Chapter I

Jordan's Economy – An Overview on the Eve of and Through the Crisis, 2010-2013

1. Overview of Jordan's Economy on the Eve of the Crisis

Jordan's economy is considered an ideal example of a small, open economy that is strongly connected in its regional and international spheres. There are, however, two important features that have persistently dominated the overall economic scene in the country: scarce natural resources and a small-sized economy. The former resulted in a focusing of key production goals on the use of the already scarce resources and a maximizing of their returns, eventually leading mega-production projects to rely on phosphates, potash salts and fertilizers. Another result was the domination of the service sector in the Gross Domestic Product (GDP). Such sectors as the retail trade, financial services, transportation, education, health care and tourism, in addition to the public service sector, account for around two thirds of the country's GDP. The other feature, that is the small size of the economy, manifested itself in geographical, demographic and economic aspects. Jordan's geographical area and population are both small, when compared with those of many other countries around the world, particularly its neighbors: Syria, Iraq, Saudi Arabia and Egypt. From an economic perspective, however, a small-sized economy is defined by the country's economic relations with the rest of the world as being a price taker in foreign trade of both imports and exports.

Consequently, there was no alternative for Jordan's economy except to link up with regional and international economies to achieve its developmental goals and meet its basic needs. The economy, throughout its evolutionary phases, has thus mirrored all fluctuations in regional and international markets alike. What needs to be said is that during its course, Jordan's economy has received a series of political and military shocks, particularly given the geo-political location of other economies adjacent to Jordan. Notwithstanding these challenges and thanks to the aforementioned facts, Jordan's economy has beaten the odds and turned many of those challenges into opportunities. This is evident in the country's ability to improve its GDP, economic development, per capita income and welfare, particularly by providing for substructure and superstructure in education, health and finance.

In pursuing its developmental goals, the economy has always been keen on the full integration between the public and private sectors, with each contributing to the building of economy and sustainment of development assets. Several evolutionary phases have marked the economy, beginning with the foundation of Transjordan (the precursor to modern Jordan) in 1921, independence and the establishment of the Hashemite Kingdom of Jordan in 1946, the unification of the two banks in 1950 up till the Israeli occupation of the West Bank in 1967, at which juncture the economy developed towards its current state. The 1970s was a particularly difficult decade, though afterwards the economy flourished to a considerable degree on the local and regional levels. Nevertheless, a setback was sustained in the 1980s because of the economic recession in the region and worldwide, before the economy underwent a structural reform and economic stabilization in the 1990s. The decade ended with the death of King Hussein I and King Abdullah II's accession to the throne in February 1999. At the turn of the century, the economy headed eagerly for international models by negotiating accession to the World Trade Organization (WTO) and free trade agreements with a number of countries, most notably the United States, in addition to other agreements in the context of the Euro-Mediterranean Partnership (EUROMED) for the purpose of attracting foreign investments in communication, transport and natural resources (phosphate, potash and cement). Concurrently, ties between the local economy and international models were greatly reinforced by joining the Greater Arab Free Trade Agreement (GAFTA). Investments from other Arab countries were also attracted in several fields including real estate development, telecommunication, banking and tourism.

In a nutshell, Jordan's economy since 1967 has not followed a single pattern. On the contrary, it was marked by turmoil and instability (1967-1973), prosperity and recovery (1974-1982), downturn and recession (1983-1989), economic reform and regional turbulences (1990-1999), openness to globalization (2000-2009), up until the regional popular uprisings and upheavals (since 2010). Despite the hardship, however, Jordan has managed to meet the challenges and emerged vigorously, with developmental opportunities unfolding into a state of stability in the economic, social and political domains.

In complementing this overall economic picture, the state was a driver and a motivator of the national economy. The state budgets shouldered the main burden of leading the developmental process including investment in several mega- projects in telecommunications, mining, transport, energy and water. Along those lines, the state privatized many such public facilities by asset selling, debt swaps and the attraction of local and foreign investments. Needless to say, Jordan's economic base has centered on foreign aid, in all of its diverse regional and international forms. But it is also a fact that both internal and external public debts have been used as an instrumental method for offsetting the deficit and covering the state's capital and current expenses. The public debt, however, has been steadily on the rise in the last five years to address the deficit that was built up to cover the subsidization of energy and some basic commodities. As a result, the public debt imposed a heavy burden on the state, having arisen in absolute terms and as a percentage of the GDP to the extent that it violated the public debt law that requires governments to keep the public debt rates within a maximum limit of 60% of the GDP at current prices. The crux of the problem of increasing public debt can perhaps be blamed on the very structure of that debt, which was used to cover current expenses that do not generate any yields necessary to allow for its repayment. In addition, it has relied more than ever before on local financing resources, which eventually led to an unhealthy crowding out of the private sector on the surpluses of the banking system and challenged to considerable degrees the financing of the sector that is meant to drive economic growth. Another significant factor was the recent trend to head, once again, for external borrowing from international organizations, such as the International Monetary Fund (IMF), which pledged a loan to the Kingdom of around two billion Jordanian dinars over the span of two years. The situation has been worsened by another trend that seeks to borrow from the Eurobond, with costs straining the country's foreign reserves in the short and medium terms.

