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October 13, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Jordan - Staff Report for the 1983 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1983 Article IV consultation with Jordan. A draft decision appears on page 13.

This subject will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Tomasson, ext. 73392.

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INTERNATIONAL MONETARY FUND

JORDAN

Staff Report for the 1983 Article IV Consultation

Prepared by the Staff Representatives for the 1983 Article IV Consultation with Jordan

Approved by A.K. El Selehdar and Subimal Mookerjee

October 12, 1983

I. Introduction

The 1983 Article IV consultation discussions with Jordan were held in Amman during the period August 11-17, 1983. The Jordanian representatives were headed by Dr. M. Said Nabulsi, Governor of the Central Bank of Jordan, and included senior officials of the Ministries of Finance, Labor, Agriculture, Industry and Trade, and the National Planning Council and other official agencies. The staff representatives were Mr. A.K. El Selehdar (Head-MED), Mr. J. Modi (FAD), Mr. E.M. Taha (MED), Mr. G. Tomasson (MED), and Mrs. J. Galal (Secretary-MED).

Jordan continues to avail itself of the transitional arrangements of Article XIV.

II. Background

The Jordanian economy has performed very well in recent years, reflecting the pursuit by the authorities of well coordinated financial policies and the maintenance of a strongly supportive environment for private sector activity and initiative. The external payments position has been generally strong, thanks to rapid export growth and high levels of foreign grants and workers' remittances. Real output growth averaged about 9 percent per annum during 1976-81, with the consumer price index recording average annual increases of about 12 percent.

The Five-Year Plan for 1976-80 placed main emphasis on economic diversification through expansion of the mining and manufacturing sector, supported by further development of agriculture and construction. Accordingly, the share of the commodity producing sectors in GDP rose from less than 34 percent in 1975 to more than 37 percent in 1980, despite the adverse effects of weather conditions on agricultural output growth during most of the period. In the mining and manufacturing sector, output rose at a compound annual rate of 18-19 percent during the Plan period, to account for about one fifth of GDP at present, as well as one tenth of employment, and three quarters of domestic exports.

However, the share of services in Jordan's GDP in 1980, at about 63 percent, remained significantly higher than the average share of 45 percent for all middle-income developing countries.

The new Five-Year Plan for 1981-85 retained the principal objectives of the preceding Plan, i.e., (i) to maintain the economy's growth momentum through continued diversification in favor of commodity and export producing activities, (ii) to reduce the long-standing dependence of the government budget on foreign grants and curtail the relative size of the large external trade deficit, and (iii) to expand basic social services and facilities and develop the country's human resources. Total capital investment during the Plan period was projected at JD 2.5 billion at 1980 prices (over US$8 billion), an amount approximately double that of actual investment during 1976-80, with about two thirds of the total to be financed through the government budget. About 53 percent of the total was to be invested in the productive sectors, with infrastructure and social services accounting for 34 percent and 13 percent, respectively.

The period since the last consultation discussions in May 1982 has been one of major external and domestic adjustment as foreign grant receipts from the signatories to the Baghdad Agreement of 1978 1/ fell by SDR 133 million in 1982 to SDR 938 million. The external payments position in 1982 was further weakened by sharp declines in the growth rates of exports and inward workers' remittances, reflecting the decelerating pace of economic activity in the Arab oil producing countries. Overall, the balance of payments was in deficit by about SDR 138 million in 1982, representing a significant turnaround from the average annual surplus of about SDR 150 million recorded during 1979-81. Real output growth is estimated to have declined considerably in 1982, reflecting the slowdown in external receipts and curtailment of budget expenditure growth. Money and quasi-money grew by 19 percent during the year compared with 20 percent in 1981, while the increase in the consumer price index, at 7.4 percent, remained approximately unchanged between the two years.

The Jordan dinar is pegged to the SDR with margins of 2.25 percent. In the period since the last Article IV consultation discussions in May 1982, the dinar has moved within 1.0 percent of the official dinar/SDR rate. At the end of July 1983, the exchange rate of the Jordan dinar was JD 1 = US$2.72, representing a dinar depreciation against the U.S. dollar of 3.5 percent from the level of a year earlier.

