

# JORDAN ECONOMIC MONITOR

**MODERATE ECONOMIC ACTIVITY WITH  
SIGNIFICANT DOWNSIDE RISK**

**FALL 2013**



**Poverty Reduction and Economic Management Unit  
MIDDLE EAST AND NORTH AFRICA REGION**

The World Bank

## 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 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 Wissam Harake (Economist) and Eric Le Borgne (Lead Economist) for the section on the impact of the Syrian conflict on Jordan's health sector and subsidies, Johan Mistiaen (Senior Economist, DECDG) and Umar Serajuddin (Economist) for the focus on transient poverty in Jordan. May Ibrahim (Senior Executive Assistant) provided Arabic translation and Zeina El Khalil (Communications Associate) print-produced the report. 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.

For information about the World Bank and its activities in Jordan, including e-copies of this publication, please visit [www.worldbank.org/jo](http://www.worldbank.org/jo)

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## EXECUTIVE SUMMARY

**i. Economic activity is expected to accelerate somewhat in 2013 and 2014, driven by increased public investment and some positive spillovers from the Syrian conflict though significant risks exist.** Real GDP growth rate, after expanding by 2.7 percent in 2012, is forecast to rise to 3.1 percent this year and 3.5 percent in 2014. Government capital spending is projected to rise, bolstering public investment (largely financed by GCC grants), while private consumption is supported by the large influx of Syrian refugees. Sectorally, manufacturing and services lead growth, while agriculture is negatively impacted by the Syrian war. Given Jordan's low employment elasticity to growth and high labor force growth due to a young population, the unemployment rate has remained elevated at 14 percent.

**ii. After a difficult year in 2012, economic and financial indicators improved in 2013 though challenges and weaknesses remain, in particular the country's large twin deficits.** External financing, including the GCC grant and the World Bank and IMF loans, helped secure the balance in 2013. A significant increase in foreign grants helped finance a budget deficit of 10 percent of GDP. Pressure on foreign reserves has also eased. By June 2013, foreign reserves reached \$10.7 billion, equivalent to 6.1 months of goods imports, marking an increase of 35.8 percent from the beginning of the year. The easing of pressures is also reflected in a declining dollarization rate of deposits to 21.3 percent by June 2013, compared to a high of 25.4 percent in November 2012. This has allowed the central bank to cut policy rates by 25 basis points in early August, with a view to encourage private lending and boost growth.

**iii. Regional events continue to pose significant downside risk to Jordan.** According to the UNHCR, over half a million Syrian refugees have entered the country. The impact of a worsening of the Syrian crisis would affect Jordan through additional spending pressure on public goods and services; a potential increase in social tensions and a potential deterioration of the security situation.

Additionally, deterioration 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. Implementation of the three year IMF SBA program remains critical to limit downside risks. However, in light of the regional and local pressures, and notwithstanding the successful implementation of the fuel subsidies reform, further economic reforms, especially those related to utility tariffs, remain politically and socially difficult.

**iv. Jordan's welcomed decision to allow refugees to access basic services has generated large direct fiscal costs.** A Special Focus provides quantified estimates of the costs 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, while the cost to the bread and LPG subsidy programs due to increased demand by the refugees are \$55 million and \$24.9 million, respectively.

**v. Transient poverty in Jordan affects a large segment of the population.** A Special Focus assesses transient poverty in Jordan. While annual official estimates specify that 14.4 percent of the population lived in poverty during 2010, a within-year profile of poverty, however, indicates that a third of the population in Jordan lives below the poverty line in at least one quarter of the year. In other words, 18.6 percent of the population, including some lower-middle and middle income households, registers as non-poor based on annual poverty estimates but experiences spells of poverty during the year.

## الملخص التنفيذي

المصري، مما يؤدي إلى إرهاق ميزان المدفوعات. وللسبب نفسه، وكاستورد كبير لمادة النفط، سوف يتأثر الأردن سلباً إذا ما ارتفعت أسعار النفط بشكل ملحوظ. أما تنفيذ البرنامج الاحتياطي لصندوق النقد الدولي، والذي يمتد على مرحلة ٢ سنوات، فيعتبر بغاية الأهمية للحد من المخاطر. وفي ضوء الضغوط الإقليمية والمحلية، وعلى الرغم من التنفيذ الناجح لعملية إصلاح سياسة دعم أسعار النفط، تبقى الإصلاحات الاقتصادية الإضافية، وبالأخص تلك المتعلقة بتعديل تعرفه الخدمات العامة، متعثرة لإعتبارات سياسية واجتماعية.

د. لقد نتج عن قرار الحكومة الأردنية المرحب به بمنح اللاجئين السوريين بعض الخدمات العامة الأساسية أعباء كبيرة ومباشرة على الموازنة العامة. إن التحليل المركز على عدد من الخدمات المقدمة للاجئين يظهر بعض جوانب المقدار الكمي الإضافي الملقى على عاتق الخزينة - الأدوية واللقاحات والخبز والغاز السائل - وهي خدمات تشملها برامج الدعم للأعوام ٢٠١٢ حتى ٢٠١٤. تظهر النتائج أن الأدوية واللقاحات ستكلف الخزينة ما يعادل ٧١,٥ مليون دولار أمريكي، كما تبلغ كلفة الخبز ٥٥ مليون دولار أمريكي، والغاز ٢٤,٩ مليون دولار أمريكي.

هـ. تعاني شريحة كبيرة من المجتمع الأردني من موجات فقر مرحلية. فالتحليل المركز يقيّم الفقر المرحلي في الأردن. تشير الأرقام الرسمية الى معاناة ١٤,٤ بالمائة من الشعب من الفقر عام ٢٠١٠، وذلك من خلال مسح محدد لتلك السنة، ولكن في سياق التحليل تبرز إشارات تفيد أن ربع المواطنين في الأردن وقع تحت خط الفقر على الأقل في أحد الفصول الأربعة من تلك السنة. هذا يعني أن نسبة ١٨,٦ بالمائة من فئات الشعب المصنفة بغير الفقيرة، بحسب التقديرات الرسمية، قد واجهت الفقر المرحلي، بما في ذلك الطبقات الوسطى ذات الدخل المحدود أو تلك المتوسطة الدخل.

أ. من المتوقع أن يتسارع النشاط الاقتصادي إلى حد ما خلال العامين ٢٠١٣ و٢٠١٤، وذلك يعود إلى زيادة في الاستثمارات العامة وبعض التداعيات الإيجابية جراء الصراع في سوريا، هذا على الرغم من وجود مخاطر كبيرة. من المتوقع أن يرتفع معدل نمو الناتج المحلي الإجمالي الحقيقي إلى ٣,١ بالمائة خلال السنة الحالية وإلى ٣,٥ بالمائة في عام ٢٠١٤، وذلك بعد توسعه بنسبة ٢,٧ بالمائة خلال عام ٢٠١٢. كما من المقدر أن ترتفع نفقات الحكومة الرأسمالية لتعزيز الاستثمارات العامة (التي تمول من خلال الهبات المقدمة من قبل مجلس التعاون الخليجي)، بينما يبقى الاستهلاك الخاص معتمداً على التدفق الهائل للاجئين السوريين إلى الأردن. أما بالنسبة للقطاعات، يعتبر قطاعا الصناعة والخدمات المحرّكان الأساسيين للنمو، بيد أن تتأثر الزراعة بالأزمة السورية بشكل سلبي. وفي ضوء ضعف مرونة الاستخدام تجاه معدلات النمو، وارتفاع حجم القوى العاملة حيث أن النسبة الأكبر من إجمالي السكان هي من فئة الشباب، يبقى معدل البطالة عالياً بنسبة ١٤ بالمائة.

ب. بعد مرور سنة صعبة في العام ٢٠١٢، تحسنت المؤشرات الاقتصادية والمالية في عام ٢٠١٣، لكن التحديات ومكامن الضعف ما زالت ظاهرة، بالأخص في ما يتعلق بالحجم الكبير للعجز المزدوج. إن التمويل الخارجي، بما في ذلك الهبة المقدمة من مجلس التعاون الخليجي والقروض التي خصصها البنك وصندوق النقد الدوليين، قد ساهم في تأمين التوازن في عام ٢٠١٣. أما الزيادة الكبيرة في المنح الخارجية فقد ساعدت على تمويل عجز الميزانية والذي بلغ نسبة ١٠ بالمائة من الناتج المحلي الإجمالي، كما ساعدت على الحد من الضغوط على الاحتياطات الأجنبية. وبحلول حزيران/يونيو ٢٠١٣، بلغت الاحتياطات الأجنبية ١٠,٧ مليار دولار أمريكي، ما يوازي ٦,١ شهراً من واردات السلع، لتسجل ارتفاعاً بنسبة ٣٥,٨ بالمائة منذ بداية السنة. أما الحد من الضغوط فينعكس أيضاً في انخفاض معدل الودائع في الدولار الأمريكي بنسبة ٢١,٣ بالمائة بحلول حزيران/يونيو ٢٠١٣، مقارنة بالنسبة العالية التي بلغت ٢٥,٤ بالمائة في تشرين الثاني/نوفمبر ٢٠١٢. وقد أتاح ذلك للمصرف المركزي خفض أسعار الفائدة بنسبة ٢٥ نقطة مئوية في أوائل آب/أغسطس، وذلك بهدف تشجيع الإقراض الخاص وتعزيز النمو.

