منتدى الاستراتيجيات الأردني
JORDAN STRATEGY FORUM

The 2024 General Budget Law: An Objective Assessment & Some Recommendations

December 2023

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JORDAN STRATEGY FORUM

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.

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Policy Papers: A policy paper is a research piece which focuses on a specific issue or problem and provides clear recommendations for policy makers

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1. Background

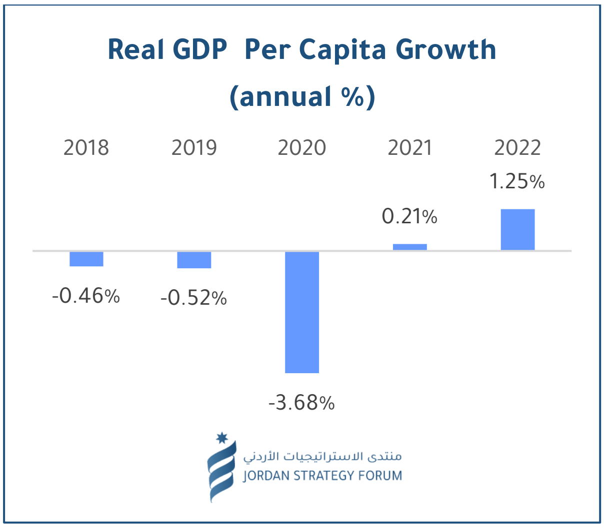
The Jordanian economy, and for too long, has been wrestling with several socio-economic challenges. Among others, these include the realization of modest real GDP growth rates, high unemployment rates, persistent budget deficits, and high and rising public debt. Within this context, His Majesty King Abdullah II launched the **"Economic Modernization Vision" in June 2022.**

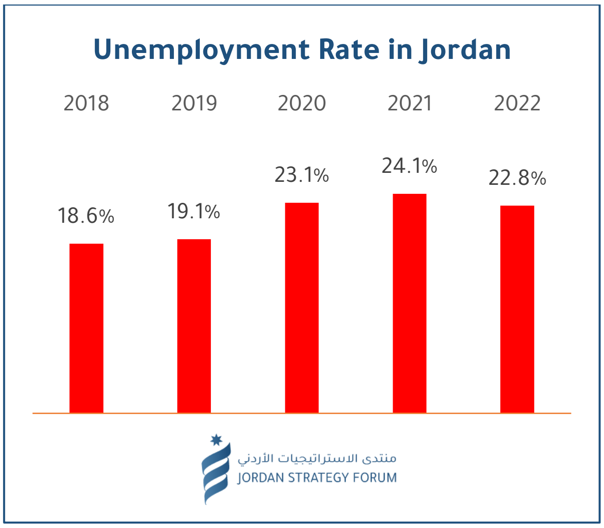
In the published document **(Economic Modernization Vision / Unleashing potential to build the future),** two of the three stated goals of the Economic Growth Pillar for the next ten years are to:

1. "Increase real income per capita by **3%** per year on average".

2. "Create **1+ million** new income opportunities for Jordanians by 2033".

Based on the recent annual changes in real income per capita, and the hitherto existing unemployment rates, the realization of the above-mentioned two goals will prove to be challenging.





It is also worth noting that during the past few years (2016 - 2021 / excluding 2020 / Covid-19 closures), the mean annual number of the net created jobs for Jordanians was around **45,000.** This number is much lower than Vision's stated goal which is which is equal to, on average, **100,000** job opportunities per year **(1 million / 10 years).**

On Wednesday 22 November 2023, the Council of Ministers approved the Draft General Budget for the fiscal year 2024. Currently, it is being discussed in parliament.

The objectives this Policy Paper, published by the Jordan Strategy Forum (JSF), are four-fold:

A. To contextualize the 2024 Draft General Budget.

B. To outline some of the main features of the 2024 Draft General Budget Law.

C. To raise a few comments on the 2024 Draft General Budget Law.

D. To recommend some policy options.

2. The Draft General Budget Law for the Year 2024: The Economic Context

Once approved by both chambers of Parliament, and a Royal Decree is issued, the 2024 General Budget Law will become the **2nd budget** since the launch of the Economic Modernization Vision.

Within the context of the goals of the Vision's Economic Growth Pillar (increase real income per capita by **3%** per year on average and create **1+ million** new income opportunities for Jordanians by 2033), one should remember that all governments **raise tax and non-tax revenues** and spend them on the **provision of a variety of public goods and services,** such as health care, education, law and order, social protection, and many others.
One should also remember that governments **directly and indirectly** influence economic growth and employment growth. A basic equation of **national income accounting** illustrates this:

The aggregate output of an economy (Gross Domestic Product / GDP) is equal to:

$$GDP = C + I + G + (X - M)$$

GDP is the value of all **final goods and services produced in the economy in a given year.** The right-hand side of this equation are the sources of **"aggregate spending".** These are private consumption **(C),** and investment **(I),** government spending **(G),** and exports minus imports **(X - M).**

Based on this economic equation, it is clear that governments affect GDP and employment by **directly controlling G and its components, and indirectly influencing C, I, and *NX* through the budget / fiscal policy (taxes and public spending)** and **other instruments such as laws, regulations, and policies.**

In a Nutshell, the budget is nothing but a **planning tool** and a **reflection** of a government's spending priorities. The budget(s) requires sound governance to make it strategic, efficient, clear, and transparent. Here, one should ask one simple question: **What is a good budget (s)? What is a good fiscal policy? Good budgets / fiscal policy should:**

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

2. Maintain macroeconomic stability (positive and stable real GDP growth rates and low and stable inflation rate). In addition, a good budget should keep the fiscal deficit and debt on sustainable paths. Otherwise, public debt itself would become a major source of macroeconomic instability.

