JORDAN

ECONOMIC MONITOR

Public Investment: Maximizing the Development Impact

FALL 2022

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Middle East and North Africa Region

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Preface

The Jordan Economic Monitor (JEM) provides an update on key economic developments and policies over the past six months. It also presents findings from recent World Bank analytic work on Jordan. The JEM places them in a longer-term and global context and assesses the implications of these developments and other changes in policy on the outlook for Jordan. Its coverage ranges from the macro-economy to financial markets to indicators of human welfare and development. It is intended for a wide audience, including policymakers, business leaders, financial market participants, and the community of analysts and professionals engaged in Jordan. **The data cut-off date for this Jordan Economic Monitor is December 1, 2022.**

The Jordan Economic Monitor is a product of the Middle East and North Africa (MENA) unit in the Macroeconomics, Trade and Investment (MTI) Global Practice in the World Bank Group. This edition was led by Hoda Youssef (Senior Economist, MTI) and Anastasia Janzer (Consultant, MTI). The Special Focus: Public Investment: Maximizing the Development Impact was written by Hoda Youssef and Jad Mazahreh (Senior Governance Specialist). It has benefitted from comments and inputs from Roland Lomme (Senior Governance Specialist), Lina Fares (Senior Procurement Specialist) and Aijaz Ahmad (Lead Public Private Partnerships Specialist), and from useful discussions with Smita Wagh (Senior Financial Sector Specialist), Mazen Alsad (Principle Investment Officer, IFC) and Aurelie Arnaud (Investment Officer, IFC). The Jordan Economic Monitor has been completed under the guidance of Eric Le Borgne (Practice Manager), Norbert Fiess (Lead Economist), Holly Benner (Resident Representative), and Jean-Christophe Carret (Regional Director).

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Acronyms and Abbreviations

8M-2022	First eight months of 2022
H1-2022	First half of 2022
BoP	Balance of Payments
Bps	Basis points
CAD	Current Account deficit
CBJ	Central Bank of Jordan
CG	Central Government
CPI	Consumer Price Index
COVID-19	Coronavirus Disease 2019
DoS	Department of Statistics
EFF	Extended Fund Facility
e.o.p.	End-of-period
FCU	Fiscal Cost Unit
FDI	Foreign direct investment
f.o.b.	Free on Board
FY	Fiscal Year
GDP	Gross Domestic Product
GoJ	Government of Jordan
GST	General Sales Tax
GNFS	Goods and nonfactor services
IMF	International Monetary Fund
JEM	Jordan Economic Monitor
JD	Jordanian Dinar
LFP	Labor Force Participation
MENA	Middle East and North Africa
MTI	Macroeconomics, Trade and Investment
NDA	Net domestic assets
NEPCO	National Electricity Power Company
NFA	Net foreign assets
PIM	Public Investment Management
PPP	Public Private Partnership
Q1	First Quarter
Q2	Second Quarter
Q4	Fourth Quarter
T-bills	Treasury bills
T-bonds	Treasury bonds
ToT	Terms of Trade
RHS	Right-hand-side
SDR	Special drawing rights
SMEs	Small and medium-sized enterprises
SSC	Social Security Corporation
SOE	State owned enterprise
SSIF	Social Security Investment Fund
U.S.	United States
US$	United States Dollar
WAJ	Water Authority of Jordan
WB	World Bank
WBG	World Bank Group
UNHCR	World Economic Outlook

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Executive Summary

The data cut-off date for this Jordan Economic Monitor is December 1, 2022.

Jordan was hit hard by the challenging global context, notably the increase in global commodity prices. The war in Ukraine combined with COVID-19 aftershocks has led to a sharp rise in global food and energy prices, exacerbating inflationary pressures and threatening food and energy security. To control rising inflationary pressures, many central banks in both advanced and emerging economies, including Jordan, have reacted with monetary policy tightening, which is expected to exert an additional drag on global economic activity.

Despite this challenging environment, Jordan's growth during the first half of 2022 exceeded expectations, buoyed by a strong rebound in tourism and exports. Jordan's real GDP accelerated to 2.7 percent in the first half of 2022 (H1-2022). This upswing was propelled by a strong recovery of international tourism to Jordan, the full reopening of the economy, the easing of COVID-related restrictions and improving exports. The services sector was the strongest contributor to growth with a robust rebound in contact-intensive services, followed by the industrial sector.

However, the rebound in growth was only modestly reflected on labor market indicators. The employment rate increased to 26 percent in Q2-2022 led by the services sector, but still stands 1.8 percentage points below its pre-crisis level in 2019. Meanwhile, labor force participation is low especially for women; they remain below pre-pandemic levels, suggesting a continued discouragement between workers resulting in exit from the workforce. The unemployment rate has only marginally declined to 22.6 percent in Q2-2022 and remains particularly elevated for women (29.4 percent) and youth (46.0 percent). Jordan's unemployment rate also remains relatively sticky compared to its regional peers, which have seen a much steeper decline in unemployment rates from the pandemic-induced highs. Long-standing structural rigidities such as a gender divide and the weak business environment remain an impediment to job creation.

Inflation has reached its highest level since 2018 but remains contained compared to regional peers. Headline CPI inflation rate reached 5.4 percent in September 2022 pushed by the increase io fuel and transportation prices and reflecting the partial phasing out of fuel subsidies – with a small downtick in October to 5.2 percent. In regional comparison however, average headline inflation in Jordan remained relatively contained helped by the (temporary) fuel subsidies and a number of other price control measures introduced earlier in the year. Moreover, a high level of strategic wheat and fuel reserves along with favorable long-term import contracts for gas have to some extent shielded consumers from high international commodity prices.

The Central Bank of Jordan (CBJ) tightened its monetary policy to safeguard the peg by closely following U.S. Federal Reserves' interest rate hikes. The CBJ raised the policy rate six times since March 2022 to maintain the Jordanian Dinar's anchor to the U.S. dollar, bringing the CBJ main rate to 6.00 percent at the end of November. Despite this tighter monetary policy, broad money supply grew by 4.9 percent in the first ten months of 2022, driven by an increase in credit to the private sector. In contrast, a contraction in the banking system's net foreign assets partially reflected the impact of the widening trade deficit.

The CBJ kept its refinancing programs with favorable interest rates unchanged. These programs provide targeted support to ten economic sectors deemed strategic and to SMEs (see Box 1). Such quasi-fiscal operations can have important allocative, financial and macroeconomic implications, by affecting the Central Bank's financial balance and impeding the proper credit evaluation. Similar to other taxes and subsidies, quasi-fiscal operations distort relative prices in the economy and can lead to a misallocation of resources. They also mask the extent of fiscal activity in the economy, thereby posing a transparency and accountability issue. Those aspects stress the importance of quantifying existing quasi-fiscal operations, which should remain a temporary instrument and be gradually phased out while including similar future programs in the budget.

Fiscal consolidation adjustments have slowed down despite good tax performance. The Central Government fiscal deficit (excl. grants) reached 4.1 percent of GDP in 8M-2022, marginally above the deficit in the same period of 2021. The accelerated economic recovery, together with tax administration reforms continue to improve direct tax revenue collection. On the expenditure side, spending pressures from the re-introduction of fuel subsidies exerted substantial pressure on recurrent spending. Capital expenditure stood at 2.0 percent of GDP in 8M-2022 - a significant increase compared to previous years – but is unlikely to meet its ambitious budget target of 4.5 percent. Despite the slower consolidation, a recent upward revision of GDP numbers has lowered the central government debt-to-GDP ratio by 1.2 percentage points to a still elevated 112.3 percent GDP in 2021.

Despite the improvement in merchandise exports and tourism, the external sector remains under pressure, with the current account deficit widening to its highest level since 2012. The trade deficit substantially widened, driven by a surge in imports - mainly driven by oil and grains imports - which was only partially offset by the considerable improvement in merchandise exports (particularly those of potash, chemicals/fertilizers and phosphate) and tourism. In contrast, workers' remittances remained relatively stable, growing by only 2 percent during the first half of 2022. As a result, the current account deficit (CAD, incl. grants) widened in H1-2022 to 7.0 percent of projected GDP compared with 5.4 percent in H1-2021.

Capital and financial inflows did not keep up with the widening CAD, resulting in a substantial widening of the BOP deficit. Although net foreign direct investments (FDI) reached their highest level in five years at 1.1 percent of GDP in H1-2022, a large net outflow of portfolio investments and currency and deposits led to overall weak private financial flows. Despite increased support from multilateral and bilateral loans as well as IMF-EFF disbursements, capital and financial flows were not sufficient to cover the widening CAD, which resulted in an increase of the overall BOP deficit to 2.6 percent of GDP in H1-2022, compared to 0.2 percent of GDP in H1-2021. Persistent external pressures have led to a drawdown in the CBJ's foreign exchange reserves, which stood at US$16.9 billion at the end of October 2022, US$2.1 billion lower than their levels at end-December 2021. However, reserves remain at an adequate level due to the build-up of sizable foreign exchange buffers during the past two years.

Going forward, Jordan's economic recovery in 2022 is expected to be driven by a full rebound of the services sector, helped by the full reopening of the economy and a strong rebound in tourism. GDP growth is projected to reach 2.5 percent in 2022, compared to 2.2 percent registered in 2021. However, highly volatile global fuel and food prices are impacting both domestic consumption and the trade balance. Elevated consumer prices, higher borrowing costs, and the retraction of government spending may weigh on aggregate demand in the second half of 2022. Moreover, while goods and services exports benefit from higher fertilizer prices and a rapidly recovering tourism, the impact of highly volatile global fuel and food prices on the import bill are likely to deteriorate the trade balance.

Over the medium-term, growth is expected to moderate as the economic momentum fades and global growth declines. Uncertainty and risks surrounding Jordan's outlook remain high, as the looming global economic downturn could negatively impact demand for exports as well as tourism. On the fiscal front, higher borrowing costs and widening (and mostly structural) losses from state-owned water and electricity sectors pose substantial risks to debt dynamics. In addition, an intensification or prolongation of the food and energy crisis would pressure the already elevated external deficit and impact food security. Finally, with its scarce water supply, Jordan is highly vulnerable to climate change and extreme weather conditions.

Domestic policy constraints should focus on building resilience and cushioning the impact of global risk factors. The limited fiscal space and risks from state-owned enterprises (notably the energy and water companies) could be exacerbated by global shocks. To increase resilience and support recovery, structural reforms need to be accelerated to address the long-standing impediments to private sector-led growth. Deep labor market reforms are also needed to overcome labor market segmentation and unlock Jordan's human capital potential.

The Special Focus highlights the role of public investment as a driver of growth, with a particular focus on its recent trends, as well as its efficiency and effectiveness. This is particularly relevant given Jordan's constrained fiscal envelope. The analysis notes that public investment spending has been steadily declining during the past two decades, squeezed by the need to meet the fiscal consolidation targets. Institutional weaknesses in budgeting for capital projects have led to a consistent and increasing under-execution of capital spending. Large dependency on external aid for capital expenditures is a major challenge, leading to large swings in spending and delays in procurement and project implementation. For instance, on average in the past ten years, 44 percent of annual capital spending happened in the last quarter and 27 percent in the last month of the fiscal year, when foreign grants provided the necessary cash. This also has significant implications for the externally funded public assets, which will incur significant operational and maintenance costs during their lifecycle, and long after the donor financing ends. The efficiency of public investment can be maximized by having in place financially realistic long-term strategic planning, transparent and consistent project selection, capital budgeting integrated into a medium-term perspective, effective procurement, and implementation and monitoring throughout the lifetime of the asset. In line with the Economic Modernization Vision 2033 which promotes a transformation towards a greener economy, purposefully integrating climate concerns in public investments would advance the country's achievement of its climate targets.

A. Recent Economic Development

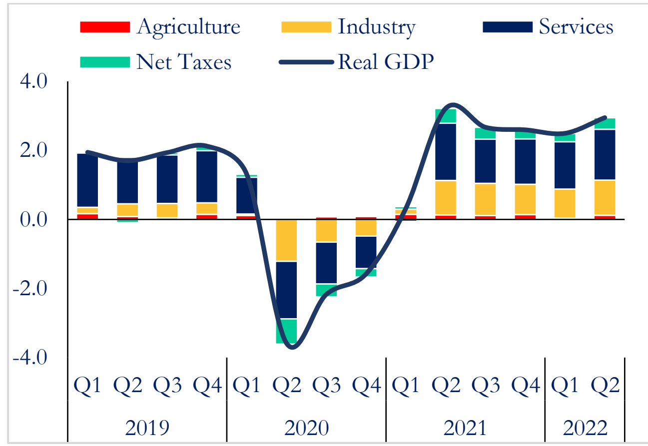
1. Real Sector and Labor Market

Real GDP expanded by 2.7 percent in the first half of 2022 (H1-2022), maintaining a solid pace of recovery. Growth has accelerated to 2.9 percent (year on year) during the second quarter of the year (Q2-2022), up from 2.5 percent in Q1-2022; this is also a solid improvement compared to the 1.8 percent achieved during H1-2021 (Figure 1). This acceleration was propelled by a strong recovery of international tourism to Jordan, the full reopening of the economy and the easing of COVID-related restrictions and improving exports.

