General Budget 2020
How Realistic & Its Relation with Growth

December - 2019

منتدى الاستراتيجيات الأردني
JORDAN STRATEGY FORUM

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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.

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1. Introduction:

Every government must regularly decide how much to spend and what to spend on. Every government must decide how to finance its expenditure. This is fiscal policy. The instrument of fiscal policy is the budget.

No one should underestimate the socio-economic implications of taxation and public expenditure. Indeed, fiscal policy is the means by which the government adjusts its spending and revenue to influence the social dynamics and broader economy in both the short and long term.

a) Fiscal policy should aim at achieving strong and sustainable rates of real economic growth. However, such growth rates cannot be achieved without economic stability. Therefore, fiscal measures such as taxation, public borrowing and deficit financing should be used properly so that production, consumption and distribution may not be adversely affected.

b) If not achieving and maintaining "full employment", fiscal policy should aim at "reducing" unemployment. This is why governments spend on social and economic overheads. Such expenditures should help in the creation of more employment opportunities and in promoting the productive efficiency of the economy.

c) To reduce inequalities (income and opportunity), governments should invest in productive channels that benefit the low-income groups. Therefore, well-planned public expenditure can develop human capital, which in turn has positive effects on income distribution.

Within the context of the above-mentioned observations, the JSF, in this policy brief, aims at shedding some light on the 2020 Budget.

First, we outline some observations about the Jordanian economy and fiscal policy to serve as the context / background of the 2020 budget.

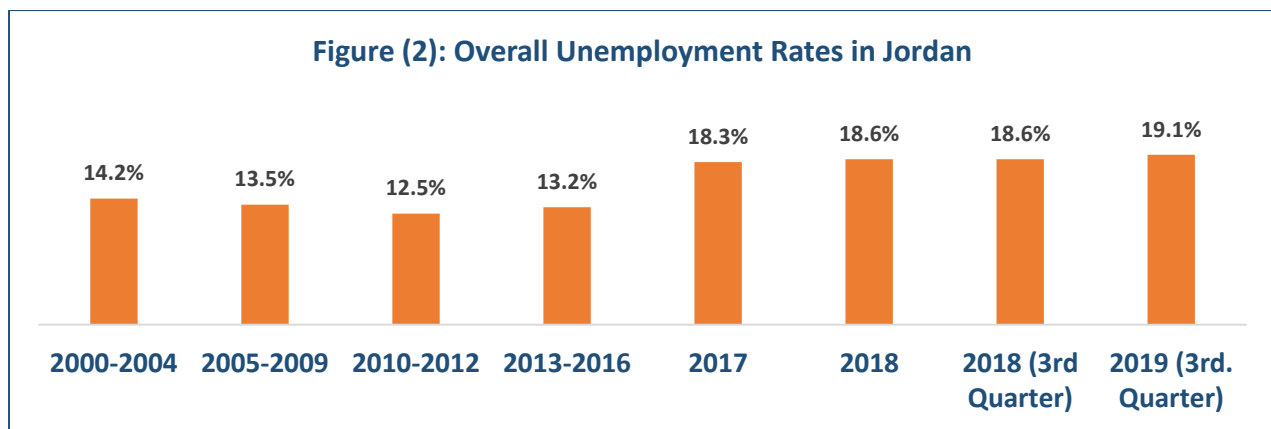**Second,** we outline a number of comments on the 2020 budget.

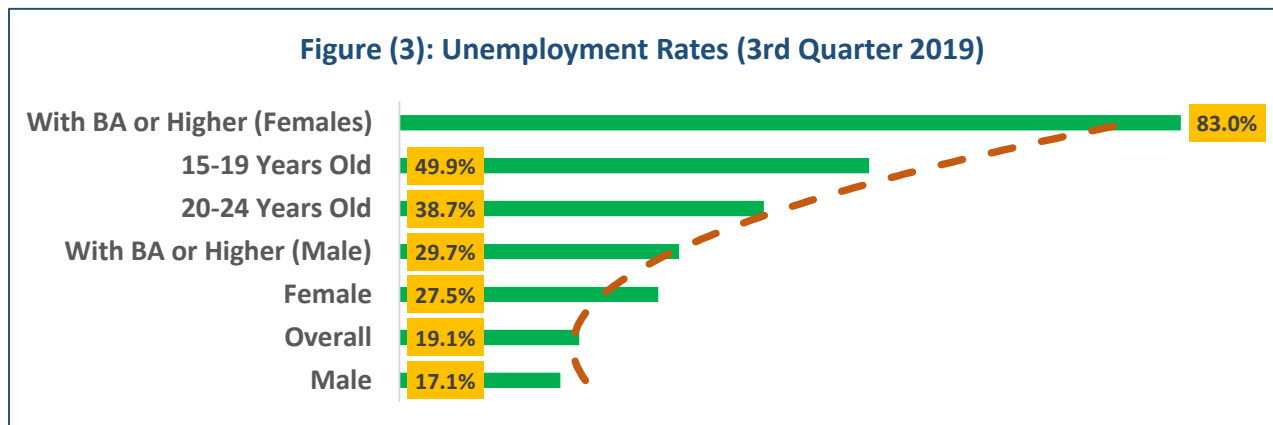# 2. The Jordanian Economy & Fiscal Policy: The Relevant Background

If the use of fiscal policy by the government should promote sustainable real economic growth and development, maintain macroeconomic stability, improve the resource allocation process, and reduce unemployment and poverty, we need to ask the following questions: **What are the main challenges facing the Jordanian economy? What are the challenges facing fiscal policy?**

1. **First,** since 2011, the Jordanian economy has realized "modest" economic growth. It is also unfortunate to note that the IMF's predicted growth rates are also weak (IMF Country Report No. 19/127 / May 2019).

