JORDAN

Highlights

- **The economic situation failed to improve significantly in 2017.** Growth was modest, unemployment remains high, and inflation increased as a result of new rounds of subsidy removals.
- **The pace of fiscal consolidation was slower than planned, but the current account deficit widened.** Moreover, public debt is increasing, reserves are declining, and the dinar is strengthening in real terms, undermining competitiveness.
- **Structural reforms progress has stalled.** Public unrest in mid-2018 saw the Cabinet dismissed and long-awaited amendments to the income tax law withdrawn.

Key priorities for 2019

- **There is a need to create more employment opportunities.** The government should enhance the business climate to support the private sector's role in creating jobs. Key areas of reform that need to be tackled include: accessing credit, protecting minority investors, resolving insolvency, enforcing contracts and dealing with construction permits.
- **Further fiscal measures are needed.** Implementing the income tax law amendments and removing additional General Sales Tax (GST) and customs duties exemptions are vital steps for the economy to kick-start a recovery.
- **Social programmes targeting the most vulnerable segments of society should accompany structural reforms.** The government must ensure that the poor are well protected from the short-term economic impact of the reforms, through social welfare programmes that target family and children, housing, refugees and the host communities.

Main macroeconomic indicators %

	2014	2015	2016	2017	2018 proj.
GDP growth	3.1	2.4	2.0	2.0	2.2
Inflation (average)	2.9	-0.9	-0.8	3.3	4.5
Government balance/GDP	-2.3	-3.5	-3.2	-2.6	-2.9
Current account balance/GDP	-7.3	-9.1	-9.5	-10.6	-9.6
Net FDI/GDP [neg. sign = inflows]	-5.8	-4.3	-4.0	-4.1	-4.3
External debt/GDP	69.4	70.0	70.5	73.1	70.1
Gross reserves/GDP	39.3	37.7	33.3	30.6	38.8
Credit to private sector/GDP	73.0	72.8	77.6	81.9	n.a.

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Macroeconomic performance

The rate of growth in Jordan remained subdued in 2017 and the first half of 2018, at 2.0 per cent. This was below the average of 2.6 per cent recorded between 2010 and 2016, a period when the instability in Iraq and Syria and the presence of Syrian refugees – estimated at 1.6 million – had curbed growth. By comparison, average growth was 6.5 per cent between 2000 and 2009. In 2017, growth was driven by services, notably transportation and financial services. Tourism arrivals increased for the first time since 2010, by 7.8 per cent, signalling the best tourism season since the Arab uprising. The increase continued in the first four months of 2018, when arrivals grew by 4.9 per cent year-on-year. Labour market conditions deteriorated further; the unemployment rate continued to be high, reaching 18.7 per cent in the second quarter of 2018, and higher among women (26.8 per cent) and youth (35 per cent). The overall economic participation rate for women remains one of the lowest in the world, at 15.3 per cent.

Inflation has been increasing since the beginning of 2018. The inflation rate reached 5.7 per cent year-on-year in July 2018 as a result of energy and bread prices hikes, before declining to 4.4 per cent in September. In the 2018 budget, the government revised a range of General Sales Tax (GST) exemptions, part of the economic reforms planned by the government under the IMF-supported programme. Moreover, the arrival of Syrian refugees since 2011 has put pressure on services and increased prices on many goods, in addition to increases in housing prices. Real interest rates have been positive throughout the last five years (except for four months), as the fixed exchange rate remained an anchor for monetary policy.

The pace of fiscal consolidation was slower than expected, and the current account deficit widened. The central government's deficit declined to 2.6 per cent of GDP in 2017 from 3.2 per cent in 2016, reflecting stronger non-tax revenues and lower government consumption and subsidies, despite declining grants and lower tax revenues. But with continued Water Authority of Jordan losses, public debt remains elevated at 96.4 per cent of GDP as of the first quarter of 2018. The current account deficit reached 10.6 per cent of GDP in 2017, up from 9.5 per cent in 2016. Lower exports, grants and remittances (relative to GDP) and higher imports of goods were only partially offset by the increase in tourism receipts and the lower primary income deficit. International reserves have been decreasing since December 2017 and reached US$ 14 billion in May 2018, but they remain at comfortable levels, covering 7.1 months of imports.

A new US$ 2.5 billion economic support package to Jordan was promised by neighbouring Saudi Arabia, United Arab Emirates and Kuwait. In response to the public turmoil surrounding the amendments to the income tax law, a Gulf Cooperation Council (GCC)-Jordan summit was held in June. Assistance was promised to Jordan in the form of a central bank deposit, guarantees on loans from the World Bank, budgetary support, and financing for development projects.

