JORDAN

Table 1	2018
Population, million	9.9
GDP, current US$ billion	42.4
GDP per capita, current US$	4278
Life expectancy at birth, years[a]	74.3

Source: WDI, Macro Poverty Outlook, and official data.
Notes:

(a) Most recent WDI value (2016)

The outlook for the economy reflects renewed momentum given recent signals of renewed international support through the London Initiative. However, Jordan remains vulnerable to domestic and external shocks. A gradual and steady fiscal consolidation and continued implementation of investment, labor, procurement, PPP, and energy reforms are needed to successfully mitigate these challenges and enhance conditions for higher and more inclusive growth, boost productivity and improvements in household welfare.

Recent developments

Jordan's real GDP registered a growth of 2 percent in 2018, marginally lower than growth in 2017, constrained by structural impediments and a difficult regional setting. On the supply side, a strong services sector (contributing 1.5 percent to GDP growth), followed by the industrial sector (0.4 percent to GDP growth), provided the dominant impetus. On the demand side, growth from a significant improvement in net exports was countered by a major contraction in private demand during the first half of 2018. Investment growth was moderate due to a major reduction in public capital expenditures and low inflows of private investment.

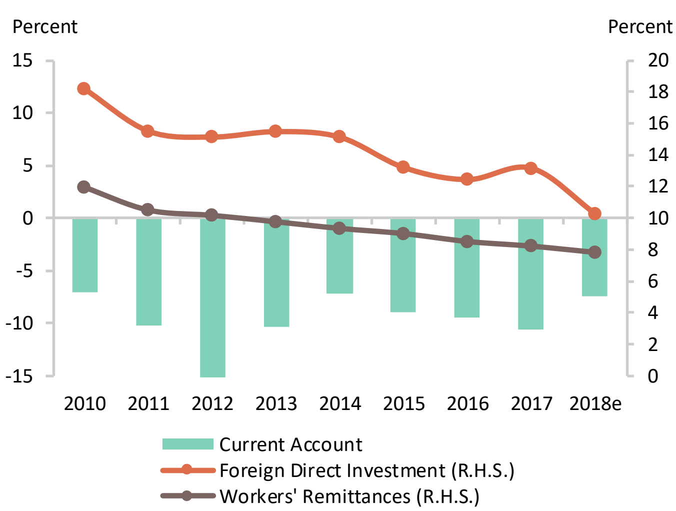
The current account deficit improved significantly in 2018 by more than 3 percentage points of GDP, supported by strong services sector performance and declining imports. A robust hospitality sector, with services exports improving by 13 percent, and a significant decline in non-energy imports were the main drivers. Remittances remained weak, while FDI flows almost halved. Despite these improvements in travel receipts and decline in non-energy imports as mentioned in lines above, financing of the external sector remained a challenge. Consequently, CBJ's gross usable reserves at end-2018 stood at US$12.5 billion (6.2 months of import coverage), compared to 7.4 months of import coverage at end-2017.

The fiscal deficit (including grants) widened, reversing the prior consolidation trajectory, closing at 3.3 percent of GDP in 2018, 1.4 percent higher than the budget target. This was due to limited revenue growth (vis-à-vis the budget targets) and higher recurrent spending. Fiscal measures introduced in 2018 did not materialize given subdued economic activity, and difficult socio-economic conditions. Consequently, domestic revenue collection underperformed, growing by a mere 3.0 percent, compared to the budgeted target of 16.0 percent. Recurrent spending rose to 25.3 percent of GDP, 0.7 percentage points higher than 2017 levels, while capital spending was brought down by as much as 0.6 percent of GDP. Public debt-to-GDP ratio marginally declined to 94.2 percent at end 2018 as result of government's use of treasury deposits.

Elevated unemployment indicators and a declining labor force participation rate reflect weak job creation. The unemployment rate stood at 18.6 percent in the third quarter of 2018, slightly up from an annual average of 18.3 percent in 2017. The labor market has not been able to provide enough high skilled jobs for Jordan's young and educated population and unemployment patterns consistently show marginalization of females, youth and university graduates. Moreover, Jordan's labor force participation rate declined to 36.8 percent in the third quarter of 2018, significantly lower than 39.2 percent annual average in 2017.

