منتدى الاستراتيجيات الأردني
JORDAN STRATEGY FORUM

The Jordanian Economy: Current Dynamics and Future Outlook

Dr. Zafiris Tzannatos

Sponsored by

البنك الأردني الكويتي
JORDAN KUWAIT BANK
"More than just a bank"

KBW
Ventures Jordan

Jordan Strategy Forum Members

منتدى الاستراتيجيات الأردني
JORDAN STRATEGY FORUM

Summary

Jordan

1. **Has faced and is facing many shocks**
   - knows what needs to be done
   - and has managed to remain stable with signs of resilience
2. **Is committed to significant reforms**
3. **Much will depend on implementation (and no new shocks), especially:**
   - how the macro (esp. debt management) will affect the micro (private sector growth)
   - social acceptance (when the results will start showing up)

At face value

It is the private sector?

It does not grow fast enough, does not create decent employment …

But is it the cause or a symptom?

At the broader level

It is that the market works? (and not only in Jordan):

The private sector (and people) react to conditions at the macro level

Deficit/debt + regulations + external shocks

Where do the two meet?

Probably much closer to the one of the two hands

Outline

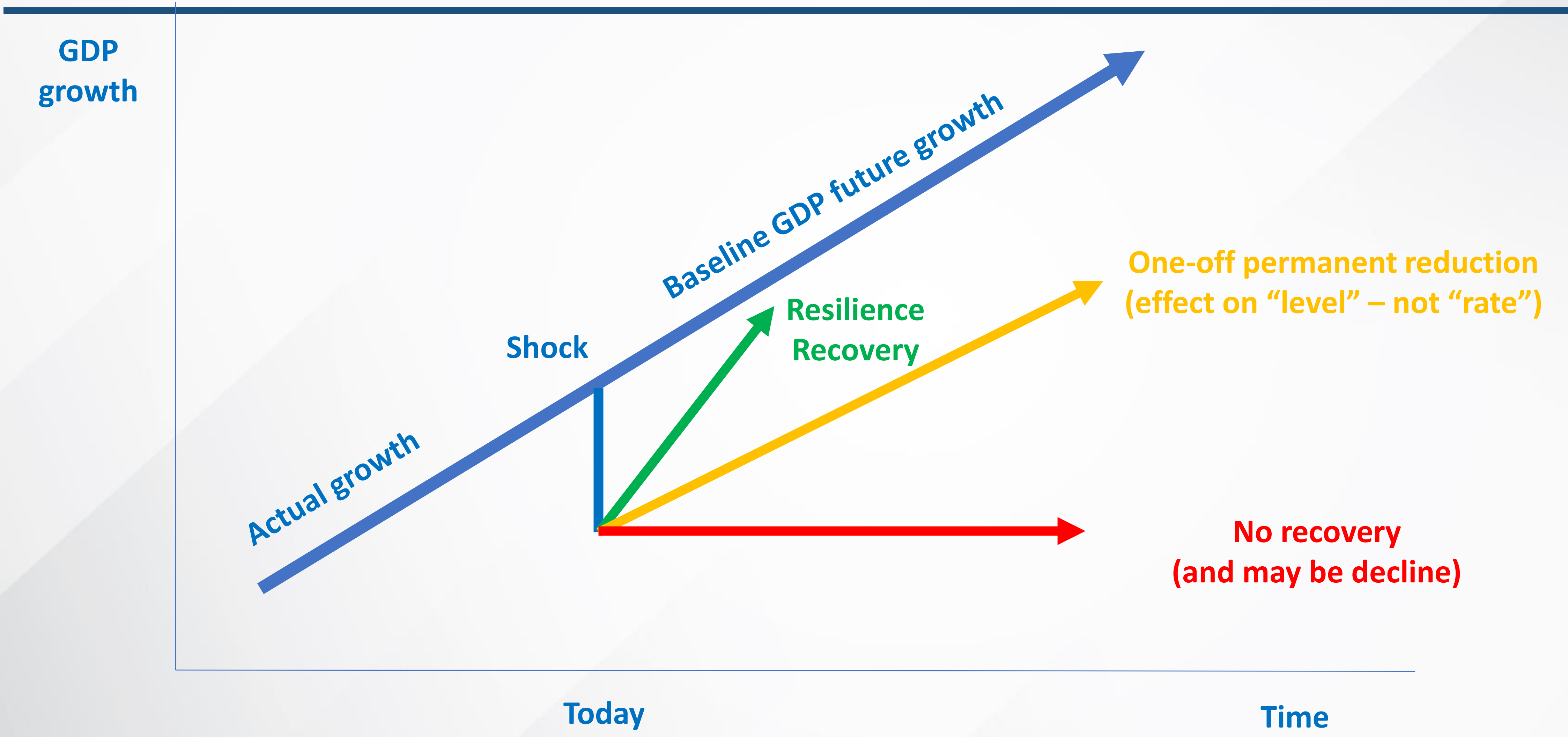
1. **What happens after shock? (Jordan has had many shocks)**

2. **What are the underlying economic dynamics in Jordan?**
    - Comparison with other Arab countries
    - Jordan's macroeconomic momentum (economic, social)
    - A look at the public sector (current expenditures, debt, pensions, NEPCO, WAJ, …)
    - A look at the private sector (investment, diversification, productivity, …)

3. **Outlook**

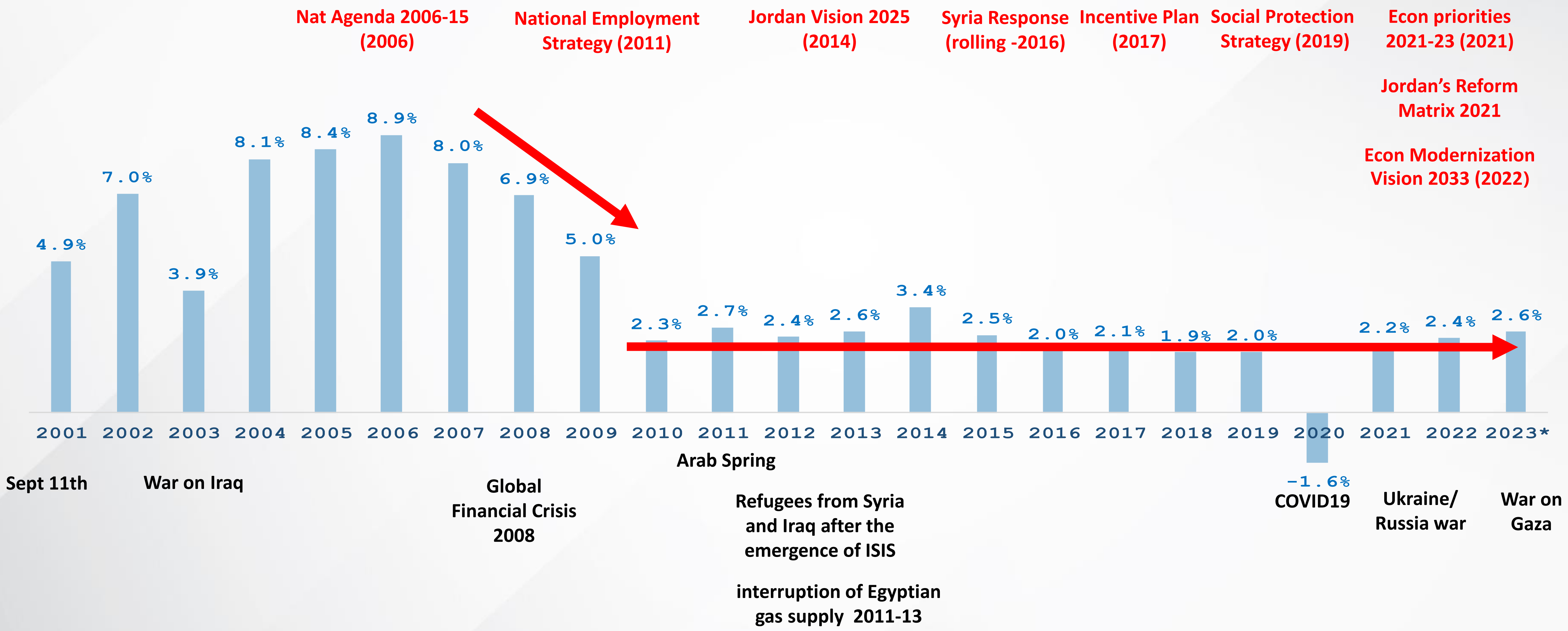
What happens after a shock?

