

JORDAN ECONOMIC MONITOR

RESILIENCE AMID TURMOIL

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MIDDLE EAST AND NORTH AFRICA REGION**

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PREFACE

The *Jordan Economic Monitor* provides an update on key economic developments and policies over the past six months. It also presents findings from recent World Bank work on the Jordan. It places them in a longer-term and global context, and assesses the implications of these developments and other changes in policy for the outlook for the country. Its coverage ranges from the macro-economy to financial markets to indicators of human welfare and development. It is intended for a wide audience, including policy makers, business leaders, financial market participants, and the community of analysts and professionals engaged in Jordan.

The *Jordan Economic Monitor* is a product of the World Bank's Jordan Poverty Reduction and Economic Management (PREM) team. It was prepared by Wissam Harake (Economist) and Samer Matta (Economic Analyst), under the general guidance of Eric Le Borgne (Lead Economist) and Bernard Funck (Sector Manager). Special Focus contributors include May Ibrahim (Senior Executive Assistant) for the section on the impact of the Syrian Refugees on Jordan's Labor sector, Hai-Anh H. Dang (Economist, DECDG) and Umar Serajuddin (Senior Economist) for the focus on transient poverty in Jordan. May Ibrahim also provided Arabic translation and Zeina El Khalil (Communications Officer) print-produced the report. The team would like to thank staff from the Central Bank of Jordan, the Ministry of Finance, and the Ministry of Planning and International Cooperation for their comments and stimulating discussions.

The findings, interpretations, and conclusions expressed in this Monitor are those of World Bank staff and do not necessarily reflect the views of the Executive Board of The World Bank or the governments they represent.

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To be included on an email distribution list for this *Jordan Economic Monitor* series and related publications, please contact Nada Abou Rizk (nabourizk@worldbank.org). For questions and comments on the content of this publication, please contact Wissam Harake (wharake@worldbank.org) or Eric Le Borgne (eleborgne@worldbank.org). Questions from the media can be addressed to Mona Ziade (mziade@worldbank.org).

TABLE OF CONTENTS

PREFACE	1
EXECUTIVE SUMMARY	4
الملخص التنفيذي.....	5
RECENT ECONOMIC AND POLICY DEVELOPMENTS	6
Output and Demand.....	6
Labor and Employment.....	7
Fiscal Policy.....	8
External Position.....	9
Monetary Policy and Finance.....	10
PROSPECTS	12
SPECIAL FOCUS	14
Updating Poverty Estimates at Frequent Intervals: Preliminary Results from Jordan	14
Country Overview.....	14
Estimates on Poverty Trends.....	15
Syrian Refugees and Labor Market Outcomes in Jordan	17
Background.....	17
Methodology.....	18
Results.....	18
DATA APPENDIX	22
SELECTED SPECIAL FOCUS FROM RECENT JORDAN ECONOMIC MONITORS	26
SELECTED RECENT WORLD BANK PUBLICATIONS ON JORDAN	28

LIST OF FIGURES

FIGURE 1. Growth Trajectory Significantly Affected by External Shocks.....	6
FIGURE 2. Growth Led by Private Demand.....	6
FIGURE 3. The upward trend in GDP growth was reversed in Q3-2013.....	7
FIGURE 4. Services and industry were the main drivers of growth.....	7
FIGURE 5. Number of tourists continues to decline.....	7
FIGURE 6. Persistently High Unemployment Rate.....	8
FIGURE 7. Fiscal Balance Deteriorates.....	9
FIGURE 8. Debt to GDP ratio continued increasing in 2013.....	9
FIGURE 9. Trade deficit stable in 2013.....	10
FIGURE 10. Net international inflows surged, while dollarization declined in 2013.....	10
FIGURE 11. Temporary price shocks.....	11
FIGURE 12. and a negative output gap justified a monetary expansion.....	11
FIGURE 13. Real and Nominal Per capita GDP trends.....	16

FIGURE 14. Growth rate of Real Per Capita GDP16

FIGURE 15. Predicted poverty trends, Jordan 2008-201216

FIGURE 16. Impulse Response Function for VAR1 (SYR, ECON, LFORCE)19

FIGURE 17. Impulse Response Function for VAR2 (SYR, ECON, EMPL).....20

FIGURE 18. Impulse Response Function for VAR3 (SYR, ECON, UNEMPL)21

LIST OF TABLES

TABLE 1. Financial Soundness Indicators (In percentage unless otherwise indicated).....11

TABLE 2. Jordan: Selected Economic Indicators, 2011-16.....22

TABLE 3. Jordan at a Glance23

EXECUTIVE SUMMARY

i. Jordan has suffered two successive external shocks (global financial crisis and Arab uprisings) which negatively affected growth, the fiscal balance and the balance of payments. The large influx of Syrian refugees further exacerbated those stresses. Headwinds in 2012 and 2013 also stemmed from the onset of a large fiscal consolidation program. In 2013, real GDP growth reached 2.8 percent, which while subdued compared to the pre-2008 high growth period, is still marginally higher than the growth achieved in 2012 and 2011. The sectors that experienced robust activity included those catering to Jordanian consumption and the basic needs of the Syrian refugees. While fiscal consolidation took place in 2013 when measured on a consolidated basis, the central government's fiscal deficit widened as the government took over the servicing of NEPCO's debt.

ii. 2013 was a year of stabilization. Large official transfers as well as key fiscal and monetary policy decisions taken in late 2012, relieved exchange market pressures in 2013. Dollarization reversed and foreign exchange reserves rose sharply. This enabled the Central Bank of Jordan to embark on an expansionary monetary policy since August 2013, which helped sustain growth. The balance of payments strengthened in 2013, in part reflecting strong international support, structural reforms and improved confidence. The current account deficit shrank markedly in 2013, in part due to robust official transfers and lower energy imports. The latter reflects subsidy reforms, electricity tariff increases and stronger gas inflows from Egypt.

iii. Jordan's structurally weak labor market is expected to be further impacted by the large increase in Syrian refugees. Regardless of the business cycle, the unemployment rate in Jordan remains in double digits, reflecting high structural unemployment. Unemployment in 2013 remained elevated but did not worsen materially despite (i) an estimated tightening of job openings in the public sector due to fiscal consolidation efforts; (ii) moderate growth that is not sufficient to absorb the

large influx of youth entering the labor force; and (iii) a large influx of Syrian refugees, some of whom are seeking jobs. Some tentative evidence indicates that the large influx of Syrian refugees could be pricing out Jordanian residents from the labor market. This results in a relatively strong drop in the labor force participation rate officially measured (which does not include the Syrian refugees).

iv. Poverty incidence is estimated to have slightly improved between 2010 and 2012 but transient poverty remains at elevated level. While the latest official poverty estimates are from 2010 (14.4 percent), WB staff have developed a new method to obtain (alternative) poverty estimates (by imputing household consumption data into the Employment-Unemployment Survey, which is conducted every quarter). The results show a slight decline in poverty of around 1 percentage point between 2010 and 2012. WB research reveals, however, that a third of the population lived below the poverty line in at least one quarter of the year. Hence, while progress continues in tackling chronic poverty, transient poverty is a serious concern as it points to a large share of vulnerable Jordanians.

v. Economic activity is expected to accelerate somewhat in 2014 and 2015, while external financing will continue to be vital for guarding against exchange market pressures. Notwithstanding the continued fiscal consolidation drive, an improved fiscal mix—with revenue increases partly offset by stronger capital spending—would limit the fiscal drag on growth. Capital spending, largely financed by GCC grants, is projected to increase notably starting in 2014 due to strengthened implementation. Private consumption will remain supported by the Syrian refugees. The regional turmoil in general and Syria's conflict in particular remain Jordan's most significant short-term challenges. Diversifying Jordan's energy supply is critical to building resiliency and improving the country's balance of payments and public finances.

الملخص التنفيذي

أ. بالبحث عن وظائف. وتشير بعض الأدلة غير النهائية إلى أن العدد المتزايد من اللاجئين السوريين قد يدفع المواطنين الأردنيين خارج سوق العمل، مما يؤدي إلى انخفاض حاد في معدل المشاركة في القوة العاملة المحدد رسمياً (الذي لا يتضمن اللاجئين السوريين)، وذلك لأنه يؤثر سلباً على عزيمة المواطنين الأردنيين في البحث عن فرص العمل.

د. سجل معدل انتشار الفقر تحسناً ضئيلاً خلال الفترة ٢٠١٠-٢٠١٢، لكن نسبة الفقر المؤقت تبقى مرتفعة. في حين تعود آخر التقديرات الرسمية عن نسبة الفقر إلى العام ٢٠١٠ (٤،٤ بالمئة)، لقد وضع خبراء البنك الدولي منهجاً جديداً للحصول على تقديرات (بديلة) لمعدل الفقر (من خلال إدخال بيانات استهلاك الأسر في المسح الذي يخاطب التوظيف والبطالة والذي يتم إعداده بشكل فصلي). وتشير النتائج إلى انخفاض بسيط في معدل الفقر بنسبة حوالي نقطة مئوية واحدة خلال الفترة ٢٠١٠-٢٠١٢. لكن الدراسات التابعة للبنك الدولي تبين أن ثلث السكان في الأردن يعيشون تحت خط الفقر خلال فصل واحد من السنة على أقل تقدير. وبالتالي، يستمر التقدم في معالجة الفقر المزمن، لكن الفقر المؤقت يشكل قلقاً جدياً حيث يشير إلى شريحة واسعة من الأردنيين الأكثر عرضة للصدمات الاقتصادية.

هـ. من المتوقع أن يتسارع النشاط الاقتصادي إلى حد ما في العامين ٢٠١٤ و٢٠١٥، بينما يبقى التمويل الخارجي ضرورياً للتصدي إلى ضغوط سوق الصرف. على الرغم من استمرار حملة ضبط أوضاع المالية العامة، قد يؤدي التحسن في السياسة المالية، المبنية على التنوع في زيادة الإيرادات بما يعادل جزئياً الإنفاق الرأسمالي، إلى الحد من تباطؤ النمو. أما الإنفاق الرأسمالي، الذي تموله إلى حد كبير دول مجلس التعاون الخليجي بموجب هبات، فمن المتوقع أن يرتفع بشكل ملحوظ في العام ٢٠١٤، وذلك نتيجة لتعزيز الإجراءات التنفيذية. وسوف يستمر اللجوء السوري بدعم الاستهلاك الخاص. ولا تزال الاضطرابات الإقليمية بشكل عام، والصراع في سوريا بشكل خاص، تشكل أهم التحديات على المدى القصير في الأردن. أما تنوع وسائل إمدادات الطاقة في الأردن فيبقى أمر حاسم لبناء المرونة وإعادة التوازن في ميزان المدفوعات وتحسين المالية العامة.

أ. لقد واجه الأردن صدمتين خارجيتين متعاقبتين (الأزمة المالية العالمية والثورات التي شهدها العالم العربي)، مما أثر سلباً على النمو، والتوازن المالي، وميزان المدفوعات. وتفاقم الوضع نتيجة للتدفق الهائل للاجئين السوريين إلى المملكة. كما أدى البرنامج الموسع لضبط أوضاع المالية العامة إلى المزيد من التباطؤ في النمو خلال العامين ٢٠١٢ و٢٠١٣. فقد بلغ نمو الناتج الإجمالي المحلي الحقيقي نسبة ٢,٨ بالمئة في العام ٢٠١٢، حيث اعتبر متواضع مقارنة بالفترة ما قبل سنة ٢٠٠٨ التي شهدت نمواً متصاعداً، لكنه يبقى أعلى نسبياً من النمو الذي حققه في العامين ٢٠١٢ و٢٠١١. أما القطاعات التي شهدت نشاطاً ملحوظاً فتضمنت تلك التي تتعلق بتلبية طلبات المستهلك الأردني والحاجات الأساسية للاجئين السوريين. وبينما تبلورت عملية ضبط الأوضاع المالية في العام ٢٠١٣ حيث تم قياسها على أساس موحد في ذلك الحين، اتسع العجز المالي للحكومة المركزية عندما تولت الحكومة خدمة الدين التابع لشركة الكهرباء الوطنية.