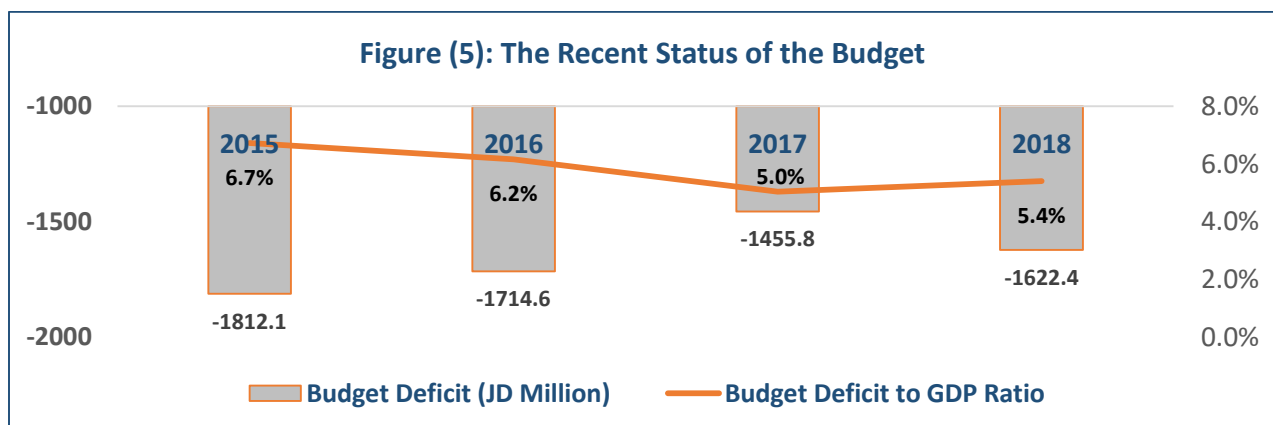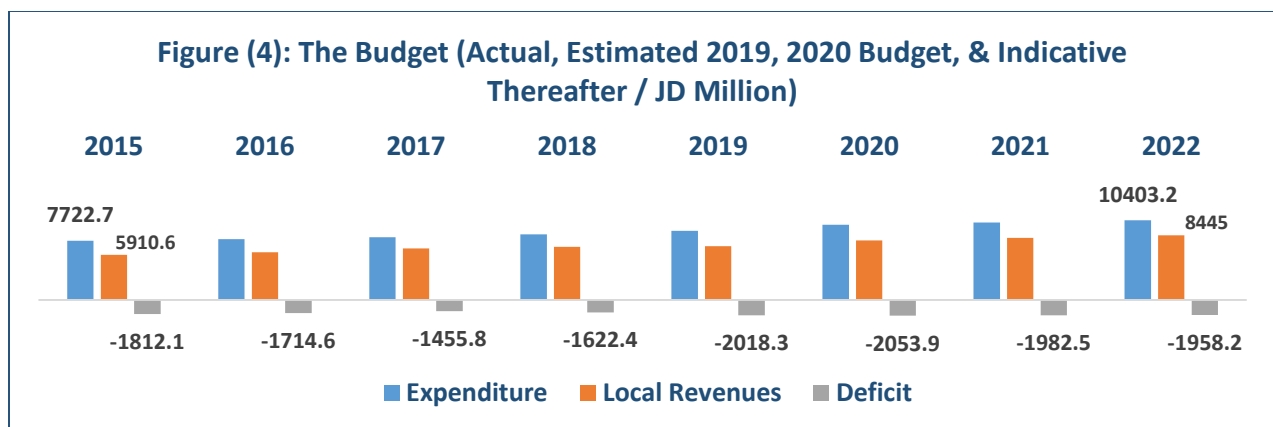**Figure (1): Real GDP Growth Rates (Annual % Change)**
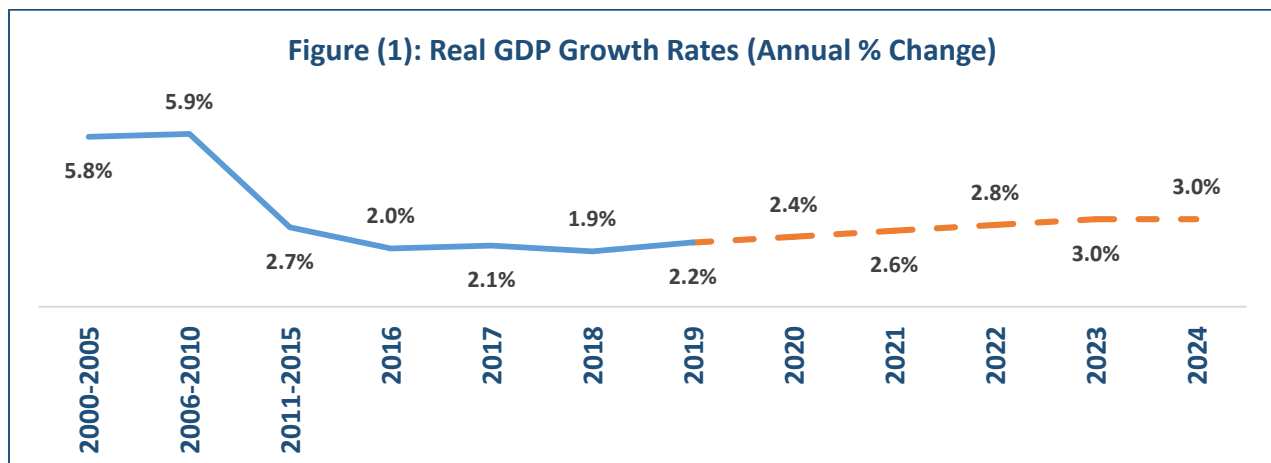
2. **Second,** the overall unemployment rates have been high and rising. The gender, age, and education distribution of unemployment is even more challenging. Indeed, the unemployment rate among females with an undergraduate degree or higher is equal to 83.0% (Department of Statistics)!
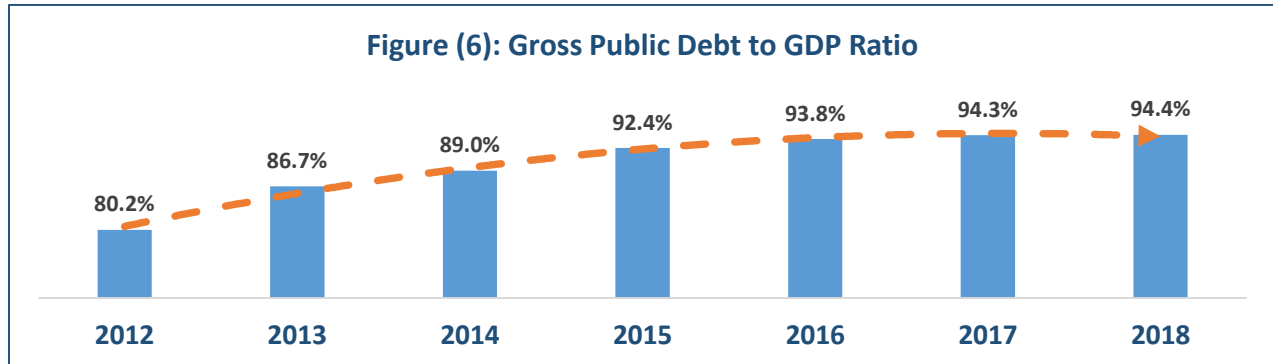

