

THE IMPACT OF COVID-19 ON THE JORDANIAN ECONOMY AND ENTERPRISES

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ABSTRACT

This study investigates the impact of Covid-19 on Jordan's economic climate as well as Jordanian enterprises. Starting with observing the procedures taken by the government of Jordan, then a discussion and overview of the economic effect of the epidemic, and finally a discussion of the impact of COVID-19 on enterprises in Jordan. The Results of this paper conclude that there is an economic impact of coronavirus across the whole country. The impact is determined not only by the ramifications of the virus's spread on the larger economy but also by the form of the government's reaction, which includes mobility restrictions and other emergency measures, as well as Jordan's main development partners' support and the indirect impacts caused by companies' responses to problems they have experienced, such as layoffs and wage reductions to save expenses, when reporting repercussions. The study covers a period of two years from 2019 to 2020.

KEYWORDS

Coronavirus, Jordan, Finance, SMEs, Economy.

1. INTRODUCTION

On the 30th of June 2020, The World Health Organization (WHO) announced the new coronavirus as a “public health emergency of international concern” [1]. It all started with less than 8,000 global cases, most of them were in China. Different countries took few precautions. Less than six weeks later, on March 11, 2020, the virus was declared a pandemic, with more than 118,000 cases reported in 114 countries. The Dow Jones industrial average dropped over 3,000 points after four days, the greatest one-day collapse in history. [2].

According to the World Bank, nearly 93% of the countries were going to experience an economic recession in 2020. “Since 1870, per capita income has decreased in the vast majority of countries throughout the world.” [3]. Both Developed and developing economies will be affected globally with the former expected to shrink by 7%.

Jordan is an Arab country in southwest Asia that is in the center of the Middle East, between the southern Levant and the northern Arabian Peninsula. Many investors are aware of Jordan because of its geographical location, which is bordered by Syria, Iraq, Saudi Arabia, and Palestine. Jordan is located in a region plagued by wars and conflicts, which has a negative influence on the economy of the country. Political tensions in the region have a negative impact on Jordan's investment climate, and financial decision-makers don't always separate Jordan's investment climate from the instability in the region.

For the first time in decades, the economy in Jordan is expected to shrink [4]. International trade, tourism, remittances, and foreign direct investment accounted for 10% of the country's GDP.

COVID-19 has had a significant influence on Jordan's tourist industry, which generated 19% of the country's GDP in 2018 and employed over 53,000 people in 2019 [5]. Travel restrictions, the protracted closure of the airport, the mandatory closure of public gathering locations, and other government procedures to stop the spread of COVID-19 were among the reasons.

Furthermore, Jordan, which has the world's second-largest refugee population (per capita), already had a high unemployment rate and stressed infrastructure, which may have been aggravated by the pandemic [6]. While the government reacted quickly to COVID-19 by limiting mobility and providing financial assistance to workers, the country's SMEs are still battling to recover. COVID-19's influence on companies is summarized by the International Trade Center in four major phases:

1. Shutdown Effects: Government-imposed mobility limitations and mandates for some firms to temporarily close have had a significant impact on SMEs in the tourist, travel, wholesale and retail, hospitality, and entertainment industries.
2. Supply-Chain disruption: Border closures and lockdowns have had a global, cascading effect on manufacturing, imports, and exports supply networks. Due to lower demand, SMEs in supply-affected nations receive fewer orders.
3. Demand depression: has come from cost-cutting measures and poor economic activity, resulting in a drop in consumer and corporate sales. Even when the health restrictions are lifted, poor company investment will result from low savings, and families would likely cut back on spending owing to reduced wages during the epidemic.
4. The phase of recovery: limitations ease, COVID-19 cases are decreased, and companies reopen. Businesses will need to make it through the recovery period in order to respond to these shifts in demand and working patterns.

Jordan's first incidence of coronavirus was linked to an individual who had traveled to Italy on March 2, and the outcome was fast. This requires a strict curfew as well as social isolation on a scale not seen in the nation since September 1971 [7]. Earlier effects included quarantining 5,000 visitors in thirty 5-star hotels, most of which were near the Dead Sea and were paid for by the government [7]. This measure which was stricter in the region (if not in the world) seems to have had the desired results.

