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Policy Research Report

Accelerating the Progress of Jordan Towards the Sustainable Development Goals

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ECONOMIC RESEARCH FORUM

منتدى البحوث الاقتصادية

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Acronyms

CBJ	Central Bank of Jordan
CCDR	Country Climate and Development Report
COVID-19	Coronavirus Disease 2019
CPI	Consumer Price Index
CSOs	Civil Society Organizations
DoS	Department of Statistics
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
EDPs	Executive Development Programs
EIB	European Investment Bank
EMV	Economic Modernization Vision 2023-2033
ERF	Economic Research Forum
ESCWA	(UN) Economic and Social Commission for Western Asia
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GEP	Global Economic Prospects (World Bank)
GEPP	Government's Economic Priorities Programme
GFCF	Gross Fixed Capital Formation
GIEP	Government Indicative Executive Programme
GIZ	German Development Cooperation
GNI	Gross National Income
GoJ	Government of Jordan
HCI	Human Capital Index (World Bank)
HDI	Human Development Index (UNDP)
HEIS	Household Income and Expenditure Survey
ICOR	Incremental Capital-Output Ratio
IEA	International Energy Agency
IEMed	European Institute of the Mediterranean
IFIs	International Financial Institutions
ILO	International Labor Organization
IMD	Institute for Management Development
IMF	International Monetary Fund
IRENA	International Renewable Energy Agency
ITC	International Trade Center
IZA	Institute of Labor Economics
JC	Jordan Compact
JOD	Jordanian Dinar
JDP	Jordan Development Portal
JRP	Jordan Response Plan
JSF	Jordan Strategy Forum
LENS	Local Enterprise Support Project
MENA	Middle East and North Africa (World Bank region)
MoEnv	Ministry of Environment

Acronyms

MOF	Ministry of Finance
MoL	Ministry of Labor
MoLA	Ministry of Local Administration
MoPIC	Ministry of Planning and International Cooperation
NAF	National Aid Fund
NEPCO	National Electricity Power Company
NIIP	Net International Investment Position
NTMs	Non-tariff Measures
OECD	Organization for Economic Development and Cooperation
OIC	Organization of Islamic Conference
p.p.	Percentage Point
PPP	Purchasing Power Parity
PPPs	Public Private Partnerships
Q1/2/3/4	Annual Quarters
QIZ	Qualifying Industrial Zone
RBAS	Regional Bureau for the Arab States (UNDP)
ROAS	Regional Office for the Arab States (ILO)
ROO	Rules of Origin
S&P	Standard and Poor's
SDGs	Sustainable Development Goals
SDIP	Sustainable Development Investment Partnership
SEZs	Special Economic Zones
SMEs	Small and Medium Enterprises
SSIF	Social Insurance Investment Fund
SSC	Social Security Corporation
TFP	Total Factor Productivity
U.S.	United States
UAE	United Arab Emirates
U.K.	United Kingdom
UN	United Nations
UNCTAD	UN Conference on Trade and Development
UNDP	United Nations Development Program
UNHCR	United Nations High Commissioner for Refugees
UNSD	United Nations Statistics Division
USAID	U.S. Agency for International Development
USD	United States Dollar
VNR	Voluntary National Review (2017, 2020, 2022)
WAJ	Water Authority of Jordan
WASH	Water, Sanitation and Hygiene
WB	World Bank
WDI	World Development Indicators (World Bank)
WEF	World Economic Forum
WEO	World Economic Outlook (IMF)
WHO	World Health Organization

Summary

This report explores Jordan's progress toward the Sustainable Development Goals (SDGs) in the context of current economic, social, and structural challenges and their projected course until 2030. Since the adoption of the SDGs in 2015, Jordan has faced significant constraints, including its limited natural resources, high debt burden, water scarcity, and external shocks such as the Syrian refugee crisis and the COVID-19 pandemic. These challenges have adversely affected the country's ability to accelerate economic growth (SDG8), reduce poverty (SDG1), and advance equality (SDG10). Despite these obstacles, Jordan has demonstrated a strong commitment to the SDGs, implementing comprehensive reforms and development strategies, including the Vision 2014-2025 that was followed by the Economic Modernization Vision 2023–2033.

Jordan's macroeconomic trajectory has been marred by the twin (budget and trade) deficit that has persisted for decades. This has been associated with a secular decline in GDP growth since the 1980s with the exception of a short-lived burst in early 1990s following the Gulf War, and a longer lasting higher rate of economic growth during the 2000s following the war in Iraq. Since 2010 per capita income has declined by almost one-quarter, partly because the increase in the resident population from the influx of Syrian refugees. Furthermore, Jordan's high and increasing debt-to-GDP ratio—currently exceeding 110 percent —and rising debt service obligations have curtailed public investment in critical areas such as infrastructure, education, and health, limiting progress toward the SDGs.
Sectoral analyses reveal mixed outcomes in Jordan's development journey. Progress has been observed in advancing gender equality (SDG5) through the removal of several institutional constraints, increased education attainment of females and greater access to employment opportunities, albeit from a low baseline. However, these gains are offset by declines in the quality of education (SDG4), which have restricted opportunities for social mobility and negatively affected both labor productivity and total factor productivity and by a lot. The labor market is characterized by high unemployment rates, including men and adults – a sign that unemployment is largely a structural macroeconomic phenomenon, not just an issue among youth and women.

The private sector remains anemic and unable to drive economic transformation and boost job creation despite efforts to improve employment prospects, including national employment strategies. Trade policies have undergone significant liberalization, with the country signing multiple free trade agreements and improving its ease of doing business. However, trade lacks diversification and is characterized by persistent trade deficit — standing at 24 percent of GDP regarding goods. Foreign direct investment (FDI) has also declined, reducing opportunities for private sector growth and innovation.

Social challenges are equally prominent, particularly in poverty reduction and inequality. Official and circumstantial estimates indicate that poverty rates have increased in recent years. Jordan's National Aid Fund (NAF) has expanded its coverage to mitigate these effects, but there are limits in what it can do in the absence of decent employment creation and a reduction in unemployment. The Gini coefficient, a measure of income inequality, remains high – the second highest in the region after Morocco. A lack of up-to-date and

Summary

reliable poverty data further complicates efforts to monitor progress and design effective policies, highlighting the need for improved statistical systems and monitoring mechanisms. The environmental dimension of sustainable development also presents challenges. Jordan's extreme water scarcity, exacerbated by climate change, impacts multiple SDGs, including clean water and sanitation (SDG6), food security (SDG2), and climate action (SDG13). The high debt and rising debt service costs have limited resources for investment in renewable energy and climate resilience. The legacy deficits in the electricity and water sectors, plus high and increasing pension outlays, present a formidable obstacle to financing the SDGs.

The report emphasizes that achieving the SDGs in Jordan requires a holistic and coordinated approach that aligns national priorities with global goals. Key to this process is macroeconomic stability, which can be achieved through sustainable fiscal policies, enhanced domestic revenue generation, and debt management strategies. Faster economic growth is essential for increasing public revenues, enabling investments in critical sectors, and reducing dependency on external aid. Equally important is the need to foster private sector development, which can drive job creation, innovation, and productivity gains. There should also be efforts to enhance governance and institutional effectiveness that would improve the implementation of development programs in a sustainable and equitable way.

The report also advocates for evidence-based policymaking and improved data systems to monitor progress and address information gaps in tracking progress toward the SDGs. As of today, the road to achieving the SDGs by 2030 remains challenging. Addressing systemic barriers, mobilizing adequate funding, and implementing bold reforms will be critical for overcoming these challenges. Critical among them are fiscal instability and mounting debt service obligations that choke private sector growth and crowd out financing for the SDGs.

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1. Introduction

Jordan has assessed that it has made relatively faster progress towards the attainment of the SDGs halfway since the goals were adopted in 2015, compared with assessments of progress at regional and global levels. This is an achievement taking into account that Jordan entered the current decade with pre-existing domestic structural deficiencies and has been exposed to several external shocks culminating with the ongoing and still spreading War in Gaza. This has impeded economic growth (SDG8) with cascading effects on the economy and society. In addition, Jordan's small resource base and extreme scarcity of water (SDG6) hold back progress in many other SDGs including food security (SDG2), health (SDG3), cities and communities (SDG 11), responsible consumption and production (SDG 12), climate action (SDG13) and above all poverty (SDG1).

Having been committed to the SDGs and made significant administrative and institutional improvements, a remaining challenge for advancing the goals further would be to secure adequate financing. At present, Jordan is burdened with accumulated high levels of debt, slow private sector development and anemic employment. Rising debt service obligations makes it difficult to increase investment and spending on social services. Accelerating economic growth will be critical to advance the SDGs in their totality, as noted in latest Third Voluntary National Review (VNR2022) which emphasizes that economic growth "is difficult without a sound fiscal framework, enhanced domestic revenues, and sustainable debt management strategies".

Addressing the fiscal imbalance through faster economic growth, instead of austerity, will enable Jordan to generate sufficient public revenues to fund the SDGs without "crowding out" the private sector that could in turn participate in public-private initiatives and benefit from foreign investment. As the situation stands, there are limited resources available for needed investments in infrastructure (SDG9), energy (SDG7) water adequacy (SDG6) and the related agricultural production and food security (SDG2). Stagnant public revenues constraint spending on social services including health (SDG3), education (SDG4), housing and transport (SDG11), and climate adaptation (SDG13) despite the fact that global warming is expected to come faster to and be more severe in Jordan than elsewhere.

Faster economic growth can also lead to employment creation (SDG8) thereby increasing family incomes and contributing to poverty reduction (SDG1). It will also decrease the dependency of households on public services (SDG10 on inequality) and enable more Jordanian women to join the labor market (SDG5 on gender). It can also reduce unemployment, including not only the youth and women but also adults and men who constitute the majority of the unemployed, and university graduates that can hold back innovation (SDG9). Social conditions and household welfare can accordingly be improved, in line with one of the two main objectives in the Economic Modernization Vision 2023-33 (EMV), namely, to improve the quality of life thereby contributing to social peace and justice (SD16). The other main objective of the EMV2033 is to accelerate economic growth that has far reaching effects across the whole economy and society.

In this context, this report presents key characteristics and reviews recent economic and social trends in Jordan in order to assess Jordan's likely progress towards the SDGs by 2030. To progress faster would require unprecedented levels of coordinated and consistent implementation of the holistic development agenda that the SDGs represent and, especially in the case of Jordan, more funding and no new shocks.

A broad conclusion of the report is that Jordan is unlikely to meet the goals in their totality, though considering Jordan's per capita income and stage in development, Jordan satisfies three necessary conditions for progressing the SDG agenda, namely national commitment to the SDGs supported by adequate institutions and quality governance. However, it lacks a sufficient condition, namely adequate funding. In other words, even if fiscal management will improve quickly, the binding constraint for Jordan until 2030 is the accumulated high level of debt and the still fast rising debt repayment obligations.

Despite any short-term benefits borrowing may have had in the past, it now presents a formidable challenge to reduce it to sustainable levels by 2030. The level of debt and its service is chocking investment and private sector development, holds back productivity growth, reduces employment creation and perpetuates – and has recently accentuated - poverty. A reduction of the debt burden will have cascading effects on the other goals examined in less detail. It will enable more investment in critical areas such as infrastructure (SDG9), water (SDG6), food security (SDG2), health (SDG4) clean energy (SDG7), and climate (SDG13).

With this in mind, the report focuses on the status and underlining dynamics of the twin – fiscal and trade - deficits and the impact macroeconomic management on economic growth and employment (SDG8), poverty

(SDG1), inequality (SDG10), and social outcomes, including gender (SDG5), education (SDG4). Specifically for the last two goals, the discussion points in the direction that there has been progress concerning gender equality but a regression in the quality of education. Both have an impact on productivity and social conditions, albeit in opposite directions.

In terms of policies, each SDG would require attention through sectoral improvements that can take place even under weak macroeconomic management. In some sense, the report is motivated by the observation that specific sectors can advance even in the absence of macroeconomic stability. Two prominent examples in this respect have been the commendable past gains in the areas of health and education in Jordan.

More broadly, the report recognizes the usefulness of the Sustainable Development Goals and their 169 targets to be achieved by 2030 that constitute the agreed development agenda by the global community. In this context, the report proposes that what matters most at the country level is the health of the macroeconomy and that each country chooses the indicators that are best suited to track its own progress towards sustainable development. This amounts to saying that it is not enough to simply focus solely on the SDG indicators but to link them with national priorities by taking into account the views of the people. Participatory and transparent monitoring of relevant and timely collected data is needed to close the information gaps and achieve evidence-based policy making, including for the implementation of the SDGs. An example in the case of Jordan is the paucity of poverty data that, as the report shows, gives rise to misinformation in media and can fuel social discontent. Another example is monitoring progress based on the consolidated debt instead of the total debt that includes domestic borrowing from the Social Security Fund and arrears to public utilities that makes the total debt 30 percent bigger than the consolidated debt and is still rising. Accordingly, the report pays due attention to differences between global, regional and national assessments of progress towards the SDGs and to the relationship between statistical evidence and national expectations.

Following this reasoning, Section 2 of this report discusses Jordan's development course through the lens of GDP growth and its composition, productivity, private sector development, trade, fiscal and monetary policies, and the debt situation concluding with an assessment of their impact on the SDGs. Section 3 examines the drivers for and constraints to key sectoral areas including education, heath, the labor market (with a specific focus on women and youth), institutional arrangements and governance, financial sector development, infrastructure, energy, water, and environmental and climate risks. Section 4 assesses the prospects for the economy and, within them, the likely progress towards the SDGs until 2030.

2. Analysis of the economic development performance

2.1. Growth analysis

2.1.1. GDP growth and per capita income growth

To better understand the current situation in Jordan and its underlying development dynamics, the latter being important for the likely progress of the SDGs until 2030, it is useful to provide a short review of Jordan's economic trajectory in the past. The annual rate of real GDP growth has varied considerably during specific time periods, in many cases due to external events. For example, the economy got a boost after the repatriation of many Jordanians following the Gulf War in the early 1990s and another one after the War in Iraq in the early 2000s. Conversely, the economy suffered a setback after the oil price shock in the early 1980s and the influx of Syrian refugees after 2011. However, there has been a clear negative trend over time.

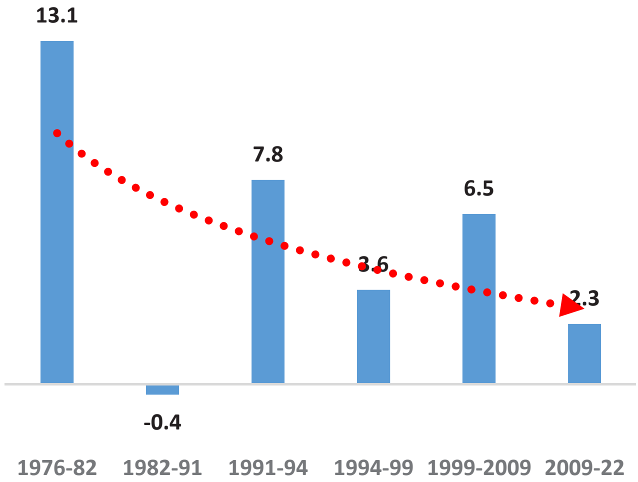
The economic developments between the 1970s and 1990s can be briefly summarized as follows.[1] The high economic growth during the 1970s and early 1980s was associated with the high oil prices, not because Jordan is an oil-producing country but because of its connection with the GCC countries, including the fact that more than half a million Jordanians have historically been employed in the Gulf countries . During that period Jordan's GDP increased at an "unsustainable" (sic) growth rate of around 8 percent till 1982.[2]

The subsequent collapse of the oil prices resulted in an economic recession, sovereign default in 1983, a rise in public debt to 180 percent of GDP in 1989, a substantial devaluation of the national currency, and a temporary spike in the officially reported poverty rate to 21 percent in 1991 after the repatriation of 500,000

[1] First Voluntary National Review (VNR2017).

[2] Ehtisham (1991).

Figure 1. Real GDP annual growth rates (selected subperiods)



Sources: Tzannatos (2000) for 1976 to 1999; and World Bank Development Indicators

Jordanians when the domestic population was under four million.[3] Thereafter, the "returnees" contributed to the revival of the economy that nevertheless fizzled in the second half of the 1990s. The economy was again boosted after the War in Iraq in the early 2000s, in part due to the exodus of moneys from Iraq, the nearly 10 times increase in FDI from 2.5 percent in 2002 to 23.5 percent in 2006 (predominately from the GCC). During the decade, the economy grew at an average annual rate of nearly 7 percent that is more than double the 3.2 percent that prevailed during the late 1990s. The debt-to-GDP ratio was reduced to 60 percent by 2009 from more than 100 percent in the late 1990s. However, this impressive reduction in the debt-to-GDP ratio was due to the increase in the GDP (the denominator in the ratio) and not a reduction in the level of borrowing that kept increasing mainly from domestic sources.

Since 2009, the debt has nearly doubled to more than 110 percent of GDP by the early 2020s. This has adversely affected economic growth and private sector development. Annual economic growth has hovered around 2.5 percent since then, in contrast to the 4.2 percent average growth rate observed in emerging and developing countries.[4] Admittedly, there have been several external shocks to Jordan that have in part been responsible for the deterioration of the economy since the end of the economic boom (see Annex 1). In a way of summary, while Jordan managed to maintain macroeconomic stability after the Global Financial Crisis (GFC) and the Arab Spring, the effects of the Syria crisis starting in 2011 were more serious. The COVID-19 pandemic in 2020 inflicted a 1.6 percent reduction in GDP. The War in Gaza that started in 2023 falls outside the period covered in this report and, in any case, its eventual effects are too early to assess amid the continuing conflict that is spreading to regional countries.

It is important to compare real GDP growth to population growth, as Jordan is one of the few examples of a well-governed country where per capita incomes have not increased for more than four decades. Jordan's population was 1.8 million in 1974 and had doubled to 3.6 million by 1991. It almost doubled again to 7.1 million by 2011, before the influx of the estimated 1.4 million Syrian refugees, and currently stands at 11.4 million. In other words, the long-term annual population growth has averaged 3.9 percent since 1976 compared to the annual real GDP growth of 3.4 percent.[5] When compounded over time a long period of time, the 0.5 percentage point difference between these two rates is a significant one. Another impact from the presence of Syrian refugees has been the assignment of Jordan to a the lower-middle-income country (from upper-middle income) after the latest update of the UN Population statistics that raised the resident population by nearly 9 percent.[6]

Figure 2 shows the historical stop-go trajectory of real per capita income. Today, per capita income is no higher than it was 40 years ago. Since 2010, per capita income has fallen by a quarter.[7] However, up to half of the decline in per capita income can arithmetically be attributed to the 14 percent population increase due to the presence of Syrian refugees over the domestic population that by 2010 had reached 10 million by 2010. This arithmetic correction assumes that the presence of refugees had zero effect on the production of goods and services (aggregate demand). This is a strong assumption as the economy benefited, at least in part, from increased consumer demand, international assistance, the presence of aid

[3] World Bank (1993). However, ESCWA estimated that the poverty rate might have reached 40 percent in that year. See Figure 22.

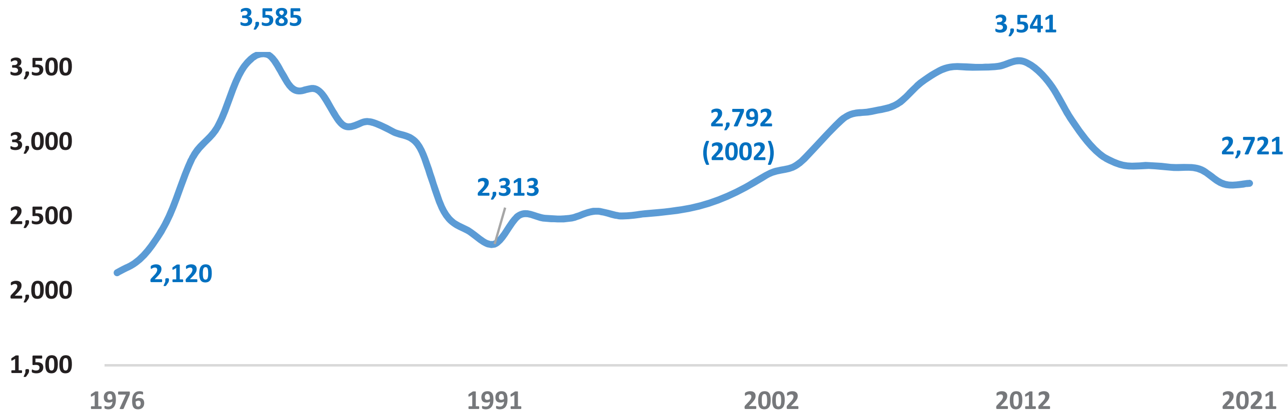
[4] IMF World Economic Outlook Database.

[5] If the increase in the domestic population due to the presence of Syrian refugees is excluded from the population growth since 1984, the annual difference between population and GDP growth becomes 0.12 percent.

[6] The lower bound for upper-middle income countries is almost $4,465 calculated as GNI divided by the resident population (World Bank, 2024a).

[7] The current estimate of the Syrian refugees in Jordan is 1.4 million, including those officially registered with the United Nations High Commissioner for Refugees (UNHCR) as well as those who may not be registered.

Figure 2. Real per capita GDP (in local currency units)



Source: World Bank Development Indicators.

agencies, and any investments refugees made. Evidence on the net impact of the Syrian refugees is mixed,[8] with some suggesting that the economic benefits have significantly helped offset the losses from the regional instability and disruption of trade routes.[9]

Against these negative trend, two positive developments since the 2000s have been, first, a continuous effort to address structural and sectoral issues, including the adoption of a visionary 2030 Agenda on Sustainable Development followed the whole economy, and an equally ambitious National Employment Strategy (2011) amid persisting unemployment and slow progress in poverty reduction. These two initiatives were subsequently incorporated in the Jordan Vision (2014-25), the Economic Growth Plan (2018-22), National Social Protection Strategy (2019), Jordan Reform Matrix (2021), Economic Priorities (2021-23), and most recently in the Economic Modernization Vision 2023-33 (EMV).

Second, Jordan has maintained stability over time, on the one hand, by balancing external relations both regionally and internationally and, on the other hand, domestically by catering to the needs of the many refugees stationed in Jordan in a balanced humanitarian cum developmental approach. In fact, Jordan's rolling Syrian Response Plan (JRP) introduced in 2016, and the treatment of refugees has internationally been praised as an exemplary approach.[10]

Looking ahead, advancing past gains will depend on how consistently difficult system-wide reforms are pursued, and how long it will take for their effects to show up. As Figure 3 shows, Jordan has lowest scores in global rankings in terms of macroeconomic stability, business dynamism and labor market outcomes. The Atlas of Economic Complexity provides a similar assessment.[11] In its Economic Complexity Index (ECI), the Atlas ranks Jordan only in the 63rd in terms of economic performance, below other economic indicators. In addition, the FDI Restrictiveness index place Jordan in the 87th global position, and the Women, Business & Law Index in the 93rd position.

Overall, the achievement of the SDGs will depend on whether Jordan consistently continues its transformative changes that encompass not only fiscal stabilization but also the recovery of economic growth, the development of the private sector, and the acceleration in productivity and employment creation.

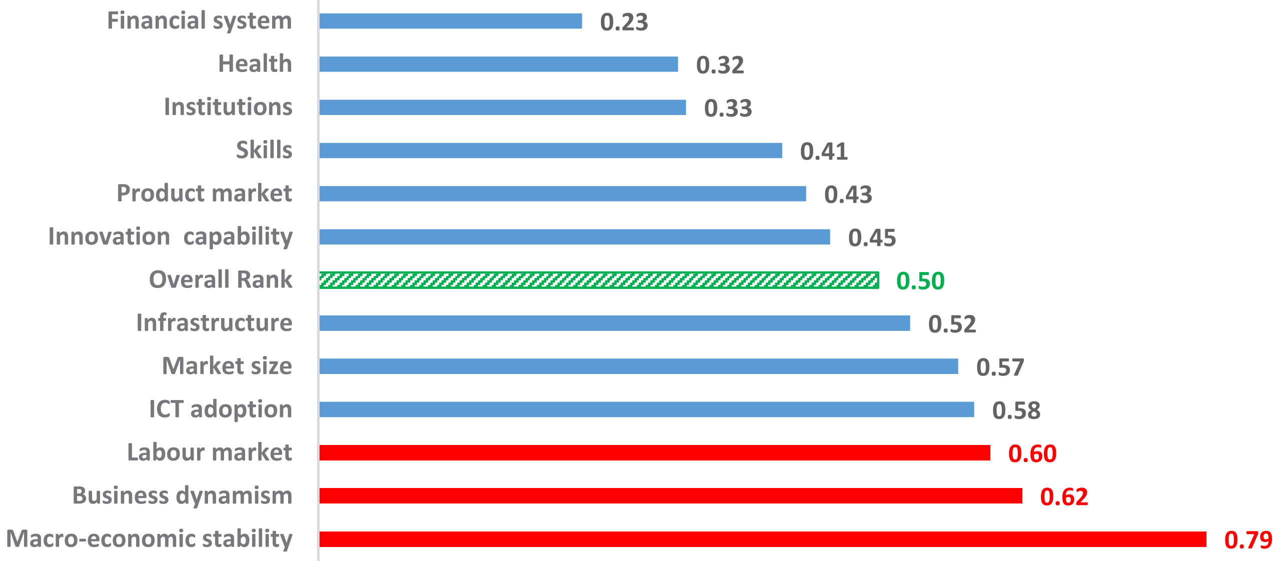
[8] World Bank (2020a, 2021a). Specifically, "Not everything since 2011 was caused by the Syrian war … the average annual GDP growth in Jordan would decrease by 2.0 percentage points during 2010–18 compared to the previous decade" (Onder, 2021a).

[9] IRC (2016); Idris (2016).

[10] See Annex 1; UNHCR (2018).

[11] https://atlas.cid.harvard.edu/ based on data provided by MoPIC.

Figure 3. Jordan's ranking amongst global indicators (2019-2021)



Note: Low numbers indicate better scores
Source: Jordan Economic Modernization Vision 2033 (Fig 4) based on WEF Global Competitiveness Report, 2019

2.1.2. GDP composition

In broad terms, the shares of both agriculture and industry in GDP have shown a small tendency to decline in the last four decades. However, the decline in both shares is projected to accelerate in the next 30 years – till 2050. The share of services has been rather stable but is projected not only to recover but also to increase by 17 percent in 2050 (Table 1).