Jordan's heavy reliance on foreign assistance in covering its internal and external gaps led such resources to be the key solution long adopted in pursuing continuity and sustainability. Foreign aid has been used as an important source for covering the deficit in public expenses to the extent that two categories were created to describe deficit, namely: deficit before grants and deficit after grants. Though such grants have been fluctuating in frequency and size, they have never ceased to flow into the state's budget since the establishment of Transjordan.

That sort of reliance on foreign aid has never been an efficient answer to the financial deficit, which made resort to public debt a necessary second best and another salient feature characterizing cash flows to the treasury. Reliance on public debt, the foreign debt in particular, has increased since the mid-1980s with a decline in aid that used to be injected into Jordan especially in the wake of Baghdad's 1978 summit, in which oil-producing states (the Gulf States and Libya) pledged to support Jordan's economy in response to the oil boom that started in the mid-1970s. Aid reached its lowest level after those states, excluding Saudi Arabia, broke their pledges leaving Jordan with no choice but to borrow from international institutions, some European counties and Japan to address the disparity in aid. There was a hope that those aids that ceased to exist would one day return and help in repaying the loans. What happened, however, was that debt steadily increased until it reached around 180% of GDP by the end of 1989. Still worse was to come with the economic stagnation hammering the Arab world and affecting Jordan, a country vulnerable by nature to economic turbulences in the region. In effect, the country was rendered unable to repay its due debts or service them as the foreign reserves continued to deplete. As a result, the Jordanian dinar lost nearly half of its value against the United States dollar and other currencies, leading to a sharp decline in its purchasing power. The government then carried out, in cooperation with the IMF and World Bank (WB), several economic reform programs starting in 1990 and ending in mid-2004. Those programs helped in bringing down the public debt to around 88% of GDP. In order to control the rhythm of public debt the government enacted the Public Debt Law No. 26 for the year 2001 that bound consecutive governments, through several controlling measures, to three main issues. First, it identified how borrowing is used to offset the deficit, cover the projects in the line items of the budget and restructure debt. Second, it prohibited the government from guaranteeing any public or private entity. Third, it set a limit on the internal and external debt so that neither could exceed 40% of GDP, provided that their total value did not exceed 60% of GDP. The government succeeded, as implied by the figures for the state's public debt status (internal and external) for the years 2006-2010. By 2008, the debt had plunged to 54.8%, the lowest level since 1989, compared with 72.2% in 2007, all thanks to the use of privatization returns in repaying around JD1.7 billion. However, the debt started to rise again in 2009 to 57% of GDP; it then crossed the limits stipulated in the Public Debt Law in 2010 with rates hitting 70%, according to the latest figures published in 2012. The debt per se should not be a source of concern, given that several countries around the world have more debts than Jordan does. The real problems for Jordan are the structure, source and use of that debt. Though debt rates at the beginning of the Economic Reform Program in 1990 exceeded 180% of GDP, the debts at that time were mostly official concessional loans that could be rescheduled, swapped or written off. Conversely, though three times smaller than in the past, today's debts have emerged with totally different characteristics, to the extent that they puzzle economic analysts and raise fears about the structures, source and uses of such debts. In fact, the state's public debt is commercial in the first place and the volume of the internal debt that accrued from treasury and development bonds, borrowed in local currency through the local banking system, accounts for around two thirds of the country's total debts. It follows, therefore, that the major portion of the state's public debt is commercial and very costly, as interest rates reached around 8% in some borrowing cases in 2013. To repay this debt is, perhaps, a real challenge for the decision makers, since the only available repayment options are offering more bonds to redeem old ones and borrow anew. This mechanism, however, cannot continue in an environment where the banking cash surpluses are eroded by the crowding out policy drawn up by the government. Alternatively, the repayment will hinge upon more foreign aids, which have become scarce, or printing more banknotes; but this latter option can put purchasing power in jeopardy, create inflation pressures and drag the economy into the vortex of stagflation. A glimmer of hope may still be sought in getting more regional aid that is compatible with policies that stimulate the economy and secure for the treasury additional incomes. Sources could include direct and indirect taxes, sovereign fees and other public revenues that can help in the economic growth and stimulate national income drivers.

