DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

FOR AGENDA

0451

EBS/91/202

CONFIDENTIAL

December 3, 1991

To: Members of the Executive Board

From: The Secretary

Subject: Jordan - Request for Stand-By Arrangement

Attached for consideration by the Executive Directors is a paper on Jordan's request for a stand-by arrangement equivalent to SDR 44.4 million, which will be brought to the agenda for discussion on a date to be announced. Draft decisions appear on page 33.

The authorities have until the end of December 1991 to implement prior actions on the budget, including several sensitive measures which are detailed in Attachment II to the authorities' letter of intent. The authorities have requested that this attachment not be released before the implementation of the measures. The report gives a broad idea about these measures but the details of specific policies would be given in a supplement to be circulated to Executive Directors prior to the Board meeting.

Mr. Yaqub (ext. 7134) or Mr. El-Khouri (ext. 6557) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

JORDAN

Staff Report for Request for Stand-By Arrangement

Prepared by the Middle Eastern Department and the Exchange and Trade Relations Department

(In Consultation with the Fiscal Affairs, Legal, and Treasurer's Departments)

Approved by A.S. Shaalan and S. Kanesa-Thasan

November 27, 1991

Contents | Page

Contents Page

I. Introduction

The discussions with Jordan on an adjustment program to be supported by a stand-by arrangement were held in Amman during the period September 24-October 3, 1991. 1/ In the attached letter of intent (Appendix II), the authorities have requested an 18-month stand-by arrangement in an amount of SDR 44.4 million, equivalent to an annual access of 40 percent of Jordan's present quota of SDR 73.9 million. As a result of purchases under the stand-by arrangement, Fund holdings of Jordan dinars would exceed 200 percent of quota, and a waiver of the limitation in Article V, Section 3(b)(iii) is needed.

There will be six equal purchases under the proposed stand-by arrangement. The first purchase is to be effected upon Board approval, and the remaining five purchases to be effected in the last three quarters of 1992 and the first two quarters of 1993. The purchases that are to be effected in the third quarter of 1992 and the first quarter of 1993 are contingent upon the successful completion of the first and second reviews of the program, respectively, as well as on the meeting of quantitative performance criteria for the end of the preceding periods. In view of needed negotiations with commercial bank creditors, purchases are also subject to quarterly financing reviews. When the stand-by arrangement expires in June 1993, and assuming that all the purchases are effected, net Fund credit outstanding will be SDR 87.0 million (117.7 percent of Jordan's present quota). Of this amount, 84.3 percent of quota will be under the tranche policies and 33.4 percent of quota on account of the CCFF (Table 1). A summary of the Fund's relations with Jordan is given in Appendix III. 2/

There has been close cooperation between the Fund and Bank staffs in the case of Jordan. In support of Jordan's adjustment effort during 1989-90, the World Bank Executive Board approved on December 13, 1989, a Trade and Industry Adjustment Loan of US$150 million with cofinancing of an equal amount by Japan. The first tranche of the Bank loan of US$75 million was disbursed, but the second tranche was held up pending agreement with the authorities on, among other things, a satisfactory macroeconomic framework. The Bank staff participated in the current round of discussions leading to an agreement between the authorities and the Fund staff on the proposed stand-by arrangement. Furthermore, the Bank is taking a leading role in mobilizing additional external resources in support of Jordan's adjustment effort, and a Consultative Group meeting for Jordan is tentatively scheduled for February 1992, in which the Fund staff will participate.

1/ The mission comprised Messrs. Yaqub (Head), El-Khouri, O'Callaghan, and Tareq (all of MED), Mr. Mansur (ETR), and Ms. Nicholson (Administrative Assistant, MED). Three staff members of the World Bank also participated in the mission work.

2/ In 1989, Jordan made purchases totaling SDR 26.8 million in July and December under an 18-month stand-by arrangement that had been approved on July 14, 1989 as well as purchases totaling SDR 39.4 million under the CCFF in July and August.

Table 1. Jordan: Fund Position During the Period of the Proposed Stand-By Arrangement, 1992-93

	Outstanding on Oct. 31, 1991	1991 Nov.-Dec.	1992 Jan.-March	1992 April-June	1992 July-Sept.	1992 Oct.-Dec.	1993 Jan.-March	1993 April-June
				(In millions of SDRs)				
Transactions under tranche policies								
Purchases		--	7.4	7.4	7.4	7.4	7.4	7.4
Repurchases		--	--	--	--	2.3	3.3	3.3
Compensatory and contingency financing facility								
Purchases		--	--	--	--	--	--	--
Repurchases		--	--	--	--	4.9	4.9	4.9
Total Fund credit outstanding (end of period)	66.2	66.2	73.6	81.0	88.4	88.6	87.8	87.0
Under tranche policies	(26.8)	(26.8)	(34.2)	(41.6)	(49.0)	(54.1)	(58.2)	(62.3)
Under special facilities	(39.4)	(39.4)	(39.4)	(39.4)	(39.4)	(34.5)	(29.6)	(24.7)
				(As percent of quota) 1/				
Total Fund credit outstanding (end of period)	89.6	89.6	99.6	109.6	119.6	119.9	118.8	117.7
Under tranche policies	(36.3)	(36.3)	(46.3)	(56.3)	(66.3)	(73.2)	(78.8)	(84.3)
Under special facilities	(53.5)	(53.5)	(53.3)	(53.3)	(53.3)	(46.7)	(40.1)	(33.4)

Source: International Monetary Fund, Treasurer's Department.

1/ SDR 73.9 million.

II. Background

The Jordanian economy enjoyed rapid economic growth in the 1970s and early part of the 1980s mainly reflecting the rising level of exports, workers' remittances, and grants from the oil producing countries in the region. However, the subsequent downturn in global oil prices and the prolonged recession in the region led, by the mid-1980s, to reduced inflows of grants and remittances and contributed to a slowdown in economic growth and a rise in unemployment, and exposed structural weaknesses in the budget and balance of payments. The authorities initially responded to these developments by maintaining expansionary financial policies. The large budget deficits were financed by domestic and foreign borrowing which, together with an easing of credit policy for the private sector, contributed to a fast growth in liquidity and a rapid rise in Jordan's external indebtedness. However, gradually the authorities realized the gravity of the situation and in early 1989 adopted, in consultation with the staff, a medium-term, growth-oriented adjustment program covering the period 1989-93. Within the medium-term framework, a series of policy measures were adopted in 1989 and 1990 that served as the basis for a stand-by arrangement with the Fund, a Trade and Industry Adjustment Loan from the World Bank, debt rescheduling by the Paris and London Club creditors, and additional bilateral grants and loans.

Jordan's economic and financial performance under the stand-by arrangement was mixed in 1989 (Table 2 and Chart 1). All the policy actions that were stipulated in the program were implemented, mostly on schedule. This, in combination with liberal provision of debt relief and bilateral grants by donors, enabled the country to meet all the quantitative performance criteria, despite some slippages in certain areas. Progress was made in improving the budgetary situation, although the overall budget deficit exceeded the program target mainly due to higher than programmed external interest payments. The expansion in net domestic assets of the banking system and the trade deficit in the external accounts were substantially below the program target. Moreover, larger than programmed grant receipts kept the current account deficit including grants below the program target and allowed the Central Bank's foreign exchange reserves to increase significantly higher than programmed.

Adjustment policies were continued in 1990 when the authorities implemented policy measures involving structural reforms, further tightening of monetary and fiscal policies, and the pursuit of flexible interest and exchange rate policies. However, a number of adverse developments during 1990 pushed the economy off track and the stand-by arrangement became inoperative. Slow or partial implementation of policies, particularly those relating to the budget, led to credit expansion in excess of the targets for March and June 1990. Discussions to take corrective actions were initiated but could not be completed in the wake of the Iraqi invasion of Kuwait in August 1990 and the consequent major disruptions in economic and financial activity in Jordan. Given the strong linkages between the Jordanian economy and the economies of neighboring countries, the adverse effects on the Jordanian economy of the regional crisis were substantial.

Table 2. Jordan: Selected Economic and Financial Indicators, 1987-92

	Actuals 1987	Actuals 1988	Program Proj. 1989	Actuals 1989	Actuals 1990	Proj. 1991	Program Proj. 1992
			(Annual changes in percent)				
National income and prices							
Real GDP at factor cost	3.5	0.2	--	-8.4	-2.7	0.8	3.0
Real GDP at market prices	3.4	-0.7	--	-10.0	-0.6	0.8	3.0
GDP deflator	-0.9	5.0	14.0	19.7	9.6	10.0	9.2
Real effective exchange rate 1/	-14.3	-21.0	--	-6.6	-7.9	...	...
			(In percent of GDP)				
Government budget							
Revenue	25.0	24.6	22.9	23.7	28.3	26.5	26.2
Foreign grants	8.1	8.8	6.4	12.8	11.2	7.3	...
Total expenditure 2/	47.1	48.6	38.1	44.2	47.1	44.4	39.9
Overall deficit, excluding grants	-22.1	-24.0	-15.2	-20.5	-18.8	-17.9	-13.7
Overall deficit, including grants	-14.0	-15.2	-8.8	-7.7	-7.6	-10.6	...
Domestic bank financing (net)	13.4	11.9	6.2	0.9	-4.7	2.4	2.2
External sector							
Current account deficit, excluding grants	-7.8	-14.1	-13.7	-16.8	-29.3	-23.7	-18.5
External debt 3/	...	...	...	154.5	194.9	164.0	188.0
			(Changes in percent of beginning stock of money and quasi-money)				
Money and quasi-money	14.5	11.9	11.3	12.6	4.7	11.0	9.0
Foreign assets (net)	-2.5	-2.0	2.3	12.5	8.3	4.9	0.5
Domestic assets (net)	17.0	13.9	9.0	0.1	-3.6	6.1	8.5
Of which:							
Claims on Government (net)	(13.7)	(11.0)	(5.5)	(0.8)	(-5.0)	(2.2)	(1.6)
Claims on private sector	(2.4)	(4.0)	(5.1)	(3.8)	(4.5)	(4.7)	(5.8)
			(In millions of U.S. dollars unless otherwise specified)				
Trade balance (deficit -)	-1,304	-1,700	-1,530	-1,288	-1,668	-1,262	-1,209
Current account, excluding grants	-490	-838	-588	-703	-1,147	-1,007	-807
External debt 3/	...	...	...	6,412	7,591	6,974	8,198
Debt service due 4/	504	953	...	1,167	1,323	1,217	1,294
(As percent of exports of goods and services)	(15.7)	(28.3)	(...)	(38.8)	(45.7)	(45.0)	(40.0)
Gross official reserves 5/	...	-159	...	48	221	426	446
(In months of imports)	(...)	(...)	(...)	(0.2)	(1.0)	(2.2)	(2.2)