A more detailed disaggregation with reference to the last ten years shows that manufacturing is the largest single component of GDP in 2022 (Figure 4) but with the sharpest decline since 2014 (Figure 5): While manufacturing accounted for over 21 percent of GDP in 2014, its share declined by nearly 10 percent to 19.2 percent by 2022. Government services experienced an almost similar reduction. Smaller reductions have taken place in the mainly private sector activities such as transport, trade, construction, domestic services and tourism. The sectors that saw their shares rise most were effectively the non-tradables such as social and personal services, finance and insurance, real estate, and private non-profit services to households together with mining and quarrying and the small agricultural sector.

Still, all sectors have contributed positively to GDP growth in the last ten years (Figure 6). The combined finance, insurance and real estate (FIRE) sectors have accounted for more than one-quarter of the total economic growth. Social and personal services had the second biggest contribution to economic growth though at some distance behind FIRE (15.3 percent). Despite their declining share and partly due to their big share in GDP, manufacturing and government services each contributed more than 10 percent to output growth - respectively at 13.6 percent and 10.4 percent. The contributions of all other sectors were less than 10 percent.

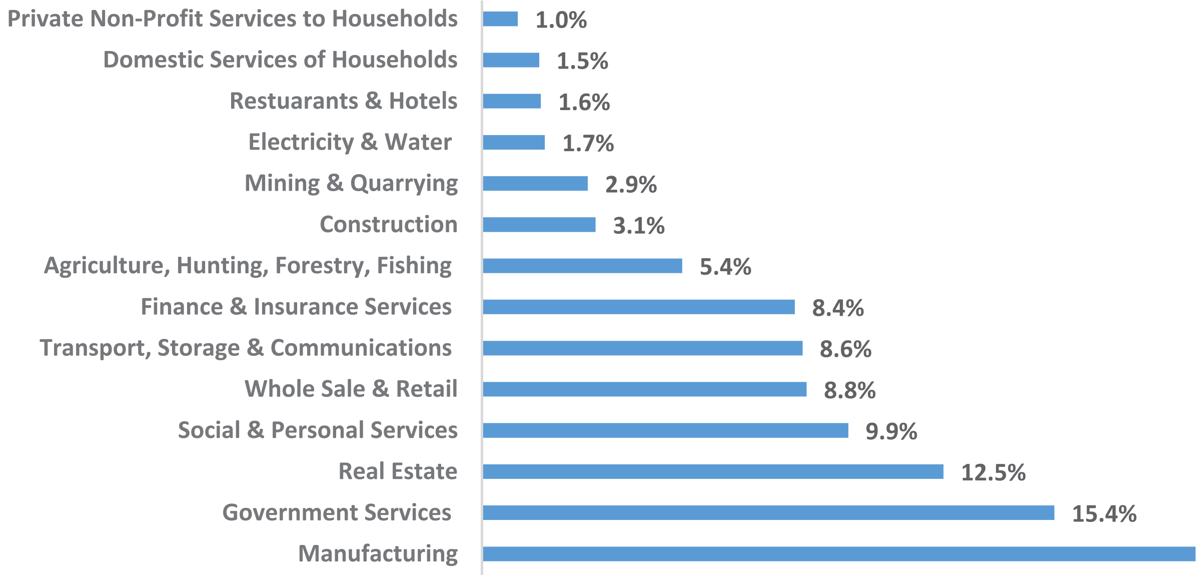
In conclusion, these trends are suggestive of the shifting structure and recent dynamics of the Jordanian economy. The most prominent sectors are those producing non-tradables, including the public sector. This has implications for productivity growth and trade performance, as discussed below.

Table 1. Sectoral decomposition 1980-2020 and baseline projections until 2050 (shares as % of GDP at market prices)

Period/year	Agriculture	Industry	Services	Net taxes
1980-2010	5.72%	25.04%	62.53%	6.71%
2010-2020	4.60%	24.77%	57.68%	12.95%
2050 (projected)	3.90%	19.00%	67.60%	9.50%

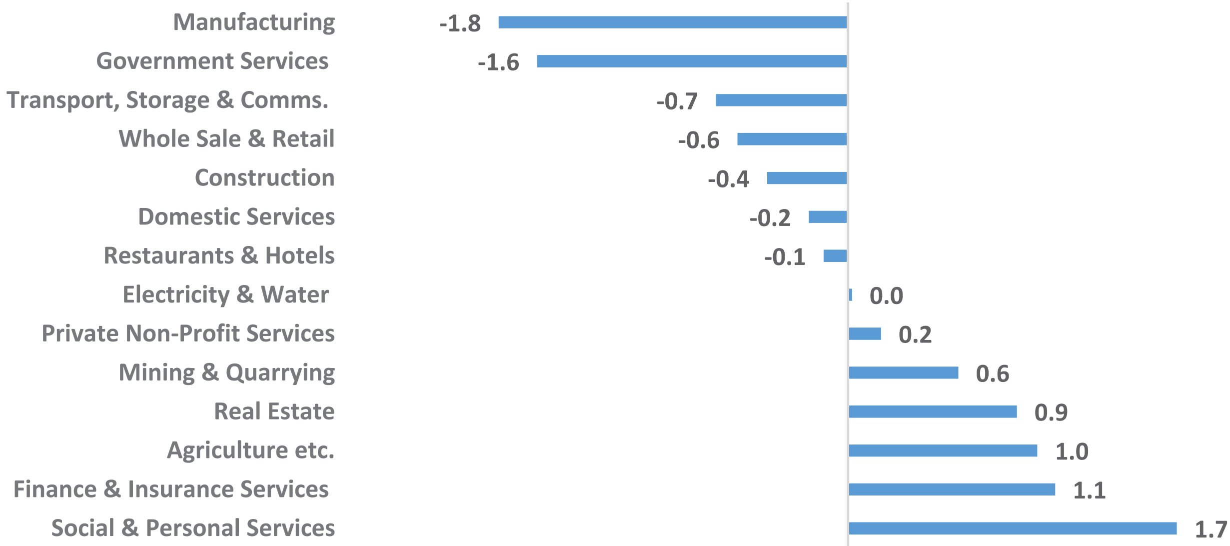
Source: World Bank (2022a).

Figure 4. Industrial Composition of GDP (%), 2022



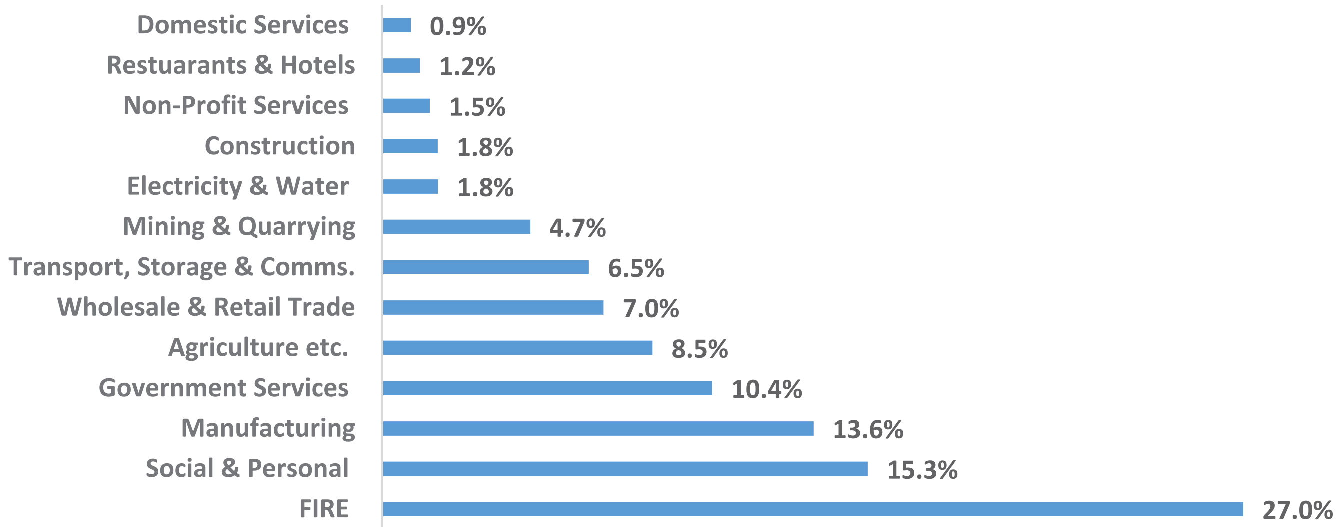
Source: Department of Statistics

Figure 5. Change in the share of industrial sectors (in pp), 2014-2022



Source: Department of Statistics

Figure 6. Sectoral contribution to total GDP growth (%), 2014-2022



**FIRE: Finance, insurance and real estate*
Source: Department of Statistics.

2.1.3. Labor and TFP productivity

According to official statistics, productivity fell by 60 percent in the second half of 2010s.[12] In a regional context, productivity has declined on average by nearly 2 percent annually since 2012 resulting in a total loss in GDP per worker of $11,000. This decline compares to an increase in productivity among Arab countries by $5,000 and globally by $9,000 (Figure 7).

Though the last decade until 2022 has been exposed to external shocks ranging from the Syria Crisis to the pandemic, more worrying is the long-term decline in productivity since 1992 shown in index form in Figure 8.[13] In dollar terms, real output per employed person in Jordan has declined by nearly $5,000 since 1992 compared to an increase in the non-oil Arab economies of more than $15,000 over the same period. These two changes correspond to a 10 percent decline in Jordan since 1992 and 50 percent increase in the other Arab economies – a significant difference.

Similar changes in productivity can be seen by a comparison between Jordan with the rest of the world during the more recent period.[14] While by the end of the economic boom in the late 2000s Jordan's productivity was higher than elsewhere, it has consistently been lower since, and for most years negative (Figure 9).

Along with the decline in labor productivity thus measured, total factor productivity (TFP) has also declined.[15] Table 2 summarizes the changes in TFP and includes projections till 2050. As the table shows, the timid TFP gains before 2010 have not only been reduced but have turned into negative in the last decade following a significant reduction in the growth of the capital stock. Interestingly, despite many reforms being underway and some upbeat macroeconomic expectations about the growth of potential GDP (if inputs are employed at their maximum sustainable rates consistent with steady growth and stable inflation), economic growth is not expected to be higher in the next 30 years than is has been since 2010.

Assuming that labor productivity in the public sector has remained relatively constant over time, the lack of productivity growth can be sought in the lack of dynamism of private sector and declining rates of investment by both the public and private sectors and also FDI.[16] TFP is particularly important for products that are destined for exports and must be internationally competitive. Yet the export performance of Jordan could have been higher as discussed next.

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[12] VNR2022.

[13] The decline in productivity since the mid-2010s is compatible with estimates based on national statistics. For example, data from DOS also show that the annual growth rate of real GDP per employed person declined by 60 percent between 2016 and 2019.

[14] JSF (2018).

[15] Gonzalez and Winkler (2019).

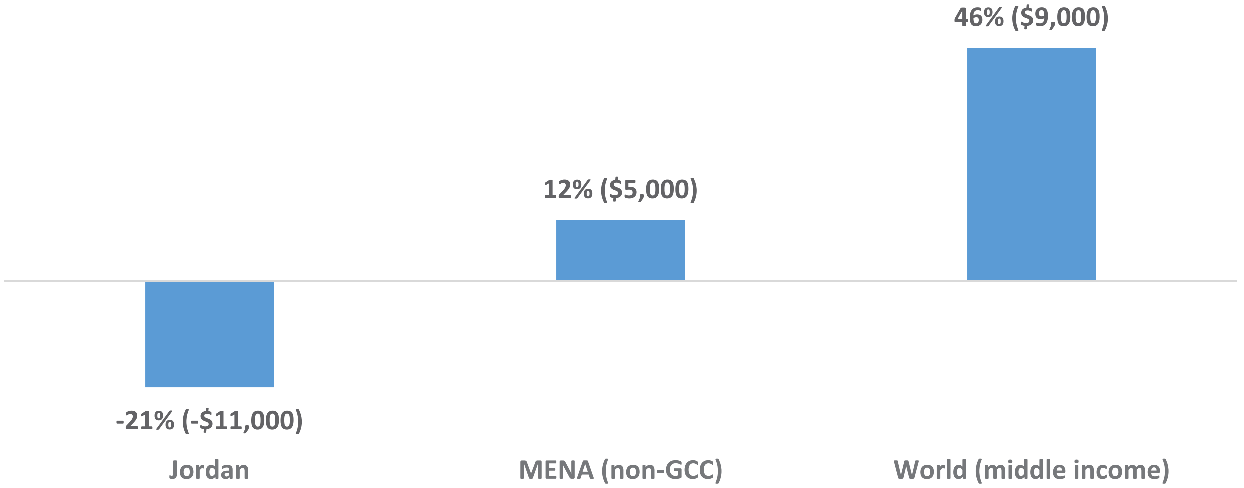
[16] EIB, EBRD and World Bank (2022); JSF (2023b); Tzannatos and Saif (2023).

Table 2. TFP and changes in capital stock and potential GDP 1980-2020 and baseline projection until 2050 (annual growth rates, %)

Period/year	TFP	Capital stock	Potential GDP
1980-2010	1.08	3.91	4.30
2010-2020	-0.52	2.84	2.65
2050 (projected)	0.32	3.09	2.64

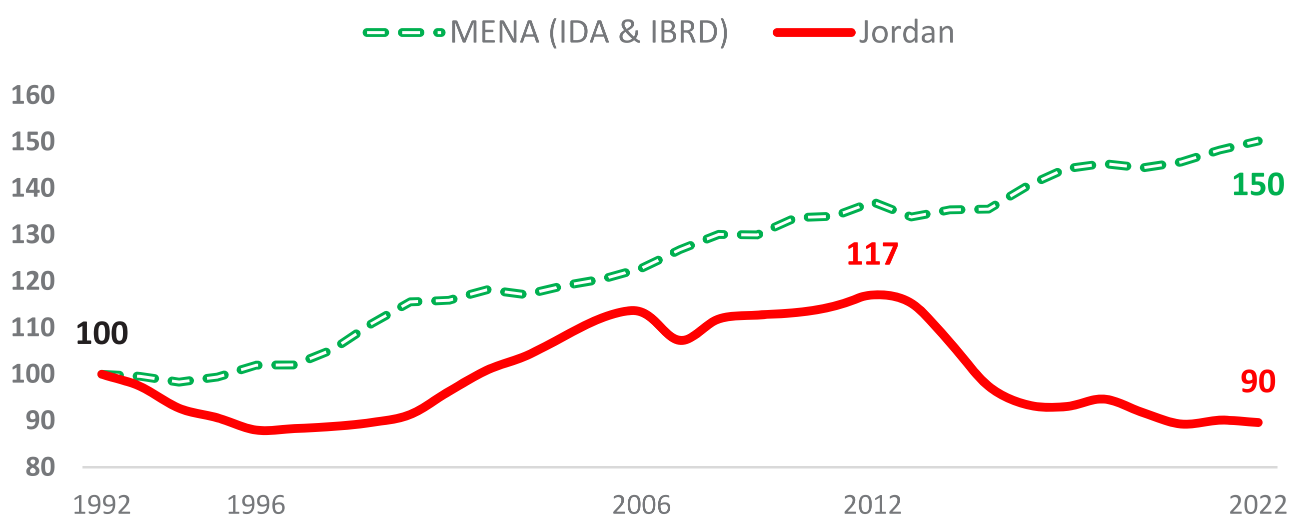
Source: World Bank (2022a).

Figure 7. Total change in productivity, 2012-22



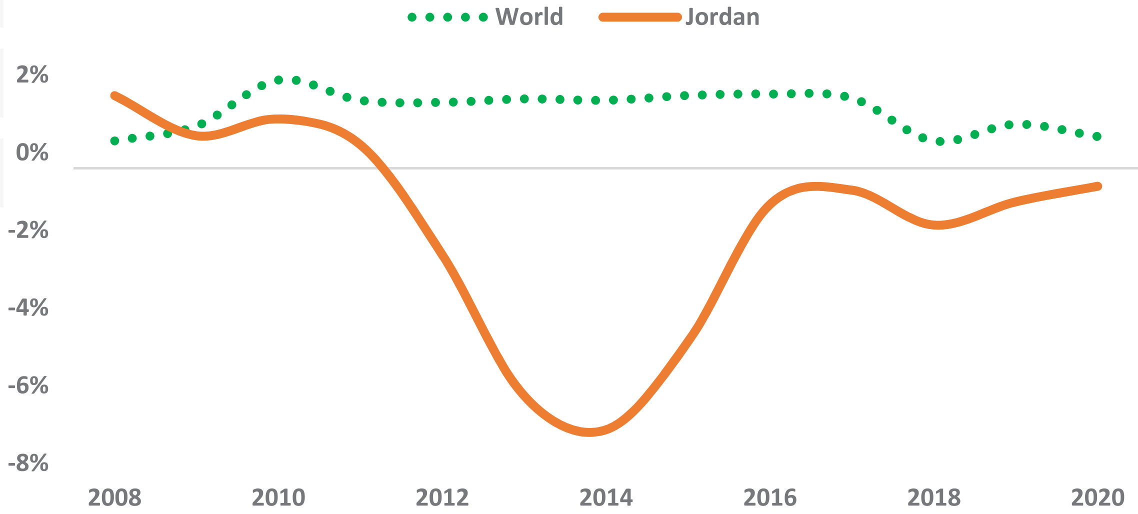
Note: Rounded figures
Source: Author's estimates based on https://ilostat.ilo.org/data/arab-states/#.

*Figure 8. GDP per person employed in Jordan and non-oil MENA economies (Index 1992=100) **



**In constant 2017 PPP*
Source: Author's estimates based on World Bank's World Development Indicators.

Figure 9. Productivity growth in Jordan, 2008-2020



Note: 3 year moving average
Source: Author's estimates based on https://ilostat.ilo.org/data/arab-states/#.

2.1.4. Trade

Trade reforms have consistently been pursued since the crisis in the 1980s when Jordan had "overly restrictive external trade policies".[17] Jordan subsequently adopted a series of trade liberalization reforms. In an effort to encourage outward-oriented economic growth and foreign trade openness, Jordan has aimed to reduce tariffs, simplify customs procedures, introduce automation and the use of better technology, and offer incentives.

By the late 1990s, Jordan acceded to the WTO and subsequently reduced tariffs on imported products and opened its services market.[18] Non-tariff barriers (NTB) and their dispersion were reduced significantly. Many intermediate and capital goods were granted zero import duties. It has by now signed more than 20 free trade agreements with several trading blocs such as the European Union (EU), the European Free Trade Association (EFTA), and the Greater Arab Free Trade Area (GAFTA) which includes 18 countries.

Jordan has also signed various bilateral agreements among others with the United States, the United Kingdom, Canada, Australia, Japan, New Zealand, Singapore, Mexico, Pakistan and Turkey (though the latter was canceled in 2018) as well as a Framework Cooperation Agreement with MERCOSUR countries. Jordan is a member of the Organization of Islamic Conference (OIC) that provides preferential customs tariffs rates to the country members of the Conference. Being a member of the World Trade Organization (WTO), Jordan cannot discriminate against other members of the organization or raise tariffs above a certain rate. By the early 2020s, Jordan had achieved the highest rates of ease to export and import and the lowest rates of informal payments to exports and imports (Figure 10).

Jordan has also signed 55 Bilateral Investment Treaties, and 27 Double Taxation agreements across a wide range of countries. In 1997 Jordan introduced its first Qualifying Industrial Zone (QIZ) in Irbid with many others subsequently added across different locations in the country. The QIZ's (also referred to as Industrial Estates, Industrial Parks Industrial Cities, Technology Parks or International Complex) are agreements between Jordan, Israel and Palestine. Exports from the zones that have at least 35 percent Jordanian content benefit from free trade duty benefits in the US.[19] Currently Jordan is globally ranked 84th in the trade Logistics Performance Index (LPI). While this is a low ranking that "depends to a large extent on efficiency in clearing goods through the border,[20] it is still higher than in other non-oil Arab economies.

Despite such significant progress, the full potential of these agreements has, however, not yet been realized. The trade deficit has persisted to some extent justifiably for a country that has scarce resources, and the food

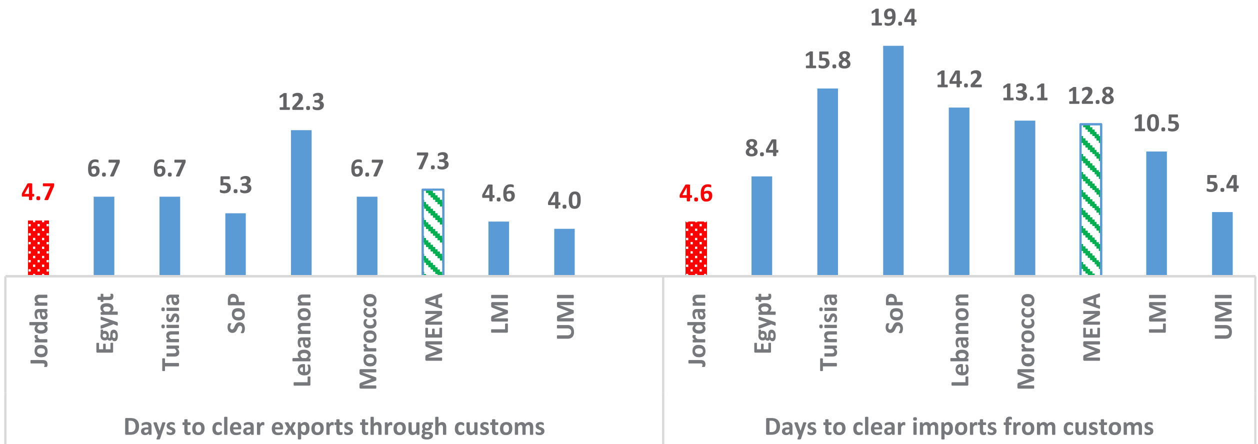
[17] Al Khouri (2004).

[18] Malkawi (2010).

[19] GIZ (2020a).

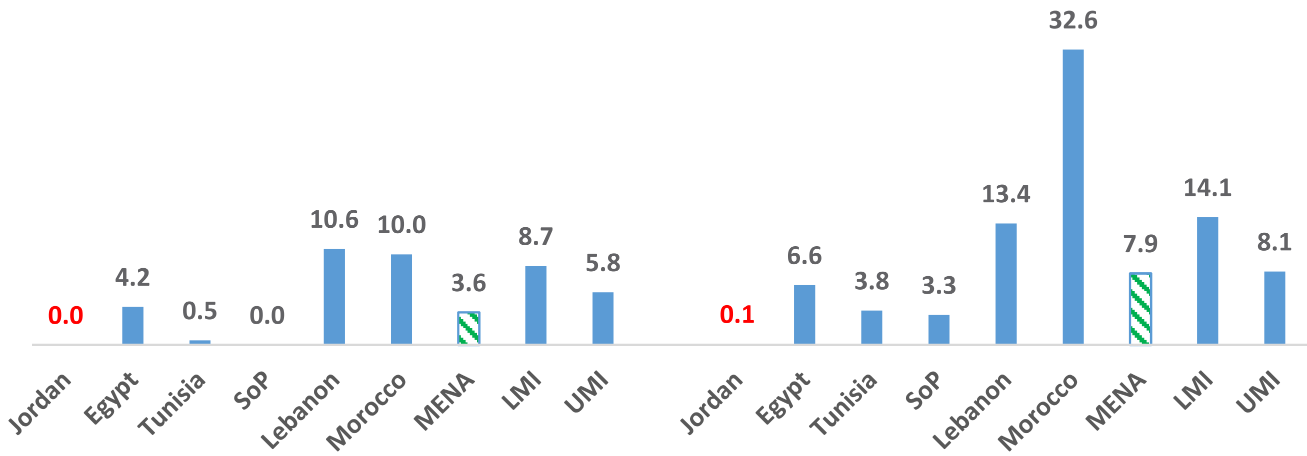
[20] The top Arab country in the index is the UAE (ranked 11th) with the lowest ones being Syria, Yemen, Somalia, Iraq and Libya (in that order). See Logistics Performance Index (World Bank, 2023a).

Figure 10. Ease to export and import (right panel) Jordan, Arab States and World Regions (in days)



Source: EIB, EBRD and World Bank (2022).

Figure 11. Incidence of informal payments to export or import (% of firms) Jordan, Arab States and World Regions (in days)



Source: EIB, EBRD and World Bank (2022).

and energy import bills are large.[21] The trade deficit regarding goods stood at 24 percent of GDP in 2022, with exports being 26 percent and imports 50 percent of GDP.[22] The current account deficit was almost 8 percent of GDP in 2022 despite the fact that remittances were more than 6 percent and travel receipts nearly 12 percent of GDP.

Jordan effectively exports no capital goods whose share has averaged only 2 percent of total exports since 2010.[23] Of manufactured exports less than 2 percent can be considered to be high-technology exports.[24] The remaining exports are shared almost equally between consumer and intermediate goods (51 percent and 47 percent).

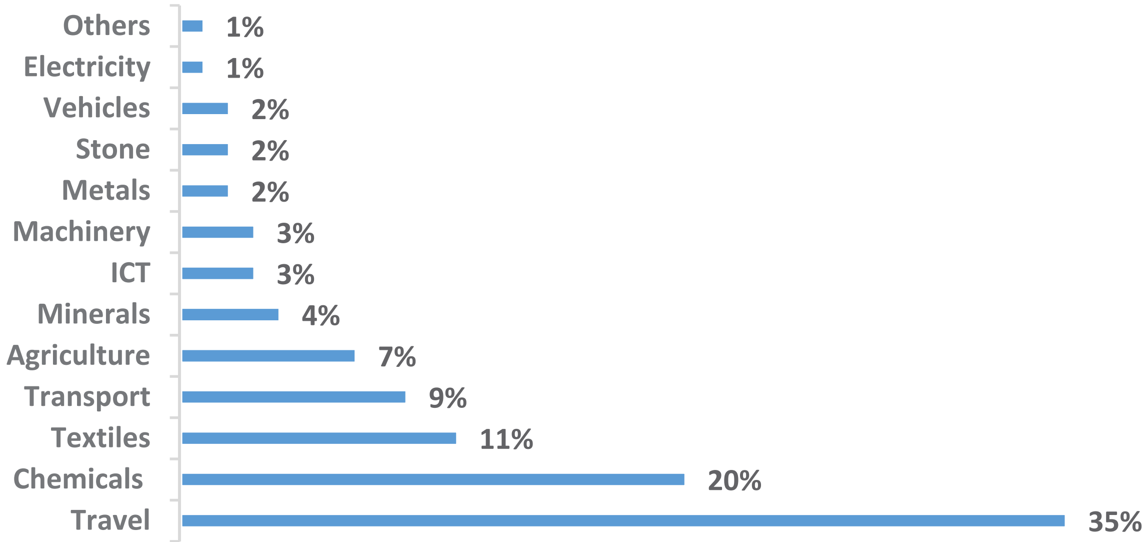
[21] For example, Jordan imports around 80 percent of its food requirements (Vision2025) amounting to nearly JOD2.5 billion in the JOD14 billion import bill. The energy imports were around 15 percent of imports in 2022-3 CBJ, 2024).

