وزارة المالية
المملكة الأردنية الهاشمية

Macro Fiscal Outlook Report

August 2024

Last update: July 2023

Macro-Fiscal Unit

Ministry of Finance of Jordan

TABLE OF CONTENTS

EXECUTIVE SUMMARY

The war in Gaza, which began in October 2023, further intensified uncertainty in an already unstable global and regional economic environment, impacted by the ongoing Russia-Ukraine conflict, tight monetary conditions, and the lingering effects of the COVID-19 pandemic. The war in Gaza, accompanied by disruptions in international trade flows and increased shipping costs, has had a significant impact on both global and MENA economies. The April 2024 revision of the IMF's World Economic Outlook (WEO) estimates global GDP growth at 3.2 percent in 2023 and projects it to grow at the same rate in 2024, indicating a stable outlook despite ongoing challenges. However, the MENA region, which experienced GDP growth of 1.9 percent in 2023, is projected to achieve a higher growth rate of 2.7 percent in 2024, even amidst regional tensions. Disruptions in the Bab al-Mandab Strait have significantly impacted foreign trade, as 10-12 percent of global trade and 9 percent of world oil trade pass through this strait. The IMF projects that some MENA countries might lose up to 10 percent of their exports, equivalent to around 1 percent of GDP on average, if disruptions continue until the end of 2024.

Global inflation remains a challenge, with projections indicating a modest decrease from 6.8 percent in 2023 to 5.9 percent in 2024. Oil prices are expected to reach $80.6 per barrel by the end of 2024. The tight monetary policy imposed by the Federal Reserve to combat inflationary pressures in 2022 continued into 2023, keeping treasury yields elevated, especially for short-term maturities. This persistent rise in short-term yields relative to long-term yields has sustained the inverted yield curve.

In Jordan, despite the challenging global and regional environment, real GDP grew by 2.7 percent in 2023, standing out against the global trend and the slowdown affecting other MENA oil-importing countries. However, the high benchmark set in the first quarter of 2023 led to a more moderate real GDP growth of 2.0 percent in the first quarter of 2024, impacted by the war in Gaza and related regional disruptions. Global and local tight monetary conditions contributed to a decrease in CPI headline inflation, which fell to 2.1 percent in 2023, down from 4.2 percent in 2022. The deceleration in inflation continued into 2024, with year-to-date inflation for the first half of 2024 standing at 1.7 percent.

Unemployment remains a challenge for the Jordanian economy, though significant improvements were observed in 2023. The unemployment rate decreased from 22.9 percent at the end of 2022 to 21.4 percent by the end of 2023 (18.9 percent for males and 29.8 percent for females). Youth unemployment (ages 15-24) also saw a notable decline, dropping to 36.6 percent overall, with improvements for both males and females. These positive trends are largely attributed to economic growth in labor-intensive sectors and recent amendments to the Labor Law aimed at regulating the market and boosting economic participation.

Current account deficits persisted in 2023, but notable improvements were observed throughout the year. The services account maintained a positive balance, with surpluses ranging from 1.2 percent to 2.5 percent of GDP across all quarters. Remarkably, the current account shifted to a surplus of 0.6 percent in the fourth quarter. The composition of domestic export and import baskets changed in 2023 but continued to show robustness and sustained diversity. The diversity of countries and regions to which Jordan exported in 2023 showed some concentration, reflecting Jordan's adaptability to regional developments.

Jordan's fiscal balance showed resilience in 2023, driven by ongoing economic policies and administrative reforms. Despite global and regional challenges, efforts by the Ministry of Finance to broaden the tax base and improve collection efficiency, without raising marginal tax rates, reduced the primary deficit (excluding grants) to 2.4 percent of GDP, down from 2.6 percent in 2022. However, the overall balance slightly worsened to 5.1 percent, compared to 4.5 percent in 2022, mainly due to higher interest payment expenditures. The increase in domestic revenues for 2023 is attributed to a rise in tax revenues by JD 224.3 million and non-tax revenues by JD 173.3 million. These achievements resulted from prudent government financial management and structural, administrative, and legislative measures to combat tax and customs evasion and avoidance. In the last quarter of 2023, fiscal performance was negatively impacted by the war in Gaza and its regional repercussions, including disruptions in the Red Sea, combined with volatile global conditions. This introduced additional economic pressures and increased borrowing costs. The debt-to-GDP ratio slightly increased to 89.2 percent by the end of 2023, compared with 88.6 percent at the end of 2022, excluding the holdings of the Social Security Investment Fund (SSIF).

The medium-term fiscal framework baseline scenario indicates optimism for Jordan's growth in the upcoming years. The baseline scenario estimates real GDP growth at 2.4 percent in 2024, gradually increasing to 3.0 percent by 2027. Nominal GDP growth is projected to reach 4.7 percent in 2024, rise to 5.2 percent in 2025, and further increase to 5.5 percent by 2027. This growth is attributed to ongoing improvements in tourism activities, stabilizing regional conditions, and continued strong performance in the external sector. Inflation in the baseline scenario is expected to remain stable in 2024, with a slight increase in the medium term. Inflation, measured by the GDP deflator, is estimated at 2.2 percent in 2024, increasing to 2.5 percent in 2025 before rising to 2.6 percent in 2027. This projection aligns with recent trends in global interest rates, with the Federal Reserve anticipated to marginally decrease rates in the last quarter of 2024. Consequently, the Central Bank of Jordan is expected to align its policies with global trends to maintain a sufficient margin with the US dollar, preserving the attractiveness of the Jordanian Dinar (JD) and its foreign exchange (FX) reserves.

Improvements in government revenue projections are expected to positively influence debt dynamics. Domestic revenues are forecast to grow modestly, driven by ongoing improvements in tax collection and other non-tax sources. These improvements are vital for reducing the debt-to-GDP ratio to sustainable levels. Expenditures are projected to maintain their current trajectory, focusing on reform agendas and implementing the Economic Vision Roadmap to support economic growth and development objectives. The debt-to-GDP ratio is expected to decrease to 84.3 percent by 2027, after peaking at 90.2 percent in 2024.

1. GLOBAL AND REGIONAL DEVELOPMENTS

Global economic growth demonstrated remarkable resilience, reaching 3.2 percent in 2023 despite significant interest rate hikes by central banks to combat inflation (Table 1.1). While modest by historical standards, this growth is noteworthy given the hurdles countries faced during the year, including high borrowing costs, the withdrawal of fiscal support, long-term impacts from the COVID-19 pandemic, geopolitical tensions such as the war in Gaza, and the ongoing Ukraine-Russia conflict. The growth in 2023 was driven by greater-than-expected government spending, higher household consumption, an unexpected boost in labor force participation, changes in mortgage and housing markets, and overall supportive demand developments. As for global inflation, despite descending from its peak in mid-2022, it remained a major concern, with global headline inflation reaching 6.8 percent in 2023.

Table 1.1. World Economic Growth and Inflation

	2021	2022	2023
World GDP (%)	6.5	3.5	3.2
World Inflation (%)	4.7	8.7	6.8

Source: IMF World Economic Outlook

Projections for the global economy's performance in 2024 have shown some improvement in the latest revision compared to the previous one. The World GDP projection for 2024 increased from 2.9% in the October 2023 projections to 3.2% in the April 2024 projections, indicating a slight potential recovery despite ongoing uncertainties. Ongoing geopolitical tensions in the Middle East and disruptions in the Red Sea are expected to continue affecting primary commodities markets, including oil, which has experienced some price volatility. Oil price projections for 2024 rose from $71.3 per barrel in April 2023 to $80.6 per barrel in April 2024. World inflation rate projections for 2024 increased from 3.8% in April 2022 to 5.9% in April 2024. Consequently, monetary policies are expected to remain tight worldwide until inflation rates return to targeted levels. Global trade volumes are expected to decline further compared to previous forecasts, with projections for 2024 dropping from 3.6% in April 2023 to 3.0% in April 2024 (Table 1.2).

Table 1.2. Revisions of WEO Projections for 2024

	April 2022	October 2022	April 2023	October 2023	April 2024
World GDP (%)	3.4	3.2	3.0	2.9	3.2
World Trade Volumes (%)	3.9	3.7	3.6	3.5	3.0
Oil Prices (US$/barrel)	87.6	83.4	71.3	81.2	80.6
MENA GDP Growth (%)	-	-	3.1	3.4	2.7
World Inflation (%)	3.8	4.1	4.9	5.8	5.9

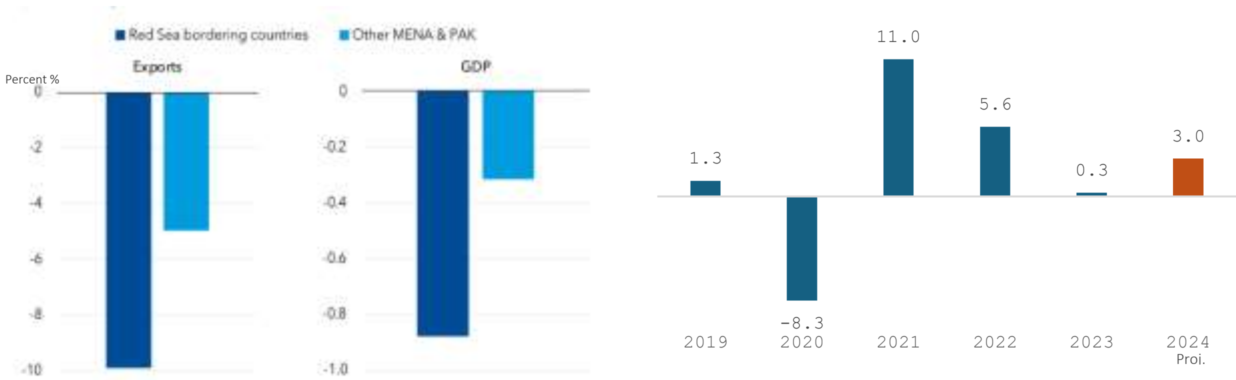
Source: IMF World Economic Outlook

The war in Gaza, which started on October 7, 2023, has introduced a new challenge to the global and regional economies, heightening the uncertainty of the economic outlook. The escalating regional tensions have significant consequences for both the world and MENA economies due to increased uncertainty, disruptions in trade routes, and higher shipment costs. This is reflected in the downward revision of MENA GDP growth projections for 2024, from 3.4% in October 2023 (pre-Gaza war) to 2.7% in April 2024.

Disruptions in the Bab al-Mandab Strait have heightened concerns about their impact on foreign trade, as 10-12 percent of global trade and 9 percent of world oil trade pass through this strait. These disruptions have led major companies to halt shipments through this route, redirecting their vessels via the Cape of Good Hope. Consequently, trade through the Suez Canal has decreased by 50 percent in the first two months of 2024 compared to the previous year. This reduction has disrupted trade routes and increased shipment and insurance costs. According to IMF projections, some MENA countries might experience a loss of up to 10% of their exports, equivalent to around 1% of GDP on average, if disruptions continue until the end of 2024 (Figure 1.1).

Figure 1.1. World Trade Developments

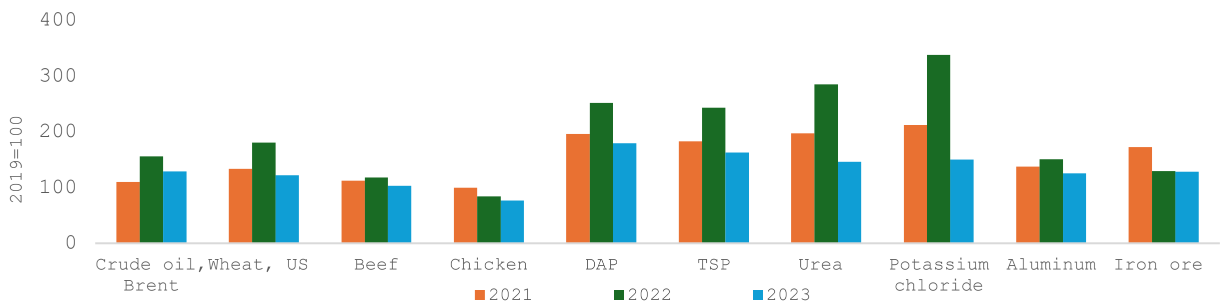
Panel A: Impact of Red Sea disruptions (%) *Panel B: Growth of World Trade Volumes*



Source: IMF: Regional Economic Outlook April 2024 Source: IMF: World Economic Outlook
April 2024

Commodity prices have declined primarily due to weak demand driven by higher global interest rates and excessive supply. The drop in inflation in the recent period led to an approximate 40% decrease in the prices of primary commodities between 2022 and 2023 (Figure 1.2). Along with the reduction in energy prices, the prices of primary commodities fell by 3% in the first quarter of 2024, while prices in the agriculture and metals sectors remained relatively stable. However, escalating geopolitical tensions may create new upward pressure on commodity prices.