It's not easy to estimate the pandemic's possible economic impact. The effect of the difficulties, as well as the shifting characteristics of the afflicted nations' reactions, are both sources of worry (monetary and fiscal). While we may expect these forecasts to be modified on a regular basis, the most current prediction said that "the global economic climate is quite likely to fall by 3% in merely 2020"[8].

2. METHODOLOGY

The study is entirely based on secondary data gathered from local, regional, and international organizations such as the Government of Jordan, Jordan's Central Bank, the World Economic Forum, the International Monetary Fund, Transparency International, the World Bank Group, the United Nations, and various statistical departments, governments, and the media. The research covers a period of two years, from 2019 to 2020. Using proper analytical techniques, the obtained data is tallied, described, and analyzed.

3. OBSERVATIONS AND PROCEDURES

Jordan used its armed forces, as well as other security personnel, to bring supplies to the various cities, including oil, water, food, and other essentials. The army has shown to be crucial not just in policing and monitoring the population's behavior throughout this crisis, but also in providing services. In addition, individuals were given free internet services and lessons were held online [9]. Furthermore, government authorities and public sectors facilitated money distribution for the underprivileged, and people were offered full or partial payment, whereas the private sector was urged to pay 100 percent salary to employees who work from home and a minimum of 50 percent to those who are unable to work due to various constraints [9].

In terms of how the curfew impacts Jordan's economy, the country's economic structure makes it particularly sensitive to the mandatory curfew as well as the quarantine measures that the country is implementing [9]. The service sector is Jordan's most important industry, accounting for about two-thirds of the country's GDP [9]. Furthermore, the country is highly intertwined with the global economy, importing nearly all of its food, as well as its power and electrical needs. The nation's economic structure has been impacted by insufficient and incorrect adjustment measures [9]. Agriculture, for example, consumes more than half of all freshwater available in Jordan each year, although accounting for only 5.6 percent of GDP in 2018 [9]. The services sector, which is projected to be the largest industry in the economy, was severely hit in general and in Jordan in particular as a result of the global lockdown that followed the spread of COVID-19. Greater austerity measures may be considered by the authorities as a result of increased economic restrictions. Since the 2000s, the country has taken steps to reduce its welfare programs, including the elimination of particular food, water, and motor oil subsidies [9]. Nonetheless, this move has not gone unnoticed; the cuts sparked a series of bread riots around the country. Following the pandemic, the country's economic situation is anticipated to deteriorate much worse. This might lead to more protests and perhaps bread riots, posing a new problem for the country.

4. ECONOMIC IMPACT

In 2019, the Jordanian economy continued to make slow development. The GDP rose by 1.9 percent in three quarters, almost the same as the previous year [10]. While growing net exports aided economic expansion due to advantageous trade conditions, it was really hampered by a lack of local demand [10]. The economic growth was insufficient to alleviate the constraints on the local workforce. As a result, unemployment continued to climb in 2019, reaching 19.1 percent in 2019 compared to 18.6 percent in 2018 [10].

Consistent budgetary slippages for the second year in a row due to fragile revenue and inadequate spending restraint, particularly in the recurring aspect. The overall economic deficit of major governments (including grants and cash usage) was just under 5% of GDP in 2019, up around 1.5 percent over the same period in 2018. Weak economic performance combined with slow economic growth resulted in higher public debt-to-GDP ratios, with central government debt reaching 99.1% of GDP in 2019 [10].

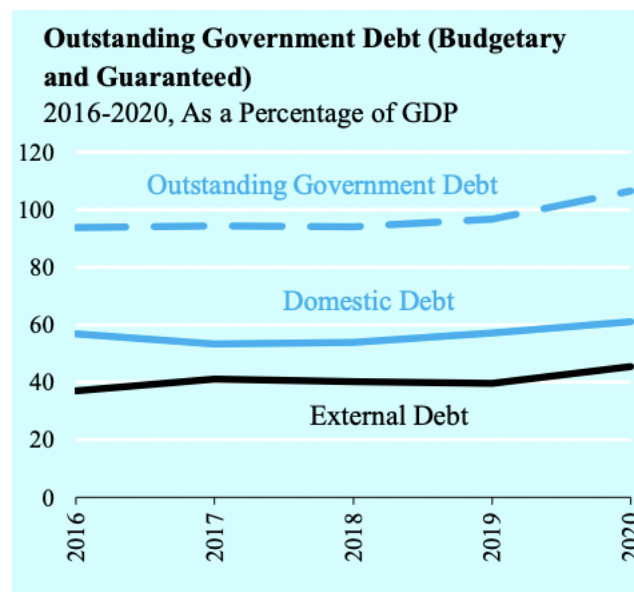


Figure 1. Outstanding Government Debt (Budgetary and Guaranteed) [11]