1/ At a conference in Baghdad in November 1978, Saudi Arabia, Kuwait, and several other countries agreed to extend to Jordan grants of US$1.2 billion annually over a period of ten years.

III. Report on the Discussions

1. Economic activity and planning

Real output growth in 1982 is estimated at 5.5 percent compared with 8.7 percent in the preceding year, with most sectors of the economy contributing to the decline in the growth rate. The Jordanian representatives stated that the manufacturing sector, following several years of strong regional demand for its output, had been adversely affected in 1982 by the contraction of export earnings among the principal Gulf oil producers and by reduced import demand in the Iraqi market. A lower rate of growth of inward workers' remittances from the Gulf region had also contributed to less buoyant demand for construction and other domestic services. Agricultural output growth had been reduced by inadequate rainfall and pest infestations in 1982, while value added in the agricultural sector had been further affected by declining unit prices in the regional markets for Jordanian agricultural exports. In contrast, both the transport and communications sector and government services had grown in 1982 at rates higher than those achieved in 1981; the former sector had benefited from expansion of services by the national airline (Alia) and the National Maritime Company as well as from the completion of Amman's new international airport, while government services had expanded mainly on account of increased employment of civilian and military personnel.

The Jordanian representatives observed that the output growth rate realized in 1982 had been quite satisfactory in the circumstances and compared favorably with growth rates of many other countries at a stage of development similar to that of Jordan. In 1983, it was expected that the rate of real output growth would remain in the 5-6 percent range; a slowdown in the growth of the government sector due to fiscal expenditure restraint would be more than offset by sharply higher agricultural and industrial output due respectively to good rainfall and the coming on stream of several new factories, as well as by continued growth of construction and other services. With respect to the construction sector, the Jordanian representatives noted that its performance in 1982 and 1983 had effectively represented a return to a more normal growth path, following the exceptionally high rates of expansion which had prevailed during most of the 1970s. In this connection, it was also noted that supply had generally exceeded demand for private housing in urban areas during the past two or three years; curtailment of capital expenditure growth in the public sector had also contributed to a slowdown in construction activity.

The Jordanian representatives stated that the mining and manufacturing sector had been seriously affected in 1982 and 1983 by the world economic recession, which had caused export demand to weaken at a time when completion of several large investment projects had greatly expanded Jordan's supply capacity. In these circumstances, Jordanian producers had undertaken marketing efforts aimed at increasing exports of phosphates and other products to countries such as Japan and Korea, which were already important suppliers of goods and services in the Jordanian market; trade agreements had also been negotiated with Iraq and Romania in order to promote Jordanian exports. The World Bank had recently completed a study of private sector promotion of Jordanian manufacturing exports, and the Bank's recommendations in this respect were now being evaluated. Other recent measures aimed at promoting manufacturing activity and exports included a one-third reduction of rental charges in industrial estates, and a reduction from 6.5 percent to 6.0 percent in the interest rate charged by the Central Bank on export credits. In the agricultural sector, the Government attached great importance to the improvement of marketing facilities in order to encourage agricultural exports. Thus, the Supreme Agricultural Council had recently decided to establish a joint public/private sector company which would undertake the export marketing of Jordan's agricultural products.

In the 1979 census, Jordan's labor force (East Bank only) was estimated at about 531,000, of which about 22 percent were non-Jordanians, mainly Arabs and Asian nationals. In comparison, the number of Jordanians working in the Gulf region and elsewhere abroad was estimated at about 305,000 in 1982. The Jordanian representative noted that the net outflow of Jordanian workers had been on a declining trend since 1981, reflecting primarily changing conditions in the economies of the host countries. In these circumstances, it was the Government's policy to ensure that foreign nationals did not displace Jordanian workers within the domestic economy; however, it had not been found necesssary so far to resort to general restrictive policies relating to the employment of foreign workers.

Private sector wages, it was stated, had increased by an estimated 10 percent in 1982 compared with 15 percent in 1981, but government pay scales had remained unchanged since 1981, when they were increased by 12-15 percent. The Jordanian representatives explained that wage developments in the private sector tended to reflect guidelines established each year by a special committee appointed by the Cabinet, although the guidelines themselves were indicative rather than obligatory. In response to a question, it was also stated that no provision had been made for salary increases in the government budget for 1983. During 1982, the cost of living index rose by 7.4 percent compared with the increase of 7.7 percent recorded in 1981; for 1983 as a whole, the Jordanian representatives stated, the cost of living index was expected to increase by 5-6 percent.