Figure 1.2. Selected commodity prices (2019 = 100)

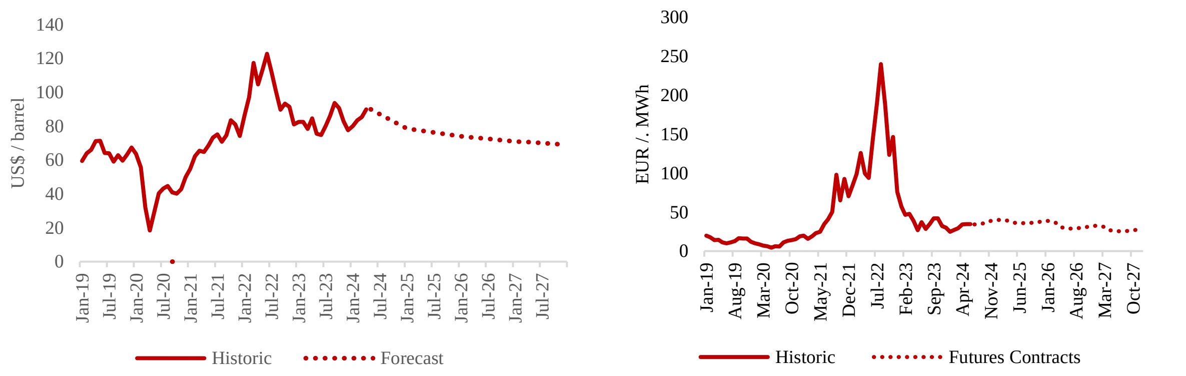


Source: World Bank (Index calculated by MFU)

Despite the ongoing war in Gaza and geopolitical tensions in the region, oil prices have experienced only modest fluctuations. After peaking at the end of September 2023, oil prices followed a modest downward trend until mid-December 2023, before beginning an upward trend in early 2024. They are projected to stabilize around $80 per barrel in the coming years (Figure 1.3, Panel A). This trend can be attributed to the net effects of upward pressure from the conflict in Gaza and downward pressure from weak global demand. Natural gas prices, on the other hand, remained relatively stable with limited fluctuations over the past year and are expected to continue within this narrow range in 2024. (Figure 1.3, *Panel B).*

Figure 1.3. Oil and Natural Gas - Historic and future prices

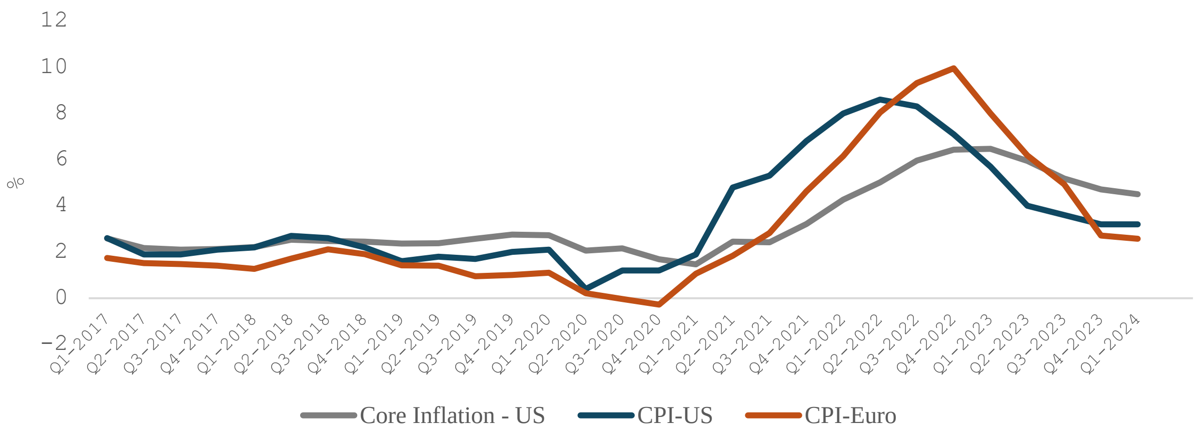
Panel A: Oil (Brent) *Panel B: Natural Gas (Dutch TTF)*



Source: FRED & IMF World Economic Outlook April 2024 Source: CME Group & Yahoo Finance

Global inflation remains a concern. After years of relative price stability, the recent surge in inflation has become a primary focus for policymakers worldwide. The war in Gaza and the ongoing Ukraine-Russia conflict have dampened the impact of tight monetary policies on global inflation. However, despite these geopolitical challenges, tight monetary policies have led to a decline in global inflation, which dropped to 6.8% in 2023 and is forecasted to decrease further to 5.9% in 2024.

Figure 1.4. Inflation in the US and Europe



Source: Federal Reserve Economic Data (FRED)

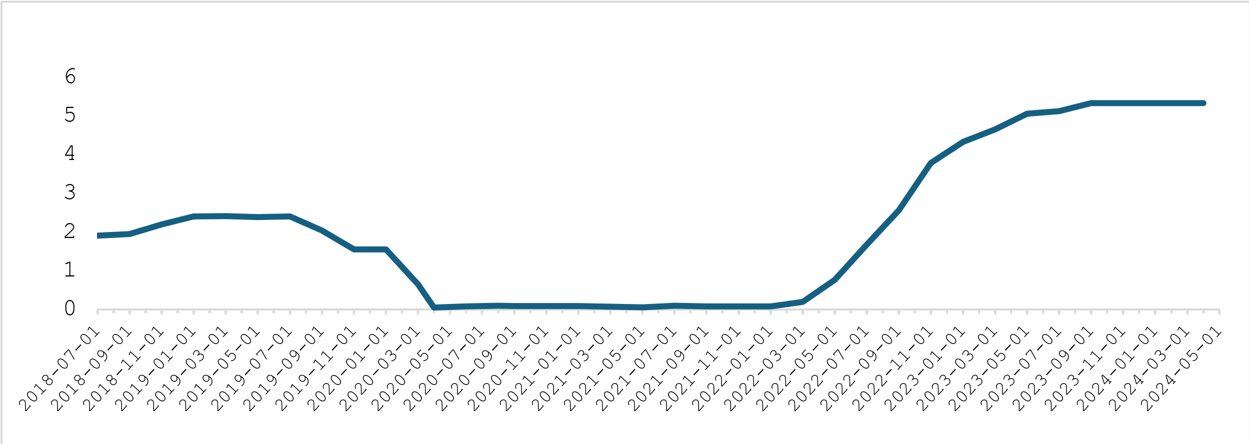
Gold prices reached a record high of $2,454 per ounce in May 2024, driven by regional uncertainty (Figure 1.5). This unprecedented rise occurred despite strong indicators from the U.S. economy and a booming stock market. The increase can be attributed to pessimistic forecasts for many non-U.S. countries and the uncertainty and financial risks linked to potential economic instability due to the war in Gaza. These factors have boosted the demand for gold as a safe-haven and hedging instrument.

Figure 1.5. Gold Prices

Source: World Gold Council

At its July 2024 meeting, the Federal Open Market Committee (FOMC) maintained the overnight federal funds rate at its current range of 5.25% to 5.50%. This decision marks the eighth consecutive meeting where policymakers have opted to keep rates steady, maintaining the federal funds rate at its highest target range in over 23 years. The timing of the first rate cut remains uncertain, but there is strong speculation that it could occur in the fourth quarter of 2024. The Fed remains committed to its dual mandate of reducing inflation to its 2% target to maintain price stability and achieving maximum employment.

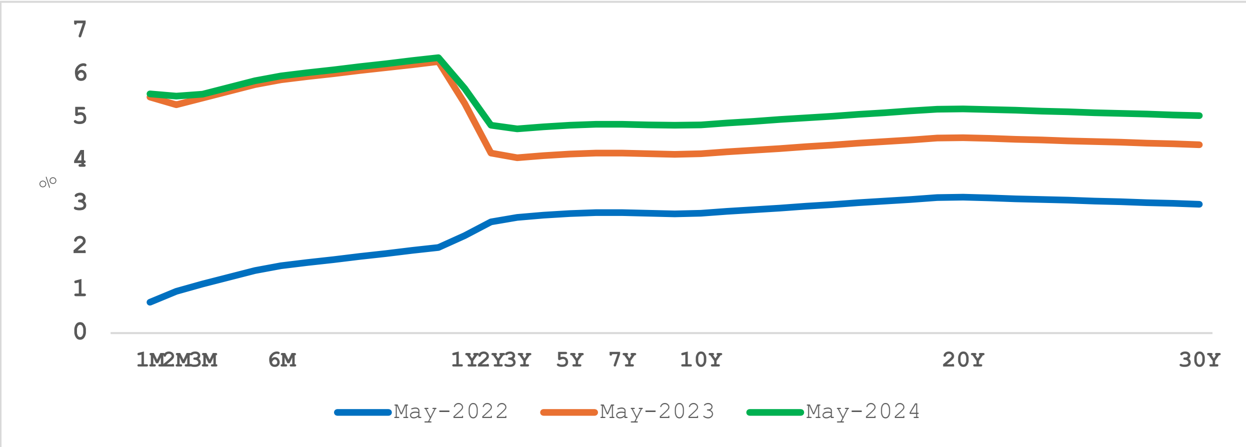
Figure 1.6. Federal Funds Effective Rate (%)



Source: Federal Reserve Economic Data (FRED)

The Treasury yield curve remained inverted in 2024, despite a narrowing gap between short-term and long-term yields. Although long-term yields increased noticeably, they remained parallel to the 2023 long-term curve. The Federal Reserve's continued tight monetary policy led to higher yields across various U.S. Treasury bond maturities. In May 2024, short-term Treasury yields continued to exceed 5%, with the 3-month yield reaching 5.46%, up from 5.37% in May 2023. The 10-year U.S. Treasury yield rose to 4.46% in May 2024, compared to 3.73% in May 2023. This inversion1 suggests that investors are increasingly concerned about the near-term economic outlook, potentially expecting a slowdown or recession. It reflects a lack of confidence in the economy's short-term prospects and signals a potential economic crisis. The shift in investor expectations—from anticipated Fed interest rate cuts in 2024 to the likelihood of persistently high rates until 2025—could be a major factor in this inversion, along with a more pessimistic long-term outlook (Figure 1.7).

Figure 1.7. United States Yield Curve



Source: U.S. Department of The Treasury

[1] Typically, long-term yields are higher than short-term yields to compensate investors for the additional risks associated with holding bonds over a longer period. However, when short-term yields surpass long-term yields, as is the case here, this is known as an inversion of the yield curve.

Box 1.1

Jordan's Resilience Amid the War on Gaza

In 2023, prior to the events of October 7, Jordan demonstrated exceptional economic fortitude by successfully completing six IMF reviews and satisfying all prerequisites for the seventh review ahead of schedule. These accomplishments solidified Jordan's advantageous market positioning, evidenced by some of the most favorable credit spreads among its rating peers. The nation's stable economic outlook and steadfast commitment to comprehensive reforms have garnered consistent acclaim and backing from international development partners.

A mere week following the onset of the October 7 events, Jordan adeptly finalized a Staff-Level Agreement with the IMF for a new program. This expeditious accord underscored Jordan's resilience, its unwavering dedication to reforms, and the formidable buffers it has cultivated to withstand external shocks. In January 2024, the IMF's Executive Board unanimously endorsed Jordan's new program, extolling the nation's progressive structural reforms and robust macroeconomic stability, reinforced by strong support from the United States and other international partners.

Jordan's resilience is exemplified by its historical capability to surmount more severe adversities, such as the closure of its borders with Syria and Iraq, the existential threat posed by ISIS, and disruptions in energy supplies from Egypt. Despite these formidable challenges, Jordan's reform agenda remained resolutely on course, ensuring political stability and economic continuity.

Although Jordan does not share a direct border with Gaza, its economy has inevitably felt the reverberations of the Gaza conflict, similar to other nations in the region. Disruptions in the Bab al-Mandeb Strait in the Red Sea have affected trade, yet Jordan's government has been both proactive and adaptive, implementing alternative shipping arrangements and other strategic measures to mitigate these impacts. The tourism sector has also showcased Jordan's resilience; the robust influx of tourists from the Middle East compensated for a reduction in visitors from other regions, notably the United States and Europe, culminating in a commendable 27.4% increase in tourism income by the end of 2023.

Notwithstanding these challenges, investor confidence in Jordan remains unshaken, evidenced by its retention of a competitive market edge and some of the narrowest spreads relative to its regional counterparts. This enduring investor confidence is attributable to Jordan's unwavering commitment to reforms, substantial international support, and its sound economic and financial stability, which have facilitated the timely completion of all IMF reviews.

As a testament to Jordan's economic resilience, Moody's credit rating agency upgraded Jordan's long-term sovereign credit rating in both local and foreign currencies from B1 to Ba3 in May 2024. This milestone marks the first such elevation in 21 years, achieved amidst historically heightened geopolitical tensions in the region. This credit upgrade reflects Jordan's effective public finance and macroeconomic management and its proactive risk mitigation strategies, which have substantially enhanced the country's resilience to external shocks (see Box 2.2).

2. JORDANIAN DEVELOPMENTS

2.1. ECONOMIC GROWTH AND GDP BY INDUSTRY

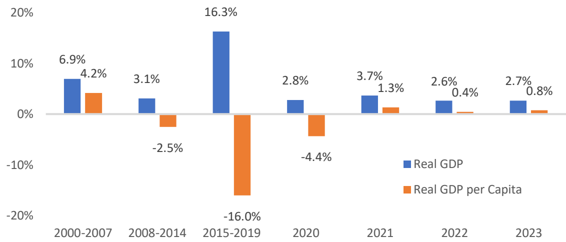
Amid a challenging global and regional environment, Jordan's real GDP and real GDP per capita showed resilience in 2023, with growth rates of 2.7% and 0.8%, respectively, compared to 2.6% and 0.4% in 2022. This steady recovery stands out against the global trend and the slowdown affecting other MENA oil-importing countries (Figure 2.1, Panel A & B).

Before the Gaza war, Jordan's quarterly growth in 2023 was robust, starting with a notable 3.0% increase in the first quarter, followed by 2.7% growth in both the second and third quarters. However, the final quarter saw a decline to 2.3% due to the war's impact (Figure 2.1, Panel C). This growth was fueled by increased tourism income and foreign demand, which reduced the trade balance deficit and boosted key sectors like manufacturing. Additionally, the government implemented measures to enhance the investment climate, business environment, labor market regulation, and economic participation, including the New Public-Private Partnership Law, the Investment Environment Law, and amendments to the Labor Law.

Since the high benchmark set in the first quarter of 2023, the first quarter of 2024—affected by the Gaza war and severe Red Sea disruptions impacting trade flow—saw a moderate real GDP growth of 2.0%. This growth was driven by key sectors such as mining and quarrying, agriculture, electricity and water, and manufacturing, which grew by 6.3%, 5.7%, 4.8%, and 3.9% respectively, contributing 1.22 percentage points to overall growth.

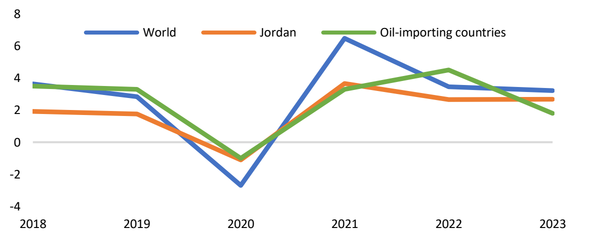
Figure 2.1. Actual and Projected GDP

Panel A: Real and per capita GDP growth



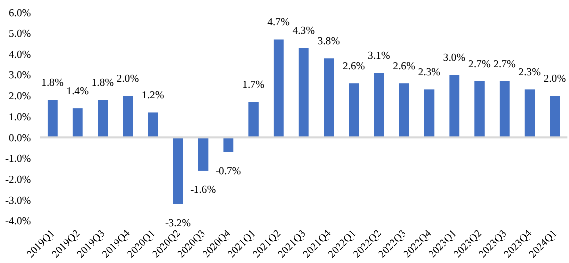
Source: DoS, MFU estimates

Panel B: Annual real GDP growth



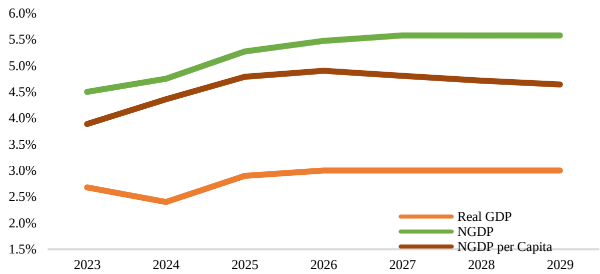
Source: DoS, IMF WEO 2023

Panel C: Quarterly GDP growth rates (y-o-y)



Source: DoS

Panel D: Annual GDP growth and IMF projections



Source: IMF First Review 2024, MFU estimates

The IMF projects that Jordan's real GDP to grow by 2.4% in 2024 due to the ongoing war on Gaza and disruptions in trade routes, which are expected to slow economic activity. However, growth is anticipated to accelerate in 2025, averaging 3.0% over the medium term. This projection assumes that the war will end within 2024 and its effects will diminish. Growth will be bolstered by consistent fiscal and monetary policies, helping to navigate external economic pressures such as tight global financial conditions and fluctuating commodity prices. Nominal GDP continued its upward trend, reaching 4.5% in 2023, with nominal GDP per capita increasing by 4.4%. This growth trajectory aligns with Jordan's ongoing economic reforms and strategic responses to global economic shifts, demonstrating resilience and adaptability in a rapidly changing environment (Figure 2.1, Panel D).

