JORDAN ECONOMIC MONITOR

Strength Amidst Strain: Jordan’s Economic Resilience

Summer 2024

PROSPERITY

Middle East and North Africa

THE WORLD BANK

Jordan
Economic Monitor

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Jordan's Economic Resilience

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Middle East and North Africa Region

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TABLE OF CONTENTS

List of Figures

List of Tables

List of Boxes

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 cut-off data for this Jordan Economic Monitor is 10 July-2024.

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 Zeina Alsharkas (Economist, MTI), with significant contribution from Ramy Oraby (Consultant), Erwin Knippenberg (Economist), Sarah Farid and Xinyue Wang (Consultants).

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The findings, interpretations, and conclusions expressed in this Monitor are those of the World Bank staff and do not necessarily reflect the views of the Executive Board of The World Bank or the governments they represent.

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ACRONYMS AND ABBREVIATIONS

5M-2024	First five months of 2024
5M-2023	First five months of 2023
CAD	Current Account deficit
CBJ	Central Bank of Jordan
CG	Central Government
CPI	Consumer Price Index
COVID-19	Coronavirus Disease 2019
DoS	Department of Statistics
FDI	Foreign direct investment
GDP	Gross Domestic Product
GoJ	Government of Jordan
GNFS	Goods and nonfactor services
JEM	Jordan Economic Monitor
JD	Jordanian Dinar
LHS	Left-hand-side
MENA	Middle East and North Africa
MOF	Ministry of Finance
MTI	Macroeconomics, Trade and Investment
NDA	Net domestic assets
NEPCO	National Electricity Power Company
NFA	Net foreign assets
Q1	First Quarter
Q2	Second Quarter
Q4	Fourth Quarter
T-bills	Treasury bills
T-bonds	Treasury bonds
ToT	Terms of Trade
REER	Real Effective Exchange Rate
RHS	Right-hand-side
SDR	Special drawing rights
ToT	Terms of Trade
SSC	Social Security Corporation
SSIF	Social Security Investment Fund
UNHCR	United Nations High Commissioner for Refugees
U.S.	United States
USD	United States Dollar
WAJ	Water Authority of Jordan
WB	World Bank
WBG	World Bank Group

EXECUTIVE SUMMARY

Jordan's economy demonstrated resilience in 2023, achieving modest growth amidst a challenging regional environment. Real GDP growth accelerated to 2.7 percent in 2023, up from 2.6 percent in 2022. Economic growth was broad-based, with manufacturing growth hitting a record high, and robust performances in services and agriculture. In the services sector, restaurants and hotels recorded the second highest growth since 2017. Going forward, growth is expected to slow to 2.4 percent in 2024 affected by the conflict in the Middle East, with a slight recovery to 2.6 percent projected thereafter.

Despite the (small) economic growth acceleration, labor market outcomes remain sluggish, with some signs of improvement in the second half of 2023. Unemployment continued to decline for the second consecutive year, reaching 22.0 percent in 2023, compared to 22.8 percent in the previous year. This included a decline in both males and female unemployment. More recently, the unemployment rate was stable at 21.4 percent in Q1-2024, unchanged from its level in the previous quarter. Labor force participation, however, declined for the second consecutive year, recording 33.2 percent in 2023, compared to 33.4 percent in 2022. Female labor force participation recorded 14.0 percent in 2023, broadly unchanged since 2021, staying among the lowest in the world. More recently, female participation increased to 15.5 percent in Q1-2024, which remains lower than the regional average. Despite the lower annual average, the labor force participation inched up slightly in the last quarter of 2023, supported by an increase in female participation.

In line with global trends, inflation decelerated significantly in 2023 and is expected to remain contained in 2024. Headline inflation rate decelerated to 2.1 percent in 2023, down from an average of 4.2 percent in the previous year. The deceleration was supported by a favorable base effect, favorable international commodity prices and monetary policy tightening. Policy rates were held unchanged at 7.25 percent since July 2023, while real interest rates remain positive. Looking forward, inflation is anticipated to remain contained in 2024, supported by the lagged effects of monetary policy tightening and relatively stable international commodity prices, notwithstanding some transitory impact from the conflict in the Middle East, including higher international oil prices as well as higher shipping costs due to the Red Sea disruptions.

Fiscal consolidation continued in 2023, mainly driven by a reduction in current expenditure, while debt levels remained elevated. The Central Government's fiscal deficit narrowed by 0.5 percentage points to 5.1 percent of GDP in 2023. The decline was supported by lower expenditure, which outweighed the drop in revenues. Expenditure reduction was largely due to the phasing out of fuel subsidies, despite an increase in interest payments and capital expenditure. Meanwhile, revenues went down as both tax revenues and foreign grants declined, despite an increase in non-tax revenue. Despite fiscal consolidation, both consolidated and unconsolidated general government debt levels continued to rise, reaching 89.2 percent of GDP and 113.8 percent of GDP, respectively, in 2023, with foreign currency debt being a significant contributor.

Going forward, fiscal consolidation is expected to proceed slowly. Key drivers are revenue-boosting measures and a potential easing of monetary policy supporting higher domestic revenues. The primary (i.e., excl. interest payments) fiscal deficit is expected to narrow further in 2024 and to turn into a small surplus by 2025. Higher interest payments are expected to cause a slight increase in the overall fiscal deficit in 2024 but it is then expected to resume its narrowing in subsequent years. While financial challenges in the electricity and water sectors are projected, under current policies, to keep the unconsolidated general government debt level elevated in the near term, consolidated debt is projected to decline gradually.

The external sector improved markedly in 2023, with the current account deficit narrowing to the lowest level since 2019, supported by a lower trade deficit and a surge in tourism receipts. The current account deficit narrowed to 3.7 percent of GDP in 2023, down from 7.8 percent of GDP in the previous year. This was driven by a lower trade deficit as a contraction in imports which was supported by favorable prices outpaced the decline in exports. Moreover, the services surplus increased following record high travel receipts that reached 14.5 percent of GDP in 2023. The capital and financial account surplus also increased in 2023, mainly due to a significant rise in portfolio investments due to a USD1.25 billion Eurobond issuance by MoF. This outpaced the decline in FDIs and other investment in 2023, relative to the previous year. The improvement in the current account deficit and larger capital and financial account surplus supported the increase in CBJ's gross usable foreign reserves, which reached USD 17.3 billion (around 7.0 months of imports) at the end of 2023.

The economic impact of the current conflict in the Middle East has been broadly contained so far, but a longer and/or broader conflict would likely have a bigger impact in 2024. Real GDP growth continued to decelerate to reach 2.0 percent in Q1-2024, down from 2.3 percent in Q4-2023 and 2.7 percent in Q3-2023. The deceleration since Q3-2023 was mainly due to lower contribution from sectors with higher exposure to the conflict and the associated trade disruption in the Red Sea, such as transport and communication, manufacturing, wholesale and retail trade, and restaurants and hotels. The unemployment rate was stable at 21.4 percent in Q1-2024, unchanged from its level in the previous quarter. The current account deficit widened by USD310.2 million on annual basis to USD1.1 billion in Q1-2024 due to lower travel receipts and higher trade deficit. High-frequency indicators point to a significant decline in both import and export volumes through the Aqaba port between January and May 2024, notwithstanding some recovery in March 2024.

Jordan's EMBI spreads reverted to its pre-October 7, 2023 levels by December 2023, after a transitory spike in October and November 2023. S&P affirmed its 'BB–' long- and short-term foreign and local currency sovereign credit ratings on Jordan with a stable outlook in September 2024. Moody's upgraded Jordan's sovereign credit ratings to 'Ba3' from 'B1' with a stable outlook in May 2024, the first upgrade by Moody's since 2003.

Tourist arrivals between October 2023 and June 2024 have declined by 7.5 percent compared with the same period in the previous year, but have been gradually recovering on annual terms since March 2024. The most significant decreases were seen in November 2023 with the start of the ground operations in Gaza and March 2024 with the seasonal impact of fewer tourists during the holy month of Ramadan recording annual decline rates of 16.3 percent and 25.6 percent, respectively. Since the trough in March 2024, total tourist arrivals have been recovering on an annual basis, registering the first annual increase at 1.5 percent in June 2024.

Primary fiscal surplus (excluding foreign grants) declined by 5.6 percent on annual basis

in 5M 2024 as fiscal consolidation slows down affected by the conflict. The overall fiscal deficit of the central government (CG) widened by 34.5 percent on annual basis in 5M-2024. This was mainly due to an annual increase in interest payments and an annual decline in income and profit tax revenue, which offset higher foreign grants, sales tax revenue and non-tax revenue. In addition to the deceleration of economic activity growth, the decline in trade volumes through the Aqaba port following the eruption of the conflict, the government of Jordan introduced a temporary exemption on custom duties and sales taxes on sea shipping costs in January 2024 to help contain the impact of high shipping costs attributed to trade disruptions in the Red Sea.

Jordan's medium-term outlook is weighed by uncertainties surrounding the conflict in the Middle East. While the broader economy has so far shown some resilience, trade has been disrupted and tourism has been adversely impacted by the conflict. A sustained impact on travel could reverse recent improvements in the external sector. Wider disruptions coming from across the border would pose further risks to trade, oil prices, and consumer behavior changes.

الملخص التنفيذي

أظهر الاقتصاد الأردني صلابة في عام 2023 وسط بيئة إقليمية صعبة. فقد تسارع نمو الناتج المحلي الإجمالي الحقيقي إلى 2.7٪ في عام 2023، مقابل 2.6٪ في عام 2022. وشمل النمو الاقتصادي في عام 2023 جميع القطاعات، حيث سجل معدل نمو الصناعات التحويلية ارتفاعا قياسيا وحقق قطاعي الخدمات والزراعة أداء قويا في عام 2023. ففي قطاع الخدمات، سجلت المطاعم والفنادق ثاني أعلى معدل نمو لها منذ عام 2017. وفي المرحلة المقبلة، من المتوقع أن يتباطأ النمو إلى 2.4٪ في عام 2024 متأثرا بتداعيات الصراع في الشرق الأوسط، مع توقع انتعاش طفيف إلى 2.6٪ بعد ذلك.

