JORDAN

ECONOMIC MONITOR

Building Success, Breaking Barriers: **Unlocking the Economic Power of Women in Jordan**

FALL 2023

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Middle East & North Africa

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Middle East and North Africa Region

Preface

The Jordan Economic Monitor (JEM) provides an update on key economic developments and policies over the past six months. It also presents findings from recent World Bank analytic work on Jordan. The JEM places them in a longer-term and global context and assesses the implications of these developments and other changes in policy on the outlook for Jordan. Its coverage ranges from the macro-economy to financial markets to indicators of human welfare and development. It is intended for a wide audience, including policymakers, business leaders, financial market participants, and the community of analysts and professionals engaged in Jordan. The data cut-off for this Jordan Economic Monitor is end-October 2023.

The Jordan Economic Monitor is a product of the Middle East and North Africa (MENA) unit in the Macroeconomics, Trade and Investment (MTI) Global Practice in the World Bank Group. This edition was led by Hoda Youssef (Senior Economist, MTI), with significant contribution from Ramy Oraby and Sarah Farid (Consultants). The special focus was prepared based on analytical work undertaken by Jonna Maria Lundvall (Senior Social Scientist), Nour Al Moghrabi (Consultant), Muneeza Alam (Senior Transport Economist), Mira Morad (Senior Transport Specialist), Manjula Luthria (Senior Economist), Rada Naji (Social Protection Specialist), Zaina Diwani (Senior Education Specialist) and Reem Hafez (Senior Health Economist). It has benefitted from comments from Norbert Fiess (Lead Economist) and Daniel Lederman (Lead Economist and Deputy MENA Chief Economist).

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Acronyms and Abbreviations

8M-2023	First eight months of 2023
H1-2023	First half of 2023
H1-2022	First half of 2022
BoP	Balance of Payments
BRP	Bus Rapid Transit
Bps	Basis points
CAD	Current Account deficit
CBJ	Central Bank of Jordan
CG	Central Government
CHIP	Civil Health Insurance Program
CPI	Consumer Price Index
COVID-19	Coronavirus Disease 2019
DHS	Demographic and Health Survey
DoS	Department of Statistics
ECE	Early childhood education
EGRA	Early grade reading assessment
EFF	Extended Fund Facility
e.o.p.	End-of-period
FLFP	Female Labor Force Participation
FCU	Fiscal Cost Unit
FDI	Foreign direct investment
f.o.b.	Free on Board
FY	Fiscal Year
GRB	Gender-responsive budgeting
GDP	Gross Domestic Product
GoJ	Government of Jordan
GST	General Sales Tax
GNI	Gross National Income
GNFS	Goods and nonfactor services
HCR	Human capital report
IMF	International Monetary Fund
JEM	Jordan Economic Monitor
JD	Jordanian Dinar
KG	Kindergarten education
LFP	Labor Force Participation
LHS	Left-hand-side
MENA	Middle East and North Africa
MIF	Military Insurance Fund
MOF	Ministry of Finance
MOH	Ministry of Health
MoSD	Ministry of Social Development
MTI	Macroeconomics, Trade and Investment
NDA	Net domestic assets
NEPCO	National Electricity Power Company
NEET	Not in education, employment, nor training
NFA	Net foreign assets
PIM	Public Investment Management
PPP	Public Private Partnership
Q1	First Quarter
Q2	Second Quarter
Q4	Fourth Quarter
T-bills	Treasury bills
T-bonds	Treasury bonds
TVET	Technical and Vocational Education and Training
TEA	Total entrepreneurial activity
ToT	Terms of Trade
REER	Real Effective Exchange Rate
RHS	Right-hand-side
SDR	Special drawing rights
SMEs	Small and medium-sized enterprises
SSC	Social Security Corporation
SOE	State owned enterprise
SSIF	Social Security Investment Fund
U.S.	United States
USD	United States Dollar
WAJ	Water Authority of Jordan
WB	World Bank
WBG	World Bank Group

Executive Summary

Jordan has prudently navigated difficult times, showing resilience in the face of several external shocks. Notwithstanding the post-COVID recovery, the country has been navigating through a low-growth equilibrium hovering around an average of 2.2 percent over the past decade (2012-2022). Real GDP growth registered 2.4 percent in 2022 and has accelerated to 2.7 percent in H1-2023, compared to a pre-COVID-19 (2012-2019) average of 2.4 percent.[1] Growth was supported by a robust contribution from services (driven by transport and communications, finance and insurance and wholesale and retail trade activities), in addition to manufacturing and a rebound in agriculture. Meanwhile, the hotels and restaurants sector witnessed its highest annual growth since Q2 2022 (also reflecting the strong rebound of tourism and travel receipts), but its contribution to overall growth remains marginal given its low weight in the economy.

Despite the growth recovery, entrenched structural constraints continue to weigh on labor market outcomes. Labor force participation continued its gradual decline to 33.0 percent in Q2-2023, down from 39.2 percent in 2017. The decline is driven by a fall in both male and female participation. At 13.8 percent in Q2-2023, Jordanian female labor participation remains among the lowest in the world. Equally concerning, the overall employment rate has declined to 25.6. percent in Q2-2023 and remains well below the pre-COVID-19 average of 31.2 percent (2012-2019). Despite lower participation, unemployment inched up to 22.3 percent in Q2-2023, remaining well above the pre-COVID average of 15.1 percent (2012-2019).

Annual headline inflation decelerated significantly in 2023, supported by monetary policy tightening and lower commodity prices. Annual headline inflation continued to decelerate to 1.4 percent in October 2023, down from its peak of 5.4 percent in September 2022. The deceleration has been supported by a favorable base effect and muted monthly inflation, mainly driven by lower fuel and transportation prices and the contained effect from food and core items prices. Since March 2022, the Central Bank of Jordan (CBJ) has raised its key policy rate by 525 basis points to reach the highest level since 2006/07, making Jordan one of the few countries in the region with positive real policy rates.

Jordan's central government fiscal balance was supported by economic growth and revenue-enhancing reforms, whereas total expenditure grew at a slower pace. The Central Government (CG) fiscal deficit (including grants) narrowed to 5.6 percent of GDP in 2022, and the primary balance recorded a surplus of 0.3 percent of GDP in 7M-2023. The revenues increase in the first seven months of 2023 is mainly driven by improvements in non-tax revenues, despite the decline in foreign grants. On the other hand, an increase in total expenditure in 2022 was mainly driven by the re-introduction of fuel and food subsidies as part of the government response to inflationary pressures from high global commodity prices. With the removal of fuel subsidies in 2023, lower spending on (mainly food) has offset the increase in interest payments and capital expenditure.

Notwithstanding the improved fiscal performance, debt-to-GDP continues to rise from already elevated levels. Gross government and guaranteed debt[2] continued to grow - with

[1] Jordan's real and nominal GDP figures for 2020-22 were largely revised in October 2023, resulting in changes to real sector developments, as well as fiscal, debt, monetary and external sector data measured as ratios-to-GDP. Upward revisions of export and FDI data for 2022 and Q1-2023 also resulted in a reduction in the current account deficit.

[2] The Central Government debt covers (1) the budget sector debt; and (2) the guaranteed debt of 57 government units including the National Electric Power Company (NEPCO) and the Water Authority of Jordan (WAJ). The General government debt consolidates the above with the government debt held by the Social Security Corporation

persisting pressures from the electricity and water sectors, reaching 111.4 percent of GDP in 2022 (from 108.8 percent of GDP in the previous year). General government debt (which nets out the SSIF holdings) also increased to 88.8 percent of GDP in 2022, up from 87.5 percent in the previous year. As of July 2023, gross government and guaranteed debt increased to JD40.1 billion, up from JD38.5 billion at the end of December 2022, primarily due to higher foreign currency debt following the issuance of $1.25 billion (JD 0.9 billion) Eurobonds. Box 1 presents more details on the evolution of public debt over the past 25 years.

External accounts remain negative but are improving in H1-2023, supported by an increase in travel receipts and a narrowing trade deficit. The current account deficit narrowed to 7.7 percent of GDP in 2022, due to the sustained recovery in travel receipts and despite a widening trade deficit. Meanwhile, the capital and financial account surplus declined in 2022, leading to a deterioration in the balance of payments (BoP) to a deficit of 1.5 percent of GDP. The current account continued to benefit from further pickup in travel receipts in H1-2023 and narrowing trade deficit (mainly owing to a contraction in oil imports) despite lower remittances. Additionally, the capital and financial accounts surplus witnessed an increase, leading to a shrinking of the BoP deficit.

Going forward, growth is expected to reach 2.6 percent in 2023, primarily propelled by the services sector. A subsequent deceleration to 2.5 percent is anticipated in 2024, followed by a resurgence to 2.6 percent thereafter**.** While inflation is expected to remain contained, social welfare remains threatened by several factors, including the inability of the private sector to absorb a growing labor force and to keep up with public sector wages, as well as cuts in humanitarian assistance. Meanwhile, fiscal consolidation will continue to build on the growing domestic revenues, leading to an expected narrower deficit of 5.1 percent of GDP**.** On the external front, the current account is expected to benefit from the recovery in travel receipts and easing pressures on global commodity prices.

The global environment remains challenging. Major central banks have pushed their policy rates to the highest levels in years and signaled that tight monetary conditions may continue until there is concrete evidence that inflation is moving back to its targeted levels. This has increased the cost of financing and is eating up the limited fiscal space. At the same time, global growth as well as that of Jordan's main trading partners is expected to decelerate in 2023, and then to stabilize broadly thereafter. The prices of Jordan's key imported commodities (e.g., oil and wheat) have returned to their level before the Russian invasion of Ukraine. However, international oil prices increased significantly following OPEC+ production cuts and the onset of the ongoing conflict in the Middle East.

The Special Focus highlights the role of women and their increased economic participation as central to Jordan's development agenda. The piece takes a life-cycle approach, and follows the journey of girls and women from birth (looking at the access to essential reproductive and child health services), through education and into the labor market. It sheds light on the barriers to women's increased participation in the economy, starting with females' (as well as males') low education attainment despite high enrollment rates in the early stages of education. As they get prepared to enter the labor market, women face a series of barriers that may deter them, including caregiving responsibilities, public transportation, in addition to the prevailing social norms, among others. This piece builds on recent analytical work and surveys to provide granular information on the availability and affordability of childcare provision, as well as on women's concerns when using public transportation (for example relating to comfort, wait times, safety and accessibility).

(SSC), which is currently running an annual surplus through its investment agency, the Social Security Investment Fund (SSIF) (see Box 1 for more details).

A. Recent Economic Developments

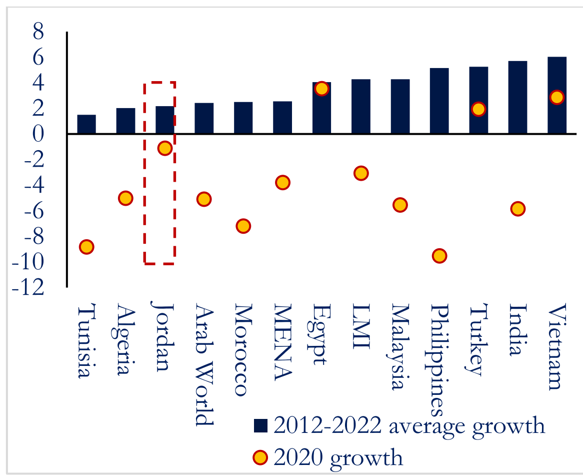
1. Real Sector and Labor Market

Promising sectors are driving growth, but labor market outcomes are yet to follow.

Jordan has been trapped in a low-growth equilibrium averaging 2.2 percent over the past decade, one of the slowest trajectories in comparison to similar countries (Figure 1.1). After reaching 2.4 percent during 2022,[3] real GDP growth accelerated to 2.7 percent during H1-2023. Growth was propelled by a strong contribution from services – with transport and communications, finance and insurance and wholesale and retail trade of 0.9 percentage points, combined (Figure 1.2), in addition to a robust contribution of 0.3 percent from the agriculture sector (partially due to favorable base effects). The industrial sector also continues to register robust contributions to growth, with manufacturing growing by 3.6 percent and mining by 3.9 percent. The latter has underperformed in 2022 compared to expectations given the high potash and phosphate prices (2.9 percent growth in 2022), albeit remaining higher than its historical average. Meanwhile, the restaurants and hotels sector grew by 5.8 percent, but its contribution to overall growth remains marginal (0.1 ppts) given its low weight in the economy (1.4 percent of GDP).

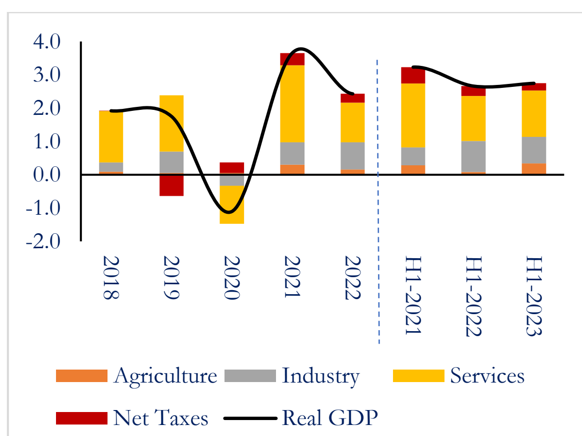
The recovery in tourism and travel receipts was broad-based across travel categories and country/region of origin in 2022. Similar to other key MENA tourism countries, all travel purposes continued to expand in H1-2023, albeit at a slower rate after witnessing a strong rebound in 2022. Business-related travel was the fastest growing purpose for travel during the first half of 2023 (Figure 1.3). The composition of country/region of origin has slightly shifted, with non-Arab travel arrivals witnessing the strongest increase of 109 percent in H1-2023 compared to the same period in 2022, and Jordanians' and other Arab nationalities' arrivals losing some momentum compared to the previous quarters (Figure 1.4). Recent data show that total arrivals increased by 51 percent during 7M-2023 compared to the corresponding period of 2022, with a marked pickup (of 76 percent) in single-day tourists, which represent 17 percent of total arrivals.

Figure 1. 1 Jordan has one of the slowest growth trajectories compared to peer countries
10-year average growth (in percent, y-o-y)



Source: World Development Indicators

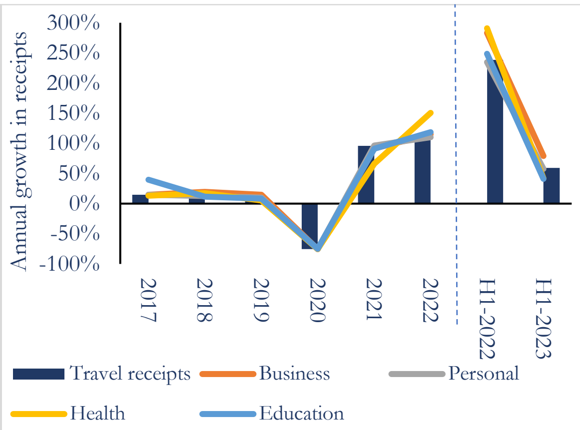
Figure 1. 2 Services continue to lead growth, with robust contribution from industry and agriculture
Percentage points, y-o-y growth



Source: Department of statistics (DoS) and WB staff calculations

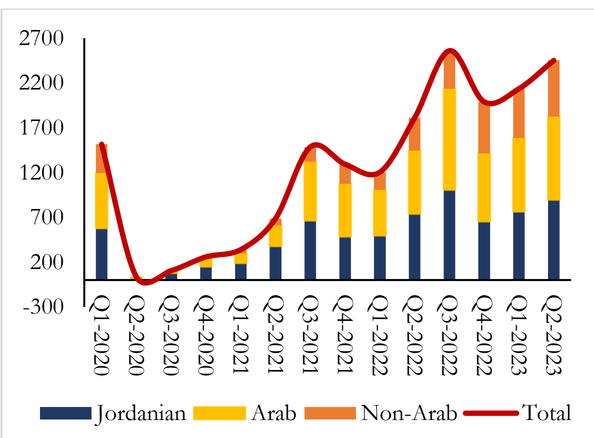
[3] Growth had slowed to 2.0 percent during Q4-2022, the slowest registered pace since Q1-2021, resulting in slightly lower growth for 2022 than initially expected. The slowdown came on the back of a short-lived contraction in mining and quarrying as well as a slowdown in manufacturing.

Figure 1. 3 Growth in tourism receipts for all purposes normalized in H1-2023, with fastest growth in business tourism
Y-o-y growth, percent



Source: CBJ and WB staff calculations

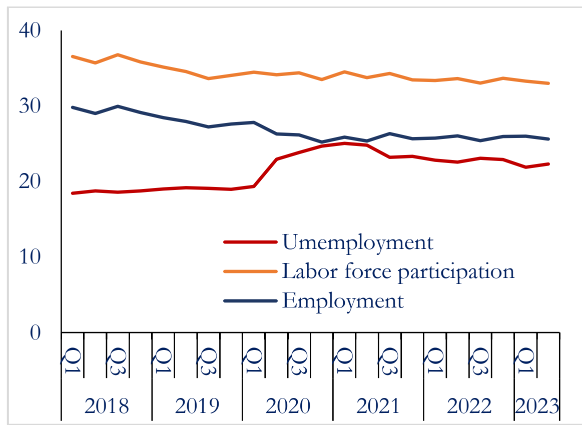
Figure 1. 4 Travel arrivals are equally distributed by region/country of origin
Thousands



Source: CBJ and WB staff calculations

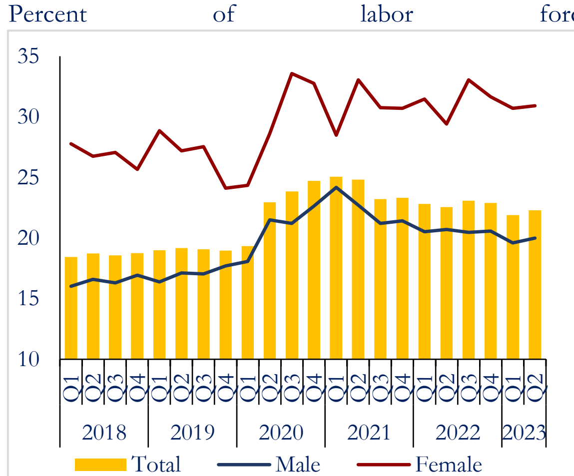
Generating employment remains a major challenge, as economic growth has not translated into significant gains in labor market outcomes. Labor force participation remains on a downward trend, reaching 33.0 percent in Q2-2023, with female labor force participation (FLFP) rates still among the lowest in the world and declining further to 13.8 percent in Q2-2023 (the "In Focus" presents a deep dive into women's economic empowerment). Labor force participation for men (53.0 percent) is also low by global and regional standards, which points to the need to increase labor force participation for both men and women, and to narrow the gap between them to accelerate growth. Employment rates have inched down (25.6 percent in Q2-2023, from 26.1 percent in Q2-2022) and remain low reflective of modest job creation (Figure 1.5). Despite low participation, unemployment rates remain high and have only slightly declined to 22.3 percent in Q2-2023, compared to 22.6 percent in the previous year. Unemployment remains well above pre-pandemic levels and regional averages (Figure 1.6). Women and youth (ages 15-24) continue to be the most affected, with 30.9 and 47 percent unemployment rates, respectively.

Figure 1. 5 All labor market indicators remain unfavorable
Percent of labor force, percent of working age population, percent of labor force.



