JORDAN

Table 1	2021
Population, million	10.3
GDP, current US$ billion	45.2
GDP per capita, current US$	4403.8
National poverty rate[a]	15.7
School enrollment, primary (% gross)[b]	80.4
Life expectancy at birth, years[b]	74.5
Total GHG Emissions (mtCO2e)	35.0

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2017/8).
b/ WDI for School enrollment (2020); Life expectancy (2019).

Jordan's economic rebound during 2021 has been steady, but significant slack remains in the economy. Unemployment is still persistently high - particularly for the youth while labor force participation is among the lowest regionally. The current account deficit remains elevated, but the fiscal position is showing tangible improvement. Headline inflation remains low despite increases in transport and fuel prices. Going forward, economic growth is projected to remain modest as both the direct and indirect impacts of the Russian invasion, war and associated sanctions unfold, creating headwinds for Jordan's nascent economic recovery.

Key conditions and challenges

During the past decade, Jordan has faced multiple external shocks. Growth performance has been affected by regional instability, which disrupted trade routes and key export markets, triggered a large refugee influx, and reduced foreign capital inflows through an economic slowdown in GCC countries. Jordan's growth slowed to an average of 2.4 percent a year during 2010-2019, compared to 6.5 percent during 2000-2009, while population grew twice as fast as real GDP due to the influx of refugees. As a result, job growth could not match growth in the working age population. Unemployment was high and rising in comparison to regional peers even prior to COVID-19 shock.

Jordan has weathered the COVID-19 shock better than most countries. Its economy registered a modest contraction during 2020, cushioned by the substantial improvement in terms of trade and the authorities' timely monetary and fiscal responses, including wage subsidies for formal workers and provision of temporary cash transfers for poor and informal vulnerable households.

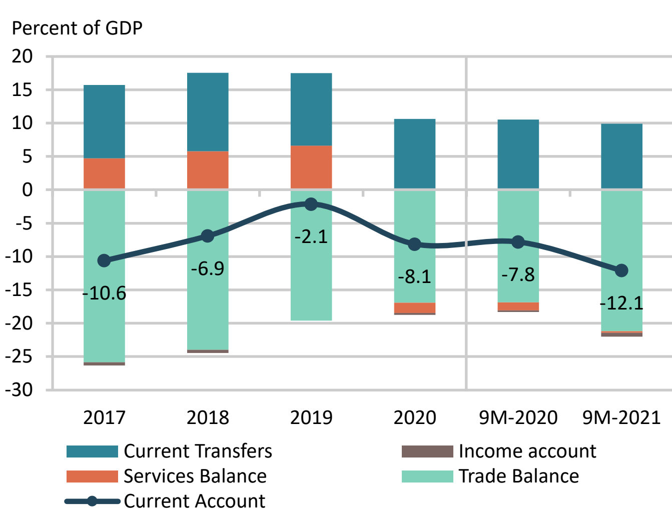
Over the medium term, Jordan's structural impediments along with imminent global risk factors arising from the Russian invasion, war and associated sanctions pose serious downside risks. Although direct trade links with Ukraine and Russia are limited, a continuous and accelerated surge in commodity prices and stronger slowdown in global growth represent imminent downside risks to the economy. In absence of accelerated progress on structural reforms, output could take longer to recover due to deeper scars on firms' balance sheets and potentially higher bankruptcies, human capital losses, and weaker human capital accumulation. Over medium-to-long run, the impact of climate change on natural hazards could intensify the country's water scarcity, posing a serious challenge to the agriculture sector.

Recent developments

Jordan's economic recovery during the first 9 months of 2021 was steady but was slightly below expectation. Growth reached 2.1 percent in 9M-2021 year-on-year, led by a broad-based recovery of the services and industrial sectors. Nonetheless, performance of some sub-sectors, specifically contact-intensive services, remain below pre-pandemic levels.

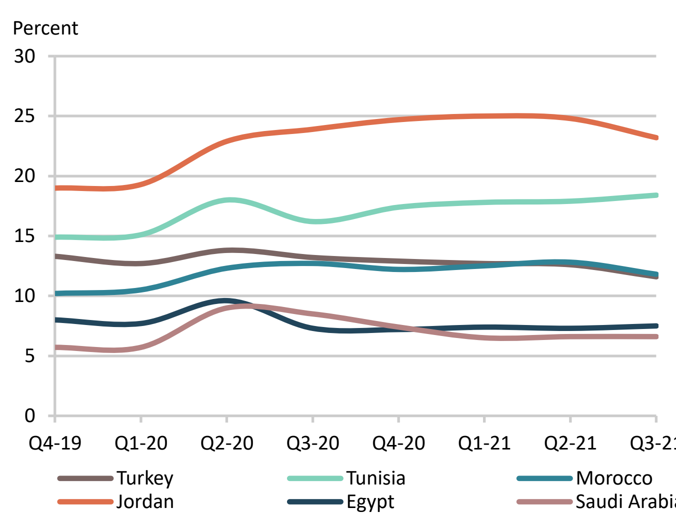
The fiscal position showed a notable improvement vis-à-vis 2020. Central Government (CG) fiscal deficit (incl. grants) as of 11M-2021 stood at 4.6 percent of GDP, 1.5 percentage point lower than in 2020. A strong recovery in domestic revenue collection contributed to the significant improvement, which more than offset elevated spending.