على الرغم من التسارع البسيط فى وتيرة النمو الاقتصادي، لا يزال انعكاس ذلك على مؤشرات سوق العمل ضعيفا في عام 2023، مع وجود بعض التحسن في النصف الثانى من العام. استمر معدل البطالة في الانخفاض للعام الثاني على التوالي، حيث سجل 22.0٪ في عام 2023، مقابل 22.8٪ في العام السابق. وشمل الانخفاض كلا من الذكور والإناث. مؤخراً، كان معدل البطالة ثابتًا عند 21.4٪ في الربع الأول من عام 2024، دون تغيير عن مستواه في الربع السابق. ولكن من ناحية أخرى، استأنف معدل مشاركة القوى العاملة فى سوق العمل تراجعه للعام الثاني على التوالي، حيث سجل 33.2٪ في عام 2023، مقابل 33.4٪ في العام السابق. وسجلت مشاركة الإناث 14.0٪ في عام 2023، دون تغيير يذكر منذ عام 2021، لتبقى من بين أدنى المعدلات في العالم. وفي الآونة الأخيرة، زادت مشاركة الإناث إلى 15.5٪ في الربع الأول لعام 2024، وهي لا تزال أقل من المتوسط الإقليمي. وعلى الرغم من انخفاض المتوسط السنوي، ارتفعت نسبة المشاركة في القوى العاملة ارتفاعا طفيفا في الربع الأخير من عام 2023، مدعومة بزيادة مشاركة المرأة.

وتماشياً مع الاتجاهات العالمية، تراجع التضخم بشكل كبير في عام 2023 ومن المتوقع أن يظل تحت السيطرة في عام 2024. تراجع معدل التضخم العام إلى 2.1٪ في عام 2023، منخفضا من متوسط قدره 4.2٪ في العام السابق. وكان هذا التباطؤ مدعوما بتأثير فترة الأساس وانخفاض الأسعار العالمية للسلع وتشديد السياسة النقدية. كما ظلت أسعار الفائدة الأساسية دون تغيير عند مستوى 7.25٪ منذ تموز 2023، في حين ظلت أسعار الفائدة الحقيقية عند مستويات موجبة. ومن المتوقع أن يظل التضخم تحت السيطرة في عام 2024، مدعوما بالآثار الممتدة لتشديد السياسة النقدية والاستقرار النسبي للأسعار العالمية للسلع، على الرغم من بعض الآثار المؤقتة للصراع في الشرق الأوسط، بما في ذلك ارتفاع أسعار النفط العالمية، فضلا عن ارتفاع تكاليف الشحن بسبب الاضطرابات في البحر الأحمر.

واستمر ضبط أوضاع المالية العامة في عام 2023، مدعوما في المقام الأول بانخفاض النفقات الجارية، في حين ظلت مستويات الدين مرتفعة. تقلص عجز الموازنة العامة للحكومة المركزية بمقدار 0.5 نقطة مئوية إلى 5.1٪ من الناتج المحلي الإجمالي في عام 2023. وكان هذا الانخفاض مدعوما بانخفاض الإنفاق، الذي فاق الانخفاض في الإيرادات. ويعزى انخفاض الإنفاق إلى حد كبير إلى الإلغاء التدريجي لدعم الوقود، على الرغم من زيادة مدفوعات الفائدة والنفقات الرأسمالية. وفي الوقت نفسه، انخفضت الإيرادات — كنسبة من الناتج المحلي الاجمالي — مع تراجع كل من الإيرادات الضريبية والمنح الأجنبية، على الرغم من زيادة الإيرادات غير الضريبية. وعلى الرغم من استمرار ضبط أوضاع المالية العامة، استمرت مستويات الدين الحكومي الموحد وغير الموحد في الارتفاع، لتصل إلى 89.2٪ من إجمالي الناتج المحلي الإجمالي و113.8٪ من إجمالي الناتج المحلي الإجمالي، على الترتيب في عام 2023، وكان ارتفاع الدين بالعملات الأجنبية مساهما كبيرا في ذلك.

وفي المرحلة المقبلة، ومن المتوقع أن يستمر ضبط أوضاع المالية العامة وان كان بوتيرة أقل نسبيا، مدعوما بزيادة الإيرادات المحلية نتيجة اتخاذ تدابير لتعزيز الإيرادات وتخفيف محتمل للسياسة النقدية. ومن المتوقع أن يتقلص عجز المالية العامة الأولي في عام 2024 وأن يتحول إلى فائض صغير بحلول عام 2025. ومن المتوقع أن يؤدي ارتفاع مدفوعات الفائدة إلى زيادة طفيفة في العجز الكلي

في عام 2024، ولكن من المتوقع بعد ذلك أن يستأنف انخفاضه في السنوات اللاحقة. وفي حين أن التحديات المالية في قطاعي الكهرباء والمياة قد تبقي مستوى دين الحكومة العامة غير الموحد مرتفعا في المدى القريب، فمن المتوقع أن ينخفض مستوى دين الحكومة العامة الموحد تدريجيا.

وشهد القطاع الخارجي تحسنا ملحوظا في عام 2023، مع تقلص عجز الحساب الجاري إلى أدنى مستوى له منذ عام 2019، مدعوما بانخفاض العجز التجاري وطفرة في عائدات السياحة. وتقلص عجز الحساب الجاري إلى 3.7٪ من الناتج المحلي الإجمالي في عام 2023، منخفضا من 7.8٪ من الناتج المحلي الإجمالي في العام السابق. وكان ذلك مدفوعا بانخفاض العجز التجاري حيث فاق انكماش الواردات — الذي دعمه تحسن الأسعار العالمية للسلع — الانخفاض في الصادرات. علاوة على ذلك، زاد فائض الخدمات في أعقاب ارتفاع قياسي في عائدات السفر التي بلغت 14.5٪ من الناتج المحلي الإجمالي في عام 2023. كما زاد فائض حساب رأس المال والحساب المالي في عام 2023، ويرجع ذلك أساسا إلى الارتفاع الكبير في استثمارات المحافظ بسبب إصدار وزارة المالية سندات دولية بقيمة 1.25 مليار دولار. وهو ما حد من تأثير انخفاض الاستثمارات الأجنبية المباشرة والاستثمارات الأخرى في عام 2023، مقارنة بالعام السابق. وساهم التحسن في عجز الحساب الجاري وزيادة الفائض في حساب رأس المال والحساب المالي في زيادة احتياطيات النقد الأجنبي القابلة للاستخدام لدى البنك المركزي الأردني، والتي بلغت 17.3 مليار دولار (حوالي 7.0 أشهر من الواردات) في نهاية عام 2023.

حتى الآن، تم احتواء التأثير الاقتصادي للصراع الحالي في الشرق الأوسط بشكل كبير، ولكن اطالة امد الصراع و/أو أتساع نطاقه قد ينتج عنه تأثيرا اقتصاديا أكبر من المتوقع في السيناريو الأساسي لعام 2024. واصل نمو الناتج المحلي الإجمالي الحقيقي تراجعه ليصل إلى 2.0٪ في الربع الأول من عام 2024، منخفضا من 2.3٪ في الربع الأخير من عام 2023 و2.7٪ في الربع الثالث من عام 2023. ويرجع التباطؤ منذ الربع الثالث من عام 2023 في المقام الأول إلى انخفاض مساهمة القطاعات الأكثر تأثرا بالصراع وما يرتبط به من تعطل للتجارة في البحر الأحمر، مثل النقل والاتصالات، والصناعات التحويلية، وتجارة الجملة والتجزئة، والمطاعم والفنادق. واستقر معدل البطالة عند 21.4٪ في الربع الأول لعام 2024، دون تغيير عن مستواه في الربع السابق. واتسع عجز الحساب الجاري بمقدار 310.2 مليون دولار على أساس سنوي ليصل إلى 1.1 مليار دولار في الربع الأول من عام 2024 بسبب انخفاض عائدات السياحة وارتفاع العجز التجاري. وتشير المؤشرات إلى انخفاض كبير في كل من حجم الواردات والصادرات عبر ميناء العقبة بين يناير ومايو 2024، على الرغم من حدوث بعض الانتعاش في مارس 2024.

كما عادت هوامش مؤشر سندات الأسواق الناشئة الخاصة بالأردن — والتى تعكس المخاطر السيادية — إلى مستويات ما قبل 7 تشرين الأول 2023 بحلول كانون الأول 2023، بعد ارتفاع مؤقت في تشرين الأول وتشرين الثاني 2023. وأكدت S&P تصنيفها الائتماني السيادي طويل وقصير الأجل بالعملة الأجنبية والمحلية الخاص بالأردن عند مستوى «–BB»، مع نظرة مستقبلية مستقرة في آذار 2024. ورفعت وكالة موديز في أيار 2024 التصنيف الائتماني السيادي للأردن من «B1» إلى «Ba3» وذلك للمرة الأولى منذ عام 2003 مع نظرة مستقبلية مستقرة.

انخفض عدد السائحين الوافدين بين تشرين الأول 2023 وحزيران 2024 بنسبة 7.5٪ مقارنة بالفترة نفسها من العام السابق، لكنه يتعافى تدريجيا على أساس سنوي منذ آذار 2024. وكانت أكبر الانخفاضات — علي أساس سنوي — في تشرين الثاني 2023 مع بدء العمليات البرية في غزة, و آذار 2024 مع التأثير الموسمي لانخفاض عدد السائحين خلال شهر رمضان المبارك حيث سجل عدد السائحين انخفاض سنوي بلغ 16.3٪ و25.6٪ على الترتيب. وبعد تحقيق أدنى مستوى في مارس/آذار 2024، بدء تعافى عدد السائحين الوافدين على أساس سنوي، ليسجل أول زيادة سنوية بلغت 1.5٪ في حزيران 2024.

انخفض الفائض الأولي للمالية العامة (بعد استبعاد المنح) بنسبة 5.6٪ على أساس سنوي في الأشهر الخمسة الأولى من عام 2024 مع تباطؤ ضبط أوضاع المالية العامة بفعل الصراع. واتسع العجز الكلي للحكومة المركزية بنسبة 34.5٪ على أساس سنوي في الأشهر الخمسة الأولى من عام 2024. ويرجع ذلك في المقام الأول إلى ارتفاع مدفوعات الفائدة وانخفاض إيرادات ضريبة الدخل والأرباح على أساس سنوي ، مما حد من تأثير ارتفاع المنح الأجنبية وإيرادات ضريبة المبيعات والإيرادات غير الضريبية علي أساس سنوي. بالإضافة إلى تباطؤ نمو النشاط الاقتصادي وانخفاض حجم التجارة عبر ميناء العقبة في أعقاب اندلاع الصراع، فقد طبقت الحكومة الأردنية إعفاء مؤقتا من الرسوم الجمركية وضرائب المبيعات على تكاليف الشحن البحري في كانون الثاني 2024 للمساعدة في احتواء تأثير ارتفاع تكاليف الشحن الناجم عن تعطل التجارة في البحر الأحمر.