In 2023, the Jordanian economy demonstrated significant resilience and growth across various sectors, showcasing its ability to adapt and expand despite external challenges. The Mining and Quarrying sector recorded the highest growth rate with a notable increase of 10%, followed by the Transport and Communications sector, which grew by 7.1%. Additionally, the Electricity and Water sector and the Manufacturing sector saw substantial growth rates of 5.7% and 5.6%, respectively, reflecting improvements in services, infrastructure, and production (Table 2.1).

The Finance, Insurance, Real Estate, and Business Services sector maintained its critical role, contributing 18.3% to GDP. The Manufacturing sector's contribution increased to 17.4%, highlighting its expanding influence on the economy. Furthermore, the Trade, Restaurants, and Hotels sector, the Transport and Communications sector, and the Agriculture sector maintained steady GDP shares of 9.4%, 8.0%, and 4.8%, respectively. The Mining and Quarrying sector continued its upward trend, with its GDP share reaching 3.2%, supported by its high growth rate in 2023, underscoring ongoing expansion in this industry (Table 2.1).

Table 2.1. Sector Output

	Annual Growth				Share of GDP			
	2020	2021	2022	2023	2020	2021	2022	2023
Agriculture	4.4%	9.1%	6.0%	4.3%	4.6%	4.8%	4.8%	4.8%
Mining and Quarrying	-2.8%	14.2%	38.4%	10.0%	2.1%	2.3%	3.0%	3.2%
Manufacturing	-4.2%	4.4%	6.9%	5.6%	17.1%	16.9%	17.1%	17.3%
Electricity and Water	-2.2%	1.2%	8.0%	5.8%	1.6%	1.5%	1.6%	1.6%
Construction	-5.7%	6.5%	7.6%	1.8%	2.7%	2.7%	2.7%	2.7%
Trade, Restaurants and Hotels	-2.6%	4.9%	7.7%	5.4%	9.2%	9.1%	9.3%	9.4%
Transport and Communications	-8.6%	6.3%	7.3%	7.1%	7.6%	7.6%	7.7%	7.9%
Finance, Insurance, Real Estate and Business Services	2.4%	3.0%	3.0%	3.8%	19.3%	18.8%	18.4%	18.2%
Social and Personal Services	-2.2%	5.0%	4.4%	5.3%	9.0%	8.9%	8.9%	8.9%
Producers of Government Services	4.5%	3.4%	3.9%	5.2%	14.4%	14.0%	13.9%	13.9%
Producers of Private Non-Profit Services for Households	7.3%	7.2%	8.2%	5.1%	0.9%	0.9%	0.9%	0.9%
Domestic Household Services	-27.5%	13.1%	-0.4%	1.2%	1.4%	1.5%	1.4%	1.4%

Source: Department of Statistics

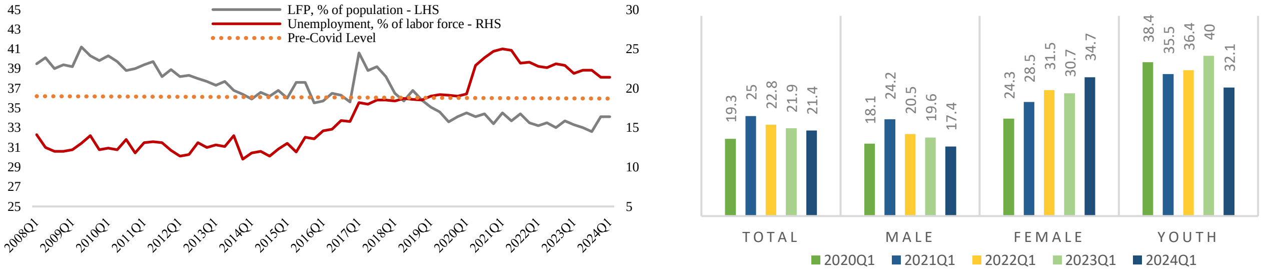
2.2. LABOR MARKET

Building on positive trends from previous years, Jordan's labor market saw notable improvements in 2023. The unemployment rate dropped significantly from 22.9% in the fourth quarter of 2022 to 21.4% by the end of 2023. Additionally, the labor force participation (LFP) rate saw a slight increase, rising from 33.7% in late 2022 to 34.1% by the end of 2023, indicating a steady rise in economic engagement among the population (Figure 2.2, Panel A). This progress was largely driven by ongoing economic growth, particularly in labor-intensive sectors such as transportation and storage, public administration and defense, compulsory social security, human health and social work activities, and construction. Together, these sectors accounted for over 70% of overall employment growth. Furthermore, this improvement may be linked to the Labor Law amendments approved in 2023, aimed at regulating the labor market and boosting economic participation.

Analyzing unemployment in more detail, the rates for males, females, and youth saw considerable improvements throughout 2023. Male unemployment fell from 20.6% in Q4 2022 to 18.9% in Q4 2023, a decrease of 1.7 percentage points. Female unemployment also declined, moving from 31.7% to 29.8%, a reduction of 1.9 percentage points. Youth unemployment, while still high, dropped significantly from 40.8% to 36.6% during the same period, reflecting a continued focus on addressing this issue. In the first quarter of 2024, the overall unemployment rate remained steady at 21.4%. Notably, male unemployment decreased further to 17.4%, while female unemployment increased to 34.7%, indicating the need for targeted policy adjustments to support this segment. Youth unemployment saw a significant drop to 32.1%, reflecting successful efforts to engage this demographic in the workforce (Figure 2.2, Panel B).

Figure 2.2. Labor market indicators

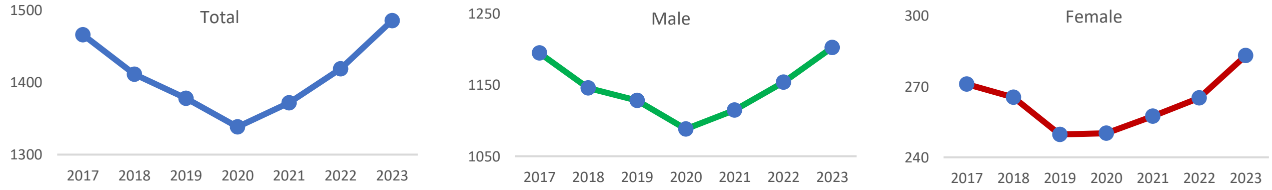
Panel A: LFP and Unemployment Rate *Panel B: Unemployment Rate by Group*



Source: Department of Statistics *Source: Department of Statistics*

Overall employment numbers also increased, rising from 1,418.8 thousand in 2022 to 1,485.7 thousand in 2023. This rise was driven by increases in both male and female employment, with male employment reaching 1,202.6 thousand and female employment at 283.1 thousand. This trend reflects the positive impact of job creation across various sectors, supported by ongoing economic reforms (Figure 2.3)

Figure 2.3. Number of employed Jordanians by sex (in thousands)



Box 2.1

Building on Success: Jordan's New EFF of $1.2 Billion IMF Program

Following the timely completion of six consecutive reviews under the previous Extended Fund Facility (EFF) program from 2020 to 2024, the IMF approved a new four-year EFF for Jordan in January 2024, amounting to approximately $1.2 billion. This new program is designed to anchor Jordan's ambitious reform agenda, building on the substantial previous success, while underscoring the country's robust economic performance and unwavering commitment to comprehensive reform.

During the preceding program, Jordan maintained macroeconomic stability, achieved consistent economic growth, and successfully kept inflation low. The country made significant strides in fiscal consolidation, enhancing revenue collection, reducing fiscal deficits, strengthening foreign reserve buffers, and bolstering market confidence. Structural reforms were advanced, leading to improvements in the business climate and social safety nets—key factors that have fortified economic resilience and promoted inclusive growth. Jordan adeptly navigated numerous external shocks, including the global COVID-19 pandemic, surging commodity prices driven by the conflict in Ukraine, and regional geopolitical tensions.

The newly approved EFF is designed to sustain and expand these achievements while addressing the ongoing challenges posed by both the global and regional environments. The objectives of the new program are to reinforce economic resilience, anchor prudent fiscal policies, and confront longstanding structural impediments to sustained growth and job creation. This new arrangement is poised to further insulate the Jordanian economy against potential future crises.

The recent conflict in Gaza has introduced additional economic pressures, potentially impacting tourism, affecting investor confidence, and escalating fuel costs and borrowing expenses. However, this homegrown program, supported robustly by the international community, is strategically positioned to help Jordan navigate these adversities effectively, thereby preserving economic stability and mitigating the adverse impacts of regional conflict.

The focus of the new EFF is on progressive fiscal consolidation, maintaining the stability of the exchange rate peg, and accelerating structural reforms to promote job-rich growth. It underscores the necessity of sustained and robust support from development partners to address the challenges posed by the global and regional landscape, manage the substantial refugee population, and address pressing climate and healthcare concerns. The program aims to enhance Jordan’s business environment, improve access to finance, and increase labor market flexibility, all of which are critical for fostering a stable and prosperous future. Additionally, it emphasizes enhancing the efficiency and financial viability of public utilities, expanding social assistance programs, and boosting business competitiveness and access to capital markets.

On July 1, 2024, the IMF Executive Board approved the first review of Jordan's new EFF by lapse of time, signifying a strong and positive start to the country's renewed economic program. Jordan has successfully met all performance criteria and structural benchmarks for this initial review, demonstrating its steadfast commitment to reform and establishing a promising outlook for the duration of the program.

2.3. MONETARY POLICY

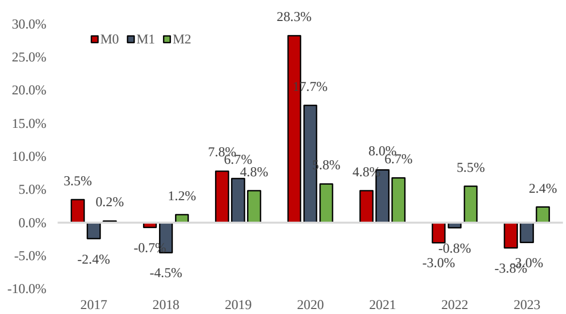
Following the substantial monetary stimulus provided during the pandemic to mitigate economic impact, the Central Bank of Jordan (CBJ) shifted to a tightening monetary policy in 2022 and continued this trend into 2023. The CBJ closely monitored international trends throughout 2023, particularly the Federal Reserve's policies, and adjusted its policy rates accordingly to sustain the attractiveness of the Jordanian Dinar and protect Jordan's international reserves amid regional turmoil and volatile global economic conditions.

In 2023, the CBJ adopted a cautious yet firm approach to monetary tightening, reflecting both local and international economic trends. The central bank began by raising interest rates by 25 basis points to 6.75% in February, followed by additional 25 basis point increases in March, May, and July, bringing the rate to 7.5%. From July onwards, the rate remained stable at 7.5%. Overall, the CBJ implemented four rate hikes, totaling an increase of 100 basis points throughout the year.

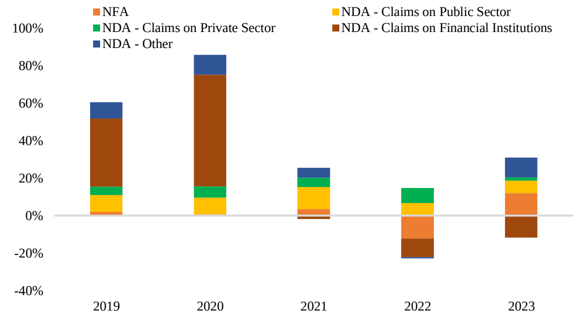
Monetary aggregates showed mixed trends in 2023. M0 and M1 continued their declining trend from the previous year, falling by 3.8% and 3.0%, respectively. Conversely, M2 increased by JD 981.4 million, although its growth rate slowed to 2.4% (Figure 2.4, Panel A). The moderated expansion in M2 was primarily driven by a substantial 12.0% increase in net foreign assets (NFA), marking a notable shift from its negative contribution in 2022. Claims on the private sector grew modestly by 1.7%, while claims on the central government and other sectors increased by 6.6% and 10.7%, respectively. However, the negative impact of claims on financial institutions, which began in 2021, continued with an 11.8% decline in 2023, partially offsetting other gains (Figure 2.4, Panel B). The proportion of broad money to international reserves began to decline at the end of 2023, and this trend continued with some fluctuations through the first five months of 2024 (Figure 2.4, Panel C).

Figure 2.4. Monetary Policy

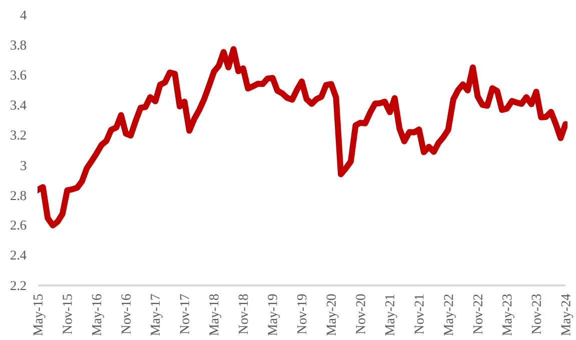
Panel A: Money Supply (y-o-y changes)



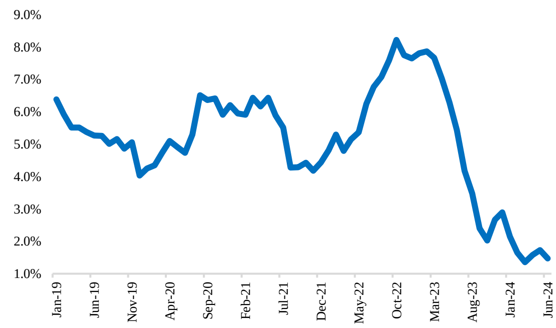
Panel B: Factors Affecting M2 Growth



Panel C: Broad Money/Reserves



Panel D: Credit to the private sector



Source: CBJ

A slowdown in credit expansion began in early 2023, following a peak growth rate of 7.9% in February 2023. This trend continued into 2024, with the growth of credit to the private sector decelerating to an annual rate of 1.5% by June 2024, down from 2.9% in December 2023. Total credit extended by banks increased to approximately JD 34.1 billion by the end of May 2024, up from JD 33.4 billion at the end of 2023 (Figure 2.4, Panel D). By June 2024, the foreign exchange reserves at the CBJ stood at about $18.7 billion, sufficient to cover approximately 8.2 months of imports. These substantial reserves are crucial for maintaining the pegged exchange rate regime.

