

# JORDAN ECONOMIC MONITOR

**STEADY AND MODERATE GROWTH CONTINUES**

**Fall 2014**



**Global Practice for Macroeconomics & Fiscal Management, GMFDR  
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 the Jordan. It places them in a longer-term and global context, and assesses the implications of these developments and other changes in policy for the outlook for the country. Its coverage ranges from the macro-economy to financial markets to indicators of human welfare and development. It is intended for a wide audience, including policy makers, business leaders, financial market participants, and the community of analysts and professionals engaged in Jordan.

The *Jordan Economic Monitor* is a product of the World Bank's Global Practice for Macroeconomics & Fiscal Management, (GMFDR) team. It was prepared by Samer Matta (Economic Analyst), under the general guidance of Eric Le Borgne (Lead Economist) and Bernard Funck (Practice Manager). May Ibrahim (Senior Executive Assistant) provided Arabic translation and Zeina El Khalil (Communications Officer) 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.

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## Executive Summary

- i. **Regional tensions and their recent extension to Iraq are bearing down on the Jordanian economy, causing a widening of the trade deficit and a weakening of investor confidence.** A deceleration in exports due to the recent developments in Iraq coupled with a surge in energy imports are expected to widen the trade deficit in the second half of the year. Growth this year would however be supported by buoyant private consumption and increased government investment. While the former is partly due to the presence of more than 618,000 UNHCR-registered Syrian refugees (9.5 percent of the population), the latter reflects the GCC-financed program earmarked to capital projects. Although easing, unemployment, especially among youth and women, remains high.
- ii. **Fiscal pressures persist due to the large losses incurred by the National Electric Power Company (NEPCO), resulting from the disruption of gas supply from Egypt.** Excluding grants, Jordan's government (non-financial public sector) deficit is expected to widen by 0.6 percentage points (pp), to 14.7 percent of GDP in 2014. The deterioration is mainly due to a 2 pp projected rise in NEPCO losses as a result of the severe shortfall in the Egyptian gas supplies that forced NEPCO to run its gas designed power stations on more expensive diesel oil. As a result, gross public debt is projected to increase to 90.6 percent of GDP in 2014.
- iii. **In order to stimulate the sluggish economy, the central bank of Jordan (CBJ) maintains its expansionary monetary policy.** In an effort to close the persistent negative output gap observed since Q1-2011, the central bank lowered its key policy rates by 125 bps since August 2013 amid a drop in headline inflation (despite some temporary pressures on core inflation, which are expected to abate in the last quarter of 2014), and a substantial increase in foreign reserves. This monetary policy easing has not yet translated into higher lending as credit to the private sector remained subdued, possibly on account of the testing and uncertain regional climate.
- iv. **Looking forward, a reduced energy bill and higher government investment will boost economic activity in 2015 and 2016 to 3.4 and 3.9 percent, respectively.** The upward projected growth path for the next two years is assumed to be driven by (i) higher capital expenditures, reflecting the continued implementation of the GCC grants (e.g., funding large development projects such as LNG terminals) and (ii) a lower trade deficit mainly reflecting an expected drop in energy imports as the country is diversifying its energy sources. However, Jordan faces short-term challenges due to the Syrian conflict and the recent crisis in Iraq. Reforms to diversify Jordan's energy supply in the medium term and reduce the dependence on volatile foreign aid, will be indispensable in order to reduce the large twin deficits and macroeconomic vulnerabilities.



## الملخص التنفيذي

i. إن تصاعد وتيرة الصراعات الإقليمية وامتدادها في الآونة الأخيرة لتطال العراق يلقيان بثقلهما على الاقتصاد الأردني، وقد برز ذلك من خلال توسع العجز التجاري وضعف ثقة المستثمر. من المتوقع أن يزداد العجز التجاري بالتوسع في النصف الثاني من العام وذلك بسبب التباطؤ في معدل نمو الصادرات من جزاء التطورات الأخيرة في العراق، إضافة إلى واردات الطاقة المتزايدة. ونتيجة لذلك، كما بالإضافة إلى الانخفاض المتوقع في ثقة المستثمرين بسبب الأوضاع الأمنية المندھورة في العراق وسوريا، لقد قمنا بتخفيض توقعاتنا في ما يخص نسبة النمو من 3.1 بالمئة إلى 3 بالمئة للعام 2014. منالمتوقع أن يتأثر النمو إيجاباً بالاستهلاك الخاص الناشط وزيادة الاستثمارات الحكومية. فالاستهلاك الخاص يعود جزئياً إلى وجود ما يناهز الـ 618 ألف لاجئاً سورياً مسجلاً لدى المفوضية السامية للأمم المتحدة لشؤون اللاجئين، أي ما يعادل 9.5 بالمئة منالسكان. أما زيادة الاستثمارات الحكومية فتعكس البرنامج التمويليبدول مجلس التعاون الخليجي المخصص للمشاريع الرأسمالية في الأردن. لكن البطالة، وبالأخص بين الفئة الشبابية والإناث، لا تزال تشكل عبأً.

ii. يستمر الضعف المالي بسبب الخسائر الكبيرة التي تكبدتها شركة الكهرباء الوطنية الناجمة عن انقطاع إمدادات الغاز من مصر. ومن المتوقع أن يتسع عجز الحكومة الأردنية (القطاع العام غير المالي)، باستثناء المنح، بنسبة 0.6 نقطة مئوية، ليبلغ 14.7 بالمئة من الناتج المحلي الإجمالي في العام 2014. ويعود ذلك التدهور بالإجمال إلى الخسائر المتوقع ارتفاعها بنسبة 2 نقطة مئوية في شركة الكهرباء الوطنية نتيجة للنقص الحاد في امدادات الغاز المصري مما أجبر شركة الكهرباء الوطنية على تشغيل محطات الكهرباء المصممة على الغاز باستخدام زيت الديزل الأعلى كلفة. ولكن من المتوقع أن يتقلص العجز المالي، بعد شمل المنح، بنسبة 0.9 نقطة مئوية ليبلغ 9.6 بالمئة من الناتج الإجمالي المحلي خلال العام 2014. ونتيجة لذلك، من المتوقع أن يرتفع الدين العام الإجمالي إلى 90.6 في المئة من الناتج المحلي الإجمالي في العام 2014.

iii. بينما تبقى السياسة المالية متشددة، يحافظ البنك المركزي الأردني على سياسته النقدية التوسعية. فبهدف تحفيز الاقتصاد الراكد وإغلاق فجوة الناتج السلبية المستمرة منذ الربع الأول من العام 2011، قام المصرف المركزي بتخفيض أسعار الفائدة الأساسية بمقدار 125 نقطة أساس منذ أغسطس 2013 وسط انخفاض في التضخم (على الرغم من بعض الضغوط المؤقتة علنالتضخم لأساسياتلتيمن المتوقع أنتهأفي الربع الأخير من عام 2014) وارتفاع ملحوظ في الاحتياطات الأجنبية. لم تُترجم تلك السياسة النقدية حتى الآن إلى نسبة أعلى من الإقراض حيث نطاق الائتمان للقطاع الخاص ما زال ضيقاً ، وقد يعود ذلك إلى إجراءات الاختبار والوضع الإقليمي غير المستقر.

iv. إن تضيق العجز التجاري وزيادة الاستثمارات الحكومية سوف يؤديان إلى تنشيط النمو الاقتصادي في العامين 2015 و 2016 لتبلغ نسبته 3.4 و 3.9 بالمئة على التوالي. ويعتمد تصاعد النمو المتوقع خلال العامين القادمين على

