Jordan's Sovereign Debt Crisis: Challenges and the Sustainability of Public Finance

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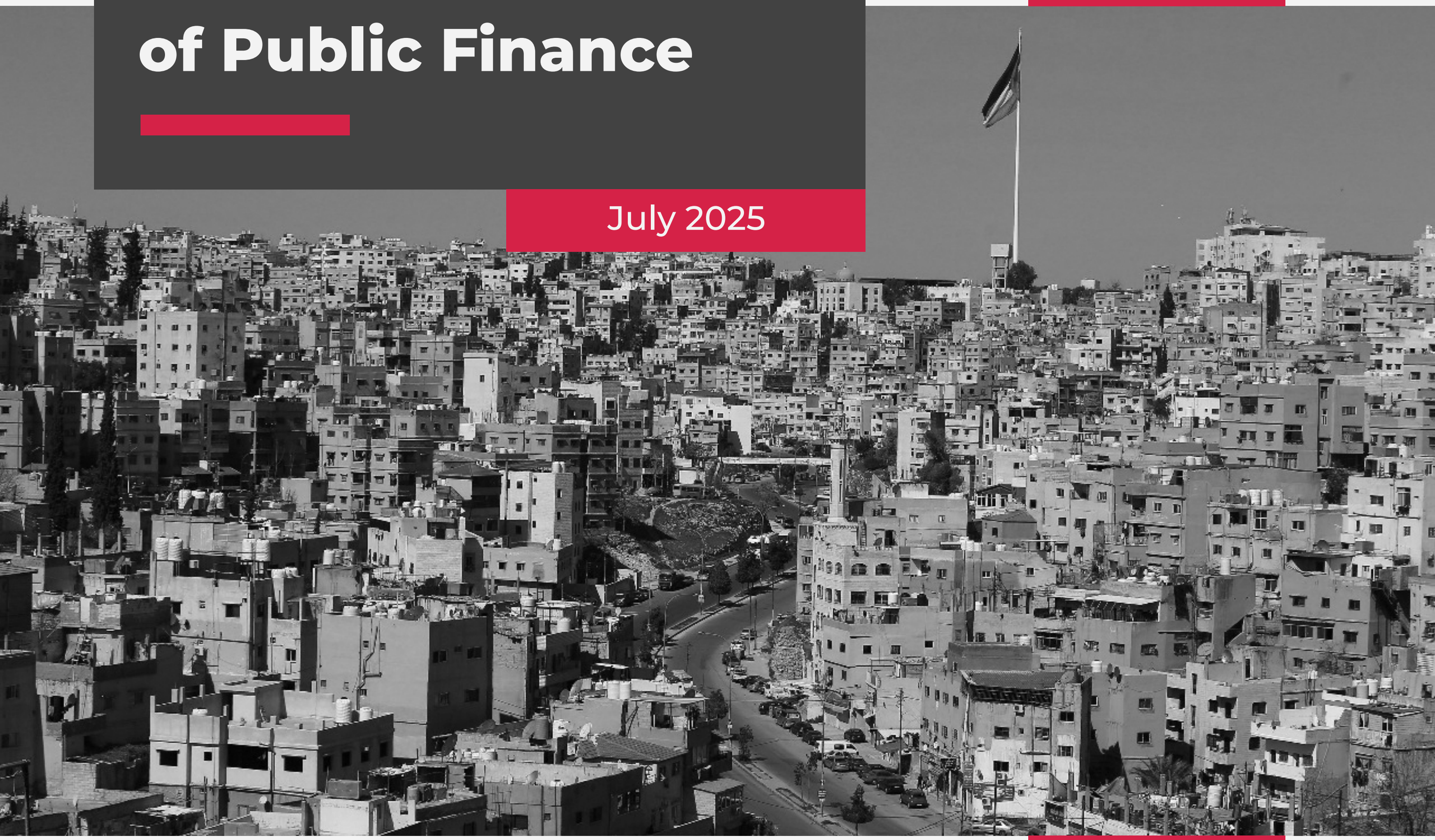

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Introduction

The Jordanian economy has long been characterized by a heavy dependence on foreign aid and debt, due to its limited natural resources, weak productive base, and the economic and political choices of successive Jordanian governments. Within this structural constraint, achieving self-sustaining economic growth has proven difficult, prompting Jordan to continually seek financial support from international donors and lenders. Despite various efforts to stimulate development, economic expansion in Jordan has remained sluggish, averaging just 2.5% annually over the past five years[1], while unemployment rates have hovered around 22% since 2020[2]. The situation is further exacerbated by rapid population growth and the hosting of large numbers of refugees, which have increased pressure on public services, infrastructure, and the labor market. A combination of structural vulnerabilities, fiscal management decisions by successive governments, and external shocks has reinforced an economic model heavily reliant on borrowing and foreign aid, raising concerns about the long-term sustainability of Jordan's financial system.

One of the primary challenges Jordan faces is its slow economic growth, which remains constrained by a low-productivity, service-based economy. This limits its capacity to generate high-value and sustainable economic activity. Furthermore, the private sector remains weak, with small and medium-sized enterprises (SMEs) struggling to access financing and scale their operations. As a result, job creation has been insufficient, leaving a growing segment of the labor force either unemployed or engaged in informal, low-paying jobs with little to no social protection.

The persistently high unemployment rates, particularly among young people and university graduates, reflect a deep structural gap between the education system and labor market needs. Although Jordan has invested heavily in higher education, many graduates face limited opportunities in their fields of specialization, pushing them to either accept low-skilled jobs or emigrate in search of better career and life prospects. The government's inability to stimulate job growth in high-productivity sectors has aggravated social issues and fueled frustration among young Jordanians, compounding the economic challenges facing the country.