الآفاق الاقتصادية للأردن على المدى المتوسط مثقلة بعدم اليقين المحيط بالصراع في الشرق الأوسط. على الرغم من أن الاقتصاد الأردني أظهر بعض الصلابة، إلا أن التجارة تعطلت وتأثرت السياحة سلباً بسبب الصراع. قد يؤدي استمرار التأثير على عائدات السفر إلى عكس التحسنات الأخيرة في القطاع الخارجي. كما أن أي اضطرابات أوسع تأتي من عبر الحدود ستشكل مخاطر إضافية على التجارة وأسعار النفط وتغيرات في سلوك المستهلك.

1

RECENT ECONOMIC DEVELOPMENTS

1. Real Sector and Labor Market

Jordan's economy continued to grow despite decelerating affected by the conflict in the Middle East. Labor market outcomes remained weak, despite slight recent improvement.

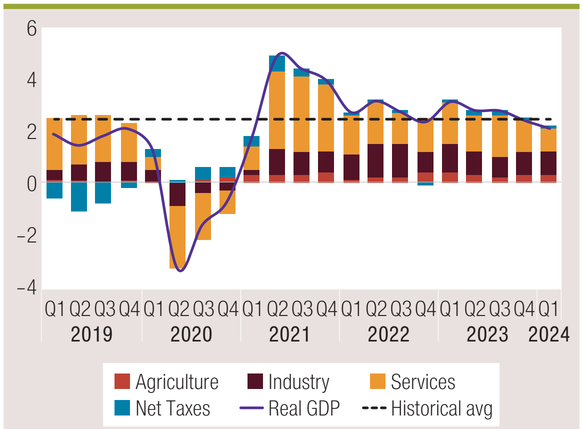
Economic growth continued to decelerate following the onset of the conflict in the Middle East, driven mainly by lower contribution from the services sector. After recording a 2.7 percent growth rate prior to the conflict,[1] real GDP growth rate slowed down to 2.3 percent in Q4-2023 and 2.0 percent in Q1-2024 (Figure 1). The deceleration since Q3-2023 was mainly driven by a lesser contribution from sectors with higher exposure to the conflict and the associated trade disruption in the Red Sea, such as transport and communication, manufacturing, wholesale and retail trade, and restaurants and hotels.

Despite slower growth in Q4-2023, Jordan's economy maintained modest growth in 2023. Real GDP growth rate accelerated by 0.1 p.p. to 2.7 percent in 2023. The economic growth was broad-based, with manufacturing registering a record high, while other sectors sustained strong performance. Manufacturing witnessed a notable pickup in both its annual growth (3.6 percent—the highest since 2011) and its contribution to GDP growth (0.6 percentage points) during 2023. In services, restaurants and hotels recorded its second highest growth (5.2 percent) since 2017, which benefited from record-high travel receipts in 2023, particularly pre-October 2023. Mining and quarrying maintained its growth, registering 5.6 percent in 2023. Despite a slight slowdown in the second half of 2023, agriculture experienced a robust growth of 5.9 percent in 2023, up from 3.9 percent in 2022, which coincided with a strong growth in agricultural exports, particularly fruits and vegetables in 2023 and the recovery of rainfall volume in the previous season[2] (Figure 2).

1 DoS has revised national accounts data for 2022 and 2023. Real GDP growth rate for 2022 was adjusted to 2.6% (previously 2.4%), and for 2023 to 2.7% (previously 2.6%), with slight changes in sectoral decomposition.

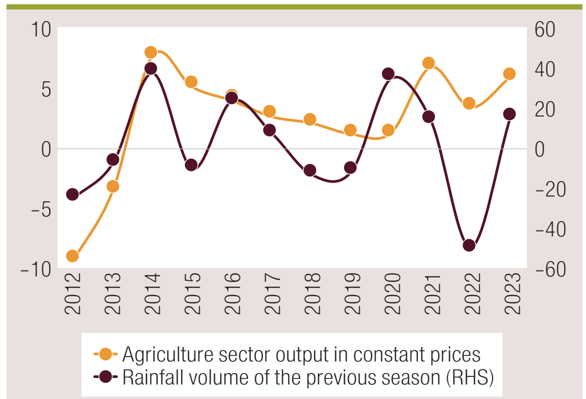
2 According to Jordan Meteorological Department, the rainy season usually lasts from Mid-September to May.

FIGURE 1 • Economic Activity Continued to Slow Down in Q1-2024
(percent/percentage points)



Source: DoS and World Bank staff calculations.

FIGURE 2 • Agriculture Sector Growth Acceleration in 2023 Coincided with the Recovery of Rainfall Volumes
(percent)

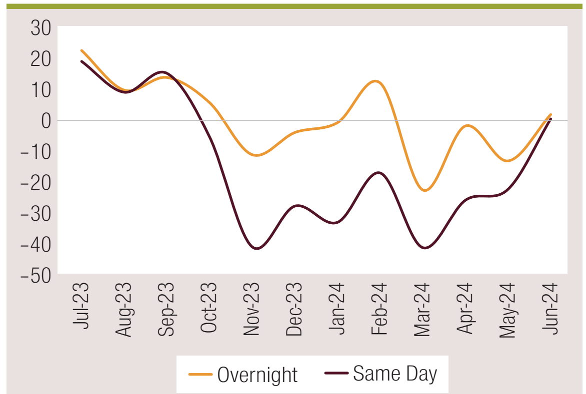


Source: DoS, Ministry of Water and Irrigation and World Bank staff calculations.

While business travel and tourist arrivals thrived in Jordan during the first nine months of 2023, the conflict in the Middle East caused a sharp drop in tourism, particularly single-day visits, before recovering in June 2024. Similar to other countries in the region, travel for all purposes and across nationalities continued to expand in 9M-2023, with total arrivals reaching 5,058,744, surpassing pre-COVID levels and peak levels in Q3-2022. However, a steep decline was witnessed in November 2023, most notably for non-Arab travelers following the eruption of the conflict (both the numbers overnight and single day tourists have contracted). The number of single-day tourists, who are often part of packaged tours that also include stops in Israel, dropped by 27.8 percent between October 2023 and March 2024, compared to the same period in the previous years (Figure 3). In contrast, the number of overnight tourists fell by a relatively modest 3.9 percent during the same period, as it is less sensitive to the first-round effect from the conflict compared to single-day tourists. Since the trough in March 2024, both overnight and single-day arrivals have been recovering on an annual basis, registering the first increase in June 2024, with overnight arrivals up by 1.8 percent and single-day arrivals by 0.4 percent.

Labor market outcomes slightly improved in Q4-2023 following three consecutive quarters of decline. Labor force participation improved to

FIGURE 3 • Tourist Arrivals Showing Signs of Recovery after Reaching a Trough in March 2024
(percent)



Source: Ministry of Tourism & Antiquities and World Bank staff calculations.

34.1 percent in Q4-2023, driven mainly by higher female participation at 15.1 percent in Q4-2023. Meanwhile, unemployment declined slightly to 21.4 percent in Q4-2023, yet it remained above the pre-COVID average.

Despite favorable growth outcomes during 2023, low female participation and high unemployment among the young and highly educated continue to weigh on overall labor market outcomes. Notwithstanding the improvement in Q4-2023, overall labor force participation continued to deteriorate to 33.2 percent in 2023, down from its peak of 39.2 percent in 2017, significantly below the global and regional averages. Women labor force participation rate stood at only 14.0 percent and the overall participation rate among holders of bachelor's degree and higher levels of education has been trending downwards since 2017. The overall employment rate improved slightly to 25.9 percent in 2023, yet it remains below pre-pandemic levels. The unemployment rate has improved to 22.0 percent in 2023, with slight declines for both men and women, in particularly youth. However, unemployment level remains disproportionately high among women (relative to men) and young[3] (relative to older age groups), at 30.7 percent and 46.0 percent in 2023, respectively. Addressing low participation rates and high unemployment, especially among these groups, would help unlock Jordan's economic potential.

While both unemployment and participation rates remained unchanged in Q1-2024, female unemployment rose in association with higher female participation. The unemployment rate recorded 21.4 percent in Q1-2024, unchanged from the previous quarter. This was driven by lower male unemployment, which offset the increase in female unemployment in Q1-2024. Male unemployment rate continued to decline for the third consecutive quarter to record 17.4 percent in Q1-2024, which is the lowest rate since Q3-2019. On the other hand, female unemployment rose by 4.9 p.p. to 34.7 percent in Q1-2024, which is the highest rate since 2017. Higher female unemployment rate was associated with an increase in female participation for the second consecutive quarter to 15.5 percent in Q1-2024, which is the highest level since Q3 2018. Meanwhile male participation declined marginally by 0.1 percent to 53.7 percent in Q1 2024, relative to the previous quarter.

The projected slowdown in economic growth, combined with the continued lack of opportunities in the formal labor market will particularly affect those relying on informal employment who have little job security. The latest poverty rates available date back to 2018 (15.7 percent in July 2018). Limited private sector job creation, segmented labor markets, high informality, and low labor productivity continue to suppress households' real income growth.

The refugee population in Jordan is particularly vulnerable to the economic slowdown, and also faces the effect of cutbacks in humanitarian assistance. According to the 2024 Vulnerability Assessment Framework (UNHCR with WBG inputs), 67.0 percent of registered refugees live under the poverty line in 2023, up from 57.0 percent in 2021.[4] Poverty rates among this population have likely increased in the past two years due to cut-backs in humanitarian assistance and the increased cost of utilities.