Stylized growth path after a shock



Jordan: GDP Annual Growth Rate (%), 2001-2023: Shocks and Responses

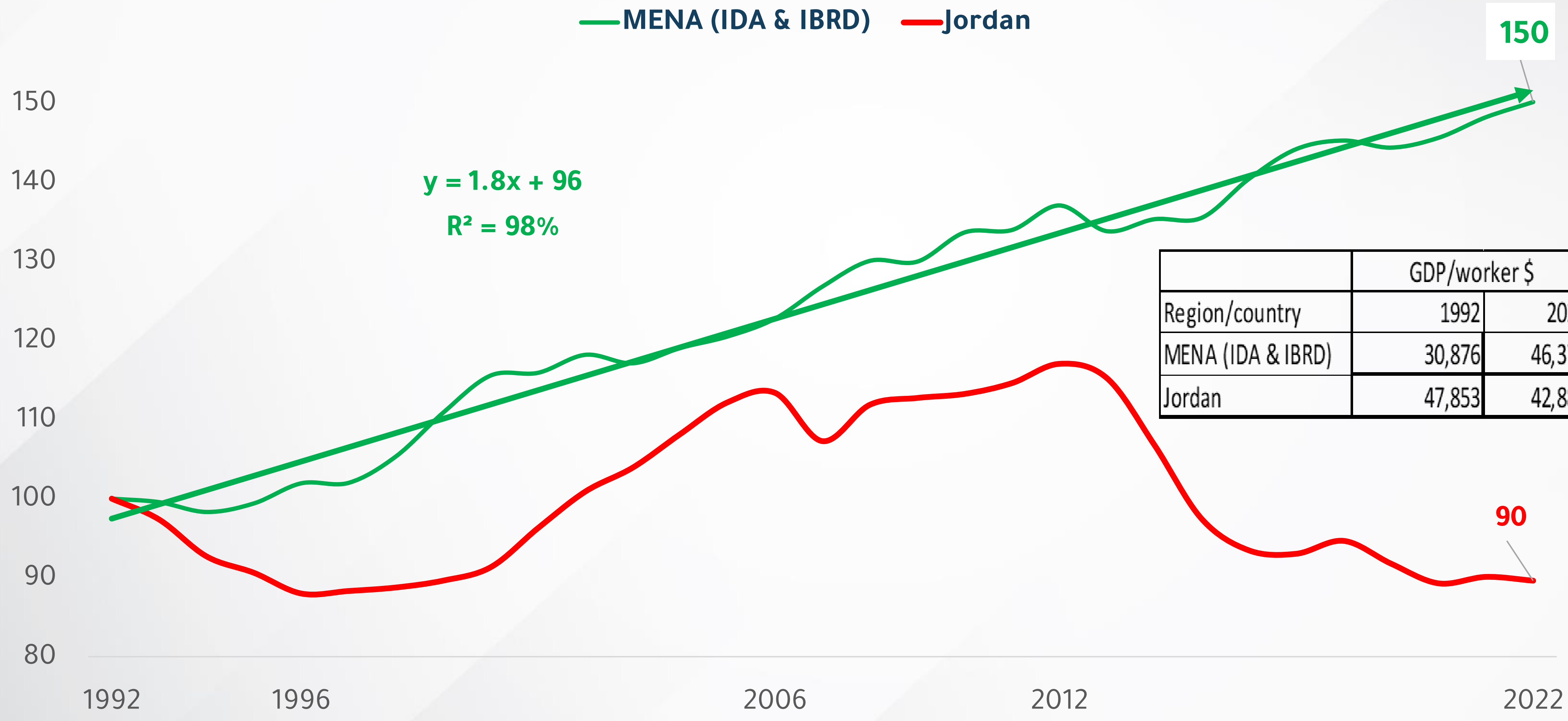
منتدى الاستراتيجيات الأردني
JORDAN STRATEGY FORUM



How does Jordan compare to MENA?

Index of GDP per person employed since 1992 (constant 2017 PPP $; MENA excluding the GCC)

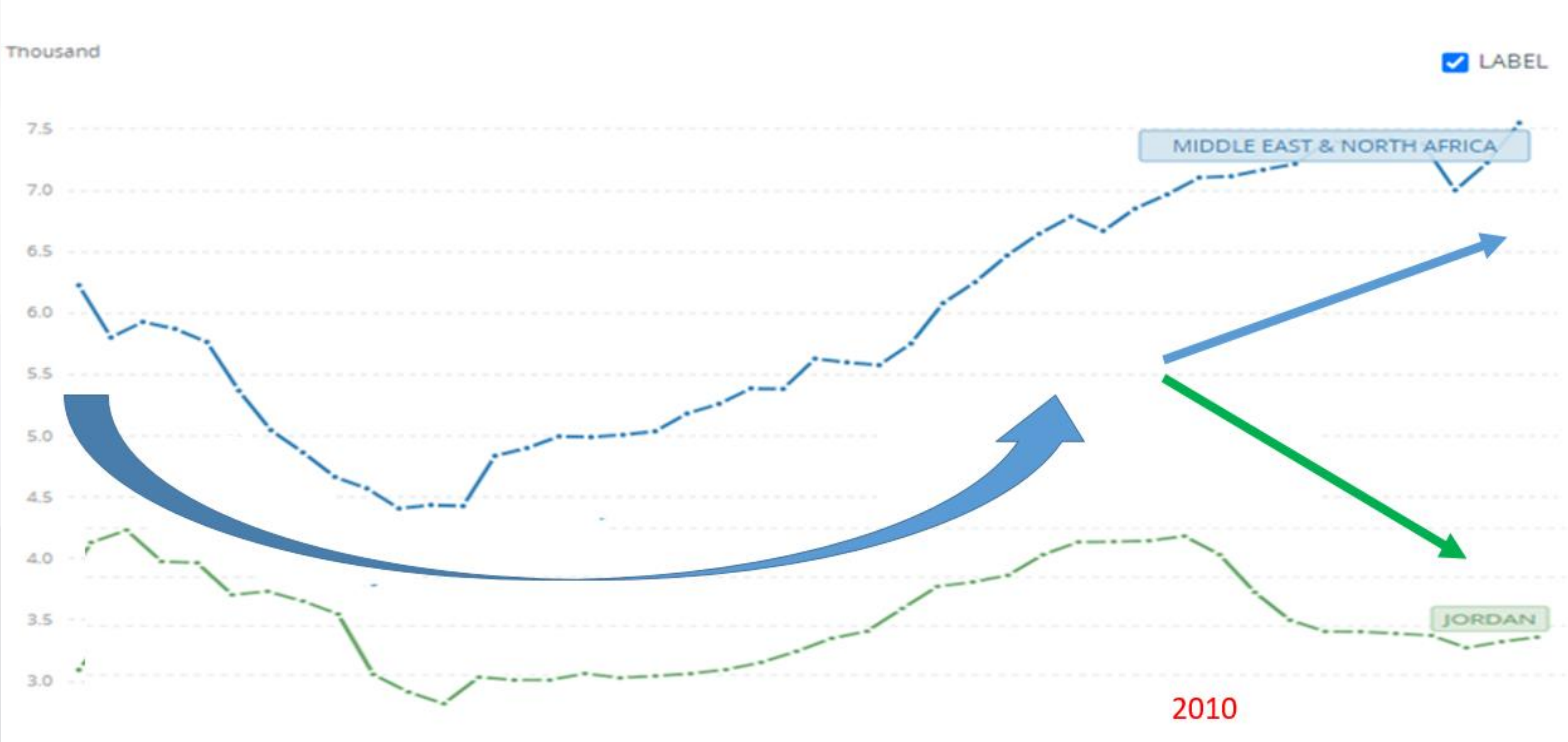
منتدى الاستراتيجيات الأردني
JORDAN STRATEGY FORUM



