JORDAN

Highlights

- **A difficult regional environment has led to sluggish growth and rising unemployment.** Trade, tourism and investment have suffered as a result of regional instability. As a consequence, growth slowed from 3.1 per cent in 2014 to 2.4 per cent in 2015, and unemployment is rising.
- **Public debt has continued to rise.** Despite the benefits of lower oil prices on public finances, falling grant receipts have led to a widening fiscal deficit. Combined with slowing GDP growth, this pushed the government debt ratio to over 93 per cent of GDP by the end of 2015.
- **There has been mixed progress on structural reforms.** Progress in diversifying the energy mix and achieving cost recovery at the state-owned electricity company is continuing, but concrete reforms to the business environment have been slow to materialise.

Key priorities for 2017

- **Tackling high and rising unemployment is a priority.** Greater efforts need to be made to address skills mismatches, to boost the prevalence and quality of vocational training and improve labour market information systems.
- **Improvements to the financial infrastructure are needed to expand access to finance.** Key steps in the short term include approving a secured lending law to enable the use of movable assets as collateral and amending the bankruptcy law in line with international best practice.
- **Addressing water scarcity has become a critical issue in the context of rapid population growth.** Water demand has risen by over one-fifth as a result of the Syrian refugee influx, compounding the existing extreme water scarcity. Extensive efforts are needed to reduce losses in the distribution network, improve water management and encourage public-private partnerships (PPPs) in the water sector.

Main macroeconomic indicators %

	2012	2013	2014	2015	2016 proj.
GDP growth	2.7	2.8	3.1	2.4	2.4
Inflation (average)	4.5	4.8	2.9	-0.9	-1.0
Government balance/GDP[1]	-8.9	-11.1	-10.3	-5.4	-3.8
Current account balance/GDP	-15.2	-10.4	-7.3	-9.2	-9.0
Net FDI/GDP [neg. sign = inflows]	-4.9	-5.3	-5.4	-3.7	-3.7
External debt/GDP	60.7	70.4	69.4	71.0	n.a.
Gross reserves/GDP	21.5	35.8	39.3	37.8	n.a.
Credit to private sector/GDP	77.3	76.3	73.0	72.8	n.a.

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[1] Central government. Figure includes grants and transfers to national electricity and water companies.

Macroeconomic performance

Regional turmoil has hampered growth and led to a sizeable refugee influx. GDP growth fell to 2.4 per cent in 2015, down from 3.1 per cent in 2014, as conflict in neighbouring Iraq and Syria adversely affected trade and tourism and deterred investment. Growth declined further to 2.1 per cent in the first half of 2016, mainly reflecting a slow-down in agriculture and a sharp contraction in mining. Unemployment is rising as a result of sluggish economic activity, reaching 14.7 per cent in the second quarter of 2016, including 22.8 percent for women and 35.0 per cent for youth. Regional instability has also caused a substantial refugee influx into the country. The 2015 national census indicated that 1.3 million Syrians now reside in Jordan (of whom around 660,000 are registered refugees), accounting for over 13 per cent of the population. This has resulted in strains on infrastructure, government finances, and labour markets.

External imbalances are widening. The current account deficit widened sharply to nearly 13 per cent of GDP in the first half of 2016, up from 9.2 per cent of GDP in 2015 and 7.3 per cent of GDP in 2014. This deficit increase was driven primarily by a fall in transfers of both remittances and official grants, which fell from a total of over 20 per cent of GDP in 2014 to 15 per cent of GDP in 2015, and 12 per cent of GDP in the first half of 2016. Export performance and tourism revenues also suffered as a result of regional turmoil and from the worsening of the outlook of Gulf Cooperation Council (GCC) countries, outweighing the beneficial effect of lower oil prices on the trade balance. On the capital account, foreign direct investment (FDI) performance has been mixed. Net inflows fell from 5.4 per cent of GDP in 2014 to 3.7 per cent of GDP in 2015, but rebounded to 4.2 per cent of GDP in the first half of 2016. International reserves have fallen recently as a result of lower export earnings and transfers, but remain comfortable at over seven months' worth of imports.

Falling grant receipts are exerting fiscal pressure, despite lower losses at the national electricity company. On the fiscal front, the fall in grant receipts has driven an increase in the central government fiscal deficit, which rose to 3.3 per cent of GDP in 2015, up from 2.4 per cent of GDP the previous year. Excluding grants, however, the fiscal deficit fell from 7.2 per cent of GDP to 6.8 per cent of GDP. On the expenditure side, the state-owned electricity company, NEPCO, is continuing to make steady progress towards achieving cost recovery, aided by lower global oil prices. Nevertheless, fiscal pressures remain high, particularly in light of the swelling refugee population. In February 2016, Jordan secured US$ 1.7 billion in financial aid (in the form of grants and grant equivalents) for its Refugee Response Plan, but this remains heavily under-funded. Jordan's public debt burden is high and rising, reaching over 93 per cent of GDP last year.