2. Public Finance Developments

Fiscal consolidation resumed in 2023 due to lower current expenditure, but slowed down in 5M-2024, with domestic revenue growth decelerating, affected by the conflict in the Middle East

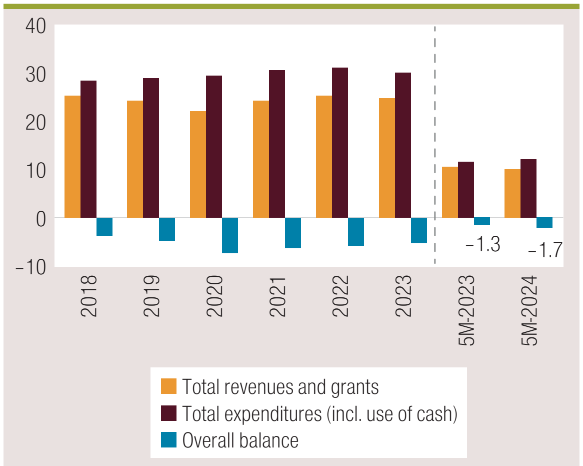
Fiscal consolidation continued in 2023 supported by lower public expenditure. The overall deficit of the Central Government (CG) narrowed to 5.1 percent in 2023, compared to 5.6 percent in 2022 (Figure 4). The improvement has been supported by a decline in the total expenditure by 1.0 percentage points of GDP, which more than offset a 0.2 percentage points of GDP decline in revenues in 2023, relative to the previous year. The primary deficit (excluding grants) also narrowed to 2.4 percent of GDP in 2023, compared to 3.8 percent in the previous year.

Total revenues (as a percent of GDP) declined in 2023, driven by lower sales tax revenue and foreign grants, despite the increase in income tax revenue and non-tax revenue. Total revenues (including grants) recorded 25.3 percent of GDP in 2023, down from 25.7 percent of GDP in 2022 (Figure 5). Tax revenues declined marginally to 17.1 percent of GDP in 2023, relative to 17.5 percent

[3] Between ages 15–24.

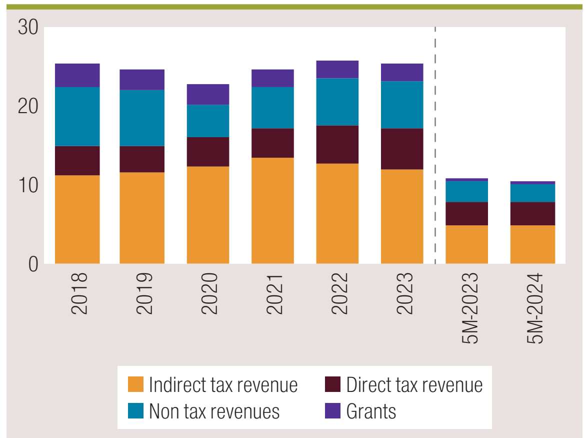
[4] Available at: https://data.unhcr.org/en/documents/details/109075.

FIGURE 4 • CG Fiscal Deficit Widened on Annual Basis in 5M-2024
(percent of GDP)



Source: MoF and WB staff calculations.

FIGURE 5 • Despite Higher Grants, Revenues in 5M-2024 Were Affected by Lower Income and Profit Tax Revenue
(percent of GDP)

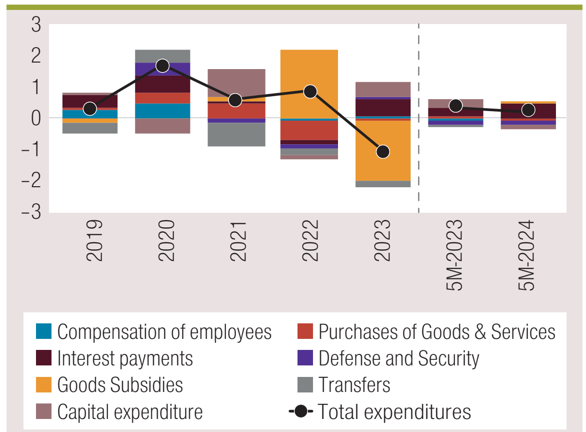


Source: MoF and WB staff calculations.

of GDP in 2022. This was mainly driven by a 0.8 percentage points decline in sales tax revenue, affected mainly by the decline in the value of imports pre- and post- October 2023, which more than offset the 0.4 percentage points of GDP improvement in income and profit tax revenue. Non-tax revenue increased by 0.2 percentage points of GDP to record 6.2 percent of GDP, mainly driven by higher property income. Meanwhile, foreign grants declined to 2.0 percent of GDP, relative to 2.3 percent of GDP in 2022.

Total expenditure declined, supported by the phasing out of fuel subsidies, despite higher interest payments and capital expenditure. Total expenditure shrank by 1.0 p.p. of GDP to 30.4 percent of GDP in 2023. This was driven by lower current expenditure, despite higher capital expenditure. Current expenditure recorded 26.6 percent in 2023, down from 28.0 percent in 2022. This was mainly driven by the phasing out of fuel subsidies that were introduced in 2022 following the Russian invasion of Ukraine, which more than offset the increase in interest payments affected by monetary policy tightening both domestically and globally. Capital expenditure increased by 0.4 p.p. to 3.8 percent of GDP in 2023, reflecting better execution at 86.5 percent of the budgeted amount compared to 75.2 percent in 2022 when fiscal space was constrained due to the implications of the Russian invasion of Ukraine (Figure 6)**.**

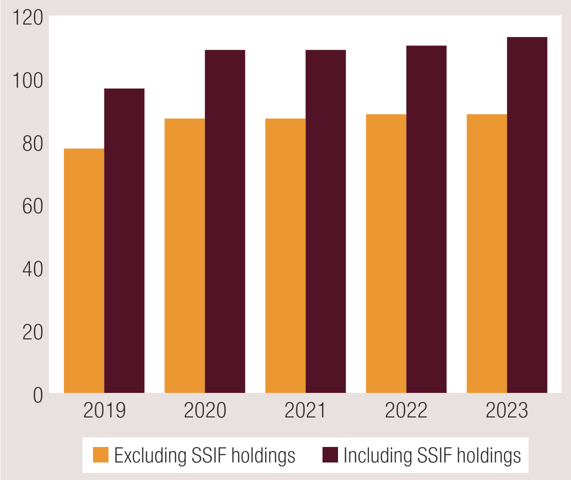
FIGURE 6 • The Annual Increase in Expenditure in 5M-2024 Was Mainly Driven by Higher Interest Payments
(change in expenditure, in percent of GDP)



Source: MoF and WB staff calculations.

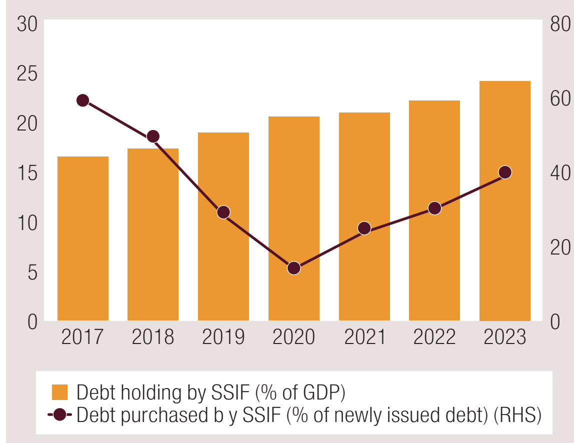
Debt accumulation continued to slow down, mainly supported by improved budget sector fiscal performance, but remains elevated as pressures from the wider public sector persist. The general government unconsolidated debt increased by 2.6 p.p. of GDP to 113.8 percent of GDP in 2023, compared to the previous year. The increase was mainly attributed to higher foreign currency debt, which rose by 2.8 p.p. of GDP to

FIGURE 7 • Debt Increased in 2023, Mainly Driven by Higher Foreign Currency debt *(percent of GDP)*



Source: MoF and World Bank staff calculations.

FIGURE 8 • SSIF Holdings of Debt Increased, which Helped Tame the Increase in the Consolidated Debt Ratio in 2023 *(percent of GDP/percent of newly issued debt)*



Source: MoF and WB staff calculations.

51.7 percent of GDP, including the issuance of USD1.25 billion (JD 0.9 billion) Eurobonds in April 2023.[5] Most (68 percent) of the increase in general government unconsolidated debt was driven by the budget sector financing needs, followed by NEPCO (15.2 percent) and WAJ and water distribution companies (10.1 percent). The general government consolidated debt (i.e., after netting out the SSIF holdings of government debt) also rose by 0.7 p.p. of GDP to 89.2 percent of GDP in 2023, compared to the previous year (Figure 7). The SSIF holdings of government debt continued to increase to reach 24.6 percent of GDP in 2023 (up from 22.6 percent in the previous year) as the SSIF accelerated the pace at which it absorbs newly issued government debt to around 40 percent (Figure 8), which helped tame the increase in the consolidated debt ratio in 2023.

CG overall fiscal deficit widened on annual basis in 5M-2024, mainly due to higher interest payments and lower income and profit tax revenues. Central Government overall deficit widened by 34.5 percent to JD655.2 million in 5M-2024 as the increase in expenditure outpaced that of the revenues, relative to the same period in 2023. Total revenue and grants[6] rose by 2.9 percent on annual basis in 5M-2024, compared to an increase of 11.4 percent in 5M-2023. The annual increase in foreign grants, non-tax revenue, and sales tax revenue was partly offset by the first annual decline in income and profit tax revenues since 2020. The deceleration in total revenue growth 5M-2024 coincided with the introduction of relief measures aimed at containing the impact of trade disruptions in the Red Sea, as well as with a slowdown in economic activity growth in Q1-2024. In January 2024, the GoJ introduced a temporary exemption (until end of June) on customs duties and sales taxes on sea shipping costs to help contain the impact of high shipping costs attributed to trade disruptions in the Red Sea.[7] On the other hand, total expenditure

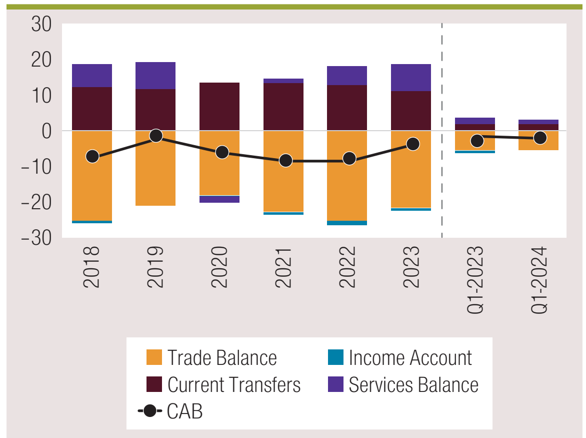
5 The GoJ issued a 6-year Eurobonds at 7.5 percent. The USD 1.25 billion is nearly double the amount it initially intended to issue ($750 million).