[22] The imports of fuel (including crude petroleum) accounts for about 18 percent of total imports – a significant percentage (CBJ, 2024).

[23] Estimates of high-tech exports vary. According to Jordan Export Portal “the share of high-technology manufacturing exports (in % of manufactured exports) was astonishingly high at 16.6% in 2019” (see https://jordanexportportal.gov.jo/pages/30-trade-with-jordan). According to the World Bank, this ratio was less than 1.5 percent also in 2019 and has generally been around that level since the mid-2010s (see https://data.worldbank.org/indicator/TX.VAL.TECH.MF.ZS?locations=JO).

[24] UNCTAD (2021).

Figure 12. Composition of exports (% of total exports)



Source: IMF (2022a) based on Harvard Atlas Lab; ECI; and IMF staff calculations.

Predominant among Jordan's exports, also in terms of value chains, are tourism, chemicals, textiles, pharmaceuticals and medical supplies, and horticulture. Tourism, transport, ICT and chemicals are the main exports of Jordan, jointly contributing to over 50 percent of total exports. Textiles, travel and chemicals constitute two-thirds of total exports, with the other sectors each contributing less than 10 percent (Figure 12).

The share of trade between Jordan and three of its neighbors has on average been only around 5 percent of Jordan's total trade. Between 2018 and 2023, Jordan has had an average trade deficit of $3 billion with Egypt, and $1.8 billion deficit with Israel, but a small trade surplus with Palestine ($800 million). The share of intra-Arab trade in total Jordan's trade declined over time to 26 percent in 2021 from 47 percent in 2012.[25]

In conclusion, Jordan's exports have diversified into too few products over time to contribute to substantial income growth. For example, it has introduced seven new products compared to Egypt's 49, with a per capita impact of only $6 compared to Egypt's $35. Moving forward, the Atlas sees Jordan positioned to take advantage of only a moderate number of opportunities to diversify its production. In contrast to other projections by the IFIs, growth is expected to grow only by 1.7 percent annually over the coming decade, ranking it in the bottom half of countries globally.[26] In terms of trade, compared to a decade prior, Jordan's has become less complex and has slipped 8 positions, in part driven by a lack of diversification of exports. Trade policy adjustments alone are unlikely to eliminate soon the current account gap without addressing the other deficit discussed below, namely the fiscal deficit.

2.2. Macroeconomic policies

2.2.1. Revenues and expenditures

During the period of high oil prices in the 1970s and early 1980s, Jordan's economic growth was in part due to high levels of public spending (around 50 percent of GDP) funded from high budget deficits of 30 percent that were largely financed by external grants covering around two-thirds of the deficit.[27] Government spending has been reduced at around 32 percent of GDP in the early 2020s partly at the cost of keeping capital expenditures low.

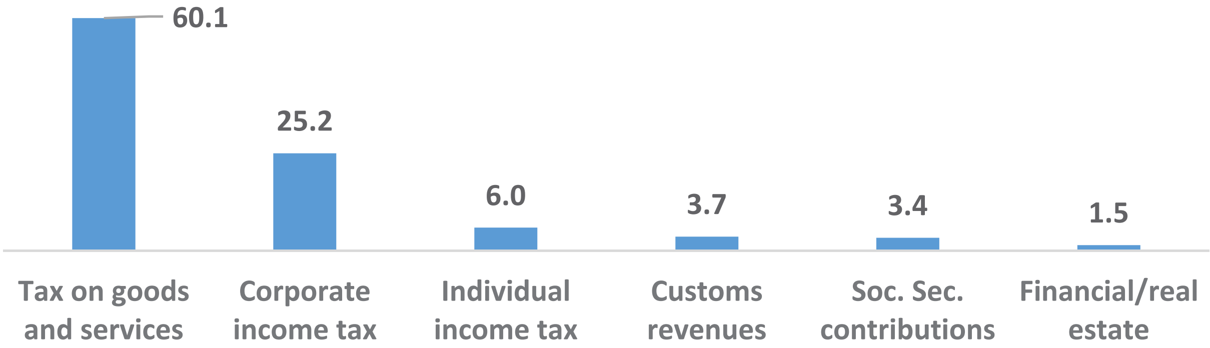
The revenue system is generally inelastic, and the Government has regularly resorted to borrowing, domestic and external. The revenue base in Jordan has over time averaged its current share in GDP at around 25 percent. A change in the tax structure has been initiated with IMF support since 2020, and revenue has been increasing

[25] Eyzaguirre (2023).

[26] https://atlas.cid.harvard.edu/countries/113.

[27] Ehtisham (1991).

Figure 13. Composition of revenues, 2023 (% of total revenues)



Source: Central Bank of Jordan.

Table 3. Selected public expenditures, 2018-2024

	Expenditure in JOD, billion			Shares in expenditure (percent)		
	2018	2024	Change	Share in 2018	Share in 2024	Change
Transport	0.267	0.175	-34%	8%	4%	-50%
Health	1.015	1.119	10%	31%	26%	-16%
Education	1.039	1.345	29%	31%	31%	-1%
Debt service	1.004	1.703	70%	30%	39%	30%
Total of subsectors	3.325	4.342	-	100%	100%	-

Note: The consumer price index increased by 10 percent between 2018 and 2024 (July-to-July: CBJ)
Source: JSF (2023a).

across all its components primarily through expanding the tax base by reducing evasion rather than increasing the tax rates.[28] Most revenues are generated from sales that have unequal effects (Figure 13). However, one component that stands out is property taxes. They remain particularly low at around 0.25 percent of GDP. For example, Morocco's property taxes are six time bigger at nearly 1.5 percent of GDP.[29]

Structural tax reforms take time to yield results and the effort to reduce the fiscal drag is likely to be more on the expenditure side. Indeed, some subsidies were eliminated in the 2010s and capital spending has been kept at low levels. Public expenditure on social protection has also been decreasing.[30] As an illustration of the effects of budget deficit and rising debt over time, Table 3, shows debt repayments have been increasing fast and by now exceed the spending on health and education while that allocated to transport, an indication of public investment, has actually declined.

A critical component of spending is pensions. Jordan spends on pensions as much as countries with aging population like Japan, Greece and Italy where the share of the population aged 60 years and above is five times higher than the share of elderly in Jordan.[31] The biggest share of pensions, nearly half of the total, is spent on early retirement and is just short of the amount paid to public sector wages and salaries. Still, pensions have been rising faster than the public sector salary and wage bill.[32]

In conclusion, Jordan has been and still is in a fiscal squeeze something that has led analysts to describe Jordan as "aid dependent country". Since 1984, Jordan has had seven programs with the IMF[33] and six restructurings under the Paris Club[34] (the two overlapped in 1994 and 2002). The debt situation is discussed next.

[28] References to IMF regarding the conditions and progress of the Fund Facility with Jordan are included in the references under IMF 2021; 2022b; 2023a; 2023c; 2024a; 2024b; and 2024c.

[29] IMF (2022b).

[30] Kawar et al. (2022).

[31] World Bank (2021).

[32] Saif and Tzannatos (2023).

[33] This includes two stand-by arrangements (SBA) in 2002 and 2012, and five Extended Fund Facilities (EFF) in 1994, 1996, 1999, 2016, and 2020 (Youssef and Zaki, 2021).

[34] Under the Paris Club Jordan had six debt restructurings in 1989, 1992, 1994, 1997, 1999 and 2002 (Mazarei, 2023).

2.2.2. Debt level, composition, trends and servicing

The evolution and composition of total debt are shown in Figure 14. Since the end of the economic boom, the stock of debt has been rising, initially through domestic borrowing and later through external borrowing. A significant part of the debt is accounted by the arrears of public utilities, that include JOD5.1 billion (around 13 percent of GDP) in the National Electricity Power Company (NEPCO)[35] and JOD2.8 billion (around 7 percent of GDP) in Water Authority Jordan (WAJ).[36] In addition, the debt to the Social Insurance Investment Fund (SSIF) has increased by 60 percent between 2017 and 2023, from JOD4.8 billion to JOD8.6 billion (more than 20 percent of GDP).[37] The total public debt was estimated at 114 percent of GDP in January 2024. It is reduced to 89.3 percent, if calculated net of Social Security Corporation's holdings and the debt of NEPCO and WAJ.[38]

The foreign debt situation in Jordan is shown in Table 4 along with five other Arab countries. Among the six countries, Jordan had the highest debt-to-GNI ratio, debt-to-exports (except Egypt), debt service to GNI and exports (the latter again with the exception of Egypt), interest rate on debt (except Tunisia, though only marginally), and debt per person.

The change in public debt can be the result of five effects arising from interest payments, inflation, the exchange rate, real GDP growth and fiscal balance. A decomposition of the change in external debt due to these effects shows that in Jordan primary deficits would have increased the debt by 171 percent and debt repayments by 122 percent since 2009, had it not been for the mitigating effects of inflation (-77 percent) and to a lesser extent GDP growth (-60 percent) (Figure 15). The exchange rate has not had a role, as the Jordanian currency is pegged to the US dollar.

This decomposition does not fully account for the increase in debt over time due to measurement issues and reporting practices. The difference between the officially reported increase in the size of the debt-to-GDP ratio minus the contribution of the five measurable factors mentioned above is called "stock-flow adjustment" (SFA). In the case of Jordan, the SFA is sizeable and has negatively contributed to the evolution of debt by nearly as much as economic growth (-56 percent).

The SFA can arise from many reasons, and masks extra-budgetary expenditures that contribute to increases in the debt stock and impairs debt transparency.[39] Its large size in Jordan can be due to statistical reasons, such as measurement errors and/or accounting practices – creative or not. Non-identifiable factors in the SFA include among others, extra-budgetary expenditures and revenues, net acquisitions or sales of assets not reported in the budget, currency deposits, equity and investment funds, derivatives, and other adjustments—including liabilities excluded from the definition of government debt and changes in the valuation of debt - such as, issuances above or below nominal value, difference between interest accrued or paid, redemptions of debt above or below nominal value.

2.2.3. Monetary policy and exchange rate policies

Until the 1980s, the Jordanian dinar stood at JOD0.29 per U.S. dollar. It then came under pressure, partly due to substantial capital flight amid deteriorating economic conditions, leading to a drop of foreign reserves to two weeks of imports. The dinar reached JOD0.33 per U.S. dollar in mid-1980s, JOD0.67 per US dollar in March 1990. It depreciated further to JOD0.71 per US dollar (or $1.41/JOD) in the early 1990s. The latter rate has been kept until today.

The Central Bank of Jordan (CBJ) is the key player for maintaining monetary stability and ensuring the convertibility of the Jordanian dinar, among others. Its policies have so far succeeded to safeguard the peg and keep inflation low thereby providing financial stability. However, the pegged exchange rate restricts the independence of monetary policy as the policy rate is adjusted 1-to-1 to changes in the U.S. Federal Reserve policy rate. Following the hike in interest rates by the U.S. Federal Reserve, as the case has been in the early 2020s, can have the side effect of slowing down credit growth. The Jordan and Amman Chambers of Commerce and representatives of the Jordanian Businessmen Association recognize the stabilizing role the current exchange rate policy plays, but they also see high interest rates as a significant borrowing cost.

As of end-2023, foreign reserves were 46 percent of

[35] Jordan Times (2022a).

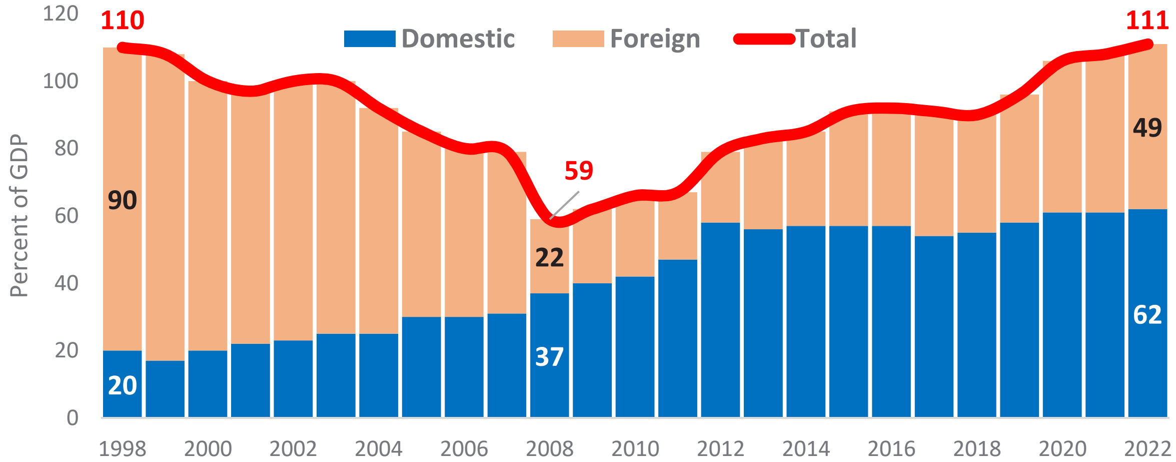
[36] IMF (2023a); Dahiyat (2022).

[37] Ministry of Finance (2023).

[38] IMF (2023a).

[39] Gatti et al. (2024).

Figure 14. Evolution and composition of debt ((% of GDP)



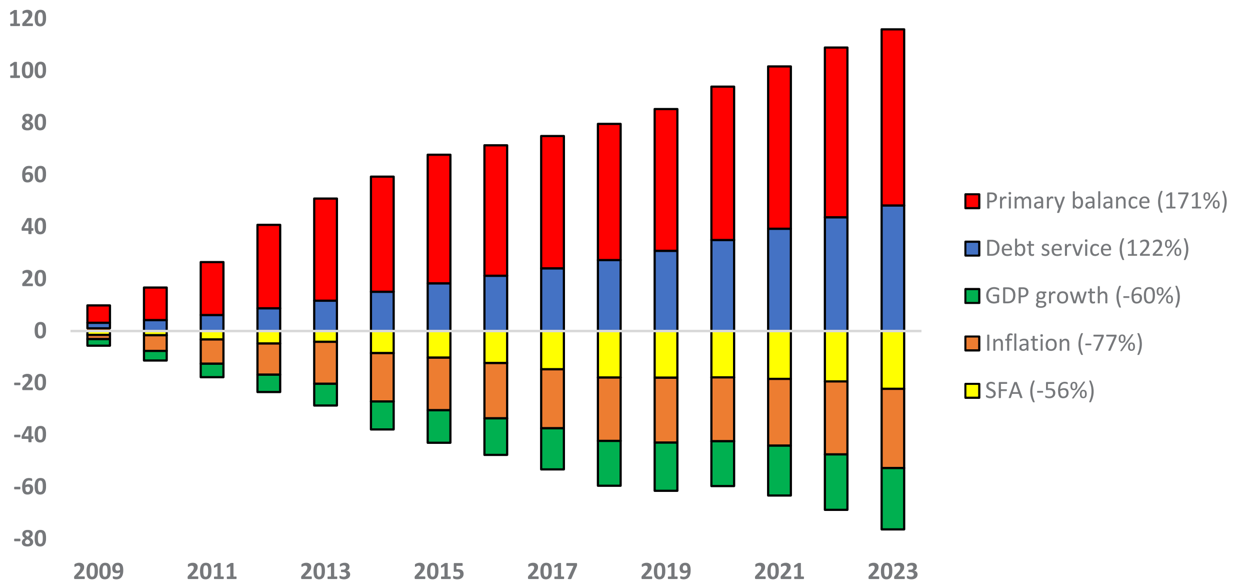
Source: Central Bank of Jordan.

Table 4. Selected aspects of foreign debt: Jordan and comparator MENA countries, 2023

	Algeria	Morocco	Tunisia	MENA	Jordan	Egypt	Iraq
Debt % GNI	3.8%	48.9%	87.3%	27.0%	**88.0%**	35.4%	8.6%
Debt % exports	10%	109%	170%		192%	210%	
Debt service % GNI	0%	5%	9%	3%	10%	4%	9%
Debt service % exports	0%	10%	18%		21%	23%	
GNI $ million	187,922	132,376	45,435	1,595,000	46,946	460,985	263,236
Debt$ million	7,129	64,713	39,652	431,000	41,204	163,104	22,588
Population (million)	46	37	12	412	11	111	44
Debt per person ($)	155	1,749	3,304	1,046	**3,746**	1,469	513
Per capita GNI ($)	4,085	3,578	3,786	3,871	4,268	4,153	5,983
Interest on debt		1.5	6	~4	6<	3	<3
Debt service/total debt		10.2%	10.3%	11.1%	11.4%	11.3%	

Note: The consumer price index increased by 10 percent between 2018 and 2024 (July-to-July: CBJ)
Source: JSF (2023a).

Figure 15. Jordan's external debt decomposition



Source: Finance for Development Lab

GDP equivalent to 8.3 months of imports.[40] The IMF's Assessing Reserve Adequacy (ARA), a metric of the adequacy of international reserves, stood at 102 percent in 2023. This is marginally above the threshold of 100 percent and constitutes a reduction from 114 in 2021 despite the significant recovery of exports and tourism and the decline in food and fuel prices during that period. The recovery was compromised because capital inflows could not fully cover the current account deficit.

The financial sector remains healthy, and the Central Bank of Jordan continues to closely monitor the quality of banks' assets. However, the reliance on domestic financing risks can exacerbate the sovereign-bank nexus, given the already-high exposure of banks to sovereign debt. The share of banks' assets as a share in GDP have been on the decline during the period (2007-2021), from 217 percent to reach 180 percent.[41] Similarly, the Net International Investment Position (NIIP) has deteriorated during the last decade due to widening current account deficits though some of it has been caused by external shocks.

2.2.4. Summary: Macroeconomic outcomes during the first decade of the SDGs

The SDGs were introduced in 2015 at a time that almost coincided with the adoption of "Jordan 2025: A National Vision and Strategy". Vision sets the bar rather high. Had it achieved its objectives, Jordan would have made more progress across, and most likely achieve, most – if not all – of the goals.

The Vision expected that between 2014 and 2025 annual economic growth would reach 7.5 percent, revenues would exceed spending by 30 percent (so that public debt would be reduced to below 50 percent of the GDP in 2025, from 85 percent in 2014), public sector employment would shrink by more than 20 percent, and the average retirement age would increase from 51 years to 60 years. In the labor market, the expectation was that the unemployment rate would drop below 10 percent despite the fact that women's labor force participation rate would have increased from 15 percent to 24 percent. The poverty was to be reduced from 14 percent to 8 percent. The Vision also expected inequality (the Gini coefficient) to decline from 0.38 to 0.28, and the First Voluntary National Review in 2017 reduced it further to 0.25 – the lowest in the world.

These expectations were not fulfilled, most importantly with respect to the economic growth that increased at one-third the rate expected by the Vision. This has had an adverse systemic effect on the SDGs. Jordan's fiscal stress has increased since the adoption of the SDGs, and reliance on external support has continued until today (Figure 16). Key domestic contributors to the increase in borrowing have been (in increasing order) rising spending on public salaries, pensions and debt repayments. The persistent deficits in the electricity and water sectors are another factor contributing to the debt.

The fiscal situation has significantly affected the private sector, least because domestic borrowing by the government can result in "crowding out" credit to the private sector, when banks invest in less risky government bonds. This can undermine the earlier noted well performing domestic financial system (Figure 3). Gross fixed capital formation has been halved and foreign direct investment (FDI) has been reduced by more than 80 percent compared to 2010.

2.3. SDGs: global, regional and national assessments

As assessments of the progress toward the SDGs are primarily based on information provided by the relevant authorities in individual countries, regional and international assessments should show considerable uniformity with national assessments. Yet, there are several significant discrepancies across the three assessments in the case of Jordan, with the qualification that cited years refer to when the assessments were published and may not capture the latest status of and latest progress in the SDGs.

2.3.1. International assessments: 2021 and 2024

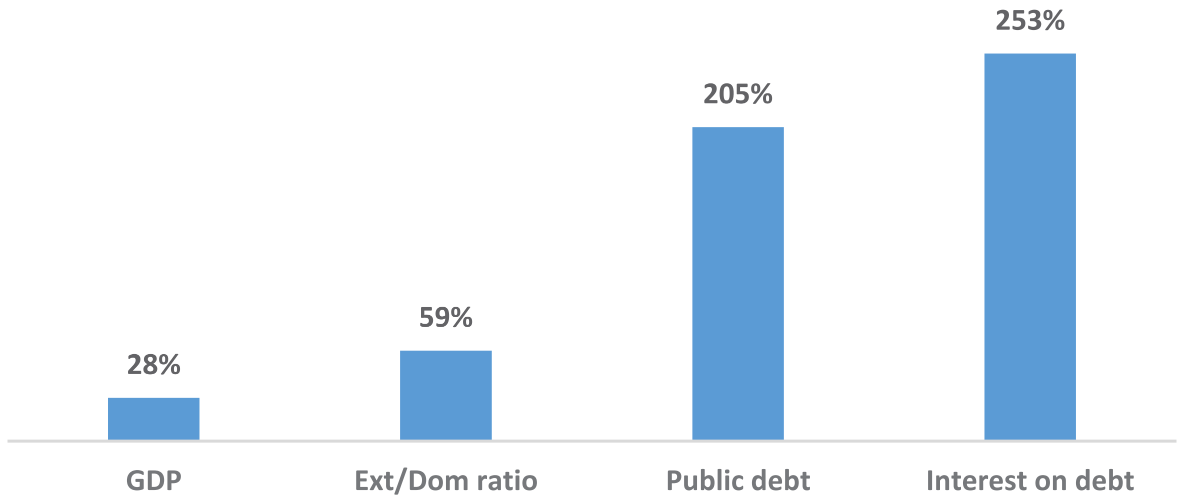
Noting the lack of data in Jordan for monitoring progress in SDG10 and SDG 12, a 2021 global review reported no other missing information for any of the SDGs. It found that Jordan had achieved none of SDGs by then but was "on track" with respect to three SDGs (6, 7 and 9) and had made moderate progress in another four SDGs (4, 3, 13 and 16). Among the remaining SDGs, none was assessed to be regressing (Figure 17).

A different picture emerged in a short period of three years. By 2024, none of the three previously "on track"

[40] IMF (2022b) notes that in Jordan large errors and omission on the balance of payments make it difficult to evaluate the capital and financial account.

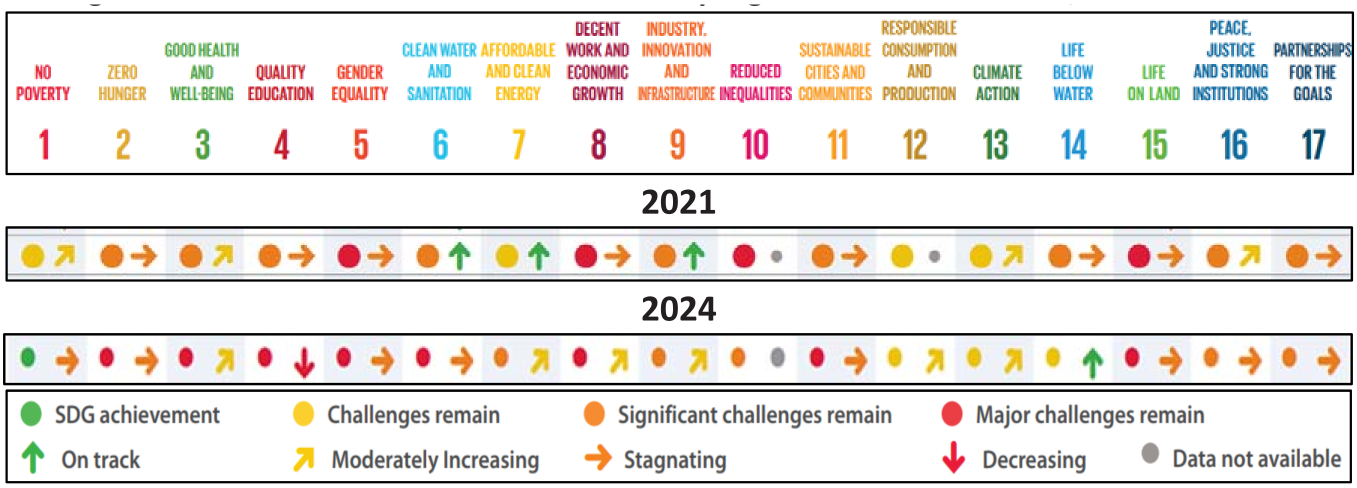
[41] CBJ (2022).

Figure 16. GDP growth and increase in debt components, 2009-21



Source: IMF

Figure 17. Jordan: Global assessment of and progress toward the SDGs, 2021 and 2024



Source: Sachs et al. (2021 and 2024).

SDGs were still on track. Rather unexpectedly, the later global review indicated that an important goal was achieved (SDG1 on poverty). A new one was added as being on track (SDG14) referring to the narrow stretch of land in Aqaba (26 kilometers) along the coastline of the Red Sea. All other SDGs were "moderately increasing" or "stagnating" save SDG4 on education that was assess as regressing.

Four were facing "major challenges" including the SDGS that have far-reaching effects such as the goals for hunger, health, sustainable cities and life on land. SDG8 on economic growth and the labor market was noted as "moderately increasing which, like in the case of SDG1, can be debated.

