Jordan

Highlights

- **Growth is slowing in 2024.** The economy has been weighed down by the impact of regional geopolitical tensions, particularly the war in Gaza, on private consumption, investment and tourism flows in the first months of the year. However, economic stability has been preserved despite successive shocks, and a new International Monetary Fund (IMF)-supported programme is expected to help support reform.
- **Reforms under the government's Economic Modernisation Vision (EMV) are advancing.** These include the implementation of regulatory amendments to improve the business environment, the digitalisation of government services and the restructuring of the civil service in line with the Public Sector Modernisation Roadmap.
- **Jordan has taken steps to advance its green transition.** Recent measures include regulatory reforms to promote renewable energy development and energy efficiency practices, exploring green hydrogen potential, and putting in place plans for greening the financial sector.

Key priorities for 2025

- **High youth unemployment and low labour participation rates among women need to be addressed to promote inclusive growth.** Reforms to promote private investment, especially in high-potential sectors, will be key to creating jobs. Labour-market reforms and addressing skills mismatches are vital to mitigating market rigidities and should be complemented by measures to promote entrepreneurship and innovation.
- **Effective implementation of business environment reforms is crucial to attracting foreign investment and leveraging private-sector participation.** Reforms are progressing under the EMV, but the authorities need to capitalise quickly on achievements, with further emphasis on attracting foreign investment to and advancing public-private partnerships (PPPs) on critical infrastructure projects.
- **Deeper fiscal and structural reforms are needed to support debt sustainability.** As well as revitalising growth and shoring up revenues, the authorities must address long-standing financial vulnerabilities in the water and energy sectors to safeguard macroeconomic and fiscal stability and improve private-sector access to services.

Main macroeconomic indicators (per cent)

	2020	2021	2022	2023	2024 proj.
GDP growth	-1.1	3.7	2.4	2.6	2.2
Inflation (average)	0.4	1.3	4.2	2.2	2.7
Government balance/GDP	-9.6	-7.7	-6.8	-7.1	-7.4
Current account balance/GDP	-5.7	-8.0	-7.9	-7.0	-6.3
Net FDI/GDP [neg. sign = inflows]	-1.7	-1.3	-2.6	-2.5	-2.8
External debt/GDP	79.3	80.5	84.3	84.1	na
Gross reserves/GDP	39.9	40.8	39.3	34.2	na
Credit to private sector/GDP	83.1	82.0	84.4	82.3	na

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Macroeconomic developments and policy response

Economic growth remained robust in 2023 despite regional turmoil, but has slowed in 2024. Real gross domestic product (GDP) grew 2.6 per cent in 2023, thanks to an improved performance by the agriculture and transport sectors, as well as a strong rebound in tourism, and despite some slowdown in construction and mining. The pace of growth slowed to 2.2 per cent year on year in the first half of 2024 as rising uncertainty due to the war in Gaza damped private consumption and reduced tourism and investment inflows to the region. In parallel, unemployment remained high in the first quarter of 2024, at 21.4 per cent, and even higher for women (34.7 per cent) and youth (43.7 per cent). Inflation is at low levels despite a slight pick-up during the year to 1.9 per cent in July 2024, helped by the gradual decline in global commodity prices. In tandem, lower prices and more than 60 per cent growth in service exports, including travel, helped reduce the current account deficit to 3.5 per cent of GDP in 2023 and offset the decline in mineral exports. Meanwhile, foreign-exchange reserves remained at comfortable levels and edged up to US$ 19.1 billion (€17.3 billion) in July 2024, covering around 8.1 months of imports.

Fiscal discipline was maintained despite regional headwinds and the high interest-rate environment, but public debt remains high. In 2023, the government introduced further measures to improve revenue collection and increase expenditure efficiency. Social spending remained limited to targeted support for the poorest households, while subsidies on food commodities were limited to traditional bread. Meanwhile, elevated interest rates in the United States of America kept public debt-servicing costs high, on the one hand, and domestic interest rates similarly elevated on the other, as the policy of the Central Bank of Jordan (CBJ) is to maintain the currency peg. The CBJ has kept its main policy rate stable at 7.5 per cent since July 2023. Meanwhile, the fiscal deficit narrowed from 6.8 per cent of GDP at the end of 2022 to 7.1 per cent at the end of 2023 but is expected to widen to 7.5 per cent of GDP in 2024, driven mostly by higher interest payments and capital expenditure. General government debt, which stood at more than 114 per cent of GDP (including guarantees and debt held by the Social Security Corporation) at the end of 2023, is expected to decline slowly as the fiscal deficit continues to narrow. As interest rates decline gradually around the world, the financing costs for Jordan's external and domestic debt are expected to fall, easing its debt-servicing burden in the medium term. In addition, financial costs could be further reduced as investor confidence increases; Jordan has seen two credit rating upgrades in 2024 (by Moody's to Ba3 in May and by S&P Global Ratings to BB- in September) owing to economic resilience, progress on reforms and strong external support.

