

# JORDAN



# ECONOMIC MONITOR

Uncertain and  
Long Trail Ahead

Spring 2021



**WORLD BANK GROUP**  
Middle East and North Africa Region



# Jordan Economic Monitor

Uncertain and Long Trail Ahead

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Middle East and North Africa Region

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# PREFACE

**T**he objective of this report is to apprise the Government of Jordan, think-tanks and researchers, the public, and the World Bank's senior management of Jordan's economy, outlook, structural reforms and development challenges. The first chapter covers recent economic developments, with sections on growth, labor market developments, fiscal and debt developments, the balance of payments, and monetary policy and inflation as well as macroeconomic outlook and risks. The second part of the report is comprised of special focus sections, which for this report focus on findings from COVID-19 follow-up surveys for Jordan; and COVID-19 and inequality in Jordan.

This Monitor update was prepared by the Macroeconomics, Trade & Investment Global Practice under the guidance of Saroj Kumar Jha (Country Director, MNC02), Holly W. Benner (Resident Representative, MNCJO), and Eric Le Borgne (Practice Manager, EMNM1). Analyses were contributed by Saadia Refaat (Senior Economist, EMNM1), Anastasia Janzer (ET Consultant, EMNM1), and Asif Mahmood (Consultant, EMNM1) who co-wrote the Outlook and Upcoming Challenges section. Anastasia Janzer (ET Consultant, EMNM1) wrote the Real Sector and Labor Market Developments sections. Yifan Zhang (Consultant, EMNM1) wrote the Fiscal and Debt Developments section. Asif Mahmood (Consultant, EMNM1) wrote the Balance of Payments and the Monetary Policy and Inflation sections.

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# ACRONYMS AND ABBREVIATIONS

ATM	Average time to maturity	M01	First Month/January
BoP	Balance of Payments	M06	Sixth Month/June
CAPB	Cyclically adjusted primary balance	M1	Monetary aggregate 1: Sum of currency in circulation and overnight deposits
CAD	Current Account deficit	M2	Monetary aggregate 2: Sum of M1, deposits with an agreed maturity of up to two years and deposits redeemable at notice of up to three months
CBJ	Central Bank of Jordan	MENA	Middle East and North Africa
CG	Central Government	MERS	Middle East Respiratory Syndrome
CGE	Computable General Equilibrium	MIn.	million
CPI	Consumer Price Index	MoF	Ministry of Finance
COVID-19	Coronavirus Disease 2019	M-o-M	Month-on-month
Dec	December	NAF	National Aid Fund
DoS	Department of Statistics	NDA	Net domestic assets
DSA	Debt Sustainability Analysis	NFA	Net foreign assets
EFF	Extended Fund Facility	NEPCO	National Electricity Power Company
ECDC	European Centre for Disease Prevention and Control	No.	Number
FDI	Foreign direct investment	OECD	Organisation for Economic Co-operation and Development
FX	Foreign exchange	OxCGRT	Oxford COVID-19 Government Response Tracker
GCC	Gulf Cooperation Council	PB	Primary Balance
GFC	Global Financial Crisis	PPP	Purchasing Power Parity
GG	General Government	PSO	Public Service Obligation
GDP	Gross Domestic Product	Q-o-Q	Quarter-on-Quarter
HDR	Human Development Report	Q1	First Quarter
HP filter	Hodrick-Prescott HP filter	Q3	Third Quarter
ILO	International Labour Organization	Q4	Fourth Quarter
IMF	International Monetary Fund	RHS	Right hand side
ISIC	International Standard of Industrial Classification		
Jan-Feb	January to February		
JD	Jordanian Dinar		
LFP	Labor Force Participation		

RFI	Rapid Financing Instrument	UNICEF	United Nations Children's Fund
SARS	Severe Acute Respiratory Syndrome	UNESCO	United Nations Educational, Scientific and Cultural Organization
SMEs	Small and medium-sized enterprises		
SSC	Social Security Corporation	U.S.	United States
SSIF	Social Security Investment Fund	US\$	United States Dollar
ST	Short-term	WAJ	Water Authority of Jordan
TFP	Total Factor Productivity	WEO	World Economic Outlook
UN	United Nations	WBG	World Bank Group
UNHCR	United Nations High Commissioner for Refugees	WFP	World Food Programme
		y-o-y	Year-on-year



# EXECUTIVE SUMMARY

**D**espite recent progress on vaccine developments to combat the COVID-19 pandemic, the global economic recovery remains surrounded by high uncertainty. During the first half of 2020, global economic output declined by an unprecedented level, resulting in a sharp fall in global trade. The latest estimates from the IMF WEO in April 2021 indicate that the global economy contracted by 3.3 percent in 2020. This contraction is substantially deeper than one observed during the Global Financial Crisis of 2007–08. However, recent trends are pointing toward a strong recovery for global economic activity in the second half of 2021 supported by substantial fiscal and monetary stimuli.<sup>1</sup> Nevertheless, the extent of the protraction is closely linked to vaccine rollout, which is gaining critical mass in some developed economies, but remains uneven across the world. Indeed, the World Bank is projecting global economy to grow by 4 percent in 2021.<sup>2</sup> Nevertheless, this global outlook retains an important country-specific component which depends on the adjustment capacity of each economy as well as the effectiveness of its policy to minimize permanent scarring to the economy as well as pace and scale of domestic vaccine rollout.

**The Government of Jordan has responded with various measures to alleviate the socio-economic impact of the COVID-19 shock.** In order to mitigate its repercussions, the government,

the Central Bank of Jordan, and the Social Security Corporation have adopted timely and rapid economic measures targeting individuals and sectors most affected by the crisis, aiming to protect jobs and avert sustainable damage to the economy. The total intervention package of the Central Bank of Jordan amounted to around 8 percent of GDP. On the other hand, fiscal measures in response to the pandemic included a sales tax exemption on certain medical equipment and additional spending for purchases of health equipment and supplies. Support for businesses and the tourism sector included a reduction of social security contributions, a reduction of the general sales and service tax for restaurants and hotels as well as JD 20 million direct support for the tourism sector. In addition, workers have been supported through the Social Security Corporation's unemployment allowances for workers in businesses not able to operate during the pandemic. Government of Jordan also provided cash support to the poor and vulnerable households through regular cash transfer

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<sup>1</sup> According to the IMF World Economic Outlook for April 2021, global output and trade are projected to increase by 6.0 percent and 8.4 percent in 2021. Respectively, these projections indicate 0.5 and 0.3 percentage points upward revision when compared to the IMF projections made in January 2021.

<sup>2</sup> World Bank. Global Economic Prospects, January 2021.

programs implemented by the National Aid Fund (NAF) as well as the Takaful-1 cash transfer programs, which have also been extended to provide temporary cash transfers to households of informal workers through Takaful-3, as well as the Istidama program, aimed at subsidizing wages and social security contributions of formal workers in affected companies. In March 2021, Government further announced another stimulus packages and relief measures, totaling around 1.4 percent of GDP which included extending the time for Istidama and expansion Takaful-3 to more beneficiaries.

**In 2020, Jordan's economy contracted by 1.6 percent, the first contraction in three decades.** While historic for Jordan, this contraction nevertheless was among the shallowest in the world in 2020 (see Figure 2), and quite muted given Jordan's economic structure and, in particular, its significant reliance on tourism receipts. Part of this reduced impact can be attributed to the authorities' timely and large fiscal and monetary stimuli, totaling around 10.5 percent of GDP.<sup>3</sup> Moreover, our analysis indicates that though the tourism shock caused a significant decline in the value of country's services exports, this negative impact was partially mitigated by a substantial improvement in terms of trade caused by the decline in the international oil prices. This was further aided by appropriate adjustment on the current account supported by availability of additional external financing (Box 1: Jordan's 2020 growth puzzle). The real question for Jordan however, still remains—how to put growth back on the path to recovery and, subsequently, a high and inclusive trajectory, given that Jordan's economy had been losing steam even prior to the pandemic (Box 3: A growth accounting exercise for Jordan). Part of these challenges have been further exacerbated by the Covid-19 shock. Putting the economy back on a sustained and inclusive recovery growth path requires important adjustments in policymaking.

**Unlike the real economy, the labor market deteriorated sharply in 2020 and is in worrisome shape.** Even before the pandemic, Jordan's labor market suffered from structural issues that have led to a gradual deterioration of labor market outcomes, including rising unemployment, one of the lowest

levels of labor force participation in the world, and high informality. Economic growth has not led to a reduction in unemployment as employment shifted from high- to low-productivity sectors, which has been driving down the overall level of labor productivity. The pandemic has compounded this deterioration in labor market indicators with unemployment reaching 24.7 percent in Q4-2020 as compared to 19.0 percent recorded in the same period last year. The youth age-group (15–24 years) remained disproportionately affected by the crisis, with youth unemployment reaching an alarming level with every second youth unemployed, while for female youth, incidence reached as high as three out of every four. This finding is supported by a recent WBG survey of MENA firms including Jordan (see Special Focus 1) according to which, lockdowns and demand shocks have had a strong impact on the private sector which resulted in high closure rates, particularly in the services sector, which accounts for Jordan's 60 percent share in output and two-thirds share in employment.

**Reflecting the challenging global environment, Jordan's external account sharply deteriorated in 2020 despite substantial narrowing of country's merchandise trade account.** Specifically, the current account deficit (CAD), including grants, widened to US\$3.5 billion or 8.0 percent of GDP in 2020 compared to US\$0.95 billion or 2.1 percent of GDP in 2019. Interestingly during 2020, on net basis, Jordan witnessed a windfall gain as a result of the positive oil price shock, though on the other hand, this led to decline in remittances, given significant dependence on flows from Gulf Cooperation Council (GCC) countries (Box 5: Merchandise trade balance, workers' remittances and international oil prices: Some empirical observations in the case of Jordan). The sharp oil price decline led to a drop in Jordan's import bill, leading to significant improvement in the trade balance, which narrowed from 19.6 percent of GDP in 2019 to 16.5 percent of GDP in 2020. However, an unprecedented (76 percent) decline in international tourism flows kept

<sup>3</sup> Around 8 percent of GDP in liquidity measures by the CBJ and fiscal measures of around 2.5 percent of GDP (fiscal measures excluding equity injections, loans, asset purchase).

the CAD at an elevated level. Nonetheless, external financing remained comfortable due to better market access along with higher donor official inflows, which helped reduce increasing pressure from the external account, keeping foreign reserves coverage at an appropriate level. Given, higher commodity prices anticipated in 2021, Jordan's CAD is projected to remain broadly at the same level compared with 2020.

**Despite limited fiscal space, Jordan was able to initiate countercyclical fiscal policy to respond to COVID-19 shock.** Jordan's fiscal policy which historically has been typically pro-cyclical, responded counter-cyclically in 2020 (Box 4: The cyclicity of fiscal policy in Jordan), providing a stimuli of around 2.7 percent of GDP to the economy which helped prevent a more severe economic contraction and perhaps larger job losses.<sup>4</sup> This naturally widened the fiscal deficit of the Central Government (CG), including grants,<sup>5</sup> to 7.4 percent of GDP or almost 2.8 percentage points of GDP higher than 2019 due to decline in domestic revenues and elevated spending (to accommodate for COVID-19 related spending pressures)—similar fiscal developments took place across the world in the wake of COVID-19 shock.<sup>6</sup> Moreover, like other countries, Jordan also experienced a rise in public debt as General Government (GG) debt-to-GDP ratio increased by almost 7 percentage points to reach almost 85 percent at end-2020 (or 106.5 percent for the Central Government). Since the more protracted the pandemic, the larger its impact on public finance is likely to be, it is critical for countries to maintain a credible medium-term fiscal framework; this will enable to set a path for rebuilding fiscal buffers at a pace contingent on the recovery and to reduce public debt burden. For countries constrained with fiscal space, like Jordan, there is an urgent need to also direct attention toward creating space through increased revenue collection, greater tax progressivity, and by reducing wasteful subsidies.<sup>7</sup>

**Two special sections of this report focus on the pandemic's impact on private sector firms as well as poverty and inequality in Jordan.** Surveys results presented in the Special Focus on Jordan's Private Sector Snapshot reveal that, a year into the pandemic, the lockdowns and demand shocks have had a strong impact on the private sector, which

resulted in high closure rates, particularly in the services sector. To respond to the challenges, Jordanian firms have introduced new products and are using digital technologies more intensively, however, the pace of transformation has lagged behind other countries. Moving forward, the priority should be to support firms in building their resilience, especially among smaller firms, with support in areas related to firm capability improvement, export development and promotion, and technology uptake. The second Special Section analyzes the socioeconomic effects of the COVID-19 pandemic in the Middle East and North Africa region, with a special zoom in on Jordan. Similar to other MENA countries, the pandemic has increased extreme poverty and led to a rise in income inequality in Jordan. The rising inequality has consequences for planning the post-COVID period in Jordan. Building back better will need to offer the poorest and most vulnerable the opportunity to regain what they have lost and build resilience for future shocks, while labor market, social protection, health and education policies will need to be (re)considered through a lens of equity and inclusion.

**Going forward, Jordan's economy is expected to recover gradually from the COVID-19 crisis.** Real GDP in 2021 is projected to grow by 1.4 percent. This is showing only a muted recovery because of limited base effect, a population that would still not be immune to the COVID-19 by end-2021 given known vaccine procurement, delivery,

<sup>4</sup> IMF Fiscal Monitor, Database of Country Fiscal Measures in Response to the COVID-19 Pandemic, April 2021. Includes additional spending to the health sector, foregone revenues, and quasi-fiscal operations.

<sup>5</sup> As per IMF Government Finance Statistics classification, including use of cash and statistical discrepancy.

<sup>6</sup> According to the IMF Fiscal Monitor April 2021, average overall deficits as a share of GDP in 2020 reached 11.7 percent for advanced economies, 9.8 percent for emerging market economies, and 5.5 percent for low-income developing countries.

<sup>7</sup> Rodriguez Takeuchi, Laura Kiku, Wai-Poi, Matthew Grant. 2021. Fiscal Policy, Poverty and Inequality in Jordan: The Role of Taxes and Public Spending – Policy Summary (English). Washington, D.C.: World Bank Group.

and vaccination programs, as well as the presence of underlying structural impediments that were keeping the economy operating below its potential even before the crisis hit. Furthermore, the global path to recovery remains uneven and unclear at this stage. For Jordan, in the short-to-medium term, recovery remains contingent upon the speed of vaccination, not only at home but also abroad due to its significant trade, travel, and investment linkages with the outside

world. Over the medium-term, a wide range of growth-enhancing reforms are necessary to considerably strengthen the business and investment environment, boost innovations and competitiveness, and improve productivity in order to support a strong growth recovery and much-needed sustainable job creation. These reforms are also important in the post-COVID context of reducing debt vulnerabilities amid rising macroeconomic imbalances.



# الملخص التنفيذي

**ب** الرغم من التقدم الحاصل مؤخراً على صعيد توفير المطاعيم لمواجهة جائحة كوفيد-19، لا تزال عملية تعافي الاقتصاد العالمي محاطة بحالة من عدم التقين. فخلال النصف الأول من العام 2020، تراجع الناتج الاقتصادي العالمي إلى مستويات غير مسبوقة، الأمر الذي أدى إلى انخفاض حاد في التجارة العالمية. وتشير أحدث تقديرات تقرير آفاق الاقتصاد العالمي/صندوق النقد الدولي في نيسان 2021 إلى انكماش الاقتصاد العالمي بمقدار 3.3% في العام 2020. ويعد هذا الانكماش أعمق بكثير من ذلك الذي حدث أثناء الأزمة المالية العالمية (2007-2008). رغم ذلك، تشير الاتجاهات الحديثة إلى حدوث تعاف قوي في النشاط الاقتصادي العالمي خلال النصف الثاني من العام 2021 مدفوعاً بتحفييزات مالية ونقدية ضخمة<sup>8</sup>. رغم ذلك، يرتبط مدى إطالة المدى بصورة وثيقة بمدى توفير اللقاح، والذي يكتسب زخماً كبيراً في بعض الدول المتقدمة، لكن مع وجود تفاوت عبر دول العالم الأخرى. وفي الواقع، يتوقع البنك الدولي أن يحقق الاقتصاد العالمي نمواً بمقدار 4% في العام 2021<sup>9</sup>. بيد أن هذه النظرة المستقبلية العالمية تحافظ على مكون هام يختص بكل دولة، والذي يعتمد على قدرة كل اقتصاد على التكيف ومدى فعالية سياسته من أجل تقليل الأضرار الدائمة على الاقتصاد، وكذلك وتيرة ومدى توفير اللقاح والإقبال عليه.

**استجابات الحكومة الأردنية من خلال اتخاذ العديد من التدابير الهادفة إلى التخفيف من الأثر الاقتصادي والاجتماعي لصدمة كوفيد-19.** ومن أجل التخفيف من تداعيات الصدمة، قامت الحكومة الأردنية،

والبنك المركزي الأردني، والمؤسسة العامة للضمان الاجتماعي باتخاذ تدابير سريعة وفي توقيت مناسب لاستهداف الأفراد والقطاعات الأكثر تضرراً بفعل الأزمة، وذلك بهدف حماية الوظائف ومنع وقوع ضرر مستدام على الاقتصاد. وشكلت الحزمة الإجمالية لمبادرة البنك المركزي الأردني نحو 8% من الناتج المحلي الإجمالي. حيث تضمنت التدابير المالية استجابة للجائحة إعفاء معدات طبية محددة من ضريبة المبيعات والإنفاق الإضافي على المشتريات من المعدات والإمدادات الطبية. واشتمل الدعم المقدم للشركات وقطاع السياحة على تخفيض نسب اشتراكات الضمان الاجتماعي، وتخفيض الضريبة العامة على المبيعات وضريبة الخدمات على المطاعم والفنادق بالإضافة إلى تقديم دعم مباشر لقطاع السياحة بقيمة 20 مليون دينار. فضلاً عن ذلك، تلقى العاملون الدعم من خلال مخصصات تأمين البطالة المقدمة من قبل المؤسسة العامة للضمان الاجتماعي للعاملين في الشركات غير القادرة على العمل أثناء الجائحة. كما قدمت الحكومة الأردنية دعماً نقدياً للأسر الفقيرة والمحرومة من خلال برامج منتظمة للتحويلات النقدية المنفذة من قبل صندوق المعونة الوطنية بالإضافة إلى برامج التحويلات النقدية ضمن برنامج تكافل-1، والتي تم توسيعها أيضاً لتقديم تحويلات نقدية مؤقتة لأسر العاملين في القطاع غير المنظم من خلال برنامج تكافل-3، بالإضافة إلى برنامج استدامة، والهادف إلى دعم الأجور واشتراكات الضمان الاجتماعي للعاملين في القطاع المنظم لدى الشركات التي تضررت جراء الجائحة. وفي آذار 2021، أعلنت الحكومة أيضاً عن حزم تحفيزية وتدابير إنعاشية إضافية، تشكل في مجموعها قرابة 1.4% من الناتج المحلي الإجمالي، والتي تضمنت تمديد فترة برنامج استدامة والتوسع في برنامج تكافل-3 من أجل شمول المزيد من المنتفعين.

**شهد الاقتصاد الأردني في العام 2020 انكماشاً بمقدار 1.6%، وهو الانكماش الأول خلال ثلاثة عقود.** وبالرغم من أنه قد شكل حدثاً تاريخياً في الأردن، إلا أن هذا الانكماش كان من بين الأقل على مستوى العالم في العام 2020 (انظر الشكل 2)، وتم التخفيف منه بالنظر إلى هيكلية الاقتصاد الأردني وبالتحديد اعتماده الكبير على عوائد السياحة.

<sup>8</sup> بحسب تقرير آفاق الاقتصاد العالمي الصادر عن صندوق النقد الدولي لشهر نيسان 2021، من المتوقع أن يرتفع حجم الناتج والتجارة على المستوى العالمي بمقدار 6.0% و8.4% في العام 2021. وتشير هذه التوقعات، تبعاً، إلى إجراء تعديل صعوداً بمقدار 0.5 و0.3 نقطة مئوية بالمقارنة مع توقعات الصندوق في كانون الثاني 2021.

<sup>9</sup> البنك الدولي، تقرير الآفاق الاقتصادية العالمية، كانون الثاني 2021.

ويمكن أن يعزى هذا الأثر المخفف بشكل جزئي إلى التحفيزات المالية والنقدية الكبيرة التي قدمها السلطات في توقيت مناسب، والتي شكلت ما مجموعه قرابة 10.5% من الناتج المحلي الإجمالي<sup>10</sup>. علاوةً على ذلك، يشير تحليلنا أنه وبالرغم من أن الصدمة التي تلقاها القطاع السياحي تسببت في انخفاض ملموس في قيمة صادرات البلاد من الخدمات، إلا أن هذا الأثر السلبي قد تم تخفيفه جزئياً من خلال إدخال تحسينات كبيرة على صعيد التجارة بفعل انخفاض أسعار النفط العالمية. كما تم دعم ذلك من خلال التعديل المناسب في الحساب الجاري بدعم من توفر تمويل خارجي إضافي (الصندوق 1: أحجية النمو في الأردن 2020). رغم ذلك، يبقى هنالك سؤال هام للأردن- كيفية وضع النمو مجدداً على درب التعافي، وبالتالي، على مسار قوي وشمولي بالنظر إلى أن الاقتصاد الأردني فقد زخمه حتى ما قبل الجائحة (الصندوق 3: تمرين لحساب النمو في الأردن). وقد تفاقم جزء من هذه التحديات بفعل جائحة كوفيد-19. وتتطلب إعادة الاقتصاد إلى مسار نمو وتعافي بشكل مستدام وشمولي إجراء تعديلات جوهرية على صعيد رسم السياسات.

**بعكس الاقتصاد الحقيقي، شهد سوق العمل تدهوراً شديداً في العام 2020 وهو بحالة مقلقة.** فحتى ما قبل الجائحة، كان سوق العمل الأردني يعاني من مشكلات هيكلية أدت إلى تدهور تدريجي لمخرجات سوق العمل، بما في ذلك ارتفاع نسب البطالة، ونسب مشاركة في القوى العاملة تعد من بين الأدنى في العالم، وارتفاع حجم القطاع غير المنظم. ولم يفلح النمو الاقتصادي في الحد من نسب البطالة ذلك أن التشغيل تحول من القطاعات عالية الإنتاجية إلى القطاعات متدنية الإنتاجية، الأمر الذي أدى إلى انخفاض إجمالي في إنتاجية العمالة. وأدت الجائحة إلى المزيد من التدهور في مؤشرات سوق العمل حيث وصلت البطالة إلى 24.7% في الربع الرابع من العام 2020 مقارنةً مع 19.0% في نفس الفترة من العام الماضي. وبقيت فئة الشباب (15-24 عاماً) متضررةً بشكل غير متكافئ جراء الأزمة، حيث وصلت البطالة في صفوف الشباب إلى مستويات مقلقة بحيث أصبح واحد من بين كل شابين متعطلاً عن العمل. أما بالنسبة للشباب من الإناث فقد كانت 3 من أصل كل 4 شابات متعطلات عن العمل. ويلقى هذا الاستنتاج الدعم من دراسة أجرتها مجموعة البنك الدولي مؤخراً على الشركات في دول منطقة الشرق الأوسط وشمال أفريقيا بما في ذلك الأردن (انظر قسم التركيز الخاص 1). فبحسب الدراسة، كان للإغلاقات وانخفاض الطلب أثر قوي على القطاع الخاص، مما أدى إلى ارتفاع نسب إغلاق الشركات، وبالتحديد في القطاع الخدمي، والذي يشكل 60% من الناتج ويوفر ثلثي الوظائف في الأردن.

**بشكل يعكس البيئة العالمية الصعبة، تدهور الحساب الخارجي للأردن بصورة حادة في العام 2020 بالرغم من التقليل الملحوظ في حساب تجارة السلع في الأردن.** على وجه التحديد، اتسع عجز الحساب الجاري (بما في ذلك المنح) إلى 3.5 مليار دولار أمريكي أو 8.0% من الناتج المحلي الإجمالي في العام 2020 مقارنةً مع 0.95 مليون دولار أمريكي أو 2.1% من الناتج المحلي الإجمالي في العام 2019. وبشكل مثير للاهتمام وخلال العام 2020، وعلى أساس صاف، حقق الأردن مكاسب غير متوقعة، كنتيجة للصدمة الإيجابية لأسعار النفط، إلا أن ذلك أدى من ناحية أخرى إلى انخفاض تحويلات المغتربين، بالنظر إلى الاعتماد الكبير على التدفقات من دول مجلس التعاون الخليجي (الصندوق 5: ميزان تجارة السلع، وتحويلات المغتربين، وأسعار النفط العالمية: بعض المشاهدات

التجريبية في الحالة الأردنية). وقد أدى الانخفاض الحاد في أسعار النفط إلى انخفاض في فاتورة مستوردات الأردن، مما أدى إلى تحسن ملحوظ في الميزان التجاري، والتي تقلص من 19.6% من الناتج المحلي الإجمالي في العام 2019 إلى 16.5% من الناتج المحلي الإجمالي في العام 2020. إلا أن الانخفاض غير المسبوق في تدفق السياحة الدولية (76%) أدى إلى إبقاء عجز الحساب الجاري مرتفعاً. رغم ذلك، بقي التمويل الخارجي مريحاً بفضل الوصول الجيد إلى السوق بالإضافة على ارتفاع التدفقات الرسمية من الجهات المانحة، مما ساعد في خفض الضغط المتزايد على الحساب الخارجي، والمحافظة على مستويات مناسبة من احتياطات العملات الأجنبية. وبالنظر إلى الارتفاع المتوقع في أسعار السلع في العام 2021، من المتوقع أن يبقى عجز الحساب الجاري للأردن بشكل عام عند نفس المستوى بالمقارنة مع العام 2020.

