SM/83/206
Correction 1

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INFORMATION

November 3, 1983

To: Members of the Executive Board

From: The Secretary

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

The following corrections have been made in SM/83/206 (10/13/83):

Page 2, 2nd full para., line 8: for "SDR 138 million"
read "SDR 160 million"

line 10: for "SDR 150 million"
read "SDR 161 million"

Page 7, line 3: for "40 percent" read "32 percent"

Page 8, full para., line 6: for "5 percent" read "0.5 percent"

Corrected pages are attached.

Att: (3)

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Department Heads

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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 160 million in 1982, representing a significant turnaround from the average annual surplus of about SDR 161 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.

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 32 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 0.5 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.