JORDAN

Table 1	2017
Population, million	9.7
GDP, current US$ billion	40.1
GDP per capita, current US$	4130
Life expectancy at birth, years[a]	74.3

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent WDI value (2016)

Jordan's economy is strained with ongoing regional uncertainty and the impact of adjustment which have suppressed domestic and external (regional) demand. As such, the economy is expected to undergo only modest pick-ups in growth in the medium term. Despite leading indications of underperformance relative to expectations for 2018, momentum from initiatives of the new government should boost confidence.

Recent developments

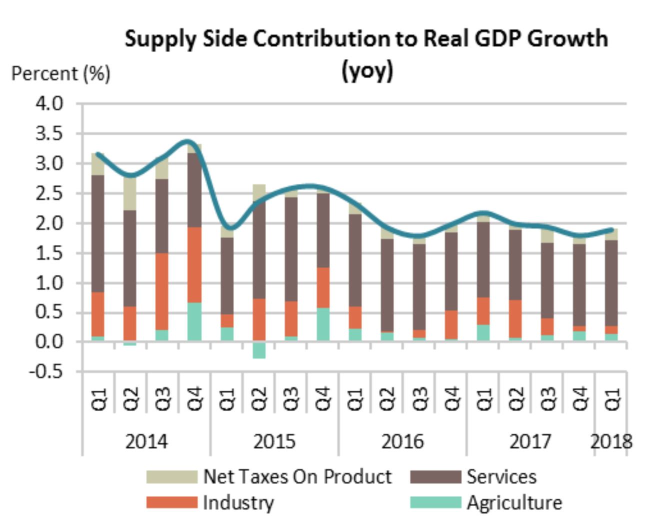
Real GDP is in its third year of 2 percent growth. An anticipated slight improvement for 2018 (of 10 basis points) comes with indications of underperformance. On the supply side, services are expected to continue to buoy the economy, as tourism maintains a robust recovery—tourist receipts have already increased by 14.9 percent yoy during the first half of 2018 (H1-2018). However, decline in issuance of construction permits which bodes poorly for private investment, and expected weak consumption (public consumption is weighed down by ongoing fiscal consolidation, and private consumption is weighed down by sluggish job growth) comprise the immediate downside risks. Strong net export and investment performance will be needed for the remainder of the year, with the latter potentially coming from increased confidence given the change in government over the summer.

Jordan's fiscal balances are expected to improve albeit gradually, as the government considers the economic benefits of fiscal adjustment and the social costs. The overall fiscal balance, including grants is expected to narrow to -1.8 percent of forecasted GDP in 2018, from -2.2 percent of GDP in 2017. The primary balance is expected to improve to 1.5 percent of GDP in 2018, from 0.8 percent of GDP in 2017. Meanwhile, the growth of public debt is expected to slow relative to previous years, but public debt in US dollar terms is expected to edge up to US$40.2 billion by end-2018 (96.2 percent of forecasted GDP), up from US$38.5 billion (95.9 percent of GDP) by end-2017.

Jordan's current account deficit is expected to narrow in 2018 on the back of a narrower trade deficit, while inflows remain sluggish. In the first half of 2018, the merchandise trade deficit narrowed by 5 percent yoy compared to a widening of 5.4 percent yoy in H1- 2017, driven by improving exports and declining non-energy imports, despite the higher energy bill. The recovery in merchandise exports is expected to persist throughout 2018 as trade with major trade partners such as United States and India is rebounding and benefits of reopening trade routes with Iraq are gradually materializing. In addition, tourist receipts remain on a trend increase thus boosting exports of services. However, inflows remain soft as net foreign direct investment declined by 53.9 percent yoy in Q1-2018, and growth in remittances decelerated to 1.1 percent yoy in 5M-2018 compared to 1.3 percent in 5M -2017, partially reflecting the economic slowdown in the Gulf Cooperation Council (GCC) countries. The majority of the current account financing needs in Q1-2018 were funded by reserve assets given slower inflows.

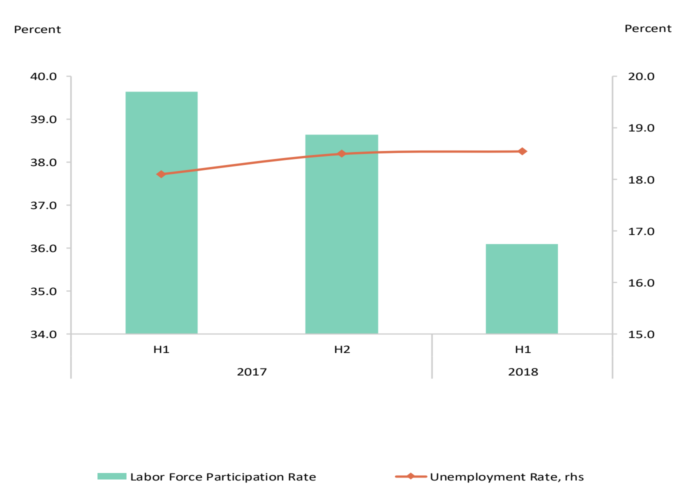
On the monetary front, Jordan has maintained a contractionary monetary stance in H1 2018, as part of efforts to support the Jordanian dinar, strengthen monetary and financial stability, limit inflationary pressures, and maintain a competitive return on dinar-denominated investments. The policy aims to ensure domestic interest rates are more consistent with global and

FIGURE 1 Jordan / Jordan remains stuck in a low-growth scenario.