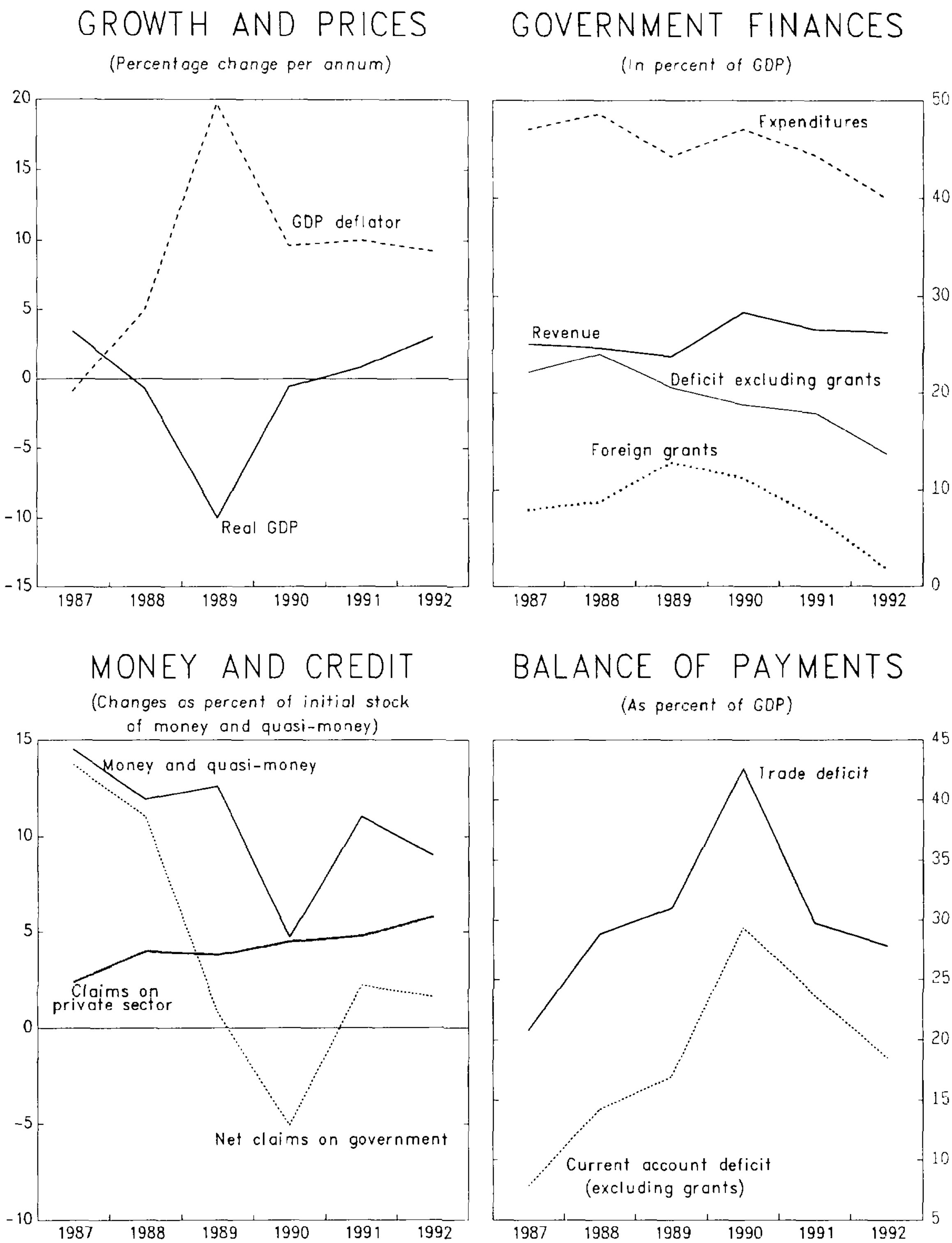
Sources: The Jordanian authorities; and staff estimates.

1/ December averages; depreciation (-).
2/ Including extrabudgetary expenditure.
3/ Disbursed public and publicly guaranteed medium- and long-term debt; data are for end of period. Complete data are not available for years before 1989.
4/ Before rescheduling.
5/ Excluding foreign exchange deposits by residents at the Central Bank; also excluding gold and claims on the Central Bank of Iraq; data are for end period. Data for 1987 on this basis not available. At end-1988, foreign exchange deposits by residents at the Central Bank exceeded Central Bank's gross reserves.

CHART 1

JORDAN

SELECTED ECONOMIC INDICATORS, 1987-92



Real income declined, unemployment rose sharply mainly due to the slackness in economic activity and reflux of a large number of Jordanians working abroad, and trade with, and aid flows from, Arab countries were disrupted. 1/

The latest assessment is that in 1991 the economy began to recover from the adverse effects of the regional crisis, aided by both domestic adjustment effort and receipt of aid from the Gulf Crisis Financial Coordination Group (GCFCG). Real GDP would register a modest growth of less than 1 percent in 1991 following declines in the previous two years. The main impetus for growth emanated from the construction and services sectors. Construction activity is estimated to have increased by 8 percent in real terms as private and government construction picked up to meet the increased demand for housing, schools, hospitals, and other facilities for the returnees. On the other hand, agricultural production was estimated to decline sharply due to drought, the spread of the "white fly" disease, and barriers to exports in neighboring countries. Mining production was being adversely affected by the difficulties encountered by ships in entering the port of Aqaba. The rate of inflation, as measured by changes in the GDP deflator, is projected at 10 percent in 1991, about the same level as in the previous year.

The budget for 1991 is also expected to show a slight improvement over 1990, mainly as a result of the effort to contain current expenditure. Expenditures on food subsidies were sharply reduced as the full-year impact of the introduction in September 1990 of a rationing scheme for sugar, rice, and powdered milk, was felt in 1991. Capital expenditures were stepped-up in 1991 to cope with the problem of the returnees, and about one half of the emergency expenditure expected to be incurred in 1991 was of a developmental nature. On the revenue side, the slow pace of domestic economic activity, decline in imports, and the sharply lower income tax payments by the phosphate company are expected to lead to a decline in the revenue/GDP ratio from 28.3 percent in 1990 to 26.5 percent in 1991. As a result of these developments, the overall budget deficit excluding grants is expected to record a modest decline from 18.8 percent of GDP in 1990 to 17.9 percent in 1991, while the overall budget deficit including grants is expected to rise from 7.6 percent of GDP to 10.6 percent. The overall budget deficit will be financed to a large extent by the accumulation of arrears on external debt service payments (amounting to 8 percent of GDP), and recourse to domestic bank borrowing (2.4 percent of GDP). 2/ Despite a substantial inflow of

---

1/ For details of Jordan's performance under the stand-by arrangement and the impact of the regional crisis see Jordan - Review Under Stand-By Arrangement (EBS/90/94, 5/21/90 and Cor. 1, 6/6/90); and Jordan - Staff Report for the 1990 Article IV Consultation (SM/91/20, 1/29/91 and Sup. 1, 6/4/91).

2/ The estimates for 1991 are based on actual data for the first eight months and projections for the remainder of the year. One important assumption is that before the end of 1991 the Government will settle the payments for oil which is being imported from Iraq during the year; these payments are estimated at JD 220 million.

loans from the GCFCG, net foreign financing of the budget on a commitment basis is expected to be negligible in 1991 as amortization payments due are high and the rescheduled amounts are very small.

The accumulation of net foreign assets continued during the first seven months of 1991, reflecting mainly the impact of the large inflow of foreign grants and loans to the Government, as well as the repatriation of savings by returning workers. As a result, the rate of monetary expansion amounted to 10.7 percent during the seven-month period, representing an increase of 18.6 percent on an annual basis. The expansionary impact of the foreign sector on money supply could reverse during the last quarter of 1991 if: (a) payments of about JD 220 million would be made toward the end of 1991 for oil imports from Iraq; (b) payments for non-oil imports rise sharply; and (c) the inflow of savings of workers returning from abroad was to taper off. On the basis of these assumptions, the expansion in money supply for the whole year was being projected at 11 percent. Monetary expansion could, however, be much larger in the event that the foreign sector does not become contractionary during the last quarter of the year.

The current account deficit excluding grants and transfer of savings by returning workers is expected to decline from about 29 percent of GDP in 1990 to about 24 percent in 1991. Domestic exports declined by 39 percent in the first half of 1991 compared with the corresponding period in the previous year due to disruptions to trade caused by the regional crisis. However, domestic exports began to pick up in the second half of 1991 and, as a result, for the year as a whole they are projected to decline by only about 12 percent. Re-exports, on the other hand, are projected to increase significantly as a result of increased trade activity with Iraq. Total exports would thus show only a marginal decline in 1991. On the other hand, imports would decline by 16 percent from the unusually high level of 1990 that had resulted from overstocking by the Government and private sector. Reflecting these developments, the trade deficit is projected to show an improvement of about US$400 million to US$1.3 billion in 1991. The surplus on the services account, however, is projected to decline by about US$250 million, reflecting mainly a decline in remittance and travel receipts.