ج. تستمر الأحداث الإقليمية بفرض مخاطر بالغة على الأردن. بحسب إحصاءات المفوضية السامية للأمم المتحدة لشؤون اللاجئين، لقد دخل الأردن ما يفوق النصف مليون لاجئ سوري. وإذا ما تفاقمت الأزمة السورية، لا بد أن يؤثر ذلك على الأردن عبر الضغوط المتزايدة على الإنفاق الإضافي في ما يخص السلع والخدمات العامة، كما من المحتمل أن يزداد التوتر الاجتماعي وأن تتدهور الأوضاع الأمنية. كما أن الاضطرابات في مصر قد تؤثر سلباً على إمكانية تزويد الأردن بالغاز

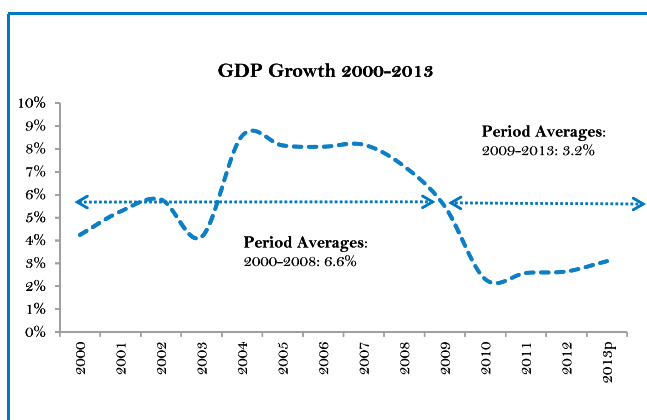
# RECENT ECONOMIC AND POLICY DEVELOPMENTS

## 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. Growth over the past few years has been far below the 6.6 percent average achieved during the pre-crisis period of 2000-2008 (Figure 1). Headwind in 2012 and 2013 has also stemmed from the onset of a large fiscal consolidation program that is associated with the IMF Stand-by-Arrangement (SBA).

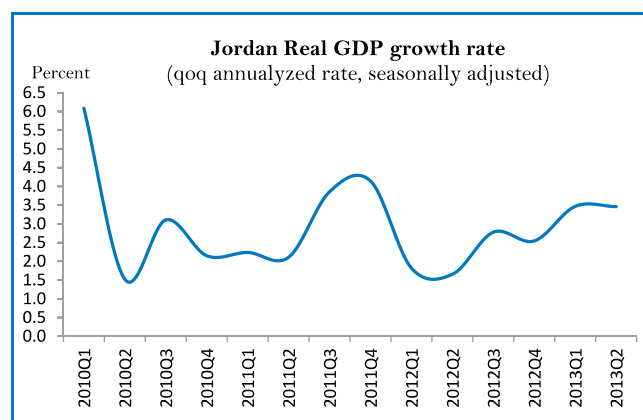
**2. Real GDP growth has picked up speed since H2 2012, albeit with pauses along the way.** One such pause occurred in Q2 2013 due to a surprising weakness in wholesale trade and retail. This weakness contradicted expectations of more robust activity in this sector due to the influx of Syrian refugees, whose consumption has managed to boost other sectors. As a result, real GDP growth in Q2 was weaker-than-expected at 3.5 percent (qoq, seasonally adjusted annualized rate), unchanged from the previous quarter (Figure 2). This was led by financial services, as well as sectors affected by private

demand, such as construction and manufacturing. The first largely follows its own trend for the past few years, while the latter sectors are subject to a refugee-induced increase in demand, which has also boosted transport and communications. In Q2 2013, mining and quarrying also began a recovery from a negative trend that has been in effect for a year due to disruptions and administrative difficulties in the potash sector. 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 (JPMC), with the former chairman, Walid Kurdi being tried on corruption issues. Agricultural output has been negatively impacted by the conflict in Syria, as agricultural export routes (to Lebanon, Turkey and Europe) are being disrupted. Additionally, electricity generation is projected to decline this year. The Jordanian government, forced by large losses in the national electricity company, has implemented a plan for electricity rationing in the country. During the first half of 2013, the contribution of finance and insurance, transport and communications, construction and domestic trade to real GDP growth was 0.6 percent, 0.5 percent, 0.4 percent and 0.3 percent, respectively, while that in mining and quarrying was -0.1 percent. Agriculture and electricity did not contribute to real GDP growth during that period (Figure 3).



**FIGURE 1. Growth trajectory significantly affected by external shocks**

Source: Department of Statistics and World Bank staff calculations



**FIGURE 2. GDP growth accelerates since H2 2012.**

Source: Department of Statistics and World Bank calculations

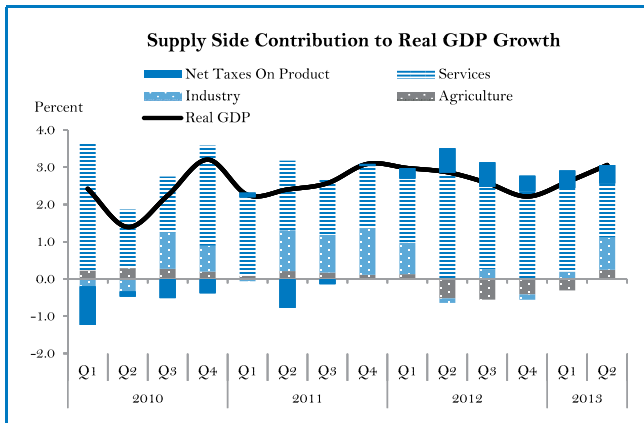


FIGURE 3. Services and industry were the main drivers of growth private.

Source: Ministry of Finance, World Bank Staff Calculations.

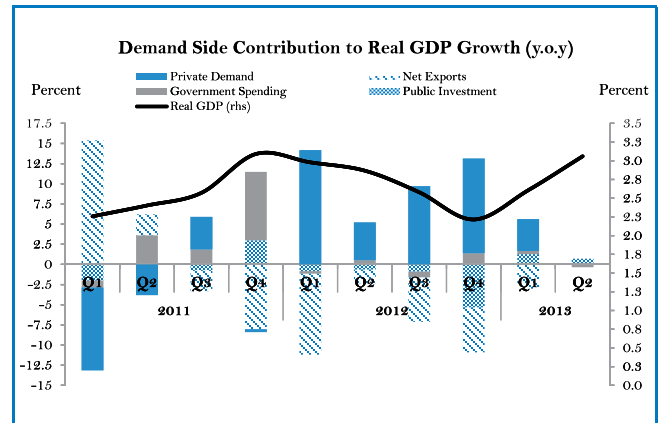


FIGURE 4. Demand and government spending largely supported growth.

Source: Department of Statistics, World Bank Staff Calculations.

3. On the expenditure side, real GDP growth is being led by private demand and public investment (Figure 4). Private demand is supported by the influx of Syrian refugees. Consumption by Jordanians is also robust as is evident by almost 13 percent (yoy) rise in personal loans for the year through May. With the government significantly increasing capital expenditures, public investment was a positive contributor to real GDP growth for the first half of 2013, after weighing it down in 2012. For the first five months of this year, capital spending rose by 79 percent. Private investment, on the other hand, remains subdued as investor sentiment continues to be cautious in light of the regional turmoil. Net exports have performed badly during the first half of 2013 caused by disruptions in Potash production and the loss of Syrian export routes. This has more than offset a cut in energy imports. Improved supply of Egyptian gas in the first half of the year has allowed Jordan to cut its imports of other more expensive fuels for power generation. However, a gas pipeline explosion on the Egyptian side in early July cut off supply for a few months and the potential for more disruptions poses downside risk for the rest of 2013. Public consumption was also a negative contributor to real GDP growth during H1 2013, as fiscal consolidation measures take hold

## Labor and Employment

4. Unemployment in Jordan is the highest it has been in four years. The unemployment rate has fluctuated somewhat, first deteriorating from 12.5 percent at end-2012 to 12.8 percent in the first quarter of 2013, but then falling back to 12.6 percent in the second quarter. In the third quarter, however, the unemployment rate has shot up to 14 percent, the highest it has been since Q3 2009 (Figure 5). While it is difficult to identify a unique culprit for this surge, it is likely that many Jordanians are being crowded out from the unskilled labor sector by the Syrian refugees. In addition, the fiscal consolidation program might be inhibiting the absorption of new labor force entrants into the public sector, the dominating source of employment in the country. The highest rate of unemployment in the third quarter was recorded in the age group 15-19 and 20-24 years by 37.9 percent and 34.9 percent respectively. Geographically, Aqaba recorded the highest rate of unemployment at 20.3 percent in the same quarter, indicating that prolonged sluggishness in tourism is causing layoffs in the sector.

5. Jordan’s policy on employment is derived from its National Employment Strategy (NES) 2011-2020. The strategy (Box 1) identifies action plans along the three time horizons: the short-term (2014), medium-term (2017) and long-term (2020). Notable among those is the gradual supplanting of foreign labor with national labor, supporting workers’ rights and encouraging tripartite dialogue. In addition, the



## BOX 1. Three Horizons/Ten Actions of the National Employment Strategy

### i) Short Term Impact (2014): Start Absorbing the Unemployed

- Committing to a Predictable Foreign Labor Policy and Management
- Expanding Micro and SMEs Access to Credit
- Evaluating and Then Scaling Up Active Labor Market Programs with a Proven Record
- Curtailing Public Sector Employment and Aligning Wage Structures

### ii) Medium Term Impact (2017): Better Skill Matching and Micro and SME Growth

- Scaling up School-to-Work Transition Programs
- Reforming the Employment, Technical and Vocational Training (ETVET) Sector
- Introducing Health Insurance Benefits and Expanding Social Security Coverage to SMEs

### iii) Long Term Impact (2020): Increased Productivity through Human Capital and Economic Restructuring

- Investing in the Future through Early Childhood Education
- Pursuing Sustainable Fiscal and Monetary Policies for Economic Growth with Job Creation
- Developing Industrial and Investment Policies towards Economic Growth with Job Creation

