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**Maximizing Available Resources for ESCR and Leaving No One Behind at A Growing Time of Debt Crises**

**Presented**

**By**

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Ladies and Gentlemen, it is a great honor and pleasure to be here today to participate in such an important meeting focusing on the reform of the international financial system in the contest of achieving sustainable development goals. The economic and Social Council of Jordan is an official institution that provides policy advice to the government on economic and social issues that is based on social dialogue where all social partners are represented. We are committed in the council to promote participatory and inclusive economic and social development policies in Jordan.

In previous years, the council has provided recommendations on various human rights topics, including the right to education, the right to health, women's rights, and children's rights, through the State of the Country Reports. In this context, and in cooperation with the United Nations Country Team in Jordan, we have released a policy brief on Domestic Resource Mobilization using a human rights approach in tackling inequalities.

Some of the key findings of the study revealed that there are inequalities between municipalities in terms of their share of revenues and the services they provide, and limited ability to mobilize more resources; that growth in tax revenues did not respond to changes in GDP growth; that although the income tax law is progressive, the overall current tax system depends highly on indirect taxes (which has a detrimental effect on low income groups/poor segments of society)- though with a more upward trend becoming more progressive re. income tax for companies; and the need to increase efficiency and transparency of public finances, and people’s participation in national budget processes.

We are fast approaching 2030 with only six years remaining to achieve the targets set for the sustainable development goals. Jordan is committed to its obligation for the fulfillment of human rights by adopting economic policies that ensure that objective. In fact, it developed a ten years economic vision to modernize the economy that aims at enhancing the wellbeing of the people.

Jordan’s ability to devote and maximize its available resources to the realization of ESCR is seriously hampered by its serious over the years slow economic growth, serious and accelerating debt burden, external shocks (the ongoing war on Gaza), and the declining international financial support to the Syrian refugees.

**Economic Growth**

**2010 -2022 Economic Growth rate**

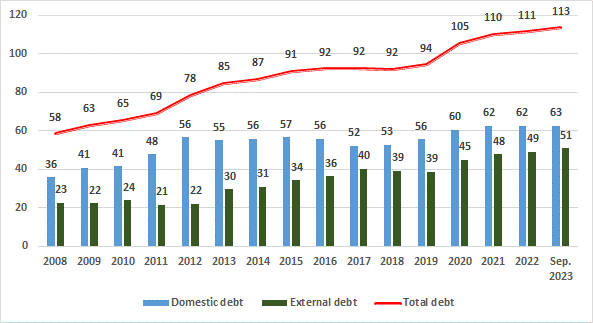
*Source: Department of statistics*

Jordan’s economic growth rates have been very low for more than a decade now with an average of 2.0 for the period spanning from 2010-2023.The sluggish economic growth was a result of external shocks such as the international economic crisis of 2008, the Arab spring and the civil wars in Syria and Iraq, and the global pandemic Corvid 19. This period was characterized by the implementation of series of IMF lead fiscal reform programs. Austerity measures accompanied by these programs have failed to stimulate economic growth and contributed to the soaring of unemployment rates to a record high standing today at 22%.

**The Debt Problem**

The outstanding central government debt at the end of September 2023 amounted to USD 57,426 million. The domestic debt constitutes 55.1 percent of the total debt (USD 31,657 million), while the rest is external. The central government debt at the end of 2023 stood at 113% of GDP almost double the percentage in 2008 and increasing by 16 percentage point only between 2019 and 2021.

**Central Government Debt as percent of GDP (2008 -Sep. 2023)**



*Source: MoF’s monthly statistical bulletin*

The structure of the debt changed since 2012 where the government reduced the dependence on domestic borrowing for financing budget deficits while increasing the borrowing from external markets. The government aimed by changing the structure of debt to finance the balance of payments deficit and reduce the crowding out effects of borrowing from domestic market to encourage investment and accelerate economic growth. The banking sector constitutes the largest share of the government's domestic debt, as it is an investment tool with a feasible return for banks and has low risks.

The balance of domestic debt provided by banking sources constituted 48.7 percent in 2023, while non-bank sources constituted the remaining percentage (51.3 percent).[[1]](#footnote-1)

Since the beginning of 2010, the government started increasing its reliance on external borrowing to meet its financing needs, the share of public external debt in total public debt increased from 38.7 percent in 2008 to 44.9 percent at the end of September 2023. As for the sources of external debt, loans from regional and international institutions accounted for 37.6 percent, most notably loans provided by the World Bank (17.1 percent) and the International Monetary Fund (9.1 percent). While loans provided by Arab and foreign governments (bilateral and export) constituted 16.3 percent of the balance of external debt, as bilateral loans accounted for the largest part of those loans. Regarding the distribution of foreign loans according to the currency, debt in US dollars constitutes the largest part of the external debt, reaching 71.2 percent at the end of September 2023, followed by debt in Euros.

