Jordan

Highlights

- **The country's economic recovery continued steadily in 2021 and the first half of 2022.** This was supported by an upturn in services and tourism, but unemployment remains high and inflation is accelerating because of rising energy and food prices.
- **Important reforms in the energy sector have progressed.** The government completed a comprehensive review of power purchase agreements (PPAs) and adopted a three-year electricity tariff reform plan.
- **Jordan launched its Economic Modernisation Vision 2030.** The new strategy targets higher growth and the creation of 1 million additional jobs, with a focus on promoting high-value industries, addressing food and energy security and ensuring sustainable development.

Key priorities for 2023

- **High unemployment and low female participation in the workforce must be tackled.** Reforms to promote private investment, especially in labour-intensive sectors, will be key for employment creation. Bold labour-sector reforms and measures to address skills mismatches are needed to mitigate market rigidities, and should be complemented by measures promoting entrepreneurship and innovation.
- **Improved food and energy security should be prioritised.** A combination of better long-term planning and strategies to promote investment in agriculture is essential to mitigate sensitivity to food security risks and reduce import dependence. Sectoral reforms are also needed to diversify energy sources and improve energy efficiency.
- **Further efforts are needed to rein in public debt and free up resources to meet development needs.** Successful fiscal reforms in recent years under the International Monetary Fund (IMF)-supported programme have strengthened the country's resilience, and the authorities should now leverage public-private partnerships in key infrastructure projects.

TABLE Main macroeconomic indicators %

	2018	2019	2020	2021	2022 proj.
GDP growth	1.9	2.0	-1.6	2.2	2.0
Inflation (average)	4.5	0.7	0.4	1.3	3.8
Government balance/GDP	-4.7	-6.0	-8.6	-8.0	-5.9
Current account balance/GDP	-6.9	-1.7	-5.7	-8.8	-6.7
Net FDI/GDP [neg. sign = inflows]	-2.2	-1.5	-1.7	-1.3	-1.7
External debt/GDP	67.9	68.0	79.3	80.6	n.a.
Gross reserves/GDP	33.9	34.6	38.8	42.0	n.a.
Credit to private sector/GDP	80.9	81.4	87.5	88.9	n.a.

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Macroeconomic developments and policy response

A robust economic recovery has been under way since 2021. After 2.2 per cent growth in 2021, gross domestic product (GDP) expanded by 2.5 per cent year on year in the first quarter of 2022. Growth was led by a broad-based expansion of the services and industrial sectors, as well as a strong rebound in the tourism sector. Tourism revenues rose by 215 per cent year on year in the first quarter of 2022, reaching US$ 893 million, but were just half the level of the first quarter of 2019. However, the economy remains unable to absorb many workers; unemployment decreased slightly in the first quarter of 2022, but was still high, at 22.8 per cent. Disparities in unemployment between men (22.4 per cent) and women (30.7 per cent) are significant, with even higher rates among the youth (36.4 per cent) and graduates (32.6 per cent). Female labour force participation has been historically among the lowest in the region, at around 15 per cent, lagging even behind Egypt and Morocco at above 20 per cent. Meanwhile, inflation reached 5.3 per cent year on year in July 2022, mainly due to a 30.6 per cent increase in the cost of fuel and electricity as a result of the war on Ukraine and the new electricity tariffs introduced in April 2022.

Targeted subsidies have been increased in response to rising fuel and food prices. In the first quarter of 2022 the government partly alleviated the burden of rising energy prices by reducing fuel taxes to stabilise prices. However, fiscal space is limited: the government deficit in 2021 was 5.4 per cent of GDP and public debt at the end of the year was 113.8 per cent of GDP. The government is, therefore, gradually phasing out indirect blanket subsidies and moving instead to increasing targeted support for the poorest households. In August 2022 the authorities announced a payment mechanism of JOD 30 million (US$ 42 million) of fuel subsidies for the beneficiaries of the National Aid Fund (NAF), underprivileged university students and the public transport sector. The removal of general subsidies in favour of targeted support for the vulnerable, combined with higher-than-expected revenues, is keeping the primary deficit target of 3.4 per cent of GDP in 2022 within reach.

External imbalances have narrowed in 2022. In 2021 the current account deficit widened to 8.8 per cent of GDP (from 5.7 per cent in 2020), reflecting rebounding domestic demand. It narrowed in the first half of 2022, however, despite a rising import bill, in part thanks to recoveries in tourism and exports (mostly crude materials, such as phosphates). Meanwhile, foreign-exchange reserves reached US$ 16.6 billion in July 2022, covering around nine months of imports.

Growth is expected to continue, but uncertainty remains. GDP growth is projected to reach 2.0 per cent in 2022, led by the robust performance of the services sector, continued recovery in tourism and rising value of exports of raw materials. Faster growth in the non-service sector and a stronger recovery in global tourism and trade flows could push growth in 2023 to 2.7 per cent. However, global volatility could hold back growth (notably through inflation and risks to tourism revenues), while high unemployment and limited job creation will weigh on the recovery for many households, including the poorest parts of the population and refugees.