ب. شهد العام ٢٠١٣ استقراراً من الناحية الاقتصادية. فقد تمت تحويلات رسمية كبيرة، كما وضعت قرارات رئيسية تتعلق بالسياسات المالية والنقدية في أواخر العام ٢٠١٢، مما خفف من حدة الضغط على سوق الصرف، حيث انعكس الاتجاه إلى الدولار الذي كان سائداً وارتفعت احتياطات النقد الأجنبي بشكل ملفت. وبناء على ذلك، تمكن المصرف المركزي الأردني من المباشرة في بلورة سياسة نقدية توسعية منذ آب ٢٠١٢، مما ساعد على استمرارية النمو. كما شهد ميزان المدفوعات متانة خلال العام ٢٠١٣، وقد ذلك عكس إلى حد ما الدعم القوي الذي يقدمه المجتمع الدولي للأردن، والإصلاحات الهيكلية، وازدياد الثقة. أما العجز في الحساب الجاري فقد تقلص على نحو ملحوظ في ٢٠١٣، ويعود ذلك جزئياً إلى التحويلات الرسمية النشطة وانخفاض نسبة واردات الطاقة، حيث يعكس الأخير الإصلاحات في أنظمة الدعم، وزيادة الرسوم الكهربائية، وتدفق أقوى لمادة الغاز من مصر.

ج. من المتوقع أن يتأثر سوق العمل في الأردن، الذي يعاني في الأصل من ضعف هيكله، بالتدفق الهائل للاجئين السوريين إلى أراضيه. وبغض النظر عن دورة أنشطة الأعمال، يبقى معدل البطالة في الأردن عالياً نسبياً، مما يعكس ارتفاعاً في البطالة الهيكلية. فقد استمرت نسبة البطالة على ارتفاعها لكنها لم تتفاقم بشكل مادي على الرغم من (أ) تضيق نطاق فرص العمل في القطاع العام نتيجة لجهود ضبط أوضاع المالية العامة؛ (ب) نمو معتدل وغير كاف لاستيعاب تدفق نسبة كبيرة من الفئات الشبابية إلى سوق العمل؛ و(ج) دخول أعداد كبيرة من اللاجئين السوريين إلى الأردن، حيث يقوم البعض منهم

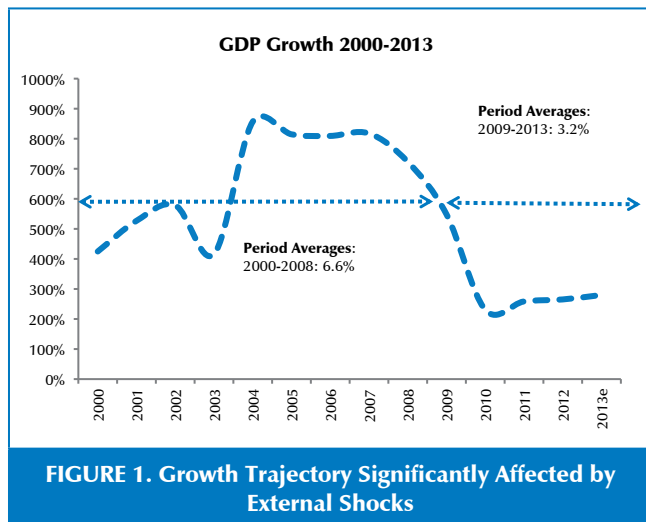
RECENT ECONOMIC AND POLICY DEVELOPMENTS

Output and Demand

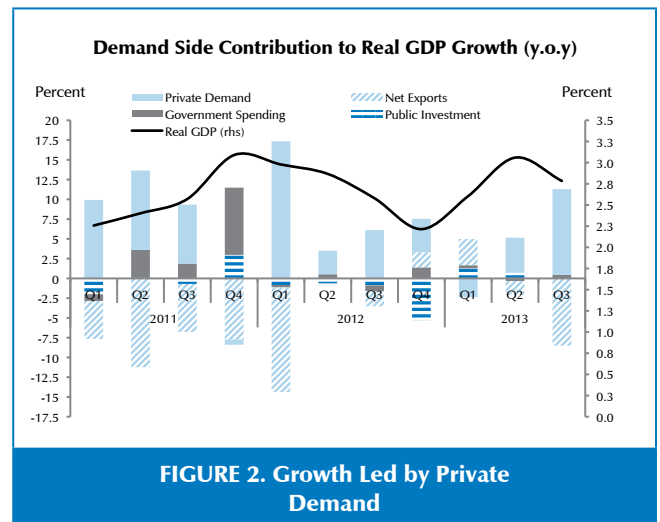
1. Jordan has suffered two successive external shocks that have altered the growth trajectory of the economy. The global financial crisis and the ensuing global recession were quickly followed by the Arab uprisings that started at the beginning of 2011. Subsequently, tepid growth and a rising current account deficit led to stresses in the balance of payments and the fiscal account. The large influx of Syrian refugees further exacerbated these stresses. Growth over the past few years has been far below the 6.6 percent average achieved during the 2000-2008 pre-crisis period (Figure 1). Headwind in 2012 and 2013 has also stemmed from the onset of a large fiscal consolidation program supported by an IMF Stand-by-Arrangement (SBA).

2. In 2013, a marginal acceleration in real GDP growth was driven primarily by private demand. We estimate real GDP growth at 2.8 percent, compared to 2.7 percent in 2012. As a large GCC-funded capital investment plan did not fully materialize due to implementation bottlenecks, private demand became the primary growth

driver in 2013 (Figure 2). Private investment's contribution is estimated to have strengthened due to two notable factors. The first is a boost to foreign direct investments, which is estimated to have reached \$2.5 billion in 2013, or about 7 percent of GDP, compared to approximately 5 percent of GDP in 2012. The second likely involves a relocation of Syrian businesses due to the conflict inside Syria. Vigorous private consumption was partly driven by a large influx of Syrian refugees (to 576,354 UNHCR-registered at end-2013). Consumption by Jordanians was also robust as revealed by the 12 percent expansion in personal loans in 2013. Trade in merchandize goods, on the other hand, was a drag on growth due in part to large interruptions of output in the potash and phosphates industries, which could not be offset by improved supplies of Egyptian gas. Indeed, Q3 2013 in particular experienced a sharp fall in net exports which provided strong headwind to GDP growth during that quarter (Figure 3). Public consumption was an insignificant contributor to real GDP growth in 2013, mostly reflecting the Government's fiscal consolidation efforts and the fact that high fiscal multiplier items such a capital spending underperformed.



Source: Department of Statistics and World Bank staff calculations



Source: Department of Statistics and World Bank calculations

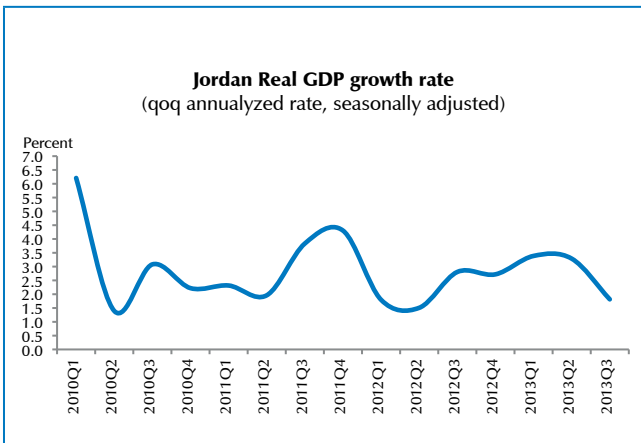


FIGURE 3. The upward trend in GDP growth was reversed in Q3-2013

Source: Department of Statistics and World Bank calculations

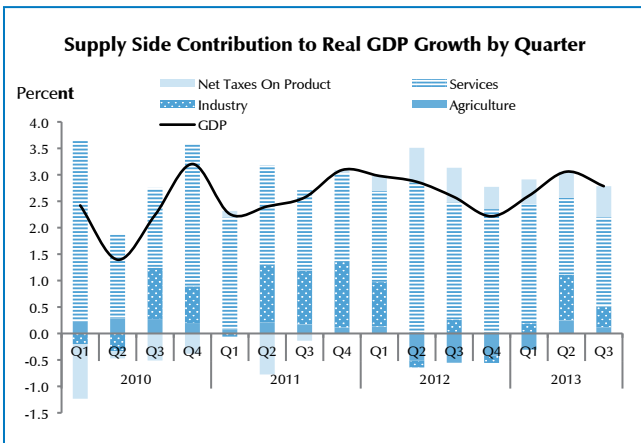


FIGURE 4. Services and industry were the main drivers of growth

Source: Ministry of Finance and World Bank staff calculations

3. The sectors that experienced robust activity included those catering to Jordanian consumption and the basic needs of the Syrian refugees. This activity was concentrated on transport and communications, financial services, domestic trade and construction, whose contributions to real GDP growth for the first three quarters of 2013 averaged 0.6 percent, 0.5 percent, 0.4 percent and 0.4 percent, respectively (Figure 4). Manufacturing was also a positive contributor as the sector benefited from the relocation of some Syrian industries. On the other hand, the average contribution during the same period of mining and quarrying was -0.2 percent. Large losses in potash output were incurred as a result of strikes over workers’ compensation. In addition, there was a change in the administration of Jordan Phosphate Mines Company. Agriculture experienced offsetting effects with Syrian refugees

raising domestic demand for food, while agricultural export routes (to Lebanon, Turkey and Europe) were disrupted. Restaurants and hotels had an insignificant contribution to growth; a decline in tourists, falling by 6 percent (Figure 5) during the first three quarters in 2013 compared to the same period a year earlier, was offset by higher spending per tourist.

Labor and Employment

4. Jordan has a weak labor market with high structural unemployment and a public sector that historically accounts for about half of job creation. While hovering around 12 to 13 percent over the past quarters, the unemployment rate has become unusually volatile in late 2013. In the third quarter, the unemployment rate shot up to 14 percent, the worst reading since Q3 2009, before falling sharply in the next quarter, to a low of 11 percent (Figure 6). The surprisingly large swings in the unemployment rate, also involved large regional swings, making it difficult to identify specific drivers of change. Nonetheless, considering the role of the public sector as a primary vehicle of employment in the country, the fiscal consolidation program is expected to have had a negative impact as it inhibited the absorption of new labor force entrants into the public sector. Indeed, the highest rate of unemployment in the fourth quarter was recorded in the age groups 15-19 and 20-24 years, registering

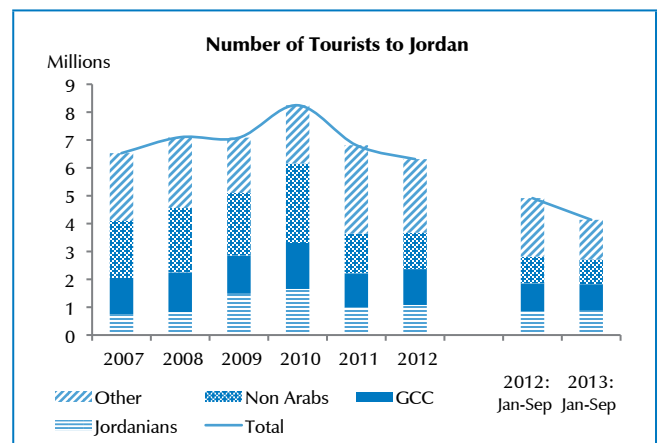


FIGURE 5. Number of tourists continues to decline

Source: Ministry of Tourism and World Bank staff calculations

33.2 percent and 27.6 percent, respectively, while 26.4 percent of total employed worked in the public sector. Jordan also suffers from a low labor force participation rate, which was 36.4 percent in Q4. While this number understates actual participation due to a relatively large informal sector, female participation is the lowest in the region.

Fiscal Policy

5. **In 2013, the central government (CG) assumed direct responsibility over the financing of utility companies leading to an artificial inflation of the CG fiscal deficit.** The CG fiscal deficit, including grants, reached 12.6 percent of GDP in 2013, compared to 8.9 percent a year earlier. The primary reason for this deterioration involves sizable transfers to the National Electric Power Company (NEPCO) and the Water Authority of Jordan (WAJ), estimated at 7.1 percent of GDP. Prior to 2013, the utility companies were running deficits financed by borrowing from commercial banks under a government guarantee. Hence, direct CG financing of the utility companies amounted to only 0.3 percent of GDP in 2012. Last year, however, banks' shrinking appetite for further exposure to a single company led the Government of Jordan (GoJ) to take over the responsibility for direct financing of NEPCO and WAJ.

