JORDAN

Table 1	2023
Population, million	11.3
GDP, current US$ billion	50.9
GDP per capita, current US$	4491.1
National poverty rate[a]	15.7
School enrollment, primary (% gross)[b]	87.6
Life expectancy at birth, years[b]	74.3
Total GHG emissions (mtCO2e)	39.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2017/8).
b/ WDI for School enrollment (2014); Life expectancy (2021).

Jordan has demonstrated resilience amidst consecutive external shocks, preserving macroeconomic stability albeit with growing vulnerabilities associated with climate change and regional conflicts. However, addressing structural challenges in the labor market and the business environment remains essential to achieve sustainable higher economic growth and employment. The country's susceptibility to climate-related shocks further emphasizes the need to tackle water, and energy concerns. A sustained focus on reform implementation would help Jordan break out of its low-growth, low employment equilibrium.

Key conditions and challenges

Despite consecutive regional and global external shocks, Jordan has maintained modest economic growth, averaging around 2.2 percent annually over the past decade, supported by a prudent fiscal and monetary policy mix. Jordan's prudent monetary policy has maintained macroeconomic stability, while the country has also achieved progress in domestic revenue mobilization. However, key structural constraints remain entrenched, notably those related to labor market and business environment. Jordan can break out of its low-growth equilibrium by raising productivity, pursuing investment, and export-led growth.

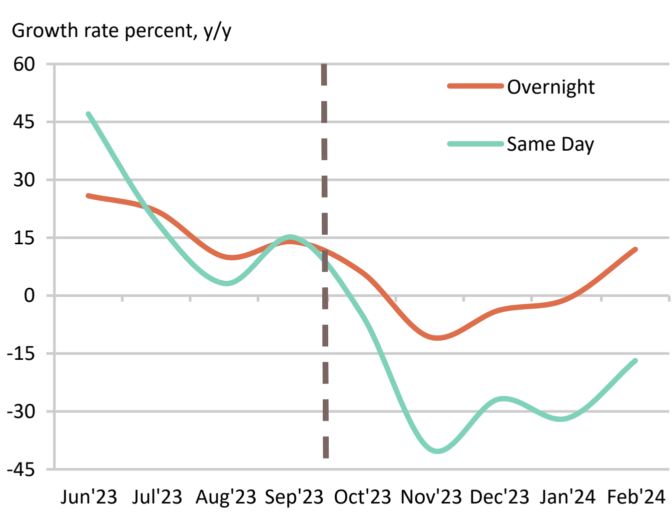
The latest conflict in the Middle East, that erupted on October 7, 2023, initially affected tourism, trade, and investment sentiment across the region, but especially so for neighboring countries like Jordan. The risk of a prolonged and wider conflict could exacerbate existing challenges such as trade disruptions and rising shipping costs, further squeezing fiscal space in Jordan. Additionally, the financial sustainability of the water and electricity sectors remains a concern. Navigating the current complex external environment requires policy agility to preserve macroeconomic stability while also focusing on the implementation of structural reforms. Jordan is one of the most water-scarce countries in the world, and its vulnerability to extreme weather conditions, including rising temperatures and lower precipitation, exacerbates the risks to water scarcity and food security. While no new official poverty rate has been released since 2018, it is likely that any negative economic effects of the neighboring conflict would adversely affect the poorest and most vulnerable households. Declining tourism rates will particularly affect those relying on informal employment with little job security. The refugee population in Jordan is particularly vulnerable. According to the Vulnerability Assessment Framework by the WB and UNHCR, two-thirds of registered refugees live under the poverty line.

Recent developments

The remarkable performance in the manufacturing and agriculture sectors, coupled with the continued robust contribution of services, led to a slight increase in growth to 2.7 percent (y-o-y) in Q3-2023. Revised national accounts in October 2023 showed that manufacturing and agriculture registered their highest average growth rates since 9M-2011 and 9M-2010, respectively. The restaurants and hotels sector also witnessed its highest average growth rate since 9M-2012. Despite the initial setback in tourist arrivals due to the eruption of the conflict, the sector is showing some signs of recovery.

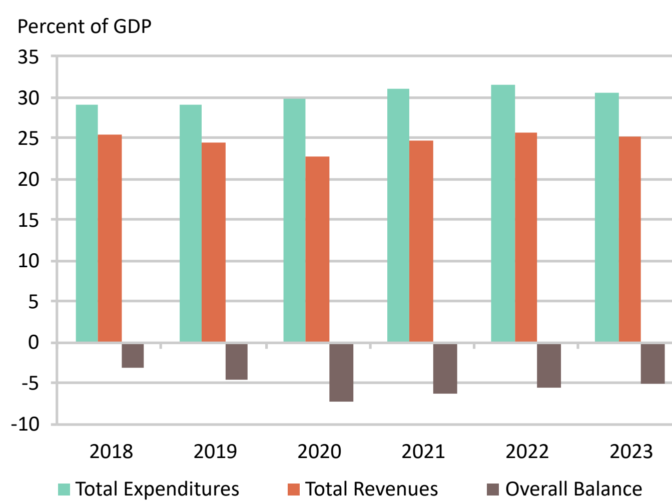
Labor markets slightly improved after declining for three consecutive quarters. Labor force participation improved to

FIGURE 1 Jordan / Tourist arrivals took a hit as the Conflict in the Middle East erupted before gradually picking up again



Sources: Ministry of Tourism and Antiquities and World Bank staff calculations.

