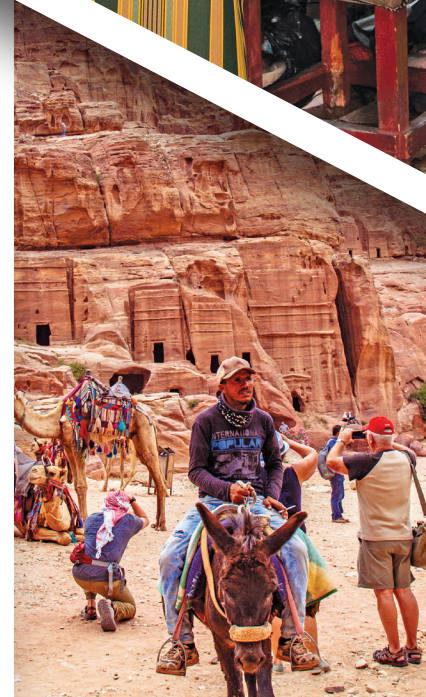


JORDAN ECONOMIC MONITOR

Weathering the Storm



June 2020



Jordan Economic Monitor

Weathering the Storm

JUNE 2020



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Macroeconomics, Trade & Investment

Middle East and North Africa Region

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PREFACE

The objective of this report is to apprise the Government of Jordan, think-tanks and researchers, the public, and The World Bank's senior management of the Kingdom of Jordan's economy, outlook, structural reforms, and development challenges. The first chapter covers economic developments, with sections on growth, labor market developments, public finances, the external sector, and inflation and monetary developments, as well as macroeconomic outlook. The second part of the report is comprised of special sections, which for this report focus on Women and Work in Jordan and Jobs Diagnostics.

This update was prepared by the Macroeconomics, Trade & Investment Global Practice under the guidance of Saroj Kumar Jha (Country Director, MNC02), Tania Meyer (Resident Representative, MNCJO), and Eric Le Borgne (Practice Manager, EMNM1). Analyses were contributed by Saadia Refaat (Senior Economist, EMNM1), and Yiliang Li (Consultant, EMNM1) who co-wrote the Real Sector, Labor Market Developments and Public Finances sections. Asif Mahmood (Consultant, EMNM1) wrote the Balance of Payments and the Monetary Policy and

Inflation sections. Saadia Refaat wrote the Outlook and Risks section. The team is grateful to Maria Ana Lugo (Senior Economist, EEAPV), Miriam Muller (Social Scientist, ELCPV) and Matthew Wai-Poi (Senior Economist, EMNPV) who contributed to the special section on Women and Work in Jordan. The team is grateful to Hernan Winkler (Senior Economist, HSPJB), who contributed the special section on Jobs Diagnostics. The boxes on COVID-19 Pandemic and State of Jordan's Economy through Six Charts, some observations on the recent revision in inflation basket, and Jordan's output gap assessment in the light of COVID-19 pandemic were contributed by Asif Mahmood (Consultant, EMNM1). The box on Empirical Assessment of Okun's Law using Data for Jordan was contributed by Yiliang Li (Consultant, EMNM1).

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ACRONYMS AND ABBREVIATIONS

12M	12 (cumulative) Months	JD	Jordanian Dinar
BoP	Balance of Payments	LFP	Labor Force Participation
CAD	Current account deficit	LIC	Low-income countries
CBJ	Central Bank of Jordan	MENA	Middle East and North Africa
CPI	Consumer Price Index	MENAP	Middle East, North Africa, Afghanistan, and Pakistan
EFF	Extended Fund Facility	MIC	Middle-income countries
EMRC	Energy and Minerals Regulatory Commission	MOF	Ministry of Finance
EU	European Union	M-o-M	Month-on-month
FDI	Foreign direct investment	MOPIC	Ministry of Planning and International Cooperation
FX	Foreign Exchange	NAF	National Aid Fund
GCC	Gulf Cooperation Council	NFA	Net foreign assets
GCI	Global Competitiveness Indicator	NEPCO	National Electricity Power Company
GDP	Gross domestic product	NP	Non-performing
GoJ	Government of Jordan	PCRC	Procurement Complaint Review Committee
GST	General sales tax	PIM	Public investment management
H1	First half of the year	PIT	Personal income taxation
H2	Second half of the year	PFM	Public financial management
IBRD	International Bank for Reconstruction and Development	pp	Percentage point
ICT	Information and communication technology	PPA	Power Purchase Agreements
IFC	International Finance Corporation	PPP	Public-private partnership
IMF	International Monetary Fund	Q1	First Quarter
IT	Information technology	Q2	Second Quarter



SD	Social distancing	WAJ	Water Authority of Jordan
SMEs	Small and medium enterprises	WEO	World Economic Outlook
US	United States	WBG	World Bank Group
US\$	United States Dollar	WTO	World Trade Organization
US Fed	United States Federal Reserve System	Y-o-Y	Year-on-year



موجز تنفيذي

القوى العاملة وزيادة تكاليف المعاملات. بدأ الأردن، مثل عدد قليل من البلدان الأخرى، بالفتح التدريجي للقطاعات، حيث فرض حظر تجوال صارم في 21 آذار 2020، لكنه بدأ بالتخفيف على بعض القطاعات مؤخرًا³. وبالرغم من التباعد الاجتماعي وسلوك التجنب (الذي لا يمكن الانتهاء منه بشكل ملموس إلا إذا كان هناك علاج/ لقاح متاح)، سيكون هناك انخفاض كبير في الطلب خاصة في قطاع الخدمات (الذي يشكل ما يقرب من 60 في المائة من الاقتصاد الأردني) من خلال قنوات مختلفة مثل (أ) الحد من السفر الجوي (وبسبب القيود التنظيمية التي تقطع الوصول إلى الأسواق التي يتواجد فيها إصابات، (ب) تجنب السفر إلى الوجهات التي تحتوي على إصابات بالفيروس (التي تشمل العالم بأكمله في الوقت الحالي)، (ج) الحد من استهلاك بعض الخدمات مثل المطاعم، والسياحة، والنقل الجماعي، والتسوق غير الضروري المتمثل في بيع التجزئة، إلى جانب خدمات قطاع البناء. من المرجح أن يكون التحجيم والتقيد الذي يحدث للنشاط الاقتصادي جراء تعطل سلاسل التوريد العالمية، وتعطل التجارة العالمية⁴، فضلاً عن الانخفاض الكبير في الاستهلاك بسبب اتجاه الاسر نحو الادخار الوقائي وتأجيل الإنفاق غير الضروري.

¹ وفقًا لأحدث توقعات صندوق النقد الدولي—التوقعات الاقتصادية العالمية، ونتيجة لجائحة فيروس كورونا المستجد COVID-19، من المتوقع أن ينكمش الاقتصاد العالمي بشكل حاد بنسبة 3 في المائة في عام 2020، وهو أسوأ بكثير مما كان عليه خلال الأزمة المالية العالمية 2008-2009. وبشكل أكثر تحديدًا، من المتوقع أن ينكمش اقتصاد الولايات المتحدة والاتحاد الأوروبي بنسبة 5.9 في المائة و 7.5 في المائة على التوالي، في حين من المتوقع أن ينمو اقتصاد الصين بنسبة 1.2 في المائة في عام 2020.

² ويقدر الانفتاح التجاري الأردني بحوالي 60 في المائة في السنوات الخمس الماضية. ويبلغ الانفتاح العام حوالي 82 في المائة بما في ذلك السفر والتحويلات وتدفقات الاستثمار الأجنبي المباشر.

³ في 21 أبريل، سُمح بإعادة فتح بعض القطاعات بعدد أقل من الموظفين (حوالي 40% من الإجمالي). تشمل هذه القطاعات كهربائي السيارات، ومتاجر القرطاسية، ومتاجر الهواتف المحمولة، ومتاجر تصليح الكمبيوتر، ومتاجر المجوهرات، ومتاجر لوازم البناء، وقطاع الطاقة المتجددة، ومتاجر النظارات الطبية، ومتاجر الإمدادات الكهربائية، والإنتاج التلفزيوني، ودور الطباعة. في حين سيتم السماح لمتجر/ متاجر الملابس والأثاث المنزلي بتوصيل بضائعها للزبائن.

⁴ وفقًا لأحدث التقديرات لمنظمة التجارة العالمية، من المقرر أن تنخفض التجارة العالمية للبضائع بنسبة تتراوح بين 13 و 32% في عام 2020 بسبب جائحة COVID-19.

تسببت جائحة فيروس كورونا المستجد COVID-19 في ركود عالمي شديد. يعاني الاقتصاد العالمي حاليًا، بعد أن أظهر انتعاشًا معتدلًا في عام 2019، من جائحة فيروس كورونا المستجد (COVID-19)، فبعد الخسائر في الأرواح، تدفع الجائحة بالاقتصاد العالمي إلى أسوأ ركود له منذ الكساد الكبير، بسبب عمليات الحجر و الإغلاق التي تهدف إلى السيطرة على انتشار الفيروس¹. وفي الوقت الذي بدأت فيه الجائحة كصدمة على العرض، فقد أثارت أيضًا صدمة على الطلب بشكل غير مسبوق، أدت إلى انخفاض كبير في أسعار السلع العالمية، وخاصة أسعار النفط. وقد أدت عمليات الإغلاق والحجر إلى تضخيم نقاط الضعف الموجودة مسبقًا مثل ضعف الحوكمة، والعمالة غير الرسمية الكبيرة في سوق العمل، والمساحة المالية المحدودة. هذا الحيز المالي المقيّد، على سبيل المثال، يحد من قدرة البلدان على التصرف بمرونة بوجود مستويات عالية من الديون وتشديد شروط التمويل الخارجي.

تؤثر التطورات العالمية الأخيرة إلى جانب الاضطراب الموجود على الصعيد المحلي—بسبب الإجراءات الوبائية—بشكل كبير جدا على الاقتصاد الأردني المتعثّر أصلا وعلى آفاقه. استمر الاقتصاد الأردني، للسنة الرابعة على التوالي، في الانخفاض عند معدل نمو ضعيف قدره 2.0 في المائة في عام 2019. ومعدل النمو هذا لا يكفي لمعالجة بعض القضايا الاجتماعية والاقتصادية الملحة، كانخفاض المشاركة في القوى العاملة وارتفاع معدل البطالة، لا سيما بين النساء والشباب. على الصعيد الكلي، في الوقت الذي تم فيه تسجيل انخفاض كبير في الاختلالات الخارجية خلال عام 2019، مدعومًا بالنمو الصحي في الصادرات والدخل السياحي، ظلت السياسة المالية توسعية ودفعت نسبة الدين إلى الناتج المحلي الإجمالي إلى ما يقرب من 100 في المائة. وفي هذا السياق، تواجه البلاد تحديات اقتصادية كبيرة بسبب جائحة فيروس كورونا المستجد COVID-19 من خلال القنوات الخارجية والمحلية. وتتضخم هذه التحديات بسبب حقيقة أن للأردن روابط كبيرة مع العالم الخارجي². فعلى الجبهة الخارجية، من المرجح أن يؤدي الانكماش الحاد في الطلب الخارجي إلى الإضرار بشكل كبير بالتحسن الأخير في الصادرات. بالإضافة إلى ذلك، نظرًا لكونه موقعًا سياحيًا رئيسيًا، فمن المتوقع أن يظهر الدخل السياحي انكماشًا حادًا في المدى القريب. على الجانب الآخر، بعد انخفاض أسعار النفط الدولية مفيدًا ولكن هناك “شيء من التحفظ الشديد حول هذه الأسعار” نظرًا لأنه يتم الحصول على كمية كبيرة من التدفقات من الاقتصادات الإقليمية المصدرة للنفط (انظر المربع 1: الجائحة وحالة الاقتصاد من خلال ستة مخططات).

محليًا، تؤثر إجراءات التباعد الاجتماعي بشكل كبير على الخدمات والقطاع غير الرسمي بشكل غير متناسب، عن طريق تقليل العرض على

تتطلب الاستجابة لهذه الأزمة حشدًا كبيرًا للموارد وسيولة قصيرة الأجل. ونظرًا لحجم الأزمة، من الضروري أن تحمي الحكومة الفقراء والمتأثرين منها، وأن تستمر في تشغيل الخدمات الأساسية، وأن تقي الأنشطة الاقتصادية، وأن تحافظ على استثمارات رأس المال البشري. ويشمل خط الاستجابة الأول برامج الحماية والمساعدة الاجتماعية القائمة التي يمكن توسيع نطاقها بسرعة وامكانية توسيع نطاق تغطيتها. لقد جربت العديد من البلدان النامية واختبرت مخططات، مثل التحويلات النقدية وبرامج الأشغال العامة، التي يمكن تعزيزها لهذا الغرض. قد يتم استكمال هذه البرامج بقنوات الدفع المحمولة أو الرقمية حيث تتمتع هذه المنصات بتغطية كافية، وحيث يمكن إثبات الهوية، ووجود حسابات لدى المستفيدين منها. ويشمل الجانب الثاني الدعم المالي من خلال الإعانات المباشرة أو القروض بدون فوائد للشركات الصغيرة التي تحتفظ بالوظائف وتحد من خطر حدوث صدمة الطلب في الاقتصادات.

يجب على الحكومات أن تقيم بصراحة ما يمكنها تحقيقه، بالنظر إلى مواردها وقدراتها، وأن تفصح بوضوح كيف تنوي إدارة الخسائر الحقيقية للقيمة الاقتصادية التي من المحتمل أن تحدث. وجدت البلدان أن البيانات السياسية الواضحة حاسمة في أوقات الإحساس بعدم الاستقرار. ويشمل ذلك الالتزام بضمان استقرار القطاع المالي، وضمان استمرارية الخدمات الأساسية، ودعم الشركات الصغيرة ومصادر التوظيف ذات الأهمية الاستراتيجية، أو مساعدة الفقراء والأكثر تأثرًا.