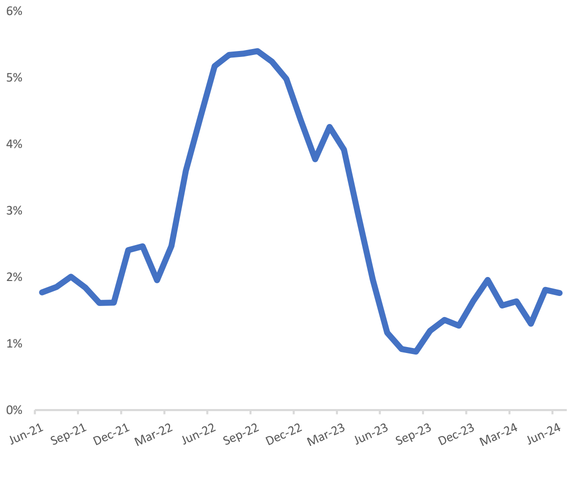
The headline inflation rate significantly slowed to 2.1% in 2023, down from 4.2% in 2022, due to a mix of external and local factors. Effective monetary and fiscal policies played a key role in managing inflationary pressures. Government efforts to regulate the prices of public transportation, gas cylinders, bread, and essential foods also helped mitigate cost-of-living increases. Additionally, the recovery of global supply chains and the strict monetary policies adopted by central banks worldwide drove down prices for key commodities like oil and food. This notable drop in global energy and food prices was crucial in reducing the local inflation rate.

This overall deceleration in inflation from the previous year continued into 2024, underscoring the effectiveness of the tightened monetary policy. By mid-2024, monthly inflation for June had slowed to below 1.8%, with year-to-date inflation for the first half of the year standing at 1.7%. These figures indicate a substantial slowdown, suggesting that the monetary measures were effective (Figure 2.5, Panel A).

In more detail, the year 2023 witnessed a significant decline in inflation across most consumer price index groups, contrasting with the high rates experienced in 2022. The inflation rate for Culture and Recreation, which had surged to 9.6% in 2022, more than halved to 4.4% in 2023. Similarly, inflation for Restaurants and Hotels dropped from 7.3% to 2.4%. Additionally, Housing inflation decreased from 6.6% in 2022 to 4.3% in 2023, and Transportation saw one of the most significant reductions, falling from 5.5% to just 1.3%. Health and Food items also experienced substantial decreases, with inflation rates falling from 3.7% and 3.3% in 2022 to 2.9% and 0.6% in 2023, respectively (Figure 2.5, Panel B).

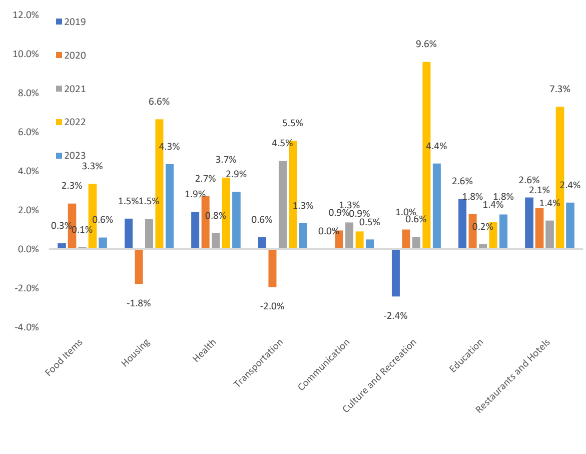
Figure 2.5. Inflation Rate

Panel A: Monthly CPI (y-o-y changes)



Source: DoS

Panel B: Inflation rate by main components (y-o-y changes)



Source: CBJ

2.4. BALANCE OF PAYMENTS

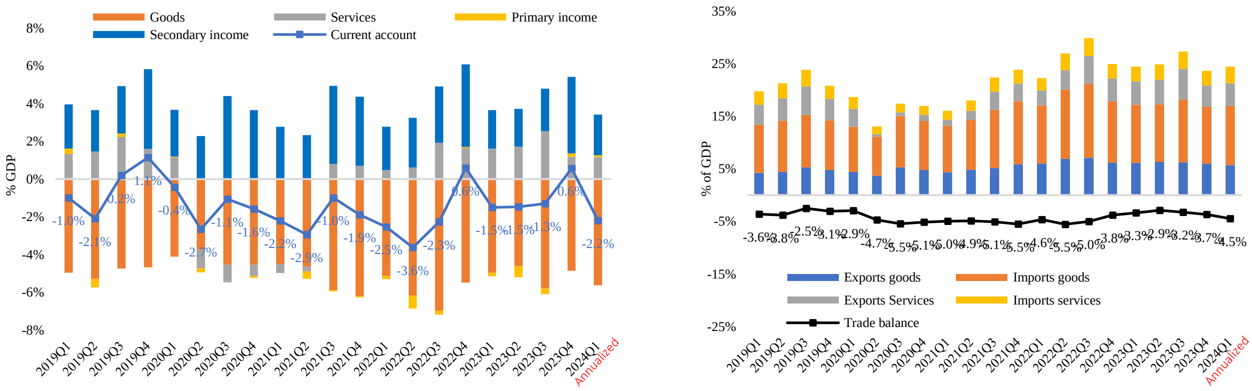
The external sector demonstrated resilience and flexibility in 2023, effectively managing the economic challenges posed by the war on Gaza in the last quarter. Despite the war, the sector's performance surpassed expectations, achieving an unprecedented 62.8% surplus in the services account, primarily driven by increased tourism revenue from various nationalities. The influx of tourists from Jordanian expatriates and other Arab nationalities offset the decline in European and American visitors, mitigating the war's impact on tourism. Additionally, the trade deficit decreased by 11.0%, as the decline in import values exceeded the decline in total export values.

The current account deficits persisted for the first three quarters before turning into a surplus in the fourth quarter of 2023. Compared to 2022, the performance of the current account deficit as a percentage of GDP in 2023 varied across different quarters. The first two quarters saw a deficit of 1.5% of GDP, largely due to increased imports, followed by a smaller deficit of 1.3% in the third quarter. Remarkably, in the fourth quarter of 2023, the current account shifted to a surplus of 0.6%. The services account consistently improved in 2023, with surpluses of 1.6%, 1.7%, 2.5%, and 1.2% of GDP in the first, second, third, and fourth quarters, respectively. Meanwhile, the goods account consistently showed deficit throughout the year, although it reduced to 4.9% of GDP in the final quarter, down from 5.8% in the third quarter (Figure 2.6, Panel A).

The year 2023 experienced an improvement in the trade balance due to a drop in imports that exceeded the drop in exports. The trade balance saw a reduction from 3.8% of GDP in the fourth quarter of 2022 to 3.7% in the same quarter of 2023. Despite the sustained deficit in goods trade, exports of goods remained stable, moving slightly from 6.2% of GDP in the fourth quarter of 2022 to 6.0% in the same period in 2023. Similarly, imports of goods decreased from 11.7% of GDP in the last quarter of 2022 to 10.9% during the same period in 2023 (Figure 2.6, Panel B).

Figure 2.6. Current Account Balance and Trade in Goods Balance

Panel A: Current Account Balance *Panel B: Trade Balance*

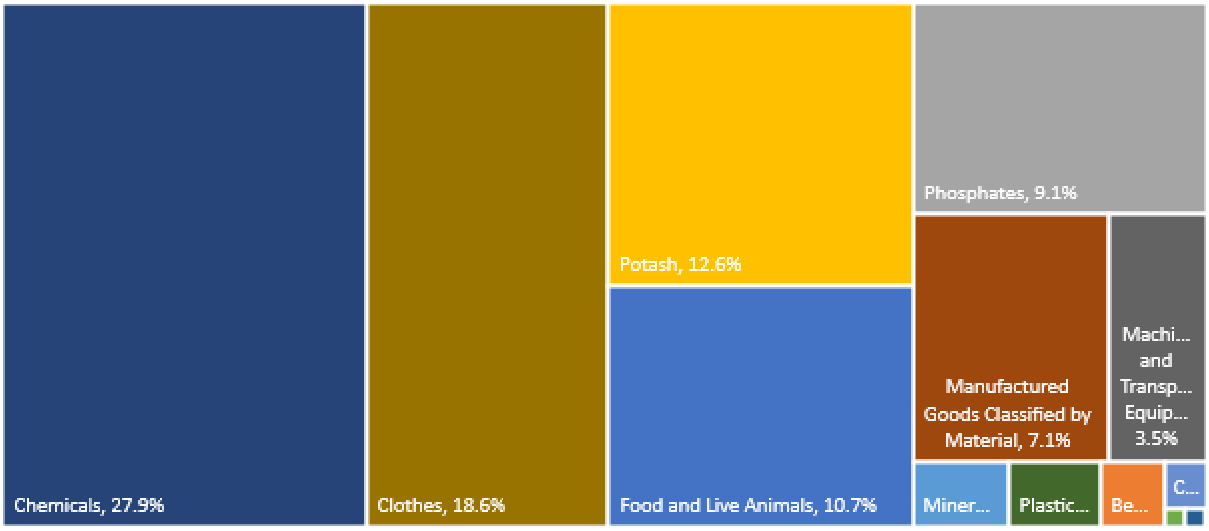


Source: CBJ *Source: CBJ*

Jordan's export portfolio saw significant changes in 2023, with shifts in the shares of key sectors that had dominated in 2022, such as chemicals and textiles. Clothes, which held the leading position in 2022, decreased to 16.5% of total exports in 2023, down from 18.6% the previous year. Another notable change was the decline in the proportions of Potash and Phosphates. Potash dropped to 7.9% of the export portfolio from 12.6% in 2022, while Phosphates fell to 7.3% from 9.1%. Additionally, the category of Mineral Fuels, Lubricants, and Related Materials decreased to 0.5% from 0.9%. In contrast, Food and Live Animals experienced a significant increase, rising to 12.7% from 10.7% in 2022 (Figures 2.7, 2.8).

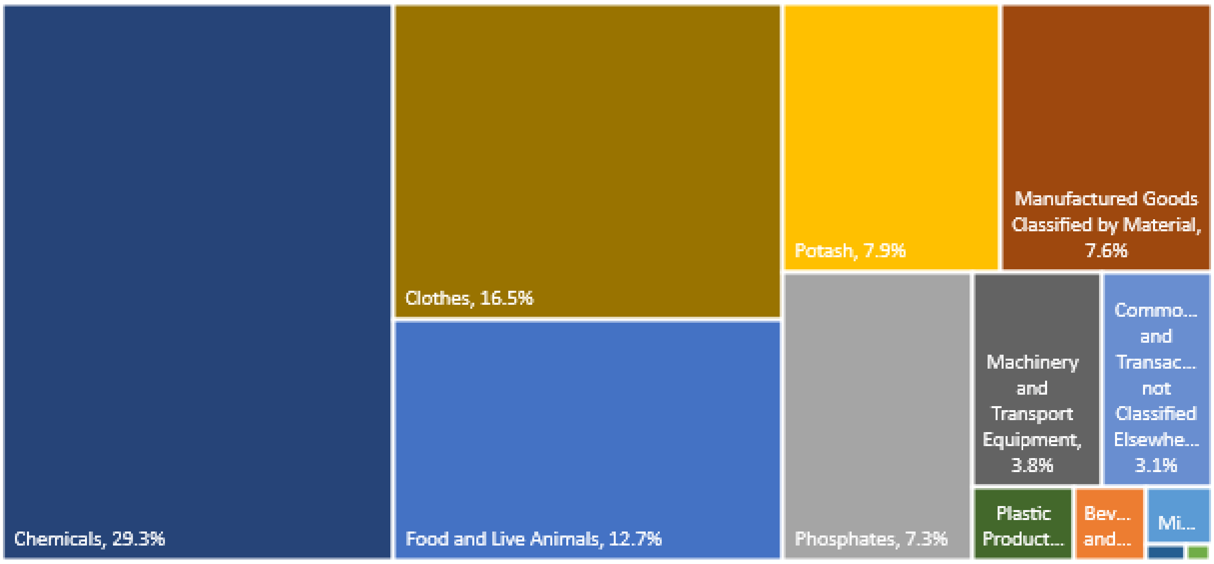
While minor fluctuations were observed in other categories, such as Manufactured Goods Classified by Material, which increased to 7.6% in 2023 from 7.1% in 2022, and Machinery and Transport Equipment, which rose to 3.8% from 3.5%, they remained key contributors to the export basket. The remaining categories showed some mild movements but maintained their overall presence in Jordan's export profile. Despite these shifts, Jordan's export profile remains robust and diverse, demonstrating its stability and adaptability to market changes.

Figure 2.7. Domestic Exports by Sector 2022



Source: CBJ

Figure 2.8. Domestic Exports by Sector 2023



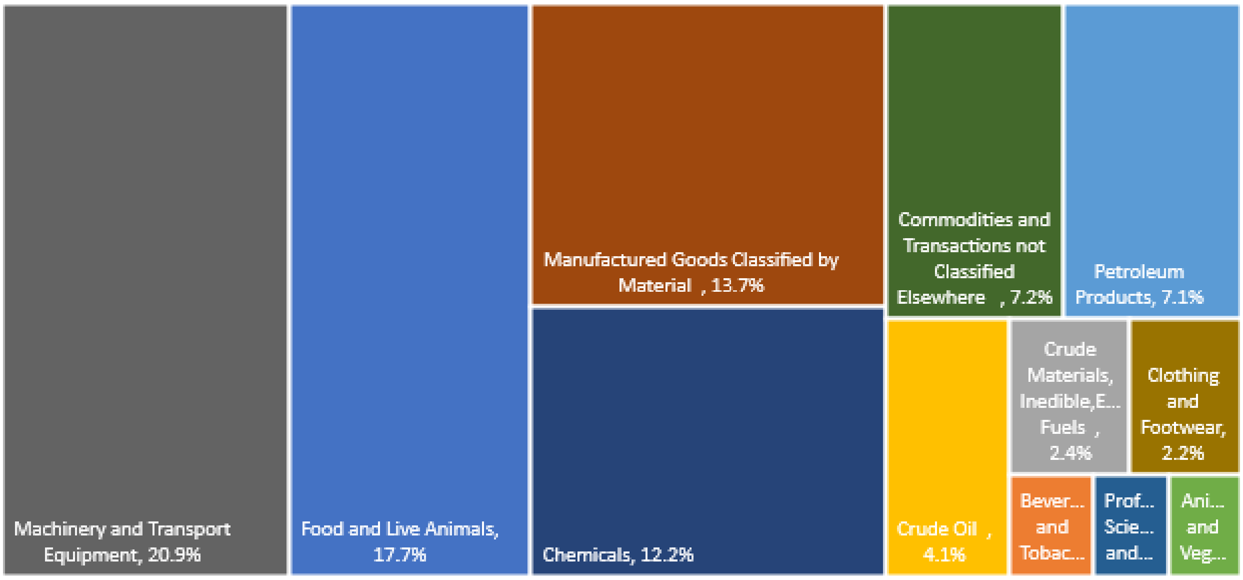
Source: CBJ

Throughout 2023, the top import sectors showed stability, maintaining their positions. However, there were notable changes within these sectors. Machinery and Transport Equipment experienced a significant rise, increasing from 16.4% in 2022 to 20.9% in 2023. Chemicals also saw a modest increase, growing from 11.7% to 12.2%. Conversely, the share of Petroleum Products decreased from 8.3% in 2022 to 7.1% in 2023, and Crude Oil experienced a slight reduction, falling from 5.0% to 4.1%. This diverse range of imports, including a substantial portion of raw materials for domestic industries, supports the ongoing growth of sectors such as chemicals and other industrial goods (Figures 2.9, 2.10).

