

Economic

Credit Agencies

Moody's: Ba2
S&P: BB
Fitch: N/A

Nominal GDP (2005)

US\$14.6bn

Population (2005):

5.9 million

Total Trade / GDP:

84%

Currency:

Jordanian dinar

Exchange regime:

Conventional peg to US\$

Merchandise imports from Canada: 2005

Cdn\$39.2mn

Main sources of Foreign Exchange (excl. FDI):

Phosphates, tourism and workers remittances

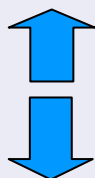
Largest Merchandise Trading Partner:

Iraq (20%)
United States (15%)

Main imports:

Machinery and transport equipment (25%)

Risks to the Outlook



Strong FDI: vibrant private sector.

Lower grants; high oil prices regional volatility

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Market Spotlight: Macroeconomic and fiscal performance was better than anticipated in 2005. This reflected mainly its vibrant private sector. Regional security has not affected private sector capital inflows. Jordan graduated from a series of IMF programs in 2004, but has been subject to IMF Post-Program Monitoring (PPM). Grants have dropped by half while oil prices have been much higher than earlier budgeted. Measures have been implemented, but the fiscal and the external current account deficits (including grants) are expected to remain large during 2006-07. Though manageable, foreign exchange reserves have been falling. The outlook is uncertain due to its vulnerability to the reversals of capital inflows, to delays in privatisation and to higher oil prices.

Macroeconomic performance: In 2005, Jordan managed very well the sharp drop in external grants and the pronounced increase in oil prices. In fact, the Jordanian economy did much better than anticipated. GDP growth accelerated markedly despite the hotel bombings in November 2005. The better performance has reflected a sharp rise in private consumption and investment, and large private sector capital inflows. In 2006, Jordan should benefit from the impressive macroeconomic performance experiences in the Gulf countries.

Relations with the IFIs: Macroeconomic policy was supported by the 24-month IMF program that covered the period through July 2004. IMF performance criteria were broadly met. Subsequently, Jordan has been under an IMF Post-Program Monitoring (PPM). The PPM covers the period through 2006. The review of the PPM in the second quarter of 2006 has been positive. The continued consumption driven by the recent import boom is expected to generate strong growth in 2006. Jordan is aiming for 6% GDP growth rate for the medium term.

Fiscal & monetary policy: The government has intensified its adjustment efforts to face the pronounced increase in world oil prices and the fall in external grants. The fiscal deficit has been contained by expenditures restraint and stronger revenues performance. The fiscal deficit is expected to fall to 4.5% of GDP in 2006, but this includes grants (6.6% of GDP excluding grants). Public sector debt remains uncomfortably high at 72% of GDP. Monetary policy remains focused in keeping the peg of the Jordanian dinar to the US dollar. Unemployment, officially at 15%, is a source of concern. The reform agenda has to be pursued. This would involve the privatization of the Phosphates Mines Company (JPMC), the Central Electricity Generating Company (CEGCO) and the Irbid generation company and the electricity distribution company and the remaining ownership share in Jordan Telecom. The country acceded to the World Trade Organization (WTO) in 2000 after following a process of extensive regulatory and legislative reform.

External sector: The Euro-Jordan Association Agreement and the US-Jordan Free Trade Agreement should help exports, but strong economic activities have been boosting imports. Capital inflows contributed to cover the external current account deficit in 2005. Large external current account deficits of US\$2.3bn a year are projected for 2006-07. Jordan counts on FDI to finance its current account deficit. FDI are expected to be of US\$1.5bn in 2006. Nevertheless, Jordan has to cover total overall balance of payments gaps of US\$357mn during 2006-07.

The external debt: Debt servicing position improved following the Paris Club debt rescheduling in July 2002 after Jordan obtained an "exit" debt rescheduling agreement on Houston terms that aimed at covering the period of 2002 through 2007.

Outlook: The short-term outlook has improved compared to six months ago. The medium and long-term outlook is challenged by a relatively high debt burden, dependence on external grants and regional volatility for tourism & investment, high unemployment and poverty levels requiring strong growth.