6 Adjusted with 'refund and clearing' data of JD 88 million for 2023 and JD 36 million for the first five months of 2024. Source: MoF Monthly bulletin, available at: https://www.mof.gov.jo/ebv4.0/root_storage/ar/eb_list_page/may20241.pdf.

7 Available at: https://www.aci.org.jo/News/key_circulars/75636.aspx. Available at: https://jordantimes.com/news/local/government-extends-relief-measures-tackle-maritime-crisis-price-hikes.

rose by 6.5 percent on annual basis in 5M-2024, relative an increase of 8.0 percent in 5M-2023. The annual increase in expenditure in 5M-2024 was mainly due to higher interest payments, while the increase in other categories was broadly contained. Accordingly, the primary surplus (excluding foreign grants), which is an indication of the fiscal consolidation momentum, decline by 5.6 percent on annual basis to JD231.1 million in 5M 2024. Meanwhile, both consolidated and unconsolidated GG debt increased by 3.2 percent and 2.3 percent, respectively since December 2023, registering JD42.5 billion and JD33.0 billion, respectively, in May 2024, driven mainly by higher domestic currency debt.

FIGURE 9 • Current Account Deficit Widened in Q1-2024, after Narrowing in 2023 to the Lowest Level since 2019 *(percent of GDP)*



Source: CBJ and World Bank staff calculations.

3. External Sector Developments

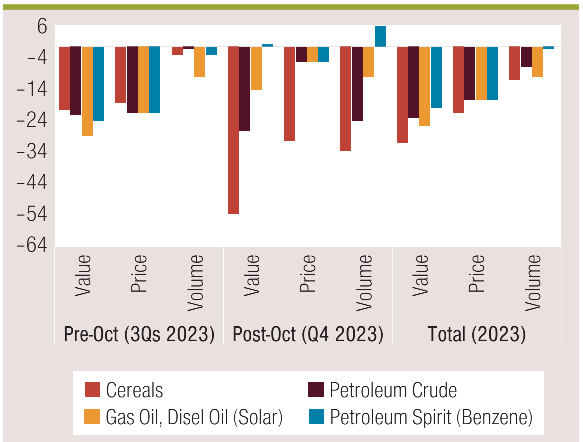
Affected by the conflict, the current account deficit widened in Q1-2024, after improving substantially in 2023 due to lower trade deficit and increased tourism receipts.

The current account deficit (CAD) more than halved in 2023 (to 3.7 percent of GDP from 7.8 percent in 2022). The improvement in the current account was supported by a lower trade deficit and a higher services surplus (Figure 9). The services account benefited from a 27.4 percent increase in travel receipts which reached 14.5 percent of GDP in 2023, compared to 11.9 percent of GDP in 2022. Overall, the service account balance reached 7.0 percent of GDP in 2023, compared to 4.7 percent in the 2022. On the other hand, slight improvements in net investment income supported the primary income account deficit to narrow by 0.1 percentage points of GDP in 2023, while public grants and workers' remittances declined, reducing the current transfers surplus by 1.9 percentage points of GDP in 2023, relative to the previous year.

The trade deficit narrowed in 2023 as imports contraction outpaced the contraction in exports. Exports dropped by 1.5 p.p. of GDP to 24.7 percent in 2023, while imports declined by 5.0 p.p. of GDP to 44.9 percent of GDP in 2023. This resulted in a narrowing of the trade deficit to 20.2 percent of GDP, down from 23.7 percent the previous year. The decline in imports in 9M-2023 (pre-October 2023) was mainly a price effect, while the decline in Q4-2023, following the eruption of the conflict, was primarily a volume effect that can be attributed to trade disruptions in the Red Sea associated with the conflict since the majority of Jordanian imports come from non-Arab Asian countries (Figure 10). International oil, wheat, and maize prices declined by around 17.2 percent, 20.8 percent, and 20.7 percent, respectively, in 2023, compared to their levels in 2022. Meanwhile, the decline in exports was mainly due to lower domestic exports in 2023,[8] driven by a decrease in Potassium and Phosphate exports relative to the previous year. The performance of key exports in 2023 (pre- and post-October) had mixed impacts from prices and volumes. The decline in potassium exports was mainly due to lower international prices in 9M-2023 (before October 2023) and in Q4-2023. In contrast, the decline in phosphate exports was primarily due to reduced volumes before in 9M-2023 (before

8 Domestic exports amounted to 92.5 percent of total export in 2023, whereas re-exports amounted for 7.5 percent of total exports.

FIGURE 10 • Import Declines Prior to Oct 2023 Stemmed Mainly from Lower Prices, while the Later Decline Resulted Mainly from Lower Volumes (*annual growth rate*)

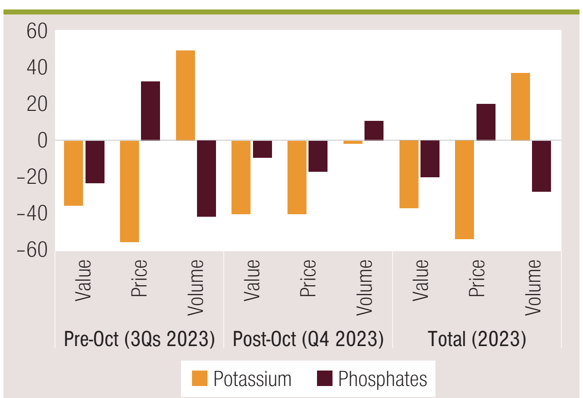


Source: DOS and World Bank staff calculations.

October 2023) and lower prices in Q4-2023, compared to the previous year (Figure 11). Meanwhile, international prices of Potassium chloride declined by around 55.6 percent in 2023, while the prices of Phosphate rock increased by around 20.9 relative to the previous year.[9]

The current account deficit widened by USD310.2 million on annual basis to USD1.1 billion (around 2.0 percent of the full year estimated GDP) in Q1-2024, mainly due to lower travel receipts and higher trade deficit. The trade deficit widened by 8.3 percent on annual basis in Q1-2024 as the decline in exports exceeded that of the imports. The value of imports declined by 2.7 percent on annual basis in Q1-2024, primarily due to a decrease in non-energy imports, such as iron and steel. On the other hand, energy imports increased by 1.5 percent on annual basis in Q1-2024, despite an annual increase of 2.1 percent in international oil prices, implying lower imported volumes. Meanwhile, the value of exports also declined by 11.6 percent on an annual basis in Q1-2024, primarily due to lower exports of fertilizers and potassium as international prices declined, despite a 2.2 percent increase in textile exports. PortWatch data indicates that import and export volumes through Al-Aqaba port declined significantly between January and May 2024,[10] notwithstanding one-off recovery in March and May 2024 (Figure 12 and Figure 13). Meanwhile, travel receipts decline by 5.2 percent in Q1-2024, despite a 9.7 percent annual dropped in arrivals during the same period (see Box 1).

FIGURE 11 • Domestic Exports Decline in 2023 Was Mainly Driven by Lower Potassium and Phosphate Exports (*annual growth rate*)



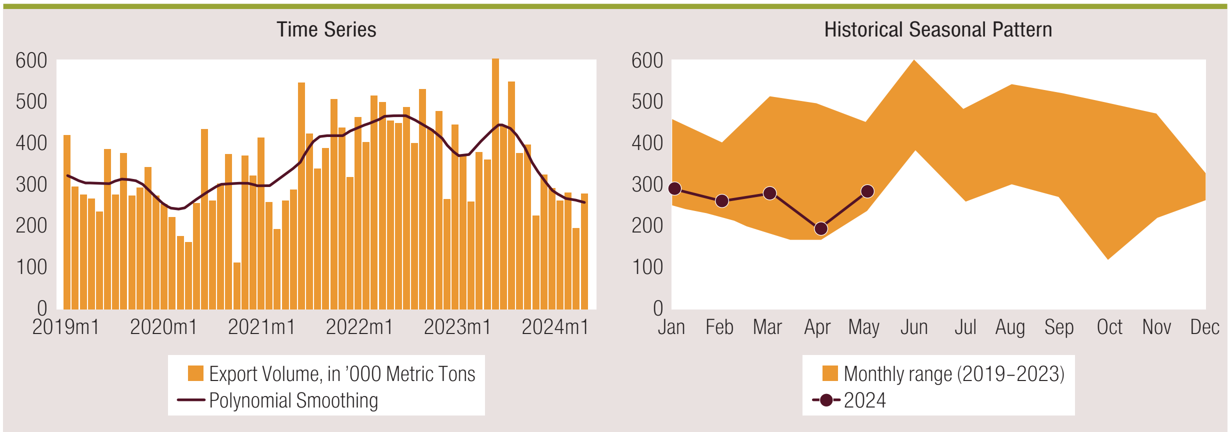
Source: DOS and World Bank staff calculations.

Higher portfolio investments offset the decline in FDI and other investments, supporting a larger capital and financial account surplus, which, along with the strong CAD improvement led to higher foreign reserves. The capital and financial account sustained a sizeable surplus of 5.5 percent of GDP in 2023, compared to 4.5 percent in 2022. Portfolio investment witnessed a significant improvement from a net outflow of 1.4 percent of GDP in 2022 to a net inflow of 2.4 percent, owing to a sizeable Eurobond issuance of USD1.25 billion in April 2023. FDI returned to levels close to those prevailed in 2019–21 at 1.5 percent of GDP in 2023, after doubling in 2022 to 2.6 percent of GDP, a rise

9 World Bank Commodities Price Data (The Pink Sheet). Available at: https://www.worldbank.org/en/research/commodity-markets.