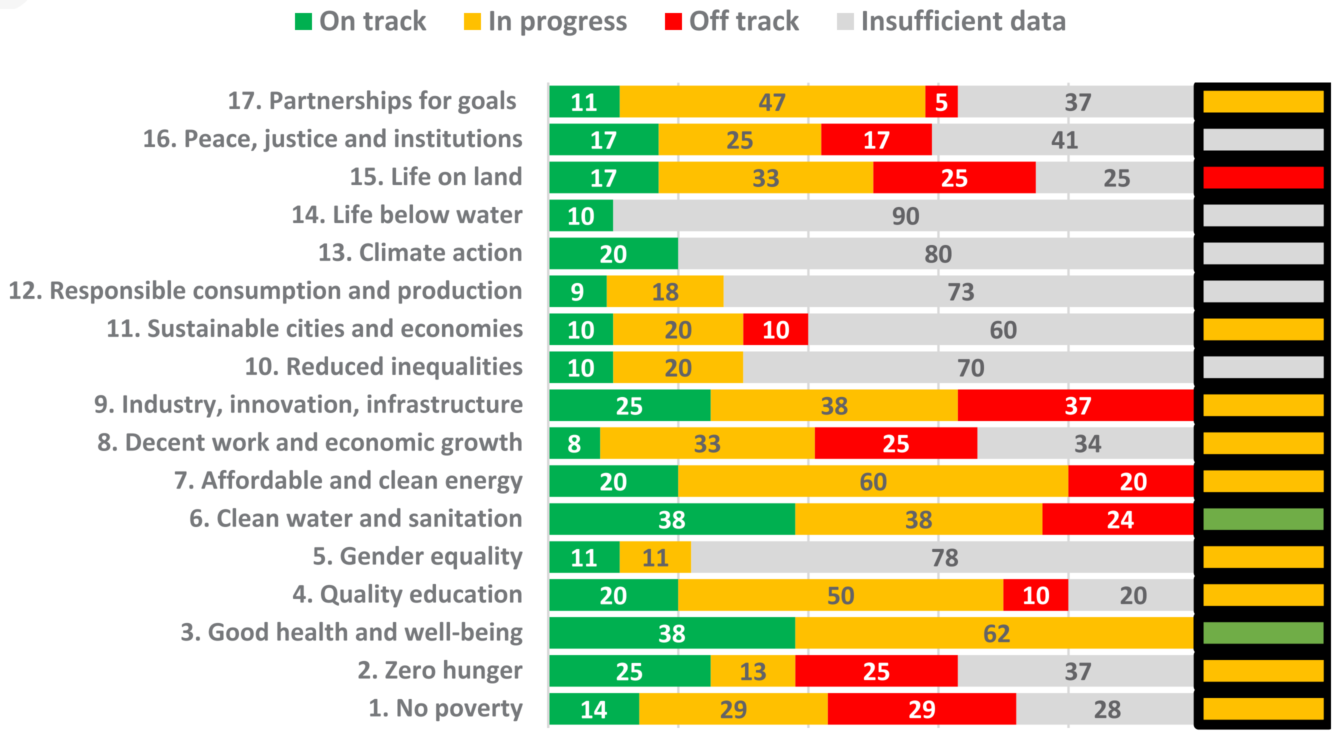
2.3.2. A regional assessment, 2023

Between the two dates of the global assessments, a regional one was carried out by ESCWA in 2023. Unlike the 2024 global assessment that noted unavailability of data only for SDG10 and SDG12, ESCWA indicated "insufficient data" for three additional goals (SDG13, SDG14 and SDG16) (Figure 18). However, SDG3 on health and SDG6 on water were found to have been achieved.

2.3.3. Domestic assessments, 2022 and 2023

The latest national assessment was presented in the Third Voluntary National Review (VNR2022). According to the

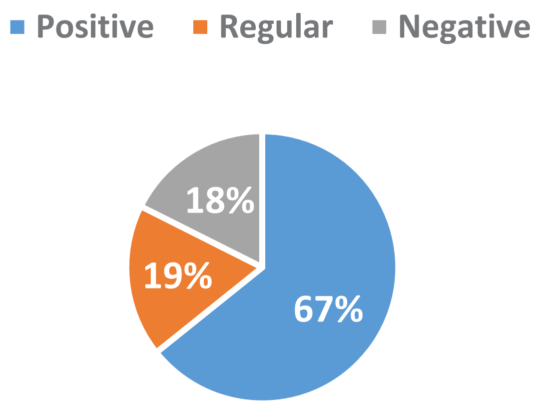
Figure 18. Progress assessment of the SDGs in the Arab States (%) and Jordan (right column) (2023 or latest)



Source: ESCWA (2023).

Review, Jordan has made progress in nearly 63 percent of the SDG indicators – a significant achievement (Figure 19). Among the remaining indicators, 18 percent were regressing and the rest were reported as "regular" (sic).

Figure 19. National assessment of progress in SDG indicators, 2022



The Review noted most progress in SDG9 (infrastructure and industry innovation), SDG6 (clean water and sanitation), SDG12 (responsible consumption and production), and SDG14 (life under water). Least progress was reported for SDG8 (decent work and economic growth) and SDG10 (reduction in inequality).

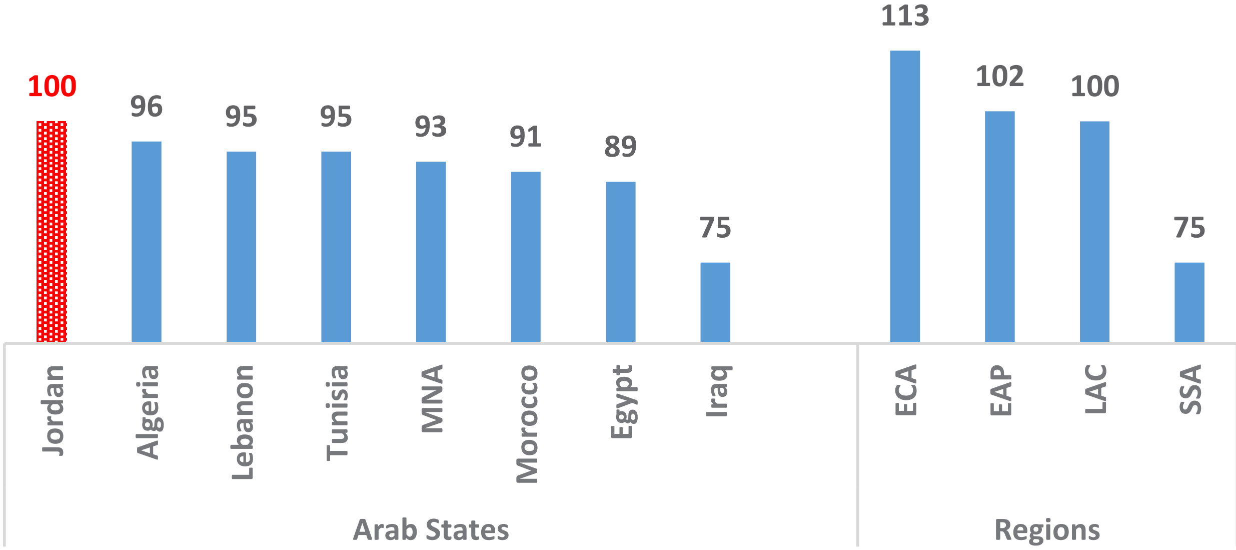
Another national report (Economic Modernization Vision 2023-33) reported that Jordan is at or below the fourth (lowest) global quartile with respect to FDI, quality of life and global knowledge, and in the third global quartile in terms of environmental performance, food security and social progress. These areas relate to most of the SDGs.

2.3.4. A selective comparison of the different assessments

There is agreement in all three assessments concerning lack of progress in SDG8 on decent employment and economic growth. There is also agreement between the global and regional assessments that SDG15 (life on land) is "off track". However, there are few similarities concerning many of the other SDGs. For example, the global assessment shows that SDG3 on health is stagnating, while ESCWA reports it as being on track by 2030. This is the case of SDG6 on water, too, receiving a negative assessment in the global assessment but a positive one by ESCWA.

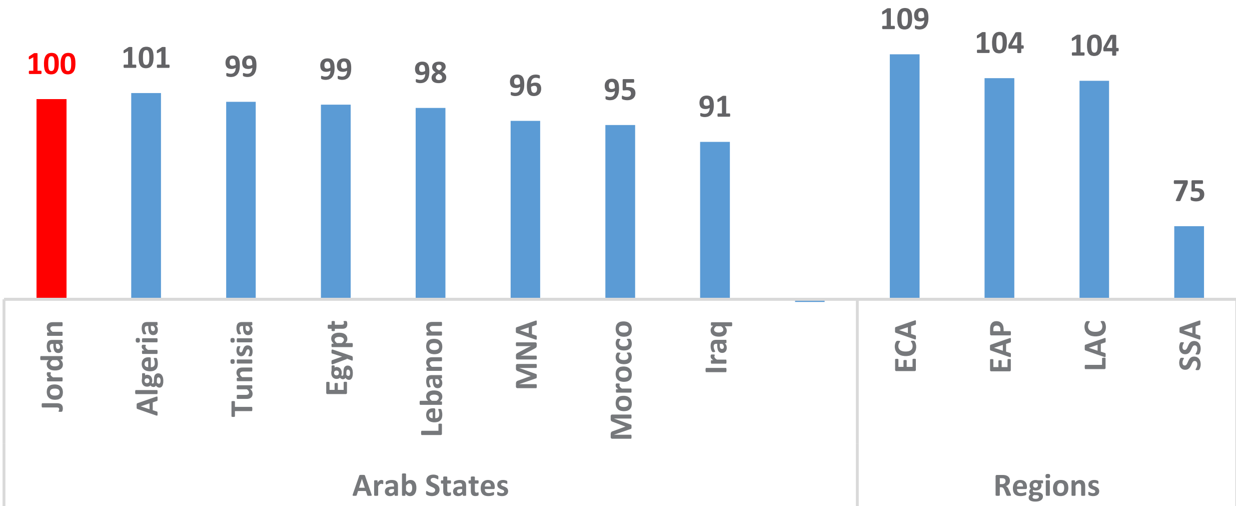
Most importantly, the change in the global assessment for SDG1 on poverty to being achieved in 2024 is puzzling (least as it comes post-COVID). A similar discrepancy applies to SDG10 (on inequality) that the global assessment shows as improving but VNR2022 noted the opposite while ESCWA states that information is unavailable. The global assessment gives SDG5 on gender lowest marks and stagnating. ESCWA indicates that gender equality is "in progress". The assessment of education is also mixed.

Figure 20. Value of Human Capital Index, 2020 (Jordan=100)



Source: World Bank (2020b).

Figure 21. Value of Human Development Index, 2020 (Jordan=100)



Source: UNDP (2022).

In some sense, the global, regional and national assessments so that Jordan's progress toward the SDGs has been mixed. Irrespective of progress in some SDGs or lack of progress in others, it should be noted that Jordan is a regional leader in terms of the Human Capital Index (Figure 20) and the Human Development Index (Figure 21). Concerning the HCI, its value is 0.54 for males but 0.59 for females.[42] And with respect to the HDI, its value had significantly increased to 0.74 in 2022 from 0.62 in 1990.[43] This is not a small feat for a small economy so exposed to external shocks.

Looking ahead, Jordan's higher achievement in the social sectors may be compromised due to the fiscal situation that has reduced the availability of funding for public spending. The discussion below examines the current situation and prospects for three SDGs related to the social sectors (poverty, inequality and gender equality) while the case of education and employment is addressed later.

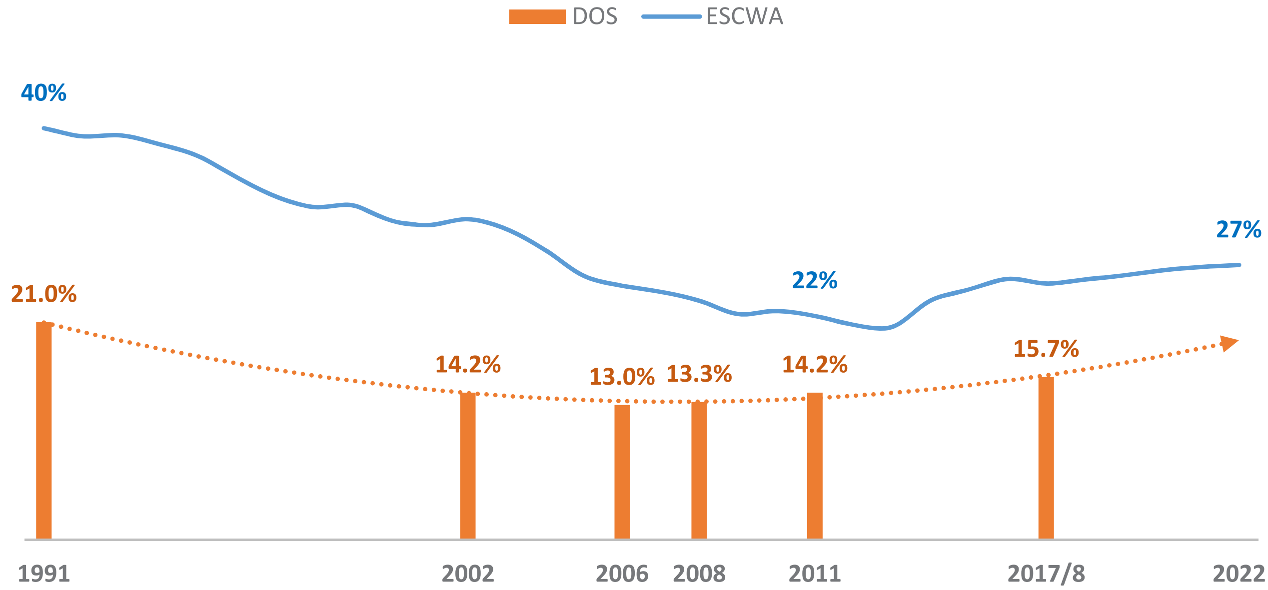
2.3.5. A closer look at SDG1 (poverty)

According to official estimates, the poverty rate (food and non-food) was 21 percent in 1990. It subsequently fell to 13 percent in the mid-2000s and stayed at approximately that level after the end of the economic boom (14 percent in 2011). Against the projection made in 2014 that the

[42] World Bank (2019).

[43] UNDP (2022).

Figure 22. Poverty rates, 1991-2022 (%)



Sources: DOS (National Surveys) and ESCWA (2023).

poverty rate will drop to 8 percent by 2025,[44] the rate increased within the next three years: In 2017-18, the official poverty estimate for Jordanians was estimated at 15.7 percent based on the latest Household Income and Expenditure Survey (HEIS). This estimate is higher than the 14.4 percent in 2010-11 but not comparable with the latter due to changes in the redesign of the survey (Figure 22).

ESCWA has constructed continuous series of poverty rates across different countries and the one for Jordan is included in the figure.[45] Though its estimates vary by the official ones by scale, the trend is similar: The poverty rate declined till the mid-2010s and then increased. In fact, for the early 20202 the two estimates are close to each as the then Minister of Planning and International Cooperation stated that the poverty rate had "temporarily" reached 24 percent attributing the increase to the impact of the pandemic.[46]

In the absence of official statistics, local references claim that the poverty rate is over 24 percent,[47] 35 percent[48] or even 40 percent.[49] Some attribute their estimates to non-existent information in the World Bank's Atlas of Sustainable Development Goals 2023.[50] This makes a compelling case for conducting surveys regularly to avoid misinformation. A follow up survey to the HEIS 2017-8 that began in October 2021 whose results were scheduled to be published in 2023 has been postponed and new results are not expected before 2026.

The increase in poverty is compatible with the macroeconomic deterioration since the mid-2010s, the decline in per capita income, the rise in unemployment, and the price effects on food and fuel prices. Also in the second half of the 2010s, the proportion of urban population living in slums, informal settlements or inadequate housing increased from 12.9 percent to 23.4 percent.[51] UNICEF estimated that many households live near poverty, and even a small shock to income or prices increases can bring them below the poverty line, with food security being of particular concern. A similar conclusion has been reached by the World Bank, that is, one-third of Jordanians are vulnerable to becoming poor, if subjected to adverse economic or climate shocks.[52] Food insecurity is more likely among female-headed households and is also linked to increased risks of domestic violence against women.[53]

[44] MoPIC (2015).

[45] For the methodology, see ESCWA (2023).

[46] Al-Mamlaka (2023).

[47] Al Aljouni (2023).

[48] Ersan (2024).

[49] al-Bashir (2024); Jordan News (2024a)

[50] Sanara News (2024).

[51] VNR2022.

[52] World Bank (2024b).

[53] World Bank (2023c).

The situation of refugees in Jordan is more precarious.[54] Nearly 70 percent of them are now considered to be poor, an increase from 57 percent in the past.[55] A comparison of household expenditures of Syrian refugees between 2013 and 2018, showed that the inequality has changed negatively affecting female-headed households compared to male-headed households.[56]

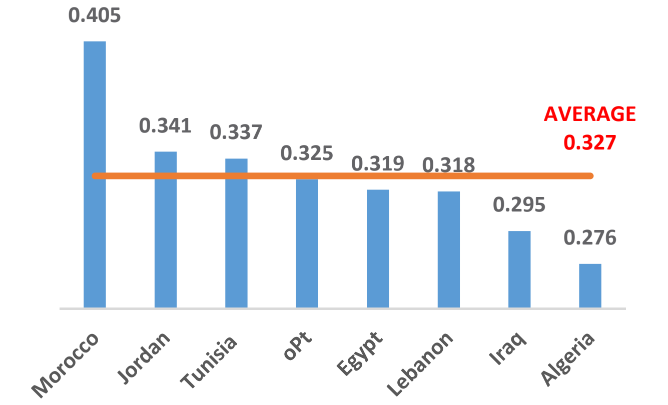
2.3.6. Reducing inequality: How elusive is SDG10?

Jordan has rather high inequality, the highest among comparable economies in the MENA region, save Morocco (Figure 23).[57] A value of the Gini below 0.30 generally signals low inequality. However, the Gini coefficient was reported to be 0.34 in 2006 – a level that at time was considered to be "an all-time low".[58] Its value remained practically the same in 2008 (0.33) and 2010 (0.34).[59]

The Gini reached 0.38 in 2014. At that time, a national target was set to reduce its value to 0.25 by 2025.[60] This apparently was an extremely stretched target. Such a reduction would have required a reallocation (tax) of 20 percent of the incomes of those of the top three income deciles to be transferred to those in the lower deciles.

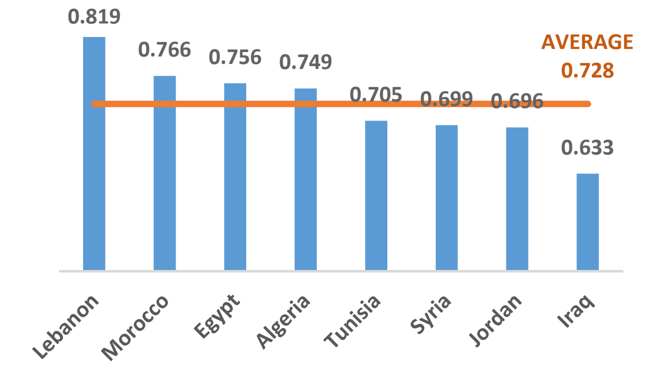
Jordan has the most equal distribution of wealth compared to other Arab countries, with the exception of Iraq (Figure 24). A regional study estimated the required "poverty-reduction tax" on the wealth of the top decile to eliminate the poverty gap. According to the study, a 1.2 percent tax on the wealth of the richest decile in Jordan would have been enough to eliminate the poverty gap. Since taxes are lower and generally do not target wealth but tend to be raised by the poor and the middle class more than the richest part of population, this may not be technically unfeasible. However, there may be a policy tendency to avoid high taxation to not create concerns among the better off "which would call for higher transparency and accountability".[61]

Figure 23. Gini index in selected Arab economies (latest available)



Source: World Bank (2024c).

Figure 24: Wealth inequality (value of Gini coefficient, 2020)



Source: Abu-Ismail and Hlasny (2020).

Redistributive policies may have small effects in the future, least because no significant rebound of economic growth is projected until the end of the decade. The HEIS 2016/7 reports that the Gini was 35.1 Gini coefficient and 29.3 points after accounting for the effects of fiscal policy. The largest fall is due to public spending on health and education (3.1 points). Direct cash transfers reduce inequality by 1.2 points. The significantly large expenditures on water and electricity subsidies combined reduce inequality only by 1.4 points. Personal income tax (PIT) marginally decreases inequality by 0.1 points compared with indirect taxes on goods and services increase inequality by 0.5 points. Given the accumulated arrears and increasing debt in the electricity and water sectors, and the doubling of spending on cash transfers program since the pandemic, additional social assistance and subsidies may be hard to be granted and contribute to any significant reduction in the value of the Gini.

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54 Verme et al. (2015).

55 World Bank (2024b).

56 Santamaria, Hanmer and Rubiano (2022).

57 The income share of top decile in total income has been rising over time and reached around 45 percent of national income in 2016 (ESCWA and ERF, 2019) while UN University data base shows that share to be more than 51 percent in 2023.

58 UNDP (2015).

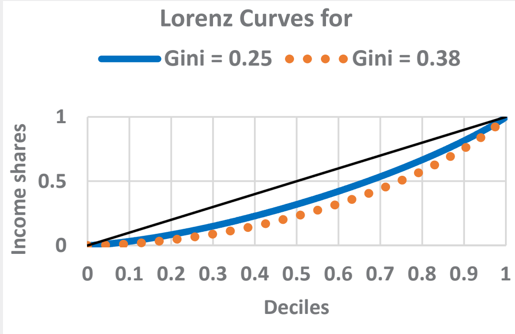
59 World Bank (2016a).

60 VNR2017.

61 Abu-Ismail and Hlasny (2020).

Box 1. How much does it take to reduce the Gini by 13 points?

Jordan set up the target to reduce the Gini coefficient by 13 points (from 0.38 to 0.25) between 2014 and 2025 (VNR2017). The estimation of the required income reallocation for such as reduction (noted as G38 and G25 in the graph below) is derived from the two Lorenz curves shown in the graph below. The Lorenz curves are a graphical representation of income distribution within a population, showing the proportion of total income earned by cumulative percentages of the population. The dotted line in the graph shows the Lorenz curve for G38 and the solid line, closer to the diagonal (perfect equality) shows the Lorenz curve for G25. According to the World Bank (2024e), a Gini with a value below 0.25 is only found in three countries in the world (Belarus, Slovakia and Slovenia), where the Gini is nevertheless more than 0.24.

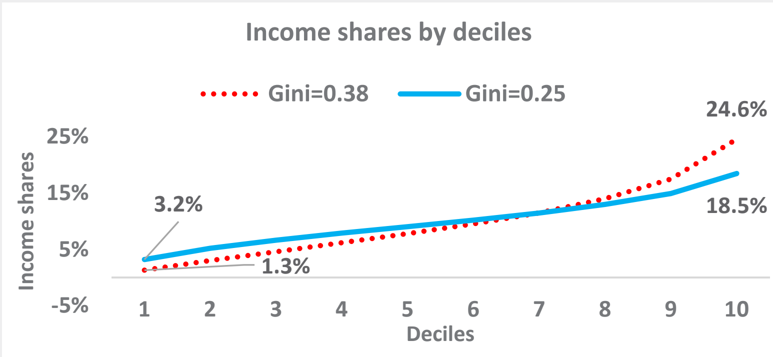


An alternative representation of inequality that, nevertheless, fully mimics the Lorenz curve and the Gini coefficient, consists of showing the share of income that different deciles (10 percent) of the population have. Accordingly, the graph below shows the population distributed in 10 deciles from the poorest to the richest (horizontal axis - from left to right). The percentage of total income each decile has is shown on the vertical axis. Let us assume that there are 10,000 people in the economy and total income is $10,000. So average income is $1/person.

According to the graph, decile 1 (the poorest) has only 1.3 percent of total income in the case of G38 but more than double that share in the case of G25 (3.2 percent). Conversely the respective shares for decile 10 (the richest) are 24.6 percent and 18.5 percent. This corresponds to an interdecile ratio (richest to poorest) that is more than six times bigger for G38 compared to G25 (approximately 19 versus 6). In fact, in the absence of specific information for Jordan, the Lorenz curves and G38 and G25 used in the present simulation were derived from drawing 10,000 observations from beta distributions with parameters such that the resulting Gini are 0.25 and 0.38 and the total income is 10,000[a].

However, in Jordan the incomes of those in the top decile of the income distribution are nine times higher than the income of those in the lowest decile (in 2017)[b]. The difference in Jordan is double or even more compared to those found in OECD member countries, and relates more to those more commonly found in Latin America[c].

How realistic it is to expect a reduction in G38 to G25, and in the short period of only one decade, can be examined by the amount of income that would be required to be transferred from the richer to the poorer people. In the graph, this relates to transfers from those in deciles 8 to 10 to those in deciles 1 to 6, as the income share of decile 7 is 70 percent.



The results suggest that the transfer should be nearly 10 percent of the total income in the economy (actually 9.7 percent as the transfer in our $10,000 economy should be $972). Given that the incomes of the top three deciles amount to nearly half of the total income in the economy ($4,638 of $10,000), this translates to a tax of 20 percent (in addition to any taxes this group pays). Conversely, this amount of transfer will increase the income of $4,216 that the lowest six deciles have by 23 percent.

In the Jordanian context, personal incomes taxes are 6 percent of the total revenues. As total revenues account for around 25 percent of GDP, the personal income taxes are 1.5 percent of GDP[d]. This compares with the required 20 percent in our simulation, assuming taxes would be paid by those in the top three deciles of the income distribution.

In terms of support to the poor, Jordan's National Aid Fund (NAF) cash transfer program is the largest program in terms of coverage of the poorest in the MENA region[e]. Since the pandemic, in Jordan the government has more than doubled the budget of the program to JOD240 millions[f] (0.7 percent of GDP or $70 in our $10,000 economy). This compares with 7 percent of our simulated transfer of $972.

The coverage of the National Aid Fund's monthly support increased from 97,000 households in 2018 to 220,000 households in 2023. As the typical household has 4.8 members[g], the coverage reaches around 9 percent of the population, and has reduced inequality by 0.7 percentage points being the biggest redistributive program of any program in the government's budget[h]. Still, the 9 percent of the population is a fraction of the 60 percent of the population simulated in our analysis that is required to reduce the value of the Gini from 0.38 to 0.25.

Recent cutbacks to humanitarian aid that Jordan receives, combined with an increase in utility rates and the effects of the ongoing stabilization program, are unlikely to reduce inequality before 2030.

Notes and Sources:
a/ The simulation was performed in R employing the "stats" and "ineq" packages, acknowledging that the Lorenz curve does not inherently follow a beta distribution. While the Lorenz curve can be influenced by different income distributions in different country settings, the Lorenz curve itself is not defined by any specific distribution.
b/ Kawar, M. et al. (2022).
c/ OECD (2019).
d/ CBJ (2024).
e/ World Bank (2024d).
f/ ibid.
g/ Jordan Times (2024a).
h/ Rodriguez and Wai-Poi (2021); Hasell (2023).

The results both of the simulation for reducing inequality reported in the text box suggest that required redistributive policies would involve substantial resources, may be politically resisted, and unlikely to be introduced soon given the persisting deficits, the already high level of and rising debt, and the increasing debt service. A stabilization program is bound to introduce austerity measures while revenues may continue to largely rely on the proceeds of regressive indirect taxation. In other words "income inequality has been always strongly present in Jordan" and may continue to be so in the near future".[62]

2.3.7. Advancing gender equality (SDG5)

In the mid-2010s Jordan had 25 identified legal differences between women and men in the economy, a number that then was the second highest in the world after Saudi Arabia that had 29 such differences.[63] Since that low point, there has been some significant progress.