ومع ذلك، ينبغي أن تستند هذه التدخلات إلى معيار واضح للمساواة والإدماج والاستهداف الفعال والاستدامة والتتبع. نظرًا لحجم الاحتياجات المالية لمواجهة التحدي المطروح المباشر، فإن الوصول السريع إلى النوافذ الخارجية لتمويل الأزمات للأطراف المتعددة⁵ بالإضافة إلى تمويل المانحين الثنائيين المنتظمين والمدرّوس منذ البداية يصبح أمرًا بالغ الأهمية نظرًا لافتقار الأردن للمساحة المالية. ومع ذلك، هناك حاجة للتنسيق الوثيق وتجميع هذه الموارد لتحسين الأثر وتحقيق حلول عامة وخاصة تؤدي ثمارها للتخفيف من الأثر على الفقراء والأكثر تأثرًا، وكذلك لدعم القطاع الخاص. يعتمد انتعاش النمو ووتيرة خلق فرص العمل، على المدى المتوسط — وهو مفتاح التخفيضات المستمرة على المدى الطويل في الفقر ومكان الضعف — على وتيرة الانتعاش العالمي ومرونة الاقتصاد الخاصة به، حيث يمكن تعزيز هذا الأخير من خلال التركيز الثابت على تنفيذ الإصلاحات الهيكلية. وسيكون برنامج تسهيل الصندوق الممدد التابع لصندوق النقد الدولي الجديد EFF مفيدًا لاستقرار الاقتصاد الكلي في الأردن على المدى المتوسط في هذا الوقت العصيب.

⁵ أعلن صندوق النقد الدولي مؤخرًا عن تسهيلات طوارئ، تسهيلات ائتمانية سريعة وأداة تمويل سريع يبلغ إجماليها حوالي 100 مليار دولار أمريكي. ويتوقع البنك الدولي ضخ 150 مليار دولار أمريكي خلال الـ 15 شهرًا القادمة لمساعدة البلدان على تخفيف الأزمة.

EXECUTIVE SUMMARY

The COVID-19 pandemic has created a severe global recession. The global economy, after showing a moderate recovery in 2019, is currently reeling from the Coronavirus (COVID-19) pandemic which, besides taking a toll on human life, has pushed the global economy into the worst recession since the Great Depression due to the lockdowns aimed at controlling the spread of the virus.⁶ Starting as a supply shock, the pandemic has triggered an unprecedented demand shock that led to significant decline in global commodity prices, especially oil prices. The lockdowns have also amplified pre-existing vulnerabilities such as weak governance, large labor market informality, and limited fiscal space. This constrained fiscal space, for example, limits countries' room to maneuver with already high levels of debt and tightening external financing conditions.

The recent global developments along with domestic disruptions due to pandemic measures are severely impacting the already struggling Jordanian economy and its prospects. For the fourth year in a row, in 2019 Jordan's economy continued to drift around a tepid 2.0 percent growth rate. Such a growth rate is not sufficient to tackle some pressing socio-economic issues, such as a low labor force participation and high unemployment, particularly among women and youth. On the macro front, while there was significant reduction recorded in external imbalances during 2019, supported by healthy growth

in exports and travel receipts, fiscal policy remained expansionary and pushed the debt-to-GDP ratio to almost 100 percent. Within this context, the country is facing significant economic challenges due to the COVID-19 pandemic through both external and domestic channels. These challenges are amplified because Jordan has large linkages to the external world.⁷ On the external front, a sharp contraction in external demand is likely to significantly hurt recent improvement in exports. In addition, being a major tourist location, travel receipts are expected to show sharp contraction in the near term. On the flip side, lower international oil prices are beneficial, but they also come with a 'pinch of salt' as substantial amount of flows are sourced from regional oil exporting economies (see Box 1: Pandemic and state of economy through six charts).

Domestically, social distancing measures drastically affect the services and informal sector

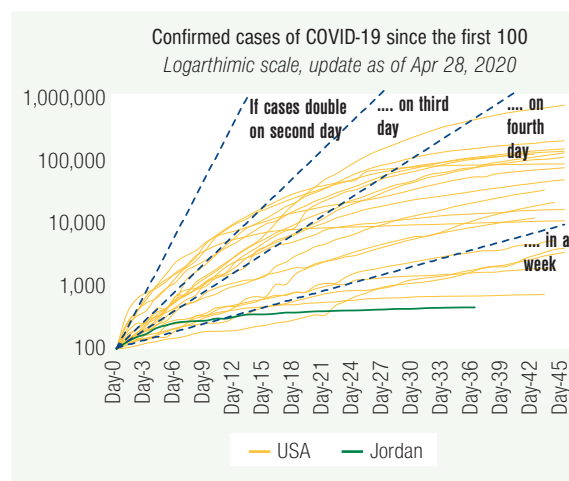
⁶ According to the most recent IMF-WEO projections, as a result of the COVID-19 pandemic, the global economy is projected to contract sharply by three percent in 2020, much worse than during the 2008–09 global financial crisis. More specifically, the US and EU are projected to contract by 5.9 percent and 7.5 percent respectively, while China is projected to grow by a timid 1.2 percent in 2020.

⁷ Jordan trade openness is estimated to be around 60 percent in the last five years. Including travel, remittances and FDI flows, the overall openness is around 82 percent.

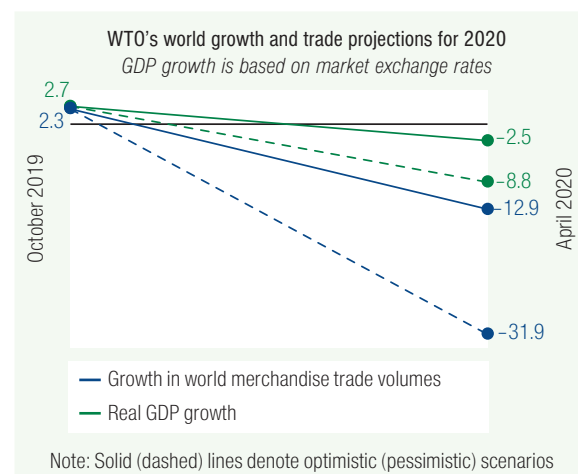


BOX 1 • COVID-19 Pandemic and State of Jordan's Economy through Six Charts

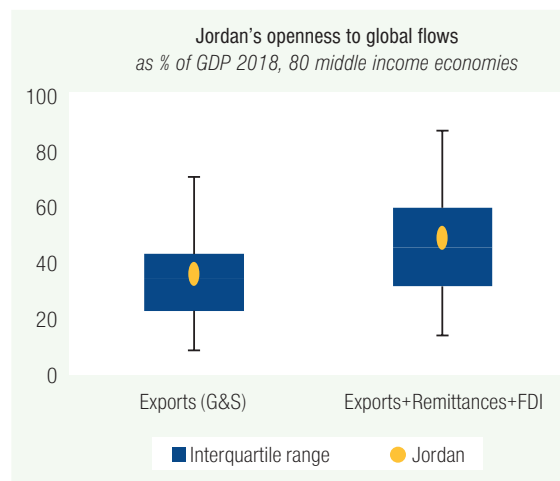
COVID-19 outbreak is slow in Jordan but fast in major world growth engines...



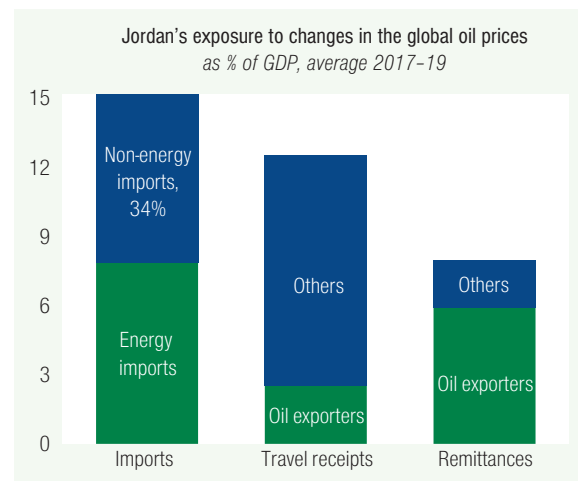
... caused significant dent to both global growth and already struggling trade outlook



Pandemic is having adverse implications for more globally integrated emerging economies...



...also carries benefit for net oil importers—like Jordan—but with a pinch of salt



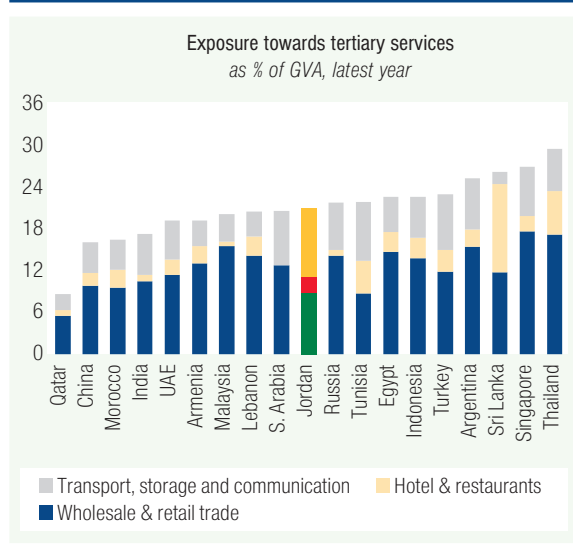
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disproportionally by reducing labor supply and increasing transaction costs. Jordan like few other countries has started to gradually open up. Jordan introduced strict curfew on March 21, 2020 while some sectoral relaxation have been introduced recently.⁸ However, due to social distancing and avoidance behavior (latter can only be tangibly eliminated if there's

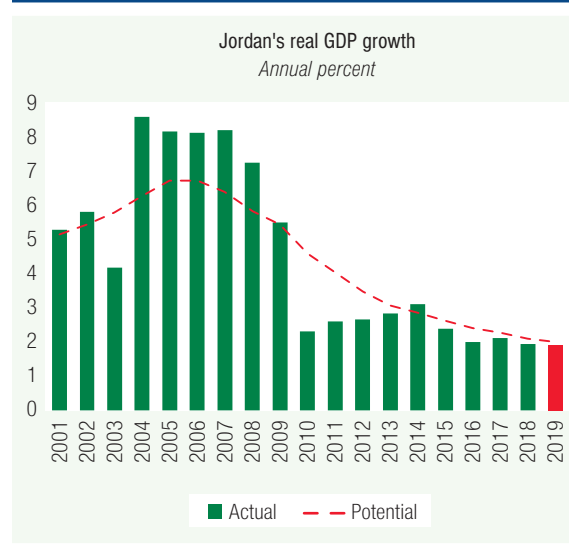
⁸ On April 21, some sectors have been allowed to reopen with reduced staff (approx. 40 percent of total). These sectors include auto electricians, stationary shops, mobile, computer repair shops, jewelry stores, building supply stores, renewable energy, optical shops, electrical supplies stores, TV production, and printing houses. Clothing and home furniture shop/stores will be allowed to deliver.

BOX 1 • COVID-19 Pandemic and State of Jordan's Economy through Six Charts (continued)

On the domestic front, notable exposure towards services directly affected by lockdown exists...



...if prolonged, that would create enormous challenges for already subdued economic activity



Sources: IMF, World Bank, WTO, National Department of Statistics, Johns Hopkins CSSE, Staff estimates.

a cure/vaccine available) there will be a significant reduction in demand particularly in the services sector (which constitutes almost 60 percent of Jordan's economy) by various channels such as (a) reducing air travel and because of regulatory restrictions cutting off access to infected markets, (b) avoiding travel to infected destinations (which encompass the entire globe for now), and (c) reducing consumption of services such as restaurant dining, tourism, mass transport, and nonessential retail shopping along with construction. Moreover, drag to economic activity is also likely to come from disruption of global supply chains, disruption in global trade,⁹ as well as significant reduction in consumption as household move into precautionary savings motives and postpone non-essential spending.

The response to this crisis requires a substantial mobilization of resources, and short-term liquidity.

Given the magnitude of the crisis it is essential for the government to protect the poor and the vulnerable, to keep essential services running, to buffer economic

activity, and to preserve human capital investments. The first line of response includes existing social protection and social assistance programs that can be rapidly scaled up and whose coverage can be extended. Many developing countries have tried and tested schemes, such as cash transfers and public works programs, that can be reinforced for this purpose. Such programs might be supplemented by mobile or digital payment channels where such platforms have sufficient coverage, identity can be established, and beneficiaries have accounts. The second aspect includes financial support through direct subsidies or interest-free loans to small businesses that retain employees and reduce the risk of a demand shock to economies.

Governments should candidly assess what they can accomplish, given their resources and

⁹ According to WTO latest estimates, world merchandise trade is set to plummet by 13 to 32 percent in 2020 due to the COVID-19 pandemic.



capacity, and clearly communicate how they intend to manage the real losses of economic value that are bound to happen. Countries have found that clear policy statements are critical in times of uncertainty. These include committing to: guaranteeing the stability of the financial sector, ensuring the continuity of basic services, supporting small businesses and strategically important sources of employment, or helping the poorest and the most vulnerable. These interventions, however, should be based on a clear criterion of equity and inclusion, effective targeting, sustainability, and tracking. Given the scale of financial needs to meet the immediate challenge at hand, quick access to external financing crisis windows of the multilaterals¹⁰ as well as regular frontloaded bilateral donors financing becomes of paramount importance given Jordan's lack of fiscal space. However, there is a need to closely coordinate and to pool these resources to optimize impact and

bring to fruition public and private solutions to both mitigate impact on poor and the most vulnerable as well as to support the private sector. Over the medium-term, growth revival and the pace of job creation—the key to long-term sustained reductions in poverty and vulnerability—depend on the pace of global recovery and the economy's own resilience; the latter can be strengthened by having a steadfast focus on implementing structural reforms. The new IMF Extended Fund Facility (EFF) program will be instrumental for Jordan's medium-term macroeconomic stability in this challenging time.

¹⁰ IMF has recently announced two emergency facilities, Rapid Credit Facility and Rapid Financing Instrument totaling approximately US\$100 billion. And the World Bank expects to deploy US\$150 billion over the next 15 months to help countries mitigate the crisis.

ECONOMIC UPDATE



Photo courtesy of Shutterstock.com

The Real Sector

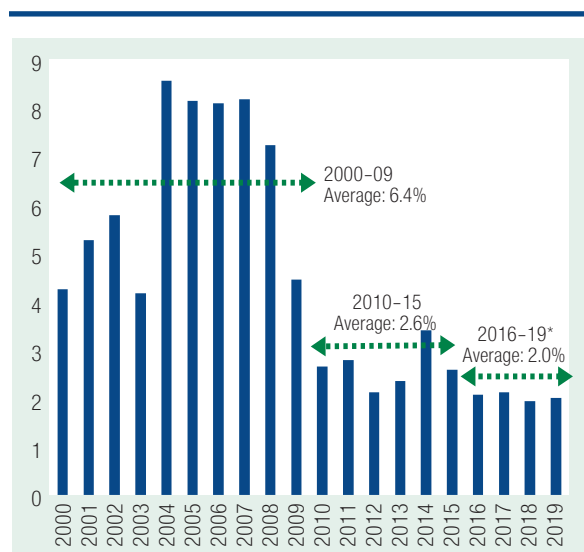
The Jordanian economy continued to be constrained by sluggish growth dynamics. While economic growth benefited from rising net exports amid the partial rebound in tourist arrivals, it was constrained by weak domestic demand. Jordan's real GDP growth during the first nine months of 2019 stood at 1.9 percent—marginally lower than 2.0 percent growth registered during the same time in 2018. As a result, over the last decade and a half growth remained on the lowest growth plateau of 2.0 percent

during 2016–2018, lower than the 2.6 percent average growth achieved during 2010–15 (at a time of regional crisis) and significantly below 6.4 percent average growth achieved at the pre-crisis period (2000–2009) (see Figure 1).

