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EXECUTIVE SUMMARY JORDAN

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Ahmad Awad

Founder and Director of the Phenix Center for Economic and Informatics Studies

EXECUTIVE SUMMARY

Jordan's Sovereign Debt Crisis: Challenges & Recommendations

Jordan is facing an escalating economic and financial crisis driven by the accumulation of sovereign debt, resulting from long-standing reliance on external aid and borrowing to cover recurring fiscal deficits, within a fragile economic structure and an inequitable tax system. Total public debt rose from JOD 29.7 billion in 2019 to JOD 43.5 billion in 2024, exceeding %117 of GDP, while external debt has tripled since 2011. This reflects the fragility of fiscal sustainability and the excessive dependence on debt in the absence of genuine economic reforms.

The Jordanian economy suffers from structural imbalances, most notably the dominance of indirect taxes such as the high sales tax, alongside the weak application of progressivity in income tax and the absence of wealth taxation. This places a heavy burden on low-income groups and undermines the state's ability to mobilize domestic resources. Moreover, nearly %25 of domestic revenues are consumed by debt servicing (interest only), at the expense of spending on education, health, and infrastructure, constraining development and deepening social disparities.

Despite substantial inflows of international aid, their austerity-related conditions (tax hikes, subsidy cuts, and service privatization) have weakened the domestic economy and exacerbated poverty and unemployment (%22 overall, and %40 among youth). Privatization and poverty reduction programs have failed to improve service quality or generate job opportunities, which has increased reliance on costly private services and further entrenched social inequality.

In this context, the report recommends a series of economic interventions to enhance fiscal stability and promote sustainable development:

First: Reform the Tax System to Achieve Fairness and Efficiency

- Strengthen direct and progressive taxation: by amending the income tax structure to cover high-income brackets and large corporations, and introducing taxes on wealth and substantial real estate assets.

- Reduce reliance on indirect taxes: by revisiting the sales tax and specific excise taxes on essential goods, or exempting some items to protect purchasing power.

- Combat tax evasion: by using digital tools and expanding the tax base to include the informal sector and the digital economy.

Second: Reorient Public Spending Towards Growth and Productivity

- Increase investment in productive sectors, such as agriculture and manufacturing, to generate job opportunities and reduce dependence on imports.

- Improve the quality of public services, particularly education and health, by ensuring adequate funding for the public sector instead of resorting to privatization.

- Rationalize current expenditures by reducing waste and redirecting resources toward developmental investments with long-term returns.

Third: Diversify Financing Sources and Reduce Dependence on External Aid

- Activate regional partnerships, especially with Gulf countries, to secure concessional and unconditional financing.

- Support small and medium-sized enterprises (SMEs) through affordable local bank financing at reasonable interest rates, to stimulate innovation and domestic investment.

Fourth: Address Core Social and Economic Challenges

- Reduce unemployment and expand job opportunities: by aligning education and vocational training with labor market needs, and incentivizing the private sector to hire.

- Strengthen the social protection system: by shifting from cash assistance to sustainable economic empowerment programs, including training and project support.

- Enhance transparency and accountability: by publishing detailed data on poverty, debt, and public spending to enable civil society oversight and increase public trust.

In conclusion, the report stresses that tackling Jordan's sovereign debt crisis requires a fundamental transformation of the economic model from one reliant on borrowing and conditional aid to one grounded in tax justice, productive investment, and sustainable social policies. Failure to do so portends further social crises and poses a threat to national economic stability over the long term.