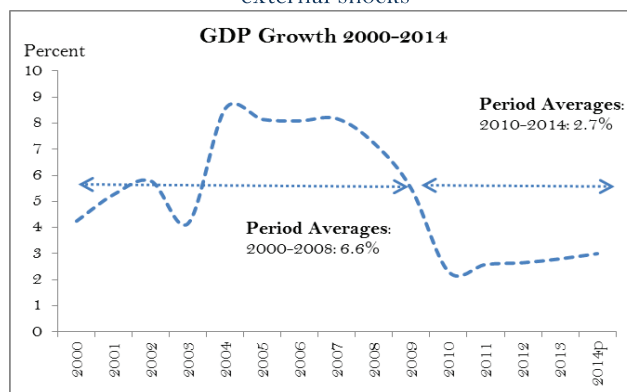
العوامل التالية: (أ) زيادة النفقات الرأسمالية مما يعكس استمرار تنفيذ برنامج دول مجلس التعاون الخليجي(كتمويل المشاريع التنموية الكبيرة الحجم مثل محطات الغاز الطبيعي المسال)؛ و(ب) انخفاض في العجز التجاري الذي يعكس تدنٍ في واردات الطاقة كما هو من المتوقع، حيث يقوم الأردن بتنويع مصادره في ما يخص توليد الطاقة. ولكن مازال البلد يواجه تحديات على المدى القصير بسبب الصراع في سوريا والأزمة الأخيرة في العراق. فلا بد للأردن من تنويع موارد الطاقة على المدى المتوسط والحد من اعتماده على الهبات الخارجية المتقلبة وغير المؤكدة، وبالأخص تلك التي تقدمها الولايات المتحدة الأميركية ومجلس التعاون الخليجي، بهدف تقليص العجز المزودج والسيطرة على مكانن الضعف في الاقتصاد الكلي.

## Recent Economic and Policy Developments

### Output and Demand

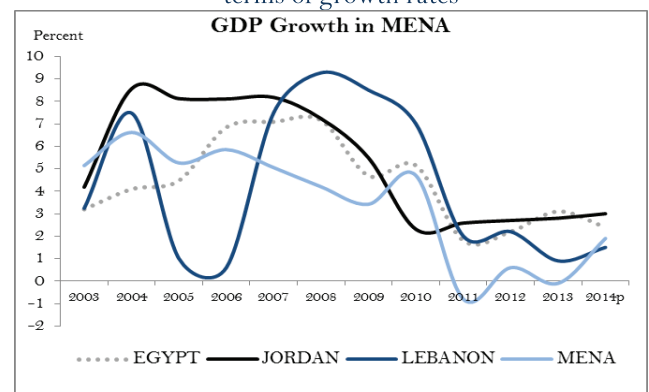
1. **Following the financial crisis, economic activity has been picking up gradually in Jordan, albeit slowly due to regional tensions.** The 2.7 percent average growth rate experienced between 2010 and 2014 is, nonetheless, far below the robust expansion achieved during the 2000-2008 period (where the average growth rate was 6.6 percent) (Figure 1). While the large growth rate deceleration is mainly due to the spillovers of the 2008 global financial crisis, the slow pick-up in economic activity is partly due to the numerous exogenous shocks that hit the country since 2011, such as the disruption of cheap gas flow from Egypt, the spillovers of the Syrian crisis that erupted in 2011 and, finally, the deteriorating security conditions in Iraq since June 2014. Regionally, Jordan's growth performance was slightly better than the average rate achieved in the Middle East and North Africa region (Figure 2).

Figure 1. Growth trajectory significantly affected by external shocks



Source: Department of Statistics and World Bank staff calculations

Figure 2. Jordan outperformed the MENA region in terms of growth rates



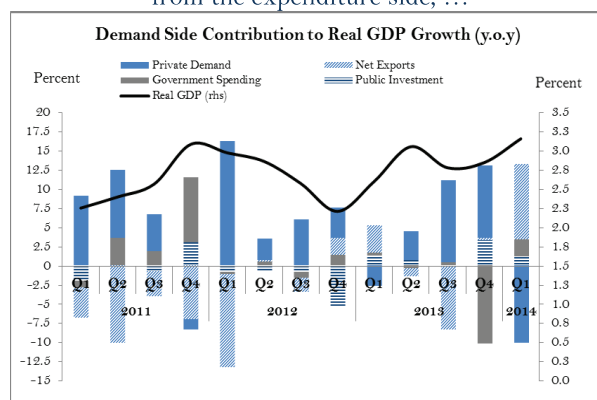
Source: World Bank Global Economic Prospects, June 2014

2. **On a yearly basis, real GDP growth accelerated from 2.8 percent in Q1-2013 to 3.2 percent in Q1-2014, primarily due to an improvement in net exports (Figure 3).** The trade deficit narrowed by an estimated 26.9 percent (yoy) in Q1-2014 as a result of a 17.6 percent (yoy) rise in exports and a 2.7 drop (yoy) in imports. The sharp rebound in export primarily stemmed from phosphate exports, as repeated labor strikes halted production in 2013. The improvement in the external sector was partly offset by a 9.3 percent fall in real private demand (private investment plus private consumption) which was historically the linchpin of growth. This weak performance was driven by private investment and in particular foreign direct investment, which contracted by 66 percent (yoy).

3. **From the production side, growth was driven by the agriculture and mining and quarrying sectors (Figure 4).** The contribution to real GDP growth of these two sectors increased by respectively 0.4 and 0.5 percentage points (pp) in Q1-2014 compared to same period of last year. The rise in the value added of the former is attributable to a 24 percent (yoy) increase in exports of vegetables and fruits, while the improvement in the latter is primarily due to a low base effect, as detailed above. On the other hand, the contribution of the wholesale and retail trade sector to real GDP growth dropped by 0.5 pp (yoy) in Q1-2014 partly reflecting the deceleration in the influx of

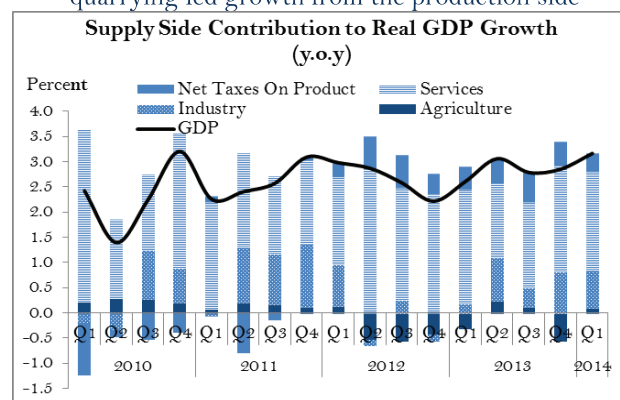
Syrian refugees<sup>1</sup>. In addition, the construction and manufacturing sectors experienced, respectively, 0.04 and 0.05 pp drops in their contribution to real GDP growth in Q1-2014, reflecting lower private investment.

Figure 3. In Q1-2014, Net export drove the growth rate from the expenditure side, ...