Chronic fiscal deficits in Jordan's public budgets represent another core issue. These deficits averaged 7.4% of GDP (before grants) over the past five years, with similar or worse levels in preceding years. This has led successive governments to rely on external borrowing and foreign assistance to fund public expenditures. The general budget has long suffered from imbalances between revenues and expenditures, prompting policymakers to adopt a debt-financing approach to development. However, this model has resulted in a continuous accumulation of public debt, which rose from 99.9% of GDP in 2019 to 117.2% in 2024[3].

In an effort to address this deficit, Jordan implemented a series of austerity measures and tax increases under agreements with the International Monetary Fund (IMF). These measures included setting the general sales tax at a high rate of 16% on most goods and services, cutting subsidies, and imposing hiring freezes in the public sector. These steps led to higher living costs and a decline in the quality of public services, especially in healthcare and education. Despite these efforts, fiscal measures failed to generate sufficient growth in domestic public revenues. Most of the tax burden fell on consumption rather than income or corporate profits, with revenues from indirect taxes accounting for approximately 72% of total tax revenues[4]. This disproportionately affected low- and middle-income citizens, leading to a decline in domestic demand and a slowdown in economic activity.

In addition to economic challenges, Jordan is also exposed to geopolitical risks and external economic shocks. The 2008 global financial crisis weakened foreign investment flows, while the aftermath of the Arab Spring in 2011 destabilized several countries in the region, negatively impacting trade, tourism, and remittances, although the latter eventually recovered. The Syrian refugee crisis also placed additional pressure on public services.

In recent years, the COVID-19 pandemic caused a sharp economic contraction of -1.1% in 2020[5], disrupting global supply chains and increasing pressure on public finances. The Russian-Ukrainian war further exacerbated Jordan's economic fragility, as the country was severely affected by rising oil and gas prices, which increased transportation and production costs across various sectors. Additionally, the global surge in food prices intensified inflationary pressures, significantly affecting low-income households and deepening economic hardship. The ongoing genocide in Gaza for nearly 20 months, along with the renewed military occupation of the West Bank, introduced new risks by disrupting trade and investment flows and increasing regional uncertainty, which could hinder economic recovery efforts.

In response to these challenges, the government has continued to rely on external borrowing as a key strategy for managing public finances and securing resources for the national budget. It has obtained new loans from the IMF, the World Bank, and international capital markets to achieve financial stabilization, in addition to increasing borrowing from the Social Security Fund. However, these debt-based policies have failed to achieve sustainable economic growth, as most borrowed capital has been directed toward covering current expenditures and debt servicing rather than investments that drive real economic development. With the continued rise in debt servicing costs and an increasing share of government revenues being consumed, Jordan's financial stability remains in question, highlighting the urgent need for reforms to enhance fiscal sustainability and economic resilience.

This paper examines the trajectory of the Jordanian economy through a political economy lens, assessing structural constraints, fiscal policies, the country's dependence on debt, the role of international financial institutions, and the sustainability of public debt. Debt sustainability is defined as the state's ability to meet its current and future financial obligations without resorting to further borrowing to repay existing loans, or accumulating debt levels that become unpayable, and without negatively affecting the drivers of economic growth and social spending.

By analyzing both domestic and external factors, the paper aims to provide a comprehensive picture of Jordan's economic challenges and offer insights into potential pathways toward sustainable growth and financial stability.

1. Economic and Social Challenges

Jordan faces fundamental challenges in its tax system, which is dominated by indirect taxes such as the 16% sales tax, alongside high excise taxes on petroleum products, telecommunications, and tobacco. These taxes increase the economic burden on low- and middle-income households. This unfair tax policy has disproportionately placed the bulk of the tax burden on poorer and middle-income groups compared to high-income earners and large corporations, which benefit from the absence of a progressive income tax structure. With the rising cost of living and stagnant real wages, citizens face a daily struggle to meet basic needs, limiting their purchasing power and negatively affecting domestic demand and overall economic growth.

The excessive reliance on consumption taxes, rather than on direct income taxes, progressive corporate taxes, and capital taxes, exacerbates economic inequalities. Indirect taxes do not account for income levels, causing lower- and middle-income individuals to pay a higher percentage of their income in taxes than those with higher earnings. Moreover, these tax policies have failed to improve public services such as healthcare and education to an acceptable standard. Citizens continue to experience declining education quality, weak healthcare services, and rising transportation and housing costs – all of which are factors that heighten both social and economic pressures.

Since the 1990s, successive Jordanian governments have pursued privatization policies as part of the economic reforms promoted by international financial institutions such as the IMF and the World Bank. The declared aim of these policies was to improve the efficiency of vital sectors, such as education and healthcare, and to attract private investment. However, the actual outcomes showed that privatization failed to achieve these goals. Instead, it exacerbated economic inequality, increased the cost of essential services, and reduced the state's role in key sectors like education and healthcare.

In the education sector, the expansion of private schools and universities led to a significant rise in education costs, making access to quality education difficult for many low-income families. Meanwhile, the quality of education in public schools declined due to underfunding, overcrowded classrooms, and low teacher salaries, which negatively affected students' academic performance.

In the healthcare sector, privatization made medical services more expensive and less accessible to vulnerable groups. Private hospitals and clinics began offering services at prices far beyond the means of many citizens. At the same time, the quality of healthcare in the public sector deteriorated due to weak funding and shortages of medical staff. As a result, more citizens increasingly rely on private healthcare despite its high costs, forcing some families to sell inherited assets or forgo adequate healthcare altogether.