Jordan's economic problems clearly deepened after the 2011 crisis in Syria. The economic system had already been flawed by macroeconomic distortions, largely as a result of the global financial crisis that hit the world in the last quarter of 2008. In addition, Jordan's main partners in global trade and foreign assistance were steadily affected, both on the regional and international levels. Even before the quantitative easing policy advocated by the United States and the European Union could tackle the financial crisis, the Eurozone crisis began in Greece then moved to Spain, Italy and

Portugal. Jordan's economy was reliant on the latter international system in respect of over a third of its foreign trade, particularly for exports and the flow of financial assistance that is sought to cover the financial deficit and internal gaps in the economy. The financial crisis also reverberated substantially all over the region, particularly in the Gulf countries, which also serve as the outlet of over 40% of Jordan's foreign trade and the largest source of foreign support for the treasury and for covering the deficit. Tables (1) and (2) below give some key economic indicators of Jordan throughout the period 2009 and 2014. The figures are as estimated by the government in the state's Public Budget for the year 2014.

Table (1): Some economic indicators (2009-2014)

Indicator	2009	2010	2011	2012	2013 (Preliminary)	2014 (Budget)
Budget deficit Excluding Grants	1,842.7	1,446.9	2,602.9	3,300	2,900	3,700
Budget deficit Excluding Grants as apercentage of GDP (%)	10.9	7.7	12.7	16	12.1	14.8
Budget deficit Including Grants	1,509.3	1,045.2	1,383.8	2,500	2,000	2,200
Budget deficit Including Grants as a percentage of GDP (%)	8.9	5.6	6.8	12	8.3	9
Gross public debt (JD billion)	9.7	11.4	13.1	16.5	19.2	21.4
as a percentge of GDP (%)	57	61	65	78	80	85
Unemploy ment rate (%)	12.9	12.5	12.9	12.2	14	NA
Ratio of trade Balance deficit to GDP (%)	26.3	25.7	28.8	34	--	NA

Table (2): Real growth rates (2005-2014)

Period/Year	Real Growth Rate (%)
2005-2007	8.24 (Period average)
2008-2010	4.96 (Period average)
2011	2.60
2012	2.70 (Preliminary)
2013	3.3 (Preliminary expectations)
2014	3.5 (2014 Budgetary assumptions)

The above Table (1) shows that the economy was suffering by the end of 2010 from a financial deficit amounting to 8% of GDP before assistance. The rate is double the globally acceptable rates. The deficit was 6% after assistance, which is still higher than the globally acceptable rate. It is noteworthy that Jordan has been recovering from the global financial crisis since 2010, as the aforementioned table indicates that the value of the financial deficit is three percentage points less than in 2009, a reduction of around a third. It is also notable that the public debt reached, in 2010, around JD11 billion at a rate of 61% of GDP, a rise from the previous year of around JD1.7 billion and close to four percentage points from 2009. Unemployment fell and saw relative stability between 2009 and 2010, as did the trade deficit, though the change was slight. Table (2) highlights the relative stability of unemployment between 2009 and 2010 and a slight decline in trade deficit in 2010. As for the real growth rates, Table (2) shows that the real growth average for the pre-Syrian crisis period (2008-2010) stood at about 5% annually on average. The average growth in per capita income during the same period amounted to around 2.8% annually, given the fact that the natural growth of population in the period stood at around 2.2% annually. This records a decline of around three percentage points from the higher accelerated growth period achieved in Jordan during the three years preceding the global financial crisis (2005-2007), as the real growth rate amounted to 8.2% on average.

Figure (1)

