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Jordan's Economy Surprises

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Brief Analysis

Solid economic growth, low inflation, and comfortable international reserves offer a hopeful story line in a war-torn region, but continued chaos in Syria and Iraq threaten the kingdom's stability.

Jordan featured prominently in the June 20 commemoration of World Refugee Day -- and for good reason. According to Jordanian authorities, Syrian refugees now constitute 21 percent of the kingdom's population. While refugees are a big concern for Jordan, though, lately the kingdom has been preoccupied with economics. On May 21-23, Jordan hosted its annual meeting of the World Economic Forum (WEF) at the Dead Sea. The meeting came close on the heels of two surprisingly upbeat reports on the kingdom's economic prospects published by the World Bank and the International Monetary Fund (IMF), respectively. To be sure, the refugees and the threat posed by the Islamic State of Iraq and al-Sham (ISIS) remain significant challenges, but the kingdom nonetheless appears to be making modest progress toward improving its perennially weak economy, a welcome story in a region bereft of positive developments.

Background

Jordan's economy has never been particularly robust, but the 2011 regional uprisings and their aftermath had a profound impact on the kingdom. Particularly detrimental were the multiple disruptions of the natural gas pipeline between Egypt and Jordan, which compelled Amman to purchase expensive crude oil on the open market. In 2013, this resulted in a $3 billion -- or 30 percent -- budget deficit. Wars in Iraq and Syria also curtailed Jordanian exports, stymied expatriate remittances, and undermined the state's transport industry. Meanwhile, the arrival of nearly a million Syrian refugees has strained the kingdom's infrastructure, driving up real estate prices and tightening an already stressed job market. Regional instability has also significantly hampered tourism in Jordan. In November 2010, 142,000 tourists visited the kingdom; just 78,000 came in April 2015. Last year, tourists visiting

Petra were a quarter of what they were in 2010.

Optimistic Appraisals

Average Jordanians are not upbeat about their economy. According to a poll released in June conducted by the Amman-based Phenix (sic) Center for Economics and Informatics Studies, 57 percent of Jordanians see the economy as "bad" or "very bad." While the negative sentiment is prevalent and apparent on the ground, the assessment of global financial institutions -- which take a view from 30,000 feet -- is significantly more positive.

In its April 2015 review of the Stand-By Arrangement with Jordan, the IMF reported that the kingdom was "persevering in a difficult regional environment." Despite the impact of events in Syria and Iraq, the report noted that "growth is holding up, inflation is low, the current account deficit is narrowing, international reserves are at a comfortable level, and the banking system is robust." The World Bank's spring 2015 report *Persisting Forward Despite* Challenges was equally effusive in its outlook. Jordan's economy, the World Bank predicted, "is expected to steadily continue to gather pace as reforms continue," although it warned that "security and oil prices present key downside risks."

Several other bullish assessments of Jordan's economy were delivered during WEF panels. Lebanese businessman Bahaa Hariri, a leading investor in the public-private partnership in developing the Abdali city center in Amman -- a project valued at $5.5 billion -- hailed the palace's economic "vision." During his talk, Hariri highlighted the kingdom's ambitious new plan to attract $20 billion in foreign direct investment in the energy, water, transport, infrastructure, urban development, and information technology sectors. Another Jordan booster at the WEF was Mohamed Alabbar, the Emirati chairman of the real estate company Emaar, who advised would-be financiers to put their money into the kingdom. "The numbers are working," he said. "I think it's the right time now to make that investment." By the end of the two-day WEF meeting, Jordan reportedly had secured $6.9 billion in investment.

Challenges Still Abound

In a region wracked by instability, the relative calm in Jordan -- as well as the seemingly enduring U.S. security commitment -- provides undeniable appeal for investors. Given the regional turmoil, Jordan's 2015 growth rate of 3.1 percent, up from 2.8 percent in 2014, is no doubt impressive. Yet the kingdom nevertheless faces several persistent economic challenges.

Job creation is one big problem. Officially, unemployment in Jordan is about 12 percent, although many believe the actual figure to be significantly higher. Youth unemployment alone is a staggering 30 percent. Worse, according to the World Bank, labor market participation in the kingdom is only about 36 percent, a figure that has been decreasing, some speculate, due to competition for jobs by Syrian refugees. The job market is also crowded by the more than 300,000 permitted foreigners currently working in Jordan, nearly two-thirds of whom are Egyptian.