Source: Department of Statistics, Ministry of Finance and World Bank calculations

Figure 4.... while, agriculture and mining and quarrying led growth from the production side



Source: Department of Statistics and World Bank staff calculations

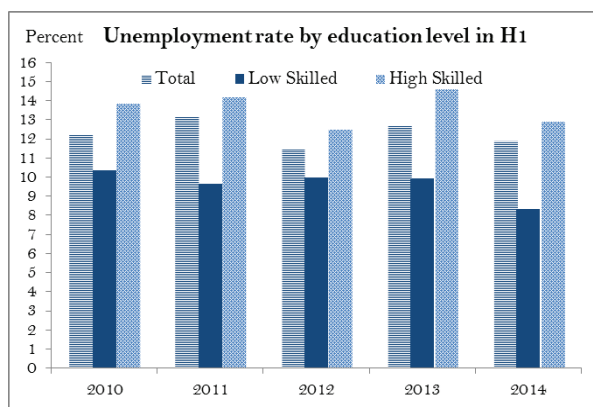
4. **Notwithstanding the Q1-2014 growth performance, real GDP growth for 2014 has been revised down to 3 percent, on account of a wider trade deficit and weaker investor sentiment in H2-2014.** Exports to Iraq, which is the largest export market for Jordanian goods, accounting for 18.4 percent of total exports in 2013, are expected to contract noticeably in the second half of 2014 (latest data available is up to June 2014) as Islamic State (IS) militants seized the Iraq border crossing with Jordan in June 2014. In addition, crude oil imports, which are used as substitutes for Egyptian gas, are projected to surge in 2014 as the supply of the latter was repeatedly interrupted in 2014. In addition, weaker investors' sentiment, as evidenced by the recent deterioration in the equity market observed since June 2014 (see below), could further weigh down on economic growth.

## Labor and Employment

5. **Unemployment remains a chronic problem despite recent (but volatile) signs of improvement.** Official data published by the department of statistics (DoS) show that the unemployment rate for the first half (H1) of 2014 reached 11.9 percent, dropping on average by 0.8 pp compared to the same period of 2013 (Figure 5). Notwithstanding this improvement, the labor market in Jordan still suffers from structural weaknesses as the seasonally adjusted (sa) quarterly unemployment rate has never been below 11 percent during the 21<sup>st</sup> century (Figure 6). Two groups that are particularly affected are women and youth. Unemployment among women stood at 21 percent in H1-2014 while that among youth between 15-19 and 20-24 years stood at 36.8 and 29.4 percent, respectively. On a regional basis, the northern governorates of Ajloun and Balqa registered the highest unemployment rates at about 15.2 and 19 percent while the lowest were recorded in Zarqa and Amman (Capital) governorates at 8.3 and 10.1 percent, respectively.

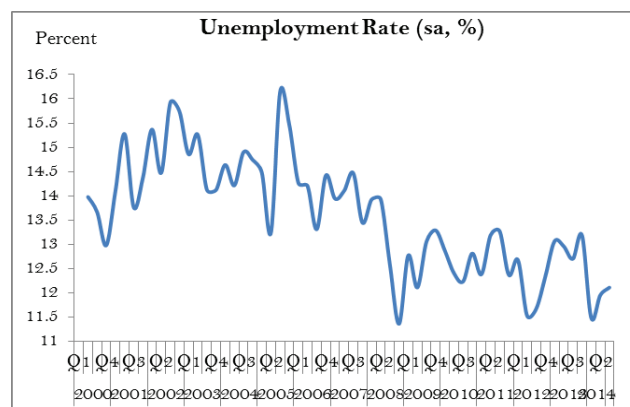
<sup>1</sup> During Q1-2014 6,800 Syrian refugees entered the Kingdom compared to 254,400 in the same period of 2013.

Figure 5.Despite dropping in the first half of 2014....



Source: Ministry of Tourism and World Bank staff calculations

Figure 6.... Unemployment remains a chronic problem.



Source: Department of Statistics

## Fiscal Policy

6. **With the support of the IMF SBA program, the central government is making progress towards fiscal consolidation, albeit at a slower pace due to the difficult regional environment.** Progress so far includes a series of revenue raising measures and efficiency-driven cuts in government expenditures. In particular, subsidies on petroleum products were also broadly eliminated in November 2012 with the exception of LPG cylinders for private consumption (rising fuel prices have also generated increased tax receipts for the government). 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. The government tightened, in 2014, the eligibility criteria to better target those who more genuinely need those cash transfers by proxy means testing looking not only into wage income, but also at consumption and asset indicators such as the possession of cars, lands and real-estate. Additionally, the revised income tax law, which has been endorsed by the cabinet in February 2014, is currently being discussed by the parliament for approval. The draft proposes to raise the personal income tax rates from 7 to 10 percent and 14 to 20 percent. Furthermore, it increases the corporate income tax rate from 14 to 20 percent. If passed by the parliament, the more progressive income tax law is planned to raise additional revenues of 0.7 percent of GDP per year.

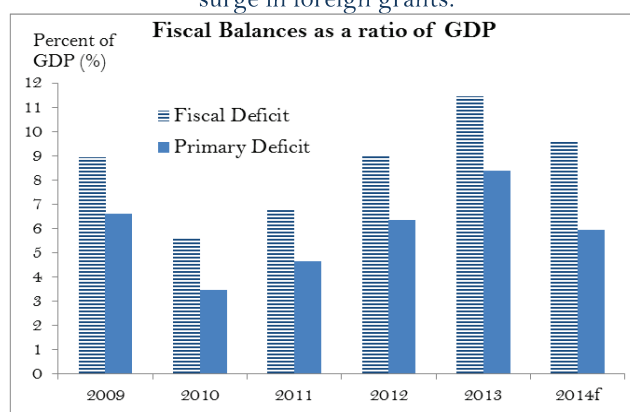
7. **In parallel however, losses incurred by the National Electric Power Company (NEPCO), are continuing to weigh heavily on the Kingdom's overall public finances.** In response, the government has begun to raise tariffs, first, on select businesses in 2013, and in January 2014, on households and industries who consume respectively over 600 and 10000 kilowatt-hours (KWh). These tariff increases fall however far short of what would be needed for achieving cost recovery. As a result, Jordan's (non-financial public sector) government deficit (excluding grants) is expected to widen by 0.6 percentage points (pp), to 14.7 percent of GDP in 2014.

8. **Sizeable grants from the Gulf Cooperation Council (GCC) are helping to finance this widening public sector deficit** (Figure 7). Grants from the Gulf Cooperation Council (GCC) are projected to rise to 5.2 percent of GDP in 2014, compared to 2.7 percent a year ago. Most of this amount is expected to be disbursed in the last quarter of 2014, as it is earmarked towards capital spending and is disbursed once the spending has taken place.



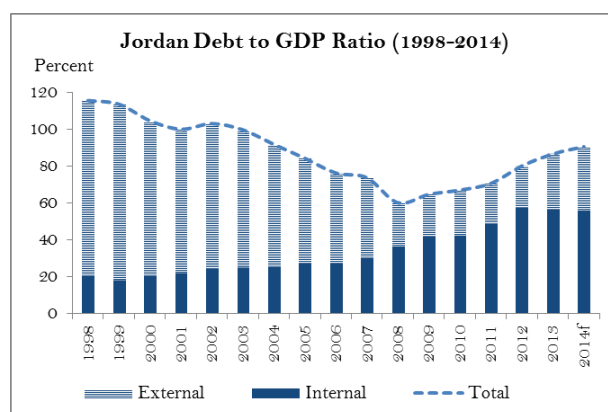
9. **High fiscal deficits coupled with subdued GDP growth continue to drive Jordan's debt to GDP ratio upwards for the seventh year running** (Figure 8). Gross public debt is projected to reach US\$32.6 billion (90.6 percent of GDP) at end-2014 compared to US\$29.1 billion (86.7 percent of GDP) at end-2013. Despite being mostly denominated in local currency, the share of external debt out of total public debt has been rising steadily over the last two years, increasing from 28 percent at end-2012 to 38 percent by June 2014. However, and in order to take advantage of the low international interest rates, Jordan issued in June 2014 a second US backed Eurobond valued at US\$1 billion at a low coupon rate of 1.9 percent (only 25 basis points over the comparable U.S. rate) with a maturity of five years.

Figure 7. Fiscal Balances improve thanks to an expected surge in foreign grants.