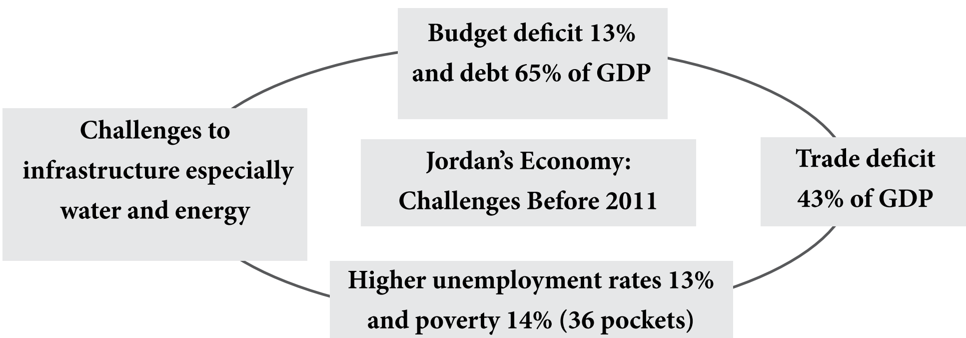

Figure (1) above shows the economic challenges Jordan was facing even before it became directly involved in the Syrian crisis by receiving large flows of Syrian refugees. By 2010, the economy, as mentioned earlier, had sustained a huge financial deficit and debt that surpassed the limits defined by the Public Debt Law. Other economic challenges include a huge budget deficit, a debt that surpasses the limits mandated by the Public Debt Law , chronically high rates of unemployment (13%) and the number of poverty pockets rising to 36 pockets in 2010 from 22 in 2006. The infrastructure, particularly energy and water, has, in addition, posed the biggest challenge to the economy today, the country being ranked as the fourth poorest country for water resources. The same applies to energy, in light of the rise in the costs of power generation that is entirely reliant on heavy fuel and Egyptian gas supplies, which fluctuated in 2010 even before the eruption of the political events in Egypt between late 2010 and early 2011. The annual reports of Jordan's National Electric Power Company (NEPCO) show losses sustained in 2010 amounting to around JD160 million. The company had made profits in 2009 amounting to around JD33 million thanks to the Egyptian gas supply, which was instrumental in meeting 90% of local needs.

Jordan's economy, therefore, has been involved in the Syrian crisis as it received the largest number of refugees, adding to the already sustained socio-economic distortions on the macro level. It is particularly challenged by the internal gap between budget deficit and associated debt and the external gap, which is the trade deficit in the balance of payments. It suffers from relatively high rates of poverty and unemployment, not to mention huge challenges facing the infrastructure. This reality is severely affecting the current population even before discerning the future trend of the Syrian crisis. The demographic increase is steady and abnormal, especially in the vulnerable age groups that need support in all facets of life to lead a decent life by satisfying their needs for electricity, health, education, roads and transport, to mention but a few. This reality entails the necessity of examining anew Jordan's economy and the challenges it has been facing since the beginning of the Syrian crisis in March 2011 until the end of 2013. Equally important is to make reference to current projections for the year 2014 in light of the state's General Budget estimates, which will be the subject of the next part of this study.

2. Jordan's Economy During the Crisis (2011-2013)

The main feature of Jordan's economy in 2011 is represented by Figure (2) below. It shows that the economy was orbited by four focal spaces, which are: domestic financial distortions, as mentioned earlier, a global financial crisis that is still affecting the European and global arenas, popular uprisings in the Arab world, the influxes of Syrian refugees and the Syrian crisis at large with all its implications for the national economy of Jordan.

Table (3) shows the developments in Jordan's macroeconomic indicators for the period 2010-2013 according to official public statistics, with specific reference to the estimates of those indicators according to the draft General Budget for the state for the year 2014. Jordan's economy has clearly seen a slightly higher real growth in 2011 than in the year preceding the Syrian crisis. The per capital income also started to recover, compared with that of the year before, though the budget deficit continued to rise significantly to around 13%, with a five point increase from 2010 amounting to around JD1.2 billion. However, in 2011 it amounted to just 7% of GDP thanks to the large flows of assistance into the country, amounting to around JD1.2 billion, which cut off the budget deficit from JD2.6 billion before assistance to around JD1.4 billion after assistance. The public debt has clearly increased in that year to reach around 65% of GDP at a net debt exceeding JD13 billion, an increase of up to JD2 billion in one year.

The trade deficit's ratio to GDP rose by an unprecedented percentage of 18%. This increase is mainly blamed on the rise in the bill for oil imported from global markets after the complete disruption of the Egyptian gas supply. The socio-political atmosphere in Egypt was tense and led to the disruption of the Egyptian gas supply for several periods and for more than five nonconsecutive times. The macro situation is reflected in the unemployment rates in Jordan, which reached around 13% in that year, an increase by half a percentage point from 2010. Perhaps the abovementioned spaces have been the main reason for the said macro indicators, worsened by the exacerbation of the Syrian crisis and the steady flow of Syrian refugees to the country since June of the same year.