In 2019, the Labour Law 1996 was amended by introducing the concept of "wage discrimination". It imposed penalties on the employers in case of discrimination and obliged them to establish a day care facility when there are 15 or more children under five years of age in a company's female and male workforce (previously the obligation existed only in the case of female employees). Previously, in 2010, the financing of maternity benefits had been shifted from employers to Social Security. In 2018, night work and sectoral restrictions for women were removed, and women can now choose, with the consent of the employer, flexible working arrangement adapted to personal and family circumstances. Though it is too early for these legal changes to have a discernible effect on the labor market, the VNR2022 stated that the proportion of Jordanian women in managerial positions has reached around 60 percent. The ILO reports that 48 percent of Jordanian women are in such positions, still a reputable figure.[64]

As shown in the discussion on education in the next section, the learning outcomes of girls have been improving and exceed those of boys. Between 2015 and 2020 the male rate pass rate at the Tawjihi, the final exam at secondary level, increased by less than 9 percentage points (to 54 percent) compared to the female rate that increased by more than 14 percentage points (to reach 68 percent).[65] In addition, girls outperform boys not only in literacy but also in math and science thereby negating the stereotype that male students outperform female students in the latter two subjects.

Another positive development has been that social views towards female education are changing. The percentage of respondents who agreed that "university education is more important for males than for females" dropped from 35 percent in 2006 to 15 percent by in a 2022".[66] The case of education is discussed in the next section.

3. Diagnosing the drivers and obstacles to economic development

3.1. Education

Education has been an asset to Jordan.[67] To its credit, Jordan considers primary education to be more than just six years until the age of 12, and extends "basic education" to ten years until the age of 16.[68] This is followed by two years of secondary education at the end of which students go through a very competitive General Secondary Education Certificate (Tawjihi) that, if passed, enables entrance to post-secondary and tertiary education, public and private community colleges or universities.[69] Another route to tertiary education is through completing vocational or technical education, provided students pass some additional subjects. Students can also be admitted to higher education on the basis of other criteria, such as being grant beneficiaries, holders of foreign certificates, or children of Jordanian women.[70]

Compared to other neighboring countries in the Middle East, the curriculum in Jordan dedicates less hours to Arabic language and Islamic education and more to foreign languages (save Lebanon, albeit only marginally) and math and sciences, save again Lebanon and also Palestine (Figure 25).

Learning scores of Jordanian students have on average

[62] Ramadan (2021).

[63] World Bank (2016b).

[64] Buchholz (2024).

[65] VNR2022.

[66] Arab Barometer, Wave VII (2021-22).

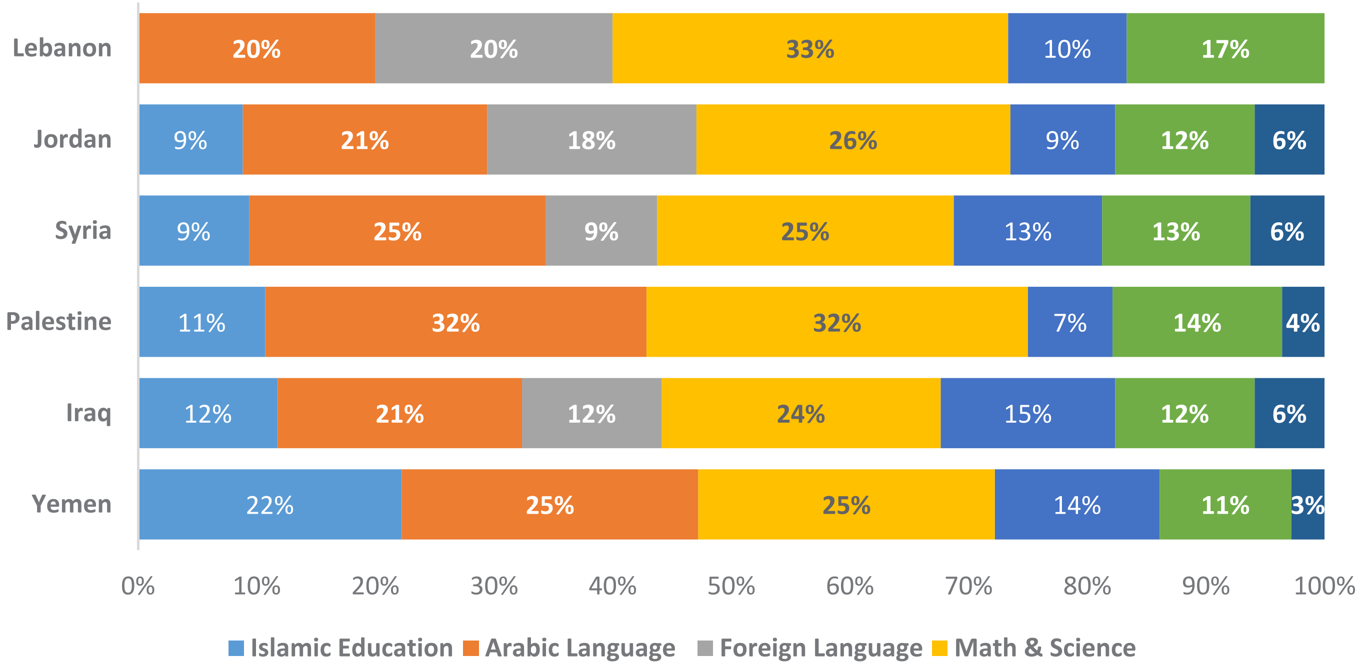
[67] Jordan Times (2024b).

[68] In addition, two-thirds of children participate in organized learning one year before the official primary school entry age (VNR2022).

[69] Jordan Times (2022c)

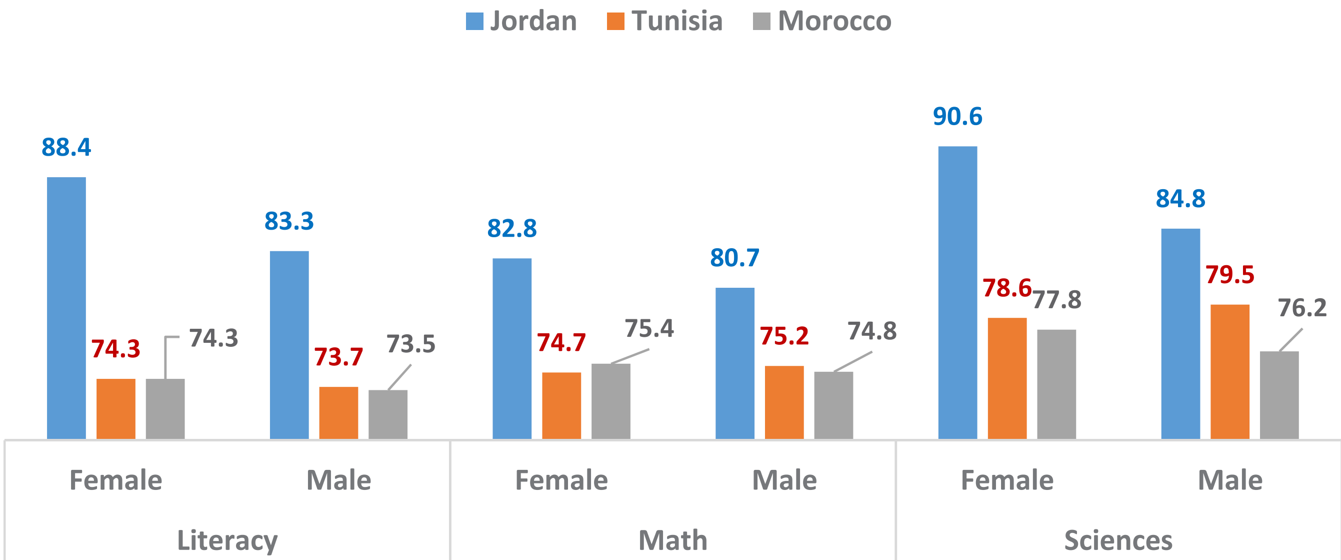
[70] Of the 46,000 students enrolled in universities in 2022, 5,500 (12 percent) were admitted on the basis of these other criteria (Jordan Times, 2022c).

Figure 25. Percentage of teaching hours allocated to different subjects (last grade of basic education)



**Civics (including History and Geography. **Recreational (Physical Education, Arts and Music)*
Source: Author's compilation based on World Data on Education, International Bureau of Education, UNESCO

Figure 26. Relative performance of 15-year old students on PISA (Index OECD=100)



Note: Figures in squares indicate the relative performance (advantage, in percent) of females over males in Jordan.
Source: Author's compilation based on the Program for International Student Assessment (PISA: 2018).

been above those of comparator countries (for example, see Figure 26). And while in Morocco the Tunisia gender differences are mixed, in Jordan girls outperform boys in all three subjects. In Jordan learning poverty is higher for boys than for girls. This is due to the higher share of boys being out of school compared to girls (5.2 percent versus 2.8 percent) and boys being less likely to achieve minimum proficiency at the end of primary school (52.8 percent compared to 46.7 percent for girls). The Learning-Adjusted Years of Schooling is 8.1 years for females compared with 7.2 years for males.[71] The progression rate from basic to secondary education is in the upper 90s, and the pass rate at Tawjihi is nearly two-thirds.[72] Jordan has one of the highest literacy rate among Arab countries, partly reflecting high past rates of enrolment. In 2021, enrolment rates were 98 percent in

[71] World Bank (2019).

[72] Jordan Times (2022b).

basic education level, 78 percent in secondary education level, and 34 percent at higher education level.[73] Tertiary enrolment today is 50 percent higher than what it was in 2004.

The role of private education has been increasing over time. At basic and secondary education levels, by 2021 there were 4,000 public schools and 3,500 privates.[74] Private institutions have also increased fast at tertiary level. The first university (University of Jordan) was established in 1962 and the first private university (Amman University) in 1990. By now there are 20 public universities and 19 private universities. In total, the number of post-secondary institutions has reached more than 100 equally shared between universities, some of which have multiple branches in different cities,[75] and community colleges that offer 2-year intermediate-level courses mainly in applied fields.[76]

The increase in the share of private education at all levels is suggestive of both the fiscal constraints Jordan has been facing for some time and the willingness of households to invest in their offspring's human capital, often with a view to migration given the slow employment creation domestically.[77] The annual output from universities is around 70,000 that is nearly double the number of job openings for graduates. Accordingly, the Higher Education Council has adopted measures to limit subjects that are not related to labor demand, including a decision to reduce admission to such subjects in all public universities by 50 percent.[78]

The relatively high outcomes of the education sector are facing some worrisome trends that can compromise progress toward the achievement of education SDG4. Public spending on education has been reduced over time, from 5-6 percent of GDP in the early 2000s to 3 percent in 2019. Since the 1990s, the share of education spending in the budget has declined from 22 percent to 10 percent. In 2024, the budgetary allocation to education was lower than that servicing the public debt.[79] In PPP terms, primary education expenditure per child of primary education age in Jordan is 75 percent below the average for the Middle East and North Africa region and 39 percent below the average for upper middle-income countries.[80]

The education sector has lost some of its momentum due to significant differences in the quality of education provided by private institutions.[81] One example is that more than 73 percent of public schools have computers for educational purposes, but this share is only 50 percent among private schools.[82] The performance of Jordanian students in international comparative tests has been declining over time. The results of the Trends in International Mathematics and Science Study (TIMSS) that assesses the mathematics and science knowledge of students around the world show that in 1999 Jordanian students scored 50 percent above the least performing country, but the gap has narrowed since.[83]

Students coming from low-income households have lower probability to continue their education past the basic level, and those who continue their studies subsequently have lower learning scores.[84] Lower enrolments and lower learning outcomes have adverse implications for future productivity gains domestically and the ability of Jordanians to work abroad whose remittances reached nearly 20 percent of GDP in the early 2000s though they have recently been reduced to less than 10 percent.[85]

The Human Capital Index shows that 52 percent of 10-year-olds in Jordan endure "learning poverty". This implies that

[73] EMV2033.

[74] Though private schools are almost as many as public schools, respective enrolments were 0.5 million versus 1.5 million (EMV2033).

[75] List of Universities in Jordan, at https://en.wikipedia.org/wiki/List_of_universities_in_Jordan

[76] Reported at https://www.jordaneducation.info/higher-education

[77] In worldwide comparisons, Jordan University's best rank is 498th according to The QS World University Rankings 2023, but 1390th according in *The Center for World University Rankings* (2022) with many other rankings falling within this range. *The Times Higher Education* ranked Jordan University 201st in its Asia University Ranking (2024) and 601st in its global rankings (October 2024). In the ShanghaiRanking (August 2024) the University of Jordan was ranked 801st. The rankings take into account a combination of criteria other than academic outcomes and in varying weights, for example, between employer's reputation, job outcomes of alumni, international faculty and student ratios as well as student/teacher ratios. See https://www.universityguru.com/university/university-of-jordan-amman

[78] Jordan News (2022).

[79] See Table 3; JSF (2023b).

[80] World Bank (2019).

[81] EMV2033.

[82] VNR2022.

[83] Tzannatos and Saif (2023).

[84] Salehi-Isfahani et al. (2014).

[85] Gonzalez and Winkler (2019).

more than half of these children have difficulty to read and grasp a basic text by the end of primary education. This percentage outstrips the regional average for learning poverty (48 percent) and the average for Jordan's income group (38 percent).[86]

The discussion suggests a regression in the progress towards SDG4. This is what is more accurately noted in the 2024 global assessment of progress toward the SDGs. It raises an additional issue regarding how Jordanians view their education system. The share of those satisfied with the quality of their education (at 61 percent) is lower than in other countries in the MENA region.[87]

3.2. Health

Like education, Jordan has an established record in the area of healthcare. The increase in life expectancy to its current 76 years from 53 years in 1960 can serve as a summary statistic to this effect. Other health indicators match or exceed those of comparator countries, as Jordan has made significant strides in reducing child and maternal mortality, malaria, tuberculosis, polio, and the spread of HIV.[88] Today practically all births are attended by skilled health personnel. Jordan is considered to be a regional leader despite the squeeze of public funds following the increase in the debt burden. Employment in the sector accounts for nearly 5 percent of total employment.[89]

Also, like in education, there has been a gradual shift towards private provision with 70 of the 122 hospitals being private though the number of beds is split equally between public and private hospitals. The increasing share of private provision of healthcare has resulted in increased private spending. According to the latest Voluntary National Review (2022) "the proportion of the population with large household expenditures on health as a share of total household expenditure" has increased from 2.3 percent in 2013 to 6.2 percent in 2020. Between these two dates, the proportion of households that spend on health more than 25 percent of their income has more than tripled from 0.4 percent to 1.3 percent.

The presence of the private sector is strong in the production of pharmaceuticals where more than 20 companies are able to export 70 percent of the production of medicines to more than 70 countries, thereby contributing positively to exports and the economy.[90] Jordan had a swift and substantive response to COVID-19 despite the fact that it also caters to the medical needs of more than one million Syrian refugees.

Jordan also has a strong record in health tourism across the region due to its skilled human capital and modern hospitals. Medical tourism is a substantial subsector that attracted around 250,000 foreign patients annually and over $1 billion in revenues before the pandemic, though this number was reduced to nearly 195,000 in 2023, still a big number.[91] The government's policy to prohibit the import of used and refurbished medical devices and the requirement for imported medical devices to meet international certification standards is contributing to the reputation of the health sector.[92] The government's plans to expand the "e-health initiative system", the introduction of health strategies and continuously updated policies show the commitment to advance and sustain progress of the health sector.

The institutional framework of the healthcare sector separates the roles of the regulator and service provider. However, according to official assessments the sector faces issues related to governance, accountability, and differences in the quality of care between the public and private sectors. The focus of the health sector is more on treatment rather than prevention and wellbeing. Healthcare financing is deemed to be unsustainable as it lacks clear service packages and alternative funding sources. With reference to 2018, the budgetary allocation to health has increased by 10 percent compared to 70 percent for serving the debt. Two additional issues include, first, the slow rate of digital transformation that still is limited to electronic medical records. And second, productivity that is 30 percent below the country average while it is expected that there will be scarcity of human resources and competence in view of the growing needs

[86] World Bank (2019); Al-Aljouni (2022).

[87] The other countries for which information is available are 63 percent in Lebanon, 65 percent in Kuwait and Saudi Arabia, 67 percent in Palestine reaching 72 in Qatar and 83 percent both in Bahrain and the UAE. In terms of opinions on the alignment of the knowledge provided by universities with labor market requirements only 9 percent of Jordanian students feel that the education is highly effective compared with 22 percent in Morocco, 35 percent in the UAE though only 4 percent in Tunisia (UNDP, 2014).

[88] UNDP (2022), VNR2022.

[89] EMV2033.

[90] Private Hospitals Association (2022).

[91] Weldali (2024).

[92] US International Trade Administration (2022).

of the sector.[93]

3.3. The labor market

Jordan's labor market is shaped by several characteristics, one of them being the smallness of the real economy relatively to the resident population, Jordanians and non-Jordanians. This creates an excess labor supply and leads low wages. In turn, job seekers face three options: first, to accept whatever employment is locally available (both men and women); second, to remain unemployed (mainly women); and third to emigrate (mainly men). The first two cases are discussed below. Concerning the third, Jordan has one of the highest skilled emigration rate in the world at around 50 percent.[94] Jordanian workers in GCC countries alone, are estimated to be 236,000 in Saudi Arabia, 170,000 in the UAE and 70,000 in Kuwait.[95] Unsurprisingly, among residents, 48 percent expressed a desire to emigrate permanently in 2022, mainly for economic reasons (93 percent of them).[96] The corresponding figure was only 27 percent in the middle of the economic book, in 2006.[97] While there are many, often competing, microeconomic hypotheses for the pathologies of the Jordanian labor market, much is driven by the macroeconomic situation and the characteristics and slow growth of the private sector.

3.3.1. Unemployment: Structural, high and increasing

The labor force participation (economic activity) rate has been declining over time and unemployment has been persistent. The "refined" activity rate has been reduced by 13 percent since 2009, from nearly 40 percent to just over 34 percent. The unemployment rate has been between 12 and 14 percent, a relatively big number that refused to go lower even during the high growth decade of the 2000s.[98] It had already reached 19 percent before the pandemic during which it peaked at 25 percent in 2020. The latest available data show that the unemployment rate is 21.4 percent (Q1-2024), following the trend established before the pandemic. This suggests that unemployment is persisting and more of a structural issue than a temporary one.

3.3.2. The composition of unemployment: Female and youth or male and adult?

Another factor suggesting that unemployment is structural is the composition of unemployment. Despite the fact that Jordanian women have higher unemployment rates than Jordanian men, they comprise only 30 percent of total unemployment. In other words, the number of unemployed Jordanian men is more than double that for Jordanian women.[99] Moreover, the unemployment rate has increased much faster for men than women since the end of the economic boom of the 2000s. This has also been the case more recently: From 2018 to 2022, the number of unemployed Jordanians increased by 73,000 for men and 24,000 for women, while total employment creation increased by 61,000 for all men and 63,000 for all women. So, unemployment is not "mainly a gender" issue though it is important for Jordanian women, their families and the economy.[100]

As in the case of female unemployment, the youth unemployment rate is also high (at 50 percent) but most unemployed Jordanians are adults.[101] ILO's school-to-work surveys suggest that the main reason for youth unemployment is perceived to be lack of jobs – as reported by nearly 50 percent of survey respondents. They also reveal that the youth are not "picky" demanding high wages as the combined reason of "too low wages and poor work conditions" attracted responses only by 17 percent of respondents.[102] Adding to the proposition that unemployment is structural is the finding that, other than education, only trade openness and the share of foreign direct investment in GDP show a statistically significant (negative) association with youth unemployment, this finding not being unique for Jordan.[103]

In line with the above findings, respondents in the Arab Barometer VIII cited the biggest economic issue facing Jordan to be lack of jobs (32 percent) compared to 20 percent who reported low wages (20 percent). An even higher share of respondents, 37 percent, flagged that the

[93] EMV2033.

[94] Kawar and Tzannatos (2012); OECD (2014).

[95] VNR2017.

[96] Arab Barometer, Wave VIII (2023-24).

[97] Arab Barometer, Wave VII (2021-22).

[98] Razzaz and Iqbal (2008).

[99] Kawar and Tzannatos (2017).

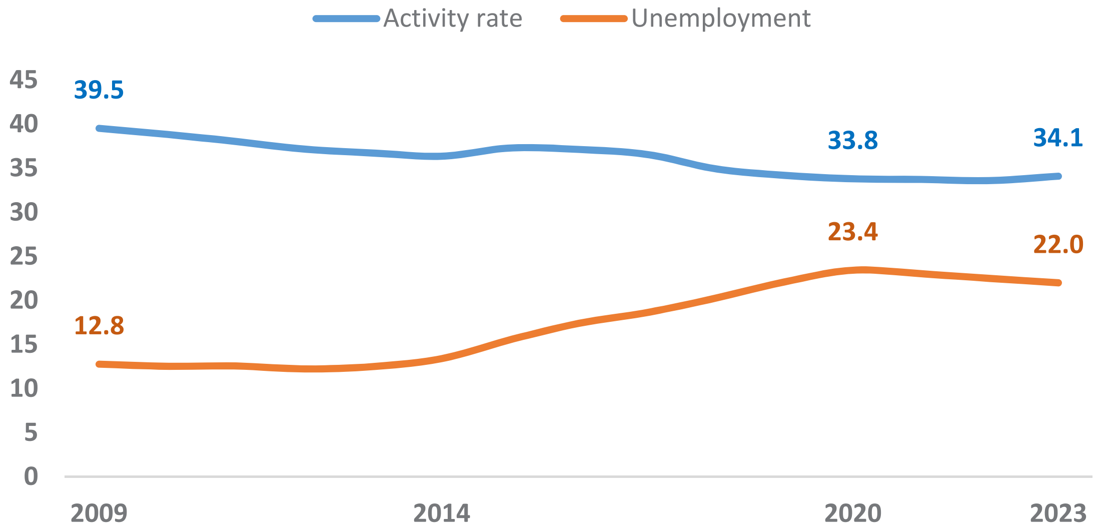
[100] Tzannatos (2022).

[101] Kawar and Tzannatos (2017).

[102] Source: ILO (2014).

[103] Farzanegan and Gholipour (2021).

*Figure 27. Activity rate and unemployment rate, 2009-2023 (%) **



**Refined Economic Activity Rate (the ratio rate labor force to the population 15 years and over); Moving average (3-year) for both rates*
Source: Department of Statistics

most important policy priority for the government is to create jobs.

Another indication of the structural nature of unemployment is the type of jobs that are in demand. When employment increases, private sector employers tend to increasingly recruit non-Jordanians.[104] Between 2010 and 2016 more than half of jobs were offered to non-Jordanians.[105] By the end of 2010s, the employment share of non-Jordanians in total employment had (officially) increased to more than 30 percent from less than 5 percent in 2003. In the mid-2010s, two-thirds of officially estimated 660,000 non-Jordanian workers were employed in the informal sector accounting for 30 percent of the total labor force. Their share in total sectoral employment was 48 percent in agriculture, 41 percent in construction and 37 percent in manufacturing, which were the three the fastest growing sectors outside the public sector. In addition to their increasing numbers, the share of non-Jordanian workers with primary or less education has increased by 10 percent between 2004 and 2015.[106] However, it seems that non-Jordanians are making inroads into formal employment: Although non-Jordanians are more likely to have informal employment and to work longer hours than their Jordanian counterparts, these differences have receded over time: In 2016, non-Jordanians were 17 percent more likely to be in informal employment than Jordanians (down from 26 percent in 2010) and worked an average of 15 percent more hours per week (equivalent to 7 more hours per week) than Jordanians (down from 17 percent in 2010).[107] The recourse to foreign labor having low skills and being paid low wages has coincided with an increase in unemployment even among members of middle-class households.[108]

In conclusion, unemployment in Jordan is mainly a macroeconomic symptom resulting from low economic growth and weak private sector development. Even if all female unemployment were eliminated, nearly 70 percent of the unemployed will remain unemployed being men. Moreover, even if all youth unemployment were to be eliminated, 57 percent of the unemployed will remain unemployed being adults.[109]

3.3.3. Is unemployment the result of skill shortages and mismatches?

The private sector in Jordan is in some accounting sense short of skills as many educated workers emigrate. If this were true in an economic sense, wage differentials between different levels of education/skills would have been increasing. However, wage differentials have shown

[104] While much emphasis has been given to the presence of Syrians post-2011, estimated at around 1.4 million in a total population of 11.3 million (2022), the official statistics classify 3.6 million residents as non-Jordanians (Ministry of Labor, 2023).

[105] Krafft and Assaad (2018).

[106] Gonzalez and Winkler (2019).

[107] National Social Protection Strategy (2019).

[108] Tzannatos and Saif (2023).

[109] Kawar and Tzannatos (2017); Tzannatos (2022).

a tendency to narrow between low-wage and high-wage earners.[110] Accordingly, the returns to education, also to experience, have been declining over time implying that there is no adequate demand for skills by the private sector where production is shifting into lower value-added activities over time.[111]

Despite claims around skills shortages and mismatches, only 8 percent of Jordanian executives have been reporting inadequately educated workforce compared to 10 percent among Arab states and 12 percent in Morocco.[112] The share of the Jordanian workforce who are deemed to be underqualified (around 10 percent) is the lowest among other Arab countries.[113] This is low as such and also lower at the top end of skills (such as includes legislators, senior officials, managers and professionals). The highest rates of under-qualified workers were found among skilled agriculture workers (42 percent) that is dominated by migrant workers, followed at a distance by plant and machine operators and assemblers, craft and related trade workers, technicians and associate professionals with the share in each group being 20 percent or lower. In other words, Jordan has a shortage of low skills.

Another statistics confirming that skills is not a binging constraint is the share of Jordanian firms that offer formal training. This share is among the lowest in the world (Figure 28).[114] Other surveys have also found that in Jordan workers perform significantly fewer tasks than those "the jobs of the future" require that demand non-routine interpersonal and analytical skills. Even among higher-skilled occupations, such as managers, professionals and technicians, non-routine analytical and non-routine interpersonal tasks are limited in Jordan compared with other countries.[115]

3.3.4. Not much role of wages

At the macro level, the wage share is low. Jordan's wage share in GDP only is 37 percent compared to 44 percent in Morocco and 46 percent in Tunisia. The wage-to-productivity ratio is 42 percent compared to 45 percent in the MENA region and the much higher percentage in other world regions.[116] Still, this does not mean the employers can easily pay higher wages as this will depend on their level of profits. As production is dominated by usually family-owned micro- and small- enterprises, the possibility of being granted higher wages is reduced. From a social perspective, wages are low to sustain households, as there is typically only one working family member per household.[117]

In the private sector, wages at the lower end are much determined by the minimum wage policy. Though after consultation with employers' and workers' organization, it is the Ministry of Labor that makes the final determination. As private sector wages have been under pressure due to the excess supply of Jordanians and the presence of non-Jordanian workers, the government has kept increasing the minimum wage above the rate of increase in per capita incomes.[118] At the same time, the prescribed minimum wage for non-Jordanians has been set at lower levels while certain sectors, like agriculture, have remained uncovered. This explains why "the minimum wage has been reasonably effective in improving the position of low paid [Jordanian] workers relative to the overall labor workforce",[119] and the narrowing of the wage differential between the less and more educated workers. As a result, the increases in the minimum wages have not raised the overall level of wages in the private sector, which have been stagnant since the end of the economic boom in the late 2000s.