Source: DoS

Figure 1. 6 Unemployment is still high, particularly among women
Percent of labor force



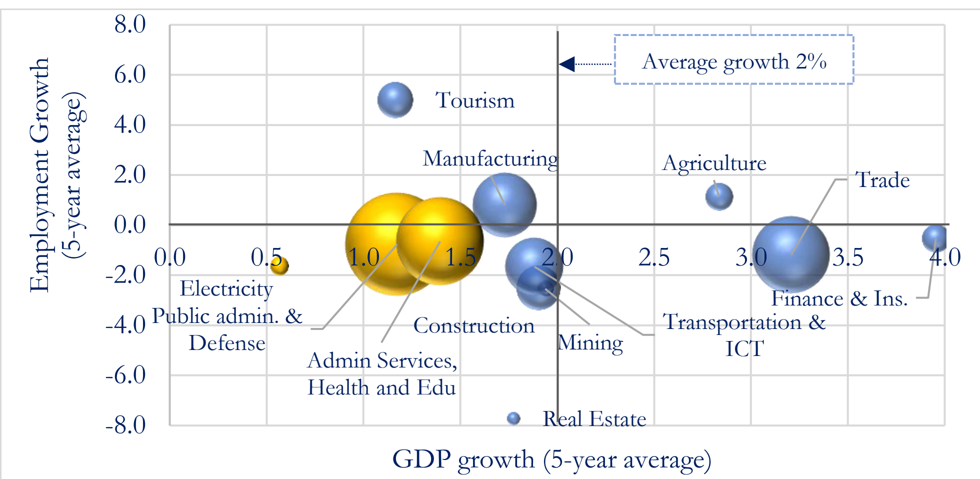
Source: DoS and WB staff calculations

The poverty rate stands at 15.7 percent based on 2017-18 data. While no new official poverty rate has been released since 2019, it is likely that the rising cost of living has adversely affected the poorest and most vulnerable households, especially as they spend a greater share of their income on daily expenses and may have to borrow or cut back. Economic growth has also been insufficient to create enough jobs, particularly for the growing numbers of unemployed youth. Targeted cash transfers for Jordanians continue to provide important buffers, with the coverage of the National Aid Fund's monthly support increasing from 97,000 households to 220,000 between 2018 and 2023. However, recent decreases in humanitarian assistance (including to Syrian refugees) could have adverse welfare consequences.[4]

Promising high-productivity sectors are experiencing faster employment growth, but their share in total employment remains low. The information and communication sector was the second fastest-growing employer in 2022 (16 percent), although its share in total employment is still very limited (around 2 percent). Employment growth was the highest in accommodation and restaurants (29 percent growth), reflecting the recovery in tourism after a contraction in the sector's employment for three consecutive years. Figure 1.7 captures the relationship between sectors' growth, their employment weight and growth. It shows that over the past five years, sectors' faster GDP growth does not necessarily reflect on employment growth, even for those sectors that are already absorbing a large number of labor. This is the case of Wholesale & Retail Trade as well as in Finance & Insurance, which have both seen a contraction in employment. Positive employment growth occurred only in Tourism, and to a lesser extent in Manufacturing and Agriculture but the latter is a small employing sector. All other private sector dominated sectors (represented by the blue bubbles), including Transportation, ICT, Construction, and Real Estate, have witnessed contractions in employment, in addition to weaker-than-average economic activity. On the other hand, Public Administration & Defense and the social sectors – which are dominated by the public sector (yellow bubbles) - remain the two largest sectors (absorbing 45 percent of employment) and have not seen any marked contraction in employment in the past five years. As fiscal pressures and an intended shift towards private sector-led growth continue to constrain public sector's hiring, job creation needs to come from the private sector.

Figure 1. 7 High-productivity sectors are growing faster, but their employment share remains modest

Percentage growth in 2022/ share in 2022



Note: Bubble size denotes share in total employment over the past five years; yellow color denotes public-sector dominated jobs.

Source: DOS and WB staff calculations

[4] In July 2023, The World Food Program had to reduce the transfer value by one-third due to a funding shortfall. In October, UNICEF Jordan announced it is facing a 57 percent funding gap of USD 92.5 million (out of the needed USD 161.35 million) in 2023 needed to continue providing services for vulnerable children and their families in Jordan.

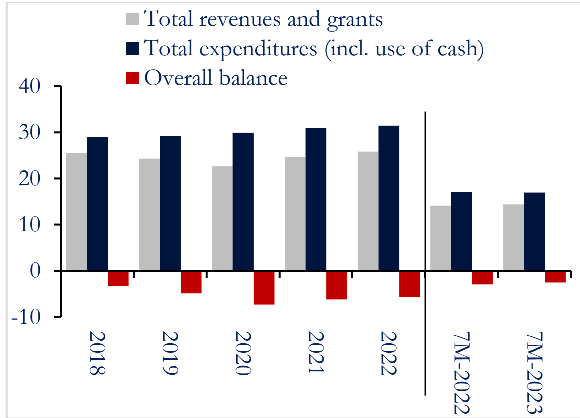
2. Fiscal and Debt Developments

Jordan's central government fiscal balance is sustaining its consolidation path, supporting slower debt accumulation yet debt levels remain a concern.

Fiscal consolidation continued in 2022 and 7M-2023, supported by revenue-enhancing reforms and slightly lower public expenditure. The overall deficit of the Central Government (CG) reached 5.6 percent in 2022 and narrowed by 0.4 percentage points of projected GDP[5] in 7M-2023, compared to the same period of the previous year (Figure 1.8). The primary balance recorded a surplus of 0.3 percent of GDP in 7M-2023, compared with a deficit of 0.4 percent of GDP in the same period of the previous year. Lower current primary expenditure and higher domestic revenue supported the better fiscal outcome and more than compensated for the increase in capital expenditure and interest payments as well as lower grants which declined by 0.2 percentage point of GDP. This brought the overall CG fiscal deficit to 2.5 percent of full-year GDP in 7M-2023, compared to 2.9 percent in 7M-2022.

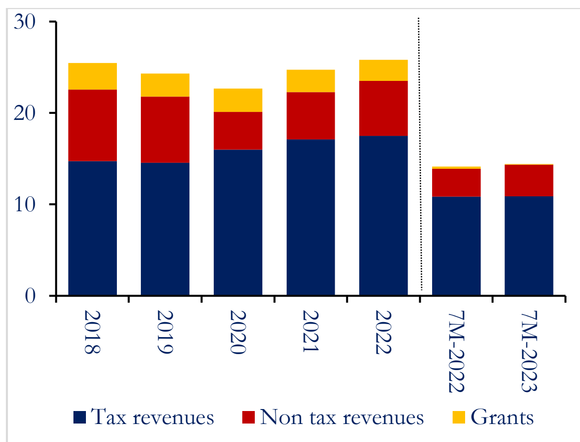
Total revenues increased in 2022 and continued to improve in H1-2023, driven by higher income tax and non-tax revenues, despite the decline in foreign grants. Total revenues (including grants) reached 25.8 percent of GDP in 2022, up from 24.7 percent of GDP in 2021 (Figure 1.9). Tax revenues increased by 0.4 percentage points of GDP in 2022, relative to the previous year. Higher income and profit tax revenue, mainly from companies and projects offset the decline in sales tax revenue. Non-tax revenue increased by 0.8 percentage points of GDP in 2022 owing to higher property income and miscellaneous items. Foreign grants stabilized around 2.3 percent of GDP in 2022, in line with the previous year (2.4 percent).

Figure 1. 8 CG fiscal consolidation on track, supported by enhanced revenues and lower subsidy spending
Percent of GDP



Source: MoF and WB staff calculations.

Figure 1. 9 Revenues increase was driven by both tax and non-tax revenues, despite lower grants
Percent of GDP



Source: MoF and World Bank staff calculations.

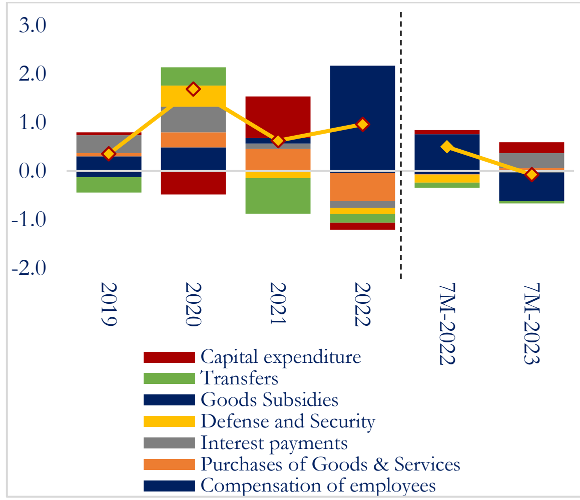
The revenue increase continued in the first seven months of 2023 (7M-2023), increasing by 0.3 percentage points of GDP (including grants). This was also due to higher income tax and non-tax revenues, which offset lower sales tax revenue (in percent of GDP)., foreign grants declined to 0.1 percent of GDP in 7M-2023, down from 0.2 percent of GDP in 7M-2022.

[5] Based on the projected GDP for 2023 presented in the outlook section.

The phasing out of fuel subsidies helped contain public spending in 2023, which had markedly increased in 2022. Spending had increased to 31.5 percent of GDP (up from 30.9 percent of GDP in 2021), driven by the re-introduction of food and fuel subsidies to mitigate the impact of external shocks. Fuel subsidies were subsequently phased out in 2023, while cutbacks in wheat subsidies (of JD 60 million) were compensated by the introduction of a subsidy to strategic food commodities (of JD 277 million) in the 2023 budget. These developments led to 0.6 percentage points of GDP decline in subsidies in 7M-2023. On the other hand, global financial conditions tightening contributed to the increase of interest payments by 0.3 percentage points of GDP. Additionally, capital expenditure, which traditionally suffers from low budget execution,[6] increased by 0.2 percentage points of GDP in 7M-2023 compared to the previous year, reaching 1.7 percent of GDP. Overall, total spending marked a slight decline in 7M-2023 of 0.1 ppts of GDP compared to the same period of the previous year (Figure 1.10).

Improved budget sector fiscal performance supported slower debt accumulation, but central government debt levels remain a concern as pressures from the wider public sector persist. The gross government and guaranteed debt (which covers the budget sector and other public entities including NEPCO and WAJ) increased to 111.4 percent of GDP in 2022, up from 108.8 percent of GDP in the previous year. Of the total increase, 72 percent was driven by the budget sector deficit, followed by NEPCO (11 percent) and WAJ and water distribution companies (9 percent), in addition to others (9 percent). The general government debt and guaranteed debt (i.e. after netting out the SSIF holdings of government debt) reached 88.8 percent of GDP in 2022, up from 87.5 percent of GDP in the previous year.

Figure 1. 10 Increased capital expenditure and interest payments were offset by lower subsidies spending
Change in expenditure, in percent of GDP



Source: MoF and World Bank staff calculations.

At the end of July 2023, gross government and guaranteed debt stock increased to JD40.1 billion. This compares to JD38.5 billion at the end of December 2022, with the increase mainly attributed to higher foreign currency debt (of JD1.4 billion), including from the issuance of USD1.25 billion (JD 0.9 billion) Eurobonds in April 2023.[7] As for the stock of domestic currency government and guaranteed debt, it increased only slightly by JD 0.2 billion, with . the increase in guaranteed debt being nearly offset by a decline in government debt, reflecting the decrease in the stock of treasury bills and bonds held by banks in favor of the debt held by the SSIF. Excluding SSIF holdings, gross government and guaranteed debt increased by JD0.9 billion to record JD31.5 billion at the end of July 2023. Box 1 takes a deep dive into debt developments over the past 25 years.

[6] Capital expenditure stood at 3.4 percent of GDP in 2022, nearly unchanged relative to 3.5 in 2021. While it is only slightly below to the pre-COVID average of 3.7 percent of GDP (2013-19), the actual/realized capital expenditure remained under-executed by 20 percent on average between 2018-2022 (excl. 2020).

[7] The GoJ issued a 6-year Eurobonds at 7.5 percent. The USD 1.25 billion is nearly double the amount it initially intended to issue ($750 million).

Box 1. Evolution of Jordan's gross government and guaranteed debt

This box analyzes the evolution of public debt in Jordan. When measuring Jordan's debt, it is useful to clarify the different concepts and definitions:

(1) The Budget Sector is the narrowest definition, and covers the government debt.

(2) The Central Government (CG) debt and guaranteed debt covers: (i) the budget sector debt; and (ii) the guaranteed debt of 57 government units, including NEPCO and WAJ.

(3) The General Government (GG) debt consolidates the above definition (2) with the Social Security Corporation (SSC) holdings of government debt. The SSC is currently running an annual surplus and therefore purchases government bonds through its investment agency, the Social Security Investment Fund (SSIF).[8]

Over the past 25 years, Jordan's gross government and guaranteed debt (as a percent of GDP) has followed a V-shaped trajectory. Between 1998-2008, the CG gross government and guaranteed debt ratio declined from 109.8 percent of GDP to around 58.4 percent (Figure B.1). The improvement in the debt ratio was mainly supported by a decline in the foreign currency debt ratio from 89.3 percent of GDP to 22.6 percent, with the debt stock level remaining stable at an average of USD 7.0 billion (Figure B.2) while economic growth accelerated. This decline in the foreign currency debt ratio had more than offset the steady increase in the domestic currency debt.

Figure B. 1 Gross Government and Guaranteed Gross Debt
Percent of GDP

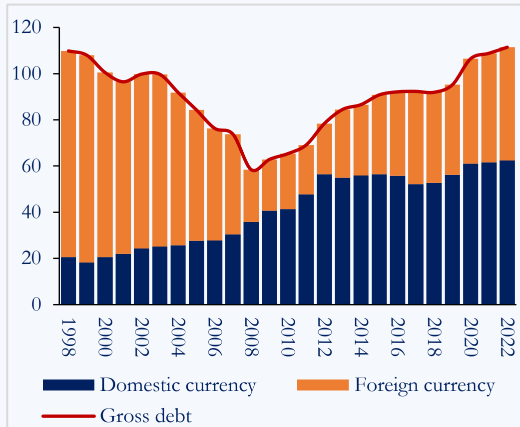


Figure B. 2 Foreign Currency Debt
Billion US Dollar

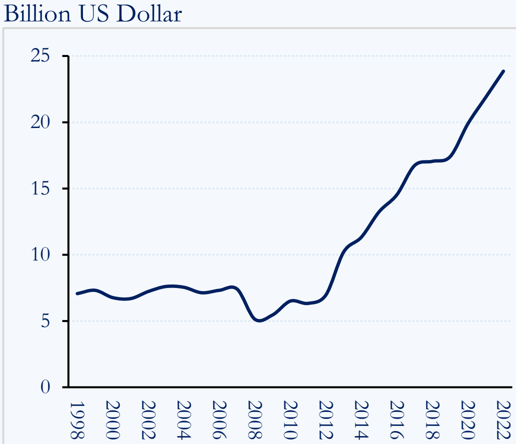
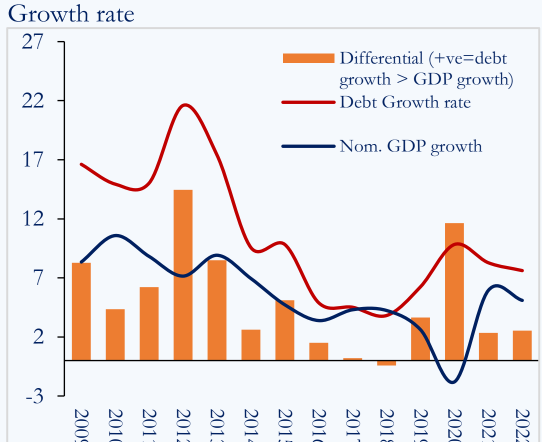


Figure B. 3 Debt accumulation and NGDP
Growth rate

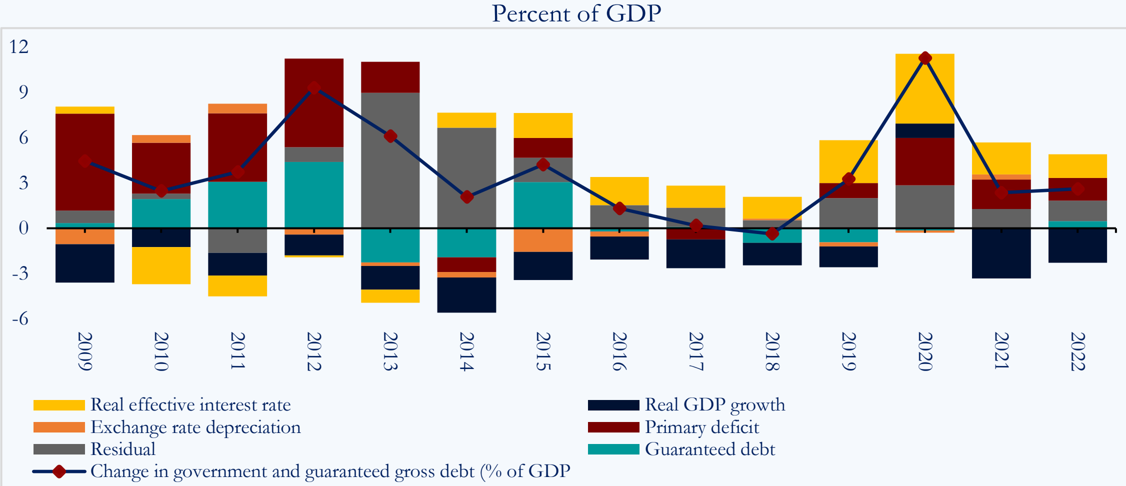


[8] Therefore, the GG debt (net of SSIF holdings) is lower than in the CG definition. If the SSC were to run a deficit, the GG debt would become larger than CG debt.

Since 2008 and with multiple external shocks, the improving trend reversed. Several shocks, together with some policy choices aimed at mitigating their impact on the population, have successively induced debt accumulation (Figure B.2 and Figure B.3). For instance, following the disruption of favorably priced natural gas supplies from Egypt in 2011, the GoJ opted for limiting the extent to which higher gas prices reflect on the electricity tariffs. While this decision helped spare the bulk of the population from large tariff increases, it led to a substantial accumulation of debt in the energy sector/NEPCO. This had adverse consequences for public debt, with the CG government and guaranteed debt ratio reaching 111.4 percent of GDP in 2022. During that period, the guaranteed debt, which includes NEPCO and WAJ debt, rose sharply from 3.3 percent of GDP in 2008 to around 13.1 percent of GDP in 2012 before leveling off to an average of 10.6 percent of GDP in the subsequent years (Figure B.6). To help contain debt accumulation, the GoJ carried out a fiscal consolidation program - notably through fuel subsidies elimination and revenue mobilization measures - that led to a cumulative decline of the budget sector primary fiscal deficit (excluding grants) by around 6.5 percentage points of GDP between 2012 and 2022

After 2008, there has been a shift in the creditor structure amid extending debt maturity. While Jordan's relatively large and liquid banking sector remains the primary holder of public domestic debt (Figure B.8), its share has gradually declined since 2008, driven by lower share of CBJ's claims on central government (Figure B.9). Claims on central government (as percent of commercial banks domestic assets) increased from 12.4 percent to around 24 percent between 2008 and 2014 and stabilized around 20 percent thereafter. On the other hand, the share of domestic currency debt held by non-banks (including SSIF) has more than doubled to around 43.5 percent in 2022. For the foreign currency government and guaranteed debt, the share of bilateral loans has declined significantly from 58.8 percent to only 17.8 percent between 2008 and 2022, in favor of government bonds which share rose significantly in 2022 to around 40.8 percent of the total outstanding foreign currency debt stock (Figure B.11). Meanwhile, multilateral loans still account for over one-third of the total foreign currency debt (Figure B.12). The changes in the creditor structure also coincides with extending the weighted average maturity of the debt (Figure B.10). For domestic currency debt, the weighted average maturity increased from around 2 years in 2010-2015 to around 4 years in 2022. Meanwhile, the weighted average maturity of foreign currency debt also increased from around 6 years in 2008 to around 9 years in 2022.