**بالرغم من محدودية الحيز المالي، تمكن الأردن من الشروع في تطبيق سياسة مالية لمواجهة التقلبات الدورية بغرض الاستجابة لصدمة كوفيد-19.** فقد استجابت السياسة المالية في الأردن والتي كانت منذ القدم مساهمة للتقلبات الدورية بشكل عكسي للتقلبات الدورية في العام 2020 (الصندوق 4: التقلبات الدورية للسياسة المالية في الأردن)، من خلال تقديم حوافز بنحو 2.7% من الناتج المحلي الإجمالي للاقتصاد، الأمر الذي ساعد في منع حدوث انكماش اقتصادي أكثر شدة وربما خسارة عدد أكبر من الوظائف<sup>11</sup>. وأدى ذلك بشكل بديهي إلى اتساع العجز المالي للحكومة المركزية (بما في ذلك المنح)<sup>12</sup> إلى 7.4% من الناتج المحلي الإجمالي أو قرابة 2.8 نقطة مئوية من الناتج المحلي الإجمالي بالمقارنة مع العام 2019 بسبب انخفاض الإيرادات المحلية وارتفاع الإنفاق (للتأقلم مع ضغوطات الإنفاق المتعلقة بكوفيد-19). تم اتخاذ تدابير مالية مشابهة عبر دول العالم عشية صدمة كوفيد<sup>13</sup> 19-. علاوةً على ذلك، وكما هو الحال في دول أخرى، شهد الأردن ارتفاعاً في الدين العام حيث ارتفعت نسبة دين الحكومة المركزية إلى الناتج المحلي الإجمالي بنحو 7 نقاط مئوية لتصل إلى نحو 85% في نهاية العام 2020 (أو 106.5% بالنسبة للحكومة المركزية). وبالنظر إلى أنه وكلما طال أمد الجائحة، كلما كان من المرجح أن يكون أثرها أكبر على المالية العامة، فإن من المهم للغاية أن تحافظ الدول على إطار مالي موثوق متوسط المدى؛ حيث سيساعد ذلك في تمهيد الطريق لإعادة بناء هوامش أمان مالية بوتيرة مرهونة بالتعافي وخفض عبء الدين العام. وبالنسبة للدول التي تعاني من ضيق الحيز المالي، مثل الأردن، فإن هنالك حاجة ماسة أيضاً لتوجيه الاهتمام نحو إيجاد حيز من

<sup>10</sup> قرابة 8% من الناتج المحلي الإجمالي على شكل تدابير لتوفير السيولة من قبل البنك المركزي الأردني وتدابير مالية بنحو 2.5% من الناتج المحلي الإجمالي.

<sup>11</sup> تقرير الرائد المالي الصادر عن صندوق النقد الدولي، قاعدة بيانات التدابير المالية البلدانية استجابةً لجائحة كوفيد-19، نيسان 2021. يتضمن الإنفاق الإضافي على قطاع الصحة، والإيرادات الضائعة، والعمليات شبه المالية.

<sup>12</sup> بحسب تصنيف الإحصائيات المالية الحكومية لدى صندوق النقد الدولي، بما في ذلك استخدام التباين النقدي والإحصائي.

<sup>13</sup> بحسب تقرير الرائد المالي الصادر عن صندوق النقد الدولي في نيسان 2021، بلغ متوسط العجز الإجمالي كحصة من الناتج المحلي الإجمالي في العام 2020 إلى 11.7% لدى الاقتصادات المتقدمة، و9.8% لدى اقتصادات الأسواق الناشئة، و5.5% لدى الدول النامية متدنية الدخل.

خلال زيادة تحصيل الإيرادات، وتعزيز تصاعدي الضريبة، وتقليل أوجه الدعم المهدر<sup>14</sup>.

**يركز قسمين خاصين من هذا التقرير على أثر الجائحة على شركات القطاع الخاص والفقر والتفاوت في الأردن.** حيث تكشف نتائج المسوحات المقدمة في قسم التركيز الخاص حول لحظة سريعة عن القطاع الخاص في الأردن أنه، وعقب مرور عام على الجائحة، كان للإغلاقات وانخفاض الطلب أثر قوي على القطاع الخاص، مما أدى إلى ارتفاع معدلات إغلاق الشركات، وخصوصاً في القطاع الخدمي. وبغرض الاستجابة للتحديات، قامت الشركات الأردنية بإدخال منتجات جديدة وتقوم باستخدام التكنولوجيات الرقمية بشكل أكثر كثافة، بالرغم من أن وتيرة التحول بقيت أقل مما هو في دول أخرى. وبالنظر إلى المستقبل، يجب إعطاء الأولوية لدعم الشركات في بناء صمودها، خصوصاً الشركات الصغيرة، من خلال تقديم الدعم في مجالات تتعلق بتحسين قدرات الشركات، وتطوير وتشجيع الصادرات، واستخدام التكنولوجيا. ويقوم القسم الخاص الثاني بتحليل التأثيرات الاقتصادية والاجتماعية لجائحة كوفيد19- في منطقة الشرق الأوسط وشمال أفريقيا، مع التركيز بشكل خاص على الأردن. وكما هو الحال في الدول الأخرى في المنطقة، أدت الجائحة إلى ازدياد معدلات الفقر المدقع واتساع التفاوت في مستويات الدخل في الأردن. ويوجد للتفاوت المتزايد تبعات على التخطيط لمرحلة ما بعد كوفيد19- في الأردن. حيث ستتطلب إعادة البناء بصورة أفضل إعطاء الفئات الأشد فقراً والأكثر حرماناً الفرص لاستعادة ما فقده وبناء الصمود في مواجهة الصدمات المستقبلية، بينما يجب إعادة النظر في سياسات سوق العمل، والحماية الاجتماعية، والصحة والتعليم من منظور المساواة والشمول.

**بالنظر إلى المستقبل، من المتوقع أن يشهد الاقتصاد الأردني تعافياً تدريجياً من أزمة كوفيد19-.** حيث من المتوقع أن ينمو الناتج المحلي الإجمالي الحقيقي في العام 2021 بمقدار 1.4%. ويظهر ذلك تعافياً متواضعاً بسبب محدودية تأثير القاعدة، ووجود عدد من السكان الذين سيقون دون تحصين من كوفيد19- بنهاية العام 2021 بسبب الأمور المتعلقة بشراء اللقاح، وتوصيلها، وبرامج التطعيم، بالإضافة إلى وجود معوقات هيكلية أساسية تبقي الاقتصاد يعمل دون قدراته الكاملة حتى ما قبل وقوع الأزمة. علاوةً على ذلك، يبقى المسار العالمي للتعافي غير متكافئ وغير واضح في هذه المرحلة. وبالنسبة للأردن، وعلى المدى القصير إلى المتوسط، سيبقى التعافي مرهوناً بسرعة عملية التطعيم، ليس فقط على المستوى المحلي بل أيضاً في الخارج نظراً لصلات الأردن القوية في التجارة والسفر والاستثمار مع العالم الخارجي. وعلى المدى المتوسط، فإن من الضروري تطبيق سلسلة واسعة من الإصلاحات المعززة للنمو من أجل تقوية بيئة الأعمال والاستثمار بصورة ملموسة، وتعزيز الابتكارات والتنافسية، وتحسين الإنتاجية بغرض دعم تعافي نمو قوي واستحداث الوظائف المستدامة المطلوبة بشدة. كما تعد هذه الإصلاحات مهمة في سياق ما بعد كوفيد19- من حيث تخفيض هشاشة الدين في خضم ارتفاع الاختلالات الاقتصادية الكلية.

<sup>14</sup> رودريغيز تاكوشي، لورا كيكو؛ وي-بوي، ماثيو غرانت. 2021. السياسة المالية والفقر والتفاوت في الأردن: دور الضرائب والإنفاق العام- ملخص السياسة (باللغة الإنجليزية). واشنطن العاصمة: مجموعة البنك الدولي.



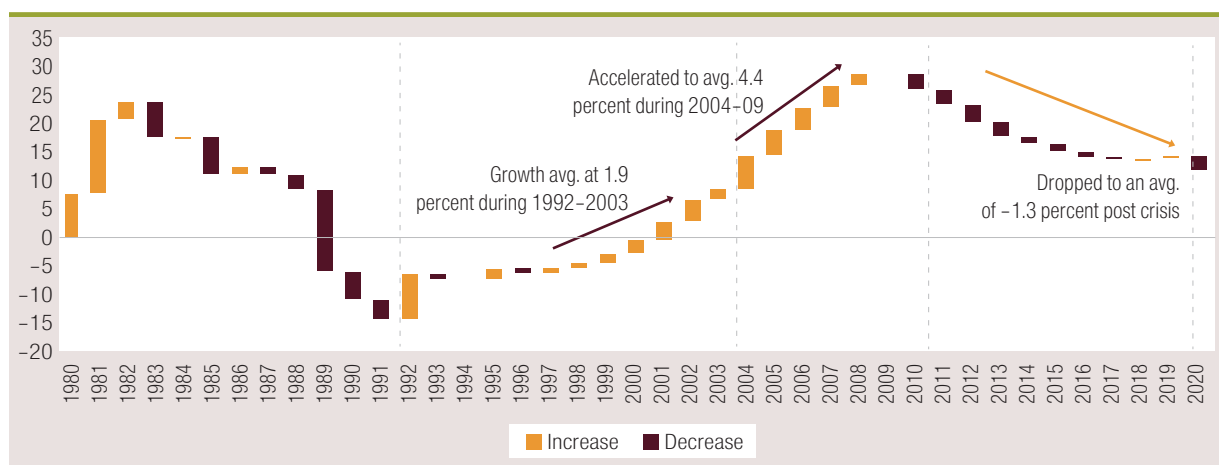
# ECONOMIC UPDATE

## The Real Sector

**The pandemic hit Jordan's economy when it was already losing steam.** Jordan's per capita GDP has been on a declining trend since 2009, exhibiting marginal positive trend only in 2018 and 2019 (Figure 1). The latter increase, however, can be attributed to a slowdown in population growth rather

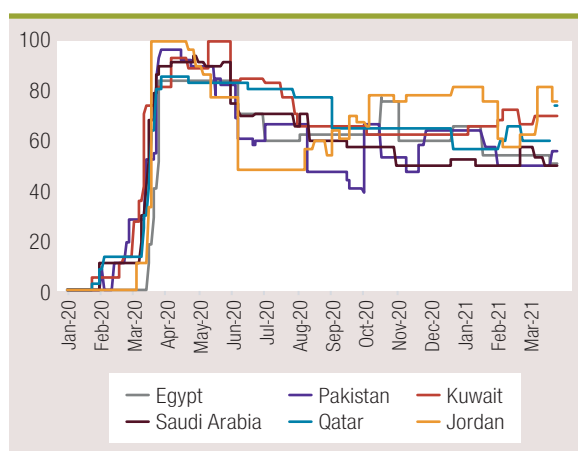
than acceleration of economic growth. As a result, over the last decade economic growth has not been enough to provide enough jobs for the country's rapidly growing population nor to improve living standards. Real GDP growth has been particularly sluggish during the past four years due to eroding productivity together with a slowdown in capital accumulation, even before the COVID-19 crisis hit

**FIGURE 1** • Jordan Per Capita GDP Growth in Historical Context (1980–2020)  
(Percent)



Sources: DoS and World Bank staff calculations.

**FIGURE 2 • Stringency Index**  
(100 = Total Closure)



Source: Oxford COVID-19 Government Response Tracker.

the economy (Box 3: A growth accounting exercise for Jordan). The COVID-19 crisis amplified these challenges through a shock to Jordan's vital tourism sector, a slowdown in external trade, and relatively strict and long-lasting containment measures required to minimize the spread of the virus.

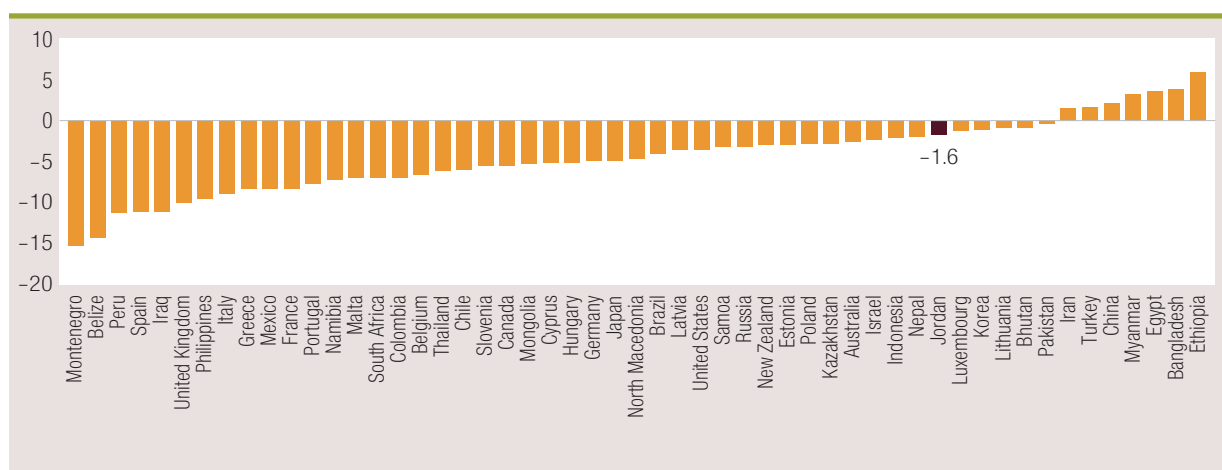
**Despite imposing one of the world's most rigorous lockdowns, Jordan GDP contraction in 2020 turned out to be relatively modest.** At the onset of the pandemic, authorities' stringent lockdown measures (as measured by the Oxford

COVID-19 Government Response Tracker, Figure 2) made Jordan one of the countries with the lowest COVID-19 cases per capita, but this also led to an almost standstill of economic activity and international tourism travel. A second and much stronger COVID-19 wave hit the country during the last quarter of 2020 and was accompanied by targeted containment (though still relatively strict in comparison with peers). However, in 2020, Jordan's real GDP contracted by a modest 1.6 percent, compared to 2.0 percent growth in 2019, revealing a much lower-than expected impact of COVID-19 disruptions on the economy (Box 1: *Jordan's 2020 growth puzzle*). This contraction is also much lower than regional and global peers (Figure 3).

**As expected, the COVID-19 shock has also significantly widened the output gap.** The output gap gives an indication of how efficiently an economy is running by measuring how far off the economy is from its potential output (i.e., output generated when all factors of production, such as labor and capital, are operating at full capacity).<sup>15</sup> According to our estimates, the Jordanian economy registered a large

<sup>15</sup> In this analysis we are using four different statistical filtering techniques on quarterly data (Q1-2008 to Q4-2020) including the Hodrick-Prescott (HP) (1987) filter, a de-trending statistical method most commonly used filter in macroeconomics, with smoothing parameter, a

**FIGURE 3 • Decline in Real GDP During 2020 for Selected Countries**  
(Percent)



Sources: DoS and World Bank staff calculations.

## BOX 1. JORDAN'S 2020 GROWTH PUZZLE

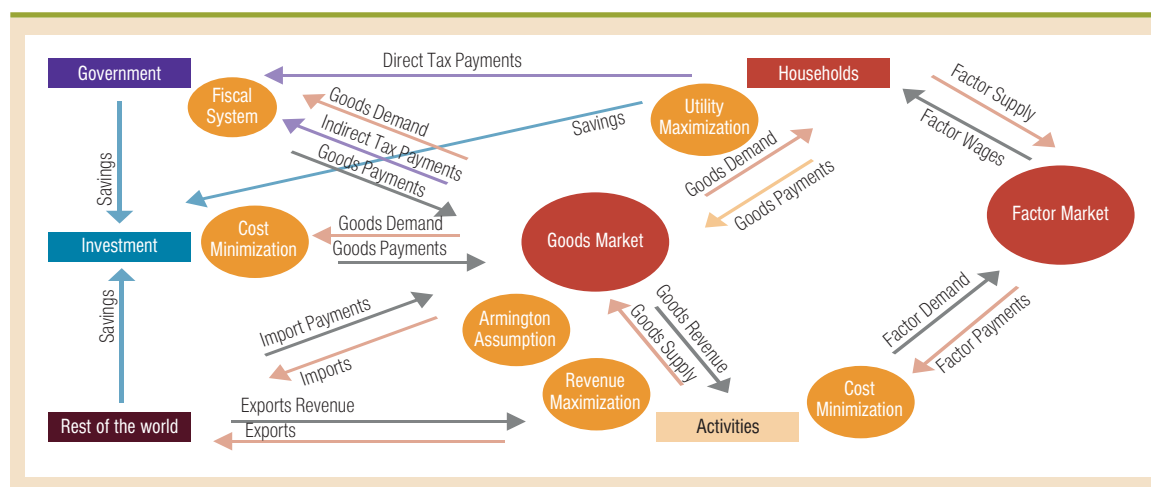
The COVID-19 shock led to a 1.6 percent contraction of Jordan's real GDP in 2020 despite having multiple COVID-19 waves during 2020 and one of strictest lockdown globally to contain its spread, which seems puzzling. In this box we analyze the reasons behind this puzzle, using a CGE model that incorporates short-term behavior with limited wage flexibility, allowing for temporary unemployment as firms may lay off workers during the COVID-19 crisis.<sup>a</sup>

Our findings from the CGE model reveal that the tourism shock caused a significant decline in the value of exports, approximately of a magnitude of 10 percent of GDP. This negative impact was, however, partially mitigated by a substantial improvement in terms of trade caused by the decline in the international price of oil in the early part of 2020. Consequently, Jordan managed to take good advantage of this windfall with the value of oil product imports declining by over 52 percent or over 5 percent of GDP over 2020.<sup>b</sup> Furthermore, additional external funding allowed the current account deficit to substantially decline, further offsetting the impact from the decline in export earnings from tourism.<sup>c</sup> Moreover, the decline in petroleum prices lowered output prices in the domestic productive sectors, which in turn helped to offset the decline in consumption and employment throughout the economy; this effect was most pronounced in the energy intensive sectors.

In addition, part of the expanded external funding inflow was used by the government to provide a strong fiscal stimulus through a combination of revenue and expenditure measures (Table 1), significantly expanding the Central Government deficit. Lower taxes and higher transfer payments left more money in the purse of the households, further offsetting the decline in domestic consumption and employment. The combination of windfall gains from oil prices, fiscal stimulus, and external funding mainly used for consumption expenditures materially insulated Jordan from the tourism trade shock and left only a smaller impact (-1.6 percent of GDP) from COVID-19 lockdowns (full and partial) on the economy. In the CGE model, we notice that this result is also contingent on a shift from private investment to consumption and a higher import propensity in tourism consumption of re-exported goods than found for the economy in general.

Looking forward to 2021, some recovery of the export of tourism services are currently forecast. However, with international price of oil currently trading at pre-COVID-19 crisis levels, the current account deficit is likely to remain on the high side high. Thus, the windfall gain experienced in 2020 is likely to operate oppositely, dampening any immediate expectation of a strong recovery.

**FIGURE 4 • Schematic Representation of Circular Flows in the CGE Model**



<sup>a</sup> An economy-wide recursive dynamic Computable General Equilibrium (CGE) representation of the Jordanian Economy has been developed in collaboration with the World Bank Jordan team. The model has both disaggregated sector and household representation by income deciles. This model is designed to analyze economy-wide implications of specific policy measures in the fiscal and external focus areas both in isolation as well as any relevant combined effects.

The economy-wide label implies that the model has a specific level of aggregation in all sectors of the Jordanian economy. The CGE specification implies that the model is a numerically specification of the demand and production relationships, the interrelationship between them, and is solved simultaneously for prices in all markets. The model has 23 productive sectors, each producing a unique commodity that is traded domestically and in competition with imported goods and/or exported internationally. The Jordanian government's revenue system has been given specific consideration. The government collects direct taxes on factor incomes as well as shares of capital rents. The governments also collect indirect taxes on intermediate and final consumption expenditures and on imports. Finally, the governments receive fees and fines from households. The Governments' consumption expenditure, investment, and subsidies and transfers to households are given exogenously.

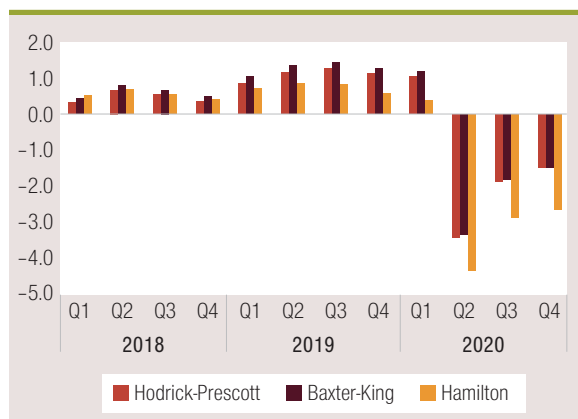
The Jordanian relationship with rest of the world is given by imports and exports of each commodity as well as any net-incomes and exogenous transfers to government and/or households. The model has options to both assume fully flexible factor prices and thus full employment (long-run) or to simulate shorter-run behavior through limiting factor price flexibilities with adjustments made instead to factor employment. This analysis was based on estimates from the Spring 2021 Macro Poverty Outlook.

<sup>b</sup> Oil products imports according to DoS database including Petroleum Crude, Gas Oil, Diesel Oil (Solar), Lubricating Oils, Natural Gas Liquefied, Petroleum Spirit (Benzene), and Natural Gas.

<sup>c</sup> Export earnings from tourism has been distributed to goods and services in the economy using the 2016 Tourism Satellite Account.



**FIGURE 5 • Output Gap Analysis (seasonally Adjusted)  
(Percent of GDP)**

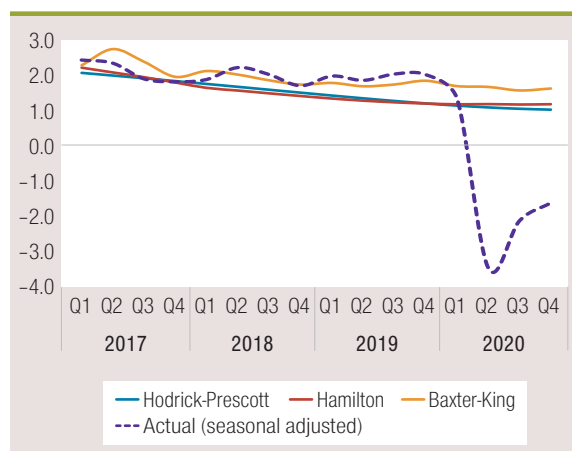


Source: World Banks staff calculations.

negative output gap during the last three quarters of 2020, significantly deviating away from its potential and underutilizing its resources (Figure 5). Closing the gap or making sure scars to the economy are not permanent, require policy actions such as monetary of fiscal stimulus to boost demand. However, potential output has been declining over past few years (Figure 6), indicating that solid structural reforms are needed to reverse this trend.

**On the supply side, the services sector has been hit hardest, closely followed by industry.** Services (with almost 60 percent share in the economy)<sup>16</sup> provided a negative contribution of 0.7 percentage points, followed by the industrial sector with negative 0.6 percentage points contribution to GDP (Figure 7). In line with expectations, contact-intensive services activities have been most adversely impacted by the COVID-19 shock. The ‘transportation, storage & communications’ sectoral output registered the strongest decline, followed by ‘community, social and personal services’ and ‘wholesale & retail trade, restaurants & hotels.’ Meanwhile, the drop in industrial output appears to have been led by a 3.8 percent decrease in construction activity which seems to be associated with the decline in investment activity. This was followed by manufacturing activities (contracting by 2.7 percent). Interestingly, the ‘mining and quarrying’ subsector fared relatively well, registering a growth of 0.8 percent in 2020, potentially shielded by govern-

**FIGURE 6 • Potential Output (Percent)**



Source: World Banks staff calculations.

ment’s targeted measures to keep this activity operational during the lockdowns. The agriculture sector also benefitted from increased demand for local produce, registering 1.6 percent growth.

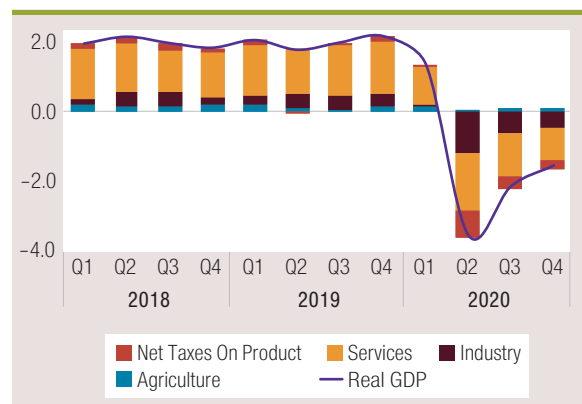
**On the demand side, net exports and a drop in investments dragged growth down.** Net exports made the largest negative contributions to economic output in 2020, pulling down growth by almost 4.0 percent (Figure 8). This significantly negative contribution was the result of an unprecedented decline in travel receipts to Jordan, which dropped by 76 percent. Moreover, gross fixed capital formation negatively contributed 0.8 percent to real GDP decline as public investment declined further, reflecting the disproportional burden of fiscal consolidation on capital spending given rigidities on the recurrent side. In contrast, central government consumption along with private demand appears to have supported real GDP from the demand side. The latter has significantly cushioned the shock on economic activity, propelled by significantly favorable price developments (Box 1: Jordan’s 2020 growth

band-pass filter as proposed by Baxter and King (1999), the Beveridge and Nelson (1981) decomposition, and Hamilton’s approach (2018). The application of different filtering techniques is yielding similar results, indicating robustness of the estimation.

