The Economic Reform and Its Impact on Jordanian Economy

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Abstract

Jordan's financial execution stays tempered in 2017 while the monetary change is in advancement; yet there are good signs apparently within easy reach. On the supply side, administrations keep on being the vital driver of GDP development, and these are moved by a strong execution in the travel industry. Jordan's modern segment is relied upon to recapture energy dependent on recuperation in mining and quarrying as the impact of the drop-in potash costs begins scattering .The labor market continues to face high unemployment and low participation as the economy remains in a low growth equilibrium. All pointers are reflecting acute gender-based heterogeneity and youth downgrading in Jordan's labor market. With an inspiring regional viewpoint, contractionary economic and financial policies in place, it is difficult to predict a strong retrieval in GDP growth without continuance structural economic reforms. The reviving of trade ways with Iraq promises well in improving consumption and investment ideas.

Keywords: Economic reform, labor market, unemployment, global economy, financial policy

1.Introduction

Since 1987, Jordan has faced high rates of unemployment and debt. The regional unrest has reflected its negative effects on the Jordanian economy. Jordan's remittances have shrunk abroad, especially in the Arabian Gulf. Jordanian-GCC economic relations have declined after the creation of Kuwait in 1991 and tourism has shrunk. However, in 1992 grew by 16.1%, the highest %age among the MENA countries. Economic growth increased in 1994 by 8.5%.Since 2000, Jordan has joined the World Trade Organization (WTO). This is an indication of the new direction in the Jordanian economy, based on liberalism and a market economy.

Until the end of 1999, the Jordanian economy was largely an economy of the region. It was closely associated with the nature of the Gulf economy. However, since the end of the last decade of the 20th century, the Jordanian economy has gradually become a global framework. The economic level as it turned to the supervisory role rather than the production role and withdrew from the production of services and industry through the application of privatization policies, which included important sectors in the economy such as telecommunications, water and electricity, phosphate and potash, And to facilitate the movement of capital and the opening of doors to foreign investment through laws and agreements and the Jordanian economy began to move towards the economy of knowledge and information technology.

The research aims to identify the new trends in the adoption of economic reform programs and the transition to a market economy must have repercussions and take revenge on the overall economic reality of Jordan. Especially since many economic analysts believe that economic policies and the approach of reform was the main reason for the transfer of the Jordanian economy to what it is, so the study starts from questions can be identified as a research problem.

2. Research Problem

At the end of the 1980s, the Jordanian economy witnessed a severe economic crisis that affected the overall fruitful, industrial and commercial processes. However, the next two decades have witnessed new trends through the implementing many reform policies (structural adjustment, economic stabilization).

- Is the economic reform in all its programs and policies had a positive economic impact?
- Were the achievements and good economic indicators of the Jordanian economy linked to the nature of the editorial approach and the direction of the global economy after it was linked to the economy of the region?

3. Hypotheses of the study

Jordan ranked 82 out of 169 countries in the Human Development Report 2010 compared to 96 in 2009, so Jordan moved from the average human development categories to the high human development categories, although this is an achievement at the social level There is no economic development without human development, so the study starts from the basic assumptions:

a) The first hypothesis: The economic reform policies (structural adjustment and economic stabilization) implemented in the Jordanian economy played an important role and had a positive impact on the increase in the GDP.
b) The second hypothesis: Privatization policies and policies to attract investment and external openness have played an important role in addressing and reducing the indebtedness problem, exacerbated by the end of the 1980s.

4. Phases of Reform in Jordan

Jordan has passed through three main overlapping phases of reform since itsigned its first Stand-By Arrangement (SBA) with the IMF in July 1989 for$275 million. The aim of the first phase (1989–1991) was to stabilize the economy through reducing the budget and current account deficits, control the inflation rate, rebuild the Central Bank’s foreign reserves, and recover from negative economic growth. The government pledged increases in administered prices and specific taxes along with cuts in subsidies to reduce the budget deficit. With the advent of the Gulf War and Jordan’s perceived support of Iraq, external aid dropped, and the SBA with the IMF was terminated in January 1991. The government returned to the previous policies of investment and price controls and increased aids. After the war, the second stage (1992– 1999) proceeded with the procedure of adjustment with the marking of another SBA in February 1992, trailed by two progressive Extended Funding Facility (EFF) plans (1994– 1999).

The second stage saw the usage of restricted auxiliary alteration measures, with a considerable lot of the means executed coming after long postponements. Jordan occupied with a procedure of duty rebuilding, exchange progression, and privatization. For example, a general deal assess was presented in 1994, and the greatest duty rate was sliced from 70 % to 50 % in 1996. The principle goal of such measures was to advance fares and fortify the job of the private segment in the economy. They came rather than what Jordan had done before, in particular empowering import substitution and extending the job of general society area in the economy.

The policies implemented as part of the stabilization and structural adjustment programs during that phase aimed to achieve three main outcomes:

a. A gradual increase in real growth to 4 % by 1997 (actual reached 3.3 %).
b. A reduction in the budget deficit, excluding grants from about 18 % of GDP in 1991 to 5 % in 1998 (actual was 9.7 % in 1998).
c. A virtual elimination of the external current account deficit by 1998 (actual surplus of 0.3 % of GDP).

The high budget deficit reason is that increases in taxes that were supposed to be introduced to compensate for tariff reductions did not materialize due to resistance from business and economic elites.
The third stage (1999 to exhibit) denoted a progressively combined change exertion under the new routine of King Abdullah II. Since expecting power in February 1999, King Abdullah II made financial change one of his best needs and drove various activities and tasks went for monetary improvement, including the foundation of the Aqaba Special Economic Zone.

Within this stage, another EFF game plan was executed from 1999 to 2001, which, as indicated by the Independent Evaluation Office (IEO) of the IMF, "tried to restore the validity of the IMF-bolstered program after an overdue acknowledgment of genuine slippages under the previous course of action." Its objectives were not met. A new SBA was introduced from 2002 to 2004, which to Jordan increased significantly, more than covering its financial deficit. This period has featured an acceleration of the transfer process and a rapid integration of the Jordanian economy in the global economy: Jordan signed three free trade agreements with the United States (October 2000), the European Union (signed November 1997 and amended May 2002) and gained agreement at the World Trade Organization (WTO) in April 2000.The change procedure started in 1989 in Jordan sets high objectives. It went for changing the financial structure of the nation to one that creates self-continuing worldwide movement, making the Jordanian economy progressively aggressive at the local and universal dimensions and coordinating it with the world economy. The change motivation was pushed forward by the emission of an extreme emergency in 1989 and by outside performing artists, as opposed to by the inner political process. The conditionali ties of IMF plans principally set the motivation for change. Despite the fact that there were numerous slippages and postponements, the IMF stayed adaptable with respect to Jordan's execution. As the IEO recognized, the extent of customized monetary change for Jordan was less "eager" than for different nations, and the deviation from the normal was substantial in the 1992 and 2002 SBAs. Additionally, the 1999 EFF immediately supplanted the poor-performing 1996 EFF.

Be that as it may, the IEO inferred that there was no in general special treatment for Jordan. What's more, reciprocal speculation and exchange concurrences with the United States and exchange concurrences with Europe constrained Jordan to ease confinements on exchange and venture. What's more, Jordan's promotion to the WTO has made the nation increasingly delicate to global exchange methodology and principles.

There is little doubt that Jordan has been taking part in wide however specific, moderate, and ungraceful monetary change. Changes were expansive in that they secured open fund, the money related division, exchange controls, change of state-claimed endeavors and privatization, appropriations, and the social wellbeing net.