6. **Fiscal consolidation continues with the support of the IMF SBA program.** Progress so far includes the cancellation of a number of tax exemptions and cuts in government expenditures targeting purchases of goods and services, capital spending and military expenditures. Subsidies on petroleum products were also broadly eliminated in November 2012 with the exception of LPG cylinders for private consumption (rising fuel prices have also generated increased tax receipts for the government).¹ These were replaced with an annual cash transfer to each household earning less than JD10,000 annually, in the amount of JD70 per

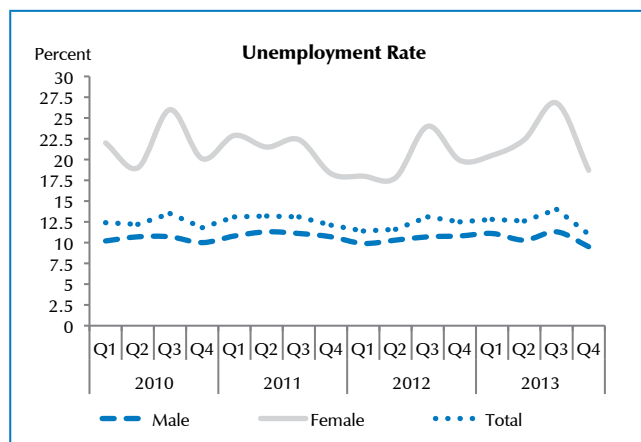


FIGURE 6. Persistently High Unemployment Rate

Source: Department of Statistics

household member for a maximum of six members. However, no transfer will be made if the price of oil is below \$100 per barrel. In 2013, around 70 percent of the population benefitted from this transfer scheme. In 2014, the government plans to better target those who more genuinely need it by applying a stricter selection criteria for the same JD10,000 threshold. Additionally, there are plans for a new more progressive income tax law that is intended to raise revenue, albeit only marginally. In regard to electricity tariff reforms, the government began by raising tariffs on select businesses in 2013, and on households who consume over 600 kilowatt-hours (KWh) early in 2014. This is part of a medium term plan for achieving cost recovery. To measure the extent of fiscal consolidation occurring in Jordan, we would need to net out grants and transfers to NEPCO and WAJ from the CG fiscal deficit. In this case, the deficit actually narrowed to 8.2 percent of GDP in 2013, from 10.1 percent of GDP a year earlier. Also excluding transfers to NEPCO and WAJ, we estimate current expenditures to have actually decreased to 26.2 percent of GDP, from 28.6 percent of GDP in 2012. At the same time, capital spending rose much less than initially forecast. As a result, total expenditures, excluding transfers to NEPCO and WAJ, declined last year by 1.7 percentage points (pp) to 29.9 percent of GDP.

7. **GCC grants in 2013 provided partial relief from prolonged fiscal difficulties.** Excluding grants,

¹ In 2012, oil subsidies totaled JD 884 million, equivalent to 4 percent of GDP. With fuel subsidy reform, oil subsidies are estimated to have declined to JD 250 million in 2013, which means a savings of over JD 630 million.

Jordan’s government deficit widened to 15.3 percent of GDP, from 10.4 percent of GDP in 2012 (Figure 7). Largely GCC-sourced, grants are estimated at 2.7 percent of GDP in 2013, compared to 1.5 percent in 2012. The tax and nontax efforts remained largely stable, so that total domestic revenues rose only marginally to 21.7 percent of GDP in 2013. Sluggish economic growth since the onset of the global financial crisis has softened domestic revenues, which have contracted from an average of 27 percent of GDP during the period of 2000-2008.

8. High deficits and sluggish growth have induced an upward trend in the debt-to-GDP ratio. Gross public debt is estimated to have reached around 86 percent of GDP at end-2013, compared to 80 percent of GDP end-2012, and 71 percent of GDP end-2011 (Figure 8). Almost 75 percent of this debt

is domestic, allowing some flexibility to supplant domestic with external financing, assuming there would be external demand for Jordan government debt. Indeed in 2013, Jordan issued \$1.25 billion of US guaranteed Eurobonds with a maturity of 7 years that was oversubscribed by international investors. Earlier in 2014, the US and Jordan signed another loan guaranteed permitting Jordan to issue \$1 billion in Eurobonds, which we expect Jordan to take advantage of this year. The US Treasury guarantee helps Jordan borrow at low interest rates, close to the US’ own borrowing rates.

External Position

9. Official transfers in 2013 helped sharply narrow the current account deficit. After registering a high of 17.3 percent of GDP a year earlier, the current account deficit fell to an estimated 10.6 percent of GDP in 2013. This was largely driven by a sizable increase in official transfers, which we estimate to be equivalent to 7.3 percent of GDP. Imports rose as Syrian refugees boosted demand for consumption goods and more capital goods were needed by a robust construction sector. This more than offset a reduction in energy imports due to improved Egyptian gas supplies, which allowed Jordan to import less crude oil and petroleum products for the purpose of power generation. As a result, energy imports dropped by 12.2 percent in 2013. Exports were subdued in 2013 as a result of the disruptions of output in the potash and phosphate industries. Overall, the trade deficit remained largely unchanged at around 30 percent of GDP (Figure 9).

10. The lower current account deficit along with larger capital inflows induced a surge in net international reserves (NIR) of the Central Bank of Jordan (CBJ). In 2013, Jordan received \$1.25 billion in grants from the GCC, in addition to a \$150 million emergency loan from the World Bank to help meet the surging costs associated with hosting the Syrian refugees. Furthermore, a successful second SBA review guaranteed Jordan another \$643 million from the IMF last year. As mentioned earlier, the

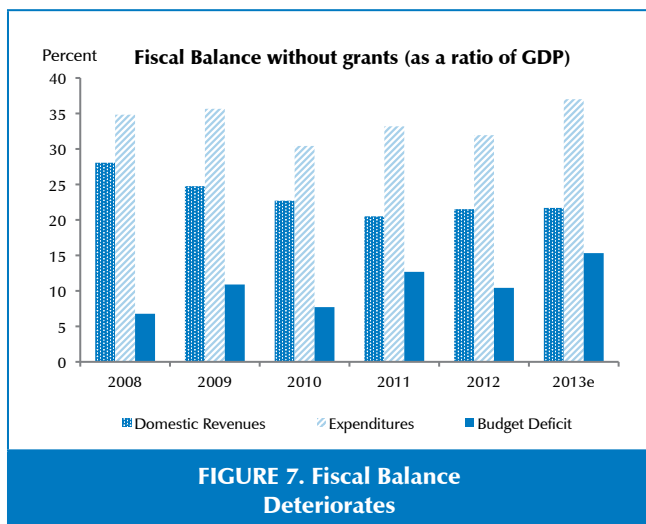


FIGURE 7. Fiscal Balance Deteriorates

Source: Ministry of Finance and World Bank staff calculations

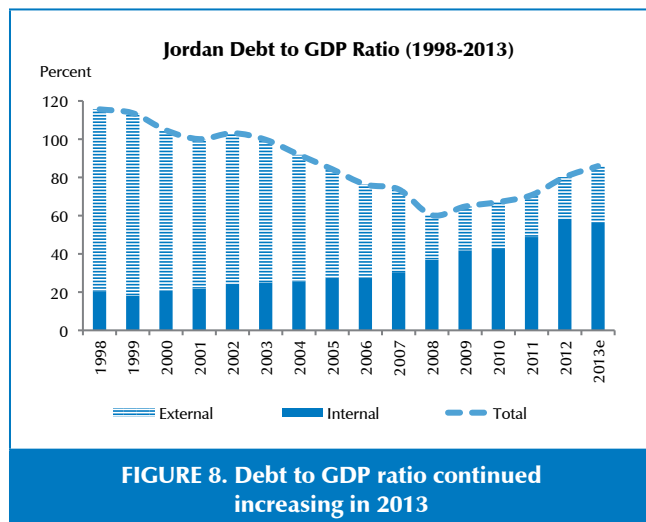


FIGURE 8. Debt to GDP ratio continued increasing in 2013

Source: Ministry of Finance and World Bank staff calculations

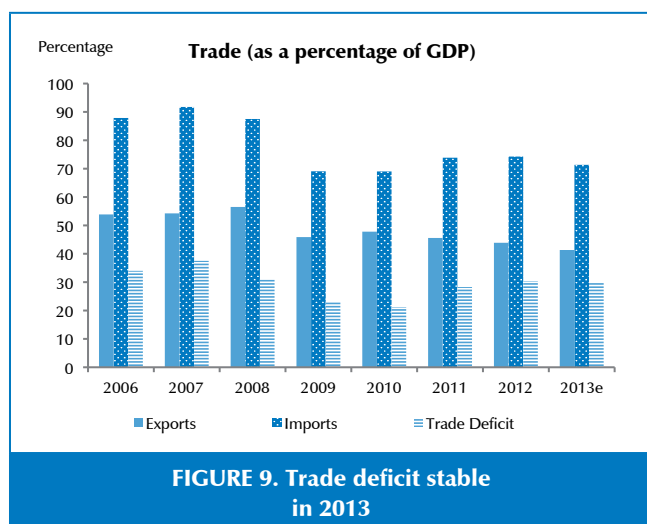


FIGURE 9. Trade deficit stable in 2013

Source: Central Bank of Jordan and World Bank staff calculations

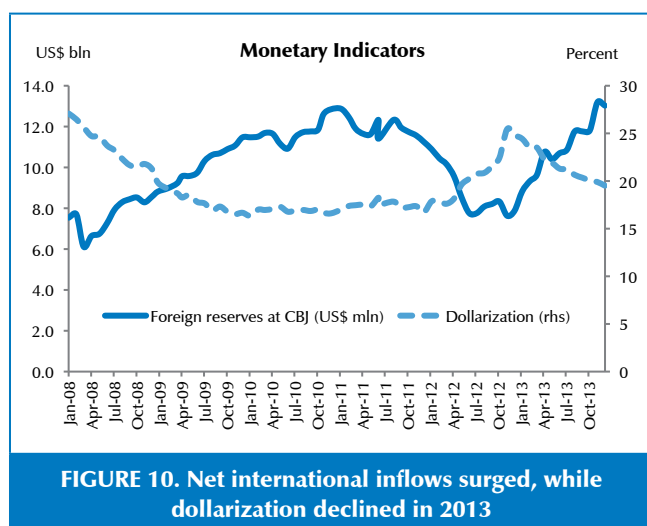


FIGURE 10. Net international inflows surged, while dollarization declined in 2013

Source: Central Bank of Jordan and World Bank staff calculations

government also issued \$1.25 billion in Eurobonds under a US Treasury guarantee to finance both its fiscal and external needs. Moreover the CBJ tightened monetary policy until August 2013. As a result, foreign assets of commercial banks declined by 19 percent, sourced mostly from balances with foreign banks. All this led to a 65 percent growth in foreign reserve at the CBJ in 2013, reaching by January 2014 \$13.4 billion, equivalent to 6.5 months of goods imports, by the end of the year. The dissipation of exchange market pressures helped reverse the dollarization trend that Jordan experienced in 2012, with the dollarization rate falling by 5.3 percentage points (pp) in 2013 (Figure 10).

Monetary Policy and Finance

11. Inflationary pass-through effects of the fuel subsidy removal are on the wane. The 12-month headline inflation rate peaked at 7.8 percent in February 2013, led by surging transportation costs that resulted from the removal of the fuel subsidy, and to a lesser extent by higher food prices. By December, however, the inflation rate had declined to 3.3 percent, signaling the dissipation of first-degree pass-through effects of the fuel subsidy removal (Figure 11). For the year, the CPI inflation rate averaged 5.6 percent, up from an average of 4.8 percent in 2012. Core inflation, on the other hand, which excludes foods and fuel, has increased, driven by housing and clothes. We attribute this to second-degree pass through effects of the fuel subsidy reform, as well as to a Syrian refugee boost to demand. We anticipate these price pressures will be temporary for several reasons. The first is that we do not expect the influx of Syrian refugees to be as large in 2014 as it was last year. Second, the robust construction activity is mainly concentrated in the residential sector, and will thus eventually relieve rent pressures, which has been an important contributor to rising inflation over the past year.

12. The CBJ has loosened monetary policy stance.. With pressures on core inflation expected to be temporary, and the easing of exchange market pressures, the monetary authority was able to provide support to real economic activity. Since 2011, sluggish economic growth has opened up a persistent output gap (Figure 12). In response, the CBJ cut the three key policy rates (re-discount, repo and window) three times by 25 bps each time (August 6, October 22 and January 20), in order to stimulate lending to the private sector and boost economic growth. Abundant external funding for the government also meant a decreased need for domestic funding, which translated into declines in intrabank, T-bill and T-bond rates by 58, 247 and 318 bps, respectively, between January 2013 and November.