<sup>16</sup> As share of GDP at market prices.

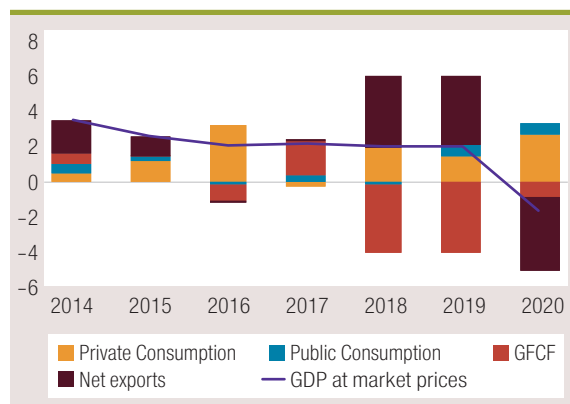


**FIGURE 7 • Services Took the Largest Hit in 2020**  
Point Contribution to GDP Growth (Percent)



Sources: DoS and World Banks staff calculations.

**FIGURE 8 • Annual Demand Side Contribution**  
Point Contribution to GDP Growth (Percent)



Source: World Banks staff estimates.

puzzle) as well as the Government of Jordan's fiscal COVID-19 package, amounting to 2.7 percent of GDP (Table 1) and monetary stimulus of around 8 percent of GDP in 2020.<sup>17</sup>

**During the first four months of 2021, Jordan's economy has faced another pandemic induced setback.** Within a period of twelve months, Jordan witnessed its third and strongest COVID-19 wave (March and April 2021), leading to targeted closures, return of curfew on Fridays along with early market closures, all aimed at mitigating the health impact. At the same time, vaccination rollout remains relatively modest. As of May 4, around 7.8 percent of the country's total population has received at least one vaccine dose, which is almost on par with the global average of 7.9 percent for the same time and much lower than some regional peers, such as Morocco and Kuwait. Moreover, only 2.8 percent of population has received two vaccine doses.

## Labor Market Developments

**Even before the pandemic, labor market outcomes were gradually worsening.** Jordan's labor market suffered from structural issues resulting in steadily rising unemployment, one of the lowest levels of labor force participation in the world, and high informality. According to the 2017-18

**TABLE 1 • COVID-19 Fiscal Package During 2020**  
(Percent of GDP)

Additional spending or foregone revenues	0.9
Health sector	0.2
Non-health sector	0.7
Quasi-fiscal operations	1.6
<b>Total</b>	<b>2.5</b>

Source: IMF Fiscal Monitor, Database of Country Fiscal Measures in Response to the COVID-19 Pandemic, April 2021.

Note: Excludes liquidity measures such as equity injections, loans or asset purchase.

Household Income and Expenditure Survey informal workers accounted for 35 percent of the workforce and are disproportionately concentrated in poor and near-poor households. Moreover, economic growth has not led to a reduction in unemployment, in part due to Jordan's rapidly growing population and large influx of refugees and migrants.<sup>18</sup> Other structural issues include a shift of employment from high- to low-productivity sectors, which has been driving down overall levels of labor productivity and creating distortions in allocations of resources in the

<sup>17</sup> Both stimuli packages are not mutually exclusive of each other.

<sup>18</sup> Jordan Country Private Sector Diagnostic (May 2021, forthcoming).

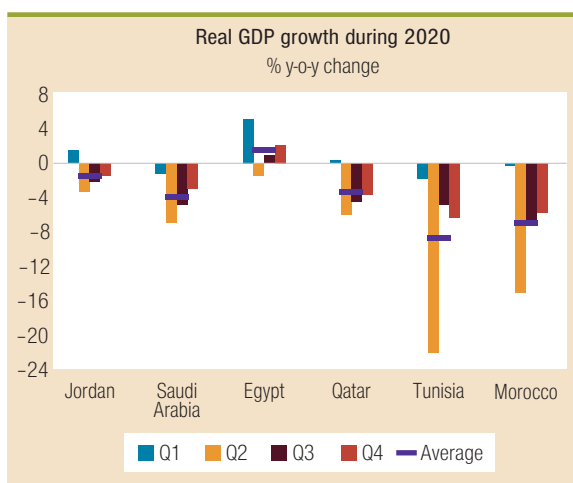
economy.<sup>19</sup> In addition, Jordanian workers are facing low returns from both education and experience.<sup>20</sup> As a result, a large share of Jordan's crucial human capital resource has remained underutilized, despite its young and educated population, which is socially

<sup>19</sup> Winkler, Hernan and Alvaro Gonzalez. 2019. Jordan Jobs Diagnostic. Jobs Series; No. 18. World Bank, Washington, DC.

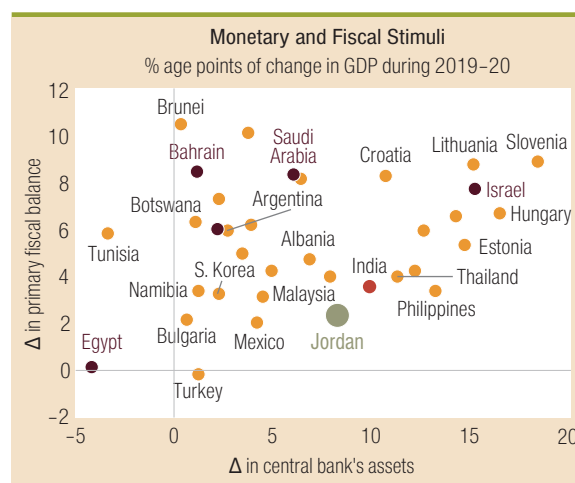
<sup>20</sup> World Bank. 2019. World Development Report 2019: The Changing Nature of Work. World Development Report; Washington, DC.

## BOX 2. JORDANIAN ECONOMY AND COVID-19 CRISIS—LONG TRAIL AHEAD

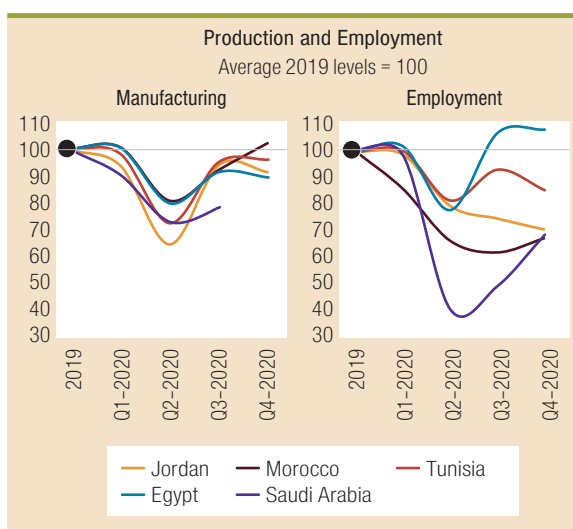
COVID-19 Shock Led to a Recession in Jordan in 2020, Though a Shallower One than Most Peers and Neighbors.



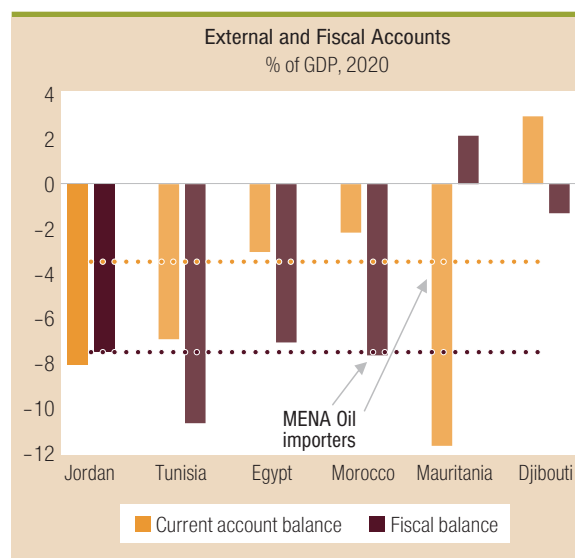
Timely and Significant Measures, Particularly Expanding CBJ's Balance Sheet, Reduced the Pandemic's Impact.



While the Liquidity Support Helped Production Activities in Jordan to Recover Sharply After the Easing of Lockdowns, Employment Conditions, Nonetheless, Remained Weak.



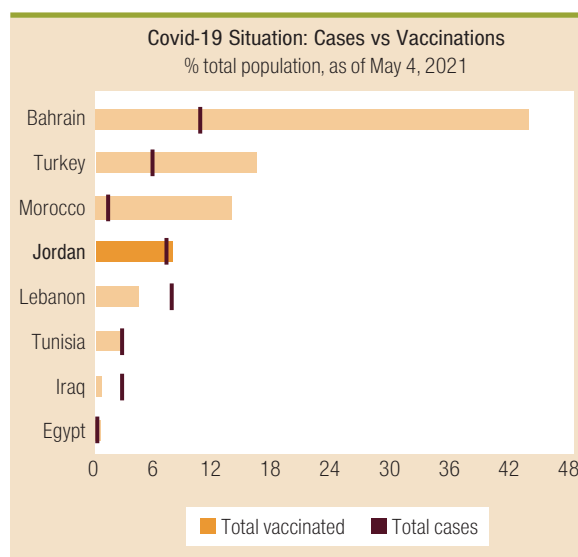
Notwithstanding the Shallow Economic Contraction, Jordan Posted Large Twin Deficits in 2020.



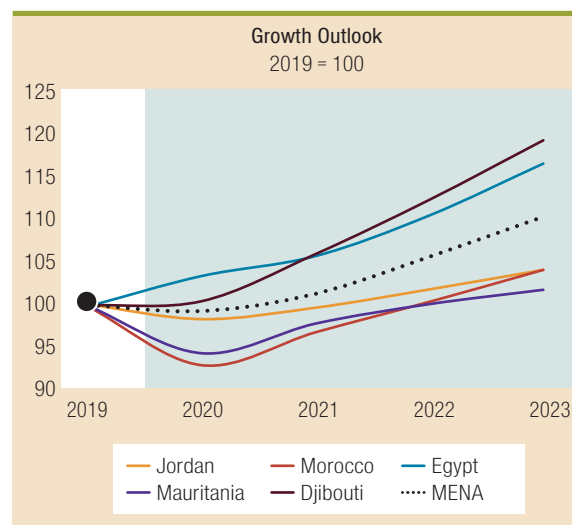
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## BOX 2. JORDANIAN ECONOMY AND COVID-19 CRISIS—LONG TRAIL AHEAD *(continued)*

Ongoing Third COVID-19 wave and Slow Vaccine Rollouts, Dampens Jordan's Economic Recovery Prospects.



Indeed, Recent Post-COVID Economic Projections Depict That the Country's Economic Recovery Would Remain Relatively Slower than its Peers Over the Medium-Term.



Source: CBJ, DoS, IMF, World Bank Macro Poverty Outlook (April 2021), ourworldindata.com, World Bank staff calculations.

## BOX 3. A GROWTH ACCOUNTING EXERCISE FOR JORDAN

As mentioned earlier, Jordan's economy was suffering from persistently weak economic growth prior to the COVID-19 pandemic. Using World Bank's Growth Accounting Tool, this box attempts to quantify the contribution of factor inputs—namely capital, labor, human capital, and total factor productivity—over the last two decades in order to analyze the drivers behind the decline in Jordan's economic dynamism. In this model, annual GDP is a function of capital and human capital adjusted labor:

$$Y_t = A_t K_t^\alpha H_t^{1-\alpha}$$

$$\text{and } H_t = h_t * L_t^*$$

Where  $Y_t$  is GDP in year  $t$ ,  $K_t$  and  $H_t$  represent the capital stock and human capital in year  $t$ , while  $\alpha$  represents the elasticity of output with respect to labor, which is proxied by the labor share in national income. Moreover,  $L_t^*$  is represented by the labor force (population aged 15–64 years) in year  $t$ , while the estimated level of human capital per unit of labor input in year  $t$  ( $h_t$ ) is calculated as the exponential of the product of return to education ( $\phi$ , in percent) and average years of schooling in year  $t$  ( $S_t$ ):  $h_t = \exp(\phi S_t)$ . Finally,  $A_t$  is the total factor productivity (TFP) in year  $t$ , where growth in TFP is calculated as a residual, i.e., output growth not explained by either growth in capital or growth in labor.<sup>a</sup> It represents a crucial measure of productivity and is considered the single most important component of long-run growth in advanced economies.<sup>b</sup>

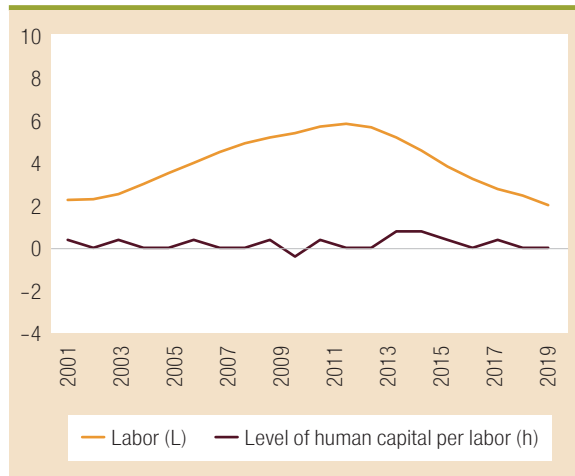
### Growth of factor inputs

**Labor.** Between 2001–2010, labor supply in Jordan grew at an average rate of 3.8 percent, accelerating to 5.3 percent during 2011–15 and then declining to 2.9 percent during 2016–20 (Figure 9). The labor share in national income for 2017 is estimated at 36.5 percent, which implies for 1 percent growth in the labor supply an additional 0.36 percentage point of output growth is generated, while a 1 percentage increase in the capital stock would add 0.64 percentage points to output growth.<sup>c</sup> Thus, changes in the labor input inadvertently have a smaller impact on output than changes in capital inputs.

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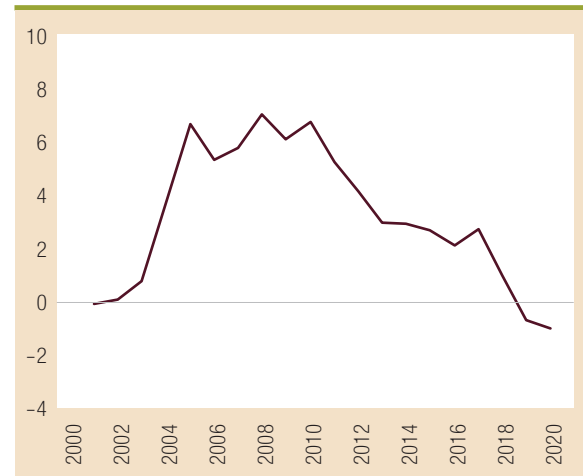
### BOX 3. A GROWTH ACCOUNTING EXERCISE FOR JORDAN

**FIGURE 9 • Labor & Human Capital  
(Percentage growth)**



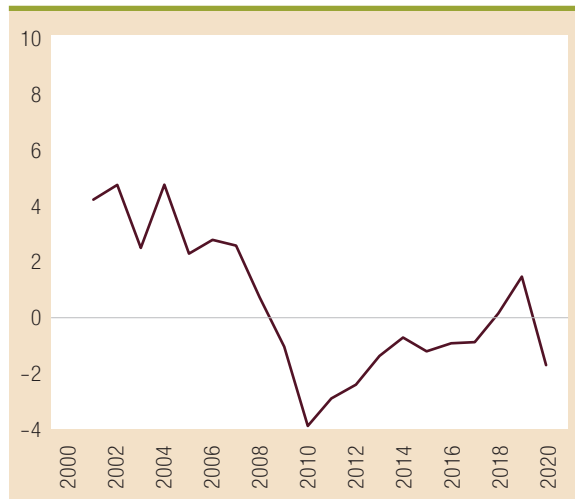
Sources: DoS, UN population statistics, UNICEF, HDR, World Penn tables, World Bank calculations.

**FIGURE 10 • Capital  
(Percentage growth)**



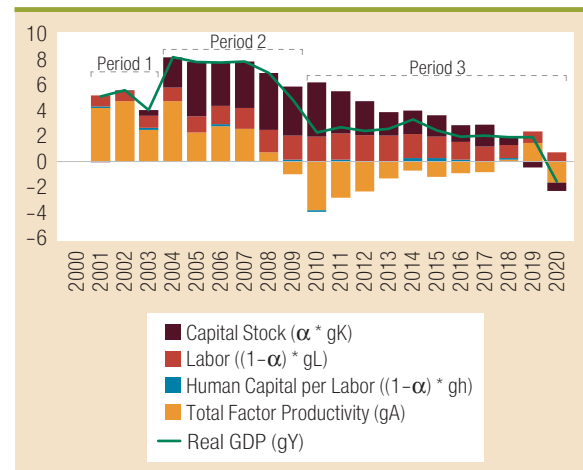
Sources: DoS, UN population statistics, UNICEF, HDR, World Penn tables, World Bank calculations.

**FIGURE 11 • Productivity  
(Percentage growth)**



Sources: DoS, UN population statistics, UNICEF, HDR, World Penn tables, World Bank calculations.

**FIGURE 12 • Factor Input's Contributions to Growth  
Growth Rate (Percentage points)**



Sources: DoS, UN population statistics, UNICEF, HDR, World Penn tables, World Bank calculations.

**Human capital.** The estimated level of human capital per unit of labor input takes into account the average years of schooling based on data from the Human Development Report (HDR) and return to education, which utilizes UNICEF estimates.<sup>d</sup> According to UNICEF, one additional year of education results in a 4 percent increase in earnings for the average Jordanian worker.<sup>e</sup> Based on these estimates, the calculated level of human capital per unit of labor has remained almost stagnant during the past two decades, growing by an average of 0.2 percent during this period.

(continued on next page)

### BOX 3. A GROWTH ACCOUNTING EXERCISE FOR JORDAN (*continued*)

**Capital.** The capital stock is estimated using a “rule of thumb” method  $K_0 = [\text{“rule of thumb” } K/I]$  with a capital output ratio at 1.9 based on estimates from the World Penn tables.<sup>4</sup> According to this method, the growth of capital stock accelerated during the first decade of analysis, reaching its peak in 2010. Thereafter, growth of capital remained positive but lost vigor before finally turning negative in 2019 (Figure 10). Although growth of capital stock calculated here is comparable to estimates from the World Penn tables 10, the magnitude in decline during the last decade is significantly stronger, likely attributed to different estimates for annual gross fixed capital formation during this period.

**Total factor productivity.** TFP consequently is calculated as a residual (also referred to as Solow residual or Multifactor Productivity). TFP measures the unobserved drivers of growth, thus capturing the *efficiency* in the use of labor and capital and is therefore often interpreted as technological progress, innovation, or build up in workers’ skills and competencies. The latter is (to some extent) captured by the human capital component in this model. Our analysis shows TFP growth remained strong until 2007 before slowing down in 2008 and turning negative during 2009–2017 (Figure 11). These findings are largely in line with estimates from the World Penn tables.

#### Factor input’s contributions to growth

The analysis was also performed for three different periods mirroring Jordan’s economic cycles during the past two decades (Figure 12). Using the method developed by Bai-Perron (2003) to identify multiple structural breaks, the first period (period 1) identified is a moderate growth period during 2000–2003, with average growth of 4.9 percent. The second period (period 2) is the period of high growth (2004–09), where growth averaged at 7.5 percent. During the third period of analysis (period 3) in 2010–20 average growth dropped to 2.0 percent. For each of these periods, growth is decomposed into factors of production, which may shed light on the patterns and drivers of diverging economic growth during the cycles.

The decomposition according to the three economic cycles shows that real GDP growth in the period 1 was underpinned by strong TFP growth. During the second period, on the other hand, robust economic growth appears to be mainly supported by capital accumulation, but labor and TFP also made strong contributions to growth. However, during period 3, economic growth appears to be mainly supported by labor accumulation while the contribution of capital accumulation was positive but had significantly weakened. These findings contrast with Abou Hamia (2020), who finds that physical capital was the principal driver in Jordan’s output growth between 2010–17. Interestingly, during this period (2010–20), TFP contracted by 1.0 percent, causing a fundamental shift in Jordan’s growth dynamics from the earlier decade. Meanwhile, the impact of human capital accumulation on growth remained consistently negligible throughout all periods.

A comparison with similar middle-income countries—namely Turkey, Pakistan and Egypt—across the same time period reveals that Jordan’s TFP contribution to growth was significantly stronger during 2000–09, but Turkey and Pakistan were able to raise their productivity during 2010–19, at a time when Jordan’s TFP growth turned negative. Furthermore, during the last decade, these countries were able to lift output growth through stronger contribution of capital compared to Jordan, which lacked stronger growth impetus from investments.

In conclusion, the weakening of all factor inputs during the past years implies that a wide range of growth-enhancing reforms are needed to revive growth. It is true that Jordan benefited significantly from the “peace dividend” in the region during the decade of 2000 and now with recent new developments in the region, return on this dividend appear have somewhat diminished. Thus, there is a need for Jordan to think about a new development paradigm going forward that can revive growth through addressing the issue of incentives as well as weak institutions in the economy.

#### Reference:

Abou Hamia, Mohamad Ahmad. “Are developing countries accumulating sufficient total factor productivity to sustain their economic growth and job creation? Empirical evidence from the Middle East and North Africa region.” *Review of Development Economics* 24.3 (2020): 1102–1127.

<sup>4</sup> Growth rate is calculated as a geometric average growth rate between the beginning and end year ( $t, t+T$ ) using the continuous compound (natural log) average growth rate formula.

<sup>5</sup> Alberto Musso and Thomas Westermann. Assessing Potential Output Growth in the Euro Area. A Growth Accounting Perspective. ECB Occasional Paper Series No. 2 2 / January 2005.

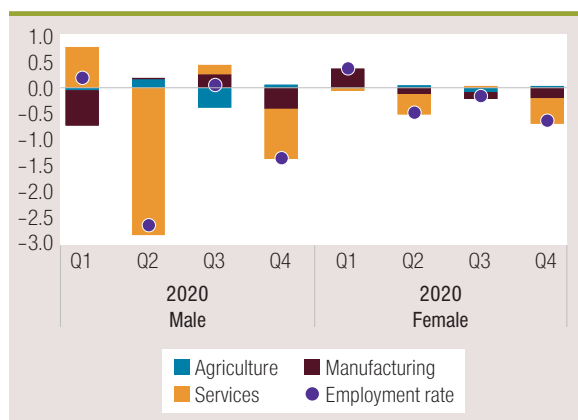
<sup>6</sup> Labor income share as a percent of GDP-ILO modelled estimates (ILOSTAT), July 2019 (%).

<sup>7</sup> Mean years of schooling based in data from the data center of the UN Human Development Report. (Sourced from: UNESCO Institute for Statistics (2020), Barro and Lee (2018), ICF Macro Demographic and Health Surveys, UNICEF Multiple Indicator Cluster Surveys and OECD (2019b). Data is available until 2019. 2020 assumed unchanged from previous year for this analysis.

<sup>8</sup> UNICEF Jordan, Jordan Country Report on Out-of-School Children. Middle East and North Africa Out-of-School Children Initiative, December 2020.

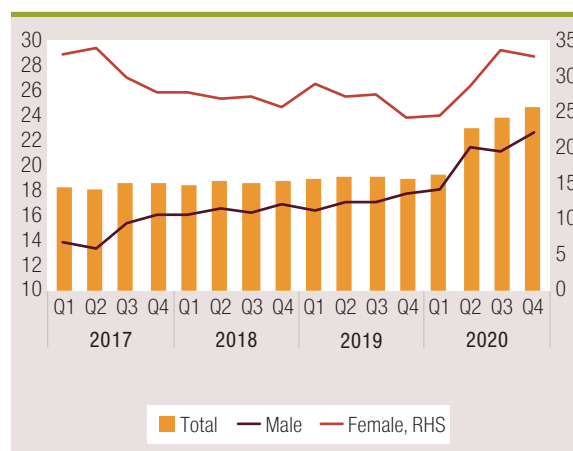
<sup>9</sup> Based on World Penn table 8.0. Calculated by dividing Capital stock by Output-side real GDP (both at current PPPs in 2005 US\$ million) for Jordan in 1980.

**FIGURE 13 • Quarterly Changes in Employment by Sectors**  
(Percentage point change, quarter-on-quarter)



Sources: DoS and WB staff calculations.

**FIGURE 14 • Unemployment Rate Significantly Edged Up**  
(Percent)



Sources: DoS and WB staff calculations.

unsustainable and can lead to increasing social tension and public discontent.