The full reopening of the economy propelled a vital rebound, with the recovery led by the services sector. Contact-intensive services (transportation & communications, wholesale & retail and social & personal services) were disproportionally affected by the COVID-induced restrictions but have attained pre-pandemic levels for the first time since the COVID-19 shock. The "restaurants & hotels" subsector registered the strongest year-on-year expansion in H1-2022 but remains the only sector that has not fully recovered to pre-pandemic level. Manufacturing – Jordan's largest sub-sector with a 20 percent share in GDP – continued to show a robust growth performance of 3.5 percent, while extractive industries (mining and quarrying) benefitted from increased international commodity prices for chemical and fertilizer minerals (Figure 2).

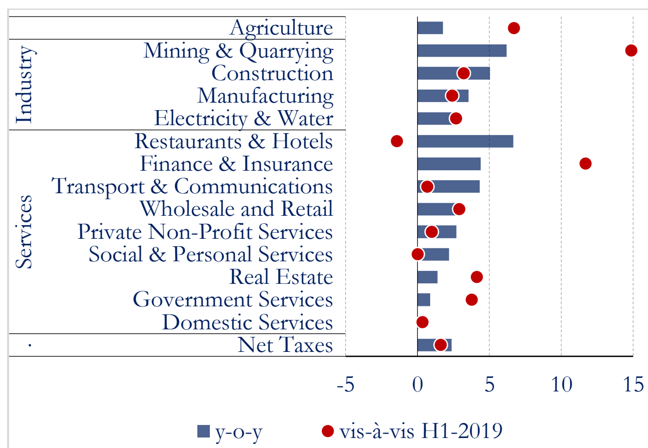
The rebound in growth is modestly reflected in labor market indicators as structural rigidities impair stronger job creation. The employment rate increased to 26 percent in Q2-2022, with the services sector – which accounts for more than 80 percent of total employment – supporting the increase in both female and male employment. However, it still stands 1.8 percentage points below its level in 2019 and employment in subsectors such as "public administration and defense", "wholesale and retail trade" as well as "education" remain weak. This may potentially indicate that the public sector is fiscally constrained to absorb new entrants to the labor force. Moreover, the private sector's ability to generate sufficient jobs for a growing labor force remains limited.[1]

Figure 1. The services sector is leading growth recovery
Supply side growth contribution, percentage points/percent



Source: DoS and World Bank staff calculations

Figure 2. Almost all subsectors reached pre-pandemic levels
Growth of subsectors in H1-2022, year-on year, percent



Source: DoS and World Bank staff calculations.

Labor force participation also shows persistent stickiness and remains nearly constant (Figure 3)**.** Labor force participation (LFP) continued to hover around a relatively low value of just under 34 percent - below pre-pandemic levels - suggesting that there may have been workers' discouragement resulting in exit from the workforce. While this is somewhat expected given that changes in LFP rates require longer-term behavioral shifts,

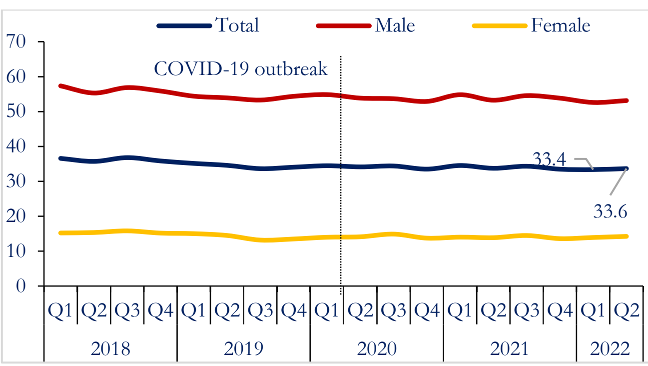
[1] World Bank, Jordan Economic Monitor - Spring 2022. "Global Turbulence Dampens Recovery and Job Creation".

it should be possible to see some short-run movements in the participation rate as a reflection to cyclical factors. Women seem to be particularly slow to enter or leave the labor force in response to changes in economic conditions.

Unemployment is gradually improving but remains higher than pre-pandemic levels. The unemployment rate declined to 22.6 percent in Q2-2022, down from 24.8 percent during the same period of the previous year. Yet, it remains 4 ppts higher than the pre-pandemic level of around 19.1 percent in 2019 (Figure 4). Youth unemployment (15-24 years of age) declined by 6 ppts compared to end-2021 and reached 46.1 percent in Q2-2022. However, despite this decline, it still is almost 6 ppts above the pre-pandemic level (2019) of 40.6 percent.

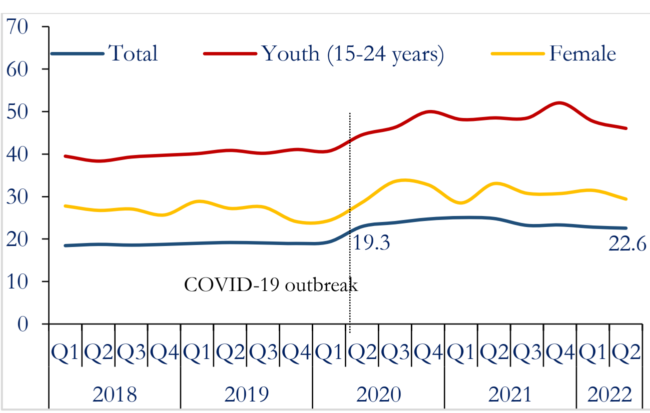
Compared to peers, unemployment in Jordan has been relatively sticky despite the recovery. Several peer countries have seen their unemployment rates decline to pre-pandemic levels while others continue on a steeper downward path. In contrast, Jordan's unemployment rate has not declined substantially (Figure 5).

Figure 3. Labor Force Participation remains sticky
Labor Force Participation Rates, Percent



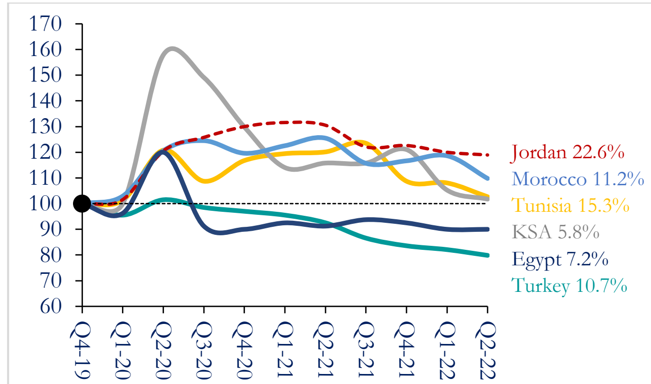
Sources: DoS, Haver and World Bank staff calculations

Figure 4. Unemployment is gradually declining…
Unemployment rates, Percent



Sources: DoS, Haver and World Bank staff calculations.

Figure 5. … but at slower pace compared to peers
Unemployment in regional comparison, Index: Q4-2019=100



Sources: DoS, Haver and World Bank staff calculations

2. Fiscal and Debt Developments

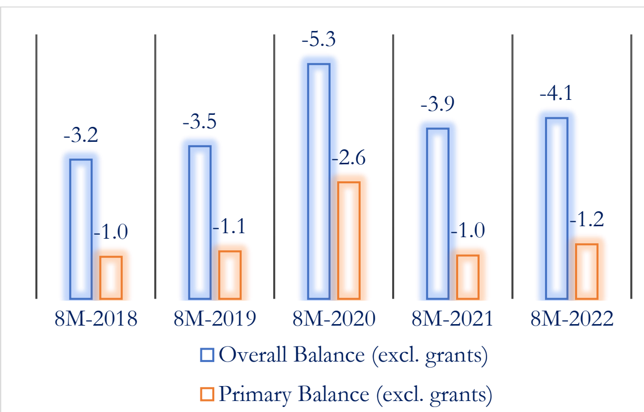
The challenging global environment has slowed progress towards fiscal consolidation. The Central Government (CG) fiscal deficit (excl. grants) has slightly deteriorated compared to the same period in 2021 and remains above the pre-crisis level (Figure 6). While the economic recovery and efforts to broaden the tax base have continued to improve domestic revenue collection, spending pressures from the re-introduction of fuel subsidies exerted pressure on the fiscal deficit. Meanwhile, the fiscal deficit including grants reached 3.7 percent of GDP, 1.5 percentage points higher than the same period in the previous year, reflecting a shift in the disbursement of foreign grants towards the end of the year.

The overall increase in tax revenues reflects the positive impact of tax administration reforms and anti-tax evasion campaigns, yet indirect taxes achieved a modest growth. The increase in domestic revenues was driven by a solid expansion in taxes on income and profits and real estate tax, with a 35 percent surge in income taxes from companies. On the other hand, general sales tax (GST) grew at a modest 4.9 percent (y-o-y), hampered by the non-payment of excises by oil distributors as a reaction to the delays in government disbursement of transfers to cover fuel subsidies. While GST on services on imported goods benefitted from high growth in non-energy imports and a nascent recovery in the services sector, collection of GST on domestic goods and the commercial sector remained weak. Moreover, taxes on foreign trade were constrained by a major customs tax reform that was approved in January 2022. Despite simplifying the tariff system,[2] a lower average tariff led to a decline in taxes on international trade by 28 percent (y-o-y) during 8M-2022 (Figure 7).

Grants received in the period covering the 8M-2022 are affected by the change in the disbursement timing of foreign assistance. In 2022, the bulk of international grants is expected to be disbursed in the last quarter of 2022, as in the pre-pandemic period. Hence, foreign grants stood at 0.4 percent of GDP in 8M-2022, much lower than in the same period of the two previous years when foreign grants' disbursements had peaked at mid-year, following the COVID-19 outbreak. Nevertheless, Jordan's budget continues to benefit from strong support of international grants, most notably from the USA.[3]

Figure 6. Fiscal consolidation has slowed down

Overall Central Government balance, Percent of GDP

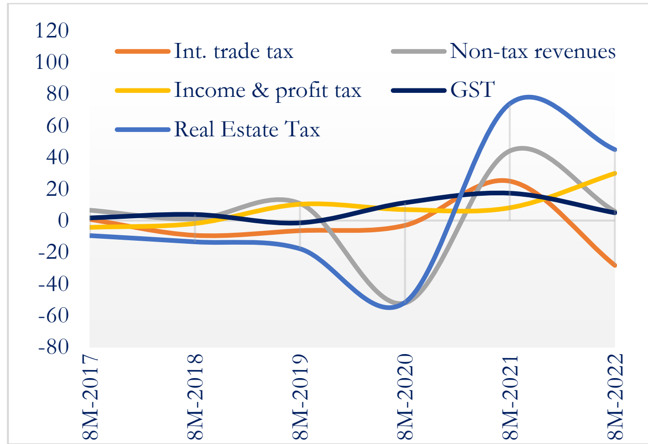


Sources: Ministry of Finance and World Bank staff calculations

On the expenditure side, pandemic-related spending pressures eased but fuel and wheat subsidies have exerted upward pressure on spending (Figure 8). Gasoline prices at the pump were kept stable during the first four months of 2022 and began only phasing out in May. At end -August, fuel subsidies reached 0.7 percent of GDP (JD 232 million) while wheat subsidies stood at 0.2 percent (JD 55 million). This increase outpaced the moderate savings in military expenditures, compensation of employees and transfers, which have slightly declined as percentage of GDP. Capital expenditures, on the other hand, stood at 2.0 percent of GDP in 8M-2022, a significant increase compared to previous years, but still have a long way to meet their ambitious target of 4.5 percent for 2022, considering historical trends (see the special focus for more details on capital spending).