Figure 2.9. Imports by Sector 2022

Source: CBJ

Figure 2.10. Imports by Sector 2023



Source: CBJ

Jordan's market diversity witnessed notable changes in 2023. The Herfindahl–Hirschman Index (HHI), a measure of market concentration, indicates the extent to which Jordan's domestic exports are concentrated in certain regions. The index remained relatively stable, increasing slightly from 0.26 in 2022 to 0.28 in 2023, suggesting a shift toward more concentrated domestic exports across various regions (Figure 2.11, Panel A).

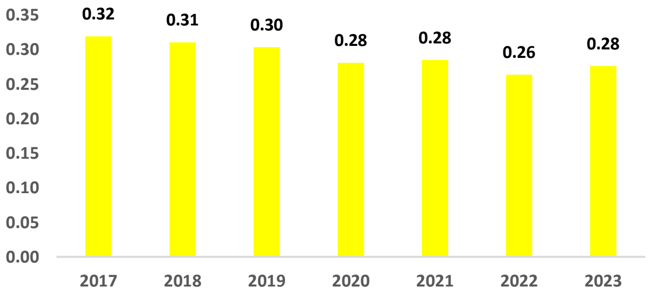
The HHI for Jordan's exports in 2023 increased across most regions, indicating a trend toward less diversification in trade relationships. The Arab region continued to dominate in terms of export volume, benefiting from geographical proximity and Free Trade Agreements. The MCI for the Arab region saw a significant increase from 0.15 in 2022 to 0.32 in 2023, suggesting growing concentration in Jordan's exports to this region. The Americas, largely driven by the US market—primarily in textiles and garments—also experienced a substantial rise in MCI, from 0.75 in 2022 to 0.91 in 2023, highlighting a greater concentration of Jordan's trade with this region. Asia (non-Arab) saw a notable increase in MCI as well, from 0.33 in 2022 to 0.60 in 2023, indicating that exports were concentrated in fewer markets within the region.

Europe maintained its status as the region with the most diverse trade relationships with Jordan, with only a slight increase in the MCI from 0.12 in 2022 to 0.13 in 2023. Although Jordan's export volume to this region is relatively small, this increase still signals a slight shift toward concentration. In contrast, the 'Other' category experienced a decrease in MCI from 0.18 in 2022 to 0.14 in 2023, indicating slight diversification in these markets, which contrasts with the overall trend of increasing concentration in Jordan's export markets (Figure 2.11, Panel B).

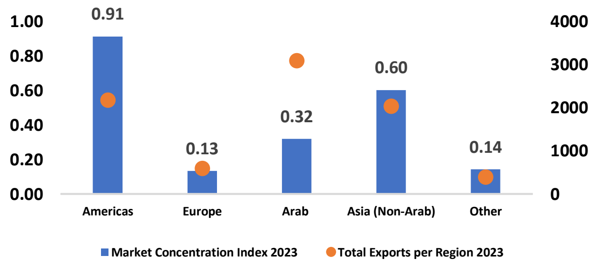
This evolving landscape of Jordan's trade relations indicates growing concentration in several key regions while showing some diversification in less prominent markets. This trend underscores the importance of strategically broadening Jordan's export horizons and further diversifying its trade partners.

Figure 2.11. Market Concentration Index

Panel A: Market Concentration Index 2017-2023 (5 Regions)



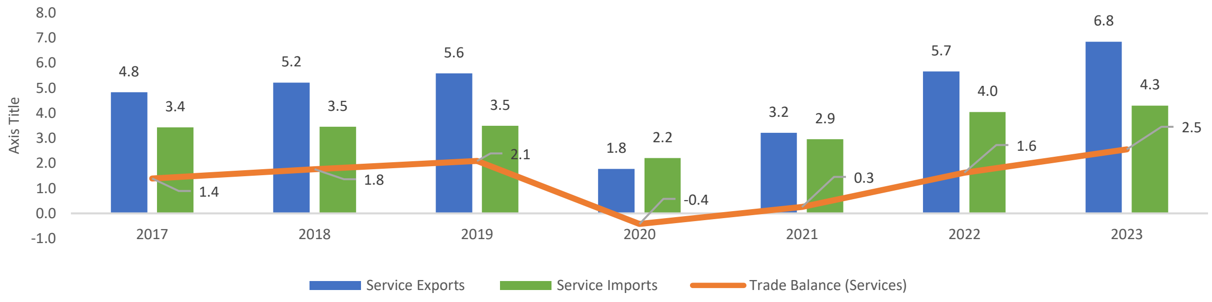
Panel B: Market Concentration Index and Total Exports per Region in 2023



Source: DoS, MFU Estimates

The service sector in Jordan experienced robust growth in 2023. Service exports, largely driven by travel and transport—which constitute over 90% of Jordan's total service exports—increased significantly from JD 5.7 billion in the previous year to JD 6.8 billion in 2023. Meanwhile, service imports rose slightly, reaching JD 4.3 billion, compared to JD 4.0 billion in the previous year. These developments resulted in an improved trade balance in services, amounting to JD 2.5 billion in 2023, highlighting Jordan's dynamic service sector and its capacity for rapid expansion (Figure 2.12).

Figure 2.12. Trade in Services



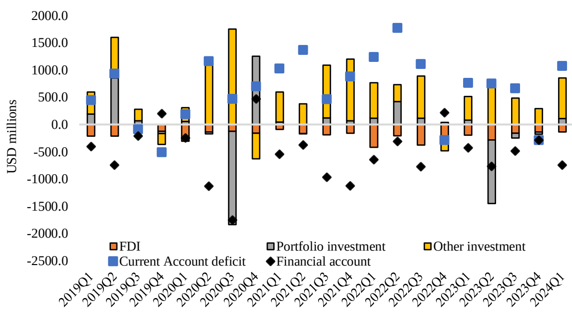
Source: CBJ

In 2023, the current account deficit was influenced by various factors, including different types of investment flows. Foreign direct investment (FDI) inflows remained stable, albeit slightly lower than in previous years, amounting to JD 687.4 million compared to JD 927.9 million in 2022. Portfolio investments recorded a significant net inward flow of JD 856.5 million, reversing the net outward flow of JD 487.3 million seen in 2022. Other investment inflows showed considerable variation, reflecting a diverse range of investment sources, with a net inward flow of JD 516.2 million, compared to a net outward flow of JD 1,108.3 million in 2022.

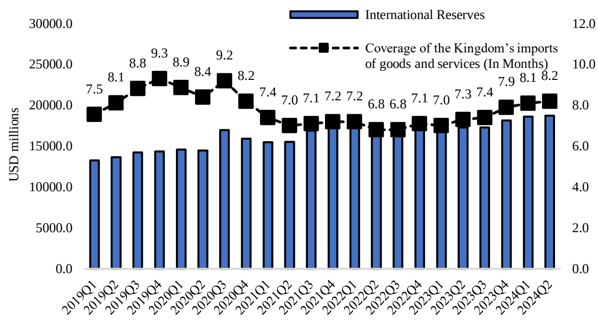
The financial account reported varying inflows over the quarters, with reserves increasing from USD 16,834.7 million in the first quarter to USD 18,122.9 million in the fourth quarter, which raised import coverage from 7 months to 7.9 months. In 2024, this positive trend continued, with reserves reaching USD 18,737.3 million by mid-year, providing coverage for 8.2 months of imports (Figure 2.13, Panel B). These developments reflect a dynamic financial environment, with varying contributions from different types of investment. Despite net inflows in portfolio investments and significant changes in other investments during parts of 2023, the overall health and stability of Jordan's economy have been maintained. This has been achieved through a balanced approach, evidenced by the steady increase in reserves and import coverage, indicating effective management of both internal needs and external financial conditions.

Figure 2.13. Balance of Payments and International Reserves

Panel A: Balance of Payments



Panel B: International Reserves



Note: positive signs (+) indicate net inflows

Source: CBJ

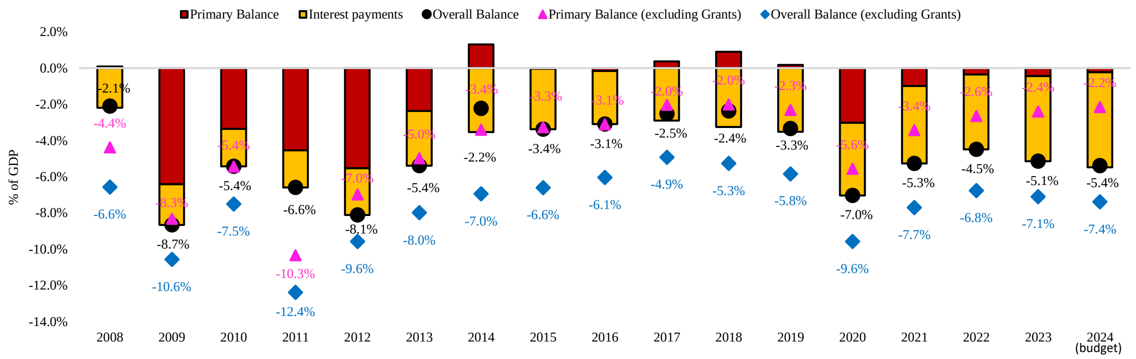
2.5. CENTRAL GOVERNMENT BUDGET AND PUBLIC DEBT

In 2023, Jordan's fiscal balance experienced notable changes due to the continued implementation of economic policies and administrative reforms. The primary deficit remained steady at 0.4% of GDP; however, when excluding grants, it stood at 2.4% in 2023, down from 2.6% in 2022. The overall fiscal balance, on the other hand, slightly increased to 5.1% compared to 4.5% in 2022 (Figure 2.14, Panel A). This increase was mainly driven by higher interest payment expenditures, reflecting increased financing costs both domestically and externally. The conflict in Gaza and its regional repercussions, including disruptions in the Red Sea, combined with volatile global conditions, negatively impacted fiscal performance in the last quarter of the year. These factors contributed to additional economic pressures and elevated borrowing costs.

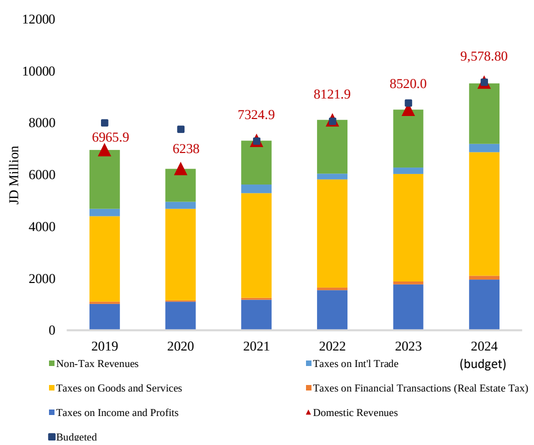
Despite these challenges, Jordan's fiscal performance in 2023 underscores the country's resilience and commitment to economic reforms. Domestic revenues increased by 4.9%, or JD 398.1 million, reaching JD 8,520.0 million (including settlements and refunds of JD 88 million). This rise was primarily due to an increase of JD 224.3 million in tax revenues and JD 173.3 million in non-tax revenues (Figure 2.14, Panel B). These gains are attributed to prudent government financial management and structural, administrative, and legislative reforms aimed at combating tax evasion and avoidance. Total expenditures for the year amounted to JD 11,004 million, including JD 1,378 million in capital expenditures (Figure 2.14, Panel C).

Figure 2.14 Fiscal Balance, Expenditures, and Revenues

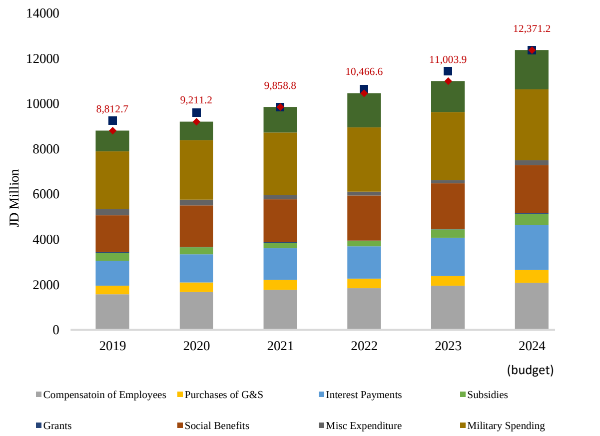
Panel A: Fiscal Balance



Panel B: Main Domestic Revenue Components



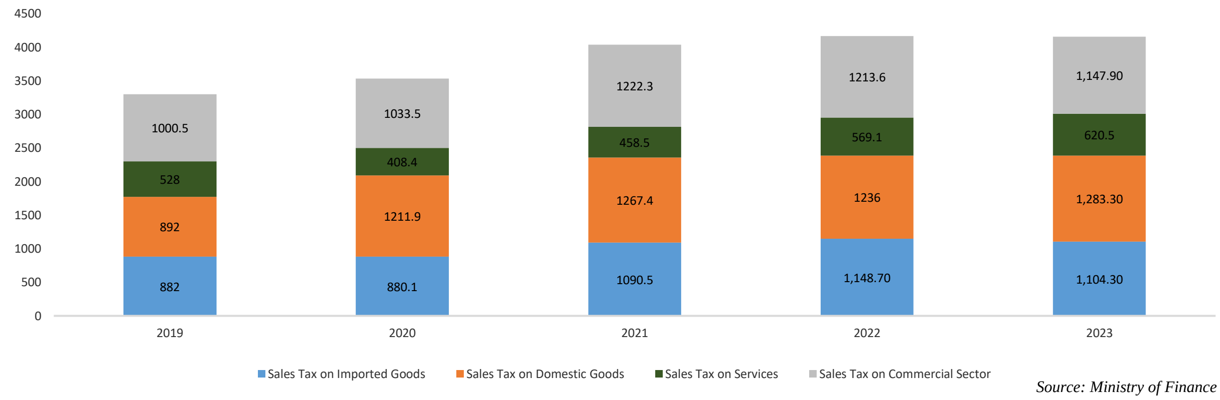
Panel C: Total Expenditures



Source: Ministry of Finance

Although there was a slight decrease, general sales tax revenues on goods and services continued to be the primary source of domestic revenue. In 2023, GST revenues declined by JD 11.6 million, largely due to the impact of the Gaza conflict and Red Sea disruptions in the last quarter, which affected sales tax on imported goods. Consequently, sales tax on imported goods decreased by 3.9% to JD 1,104.3 million, and commercial sales tax dropped by 5.4% to JD 1,147.9 million. In contrast, sales tax on domestic goods increased by 3.8% to JD 1,283.3 million, while sales tax on services saw a significant rise of 9% to JD 620.5 million. These figures illustrate the resilience within Jordan’s tax system, highlighting the effectiveness of reforms in certain areas even amidst crises (Figure 2.15).

