Macroeconomic and Competitiveness in Jordan

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Abstract
The main hypothesis examined in this paper that exogenous shocks including financial crisis and regional stability has worsened Jordan competitiveness and doing business. The analysis indicated that macroeconomic indicators during the period 2000-2009 were stable an improving this accompanied by a more competitive economy and most of the doing business indictors were improving. However, when the Jordanian economy was hit by sever exogenous shock the Jordanian economy competitiveness declined and worsened.

Macroeconomic Background

Jordan has been hit by a series of severe shocks over the past few years. Conflicts in neighboring Syria and Iraq have created considerable economic and social pressures; the authorities estimate that Jordan is hosting 1.2 million Syrians (over one fifth of Jordan's non-refugee population), the majority of which are refugees. At the same time, low-cost gas imports from Egypt have gradually come to a near complete halt, requiring more expensive fuel imports, which led to large losses by the electricity company NEPCO[1].

A worsened regional environment and uncertainty are hurting output and jobs. Growth dropped to 2 percent y-o-y in 2015Q1, reflecting largely the flared up tensions in the region taking a toll on exports and tourism. Inflation remains low. Headline CPI inflation rebounded to very low rates, reflecting primarily a partial recovery in transportation costs from higher oil prices and an acceleration in food prices.

There is a slight uptick in private sector credit growth. Corporate credit growth picked up in the first quarter of 2015. Benefited by lower oil prices, the current account deficit continues to narrow. Energy imports fell by one third in first quarter of 2015 and remittance inflows increased. This offset the decline in merchandise exports and tourism receipts.

IMF Staff Report [1]

The budget over-performed by end of Program period. Revenue collection improved and the decline in expenditures induces the overall balance from JD 1.8 billion in 2012 to almost 0.5 million in 2014. The agreement made with Shell for LNG delivery, will substantially reduce NEPCO's losses starting 2015.

Monetary policy was loosened further. The Central Bank of Jordan (CBJ) lowered interest rates by 25 basis points (bps) in early July (the second cut this year after a 25-bps reduction in February).

Macroeconomic environment was stabilized after the finalization of the Stan-by Arrangement with IMF, however, public debt is still high stood at almost 90% of GDP and constitute a major challenge.

Overall Competitiveness of Jordan:

Competitiveness defined as the set of institutions, policies, and factors that determine the level of productivity of a country. The level of productivity, in turn, sets the level of prosperity that can be reached by an economy. The productivity level also determines the rates of return obtained by investments in an economy, which in turn are the fundamental drivers of its growth rates. In other words, a more competitive economy is one that is likely to grow faster over time.

The last decade has seen remarkable changes in Jordan's economy, socio-economic makeup and competitiveness. While Jordan has made great strides in its economic growth and competitiveness, there is room for improvement, as the following report will detail. In summary, Jordan has
suffered minor setbacks, in terms of competitiveness. Specifically, in such areas as government spending and business capability, the nation's rankings have dropped over recent years. The nation has made significantimprovement in minimizing inflation and making the establishment of firms easier.

We will try to prove below that competiveness and doing Business in Jordan deteriorated in aftermath of the financial crises and the Arab Spring.

Jordan Competitiveness Rank 2015-2016

Jordan is the 64 most competitive nation in the world out of 144 countries ranked in the 2015-2016 edition of the Global Competitiveness Report published by the World Economic Forum (WEF), where Jordan maintained the same level as in the previous year, as well as Jordan came in the seventh rank according to the Arab world after Qatar, UAE, Saudi Arabia, Kuwait, Bahrain and Oman.

This report based on three key indicators (Basic Requirements, Efficiency enhancers and Innovation and sophistication factors). These indicators are grouped in 12 pillars; these are in turn organized into 3 sub indexes.

The following table shows the rank of Jordan according to Global Competitiveness Index (GCI) 2015-2016 and 2014-2015:

Table 1: Global Competitiveness Index (GCI) 2015-2016/2014-2015		
Key Indicators	**2015-2016 (Rank out of 140)**	**2014-2015 (Rank out of 144)**
Basic Requirements	75	73
1st Pillar: Institutions	36	37
2nd Pillar: Infrastructure	70	131
3d Pillar: Macroeconomic Environment	130	71
4th Pillar: Health and Primary Education	54	47
Efficiency Enhancers	67	70
5th Pillar: Higher Education and Training	50	48
6th Pillar: Goods Marker Efficiency	39	40
7th Pillar: Labor Market Efficiency	93	94
8th Pillar: Financial Market Development	71	66
9th Pillar: Technological Readiness	76	73
10th Pillar: Market Size	76	88
Innovation and Sophistication	40	42
11th Pillar: Business Sophistication	40	42
12th Pillar: Innovation	40	41
Source: WB/*Doing Business* 2016.		