The absence of effective government oversight and the emergence of monopolistic practices in these sectors have worsened the problem, as private companies control service prices without sufficient regulatory mechanisms to ensure social justice.

In addition, the high unemployment rate remains one of the most pressing economic challenges in Jordan, with the official unemployment rate hovering around 22% and youth unemployment reaching approximately 40%[6]. These figures reflect weak labor market policies and the absence of effective strategies for job creation. Despite the government's stated efforts to increase labor market flexibility, such measures have led to the proliferation of informal employment. Many workers now operate under unfair and precarious conditions, often without formal contracts or access to social protection.

The weakening of labor unions has further reduced workers' capacity for collective bargaining, resulting in declining real wages and minimum wage levels, deteriorating labor rights, and decreased job security. This has particularly affected young people and recent graduates, who face increasing difficulty finding jobs that offer fair and decent working conditions. Consequently, many are driven to seek employment abroad or in the informal economy, which lacks even the most basic standards of social protection.

As for poverty alleviation policies, the Jordanian government primarily focuses on direct cash assistance, particularly through the National Aid Fund. While such assistance does provide support to poor households, it does not address the root causes of poverty, such as limited job opportunities, poor education, and the high cost of living. Thus, the government's responses have remained short-term and reactive, prioritizing temporary relief measures over long-term economic empowerment strategies. The lack of investment in education, vocational training, and sustainable employment programs has further limited opportunities for advancing diverse development pathways.

Official statistics indicate that approximately 24.1% of Jordanians live below the poverty line[7], but World Bank estimates place this figure at 35%[8], underscoring the ineffectiveness of current social policies. Moreover, the government's failure to publish detailed national poverty statistics in recent years reflects a lack of transparency and makes it difficult to evaluate the success or failure of anti-poverty programs.

In addition to fiscal policies, the Jordanian government has pursued a conservative monetary policy, focusing on exchange rate stability and inflation control. While this approach has helped maintain overall macroeconomic stability, it has limited opportunities for private sector growth due to restricted access to financing. Businesses and start-ups in Jordan face significant challenges in obtaining loans because of high interest rates, which hinder investment and innovation, while deposit interest rates remain low.

Furthermore, domestic banks have increasingly concentrated on financing the government deficit by purchasing government bonds, rather than issuing loans to the private sector. This reduces opportunities for business expansion, stifles entrepreneurship, and limits the economy's capacity to achieve more dynamic growth. This dampens innovation and entrepreneurial initiatives, preventing the economy from developing in ways that are adaptive and responsive to Jordan's structural characteristics.

Amid this trajectory, regional and international crises have exacerbated Jordan's economic challenges, such as the 2008 global financial crisis, the Arab Spring in 2011, the COVID-19 pandemic, and the Russian-Ukrainian war. These events have adversely affected foreign investment inflows, tourism revenues, and trade, intensifying financial and economic pressures.

In addition, Jordan suffers from the consequences of the ongoing Israeli genocide in Gaza, the continuous assaults on West Bank cities, and the renewed military occupation of most areas there. These developments have affected regional stability and further increased the government's economic burdens, particularly amid global surges in energy and food prices, and declining domestic and foreign tourism and investment.

Jordan also hosts millions of refugees from Syria, Iraq, and Palestine, which has placed additional strain on public services in health, education, and infrastructure, all within the context of limited financial resources. Moreover, Jordan imports more than 90% of its energy needs from abroad, making it highly vulnerable to fluctuations in global oil prices. This further exacerbates the fiscal deficit and constrains the government's ability to implement sustainable development plans.

This volatile environment, preceded by the 2008 global financial crisis, has negatively affected capital flows and foreign investments. The aftermath of the Arab Spring in 2011 in several regional countries led to a drop in tourism revenues and foreign direct investment. The COVID-19 pandemic contracted the economy by 1.1% in 2020, pushing the government toward further borrowing to compensate for economic losses. Similarly, the Russian-Ukrainian war caused a rise in energy and food prices, which has further intensified financial pressures on Jordan due to its heavy reliance on imports.

The economic challenges Jordan faces are closely linked to historical choices characterized by persistent reliance on external aid, the adoption of neoliberal economic policies, and a structurally weak industrial base. Together, these factors have played a major role in shaping decisions and financial and development policies, often limiting Jordan's ability to pursue independent economic strategies that meet its national needs. Consequently, the country relies heavily on financial assistance from the United States, the IMF, the World Bank, the European Union, and some of the latter's wealthier member states, which play a pivotal role in steering fiscal policies and economic reforms. These forms of assistance are often conditional on austerity measures, tax increases, and subsidy cuts, thereby imposing economic pressure on low- and middle-income groups. Similarly, dependence on external financing undermines Jordan's economic sovereignty, forcing the government to prioritize economic adjustments dictated by donors, which may not align with local social and economic priorities.

Despite the economic and regional challenges Jordan faces, the national economy has demonstrated a degree of macro-level resilience, managing to maintain relative stability amid successive global crises. Domestic revenues saw a notable increase between 2020 and 2024, rising from JOD 7.0 billion in 2020 to JOD 8.7 billion in 2024 – a growth of about 24%[9]. This improvement is primarily attributed to enhanced tax collection efficiency, with tax revenues accounting for the largest share of total domestic revenues, reflecting government efforts to broaden the tax base and improve compliance.

In parallel, Jordan has continued diversifying its financing sources by securing financial assistance and concessional loans from international multilateral and bilateral partners. This approach has helped fund the budget deficit, alleviate pressure on public finances, maintain a level of economic and financial stability, and enable the government to implement some development priorities.