Figure B. 4 Change in Gross Central Government and Guaranteed Gross Debt and its Drivers
Percent of GDP



Note: Exchange rate depreciation reflects the contribution from US dollar nominal effective exchange rate changes against major currencies weighted by the share of Jordanian foreign currency debt that is not denominated in US dollar or other currencies pegged to the US dollar.

Figure B. 5 Central Government Gross Debt

Percent of GDP

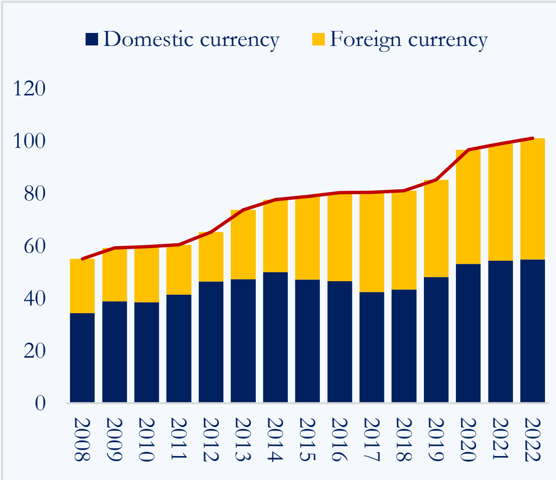


Figure B. 6 Guaranteed Gross Debt

Percent of GDP

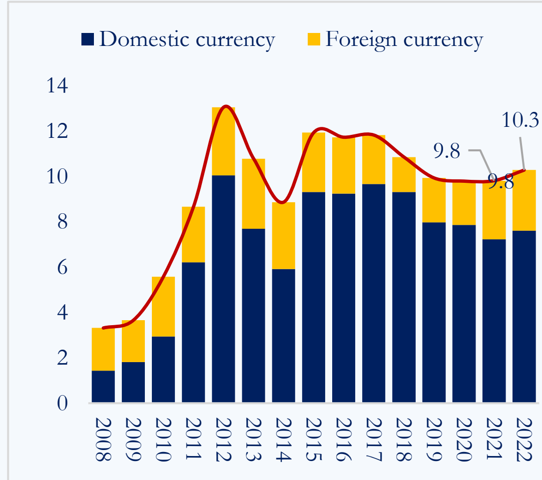


Figure B. 7 Domestic Currency Debt

Percent of GDP

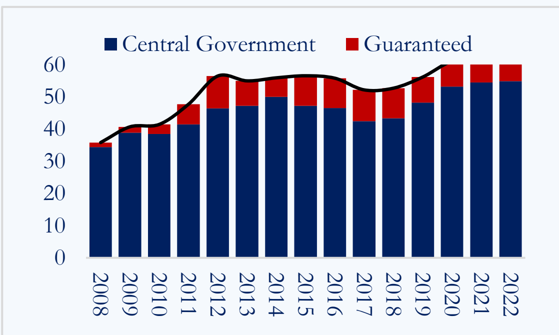


Figure B. 8 Holders of Domestic Currency Debt

Percent of total domestic currency debt

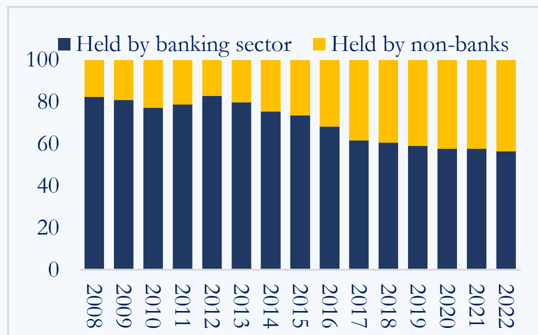


Figure B. 9 Claims on Central Government

Percent of banking sector total domestic assets

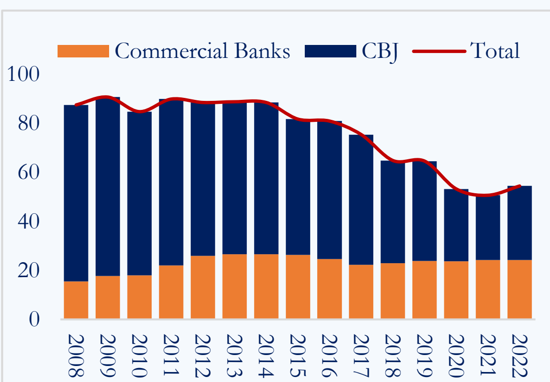


Figure B. 10 Weighted Average Debt Maturity

Year

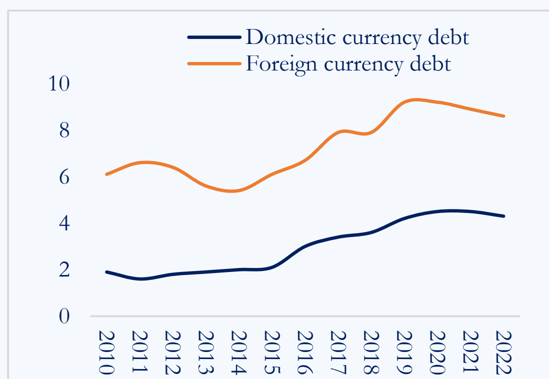


Figure B. 11 Holders of Foreign Currency Debt
Percent of total foreign currency debt

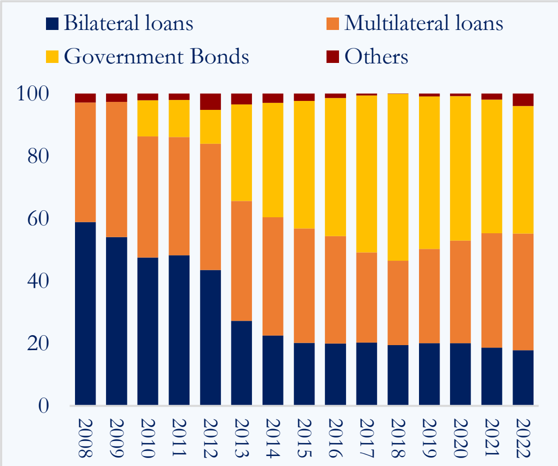
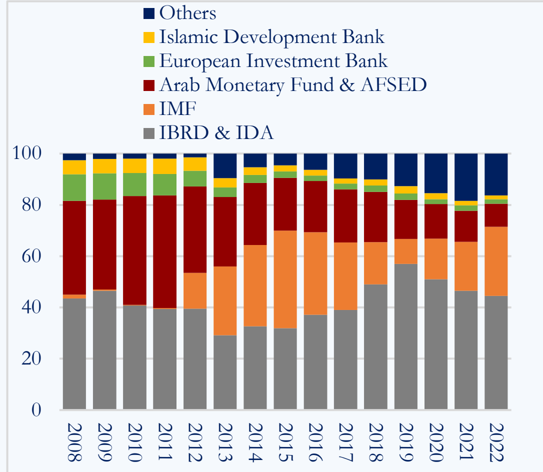


Figure B. 12 Breakdown of Multilateral creditors
Share of total



The Social Security Investment Fund (SSIF) has become one of the main non-bank holders of Jordan's government and guaranteed debt, mainly domestic currency debt. The share of SSIF holdings of public debt has gradually increased to around 20.0 percent of the total gross government and guaranteed debt, which is equivalent to around 22.6 percent of GDP in 2022 (Figure B.13). While the pace at which the SSIF has been buying government and guaranteed debt has declined significantly between 2017 and 2020, it more than doubled after the COVID-19 pandemic to reach around 30.1 percent of newly issued government debt in 2022 (Figure B.14). As of 2021 (latest available), treasury bonds represented around 54.4 percent of total SSIF assets, up from 46.3 percent in 2016 (Figure B.15). The continuous absorption of large amount of government debt going forward may limit the ability to invest in other asset classes and sectors, challenging the SSIF objective of sustaining a diversified investment portfolio.[9] Additionally, the SSC's current financial surplus is projected to turn into a deficit in about ten years or twenty years if return on investment are taken into consideration,[10] which will limit its ability to absorbing more government debt and eventually become a net seller of government debt. Net of SSIF debt holdings, the government and guaranteed debt recorded around 88.8 percent of GDP in 2022, up from 75.7 percent of GDP in 2017 (Figure B.16).

The elevated debt level has resulted in a gradual increase in debt service payments. Interest payments increased from 7.9 percent of total revenue in 2008, and peaked in 2020 before slightly leveling off to around 16.6 percent in 2022 (Figure B.17). At 15.2 percent of total revenue, Jordan's average interest payments is relatively elevated compared to peers (Figure B.18). Its foreign currency component peaked during the COVID-19 pandemic (2020) at around 28.1 percent of total exports, before leveling off to 19.4 percent in 2022. It remains however relatively elevated compared to peers (Figure B.19), represents almost 23 percent of CBJ's gross foreign reserves in 2022. More than half (56.4 percent of CBJ's gross foreign reserves) is of short-term in 2022, down from its peak of 68.2 in 2018 (Figure B.20). While foreign currency debt service payments in 2023 is projected to be close to its 2022 levels, other significant payments[3] are projected between 2025 and 2027.[11]

[9] SSIF, the Pillars of SSIF Investment Policy.
[10] World Bank (2021)
[11] MoF quarterly debt report Q4-2022.

Figure B. 13 SSIF Holdings of Government and Guaranteed Gross Debt

Percent of GDP

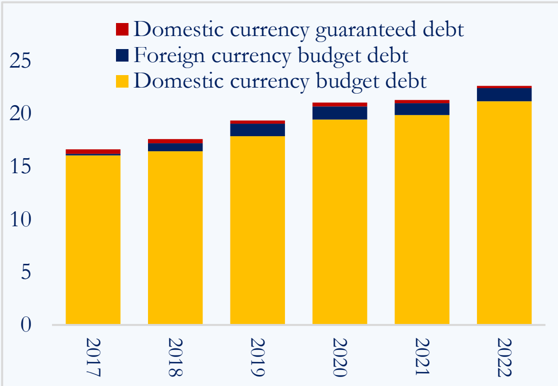


Figure B. 14 Share of SSIF purchases of new debt

In percent of the change in total debt

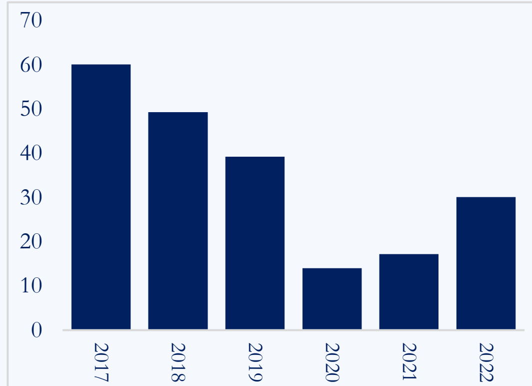


Figure B. 15 Stock of Treasury bonds held by SSIF

Share of total SSIF assets

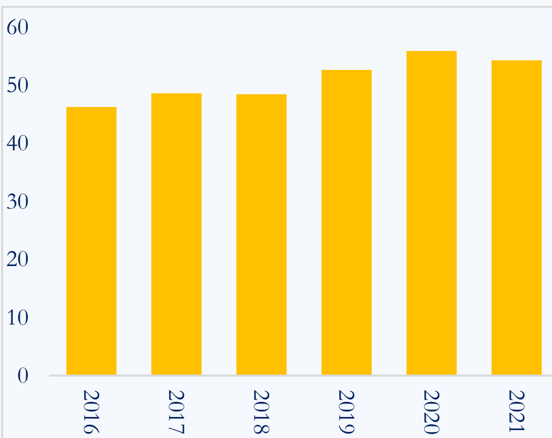


Figure B. 16 Government and Guaranteed Debt, net of SSIF Holdings, Percent of GDP

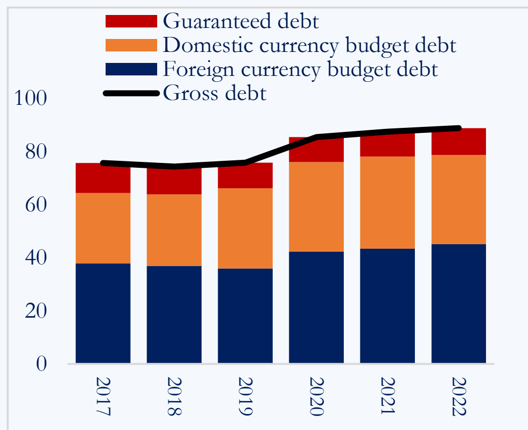


Figure B. 17 Interest Payments

Percent of tax and total fiscal revenues

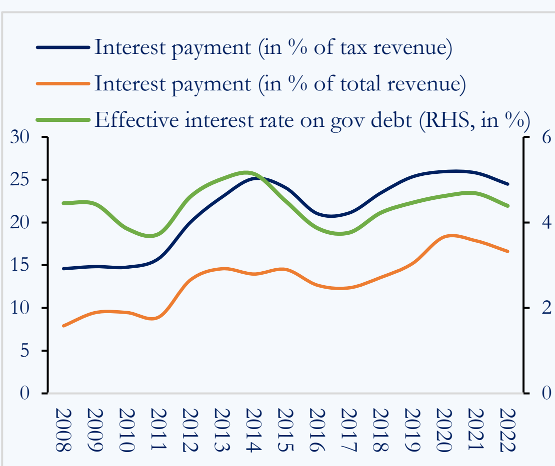


Figure B. 18 Average Debt Interest Payments

2017-2021, Percent of fiscal revenues

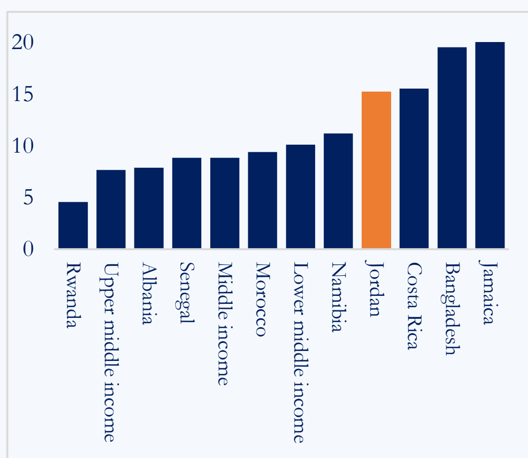
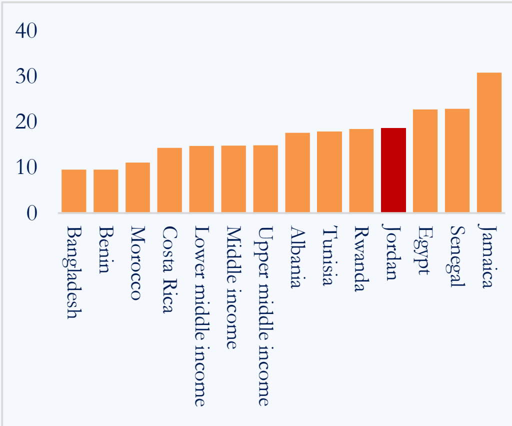


Figure B. 19 Average Debt Service 2017-2021, International Comparison

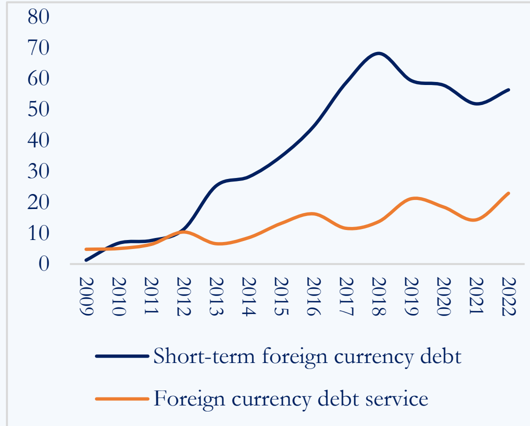
Percent of exports receipts and primary income



Note: Selected peer countries: regional peers and countries with similar credit rating

Figure B. 20 Foreign Currency Debt and Debt Service

Percent of CBJ's Gross Foreign Reserves



All data sources are from Dos, CBJ, MoF and WB staff calculations.

3. External Sector Developments

Easing global commodity prices and higher travel receipts in 2023 are further supporting the external accounts.

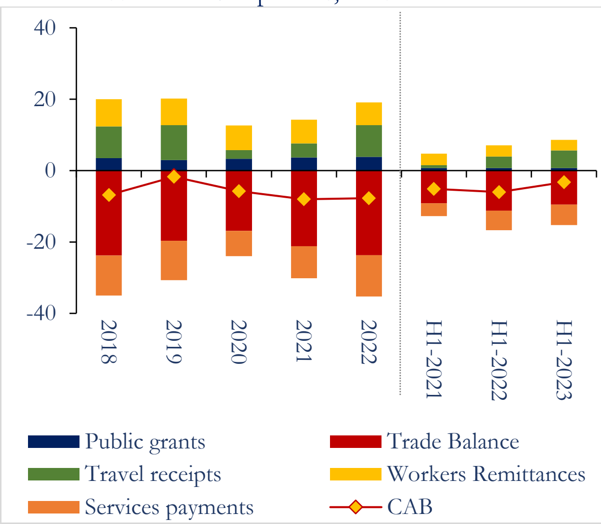
Despite the widening of the trade deficit, the recovery in travel receipts helped reduce the current account deficit (CAD) in 2022. The CAD narrowed to 7.7 percent of GDP in 2022, compared to 8.0 percent in 2021 (Figure 1.11). The significant recovery continued throughout 2022, outpacing the wider trade deficit (23.7 percent of GDP) and a deterioration in Jordan's income accounts. Meanwhile, the capital and financial account surplus also declined substantially, as the pickup in foreign direct investment (FDI) to 2.6 percent of GDP was not enough to counter the outflow of portfolio investment and the slowdown in other investments. As a result, the balance of payments (BoP) registered a deficit of 1.5 percent of GDP during 2022, from a surplus of 5.1 percent in 2021.

The first half of 2023 saw a continued improvement in the current account deficit, largely driven by further increases in travel receipts and a lower trade deficit, despite the setback in remittances. The CAD narrowed to 3.3 percent of full-year GDP during H1-2023, compared to 6.0 percent in H1-2022, helped by a 65 percent increase in travel receipts. Overall, the services balance reached 3.4 percent of expected GDP compared to 1.1 percent during the same period in 2022. On the other hand, workers' remittances witnessed a slight contraction of 0.4 percent, after growing by 1.5 percent in H1-2022. Both the primary and secondary income accounts have slightly deteriorated compared to H1-2022.

The trade deficit improved on the back of a contraction in imports. The trade deficit narrowed to 9.6 percent of GDP in H1-2023, compared to 11.2 percent in 2022. Exports declined to 12.4 percent of GDP but were outpaced by the contraction in imports to 22.0 percent of GDP (down from 24.2 in the previous year). The decline in imports was driven by a favorable price effect despite higher energy and non-energy imports volume (Figure 1.12).