Source: Ministry of Finance and World Bank staff calculations

Figure 8. Debt to GDP ratio has been rising since 2008



Source: Ministry of Finance and World Bank staff calculations

## External Position

10. **The trade in goods balance deteriorated in H1-2014 due to rising energy imports as a result of the shortfalls of cheap gas supply from Egypt.** The tense security situation in the Sinai Peninsula, and the multiple explosions that targeted the pipeline used to import gas from Egypt, lead the Egyptian gas holding company (EGAS) to announce the indefinite suspension of natural gas supplies to Jordan since April 2014. As a result, and in order to meet the shortage in energy, Jordan had to increase its imports of expensive Gas Oil and Fuel Oil-Mazout in H1-2014 by respectively 73 and 81.4 percent (yoy). This led to a 27.3 percent rise in energy imports and a 9.2 percent (yoy) subsequent increase in total imports of goods. From the export side, total exports of goods, increased by 6.8 percent during H1-2014 attributable to an 8.6 percent rise in domestic exports, which more than offset the 3.3 drop in re-exports. Subsequently, the trade in goods deficit widened by 10.5 percent (yoy) during H1-2014 compared to a 3.6 percent increase in H1-2013 (Figure 9).

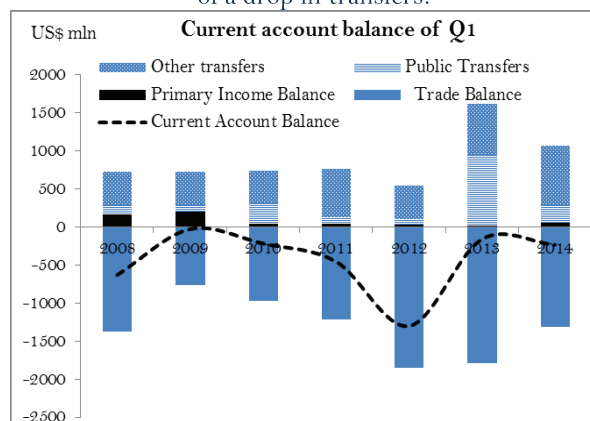


Figure 9. Trade deficit widened in the first half of 2014 due to a surge in energy imports.



Source: Department of Statistics, World Bank staff calculations

Figure 10. Current account deficit widened as a result of a drop in transfers.



Source: Central Bank of Jordan, World Bank staff calculations

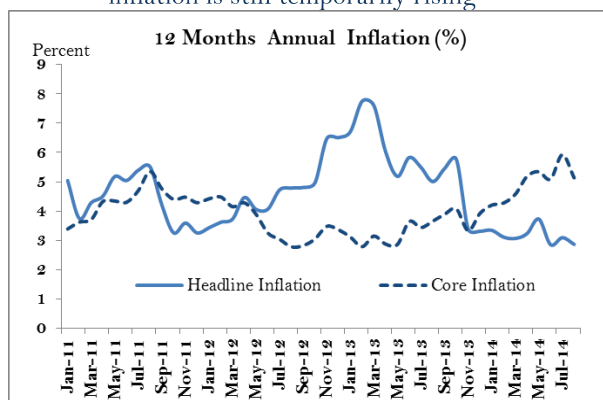
11. **The current account balance worsened nonetheless in Q1-2014 mainly due to a large drop in public current transfers** (Figure 10). The current account deficit widened by 52.6 percent in Q1-2014 (yoy) recording US\$339.1 million (0.9 percent of GDP) compared to the US\$222 million (0.7 percent of GDP) in Q1-2013. The deterioration, despite a 18.7 percent (yoy) drop in the trade in goods and services deficit during Q1-2014, is attributable to a 28 percent (yoy) contraction in the secondary income balance as a result of a 74.6 percent (yoy) drop in public transfers.

12. **The Central Bank of Jordan continued nonetheless to accumulate foreign reserves.** These rose compared to end-2013 to US\$14.5 billion in August 2014 (equivalent to 7.5 months of imports). This rise is mainly attributable to (i) the disbursement of US\$264.7 million from the IMF as part of the Stand-by-Arrangement (ii) US\$ 145 million GCC grants during H1-2014.

## Monetary Policy and Finance

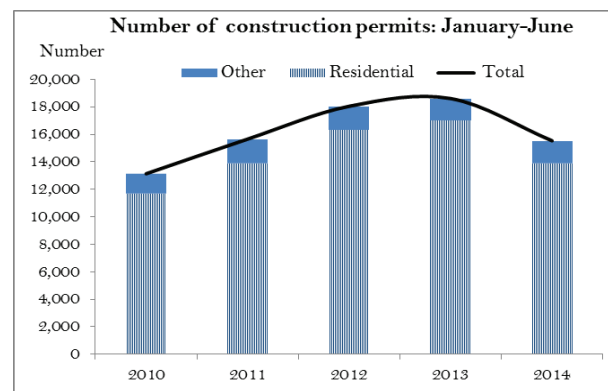
13. **Headline inflation is subsiding while temporary pressures on core inflation still persist** (Figure 11). After peaking at 7.8 percent in February 2013, due to the removal of oil subsidies in November 2012, Jordan's 12-month headline inflation declined to 2.9 percent (yoy) in August 2014. On a cumulative basis, the inflation rate during the first eight months of 2014, halved compared to the same period of 2013, averaging 3.1 percent. On the other hand, the 12-months core inflation rate, which excludes food and energy products, continued its upward trend observed since June 2013, reaching 5.1 percent in August 2014, compared to 3.4 percent in July 2013. This surge is driven by (i) 4.8, 6.4 and 8.2 percent (yoy) respective rises in education, housing rents, and medical care all reflecting the already high demand stemming from the large influx of Syrian refugee and (ii) a 10.1 percent (yoy) increase in the prices of clothing and footwear as a result of the government's decision in September 2013 to increase the customs duty on imported clothes from 5 to 20 percent. However, core inflation is expected to decrease in the last quarter of 2014 as (i) the inflationary effects from the increase in clothes prices are anticipated to wane off, and (ii) the lower demand observed in the real-estate sector in the first half of 2014, reflected by a 16.5 (yoy) drop in the number of construction permit in H1-2014 (Figure 12), is expected to relieve price pressures later this year. This is, in part, reflecting the lower increase in demand for housing as the influx of Syrian refugees has sharply abated since mid-2013.

Figure 11. Headline inflation dropped while core inflation is still temporarily rising



Source: Department of Statistics, World Bank staff calculations

Figure 12. Lower demand in the real-estate market

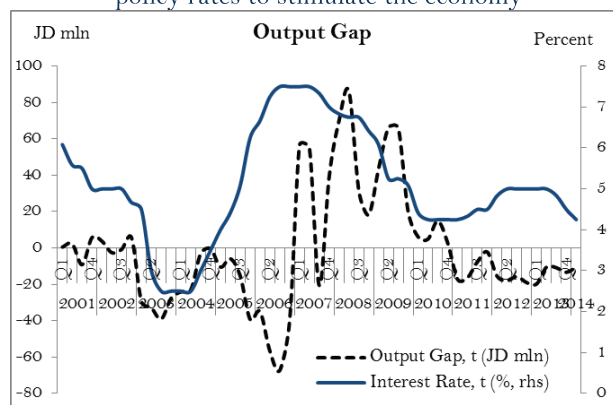


Source: Central Bank of Jordan, World Bank staff calculations

14. **The drop in inflation and the substantial increase in foreign reserves prompted the central bank to adopt an expansionary monetary policy aimed at promoting growth.** In order to stimulate the economy and close the negative output gap observed since Q1-2011 (Figure 13), the CBJ lowered its key policy rates by 125 bps since August 2013. Nonetheless, this did not translate into higher lending as credit to the private sector remained subdued relative to previous years growing by only 1.1 percent between June 2014 and end-2013, down from a 4.9 percent average in the same period of 2011-2013. This weak lending environment likely reflects the uncertain regional security environment. Notwithstanding the drop in local interest rates, and despite a small uptick in June, the dollarization rate maintained its downward trend observed since November 2012, dropping by 1.3 pp compared to end-2013, to 18.2 percent in July 2014. This reflects the increased confidence in the local currency.

