



## JORDAN

### Highlights

- **The economic situation continues to be challenging.** Growth in 2018 – at 1.9 per cent – recorded its lowest level in 23 years, and remained around the same level in the first half of 2019, while unemployment is high and increasing.
- **The pace of fiscal consolidation progressed slightly.** Additional revenue and expenditure measures were adopted to reduce the fiscal deficit and contain high public debt levels.
- **Structural reforms continued to target inclusive growth and private sector participation.** Jordan was among the top 20 improvers in the World Bank's *Doing Business 2020* report. Recent reforms include: enforcing the new income tax and insolvency laws, implementing a financial inclusion strategy, promoting energy efficiency projects, enacting the long-delayed amendment to the secured lending law, and using movable assets as collateral for small and medium-sized enterprises (SMEs).

### Key priorities for 2020

- **Trade needs further diversification in terms of destination, routes and products.** Jordan needs to increase the economic complexity of export products and to improve its integration into global value chains.
- **Addressing water scarcity is crucial for further economic growth.** Given that Jordan is one of the most water-scarce countries in the world, policies are needed to secure a sustainable use of water. This would contribute to attracting private investors in the agriculture and food-processing sectors.
- **Reducing unemployment and alleviating poverty should be achieved in collaboration with the private sector.** Efforts are required to continue simplifying business regulations, improving education and vocational training, addressing skills mismatches, and promoting women's participation in the labour force.

#### Main macroeconomic indicators %

	2015	2016	2017	2018	2019 proj.
GDP growth	2.4	2.0	2.1	1.9	2.1
Inflation (average)	-0.9	-0.8	3.3	4.5	2.0
Government balance/GDP	-8.5	-3.7	-3.7	-4.8	-3.4
Current account balance/GDP	-9.0	-9.4	-10.6	-7.0	-7.0
Net FDI/GDP [neg. sign = inflows]	-4.2	-4.0	-5.0	-2.3	-3.6
External debt/GDP	65.1	66.3	69.6	69.1	72.3
Gross reserves/GDP	43.6	39.6	38.2	34.5	37.2
Credit to private sector/GDP	72.1	76.5	80.6	82.3	n.a.

## Macroeconomic performance

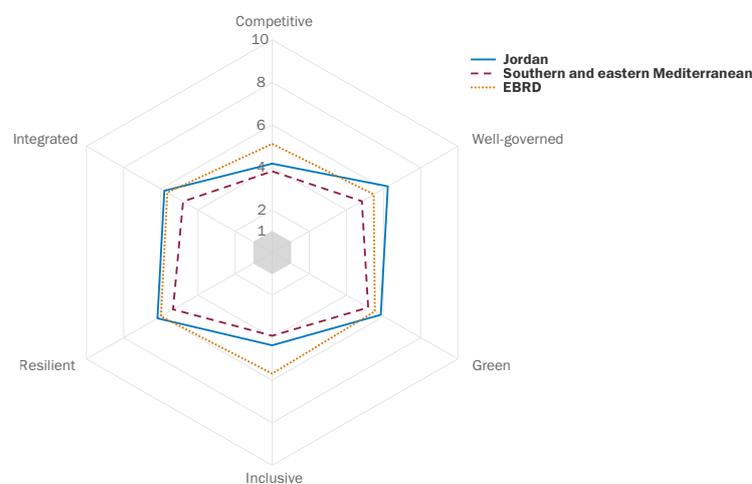
**The pace of economic growth was restrained in 2018 and at the beginning of 2019.** In the first half of 2019, growth remained sluggish at 1.9 per cent year-on-year. Financial services – including insurance, real estate and the business services sector – were the major drivers of growth, followed by the transport, storage and communications sectors, and manufacturing. Tourism arrivals continued to increase for the third consecutive year, but are still just 75 per cent of the record levels achieved in 2010. Inflation declined from its peak of 5.7 per cent in July 2018 to -0.3 per cent in September 2019. The unemployment rate increased to 19.2 per cent in the second quarter of 2019, and is particularly high for women (27.2 per cent) and young people (43.1 per cent).

**The fiscal and external balances continued to improve.** The overall fiscal deficit (excluding foreign grants) was reduced to 4.6 per cent of GDP in the first half of 2019, from 5.3 per cent in the same period of 2018, reflecting the increase in revenues and lower capital expenditures. Meanwhile, public debt remains elevated at 94.6 per cent of GDP. The current account deficit narrowed to 4.8 per cent of GDP in the first quarter of 2019, down from 9.3 per cent a year earlier. The reduction was driven by a decline in the trade deficit due to the decrease in imports of goods, and to the pick-up in exports. Gross official reserves have been decreasing since December 2017 and reached US\$ 13.9 billion in July 2019, but are still covering more than seven months of imports.

