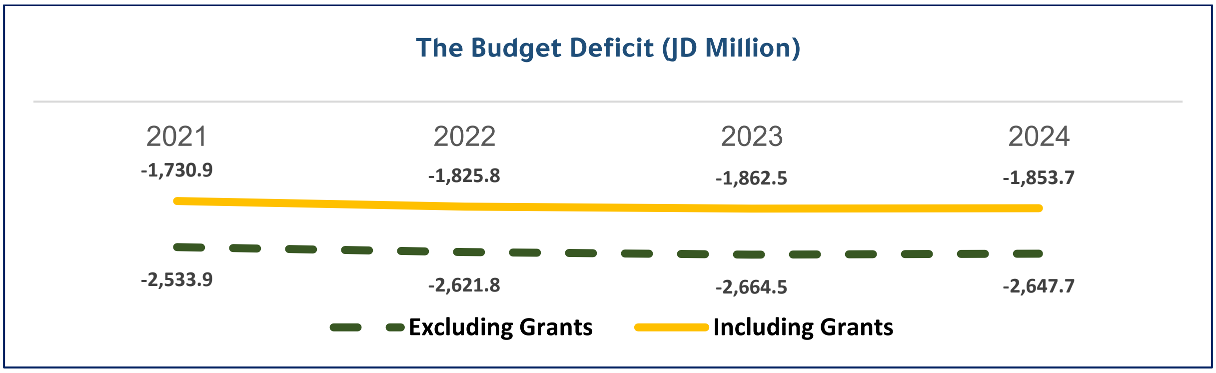
Sources	2021	2022	2023	2024
International Trade	6.0%	4.5%	4.1%	4.2%
Salaried Employees	4.1%	3.8%	4.0%	4.1%
Real Estate	1.3%	1.7%	2.1%	2.1%
National Contributions	1.8%	1.7%	1.8%	1.9%
Individuals	0.9%	1.1%	1.1%	1.2%
Tax on Grants	0.0%	0.3%	1.3%	1.2%

8. The tax system in Jordan grants **"tax concessions"**. The budgetary cost of these concessions is referred to as **"tax expenditures"** (foregone revenues). Based on the 2023 budget, it is reported that tax concessions are equal to 9.0% of GDP in 2020 and 9.28% of GDP in 2021. It is probably the case that the extent of these concessions will remain much the same in 2022, 2023, and in 2024.

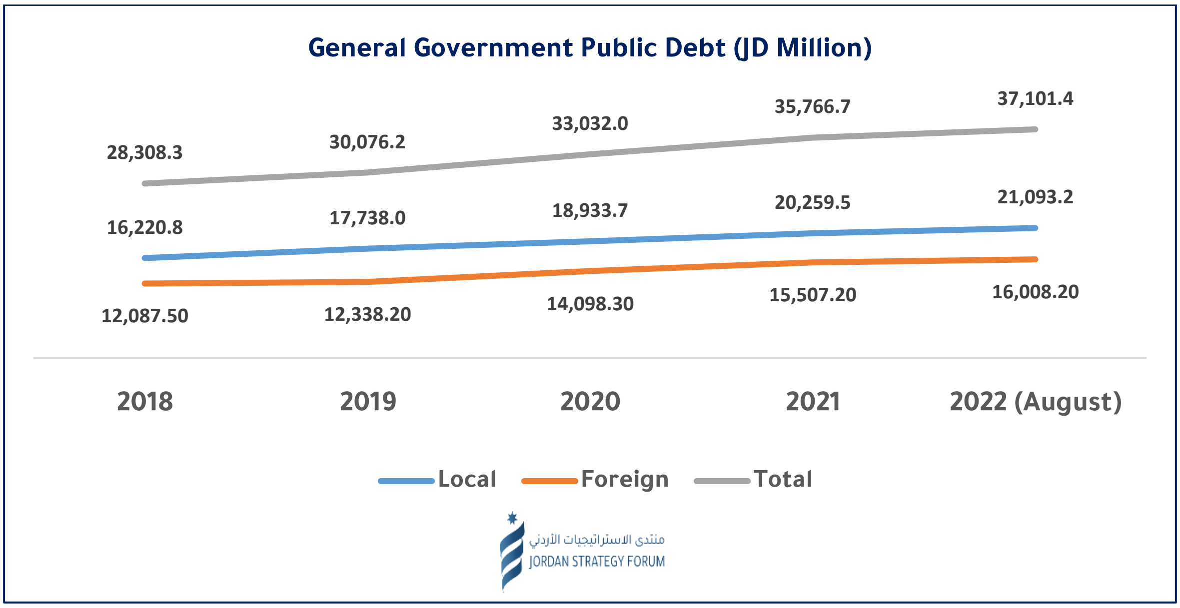
Based on the above-mentioned observations about the 2023 budget in terms of its expenditures and revenues, how can one expect current and public expenditures to contribute to real economic growth? Given the sources of tax revenues, how can one expect the government to reduce inequality? In addition, how can one expect the government to improve the allocational efficiency of resources given that a large proportion of its expenditure goes to few items such as wages and salaries, pensions, and interest payments on public debt?