The improvement in the current account as defined above is being supplemented by a sharp rise in transfers of workers' savings following the reopening of Kuwaiti banks. At the same time, foreign grants and loans, other than from the GCFCG, are projected to decline substantially as no Arab aid is expected to be received during the year. As a result, the underlying overall balance of payments deficit is projected to rise significantly in 1991 to over US$1.1 billion. The deficit is expected to be financed by drawings of grants and loans from the GCFCG of about US$775 million, accumulation of external arrears of about US$475 million, and debt rescheduling of about US$100 million.

III. Medium-Term Framework of Adjustment

1. Objectives and policies

The recent uncertainties and disruptions have added to the enormity of the task of adjustment and have adversely affected the country's ability to achieve medium-term internal and external financial viability. The prospects for increasing domestic savings and investment have diminished, the burden on the budget has increased, markets for agricultural and manufacturing exports have been disrupted, and the traditional sources of external finance, including private remittances and official bilateral aid, are in a state of flux. Despite these difficulties, the authorities recognize the need to address the serious economic and financial situation facing Jordan. Consequently, they have adopted, in consultation with the staff, a growth-oriented, medium-term adjustment program covering the period 1992-98. The major objectives to be attained during the period include a gradual increase in the real rate of growth to over 4 percent by 1997; lowering the rate of inflation from 10 percent in 1991 to below 5 percent; reduction in the budget deficit excluding grants from about 18 percent of GDP in 1991 to 5 percent in 1998; and the virtual elimination of the current account deficit excluding official transfers and of the need for exceptional external financing by 1998 (Table 3).

The achievement of sustainable growth over the medium term would require a gradual increase in domestic savings and investment and further improvement in the efficiency of investment. Given the financial constraints faced by the Government, and keeping efficiency considerations in view, the private sector would have to play an increasing role in achieving the savings, investment, and growth objectives. In this respect, the Government would have to continue with the process of institutional and structural reforms, as well as the maintenance of flexible pricing, interest rate, and exchange rate policies. Measures would be required to further deregulate the economy and encourage domestic and foreign investment. Above all, stable socio-political conditions in Jordan and in the region are essential for an improvement in the saving, investment, and growth performance.

A significant and sustained improvement in the budgetary situation would be needed to promote savings and investment. For this purpose, a reduction in the budget deficit of 13 percentage points of GDP is targeted between 1991 and 1998, to be achieved mainly through a reduction of about 8 percentage points of GDP in current expenditures and an increase in revenue by 3.5 percentage points of GDP. The achievement of the target for current expenditures would require a reduction in nonproductive civilian and military expenditures, as well as expenditures on transfers and subsidies. The wage bill, which constitutes a relatively high proportion of GDP, will also need to be contained. The reduction in capital expenditure would need to be kept to a minimum, in order not to jeopardize the growth prospects of the economy. The budgetary improvement will reduce its reliance on the domestic banking system which, in combination with a tight credit policy, would contain the rate of liquidity expansion at a level consistent with the inflation target.

Table 3. Jordan: Phasing of the Medium-Term Adjustment, 1992-98

	Prel. Actuals	Proj.	Targets						
	1990	1991	1992	1993	1994	1995	1996	1997	1998
			(Percentage changes)						
Growth and inflation	-0.6	0.8	3.0	3.4	3.7	3.7	3.8	4.1	4.3
Real GDP at market prices	9.6	10.0	9.2	7.7	6.5	5.6	4.8	4.6	4.5
GDP deflator									
			(In percent of GDP)						
Investment and savings									
Consumption	108.6	100.9	95.5	92.6	89.0	86.2	83.6	81.2	79.5
Investment	17.3	19.3	21.1	21.4	21.6	21.9	22.5	23.1	23.1
Private	11.2	10.8	11.8	13.4	13.6	14.4	15.0	15.6	16.1
Public	6.1	8.5	9.3	8.0	8.0	7.5	7.5	7.5	7.0
Change in stocks	1.6	1.5							
Net exports of goods and services	-27.4	-21.7	-16.6	-14.0	-10.6	-8.1	-6.1	-4.3	-2.6
Domestic saving	-8.6	-0.9	4.5	7.4	11.0	13.8	16.4	18.8	20.5
Public finances									
Domestic revenue	28.3	26.5	26.2	27.0	27.5	28.0	28.5	29.0	30.0
Foreign grants	11.2	7.3	1.8	2.1	2.0	1.8	1.7	1.6	1.4
Total revenues and grants	39.5	33.7	27.9	29.1	29.5	29.8	30.2	30.6	31.4
Total expenditure	47.1	44.4	39.9	38.0	37.0	36.5	36.0	35.5	35.0
Deficit, excluding grants	-18.8	-17.9	-13.7	-11.0	-9.5	-8.5	-7.5	-6.5	-5.0
Deficit, including grants	-7.6	-10.6	-11.9	-8.9	-7.5	-6.7	-5.8	-4.9	-3.6
Foreign financing (net)	8.1	0.1	10.3	7.8	6.7	6.0	5.3	4.4	3.0
Domestic financing (net)	-3.9	2.4	1.7	1.0	0.8	0.6	0.5	0.5	0.5
Overdue obligations	3.4	8.1	--	--	--	--	--	--	--
		(In percent of beginning period stock of broad money)							
Money and credit									
Money and quasi-money	4.7	11.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0
Foreign assets (net)	8.3	4.9	0.5	1.2	1.2	1.1	1.0	0.3	0.3
Domestic assets (net)	-3.6	6.1	8.5	7.8	7.8	7.9	8.0	8.7	8.7
Claims on Government (net)	-5.0	2.2	1.6	1.0	0.8	0.6	0.5	0.5	0.5
Claims on private sector	4.5	4.8	5.8	6.8	7.0	7.3	7.5	8.2	8.2
Other items (net)	-3.1	-0.8	1.2	--	--	--	--	--	--
Memorandum items									
Nominal GDP (in millions of JD)	2,597	2,879	3,239	3,609	3,985	4,361	4,747	5,170	5,633
			(In percent of GDP)						
Balance of payments (deficit -)									
Current account excluding official transfers	-29.3	-23.7	-18.5	-15.0	-11.0	-7.5	-4.5	-2.5	-0.2
Trade balance	-42.6	-29.6	-27.7	-24.6	-21.9	-19.2	-16.5	-14.1	-11.7
Exports	27.2	24.4	28.1	29.2	29.8	30.3	30.5	30.5	30.5
Imports	69.8	54.0	55.7	53.8	51.7	49.5	47.0	44.6	42.3
			(Percentage changes)						
Exports	-4.1	-2.4	18.0	11.9	9.9	9.8	8.5	8.5	8.3
Imports	13.9	-15.8	5.8	3.7	3.6	3.2	2.5	2.8	2.7
Remittances (net)	-19.4	-34.7	19.3	23.1	16.1	16.0	5.0	3.5	3.3
Travel (net)	40.8	-85.8	320.0	9.5	8.7	8.0	7.4	6.9	6.5
Financing gap (in percent of GDP)	--	--	41.8	22.8	17.8	12.8	8.2	3.8	0.3
Reserves (in millions of US$)	221.0	426.0	446.2	504.9	567.0	630.3	692.1	711.4	732.8
(In months of imports)	1.0	2.2	2.2	2.4	2.6	2.8	3.0	3.0	3.0

Sources: The Jordanian authorities; and staff estimates.

2. <u>Medium-term balance of payments and external debt outlook</u>

The medium-term balance of payments targets are based on the assumption of a gradual reopening of regional markets for Jordan's exports of goods and labor; it may be noted that Saudi Arabia has recently opened its borders to allow Jordan's exports to the Saudi Arabian and other markets in the region. Exports and remittances are expected to show strong growth during 1992 and 1993 as the country re-establishes its traditional trade and economic relations; thereafter, the growth would be more moderate. Exports are expected to grow by about 15 percent annually in nominal terms during 1992-93 and by 9 percent on average during the remainder of the program period (Table 4). A comprehensive export promotion policy, involving a marketing strategy and enhancement of export competitiveness to regain market shares as well as penetrate new markets, would be needed to achieve the export targets. Remittance receipts are projected to grow by over 20 percent annually during 1992-93 and by 8.5 percent per annum, on average, thereafter. Growth in nominal imports would need to be contained at 3.5 percent annually on average, through tight monetary and fiscal policies, a flexible exchange rate policy, and policies to promote efficient import substitution. Furthermore, the containment of the overall import growth within these tight limits while at the same time ensuring adequate availability of essential consumer goods, industrial raw materials, spare parts, and investment goods would require a shift in the demand for imports away from luxury consumption items, through an appropriate taxation and tariff policy. As a result, the trade deficit is expected to improve from 29.6 percent of GDP in 1991 to about 11.7 percent in 1998. Similarly, the current account deficit (excluding official grants) would improve gradually and is expected to be virtually eliminated by 1998. The exceptional financing requirements are estimated to decline from about US$1.8 billion in 1991 to about one third of that figure in 1995, and disappear by 1998. The exceptional financing requirements are likely to be met essentially by a combination of debt rescheduling/refinancing of debt service obligations falling due and new concessional loans and grants.

A dominant component of Jordan's balance of payments is external debt service payments. External debt service payments would be around US$1.1 billion annually over the next several years on the basis of the existing stock of debt, notwithstanding taking into account the favorable effect of the recent global reduction in the interest rate (Table 5). After allowing for new external borrowings in the form of normal inflow for project loans and exceptional financing assumed in the medium-term scenario, both on concessional terms with long grace periods for principal repayments, annual debt service payments would exceed US$1.3 billion during most of the medium-term period. The outstanding disbursed government and government-guaranteed external debt amounted to US$6.9 billion at end-August 1991 equivalent to 164 percent of GDP (Appendix I, Table 11). The existing level of debt and projected debt servicing liabilities would necessitate prudent debt management and new borrowing essentially only on very concessional terms. Assuming that financing gaps in the balance of payments in the next several years will be covered on very concessional terms, and export growth and remittances will rebound, the debt service ratio is projected to decline from 45 percent of exports of goods and services in 1991 to 21 percent in 1998.

