JORDAN

Table 1	2019
Population, million	10.1
GDP, current US$ billion	44.6
GDP per capita, current US$	4412.4
School enrollment, primary (% gross)[a]	81.5
Life expectancy at birth, years[a]	74.4

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent WDI value (2018).

Jordan has done well at minimizing the health impact of the COVID-19 crisis through strict enforcement of Non-pharmaceutical Interventions. However, domestic lockdowns, global economic slowdown, trade disruptions and suspension of international travel is likely to have a sizable impact on its economy. Consequently, poverty is expected to increase in the short run by 11 percentage points. The speed of economic recovery in the medium term depends, in large part, on the pandemic's evolution and accomplishment of aspired domestic reforms.

Recent developments

Economic activity decelerated during Q1-2020. Jordan's real GDP growth slowed down to 1.3 percent in Q1-2020 compared to 2.0 percent in Q1-2019. Growth on the supply side was driven by the services sector, while industry and agriculture sectors' contribution remained nominal.

Headline inflation remains muted. CPI inflation during 8M-2020 stood at 0.5 percent, largely reflecting substantial softening in global oil prices, while this impact is somewhat contained by a recent surge in food prices.

Pressure on the external sector appears to be increasing. Although the current account deficit (CAD) (incl. grants) during Q1-2020 narrowed by 6.3 percent year-on-year (y-o-y) in dollar terms, the latest data is showing significant build-up on external sector pressures. Exports, travel receipts and remittances substantially declined in Q2-2020 on account of sharp economic downturn in Jordan's major trading partners—the U.S., India and Saudi Arabia, while, significant contraction in energy and non-energy imports provided much relief.

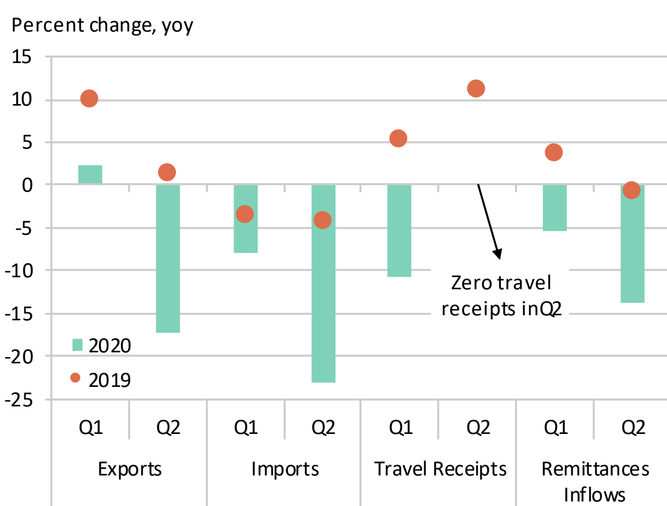
The Central Government (CG) fiscal deficit appears to be expanding. Overall fiscal deficit (excl. grants) of CG during 5M-2020 widened to 4.0 percent of forecasted annual GDP as domestic revenues declined by 26.2 percent y-o-y as a result of lockdown and postponement of tax payments. On the spending side, recurrent spending registered a nominal decline of 1.2 percent y-o-y while capital expenditures reached an unprecedented low.

Poverty was a challenging issue even before the COVID-19 onset, while employment challenges have been exacerbated by the crisis. In 2019, the national poverty rate reached 15.7 percent. Meanwhile, labor market indicators for Q2-2020 reflect the significant disruptions of the COVID-19 pandemic on Jordan's labor market. During Q2-2020, employment stood at 26.3 percent, dropping by 1.5 percentage points y-o-y. Meanwhile, unemployment in Q2-2020 edged up to 23.0 percent, 3.8 percentage points higher than Q2-2019. The youth (ages 15-24 years), particularly young women, seem strongly affected by the crisis. During the same time, the labor force participation rate declined by 0.4 percent y-o-y, indicating increased discouragement for labor market engagement.

Outlook

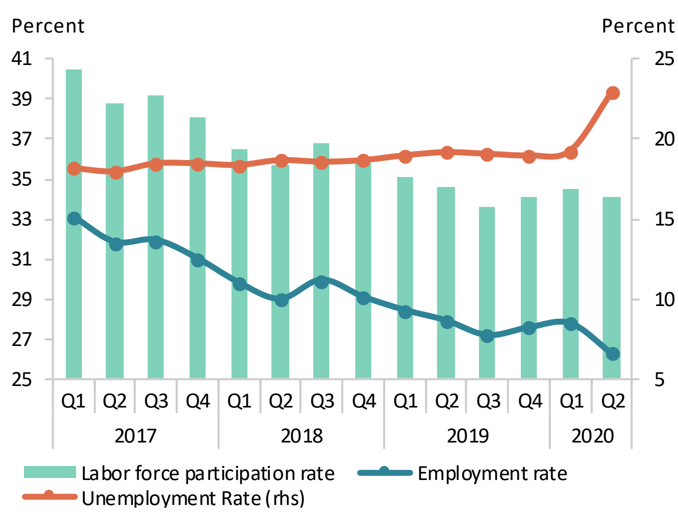
The COVID-19 pandemic has destabilized the world economy and the Jordanian economy is projected to contract by 5.5 percent in 2020. Significant downward revision in growth of main trading partners is projected to create a substantial drag on manufacturing and investment related activities. Moreover, the services sector is likely to face a substantial contraction due to suspension of international travel, domestic lockdowns (21 Mar to 3 May and 17 Sep to 1 Oct) and dwindling consumer sentiment. Over the medium-term, growth is projected to remain on a

FIGURE 1 Jordan / Current account indicators



Sources: Central Bank of Jordan and World Bank staff calculations.

