



## JORDAN

### Highlights

- **The economy is recovering slowly from the Covid-19 crisis.** The pandemic and related containment measures have led to rising public debt and record levels of unemployment, which are likely to present a difficult challenge for policymakers.
- **The authorities have extended a set of Covid-19 response measures in 2021 and developed plans to support economic recovery post-crisis.** Recovery plans are targeted at higher degrees of digitalisation and a greener and more sustainable recovery.
- **The authorities are committed to resuming reforms under the latest International Monetary Fund (IMF)-supported programme.** The 2021-24 Government Indicative Executive Programme (GIEP) is set to introduce public administration restructuring, energy and water sector reforms, policies to increase export competitiveness and more inclusive employment regulations.

### Key priorities for 2022

- **Swiftly implementing key reforms envisaged under the IMF-supported programme and the affiliated 2021-24 GIEP is crucial.** These include the implementation of the ambitious three-year electricity reform plan. Reforms should be supported by a continuation of the government's anti-corruption campaign. A more agile, transparent and accountable public administration is essential to ensure credibility and trust in planned reforms.
- **A return to fiscal discipline is needed to stabilise public debt and bring it towards more sustainable levels.** Broadening the tax base, reducing tax exemptions, overhauling investment incentives and reforming the governance of the tax and customs administrations should be complemented by spending containment and subsidy reforms, as well as improving social safety nets. Rolling out a pipeline of projects to be implemented under the country's public-private partnership (PPP) scheme, in line with international best practices, is also essential.
- **There is a need to diversify sources of economic growth and tackle rising unemployment.** This would require measures to promote private-sector growth for job creation, labour market reforms to encourage female and youth employment, increased labour force participation and reduced informality in the private sector, as well as targeted employment and upskilling programmes.

### Main macroeconomic indicators %

	2017	2018	2019	2020	2021 proj.
GDP growth	2.1	1.9	2.0	-1.6	1.5
Inflation (average)	3.6	4.5	0.7	0.4	2.0
Government balance/GDP	-3.6	-4.7	-6.0	-8.9	-7.7
Current account balance/GDP	-10.6	-6.9	-2.1	-8.0	-8.9
Net FDI/GDP [neg. sign = inflows]	-4.9	-2.2	-1.5	-1.6	-2.2
External debt/GDP	68.4	67.9	68.0	78.3	n.a.
Gross reserves/GDP	37.6	33.9	34.6	38.8	n.a.
Credit to private sector/GDP	72.4	76.5	78.1	82.9	n.a.

## Covid-19: macroeconomic implications

**The economy is recovering slowly.** After a 1.6 per cent contraction in 2020, growth rebounded to 1.8 per cent year-on-year in the first half of 2021. Despite a strong recovery in financial services, manufacturing and mining, the decline continued in tourism and the rebound was slower in construction, transport and communications, as well as in a wide array of services, as health restrictions lingered and demand for exports and tourist services remained weak. Meanwhile, annual inflation gradually increased in the first eight months of 2021, at an average of 1.1 per cent year-on-year, due to strong base effects from the drop in oil prices in 2020. Moreover, the unemployment rate increased to 24.8 per cent in the second quarter of 2021, one of the highest levels in the past two decades. Unemployment is particularly high among graduates (31.1 per cent), women (33.1 per cent) and young people (48.5 per cent).

**Fiscal conditions recovered slightly, but the current account deficit widened.** The overall fiscal deficit (excluding foreign grants) narrowed to 4.4 per cent of GDP in the first quarter of 2021, from 7.2 per cent in the same period of 2020, as growth in revenues (except for shrinking external donor support) outpaced the increase in current expenditures. However, public debt remains elevated, at 100.1 per cent of GDP in 2020. In tandem, the current account deficit widened to 15.9 per cent of GDP in the first quarter of 2021, up from 2.3 per cent a year earlier. The increase was driven by rising demand for goods imports, which more than offset the improvements in exports, in addition to the drop in tourism income as travel restrictions persisted. Gross official reserves remained relatively stable following the issue of the US\$ 1.75 billion Eurobond in mid-2020, amounting to US\$ 19.6 billion in September 2021 and covering more than nine months of imports.