Net exports supported growth from the demand side. On the demand side, a substantial improvement in net exports provided necessary impetus to growth—in real terms, exports registered a growth of 9.5 percent year-on-year (Y-o-Y) during Q3–2019 while imports contracted by 7.9 percent. The upswing was mainly



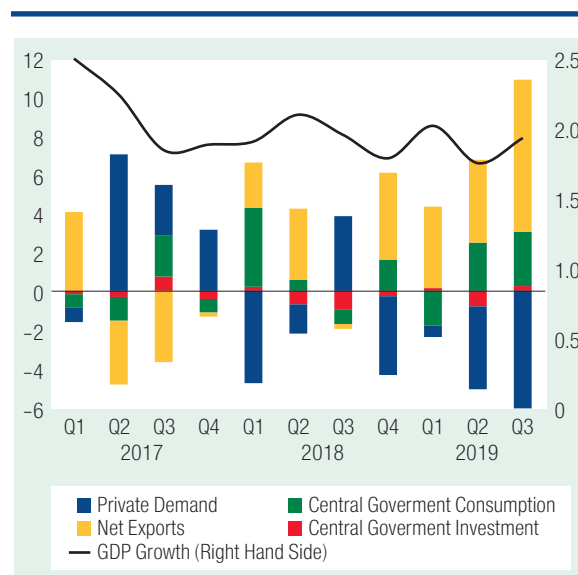
FIGURE 1 • Growth Remained on the Lowest Plateau during 2016-2019*.
Real GDP growth (percent)



Source: Department of Statistics.

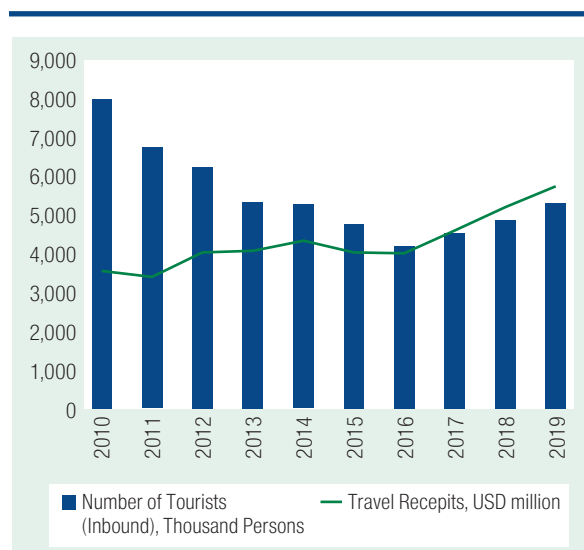
Notes: 2009-18 data present rebased GDP series; * represents provisional number only.

FIGURE 2 • Net Exports Provided the Impetus to Growth in 2019.
Point contribution to GDP growth - Aggregate demand (percent)



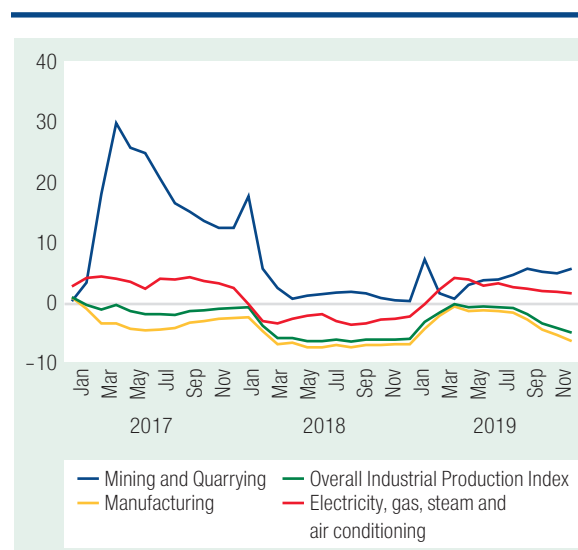
Source: Department of Statistics and World Banks staff calculations.

FIGURE 3 • Tourism Saw Robust Performance in Recent Years.



Source: Ministry of Tourism and Antiquities.

FIGURE 4 • Almost All Industrial Subcategories Exhibited No Growth.
Industrial production quantity index (Y-o-Y growth, percent)



Source: Central Bank of Jordan.

supported by increased services exports. Moreover, declining international commodity prices have led to a reduction in imports, further boosting net exports, which contributed as much as 7.9 percent to real GDP

growth during Q3-2019 (see Figure 2). On the flip side, Jordan continued to experience weakened government consumption and subdued private demand. Public investment declined in 2018 and remained muted in

2019, while private investment was anticipated to follow a similar trend.

Growth was mainly supported by the services sector from the supply side. Growth on the supply side appeared to be driven by services sector (contributing 1.3 percent to GDP growth), followed by industry (0.5 percent to GDP growth) and agriculture (0.1 percent to GDP growth). Overall, no single sector reflected enough dynamism to lift growth markedly beyond the 2018 level. During Q3–2019, the services sector grew at 2.4 percent (marginally higher than the growth in Q3–2018), supported by not only strong growth in government services (2.5 percent quarter-on-quarter growth during Q3–2019, compared to 1.0 percent during the same time in 2018), but also robust performance of tourism. The number of inbound tourists in 2019 increased by 8.9 percent compared to 2018 (see Figure 3). Consequently, tourist receipts grew by 10.2 percent¹¹ albeit at a slower pace compared to 2018. The contribution of industrial sectors (with 27.4 percent share in the economy) to growth improved only nominally, supported by robust growth in the mining and quarrying sector, which registered a year-on-year growth of 5.8 percent during Q3–2019. The electricity and water sector (with 3.5 percent share in the economy) grew at 1.6 percent while manufacturing sector (with 18.9 percent share in the economy) grew by timid 1.3 percent vis-à-vis Q3–2018. Moreover, price effects seem to have driven the timid growth performance since almost all industrial subcategories exhibited no growth in the Industrial Production Quantity Index (see Figure 4).

Labor Market Developments

Slowing economic growth was accompanied by a weakening labor market. Employment creation is strongly linked to GDP growth in Jordan and a slowing economy translates into diminishing jobs prospects (see Box 2 on An Empirical Assessment of Okun's Law using Data for Jordan). As economic growth remained largely stagnant, the unemployment rate rose to 19.0 percent in 2019, up from 18.6 percent in 2018.¹² Despite of the general declining trend in the female unemployment rate since Q2–2017, the female unemployment rate in 2019 was still 10 percent higher than male unemployment rate (for quarterly data see Figure 5). Moreover, those women who do work tend to work in certain sectors

(education, health and services, especially in the public sector) and earn less than men do for comparable jobs. This combination of high unemployment and lower pay likely discourages some women from seeking work at all, which partially explains declining unemployment and labor force participation rates for females.

The youth remained the most vulnerable group.

The increase in unemployment rate was mainly driven by a large (1.4 percent) increase in youth unemployment (15–24 years of age). The Jordanian youth remains the age group with the highest rate of unemployment in 2019, standing at 40.6 percent.

University degree holders remained disadvantaged.

Educational attainment does not seem to translate into better job opportunities in the Jordanian labor market as bachelor's degree holders witness the highest level of unemployment across all categories of educational attainment, standing at 24.5 percent in 2019. In particular, females with bachelor's degree or above are the most disadvantaged group in the job market, with an annual unemployment rate of 32.0 percent in 2019. The explanation is in large part explained by the fact that women achieve higher levels, compare to men, of education, but do not participate as actively in the job market.

The declining trend in labor force participation continued.

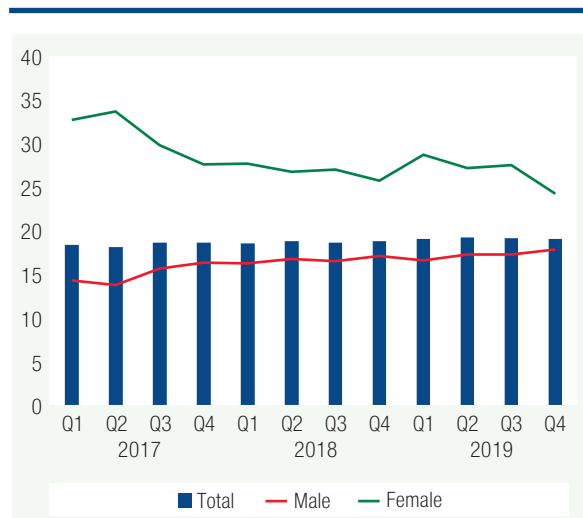
The annual labor force participation rate decreased to 34.3 percent in 2019, which is 1.9 percent lower than 2018 and 4.9 percent lower than 2017. Notably, the female labor participation experienced a 1.4 percent decline and dropped to 14.0 percent in 2019 (for quarterly data see Figure 6). This lower and falling female labor force participation rate is due to several reasons, including an increase in the number of discouraged workers—those who decided to stop looking for a job given diminishing chances of finding one (see Special Section on Women and Work in Jordan for more details).

¹¹ More detailed data indicate that the increase in receipts was boosted by a 25.2 percent hike from “other foreign nationalities,” and supported receipts from other Arab countries and Jordanians residing abroad.

¹² The official unemployment rate of Jordan excludes non-Jordanians.

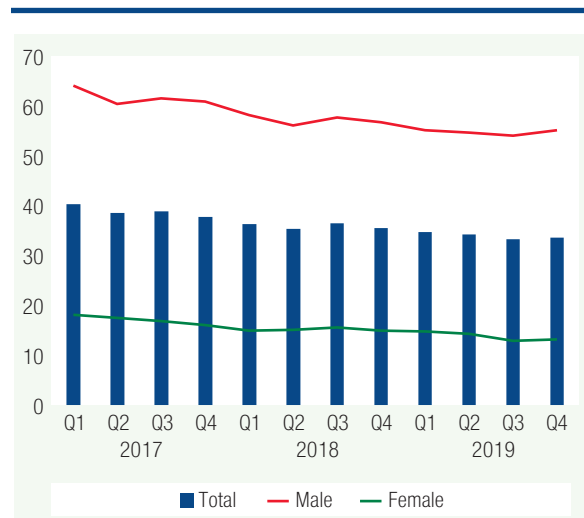


FIGURE 5 • Unemployment Remained High, Particularly among Females.
Percent



Source: Department of Statistics.

FIGURE 6 • Labor Force Participation Rate Continued to Decline.
Percent



Source: Department of Statistics.

Public Finances: Fiscal and Debt Developments

Fiscal slippages continued for the second consecutive year. Fiscal performance remained under pressure for the second consecutive year largely due to lackluster tax revenue performance and expenditure rigidities. As a result, the overall fiscal deficit of the Central Government (including grants and use of cash) stood at 4.7 percent of GDP in 2019—almost 1.4 percent of GDP higher than 2018. The primary deficit (including grants and use of cash) registered a deficit of 1.1 percent of GDP compared to a balance in 2018.

Significant slippage in tax revenues was a primary driver of the fiscal slippage. Domestic revenue collection significantly slowed down in 2019 (See Table 2). Domestic revenues stood at JD 6,885 million (22.2 percent of GDP) in 2019, down by 1 percentage point of GDP compared to 2018. Tax revenues in 2019 stood at 14.8 percent of GDP—0.3 percent of GDP lower than 2018 as the performance of the main revenue source, sales tax (representing almost 70 percent share in the total tax collection) grew by 3.7 percent, with sales taxes on domestic goods and commercial sector registering a growth of 10.8 percent

and 13 percent respectively while GST on imported goods contracted by almost 9 percent. The reason for sales tax registering positive growth can be largely attributed to change in classification of revenues—the almost 600 million JD increase is due to an addition from oil derivatives which from H2–2019 were shifted to GST from non-tax revenues. Furthermore, trade taxes contracted by almost 5.6 percent as imports in 2019 contracted by 4.7 percent Year-on-Year. Reasons for slippage in tax revenues were numerous: partly economic slowdown but also a result of policy lapses, e.g., cigarette smuggling (remained unabated during first half of 2019), provisions related to new income tax law were not extended to corporate income tax, delay in implementation of tax compliance measures, etc. Non-tax revenues also declined by 5.1 percent during 2019 but this decline can be largely attributed to accounting reclassification (i.e. oil derivatives being moved to GST). Finally, foreign grants inflow remained largely steady as external grants marginally declined to JD 788 million in 2019 compared to JD 895 million during 2018.

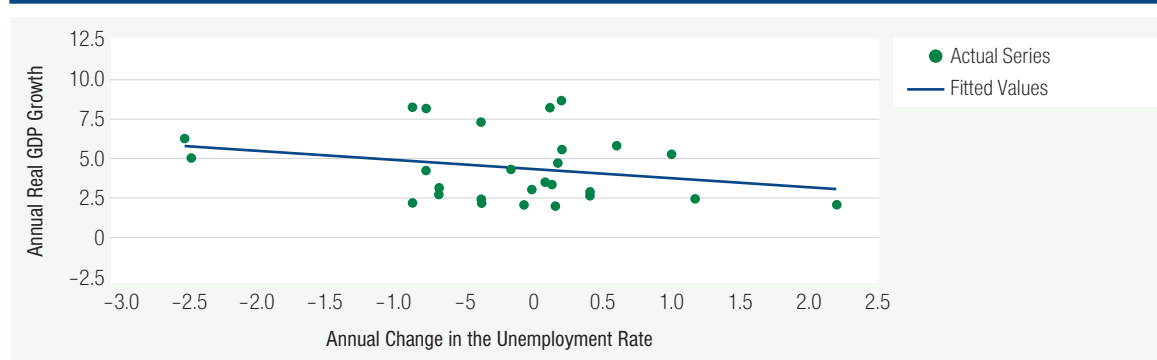
Consolidation effort again fell on capital expenditures. Retrenchment on the current expenditure side continued to be challenging given rigidities in the main expenditure heads (see Table 2) as almost

BOX 2 • An Empirical Assessment of Okun's Law Using Data for Jordan

In his 1962 article,^a Okun presented one empirical relationship connecting the rate of unemployment to real output, which has become associated with his name. It was a simple equation that has been used as a rule of thumb since that time. The relationship itself arises from the observation that more labor (and hence less unemployment) is typically required to produce more goods and services within an economy.