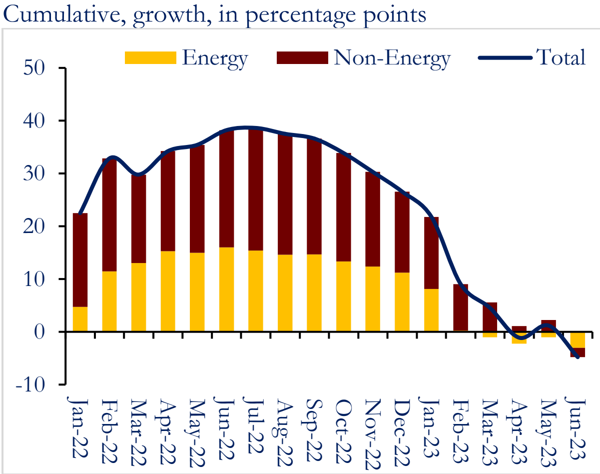
Chemicals and phosphate remain Jordan's largest export commodities, accounting for close to half (46 percent) of total exports in H1-2023, followed by textiles and clothing (16 percent). Stones and precious metals as well as food and live animals are the main positive contributors to export growth during this period. Meanwhile the prices of Jordan's key exported commodities (e.g., phosphate and potash) have shown mixed directions. Phosphate has remained well above its levels from before the Russian invasion of Ukraine, while potash prices remain well below the pre-war levels.[12]

Figure 1. 11 The CAD improved in H1-2023 driven by services balance and a shrinking trade deficit
Current Account Developments, Percent of GDP



Source: CBJ and WB staff calculations

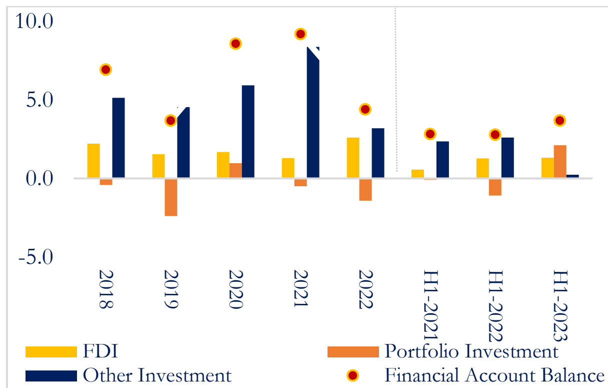
Figure 1. 12 H1-2023 saw a contraction in both energy and non-energy imports
Cumulative, growth, in percentage points



Source: DoS and WB staff calculations

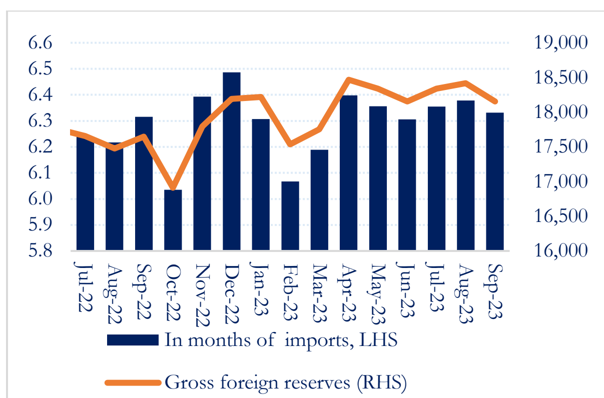
The capital and financial account surplus increased in H1-2023, propelled by significant inflow of portfolio investment. The surplus increased to 3.7 percent of expected full-year GDP, compared to 2.8 percent in H1-2022, driven by significant portfolio investment inflow attributed to the USD1.25 billion Eurobond issuance in April 2023. At the same time FDI stabilized around 1.3 percent of GDP and other investments declined steeply to 0.2 percent (from 2.6 percent the year before). The overall BOP balance hence registered a deficit of 0.4 percent of GDP in H1-2023 compared to 2.6 percent of GDP in H1-2022. As a result, gross foreign reserves witnessed a dip in the beginning of 2023, before increasing again (by around USD200 million) to reach USD18.4 billion as of August 2023 (Figure 1.14).

Figure 1. 13 Portfolio investment have increased in 2023 while FDI has stabilized
Percent of GDP



Source: CBJ, WB staff calculations

Figure 1. 14 Reserves stabilized around end-2022 level
CBJ Gross Foreign Reserves, USD million



Notes: Reserves of Gold and Foreign Currencies. Gross usable reserves include gold and foreign currencies and exclude forward contracts. In months of next year's imports of Goods and Services.
Sources: CBJ and WB staff estimates

[12] World Bank Commodity Markets Outlook, October 2023

4. Monetary Policy and Inflation

Monetary policy tightening supports decelerating annual inflation rate and money growth.

Inflation decelerated significantly in 2023 from its peak reached in 2022. The annual headline inflation rate declined to 1.4 percent in October 2023, down from its peak of 5.4 percent in September 2022 (Figure 1.15). The deceleration has been supported by a favorable base effect and muted monthly inflation (Figure 1.16). The monthly headline inflation rate recorded an average of 0.2 percent in Jan-Oct. 2023, compared with an average of 0.5 percent during the same period in 2022, and an overall historical average of 0.2 percent. This was supported by the negative contribution from fuel and transportation prices and the contained effect from food and core items, reflecting the gradual dissipation of the supply shocks associated with the Russian war on Ukraine (Figure 1.17).

The contained inflation reflects the ongoing monetary policy tightening, with real interest rates remaining positive and high. The Central Bank of Jordan (CBJ) raised its key policy rate by 100 basis points in 2023, and a total of 525 basis points since the beginning of this tightening cycle in March 2022. The CBJ overnight deposit rate and overnight repo rate recorded 7.25 and 8.25 percent, respectively in September 2023, the highest since 2006/07. The weighted average lending and savings interest rates in the banking sector also increased to the highest levels in years. Real interest rates[13] continued to increase since Q3 2022 supported by higher nominal rates and lower inflation (Figure 1.18).

The real effective exchange rate depreciated on an annual basis for the fifth consecutive month in September 2023 (Figure 1.19), the depreciation which marks a gain competitiveness, was supported by a lower rate of inflation in Jordan compared to main trading partners and the fact that the US dollar appreciation against its main trading partners has lost some steam as the Federal Reserve approaches the end of its tightening cycle.

Figure 1. 15 Annual headline inflation rate decelerated significantly in 2023
Percent

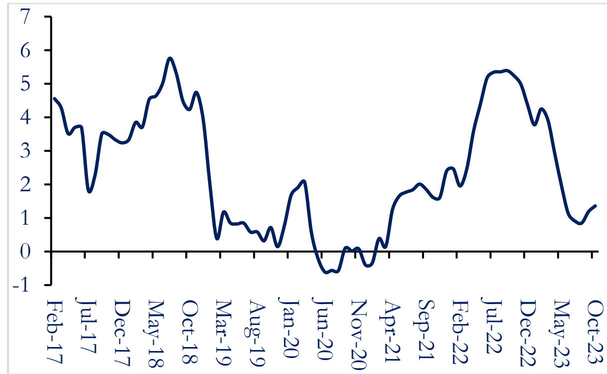


Figure 1. 16 The deceleration has been supported by favorable base effects and muted monthly inflation
Change in annual headline inflation rate, percentage points

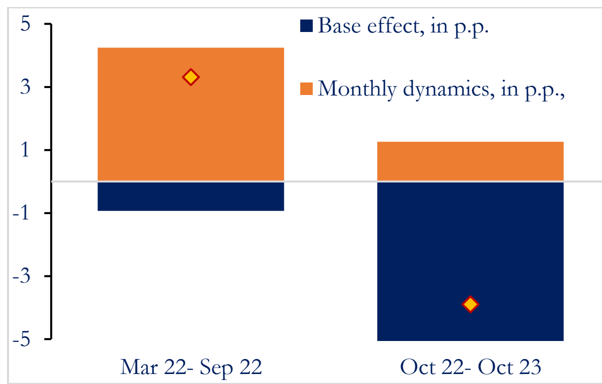
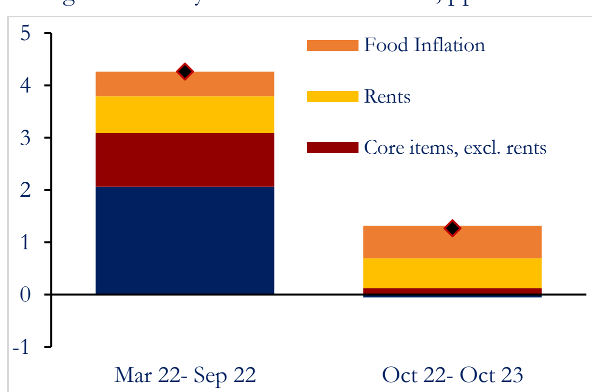


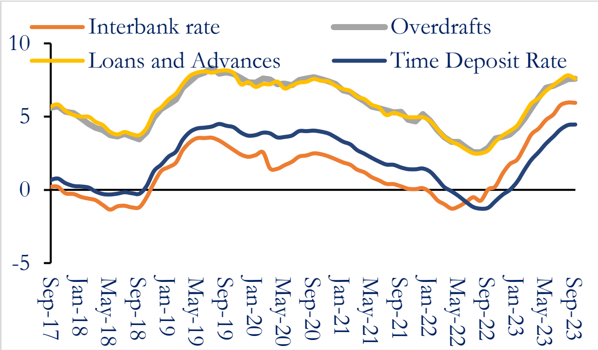
Figure 1. 17 Muted monthly inflation was supported by negative contribution from fuel items
Change in monthly headline inflation rate, ppts



Source: DoS and WB staff calculations.

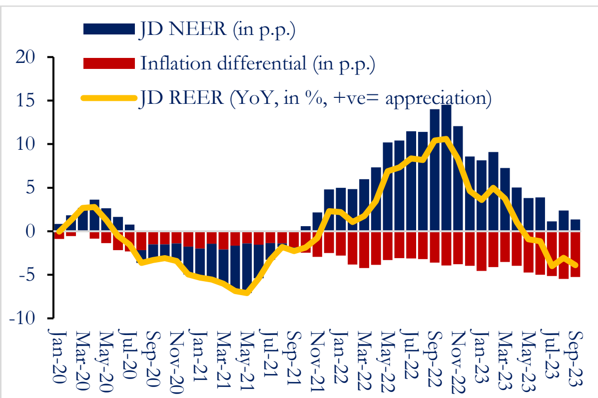
13 Nominal interest rates adjusted for inflation using a 3-month average of annual headline inflation with equal weights (50-50) assigned to backward- and forward-looking components.

Figure 1. 18 Real interest rates continued to increase since Q2 2022, Percent



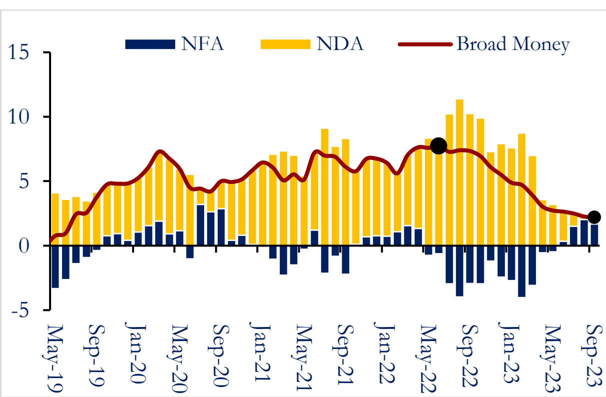
Source: CBJ, Haver analytics and WB staff calculations

Figure 1. 19 The REER depreciated on annual terms for the fifth consecutive month
Contribution to annual change, p.p.



Source: Brugel and WB staff calculations.

Figure 1. 20 Broad money annual growth rate slowed down to the slowest pace since 2019
Percent/percentage points

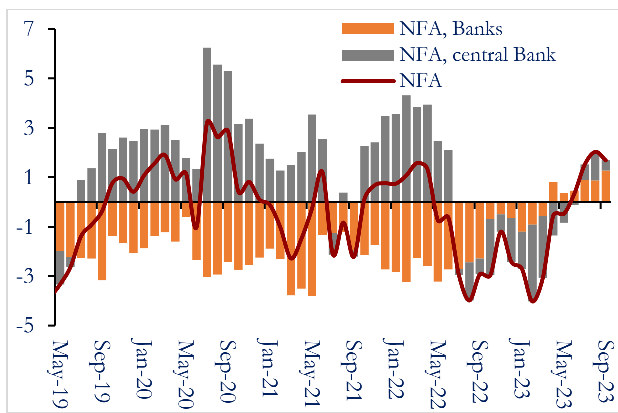


Source: CBJ and WB staff calculations

In tandem with the policy rate hikes and the ongoing fiscal consolidation, liquidity growth continues to decelerate. Broad money (M2) annual growth rate slowed down to 2.2 percent in September 2023 (the lowest level since 2019), down from its peak of 7.7 percent in June 2022 (Figure 1.20). This deceleration has been mainly attributed to declining contribution from the net domestic assets, given the slowdown in lending to both the private and public sectors, in addition to a decline in other unclassified assets. On the other hand, the contribution of net foreign assets turned positive since June 2023 after a year of contributing negatively, reflecting the improvement in Jordan's external balances (Figure 1.21).

Meanwhile, CBJ's balance sheet continued to contract down from its level in December 2021. In 2022, CBJ's balance sheet contraction was mainly attributed to a decline in the foreign assets, in particular CBJ's foreign cash balances and deposits given the repercussions of the Russian invasion of Ukraine. In 2023, the decline was mainly attributed to a decline in the domestic assets, in particular CBJ's repos balances which historically had witnessed notable increases during crisis time (e.g., 2012 and 2020).

Figure 1. 21 NFA contribution to broad money annual growth rate turned positive
Percentage points



Source: CBJ and WB staff calculations

B. Outlook and Risks

Queen Alia Airport, Amman, Jordan © Julius Bramanto

Growth is projected to accelerate to 2.6 percent in 2023, driven by the services sector and a rebound in agriculture. Several service sectors are expected to keep momentum including wholesale and retail trade, transport, storage and communications and restaurants and hotels. The industrial sector is also expected to keep its robust contribution to growth, although at a slower than in 2022 when growth was the highest since 2014. Slower export growth is also expected to weigh on the industrial sector's growth, mainly due to base effects. Real GDP growth is expected to reach 2.6 percent in 2023, primarily propelled by the services sector. A subsequent deceleration to 2.5 percent is anticipated in 2024, followed by a resurgence to 2.6 percent thereafter.

Several socioeconomic developments continue to suppress households' real income growth. The latest poverty rates available date back to 2018 (15.7 percent in July 2023, the World Bank reclassified Jordan as a lower middle-income country based on the previous year's GNI per capita estimates. This year's downward revision is mainly due to an upward revision (+9.6 percent) to Jordan's population published in the World Population Prospects 2022. While the recovery of services is expected to support wage incomes, large socioeconomic vulnerabilities persist. Limited private sector job creation, segmented labor markets, high informality, and low labor productivity continue to suppress households' real income growth. Cuts in cash transfers to refugees due to declining foreign assistance are likely to have an adverse impact on poverty, food security, and households' indebtedness.

Inflation is anticipated to remain contained, reflecting the ongoing monetary policy tightening and relatively stable commodity

prices in 2023. Annual headline inflation is expected to stabilize around 2.4 percent in 2023, down from 4.2 percent in the previous year, driven by a favorable base effect and muted core inflation and helped by the easing global commodity prices. However, renewed concerns about global oil supply - following the announced voluntary cuts in oil production by Saudi Arabia and Russia, and the potential for renewed regional conflict in the Middle East - could pose an upside risk to oil prices and, hence, the inflation and fiscal outlooks. On the other hand, the recent decision of the USA to lift sanctions on Venezuela, could alleviate some of these concerns and mitigate the impact on global oil prices.

Central government fiscal balance consolidation will remain supported by the decline in subsidies and the growing domestic revenues. The overall fiscal deficit is expected to narrow further to 5.2 percent of GDP in 2023, from 5.6 percent in the previous year. On the revenue side, tax revenues are expected to continue growing to reach 17.8 percent of GDP in 2023, up from 17.5 percent of GDP in the previous year, reflecting the implementation of tax administrative reforms. These will offset the impact of lower contribution from non-tax revenues and grants. On the other hand, total expenditure is expected to decline to 31.1 percent of GDP in 2023, down from 31.5 percent in the previous year. This decline is mainly driven by lower subsidies and the containment of public wage bill growth, which will offset the impact of higher interest payments and capital expenditures. Public debt will however remain elevated, as the gross government and guaranteed debt is expected to increase to 113 percent of GDP in 2023. Given the increasing SSIF purchases of new debt, the debt ratio (net of SSIF holdings) is projected to inch down to 88.7 percent of GDP in 2023.

The external accounts are expected to witness gradual improvement over the medium term, benefitting from easing global commodity prices and the initial recovery of tourism in early 2023. The current account deficit (incl. grants) is expected to narrow to 6.6 percent of GDP in 2023, compared to 7.7 percent in 2022, supported by the improvement in the trade balance and despite slower growth in remittances. Lower global commodity prices are expected to lower the import bill (including both energy and non-energy imports) to 47.8 percent of GDP compared to 59.9 percent in 2022. Meanwhile, exports are expected to stabilize at 26.4 percent of GDP, as the expansion in exports of stones and food and live animals is met with a decline in potash global prices from its peak in 2022. The services account is also expected to witness an improvement, owing to a pickup in tourism and higher travel receipts in the first three quarters of 2023. FDI is expected to slow down to 2.3 percent of GDP in 2023 compared to 2.6 percent in 2022, supported by high retained earnings in the first half of the year.

The eruption of the conflict in the Middle East and the concerns over its prolongation or escalation in the region carry important risks for the region and for Jordan's economy. Rising geopolitical tensions take a toll on risk sentiment and conflicts can affect economies through different channels, even when they are not directly involved. These include disruptions in trade flows, tourism markets, volatility in energy markets and the subsequent impact on consumption and the cost of production. In Jordan, tourism activity is at high risk of being impacted, especially in the case of a sharper escalation of the conflict. Even in the case of a contained conflict, neighboring countries may still be perceived as a risky destination. This could have implications on Jordan's external accounts, given that the significant recovery of travel receipts since 2021 was key in supporting the current account. In the scenario of no quick containment of the conflict, it may trigger marked increases in global oil prices and affect economic activity through lower domestic and foreign investment (Box 2).

Box 2. Mapping out the potential impact of the conflict in the Middle East on the Jordanian economy

The current conflict in the Middle East led to a substantial loss of lives, a grave humanitarian crisis in Gaza, and significantly heightened geopolitical risks in the region. Depending on the duration and expansion of the conflict, it has the potential for material economic spillovers on the Jordanian economy, notably through its impact on tourism activity in the remainder quarter of 2023, with implications for travel receipts and external accounts.[14] A scenario where global oil prices see substantial increases would also reflect on Jordan's current account and fiscal balances, with possible impact on consumers' spending and cost of production through higher inflation.

a. **The conflict risks undermining tourism activity and receipts at the start of a high season.** The post-COVID recovery was largely driven by a strong recovery in tourism, with the restaurants and hotels sector growing fast and the number of tourists being the highest since 2019. While the recovery in tourism in 2023 was broad-based across travel categories and countries of origin, single-day tourists had so far witnessed a marked pickup of 76 percent. These are believed to be in most cases visiting Jordan as part of packaged tours that included also Israel; they represent around 17 percent of total arrivals in 2023 and may be the most directly impacted by the conflict. Even without regional escalation,[15] Jordan may become perceived as a risky destination for travelers. Early reports from tourism agencies[16] point to a 50-75 percent drop in hotel occupancy and reservations in the two months following the start of the conflict, notably in the most famous tourist sites. The aviation industry – which was just recovering from its pandemic-related losses – may also incur higher operating costs as they take longer routes to avoid overflying conflict areas. Additional cost may also materialize in case of higher fuel prices, possibly reflecting on the end consumer price and further affecting tourism.