Figure 7. Revenue performance was good except for trade taxes

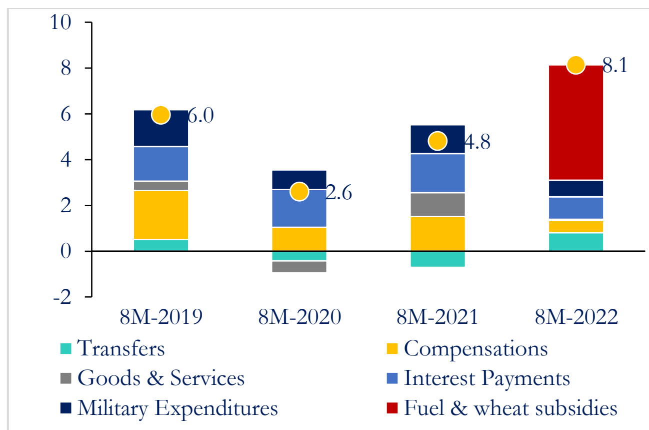
Domestic revenues, year-on-year % growth



Sources: Ministry of Finance and World Bank staff calculations

Figure 8. Subsidies exerted significant expenditure pressures

Current Expenditures Growth, percent / percentage point contribution



Source: MoF and World Bank staff calculations

The sustained economic recovery has a favorable impact on Jordan's debt dynamics despite the elevated deficit. At end-August 2022, government and guaranteed gross[4] debt reached almost JD 37.8 billion, which is JD1.3 billion higher than its end-2021 position. A

[2] The reform reduced the number of tariff brackets from 11 (between 0 and 40 percent) to 4 categories (between 0 and 25 percent).

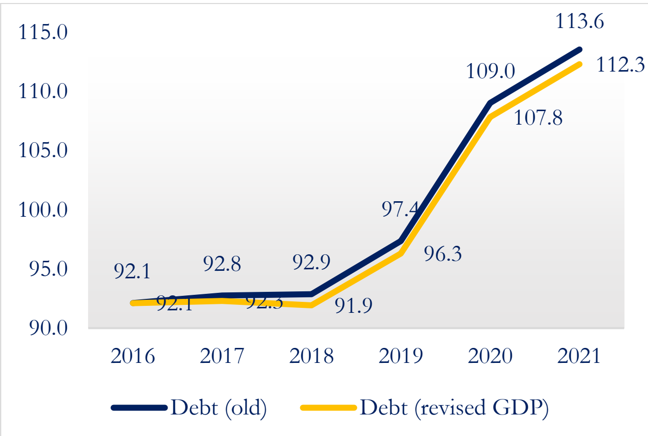
[3] In September, Jordan and the U.S. signed an MOU under which the USA provides US$1.45 billion per year in U.S. bilateral foreign assistance to Jordan beginning in 2023 until 2029. As for 2022, the disbursement of US assistance worth US$845 million is expected to be signed in November 2022.

[4] Government and guaranteed gross debt including SSIF debt holdings and arrears securitized in 2019 and 2020.

recent revision of the GDP historical numbers[5] has led to a lower public debt-to-GDP ratio in 2021, which declined by 1.2 percentage points to 112.3 percent GDP (Figure 9). Meanwhile, public debt excluding the SSIF debt holdings, reached JD 30.3 billion in Aug-2022.[6]

Figure 9. An upward revision of GDP has lowered the public debt-to-GDP ratio

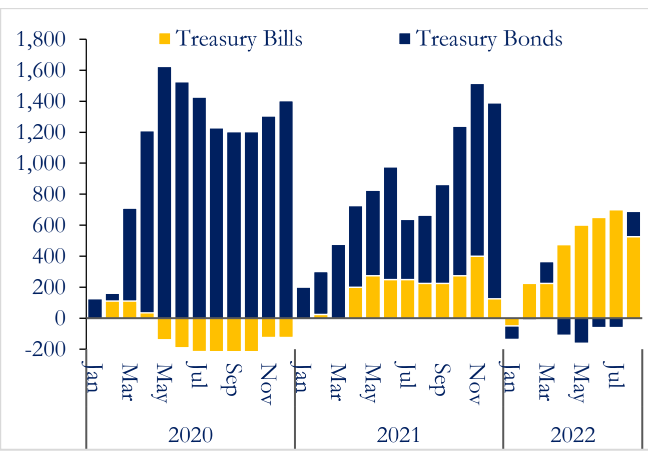
Gross central government and guaranteed debt, including SSIF debt holdings, Percent of GDP



Source: Dos, MoF, IMF and World Bank staff calculations

Figure 10. Domestic borrowing was dominated by Treasury bills

Net issuance of Treasury bills and bonds, JD million



Source: MoF and World Bank staff calculations.

New debt during the first half of 2022 was dominated by domestic borrowing, and mostly short issuances. In contrast to previous years, the government issued mainly short-termed T-bills, while the repayment of T-bonds (notably those with longer maturity) exceeded new issuances (Figure 10). As a result, the weighted average maturity of domestic debt[7] declined from 4.5 years at end 2021 to 4.3 years in the first half of 2022. This is probably to limit the impact on interest rate payments given the rise in global and domestic yields, but may create rollover risks if they shorten the average debt maturity.

Net external borrowing was dominated by multilateral loans, while the stock of Eurobonds remained unchanged. Most of the multilateral borrowing during 8M-2022 came from the IMF and the World Bank. The Eurobond of US$1 billion, which matured in June 2022, was only partially rolled over, with the issuance during the same month of a US$650 million Eurobond at 7.75 percent for a 5.5 year maturity. This was more than three times oversubscribed, reflecting investor's confidence in Jordan and the continued access to foreign financial markets. To finance the remaining part, the government issued US-dollar denominated domestic bonds in July 2022. Reflecting the Eurobonds repayment in June, public debt service (of budgetary and guaranteed debt) in 8M-2022 increased to 7.9 percent of GDP compared to 6.6 percent of GDP during the same period last year. International rating agencies Fitch and Standard & Poor's affirmed Jordan's foreign-currency sovereign credit rating with a stable outlook this year, while Moody's upgraded Jordan's credit outlook from B1 "stable" to "positive", citing fiscal and economic reforms efforts and resilient financing from the liquid banking sector, public pension fund and international donors.

3. External Accounts

Despite the improvement in exports and tourism, the current account deficit (CAD) widened to its highest level since 2012, reflecting a larger trade deficit. The CAD (incl. grants) widened to 7.0 percent of projected 2022 GDP in the first half of 2022, up from 5.4 percent during the same period in the previous year (Figure 11).[8] Most of the deterioration can be explained by the increase in trade deficit, mainly pressured by a significant hike in

[5] Joran's real and nominal GDP figures for 2017-21 were revised upwards in September 2022, resulting in a downtick in the gross government and guaranteed debt-to-GDP ratio to 112.5 percent in 2021, compared to 113.7 percent before the GDP revisions.

[6] In 2020, in mutual agreement with the IMF, Jordanian authorities changed the definition of debt to a consolidated concept. This reclassification takes out the Social Security Investment Fund (SSIF) holdings of government debt.

[7] General Government bulletin only provides this information for debt excluding SSIF holdings.

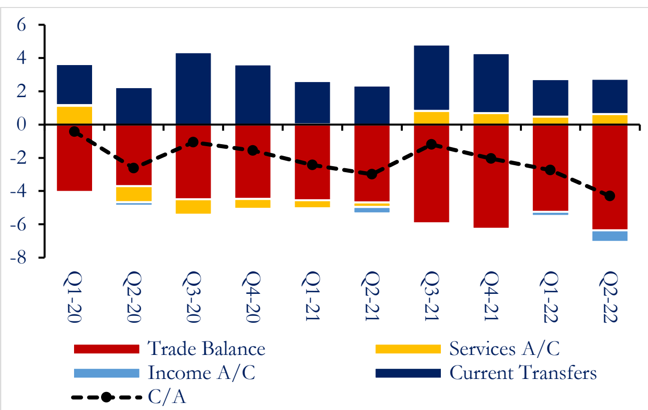
[8] All GDP ratios are based on the projected GDP for 2022 - full year - presented in the outlook.

imports. In particular, the global price shock to major commodities, specifically fuel, has led to a continued deterioration in Jordan's terms-of-trade, which contributed to the widening trade deficit (Figure 12).

A considerable improvement in goods exports has partially mitigated the impact of the rising import bill on the trade deficit. Total exports grew by almost 44 percent in H1-2022, predominantly driven by a substantial increase in international prices for potassium, phosphate and fertilizers. Together with other chemicals, these commodities explain 70 percent of the increase in total exports. A breakdown by destination shows that exports to some of the world's largest potash and fertilizer importers such as India, Indonesia, Malaysia, and China – contributed to more than half of the export growth in H1-2022 (Figure 13).

Figure 11. The Current Account remains under pressure due to a rising import bill

Current Account Developments, Percent of GDP

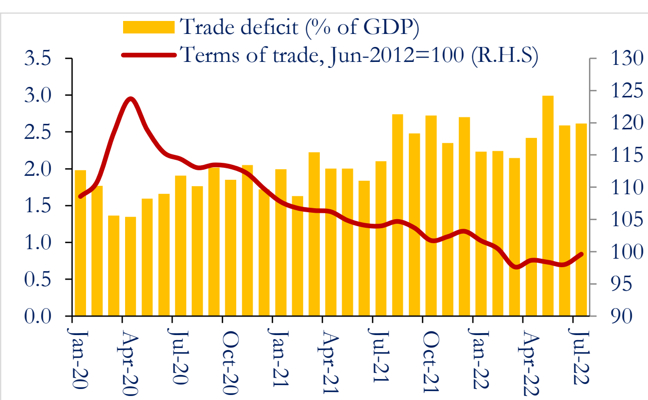


Note: ratios reflect full year GDP in the denominator.

Sources: CBJ and World Bank staff estimates

Figure 12. Worsening terms of trade suggest Jordan needs to export more to cover the same amount of imports

Percent of GDP/Index (Jun-2012=100)

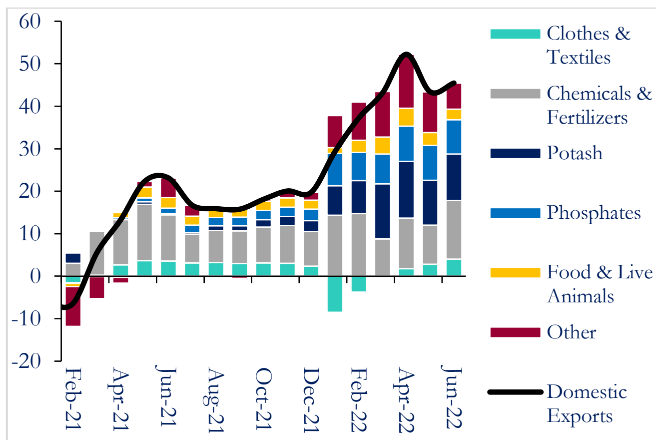


Sources: DoS, IMF commodity terms of trade and World Bank staff estimates

Because of their much larger size, the rise in imports weighed on the trade deficit, overcompensating the exports increase. Non-energy imports accounted for around two thirds of this increase, likely driven by the improvement in domestic demand as imports of intermediate goods and consumer goods remained buoyant. Moreover, the increase in global oil prices have led to a substantial hike in Jordan's energy import bill, which grew by almost 70 percent during the first half of 2022. Estimates suggest that the increase in energy imports was predominantly driven by the price effect.

Figure 13. Exports benefitted from high prices for chemicals and fertilizers

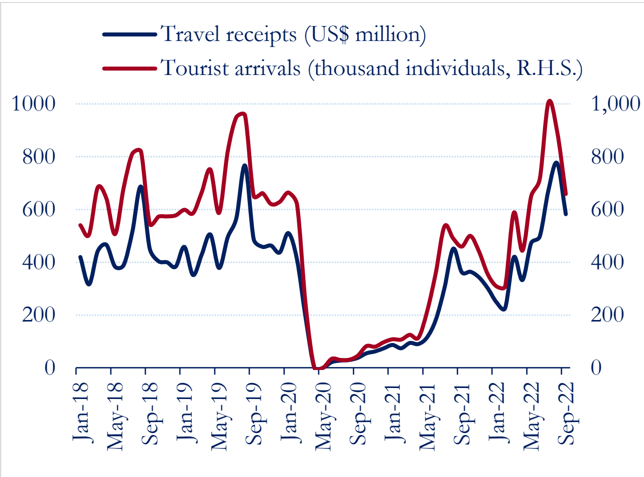
Exports Growth by Commodity, Percentage point contribution/ percent, e.o.p.