However, significant and deeply rooted vulnerabilities remain within Jordan's economy, particularly in budget financing. The rapid growth of public debt and the rising burden of debt servicing pose a serious challenge to fiscal sustainability. The ratio of total public debt to GDP climbed from 99.9% in 2019 to a peak of 120.1% in 2022, before slightly declining to 117.2% in 2024[10], underscoring an excessive reliance on borrowing to cover fiscal deficits.

An analysis of financial indicators reveals that public debt servicing absorbs an increasingly large share of domestic revenues, rising from 16% in 2019 to 25% in 2024. This means that a quarter of government revenues is allocated to debt repayment rather than investment in public services and development. Debt servicing costs reached approximately JOD 1.96 billion in 2024, significantly exceeding government spending on critical sectors such as health and education. According to the Ministry of Finance's June 2025 financial bulletin, government expenditure on education in 2024 amounted to around JOD 1.2 billion, while spending on healthcare stood at about JOD 992 million. Combined, the total spending on these two sectors (JOD 2.2 billion) barely surpasses the cost of debt servicing, clearly reflecting a severe imbalance in public spending priorities. Additionally, the structure of the tax system contributes to deepening this imbalance, as the budget relies heavily on indirect taxes, particularly the sales tax. This imposes an extra burden on low-income households, reducing the purchasing power of poor and middle-income groups, which in turn leads to a decline in domestic demand. This situation has widened economic and social inequality gaps.

These challenges call for comprehensive structural reforms, including restructuring the tax system to make it more equitable and progressive, reducing reliance on borrowing to finance current expenditures, and increasing investment in productive sectors such as industry and agriculture. Furthermore, more resources should be directed toward education, healthcare, and social protection. There is also an urgent need to adopt long-term development policies that focus on empowering marginalized groups and creating sustainable job opportunities, particularly for young people, to ensure enhanced economic and social stability over the long term.

Table: Jordan's Key Economic Indicators*

Economic Indicator	2019	2020	2021	2022	2023	2024
Gross Domestic Product (GDP) (JOD billion)	30.0	29.8	30.8	31.7	32.5	33.3
Economic Growth Rate (%)	1.8	-1.1	3.7	2.6	2.7	2.4
Total Revenues (JOD billion)	7.8	7.0	8.1	8.9	9.2	9.4
Domestic Revenues (JOD billion)	7.0	6.2	7.3	8.1	8.5	8.7
Budget Deficit Before Grants (% of GDP)	5.8	9.6	7.7	6.8	7.1	7.4
Total Public Debt (JOD billion)	29.7	32.6	35.4	38.1	40.7	43.5
Total Public Debt to GDP (%)	99.9	109.6	114.9	120.1	116.1	117.2
Debt Servicing(JOD billion)	1.1	1.2	1.4	1.4	1.7	1.96
Debt Servicing as % of Domestic Revenues	16.0	19.9	19.2	17.6	20.0	25.0
Debt Servicing as % of GDP	8.9	9.4	8.4	10.6	11.2	9.0

*Prepared by the researcher based on periodic reports issued by the Jordanian Ministry of Finance for the years 2020–2025.

2. Jordan's Sovereign Debt Crisis

The rapid accumulation of public debt in Jordan represents one of the most serious economic challenges threatening national economic stability and hindering the country's ability to achieve sustainable growth. Total public debt rose from JOD 29.7 billion in 2019 to JOD 43.5 billion in 2024 (an increase of 46.5% in just five years) indicating a sharp expansion in borrowing to cover public expenditures amid weak domestic revenues and a widening fiscal deficit. This surge in debt has directly impacted the debt-to-GDP ratio, which jumped from 99.9% in 2019 to 117.2% in 2024, one of the highest ratios in the region. This reality raises fundamental questions about Jordan's ability to maintain financial stability under such escalating dynamics.

The rise in the debt-to-GDP ratio reflects more than a quantitative increase; it reveals deep structural imbalances in the public finance system, as well as a pattern of chronic fiscal deficits that have become a persistent feature of the state budget. Despite successive governments' efforts to improve tax collection efficiency and enhance the management of financial resources, the average annual fiscal deficit before grants stood at 7.4% of GDP over the past five years. This indicates that borrowing continues to serve as the main tool for financing this deficit rather than being directed toward productive investments that generate growth and income. The persistence of this debt-financing pattern, without addressing the root causes of imbalances in revenue and expenditure structures, signals weak capacity to control the deficit and fragile fiscal sustainability in the medium term.

In this context, it becomes essential to apply the concept of "sovereign debt sustainability," which refers not only to a state's ability to meet its current financial obligations, but also to its capacity to do so without subjecting its budget to mounting pressures that compromise economic and social performance. Debt sustainability means maintaining debt levels at an acceptable ratio to GDP and ensuring that its cost, represented by debt servicing, remains within limits the state can bear without resorting to harsh austerity measures that undermine living standards or jeopardize the delivery of basic services. In Jordan's case, however, the data points to a gradual erosion of this principle, as an increasing share of public revenues is allocated to debt servicing rather than investment in education, health, or infrastructure, limiting the state's ability to implement development policies or meet citizens' needs.

This situation is further compounded by external debt indicators, which have risen at a rate exceeding real GDP growth, tripling between 2011 and 2023[11]. This rapid shift reflects an increasing dependence on external financing to cover the budget deficit, making Jordan's economy more vulnerable to changes in global interest rates and fluctuations in currency markets, particularly given the peg of the Jordanian dinar to the U.S. dollar. Any rise in global interest rates or in the value of the dollar automatically leads to higher external debt servicing costs, pressures foreign currency reserves, and undermines overall financial stability. Jordan's reliance on external aid as a primary source of funding for expenditures also exposes it to political and economic pressures from donor entities, weakening its ability to formulate independent economic policies aligned with domestic development priorities.

