96822

Jordan Economic Monitor

PERSISTING FORWARD DESPITE CHALLENGES

Spring 2015

Global Practice for Macroeconomics & Fiscal Management

MIDDLE EAST AND NORTH AFRICA REGION

The World Bank

PREFACE

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

The *Jordan Economic Monitor* is a product of the World Bank's Global Practice for Macroeconomics & Fiscal Management, (GMFDR) team. It was prepared by Léa Hakim (Economist) and Samer Matta (Economic Analyst), under the general guidance of Eric Le Borgne (Lead Economist) and Auguste Tano Kouame (Global Practice Manager). The Special Focus was prepared by Amir Fouad (Consultant), Peter Mousley (Program Leader), Sahar Nasr (Program Leader) and Laila Abdelkader (Financial Sector Specialist). May Ibrahim (Senior Executive Assistant) provided Arabic translation and Zeina El Khalil (Communications Officer) print-produced the report.

For information about the World Bank and its activities in Jordan, including e-copies of this publication, please visit www.worldbank.org.jo.

To be included on an email distribution list for this *Jordan Economic Monitor* series and related publications, please contact Nada Abou Rizk (nabourizk@worldbank.org). For questions and comments on the content of this publication, please contact Léa Hakim (lhakim1@worldbank.org) or Eric Le Borgne (eleborgne@worldbank.org). Questions from the media can be addressed to Mona Ziade (mziade@worldbank.org).

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

LIST OF BOXES

EXECUTIVE SUMMARY

i. **Jordan's economy continues to slowly but steadily recover from the Arab Spring spillovers.** These spillovers include Egypt's gas disruptions, the neighboring Syrian and Iraqi conflicts and associated security incidents. Notwithstanding these shocks, real GDP growth rate is estimated to have reached 3.1 percent in 2014, up 30 basis points over 2013. From the supply side, growth was led by construction, wholesale and retail trade, and finance and insurance, with a pick-up in the mining and quarrying sector. On the demand side, growth was predominantly fueled by higher public investments, mostly due to earmarked GCC grants, and a narrower trade deficit.

ii. **The steady economic recovery has improved unemployment rates although this masks underlying structural weaknesses.** While unemployment dropped from 12.6 to 11.9 percent from 2013 to 2014, this was not driven by increased employment but by an equivalent and concerning drop in the labor force participation rate. This was possibly driven by discouraged workers given perceived competition from refugees and limited hiring prospects in the public sector given ongoing consolidation efforts.

iii. **The expanding economy and continued efforts at fiscal consolidation have resulted in a lower fiscal deficit.** The overall fiscal and primary deficits of the central government (excluding grants and NEPCO losses) narrowed by 1.0 and 1.5 percentage points (pp) of GDP respectively during 2014 compared to 2013. This was driven by a (mostly) cyclical improvement in revenue collection and contained growth in spending. Gross public debt increased by 2.9 pp of GDP from end-2013 to 89.6 percent of GDP by end-2014. The recently approved 2015 budget (consistent with the IMF SBA) augurs well for continued fiscal consolidation.

iv. **On the external sector side, the current account narrowed thanks to robust public and private receipts.** The current account is likely to have narrowed from 10.3 to 7.1 percent of GDP between 2013 and 2014 due to higher travel and government receipts. The trade in goods deficit slightly widened by 1.3 percent largely due to a 6.4 percent rise in energy imports to offset the disruption in (cheap) gas supplies from Egypt. The impact of security incidents in Iraq, Jordan's largest export partner, was negative but proved to be more muted than originally expected as trading continued, albeit under higher costs.

v. **With spare capacity in the economy, inflation decelerating rapidly, and comfortable reserve indicators, the Central Bank of Jordan (CBJ) continued its expansionary stance.** Headline inflation dropped to its lowest level since December 2009 while core inflation started decelerating, as expected, in mid-2014 as temporary supply factors waned off. The CBJ's latest action, on February 3, 2015, included bold interest rates cuts such as a 100 bps reduction in the overnight deposit window rate.

vi. **The economy is expected to steadily continue to gather pace as reforms continue while security and oil prices present key downside risks.** Real GDP growth is forecast at 3.5 percent in 2015 due to stronger private consumption and investment, in part driven by lower oil prices and investment projects notably in energy. The debt-to-GDP ratio is expected to be reduced given the growth pick-up and continued fiscal consolidation. Downside risks include exacerbation of the Syrian and Iraqi crises and a higher oil price.

الملخص التنفيذي

i. **يستمر الاقتصاد الأردني بالتعافي من تداعيات الربيع العربي على نحو بطيء ولكن على خطى ثابتة.** تشمل هذه التداعيات الاضطرابً الحاصل في إمدادات الغاز المصري، والصراع في سوريا والعراق وما ينتج عنهما من تطورات أمنية. وعلى الرغم من هذه الصدمات، من المقدر أن يسجل معدل نمو الناتج المحلي الإجمالي الحقيقي نسبة ٣,١ في المئة في عام ٢٠١٤، أي بزيادة ٣٠ نقطة أساس مقارنةً بالعام ٢٠١٣. ومن جانب العرض، فقد نتج هذا النمو عن الحركة في كل من قطاع البناء، وتجارة الجملة وتجارة التجزئة، والتمويل والتأمين، مع بعض التقدّم في قطاعي المعادن والمقالع. أمّا من جانب الطلب، أدّت الزيادة في الاستثمارات العامة، الممول معظمها من قبل دول مجلس التعاون الخليجي ضمن برنامج المنح المخصصة، إلى خفض العجز التجاري.

ii. **كما أدّى الانتعاش الاقتصادي إلى خفض في معدلات البطالة، لكن يبقى ذلك قناعًا للضعف الهيكلي** فقد انخفض معدل البطالة من ١٢,٦ بالمئة إلى ١١,٩ بالمئة بين عامي ٢٠١٣ و٢٠١٤، ولكن هذا الانخفاض لا يعكس زيادة في فرص العمل لأن سببه هو الإنخفاض الحاصل في نسبة مشاركة القوى العاملة في سوق العمل. وقد يعود ذلك إلى الإرباك الحاصل بسبب المنافسة التي يواجهها المواطن الأردني في سوق العمل من قبل اللاجئين، إضافة إلى سياسة الحد من التوظيف في القطاع العام بهدف ضبط أوضاع المالية العامة.

iii. **أمَا التوسع في الاقتصاد ومواصلة الجهود في ضبط أوضاع المالية العامة فقد أدّى إلى خفض العجز المالي.** حيث ضاق العجز الكلي والعجز الأولي الاجمالي للمالية العامة والحكومة المركزية (باستثناء المنح وخسائر شركة الكهرباء الوطنية) بنسبة ١,٠ و ١,٥ نقطة مئوية علي التوالي من الناتج المحلي الإجمالي خلال العام ٢٠١٤ مقارنة مع العام ٢٠١٣. ويعود ذلك في الأغلب إلى التشدد الدوري في تحصيل الإيرادات وضبط النمو في الإنفاق. كما ارتفع الدين العام الإجمالي بنسبة ٢,٩ نقطة مئوية في نهاية عام ٢٠١٣ إلى ٨٩,٦ في المئة من الناتج المحلي الإجمالي السنوي بحلول نهاية ٢٠١٤. ونستبشر خيراً بميزانية ٢٠١٥التي تمت الموافقة عليها مؤخراً لجانب ضبط أوضاع المالية العامة (تطابقاً مع توصيات صندوق النقد الدولي).

iv. **أمّا بالنسبة للقطاع الخارجي، فقد إنخفض الحساب الجاري بفضل الإيرادات المتينة في القطاعين العام والخاص.** ومن المقدر أن يكون الحساب الجاري قد انخفض من ١٠,٣ بالمئة إلى ٧,١ بالمئة من الناتج المحلي الإجمالي بين عامي ٢٠١٣ و٢٠١٤ بسبب ارتفاع الإيرادات الحكومية وتلك المتعلقة بالسفر. واتسع العجز في تجارة السلع بشكل ضئيل أي بنسبة ١,٣ بالمئة وذلك إلى حد كبير بسبب الارتفاع في نسبة استيراد مواد الطاقة التي بلغت ٦,٤ بالمئة، للتعويض عن انقطاع إمدادات الغاز المصري الأقل كلفة. كما أن التطورات الأمنية في العراق، البلد الذي يعتبر شريك الأردن الأول في مجال التصدير، أدت إلى نتائج سلبيةٍ، لكن بقيت تلك التداعيات محدودة على عكس ما كان متوقعاً، بحيث استمرت العمليات التجارية وإن كانت بكلفة أعلى.

v. **في ظل الطاقة الانتاجية الفائضة في الاقتصاد، والتباطؤ في التضخم، والمؤشرات المريحة من جانب احتياطي العملات الأجنبية، واصل المصرف المركزي الأردني سياسته التوسعية.** وانخفض التضخم إلى أدنى مستوى له منذ ديسمبر/كانون الاول ٢٠٠٩، بينما بدأ يتباطأ معدل التضخم الأساسي، كما كان متوقعاً، في منتصف عام ٢٠١٤ مع تراجعِ العواملِ المؤقتة للعرض. وما قام به المصرف المركزي مؤخراً، تحديداً في ٣ شباط/فبراير ٢٠١٥، يعتبر خطوة جريئة في ما يتعلق بتخفيض أسعار الفائدة، كخفض سعر فائدة نافذة الايداع ليلة واحدة بنسبة ١٠٠ نقطة أساس.

vi. **من المتوقع أن تستمر وتيرة النشاط الاقتصادي بالتصاعد، وذلك بالتزامن مع تنفيذ السياسات الإصلاحية، لكن التطورات الأمنية وأسعار النفط تشكل المخاطر الأهم في وجه النمو الاقتصادي.** ومن المتوقع أن يبلغ نمو الناتج المحلي الإجمالي الحقيقي نسبة ٣,٥ بالمئة في العام ٢٠١٥ بسببٍ قوة الاستهلاك الخاص وزيادة الاستثمار، ويعود ذلك جزئياً إلى انخفاض أسعار النفط وتزايد المشاريع الاستثمارية في مجال الطاقة. كما من المتوقع أنٍ تنخفض نسبة الدين العام إلى الناتج المحلي الإجمالي، نظراً لارتفاع النمو واستمرار ضبط أوضاع المالية العامة. أما بالنسبة للمخاطر الأساسية، فهي تكمن في إمكانية تفاقم الأزمات السورية والعراقية إضافةً إلى ارتفاع أسعار النفط.

RECENT ECONOMIC AND POLICY DEVELOPMENTS

Output and Demand

1. **Despite regional spillovers, Jordan's economy has continued to slowly yet steadily pick-up.** These spillovers include the Egypt gas disruptions, the neighboring Syrian conflict resulting, inter alia, in more than 620,000 refugees and, more recently, the Islamic State (IS) push into neighboring Iraq in June 2014 and other security incidents. Notwithstanding these shocks Jordan's real GDP growth rate is estimated to have reached 3.1 percent in 2014, up 30 basis points over 2013, reflecting higher growth for the fourth consecutive year (Figure 1). While far from the 6.6 percent average growth witnessed during the 2000-2008 expansion, Jordan's 2014 growth performance continues to fare better than the 1.2 percent average rate achieved in the Middle East and North Africa region (Figure 2).

2. **On the demand side, growth was predominantly fueled by a narrower trade deficit and higher public investments.** Compared to the first three quarters of 2013, the similar period of 2014 saw a 23.8 percent improvement in public investment and a 12.8 percent reduction in the trade deficit (in real terms). The public investment drive was mostly due to higher capital expenditures predominantly financed by earmarked GCC grants. An 8.7 percent narrower trade deficit in Q3 2014 (yoy) was driven by a 9.3 percent increase in domestic exports. These, in turn, reflected the post-strike recovery in the potash and phosphate industries which saw domestic exports grow by 81.2 percent and 48.7 percent yoy, respectively. Private demand's contribution (private consumption and private investment) is expected to have declined over the first three quarters of 2014 (Figure 3). This mainly stemmed from a 10.3 percent reduction (through Q3 2014 yoy) in foreign direct investment to Jordan, and weaker real estate demand (captured in a 7.4 percent decrease in construction permits in 2014). Subdued private demand was reflected in tepid credit growth from commercial banks (at 2.3 percent in 2014).

3. **On the production side, all sectors of the economy contributed positively to growth, most notably mining and quarrying in the third quarter of 2014 (Figure 4).** The sectors that most contributed to growth included construction, wholesale and retail trade, and finance and insurance services each

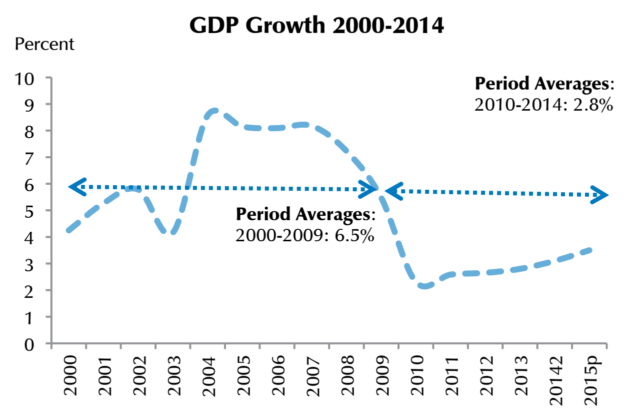

FIGURE 1. Growth trajectory significantly affected by external shocks yet steadily recovering

Source: Department of Statistics and World Bank staff calculations

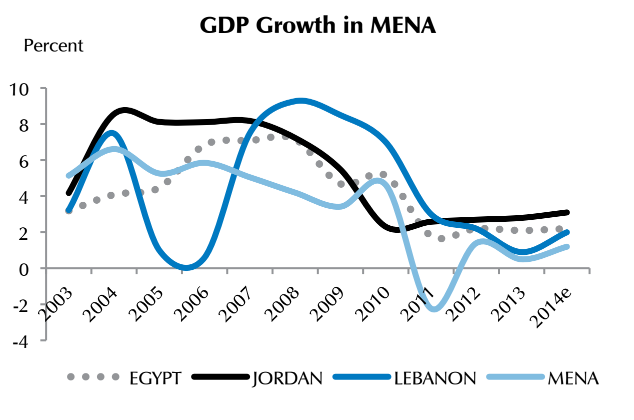

FIGURE 2. Jordan outperformed the MENA region in terms of growth rates

Source: World Bank Global Economic Prospects, January 2015

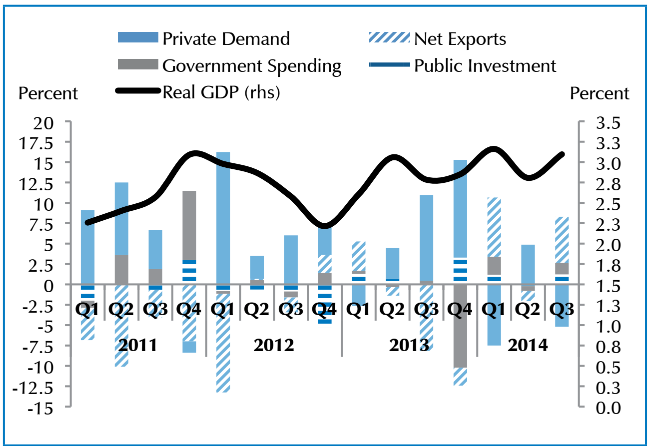

FIGURE 3. In the first three quarters of 2014 net exports drove the growth rate from the production side, ...

