JORDAN

Highlights

- **Growth continued to decline in 2016.** It dropped to 2 per cent in 2016, which reflects the slow-down in agriculture, construction and mining, although a slight upturn is evident in the first half of 2017. Unemployment rose sharply to 18 per cent in the first half of 2017, its highest level in 25 years.
- **The pace of fiscal consolidation was strong, although slower than initially envisaged.** This is due to weaker nominal growth and tax revenues and refugee-related spending pressures. Moreover, the composition of expenditures has worsened, and public debt increased, also the result of continued Water Authority of Jordan (WAJ) losses.
- **Structural reform continued.** Key developments include: the adoption of the electricity tariff adjustment mechanism and the action plan to reduce the water sector's losses; the elimination of general sales tax (GST) and customs duty exemptions on a large number of products; the compilation of credit reports by the credit bureau to assess borrower creditworthiness; and the launching of the new "one-procedure one-form" registration process and standardised business classifications.

Key priorities for 2018

- **Continued fiscal consolidation is needed.** The main reforms should: broaden the tax base through amending the income tax law and removing additional GST and customs duties exemptions; tackle tax evasion and strengthen tax compliance, while containing non-priority current expenditures and wage bill growth, better targeting transfers, and preserving social and capital expenditures.
- **Much-needed legislative reforms to improve the business environment should be prioritised.** These include submitting to parliament the draft inspection law, enacting the secured lending and insolvency laws, and ratifying amendments to the insurance and deposit insurance laws.
- **Reforms to strengthen inclusive growth should continue.** The government's strategy consists of three measures: (i) facilitating access to finance; (ii) active labour market policies and reforms; and (iii) improving the business environment and governance. These reforms should be complemented by the implementation of the Jordan Compact initiative to create jobs for Jordanians and Syrian refugees in special economic zones.

Main macroeconomic indicators %

	2013	2014	2015	2016	2017 proj.
GDP growth	2.8	3.1	2.4	2.0	2.3
Inflation (average)	4.8	2.9	-0.9	-0.8	3.3
Government balance/GDP	-5.5	-2.3	-3.5	-3.2	-2.5
Current account balance/GDP	-10.4	-7.3	-9.1	-9.5	-8.4
Net FDI/GDP [neg. sign = inflows]	-5.3	-5.8	-4.3	-4.0	-3.8
External debt/GDP	30.3	69.4	70.0	70.5	n.a.
Gross reserves/GDP	35.7	39.3	37.7	33.3	n.a.
Credit to private sector/GDP	76.3	73.0	72.8	77.6	n.a.

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Macroeconomic performance

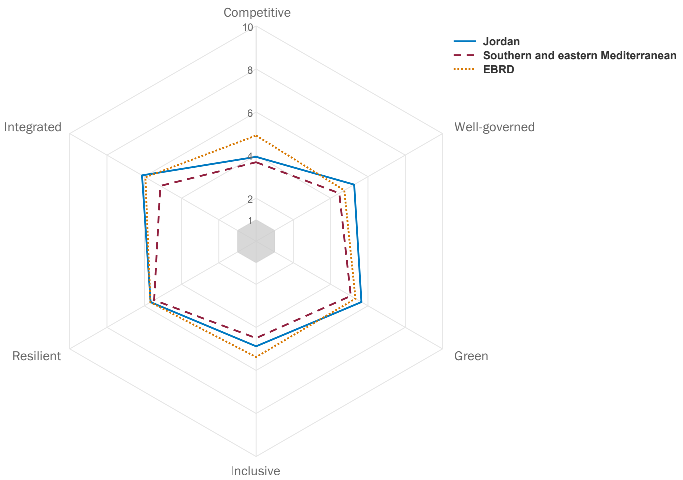
The decline in growth, which started in 2014, continued in 2016. GDP growth fell from 3.1 per cent to 2.0 per cent between 2014 and 2016. This deterioration was driven by slowing agriculture and construction, and contracting mining activity, which shrank by 12.1 per cent in 2016 due to temporary shutdowns in production. Transportation and financial services were the main positive drivers of growth. During the first half of 2017, growth recorded 2.1 per cent year-on-year, with strong rebounds in mining and agriculture, despite the continued decline in construction. Data for the first eight months of 2017 show a recovery in tourism, increasing 8.1 per cent relative to the same period in 2016. Labour market conditions deteriorated further; the unemployment rate rose sharply to 18 per cent in the first half of 2017, its highest level in 25 years, partially reflecting some methodological changes. Female and youth unemployment rates are double the overall rate.

The pace of fiscal consolidation was strong, but slower than planned. The central government's deficit declined to 3.2 per cent of GDP in 2016 from 3.5 per cent in 2015, reflecting stronger non-tax revenues and flat expenditures, despite declining grants. Nevertheless, the composition of expenditures worsened, with lower capital expenditures offsetting higher defence and security spending. Moreover, the decline in the deficit was lower than envisaged, owing in part to weaker nominal growth, continued refugee-related spending pressures, and limited success in increasing tax revenues. As a result, and with continued Water Authority of Jordan (WAJ) losses, public debt reached 95.1 per cent of GDP at the end of 2016.