Figure (2): Overall Unemployment Rates in Jordan

Figure (3): Unemployment Rates (3rd Quarter 2019)

Category	Rate
With BA or Higher (Females)	83.0%
15-19 Years Old	49.9%
20-24 Years Old	38.7%
With BA or Higher (Male)	29.7%
Female	27.5%
Overall	19.1%
Male	17.1%

3. **Third,** as far as fiscal policy is concerned, it is common knowledge that **local public revenues have always been less than public expenditure.** This has not changed in recent years (2015-2019). It is also not going to change in the near future (2020-2022).

During the period 2015-2018, excluding grants, the budget deficit to GDP ratio fluctuated between a minimum of JD 1.456 Billion in 2017 or 5.0% of GDP and a maximum of JD 1.812 billion in 2015 or 6.7% of GDP (Ministry of Finance General Government Bulletins).

Figure (4): The Budget (Actual, Estimated 2019, 2020 Budget, & Indicative Thereafter / JD Million)

	2015	2016	2017	2018	2019	2020	2021	2022
Expenditure	7722.7							10403.2
Local Revenues	5910.6							8445
Deficit	-1812.1	-1714.6	-1455.8	-1622.4	-2018.3	-2053.9	-1982.5	-1958.2

■ Expenditure ■ Local Revenues ■ Deficit

Figure (5): The Recent Status of the Budget

	2015	2016	2017	2018
Budget Deficit to GDP Ratio	6.7%	6.2%	5.0%	5.4%
Budget Deficit (JD Million)	-1812.1	-1714.6	-1455.8	-1622.4

□ Budget Deficit (JD Million) — Budget Deficit to GDP Ratio

4. **Fourth,** as one might expect, the increases in public debt are due to the persistent budget deficits.

Figure (6): Gross Public Debt to GDP Ratio

| Year	Ratio
2012	80.2%
2013	86.7%
2014	89.0%
2015	92.4%
2016	93.8%
2017	94.3%
2018	94.4%

Based on the above-mentioned observations, one can summarize the context of the 2020 BUDGET as follows. The economic outlook seems to indicate a continuation of modest growth and hence, the level of unemployment is expected to hover around the same existing rate. Moreover, with any loosening of fiscal policy, public debt is likely to increase. In other words, the assumption that economic growth surpassing growth in public debt during 2020 seems unlikely to happen.
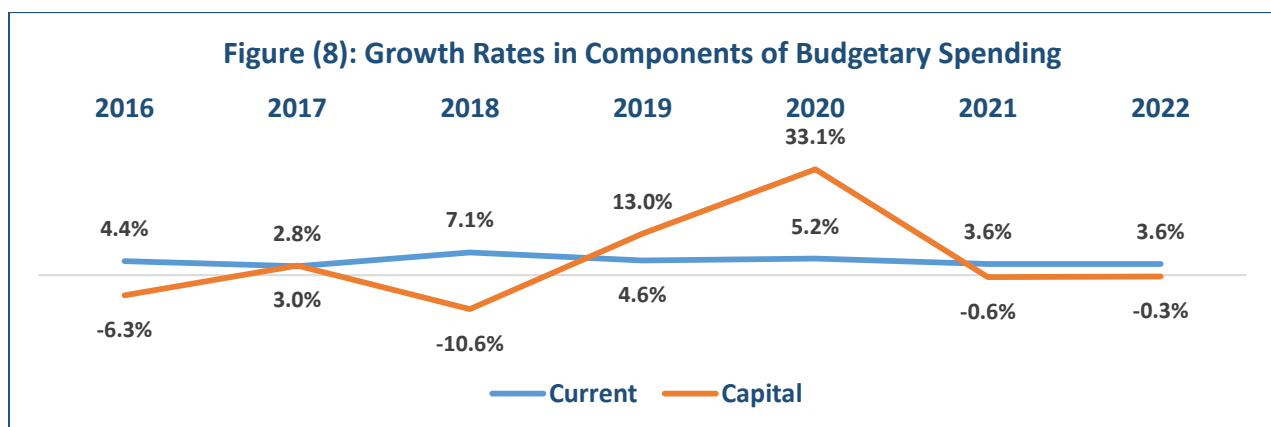
5. The 2020 Budget: Some Comments

As mentioned in the introduction, every government must regularly decide how much to spend and what to spend on. Every government must decide how to finance its expenditure. This is the essence of fiscal policy, and the instrument of fiscal policy is the budget. Based on the 2020 published Budget, we choose to outline the following comments.