Changes were particular in that they abstained from tending to dubious issues such as the wastefulness of the organization and the extent of people in general organization. A significant number of the changes were likewise inadequate, started yet then slowed down in view of disappointment all the while or opposition from different gatherings. At long last, as we will see beneath, the changes were ungraceful, neglecting to consider enough the interrelated social and financial difficulties confronting the nation and to address key factors that impact change endeavors and shape their results.

The consequences of financial change have been blended. Jordan has prevailing with regards to balancing out its economy and going into a procedure of advancement and privatization of state ventures. In any case, such change endeavors may not be adequate to give durable answers for the nation's key social and monetary difficulties and to lead its financial change from an economy profoundly subject to different sorts of rents including help, settlements, and credits to a progressively gainful economy and from a state-commanded model to a private sector drove one.

5. Impact of the Syrian Conflict on Jordan's Economy

As the Jordanian and Syrian economies are pitifully coordinated, the total financial effect of the neighboring clash has been contained however sectoral impacts have been material. Syrian displaced person inflows and rerouting of territorial the travel industry to Jordan added to boosting local interest and supporting the recuperation of the travel industry and the development of related administrations. The heightening of the contention since late 2012, nonetheless, has brought about a quickening deluge of Syrian displaced people.

This fundamentally expanded weight on open administration arrangement and exacerbated open funds further. It is additionally expected to have affected Jordanians working in the casual work showcase. A decrease in fares following conclusion of Syrian travel exchange courses, joined with an expansion in imports because of Syrian outcast interest, likewise affected the nation's exchange balance. This Impact is outlined in the accompanying:

- The Syrian clash has set off an as of late quickening inundation of Syrian displaced people into Jordan, with more than 400,000 UNHCR-enrolled evacuees by early-April.
- As the Jordanian and Syrian economies are pitifully incorporated, the total monetary effect of the neighboring clash has been contained.

- Sectorial impacts from the Syrian clash have regardless been material, particularly on outside exchange (Figure 2).
- Public accounts have likewise been adversely affected by the contention and the related flood in exiles to Jordan.
- While joblessness rates barely declined in 2012, the Syrian displaced person inflow has likely adversely influenced business openings in the casual division.
- Tourism is one territory where the contention in neighboring Syria is having a positive overflow on Jordan.
- Tourist and exile streams in 2012 have upheld the development of related administrations parts and formal business.
- While the financial effect of the emergency on Jordan was apparently unobtrusive at first, it has started to intensify as of late2012 and is relied upon to keep doing as such in 2013.

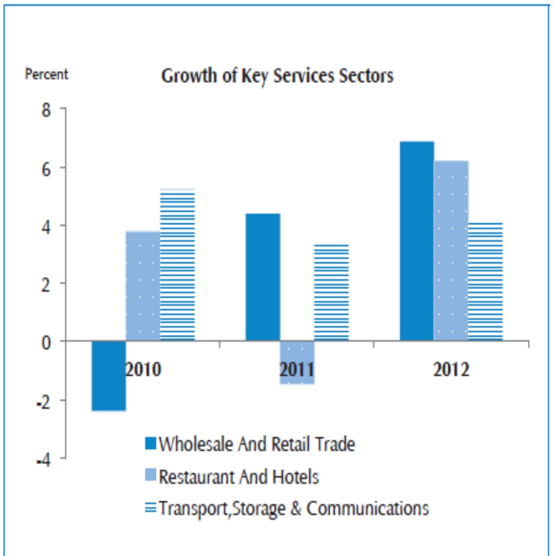

FIGURE 17. Tourism and Syrian refugee inflows have supported growth in key services sectors

Source: CBJ, World Bank calculations.

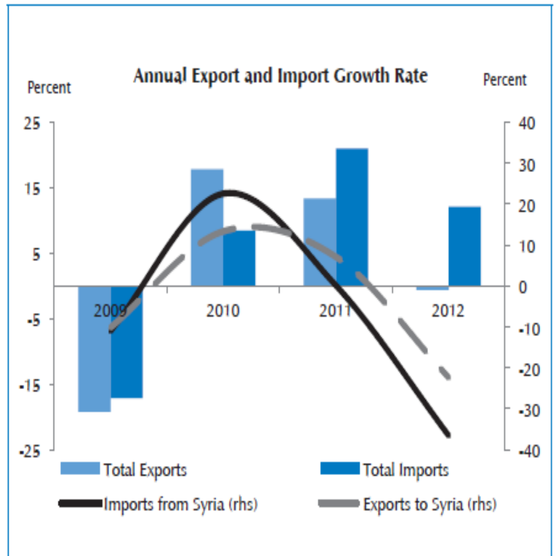

FIGURE 18. Trade has begun to suffer due to impediments to transit trade through Syria

Source: Department of Statistics, World Bank calculations.

Strengths

- Political and money related help from the Gulf governments and the West
- Significant phosphate and potash creation
- Expatriate workforce and the travel industry - huge wellsprings of outside trade Political security, in contrast to neighboring nations

Weaknesses

- Shortage of normal vitality assets and low profitable base
- Vulnerable to global economic cycle and political instability in the Near and Middle East
- Public and outer record lopsided characteristics prompting a reliance on remote guide and outside capital
- Very high joblessness rate (18%)

(6) Recent Economic and Policy Developments in Jordan since (2000 -2017):

❖ **(Output and Demand)**

a. Jordan’s economy has suffered a long period of low economic growth as it met a succession of external shocks.

In 2010, and on the back of the 2008-09 Gulf Cooperation Council (GCC) financial crisis, itself a second-degree ripple of the 2008 global financial crisis, Jordan’s economy entered into a period of prolonged slowdown. This slowdown was further extended by the eruption of the wars first in Syria and then Iraq, both of which continue to smolder.

MAJOR MACRO ECONOMIC INDICATORS

	2015	2016	2017(f)	2018(f)
GDP growth (%)	2.4	2.0	2.3	2.5
Inflation (yearly average, %)	-0.9	-0.8	3.3	1.5
Budget balance (% GDP)	-5.3	-3.2	-3.5	-3.2
Current account balance (% GDP)	-9.1	-9.3	-8.4	-8.3
Public debt (% GDP)	93.4	95.1	95.6	93.5

Territorial headwinds included overflows on the security front, prompting the conclusion of exchange courses with Iraq and Syria, which were both last goals and travel courses for Jordanian fares. This additionally incorporates repercussions from the flood of right around 660,000() Syrian displaced people into Jordan, notwithstanding, as indicated by government evaluates, a relatively equivalent number of nonregistered Syrians. More recently, a slowdown in the GCC economies following the drop-in oil prices has had a direct impact on Jordan due to well established economic linkages **(see point (7))**. Therefore, annual growth remains far below the 6.5 % average reached in the pre-regional crises period (Figure 1). On an income per capita basis, low growth coupled with an upward revision of population estimates by United Nations Population Division), owing to the inclusion of refugee population, led to a decline in Jordan's income per capita, moving Jordan down to the lower-middle income category **(see point (8))**.

a. The prolonged period of low economic growth also reflects inefficiencies in Jordan's economy. The effect of per dollar venture on genuine GDP development has declined since 2010. This is possibly credited to expanded wastefulness in the economy or 'low quality' of speculations as proposed by (I) bring down monetary development joined with a high venture proportion since 2010 (Figure 2); and (ii) an ascent in the gradual capital yield proportion (ICOR)( ) from a normal of 3.9 for the period 2000-2009 to 9.5 amid 2010-2016 (Figure 3).
b. Changes in the World Economic Forum's (WEF) Global Competitiveness Indicator point to possible explanations for the lower efficiency of the economy in 2010-2016.