	GDP/worker $		Difference
Region/country	1992	2022	$
MENA (IDA & IBRD)	30,876	46,370	15,494
Jordan	47,853	42,885	-4,968

Index of per capita GDP since 1992 (constant 2017 PPP $; Jordan lagged 4 years)

منتدى الاستراتيجيات الأردني
JORDAN STRATEGY FORUM

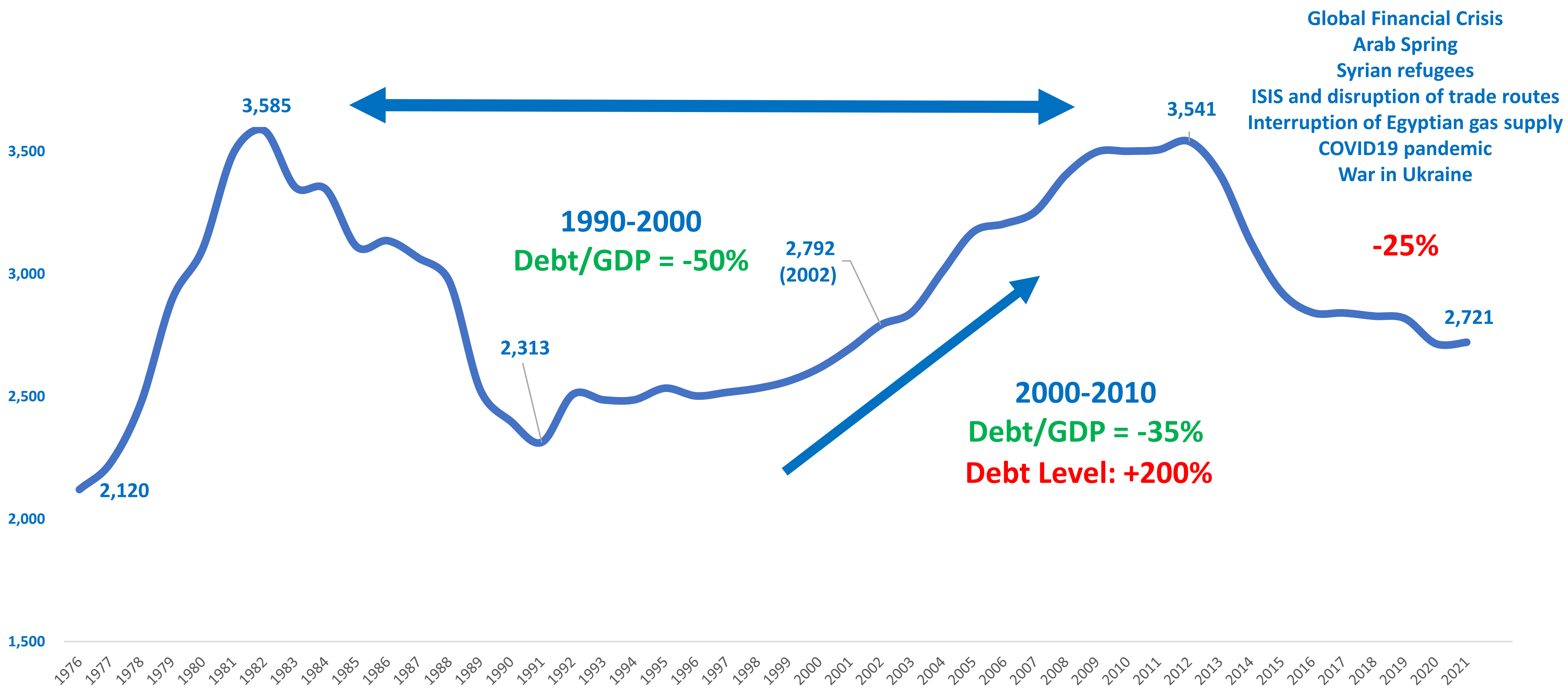


Source: World Bank Development Indicators

Source: World Bank Development Indicators

Per capita GDP (real LCU - 2016)

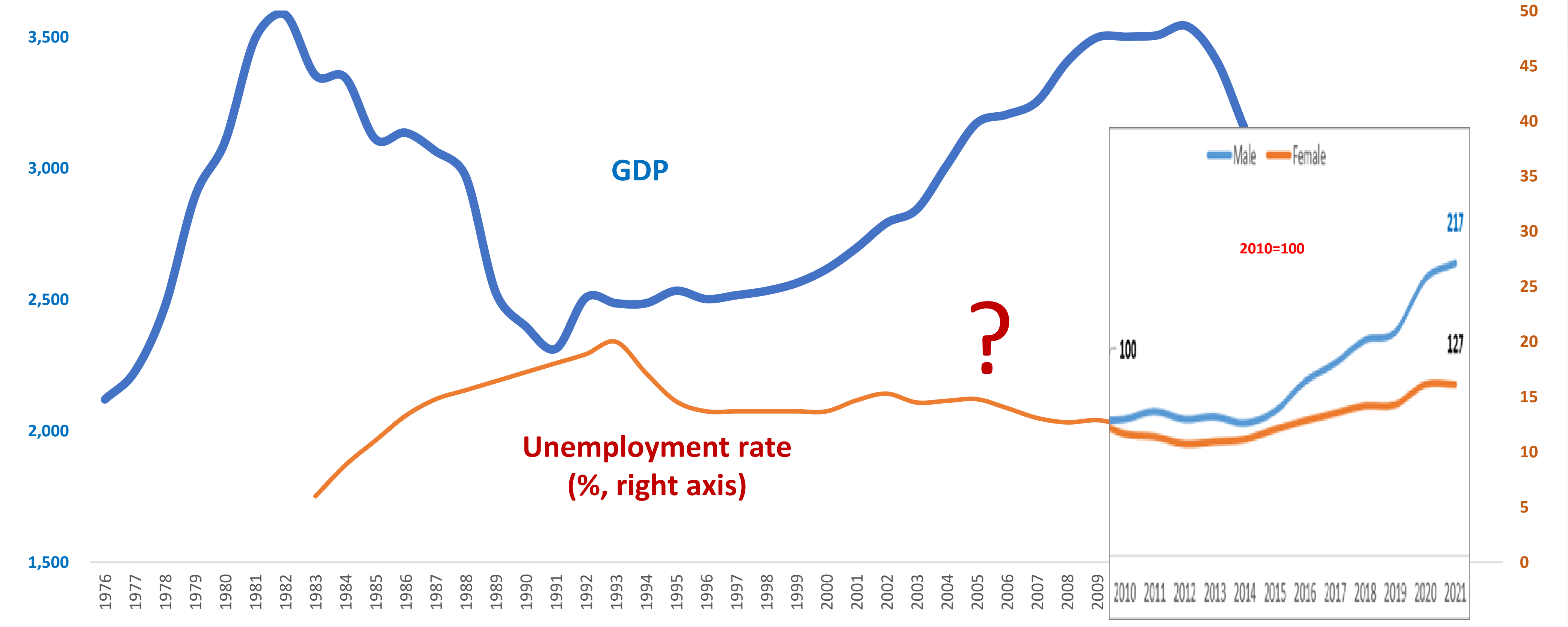
منتدى الاستراتيجيات الأردني
JORDAN STRATEGY FORUM



Source: World Bank Development Indicators, DOS

Composition of unemployment in Jordan late 2010s: 57% adults. 69% men
Unemployment rates are a youth and gender issue
Unemployed persons is a STRUCTURAL issue

منتدى الاستراتيجيات الأردني
JORDAN STRATEGY FORUM



Summarizing ….