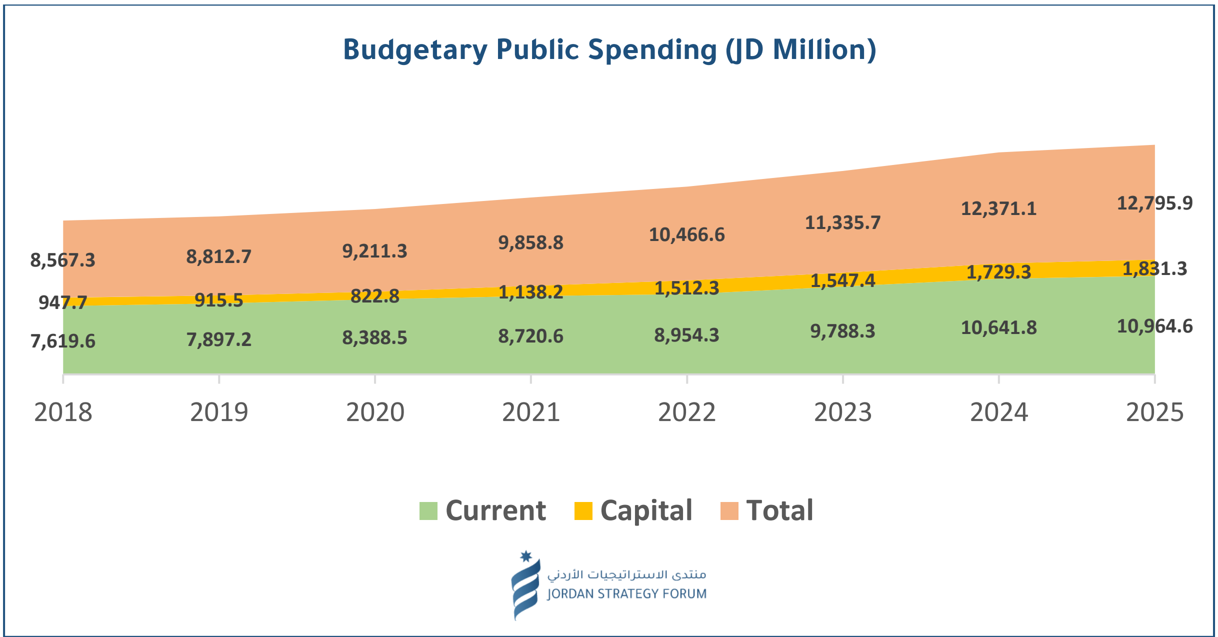
3. Improve the allocational efficiency of resources. This can be done only when public spending on the provision of public goods and services is sufficient as well as efficient.

Relative to the above-mentioned three **"characteristics"** of a good budget / fiscal policy, it is worth remembering **that fiscal policy should not be used to navigate short term needs and urgencies. Fiscal policy should be used to transform growth and development in the long term.**

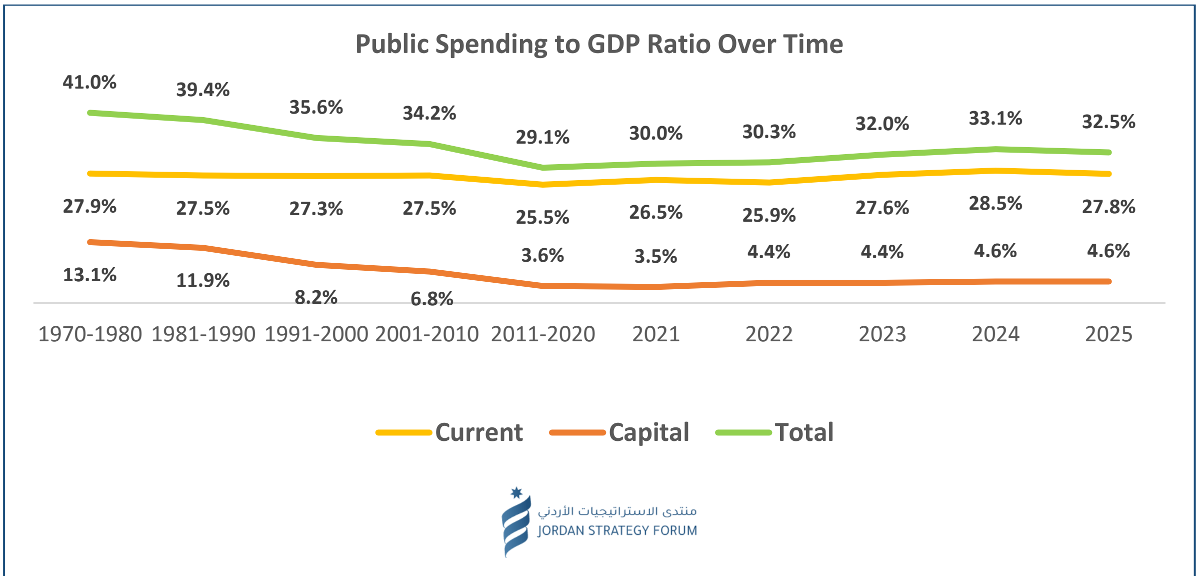
Relative to the above-mentioned national income accounting, and the "signs" / "characteristics" of a good budget(s), we outline in the following section some observations about the Draft General Budget Law for the Year 2024.

3. The 2023 Draft General Budget: Some Observations

A. On an annual basis, total budgetary spending has increased by 2**.9% (2019), 4.5% (2020), 7.0% (2021), 6.1% (2022), and by 8.3% (2023).** In 2024 and 2025, these increases are expected to be equal to **9.1% and 3.4%** respectively.