Source: Department of Statistics, Ministry of Finance and World Bank calculations

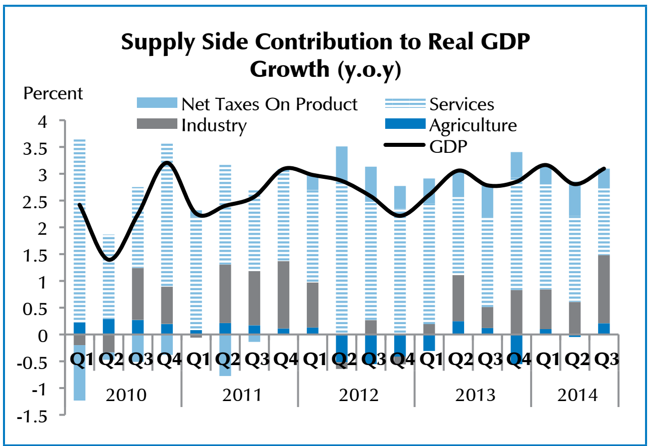

FIGURE 4. ... while, construction and mining and quarrying led growth from the expenditure side

Source: Department of Statistics and World Bank staff calculations

contributing 0.4 pp, 0.4 pp and 0.3 pp to real GDP growth respectively, despite the deceleration in the number of Syrian refugees particularly as pertaining to retail trade. In addition to construction within industrial sectors, manufacturing contributed 0.3 percent to real GDP growth, followed by a 0.2 pp contribution by mining and quarrying. This reflects a recovery in the potash industry after 2013 witnessed halts in production and is especially visible in Q3 2014 where mining and quarrying contributed 0.4 pp to real GDP growth. Agriculture, after negatively contributing to GDP growth in 2013 due to the disruption of agricultural export routes to Lebanon, Turkey and Europe, contributed positively (by 0.1 percent on average) to GDP growth in the first three quarters of 2014. Restaurants and hotels saw a small but positive average contribution of 0.1 pp to GDP growth thanks to an 8.4 percent increase spending per tourist during the first three quarters of 2014 compared to the same period in 2013 (tourist arrivals remained broadly unchanged, growing by a modest 0.5 percent during that period).

Labor and Employment

4. **The steady economic recovery has improved unemployment rates although this masks underlying structural weaknesses.** While the unemployment rate dropped from 12.6 to 11.9 percent from 2013 to 2014, this improvement was not driven by increased employment but by an equivalent and concerning drop in the labor force participation rate from 37.1 percent in 2013 to 36.4 percent in 2014, the lowest average since 2007 (Figure 6). This was possibly driven by discouraged workers given perceived competition from refugees. It could also be driven by job-seekers aiming for a public sector job who dropped out of the labor force given the fiscal consolidation program which has limited the public sector's traditional role as major employer in the economy. Women and youth are particularly affected by unemployment with 20.7 percent of women unemployed in 2014 compared to 22.2 percent in 2013 yet also accompanied by a 0.6 pp reduction in women's labor force participation rate to 12.6 percent in 2014 (the lowest in the region). Unemployment among youth remains elevated at 36.1 percent for the 15-19 years old category and 29.3 percent for those between 20-24, 2.0 pp higher and 1.1 pp lower than in 2013, respectively (Figure 5). On a regional basis, the governorates of Maan and Tafiela registered the highest unemployment rates in 2014 at 15.4 percent each while the lowest were registered in Zarqa at 10.2 percent and the capital Amman at 10.3 percent.

Fiscal Policy

5. **The central government fiscal deficit improved in 2014 despite larger financing of utility companies (Figure 7).** The fiscal deficit, including grants, improved from 11.4 percent of GDP in 2013 to an estimated 9.2 percent of GDP in 2014. Grants continued to help contain the central government deficit and rose from 2.7 percent of GDP in 2013 to 4.9 percent of GDP in 2014, mainly sourced from the US and GCC. The latter is mostly earmarked to capital expenditures. Excluding grants, the central government fiscal deficit was flat at 14.1 percent of GDP in 2013 and 2014. This non-grant related status quo was mostly driven by a cyclical improvement in revenue collection counterbalanced by contained but growing spending (see next paragraph). The tighter deficit (including grants) comes despite higher transfers to the National Electric Power Company (NEPCO) and the Water Authority of Jordan (WAJ), estimated at 7.0 percent of GDP in 2014 compared to 5.9 percent of GDP in 2013. The larger transfers stemmed from the government's need to resort to more expensive energy sources following further disruption of (cheap) gas supplies from Egypt. As of early 2015, the utility companies have reverted to financing their deficits through borrowing from commercial banks under a government guarantee, as was the case before 2013.

6. **In line with the IMF SBA program, fiscal consolidation continues and is reflected in the 2015 budget.** The Government of Jordan has pursued efforts to enhance, in a pro-poor manner, revenue mobilization while also improving the efficiency and progressivity of its spending. Recent measures on the revenue side include the cancellation of a number of tax exemptions, a new income tax law (adopted in December 2014) which is expected to raise 0.4 percent of GDP,[1] increases in January 2015 of 7.5 percent on avearage of the electricity tariff (as part of the Government's medium-term plan to achieve cost recovery for NEPCO in 2017)[2]. On the expenditure side, key measures centered on cuts in government expenditures targeting purchases of goods and services, capital spending, militatry expenditures, and a cash transfer program initiated in November 2012 to compensate middle and lower income households for the elimination of subisidies on petroleum products (except on LPG cylinders for private consumption).[3]

7. **The debt-to-GDP ratio continues its upward trend on account of persistent fiscal deficits and subdued growth (Figure 8).** Gross public debt is estimated to have reached US$32.0 billion (89.6 percent of GDP) in 2014 from US$29.1 billion (86.7 percent of GDP) at end-2013. The debt-to-GDP ratio has been trending up for the sixth consecutive year. Gross debt is predominantly denominated in local currency with 64.5 percent in Jordanian Dinar. In the first nine months of 2014, the government had increased its issuances of Treasury bills and bonds by 22.4 percent compared to the corresponding period of 2013, totalling the equivalent of US$6.3 billion. On the external financing side, Jordan issued a US$ 1.0 billion US-guaranteed Eurobond with a five-year maturity with a fixed coupon of 1.95 percent in June 2014.

External Position

8. **The trade in goods balance widened in 2014 due to higher energy imports mostly linked to the**

[1] Under the new law, the personal income tax rate for the first 10,000 JDs taxable stands at 7 percent, the next taxable 10,000 JDs are at 14 percent, and a 20 percent rate applies on additional amounts. The general corporate income tax rate was raised to 20 percent from 14 percent.

[2] Previously the Government had announced that the electricity tariff would be increased by 15 percent in January 2015. However, given the lower oil prices and their positive impact on NEPCO's losses, the Government decided on a lower increase.

[3] Households earning less than JD 10,000 annually were since eligible for an annual cash transfer of JD 70 per houseld member for a maximum of six members, provided the price of oil is below $100 per barrel. The third tranche of cash transfers aimed at compensating households for the removal of fuel subsidies, was not be disbursed in December 2014, as earlier proposed, given that international oil prices were below $100 a barrel for more than two months. In 2014, the government improved its targeting criteria by proxy means testing looking at asset indicators as opposed to only wage income.

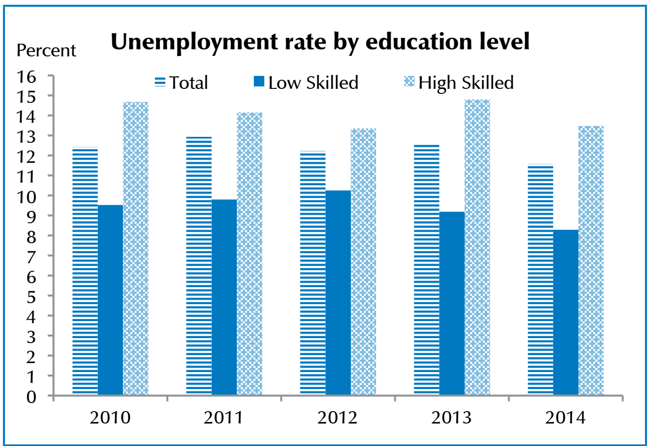

FIGURE 5. Despite dropping in 2014....

Source: Ministry of Tourism and World Bank staff calculations

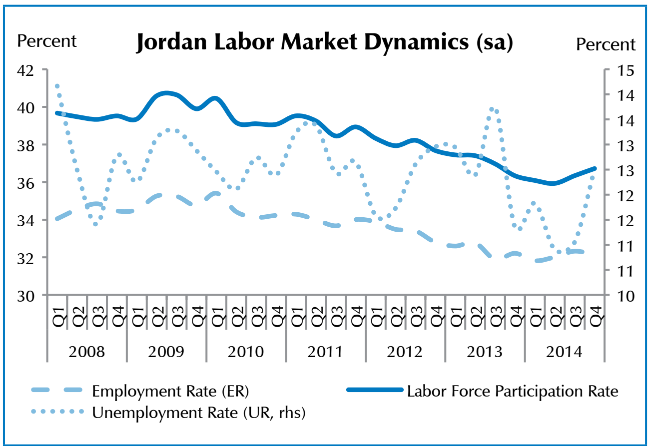

FIGURE 6. ... Unemployment remains a chronic problem.

Source: Department of Statistics

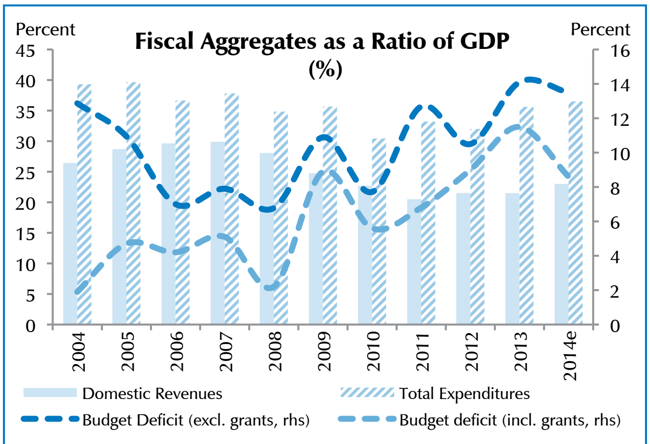

FIGURE 7. Fiscal Balances, both with and without grants, improve

Source: Ministry of Finance and World Bank staff calculations

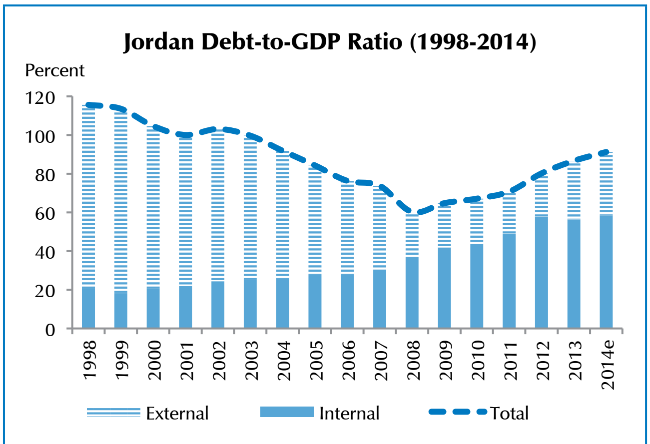

FIGURE 8. ... Debt-to-GDP ratio has been rising since 2008

Source: Ministry of Finance and World Bank staff calculations

disruptions of natural gas from Egypt (Figure 9). Since April 2014, Jordan has witnessed a shortfall of gas imported from Egypt due to multiple explosions that cut off the gas pipeline. To compensate for the gas shortage, Jordan has resorted to importing more expensive diesel and fuel oil. While a 44 percent reduction in the international oil price from June to December 2014 partially mitigated this higher cost, energy imports were nonetheless 6.4 percent higher overall, with non-energy imports increasing by 1.9 percent yoy, resulting in a 3.1 percent increase in total imports. Exports improved by 6.0 percent in 2014 yoy led by a 7.5 percent rise in domestic imports outweighing a 2.8 percent decline in re-exports. The rise in domestic exports was driven by a 28.8 percent increase in mineral or chemical fertilizers, a 24.7 percent increase in exports of crude phosphates, a 12.3 percent increase in vegetables and fruits, and a 12.1 percent increase in clothes. The USA overtook Iraq as Jordan's largest export destination in 2014 given the 7.6 percent lower exports (6.2 percent excluding re-exports) to Iraq resulting from Islamic State (IS) militants seizing the Iraq border crossing with Jordan in June 2014. The decline in exports to Iraq proved to be more mitigated than originally expected as trading continued, albeit under higher costs. Larger exports to Syria and the GCC by 48.3 percent and 15.1 percent, respectively, (2.5 percent of GDP combined) more than outweighed the reduced exports to Iraq (0.3 percent of GDP). Hence, the trade in good balance widened by 1.3 percent yoy in 2014, to US$14.4 billion.