Growth will remain robust in the medium term, but the risks are high in light of the war in Gaza and Lebanon. Real GDP growth is projected to slow to 2.2 per cent in 2024 as geopolitical developments continue to weigh on tourism and foreign investment flows into the country. In 2025 domestic demand, tourism and foreign investment inflows are expected to improve, provided regional tensions remain contained, lifting the growth rate to 2.6 per cent. However, Jordan remains vulnerable to rising energy and food prices and global supply-chain disruptions, thanks to its high import dependency. In the long term, its growth potential remains modest in the absence of strong drivers, and recent successive shocks underline the importance of progress on transformative structural reforms to promote growth and job creation. As the war in Lebanon continues to deteriorate rapidly, our forecasts are subject to major downside risks.

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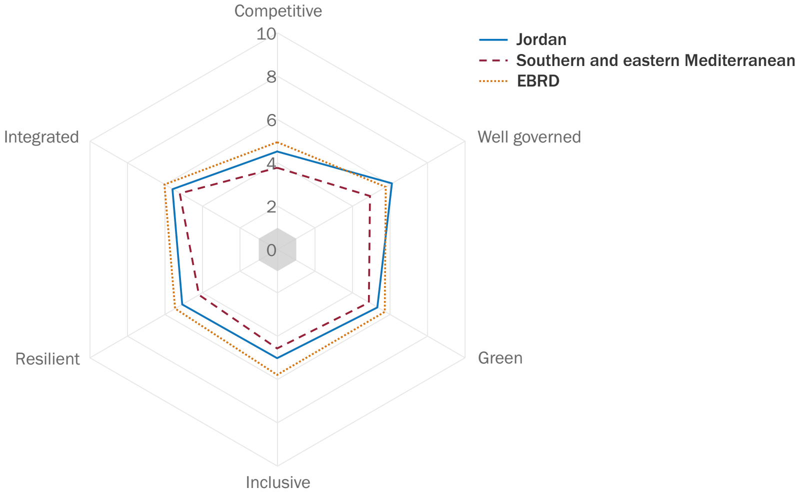
Assessment of transition qualities (1-10)



Structural reform developments

Jordan is implementing reforms under a new IMF-supported programme. The four-year Extended Funds Facility, approved by the IMF Board in January 2024, follows the successful conclusion of an earlier four-year programme that helped the country maintain macroeconomic stability while navigating multiple external shocks. Under the current programme, the authorities continue efforts to promote fiscal consolidation, preserve financial stability and access to finance, and improve the efficiency and financial viability of the water and electricity sectors. The government is also committed to advancing structural reforms to promote growth and job creation through a number of governance, business-environment and labour-market reforms that aim to strengthen competition, attract investment and encourage formal employment.

The government is progressing steadily with economic modernisation reforms. Work is continuing under Jordan's EMV, a comprehensive 10-year plan that targets a doubling of GDP growth rates and stimulation of job creation, driven mainly by private investment, especially foreign direct investment. The authorities are working to implement a number of regulatory amendments aimed at improving the business environment, including companies, investment, PPPs, competition, labour, social security, property rights and personal data protection laws. This is in tandem with the ongoing implementation of the Public Sector Modernisation Roadmap 2022-25, which targets the digitalisation of government services, improving governance and transparency, consolidating strategic planning and policymaking, and moving towards competency-based hiring and a performance-based reward and promotion system.

The government has taken steps to reform the water sector. These include working to increase efficiency and foster financial sustainability by revamping infrastructure and management practices to help resolve leakages and improve revenue collection, alongside scaling up investments in water desalination and wastewater treatment projects. The government has made progress on reducing non-revenue water by more than 5 per cent since mid-2022 and is committed to an annual 2 per cent decrease. In late 2023, the government also introduced amendments to the water and sanitation tariff structure for household consumption, with tariffs to be raised gradually until 2028.

Work is ongoing to strengthen energy-sector efficiency and resilience. In April 2024, parliament approved amendments to the Energy and Energy Efficiency Law, which facilitates renewable energy development and introduces energy efficiency solutions. Under this law, in August 2024, the cabinet approved new customs and sales-tax exemptions for renewable energy and energy efficiency equipment, as well as a shift from net metering to a new net billing scheme to help cover grid operation and energy storage costs. This was followed by a government decision in September 2024 to resume approvals for large-scale renewable energy projects, which had been paused since 2019.

Jordan is exploring its green hydrogen potential. In 2024 the Ministry of Energy and Mineral Resources signed 12 memoranda of understanding and one framework agreement on the development of green hydrogen projects in Jordan, reflecting the potential of this sector given Jordan's renewable energy potential and access to the port of Aqaba. With development potential still further down the line, the industry will need strategic support to reach price predictability and cost competitiveness, including through government efforts to reduce barriers arising from regulatory gaps, land and water availability, and infrastructure.

The central bank is embarking on greening the financial sector. In November 2023, the CBJ launched its first green finance strategy for 2023-28, under which it will conduct a comprehensive climate risk assessment for the financial sector. The strategy aims to introduce climate-responsive practices at the regulatory level (financial stability and macroprudential frameworks), institutional level (corporate governance, risk management and internal controls) and product level (inclusive green finance and sustainable Islamic finance). To promote green finance mobilisation, the CBJ aims to address information gaps, introduce a green loan framework (definition, processes, governance and consumer-protection measures) and promote the development of climate-related insurance products and de-risking instruments.

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