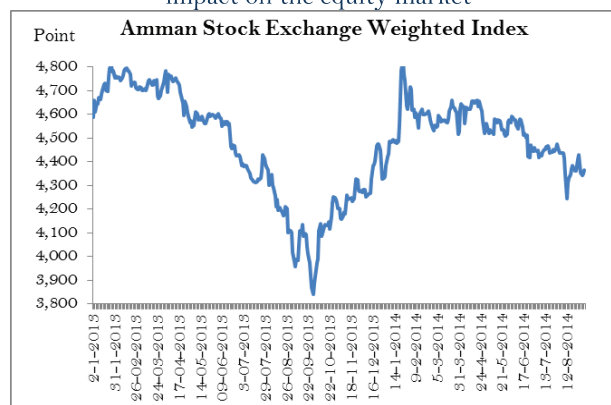
15. **The recent developments in Iraq have weakened investors' sentiment.** On the equity market, the pick-up in the Amman Stock Exchange Index (ASEI) observed during the first five months of 2014 dissipated in the subsequent three months (June-August 2014) as the surprise surge from the Islamic State militants into Iraq weighed down on investors' sentiment in Jordan. The ASEI dropped by 5 percent during the June to August period, after increasing by 5.4 percent between May 2014 and end-2013 (Figure 14). Consequently, the ASEI grew, on a cumulative basis, by only 0.1 percent during the first eight months of 2014.

Figure 13. Starting in August 2013, the CBJ cut its key policy rates to stimulate the economy



Source: Central Bank of Jordan, World Bank staff calculations

Figure 14. The recent developments in Iraq had an impact on the equity market



Source: Amman Stock Exchange

16. **The banking sector is recovering from the 2007-08 financial crisis, albeit at a slow pace due to the sluggish economic activity.**<sup>2</sup> In 2013, commercial banks' nonperforming loan (NPL) ratio fell for the third consecutive year to 7 percent after peaking at 8.5 percent in 2011 (Table 1). However, a modest economic recovery is not sufficient for the NPL ratio to return to its pre-crisis level of 4.1 percent (achieved in 2007). Meanwhile, banks' performance improved in 2013, as both the Return on Equity (ROE) and Return on Assets (ROA) reached 9.9 and 1.2 percent, respectively, compared to 8.6 and 1.1 percent in 2012. In addition, Jordanian banks are well capitalized with an 18.4 percent capital adequacy ratio, higher than the minimum threshold set by the Basel III and the CBJ requirements. However, the banks' exposure to sovereign debt,<sup>3</sup> has been increasing (lately accounting for 38.8 percent of total assets in July 2014, up from 36.6 percent in July 2013).

<sup>2</sup> The recent U.S. lawsuit against Arab Bank is not likely to have a grave impact on the banking sector because (i) the case is not new and has been in courts for a while, (ii) according to the CBJ, which strongly backs Arab Bank, the financial health of this bank is good as it enjoys a high level of capitalization with a capital adequacy ratio of 15 percent, and is able to withstand the likely repercussions of this litigation (iii) Arab Bank is currently in appeal and it will take some time for the final verdict to be issued.

<sup>3</sup> Banks' sovereign debt exposure is computed as the ratio of commercial banks' aggregate investment in claims on public sector and deposits at CBJ relative to total assets.

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

	2007	2008	2009	2010	2011	2012	2013
<b>Nonperforming Loans/Total Loans</b>	4.1	4.2	6.7	8.2	8.5	7.7	7.0
<b>Coverage Ratio</b>	67.8	63.4	52.0	52.4	52.3	69.4	77.0
<b>NPLs net of provisions/Equity</b>	4.3	5.7	10.6	12.6	13.4	8.3	5.6
<b>Capital Adequacy Ratio</b>	20.8	18.4	19.6	20.3	19.3	19.0	18.4
<b>Leverage Ratio</b>	13.3	12.9	13.0	13.1	13.1	13.3	12.9
<b>ROE</b>	12.6	11.5	8.8	8.8	8.3	8.6	9.9
<b>ROA</b>	1.6	1.4	1.1	1.1	1.1	1.1	1.2
<b>Net Profits After Taxes (JD millions)</b>	400	400	333	366	382	414	502
<b>Liquidity Ratio</b>	157.5	141.2	159.1	161.4	152.9	143.5	149.1
<b>Growth Rate of Total Assets</b>	10.9	11.4	7.4	9.6	7.9	4.3	9.1
<b>Growth Rate of Customer Deposits</b>	9.6	13.2	12.1	10.9	8.3	2.4	10.5
<b>Growth Rate of Credit Facilities</b>	16.1	17.2	2.1	8.6	9.8	12.5	6.3

Source: Central Bank of Jordan.

## PROSPECTS

17. **In spite of the recent deteriorating security conditions in Iraq, growth could pick up slightly in 2015 and 2016** to 3.4 and 3.9 percent, respectively. The upward projected growth path for the next two years is expected to be driven by (i) higher capital expenditures, reflecting the continued implementation of the GCC grants (e.g., funding large development projects such as LNG terminals), and (ii) a lower trade deficit, mainly reflecting an expected drop in energy imports as Jordan is diversifying its energy sources.

18. **The current account deficit is expected to widen in 2014 but could improve in subsequent years on account of lower energy imports.** The current account deficit in 2014 will be driven by a deteriorating trade balance and lower external assistance. Total imports are expected to increase from 71.3 percent of GDP in 2013 to 71.8 percent in 2014, due to increased energy imports as we anticipate repeated disruption of imported Egyptian gas in the remainder of 2014. In addition, and as a result of the Iraqi crisis, exports are expected to slightly decrease as a share of GDP from 42.5 percent in 2013 to 42.3 percent in 2014. Moreover, current transfers are expected to drop by 0.9 pp as a ratio of GDP between 2013 and 2014, showcasing the structural weakness of relying on unsustainable external financing as a mean to solve the current economic problems. For 2015 and 2016, a significant improvement in Jordan's energy balance will help the current account narrow.

19. **Jordan faces significant short-term challenges due to the Syrian conflict and its recent extension into Iraq.** In a recent study that predates the Islamic State surge into Iraq, the IMF<sup>4</sup> estimated that the Syrian crisis had an overall negative impact on economic activity, with losses to output growth at around 1 pp in 2013 and increased rental prices by 5 pp by year-end. Even though, the spillovers from the Iraqi crisis have been limited to the trading sector and weaker investors' confidence so far, a prolonged conflict could further adversely impact Jordan's growth prospects.

20. **Jordan is making notable progress in diversifying its gas energy sources; this is critical to the country's medium-term plan to reduce its large twin deficits.** Jordan, which imports 96 percent of its energy demand, has been in the grip of an energy crisis since 2011, after imports of cheap natural gas from Egypt have been disrupted repeatedly due to the sabotage of the pipeline carrying Egyptian gas to Jordan following the ousting of President Hosni Mubarak in January 2011. To diversify its energy sources and to contain NEPCO losses (estimated at 7.1 percent of GDP in 2014), the Government of Jordan announced plans to buy gas from Noble, an American oil company that is exploiting gas from the Levant basin, over a period of 15 years for a total cost of US\$15 billion. This deal is expected to be effective by the end of 2017. It will provide Jordan with significantly cheaper source of energy than its current fuel imports and would also contribute to Jordan's diversification of its energy suppliers. In addition, Jordan selected Russia's state energy utility, Rosatom, to build two 1,000 MW nuclear plants by 2022. On the other hand, the plan of building a US\$18 billion pipeline used to export crude oil from Basra (in Iraq) to the port city of Aqaba may be impacted by the recent unrest in Iraq.