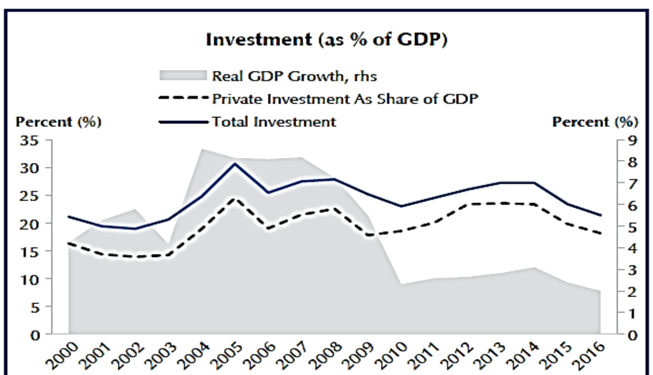

FIGURE 2. ... despite a relatively high investment ratio...

Sources: Department of Statistics, Central Bank of Jordan and World Bank staff calculations.

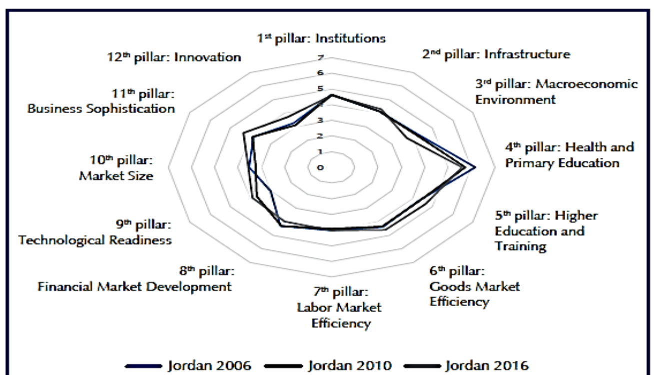

FIGURE 4. ... and tradeoffs in human capital priorities

Sources: Department of Statistics and World Bank staff calculations.

To examine possible causes of lower efficiency, we consider the World Economic Forum's Global Competitive Index (GCI) for Jordan over time, specifically, 2006, 2010 and 2016 (Figure 4). From 2006 to 2010, the GCI shows a jump in technological eagerness in cycle with a decline in health and primary education. The former may be seen as generating momentum on growth through within sector efficiency or for the economy as a whole, whereas the latter

impacts negatively potential output leading to lower future growth. Over the period from 2010 to 2016, in any case, Jordan encountered a less articulated bounce on mechanical status, yet greater development on the advancement bunch (columns 10-12), blended gains in the effectiveness group (columns 5-9), and blended gains on the institutional bunch columns (1-4).Interestingly, the 2010-2016 period also witnessed progress in higher education and training, which bodes well for future growth forecasts, although the delay in the macroeconomic environment can have a simple setback in the present investment environment. The seeming trade-off between primary and higher education can be viewed as a re-allocation of limited resources in the face of a scarce fiscal space. More broadly, while sustainable equitable growth and job creation necessitates an "expanding the pie" effect, Jordan's economy tends to run into growth limits very quickly and depends on opportunistic drivers.

a. Growth stagnates in 2017.

In view of the most recent national records information, Jordan's genuine GDP enrolled 2.1 % yoy development in the principal half of 2017 (H1-2017) unaltered from H1-2016. On an occasionally balanced premise, genuine GDP development found the middle value of 1.8 %, yoy, in H1-2017, contrasted with 1.7 % in H1-2016 (Figure 5). Drivers for growth are the services sector on the supply side and net exports of goods and services on the demand side (see paragraph 10). Overall economic activity is expected to remain tempered for the rest of the year with real GDP growth forecast at 2.1 % in 2017, compared to 2 % in 2016.

b. Services continue to be the principal driver of real GDP growth in 2017, propelled by tourism.

The construction segment contracted by 0.4% in H1-2017 yoy, compared to a pick-up of 1.7% in H1-2016. Additionally, the public sector's contribution to growth regressed in H1-2017[1] and is expected to remain soft for the rest of the year. Accounting for an average of almost 55 % of GDP over the previous decade, the services sector is expected to continue being the largest contributor to growth in 2017 (Figure 6). Tourism has been especially robust as tourist receipts and the number of tourists surged during the first ten months of 2017 (10M-2017) by respective 12.7 and 8.9 % yoy, compared to contractions of 1.8 and 2.2 % yoy in 10M-2016 (Figure 10). The industrial sector, which accounted for almost 26 % of GDP over the previous decade, is also projected to be a positive contributor to growth. This would impact mining and quarrying and manufacturing, with the former viewing an outstanding rebound, growing by 23.8% in H1- 2017 yoy, following 17.9 and 6.6% consecutive contractions in H1-2016 and H2-2016.

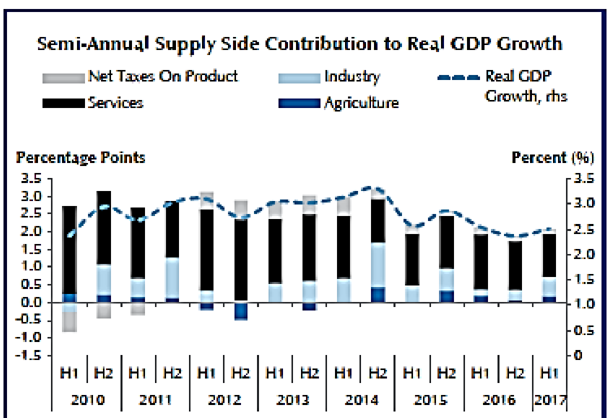

FIGURE 5. Growth slowed down by construction and the public sector but helped by ...

Sources: Department of Statistics and World Bank staff calculations.

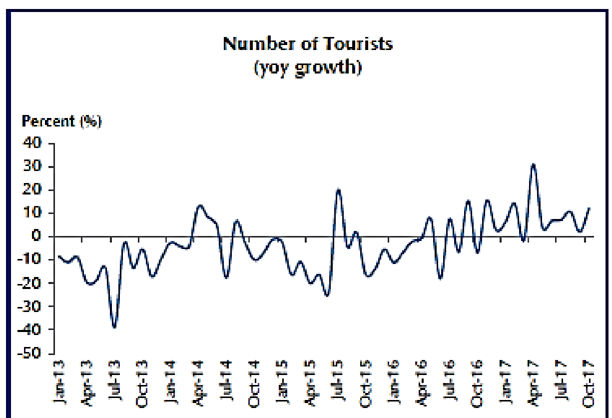

FIGURE 6. ... a robust tourism sector ...

Sources: Central Bank of Jordan and World Bank staff calculations.

Jordan-GCC Economic Linkages. (2)

[1] The contribution of net taxes on products to real GDP growth regressed to 0.1 points in H1-2017, compared to 0.2 points in H1-2016.

[2] The Economist Intelligence Unit, "Jordan economy: Quick View - Remittance earnings edge up", 13 July 2017

d. Historically, strong linkages between Jordan's economy and those of the GCC countries have exposed the former to the business cycle shocks sourced from the latter. Oil price actions, which are primary drivers of the commercial cycle in the GCC, are linked with inflows into Jordan with effects on the real economy. Moreover, non-oil shocks from the GCC region have also impacted the Jordanian economy, as in the 2009-2010 GCC financial crisis, which constituted second degree effects of the 2008 global financial crisis. As can beanticipated, the recent economic checking in the GCC countries added to currentslowness in Jordan, that has been in effect since the GCC financial disaster in 2010, and then continued by the confusion in nearby Syria and Iraq.

e. The impact of lower oil prices on Jordan's economy is two-pronged along two different time lines.Meanwhile, being a large distributer of energy, Jordan usually benefitted from the drop-in oil prices via a decrease in its energy import bill, and thus enhancements in its stability of payments. This effect is especially significant for a small open economy with a fixed exchange rate regime, as in the case of Jordan. In the long path, protracted unstiffening of oil prices that lead to slowing in GCC economies, can beexplain into reducedimports and exports from Jordan with bad effects on the real economy.