Table 4. Jordan: Balance of Payments Projections, 1991-98

(In millions of U.S. dollars)

	Est. 1991	Targets 1992	1993	1994	1995	1996	1997	1998
Current account	-903	-695	-545	-394	-244	-106	7	147
Trade balance	-1,262	-1,209	-1,154	-1,110	-1,047	-973	-899	-812
Exports, f.o.b	(1,038)	(1,225)	(1,370)	(1,507)	(1,654)	(1,795)	(1,947)	(2,109)
Imports, c.i.f.	(2,300)	(2,434)	(2,524)	(2,617)	(2,701)	(2,768)	(2,846)	(2,921)
Services (net)	230	353	400	506	593	657	696	749
Remittances (net)	(280)	(334)	(411)	(477)	(554)	(581)	(602)	(622)
Receipts	[350]	[404]	[501]	[577]	[659]	[691]	[722]	[747]
Payments	[70]	[70]	[90]	[100]	[105]	[110]	[120]	[125]
Travel (net)	(25)	(105)	(115)	(125)	(135)	(145)	(155)	(165)
Receipts	[295]	[385]	[425]	[445]	[465]	[485]	[505]	[525]
Payments	[270]	[280]	[310]	[320]	[330]	[340]	[350]	[360]
Investment income (net)	(-389)	(-466)	(-522)	(-546)	(-566)	(-549)	(-551)	(-538)
Receipts	[75]	[100]	[77]	[80]	[82]	[84]	[86]	[86]
Payments	[464]	[566]	[599]	[626]	[648]	[633]	[637]	[624]
Other (net)	(314)	(380)	(395)	(450)	(470)	(480)	(490)	(500)
Receipts	[1,028]	[1,110]	[1,236]	[1,343]	[1,477]	[1,635]	[1,808]	[1,996]
Payments	[714]	[730]	[841]	[893]	[1,007]	[1,155]	[1,318]	[1,496]
Unrequited transfers	129	161	210	210	210	210	210	210
Private	(25)	(50)	(50)	(50)	(50)	(50)	(50)	(50)
Public	(104)	(111)	(160)	(160)	(160)	(160)	(160)	(160)
Transfer of workers' savings	475	50	--	--	--	--	--	--
Capital account	-708	-576	-417	-422	-391	-317	-227	-137
Public sector	-708	-576	-417	-422	-391	-317	-227	-137
Receipts	(102)	(124)	(250)	(300)	(350)	(400)	(400)	(400)
Payments	(810)	(700)	(667)	(722)	(741)	(717)	(627)	(537)
Private capital	--	--	--	--	--	--	--	--
Overall balance	-1,136	-1,220	-961	-816	-635	-423	-220	10
Financing	1,136	1,220	961	816	635	423	220	-10
Increase in reserves (-)	(-205)	(-20)	(-60)	(-62)	(-63)	(-62)	(-20)	(-27)
IMF and AMF	(-7)	(-27)	(-51)	(-27)	(...)	(...)	(...)	(...)
Debt rescheduling (1989)	(98)	(--)	(...)	(...)	(...)	(...)	(...)	(...)
External arrears	(477)	(-716)	(...)	(...)	(...)	(...)	(...)	(...)
GCFCG grants and loans	(774)	(157)	(...)	(...)	(...)	(...)	(...)	(...)
Exceptional financing	(--)	(1,826)	(1,072)	(905)	(698)	(485)	(240)	(17)
Memorandum item:								
Current account deficit excluding official transfers	-1,007	-806	-705	-554	-404	-266	-153	-13

Sources: The Jordanian authorities; and staff estimates.

Table 5. Jordan: Debt Service Projections, 1991-98

(In millions of U.S. dollars)

	1991	1992	1993	1994	1995	1996	1997	1998
1. Principal due								
Paris Club creditors	272	278	267	259	301	310	273	210
London Club creditors	189	142	139	212	185	133	101	101
Other bilateral creditors	94	70	67	54	53	70	66	62
Subtotal	555	489	473	525	539	513	440	373
Arab Funds	57	57	51	47	38	38	36	31
Multilateral	83	104	134	114	102	106	98	93
Bonds and leases	82	76	60	62	62	60	53	40
Total	777	726	718	749	741	717	627	537
2. Interest due								
Paris Club creditors	205	175	156	136	124	89	72	54
London Club creditors	78	76	65	53	41	30	23	17
Other bilateral creditors	34	33	29	24	21	19	16	13
Subtotal	317	284	249	213	186	138	111	84
Arab Funds	16	16	14	12	11	10	9	7
Multilateral	67	71	69	67	60	43	44	36
Bonds and leases	64	57	63	58	56	55	50	48
Total	464	427	395	351	313	246	213	175
3. Debt service on end-1991 debt (1+2)	1,242	1,153	1,113	1,099	1,054	963	841	712
4. Total debt service (including new financing) 1/	1,242	1,294	1,317	1,374	1,388	1,350	1,265	1,161
As percent of exports of goods and services	(45)	(40)	(37)	(35)	(32)	(29)	(25)	(21)
Memorandum items:								
Moratorium interest on 1989 debt rescheduling	82	101	101	99	90	75	58	40
Debt as percent of GDP	(164)	(188)	(188)	(182)	(173)	(163)	(150)	(137)

Sources: The Jordanian authorities; and staff estimates.

1/ Terms for new financing: 6 percent interest and 20 years' maturity with 10 year grace period.

The above medium-term projections are based on several optimistic assumptions which need to be highlighted. First, the authorities are expected to pursue a strong and sustained adjustment effort during the entire period. There is an apprehension that the fragility of socio-political circumstances may create difficulties in pursuing the required adjustment path. Second, a concerted effort would be required to promote exports and contain imports, both through tight policies to reduce overall absorption and sectoral policies that encourage exports and import substitution. Third, starting with trade, it is assumed that gradually normalcy in trade, economic, and financial relations between Jordan and its neighboring countries would be restored over the medium term. Fourth, further addition to high-interest bearing debt is to be avoided and for several years the country would need debt relief on very concessional terms. It is obvious that there are risks and uncertainties in achieving the targets of the medium-term program if these assumptions do not materialize.

IV. Economic and Financial Policies for 1992 and 1993

In line with the objectives of the medium-term adjustment program, the specific targets for 1992 and 1993 are to increase the rate of growth from less than 1 percent in 1991 to 3 percent in 1992 and 3.4 percent in 1993; to lower the inflation rate from 10 percent to 9.2 percent in 1992 and 7.7 percent in 1993; and to reduce the overall budget deficit excluding grants from 17.9 percent of GDP to 13.7 percent in 1992 and 11 percent in 1993; and to reduce the current account deficit excluding grants from 23.7 percent of GDP to 18.5 percent in 1992 and 15 percent in 1993. These targets are to be achieved through structural reforms, the pursuit of tight monetary and fiscal policies, and the maintenance of flexible pricing, interest rate, and exchange rate policies.

1. Policies to promote savings, investment, and growth

In the last several years, the authorities had already implemented a number of structural measures aimed at promoting savings, investment, and growth. In order to stimulate private sector savings and investment, the investment licensing requirement was abolished in November 1989 and the Encouragement of Investment Law was amended to provide direct and more uniform investment incentives. Furthermore, the first stage of comprehensive tariff reform was effected in November 1989 aimed at creating a more uniform and nondiscriminatory structure of protection across different economic sectors. In early 1990, the interest rate structure was freed from government regulation and exchange rates were unified. The authorities aim at continuing the process of structural reforms and maintaining flexible pricing, interest rate, and exchange rate policies in order to raise the level of investment. Government capital expenditure is projected to rise by about one percentage point of GDP in 1992 as part of the continued effort to provide schools, hospitals, and other facilities to the returnees. The returnees, in turn, are expected to contribute to a recovery in private sector investment activity in 1992 and beyond as many of them are highly skilled, have entrepreneurial experience, and have remitted sizable savings to Jordan. In addition, the authorities have embarked on a program of assisting potential investors through the provision of technical and financial information.

The authorities are intent on a reform of the agricultural sector, in consultation with the World Bank, with a view to removing allocative distortions and encouraging a more market oriented pricing system. In this regard, the authorities intend to abandon the practice of setting cropping patterns, and will review both the system of livestock feed subsidies and pricing practices for irrigated water. In addition, farm-gate prices for cereals will be reviewed, with the intention of ensuring that they are maintained at international levels, and the marketing system for horticultural products, which involves the maintenance of retail price margins, will be improved. Furthermore, a planning and strategy unit has recently been established at the Ministry of Agriculture, in order to facilitate these reforms, and the authorities are considering the establishment of a similar unit at the Ministry of Water and Irrigation.

An expansion in industrial production will be facilitated through a restructuring of incentives, enhanced export promotion, and an increased reliance on the private sector. The authorities are to implement a further rationalization of the tariff system, in accordance with the recommendations of the World Bank, which will involve a further reduction in maximum tariff rates to 50 percent from 60 percent. For items having tariff rates of 60 percent or 55 percent (about 167 items), the maximum tariff will be reduced to 50 percent; of this total, consumption tax is currently applicable to 47 of these items, frequently at different rates on imports and domestic products. Under the tariff reform program, these remaining anomalies will be removed by applying consumption tax at equal rates on both imports and domestic products. Only for luxury-type products with no comparable domestic production, there will be no restriction on setting tariffs. For products (about 47 items) which are produced domestically in significant amounts and need protection in excess of 50 percent, consumption tax on domestic and imported goods would remain unequal until the beginning of 1993 when the General Sales Tax is to be introduced.

The authorities will also be working closely with the World Bank in 1992 on a reform of the energy sector aimed at rationalization of the public sector investment program in energy, reduction of the oil import bill by improving energy efficiency as well as increasing the production of natural gas, and enhanced reliability of electricity supply over the medium term. The authorities have also begun to streamline Jordan's export promotion service, with a view to encouraging industrial production and enhancing the economy's foreign exchange earning potential.