Sources: Department of Statistics and World Bank Staff Calculations.

FIGURE 2 Jordan / Jordan's labor market continues to struggle.



Sources: Department of Statistics and World Bank Staff Calculations.

regional trends. Jordan's exchange market pressure, high dollarization rates and low foreign inflows have imposed downward pressures on foreign reserves. The foreign reserves at Central Bank declined to US$10.7 billion by end-July 2018, 12.8 percent lower than end-2017 levels and the lowest recorded since July 2013. Headline consumer prices registered an annual average of 3.3 percent in 2017 and are expected to increase further to 3.9 percent in 2018 due to higher oil and food prices and excises.

Jordan's unemployment rate stood at 18.6 percent in H1-2018, higher than the 18.1 percent recorded in H1-2017 and the 18.3 percent annual average recorded in 2017. Unemployment patterns still show marginalization of females and youth in Jordan's labor market. Moreover, the labor force participation rate (LFPR) declined significantly to reach 36.1 percent in H1-2018, compared to 39.7 percent in H1-2017 and 39.2 percent annual average in 2017, with a fall in male participation driving a larger portion of the decline than females. The decline in LFPR depicts continuously weak job creation and possibly increased discouragement amongst workers.

New poverty data is not available until later in 2018. Real GDP per capita deteriorated by 0.6 percent yoy in 2017 and is expected to remain unchanged in 2018.

Outlook

Jordan's growth outlook is strained by the precarious regional situation, the current account deficit, and a lack of fiscal space. Economic recovery depends on reducing debt levels and implementing structural reforms on the one hand, and identifying sources to expand outward-oriented investment on the other, while taking advantage of international assistance and potential regional recovery. As such, we expect only moderate growth over the medium term, with GDP rising from 2.0 percent in 2017 to 2.1 percent in 2018, 2.3 percent in 2019 and 2.4 percent in 2020. The drivers are expected to be by services from the supply side and net exports from the demand side.

Jordan's current account deficit is expected to narrow gradually over the medium term on the back of stronger exports outpacing a growing energy-import bill. But at an expected 7.7 percent by 2020, a large imbalance is clearly structural. Although a global economic recovery is driving a recovery in domestic exports by reviving old markets and developing new ones, a stronger boost in Jordan's export activity and foreign inflows hinges on economic recovery of GCC and full revival of trade with Iraq to pre-border closure levels.

Government indications suggest that Jordan will continue its fiscal consolidation and monetary policy that supports the JD dollar peg. Fiscal policy is expected to remain tight in line with government's medium-term fiscal framework. The overall fiscal balance is expected to narrow gradually from -2.2 percent of GDP in 2017 to -0.7 percent in 2020, associated with a sizable primary surplus needed for debt service.

Risks and challenges

Jordan's major challenge remains to reinvigorate its economy in the context of a poor external environment. A growth acceleration hinges on: (i) a regional peace dividend to reinvigorate consumption, investment and exports; (ii) implementing a reform agenda to improve exports and FDI attractiveness, and to improve productivity, and (iii) attracting international financial assistance to smooth the adverse impacts of transforming the economy. Continued regional uncertainty or reduced external assistance will continue to place Jordan's social, economic and financial stability at risk.

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

	2015	2016	2017	2018 e	2019 f	2020 f
Real GDP growth, at constant market prices	2.4	2.0	2.0	2.1	2.3	2.4
Private Consumption	8.5	-0.1	2.6	-1.5	-1.0	1.1
Government Consumption	3.6	8.1	2.4	2.9	2.7	-1.9
Gross Fixed Capital Investment	-8.0	-7.0	6.9	4.5	5.2	5.3
Exports, Goods and Services	-9.0	-2.8	3.5	6.1	5.9	5.2
Imports, Goods and Services	-3.0	-6.7	6.4	0.4	1.0	2.4
Real GDP growth, at constant factor prices	2.6	2.2	2.1	1.8	2.5	2.4
Agriculture	5.0	3.8	4.8	2.4	-0.7	1.8
Industry	2.2	1.0	1.4	2.2	2.9	2.6
Services	2.7	2.6	2.3	1.7	2.5	2.4
Inflation (Consumer Price Index)	-0.9	-0.8	3.3	3.9	2.4	2.4
Current Account Balance (% of GDP)	-9.1	-9.5	-10.7	-9.6	-8.6	-7.7
Net Foreign Direct Investment (% of GDP)	4.3	4.0	5.0	5.0	4.8	4.7
Fiscal Balance (% of GDP)[a]	-3.6	-3.2	-2.2	-1.8	-1.7	-0.7
Debt (% of GDP)[b]	93.4	95.1	95.9	96.2	95.9	93.1
Primary Balance (% of GDP)[a]	-0.1	-0.2	0.8	1.5	1.6	3.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Includes fiscal gap of 0.4% of GDP in 2018, 1.9% of GDP in 2019 and 2.9% of GDP in 2020.
(b) Government and guaranteed gross debt. Includes WAJ estimated borrowing for 2017-2019.