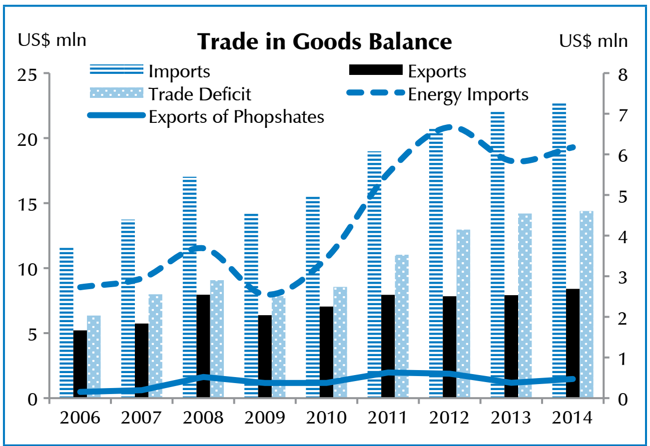

FIGURE 9. Trade deficit widened in 2014 due to an increase in energy imports.

Source: Department of Statistics, World Bank staff calculations

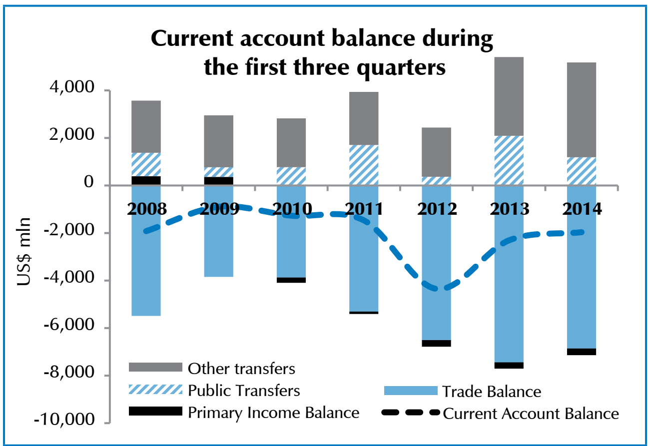

FIGURE 10. Current account deficit narrowed despite drop in transfers.

Source: Central Bank of Jordan, World Bank staff calculations

9. **The current account deficit narrowed by end-September 2014 despite wider secondary income and trade balances and thanks to robust public and private receipts (Figure 10).** The current account is estimated to have narrowed from 10.3 to 7.1 percent of GDP between 2013 and 2014. The current account deficit shrank to US$2.0 billion in the first nine months (9M) of 2014, 14.8 percent less than the US$2.3 billion registered for the same period of 2013. This improvement was led by a 56.2 percent higher services account including due to larger net travel flows of US$218 million during 9M 2014 compared to the same 2013 period. In contrast, the secondary income balance deteriorated to US$5.2 billion (14.4 percent of GDP) in 9M 2014 compared to US$5.4 billion (16 percent of GDP) in 9M 2013 as a result of a 43 percent fall in public transfers, only slightly offset by a 2.2 percent increase in remittances.

10. **The balance of payments nonetheless improved resulting in higher foreign reserves at the Central Bank of Jordan.** By end-September 2014, the balance of payments registered US$758.5 million, 88 percent higher compared to the corresponding 2013 period. It was supported by a 155 percent larger portfolio investment account in Q2 2014 on account of the US$1 billion US-guaranteed Eurobond issued in June 2014. Additionally and during 2014, Jordan received US$716 million in grants from the GCC (almost half the value in 2013)[4] and a further disbursement of about US$371 million from the IMF as part of the SBA. By end-2014, while decreasing for the fourth consecutive month, gross international reserves at the CBJ reached US$14.1 billion (7.4 months of imported goods), well above end-2013's US$12 billion (6.5 months of imported goods) and in excess of the IMF's reserve adequacy floor.

Monetary Policy and Finance

11. **As expected, the temporary supply shocks that had pushed up headline and core inflation are fading (Figure 11).** Based on the newly rebased (to 2010) consumer price index (CPI), headline inflation dropped to 1.7 percent in December 2014 on a 12-month yoy basis and 2.9 percent on a period average basis, mostly reflecting the plunge of international oil prices. As expected (and detailed in our previous *Jordan Economic Monitors*), core inflation, which excludes food and energy products,

[4] Grants received in the balance of payments account differ from those received in the fiscal accounts. GCC funds first arrive at a CBJ account and are thus accounted for in the balance of payments. These funds only enter the fiscal accounts once the funds have been spent in the budget as the GCC funds can only be used to refund spending on capital expenditure.

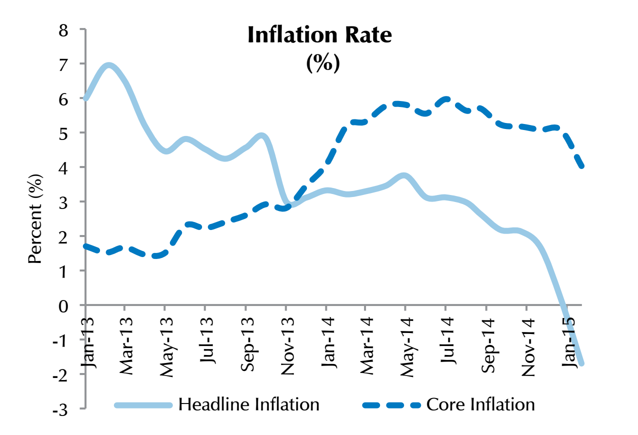

FIGURE 11. Headline and core inflation are fading

Source: Department of Statistics, World Bank staff calculations

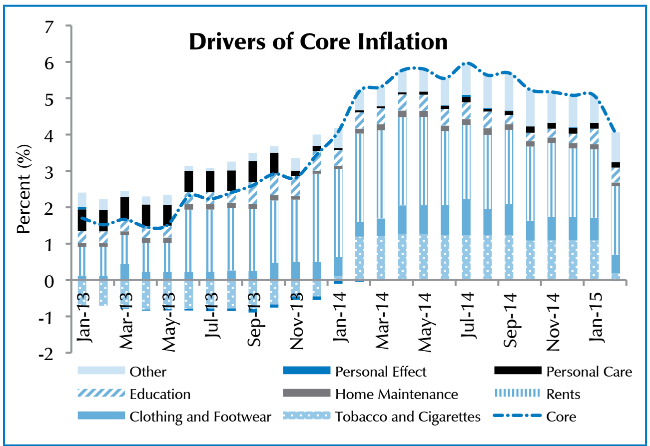

FIGURE 12. With tobacco and clothing pushing down core inflation

Source: Department of Statistics, World Bank staff calculations

also started to decelerate—to 5.1 percent yoy in December 2014 against 5.4 percent on a period average basis. The main drivers of core inflation in 2014 were rents, tobacco and cigarettes, and clothing and footwear, increasing by 5.8 percent, 14.8 percent, and 8.9 percent, respectively (Figure 12). These decreases reflect the fading impact of one-off supply shocks, most notably the increase in customs duties on clothes from 5 to 20 percent in September 2013, taxes on cigarettes in February 2014 raising cigarette prices by 100 fils per pack, part of a government decision to raise taxes on tobacco and alcohol.[5] The contribution of rents to core inflation subsided during the year from 2.4 percent yoy until May 2014 to 1.9 percent yoy in December 2014 which reflects lower demand for housing possibly due to a slower influx of Syrian refugees that started in May 2013. This slower increase in housing demand is reflected by a 7.4 (yoy) drop in the number of constructions permits in 2014. Given a further subsiding of these measures and recent low international oil prices, headline inflation turned negative in February 2015 (at -1.7 percent yoy and -0.8 percent on a per average basis for 2015). This decrease was driven by the prices of transportation and 'fuel and lighting' (accounting for 18.8 percent and 13.1 percent reductions, respectively) and could also include the effect of the depreciating Euro as about 20 percent of Jordan's imports originate from the European Union. Core inflation continued to abate to 4.0 percent on a yoy basis in February 2015 and 4.5 percent on a cumulative basis.

12. **The Central Bank of Jordan continues its expansionary stance amidst decelerating inflation, a persistent cumulative output gap, and robust reserves accumulation.** While the output gap appears to be closing since QII 2014, the cumulative output gap appears to have entered negative territory since early 2013 indicating spare capacity in the economy (Refer to Box 1). While policy rate cuts are welcome in this context, the effectiveness of the monetary policy transmission mechanism has, so far, been muted given the delay and limited pass through of policy rates to lending rates. For example, the 75 bps drop in the Central Bank's overnight deposit window rate has so far only translated in a 14 bps average drop in commercial bank's lending rates (Figure 13); as a result commercial bank lending to the private sector rose by a modest 2.3 percent (yoy). To stimulate the economy further, the CBJ has persisted with loose monetary policy cutting rates most recently on February 3, 2015 decreasing the overnight deposit window facility rate by 100 bps to 1.75 percent and reducing the rediscount rate and overnight repurchase agreement rates by 25 bps each to 4.00 percent and 3.75 percent respectively. The cost of borrowing decreased with intrabank, Treasury bill and Treasury bond rates declining by 84, 83, and 100 bps respectively, between end-2013 and end-2014. This compares with a 12 bps rise in

[5] While the special tax rates on mobile phones and mobile phone subscriptions were each doubled to 16 percent and 24 percent respectively in July 2013, the communications component of the CPI was not significantly affected as competition and technological advances in the sector likely allowed firms to keep retail prices unchanged.

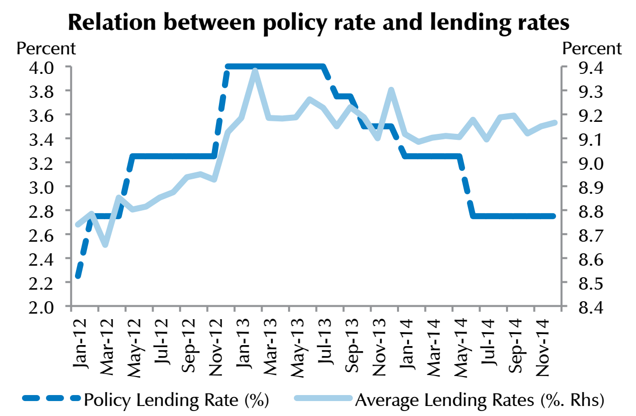

FIGURE 13. Lower policy rates did not translate into a parallel drop in commercial bank lending rates

Source: Central Bank of Jordan, World Bank staff calculations

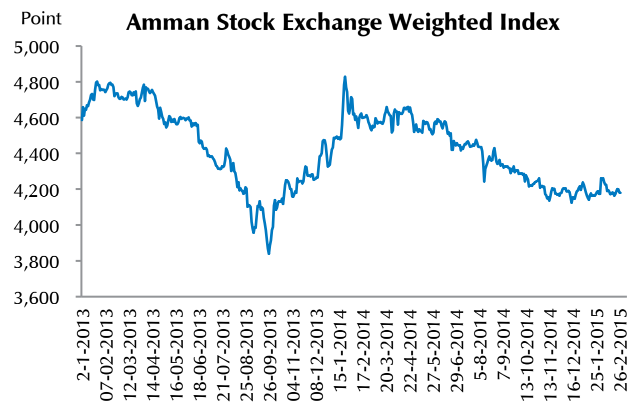

FIGURE 14. Investor sentiment still negative

Source: Amman Stock Exchange

TABLE 1. Financial Soundness Indicators (in percentage unless otherwise indicated)

	2008	2009	2010	2011	2012	2013	End-June 2014*
Nonperforming Loans/Total Loans	4.2	6.7	8.2	8.5	7.7	7.0	7.0
Provisions (in percent of classified loans)	63.4	52	52.4	52.3	69.4	77	76.4
Risk-weighed Capital Adequacy Ratio	18.4	19.6	20.3	19.3	19	18.4	17.4
Leverage Ratio	12.9	13	13.1	13.1	13.3	12.9	12.5
ROE	11.5	8.8	8.8	8.3	8.6	9.9	5.8
ROA	1.4	1.1	1.1	1.1	1.1	1.2	0.7
Net Profits Before Taxes (in JD million)	564.3	460.4	523.4	516.6	587.8	719.5	422.4
Liquidity Ratio	141.2	159.1	161.4	152.9	143.5	149.1	150.2
Growth Rate of Total Assets	11.4	7.4	9.6	7.9	4.3	9.1	3.0
Growth Rate of Customer Deposits	13.2	12.1	10.9	8.3	2.4	10.5	6.5
Growth Rate of Credit Facilities	17.2	2.1	8.6	9.8	12.5	6.3	3.9

** Not annualized.*
Source: Central Bank of Jordan.

US Treasury Bills and an average 17 bps rise in US Treasury Bonds for the same period.[6]

13. **The equity market is declining on a net basis reflecting negative sentiment of regional spillovers.** After a 5.4 percent improvement in the Amman Stock Exchange Index (ASEI) during the first five months of 2014 compared to end-2013, the June to August summer months saw a 5 percent decline reflecting investor sentiment following the incursion of Islamic State militants into Iraq. On a cumulative basis, the ASEI lost 2.3 percent of its value by end-year 2014 compared to end-2013 weighed down by a 16.2 percent and 3.5 percent reductions in the respective values of industry and services components which overshadowed 10.2 percent and 4.2 percent improvements in insurance and banking components respectively. This decline continued into 2015 on account of further security incidents namely the killing by the Islamic State of a Jordanian pilot in early-February. The ESIA ended February 2015 1.4 percent lower than end-2014 levels (Figure 14).

[6] Rates discussed refer to 12 month Jordan and US Treasury bills and the average rates of 2, 3 and 5 year Treasury bonds for Jordan and the US.

14. **The banking sector in Jordan is largely resistant.**[7] By June 2014, banks' nonperforming loans (NPL) ratio remained at 7.0 percent, unchanged from end-2013 and down from a 2011 peak of 8.5 percent but still far from the pre-crisis level of 4.1 percent in 2007 (Table 1). Banks' Return on Equity (ROE) and Return on Assets (ROA) both improved in 2013 (latest annual data) to 9.9 percent and 1.2 percent, respectively, the highest rates since 2008. At 17.4 percent end-June 2014, the capital adequacy ratio is robust, as is the leverage ratio which (12.5 percent at end-June 2014 which is well above the 3 percent stipulated by Basel III). The net foreign asset position of commercial banks registered minus US$2.8 million at end-2014, down from minus US$2.2 million a year earlier reflecting a higher stock of foreign reserves at the central banks as well as a continuation in the de-dollarization which, at 17.5 percent end-2014 (compared to 19.6 percent at end-2013), is back to pre-tension levels. Banks' exposure to sovereign debt[8] has been increasing, however, accounting for 40.7 percent of total assets in end-2014, up from 38.8 percent in end-2013.