B. Over time, it is known that budgetary spending to GDP ratio has been decreasing. However, the reason behind this fall is the capital spending component, and not the current component. Indeed, and based on the International Monetary Fund's (IMF) GDP estimated values for the years 2023 - 2025, the 2024 budget and the 2025 indicative figures remain much the same. Relative to the 1970s, 1980s, and even the 1990s, capital spending will remain **"historically low."**



C. As far as capital spending is concerned, and like previous budgets, the 2024 budgeted capital spending amount (JD 1,729,329,000) is spread over a total of **75 ministries, commissions, and other public institutions.** This amount is composed of **JD 73,317,000** in **new** capital investment projects, **JD 843,446,000 ongoing** projects, and **JD 812,566,000 continuous** projects.

Relative to amount of capital spending (JD 1,729,329,000), it is important to note that the number of the **"NEW"** capital investment projects in the fiscal year 2024 is equal to **131 projects.** This implies that the mean size of capital investment is equal to JD 559,671.8 per project. Similarly, the mean size of on-going and continuous projects are equal to JD 2.1 million and JD 1.7 million per project. **These figures indicate that capital investment is spread too thin.**

Capital Investment Projects / 2024			
Type	**Number of Projects**	**Amount**	**Amount Per Project**
1. New	131	73,317,000	559,671.8
2. On-Going	399	843,446,000	2,113,899.7
3.Continuous	466	812,566,000	1,743,703.9
Total	**996**	**1,729,329,000**	**1,736,274.1**

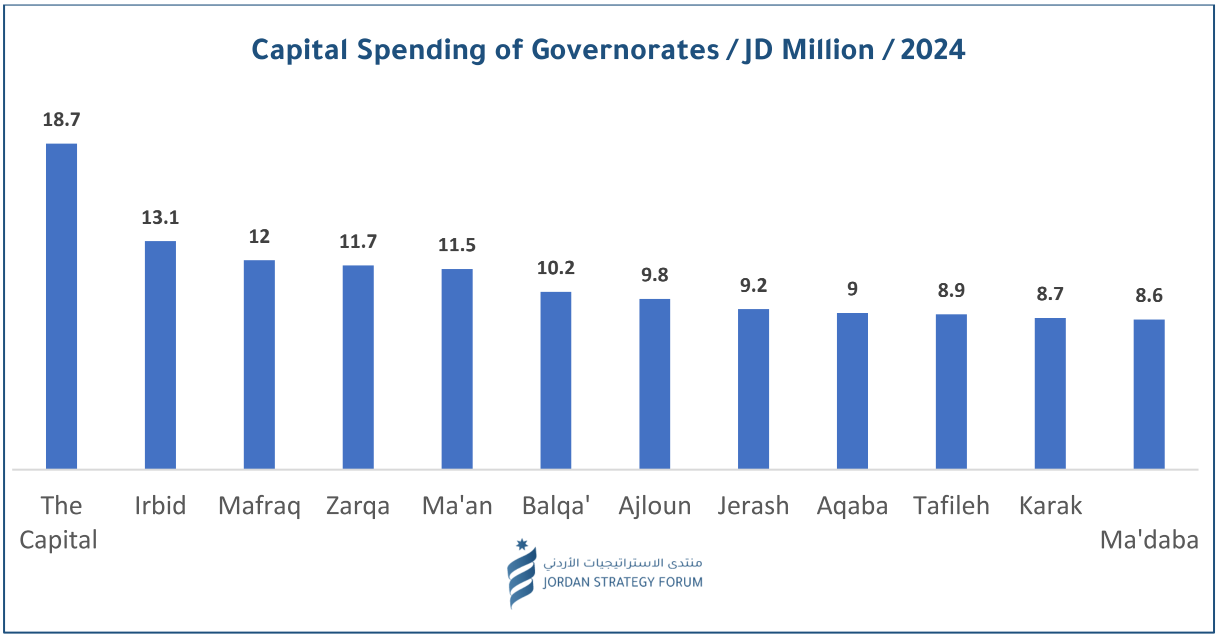
D. Relative to capital spending (JD 1,729,329,000), it is important to note that this amount is distributed to a total of 10 functional divisions. The largest of these functions is **"economic affairs"** (32.1% of the total). **These figures indicate that capital investment is spread too thin.**

Functional Classification of Capital Spending / 2024 General Budget Law		
Function	**Amount (JD)**	**Proportion of Total**
1. Economic Affairs	555,076,000	32.1%
2. Housing & Communal Amenities	245,872,000	14.2%
3. General Public Services	203,265,000	11.8%
4. Education	201,851,000	11.7%
5. Health	183,826,000	10.6%
6. Defense	133,054,000	7.7%
7. Public Order & Public Safety Affairs	94,517,000	5.5%
8. Recreation, Cultural and Religious Affairs	77,473,000	4.5%
9. Environmental Protection	22,341,000	1.3%
10. Social Protection	12,054,000	0.7%
Total	**1,729,329,000**	**100.0%**