Economic Indicators

	00-04 avg.	2005	2006	2007
GDP (% growth, real)	4.4	7.2	5.8	5.5
Inflation (%chg, pa avg.)	1.9	3.5	6.9	5.8
Fiscal Balance (% of GDP)	-10.8	-5.2	-4.5	-2.5
Exports (% comp. annual growth)	16.2	10.5	7.5	7.5
Imports (% comp. annual growth)	17.1	28.0	5.5	6.0
Current Account (% of GDP)	3.5	-17.8	-16.0	-14.4
Reserves (months of imports)	6.5	4.8	4.4	3.6
External Debt (% of GDP)	82.5	57.9	50.6	44.5
Debt Service Ratio (due)	10.1	12.3	11.3	10.6
Exchange Rate (to USD; end of year)	0.7	0.7	0.7	0.7

Sources: EIU, EDC Economics

Jordan Dinar per Euro



Source: Bloomberg

General Political Environment:

Political power is concentrated within the executive branch with King Abdullah exercising ultimate decision-making authority. That said, the popularly elected assembly has some input into the policy making process.

The country's political power structure is divided along lines of tribal affiliation as opposed to party politics.

The succession of King Abdullah following the death of his father in 1999 increased hopes for further economic and political reform. During the transition phase, the legitimacy of the monarchy was not called into question and King Abdullah successfully established his authority.

King Abdullah remains committed to moving ahead with much needed economic reforms. If he is unable to deliver, he may face calls for greater political liberalization. In this event, political Islam in the form of the Muslim Brotherhood and its political wing, the opposition Islamic Action Front, will play an increasingly important role.

Jordan held its long delayed legislative elections (originally scheduled for November 2001) in June 2003. The polls returned a chamber of deputies dominated by pro-government and tribal candidates. The Islamic Action Front (IAF) participated in the elections (it had boycotted the 1997 poll) but did not fare well, winning only 17 out of 110 seats. Nevertheless, the IAF remains the country's only real opposition. The party remains limited in the number of seats it can win due to the one-person, one-vote balloting system. A proposal is currently underway to amend the electoral reform law.

Investment Environment:

The Jordanian government strongly encourages foreign investment and continues to pursue a regulatory framework which is considered to be investor-friendly. Red tape and corruption are not considered to be significant issues by regional standards and the government is currently working towards the streamlining of the bureaucracy and accelerating economic reform.

All restrictions pertaining to the inflow or outflow of foreign exchange were rescinded in 1997. Foreign investors are entitled to remit all profits, dividends and other returns on investment in a fully convertible currency without delays. In addition, the Jordanian dinar is fully convertible for all commercial and capital-related transactions.

The use of international arbitration as opposed to the local courts can avoid the risk of long delays in the judicial process.

Political Violence:

The November 9, 2005 terrorist attacks targeted three hotels in the Jordanian capital of Amman known to be popular with foreigners, but most of the 60 killed are believed to be Jordanians. Over one hundred people were also wounded. Al Qaida in Iraq issued a claim of responsibility for the attacks on an internet site shortly after the bombings took place. Jordanian authorities have since arrested an Iraqi woman who publicly confessed on Jordanian state television to attempting to carry out the bomb attack alongside her husband.

Although the attacks were shocking in their intensity, they were not unexpected. Jordan has long been viewed as a prime terrorist target. A key US ally, Jordan is also a pro-Western government with a target-rich environment featuring a number of foreign embassies, western expatriates, businesses and aid agencies.

Despite the effectiveness of Jordan's counter-terrorism efforts and the resulting tightening of the security environment which is underway, further terrorist attacks remain possible.

Jordan is caught in the unenviable position of being situated between two hot spots – Iraq and the Occupied Territories – which have knock on effects for Jordanian domestic affairs.

Political

Political Structure

Constitutional Monarchy

Monarch

King Abdullah ibn Hussein al-Hashemi

Crown prince

Vacant

Prime Minister

Marouf al-Bakheet

National Legislature

Bicameral National Assembly

- Democratically Elected Chamber of Deputies (110 members)
- Appointed Senate – (40 members)

Major Parties

Independent pro-government and tribal candidates dominate the Chamber of Deputies. The Islamist Action Front is the largest opposition party with 17 seats. Independent Islamists hold 10 seats.

Last Elections

June 2003

Next Elections

September 2007

Press Freedom Survey:

- 2005 Score: 62 (Not Free)
- freedomhouse.org

Control of Corruption Index:

- 2004 Score: +0.35 (-2.5: Worst; +2.5: Best)
- worldbank.org

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Political Outlook

Jordan's outlook remains one of continued political stability under the Hashemite monarchy. However, the regime must contend with economic discontent stemming from high poverty and unemployment levels and a public mood which is at odds with the government's pro-US stance.