<u>Outcomes:</u>

Little resilience

Secular stagnation

Persistent unemployment

<u>What has been the role of:</u>

Macro (public policy) and

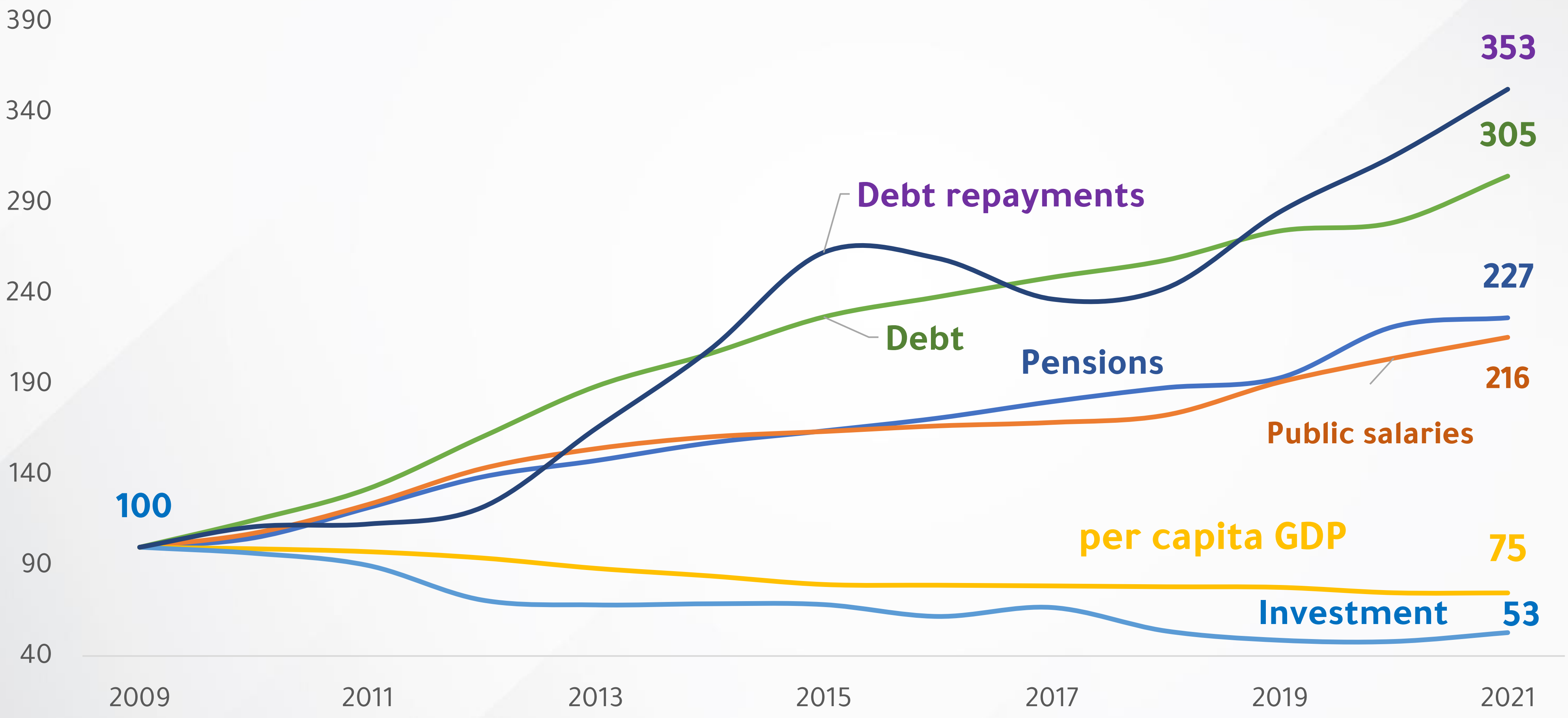
Micro (private sector)?

Or is it both?

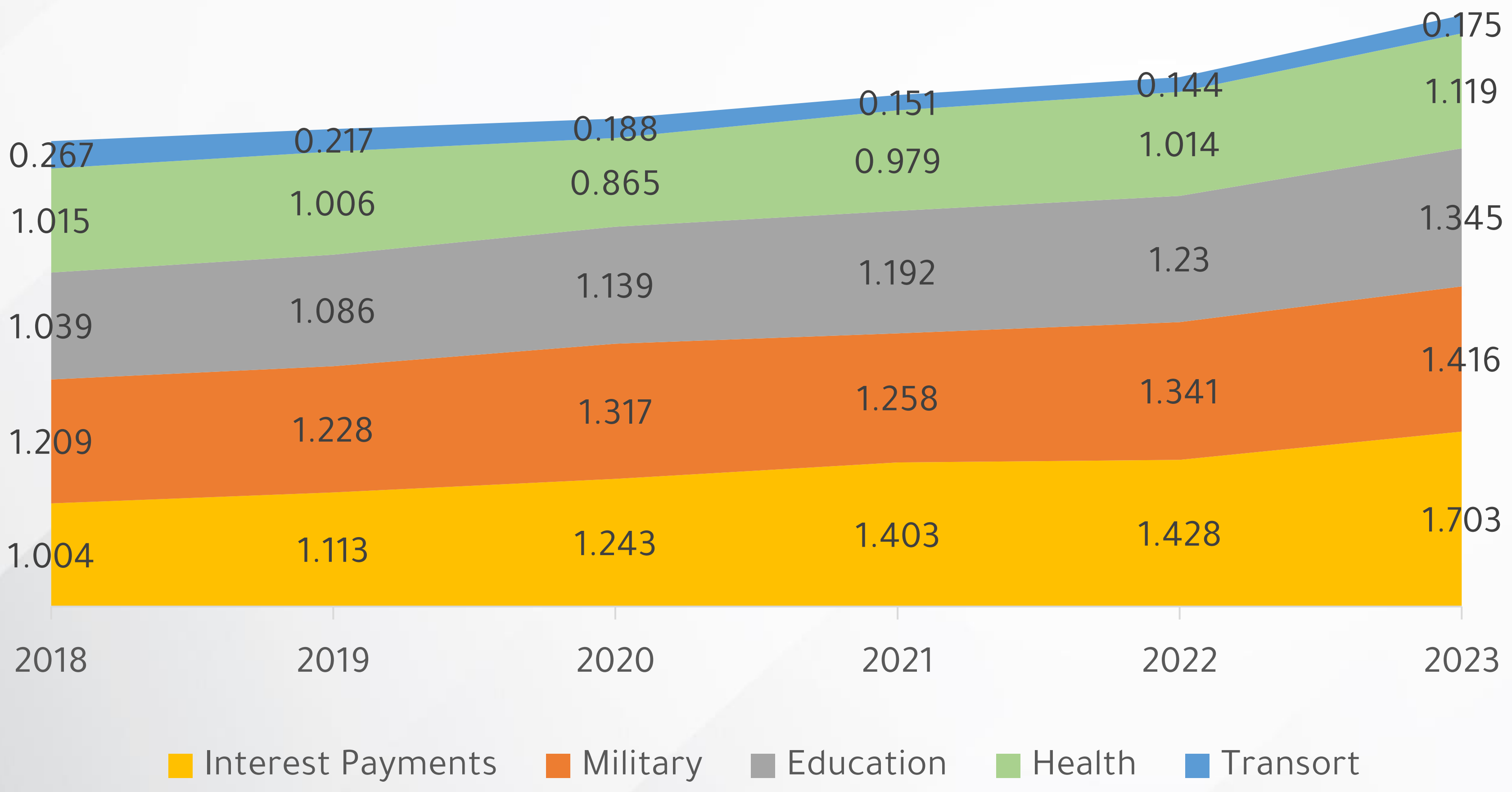
A look at the macro:

- Current expenditure and debt up
- Investment and per capita income down

Evolution of key macroeconomic variables
Index 2009 = 100



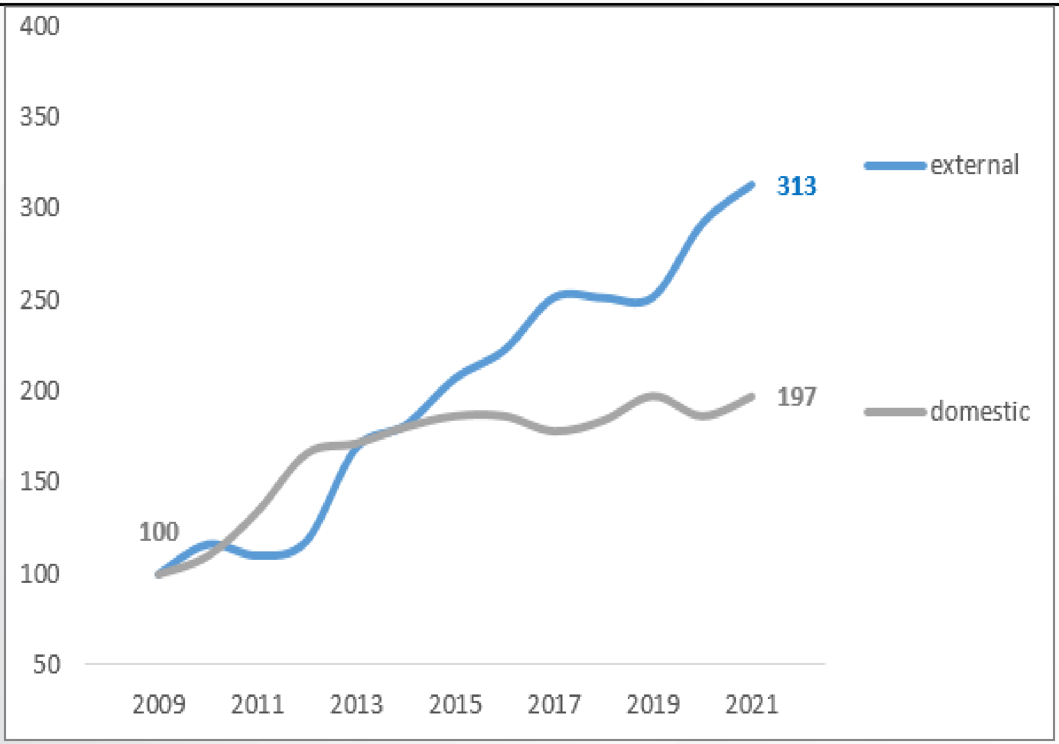
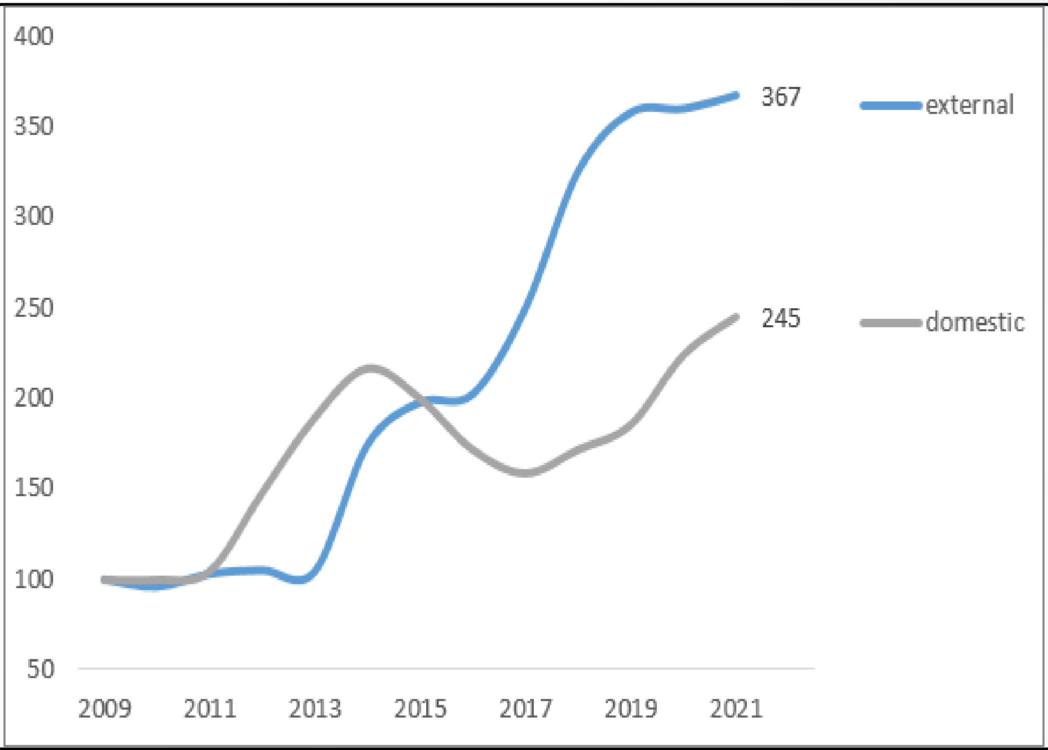
The 2024 General Budget Law (JD, billion)
Interest Payments vs. Spending on Selected Areas



2018-2023 % change	
transport	-34%
health	10%
education	29%
interest	70%

The share of external debt and its servicing has been rising

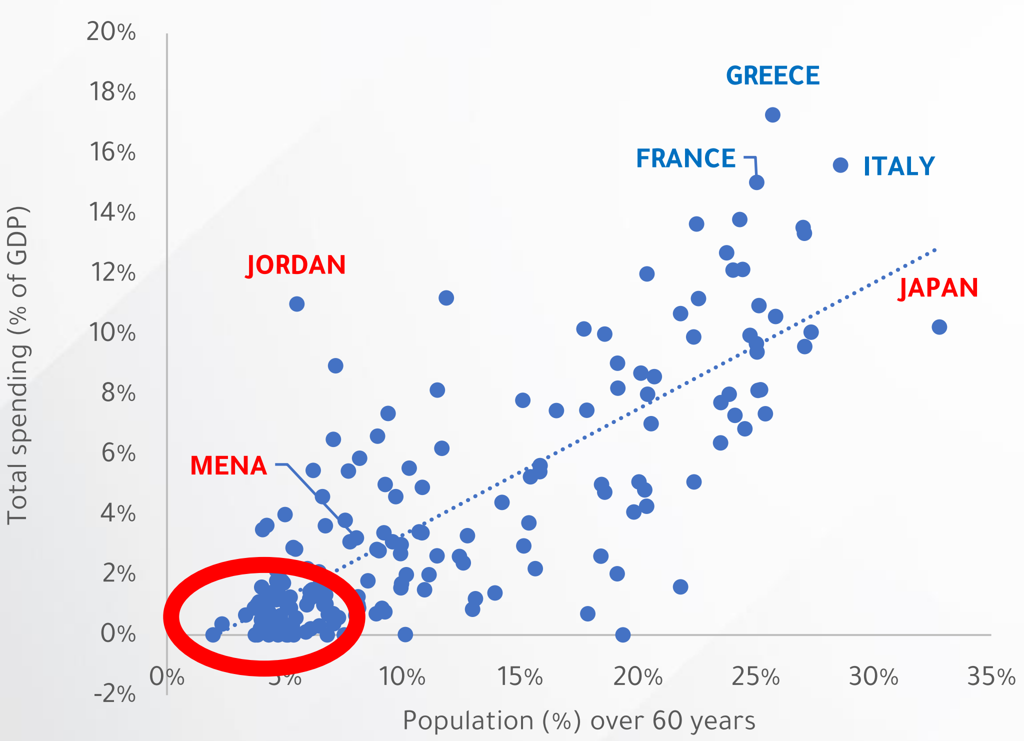
JORDAN STRATEGY FORUM
منتدى الاستراتيجيات الأردني