➢ Jordan's strong economic linkages with the Gulf are transmitted via several primary channels, namely: exports of merchandize goods, tourism, remittances and financial inflow:

i. Exports:

➢ Exports to the GCC region created almost a fifth of Jordan's total exports over the past decade.

Out of 148 countries, four of the six GCC countries ranked between the biggest 10 export destinations for Jordan, with Saudi Arabia ranked second, Kuwait fifth, UAE sixth and Qatar seventh. * As such, total exports to the GCC are heavily weighted towards Saudi Arabia, with almost half of the exports to GCC since 2003 destined there (Figure 7). Thus, the ongoing financial stoppage in the Gulf, and in Saudi Arabia explicitly, incurred significant damage on Jordanian fares. Residential fares to the Gulf declined by 12.9 % yoy in the initial eight months of 2017 (8M-2017) contrasted with 8M-2016, with fares to Saudi Arabia being the principle drag (causing 74.6 % of the constriction).

On a product basis, hardest hit was 'drinks and tobacco,' 'animal and vegetable oils, fats and waxes' and 'equipment and transport equipment,'each weakening by 56, 49 and 30% during the first eight months of 2017 (8M-17) compared with the same period in 2016.

➢ Geopolitics has weighed heavily on Jordan's trade sector, going back to the primary Gulf war in 1990, through the 2003 USA invasion of Iraq, followed by the recent regional turmoil. The latter includes substantial negative implications on Jordan's balance of payments and growth from the cut in Egyptian gas provide and therefore the closure of essential trade routes through Syria and Iraq. Even a lot of recently, the closure of Qatar's borders with its neighbors is additionally possible to trickle down negatively on Jordanian exports providing Qatar is one in every of Jordan's principal export destinations. This but may be mitigated by the reopening of trade routes between Jordan and Iraq.

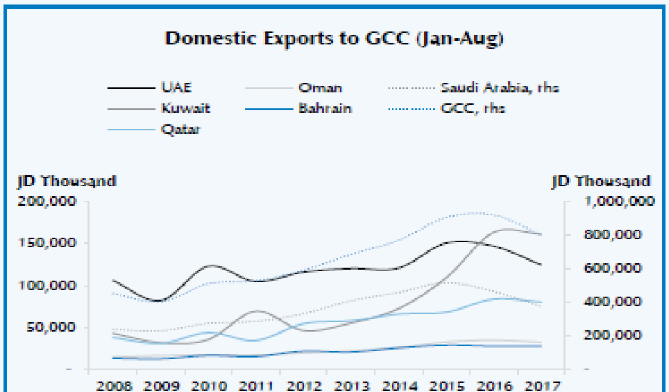

FIGURE 7. Domestic exports to GCC are deteriorating...

Sources: Department of Statistics and World Bank staff calculations.

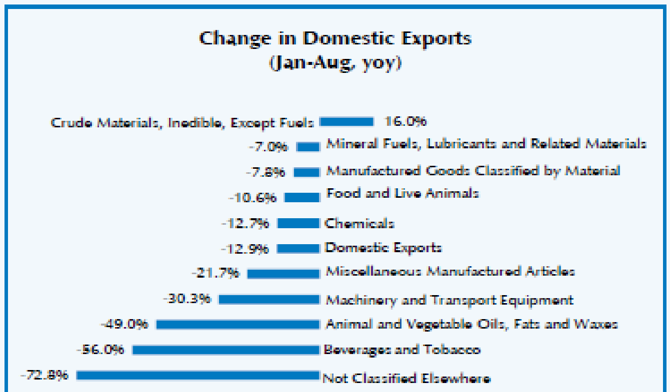

FIGURE 8. ...across a range of products

Sources: Central Bank of Jordan and World Bank staff calculations.

ii.Tourism:

- GCC tourists are a key cause of foreign currency for Jordan. Tourism is one of the masts of the Jordanian economy, with tourist receipts creating more than 63.0 % of Jordan's exports of facilities in the past decade. GCC tourists have accounted for almost 12% of total tourist incomes in Jordan during the first ten months of 2017.
- Whereas tourism resurged in the first ten months 2017 (10M-2017), as the security situation improved, tourist receipts from the GCC region did not pick up commensurately. Tourist incomes from the GCC grew by only 5.8% yoy in 10M-2017, compared to an increase of 12.7% yoy in total tourist revenues. Meanwhile, tourist influxes (same day and overnight tourists) from GCC countries increased by 8.3% yoy in 10M-2017, comparable to the growth in total tourist arrivals (8.9% yoy). This goes counter to historic trends characterized by comparatively larger spending per GCC tourist (Figure 9). Weakening economic conditions in the GCC region, a value of extended low oil prices, seem to have dropped spending power of the GCC tourist.

iii. Remittances:

Remittances have invariably been a key pillar of Jordan's economy, accounting for a mean of eleven.4 % of gross domestic product annually over the past decade.
Remittances grew at associate degree annual average of eight.5 % between 2000 and 2008. However, they need delayed since the 2009-2010 GCC money crisis, recording a mean annual rate of growth of zero.7 % since. Indeed, of just about 750,000 Jordanian expatriates, the bulk are placed within the Gulf with nearly forty % in Kingdom of Saudi Arabia and twenty-seven % primarily based in UAE.

iv. money Inflows:

Remains the newest on the market information on the geographical breakdown of FDI. The survey, that whereas is superannuated is that the supply of the newest on the market information on a geographical disaggregation of FDI. It shows that forty nine.8 % of total web FDI inflows were from the GCC region, with Kingdom of Saudi Arabia and Kuwait having the lion shares, every creating up eighteen.2 and 15.6 % of total web FDI to Jordan, severally.

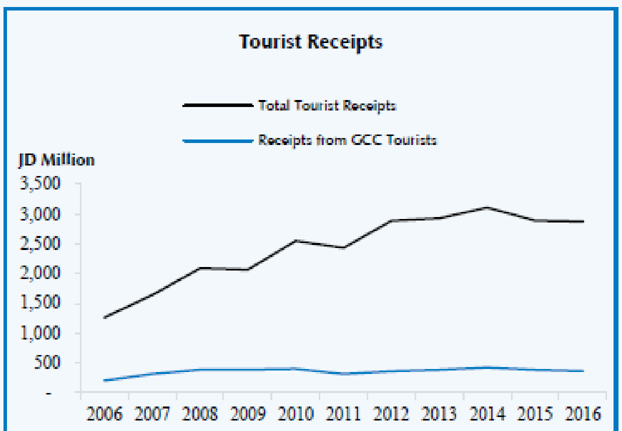

FIGURE 9. Tourist receipts from GCC are sluggish...

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

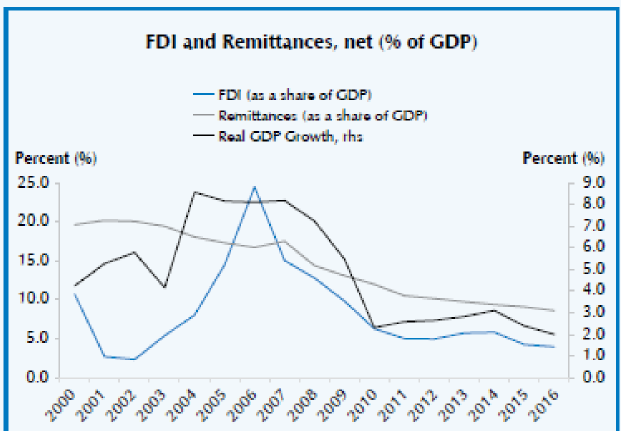

FIGURE 10. ...while FDI and remittances deteriorate

Sources: Central Bank of Jordan and World Bank staff calculations.