Figure (2): Spaces orbiting Jordan's economy

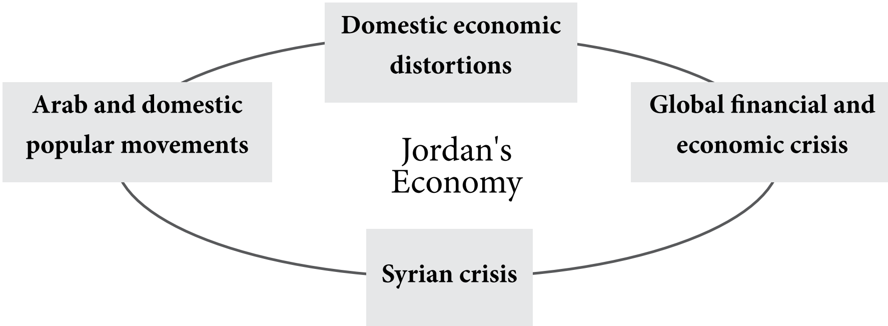

Table No. (3): Macro socio-economic indicators (2010-2014)

Indicator	2010	2011	2012	2013 (Preliminary)	2014 (Budget)
Nominal GDP Real GDP Growth Rate	18,762.0	20,476.6	2,1965.5	24,260.0	25,907.0
	2.3	2.6	2.7	3.0	3.5
GDP per capita growth	0.1 (3.5)	0.1 0.8	0.4 (7.8)	0.3 1.3	0.5 (1.3)
Budget deficit excluding Grants As a percentage of GDP%	1,446.9	2,602.9	3,300	2,900	3,700
	7.7	12.7	16	12.1	14.8
Budget deficit including Grants As a percentage of GDP%	1,045.2	1,383.8	2500	2,000	2,200
	5.6	6.8	12	8.3	9
Total public debt (JD billion) As a percentage of GDP%	11.4	13.1	16.5	19.2	21.4
	61	65	78	80	85
Trade balance deficit Percentage of GDP (%)	6,833.2	8,787.3	9,984.2	1,0782.9	11,644.5
	36.4	42.9	45.5	44.4	45
Unemployment rate (%)	12.5	12.9	12.2	14	14

Influenced by those spaces, Jordan's economy received throughout 2010 a number of shocks on the local, regional and international levels. Those have affected, to a significant degree, the performance of the national macro-economic indicators. According to statistics cited in Table (3), the downturn was worst in 2012. Perhaps the continuing negative consequences of the global financial crisis and the accompanying crisis in the Eurozone, in addition to the uprisings and popular movements in the region and Jordan, have altogether triggered the economic recession in Jordan since 2010.

There is evidence on the ground that the macro distortions negatively affecting the economy in such areas as public finance, debt, trade deficit, current account deficit, poverty and unemployment were exacerbated in 2012. The state's deficit, both on the levels of the central government and independent institutions, went above JD3.3 billion, which is unprecedented in absolute terms or as a ratio of GDP. This naturally presented a big challenge for the government to finance the deficit and required some sort of direct crowding out of the private sector on the surpluses available in the banks, which fell by the end of 2012 to below JD2 billion. Consequently, it was very difficult for internal borrowing to cover the next budget deficit. Concurrently, foreign assistance remained at their unprecedented lowest levels between the inception of the year up to its last quarter, though the country received some financial aids regionally and internationally worth no more than JD200 million. The channels of foreign debt have become narrower and more costly as Jordan's credit rating was downgraded and given the continuous instabilities of the neighboring countries. Consequently, external debt costs added a new challenge to Jordan's public finance. On the other hand, internal debt worsened to unprecedented degrees, exceeding in 2012 the sum of JD11 billion, all of which were high-cost commercial debts. In addition, such debts are no longer easily accessible with surpluses depleting in banks and being concentrated mainly in just two main banks.

The situation has become more severe with the rise of expenditure on oil importation to cover the differences in importing gas for electricity generation. Egypt's pipeline carrying gas to Jordan was attacked fourteen times from the eruption of the uprising in Egypt until the end of the year, which contributed to doubling the oil bill of Jordan to around JD4.5 billion by the end of 2012. This figure equals almost a third of Jordan's exports and 20% of GDP, which is an unprecedented and uneconomical percentage under regional and international standards. The situation is becoming more difficult as a result of the fact that the growth rates of total exports have not exceeded 2% over the year, as a result of the economic, political or social crises storming Europe and the region. In the unemployment and poverty area, official figures show an increase in unemployment by around 14%, that is two percentage points higher than in the previous year. The same applies to poverty, with poverty line rising from JD600 per capita in 2008 to over JD800 in 2012. It clearly implies a decline in people's purchasing power and the introduction of new segments to the multifaceted domain of poverty.