13. The banking sector in Jordan remains subject to external shocks. By June 2013, banks' nonperforming loan (NPL) ratio fell to 7.4 percent after peaking at 8.5 percent in 2011 (Table 1). However, sluggish economic activity prevents the NPL ratio to return to its pre-crisis level of 4.1 percent during 2007 and 2008. While banks have increased their provisions, their performance has remained stable in recent years, with Return on Equity (ROE) and Return on Asset (ROA) registering 10.4 percent and 1.4 percent, respectively, in 2012, the latest available full year data. Banks in Jordan are well capitalized easily meeting Basel capital adequacy requirements. The rebound of the foreign reserves at the central bank and the de-dollarization trend are mirrored by a deterioration of the net foreign asset position of commercial banks. Indeed, by end-2013, banks' net foreign asset position recorded minus US\$ 2.2 billion, down from US\$ 0.74 billion at end-2012.

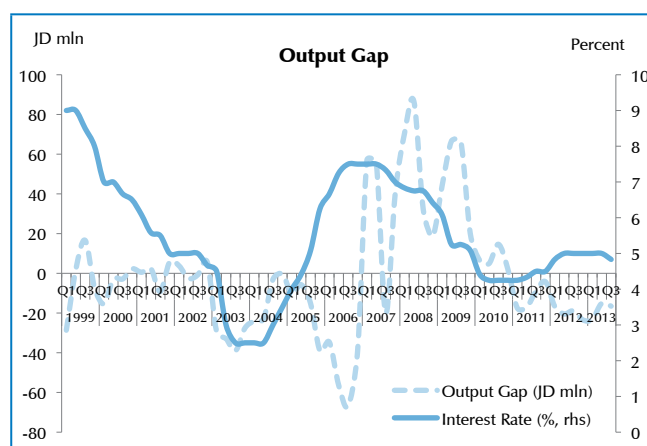


FIGURE 12. and a negative output gap justified a monetary expansion

Source: Central Bank of Jordan and World Bank staff calculations

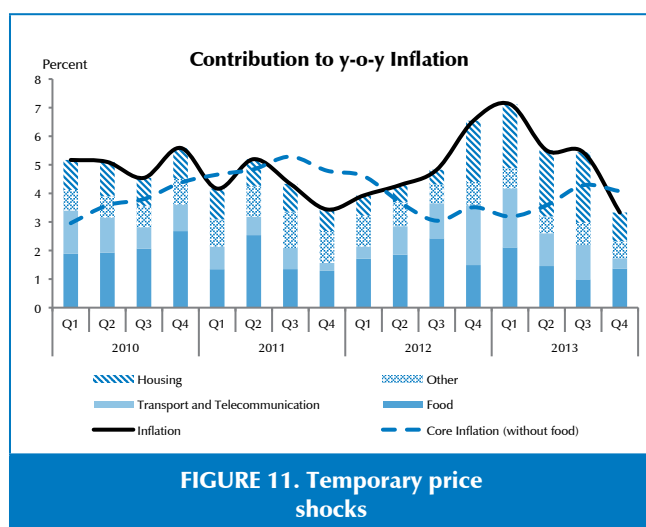


FIGURE 11. Temporary price shocks

Source: Central Bank of Jordan and World Bank staff calculations

	2007	2008	2009	2010	2011	2012	*6/2013
NPL /Total Loans	4.1	4.2	6.7	8.2	8.5	7.7	7.4
Provisions (in percent of classified loans)	67.8	63.4	52.0	52.4	52.3	69.4	75.0
Risk - weighted Capital Adequacy Ratio	20.8	18.4	19.6	20.3	19.3	19.0	17.9
Leverage Ratio	13.3	12.9	13.0	13.1	13.1	13.3	12.9
ROE	12.6	11.5	8.8	8.8	8.3	8.6	10.4
ROA	1.6	1.4	1.1	1.1	1.1	1.1	1.4
Net Profits Before Taxes	568.8	564.3	460.4	523.4	516.6	587.8	368.3
Liquidity Ratio	157.5	141.2	159.1	161.4	152.9	143.5	144.2
Growth Rate of Total Assets	10.9	11.4	7.4	9.6	7.9	4.3	4.6
Growth Rate of Customer Deposit	9.6	13.2	12.1	10.9	8.3	2.4	6.2

* Not annualized

**Table 1. Financial Soundness Indicators
(In percentage unless otherwise indicated)**

Source: Central Bank of Jordan

PROSPECTS

14. Growth for 2014 and 2015 is projected to accelerate mildly, to 3.1 and 3.5 percent, respectively, driven by private consumption and public investment. In our baseline scenario, we do not anticipate a comparable influx of Syrian refugees in 2014 as last year, nor do we expect a significant number to return home. Private consumption is projected to remain buoyant. In addition, we project higher government capital expenditures, which are largely financed by the five-year, \$5 billion GCC grant, allocations of which began arriving in 2013. GCC grants are project-specific and based on bilateral agreements, funding large developments such as LNG terminals and railway linkages to the GCC. Hence, the government does not have the same flexibility to reallocate capital expenditures toward current expenditures as has been the case in the past. As a result, public investment is projected to gradually expand in the next couple of years. Based on this, real GDP growth is forecast to reach 3.1 percent in 2014, and to further expand to 3.5 percent in 2015.²

15. Balance of payments needs are projected to be met via increased official transfers and higher capital inflows. External financing will be indispensable in the medium term to meet fiscal and balance of payments needs, and the absence of such financing will result in the erosion of foreign exchange reserves. This supplements long running structural vulnerabilities that include high unemployment and persistent fiscal deficits with a chronic dependence on foreign grants. The structural problems are expected to remain. However, loans from the World Bank, the IMF, JICA, the European Unions, and more crucially, the \$5 billion GCC grant and the US guaranteed Eurobond issue should provide Jordan with some buffer to partially offset the external shocks.

16. The regional turmoil in general and Syria's conflict in particular remain Jordan's most significant short-term challenge. Official numbers on refugees likely understate actual numbers as many Syrians are believed to have integrated into Jordanian urban centers, fending for themselves. In the labor sector, Syrians are seemingly supplanting local labor and wages are being bid downwards. The fiscal costs are associated with housing needs, cost of power generation (which is subsidized), larger food subsidies and additional social costs, especially regarding health and education. Additionally, the turmoil in Egypt could impact through further disruptions in the supply of Egyptian gas, aggravating the balance of payments. For the same reason, as a large net oil importer, Jordan would be negatively affected by large increases in oil prices caused by geopolitical tensions such as those in Ukraine.

17. Rainfall in the Levant region so far this winter has been significantly below average levels, threatening local harvests. As a result, Jordan will likely need to import agricultural goods that it traditionally produces. Moreover, since this is a regional problem, there could be an impact on global food prices. Jordan's import bill, already stressed by a Syrian refugee boost to demand, could be inflated further, leading to a higher current account deficit. If not matched by inflows, exchange market pressures might ensue. In addition, local prices could rise, worsening the purchasing power of consumers.

18. Diversifying Jordan's energy supply in the medium term is critical to building resiliency and improving the country's balance of payments and public finances. An immediate priority during this reprieve would be to establish alternative sources of energy. Political instability in Egypt and Egypt's growing need for gas are likely to be long-term factors that could impact

² Growth in 2013 has been revised down to 2.8 percent, from 3.1 percent in our Fall 2013 *Jordan Economic Monitor* due to weaker-than-expected third quarter GDP growth.

the delivery of gas to Jordan. To diversify its energy sources, the authorities in Jordan have announced plans for an LNG terminal in the city of Aqaba by the Red Sea. Additionally, Jordan and Iraq announced plans to build oil and gas pipelines from Basra, the main oil-producing region in the south of Iraq, to Aqaba. For Iraq, this will provide an alternative export route to the Strait of Hormuz, which is highly exposed to geopolitical risks. These projects require large investments in infrastructure and some time to implement.

SPECIAL FOCUS

UPDATING POVERTY ESTIMATES AT FREQUENT INTERVALS: PRELIMINARY RESULTS FROM JORDAN³

Jordan, not unlike many countries, relies on infrequent household expenditure and income surveys (HEIS) to estimate poverty in the country. In Jordan, the last HEIS survey dates from 2010 so that the last official poverty estimates is also from that year. When policy decisions are made in 2014, they are therefore based on rather dated estimates of poverty. Not only has Jordan suffered from a series of negative shocks, the Government has also introduced major mitigation programs (e.g., the petroleum cash compensation transfer). Have these programs been successful in protecting the poor? Is Jordan still progressing in its fight against poverty? To help answer these questions, World Bank staff developed an alternative method for estimating poverty by imputing household consumption data into the Employment-Unemployment Survey, which is conducted every quarter. This approach offers alternate annual poverty estimates for Jordan. Based on this new approach, estimates for 2011 and 2012 point to a small decrease in the poverty rate compared to 2010. Previous Bank research revealed, however, that a third of the population lived below the poverty line in at least one quarter of the year. Hence, while progress continues in tackling chronic poverty, transient poverty affects a large swath of the population, which points to a large share of vulnerable Jordanians.

Country Overview

19. Poverty estimates are usually produced every few years by statistical agencies using household expenditure (consumption) or income surveys. Collecting such data is a time-consuming and involved process that requires considerable financial and human resources. Consequently, countries typically conduct these surveys every few years, and subsequently poverty statistics are produced every few years as well. Though policy makers often have a strong interest in monitoring poverty trends over time, they typically have little or no information on such trends during the intervening years.

20. Jordan faces a similar situation, where little is known about poverty trends since Jordan's Department of Statistics (DOS) last conducted its Household Expenditure and Income Survey (HEIS) in 2010. In the meantime, Jordan has implemented a Poverty Reduction Strategy (PRS), undergone economic reforms such as reduction in petroleum subsidies, and experienced economic shocks due to factors such as higher energy prices, change and unrest in neighboring Egypt, and the recent large influx of Syrian refugees.

21. With the fast evolving context in which policymakers operate, there is a keen interest to know about poverty and wellbeing at shorter intervals. In response to this concern, the World Bank team has worked with the Ministry of Planning and International Cooperation (MoPIC) and DOS to develop an approach that provides updated poverty estimates for Jordan. In contrast with the HEIS survey, which was last conducted in 2010, DOS administers the Employment-Unemployment Survey (EUS), a labor force survey with wide geographical coverage, on a quarterly basis.

³ For further details Dang, H. and U. Serajuddin, 2013, "Updating Poverty Estimates at Frequent Intervals: Preliminary Results from Jordan," Mimeo, World Bank.

22. Preliminary poverty estimates employing a ‘survey-to-survey’ imputation method by combining the EUS with the consumption expenditures information in the HEIS have recently been developed (Dang and Serajuddin, 2013). The work builds on a growing body of the literature that employs ‘survey-to-survey’ imputation techniques to update poverty estimates (Doudich et al 2013, Christiaensen et al 2012, Kijima and Lanjouw 2003). A statistical model of household consumption is developed based on household characteristics in the HEIS. Consumption is then predicted for households in the EUS using the above model. By restricting the explanatory variables to those that are comparable across the two surveys, this method ensures an identical definition of consumption across the surveys, assuming that the relationship between consumption and its correlates remains stable over surveys and time, which, over the short time horizon under consideration is a reasonable assumption to make.

Estimates on Poverty Trends

23. In 2012, Jordan updated its previous methodology and produced new poverty estimates based on the 2010 HEIS; the 2010 poverty rate for Jordan was estimated to be 14.4 percent based on a national annual poverty line of 813.7 JD per individual. This threshold reflected the absolute minimum level of consumption needed to meet basic needs, following a ‘cost of basic needs’ (CBN) approach.⁴ With the poverty line fixed for a particular year, to ensure comparability and consistency across years it is adjusted for changes in the cost of living, typically using official inflation statistics from CPI data. When this method is applied to Jordan, poverty appears to have declined from 19.5 to 14.4 percent between 2008 and 2010.