[7] The CBJ is closely monitoring developments in Arab Bank's appeal to a US lawsuit.

[8] Banks' sovereign debt exposure is computed as the ratio of commercial banks' aggregate investment in claims on public sector and deposits at CBJ relative to total assets.

BOX 1. Output Gap Analysis

An analysis of Jordan's contemporaneous output gap reveals a closing gap over time, while a cumulative gap persists. Sensitivity analysis using three Hodrick-Prescott filters reveal a closing output and even slightly positive output gap by end-Q3 2014 (Figure 15). However, while the contemporaneous output gap appears[1/] to be closing since mid-2014, after several years of below-potential economic growth, a sizeable negative cumulative output gap, which started in early 2013, remains (Figure 16).

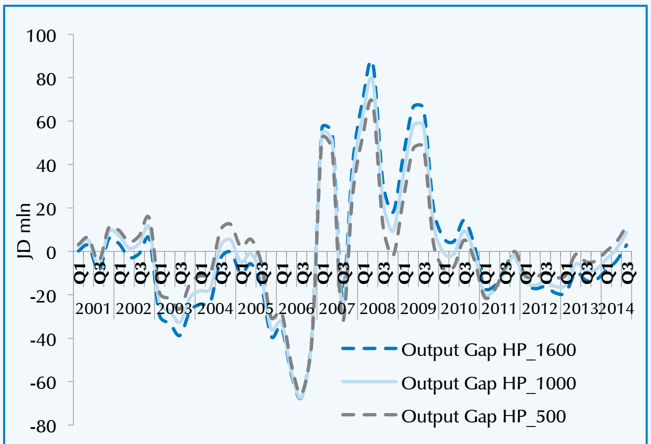

FIGURE 15. Contemporaneous output gap closing...

Source: Department of Statistics, World Bank staff calculations

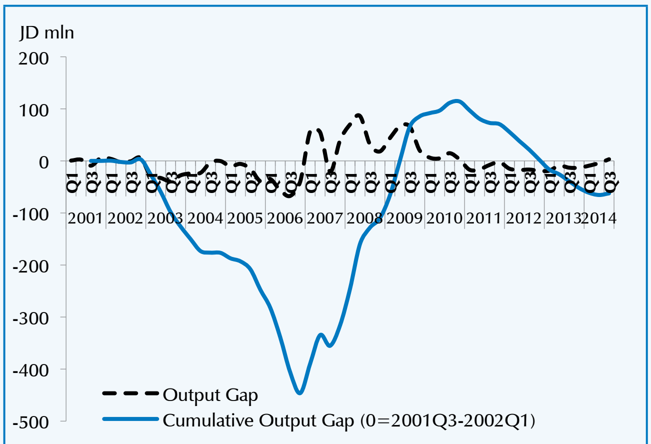

FIGURE 16. ... yet, cumulative output gap persists

Source: Department of Statistics, World Bank staff calculations

Coupled with other indicators, especially labor market ones, this tends to indicate that the Jordanian economy still has spare capacity that could be mobilized should growth continue to gather pace. For example, the labor force participation rate (LFPR) is currently significantly lower than it was prior to the sharp economic slowdown of 2011 (the latest LFPR is at 36.4 percent in end-2014, against 40.1 percent in end-2009). As indicated earlier, part of this drop in the LFPR could be due to demotivated people that have given up on competing with Syrian refugees at the low end of the skills spectrum. The drop in the LFPR is all the more concerning given that Jordan's population has a youth bulge which should have led to an increase in the participation rate.

The policy implications are that the CBJ still has time before needing to tighten monetary policy. While the closing contemporaneous output gap would indicate an economy operating at full capacity, reducing justification for continued expansionary policy, the relatively large output gap reflects spare capacity in the economy. As growth starts to pick-up, it is expected that some spare resources would come back into production, including discouraged labor that dropped out of the labor force. Policy-wise, this would indicate that the CBJ does not need to tighten monetary policy at this stage, particularly given decelerating inflation and the time lag between its action on reducing key policy rates and their pass-through to commercial banks (Figure 17).

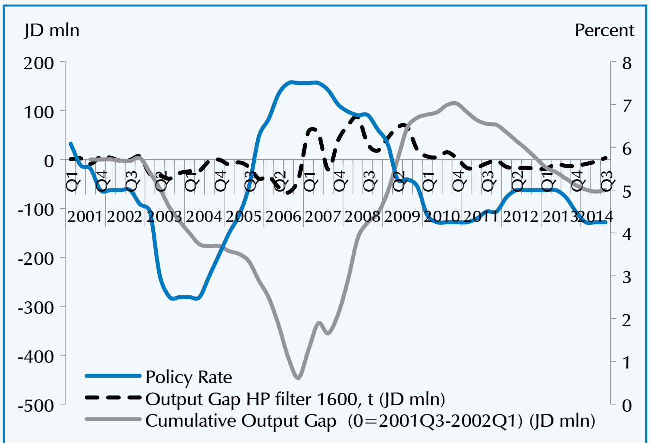

FIGURE 17. Policy-rate trend in line with cumulative output gap

Source: Department of Statistics, World Bank staff calculations

1/ Output gap estimates are notoriously difficult to estimate precisely. Using a different methodology the IMF (2015) still estimate that Jordan has a negative contemporaneous output gap in 2014 and 2015. The policy implications of this result are similar to the ones included in this box.

PROSPECTS

15. **The economy is expected to steadily continue its rate acceleration as reforms and adjustment to the regional spillovers pay off.** Real GDP growth is forecast to accelerate to 3.5 percent in 2015 and 3.9 percent in 2016. The probability distribution around these point estimates is titled upwards. These forecast also assume a status quo with respect to regional security challenges from Syria and other geopolitical risk, the level of gas inflows from Egypt, continued fiscal consolidation, a low oil price,[9] and a continuation of investments particularly in energy supply diversification, and on account of new investment and PPP laws. Netting out a 0.3 point estimated contribution to 3.1 percent real GDP in 2014 from the recovering mining and quarrying sector which we forecast will level off, the underlying additional 0.7 point contribution to growth in 2015 is expected to be primarily driven by the continued benefits from the positive supply shock represented by the large drop in international oil prices. This would improve production costs, public finances (elimination of an oil-related cash compensation transfer more than offsetting lower oil-related revenue), and net disposable income of consumers, thereby boosting private consumption. Continued fiscal consolidation and a steady pick-up in economic growth are estimated to revert the past six years' increase in the debt-to-GDP ratio in 2015.

16. **The current account is expected to narrow further owing to a tighter trade balance and public transfers.** The trade deficit is forecast to narrow to 19 percent of GDP in 2015 from an estimated 19.8 percent in 2014. This would mainly be led by total imports which are expected to contract by 5.9 pp of GDP to 64 percent of GDP on account of lower oil prices. Exports are expected to decline by a smaller 0.3 pp to 44.2 percent of GDP in 2015 due to the leveling off of potash and phosphates that drove exports in 2014. Additionally, current transfers are expected to fall by 1.8 pp of GDP between 2014 and 2015. Overall the current account is expected to narrow to 5.7 percent of GDP in 2015.

17. **The largest challenges to Jordan stem from geopolitical security risks.** Any exacerbation of security risks related to the Syria or Iraq crises or IS threat could severely undermine growth prospects and development efforts.[10] International oil price movements represent a two-pronged risk. Should low prices persist in the medium term, this would cause cumulative fiscal pressures on many of the oil exporting countries that Jordan relies on for grants particularly related to capital expenditures, and would lower remittances from its diaspora in oil-producing countries. Should the price of oil significantly rebound, this would result in a negative supply shock and pressure the twin deficits (though the impact on both will become more muted over time given the well advanced gas supply diversification that Jordan has embarked on, as detailed below). A third notable risk particularly for the fiscal balance relates to whether expected grants, already expected to shrink to almost have to 2.6 percent of GDP in 2015, do not materialize. Finally, should the Fed tighten rates, it would be expected that such higher rates would eventually pass through in the Jordanian economy given the Jordanian Dinar's peg to the US dollar, curbing lending activity and increase the cost of borrowing.

[9] As per World Bank commodities price forecast for crude oil, average, spot at US$53.2/barrel in 2015 and US$56.9/barrel in 2016.

[10] In a 2014 study that predates the Islamic State surge into Iraq, the IMF estimated that the Syrian crisis had an overall negative impact on economic activity, with losses to output growth at around 1 pp in 2013 and increased rental prices by 5 pp by year-end. International Monetary Fund, (2014) "Jordan: Selected issues", Country Report No. 14/153, Washington DC.

18. **Jordan continues to make progress in diversifying its sources of energy, crucial for energy security and for improving its twin deficits.** The development of a Floating Storage and Regasification Unit at Aqaba, with a send-out capacity of 500 million cubic feet of liquefied natural gas for imports, is expected to be operational in the summer of 2015. The first shipment is scheduled in August as part of an agreement between the NEPCO and Shell to sell and purchase a minimum of 150 million cubic feet of liquefied natural gas estimated to cover 15 percent of Jordan's energy needs. The government continues towards achieving its 10 percent renewable energy target by 2020 with 400 MW of contracts for wind and PV power projects already awarded (of which 130 MW capacity is under construction) and more expected to be contracted by end-2015/2016. With respect to natural gas, Jordan has suspended talks to import natural gas from Nobel pending an antitrust case. A US$18 billion pipeline was planned to export crude oil from Basra in Iraq to Aqaba but the security situation is likely to hinder the project. Additionally, Jordan is keen to improve the balance of its power generation mix by utilizing its abandoned domestic deposits of oil shale. In 2014, the government signed a long term agreement for purchasing electricity from a 500 MW privately develop shale oil power plant expected for operation in 2019.

19. **The implementation of reforms would bode well for unlocking constraints to stronger, sustainable, and inclusive growth. Such reforms cut across a number of pillars.** On the institutional level, political reform is welcome to encourage greater external and internal (within government) accountability, consistency and continuity of policies, and frequent monitoring and evaluation. In parallel, and on the fiscal policy level, fiscal adjustments are required to reduce the budget deficit and ensure fiscal sustainability. Structural reforms include the promotion of exports (both products and markets), improving the business environment through public administration reforms including at the municipality level, improving access to finance and boosting investor confidence. Finally, enabling an environment for private-sector innovation and improving the industrial policy framework would support job-creation.[11]

[11] For more details, see World Bank (2012). Hashemite Kingdom of Jordan: 2012 Development Policy Review, Washington DC.

SPECIAL FOCUS: ACCESS TO FINANCE IN JORDAN

Access to finance is underdeveloped in Jordan where firms rate their inability to receive credit as the second overall obstacle to their operations. This status quo is of particular concern for micro-, small-, and medium-sized enterprises (MSMEs), which make up over 90 percent of the Jordanian economy and are major contributors to its competitiveness and employment potential. The situation has only worsened since 2006, with basic Access to Finance indicators deteriorating for firms across the country, of varying size and age, and in different sectors. The Jordanian authorities, including the Central Bank of Jordan, have introduced several measures to improve access to finance but instrumental structural reforms are still needed to instigate transformational improvements across the board.

I. CONTEXT

20. **Jordan ranks 185th out of 189 economies in the "Getting Credit" indicator of the World Bank's 2015 Doing Business report, due to its poor credit information system and its inadequate collateral and bankruptcy laws.** This ranking caps off a downward trend that saw Jordan fall by an average of 18 spots a year between 2011 and 2014.[12] The Jordanian economy has a score of zero (weakest possible) on both the depth of credit information index and the strength of legal rights index, far lower than those of the average of Middle East and North Africa (MENA) and Organization for Economic Co-operation and Development (OECD) countries. This is attributed to, inter alia, the non-availability of credit information from retailers, trade creditors, utility companies, or financial institutions; the inability of banks and financial institutions to access borrowers' credit information online; and the fact that borrowers cannot inspect their data in the largest credit registry. Jordan also compares poorly against MENA and OECD countries on public registry coverage and private credit bureau coverage.[13]

21. **Getting credit is especially a concern for small, young firms outside Amman.** Widespread political and economic instability in the MENA region, combined with an unfavorable policy environment in most countries, has severely limited the ability of firms to access sufficient credit and other forms of financing. The problem is particularly acute in Jordan, where firms rank the issue of access to finance as the second largest obstacle to their operations after the investment climate. Small firms were five times likelier than larger firms to record access to finance as their largest obstacle (Figure 18). Similarly, more than twice as many firms in Aqaba, Zarqa, and Balqa saw access to finance as their largest obstacle compared to firms in Amman (Figure 19).

22. **In MENA, job creation is currently dominated by young, fast-growing firms.** There is a large and growing amount of literature finding that younger and smaller firms more generally have higher employment growth rates than older and larger firms.[14] These studies, for example, point to the organic nature of growth in younger and smaller firms versus the acquisition-driven growth that characterizes larger firms. The World Bank's 2014

[12] The overall Doing Business ranking for Jordan in 2015 is 117 out of 189 economies.

[13] World Bank (2014). Doing Business 2015: Going Beyond Efficiency. Economy Profile 2015: Jordan. World Bank Group, Washington, DC.

[14] World Bank Group (2014). Jobs or Privileges: Unleashing the Employment Potential of the Middle East and North Africa, Report No. 88879-MNA, Washington DC.

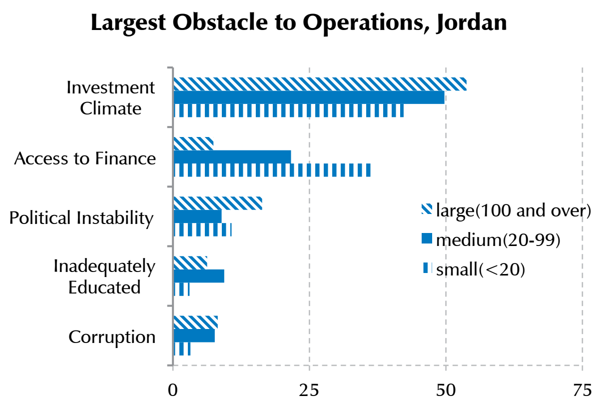

FIGURE 18. Largest Obstacle to Operations, Jordan (2013), by firm size ...

