JORDAN

Jordan's economic growth has been subdued in the last year as spillovers from regional instability take a toll with unemployment reaching a recent high. Nevertheless, growth is projected to average 2.7 percent over 2016-2018 on the back of implementation of the Jordan Compact and planned reforms to stimulate the labor market and improve the business climate. A new IMF program supports related reforms and containment of the fiscal deficit.

Recent developments

Jordan has been managing spillovers from the Syrian crisis including closure of trade routes with Iraq and Syria and hosting more than 656,000 registered Syrian refugees. While the Jordanian economy has held up with growth generated from a number of sectors, it has been losing momentum. Growth of 2.3 percent in Q1-2016 was an improvement compared to 2.0 percent in Q1-2015. 'Finance and insurance services', 'transport, storage and communications', and 'electricity and water' were the largest contributors to growth that quarter, while 'mining and quarrying' was a drag. However, growth in Q1-2016 continued to decline on a seasonally adjusted basis. Unemployment reached a high of 14.8 percent in Q2-2016 with over one third (34.8 percent) of the youth unemployed. Ahead of Parliamentary elections (September 20, 2016), the King established an Economic Policies Council to identify measures to stimulate the economy.

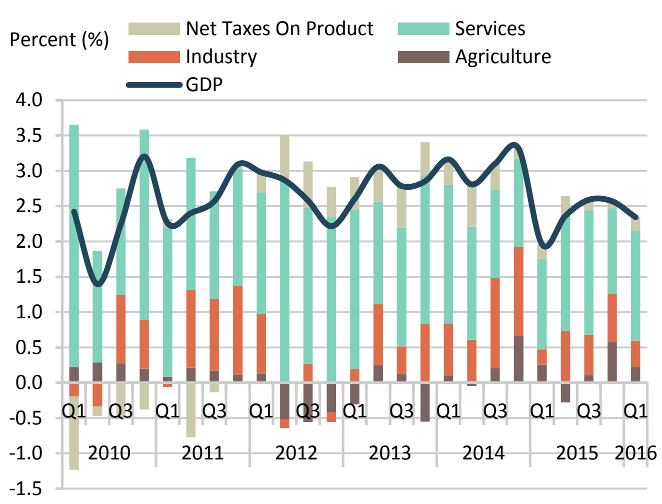
Prices (CPI) contracted by 1.3 percent on a period average basis for the first seven months of 2016 (7M-2016), driven by lower prices of transport, fuel, and food. Monetary policy action has been unchanged since the last rate cuts in July 2015.

Jordan's fiscal deficit widened by 30 percent in H1-2016 largely due to contracting grants. While the national electricity company reached cost recovery in 2015 (aided by low international oil prices), the Water Authority of Jordan (WAJ) has an increasing deficit. WAJ's government-guaranteed borrowing adds pressure to Jordan's debt stock, already high at 93.4 percent of GDP end-2015. A three-year US$732 million arrangement under the IMF's Extended Fund Facility approved in August 2016 focuses on fiscal consolidation towards a reduction of the debt-to-GDP ratio to 77 percent by 2021. The program also highlights a structural reform agenda to stimulate growth. This agreement is expected to unlock grants and concessional financing for Jordan from donors in line with commitments made under the Jordan Compact.

Pressures abound on the current account due to slower tourism and remittances, closed land routes, and pricing pressures on potash exports. Travel receipts contracted by 3.6 percent in H1-2016, while exports of goods fell by 5.6 percent in 5M-2016 (with exports to Iraq down 47 percent). While continued low oil prices compared to H2-2015 helped reduce Jordan's import bills (20.5 percent cut in energy imports in 5M-2016), pressure on the current account stems from reduced remittances (-4.3 percent in H1-2016). Such pressures have affected Jordan's gross international reserves, which decreased by 11 percent to US$12.5 billion (7.2 months of imports) by end-July 2016 compared to end-2015.

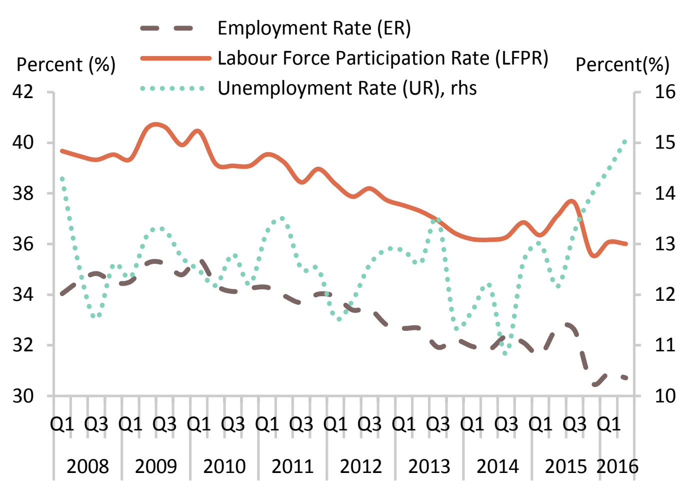
Jordan has begun implementing its commitments under the Jordan Compact, starting with the granting of work permits to Syrian refugees. In parallel, the European Union (EU) has relaxed its Rule of Origin (ROO) requirements to Jordan for specific product categories for 10