Reform of public enterprises is to be given high priority in 1992 and 1993. The financial status, output prices, and operational efficiency of a number of public sector enterprises will be reviewed, with a view to substantially improving their profitability and promoting allocative efficiency. These enterprises include the Jordan Electricity Authority, the Water Authority of Jordan, and Aqaba Railway Corporation. Plans of action for these enterprises will be designed and implemented during 1992-93. Moreover, an action plan is being formulated and will be implemented in 1992 to restore the profitability and financial viability of Royal Jordanian Airlines ahead of an ultimate plan to privatize the company. The specific details of action plans relating to these enterprises have to be agreed between the World Bank staff and the authorities in the period ahead, mostly within 1992.

2. Fiscal policy

The crux of the adjustment effort in Jordan lies in the budget. The level of expenditures in relation to GDP, at about 45 percent, is very high while domestic revenues have averaged about 25 percent of GDP, leaving substantial deficits that have been financed through foreign grants and loans and domestic bank borrowing. Furthermore, the Government is a large dissaver, with current expenditures exceeding domestic revenue by about 9 percentage points of GDP. Since the adoption of the adjustment program in 1989, the Government has taken several discretionary measures to raise revenue and reduce expenditures, as well as to improve the revenue and expenditure structures. On the revenue side, the income tax base has been broadened by reducing exemptions and deductions, stratifying the corporate tax structure, and imposing a minimum tax on banks, and finance and insurance companies. Furthermore, a number of specific import duties and excise taxes have been converted into ad valorem while, at the same time, the consumption tax and customs tariff structures are being gradually reformed. On the expenditure side, a rationing system has been introduced for sugar, rice, and powdered milk so as to help achieve a reduction in expenditures on subsidies while at the same time help protect the poor during the period of adjustment. Progress has also been made toward strengthening the financial position of some of the public enterprises. Electricity and water rates were raised in October 1990 by an average of 5 percent and 22 percent, respectively. Sewerage rates were raised by 45 percent effective October 1991. Rates charged by the Aqaba Railway Corporation were also raised by about 37 percent in August 1990 and March 1991.

The program for 1992 aims at both achieving a significant reduction in the budget deficit and effecting further improvement in the structure of the budget (Table 6). Several actions have already been taken in this respect. On the expenditure side, the recent cancellation of a deal to purchase US$1 billion worth of Mirage jet fighters from France would result in a reduction in interest payments on military debt of about 2 percent of GDP annually. On the revenue side, discretionary measures which had been taken include: (a) a fine on excess axle loads on trucks; (b) an extension of exemption from military service for Jordanians working abroad in lieu of the payment of a fee; (c) a requirement for the payment of customs duties on cars brought to Jordan by returnees from abroad; (d) a tax on trucks crossing through Jordan; and (e) some adjustments in excise taxes. The combined effect of these measures will be to raise revenues by about JD 38 million (1.2 percent of GDP) in 1992.

Table 6. Jordan: Government Finances, 1987-92

	Actuals				Estimates	Program Proj.
	1987	1988	1989	1990	1991	1992
	(In millions of Jordan dinars)					
Total revenue and grants	701.7	738.4	869.5	1,026.5	971.1	908.0
Revenue	531.5	543.6	565.2	734.8	762.0	849.8
Tax revenue	(242.4)	(255.2)	(273.9)	(395.9)	(390.0)	(443.6)
Nontax revenue	(289.1)	(288.4)	(291.3)	(338.9)	(372.0)	(406.2)
Foreign grants	170.2	194.8	304.3	291.7	209.1	...
Total expenditure	999.8	1,075.0	1,053.8	1,223.8	1,277.0	1,294.4
Current expenditure	628.4	727.7	890.0	976.2	1,010.2	1,020.4
Of which: external interest 1/	(70.8)	(119.0)	(180.7)	(231.3)	(228.3)	(212.1)
Capital expenditure	223.1	206.2	196.4	159.5	202.3	300.0
Net lending	31.6	28.7	16.2	2.2	-29.7	-26.0
Extrabudgetary expenditure and discrepancy	116.7	112.4	-48.8	85.9	94.2	--
Overall deficit, excluding grants 1/	-468.3	-531.4	-488.6	-489.0	-515.0	-444.6
Overall deficit, including grants	-298.1	-336.6	-184.3	-197.3	-305.9	...
Financing	298.1	336.6	184.3	197.3	305.9	386.4
Foreign (net)	7.3	74.0	138.8	210.5	3.7	...
Loans minus repayments	(7.3)	(74.0)	(-119.4)	(-136.5)	(-39.8)	(...)
Debt rescheduling (1989)	(--)	(--)	(258.2) 2/	(347.0)	(43.5)	(...)
Domestic (net)	290.8	262.6	17.2	-101.9	70.3	...
Banking system	(284.5)	(262.1)	(21.1)	(-122.5)	(...)	(...)
Central Bank	[131.7]	[292.1]	[27.2]	[-139.2]	[...]	[...]
Commercial banks	[152.8]	[-30.0]	[-6.1]	[16.7]	[...]	[...]
Nonbank sources	(6.3)	(0.5)	(-3.9)	(20.6)	(...)	(...)
Change in overdue obligations	--	--	28.3	88.7	231.9	...
Principal	(--)	(--)	(--)	(--)	(207.3)	(...)
Interest	(--)	(--)	(28.3)	(88.7)	(24.6)	(...)
	(In percent of GDP)					
Revenue	25.0	24.6	23.7	28.3	26.5	26.2
Foreign grants	8.0	8.6	12.8	11.2	7.3	1.8
Expenditure	47.1	48.6	44.2	47.1	44.4	39.9
Overall deficit, excluding grants	-22.1	-24.0	-20.5	-18.8	-17.9	-13.7
Overall deficit, including grants	-14.0	-15.2	-7.7	-7.6	-10.6	...
Memorandum item:						
GDP at market prices (in JD millions)	2,121.8	2,211.3	2,383.4	2,597.0	2,879.0	3,239.0

Sources: Ministry of Finance; and staff estimates.

1/ On a commitment basis.
2/ Includes JD 48.2 million in rescheduled interest.

The above revenue-raising and expenditure-reducing measures will be partly offset in 1992 by a generalized salary adjustment and increased development and emergency expenditures. No across-the-board salary increase has been granted since 1985, while expenditure on subsidies has been curtailed and, in combination with an increase in general prices, this has led to a considerable erosion in the living standards of government employees. The authorities had, therefore, felt a need to grant an across-the-board salary increase to civilian and military government employees and pensioners in order to soften the impact of adjustment; a provision has been made in the budget for 1992 for additional expenditure of JD 45 million (1.4 percent of GDP) for that purpose. However, the increase will be in the form of an allowance rather than an addition to the salary base and will be limited to about 10 percent on the average. The authorities had also felt the need to increase capital spending as part of the effort to rehabilitate the large numbers of returnees from abroad by providing them with essential services such as schooling, health facilities, and utilities, and also to improve the physical infrastructure in the country. However, given the high level of unemployment in the country, efforts will be made to give priority to projects that have the potential to generate large employment. Moreover, relatively labor-intensive techniques will be adopted in the execution of those projects.

In the absence of further corrective action, the budgetary outlook described above would have resulted in an overall budget deficit excluding grants of 16.8 percent of GDP in 1992. Recognizing the need to achieve a further reduction in the budget deficit, the authorities will implement additional measures of a structural nature equivalent to JD 80 million (about 2.5 percent of GDP), divided almost equally between revenue-raising and expenditure-reducing measures. These measures will be implemented on or before January 1, 1992, and constitute prior actions. The measures include a further reduction in subsidies, higher consumption taxes, and increases in several fees and charges. Given the sensitive nature of the measures, Attachment II to the letter of intent, which details the measures, is not being included in this report. However, these measures constitute prior actions and will be adopted in connection with the 1992 budget; a statement or supplement to the staff report will be issued prior to the Executive Board meeting detailing the measures and their analysis. In addition to these discretionary measures, the Government would eliminate low priority development projects from its present budgetary proposals so as to reduce capital expenditure from the budgeted level of JD 320 million to JD 300 million. As a result of all these measures, the overall budget deficit excluding grants will decline to JD 445 million or 13.7 percent of GDP in 1992, compared with 17.9 percent in 1991.

Regarding the program for 1993, and in order to help with the revenue mobilization efforts, the authorities intend to introduce a General Sales Tax by January 1, 1993 at the latest. This measure constitutes a performance criterion under the program. Fund technical assistance has been extended in this respect (see Appendix III), and the authorities intend to put in place all the necessary arrangements, and submit to parliament, if necessary, legislation for the introduction of such a tax by June 1992. The progress toward the implementation of this measure will be monitored during the two reviews of the stand-by arrangement. On the expenditure side, capital expenditures will be reduced as the need to deal with the problem of the returnees will diminish. Moreover, efforts will be made to achieve a further reduction in current expenditures, particularly in relation to subsidies. The wage bill will also be contained. The measures to reach the budgetary target of reducing the overall deficit to 11 percent in 1993 will be discussed during the second review of the stand-by arrangement.

3. Monetary and credit policies and credit ceilings

The budgetary effort in 1992-93 will be reinforced by a tight monetary policy while ensuring at the same time that the genuine credit requirements of the private sector will be adequately met. The rate of monetary expansion will be reduced to 9 percent in each of 1992 and 1993, a level that is consistent with the targeted rise in economic growth and reduction in inflation (Table 7). For 1992, net foreign assets are targeted to increase by 0.5 percent in relation to the beginning year stock of money and quasi-money, which would limit the increase in net domestic assets to 8.5 percent during the year. The credit requirements of the private sector have been estimated at JD 200 million in 1992 (5.8 percent of the beginning year stock of money and quasi-money), compared with an estimated JD 150 million in 1991 (4.7 percent). Net credit to the public sector is thus estimated at JD 90 million in 1992 (2.2 percent of the beginning year stock of money and quasi-money).