1. **First,** relative to recent years, the 2020 budget is clearly expansionary. Indeed, budgetary public spending will increase by 8.5% in 2020. As far as the 2021 and 2022 figures are concerned, the 2020 Budget reports them as indicators.
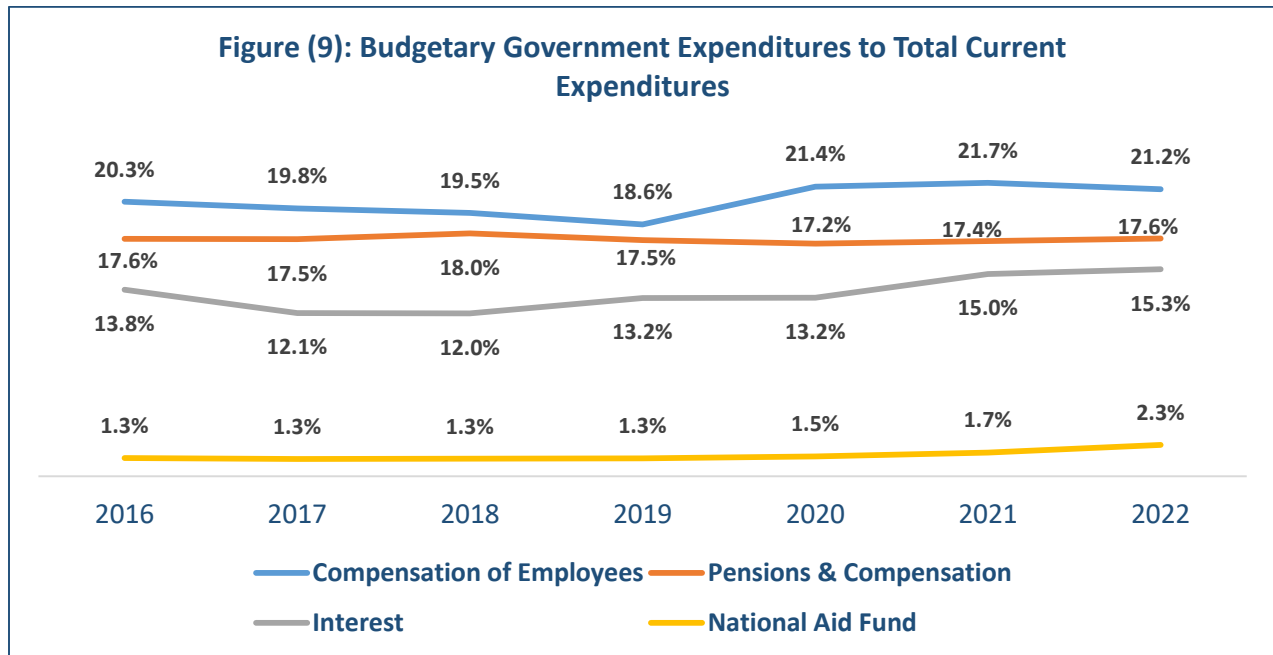

Figure (7): Growth in Public Spending

2016	2017	2018	2019	2020	2021	2022
2.9%	2.8%	4.8%	5.5%	8.5%	3.0%	3.0%
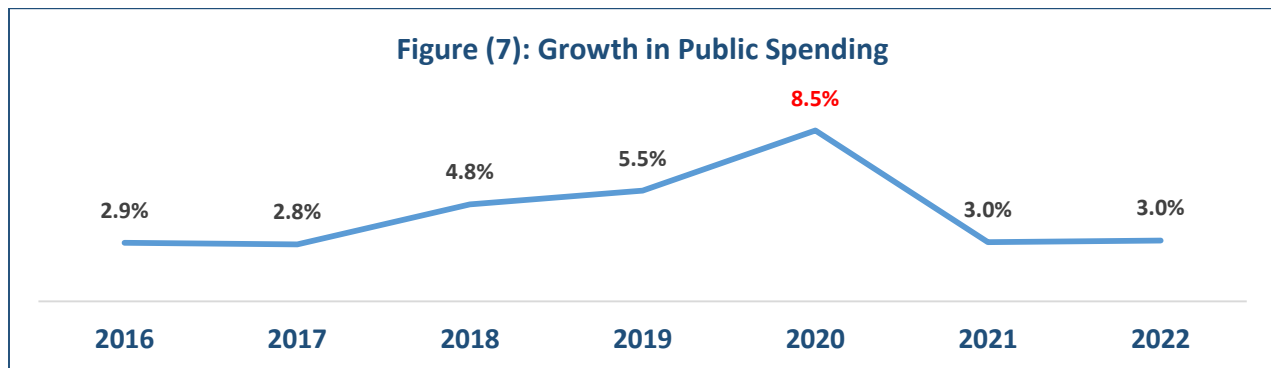
2. **Second,** it is encouraging to note that the 2020 budget envisages that capital spending will increase by 33.1%, and this is much greater than the increase in current spending (5.2%). However, it is unfortunate to note that the 2021 and 2022 indicative figures for capital spending will decrease by 0.6% and 0.3% respectively! Within this context, it is worth pointing-out that the government has already stated that more projects will be executed under the modality of Public-Private Partnership (PPP) principle. This is indeed an encouraging step.
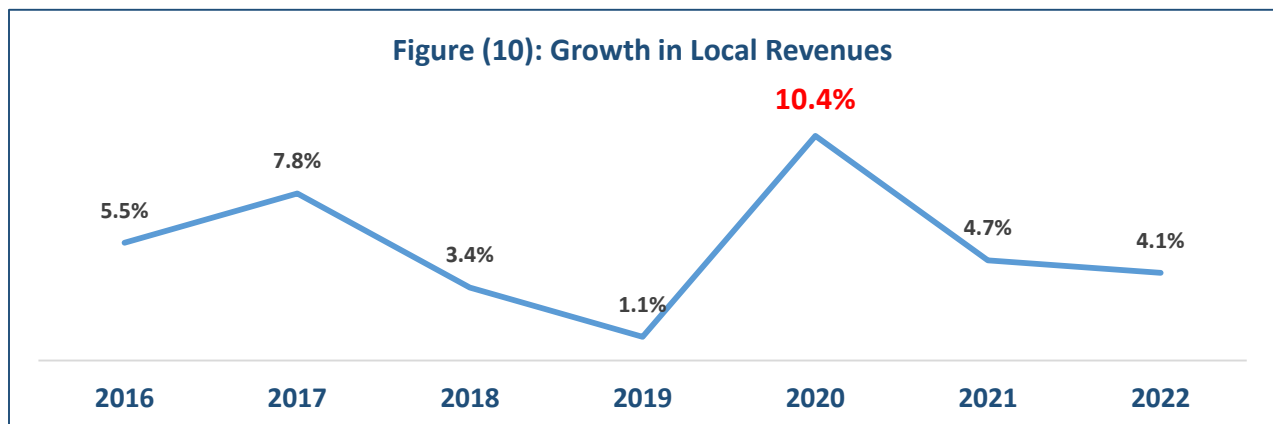

Figure (8): Growth Rates in Components of Budgetary Spending

	2016	2017	2018	2019	2020	2021	2022
Current	4.4%	2.8%	7.1%	4.6%	5.2%	3.6%	3.6%
Capital	-6.3%	3.0%	-10.6%	13.0%	33.1%	-0.6%	-0.3%

3. **Third,** compensation of employees (including an annual JD 130 million each re-structuring of public wages for 2020-2022) will increase (from 18.6% in 2019 to 21.4% in 2020). Interest payments on public debt are expected to increase from 13.2% of current spending (2020) to 15.0% in 2021 and to 15.3% in 2022.