FIGURE 1 Jordan / Supply side contribution to real GDP growth (yoy)



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

FIGURE 2 Jordan / Labor market dynamics



Sources: Department of Statistics and World Bank staff calculations.

years. This is expected to spur investment in Jordan, job creation (for both Jordanians and Syrian refugees), and exports to the EU.

Outlook

Jordan's economic growth is expected to remain flat at 2.3 percent in 2016 and improve in the medium term to 3.1 percent in 2018, closer to but still below Jordan's potential. The outlook assumes no further deterioration of security spillovers in and around Jordan. Further, confidence in the macroeconomic framework is forecasted to strengthen due to the IMF agreement. The primary fiscal balance is projected to move into surplus in 2017, coinciding with a reversal in the hitherto increasing gross debt-to-GDP ratio. Pressures on the external account are expected to subdue as of 2017 with a pick-up in exports and investment due to diversification efforts and the opportunities afforded by the EU's ROO relaxation and energy supply diversification plans, as well as stabilization of remittances and travel receipts. Despite expectations of higher oil prices and resulting higher energy imports, the current account deficit is expected to narrow from 2017. The next round of HEIS necessary to estimate poverty is expected to be implemented in 2017/18.

Risks and challenges

The outlook is subject to downside risk. Higher frequency of security incidents are materializing in and around Jordan, exposing vulnerabilities and could further influence consumer and investor confidence. Containing the fiscal deficit and implementing the new IMF program in a timely way will be challenging given the size of adjustment and scope of structural reforms envisaged. In parallel, the implementation of planned reforms related to the labor market, improving the investment climate and unlocking access to finance are vital to stimulate economic activity and improve welfare. Finally, Jordan's external position would face further pressure if expected grants and concessional financing do not materialize.

TABLE 1 Jordan / Macro outlook indicators[a] (annual percent change unless indicated otherwise)

	2013	2014	2015	2016 f	2017 f	2018 f
Real GDP growth, at constant market prices	2.8	3.1	2.4	2.3	2.6	3.1
Private Consumption	3.7	-2.6	6.6	5.3	-0.6	0.0
Government Consumption	-1.1	6.5	1.7	6.3	4.3	1.1
Gross Fixed Capital Investment	7.2	2.1	-11.6	2.5	4.9	5.9
Exports, Goods and Services	2.6	7.5	-9.5	-5.4	6.6	6.5
Imports, Goods and Services	4.3	-0.9	-8.3	2.7	1.6	1.4
Real GDP growth, at constant factor prices	2.8	3.2	2.6	1.9	2.8	3.2
Agriculture	-3.5	7.6	5.0	1.0	1.5	2.0
Industry	2.3	3.9	2.2	2.3	2.6	3.0
Services	3.3	2.7	2.6	1.8	3.0	3.3
Inflation (Consumer Price Index)	4.8	2.9	-0.9	-0.5	2.8	2.9
Current Account Balance (% of GDP)	-10.4	-7.3	-9.0	-11.0	-9.8	-8.2
Financial and Capital Account (% of GDP)	7.6	3.6	6.2	3.7	4.3	3.4
Net Foreign Direct Investment (% of GDP)	5.3	5.4	3.7	3.3	3.7	3.7
Fiscal Balance (% of GDP)[b]	-11.5	-9.3	-3.6	-3.5	-2.4	-0.3
Debt (% of GDP)[c]	86.7	89.0	93.4	94.6	93.9	90.4
Primary Balance (% of GDP)[b]	-8.4	-5.7	-0.1	-0.1	1.1	3.2

Sources: World Bank, Macroeconomics and Fiscal Management Global Practice, and Poverty Global Practice.
Notes: f = forecast.
(a) Jordan has not released poverty estimates since 2010 due to issues with data quality for the 2013/14 Household Expenditure and Income Survey (HEIS).
(b) Includes fiscal gap of 1.5% of GDP in 2017 and 3.3% of GDP in 2018.
(c) Government and guaranteed gross debt. Includes NEPCO and WAJ estimated borrowing for 2016-2018.