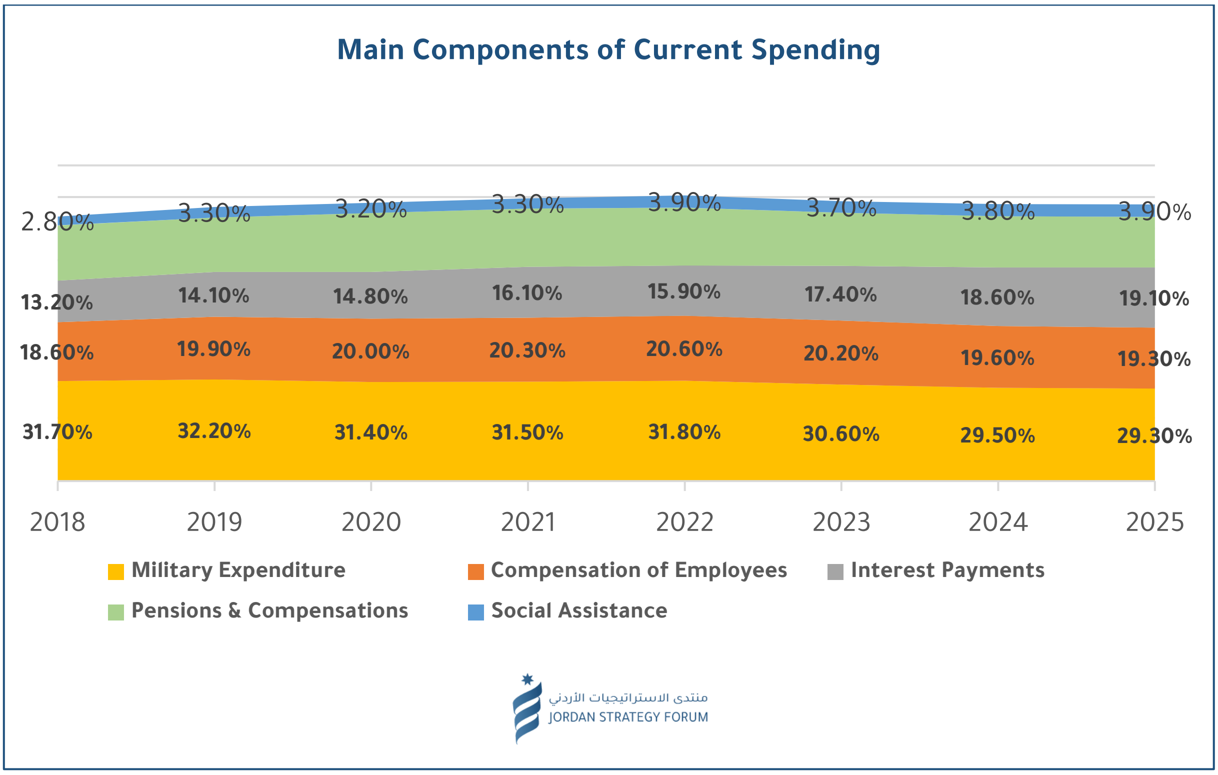
E. Relative to the "**economic affairs**" function, it is important to note that the total budgeted capital investment (JD 555,076,000) is distributed to a total of 9 functional divisions. In addition, it is worth noting that the dominants division here is **"economic affairs / other",** (it accounts for 31.3% of the total amount). **These figures indicate that capital investment is spread too thin.**

Economic Affairs Capital Spending / 2024 General Budget Law		
Functional Classification	**Amount (JD)**	**Proportion of Total**
1. Economic Affairs (Other)	173,766,000	31.3%
2. Transport	155,986,000	28.1%
3. General Economic, Commercial & Labor Affairs	82,813,000	14.9%
4. Communication	60,812,000	11.0%
5. Fuel & Energy	42,470,000	7.7%
6. Agriculture, Forestry, Fishing & Hunting	35,845,000	6.5%
7. Mining, Manufacturing Industries & 8. Construction	2,790,000	0.5%
9. Other Industries	364,000	0.1%
10. R&D / Economic Affairs	230,000	0.041%
Total	**555,076,000**	**100.0%**

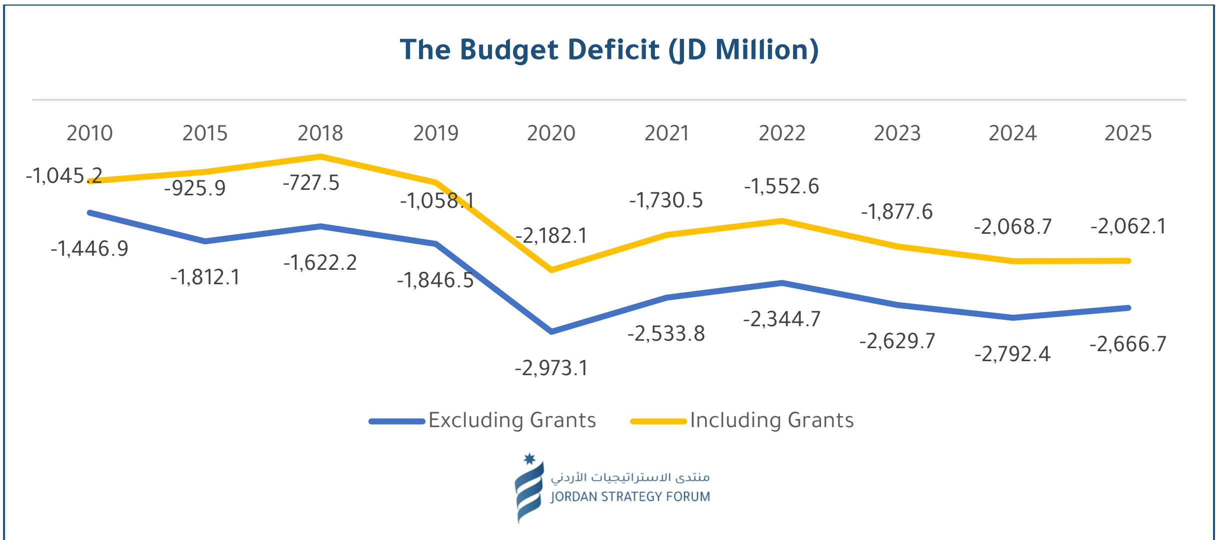
F. Relative to the above-mentioned observations about capital spending, it is informative to note that like in previous budgets, the 2024 allocated "capital expenditures of Governorates according to the determined ceilings for the Fiscal Year 2024" are simply miniscule. Regardless of the allocations, these amounts imply that they are spread too thinly.