Sources: DoS and World Bank staff estimates

A significant rebound in travel and tourism supported the services balance, but workers' remittances remain stable. Travel receipts grew by around 240 percent (y-o-y) during the first half of 2022, reaching nearly US$ 2.2 billion (Figure 14). The increase was mainly led by tourist arrivals from Arab countries, as well as Jordanian expatriates. In contrast, the recovery of non-Arab tourism remained protracted, reaching around 60 percent of its pre-pandemic level during H1-2022. Further improvement was witnessed in the period covering 9M-2022, as travel receipts have nearly recovered to their pre-pandemic level. Overall, the services balance reached a surplus of 1.1 percent of GDP compared to a deficit of 0.7 percent during the same period in the previous year. In contrast, workers' remittances continued to remain relatively stable, growing by 2 percent during the first half of 2022. Both the primary and secondary income account have slightly deteriorated compared to H1-2021.

Figure 14. Tourism is nearly reaching pre-pandemic levels
Tourist arrivals (in thousands) and travel receipts (in US$ million), end of period value

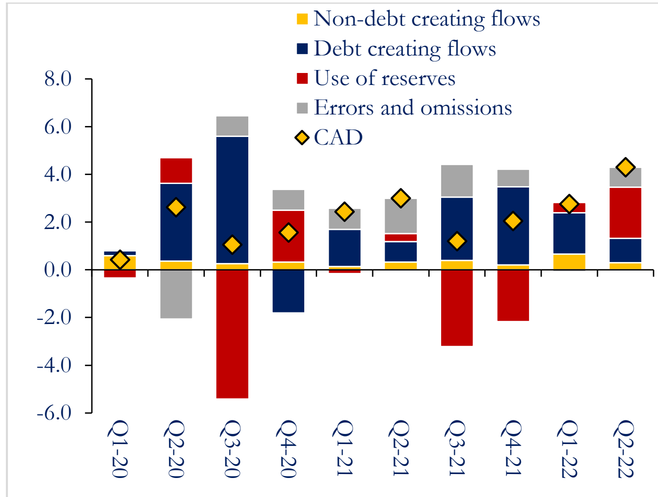


Sources: CBJ, DoS, and World Bank staff estimates

The widening CAD was not sufficiently compensated by capital and financial flows, resulting in an overall BOP deficit. Net foreign direct investments (FDI) rose to 1.1 percent of GDP in H1-2022 – its highest level in five years. In contrast, net portfolio inflows contracted, reaching -1.1 percent of GDP mainly driven by a net outflow of US$350 million in Eurobonds. The net assets of currency and deposits of the banking sector saw a decrease by US$ 420 million, driven by the high imports needs. Hence, debt-creating flows continued to dominate the capital and financial account (Figure 15). Government net official loans rose to US$520 million in 2021 compared to US$70 million in H1-2021. This was further supported by IMF-EFF (net) disbursements of US$443 million following the fourth review. Overall, the increase in capital and financial flows were not sufficient to cover the widening CAD, resulting in an increase in the overall BOP deficit to 2.6 percent of GDP in H1-2022 (compared to 0.2 percent of GDP in H1-2021).

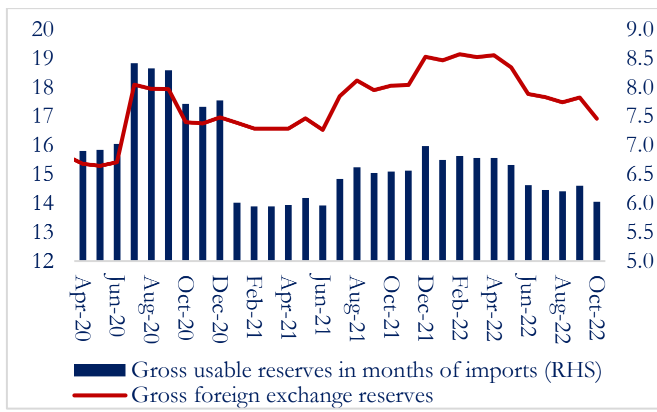
Sustained external pressures have led to a decline in gross foreign reserves. The CBJ's gross foreign reserves stood at US$16.9 billion at the end of October 2022, US$2.1 billion lower than their levels in end December 2021 position (Figure 16).[9] Yet, the relatively high reserves position at end 2021 has enabled the country to make use of buffers while maintaining comfortable reserve levels.

Figure 15. Financial flows could not keep up with the widening CAD…
Financing of the Current account, percent of GDP



Sources: CBJ, DoS, IMF, World Bank staff estimates

Figure 16. … leading to a drawdown on Foreign Reserves
CBJ Gross Foreign Reserves, US$ billion



Sources: CBJ and World Bank staff estimates
Notes: Reserves of Gold and Foreign Currencies. Gross usable reserves include gold and foreign currencies and exclude forward contracts. In months of next year's imports of Goods and Services.

4. Monetary Policy and Inflation

Global inflation and tighter financing conditions had ripple effects on Jordan's small and import-dependent economy. International commodity prices rose sharply as a result of the war in Ukraine, while persistent supply side bottlenecks and lagged effects of fiscal stimuli contributed to global inflationary pressures. Following the international oil price shock in February 2022, the GoJ had kept the price of oil derivatives stable for consumers, effectively limiting

[9] Reserves of Gold and Foreign Currencies.

the pass-through of rising international oil prices during the first four months of 2022. Beyond the provision of untargeted fuel subsidies, the government provided price support in the form of i) price controls (e.g., price cap on vegetable oils, fixing bread prices until the end of 2023), ii) indirect tax exemptions (e.g., GST for vegetable oils removed until the end of May 2022; reduced customs duties on some basic commodities), and iii) trade controls (e.g., export bans on some essential food items; extended the cap on freight costs until June 2022). While price controls -– particularly those related to fuel subsidies - may have helped curtail inflationary pressures, they have relatively high fiscal costs and distort price signals. Thus, the government has started phasing out fuel subsidies in May 2022, which had a notable impact on consumer prices.

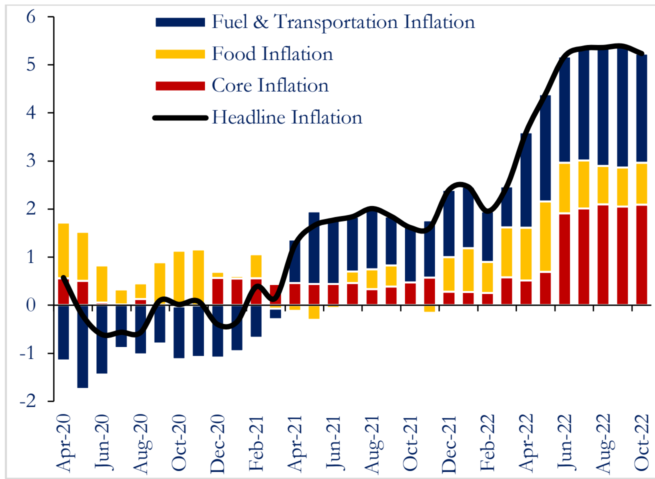
Reflecting these developments, headline inflation reached 5.4 percent in September 2022, the highest price increase since July 2018, but declined to 5.2 percent in October. On average, CPI inflation reached 4.1 percent (y-o-y) during 10M- 2022, compared to 1.2 percent in the same period of the previous year. Fuel and transportation prices drove the increase (averaging 9.5 percent), particularly after subsidies were being phased out (Figure 17). In contrast, average food inflation has slightly eased in recent months, reaching 3.1 percent on average.

Core inflation – which excludes food and energy items – averaged 2.5 percent during 10M-2022 but has significantly accelerated during June to October. Improvement in economic activity, a solid recovery in tourism and the rising cost of housing seem to be the main drivers behind this increase. Detailed data indicates that rents, restaurants & hotels, and culture & recreation explain around 60 percent of the increase in core inflation during 10M-2022. Housing alone accounted for almost a third of the elevated inflation rate, potentially reflecting a delayed catch-up of real estate activity in the post-pandemic period. However, in regional comparison, headline inflation in Jordan remained relatively low. Compared to an average inflation rate of 4.1 percent in Jordan, inflation in the region averaged around 7.3 percent during 10M-2022 (Figure 18).

Consistent with its pegged exchange rate and to mitigate inflationary pressures, the Central Bank of Jordan (CBJ) is tightening its monetary policy. Following the U.S. Federal Reserves' interest rate hikes since March 2022, the CBJ has raised the rate six times by a total of 350 basis points on all monetary policy instruments, except for the overnight deposit window rate, which was raised by 375 basis points, bringing the CBJ main rate to 6.00 percent at the end of November. With this monetary tightening, the CBJ's continues however to support the economy through its targeted refinance program, as favorable interest rates on its JD1.3 billion refinancing program were left unchanged, while the JD700 million support program for SMEs was extended until the end of this year. These quasi-fiscal operations ensure that liquidity to Jordan's recovering priority sectors is made available in spite of tighter monetary policy. However, these measures can entail important allocative, macroeconomic and financial implications (see Box 1).

Figure 17. Inflation accelerated on account of rising fuel prices.

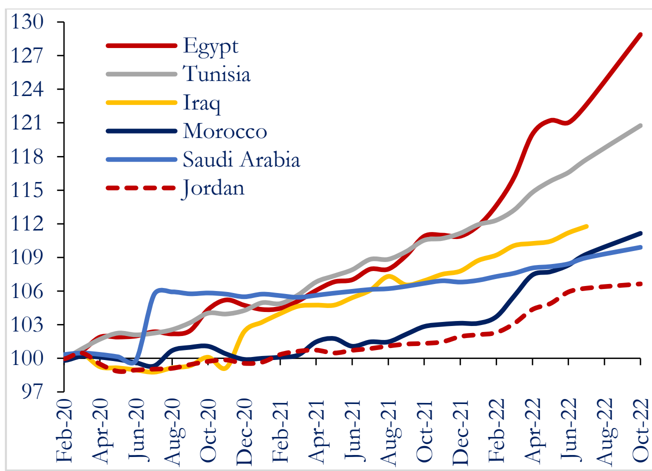
CPI inflation (end of period), year-on-year % growth / percentage point contribution to headline inflation



Sources: CBJ and World Bank staff calculations.

Figure 18. Despite its acceleration, inflation remains low in regional comparison

Average CPI in regional comparison, Index, Jan-2020 = 100

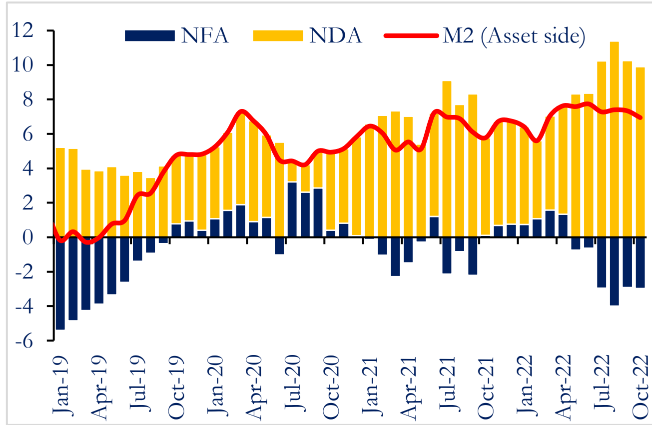


Sources: Haver and World Bank staff calculations.

Despite monetary tightening and rising borrowing costs, money supply increased on the back of expanding credit growth. Broad money supply (M2) grew by 4.9 percent (y-o-y) in the first ten months of 2022, driven by an accelerated increase in net domestic assets (NDA) of the banking system. Credit to private sector was the major driver of the NDA expansion during 10M-2022 (Figure 19). Credit to the public sector also accelerated and grew by 9.0 percent during the first ten months of 2022, indicating higher domestic budget financing. In contrast, net foreign assets (NFA) continued to contract (around 20.8 percent) in 10M-2022, reflecting the impact of the widening trade deficit.

Figure 19. Money Supply continues to be driven by domestic assets

Money Supply (Assets side), year-on-year % growth, percentage point contribution.



Sources: CBJ and World Bank staff calculations.

Box 1. Quasi-fiscal operations of the Central Bank of Jordan

To mitigate the negative impact of COVID-19 on businesses, the Central Bank of Jordan provided crucial support to Jordan's hard-hit private sector through two sizable lending programs. These liquidity operations have been extended since both in scope and size, reaching a total of about JD 2 billion (~6.2 percent of GDP):

(1) The terms of an existing JD 1.3 billion program have been adjusted to refinance ten vital economic sectors through preferential interest rates.