Figure (9): Budgetary Government Expenditures to Total Current Expenditures

Compensation of Employees: 20.3%, 19.8%, 19.5%, 18.6%, 21.4%, 21.7%, 21.2%

Pensions & Compensation: 17.6%, 17.5%, 18.0%, 17.5%, 17.2%, 17.4%, 17.6%

Interest: 13.8%, 12.1%, 12.0%, 13.2%, 13.2%, 15.0%, 15.3%

National Aid Fund: 1.3%, 1.3%, 1.3%, 1.3%, 1.5%, 1.7%, 2.3%

Years: 2016, 2017, 2018, 2019, 2020, 2021, 2022

Legend: Compensation of Employees, Pensions & Compensation, Interest, National Aid Fund

4. **Fourth,** to finance the increase in total budgetary spending by 8.5% in 2020, the government expects domestic revenues to increase by 10.4% in 2020.

Figure (10): Growth in Local Revenues

10.4%

5.5%, 7.8%, 3.4%, 1.1%, 10.4%, 4.7%, 4.1%

Years: 2016, 2017, 2018, 2019, 2020, 2021, 2022

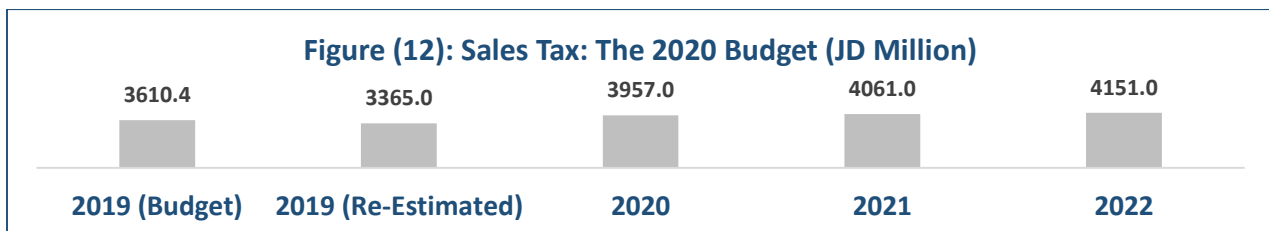# 6. What are the Sources of the 2020 Increase in Local Revenues? Are they Realistic?

A. The 2019 budgeted sources of public revenues are "higher" than the re-estimated figures. The total difference between what was budgeted for and the re-estimated figure is equal to JD 989 million. This variance is large. It is also important to note that the 2020 budget assumes that total tax revenues to increase from about JD 4.798 billion in 2019 to JD 5.651 Billion in 2020. This is a 17.8% increase, with the assumption that nominal growth in GDP is about 4%, it's not clear how this target is going to be achieved.
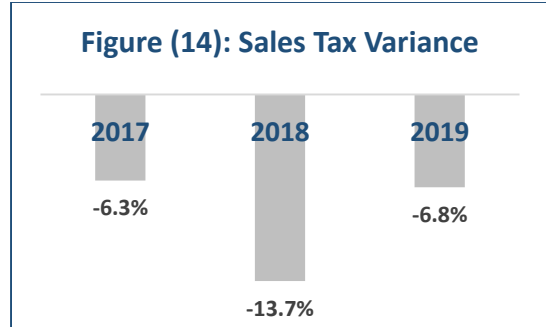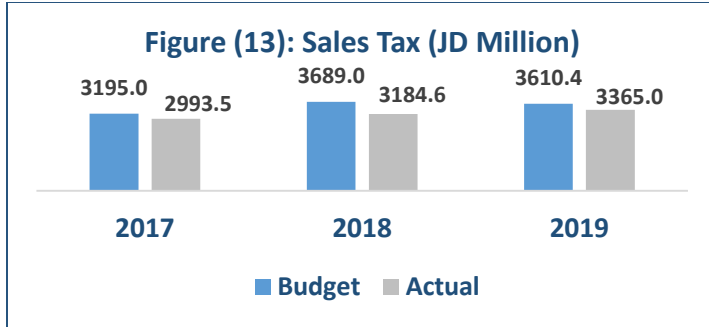

Figure (11): Budgetary Government Revenues / JD Billion (Tax & Non-Tax)
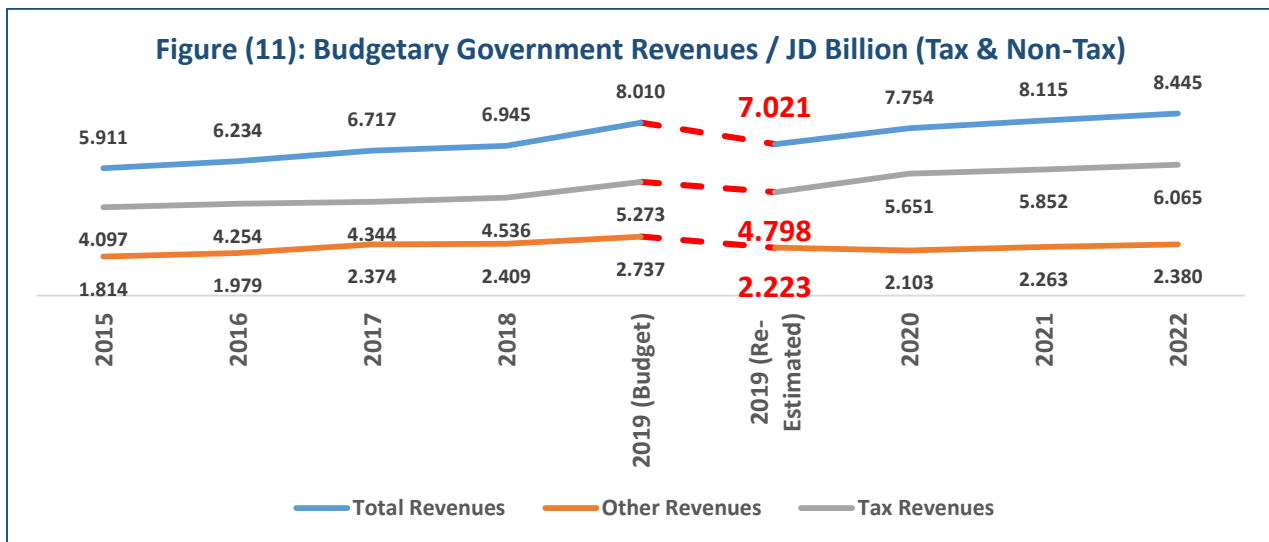
B. Based on the 2020 budget, the sources of the increase in total tax revenues are:

1. **Sales Tax:** This source is expected to increase from the 2019 re-estimated value of JD 3365 million to JD 3957 million in 2020. An increase of 17.6%, Sales **tax makes-up 70% of total tax revenues.**

Given the large variances (difference between budgeted and actual divided by budgeted) in 2017, 2018, and in 2019, one cannot underestimate the importance of **"accuracy"** in projecting the expected revenue of the 2020 budgeted, and thereafter, figures. Indeed, in 2017-2019, the projected amounts were consistently lower than the actual amounts.

Figure (12): Sales Tax: The 2020 Budget (JD Million)

2019 (Budget)	2019 (Re-Estimated)	2020	2021	2022
3610.4	3365.0	3957.0	4061.0	4151.0

Figure (13): Sales Tax (JD Million)

Year	Budget	Actual
2017	3195.0	2993.5
2018	3689.0	3184.6
2019	3610.4	3365.0

Figure (14): Sales Tax Variance

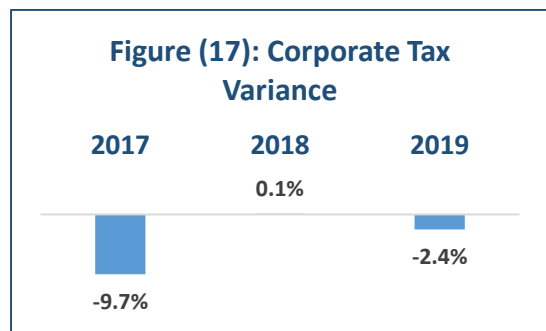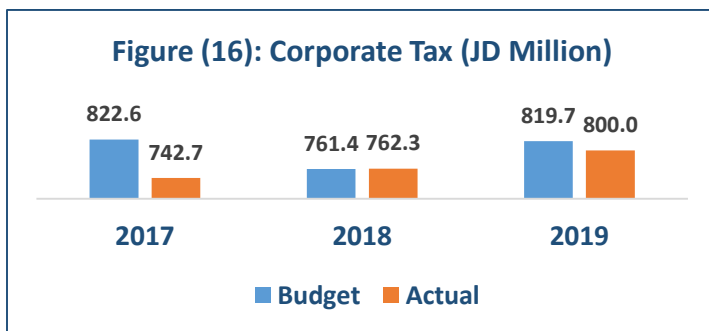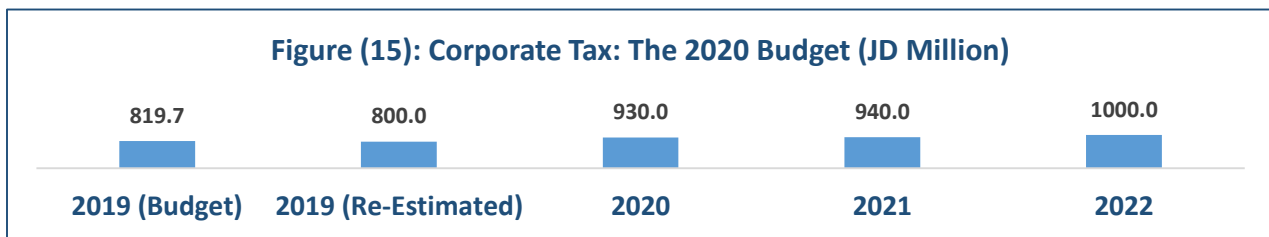| 2017	2018	2019
-6.3%	-13.7%	-6.8%

2. Corporate Tax: Corporate tax makes-up 16.5% of total tax revenues!

This source is expected to increase from the 2019 re-estimated value of JD 800 million to JD 930 million in 2020. An increase of 16.3%. **Corporate tax makes-up 16.5% of total tax revenues.**
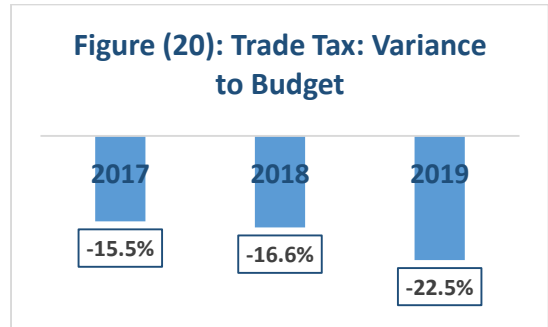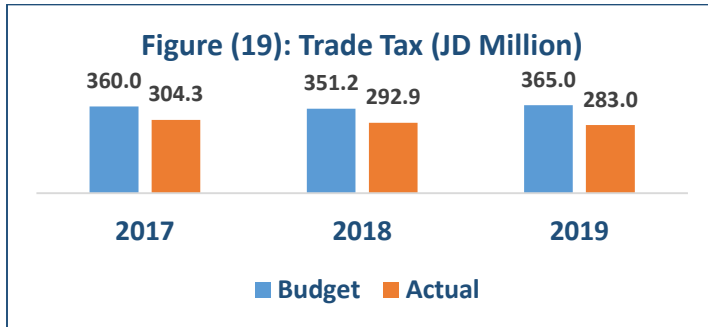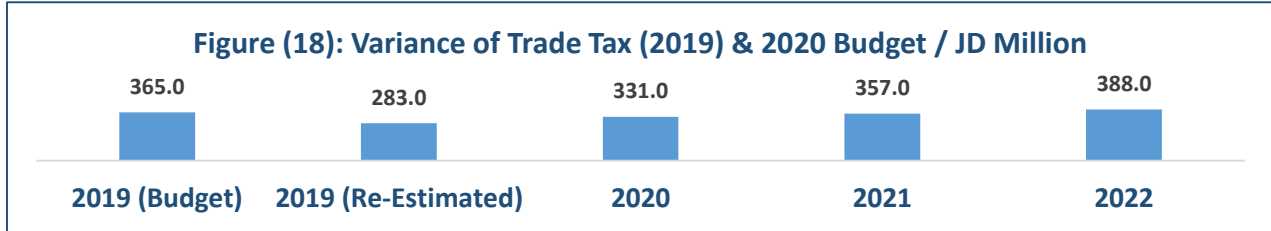
Given the large variances in 2017, 2018, and in 2019, one cannot underestimate the importance of **"accuracy"** in projecting the expected revenue of the 2020 budgeted, and thereafter, figures! Given the expected large increase in the 2020 budget, one cannot underestimate the importance of "getting it right".