- On the expenditure side, 2017 growth is led by net exports and private demand (private consumption and investment), as public demand (government consumption and investment) continues to be weighed down by fiscal consolidation efforts.The recuperation in mining and quarrying reflects expanded worldwide interest for Jordan's potash, as demonstrated by an enhancement in the mining and quarrying part of the mechanical generation amount file which ascended by 14.6% in 10M-2017 contrasted with a decay of 10.1 % in 10M-20164 (Figure 11).

Truth be told, in H1-2017, a 3.6 % yoy get in genuine fares of merchandise and enterprises more than balance 1.4 % higher imports, making net fares the second supporter of development from the interest side. The biggest supporter of development in H1-2017 was private interest (Figure 12), for the most part because of solid execution in Q2-2017. In the interim, open utilization and speculation were delays development in H1-2017, each saving development by 0.5 and 0.2 pp, separately, to a great extent mirroring government's monetary mixture endeavors supplemented by the IMF-EFF understanding. Jordan's Country Reclassification to Lower-Middle-Income. [3]

- In the latest update on the classification of world economies released in July 2017, the World Bank reclassified Jordan from an upper-middle-income country to a lower-middle-income country. The classification is based on the most updated income per capita data and inflation-adjusted revisions of thresholds that separate the four categories: high-income, upper-middle-income, lower-middle-income and low-income. The table below presents the four categories with the respective thresholds of income per capita adopted in the 2016 and 2017 classifications.

Threshold	July 2016 (old thresholds in $US)	July 2017 (new thresholds in $US)
Low-income	< US$1,025	< US$1,005
Lower-middle-income	US$1,026 - US$4,035	US$1,006 - US$3,955
Upper-middle-income	US$4,036 - US$12,475	US$3,956 - US$12,235
High-income	> US$12,475	> US$12,235

The new income classification is based on 2016 gross national income per capita (GNI/capita) figures that placed Jordan in the lower-middle-income category.

The downward revision of GNI/capita was brought forward by three factors: A rising review of Jordan's population data done by the UN Population Division.

- Estimated Jordan's de facto population based on estimates from the Jordanian government, the latest 2015census and UNHCR's estimates of refugees.
- A slowdown in real GDP growth. Jordan's economy slowed down in 2016 for the second year in a row Low inflation. Jordan witnessed price deflation in 2015 and in 2016, largely due to downward pressures on international food and oil prices.

Threshold	2015 GNI/capita (US$) used for 2016 classification	2016 GNI/capita (US$) used for 2017 classification
Jordan	4,680 Upper-middle-income in July 2016 classification	3,920 Lower-middle-income in July 2017 classification

- The reclassification to a lower income category will not by itself alter World Bank lending criteria to Jordan. Income per capita is only one of a number of factors influencing lending criteria, alongside credit worthiness and policy and institutional environment. Therefore, despite Jordan's reclassification to lower-middle-income, Jordan still qualifies for lending from the International Bank for Reconstruction and Development arm of the World Bank Group and not from the International Development Association.

[3]The Economist Intelligence Unit, "Jordan economy: Quick View - Remittance earnings edge up", 13 July 2017

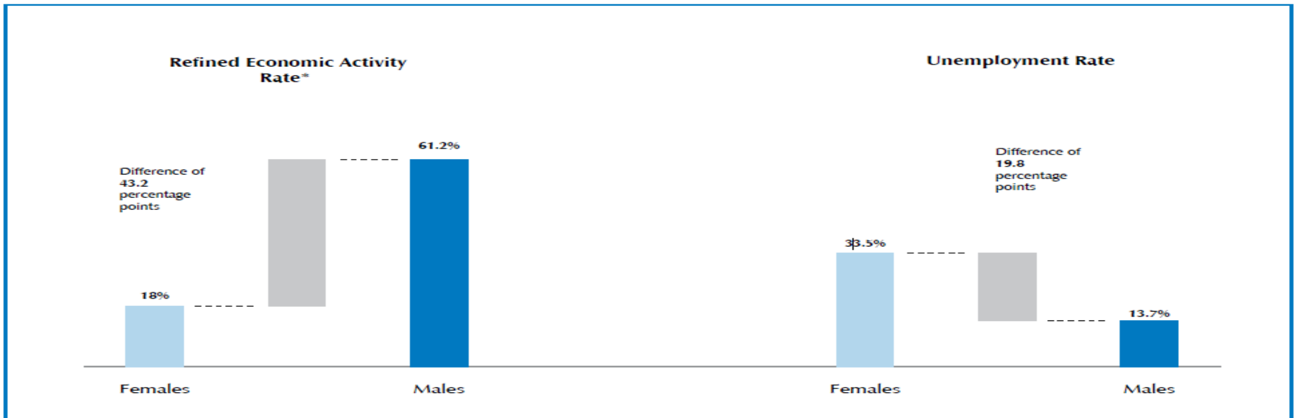

FIGURE 13. Gender-based heterogeneity in main labor market indicators amplified with new methodology.

Sources: Department of Statistics and World Bank staff calculations.
**Refined economic activity rate refers to the labor force attributed to the population 15 years and over.*

(7) Recent Economic and Policy Developments

(Labor and Employment 2000-2017)

a. With the Jordanian economy seemingly stuck in a low-growth equilibrium, its labor market continues to be weak and structural unemployment remains high. The Department of Statistics (DoS) has embraced another approach for the work constrain review since Q1-2017 dependent on proposals from the International Labor Organization so as to upgrade the exactness of the overview. The new approach limited the scope of those thought about utilized, incorporated extra inquiries, and extended the study test measure from 13,000 to 16,000 families dependent on the new structure given by the 2015 Population Census. The new technique uncovered a normal joblessness rate of 18.1 % in H1-2017, and work constrain interest of 39.7 %.

b. Although not directly comparable to previously published labor market data, the results from the new methodology are consistent with previous statistics in that both reflect similar vulnerabilities for women and youth. with the past technique, youth remains the age gather with the most elevated rate of joblessness, () while Jordanians holding college degrees additionally display an abnormal state of joblessness at 23 % in H1-2017. Sexual orientation-based heterogeneity was constantly reflected in recently distributed information, with Jordan known to have slacked MENA and non-MENA midpoints of female work compel interest. () As such, joblessness for ladies found the middle value of 33.5 %, while that for guys arrived at the midpoint of 13.7 % in H1-2017 (Figure 13). () Recent

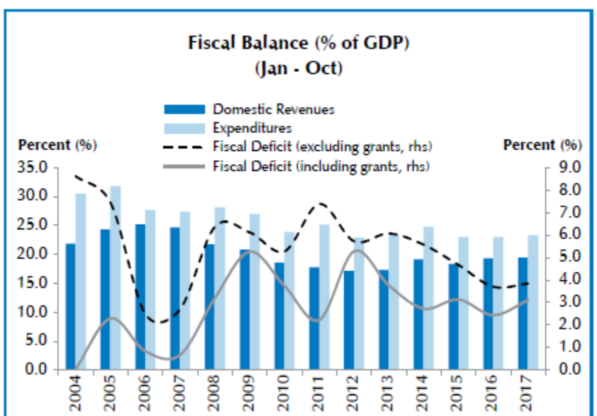

FIGURE 14. Fiscal deficit widens in 10M-2017...

Sources: Ministry of Finance and World Bank staff calculations.

