Jordan’s Economy
Crisis, Challenges & Measures

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Main Features of the Jordanian Economy

- Jordanian Economy is a Market-Oriented Economy with abundant skilled human resources and limited natural resources.
- Population: 5.980 million (2009).
- Geographical Area: 89.3 K squared km.
- Lower-Middle Income Country: Nominal per capita income: $4,208 in 2009.
- Small open economy, vulnerable to external shocks and dependent on workers remittances and foreign aid .
- Services-oriented economy (64% of GDP).

Background

- During 1980s, Jordan macroeconomic imbalances began to deteriorate. These imbalances peaked in 1989. Therefore, Jordan started prudent economic adjustment process in collaboration with the IMF and the World Bank and support from the International Community.
- Since 1989, Jordan has successfully implemented several economic adjustment programs to overcome the major imbalances and to regain macroeconomic stability as a precondition for sustainable economic growth.
- Most of the targeted goals set in the programs were accomplished and in some cases surpassed. Therefore, Jordan finished the last agreed upon IMF adjustment program in July 2004. Nevertheless, the adjustment process continued and home grown reform programs are being implemented since then, including the National Agenda Initiative.

Major Economic Indicators, 1989 and 2004

	1989	2004
Real GDP Growth, %	-13.4	8.6
Inflation, % change of CPI	25.7	3.4
Budget Deficit (including grants), % of GDP	-10.1	-2.7
Budget Deficit (excluding grants), % of GDP	-21.7	-12.8
Foreign Reserves, million US$	130	4,824
External Debt, % of GDP	190	66.1

National Agenda Initiative

- In 2005, Jordan adopted a comprehensive National Agenda for the next (10) years that reflects the vision of His Majesty King Abdullah II of a modern, inclusive civil society.
- The national Agenda, which released in September 2005, includes eight pillars:
  - Political development with the aim of increasing participation at all levels in the decision making process.
  - Investment.
  - Financial reform.
  - Physical infrastructure.
  - Social welfare.
  - Labor and Vocational training.
  - Legislative and Judicial reform.
  - Education, higher education and scientific research reforms.

- The financial reform pillar is considered as the major element of the reform process in the National Agenda. The following are the main features and perspectives of this pillar:
  - Achieving a healthy and self-sustaining budget.
  - Self-dependence through raising the ratio of domestic revenues to total expenditures.
  - Efficiency and effectiveness of resource allocation.
  - Removal of distortions in the budget through eliminating oil and goods subsidies.
  - Reducing tax evasion and avoidance.
  - Improving the tax system with the aim of stimulating the economy and attracting more investments as well as achieving equity among tax-payers.
  - Simplifying tax procedures and removing non-tax barriers.
  - Activating the partnership between the public and the private sector to enable the latter to play a leading role in the economy.

Challenges Facing Domestic Economy

- Despite the abovementioned accomplishments, the national economy in general and the central government budget in particular are still facing challenges including: high budget deficit, high unemployment rate, high poverty level, and high population growth rate.
- Beginning of 2005, the economy was negatively affected by the sharp increase of international oil prices combined with a drop of external grants. The effects of these factors were aggravated, in particular for the period 2008-2009 as a result of the international financial crisis.

Main Budget Distortions

- **The abovementioned challenges forced the government to deal with several distortions in the budget:**
  - A significant budget deficit excluding grants which reached 10.3% of GDP in 2009. Including grants, the deficit reached 8.5% in the same year.
  - Domestic revenues coverage of total expenditures declined to 69.4% in 2009 compared to 80% during the previous three years.
  - A significant volume of subsidies were allocated in the budget for food items and oil products. They reached US$ 715 million in 2007, before they decline to US$ 263 million in 2009.
  - A sizeable government contribution in the economy, where general government expenditures reached 44.6% of GDP in 2008.