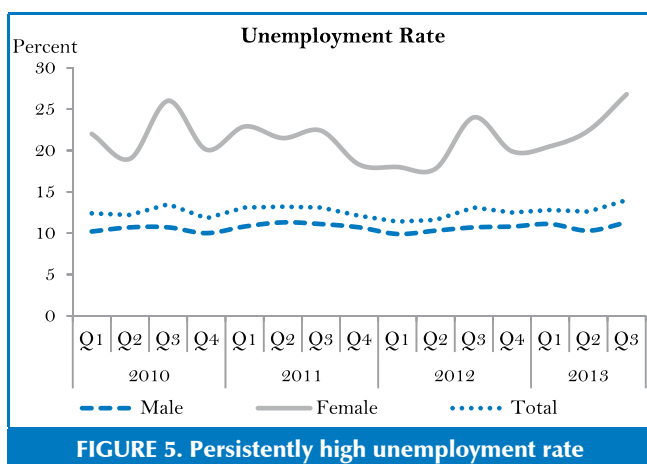


FIGURE 5. Persistently high unemployment rate

Source: Department of Statistics and World Bank staff calculations

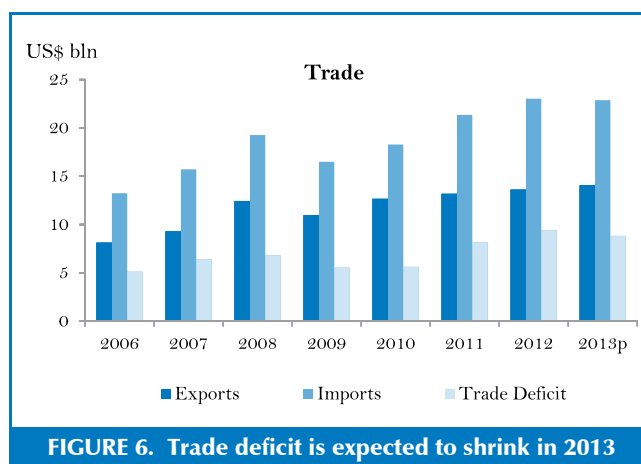


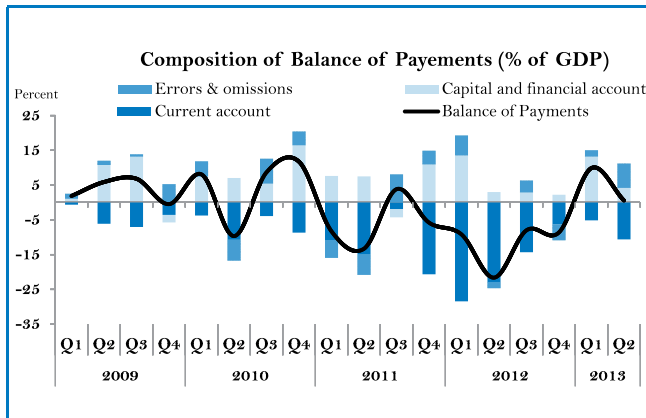
FIGURE 6. Trade deficit is expected to shrink in 2013

Source: Central Bank of Jordan, World Bank staff calculations

NES addresses labor market segmentation along two dimensions. The first is gender based where female participation in Jordan is the lowest in the region. The second exists between public sector and private sector employment. Distorting incentives, such as job security, benefits and working conditions act as biases for the public sector. Youth employment is specifically targeted through the Jordan Job Compact (JJC) initiative. This initiative aims to assist unskilled, semi-skilled and skilled youths to find jobs through a combination of training, stimulus packages to employers and small and medium enterprise finance. In 2013, the government began the implementation of the JJC in partnership with private sector, NGOs and government agencies.

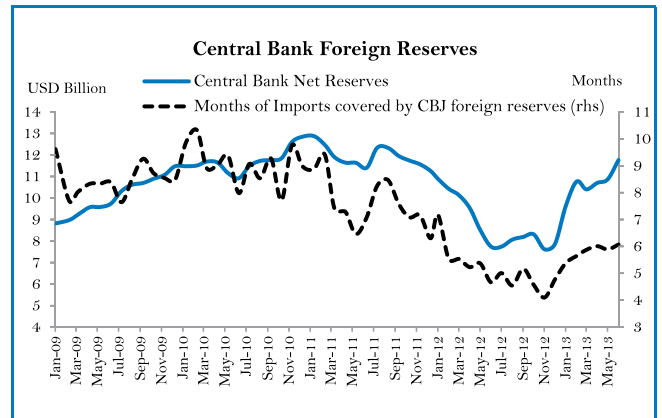
## External Position

**6. Energy imports are shrinking in 2013, despite interruptions of Egyptian gas supply in July.** Until July, Egyptian gas supply rates were on average double what they were in 2012, allowing Jordan to import less crude oil and petroleum products for the purpose of power generation. As a result, energy imports dropped by 27 percent during the first half of 2013. However, gas supply was severely interrupted on July 7 when militants in the Sinai Peninsula attacked the pipeline with explosives. This will increase energy imports in the latter half of year, but for the whole year, energy imports are still expected to decline. Increased demand for consumption goods by Syrian refugees are being reflected in higher imports of manufactured goods and beverages and tobacco. Exports are projected to be subdued in 2013 as a result of the disruptions of



**FIGURE 7. Current account deficit shrank during the first half of 2013.**

Source: Central Bank of Jordan, World Bank staff calculations



**FIGURE 8. The Central Bank Net Reserves increased during the first half of 2013.**

Source: Central Bank of Jordan, World Bank staff calculations

output in the Potash industry and the inaccessibility of the Syrian export routes. Overall, the trade deficit is forecast to decline modestly (Figure 6).

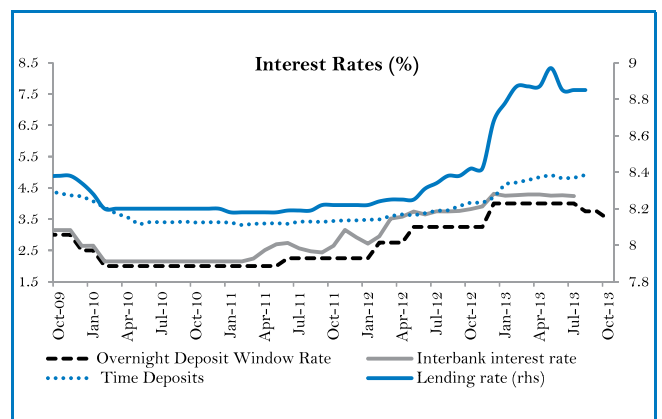
7. Improvements in the balance of payments relieve pressures on net international reserves (NIR) of the Central Bank of Jordan. Official transfers in 2013 are expected to increase significantly, allowing the current account to drop to 11 percent of GDP, from 18 percent of GDP in 2012 (Figure 7). Jordan has already received \$1.25 billion in grants from the GCC this year and has also been allocated \$150 million in an emergency loan by the World Bank to help meet the surging costs associated with hosting the Syrian refugees. In addition, and assuming the second SBA review is ultimately successful, Jordan will receive \$775 million from the IMF also this year. Furthermore, the government is exploring the possibility of issuing up to \$1.5 billion in Eurobonds to finance both its fiscal and external needs, benefitting from a US Treasury guarantee on \$1.25 billion worth of Eurobonds. As a result, foreign reserves grew by 35.8 percent in the year to June, reaching \$10.7 billion, equivalent to 6.1 months of goods imports (Figure 8).

8. **A large fall in net foreign assets of licensed banks’ weakens their ability to absorb significant exogenous shocks.** As a result of exchange rate uncertainty earlier in 2013, there were large declines in the foreign asset position of commercial banks, coupled with an increase in foreign liabilities. As a result, banks’ net foreign asset position went from a surplus of \$743 million in end-2012 to a deficit

of \$913 million by June 2013. Improving balance of payments and the easing of exchange market pressures are expected to reverse this dynamic.

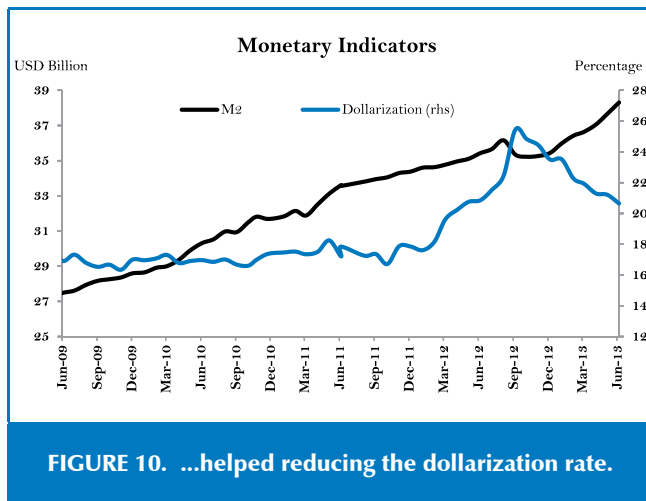
## Monetary Policy and Finance

9. A decrease in policy rates signals the easing of exchange market pressures. Since the beginning of the year, the Central Bank of Jordan (CBJ) cut its key policy rate twice, by 25 basis points (bps) each time on August 6 and October 22, in order to stimulate lending to the private sector and boost economic growth. This marks a turnaround in the monetary stance, compared to 2012 when policy rates were hiked in response to falling foreign reserves and exchange rate uncertainty that persisted through