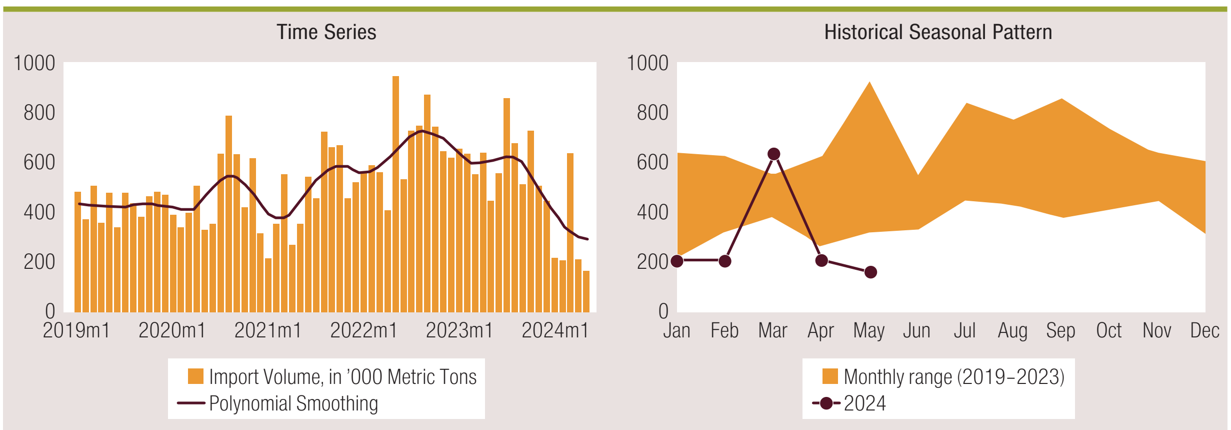
10 In response to the Red Sea disruptions, the GoJ announced that a new land and sea transportation route linking Aqaba with Egyptian ports on the Mediterranean Sea has been activated as an alternative to the Red Sea route. Available at: https://en.royanews.tv/news/47763/2023-12-23.

FIGURE 12 • Export Volumes through Al-Aqaba Port Declined Significantly between January and May 2024
(in '000 Metric Tons)



Source: PortWatcch and World Bank staff calculations.

FIGURE 13 • Import Volumes through Al-Aqaba Port Declined Significantly between January and May 2024
(in '000 Metric Tons)



Source: PortWatcch and World Bank staff calculations.

driven mainly by high retained earnings in the first half of the year. Meanwhile other investments halved to 1.6 percent of GDP in 2023, from 3.2 percent of GDP in 2022. Error and omissions recorded an outflow of around 1.0 percent of GDP in 2023, relative to an inflow of around 1.8 percent of GDP in the previous year. The lower CAD and the higher financial account surplus in 2023 supported an increase in CBJ's gross usable reserves by USD0.9 billion to USD17.3 billion. At this level, the reserves remain adequate, covering 7.0 months of next year's imports of GNFS.

4. Monetary Policy and Inflation

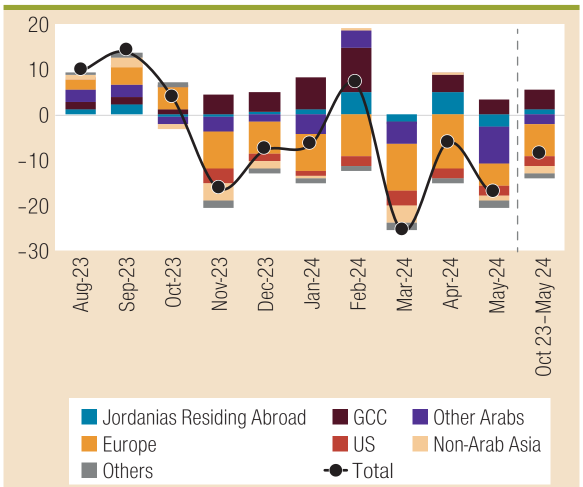
Monetary policy tightening supported the containment of inflation and money supply growth.

Despite accelerating since September 2023, annual headline inflation remains contained. The annual headline inflation rate recorded 1.8 percent in June 2024, up from 0.9 percent in August 2023 (Figure 14). The acceleration has been supported by monthly inflation dynamics offsetting a small favorable

BOX 1. TOURISM DYNAMICS: SHIFTS IN ARRIVALS AND RECEIPTS

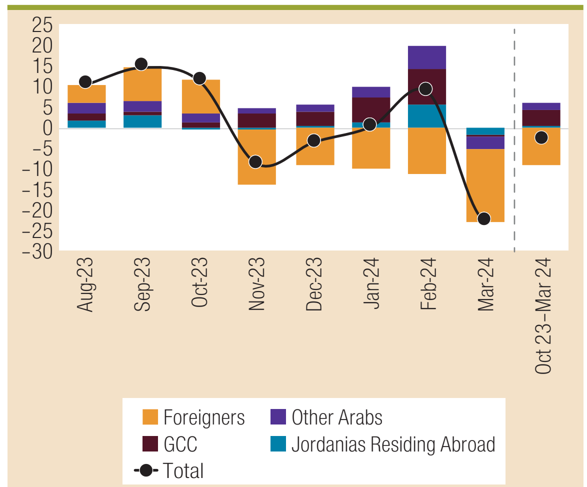
Despite a decline in tourist arrivals following heightened regional tensions after October 7, the reduction in travel receipts remained limited. This was supported by higher spending from tourists from the Gulf Cooperation Council (GCC) and other Arab countries, whose arrivals increased on an annual basis. Total tourist arrivals fell by 7.5 percent between October 2023 and June 2024, largely driven by a decrease in single-day visitors, often part of packaged tours that also include stops in Israel. During this period, single-day tourists declined by 23.5 percent, while overnight tourists decreased by 4.1 percent compared to the same period in previous years. March 2024 saw the sharpest annual decline, partly due to the seasonal impact of fewer tourists during the holy month of Ramadan. A breakdown by nationality shows that the overall decline in tourist arrivals since October 2023 was primarily due to fewer European visitors, which more than offset the increase in tourists from the GCC (Figure B.1). Meanwhile, travel receipts declined by 2.8 percent between October 2023 and March 2024 compared to the same period in the previous year. The rise in the number of GCC and other Arab tourists between October 2023 and June 2024 supported higher spending, helping to mitigate the overall reduction in travel receipts by offsetting the lower spending by foreign tourists (Figure B.2).

FIGURE B.1 • The Decline in Tourist Arrivals since October 2023 Was Driven by Fewer Europeans, which More than Offset the Increase in Tourists from the GCC
(annual growth rate/percentage points)



Source: Ministry of Tourism & Antiquities and WB staff calculations.

FIGURE B.2 • Higher Spending from GCC and other Arab Tourists whose Arrivals Increased Helped Contain the Decline in Total Travel Receipts since October 2023
(annual growth rate/percentage points)



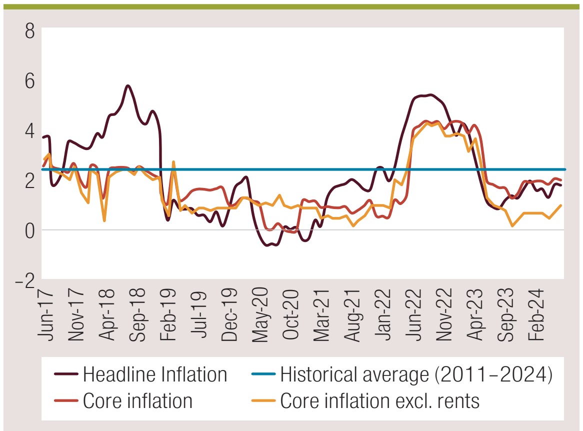
Source: Ministry of Tourism & Antiquities and WB staff calculations.

base effect (Figure 15). The monthly inflation pace between September 2023 and April 2024 remains muted at an average of 0.2 percent, mainly driven by positive contributions from food items (mainly meat and poultry), fuel and transportation prices, and rents (Figure 16).

Real interest rates remain positive and high, supporting further containment of inflation. The CBJ has kept its policy rate unchanged since July 2023, after raising it by a total of 525 basis points since the beginning of this tightening cycle in March 2022, leading the overnight deposit window rate (i.e., effective policy rate) to reach 7.25 percent. The weighted average lending and savings interest rates in the banking sector have remained at the highest levels in years. Real interest rates[11] have broadly stabilized and remained elevated supported by high nominal interest rates (Figure 17).

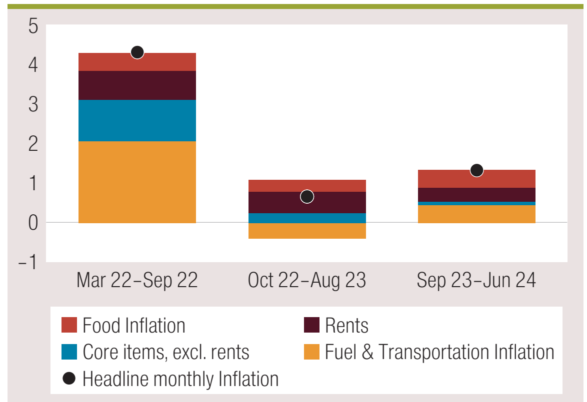
[11] Nominal interest rates adjusted for inflation using a 3-month average of annual headline inflation with equal weights (50–50) assigned to backward- and forward-looking components.

FIGURE 14 • After Significant Deceleration in 8M-2023, Annual Headline Inflation Rate Accelerated Slightly since September 2023
(percent)



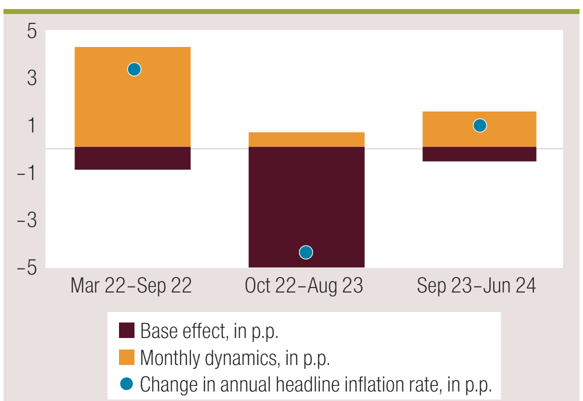
Source: DoS and WB staff calculations.

FIGURE 16 • Monthly Inflation Since September 2023 Was Supported by Positive Contribution from Food and Fuel Items
(change in monthly headline inflation rate, ppts)



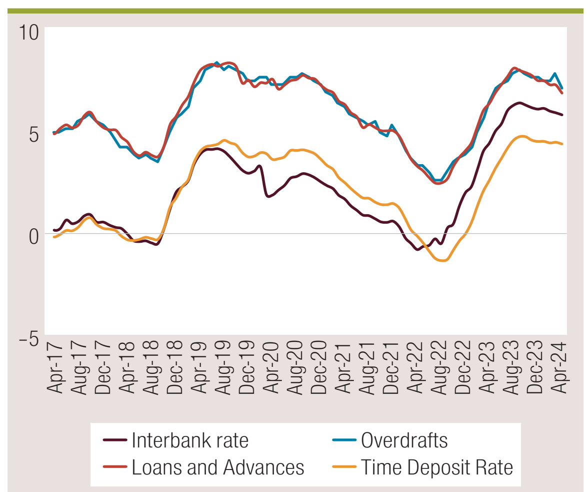
Source: DoS and WB staff calculations.