The Business Environment

A diagnosis of economy including ranking on the ease of doing business, is an essential tool for policy makers. Also useful is to know how it ranks relative to comparator economies and relative to the regional average.

Jordan in Doing Business 2015-2016

Jordan has been ranked 113th out of 189 countries in the World Bank's 2016 Ease of Doing Business report, which was released lately. The World Bank said the Jordan's economy had dropped by six places from its ranking last year, when it stood at 107.

According to this report, the World Bank said that in regard to the "10 pillars", Jordan did not make any improvements and in fact retreated in seven topics, while maintaining its same position in three pillars.

In the category of "starting a business", the Kingdom's economy moved down from 83 to 88;in "dealing with construction permits", it remained unchanged at 103.

Concerning "getting electricity", the Kingdom regressed from 55 to 56 and in "registering property", it dropped from 96 to 98, while the "getting credit" criterion remained unchanged at 185.

In regards to "protecting minority investors", the Kingdom regressed from 162 to 163, and regarding "paying taxes" from 46 to 52, while "trading across borders" saw a 1-point decrease, from 49 to 50.

As regards "enforcing contracts", Jordan’s rank dropped from 122 to 126 and in relation to "resolving insolvency", it remained at 146.

Economies are ranked from 1 to 189 on their Ease of Doing Business, with rank 1 being the highest "ease".

A high Ease of Doing Business ranking means the country's regulatory environment is more conducive to starting and operating a local firm.
Rankings are determined by sorting the aggregate distance to frontier scores on 10 topics, each consisting of several indicators, and giving equal weight to each topic.

The most problematic for doing business in Jordan:

- Access to financing.
- Inadequately educated labor force.
- Tax rates.
- Restrictive labor regulations.
- Inefficient government bureaucracy.
- Complexity of tax regulations
- Government instability/coups.
- Insufficient capacity to innovate.
- Corruption.

Table 2.1 Summary of *Doing Business* indicators for Jordan

Indicator Rank	DB 2016	DB 2015	Change
Overall Rank	**113**	**107**	**-6**
Starting a business	88	83	-5
Dealing with Construction Permits	103	103	0
Getting Electricity	56	55	-1
Registering Property	98	96	-2
Getting Credit	185	185	0
Protecting Minority Investors	163	162	-1
Paying Taxes	52	46	-6
Trading Across Boarders	50	49	-1
Enforcing Contracts	126	122	-4
Resolving Insolvency	146	146	0

Source: Doing Business database.

The Relationship between Macroeconomic Indicators and Competitiveness and Doing Business

The main hypothesis we will try to prove below that exogenous shocks including financial crisis and regional stability has worsened Jordan competitiveness and doing business.