However, Jordan was clearly affected by the popular movements in the region and locally as it was affected by the Syrian crisis that erupted in the context of the "Arab Spring". According to some studies, the economic losses of Jordan as a result of the popular movement in the region and Jordan exceeded JD3 billion. [(1)] The economy has furthermore been hit by the Syrian refugee burden with an estimated cost of over JD560 million. [(2)]

By 2013, it was clear that Jordan had, therefore, been affected by a number of internal and external factors. They include local financial distortions, a global crisis that is still taking its toll on European and global spaces, a popular movement in the Arab region and the impacts of the Syrian crisis and refugee burden on Jordan. All of this is clearly reflected in the overall performance of the national economy. In respect of real growth, GDP grew by around 3% according to the reports of the Department of Statistics (DoS). It is not that different from the average growth of 2012, reaching 2.7%. As for the internal gap (fiscal deficit), it represents the biggest challenge for the government as local revenues fall short of covering the current expenses of the state. The deficit in the government and governmental units before assistance amounted to over 12% of GDP, while the net public debt hit JD19 billion, which is around 80% of GDP. It had already been JD16.5 billion in 2012, with the corresponding increase in the public debt reaching JD2.5 billion in one year at an annual rate of 16%. As for the foreign gap, the trade deficit in the trade balance is over 40% of GDP and the current account deficit is 18% of GDP. Although the ratio of fiscal deficit to GDP remarkably fell back from the level of 2012, the absolute figures indicate that macro distortions are increasing in absolute terms, as is the case in fiscal deficit, public debt and trade deficit.

On the labor market level, unemployment rose to reach, by the end of the year, around 14% compared with 12.2% for 2012, according to official figures. Inflation rates also steadily increased, reaching 4.8% in 2012 and 6.1% by the end of the third quarter of 2013. This brought the annual average inflation rates by the end of the year to around 5.6%, though they are still affected by the increases in oil prices and the amendment of electricity tariffs in compliance with the agreement signed by the government and IMF in fulfillment of the requirements for receiving the IMF's loan.

1 For more details, see the study by Issnaad Consulting, entitled "Popular movement in the region and Jordan and its impact on Jordan's macroeconomic indicators", October 2012 (available in Arabic only).
2 For more details, see the study by the Socio-Economic Council on the issue, published in a series of reports by Issnaad Consulting, entitled "Socio-economic impacts of the Syrian refugee crisis on Jordan's economy", February 2013, (available in Arabic only).

The national foreign reserves returned in the third quarter of 2013 to their safe levels (US$11.8 billion), having dropped at the start of the year to below US$6.2 billion. The growth of reserves may not have materialized had it not been for foreign assistance in 2013 amounting to JD3.4 billion, which is considered the largest assistance ever received by Jordan in one year. The Syrian crisis and flows of over a half a million Syrian refugees, in addition to the half a million Syrians already resident, helped in receiving such assistance. In addition, Jordan received a loan from the IMF and the local banking system in foreign currency, amounting to US$1.15 billion; the highest in the history of the country.

Characterized by internal and external challenges, the year 2013 was far from ideal for the national economy. The same year witnessed the largest increase in the prices and taxes by the government in a bid to finance its increasing expenses and budget deficit. Taxes were raised on telecommunications and fuels along with other increases in electric bills and other miscellaneous public fees. The government also raised customs fees on a number of commodities, including clothes, as it continued to lift subsidies on all goods except for butane gas cylinders and bread. All of those measures had considerable impacts on the inflation rates discussed earlier.

In the meantime, the Syrian crisis continued to reverberate on all of Jordan's economic sectors, with Syrian citizens residing in the country exceeding 1.3 million, including refugees. The burden strained the infrastructure, education, health and other sectors subsidized by the budget, which in effect, led the government to more borrowing from internal and external sources to meet the increased spending finance. Foreign assistance, however, was scarce and several donors evaded their responsibility towards the Syrian crisis.

In 2014, the economic indicators in Table (3) above show that the government expected, in the budget speech and the draft budget law, a slight growth of the economy by 3.5% from the elapsed year. Perhaps this expectation was based on assumptions relating to the disbursement of the largest portion of the Gulf grant and the increase of governmental capital spending by 24% during the year 2014. Nevertheless, none of those factors has reflected on the fiscal deficit, public debt and unemployment. The draft public budget of the government and governmental units expected an increase in the fiscal deficit before assistance from 2.9 billion in 2013 to around 3.7 billion in 2014, accounting for around 15% of GDP as expected in 2014 compared with 12% in the previous year. The government expected the total fiscal deficit after assistance to amount to JD2.2 billion, a rise of JD200 million from 2013, accounting for around 9% of GDP compared with 8% in 2013. The public debt is expected to exceed JD21 billion in 2014, accounting for 85% of the GDP as expected for 2014 compared with 80% in 2013. As for unemployment rates, they are not expected to improve, given the modest growth and continued effects of the Syrian refugee crisis, which has, undoubtedly, had adverse effects on the labor market as unemployed Jordanians and migrant workers alike are facing tough competition from Syrians for jobs. This implies that poverty and unemployment rates are expected to increase in 2014.