Using the real GDP and unemployment data for the Jordanian economy spanning from 1992 to 2019,^b we examine the empirical validity of Okun's Law by capturing how annual change in the unemployment rate moves with annual growth in real GDP. Figure 7 illustrates the estimation result. According to our estimates, if unemployment remains stable in a given year, real GDP in Jordan is expected to grow at 4.23 percent in that year. An increase in the unemployment rate typically coincides with a declining GDP growth rate. The value of Okun's coefficient for Jordan implies that on average each percentage point increase in unemployment rate is associated with a real GDP growth declining by 0.56 percentage point.

FIGURE 7 • Okun's Law Assessment Using the Jordan Data, 1992-2019.



Source: World Bank national accounts, OECD National Accounts, and International Labour Organization, ILOSTAT database.

Note: Fitted line: $GDP_growth = 4.23 - 0.56 \text{ change in unemployment rate}$, R-squared = 0.06

One problem with this estimate by using a long time series—that we use 1992 to 2019—is that history can hide changes in relationships.^c This is the case for Okun's Law. Table 1 shows that when estimated over different periods, the relationship between real output growth and changes in the unemployment rate has varied considerably. The real GDP growth which is associated with stable unemployment during 2003–2019 remains similar to that during 1992–2002 (4.20 in 1992–2002 vs. 4.32 in 2003–2019). However, for 1992–2002, Okun's coefficient is estimated to be -0.21 , while for 2003–2019, it is estimated to be -1.10 . Even though Okun's coefficient has consistently been negative, the significant variation between these two periods may be reflective of structural changes in the Jordanian economy during the latter period. Following the 2003 Iraq War, there was a huge refugee influx into Jordan as the United Nations High Commissioner for Refugees (UNHCR) estimates that 750,000 to 1 million of Iraqi refugees have fled to Jordan. Then since 2011, due to the outbreak of Syrian Civil War, Jordan is hosting almost 1.3 million Syrians, of which 666,217 are registered refugees with UNHCR. The refugee influx, together with a rising young population, contributed to the rapid growth in the Jordan's labor force and significantly increased the sensitivity of economic growth to changes in unemployment. In addition, the historical experience from Jordan has been of job creation in low-productivity sectors, predominantly in the public sector and to a lower extent informal jobs.^d Hence, shocks to these low-productivity sectors, often represented by both political and economic reforms in the Jordanian economy, will translate to large swings in unemployment, and affect the estimation of Okun's Law. Taken together, these two factors explain why in magnitudes, Okun's coefficient increases by such a wide margin during 2003–2019.

TABLE 1 • Okun's Coefficients Comparison

Right Hand Side Variable:	1992-2002	2003-2019
Constant	4.20	4.32
Annual Change in Unemployment Rate	-0.21	-1.10

Source: World Bank Staff Estimations.

^a Okun, Arthur M. 1962. "Potential GNP: Its Measurement and Significance," American Statistical Association, Proceedings of the Business and Economics Statistics Section, pp. 98–104.

^b The real GDP in 2019 is based on World Bank Staff projections. Real GDP data are retrieved from the World Bank national accounts and OECD National Accounts, while unemployment data are retrieved from the International Labour Organization, ILOSTAT database.

^c This is also evident when estimating Okun's Law by using the US data (from which Okun's Law is firstly summarized). Applying rolling regression and estimating the statistical relationship between changes in unemployment and real output growth over shorter horizons, Knotek (2007) finds that it varied significantly from 1948 to 2007.

^d Winkler, H. and A. Gonzalez. 2019. Jobs Diagnostic Jordan. The World Bank: Washington DC.



TABLE 2 • Summary of Jordan's Fiscal Operations
% of GDP

	2018	2019	Budget	Percent Growth		
				2018	2019	Budget
Total Revenues and Grants	26.1	24.7	27.7	5.6	-2.1	9.8
Total Domestic Revenues	23.2	22.2	25.8	3.4	-0.9	15.3
Total Tax Revenues	15.1	14.8	17.0	4.4	1.4	16.3
Taxes on Income and Profits	3.2	3.3	3.8	2.8	5.7	23.1
Taxes on Financial Transactions	0.3	0.3	0.4	-13.6	-12.4	18.3
General Sales Taxes	10.6	10.6	11.6	6.4	3.7	13.4
Taxes on Foreign Trade	1.0	0.9	1.2	-3.7	-5.6	24.6
Non-tax Revenues	8.0	7.4	8.8	1.5	-5.1	13.6
Grants	3.0	2.5	1.9	26.4	-11.9	-32.9
Total Expenditures	28.6	28.4	29.8	4.8	2.9	8.0
Current Expenditures	25.4	25.4	25.8	7.1	3.6	5.2
Compensation of Employees	4.7	5.0	5.2	2.4	10.5	12.9
Purchases of Goods and Services	1.0	1.1	1.2	-22.3	13.6	26.3
Interest Payments	3.3	3.6	3.3	17.3	10.9	2.5
Military Expenditures	8.3	8.3	8.5	6.8	4.4	6.6
Goods Subsidies	0.2	0.0	0.0	-53.3	-100.0	-100.0
Transfers, of which:	7.9	7.4	7.6	15.5	-3.1	0.0
Pensions and Compensation	4.4	4.4	4.4	4.3	2.9	2.9
Social Safety Net / Cash Support	0.5	0.5	0.6		-0.7	8.6
Capital Expenditures	3.2	2.9	4.0	-10.6	-3.4	31.1
Overall Balance (incl. grants and use of cash)	-3.3	-4.7	-3.1			
Primary Balance (incl. grants and use of cash)	0.0	-1.1	0.2			
Memorandum Items:						
Nominal GDP	29,984	31,058	31,058			

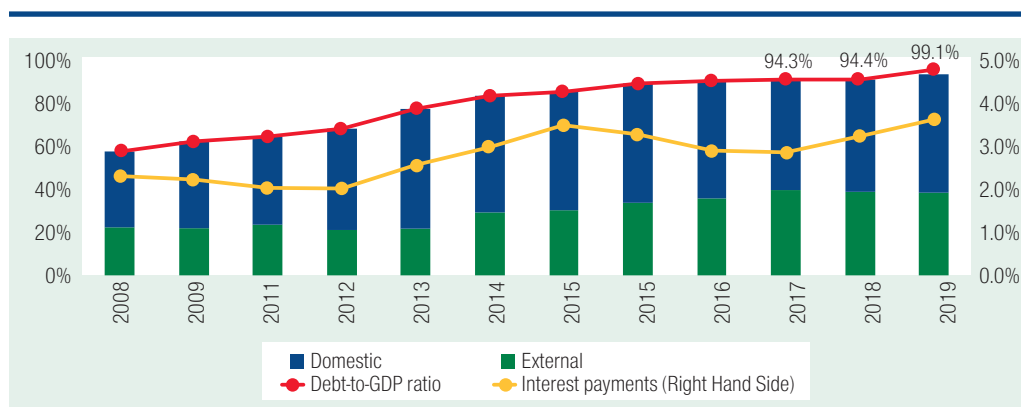
Source: Ministry of Finance and World Bank Staff Estimation.

Notes: taxes on financial transactions are categorized as financing item in 2019. Use of cash items are as per IMF.

85 percent of the recurrent spending is consumed by few large spending categories—wages and salaries, pension, interest payments, and defense and security related spending. Total current expenditures during 2019 stood at 25.4 percent of GDP or growing by 3.6 percent over 2018. Expenditure growth in most areas remained significant, especially compensation

of employees (10.5 percent growth) and military spending (4.4 percent growth). Given these increases in social motivated spending and also increase in interest costs, the government's action for consolidation fell on capital spending side which contracted to 2.9 percent of GDP compared to 3.2 percent of GDP in 2018.

FIGURE 8 • Public Debt Is Trending Upwards.
% of GDP



Source: Ministry of Finance.

Note: 2019 debt-to-GDP ratio includes legacy arrears.

Weak fiscal performance resulted in higher debt-to-GDP ratio.

Jordan's public debt-to-GDP ratio at end-2019 stood at 96.8 percent of GDP; however, if we add legacy arrears (including to refinery, health sector and public works) amounting to approximately 2.3 percent of GDP, the public debt-to-GDP ratio in 2019 reaches approximately 99.1 percent of forecasted GDP or 4.7 percent higher than at end-2018 (see Figure 8). The share of domestic debt in total debt stock increased during 2019 by 3 percent to 57 percent while share of external debt stood at almost 40 percent.

Balance of Payments Position

Jordan's external account position indicated substantial improvement in 2019 as compared to 2018.

This improvement was largely explained by significant reduction in current account deficit, which particularly resulted from considerable improvement in trade balance of both goods and services. Furthermore, realization of budgeted official flows, together with IMF support, also helped improve the country's external account position in 2019. Private foreign inflows, however, remained weak. The overall improvement in balance of payments (BoP) position was reflected in build-up of the Central Bank of Jordan's (CBJ) foreign exchange reserves position in 2019, which is in contrast to the trend observed in 2018 (see Table 3).

The current account deficit substantially improved in 2019, thanks to improvement in the trade and services balances.

On cumulative basis, Jordan's current account deficit (CAD) showed a substantial reduction by 59 percent in 2019 and stood at 2.8 percent of GDP (US\$1.23 billion)—the lowest level in the past fifteen years. This is a much welcome development, particularly after showing a weak performance in the previous years. The reduction in the CAD was mainly driven by notable improvement in both goods and services trade balances. Specifically, the deficit under goods' trade reduced by 13.8 percent in 2019 and stood at US\$8.90 billion as compared to a deficit of US\$10.32 billion in 2018. This improvement was contributed by both improving exports and declining imports, particularly energy imports, as the price effect remained favorable. Similarly, services trade balance improved by 26.4 percent in 2019, on a year-on-year basis. Unlike trade and services accounts, as exhibited in Table 3, the income and current transfers balances indicated moderate deterioration in 2019 when compared to 2018. Particularly, despite a slight improvement in remittances, surplus in current transfers declined by 4.4 percent due to realization of lower public grants in 2019 relative to last year.

Recovery in external demand along with improved production in outward-oriented sectors helped boost exports in 2019.

Jordan's total exports grew by 7.3 percent in 2019 compared to 3.2 percent growth



TABLE 3 • Balance of Payments Position
Million US\$, otherwise indicated

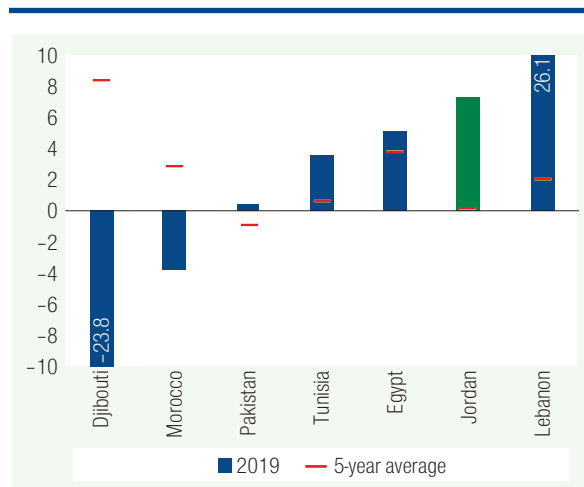
	2017	2018	2019
Current Account (including grants)	-4,399	-2,972	-1,232
Current Account (excluding grants)	-5,496	-4,495	-2,563
Trade Balance	-10,710	-10,321	-8,900
Exports, f.o.b.	7,522	7,757	8,325
Imports, f.o.b.	18,232	18,078	17,224
Energy Imports	3,044	3,753	3,062
Non-energy Imports	15,188	14,325	14,162
Services Account	1,962	2,483	3,138
Travel Receipts	4,645	5,256	5,794
Income Account	-207	-200	-315
Current Transfers	4,556	5,067	4,845
Workers' Remittances Inflows	3,345	3,308	3,338
Capital and Financial Account	3,243	3,053	2,056
Direct Investment (net)	2,026	964	876
Portfolio Investment (net)	954	-183	-1,061
Other Investment (net)	220	2,238	2,173
Use of IMF Credits and Loans (net)	-415	-493	-248
General Government (net)	381	327	1,017
CBJ Gross Foreign Reserves, end-period	15,581	14,576	15,401
Memorandum items:			
Current Account (incl. grants, % of GDP)	-10.8	-7.0	-2.8
Current Account (excl. grants, % of GDP)	-13.5	-10.6	-5.9
Exports (% growth)	-0.5	3.2	7.3
Imports (% growth)	6.1	-0.9	-4.8
Travel Receipts (% growth)	14.7	13.1	10.2
Workers' Remittances Inflows (% growth)	0.3	-1.1	0.9

Source: Central Bank of Jordan.

in 2018. Compared to most of the MENA oil importing countries, exports from Jordan performed relatively well in CY2019 (see Figure 9). Traditional sectors like potash, chemicals, and clothing have performed well (Figure 10). Exports related to clothing increased by 10.9 percent, potassium crude by 10.7 percent, and chemicals by 9.1 percent in 2019. Furthermore, disaggregated data showed that the volume effect, with around 13.4 percent growth, played an important

role in driving country's overall exports as the price effect remained unfavorable. Country-wise data showed that the US, China, and Saudi Arabia were major drivers for export growth in 2019. Contribution from India, normally Jordan's second largest export market after the US, however, remained on the lower side. However, it has been growing steadily since 2016 and it is considered one of the main markets to the exports of potash, phosphoric acid, and fertilizers,

FIGURE 9 • Cross-Country Export Performance.
Percent growth year-on-year based on calendar year



Source: IMF.

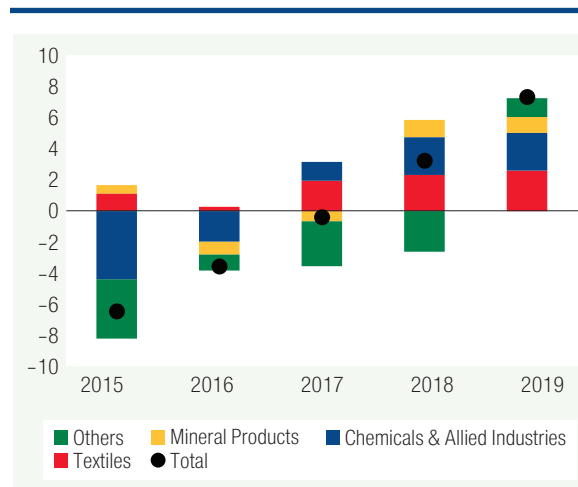
and the concentration of the type of exports to India may reduce its contribution to the total export growth.