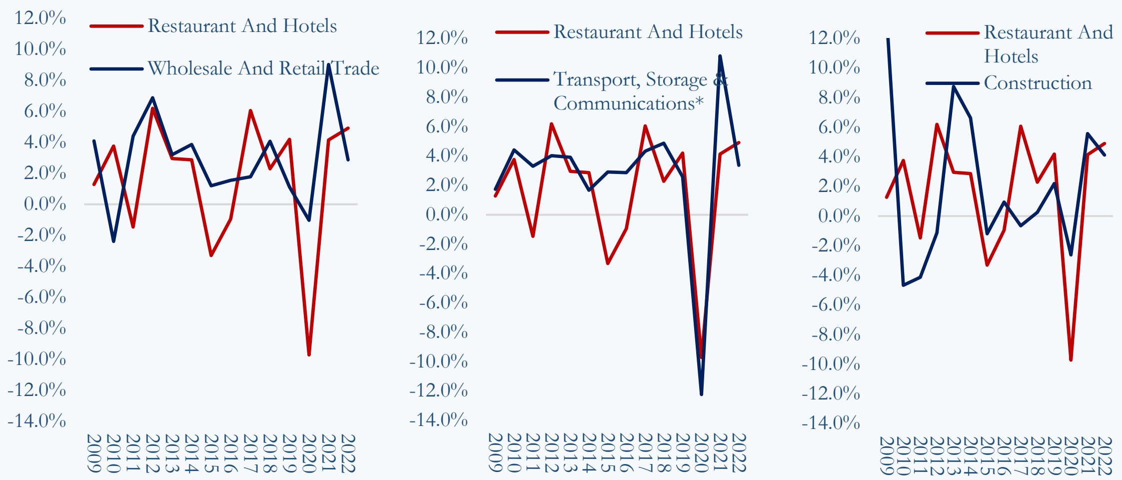
b. **Lower tourism may have wider implications for economic activity through backward and forward linkages with other larger sectors.** The restaurant and hotels sector, while remaining a small sector in GDP (1.5 percent share), is closely correlated with other important sectors in the Jordanian economy notably wholesale and retail trade, transport, and construction (Figure B.2.1). Additionally, the potential for reduced domestic consumption through behavioral changes could be substantial, as domestic consumption has a large share in GDP. In the worse scenario of regional escalation, disruptions in trade flows can affect value chains and the cost of production, while the increased perception of risks can deter domestic and foreign investment.

[14] It is difficult to draw definite conclusions based on past episodes of conflicts in light of other differences in the global and regional context, and given the much larger impact on lives lost, damages and the economy.

[15] Tourist numbers had dropped by around 23 percent following the 2014 conflict in Gaza. This may also be reflecting other geopolitical events and some seasonality effect.

[16] Jordan Times, 2023

Figure B. 21 GDP Growth rate – Tourism and other sectors



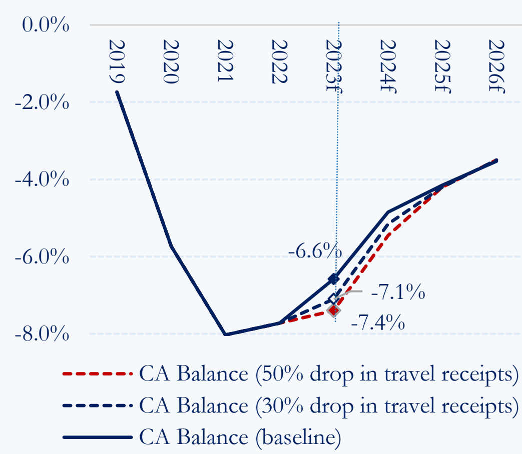
Source: WB staff based on DoS data.

c. **Gas imports are governed by long-term Gas Supply Agreements.** Jordan sources the majority of its natural gas needs from two sources: Egypt (through a long-term Gas Supply Agreement (GSA) with E-Gas), and the Leviathan gas field in Israel (through a long-term GSA with Chevron). During the first month of the conflict, the Tamar production platform was shut down and Israel's gas production was cut by close to 50 percent (production resumed in early November). As of October 30, the production from the offshore gas field Leviathan - source of gas supply to Jordan - has not been impacted and no disruptions to the electricity sector gas consumption has been recorded in Jordan. Should the conflict escalate and gas exports to Jordan are reduced, NEPCO has access to import liquified natural gas using the Floating Storage and Regasification Unit (FSRU) facility through the LNG port in Aqaba, possibly at higher cost than that of piped natural gas.

d. **External accounts are exposed to the conflict ramifications through multiple channels.**

i. **A drop in travel receipts will affect the current account balance, notably in 2023.** The significant recovery of travel receipts since 2021 was key in supporting the current account. It is estimated that in a pessimistic scenario where travel receipts drop by 30-50 percent, this could result in a 0.4 - 0.8 percent of GDP deterioration in the current account deficit in 2023, with a gradual recovery to the baseline scenario expected by 2025. The capital account may also see lower net inflows as FDI remains protracted, affected by lower retained earnings as investors repatriate profits and gloomier investors' sentiment fearing a wider regional conflict.

Figure B. 22 Potential impact of lower travel receipts on CAD

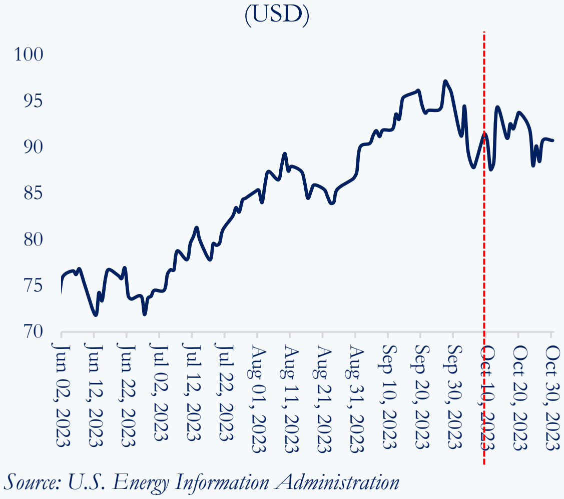


Source : WB staff projections

ii. **Oil prices, while so far contained, can have large implications if they witness sharp increases**. Given that the Middle East region accounts for a substantial share of the global energy supply, risks are acute for energy markets, particularly for oil.[17]. Since the start of the conflict, oil markets have been volatile, but price increases have been relatively mild. Brent prices recorded an average of USD 90.9 per barrel from 9-30 Oct), down from $93.7 per barrel in September (Figure B2. 1). The potential escalation of the conflict could result in higher increases as oil production infrastructure and shipping would come under threat. For Jordan, being a net importer of energy, an increase of oil prices to USD 100-110 per barrel would imply a higher current account deficit to 6.6% - 7.5% of GDP in 2024 (compared to 4.9% in the baseline scenario). In case of protracted conflict and higher prices for longer, this exposure to oil prices may however be partially offset by a possible increase in remittances from oil exporting GCC countries, as well as potential higher budgetary support from the GCC through grants.

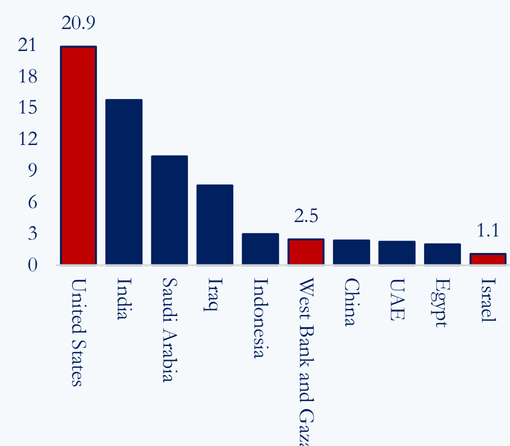
iii. **Non-commodity trade**: Jordanian exports to the West Bank and Gaza and Israel represent 2.5 percent and 1.1 percent of total exports in 2022, respectively, while exports to the USA represented 20.9 percent of total exports. In 2022, it is estimated that only one percent of exports to the USA is done through the Qualifying Industrial Zones (QIZ) agreements.[18] This small part could be potentially disrupted following the eruption of the conflict, as sourcing inputs sources from the areas of conflict becomes more difficult. It is estimated that a 1 percentage point deceleration in exports growth rate leads to a higher current account deficit by around 0.3-0.5 percentage points of GDP.

Figure B. 23 Brent Price
(USD)



Source: U.S. Energy Information Administration

Figure B. 24 Destination of Jordanian
(Percent of total exports, 2022)



Source: IMF Direction of Trade statistics

[17] World Bank, 2023. Commodity Markets Outlook, under the shadow of geopolitical risks.

[18] The QIZ program allows products with a specified amount of Israeli content to enter the United States duty free if manufactured in Jordan, Egypt, or the West Bank and Gaza. Source: Office of the United States Trade Representative, consulted November 5, 2023. https://ustr.gov/countries-regions/europe-middle-east/middle-eastnorth-africa/jordan

e. **Fiscal implications are complex and may vary depending on the magnitude of the shock, consumers behavioral changes and the government policy reaction.**

i. Higher oil prices for example can trigger an acceleration in inflation due to the increased costs of production and transportation, as well as a reduction in consumers' disposable income, thereby affecting tax revenue from corporate income and sales. The latter could also be affected if large changes were to occur in consumers' behavior following the depressing impact of the conflict on Jordanians.

ii. On the expenditure side, higher inflation affects the real value of government expenditures. The GoJ has announced that it does not intend to reintroduce fuel subsidies (similar to its policy choice in 2022 after the Russian invasion of Ukraine), but higher oil prices may translate into higher spending on existing fuel subsidies schemes (for public transport and cooking gas).

iii. It is estimated that an increase of 10 percent in oil prices would translate in 0.2 percent increase in fiscal deficit. Hence, if oil price were to reach USD 100-110 per barrel, this would imply a 0.4 percentage points of GDP increase in deficit, in the absence of domestic fuel prices adjustment. Finally, borrowing needs will increase to make up the shortfalls, adding further pressure to debt servicing requirements in a context of high financing cost.

a. **Sovereign risk and cost of financing:** Jordan's EMBI spreads rose temporarily to record an average of 437.8 bps during 9-30 October, up from 311.8 bps in September (Figure B.21). All neighboring countries have seen upticks in their sovereign risks following the eruption of the conflict. Notwithstanding the temporarily uptick, Jordan still compares favorably to its neighbors and maintains lower spreads (Egypt 1283.6 Iraq 605.2; Lebanon 32468.1). Despite the ongoing conflict, Fitch affirmed Jordan at 'BB-', with a stable outlook, citing Jordan's record of maintaining economic and political stability in the face of significant external shocks

Figure B. 25 Jordan's EMBI spreads

Source: JP Morgan

Table 1. Jordan - Selected Economic Indicators (2019-2025)

	2019 Act.	2020 Act.	2021 Act.	2022 Act.	2023 Proj.	2024 Proj.	2025 Proj.
Real sector	(Percent, unless otherwise specified)						
Real GDP growth	1.8	-1.1	3.7	2.4	2.6	2.5	2.6
Nominal GDP (JD Billion)	31.6	31.0	32.9	34.5	36.3	38.0	39.9
CPI Inflation (p.a.)	0.8	0.3	1.4	4.2	2.4	2.4	2.4
Government finance	(Percent of GDP, unless otherwise specified)						
Total revenues and grants	**24.3**	**22.7**	**24.7**	**25.8**	**26.0**	**26.1**	**26.2**
Domestic Revenue	**21.8**	**20.1**	**22.3**	**23.5**	**23.7**	**23.9**	**24.2**
Tax revenues	14.6	16.0	17.1	17.5	17.8	18.2	18.6
Non-tax revenues	7.2	4.1	5.2	6.0	5.9	5.7	5.6
Foreign Grants	2.5	2.5	2.4	2.3	2.3	2.2	2.0
Total expenditure (incl. use of cash)[1/]	**29.2**	**29.8**	**30.9**	**31.5**	**31.1**	**31.1**	**31.0**
Current	25.0	27.0	27.0	28.1	27.5	27.4	27.2
Capital Expenditure	3.1	2.7	3.5	3.4	3.7	3.7	3.8
CG 'Overall balance (deficit (-), incl. grants)	**-4.9**	**-7.1**	**-6.2**	**-5.6**	**-5.2**	**-5.0**	**-4.8**
CG Primary Balance (deficit (-), incl. grants)	-1.3	-3.1	-1.9	-1.5	-0.8	-0.3	0.1
	(Percent of GDP, unless otherwise specified)						
Government and guaranteed gross debt[2/]	**95.2**	**106.5**	**108.8**	**111.4**	**113.0**	**114.2**	**115.2**
Government and guaranteed gross debt, net of SSIF holdings[2/]	75.8	85.4	87.5	88.8	88.7	88.5	88.2
SSIF holdings of government debt[3/]	19.4	21.1	21.3	22.6	24.2	25.7	26.9
External sector	(Percent of GDP, unless otherwise specified)						
Current Account	-1.7	-5.7	-8.0	-7.7	-6.6	-4.9	-4.2
Memorandum Items:							
NEPCO operating balance (JD million)[4/]	-3.0	-33.7	-133.4	-249.4	-441.1	-545.2	-601.1
WAJ overall balance (JD million)[4/]	-266.8	-189.0	-219.8	-182.6	-267.9	-262.0	-257.0
Export FOB (% growth)	7.3	-4.5	17.8	36.6	5.5	5.1	3.8
Import FOB (% growth)	-5.5	-10.1	25.0	26.7	0.5	2.2	3.0
Travel Receipts (% growth)	10.2	-75.7	95.8	110.5	7.0	7.0	6.0
Remittances (% growth)	0.9	-9.1	1.0	1.5	1.0	8.1	6.6
Gross usable Foreign Currency Reserves (USD million)	13,511	15,127	17,272	16,432	16,523	16,496	16,490
in months of next year's imports of GNFS	8.8	7.8	6.9	6.5	6.3	6.1	5.9

Source: DOS, CBJ, MoF and World Bank staff projections

[1/] Includes use of cash based on IMF Country Report No. 23/49.

[2/] Government's direct and guaranteed debt (including NEPCO and WAJ debt) and securitization of domestic arrears in 2019 and 2020.

[3/] Projected SSIF holdings of public debt as estimated in IMF Country Report No. 23/49.

[4/] Source: NEPCO data, latest accessed October 2, 2023.

Annex 1. Summary Revisions to Jordan National Accounts

In October 2023, the Department of Statistics released a revision of national accounts data, reflecting large changes in Jordan's nominal and real GDP, as well as their sectoral breakdown for the years 2020-2022 and for Q1-2023. Exports and FDI data were also revised for the year 2022 and for Q1-2023. The combination of these major revisions affected the overall GDP growth rates for the past three years, as well as all major macroeconomic ratios (fiscal, debt, monetary, financial sector, and external accounts) as well as their dynamics, expressed as percentage of GDP. This annex briefly summarizes these revisions and their impact on actual figures as reported by official sources as well as WB staff projections for the medium term.

Revisions to Annual Real GDP Growth

Figure A. 1 Revisions to Real GDP Growth

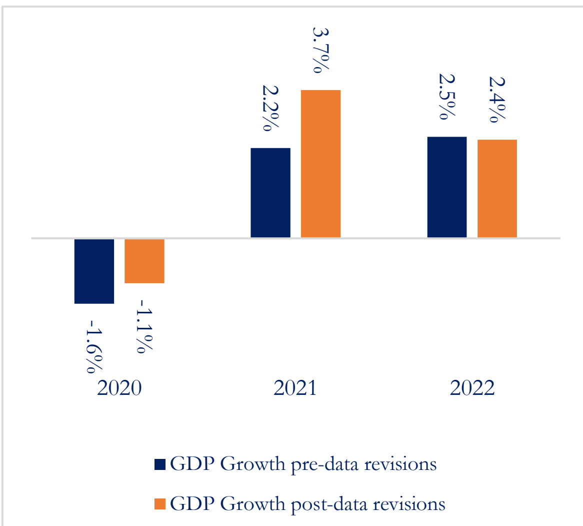
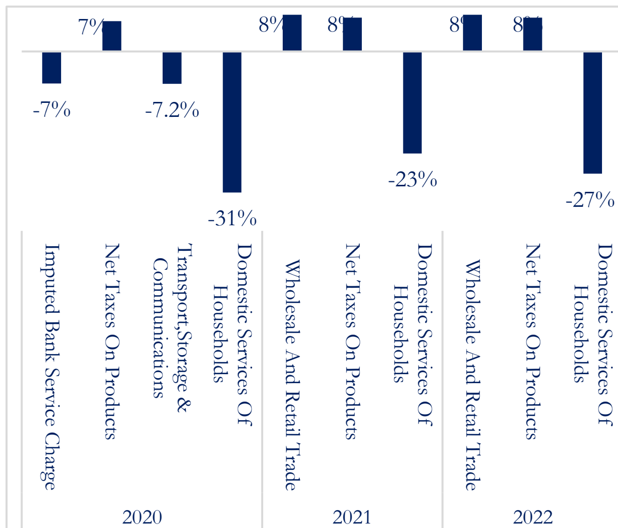


Figure A. 2 Major Revisions to Real GDP by Sector



Impact on Fiscal Accounts and Debt

Figure A. 3 The upward revisions of nominal GDP led to lower deficit-to-GDP ratio

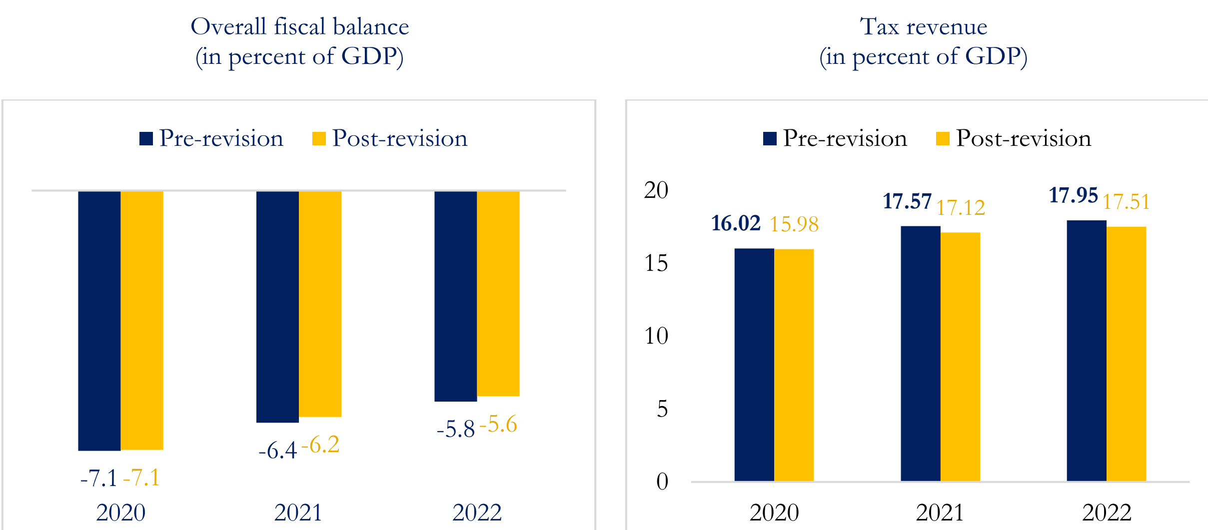
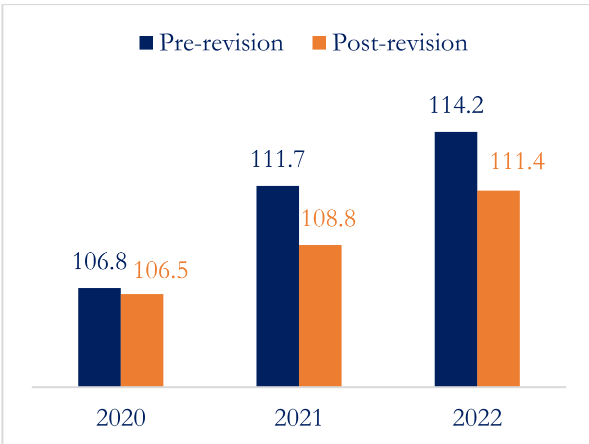
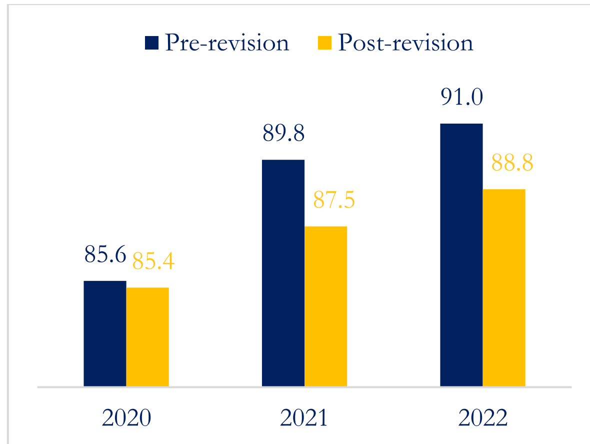