Indicators	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Economic Indicators															
Real GDP %	4.5	5.3	5.8	4.1	8.6	8.1	8.1	8.2	7.2	5.5	2.3	2.6	2.7	2.8	3.1
Inflation (CPI)%	0.6	1.8	1.9	2.3	2.6	3.5	6.3	4.7	13.9	-0.7	5	4.4	4.8	5.6	2.8
Financail indicators															
Ovrall balance as percent of GDP/including Grants %	3.4	3.5	3.8	2.7	2.7	5.3	4.2	5.1	2.2	8.9	5.6	6.8	8.3	5.5	2.3
Net public debt /GDP %	99.8	96.2	98.4	98.2	88.8	84	68.8	67.6	54.8	57.1	61.1	65.4	75.5	80.1	80.8
Total Revenues /GDP %	33.1	32.9	31.4	36.2	36.6	34.3	32.5	32.7	32.7	26.7	24.9	26.4	23.0	24.1	28.6
Tax Revenues/GDP%	16.0	15.7	14.7	15.0	17.7	19.8	20.0	20.4	17.7	17.0	15.9	15.0	15.3	15.3	15.9
Total Expenditures /GDP %	36.5	36.4	35.3	38.9	39.3	39.6	36.6	37.8	34.8	35.7	30.4	33.2	31.3	29.7	30.9
External sector															
Current Account/GDP %	0.3	4.5	5.2	11.8	0.3	18	11.5	16.8	9.3	5.2	7.1	10.2	15.2	10.3	6.8
Trade Palance /GDP	25.7	22.4	18.1	19.6	29.6	39.8	33.6	37.7	32.6	26.3	25.7	30.6	34.1	34.7	32.9
Oficial Reserves /GDP	46.1	40.5	51.4	65.6	59.6	53.2	57.2	56.6	49.7	64.3	65.2	51.4	30.2	50.3	55.3
Banking & money sector															
Foreign currency deposits (Million JD)	8,225	8,721	9,368	9,969	11,564	13,119	14,592	15,988	18,103	20,298	22,505	24,378	24,970	27,593	30,261
Growth deposits		6.0%	7.4%	6.4%	16.0%	13.4%	11.2%	9.6%	13.2%	12.1%	10.9%	8.3%	2.4%	10.5%	9.7%
Total cridet facilities (Million JD)	5,359	5,757	5,808	5,925	6,877	8,619	10,396	11,900	13,415	13,609	14,688	16,105	18,062	19,178	19,517
Growth Facilites		7.4%	0.9%	2.0%	16.1%	25.3%	20.6%	14.5%	12.7%	1.4%	7.9%	9.6%	12.2%	6.2%	1.8%
Overnight Deposits Window Rate	5.75	3.875	2.875	2.125	2.805	4.629	6.495	5.147	4.649	2.645	2.15	2.917	4.309	3.785	2.94
Interst Rate on treasury Bills (12 month)	N/A	N/A	N/A	N/A	N/A	6.51	6.468	6.182	N/A	3.78	3.087	3.776	6.75	4.28	3.45
The Global compatitiveness ranking	**47**	**45**	**34**	**34**	**35**	**42**	**52**	**49**	**48**	**50**	**65**	**71**	**64**	**68**	**64**
DoingBuusiness- Ranking	**N/A**	**N/A**	**N/A**	**N/A**	**74**	**74**	**73**	**74**	**80**	**94**	**104**	**107**	**95**	**106**	**119**

Economic Growth and GCI

Economic growth rate were at average of 6.5% during the period 2000-2009, then begins to decline to an average of 2.7% during 2010-2014. The slowdown of economy, in the first period as indicated below from 8.6% to 5.5%, was escorted by worsening in the competitiveness indicator (GCI) from 34 to 48.

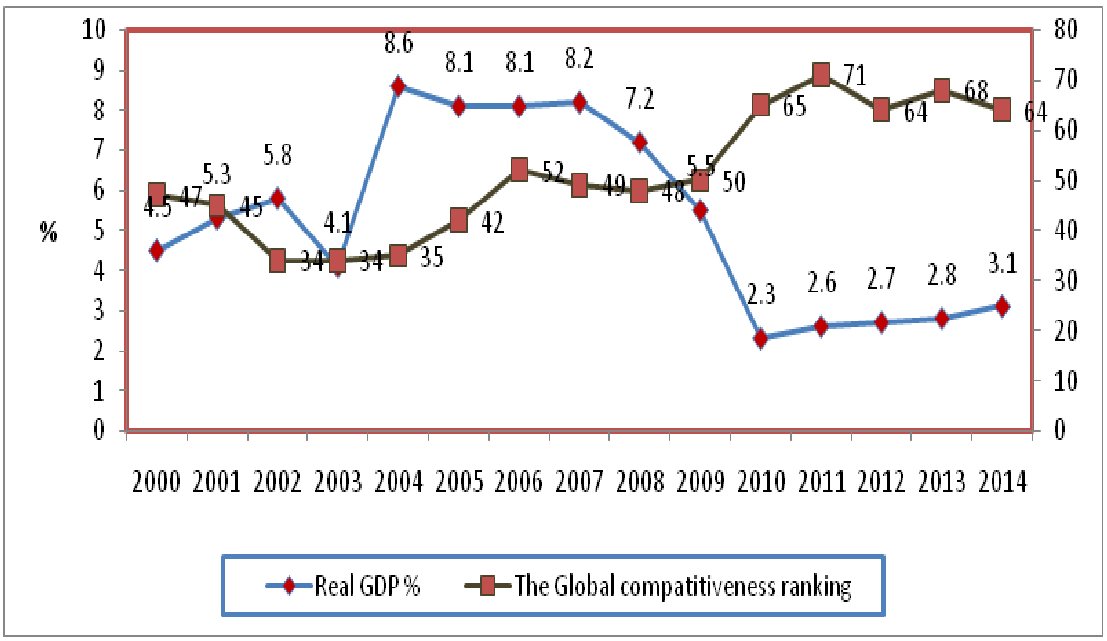
How as the economy entered into a sharp slowdown during 2010-2014 competitiveness was worsening into much sever rank to reach 64 in 2014 compared to 50 in 2010. Here, one can argue that the economy lost some of its competitiveness due to several factors among those instability in the region and cut of gas supply from Egypt, which led to large losses by the electricity company NEPCO. Ultimately, this induces a high increase in public debt to finance NEPCO Losses.