Driven by a favorable price effect, both energy and non-energy related imports declined in 2019.

Total imports declined by 4.8 percent in 2019 against a marginal decrease of 0.9 percent in 2018. This came from both energy and non-energy sectors, though largely contributed to by the former (see Figure 11). On a cumulative basis, statistics revealed that energy imports declined by 18.3 percent in 2019 against a 23.7 percent growth recorded in 2018. This decline in energy imports mainly came from lower imports of natural gas (liquefied) followed by diesel and petroleum crude. Disaggregated data indicates that both a favorable price effect for energy prices and lower import volumes contributed towards contraction in energy imports. Non-energy imports, on the other hand, continued their recent trajectory and contracted by 1.2 percent in 2019 on top of 5.8 percent decline recorded in 2018. This trend largely reflects the country's subdued domestic demand conditions, while persistently operating below the installed capacity over the past decade. Certainly, these developments have implications for already struggling labor market amid high unemployment rates.

Services account continued to post healthy surplus in 2019, mainly on account of robust growth

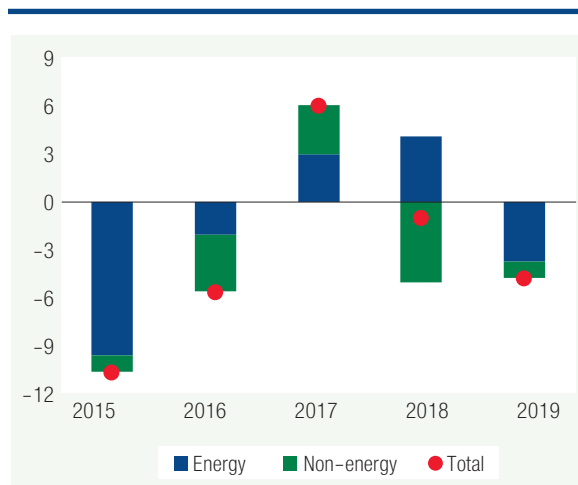
FIGURE 10 • Growth in Exports and its Drivers.
Percent growth year-on-year, contribution in percentage points



Source: CBJ.

in travel receipts. Led by significant growth in travel services, overall services balance posted an increase of 26.4 percent in 2019, a trend almost similar to 2018. Specifically, travel receipts on net basis grew by 12.0 percent in 2019 (around 10.0 percent of GDP), which helped to cover almost half of goods' trade deficit (see Figure 12). Re-opening of borders, lower transportation cost (across borders) and more importantly, authority's agreement with low-cost airlines have help lift the

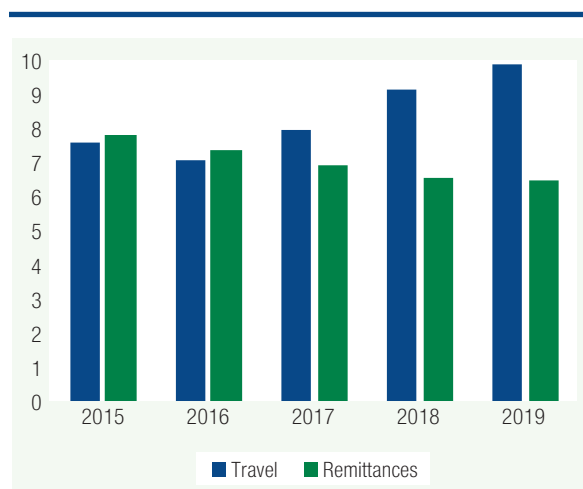
FIGURE 11 • Growth in Imports.
Percent growth year-on-year, contribution in percentage points



Source: CBJ.



FIGURE 12 • Trend in Travel and Remittances Flows.
As percent of GDP, on net basis



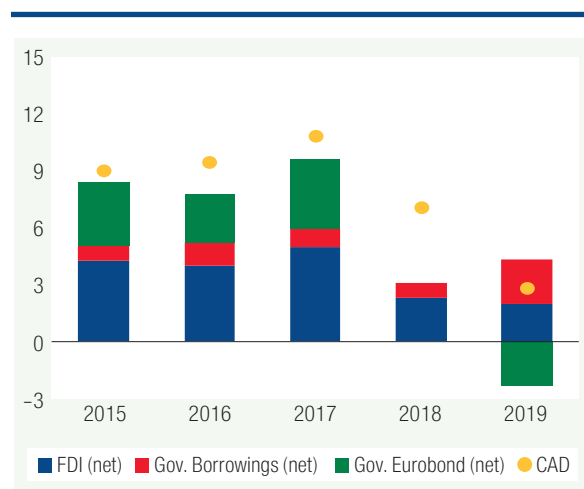
Source: CBJ.

country's tourism in recent years. Indeed, data for tourist arrivals for 12 cumulative months for 2019 indicates a growth of 8.9 percent as compared to 7.8 percent in 2018. Besides ex-patriates, almost half the growth in tourist arrivals came from Arab nationals, followed by Western and Asian tourists.

Despite the positive trend in remittances, net current transfers declined. Unlike acceleration in 2018, net current transfers showed a 4.4 percent decline in 2019. This decline mainly came from lower realization of public grants, which stood at US\$1.3 billion in 2019 as compared to US\$1.5 billion in 2018. On the other hand, inflows related to workers' remittances showed marginal improvement of 0.9 percent as against the 1.1 percent contraction in 2018—though still much lower than recent history (see Figure 12). This nominal improvement in remittances in 2019 could be attributed to the gradual economic recovery reported in regional oil exporting economies, which accounts for three-fourths of total workers' remittances flows towards Jordan.

In the absence of private flows, reliance on official flows increased for another year and kept the country's net liabilities position on an elevated path. Foreign direct investment (FDI), on net basis, declined by 9.1 percent in 2019 on top of 52.4 percent decrease recorded in 2018. The trend for private portfolio

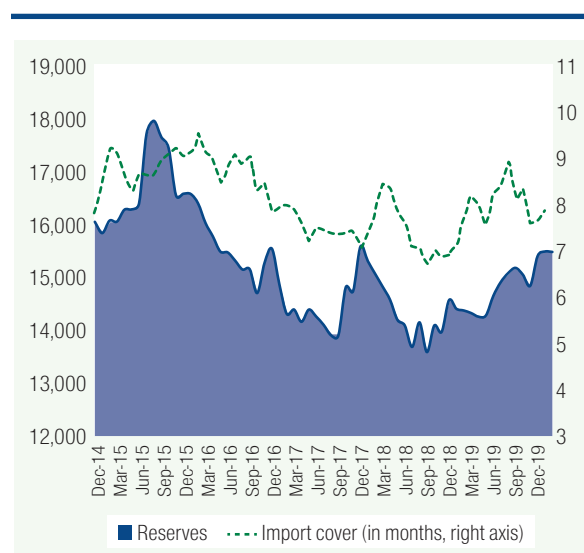
FIGURE 13 • External Flows and Current Account.
As percent of GDP



Source: CBJ.

investment flows was similar as Eurobond of US\$1.0 billion matured. Weak private financial flows remained insufficient and increased the reliance on official flows for BoP sustainability along with the IMF support. On net, government borrowing from external sources substantially increased by 3.1 times in 2019 (see Figure 13). This, despite the significant reduction in CAD, kept the country's net liabilities position on a significantly higher

FIGURE 14 • CBJ's Gross Foreign Exchange Reserves.
Million US\$



Source: CBJ.

level. Specifically, Jordan's net international investment position stood at negative 106 percent of GDP in 2019.

Overall, the CBJ's reserve position improved in 2019, largely due to a reduction in CAD. CBJ gross foreign reserves increased by US\$825 million in 2019 to US\$15.4 billion at end-December. This partly reverses the US\$1.0 billion loss of 2018. In terms of adequacy, the existing CBJ gross reserves provide import cover of around 8.0 months. As highlighted, the improvement in reserves mainly came on account of substantial reduction in CAD amidst the weak financial flows. This is an encouraging development, particularly when a large Eurobond repayment was due.

Monetary Policy and Inflation

The ongoing global recession pushed most central banks, including the CBJ, to loosen monetary policy. The unprecedented global developments that emerged after the Coronavirus outbreak (hereafter COVID-19) in late January 2020 have led central banks across the world to adopt expansionary monetary policies.¹³ The Central Bank of Jordan (CBJ) has also cut its key policy rates twice since March 2020 to counter the economic impact of the pandemic on already struggling

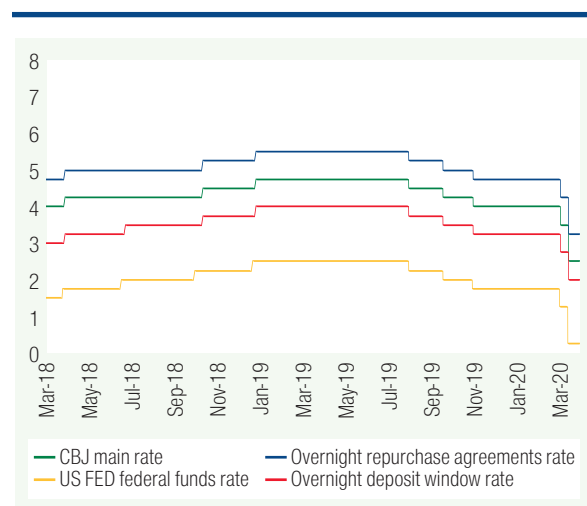
domestic businesses. Effective March 17, 2020, the CBJ main interest rate stands at 2.50 percent (see Figure 15 & Figure 16). Cumulatively, CBJ has brought down its key benchmark interest rates by 225 basis points since August 2019. In addition to policy rate action, CBJ also reduced its compulsory reserve ratio on deposits with banks from 7 to 5 percent; a policy it already introduced after the global financial crisis of 2009. According to the CBJ, this measure will provide additional liquidity to banks in the amount of JD 550 million (or US\$776 million).¹⁴

Low real interest rates together with other non-policy rate actions introduced by the CBJ would help businesses and households during the pandemic. With inflation already trending down, the recent cut in key interest rates by the CBJ would

¹³ Since February 2020, more than 60 central banks—accounting for 95 percent of world GDP—have reduced their policy rates to counter the imminent economic downturn in light of COVID-19 pandemic.

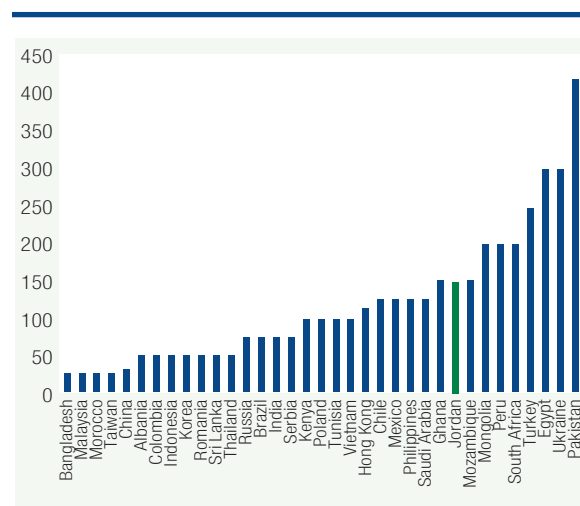
¹⁴ The CBJ also conducted repurchase agreement operations totaling JD 500 million at 2 percent interest rate with terms up to one year. Moreover, the CBJ launched a JD 500 million soft financing program for small- and medium-sized enterprises, with the Jordan Loan Guarantee Corporation acting as guarantor on the loans.

FIGURE 15 • CBJ Key Interest Rates & US Fed Rate.
Percent per annum



Sources: IMF, National Central Banks.

FIGURE 16 • Policy Rate Changes of EMs' Central Banks.
Selected countries, basis points
(bps), reduction since Feb 1, 2020



Sources: IMF, National Central Banks.



BOX 3 • Some Observations on the Recent Revision in Inflation Basket

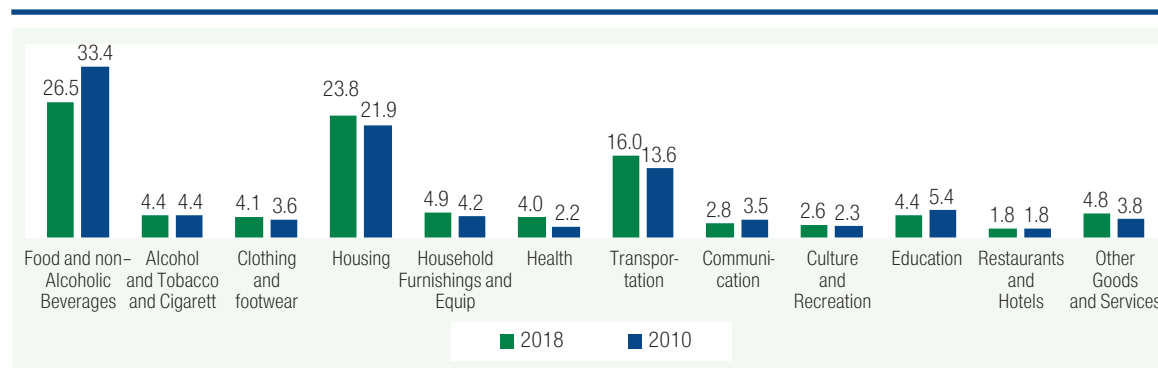
On 25th Feb, Jordan's Department of Statistics updated the base year of the Consumer Price Index (CPI) to 2018 instead of 2010, using the latest 2018 Household Income and Expenditure Survey (HIES). For the new CPI base, while the number of composite commodities group (12) and items (37) remained the same as previously, the weights for each group and item have been revised.

Detail data indicates that the major downward change came in 'Food and non-Alcoholic Beverages' group where the weight has been revised down to 26.5 percent as compared to 33.4 percent in old CPI base (see Figure 17). Within 'Food and non-Alcoholic Beverages' group, 'Meat and Poultry' explain most of the revision in weight as it was revised down to 4.7 percent from 8.2 percent in old CPI base. Other major items that reflect changes in 'Food and non-Alcoholic Beverages' group includes 'Vegetables and Legumes Dry and Canned' and 'Cereals and Products,' with the weight of the former revised down to 3.0 percent from 3.9 percent and the latter to 4.2 percent from 5.0 percent.

Similarly, the major upward revision in CPI weights came in 'Housing' and 'Transportation' groups. Housing weight increased to 23.8 percent as compared to the old weight of 21.9 percent. Furthermore, weight for transportation group increased to 16.0 percent in the 2018 basket as compared to 13.6 percent in the old basket.