**Labor force participation showed only marginal deterioration during 2020.** The labor force participation (LFP) rate declined marginally to 34.0 percent in 2020, compared to 34.3 percent a year earlier. The nominal adjustment mainly came on account of a 0.2 percent decline in male labor market participation, while female LFP slightly improved, reaching 14.2 percent in this period. Similarly, labor force participation remained highest among youth, leading to a 1.3 percent decline in LFP among youth. The increase in LFP for women may be because Jordanian female LFP already stands among the lowest in the world.<sup>21</sup> Recent research has found that low female LFP in Jordan varies significantly with educational attainment.<sup>22</sup> Extremely low participation levels among Jordanian women with high school education or less seem to be associated with traditional social norms and poor public transportation. Female university graduates, on the other hand, exhibit similar participation rates than men, but cannot find enough jobs and jobs that allow for appropriate work-family balance. These findings are consistent with the assessment from the Women, Business and Law 2021 report, which shows that Jordan's relatively low index score has mainly been the result of low scores in indicators related to mobility (constraints on freedom of movement), workplace

(laws affecting women's decisions to work), and marriage (legal constraints related to marriage).<sup>23</sup>

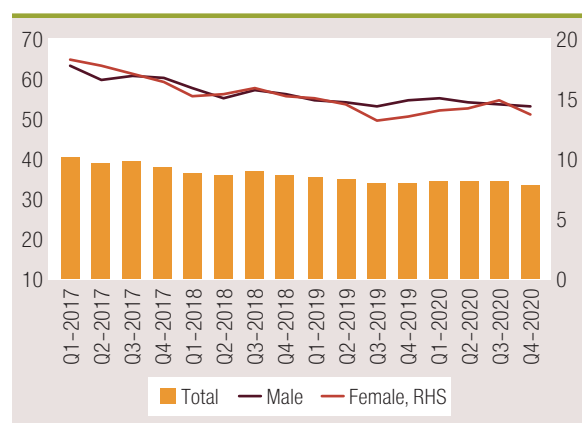
**COVID-19 shock has had a particularly adverse impact on employment in the services sector.** Both, male and female employment fell, but the year-on-year (y-o-y) decline was more pronounced for men (3.8 percent y-o-y in Q4-2020), while female employment dropped by a 1.0 percent y-o-y. On an annual basis, detailed data shows that the pandemic-induced job shedding predominantly affected the services sector (Figure 13) while employment in the manufacturing and agricultural sector dropped marginally. Within the services sector, employment losses for men were more significant in the 'public administration and defense,' and 'wholesale and retail trade' as well as the 'transportation and storage' subsectors,

<sup>21</sup> Jordan ranked 133rd out of 156 countries in the Economic Participation and Opportunity subindex according to the World Economic Forum's Global Gender Gap Report 2021.

<sup>22</sup> Kasoolu, Semiray, Ricardo Hausmann, Tim O'Brien, and Miguel Angel Santos. "Female Labor in Jordan: A Systematic Approach to the Exclusion Puzzle." CID Working Paper Series 2019.365, Harvard University, Cambridge, MA, October 2019.

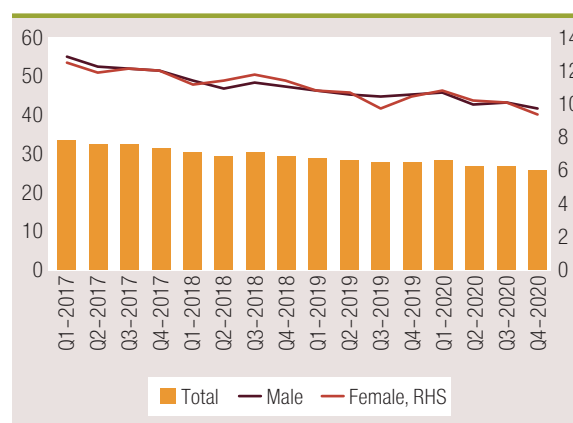
<sup>23</sup> The Women, Business and the Law 2021 study examines progress toward gender equality by measuring the laws and regulations that restrict women's economic inclusion in 190 economies.

**FIGURE 15 • Labor Force Participation Rates (Percent)**



Sources: DoS and WB staff calculations.

**FIGURE 16 • Employment Rate (Percent)**



Sources: DoS and WB staff calculations.

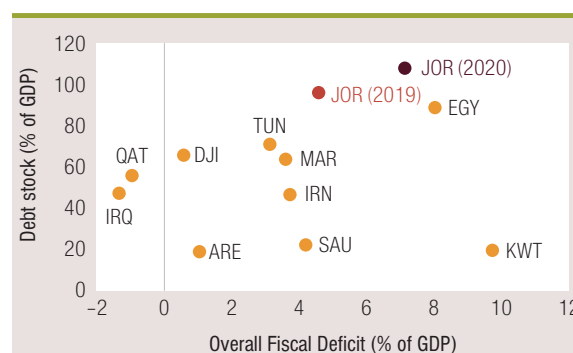
while job losses for females were particularly pronounced in the 'education' subsector—the sector employing the largest share of working women.

**The sharp deterioration of labor market indicators during 2020 indicates a strong impact of COVID-19 disruptions on the labor market.** Labor market indicators steadily deteriorated during 2020, bringing unemployment to unprecedentedly high level of 24.7 percent in Q4-2020, registering an 5.7 percent y-o-y increase (Figure 14). Alarming, gender gap appears to have significantly worsened by the pandemic as female unemployment at the same time surged by almost 8.7 percentage points (y-o-y) to reach 32.8 percent, while male unemployment increased by 4.9 percentage points to 22.6 percent. The same was reflected for youth unemployment (age group 15–24 years) which touched an alarmingly high level of around 50.0 percent at end-2020, compared to an already elevated level of 41.1 percent in Q4-2019. Within this category, female youth unemployment surged to 75.4 percent compared to 53.4 percent a year back.

## Fiscal and Debt Developments

**Jordan confronted the COVID-19 shock on the back of limited fiscal policy space.** Despite significant fiscal consolidation during 2011–19, Jordan entered the pandemic period with less fiscal space than its regional peers (Figure 17).<sup>24</sup> To respond to the

**FIGURE 17 • Government Deficit vs. Debt (2019) (Percentage of GDP)**



Sources: MPO Spring 2021, MoF.

Note: Fiscal deficit and debt stock of the Central Government.

COVID-19 crisis, government managed to implement counter-cyclical expansionary policies, estimated at around 1.6 percent of GDP (Box 4: *The cyclical policy in Jordan*).<sup>25,26</sup> Consequently, the fiscal

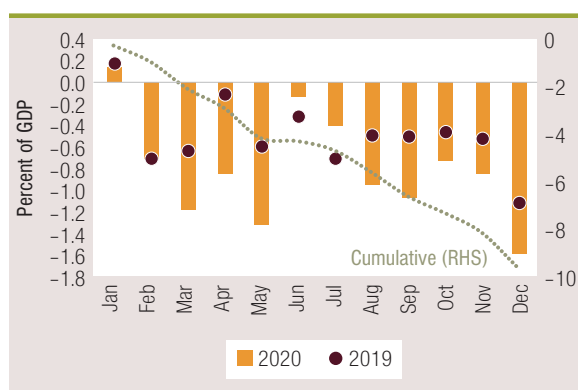
<sup>24</sup> Between 2011–19, Jordan has taken a significant fiscal adjustment to cut the deficit (excluding grants) by a significant 5.3 percent of GDP, bringing it down to a still large 7.1 percent of GDP by the end of 2019.

<sup>25</sup> Counter-cyclical expansionary policies here defined as the sum of additional fiscal spending, foregone revenue, and liquidity support, net of off-setting fiscal measures

<sup>26</sup> The fiscal impulse was estimated as the difference between the changes in primary balance and in cyclical adjusted primary balance. See Box 2—The cyclical policy in Jordan for detailed explanation.



**FIGURE 18 • Fiscal Balance  
(Percentage of GDP)**



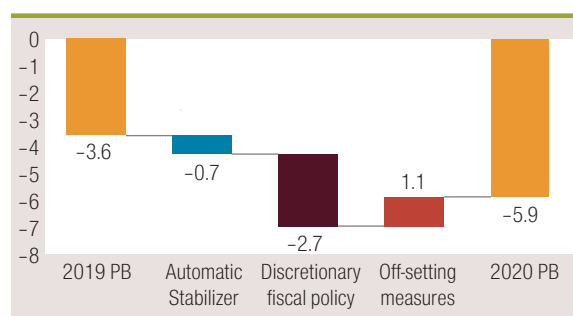
Source: MoF.

deficit<sup>27</sup> of the Central Government (CG) grew rapidly between March and May 2020 when Jordan entered the first wave and the deficit continued to widen throughout the year (Figure 18).

**The widening of the CG fiscal deficit was primarily driven by a decline in domestic revenues caused by the economic downturn as spending remained elevated.** Domestic revenue in 2020 declined by almost 1.8 percent of GDP, reflecting mostly the automatic stabilizers effects<sup>28</sup> as the impacts of discretionary revenue measures (e.g., temporary tax reductions and deferrals) remained relatively moderate (Figure 19). Detailed data from the Ministry of Finance (MoF) indicates that direct tax revenue registered a robust growth of 8.2 percent on the back of strong tax collection from individuals (19.5 percent increase y-o-y) and salaried employees (11.0 percent increase y-o-y), which resulted from authorities' efforts to curb tax evasion and expand the tax base by focusing on tax administration effort. Indirect taxes, on the other hand, grew by 6.4 percent y-o-y, primarily reflecting the impact of shift of fees and taxes on oil derivatives from non-tax revenue to sales taxes.<sup>29</sup> Non-tax revenue, on the other hand, exhibited significant decline across all categories, dragging overall domestic revenues down.

**Increased government spending, on the other hand, reflects both inherent expenditure rigidities as well as discretionary fiscal policies to mitigate COVID-19 impact.** Since the outbreak of the pandemic, the authorities have increased critical

**FIGURE 19 • Fiscal Response 2020  
(Percentage of GDP)**



Sources: IMF Fiscal Monitor; Database of Country Fiscal Measures in Response to the COVID-19 Pandemic. WB staff estimates.

Notes: PB stands for primary balance. See Box 4—The cyclicity of fiscal policy in Jordan for detailed explanation.

social spending to support the most vulnerable and launched initiatives to keep workers employed, but the scale remains relatively limited compared to other emerging countries (Figure 20).<sup>30</sup> In addition,

<sup>27</sup> In this report, central government's deficit includes statistical discrepancy and use of cash as per IMF Government Finance Statistic specification. Taxes on financial transactions considered a financing item and are not included in the domestic revenue. Direct taxes include taxes on income and profits.

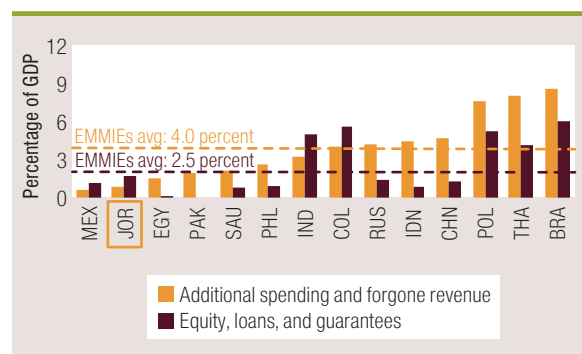
<sup>28</sup> Jordan's current tax system is modestly progressive and therefore automatic stabilizers help to reduce tax burden when the economy slows down through progressive taxes. Reference: Fiscal Policy, Poverty and Inequality in Jordan: The Role of Taxes and Public Spending – Policy Summary (English). Washington, D.C.: World Bank Group. <http://documents.worldbank.org/curated/en/113451615905549990/Fiscal-Policy-Poverty-and-Inequality-in-Jordan-The-Role-of-Taxes-and-Public-Spending-Policy-Summary>.

<sup>29</sup> In fact, after adjusting for the accounting shift, tax revenue in 2020 may have declined by almost 17.2 percent compared to 2019.

<sup>30</sup> Jordan has announced a host of measures in response of the epidemic, included (i) the postponement of 70 percent of customs duty collections and the reduction of social security contributions from private sector establishments (from 21.75% to 5.25%); (ii) additional JD 50 million for purchases of health equipment and supplies, rental of hotels for quarantines, and additional COVID-related security costs; (iii) temporary cash transfer program for the unemployed and self-employed (JD 81 million); (iv) reducing the general sales tax



**FIGURE 20 • Discretionary Fiscal Response to the COVID-19 Crisis (Country Comparison) (Percent of GDP)**



Sources: DoS, IMF Fiscal Monitor: Database of Country Fiscal Measures in Response to the COVID-19 Pandemic. Estimates as of March 17, 2021.

the government had to cover additional expenses related to existing categories such as compensation of employees, military expenditures, and interest payments (each increased by around 0.3–0.5 percent of

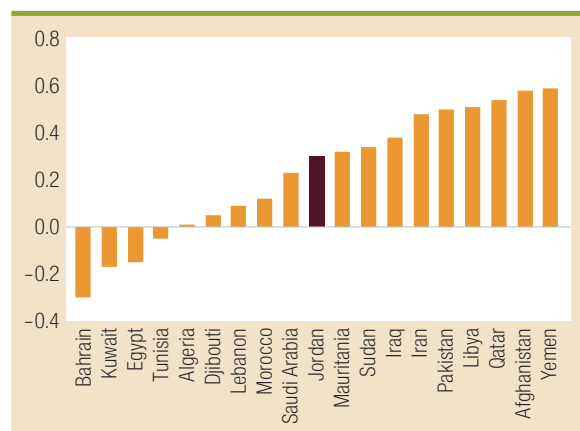
from 16 percent to 8 percent and the service tax from 10 percent to 5 percent for hotels and restaurants; (v) allowing the tourism sector to pay its 2019 tax liability in installments with no penalty; (vi) a package worth a total value of JD 448 million, which includes measures to protect existing jobs (JD 113 million), employ youth in COVID-related programs (JD 10 million), and augment social welfare programs (JD 60 million, primarily via an expansion of the Takaful cash transfer program). Detailed information can be found from IMF fiscal policy tracker.

#### BOX 4. THE CYCLICALITY OF FISCAL POLICY IN JORDAN

Fiscal policy plays a central role in stimulating economies as well as in stabilizing output. This is particularly important for a country like Jordan where effectiveness of monetary policy is limited due to a fixed exchange rate peg. If used effectively, fiscal policy can help stabilize the output counter-cyclically through business cycles, i.e., to expand during recession and contract during boom.<sup>a</sup> However, literature finds that fiscal policy in most developing countries instead remains procyclical (Gavin and Perotti 1994). This study reconfirms the key findings in literature (see Abdi, et al. 2010; and Slimane and Tahar 2010, for example) that, in the MENA region, the fiscal policy has typically amplified the business cycles. As shown in Figure 21, the correlation between the cyclical components of real government spending and real output are positive for 15 countries out of 19 countries in our sample. (For detailed technical specifications see Annex I A)

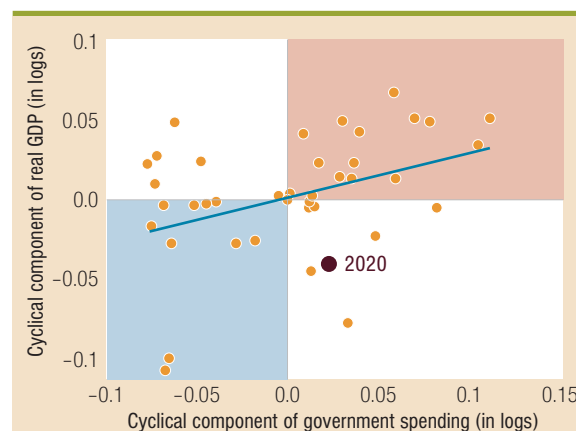
Jordan is one of those country where fiscal policy has been generally procyclical. The procyclical pattern observed in government spending in Jordan can be mostly attributed to capital spending, as the elasticity of capital spending to growth is as much as 5.1 (and statistically

**FIGURE 21 • Correlation between Real Output and Real Spending (Cyclical components)**



Sources: Data for Jordan is from MoF and DoS of Jordan. Data for other countries is from IMF WEO Database, October 2020.

**FIGURE 22 • Did Fiscal Policy Respond Proactively During the COVID-19 Crisis? (1980–2020)**



Sources: Data for Jordan is from MoF and DoS of Jordan. Data for other countries is from IMF WEO Database, October 2020.

<sup>a</sup> Kaminsky et al. (2004) defines counter-cyclical fiscal policy as tax rates increase (decrease) and government spending decreases (increases) in good (bad) times. Analogously, pro-cyclical fiscal policy is defined tax rates decrease (increase) and government spending increases (decreases) in good (bad) times. Fiscal policy is defined as acyclical if tax rates and government spending remain constant over the business cycle.

(continued on next page)

#### BOX 4. THE CYCLICALITY OF FISCAL POLICY IN JORDAN (*continued*)

significant). This means capital spending expands during boom periods and contracts significantly during recession. On the other hand, recurrent spending appears to be a-cyclical (i.e., remains constant over business cycles) as the elasticity of growth to recurrent spending is only 0.24 and statistically insignificant.

In the light of COVID-19 shock, most countries, including Jordan, have resorted (perhaps relatively less due to fiscal space issues) to fiscal policy to protect the most hard-hit sectors and vulnerable populations in order to lessen the economic fallout of COVID-19 shock. An interesting question here is what has been the fiscal outcome in Jordan amid the COVID-19 crisis? Did Jordan follow its broad historical pattern of procyclicality (i.e., cutting spending during the recession), or was it different this time around? As shown by Figure 22, Jordan's data point for year 2020 falls outside the shaded area, reflecting that fiscal policy in Jordan did respond proactively to recessionary conditions despite limited fiscal space. This finding is formally confirmed by a calibration of discretionary fiscal policy response—measured as the change in cyclical adjusted primary balance (CAPB) (*For technical details see Annex IA*). Our finding shows that estimated change of cyclical adjusted primary deficit (excluding grants) is around JD504 million (~1.6 percent of 2020 GDP).<sup>b</sup> This implies that of the 2.3 percent of GDP increase in primary deficit (excluding grants) in 2020 compared to 2019, 1.6 percent of GDP came from discretionary fiscal policy response, while the remaining 0.7 percent is the automatic revenue/spending changes due to the output fluctuation. This indicates that despite limited fiscal space, Jordan was able to generate considerable countercyclical fiscal stance in response to the downturn in 2020.

<sup>b</sup> Based on the assumption that revenue elasticity is equal to one (i.e., revenues are perfectly correlated with the cycle) and expenditure elasticity is equal to zero (i.e., expenditures are not affected by the cycle). This is a common assumption used in fiscal policy literature.

GDP during 2020 compared to the previous year).<sup>31</sup> To alleviate some pressure, authorities took an early decision to delay the public wage increase initially scheduled for early 2020, and imposed a hiring freeze. Despite these measures, capital spending seemed to have borne the brunt of the new fiscal priorities as it declined by 10.1 percent y-o-y to 2.7 percent of GDP in 2020, compared to the already tapered level of 2.9 percent of GDP in 2019.

**The contraction in output and ensuing fall in revenues, along with emergency lifelines to households and firms, pushed up the CG's overall deficit (excluding grants) by 2.8 percent of GDP** (from 7.1 percent in 2019 to 9.9 percent of GDP in 2020). When grants are factored in, the overall deficit of the CG reached 7.4 percent of GDP compared with 4.6 percent of GDP in 2019—more than twice as large as the 2020 budget target of 3.7 percent of GDP.

**The approved 2021 budget (CG) targets a fiscal deficit (including grants) of 6.2 percent of GDP.** This is only 1.0 percent of GDP lower than the deficit for 2020 as some recovery in domestic revenues are expected to be offset by increased spending on stimulus and mitigating packages,<sup>32</sup> interest payments, and wage bills.<sup>33</sup> Nevertheless,

even achieving this nominal target in this turbulent time is likely to remain challenging.

**The COVID-19 global recession and economic policy response has triggered a surge in debt levels in MENA region and rest of the world.** Estimates are that the pandemic will increase the region's public debt to about 56 percent of GDP in 2020,<sup>34</sup> accelerating the rise in public debt during the past decade. Notably, the debt levels of MENA medium-income oil importers are the highest across MENA country groups (which was true even before the pandemic) and are much higher relative to peers in the same income groups outside the region (Figure 23).<sup>35</sup> Meanwhile, many MENA countries—such as Egypt and Jordan—faced relatively high borrowing

<sup>31</sup> Part of the increases were due to COVID-19 related expenses.

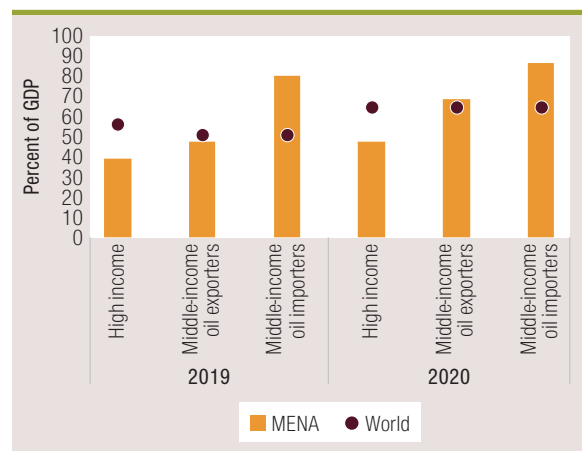
<sup>32</sup> The government launched a total amount of JD 448 million stimulus and mitigating package to confront the repercussion of the COVID-19 pandemic in March 2021.

<sup>33</sup> 2021 recurrent spending contains a public sector salary increase earmarked for 2020 but got delayed due to Covid-19 shock.

<sup>34</sup> Data source: IMF regional economic outlook April 2021.

<sup>35</sup> Debt data are generally not available for MENA low-income countries (Yemen and Syria).

**FIGURE 23 • Median Public Debt by Country Group (Percent of GDP)**



Sources: World Bank, Macro and Poverty Outlook (April 2021), Gatti, Roberta, et al., (2021).

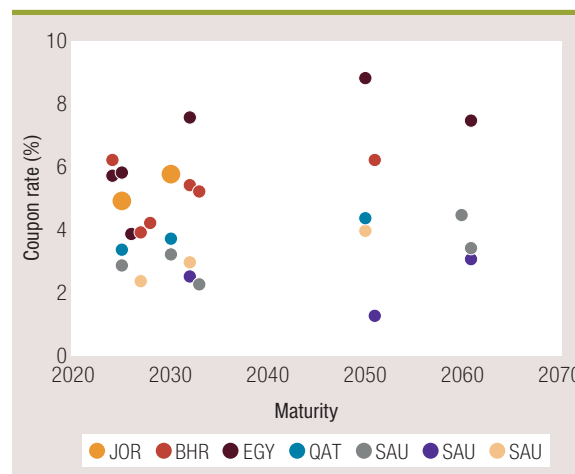
Note: Country groups are represented by median observation of the group. The high-income group in MPO is limited to only countries covered by the World Bank.

costs during the pandemic (Figure 24), weighing on already elevated debt levels.<sup>36</sup>

**The pandemic has resulted in a steep increase in Jordan's debt-to-GDP ratio, albeit one similar in magnitude to other regional peers.** Prior to the pandemic, CG debt was already at an elevated level of 97.4 percent of GDP in 2019 (compared to an average of around 84 percent of GDP in 2010–18).<sup>37</sup> In the wake of the COVID-19 crisis, CG debt level has risen by almost 10 percentage points of GDP compared to end-2019 level. Meanwhile, the general government (GG) debt (i.e., net of Social Security Investment Fund (SSIF) debt holdings) registered a similar increase (around 8 percentage points of GDP).<sup>38</sup> A decomposition of the change of debt-to-GDP shows that the increase in 2020 CG debt has been largely driven by the increase in primary deficit as well as the positive interest rate-growth differential (known as the snowball effect).<sup>39</sup> This pattern is significantly different from early 2010s where a persistently negative interest rate-growth differential helped arrest the rise in debt ratios (Figure 25).

**Despite increase in its public-debt-to GDP ratio Jordan has been successful in continuing the trend to lengthen its debt profile.** For instance, at end-2020, domestic debt for CG reached JD 18.9

**FIGURE 24 • Coupon Rates of US\$ Denominated Debt Issuances during 2020, by Maturity for MENA Countries**



Sources: Cbonds.com, Gatti, Roberta, et al., (2021).

Note: Data are from the beginning of 2020 to February 27, 2021. For comparability, only coupon rates of US\$ denominated debt issuances are displayed.

billion, equivalent to 61.0 percent of GDP, compared to 56.1 percent of GDP last year, while average time to maturity for domestic debt stood at 4.5 years compared to 3.0 years at end-2016 (Figure 26). Furthermore, external debt reached 45.4 percent

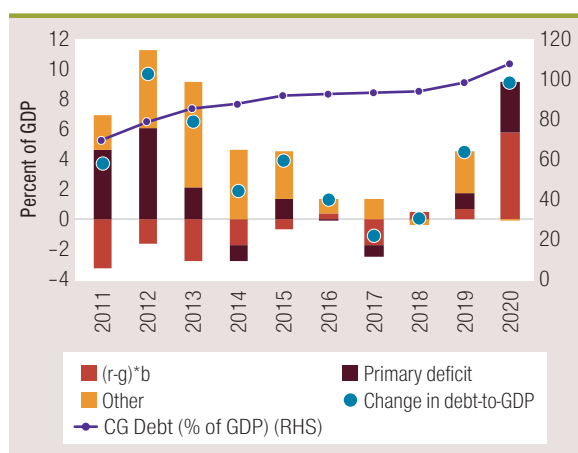
<sup>36</sup> Jordan issued a double-tranche US\$1.75 billion Eurobond in June 2020. The double-tranche bond was split into a US\$500 million bond at 4.95 percent over 5-year maturity and a US\$1.25 billion bond at 5.85 percent for 10-year maturity.

