Euler Hermes Economic Research

Country Risk Analysis

Jordan

Fragile but resilient

General Information

GDP	USD31.243bn (World ranking 91, World Bank 2012)
Population	6.32 million (World ranking 105, World Bank 2012)
Form of state	Constitutional Monarchy
Head of government	King Abdullah II ibn Hussein al-Hashemi
Next elections	Lower chamber, January 2017

Strengths

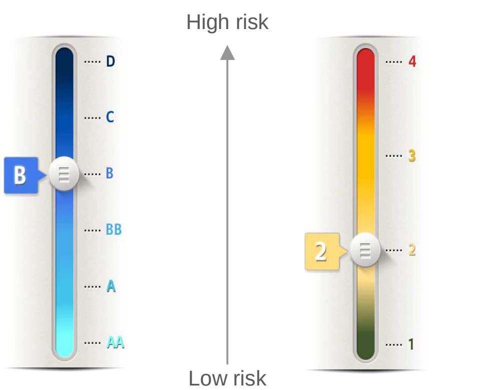
- King Abdullah remains popular and has the support of the military and security services.
- Relatively sound relations with the EU, US, IFIs and GCC countries provide political, financial and technical support.
- Frequent debt rescheduling reduced external debt service to manageable levels.

Weaknesses

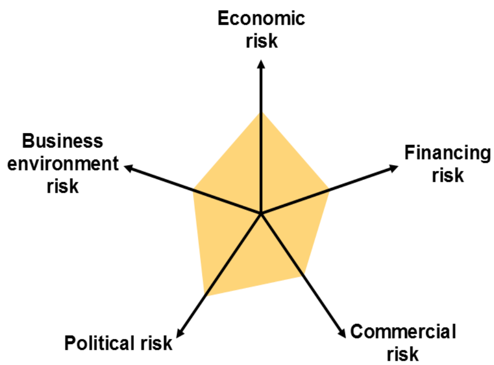
- Geographic location and recent history provide a negative political aspect of the country's borders.
- Socio-political differences between Trans-Jordanians and Palestinians (approximately 60% of the population) with a significant proportion of the latter group largely disenfranchised.
- Social pressures result from high unemployment.
- Workers' remittances, particularly from the GCC area, and foreign aid distributions from the same source are subject to prevailing politics and the vagaries of international oil prices.
- Lack of natural resources, other than phosphates.
- Large fiscal and current account deficits.

Country Rating

B2



Risk Dimensions



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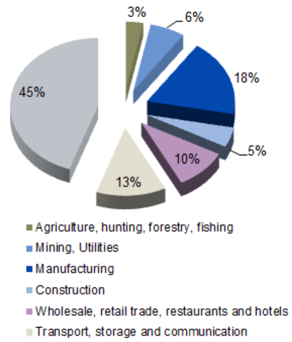
Economic Structure

GDP breakdown (% of total, 2011)



Sources: Chelem, UnctadStat, IHS Global Insight, Euler Hermes

Trade structure (% of total, 2011)

By destination/origin

Exports		Rank		Imports
Iraq	15%	1	20%	Saudi Arabia
United States	14%	2	12%	China
India	14%	3	7%	United States
Saudi Arabia	9%	4	6%	Korea, Republic of
Lebanon	4%	5	5%	Germany

By product

Exports		Rank		Imports
Fertilizers	15%	1	26%	Petroleum, petroleum products and related
Articles of apparel & clothing accessories	12%	2	6%	Road vehicles
Crude fertilizers other than division 56, and crude	10%	3	4%	Iron and steel
Medicinal and pharmaceutical products	8%	4	4%	Cereals and cereal preparations