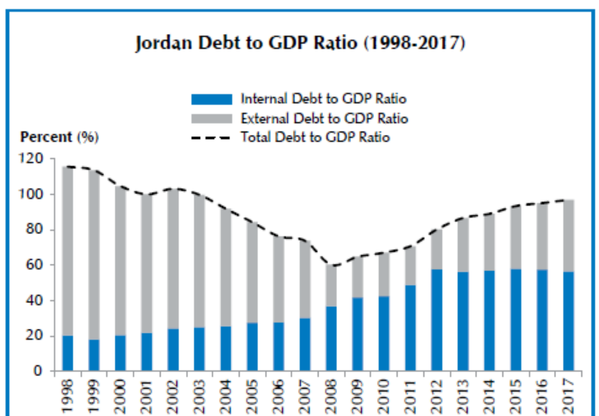

FIGURE 15. ... and gross debt-to-GDP ratio stabilizes

Sources: Ministry of Finance and World Bank staff calculations.

(8) Economic and Policy Developments (Fiscal Policy since 2000-2017)

a. Lower grants and sluggish tax revenues are expected to induce a slight deterioration in Jordan's fiscal balances in 2017 despite government's fiscal consolidation efforts. The anticipated in general monetary shortage, barring (counting) gifts, in 2017 is conjecture at 6.4 (3.4) % of GDP, contrasted with 6.2 (3.2) % in 2016. This is regardless of the presentation of income upgrading measures as a feature of the administration's financial union endeavors bolstered by the IMF-EFF course of action, for example, raising the Good and Services Tax (GST) rate to 16 % (from 8 %), expelling exceptions on chose products and ventures, expanding custom obligations on insignificant imported merchandise, among others.( ) On the incomes side, bring down assessment incomes coming about because of feeble development are anticipated to be balanced by higher non-charge incomes, leaving the local incomes to-GDP proportion to a great extent unvaried. With respect to uses, the proportions of wages and compensations and intrigue installments to-GDP are relied upon to lead a 0.2 pp ascend in all out uses, which is anticipated to achieve 29.2 % of GDP in 2017. In impression of an intensifying by and large financial position, the essential equalization, barring (counting) gifts, is relied upon to be - 3.3 (- 0.4) % of GDP, contrasted with - 3.2 (- 0.2) % in 2016.
b. Indeed, actual data over 10M-2017illustrate relatively weak performance in the fiscal aggregates compared to the same period in 2016. The 10M-2017 overall fiscal deficit (including grants) widened by 0.66 pp of GDP yoy, while the primary surplus (including grants) declined by 0.64 pp yoy turning into a deficit of 0.56 % of GDP (Figure 14). On the revenue side, a 0.13 pp increase in domestic revenues in 10M-2017, stemming from an increase in nontax revenues that overrode lower tax revenues, was more than offset by higher expenditures. Total expenditures rose by 0.27 pp in 10M-2017, driven by both current and capital expenditures.
c. Debt sustainability is only assured with relatively optimistic assumptions including continued donor support**.** Although the first review of the IMF program was completed in June2017, there is a US$1.25 billion financing gap for the second half of 2018, which is presumed to be covered by the issuance of a non-guaranteed Eurobond (4). The downward trajectory for public debt is predicated on successful debt rollover at manageable terms and continued implementation of fiscal consolidation. External sustainability depends on similar expectations and an increase in FDI strained by successful structural reforms. The persistent current account deficit adds to financing requirements from external debt rollover, especially in 2019-20 when two US guaranteed issuances become due. The government has been borrowing less internally and more externally helping to reduce the crowding out of the private sector. Indeed, commercial bank lending to the private sector grew by 10.2 % yoy by October 2017, while that to the public sector grew by only 1.6% yoy by October 2017 (refer to paragraph 19). The balancing act in the debt mix is therefore contingent on continued market access at favorable terms.

(9) Recent Economic and Policy Developments
(External Position since 2000-2017)

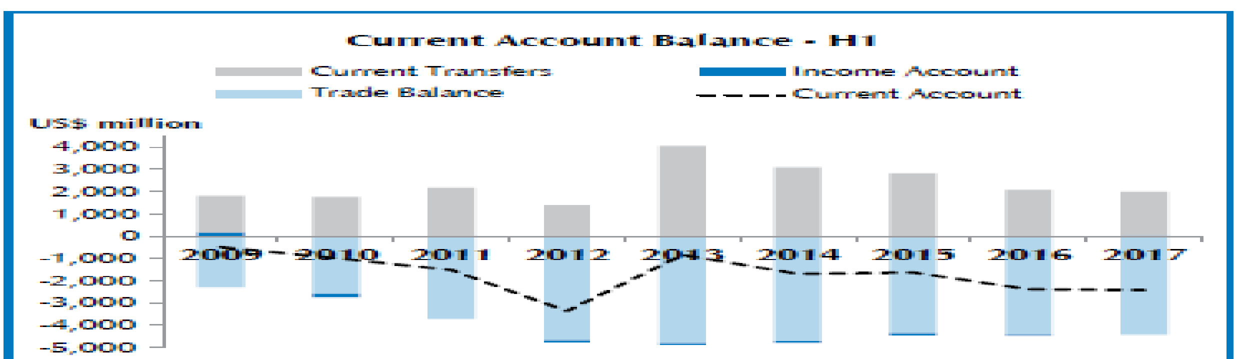

FIGURE 18. Current account deficit narrows…

Sources: Central Bank of Jordan and World Bank staff calculations.

[4]IMF Article 4 July 2017

Increased exports of services are expected to more than offset a wider merchandize trade deficit, in turn helping to mitigate the overall trade in goods and services deficit. An inacceptable performance for the trade-in-goods stability in 9M- 2017 resulted in the shortage flared by 11.2% yoy, compared to 9M-2016, led by a 5.6% increase in total imports tied with a 2.8% reduction in total exports (Figure 16). The rise in merchandize imports was largely due to a rebound in energy imports that increased by 19.7% yoy during 9M-2017, mirroring higher oil prices. Non-oil imports, on the other hand, increased by 3.4% yoy, despite a 5% increase in custom duties on non-essential imported goods. (5) Local exports in 9M-2017 continued to be tested by land route closures with Iraq and Syria. Domestic exports to GCC (see also Box 1) dropped by 10.1 during 9M- 2017 compared to the same period in 2016 while exports to Syria and Iraq slightly increased by 3.1 and 1.7 %, respectively, although largely reflecting low-base effects (Figure 17). However, Jordan's export performance is expected to improve in the latter part of 2017 with the reopening of trade routes between Jordan and Iraq that was announced on August 30, 2017, (6) and the lifting of UAE and Kuwait's bans on Jordanian produce. (7) Moreover, exports of potash have already recovered by 18.1 % yoy in 9M-2017 compared to a 33.9 % contraction in 9M-2016. Furthermore, a robust tourism sector is projected to generate larger travel receipts further supporting the services balance and more than offsetting the widening in the merchandize trade balance, thus driving an improvement in the overall trade in goods and services balance.

a. The overall current account deficit is expected to narrow, in reflection of the improving services balance in 2017. Most recent parity of installments (BoP) figures demonstrate that the present record shortfall limited to 6 % of anticipated GDP in the main portion of 2017 (H1-2017), as opposed to 6.2 % of GDP in H1-2016. This enhancement is driven by a 0.7 pp enhancement in the administrations balance combined with a 0.2 pp increment in the pay account, which mutually more than balance the 0.3 pp more extensive exchange products shortfall and the 0.5 pp decrease in current exchanges (Figure 18). While net settlements expanded by 0.8 % yoy amid 9M-2017, rather than a 4 % yoy withdrawal in 9M-2016, we anticipate that them should achieve 8.5 % of estimated GDP in 2017, to a great extent unaltered from 2016 (8.6 % of GDP).

(9) **Recent Economic and Policy Developments (Monetary Policy and Finance since 2000-2017**)

a. After two years of deflation, consumer price levels nudged upwards in 2017. Consumer prices have registered positive growth rates in 2017 and are projected to average 3.1 % for the year (Figure 19).