Compounding the problem is the country's relatively high enrollment in higher education -- more than 90,000 students register for university every year, leaving 16 percent of graduates unemployed, and presumably disgruntled. In 2013, for example, 200,000 college graduates applied for 6,400 civil service jobs. Recognizing the problem, Amman has announced plans to help create 180,000 new jobs by 2025. While this represents a good start, the stated figure may not be adequate. In 2013, the IMF estimated that 400,000 new jobs would be needed by 2020.

Energy is another perennial Achilles' heel. In 2014, the kingdom spent $5.9 billion, or 18.5 percent of its GDP, on energy. While the commodity remains subsidized, in 2012 Amman -- consistent with its IMF commitments -- started a process of targeting fuel subsidies and rationalizing electricity prices. The kingdom has made progress in this endeavor, but has a way to go, particularly regarding electricity. At the same time, Jordan is trying to diversify its energy sources, moving ahead with building two nuclear facilities, renewable-energy projects, and pursuing a natural gas deal with Israel. For the near future, even as the kingdom benefits from low oil prices, energy is expected to remain a significant government expenditure.

Other economic concerns include the kingdom's growing public debt -- most of which is domestically held -- which has now reached $32 billion, or nearly 90 percent of GDP, considered a high proportion for developing countries. The Amman Stock Exchange's performance also remains anemic. Total market capitalization in 2014 was $25 billion, down 30 percent from 2005. And Jordan's largest private financial institution, the Arab Bank -- which holds 23 percent of bourse investments -- was just struck with an enormous financial judgment against it in a U.S. court for supporting Hamas terrorism. At the same time, Jordan remains highly dependent on foreign assistance to fund domestic infrastructure projects, which create many jobs. In 2015, $736 million of the Jordanian government's $1.4 billion capital expenditures will be underwritten by the Gulf, a region experiencing financial hardship due to low oil prices.

Conclusion

Four years of regional volatility have made Jordan's stability an even higher priority for Washington, and the administration has acted to demonstrate its commitment. In February, the United States signed a three-year memorandum of understanding with the kingdom pledging to increase its economic and military assistance baseline from $700 million to $1 billion per year. And in late May, the administration provided its third loan guarantee to Jordan, this one for $1.5 billion, bringing the total to $4 billion over the last three years.

Even as Washington has taken appropriate financial steps to help insulate the kingdom from regional reverberations, Jordan remains vulnerable to violent spillover from Syria and Iraq. Days ago, for example, mortars from Syria rained on the Jordanian border town of Ramtha, killing one and injuring four. And just before that, Jordanian warplanes destroyed a vehicle attempting to infiltrate across the border. Meanwhile, an estimated 2,500 Jordanians are participating in the jihad in Syria, many affiliated with ISIS and the al-Qaeda affiliate Jabhat al-Nusra.

No doubt, U.S. and Gulf financial assistance is helping the kingdom weather the regional storm. But this aid is only a stopgap measure. Should the chaos continue in Syria and Iraq, as is likely, the threats to Jordan will surely increase. Over time, the kingdom will be ever more susceptible to domestic radicalization, terrorist attacks as occurred in Amman in 2005, and, perhaps, a deluge of additional Syrians pushed south by a regime offensive or an exodus spurred by fears of ISIS.

Despite developments in Syria and Iraq, Jordan is "persevering," as the World Bank and IMF noted. Yet the kingdom's remarkable resilience and continued stability are by no means guaranteed, and are likely to become more tenuous as regional security deteriorates. At this critical time, ongoing substantial U.S. and Gulf economic support is necessary. If the current trajectory persists in Syria and Iraq, however, it is unclear whether this assistance will be sufficient.

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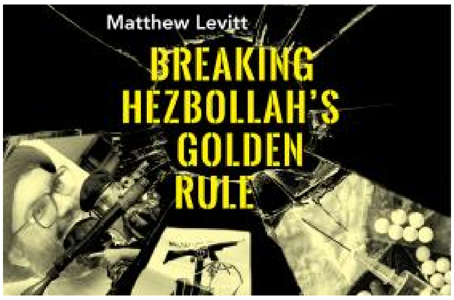

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