The staff representatives observed that the midpoint of the 1981-85 Plan period had now been reached, and that major changes had taken place with respect to several key assumptions underlying the original Plan, including the flow of foreign grant assistance and the demand for Jordanian exports in world markets. In response to a request that they evaluate actual Plan performance and prospects against this background, the Jordanian representatives noted that one of the principal objectives of the 1981-85 Plan had been to increase the ratio of domestic budget revenues to current budget expenditures from 67.3 percent in 1980 to

100 percent by 1985; satisfactory progress toward the realization of this objective was reflected in the 79.8 percent ratio recorded in 1982 and the 91.8 percent ratio projected for 1983. While real output growth had been only 8.7 percent and 5.5 percent in 1981 and 1982, respectively, compared with the Plan target of an average annual rate of about 11 percent for 1981-85 as a whole, actual investment during 1981-82 had not been significantly different from the level envisaged in the Plan. With respect to the latter, the Jordanian representatives reaffirmed that it remained the Government's policy to adjust each year's level of investment so as to maintain domestic and external financial equilibrium.

2. Fiscal and monetary policies

The discussions on recent and prospective developments in government budgetary operations were based on the fiscal data summarized in Table 1.

Table 1. Jordan: Summary of Central Government's Budgetary Operations, 1980-83

(In millions of Jordan dinars)

	1980	1981	Budget 1982	Provis. Actuals 1982	Budget 1983
Receipts	428.9	515.5	598.0	550.2	647.9
Domestic revenue	226.1	309.2	338.0	363.2	432.9
Foreign grants	202.8	206.3	260.0	187.0	215.0
Expenditure	539.4	616.3	750.0	658.8	713.6
Current	336.1	391.5	419.5	454.8	471.4
Capital 1/	203.3	224.8	330.5	204.0	242.2
Overall deficit	110.5	100.8	152.0	108.6	65.7
Financed by:					
Foreign borrowing (net)	67.7	61.6	123.0	43.0	62.3
Banking system (net)	21.2	27.0	29.0	82.3	3.4
Central Bank (net)	(53.0)	(19.6)	(...)	(61.4)	(...)
Commercial banks	(-31.8)	(7.4)	(...)	(20.9)	(...)
Other (net)	21.6	12.2	...	-16.7	...

Sources: Central Bank of Jordan, Ministry of Finance, and staff estimates.

1/ Including net lending.

The Jordanian representatives observed that the large shortfall in foreign grant receipts from the level envisaged in the original budget estimates for 1982 had necessitated major adjustment efforts with respect to other budget components during the year. Thus, capital expenditures had been cut by about 9 percent from the 1981 level and by as much as 38 percent compared with the original budget estimate; in effecting this curtailment, the Government had sought to postpone primarily investment projects which were not directly productive and which had not been included in the Plan for 1981-85. Current expenditure control had been reinforced during 1982 by a shift from a system of quarterly to monthly allocations of funds to government departments and agencies, with each month's allocation being generally limited to actual spending in the preceding month. However, the cost of subsidies in 1982 had been JD 30 million above the budget estimate, partly on account of a sharp rise in fuel consumption on account of an exceptionally cold winter; apart from this item, other current expenditures had been held very close to budgeted levels. In addition to discretionary tax increases incorporated in the budget for 1982, domestic revenue during the year had been further enhanced by increased tariffs of both ports and telecommunications services so as to exceed the budget estimate by about JD 25 million. Although the overall deficit, at JD 108.6 million, had been substantially below the budget estimate of JD 152.0 million, the Jordanian representatives noted that domestic financing of the budget deficit in 1982, at JD 65.6 million, had been more than twice the amount allowed for in the original budget estimates; to a large extent, this reflected advances made by the Central Bank in anticipation of foreign grant assistance which failed to materialize by the end of the fiscal year.