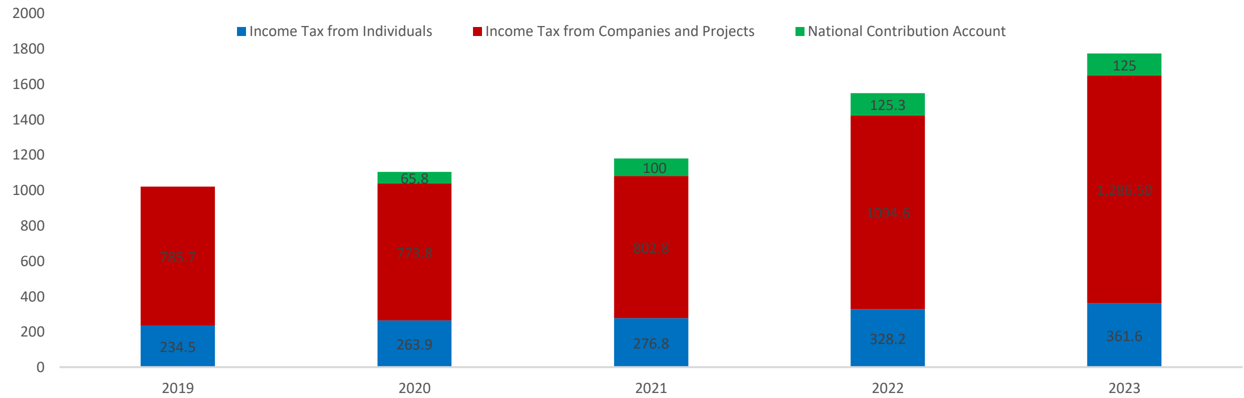
Figure 2.15. General Taxes on Goods and Services



Source: Ministry of Finance

Reforms in tax administration continued to bear fruit in 2023, as evidenced by the significant growth in income tax revenues from individuals and companies. Income tax from individuals increased by an impressive 10.2%, reaching JD 361.6 million, up from JD 328.2 million in 2022. Enhancements in tax filing procedures, the implementation of e-invoicing, and increased efficiency played substantial roles in this growth. Additionally, income tax from companies and projects experienced a notable surge, growing by 17.6% to reach JD 1,286.5 million, compared to JD 1,094.6 million in 2022. This surge underscores the positive impact and effectiveness of the structural reforms implemented in recent years. However, the National Contribution Account in 2023 remained largely unchanged, at JD 125.0 million compared to JD 125.3 million in 2022.

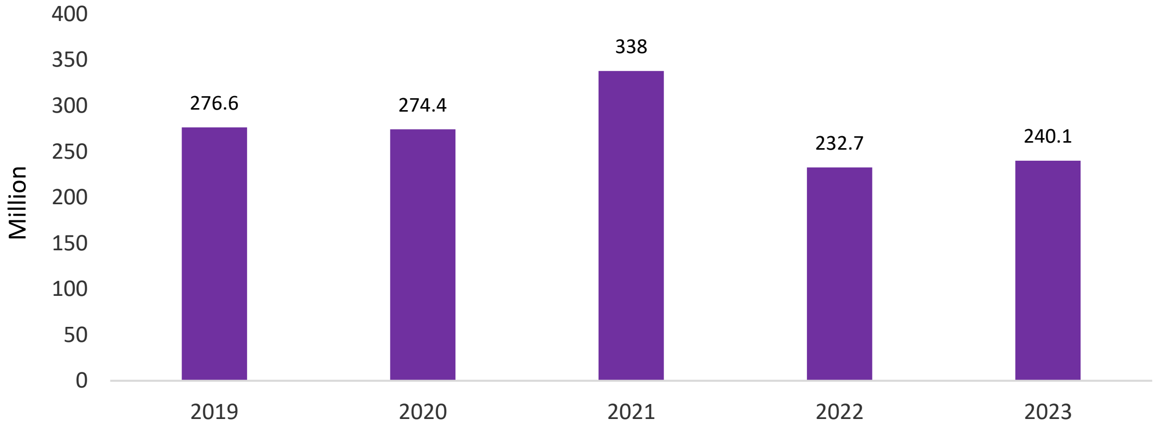
Figure 2.16. Income Tax Revenues



Source: Ministry of Finance

In 2023, revenues from taxes on international trade and transactions increased by 3.2% to JD 240.1 million, marking a recovery from the significant decline in 2022, when revenues dropped by 31.2% to JD 232.7 million (Figure 2.17). The decline in 2022 was expected due to the simplification of the tariff system implemented by the customs department at the beginning of that year. This reform aimed to achieve medium-term gains by discouraging customs evasion through reducing the cost differential between evasion and compliance. While the strategy initially resulted in lower revenues, the increase in 2023 suggests that the reform is beginning to show positive outcomes. These improvements indicate enhancements in operational efficiency and compliance, which align with the reform's objectives. This increase in revenue could have been more substantial if the economy had not been impacted by the war in Gaza and its regional repercussions on trade flows.

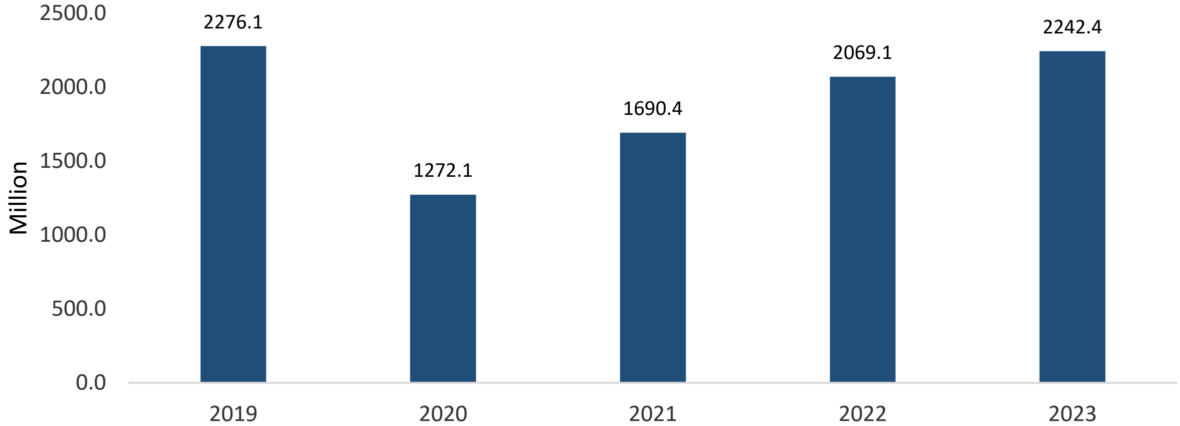
Figure 2.17. Taxes on International Trade & Transactions



Source: Ministry of Finance

In 2023, non-tax revenues continued to recover following their drop in 2020, although the recovery rate was slower. Compared to 2022, non-tax revenues increased by JD 173.3 million, marking an 8.4% rise. This increase is largely attributed to the growth in revenues from the sale of goods and services, as well as property income. Both sectors saw significant gains that contributed to the overall rise, which can be correlated with the ongoing global economic recovery and trends in commodity prices. This increase came despite the drop in international phosphate and potash prices, which impacted royalty revenues.

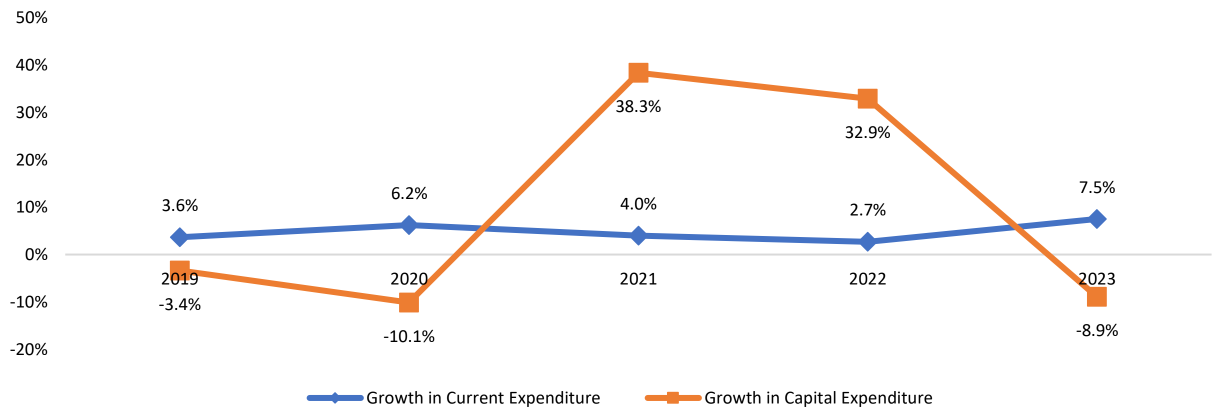
Figure 2.18. Non-Tax Revenues



Source: Ministry of Finance

Current expenditures increased by 7.5%, while capital expenditures decreased by 8.9% in 2023. The rise in current expenditures was mainly due to higher interest payments, while the decrease in capital expenditures was driven by reductions in spending on economic affairs and general public services. However, after deducting JD 350 million of oil subsidies from the 2022 capital expenditures, the adjusted comparison shows an 18.5% increase in capital expenditures for 2023. By the end of 2023, total expenditures had risen to JD 11.004 billion, up from JD 10.467 billion in the previous year, representing a 5.1% increase (Figure 2.19).

Figure 2.19. Current vs. Capital Expenditures

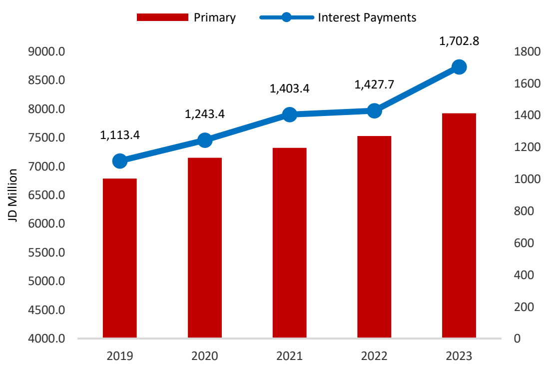


Source: Ministry of Finance

In 2023, current expenditures in Jordan maintained a steady trajectory. Primary current expenditures increased by JD 396.8 million, reaching JD 7,923.5 million, up from JD 7,526.7 million in 2022. This rise can be attributed to higher military spending, employee compensation, and subsidies. Conversely, interest payments continued to exert substantial pressure on Jordan's fiscal space, amounting to JD 1,702.8 million, up from JD 1,427.7 million in 2022, reflecting higher international and domestic interest rates.

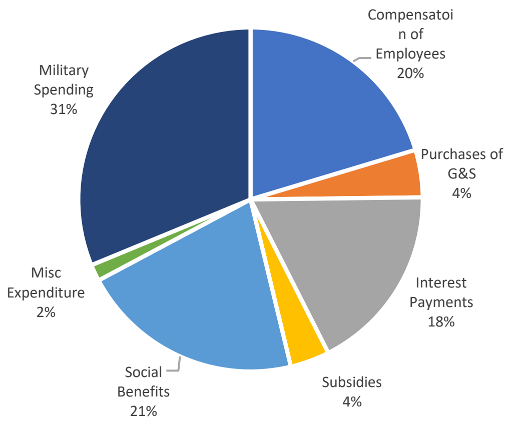
Figure 2.20. Current Expenditures

Panel A: Primary Current Expenditures vs. Interest Payments



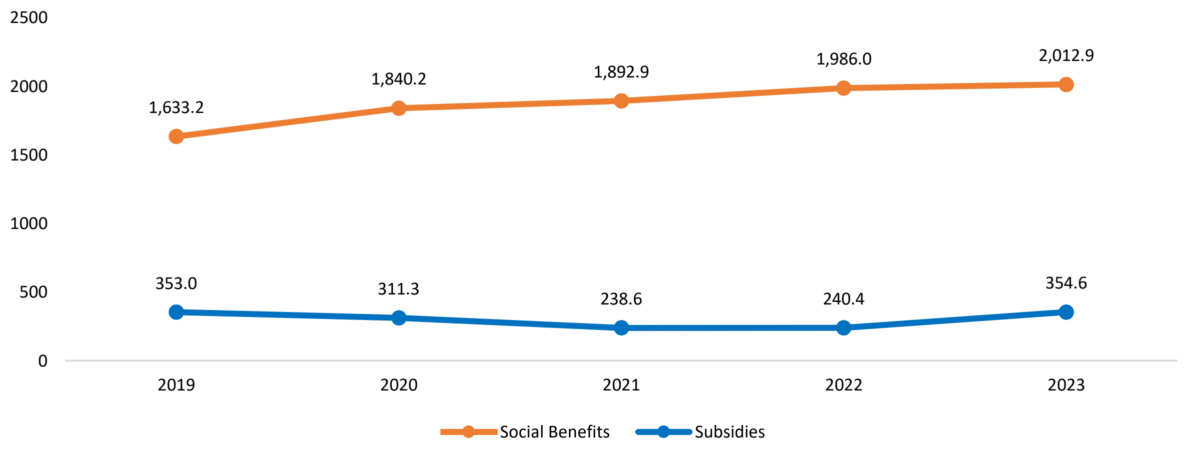
Source: Ministry of Finance

Panel B: Breakdown of Current Expenditures



Reforms focusing on targeted support have further enhanced spending efficiency. Since 2019, Jordan has made strides in transitioning from a regressive subsidy system to a more targeted cash transfer and social safety net system through the National Aid Fund. In 2023, social benefits increased slightly to JD 2,012.9 million, up from JD 1,986 million in 2022. Meanwhile, subsidies rose to JD 354.6 million in 2023, compared to JD 240.4 million in 2022, due to higher prices for basic commodities in the international market, especially wheat. This reflects Jordan's commitment to allocating resources effectively to those most in need (Figure 2.21).