**Total Debt Services (Domestic & External) (Budget)/Total Expenditures (%)**

While the current and the predicted increase of the public debt is by itself is a problem, the annual debt service and its steady increase is becoming even more problematic. The external public debt service at the end of 2023 is more than fifth of the total expenditure rising from 15% in 2018. The Increase of the debt and its services severely limits the fiscal space and reduces the potential to expand the budget of social security, education and health and other social protection needs.

**External Debt Services/Total Expenditures (%) 2018 – Oct. 2023**

Poverty is relatively high in Jordan and increased dramatically during the COVID19 pandemic. Before the global pandemic crisis, the official poverty rate was 15.7 percent. Early models undertaken by the World Bank estimate that the likely short-term increase in poverty might be as high as 11 percentage points for Jordanians, as a result of the lost labor and remittance incomes for households. At the same time, a huge proportion of the non-poor households are just above the poverty line with high vulnerability and are at-risk of falling into poverty with external or household shocks[[2]](#footnote-2).

The government spends around JD 2.1 billion, or 6.1 percent of GDP, on social protection, with JD 241 million, or less than one percent of GDP, going to NAF beneficiaries. There are around 120 thousand families among these recipients. More than double this number is recorded in the NAF system, waiting for assistance when funding becomes available. Interest payments are predicted to be seven times the social assistance budget in 2023, rising to seven times in the next five years. According to our analysis, 15% reduction in interest payments would allow the government to triple its social assistance budget and finance poor people who are not eligible for NAF programs.

**The Impact of the War on Gaza**

The context in Jordan is rapidly changing and there are many factors interacting together that further shrinks the fiscal space available for social protection, in addition to the significant increase of the debt and the debt service, there has been a steady decline of the international support for refugees, the grave economic impact of the war on Gaza, and the rising security challenges of different sorts.

After hundred days, Gaza War had serious economic challenges for Jordan, particularly related to energy and logistics sectors as well as its indirect effects on various sectors including tourism, energy, water, labor market, investment, consumption, public finance, and key macroeconomic pillars in the economy.

The ongoing catastrophic situation in the Gaza Strip and the regional spell over of the conflict have already impacted Jordan economy through various channels including international and domestic tourism, restaurants and cafes, and cancelation of social events due to solidarity with the Palestine people. The ministry of tourism data indicates that cancellation of international tourism reached about 80% which has directly affected hotel occupancy, tourist companies, transport and car rental companies as well as restaurants. If the current crisis continues it is expected that unemployment and poverty will increase. The UNDP Regional Arab States estimated that more than 200,000 people will slip into poverty in the first three months of the crise and it will double if the crisis continues for another three months.

Also, the rising security risks and challenges**,** especially cross border security (Drug War) have already accelerated the military expenses which may have negative effects on other expenditure components of government budget such as capital and social expenditures.

If the situation continues in the coming year, then it would have serious negative effects on the revenue generation and would have serious constraints on the economy through rising inflation, unemployment and decreasing in government’s revenue collection particularly from corporate/business sector. Also, the government’s budget may face serious shortages in the coming period if the current situation continues to escalate. More specifically, expected revenues may not be collected and some expenditures may be blocked due to rising expenses for military and security issues.

The government of Jordan has already initiated the new economic program with the IMF that would be officially announced after the IMF Executive Board’s approval. The new IMF program would have specific targets for the government’s revenue and expenditure in the budget.

It is needless to say that under such circumstances, the government may change its sources of revenue collection from progressive to regressive structure that would affect vulnerable groups more than higher income groups as it happened during the global pandemic crisis in 2020.

The same situation is also valid for budgetary expenses since the government may significantly constrain social and capital expenses in the budget to create some additional fiscal space for military and security related issues.

**Conclusion**

* The global pandemic, the Russian-Ukraine war, the war on Gaza, and the rising debt and the cost of debt service are posing a threat to the ability of advancing the SDGs in Jordan.
* Austerity measures raise fears or question the possible balance between economic stability and social security, the potential negative impact on social development, inequality and welfare of the people. These austerity measures do not even achieve the declared objectives of sound economic growth and Job creation not to mention social development.
* Jordan is not alone in this situation which raises the question about the role of different stakeholders in the realization of the SDGs and national development, including the International Financial Institutions. This might require a paradigm shift on the best way to strike a balance between debt management and social development.
* As far as ESC of Jordan, we are committed to advocate for human rights impact assessment on current and future reforms, economic policies, focusing on the link with socio-economic development and the living standards and on those who are or might be left behind.

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1. Non-bank source is mainly the SSIF. [↑](#footnote-ref-1)
2. *Source: Social safety nets: Building on successful reforms in Jordan, Public Expenditure Review, World Bank* [↑](#footnote-ref-2)