Evolution and composition of debt (% of GDP; index 2009=100)	Evolution and composition of debt service (% of GDP; index 2009=100)
	

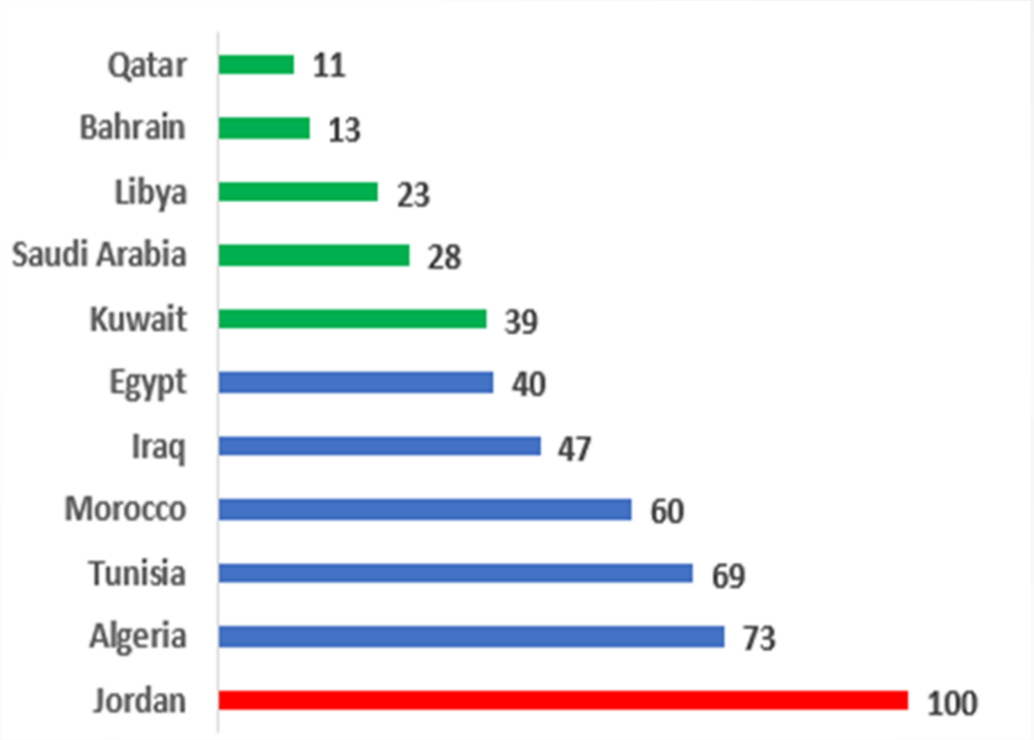
Source: Central Bank of Jordan

Jordan stands out for its pension expenditure and early retirement

Pension spending (% of GDP)
vs % of population aged 60 year and over



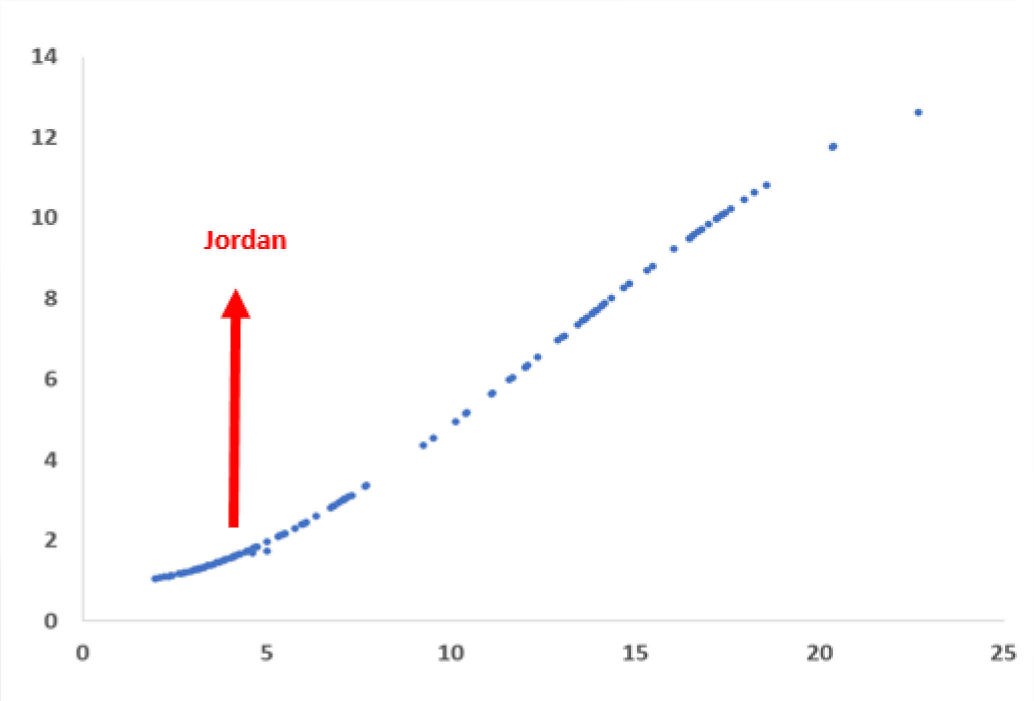
Pension expenditure (% of GDP)
Index: Jordan=100