Taken together, these indicators confirm that Jordan's sovereign debt crisis is no longer a temporary financial challenge but has evolved into a deep structural crisis requiring a comprehensive review of existing fiscal and economic policies. This includes revisiting the revenue structure, redirecting spending toward productive sectors, and reducing dependence on external financing and conditional aid, all of which are steps necessary to restore financial stability and rebuild the state's capacity to pursue independent economic and social activity.

The concept of sovereign debt sustainability, as noted earlier, refers to a state's ability to manage its public debt, including both principal and interest, in a way that ensures meeting its financial obligations over the medium and long term without resorting to exceptional financial or excessive austerity measures, and without undermining its ability to finance essential public spending and provide basic services. Maintaining sustainability requires that the growth of public debt remain within controllable limits and that its servicing cost be proportionate to overall public revenues, so as not to erode the fiscal space necessary for infrastructure investment and socio-economic development. Likewise, the government must maintain acceptable levels of fiscal deficit and ensure access to financing on relatively concessional terms without accumulating significant financial risks or becoming chronically dependent on high-cost borrowing[12] [13].

In recent years, however, Jordan's experience reveals a gradual erosion of the fundamentals of debt sustainability. Financial indicators show a troubling trend of a continuous increase in the share of debt servicing from domestic revenues, which reached 25% in 2024, up from 16% in 2019. This means that a quarter of domestic financial resources is allocated solely to paying the cost of debt, without reducing the principal. The cost of debt servicing doubled over the same period, from JOD 1.1 billion to JOD 1.96 billion, and is expected to reach JOD 2.2 billion in 2025, according to the Budget Speech[14]. This trend cannot be separated from the sharp rise in total external debt, which tripled between 2011 and 2023, while the ratio of external debt to GDP increased from 20% to 50%.

These indicators clearly show that public debt, particularly external debt, has ceased to be a flexible financing tool and has instead become a major pressure on public finances and the independence of economic decision-making. This is especially true in a global financial environment moving toward higher interest rates, which increases Jordan's financing costs, as the country relies heavily on external borrowing to finance a large part of its budget. Any increase in global interest rates or fluctuation in the U.S. dollar exchange rate not only raises the cost of debt servicing but also puts pressure on the balance of payments and foreign currency reserves, making Jordan's economy more vulnerable and less able to absorb shocks.

With Jordan's heavy reliance on foreign aid, particularly from the United States, which provides USD 1.45 billion annually under a seven-year Memorandum of Understanding (MoU) on Foreign Assistance signed in September 2022[15], external debt becomes a tool at the intersection of financial and political factors, imposing constraints on national economic policy. Furthermore, the shift in the nature of international assistance from grants to concessional loans, such as the World Bank's loans totaling USD 3.2 billion between 2018 and 2022[16], adds to future debt burdens, particularly when such loans are tied to austerity-oriented economic measures, including cuts in public spending and tax increases. While these measures are internationally promoted as tools for improving macroeconomic indicators, in practice they lead to higher living costs, erode the purchasing power of low- and middle-income groups, exacerbate social inequality, and ultimately weaken the very tax base that is supposed to support sustainability.

This complex relationship between the growth of public debt and the shrinking fiscal space becomes clear when noting that the ratio of public revenues to GDP declined from 36.5% in 1990 to 25.2% in 2023, indicating a continuous weakening of the state's capacity to mobilize domestic resources. This decline is partly due to the tax system's reliance on indirect taxes such as the sales tax, which accounts for 72% of total tax revenues[17]. This reliance undermines tax justice and limits the contribution of high-income earners and wealthy individuals to state financing.

In light of these realities, sovereign debt sustainability in Jordan is no longer a purely technical matter but has become a structural issue that strikes at the core of the prevailing economic and financial model, which is dependent on external borrowing, conditional aid, an inequitable tax system, and chronic fiscal deficits. The longer this dynamic persists without fundamental reform, the harder it becomes for the state to maintain its ability to meet financial obligations, and the slimmer the chances of restoring fiscal balance without imposing significant social costs.

Alongside the surge in domestic public debt, Jordan's external debt has increased at a pace far exceeding GDP growth, tripling between 2011 and 2023. Statistics indicate that the ratio of external debt to GDP climbed from 20% in 2010 to 50% in 2023, reflecting an accelerating reliance on external financing to cover persistent fiscal deficits.

This excessive dependence on external debt makes Jordan's economy highly vulnerable to changes in global financial conditions, as any increase in global interest rates raises the cost of debt servicing, thereby worsening the fiscal burden on the government. This high level of external indebtedness also exposes Jordan to exchange rate volatility, as an appreciation of the U.S. dollar leads to higher repayment costs in the local currency, increasing pressure on foreign reserves and undermining overall financial stability.

Jordan's economy has long relied on external aid as a primary source of funding for public expenditures, rendering it susceptible to the influence of external powers and the economic and political conditions imposed by donor states and institutions. The United States is the largest donor to Jordan, providing an annual aid package of USD 1.45 billion under a seven-year agreement signed in 2022. Most of these funds are channeled through the United States Agency for International Development (USAID).

In addition, the World Bank has emerged as one of the most significant sources of external financing, providing loans totaling USD 3.2 billion between 2018 and 2022. This reflects a shift in international assistance from grants to loans, thereby increasing Jordan's long-term debt burden. These loans are often conditional on implementing strict economic reforms, including subsidy cuts, tax increases, and austerity measures, all of which pose significant challenges to both the government and Jordanian society.
Despite the substantial inflows of foreign aid, the conditional nature of this assistance has had profound economic and social repercussions. As noted earlier, international assistance is often tied to the implementation of "economic reform" measures overseen by the IMF and the World Bank. These measures typically involve austerity policies requiring the government to cut public spending and increase tax revenues without taking into account the social dimensions of such policies.