Concerning the budgetary prospects for 1983, the Jordanian representatives stated that continued pursuit of stringent expenditure policies was likely to limit the increase in current outlays to about 4 percent over the 1982 level, and that actual domestic revenue performance so far in 1983 had been in line with the ambitious objective of increasing such revenue by about 19 percent over the year as a whole. On the current expenditure side, it was noted, a saving of JD 46 million was expected to be realized on account of reduced fuel subsidy resulting from lower import prices and domestic price adjustments. (On February 1, 1983, petroleum product prices were increased ranging from 18 percent for kerosene and diesel oil to about 55 percent for gasoline.) Also, as in 1982, government salaries were to remain unchanged in 1983 despite the substantial reduction in real income levels which this would imply relative to the 1981 position.

Although foreign grant receipts had been projected at JD 215 million in the original budget estimates for 1983, it was now believed that actual receipts might not exceed JD 182 million. The Jordanian representatives stated that this further shortfall in foreign grant receipts was expected to be matched partly by a curtailment of capital expenditures from the estimated level of JD 242 million and partly by an increase in domestic financing of the budget deficit from the level of JD 3.4 million shown in the original estimates to about JD 26 million. At this higher level, however, domestic financing would be only about 40 percent of such financing in 1982.

With respect to the basic policy approach expected to be applied to the government budget for 1984, the Jordanian representatives indicated that the recent stance of fiscal policy would remain generally unchanged. In this connection, it might be noted that total government expenditures are projected to decrease by 5 percentage points relative to GDP between 1981 and 1983 in the face of a commensurate decline in the ratio of foreign grant receipts between the two years.

Monetary developments in 1982, the Jordanian representatives noted, had been highlighted by a large increase in the banking system's net claims on Government and by a substantial decline in net foreign assets; these two changes had been the equivalent of 7.0 percent and 4.9 percent, respectively, of domestic liquidity (money and quasi-money) outstanding at the end of 1981. Concurrently, however, credit to the private sector had increased by 22 percent compared with the 1981 growth rate of 28 percent, while the rate of domestic liquidity expansion had declined marginally from 20 percent in 1981 to 19 percent in 1982. The growth of the principal monetary aggregates in 1983, the Jordanian representatives continued, was expected to reflect more closely the generally restrictive stance of the Government's economic and financial policies; with credit to the private sector estimated to increase by 18 percent during the year, while net claims on Government and net foreign assets would increase and decline, respectively, by amounts much smaller than those recorded in 1982, domestic liquidity expansion was projected to be approximately 14 percent in 1983.

The Jordanian representatives observed that several measures had been taken in 1982 aimed at easing the economy's adjustment to the domestic financial impact of the decline in foreign grant receipts and of the slowdown in exports and inward workers' remittances, while strengthening the Central Bank's regulatory provisions with respect to the domestic credit operations of commercial banks. In order to encourage commercial banks and other financial institutions to purchase Treasury bills, so as to meet a part of the Government's financing requirements in the face of the shortfall in foreign grant receipts, several changes were made in the regulations governing the obligatory reserves of banks and financial institutions. Thus, effective June 1, 1982, deposits in excess of JD 5 million with investment banks and finance companies were made subject to a reserve requirement of 5 percent, to be held in the form of Treasury bills; an additional reserve requirement of 2.5 percent was applied to deposits in excess of JD 10 million, to be deposited with the Central Bank. Also, effective September 12, 1982 the required reserves on demand deposits with commercial banks were reduced from 11 percent to 5 percent with respect to any part of such deposits invested in new issues of government bonds. On July 4, 1983, the Jordanian representatives added, commercial bank reserve requirements were reduced from 11 percent to 10 percent for demand deposits and from 8 percent to

7 percent for time and savings deposits. In order to strengthen the Central Bank's influence over the sectoral allocation of credit in the economy, a change was made in August 1982 in the method of calculating the credit deposit ratio of commercial banks, so as to include interbank deposits on a net basis instead of including the gross amount of such deposits; the result of this change was to make it less attractive for banks to finance their credit operations with interbank deposits as against rediscounting credits with the Central Bank. A number of relatively minor interest rate adjustments had also been made during 1982 and the first part of 1983, the Jordanian representatives added; on September 15, 1982 the interest rate on demand deposits was raised from a maximum of 2 percent to 4 percent, and on April 1, 1983 time and savings deposit rates were raised by 0.25-0.50 percent, to a range of 6-8 percent.