Wages and salaries in the public are higher than in the private sector and have been increasing over time. In addition, public sector employment has been seen as an employer of last resort though its share in total employment is now almost half of what it was in the 1970s (30 percent compared to 60 percent). Still, public sector employment increased annually by more than 3 percent between 2011 and 2017.[120] Effectively, public sector employment, as well as pensions, serve as social protection for a significant part of the population. This has translated into growing expenditures on public wages and salaries as well as pensions overtime thereby contributing to increases in the

[110] Galal and Said (2019).

[111] National Social Protection Strategy (2019); Kawar et al. (2022).

[112] Tzannatos, Diwan and Abdel Ahad (2024).

[113] ILO (2015).

[114] Hertog (2023).

[115] EIB, EBRD and World Bank (2022).

[116] For example, the ratio of wages to productivity is 53 percent is South Asia (Gonzalez and Winkler, 2019).

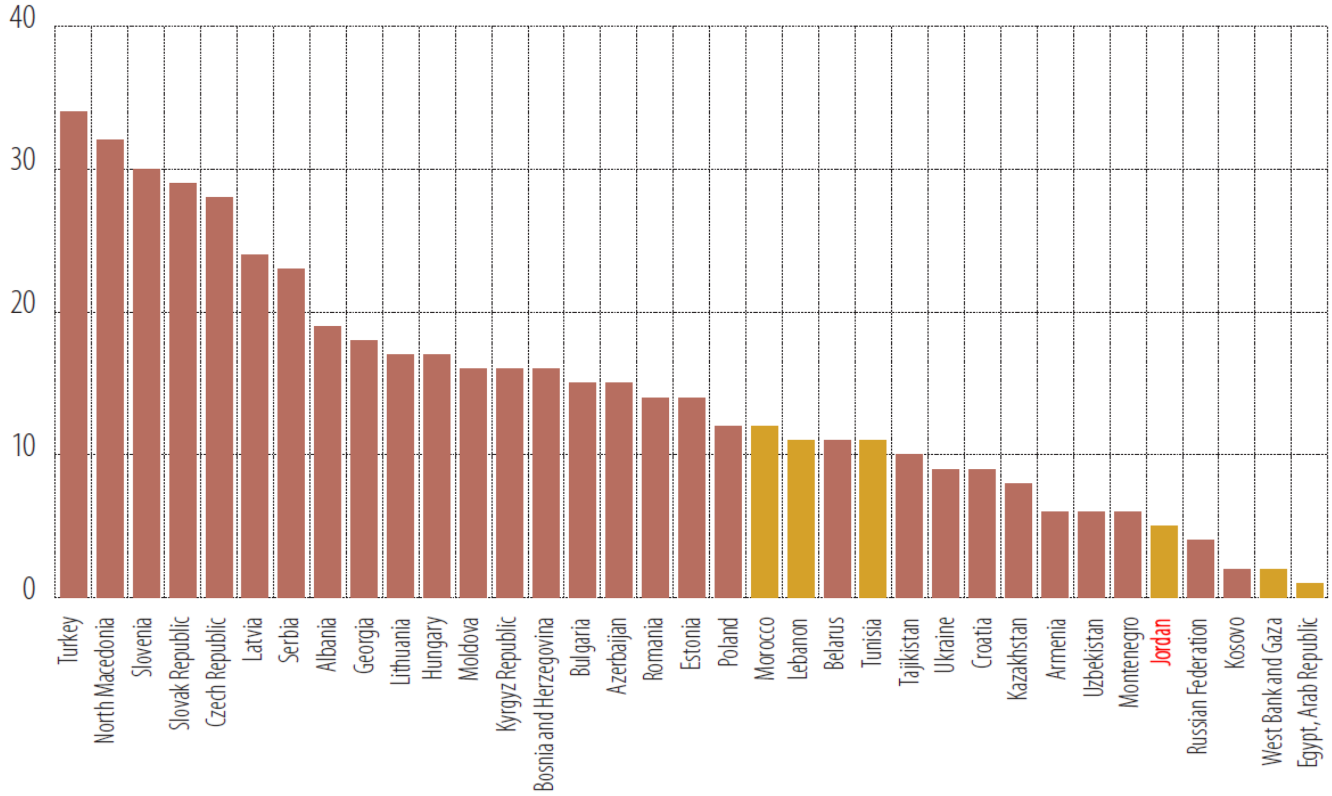
[117] Kawar et al. (2022).

[118] The minimum wage was introduced in 2002 at JOD85/month and has since been rasied to JOD95 in 2005, JOD110 in 2006, JOD190 in 212, JOD220 in 2017, and JOD260 in 2021 (Mansur 2021). In February 2003, the Trilateral Labour Affairs Committee decided to keep the minimum wage at JOD260 to be reconsidered in 2025 (Al Muheisen (2023).

[119] ILO (2013).

[120] Gonzalez and Winkler (2019).

Figure 28. Percentage of workers offered formal training



Note: Arab countries in lighter color
Source: EIB, EBRD and World Bank (2022) based on enterprise surveys.

fiscal deficit.

Overall, the direct role of wages mainly applies to the public sector and the formal part of the private sector that is covered by minimum wages. This affects indirectly the remaining part of the labor market that is composed, on the one hand of informal employment in the presence of non-Jordanian workers and, on the other hand, of Jordanians employed in private sector under company contracts that reflect the conditions of excess labor supply and pay low wages. In the mid-2010s, two-thirds of officially estimated 660,000 non-Jordanian workers were employed in the informal sector accounting for 30 percent of the total labor force. Their share in total sectoral employment was 48 percent in agriculture, 41 percent in construction and 37 percent in manufacturing, which were the three the fastest growing sectors outside the public sector. At the same time, there were an estimated 236,000 Jordanians working in Saudi Arabia, 170,000 in the UAE and 70,000 in Kuwait.[121]

[121] VNR2017.

3.3.5. The underutilization of Jordanian womanpower

The female labor force participation rate at around 15 percent is among the lowest in the world. This persisting low rate is somewhat paradoxical as the fertility rate has declined from 8 births per woman in the 1970s to 2.7 births today. A likely explanation is that the economy is not generating jobs what would have been accepted by Jordanian job seekers even at the current low wages. While legal, social, cultural and institutional factors can play a role, the prime reason for women's low presence in the labor market can be said that it is structural, that is, the economy does not generate enough jobs.

Like in the case of youth, the prioritization of employment over higher wages also applies to women. The most commonly cited barrier for women's employment is lack of jobs (27 percent) compared to 16 percent reporting low wages, and 14 percent citing bias against women.[122] In ILO's youth surveys, gender discrimination is perceived to be the least important reason for young women getting a job (reported by 3 percent of males and 7 percent of females). This again suggests that the problem lies more on the demand side of the labor market (lack of jobs) than on the supply side (high reservation wages by "picky" female job seekers).

The situation of Jordanian women in the economy has implications for both economic growth and inequality. Some estimates bring the output (GDP) loss from the low female labor force participation to as high as 20 percent to 50 percent in the longer run, one of the highest in the world.[123]

In terms of inequality, women from poorer households are affected most as the data show that their employment gains over time have been lower and unemployment rates are higher compared to women in better off households. The labor force participation rate and the unemployment rate for women in the top decile of the income distribution respectively were 46 percent and 9 percent compared to 9 percent and 13 percent among those in the lowest decile.[124] These differences affect not only the SDG5 on gender but also overall inequality in the economy (SDG10).

While the role of women in the economy and reforms to support female labor force participation cannot be overstated, an increase in women's employment may not come before the labor market slack is taken up by sustained growth, mainly by the private sector. Attempts focusing to reduce female unemployment without addressing unemployment as structural macroeconomic issue to be resolved through economic growth are unlikely to succeed.

[122] Arab Barometer, Wave VIII (2024).

[123] Cuberes and Teignier (2012); Fiuratti, Pennings and Torres (2024). At the existing level of capital stock, eliminating the gender wage and employment gaps, the output gains have been estimated to be 6 percent of GDP, again one of the biggest gains in the world Tzannatos (2006, 2016).

[124] Tzannatos and Saif (2023).

3.4. Institutional development

3.4.1. Governance

Jordan has relatively advanced institutions and enjoys political stability compared to its neighboring countries and has been noted for having one of the best institutional resilience in the Middle East and North Africa region.[125] It has made strides in institutional development over time and especially since it adopted, with donor support, the Reform Matrix 2019. The areas of focus include procurement, the implementation of a governance framework for Public Investment Management-Public Private Partnership (PIM-PPP), improvements in regulatory practices to reduce uncertainly in the business environment, the adoption of evidence-based and predictable rulemaking through conducting ex ante and ex post impact assessments for selected legislative instruments, as well as the digital transformation of government services. As of mid-2024, 80 percent of the envisaged reforms and policy actions have been completed with the remaining 20 percent being in progress.[126]

The crucial area of FDI falls under the Ministry of Industry since 2021, and before the Jordanian Investment Commission (JIC). Its responsibility is to promote and facilitate foreign investment. The Ministry also functions as a support agency for promoting exports. Its services include the provision of information to foreign investors on investment opportunities in Jordan, the management of registration and license of economic activities (including the free zones), granting incentives, and offering after-care services.[127]

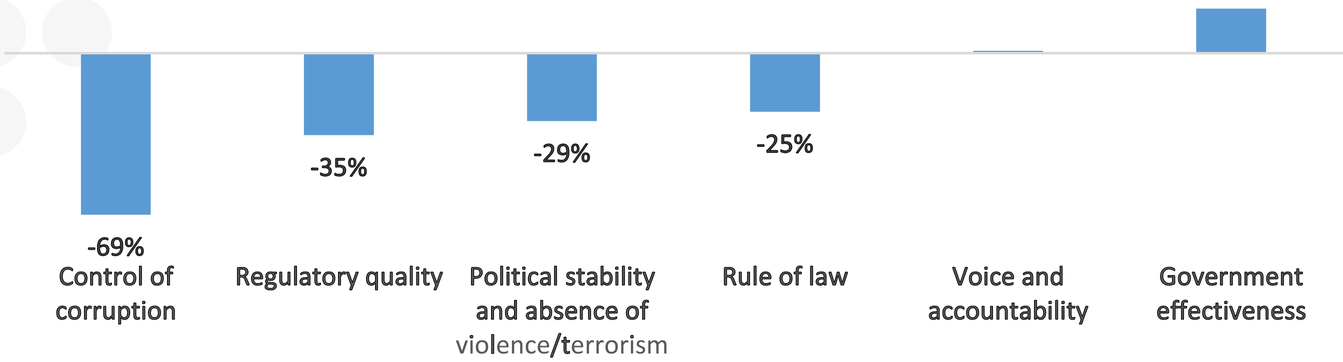
Government effectiveness has improved, and significantly so, since 2010. However, there has been a deterioration for most of the other dimensions of governance included in the Worldwide Governance Indicators (Figure 29). The decrease in the corruption indicator has been the biggest one, nearly by 70 percent. Concerning the indicators for political stability and the rule of law, the decline has respectively been nearly 30 percent and 25 percent. Regulatory quality has declined by over one-third but has

[125] World Bank (2020a).

[126] MoPIC (2023b).

[127] OECD (2022).

Figure 29. Percentage change in the governance indicators in Jordan 2010 to 2022



Source: World Bank: Worldwide Governance Indicators.

been increasing in the last three years, after the country started implementing a substantial stabilization program supported by the IMF and several donors. None of these three indicators has regained the level it was at during the 2000s. The change in voice and accountability has been minimal.

3.4.2. The institutional setup for the SDGs

With the advent of the SDGs in 2015, Jordan developed a Roadmap to implement the 2030 Agenda on Sustainable Development.[128] The Agenda was to be supported by a long list of strategies, frameworks, policies, and plans (see Annex 2), including an accompanying Executive Development Program (EDP). It aimed to create ownership of the SDGs, incorporate them in national policy frameworks, coordinate the institutional mechanisms and monitor progress with a focus on the "*5 P's*", namely, people, the planet, prosperity, peace and security, and partnerships.

The first National Voluntary Review (VNR2017) aimed to advance and integrate the ambitious 2030 Agenda into the existing governmental and institutional frameworks to avoid duplication and the creation of new mechanisms. The next review (VNR2020) established several permanent task forces to monitor and review efforts and progress to achieve the SDGs. A third Review (VNR2022) reaffirmed Jordan's commitment to the SDGs, further integrated the 2030 Agenda into existing governmental and institutional frameworks and added new ones. By then the *Government's Indicative Executive Programme* 2021-2024 (GIEP) noted that the program "is the most ambitious yet in terms of the extent to which it integrates the SDGs" with added supportive plans and policies. Also in 2022, a Voluntary Local Review (VLR) for the capital city of Amman was a first step for integrating a more local dimension into the SDGs that would pave the way for other cities for the SDGs integration at local levels.[129] Many of these initiatives have been included in the all-embracing Economic Modernization Vision 2033 that includes more than 350 initiatives.

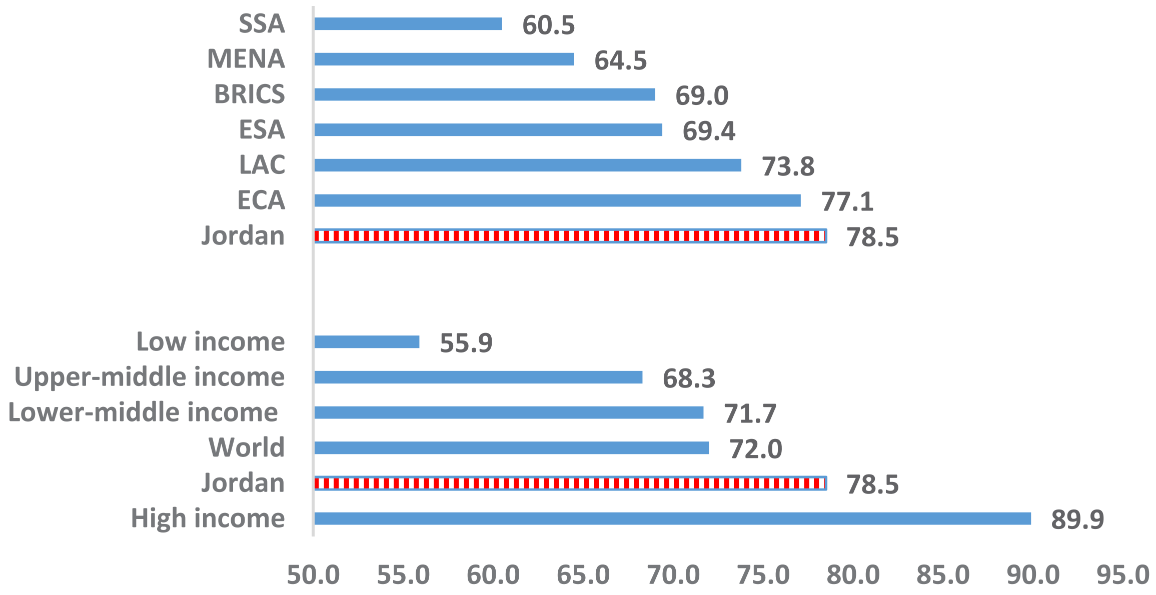
The National Higher Committee is headed by the Minister of Planning, and International Cooperation (MoPIC) and acts as a reference for all issues related to sustainable development. In addition, MoPIC, in coordination with the Ministry of Finance (MOF) and the General Budget Department, links capital expenditures to the EDP so that priority funding was allocated to the SDGs. MoPIC also supervises and manages the mainstreaming of the SDGs, targets and indicators, in addition to ensuring that there are linkages between the sectoral task forces and the outcomes of their work. The work involves representatives from ministries and parliamentarians (from the upper and lower houses), other government entities, the private sector, women/youth/local communities, civil society organizations (CSOs), academics as well representatives from the donor community. The work is carried out at three levels, namely, strategic and policymaking, planning and implementation, and monitoring and evaluation (the latter conducted in cooperation with the Performance Progress Unit at the Prime Ministry).

Jordan has created a Development Portal (JDP) at the Department of Statistics (DOS) to monitor progress by specific SDG indicators and targets. DOS also established a Sustainable Development Unit in to collect data, and act as the focal point with national and international partners. The Unit collects the nationally adopted 169 indicators, 102 are from domestic sources and the remaining 67 from international sources.

[128] VNR2017.

[129] Greater Amman Municipality (2022).

Figure 30. SDG Statistical Performance Index (0-100)



Note: SSA Sub-Saharan Africa; MENA Middle East and North Africa; BRICS Brazil, Russia, India, China, South Africa; ESA East and Central Asia; LAC Latin America and the Caribbean; ECA East Europe and Central Asia.
Source: Sachs et al. (2024).

The UN's Statistical Performance Index concerning the SDGs ranks Jordan only second to the average of the group of high-income countries. The Index gives Jordan a score that is 10 percent above the global average (Figure 30, lower panel). Jordan exceeds the average score of all country regions and is 24 percent above the average score in MENA (upper panel). Among Arab countries, Jordan is practically on par with Egypt and by far above its neighbors Iraq (56), Lebanon (59), Syria (32) and Yemen (34), and the Maghreb countries, namely Tunisia (75), Morocco (72), Algeria (63) and Mauritania (59).

3.5. Economic constraints

3.5.1. The private sector constraints

The private sector in Jordan has seen several significant improvements over time. In terms of the overall management practices score, while the value of the index declined across all MENA countries.[130] The important transport sector for the private sector (including for labor mobility) has seen improvements over time though Jordan's respective country rank has slipped due to higher rates of improvement in other economies in the region.[131]

Only 14 percent of Jordanian firms mentioned political instability as a critical constraint compared to 22 percent of firms in MENA. Though still below the average for emerging economies, Jordan (and Tunisia) stand out in terms of the average quality of corporate environmental, and social and governance responsibility among MENA economies. The Global Entrepreneurship Monitor (GEM) shows an improvement in Jordan's entrepreneurial activity over time. Jordan is not short of entrepreneurial talent. According to the World Economic Forum, 27 of the MENA top 100 tech entrepreneurs are Jordanians.[132] In addition, Jordan's Innovative Startups & SMEs Fund has contributed to attracting 11 investment funds to invest in Jordanian entrepreneurial companies. However, Jordan's private sector is faced with several structural issues and is being affected by some deteriorating trends.

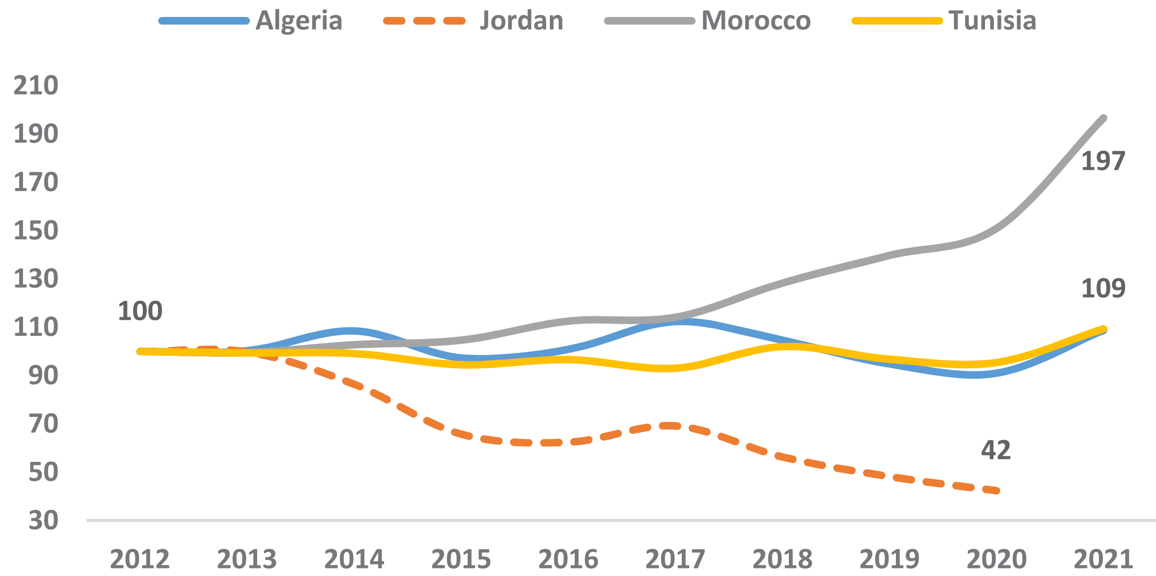
Entrepreneurship is impeded by several factors. A World Bank survey of Jordanian entrepreneurs in 2019 found

[130] The other countries were Egypt, Lebanon, Morocco, Palestine and Tunisia. Among the sampled MENA firms included in the survey, Jordanian firms participated as much as others in global value chains but exporting firms had very small share also in comparison to lower- and upper-middle income economies.

[131] However, improvements have been slow in terms of quality of trade and transport infrastructure, quality of logistics such as trucking and customs brokerage, according to the 2023 World Bank Logistics Performance Index (LPI). National and international delivery costs are deemed to be high constituting a main obstacles for trade (UNCTAD, 2021; Eyzaguirre (2023).

[132] WEF (2022).

Figure 31. New business density rate (index 2012 = 100)



Source: World Bank (2023d).

that that startups face numerous barriers, including inadequate policies and finance instruments. Other reported obstacles to entrepreneurship in Jordan include bureaucracy, tax regulations, interpretations of laws and weak links between industry and research. Though the number and intensity of obstacles vary across sectors and among firms of different size, some common themes include high cost of inputs including energy, and limited office space and high rent.[133]

In 2019, even before the pandemic and the introduction of the IMF and donor supported stabilization program, Jordan was classified as highly vulnerable in both products and markets, and had lower scores than Egypt, Tunisia and Morocco.[134] Economic complexity has in fact declined in both score and rank since the 1980s when Jordan defaulted.

Concerning other trends, Jordan's value in the Global Innovations Index (GII) has declined by 40 percent since 2011 reflecting a deterioration across all its constituent components, save the infrastructure one, with human capital and creative outputs declining most. Other relevant indices show a decrease in economic freedom, the rule of law and innovation, especially since the late 2010s.[135] The Global Entrepreneurship Index 2019 ranked Jordan 63rd in the middle of the 137 surveyed countries having slipped from the 49th position the previous year.[136]

It is therefore not unexpected that the rate of new company creation in Jordan is low. In addition, it has been declining over time as measured by the New Business Density Rate, that is, the number of newly registered firms, in which ownership liability is limited to its investment, per 1,000 working-age people ages 15-64 per calendar year. The rate has declined by more than half since 2012 and now stands at 0.4 compared to 0.6 in Algeria, 1.7 in Tunisia and 2.6 in Morocco (Figure 31).

In conclusion, the combination of the small base of the private sector and lack of dynamism makes it difficult to create sufficient momentum until 2030, and perhaps for a further decade or even more. The process for enhancing product diversification and entry into the international markets typically takes a long time to show results. The financial sector can support the development of the private sector but itself has several issues, as discussed next.

[133] GIZ (2020a).

[134] Ministry of Industry, Trade and Supply (2022).

[135] JSF (2023c; 2023d).

[136] Tzannatos and Saif (2023).

3.5.2. Financial sector constraints

Jordan's financial sector is large and accounts for more than 180 percent of GDP.[137] Jordan has increased the financial inclusion of its adult population to 50 percent in 2020, from 33 percent in 2017. This increase also reduced the gender gap to less than 30 percent following a CBJ initiative that obliged banks, when requested, to open a basic bank account for financially excluded individuals. However, there is a higher need for bank financing that is nevertheless constrained from limited financing alternatives, such as concessional financing and project financing, which hinder the potential of the financial sector.[138] As a result, access to finance remains a constraint to private sector development.[139]

Various private sector surveys identify the top two obstacles facing Jordanian firms to be tax rates (28 percent of firms) and corruption (16 percent of firms). Though both are lower than in other MENA economies, tax rates as a top obstacle are reported to be lower by lower-middle income countries (13 percent of firms) and upper-middle income countries (15 percent of firms). Corruption concerns have increased over time. The results of the Arab Barometer VII (2020-21) found that the percentage of survey respondents who stated that corruption in state institutions and national agencies is prevalent to "a large or medium extent" was 88 percent in 2022 compared to 66 percent in 2010.

Nearly 70 percent of Jordanian firms in need of a loan reported they were credit constrained in 2019, an increase of more than 5 percentage points compared to 2013. Data from the initial MENA Enterprise Surveys (2016) to the more recent ones (2018-20) indicate that 50 percent of firms find recourse to internal financing. This percentage compares to 37 percent in the lower-middle-income group of countries and 31 percent in the group of upper-middle-income countries. The domestic credit to private sector by banks ratio was 77 percent of GDP in 2019, a ratio that is lower than the average for the group of countries with similar income. In middle-income countries the banks credit ratio was 105 percent and among upper middle-income the ratio was 124 percent.[140] The share of total credit facilities granted to SMEs is only 11 percent. Construction and real estate, consumer loans and the public sector account for 67 percent of total bank loans (Figure 32).

Related to the lack of access to external finance is the fact that Jordan has one of the lowest rates of private sector investment in fixed assets even among Arab economies, with a tendency to decline over time.[141] This can be the result of the past domestic borrowing by the government that has resulted in "crowding out" as banks have invested in less risky government bonds. By 2021, the outstanding domestic treasury bills and bonds amounted to JOD11 billion equivalent to 34 percent of GDP.[142] Under such circumstances, established and large firms, including state-owned enterprises, stand to benefit most. Conversely, the needs of SMEs are less well served.

Capital markets in Jordan are not fully developed and institutional investor base is underdeveloped, except for the large public pension fund. The Amman Stock Exchange (ASE) had a market capitalization of JOD nearly 13 billion equivalent to 42 percent of GDP, a share than has been declining since 2007. Annual turnover has been low and declining (from 26 percent in 2017 to 17 percent in 2020). There has not been a listing with Amman Stock Exchange (ASE) since 2008, one reason for this being the difficulty of firms to exit. In addition to external factors that affect the volume of FDI, Jordan continues to have rather high FDI restrictions compared to Tunisia, Morocco and Egypt.[143]

Importantly, there has been a decline in Jordanian firms' propensity to invest even among those with an approved loan application. During the 2010s the percentage of Jordanian firms that invested in fixed assets fell by nearly one-quarter to reach 14 percent by 2019. The main reasons discouraging Jordanian firms from applying for a loan have been reported to be unfavorable interest rates and high collateral requirements, the latter being particularly burdensome especially among youth, women, and other vulnerable groups.

