

ERF Policy Brief

How the Jordanian Economy Was Affected by the Pandemic?

Racha Ramadan and Chahir Zaki

About the authors

Racha Ramadan is an Associate Professor, Faculty of Economics and Political Science, Cairo University.

Chahir Zaki is an Associate Professor, Faculty of Economics and Political Science, Cairo University and Lead Economist, Economic Research Forum.

In a nutshell

- COVID-19 exerts negative effect on the Jordanian economy, at the macroeconomic level (lower economic growth, more unemployment, less trade) and the microeconomic one (poor, youth, women, informal workers, refugees, and vulnerable populations). This study tackles the impact of COVID-19 on firms' performance (particularly micro and small enterprises), the social impact of the pandemic, (mainly on vulnerable groups as poor, youth, women, refugees and informally employed) and identifies their respective survival strategies. Poor households, youth, refugees, informal employees, those working in hard-hit sectors and those living in urban areas are more likely to experience the negative drawback of the pandemic on income and food security. Women are the main one to bear the increasing care work responsibilities during lockdown and e-schooling.

Jordan: Stability, Vulnerability, and Resilience

The Jordanian case, being an upper middle-income, relatively diversified and politically stable country, is of particular interest for several reasons. First, Jordan has, for a number of decades, acted as the “shock absorber” for the surrounding area, an island of stability and refuge in a region beset by conflict. According to the UNHCR (2019), one in every four people in Jordan is a refugee. Jordan had barely begun to recover from the global financial crisis when the Syrian conflict and regional instability further hampered its economy (Assaad and Salemi, 2019). The COVID-19 pandemic is a further shock to an already struggling economy; prior to the pandemic, Jordan already had the third lowest rate of employment in the world with 31% in 2020. Unemployment rate is particularly high among youth with 37.28% and women with 24% (Assaad, Krafft and Keo, 2019; World Development Indicators, 2022). Moreover, Jordan, being a rent economy, is highly dependent on foreign direct investment and remittances. With the decline in oil prices in labor-importing countries and the pandemic, these channels are likely to exert a negative effect at the macroeconomic level (lower economic growth, more unemployment, less trade) and the microeconomic one (poor, youth, women, informal workers, refugees and vulnerable populations).

The objective of this brief is threefold. First, it provides an overview of the COVID-19 impact on Jordan and the associated government’s response. The latter was necessary but not sufficient, especially when it comes to the support provided to households and firms. Second, using both macroeconomic and microeconomic datasets, we examine the effect of the COVID-19 on the economy. Indeed, we show how the structural characteristics of the Jordanian economy amplified the impact of the pandemic. Finally, we provide some policy recommendations to curb the negative effects of this shock at different levels (especially monetary, fiscal, social, and trade policies).

A Macro and Micro Assessment

Like many other Middle East and North African countries, the first case of COVID-19 was confirmed by the authorities in Jordan on 02 March, 2020. The patient remained in hospital quarantine and was declared recovered on 13 March 2020. On March 15th, the Health Ministry confirmed 13 cases. This is why the Jordanian government had a prompt policy response by activating information campaigns (on prevention and hygiene), travel bans (China, Iran, and South Korea on February 23rd and extended to Italy on the 25th), and other containment measures (school closure,

prohibition of events, halt of newspaper printing, among others). Although the lockdown made major progress in containing the virus, it led to a sharp and painful economic impact (Al-Khalidi, 2020). Since then, the numbers have been increasing until they reached 895,564 cumulative cases and 11,255 deaths related to COVID as of November 15, 2021. As of November 2021, this figure is still increasing. Early 2021, vaccinations started for health-vulnerable nationals and refugees, and health care workers. As of November 15, 3.6 million citizens and residents of Jordan are fully vaccinated. Compared to other Middle-Eastern countries, Jordan (78.4 per 100 people) is doing better since the vaccination rate is higher than Egypt (32.3 per 100) and Lebanon (51.1 per 100 people), though lower than Tunisia (82.6 per 100) and Morocco (129.6 per 100 people). This is good news for the Jordanian economy since the higher the rate, the more efficient the vaccination effect. For instance, Arnon, Ricco, and Smetters (2021) show that, in the United States, doubling the number of vaccine doses administered daily to 3 million would create more than 2 million jobs and boost real GDP by about 1%.