21. **Meanwhile, the country continues to rely heavily on volatile foreign aid as the major source of financing.** The fiscal policy in Jordan is over-reliant on foreign grants,<sup>5</sup> mainly from the

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<sup>4</sup> International Monetary Fund, (2014) "Jordan: Selected issues", Country Report No. 14/153, Washington DC.

<sup>5</sup> The share of foreign grants as a ratio of GDP is very high, averaging 4.4 percent between 2000 and 2013.

US and the GCC countries, hence creating a moral hazard problem and undermining the need for fiscal adjustment. This dependence on external financing, which is generally volatile and unpredictable, creates a permanent fiscal policy risk, as it exposes Jordan to changes in the political and economic fortunes of its partners.



## Data Appendix

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

	2011	2012	2013	2014	2015	2016
	Act.	Act.	Act.	Proj.	Proj.	Proj.
<b>Real sector</b>	(annual percentage change, unless otherwise specified)					
Real GDP	2.6	2.7	2.8	3.0	3.4	3.9
Real GDP per Capita	0.4	0.4	0.6	0.8	1.1	1.6
Agriculture (share of GDP)	3.8	3.3	3.1	3.0	2.9	3.1
Industry (share of GDP)	25.6	25.1	25.0	25.6	24.8	25.7
Services (share of GDP)	70.6	71.5	71.9	71.4	72.3	71.2
<b>Money and prices</b>	(annual percentage change, unless otherwise specified)					
CPI Inflation (p.a)	4.4	4.7	5.6	3.1	2.8	2.5
Money (M2)	8.1	3.4	9.7	10.0	9.4	8.1
<b>Investment &amp; saving</b>	(percent of GDP, unless otherwise specified)					
Total Investment	25.5	26.9	28.0	27.9	26.5	23.0
Gross National Savings	15.2	11.7	18.0	16.5	17.1	15.1
<b>Government finance</b>	(percent of GDP, unless otherwise specified)					
Total revenues and grants	26.4	23.0	24.1	27.6	25.3	25.7
Domestic Revenue (excluding grants and privatisation)	20.5	21.5	21.5	22.4	22.6	22.7
o/w. tax revenue	15.0	15.3	15.3	15.9	16.0	16.0
Foreign Grants	5.9	1.5	2.7	5.2	2.7	3.0
Total expenditure and net lending	33.2	32.0	35.6	37.9	33.0	31.9
Current*	28.0	28.9	31.3	33.1	28.3	27.1
o/w wages and salaries	4.6	5.0	5.0	5.0	5.0	4.9
o/w interest payment	2.1	2.7	3.1	3.6	3.8	4.1
o/w Transfer to utilities (NEPCO and WAJ)	0.0	0.3	5.9	7.1	2.2	0.9
Capital & NL	5.2	3.1	4.3	4.7	4.8	4.8
Overall balance (deficit (-), excl. grants)**	-12.7	-10.5	-14.1	-14.7	-8.9	-6.1
Overall balance (deficit (-), incl. grants)	-6.8	-9.0	-11.5	-9.6	-6.2	-3.1
Primary Balance (deficit (-), excl. grants)	-10.6	-7.8	-11.0	-11.1	-5.1	-2.1
Primary Balance (deficit (-), incl. grants)	-4.7	-6.3	-8.4	-5.9	-2.4	1.0
<b>External sector</b>	(percent of GDP, unless otherwise specified)					
Current Account	-10.2	-15.2	-10.0	-11.3	-9.4	-7.9
Net Exports	-26.2	-28.0	-28.8	-29.5	-27.5	-26.2
Export FOB	47.7	46.2	42.5	42.3	42.6	43.4
Import FOB	73.9	74.3	71.3	71.8	70.1	69.6
Net Income and transfers	16.0	12.8	18.8	18.2	18.1	18.4
Net Private Investments (FDI and Portfolio)	6.0	5.8	10.1	10.2	9.7	10.1
Gross Reserves (Months of Imports GNFS)	6.3	4.1	6.5	7.0	6.8	6.7
<b>Total Debt</b>	(in million US\$, unless otherwise specified)					
Total Debt Stock	20,450	24,864	29,192	32,664	35,337	37,249
Gross Debt to GDP Ratio (%)	70.7	69.6	68.9	67.8	67.1	66.0
Debt to GDP Ratio (%)***	70.7	80.2	86.7	90.6	91.3	89.9
<b>Memorandum Items:</b>						
Nominal GDP (Billion JD)	20.5	22.0	23.9	25.5	27.4	29.3
GDP (in million US\$)	28,913	31,015	33,679	36,042	38,721	41,438

Source: Government Data and World Bank Staff Calculation.

\* Includes adjustment to other receivables for 2012 (0.4% of GDP) and transfers to NEPCO and WAJ

\*\* Includes Additional measures needed for 2014 (0.7% of GDP) 2015 (1.5 % of GDP) and 2016 (3.1% of GDP)

\*\*\* Government and guaranteed gross debt

Table 3. Jordan at a Glance

Key Development Indicators	Jordan	M. East & North Africa	Upper middle income
<b>(2013)</b>			
Population, mid-year (millions)	6.5	340	2,391
Surface area (thousand sq. km)	..	8,775	43,472
Population growth (%)	1.1	1.7	0.8
Urban population (% of total population)	83	60	61
GNI (Atlas method, US\$ billions)	32.0	1,113	16,661
GNI per capita (Atlas method, US\$)	4,950	3,450	6,969
GNI per capita (PPP, international \$)	5,980	7,062	10,621
GDP growth (%)	2.8	1.9	5.0
GDP per capita growth (%)	1.7	0.2	4.2
<b>(most recent estimate, 2005–2012)</b>			
Poverty headcount ratio at \$1.25 a day (PPP, %)	<2	2	8.4
Poverty headcount ratio at \$2.00 a day (PPP, %)	<2	12	19.5
Life expectancy at birth (years)	..	71	74
Infant mortality (per 1,000 live births)	..	21	16
Child malnutrition (% of children under 5)	..	6	3
Adult literacy, male (% of ages 15 and older)	98	85	96
Adult literacy, female (% of ages 15 and older)	94	70	91
Gross primary enrollment, male (% of age group)	105	109	111
Gross primary enrollment, female (% of age group)	83	101	110
Access to an improved water source (% of population)	..	90	93
Access to improved sanitation facilities (% of population)	..	87	74

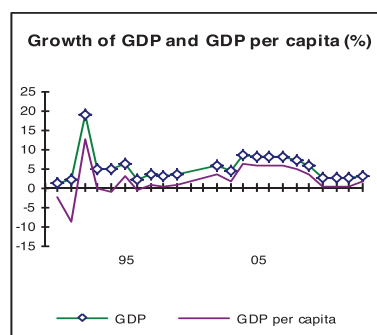
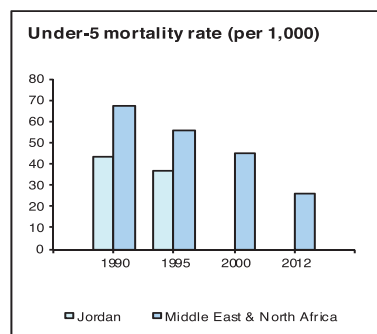
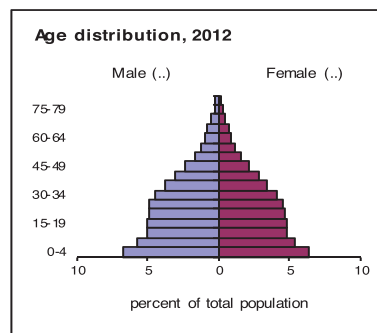
Net Aid Flows	1980	1990	2000	2013 <sup>a</sup>
(US\$ millions)				
Net ODA and official aid	1,576	952	553	1,417
Top 3 donors (in 2012):				
United States	50	58	188	557
France	4	7	17	126
European Union Institutions	11	7	81	124
Aid (% of GNI)	39.9	24.1	4.9	4.6
Aid per capita (US\$)	723	300	90	222

Long-Term Economic Trends	1980	1990	2000	2013
Consumer prices (annual % change)	11.0	16.1	1.3	5.6
GDP implicit deflator (annual % change)	-0.4	12.7	-0.4	5.6
Exchange rate (annual average, local per US\$)	0.3	0.7	0.7	0.7
Terms of trade index (2000 = 100)	..	..	..	..

