Euler Hermes Economic Research

Country Report

# Jordan

## Large twin deficits and considerable regional uncertainties

## 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 state** | King Abdullah II ibn Hussein al-Hashemi |
| **Next elections** | Lower chamber, January 2017 |

## Strengths

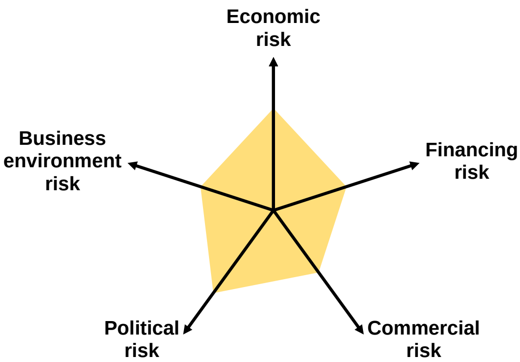
- King Abdullah remains popular and has the support of the military and security services.
- Relatively sound relations with the EU, U.S., IFIs and GCC countries provide political, financial and technical support.
- Significant producer of phosphates and potash.
- Frequent debt rescheduling reduced external 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




Source: Euler Hermes

## Trade structure

By destination/origin (% of total)

| Exports | | Rank | | Imports |
|---|---|---|---|---|
| United States | 14% | 1 | 24% | Saudi Arabia |
| Iraq | 14% | 2 | 9% | China |
| India | 11% | 3 | 7% | United States |
| Saudi Arabia | 9% | 4 | 5% | Italy |
| Indonesia | 4% | 5 | 5% | Turkey |

By product (% of total)

| Exports | | Rank | | Imports |
|---|---|---|---|---|
| Petroleum and related materials | 13% | 1 | 29% | Petroleum, petroleum products |
| Fertilizers | 12% | 2 | 5% | Road vehicles |
| Crude fertilizers and crude minerals | 11% | 3 | 5% | Cereals and cereal preparations |
| Medicinal and pharmaceutical products | 8% | 4 | 4% | Iron and steel |
| Vegetables and fruits | 8% | 5 | 3% | Textile yarn and related products |

Sources: Chelem, UNCTAD (2012)

## Economic Overview

### Latest data suggest an improved outlook...

In Q1 2014, GDP increased by +3.3% y/y, suggesting that the fundamental economic outlook is one of strengthening as this was the most rapid rate of growth since Q3 2011. Nevertheless, the economy remains fragile and vulnerable to adverse effects stemming from regional events, particularly spill-over effects from conflicts in Iraq and Syria.

### ...but GDP growth will remain restricted by domestic and regional factors

Annual average GDP growth in the period 2000-08 was +6.6% and in 2004-08 was +8%. Since 2010, however, GDP growth has under-performed, with annual growth of +3.2% in 2009-13. The downturn reflects both domestic and regional/global causes. On the home front, remedial policies to limit the twin deficits in the fiscal and current accounts and to maintain IMF support have involved slower growth. Externally, a relatively weak global economy and a highly uncertain regional outlook (including an influx of Syrian refugees) have slowed growth. GDP growth in 2012 was +2.7%, just 0.1pps higher than in 2011, and a similar rate of growth was recorded in 2013.

GDP growth in 2014 and 2015 will remain limited by the factors indicated above. In particular, regional and internal political/social constraints will be evident. Additionally, policymakers appear determined to limit the twin deficits, even though the influx of Syrian refugees (probably in excess of 1 million) exerts negative influences. EH expects GDP growth of +3% in 2014 and +3.5% in 2015 but with significant downside risks, subject to regional stability issues.

### Monetary policy is likely to remain stable

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.

### Current account deficits are unsustainably large, requiring financial support from the international community...

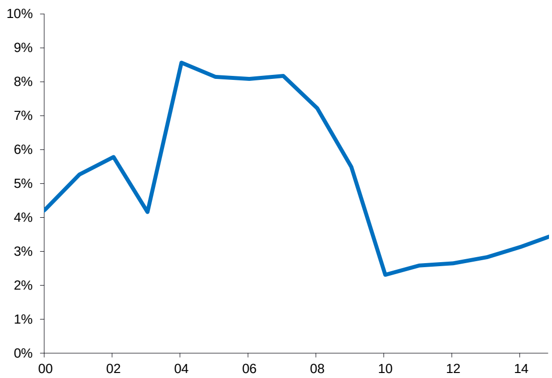
Jordan's external accounts are affected significantly by the international oil price as crude oil and petroleum products account for 29% of the total import bill. With benchmark oil prices remaining around USD100/barrel and lacklustre demand for Jordanian exports the current account deficit will remain unsustainably high. The annual deficit/GDP ratio has been in double digits since 2011 and reached -15% of GDP in 2012. EH expects current account deficits of over -11% and almost -10% in 2014 and 2015, respectively. Deficits of this magnitude require the continuing support of bilateral and multilateral agencies.
Currently, the Islamic State controls some border crossings between Jordan and Iraq, with associated reduced trade traffic. As a result, pressures are building on Jordanian enterprises with extensive trade contacts with its eastern neighbour.