In order to monitor credit developments, quarterly ceilings have been established on net domestic assets of the banking system and net claims on the public sector of the domestic banking system. These quarterly ceilings constitute performance criteria under the program (Appendix I, Table 14). The credit ceilings are based on indicative targets for end-December 1991. A substantial deviation in the actual outcome for December 1991 from the indicative targets would necessitate a review of the credit ceilings for 1992. The credit ceilings for the remaining period of the stand-by arrangement will be established at the time of the second review of the stand-by arrangement to be conducted by end-December 1992.

The Central Bank took a number of measures during the course of 1991 to help stimulate economic activity and encourage the repatriation to Jordan of the savings of workers returning from abroad: advance import deposit requirements were lowered; commercial banks were allowed to extend credit to residents and nonresidents against their foreign currency deposits up to JD 25,000 without prior approval of the Central Bank; and the amounts which residents are allowed to keep in foreign currency accounts with local financial institutions was increased from JD 150,000 to JD 500,000.

Table 7. Jordan: Factors Affecting Changes in Money and Quasi-Money, 1987-92

Changes during period	Actuals 1987	1988	1989	1990	Est. 1991	Program Proj. 1992
	(In millions of Jordan dinars)					
Money and quasi-money	299.8	282.1	334.3	141.1	344.3 1/	313.0
Foreign assets (net)	-52.5	-48.3	332.6	248.6	153.1 1/	18.0
Domestic assets (net)	352.3	330.4	1.7	-107.5	191.2	295.0 2/
Claims on Government (net)	(284.5)	(262.1)	(21.2)	(-122.5)	(68.7)	(70.0) 2/
Claims on public entities	(57.4)	(24.0)	(-13.3)	(-0.8)	(4.9)	(20.0)
Claims on specialized credit institutions	(1.5)	(3.2)	(-3.6)	(-2.0)	(-1.7)	(8.0)
Claims on financial companies	(8.7)	(-2.8)	(7.6)	(-16.5)	(0.7)	(12.0)
Claims on private sector	(50.2)	(95.4)	(101.5)	(135.0)	(149.1)	(200.0)
Other items (net)	(-50.0)	(-51.5)	(-111.7)	(-101.7)	(-30.5)	(-15.0)
	(Changes in percent of beginning period stock of money and quasi-money)					
Money and quasi-money	14.5	11.9	12.6	4.7	11.0	9.0
Foreign assets (net)	-2.5	-2.0	12.5	8.3	4.9	0.5
Domestic assets (net)	17.0	13.9	0.1	-3.6	6.1	8.5
Claims on Government (net)	13.7	11.0	0.8	-5.0	2.2	1.6
Claims on public entities	2.8	1.0	-0.5	--	0.2	0.6
Claims on private sector	2.4	4.0	3.8	4.5	4.7	5.8
Other items (net) 3/	-1.9	-2.2	-4.1	-3.1	-1.0	0.5
	(Annual changes in percent)					
Domestic assets (net)	21.8	16.8	0.1	-4.7	8.7	12.4
Claims on Government (net)	130.7	52.2	2.8	-15.6	10.8	9.9
Claims on private sector	3.8	7.0	6.9	8.6	8.8	10.8
Foreign assets (net)	-11.5	-12.0	93.8	36.2	16.4	1.7

Sources: The Jordanian authorities; and staff estimates.

1/ Based on seven-month data and the assumption that the foreign sector will be contracting in the last quarter of 1991.
2/ Before adjustment of credit ceilings for foreign assets in excess of program tragets.
3/ Includes claims on specialized credit institutions and financial companies.

The banking system had been experiencing excess liquidity primarily due to a slack in credit demand, repatriation of savings by the returnees, and an increase in government deposits due to disbursement of loans and grants from the GCFCG. As government development spending is being stepped-up and the demand for credit in the private sector has started to rise, the excess liquidity pressures are expected to diminish. Nevertheless, the Central Bank is closely monitoring the situation and is committed to taking appropriate measures to siphon off remaining excess liquidity. The staff will review with the authorities in December 1991 the latest monetary developments, and discuss measures that might be needed to achieve the monetary targets for 1992.

The Central Bank remains determined to ensure the continuation of a healthy and sound banking system. Following the insolvency of one of Jordan's largest commercial banks, the Petra Bank, in August 1989, bank supervision had been tightened and a new banking law has been drafted and is being processed for government approval. The thrust of the proposed legislation is to ensure bank capital adequacy; clearly identify the scope of operations by commercial banks, investment companies, and financial institutions; and define the responsibilities of bank management. More effective provisioning requirements are also being contemplated. In order to further increase confidence, the Central Bank will also submit to the Council of Ministers in the near future a deposit insurance scheme which aims at protecting small depositors. A law has also been submitted to parliament for the legalization of the operations of authorized money exchange dealers, under strict guidelines established by the Central Bank, and it is expected to be passed by the parliament soon.

Although the interest rate structure had been freed as of early 1990, nominal lending rates increased only marginally, and deposit rates remained negative in real terms. Lending rates are in the range of 10-13 percent and deposit rates in the range of 5-9 percent. The authorities have affirmed that there are no impediments to the free market determination of interest rates, and that interest rates would continue to be freely determined by the market forces. The stickiness of interest rates had been attributed to a slackness in demand for credit and a sharp increase in foreign exchange deposits at the commercial banks as a result of the repatriation of savings from abroad. The phenomenon of stickiness of rates, which are expected to respond freely to the market forces, will be examined in the context of the reviews under the stand-by arrangement.

4. Balance of payments outlook for 1992 and 1993

The program aims to reduce the current account deficit (excluding grants and transfer of savings by Jordanians returning from abroad) by 5 percentage points to 18.5 percent of GDP in 1992 and by a further 3.5 percentage points to 15 percent in 1993 (Table 8). These adjustments in the current account are to be achieved through policies aimed at promotion of exports, tourism and remittances, and containment of nonessential imports through efficient import substitution and stringent demand management policies.

Table 8. Jordan: Balance of Payments, 1987-92

(In millions of U.S. dollars)

	Actuals			Prel. Actual	Est.	Program Proj.
	1987	1988	1989	1990	1991	1992
Current account 1/	109	-288	-104	-754	-903	-696
Goods and services	-479	-899	-733	-1,176	-1,032	-856
Trade balance	-1,304	-1,700	-1,288	-1,668	-1,262	-1,209
Exports, f.o.b.	(932)	(1,016)	(1,110)	(1,064)	(1,038)	(1,225)
Of which: re-exports	[198]	[151]	[180]	[141]	[224]	[205]
Imports, c.i.f.	(2,236)	(2,716)	(2,398)	(2,732)	(2,300)	(2,434)
Foodstuffs	[460]	[460]	[369]	[609]	[...]	[...]
Oil and oil products	[461]	[420]	[415]	[466]	[...]	[...]
Other	[1,315]	[1,835]	[1,614]	[1,657]	[...]	[...]
Services (net)	825	800	555	493	230	353
Remittances (net)	(754)	(742)	(533)	(430)	(280)	(334)
Receipts	[939]	[894]	[623]	[500]	[350]	[404]
Payments	[184]	[152]	[91]	[71]	[70]	[70]
Travel (net)	(135)	(140)	(126)	(176)	(25)	(105)
Receipts	[580]	[615]	[547]	[512]	[295]	[385]
Payments	[445]	[475]	[422]	[336]	[270]	[280]
Investment income (net)	(-221)	(-308)	(-385)	(-402)	(-389)	(-466)
Receipts	[58]	[40]	[40]	[67]	[75]	[100]
Payments	[279]	[348]	[425]	[470]	[464]	[566]
Other (net)	(156)	(227)	(282)	(289)	(314)	(380)
Receipts	[713]	[800]	[693]	[936]	[1,028]	[1,110]
Payments	[557]	[573]	[412]	[647]	[714]	[730]
Unrequited transfers	588	611	629	422	129	161
Private	(-11)	(61)	(30)	(29)	(25)	(50)
Public 2/	(599)	(550)	(599)	(393)	(104)	(111)
Transfers of workers' savings	--	--	--	112	475	50
Capital account	223	88	-399	-362	-708	-575
Public sector	185	63	-380	-431	-708	-575
Receipts	(798)	(1,017)	(574)	(439)	(102)	(124)
Payments	(613)	(954)	(954)	(871)	(810)	(699)
Private sector (net)	38	25	-19	69	--	--
Errors and omissions	73	-315	82	243	--	--
Overall balance	405	-515	-421	-760	-1,136	-1,221
Financing	-405	515	421	760	1,136	1,221
IMF (net)	(--)	(--)	(47)	(-9)	(--)	(-18)
AMF (net)	(--)	(--)	(4)	(-2)	(-7)	(-9)
Debt rescheduling (1989)	(--)	(--)	(622)	(610)	(98)	(--)
Exceptional sources	(--)	(28)	(62)	(504)	(1,250)	(-559)
GCFCG grants and loans	[--]	[--]	[--]	[327]	[774]	[157]
Change in external arrears	[--]	[28]	[62]	[177]	[477]	[-716]
Increase in reserves (-)	(-405)	(487)	(-314)	(-342)	(-205)	(-20)
Financing gap	(--)	(--)	(--)	(--)	(--)	(1,826)
Memorandum items						
Current account 3/ /GDP (percent)	-7.8	-14.1	-16.8	-29.3	-23.7	-18.5
Central Bank reserves 4/	...	-159	48	221	426	446
(in months of imports)	(...)	(...)	(0.2)	(1.0)	(2.2)	(2.2)

Sources: The Jordanian authorities; and staff estimates.

1/ Excluding transfer of savings by Jordanian workers who used to work abroad.
2/ Excluding transfers from the GCFCG, which are shown as a part of the exceptional financing.
3/ Excluding grants and transfers of workers' savings.
4/ Excluding foreign exchange deposits by residents at the Central Bank; also excluding gold and claims on Central Bank of Iraq. Data for 1987 on the basis of this definition not available. At end 1988, foreign exchange deposits by residents at Central Bank exceeded Central Bank's gross reserves.