Figure A. 4 The upward revision of nominal GDP led to lower debt-to-GDP ratios

Gross Government and Guaranteed Debt
(in percent of GDP)



Gross Government and Guaranteed Debt
(in percent of GDP, net of SSIF holdings)



Revisions of External Accounts (exports and FDI)

Figure A. 5 The upward revision of nominal GDP led to lower current account deficit
(in percent of GDP)

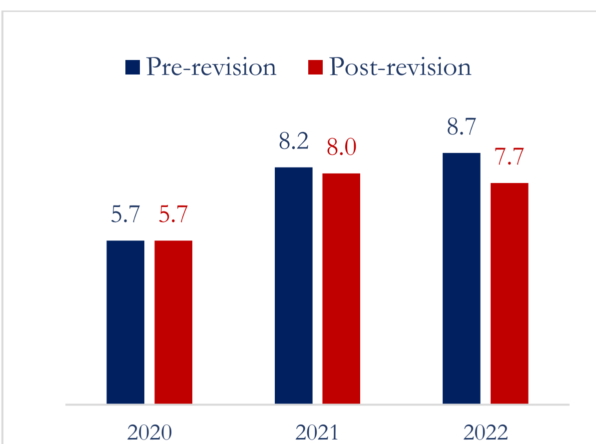


Figure A. 6 Revised FDI and exports figures reflect the change in their respective values and in nominal GDP (in percent of GDP)

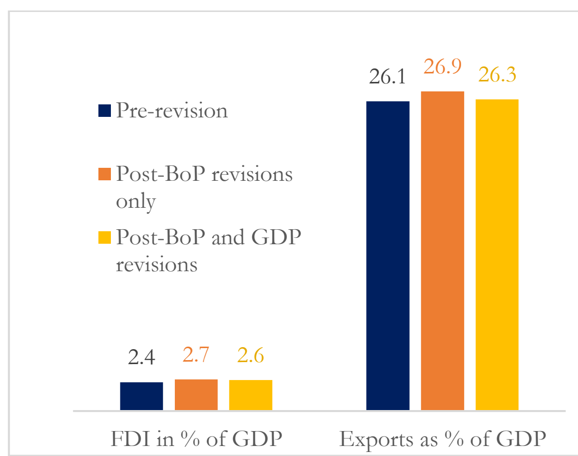


Table 2. Summary of Revised Main Macroeconomic Indicators and WB Revised Projections

	2019	2020	2021	2022	2023f	2024f	2025f
Real GDP Growth (in percent)							
Pre-revision	1.8	-1.6	2.2	2.5	2.6	2.5	2.5
Post-revision	1.8	-1.1	3.7	2.4	2.6	2.5	2.6
Current Account Deficit (in percent of GDP)							
Pre-revision	-1.7	-5.7	-8.2	-8.7	-7.6	-5.9	-5.1
Post-revision	-1.7	-5.7	-8.0	-7.7	-6.6	-4.9	-4.2
Overall fiscal balance (in percent of GDP)							
Pre-revision	-4.9	-7.1	-6.4	-5.8	-5.1	-5	-4.8
Post-revision	-4.9	-7.1	-6.2	-5.6	-5.2	-5	-4.8
Government and guaranteed gross debt (in percent of GDP)							
Pre-revision	95.2	106.8	111.7	114.2	116.2	117.6	118.7
Post-revision	95.2	106.5	108.8	111.4	113.0	114.2	115.2
Government and guaranteed gross debt, net of SSC's holdings (in percent of GDP)							
Pre-revision	75.8	85.6	89.8	91	91.4	91.2	90.9
Post-revision	75.8	85.4	87.5	88.8	88.7	88.5	88.2

Source: DoS and WB staff calculations

C. In Focus

Building Success, Breaking Barriers

Unlocking the Economic Power of Women in Jordan

Arab Muslim girl in school © Zurijeta

Women in Jordan hope to see their educational achievements translating into economic productivity, as women's labor force participation has been consistently low, both in absolute terms and relative to other countries in the MENA region and worldwide. Women's low participation does not have a single cause, but is rather affected by a complex combination of factors encompassing social, economic, regulatory and structural elements in addition to personal preference. The first Mashreq Gender Facility State of the Women Report identified barriers women face at four critical turning points at which some decide to withdraw from the labor market or never enter, including caregiving responsibilities, public transportation, the legal environment and the gap between the law on paper and the law in practice, in addition to social norms.

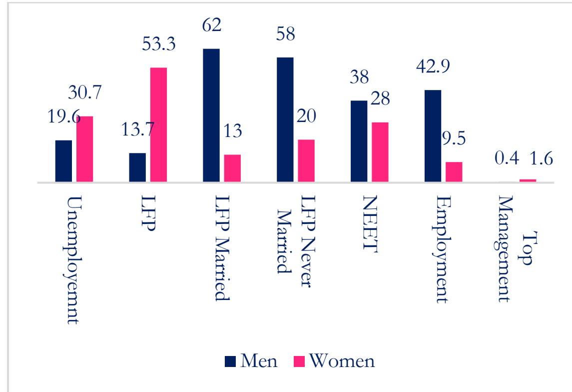
This focus piece follows girls and women in Jordan from birth through education and into the labor market, going through the main milestones on their way to economic empowerment. Investing in girls' education and skills development is crucial for building their human capital, as it paves the way for their seamless integration into the labor market and, ultimately, their economic empowerment. As they enter the labor market, key constraints may discourage them or make their integration more difficult. This piece focuses on two key areas where policy reforms and actions can make a difference in women's ability and willingness to work: (i) expanded access to affordable, quality childcare; and (ii) the extension of a well-functioning, comfortable and safe public transport system.

Advancing women's role as economic agents is central to Jordan's reform agenda and a key driver for stronger, more inclusive and sustainable development. Jordan's economic growth has remained stagnant over the past decade and has been characterized by a persistently low level of labor force participation. The education system ensures equal access to boys and girls, and to young men and women, but women struggle to see their educational achievements translating into economic productivity. In Jordan, women make up 50.4 percent of the working-age population of nearly 5.5 million people, but less than 14 percent of those women participate in the labor force, compared with 53 percent of men. Moreover, 38 percent of women, are not in education, employment, nor training (NEET), compared to 28 percent for men. Among those who enter the labor force, 30.7 percent remain unemployed. This translates into less than 10 percent of women actually working, and among those, only 3 percent rise to senior positions (Figure 2.1). Women's total entrepreneurial activity (TEA) is 3.3 percent in Jordan, compared to a global average of 10.2 percent. In 2022, the Global Gender Gap Index Report placed Jordan at 126th out of 146 countries.[19]

Investing in education and healthcare are necessary to equip women with the human capital they need to be productive.

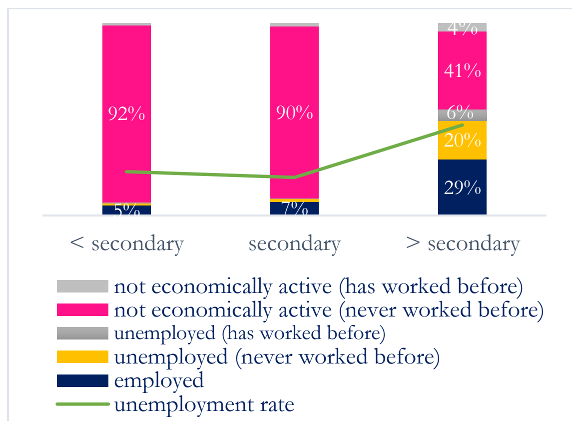
Many factors can prevent women from realizing their economic potential, including access to education, health care, finance, technology and legal rights, in addition to social and cultural factors. A woman's journey starts from a young age where investment in her health and education are key to preparing and equipping her with the necessary human endowments, through healthcare and education. This is more relevant in Jordan, where women with less than a university education rarely enter the labor force, while those with a university education are more likely to enter but have difficulty finding suitable employment (Figure 2.2).

Figure 2. 1 Gender gaps are prevailing at all stages
Percent



Source: DoS

Figure 2. 2 Women with no or less education are less likely to enter the labor market
Percent



Source: World Bank, HCR (forthcoming)

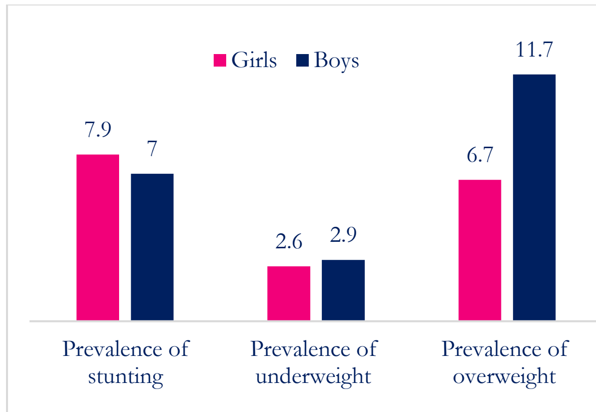
Jordan does well on providing quality access to essential reproductive and child health services, with the antenatal, delivery, and postnatal care services delivering good health outcomes for mothers and children. A 2016 Royal decree granted free health care services at Ministry of Health (MOH) facilities for all children under six, and 72 percent of the population is covered by a health insurance scheme while MOH facilities offer services for uninsured Jordanians at discounted prices (20 percent of the cost). As a result, 98 percent of pregnant women receive antenatal care services from a skilled professional and have their babies delivered in a

[19] The Global Gender Gap Index (by the World Economic Forum) annually benchmarks the current state and evolution of gender parity across four key dimensions (Economic Participation and Opportunity, Educational Attainment, Health and Survival, and Political Empowerment).

health facility.[20] Around 83 percent of mothers and 86 percent of newborn children had a postnatal check within the first two days after birth. Almost all mothers receive key antenatal care services during their visit, although counseling and observation on breastfeeding were the least offered postnatal services at 66 and 61 percent. There are also no significant differentials across governorates and key socioeconomic factors, suggesting that inequalities in child health outcomes do not stem from differential access to reproductive and child health services. There are also no stark gender inequalities in health outcomes (for example in prevalence of stunting in children under five), with girls being even less affected by bad health outcomes in certain aspects (prevalence of underweight and overweight) (Figure 2.4). That said, more than a third of women and those in reproductive age suffer some health complications notably anemia, similar than (and sometimes exceeding) the prevailing average in the MENA region and in middle income countries.

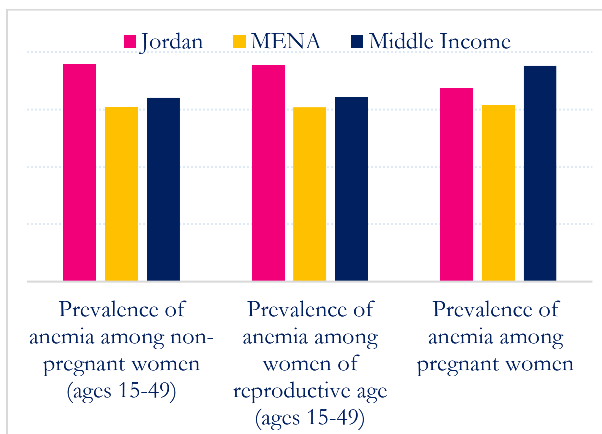
Jordan is improving on access to early childhood education for both boys and girls (particularly for KG2), but overall access is still low with an impact on childhood development outcomes and cascading effects as they progress in the education system. While there are no gender gaps in access, more than a third of children aged 4-5 are not enrolled in the second year of kindergarten education (KG2), and more than two-thirds are not enrolled in KG1 (Figure 2.5).[21] Children of mothers with more than a secondary education are much more likely to attend an ECE program (23 percent versus 4-7 percent for children of mothers with less education). Low access to ECE can be partially explained by factors related to the availability and affordability of childcare facilities in Jordan (see below), which has an impact on children's development. While 95 percent of children ages 36-59 months were on track for their age in terms of physical development, only 38 percent were on track in the literacy-numeracy domain (Figure 2.8). Early gaps in ECE outcomes follow students into basic primary: around 30 percent of children enrolled in the first grade were not ready to learn,[22] while the early grade reading assessment (EGRA) shows that reading fluency and reading comprehension is only 46.2 and 36.9 percent respectively among 2nd and 3rd grade Jordanian students.[23]

Figure 2. 3 Health outcomes reflect good access to quality reproductive and child healthcare
Percent



Source: World Development Indicators

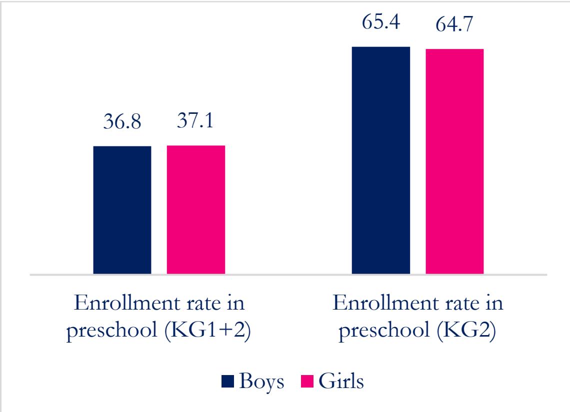
Figure 2. 4 More than a third of women in reproductive age suffer some health complications
Percent



Source: World Development Indicators

[20] Nearly 100 percent of women have their babies delivered by a skilled health professional.
[21] Kindergarten education (KG1 and KG2) for 4–5-year-olds is not currently mandatory in Jordan.
[22] UNICEF 2018
[23] Gajderowicz & Jakubowski, 2022

Figure 2. 5 No gender gap in access to ECE…
Percent

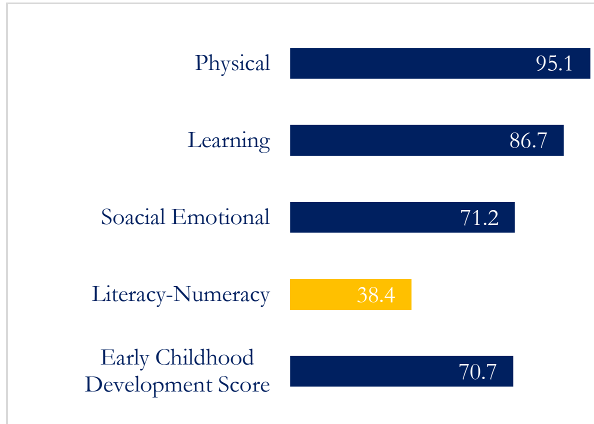


Source: Ministry of Education

Unlike pre-primary education, overall enrolment rates for primary and to a lesser extent secondary education are high, but both girls and boys keep dropping out of school as they grow older. While around 95 percent of girls are enrolled in basic education, 85 percent of the female population aged 25+ years have finished their primary education, only a third have made it to finish their upper secondary education and 22 percent finish their tertiary education.[24] Young women who pursue and finish postgraduate studies are very rare (Figure 2.7). Educational attainment is closely related to the skills and competencies of a country's population, and could be seen as a proxy of both the quantitative and qualitative aspects of the stock of human capital.

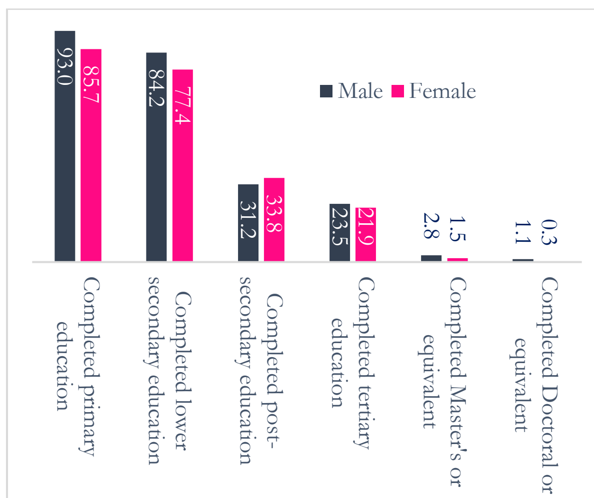
Around two thirds (61 percent) of young female students pass the *Tawjihi* exam (vs. 46 percent for males in 2022), and only 22 percent complete their tertiary education.[25] Very few enroll in TVET programs (10.2 percent in 2022), although men's enrollment is also low (12.8 percent). Women with university education face slightly higher rates of unemployment (23 percent vs. 20 percent for their male counterpart). Very few women with less than university education are active in the labor market, registering the lowest unemployment rates (5 percent).

Figure 2. 6 …but overall poor access affects literacy and numeracy skills for boys and girls
Percent of children ages 36-59 months, 2017-2018



Source: Jordan Demographic and Health Survey (DHS)

Figure 2. 7 Enrolment in education is high but educational attainment is much lower
Percent of female and male population 25+ years



Source: World Development Indicators (WDI), building on UNESCO Institute for Statistics data, accessed September 19, 2023.

[24] Education attainment is calculated by dividing the number of population ages 25 and older who attained or completed certain education level by the total population of the same age group and multiplying by 100.

[25] The *Tawjihi* public examination – a high profile exam that functions as a selection mechanism for access to higher education. Only half of Jordanians take the exam.

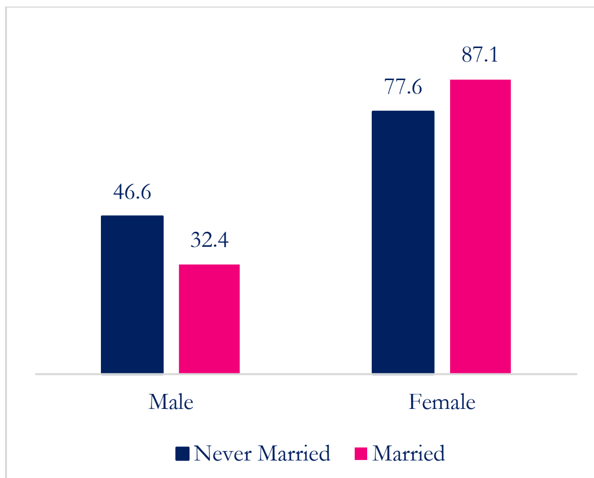
The circular causality between socioeconomic status and human capital status highlights the key role of social safety nets in building and protecting girls and young women's human capital. For poor and vulnerable households, the lack of monetary resources and reduced ability to borrow may hinder their ability to provide adequate health and education services to their children. Hence, social safety nets play a major role in protecting households from shocks that can have grave consequences for children's development, for example by pushing them to drop out of school. In Jordan, girls between the age of 7 to 14 spend on average 10 hours per week (this is more than an entire school day) involved in economic activity and not attending school. And while only 2 percent of girls in this age bracket are employed, more than 97 percent are unpaid family workers.[26] Those challenges in access to health and education services also cascade into adulthood with differential access to labor market opportunities and ultimately poverty.

