Euler Hermes Economic Research

Country Report

Jordan

Regional uncertainties continue to curtail growth

General Information

GDP	USD37.5bn (World ranking 90, World Bank 2015)
Population	7.6mn (World ranking 99, World Bank 2015)
Form of state	Parliamentary Constitutional Monarchy
Head of state	King ABDULLAH II ibn Hussein al-Hashemi
Next elections	2020, legislative

Strengths

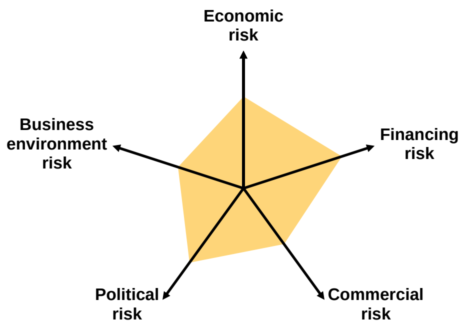
- King Abdullah remains popular and has the support of the military and security services
- Relatively sound relations with the EU, U.S., IFIs and GCC countries which provide political, financial and technical support
- Significant producer of phosphates and potash
- Frequent debt rescheduling has reduced 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	17%	1	15%	Saudi Arabia
Saudi Arabia	13%	2	13%	China
Iraq	9%	3	6%	United States
India	9%	4	5%	Germany
United Arab Emirates	4%	5	4%	United Arab Emirates

By product (% of total)

Exports		Rank		Imports
Apparel & clothing accessories	17%	1	13%	Petroleum and products thereof
Manufactured fertilizers	10%	2	9%	Road vehicles
Medicinals and pharmaceuticals	8%	3	4%	Gold, non-monetary
Vegetables and fruits	8%	4	4%	Textile yarn and related products
Crude fertilizers and crude minerals	7%	5	4%	Cereals and cereal preparations

Source: Unctad (2015)

Economic Overview

Outlook is for modest recovery of growth

Real GDP growth moderated to +2% in 2016, down from an average annual +2.7% in 2011-2015 and +6.3% in the decade before that. On the home front, growth in recent years has been held back by remedial policies to limit the twin deficits in the fiscal and current accounts to maintain IMF support. Externally, a less-than-buoyant global economy and an uncertain regional outlook (including an influx of Syrian refugees) have slowed growth.

Growth edged up to +2.2% y/y in Q1 2017, driven by strong increases in mining (+14.7%) and agriculture (+8.2%). We expect full-year growth to accelerate gradually to +2.3% in 2017 and +2.5% in 2018 on the back of some export routes being reestablished, growing infrastructure spending and a modest recovery in tourism. However, downside risks remain significant, subject to regional stability issues.

Improving economic policies

Monetary policy is geared to the maintenance of the kingdom's pegged exchange rate (JOD0.71:USD1). This regime has long-established credibility, under-pinned by a steady increase in foreign exchange (FX) reserves, and we do not expect a marked policy change over the forecast period. It has kept inflation in check for many years. After two years of deflation, consumer prices have picked up by an average +3.7% y/y in H1 2017, but we do not expect a further acceleration as the Central Bank responded with monetary tightening in June.

The fiscal deficit has improved to -3.8% of GDP in 2016, reflecting the government's commitment to reduce fiscal deficits as part of its economic reforms under an IMF program (currently a 3-year EFF arrangement until mid-2019 is in place). We expect similar shortfalls in 2017-2018. There are risks that deficits will not be contained, partly because of the financial strains imposed by the large influx of refugees from Syria. Public debt will remain relatively high at just under 100% of GDP.

External imbalances remain large

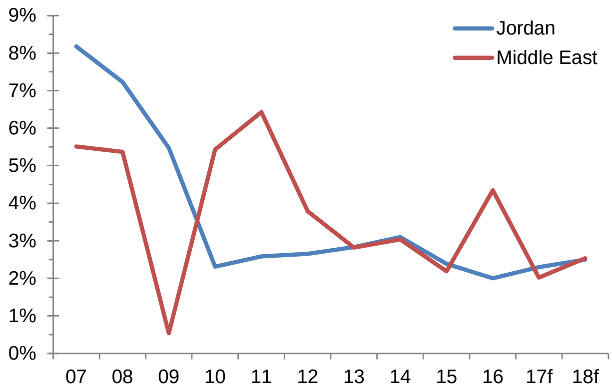
Annual current account deficit/GDP ratios have slightly narrowed from double digits to high single digits since 2014, thanks to a lower oil import bill, but at around -9% of GDP, they have remained unsustainably large. Deficits of this magnitude require the continuing support of bilateral and multilateral agencies. External debt levels (debt/GDP 69% and debt/export earnings 200% forecast for 2017) are also high and require careful management. On a positive note, FX reserves cover 6.7 months of imports, compared with an inter-national benchmark "comfort" level of 3 months.

Key economic forecasts

	2015	2016	2017f	2018f
GDP growth (% change)	2.4	2.0	2.3	2.5
Inflation (%, annual avg.)	-0.9	-0.8	3.4	2.8
Fiscal balance (% of GDP)	-7.1	-3.8	-3.7	-3.6
Public debt (% of GDP)	93.4	95.1	96.0	97.0
Current account (% of GDP)	-9.1	-9.3	-9.2	-9.0
External debt (% of GDP)	68.6	69.4	69.0	68.0

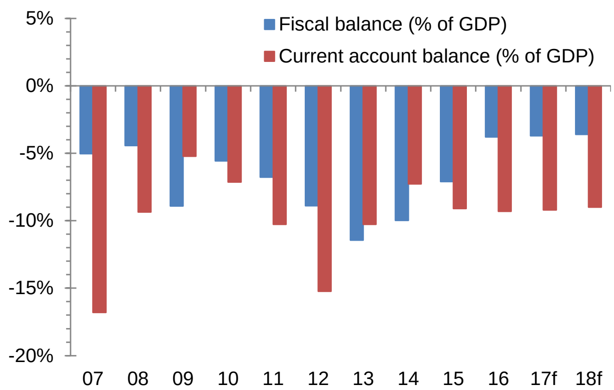
Sources: National statistics, IMF, IHS, Euler Hermes

Real GDP growth



Sources: National statistics, IMF, IHS, Euler Hermes

Fiscal and current account balances



Sources: IMF, Euler Hermes

Last review: 2017-09-01
Country Risk Analyst:
Manfred Stamer
manfred.stamer@eulerhermes.com