G. A total of **five components** account for a large proportion of total current spending. It is equally important to note that the share of interest payments on public debt have increased from 13.2% in 2018 to 15.9% in 2022, 17.4% in 2023, and budgeted to increase to 18.6% in 2024. The 2025 indicative figure is even higher (19.1%). These observations imply that the government's spending is highly concentrated in a few items.

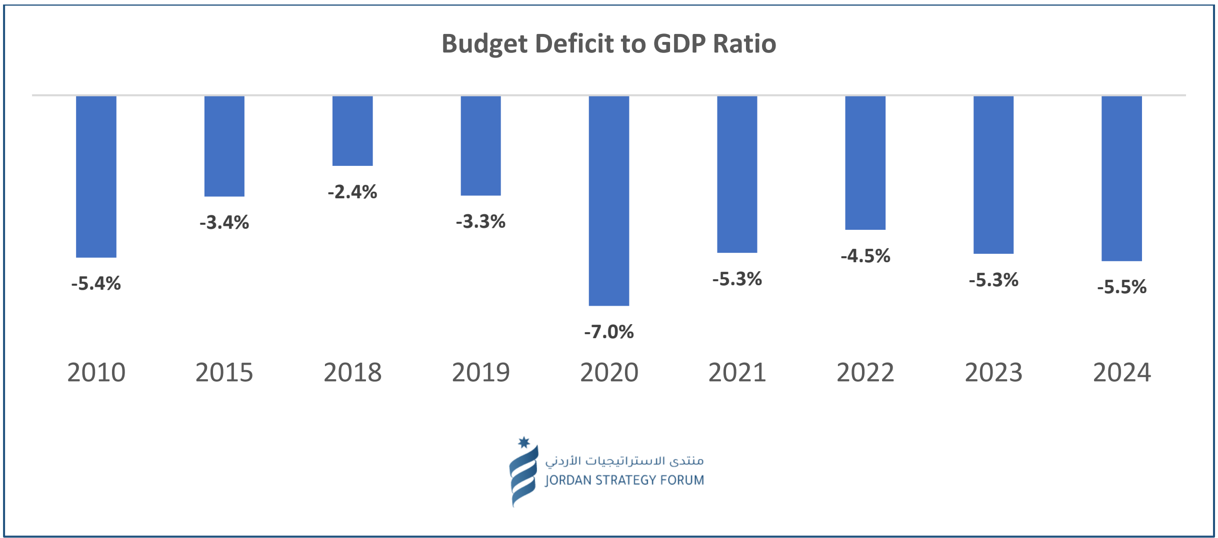


H. For too long, local public revenues (excluding and including grants) have been consistently less than public expenditure. This norm has not changed in the 2024 budget. Moreover, the budget's indicative figures for 2025 are much the same.

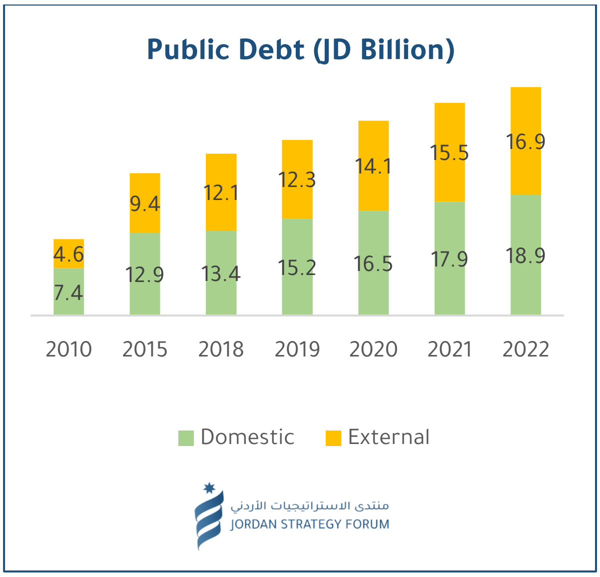


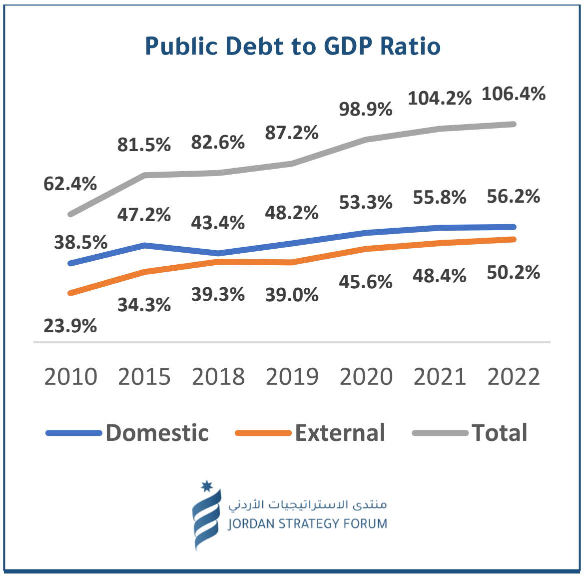
I. The persistent budget deficits, as one would expect, are reflected in four key measures:

1. The budget has always been negative. Based on the IMF's GDP estimated values (2023 - 2025), the budget deficit (including grants) is expected to stay around 5% of GDP. Within this context, it is important to note that that the actual budget deficit would be higher if one takes into account the annual change in the item "advances" (JD 674 million) in 2022.