Jordan has secured a three-year, US$ 723 million IMF (International Monetary Fund) Extended Fund Facility. The programme, which was approved in August 2016, will focus on gradual, steady fiscal consolidation to lower the public debt burden while providing fiscal space for growth-enhancing capital spending and preserving social spending to protect vulnerable groups. In addition, the programme aims to boost structural reforms to enhance inclusive growth. Particular areas of reform include increasing labour force participation, including for youth and women; reducing informality; and ensuring sustainability in the energy and water sectors.

Headwinds to growth are likely to persist. Given the difficult regional environment, growth is expected to rise only modestly: to 2.4 per cent in 2016 and 2.8 per cent in 2017. Private consumption – supported by higher demand from the sharp increase in the population – is expected to drive this improvement.

Major structural reform developments

A number of initiatives to improve the investment climate are under way. In June 2016, a new Economic Policies Council was set up, reporting directly to the King. The council is composed of both public and private sector figures and is charged with discussing economic policies and devising solutions to barriers to economic growth. In addition, the legislative framework has been put in place to establish a Jordan Investment Fund, which aims to make Jordan a more attractive investment destination for sovereign wealth funds, particularly of GCC states. The Fund is expected to be launched by the end of this year. Despite these steps, however, concrete improvements in the

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business environment have been slow to materialise. By-laws for the investment law to reduce the number of restricted sectors in terms of FDI have been pending since last year, for example, as are numerous pieces of financial sector legislation that would improve the investment climate.

A new credit bureau and improvements in the regulatory framework for microfinance should help expand access to credit, although key reforms to the financial infrastructure are still pending. The 2013-15 MENA Enterprise Survey by the EBRD and World Bank found that access to finance is the top obstacle faced by firms in Jordan, with almost one-third of firms reporting this as their top obstacle. Jordan also ranks 185th out of 189 economies globally in terms of the World Bank's 2017 Doing Business measure for ease of obtaining credit. In December 2015, the country's first private credit bureau – overseen by the Central Bank of Jordan (CBJ) – became operational, which should ease financing constraints for small and medium-sized enterprises (SMEs) in particular by improving credit assessment services. In addition, a by-law was adopted in 2015 that put microfinance institutions under the supervision of the CBJ, which should improve regulatory standards and help the sector function more effectively. Despite these positive developments, other key reforms to the legislative framework are still pending. Most notably these include: a secured lending law, which would unlock the use of movable assets as collateral, and revisions to a draft insolvency law to simplify bankruptcy procedures and establish priority creditor rights in line with international best practice.

The authorities are attempting to turn the Syrian refugee crisis into a development opportunity through the Jordan Compact, which includes several reform commitments. Following on from discussions during the Supporting Syria and the Region conference in London in February, Jordan has committed to the so-called Jordan Compact to address the challenges arising from the Syrian refugee crisis. As part of the Compact, the authorities have committed to allowing Syrian refugees to apply for work permits and formally register businesses, and aims to create 200,000 jobs for Syrian refugees, contingent on international support for Jordan's response plan. Most significantly, in July 2016 the European Union (EU) and Jordan ratified new rules of origin to ease Jordan's export access to the EU market. Rules of origin applicable to Jordanian exports from designated special economic zones have now been relaxed to match those applied to EU imports from least-developed countries. In return, for exporters to qualify for these rules of origin, they must use a minimum proportion of Syrian refugee labour in production facilities (initially set at 15 per cent, rising to 25 per cent in the third year). It is hoped that more relaxed rules of origin will increase Jordan's exports to the European Union, attract more investment into the country's development zones, and create jobs for both Jordanians and Syrian refugees.

Progress continues to be made on energy security, sustainability and diversification. In July 2015 the liquefied natural gas (LNG) terminal at Aqaba became operational, restoring for the country stable flows of natural gas not seen since the disruptions in Egyptian pipeline imports started in 2011, as well as reducing its import bill by substituting more expensive alternatives such as diesel and fuel oil. Coupled with a reduction in global energy prices on the whole and domestic tariff reform, this is expected to create savings of almost US$ 1.9 billion between 2014 and 2016 and return NEPCO, the country's national electricity company, to operational profitability. Meanwhile, Jordan continues to cautiously move ahead with procurement of renewable energy capacity, including from the private sector under increasingly competitive tenders. Between December 2015 and February 2016, NEPCO signed four power purchase agreements (PPAs) for a total 200 MW of solar photovoltaic (PV) capacity procured under such a competitive auction, which yielded savings of up to 64 per cent compared with the 2014 feed-in tariff, and represents some of the lowest-priced PV developments in the broader region. In addition the government signed five PPAs for wind under a feed-in tariff framework for a total of 370 MW.

Electricity tariffs are moving towards cost recovery levels. While the tariffs themselves have not been increased in 2016, the fall in global energy prices has effectively reduced the subsidy component. As a result, the national electricity company, NEPCO, is expected to reach full cost recovery in 2016, earlier than planned. The introduction of a floating tariff structure is being considered and is currently being discussed under the IMF programme.