**Key economic forecasts**

| | 2012 | 2013 | 2014f | 2015f |
|---|---|---|---|---|
| GDP growth (%change) | 2.7 | 2.7 | 3.0 | 3.5 |
| Inflation (%, end-year) | 4.7 | 5.6 | 3.4 | 3.4 |
| | | | | |
| Fiscal balance (% of GDP) | -8.3 | -5.5 | -5.6 | -4.7 |
| Public debt (% of GDP) | 80.2 | 88.3 | 89.8 | 90.2 |
| | | | | |
| Current account (% of GDP) | -15.2 | -10.0 | -11.6 | -9.8 |
| External debt (% of GDP) | 60.1 | 57.4 | 58.7 | 58.5 |

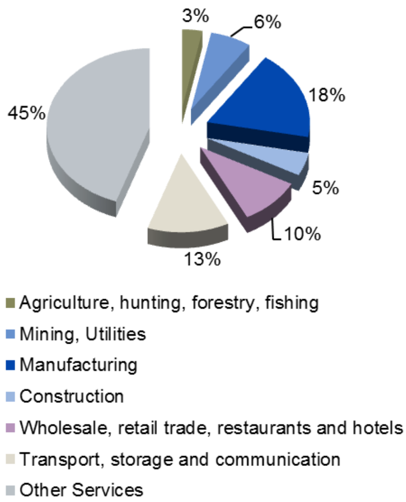
Sources: IHS Global Insight, Euler Hermes

**GDP growth (%)**




Sources: IHS Global Insight, Euler Hermes

**GDP breakdown (% of total)**




Sources: UNCTAD, IHS Global Insight, Euler Hermes

## ...and external debt ratios are also challenging

External debt levels (debt/GDP 58.7% and debt/export earnings 99.1% forecast for 2014) require careful management.
Despite the financing needs of large twin deficits and external debt repayments, foreign exchange reserves are increasing. FX amounted to USD13.2 billion at the end of 2013 and provided import cover of 6.6 months, compared with an international benchmark "comfort" level of 3 months.

## Public finances

EH expects fiscal deficits of -5.6% and -4.7% of GDP in 2014 and 2015, respectively. The improvement reflects the government's commitment to reduce fiscal deficits as part of its economic reforms under an IMF programme (see below). Even so, there are risks that deficits will not be contained, partly because of the financial strains imposed by the large influx of refugees from Syria.

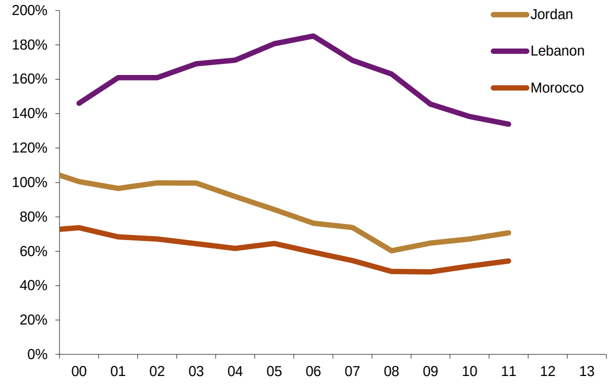
## Policy stance and IFI position

The country's investment environment is regularly assessed as poor but, in mid-2014, Jordan published a new draft investment law. The proposed law indicates the intention to streamline business processes and improve the institutional effectiveness of investment agencies. A Higher Investment Council is intended to co-ordinate all the bodies involved in investment decisions.

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-2014 the Fund announced that it was broadly satisfied with progress under the economic programme associated with the facility, while acknowledging that Jordan is subject to a difficult external environment.

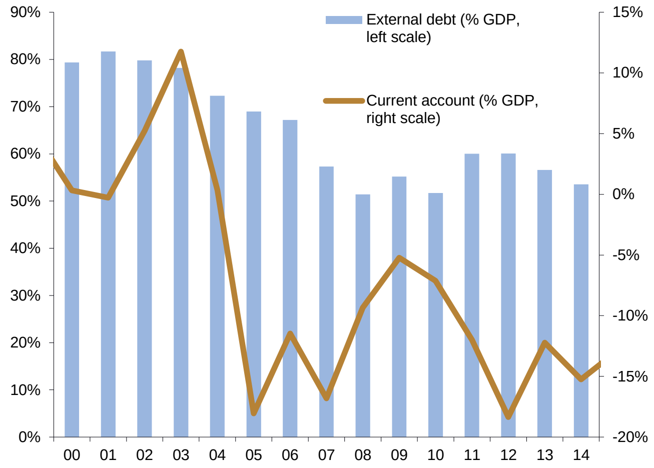
In addition to support from multilateral agencies, Jordan receives significant assistance from the EU, the U.S. and, in particular, the GCC states.

**General government (gross debt as % of GDP)**




Sources: IHS Global Insight, Euler Hermes

**External debt and current account balance (% of GDP)**




Sources: IHS Global Insight, Euler Hermes





Last review: 2014-09-20
Country Risk Analyst:
Andrew Atkinson
andrew.atkinson@eulerhermes.com