(2) A JD500 million program supporting SMEs, professionals, craftspeople and basic commodity importers, stipulating specific borrower limits for each sector. This program has been increased to JD 700 million (~2.2 percent of GDP) in March 2021, including an extension of borrowing limits for especially hard-hit sectors by the pandemic (i.e., tourism and trade). Within this lending scheme:

- The government bears the interest cost on loans in case SMEs use the loans to pay employee salaries.
- In March 2022, the CBJ utilized this lending scheme to mitigate the impact of rising international commodity prices on importers by raising the borrowing limits for firms that import basic commodities, such as wheat, sugar, and oil.

During 2022, the CBJ has gradually increased the interest rates on its policy instruments but left preferential rates for its refinancing programs unchanged to maintain its support to the private sector. It effectively provides lending to selected sectors at below-market interest rates, a form of administered interest rate. The funds are lent from the CBJ at a low rate (1 percent for projects within the capital governorate, and 0.5 percent for projects within the other governorates), which private banks then on-lend with a small margin. While this hampers banks' ability to price the risk adequately and may undermine the development of this market segment, a guarantee of 85 percent by the Jordan Loan Guarantee Corporation (JLGC) allows commercial banks to be more comfortable to lend with these low-administered lending rates.

The CBJ is planning to phase out the programs by end of 2023 to avoid the unintended adverse effects of such programs. This is because these lending schemes are quasi-fiscal operations, as they represent a transfer of public resources to specific economic sectors, thus carrying out a fiscal policy that falls outside of the fiscal budget**.** Although these activities fall outside of central banks' regular mandate, quasi-fiscal operations often become crisis tools, because they are easier to administer, faster to implement than typical budget-financed subsidies, or are simply considered financial operations which fall within the scope of the central bank's realm. In the case of Jordan, limited fiscal space and large liquidity needs of the hard-hit private sector gave rise to the CBJ's quasi-fiscal operations at the onset of the pandemic. During 2022, they allowed the CBJ to safeguard the peg by closely aligning its policy rate with the U.S. Fed funds rate while maintaining support for selected sectors.

Quasi-fiscal operations can have important allocative, macroeconomic and financial implications. In cases where they are large in size, quasi-fiscal operations can affect the Central Bank's profitability and can create losses. For instance, subsidized lending schemes can impede proper credit evaluation and raise the risk for loan recovery. In their presence, the extent of fiscal activity in the economy can be masked when using conventional fiscal balance measures If they were to happen, losses of Central Bank caused by quasi-fiscal operations would not be easily quantifiable, hereby posing a transparency issue. Those aspects stress on the importance of quantifying existing quasi-fiscal operations for the purpose of macroeconomic analysis. Moreover, similar to other taxes and subsidies, quasi-fiscal operations distort relative prices in the economy (mostly favoring special interest groups) and can lead to a misallocation of resources. Hence, quasi-fiscal activities should remain a temporary instrument and be gradually phased out. In the future, such programs should be included in the budget.

Other countries in the MENA region have also resorted to similar initiatives of subsidized lending for different purposes. In Egypt, The Central Bank of Egypt (CBE) has been also launching several quasi-fiscal initiatives in support of various categories sectors and socioeconomic objectives. Within this context, significant financing was availed to various categories of beneficiaries at interest rates lower than prevailing market rates, with the CBE compensating banks for the interest rate differential. The aim of those initiatives was to incentivize banks to lend selected target groups and facilitate their access to credit. From 2016, several initiatives worth EGP 610.5 billion were announced. The initiatives are wide in their sectoral scopes, covering the social housing mortgage finance initiatives, SMEs initiatives providing financing for already-established or newly established companies in the industrial, agricultural and new and renewable energy sectors, and sector-specific initiatives to alleviate the pressure on workers in the tourism sector that was affected by numerous shocks in the past decade (World Bank, 2022c) In November 2022, the CBE has put an end to the initiatives backing the industrial, agricultural and contracting sectors, and the low-interest financing initiatives were transferred to the finance ministry. A prime minister decree also banned all entities, including the CBE, from drafting any new financing initiatives or amending current ones except after obtaining the approval of the cabinet.

* The ten sectors are: industry, tourism, agriculture, renewable energy, information technology, transportation, health, technical and vocational education, engineering and consulting.

Table 1. Jordan's Central Government fiscal accounts in 8M-2022

	JD million			Percent of GDP			Percent of total Budget		
	8M-2020	8M-2021	8M-2022	8M-2020	8M-2021	8M-2022	8M-2020	8M-2021	8M-2022
Total revenues and grants	**4,731**	**5,528**	**5,544**	**15.1**	**17.0**	**16.1**	**55.9**	**67.9**	**62.2**
Total domestic revenues	**4,108**	**4,973**	**5,419**	**13.1**	**15.3**	**15.7**	**53.6**	**68.1**	**67.2**
Total Tax revenues	**3,313**	**3,829**	**4,209**	**10.6**	**11.8**	**12.2**	**59.6**	**71.0**	**69.1**
Direct	**944**	**1,036**	**1,352**	**3.0**	**3.2**	**3.9**	**74.5**	**84.6**	**96.2**
Taxes on income and profits	919	994	1,290	2.9	3.1	3.7	72.6	89.5	100.1
Real-estates tax	25	43	62	0.1	0.1	0.2	25.5	37.0	53.2
Indirect	**2,370**	**2,792**	**2,857**	**7.6**	**8.6**	**8.3**	**55.3**	**67.0**	**61.9**
General sales tax	2,195	2,574	2,701	7.0	7.9	7.8	55.5	67.3	63.4
Imported goods	551	688	762	1.8	2.1	2.2	48.3	67.7	66.6
Domestic goods	777	817	789	2.5	2.5	2.3	86.7	73.0	65.1
Services	276	289	356	0.9	0.9	1.0	46.0	70.5	65.2
Commercial Sector	592	780	794	1.9	2.4	2.3	44.8	61.0	58.5
Taxes on Foreign Trade	174	218	156	0.6	0.7	0.5	52.7	64.1	44.0
Non-tax revenues	**794**	**1,144**	**1,210**	**2.5**	**3.5**	**3.5**	**37.8**	**60.0**	**61.3**
Grants	**623**	**556**	**125**	**2.0**	**1.7**	**0.4**	**77.3**	**66.2**	**14.7**
Total expenditures	**5,779**	**6,227**	**6,836**	**18.4**	**19.2**	**19.8**	**60.2**	**61.6**	**64.2**
Current Expenditures	5,436	5,697	6,161	**17.3**	17.5	17.8	65.2	64.7	67.7
Compensation of employees	1,100	1,183	1,213	**3.5**	3.6	3.5	65.7	66.1	63.2
Purchases of Goods and Services	177	233	236	**0.6**	0.7	0.7	45.6	53.8	51.0
Interest Payments	841	934	990	**2.7**	2.9	2.9	67.1	64.3	69.3
Military Expenditures	1,773	1,841	1,883	**5.7**	5.7	5.5	67.3	67.0	66.2
Goods Subsidies	0	0	55	**0.0**	0.0	0.2	…	0.0	91.7
Fuel subsidies	0	0	232	**0.0**	0.0	0.7	…	…	…
Transfers	1,545	1,507	1,553	**4.9**	4.6	4.5	64.8	64.7	64.9
Capital Expenditures	343	529	675	**1.1**	1.6	2.0	27.0	40.7	43.7
Overall Balance (excl. grants)	**-1,671**	**-1,254**	**-1,416**	**-5.3**	**-3.9**	**-4.1**	**85.7**	**44.6**	**54.7**
Overall Balance (incl. grants)	**-1,048**	**-698**	**-1,291**	**-3.3**	**-2.2**	**-3.7**	**91.7**	**35.4**	**74.2**
Primary Balance (excl. grants)	**-830**	**-320**	**-427**	**-2.6**	**-1.0**	**-1.2**	**119.4**	**23.6**	**36.8**
Primary Balance (incl. grants)	**-206**	**235**	**-302**	**-0.7**	**0.7**	**-0.9**	**-184.0**	**-45.4**	**96.5**
Memorandum items:									
Nominal GDP	31,369	32,478	34,540						

Source: Ministry of Finance, IMF and WB staff calculations

B. Outlook and Risks

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Resurging tourism is expected to boost Jordan's economic recovery in 2022, but the destabilizing global context is likely to moderate medium-term growth prospects. Real GDP growth is projected to reach 2.5 percent in 2022 compared to 2.2 percent in 2021.[10] Hence, growth in 2022 is expected to be mainly driven by a full recovery in services, helped by the full reopening of the economy and strong rebound in international travel to Jordan. In addition, the significant growth in exports helped sustaining real economic growth. However, increasing consumer prices, monetary tightening, and the retraction of government spending may weigh on aggregate demand in the second half of 2022. Over the medium-term, growth is expected to moderate slightly as the economic momentum fades and global growth declines. Structural reforms need to be accelerated to tackle the long-standing impediments to private sector-led growth and increase productivity. Deep labor market reforms are also needed to facilitate the economic inclusion of females and youth, and the integration of different segments of workers in the formal labor market.

Elevated global food and energy prices are expected to raise inflation to its highest level in four years. Headline CPI inflation is projected to increase to 4.4 percent in 2022 compared to 1.3 percent in 2021, driven by global food and energy prices. Over the medium term, the impact of monetary tightening and a gradual decline in global commodity prices are expected to ease price pressures.

[10] This is an upward revision from the latest forecast of 2.1 percent published in the Macro-poverty Outlook (October 2022), driven by high growth numbers in Q2-2022 and a robust improvement in tourism.

Fiscal adjustments are on track, but debt pressures from the broader public sector will likely intensify. On the revenue side, the economic recovery and continued efforts to increase tax compliance and improve tax administration will increase receipts from taxes on income and profit, specifically from corporate income taxes. The termination of exemptions from real estate registration taxes and fees are also expected to benefit both tax and non-tax revenues. These gains in domestic revenue are anticipated to offset the decline in taxes on foreign trade triggered by customs reform. External support through grants is expected to remain stable at 10 percent of revenues. On the spending side, expenditure-to-GDP is expected to slightly decrease with the retraction of COVID-related spending, partially compensating for higher fuel and wheat subsidies and additional cash transfers. Wheat subsidies, in particular, are expected to reflect on full year-figures as the bulk of spending took place in the second half of the year when the authorities resumed replenishment of strategic food reserves. These additional spending pressures are expected to be taking a toll on capital spending in 2022, which is likely to remain restrained to meet the fiscal targets. Overall, the fiscal deficit is projected to narrow to 5.4 percent of GDP in 2022, down from 6.3 percent in 2021. However, the loss-making state-owned electricity and water companies are expected to largely contribute to an increase public and publicly guaranteed gross debt to 113.4 percent of GDP (with debt net of Social Security Investment Fund holdings at around 89.9 percent). Over the medium term, additional fiscal reforms under the ongoing IMF-EFF program, especially in the areas of tax administration, are expected to continue supporting fiscal performance. However, a more challenging global environment and higher borrowing costs will warrant a more cautious fiscal consolidation trajectory to ensure that a primary surplus can be achieved by 2025.

External accounts will remain affected by the unfavorable global context and high import prices. The current account deficit (including grants) is projected to remain elevated at 8.5 percent of GDP (compared to 8.7 percent in 2021), mainly driven by a considerable deterioration in Jordan's merchandise trade deficit. Unfavorable import prices, particularly of food and energy, are hiking up Jordan's import bill despite the partial protection brought by the high level of strategic wheat strategic reserves and the favorable long-term gas import contracts. However, authorities expected to replenish these reserves in the remainder of 2022. Some of this impact will be cushioned by a strong expansion in exports, predominantly by phosphate, potash, phosphoric acid, and other fertilizers, for which global prices are expected to remain high during 2022. The services balance will benefit from a substantial recovery in tourism of Jordanian expatriates and Arab tourists, projected to reach over 90 percent of pre-pandemic levels. Over the medium term, the CAD is expected to gradually narrow under the assumption of easing commodity prices, and further recovery in tourism receipts. Gross external financing needs will remain high, but gradually decline over the medium term. As for the capital and financial account, FDI inflows are anticipated to improve on the back of reforms of the investment and business environment and an economic upswing of the Gulf states. Jordan will also continue to benefit from steady official multilateral and bilateral financing.