For example, hikes in indirect taxes and the removal of subsidies on certain basic goods have led to higher living costs, which have directly and negatively impacted low- and middle-income groups. Economic policies driven by conditional aid have also sparked repeated waves of public protests, most notably the 2018 demonstrations that resulted in the government's resignation following the imposition of new taxes and subsidy cuts.
In a recent development, the new U.S. administration announced the suspension of all foreign aid, including aid to Jordan, pending review, further deepening financial uncertainty, as the Jordanian government relies heavily on such assistance to cover fiscal deficits. The situation has become even more precarious following the U.S. president's declaration of his intention to cut aid altogether should Jordan refuse to comply with his plan to relocate Palestinians from Gaza to Jordan. This stance underscores the vulnerability of Jordan's economy to external political pressures and the extent to which the state's financial situation is intertwined with major regional issues.

Despite rising tax revenues in recent years, the Jordanian government continues to rely heavily on indirect taxes, which accounted for 68.1% of total revenues in 2023[18]. These include a 16% sales tax, specific excise taxes on petroleum products, telecommunications, and tobacco, as well as customs duties on imports, all of which place a heavy financial burden on low- and middle-income households.

Nevertheless, the ratio of government revenues to GDP has declined steadily, falling from 36.5% in 1990 to 25.2% in 2023[19]. This decline reflects the government's weak capacity to generate sustainable revenues, largely due to the nature of a tax system that prioritizes consumption-based taxes over progressive taxes on income and wealth.

Debt servicing costs have risen sharply, adding further strain to Jordan's already limited fiscal space. Between 2019 and 2024, debt servicing costs nearly doubled, from JOD 1.1 billion to JOD 1.96 billion, reflecting the growing financial burden of public debt in the country[20]. According to the Budget Speech delivered by the Minister of Finance and approved by Parliament in January, debt servicing is projected to reach JOD 2.2 billion in 2025. This situation has led to a decline in the quality of life for Jordanian citizens and increased economic pressures on low-income households.

The share of debt servicing in domestic revenues rose significantly, from 16% in 2019 to 25% in 2024. This means that a quarter of government revenues is currently allocated to paying the cost of public debt alone, without reducing the principal, which severely limits the resources available for public services, infrastructure development, and economic investment. Likewise, the share of debt servicing in GDP increased from 8.9% in 2019 to 11.2% in 2023, highlighting the considerable financial pressure facing the Jordanian economy.

The sovereign debt crisis is not merely a financial problem; its repercussions extend to the social and political spheres. Rising public debt undermines the state's ability to provide basic services, exacerbates economic inequality, and increases poverty levels. Growing financial commitments to international lenders restrict the government's capacity to make independent economic decisions, reinforcing dependency on international financial institutions.

The increase in public debt and its servicing costs has significantly reduced Jordan's fiscal space, limiting the government's ability to invest in long-term development goals. This financial burden hinders progress toward key sustainable development objectives, particularly poverty reduction, as higher taxes and cuts in social spending disproportionately affect low-income groups. The result is greater economic inequality and a barrier to sustainable economic growth, as limited investment in infrastructure and capital-intensive projects, along with a lack of job creation, curtails economic expansion and industrial development. Added to this are persistently high unemployment rates and stagnant or declining real wages, leaving economic conditions in Jordan challenging for both workers and small and medium-sized enterprises.

On the political front, austerity measures resulting from economic reform programs have fueled domestic instability and increased popular protests, placing the government in a difficult position between responding to citizens' demands and complying with the conditions set by international institutions. This structural crisis reflects deeper challenges related to the absence of a sustainable development model capable of pulling Jordan out of the cycle of dependency on debt and external aid.

As the current situation persists, Jordan's public finances face mounting challenges that have led to a troubling accumulation of sovereign debt, exerting significant pressure on the national economy. The worsening of public debt stems from a combination of structural, economic, and political factors whose effects have compounded over decades. These factors can be summarized as follows: Chronic fiscal deficits represent one of the primary drivers of rising public debt, ranging between 6% and 9% of GDP over the past decade. This is due to the persistent gap between government revenues and public expenditures, which has forced the government to borrow to cover the growing deficit. Additionally, Jordan's tax system relies heavily on indirect taxes, such as the 16% sales tax, rather than on progressive income taxation. This model places a disproportionate burden on middle- and low-income groups, reducing domestic consumption and limiting the economy's capacity to achieve sustainable growth. The absence of effective wealth taxes further complicates the generation of sustainable government revenues.

Monetary policy has also contributed to rising public debt. Pegging the Jordanian dinar to the U.S. dollar has maintained monetary stability but restricted policy flexibility. When the U.S. Federal Reserve raises interest rates, the cost of servicing Jordan's external debt rises, adding pressure on public finances. Moreover, high domestic interest rates limit access to credit, hindering private sector growth and making the government more dependent on external borrowing to finance development projects.

The Jordanian economy also suffers from a severe lack of diversification, relying heavily on services, tourism, and remittances, while the industrial and agricultural sectors experience declining competitiveness. This results in a persistent trade deficit and reduced exports, limiting Jordan's ability to generate foreign currency revenues necessary to meet its financial obligations. The government also relies on international assistance, which is often unstable, further increasing the fragility of the financial situation.