Inflationary pressures are largely due to low-base effects driven by:

(i) A global recovery in international oil and food prices;
(ii) The introduction of tax-enhancing measures (8);
(iii) The recent depreciation in the US dollar.

In that capacity, the year feature expansion rate achieved 3.3 % in the initial eleven months of 2017 (11M-2017), in contrast with - 0.9 % recorded over a similar period in 2016 with inflationary patterns cutting crosswise over generally classifications. The recuperation in expansion over 11M-2017 has been for the most part determined by: 'transportation' and 'fuel and lighting', that developed by 13.0 and 2.7 % yoy, separately, to a great extent mirroring the get in global oil costs; 'tobacco and cigarettes' (+8.0 %); and 'rents' (+2.5 %). Also, center expansion (barring nourishment, transportation and fuel) recorded a 3.4 % yoy normal over a similar period, contrasted with 2.1 % amid 11M-2016. Center was for the most part determined by 'rents', 'tobacco and cigarettes', 'wellbeing', 'culture and diversion', 'training' and 'individual consideration'.

Because of the temporary idea of the drivers behind inflationary weights, swelling is relied upon to ease over the medium term as low-base impacts begin retreating and item costs balance out. Also, the two years of value

[5] On February 8, 2017, the government endorsed multiple revenue-boosting measures, including the 5 percent increase in custom duties on non-essential imported goods.

[6] There has already been a gradual pick-up in exports to Iraq since June 2017. Prior to this, Jordan's exports to Iraq had declined by 41.7 percent in 2015 and 34 percent in 2016, largely due to the border closure.

[7] UAE and Kuwait briefly banned imports of some Jordanian agricultural produce claiming quality concerns. Kuwait subsequently lifted its ban on September 12, 2017 — after three months — while UAE lifted its ban on 27 July 2017 — after two months.

[8] Government introduced taxes, fees and customs duties in 2016 and 2017 (for more details please refer to paragraphs 12 and 14 in the Jordan Economic Monitor, Spring 2017 Issue). The government also started removing general sales tax exemptions in 2017 in line with the IMF-EFF program.

emptying drove Jordan's genuine conversion scale opposite significant exchanging accomplices to a low in Spring 2016, after which it acknowledged through end-2016, when it pretty much held consistent until June 2017 (Figure 20).

(10) Recent Economic and Policy Developments (Monetary Policy and Finance since 2000-2017)

b. After two years of deflation, consumer price levels nudged upwards in 2017. Consumer prices have registered positive growth rates in 2017 and are projected to average 3.1 percent for the year (Figure 19).

Inflationary pressures are largely due to low-base effects driven by:

(iv) A global recovery in international oil and food prices;
(v) The introduction of tax-enhancing measures [(9)];
(vi) The recent depreciation in the US dollar.

As such, the 12-month headline inflation rate reached 3.3 percent in the first eleven months of 2017 (11M-2017), in comparison to -0.9 percent recorded over the same period in 2016 with inflationary trends cutting across most categories. The recovery in inflation over 11M-2017 has been mainly driven by: ‘transportation’ and ‘fuel and lighting’, that grew by 13.0 and 2.7 percent yoy, respectively, largely reflecting the pick-up in international oil prices; ‘tobacco and cigarettes’ (+8.0 percent); and ‘rents’ (+2.5 percent). Moreover, core inflation (excluding food, transportation and fuel) recorded a 3.4 percent yoy average over the same period, compared to 2.1 percent during 11M-2016. Core was mainly driven by ‘rents’, ‘tobacco and cigarettes’, ‘health’, ‘culture and recreation’, ‘education’ and ‘personal care’. Due to the provisional nature of the drivers behind inflationary pressures, inflation is expected to ease over the medium term as low-base effects start receding and commodity prices stabilize. Moreover, the two years of price deflation drove Jordan’s real exchange rate vis-àvis major trading partners to a low in Spring 2016, after which it appreciated through end-2016, when it more or less held steady until June 2017 (Figure 20).

c. The Central Bank of Jordan (CBJ) has adopted a contractionary monetary policy in line with Federal Reserve Board (FED) hikes to maintain an attractive risk premium and support the exchange rate peg. CBJ raised its interest rates four times since December 2016 (Figure 21), once by 50 bps and the other three by 25 each, thus adding 50 bps to the interest rate gap vis-à-vis US rates compared to the period prior to the FED interest rate hikes. The impact of these interest rate hikes on private sector borrowing has nonetheless been mitigated by a crowding in effect of the government resorting more to external financing to cover its fiscal needs via issuances of Eurobonds and concessional borrowing from multilateral and bilateral organizations. As a result, commercial bank lending to the private sector (10) grew by 10.2 % yoy by October 2017 (Figure 22), slightly higher than the 9.7 percent yoy growth reported by end-2016.

d. Foreign reserves during the first ten months of 2017 (10M-2017) decrease compared to their level in 2016, despite the successive interest rate hikes. The deposit dollarization rate16 reached 19.2 percent in October 2017, 30bps higher than end-2016 levels (Figure 23). This has reflected on the stock of foreign exchange reserves at CBJ, which declined by 9.0 percent since end-2016 to reach US$ 11.7 billion by October 2017 (6.6 months of imports of goods and services, excluding re-exports) (Figure 24). A CBJ-mandated reclassification of bank deposits and one-off transactions, (11) go some way to help explain these foreign exchange movements. However, exchange market pressures stemming from weakened confidence in the local currency has persisted despite higher interest rates, Eurobond issuances (US$ 1 billion in October 2017 and US$ 500 million in May 2017) and receipt of concessional financing.

e. The Amman Stock Exchange Index (ASEI) underwent a sharp recovery from Q4-2016 until Q1-2017, then declined thereafter.

[9]Government introduced taxes, fees and customs duties in 2016 and 2017 (for more details please refer to paragraphs 12 and 14 in the Jordan Economic Monitor, Spring 2017 Issue). The government also started removing general sales tax exemptions in 2017 in line with the IMF-EFF program.

[10]Private sector includes resident and non-resident private sector, in addition to financial institutions.

[11]In 2017, substantial foreign investors’ shares in Arab Bank and Dubai Islamic Bank were sold to mostly local investors, causing an outflow of hard currency.

Overall, by end-November 2017 the ASEI deteriorated by 2.6 percent since end-2016 (Figure 25). All ASEI sectors of insurance, banking, industry and services dropped by 9.4, 3.0, 2.4 and 1.4 percent, respectively. Moreover, the total value traded at Amman Stock Exchange increased by 49.5 percent yoy during 10M-2017 compared to the same period in 2016, bolstered by the trading performance of the financial sector. Indeed, total value traded in the financial sector increased by 73.8 percent yoy during 10M- 2017, which outweighed 22.7 and 13 percent drops in the value traded in the industrial and services sectors, respectively.

f. Jordanian banks remain stable, profitable, liquid and adequately capitalized. Subsequent to enhancing for five back to back a long time regardless of low financial development since 2010, banks' nonperforming credits (NPL) proportion declined somewhat to 4.4 percent by H1-2017 contrasted with 4.3 percent by end-2016 (Table 1).

Table 1. Financial Soundness Indicators.

