Jordan

Highlights

- **The economy posted steady growth in 2022 and the first half of 2023.** This was supported by a recovery in tourism and a broad-based improvement in non-service sectors. However, unemployment remains high, and rising food and energy prices are damping household demand.
- **Reforms under the government's 2033 Economic Modernisation Vision are advancing.** Recent progress includes regulatory reforms to promote investment and the adoption of measures to increase private-sector participation and foster competition, as well as to remove barriers to inclusive employment.
- **Jordan took steps to address barriers to youth and women's employment.** These include regulatory amendments to strengthen protection against workplace violence and harassment, as well as new incentives for employers to increase youth employment.

Key priorities for 2024

- **High unemployment and low female labour participation rates remain a constraint on inclusive growth.** Reforms to promote private investment, especially in labour-intensive sectors, will be key to creating jobs. Bold labour-sector reforms and addressing skills mismatches are vital to mitigating market rigidities and should be complemented by measures to promote entrepreneurship and innovation.
- **Solid progress on reforms is crucial to attract foreign investment and leverage private-sector participation**. Reforms are progressing under the Economic Modernisation Plan, but the authorities need to capitalise quickly on achievements, with effective implementation to attract foreign investment in and advance public-private partnerships (PPPs) on critical infrastructure projects.
- **Deeper structural reforms are needed to support debt sustainability.** In addition to revitalising growth and shoring up revenues, the authorities must address long-standing financial vulnerabilities in the water and energy sectors to safeguard fiscal reforms and improve private-sector access to services.

Main macroeconomic indicators (per cent)

	2019	2020	2021	2022	2023 proj.
GDP growth	2.0	-1.6	2.2	2.5	2.5
Inflation (average)	0.8	0.3	1.3	4.2	2.0
Government balance/GDP	-5.7	-8.6	-7.8	-7.3	-7.0
Current account balance/GDP	-1.7	-5.7	-8.2	-8.8	-7.6
Net FDI/GDP [neg. sign = inflows]	-2.8	-1.4	-1.6	-1.4	n.a.
External debt/GDP	82.6	79.5	82.6	86.9	n.a.
Gross reserves/GDP	32.6	54.8	57.8	52.7	n.a.
Credit to private sector/GDP	78.4	84.6	83.8	86.2	n.a.

Macroeconomic developments and policy response

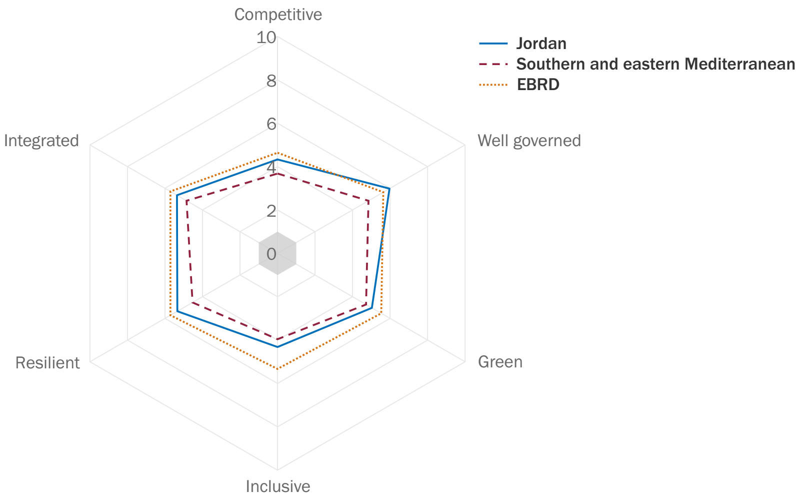
Economic growth was robust in 2022 and the recovery of underperforming sectors accelerated in the first half of 2023. Gross domestic product (GDP) grew 2.5 per cent in 2022, reflecting a broad-based recovery in most sectors. The pace of growth picked up to 2.7 per cent year on year in the first half of 2023 on the back of improved performance in the agricultural, construction and transport sectors. The rebound in tourism continued to gather pace, and tourism receipts in 2023 so far have surpassed pre-pandemic levels. Nonetheless, unemployment remained high in the second quarter of 2023, at 22.3 per cent, and even higher for women (26.7 per cent) and youth (43.7 per cent). Meanwhile, inflation eased to 1.2 per cent in September 2023 from a peak of 5.4 per cent in September 2022. However, the population continues to face elevated food and energy prices as a result of global inflation in 2023.