Source: Enterprise Surveys. Figures are survey-weighted. Top five national-level obstacles shown. Investment climate indicator pools eight relevant indicators.

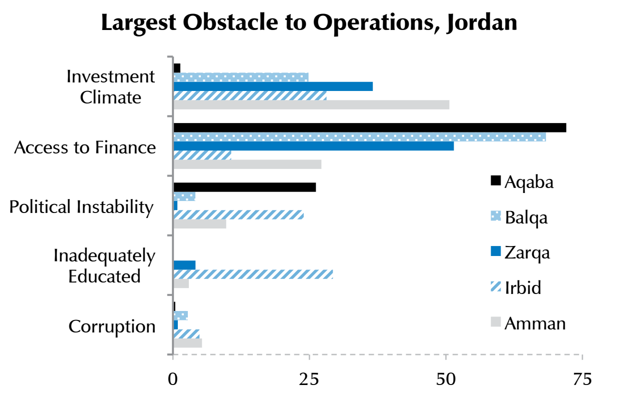

FIGURE 19. ... by region

Source: Enterprise Surveys. Figures are survey-weighted. Top five national-level obstacles shown. Investment climate indicator pools eight relevant indicators.

Jobs or Privileges report focused on the MENA region and highlights findings consistent with the prevailing literature, paying special attention to the high share of job creation in the region that is attributable to both micro-startups (firms with between 1-4 employees) and to fast-growing firms. For example, so-called "gazelles", or firms that double their employment over a four year period, accounted for roughly 64 percent of total net job creation in Jordan from 2006 to 2011.

23. **The prominent role young firms play in MENA job creation is highly relevant to MSMEs in Jordan, because half of all young firms (i.e., under the age of 10) in Jordan are small, and another 41 percent are medium sized.** Micro, small, and medium sized enterprises (MSMEs) today are positioned as the backbone and vanguard of the modern enterprise sector in Jordan. The 2011 General Economic Establishments census revealed that MSMEs represent 95 percent of Jordanian enterprises, 66 percent of which have less than 19 employees; employ 70 percent of the total labor force employed by the private sector; produce outputs that contribute 40 percent towards national GDP, and account for 45 percent of total exports. Around 40 percent of the operating enterprises are located outside Amman.

24. **MSMEs are major contributors to the Jordanian economy and to its competitiveness, and employment potential (World Bank 2013[15]).** There are around 150,000 registered enterprises in Jordan, of which MSMEs account for more than 94 percent. The majority of jobs are generated through MSMEs, employing around 71 percent of private sector employees, where SMEs employ 32.7 percent and microenterprises 38.7 percent. This sector is also a leading source of exports and incomes in Jordan. Furthermore, the high correlation between firm size and age suggests that MSMEs in Jordan—the vast majority of them young—represent the best possible engine for job creation in the country based on regional trends.

25. **Without access to finance, the capacity of these firms to grow their business and to create jobs is constrained.** The more developed a financial system is, the more likely firms are able to obtain capital from the banking sector, capital markets, or private equity, and obtaining capital is a perquisite for businesses to grow. Accessing credit in the form of credit lines or loans in order to make new investments or acquire working capital is crucial; young firms are expected to be more financially constrained than their more established counterparts (e.g., because

[15] For more details, see World Bank (2013) Project Appraisal Document on a Proposed Loan in the Amount of US$70 Million to the Hashemite Kingdom of Jordan for a Micro, Small, and Medium Enterprise Development for Inclusive Growth Project, Finance and Private Sector Development Department, Middle East and North Africa Region, Report No: 72284-JO, Washington, DC.)

of a lack of credit history).[16] Unfortunately, high transaction costs, information asymmetries, weak regulatory frameworks, and poor credit information systems magnify the difficulties that young firms already find themselves in which can result in having considerable difficulty in accessing finance.

26. **This impedes job creation in Jordan and, consequently, the twin goals of eradicating poverty and generating sustainable and inclusive growth.** The lack of access to finance is among the many factors constraining the Jordanian economy. These result in a structurally weak labor market, including high unemployment, particularly among youth and women. Compared to an average unemployment rate of 12.5 percent from 2008 to 2014, unemployment for those aged 15-19 averaged 34.1 percent compared to 26.9 percent for those 20-24 and 20.4 percent for women, over the same period. Furthermore, regional disparities persist in the economy, with both the non-conducive business environment and inadequate access to finance preventing the private sector from creating sufficient jobs in the Governorates away from Amman, which are dominated by the public sector. Aqaba, Balqa, and Zarqa, the top three Governorates citing access to finance as a top constraint (Figure 19), demonstrate average unemployment rates of 14.0 percent, 13.9 percent, and 12.1 percent respectively compared to an average of 10.8 percent for Amman across the 2008-2014 time period.

27. **The effect of Jordan's dire access to finance situation on job creation is of particular concern because job creation is Jordan's key development challenge.** Jordan's labor market suffers from severe structural deficiencies. As a result of these, the number of jobs created is insufficient to accommodate the country's burgeoning youth population. The quality of the jobs created is also an issue, leading to discontent for those who do get jobs, especially among youth. Historically, 42 percent of jobs created in the Kingdom have been in the public sector, which is perceived as an employer of choice for entry level positions given its high overall compensation level compared to the private sector. However, given the ongoing fiscal consolidation efforts, hiring has become more limited. In the private sector, which historically accounted for the remaining 58 percent of jobs created in the Kingdom, less than half the jobs were filled by Jordanian workers, while over half going to foreign workers (World Bank 2012[17]). The strong preference for working in the public sector has generated long waiting lists for applicants and a relatively high reservation wage among Jordanians both of which have resulted in a structurally high unemployment rate (World Bank, 2012[18]). Recently, competition at the low end of the private sector labor market has intensified with the Syrian conflict and the large influx of refugees.[19] Combined with fewer public sector openings due to the fiscal consolidation efforts started in mid-2012, this competition has likely demotivated Jordanians that were looking for a job. As a result, the percent labor force participation rate, which was already low by international and regional standards, has weakened, registering 36.4 percent in 2014 compared to 39.5 percent in 2008. Kick-starting private sector job creation is therefore urgent and critical given the development challenges the Kingdom is currently facing.

16 World Bank (2013). Small and Medium Enterprises in Jordan: Challenges for Growth, Employment, Exports and Innovation. Finance and Private Sector Development, Middle East and North Africa Region. World Bank Group, Washington, DC.

17 World Bank Hashemite Kingdom of Jordan: 2012 Development Policy Review.

18 Ibid.

19 See World Bank (2014) "Resilience Amid Turmoil," Jordan Economic Monitor, Spring issue and specifically the Special Focus on "Syrian Refugees and Labor Market Outcomes in Jordan".

II. ACCESS TO FINANCE FOR MSMES[20]

28. **In Jordan, the access to finance issue presents a substantially larger problem for MSMEs than for larger firms.** Although smaller firms in Jordan grow at faster rates than their large counterparts, as well as create more new job opportunities, they frequently cite inadequate access to finance as one of the main constraints confronting their development. Only 11 percent of small firms in 2013 had a loan, for example, compared to 24 percent of medium sized firms and 33 percent of large firms (see Figure 23).

29. **Banks are the principal source of external finance for SMEs, but the latter only receive 10 percent of bank lending, compared to 25 percent in emerging markets.** The financial system in Jordan is dominated by a large banking sector. There are 25 commercial banks, the three largest of which control 47 percent of assets, loans, and deposits (bank financing in Jordan mainly funds working capital, rather than longer term finance). Furthermore, non-bank financial institutions (NBFIs) play a limited role in financial intermediations compared to other developing economies. It is worth noting that micro finance institutions (MFIs) in Jordan reach 283,000 out of a potential 300,000 clients estimated by the Global Findex, thus the micro-enterprise loan market is quite close to market saturation. As a result, financial intermediation to SMEs appears to be the "missing middle".

30. **At the Governorates level, MSMEs face bigger challenges.** In terms of physical outreach, Governorates such as Irbid and Zarqa both have active SME populations, but are relatively underserved by bank branches compared to Amman. The licensing procedures and requirements by municipalities can also be quite burdensome and expensive for SMEs given their limited assets. As a result, many firms often resort to the informal sector, family, friends and other sources for access to finance.

31. **On the demand side, the MSMEs' level of skills and capacity is an impediment to accessing finance—enterprises often lack transparency, and do not have audited financial statements.** MSMEs are perceived as being less stable, and lacking in competent management, and hence are considered more risky. They often do not have sufficient collateral, and when they do, they are not registered, making foreclosure difficult if not impossible. MSMEs often refrain from applying for bank loans due to a religious aversion to interest-based borrowing. Small firms have indicated that hurdles in business licensing and regulatory policies are factors that hinder their growth. Municipal inspections are common challenges.

32. **MSMEs growth is constrained by various factors.** On the supply side, MSME lending is hampered by an inadequate legal and institutional framework for secured transactions and insolvency, lack of credit reporting and information, and weak regulatory and supervision of financial services offered by NBFIs. A guarantee or risk-sharing mechanism can help compensate for the financial infrastructure deficiencies in the interim, as Jordan improves its credit information, secured transactions and insolvency. The Jordan Loan Guarantee Corporation (JLGC) contribution to SME lending is low--totaling 3,575 guarantees in 2014—and requires improved product offerings and modernized systems to enhance its effectiveness.

33. **MSMEs access to financial services has also been constrained by limited provision of Shariah-compliant financial products.** SMEs often refrain from applying for bank loans due to their religious discomfort with interest-based borrowing. There has been a growing demand for Shariah-compliant financial products in Jordan (54 percent of SMEs have strong preference for Islamic finance products in the country).[21] This class of services is only offered by four banks within the banking

[20] This section draws from World Bank (2015) Project Paper on a Proposed Additional Loan in the Amount of US$ 50 Million to the Hashemite Kingdom of Jordan for the Micro, Small, and Medium Enterprise Development for Inclusive Growth Project, Finance and Markets Global Practice, Middle East and North Africa Region, Report No: PAD1364, Washington, DC.

[21] Please see "Islamic banking opportunities across Small and Medium Enterprises in MENA", IFC Report; May 2014.

system. Jordan's Islamic banking assets account for around 15 percent of the overall banking sector assets, the sector is well capitalized and liquidity is ample with deposits growing by seven percent during 2013. However, Islamic Banks account for only 11 percent of total banks' financing to SMEs with 95 percent provided in the form of the markup financing instrument (Murabahah). SMEs' Shariah-compliant financing is constrained by banks' over collateralizing SMEs and reluctance to bear credit risks. The introduction of Islamic financial products that reduce underlying risks either through asset backed instruments (e.g. Ijarah; Shariah compliant operating lease) or provision of third party guarantee through JLGC (Kafalah) is expected to accelerate the industry's growth, and streamline SMEs access to Shariah-compliant financing.

34. **In addition to facing regulatory hurdles on the supply side, MSMEs can attribute their lack of access to finance to a myriad of other factors.** Although 18 banks have dedicated SME departments increasing their capability to lend to SMEs, several rely primarily on collateral-based lending rather than cash flow-based, leaving creditworthy SMEs unfinanced; most loans require collateral amounting to about 23 percent more than the loan value (small firms report having provided higher collateral than large firms); and, the enforcement of basic contractual rights is cumbersome, time consuming and costly, representing a significant disincentive when lending to SMEs. Furthermore, the internal ratings systems used by Jordanian banks for SME lending are often based on outdated techniques that do not effectively manage risk or lower costs.

35. **Start-ups lack access to finance and to debt financing.** The Government of Jordan is very active in catalyzing a growing entrepreneurial ecosystem, startups and the venture capital (VC) industry in Jordan. Entrepreneurship development initiatives backed by the Jordanian Government include, the Jordan Enterprise Development Corporation (JEDCO), King Abdullah II Fund for Development, Queen Rania Center for Entrepreneurship and iPARK as well as partially Government-funded incubator Oasis500. Jordan is considered as one of the main start-ups hubs in the MENA region. However, even with the existence of these Government initiatives, as well as a wide range of private sector-driven VC companies and angel networks, there is still a lack of financing for start-ups. Jordanian start-ups are challenged to receive follow-up funding after incubation and loans for startups (venture debt), which are not provided widely through banks in Jordan. The main challenges faced by Jordanian start-ups are the lack of follow-up funding between US$ 200,000 and US$ 500,000 and the need for additional business development services exceeding the supply currently offered.[22]

[22] infoDev. 2012, "Early Stage Innovation Financing (ESIF) Facility." Concept Note, World Bank, Washington, DC.

III. DOWNWARD TREND IN ACCESS TO FINANCE FOR JORDANIAN FIRMS

36. **World Bank enterprise survey data reveal not only that access to finance in Jordan is limited, but also that the situation has worsened since 2006.** The percentage of firms without a checking account, for example, rose from 6.2 percent in 2006 to 16.6 percent in 2013, while the percentage of firms enjoying the benefits of an overdraft facility halved from 40.4 percent to 20.1 percent over the same period (Table 2). In general terms, there is a significant lack of diversity in sources of financing in Jordan, with internal funds and retained earnings constituting the primary source. Only about six percent of firms in 2013 cited private banks as financing more than 50 percent of working capital. The overall number of firms citing non-bank financial institutions as a source of working capital at all is negligible: only three firms did so in 2006 and six firms in 2013.

37. **The worsening trend in access to finance in Jordan cuts across all firm characteristics, from region and firm size to firm age and sector.** In nearly all instances, the basic indicators of access to finance such as ownership of a checking account, access to a line of credit, and access to an overdraft facility have deteriorated for Jordanian firms across the country, of varying size and age, and in different sectors. Gender inclusion in firm leadership appears to be one exception. Firms that have at least some female ownership have exhibited improvements in access to finance over the years on the above indicators. Furthermore, gender inclusive firms have seen the value of collateral they are required to provide go down: in 2006, 65 percent of such firms owed collateral exceeding 100 percent of the loan value, while in 2013, only 57 percent did so (Figure 24).

