QNB Economics
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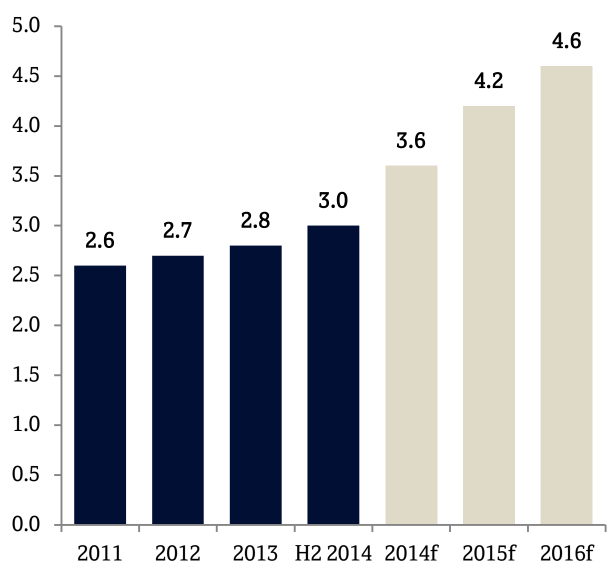
Jordan's Economy Continues to Recover

Jordan's economy continues to recover from its near economic crisis in 2012, despite a worsening regional context. With the support from the International Monetary Fund (IMF) and GCC countries, the authorities are continuing to implement their national reform agenda. As a result, real GDP growth for the first half of 2014 edged up to 3.0%, compared with 2.8% in 2013, despite the intensification of the conflicts in Iraq and Syria. Lower oil prices should also reduce pressures on the current account and the fiscal balance in the latter part of this year. As a result, the QNB forecasts of 3.6% growth in 2014 and 4.2% in 2015 seem within reach (see our latest [Jordan Economic Insight Report)](#).

Jordan: Real GDP Growth (2011-16)

(% change year-on-year)



Sources: Jordan Department of Statistics and QNB Group analysis and forecasts

Jordan experienced a near economic crisis in the first half of 2012. The Syrian conflict resulted in a large influx of refugees into Jordan that year, which put significant pressure on already large current account and fiscal deficits. At the same time, disruptions in gas supplies from Egypt forced more expensive fuel imports and large losses in the electricity company NEPCO. These negative developments eroded investor confidence and led to a decline in the international reserves of the Central Bank of Jordan (CBJ).

In response, the authorities committed to a significant tightening of monetary policy in 2012. They also committed to a new program with the IMF in August 2012. The program called for a set of austerity measures to reduce the large fiscal deficit. Structural reforms included the elimination of fuel subsidies and the gradual reduction of electricity subsidies over five years. In support of this program, the GCC countries committed USD5bn grants for infrastructure development over five years.

As a result, the economy regained momentum in the latter part of 2012 and 2013. Investor confidence was restored and the CBJ nearly doubled its international reserves, allowing it to gradually reduce interest rates. This helped push up growth, led by a revival in banking, construction and trade. On the inflation front, prices spiked in February 2013 at 7.7% on the increase in electricity and fuel prices, but these effects waned during the remainder of the year.

Recently released data for the first half of 2014 suggests that Jordan's economy continues to recover. Helped by a recovery in mining and better activity in the tourism, construction and utilities sectors, real GDP growth rose to 3.0% year-on-year in the first half of this year. This acceleration of economic activity occurred despite a worsening of the regional security situation. Inflation remains moderate (2.7% in September 2014), while the CBJ international reserves continue to rise on strong investor confidence.

Looking ahead, prospects for the Jordanian economy are likely to improve further. Lower oil prices, the current account and the fiscal balance are likely to improve in the remainder of 2014, leaving more room for the government to stimulate growth. As a result, we expect an acceleration in growth to about 4.0% in the second half of 2014, mainly driven by private sector growth in construction and a further recovery in tourism. This momentum should continue in 2015 and 2016 as the economic reforms implemented under the IMF program will start bearing fruit.

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