



الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

ECONOMIC & FINANCIAL SECTOR OVERVIEW

Hashemite Kingdom
of Jordan

August, 2021

ECONOMIC OVERVIEW- Hashemite Kingdom of Jordan

COVID-19 has put significant pressure on Jordan's economy. While infection and mortality rates had remained low during the first wave of COVID-19, the government took prompt and effective measures to impose movement restrictions, which expedited the economy's return to normalcy. However, during the second wave of COVID-19 since late 2020 and early 2021, both infection and mortality rates have remained high, reaching over 800

cases per 1 million (World: 64 per 1 million)¹ and around 9 deaths per million (World: 1.2 per 1 million)² in March 2021. To contain the spread, necessary movement controls have been imposed. Post March, a downward trend has been observed in both new cases and mortality. Jordan has administered at least one dose of the COVID-19 vaccine to about 14.4%³ of the population up till June 2021. Although low by global standards, inoculations have recently picked pace in the current month.

A country of 10.2 million people with a nominal GDP of USD 42.6bn, Jordan has experienced a decline in GDP, with per capita GDP also reducing to USD 4,174 during 2020 (2019: USD 4,426). The economy had been growing at a steady pace with an average growth of 2.0% during 2016-2019. As the pandemic forced the world into a recession in 2020, Jordan's economy was also impacted and is estimated to have shrunk by around 3.0%.

The government took various fiscal measures to support the economy; these include sales tax exemptions, postponement of customs duty, cash transfers to unemployed, deferred tax payments for tourism companies, and reduced general sales and service tax, among others. As revenues and grants fell to JD 7.3bn during 2020 (2019: JD 7.8bn) and government expenditure rose by 1.5% to JD 9.4bn (2019: JD 9.2bn), fiscal deficit is estimated to have increased to -6.8% of GDP (2019: -4.9%). In the backdrop of increasing fiscal deficit, government debt is also expected to have increased to 89.2% of GDP by end-2020 (2019: 78% of GDP). Government debt also includes debt raised by public entities including National Electric Company (NEPCO) and Water Authority (WAJ).

The government is expected to take a gradual approach towards fiscal consolidation to give enough time to the economy to recover from the pandemic. The long-term strategy is focused on broadening the tax base, eliminating pressure from public utilities and public private partnerships and improving fairness, efficiency and transparency in public finances.

The Central Bank of Jordan adopted an accommodative stance, bringing the policy rate down to 2.5% after a cumulative cut of 150bps in March 2020. With significant slowdown in demand, inflation remained low at 0.3% during 2020 (2019: 0.8%). While moderately higher inflation was noted in food items, health, education, restaurants and hotels, there were sectors that posted deflation including clothing and footwear, housing, transportation and culture. With expectations of recovery in demand, especially during H2'21 and higher crude oil prices, inflation is expected to be higher in 2021.

During the year 2020, exports of goods were estimated to have increased marginally by 3.8% to USD 8.7bn (2019: USD 8.4bn). On the other hand, imports were estimated to have risen by 4.6% to USD 18.1bn during 2020 (2019: USD 17.3bn). As a result, current account deficit is expected to have widened to -6.9% of GDP during 2020 (2019: -5.7% of GDP). Meanwhile, Foreign Direct Investment is projected to remain stable at USD 685mn (2019: USD 687mn). Portfolio outflows

Table 1: Macroeconomic Indicators

Figures as stated	2016	2017	2018	2019	2020
Population (Mn)	9.45	9.70	9.90	10.07	10.21
Nominal GDP (US\$'bn)	39.95	41.47	42.99	44.57	42.61
GDP per capita (US\$)	4,225	4,274	4,341	4,426	4,174
Real GDP Growth (%)	2.0	2.1	1.9	2.0	-1.6
Average CPI (%)	-0.6	3.6	4.5	0.8	0.3
Unemployment Rate (%)	15.3	18.3	18.6	19.1	-
Current Account Balance (% of GDP)	-9.7	-10.6	-6.9	-2.3	-6.8
Fiscal Balance (% of GDP)	-3.7	-3.6	-4.7	-4.9	-6.8