Several conclusions can be withdrawn from our findings. At the macroeconomic level, in order to curb the negative effects of the health shock, the government implemented some fiscal measures that led to a decrease in government revenues and an increase in spending. This led to a deterioration of the fiscal deficit that increased from 6% during the first quarter of 2020 to 10% in the second quarter and a higher primary deficit from 1% to 5.5%. At the monetary policy level, the Central Bank adopted an expansionary monetary policy. To do so, more than 550 million dinars were injected to the national economy by reducing the compulsory reserve from 7% to 5%. Moreover, the Central Bank of Jordan adopted a number of measures to boost the financial sector including: restructuring the loans of individuals and companies, reducing the guarantee commissions of the industrial and services finance program from 1.5% to 0.75% for all loans, reducing the start-up loans guarantee commission from 1% to 0.75%, and increasing the insurance coverage percentage of the local sales guarantee program from 80% to 90%. Mid-sized firms took advantage of this initiative since 38% applied for or received a business loan. This figure is lower for larger ones (22%). The lowest figure is the one of micro. This result is a surprising given that, generally, the smaller the firms, the more they need financial resources. Yet, mid-sized firms, exporters and those operating either in the manufacturing sector or the services contracted a loan from or asked to reschedule it in order to cope with the crisis. At the trade level, the total number of harmful and liberalizing measures imposed by Jordan has changed drastically with the health crisis since the



total number of harmful measures has increased from 1 to 7 between 2018 and 2020 (such as the ban on exports of food products or the ban on re-exportation or selling of medical masks). At the same time, the number of liberalizing ones decreased to reach zero compared to previous years. Thus, generally, the Jordanian trade policy has become more protectionist. Yet, this was not the case of Jordan only since the latter faced several protectionist measures imposed by its main trade partners (namely USA and India).

At the microeconomic level, first, the pandemic curbs the social development progress achieved in Jordan. Mainly poverty and inequality are expected to increase. Vulnerable groups include individuals in the lowest income group, informal employees, individuals working in hard hit sectors, as retail or wholesale sector, sector of transportation, manufacturing, construction, and sector of food and accommodation sectors, youth and those living in urban areas. Second, small, and micro firms are the highly affected by the economic slowdown. Employed individuals in these firms, especially those with no contracts, were more likely to be fired or experience decline in their payment. Third, income decline, increase in food price, limited availability of food and limited mobility threaten food security of households. This food crisis may be considered as an access problem, both physically and economically, especially for low income and vulnerable groups as refugees and those living in urban areas. Fourth women are the main ones to bear the cost of the increasing care work during the lockdown period and the e-schooling. Fifth, working remotely, in a context of precaution measures and social distancing, is not easily applied as some jobs cannot be done off work sites, employees are not allowed to work from home and because of lack of technology. Sixth, the main coping strategies applied to face the painful economic impacts include borrowing money from family or friends in the country, taking money out of savings, borrowing from banks, employer, or private lender and selling assets. Seventh, the negative economic drawback of the pandemic is persistent in the two waves of the household surveys, indicating that economic recovery will take longer time. Thus, continue government support and social policies are highly required.

The Way Forward

Against this background, we can recommend the following at both the macroeconomic and microeconomic levels.

At the macroeconomic level, especially the fiscal one, more efforts are needed to generate higher revenues.

