The Economic Impact of the Syrian Conflict on Jordan

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Blog by Yasser Abdih and Carolin Geginat, originally published in Arabic on the Economic Window.

When conflicts happen, they affect first and foremost the people at the center of the conflict, but the impact is often felt by their neighbors as well.

In September 2013, the UN Refugee Agency estimated that a total of 2.1 million—one out of every ten Syrians—had fled their country as a result of an escalating internal conflict. Four countries—Lebanon, Jordan, Turkey, and Iraq—have been the main recipients of this stream of refugees. However, Lebanon and Jordan received the biggest inflow in terms of their own populations. Lebanon has seen its population surge by 19 percent and Jordan by 8 percent due to the conflict.

Clearly, the conflict and inflow of refugees do have a social and economic impact on neighboring countries. While measuring the impact is not an easy task, given the complexity of the situation and data limitations, a new IMF study took a stab at quantifying the macroeconomic implications of the conflict on neighboring Jordan.

Huge macroeconomic toll

The study found an overall negative effect on economic activity in Jordan, largely reflecting losses of the Syrian export routes as well as a hesitant investor sentiment. The following results of the study are worth highlighting:

- Without the conflict, the annual **growth** rate for 2013 could have been 4 percent instead of 3 percent. That one percentage point loss might not seem significant, but considering that it translates into a cumulative loss of incomes close to what Jordan received in budget grants last year, it is not easy to dismiss.

- **Inflation** rose mainly due to an increase in rental prices as Syrian families were looking for housing in Jordan (only a fourth of all refugees are hosted at the Zaatari refugee camp on the border with Syria). Without the conflict, rents last year would have grown by 2.7 percent instead of 7.7 percent.

- Jordan's **informal sector is likely to have grown** because Syrian refugees, who are not legally allowed to work in Jordan, look for employment mainly in the informal labor market. This increase in informal activities have adverse consequences for the Jordanian economy, the key of which are the crowding out of Jordanian workers (as Syrian refugees typically accept lower wages) and the loss in tax revenues the government could have collected had the same activity happened in the formal sector.

There is also a cost for the Syrian refugees themselves because they forego all the protection that comes with formal employment.

- The crisis has also taken a toll on Jordan's trade balance. **Imports have increased** to meet the needs of the increased population—non-energy imports increased by over 11 percent in 2013. And **exports dropped** because of the loss of a major export route via Syria to Europe and other countries in the region. Indeed, combined exports to Lebanon, Turkey, and Europe dropped by 30 percent in 2013. But, the impact on the current account was dampened by relief from aid agencies and transfers from individuals to support the refugees.

Rising spending and falling quality of services

A recent USAID study attempted to calculate the fiscal impact on Jordan of the Syria conflict. It estimates that the Jordanian government spending has increased by about one percent of GDP in 2013 and in 2014 to meet the humanitarian needs of the Syrian refugees—including for the provision of water, electricity, security, health care, and education services.

The rapid rise in the number of users of such public services has also led to the deterioration of their quality (for example, larger class sizes, crowded hospitals, and stresses on the water supply systems).

The study estimates that re-establishing the quality of public services to pre-crisis levels would have resulted in additional fiscal spending of 0.6 percent of GDP in 2013 and one percent of GDP in 2014—these are not investment costs, but rather expenses that are needed to ensure that Jordanians are no worse off than they were before the influx of refugees.

Role of international community

Jordan's economic program, supported by the IMF, has been flexible and has allowed for the direct fiscal costs of hosting the refugees to be borne by the budget. But Jordan alone cannot shoulder the burden of the Syrian refugee crisis. And while the Jordanian government and host communities—together with UN agencies and other aid organizations—are providing a sanctuary for the refugees and are preventing a bad situation from becoming even worse, they are in dire need for more help.

In this regard, the international community needs to scale up its support, including through additional grants to the central government, to ensure that the refugees are appropriately cared for and that the quality of Jordan's public services is restored to its pre-crisis levels.

At the same time, Jordan needs to maintain the momentum on public sector reforms to put public debt on a downward path while moving forward the structural reform agenda for more growth and jobs. This will instill confidence and mitigate the risk of further spillovers from a prolonged civil war and humanitarian crisis in Syria.

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