¹<https://ourworldindata.org/covid-cases>

²<https://ourworldindata.org/covid-deaths>

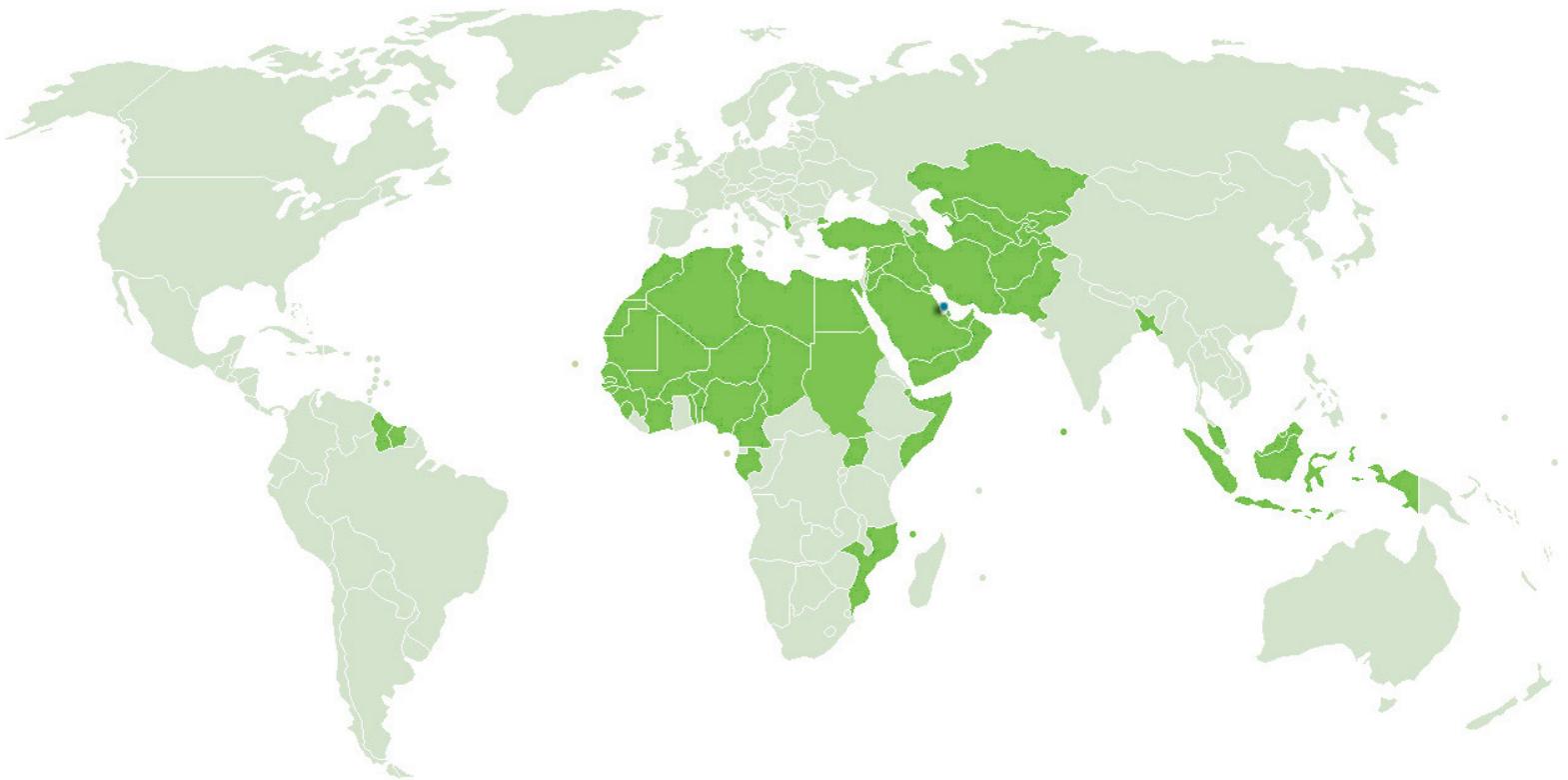
³<https://ourworldindata.org/covid-vaccinations>

are of USD -216mn during 2020 versus USD 62mn in the preceding year were also notable, as capital flight was observed from a number of developing countries.

Despite one of the highest literacy rates in the region, the country has reported high unemployment rate over the years. The COVID-19 pandemic further worsened the labor market conditions with unemployment reaching 23% during 2020. Unemployment rate, if adjusted for Syrian refugee population, would be significantly higher.

Having received the second highest number of refugees in relation to its population in the world at almost 10.7%, the country hosts around 660,000 people from Syria alone, with thousands of refugees coming from Iraq, Yemen, Sudan and Somalia in late 2020. There was a shortfall of USD 1.4bn between planned and received donor financing in 2019, which is expected to have further widened in 2020. Despite the shortfall, Jordan is committed to meet all the essential services required for refugees, putting additional pressure on government expenses.

In 2020, the government signed a staff level agreement with IMF on a new four-year program targeted to stimulate growth and create jobs, strengthen external and fiscal balances, increase transparency, and improve social spending. Jordan is expected to post recovery in 2021, with GDP growth projected at 3.4%, off a low base in prior years.



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