Uncertainty and risks surrounding Jordan's outlook remain relatively high, with major disruptions expected from the external environment. The tightening of financial conditions will substantially raise borrowing costs on international and domestic capital markets, which could further strain already high debt levels. Additional downside risks include a prolongation of the Ukraine-Russia war, and a possible intensification of global political rifts, with damaging implications on food and energy crisis. The latter could put further pressure on the external deficit and directly impact Jordan's capacity to meet its food security needs. Food security risks could further be exacerbated by the impact of climate change, notably lower precipitation and rising temperatures, on Jordan's already stressed water supply. Finally, COVID-19 risks remain a threat and can impact global supply chains. On the flip side, the Gulf states' major oil exporters are expected to benefit from substantial windfall gains from elevated oil prices, which could reflect positively on remittances, FDI inflows and tourism.

Several factors limit the extent to which Jordan can cushion the impact of global risk factors. The fiscal space remains narrow and hinders the government's ability to support poor and vulnerable households. The adopted measures to mitigate the impact of higher food and fuel prices through subsidies is further limiting the fiscal space and may further affect government's capital expenditures. Substantial risks emanate from the state-owned electricity and water companies' losses. Rapidly rising cost of living, increased borrowing costs for consumers and businesses in a context of an already challenging economic environment, high unemployment and poor job conditions pose substantial social risks and increase the risk of economic scarring.

Table 2. Jordan – Selected Economic Indicators (2019-2024)

	2019	2020	2021	2022	2023	2024
	Act.	Act.	Act.	Proj.	Proj.	Proj.
Real sector	(Percent, unless otherwise specified)					
Real GDP growth	1.9	-1.6	2.2	2.5	2.4	2.4
Nominal GDP (JD Billion)	31.946	31.369	32.478	34.540	36.405	38.189
CPI Inflation (p.a.)	0.8	0.3	1.4	4.4	3.0	2.5
Government finance	(Percent of GDP, unless otherwise specified)					
Total revenues and grants	**24.0**	**22.4**	**25.0**	**25.0**	**25.1**	**24.6**
Domestic Revenue	**21.6**	**19.9**	**22.6**	**22.5**	**23.0**	**22.9**
Tax revenues	14.4	15.8	17.3	17.4	17.6	17.5
Non-tax revenues	7.2	4.1	5.2	5.4	5.4	5.4
Foreign Grants	2.5	2.5	2.5	2.5	2.0	1.6
Total expenditure (incl. use of cash)[1/]	**28.9**	**29.6**	**31.3**	**30.4**	**30.2**	**29.7**
Current	24.8	26.9	27.3	27.1	26.7	26.3
Capital Expenditure	3.1	2.6	3.6	3.3	3.5	3.5
Unallocated discretionary fiscal measures (cumulative) [2/]	0.0	0.0	0.0	0.0	0.2	0.6
CG 'Overall balance (deficit (-), incl. grants)	**-4.8**	**-7.2**	**-6.3**	**-5.4**	**-4.9**	**-4.6**
CG Primary Balance (deficit (-), incl. grants)	-1.2	-3.1	-2.0	-1.6	-0.8	-0.3
	(Percent of GDP, unless otherwise specified)					
Government and guaranteed gross debt[3/]	**96.3**	**107.8**	**112.3**	**113.4**	**114.5**	**115.4**
Government and guaranteed gross debt, net of SSIF holdings[3/]	77.2	87.0	90.7	89.9	89.7	89.1
SSIF holdings of government debt[4/]	19.2	20.8	21.6	23.5	24.7	26.3
External sector	(Percent of GDP, unless otherwise specified)					
Current Account (incl. grants)	-1.7	-5.7	-8.7	-8.5	-5.5	-4.7
Memorandum Items:						
NEPCO operating balance (JD million)[5/]	-5	-62	- 133	- 294	- 570	- 662
WAJ overall balance, excl. project grants (JD million)[5/]	-291	-257	- 220	- 230	- 268	- 262
Export FOB (% growth)	7.3	-4.5	17.8	35.0	5.6	3.0
Import FOB (% growth)	-5.5	-10.1	25.0	26.9	1.6	2.3
Travel Receipts (% growth)	10.2	-75.7	95.8	95.1	11.0	8.0
Remittances (% growth)	0.9	-9.1	1.0	2.0	3.1	2.8
Gross usable Foreign Currency Reserves (US$ million)	13,511	15,127	17,272	15,972	15,356	15,601
in months of next year's imports of GNFS	8.8	7.8	6.9	6.2	5.8	5.7

Source*: Central Bank of Jordan, Department of Statistics, Ministry of finance, IMF and World Bank staff projections.*

[1/] Includes use of cash based on IMF 4th EFF review, Country Report No. 22/4, Jan 2022.

[2/] Unidentified cumulative fiscal discretionary measures part of IMF framework, 4th EFF review, Country Report No. 22/4, Jan 2022.

[3/]Government's direct and guaranteed debt (including NEPCO and WAJ debt) and securitization of domestic arrears in 2019 and 2020.

[4/] Projected SSIF holdings of public debt as estimated in 5th EFF review, Dec 2022.

[5/] Based on 2023 Draft Budget Law.

C. Special Focus

Public Investment: Maximizing the Development Impact

Wadi Abdoun Bridge © Shutterstock

Public investment is a key driver of growth and can help Jordan to reinvigorate growth, create jobs, and lay the foundation for sustained socioeconomic development. Jordan's constrained fiscal envelope underscores the need to focus on managing public investment efficiently and effectively. Public investment spending has been steadily declining over the past two decades and institutional weaknesses in budgeting for public projects have led to a consistent under-execution of budgeted capital spending. Dependency on external aid for capital expenditures creates major challenges for planning and implementation. It also has significant implications for the externally funded public assets, which will incur significant operational and maintenance costs during their lifecycle, and long after the donor financing ends. On Public Private Partnerships (PPPs), Jordan has a good regulatory foundation, but institutional and fiscal challenges prevent the good utilization of the framework. The efficiency of public investment can be maximized by having in place financially realistic long-term strategic planning, transparent and consistent project selection, capital budgeting integrated into a medium-term perspective, effective procurement, and implementation and monitoring throughout the lifetime of the asset. Purposefully integrating climate concerns in public investments would advance the country's achievement of its climate targets.[11]

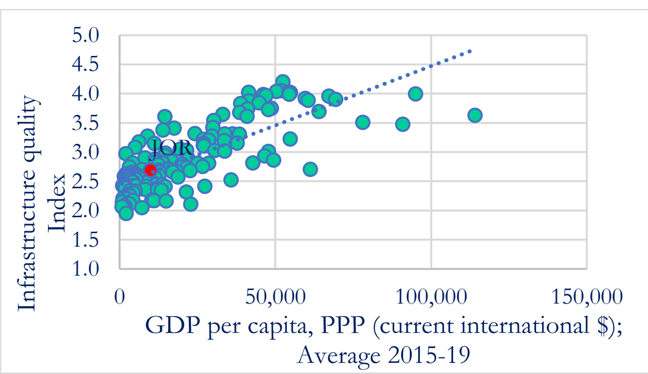
[11] This chapter builds on an analysis of the public expenditure review for capital spending undertaken by the World Bank.

With its ambitious development agenda, public investment should feature at the center of Jordan's drivers of growth. The analysis is timely, as Jordan has embarked on a path of fiscal consolidation, where fiscal resources are constrained, the cost of funding on the rise, and capital spending becomes further at risk of losing ground in favor of less discretionary and more pressing current expenditure needs. The recently launched Economic Modernization Vision 2022-2033 and its Executive program (2023-2025) also provides an opportunity to anchor and guide strategic planning in Jordan, including making public investment decisions that contribute to the achievements of national priorities. Well-targeted public investments can potentially add directly to the capital stock and crowd in private investments, a top policy priority for Jordan.

This focus piece analyzes public spending on investment and its performance during the past decade. It highlights the main trends in capital spending budget allocation, its execution, and the sectoral breakdown of these allocations. The analysis also identifies some long-standing bottlenecks in the strategic planning, implementation and asset management phases of public projects. It also aims at informing the Government of Jordan on how to make public investment more supportive of the recovery by improving the effectiveness of public investment through better management of the process.

Figure 20. Jordan's infrastructure quality is on par with peer countries

Quality of Infrastructure and GDP per capita



Source: WDI, World Bank Logistics Performance Index (2018) and World Bank staff calculations.

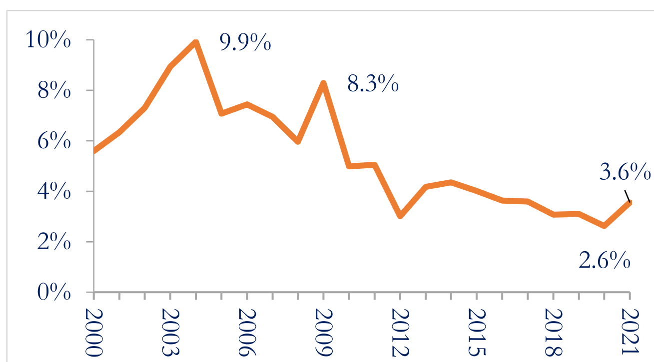
Jordan's infrastructure quality is on par with peer countries but remained almost stagnant for over a decade. According to the World Bank's Logistics Performance Index (LPI), Jordan's infrastructure quality improved only marginally from 2.6 in 2007 to 2.7 in 2018. Nevertheless, Jordan's infrastructure quality is aligned with that observed in other countries with similar income levels (Figure 20). Also, infrastructure constraints are not perceived as being a major barrier to doing business in the country, with the inadequate supply of infrastructure ranking as the 5th most problematic factor.[12]

Trends in Capital Public Expenditure

Public investment spending has been on a steadily declining path during the past two decades. Capital spending[13] averaged 7.2 percent of GDP in FY2000-2010 but declined to an average 3.7 percent in the following decade (2011-2021). The year 2020 witnessed a notable dip (to 2.6 percent) in capital spending, affected by the COVID-19 crisis before picking up to 3.6 percent in 2021 (Figure 21). In comparative terms, spending on nonfinancial assets is lower than the average spending in Upper-Middle-Income countries and oil-importing MENA countries (Figure 22).[14] Its share in total spending – compared to recurrent expenditure has also declined from an average of 20 percent between 2000-2010 to 12.5 percent in the past decade.

Figure 21. Public investment spending has been steadily declining

Capital Spending. Percent of GDP



Source: Ministry of Finance and IMF. Note: Ratios reflect the revised GDP.

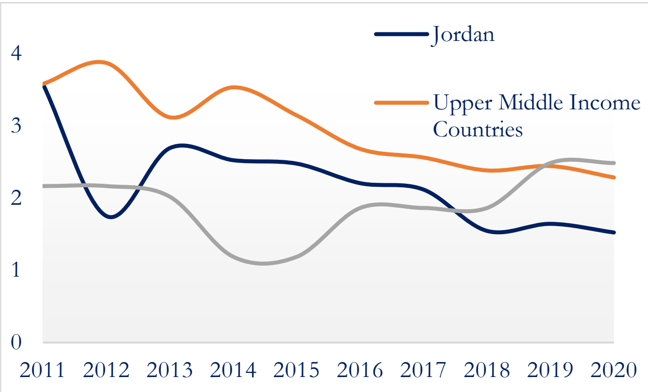
Figure 22. Spending on nonfinancial assets is lower than the average spending in peer countries

[12] Global Competitiveness Report 2020.

[13] In addition to spending on nonfinancial assets, Jordan's definition of capital spending includes sub-categories, namely compensation of employees, subsidies, grants and other expenses, that could fall under a different classification depending on their nature.

[14] Nonfinancial assets represent the cost of public works and construction, maintenance and repair of the building sector, and equipment, machinery, and vehicles. Other sub-categories of capital spending including compensation of employees, subsidies, grants and other expenses could fall under a different classification depending on their nature.