Financial Crisis: Effects and Measures

Major Economic Indicators, 2008-2010

	2008	2009	2010 IMF Forecast
Real GDP Growth, %	7.6	2.3	3.4
Inflation, % change of CPI	14.0	-0.7	5.7
Budget Deficit (including grants), % of GDP	4.3(*)	8.5	6.2
Budget Deficit (excluding grants), % of GDP	8.8(*)	10.3	7.8
Foreign Reserves, billion US$	7.7	10.9	--
Total Debt, % of GDP	52.9	55.8	57.3
(*): Revenues excludes an amount of US$ 500 million representing sale of treasury land.			

Ministry of Finance: Main achievements, 2010

- Issuing a new tax law that lowers tax rates and simplified the administrative procedures.
- Reviewing the performance indicators for some government entities to enforce the result oriented budget approach.
- Implementing the ASYCUDA World in most customs centers in the Kingdom.

- Preparing a new customs law.
- Preparing a new property tax law that will combine 19 existing laws and regulation.
- Implementing “single window” shop in Zarqa free zone customs center to handle all trade procedures.
- Electronically connecting the customs department with other government entities to facilitate work procedures.
- Studying the possibility of issuing new debt tools to mobilize domestic and foreign savings (Islamic Sukuk and international bonds).

Medium Term Fiscal Policy Measures

- **Current Expenditures**
  - Employment freeze.
  - Limit salaries increase to the annual base salary increase.
  - Restructuring and merging similar government institutions.
  - Controlling the government’s consumption of petroleum products.

- **Capital Expenditures**
  - Reducing operational expenditure component of capital expenditures.
  - Gradually reducing the grants provided from the central government to other government entities.
  - Lowering the current expenditure component of capital expenditures.
  - Prioritizing capital expenditures.
  - Strengthening the PPP projects approach.

- **Revenues**
  - Improving the efficiency of revenues collection and limiting tax evasion.
  - Issuing new income tax law to mobilize domestic investment and attract FDIs.
  - Amending sales tax law.
  - Preparing new property tax law to replace 19 existing laws.
- **Budget Deficit**

  The abovementioned fiscal policy measures are expected to lower the budget deficit (including foreign grants) from 8.5% of GDP in 2009 to 6.2% in 2010, and to 5% in 2011.

- **Government Debt**

  - Complying with debt law (ceiling: 60% of GDP)
  - Possibility of issuing new debt tools to mobilize domestic and foreign savings (Islamic Sukuk and international bonds).
  - swapping high interest loans with softer loans whenever possible.
  - Controlling domestic borrowing to minimize crowding out the private sector.

Preparing 2011 Budget: New Mechanism

2011 Budget Preparation:

- Four stage to prepare the budget
  - **Stage I:** a concept paper of the fiscal policy and the government priorities will be prepared; in April.
  - **Stage II:** reviewing and updating the concept paper; late July.
  - **Stage III:** preparing the budget circular; August/September.
  - **Stage IV:** presenting the budget to the cabinet; late October.
- Strengthening ROB and monitoring of performance indicators of governments' entities.
- Allocating capital expenditures budget at the governorates level.

Fiscal Reform II Project, FRP II

It is a USAID supported project. The main objectives are the following:

- <u>Objective One</u>: Improve efficiency of use of public resources through stronger public financial management.
- <u>Objective Two</u>: Results-oriented Government.
- <u>Objective Three</u>: Enhanced revenue mobilization through better revenue administration.
- <u>Objective Four</u>: Adoption of resource-saving reforms in selected government programs through sound policy analysis initiated from the Ministry of Finance.
- <u>Objective Five</u>: Increase efficiency in trading across borders.

Major Economic Indicators

	2009 January-August	2010 January-August
Real GDP Growth, %	2.3 (Year)	2.5 (6 months)
Inflation, % change of CPI	-0.4	4.7
Budget Deficit (including grants), % of GDP	4.25	2.2
Budget Deficit (excluding grants), % of GDP	4.8	3.5
Foreign Reserves, billion US$	10.9 (End of 2009)	11.1 (End of August)
Total Debt, % of GDP	54.2	53.7

Thank you,