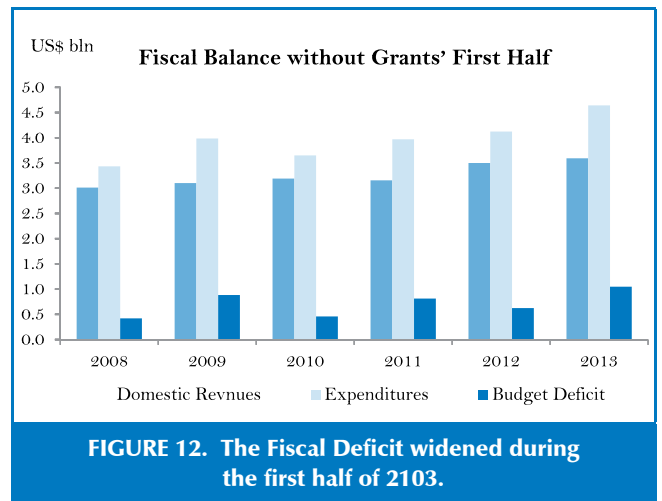


**FIGURE 9. The rise in interest rates at the end of 2012...**

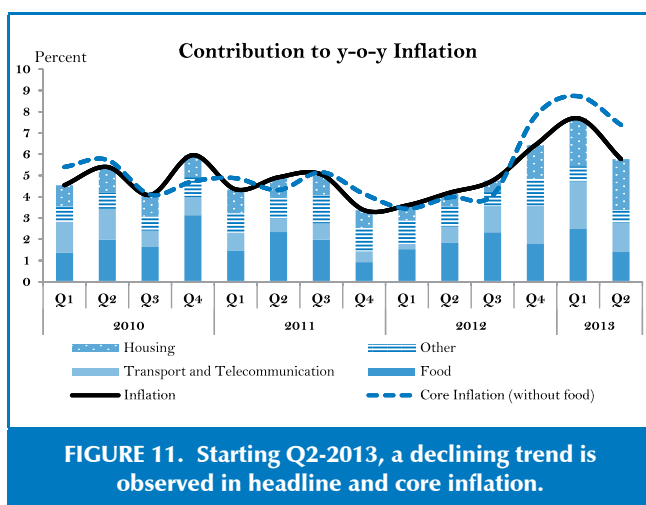
Source: Central Bank of Jordan, World Bank staff calculations



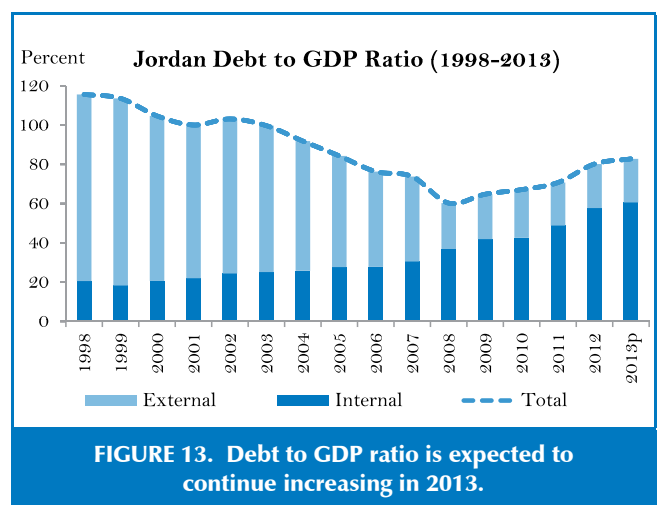
Source: Central Bank of Jordan, World Bank staff calculations



Source: Ministry of Finance, World Bank staff calculations



Source: Central Bank of Jordan, World Bank staff calculations



Source: Ministry of Finance, World Bank staff calculations

early 2013 (overnight deposit window rates rose by 175 bps in 2012) (Figure 9). The easing of pressures is further reflected in a declining dollarization rate of deposits, which fell to 21.3 percent in June 2013, compared to a high of 25.4 percent in November 2012 (Figure 10).

**10. Abundant external financing reduces the need for domestic borrowing, leading to an easing in tight liquidity conditions.** This easing primarily concentrated on domestic borrowing conditions for the government whose Treasury (three-year) bond rate decreased from 8.6 percent in end-2012 to 6.5 percent in May 2013. Furthermore, money supply (M2) in August was \$38.3 billion, marking a year-on-year increase of 8.1 percent and mirroring the relaxed liquidity conditions as well as a pick-up in core inflation. In addition, commercial banks managed to expand their balance sheets despite significant declines in their foreign asset position.

This was driven by domestic assets, which increased by 7 percent in the year to June, divided equally between claims on public sector, claims on private sector, reserves and JD deposits in the CBJ.

**11. The inflationary pass-through effects of the fuel subsidy removal are waning.** The 12-month inflation rate rose to a high of 7.8 percent in February, led by surging transportation costs caused by the removal of the fuel subsidy, and to a lesser extent by higher food prices. By August, however, it declined to 5 percent, signaling the waning of these pass-through effects (Figure 11). The CPI inflation averaged 6.4 percent during the first seven months of 2013, up from an average of 4 percent during the same period in 2012.

## Fiscal Policy

### 12. Large GCC grants in 2013 provided temporary relief from prolonged fiscal difficulties.

Excluding grants, Jordan's government deficit widened slightly compared to 2012, to 10 percent of GDP (Figure 12). Largely GCC-sourced, grants are expected to reach about 4 percent of GDP in 2013, compared to 1.5 percent in 2012. The tax and nontax efforts are expected to remain stable, so that total domestic revenue are projected to remain largely unchanged at 21.6 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. On the expenditure side, the government is boosting capital spending to a projected 5.1 percent of GDP this year, compared to 3.1 percent in 2012. This is expected to offset a decline in current spending to around 26.5 percent of GDP, from 28 percent a year earlier, leaving total expenditures also largely unchanged at 31.6 percent of GDP.

### 13. In 2012, Jordan began implementing a fiscal consolidation program with the support of an IMF SBA program.

This program included a number of measures on the revenue side, including the removal of tax exemptions on real estate transactions, the cancellation of several exemptions on sales tax. The bulk of the program, however, was on the expenditure side, targeting purchases of goods and services, capital spending and military expenditures. Subsidies on petroleum products were also broadly eliminated in November with the exception of LPG cylinders for private consumption (rising fuel prices have also generated increased tax receipts for the government). These were replaced with an annual cash transfer to each household earning less than JD10,000 annually, in the amount of JD70 per 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 regard to electricity tariff reforms, the government began by raising tariffs on select businesses this year but has postponed substantial and more widespread increases.

### 14. Losses in the National Electric Power Company (NEPCO) weigh heavily on the country's public finances.

Interruptions in the gas supplies from Egypt have forced Jordan to run its (gas-designed) power plants on diesel oil instead, which is a less efficient and more costly process. The government's decision not to pass-through these higher input costs to final consumers has resulted in a significant increase in NEPCO's operational costs. Consequently, NEPCO has been running deficits estimated to be around 5 percent of GDP in 2011 and 2012 and financed by borrowing under a government guarantee. Financing these deficits initially did not directly impact the budget, but since 2013, the central government has directly paid NEPCO debt servicing costs. Nonetheless, NEPCO's debt, as it is sovereign guaranteed, is entirely accounted for in Jordan's public debt stock, which includes government-guaranteed debt. As a result, gross public debt and gross financing needs have risen rapidly. Gross public debt is projected to reach around 83 percent of GDP at end-2013, compared to 80 percent of GDP end-2012, and 71 percent of GDP end-2011 (Figure 13). Over 70 percent of this debt is domestic, allowing some flexibility to supplant domestic with external financing. Toward that end, the US and Jordan signed on August 14, 2013 a loan guarantee permitting Jordan to issue \$1.25 billion of Eurobonds in international markets with a maturity of 7 years. The US Treasury guarantee is expected to help Jordan borrow at low interest rates, close to the US' own borrowing rates.

## PROSPECTS

**15. Growth for 2013 and 2014 is projected to accelerate mildly, to 3.1 and 3.5 percent, respectively, due to robust public investment and private consumption.** The former is a result of higher government capital expenditures, largely financed by the five-year, \$5 billion GCC grant, allocations of which began arriving this year. 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 flexibility to divert capital expenditures toward current expenditures as has been the case in the past. As such, public investment is projected to be significantly larger in the next couple of years. Moreover, a significant withdrawal of Syrian refugees is not expected over the short- to medium-term, keeping private consumption buoyant. As a result, real GDP growth is projected to reach 3.1 percent in 2013, and to further expand to 3.5 percent in 2014. Growth in 2013 has been revised down from 3.3 percent in our Spring 2013 *Jordan Economic Monitor* due to weaker-than-expected second quarter GDP growth.

**16. Balance of payments stresses have eased thanks in large part to foreign grants that helped narrow the twin deficits.** External financing will continue to be vital 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 and possibly currency devaluation. 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, the World Bank and IMF loans, and more crucially, the \$5 billion GCC grant should provide Jordan with some buffer to partially offset the external shocks.

**17. The regional turmoil in general and Syria's conflict in particular, remains Jordan's most significant short-term challenge.** A derivative of that has been the large influx of Syrian refugees across the border. The most recent UN Refugee Agency (UNHCR) estimates the number at over a

half a million refugees, equivalent to over 8 percent of the population. This, however, understates actual numbers. Many others have integrated into Jordanian urban centers, fending for themselves. In the labor sector, Syrians are supplanting local labor and wages are being bid downwards. The fiscal costs are unknown at this point and are associated with housing needs, cost of power generation (which is subsidized), larger food subsidies and additional social costs, especially regarding health and education.

**18. Diversifying Jordan's energy supply 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 the delivery of gas to Jordan. To diversify its energy input 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, for which the IMF loan and the GCC grant create space.