Additional constraints arise from lack of digital and financial literacy as well as the lack of awareness about various government initiatives that do exist. This is more

[137] IMF (2023b).

[138] EMV2033.

[139] UNDP (2023).

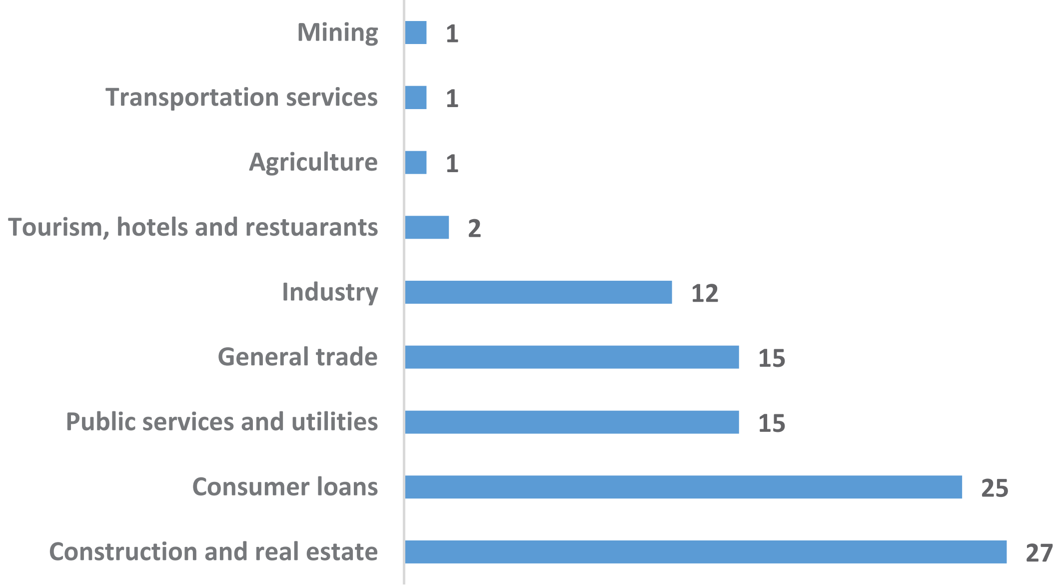
[140] EIB, EBRD and World Bank (2022).

[141] The other Arab countries are Lebanon, Morocco, Tunisia, Palestine and Egypt with only Egypt having a lower investment rate than Jordan. See EIB, EBRD and World Bank (2022).

[142] World Bank (2022a).

[143] OECD (2022).

Figure 32. Bank loan portfolio by sector (% of total loans)



Source: World Bank (2022a).

prevalent among smaller firms as only 7 percent of micro and 13 percent of small enterprises received support from government programs during the COVID-19 pandemic compared to almost one-quarter of medium and large companies.[144] As many as 80 percent of SMEs in Jordan do not have a bank account.[145]

3.5.3. Trade constraints

The earlier noted reduction in non-tariff barriers and their dispersion following Jordan accession to the WTO, still are not considered to be enough by 64 percent of Jordanian enterprises when they export or import. This share is higher than the observed in other countries (48 percent on average). The main obstacles that affect Jordanian businesses are rules of origin, pre-shipment inspections, the way officials enforce regulations, and high fees and charges. Furthermore, about 88 percent of the NTMs that hinder Jordanian companies are procedural obstacles rather than overly strict regulations.[146]

Customs and trade regulations still remain a significant obstacle to business operation and trade.[147] As the Economic Modernization Vision notes, the trade and commerce "sector currently lags behind compared to global standards vis-à-vis digital readiness and strong software skills … lacks e-commerce legislations, is highly import dependent, and has an ineffective framework for customs, shipping, and tax for trade/re-exports.

The trade sector also suffers from limited access to finance.[148] Digital regulation is largely absent in Jordan as frameworks are outdated (in areas like electronic transactions) or not designed for current digital markets concerning data governance and intermediary liability.[149] There also is little information regarding the certification authorities of other countries in the region. While e-documentation and e-signatures are available, progress is slow concerning consumer protection, data governance, cybersecurity and intermediate liability.

An additional issue worth exploring is whether and to what extent some trade agreements and the export zones constitute more than just a means for transnational corporations to exploit Jordan's no tariff benefit provisions with the US, while they contribute little to the long-term economic development of the domestic economy and employment. The limited effects of the trade agreement between the EU and Jordan in the case of the Jordan Compact is suggestive that of the difference between intentions and outcomes (see Annex 1).

[144] UNDP (2023).

[145] This finding is according to a survey conducted by USAID under the Local Enterprise Support Project (LENS) (USAID, 2023).

[146] International Trade Center (2018).

[147] EIB, EBRD and WB (2022).

[148] EMV2033.

[149] Daza Jaller and Molinuevo (2020).

3.6. Infrastructure development

Jordan was the first, and so far, is the only, country in the MENA region to join the Sustainable Development Investment Partnership (SDIP). This is an initiative managed by the Organization of Economic Co-operation and Development (OECD) and the World Economic Forum to (WEF) to address the financial challenges for sustainable development. SDIP has committed to mobilizing $100 billion in blended finance for supporting sustainable and resilient infrastructure among participating countries.[150]

Jordan considers infrastructure development in the context of SDG6 (water and sanitation), SDG7 (affordable and clean energy), SDG11 (sustainable cities and economies), SDG12 (responsible consumption and production) and SDG13 (climate action). With respect to the first three SDGs, it aims to improve the quality of infrastructure for water and sanitation; public transport, roads and airports, energy and electricity; and municipal services. All relate to climate action and are discussed below focusing on strengthening the interconnections between the energy and water sectors.[151]

Global indicators place Jordan in the middle range with respect to infrastructure.[152] Government documents, including the EMV2033, identify the need to improve the relatively poor road and rail infrastructure, and streamline legislation to enable efficient movement of people and goods. Additional enablers to the transport sector include improving the port of Aqaba and the airport in Amman so that storage facilities and airfreight of goods are developed further. Improvements in the railway network aim to create more linkages with other countries in the region. Jordan also pays attention to issues at the more micro level. For example, the share of schools with infrastructure and adapted materials for students with disabilities has increased to 70 percent from 50 percent in 2015, and is expected to reach 100 percent coverage by 2030.[153]

Given the fiscal situation and the limited investments by the private sector and also the high unemployment rates, investments in physical infrastructure would need to take into account both their costs and impact on employment. For example, investments of the same amount can have different costs for each job they generate and varying employment impact (Table 5).[154]

Investments in air transport have double the costs and create 10 percent jobs compared to transport. This information is useful as Jordan (and donors) often resort to active labor market policies (ALMPs) to support employment creation in selected sectors at times with little effect.[155] A CBJ supported project provided concessional financing to economic sectors with high added value. The cost of the program was JOD1.3 billion and created 14,324 new jobs, equivalent to JOD90,000 per job.[156]

ICT accounts for 3 percent of GDP, 1.9 percent of exports and 1.6 percent of employment while its productivity in nearly double the national average. By 2033, its contribution to GDP is expected to increase to 4 percent and employment to quadruple to more than 100,000 workers. Exports are expected to increase by 30 percent annually and account for 4.5 percent of GDP.[157] Three issues that are contributing to the development of ICT include improving digital infrastructure, an increasingly qualified labor force, and a legislative framework that provides incentives.

Reflecting supportive government policy, Jordan does well in ICT areas. It is one of the first Arab countries to support ICT as a standalone economic sector, and from 1999 had the first nationwide ICT strategy. Jordan is in a high rank in terms of advancing fast in this sector, and is over performing relatively to its per capita GDP, only superseded by countries like India Philippines, Vietnam and China and being ahead of Tunisia, Morocco and other (non-oil) countries in the middle East. It also has a young, digitally literate population and high Internet penetration.[158]

Jordan has advanced the coverage of mobile technology to the point that by 2022, 100 percent of the population were covered by 2G and 3G mobile technology, the population covered by 4G had reached coverage of 99 percent from 80 percent in 2015. The share of individuals using the internet has been increasing faster than the average of the Arab states. However, while the cost of subscription to a basic basket is relatively low, the price of fixed 5G broadband reaches 12 percent of GNI per capita

[150] WEF (2022).

[151] It also envisages increases and improvements in the areas of education and health services (VNR2022).

[152] WEF (2019).

[153] VNR2022.

[154] ILO (2017).

[155] Tzannatos (2013, 2018).

[156] VNR2022.

[157] EMV2033.

[158] UNCTAD (2021).

Table 5. Cost per job created and impact of JOD1 million investment on job creation by sector

	Cost/job	Employment creation (persons)
Electricity	5,987	110
Air transport	58,806	124
Construction	66,042	242
Water supply	72,905	261
Road transport	27,897	1,218

Source: ILO (2017).

compared to the average of 3 percent in the Arab states. The internet penetration rate is low in remote areas as most operations are concentrated the major cities.[159] Significant inequalities exist between urban and rural areas regarding internet and mobile connectivity, which have an adverse impact on the establishment and growth of startups outside major cities. In addition, the cost of the internet remains high, and users across the country often experience bandwidth and connectivity issues.

As the VNR2022 notes, the limited infrastructure for scientific research in universities and specialized research centers has in impact on the future development of ICT and the relevant sectoral skills and can encourage brain drain. Tight possibilities for funding restrict the allocations to scientific research, innovation and entrepreneurship.

3.7. Energy

Despite Jordan's heavy dependency on energy imports, practically all residents have access to electricity. Since the mid-2010s, the percentage contribution of renewable energy to electricity generation has increased from practically zero in 2015 to 20 percent in 2020.[160] During the same period, the percentage contribution of local sources to electricity generation has increased from 5 percent to 22 percent. The ongoing National Energy Strategy (2020-2030) has set the ambitious goal of reaching a share of 50 percent renewables in the electricity mix by 2030.

Through several reforms, including improving governance, the legislative and organizational framework for energy supply, Jordan aims to increase energy efficiency across the economy by nearly 10 percent and attract substantial amounts of investment in the field of renewable energy. The share of renewable energy sources in local supply is expected to increase to more than 30 percent by 2030. A Renewable Energy and Energy Efficiency Fund supports the installation of solar heaters, and solar cell systems in public places (such as schools, mosques and churches) as well as in agricultural production and households.[161] International assistance, financial and technical, plays a significant role in supporting renewable energy production, and clean energy research and development.

Notwithstanding these advances, the accumulated debt of National Energy Power Company (NEPCO) presents a considerable challenge. Its debt has reached JOD5.1 billon (USD7.2 billon) equivalent to nearly 13 percent of GDP.[162] It has had only a modest profitable year of JOD160m from operations in the last 16 years. Its current liabilities exceed its current assets by JOD3.5 billion. Sporadic attempts to freeze tariffs when the cost of generation increases, have not prevented the private sector to report electricity as a major constraint (in 2021), especially in the manufacturing and retail sectors that are the major employers in Jordan.[163]

A policy to reduce or shut down private sector solar plants so that companies buy electricity from the grid at higher prices is something to be reconsidered, not only in view of the environmental and climate risks discussed below.

3.8. Environmental and climate risks

The share of the population that has access safely managed drinking resources is 95 percent, a commendable increase from 54 percent in 2000.[164] By 2020, nearly 90 percent of the population use safely managed sanitation services and handwashing facilities with soap and water.[165]

159 UNDP (2023).

160 VNR2022.

161 Ibid.

162 Jordan Times (2022a).

163 World Bank Enterprise Surveys.

164 UNICEF (2022a).

165 UNICEF (2022b).

Yet, this have been achieved amidst Jordan's very limited water resources and the trebling of the population size to 11.5 from less than 4 million in the 1980s. The SDG indicator 6.4.2 shows that the rate of freshwater withdrawal has reached 138 percent of the available freshwater resources due to growing demand by people and economic sectors, and climate change. The per capita availability of water in only 97m3 per year that is less than one one-fifth the absolute water scarcity threshold of 500m3 per year.[166] According to WHO, the average Jordanian per capita consumption of water in Jordan is about 60 percent of the minimum recommended amount.[167]

The increase in the population has been associated with a significant increase in waste generation. This trend is expected to double in the next 15 years. The country currently generates around 2.7 million tons of municipal solid waste annually, with half of it originating in the capital city of Amman alone. The absence of a systematic waste management approach often results in the landfilling of unsorted waste, including hazardous materials. The Jordanian government has therefore made inter-ministerial cooperation, job creation, and involving the private sector top priorities to develop the waste management system.[168]

Any reduction in the availability of water is bound to adversely affect welfare and production. For example, the increase in average temperature in Jordan may reach up to 4°C by 2070-2100, and precipitation may decrease by up to 15 percent by 2050.[169] Such a climate change is projected to decrease water availability by as much as 30 percent less water per capita by 2040 while water demand is also expected to increase. Jordan withdraws between 25 and 30 percent more water than its internal resources can provide. Water scarcity is compounded by daily losses of more than 40 percent due to leaks and theft. Non-revenue water accounts of 53 percent of consumption. These losses represent JOD120 million of lost public revenues each year, equivalent to 67 percent of the current revenues from water charges.[170]

[166] World Bank (2022a).

[167] VNR2022.

[168] GIZ (2020b).

[169] World Bank (2022a).

[170] Vision2025.

Related to water are several environmental challenges involving water, energy, agriculture, transport and urban sectors in the twin nexuses of water-energy-food security and the urban-transport-energy. The two nexuses are not independent. For example, electricity costs accounted for 44 percent of the water sector's total operating expenses (in 2020) and have been growing over time: The electricity tariff for water tripled between 2010 and 2018, while water use has been increasing.[171]

Though lower than the arrears in the energy sector, the accumulated debts in the water sector come to around JOD2.8 billion ($3.8 billion) equivalent to 7 percent of GDP in 2021.[172] As in the case of the energy sector, this debt has also been flagged as a significant challenge in the effort to reduce the public debt. In the meantime, the reduction in water supply and changes in crop yields induced by climate change can jointly reduce the GDP in Jordan by 6.8 percent. The annual monetary value of this reduction is large.[173]

Attempts to reduce the accumulated debt and operational deficit in the water and energy sector through tariffs are bound to adversely affect the level of economic activity that consists of many small and medium firms. The very high urbanization rate (91 percent – expected to increase further by 2030) contributes to higher carbon footprint through pressure on infrastructure, service delivery costs, job access, loss of agricultural land, and transport where inefficiencies estimated to cost at least 6 percent of GDP. Cast against the strained fiscal space, the importance of water, energy and food security cannot be overstated.

Environmental and climate issues have for long attracted strategies and policies to address food security and water shortages (see Annex 2). The EMV2033 has included sustainable practices and green investment as an integral part of Jordan's economic development. The Green Growth National Action Plan 2021- 2025 aims to mainstream climate and green investments with 86 priorities enabling policy actions and projects. According to the World Bank, Jordan has become the first developing country to build end-to-end digital infrastructure to track reductions in global greenhouse gas emissions.

[171] Dahiyat (2022).

[172] IMF (2023a); Dahiyat (2022).

[173] By comparison, the loss in GDP in in Lebanon could be 1.9 percent, 3.9 percent in Iraq and 5.9 percent in Turkey (World Bank, 2020c).

The EMV2033 expects investments in the water sector to come to JOD100 million annually equal to JOD1 billion over the life of the Vision. Estimates for Jordan's investment needs in the above two nexuses come close to the combined amount of the already accumulated debt in the electricity and water sectors. This estimate excludes the massive investment in the water desalination and transfer Aqaba-Amman National Carrier Project that would require additional logistical and financial support. To put in context, to achieve the net zero emissions goal by 2050, reducing energy consumption by 27 percent and GHG emissions by 41 percent would require double the amount of investment envisaged for the two nexuses.

As of today, several commitments at the national level face unidentified financing. Notwithstanding the CBJ's Strategy for Greening the Financial Sector,[174] Jordan has to a significant extent relied on international support to fund environmental and climate actions. For example, over the 2010–22 period, globally the total average international public financial flows for renewables flows were $2.26 per capita. Jordan received $181 per capita compared to Algeria's and Syria's $0.02, and South Sudan's $0.04.[175] In 2022 Jordan was the 3rd largest recipient of official aid in the world in SDG target 6.a.1 (amount of water- and sanitation-related official development assistance disbursements).[176]

In general, implementation is taking place at a rather slow rate, the reason attributed to "competing priorities in a challenging fiscal and socioeconomic environment, and as capacity needs to be built in line agencies. Even the envisaged efficiency gains, if realized, would reduce the non-revenue water from 53 percent to 25 percent by 2040. Preserving debt sustainability "is a challenge to financing Jordan's climate-smart development".[177]

Selected policy reforms to improve the management of public investment in key sectors, attract and leverage private sector financing, incentivize end-users and change behaviors, and ensure greater engagement of the financial sector will all be essential for the achievement of Jordan's climate priorities. Equally important will be the identification of additional financing for priority investments, without which the country's climate commitments may remain out of reach as recent trends suggest. While in previous assessments Jordan was expected to be on course to achieve SDG13 (on climate action), the most recent global report notes its progress as increasing only "moderately".[178]

4. Prospects

The all-encompassing EMV2033 has reiterated the need for significant efforts to tackle the structural challenges including revenue mobilization, institutional constraints and capacity building.[179] Financing (both internal and external) and Public-Private-Partnerships are seen as key areas to be pursued to mitigate the effects of legacy shocks that "put increased pressure on Jordan's limited resources, especially water resources, and impose severe stress upon its public services, including health, education, energy, infrastructure, municipal services, and solid waste management".[180]

It is too early to assess the implementation and outcomes of the hundreds of ongoing reforms and policies included in the EMV2033, the many national documents and the IMF program that promote the achievement of the SDGs. However, some of the expected results are already showing up. Inflation has been declining relatively low. Revenues have increased not by increasing the tax rates but by broadening the tax base. Positive steps have been taken to improve the efficiency of public spending and reduce the drain on public finances, improve the financial conditions in the electricity and water sectors, and start addressing the threats posed by climate change. The banking system remains healthy and international reserves are adequate. Ongoing efforts have enhanced governance, reduced bureaucracy, strengthened transparency, created independent of regulatory bodies, continued and accelerated certain reforms, strengthened competition, and improved the business environment.

[174] The CBJ joined the Network for Greening the Financial System, a network of 100 central banks and related agencies that aims to provide advice for climate change and accelerate the scaling up of green finance. VNR2022.

[175] World Bank, IEA, IRENA, UNSD and WHO (2024).

[176] See UN (on line) Progress on International Water Cooperation (SDG target 6.a), at https://www.sdg6data.org/en/indicator/6.a.1#:~:text=To%20track%20progress%20towards%20the,a%20government%2Dcoordinated%20spending%20plan

[177] World Bank (2022a).

[178] Sachs et al. (2024).

[179] At the time of the VNR2022 Jordan had identified targets for around 45 percent of the SDG indicators. Of them, 60 percent (102 indicators) were from national sources and 40 percent (67 indicators) from international sources.

[180] VNR2017.

From the perspective of the SDGs, achieving the nationally set targets will depend on specific measures adopted for accelerating progress on each one of them. This would very much involve sectoral policies as well as policy coherence among them. In this respect, there is no shortage of what needs to be done (see (Annex 2).

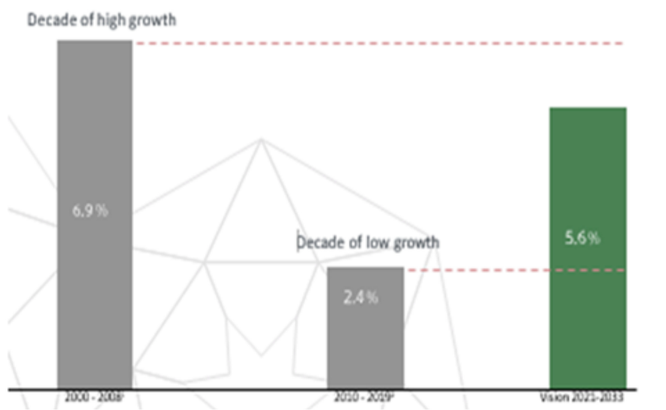
Two systemic factors than would affect the SDGs in their totality is the debt/growth nexus on the real and financial sectors, and improvements in people's welfare, including on employment.[181] Both national assessments and international assessments clearly suggest that these two areas are in most need of attention. Reforms typically stall from opposition due to their effects on the labor market (especially unemployment) and the social sector (from cuts in public spending).

Regarding economic growth, the EMV2033, the latest and most important document outlining the objectives and projected outcomes until 2033, beyond the 2030 end-year of the SDGs, expects that the economy will grow annually at more than double its rate during the 2010s, at 5.6 percent compared to 2.4 percent (Figure 33).

The EMV2033 estimates that the total additional funding required to achieve this rate of economic growth would come to more than JOD41 billion, with the majority of it expected to come from non-government investments, foreign and local sources (Figure 34). The role of investment is bound to be critical as the elevated levels of debt suggest continued consumption growth is unlikely to be the main driver of growth going forward.[182]

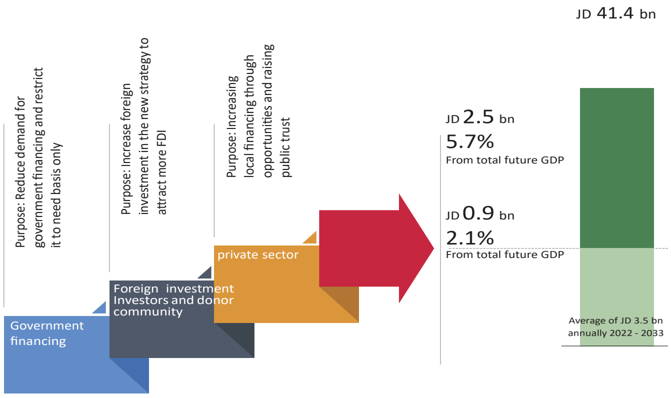
Recent credit rating upgrades provide optimism regarding future economic growth, to the extent that they would lead to lower costs of borrowing and will boost investor confidence. In May 2024, Moody's rating agency raised Jordan's credit rating by one notch in May 2024, from B1 to Ba3.[183] This was followed by another upgrade by S&P's in September 2024, also by one notch from B+ to BB-.[184] The upgrades by the two agencies

Figure 33. Real economic growth rates, 2000-2019 and expected 2021-2033



Source: EMV2033

Figure 34. EMV's expected sources of funding (growth rates and levels)



Source: EMV2033

brought their rating to the same category as Fitch (BB-). By now, all three agencies foresee a stable outlook. The upgrade was the first one in 21 years despite the ongoing War in Gaza.[185]

Notwithstanding these upgrades, Jordan's bonds are still within the speculative range ("junk"), three notches below the "lower medium grade".[186] This implies that Jordan will continue borrowing at an interest rate that is higher than its growth rate. For example, Jordan successfully issued a 6-year US$1.25 billion bond in April 2023 but at a rate of at 7.5 percent. This rate is three times higher than the ongoing economic growth rate. In early 2024, the interest rate on debt had a spread of 300 basis points, though it has since narrowed to just over 250 basis point (in May 2024). The interest on debt should not exceed

[181] Among others, the long list of reforms include: attracting investment, boosting productivity, increasing competitiveness, creating open markets; reducing the cost of doing business, promoting competition, enhancing governance and transparency, reducing government regulation and interventions; curbing the prevalence of dominant firms - including sharpening the definition for market concentration and increasing penalties for violations; reduce licensing requirements in the tourism sector; addressing transportation bottlenecks and so on. For example, see the EMV2033 and IMF reviews in 2023 and 2024.

[182] Yang et al. (2022).

[183] Moody's Ratings (2024).

[184] Jordan News (2024b).

[185] ibid.

[186] See WOLFSTREET.com for a summary and comparison of ratings by agency.

the economic growth rate to avoid adding to the debt-to-GDP ratio. This requires a reduction in the interest rate by two-thirds to enable the government to spend less on debt service repayments, and more on the critical areas of investment and the social sectors.[187]

4.1. Prospects for economic growth

Expectations about future macroeconomic outcomes are projections based on probabilistic forecasts that are subject to a wide band of possibilities. The IMF notes this in its Sovereign Risk and Debt Sustainability Framework on which the current projections for Jordan are based, adding "As the near-term tool gives an ex-ante probabilistic assessment of the risk of sovereign stress, the module is not meaningful when stress has already materialized".[188] Typical forecast errors are practically always optimistic, at times by a wide margin.

The expectations of the IMF's ongoing program for the future course of the Jordanian economy are premised on several assumptions. These include that the fiscal and debt situation will improve significantly and quickly, structural reforms will continue and accelerate and have more or less an immediate effect, and the private sector – including domestic and foreign investment - will also rebound quickly. Such assumptions have led to optimistic macroeconomic scenarios in Jordan in the past, as Figure 35 shows. The thick black line shows the actual course of the economy. The other lines show continuous revisions of projections as time passed by, and reality proved to be different from the initial expectation. The revisions confirm that forecast errors have indeed been positive and big.

The EMV2033 expects GDP to reach JOD58.1 billion by 2033 from JOD30.2 billion when it was adopted. It also expects the net fixed capital formation to reach JOD41.4 billion over the same period. This corresponds to a very low incremental capital output ratio (ICOR) of 1.4 implying that the economy will grow fast with very low rates of capital injections. This ICOR in Jordan has hovered around 3 since the 1960s higher at 3.4 in the more recent period - during the 1990s.[189] According to this ICOR value, the required level of net investment until 2033 may be closer to JOD80 billion.

To the expected investment of JOD41.4 billion, one would need to add the required investments to maintain and repair existing capital. Capital depreciation is easier addressed in accounting and legal terms but extremely difficult to estimate it in economic terms. It depends on the overall productive structure of the economy including technology, relative prices of investment goods, capital/output ratios, substitution elasticities and factor shares,[190] and whether depreciation follows a straight, hyperbolic or geometric line. In addition, the economy wide depreciation rate depends on the existing composition of capital stock such as infrastructure, machinery, or equipment. For example, infrastructure may depreciate by less than 10 percent annually compared to 20 percent for machinery and, in modern times, 50 percent for IT equipment.[191]

In advanced economies, a typical share of repair and maintenance (R&M) in total Gross Fixed Capital Formation (GFCF) may be around 5 percent.[192] In developing economies, it may range from 5 percent to 15 percent. As Jordan has rather ageing infrastructure due to low past rates of GFCF, perhaps a 10 percent share may not be unreasonable. If so, then replacement investment would require an additional annual outlay starting at more than JOD1 billion (in 2021) and rising over time, as the capital stock increases. In addition, most investments, including those to support climate adaptation, will require unidentified private sector participation and donor financing.