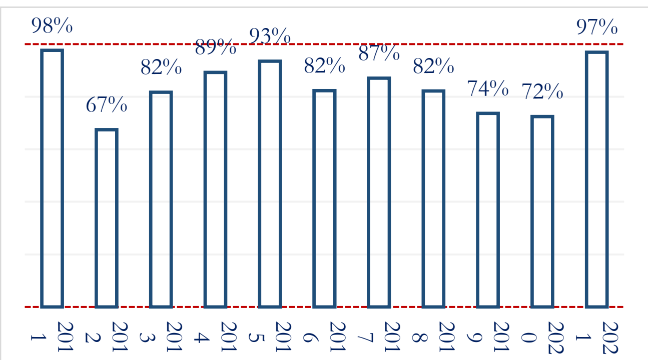
Regional Comparison -Nonfinancial Assets - Percent of GDP



Source: IMF Government Finance Statistics

Figure 23. Capital spending has been consistently under-executed in the past decade

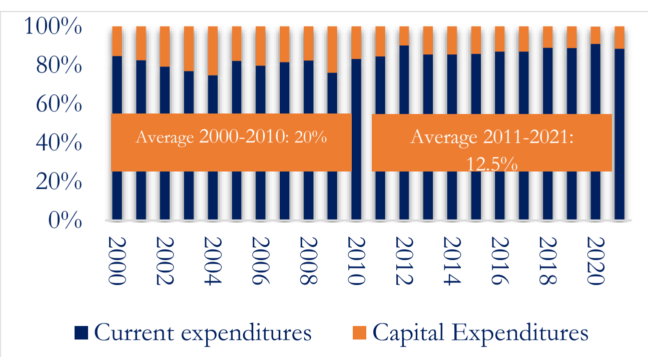
Capital budget execution - Percent



Source: General Budget department and World Bank staff calculations.

Figure 24. Recurrent spending leaves little room for capital spending

Capital and Current Spending - Percent of total spending



Source: Ministry of Finance, IMF, DoS and World Bank staff calculations

Capital spending has been consistently under-executed in the past decade. This can be partially explained by the overestimation of government revenue, which then makes investment spending the variable of adjustment to meet the fiscal targets. This is a consistent challenge as total revenues are not even sufficient to cover recurrent spending, thus squeezing the fiscal space available for capital spending. This implementation gap has been widening since 2015, with budget execution deteriorating to only 71 percent in 2020 before redressing to 97 percent in the following year (Figure 23). Other institutional weaknesses in budgeting for capital projects exist, including the overestimation of capital expenditures needs, the weak project-level follow up and the reinstatement of undisbursed budgeted amounts for inactive projects without clarifying their status. Additionally, project payments are frequently subject to cash rationing.

Rigid spending categories leave little room for discretionary spending. Recurrent spending has been dominated by the wage bill, pension, and interest payments, which together absorb 83 percent of recurrent expenditure in 2020 and almost 76 percent of total public expenditure in the same year (Figure 24).[15] The central government civil service wage bill has grown significantly during recent years driven by increases in hiring and spending on basic salary and allowances (including security and defense), reaching 45 percent of total current spending in 2021 and averaging 13 percent of GDP during the past decade 2010-2020.[16] This is higher than in peer countries (10.7 percent in Oman, 7 percent in Turkey and 5.4 percent in Egypt).

Public capital spending is heavily dependent on external financing, with critical implications for operations and maintenance costs. Given the limited fiscal space, capital spending has been the variable of adjustment, depending on the availability of external aid and for cash management purposes. Monthly trends in capital spending also reflect aid dependency: budget execution data shows that in the past five years, capital spending happened when foreign grants provided the necessary cash (Figure 25). Aid dependency, together with the limited predictability of foreign aid, are major challenges that weigh heavily on capital spending. Additional challenges contribute to these large variations in spending throughout the year, including cash rationing, protracted procurement delays, and lack of project readiness for implementation. On average in the past ten years, 44 percent of annual capital spending happened in the last quarter and 27 percent in the last month of the fiscal year. Additionally, external funding of capital

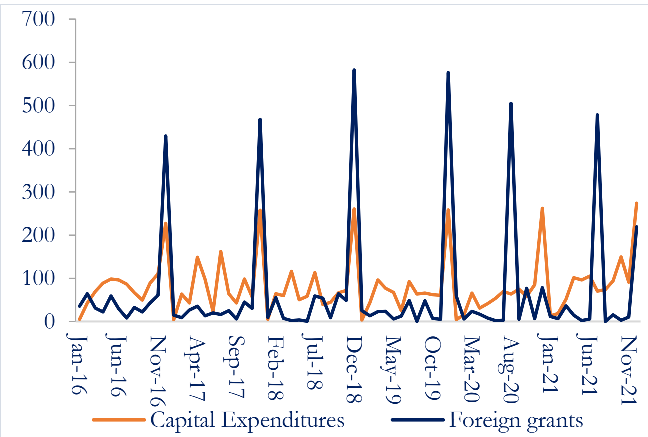
[15] Wage bill includes salaries, wages and allowances of the military.

[16] Source: General Budget Department, actual data according to the economic spending classification.

spending has significant operation and maintenance costs. This is particularly the case for large investments, as external aid generates public assets which will incur significant operational and maintenance costs during their lifecycle, and long after the donor financing ends. During 2010-2020, Jordan received foreign aid in the form of grants and concessional loans of over US$ 26 billion[17] (US$ 16.7 billion in grants and US$ 9.6 billion in concessional loans), averaging 6 percent of GDP on an annual basis.

Figure 25. Capital spending happens when foreign grants are provided

Monthly Foreign Grants Receipts and Capital Spending - Million JD



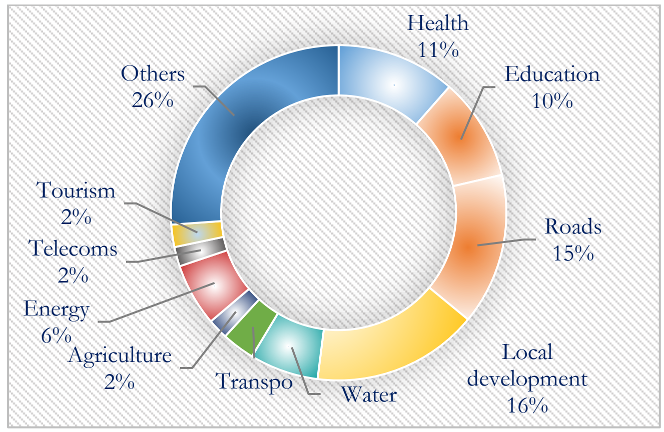
Source: Jordanian Authorities and WB staff calculations.

Capital spending is concentrated in a few sectors. During 2010-2020, 49 percent of the total capital expenditure was absorbed by five sectors: transport, education, health, water, and energy (Figure 26). The year 2021 has however seen large variations in sector allocations. For example, the share of investment allocated to roads, education, health and local development has declined in favor of higher investment in development zones and investment, which have seen their share increase from 4 percent to 21 percent (Figure 27).

Sectors' needs for capital spending are substantial, including on assets maintenance. For instance, despite the expansion of the road network in recent years, it has not been able to keep pace with urban expansion and population growth. Recent years also saw a steady increase in the number of causalities and deaths from road accidents, which cost nearly 1 percent of GDP.[18] In health and education, the GoJ relied heavily on financial support from the international community and agencies for financing capital spending to meet the health sector's growing needs, accommodate the significant increase in the number of students enrolled in public schools and reduce the reliance on rented schools. Health capital spending has averaged 14 percent of total health public spending, but has been gradually declining since 2015, reflecting fiscal challenges.

Figure 26. Nearly half of total capital expenditure is allocated to five sectors

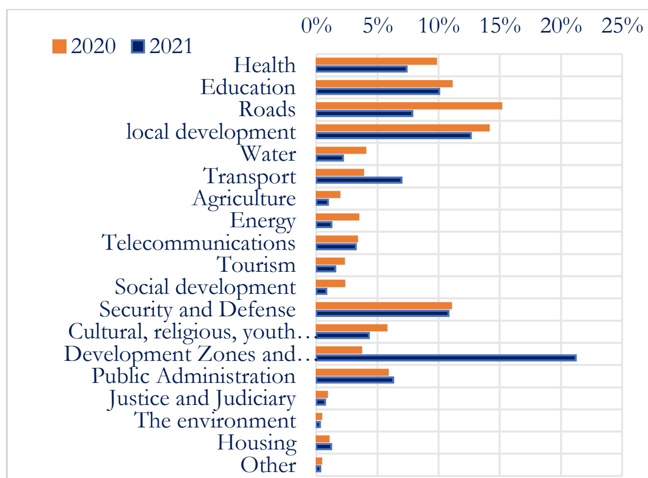
Capital Expenditure by Sector - Percentage of total, 2010-20 average



Source: General Budget department and World Bank staff calculations.

Figure 27. The year 2021 has seen large variations in sector allocations

Public Investment - Percentage of total



Source: GBD and WB staff calculations

Key Public Investment Management Challenges

[17] Foreign Assistance annual report, the Ministry of Planning and International Cooperation

[18] Jordan Annual Road Accidents Report 2020.

Reforming Public Investment Management is critical to make more effective use of Jordan's limited domestic resources for capital expenditure and to better leverage and absorb external funds. The efficiency of public investment can be maximized by putting in place a financially realistic long-term strategic planning, transparent and consistent project selection, capital budgeting integrated into a medium-term perspective, effective procurement, and implementation and monitoring throughout the lifetime of the asset (Rajaram et al., 2014).

Gaps in the planning process result in unrealistic plans. The strategic planning process needs to clearly identify the portfolio of investment projects that are technically feasible, economically viable, and for which funding is available. For instance, the plans issued during 2010-2020 included projects costing over US$ 27 billion[19], while only half of this amount was available from domestic funding. Short-term political considerations continue to play an important role in deciding which domestically financed projects go forward, even with a strategy in place. Hence, there is a need to modernize the planning function, and strategic considerations need to sufficiently influence the selection of public projects.

Budgeting for maintenance and operation costs is a pressing concern. Budget allocations do not necessarily reflect maintenance requirements, often resulting in under-maintenance and deterioration in the quality of public projects' assets in the medium- and long term. This is also the case for aid-funded projects, in particular off-budget investment. Finally, the lack of asset management leads to public assets remaining idle or suffering from significant deterioration. In the roads sector for instance, a first step towards raising efficiency is implementing measures to preserve and improve investment benefits and avoid the need to spend more on road rehabilitation. However, during 2010-2020, Jordan only spent JD 10 million (US$ 14.1 million) per year on road network maintenance, (out of an average capital spending of JD 143 million (US$202 million). In education, only 42 percent of the budget needed for schools' maintenance could be allocated.

Inadequate and old designs (some over 15 years old) are used for infrastructure projects, resulting in significant cost and time overruns. In the roads sector for example, cost overruns can reach up to 100 percent of the initial project value. Changes to designs and technical specifications were the major contributors to this overspending between 2007 and 2018 (on average 45%), followed by demands from local communities. The latter highlights the need to create a mechanism that incorporates consultations with local communities and a social impact assessment in early stages of the project design. It also highlights the importance of strengthening the devolution of capital spending to local governments that are closer to the beneficiaries and more able to identify the local needs.[20] Additionally, the public procurement process seems to solicit the lowest financial offers without sufficient consideration of important elements such as value for money, life cycle cost, weighted quality evaluation criteria and other procurement technics. Inadequate and weak designs have caused significant cost and time overruns in several projects due to changes to the design, in addition to weak contract management capabilities.

Good progress has been achieved in modernizing the public procurement system, introducing modernized legal framework and institutional set-up, and in deploying an e-procurement platform (JONEPS) but project implementation suffers from deficiencies in cash planning. Cash rationing and late payments are not uncommon, which over time have led to increases in the cost of investment as contractors build risks to delays into their bids. While procurement reform is advancing and ongoing, procurement practices will need more time to streamline the bureaucratic processes.

Some progress was achieved in improving the institutional and implementation framework for public investment. In 2018, a new public investment management framework was introduced to integrate the two streams of public investment and PPPs to select economically viable projects. Before that, the planning process did not follow precise institutional arrangements, and the GoJ employed two separate work streams for public investment projects and PPPs. In 2020, the Guidance Note on Project Concept Note Preparation and Preliminary Screening was introduced. It provides detailed selection criteria for public investment projects, including for example the needs and rationale for the projects, consistency with government or sector priorities, viability, risk levels, and implementation capacity, among others.

Nevertheless, key public investment projects do not fall under the jurisdiction of the PIM regime, undermining the transparency of the process and

[19] MOPIC reports on Foreign Assistance: https://www.mop.gov.jo/EN/Pages/Foreign_Assistance

[20] The Ministry of Public Works and Housing data.

government oversight. This includes projects like the national railway network, the electricity interconnectivity project with Saudi Arabia, the pipeline to transfer crude oil and fuel derivatives to the Jordan Petroleum Refinery Company, and consumption and storage points, which fall under the Investment Fund Law.[21]

Public Private Partnerships (PPPs)

Public-private partnerships allow for priority government projects to be executed by the private sector. PPPs reduce the need for upfront public capital investments from government's own revenues (taxes) or through direct borrowing, as the financing comes mostly from the private sector but requires payments from the public sector and/or users over the project's lifetime. PPPs contracts typically span over 20-30 years or longer, during which risks are distributed between the public and private partners.