## SPECIAL FOCUS

### IMPACT OF SYRIAN CRISIS ON JORDAN'S HEALTH SECTOR AND SUBSIDIES

**19.** *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.*

## Background

**20.** **More than two years of violent conflict in Syria have resulted in massive movements of people within Syria, as well as into neighboring countries.** By early October 2013, almost 2.1 million

people had registered, or were awaiting registration with the UNHCR in Jordan, Lebanon, Turkey, Iraq and Egypt. According to the UNHCR, the exodus of Syrian refugees accelerated dramatically in recent months, with over one million refugees arriving in the first five months of this year alone. More than half of registered refugees are children, while three quarters are living with local host families and communities in both urban and rural areas. If current trends persist, the UNHCR projects that over three million Syrians would have left their country by the end of 2013.<sup>1</sup>

**21. The Jordanian Government has kept the border open for Syrians since the conflict broke out in March 2011.** Jordan has a long history of hospitality toward refugees. The country is currently hosting approximately two million registered Palestinian refugees, of which approximately 350,000 live in camps<sup>2</sup>, and another 30,000 Iraqis are registered with UNHCR.<sup>3</sup> Syrians entered the country freely and settled in urban areas on their own, until Zaatari camp opened in northern Jordan in July 2012, when the Syrian refugee population according to Government estimates had increased to 150,000. As of October 3, 2013, approximately 535,000 have crossed the border into Jordan – with over 400,000 having arrived in 2013 alone. Approximately 120,000 currently reside in Zaatari camp, and a second camp with a capacity of 30,000 has opened in Zarqa with support of the United Arab Emirates. A third camp with a planned capacity of 50,000 is currently under construction at Azraq. Still the majority of Syrians (estimated to be as much as 70 percent of refugees) reside in host communities across Jordan, with a concentration in the northern region and Amman.

**22. In addition to its commitment for open borders, the GOJ decided early on to allow Syrian refugees access to public services (health facilities, schools) and subsidies extended to Jordanian**

<sup>1</sup> UNHCR <http://data.unhcr.org/syrianrefugees/syria.php>

<sup>2</sup> UNRWA <http://www.unrwa.org/etemplate.php?id=66>

<sup>3</sup> UNHCR <http://www.unhcr.org/pages/49e486566.html>

citizens (energy, water, bread and gas). While welcomed, this move has put pressure on delivery of services and public finances. The Government decided early in 2012 to allow Syrian children to attend public schools, and medical facilities have also remained open for Syrians seeking treatment. To prevent the spread of communicable diseases, extensive vaccinations of Syrians have taken place upon arrival – an effort that will be extended to Jordanians to preclude the reemergence of previously eradicated diseases. In addition, they have, alongside their Jordanian hosts, made use of non-exclusionary benefits, such as subsidies on energy, water, bread and gas.

**23. Given the unequal spatial distribution of refugees in Jordan, crowding of public services has materially impacted access for Jordanians in communities with large concentrations of Syrian refugees such as in the northern governorates.** The immediate impact of the exponential increase in users over such a short time period has primarily been met through existing structures such as double shifting in schools and an accelerated use and hence

**Table 1 Government of Jordan Response Plan  
April 1, 2013**

Sector	Estimated cost by the end of 2013 (US\$ million)
Energy	178.8
Water	91.3
Education	26.2
Health	93.6
Municipalities	9.8
Subsidies	371.8
Protection and Reception Services	80
<b>Total</b>	<b>851.5</b>

Source: Government of Jordan.

<sup>4</sup> The Government assessments and requests have not been based on a common methodology across agencies, and most of them have found it difficult to produce accurate figures on the expenditures incurred due to the Syrian influx as they have been absorbed to a large extent by the general budget. In addition, the extent to which some of the costs are recovered by external donors also varies across sector reporting.

<sup>5</sup> World Health Organization Statistics, 2013.

**Table 2 Estimation of the Financing  
of the Cost of Drugs and Vaccines**

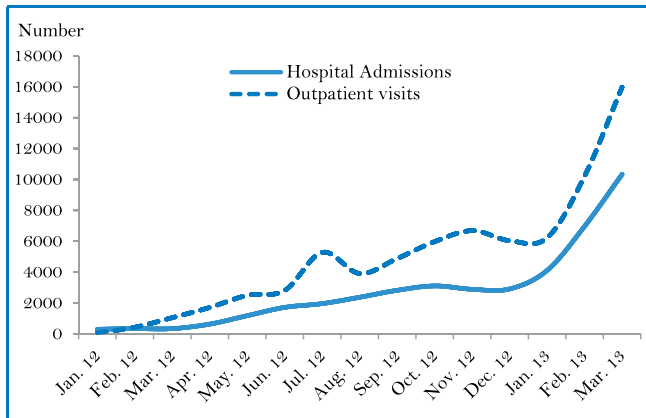
	Produced Drugs (\$)	Forward Trend at 3%	Actual Cost of Drugs (\$)	Difference (\$)
2010	74,652,457	-	-	
2011	77,975,809	-	-	
2012		79,940,000	90,160,000	10,220,000
2013		82,740,000	112,212,965	23,400,000
2014		85,260,000	117,180,000	31,920,000
<b>Total</b>				<b>71,540,000</b>

Source: World Bank staff calculations

depletion of Jordanian drugs and vaccination stocks. The GOJ has calculated that it incurred additional costs in the order of USD250 million in 2012 and the first quarter of 2013 to accommodate the increased demand for services. In health care, the MOH has already spent USD53 million to cover the health care needs of the Syrian refugees. The latest GOJ Response Plan (Table 1) estimates the cost of accommodating the Syrian refugees in 2013 at USD850 million.<sup>4</sup>

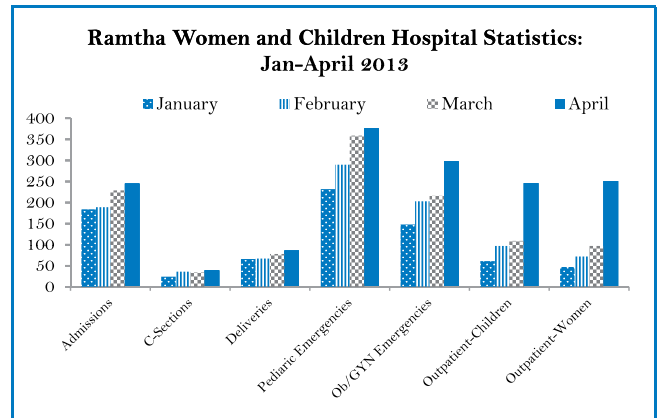
## Health Sector under Duress

**24. While Jordan's health sector made significant progress in the last decade, this is being overwhelmed by the surge in healthcare demand by the refugees.** Jordan's health indicators are above regional and upper middle-income averages with life expectancy for both sexes being 74 years, under five mortality rate of 21 per 1,000 live births, and maternal mortality ratio of 63 per 100,000.<sup>5</sup> With the Government's



**FIGURE 14. Use of MOH services by: January 2012-March 2013.**

Source: Ministry of Health



**FIGURE 15. Use of services in women and children hospital, Ramtha, 2013.**

Source: Ministry of Health

strategy to ensure access to health services within 10 km proximity to all citizens including those residing in remote areas, the country established a wide network of primary health care centers (PHCCs) supported by a range of secondary and tertiary care facilities. However, continuity and sustainability of health service delivery in Jordan is at risk of being severely compromised as a result of the upsurge in demand for healthcare by the influx of the Syrian refugees.<sup>6</sup> Moreover, the healthcare needs of the Syrian refugees are different from those of the settled populations because of the different demographic mix, living conditions and vulnerabilities. They, therefore, require a different mix of services and mode of health system response to meet their needs.<sup>7</sup>

**25. Demand for services by refugees at Ministry of Health (MOH) facilities increased significantly.** MOH data show that the number of outpatient visits to MOH PHCCs by Syrian refugees increased from 68 in January 2012 to 15,975 in March 2013 (Figure 14). Similarly and during the same period, Syrian refugees admitted to MOH hospital increased from 300 admissions to 10,330, while there has been a sharp increase in the number of surgeries performed at these hospitals going from 105 to 622 surgeries. In addition, evidence suggests that Jordanians,

especially in the north where Syrian refugees are concentrated, are being crowded out of health facilities. A significant number of Jordanians requiring hospital care are being referred to non-MOH facilities. MOH data indicate that between 2011 and 2012, referrals to non-MOH hospitals increased by 11 percent to 10,069 cases while the cost of referrals surged 50 percent to around US\$124 million in 2012.

**26. MOH facilities in the northern part of the country are shouldering the greatest burden from the refugee influx.** For example, Figure 15 shows utilization rates in the Women and Children Hospital in the northern city of Ramtha during the first three months of 2013, where children and women outpatient visits increased by more than 300 percent and 400 percent, respectively. As the figure indicates, the number of deliveries increased from 8,157 in 2011 to 10,097 in 2012, a 27.2 percent jump. In the first three months of 2013 alone, the number of deliveries rose by 30.3 percent going from 66 in January to 86 deliveries in March.

**27. The costs of drugs and vaccines administered to the Syrian refugees for the period 2012-2014 is estimated to reach USD71.5 million** (Table 2). This estimation is based on:

<sup>6</sup> According to UNHCR data, 78 percent of the Syrian refugees are vulnerable requiring medical assistance, while 23 percent have chronic diseases or serious medical conditions that require medical follow up

<sup>7</sup> Comparative morbidity data show a different disease profile with increased levels of morbidity for Syrian refugees than Jordanians. Similarly, data show a rise in selected communicable diseases, including, tuberculosis, measles (which had not been reported in Jordan since 2009), and Polio, which had been eradicated since 1999



(i) the gross rate of pre-crisis consumption in medicine, namely in 2010 and 2011; (ii) projected increase in the procurement of generic drugs at the rate of 3 percent (this rate was estimated based on pre-crisis rates of increase, as well as the standard rate of increase set by the GOJ given its goal of increasing the share of generic drugs procured); and (iii) actual procurement of medication. Table 2 shows that while the rate of increase between 2010 and 2011 was around 4.4 percent, the increase in cost of drugs was 12.7 percent in 2012, 35 percent in 2013, and is expected to be 37 percent in 2014. The total cost amounts to US\$71.5 million.