<sup>37</sup> Central government budget and guaranteed debt including debt holdings by SSIF. Includes legacy arrears in 2019.

<sup>38</sup> General Government debt includes debt (direct and guaranteed) of the central government, NEPCO, WAJ, water distribution companies, and the SSC. Includes legacy arrears in 2019.

<sup>39</sup> The change in debt to GDP is mainly determined by the primary balance and the difference between the interest rate and the nominal GDP growth rate. If the interest rate-growth differential is strictly positive, a primary fiscal surplus is needed to stabilize or reduce the debt-to-GDP ratio—known as the snowball effect. Conversely, a persistently negative on government debt would imply that debt ratios could be reduced even in the presence of primary budget deficits (lower than the debt effect induced by the differential).

**FIGURE 25 • Drivers of Change in CG Debt (Percent of GDP)**



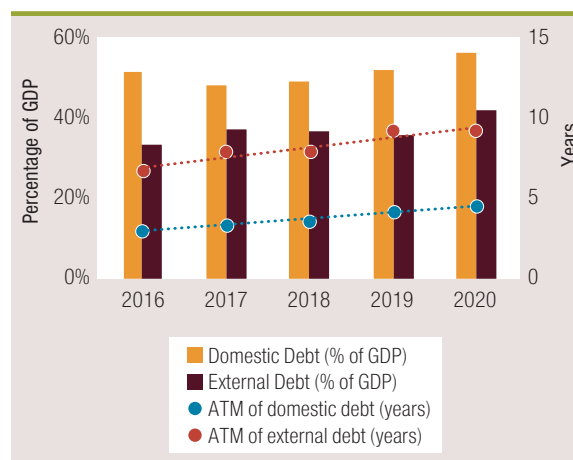
Sources: DoS, MoF, DSA, WB staff calculations.

Note:  $(r-g)*b$  refers to the interest rate and growth differentials on existing public debt. Other includes privatization receipts, contingent liabilities, NEPCO debt flows and residual.

of GDP at end-2020, (an increase of almost US\$2.5 billion during the year) mainly from a net issuance of US\$750 million Eurobond and the fact that loans from international institutions and average time to maturity of Jordan's external debt averaged around 9.2 years compared to 6.7 years three years earlier. Jordan issued a double-tranche US\$1.75 billion Eurobond in June 2020 (which was split into a US\$500 million bond at 4.95 percent over 5-year maturity and a US\$1.25 billion bond at 5.85 percent for 10-year maturity and priced significantly lower than the recent issuances by peer countries) and Jordan's previous auction of a US\$1 billion Eurobond in October 2017. This sustained progress has helped Jordan reduce the financing risk associated with the external debt, albeit at a higher interest cost.

**In light of recent developments, economic recovery and fiscal consolidation efforts have become even more important ingredients for preserving debt sustainability.** Stress tests indicate that Jordan's debt sustainability remains very sensitive to real GDP growth shock—a prolonged recession (i.e., real GDP growth remaining stagnant at 1.4 percent for 2021–23) can hike debt up by 3.7 percentage points of GDP by year 2025 compared to baseline. Another important shock remains the primary deficit shock, while real interest rate

**FIGURE 26 • Outstanding CG Debt and Average Time to Maturity (ATM) (Percent of GDP [LHS] and years [RHS])**



Sources: MoF, WB staff calculations.

shock appears to have relatively marginal impact on Jordan's debt burden.<sup>40</sup>

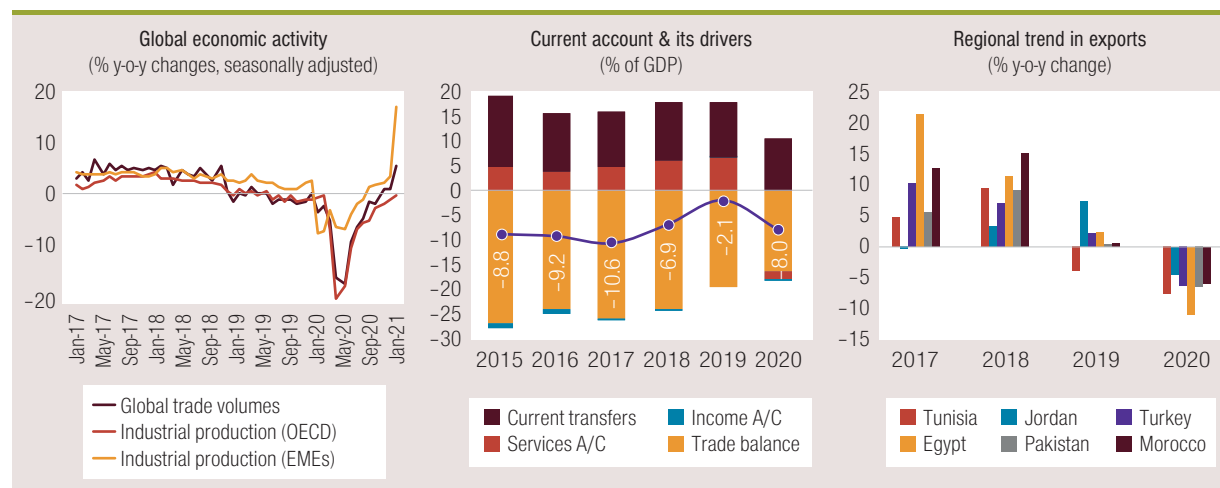
## Balance of Payments Position

**The global economic environment throughout 2020 showed a significant amount of uncertainty as countries went through multiple waves of COVID-19 infections.** During the first half of 2020, global economic output declined by an unprecedented level, resulting in a sharp fall in global trade. However, recent trends are pointing toward a strong recovery for global economic activity in the second half of 2020 supported by substantial fiscal and monetary stimuli (Figure 27).<sup>41</sup> This anticipated recovery in global demand, nevertheless, remains scarred with uncertainty due to the combined

<sup>40</sup> As part of Public Debt Sustainability Analysis (DSA), the stress tests allow to assess a country's debt sustainability.

<sup>41</sup> According to the IMF World Economic Outlook for April 2021, global output and trade are projected to increase by 6.0 percent and 8.4 percent in 2021. Respectively, these projections indicate 0.5 and 0.3 percentage points upward revisions when compared to the IMF projections made in January 2021.

**FIGURE 27 • Global Economic Developments and Trend in Jordan's Current Account**



Sources: Haver, CPB, CBJ, World Bank staff calculations.

impact of the global debt burden and subdued performance of the services sector as social distancing measures still remain a norm in many parts of the world.

**Reflecting the challenging global environment, Jordan's external account position sharply deteriorated in 2020.**<sup>42</sup> Specifically, the current account deficit (including grants) widened to US\$3.48 billion or 8.0 percent of GDP in 2020 compared to a moderate deficit of US\$0.95 billion or 2.1 percent of GDP in 2019 (Figure 27). Although, exports fared well compared to peers, they still contracted by 4.5 percent during 2020 compared to 7.3 percent growth in 2019. Imports, on the other hand, contracted by 11.3 percent in 2020, largely on account of lower international oil prices along with slowdown in domestic economic activity (Box 5: Merchandise trade balance, workers' remittances and international oil prices). As a result, the trade deficit vis-à-vis 2019 declined by around 18 percent. However, this reduction was more than offset by an almost two-thirds decline in travel receipts as the global tourism sector remained badly hit in 2020. In addition, around a 9 percent decline in workers' remittances put further strain on the country's already weak external account position.

**Given the widening CAD, the reliance on official debt flows surged amid insufficient private foreign investment flows to avoid external sector**

**pressures.** For example, net foreign direct investment (FDI) flows at 1.6 percent of GDP have almost remained flat in 2020 when compared to 2019. The government successfully issued a Eurobond worth US\$1.75 billion at relatively competitive interest rates at a time when global investors' sentiments were down.<sup>43</sup> This helped in smooth servicing of a maturing Eurobond worth US\$1.25 billion in the later part of 2020. In addition to raising debt from international capital markets, the government also borrowed around US\$1.5 billion (on net basis) from other bilateral and multilateral external sources, including the IMF. These financial inflows, together with substantial market inflows under the non-resident foreign accounts, helped reduce the otherwise increasing external pressures due to widening CAD in 2020.

<sup>42</sup> The sharp deterioration in Jordan's external account mainly reflects its significant economic linkages with the rest of the world. Estimates from 2020 indicate that taken together trade, travel, remittances, and FDI comprise around 67.7 percent of Jordan's economic output. The same ratio was 81.8 percent in 2019 and mainly reflects the significant fall in travel receipts during COVID-19 crisis in 2020.

<sup>43</sup> According to MoF, a tranche of US\$500 million at 4.95 percent over a 5-year maturity and another tranche of US\$1.25 billion at 5.85 percent over a 10-year maturity, were oversubscribed more than 6.25 times after attracting bids worth over US\$6.25 billion.

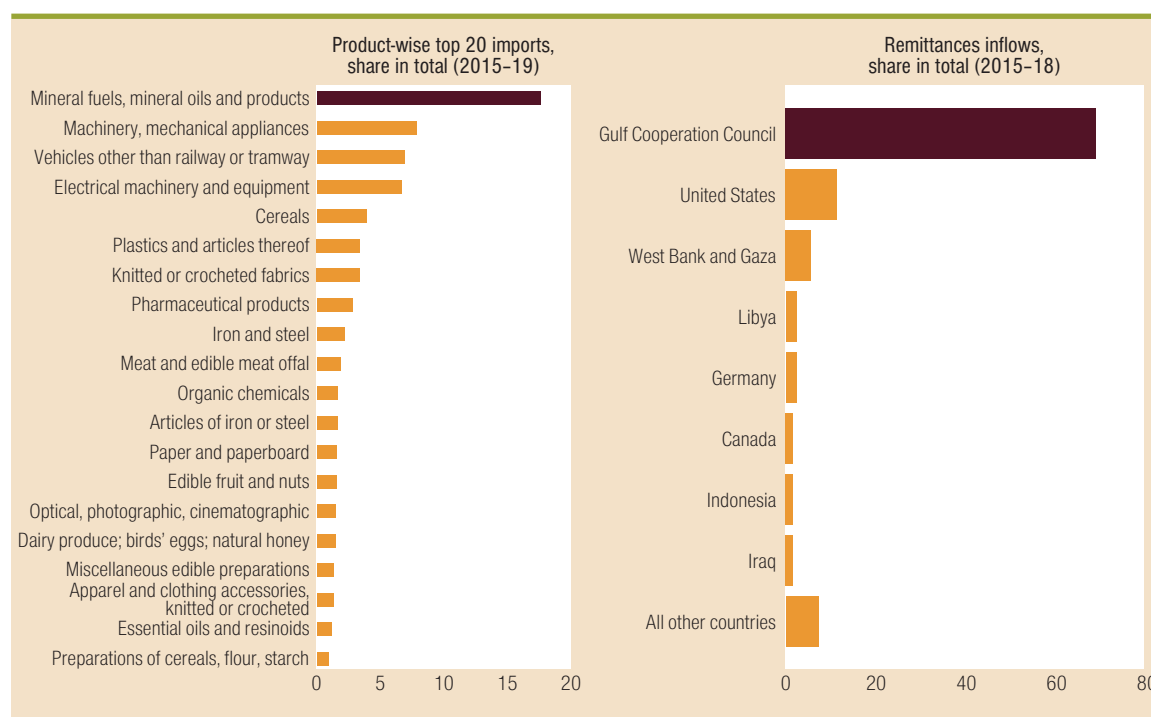
## BOX 5. MERCHANDISE TRADE BALANCE, WORKERS' REMITTANCES, AND INTERNATIONAL OIL PRICES: SOME EMPIRICAL OBSERVATIONS IN THE CASE OF JORDAN

In recent years, around one-fifth of Jordan's total imports comprised energy imports, while almost of two-thirds of workers' remittance inflows for Jordan originated from the neighboring oil exporting Gulf nations (Figure 28). Given such underlying exposures, decreases in global oil price on one hand help reduce the external sector pressures and provides windfall gains through lower trade imbalances, while on the other hand it also potentially deteriorates the outlook for workers' remittances due to reduction in income of oil exporting countries. Thus, the net impact on the current account depends on which impact prevails. The theoretical and empirical underpinnings for such dual role of oil prices to impact the current account is well documented in economic literature (e.g. see Mitra 1995; Lueth and Ruiz-Arranz 2007).

Typically, for the trade balance, analyzing the impact from the changes in international oil prices is straightforward as a change in trade prices would adjust the current account dynamics accordingly. However, to examine the impact of changes in oil prices on workers' remittances, one needs to take into account host of other factors that may affect the underlying relationship among these variables. In this context, we investigated the impact of changes in international oil prices on Jordan's trade balance and workers' remittances for period 2008M01–2020M06 in an empirical Structural Vector Autoregressive setup. (For detailed technical specifications see Annex IB)

Our results indicate that in an event where international oil price increase by US\$10 per barrel, on an accumulated basis, Jordan's trade deficit widen by 6.9 percent, while workers' remittances increase by 2.4 percent over the 12-month period. These results indicate the dominating effect of changes in global oil price in determining the Jordanian trade balance relative to outlook on remittances from major source countries. Therefore, the likelihood is that the recent higher projections for global oil prices in 2021 will to worsen country's trade balance more than the expected improvement in remittances. Thus, conditional upon projections for global oil prices, Jordanian CAD during 2021 is expected to remain broadly at the same level of 2020.

**FIGURE 28 • Jordan's Imports and Remittances Structure**



Source: International Trade Centre, World Bank, World Bank staff calculations.

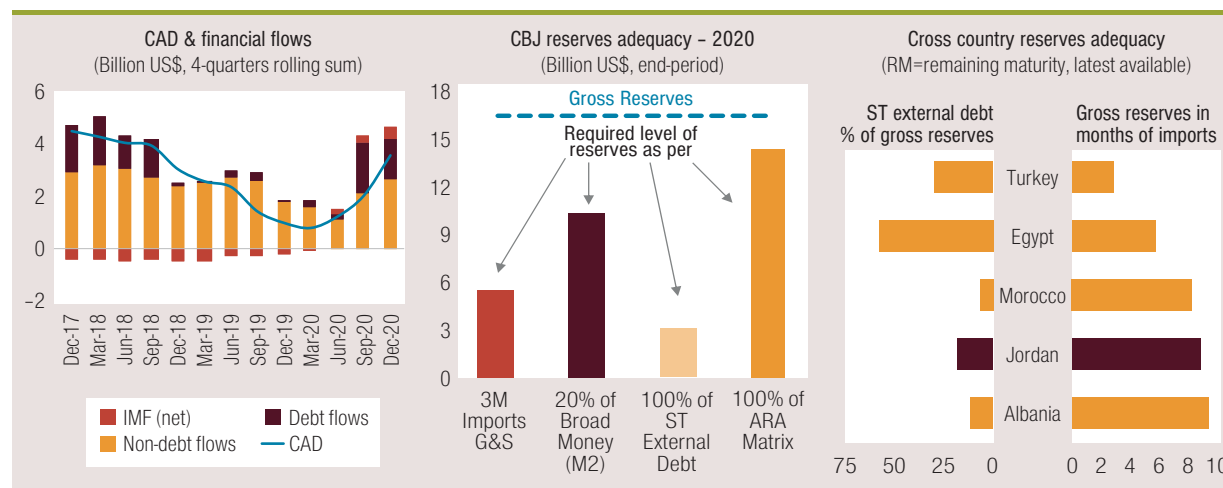
Note: Gulf Cooperation Council consists of Saudi Arabia, UAE, Kuwait, Qatar, Oman and Bahrain.

**Due to financial inflows in 2020, the Central Bank of Jordan's (CBJ) gross foreign reserves position strengthened further.** Specifically, CBJ

gross foreign reserves stood at US\$16.96 billion at end December 2020; indicating an increase of US\$1.55 billion compared to the end December



**FIGURE 29 • Overall Balance of Payments Position and CBJ's Foreign Reserves Adequacy**



Sources: Haver, CPB, IMF, CBJ, World Bank staff calculations.

Note: ST External Debt = Short-term external debt based on remaining maturity over the next 12 months.

2019 level.<sup>44</sup> These reserves cover around 8 months of country's import bill; almost three times higher than the required benchmark rule of around 3 months. This position broadly remains unchanged according to recent data up to February 2021 despite some decline in CBJ's reserves holding. More importantly, estimates show that in comparison to other oil importing regional and peer economies, Jordan's reserves holding currently remains at an adequate level according to the standard reserve adequacy measures (Figure 29). This is an encouraging development, particularly in the context of gaining policy credibility among the foreign investors toward the Jordanian economy by improving resilience to potential future external shocks.

## Monetary Policy and Inflation

**Global financial conditions continued to remain accommodative due to unprecedented monetary measures taken by central banks to combat the COVID-19 shock.** Since the start of the pandemic, these monetary measures, which amounted to nearly US\$10 trillion (around 12 percent of global output in 2020), have helped bolster prospects of global economic recovery compared to earlier expectations of moderate recovery.<sup>45</sup> The anticipated strong

recovery in global demand, however, has put pressure on international commodity prices, such as oil and food items, which in turn is leading to some uptick in consumer prices in both advanced and emerging economies in recent months.<sup>46</sup>

**The CBJ also provided substantial monetary stimulus during 2020.** In aggregate, the impact of CBJ's liquidity measures introduced during the first phase of the pandemic (i.e., in 2020) is estimated at around 8 percent of GDP. Reflecting substantial liquidity injections to support the businesses and households, the CBJ's assets grew by 16.9 percent during 2020 (Figure 30). This expansion in the balance sheet of the CBJ has been in line with trends observed in other regional oil importing countries.

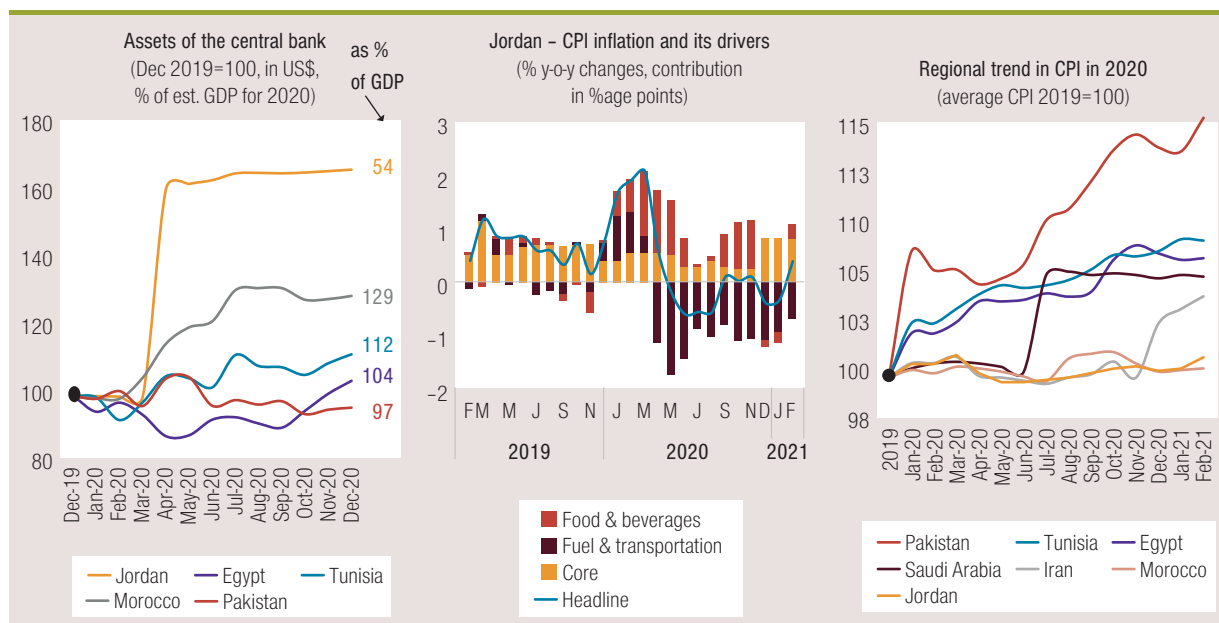
**Inflationary pressures remain muted in 2020 mainly because of relatively lower international commodity prices and weak domestic demand.** Reflecting such commodity price dynamics,

<sup>44</sup> Gross foreign reserves as defined in this report include reserves of gold, Special Drawing Rights, cash & deposits and bonds & treasury bills.

<sup>45</sup> IMF Global Financial Stability Report, April 2021

<sup>46</sup> According to World Bank Commodity Price Data, average international spot price of crude oil was hovering around US\$68/bbl near end March 2021, showing an increase of around 30 percent since the beginning of this year.

**FIGURE 30 • Changes in the CBJ's Balance Sheet and Trend in Inflation**



Sources: Haver, IMF, CBJ, World Bank staff calculations.

food and fuel inflation were the major drivers of Jordan's headline CPI inflation, which on average stood at 0.3 percent in 2020 compared to 0.8 percent in 2019 (Figure 30). On the other hand, core inflation—calculated after excluding the food and energy components from the CPI basket, remained stable at 0.7 percent in 2020 compared to 1.3 percent in 2019, indicating subdued domestic demand amid the COVID-19 pandemic (Box 6: A model-based analysis of recent inflation developments in Jordan). In a regional context, headline CPI inflation in Jordan has relatively remained stable at lower plateau when compared to other regional oil importing economies throughout the pandemic year (Figure 30). This trend continued in first two months of 2021 as well where average inflation remained flat over the same period last year.

**Demand for credit by the private sector increased in 2020 despite challenging circumstances.** Detailed data for 2020 shows that credit expansion to the private sector remained broad-based, across all sectors except for mining. Specifically, lending to the private sector grew by 6.3 percent in 2020 compared to 4.3 percent in 2019 (Figure 32). However, as highlighted earlier, in large part this credit demand can be attributed to central

bank liquidity support as total deposits grew by 4.2 percent in 2020 compared to 4.3 percent growth in 2019. Overall, recent data for Jan–Feb 2021 indicates that the demand for credit continues to remain strong despite the third wave of domestic COVID-19 infections.

**In 2020, growth in broad money supply accelerated, supported by strong credit demand from the private sector and fiscal expansion to minimize the impact of the economic crisis.** Broad money supply (M2) during 2020 expanded by 5.8 percent compared to 4.8 percent increase posted during 2019. Detailed data indicates that net domestic assets (NDA) mainly contributed toward growth in money supply as contribution from net foreign assets (NFA), remained marginal (Figure 32: Trend in monetary aggregates). The changes in the latter, largely reflects pressures on country's external accounts, particularly the deterioration in foreign exchange receipts on account of travel restrictions and tourism related activities to control the spread of virus. Overall, the banking system's liquidity remained appropriate during the crunch period due to timely interventions and support by the CBJ, which has helped mitigate some of the impact of crisis on the economic activity.

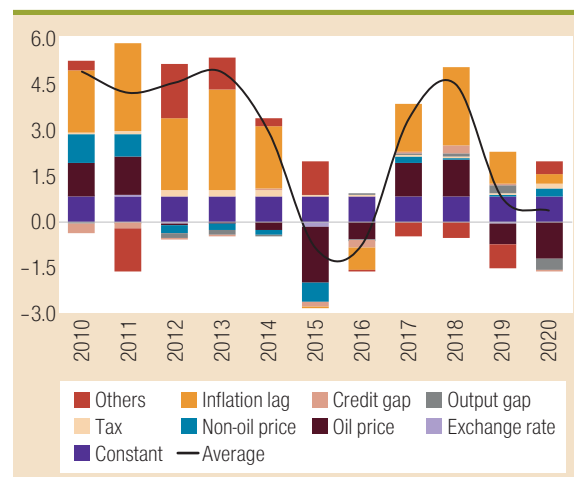


## BOX 6. A MODEL-BASED ANALYSIS OF RECENT INFLATION DEVELOPMENTS IN JORDAN

Inflationary pressures in Jordan have remained quite subdued in the past couple of years. This trend was further reinforced by the COVID-19 crisis during 2020. Specifically, average headline CPI inflation in 2020 was recorded at 0.3 percent, which decelerated from 0.8 percent in 2019 and 4.5 percent in 2018. Recent inflation figures (though it's early in the year) appear to be quite low when compared to average annual inflation of around 2.4 percent during the last decade. In this context, we attempt to analyze the recent supply-demand side inflation dynamics in Jordan through an empirical structural model setup. For this purpose, taking stock from recent literature (Chin 2019) and using data sample from 2004Q1 until 2020Q4, we estimated reduced-form Phillips curve specification with time-varying parameters to understand inflation drivers in Jordan.

Our results reveal that the inflation persistence (i.e., lagged coefficient) played an important role in setting the inflation trajectory in Jordan over time, followed by movement in the international commodity prices, particularly the oil price. However, contribution from other important macroeconomic variables, according to this analysis, particularly from the demand side, interestingly appear to have had marginal impact on determining inflation in Jordan. In recent years, it can be observed that both decline in international oil prices along with contraction in aggregate demand, may have caused deceleration in domestic prices, which currently appear to be moving below their historical trend (Figure 31: Contribution to Jordan's headline CPI inflation). This impact has been accelerated during 2020 due to the COVID-19 shock. Broadly, these results are consistent with earlier empirical results found in case of Jordan (e.g. Jaradat et al. 2011 and Adayleh 2018) which have also found significant role of changes in oil prices in domestic price settings along with past inflation.<sup>9</sup>

**FIGURE 31 • Contribution to Jordan's Headline CPI Inflation**  
(Annual average % change in CPI, contribution in percentage points)



Source: World Bank staff calculations based on data from CBJ, DoS.