	1980–90	1990–2000	2000–13
(average annual growth %)			
Population, mid-year (millions)	2.2	3.2	5.0
GDP (US\$ millions)	3,910	4,160	8,986
(% of GDP)			
Agriculture	7.9	7.7	2.3
Industry	24.1	26.2	25.8
Manufacturing	8.9	13.6	15.7
Services	68.0	66.0	72.0
Household final consumption expenditure	78.5	74.9	81.0
General gov't final consumption expenditure	29.2	24.0	22.9
Gross capital formation	37.2	30.8	21.1
Exports of goods and services	40.4	59.8	42.1
Imports of goods and services	85.3	89.6	67.2
Gross savings	31.1	21.0	20.8



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

<sup>a</sup>. Aid data are for 2012.

Development Economics, Development Data Group (DECDG).

Balance of Payments and Trade	2000	2013
<i>(US\$ millions)</i>		
Total merchandise exports (fob)	2,297	7,931
Total merchandise imports (cif)	4,877	21,919
Net trade in goods and services	-2,248	-9,712
Current account balance	-25	-3,367
as a % of GDP	-0.3	-10.0

Workers' remittances and compensation of employees (receipts)	1,845	3,574
Reserves, including gold	3,177	13,626

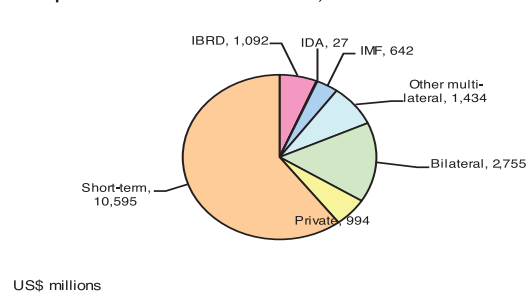
#### Central Government Finance

<i>(% of GDP)</i>		
Current revenue (including grants)	31.6	24.0
Tax revenue	15.7	15.3
Current expenditure	29.0	31.3
Overall surplus/deficit	-2.4	-11.5
Highest marginal tax rate (%)		
Individual	..	..
Corporate	25	25

#### External Debt and Resource Flows

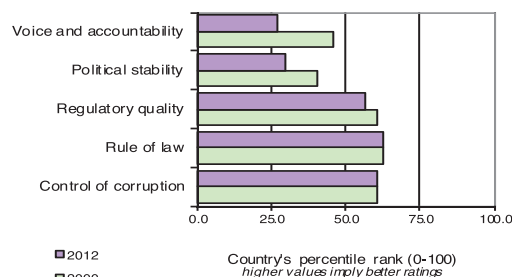
<i>(US\$ millions)</i>		
Total debt outstanding and disbursed	7,534	17,238
Total debt service	663	817
Debt relief (HIPC, MDRI)	—	—
Total debt (% of GDP)	83.8	51.2
Total debt service (% of exports)	10.6	4.4
Foreign direct investment (net inflows)	148	1,787
Portfolio equity (net inflows)	-285	1,601

#### Composition of total external debt, 2012



Private Sector Development	2000	2012
Time required to start a business (days)	—	12
Cost to start a business (% of GNI per capita)	—	23.4
Time required to register property (days)	—	21
Ranked as a major constraint to business (% of managers surveyed who agreed)	2000	2012
n.a.	..	..
n.a.	..	..
Stock market capitalization (% of GDP)	70.3	87.0
Bank capital to asset ratio (%)	7.0	10.1

#### Governance indicators, 2000 and 2012



Source: Worldwide Governance Indicators ([www.govindicators.org](http://www.govindicators.org))

Technology and Infrastructure	2000	2012
Paved roads (% of total)	100.0	100.0
Fixed line and mobile phone subscribers (per 100 people)	21	134
High technology exports (% of manufactured exports)	8.0	2.5

#### Environment

Agricultural land (% of land area)	12	11
Forest area (% of land area)	..	..
Terrestrial protected areas (% of land area)	1.9	1.9
Freshwater resources per capita (cu. meters)	135	110
Freshwater withdrawal (% of internal resources)	144.3	138.0
CO2 emissions per capita (mt)	3.2	3.4
GDP per unit of energy use (2005 PPP \$ per kg of oil equivalent)	3.5	4.6
Energy use per capita (kg of oil equivalent)	1,014	1,143

World Bank Group portfolio	2000	2012
<i>(US\$ millions)</i>		
<b>IBRD</b>		
Total debt outstanding and disbursed	886	1,092
Disbursements	161	283
Principal repayments	55	115
Interest payments	50	15
<b>IDA</b>		
Total debt outstanding and disbursed	55	27
Disbursements	0	0
Total debt service	3	3
<b>IFC (fiscal year)</b>		
Total disbursed and outstanding portfolio of which IFC own account	77	755
Disbursements for IFC own account	4	204
Portfolio sales, prepayments and repayments for IFC own account	26	14
<b>MIGA</b>		
Gross exposure	40	204
New guarantees	39	200

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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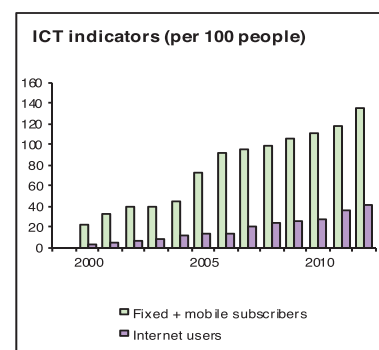
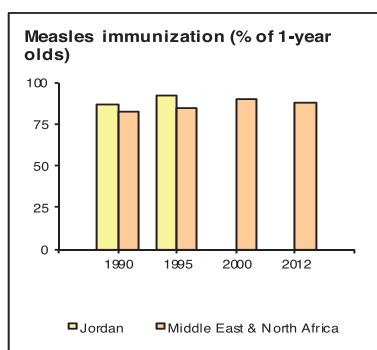
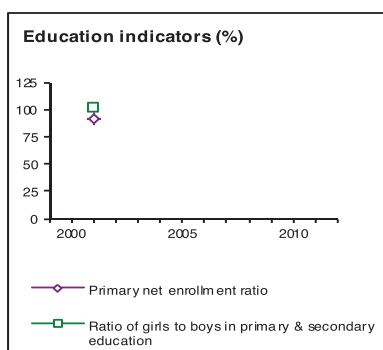
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# Millennium Development Goals

Jordan

With selected targets to achieve between 1990 and 2015  
(estimate closest to date shown, +/- 2 years)

