

The Meeting in Mecca that Temporarily Saved Jordan

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The Hashemite Kingdom of Jordan is facing a severe economic crisis that is endangering its stability. The current demonstrations are being led by the professional unions, the Muslim Brotherhood and the tribes, known to be loyal to the regime, took part in the demonstrations. The Hashemite Kingdom survived the Arab Spring in 2011 and these are the most serious demonstrations since 2011.

The Jordanian public is demonstrating against a series of economic measures that affect the middle and low classes, including imposing taxes on goods and services as part of the government's program to cover the budget deficit.

Jordan signed in August 2016, a three-year agreement under the Extended Fund Facility (EFF) with the IMF. The IMF approved the deal for \$723 million to support Jordan's economic financial reform program. In 2017, the government began increasing taxes and successfully generated JD 450 million in additional revenues. However, these efforts failed to achieve the IMF program's targets. The budget deficit increased and gross public debt grew. In addition, the continuous increase in taxes had a negative impact on consumption and household income, causing tax revenues to drop.¹

In 2018, the government had to raise approximately \$450 million to meet the EFF requirements. Therefore, additional measures, such as the withdrawal of sales tax exemptions, tax increases and the new income tax draft law was put in place.² Under pressure from the International Monetary Fund (IMF), Prime Minister Hani al-Mulki was determined to pass the new tax law because it was one of the requirements of the International Monetary Fund (IMF) for securing more loans for Jordan.

Protests erupted in Jordan's capital Amman and other cities in May 2018, where the demonstrators demanded the resignation of the government and the scrapping of the tax law.³

On June 4, 2018, Prime Minister Hani al-Mulki submitted his resignation to King Abdullah II and Dr. Omar al-Razzaz was appointed to replace him.

The new Prime Minister, Omar al-Razzaz, said on June 7, 2018, that he would drop the proposed income tax bill, conceding to a key demand of the protesters.⁴

Jordan had once again been caught between balancing the anger of people facing rapidly increased living costs, and fiscal obligations to the IMF. Those obligations are seen as crucial to charting Jordan's course away from vast public debt and toward economic growth.⁵

Jordan – the economic and social crisis

Jordan's debt amounts to about \$40 bn and its debt-to-gross-domestic-product ratio is currently at a record 96 percent up from 71 percent in 2011. The government is required to pay more than \$1.2bn in interests every year.⁶ The World Bank says Jordan has “weak growth prospects” this year, while 18.5 percent of the working age population is unemployed.

The problem of refugees - Jordan blames its economic woes on instability rocking the region and the burden of hosting more than one million refugees fleeing war in neighboring Syria.

Foreign aid dependency problem - for many decades, foreign aid and remittances from expatriate Jordanians in the Gulf region were the mainstays of the Jordanian economy that kept the country afloat. As a result Jordan has a foreign aid dependency problem and Jordanian governments failed to adopt measures to wean the country off foreign assistance and become self-reliant.

Fearing the spread of popular revolt to the Arab monarchies during the so-called Arab Spring in 2011, the Gulf Cooperation Council (GCC) made a strategic decision to help the Jordanian and Moroccan monarchies with a five-year agreement worth over \$5bn each.⁷

However, with the end of the Arab Spring and the shifting alliances in the region, the three GCC countries opted not to renew the aid agreement in 2017, resulting in increasing Jordan's economic burden.

Jordan is still transitioning from its tribal based society into a semi-modern state and is not strong enough socially and politically to impose strict economic measures.

The Mecca Summit

The initiative that was launched by Saudi Arabia's King Salman aims to contain the economic crisis and discuss ways of supporting Jordan. A few days after protests erupted on the streets of Amman, King Salman called Jordan's King Abdullah, Kuwaiti Emir Sheikh Sabah Al-Ahmad Al-Sabah and Abu Dhabi Crown Prince Sheikh Mohammed bin Zayed. These calls ended with a decision to hold an urgent meeting in Mecca to deal on the crisis.

The Mecca Summit resulted in an aid package for Jordan totaling \$2.5 bln. Over a 5 years span, but it is still unclear how much each country will contribute.

In a communiqué issued at the end of the gathering in Mecca, participants said that assistance, which will come through four avenues, is driven by “the fraternal ties between the four states, Islamic and Arab principles and values.”⁸ The summit’s communiqué said the aid would be represented in the following:⁹

- A deposit in the Central Bank of Jordan.
- Guarantees to be presented to the World Bank in favor of Jordan.
- Annual support of estimated \$150-\$300 m for the budget of the Jordanian government for five years.
- Funding of development projects by funds in the three countries.

The Jordanian response

Jordanians expressed their satisfaction with the rapid initiative from Saudi Arabia.