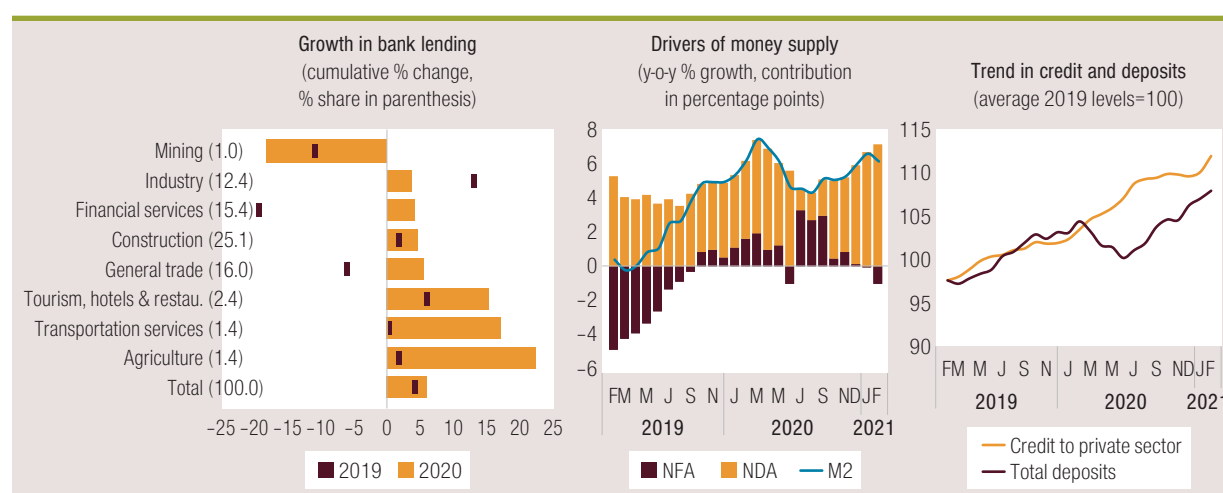
Note: 'Others', which refers to a model residual include the part of inflation dynamics not captured by the model.

<sup>9</sup> Adayleh, Radi M. 2018. "Determinants of inflation in Jordanian economy: Fmols approach." *Journal of Internet Banking and Commerce* 23.2: 1–19.

Chin, Kuo-Hsuan. 2019. "New Keynesian Phillips Curve with time-varying parameters." *Empirical Economics* 57.6: 1869–1889.

Jaradat, Mahmoud, Hussein Ali Al-Zeaud, and Habib Al-Rawahneh. 2011. "An econometric analysis of the determinants of inflation in Jordan." *Middle Eastern Finance and Economics* 15: 120–132.

**FIGURE 32 • Trend in Monetary Aggregates**



Sources: Haver, IMF, CBJ, World Bank staff calculations.



# OUTLOOK AND UPCOMING CHALLENGES

**T**he pace of vaccine rollouts remains key to overcome both the health and economic effects of the COVID-19 crisis and to ensure sustainable development in the short and medium term. Overall, the Ministry of Health sets its COVID-19 vaccination target at 75 percent of the adult population. In the first phase, Jordan aims to vaccinate high risk groups such as healthcare workers, all people over 50 years, or populations with chronic illness(es) as well as essential workers. The World Bank is preparing additional financing to the COVID-19 Emergency Response Project to expand vaccination coverage through additional vaccine purchase and deployment. The support aims to cover the additional adult population (2.4 million) to help Jordan achieve herd immunity. Nevertheless, vaccination depends on vaccine availability through global supply chains and vaccine acceptance among the beneficiaries. Slow roll-out has direct bearing on economic recovery as contact-intensive sectors, such as services and tourism, are likely to see a protracted recovery during 2021. Taking into account these uncertainties along with an expected but uneven global economic recovery, the Jordanian economy is

projected to recover by a modest 1.4 percent this year. However, according to IMF's March 2021 (end-of-mission assessment of the 2<sup>nd</sup> review of the Extended Fund Facility (EFF)) growth during 2021 is projected to recover to around 2 percent, slightly lower than the 2.5 percent projected during the first EFF review in January 2021, due to slower-than-anticipated global vaccine rollout and an associated delay in tourism to Jordan. Furthermore, IMF is projecting the primary deficit (excluding grants) in 2021 to be around 4.3 percent or 0.6 higher compared to first EFF review projection and CAD (including grants) for 2021 to be around 8.3 percent of GDP.

**Over the medium-term, growth is projected to remain subdued due to structural impediments that have been keeping the economy operating below its potential.** As detailed in Section 1, Jordan's productivity and investments have substantially weakened over the past decade as real GDP growth decelerated from an average of 6.5 percent between 2000–09 to 2.4 percent in recent decade (2010–19). In fact, since 2009, per capita GDP has been predominantly on a declining trend. Similarly, productivity in services, which accounts for around

58 percent of GDP and 72 percent of total employment, has been shrinking over the past decade. This implies that a wide range of growth-enhancing reforms are necessary to considerably strengthen the business and investment environment, boost innovations and competitiveness, and improve productivity. This is important to support a much-needed strong revival in growth and sustainable job creation. Moreover, during a time of unprecedented rise in unemployment, policies targeted at raising participation and employment rates, in particular among highly educated women and the youth provides a window of opportunity. With the launch of the Five-Year Reform Matrix in 2019, the government identified a set of reforms to address major challenges to its competitiveness. The Reform Matrix is undergoing a mid-term review in 2021 with public sector efficiency and tourism pillars being added. Moreover, the government has laid out structural reforms and strategic objectives to achieve enhanced growth as reflected in the Executive Development Plan and the Economic Recovery Plan. These structural reforms are projected to buoy the economy and lift real GDP growth gradually.

**Headline inflation in 2021 is projected to modestly increase to 2.0 percent, largely due to rising international commodity prices, particularly oil.** Specifically, led by anticipated demand recovery in major economies such as the U.S. and China,<sup>47</sup> the global oil price on average is expected to increase by around 42 percent in 2021. This trend would have a spillover effects on domestic prices in Jordan due to significant reliance on imported energy. Nonetheless, given that the economy is projected to operate below its potential for yet another year, the positive impact of global prices would remain limited and range-bound on domestic prices. Going forward, headline inflation is projected to follow a moderate trend and gradually converge to its recent historical path over the medium-term.

**A modest fiscal consolidation effort is projected to narrow the fiscal deficit of the CG (including grants) to 6.5 percent of GDP, or around 1 percent of GDP lower than 2020.** Total revenues and grants in 2021 are projected to increase by 2.0 percent of GDP compared to 2020, driven by a strong rebound in international oil prices, which is

expected to materialize as substantially higher fees on oil derivatives (part of indirect taxes). Moreover, continued strengthening of tax administration effort and gradual reduction of existing tax exemptions, is expected to help increase tax collection.<sup>48</sup> However, drag is likely to come from muted collection on non-tax revenues particularly over next few years. On the expenditure side, spending pressures arising from higher compensation of employees, interest payments, and higher defense spending, are likely to keep recurrent spending in 2021 elevated. Capital expenditures, on the other hand, are projected to grow moderately, reaching only 3.2 percent of GDP in 2021. Hence, even a modest fiscal consolidation effort (0.9 percent of GDP) projected for 2021 hinges on materialization of additional fiscal measures, agreed under the IMF-EFF program. Over the medium term, the CG fiscal deficit (including grants) is projected to gradually decline once economic growth starts to pick up and the crisis abates, reaching 5.0 percent of GDP in 2023. However, consolidation efforts over the medium-term rely heavily on timely implementation of additional fiscal measures agreed upon as part of the IMF-EFF program aimed at meeting program debt sustainability objectives.

**The current account deficit at 8.4 percent is projected to remain largely at the same level in 2021 before gradually narrowing over the medium-term.** Merchandise exports are projected to undergo a healthy recovery in 2021 on the back of an expected strong rebound in Jordan's main trading partners such as U.S. and China. However, expected increases in international food and oil prices along

<sup>47</sup> China's economy grew by 18.3 percent in Q1-2021 (<https://www.ft.com/content/e45496ec-82ff-4586-a062-20124739fcc1>).

<sup>48</sup> These measures include for instance closing close tax loopholes by removing articles related to preferential tax treatment in the 2014 Investment Law; simplify the tax system and reduce fragmentation by passing legislation to introduce a single tax administration and a single customs service; arrest outright tax fraud/evasion by signing an agreement to commit cigarette companies to implement the track-and-trace monitoring system to reduce cigarette smuggling (IMF Country Report No. 21/11).

with underlying gradual recovery in domestic demand would keep the import bill on the higher side, causing the trade deficit to rise in 2021. Tourism receipts, on the other hand, are expected to modestly improve in 2021 reaching pre-COVID level only by 2023. In the immediate run, a modest recovery in travel receipts is expected on the back of Jordanian expatriates, as downside risks for broader tourism recovery still prevail, given slow vaccination rollout in most parts of the world. Over the medium-term, the current account deficit is projected to gradually improve to 4.4 percent of GDP by 2023. The current account deficit would keep the country's external financing requirements on the higher side, particularly when large Eurobond payments become due, and anticipation of private inflows remain weak. So far, this risk is covered by expected improvement in official inflows from bilateral and multilateral sources that would help keep the CBJ foreign reserves adequacy at appropriate levels.

**Public debt is projected to remain elevated before declining over the medium term, but risks remain on the high side.** According to the World Bank's recent Debt Sustainability Analysis (DSA), the Central Government debt is projected to increase by around 5 percentage points of GDP by end-2021 and remain elevated in subsequent years before gradually declining from 2024 onwards. This assessment, however, hinges upon the authorities' commitment to fiscal adjustment, implementation of growth-enhancing reforms, monetary policy's commitment to the exchange rate peg as well as Jordan's

ability to secure financing, including financial support from international donors. Moreover, DSA reveals significant downside risks as the debt trajectory remains particularly sensitive to a variety of economic shocks, such as protracted economic slowdown, primary deficit shock, or a contingent liability shock.

**Overall, given the increasing public debt burden and widening twin deficits, Jordan's economic outlook—particularly over the medium-term—is still surrounded by a high level of uncertainty.** In the short run, being a small open economy, Jordan's economic development and underlying recovery remains highly contingent upon the speed of vaccination rollout both at home and abroad. Major downside risks to this outlook include slow vaccination rates or accessibility, resurging virus cases, and associated lockdowns. Moreover, new virus variants that have proved to be more contagious can undermine vaccine effectiveness and pose an imminent risk to global and domestic economic recovery. On the upside, governments and central banks worldwide have rolled out sizable fiscal and monetary stimuli to boost a faster recovery and limit scarring, which may continue to create a demand boost through improved income channels for emerging markets like Jordan. Expedited vaccine accessibility and rollout due to availability of new vaccines or higher production capacity represents another upside risk. Overall, the balance of upside and downside risks are broadly equal, but unusually large uncertainty is surrounding this outlook.

**TABLE 2 • Jordan Selected Economic Indicators**

	2018	2019	2020	2021	2022	2023
	Act.	Act.	Act.	Proj.	Proj.	Proj.
<b>Real sector</b>						
Real GDP growth	1.9	2.0	-1.6	1.4	2.2	2.3
Real GDP per capita growth <sup>a</sup>	0.1	0.5	-2.5	0.7	1.9	2.2
Nominal GDP (JD billion)	30.482	31.597	31.025	31.889	33.165	34.690
<b>Money and prices</b> (annual percentage change, unless otherwise specified)						
CPI Inflation (p.a.)	4.5	0.8	0.3	2.0	2.0	2.3
Money (M2)	1.2	4.8	5.8	2.8	4.0	4.6
<b>Government finance</b> (percent of GDP, unless otherwise specified)						
Total revenues and grants	25.7	24.3	22.5	24.5	24.4	23.6
Domestic revenue	22.8	21.8	20.0	22.0	22.2	22.5
Foreign grants	2.9	2.5	2.5	2.5	2.2	1.1
Total expenditure and use of cash	29.3	28.9	29.9	31.7	31.6	31.4
Current <sup>b</sup>	25.0	25.0	27.0	28.5	28.0	27.8
o/w compensation of employees	4.7	5.0	5.4	5.6	5.4	5.3
o/w interest payments	3.3	3.5	4.0	4.1	4.0	4.1
o/w transfers	7.8	7.2	7.8	8.9	8.7	8.6
Capital expenditure	3.1	2.9	2.7	3.2	3.6	3.6
Use of cash <sup>c</sup>	1.2	1.0	0.2	0.0	0.0	0.0
Statistical discrepancy, net	0.3	0.0	0.0	0.0	0.0	0.0
Additional fiscal measures <sup>c</sup>	0.0	0.0	0.0	0.7	1.8	2.9
Overall balance (deficit -), including grants	-3.3	-4.6	-7.4	-6.5	-5.4	-5.0
Primary balance (deficit -), including grants	0.0	-1.1	-3.3	-2.3	-1.4	-0.9
Advances to WAJ <sup>d</sup>	1.4	1.6	1.4	1.3	1.2	0.8
Budget financing needs	4.7	6.2	8.7	7.7	6.6	5.8
<b>Total Debt</b> (in million US\$, unless otherwise specified)						
Debt to GDP ratio (%) <sup>e</sup>	92.9	97.4	106.5	111.2	113.3	113.9
Debt to GDP ratio (%), net of SSC's holdings <sup>f</sup>	74.3	78.0	85.4	88.1	88.3	87.2
<b>External sector</b> (percent of GDP, unless otherwise specified)						
Current account	-6.9	-2.1	-8.0	-8.4	-6.7	-4.4
Trade balance	-24.0	-19.6	-16.5	-19.3	-19.7	-19.0
Export FOB	18.1	18.7	18.2	18.9	19.0	19.1
Import FOB	42.0	38.3	34.6	38.2	38.6	38.1
Services and income (net)	5.3	6.6	-1.8	0.2	2.7	4.9
Travel receipts	12.2	13.0	3.2	4.4	7.3	10.6

*(continued on next page)*

**TABLE 2 • Jordan Selected Economic Indicators** *(continued)*

	2018	2019	2020	2021	2022	2023
	Act.	Act.	Act.	Proj.	Proj.	Proj.
Current transfers	11.8	10.9	10.3	10.6	10.4	9.7
Net private investments (FDI and portfolio only)	2.3	1.4	1.4	2.3	2.8	3.5
Gross usable FX reserves (US\$ million)	12,512	13,512	15,127	15,026	14,937	14,389
in months of next year's imports of GNFS	6.8	7.9	8.8	8.2	7.7	7.1

*Source:* Data from the Jordanian authorities and World Bank staff estimates.

<sup>a</sup> Based on World Bank population projections.

<sup>b</sup> Includes net lending and transfers to NEPCO and WAJ.

<sup>c</sup> Additional fiscal measures to target deficit reduction based on IMF Country Report No. 21/11 (January 2021).

<sup>d</sup> Based on information from the 2021 Budget law and IMF staff report No. 21/11 (January 2021).

<sup>e</sup> Government's direct and guaranteed debt (including NEPCO and WAJ debt) and securitization of domestic arrears in 2019.

<sup>f</sup> Projected SSC holdings of public debt as estimated in IMF staff report No. 21/11 (January 2021).

<sup>g</sup> Based on information from IMF staff report No. 21/11 (January 2021).





# SPECIAL FOCUS 1: A YEAR INTO THE PANDEMIC: JORDAN'S PRIVATE SECTOR SNAPSHOT

*Surveys conducted by the WBG show that, a year into the pandemic, the lockdowns and demand shocks have had a strong impact on the private sector, including high closure rates, particularly in the services sector. Liquidity remains a major issue for firms. To respond to the challenges, Jordanian firms have introduced new products and are using digital technologies more intensively. However, the pace of transformation has lagged behind other countries. The programs put forward by the government to support the recovery have reached a significant share of companies interviewed, but some gaps remain. Moving forward, the priority should be to support firms in building their resilience, especially among smaller firms, with support in areas related to firm capability improvement, export development and promotion, and technology uptake.*

## Introduction

**The COVID-19 pandemic has had a major impact on Jordan's private sector, partially mitigated as a result of targeted policies introduced by the**

**Government.** To contain the spread of COVID-19 cases, the Jordanian government implemented strict lockdowns in the early days of the pandemic. From mid-March 2020 until May 2020, as the country went into a full lockdown, so did the private sector firms. Only essential operations related to medical care, bakeries, food and food products, and electricity supply remained open. Another lockdown was announced as COVID-19 cases surged in November. As part of its response to the evolving crisis, the Jordanian government adopted support mechanisms to mitigate the impact on private companies and retain jobs. These policies included wage subsidies, tax deferrals, regulatory relief (e.g., waivers on licensing), and support through the financial system to keep credit flowing to the real sector.

**This special section outlines the findings of two surveys conducted in August 2020 and January 2021 to ask (formal) Jordanian firms about the ongoing effect of the pandemic on their business operations, access to finance constraints, and relevance of the policy response.** These surveys collected data from 601 companies, which is a representative sample of private

establishments in manufacturing and services. This data collection is part of a global effort by the WBG to understand the impact of the pandemic on the private sector and identify solutions.<sup>49</sup> Many useful studies have been published in Jordan looking at these questions, and the surveys we report complement these results by providing a direct comparison of how companies saw their environment before the crisis started and as it developed, as well as allowing comparability with companies located in other middle-income countries.

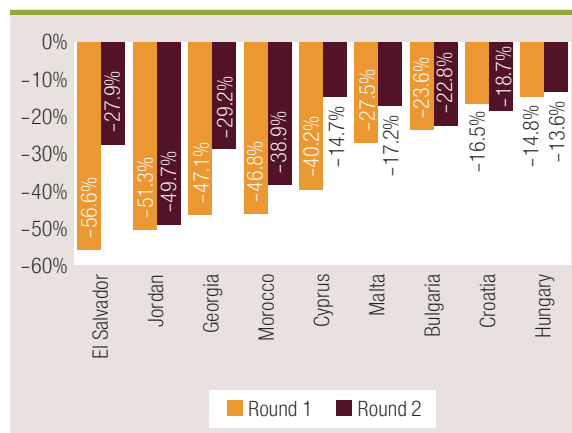
**As a starting point, it is important to note that even prior to the COVID-19 pandemic, the private sector in Jordan faced intense structural performance challenges.** As reported in the WBG Enterprise Survey 2019, companies were experiencing negative growth in annual sales (-6.1 percent), employment growth (-1.4 percent), and real annual labor productivity growth (-7.3 percent). Firms utilized only 59.3 percent of their capacity, compared to 68.7 percent in MENA, and only 14.1 percent of firms invested in fixed assets compared to 30.1 percent in MENA. Thus, companies in Jordan entered the crisis with smaller buffers and were less equipped from a productivity perspective, which explains some of the results subsequently discussed.

## Impact of the pandemic on business operations and financing

**The lockdowns and restrictions on travel needed to curb the pandemic caused major disruptions to value chains in Jordan, as they did in the rest of the world.** The initial lockdown greatly impacted internal demand for goods and services as stores and transportation closed for extended periods of time and affected the supply of manufactured goods for export markets. With the reopening of business activity, firm sales did not rebound to pre-pandemic levels. Tourism, most affected among the service industries, dropped dramatically and has not recovered, having knock-on effects for a range of companies.

**The combined impact of the demand and supply shocks was a sharp decrease in monthly sales among Jordanian firms interviewed, with**

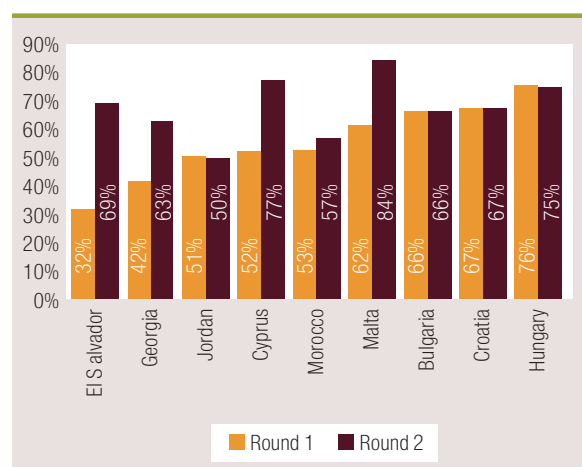
**FIGURE 33 • Average Change in Monthly Sales Compared to a Year Ago—Comparator Countries**



**a drop of around 50 percent y-o-y.** The drop in sales in Jordan remained around 50 percent even nine months into the pandemic, whereas in many middle-income countries where this survey was applied, sales showed a smaller decline and also a partial recovery (Figure 33). The majority of firms in Jordan (83 percent of those in the sample) faced a decrease in demand for their products and services and a decrease in sales (89 percent). A small minority of firms (4 percent) saw an increase in demand and even fewer an increase in sales (3 percent)—a trend that applied especially in food manufacturing.

<sup>49</sup> The Enterprise Analysis Unit at the World Bank Group is working together with the World Bank country teams to develop and implement the COVID-19 follow up surveys in more than 40 countries. In Jordan, this data collection builds on the sample of firms that participated in the most recent Enterprise Survey in 2019. Distribution of firms by size and sector are as follows respectively: (i) size- 57 percent small, 31 percent medium, and 12 percent large. (ii) sector—48 percent manufacturing, and 52 percent services. Microenterprises and informal firms are not part of the sample. The first round was collected after early lockdowns, at a time when Covid-19 cases in Jordan were low and contained, and the second round following a larger wave at end 2020. A panel dataset component is available for future research. The data and questionnaires are available at: <https://www.enterprisesurveys.org/en/covid-19>.

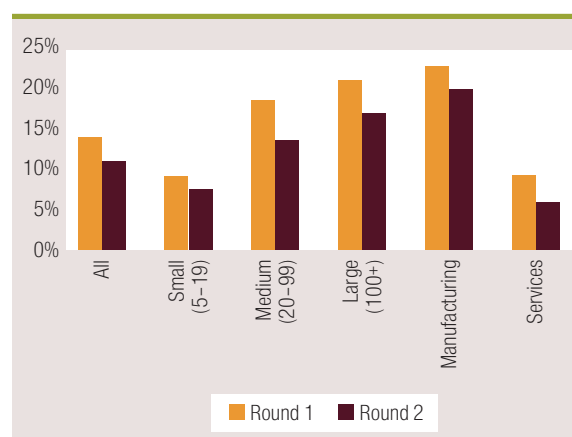
**FIGURE 34 • Capacity Utilization—Comparator Countries**



Capacity utilization of firms reported in both rounds hovered at 50 percent, down from 65 percent prior to the COVID-19 pandemic. This contrasts with capacity utilization in other countries (including several that also experienced second and third waves of COVID-19 cases), which saw a recovery as time evolved (Figure 34).<sup>50</sup> Factors to take into consideration when looking at this finding are the starting point of capacity utilization prior to the pandemic—which was relatively low in Jordan’s case—and the country’s local and international market size and reach.

On the trade front, a majority of firms witnessed a decline in direct and indirect exports starting from pre-pandemic levels. Share of sales exported directly and indirectly decreased as the pandemic continued. Overall, surveyed firms experienced a fall in direct exports as a share of sales from the first to the second round (Figure 35). This continued decline in exports, even for larger firms, indicates that Jordan’s private sector faces a particularly tough environment when it comes to their main products and markets. At the global level, trade flows in 2020 did not fall as much as originally expected, however this performance is quite uneven across regions or categories of goods, with stronger recoveries in Asia and in manufactured products such as electronics and apparel.<sup>51</sup>

**FIGURE 35 • Proportion of Monthly Sales That are Exported Directly in Jordan (Percent)**



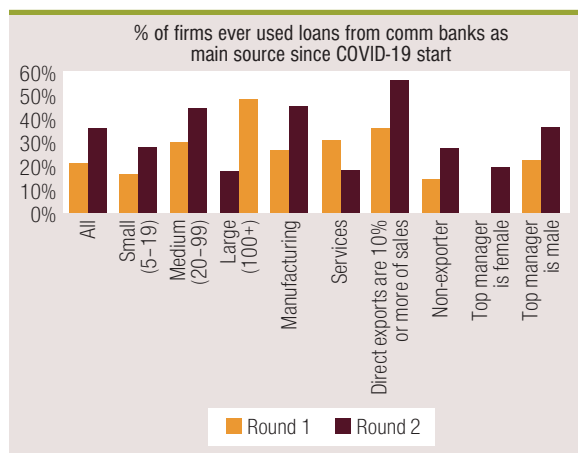
Sources: Haver, IMF, CBJ, World Bank staff calculations.

Access to finance and liquidity issues remain a huge cross-cutting constraint, as firms tried to bridge their financing gaps and ensure adequate funding to maneuver the sharp falls in sales. Ninety-seven percent of firms in the survey reported having liquidity shortage problems since the onset of the pandemic. To deal with the shortage of funds, around 40 percent of firms opted to seek additional liquidity through credit or equity, and 45 percent of firms delayed their payments to landlords, tax authorities, and others. The share of firms that accessed bank credit increased by the time of the second survey in January 2021, a trend that is consistent across companies of different size, sector, and export orientation (Figure 36). More female managed firms were able to access loans between the two rounds of surveys. At the same time, small firms lag behind in their access to bank credit compared to larger companies.

<sup>50</sup> Not all countries faced the same pattern of pandemic waves and measures taken to address them, but it is assumed that the strictest measures were implemented at the beginning of the pandemic. Further waves of the survey are being applied in many countries, which should help with understanding the short-term and long-term impacts.