(in percent unless otherwise stated)		2010	2011	2012	2013	2014	2015	2016	H1-2017
Nonperforming Loans/Total Loans	6.7	8.2	8.5	7.7	7.0	5.6	4.9	4.3	4.4
Provisions (in percent of classified loans)	52.0	52.4	52.3	69.4	77.0	77.6	74.7	78.2	79.3
Risk-weighted Capital Adequacy Ratio	19.6	20.3	19.3	19.0	18.4	18.4	19.1	19.0	17.6
Leverage Ratio	13.0	13.1	13.1	13.3	12.9	12.5	12.7	13.0	12.9
ROE	8.8	8.8	8.3	8.6	9.9	11.0	10.3	8.8	9.4
ROA	1.1	1.1	1.1	1.1	1.2	1.4	1.3	1.1	1.2
Net Profits Before Taxes (in JD million)	460.0	523.0	517.0	588.0	719.0	822.0	862.0	750.3	413.1
Liquidity Ratio	159.1	161.4	152.9	143.5	149.1	152.2	149.0	138.1	129.2
Growth Rate of Total Assets	7.4	9.6	7.9	4.3	9.1	4.9	5.1	2.8	0.3
Growth Rate of Customer Deposits	12.1	10.9	8.3	2.4	10.5	9.3	7.7	0.9	-0.3
Growth Rate of Credit Facilities	2.1	8.6	9.8	12.5	6.3	5.2	9.6	8.7	5.0

Source: Central Bank of Jordan

Notwithstanding, banks' arrival on value (ROE) and profit for resources (ROA) both enhanced to particular 9.4 and 1.2 percent by H1-2017, contrasted with 8.8 and 1.1 percent in the first year. Then, the capital sufficiency proportion and use proportion withdrew to 17.6 and 12.9 percent by H1-2017, down from 19 and 13 percent by end-2016, separately. Banks' introduction to sovereign obligation proceeded with a pattern decay, representing 34.2 percent of aggregate resources by end-October 2017, lower than end-2016, end-2015 and end-2014 dimensions that remained at 36.2, 40.6 and 40.8 percent, separately. At long last, Jordan's net remote resource position of its business banks remained at less US$2 billion by end-October 2017, declining from short US$1.4 billion by end-2016 dimensions yet delineating a sound enhancement contrasted with less US$2.8 billion by end-2015. All the more by and large, credit to the private segment remained at 43.9 percent of gauge GDP by October 2017, unaltered since end-2016 dimensions, in this way keeping up the enhancement since achieving a trough in 2014. When all is said in done, credit to the private division has dropped to a lower level since 2010, as it recorded a normal offer of GDP of 37.4 percent between 2010-2016, contrasted with a 52.4 percent normal offer in the pre-moderate development time of 2000-2009 (Figure 26).Subsequent to enhancing for five back to back a long time regardless of low financial development since 2010, banks' nonperforming credits (NPL) proportion declined somewhat to 4.4 percent by H1-2017 contrasted with 4.3 percent by end-2016 (Table 1).

Regardless, banks' entry on esteem (ROE) and benefit for assets (ROA) both upgraded to specific 9.4 and 1.2 percent by H1-2017, appeared differently in relation to 8.8 and 1.1 percent in the principal year. At that point, the capital adequacy extent and use extent pulled back to 17.6 and 12.9 percent by H1-2017, down from 19 and 13 percent by end-2016, independently. First experience with sovereign commitment continued with an example rot, speaking to 34.2 percent of total assets by end-October 2017, lower than end-2016, end-2015 and end-2014 measurements that stayed at 36.2, 40.6 and 40.8 percent, independently. Finally, Jordan's net remote asset position of its business banks stayed at less US$2 billion by end-October 2017, declining from short US$1.4 billion by end-2016 measurements yet outlining a sound upgrade appeared differently in relation to less US$2.8 billion by end-2015. Even more all around, credit to the private fragment stayed at 43.9 percent of check GDP by October 2017, unaltered since end-2016 measurements, along these lines keeping up the upgrade since accomplishing a trough in 2014.

At the point when all is said in done, credit to the private division has dropped to a lower level since 2010, as it recorded an ordinary offer of GDP of 37.4 percent between 2010-2016, diverged from a 52.4 percent typical offer in the pre-moderate advancement time of 2000-2009 (Figure 26).

11. Results and Suggestions

First: Results

1. Improvements in the movement business and mining and quarrying are depended upon to have driven a provisional upgrade being developed in 2017; regardless, the economy remains messed with advancing weakness in Syria, moderate reclamation of budgetary coordinated effort with Iraq, and a money related stoppage in the Gulf Cooperation Council (GCC). Besides, the economy is at risk to a moderate pace of helper changes that is obstructing a strong recovery being developed.
2. Jordan's work promote continues standing up to important vulnerabilities. The joblessness rate stayed lifted at 18.5% in the last quarter of 2017 (Q4-2017), while unaltered appeared differently in relation to Q3-2017, it is a debilitating from Q1 and Q2 levels (which stayed at 18.2 and 18.0%, separately). Joblessness rate in 2017 stayed at 18.3% for the year.
3. Jordan's economy is depended upon to remain on a very basic level impacted by regional events in Iraq and Syria and furthermore the log stick in GCC's budgetary execution.
4. Jordan's present record setback is depended upon to in like manner change negligible over the medium term as upgrading exchanges are about offset creating imports.
5. Fiscal association will continue focusing on salary updating and utilize compelling measures as the organization attempts to place individuals all in all assets on a more grounded parity.
6. With a testing regional stance, sleepy budgetary changes, and contractionary financial and cash related systems set up, it is difficult to foresee a strong recovery being developed.
7. Macroeconomic quality can be updated, and advancement potential raised by methods for expanding and expansion of Jordan's charge region.
8. Unemployment rate in 2017 stayed at 18.3% for the year. In the meantime, the work forces bolster rate found the center estimation of 38.1% in Q4-2017, declining from 39.2% in Q3-2017. On a yearly commence work drive speculation rate found the center estimation of 39.2%, revealing important minimization of females, youth and four-year school instruction holders.
9. Poverty is most likely going to have climbed in Jordan given rising swelling, joblessness and listless improvement. Jordan has not released destitution measures since 2010 in light of issues with data quality for the 2013-14 Household Expenditure and Income Survey (HEIS). The 2017-18 HEIS, which will be illustrative of Jordanian, Non-Jordanian and Syrian Nationals was begun in August 2017.

Second: suggestions

Industrial Sectors and Apparel

1. Jordan have the potential for 24 mechanical things, existing and furthermore new, and their ability to invade the EU promote.
2. Jordanian plan makers must have a full-scale picture of potential trade joins with the business parts in Europe by Analyzing the EU promote for overall imports.
3. Evaluating the present EU publicize invasion by "peer countries"— Turkey and Israel—How existing players benefit by that shot?
4. Jordan will be able to twofold its total charges of garments inside the accompanying five years and augmentation its admissions to the EU from US$ 63 million to US$ 1.42 billion.
5. integrating Jordan into a bleeding edge, new, determined, neighborhood and overall regard chain could help develop the financial pie and make openings for work for Jordanians and Syrian uprooted individuals in farms and in front line organizations regions supporting them.

Agricultural Sector

1. The examination for Jordan's potential increment of horticultural fares considers water deficiency in Jordan by concentrating on the potential Jordan has for expanding its fares of crisp create, for example, products of the soil, this should be possible as pursue:
    - Capture the current quality interest in the Gulf nations.
    - Transform the majority of Jordan's new agriculture fares to quality dimension

- Increase creation and target different markets in Europe and Russia.

2. Installing appropriate post-reap methods, legitimate discernibility and present-day chilly chain coordination's Jordan could supplant existing quality interest of tomatoes in the GCC esteemed at US$ 20 million.
3. If Jordan begins sending out at the normal estimation of higher quality tomatoes, the estimation of its aggregate fares of tomatoes would twofold to reach US$ 730 million.
4. Hydroponic cultivating could make extra channels for tomato creation and increment Jordan's yields of tomatoes to achieve an estimation of US$ 993 million.
5. It is likewise vital to assess different ventures required for Jordan to accomplish a fruitful and focused agribusiness esteem chain.

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