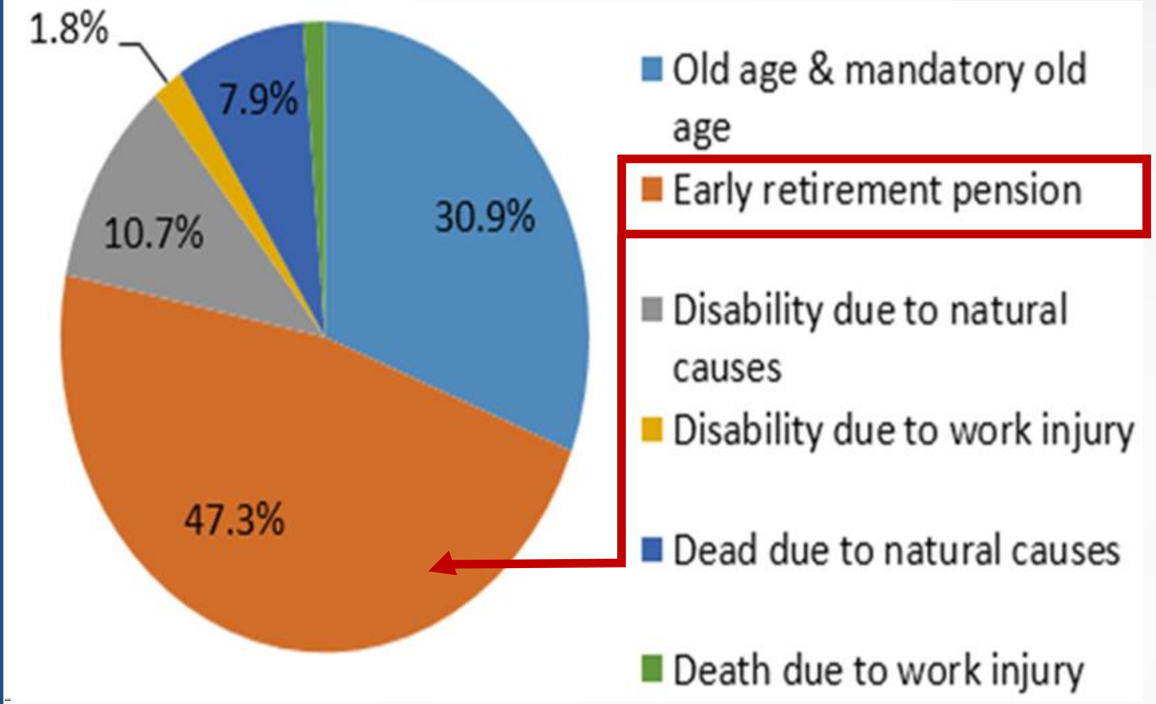
Source: World Bank pensions data base

Jordan stands out for its pension expenditure and early retirement

Fitted curve



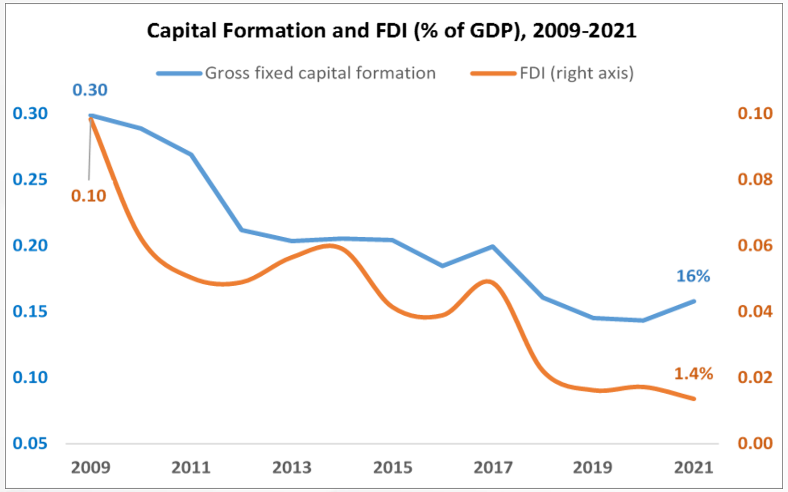
Composition of pensions, 2017

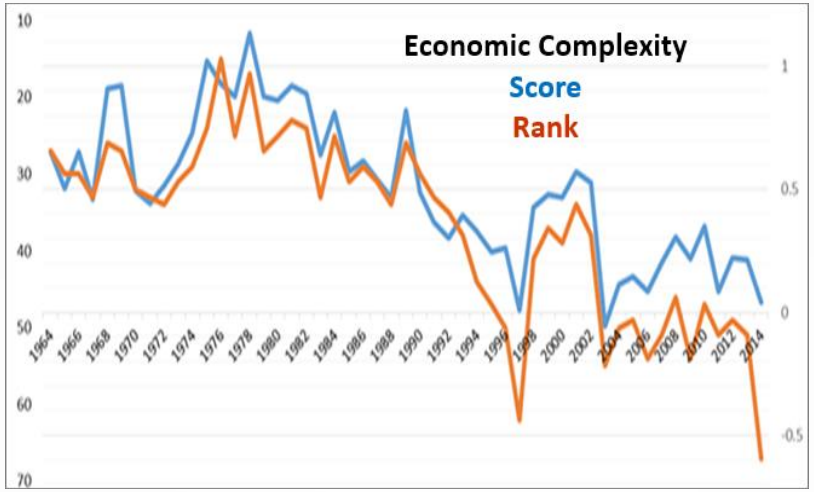


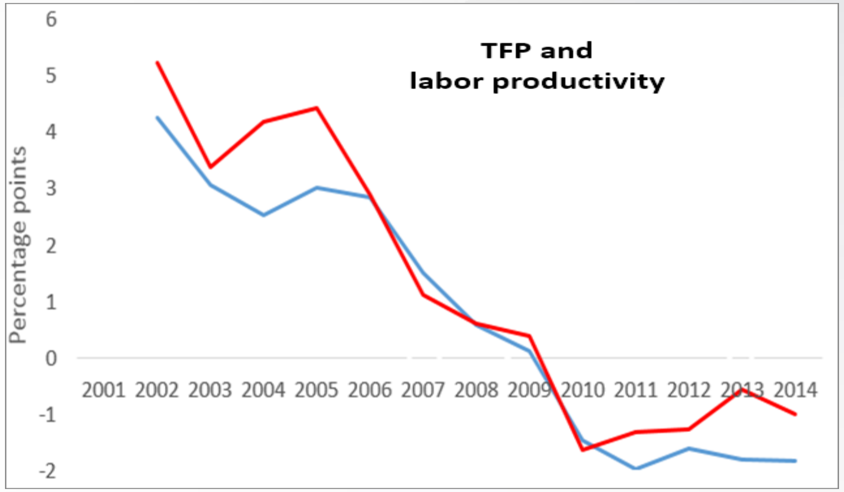
Source: World Bank pensions data base

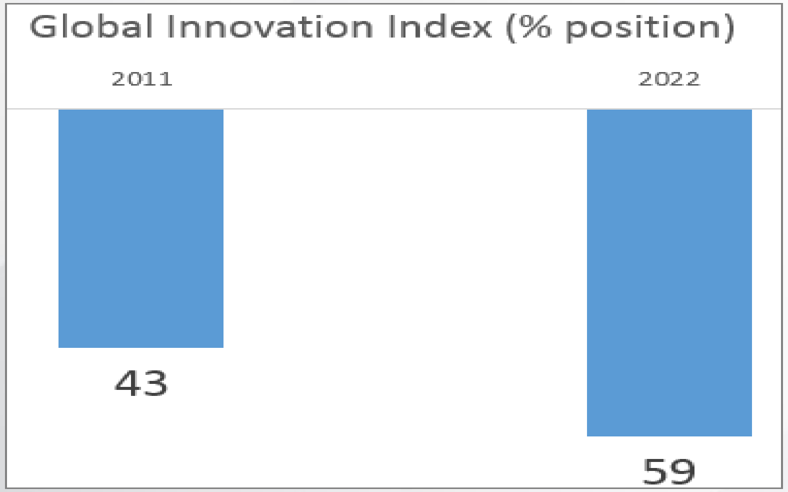
A look at the private sector

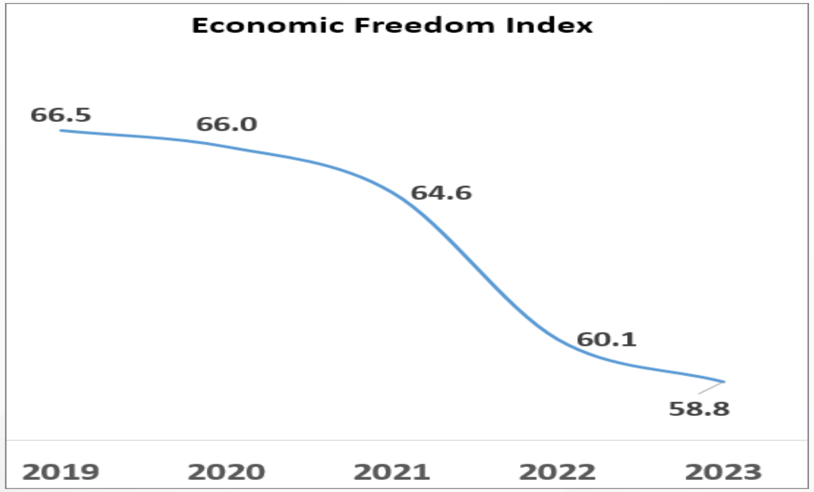
Investment, value-added, productivity and some other indicators have been declining

