

JORDAN

Key conditions and challenges

Table 1 **2020**

Population, million	10.2
GDP, current US\$ billion	43.8
GDP per capita, current US\$	4294.1
School enrollment, primary (% gross) ^a	81.8
Life expectancy at birth, years ^a	74.5
Total GHG Emissions (mtCO ₂ e)	33.8

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent WDI value (2019).

GDP growth suggests that Jordan's economy has weathered the COVID-19 shock better than many peers. Yet unprecedented high unemployment rates, widening external imbalances, rising debt, and weak investment highlight sizable challenges to a robust recovery. Going forward, Jordan's economic outlook is constrained by the slow rebound of tourism and chronic structural impediments. Swift implementation of structural reforms, especially to support investment and exports, remain essential for overcoming these challenges and relaunching inclusive and sustained growth.

During the past decade, Jordan's small open economy has faced a number of adverse external shocks, including regional conflicts and a large refugee influx that directly affected its growth performance and contributed to the accumulation of public debt. During the period, public and private investment have weakened, and growth has been driven by consumption. As such, pre-pandemic growth has not been able to create enough productive jobs for the young and fast-growing population, contributing to high unemployment rates, particularly among females and youth. Many workers rely on informal employment, which affects over 40 percent of Jordanians and the vast majority of non-Jordanian workers.¹

Amidst these challenges, Jordan's GDP contracted by 1.6 percent during 2020 as the COVID-19 pandemic unfolded. This contraction, however, remained relatively muted in global comparison in part due to the authorities' timely fiscal and monetary stimuli. Economic performance was further supported by an improvement in its terms of trade caused by steep decline in the international oil prices in the first half of 2020. Despite this relatively muted impact of the pandemic, a robust and sustainable economic upswing hinges on the authorities' ability to advance comprehensive reforms and overcome prolonged structural obstacles. Jordan needs to stay the

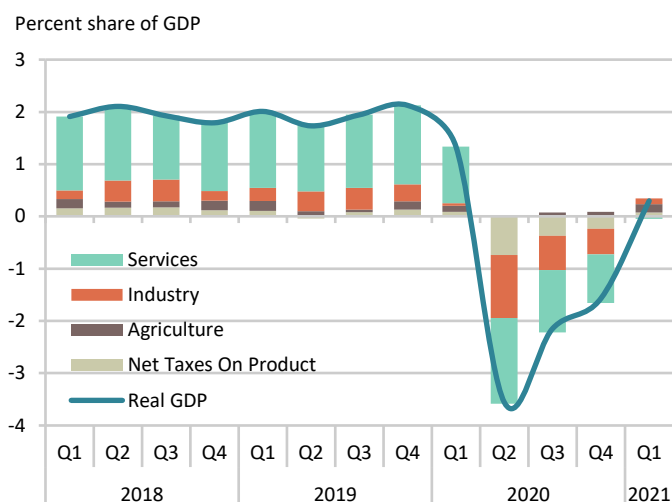
course and fully implement reforms to support public and private investment (including PPPs), streamline business regulations, and reduce operating costs (including energy). In addition, contingent liabilities continue to pose fiscal risks amid already limited fiscal space. Rising pressures on the external account due to protracted tourism recovery and recovering oil prices present key challenges in the immediate run. Finally, as of September 2021, vaccination levels remain low and may not prevent reinstatement of social distancing measures in the event of a new COVID-19 wave.

Recent developments

During February to May 2021, Jordan experienced one of the strongest COVID-19 waves since the beginning of the pandemic, leading to a modest 0.3 percent real GDP growth in Q1-2021. This timid growth, however, surpassed expectations considering the sharp drop in tourism and social distancing measures imposed during this time. Yet, a contributing factor to the better-than-expected performance was the CBJ and government support programs.

Jordan's Central Government (CG) deficit (excl. grants) during 5M-2021 stood at 2.3 percent of GDP, 1.5 percentage points of GDP lower than during 5M-2020. This improvement was driven by broad-based rebound in domestic revenues. On the spending side, recurrent spending remained pressured while capital spending

FIGURE 1 Jordan / Sectoral contribution to real GDP growth



Sources: Jordanian Department of Statistics and World Bank staff calculations.

FIGURE 2 Jordan / Labor market indicators



Sources: Department of Statistics and World Bank staff calculations.
Note: Employment rate is defined as percentage of employed Jordanians adults to total population 15+.

bounced back to its 5M-2019 level. Jordan's CG debt-to-GDP ratio at end-May 2021 stood at 109 percent, almost on par with end-2020.