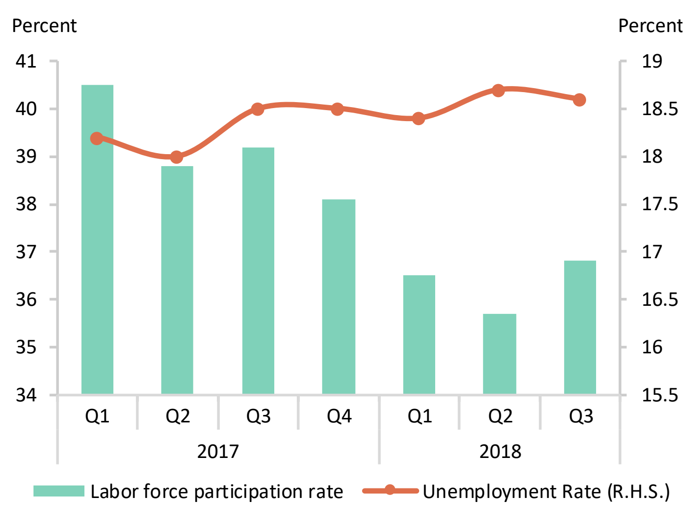
Poverty and vulnerability remain important issues. The most recent poverty data from 2010-11, predating the Syrian crisis, showed that 14.4 percent of Jordanians lived below the national poverty line

FIGURE 1 Jordan / External sector performance



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.

and a further 18 percent were vulnerable to poverty, falling below the line at least once during the year. While new estimates from the 2017-18 survey are due to be released shortly, it is expected that poverty and vulnerability will not have declined significantly, if at all. Only one in three working age Jordanians has a job and employment is re-allocating from high to low productivity sectors with high levels of informality. An increasing number of workers are not covered by social insurance or have a legal contract. Very high population growth, both amongst Jordanians and from the refugee influx, mean that considerable job creation is needed to increase the employment rate significantly.

Outlook

GDP growth is projected to gradually increase to 2.2 in 2019 and 2.6 percent over the medium-term. This export-led recovery hinges on restoration of macroeconomic stability, a supportive external environment including official support as signaled in the London Initiative, lower cost of generating energy, stable international oil prices.

The current account pressures are projected to ease gradually as trade balance improves through recovery in exports and decline in energy-related imports. Key enabling factors are the re-opening of the Iraq border and associated trade and investment agreements, and faster-than-expected engagement by domestic companies in the EU agreement. FDI, multilateral, bilateral, and private debt-creating flows are expected to be the main financing sources.

The fiscal deficit is projected to narrow in 2019 through robust domestic revenue mobilization, driven by the new income tax law. Over medium-term, primary balance (including grants) is projected to decline by almost 1 percent of GDP as revenue enhancing measures and electricity and water cost recovery are achieved. Fiscal consolidation and anticipated higher concessional budgetary flows will improve debt dynamics over the medium-term.

Significant expansion and reform of the National Aid Fund (NAF) social assistance cash transfer program will provide a boost to poverty reduction, but long-term progress will depend on job creation.

Risks and challenges

Continued macroeconomic adjustment is required to put Jordan firmly on the path of deficit and debt reduction. Rising global interest rates and tighter liquidity situation can pose challenges given high gross external financing requirements. Moreover, given the close link of Jordan's macroeconomic situation to that of other Middle East and Gulf countries, a fiscal deterioration in the oil exporting countries can have a significant impact on the flow of remittances, FDI, foreign aid, and exports. A persistently appreciated relative competitiveness erodes export prospects. Successful and timely completion of IMF-EFF second program review is of paramount importance.

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

	2016	2017	2018 e	2019 f	2020 f	2021 f
Real GDP growth, at constant market prices	2.0	2.1	2.0	2.2	2.4	2.6
Private Consumption	0.2	3.9	-2.4	0.1	0.7	1.3
Government Consumption	-3.0	3.3	4.5	2.9	2.3	1.8
Gross Fixed Capital Investment	-8.0	7.5	-0.1	3.0	3.0	3.7
Exports, Goods and Services	-3.0	3.6	6.5	6.1	4.9	4.0
Imports, Goods and Services	-7.9	7.9	-4.6	2.0	1.9	1.8
Real GDP growth, at constant factor prices	2.2	2.2	2.4	1.5	2.7	2.6
Agriculture	3.8	4.8	3.2	-2.5	1.8	2.0
Industry	1.3	1.8	1.5	1.1	1.8	2.1
Services	2.4	2.2	2.8	2.1	3.1	2.9
Inflation (Consumer Price Index)	-0.8	3.3	4.5	2.0	2.5	2.5
Current Account Balance (% of GDP)	-9.4	-10.6	-7.4	-8.2	-8.0	-7.7
Net Foreign Direct Investment (% of GDP)	3.9	5.0	2.5	3.6	4.4	4.9
Fiscal Balance (% of GDP)[a]	-3.2	-2.2	-3.3	-3.1	-3.2	-3.2
Debt (% of GDP)[b]	93.8	94.3	94.2	93.9	93.4	93.1
Primary Balance (% of GDP)[a]	-0.2	0.8	0.0	0.1	0.6	0.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Includes fiscal gap of 0.7% of GDP in 2020 and 1.2% of GDP in 2021.
(b) Government and guaranteed gross debt. Includes WAJ estimated borrowing for 2018-2021.