The below outlined observations reveal that the 2023 General Budget Law is not expected to realize healthy real economic growth:

First, given the relatively low tax revenues and the high concentration of current expenditure in few items, such as wages and salaries, pension, and interest payments on public debt, one should not be surprised that the 2023 budget and its 2024 indicative are expected to reflect budget deficits. Indeed, this has been the norm for too long.



Second, one should also not be surprised that the outstanding debt, excluding the debt held by the Social Security Investment Find (SSIF) will not come down. The outstanding debt (August 2022) stands at JD 29.6 billion, and this is equivalent to about 87% of GDP. This amount is expected to increase as public debt is expected to increase by JD 2.3 billion.



Third, as far as the budget of Government Units for the Fiscal Year 2023 is concerned, there is nothing new but further increases in deficit. This deficit is expected to increase from JD -383.2 million in 2022 to JD -795.2 million in 2023. Here, it is important to note that the budgets of the Water Authority and National Electric Power Company account for a large proportion of these deficits. For example, in 2023, these two entities are expected to account for 105.3% of the cumulative debt. In other words, the cumulative summary of the government units' budget excluding the Water Authority and the National Electricity Company (NEPCO) is expected to be in surplus (JD 42 million). The combined summary of the f government units' budget, including the Water Authority and NEPCO, will realize a deficit which is equal to JD 795.2 million.

Summary of Budgets of Government Units for the Fiscal Year 2022

Year	Total Expenditure	Total Revenues	Deficit
2021	1,200.3	923.6	-267.8
2022	1,336.9	953.7	-383.2
2023	1,466.6	671.4	-795.2
2024	1,531.3	668.8	-862.6

Based on the above-mentioned observations, how can one expect the government to keep its fiscal deficit and debt on sustainable paths. One can argue that unless public debt is "controlled, public debt itself would become a major source of macroeconomic instability.

3. A Summary and Policy Implications

Relative to the previous budgets, one can argue that the timing of the 2023 Budget Law is unique. It coincided with the launch of the Economic Modernization Vision, and the public sector reform roadmap. This timing makes it important for all stakeholders and the average citizen to realize that the economic benefits from the vision and the roadmap might take some time to start realizing them. Indeed, the economic Modernization Vision calls for about JD 41 billion in capital investment. In addition, the 2023 budget has allocated a total of JD 55 for Public-Partnership Projects (PPPs) and JD 45 million for financing the public sector reform effort.

On average, one can argue that the 2023 General Budget Law is marginally expansionary. Indeed, while total expenditure increased by 7.1% in 2022, the budgeted increase in 2023 is equal to 8.3%. Here, it is good to note that the amount allocated for commodities subsidies will increase from JD 60 million in 2022 to JD 277 million in 2023 and in 2024. These are positive numbers given the recent increase in international prices of some commodities like wheat.

On average, the 2023 General Budget Law has brought nothing new. The Law, in its 2023 figures, and the 2024 indicative figures maintain the status quo.

a. The norm is persistent budget deficits.
b. The norm is reliance on foreign grants.
c. The norm is reliance on public debt.
d. The norm is relatively low tax revenue to GDP ratio.
e. The norm is dominance of sales tax to total tax revenues.
f. The norm has been high tax expenditures.
g. The norm is a few items accounting for a large proportion of current spending.
h. The norm has been budgets with public spending and public revenues increasing by some percentage points. Incremental budgeting is the norm.

Given the present circumstances, one can argue that the present government has had no choice but to main Jordan's norms in fiscal policy. However, one can equally argue that, within the context of the launch of the Economic Modernization Vision, and the start of the implementation of the public sector modernization roadmap, the present government should start thinking about the real characteristics of good budgets and good fiscal policy.

The government should start planning for the long-term implications of fiscal policy**. Given Jordan's socio-economic challenges (the realization of modest economic growth rates**

and the high unemployment rate), kicking the can down the road is no longer an option. The government should consider the following policy options.

1. **Tax Policy**
    a. **The government should re-examine the current tax system** and increase tax revenues to GDP ratio in comparison with so many countries across the globe.

    b. **The government should re-examine the components of the tax revenues.** Sales tax revenue to total tax revenues is much higher than in so many countries across the globe. This tax penalizes the poor.

    c. **The government should re-examine the current tax expenditures.** Where possible, these should be reduced as they represent foregone revenues.

    d. The government should maintain its effort in **increasing the efficiency in tax collection.**

2. **Water and Energy**
    a. The government should re-examine the status quo of the water and energy sectors and seek a more efficient business model. This should increase efficiency and reduce debt.

3. **Investment**
    a. All state institutions and the private sector should work together on a targeted and collective basis to attract foreign investments and preserve existing investments and encourage them to expand and promote the role of the private sector. In addition, they should accelerate the implementation of strategic projects in partnership with the private sector.

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