

# Jordan, The West Bank and Gaza Business Forecast Report Q1 2012

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## Abstracts

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### Core Views

We maintain that Jordan's long-term political outlook is among the most stable in the region owing to a series of political and economic reforms undertaken by the government in recent years. Nonetheless, the social uprisings that emerged in the region at the start of 2011 are indicative of the threat that low living standards and lack of political freedoms pose to long-term sustainable stability.

We expect the government's budget deficit to remain significantly in the red over the coming years, forecasting that the deficit will grow to 6.8% of GDP in 2011 – up from 5.6% in 2010 – before contracting somewhat in 2012 to 5.9% of GDP. Much of this year's rise in spending is in response to regional unrest and has some potential to ease in 2012. However, long-term imbalances will keep the budget in deficit over our forecast period.

### Major Forecast Changes

As a result of the continuing effect of political unrest in the Levant, we have revised down our forecast for real GDP growth in Jordan in 2012 from 3.4% to 3.1%. While we had long highlighted the potential for regional turmoil to impact badly on the economy, in particular through its impact on the tourism industry and foreign direct investment, we had previously been pencilling in a relatively quick recovery in 2012. With civil conflict intensifying in Syria, however, we now expect problems to extent well into 2012, dragging on the country's growth prospects over the coming quarters.

Owing to the impact of a sharper-than-anticipated decline in food prices, we have revised down our inflation forecast for 2011 from 5.5% to 5.2%, and are revising down our forecast for 2012 inflation from 5.0% to 4.0%.

### **Key Risk To Outlook**

Although we ultimately expect Jordan's balance of payments to be capable of withstanding the pressure it has come under in 2011, we highlight the potential damage that a serious deterioration in political stability could pose to this outlook. External account stability in Jordan is heavily dependent on large financial account surpluses, which have been eroded by regional turmoil. An acceleration of political unrest in Jordan could further threaten capital inflows and put pressure on the dinar's peg to the dollar.

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Following a series of political and economic reforms by the government in the recent years, we maintain that Jordan's long-term political outlook is among the most stable in the region.

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Political turmoil in the Levant has led us to revise down our forecast for real GDP growth in Jordan in 2012, from 3.4% to 3.1%.

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## Politics A No-Win Situation

The meeting of Fatah and Hamas leaders on November 24 has failed to iron out key differences between the two parties, and we expect the Palestinian territories' political risk profile to remain weak over the medium term.

## Long Term Political Outlook

## Monumental Obstacles To Statehood

Over the next decade, the Palestinian territories will continue to face extremely challenging political obstacles, both internally and externally.

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#### Healthy Growth Ahead, But With Strong Downside Risks

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