Government domestic debt (budgetary and guaranteed) grew by JD 1,195.7 million at the end of 2020, to JD 18,933.7 million (61.0 percent of GDP, up from 56.1 percent at the end of 2019.) This increase was due to a JD 1,278.5 million increase in budget domestic debt and a JD 82.7 million reduction in guaranteed domestic debt, compared to their levels at the end of 2019, which were JD 16,494.7 million and JD 2,439.1 million, respectively [11].

According to The World Bank Report in 2020, Jordan came second after Saudi Arabia in the top 10 economies that improved the most on the ease of doing business after implementing regulatory reforms. In 2018/19, these economies adopted 59 regulatory reforms, accounting for one-fifth of all regulatory reforms globally. Their efforts were mostly concentrated on the areas of founding a business, dealing with building permissions, and cross-border commerce [10].

Table 1 gives data on the Net FDI Inflow into Jordan during the period 2015 to 2020.

Table 1. FDI Inflow to Jordan (In million USD) [12]

Year	Net FDI Inflows	Increase	Y-O-Y Growth
2015	1599	-578	-26.5%
2016	1550	-49	-3.06%
2017	2023	473	30.51%
2018	963	-1060	-52.4%
2019	687	-276	-28.75%
2020	700	13	1.89%

With the exception of 2017, when there was a significant increase followed by a sharp drop the following year, net FDI inflows have been declining, with a slight increase in 2020, which could indicate that COVID-19 had no effect on foreigners' desire to invest in Jordan, or it could be a result of the Jordanian government's implementation of regulatory reforms to facilitate investment in Jordan in 2018/19.

Jordan's population was estimated to be at 10.5 million people in 2020 [5]. Jordan's GDP was USD 43.48 billion in 2020[13]. Figure 1 displays the GDP from 2015 to the first quarter of 2021[13], and you can see that the GDP has increased dramatically year after year, but it is also obvious that the GDP has reduced in 2020 compared to 2019, which might be due to Covid-19's influence.

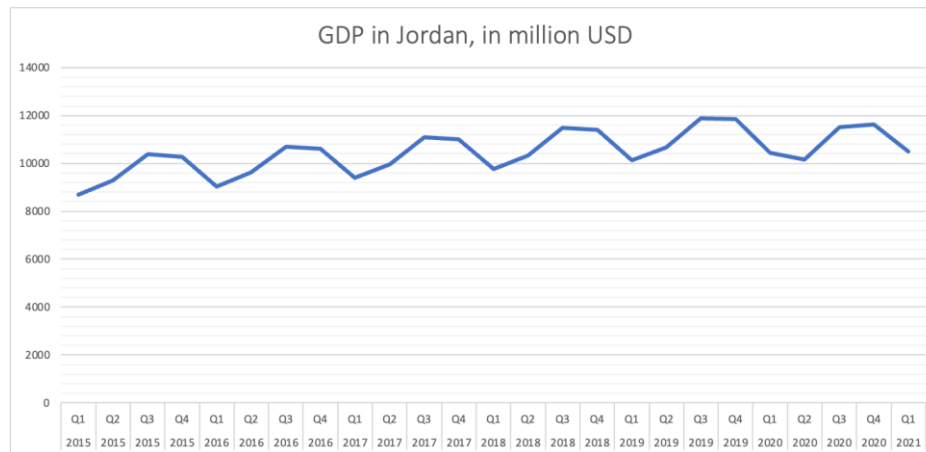


Figure 2 GDP in Jordan, in USD million

5. IMPACT ON ENTERPRISES

When reporting ramifications, it may be difficult to discern between direct effects produced by the spread of COVID-19 and government response and indirect impacts induced by firms' answers to challenges they've encountered, such as layoffs and salary reductions to save money. 98% percent of Jordanian enterprises reported being affected by the spread of COVID-19. Worth mentioning that 10% of the young enterprises (established in 2020) reported that they were not affected by COVID-19, 70% of them were engaged in the tourism sector, some of them might have been established because of the pandemic, as they saw an opportunity in there [14].