FIGURE 2 Jordan / Fiscal performance benefited from lower subsidies in 2023



Sources: Ministry of Finance and World Bank staff calculations.

34.1 percent in Q4-2023, driven mainly by higher female participation which recorded the highest level since Q1-2019 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. Inflation decelerated to 2.1 percent in 2023, mainly reflecting lower commodity prices and monetary tightening.

Fiscal consolidation continued in 2023, but at a pace that leaves debt at an elevated level. The overall fiscal deficit narrowed slightly, to 5.2 percent in 2023, down from 5.6 percent of GDP in 2022. Total revenues declined mainly due to lower grants and slightly lower tax revenues, which more than offset the increase in non-tax revenue. Spending declined slightly due to the phasing out of fuel subsidies, which offset the increase in interest payments. Meanwhile, capital expenditure increased to 3.8 percent of GDP in 2023, staying below the budgeted amount of 4.4 percent of GDP. However, general government debt level remains elevated, reaching 89.4 percent of GDP in 2023.

The CAD halved to 4.2 percent of the estimated full year GDP in 9M-2023, relative to the same period in 2022. This was mainly driven by lower imports, supported by the decline in international prices of key imports (i.e., oil, wheat, and maize) and improved tourism receipts which collectively more than offset the slight decrease in exports and current transfers in 9M-2023. Portfolio investments increased in 9M-2023, supported by the Eurobond issuance by MoF in April 2023 which more than offset the decline in net FDIs, relative to the same period in 2022. At the end of 2023, CBJ's gross reserves of foreign currencies and gold stood at USD19.1 billion (7.6 months of next year's imports of GNFS), relative to USD18.2 (7.2 months of imports of GNFS) in December 2022.

Outlook

Growth is forecasted to register 2.6 percent in 2023, reflecting slower growth in Q4 2023 attributed to the impact of the conflict in the Middle East. The ongoing conflict is expected to weigh on the performance of sectors that have backward and forward linkages with the tourism sector. Moreover, the shift in consumer behavior is also expected to weigh on domestic consumption. Agriculture sector growth is expected to normalize in 2024 after experiencing a strong rebound in H1 2023 due to a favorable base-effect. Accordingly, a subsequent deceleration of real GDP growth rate to 2.5 percent is anticipated in 2024, followed by a resurgence to 2.6 percent thereafter. Relatively stable prices for imported commodities and muted core inflation are projected to keep inflation in check, despite some transitory impact from higher shipping costs due to the Red Sea disruptions.

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, turning into a surplus in 2025 as primary expenditure remain contained. However, the overall fiscal deficit is projected to increase slightly in 2024 due to higher interest payments, before beginning to narrow in subsequent years. Nevertheless, remaining fiscal pressures from the water and electricity sectors are expected to keep Central Government debt levels elevated and growing in the short- to medium-term, while the General Government debt is projected to decrease thanks to continued operating surpluses of the Social Security Investment Fund.

The CAD is projected to continue narrowing supported mainly by the lower trade deficit and higher tourism receipts in 2023, relative to the previous year. Further containment of imports and higher current transfers are projected to support lower CAD in 2024. However, while the baseline projections assume that the conflict in the Middle East will end in the short term, the duration and extent of the conflict may impact the pace of improvement through lower tourism receipts, changes in domestic consumption patterns, trade flow disruptions, and increased shipping costs, which can affect value chains and production costs.

TABLE 2 Jordan / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	3.7	2.4	2.6	2.5	2.6	2.6
Real GDP growth, at constant factor prices	3.7	2.5	2.7	2.6	2.7	2.7
Agriculture	6.6	3.3	5.4	2.4	2.4	2.4
Industry	2.7	3.3	3.0	2.6	2.5	2.4
Services	4.0	2.0	2.4	2.6	2.8	2.8
Inflation (consumer price index)	1.3	4.2	2.1	2.0	2.1	2.1
Current account balance (% of GDP)	-8.0	-7.7	-6.8	-6.4	-5.7	-4.8
Net foreign direct investment inflow (% of GDP)	1.3	2.6	2.5	2.6	2.8	3.0
Fiscal balance (% of GDP)[a]	-6.2	-5.6	-5.2	-5.6	-5.4	-5.1
Revenues (% of GDP)	24.7	25.8	25.3	25.9	26.2	26.3
Expenditures (% of GDP)[a]	30.9	31.5	30.5	31.5	31.6	31.4
Central government debt (% of GDP)[b]	108.8	111.4	114.1	115.2	116.1	116.5
General government debt (% of GDP)[b]	87.5	88.8	89.4	88.9	88.2	87.1
Primary balance (% of GDP)[a]	-1.9	-1.5	-0.4	-0.3	0.1	0.5
GHG emissions growth (mtCO2e)	3.2	3.3	4.2	2.4	2.6	2.6
Energy related GHG emissions (% of total)	62.1	61.3	61.3	61.2	61.0	60.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Including the Adjustment on receivables and payables (use of cash) as per IMF Country Report No. 23/49.
b/ GG coverage refers to CG debt excl. the holdings of the Social Security Corporation (SSC) investment arm. Based on current pension entitlements, the SSC's financial surplus is projected to gradually decline and turn into a deficit, leading GG debt ratio to converge to CG debt ratio over the longer term.