24. Poverty trends could be tracked between 2008 and 2010 using the HEIS data in these two years. However, this has not been done since 2010 due to unavailable HEIS data. The macro-economic projections in Figure 13 and Figure 14 show per capita GDP growth to be weak, but this alone cannot say much about poverty trends. The recent subsidy reforms and associated cash transfer could well impact poverty, as could economic stress due to factors such as a continued weak labor market, increased electricity prices, and spillover effects from the ongoing conflict in Syria. The need to fill data gaps appears to be even stronger in such an uncertain environment.

25. Reassuringly, the preliminary predicted poverty rates based on the EUSs closely track the true poverty rates based on the HEISs for 2008 and 2010. The estimated poverty rates are around one percentage point higher and one percentage point lower than the true poverty rates in 2008 and 2010, respectively. However, the former fall within the 95 percent confidence intervals of the latter in both 2008 and 2010, indicating that statistically speaking, they are not different from each other. Put differently, this provides encouraging evidence that the estimated poverty rates can well approximate the true poverty rates in these two years.

26. Furthermore, updated poverty numbers for 2011 and 2012 based on the EUSs are also estimated and shown in Figure 15. The figures show a very slight decline in poverty of around 1 percentage point between 2010 and 2012. Thus there is a clear trend of decreasing poverty over time, even though this trend has leveled off since 2010 compared to the period 2008-2010. Notwithstanding the modest improvement in annual poverty incidence, as reported in the Fall 2013 issue of the Jordan Economic Monitor, World Bank research also reveals that a third of the population in Jordan lived below the poverty line in at least one quarter of the year. In other words 18.6 percent of the population which is classified as non-poor based on annual poverty estimated did experience transient poverty, including some lower-middle and middle income households.

⁴ A comprehensive discussion of the methodology can be found in World Bank (2012).

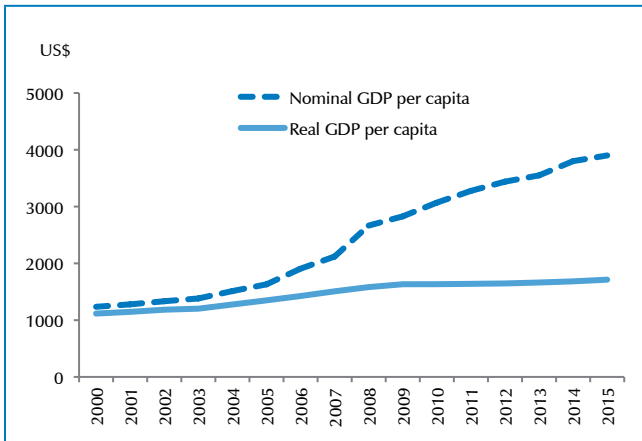


FIGURE 13. Real and Nominal Per capita GDP trends

Source: International Monetary Fund, World Economic Outlook Database, April 2013. Estimates start after 2010.

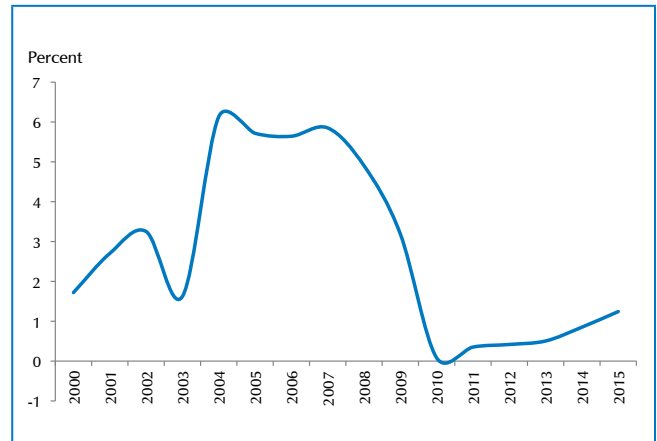


FIGURE 14. Growth rate of Real Per Capita GDP

Source: International Monetary Fund, World Economic Outlook Database, April 2013. Estimates start after 2010.

27. **These preliminary model-based results are promising.** Challenges, however, remain in order to improve estimation results further. While the predicted poverty rates are not statistically different from the true poverty rates, the numbers still need to be interpreted carefully, especially since they are model-based projections rather than HEIS-based actual estimates. Also, an effort needs to be made to try to disaggregate it by regions such as governorates and if possible develop projections at quarterly levels.

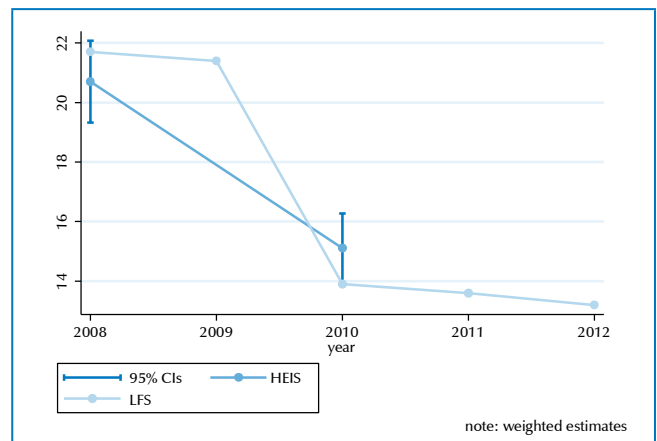


FIGURE 15. Predicted poverty trends, Jordan 2008-2012

Source: Dang and Serajuddin (2013)

SYRIAN REFUGEES AND LABOR MARKET OUTCOMES IN JORDAN⁵

A large influx of refugees into a country occurring over a relatively short time is bound to have a major impact on the host country's labor market. While in principle both positive and negative impacts could arise from such a shock, ultimately the net impact on the Jordanian labor market remains an empirical question. Official data are utilized to examine the impact on three labor market indicators - labor force participation, the employment rate and the unemployment rate - while accounting for economic activity through using construction permits as a control variable, at the level of governorates. The Vector Autoregression (VAR) methodology has been adopted on panel data that involves a cross-section of governorates in Jordan, during the time period Q4 2007 to Q3 2013. We find evidence suggesting that the Syrian refugees are causing a reduction in the national labor force participation rate of Jordanians. Preliminary analysis reveals this could be the result of refugees willing to work for relatively low wages, causing a large increase in discouraged Jordanian workers (as these have a reservation wage that they perceive cannot be satisfied under the current environment and therefore prefer to drop out of the labor force altogether; since these discouraged workers are no longer searching for jobs, they are not counted in the rank of the unemployed). Given Jordan's previously low labor force participation rate prior to the Syrian conflict, the recent drop in the participation rate is a source of concern.

Background

28. The world has been facing one of the largest exoduses in recent history since the onset of the armed conflict in Syria. As of March 2014, over 2.5 million Syrians have fled their country in search of a safe haven across the borders with the

country's immediate neighbors, namely Lebanon, Jordan, Turkey and Iraq (Egypt has also received a large number of Syrians). Jordan hosts 584,600 Syrian refugees officially registered with the UNHCR, equivalent to almost 9 percent of the population. The majority of the refugees are integrated into urban centers. The governorates with the highest ratios of Syrians to Jordanians are Mafraq (19.82%), Irbid (10.67%), Ajloun (6.5%) and Amman (5.4%) according to Q4 2013 UNHCR estimates.

29. Jordan was already facing economic challenges prior to the spillovers of the Syrian conflict and the influx of the Syrian refugees into the country. Persistent deficits in the current and fiscal accounts in a fixed exchange rate regime system have rendered Jordan dependent on external financing. Two main external shocks, the global financial crisis (2008/2009) and the turmoil that followed the Arab uprising in the region (2011), exacerbated these stresses.

30. Jordan has a structurally weak labor market. Regardless of the state of the business cycle, the unemployment rate in Jordan remains in double digits, reflecting high structural unemployment. Unemployment in 2013 remained elevated but did not worsen materially despite (i) an expected tightening of job openings in the public sector—historically the source of about half of net job creation in Jordan—due to fiscal consolidation efforts; (ii) moderate growth that is not sufficient to absorb the large influx of youth entering the labor force; and (iii) a large influx of Syrian refugees, some of whom are seeking jobs.

31. Potentially, Jordan's labor market has a large exposure to the Syrian refugees. This exposure, however, is primarily restricted to the informal labor market due to the difficulty faced by Syrian refugees to have access to and compete with Jordanians for jobs in the public sector and the formal private sector. According to estimates by the International Labor Organization (ILO), the number of Syrian refugees working without permits in Jordan (i.e., in the informal sector) reached nearly 160,000 (in 2013). Moreover, according to the Jordanian

⁵ This Special Focus was prepared by May Ibrahim, Senior Executive Assistant in the Beirut World Bank office.

Ministry of Planning and International Cooperation and the UN (November 2013), the potential active refugee labor force in the governorates of Mafraq, Irbid, Zarqa and Amman was estimated at about 108,265, of whom nearly 38,155 were estimated to be employed (regularly or irregularly). This study also indicates that Syrians are estimated to form around 8.4 percent of the total potential active labor force in the above-mentioned governorates, constituting 3.5 percent of all employed persons and one-third of the total unemployed.

32. Recent studies have found a significant impact of the Syrian conflict on specific sectors in Jordan. For example, the Food and Agriculture Organization (FAO) has found that the Syrian conflict has decreased domestic employment opportunities in the agricultural sector.⁶ Agriculture is considered as a main source of income for 60 percent of Jordanians living in rural areas. Also noteworthy is that in other sectors, and on average, Jordanians are earning 123 percent of the income of Syrian households, and generally have access to more stable and frequent jobs in skilled and professional employment, skilled self-employment and social security funds.

Methodology

33. Limited data availability allowed for the testing of only three governorates- Amman, Irbid and Zarqa. A VAR was adopted on panel data that involves a cross-section of the three governorates. The VAR endogenous variables are: *SYR* (the number of Syrian refugees in Jordan), *ECON* (the percentage change of construction permits area as a control variable for economic activity) and three labor market variables used interchangeably - the employment rate (*EMPL*) (in percentage), the unemployment rate (*UNEMPL*) (in percentage) and the labor force participation rate (*LFORCE*) (in percentage). Three VARs have thus been estimated: VAR1 (*SYR*, *ECON*, *LFORCE*), VAR2 (*SYR*, *ECON*, *EMPL*) and VAR3 (*SYR*,

ECON, *UNEMPL*). Quarterly observations were used, covering the time period Q4 2007-Q3 2013.

34. A number of econometric tests were used to ensure robustness of the results. This included unit root tests that provided evidence that the VAR variables are stationary. In addition, the VAR lag lengths were chosen optimally to pass the residual tests of no serial correlation, normality, and no heteroscedasticity. The Cholesky decomposition method was used to generate impulse response functions (IRFs).

Results

35. Evidence suggests that Syrian refugees are causing residents in Jordan to drop out of the labor force (which is already relatively undersized). VAR1 (Figure 16) illustrates that a positive shock to the Syrian refugees variable has negative and significant impact on the labor force participation rate. This could be due to Jordanian residents feeling discouraged from seeking employment as Syrian refugees bid down wages to a level significantly below their reservation wage.

36. An increase in the labor force participation rate improves economic activity. VAR1 IRFs (Figure 16) illustrates a positive and significant impact on construction permits from a positive shock to the labor force participation rate. Furthermore, there is evidence from the same IRFs that a positive shock to construction permits has a positive and significant impact on the labor force participation rate, since an upswing in economic activity does attract individuals who were not searching for jobs, to join the labor force.

37. There is no evidence of an effect on employment in Jordan from the influx of Syrian refugees. VAR2 IRFs (Figure 17), illustrate insignificant impacts on employment or construction permits in response to a positive shock in the Syrian

⁶ Food and Agriculture Organization (FAO), "Agricultural Livelihoods and Food Security Impact Assessment and Response Plan for the Syria Crisis in the Neighboring Countries of Egypt, Iraq, Jordan, Lebanon and Turkey", March 2013.

refugee variable. However, a positive and significant impact is shown on employment in response to a positive shock in *ECON*, suggesting that construction permits are a good proxy for economic activity in Jordan. In principle, the labor force survey from which the data in this econometric analysis is based does capture the informal economy. However, it is possible that a large and sudden shock to the economy and the labor market, as is the case with the Syrian conflict and its spillovers, could result in a structural change (e.g., a larger informal economy and informal labor market). If such a change has occurred with the onset of the Syrian conflict and its spillovers onto Jordan, then the existing labor force survey could be underrepresenting the impact of the Syrian conflict on informal employment in Jordan. From the labor force survey it is also difficult to assess to what extent changes in the informal labor

market are impacting Jordanian workers, as opposed to resulting in a substitution of migrants foreign workers by Syrian refugees.