FIGURE 15 • The Acceleration Since September 2023 Has Been Supported by Monthly Dynamics, which Remains Broadly Muted
(change in annual headline inflation rate, percentage points)



Source: DoS and WB staff calculations.

FIGURE 17 • Real Interest Rates Stabilized after Reaching a Peak in October 2023
(percent)

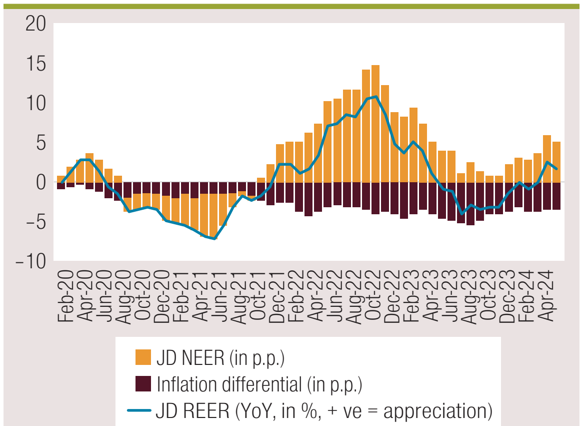


Source: CBJ, Haver analytics and WB staff calculations.

The real effective exchange rate appreciated on annual terms in April and May 2024 after depreciating for eleven consecutive months between May 2023 and February 2024. The real appreciation, which reflects competitiveness losses, was mainly driven by the nominal appreciation of the US dollar against its main trading partners, which more than offset the favorable impact from Jordan's relatively lower inflation rate compared to its major trading partners (Figure 18).

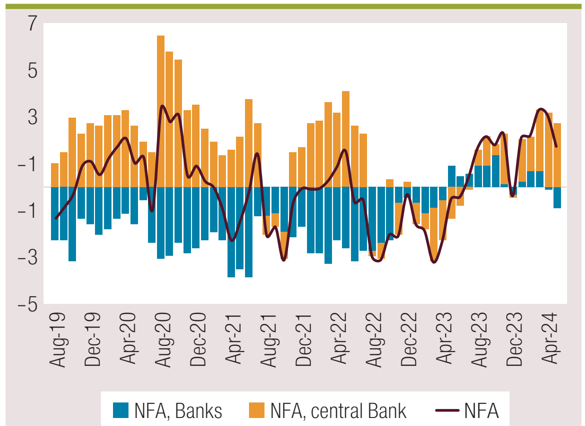
Money supply growth remains low, despite a slight acceleration recently, supported by monetary policy tightening and the ongoing fiscal consolidation. Broad money (M2) annual growth rate recorded 2.8 percent in April 2024, down from its peak of 7.7 percent in June 2022

FIGURE 18 • The REER Appreciated on Annual Terms in April and May 2024
(contribution to annual change, p.p.)



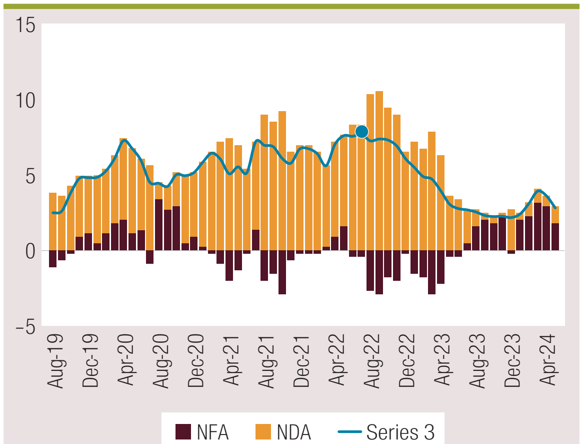
Source: Brugel and WB staff calculations.

FIGURE 20 • Improved NFA Contribution to Broad Money Annual Growth Rate
(percentage points)



Source: CBJ and WB staff calculations.

FIGURE 19 • Broad Money Annual Growth Rate Remains Low, with Only a Modest Uptick Observed Recently
(percent/percentage points)



Source: CBJ and WB staff calculations.

(Figure 19). The contribution from the net domestic assets declined significantly given the slowdown in lending to the private and public sectors, in addition to a decline in other unclassified assets. On the other hand, the contribution of the net foreign assets has been improving gradually between March 2023 and March 2024, reflecting the improvement of Jordan's external balances, except for a temporary decline in November 2023 (Figure 20).

2

OUTLOOK AND RISKS

Economic growth is expected to temporarily slowdown in 2024, affected by the conflict in the Middle East, which, in our baseline scenario, is not anticipated to be extended or escalate further.[12] Real GDP annual growth rate decelerated for the second consecutive quarter to 2.0 percent in Q1-2024 as the conflict in the Middle East affected the growth of sectors with backward and forward linkages to tourism: notably wholesale and retail trade, transport, and construction. Also, trade disruptions had some negative effects on industrial sector growth, along with a normalization of growth in agriculture is expected later in 2024, following growth acceleration in 2023. As the data shows a limited impact of the regional conflict, with some signs of recovery in tourist arrivals seen in June 2024, the full-year real GDP growth is projected to slow slightly to 2.4 percent in 2024, with a recovery to 2.6 percent projected thereafter.

Inflation is anticipated to remain contained in 2024, supported by lagged effect of monetary policy tightening and relatively stable prices for imported commodities, mainly wheat and maize, despite some transitory impact from higher shipping costs due to the Red Sea disruptions. Annual headline inflation is projected to record 2.0 percent in 2024, and 2.1 percent in 2025, before converging to its long-term average (2011–2023) of 2.4 percent in the subsequent years.

Fiscal consolidation is projected to continue, albeit at a tepid pace. Revenue-enhancing measures, along with the expected easing of monetary policy are expected to support domestic revenues. Meanwhile, the primary fiscal deficit is projected to continue narrowing to 0.1 percent of GDP in 2024, turning into a small surplus in 2025 as primary expenditure remain contained. However, the overall fiscal deficit is projected to increase slightly to 5.3 percent of GDP in 2024 due to higher interest payments, before resuming its gradual narrowing in subsequent years in part due to lower interest rates. Nevertheless, continued fiscal pressures from the water and electricity sectors are expected to keep

12 The baseline assumes that the ongoing conflict will gradually decline in intensity and eventually fade by Q4 2024, while the alternative scenario assumes a higher intensity irrespective of the duration.

the unconsolidated general government debt level elevated in the short- to medium-term, while the consolidated general government debt is projected to decrease.

Jordan's current account deficit is projected to widen in 2024 before narrowing gradually thereafter. The projected widening of Jordan's CAD in 2024 is driven by lower services surplus and a slightly higher trade deficit, relative to the previous year. Low exports growth, affected mainly by a significant decline in international phosphate prices[13] and the downward revision of key trading partners' growth in 2024 will be countered by a gradual import recovery under our baseline scenario. Meanwhile, lower services surplus is mainly attributed to lower travel receipts given the spillover from the ongoing conflict. Beyond 2024, further containment of imports value, supported by the expected decline in international prices of key imported commodities,[14] and strong travel receipts from the recovery of foreign tourist arrivals are projected to support a continued reduction in the CAD. The external sector outlook remains sensitive to the duration and extent of the conflict.

Uncertainties around the ongoing conflict in the Middle East poses heightened risks to Jordan's economy. The challenging external conditions cast a shadow over an otherwise optimistic outlook. The ongoing conflict in the Middle East has already impacted Jordan's economy, notably through the tourism sector, which experienced a decrease in total tourist arrivals. However, travel receipts remained resilient so far, mainly due to higher spending from GCC tourists whose arrivals increased in Q1-2024, relative to the same period last year. A continued conflict risks affecting tourists‘ perception of Jordan as a safe destination, adversely impacting the tourism sector, which has been vital for its current account recovery since 2021. Wider disruptions coming from across the border would exacerbate risks to Jordan's economy, with potential further disruptions in trade, volatility in tourism, and fluctuations in energy prices that could affect consumption and production costs. A prolonged conflict in the Middle East could pose an upside risk to both the inflation and fiscal outlooks, while a significant reduction in travel receipts would also impact Jordan's current account deficit (see Box 2).

13 World Bank. 2024. Commodity Markets Outlook, April 2024.

14 World Bank. 2024. Commodity Markets Outlook, April 2024.

BOX 2. AN ALTERNATIVE SCENARIO: THE ECONOMIC IMPACT OF ESCALATING REGIONAL CONFLICT

An escalation of regional conflict poses risks to Jordan's economic outlook. So far, the impact on overall and sectoral growth rates has been relatively limited, even compared with previous external shocks (Figure B.4), with the most pronounced effects observed in the tourism sector. This box explores an alternative scenario that looks at how an escalation in regional conflict could leads to further deterioration in travel receipts and the current account balance– the primary channel through which the conflict has been affecting economy. The analysis of this box explores more pronounced impact of the conflict on travel receipts and on trade.

A sustained reduction of travel receipts will weigh on the recent improvements in the current account. The narrowing of the CAD in 2023 was largely supported by the 27.4 percent increase in travel receipts. Under an alternative scenario where travel receipts decrease by 15 percent in Q3 2024, which is normally the peak season, the CAD could deteriorate in 2024 to 6.3 percent of GDP, compared to the baseline of 4.8 percent. Under a larger travel receipts shock, where travel receipts are 30 percent lower, the current account would register 7.4 percent deficit (Figure B.4). In addition to travel receipts, the outpacing of import to export contraction has narrowed the CAD in 2023. Therefore, the impact of the Conflict on the external sector will also hinge on the magnitude of which trade disruptions will affect imports and export volumes. In May 2024, import volumes through Al-Aqaba port reached a historical low level, whereas exports declined significantly (See Section 3: External Sector Development).