Upon his return from Saudi Arabia, Jordan's King Abdullah II expressed his thanks and appreciation to Saudi Arabia’s King Salman for his generous initiative in calling for the meeting, and the Kuwaiti and UAE leaders for their response to the invitation and his great gratitude to the three countries for providing this package of assistance which will contribute to overcoming this crisis.¹⁰

Omar Malhas, the outgoing Jordanian minister of finance said that “What happened in Mecca is welcome news and gives people hope that things will improve.” But he added that “What Jordan needs is support to the annual budget and not any more loans.”¹¹

The EU support to Jordan

Jordan's Minister of Foreign Affairs in the caretaker government, Ayman al-Safadi, met in Amman with EU High Representative for Foreign Affairs and Security Policy Federica Mogherini where the latter announced 20 million euros (\$23.5 million) in aid for Jordan.¹²

Mogherini said that Jordan has a vital role to play in the region and the EU will support Jordan with all possible means including economic and financial means.¹³

The United States support to Jordan

The United States announced on February 13, 2018, that it will increase its annual financial support to Jordan as part of a new memorandum of understanding between the two countries. Jordan's Foreign Minister Ayman al-Safadi signed the memorandum with the previous U.S. Secretary of State Rex Tillerson, who was visiting Amman as part of his five-nation tour of the region.¹⁴ Under the new agreement, the amount of foreign assistance to Jordan will grow to \$1.2 billion per year, an annual increase of more than \$200 million.¹⁵

Summary

Austerity measures in 2018 have seen prices of basic necessities rise across the Jordanian Kingdom and a proposed income tax law recently prompted some of the largest protests in years. King Abdullah is trying to push back the tide. By dismissing the current government, he is intervening to calm the present tensions.

Saudi Arabia and other monarchies are worried that unrest in Jordan could spill over across the region. The financial aid from Saudi Arabia, Kuwait, UAE and EU comes at the right time to address Jordan's immediate needs and international obligations and to put Jordan on the right path and buy Jordan time. But the financial support will not solve Jordan's major long term economic problems.

Jordan's major economic problem is its historic dependence on foreign aid, which often diluted the calls for economic reforms and once the Gulf States start pouring cash directly into Jordan's budget, it will create a temporary false sense of economic security and slow down reform.

One should bear in mind that Jordan has many educated professionals most of whom are looking for, and getting, jobs abroad. The same goes for the Iraqi and Syrian refugees who will probably stay in the country for the time being. Unfortunately, those human resources were never tapped properly to produce the critical mass for economic progress. One should also lament the fact that successive Jordanian Governments failed to address the public in a proper manner to make it aware of the reality and the challenges ahead.

Jordan has serious economic problems and there is no other choice than to make painful budgetary changes and institute structural reforms.

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Notes

- ¹ Jordan running out of options; running from the IMF is not one, The Times of Jordan, June 11, 2018.
- ² Jordan running out of options; running from the IMF is not one, The Times of Jordan, June 11, 2018.
- ³ EU pledges 20 mln euros to ease Jordan's economic woes, Al Arabiya, June 11, 2018.
- ⁴ Gulf states pledge \$2.5 billion aid package to Jordan, Ahram Online, June 11, 2018.
- ⁵ \$2.5bn Gulf aid package puts Jordan on right path, Arab News, June 12, 2018.
- ⁶ Ali Younes , Jordan crisis: Why Gulf states are rushing to step in, Al Jazeera, June 10, 2018.
- ⁷ Ali Younes , Jordan crisis: Why Gulf states are rushing to step in, Al Jazeera, June 10, 2018.
- ⁸ Gulf states pledge \$2.5b to support Jordan, The Jordan Times, June 11, 2018. Qatar announced independently another package of \$ 500 million to support Jordan Reuters, June 13, 2018.
- ⁹ Mecca Summit concludes with \$2.5 bln in aid to support Jordan's economy, Al Arabiya, June 11, 2018.
- ¹⁰ Mecca Summit concludes with \$2.5 bln in aid to support Jordan's economy, Al Arabiya, June 11, 2018.
- ¹¹ \$2.5bn Gulf aid package puts Jordan on right path, Arab News, June 12, 2018.
- ¹² Mecca Summit concludes with \$2.5 bln in aid to support Jordan's economy, Al Arabia, June 11, 2018.
- ¹³ EU pledges 20 mln euros to ease Jordan's economic woes, Al Arabiya, June 11, 2018.
- ¹⁴ Amir Tibon, U.S. Boosts Aid to Jordan Despite Threat to Cut Support Over UN Vote, Haaretz, February 14, 2018.
- ¹⁵ Amir Tibon, U.S. Boosts Aid to Jordan Despite Threat to Cut Support Over UN Vote, Haaretz, February 14, 2018.