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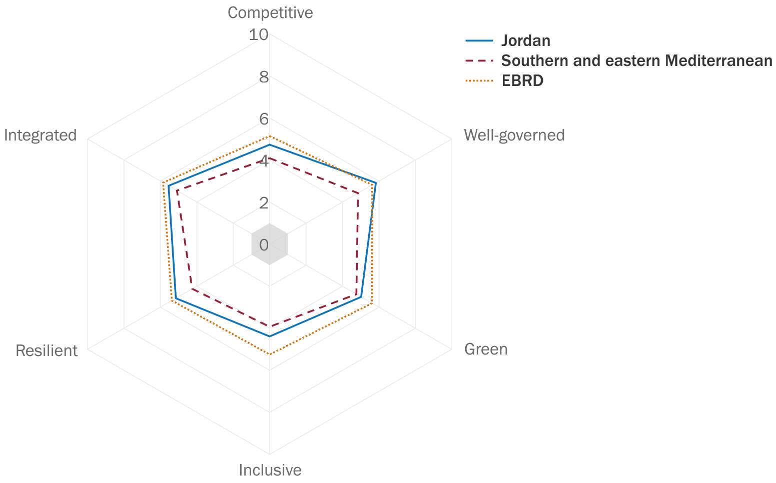
CHART Assessment of transition qualities (1-10)



Structural reform developments

The government is continuing with reforms under the IMF-supported programme. The IMF's four-year Extended Funds Facility remains on track, with the Fund approving in July 2022 an additional US$ 100 million of funding to deal with rising pressures from higher prices for hydrocarbons and raw materials. Current conditions are likely to flatten the downward path envisaged for public debt under the programme. The country has met most of the programme's fiscal and monetary targets, including those related to closing tax loopholes, widening the tax base (with better-than-expected revenue collection reported in 2021) and maintaining healthy foreign-currency reserves. As prior actions under the programme, the government completed a comprehensive review of PPAs and adopted a three-year electricity tariff reform plan.

The authorities have unveiled their Economic Modernisation Vision. The new 10-year plan, announced in June 2022, targets inclusive and sustainable growth. It aims to attract US$ 41 billion in foreign direct investment over the next 10 years and raise the country's GDP growth rate to 5.6 per cent by 2033, while increasing per capita income by an average 3 per cent per year. The reforms are designed to tackle persistent unemployment by creating over a million jobs in the next 10 years. To achieve this, the plan envisages US$ 5 billion of investment a year in high-value industries (pharmaceuticals, chemicals, engineering and textiles), with a focus on building integrated value chains and boosting productivity and innovation. Furthermore, the plan aims to enhance the sustainability of Jordan's natural resources in the areas of energy and water, as well as improving food security. In parallel, the government remains committed to ongoing reforms to the oversized public administration.

Public-sector reforms are advancing. In August 2022 the government approved a new public-sector modernisation plan in tandem with the launch of its Executive Programme 2022-25. The plan aims to transform public-sector operations, procedures, structure and policymaking; it is looking to fully automate operations, streamline procedures, digitalise services to citizens, including digital payments, and restructure ministries and government bodies towards a more agile government.

Jordan is prioritising food security planning in line with the National Food Security Strategy launched in September 2021. The country is highly dependent on food imports, as it buys in more than 95 per cent of its grain. The new strategy lays out key interventions to address availability, access, use and stability of food security. An initial investment of US$ 480 million will reduce short-term vulnerability to supply shocks. This investment will meet urgent domestic needs for wheat and barley, using the maximum physical storage capacity currently in the country. A second investment of US$ 20 million is expected to ensure food security to mitigate commodity risks, with US$ 15 million dedicated to expanding storage capacity. The creation of a High Council for Food Security is also planned to better manage food supply crises.

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The Support for Industry Development Fund Project was launched. Introduced in May 2022, it aims to promote investments and exports in the manufacturing sector through a new Industry Development Fund. Financed by a US$ 85 million World Bank fund, it will focus on upgrading and modernising industries, developing and promoting exports, and incentivising companies to perform well in key areas, such as manufacturing. The project aims to support more than 500 export-oriented companies directly through the fund's programmes and to leverage at least US$ 17 million in additional private capital. It will also support new and effective delivery mechanisms, strong governance and operational capacity, enabling the fund to support longer-term industry transformation.

Jordan-United Arab Emirates (UAE)-Israel signed a breakthrough water-for-energy deal. This agreement, signed in November 2021, will ease the impact of climate change on Jordan and address severe water shortages in the country. Under the deal, the UAE will build a solar power plant in Jordan, allowing the country to export 600 megawatts annually to Israel at a price of US$ 180 million, the proceeds to be shared between the UAE and Jordan. In exchange, Israel will send 200 million cubic metres annually of desalinated water to Jordan – an estimated 12 per cent of its annual needs.