According to the new CPI base, the annual average CPI inflation in 2019 is estimated at 0.8 percent, which was 0.3 percent as per the old base. Detailed CPI data indicates that the above highlighted divergence in both CPI series is largely explained by the 'Transportation' group, as the trend in all other commodity groups appear to be moving close in both series.

FIGURE 17 • Jordan's Consumer Price Index – Commodity Group Weights.
% weight of each group in the basket for respective base year



Source: Department of Statistics.

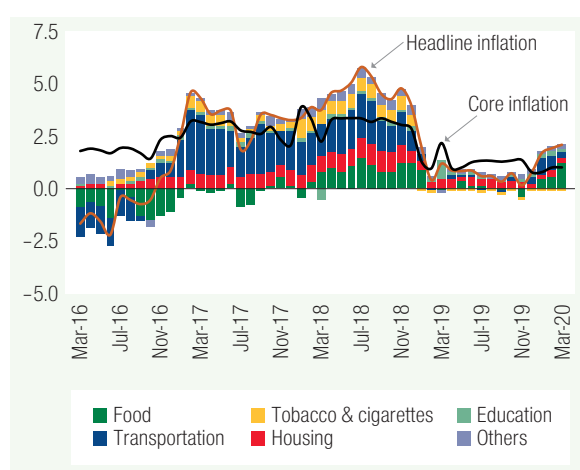
help reduce otherwise relatively higher real interest rates and provide necessary monetary stimulus to the economy. Specifically, before the current easing cycle initiated, the ex-post real policy rate was hovering around 3.5 to 4.0 percent, against below 1.0 percent currently. Notwithstanding, in the presence of a pegged exchange rate regime, the role of CBJ monetary policy would remain limited. To address this, in addition to reduction in reserve ratio, CBJ also introduced several non-policy rate actions to mitigate the economic downturn in wake of the COVID-19 pandemic. For instance, one of the measures allowed licensed banks to restructure the loans of individuals and companies, especially medium and small ones, which have been affected by the current situation.¹⁵

Subdued trend in commodity prices supported the CBJ's expansionary monetary policy stance.

Headline Consumer Price Index (CPI) inflation was recorded at 0.8 percent in 2019 as compared to 4.5 percent in 2018. Receding impact of one-off increase in taxes in 2018, and trend in the international commodity prices, particularly of oil, were the key factors, along with an economy operating below potential, which kept inflation on lower side in 2019. Similar trends were observed in core inflation, which is calculated after adjusting for food, fuel, and transportation prices. For

¹⁵ For details related to non-policy rate actions by CBJ see, <http://www.cbj.gov.jo/DetailsPage/CBJEn/NewsDetails.aspx?ID=279>.

FIGURE 18 • CPI Inflation, its Drivers & Core Inflation.
Year-on-year percent change, contribution in percentage points



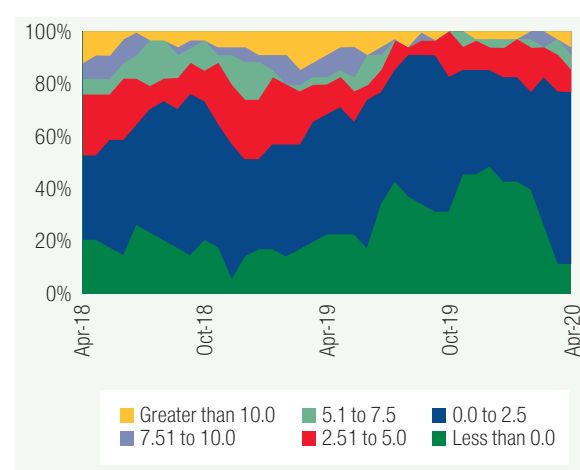
Source: CBJ.

the first three months of 2020, according to the new CPI base, average headline CPI inflation stands at 1.9 percent (see Box 3). Core inflation is indicating 1.2 percent increase on cumulative basis in three months of 2020 as compared to 1.4 percent in the same three months 2019. Detail data shows that food, housing and transportation prices—having a combined share of 66.3 percent—were major drivers of inflation in the first three months of this year.

Both supply and demand side factors would keep check on inflation and inflationary pressures.

Being a net oil importer, the subdued trend in commodity prices in Jordan is likely to continue in the remaining part of 2020 as well. This is because international oil prices—a major driver of both food and non-food domestic prices—have sharply tumbled since the COVID-19 outbreak first reported in late January 2020 (see Figure 18 & Figure 19). In the first four months of 2020, international oil prices declined drastically, from US\$67 per barrel to US\$28 per barrel as of April 17, 2020; a 58 percent decrease. In addition to the softening of prices from the supply side, the estimates of the output gap further indicate that domestic demand pressures would also remain low this year (Box 4). This would help keep prices on lower side. Having said that, food prices may show some increase in the short-term due to lockdowns, however, its impact

FIGURE 19 • CPI Inflation Dispersion.
% share of commodities showing year-on-year CPI inflation



Source: CBJ.

would be limited as food stocks and production are estimated to be at comfortable levels.

Credit growth decelerated in 2019 and is likely to decline further as outlook for domestic demand continues to deteriorate.

Led by expansion in net domestic assets, broad money supply grew by 4.8 percent in 2019, on a Y-o-Y basis, as compared to the 1.2 percent increase recorded in the last year (see Figure 21). Despite improving liquidity, credit growth slightly decelerated in 2019 as CBJ pursued a tight monetary policy stance for most of the year. Specifically, credit to the private sector grew by 4.3 percent in 2019 against 5.8 percent growth in 2018. This increase was largely due to improvements in tourism, construction, and revival in some industrial activities. Credit growth to public sector remained negative in 2019 as together with the narrowed current account deficit and better official flows, government reliance on domestic resources reduced to finance the budget deficit. In the first three months of 2020, credit to private sector on average increased by 4.9 percent on a Y-o-Y basis. This trend, however, is likely to deteriorate in the period ahead as domestic demand is expected to hit hard during the lockdowns. Particularly, credit to sectors such as industry, general trade, and tourism are expected to face headwinds in the short-term (see Figure 22).



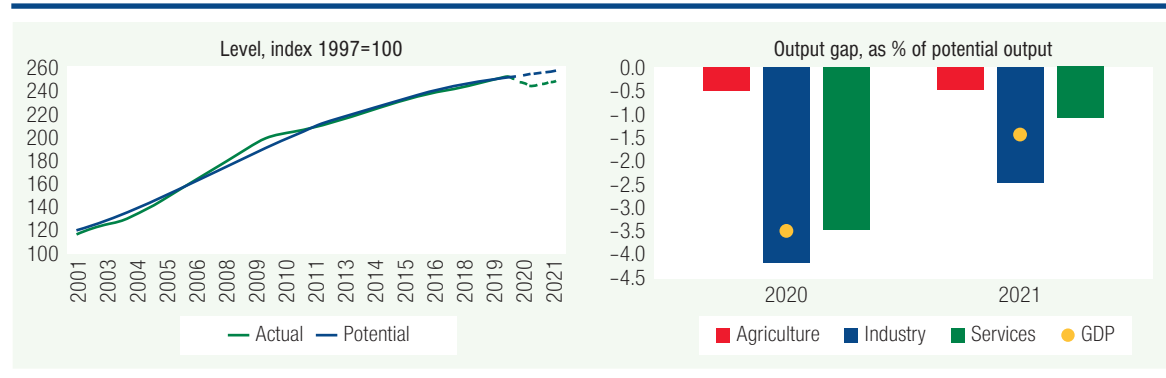
BOX 4 • Jordan's Output Gap Assessment in the Light of COVID-19 Pandemic

The COVID-19 pandemic has substantially downgraded the global economic outlook for this year. Upcoming information from across the world is suggesting that the economic impact is larger than the global financial crisis of 2007–08. Jordan's economy, which was already reporting subdued economic activity for the past decade, is projected to be significantly impacted through both direct (i.e., tourism, remittances, and exports) and indirect (i.e., lockdowns or social distancing measures with a profound impact on air-travel, transportation, and restaurant as well as retail trade) particularly in the near-to medium-term. Specifically, the latest World Bank staff projections (see details in the outlook section of the report) are for an economic contraction of 3.5 percent in 2020 before recovering gradually the next year with growth of 2.0 percent.

In this context, an assessment of the potential output (or output gap) provides key information to policymakers to judge inflationary or contractionary pressures and the cyclical position of the economy. If actual output is trending below the potential output, it indicates excess capacity and may require easing of monetary conditions or other policies to stimulate demand and vice versa. However, since estimating potential output of any economy is a difficult job due to its unobserved nature, researchers have, over time, developed both statistical and theoretical techniques in order to analyze the cyclical position of the economy.

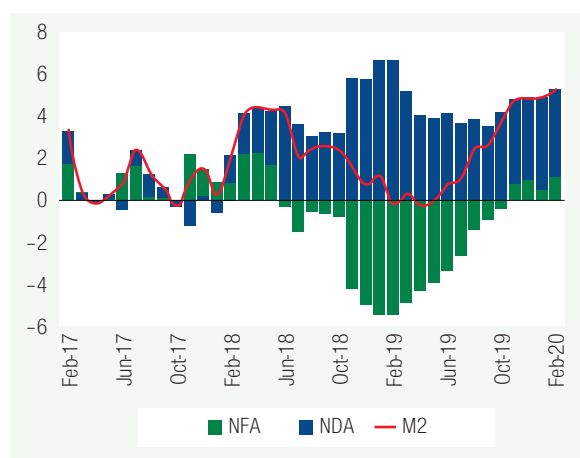
To assess the output gap for Jordan, we employed both statistical (using Hodrick-Prescott Filter) and theoretical approaches (such as Cobb-Douglas' Production Function) for estimating the potential output for 2020 and 2021. Our assessment indicates that, with already weakening potential, the Jordanian economy would likely to suffer significant loss due to the pandemic in 2020 as the output is estimated to fall around 3.5 percent below its potential. For 2021, though economic activity is projected to recover, however, it would continue to operate below its potential.

FIGURE 20 • Trend in Jordan's Actual and Potential Output, and Output Gap Assessment for 2020-21.



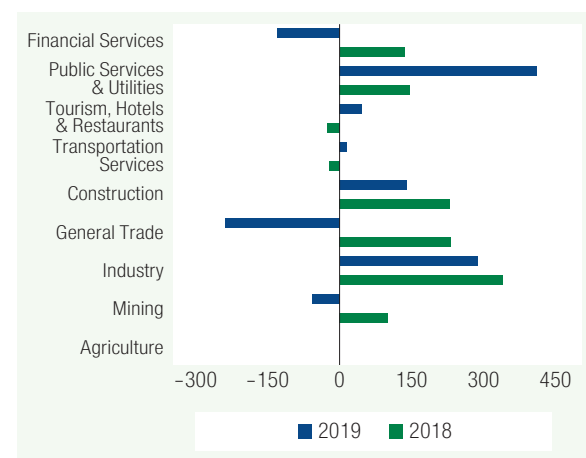
Note: The assessment is based on annual data for 1980–2018. From 2019 onward, the assessment is based on the country's latest WB projections.

FIGURE 21 • Money Supply and its Components. Year-on-year percent change, contribution in percentage points



Source: CBJ.

FIGURE 22 • Credit Flow by Economic Activity. JD million



Source: CBJ.

OUTLOOK AND UPCOMING CHALLENGES



Photo courtesy of Shutterstock.com.

Outlook and Risks

The COVID-19 pandemic is projected to create the worst recession in Jordan since 1989. Jordan is facing significant multifaceted socio-economic challenges brought about by the COVID-19 pandemic. These challenges are further amplified by

the fact that the country is already moving along a low growth trajectory amid high youth unemployment rates for the last decade. So far, the policy response by the authorities, with support from the international community, is to remain prudent and would help to recover economy when the pandemic subsides and lockdowns ease. However, in the short term, the



pandemic has caused significant damage to the outlook of the economy by affecting both the lives and livelihoods of common citizens. Specifically, Jordan's economy is projected to contract by 3.5 percent in 2020, observing the worst recession since 1989. This assessment specifically takes into account the Jordan's higher level of integration with outside world in proportion to size of its economy. Over the medium-term, the economy is expected to gradually recover, nevertheless, due to deep-rooted structural weaknesses, it would continue to operate below its potential.

Jordan's external accounts are expected to remain under pressure in 2020 due to the COVID-19 pandemic. The current account deficit is projected to widen from 2.8 percent of GDP in 2019 to 5.0 percent in 2020 before gradually narrowing over the medium-term. As highlighted, this deterioration is expected due to economy's higher level of integration with the global economy in proportion to its size (around 80 percent). A sharp slowdown in exports and travel receipts are expected because the pandemic is disrupting trade and global value chains across the continents. Although lower oil prices will reduce energy related import bill in 2020, it will not fully offset the negative impacts of the pandemic on exports of goods and services. Moreover, flows from remittances are also expected to contract as they are largely sourced from oil exporting economies. The weakening external accounts, amid unfavorable global financial conditions, highlight Jordan's higher dependence on official flows, particularly when a large Eurobond payment comes due in late 2020 as well.

Inflation is projected to remain subdued with considerable downside risks in 2020. The softness in prices is mainly coming from the favorable outlook for international commodity prices, particularly oil prices. Furthermore, subdued demand conditions—as reflected through a significant widening of Jordan's output gap—would also keep the inflation range bound during 2020. This outlook broadly takes into account an anticipated uptick in food inflation that could arise if disruptions are prolonged. Over the medium term,

inflation is expected to follow moderate trend and gradually converge to its recent historical path.

The pandemic is expected to create significant fiscal outrun, putting additional pressure on already elevated debt levels. Domestic revenues are projected to shrink significantly in the short term. This assessment takes into account the significant decline in aggregate demand and imports, particularly during Q2-2020 as the economy remains largely under lockdown. On the spending side, recurrent spending is projected to experience a one-time increase in 2020 due to an unanticipated increase as a result of COVID-19 related expenses. This, coupled with inherent rigidities on the recurrent side, make it difficult to drive any tangible fiscal savings. Overall, the fiscal balance of central government (incl. grants) in 2020 is projected to deteriorate to around 7 percent of GDP. Resultantly, debt-to-GDP ratio is projected to rise to almost 110 percent of GDP. Over the medium term, consolidation efforts are likely to resume gradually. The tax effort (as a ratio of GDP) is likely to get a one-time increase in 2021 due to a low base effect. However, given the tax system's underlying low buoyancy, medium-term revenue collection is projected to remain flat at around 17.0 percent of GDP, needing to be offset by additional fiscal measures. Capital spending is projected to rise gradually to 3.7 percent of GDP over the medium-term. Public debt-to-GDP ratio is projected to remain elevated with public debt dynamics albeit stable but susceptible to even a small shock (e.g., growth, or primary fiscal balance).