International financial institutions, such as the IMF and the World Bank, have played a significant role in exacerbating Jordan's debt crisis. The country has relied on loans from these institutions under conditional economic programs that included austerity measures such as tax hikes, subsidy cuts, and the privatization of certain public sectors. Although these policies were intended to achieve financial stability, they have instead led to slower economic growth and increased living costs for citizens.

These growing debt-servicing commitments constrain fiscal policymaking, forcing decision-makers to prioritize short-term debt stabilization over long-term economic development. As a result, the government faces difficult trade-offs between servicing debt and investing in vital sectors such as education, healthcare, and job creation.

In addition, the structure of Jordan's external debt is gradually shifting toward increased reliance on international and Arab institutions, while government bonds remain a major source of financing. This composition reflects a mix of the need for financial stability and compliance with reform programs, against the backdrop of continued pressure from debt servicing costs, underscoring the need for more sustainable policies in public debt management and diversification of financing sources under conditions favorable to the national economy.

Data from the Ministry of Finance shows that multilateral institutions remain Jordan's largest external creditors, maintaining a high and stable share of total external debt over the past five years. Their contribution rose from 35.4% in 2021 to 39.4% by May 2025. This trend indicates Jordan's growing reliance on concessional financing from institutions such as the World Bank and the IMF, signaling the continued alignment of public finances with international economic reform programs[21].

Despite a slight decline in the share of government bonds in total external debt, from 45.2% in 2021 to 42.4% in 2025, they still represent an important source of external financing. This reliance suggests the government's continued dependence on international financial markets to fund the budget; a strategy often associated with higher interest rates and shorter repayment periods compared to concessional loans. This pattern raises serious questions about the future cost of debt servicing and its sustainability.

The share of Arab states as a source of external debt has gradually increased, rising from 2.6% in 2021 to 4.9% in 2025. This trend reflects a growing inclination to leverage financial support from Gulf and Arab states amid supportive regional economic conditions. It also suggests a partial rebalancing of financing relations toward Arab states, which may provide financing options under relatively more concessional and less conditional terms compared to international institutions.

Bilateral loan ratios with states such as France, Germany, Japan, and the United States have shown relative stability over the same period, with slight variations. For example, the share of debt from France stood at 4.0% in 2025 compared to 4.2% in 2021, while Germany maintained a level of approximately 3.5% in recent years. This indicates that financial relations with traditional partners have continued without any significant increase in reliance on them.

3. Public Debt Management

Jordan’s debt management strategy has long been a subject of debate among policymakers, economists, and international financial institutions. By the end of 2024, public debt had approached 117.2% of GDP, raising concerns about fiscal sustainability and economic resilience. Despite these alarming figures, the government continues to treat external borrowing as a strategic economic policy tool rather than a mere response to crisis.

Several senior economic officials have repeatedly asserted that financing the deficit through borrowing is considered a calculated and acceptable option, as it allows for maintaining public spending levels, supporting macroeconomic stability, and stimulating economic activity. This approach is grounded in a debt-financed growth model aimed at funding public services, safeguarding foreign currency reserves, and covering the costs of essential infrastructure projects.

However, one of the main weaknesses of this strategy lies in its heavy reliance on borrowing without implementing genuine economic reforms or adopting alternative measures to curb the rising public debt. The absence of fiscal policies that enhance the state’s capacity for self-reliance and ensure medium- and long-term fiscal sustainability undermines prospects for advancing toward sustainable development goals.

Despite the continuous expansion of borrowing, recent economic growth rates have remained low and disproportionate to the scale of debt accumulation. This reflects a clear shortfall in productivity and a failure to achieve the structural economic transformation necessary to create sustainable revenue streams.

The ineffective tax system presents another major challenge, as it has failed to generate sufficient domestic revenues to reduce dependence on debt. The government relies heavily on indirect taxes, as noted earlier, including a 16% sales tax, high customs duties, and specific excise taxes. Without comprehensive tax reforms to broaden the tax base, debt-financed spending continues to outpace income, exacerbating the cycle of fiscal imbalance. Moreover, Jordan’s borrowing strategy lacks a clear exit plan, with no structured pathway to transition from debt-financed spending to sustainable economic growth.

Development project financing is one of the main justifications for Jordan’s borrowing strategy; however, the effectiveness of these investments remains questionable. While many infrastructure projects have been funded through external loans, a significant number lack mechanisms for generating sufficient revenues, raising concerns about long-term debt sustainability.

The continued expansion of public debt carries significant economic and social risks. Mounting public frustration over rising taxes and subsidy cuts has fueled political instability and triggered social protests. High unemployment rates, stagnant wages, and limited job opportunities further contribute to discontent, particularly among young people. Without targeted economic policies aimed at creating sustainable employment opportunities, the social consequences of debt-related austerity measures are likely to persist.

One of the key risks lies in the erosion of Jordan's financial sovereignty. As external borrowing continues to rise, international financial institutions play an increasingly influential role in shaping the country's economic policies. This dependence limits Jordan's ability to implement independent strategies that prioritize long-term growth over short-term financial stability. Furthermore, Jordan's reliance on high-cost external financing makes it vulnerable to global financial volatility, particularly in the context of rising interest rates and increasing borrowing costs.

Conclusion

Jordan faces an escalating sovereign debt crisis that poses a serious threat to its economic and social stability. Total public debt surged from JOD 29.7 billion in 2019 to JOD 43.5 billion by 2024, pushing the debt-to-GDP ratio to 117.2%, an exceptionally high level that reflects excessive reliance on borrowing to cover a chronic fiscal deficit.