**The Central Bank of Jordan (CBJ) has lowered interest rates.** There were three reductions in the key policy rate in 2019, in August, September and October; the first cuts in almost a decade. These were in line with interest rate changes in the United States of America and in regional markets, given the Jordanian dinar peg to the US dollar.

**The outlook remains broadly unchanged.** GDP growth is expected to remain subdued in 2019 (2.1 per cent) and 2020 (2.3 per cent), supported by various factors. These include rising domestic and foreign investment, the lower cost of imported energy, increased finance provided to SMEs under various schemes from the CBJ, greater certainty and confidence stemming from the commitments of the London Conference in February 2019, and the increase in exports resulting from the re-opening of the border with Iraq. Risks to the outlook include the erosion of real competitiveness stemming from the strengthening of the dinar, slow progress in implementing reforms, and the regional instability. On the upside, significant fiscal and structural reform progress would raise the growth forecast, improving private sector-led growth. Given that parliamentary elections are scheduled to be held in late 2020, current spending is expected to be higher in 2019-20.

### Assessment of transition qualities (1-10)



## Major structural reform developments

### **Jordan is working to diversify its export and import portfolio of products and destinations.**

A bilateral trade agreement with Iraq was signed in February 2019, providing customs duty exemptions on Jordanian exports to Iraq. Meanwhile, the agreement in November 2018 to relax rules-of-origin of the 2016 trade agreement with the EU should lead to an increase in exports to the EU for 52 Jordanian products, including textiles and garments, engineering and electrical products, chemicals and furniture. However, the impact is yet to be seen. Regarding energy imports, the government has made efforts to secure energy supplies from neighbouring countries. In February 2019, Jordan and Iraq agreed that the former would obtain oil at concessionary prices in exchange for lowering tariffs on Iraqi goods imported through Jordan's Aqaba port. The Jordanian authorities have also reached agreements with regional countries (for example, Egypt) relating to imports of natural gas.

**A new Income Tax Law has become effective.** The new law entered into force in January 2019. It includes changes to corporate income taxes, withholding taxes, personal income taxes, penalties, and taxation in the development zones and free zones. It also imposes a new national contribution tax, which will be levied on the income of corporations and certain high-earning individuals in conjunction with income taxes.

**The government has launched a Social Protection and Poverty Alleviation Strategy for 2019–25.** The strategy "Opportunities, Dignity and Empowerment", launched in May 2019, will be implemented across many sectors, supporting needy households with access to education and free health insurance. In addition, it will introduce job opportunities to the labour market, supply families with solar power system units, and guarantee good food supplies to schoolchildren. Moreover, the strategy seeks to increase female participation in the labour market, and to decrease the poverty rate to around 12.0 per cent from its current level of 15.7 per cent.

**The government is making efforts to incentivise development.** A two-year development plan was introduced in November 2018 with the aim of improving education and public services and creating more jobs. The new plan is based on maintaining the rule of law, boosting productivity and strengthening solidarity, in line with priorities identified by the King in a speech to parliament in October 2018. The newly established Jordan Entrepreneurship Fund is expected to support over 800 new projects, which will create additional jobs. Furthermore, the government launched the "One Million Jordanian Coders" project in June 2019, to offer free digital skills courses and information on jobs available to qualified graduates; an approach that could provide young Jordanians with job opportunities both locally and globally.

### **A draft law on the fees of work permits for non-Jordanian workers has been approved.**

The new law, adopted in September 2019, which aims at better controlling and regulating the labour market, stipulates a new fees system for work permits for non-Jordanian workers. It also organises the issuance of two new types of work permits: the daily work permit (free permit), and the permit of workers with specialised skills.

### **Jordan was among the top 20 improvers in the World Bank's *Doing Business 2020* report.**

The country improved in the areas of getting credit, paying taxes and resolving insolvency. Access to credit was expanded after the credit bureau began offering credit scores to banks and other financial institutions. Access to credit was strengthened by introducing a new secured transactions law that regulates functional equivalents to loans secured with movable property. Jordan made paying taxes easier by integrating labour taxes and other mandatory contributions into its electronic payment system. All of these improvements helped raise Jordan to 75th place (out of 190 countries) in the global rankings, up from 104th the previous year.