Exports are projected to increase by 18 percent in 1992 and by a further 12 percent in 1993 due to higher export volume and better international prices for phosphates and fertilizers and to export promotion policies being implemented by the Government. Agricultural exports have begun to penetrate new markets in the region and increasing amounts of traditional and nontraditional exports are now moving to new markets outside the region. The ongoing reform of the tariff system is reducing the anti-export bias and will increase allocation of resources to export-oriented industries. The procedures for duty-drawback are being greatly simplified which, in combination with the provision of "zero-rating" of exports under the General Sales Tax system to be introduced in 1993, should make domestic exports more competitive.

Flows of workers' remittances (other than savings) and receipts from tourism are expected to recover as normal trade and travel relations are being re-established following a gradual improvement in the general political environment of the region. After sharp reductions in the preceding two years because of the regional crisis, remittances are expected to increase by 20 percent annually during 1992-93 to US$500 million in 1993, albeit a much lower level compared with the pre-crisis level. Continuation of flexible interest and exchange rate policies, liberal exchange system, and reduction in regional uncertainties are expected to encourage Jordanians working abroad to transfer a higher proportion of their earnings to Jordan. Official efforts are underway to find employment opportunities in other countries for some of the professional and skilled workers who have returned from abroad. Travel, tourism, and transport receipts have picked up in recent months and with continued improvements in the political environment in the region receipts from these activities are expected to rebound significantly during this period. Import growth is programmed to be contained to levels consistent with the medium-term balance of payments objectives through tight demand management and policies aimed at curbing conspicuous consumption to encourage efficient import substitution. Overall import value is projected to increase by 6 percent in 1992. However, after netting out re-exports, growth of imports for domestic utilization will be 7.4 percent, implying a modest growth in real terms. Furthermore, within this overall ceiling, an adequate level of imports of capital inputs and basic consumer goods will be ensured with the application of consumption taxes on nonessential consumer goods at uniform rates for both imported and domestic manufacturers. The capital account is estimated to show a large net outflow of US$575 million in 1992 as amortization payments will exceed disbursement of loans (excluding exceptional financing).

5. Exchange rate policy and exchange system

The Government has followed a flexible exchange rate policy in recent years in order to maintain competitiveness of domestic exports and in line with developments in the balance of payments and foreign exchange reserves of the Central Bank. The gap between the official and commercial bank rate under a dual exchange rate system (established in July 1989) had been narrowed through gradual depreciation of the official rate and the two rates were unified in February 1990 at the more depreciated commercial bank rate.

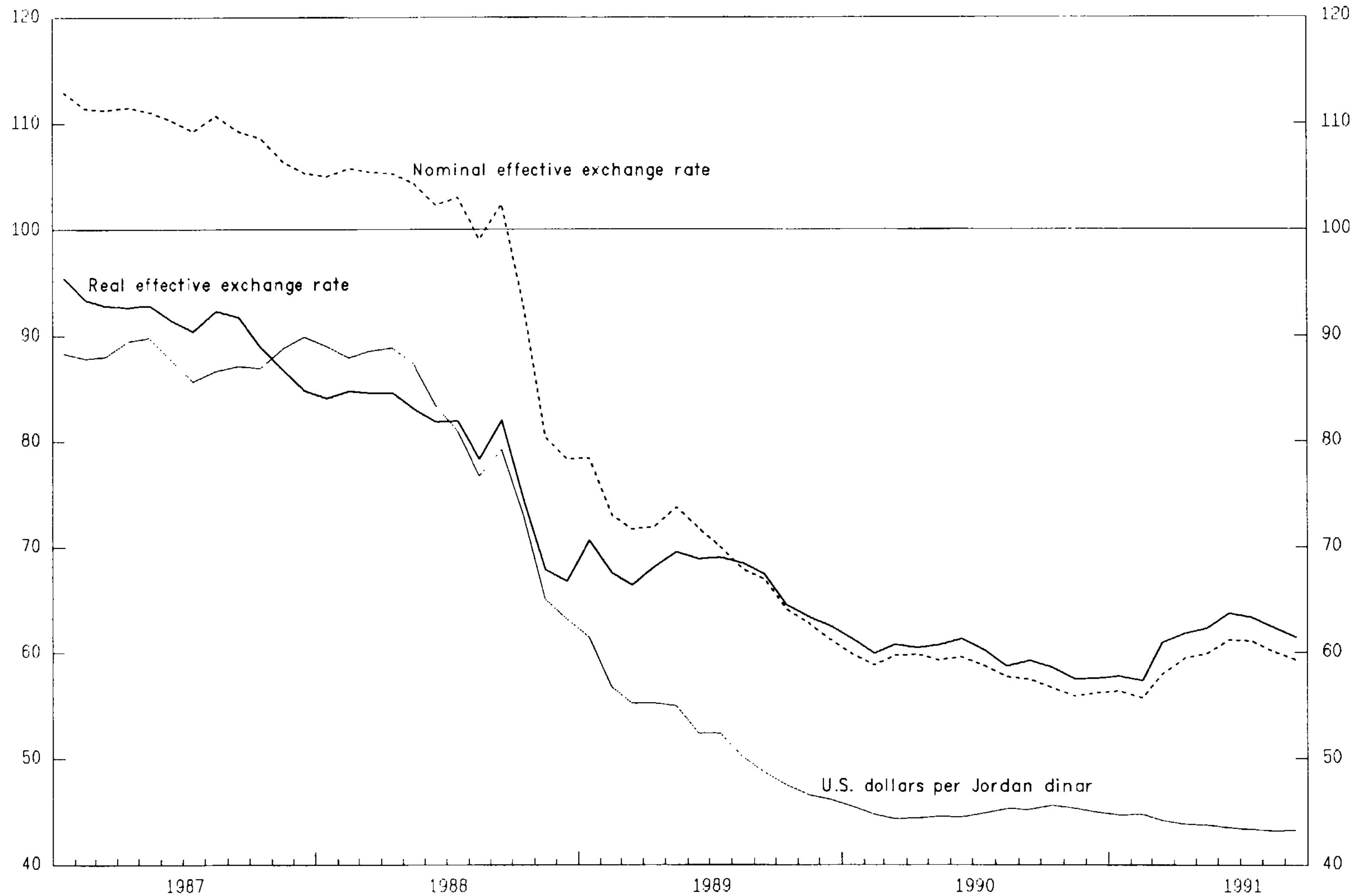
The real effective exchange rate has remained relatively stable since the unification of the rates (Chart 2). During the regional crisis a more depreciated free exchange market had emerged with the divergence ranging up to 10 percent compared with the official rate. However, this development was largely the result of speculative pressures associated with the crisis and has virtually disappeared as the shock of the crisis tapered off. Moreover, exports continue to remain competitive at the current exchange rate since both traditional and nontraditional exports are making inroads into new markets or go to traditional markets through indirect ways notwithstanding much higher transaction and transportation costs.

In view of the stringent demand management policy which will be put in place under the stand-by arrangement, and assuming that external financing requirements are met, the present level of the real exchange rate appears adequate to achieve the program objectives. However, if unexpected pressures develop, the Government will not attempt to defend the exchange rate through intensification of trade and payments restrictions or through sustained depletion of reserves and will adopt appropriate remedial measures in consultation with the Fund staff after taking into account the adequacy of the demand management policies, developments in relative prices vis-à-vis trading partners, export performance, and the foreign exchange position of the country. The authorities will also not allow the exchange rate to be influenced by the exceptional inflow of savings. Developments in the exchange rate will be examined during the two reviews of the stand-by arrangement.

Jordan's exchange system is free of restrictions on payments and transfers for current international transactions, except for restrictions evidenced by limits on certain invisible payments maintained in accordance with Article XIV, and minimum advance deposit requirements on imports and arrears on external debt service payments which give rise to restrictions subject to Fund approval under Article VIII. In spite of the pressures emanating from the crisis, Jordan has not adopted new restrictive exchange or trade measures. Furthermore, the intensification of restrictions in the form of higher minimum deposit requirements on imports in October 1989, has been significantly reduced in February 1991. The minimum deposit requirements on imports of basic foodstuffs, medicines that do not have domestic substitutes, raw materials used in local industry, and machinery, equipment, and related spare parts had been reduced from 30 percent to 15 percent of the value of imports; minimum deposit requirements for all other imports had been reduced from 70 percent to 40 percent of the value of imports.

During the period of the stand-by arrangement, the Government has undertaken not to (i) impose or intensify restrictions on payments and transfers on current international transactions; (ii) introduce multiple currency practices; (iii) conclude new bilateral payments agreements which are inconsistent with Article VIII of the Fund's Articles of Agreement; or (iv) impose new import restrictions or intensify existing ones for balance of payments reasons.

CHART 2
JORDAN
EXCHANGE RATE INDICES, 1987-91
(1980 = 100)



Source: IMF, Information Notice System.

6. Debt management policy and capacity to repay the Fund

The Government has been unable to discharge its external debt obligations fully especially since the onset of the crisis, and was making only selective debt service payments to its creditors, primarily to multilateral institutions. Cumulative overdue external obligations are projected to be more than US$700 million by end-1991. The authorities intend to eliminate all overdue external obligations through payments or debt rescheduling with the Paris Club, commercial banks, and other creditors by June 30, 1992. They have also undertaken that arrears, if any, to multilateral organizations would be settled prior to the Board's consideration of their request for a stand-by arrangement. During the period of the stand-by arrangement, arrears will not be incurred in respect of payments and transfers for current international transactions. Up to June 30, 1992, arrears for the purpose of this definition exclude external debt service obligations in the process of being rescheduled. These undertakings constitute performance criteria under the stand-by arrangement.

