# JORDAN

## Highlights

- **The economy is being impacted by the Covid-19 crisis.** The pandemic and related containment measures have led to a deteriorating fiscal balance, rising public debt and a further increase in the already-high rate of unemployment.
- **The authorities have implemented a range of fiscal, social and monetary measures to combat the crisis.** The Central Bank of Jordan (CBJ) increased liquidity and lowered interest rates, while the government postponed tax and other contributions, and allocated support to those sectors and segments of the economy most in need.
- **The authorities have agreed a new programme with the International Monetary Fund (IMF).** The third consecutive IMF-supported programme since 2012 will help the authorities build on the implementation of the authorities' five-year matrix, launched at the 2019 London Initiative.

## Key priorities for 2021

- **Swift implementation of key reforms envisaged under the IMF-supported programme are necessary.** These include electricity tariff reform, labour market reforms and improvements in governance to strengthen public sector transparency and accountability.
- **Improving the fiscal situation 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 tax and customs administrations should be complemented by spending containment and subsidy reforms, in addition to improving the targeting of social safety nets.
- **Implementation of the government's anti-corruption campaign should be prioritised.** The newly empowered Integrity and Anti-Corruption Commission (JIACC) should pursue corruption-related issues, especially those related to tax evasion, money laundering, abuse of power and embezzlement.

Main macroeconomic indicators %

| | 2016 | 2017 | 2018 | 2019 | 2020 proj. |
|---|---|---|---|---|---|
| GDP growth | 2.0 | 2.1 | 1.9 | 2.0 | -6.0 |
| Inflation (average) | -0.6 | 3.6 | 4.5 | 0.8 | 0.5 |
| Government balance/GDP | -3.7 | -3.6 | -4.7 | -6.0 | -9.1 |
| Current account balance/GDP | -9.7 | -10.6 | -6.9 | -2.3 | -6.8 |
| Net FDI/GDP [neg. sign = inflows] | -3.9 | -4.9 | -2.2 | -1.8 | -1.7 |
| External debt/GDP | 65.1 | 68.4 | 67.9 | 68.0 | n.a. |
| Gross reserves/GDP | 38.9 | 37.6 | 33.9 | 34.6 | n.a. |
| Credit to private sector/GDP | 75.2 | 79.3 | 80.9 | 81.4 | n.a. |

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## Covid-19: macroeconomic implications

**The economy is being hit by the crisis.** After just 2.0 per cent growth in 2019, GDP decelerated further to 1.3 per cent year-on-year in the first quarter of 2020 and contracted by 3.6 per cent in the second quarter. Tourism, usually a major driver of growth, declined by 62 per cent in the first half of 2020, directly impacted by the Covid-19 crisis. The unemployment rate increased to 22.9 per cent in the second quarter of 2020, but annual inflation has remained low in the first eight months of 2020, at an average of 0.5 per cent.

**The fiscal balance deteriorated, and debt is approaching 100 per cent of GDP.** The overall fiscal deficit (excluding foreign grants) widened to 7.3 per cent of GDP in the first quarter of 2020, from 5.0 per cent in the same period of 2019, reflecting the drop in non-tax revenues and higher current expenditure (and despite the increase in tax revenues and lower capital expenditures). Public debt remains elevated at 95.4 per cent of GDP. Meanwhile, the current account deficit narrowed to 4.2 per cent of GDP in the first quarter of 2020, down from 4.6 per cent a year earlier. The reduction was driven by the decrease in imports of goods, which more than compensated for the decline in exports. Gross official reserves increased in September 2020 after the issuance of the US$ 1.75 billion Eurobonds and reached US$ 17.9 billion, covering more than 10 months of imports.

**Monetary policy has been accommodative.** The CBJ continued to lower interest rates in 2020, following three cuts in 2019. The two cuts to the main policy rate in March, by a cumulative 150 basis points, were a response to the growing Covid-19 crisis, and in line with interest rate changes in the United States of America and in regional markets, given the Jordanian dinar peg to the US dollar and the comfortable level of reserves.

**Negative growth in 2020 should be followed by a recovery in 2021.** We currently project that GDP will fall by 6.0 per cent in 2020, due mainly to the contraction in tourism and cross-border trade. Growth is expected to pick up again in 2021 to 4.0 per cent, sustained by the lower cost of imported energy, increased finance provided to small and medium-sized enterprises (SMEs) under various schemes from the CBJ, and reforms anchored in the new IMF-supported programme. Risks to the outlook include an erosion of real competitiveness stemming from the strengthening of the dinar (in light of the peg to the US dollar). Regional instability, delays in reforms in the run-up to the parliamentary elections in November, and the possibility of slower-than-expected recovery of partner economies also pose risks to the outlook.

## Policy response to Covid-19

**In response to the Covid-19 crisis, the authorities implemented a range of fiscal, social and monetary measures.** In March 2020, the CBJ introduced several measures. It allowed banks to postpone the credit facilities instalments granted to clients of sectors affected by the virus, waived penalties on bounced cheques and pumped JOD 550 million (US$ 776 million) in additional liquidity to the banks by reducing the compulsory reserve ratio on deposits with banks from 7 per cent to 5 per cent. At the same time, the government postponed until the end of 2020 the collection of sales tax on all domestic sectors, imports related to health, and the supply of medicines. It also allocated 50 per cent of the maternity insurance revenues (JOD 16 million or US$ 23 million equivalent) to material assistance for the elderly and the sick, introduced price ceilings on essential products, postponed 70 per cent of the value of customs duties for selected companies, and reduced social security contributions from private sector establishments. In addition, it allocated up to JOD 30 million (US$ 42 million) to the tourism sector and JOD 150 million (US$ 212 million) in liquidity to enable the private sector to continue the production process with efficiency and revitalise the economy.