38. There is evidence that the influx of Syrian refugees affected unemployment in Jordan. VAR3 IRFs (Figure 18) show that a positive shock to the Syrian refugee variable has a negative and significant impact on unemployment. The magnitude of this improvement in the unemployment rate, however, is similar to the drop in the labor force participation rate described above. The combined finding of a reduced labor force participation rate and of the unemployment rate is, therefore, a source of serious concern. Discouraged workers that drop out of the labor force risk seeing their skills and more generally their human capital rapidly erode. After a sustained period of time, the employability of these workers

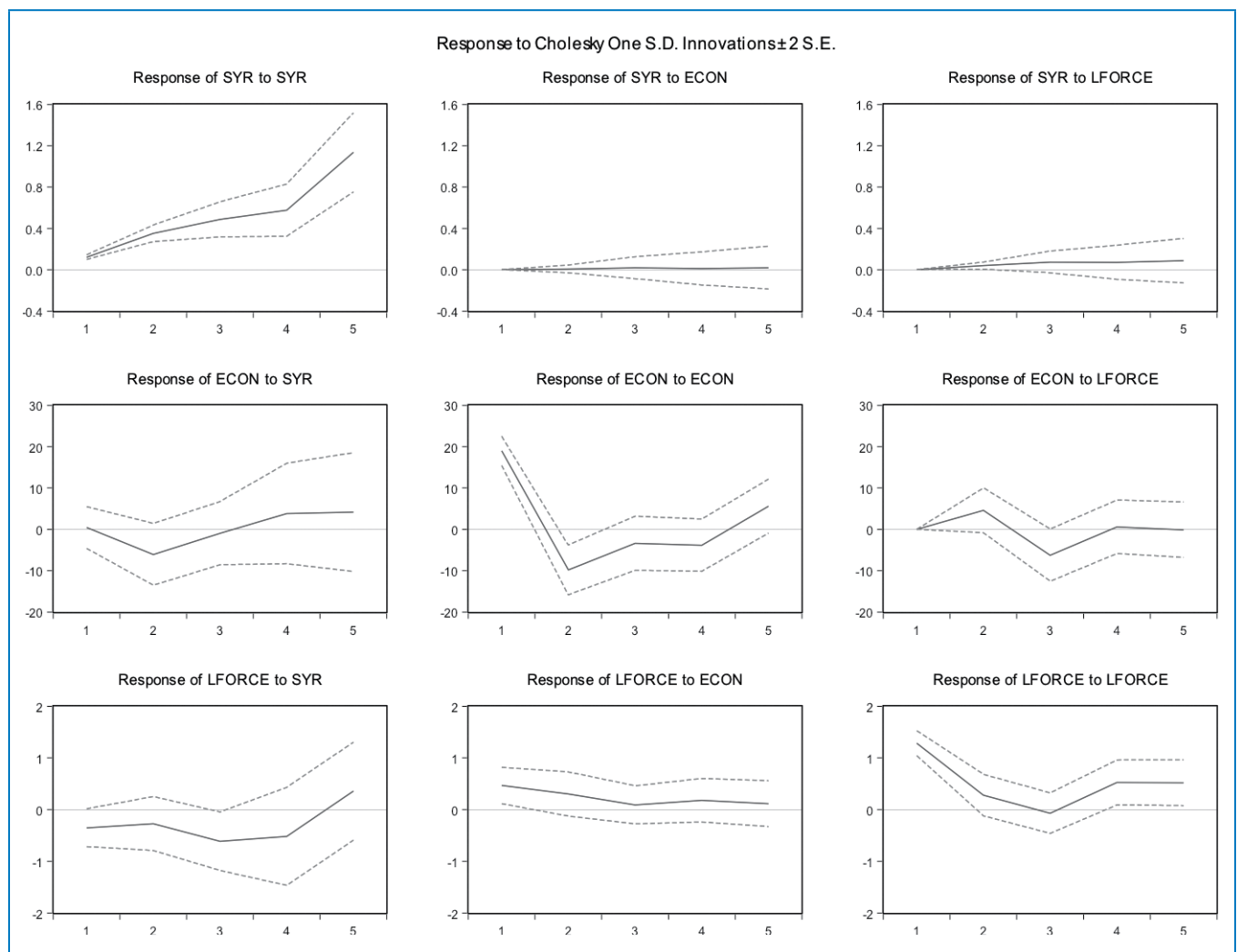
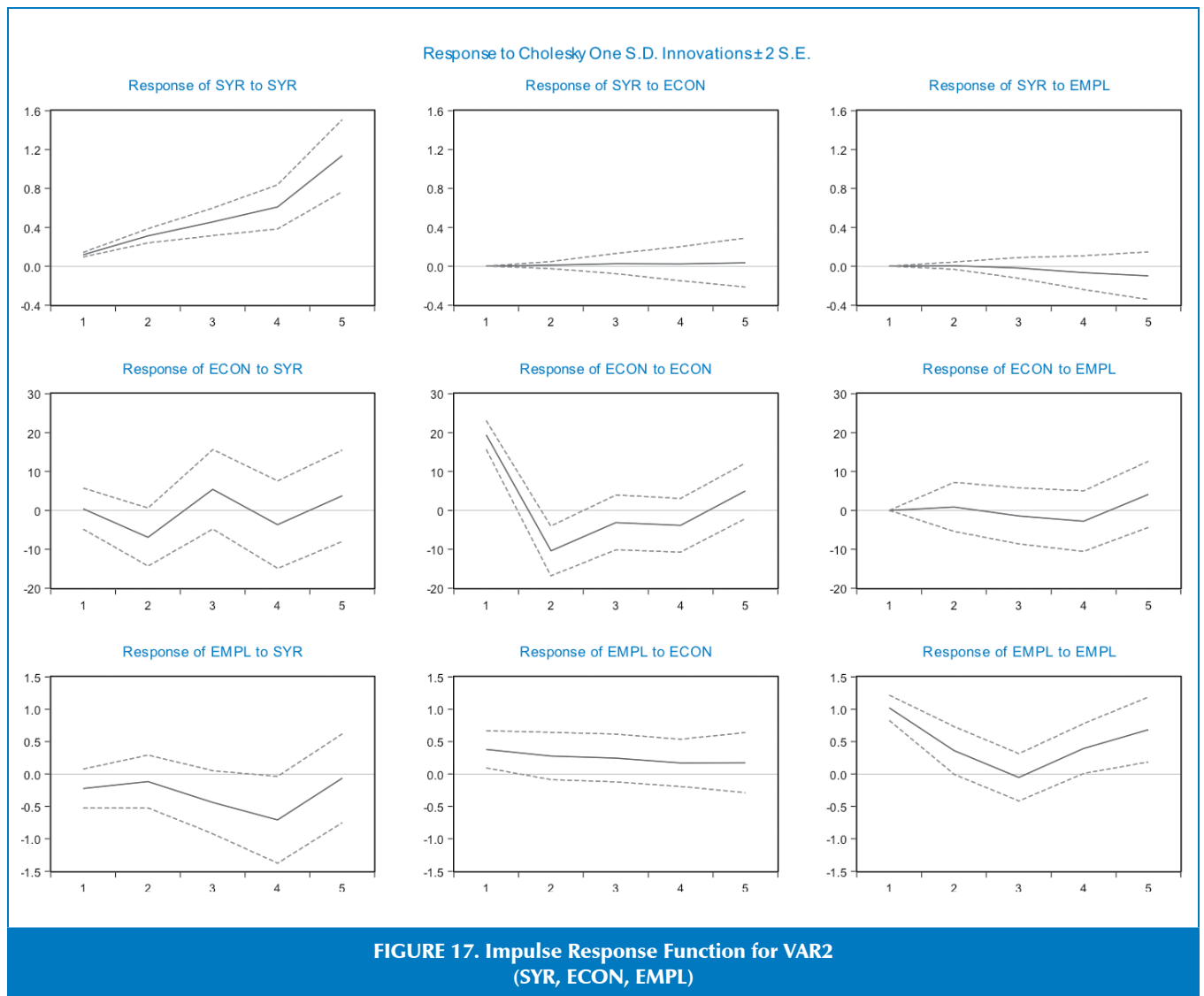


FIGURE 16. Impulse Response Function for VAR1 (SYR, ECON, LFORCE)

would therefore be significantly reduced. This would reduce the economy's potential output and result in large welfare losses for those discouraged workers. The *ECON* variable (construction permits) does not significantly impact unemployment. This could be due to (i) the fact that the public sector is a major source of employment thus weakening the linkages between the unemployment rate and economic activity, and (ii) that a significant share of the labor sector operates in the informal sector.

39. We do not find significant evidence of causality. Granger Causality tests cannot reject the hypothesis of no causality between all variables for the three VARs, except in the case of VAR1, where LF does Granger Cause SYR.



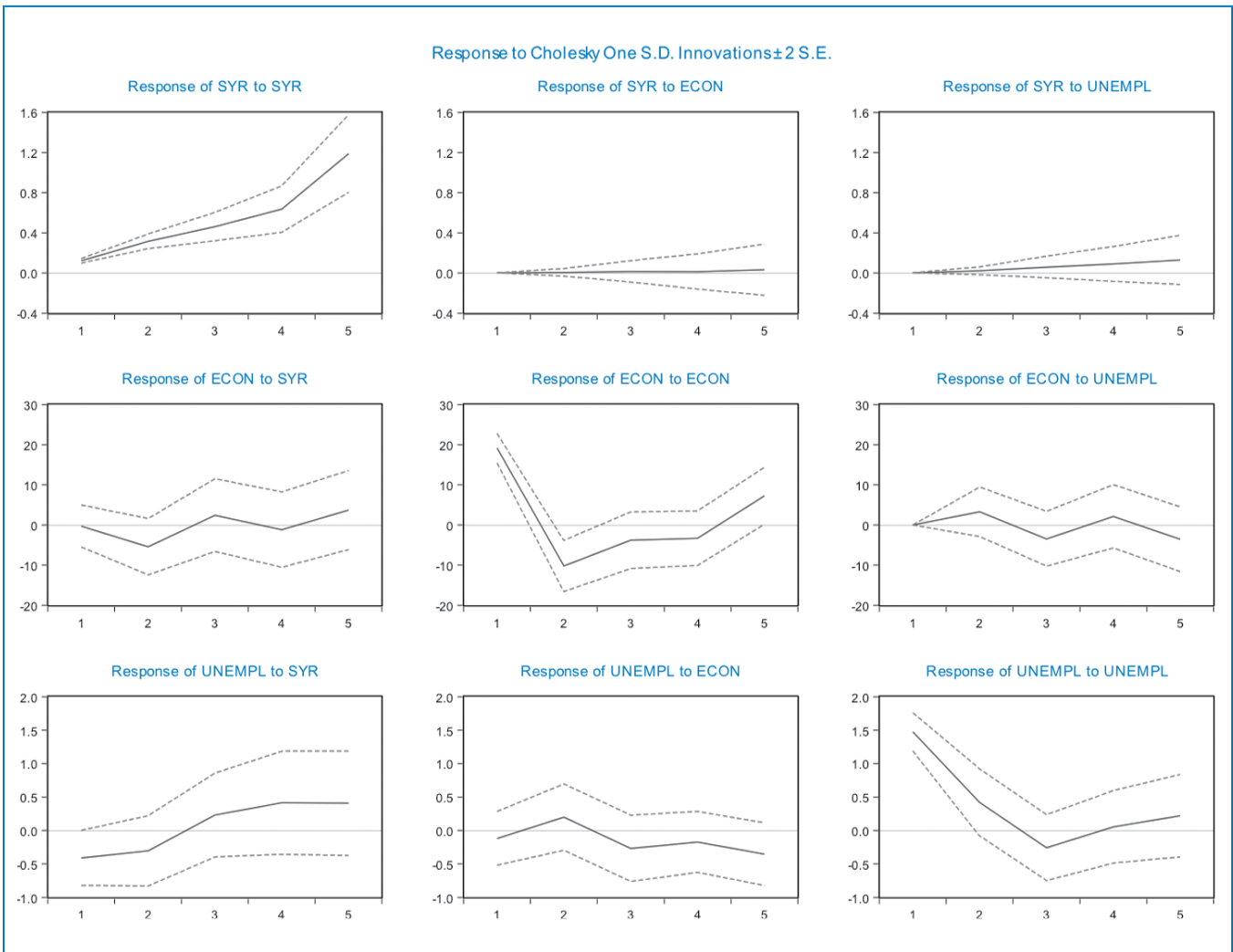


FIGURE 18. Impulse Response Function for VAR3 (SYR, ECON, UNEMPL)