Thus, because of the limited fiscal space Jordan has, more efforts have to be deployed in order to increase tax revenues. While it is difficult to conceive an increase in tax rates given the circumstances, tax administration (management, declaration, collection and allocation) has to improve. This will increase the efficiency of tax policy and raise tax revenues without further increases in tax rates. This is of particular importance given that one of the most needed policies by firms is tax delays, which might affect tax collection in the short term. Second, it is crucial to increase the share of productive spending (health, education, etc.) compared to non-productive expenditure (through subsidies, wages and compensation of employees and government purchases) in order to increase the positive impact on growth and make the latter more inclusive. Third, in a longer term, and in order to reduce fiscal pressure, the government of Jordan might consider adopting a fiscal rule (spending, revenue or debt rule) in order to avoid inflationary pressures in the long run, which will further affect the poorest segments of the population. Fourth, in the medium term, fiscal instruments could be made more progressive to tap on the resources that are available at the top of the income and wealth distributions to help plug the holes at the bottom of the income/consumption distribution. At the monetary policy level, the Central Bank will have to extend loan deferrals and credit with eased conditions in order to help firm cope with crisis. Yet, this has to be done cautiously to guarantee the banks solvency. With the increase of fiscal deficit, it will be crucial to enforce the independence of Central Bank of Jordan to avoid a de facto monetization of public debt that is increasing. Moreover, given that inflation is artificially low because of a fixed exchange rate system to the US dollar, Jordan needs to move to a more resilient exchange rate arrangement. At the trade policy level, it will be important to avoid further protectionist measures that might lead to a retaliation from other countries. Moreover, it is crucial to increase the transparency of trade-related policy actions. This can take place through more timely data on trade flows and policies, especially when it comes to non-tariff measures.

Regarding the microeconomic level, in terms of social policies and targeting, it is crucial to continue irregular support, mainly cash support, is required to support vulnerable groups who lost their jobs and/or experience income decline. Government support should ensure equal access to food and medicines and medical supplies, to all individuals whatever their socio-economic characteristics. Integrated social policy with targeted programmes and policies targeting vulnerable individuals based on their socio-economic characteristics as sex, income groups, economic activities, and geographical locations are recommended to reduce the horizontal



inequalities between the different groups. Moreover, the government should ensure food availability and food access (both physically and economically), especially during periods of mobility restrictions and precaution measures. At the labor market level, we recommend the following: investing in decent jobs and good working conditions; providing incentives to formalize the informal sector to increase the resilience of informal employees; enabling new working environment by investing in technology and related infrastructure, and new monitoring techniques; increasing the telework ability of jobs to enable remote work and decrease the job loss in case of crisis as the actual one; providing government support and incentives to small and micro firms, especially those in the hard-hit sectors, to increase their resilience and their ability to create new formal economic opportunities. From a gender lens, women are the main responsible of unpaid care work, and they are the main ones to bear the cost of the increasing care work during the lockdown. Investing in education and health sectors and creating employment opportunities in paid care sectors would redistribute care responsibilities. Additionally, investing in these jobs would increase female labor force participation in Jordan as women are mainly concentrated in these sectors.

References

- [1] Abu Ismail, K. (2020). "Impact of COVID-19 on Money Metric Poverty in Arab Countries". Economic and Social Commission for Western Asia (ESCWA). E/ESCWA/CL2.GPID/2020/TP.10
- [2] Al Azzawi, S. (2021). Lives Versus Livelihoods: Who Can Work from Home in MENA ? ERF Working Papers Series. <https://erf.org.eg/publications/lives-versus-livelihoods-who-can-work-from-home-in-mena/>. [Accessed 25th/9/2021].
- [3] Al-Khalidi, S. (2020) 'Jordan lifts driving ban as it eyes normality after tight lockdown', Reuters, 29 April.
- [4] Baldwin, R. and Tomiura, E. (2020) "Thinking ahead about the trade impact of COVID-19"
- [5] Demertzis, M. and Maslloren, G. (2020) "The cost of coronavirus in terms of interrupted global value chains".
- [6] EMNES (2020) "Covid-19 in the Mediterranean and Africa - Diagnosis, Policy Responses, Preliminary Assessment and Way Forward".
- [7] International Labor Organization Note (2020) "COVID-19 and world of work: Impacts and responses".
- [8] World Bank Group (2020) Jordan Economic Monitor "Weathering the Storm", June.