Other risks remain, although contained thus far, could have significant implications on Jordan's economy. The linkages of Jordan's tourism industry with various other areas, including airlines, travel services, and hospitality, imply that the bigger downturn in tourism could have a cascading effect on the growth rates of several sectors including wholesale and retail trade, and construction. Continuous trade disruptions

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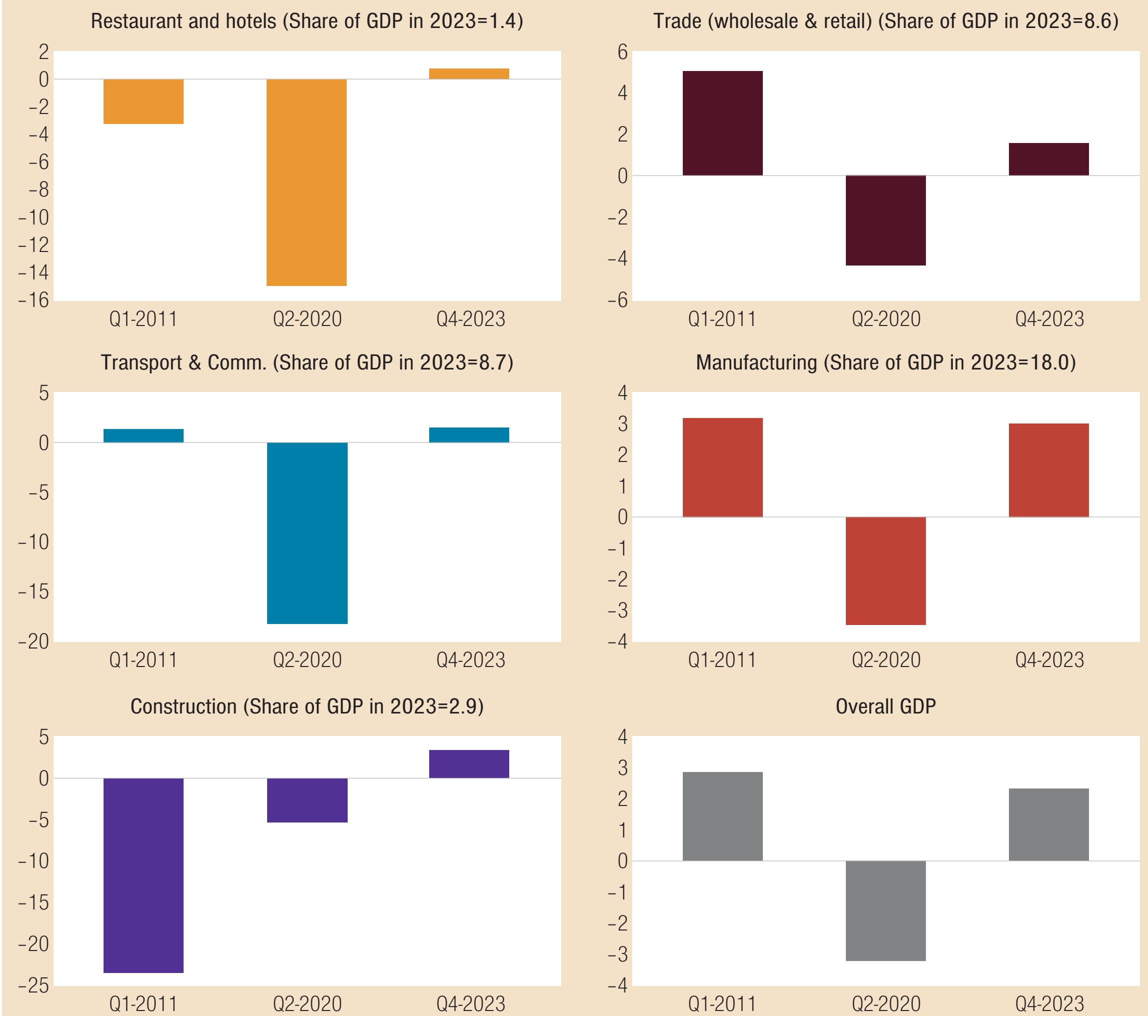
BOX 2. AN ALTERNATIVE SCENARIO: THE ECONOMIC IMPACT OF ESCALATING REGIONAL CONFLICT

could drag down the growth rate of the industrial sector. Higher than projected international oil prices poses upside risks to inflation and fiscal deficit, and weigh further on the external sector outlook. The potential for reduced domestic consumption through behavioral changes could be substantial on the real GDP, given the large share of domestic consumption of in GDP.[a] Disruptions to natural gas and water supply could also deteriorate economic outcomes.

FIGURE B.3 • Compared to Previous Shocks, the Overall and Sectoral Annual Growth Rates in Q4-2023 Shows a Relatively Limited Impact from the Current Conflict so Far*
(in percent, year on year)



Source: DoS and World Bank staff calculations.
* Q1-2011: After the Arab spring uprising, Q2-2020: Following the COVID-19 Pandemic spread.

[a] According to DoS, private consumption expenditures capture 76.2 percent of GDP over the period 2008–2019.

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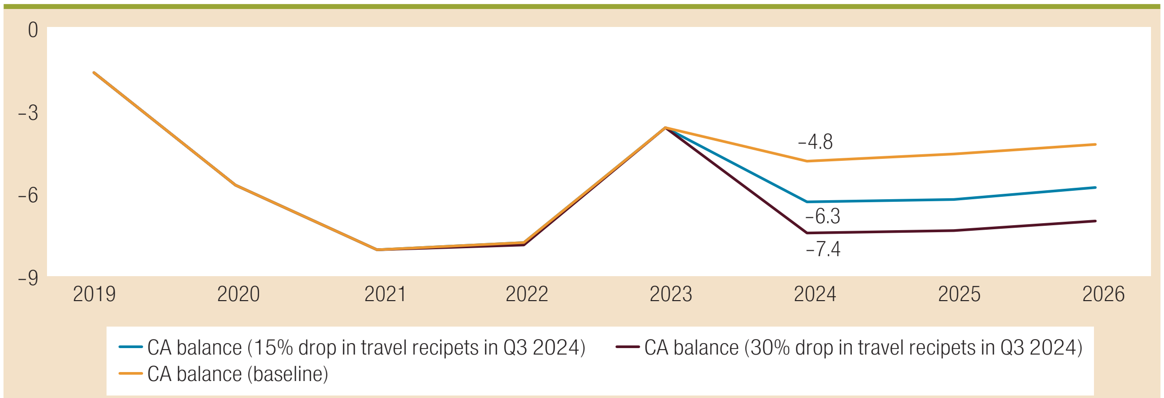
(continued)

BOX 2. AN ALTERNATIVE SCENARIO: THE IMPACT OF FURTHER ESCALATION *(continued)*

FIGURE B.4 • Potential Impact of Lower Travel Receipts on CAD
(percent of GDP)



Source: WB staff projections.

TABLE 1 • Jordan Selected Economic and Fiscal Indicators 2021–26

	2021	2022	2023	2024	2025	2026
	Act.	Act.	Act.	Proj.	Proj.	Proj.
Real sector	(Percent, unless otherwise specified)					
Real GDP growth	3.7	2.6	2.7	2.4	2.6	2.6
Nominal GDP (JD Billion)	32.9	34.6	36.2	37.8	39.6	41.5
CPI Inflation (p.a.)	1.4	4.2	2.1	2.0	2.1	2.4
Government finance	(Percent of GDP, unless otherwise specified)					
Total revenues and grants	**24.7**	**25.7**	**25.3**	**25.9**	**26.2**	**26.5**
Domestic Revenue	**22.3**	**23.5**	**23.3**	**24.0**	**24.5**	**24.8**
Tax revenues	17.1	17.5	17.1	17.8	18.2	18.4
Non-tax revenues	5.2	6.0	6.2	6.2	6.2	6.5
Foreign Grants	2.4	2.3	2.0	1.9	1.8	1.7
Total expenditure (incl. use of cash)	**30.9**	**31.4**	**30.4**	**31.2**	**31.2**	**31.1**
Current expenditure	**27.0**	**28.0**	**26.6**	**27.4**	**27.3**	**27.1**
Wages and salaries	5.4	5.3	5.4	5.5	5.4	5.3
Interest payments	4.3	4.1	4.7	5.4	5.5	5.6
Military and public security expenditure	8.4	8.2	8.3	8.3	8.2	8.1
Subsidies (including fuel and wheat)	0.2	2.3	0.4	0.4	0.4	0.4
Transfers	7.0	6.8	6.6	6.7	6.7	6.7
Purchases of goods & services	1.8	1.2	1.2	1.2	1.1	1.0
Capital expenditure	**3.5**	**3.4**	**3.8**	**3.8**	**3.9**	**4.0**
CG Overall balance (deficit (–), incl. grants)	**–6.2**	**–5.6**	**–5.1**	**–5.3**	**–5.0**	**–4.6**
CG Primary Balance (deficit (–), incl. grants)	–1.9	–1.5	–0.4	–0.1	0.4	0.9
	(Percent of GDP, unless otherwise specified)					
Unconsolidated GG debt[a]	**108.8**	**111.2**	**113.8**	**113.9**	**114.9**	**115.1**
Consolidated GG debt[b]	**87.5**	**88.6**	**89.2**	**89.1**	**88.5**	**87.1**
SSIF holdings of government debt	21.3	22.6	24.6	24.8	26.5	28.0
External sector	(Percent of GDP, unless otherwise specified)					
Current Account	–8.0	–7.8	–3.7	–4.8	–4.6	–4.3
Foreign direct investments, net	1.3	2.6	1.5	1.4	1.6	1.9
Memorandum Items:						
NEPCO operating balance (JD million)[c]	–133	–249	–411	–497	–524	–511
WAJ overall balance (JD million)	–230.4	–182.6	–264.2	–225.0	–215.0	–203.0
Export FOB (% growth)	17.8	36.6	–1.5	1.0	2.7	3.5
Import FOB (% growth)	25.0	27.0	–6.0	2.7	3.2	3.1
Travel Receipts (% growth)	95.8	110.5	27.4	–0.7	9.8	4.9
Remittances (% growth)	1.0	1.5	1.4	1.8	2.0	2.2
Gross usable Foreign Currency Reserves (US$ million)	17,272	16,432	17,319	17,330	17,339	17,347
In months of next year's imports of GNFS	6.9	6.8	7.0	6.7	6.5	6.3

Source: World Bank staff projections.
[a] Including NEPCO and WAJ debt and securitization of domestic arrears in 2019 and 2020.
[b] Netting out SSIF holdings
[c] Based on information made available to the WB by the GoJ in June 2024. The WB did not verify the forecasted values.

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