One may argue here when Jordan adopted the Strand by-Arrangement (SBA) program under the IMF macroeconomic environment improved to much stable environment, economic growth ascended little bit and in parallel the GCI rank increased from 68 in 2013 to 64 in 2014.

Public Debt and Competitiveness

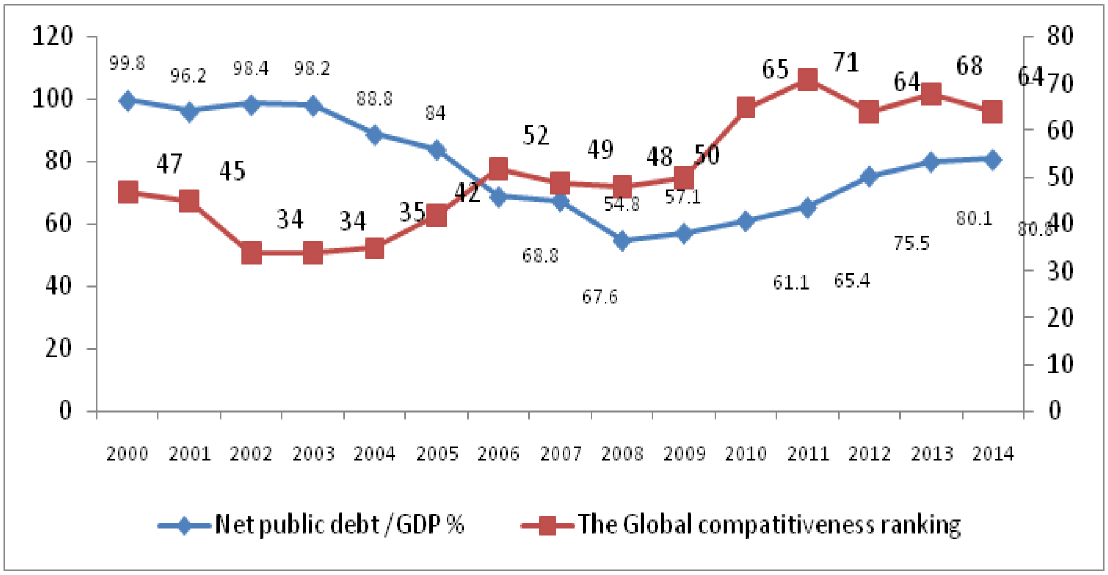
Similar argument can be made here too, during the period 2000-2009 when public debt to GDP has declined from 99.8% in 2000 to 68% in 57% in 2009 competitiveness improved from 47 GCI rank to almost 35 respectively. However, during 2010-2014 as public debt increased to 80% by 2014 the GCI rank worsened to 64 in 2014 from 50 in 2010.

However, during the period 2009-2014 the increase in public debt to 80.8% in 2014 was due to an exogenous shock caused by the cut of Egyptian gas, the government to borrow more by almost JD 4.5 billion to finance NEPCO losses, this shock cause the GCI indicators to deteriorate.



