Office Memorandum

To: Members of the Executive Board May 3, 2011

From: The Secretary

Subject: **Jordan—Assessment Letter for the World Bank**

Attached for the **information** of Executive Directors is the Fund's assessment letter on the macroeconomic conditions in Jordan, which was requested by the World Bank.

If the authorities of Jordan consent to the publication of this assessment, it may be published by the World Bank.

Questions may be referred to Mr. Cashin (ext. 36104) and Mr. El Said (ext. 35918) in MCD.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

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FO/DIS/11/87

Jordan—Assessment Letter for the World Bank
May 3, 2011

1. **Following a sharp downturn in 2009, the macroeconomic situation strengthened considerably in 2010.** Real GDP grew by 3.1 percent in 2010, and unemployment fell by one half of one percent to 12½ percent at end-2010. Headline inflation picked up to 6.1 percent in 2010, in line with higher commodity prices, while core inflation remained stable at around 3.6 percent. The overall fiscal deficit improved by more than 3 percent of GDP to reach 5½ percent in 2010, in line with the authorities' fiscal consolidation plans. The external current account deficit narrowed to 4⅓ percent of GDP in 2010, due to a higher outturn for exports and improved tourism receipts.

2. **The outlook for 2011 has become more challenging in light of growing social pressures and uncertainty in the region.** The government adopted new measures, and has taken steps to support the growth of the domestic economy. Recently a package of spending measures, estimated to cost about 2 percent of GDP, was adopted in January 2011 to address the rising cost of living, particularly for fuel and food staples. According to the 2011 budget, the measures will be financed by reduced capital spending, a 0.5 percent of GDP increase in the overall deficit, and spending reallocations. In addition, the Central Bank of Jordan (CBJ) announced new facilities to support the extension of credit to SMEs and the manufacturing sector at below market-based interest rates. While designed to stimulate economic activity, such facilities are also expected to lower excess liquidity in the overnight window of the CBJ. For 2011, real GDP is expected to increase modestly to 3.3 percent, and inflation is projected to remain close to 6 percent, due in part to the absence (since January 2011) of pass through of international oil prices. The external current account deficit is expected to widen in 2011 to about 8 percent of GDP, largely due to increased commodity-import prices and flat tourism receipts.

3. **Notwithstanding the authorities' continued commitment to sound policies, Jordan faces external downside risks.** The overall fiscal deficit is expected to widen by about 1½ percent of GDP in 2011, driven mostly by lower domestic revenue and higher subsidies for wheat and gasoline. As a result, the net public debt-to-GDP ratio will rise slightly to 57 percent at end-2011. Regional political events with possible spillovers to Jordan could adversely affect economic activity through lower tourism receipts and more costly access to capital markets. These vulnerabilities are a reflection of Jordan's open economy and high exposure to external commodity price shocks. While some new spending measures are appropriate in light of the pressing social needs, it is essential that mechanisms are put in place to ensure that these new measures are of high quality and well-targeted. Nonetheless, continued caution in macroeconomic and financial policies is warranted, with medium-term fiscal consolidation a high priority.

4. **The monetary policy stance is appropriate, and the exchange rate peg continues to serve as an appropriate nominal anchor.** With rising private credit growth, the authorities should continue to stand ready to tighten monetary policy if domestic demand places upward pressure on prices. Analysis by Fund staff of the real effective exchange rate indicates that the Jordanian dinar remains broadly in line with medium-term fundamentals. Despite a fall in international reserves by 9½ percent since end-December 2010, the external reserve position remains comfortable at US$11.3 billion (equivalent to seven months of imports) at end-April 2011.

5. **Jordanian banks remain strong.** Banks are profitable and well capitalized, and dinar-denominated deposits—despite a recent uptick in the share of dollar-denominated deposits—continue to be the major funding base. Liquidity ratios and provisioning remain high, while bank NPLs increased modestly to 8.2 percent of outstanding loans at end-December 2010. The comfortable position of the banking system is supported by a strong supervisory and regulatory framework.

6. This letter updates the assessment of the IMF Executive Board at the time of the 2010 Article IV consultation (see the Public Information Notice of September 10, 2010 available at http://www.imf.org/external/np/sec/pn/2010/pn10131.htm). The next Article IV Consultation is scheduled for October 2011.