The variance in corporate tax collection, however, is smaller than that for the sales tax as depicted above.

Figure (15): Corporate Tax: The 2020 Budget (JD Million)

2019 (Budget)	2019 (Re-Estimated)	2020	2021	2022
819.7	800.0	930.0	940.0	1000.0

Figure (16): Corporate Tax (JD Million)

Year	Budget	Actual
2017	822.6	742.7
2018	761.4	762.3
2019	819.7	800.0

Figure (17): Corporate Tax Variance

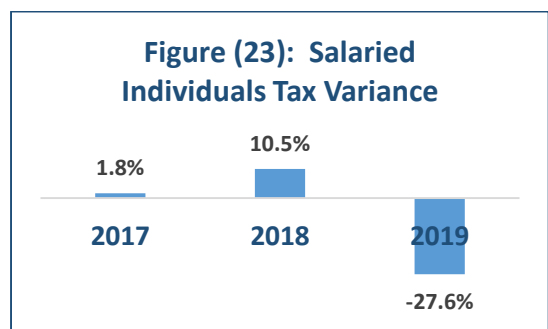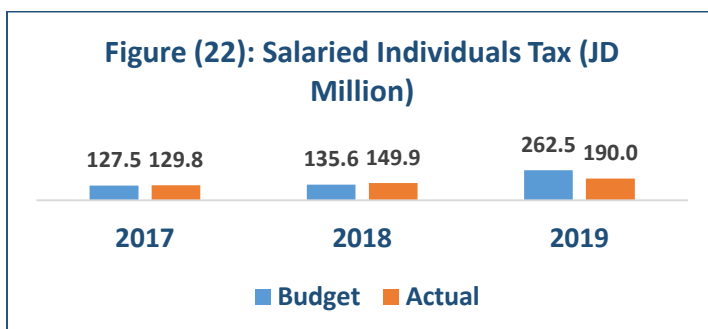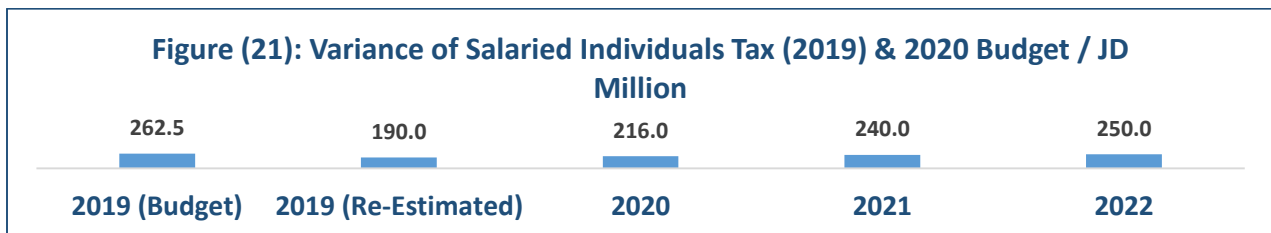| 2017	2018	2019
-9.7%	0.1%	-2.4%

3. Trade Tax:
This source is expected to increase from the 2019 re-estimated value of JD 283 Million to JD 331 million in 2020. An increase of 17.0%. **Trade tax makes-up 5.9% of total tax revenues.**

Again, the 2020 envisaged increase in this source of tax revenue from JD 283 million in 2019 to JD 331 million in 2020 (JD 48 million) is "large enough" to make sure of its accuracy.

Figure (18): Variance of Trade Tax (2019) & 2020 Budget / JD Million

365.0	283.0	331.0	357.0	388.0
2019 (Budget)	2019 (Re-Estimated)	2020	2021	2022

Figure (19): Trade Tax (JD Million)

	2017	2018	2019
Budget	360.0	351.2	365.0
Actual	304.3	292.9	283.0

Figure (20): Trade Tax: Variance to Budget

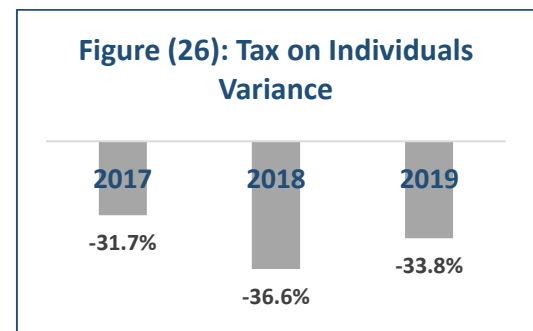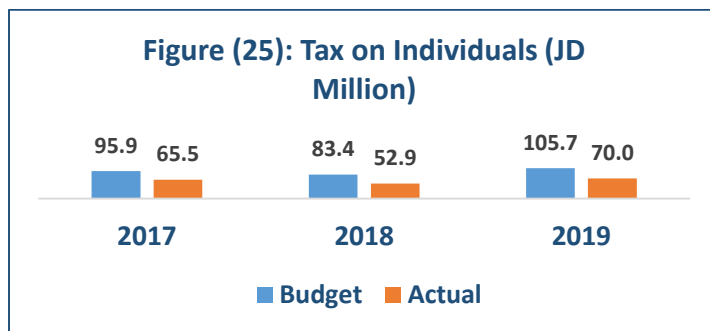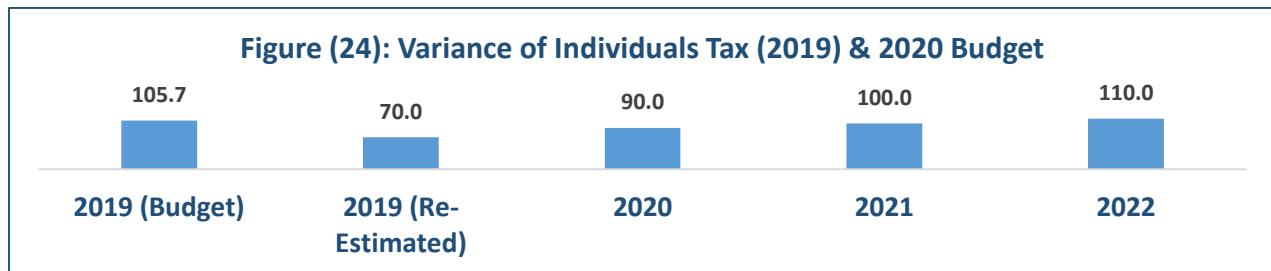| 2017	2018	2019
-15.5%	-16.6%	-22.5%