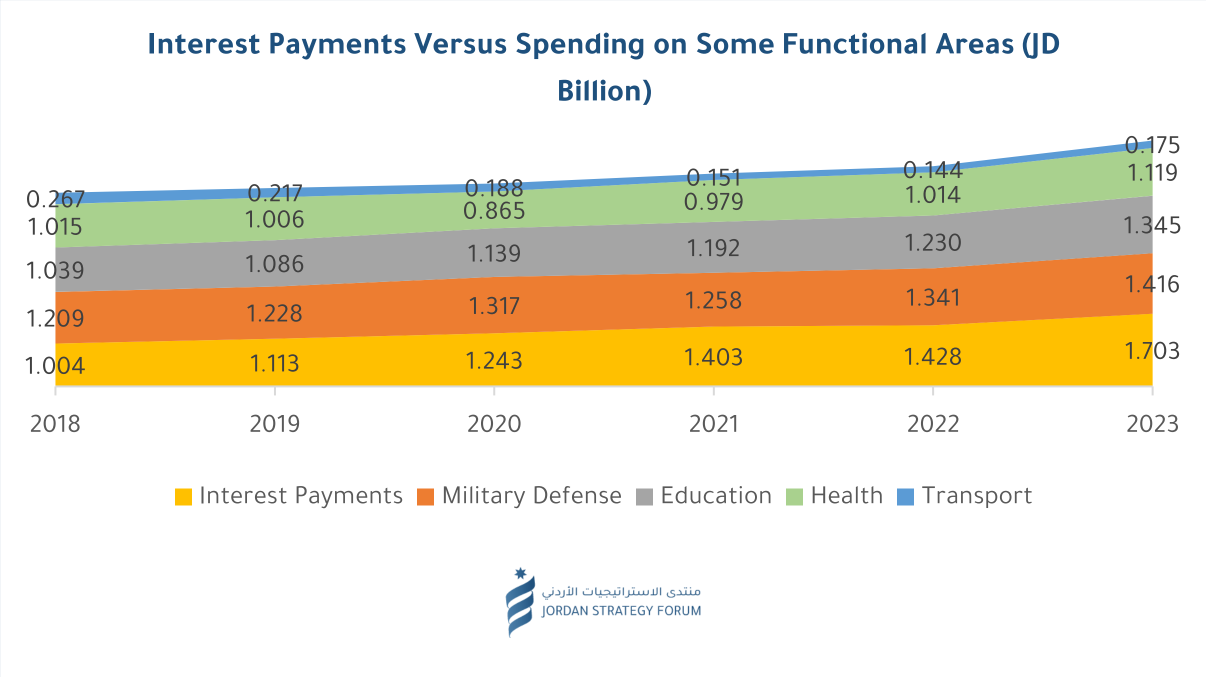


2. Public debt to GDP ratio has increased from **62.4% of GDP in 2010 to more than 105% of GDP in 2022.** Within this context, it is informative to note that external debt has been increasing at a faster pace than local debt. Within this context, it is also important to note that government maintains a large amount (hundreds of millions) under "accounts payable". Indeed, if these amounts were paid, they would have impacted the economy positively.

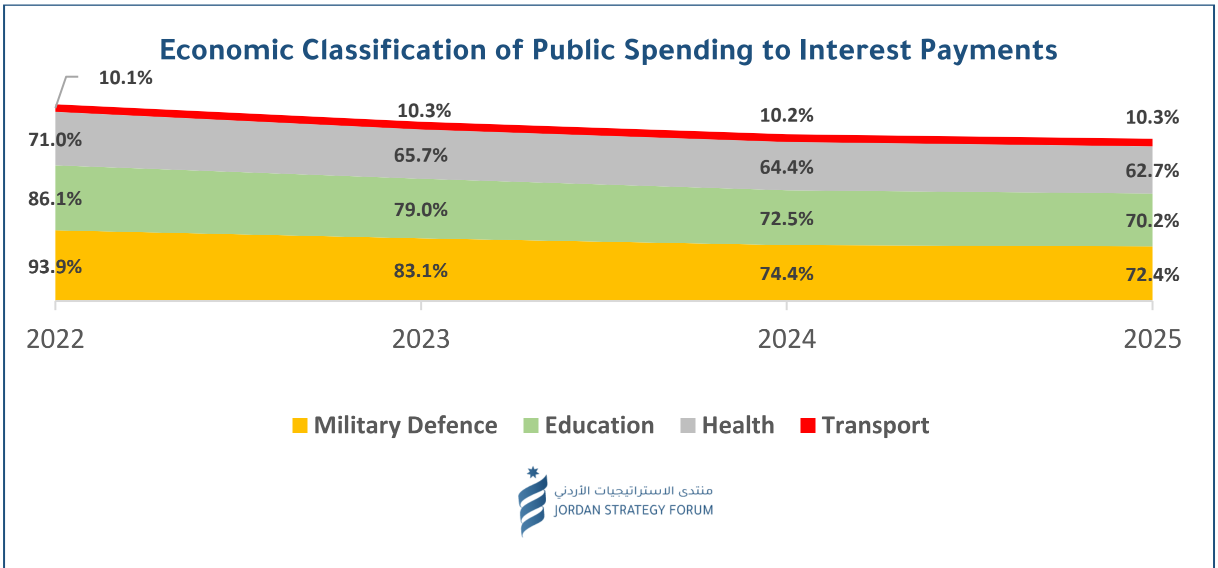




3. The rising public debt (and interest rates on the US dollar) are increasing debt service (interest) payments. It is indeed discouraging to note that interest payments are more than what is being spent on either military defense, or education, or health, never mind on transport (capital and current).