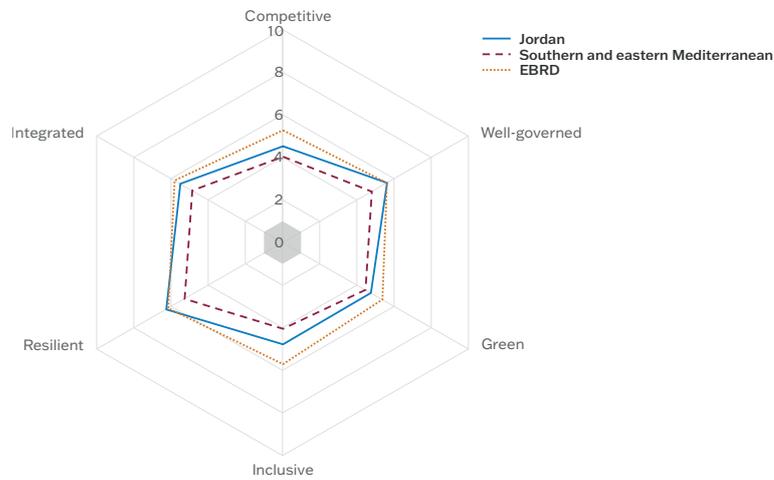
**A return to positive growth is expected in 2021, with an acceleration in 2022.** We currently project GDP to expand by 1.5 per cent in 2021, as restrictions on movement and activity are gradually lifted in the second half of the year. Growth is expected to pick up in 2022 to 2.2 per cent, sustained by stronger cross-border trade and a partial recovery of the tourism sector. The economy is expected to benefit from IMF-supported reforms in the long term, but will likely remain subdued as the necessary return to fiscal discipline caps government spending. Risks to the outlook include an erosion of real competitiveness stemming from an overvalued exchange rate, regional instability and slower-than-expected recovery in partner economies.

## Policy response to Covid-19

**The authorities extended some of the previously implemented fiscal, social and monetary measures into 2021.** In March 2021 the Central Bank of Jordan extended loan moratoria to affected sectors until the end of 2021 and expanded its subsidised small and medium-sized enterprise (SME) lending scheme by JOD 200 million (US\$ 282 million). In the same month, the government announced a set of fiscal measures to the value of JOD 186 million (US\$ 262 million), aimed at expanding social safety nets, supporting affected sectors and introducing employment programmes targeting young people and women.

**The uptake of the Covid-19 vaccine was initially slow, but has gathered pace in recent months.** More than 33 per cent of the population was fully vaccinated by early November 2021.

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



**Structural reform developments**

**The government is continuing work under the IMF-supported programme.** The new programme, approved by the IMF board in March 2020, is a four-year US\$ 1.3 billion Extended Fund Facility. This is the third consecutive IMF-supported programme since 2012. It aims to achieve stronger and more inclusive growth and create jobs, with implementation centred on growth-enhancing structural reforms and a gradual reduction of the budget deficit. The first and second reviews were completed successfully, the latter in July 2021, bringing total IMF disbursements to Jordan to around US\$ 900 million since the start of 2020.

**The government launched its Executive Programme 2021-24, outlining its priorities and reform plans.** The programme, launched in February 2021, comprises seven pillars: structural and economic reforms; rule of law and anti-corruption reforms; green and digital transformation; promotion of investment and productive sectors; infrastructure services; social services; and employment and poverty reduction. Key plans under this programme include: fiscal reforms to widen the tax base; unifying custom administration; improving public administration efficiency; revising investment regulations and activating solvency law; digitalising streamlined business registration and licensing procedures; and simplifying procedures in economic courts.

**Some legal reforms are already under way.** In June 2021 the government introduced amendments to the General Sales Tax Law. The amendments address previous loopholes to minimise tax evasion as well as obstacles to disbursing tax refunds. The government also approved amendments to the Companies Law to allow companies to hold general assemblies and board of directors meetings by electronic means.

**An ambitious digitalisation plan has been approved.** In July 2021 the government approved the 2021-25 Digital Transformation Strategy, which aims to upgrade the country's digital infrastructure, introduce digital government services, electronic identification and e-signatures, and promote the use of digital payments. The strategy aims to increase the information and communication technology (ICT) sector's contribution to GDP from 3 per cent to 7 per cent in the next five years. It plans to introduce 5G technologies and connect all government entities, 80 per cent of businesses and 55 per cent of households to fibre optic cables.

**A new programme will promote the export of services by SMEs.** The programme, launched by the Jordan Enterprise Development Corporation in January 2021, aims to encourage the export of services and open new markets for small exporters.