JORDAN

Table 1	2018
Population, million	10.0
GDP, current US$ billion	42.3
GDP per capita, current US$	4248
Life expectancy at birth, years[a]	74.5

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent WDI value (2017).

Recent signs of export-pick up and continued strong international support present renewed momentum for economic recovery, while time remains to address still-sluggish fiscal revenues. Implementation of broader key reforms particularly related to procurement, PPP, and the power sector is anticipated to provide the necessary impetus to growth. However, recent escalation of global trade tensions and anticipated global slowdown present a serious downside risk to immediate recovery prospects, outweighing the gain from lower oil prices.

Recent developments

Real GDP grew at 2.0 percent in Q1-2019, only slightly higher than 1.8 percent in Q4 -2019. Key supply side drivers were the services sector, contributing 1.4 percent to GDP growth, while industry contributed 0.3 percent and agriculture 0.2 percent. Real sector indicators for the first six months showed a mixed performance. Industrial sector contracted by 0.6 percent, driven by a 1.3 percent decline in the manufacturing index, while 'Mining and quarrying' and 'Electricity and gas' showed some sign of recovery.

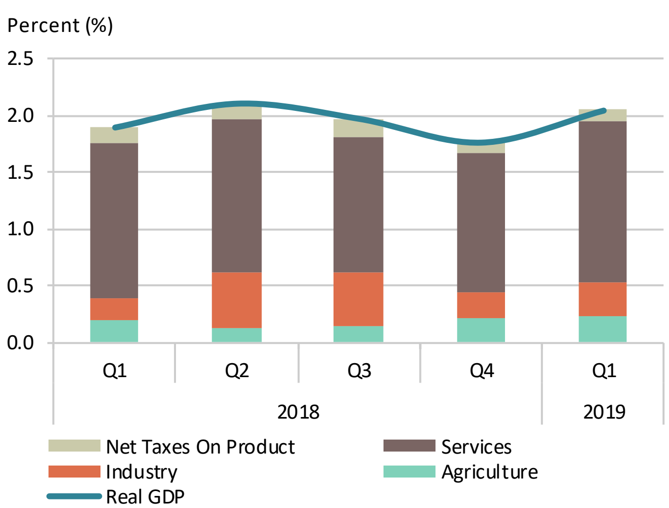
Driven by benign food and transportation prices, headline inflation during the first seven months of 2019 stood at 0.5 percent compared to 4.5 percent in the same period last year. This appears to be driven largely by decline in oil prices (average 8.8 percent decline Jan-Jul 2019 period). Given benign outlook for inflation and cut in US Federal Reserve policy rates, CBJ also decreased its policy interest rate by 25 basis points on August 1 and September 18, 2019.

The current account deficit during the first quarter of 2019 declined by 46.0 percent on a year-on-year basis to US$ 483 million. In Q2-2019, trade data indicates 7.0 percent reduction in trade deficit on y-o-y basis. This reduction, however, is mostly driven by 4.2 percent contraction in imports as growth of exports during Q2-2019 remained flat; reflecting the impact of slack in global trade. On cumulative basis, total exports indicated 4.5 percent growth in H1 -2019 (driven by clothing and chemicals) compared to 2.9 percent growth in the same period last year. Imports contracted by 3.8 percent in H1-2019 compared with 2.4 percent decline in the same period last year. More than half of this contraction is explained by non-energy imports. The latest statistics for travel receipts and workers' remittances also indicated favorable trends during H1-2019.

The budget deficit (excl. grants) during H1 -2019 stood at 2.1 percent of GDP compared to 2.5 percent in the same period last year. Domestic revenue collection during H1-2019 grew by 4.5 percent year-on-year, significantly below the budgeted target of 15.3 percent growth. Non-tax revenues exceeded the budget target growth. There has been a significant shortfall in indirect tax collection, which on year-on-year basis contracted by almost 8.1 percent. Adjustment on the spending side curtailed total spending growth at 2 percent but largely due to cut in transfers and stagnant capital spending.

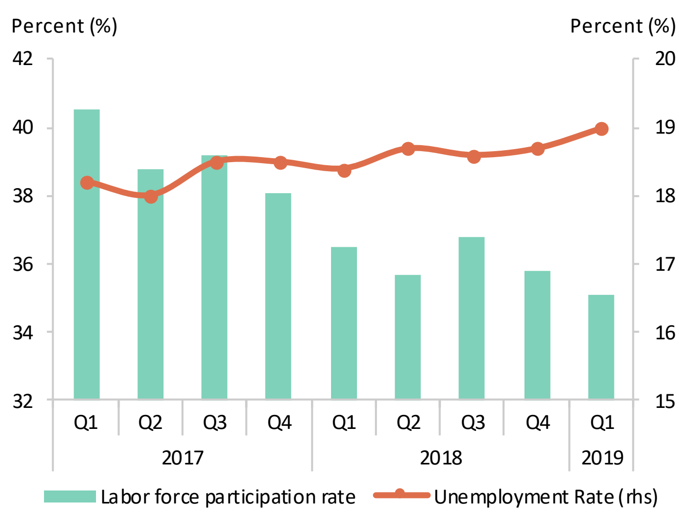
Poverty and jobs remain important issues. At the launch of the Social Protection and Poverty Alleviation Strategy 2019-25 in May, the Department of Statistics announced that the national poverty rate among Jordanians was 15.7 percent. unemployment rate reached 19 percent in Q1 -2019, 0.7 percentage points higher than the 2018 average. The increase was due to a sharp rise in the female unemployment rate, while male unemployment slightly improved. The Jordanian youth (15-24 years of age) remains the age group with the highest rate of unemployment, standing at 40.1 percent in Q1-2019. Meanwhile, consistent with the prevalence of early

FIGURE 1 Jordan / Supply side contribution to real GDP growth (year-on-year)



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.

retirement, the labor force participation dropped to 35.1 percent in Q1-2019, declining for both, males and females.