Fiscal discipline has been accompanied by rising domestic interest rates, but public debt remains high. In 2022 climbing energy prices were mitigated by reductions in fuel taxes. However, a lack of fiscal space meant that these broad-based subsidies were phased out and replaced with targeted support for the poorest households in 2023. Likewise, subsidies on food commodities remained limited to basic bread. In tandem, rising interest rates globally, particularly in the United States of America, have led to simultaneous rate hikes in Jordan to maintain the currency peg. The Central Bank of Jordan has raised its main rate four times in 2023 – to 7.5 per cent as at the end of September. Meanwhile, the general government fiscal deficit narrowed from 7.8 at the end of 2021 to 7.3 per cent of GDP at the end of 2022, despite sizeable energy subsidy spending, thanks to greater revenue mobilisation and expenditure efficiency. The move from universal to targeted subsidies is expected to help the government control public spending in 2023. General government debt, which stood at more than 114 per cent of GDP (including guarantees) at the end of 2022, is expected to decline slowly as the fiscal deficit continues to narrow. Rising financing costs on both external and domestic debt are expected to boost the debt-servicing burden in the medium term, but access to international debt markets remains comfortable, with Jordan successfully issuing US$ 1.25 billion (€1.19 billion) of Eurobonds in April 2023 at relatively low rates.

Rising commodity prices widened Jordan's current account deficit in 2022, but lucrative mineral exports are compensating in part. The current account deficit grew from 8.2 per cent to 8.8 per cent of GDP in 2022, as imports rose by almost a third due to lofty global oil and food prices. The effect on the overall trade balance was mitigated by a doubling in exports of goods and services, driven by rising phosphate and potash prices and a recovery in tourism. Lower commodity prices in the first half of 2023 have eased external pressures and the trade deficit narrowed, but medium-term trends remain uncertain, with risks of additional supply shocks looming and the pay-off from mineral exports sensitive to global conditions. Meanwhile, foreign-exchange reserves remained at comfortable levels and edged up to US$ 17.3 billion (€16.4 billion) in September 2023, covering around 7.6 months of imports.

Growth is expected to remain relatively stable in the short term, but significant uncertainty remains. GDP growth is projected at 2.5 per cent in 2023 and 2024, supported by a continued recovery in tourism and robust growth in non-service sectors. However, Jordan remains vulnerable to rising energy and food prices, as well as global supply-chain disruptions, thanks to its high import dependency. Tightening global and domestic monetary conditions also entail downward risks and could mute private-sector growth. In the long term, growth potential remains modest in the absence of strong drivers. Progress on transformative structural reforms is, therefore, all the more crucial.

Assessment of transition qualities (1-10)



Structural reform developments

Jordan continues to implement reforms under its International Monetary Fund (IMF)-supported programme. The four-year Extended Funds Facility, approved by the IMF Board in March 2020, remains on track, with the sixth review completed in June 2023. The authorities have met all programme targets so far, including closing tax loopholes, widening the tax base and maintaining stable foreign-currency reserves. These reforms have contributed greatly to macroeconomic stability, even during the challenging global circumstances of recent years, although Jordan has also benefited from programme flexibility and augmented financing to address rising prices. However, progress on deeper fiscal and structural reforms remains critical to preserving stability in the medium and long term, including on key emerging roadmaps for ensuring financial sustainability in the energy and water sectors.

The government launched its Economic Modernisation Vision, a comprehensive 10-year plan aimed at ensuring inclusive and sustainable growth. Work is ongoing under the Executive Programme for 2023-25, which lays the groundwork for envisaged reforms, including regulatory amendments and sectoral strategies. The Vision targets a doubling of GDP growth rates and stimulating job creation, driven mainly by private investment, especially foreign direct investment.

Parliament approved a new investment law, supported by the launch of an investment promotion strategy. Investment Environment Law 21 was passed in November 2022 and came into effect in January 2023. It provides for equal treatment between Jordanian and non-Jordanian investors and expands the number of sectors benefiting from incentives. The law also facilitates the employment of foreign labour on jobs requiring specialised skills up to 25 per cent of total employees, or up to 40 per cent if qualified Jordanian labour is not available. The new Investment Promotion Strategy 2023-26, approved by the cabinet in May 2023, identifies priority sectors, including information and communications technology (ICT), logistics, chemicals, mining, healthcare and real estate, and aims to streamline communication, registration and licensing processes for investors through a specialised electronic platform.

The Public-Private Partnerships Law has been amended. The amendment, adopted in July 2023, aims to streamline and expedite processes and establish a dedicated PPP unit under the Ministry of Investment. This should minimise overlap between various governmental bodies, enable efficient budget allocation, and optimise pipeline formulation and project implementation.

The government took steps to foster competition. Amendments to the Competition Law of 2004 were passed in March 2023 and are designed to combat monopolistic practices. They include articles to improve the definition of market concentration and increase violation penalties.

Legal reforms aim to boost youth employment and female labour-market participation. Changes to the law, adopted in March 2023, include greater protection against sexual harassment and violence in the workplace, as well as lifting restrictions on women's employment in certain sectors. The Social Security Law was also amended to lower employer contributions to social security for young hires, in order to encourage youth employment.

Work is ongoing under the Public Sector Modernisation Plan 2022-25 to support economic reforms. Key pillars include the digitalisation of government services and the introduction of a new human resource strategy for 2023-27. The modernisation plan aims to improve governance and transparency, centralise strategic planning and policymaking, and empower public-sector officials to take decisions in a manner that speeds up processes and improves the quality of services.