**Support to SMEs has been stepped up during the crisis.** The Jordan Loan Guarantee Corporation guaranteed JOD 500 million (US$ 705 million) under a Finance Facilitation Programme for SMEs, which was later expanded to include larger firms. Moreover, the Jordan Enterprise Development Corporation launched two programmes aimed at providing small and medium-sized and industrial enterprises in sectors directly affected by, or involved in responding to, the epidemic with a total of JOD 680,000 (US$ 960,000) in funding.

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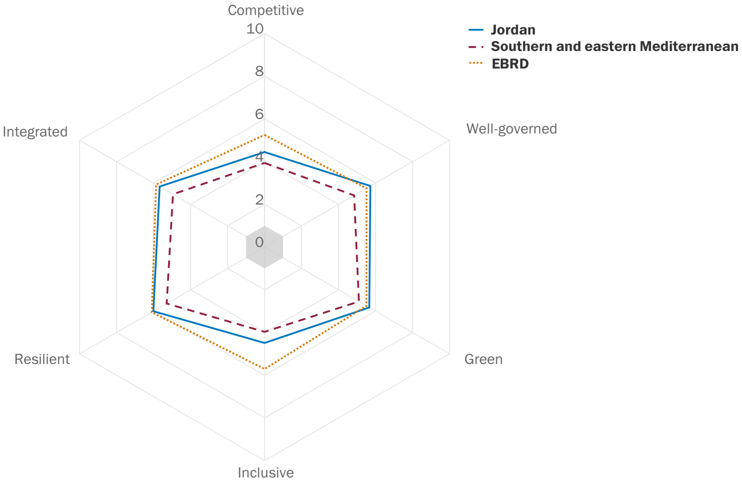
Assessment of transition qualities (1-10)




## Structural reform developments

**A new IMF programme has been signed.** 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. The new programme aims at achieving stronger and more inclusive growth and creating jobs, with implementation centred on growth-enhancing structural reforms and a gradual reduction in the budget deficit. Key reforms envisaged under the programme include electricity tariff reform, labour market reforms to promote greater employment opportunities for women and young people, and the swift implementation of the authorities' five-year matrix, launched at the 2019 London Initiative, to improve the business climate, boost competitiveness, and attract foreign investment. These efforts are supported by governance reforms to strengthen public-sector transparency and accountability. The IMF also approved in May 2020 Jordan's request for emergency financial assistance under the Rapid Financing Instrument, equivalent to US$ 396 million, to cover about a quarter of Jordan's external financing needs stemming from the Covid-19 shock.

**An ambitious green growth plan has been launched.** The National Green Growth Plan 2021-25, launched in July 2020, is part of a broader national drive towards a green economy and sustainable development. It comprises executive plans targeting the key sectors of water, waste management, energy, agriculture, tourism and transport. In part, the blueprint is intended to help build sustainable sectors that are more resilient and adaptive to adverse phenomena, including climate change and the fallout of emergencies, such as the coronavirus pandemic. It was drawn up in collaboration with the Global Green Growth Institute. Already, the government has cut taxes on cars imported into Jordan's free zones, including eliminating a weight tax on vehicles and lowering customs duties on electric vehicles.

**A new legislative framework for public-private partnerships (PPPs) is in place.** The new legislation, which came into effect in August 2020, strengthens the identification, approval, implementation and evaluation process of PPPs in several ways. Under the new rules, the PPP unit is moved to the prime minister's office, a new ministerial committee will select suitable projects and refer them to cabinet, and another committee will assess contingent liabilities and thereby financial risk to the government. The new legislation also ends the exemption under the previous law of the water and energy sectors, which had hindered sound project selection and risk analysis.

**The government has launched an anti-corruption campaign.** As part of the campaign, the government approved in June 2020 a draft law amending the Integrity and Anti-Corruption Law of 2020. The campaign is targeted against former officials, businesspeople and companies

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suspected of tax evasion, money laundering, abuse of power and embezzlement. The government also announced that tax evasion would be treated as money laundering, which carries a harsher sentence. The amendments to the law give the Integrity and Anti-Corruption Commission (JIACC) more financial and administrative independence to enable it to perform its duties and enhance its capabilities in pursuing corruption-related issues. They also give the JIACC the right to conduct investigations related to money-laundering crimes resulting from corruption cases and to reconcile with those who commit these crimes if they return the money they obtained.

**A new agricultural strategy has been announced.** The Ministry of Agriculture announced the 2020-25 National Agricultural Development Strategy in August 2020. The strategy focuses on the restructuring and digitisation of the agricultural sector, the utilisation of modern technology, enhancing production and productivity, focusing on strategic crops, and developing the logistics chain of operations. It also prioritises uplifting the agro-processing chain, developing the export chain, and expanding forest and pasture areas.