38. **Access to finance has deteriorated in both Amman and in the Governorates.** Generally speaking, firms in Amman stand to benefit in terms of access to finance due to the much larger presence of the private sector in the Amman metropolitan area compared to the other, public sector dominated governorates. As discussed above, the financing pinch disproportionately affects small firms, and Amman happens to house most of the country's largest firms. Nevertheless, the capital has not been immune to the worsening trend in access to finance that has plagued Jordan as a whole. Amman has seen its percentage of firms with access to a line of credit and an overdraft facility fall by half between 2006 and 2013, in line with the downward trend in other regions. Similarly, the number of firms without a checking account has doubled over the same period (Figure 20). Geographically speaking, Irbid is the most disadvantaged region surveyed in Jordan. Only six percent of firms there have an overdraft facility and only two percent have a line of credit. To make matters worse, of the firms in Irbid that did manage to secure a loan in 2013, 99 percent were required to provide more than one type of collateral, and

TABLE 2. Firms Access to Finance in Jordan

	2006	2009	2013
Does not own a checking account	6.2%	4.4%	16.6%
Has an overdraft facility	40.4%	32.0%	20.1%
Value of collateral exceeds 100 percent of loan value	80.5%	76.7%	92.7%
More than one type of collateral required	85.7%	74.0%	95.0%

Source: World Bank Enterprise Surveys.

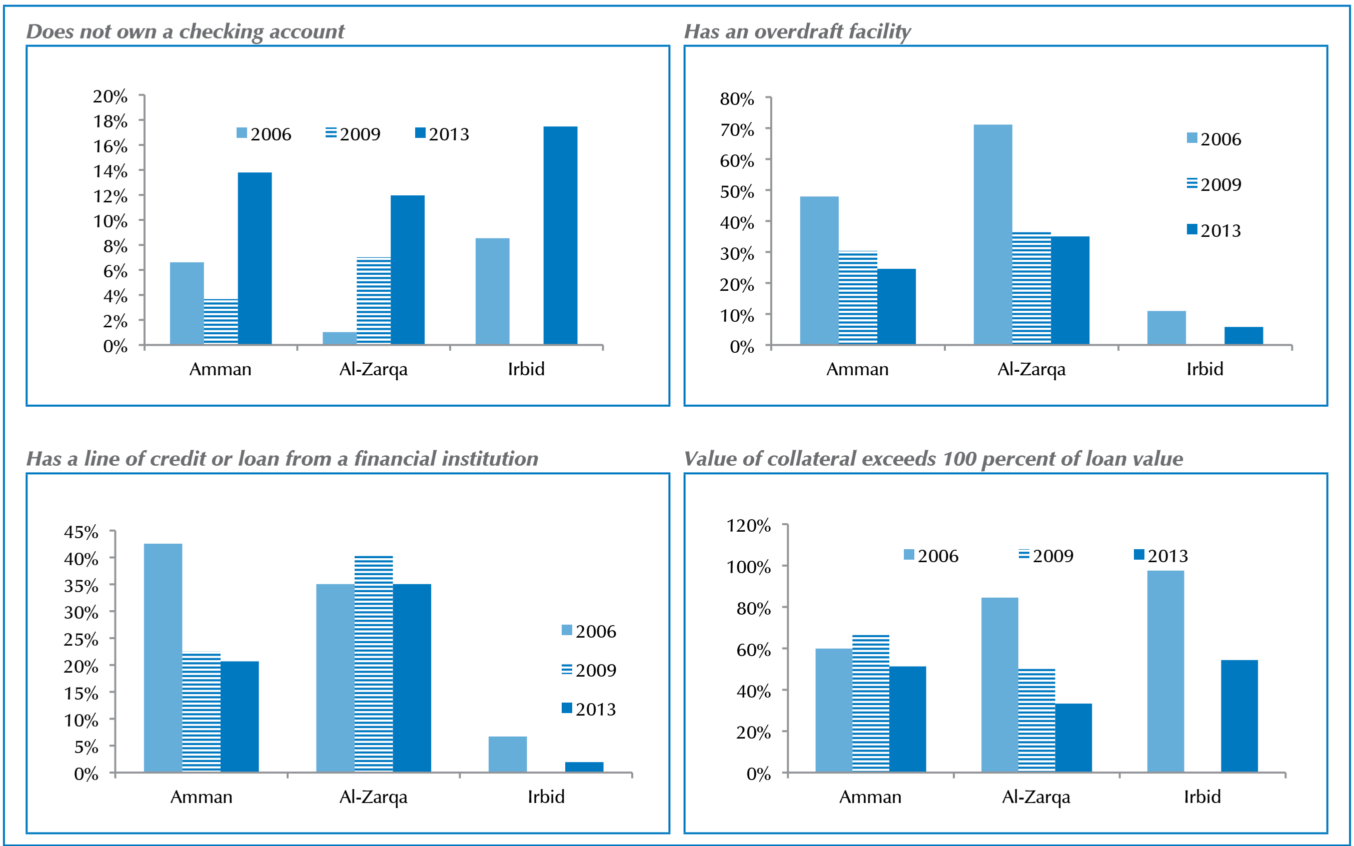

FIGURE 20. Access to finance for Jordanian firms by region

Source: World Bank Enterprise Surveys (2006, 2009, and 2013).

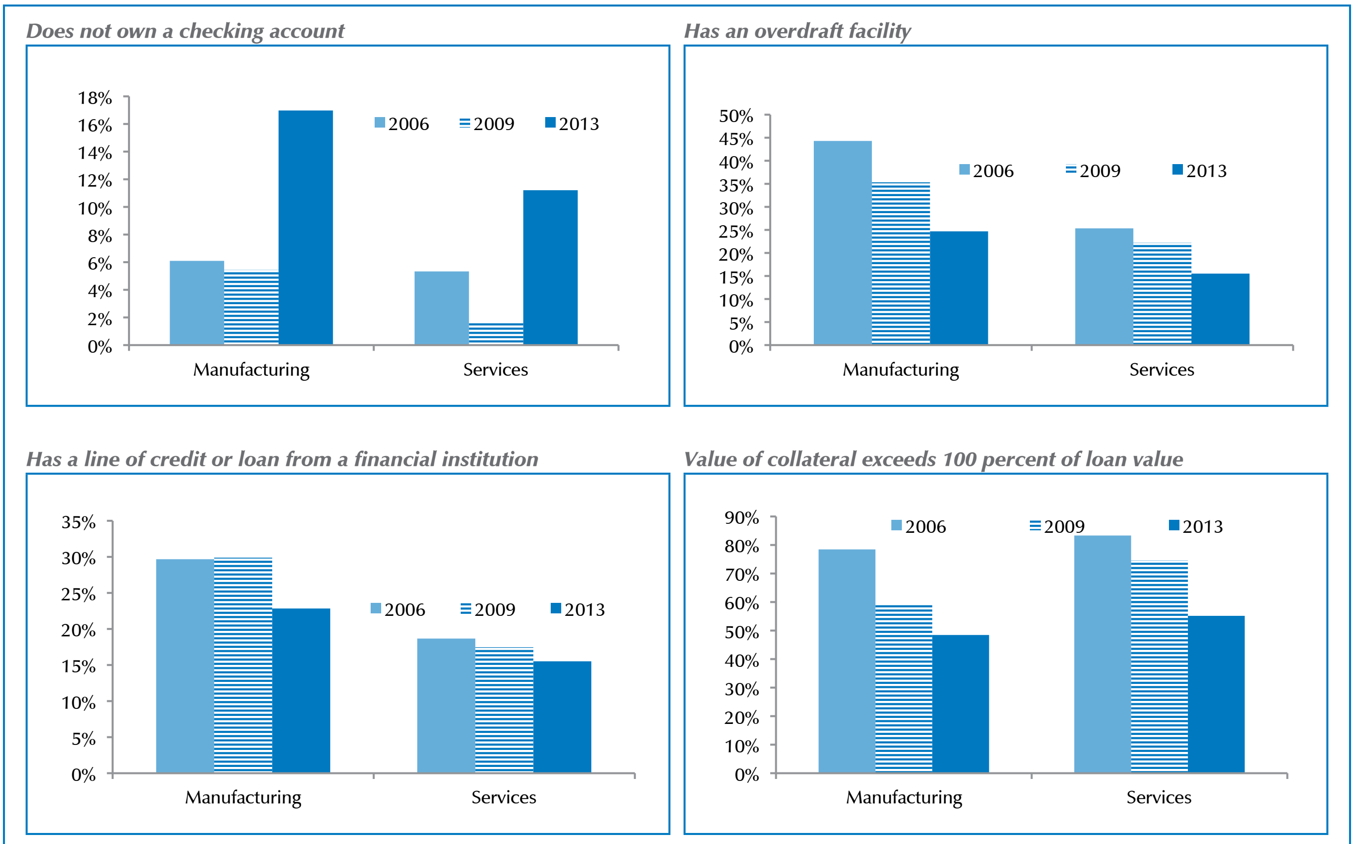

FIGURE 21. Access to finance for Jordanian firms by sector

Source: World Bank Enterprise Surveys (2006, 2009, and 2013).

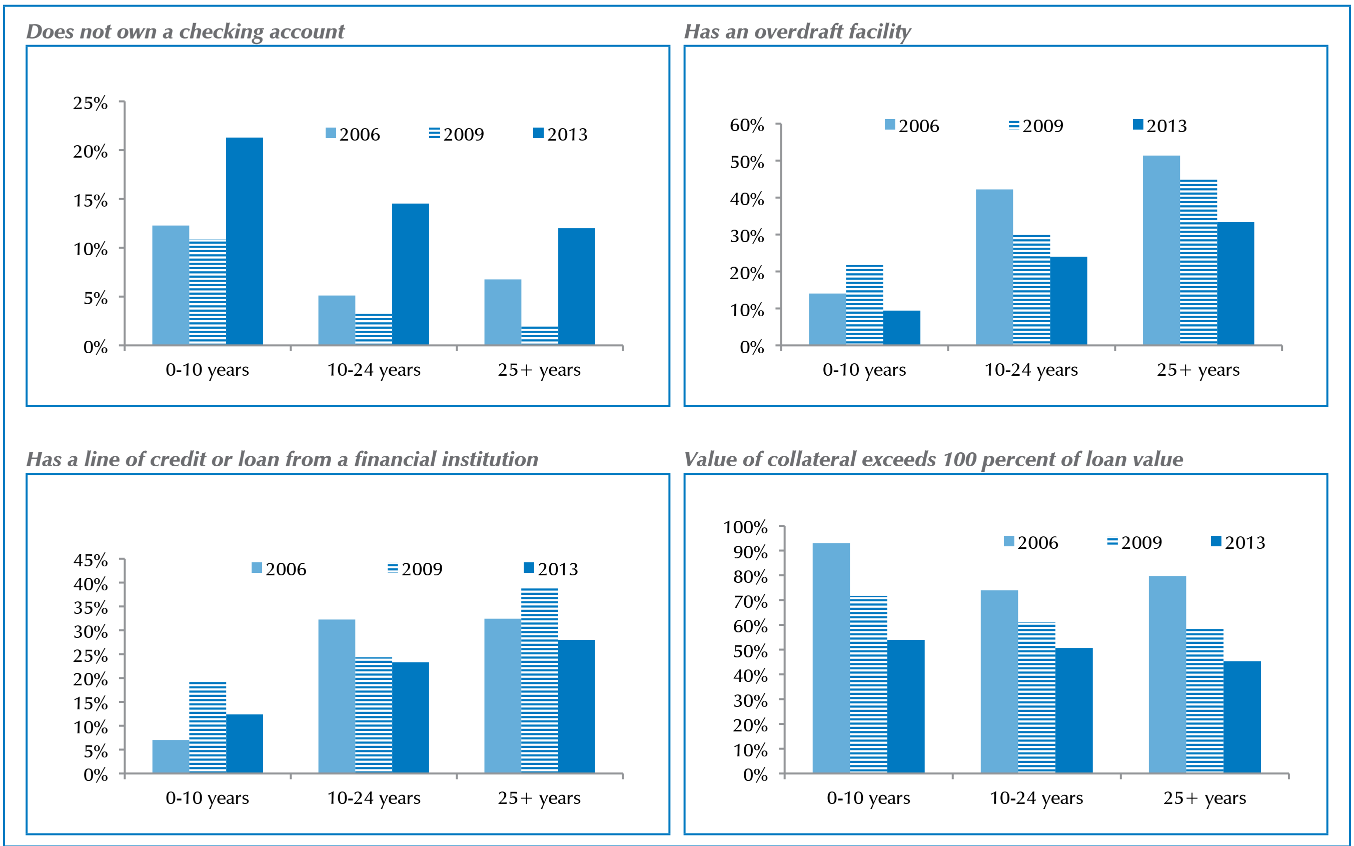

FIGURE 22. Access to finance for Jordanian firms by age

Source: World Bank Enterprise Surveys (2006, 2009, and 2013).