## Refugees Partake in Bread and LPG Subsidy Programs

**28. Similar to other countries in the region, the GOJ has a long history of providing broad-based price subsidies for basic household commodities.** These programs have, for the most part, been universal and untargeted. This includes the bread and LPG cylinders programs, which are simple in their design and are universal untargeted programs, enabling all households living in Jordan to access basic necessities. Both programs are on-budget, as opposed to subsidies on water or electricity, so the link between increased consumer demand and the GOJ budget is clearer. The bread subsidy program is indirect as the Government subsidizes wheat but also sets the price of bread at the bakery level. Jordan's subsidized LPG cylinder program, on the other hand, is a direct subsidy scheme administered by the Ministry of Finance and implemented by the

Jordan Petroleum Refinery Company (JPRC). JPRC is the sole importer of LPG in Jordan (more generally, JPRC is the sole provider of petroleum products in the country).

**29. An econometric analysis shows that the Syrian conflict is significantly and materially increasing demand for subsidized bread in Jordan.** Consumption of subsidized flour had been remained remarkably stable in the three years prior to the Syrian conflict (volumes consumed decreased by 0.6 percent from 2008 to 2009, and rose by 2 percent from 2009 to 2010). Over the three years prior to the Syrian conflict, consumption hovered around 44.6 metric tons per month. Then, starting in 2011, consumption started to steadily increase. Average consumption for the first five months of 2013 is 20.4 percent higher than the average monthly consumption of 2010 (the increase is particularly strong among Jordan's northern governorates, i.e., close to the Syrian border and also where the highest number of refugees reside). As retail price is unchanged, any increase in quantities consumed is expected to be primarily driven by a rise in consumer numbers. This is confirmed by an econometric analysis of the determinants of subsidized flour volumes.<sup>8</sup> The analysis reveals that the marked change in consumption trend in Jordan is well explained by the influx of Syrian refugees and the price gap. All the coefficients have the expected sign. The refugee variable is statistically significant and with a relatively stable coefficient in most specifications used. The price gap variable was less robust to specification changes. This variable captures incentives to smuggle subsidized Jordanian bread abroad.<sup>9</sup> As the price gap widens, this incentive increases.

**30. Total costs incurred for the bread subsidy program during the period 2012-2014 is estimated to be USD55 million.** Based on the regression coefficients of the econometric analysis,

<sup>8</sup> The dependent variable (volume of subsidized flour) was regressed on (1) the number of UNHCR-registered Syrian refugees, (2) the gap between the flour import price and the mills price, and (3) lags of the dependent variable. Monthly data from January 2007 to May 2013 were used.

<sup>9</sup> This smuggling activity is also likely capturing another impact of the Syrian conflict on Jordan. As supplies, bakeries, and logistics in Syria are being disrupted by the conflict, potential shortages and rising prices in Syria increase the incentive to get bread supplies from Jordan. The larger the price gap between Jordan's subsidized price and the "international" price, the stronger the incentive to supply in Jordan.

the increase in consumption related to the Syrian conflict is estimated at 77,773 metric tons of flour during the past year (June 2012-June 2013). This accounts for 80 percent of the increase in volume observed since the 2010 pre-crisis baseline and 12.2 percent of total flour demand. With an estimated average subsidy of USD385.7 per metric ton of flour, the estimated cost is USD30 million. For the period July 2013-June 2014, assuming the unit subsidy cost is unchanged, the refugee demand is projected to reach an additional 64,811 metric tons of flour at cost of USD25 million.

**31. An analysis of demand responses to large regulated LPG price changes pre- and post-Syrian crisis reveals that the demand for LPG cylinders is driven by the rise in Syrian refugees (along with some likely smuggling activity towards Syria).** Gas cylinder demand has risen by one third between 2010 and 2012. Lack of sufficiently long time series and variable availability did not allow undertaking an econometric analysis of the determinants of this demand. The impact of Syrian-related effect on LPG demand is, therefore, inferred by analyzing two large LPG price changes of similar magnitude: one that took place prior to the Syrian conflict (February 2008), the other after (November 2012). As LPG cylinder is not a Giffen good—a type of inferior good whose demand rises as its price rises—these price increases should have, *ceteris paribus*, led to a fall in demand. Such a fall in consumption did occur after the 2008 price change: a 53 percent price increase led to a 4 percent decrease in consumption. This was, however, not the case after the November 2012 price change: a similar price increase (54 percent) led to an 8 percent increase in consumption between December 2010 (the pre-crisis baseline) and December 2012. These sharply different consumption responses are even larger once one controls for smuggling incentives:<sup>10</sup> these were about twice as large in real terms in 2008 than in 2012. Only a large influx of new gas consumers can explain such stark differences in consumption to these very similar price shocks.

**32. Over the period 2012-2014, the increase in LPG demand stemming from the Syrian conflict is estimated to cost USD24.9 million to Jordan's central government budget.** It is assumed that the rise in consumption can be captured by the number of Syrian refugees in the country. Given the estimated number of refugees during the July 2012-June 2013 period and their average consumption, it is estimated that a total of 1,809,409 million cylinders were consumed by the refugees for a total cost of USD9 million. These 1,809,409 million cylinders represent 23.5 percent of the increase in the cylinder demand since 2010 and 6.2 percent of total 2012 consumption. For the period July 2013-June 2014, assuming unchanged subsidy per cylinder, it is forecast that a further 3,196,622 million cylinders will be consumed by the refugees for a cost of USD15.9 million. This projected demand critically depends on estimates of the growth in refugee influx during the forecast period. For the period July 2013-June 2014, the average Syrian refugee population in Jordan is expected to reach 727,547 or 11.7 percent of the Jordanian population. These forecasts are slightly more conservative than the latest UNHCR projections.

## External Aid

**33.** Initially, the bulk of international support was channeled to the needs of the displaced Syrians. UN agencies such as UNHCR and UNICEF, supported by donors, international NGOs and charities, are addressing the needs of those residing in camps and covering some social services of those outside. Attention is now turning to mitigating the impact of the influx of Syrians on livelihoods and service delivery of Jordanians. For instance, an emergency loan in the amount of USD150 million was approved by the World Bank in July 2013. Funds will be allocated toward the health sector and the bread and LPG subsidy programs in order to insure their continued short- to medium-term survivability and provide the needed time for the government to improve its social safety net system.

<sup>10</sup> Similar to the analysis undertaken for the determinants of bread consumption these are captured by the difference between the imported price and the retail price of the LPG cylinder. A larger gap, as was the case after the 2008 price change compared to the post 2012 price change period, would induce traders to buy LPG domestically and export it so as to cash in the subsidized value; this would increase domestic demand for LPG cylinders.

## The Incidence and Importance of Transient Poverty in Jordan<sup>11</sup>

*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.*

**34. While Jordan has conducted household consumption surveys on a regular basis in recent years and has produced regular estimates of poverty, the analysis of vulnerability to poverty is not well understood.** Jordan's Household Expenditure and Income Survey (HEIS) provides the opportunity to construct a quarterly profile of poverty in Jordan which, when viewed alongside the annualized poverty measures, provides new insights into the transient nature of poverty from quarter to quarter during the year.

**35.** 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. The national annual poverty line for 2010 was set at 813.7 JD per individual<sup>12</sup>. This threshold reflected the absolute minimum level of consumption needed to meet basic needs, following a 'cost of basic needs' (CBN) approach.<sup>13</sup>

**36. Jordan's official poverty statistics are produced annually; however, a look at household consumption trends on a quarterly basis provides a unique perspective into the nature of the poor and the vulnerable population in Jordan.** The HEIS collects consumption data for each interviewed household across four quarters and, thus, can provide a snapshot of poverty across different times of the year. Moreover, the panel structure of the data affords the opportunity to directly measure transitions in household wellbeing over time.

**37. Household expenditures appear quite volatile across quarters; in 2010, quarterly poverty estimates ranged from 14.8 to 20.1 percent, higher than the official annual estimate of 14.4 percent** (Figure 16). More people are classified as poor on a quarterly than on an annual basis as many households face temporary spells of poverty. In Quarter 2, which coincided with the months July-September of 2010, poverty estimates appear notably lower than in the other quarters, a pattern that may be due in part to Ramadan and Eid festivities occurring during that quarter. Poverty rates in other quarters however, are over 3 percentage points higher. Similarly, the poverty gap index by quarter is larger than the annual poverty gap of 2.8 percent (the poverty gap represents the difference between the poverty line and the average mean consumption of the poor in percentage terms).<sup>14</sup>

**38. Whereas 14.4 percent of Jordan's population is considered poor according to the official definition, 6.3 percent of the population lives in poverty in every single quarter.** This subgroup of the poor population can be viewed as living in a state of "persistent poverty." On the other hand, 8.1 percent of the population, while poor according to the official definition, was able to consume more than the poverty line in at least one

<sup>11</sup> For further details see Mistiaen, J. and U. Serajuddin, 2013, "Quarterly Profile of Poverty and Survey Nonresponse in Jordan: Implications for Policy and Survey Design" Mimeo, World Bank.

<sup>12</sup> This line translates to USD 3.42 per day in 2005 PPP terms, as measured by the World Bank.

<sup>13</sup> A comprehensive discussion of the methodology can be found in World Bank (2012).

<sup>14</sup> When multiplied by the per capita poverty line and number of the poor this gap provides an estimate of the minimum cost of eliminating poverty, assuming resources could be perfectly targeted to the poor. Based on annual poverty rates, the annual minimum cost of eliminating poverty is an estimated 139 million JD. If, however, the goal is to prevent the population from falling into poverty during any quarter of the year, about 200 million JD (44 percent more) would be needed.

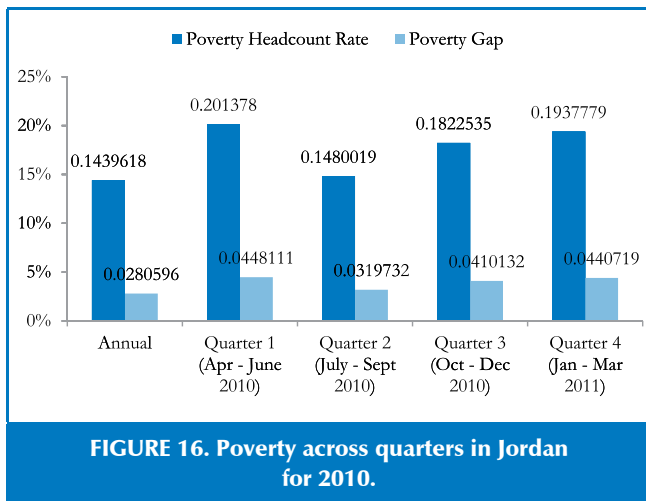


FIGURE 16. Poverty across quarters in Jordan for 2010.