The great majority of companies see the pandemic as posing a significant danger to their operations. This is particularly true for businesses in the South, as well as those in the tourist and hospitality sectors [15].

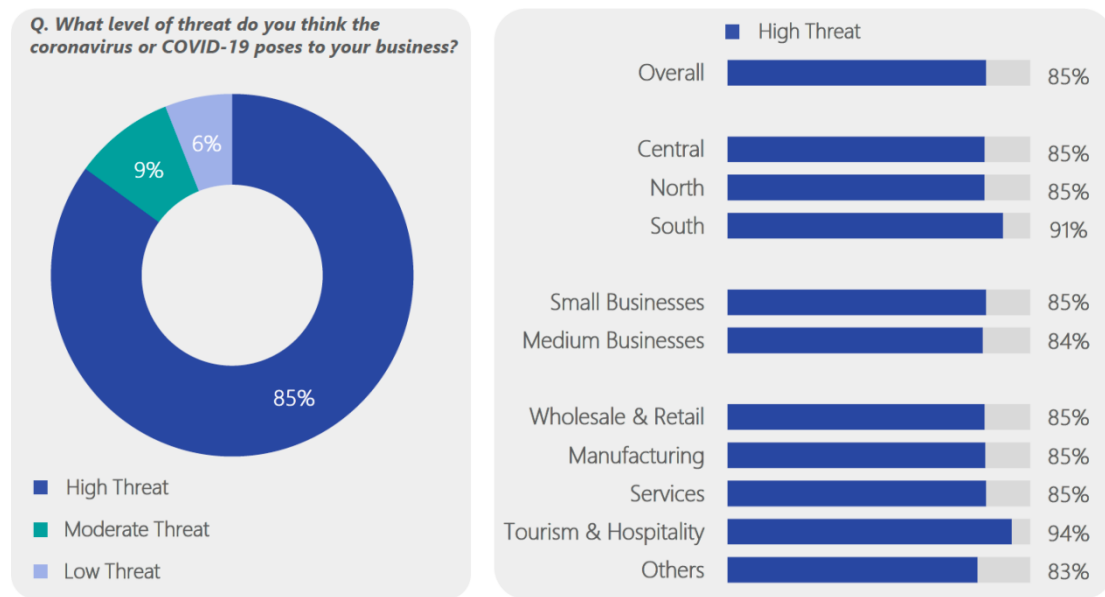


Figure 3. Level of Threat Posed by Covid-19 on Businesses: by Region, Size and Sector [15].

5.1. Small and Medium Enterprises SMEs:

According to Investopedia, Small and mid-size businesses (SMEs) are companies with sales, assets, or personnel that fall below a particular threshold. A small and medium-sized firm (SME) is defined differently in each nation (SME) [16].

The Europa website employs two major criteria to assess if a company is a small or medium-sized business. First, the total number of employees should be fewer than 250; second, the turnover should be less than 50 million euros; and third, the balance sheet total should be less than 43 million euros. [17]

In Jordan, small enterprises with fewer than 19 employees make for 98 percent of all firms. They employ over half of the country's private-sector workers. [18]

The majority of microbusiness owners interviewed said the crisis had a big impact on their operations. The most common problems they encountered were a drop in clients and a drop in demand for their products and services.[14].

The lockdown has resulted in a full suspension of operations for the majority of SMEs operating in the nation, and as a result, income streams have been severely disrupted, with 9 out of 10 facing a complete loss of revenue. The minority of businesses who were able to keep some of their operations running were largely medium-sized businesses, with healthcare service businesses being the most resilient [15].