Significant risk to Jordan's macro outlook lies ahead. The COVID-19 pandemic poses not only immediate but also significant downside risks to economic recovery of Jordan and the world. This risk and the heightened regional uncertainty together pose further challenges to the Jordanian economy. Given deteriorating global liquidity conditions, gross financing needs could become more challenging to meet and hence further heighten Jordan's dependence on official flows. Over the medium-term, growth revival and the pace of job creation—the key to long-term sustained reductions in poverty and

TABLE 4 • Jordan Selected Economic Indicators

	2017	2018	2019e	2020f	2021f	2022f
<i>Annual percent change unless indicated otherwise</i>						
Real GDP Growth (at Constant Market Prices)	2.1	1.9	2.0	-3.5	2.0	2.2
<i>Annual percent change unless indicated otherwise</i>						
Inflation (Consumer Price Index)	3.3	4.5	0.8	0.5	2.0	2.3
<i>Percent of GDP unless indicated otherwise</i>						
Total Revenue and Grants	25.7	26.1	24.7	22.9	25.4	25.5
Total Domestic Revenue	23.3	23.2	22.2	19.7	23.2	23.7
Tax Revenues	15.9	15.8	15.5	13.9	16.9	17.3
Non-tax Revenues	7.4	7.4	6.6	5.8	6.3	6.3
Grants	2.4	3.0	2.5	3.2	2.2	1.9
Total Expenditures incl. Use of Cash	28.2	29.8	29.4	30.1	30.1	30.2
Current Expenditures	24.5	25.4	25.5	27.2	26.6	26.5
Capital Expenditures	3.7	3.2	2.9	2.9	3.5	3.7
Fiscal Balance ^a	-2.2	-3.4	-4.7	-7.2	-4.2	-3.4
Primary Balance ^a	0.7	0.0	-1.0	-3.0	-0.3	0.5
<i>Annual percent change unless indicated otherwise</i>						
Current Account Balance (% of GDP) ^b	-10.8	-7.0	-2.8	-5.0	-4.6	-4.3
Exports	-0.5	3.1	7.3	-16.0	5.0	4.5
Imports	6.1	-0.9	-4.8	-10.6	6.7	2.8
Travel Receipts	14.7	13.2	10.2	-40.0	30.0	10.0
Workers' Remittances	0.3	-1.1	0.9	-15.0	-1.0	1.0
Memorandum Item:						
Public Debt (% of GDP) ^c	94.3	94.4	99.1	110.8	112.0	112.0

Sources: World Bank.

Note: e = estimate, f = forecast.

^a Includes grants, adjustment on receivables and payables (use of cash), and additional fiscal measures (fiscal gap). Additional fiscal measures are to target deficit reduction following nomenclature of IMF-EFF program.

^b Includes grants.

^c Government and guaranteed gross debt. Includes Water Authority of Jordan estimated borrowing for 2019–2022. Includes legacy arrears in 2019.

vulnerability—depend on the pace of global recovery and the economy's own resilience; the latter can be strengthened by having a steadfast focus on

implementing structural reforms. The new IMF EFF program will be instrumental for Jordan's medium-term macroeconomic stability in this challenging time.



SPECIAL SECTIONS

Women and Work in Jordan

Female workers are disadvantaged in Jordan.

Women's participation in the labor market in Jordan is the fourth lowest in the world with less than 15 percent of women working or looking for work. Jordanian women fare worse than their neighbors in the Kingdom of Saudi Arabia, for example, but do better than those in Iraq and the war-torn Syrian Arab Republic and Republic of Yemen. This level of economic engagement among women is almost 7 percentage point lower than for the average in the Middle East and North Africa region, and 46 percentage points lower than among other upper-middle income countries in the world.

Labor participation rate varies significantly by gender.

There are greater differences in labor participation between women of different education levels than there are between educated women and men. Participation is particularly low for less educated women; few non-tertiary-educated women are in the labor force. Better educated women are more likely to work in Jordan. However, only half of women with tertiary education work, compared to two-thirds in Iraq and Lebanon (Figure 23).

Women willing to work face significant wage gap.

Jordanian women who do want to work face an unemployment rate reaching almost 25 percent in 2019,¹⁶ nearly twice that of men—meaning that low rates of female participation mask an even lower

rate of employment. Moreover, those women who do work tend to work in certain sectors and earn less than men do for comparable jobs. The gender wage gap for women and men working similar jobs with similar education and experience is about 17 percent in the private sector in Jordan. This combination of high unemployment and lower pay likely discourages some women from seeking work at all.

Expanding women's access to economic opportunities remains critical.

Equal access to economic opportunities as men enjoy is a precondition for ensuring that everyone reaches their full life potential. Gender equality is important in its own right, and not only due to its instrumental value, for a fair treatment of all individuals and increasing their personal agency.

Expanding women's access to economic opportunities is also important to improve families' welfare and to contribute to poverty reduction. Additional resources can represent, in some cases, the difference between having children attend school and being properly fed or not. Evidence suggests that increasing women's control over household incomes benefit children.

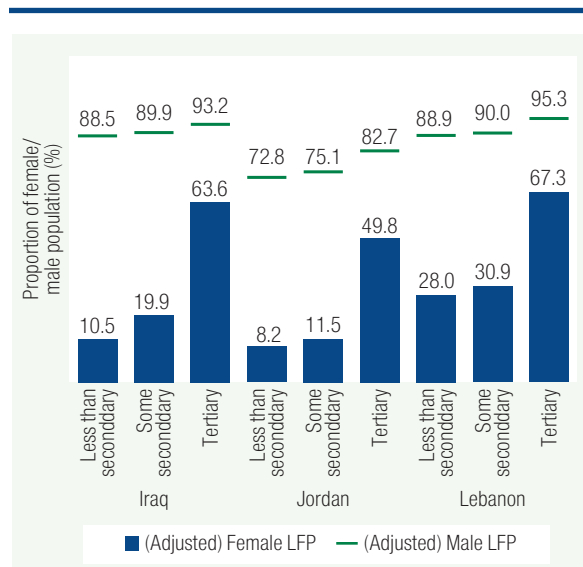
Such expansion is a pre-condition for sustained economic growth in Jordan.

Significant and

¹⁶ ILO modelled estimates from World Development Indicators.

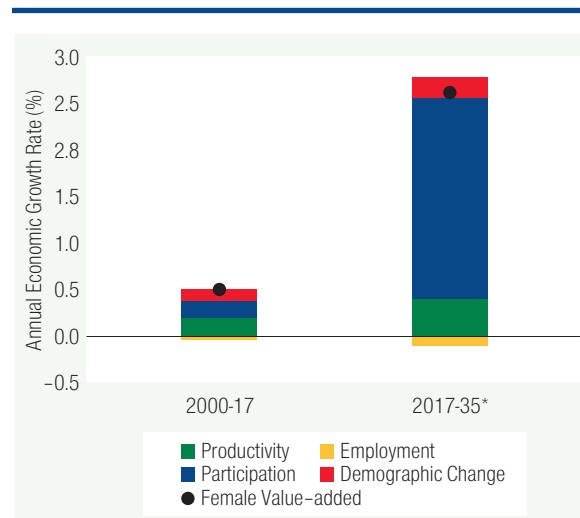


FIGURE 23 • Labor Force Participation in Jordan, by Education Level.
Percent



Sources: 2011/12 Lebanon Household Budget Survey; 2012 Iraq Household Socio-Economic Survey; 2016 Jordan Labour Market Panel Survey 2016.
Note: Participation rates for those aged 15–64. Adjusted labor force participation rate is defined as the share of women (men) in the labor force over the total population, excluding those in full-time education.

FIGURE 24 • Female Workers' Contribution to Growth.
Percent



Sources: Value added data are from World Development Indicators (WDI), World Bank calculations, and World Bank (forthcoming); population/demographics data are from United Nations Department of Economic and Social Affairs, World Population Prospects 2017 Update, and World Bank calculations from World Bank (forthcoming); and employment and participation data are from modelled International Labour Organization estimates (from WDI). Historical calculations done with the World Bank's Jobs Structure tool; future calculations are original for this report.

sustained increases in female labor participation would potentially have substantial impacts on economic growth. From 2000 to 2017, the annual economic growth rate in Jordan was 1.5 percent; increases in the value added by female workers contributed 0.5 percentage points of this (Figure 24). If female participation increased by one percentage points for the next fifteen years, annual economic growth would be increased by 2.5 percentage points by 2035.

Achieving this is not easy. Few countries have achieved this degree of increase beginning from such a low starting point. This special section summarizes the barriers to women's economic participation and outlines a forward-looking agenda for policy makers and researchers.

The labor market is largely constrained by weak labor demand. Weak labor demand represents the major constraint for obtaining gainful employment for both women and men. The implication is a persistently high unemployment rate, especially among youth and women. Low labor demand in turn is driven by weak economic growth.

Female workers face multiple additional barriers in the labor market. Harassment in the workplace and on public transportation is common, preventing many women from accessing economic opportunities. Poorer women are often disproportionately affected, for instance, because they are the most reliant on public transport. According to Arab Barometer, 1 in 3 women in Jordan have been verbally harassed in public and nearly 1 in 10 have been physically harassed, less than in Iraq and Lebanon but still unacceptably high. Another recent survey found that 81 percent of women think economic participation would be improved through better and safer public transportation, and 47 percent said they had refused to take a job because of lack of access to safe transportation.¹⁷ In addition to safety concerns, women face other restrictions related to societal expectations of the role of women, to employers who are reluctant to employ them, and in some cases to legal restrictions

¹⁷ Friedrich Ebert Stiftung (FES) and SADAQA. 2018. Gender in Public Transportation: A Perspective of Women Users of Public Transportation.

(and a lack of awareness and enforcement of rights and obligations) on the nature of work women can do.

Social norms further exacerbate low participation rates.

Participation rates fall for married women because of a combination of preferences and social norms around women's roles and responsibilities after getting married. Lower education is correlated with less equal views on gender roles at home and on women's decision-making power. For women of all education levels, the number who work drops significantly when they marry, likely reflecting a combination of personal preferences, an expectation of having children soon, and social norms. Importantly, most Jordanian women agree that being a housewife is just as fulfilling as working (Figure 25). This is true even of women with tertiary education; only 23 percent disagree with this, compared to 31 percent in Iraq and 43 percent in Lebanon.

Additional barriers faced by female workers with child.

Finally, as women become mothers, additional barriers to participation in the labor market emerge with further demands on household chores and childrearing. Acceptability, perceptions about the availability of quality of childcare, and its accessibility

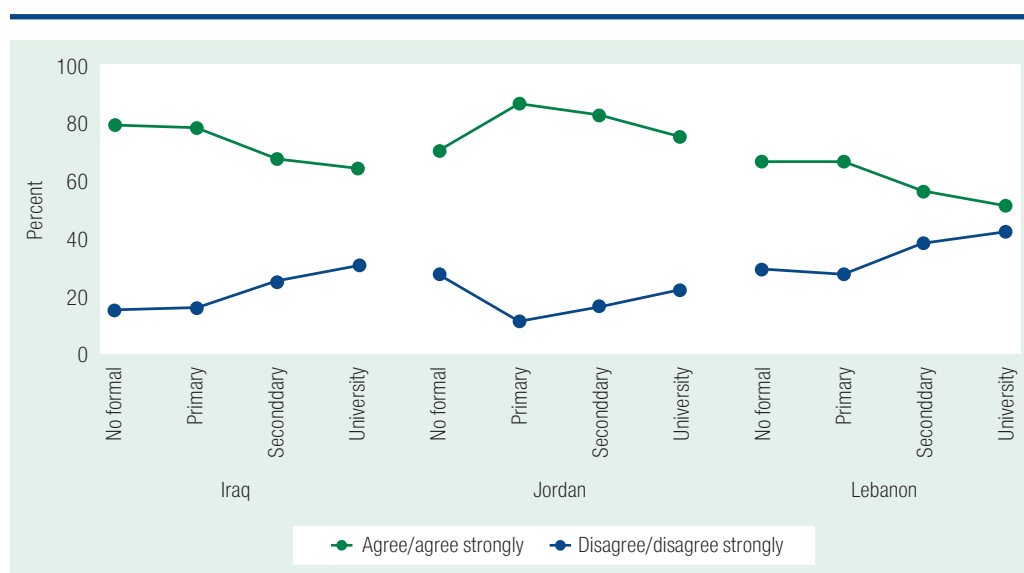
and affordability are all additional factors preventing women with children from entering or remaining in the labor market. Legal frameworks and adequate facilities that might support families in balancing work and family duties are incomplete.

Further legal reforms and regulations are needed to address the gender gap in labor market.

Foremost, economic growth needs to be stronger, and more jobs must be created. However, job creation itself will not be enough. In many cases, revisions to laws and regulations are needed. In other cases, interventions are needed to address the issues with public transportation and the supply of childcare that prevent women from accessing economic opportunities. Finally, although social norms can be difficult to change, some interventions have proven successful elsewhere, particularly those aimed at correcting misperceptions.

Although Jordan has taken important recent legal reforms, such as the removal of night hour restrictions on women's employment, restrictions and legal differentiation between women and men remain. This includes constraints on women's mobility such as traveling outside the home and the country,

FIGURE 25 • “Being a Housewife Is Just as Fulfilling as Working”.
Percent



Source: World Values Survey Wave 6 (2010–14) and World Bank calculations.



the ability to obtain passports, and to divorce and remarry like a man. Women are prohibited by law from accessing certain jobs and industries while the law does not mandate equal pay for work of equal value. Additionally, the law does not establish paternity or parental leave in the private sector.

Furthermore, there is no legal prohibition on gender-based discrimination in access to credit and financial services, which can negatively affect women's ability to establish and run businesses.¹⁸ At the same time, the gap between the law on paper and the law in practice needs to be closed. Changes in the legal framework mean little if unaccompanied by public awareness or compliance and enforcement. These issues can arise because of unclear legislation, poor enforcement, women's lack of knowledge, and women's ability or options to seek justice.

Additional measures to improve the public transportation and childcare are of equal importance.