At the core of the problem lies an unbalanced fiscal structure. The tax system relies heavily on indirect taxes, such as sales tax and special levies on fuel and telecommunications, placing a heavy and disproportionate burden on low- and middle-income households. In contrast, income and corporate taxes lack sufficient progressivity, allowing wealthy individuals and large corporations to pay a lower share of their income. This tax gap not only deepens social inequality but also weakens the state's ability to generate sustainable revenues.

The situation is further aggravated by the fact that a significant portion of these revenues (currently 25% of domestic revenues) is allocated exclusively to the cost of debt servicing (interest payments), rather than development investment. This means that a quarter of domestic resources is consumed by debt obligations, limiting the government's ability to allocate funds to vital sectors such as education and health. Analysis shows that total spending on these two sectors barely exceeds the cost of debt servicing.

The debt crisis extends beyond fiscal concerns, directly affecting citizens' lives. High unemployment rates (around 22% overall and up to 40% among young people) are among the most serious consequences of current economic policies. Despite the government's stated efforts, weak labor policies and the decline of trade union influence have led to widespread informal employment and the erosion of real wages.

Moreover, privatization policies, initiated in the 1990s and encouraged by international institutions, have failed to achieve their intended objectives. Instead of improving efficiency, privatization in the education and health sectors has increased the cost of services and reduced quality in the public sector, forcing citizens to rely on expensive private services and thereby widening economic and social inequality. Poverty alleviation policies remain inadequate, providing only temporary cash assistance without addressing the root causes of poverty.

Jordan's economic model is characterized by heavy dependence on external aid and loans, for which international financial institutions (IMF and World Bank) impose strict conditions. These often include austerity measures such as tax increases and subsidy cuts, which generate widespread public discontent and political instability, as witnessed during the 2018 protests.

It is worth noting that pegging the Jordanian dinar to the U.S. dollar, despite its benefits in ensuring monetary stability, makes the currency more vulnerable to the consequences of U.S. monetary policies. When the U.S. Federal Reserve raises interest rates, the cost of servicing Jordan's external debt automatically increases, adding pressure on public finances and foreign currency reserves.

Overall, all indicators suggest that Jordan's debt crisis is not a temporary issue but a deep structural problem rooted in historical choices and accumulated fiscal and economic policies. Addressing these challenges requires comprehensive reform of the tax system, reorienting public spending toward productive investment, and reducing reliance on conditional external financing to ensure long-term fiscal and economic stability.

Recommendations

Based on the analysis above, the following recommendations could help Jordan overcome its current economic and financial crisis:

First: Reform the Tax System to Achieve Fairness and Efficiency

The current tax system in Jordan is one of the main factors deepening social inequality and weakening government revenues. To address this, the following measures are recommended:

1- Increase reliance on direct and progressive taxation by restructuring the income tax to make it more progressive, thereby imposing higher tax burdens on high-income groups and large corporations. It is also recommended to introduce taxes on wealth or large real estate assets to increase government revenues in an equitable manner.

2- Reduce dependence on indirect taxes by revisiting the sales tax and specific excise taxes on essential goods and petroleum products, which disproportionately burden low- and middle-income households. This can be achieved by lowering tax rates or exempting certain basic goods to protect citizens' purchasing power.

3- Combat tax evasion and avoidance by strengthening the oversight and administrative capacity of the Income and Sales Tax Department, and leveraging technology to ensure tax compliance, particularly in the informal sectors and the digital economy, to guarantee that all taxpayers pay their fair share.

Second: Reorient Public Spending Toward Growth and Productivity

The above analysis shows that a significant share of public revenues is allocated to debt servicing instead of investment in critical sectors. Therefore, more effective spending policies must be adopted:

4- Increase investment in productive sectors by redirecting part of public spending toward projects with high economic returns in sectors such as agriculture and manufacturing, which can create sustainable job opportunities and increase exports.

5- Improve the quality of public services by increasing budget allocations for the education and health sectors to enhance the quality of services in the public sector, rather than moving toward privatization, which has led to deteriorating service quality and rising costs. The goal should be to ensure citizens have access to adequate basic services without being forced to resort to the costly private sector.

6- Rationalize current expenditures by reviewing ongoing expenses, reducing government waste, and reallocating financial resources toward capital investments that contribute to long-term economic growth.

Third: Diversify Financing Sources and Reduce Dependence on External Aid

Excessive reliance on foreign aid and conditional loans undermines economic sovereignty and exposes Jordan to external political and financial volatility. Therefore, the following steps are recommended:

7- Strengthen regional partnerships by enhancing Jordan's economic relations with Arab countries, particularly Gulf states, to secure financing under the most concessional and least restrictive terms possible, instead of relying exclusively on international financial institutions that impose austerity-driven policies.

8- Support small and medium-sized enterprises (SMEs) by encouraging local banks to finance the private sector, especially startups, rather than focusing primarily on covering the government's deficit through bond purchases. This can be achieved by providing loans with favorable terms and reasonable interest rates to stimulate investment and innovation.

Fourth: Address Core Social and Economic Challenges

Public debt is not merely a financial issue but the outcome of deeper social and economic challenges that must be tackled directly:

9- Focus on job creation by adopting effective strategies to reduce unemployment rates, particularly among youth, through aligning education and vocational training with actual labor market needs, and incentivizing the private sector to employ young workers.

10- Strengthen the social protection system to move beyond poverty alleviation and cash assistance programs toward sustainable economic empowerment initiatives. These should include vocational training and support for small businesses that enable individuals to generate permanent income, in addition to adhering to the National Social Protection Strategy.

11- Enhance transparency and accountability by publishing detailed data on poverty, public debt, and spending priorities as a fundamental step to build trust between the government and citizens and to enable civil society participation in policymaking.

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