Source: HEIS (2010), World Bank staff calculations

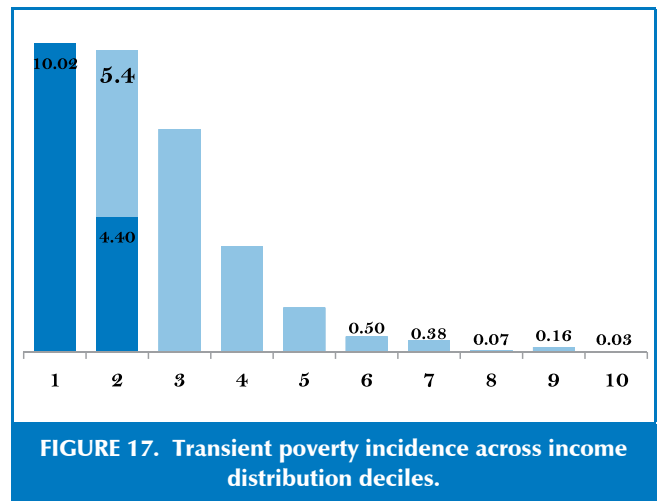


FIGURE 17. Transient poverty incidence across income distribution deciles.

Source: HEIS (2010), World Bank staff calculations

quarter. This can be thought of as living in a state of “chronic poverty.”

**39. 18.6 percent of the entire population in Jordan, although non-poor according to the official definition, experiences poverty in at least one quarter during the year.** These are the “transient poor” in the sense that they experienced poverty in at least one quarter during the year, despite being officially considered as *non-poor* because their annual per capita consumption exceeds the annual poverty line. The definitions of persistent poverty, chronic poverty and transient poverty follow those introduced by Jalan and Ravallion (2000).

**40. Summing up, persistent, chronic and transient poverty rates estimated from the 2010 HEIS indicate that 33 percent of the population in Jordan experiences poverty during at least one quarter of the year and 20.4 percent does so during at least half of the year.** Moreover, an estimated 6.1 percent of the population who live below the poverty line during at least half of the year (in 2 or 3 quarters) are in fact *not* considered poor by the official poverty numbers. This is because their higher consumption levels in the other one or two quarters push them above the annual poverty line of 813.7 JD per capita per year.

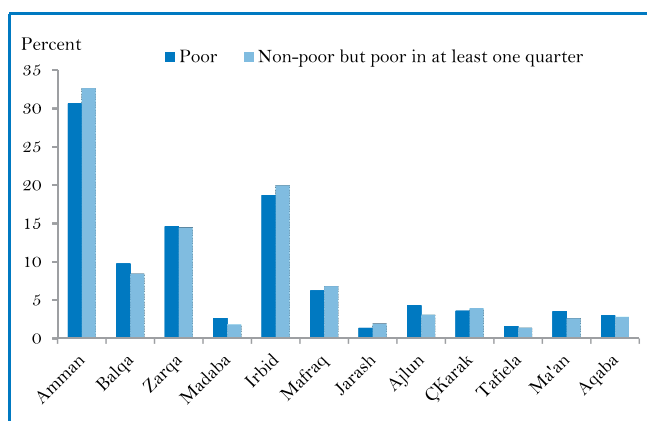
**41. Transient poverty is experienced across the income distribution, including by lower-middle and middle income households.** Figure 17 provides

a simple way of examining the phenomenon of moving in and out of poverty across the distribution. Of the 18.6 percent of the population in Jordan that were officially non-poor but face spells of poverty during the year (the columns shaded in light blue in Figure 17), about two-thirds (12.6 percent of the entire population) were in the bottom three per capita consumption deciles, while about 6 percent belonged to the fourth decile and above suggesting that lower middle and middle income households are vulnerable to transient poverty as well.<sup>15</sup>

**42. The distributions of the poor and the transient poor populations across governorates show striking similarities (Figure 18).** For example, populous governorates like Amman and Irbid account for very similar shares of the total poor and the transient poor populations (Amman – 30.6 versus 32.6 percent and Irbid – 18.7 versus 20 percent). These figures suggest that there are no systematic geographic differences between the incidence of poverty and that of transient poverty.

**43. It remains unclear whether the observed variation in quarterly expenditures is voluntary (e.g., “saving” to spend later in the year) or the consequence of shocks experienced by households (e.g., income derived from seasonal labor).** The HEIS does not collect quarterly data on labor and employment, but does so at the start of the survey. This can be combined with biannual information on income to construct a profile of

<sup>15</sup> The deciles are measured on the basis of yearly per capita consumption levels



**FIGURE 18. The Share (%) of the poor population and share (%) of population that has faced poverty during the some part of the year by Governorate.**

Source: HEIS (2010), World Bank staff calculations

the per capita expenditure deciles and among the poor using 2010 HEIS data. The study estimates the welfare impacts of the subsidy reform and associated cash transfer program to be positive for the poor receiving the cash transfers. At the same time it would be important to understand how the policies affect sensitive groups such as households experiencing spells of poverty at least during some portion of the year. The implications of the broad based cash transfer program would then be clearer and more properly understood.<sup>16</sup> Moreover, such analysis can help in designing future programs.

income variation and shocks (e.g., by type of employment) to further enrich the quarterly poverty profile and to inform on subsequent policy analysis. The preliminary findings from the 2010 HEIS will be complimented with similar analysis from the 2008 HEIS as well.

**44. The existence of such transient poverty may help explain the perception that annualized poverty measures underestimate true poverty** (as mentioned in sources such as Jordanian Department of Statistics and World Bank 2009, Mansour 2012). The poverty rates based on year-long consumption levels mask the vulnerability that many households face, pointing to the challenges facing households and policymakers alike.

**45. An understanding of the population facing poverty of different durations (and magnitude) would also provide better insights into the implications of existing policies.** For example, in November 2012 the Government of Jordan removed or reduced subsidies on several petroleum products (namely, octane 90, LPG gas cylinders, diesel and kerosene). Simultaneously, a broad based cash transfer program was initiated to compensate households with less than 10,000 JD in annual income, covering roughly 70 percent of Jordan's population. A recent study by Araar, Le Borgne, Serajuddin, and Verme (2013) simulates the distributional impacts of the new policies across

<sup>16</sup> The data needed to conduct this analysis only recently became available to the authors and they will conduct the simulations in the near future.

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# DATA APPENDIX

**TABLE 3.**
**Jordan: Selected Economic Indicators, 2010-15.**

<b>% of GDP</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
	Act.	Act.	Act.	Proj.	Proj.	Proj.
<b>Real sector (y.o.y change %)</b>						
Real GDP	2.3	2.6	2.7	3.1	3.5	4.0
Real GDP per Capita	0.1	0.4	0.4	0.8	1.2	1.7
Agriculture	3.7	3.8	3.3	2.9	3.1	3.1
Industry	25.4	25.6	25.1	24.3	24.9	25.0
Services	70.9	70.6	71.5	72.7	71.9	71.8
<b>Money and prices</b>						
CPI Inflation	5.0	4.4	4.8	5.2	3.8	2.9
Money (M2)	11.5	8.1	3.4	8.8	9.3	9.8
<b>Investment &amp; saving</b>						
Total Investment	24.0	25.5	26.9	26.2	26.0	25.8
Gross National Savings	16.9	14.6	9.9	14.9	13.5	17.4
<b>Government finance</b>						
Revenue (excluding grants and privatisation)	22.7	20.5	21.5	21.6	21.7	21.8
o/w. tax revenue	15.9	15.0	15.3	15.3	15.4	15.5
Foreign Grants	2.1	5.9	1.5	4.1	3.6	3.2
Total expenditure and net lending	30.4	33.2	31.2	31.6	32.4	31.0
Current	25.3	28.0	28.2	26.5	27.4	25.8
Capital & NL	5.1	5.2	3.1	5.1	5.0	5.2
Overall balance (deficit (-), excl. grants)	-7.7	-12.7	-9.7	-10.0	-10.7	-9.2
Overall balance (deficit (-), incl. grants)	-5.6	-6.8	-8.2	-5.9	-7.2	-6.0
<b>External sector (US\$ Million)</b>						
Current Account	-1,887	-3,479	-5,708	-3,940	-4,824	-3,535
Export FOB	12,660	13,178	13,607	14,050	14,598	15,692
Import FOB	18,287	21,355	23,033	22,880	24,105	23,915
Net Income and transfers	3,832	4,878	4,024	5,359	5,102	5,028
Net Private Investments (FDI and Portfolio)	2,399	1,736	1,787	2,027	2,526	2,651
Gross Reserves	12,845	11,254	7,877	8,947	10,689	10,602
Gross Reserves (Months of Imports GNFS)	8.4	6.3	4.1	4.7	5.3	5.3
Current Account balance (% of GDP)	-7.1	-12.0	-18.4	-11.3	-12.5	-8.4
<b>Total Debt (US\$ Million)</b>						
Total Debt Stock	17,778	20,450	24,864	28,878	32,981	36,483
Medium & Long Term	13,689	13,659	17,731	19,719	23,821	26,395
Short Term	4,089	6,791	7,134	9,159	9,160	10,087
Debt to GDP Ratio (%)	67.1	70.7	80.2	82.8	85.5	87.1
Debt Service Ratio (%)	2.1	2.1	2.7	4.1	4.6	4.8
<b>Memorandum Items:</b>						
Nominal GDP (Billion JD)	18.8	20.5	22.0	24.7	27.3	29.7
Exchange Rate, Average (JD/US\$)	0.7	0.7	0.7	0.7	0.7	0.7
GDP (in million US\$)	26,492	28,913	31,015	34,886	38,564	41,871

Sources: Government data, and World Bank staff calculation.