In the final analysis, Jordan's economy continued throughout 2013 to face those tremendous challenges that arose early in 2011, given the repercussions of the global financial crisis hitting the Eurozone and the instability hammering the Arab world. The situation becomes more intense with the national economy's dependence on the European and Arab spheres, which account for nearly two thirds of Jordan's international trade. Those challenges are clear on the macro-economic level and are topped by the Syrian crisis and refugee issue with the country hosting over one million Syrian residents and refugees. That was the main challenge to the national economy that is burdened by a budget cost of over JD2,000 per Syrian refugee or resident, according to some studies. The cost incurred by the Syrian refugees and residents exceeded the annual sum of US$3 billion, according to that same study, contributing to the main challenge of the economy, that is the deficit in the state's budget for 2013 (government and governmental units). That deficit amounted, after assistance, to around JD2 billion, that is 8% of GDP, compared with JD3 billion and 12% of GDP before assistance.

3 Ibid.

The developments of the Syrian crisis have been a key challenge since 2011. Official statistics talk about nearly 953,000 Syrian refugees registered with the United Nations High Commission for Refugees (UNHCR) until mid-January 2014. The figures also show that there were over half a million Syrian residents not registered with the UNHCR, taking into consideration that around three quarters of Syrians do not live in any of the official camps but reside in local communities, particularly near the northern borders cities in Mafraq, Irbid and Ramtha. This issue will be discussed in more detail in Chapter IV of this study.

In the meantime, the deficit in the trade account of the balance of payments continued throughout the year 2013 until early 2014, affected by the oil bill that exceeded JD4 billion and accounted for around a third of Jordan's imports and 17% of GDP. The figures imply an erosion of exports and foreign reserves. Unemployment rates rose, according to official figures for the year 2013, to more than 14% compared with 12% in the previous year. The poverty rates as well remained a big challenge for the General Budget, adding continuous burdens in a bid to extend subsidies to appropriately targeted groups. It is common knowledge that poverty pockets rose from 22 in 2006 to over 36, according to the 2012 statistics. The poverty average rose from 13% to 14.4% and so did the poverty line, from JD600 to JD480 per capita, an indication of a decline in consumers' purchasing powers and the expansion of poverty net. Apparently, the difficult conditions facing the country give no chance for any improvement in combating poverty for the time being.

Table (6) implies that there is hard evidence that the macro-economic distortions in the public finance, debt, trade deficit and current account deficit, along with poverty and unemployment rates, continued to rise in 2013, despite an insignificant improvement in some macro figures. The state's fiscal deficit before assistance (central government and independent institutions) is expected to reach JD3 billion compared with JD3.3 in 2012, which is a good improvement. However, it is not expected to persist, as the deficit is expected to reach JD3.7 according to the scenarios of the budget for the year 2014. This deficit is unprecedented in absolute terms or as a ratio of GDP, at least since 2009. To finance that deficit poses a big challenge for the government, particularly because the cash surpluses available in the banking system amounted to around JD3 billion by the end of 2013, thus bringing about the need for foreign borrowing during 2014 to cover the budget deficit.

The per capita GDP, having started to improve in the period 2010-2014, has failed to take into consideration the abnormal growth of population induced by the influxes of Syrian refugees, 80% of whom live in local communities rather than in the camps. The implication is that they have become part of the demographic fabric of the country. It follows, therefore, that the real growth of per capita income for the period 2012-2014 indicates a steady, though fluctuating, decline in that indicator. The above Table (3) shows a decline in the per capita income to around 3.5% in 2012. It then further declined to 7.8% in 2013 with an expected further decrease of 1.3% in 2014, depending on the influxes of refugees in this year. In the context of the huge challenges facing Jordan's economy due to the influx of Syrian refugees, most notably since mid-2012 and throughout 2013, it is relevant to invoke the obligations of the international community towards Jordan in addressing the Syrian refugee crisis. The costs are high for Jordan's economy, though the crisis constitutes, sometimes, an economic lever in some socio-economic fields. In the ensuing chapter, the study will highlight the cost and benefits of Syrian refugee crisis.