Jordan's current account deficit (CAD, incl. grants) widened to 15.1 percent of GDP in Q1-2021 compared 2.3 percent of GDP in Q1-2020. Around 90 percent of this increase can be explained by substantial increase in deficit of the goods and services account. Although merchandise exports recovered modestly, travel receipts declined by 78 percent (y-o-y) and imports grew by 14 percent. On the financing side, foreign investment inflows remained weak, whereas other private sector inflows increased.

Poverty and employment indicators raise concern for households' welfare. The most recent national poverty rate from 2018 was 15.7 percent; declines in employment incomes at the height of the pandemic lockdown may have increased it by as much as 11 percentage points. The employment rate remained low at 25.9 percent (Q1-2020), and women's rate was even lower at 10 percent. Unemployment reached 25 percent in Q1-2021, a 5.7 percent increase from the previous year. Youth and female unemployment stood higher at 48 and 28 percent, respectively.

Outlook

Jordan's real GDP is projected to grow at 1.9 percent in 2021, as economic indicators suggest an upswing in private demand while global demand remains supportive. Although early indicators point to some output recovery (such as real estate sales, construction activity and industrial production), Jordan's private sector may not be able to galvanize quickly, while the government is contending with lack of fiscal space. Hence, we expect the rebound to be gradual in the next few years. Once global recovery consolidates, vaccination expands, and tourism recovers, growth is projected to average around 2.3 percent, consistent with the pre-pandemic performance.

The CG fiscal deficit (incl. grants) is projected to improve to 5.8 percent of GDP in 2021, as the demand upswing and higher oil prices propel domestic revenues. However, COVID-19 related transfers are expected to keep spending elevated, while consolidation efforts may restrain capital spending. Over the medium term, the CG fiscal balance (incl. grants) is projected to gradually improve assuming additional

fiscal measures materialize. Consequently, CG debt is projected to increase by around 4 percent of GDP during 2021 and remain high over the medium term.

On the external front, despite the recovery in exports, improved domestic demand along with higher oil prices are projected to substantially increase the import bill during 2021. This trade deficit increase, modest recovery in tourism and stagnant remittances are projected to widen the CAD (incl. grants) to 11.3 percent of GDP. Going forward, an improvement in vaccine rollouts, return of tourism, and modest increase in remittances, would help narrow Jordan's CAD in the medium-term.

Modest economic growth, high unemployment and limited job creation raise concerns about the extent of poverty reduction that can be achieved. Despite low economic contraction in 2020, household recovery may be slow and uneven. Larger households, young, female, informal workers and those in interaction-intensive services sectors will likely see depressed incomes for longer.

1/ Winkler, H.; Gonzalez, A. (2019). Jordan Jobs Diagnostic. Jobs Series, No. 18. World Bank, Washington, DC.

TABLE 2 Jordan / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	1.9	2.0	-1.6	1.9	2.2	2.3
Private Consumption	2.3	3.3	2.8	4.5	0.2	1.4
Government Consumption	-0.9	2.1	5.2	3.2	2.1	1.2
Gross Fixed Capital Investment	-18.3	-30.1	-6.5	5.6	3.5	3.9
Exports, Goods and Services	0.9	6.5	-35.8	15.8	21.5	10.3
Imports, Goods and Services	-6.6	-3.1	-18.2	17.3	9.7	5.6
Real GDP growth, at constant factor prices	2.0	2.2	-1.4	1.8	2.2	2.3
Agriculture	3.2	2.6	1.6	2.4	2.5	2.2
Industry	1.2	1.4	-2.4	2.2	1.5	1.8
Services	2.3	2.4	-1.2	1.6	2.5	2.5
Inflation (Consumer Price Index)	4.5	0.8	0.3	2.0	2.0	2.3
Current Account Balance (% of GDP)	-6.9	-2.1	-8.0	-11.3	-8.0	-5.7
Net Foreign Direct Investment (% of GDP)	2.2	1.5	1.6	1.6	2.2	2.9
Fiscal Balance (% of GDP)^a	-3.3	-4.9	-7.3	-5.8	-5.0	-4.4
Debt (% of GDP)^b	92.9	97.4	109.0	113.2	115.0	115.2
Primary Balance (% of GDP)^a	0.0	-1.3	-3.1	-1.7	-0.9	-0.5
GHG emissions growth (mtCO₂e)	-2.5	-1.8	-3.8	0.1	0.4	0.6
Energy related GHG emissions (% of total)	64.8	63.6	63.4	63.1	63.0	62.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate. f = forecast.

(a) Central Gov. fiscal balance incl. grants, use of cash and unident. fiscal measures as per IMF-EFF (Aug 2021) of 1.1% of GDP in 2022 and 2.2% of GDP in 2023.

(b) Government and guaranteed gross debt including debt holdings by SSIF. Includes WAJ estimated borrowing for 2021-2023. Includes legacy arrears in 2019 and 2020.