To support and expedite girls' human capital accumulation, human capital investments should be accompanied with poverty alleviation programs and strategies. Targeted interventions to support poverty alleviation will help poor households prioritize access to education and health, including for girls, and make them more resilient against potential shocks. In addition to the existing cash transfer program, connecting vulnerable households with social services is also critical to strengthening the social protection system in Jordan, for example by ensuring they have access to redress mechanisms (e.g., child protection, psychosocial support, gender-based violence).

Women's participation in the labor market is the most sustainable protection against poverty and vulnerability.

Despite increased attention given to the women's economic integration agenda,[27] policies aimed at increasing female employment have had little impact to date. The first Mashreq Gender Facility State of the Women Report[28] identified barriers women face at four critical turning points at which some decide to withdraw from the labor market or never enter: "getting ready", "entering & remaining", "getting married", "having a child". Beyond the creation of additional jobs, it identifies a series of reasons that hinders women's participation, including caregiving responsibilities, public transportation, social norms, in addition to the legal environment.[29]

Figure 2. 8 Women are much less economically active than men, notably after marriage
Not participating in labor force, percent



Source: DOS

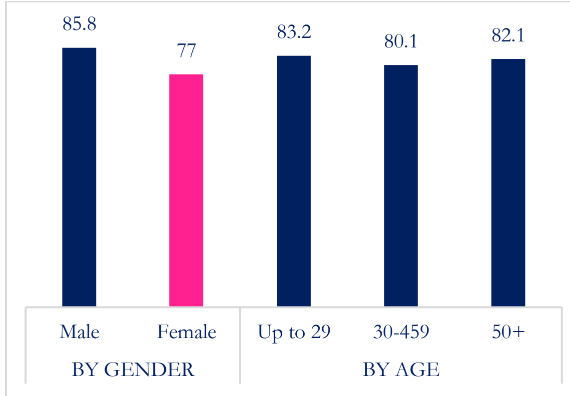
[26] Unpaid family workers are defined as people who work without pay in a market-oriented establishment operated by a related person living in the same household. Source: WDI.
[27] The Engendered Strategy of Jordan's Economic Modernization Vision (EMV) represents a government commitment to close the gender gaps by enhancing the participation of women in the marketplace and in economic decision-making.
[28] World Bank, 2020a
[29] Box 3 lists important legal reforms recently undertaken by the GoJ, yet further legislative reforms need to take place. Additional recommended reforms include those related to labor law and social security law, for example on parental leave, equalizing retirement and early retirement ages for men and women, and increasing maternity leave in the labor law to 14 weeks instead of the current 10 weeks, as per ILO standards.

Social Norms related to the suitability of women's employment and household roles pose a barrier to their economic participation, but these can be tackled.

Previous studies suggest that the majority of Jordanians are in favor of women's work outside the home,[30] yet some beliefs and expectations may come in the way of their work. These expectations are closely tied to concerns related to gender roles of married women, interference with caregiving responsibilities, working in mixed-gender environments, or time away from home. Long hours and having young children are expected to restrict male counterparts' approval of working women.[31] A survey conducted by the World Bank finds that around 14 percent of surveyed mothers report that their husbands express disapproval towards women who use childcare services in order to work. The view that "when jobs are scarce, men should have more right to a job than women" is broadly held even when disaggregating by education, age and gender of respondent (Figure 2.9). The type of job also plays a role: as the vast majority of Jordanian youth (over 80 percent) said teaching or being a health professional were ideal occupations for women, occupations that are primarily found in the public sector reflecting gender norms regarding employment.[32]

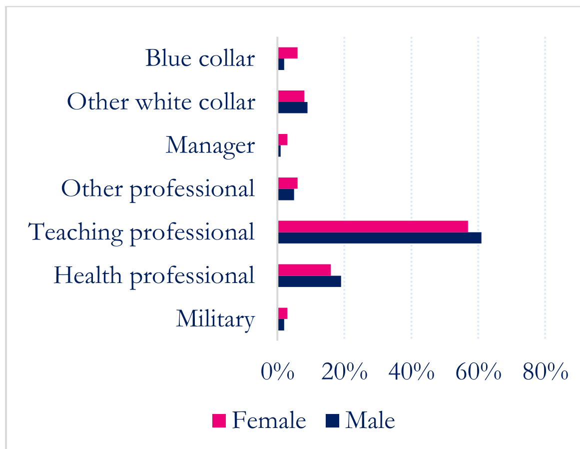
While weak labor demand represents the major constraint for employment for both women and men, women face additional barriers. These include barriers related the availability and characteristics of care infrastructure and transport, in addition to legal restrictions and informal institutions (also referred to as "norms and beliefs"), each of which intervene at critical life turning points.[33]

Figure 2.9 When jobs are scarce, should men have more right to get a job than women?
Percentage of respondent agreeing with the statement



Source: World Values Survey (2021-2022)

Figure 2. 10 Traditional jobs are perceived as ideal occupations for women.

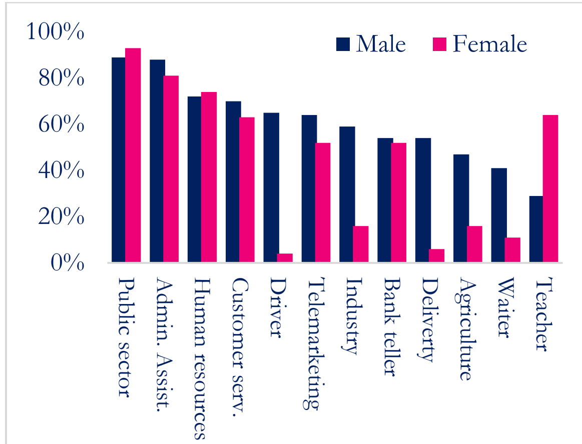


Source: UNICEF (2021)

[30] Around ninety-six percent of Jordanians believe that it is acceptable for women to work (World Bank. 2018).
[31] World Bank, 2018.
[32] Survey of Young People in Jordan (SYPJ), UNICEF (2021)
[33] World Bank (2020a).

The GoJ have adopted many initiatives to tackle many of these constraints (Box 3), yet progress measured by women's actual economic participation remains slow. Any policies or programs targeted to women must address the fundamental reasons why they are not in the labor force and may not even consider employment an option. This analysis focuses and provides granular information on two of the main barriers: (i) childcare availability and affordability, and (ii) the access and use of public transportation.

Figure 2. 11 Only certain jobs acceptable to Jordanian youth



Source: UNICEF (2021)

Box 3. Recent and Ongoing GoJ Initiatives in Support of Women's Economic Participation

The Vision and Strategy

- 2022: Launching the engendered strategy for the Jordan Economic Modernization Vision 2023-2033, with a target to double FLFP encompassing - in the executive plan - the legislative agenda, childcare, gender seal, e-shops for women owned businesses, and the "women in manufacturing" initiative.
- 2020: Launching the National Strategy for Women 2020-2025, with a strategic objective to facilitate women's right of access to economic, political and leadership opportunities.

Legal Reforms

- Labor Law: (i) Adoption and implementation of the Flexible Working Hours Bylaw (2018); Adoption of employer-supported childcare modalities bylaw (2021 and 2023); (ii) Mandating pay equity; (iii) Introducing definition for sexual harassment in the workplace and imposing penalties on violations (2023); and (iv) Removing Article 69 which restricted women from accessing certain sectors and nightshifts; replaced by an article prohibiting the discrimination in access to employment (2023).
- Investment Law: incentivizing large investors that employ 50% women with additional benefits (2022).
- 2023: Piloting gender-responsive budgeting (GRB) in select ministries (Health, Education, Labor and Parliamentary and Political Affairs). Initial steps included (i) issuing budget circulars with directives on allocating budgets that support the implementation of projects addressing gender gaps; and (ii) assigning focal points at General Budget Department to support (GRB) at line ministries, and gradually building capacities of line ministries to identify gender gaps.

Social Protection

- Adding women as representatives of the household -beside their husbands- in the applications for National Aid Fund, and enabling them to be the cash recipients (ongoing effort).
- 2020: Social Security Maternity Fund supporting maternity leave. However, the fund covers only waged employees, but excludes women in the voluntary scheme (self-employed, entrepreneurs…etc).
- Setting targets for ensuring women as beneficiaries in national programs such as the National Employment Program, Youth Technology and Jobs, and the Industry Support Fund

Childcare

- 2018: Approving the bylaws for licensing home based nurseries
- 2021: Adoption of accredited training for childcare workers by the Technical and Vocational Skills Development Council
- 2021: Launch of the Reaya program, which allows providing subsidies for childcare services through the maternity fund at the Social Security Corporation (SSC), benefiting working women and nurseries enrolled in SSC.
- 2023: Through the Ministry of Social Development, a grant scheme is put in place to provide eligible NGOs with support for the establishment of nurseries.

Employment:

- Since 2008, provide support for Satellite Work Factories which have largely benefitted women in rural areas, mostly in the garment sector.

Public Transport

- 2022: A transportation subsidy for women hired through the National Employment Program provided
- 2023: Ensuring an integrated affordable fare for public transport, addressing women needs.
- Adoption and operationalization of the Code of Conduct for Public Transport (ongoing)
- Completing the national Bus Rapid Transit connecting Zarqa to Western and Southern Amman and to the airport, and its feeder network (ongoing).
- Preparing for public transport enhancements in secondary cities.

CHILDCARE: About 1.5 million children are left without opportunities to access childcare services; an expansion of provision can ease constraints on many women who are willing to work.

Mothers' responsibilities as caregivers are among the major constraints that limit their ability to join the labor market. Mothers who do not work spend on average 12 hours a day on unpaid care work, while working mothers spend 8 hours a day on care work – in addition to their paid work. Thus, it is not surprising that family responsibilities are the main reason reported by mothers for not participating in the labor market.

The second State of the Mashreq Report[34] found that female labor force participation in Jordan could increase between 2.5 and 7.3 percentage points depending on whether childcare services are

[34] World Bank (2023)

provided for pay or free of charge. To inform the design of effective policies and programs, a fieldwork study (World Bank, forthcoming) was undertaken to explore both the demand and supply sides of childcare services. It sheds light on the availability, accessibility, and quality of existing childcare services, and on families' expectations of care services and willingness to pay, especially across different geographical locations.[35]

The supply of childcare services in Jordan is limited; formal services are concentrated in a few populous urban areas and are dominated by private providers. It is estimated that only 2.3 percent of children aged 0 to 5 are benefitting from formal childcare. The total capacity of licensed childcare providers can only serve less than 3 percent of children below the age of five.[36] This leaves about 1.5 million children without access to childcare services (unserved). It is estimated that Jordan would require over 40,000 additional childcare facilities to provide formal childcare services to all children under the age of five. The geographical distribution of the childcare providers indicates differences in opportunities to access formal childcare services (Figure 2.14). Three out of four childcare providers are located in the urban, populous governorates of Amman, Zarqa and Irbid. At the same time, 11 out of 51 districts are lacking any formal childcare service provision).[37] These districts that lack any childcare services, however, do not have the lowest population of children under five (Figure 2.15).

There is a sizeable untapped demand for childcare services in Jordan, which can shift women's willingness and ability to work and create new jobs for them. The uptake of childcare services is more prevalent amongst working women, especially women with higher income (JD 600+). Almost a third of mothers with children who are not using formal childcare would be willing to do so, but only half of them are willing to pay for it. Relatedly, around 73 percent of mothers with young children would be willing to work more if formal childcare services were available for a fee, and 80 percent if the services were provided for free. This expansion can also create new jobs for women: it is estimated that as many as 60,000 additional caregivers would be needed if services expand to cover one-fourth of the service gap.[38] More than half of women express interest in working in the care sector: as many as 82 percent of unemployed mothers would be willing to engage in care work. Additionally, there is need for afterschool care, in particular when both parents work outside the home, but the prevalence of this service is limited and unregulated.

[35] World Bank, forthcoming-a. A fieldwork study took place between February and July 2021, consisting of three main elements: (i) First, a national spatial analysis that compared the population of children below the age of five with the supply of services based on a list of all licensed childcare facilities provided by the Ministry of Social Development (MoSD). Second, an in-depth assessment (survey) of service providers in selected low and middle-income districts. Third, a demand assessment consisting of a household survey of mothers with children below the age of five supported by focus group discussions with mothers (users and non-users of childcare services) and fathers. Purposive sampling was used to select the districts for the second and third elements of the assessment.

[36] As of January 2021, there is slightly over 1,100 childcare facilities in Jordan with a total capacity of about 33,000 children and uneven distribution among types.

[37] These are located in the northern region (Bani Kenanah, Aghwar Shamaliya, Wasatiya, Rwaished) central region (Shoonah Janoobiyah, Dhieban) and in the south (Faqo'e, Ayy Qasaba, Mazar Janoobee, Qatraneh, and Huseineyia)

[38] Based on calculations of care provider to children ratio.

Figure 2. 12 Geographic distribution of nurseries

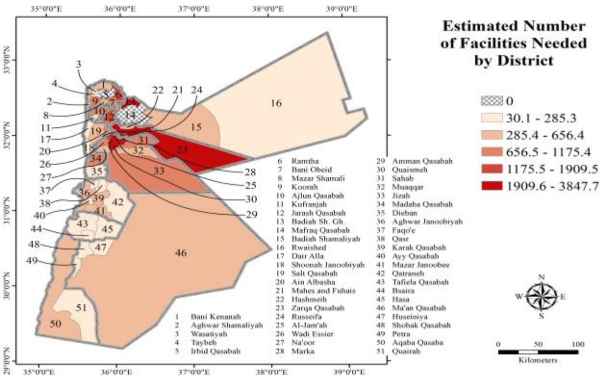
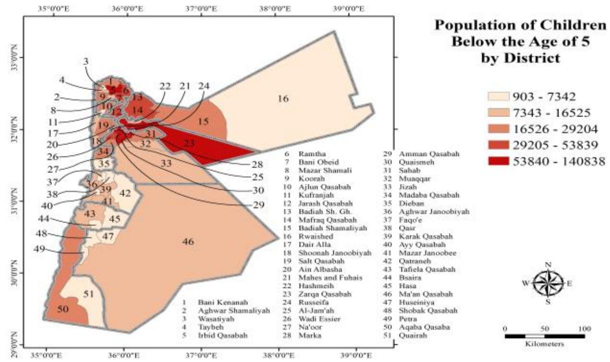


Figure 2. 13 Geographic distribution of 0-5 children

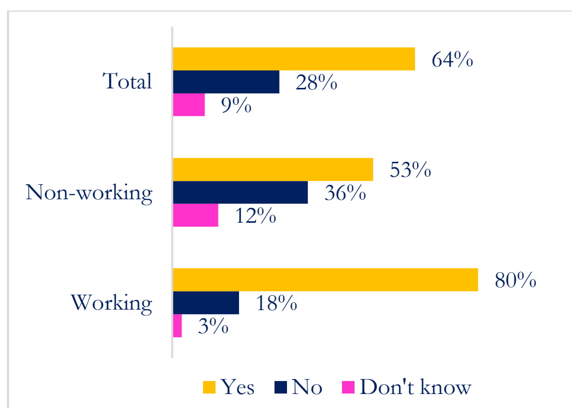


Data sources: Ministry of Social Development Records and Nurseries Spreadsheet prepared by the Ministry- January 2021 supported by phone survey.

Socio-economic status may be affecting access and uptake of childcare services, hence the need to prioritize the affordability of childcare services. The cost of childcare services available in the market is 25 percent of actual or potential labor market earnings, which means that both affordability of services and wage equity need to be prioritized. Only 13 percent of all providers have a majority of children coming from low-income households, and less than 10 percent of children enrolled in private nurseries come from low-income households. Workplace-based childcare providers present in low-income neighborhoods only serve the children of their employees and thus rarely include children from the community. However, while 64 percent of mothers in the eleven low to middle income districts - who never used childcare facilities before - showed interest in up taking childcare services (Figure 2.14), 28 are not interested. Amon these, 27 percent have particularly identified cost (19 percent) and availability of services (8 percent) as top reasons for not sending their children to childcare (Figure 2.15). The cost factor may also be related to the fact that very often (40 percent of surveyed families), the mother pays for the costs of childcare in full and pay more than one-quarter of their monthly income for childcare.

Families participating in discussion groups showed more interest in the quality of the curriculum and caregivers' capabilities than the quality of nursery infrastructure and facilities. Expectations for quality childcare facilities focused on safe environments. In Jordan, quality vary within childcare providers, in elements relating to human resources, learning, and opportunities for interaction with parents. High set up costs may also compromise service quality and increase fees. Generally, private providers comply with infrastructural legal requirements, such as square meters per child, and have the lowest child-to-caregiver ratio. As most financing goes towards rent and meeting licensing infrastructure requirements, this means that fewer financial resources are orientated towards other quality dimensions.

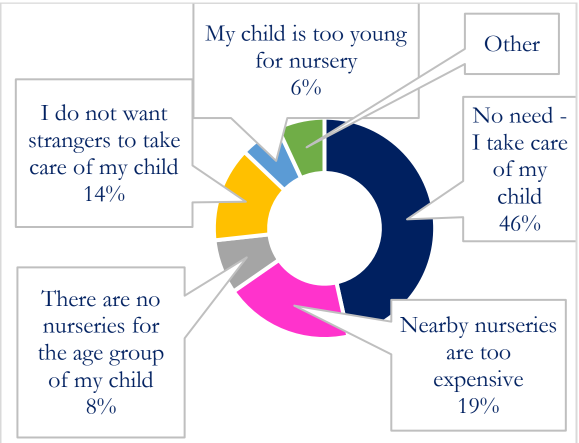
Figure 2. 14 More than two thirds of mothers are willing to up take childcare services



Demand side survey. N=224

Source: World Bank (forthcoming)

Figure 2. 15 Cost and availability are top reasons for not sending children to childcare



Source: World Bank (forthcoming)

Childcare quality in public institutions also varies, where a mere 9 percent of childcare facilities in public schools have a curriculum/program compared to over 80 percent among childcare facilities in public institutions, both serving government workers. More generally, the quality of childcare in public institutions is not well-mandated nor inspected, resulting in little incentive to improve services. In addition to these concerns over quality, not all families are able or willing to pay the current fees. Survey results also reveal that mothers expect a reservation wage higher than average wages to be able to enroll their children in nurseries. This gap between the current fees of childcare services and families' willingness to pay is large, especially outside Amman.

Despite well-established evidence for enacting employer-supported childcare, a range of legal, regulatory, organizational and financial barriers are deterring employers from adopting such practices. Workers in about 1000 private sector companies should have access to employer-supported childcare options, as per legal obligation.[39] Yet, around 80 percent of surveyed employers had no intention to provide employer-supported childcare while the remaining ones were in the process of exploring, planning or developing childcare solutions. The top reason for not taking such action is not seeing the need nor the benefits of offering this support and lack of support of senior leadership for the provision of childcare services for employees. Other challenges include regulation/legal, financial, organizational, and provisional aspects. Surveyed employers lack clarity on the organizations' liability, and the cost of building the infrastructure, while having to consider the factors such as employees' residence locations, as well as lack of space and infrastructure requirements to establish workplace nurseries. Nevertheless, companies that do provide childcare support solutions observed a significant positive impact on talent acquisition, employee's retention and satisfaction, productivity, work-life integration, increased diversity, enhanced workplace culture, controlling employee absenteeism, women's career advancement, motivation, and on helping the company to become an 'employer of choice.' [40]

TRANSPORT: six in ten non-working women identify commuting as a key barrier to working in the Greater Amman Region. An affordable, comfortable, safe, time-efficient, and reliable public transport system is key to enabling both men and women to exercise their right to work.