3. Jordan: International Commitments towards the Refugee Crisis

Jordan is a committed party to many human rights and refugee covenants and charters. It fully abides by the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights.[4] It also ratified all of those covenants and conventions related to such areas to cover all residents on its territories, thus giving them full rights within the domains prescribed by that covenant in political, civil, economic, social and cultural spheres. Those conventions, when ratified, will have the same powers as a country's legislation and prevail over its national laws.[5] In late 2002, Jordan established the National Centre for Human Rights (NCHR) by a provisional law ratified and passed as a permanent law in 2006. The institution has legal status with financial and administrative independence. Its mandate relates to human rights in political, intellectual and human domains.[6] However, in relation to the refugee issue, in particular, Jordan has not yet ratified the 1951 Convention relating to the Status of Refugees and the 1967 Protocol Relating to the Status of Refugees. However, it signed in 1997 an MoU with UNHCR setting standards for dealing with the affairs of refugees and other persons covered by the UNHCR. Under the MoU, the UNHCR is

4 http://www.ohchr.org/EN/ProfessionalInterest/Pages/CCPR.aspx and http://www.ohchr.org/EN/ProfessionalInterest/Pages/CESCR.aspx
5 Article (24) of Jordan's Civil Code.
6 For more information, visit the National Centre for Human Rights: http://www.nchr.org.jo

permitted to commence its activities relating to refugees and other persons under its mandate in the Hashemite Kingdom of Jordan, except in relation to Palestinian refugees who are covered by the mandate of another special agency for Palestinian refugees. Key articles in the MoU define "refugee" in accordance with international norms, prohibit the expelling of any refugee accepted by the UNHCR and bind refugees to abide by the laws, regulations and measures in observance of the public order in the country. It also requires the UNHCR to find a durable solution for refugees, including voluntary return to the country of origin or resettlement provided that the period of temporary residence will not exceed six months. Other articles relate to refugees' human rights and freedoms including religion and ethnic rights, the rights to self-employment and working for others and exemption of refugees from overstay fines.

It further provides that the UNHCR will continue to afford refugees food, water and medical treatment in accordance with the principles observed in UNHCR. The last article of the MoU also provides for those cases of large influxes of refugees and binds both parties to fully cooperate with each other in such circumstances, particularly in ensuring fast response to emergencies. It also provides for the establishment of a joint mechanism to meet the requirements of food, water, sanitation, shelter, health services, safety and security of refugees.[7] Although the MoU makes the provision that the stay of refugees should not exceed six months, at which point the UNHCR returns the refugee to his or her country of origin or resettle him or her in a third country, the situation differs with the Syrian refugees. Since March 2011, increasing numbers of Syrian refugees have been hosted, especially since mid-2012. This stems from the ethical commitment to hosting refugees coming from an Arab Muslim neighboring country, as pronounced by the highest leadership on several occasions. Most recent official affirmation of that commitment was echoed in King Abdullah II's address at Muta University on June 16th, 2013. This was in line with Jordan's signing of the Arab Convention on Refugees adopted by the League of Arab States on March 27th, 1994, entitled "Arab Convention on Regulating Status of Refugees in the Arab Countries".[8] The outcome of several inter-Arab meetings specifically held on the protection of refugees and internally displaced persons (IDPs) in the Arab world, the Convention highlighted the principles of human rights in light of the Islamic Sharia law. It also affirmed the observance of the international refugee regime, which implies an indirect endorsement of the 1951 Convention and the 1967 Protocol. In the preamble, it states: "Confirming the provisions of the Universal Declaration of Human Rights, the International Covenant of Civil and Political Rights, the International Covenant of Economic, Social and Cultural Rights, the 1951 Convention relating to the Status of Refugees, the 1967 Protocol relating to the Status of Refugees and the 1992 Cairo Declaration on the Protection of Refugees and Displaced People". As such, it does imply a commitment by the signatory states, including Jordan, to the 1951 Convention and 1967 Protocol, notwithstanding that Jordan refrained from signing the 1951 Convention. The Arab Con

7 For more details, see the Memorandum of Understanding published in the Official Gazette, no. 4277 on 3/5/1998.

8 More information about this Convention is found here: http://www.lasportal.org/wps/wcm/connect/c2da970049c399699c869c526698d42c/legalnet-3- 14.pdf?MOD=AJPERES

vention expanded the definition of a refugee to include persons forced to leave their countries of origin for fear of persecution, reasons related to foreign occupation of their countries, natural disasters or reasons related to serious disruptions that breach the public order in their countries of origins. The provision, though, exempted war criminals and other persons convicted of crimes against humanity or terrorist acts and other serious non-political crimes.[9]

Jordan has, throughout its history, made a commitment in respecting peoples' rights to self-determination, particularly in matters relating to their political rights and right to pursue their economic, social and cultural ambitions. This trend is evident, as explained earlier, in the county's approach to the Syrian situation and Syrian refugees, an issue that is still unresolved. This commitment mirrors the complete adherence to the international and Arab-relevant covenants on human rights and refugees. This will be discussed in detail in the ensuing part of this study.

9 For more information about the Arab Convention on Refugee Rights see:
http://www.blog.saeeed.com/2010/10/legal-framework-refugees-arab-world-arab-convention-refugees/