To summarize, on the one hand, even if the expected volume of investment is achieved and results show during the year the investment took place, it may not have the expected 1.4:1 impact on output. On the other hand, the low economic growth rates during the early years of the EMV2033, imply that growth should accelerate in the remaining period until 2033, probably to around 7 percent from 2024 onwards. As of 2024, projections bring the annual rate of economic growth at around 3 percent (IMF) or slightly lower at 2.6 percent (World Bank). The projections are based on the assumption that Jordan's robust economic fundamentals would support stable growth, price pressures and inflation will remain low, and fiscal balances will improve "over the next several years" through improved revenue collection and expenditure rationalization.[193]

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[187] The 3 percent is estimated for the US economy, and the Jordan monetary policy is linked to the US dollar. See Di Domenico, L. et al. (2023).

[188] IMF (2022c).

[189] The ICOR for the non-oil MENA countries is in the range between 3.3 and 2.2 (Abu-Qarn and Abu-Bader, 2005).

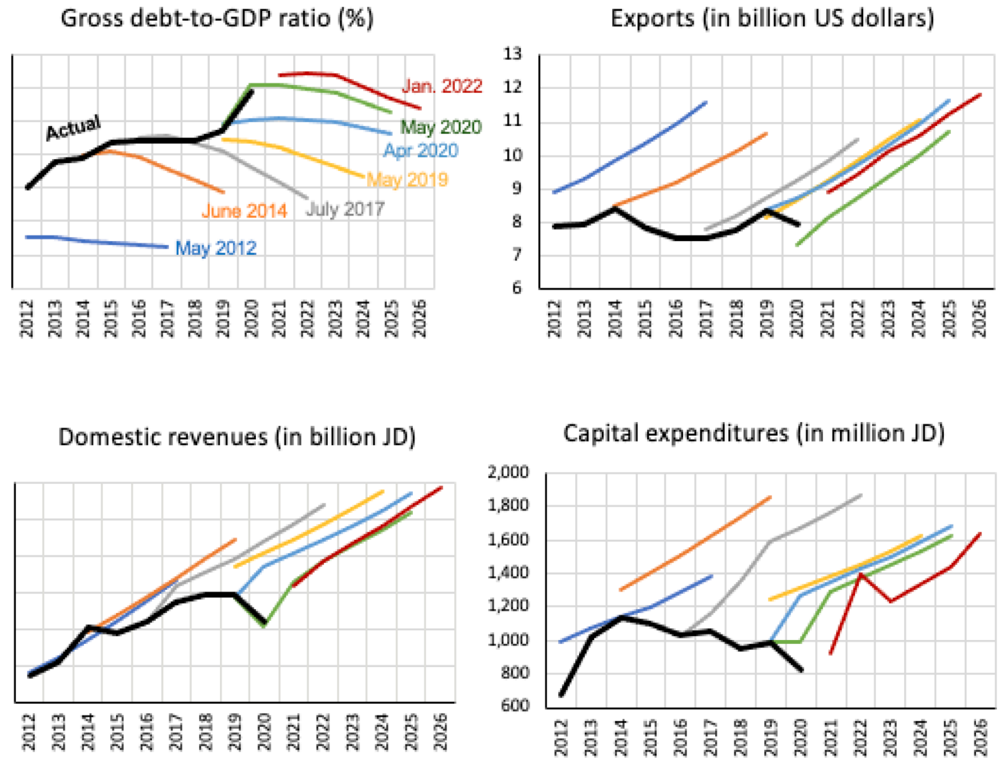
[190] Karabarbounis and Neiman (2014).

[191] See Statistics Canada (database).

[192] For example, the European Central Bank estimates the economy wide depreciation rate to be around 4.6% per year that corresponds to an average lifetime of the capital stock of around 20 years (ECB, 2006).

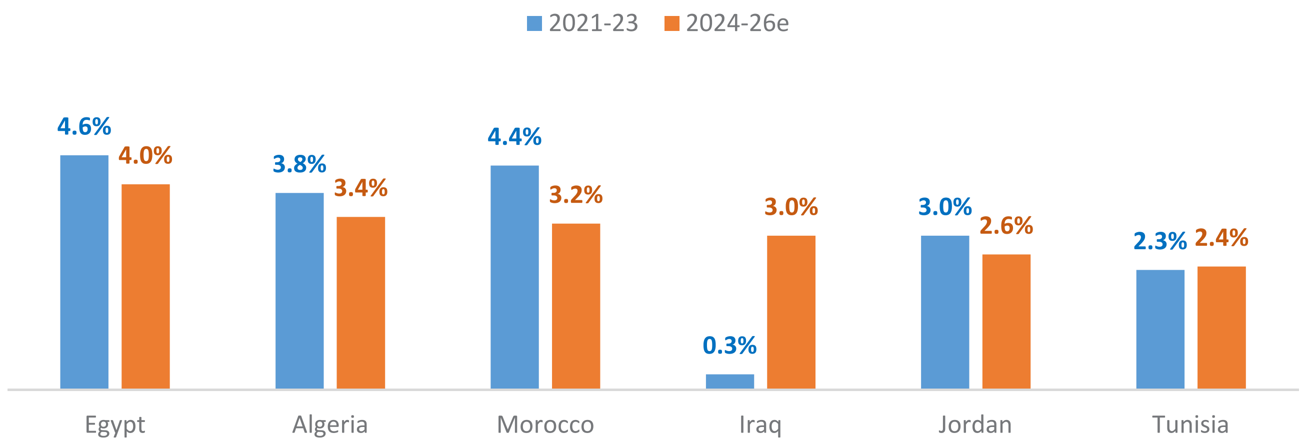
[193] IMF (2024b).

Figure 35. Macroeconomic trajectories versus IMF projections, 2012–2020



Source: O'Brien et. al (2022) based on IMF Article IV and Program Reports.

Figure 36. Annual growth rates in selected Arab countries, 2021-23 (actual) and 2024-26 (forecast)



Note: Ranked in descending order of projected rates
Source: World Bank (2024c).

4.2. The debt trajectory

Against a predicted decline in the total debt-to-GDP ratio in 2022, the ratio increased to 111.2 percent from 108.8 percent in 2021. It increased further in 2023 and 2024 when it reached 113.9 percent of GDP and is expected to reach 115 percent in 2026.[194]

The trajectory of the debt trajectory is difficult to predict, as attested in Figure 35 that showed the substantial deviations in the past between its actual and forecast values. Little can be done against factors outside the control of Jordan, like the continuing war in Gaza. According to the IMF, other global developments elevating the headwinds for Jordan include further tightening of financial conditions, weaker global growth, geopolitical and regional tensions, renewed

[194] World Bank (2024c).

surge in commodity prices, lower international trade and investment and climate related risks.[195]

On the domestic front, identified risks by the IMF include, first, delays in structural reform implementation; second, risks to fiscal balances from higher-than-expected costs related to large expected PPPs that may not materialize at least over the relevant time horizon; third, weaknesses in banking supervision and systemic risk analysis; fourth, development donor support that may not be as "robust, strong and timely" as it has been in the past; and fifth, the high cost of living accompanied with weak job creation and persistently high unemployment could amplify poverty and inequality, heighten social pressures and trigger social discontent.[196] The latter is discussed next.

4.3. Employment prospects

Poor economic outcomes for the population have been flagged as a risk also by the IMF, including the high cost of living, weak job creation and persisting unemployment. Unless the conditions for ordinary citizens improve, there can be opposition to reforms. Rising social tensions can raise risk premiums and borrowing costs and worsen corporate vulnerabilities, translating into a deterioration in bank asset quality and capital outflows.[197]

A main concern of Jordanians is the lack of employment creation. Jordanians consider the most important government action to improve economic conditions is to create jobs, rather than raise wages – with the share of the former being nearly double the share of the latter (39 percent versus 22 percent).[198] Other possibilities in areas such as education, foreign direct investment, and small businesses are named by five percent or fewer of the respondents.

The Vision 2025 expected an increase in employment from 1.29 million in 2014 to 2.39 million by 2025, equivalent to just over 100,000 job per year with 75 percent of new jobs to be created in the private sector. As of early 2024, Jordanian employment stood at 1.4 million.

Similarly, the EMV2033 expects Jordanian employment to increase also at an annual rate of 100,000 and reach 2.4 million by 2033. To achieve this increase, the annual employment growth rate should be nearly as much as the expected economic growth rate of 5.6 percent. This implies that the employment/output elasticity would be around one. In fact, the EMV2033 assumes that the elasticity will be near unity more or less uniformly across all sectors (Table 6).

Such a value of the employment/output elasticity appears to be high. A typical range is between 0.3 and 0.6 and can at times be closer to zero ("jobless growth"). If annual GDP growth remains at around 3 percent, and the elasticity is assumed to be 0.5, then annual employment creation may be closer to 30,000.

4.4. Social concerns

In addition to the earlier discussed changes in poverty, inequality, education and so on, the deteriorating macroeconomic conditions since 2010 have had several and substantive effects on social conditions. With reference to changes during the past decade, the percentage of households with a loan increased substantially over time, and more than doubled among middle-class households. Home ownership used to be more or less similar across different income groups of households, but its rate has declined for all households except those in the top decile. The percentage of those who say that they are satisfied with health services and public transportation has substantially declined.[199]

Overall, only 15 percent of the population feel the current economic situation is "good or very good" (Figure 37). This constitutes a decline from 55 percent in 2005. However, the EMV2033 assessed 40 percent of the population was satisfied with the quality of their lives in early 2020s, and expects this share to double by 2033.

In 2013, Jordan stood out as a clear leader in terms of trust in government among eight Arab countries included in Arab Barometer - with Lebanon and Libya being ranked lowest.[200] By 2022, Jordan's position had declined sharply, and Jordan now ranks only above Iraq and Lebanon.

[195] In its First Review under the Extended Fund Facility introduced in January 2024, which was released on May 9, 2024, the IMF noted "growth is projected to moderate to 2.4 percent in 2024" and, acknowledging a challenging external environment and many headwinds that may arise, it added that "strong and timely international support remains needed" (IMF, 2024c). Risks related to modest economic growth rate, persistent budget deficits, rising debt repayments have also been noted by local researchers (Kandah, 2023).

[196] IMF (2024a).

[197] IMF (2024c).

[198] Arab Barometer, Wave VII (2021-22).

[199] The comparison is between the HEIS of 2010/11 and 2017/18.

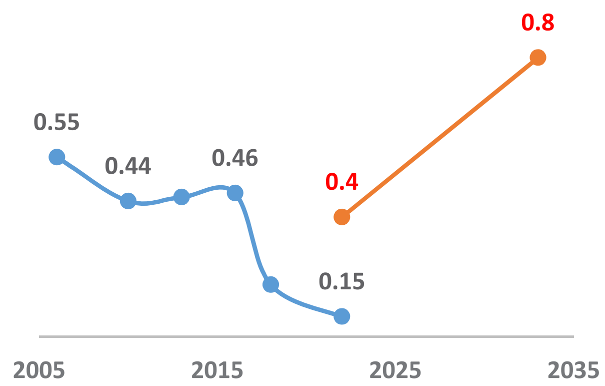
[200] The other 5 countries were Iraq, Libya, Morocco, Palestine, Sudan and Tunisia.

Table 6. Expected output and employment annual growth rates by 2033, implied employment/output elasticity and increase in employment by 2033

Sector and total employment creation by group	Output growth	Employment growth	Employment Elasticity	Employment in 2033 (,000)
High Value (314,000)				
Textiles	10.0%	9.5%	0.95	148.7
Pharmaceuticals	10.0%	9.5%	0.95	10.6
Mining	10.0%	9.5%	0.95	18.2
Chemical	7.0%	6.5%	0.93	23.5
Engineering	7.0%	6.5%	0.93	11.2
Food	6.0%	5.5%	0.92	33.8
Agriculture	6.0%	5.5%	0.92	68.0
Future Services (397,000)				
ICT	13.0%	12.4%	0.95	76.3
Creative industries	8.0%	7.5%	0.94	14.4
Healthcare	7.0%	6.5%	0.93	83.8
Financial services	6.0%	5.5%	0.92	23.3
Transport & logistics	5.0%	4.5%	0.90	64.8
Trade & Commerce	4.0%	3.5%	0.88	134.7
Destination Jordan (99,000)				
Tourism	10.0%	9.5%	0.95	99.0
Smart Jordan (90,000)				
Education	4.0%	3.5%	0.88	89.7
Sustainable Resources (9,000)				
Energy	4.5%	4.0%	0.89	5.7
Water	3.5%	3.0%	0.86	2.9
Others (124,000)*				
Other industries	4.0%	3.5%	0.88	34.0
Other sectors	3.0%	2.5%	0.83	68.0
Public administration	1.0%	0.5%	0.50	22.0

Source: Author's estimates based on EMV2033.

Figure 37. Share of Jordanians saying the current economic situation is good or very good, and being satisfied with quality of life in 2022, and expected to be satisfied in 2033 (right line)



Source: Arab Barometer VII and EMV2033.

Overall, trust in government has declined from 72 percent in 2010 to 31 percent in 2022.[201] This significant drop has been associated with the perceived increase in poverty, and the rise in unemployment.[202]

Also, according to results reported in the Arab Barometer, more than 75 percent of respondents stated that the most important challenge facing Jordan was the economic situation.[203] Of the Arab countries included in the World

[201] Arab Barometer, Wave VII (2021-22); Makdissi (2024a).

[202] Based ibn the results of Arab Barometer Waves II (2012) and VII (2021-22). See also Ersan (2024) and Makdissi (2024a).

[203] Percentage calculated excluding those who were concerned about the spread of COVID-19 (18 percent). See Arab Barometer, Wave VII (2021-2).

Happiness Report 2024, Jordan was ranked 125th, only ahead of two other Arab countries (Egypt 125th and Lebanon 142nd) of the 143 surveyed countries, the last being Afghanistan.[204]

4.5. Concluding remarks

The twin development objective Jordan has set up to achieve is known at least since the Economic and Social Transformation Program in the early 2000s: to increase the role of the private sector aiming to accelerate economic growth and create greater employment opportunities while improving the quality of life of the people aiming to reduce poverty. In its more recent formulation included in the Economic Modernization Vision, the objective is similarly based on two strategic pillars: accelerating growth through unleashing Jordan's full economic potential and improving the quality of life for all citizens. Jordan is committed to this twin objective and has the institutional and governance capacity to achieve it as soon as overcomes the hurdle of posed by its legacy debt.

The past progress in areas related to the SDGs is therefore commendable for a country that has experienced so many specific shocks, in addition to the global ones that the rest of the world has been subjected to, like the pandemic in 2020. Jordan should continue to pay attention to the remaining challenges in economic and social areas associated with the achievement of individual SDGs. In the limited space of this paper, there is no need to repeat the recommendations listed in the many plans and policies included in the continuously updated sector strategies. These recommendations should be implemented consistently ensuring policy coherence, while recognizing the inevitability of tradeoffs and exploiting the synergies between the different goals.

Where more emphasis should be placed is on the key goal that Jordan itself has noted that it needs more attention, namely SDG8 on decent employment and economic growth. Progressing toward this goal with have an impact on SDG1 on poverty and SDG10 on inequality. Growth will enable the government to collect more revenues and invest in all other SDGs and social protection. As the EMV2033 and other national documents state, and is also repeated in the reports by donors, rating agencies and analysts, future progress will depend on achieving fiscal balance and promoting private sector development that would help to reduce unemployment and ease the social pressure that poses a risk to reforms and stability.

[204] Makdissi (2024b). The other Arab countries were Iraq (92nd), Morocco (107th) and Tunisia (115th).

Annex 1. Shocks to the Jordanian economy since 2008

The Global Financial Crisis (GFC, 2008). The most severe worldwide economic crisis since the Great Depression staring in 1929, as important as it might have been especially among high income countries, did not particularly affect Jordan. The Jordanian financial system "had little exposure to global finance and consequently to the toxic assets"[205] … "due to the lack of modern financial instruments in the financial market such as derivatives".[206] The banking sector was cushioned from its low exposure to international property and equity markets. Moreover, the Jordan Central Bank (JCB) took positive steps by fully guaranteeing bank deposits, repeatedly cutting the interest rate and reducing the banks' reserve requirements to 7 percent (from 10 percent when the GFC hit).[207] The Amman Stock Exchange experienced a short-lived negative impact in the last quarter of 2008 that withered away within the following year or so.[208] Inflation reached 14 percent, partly due to the elimination of energy subsidies, but returned to its previous low level by 2010. The important tourism sector was not affected by the crisis[209] and actually saw an increase in receipts.[210] Remittances remained practically unaffected.[211] The growth of government spending was rather modest after the GFC, primarily due to the fiscal consolidation measures the government undertook to contain public expenditures. For example, fuel subsidies were eliminated in November 2012".[212]

The Arab Spring (2011). Jordan managed to maintain macroeconomic stability, despite its impact on other Arab countries, However, Jordan faced a build-up of economic pressures. Foreign exchange reserves were drawn down and public debt accumulated via widening deficits though net government borrowing as percentage of GDP was largely contained.[213]

The Syria crisis. Starting in 2011, it disrupted the cheap supply of energy from Egypt, trade with Iraq and Syria collapsed, and an estimated 1.2 million Syrian refugees came to Jordan. Annual trade with Syria that once exceeded $600 million was reduced to around $40 million.[214] The costs of accommodating Syrian refugees in Jordan were initially estimated by the IMF to be 0.5 percent of GDP"[215] but the EU reported that the cumulative impact of the Syrian crisis reached an estimated equivalent to 18 percent of GDP by 2021.[216] In addition to the high poverty rates among refugees reaching 70 in Jordan, the majority of refugees relocated to the poorest parts of the country stretching public social services.[217] However, Syrian refugees contributed to private consumption in GDP, boosted labor supply, as Jordan has commendably granted them work permits, and kept wages from growing in the sectors in which they are employed – an advantage for the employers in the private sector and a disadvantage for the low skill and lower paid Jordanians.[218]

A Digression: The Jordan Compact 2016. The Jordan Compact (JC) agreed between the Government of Jordan, the international donor community and development partners in 2016. The JC aimed to support both refugees and host communities, blending humanitarian aid with development initiatives. Among others, it relaxed specific rules governing EU trade with Jordan and was expected to increase exports to the EU. More specifically, the JC simplified access to European markets through relaxed Rules of Origin (ROO) that granted preferential treatment to participating Jordanian companies that employed at least 15 percent Syrian refugees in their workforce. The agreement focused on industries such as agriculture, construction, and manufacturing. However, a 2024 study found that after the relaxation of rules only two manufacturing companies in Special Economic Zones (SEZs) were exporting to the EU, though their number increased to eleven by 2019.[219] Neither was the growth of exports to the EU by the participating companies bigger relative to industries not targeted for Syrian refugee employment, nor was the growth in exports to the EU significantly higher than that

[205] Ajlouni, Mehyaoui and Hmedatt (2012).

[206] Alnajjar (2009).

[207] European Commission (2010).

[208] Ajlouni et al. (2012).

[209] Ahid and Augustine (2012).

[210] For example, compared to the year before, receipts rose by 17 percent in 2009 and another 7 percent in 2010. See http://statisticaldb.cbj.gov.jo/index?action=level4

[211] Ahid and Augustine (2012).

[212] Quilter-Pinnern and Symons (2014).

[213] Ibid; Barari and Satkowski (2012).

[214] Davis (2022).

[215] Quilter-Pinnern and Symons (2014).

[216] European Commission (2022).

[217] Verme et al. (2015), World Bank (2024c).

[218] Razzaz et al. (2017).

[219] SegnanaJaime, J. et al. (2024).

to other regions. One reason for this outcome was the labor intensive and informal nature of targeted sectors that made it difficult for refugees to obtain the necessary work permits as employers were reluctant to formalize work arrangements (the expectation was for 200,000 work permits but only 90,000 were issued). Yet, the study found that, naturally, the JC improved economic opportunities for refugees and helped them transition from dependency on aid to active participation in the labor market, despite their limited integration into the formal economy. The study concluded that approaches like those of JC "offer a hopeful vision of what can be achieved through innovative partnerships and a focus on long-term solutions [that] not only improve their lives but also strengthens the resilience of Jordan as a whole", and "highlights the importance of international cooperation in turning crises into opportunities for economic development".

COVID-19 (pandemic declared on March 11, 2020) expectedly reduced the size of the economy by 1.6 percent in 2020. It led to a substantial slowdown in FDI flows and remittances, and disruptions in trade, services, and tourism. Tourism saw a decrease in the number of visitors by nearly 80 percent with a similar reduction in revenues. The pandemic added pressure on the health sector and called from increased spending on social protection. The recovery that ensued was rather timid with annual economic growth reverting to its pre-pandemic rate at around 2.5 percent.

The War in Ukraine (February 2022) had little effect from the disruption in global supply chains and increased prices for essential commodities, though Jordan heavily relies on imports for food and energy. In the meantime, Jordan has adopted a balancing act between the West and Russia and Jordan was not included in Russia's list of "unfriendly" countries.

The War in Gaza (October 2023) had a limited effect on the level of GDP in 2023, because the Jordanian economy grew relatively fast during the first nine months of 2023, before the war started in October 2023. The effects of the war for 2024, especially after its spread to neighboring countries, can nevertheless be significant thereby affecting the SDG progress till 2030. For example, the effects on tourism continue during 2024. Unlike remittances that generally provide a more stable source of income to the domestic economy, tourism is more vulnerable to security concerns that are not uncommon in the region. The impact of tourism extends beyond being a direct injection to the economy as it has substantial indirect effects on domestic demand, production, and employment through its links with many other sectors. In addition, with the shares of exports and imports summing up to 76 percent of GDP, Jordan is significantly exposed to shocks in international markets, including transportation costs that have increased following the War in Gaza due to the diversion in maritime trade routes from the Suez Canal to the southern tip of Africa. In fact, Jordan has been affected most than its neighbors since October 2023. Jordan's critical Port of Aqaba saw a reduction in movements by nearly half till end of February 2024 that was accompanied by the rerouting of trade through land transport routes.[220] Not much more can be said about the eventual effects of the war as it still goes on at the time of writing.

[220] IMF (2024a).

Annex 2. Selected Policy Initiatives, 2004-2023

Macro, Governance and Key Sectoral		
2004	Economic and Social Transformation Program 2004-2006	Macro
2006	National Agenda 2006-2015	
2007	Executive Program 2007-2009	
2011	Executive Development Program 2011-2013	
2013	Government Action Program 2013-2016	
2014	National Integrity Executive Action Plan 2014-2018	
2015	Jordan 2025 Vision	
2016	The Executive Development Program 2016-2018	
2016	National Strategy and Plan for Sustainable Consumption and Production 2016-2025	
2016	Public Investment Management (PIM) and PIM Action Plan 2016-2018	
2018	Economic Reforms Matrix 2018-2024	
2018	Economic Growth Stimulus Plan 2018-2022	
2019	National Renaissance Project 2019-2020	
2021	The Government's Economic Priorities 2021-2023	
2022	Economic Modernization Vision 2022-2033	
2023	Economic Modernization Vision, Executive Program 2023-2025	
2024	Jordan's National Investment Roadmap (NIR) 2024-2027	
2018	National Financial Inclusion Strategy for 2018-2020	Finance
2023	National Financial Inclusion Strategy 2023-2028	
2020	National Integrity and Anti-Corruption Strategy 2020 – 2025	Governance
2013	National Policy and Strategy for Science, Technology and Innovation 2013-2017	ICT
2018	Digitizing Jordan (2018-2020) and Reach 2025 Strategy to digitize the economy	
2021	National Digital Transformation Strategy & Implementation Plan 2021-2025	
2023	Artificial Intelligence Strategy plan 2023 – 2027	AI
2023	Artificial Intelligence implementation plan 2023 – 2027	
2020	The National Artificial Intelligence Code of Ethics	
2020	Transport Strategy 2020-2030	Transport
2021	General Entrepreneurship Policy 2021-2025	Entrepreneurship
2021	National Tourism Strategy 2021-2025	Tourism
2024	Sector Plan for Agricultural Extension 2024 - 2030	Agriculture
Climate, Energy and Water		
2013	National Climate Change Policy 2013-2020	Climate/ Environment
2015	National Drought Strategy 2015-2020	
2015	National Strategy for Biodiversity 2015-2020	
2017	National Plan for Green Growth 2017-2025	
2019	Amman Climate Action Plan - A Vision for 2050 Amman	
2021	National Plan for Climate Change Adaptation 2021	
2021	The Green Growth National Action Plan 2021-2025	
2022	National Climate Change Policy 2022-2050	Climate/ Environment
2024	ASEZA Strategic Plan 2024-2028 (Green/Blue Economy)	

Annex 2. Selected Policy Initiatives, 2004-2023 (continued)

2015	National Energy Strategy 2015-2025	Energy
2020	Energy Sector Strategy 2020-2030	
2021	National Food Security Strategy 2021-2030	Food
2016	National Water Strategy 2016-2025	Water
2015	National Strategy for Solid Waste Management 2015- 2034	Waste
2021	Waste Sector Green Growth Action National Action Plan 2021-2025	
	Social	
2011	National Employment Strategy 2011-2020	Labor
2011	National Framework to Combat Child Labor (NFCL) 2011–2016	
2017	National Strategy for Youth Empowerment 2017-2025	
2019	Law No. 14 of 2019 (Amended Labor Law No. 8 of 1996)	
2017	Demographic Dividend Policy 2017	Demographics
2016	National Strategy for Human Resources Development 2016-2025	Education
2007	National Strategy for People with Disabilities 2007-2015	Health
2016	National Health Strategy 2016-2020	
2019	National Social Protection Strategy 2019-2025	Social Protection
2014	New Social Security Law 2014	Pensions
2016	National Plan for the Elderly 2016-2020	Elderly
2013	National Strategy for Women 2013-2017	Gender
2017	National Plan 2017-2020 to Implement UN Security Council Resolution 1325	
2018	National Strategy for Women 2018-2022	
2020	National Strategy for Women 2020-2025	
2016	Comprehensive National Plan for Human Rights 2016-2025	Human Rights
2019	National Strategy for Human Trafficking 2019-2022	Trafficking
	SDGs	
2017	First Voluntary National Review (SDGs)	SDGs
2020	Second Voluntary National Review (SDGs)	
2021	Government's Indicative Executive Program (GIEP) 2021-2024	
2022	Third Voluntary National Review (SDGs)	
	Data	
2018	National Strategy for Development of Statistics 2018-2022	Data

Source: Author's compilation.

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