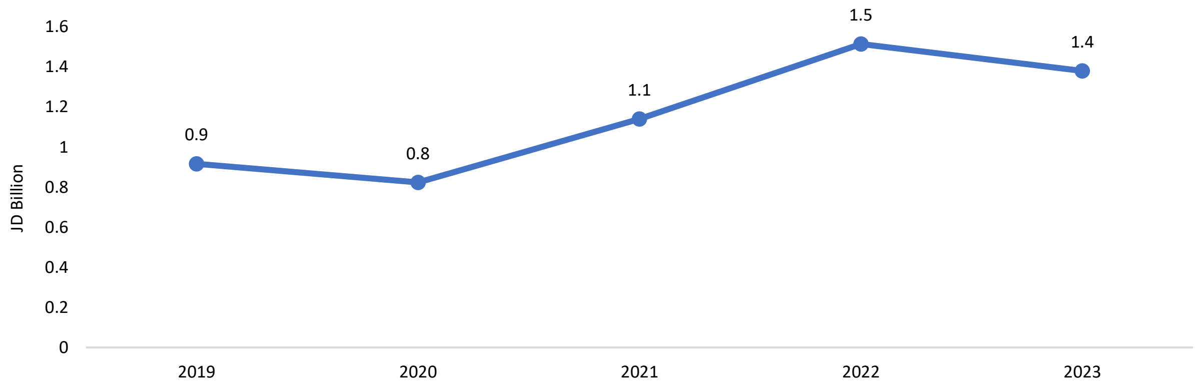
Figure 2.21. Subsidies vs. Social Benefits



Source: Ministry of Finance

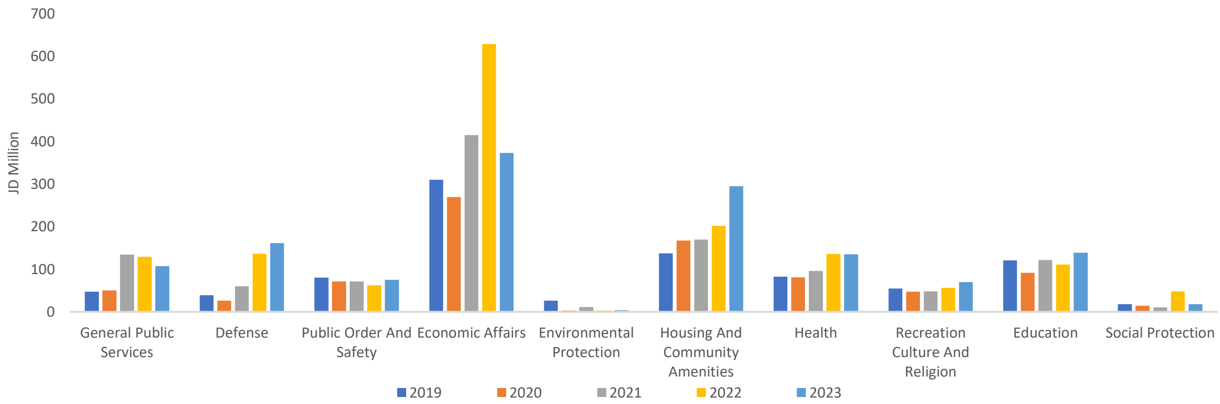
In 2023, capital expenditures experienced a notable decline of 8.9%, falling to JD 1.38 billion (Figure 2.22). However, after deducting JD 350 million in oil subsidies from the 2022 capital expenditures, the adjusted comparison shows an 18.5% increase in capital expenditures for 2023. Despite the overall decrease in capital expenditure, specific sectors saw significant changes in their allocations. Defense spending increased by 18.3%, Housing by 46.0%, and Education by 24.8%. Environmental Protection expenditures also rose, by 37.9%. In contrast, Economic Affairs decreased by 40.7%, General Public Services declined by 16.9%, and Social Protection saw a substantial reduction of 61.9% (Figure 2.23).

Figure 2.22. Capital Expenditures



Source: Ministry of Finance

Figure 2.23. Capital Expenditures per Functional Type



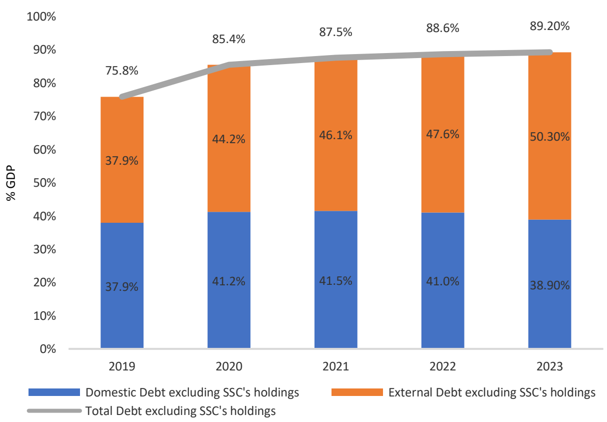
Source: Ministry of Finance

The gradual economic recovery in 2023, along with prudent fiscal management, marginally impacted Jordan's debt levels. The central government's debt-to-GDP ratio, excluding the holdings of the Social Security Investment Fund (SSIF), rose slightly to JD 32,289.3 million in 2023, which accounts for 89.2% of GDP, compared to 88.6% in 2022. Domestic debt, excluding the holdings of the SSIF, dropped to 38.9% of GDP in 2023 from 41.0% in 2022, indicating improved domestic fiscal management. However, external debt, mainly denominated in US dollars (70.5%) and euros (12.0%), climbed by 2.7 percentage points, reaching 50.3% of GDP in 2023 compared to 47.6% in 2022. Notably, by May 2024, public debt (net of SSIF holdings) stood at 89.5%, showing a slight increase from 89.2% in 2023.

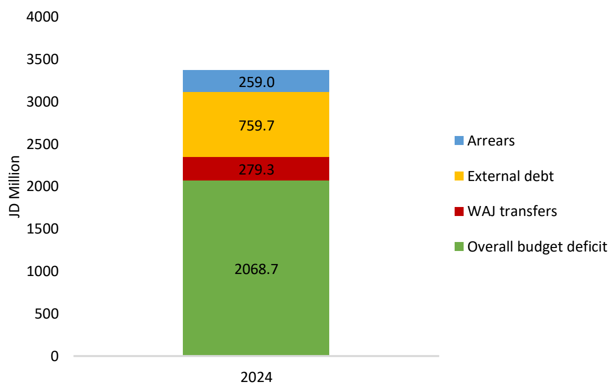
In 2024, financing needs were largely driven by the central government's overall budget deficit. The central government's financing needs totaled JD 3,367 million (excluding domestic rollovers), consisting of a JD 2,068.7 million (61.4%) overall budget deficit, JD 759.7 million (22.6%) for foreign loan repayments, JD 279.3 million (8.3%) in WAJ transfers, and JD 259 million (7.7%) for arrears payments (Figure 2.24, Panel B).

Figure 2.24. Public Debt and Financing Needs

Panel A: Public Debt (excluding holdings by SSIF)



Panel B: Financing Needs



Source: Ministry of Finance, Budget Law 2024

Box 2.2

Jordan's Credit Rating Upgrades: A Testament to Economic Resilience and Structural Reforms

Jordan’s proactive and prudent economic policies received well-deserved recognition when Moody’s upgraded its credit rating in May 2024, elevating it from B1 stable to Ba3 stable—an achievement that marks the first upgrade in 21 years. This has been followed by an upgrade from S&P increasing the sovereign rating from B+ to BB- stable. These significant milestones reflect Jordan’s commitment to comprehensive economic reforms and its remarkable resilience against external shocks. Other credit rating agencies, including Fitch, have affirmed their ratings for Jordan, underscoring the country's stability amid a challenging regional landscape.

Fiscal discipline has been a cornerstone of Jordan’s recent success. The implementation of effective public financial management and sound macroeconomic strategies has not only stabilized public finances but also significantly reduced the budget deficit. Moody’s highlighted that Jordan's strong fiscal management, including stringent measures to control the government budget deficit, is expected to place the country’s debt on a downward trajectory, potentially reducing it to 80 percent of GDP by 2028. These concerted efforts have bolstered Jordan's resilience against external shocks and contributed to a positive and stable financial outlook.

Monetary policy has also been instrumental in achieving this upgrade. The maintenance of stable inflation rates, along with robust foreign reserves amounting to USD 19.0 billion, has reinforced the country's economic stability. The strength of Jordan’s banking sector and the stability of its financial infrastructure have further supported these monetary efforts, underpinning confidence in Jordan’s economic management.

The upgrade highlights Jordan's consistent record of macroeconomic stability, tangible progress in fiscal and economic reforms, and the robust financing capabilities provided by its liquid banking sector, the Social Security Investment Fund (SSIF), and sustained international support. The upgrade also underscores the success of Jordan’s prudent financial policies, which have ensured monetary stability and facilitated a gradual reduction in debt. The enactment of a new investment law, designed to streamline approval processes and guarantee legislative stability for investors, has significantly enhanced the business environment, thereby attracting both international support and local financing. These reforms, coupled with prudent macroeconomic policies, have been pivotal in fostering a conducive environment for sustainable economic growth.

Jordan’s proactive responses to global challenges, including the COVID-19 pandemic, global energy and food price surges, and ongoing geopolitical tensions, have further contributed to this credit rating upgrade. The country’s effective risk mitigation strategies have not only enhanced its resilience but have also fostered economic growth, even in the face of external pressures.

Jordan’s creditworthiness stands out, particularly as several of its regional peers have faced downgrades, highlighting international confidence in Jordan’s financial and economic stability. This achievement is a testament to Jordan’s sound economic strategies, forward-thinking policies, and resilience in the midst of regional adversities. Jordan’s accomplishments serve as a paradigm of fiscal responsibility and reform-driven growth in a region frequently characterized by economic volatility.

3. JORDAN MEDIUM-TERM FISCAL FRAMEWORK

3.1 BASELINE SCENARIO

The Jordanian economy saw improvements at the macro-fiscal level in 2023, but existing structural challenges remain susceptible to uncertainty due to regional geopolitical tensions and global developments. The external assumptions were based on the latest IMF World Economic Outlook (WEO) report. To gauge global growth sentiment, we used projections for global growth and Brent oil prices. The new WEO projections took into account the expected decline in fuel and non-fuel commodity prices, increased trade distortions, current high global interest rates, and their expected decline and impact on global growth and inflation. The war in Gaza is expected to end by the end of 2024. Moreover, foreign grants are projected based on data provided by the Ministry of Planning and International Cooperation (MoPIC). For total expenditures, our projections align with both the IMF's first review deficit targets and the 2024 Budget Law.

Our projections indicate that the real GDP growth rate will show a slight deceleration from 2.7% in 2023 to 2.4% in 2024, before accelerating to 2.6% in 2025, 2.8% in 2026, and 3.0% in 2027. Nominal GDP, which grew by 4.5% in 2023, is expected to increase to 4.7% in 2024, 5.2% in 2025, 5.1% in 2026, and 5.5% in 2027. Regarding inflation, the GDP deflator rose by 1.8% in 2023 and is projected to rise to 2.2% in 2024, 2.5% in 2025, 2.4% in 2026, and 2.6% in 2027. Headline inflation, which was 2.1% in 2023, is expected to decrease to 1.8% in 2024, then rise to 2.5% in 2025, 3.0% in 2026, and 3.5% in 2027.

Regarding government revenue projections, domestic revenues were JD 8,520 million in 2023 and are projected to increase to JD 8,618 million in 2024, reaching JD 10,878 million by 2027. This modest growth is projected taking into account the adverse shock of the war on Gaza and Red Sea distributions. Expected economic growth will support higher tax collection in the medium term.

Based on the negative regional conditions, tax revenues are expected to fluctuate, with income tax projected to decrease from JD 1,773 million in 2023 to JD 1,683 million in 2024, before increasing to JD 2,114 million in 2027. Taxes on goods and services are forecasted to increase from JD 4,156 million in 2023 to JD 4,372 million in 2024, reaching JD 5,632 million in 2027. Trade taxes are expected to grow from JD 240 million in 2023 to JD 246 million in 2024 and JD 338 million in 2027. Non-tax revenue shows a slight decrease, starting from JD 2,248 million in 2023, decreasing to JD 2,204 million in 2024, and then rising to JD 2,668 million by 2027.

Total expenditures were JD 11,004 million in 2023 and are projected to increase each year, from JD 11,786 million in 2024 to JD 12,963 million in 2027. Among these expenditures, capital expenditures were JD 1,378 million in 2023, projected to decrease to JD 1,287 million in 2024 as a result of the government's measures of cutting non-priority projects by JD 350 million, before increasing to JD 1,573 million in 2027. Current expenditures were JD 9,626 million in 2023, expected to increase from JD 10,499 million in 2024 to JD 11,390 million in 2027. Interest payments were JD 1,703 million in 2023, projected to increase from JD 2,068 million in 2024 to JD 2,180 million in 2025 and JD 2,310 million in 2026, before declining to JD 2,100 million in 2027 due to anticipated drops in global interest rates.

The overall deficit was JD 1,860 million in 2023, projected to increase to JD 2,460 million in 2024, then decrease annually to reach JD 1,300 million by 2027. As a percentage of GDP, the overall deficit was 5.1% in 2023, projected to be 6.5% in 2024, and reduce to 2.9% by 2027.

The primary deficit was JD 869 million (2.4% of GDP) in 2023, projected to increase to JD 1,100 million (2.9% of GDP) in 2024, and transition to a small surplus of JD 15 million (0.03% of GDP) by 2027. Additionally, the primary deficit, including NEPCO and the water sector, was JD 1,513 million (4.2% of GDP) in 2023, projected to increase to JD 1,808 million (4.8% of GDP) in 2024, and decrease to JD (511) million (1.2% of GDP) by 2027.