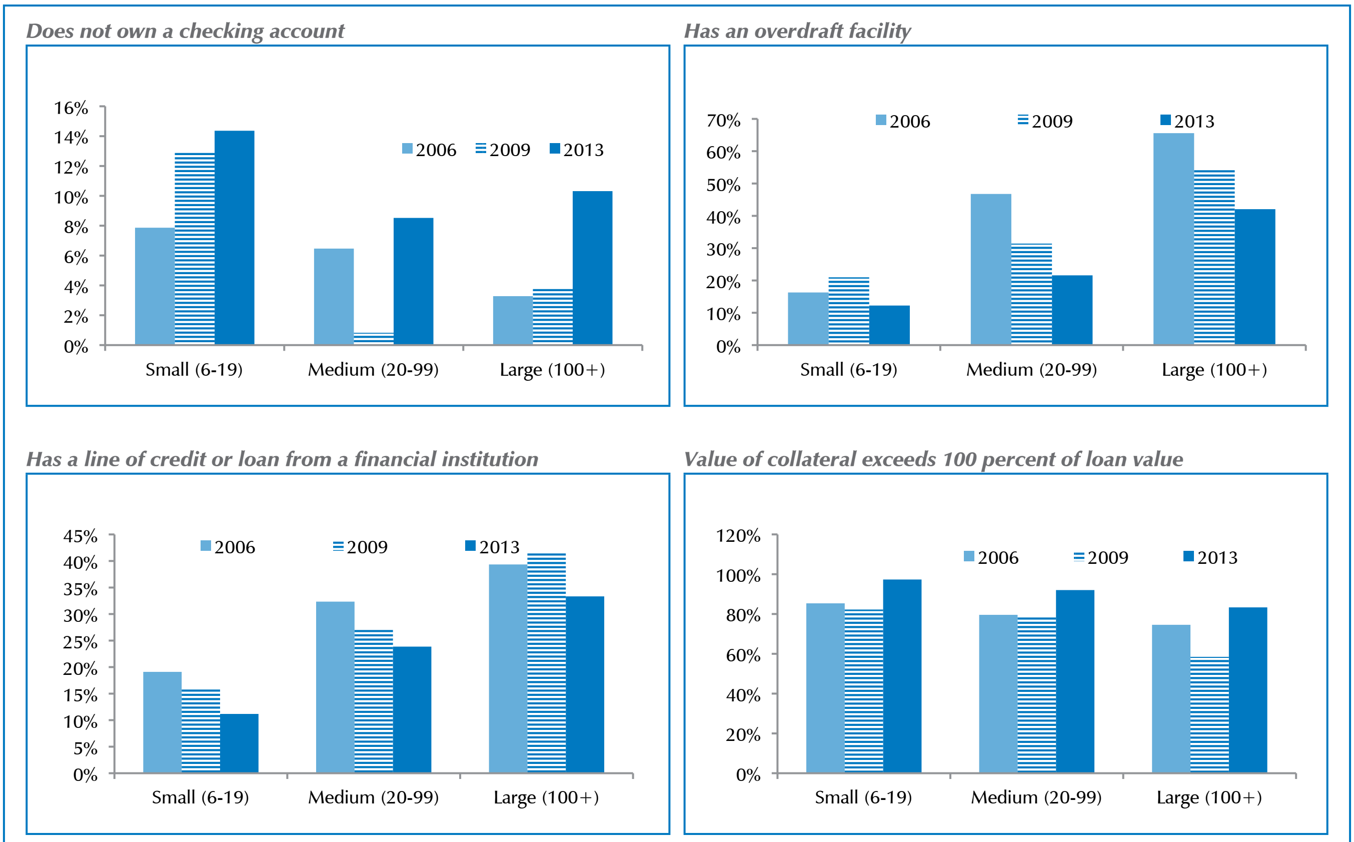

FIGURE 23. Access to finance for Jordanian firms by size

Source: World Bank Enterprise Surveys (2006, 2009, and 2013).

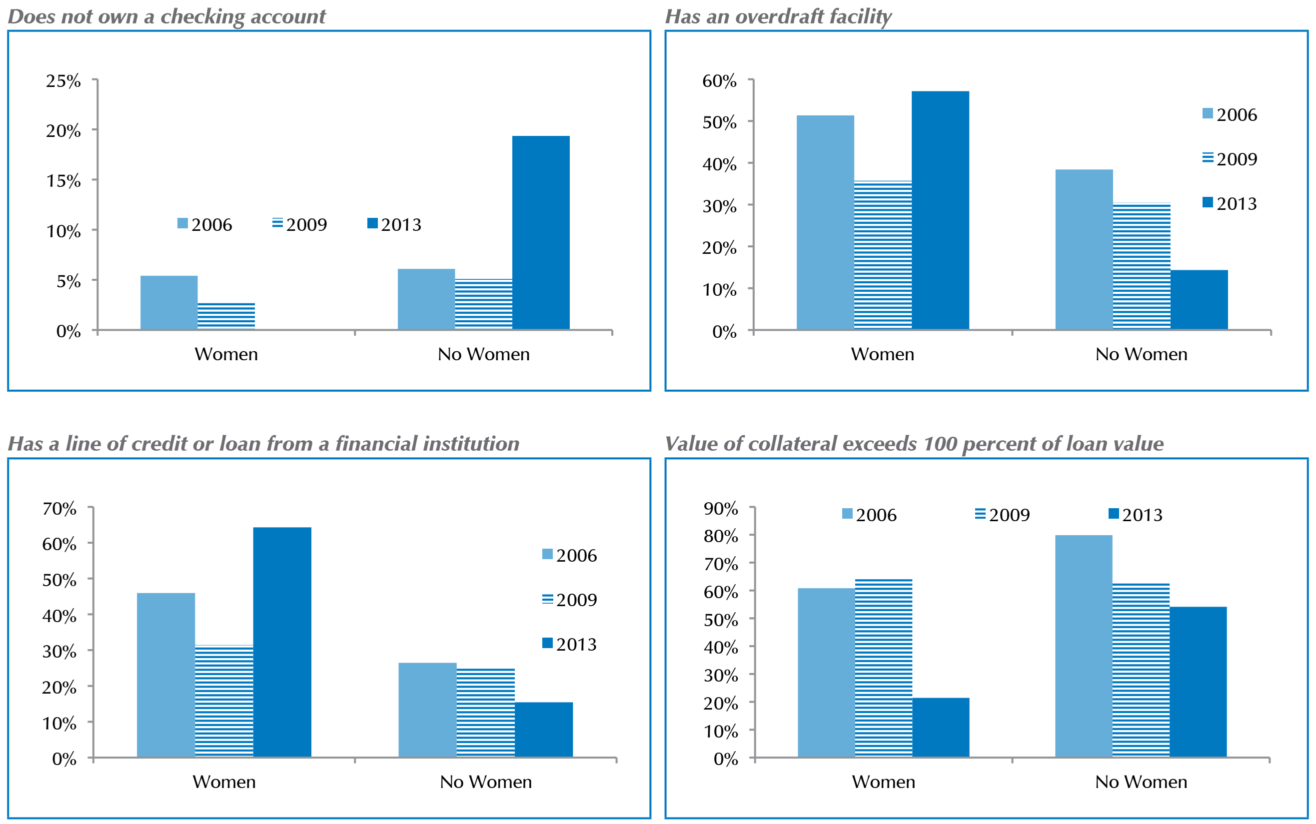

FIGURE 24. Access to finance for Jordanian firms by gender inclusiveness

Source: World Bank Enterprise Surveys (2006, 2009, and 2013).

in each case the collateral required exceeded 100 percent of the loan value.

39. **The negative trend in access to finance has impacted both manufacturing firms and services firms across the board.** The number of firms with no access to a checking account leaped in 2013 by 11 percentage points for manufacturing firms and 6 percentage points for services firms. In other metrics, services firms fare worse. Less than 20 percent of services firms, for example, have access to an overdraft facility or line of credit from a financial institution (Figure 21).

40. **The decline in access to finance for Jordanian firms is occurring regardless of age, but is more pronounced for younger firms.** Predictably, older enterprises seem to be on firmer ground, with a higher percentage owning various financial instruments. Nevertheless, the trend over time is worsening: the percentage of firms over 25 years old that enjoy the benefit of an overdraft facility has fallen from over 51 percent in 2006 to just one in three in 2013, with similarly evident—if not as stark—dips in other indicators (Figure 22). Unsurprisingly, young firms are the most susceptible to inaccessibility of finances. One in five young firms did not have a checking account in 2013. This is particularly problematic given the singular role that young firms play in job creation, as highlighted by the Jobs or Privileges report cited above.

41. **As noted earlier, access to finance issues disproportionately affect smaller firms and is also becoming worse over time.** Small firms have by far the least access to finance: nearly 15 percent of them did not own a checking account in 2013, and only 12 percent had an overdraft facility (down from 21 percent in 2009). Furthermore, 97 percent of small firms face collateral amounts that exceed 100 percent of their loans, compared to only 83 percent of large firms facing the same set of circumstances (Figure 23). As noted previously, only 11 percent of small firms in 2013 had a loan at all. Thus, while the trend for all access to finance indicators has been downward regardless of firm size, small firms are

clearly more affected. This trend is ominous given the important role that small firms in play in the Jordanian economy.

42. **The downward trend in access to finance in Jordan does not hold for firms with at least some female ownership.** Such firms "outperform" their exclusively male-dominated counterparts across several Access to Finance metrics. By 2013, each and every firm surveyed in Jordan that had some female ownership possessed a checking account, while nearly one in five firms owned exclusively by men had no checking account. Similarly, while the percentage of gender inclusive firms having an overdraft facility and/or a line of credit increased to 57 percent and 64 percent, respectively, in 2013, the number of male-owned firms with access to such financial instruments languished in the 15 percent range after declines from previous years (Figure 24).

43. **In addition to having limited access to checking accounts, lines of credit, and other financing instruments, Jordanian firms that do manage to secure loans face increasingly stringent collateral requirements.** While the number of firms subject to only one form of collateral was low in Jordan in 2006—only 14 percent of firms in 2006 enjoyed that luxury—by 2013 it had become even rarer, with 95 percent of firms required to provide more than one form of collateral. Generally speaking, land and buildings are the most commonly required form of collateral, but as more and more types of collateral are being required for each loan, the use of machinery and equipment, accounts receivable and inventories has increased. The use of accounts receivable and inventories, in particular, has surged. In 2006, fewer than 20 percent of firms used accounts as collateral, compared to 33 percent by 2013—the most affected firms have been those located in Amman and Irbid, as well as older firms (over 25 years), over 50 percent of which cited accounts as one of the types of collateral required of them to obtain their loans (Figure 25).

FIGURE 25. For Lines of credit requiring collateral, the type of collateral required was:

Source: World Bank Enterprise Surveys (2006, 2009, and 2013).

IV. ONGOING STRUCTURAL REFORMS AND NEXT STEPS

44. **Despite the worsening trends in access to finance, several reforms have recently been introduced and are expected to improve the situation, once fully implemented.** The Jordanian government has made significant strides in improving the enabling environment for the MSME sector including, inter alia: the finalizing of a partial guarantee scheme aimed at improving access to finance for medium enterprises;[23] improving the business environment for SMEs through regulatory reforms and elimination of red tape; approving basic mobile phone payments; working on adopting a comprehensive secured transactions law; and preparing a National Startups and MSME Strategy.[24] The JLGC has also refocused its attention on SME lending, developed a new Islamic product, and signed new agreement with three banks to extend guarantees with their SME lending.

45. **The Central Bank of Jordan (CBJ) has taken the decision to expand its regulatory umbrella to include microfinance institutions (MFIs) and has begun the process of setting up a regulatory framework to supervise MFIs.** The microfinance bylaw was approved by the cabinet on 14 December 2014 and published in the Official Gazette on 1 February 2015. A division within the CBJ's Banking Supervision Department has been created to regulate and supervise MFIs. Furthermore, the CBJ will conduct a market study to determine the feasibility of bringing all unregulated (i.e. non-banking) financial institutions under its regulatory scope.

46. **To facilitate access to finance the CBJ has sought to mobilize efforts to provide the necessary funds for SMEs in collaboration with the Ministry of Planning and International Cooperation (MOPIC) and other international and regional institutions.** These efforts have amounted to around US$ 370 million including competitive interest rates and appropriate maturities as illustrated below:

- An agreement was signed with the World Bank for US$ 70 million, 100 percent of which was received by the CBJ and allocated to banks with which the latter had signed loan agreements. As of March 31, 2015, banks fully disbursed the allocated amounts to MSMEs directly or through MFIs. Given the commendable progress of the project, a follow up project for US$ 50 million additional financing is underway.

- An agreement for US$ 50 million has been signed with the Arab Fund for Economic and Social Development (AFESD). The CBJ received 50 percent of the loan, which has been allocated to banks that have signed loan agreements with the CBJ. An additional initial agreement for US$ 100 million has also been signed with the AFESD.

- The CBJ has facilitated the process of banks' benefiting from a European Bank for Reconstruction and Development (EBRD) loan of about US$ 100-120 million to finance SMEs.

- A grant agreement was signed on February 9, 2014 with the World Bank for US$ 3 million to enhance governance and strengthen the regulatory and institutional framework for MSMEs. The project aims at strengthening credit guarantees schemes, enhancing the consumer protection mechanism, and developing the regulatory and institutional framework for micro finance institutions and NBFIs. By end of 2014, the CBJ granted the initial licensing to a private credit bureau, which is expected to begin operations in 2015

47. **In addition, the CBJ launched the Mid-Term Facility Program in 2011 to stimulate the industrial, agricultural, tourism and alternative energy sectors.** Under this initiative, the CBJ

[23] Led by the Ministry of Planning and International Cooperation in collaboration with the US Overseas Private Investment Corporation (OPIC).

[24] Led by the Jordan Enterprise Development Corporation (JEDCO).

extends credit to local banks at a preferential interest rate which in turn allows the banks to lend to their customers—made up primarily of SMEs in the targeted economic sectors—at concessional interest rates for up to five years (ten years for the alternative energy sector). The program has a total ceiling of 5 percent of each bank's direct standing facilities in Jordanian Dinars (i.e., JD950 million).

48. **The CBJ has also undertaken a number of other key measures to improve SMEs access to finance.** These have included strengthening the financial institutional infrastructure (e.g., lowering the threshold for reporting to public credit registry); modernizing the reporting and monitoring system for banks; licensing new bank branches in previously underserved Governorates; and facilitating the entry of Islamic banks to cater to the growing demand for Shar'iah compliant products.[25] All these measures have contributed to MSMEs growth and expansion in Jordan, and resulted in the emergence of a more positive enabling environment, which should help these enterprises in contributing to job creation, and overall economic growth.

49. **Notwithstanding these efforts, instrumental structural reforms are still needed for transformational change to improve access to finance across the board.** The approval of a secured lending law by the Jordanian Parliament would facilitate the use of movable property as an alternative form of collateral, reducing the largely real estate collateral requirement. Small and young firms often have limited real estate collateral but most do have movable property that they could use as collateral. The version of the secured lending law which was approved by the Council of Ministers and submitted to Parliament provides for the establishment of a collateral registry of movable assets. The enactment of the secured lending law would effectively provide the legal basis for the establishment of the collateral registry. Therefore, achieving this reform would effectively increase access to credit, reduce the cost of credit, increase market competition and promote credit diversification. In addition, the formation of a credit bureau that collects and provides consumer credit information for firms and individuals would streamline and facilitate lending to potential borrowers by helping banks and financial institutions assess the creditworthiness of borrowers.[26]

50. **Enhancing the role of NBFIs by addressing their legal and tax framework could help create a level playing field.** Many NBFIS, such as leasing companies, provide products that cater well to MSMEs. In fact, there are already more than15 leasing companies in Jordan with a leasing volume of around USD 70 million and an estimated penetration rate of almost 5.5 percent. Thus, with proper regulation and supervision, this area has promising potential for growth.