3. External sector

The Jordanian representatives noted that the balance of payments had been in an overall deficit in 1982 for the first time in several years (Table 2). Having increased by about 31 percent and 26 percent in 1980 and 1981, respectively, the principal receipts on current account (exports, remittances, and grants and transfers) had recorded an increase of only about 5 percent in 1982, to a total of about SDR 2,630 million, reflecting less buoyant economic conditions in the Arab oil exporting countries, which were the main markets for Jordanian goods and labor, as well as the effects of the world economic recession on demand for phosphates and other export products. Total exports, which had doubled in the preceding two years, rose by only 9 percent in 1982 while the growth of inward workers' remittances decelerated to 12 percent compared with the increases of 31 percent and 44 percent recorded in 1980 and 1981, respectively. Most importantly, however, total grants and transfers, at about SDR 963 million, had been about 13 percent below the level of 1981. On the current payments side, total imports rose by about 9 percent in 1982, a rate significantly lower than those of 21 percent and 46 percent in 1980 and 1981, respectively; for imports other than petroleum, the increase in 1982 was only 4 percent, to SDR 2,348 million, compared with an increase of about 16 percent in 1980 and one of 45 percent in 1981. The sharply reduced rate of import growth in 1982, the Jordanian representatives observed, attested to the large-scale adjustment of domestic expenditures during the year in the face of the abrupt change in external circumstances, including the decline in grant receipts. Nevertheless, the deficit on goods and services account had increased by about SDR 122 million in 1982 to SDR 1,268 million.

Table 2. Jordan: Balance of Payments Summary, 1979-83

(In millions of SDRS)

	Actuals 1979	1980	1981	1982	Proj. 1983
Current receipts	1,588.1	2,081.0	2,615.9	2,629.7	2,648.7
Exports (f.o.b.)	311.9	442.2	625.7	682.2	747.9
Domestic	(212.9)	(309.8)	(435.9)	(478.6)	(...)
Re-exports	(99.0)	(132.4)	(189.8)	(203.6)	(...)
Remittances	465.3	610.4	879.2	984.8	1,109.0
Grants and transfers	810.9	1,028.4	1,111.0	962.7	791.8
Current payments	1,593.4	1,793.1	2,651.2	2,934.8	3,079.5
Imports (c.i.f.)	1,517.3	1,843.4	2,698.6	2,942.9	3,172.2
Petroleum	(177.8)	(293.8)	(450.5)	(594.8)	(606.1)
Other	(1,339.5)	(1,549.6)	(2,248.1)	(2,348.1)	(2,566.1)
Remittances	61.9	118.6	134.1	160.9	167.6
Other services (net)	14.2	-168.9	-181.5	-169.0	-260.3
Current surplus/deficit	-5.3	287.9	-35.3	-305.1	-430.8
Goods and services	-816.2	-1,316.3	-1,146.3	-1,267.8	-1,222.6
Grants and transfers	810.9	1,028.4	1,111.0	962.7	791.8
Capital account	150.3	82.6	178.0	292.4	399.7
Government (net)	130.0	58.7	57.3	238.7	322.4
Private (net)	20.3	23.9	120.7	53.7	77.3
Errors and omissions	18.5	-86.8	-105.7	-146.8	--
Overall surplus/deficit	163.5	283.7	37.0	-159.5	-31.1

Source: Central Bank of Jordan.

The overall current account position, including also grants and transfers, had moved from a small deficit in 1981 (SDR 35 million) to one of SDR 305 million in 1982, representing a turnaround of close to SDR 600 million from the surplus recorded in 1980. In the capital account, net government external loan receipts had increased by about SDR 181 million while net private sector receipts had decreased by SDR 67 million. An outflow of SDR 147 million on account of errors and omissions in 1982, it was explained, reflected partly prefinancing by the Central Bank of certain government payment obligations which had later been reimbursed out of the proceeds of a Eurodollar loan of US$225 million contracted by the Government in early 1983. The overall balance of payments deficit in 1982 of about SDR 160 million, the Jordanian representatives commented, compared with a decline of SDR 133 million in foreign grant receipts between 1981 and 1982.