Improvements to public transportation are needed beyond responding to and criminalizing sexual harassment. It must be made safe, affordable, and reliable. A recent study makes a series of recommendations, including greater connectivity between cities to open up more economic opportunities for women; a focus on shortening time spent in transit and improving cost efficiency; hiring more female conductors, bus-drivers, and ticket sale officers to make it a more inclusive space; and making bus stops and depots safer through better lighting, continuous surveillance, and access to security officers in the case of emergency.¹⁹

Additional care policies are required to make working more family-friendly, including leave entitlements for sick or disabled relatives and family-friendly working arrangements such as part-time work, flex work, and telecommuting.²⁰ Addressing the care market could liberate women from unpaid housework and care responsibilities while creating new jobs, often for women. Despite prevailing social norms and preferences for performing such tasks at home, Jordan has a large unmet demand for child and elder care, especially as it enters the transition to an aging society.

The COVID-19 pandemic will have a disproportionately negative effect on women and their employment opportunities.

The economic downturn caused by the current COVID-19 outbreak has substantial implications for gender equality. Compared to other economic downturns, which affect men's employment more severely than women's employment, the employment drop related to social distancing measures has a large impact on sectors with high female employment shares (such as restaurants and hospitality). In addition, closures of schools and daycare centers have massively increased childcare needs and most families have no choice but to watch their children themselves. Based on the existing distribution of childcare duties in most families, mothers are likely to be more affected than fathers. Taken together, these factors suggest that the COVID-19 pandemic will have a disproportionate effect on women and their employment opportunities, and the effects of this shock are likely to outlast the actual pandemic.

Jobs Diagnostics

Job creation for youth and women is weak.

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

Slowing growth has been a major driver of weak job creation.

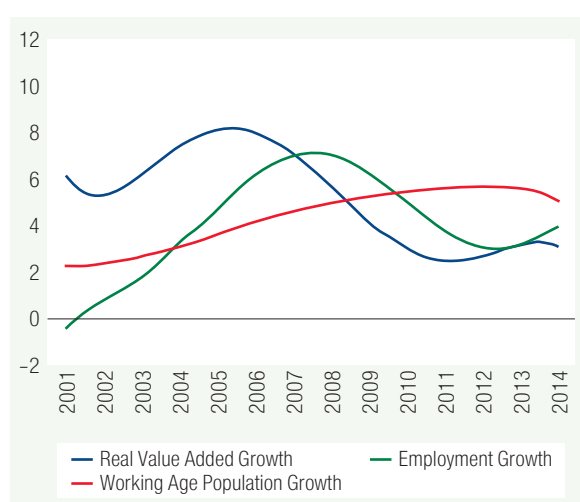
Macroeconomic growth was weak and did not provide enough aggregate demand to induce job growth. A low rate of job creation made it difficult for new labor market entrants to find jobs, leaving the economy stuck with low labor force participation

¹⁸ World Bank. 2020. Women, Business and the Law 2020.

¹⁹ Friedrich Ebert Stiftung (FES) and SADAQA. 2018. Op cit.

²⁰ ILO (International Labour Organization). 2018. Care Work and Care Jobs for the Future of Decent Work.

FIGURE 26 • Economic Growth Is Weak, so is Employment Growth...
Growth in percent, smoothed using a six-degree polynomial



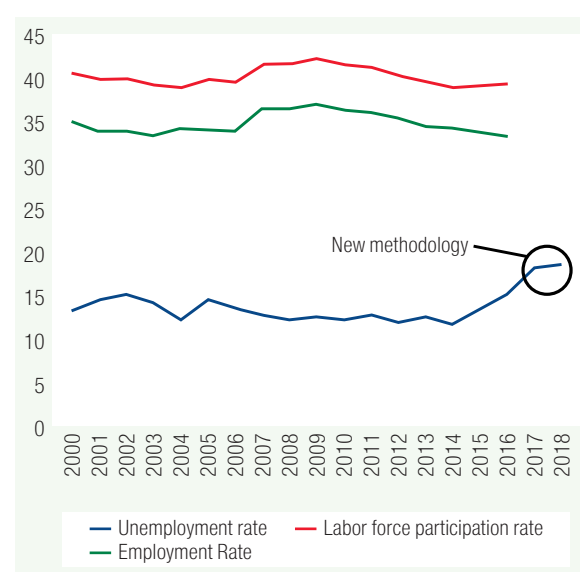
Source: World Development Indicators, Jordan Employment and Unemployment Survey, and World Bank Staff calculations.

Notes: It is assumed that employment growth for Jordanians is the same as that of Jordanians and non-Jordanians. Working-age population growth is representative of Jordanians and non-Jordanians.

rates—one of the lowest in the world for women and youth. In addition, only one of every three working-age Jordanians had a job. Informality has grown, mostly driven by a broken work permit system that prevents most non-Jordanians from having a formal job.

Economic growth has not sufficiently translated to better labor market conditions. Economists track the relationship between jobs and growth using Okun's Law, which says that higher growth leads to more job creation and lower unemployment. In some countries, when growth picks up, job creation goes up and unemployment falls; in other countries the response is quite muted. For Jordan evidence remain mix. The growth of total employment increased rapidly from about 1 percent annually before 2003, to about 5 percent or more a year between 2007 and 2009 (Figure 26). While during the 2000–2008 period of high economic growth, employment did not grow as much. Employment elasticity of growth averaged 0.42 during 2000 to 2008, which is still on the low side. Thus, despite positive economic growth, unemployment rates hardly changed over the high growth period (2000–2008).²¹

FIGURE 27 • ... Translating Into Low and Stagnant Labor Force Participation Rates.
Percent



Source: World Development Indicators, Jordan Employment and Unemployment Survey, and World Bank Staff calculations.

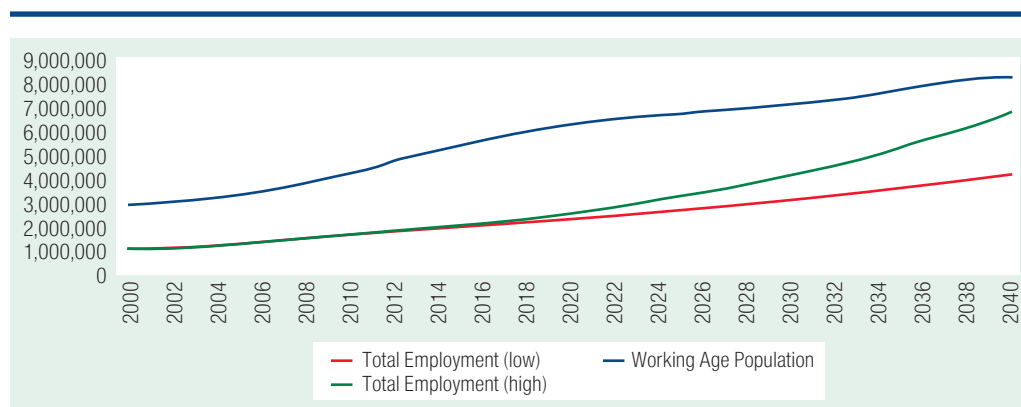
Rapid population growth continues to outstrip gains on the job creation front. The economy's rate of job creation was outstripped by substantial growth in the labor force. Job creation exceeded the growth of the working-age population in only three years during 2001–09. The unemployment rate fell only slightly from 13.1 percent to 12.9 percent from 2007 to 2009. Using existing population projections and if the rate of job creation stays at approximately 2015 levels, employment rates would remain at 50 percent or less of the labor force until 2040 (Figure 28). Only under the assumption that employment creation remains at 5 percent every year from 2015 through 2040 would employment rates reach 80 percent of the working age population in 2040. The GDP growth required to achieve such job creation is 6.2 percent a year, or higher.

Jordan's labor markets are very segmented, making it hard for firms to adapt to changing conditions and employ labor effectively. Labor

²¹ Hashemite Kingdom of Jordan, Systematic Country Diagnostic, February 2016, The World Bank.



FIGURE 28 • Rate of Growth of Working Age Population Outstripping Employment Growth.
Number of people



Source: WDI and UN 2017 Revision of World Population Prospects, accessed online on December 9, 2017.

Note: The projection of employment after 2015 assumes the same rate of growth of employment from the year 2015 (low) and the year 2008 (high).

market segmentation across gender, nationality, formality and informality, as well as public and private has become even more acute over the past years. People in one segment of the market have a hard time crossing over to another even when they are well-qualified and experienced to do so. The economy loses out on this underused talent and businesses cannot employ labor most productively. One of the most staggering forms of labor segmentation is between men and women. Despite massive increases in college graduation rates, women increased their labor force participation only slightly over the last 18 years. On average, they earned wages comparable to those of men, because they are, on average, better educated. But, when comparing men and women with the same education and experience, women earn, on average, wages 15 percent lower than men. This has economic costs since women are discouraged from participating in the labor force and may ultimately decide that more years of education do not pay off.

Labor segmentation appears to be on the rise.

The share of unprotected workers in the informal sector has increased since 2010 to almost 60 percent of all workers. The large inflows of non-Jordanians and their disproportionate concentration in the informal and unskilled sectors magnified the segmentation of the labor market across nationalities. Agriculture,

construction, administrative services, and real estate are dominated by non-Jordanian workers.

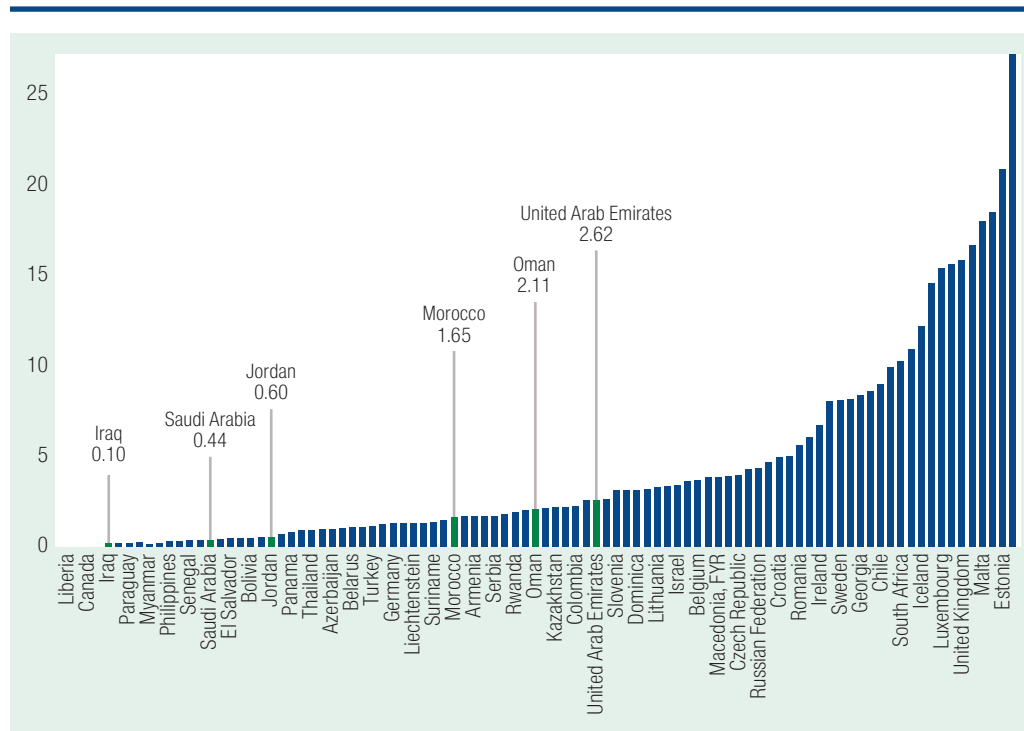
A widening wedge between public and private compensation is a concern.

The public sector continues to employ almost half of Jordanian workers in the formal sector. While real wages in the private sector remained stagnant over the last 10 years, the wage premium for government jobs increased 300 percent. The private–public sector wage gap may crowd out human resources from the private sector, affecting competitiveness. This increase in the cost of labor may mostly affect the demand for workers with high school education or less.

A slowing economy weakens firm dynamics and dampens their ability to create jobs.

This dampening reduces labor demand. For example, relatively low rates of firm entry and exit suggest that the churning of creative destruction is limited or non-existent in the Jordanian economy. In addition, most private sector firms are either very small and tend to stay small—or are large and old—so entrants do not grow, and incumbents remain unchallenged and entrenched. Poor firm dynamics translate into lackluster employment outcomes. For example, job creation is moving from high to low productivity sectors characterized by high informality, driving down overall levels of labor productivity and wages.

FIGURE 29 • New Business Entry Is Comparatively Low.
New business density (new registrations per 1,000 people ages 15-64)



Source: World Bank's Entrepreneurship Survey and database.

Note: New business density (new registrations per 1,000 people ages 15-64) in 2016 or latest year available.

Small firms are proliferating but have a short survival span. Of one-person establishments in 2006, 65 percent were the same size in 2011. Among the one-person establishments that managed to grow, almost all of them did not grow beyond having nine employees in 2011. Firms' growth prospects in Jordan are even lower than other countries in the region. While fewer than 10 percent of Jordanian firms with 20 to 49 employees in 2006 managed to have 50 employees or more in 2011, that figure, according to Schiffbauer et al. (2015)²² is 12 percent in Egypt and Morocco, and more than 13 percent in Turkey.

Young establishments remain far and few. According to data on new business density (new registered businesses per 1,000 people aged 15 to 64 years), Jordan has one of the lowest rates of entry in the world (see Figure 29). While this measure improved between 2007 and 2014, when the rate of entry almost doubled, it subsequently declined steeply back to the 2007 levels. Low exit rates often

indicate a lack of dynamism in the economy since they largely reflect low entry rates. Though firms tend to stay small in Jordan, their entry accounts for a high proportion of job creation. The second group of firms driving job creation are old firms, which tend to be large and foreign-owned.

Labor productivity in Jordan appears to be driven largely by labor accumulation. Labor productivity growth in Jordan was largely driven by changes in efficiency or the quality of human capital rather than by capital accumulation. Education was a key driver of productivity growth, contributing almost twice as much as physical capital to output per worker growth. In other words, people invested in themselves, but businesses did

²² Schiffbauer, Marc; Sy, Abdoulaye; Hussain, Sahar; Sahnoun, Hania; Keefer, Philip. 2015. Jobs or Privileges: Unleashing the Employment Potential of the Middle East and North Africa. MENA Development Report. Washington, DC: World Bank.



not invest in their operations. Combined, this translated into a pattern of declining labor productivity growth that closely followed total factor productivity growth.

The Way Forward. Further improvements in policies can help address the difficult jobs challenge. These include:

- Remove legal and regulatory impediments to more integrated labor markets to reduce labor market segmentation and improve labor force participation rates;
- Reform the worker permit system to reduce informality and improve the chances of young workers getting entry level jobs;
- Reduce the public sector wage compensation that directly competes with private sector demand for high-skilled labor; and
- Improve the business environment, especially for young firms, so that they can grow and create jobs.



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