<sup>51</sup> [https://www.wto.org/english/news\\_e/pres21\\_e/pr876\\_e.htm](https://www.wto.org/english/news_e/pres21_e/pr876_e.htm).

**FIGURE 36 • Share of Firms Using Commercial Bank's Loans as Main Source of Financing Since Onset of Pandemic**



The shocks have led to high rates of permanent closures among businesses, particularly in the service sector and non-essential goods manufacturing. Compared to selected middle-income countries, firm closures in Jordan were on the higher end (Figure 37). By August 2020, an estimated 12.9 percent of large firms terminated their business activity, a ratio that increased to 17.9 percent by January 2021 (Figure 38). The highest share of closures was in the services sector (14.2 percent), mostly in tourism, construction, and other non-essential manufacturing, such as chemicals and garments.<sup>52</sup> This is consistent with information published by the Ministry of Labor in

January 2021 on the list of sectors most impacted.<sup>53</sup> These activities account for a large share of the Jordanian economy and they are among the most affected by the pandemic. Firms of all sizes have been affected, with the survey showing that medium-sized firms have been more resilient, a finding that needs further validation in following rounds of the survey.

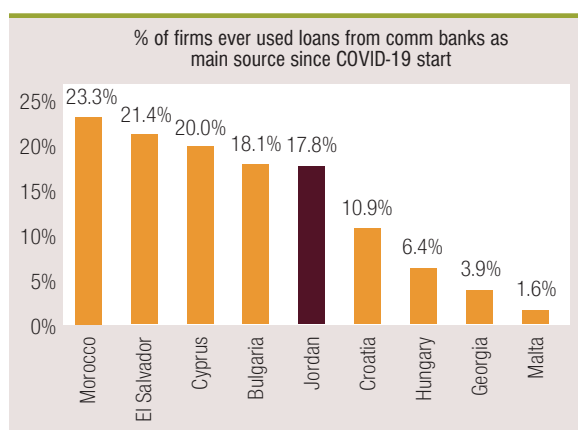
## How did Jordanian firms adapt to overcome the challenges?

The surveys indicate that firms in Jordan did not adjust their production lines and services in response to the pandemic nearly as much as in other middle-income countries (Figure 39). The share of firms that introduced (or discontinued) products and services is less than 2 percent, a number that is stable across the two rounds. This is well below other middle-income countries. A closer look shows that there was more adaptability in some subgroups. Exporting firms and firms with female managers had a higher rate of adjusting the firm's products and services across the

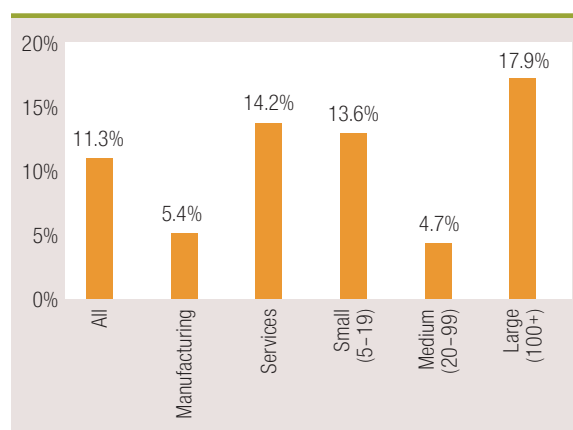
<sup>52</sup> After the second round of surveys, further closures were expected when 144 hotels announced their closure.—[almalaknews—إغلاق 144 منشأة فندقية وتسريح 2554 موظف منذ بداية الجائحة](#).

<sup>53</sup> Ministry of Labor article—accessed on April 13th 2021. ([link](#)).

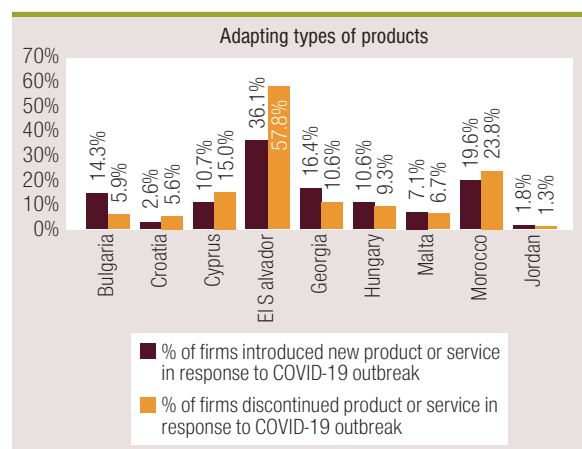
**FIGURE 37 • Comparator Countries with Shares of Firms Assumed or Confirmed Closed**



**FIGURE 38 • Share of Confirmed Firms that Closed since The Start of the Pandemic**



**FIGURE 39 • Share of Firms Introducing New Product or Service in Response to COVID-19—Comparator Countries**



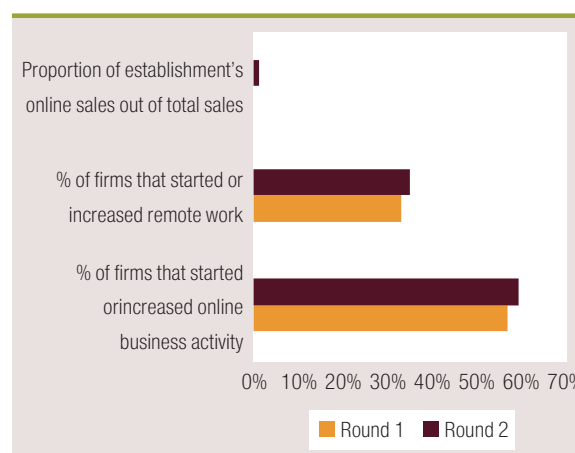
two rounds. In terms of size and sector, medium sized firms operating in the food sector were much most likely to adjust their products or services. The limited restructuring of product lines is a risk factor that could affect competitiveness of Jordanian private sector in the post-pandemic business environment and make it harder to regain market share and deserves further study as well as policy support.

**In regard to the use of digital tools, a large share of firms increased remote work and expanded their online business activity.**<sup>54</sup> Overall, there wasn't a particular subgroup that excelled but it is worth mentioning that a larger fraction of large firms increased remote work and online activity, followed by medium and then small firms, a result that is likely correlated with the level of managerial capabilities and financial resources. Despite the changes in the business model, the impact on sales has been limited up till now (Figure 40), although there is stronger performance among medium-sized firms and those in retail. Relative to what is observed in other countries, the results suggest that there are obstacles hindering Jordanian firms' ability to benefit from a tech driven environment as a tool to boost productivity.

## Policy response

**The policy response implemented by the government included a range of support measures for**

**FIGURE 40 • Technology Uptake and Performance in Jordan**



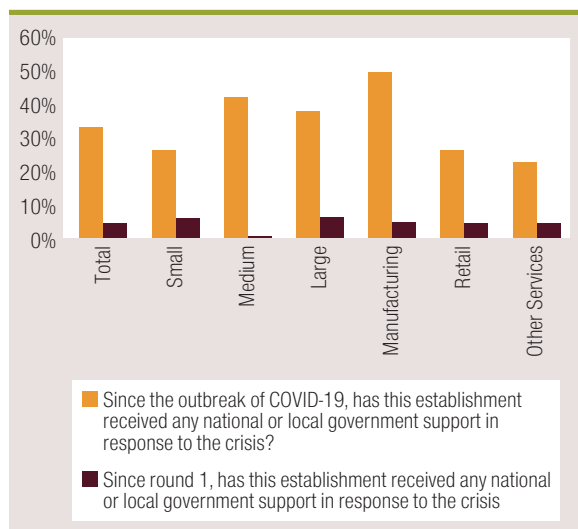
Note: Question on online sales was only part of the round 2.

**companies.** The Government of Jordan provided temporary cash-flow relief to companies by allowing delayed payments of sales taxes and customs duties, delayed utility payments, temporarily reduced social security contributions, and subsidized wages and employees support through the National Aid Fund cash transfer and through the SSIF. At the same time, the CBJ reduced policy rates by 150 basis points during 2020, injected liquidity by reducing the reserve requirement from 7 to 5 percent for commercial banks (JD 550 million to banks).

**A significant share of firms in the survey benefited from the support programs implemented; of these measures, the support for wages in the formal sector was the most visible.** Jordanian firms reported receiving more support in the first round of the survey, soon after the onset of the pandemic, with around 37 percent of firms reported receiving some form of support (Figure 41). Of the firms that received support, around 69 percent enjoyed wage subsidies, 19 percent accessed new credit, and about 10 percent received fiscal exemptions or deferrals of interest payments, rents, or mortgages. This was well reflected in the preservation of the full-time employees where, across the board, less than

<sup>54</sup> Digital tools refer to any activity that uses online platforms, webservices, or online payment systems, and requires access to a broadband connection.

**FIGURE 41 • Share of Firms Reporting Receiving National Support and Type of Support Received**



1 percent of fulltime employees were let go over the course of the year.

**The surveyed firms indicated that they would like to see additional support, particularly cash transfers, but also more of the types of support deployed so far.**<sup>55</sup> When asked what type of support they need, the majority of firms would prefer receiving cash transfers for businesses, in addition to access to new credit or loans. Second highest priority is fiscal exemptions or reductions.

## Conclusions

**The survey results put a spotlight on a number of trends that need to be better understood, as they indicate Jordan's private sector has not yet experienced a significant recovery.**

As a result of the pandemic, most businesses in Jordan experienced sharp drops in sales, leading to stagnating capacity, which was already low entering the crisis. Sizeable closures have been experienced despite the range of public policies implemented. Mirroring what happened in many countries that imposed lockdowns and travel restrictions, the impacts seem more pronounced in tourism, construction, and non-essential retail

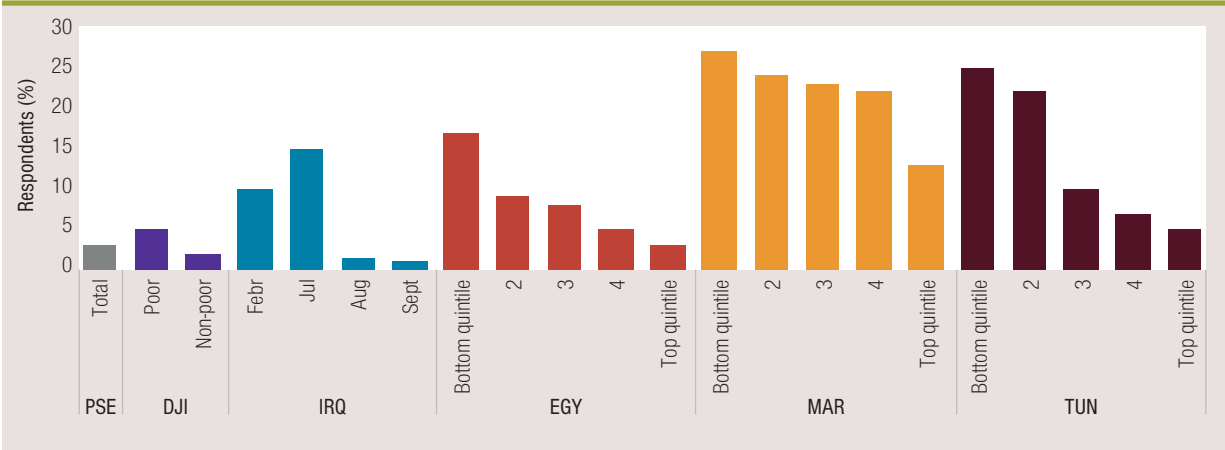
services. Manufacturing firms and firms that export, particularly in the food processing sector, have been more resilient in the face of these challenges. Where Jordan's private sector seems to lag behind other middle-income countries is in the drive to adapt to the "new normal" and take advantage of exporting opportunities. While many firms started or increased their online business activities, generally the restructuring of product and service offerings has been fairly limited. Further rounds of this survey will be completed to confirm these results and better understand the impacts and possible solutions.

**The pandemic exacerbated weaknesses when it comes to trade development and market reach, as well as access to finance.** Whereas Jordan witnessed a slight improvement in 2019 on amounts exported, this could not be sustained during the pandemic. The share of firms exporting has decreased over time, as did the share of exports in their total sales. Access to finance remains the biggest challenge facing private firms in Jordan. Almost all the firms reported having liquidity shortages since the onset of the pandemic, resulting in delayed payments to landlords, tax authorities, and others. To solve this issue, many firms sought commercial bank loans as a main source of financing.

**The support provided by the government at the onset of the pandemic has been broad-based, but further measures will be needed to tackle the on-going waves of the pandemic.** It is critical that these policies need to help companies build their resilience and future productivity, not just survive. The on-going pandemic has highlighted the need for agile adaptation with long-term vision, and although support provided is necessary on the short-term, consideration to green recovery, improving technology, and modernization is

<sup>55</sup> Xavier Cirera, Marcio Cruz, Elwyn Davies, Arti Grover, Leonardo Iacovone, Jose Ernesto Lopez Cordova, Denis Medvedev, Franklin Okechukwu Maduko, Gaurav Nayyar, Santiago Reyes Ortega, Jesica Torres, Policies to Support Businesses through the COVID-19 Shock: A Firm Level Perspective, The World Bank Research Observer, Volume 36, Issue 1, February 2021, Pages 41–66, <https://doi.org/10.1093/wbro/lkab001>.

**FIGURE 42** • Respondents Receiving Support from Public Cash Transfer Programs Following COVID-19 (Percentage)



Source: COVID-19 High Frequency Surveys (World Bank 2020).

necessary for a faster recovery and future resilience. Further support needs to be extended in both financial and technical resources to enhance the

firm's performance on technological adoption and integration into global value chains, thus increasing the market reach.





# SPECIAL FOCUS 2: COVID-19 AND INEQUALITY IN THE MENA REGION AND IN JORDAN

*The socioeconomic effects of the COVID-19 pandemic are unprecedented. Since the start of the outbreak, about 112 million cases of COVID-19 across the globe have been reported, including more than 2 million deaths.<sup>56</sup> In addition, the pandemic has thrown entire economies into disarray and upended livelihoods. Despite being initially heralded as the “great equalizer,” new evidence has shown that the consequences of COVID-19 have been borne unequally, disproportionately affecting the poor and vulnerable (Hill and Narayan 2020; Serkez 2021; Oxfam 2021). This Special Focus looks at the inequality-enhancing effects of COVID-19 in the MENA region, with a special zoom in on Jordan.*

## COVID-19 and inequality in the MENA region

**Since the onset of COVID-19, many statistical agencies have been collecting data to assess the socioeconomic impacts of the crisis on households.** Presently, such data are available

for Djibouti, Egypt, Iraq, Libya, Morocco, Palestine, Saudi Arabia, Tunisia, and Yemen, and results can be found on the COVID-19 High Frequency Survey Global Dashboard.<sup>57</sup> Results from this data show that widespread impacts amplify pre-existing inequalities between rich and poor across and within countries (Sánchez-Páramo and Narayan 2020). For example, in Tunisia five rounds of a phone survey were implemented between April and October 2020 to track the impact of the pandemic over time. Younger respondents with less education and who are either unemployed, self-employed, or working with non-wage income have reported a deterioration in living standards for their household.<sup>58</sup>

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<sup>56</sup> According to the European Centre for Disease Prevention and Control (ECDC).

<sup>57</sup> COVID-19 High Frequency Survey Monitoring Dashboard created and hosted by the World Bank provides 93 harmonized indicators on 14 topics, to compare the COVID-19 impact across countries over time, by industry sector, and regions.

<sup>58</sup> For more details see (Alfani et al. 2021).

The phone surveys conducted in MENA show that mitigation measures put forward by governments have been insufficient in avoiding significant increases in poverty. Relatively few households benefited from cash transfers programs (Figure 42) because many are informally employed and therefore outside existing benefit schemes.

## COVID-19 and inequality in Jordan

Jordan was initially hailed as a success story in the fight against COVID-19. The government swiftly implemented strict restrictions, sealing international borders and imposing a lockdown for 4 months that only allowed citizens to leave their houses for medical emergencies. The country has since seen two surges in COVID-19 cases and has implemented a series of shorter and targeted lockdowns. While these measures were initially successful in stemming the transmission of the virus, they placed a significant economic burden on households, especially those among the poorer segments of society.

### Health impact

As in other countries, the poor in Jordan have been more vulnerable to contracting the virus and less likely to receive and afford adequate treatment when needed, with disproportionately higher levels of those without health insurance. Figure 43 shows that poorer households in Jordan live in overcrowded living conditions, making it more difficult to isolate and increasing the likelihood of community spread of the virus. They are also more likely to live in multi-generational households, increasing the transmission risks to vulnerable elderly who cannot be isolated from interactions with others in the homes. Further, more than 10 percent of the poorest households do not have access to piped water, limiting the ability to follow hygiene and hand-washing recommendations to avoid contagion.

Around the world, there is evidence that members of poorer households tend to have more underlying health conditions,<sup>59</sup> making them more susceptible to becoming severely ill with COVID-19.

The poor and vulnerable also have less access to medical treatment, and for many the medical costs are beyond their financial means.<sup>60</sup> In Jordan, a rapid needs assessment phone survey conducted by UN agencies shows that female-headed and larger households were more likely to report challenges in accessing healthcare and medicines during the lockdown (UNHCR, UNICEF, and WFP 2020).<sup>61</sup>

### Economic impact

Globally, one of every five jobs can be performed from home, compared to one of every 26 jobs in low-income countries (Garrote Sanchez et al. 2020). The ability to telework is correlated with income, as white-collar jobs are more suited to be done from home, and wealthier households tend to have better internet connectivity. In addition, poor individuals are less likely to work in the public sector, which has been able to resist lay-offs and salary cuts.

During the initial lockdown between March and June 2020, the Government of Jordan took rapid measures to protect workers. Defense order No. 6, introduced in April 2020, effectively banned the layoff of private-formal sector workers, set restrictions on the wage cuts, and provided some relief for firms; the Social Security Corporation also introduced measures to pay unemployment benefits to compensate workers affected by the crisis. But informal sector workers were not covered by these measures, even though a complementary cash assistance program

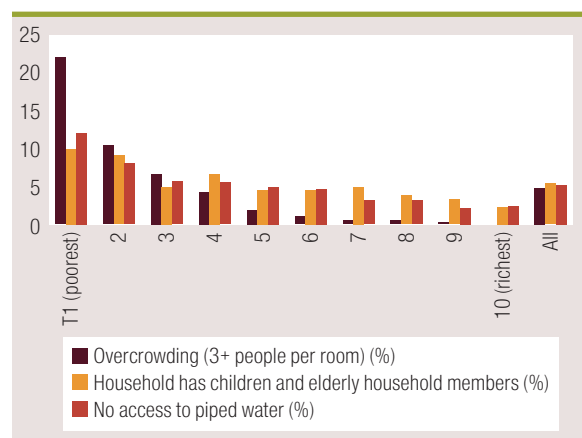
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<sup>59</sup> In the U.S., for instance, the richest men live 12 years longer and richest women 10 years longer than the poorest men and women (Isaacs and Choudhury 2017).

<sup>60</sup> Even in countries where medical care is freely provided, COVID-19 has become a disease of the poor. In the UK for instance, the Office for National Statistics reports that those living in the most deprived neighborhoods have been more than twice as likely to die from COVID-19 as those in the least deprived (Office for National Statistics 2020).

<sup>61</sup> This study was conducted among 1,124 Syrian and non-Syrian refugee households living outside of camps, non-Jordanians, and migrant workers living in informal tented settlements from April 6 to April 8 2020 (UNHCR, UNICEF, and WFP 2020).

**FIGURE 43 • Percentage of Individuals without Access to Piped Water in Dwelling, Living in Multigenerational Households, and Overcrowding by Per Capita Consumption Decile**

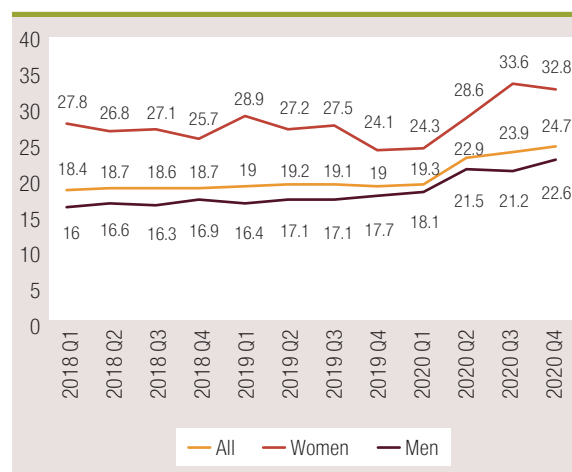


was launched in parallel to support them for three months.<sup>62</sup> While labor income makes up roughly the same proportion of income across all wealth deciles, around half of the workers in the bottom two deciles are informal and not protected by the Defense Orders (World Bank Group 2020).

Data on unemployment shows that unemployment in Jordan has increased over 2020, from 19.0 percent in the last quarter of 2019 to 24.7 percent in the last quarter of 2020 (DoS 2021). As shown in Figure 44, this change is far larger for women, as female unemployment increased from 24.1 percent to 32.8 percent in the same period. Female labor force participation rates were already one of the lowest in the world at around 15.1 percent (Lugo, Muller, and Wai-Poi 2020), and has decreased further to 13.7 percent by the last quarter of 2020 (DoS 2021). The COVID-19 crisis is likely to reinforce existing challenges and barriers for women's economic engagement. Perceptions around the importance of securing jobs for men before women, or women's primary responsibility for childcare, are likely to prevail in crisis settings.<sup>63</sup>

The situation is particularly dire for those working in the informal sector. An early rapid-response survey of vulnerable workers conducted by the ILO reported that nearly half of Jordanians working before the pandemic were out of work during the five day

**FIGURE 44 • Unemployment Rate from 2018 to 2020 (Percent)**



Source: DoS.

period starting from April 1<sup>st</sup> 2020: 17 percent had been permanently dismissed and a further 31 percent were temporarily dismissed (Kebede, Stave, and Kattaa 2020).<sup>64</sup>

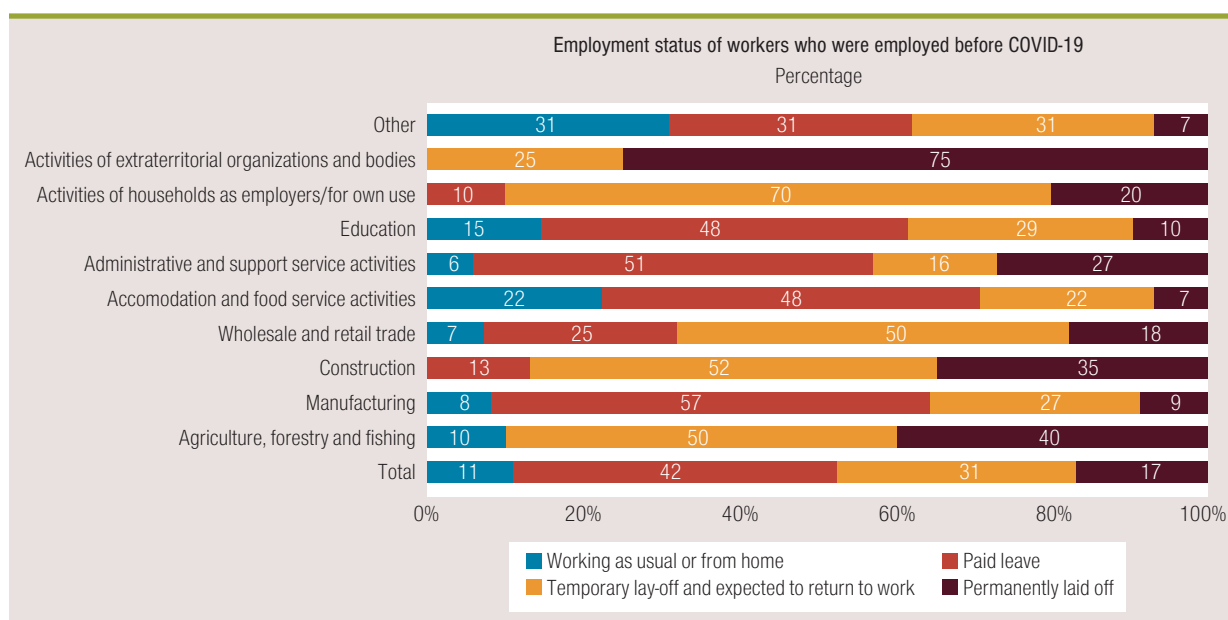
While there are no official poverty numbers since the pandemic began in Jordan, estimates from an early microsimulation analysis (World Bank 2020) suggest that the possible short-term increase in national poverty could be as high as 11 percentage points for Jordanians. However, recent growth projections show that the Jordanian economy has not suffered as much as expected (see the *Jordan Macro*

<sup>62</sup> The Government of Jordan, with support from the World Bank, launched a program to provide cash support to poor, informal and vulnerable households. It consisted of (i) a temporary cash transfer to 190,000 additional vulnerable households and (ii) temporary benefit top-ups for existing NAF and Takaful beneficiaries whose benefits were below a certain threshold.

<sup>63</sup> The World Values Survey finds that 58.9 percent of Jordanians strongly agree and 22.5 percent agree that men have more right to a job than women when jobs are scarce (Inglehart et al. 2014).

<sup>64</sup> The ILO report is based on a telephone survey targeting 3,000 Syrian and Jordanian workers who have received support or participated in ILO projects. 1,580 interviews were completed between 9 and 14 April 2020 (Kebede, Stave, and Kattaa 2020).