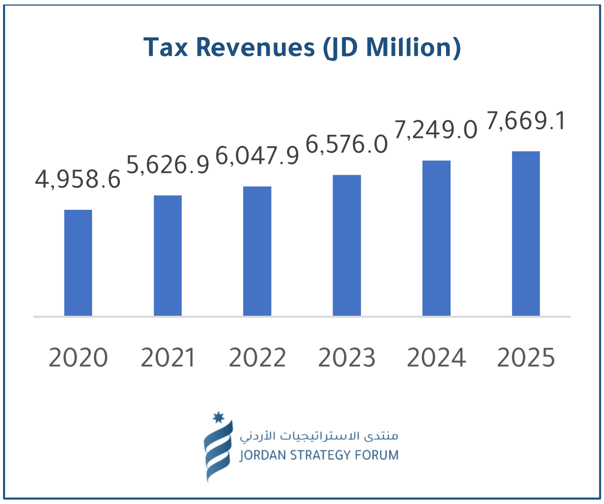
4. The rising public debt (and interest rates on the US dollar) have made spending on military defense to interest payments fall from 93.3% in 2022 to 83.1% in 2023, and to 74.4% in the 2024 Budget. Spending on education or on health (capital and current) to interest payments are even lower. Indeed, spending on transport is only about 10% of what is spent on interest payments.

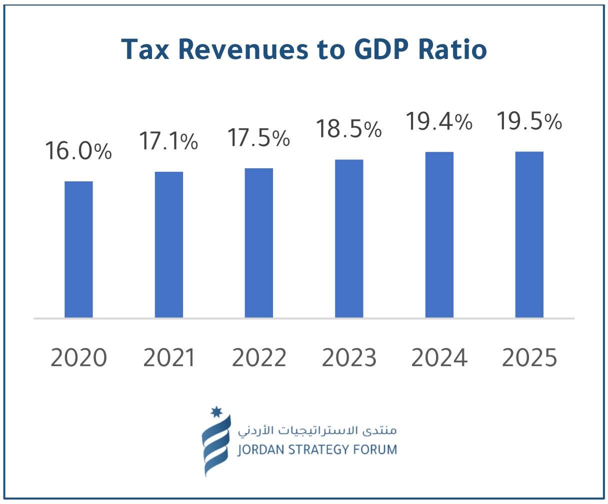


J. Relative to the above-mentioned observations about the budget deficit and public debt, it is also informative to note that two **"government units"** realize persistent deficits. Indeed, and for example, while the overall deficit of all government units is budgeted to be equal to JD -809.6 million in 2024, the total deficit of the National Electric Power Company (NEPCO) and Water Authority is equal to JD 851.1 million.
JD 880.3 million.

Surplus / Deficit Before Financing of Government Units for the Years / JD Million				
Government Units	**2023**	**2024**	**2025**	**2026**
1. National Electric Power Company	-400.6	-519.8	-545.2	-629.9
2. Water Authority	-264.2	-331.3	-325.8	-322.7
Grand Total	**-617.8**	**-809.6**	**-811.2**	**-872.4**

K. Total tax revenues have been increasing in recent years. Indeed, and based on the IMF's GDP estimated values for the years 2023 - 2025, tax revenues to GDP ratio will increase from 17.5% in 2022 to 18.5% in 2023, and to 19.4% in 2024. While this observation is encouraging, it should be noted that Jordan's ratio is much lower than in Denmark (46.8%), Sweden (33.6%), Finland (31.0%), UK (26.8%), Greece (26.2%), OECD Average (24.9%), Tunisia (22.5%), and Morocco (21.7%).





L. Relative to the recent increases in total tax revenues, it is worth noting a few more observations:

1. The Jordanian tax system is still regressive. While sales tax, which accounted for about 71.3% of total tax revenues in the fiscal year 2020, is expected to fall to 65.9% in 2024, this proportion is still higher than in, for example, Denmark (30%), Sweden (36%), Finland (45%), UK (38%), Tunisia (50%), and Egypt (48%).

2. While lower than sales tax, the **"corporate"** sector accounts for a high proportion of tax revenues. This source is expected to increase its share from **15.6% in 2020 to 18.1% in 2022, and to 19.2% in 2024.** Within this context, one must note that more than **60%** of this tax revenue emanates from the banking sector and Jordan Phosphate Mines and Arab Potash Company.

3. On average, **"individuals"** accounted for **1.2%** of total tax revenues. This term refers to private businesses (outside the large corporate sector) such as medical doctors, lawyers, retailers, butchers, garages, restaurants, cosmetic shops, pharmacies, and many others.

4. Relative to the "individuals", it is informative to note that **"salaried individuals"** contribute a higher proportion **(around 4.3%)** towards tax revenues.

Composition of Tax Revenues (% of Total)						
Year	Sales	Corporate	Trade & International Transactions	Salaried Individuals	Individuals	Total
2020	**71.3%**	15.6%	5.5%	4.3%	1.1%	**97.7%**
2021	**71.8%**	14.3%	6.0%	4.1%	0.9%	**97.0%**
2022	**68.9%**	18.1%	3.8%	4.4%	1.0%	**96.3%**
2023	**68.3%**	17.6%	3.9%	4.2%	1.0%	**94.9%**
2024	**65.9%**	19.2%	4.4%	4.3%	1.2%	**95.1%**
2025	**65.8%**	18.9%	4.4%	4.3%	1.4%	**97.7%**

M. Many advanced and developing countries grant **"tax concessions"**. The cost of these concessions is called **"tax expenditures" or "foregone revenues".** Based on the 2024 Draft General Budget of 2024, it is stated that tax expenditures in Jordan in 2021 and 2022 are equivalent to 7.60% and 7.56% of GDP respectively. This ratio is equal to 0.88% in Germany (2022), 2.94% in Chile (2021), 2.49% in Morocco (2021), 4.32% In Italy (2022), and 4.07% in Turkey (2020).