With respect to the balance of payments outlook for 1983, the Jordanian representatives stated that the overall deficit was projected to decline substantially to about SDR 31 million, notwithstanding a further increase of about SDR 126 million in the deficit on current account (to about SDR 431 million). In the current account itself, total grant and transfer receipts were estimated to decline further by about 18 percent, to SDR 792 million, while total exports and inward workers' remittances in 1983 were projected to increase by about 10 percent and 13 percent, respectively. With total import payments estimated to increase by about 8 percent, the deficit on goods and services account was projected to decline by about SDR 45 million, to SDR 1,223 million. Net receipts on capital account were projected to increase by about SDR 107 million, to SDR 400 million, largely because of increased net government borrowing abroad.

In this connection, the staff representatives noted that Jordan's external debt outstanding had been on a sharply rising trend in recent years, increasing from SDR 630 million in 1978 to about SDR 1,825 million at the end of 1982. Although the ratio of debt service to exports of goods and services in 1982 had been relatively low at about 6 percent, the rapid rate of increase in recent years in external debt outstanding suggested the need for caution in the contracting of additional debt. The Jordanian representatives concurred fully with this view, and noted that a report to that effect was now being considered by the Government. In principle, they continued, it was the intention of the authorities to undertake new external borrowing only for repayment of maturing outstanding debts, thus easing the burden of settlement of large obligations expected to become due in the next two years or so.

Concerning exchange rate developments in 1982, it was noted that the Jordan dinar had depreciated by 7.6 percent against the U.S. dollar during the year, as measured by the average exchange rate relative to that for 1981. However, the dinar had recorded a real effective appreciation of 2.0 percent in 1982 against a basket of 28 currencies of Jordan's trading partners; between end-1982 and end-June 1983, the Jordan dinar had depreciated further by 2.6 percent against the U.S. dollar and appreciated by 1.8 percent against the basket of 28 currencies. The Jordanian representatives stated in this connection that their exchange rate policy remained unchanged, i.e., the dinar remained pegged to the SDR within narrow margins. Also, there had been no changes in the exchange and trade system since the consultation discussions in May 1982, and the Central Bank's reserve management policy had remained largely unchanged from that outlined on previous occasions. The basic objective was to maintain an adequate level of liquid reserves to cushion the impact of any temporary fluctuations in the flow of external receipts.

The Jordanian representatives noted that the Government's request for a study by the Fund staff of economic developments on the occupied West Bank and their implications for the Jordanian economy had been discussed at length at the Executive Board Meeting on the 1982 Article IV consultation with Jordan on October 1, 1982. They took note of the outcome of this discussion but expressed the view that the Jordanian viewpoint should remain under consideration by the Fund.

IV. Staff Appraisal

The Jordanian economy continued to perform quite well in 1982, despite major adverse changes in the inflow of foreign grants for financing budgetary and extrabudgetary operations, and in the growth rates of exports and inward workers' remittances which had been principal factors in the economy's impressive growth in the decade through 1981. In the circumstances, the 5.5 percent rate of real output growth recorded in 1982 and the moderate increase in the consumer price index (7.4 percent) must be regarded as solid achievements, and a measure of the Government's success in pursuing with determination a well coordinated program of domestic and external adjustment.

The brunt of domestic financial adjustment in 1982 was borne by the government budget in the form of quite severe restraint in the growth of current expenditures and substantial curtailment of capital expenditures from the level envisaged in the original budget estimates. Concurrently, domestic revenue exceeded the budget estimate due to intensified collection efforts and higher tax rates. Overall, the budget deficit in 1982 at JD 108.6 million (6.3 percent of GNP) was approximately equal to the 1978-81 average, and considerably lower than the original estimate of JD 152 million. However, a shortfall in external financing of the budget deficit caused the amount of domestic financing, including net credit extended to the Government by the Central Bank, to rise to JD 82 million (4.8 percent of GNP) compared with the budget estimate of JD 29 million. In view of developments in the first half of 1983, the staff agrees with the Jordanian authorities that domestic financing of the budget is likely to be significantly reduced during the year as a whole.