51. **Finally, modern insolvency and bankruptcy laws in line with best practices are crucial.** Effective insolvency systems enhance predictability and thus lender confidence in loan recovery upon default. This encourages more lending, as the lending risk is reduced leading to a reduction in the cost of money. Moreover, effective insolvency and bankruptcy laws encourage financial institutions to provide credit since they are given priority rights to recoup funds in the case of bankruptcy. It would also stimulate employment-generating start-ups to set up shop knowing that a timely and less-costly exit strategy is possible. Such reforms would ease what is a core constraint to doing business in Jordan and stimulate the economy towards achieving enhanced job-creation and ultimately, the twin goals.

[25] In addition, the CBJ is working on an Out-of-Court Workout (OCW) of multi-creditor loans through informal restructuring of specific debts on a voluntary basis. The OCW debt restructuring process—typically done by unilateral contractual agreement—is non-mandatory and non-binding on non-participants. It follows simple and transparent implementation principles that improve access to finance by providing creditors with a flexible and effective means to address the financial distress of struggling (though not yet insolvent) businesses. This also leads to enhanced predictability and lender confidence in loan recovery upon default.

[26] A credit information law has been enacted and a provisional license for the credit bureau has been issued.

DATA APPENDIX

TABLE 3. Jordan: Selected Economic Indicators, 2012-17

	2012	2013	2014	2015	2016	2017
	Act.	Act.	Est.		Proj.	
Real sector	*(annual percentage change, unless otherwise specified)*					
Real GDP	2.7	2.8	3.1	3.5	3.9	4.0
Real GDP per Capita	0.4	0.6	0.9	2.3	1.6	1.7
Agriculture (share of GDP)	3.3	3.1	2.9	2.9	3.0	3.0
Industry (share of GDP)	25.1	25.0	25.5	25.6	25.8	25.9
Services (share of GDP)	55.8	56.0	60.1	59.7	59.5	59.3
Net taxes on products (share of GDP)	15.8	15.9	11.5	11.7	11.8	11.8
Money and prices	*(annual percentage change, unless otherwise specified)*					
CPI Inflation (p.a)	4.7	5.6	2.8	1.0	2.0	2.2
Money (M2)	3.4	9.7	6.9	7.8	8.4	7.0
Investment & saving	(percent of GDP, unless otherwise specified)					
Total Investment	26.9	28.1	28.8	27.5	28.3	28.4
Gross National Savings	11.7	17.8	21.7	21.9	23.1	24.7
Government finance	(percent of GDP, unless otherwise specified)					
Total revenues and grants	23.0	24.1	28.7	25.9	26.7	26.8
Domestic Revenue (excluding grants and privatization)	21.5	21.5	23.9	23.2	23.2	23.3
o/w. tax revenue	15.3	15.3	16.0	16.1	16.5	16.6
Foreign Grants	1.5	2.7	4.9	2.6	3.5	3.5
Total expenditure and net lending	32.0	35.6	37.9	28.9	29.5	29.7
Current*	28.9	31.3	33.4	24.7	24.9	24.9
o/w wages and salaries	5.0	5.0	4.9	4.8	4.7	4.6
o/w interest payment	2.7	3.1	3.7	3.6	3.7	3.6
o/w Transfer to utilities (NEPCO and WAJ)	0.3	5.9	7.0	0.0	0.0	0.0
Capital & NL	3.1	4.3	4.5	4.2	4.6	4.8
Overall balance (deficit (-), excl. grants)**	-10.5	-14.1	-14.1	-5.4	-5.1	-4.7
Overall balance (deficit (-), incl. grants)	-9.0	-11.4	-9.2	-2.8	-1.6	-1.2
Primary Balance (deficit (-), excl. grants)	-7.8	-11.0	-10.4	-1.8	-1.4	-1.1
Primary Balance (deficit (-), incl. grants)	-6.4	-8.3	-5.5	0.8	2.1	2.4
External sector	(percent of GDP, unless otherwise specified)					
Current Account	-15.2	-10.3	-7.1	-5.7	-5.2	-3.6
Net Exports	-28.0	-29.4	-25.4	-19.8	-19.0	-18.0
Export FOB	46.2	42.5	44.5	44.2	45.4	45.6
Import FOB	74.3	71.9	69.9	64.0	64.5	63.6
Net Income and transfers	12.8	19.2	18.3	14.1	13.8	14.4
Net Private Investments (FDI and Portfolio)	6.3	10.5	9.3	9.0	9.9	10.2
Gross Reserves (Months of Imports GNFS)	3.5	5.9	6.8	7.8	7.7	8.2
Total Debt	(in million US$, unless otherwise specified)					
Total Debt Stock	24,864	29,192	31,983	34,782	35,741	37,037
Debt to GDP Ratio (%)***	80.2	86.7	89.6	88.8	85.7	83.5
Memorandum Items:						
Nominal GDP (Billion JD)	22.0	23.9	25.3	27.7	29.5	31.4
GDP (in million US$)	31,015	33,679	35,695	39,159	41,716	44,371

Source: Government Data and World Bank Staff Calculation.
** Includes adjustment to other receivables for 2012 (0.4% of GDP) and transfers to NEPCO and WAJ. As of 2015, NEPCO and WAJ will revert to government-guaranteed borrowing from commercial banks.*
*** Includes additional measures needed for 2015 (0.2 % of GDP), 2016 (1.2 % of GDP) and 2017 (1.7 % of GDP)*
**** Government and guaranteed gross debt. Includes NEPCO estimated borrowings for 2015-2017.*

SELECTED SPECIAL FOCUS FROM RECENT JORDAN ECONOMIC MONITORS

SPRING 2014 JEM: "RESILIENCE AMID TURMOIL"

Updating Poverty Estimates at Frequent Intervals: Preliminary Results from Jordan: (Special Focus 1) Jordan, not unlike many countries, relies on infrequent household expenditure and income surveys (HEIS) to estimate poverty in the country. In Jordan, the last HEIS survey dates from 2010 so that the last official poverty estimates is also from that year. When policy decisions are made in 2014, they are therefore based on rather dated estimates of poverty. Not only has Jordan suffered from a series of negative shocks, the Government has also introduced major mitigation programs (e.g., the petroleum cash compensation transfer). Have these programs been successful in protecting the poor? Is Jordan still progressing in its fight against poverty? To help answer these questions, World Bank staff developed an alternative method for estimating poverty by imputing household consumption data into the Employment-Unemployment Survey, which is conducted every quarter. This approach offers alternate annual poverty estimates for Jordan. Based on this new approach, estimates for 2011 and 2012 point to a small decrease in the poverty rate compared to 2010. Previous Bank research revealed, however, that a third of the population lived below the poverty line in at least one quarter of the year. Hence, while progress continues in tackling chronic poverty, transient poverty affects a large swath of the population, which points to a large share of vulnerable Jordanians.

Syrian Refugees and Labor Market Outcomes in Jordan: (Special Focus 2) A large influx of refugees into a country occurring over a relatively short time is bound to have a major impact on the host country's labor market. While in principle both positive and negative impacts could arise from such a shock, ultimately the net impact on the Jordanian labor market remains an empirical question. Official data are utilized to examine the impact on three labor market indicators – labor force participation, the employment rate and the unemployment rate - while accounting for economic activity through using construction permits as a control variable, at the level of governorates. The Vector Autoregression (VAR) methodology has been adopted on panel data that involves a cross-section of governorates in Jordan, during the time period Q4 2007 to Q3 2013. We find evidence suggesting that the Syrian refugees are causing a reduction in the national labor force participation rate of Jordanians. Preliminary analysis reveals this could be the result of refugees willing to work for relatively low wages, causing a large increase in discouraged Jordanian workers (as these have a reservation wage that they perceive cannot be satisfied under the current environment and therefore prefer to drop out of the labor force altogether; since these discouraged workers are no longer searching for jobs, they are not counted in the rank of the unemployed). Given Jordan's previously low labor force participation rate prior to the Syrian conflict, the recent drop in the participation rate is a source of concern.

FALL 2013 JEM: "MODERATE ECONOMIC ACTIVITY WITH SIGNIFICANT DOWNSIDE RISK"

Impact of Syrian Crisis on Jordan's Health Sector and Subsidies: (Special Focus 1) The large influx of Syrian refugees into Jordan, currently at over 8 percent of the Jordanian population, is having a significant and palpable socio-economic impact. Jordan's open door policy and the authority's generous decision to allow the refugees access to basic services rendered to nationals have generated large direct fiscal costs. This Special Focus provides quantified estimates of the cost of some of the most significant services provided to the refugees—drugs and vaccines administered and bread and LPG fuel subsidy programs—for the period 2012-2014. We find that drugs and vaccines are projected to cost the Jordanian budget USD 71.5 million during that time period. The bread and LPG subsidy programs are among the principal subsidies extended by the authorities to enable all Jordanian households access to basic necessities. As these are universal/untargeted subsidies, they have also been accessible to the Syrian refugees and possibly to Syrians back in Syria. Using econometric analysis, we estimate the cost to the bread subsidy program due to increased demand by the refugees during the period 2012-2014 to be USD55 million. As for the LPG subsidy, we find that the additional cost comes out to be USD 24.9 million during that same period.

The Incidence and Importance of Transient Poverty in Jordan: (Special Focus 2) According to annual official estimates, 14.4 percent of the population in Jordan lived in poverty during 2010. A within-year profile of poverty, however, indicates that a third of the population in Jordan lived below the poverty line in at least one quarter of the year. In other words 18.6 percent of the population which is classified as non-poor based on annual poverty estimated did experience transient poverty, including some lower-middle and middle income households. Further analysis is needed to understand the complex chronic and transient dimensions of poverty in Jordan as policy interventions will differ in effectiveness to reduce poverty versus vulnerability.

SPRING 2013 JEM: "MAINTAINING STABILITY AND FOSTERING SHARED PROSPERITY AMID REGIONAL TURMOIL"

Options for Fiscal Adjustment and Consolidation in Jordan: (Special Focus) The steady and structural decline in revenues that started in 2007 shrank fiscal space and increased the vulnerability of Jordan's public finances to exogenous shocks. The sharp rise in spending that started in 2011—in part related to the disruption of Egyptian gas supply, and to meet popular demands for additional spending and subsidies—resulted in a significant and unsustainable worsening of public finances. Options to address this situation include both revenue and expenditure measures. The former comprise broadening the tax base and ensuring equal enforcement of existing tax laws. The latter consist of improved efficiency in current and capital spending, adjustments to the electricity tariffs to reflect the permanent increase in input prices, a better targeting of consumer subsidies, and water sector reforms. If well balanced and calibrated, revenue and spending measures can be progressive, which would enhance their acceptance.

SELECTED RECENT WORLD BANK PUBLICATIONS ON JORDAN

(For an exhaustive-e list, please go to: http://www.worldbank.org/en/country/jordan/research)

Title	Publication Date	Document Type
Plunging Oil Prices Bring Gains and Losses to the Middle East and North Africa Region	2015/01/29	Press Release
Jordan Economic Monitor, Fall 2014: Steady and Moderate Growth Continues	2014/12/10	Report
Jobs or Privileges: Unleashing the Employment Potential Of the Middle East and North Africa	2014/11/01	Jordan Issue Brief
Doing Business 2015: going beyond efficiency – Jordan	2014/10/01	Working Paper
Jordan Economic Monitor: Steady and moderate growth continues	2014/04/01	Report
Jordan Economic Monitor: Resilience amid turmoil	2014/04/01	Report
Jordan country opinion survey report (July 2013 - June 2014)	2014/03/14	Working Paper
Jordan Economic Monitor: Moderate Economic Activity With Significant Downside Risk	2013/10/31	Report
Soft skills or hard cash? : the impact of training and wage subsidy programs on female youth employment in Jordan	2013/08/14	Brief
Mitigate the Impact of Syrian Displacement on Jordan	2013/07/18	Loan Agreement
Jordan Economic Monitor: Maintaining Stability and Fostering Shared Prosperity Amid Regional Turmoil	2013/06/25	Report
Developing micro, small and medium enterprises in Jordan : the route to shared prosperity (English)	2013/03/01	Brief
Do wage subsidies help young women get jobs?	2012/01/12	Brief
Doing business 2013 : Jordan – smarter regulations for small and medium-size enterprises : comparing business regulations for domestic firms in 185 economies	2012/23/10	Working Paper
Soft skills or hard cash? What works for female employment in Jordan?	2012/19/10	Working Paper
The Patterns and determinants of household welfare growth in Jordan : 2002-2010	2012/01/10	Policy Research Working Paper
PPIAF assistance in Jordan	2012/01/10	Brief
Health equity and financial protection datasheet: Jordan	2012/01/08	Brief
Privatization: lessons from Jordan	2012/01/07	Brief
Soft skills or hard cash ? the impact of training and wage subsidy programs on female youth employment in Jordan	2012/01/07	Policy Research Working Paper
The Jordan education initiative: a multi-stakeholder partnership model to support education reform	2012/01/06	Policy Research Working Paper
Who needs legal aid services? Addressing demand in Jordan	2012/01/03	Brief
Jordan - Carbon Capture and Storage (CCS): capacity building technical assistance	2012/01/03	Energy Study
Are Jordan and Tunisia's exports becoming more technologically sophisticated? Analysis using highly disaggregated export databases	2012/01/02	Working Paper
Jordan student aid reform : opportunities for a new generation	2012/01/02	Brief
Are Jordan and Tunisia's exports becoming more technologically sophisticated? And why it matters	2012/01/02	Brief
Jordan - First Programmatic Development Policy Loan Project: country partnership strategy - summary of discussion	2012/24/01	Summary of Discussion

NOTES

NOTES

NOTES

The World Bank
www.worldbank.org/jo