FIGURE 1 Jordan / Current account deficit and its drivers



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

FIGURE 2 Jordan / Unemployment rate in regional comparison



Sources: Haver Analytics and World Bank staff calculations.

Jordan's current account deficit (CAD) remains elevated. The CAD at end-September 2021 widened to 12.1 percent of GDP, driven by a substantial increase in the merchandise trade deficit amid unprecedented increases in global commodity prices and modest recovery in travel receipts compared to pre-COVID-19 levels. Nonetheless, international reserves at end-December 2021 stood at a comfortable level covering 9.5 months of imports, reflecting timely donor and IMF program support (as well as SDR augmentation).

Employment indicators still raise concern for households' welfare. Deterioration in the labor market remains the most significant threat to household welfare. The employment rate remained low at 26.4 percent (Q3-2021). Although unemployment fell slightly since peaking at 25.0 percent in Q1-2021, it was still high at 23.2 percent in Q3-2021, even more so for women (30.8 percent) and young people (48.5 percent among those aged 15 to 24 years old). The national poverty rate before the pandemic was 15.7 percent (2018). Declines in employment incomes at the height of the crisis were estimated to increase poverty by as much as 11 percentage points.

Outlook

Growth is projected to reach 2.0 percent and 2.1 percent in 2021 and 2022 respectively, led by a recovery in domestic demand and supportive government policies. On the supply side, acceleration in the recovery of tourism and services are expected to boost the economy. Growth dynamics over the medium-term, however, hinge on global economic conditions, headwinds from the Russian invasion, war and associated sanctions and timely resolution of structural impediments. Reflecting elevated international commodity prices, headline inflation during 2022 is projected to reach 3.3 percent.

The CG fiscal deficit (incl. grants) is projected to improve to 4.0 percent of GDP in 2022, supported by robust revenue efforts and retraction of COVID-19 related expenditures. Over the medium term, the fiscal deficit is projected to improve supported by IMF-EFF fiscal measures. Subsequently, government and guaranteed gross debt at end-2022 is projected to reach 114.2 percent of GDP (with debt net of Social Security Investment Fund holdings at around 90.4 percent) before gradually declining over the medium-term.

On the external front, the ongoing Russian invasion, war and associated sanctions are estimated to lead to a high CAD in 2022 as a result of higher energy prices as well as negative impact on tourism. Tourists receipts from Russia and Ukraine together accounted for 4.8 percent of total tourist receipts in 2021. As a result, the CAD (including grants) is projected to only modestly narrow - reaching 9.1 percent of GDP in 2022, compared to an estimated 10.6 percent of GDP in 2021. Over medium-term, full tourism recovery, pick-up in remittances, growth in exports and slow-down in imports is projected to narrow Jordan's CAD.

Household welfare is expected to slightly improve with the expected slow recovery in tourism, domestic demand and interaction-intensive services sectors. However, short of a revival of growth beyond the low 2 percent—which in turn is contingent on reform implementation—welfare improvements are not expected to be significant and could be reversed through shocks given limited household buffers. Larger households, young, female and informal workers may take longer to recover from the economic impacts of the crisis.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	2.0	-1.6	2.0	2.1	2.3	2.3
Private Consumption	-0.5	-0.8	4.5	2.5	1.6	1.6
Government Consumption	2.1	5.2	3.9	-2.1	0.9	2.4
Gross Fixed Capital Investment	-11.1	20.0	4.2	4.6	1.4	2.8
Exports, Goods and Services	6.5	-35.8	20.7	5.7	5.8	6.9
Imports, Goods and Services	-3.1	-17.2	19.5	4.2	2.3	4.2
Real GDP growth, at constant factor prices	2.2	-1.4	2.0	2.0	2.3	2.3
Agriculture	2.6	1.6	3.0	2.4	2.6	2.9
Industry	1.4	-2.4	2.7	1.4	1.6	1.8
Services	2.4	-1.2	1.7	2.3	2.6	2.5
Inflation (Consumer Price Index)	0.8	0.3	1.3	3.3	2.5	2.5
Current Account Balance (% of GDP)	-2.1	-8.1	-10.6	-9.1	-6.5	-5.0
Net Foreign Direct Investment (% of GDP)	1.5	1.6	1.6	2.2	2.9	3.4
Fiscal Balance (% of GDP)[a]	-4.9	-7.3	-6.0	-4.0	-3.5	-2.4
Debt (% of GDP)[b]	97.4	109.0	113.6	114.2	114.5	113.0
Debt, net of SSIF (% of GDP)[b]	78.0	88.0	91.3	90.4	89.2	86.3
Primary Balance (% of GDP)[a]	-1.3	-3.1	-1.7	0.0	0.5	1.6
GHG emissions growth (mtCO2e)	0.2	-4.0	1.7	1.9	1.6	2.1
Energy related GHG emissions (% of total)	63.3	62.0	62.4	62.5	62.8	62.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
a/ CG fiscal balance incl. grants, use of cash and unident. measures as per IMF-EFF (Jan 2022) of 1.3% of GDP in 2023, and 1.6% of GDP in 2024.
b/ Government and guaranteed gross debt. Includes securitization of domestic arrears in 2019-21.