DATA APPENDIX

TABLE 2. Jordan: Selected Economic Indicators, 2011-16

	2011	2012	2013	2014	2015	2016
	Act.	Act.	Proj.	Proj.	Proj.	Proj.
Real sector	(annual percentage change, unless otherwise specified)					
Real GDP	2.6	2.7	2.8	3.1	3.5	4.0
Real GDP per Capita	0.4	0.4	0.5	0.9	1.2	1.7
Agriculture (share of GDP)	3.8	3.3	2.7	2.7	2.8	3.0
Industry (share of GDP)	25.6	25.1	26.5	27.0	26.6	26.2
Services (share of GDP)	70.6	71.5	70.8	70.3	70.6	70.8
Money and prices	(annual percentage change, unless otherwise specified)					
CPI Inflation (p.a)	4.4	4.8	5.6	3.3	3.0	2.7
Money (M2)	8.1	3.4	8.5	6.9	7.4	6.5
Investment & saving	(percent of GDP, unless otherwise specified)					
Total Investment	25.5	26.9	26.8	27.3	28.7	30.6
Gross National Savings	14.7	11.2	16.2	14.9	20.2	23.4
Government finance	(percent of GDP, unless otherwise specified)					
Revenue (excluding grants and privatisation)	20.5	21.5	21.7	22.9	23.3	23.3
o/w. tax revenue	15.0	15.3	15.5	16.1	16.4	16.4
Foreign Grants	5.9	1.5	2.7	3.4	3.1	3.2
Total expenditure and net lending	33.2	31.9	37.0	37.4	33.0	30.0
Current*	28.0	28.9	33.3	33.0	28.1	26.1
Capital & NL	5.2	3.1	3.7	4.4	4.8	3.9
Overall balance (deficit -), excl. grants)	-12.7	-10.4	-15.3	-14.5	-9.7	-6.7
Overall balance (deficit -), incl. grants)	-6.8	-8.9	-12.6	-11.1	-6.6	-3.5
External sector	(in million US\$, unless otherwise specified)					
Current Account	-3,477	-5,376	-3,649	-4,536	-3,353	-3,016
Export FOB	13,180	13,607	14,213	15,208	16,240	17,433
Import FOB	21,355	23,033	24,539	25,119	24,698	25,078
Net Income and transfers	4,698	4,051	6,678	5,375	5,105	4,629
Net Private Investments (FDI and Portfolio)	1,736	1,787	2,748	2,748	2,987	2,987
Gross Reserves	11,254	7,877	13,025	13,378	12,840	12,713
Gross Reserves (Months of Imports GNFS)	6.3	4.1	6.4	6.4	6.2	6.1
Current Account balance (% of GDP)	-12.0	-17.3	-10.6	-12.3	-8.5	-7.2
Total Debt	(in million US\$, unless otherwise specified)					
Total Debt Stock	20,450	24,864	29,543	34,055	36,841	38,382
Medium & Long Term	13,659	17,731	20,384	24,894	26,753	27,546
Short Term	6,791	7,134	9,159	9,160	10,087	10,837
Debt to GDP Ratio (%)**	70.7	80.2	85.9	92.6	93.3	91.3
Debt Service Ratio (%)	2.1	2.7	3.1	3.3	4.0	4.8
Memorandum Items:						
Nominal GDP (Billion JD)	20.5	22.0	24.4	26.0	28.0	29.8
Exchange Rate, Average (JD/US\$)	0.7	0.7	0.7	0.7	0.7	0.7
GDP (in million US\$)	28,913	31,015	34,390	36,768	39,473	42,024

Source: Government Data and World Bank Staff Calculation.

* Includes adjustment to other receivables for 2012 (0.4% of GDP) and 2013 (0.5% of GDP)

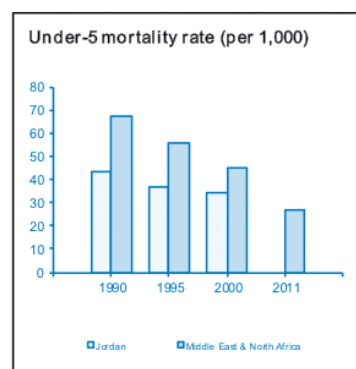
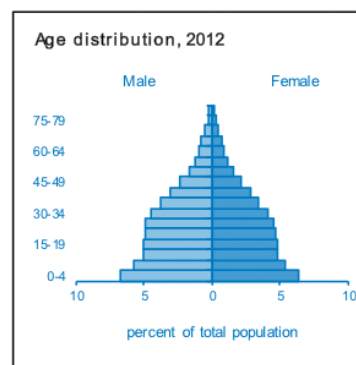
** Government and guaranteed gross debt

TABLE 3. Jordan at a Glance

Jordan at a glance

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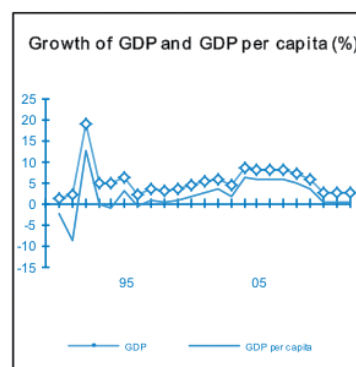
Key Development Indicators	Jordan	M. East & North Africa	Upper middle income
(2012)			
Population, mid-year (millions)	6.4	340	2,391
Surface area (thousand sq. km)	..	8,775	43,472
Population growth (%)	2.2	17	0.8
Urban population (% of total population)	83	60	61
GNI (Atlas method, US\$ billions)	29.6	1,114	16,598
GNI per capita (Atlas method, US\$)	4,630	3,453	6,942
GNI per capita (PPP, international \$)	6,130	6,897	10,639
GDP growth (%)	2.7	3.5	5.2
GDP per capita growth (%)	0.4	17	4.4
(most recent estimate, 2005–2012)			
Poverty headcount ratio at \$ 125 a day (PPP, %)	<2	2	8.4
Poverty headcount ratio at \$ 2.00 a day (PPP, %)	<2	12	19.5
Life expectancy at birth (years)	..	71	74
Infant mortality (per 1,000 live births)	..	21	16
Child malnutrition (% of children under 5)	..	6	3
Adult literacy, male (% of ages 15 and older)	96	85	96
Adult literacy, female (% of ages 15 and older)	89	70	91
Gross primary enrollment, male (% of age group)	105	109	111
Gross primary enrollment, female (% of age group)	83	101	110
Access to an improved water source (% of population)	..	89	93
Access to improved sanitation facilities (% of population)	..	89	74



Net Aid Flows	1980	1990	2000	2012 ^a
<i>(US \$ millions)</i>				
Net ODA and official aid	1576	952	553	954
<i>Top 3 donors (in 2010):</i>				
United States	50	58	188	372
European Union Institutions	11	7	81	130
Germany	24	174	44	39
Aid (% of GNI)	39.9	24.1	6.4	3.6
Aid per capita (US\$)	723	300	114	156

Long-Term Economic Trends

Consumer prices (annual % change)	11.0	16.1	0.6	4.8
GDP implicit deflator (annual % change)	-0.4	12.7	-0.4	4.5
Exchange rate (annual average, local per US\$)	0.3	0.7	0.7	0.7
Terms of trade index (2000 = 100)	88	93	100	84
Population, mid-year (millions)	2.2	3.2	4.9	6.4
GDP (US\$ millions)	3,910	4,160	8,470	31,015
<i>(% of GDP)</i>				
Agriculture	7.9	7.7	2.3	3.1
Industry	24.1	26.2	25.5	30.1
Manufacturing	8.9	13.6	15.7	18.8
Services	68.0	66.0	72.1	66.8
Household final consumption expenditure	78.5	74.9	80.6	84.4
General gov't final consumption expenditure	29.2	24.0	23.7	19.1
Gross capital formation	37.2	30.8	22.4	26.9
Exports of goods and services	40.4	59.8	41.8	43.9
Imports of goods and services	85.3	89.6	68.5	74.3
Gross savings	31.1	21.0	22.7	9.6



1980–90 1990–2000 2000–12
(average annual growth %)

Population, mid-year (millions)	2.2	3.2	4.9	6.4	3.7	4.3	2.3
GDP (US\$ millions)	3,910	4,160	8,470	31,015	2.5	5.0	6.2
<i>(% of GDP)</i>							
Agriculture	7.9	7.7	2.3	3.1	6.8	-3.0	7.8
Industry	24.1	26.2	25.5	30.1	1.9	5.2	6.7
Manufacturing	8.9	13.6	15.7	18.8	0.5	5.6	7.7
Services	68.0	66.0	72.1	66.8	2.3	5.0	5.4
Household final consumption expenditure	78.5	74.9	80.6	84.4	1.9	4.9	5.9
General gov't final consumption expenditure	29.2	24.0	23.7	19.1	1.9	4.7	4.3
Gross capital formation	37.2	30.8	22.4	26.9	-1.9	0.3	7.8
Exports of goods and services	40.4	59.8	41.8	43.9	4.8	2.6	4.5
Imports of goods and services	85.3	89.6	68.5	74.3	1.2	1.5	4.5
Gross savings	31.1	21.0	22.7	9.6			

Note: Figures in italics are for years other than those specified. .. indicates data are not available.

^aAid data are for 2010.

Balance of Payments and Trade **2000** **2012**

(US \$ millions)

Total merchandise exports (fob)	1,901	7,906
Total merchandise imports (cif)	4,602	20,743
Net trade in goods and services	-2,259	-9,427
Current account balance	28	-5,376
as a % of GDP	0.3	-17.3
Personal transfers and compensation of employees (receipts)	1,845	3,453
Reserves, including gold	3,434	8,618

Central Government Finance

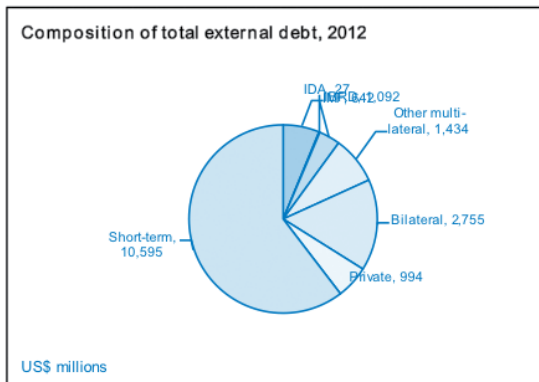
(% of GDP)

Current revenue (including grants)	32.2	22.9
Tax revenue	16.0	15.3
Current expenditure	29.5	28.5
Overall surplus/deficit	-2.0	-8.5
Highest marginal tax rate (%)		
Individual	..	..
Corporate	25	25

External Debt and Resource Flows

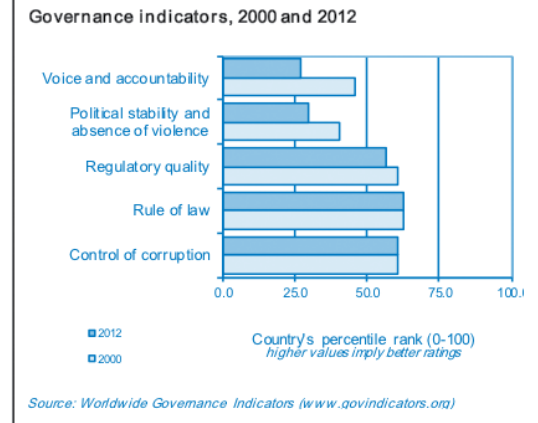
(US \$ millions)

Total debt outstanding and disbursed	7,355	17,539
Total debt service	740	932
Debt relief (HIPC, MDR)	-	-
Total debt (% of GDP)	86.8	56.5
Total debt service (% of exports)	17.6	6.5
Foreign direct investment (net inflows)	807	1,496
Portfolio equity (net inflows)	-179	292



Private Sector Development **2000** **2012**

Time required to start a business (days)	-	12
Cost to start a business (% of GNI per capita)	-	13.8
Time required to register property (days)	-	21
Ranked as a major constraint to business (% of managers surveyed who agreed)	2000	2012
n.a.	..	..
n.a.	..	..
Stock market capitalization (% of GDP)	58.4	87.0
Bank capital to asset ratio (%)	7.0	10.1



Technology and Infrastructure **2000** **2011**

Paved roads (% of total)	100.0	100.0
Fixed line and mobile phone subscribers (per 100 people)	21	126
High technology exports (% of manufactured exports)	8.0	2.5

Environment

Agricultural land (% of land area)	12	11
Forest area (% of land area)	10	..
Terrestrial protected areas (% of land area)	19	19
Freshwater resources per capita (cu. meters)	135	110
Freshwater withdrawal (billion cubic meters)	..	..
CO2 emissions per capita (mt)	3.2	3.4
GDP per unit of energy use (2005 PPP \$ per kg of oil equivalent)	3.5	4.6
Energy use per capita (kg of oil equivalent)	1,014	1,143

World Bank Group portfolio **2000** **2011**

(US \$ millions)

IBRD		
Total debt outstanding and disbursed	798	927
Disbursements	38	25
Principal repayments	53	107
Interest payments	53	12
IDA		
Total debt outstanding and disbursed	57	29
Disbursements	0	0
Total debt service	3	3
IFC (fiscal year)		
Total disbursed and outstanding portfolio of which IFC own account	77	437
Disbursements for IFC own account	4	37
Portfolio sales, prepayments and repayments for IFC own account	26	8
MIGA		
Gross exposure	40	4
New guarantees	39	0

Note: Figures in italics are for years other than those specified. .. indicates data are not available. - indicates observation is not applicable.