The outlook remains broadly unchanged. Growth is expected to rise only modestly to 2.2 per cent in 2018 and 2.4 per cent in 2019, supported by stronger private consumption from the higher refugee population, the implementation of structural reforms, investment in the context of the government's programme to offer citizenship to foreign investors meeting certain requirements, and greater certainty and confidence stemming from fiscal consolidation. Moreover, exports will benefit from higher mining output, higher phosphate prices and the re-opening of the border with Syria and Iraq. Risks to the outlook include a slow-down – or reversal – in implementing reforms, an escalation of regional conflict and protracted conflict in Syria and Iraq (Jordan's main export markets), additional refugee inflows, tighter liquidity in the GCC, and a surge in the US dollar which would undermine competitiveness. On the upside, the involvement of Jordanian businesses in the reconstruction of Syria and Iraq would positively support growth.

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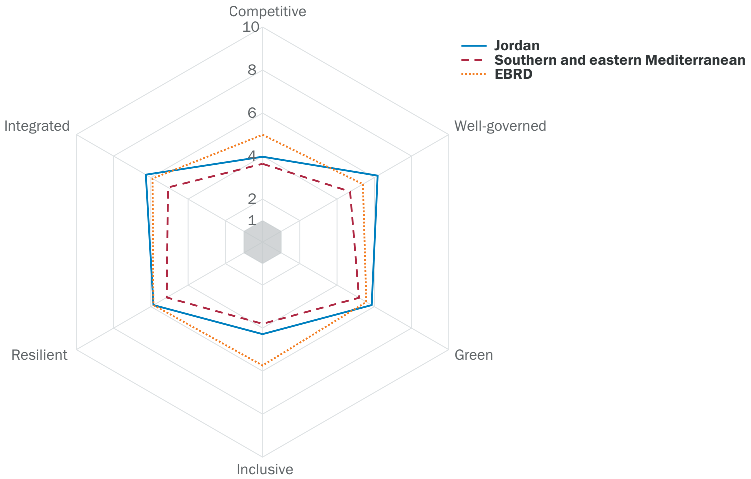
Assessment of transition qualities (1-10)



Major structural reform developments

The 2018 budget presented to parliament in November 2017 committed to removing remaining subsidies, including those on flour, which are the most politically sensitive. The authorities have also pledged social support to lower- and middle-income Jordanians to offset the impact of subsidies. The fiscal measures introduced included some tax changes and efforts to rationalise the public sector.

Proposed tax changes have encountered major opposition. In June 2018, major demonstrations took place in the country to protest against the new income tax law, which followed adjustments to the sales tax and subsidy system. The law allows for a larger tax base, since it is estimated that over 90 per cent of Jordanians do not pay income tax. The bill aims to reduce the income tax thresholds for individuals and families towards international standards, and increase the taxation of other sources of income. In addition, it unifies the corporate income tax rates for non-bank corporations, and aligns this unified rate with the maximum personal income tax rate. Tax revenues were expected to increase by around 1.1 per cent of GDP, a 7.0 per cent increase compared with 2017. The bill followed adjustments which had been made to the sales tax and subsidy system. These included raising levies on food and consumer items by unifying the general sales tax to 16 per cent, removing exemptions on many basic goods, and ending subsidies on bread on the basis that the majority of the subsidy was spent on refugees and foreign workers, thus not benefiting Jordanian nationals.

Measures to attract foreign investors have been introduced. In February 2018 the Cabinet approved a programme opening the way for foreign investors to apply for Jordanian citizenship. The initiative was based on a number of investment options to attract individuals with substantial resources to invest in Jordan, thereby reviving economic growth and reducing reliance on foreign aid in the medium term. These include making a zero-interest deposit at the Central Bank of Jordan (CBJ) of US$ 1.5 million for five years, buying Treasury bonds for no less than 10 years (US$ 1.5 million, at an interest rate to be decided by the CBJ), buying securities from an active investment portfolio (US$ 1.5 million), investing US$ 1 million in small and medium-sized enterprises (SMEs) for at least five years, investing US$ 2 million in any location in Jordan, or US$ 1.5 million if the project is registered in a governorate other than Amman, provided that it creates at least 20 job opportunities and remains operational for at least three years. Investors could also buy and retain property for a minimum of 10 years. The Jordan Investment Commission (JIC) received more than 50 applications from Iraqi, Lebanese, Syrian, Palestinian and Yemeni nationals. The decision is likely to create tension among some groups living in Jordan. Finally, pro-employment reforms have been implemented, including the reduction of the cost of formalisation of workers.

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Some improvements in the transport sector are already under way, but more needs to be done. The Bus Rapid Transit (BRT) system for Amman is due for completion by 2020, and there are plans to extend it to link Amman and the nearby city of Zarqa. Jordan has had some success in improving key transport-related infrastructure, notably with the completion of the upgrade and expansion of Queen Alia International Airport (QAIA) in Amman – a successful public-private partnership example – and the relocation of the Aqaba port in southern Jordan. However, the large increase in refugee immigration in recent years has added to urban transportation woes, and the transport sector's needs are complex. Given the current financial situation, Jordan will need the support of external donors and investors to move forward with such projects.