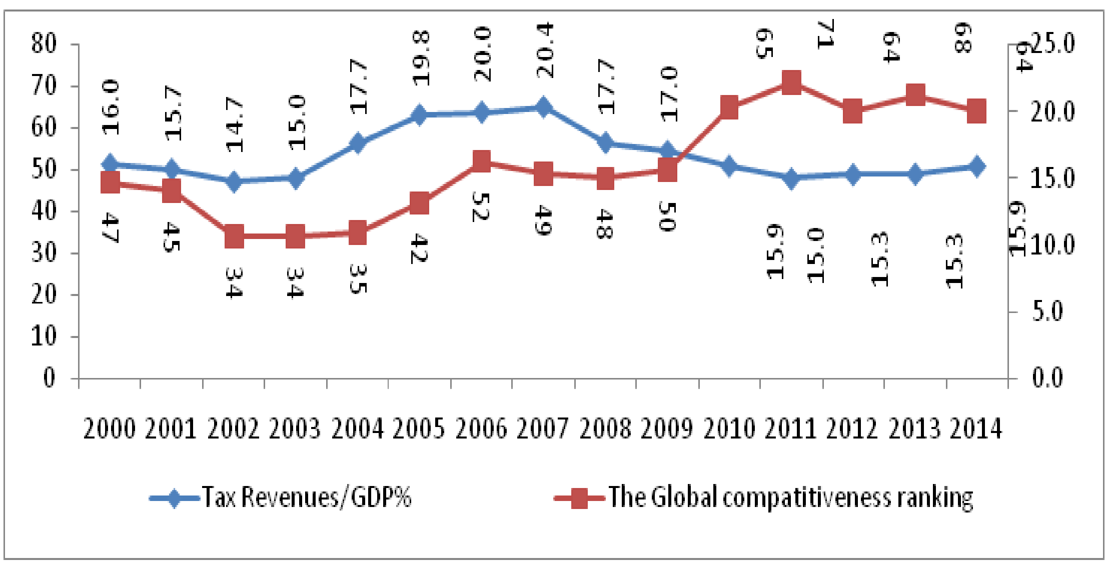
Public Debt and Doing Business

Similar argument can be made to the relation public debt to GDP Revenue and doing Business as indicated below.



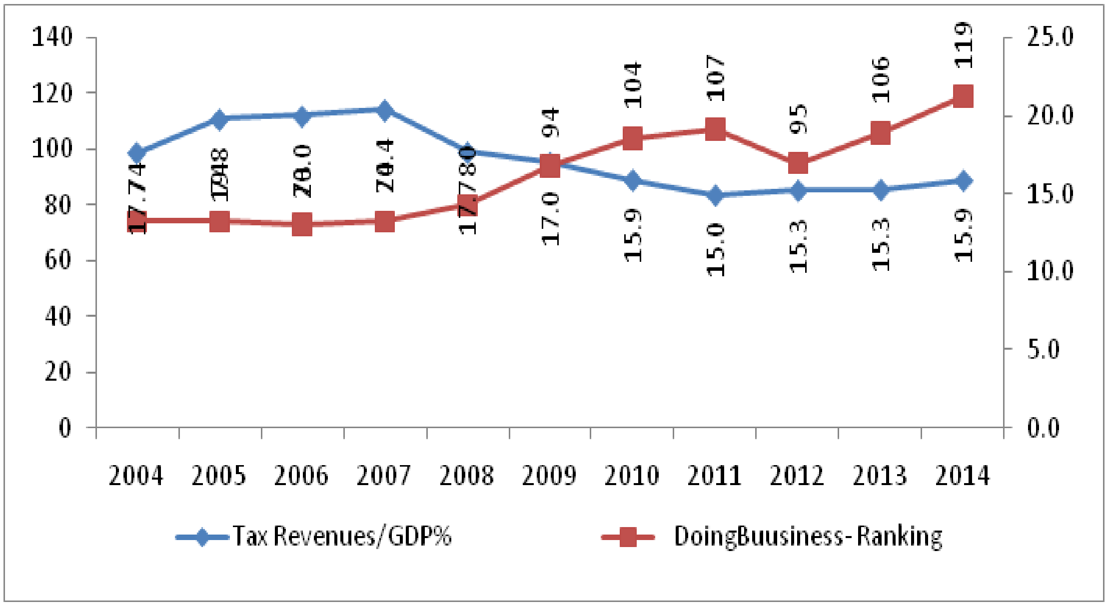
Tax Revenues and Competitiveness

Tax revenues declined from almost 20% of GDP in 2005 to 17% in 2009, this pattern was accompanied by worsening in the rank of GCI from 42 to 50 respectively. During the period 2010-2014 the tax revenues declined from 17% to almost 15% this decline in tax revenues usually caused by of slow economic activity as explained above was also accompanied by worsening in GCI rank to almost 68. One may argue here when Jordan adopted the Strand by-Arrangement (SBA) program under the IMF revenues picked up and the GCI rank increased from 68 in 2013 to 64 in 2014.