Jordan has a good regulatory foundation for an effective regulatory environment for public investment, but its implementation is ongoing. The Public Investment Management (PIM) – PPP Governance Framework of 2018, the PIM – PPP Policy of 2019, and the PPP Law of 2020 have all been positive steps in this direction by promoting a unified PIM-PPP approach for project prioritization, appraisal, selection, development, implementation, management, and monitoring public projects. The Aqaba-Amman Water Desalination and National Conveyor (AAC) project, however, was granted an exemption to the PPP law on the basis of procurement being initiated prior to the enactment of the law, yet the project is being prepared in a manner that attempts to comply with many of the salient points of the law.

Institutional and fiscal challenges prevent the good utilization of the PPP framework. Most contracting authorities (ministries, departments, state-owned companies and agencies) lack experience and expertise in PPP transaction structuring, procurement, contract negotiations and contract management. Long decision-making by GoJ on PPP project structure is a major issue. The PPP Unit was recently moved from the Prime Minister's Office to the Ministry of Investment, whose main focus is promoting commercial opportunities and FDI, and not public services as is the case for PPPs. It also has limited capacity (. Hence, the role of the PPP Unit could be gradually enhanced from being only a coordinator to covering project assessment and implementation. The governance process, which requires many rounds of approvals from different committees, could also be simplified. Additionally, PPP projects that were developed before the enactment of the 2020 PPP Act are not under the mandate of the Fiscal Cost Unit (FCU), as the PPP law only focuses on new projects. The FCU in the MoF is mandated to manage fiscal commitments and contingent liabilities (FCCL) of PPPs, but the unit is understaffed and would benefit from investing in capacity building...

Green Investment

The Economic Modernization Vision 2033 outlines the importance for Jordan to continue its efforts to tackle needs related to climate change, achieve a transformation towards a green economy, and foster investment in sustainable projects. In 2021, the government adopted climate change-related eligibility criteria in the PIM and PPP systems, according to which all projects need to be screened for climate change co-benefits to inform the budget's prioritization and assessment process. It should build a pipeline for upstream identification of climate financing needs with development partners and enhance transparency in financing flows. In 2020, the Government had allocated less than 30 percent of Jordan's capital projects' budget towards the six "green growth" sectors (tourism, energy, agriculture, water, transport, and buildings), and most projects in those sectors do not fulfill the climate-responsive eligibility criteria established by the national government. However, most projects could be redesigned to meet those criteria. Actual climate-responsive projects represented approximately 3 percent of the total budget, and potentially climate-responsive projects, i.e., with a redesign, represented approximately 21 percent.[22] Purposefully mainstreaming climate concerns in public investments would improve progress toward climate targets.

Policy Recommendations to Maximize the Development Impact of Public Investment

[21] According to this law ((Law No. 16 of 2016), sovereign funds and Arab and foreign investment institutions are invited to establish a shareholding company or more to invest in development rights and projects listed in the law. The law stipulates that the Fund has the right to possess, invest and develop specific projects such as those listed above.

[22] "World Bank Group. 2022. Jordan Country Climate and Development Report. CCDR Series; World Bank, Washington, DC. © World Bank Group.

The Infrastructure Assessment Governance Framework (World Bank, 2020) provides an overview of the relevant issues to be considered when assessing a country's infrastructure governance framework. Below are a number of key elements to consider in all public investment projects.

- **Is the project worth doing from a strategic and overall economic perspective?** Selection is perhaps the most critical stage of the project cycle. Hence, the planning of projects should be based on a national vision for infrastructure and sectoral plans. Projects assessment, prioritization, and selection should happen according to rigorous technical methodologies in a transparent and data-driven manner. Projects appraisal should analyze individual projects using economic, social, environmental, fiscal, and financial criteria, especially for projects above a certain threshold. A solid legal framework and institutional capacity are required to plan, assess, prioritize, and select potential investment projects.

- **What is the economic efficiency and value for money over the project life cycle?** This should be assessed by considering the total cost over the project's life cycle and should include operation and maintenance costs. It is also important to take into consideration different choices of financing modalities with varying degrees of private participation.

- **Is the project fiscally affordable and sustainable?** It is essential that the appraisal and selection process is linked to the budget cycle. Ideally, investment plans should be grounded in adequately detailed and realistically formulated medium-term expenditure frameworks (MTEFs), as multiyear budgeting facilitates this integration. Proper control, monitoring, and reporting on public commitments are key, in particular for PPPs that, absent clear mechanisms, could be utilized to circumvent conventional budgetary and accounting controls.

- **Does the project incorporate climate and public health risk considerations?** Climate change and environmental sustainability considerations should be embedded into public investment projects not just on the mitigation front but also via adaptation strategies. In line with this, public investment should consider national and local climate change and disaster risk management strategies and should correspond to the relevant international commitments of the government. Hence, the government should set clear and transparent guidelines and requirements for a climate-informed project appraisal and selection.

- **Is the procurement process efficient, competitive and transparent?** Whether public investment projects are delivered using public procurement, or through PPPs, a high-quality procurement process will ensure that infrastructure projects provide good value for money. Creating a level playing field in procurement ensures that the project is awarded to the most advantageous bidder, in a transparent way.

- **Are detailed implementation plans in place?** Implementation determines the success of the project. Detailed implementation plans need to be in place to ensure that projects are delivered according to the contract specifications, on time, and within budget. Clear organizational arrangements, institutional capacity, adherence to realistic timeframes, and effective use of key performance indicators are key ingredients to effective implementation.

- **Is project information comprehensively and transparently accessible throughout the project cycle?** Access to information is key for project performance and accountability. The government needs to invest in collecting, monitoring, and analyzing high-quality and integrated data that can serve as the basis for project management, decision-making, consultation, and accountability.

- **Are public entities equipped with sufficient capacity?** To ensure that all the above steps are conducted appropriately, the government must build sufficient capacity, incentives, and opportunities for public entities to undertake such work and be able to present suitable choices to decision-makers. For Jordan, it is particularly important to build the capacity of line ministries in the preparation and appraisal phases of the investment projects. While the PIM Unit can provide some technical assistance to line ministries, it cannot substitute the functionality of the initiating ministries. Line ministries will also need to strengthen their technical skills in project review in order to improve their ability to assess the realism of feasibility studies, accuracy, objectivity, and quality.

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Annex 1. Selected Recent World Bank Publications on Jordan

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

Title	Publication Date	Document Type
The Impact of Protracted Displacement on Syrian Refugees in Jordan: The Evolution of Household Composition and Poverty Rates	September 28, 2022	Policy Research Working Paper
Jordan Gender Landscape	June 30, 2022	Brief
Jordan Economic Monitor - Spring 2022 : Global Turbulence Dampens Recovery and Job Creation	June 29, 2022	Report
Building Stability Between Host and Refugee Communities: Evidence from a TVET Program in Jordan and Lebanon	June 6, 2022	Policy Research Working Paper
Lessons Learned on the Inclusion of Women in the Digital Economy in Jordan and Lebanon : Recommendations for Increasing Women's Participation	June 1, 2022	Report
Jordan - Climate-Smart Agriculture Action Plan : Investment Opportunities in the Agriculture Sector's Transition to a Climate Resilient Growth Path	May 8, 2022	Report
Jordan - Country Progress Report : Supplement to the 2021 Global Progress Report of the Sustainable Banking and Finance Network	April 1, 2022	Report
Jordan - Addressing Fiscal Commitments and Contingency Liability Management for PPP Projects in Jordan	March 14, 2022	Brief
Jordan Economic Monitor - Fall 2021: En Route to Recovery	October 1, 2022	Report
Barriers and Opportunities to Refugee Women Engaging in the Digital Economy in Jordan and Lebanon : Final Report	October 1, 2022	Report
Jordan Economic Monitor – Spring 2021: Uncertain and Long Trail Ahead	June 23, 2021	Report
The Business Case for Investing in Women's Employment in Jordan Case Study: Umniah - Safe and Respectful Workplaces	June 17, 2021	Report
Education Expenditure, Enrolment Dynamics and the Impact of COVID-19 on Learning in Jordan	April 28, 2021	Working Paper
The Amman Climate Plan: A Vision for 2050 Amman	March 31, 2021	Report
Jordan Economic Monitor – Fall 2020: Navigating through Continued Turbulence	March 1, 2021	Report
Fiscal Policy, Poverty and Inequality in Jordan: The Role of Taxes and Public Spending - Policy Summary	March 1, 2021	Working Paper

Annex 2. Summary of Special Focuses from the Latest Jordan Economic Monitors

Spring 2021 JEM: "Creating more and better Jobs in Jordan"

Jordan's labor market is characterized by high levels of unemployment and informality, which are largely the result of the limited capacity of the private sector to generate more and better jobs. Higher job creation is generally held back by an economic structure that is dominated by small, low-productivity firms—the result of inefficient firm dynamics. Thus, creating more and better jobs in Jordan requires, first and foremost, reforms to increase market contestability by reducing state-induced distortions. This needs to be accompanied by efforts to upskill the workforce, labor policies that facilitate job creation while protecting workers, as well as specific measures to create opportunities and lift constraints to female employment.

Fall 2021 JEM: "How wealthy is Jordan? Measuring Jordan's comprehensive wealth using Wealth of Nations Approach (1995-2018)"

The lackluster growth of Jordan's economy in the most recent decade has been compounded with slow wealth accumulation. During 2010-18, Jordan's per capita wealth has been on a declining trend. As a result, the wealth gap with upper middle-income countries significantly widened by year 2018; a typical UMIC citizen had 4.3 times as much wealth as a typical Jordanian. Moreover, Jordanian citizen wealth in 2018 was five percent lower than in 1995. Given limited natural resources in Jordan, convergence toward upper middle-income countries would require Jordan to focus its polices on building human capital and increasing the efficiency of asset utilization. Moreover, Jordan also needs to unblock bottlenecks in its produced capital growth by improving its business climate and regulatory environment.

Fall 2021 JEM: "Public Transportation Challenges in Jordan"

There are significant development constraints to public transportation in Jordan. Looking at various sources, the costs are estimated to be at least six percent of GDP a year, not counting the adverse impact poor transportation services pose to women's employment. Jordan has historically prioritized investing in transportation infrastructure with limited attention to services such as public transportation. While this has resulted in significant new transportation infrastructure, it has also led to inefficient, uncoordinated, and unreliable public transit services resulting in a low ridership and limited access for most Jordanians, particularly women, youth, and those with reduced mobility. The government launched initiatives to improve the public transportation system, but implementation has been slow. Going forward, policy reforms should focus on the goal of effecting a modal shift from private cars to public transportation.

Spring 2021 JEM: "A year into the pandemic: Jordan's private sector snapshot"

Surveys conducted by the WBG show that, a year into the pandemic, the lockdowns and demand shocks have had a strong impact on the private sector, including high closure rates, particularly in the services sector. To respond to the challenges, Jordanian firms have introduced new products and are using digital technologies more intensively. However, the pace of transformation has lagged other countries. The programs put forward by the government to support the recovery have reached a significant share of companies interviewed, but some gaps remain.

Spring 2021 JEM: "COVID-19 and inequality in the MENA region and in Jordan"

The COVID-19 pandemic has thrown entire economies into disarray and upended livelihoods. Despite being initially heralded as the "great equalizer," new evidence has shown that the consequences of COVID-19 have been borne unequally, disproportionately affecting the poor and vulnerable. This Special Focus looks at the inequality-enhancing effects of COVID-19 in the MENA region, with a special zoom in on Jordan.

Fall 2020 JEM: "Moving Toward an Equitable and Sustainable Pension and Social Insurance in Jordan"

Addressing pension and social insurance issues means addressing financial, fiscal, social, and economic challenges. Although designed to be financially self-sustainable, the contributory pension program is actually unsustainable. The program also creates inequities, and adverse incentives. Despite some past reform efforts, the program has still considerable parametric inconsistencies (benefit promises are not in line with contribution rates and retirement ages). At the moment such inconsistencies are bridged by favorable demographics, but in less than a decade, revenues from contributions will not be enough for pension spending. There are some potential solutions and proposals that Jordan could adopt in order to improve pension outcomes, and its financing mechanisms.