Outlook

GDP growth is projected to recover gradually, supported by net exports on the demand side, and robust performance of the services sector, especially tourism, from the supply side. Projected increased inflows of foreign private investment are welcome but well below levels of the mid-2000s boom. Immediate downside risks feature low public consumption and investment, which are restrained by ongoing fiscal consolidation, while private consumption growth is expected to remain weak because of stagnant job creation and tax policy measures.

Inflation is projected to remain subdued in 2019 and through the medium-term. Together with lagged impact of earlier tight monetary stance, ongoing slack in domestic demand and receding one-off impact of last year's taxation measures are moderating forces. The current account deficit is projected to slightly improve in 2019 to 6.4 percent of GDP compared to 6.7 percent in 2018. Albeit the favorable terms of trade effect, compared to last year, export growth is projected to moderate due to slack in global trade activity while imports are projected to marginally recover. Over the medium-term, the current account deficit, as percent of GDP, is expected to remain moderate. However, given sizable financing requirements over medium-term along with a maturing Eurobond in 2020, the sustainability of the external position remains contingent upon the timely realization of committed multilateral and bilateral flows.

The fiscal balance (incl. grants) is expected to improve to -2.5 percent of GDP in 2019, compared to -3.3 percent in 2018. Domestic revenues are expected to improve by 0.4 percent of GDP in 2019 as 2nd half measures to tackle areas of underperformance take hold while total expenditure is anticipated to decrease. Lower inflows of foreign grants will keep total revenues and grants nearly unchanged at 26 percent of GDP. Over medium term, the fiscal balance is anticipated to narrow to 2.0 percent of GDP, supported by higher revenues from the new income tax law, tax enforcement and the government's continued commitment to keep its consolidation trajectory on course. The primary balance (incl. grants) is projected to decline by 2 percent of GDP and improve debt dynamics. While low expected inflation will be helpful for living conditions, persistent labor market challenges raise concerns. A forthcoming World Bank Jobs Diagnostic discusses some of the key issues for employment. 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 nor have a legal contract. Very high population growth amongst Jordanians along with the refugee influx mean that the job creation needed to raise the employment rate to 'normal' levels is dramatic.

Risks and challenges

Global growth slowdown, escalation of trade tensions between USA and China and continued regional uncertainty pose an immediate downward risk to economic recovery. Sustainable debt reduction requires continued fiscal adjustment, including additional mobilization of revenues and containment of public spending. Moreover, in the light of Eurobond repayment next year, the coverage of large gross external financing requirements, particularly in 2020, is dependent on the government's continued ability to mobilize international financial assistance. The recent disruption in Saudi Arabia oil production – if manifested in higher oil prices over the medium-term – adds further vulnerability. The manner in which any fiscal adjustment is achieved – how new revenues are raised and what spending is reduced – would have implications for poverty and equity. Moreover, long-term sustained reductions in poverty and vulnerability will require significant increases in employment.

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

	2016	2017	2018	2019 e	2020 f	2021 f
Real GDP growth, at constant market prices	2.1	2.1	1.9	2.2	2.3	2.5
Private Consumption	0.2	4.0	-2.6	0.9	1.2	2.2
Government Consumption	-3.0	3.2	0.7	0.7	0.9	0.9
Gross Fixed Capital Investment	-8.0	7.5	-3.0	2.5	2.8	3.1
Exports, Goods and Services	-3.0	3.6	3.4	1.6	2.3	4.8
Imports, Goods and Services	-7.9	7.9	-6.1	-0.5	0.3	3.4
Real GDP growth, at constant factor prices	2.2	2.2	2.0	2.9	2.4	2.6
Agriculture	3.8	4.8	3.2	3.0	2.5	2.0
Industry	1.3	1.8	1.3	1.5	2.0	2.0
Services	2.4	2.2	2.3	3.5	2.5	3.0
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	-6.7	-6.4	-6.3	-6.5
Net Foreign Direct Investment (% of GDP)	4.0	5.0	2.3	2.5	3.5	3.8
Fiscal Balance (% of GDP)[a]	-3.0	-2.2	-3.3	-2.5	-2.4	-2.0
Debt (% of GDP)[b]	93.8	94.3	94.4	94.7	94.6	93.2
Primary Balance (% of GDP)[a]	0.0	0.7	0.0	0.9	1.3	2.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Includes grants and fiscal gap of 0.7% of GDP in 2020 and 1.7% of GDP in 2021.
(b) Government and guaranteed gross debt. Includes WAJ estimated borrowing for 2019-2021.