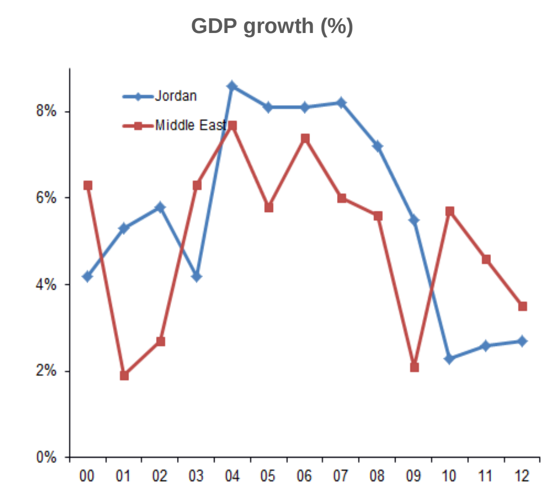
Economic Forecast

	2009	2010	2011	2012	2013f	2014f
GDP growth (% change)	5.5	2.3	2.6	2.7	2.5	3.5
Inflation (%, end-year)	2.7	6.1	3.3	6.5	2.4	2.5
Fiscal balance (% of GDP)	-8.5	-5.6	-6.8	-6.2	-4.8	-4.6
Public debt (% of GDP)	64.8	67.1	70.7	64.7	66.9	68.3
Current account (% of GDP)	-5.2	-7.1	-12.0	-18.1	-16.8	-16.0
External debt (% of GDP)	60.6	63.3	61.1	56.1	52.6	50.5

Sources: IHS Global Insight, National sources, Euler Hermes

Economic Overview

Annual average GDP growth in the period 2000-08 was +6.6% and in 2004-08 was +8%. Since 2010, GDP growth has under-performed, with annual growth of less than +3%. The downturn reflects both domestic and regional/global causes. On the home front, remedial policy action to limit the twin deficits in the fiscal and current accounts and to maintain IMF support has involved slower growth. Externally, a relatively weak global economy and a highly uncertain regional outlook (including an influx of Syrian refugees) have also slowed growth. GDP growth in 2012 was 2.7% y/y, just 0.1pps higher than in 2011. Moreover, the rate of growth slowed through the course of the year, with expansion of +2.2% y/y in Q4, which was a contraction in q/q terms (-4.4%). Growth last year was supported largely by expansion in business services (financial and insurance services increased by +9.4% y/y in Q4), while in the last quarter the manufacturing sector (18% of GDP) expanded only modestly and agriculture and mining contracted.



Sources: IHS Global Insight, Euler Hermes

GDP growth in 2013 and 2014 will remain limited by the same factors suggested above. In particular, regional and internal political/social constraints will be evident. Additionally, policymakers appear determined to limit the twin deficits. EH expects GDP growth of only +2.5% in 2013, with a rebound to +3.5% in 2014 subject to a semblance of stability in the wider region.

Economic Overview (continued)

Monetary policy is geared to the maintenance of the kingdom's pegged exchange rate (JOD0.71:USD1). This regime has long-established credibility, underpinned by a steady increase in foreign exchange reserves, and EH does not expect a marked policy change over the forecast period.

External competitiveness remains comfortable, although the nominal value of exports in 2013 is unlikely to show any growth. This reflects the slowdown in global growth/trade rather than domestic factors. Jordan's external accounts are affected significantly by the international oil price as crude oil and petroleum products account for 26% of the total import bill. With benchmark oil prices remaining above USD100/barrel and lacklustre demand for Jordanian exports the current account deficit will remain unsustainably high. The annual deficit/GDP ratio has been in double digits since 2011 and reached -18% of GDP in 2012. EH expects current account deficits of -16.8% and -16% in 2013 and 2014, respectively. Deficits of this magnitude require the continuing support of bilateral and multilateral agencies.

External debt levels (debt/GDP 52.6% and debt/export earnings 98.8% in 2013) require careful management, although foreign exchange reserves cover over four months of imports.

Partly in response to local policymakers' acceptance that deficits in the fiscal and current accounts need to be curtailed, a Stand-By Arrangement (SBA) with the IMF was agreed in August 2012. The SBA is a three-year facility of USD2.06 billion and in mid-July 2013 the Fund announced that it was broadly satisfied with progress and a disbursement of USD769 million was made at that time.

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