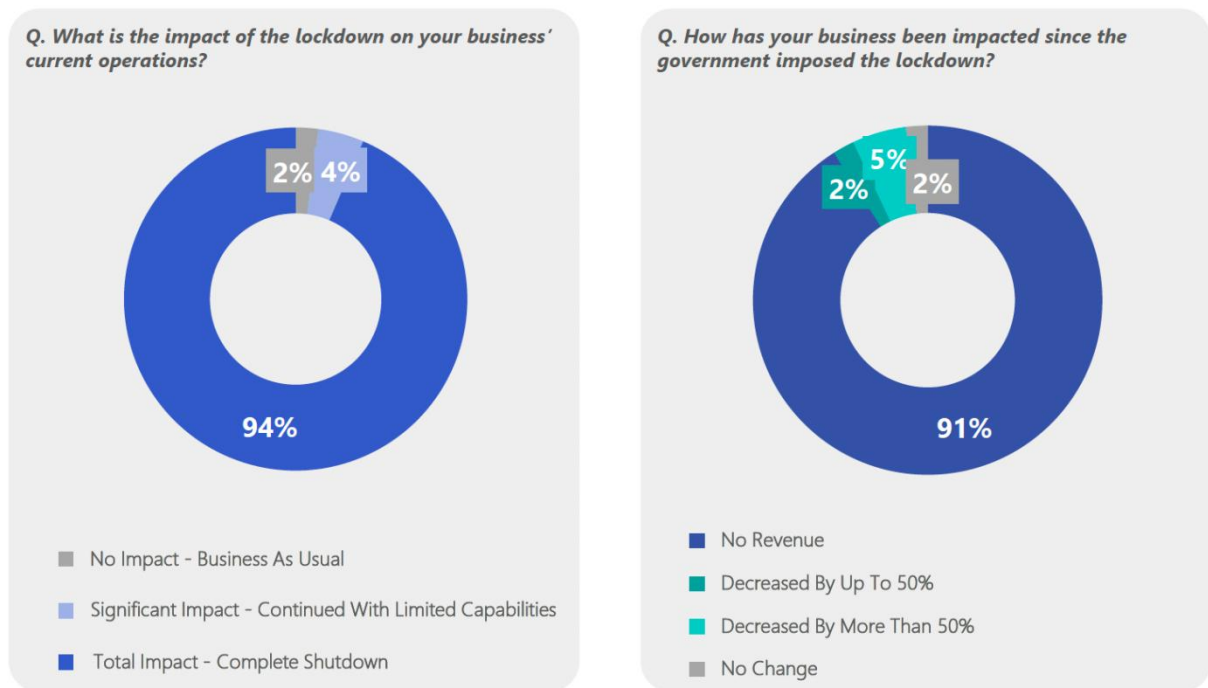


Figure 4. Impact of Covid-19 on Operations and Revenue [15].

Reducing salaries meant reduced purchasing power, combined with closing borders caused a huge fall in Arab visitors to the country. The tourist industry (growing in the years preceding the pandemic [19]) was paralyzed and other related sectors were affected like accommodation, food, and beverages.

Firms that regularly sell their products on weekends or late in the day suffered major income losses as a result of full closures at the onset of the COVID-19 crisis, as well as the prolongation of Friday lockdowns and nocturnal curfews. Shorter working hours have also put a further burden on firms, as employees have had to leave earlier, especially if they reside outside of the city. The tourism industry has been hit particularly hard by the COVID-19 epidemic, with nearly half of all tourist businesses needing to lay off personnel since March 2020.[14].

Operationally, 22 percent of the Jordanian enterprises operated the same as before the pandemic. 4 percent of businesses that provided home delivery and 3 percent of businesses that offered pick-up services for their products and services prior to the outbreak of the pandemic reported a temporary shutdown or had totally discontinued operations. On the other hand, 12% of businesses that did provide home delivery to their consumers at home and 7% of businesses that did not provide pick-up services reported a temporary shutdown or had totally discontinued operations [14].

On average, enterprises in Jordan work six or even seven days a week, however, this proportion fell from 52 to 11 percent during the pandemic. Before the pandemic, only a small percentage of businesses (less than 1%) worked less than five days a week.[14].

