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- The outlook for the Jordanian economy brings renewed momentum despite persistent challenges.
 - To successfully confront these challenges and improve economic performance, a gradual and steady fiscal consolidation and a continued implementation of reforms to enhance business conditions and employment prospects is needed.
 - These policies and reforms need to be supported by significantly greater efforts from the international and regional donor community.

A team from the International Monetary Fund (IMF), led by Martin Cerisola, visited Amman during January 27-February 7, to discuss the country's recent economic developments; as well as the authorities' economic policies and reforms under Jordan's reform program supported by a three-year IMF Extended Fund Facility (EFF) arrangement (see Press Release [16/381](#)).

At the conclusion of the visit, Mr. Cerisola issued the following statement:

"Since the completion of the first review of the EFF (Press Release [17/237](#)), Jordan has continued to implement policies and reforms to preserve macroeconomic stability and enhance the conditions for higher and more inclusive growth. Despite persistently challenging external conditions, exports have increased in 2018, supported by the re-opening of the border with Iraq, while tourism has grown strongly, and credit to the private sector has grown at solid rates for the third consecutive year. However, external financing conditions were less favorable, most

notably with a significant slowdown in foreign direct investment inflows and some capital outflows. Nonetheless, economic growth remained at about 2 percent and inflation remained relatively steady, falling below 4 percent by year-end. Weak growth and investment remain insufficient to generate more jobs, with unemployment at around 18 percent, presenting difficult conditions for the population.

“The outlook for the Jordanian economy brings renewed momentum. The re-opening of the border with Iraq and associated trade and investment agreements; the extension and broadening of the trade agreement with the European Union; as well as other efforts to lower the cost of generating energy, all bode well for a steady recovery in investment, exports, competitiveness, and growth. However, challenges still remain, particularly from tighter and more volatile global financing conditions and elevated vulnerabilities.

“To successfully confront these challenges and improve economic performance, the IMF team and the Jordanian authorities have reached agreement on policies and reforms for 2019; anchored on a gradual and steady fiscal consolidation path and the continued implementation of reforms to enhance business conditions and employment prospects. These policies and reforms will also need to be supported by a significantly greater support from the international and regional donor community. The forthcoming London Initiative at end-February 2019 provides a timely opportunity for Jordan to present an ambitious and credible reform path going forward and for the donor community to unlock much needed budget grants and concessional financing to support the reforms and Jordan's large financing needs. Staff will continue consultations with the authorities and the donor community in the coming weeks to ensure that appropriate financing assurances for budget grants and concessional loans are in place, which are needed to present the second review under the IMF-supported program to the IMF Executive Board.

“The agreement on fiscal policy for 2019 centers on the need to firmly return the combined public deficit to a downward path. The sustained strong efforts to rein in the combined public deficit, from 3.8 percent of GDP in 2016 to 2.9 percent of GDP in 2017, proved more difficult in 2018, as the combined deficit rose to 4 percent of GDP. To reduce the combined deficit to 2.5 percent of GDP in 2019, the authorities have taken several measures, including the adoption of a new income tax law. Critical to this goal is the steadfast and unwavering implementation of the new income tax law, together with a significant strengthening of tax administration to overcome the marked revenue underperformance of 2018. The new income tax law improves the previous system--it expands the tax base in an equitable manner, by protecting the middle class and most vulnerable; closes some distortions and loopholes; and helps protect specific sectors severely affected by regional conditions and by the removal of non-World Trade Organization-compliant export subsidies. The law critically sets the stage for a greater and much-needed focus on reducing tax evasion in the years ahead. With increasing prospects for improved regional and domestic security conditions, greater efforts will also be needed to

address the growth in public spending, to help partly accommodate other social needs, such as in health and education.

“The conduct of monetary policy by the Central Bank of Jordan (CBJ) has skillfully balanced the need to maintain an adequate level of reserves to support the Jordanian dinar, while also keeping a close eye on supporting domestic economic conditions. Developments in 2018 suggest the need to continue to gradually rebalance the growth of loans and deposits, reduce dollarization, and provide greater support to the balance of payments, particularly in light of tightening global and regional monetary conditions. The program aims to keep gross usable reserves at \$14 billion, about 105 percent of the Fund's reserve adequacy metric by end-2019.

“Discussions also focused on key reforms to enhance growth performance. Important reforms to enhance sustained and inclusive growth have now been finally implemented; including the secured transactions, bankruptcy, and business-inspections laws. Also, labor market reforms, which have extended refugee work permits to important sectors of the economy, part-time employment and flexible work arrangements, enhanced access to childcare, and strengthened the link from training to work, are also important. Ongoing discussions with development partners on measures to further promote employment and stimulate growth present a critical opportunity to decisively address high unemployment—particularly for youth and women—and to enhance overall sentiment and business conditions. Staff reiterates the call for upfront reforms to reduce the taxation of formal jobs, to promote investment through public private partnerships within a sound framework, and to reduce the high cost of energy facing the corporate sector, which undermines needed investment. In this regard, future plans to restructure electricity tariffs should eliminate cross-subsidization and supported by a stronger implementation of the tariff adjustment mechanism, which has so far unduly disregarded NEPCO's return to operational losses. With the financial situation in the water sector continuing to worsen, as the accumulation of arrears has accelerated to reach 0.5 percent of GDP, greater and concrete efforts are needed to arrest the insufficient progress with revenue and cost-saving measures.

“The IMF team would like to thank the Jordanian authorities, government officials, as well as representatives of the business community, for candid and constructive discussions and for their hospitality.”

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