Jordan: Selected Economic Indicators and Macroeconomic Outlook, 2006–11

	2006	2007	2008	2009	Est. 2010	Proj. 2011
Output and prices	(Percentage change, unless otherwise indicated)					
Real GDP at market prices	7.9	8.5	7.6	2.3	3.1	3.3
GDP deflator at market prices	15.2	4.7	18.8	8.1	6.3	5.5
Nominal GDP at market prices	24.3	13.5	27.9	10.6	9.6	8.9
Nominal GDP at market prices (JD millions)	11,093	12,596	16,108	17,816	19,528	21,263
Nominal GDP at market prices ($ millions)	15,645	17,765	22,706	25,113	27,527	29,964
Consumer price index (annual average)	6.3	4.7	13.9	-0.7	5.0	6.1
Consumer price index (end of period)	7.5	5.1	9.1	2.7	6.1	5.7
Unemployment rate (percent)	14.1	13.1	12.7	12.9	12.5	...
Investment and savings	(In percent of GDP, unless otherwise indicated)					
Consumption	103.2	106.4	104.7	98.5	97.8	97.4
Government	18.3	21.8	22.9	21.5	18.6	18.6
Other	85.0	84.6	81.8	77.0	79.2	78.8
Gross domestic investment	29.0	29.3	24.8	23.2	22.3	24.2
Government	6.7	6.4	5.7	7.8	5.1	3.8
Other	22.3	22.9	19.2	15.4	17.2	20.4
Gross national savings	18.0	12.4	15.9	18.7	18.0	16.3
Government	3.3	0.9	0.3	-0.7	-0.3	-3.0
Other	14.7	11.5	15.6	19.4	18.3	19.3
Savings-investment balance	-11.0	-16.9	-9.0	-4.5	-4.3	-7.9
Government	-3.4	-5.5	-5.4	-8.5	-5.4	-6.8
Other	-7.7	-11.3	-3.6	4.0	1.1	-1.1
Fiscal operations						
Revenue and grants	31.1	31.1	29.1	25.1	23.8	23.1
Of which: grants	3.0	2.7	4.5	1.9	2.1	2.1
Expenditure and net lending 1/	34.5	36.6	34.5	33.6	29.2	29.9
Overall fiscal balance including grants	-3.4	-5.5	-5.4	-8.5	-5.4	-6.8
Overall fiscal balance excluding grants	-6.4	-8.2	-9.8	-10.3	-7.5	-8.9
Primary fiscal balance excluding grants	-3.5	-5.3	-7.5	-8.1	-5.1	-6.5
Government and government-guaranteed net debt 2/	66.3	65.1	52.9	55.8	55.1	57.0
Of which: external debt	46.8	41.7	22.6	21.7	21.6	18.9
External sector						
Current account balance (including grants), *of which:*	-11.0	-16.9	-9.0	-4.5	-4.3	-7.9
Exports of goods, f.o.b. ($ billions)	5.2	5.7	7.9	6.4	7.0	8.1
Imports of goods, f.o.b. ($ billions)	10.3	12.2	15.1	12.7	13.6	15.4
Current account balance (excluding grants)	-16.2	-19.0	-14.9	-6.5	-8.6	-10.6
Private capital inflows (net)	23.6	21.2	14.3	13.7	8.7	8.9
	(Annual percentage changes)					
Monetary sector						
Broad money	14.1	10.6	17.3	9.3	11.5	...
Net foreign assets	23.4	6.2	-9.7	25.1	13.4	...
Net domestic assets	5.3	15.5	44.7	-0.7	9.9	...
Credit to private sector	24.5	15.3	14.8	0.5	7.2	...
Memorandum items:						
Gross usable international reserves ($ millions)	6,103	6,865	7,732	11,093	12,449	11,288
In months of prospective imports of GNFS	5.1	4.7	6.1	7.9	8.0	6.9
Short-term debt (in percent of international reserves)	13.7	12.6	8.7	5.4	5.5	6.4
Nominal per capita GDP ($)	2,794	3,104	3,881	4,199	4,500	4,788

Sources: Jordanian authorities; and Fund staff estimates and projections.

1/ Includes statistical discrepancy.
2/ Domestic debt is net of government deposits with the banking system.