To Sum Up, one can argue that the 2024 general budget law has brought nothing new. The Law, in its published figures, and the 2025 indicative figures maintain the status quo.

1. The norm has been budgets with public spending and public revenues increasing by some percentage points. **Incremental budgeting is the norm.**
2. The norm has been highly a concentrated current expenditure.
3. The norm has been thinly spread capital expenditure.
4. The norm has been persistent budget deficits excluding and including grants.
5. The norm has been public debt whose service is taking **increasingly big chunks** from public expenditure.

6. The norm has been the **dominance of sales tax** over total tax revenues.
7. The norm has been high **tax expenditures.**
8. The norm has been miniscule capital expenditures of Governorates according to the determined fiscal years' ceilings.
9. The norm has been persistent deficits by "National Electric Power Company" and the "Water Authority".

Relative to the fact that fiscal policy maintains the same approach as before, the question arises about the extent of the general budget's ability to achieve the goals of the economic modernization vision. In more specific terms:

1. Would the 2024 Budget promote real economic growth and reduce poverty and inequality?

2. Would the 2024 Budget maintain macroeconomic stability by reducing public debt?

3. Would the 2024 Budget improve the allocational efficiency of resources by spending sufficiently and efficiently on the provision of public goods and services?

To create the 1+ million new jobs, realize the increase in real per capita income by 3%, and to succeed in investing about JD 41 billion (72% of which from the private sector), fiscal policy should be efficient. Within this context, the Jordan Strategy Forum outlines the following policy recommendations.

4. Some Recommendations for the 2024 Budget Law

a) The hitherto existing tax system should be more **"fair" and "progressive", and less "complicated".** The tax system should provide the government with **"adequate" and "diversified"** financial resources.

b) The relatively high sales tax to total tax revenue in Jordan must be reduced and made comparable to other countries.

c) Improving **"tax collection"** from **"individuals"** will widen the tax base and bring in more tax revenues.

d) Managing the tax exemptions better makes sense. Tax expenditures tend to have some discretionary elements and increase the complexity of the tax code.

Finally, and within the context of the launch of the Economic Modernization Vision, and the start of the implementation of the public sector modernization roadmap, the government should start the adoption of the **real characteristics of good budgets and good fiscal policy. Fiscal policy should not be used to navigate short-term needs and urgencies. Fiscal policy should be used to transform growth and development in the long term. Within this context, it is worth noting the following quotations:**

1. **Concentrate on strong and stable economic growth:** "Increasing output volatility by one standard deviation leads to a 1.3 percentage point reduction in growth per capita" (World Bank).
2. Efficient Public Debt Management: "The government cannot provide services efficiently if it has to make high-interest payments on its past debts" (World Economic Forum / WEF).
3. Concentrate on Quality Education: Lack of good education (school and university) can become a "constraint on business development" (WEF).
4. Concentrate on Public Health: "A healthy workforce is vital to a country's competitiveness and productivity" (WEF).
5. Increase Investment in Physical Infrastructure: "Better infrastructure, both in quantity and quality, improves income distribution" and helps in "enhancing productivity and growth" (IMF).
6. Improve Civil Service Efficiency: "Senior civil servants who lead and improve major government functions - are at the heart of government effectiveness. They translate political direction into the policies and programs that keep citizens healthy, safe, and economically productive" (OECD).

The Jordan Strategy Forum (JSF) Comments on The 2024 General Budget Law

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The 2024 general budget law is similar to previous budgets

Increases in public spending and public revenues by some percentage points (incremental budgeting)

	Total Spending			Total Revenues		
	2022	2023	2024	2022	2023	2024
	10.5 Billion dinars	11.3 Billion dinars	12.4 Billion dinars	8.9 Billion dinars	9.5 Billion dinars	10.3 Billion dinars

Increase in the persistent budget deficit (including grants)

Actual 2022	Re-Estimated 2023	Budgeted 2024
1552.5 Million JD	1877.6 Million JD	2068.7 Million JD

Continuous reliance on foreign grants

Actual 2022	Re-Estimated 2023	Budgeted 2024
769.2 Million JD	752.1 Million JD	723.7 Million JD

Sales tax revenues dominate total tax revenues

Actual 2022	Re-Estimated 2023	Budgeted 2024
%68.9	%68.3	%65.9

Compensation of employees and pensions represent a large proportion of total current spending

Actual 2022	Re-Estimated 2023	Budgeted 2024
%68.6	%65.5	%63.2

Interest payments on public debt constitute a large proportion of current spending

Actual 2022	Re-Estimated 2023	Budgeted 2024
%16	%17.4	%18.6

Continuing provision of strategic food subsidies

Actual 2022	Re-Estimated 2023	Budgeted 2024
60 Million JD	257 Million JD	288.5

Source: The 2024 General Budget Law

Date: Desember 2023

Characteristics of a Good Fiscal Policy

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Long-term planning to achieve growth
Strong and sustainable

Stimulate economic activity

Maintain macroeconomic stability

Improve resource allocation efficiency

Maintain efficient public debt management

Focus on providing efficient public services, such as ,education, health) (and transportation

Increase investment in infrastructure

Source: JSF Policy Paper «The 2024 General Budget Law: An Objective Assessment & Some Recommendations»
Date: Desember 2023

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