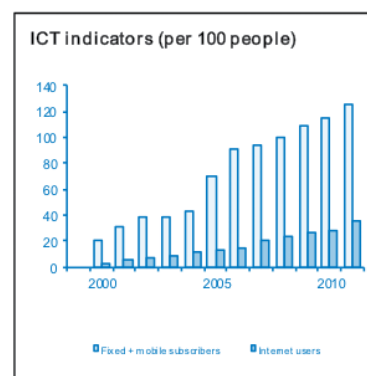
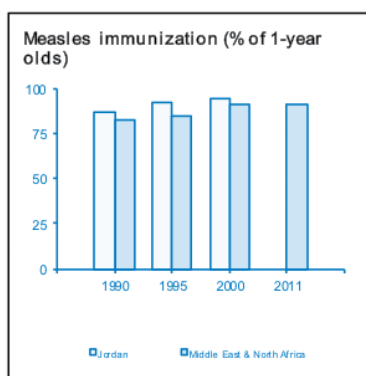
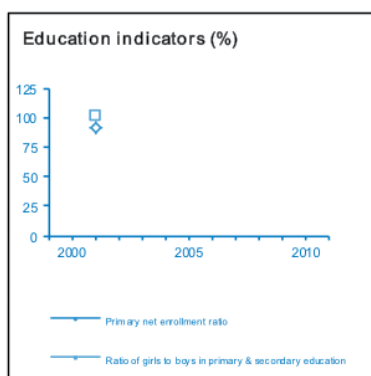
Millennium Development Goals

Jordan

With selected targets to achieve between 1990 and 2015

(estimate closest to date shown, +/- 2 years)

	Jordan			
	1990	1995	2000	2011
Goal 1: halve the rates for extreme poverty and malnutrition				
Poverty headcount ratio at \$ 125 a day (PPP, % of population)	2.8	<2	..	<2
Poverty headcount ratio at national poverty line (% of population)	15.0	11.7	..	..
Share of income or consumption to the poorest quintile (%)	..	7.6	..	..
Prevalence of malnutrition (% of children under 5)	6.4	6.4	..	..
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	66	67	91	..
Primary completion rate (% of relevant age group)	95	95	94	101
Secondary school enrollment (gross, %)	76	85	84	87
Youth literacy rate (% of people ages 15-24)	..	..	..	..
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	93	102	101	..
Women employed in the nonagricultural sector (% of nonagricultural employment)	23	22	21	..
Proportion of seats held by women in national parliament (%)	..	1	..	..
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1000)	43	37	34	..
Infant mortality rate (per 1,000 live births)	35	31	28	..
Measles immunization (proportion of one-year olds immunized, %)	87	92	94	..
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	41	..
Births attended by skilled health staff (% of total)	87	97	100	..
Contraceptive prevalence (% of women ages 15-49)	35	50	56	..
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	..	..	10	..
Tuberculosis case detection rate (% of all forms)	90	96	79	83
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	97	..	96	..
Access to improved sanitation facilities (% of population)	98	..	99	..
Forest area (% of land area)	10	..	10	..
Terrestrial protected areas (% of land area)	0.7	1.1	1.9	1.9
CO2 emissions (metric tons per capita)	3.3	3.2	3.2	3.4
GDP per unit of energy use (constant 2005 PPP \$ per kg of oil equivalent)	3.2	3.4	3.5	4.6
Goal 8: develop a global partnership for development				
Telephone mainlines (per 100 people)	7.2	7.2	12.8	7.4
Mobile phone subscribers (per 100 people)	0.0	0.3	8.1	118.2
Internet users (per 100 people)	0.0	0.0	2.6	34.9
Households with a computer (%)	..	..	9.8	50.8



Note: Figures in italics are for years other than those specified. .. indicates data are not available.

3/6/14

Development Economics, Development Data Group (DECDG).

SELECTED SPECIAL FOCUS FROM RECENT JORDAN ECONOMIC MONITORS

FALL 2013 JEM: “MODERATE ECONOMIC ACTIVITY WITH SIGNIFICANT DOWNSIDE RISK”

The Incidence and Importance of Transient Poverty in Jordan: (Special Focus 2) According to annual official estimates, 14.4 percent of the population in Jordan lived in poverty during 2010. A within-year profile of poverty, however, indicates that a third of the population in Jordan lived below the poverty line in at least one quarter of the year. In other words 18.6 percent of the population which is classified as non-poor based on annual poverty estimated did experience transient poverty, including some lower-middle and middle income households. Further analysis is needed to understand the complex chronic and transient dimensions of poverty in Jordan as policy interventions will differ in effectiveness to reduce poverty versus vulnerability.

Impact of Syrian Crisis on Jordan’s Health Sector and Subsidies: (Special Focus 1) The large influx of Syrian refugees into Jordan, currently at over 8 percent of the Jordanian population, is having a significant and palpable socio-economic impact. Jordan’s open door policy and the authority’s generous decision to allow the refugees access to basic services rendered to nationals have generated large direct fiscal costs. This Special Focus provides quantified estimates of the cost of some of the most significant services provided to the refugees—drugs and vaccines administered and bread and LPG fuel subsidy programs—for the period 2012-2014. We

find that drugs and vaccines are projected to cost the Jordanian budget USD 71.5 million during that time period. The bread and LPG subsidy programs are among the principal subsidies extended by the authorities to enable all Jordanian households access to basic necessities. As these are universal/untargeted subsidies, they have also been accessible to the Syrian refugees and possibly to Syrians back in Syria. Using econometric analysis, we estimate the cost to the bread subsidy program due to increased demand by the refugees during the period 2012-2014 to be USD55 million. As for the LPG subsidy, we find that the additional cost comes out to be USD 24.9 million during that same period.

SPRING 2013 JEM: “MAINTAINING STABILITY AND FOSTERING SHARED PROSPERITY AMID REGIONAL TURMOIL”

Impact of the Syrian Conflict on Jordan’s Economy: (Special Focus 1) As the Jordanian and Syrian economies are weakly integrated, the aggregate economic impact of the neighboring conflict has been contained though sectoral impacts have been material. Syrian refugee inflows and rerouting of regional tourism to Jordan contributed to boosting domestic demand and supporting the recovery of tourism and the growth of related services. The escalation of the conflict since late 2012, however, has resulted in an accelerating influx of Syrian refugees. This significantly increased pressure on public service provision and worsened public finances further. It is also expected to have impacted Jordanians working in the informal labor market. A decline in exports following closure of Syrian transit trade routes, combined with an increase in imports due to Syrian refugee demand, also impacted the country’s trade balance.

Options for Fiscal Adjustment and Consolidation in Jordan: (Special Focus 2) The steady and structural decline in revenues that started in 2007 shrank fiscal space and increased the vulnerability of Jordan’s public finances to exogenous shocks. The sharp rise in spending that started in 2011—in part related to the disruption of Egyptian gas supply, and to meet popular demands for additional spending and subsidies—resulted in a significant and unsustainable worsening of public finances. Options to address this situation include both revenue and expenditure measures. The former comprise broadening the tax base and ensuring equal enforcement of existing tax laws. The latter consist of improved efficiency in current and capital spending, adjustments to the electricity tariffs to reflect the permanent increase

in input prices, a better targeting of consumer subsidies, and water sector reforms. If well balanced and calibrated, revenue and spending measures can be progressive, which would enhance their acceptance.

Making the Transition to the Knowledge Economy: The Jordanian Case: (Special Focus 3) Jordan has developed a valuable knowledge economy over the past decade. Further reforms, however, are needed for the sector to fulfill its potential, not least in terms of quantity and quality of jobs. Jordan’s education system is forming the human resources needed for a modern knowledge economy but reforms are needed to equip students with the skills demanded in the market. The country’s R&D infrastructure is solid and its scientific production relatively high, but these capabilities are not closely linked to the needs of the economy. ICT-based industries such as business process outsourcing and call centers are also areas in which Jordan has a comparative advantage owing to the widespread use of English and a history of links with foreign investors. Another promising sector is health tourism, in which Jordan has already invested heavily: Building on the above, institutional reforms are crucial to re-direct domestic and foreign investments towards technology and skill intensive sectors.

SELECTED RECENT WORLD BANK PUBLICATIONS ON JORDAN

(for an exhaustive-e list, please go to: <http://www.worldbank.org/en/country/jordan/research>)

Title	Publication Date	Document Type
Jordan Economic Monitor: Moderate Economic Activity With Significant Downside Risk	2013/10/31	Report
Soft skills or hard cash? : the impact of training and wage subsidy programs on female youth employment in Jordan	2013/08/14	Brief
Mitigate the Impact of Syrian Displacement on Jordan	2013/07/18	Loan Agreement
Jordan Economic Monitor: Maintaining Stability and Fostering Shared Prosperity Amid Regional Turmoil	2013/06/25	Report
Developing micro, small and medium enterprises in Jordan : the route to shared prosperity (English)	2013/03/01	Brief
Do wage subsidies help young women get jobs?	2012/01/12	Brief
Doing business 2013 : Jordan – smarter regulations for small and medium-size enterprises : comparing business regulations for domestic firms in 185 economies	2012/23/10	Working Paper
Soft skills or hard cash? What works for female employment in Jordan?	2012/19/10	Working Paper
The Patterns and determinants of household welfare growth in Jordan : 2002-2010	2012/01/10	Policy Research Working Paper
PPIAF assistance in Jordan	2012/01/10	Brief
Health equity and financial protection datasheet: Jordan	2012/01/08	Brief
Privatization: lessons from Jordan	2012/01/07	Brief
Soft skills or hard cash ? the impact of training and wage subsidy programs on female youth employment in Jordan	2012/01/07	Policy Research Working Paper
The Jordan education initiative: a multi-stakeholder partnership model to support education reform	2012/01/06	Policy Research Working Paper
Who needs legal aid services? Addressing demand in Jordan	2012/01/03	Brief
Jordan - Carbon Capture and Storage (CCS): capacity building technical assistance	2012/01/03	Energy Study
Are Jordan and Tunisia's exports becoming more technologically sophisticated? Analysis using highly disaggregated export databases	2012/01/02	Working Paper
Jordan student aid reform : opportunities for a new generation	2012/01/02	Brief
Are Jordan and Tunisia's exports becoming more technologically sophisticated? And why it matters	2012/01/02	Brief
Jordan - First Programmatic Development Policy Loan Project: country partnership strategy - summary of discussion	2012/24/01	Summary of Discussion
Doing business in a more transparent world 2012 - economic profile: Jordan - comparing regulation for domestic firms in 183 economies	2012/01/01	Working Paper
Assessment testing can be used to inform policy decisions: the case of Jordan	2011/01/11	Policy Research Working Paper
Jordan - Reproductive health at a glance	2011/01/05	Brief
A framework for analyzing competition in the banking sector: an application to the case of Jordan	2010/01/11	Policy Research Working Paper
Corporate vulnerability and bank stability: evidence from Jordan	2010/01/11	Policy Research Working Paper



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