# TABLE 4.

## Jordan at a Glance

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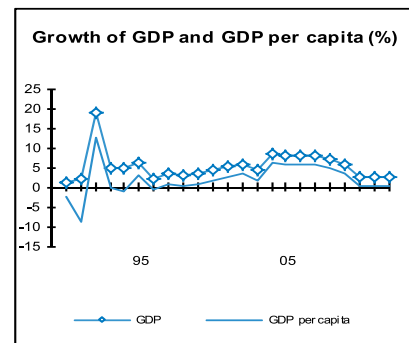
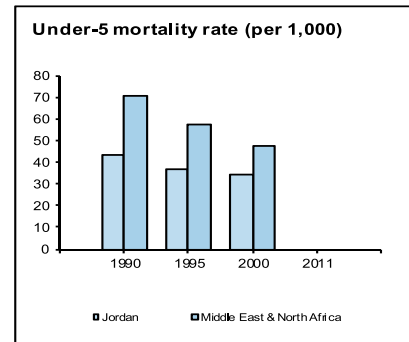
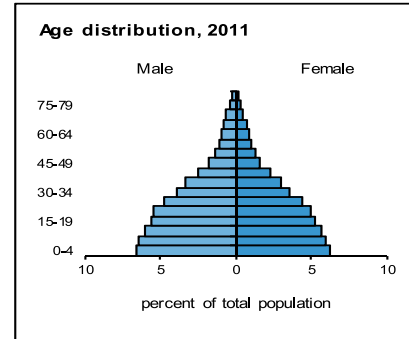
Key Development Indicators	Jordan	M. East & North Africa	Upper middle income
<b>(2012)</b>			
Population, mid-year (millions)	6.4	337	2,490
Surface area (thousand sq. km)	..	8,775	61,034
Population growth (%)	2.2	1.7	0.7
Urban population (% of total population)	83	59	61
GNI (Atlas method, US\$ billions)	29.6	1,279	16,341
GNI per capita (Atlas method, US\$)	4,630	3,866	6,563
GNI per capita (PPP, international \$)	5,930	8,052	10,703
GDP growth (%)	2.7	4.2	6.6
GDP per capita growth (%)	0.4	2.4	5.9
<b>(most recent estimate, 2005–2012)</b>			
Poverty headcount ratio at \$1.25 a day (PPP, %)	<2	3	9.0
Poverty headcount ratio at \$2.00 a day (PPP, %)	<2	14	20.4
Life expectancy at birth (years)	..	72	73
Infant mortality (per 1,000 live births)	..	26	16
Child malnutrition (% of children under 5)	..	6	3
Adult literacy, male (% of ages 15 and older)	96	84	96
Adult literacy, female (% of ages 15 and older)	89	68	91
Gross primary enrollment, male (% of age group)	105	108	111
Gross primary enrollment, female (% of age group)	83	101	111
Access to an improved water source (% of population)	..	89	93
Access to improved sanitation facilities (% of population)	..	88	73

Net Aid Flows	1980	1990	2000	2012 <sup>a</sup>
<i>(US\$ millions)</i>				
Net ODA and official aid	1,576	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	1980	1990	2000	2012
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
<b>1980–90 1990–2000 2000–12</b>				
<i>(average annual growth %)</i>				
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	8.5



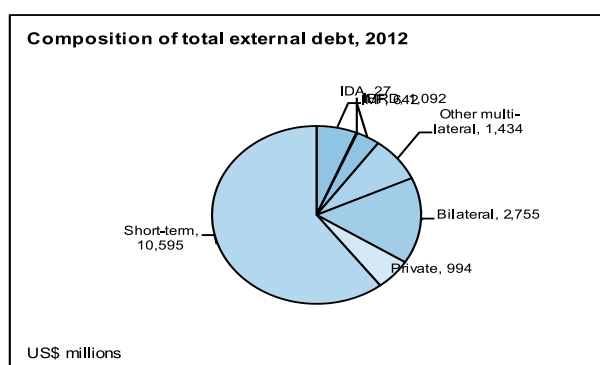
Note: Figures in italics are for years other than those specified. .. indicates data are not available.  
<sup>a</sup> Aid data are for 2010.

Development Economics, Development Data Group (DECDG).

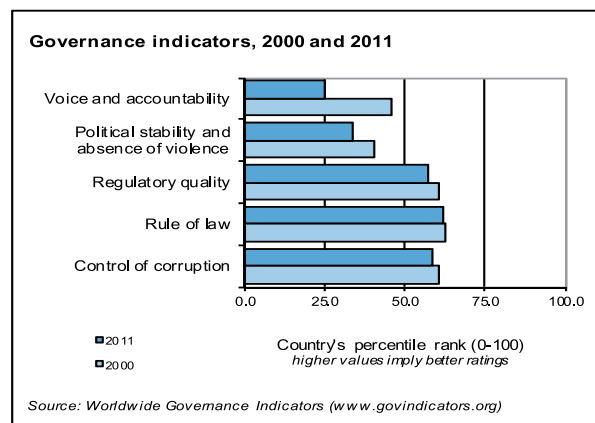
## TABLE 4 (CONT.).

### Jordan at a Glance

Balance of Payments and Trade	2000	2012
<i>(US\$ millions)</i>		
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	-5,708
as a % of GDP	0.3	-18.4
Personal transfers and compensation of employees (receipts)	1,845	3,453
Reserves, including gold	3,434	8,618
<b>Central Government Finance</b>		
<i>(% of GDP)</i>		
Current revenue (including grants)	32.2	22.9
Tax revenue	16.0	15.3
Current expenditure	29.5	28.2
Overall surplus/deficit	-2.0	-8.2
Highest marginal tax rate (%)		
Individual	..	..
Corporate	25	25
<b>External Debt and Resource Flows</b>		
<i>(US\$ millions)</i>		
Total debt outstanding and disbursed	7,355	17,539
Total debt service	740	932
Debt relief (HIPC, MDRI)	-	-
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)	-	13.9
Time required to register property (days)	-	21
Ranked as a major constraint to business (% of managers surveyed who agreed)	2000	2011
n.a.	..	..
n.a.	..	..
Stock market capitalization (% of GDP)	58.4	94.0
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
<b>Environment</b>		
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	3.8
GDP per unit of energy use (2005 PPP \$ per kg of oil equivalent)	3.5	4.4
Energy use per capita (kg of oil equivalent)	1,014	1,191

World Bank Group portfolio	2000	2011
<i>(US\$ millions)</i>		
<b>IBRD</b>		
Total debt outstanding and disbursed	798	927
Disbursements	38	25
Principal repayments	53	107
Interest payments	53	12
<b>IDA</b>		
Total debt outstanding and disbursed	57	29
Disbursements	0	0
Total debt service	3	3
<b>IFC (fiscal year)</b>		
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
<b>MIGA</b>		
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.

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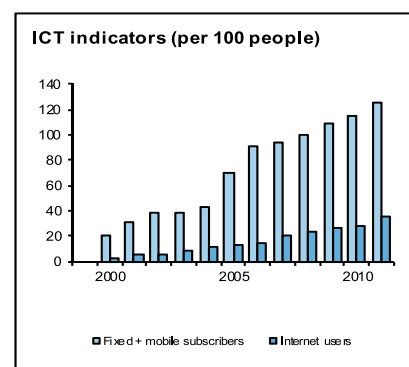
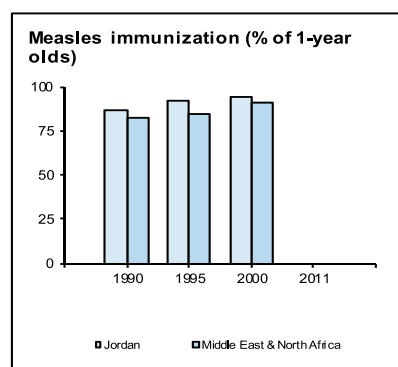
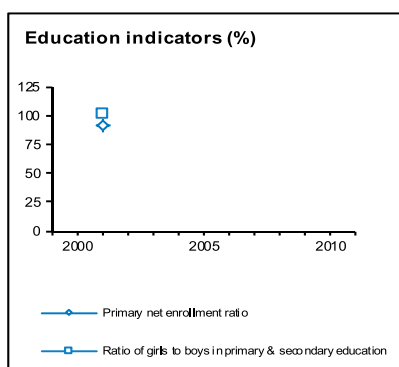
TABLE 4 (CONT.).

## 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
<b>Goal 1: halve the rates for extreme poverty and malnutrition</b>				
Poverty headcount ratio at \$ 1.25 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	..	..
<b>Goal 2: ensure that children are able to complete primary schooling</b>				
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)	..	..	..	..
<b>Goal 3: eliminate gender disparity in education and empower women</b>				
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	..	..
<b>Goal 4: reduce under-5 mortality by two-thirds</b>				
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	..
<b>Goal 5: reduce maternal mortality by three-fourths</b>				
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	..
<b>Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases</b>				
Prevalence of HIV (% of population ages 15-49)	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	..	..	10	..
Tuberculosis case detection rate (% all forms)	90	96	79	83
<b>Goal 7: halve the proportion of people without sustainable access to basic needs</b>				
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	3.8
GDP per unit of energy use (constant 2005 PPP \$ per kg of oil equivalent)	3.2	3.4	3.5	4.4
<b>Goal 8: develop a global partnership for development</b>				
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	113.2
Internet users (per 100 people)	0.0	0.0	2.6	35.7
Households with a computer (%)	..	..	9.8	50.8



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

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Development Economics, Development Data Group (DECDG).

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