The abrupt decline in foreign grant receipts since 1981 has highlighted the vulnerability of Jordan's external payments position to circumstances beyond the control of its authorities. Although prompt adjustment efforts were successful in moderating the adverse effects of this decline on the overall balance of payments position in 1982, the staff is of the view that Jordan's external payments position is likely to remain under pressure for some time to come. In view of the relatively low level of outstanding external debt and debt service obligations, the Jordanian authorities have a degree of flexibility with respect to further external borrowing in support of their continuing adjustment efforts. However, the staff is in agreement with the position of the authorities that care should be exercised in the contracting of external debt by Jordan. In this connection, the staff also notes the importance of continued domestic resource mobilization through the government budget and the financial market for domestic investment financing without undue reliance on external resources.

Jordan's exchange and trade system remains virtually free of restrictions on payments for current transactions, and exchange rate and reserve management since the 1982 consultation discussions has been appropriate. The staff welcomes the official termination during this period of a previously suspended bilateral payments agreement with Egypt.

It is recommended that the next Article IV consultation with Jordan be held on an 18-month cycle.

V. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Fund takes this decision in concluding the 1983 Article XIV consultation with Jordan, in the light of the Article IV consultation with Jordan conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes that Jordan continues to operate a liberal exchange system and welcomes the termination of a bilateral payments arrangement with a Fund member.

Jordan: Fund Relations 1/

Date of membership:	August 29, 1952.
Status:	Article XIV.
Quota:	SDR 45 million; proposed quota of SDR 73.9 million under the Eighth Review of Quotas.
Fund holdings of Jordan dinars:	SDR 45 million, equivalent to 100 percent of quota. The reserve tranche of SDR 16.6 million was purchased in June 1983, the first purchase transaction since January 1973.
SDR Department:	Holdings amount to SDR 17.36 million or 102.83 percent of net cumulative allocation of SDR 16.88 million.
Direct distribution of profits from gold sales:	US$3.66 million.
Gold distribution:	Jordan received 19,683.976 fine ounces of gold.
Exchange system:	Effective February 15, 1975, Jordan ceased pegging the dinar to the U.S. dollar and linked it to the SDR with margins of 2.25 per cent. The July 31, 1983 exchange rate vis-a-vis the U.S. dollar was JD 1 = US$2.7174.
Last Article IV consultation:	May 1982; the Staff Report (SM/82/171) was discussed by the Executive Board on October 1, 1982.

The Executive Board's decision concluding the 1982 Article IV consultation (Decision No. 7217-(82/131)) was as follows:

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1/ As of August 31, 1983.

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1/ As of August 31, 1983.

Jordan: Basic Data 1/

Area (square miles)	35,000
Population (1982 estimate)	2.4 million
GNP at market prices (1982 estimate)	SDR 4.41 billion
GNP per capita (1982 estimate)	SDR 1,839

	1978	1979	1980	1981	Prelim. 1982
	(In millions of Jordan dinars)				
National accounts (in current prices)					
GNP at market prices	793.4	935.5	1,204.2	1,524.7	1,711.6
GDP at market prices	644.6	767.2	998.4	1,206.2	1,366.6
GDP at factor cost	563.6	682.8	907.3	1,083.1	1,234.1
Agriculture	(58.7)	(43.9)	(64.6)	(76.6)	(85.3)
Industry and mining	(94.3)	(121.6)	(167.1)	(208.3)	(216.9)
Construction	(51.0)	(70.5)	(97.5)	(110.6)	(119.2)
Electricity and water	(7.2)	(10.1)	(17.1)	(21.0)	(20.4)
Services	(352.4)	(436.8)	(561.0)	(666.6)	(792.3)
	(In percent)				
Gross fixed investment/GNP	29	31	33	37	36
Rate of change					
GNP at market prices	18	18	29	27	12
GDP at market prices	23	19	30	21	13
GDP at factor cost	25	21	33	19	14