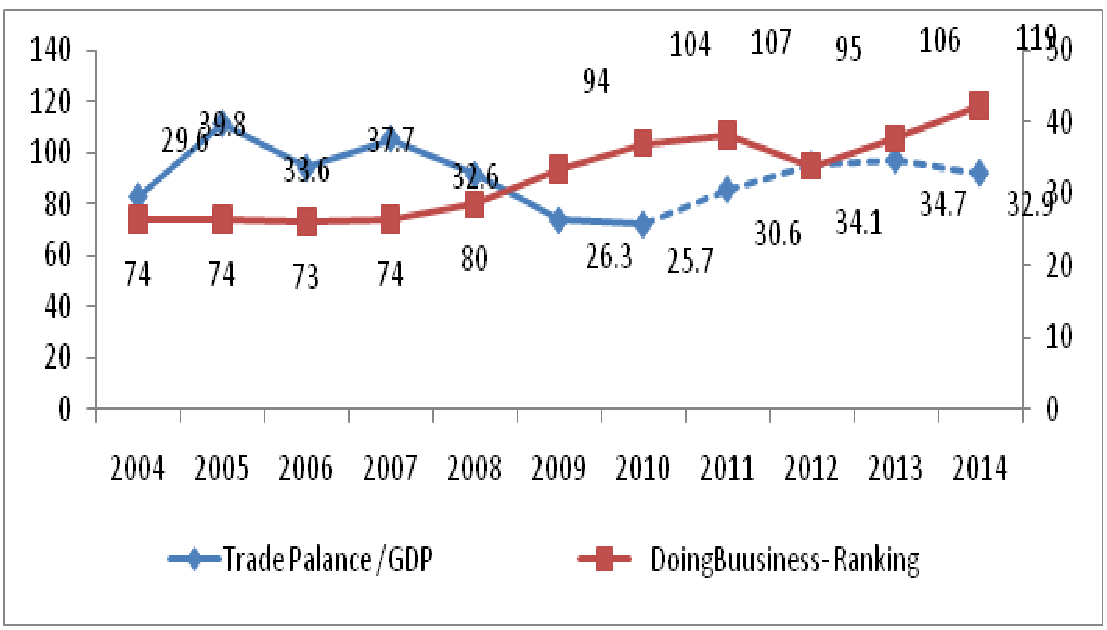
Tax Revenues and Doing Business

Similar argument can be made to the relation between tax Revenue and doing Business as indicated below.



External Sector and Doing Business

External Sector measured by Trade Balance to GDP during 2004-2009 indicated a stable relationship with doing business indicators, however during 2009-2014 trade balance increased from 26% to 35% doing business indicators worsened from 94 to 106.



Conclusion

The analysis mentioned above indicated that macroeconomic indicators during the period 2000-2009 were stable an improving this accompanied by a more competitive economy and most of the doing business indictors were improving. However, when the Jordanian economy was hit by sever exogenous shock including international financial crisis and the Arab Spring and the complete halt of the Egyptian Gas the Jordanian economy competitiveness declined and worsened.

Looking Forwards

Growth has been underperforming during 2009-2014. The regional conflicts are harming investor sentiment, tourism, and trade flows. Growth in the second quarter of 2015 was 2.4 percent, after averaging about 3 percent during 2011–14, about half of the average growth achieved before the global financial crisis. Under unchanged policies, Jordan would need to return to pre-crisis growth rates just to absorb new entrants to the labor force. Even higher growth would be needed to raise the low labor force participation rate and reduce unemployment.

The regional conflicts have delayed the necessary external current account adjustment. They are hurting travel receipts, exports, remittances and foreign direct investment, thus slowing the reduction of the current account deficit despite lower oil prices. At the same time, Jordan is vulnerable to oil price shocks given its dependence on inelastic energy imports.

Improving competitiveness would bolster export growth. Export and tourism revenue has been falling as a share of GDP due to declining competitiveness and the regional conflicts while export growth has been volatile and export mix has remained concentrated on a few markets and products. The top five markets (U.S., Iraq, Saudi Arabia, India and UAE) and the top four commodities groups (chemicals, food, clothes, mining) account for almost two-thirds and four-fifths of merchandise exports (excluding free-trade zones), respectively. This highlights the need to improve competitiveness, product mix and market diversification. Efforts to allow more goods to go to Iraq (Jordan’s once largest export market) through Saudi Arabia and Kuwait should be stepped up; and initiatives need to begin to redirect exports to new destinations.

Energetic private sector needs a better business environment. This will foster investment and enhance competitiveness. The roadmap to enhancing the business climate should focus on reducing the cost of starting and operating businesses including through simplifying procedures, and further strengthening investor protection. Action should not only focus on achieving better grades in the World Bank’s Doing Business Indicators, but on identifying and removing underlying bottlenecks leading to a true change on the ground (and not just on paper). Specifically:

The investment window of the Jordan Investment Corporation (JIC) should become the preferred entry point for new investors (most of which still go through the various involved ministries).

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