	Jordan			
	1990	1995	2000	2012
<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)	96	95	101	93
Secondary school enrollment (gross, %)	76	84	86	89
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 1,000)	43	37	33	..
Infant mortality rate (per 1,000 live births)	35	31	27	..
Measles immunization (proportion of one-year olds immunized, %)	87	92	99	..
<b>Goal 5: reduce maternal mortality by three-fourths</b>				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	..
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)	..	..	9	..
Tuberculosis case detection rate (% all forms)	91	97	80	82
<b>Goal 7: halve the proportion of people without sustainable access to basic needs</b>				
Access to an improved water source (% of population)	97	..	..	..
Access to improved sanitation facilities (% of population)	98	..	..	..
Forest area (% of land area)	10	..	..	..
Terrestrial protected areas (% of land area)	0.7	1.1	1.9	1.9
CO2 emissions (metric tons per capita)	3.3	3.2	3.2	3.4
GDP per unit of energy use (constant 2005 PPP \$ per kg of oil equivalent)	3.2	3.4	3.5	4.6
<b>Goal 8: develop a global partnership for development</b>				
Telephone mainlines (per 100 people)	7.3	7.3	13.0	6.2
Mobile phone subscribers (per 100 people)	0.0	0.3	8.2	128.2
Internet users (per 100 people)	0.0	0.0	2.6	41.0
Households with a computer (%)	..	..	9.8	54.6



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

9/4/14

Development Economics, Development Data Group (DECDG).

## SELECTED SPECIAL FOCUS FROM RECENT *JORDAN ECONOMIC MONITORS*

### Spring 2014 JEM: “Resilience amid Turmoil”

Updating Poverty Estimates at Frequent Intervals: Preliminary Results from Jordan: (Special Focus 1) Jordan, not unlike many countries, relies on infrequent household expenditure and income surveys (HEIS) to estimate poverty in the country. In Jordan, the last HEIS survey dates from 2010 so that the last official poverty estimates is also from that year. When policy decisions are made in 2014, they are therefore based on rather dated estimates of poverty. Not only has Jordan suffered from a series of negative shocks, the Government has also introduced major mitigation programs (e.g., the petroleum cash compensation transfer). Have these programs been successful in protecting the poor? Is Jordan still progressing in its fight against poverty? To help answer these questions, World Bank staff developed an alternative method for estimating poverty by imputing household consumption data into the Employment-Unemployment Survey, which is conducted every quarter. This approach offers alternate annual poverty estimates for Jordan. Based on this new approach, estimates for 2011 and 2012 point to a small decrease in the poverty rate compared to 2010. Previous Bank research revealed, however, that a third of the population lived below the poverty line in at least one quarter of the year. Hence, while progress continues in tackling chronic poverty, transient poverty affects a large swath of the population, which points to a large share of vulnerable Jordanians.

Syrian Refugees and Labor Market Outcomes in Jordan: (Special Focus 2) A large influx of refugees into a country occurring over a relatively short time is bound to have a major impact on the host country’s labor market. While in principle both positive and negative impacts could arise from such a shock, ultimately the net impact on the Jordanian labor market remains an empirical question. Official data are utilized to examine the impact on three labor market indicators – labor force participation, the employment rate and the unemployment rate - while accounting for economic activity through using construction permits as a control variable, at the level of governorates. The Vector Autoregression (VAR) methodology has been adopted on panel data that involves a cross-section of governorates in Jordan, during the time period Q42007 to Q3 2013. We find evidence suggesting that the Syrian refugees are causing a reduction in the national labor force participation rate of Jordanians. Preliminary analysis reveals this could be the result of refugees willing to work for relatively low wages, causing a large increase in discouraged Jordanian workers (as these have a reservation wage that they perceive cannot be satisfied under the current environment and therefore prefer to drop out of the labor force altogether; since these discouraged workers are no longer searching for jobs, they are not counted in the rank of the unemployed). Given Jordan’s previously low labor force participation rate prior to the Syrian conflict, the recent drop in the participation rate is a source of concern.

### Fall 2013 JEM: “Moderate Economic Activity with Significant Downside Risk”

Impact of Syrian Crisis on Jordan’s Health Sector and Subsidies: (Special Focus 1) The large influx of Syrian refugees into Jordan, currently at over 8 percent of the Jordanian population, is having a significant and palpable socio-economic impact. Jordan’s open door policy and the authority’s generous decision to allow the refugees access to basic services rendered to nationals have generated large direct fiscal costs. This Special Focus provides quantified estimates of the cost of some of the most significant services provided to the refugees—drugs and vaccines administered and bread and LPG fuel subsidy programs—for the period 2012-2014. We find that drugs and vaccines are projected to cost the Jordanian budget USD 71.5 million during that time period. The bread and LPG subsidy programs are among the principal subsidies extended by the authorities to enable all Jordanian households access to basic necessities. As these are universal/untargeted subsidies, they

have also been accessible to the Syrian refugees and possibly to Syrians back in Syria. Using econometric analysis, we estimate the cost to the bread subsidy program due to increased demand by the refugees during the period 2012-2014 to be USD55 million. As for the LPG subsidy, we find that the additional cost comes out to be USD 24.9 million during that same period.

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



## Selected recent World Bank publications on Jordan

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

<b>Title</b>	<b>Publication Date</b>	<b>Document Type</b>
Jordan Economic Monitor: Resilience amid turmoil	2014/04/01	Report
Jordan country opinion survey report (July 2013 - June 2014)	2014/03/14	Working Paper
Jordan Economic Monitor: Moderate Economic Activity With Significant Downside Risk	2013/10/31	Report
Soft skills or hard cash? : the impact of training and wage subsidy programs on female youth employment in Jordan	2013/08/14	Brief
Mitigate the Impact of Syrian Displacement on Jordan	2013/07/18	Loan Agreement
Jordan Economic Monitor: Maintaining Stability and Fostering Shared Prosperity Amid Regional Turmoil	2013/06/25	Report
Developing micro, small and medium enterprises in Jordan : the route to shared prosperity (English)	2013/03/01	Brief
Do wage subsidies help young women get jobs?	2012/01/12	Brief
Doing business 2013 : Jordan – smarter regulations for small and medium-size enterprises : comparing business regulations for domestic firms in 185 economies	2012/23/10	Working Paper
Soft skills or hard cash? What works for female employment in Jordan?	2012/19/10	Working Paper
The Patterns and determinants of household welfare growth in Jordan : 2002-2010	2012/01/10	Policy Research Working Paper
PPIAF assistance in Jordan	2012/01/10	Brief
Health equity and financial protection datasheet: Jordan	2012/01/08	Brief
Privatization: lessons from Jordan	2012/01/07	Brief
Soft skills or hard cash ? the impact of training and wage subsidy programs on female youth employment in Jordan	2012/01/07	Policy Research Working Paper
The Jordan education initiative: a multi-stakeholder partnership model to support education reform	2012/01/06	Policy Research Working Paper
Who needs legal aid services? Addressing demand in Jordan	2012/01/03	Brief
Jordan - Carbon Capture and Storage (CCS): capacity building technical assistance	2012/01/03	Energy Study
Are Jordan and Tunisia's exports becoming more technologically sophisticated? Analysis using highly disaggregated export databases	2012/01/02	Working Paper
Jordan student aid reform : opportunities for a new generation	2012/01/02	Brief
Are Jordan and Tunisia's exports becoming more technologically sophisticated? And why it matters	2012/01/02	Brief
Jordan - First Programmatic Development Policy Loan Project: country partnership strategy - summary of discussion	2012/24/01	Summary of Discussion
Doing business in a more transparent world 2012 - economic profile: Jordan - comparing regulation for domestic firms in 183 economies	2012/01/01	Working Paper
Assessment testing can be used to inform policy decisions: the case of Jordan	2011/01/11	Policy Research Working Paper
Jordan - Reproductive health at a glance	2011/01/05	Brief



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