	1978	1979	1980	1981	Prov. Actuals 1982	Budget Est. 1983
	(In millions of Jordan dinars)					
Government finance						
Revenue and grants	240.2	398.2	428.9	515.5	550.2	647.9
Domestic revenue	(158.5)	(187.9)	(226.1)	(309.2)	(363.2)	(432.9)
Foreign grants	(81.7)	(210.3)	(202.8)	(206.3)	(187.0)	(215.0)
Expenditure and net lending	351.0	502.2	539.4	616.3	658.8	713.6
Current	(212.9)	(321.3)	(336.1)	(391.5)	(454.8)	(471.4)
Capital	(129.6)	(154.7)	(177.4)	(184.7)	(175.5)	(217.8)
Net lending	(8.5)	(26.2)	(25.9)	(40.1)	(28.5)	(24.4)
Overall deficit	-110.8	-104.0	-110.5	-100.8	-108.6	-65.7
Foreign financing (net)	(86.1)	(30.7)	(67.7)	(61.6)	(43.0)	62.3
Domestic financing	(30.7)	(-6.8)	(16.3)	(25.6)	(82.3)	3.4
Of which: bank financing	[28.8]	[-12.7]	[21.2]	[27.0]	[82.3]	[...]
Discrepancies	-6.0	80.1	26.5	13.6	-16.7	...

Jordan: Basic Data (Continued) 1/

	1978	1979	1980	1981	1982
	(As percentage of GDP at market prices)				
Domestic revenue	24.6	24.5	22.7	25.6	26.6
Foreign grants	12.7	27.4	20.3	17.1	13.7
Current expenditure	32.9	42.1	34.3	32.4	33.3
Capital expenditure 2/	21.6	23.4	20.3	18.7	14.9
Overall deficit	-17.2	-13.6	-11.0	-8.4	-7.9
	(In millions of Jordan dinars)				
Changes in money and credit					
Foreign assets (net)	38.1	57.9	110.8	16.5	-57.7
Domestic assets (net)	100.9	108.5	100.9	178.5	281.2
Claims on nongovernment sector	(90.8)	(134.8)	(102.9)	(170.2)	(181.0)
Claims on Government (net)	(28.8)	(-12.7)	(21.2)	(27.0)	(82.3)
Other items (net) (increase-)	(-18.7)	(-13.6)	(-23.2)	(-18.7)	(17.9)
Money and quasi-money	139.0	166.4	211.7	195.0	223.5
	(In percent)				
Rate of change					
Money and quasi-money	30	27	27	20	19
Money	13	26	26	18	12
Quasi-money	69	30	30	23	29
Claims on nongovernment sector	36	42	22	28	22
Ratio of money and quasi-money (at year end) to GNP	76	83	82	77	82
	(In millions of SDRs)				
Balance of payments					
Trade balance	-949.1	-1,205.4	-1,401.3	-2,072.8	-2,260.7
Exports (f.o.b.)	(234.5)	(311.9)	(442.2)	(625.7)	(682.2)
Imports (c.i.f.)	(-1,183.6)	(-1,517.3)	(-1,843.5)	(-2,698.5)	(-2,942.9)
Workers' remittances (net)	359.5	403.4	491.8	745.0	823.9
Other services (net)	93.7	-14.3	169.0	181.5	169.1
Transfers (net)	274.7	810.9	1,028.4	1,111.0	962.7
Current account balance	-221.3	-5.3	287.9	-35.3	-305.1
Capital transactions (net)	234.4	150.3	82.6	178.0	292.4
Errors and omissions (net)	116.6	18.5	-86.8	-105.7	-146.8
Overall balance	129.7	163.5	283.7	37.0	-159.5

Jordan: Basic Data (Concluded) 1/

	1978	1979	1980	1981	1982
	(As percent of GDP)				
Imports of goods (c.i.f.) and nonfactor services	95.1	109.4	98.7	118.6	113.5
Exports of goods (f.o.b) and nonfactor services	43.6	47.7	50.8	57.8	54.2
Goods and nonfactor services balance (deficit-)	-51.5	-61.7	-47.9	-60.8	-59.3
	(In millions of SDRs)				
Gross international reserves (end of period)	931.1	1,163.3	1,606.3	1,720.2	1,620.8
	(In months)				
Ratio to average monthly imports during the year	9.4	9.2	10.5	7.6	6.6
	(In millions of SDRs)				
Total external public debt service	65.2	73.0	104.4	161.7	182.3
	(In percent)				
External debt service/exports (goods and services)	5.7	5.2	5.4	6.0	6.3
External debt service/GNP	3.2	3.0	3.4	4.1	4.1

1/ East Bank only.
2/ Includes net lending.