The current account deficit widened and reserves declined. A decline in energy imports as a result of lower oil prices and the National Electric Power Company's (NEPCO) shift to liquefied natural gas as its primary energy source were counterbalanced by lower exports, tourism receipts, grants and remittances. As a result, the current account deficit reached 9.5 per cent of GDP in 2016, slightly higher than the 9.1 per cent deficit in 2015. International reserves declined in August 2017 to US$ 13.2 billion but remained at comfortable levels, at 6.9 months of imports.

The outlook remains broadly unchanged. Growth is expected to remain low at 2.3 per cent in 2017, as regional turmoil continues to weigh on tourism and investment, and following lower-than-expected 2016 growth and lower reserves. In 2018 growth will pick up slightly to 2.5 per cent, supported by the implementation of structural reforms and fiscal consolidation. The outlook is subject to considerable risks from additional refugee inflows and a surge in the US dollar undermining Jordan's competitiveness. Moreover, any slippages in implementing reforms under the IMF-supported programme would undermine prospects for a strong rebound in economic performance.

Assessment of transition qualities (1-10)



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Major structural reform developments

The credit bureau has expanded its activities. The bureau had started operating in January 2016 to help expedite credit decisions, notably for small and medium-sized enterprises (SMEs), which make up about 95 per cent of the corporate sector. It has been receiving data since October 2016 from banks, as well as from other financial institutions such as insurance and leasing companies, microfinance institutions, public utilities and telecommunications companies. It has started compiling credit reports to assess borrower creditworthiness and expediting credit risk assessment decisions for borrowers. The bureau should be able to assign credit scores to borrowers by early 2018 after compiling three years of historical data.

The electricity tariff adjustment mechanism and the action plan to reduce the water sector's losses were adopted. The authorities published in December 2016 the final version of a study on cross-subsidisation and options for electricity tariff reform. Based on the findings of the study, a new automatic tariff adjustment mechanism was adopted in October 2016 and came into effect on 1 January 2017. The mechanism considers the system's overall costs, including power plants, NEPCO and distributors, and shelters NEPCO from oil price fluctuations, helps its operational cost recovery and reduces its vulnerability to exogenous shocks. The authorities also reduced cross-subsidies by lowering tariffs on high-end consumers. At the same time, an updated action plan on ways to reduce the water sector's losses was adopted by the government and published in April 2017.

The authorities continued with labour market reforms to strengthen job prospects. A bylaw on flexible working hours was issued by Royal Decree in March 2017, and implementation guidelines are being prepared in the second half of 2017 by the Ministry of Labour in consultation with other stakeholders. To promote female employment, the authorities require large companies to provide childcare facilities within their premises. Most recently, they have submitted to parliament amendments to the labour law to allow companies to pool their resources and set up joint nurseries, while increasing penalties for companies not complying with the law, and have started establishing new nurseries in the special economic zones.

A decree establishing a central Public Investment Management (PIM) unit at the Ministry of Planning and International Cooperation was adopted in June 2016. The government is already managing all investments according to standards set by the new PIM framework adopted in 2015 to strengthen the design, assessment, prioritisation and implementation of public investment and public-private partnership projects. Moreover, in May 2017 the government conducted a comprehensive Public Investment Management Assessment (PIMA), to ensure that public investment spending was well assessed and efficient enough to promote growth while minimising future risks to the budget, given the limited fiscal space.

Reforms to strengthen the business environment have advanced. Recent efforts have focused on reducing the cost of starting and operating a business. The authorities addressed shortcomings in the investment-window procedures by automating and integrating the services provided by Jordan Investment Commission to make it fully operational by the end of June 2017. The authorities have also launched the new "one-procedure one-form" registration process and standardised business classifications to eliminate all duplicate procedures and introduce a fast track approval mechanism. Jordan is ranked 103rd out of 190 countries in the *Doing Business 2018* report, ahead of the Middle East and North Africa average and of Egypt and Lebanon, but behind Morocco and Tunisia. The areas where Jordan is ranked the lowest are getting credit (159th), and protecting minority investors and resolving insolvency (146th).

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The authorities conducted a medium-term debt management strategy (MTDS) analysis. Based on the findings of the analysis, the debt management strategy for 2016-20 covering the central government and its agencies, including NEPCO and WAJ, was prepared and published in September 2016. An action plan to build capacity in the middle and front offices of the Public Debt Directorate (PDD) was prepared ahead of schedule. The authorities started in January 2017 to publish the central government indicative bond issuance plan for 2017 to enhance transparency, communication and predictability. A quarterly financing plan for the central government and its agencies was prepared to ensure that the issuance schedules of the central government and public agencies are coordinated in a way that improves overall borrowing terms, lengthens the average maturity of debt, improves the debt profile of the central government and its agencies, and reduces total public debt over the medium term.

The removal of GST and customs duties exemptions was less ambitious than initially envisaged. Revenues from these measures amounted to 0.4 per cent of GDP instead of the planned 1.1 per cent of GDP, as many non-basic goods and services remain exempt. GST exemptions generally contribute to lower efficiency and revenue with limited offsetting benefits.

Several much-needed laws have been delayed. Delays included are submitting to parliament the draft inspection law, enacting the secured lending and insolvency laws, and amendments to the income tax, insurance, and deposit insurance laws. In addition, the publication of a study assessing the key issues and challenges to promote financial inclusion has not yet been completed.