4. **Salaried Individuals:** This source is expected to increase from the 2019 re-estimated value of JD 190 million to JD 216 million in 2020. An increase of 13.7%! Tax on salaried individuals make-up 3.8% of total tax revenues! Again, given the large variance in the 2019 budget, one cannot be sure that this increase is realistic.

Figure (21): Variance of Salaried Individuals Tax (2019) & 2020 Budget / JD Million

262.5	190.0	216.0	240.0	250.0
2019 (Budget)	2019 (Re-Estimated)	2020	2021	2022

Figure (22): Salaried Individuals Tax (JD Million)

	2017	2018	2019
Budget	127.5	135.6	262.5
Actual	129.8	149.9	190.0

Figure (23): Salaried Individuals Tax Variance

2017	2018	2019
1.8%	10.5%	-27.6%

5. **Individuals:** This source is expected to increase from the 2019 re-estimated value of JD 70 million in 2019 to JD 90 million in 2020! An increase of 28.6%! Tax on individuals (private sector outside the corporate sector) makes-up 1.6% of total tax revenues.

Given the consistently large variances, one cannot underestimate the importance of the "accuracy" of the 2020-budgeted figure. These variances must be due a combination of "tax avoidance" and "inefficiency in tax collection".

Figure (24): Variance of Individuals Tax (2019) & 2020 Budget

| | 105.7 | 70.0 | 90.0 | 100.0 | 110.0 |
| 2019 (Budget) | 2019 (Re-Estimated) | 2020 | 2021 | 2022 |

Figure (25): Tax on Individuals (JD Million)

95.9 65.5   83.4 52.9   105.7 70.0

2017   2018   2019

■ Budget ■ Actual

Figure (26): Tax on Individuals Variance

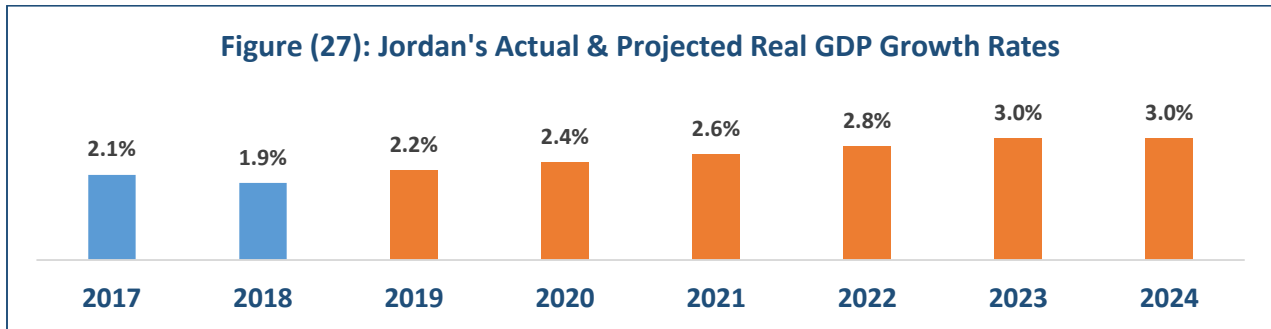| 2017 | 2018 | 2019 |
| -31.7% | -36.6% | -33.8% |

IN A NUTSHELL, the 2020 budget indicates that the government is pursuing an expansionary fiscal policy. Indeed, total budgetary expenditures are expected to increase from JD 9.039 billion in 2019 to JD 9.808 Billion in 2020, and to "indicative amounts" equal to JD 10.098 in 2021, and to JD 10.403 in 2022. Within this context, it is encouraging to note that capital component of capital of public spending will increase from JD 1.071 Billion in 2019 to JD 1.425 billion in 2020. This component MUST be increased in future years. Within this context, PPP projects should be accelerated fast. We have to suggest different modalities whereby this amount can be leveraged and contribute to growth.

To finance the increases in budgetary expenditures, the 2020 budget relies on consistent increases in all sources of tax revenues.

A. Sales Tax: From JD 3365 million in 2019 to JD 3957 million in 2020.

C. Corporate Tax: From JD 800 million in 2019 to JD 930 million in 2020.

D. Trade Tax: From JD 283 million in 2019 to JD 331 million in 2020.

E. Salaried Individuals: From JD 190 million in 2019 to JD 216 million in 2020.

F. Individuals: From KD 70 million in 2019 to JD 90 million in 2020.

No one should underestimate the importance of getting the "envisaged increases" in these sources of tax revenues **RIGHT.** Otherwise, the already existing high debt to GDP ratio will increase! One

should also point-out an important point: If accurate, the IMF's projected real economic growth rates during the period 2019-2024 will probably prove not to be sufficient to increase tax revenues as the government expects in the 2020 budget. This is why, while the increases in wages and compensation are welcome, the government, given that it does not possess adequate financial resources , must crowd-in resources from the private sector to support PPP projects in several sectors fast and without hesitation. This is the only "sure" way to accelerate real economic growth, and hence total tax revenues.

Figure (27): Jordan's Actual & Projected Real GDP Growth Rates

2017	2018	2019	2020	2021	2022	2023	2024
2.1%	1.9%	2.2%	2.4%	2.6%	2.8%	3.0%	3.0%

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