FIGURE 2 Jordan / Labor market indicators



Sources: Department of Statistics and World Bank staff calculations.

low plateau unless Jordan's deep structural issues and economic challenges are addressed quickly and comprehensively.

Global economic downturn is expected to create significant external account pressure. CAD (incl. grants) is projected to widen to 7.5 percent of GDP in 2020 compared to 2.3 percent in 2019. Exports are projected to decline sharply due to a slump in global demand and domestic manufacturing. Tourism related revenues are expected to fall sharply due to the lockdowns and border closures. Remittances inflows are also projected to decline as three-fourths of Jordan's remittances originate from oil exporting economies which are impacted by the sustained dip in the oil prices. Thus, even significant contraction in imports due to fall in domestic demand is unlikely to be enough to offset these pressures. Over the medium-term, CAD is projected to gradually improve, driven by a pick-up in goods and services exports even though remittances and travel receipts are unlikely to reach pre-COVID levels even by 2022.

The COVID-19 shock and subsequent economic slowdown is likely to exacerbate the fiscal stance. Overall balance of the Central Government (including grants) in 2020 is projected to widen to 8.2 percent of GDP compared to 4.6 percent in 2019. This is a result of a sharp decline in domestic revenues (due to the economic slowdown) while COVID-19 spending pressures are likely to keep the recurrent side elevated. Capital spending on the other hand, is likely to disproportionally bear the burden of fiscal entrenchment and is projected to be lower than last year. Over the medium term, the fiscal balance (of Central Government) is projected to gradually improve contingent upon implementation of additional fiscal measures that are part of the IMF EFF program.

The household impacts of the COVID-19 shock raise serious concerns for household welfare. The declines in households' labor and remittances incomes due to the COVID-19 economic shock are expected to increase poverty in the near-term by 11 percentage points, although the government emergency response through cash transfers and continued expansion of the social safety net can help mitigate about a third of that increase. As lockdown restrictions are lifted and employment recovers, poverty is expected to fall, but a return to pre-crisis levels is subject to uncertainty about the economic recovery path potentially facing subsequent waves. Household recovery is expected to be uneven; informal workers and those in interaction-intensive services sectors like construction, transportation and hospitality will likely see depressed incomes for longer.

Risks and challenges

Even prior to the COVID-19 shock, Jordan's economic growth remained low while unemployment was elevated due to combination of factors including, numerous external shocks, and sluggish economic reforms. The unprecedented economic shock emerging from COVID-19 pandemic has exacerbated existing structural weaknesses in the economy as well as unresolved social challenges while putting pressure on country's fragile macroeconomic stance. Key challenges to Jordan's outlook include a prolonged decline in economic activity due to domestic lockdowns which could further escalate already high unemployment levels. Moreover, significant deterioration in the fiscal accounts and the fiscal cost associated with the energy sector and state-owned companies entail considerable risk to public finances and debt dynamics in the short and medium terms. In addition, Jordan's chronic structural weaknesses and a slow reform implementation may hinder a fast recovery over the medium-term.

TABLE 2 Jordan / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	2.1	1.9	2.0	-5.5	3.8	2.2
Private Consumption	6.6	0.6	0.4	-5.6	2.6	1.4
Government Consumption	3.4	4.0	4.4	5.0	3.3	1.7
Gross Fixed Capital Investment	7.4	0.4	3.7	-6.4	4.6	4.0
Exports, Goods and Services	5.0	0.6	12.4	-28.8	6.4	2.9
Imports, Goods and Services	9.5	-0.8	7.6	-18.1	3.1	1.6
Real GDP growth, at constant factor prices	2.2	2.0	2.2	-5.0	3.4	2.0
Agriculture	4.8	3.2	2.6	3.0	0.2	0.1
Industry	1.7	1.2	1.4	-11.3	4.7	2.2
Services	2.2	2.3	2.4	-3.0	3.2	2.0
Inflation (Consumer Price Index)	3.3	4.5	0.8	-0.1	2.1	2.3
Current Account Balance (% of GDP)	-10.6	-6.9	-2.3	-7.5	-6.4	-5.2
Net Foreign Direct Investment (% of GDP)	4.9	2.2	1.8	0.4	2.4	2.6
Fiscal Balance (% of GDP)[a]	-2.2	-3.3	-4.6	-8.2	-5.6	-4.9
Debt (% of GDP)[b]	92.8	92.9	97.4	113.5	114.1	115.2
Primary Balance (% of GDP)[a]	0.7	0.0	-1.1	-4.1	-1.5	-0.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Central Gov. fiscal balance incl. grants, use of cash and unidentified fiscal measures as per IMF-EFF of 1.5% of GDP in 2021 and 2.2% of GDP in 2022.

(b) Government and guaranteed gross debt including debt holdings by SSIF. Includes WAJ estimated borrowing for 2020-2022. Includes legacy arrears in 2019.