Most women are unable to spend long hours away from home. With the time spent on commuting being added to the time spent working, it constitutes a major factor in their calculations of the benefits and costs of a job. Many people from lower- and middle-income families, in particular, rely on the public transport system as a lifeline to reach economic opportunities. Therefore, better access to public transport can help reduce inequality by improving labor market outcomes.[41] The GoJ has been taking many steps to enhance public transport services. For example, the introduction of the country's first mass transit

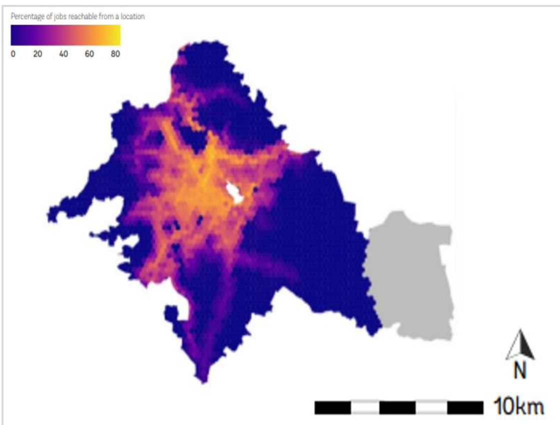
[39] Labor law (article 72) mandates that companies employing at least 20 women who have among them at least 10 children younger than four years must provide care for those children by a trained nurse at an adequate childcare facility.

[40] See for example IFC (2017) and World Bank Group (2020b).

[41] Even without counting for its impact on women's labor force participation, transport-related inefficiencies cost Jordan about USD 3 billion annually (at least 6% of GDP). Source: World Bank, 2022 C

system (Bus Rapid Transit—BRT Phase 1) in Amman and the integration of fares with feeder services in the soft operations of the BRT Phase 1 are all steps in the right direction. Yet, there are specific deficiencies in the public transport system that are preventing women from being economically active. A World Bank study focusing on the Greater Amman Region (henceforth referred to as Amman) identifies some of these key challenges.[42]

Figure 2. 16 People in the central areas of Jordan can access much larger share of jobs



Source: Alam and Bagnoli (2023)

Accessibility to jobs through public transportation and walking is low. Estimates demonstrate that on average people in Amman can only reach 18 percent of the total jobs in the metropolitan area in under 60 minutes using public transport and walking. Figure 2.16 shows that people in the central areas of Jordan can access much larger share of jobs (signified by the lighter color) than those living in the peripheral areas (signified by the darker color). This is an artifact of both jobs density and routing of public transport services.

The design and operation of the public transport system need to account for the different mobility patterns and needs of men and women. Women are less mobile than men - only 53 percent of working-age women are estimated to make at least one trip a day (a 16-pp gap with men). They are much more reliant on taxis and call cabs to meet their mobility needs, while the share of public transport usage amongst both men and women remains low. Work is the main reason for using public transport among men, while personal and other activities (including worship, social, medical, and care visits) are the main reasons for women. Among public transport users, microbuses are the dominant means of transport used by both men and women (Figure 2.17). On average, they take almost an hour and use almost two (1.8) public transport vehicles to complete a single trip. These staggering statistics point to the importance of the feeder network and the network coverage by public transit.

Six in ten non-working women identify commuting as a barrier to working, and 97 percent identify at least one transport-related constraint. Women users of public transit identify many challenges that they face, with the cost of commuting and the length of trips being the top two challenges that women report. Women users also identify the lack of comfort (including aspects like sitting space, air conditioning, ability to travel with children and shopping, ease with which buses can be boarded and alighted, wait times at transit stops, availability of bathrooms, etc.) as the top challenge that they face, in addition to waiting times at public transit stops (Figure 2.18). These findings also indicate that there is a "latent desire" to work amongst women who are currently not economically active, should the transport conditions become more favorable.

Surveys in Amman reveal that safety is one of the most important constraints to women's participation. For women, public transport stops lack the presence of guards or police, have a low number of other women present, and have poor quality pavements/sidewalks which can lead to safety concerns for them. Previous surveys[43] indicate that 62 percent of women said they were a target of some form of harassment.[44] It is estimated that a 5-percentage point improvement in safety around public transit stops in the Greater Amman

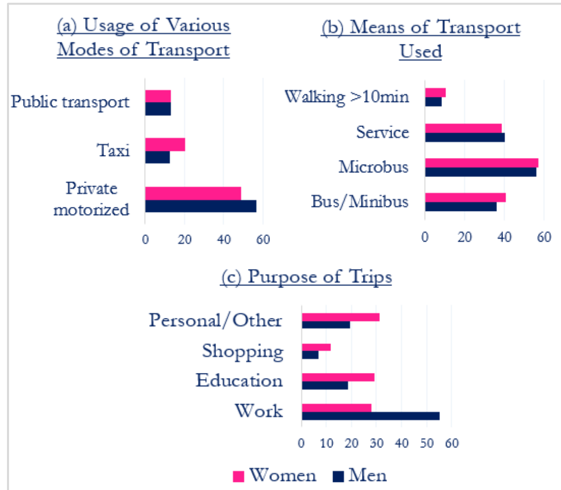
[42] Alam and Bagnoli (2023)
[43] Sadaqa (2018)

[44] The study accounts for the following forms of harassment: (a) uncomfortable/inappropriate stares, (b) verbal abuse, (c) stalking, (d) physical abuse & others.

Region would increase female labor force participation (FLFP) by 4.7 pp, from 13.6 to 18.3 among working-age women. In practice, this corresponds to 59,000 additional women in the labor force in Amman. If all the additional women looking for work were to find employment, it could lead to a total additional income of over JD 356 million per year[50], equal to a 2.3 percent increase in Amman's GDP. While safety is the most important constraint among women overall, spatial accessibility appears to constrain women from lower-income households. A 5-pp increase in the share of jobs accessible within 60 minutes using public transport and walking would increase the LFP of women from lower-income households by 6.1 pp.[45]

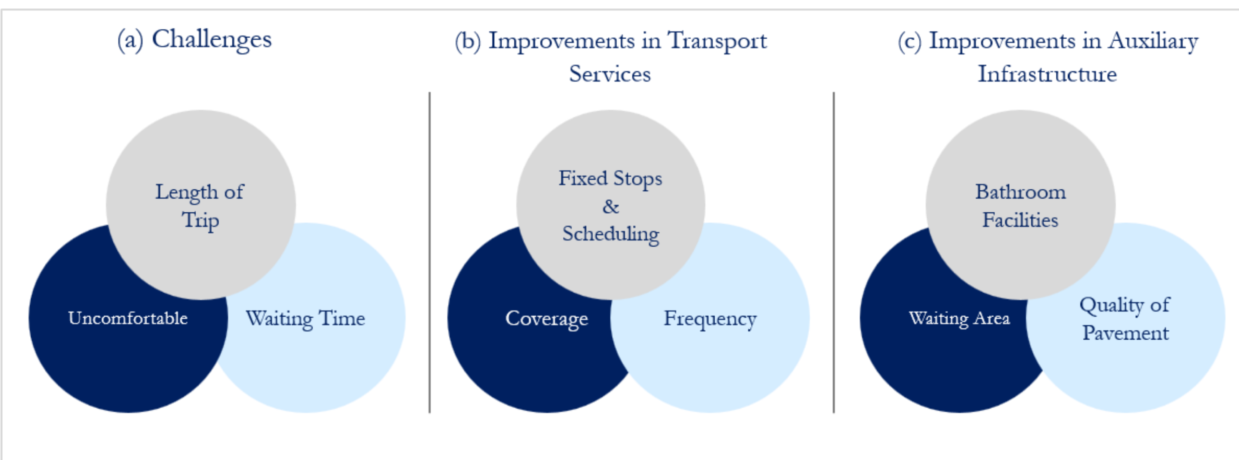
The costs of not improving public transport for women are high. Even in a scenario where all other constraints to women's access to employment were to be removed, the existing quality of public transport in Amman would not allow them to reach employment opportunities and would impede them from fully gaining employment.

Figure 2. 17 Women in Amman rely more on private transportation means



Source: Alam and Bagnoli (2023)

Figure 2. 18 Several challenges and improvements are identified by women public transport users



45 While accessibility and safety appear to affect women's likelihood of looking for a job in Amman, they seem to have little impact on their subsequent employment probability. This is consistent with the idea that while public transport is critical to improving women's access to employment opportunities, making them more likely to look for jobs actively, complementary actions are needed to translate this active participation into gainful employment. This, therefore, represents missed opportunities for women in Amman.

The Road Ahead

The evidence presented demonstrates that protecting and investing in girls' and women's capital is a prerequisite to her integration and contribution to economic development. Contrary to the current beliefs, there is still an unfinished agenda to improve girls' education, as enrolment is high but education attainment is still below expectations, with only 20 percent of women aged 25+ finishing their tertiary education. These are the most economically active. The drop in labor force participation upon marriage is more likely for women with lower levels of education (a 50 percent reduction among women with less than high school education), but declines as the level of education increases (13 percent at the postgraduate level).[46] Hence, it is essential to provide a safety net for girls within poor households, to mitigate the risk of early marriage, school dropout or jeopardized health. The road to economic participation starts with protecting the human capital of the poor.

Norms and attitudes pose a barrier in all contexts, but they can be tackled. Concerns regarding the suitability of women's employment and women's household roles can be tackled in many ways, including by circumventing the challenges that feed the stereotypes and practical factors opposition (providing care services) to allow women to work (Halim, O'Sullivan & Sahay 2023).

Global evidence suggests that impactful policy measures can deliver promising changes in women's economic participation.[47] However, there is no silver bullet, addressing one constraint is often necessary but insufficient. Instead, a full range of priorities and complementary actions are needed to improve women's access to employment opportunities, make them more likely to look for jobs actively and translate this active participation into gainful employment.

Beyond building their human capital and protecting it, improvements in two key areas (childcare provision and public transportation) can make a difference in women's ability and willingness to enter and remain in the labor market (Annex 2). Back-of-the-envelope calculations suggest that the expansion of formal childcare could result in an increase in FLFP by 2 - 7 ppt depending on whether services are provided for pay or free of charge. On public transportation, there is need to extend a well-functioning, comfortable and safe public transport system. It is estimated that improving safety in public transport by 5 percentage points could lead to a 4.7 ppt increase in FLFP, from 13.6 to 18.3 percent of working-age women.

To guide the expansion and improvement of the childcare sector, a National Policy on childcare is needed. This should bring in all relevant stakeholders and ensure system coherence to increase access to affordable, quality childcare options for families, and improved learning outcomes for children. This policy framework should indicate clear mandates and coordination mechanisms and could also identify how to improve the quality of childcare services.

Beyond the strategy, there is a need to increase the supply and access to childcare. It is necessary to consider diverse modalities of childcare provision to meet various preferences, including quality of services, operating hours and catering to different age groups. Additionally, coverage for the most vulnerable families and disadvantaged women who are willing to work should be prioritized and low-cost or free options made available. Both the supply and demand assessments reveal that there are geographic disparities and lack of overall service capacity, leaving especially disadvantaged children and families behind. Various governorates or districts could benefit from context-specific solutions. For example, urban areas can benefit from center-based nurseries of large capacity whereas areas of low population density may need smaller facilities, such run by non-profits, cooperatives and home-based nurseries.

To alleviate the burden on families - and especially working and non-working mothers, there is a need to ensure that sufficient

[46] Kasoolu *et al*, 2019

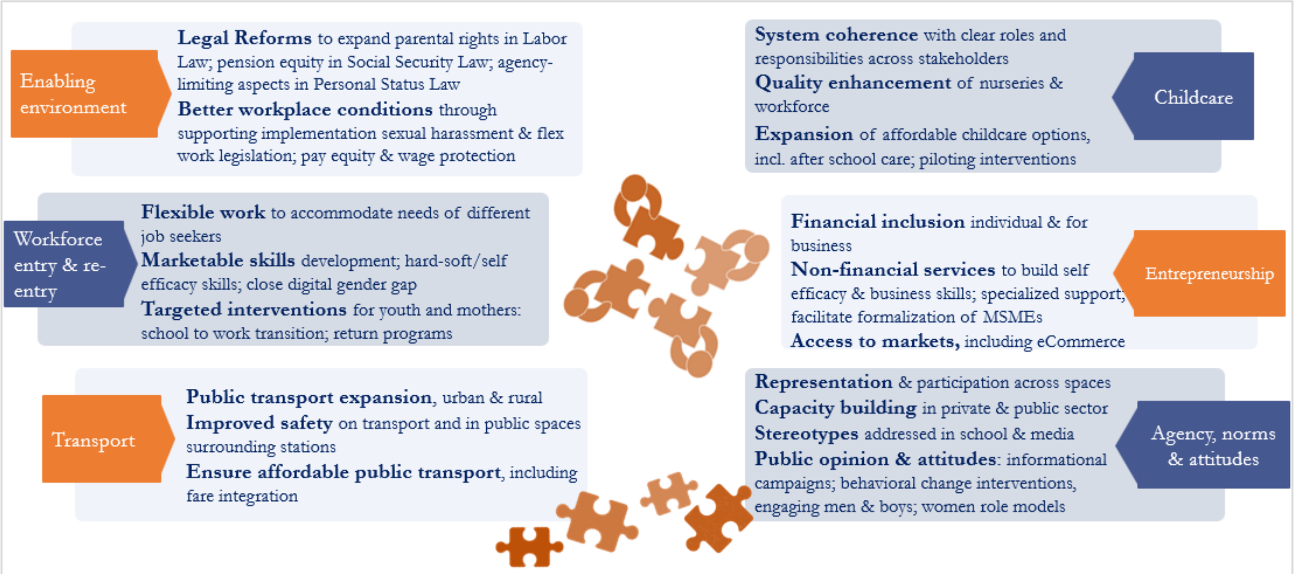
[47] See Annex 2.

financing is allocated to make quality childcare affordable and attractive. As the supply and demand assessments have shown, the financial burden disproportionately falls on families, and especially mothers, to pay fees while the burden to establish and maintain nurseries almost exclusively falls on owners to fund. Additionally, there is a need to improve the financial sustainability of the sector to reduce service costs, which affects the financial sustainability of existing nurseries as well as the incentive for expanding future supply and demand, which is particularly concerning to private nurseries. Inadequate financial resources have also subsequent implications on quality.

To improve the transport system, specific actions range from public investment in the public transit network to enhancing comfort and safety. Actions to improve the *coverage* of the public transport network include for instance the creation/enhancement of mass transit (such as BRTs), improving the feeder network, and creating integrated corridor management, increasing the frequency of service, rethinking the placement of existing public transit stops, and supporting a supply and demand analysis and a reroute based on demand. Actions for making public transport more *affordable* could include charging integrated fares for multiple legs of a public transit trip can reduce the overall cost of transport and make it more affordable. Women would also be more encouraged by improvements in the comfort of trips, for example by making it easier to travel with children, heavy bags and belongings, or with reduced physical mobility. Addressing overcrowded vehicles could also provide more comfortable for women, and so would do the improvement of waiting areas around stops and providing bathroom facilities at public transit stops. Lastly, providing a *safe* environment for women can also encourage many of them to use public transport including to work, notably through measures to enhance the visibility at public transport stops and better walkways. This would also require a code of conduct for public transport drivers and an easy mechanism to report gender-based violence as well as receive a swift response to these reports.

The GoJ has undertaken several initiatives to advance the reforms agenda on women's economic participation, but a comprehensive institutional renovation, together with enabling policies and a clear signal regarding the role of women, are all crucial in removing barriers and facilitate the integration of women into the labor force. Other countries' experience shows that a remarkable transformation is possible to achieve in a brief timeframe, provided the enabling policies are in place. It is also critically important to accelerate the structural reforms that can induce transformation in the economic landscape and help generating the necessary demand for labor through more private sector jobs creation.

Figure 2. 19 There is no silver bullet: a full range of priorities is needed to improve women's economic participation



Annex 2. Global Evidence Suggesting Impactful Policy Measures for FLFP

Intended Outcome	Challenges	Global Evidence
Safe & affordable public transport	Safety in public transport	- **Women's probability to join the labor force in developing countries:** limited access to safe transportation accounts for an estimated 16.5 percent reduction (ILO 2017). - **Infrastructure investments** that make it more convenient and safer for women to use public transport in Lima, Peru can generate important labor market impacts for women residing in those areas (Martinez et al 2018)
	Affordability of public transport	- **Women spend a higher share of their income on public transport** than men (Lecompte & Bocajero 2017), making more multi-stop trips, carrying additional luggage, often accompanied by children/elderly which forces them to rely on more expensive choices like taxis (Mejía-Dorantes & Villagrán 2019). - **Public transport pricing creates an affordability trap for women.** The high cost of traveling reduces employment avenues and market access for women, thereby reducing women's avenues to earn, and in turn makes transport unaffordable (Borker 2022).
Increased access & use of quality childcare services	Childcare policy coherence	- **Policies matter**: Ethiopia increased enrollment rates in ECE from 5% in 2010 to 80% in 2021 following policy reforms that promoted access to ECE (Kim et al. 2022; Bendini & Devercelli 2022). - **Enactment of laws**: a WB global study - included 95 countries - found that the enactment of laws governing the provision of childcare services increases FLFP by 2 pp, on average. The effect increases over time, reaching up to 4 pp after five years (Anukriti et al. 2023).
	Quality of childcare workers & nurseries	- **Increased enrolment**: Evidence from Uzbekistan (World Bank 2013) and global evidence (OECD 2017) shows a positive correlation between quality of ECE services(highly qualified pre-school teachers, fully equipped pre-schools..etc) and enrolment rates. Evidence from LAC shows that the quality of childcare services is one of the factors that determine take-up rates (Mateo Díaz & Rodriguez-Chamussy 2016); Redaelli et al 2023. - **Quality childcare impacts FLFP**: Evidence from Germany shows that women whose children are enrolled in high-quality ECE services showed a significant increase in working hours compared to those who don't (Stahl & Schober 2019).
	Expansion of childcare options	- **Reduced women's time constraints:** global evidence suggests that access to childcare and preschools reduces women's time constraints, allowing increase in women's employment and household income (Evans, Jakiela, & Knauer 2021). In Indonesia, an additional public preschool per 1,000 children in a district increases women's work participation by 9.1 percent (Halim, Johnson, & Perova 2022; Cali 2022). - **A range of interventions have proven effective:** Provision of voucher to access childcare services at established childcare centers in Kenya led to a 17 percent increase in maternal employment (Clark, Kabiru, Laszlo & Muthuri 2019). Provision of after school childcare (3 hours after school) in Chile led to a 6 ppts increase in maternal employment (Martínez & Perticará 2017). Provision of access to childcare centers in rural DRC led to an 11 ppts increase in women's participation in commercial agriculture (Donald & Vaillant Forthcoming). In South Africa, an expansion pilot provided targeted subsidies to existing NGO and private childcare providers catering to the poor was proven highly cost-effective, leading to a large expansion in access for the poor (Biersteker 2010).

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