With revenue halting and businesses fighting to stay afloat, many are anxious about meeting their top urgent expenditures, such as rent and wages. While medium-sized firms are more concerned with making payroll, smaller businesses are more concerned with paying rent. Nonetheless, many

company owners are concerned about the long-term impact of the crisis on their operations, particularly in terms of client retention [15]. See the figure below:

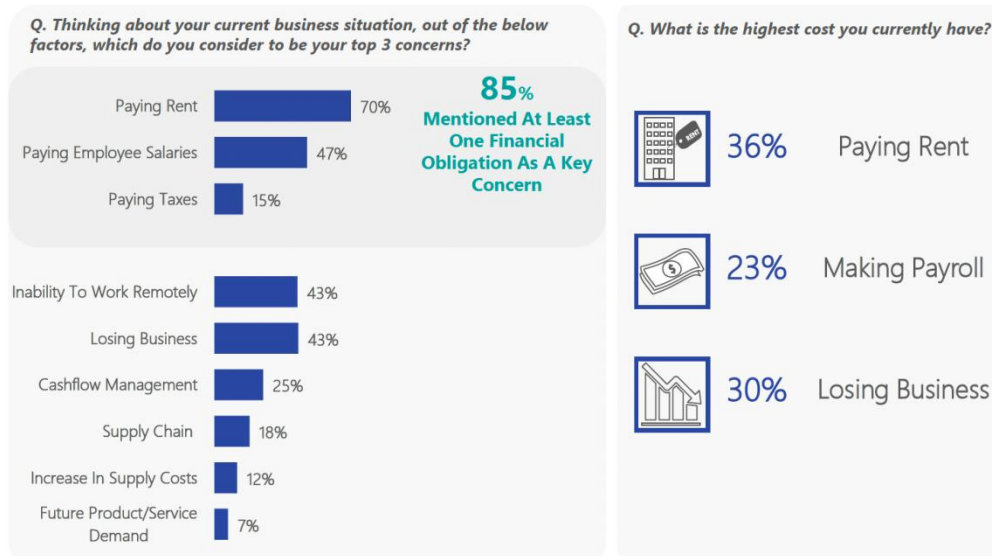


Figure 5. Top Concerns and Costs [15].

Businesses have high expectations for the essential government measures, given the recent income standstill. In reality, the government is likely to interfere on multiple fronts, including tax relief, more payment deferrals, and loan help, as well as increased expenditure to stimulate the economy. Furthermore, considering that most firms' top worry is rent payments, they would prefer to see the government implement rent relief measures to assist them in cutting expenses in the short term. [15]. See below figure:

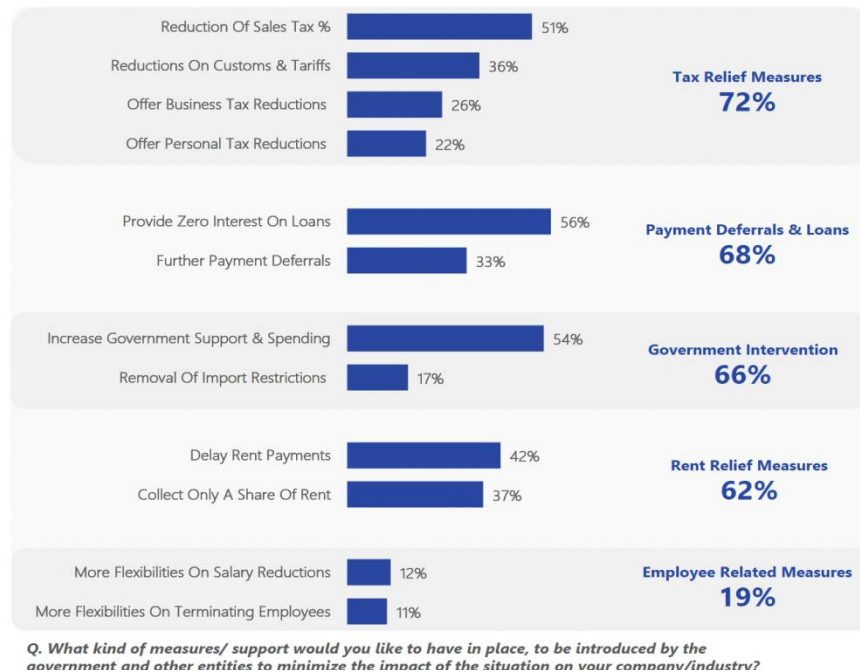


Figure 6. Support Measures Needed by Businesses[15].