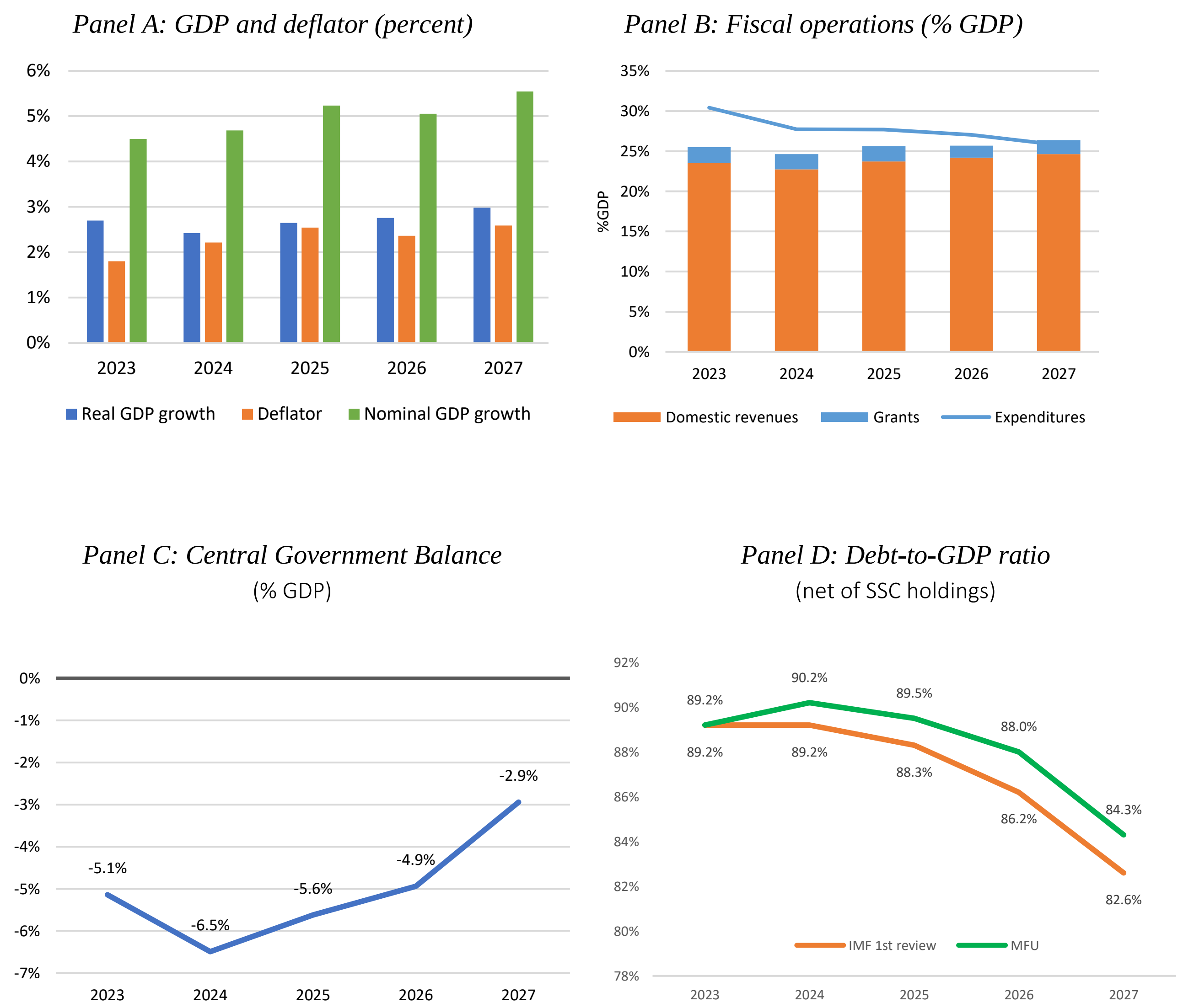
Finally, the government and guaranteed gross debt (net of SSC holdings) was JD 32,289 million in 2023, projected to increase to JD 34,188 million in 2024, and rise to JD 37,252 million by 2027. However, as a percentage of GDP, it is expected to increase from 89.2% in 2023 to 90.2% in 2024, before decreasing to 84.3% in 2027, reflecting projected economic growth and ongoing debt management efforts.

Table 3.1: Baseline Scenario[2]

	2023	2024	2025	2026	2027
Real GDP Growth (%, YoY)	2.7%	2.4%	2.6%	2.8%	3.0%
Nominal GDP Growth (%, YoY)	4.5%	4.7%	5.2%	5.1%	5.5%
Deflator Inflation (%, YoY)	1.8%	2.2%	2.5%	2.4%	2.6%
Headline Inflation (%, YOY)	2.1%	1.8%	2.5%	3.0%	3.5%
Domestic Revenues	8,520	8,618	9,450	10,126	10,878
Grants	712	708	760	624	785
Taxes: Income	1,773	1,683	1,841	1,958	2,114
Taxes: GST	4,156	4,372	4,868	5,251	5,632
Taxes: Trade	240	246	274	289	338
Taxes: On Grants	81	53	30	30	30
Taxes: Other	103	113	106	116	126
Taxes: Non-tax Revenue	2,248	2,204	2,360	2,512	2,668
Total Expenditures	11,004	11,786	12,442	12,810	12,963
Current Expenditures	9,626	10,499	11,036	11,324	11,390
Interest Payments	1,703	2,068	2,180	2,310	2,100
Capital Expenditures	1,378	1,287	1,406	1,486	1,573
Overall Deficit	(1,860)	(2,460)	(2,232)	(2,060)	(1,300)
Overall Deficit (% of GDP)	-5.1%	-6.5%	-5.6%	-4.9%	-2.9%
Primary Deficit	(869)	(1,100)	(812)	(374)	15
Primary Deficit (% of GDP)	-2.4%	-2.9%	-2.0%	-0.9%	0.03%
Primary Deficit including (NEPCO & Water Sector)	(1,513)	(1,808)	(1,438)	(941)	(511)
Primary Deficit including (NEPCO & Water Sector) (% of GDP)	-4.2%	-4.8%	-3.6%	-2.2%	-1.2%
Government and guaranteed gross debt (net of SSC holdings)	32,289	34,188	35,664	36,869	37,252
Debt (net of SSC holdings) (% of GDP)	89.2%	90.2%	89.5%	88.0%	84.3%

[2] The baseline output of the built model does not include any future policy, legislation and administration changes that might have positive/negative effect on revenues collection or any future measures or policy changes that can affect the forecast thereafter.

Figure 3.1 – Main projections

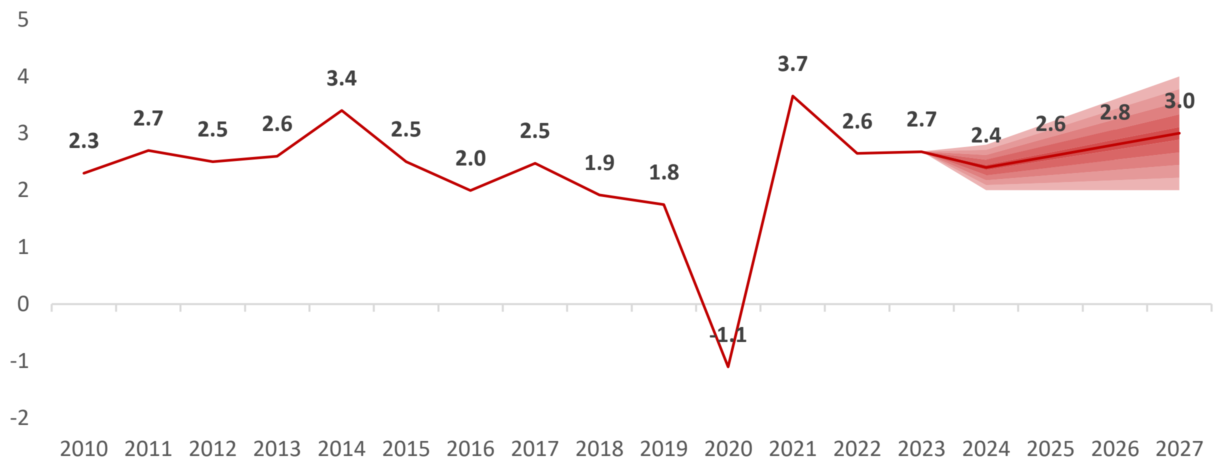


MACRO FISCAL RISK

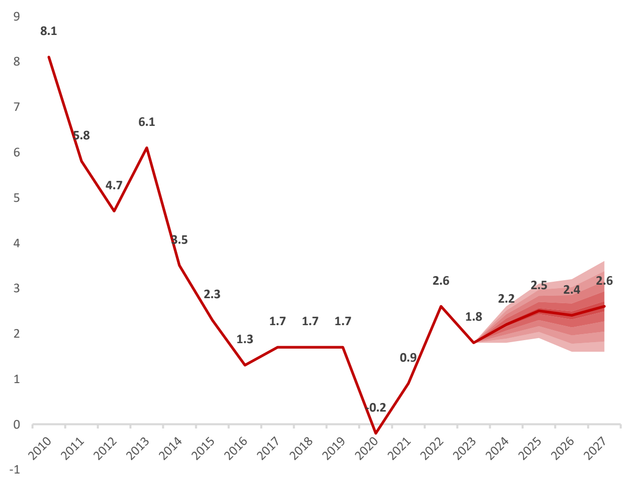
Forecasts exhibit a high degree of ambiguity, and global uncertainty remains a significant source of potential downside risks to Jordan's economy. While the baseline forecast is essential, understanding the risks surrounding these forecasts is equally important. Although the baseline projection is fixed at 2.4% for real GDP growth in 2024, the fan chart in Figure 3.2, Panel A shows that real GDP growth could range between 2.1% and 2.9%, given its 95% confidence interval. Panel B shows the deflator ranging between 1.5% and 2.1%, while Panel C shows headline inflation ranging between 1.6% and 2.2%, demonstrating a relatively moderate level of uncertainty and risks.

Figure 3.2 - Fan Charts for the Baseline Scenario

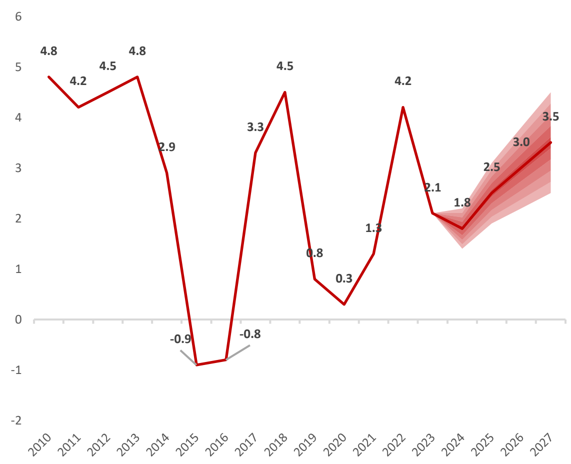
Panel A: Fan Chart Annual Real GDP growth



Panel B: Fan Chart Annual Deflator



Panel C: Fan Chart Annual Headline Inflation



Considering an alternative adverse shock scenario: this scenario assumes the continuation and expansion of the war on Gaza, leading to prolonged repercussions on Jordan's economic growth, contrary to the baseline assumption that the war will stop by the end of 2024. The ongoing conflict is expected to escalate regional tensions, causing higher oil prices due to supply disruptions and increased geopolitical risk premiums. Additionally, the expansion of the war and resultant economic uncertainties are assumed to prompt the U.S. Federal Reserve to slow down the pace of its interest rate decreases, resulting in continued elevated global interest rates compared to the baseline. These factors—expansion of the war, higher oil prices, and slower interest rate cuts—are interconnected and collectively exacerbate the adverse impacts on Jordan's economy.

The alternative scenario predicts marginally lower economic growth compared to the baseline, starting from 2025. In 2024, both scenarios project the same real GDP growth of 2.4%, as the adverse effects are expected to manifest beginning in 2025. In 2025, real GDP growth in the alternative scenario is projected at 2.4%, below the baseline's projection of 2.6%. Nominal GDP growth under the alternative scenario decreases to 5.0% in 2025, compared to 5.2% in the baseline. Headline inflation is higher in the alternative scenario, with a rate of 2.8% in 2025, compared to 2.5% in the baseline scenario. This reflects the net effect of higher oil prices resulting from the expanded conflict, leading to increased costs of goods and services, and higher interest rates. Deflator inflation is also slightly higher in the alternative scenario at 2.6% in 2025, compared to 2.5% in the baseline.

Under this alternative scenario, domestic revenues in Jordan are projected to decline in 2025, driven by slower economic growth, heightened regional tensions, and disruptions to trade flows. Total domestic revenues are projected at 9,075 million JD in 2025, compared to 9,450 million JD in the baseline scenario. This reduction is primarily due to lower tax revenues, including income taxes and general sales taxes, as economic activities slow down.

Current expenditures are projected to be slightly lower in the alternative scenario in 2025, at 11,021 million JD, compared to 11,046 million JD in the baseline. Despite slightly higher interest payments—projected at 2,195 million JD in the alternative scenario versus 2,190 million JD in the baseline—total current expenditures expected to decrease. This suggests that the government may implement spending cuts or efficiency measures in other areas of current expenditures to manage the fiscal impact. The government is anticipated to provide higher levels of social transfers in the 2025 budget to protect its citizens from the adverse economic impacts, reallocating resources within the current expenditures to support vulnerable populations.

Capital expenditures are expected to decrease under the alternative scenario as the government reprioritizes spending to address immediate economic challenges. Capital expenditures in 2025 are projected at 1,256 million JD in the alternative scenario, compared to 1,406 million JD in the baseline. The reduction in capital spending reflects the government's efforts to manage the fiscal deficit by postponing non-priority investment projects.

The net effect of reduced revenues and adjusted expenditures is expected to deepen the fiscal deficit, consequently increasing the debt-to-GDP ratio beyond the levels projected in the baseline scenario. The overall fiscal deficit (including grants) is projected to be higher in the alternative scenario at 6.1% of GDP in 2025, compared to 5.6% in the baseline scenario. Government and guaranteed gross debt (net of SSC holdings) is projected to reach 90.2% of GDP in 2025 under the alternative scenario, slightly higher than the 89.5% projected in the baseline.

Facing these challenges requires cautious fiscal strategies to overcome the economic constraints arising from the interconnected geopolitical uncertainties affecting the region. The government may need to focus on efficient resource allocation, enhancing revenue collection mechanisms, and prioritizing essential expenditures to maintain fiscal sustainability. Additionally, to mitigate the harmful effects of high global interest rates, trade route disruptions, and oil price fluctuations resulting from the expansion of the war, there is a need to diversify import sources and enhance strategic reserves. Strengthening economic partnerships with alternative markets and investing in energy diversification can also help reduce vulnerability to external shocks. These strategies aim not only to address the immediate fiscal challenges but also to secure economic stability and resilience against external shocks in the longer term.

Table 3.2: Macro Fiscal Risk Scenario

	2023	2024	2025	2026	2027
Real GDP Growth (%, YoY)	2.7%	2.4%	2.4%	2.6%	2.9%
Nominal GDP Growth (%, YoY)	4.5%	4.7%	5.0%	5.0%	5.5%
Deflator Inflation (%, YoY)	1.8%	2.2%	2.6%	2.5%	2.6%
Headline Inflation (%, YOY)	2.1%	1.8%	2.8%	3.1%	3.6%
Domestic Revenues	8,520	8,618	9,075	10,021	10,816
Grants	712	708	760	624	785
Taxes: Income	1,773	1,683	1,768	1,938	2,102
Taxes: GST	4,156	4,372	4,678	5,198	5,600
Taxes: Trade	240	246	264	286	335
Taxes: On Grants	81	53	30	30	30
Taxes: Other	103	113	101	114	125
Taxes: Non-tax Revenue	2,248	2,204	2,264	2,486	2,653
Total Expenditures	11,004	11,786	12,277	12,750	12,922
Current Expenditures	9,626	10,499	11,021	11,314	11,375
Interest Payments	1,703	2,068	2,195	2,330	2,115
Capital Expenditures	1,378	1,287	1,256	1,436	1,547
Overall Deficit	(1,860)	(2,460)	(2,442)	(2,105)	(1,321)
Overall Deficit (% of GDP)	-5.1%	-6.5%	-6.1%	-5.0%	-3.0%
Primary Deficit	(869)	(1,100)	(1,007)	(399)	9
Primary Deficit (% of GDP)	-2.4%	-2.9%	-2.5%	-1.0%	0.02%
Primary Deficit including (NEPCO & Water Sector)	(1,513)	(1,808)	(1,633)	(966)	(517)
Primary Deficit including (NEPCO & Water Sector) (% of GDP)	-4.2%	-4.8%	-4.1%	-2.3%	-1.2%
Government and guaranteed gross debt (net of SSC holdings)	32,289	34,188	35,874	36,925	37,327
Debt (net of SSC holdings) (% of GDP)	89.2%	90.2%	90.2%	88.5%	84.8%

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