**FIGURE 45 • Employment Status of Workers Who Were Employed Before COVID-19 (Percentage)**



Source: Extracted from ILO report on vulnerable workers in Jordan (Kebede, Stave, and Kattaa 2020).

*Poverty Outlook of April 2021*). In combination with the government emergency cash assistance, the poverty impact should be considerably less than forecast.

Finally, refugees in Jordan have been even more vulnerable during the COVID-19 pandemic. Informality rates of Syrian refugees are around 80 percent, substantially high compared to informality in the Jordanian population which is around 35 percent (World Bank Group 2020). Refugee households face an additional source of vulnerability during the pandemic, because these households spend a higher share of their income on food expenses, they are likely to feel the impact of rising food prices more strongly. Although general inflation has remained relatively contained in Jordan, the interagency survey of vulnerable populations in early April 2020 found that half of Syrian refugees and over two-thirds of refugees living in informal tented settlements experienced food price increases in the previous week (UNHCR, UNICEF, and WFP 2020).

## Conclusion

The inequality increasing effect of COVID-19 is not surprising; past pandemics such as SARS,

MERS, H1N1, Ebola, and Zika had very similar effects on poverty and inequality (Barro, Ursúa, and Weng 2020; Furceri et al. 2020). What is different with COVID-19 is the scale and duration of the pandemic and hence its continued impact. Economic projections confirm that extreme poverty will increase by at least 119 million people across the globe due to COVID-19, upending the global trend toward poverty eradication. In MENA, around 5 million people are expected to fall into extreme poverty by the end of 2021 (Lakner et al. 2021). Income inequality is expected to rise in low-income and emerging countries alike (IMF 2021).

The effects of the disproportional exposure of poor and vulnerable households to the pandemic will be felt for a long time to come (i.e., economic scarring). The longer people are out of a job, the harder it is to get back into the job market, and human capital will continue to deteriorate. Lower incomes and rising prices of basic essentials in many places will force poor households to cut back on their nutritional intake and further undermine their health (Adams-Prassl et al. 2020; Bartik et al. 2020; Montenegro et al. 2020). Children of poor and vulnerable households will pay the highest price and learning disruption associated

with school closures will lead to human capital loss and stronger educational and income inequality in the future (Fort, Ichino, and Zanella 2020; Lustig and Tommasi 2020).

The rising inequality has consequences for planning the post-COVID period in Jordan. Building back better will need to offer the poorest and most vulnerable the opportunity to regain what they have lost and build resilience for future shocks. Labor market, social protection, health and education policies will need to be (re)considered through a lens of equity and inclusion. This can make up for the large losses that have been experienced, and help build the foundation for a stronger, more inclusive social contract.

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# ANNEX I

## A: The Cyclicality of Fiscal Policy in Jordan

Fiscal policy plays a central role in stimulating economies as well as in stabilizing output. This is particularly important for a country like Jordan where effectiveness of monetary policy is limited due to a fixed exchange rate peg. If used effectively, fiscal policy can help stabilize the output counter-cyclically through business cycles, i.e., expand during recession and contract during boom.<sup>65</sup> However, literature finds that fiscal policy in most developing countries instead remains procyclical (see Gavin and Perotti (1994) for example). The cyclical behavior of fiscal outcomes in MENA countries is of particular interest as those countries witnessed the highest output volatility. Abdih, et al. (2010) study the aggregate fiscal outcomes for the whole MENA and the Caucasus and Central Asia (CCA) regions and conclude that fiscal policy has typically amplified business cycles at the regional level. This Annex focuses on Jordan with a particular focus on fiscal policy response during COVID-19 pandemic.

Given the absence of systematic time series data on tax rates for the countries in our sample,

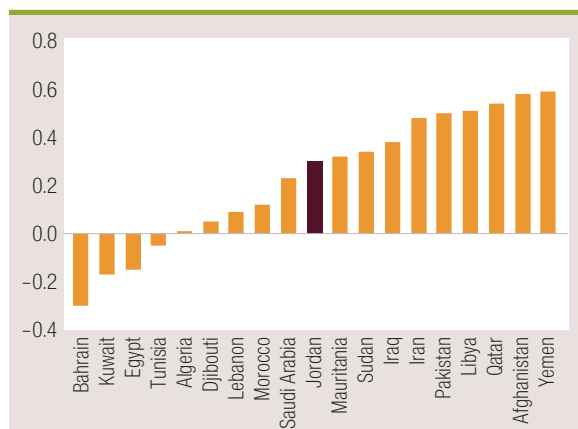
we follow Abdih, et al., (2010), and use government spending as the main indicator to assess the cyclical properties of fiscal policy. This research uses panel data on government spending and GDP from 1980 to 2019 for the MENA countries.<sup>66</sup> The real GDP annual time series are decomposed into trend and cyclical components using the Hodrick-Prescott filter. Positive cyclical components coincide with boom periods as output is above the economy's potential. The HP filter was then applied to the real government spending (deflated using GDP deflators), while a positive (negative) cyclical component indicates expansionary (contractionary) fiscal policy. In applying the HP filter

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<sup>65</sup> According to Kaminsky et al. (2004) definition, counter-cyclical fiscal policy refers to tax rates increase (decrease) and government spending decreases (increases) in good (bad) times. Analogously, pro-cyclical fiscal policy is defined tax rates decrease (increase) and government spending increases (decreases) in good (bad) times. Fiscal policy is defined as acyclical if tax rates and government spending remain constant over business cycle.

<sup>66</sup> The panel data is uneven because of lack of the data, for example, the data for Afghanistan is from 2003 to 2019.

**FIGURE 46** • Correlation between Real Output and Real Spending (Cyclical components)

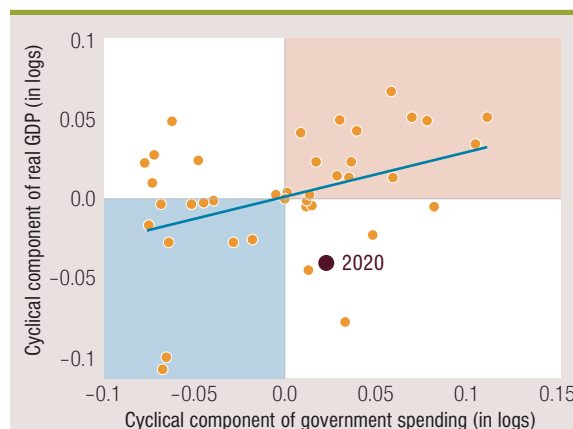


Sources: Data for Jordan is from MoF and DoS of Jordan. Data for other countries is from IMF WEO Database, October 2020.

to extract the cyclical components of the series, we follow Backus and Kehoe (1992) and use a smoothing parameter  $\lambda = 100$  for all countries.

Empirical findings suggest the existence of pro-cyclical fiscal policy in most MENA countries (similar to the findings in Abdih, et al. 2010 and Slimane and Tahar 2010). As shown in Figure 46, the correlation between the cyclical components of real government spending and real output are positive for 15 countries out of 19 countries in our sample. Interestingly, we find fiscal policy in Jordan is pro-cyclical as the correlation coefficient is positive and statistically significant at the 10 percent level. This means Jordan's fiscal policy has typically amplified the business cycles. We further show that the procyclical pattern observed in government spending in Jordan can be mostly attributed to capital spending, as the elasticity of growth of capital spending is as much as 5.1 (and statistically significant at 1 percent level), i.e., one percentage deviation of output from its trend is associated with around 5.1 percent deviation of capital expenditure in the same direction.<sup>67</sup> This means capital spending expands during boom periods and contract significantly during recession. On the other hand, recurrent spending appears to be acyclical (i.e., remains constant over business cycles) as the elasticity of growth to recurrent spending is only 0.24 and statistically insignificant.

**FIGURE 47** • Did Fiscal Policy Respond Proactively During the COVID-19 Crisis? (1980–2020)



Sources: Data for Jordan is from MoF and DoS of Jordan. Data for other countries is from IMF WEO Database, October 2020.

In the light of the COVID-19 shock, most countries, including Jordan, have resorted (perhaps relatively less due to fiscal space issues) to fiscal policy to protect the most hard-hit sectors and vulnerable populations in order to lessen the economic fallout of COVID-19 shock. An interesting question here is what has been the fiscal outcome in Jordan amid the COVID-19 crisis? Did Jordan follow its broad historical pattern of procyclicality (i.e., cutting spending during the recession), or was it different this time around? Figure 47: Did fiscal policy respond proactively during the COVID-19 crisis? (1980–2020) provides some intuition to this question in Jordan as it plots the cyclical components of both government spending (x-axis) and real GDP growth (y-axis) for year 1980–2020. The green line indicates the long-run positive relationship between the cyclical components of government spending and the real GDP. The data indicates that a fall in the upper right orange area are years that coincide with an expansionary fiscal policy during good times, while the data points that fall in the lower left green area are years coincide with a contractionary

<sup>67</sup> Total government expenditure can be broken down into two types of expenditure: recurrent spending which represents day-to-day costs that are necessary to keep the government running; and capital spending which are inherently payments for acquisition of assets.



fiscal policy during recessions. For 2020, Jordan's data point falls outside the shaded area, reflecting expanding government expenditure in Jordan during the crisis. Therefore, it appears fiscal policy in Jordan did respond proactively to recessionary conditions during 2020 despite limited fiscal space.

To formally examine the fiscal policy response in Jordan amid the COVID-19 crisis, we also adopt a different approach.<sup>68</sup> Specifically, we look into the cyclically adjusted primary balance (*CAPB*)—a commonly used fiscal indicator in the literature that reflect discretionary fiscal policy response. In principle, the *CAPB* focuses on discretionary actions and, compared to the primary balance (*PB*), leaves aside the influence of automatic stabilizers (such as a fall in tax revenues or a rise in transfers because output falls). The *CAPB* can be calculated using the ratio of revenue and expenditure to GDP, the output gap, and the elasticity of revenue and expenditure with respect to the output gap (for detailed formulation, see Fedelino et al. 2009). The expansionary (contractionary) fiscal policy coincides with  $\Delta CAPB < (>) 0$  ( $\Delta$  is the difference between two consecutive years).

Based on the real GDP and fiscal balance in 2020, Jordan's output gap is estimated to be around -3.1 percent in 2020, while the estimated change of cyclical adjusted primary deficit (excluding grants) equals to JD504 million (~1.6 percent of 2020 GDP).<sup>69</sup> This implies that, of the 2.3 percent of GDP increase in primary deficit (excluding grants) in 2020 compared to 2019, 1.6 percent of GDP came from discretionary fiscal policy response, while the remaining 0.7 percent is the automatic revenue/spending changes due to the output fluctuation. This indicates that despite limited fiscal space, Jordan was able to generate considerable countercyclical fiscal stance in response to the downturn in 2020.

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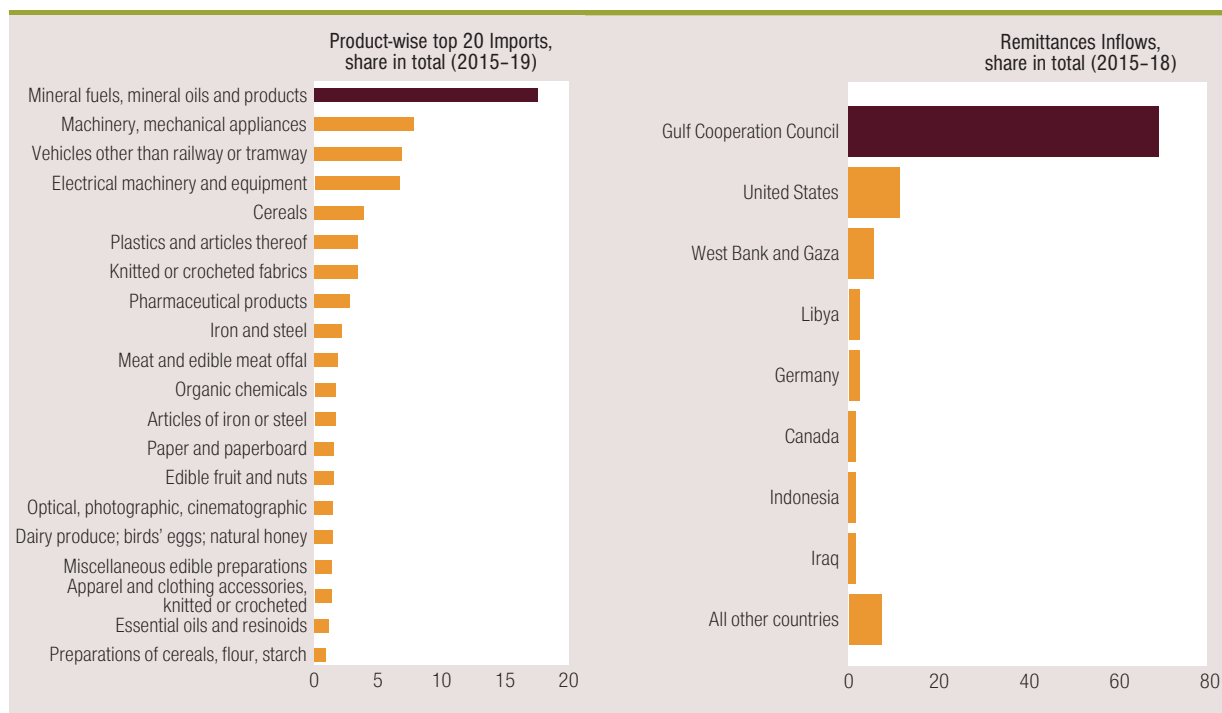
## B: Merchandise Trade Balance, Workers' Remittances, and International Oil Prices: Some Empirical Observations in the Case of Jordan

Movement in international oil prices play an important role in shaping the underlying economic activities of (and their outlook across) many advanced and emerging economies. This importance further increases if the economy is running a significant trade deficit from the energy bill, while also having a large share of labor exports toward oil exporting nations. In such cases, a positive oil price shock on one hand, helps reduce the external sector pressures providing windfall

<sup>68</sup> As it is not possible to estimate the correlation coefficient between fiscal policy instruments and real output for only one year.

<sup>69</sup> Based on the assumption that revenue elasticity is equal to one (i.e., revenues are perfectly correlated with the cycle) and expenditure elasticity is equal to zero (i.e., expenditures are not affected by the cycle). This is a common assumption used in fiscal policy literature.

FIGURE 48 • Jordan's Imports and Remittances Structure



Source: International Trade Centre, World Bank, World Bank staff calculations

Note: Gulf Cooperation Council consists of Saudi Arabia, UAE, Kuwait, Qatar, Oman and Bahrain

gains through lower trade imbalances, while on the other hand, it also potentially deteriorates the outlook for workers' remittances due to reduction in income of oil exporting countries. Thus, the net impact on the current account depends on which impact prevails. Jordan falls in one of those emerging economies that faces such trade-offs as energy imports makes around one-fifth of Jordan's total imports in recent years, while almost of two-third of workers' remittance inflows for Jordan originates from the neighboring oil exporting Gulf nations (Figure 48).<sup>70</sup> Given such underlying exposures, the Jordanian external sector potentially faces both upside and downside risks from changes in international oil prices, particularly if the trend remains persistent in one direction for some time. The theoretical and empirical underpinnings for such dual role of oil prices to impact the current account is well documented in economic literature (e.g., see Mitra 1995 and Lueth and Ruiz-Arranz 2007).

Typically, for the trade balance, analyzing the impact from the changes in the international oil prices is straightforward, as change in trade prices would adjust the current account dynamics

accordingly. However, to examine the impact of changes in oil prices on workers' remittances, one needs to take into account host of other factors that may affect the underlying relationships among these variables. In this context, we investigated the impact of changes in international oil prices on Jordan's trade balance and workers' remittances for period 2008M01–2020M06 in an empirical Structural Vector Autoregressive setup having the following specification:

$$oil_t = E_{t-1}[oil_t] + \varepsilon_t^{oil}$$

$$y_{me}_t = E_{t-1}[y_{me}_t] + \delta_{11}\varepsilon_t^{oil} + \varepsilon_t^{y_{me}}$$

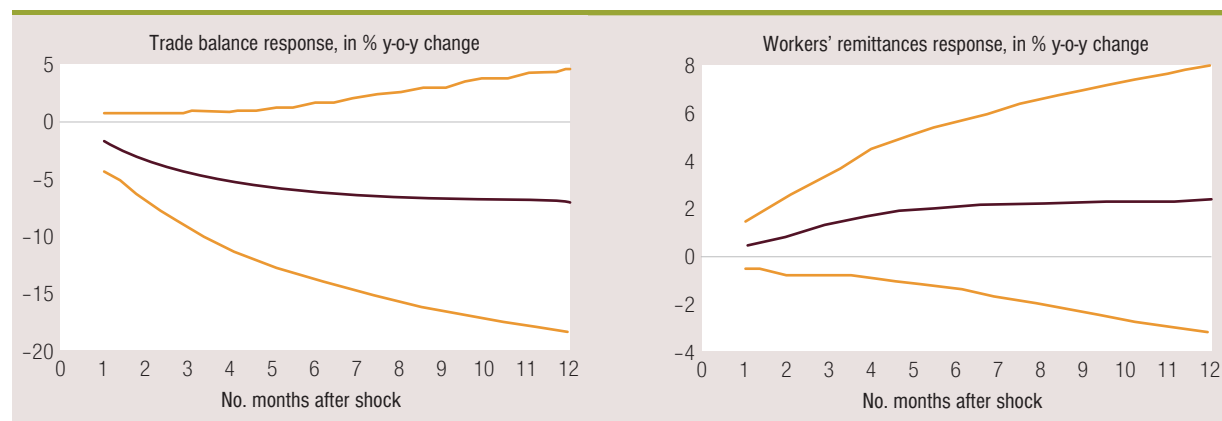
$$y_{jor}_t = E_{t-1}[y_{jor}_t] + \delta_{21}\varepsilon_t^{oil} + \delta_{22}\varepsilon_t^{y_{me}} + \varepsilon_t^{y_{jor}}$$

$$tb_t = E_{t-1}[tb_t] + \delta_{31}\varepsilon_t^{oil} + \delta_{32}\varepsilon_t^{y_{me}} + \delta_{33}\varepsilon_t^{y_{jor}} + \varepsilon_t^{tb}$$

$$wr_t = E_{t-1}[wr_t] + \delta_{41}\varepsilon_t^{oil} + \delta_{42}\varepsilon_t^{y_{me}} + \delta_{43}\varepsilon_t^{y_{jor}} + \delta_{44}\varepsilon_t^{tb} + \varepsilon_t^{wr}$$

<sup>70</sup> We excluded oil related exports from this analysis as they account for only 0.8 percent of Jordan's total exports in the last five years.

**FIGURE 49 • Accumulated Response of Shock to International Oil Prices**



Sources: CBJ and World Bank staff calculations.

Note: Orange line denotes +/- 2 standard deviations from the mean response.

where  $\varepsilon_t^{oil}$ ,  $\varepsilon_t^{y-me}$ ,  $\varepsilon_t^{y-jor}$ ,  $\varepsilon_t^{tb}$  and  $\varepsilon_t^{wr}$  are the oil price, external and domestic income (proxy by industrial production in the MENA region and Jordan), trade balance, and workers' remittances shocks, respectively.  $E_{t-1}[\cdot]$  is the expectation of a variable based on information set at the end of period  $t-1$ .

Results indicate that in an event where the international oil price increases by US\$10 per barrel, after a lag of one quarter Jordan's trade balance is likely to deteriorate by around 1.1 percent, while simultaneously the impact on workers' remittances is estimated as an increase of 0.5 percent (y-o-y). As highlighted, because of significant labor exports from Jordan toward oil exporting neighboring nations, the favorable impact on remittances mainly works through positive changes in the external income of these nations as oil prices increases in the global markets. On an accumulated basis, the positive shock to international oil price would increase the Jordan's trade deficit by 6.9 percent, while increasing workers' remittances by 2.4 percent over the 12 months period (Figure 49).

Overall, these results indicate the dominating effect of changes in global oil price in determining

the Jordanian trade balance relative to outlook for remittances from major source countries. Therefore, the likelihood is that the recent higher projections for global oil prices in 2021 is expected to worsen country's trade balance more than the expected improvement in remittances. Thus, conditional upon projections for global oil prices, Jordanian current account deficit during 2021 is expected to remain at the same level in 2021.

## References

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- Lueth, Erik, and Marta Ruiz-Arranz. 2007. "Are workers' remittances a hedge against macroeconomic shocks? The case of Sri Lanka." IMF Working Papers: 1–14.
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# ANNEX II

## Selected Recent World Bank Publications on Jordan

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

Title	Publication Date	Document Type
The Amman Climate Plan: A Vision for 2050 Amman	March 31, 2021	Report
<b>Jordan Economic Monitor–Fall 2020: Navigating through Continued Turbulence</b>	<b>March 1, 2021</b>	<b>Report</b>
Fiscal Policy, Poverty and Inequality in Jordan: The Role of Taxes and Public Spending—Policy Summary	March 1, 2021	Working Paper
Hashemite Kingdom of Jordan—Social Security Corporation (SSC): Toward Coverage Expansion and a More Adequate, Equitable and Sustainable Pension System	March 1, 2021	Report
The Lives and Livelihoods of Syrian Refugees in the Middle East: Evidence from the 2015–16 Surveys of Syrian Refugees and Host Communities in Jordan, Lebanon, and Kurdistan, Iraq	July 21, 2020	Policy Research Working Paper
Coping with the Influx: Service Delivery to Syrian Refugees and Hosts in Jordan, Lebanon, and Kurdistan, Iraq	July 21, 2020	Policy Research Working Paper
The Fallout of War: The Regional Consequences of the Conflict in Syria	June 17, 2020	Report
Jedat: Promoting Market Opportunities for Refugee and Host Community Businesses in Jordan	June 9, 2020	Report
<b>Jordan Economic Monitor–Spring 2020: Weathering the Storm</b>	<b>June 1, 2020</b>	<b>Report</b>
Women's Economic Empowerment in Jordan	April 1, 2020	Brief
Does the Internet Reduce Gender Gaps? : The Case of Jordan	March 13, 2020	Policy Research Working Paper
Estimating Poverty for Refugee Populations: Can Cross-Survey Imputation Methods Substitute for Data Scarcity?	December 3, 2019	Policy Research Working Paper
Measuring Social Norms About Female Labor Force Participation in Jordan	June 26, 2019	Policy Research Working Paper
How Does Poverty Differ Among Refugees? Taking a Gender Lens to the Data on Syrian Refugees in Jordan	October 17, 2018	Policy Research Working Paper

## Summary of Recent Special Focuses from the Latest Jordan Economic Monitors

### Fall 2020 JEM: “Moving Toward an Equitable and Sustainable Pension and Social Insurance in Jordan”

Addressing pension and social insurance issues means addressing financial, fiscal, social, and economic challenges. More than half of the population in Jordan is not yet effectively covered by contributory social security programs. Although designed to be financially self-sustainable, the contributory pension program is actually unsustainable. The program also creates inequities and adverse incentives. Despite some past reform efforts, the program has still considerable parametric inconsistencies (benefit promises are not in line with contribution rates and retirement ages). Such inconsistencies are bridged, at the moment, by favorable demographics, but in less than a decade, revenues from contributions will not be enough for pension spending. There are some potential solutions and proposals that Jordan could adopt in order to improve pension outcomes, and its financing mechanisms.

### Fall 2020 JEM: “The Incidence of Taxes and Public Spending in Jordan”

The degree to which different households contribute to and benefit from fiscal policies varies across income distribution. Taken together, the overall allocation of taxes (personal income tax and sales taxes) and public spending (cash transfers, water and electricity subsidies, and health and education in-kind benefits) in Jordan is modestly progressive. The fiscal system helps to reduce inequality, though much of the effect comes from in-kind benefits and the pattern of taxes and cash spending could be made to benefit the poor and middle class further. In comparing Jordan with other countries, it is evident that more could be achieved. Further, Jordan's need for fiscal consolidation can be compatible with the

goal of reducing poverty and inequality. The recent expansion of social assistance programs is making Jordan's fiscal policies more equalizing.

### Spring 2020 JEM: “Women and Work in Jordan”

Women's participation in Jordan's labor market is the fourth lowest in the world with less than 15 percent of women working or looking for work. Jordanian women who do want to work face an unemployment rate reaching almost 25 percent in 2019, nearly twice that of men—meaning that low rates of female participation mask an even lower rate of employment. Expanding women's access to economic opportunities remains critical. Equal access to economic opportunities as men enjoy is a precondition for ensuring that everyone reaches their full life potential. Moreover, significant and sustained increases in female labor participation would potentially have substantial impacts on economic growth. However, female workers in Jordan face multiple barriers in the labor market. Although Jordan has taken important recent legal reforms to remove barriers to women's employment, restrictions and legal differentiation between women and men remain, and further legal reforms and regulations are needed to address the gender gap.

### Spring 2020 JEM: “Jobs Diagnostics”

Job creation for youth and women is weak. Jordan's difficult job challenges are made even harder by growth rates that are persistently low, a large and growing labor force that is increasingly informal, and a weak private sector that did not create enough jobs to encourage youths and women to participate in the labor force. Moreover, labor segmentation appears to be on the rise. The World Bank Jobs Diagnostic (2018) indicates where the challenges for Jordanian policymakers lie in their quest to improve the economy's jobs performance. Many of these challenges require policy intervention to improve the jobs picture.





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