The majority of firms are considering altering their business models in order to save money or better manage cash flow; this is the most popular option among medium-sized enterprises, wholesale and retail, as well as those in the tourism and hospitality industries. Small firms, as well as wholesale and retail enterprises, were discovered to be biased toward innovation and digitalization. Manufacturing firms, on the other hand, were primarily interested in altering their supply chain and logistics. [15]. Shown in the figure below.

80% OF BUSINESSES INTEND TO CHANGE THE WAY THEY MANAGE THEIR BUSINESS IN THE FUTURE

Changes In Business Model

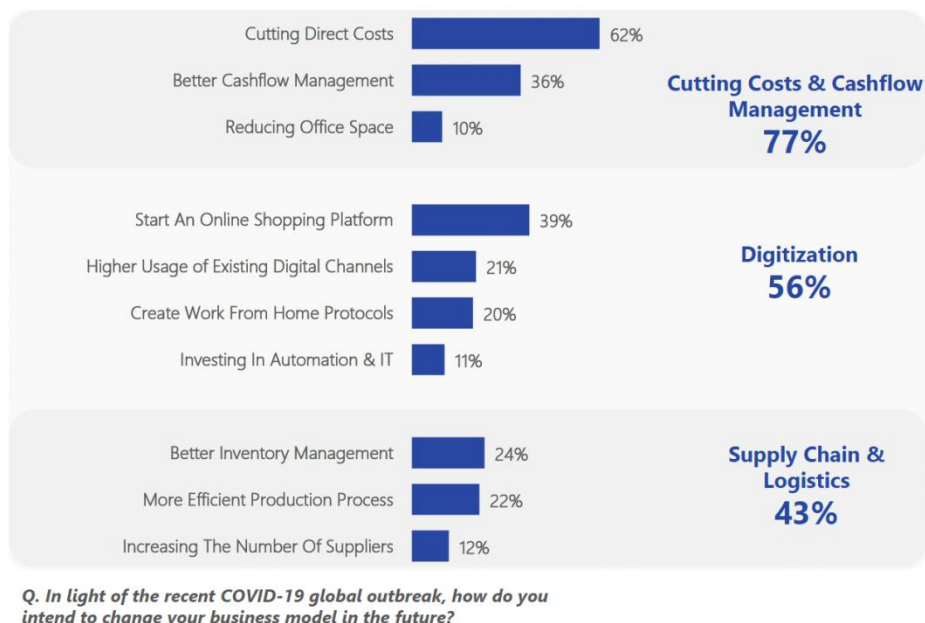


Figure 7. Impact on Business Model in the Future [15].

6. CONCLUSION

Since the start of the COVID-19 outbreak and the first national lockdown, almost all of Jordan's enterprises have been negatively impacted in some way (98 percent). The outbreak wreaked havoc on small and mid-size enterprises SMEs. Only around 20% of micro and small businesses are normally operating one year after the epidemic began. When compared to 57 percent of major businesses, this is a significant difference. During the pandemic, micro and small businesses cut their workforce in half, whereas large businesses had roughly the same number of employees as before.

Despite the fact that around 60% of small businesses were successful before the pandemic, 80% of them had annual revenues of less than 5,000 JOD (about 7,000 USD), rendering them exposed to market swings. This is especially concerning given that micro and small businesses account for the great majority of private businesses in Jordan. They account for 40% of Jordan's GDP and employ 60-70 percent of the private sector's workforce.

Micro and small businesses have also been unable to make use of the government's support programs for Jordanian businesses during the epidemic. Only 7% of the micro businesses got any sort of government assistance, compared to approximately 50% of the larger businesses– and more formal – businesses. Furthermore, nearly four out of five micro-businesses were unaware of any accessible help packages.

When it comes to the future prospects of the businesses, a substantial number of them appear to be balancing on a thin line economically. About two-thirds of all businesses are having trouble paying their rent, half are having trouble paying their employees, and one-third are having trouble paying their bills. If the current scenario persists, and businesses continue to amass debt, many businesses will certainly fail in the near future. This is especially true for small and informal businesses, which were already less resilient than bigger and more formal businesses prior to the epidemic.

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