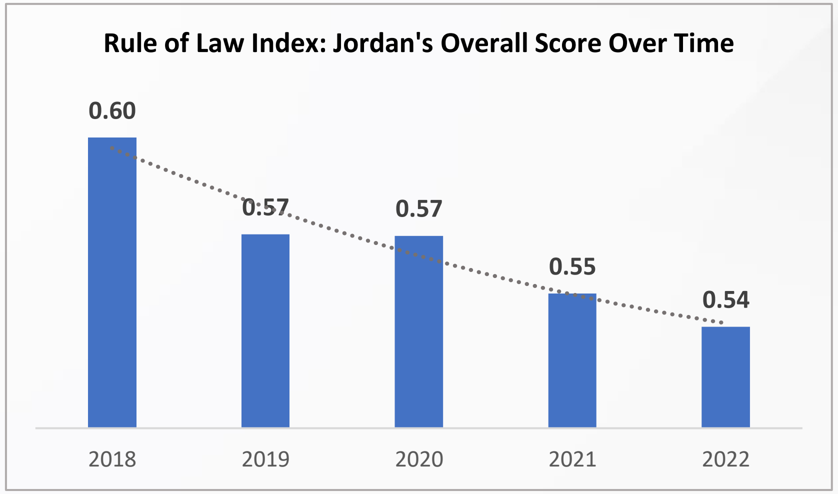












Looking ahead (DISCLAIMER)

“It is dangerous to make predictions, especially about the future”

Before the Global Financial Crisis global economic growth was nearly 8%.
These were the forecasts the year after:

- 4.5% (WB October)
- 3% IMF (late October)
- 2% IMF (November)
- 1% UN (early December)
- 0.9% WB (later in December)

Prospects (IMF): "All in line with the Program and the authorities' Economic Modernization Vision"

Despite a challenging global environment:

1. Jordan's GDP is projected to continue to grow at 2.6 percent in 2023 (and in 2024),
2. Inflation has remained relatively low and is declining
3. International reserves are adequate
4. The banking system remains healthy
5. Jordan successfully issued a 6-year US$ 1.25 billion bond at 7½ percent in April 2023
6. Fiscal policy is on track and public debt is expected to be reduced to 80 percent of GDP by 2028 (from 89% in 2022).

The Government is committed to:

1. broaden the tax base and improve tax compliance,
2. reduce the drain on public finances, improve the financial viability and efficiency of the electricity and water sectors, address the threats posed by climate change,
3. improve the efficiency of public spending,
4. enhance governance, reduce bureaucracy, strengthen transparency and create independent of regulatory bodies,
5. continue and accelerate structural reforms, strengthen competition, and further improve the business environment to create a more dynamic private sector that can generate sufficient jobs and contribute to higher living standards.

Public Sector

1. Revenues to increase to 1.5% of GDP and expenditures to decrease by 1% of GDP by 2028
2. The interest bill on debt increased and the surplus of the social security fund reduced
3. The electricity and water challenges "remain large" (indicative targets missed last year)
4. Legacy budget deficits in the two sectors carry significant debt sustainability implications
5. JD100 million additional annual investments are needed in the water sector.

Prospects

1. Public debt is projected to continue on a downward trajectory but the pace of decline will decelerate after 2027 - reaching 76% by 2035
2. Notable risks to the debt path include (i) delayed structural reform implementation; and (ii) risks to fiscal balances from higher-than-expected costs related to large PPPs
3. Robust, stronger, and timely development donor support is needed
4. The probabilistic IMF's Sovereign Risk and Debt Sustainability Framework suggests that a wide band of possibilities remains.

Private Sector

1. NEPCO has arrears to other energy companies, and electricity tariffs are high in comparison to neighbouring countries
2. Jordan's climate adaptation efforts will require private sector participation and donor financing
3. Banking supervision needs strengthening; systemic risk analysis needs to be enhanced
4. There is a risk of social discontent that can raise risk premia and borrowing costs, and worsen corporate vulnerabilities, translating into a deterioration in bank asset quality; capital outflows could materialize
5. Structural reforms should continue –and be accelerated – as they are needed to create a more dynamic private sector
6. The reforms include: attracting investment, boosting productivity, increasing competitiveness, creating open markets; reducing the cost of doing business, promoting competition, enhancing governance and transparency, reducing government regulation and interventions; curbing the prevalence of dominant firms - including sharpening the definition for market concentration and increasing penalties for violations; reduce licensing requirements in the tourism sector; address transportation bottlenecks
7. Cost of living is high, job creation is weak, unemployment remains too high

Personal Assessment and Recommendations

- **Little sovereign risk that could affect further the private sector**
- **Jordan was ranked top performer in MENA for *Doing Business* in 2019 (… but Jordan could not "pay-for-play")**
- **Key issue: Increase "the denominator" by private sector growth**

Sovereign country ratings selected countries, non-investment grade

Speculative grade

One grade **above** Jordan:

Armenia, Dominican Republic, Senegal, Uzbekistan

Highly speculative grade

Same as Jordan:

Albania, Bangladesh, Benin, Fiji, Honduras, Jamaica, Namibia

One grade **below** Jordan:

Cambodia, Papua New Guinea, Rwanda, Tanzania, Uganda

Credit Rating Scales by Agency, Long-Term

Moody's	S&P	Fitch	
Aaa	AAA	AAA	Prime
Aa1	AA+	AA+	High grade
Aa2	AA	AA	
Aa3	AA-	AA-	
A1	A+	A+	Upper medium grade
A2	A	A	
A3	A-	A-	
Baa1	BBB+	BBB+	Lower medium grade
Baa2	BBB	BBB	
Baa3	BBB-	BBB-	
Ba1	BB+	BB+	Non-investment grade speculative
Ba2	BB	BB	
Ba3	BB-	BB-	
B1	B+	B+	Highly speculative
B2	B	B	
B3	B-	B-	
Caa1	CCC+	CCC	Substantial risk
Caa2	CCC		Extremely speculative
Caa3	CCC-		Default imminent with little prospect for recovery
Ca	CC	CC	
	C	C	
C	D	D	In default
/			
/			

"Junk"

WOLFSTREET.com

Conclusion

- **Avoid turning "debt snowballing" into "debt avalanche":**
  - Increase the denominator in debt/GDP by investment and private sector growth
  - Decrease the numerator
    - Restrain from *increases* in expenditure
    - *Switch* expenditures public expenditure to areas with high economic and social returns
    - Make pensions *actuarially* sustainable, address NEPCO, water, climate adaptation …
    - *Rationalize* revenues (from don't tax *production* … to tax *land*)

- **Implement the already known/agreed reforms:**
  - Visions, strategies, plans, policies, programs, projects …
  - Supplemented with assistance by the donors.

Concluding remark:
The effects of achieving primary balance has been questioned empirically

The ability of policy-makers to maintain fiscal solvency through higher primary balances in countries with high debt ratios has been found to be weak and countries should focus more on accelerating economic growth.

(Mendoza and Ostry, IMF 2008).

منتدى الاستراتيجيات الأردني

JORDAN STRATEGY FORUM

The Jordanian Economy: Current Dynamics and Future Outlook

Dr. Zafiris Tzannatos

Sponsored by

البنك الأردني الكويتي

JORDAN KUWAIT BANK

"More than just a bank"

KBW

Ventures Jordan