Since 1989, the Government has converted all short-term debt to medium-term maturities and has not incurred new short-term debt. Furthermore, a deal to buy Mirage jet fighters from France worth US$1 billion was canceled. Progress was also made in the past few months toward normalization of relations with creditors. The bilateral agreement with the United Kingdom relating to the 1989 debt rescheduling by the Paris Club was signed in mid-September, and the remaining two bilateral agreements with Belgium and Sweden were expected to be signed before the end of the year. The preliminary rescheduling agreement that was reached with the commercial banks in September 1989 was never finalized, first as a result of disagreement on debt buyback provisions and then as a result of the regional crisis which interrupted discussions. Nevertheless, the authorities had made payments to the commercial banks under the agreement amounting to about US$80 million in 1989-90. Discussions are now underway on a new rescheduling agreement that would be consistent with the overall financing package.

As a continuation of the ongoing strategy to alleviate external debt servicing problems and improve the maturity structure of external debt, the Government is committed not to incur any short-term debt and has established a tight ceiling on nonconcessional foreign borrowing in the 1-12 year maturity range with subceilings for debt in the 1-5 year maturity range (Appendix I, Table 15). The external debt ceilings constitute performance criteria under the program.

Outstanding Fund credit resulting from purchases under the stand-by arrangement would reach its peak level in 1992 at SDR 88.6 million, equivalent to 2.0 percent of GDP or 1.1 percent of Jordan's total external debt (Table 9). Thereafter, the outstanding Fund credit will steadily decline beginning in 1993; repurchases and charges would decline from a peak of 1.2 percent of the foreign exchange receipts from exports of goods and services in 1993 to 0.5 percent in 1996 and would virtually disappear by 1998.

Table 9. Jordan: Indicators of Fund Credit, 1991-98

	1991	1992	1993	1994	1995	1996	1997	1998
				(In millions of SDRs)				
Purchases	--	29.6	14.8	--	--	--	--	--
Repurchases	--	7.2	33.1	25.9	5.6	19.4	16.7	2.7
From existing drawings	--	7.2	33.1	25.9	--	--	--	--
From proposed drawings	--	--	--	--	5.6	19.4	16.7	2.7
Charges on Fund credit	1.7	7.7	8.4	6.1	4.8	3.8	2.2	1.3
From existing drawings	1.7	6.8	5.2	2.4	1.2	1.2	1.2	1.2
From proposed drawings	--	0.9	3.2	3.7	3.6	2.6	1.0	0.1
Debt service to Fund	1.7	14.9	41.5	32.0	10.4	23.2	18.9	4.1
From existing drawings	1.7	14.0	38.3	28.3	1.2	1.2	1.2	1.2
From proposed drawings	--	0.9	3.2	3.7	9.2	22.0	17.7	2.9
Outstanding Fund credit (end of period)	66.2	88.6	70.2	44.3	38.7	19.3	2.7	--
				(Ratios in percent)				
Outstanding Fund credit/GDP	1.6	2.0	1.5	0.9	0.7	0.3	--	--
Outstanding Fund credit/quota	89.6	119.8	95.0	60.0	52.4	26.2	3.6	--
Outstanding Fund credit/total debt	0.9	1.1	0.8	0.5	0.4	0.2	--	--
Debt service to Fund/ total debt service	0.1	1.2	3.2	2.3	0.7	1.7	1.5	0.4
Debt service to Fund/ exports of goods and services	0.1	0.5	1.2	0.8	0.2	0.5	0.4	0.1
Debt service to Fund/ foreign exchange reserves 1/	0.5	4.5	11.0	7.5	2.2	4.5	3.5	0.7

Source: Staff projections.

1/ Excluding gold, SDR holdings and foreign exchange deposits by residents at the Central Bank.

In terms of foreign exchange reserves of the Central Bank, Fund repurchases and charges during this period would decline steadily from a high of 11.0 percent in 1993 to 4.5 percent in 1996 and to less than 1 percent in 1998. In addition, Jordan has consistently given priority to meeting its obligations to multilateral financial institutions on a timely basis. With sustained pursuit of growth-oriented adjustment, and the availability of associated external financing, Jordan should be able to fulfill its obligations to the Fund.

7. External financing requirements

Assuming that Jordan will discharge all debt service obligations which will fall due during 1992 (US$1,270 million), that all external payments arrears would be eliminated (US$716 million), and that a small increase in reserves (US$20 million) would be achieved to maintain the level of net international reserves at 2.2 months of imports, the total external financing requirement is projected to be US$2.2 billion in 1992. Out of this total requirement, commitments worth US$392 million have already been secured in the form of grants (US$165 million) and loans (US$227 million) including the remainder of the assistance from the GCFCG (US$157 million). The remaining financing gap is projected to be US$1.8 billion in 1992 (Table 10).

Arrangements to cover the financing gap will require substantial contributions from the main creditor groups in the form of debt restructuring from the Paris Club, other official creditors and commercial banks, grants and loans from other bilateral or multilateral creditors, and resources from the Fund and the Bank. The authorities, with the help of the Fund and the World Bank, have already started contacting creditors and donors to help secure resources to cover the gap. Paris Club creditors have indicated that they would be willing to consider a comprehensive rescheduling of arrears and of obligations falling due during the program period, and the authorities intend to approach other official bilateral creditors for comparable cashflow relief.

Table 10. Jordan: External Financing Requirements, 1992-93

(In millions of U.S. dollars)

	1992 Proj.	1993 Proj.
Total foreign exchange requirements	4,436	3,861
Imports	2,434	2,525
Total foreign debt servicing required	1,956	1,225
Interest payments (due)	(541)	(558)
Principal repayments (due)	(699)	(667)
Change in arrears (decrease +)	(716)	(--)
Change in reserves (increase +)	20	60
Payments to IMF/AMF	27	51
Available financing	2,219	2,379
Exports	1,225	1,370
Services (net) (excluding remittances and interest payments)	490	458
Remittance receipts	404	501
Transfer of workers' savings and other private transfers	100	50
Total official external financing required	2,217	1,482
Official transfers	165 1/	
Of which: GCFCG	(54)	
Gross loan disbursements	227 1/	
Of which: GCFCG	(103)	
Additional financing required	1,826	1,482

Sources: The Jordanian authorities; and staff estimates.

1/ Expected on the basis of existing indications of commitments.

The Government is also engaged in discussions with commercial banks on a financing package. The Government is seeking an agreement consistent with the requirements of the program, both in terms of immediate cash-flow support and medium-term financing, including possible debt and debt service reduction operations. However, preliminary contacts by the authorities with the commercial banks suggest that negotiations on a new financing package are likely to be difficult and protracted. Given the particular uncertainties involved, quarterly financing assurance reviews would be needed until satisfactory arrangements with commercial bank creditors for financing of the program have been reached.

The authorities have also requested a meeting of a consultative group for Jordan to be held under the auspices of the World Bank; this meeting has been tentatively scheduled for February 1992. In the meantime, the Jordanian authorities, in coordination with the Fund and the Bank staffs, are contacting major donors to seek further financial assistance in the form of grants and concessional loans. An effort is also being made to obtain further support from regional and multilateral development institutions.

A tentative assessment of the magnitude of support that might be available from various sources is as follows. If Jordan obtains from the Paris Club a comprehensive rescheduling of all amortization and interest payments falling due during 1992 as well as of arrears accumulated through December 31, 1991 for all debt contracted before the cut-off date (January 1, 1989), cash-flow relief from Paris Club creditors would reach around US$580 million for 1992. Rescheduling with similar coverage from other official bilateral creditors would yield about US$325 million, and from commercial banks US$460 million. Disbursement of the second tranche of the World Bank's Trade and Industry Adjustment Loan worth US$150 million (including cofinancing from Japan of US$75 million) is expected following Board approval of the stand-by arrangement, which would satisfy the macroeconomic conditionality of the Bank loan. On the basis of these assumptions, the additional financing required to cover the gap in 1992 would be about US$300 million, in addition to any amount of interest payments that may have to be effected to the countries and institutions that would reschedule Jordan's debt.

Prior to Executive Board consideration of the stand-by arrangement, a statement or supplement to the staff report will be issued detailing the sources of financing the gap for 1992. As for 1993, the projections are quite tentative at this stage and the adjustment effort and financing of the program for 1993 will be considered at the time of the second review of the stand-by arrangement, which will establish the performance criteria for the remaining period of the arrangement.

8. Protection of the poor

In implementing adjustment policies, the authorities have been conscious of the need to protect the poor from the price effects of the adjustment measures. In September 1990, the Government put in place a system of rationing for sugar, rice, and powdered milk which has had the effect of reducing expenditures on food subsidies significantly while providing sufficient amounts of these commodities at subsidized prices. The 1992 program contains further actions to reduce expenditure on subsidies while aiming to continue to protect the poor. At the same time, the program for 1992 has allowed for a wage adjustment in the public sector, which is most likely to be followed in the private sector. This should ameliorate somewhat the burden of price increases resulting from adjustment.

As part of the conditionality of the World Bank's Trade and Industry Adjustment Loan, the Government has also established a Development and Employment Fund (DEF) to extend credit for micro-businesses. The DEF is to extend credit on the basis of the merit and financial viability of the individual projects and is targeted to the poor. It carries a low interest rate of 6.5 percent. Also in cooperation with the World Bank, the Government intends to introduce structural reforms in the area of human resource development so as to provide quality health and family welfare services at minimum cost.

9. Performance criteria

As mentioned earlier, quantitative and nonquantitative performance criteria have been established to assess and monitor the progress in program implementation. Quantitative performance criteria include:

a. ceilings on net domestic assets of the banking system and net claims on the public sector by the banking system for end-March, end-June, end-September, and end-December 1992;

b. limits for end-March, end-June, end-September, and end-December 1992 on the cumulative new nonconcessional external borrowing with initial maturity of over 1-12 years, with subceilings for borrowing with maturities of 1-5 years; and

c. the elimination of external payments arrears by June 30, 1992.

The nonquantitative performance criteria include the standard injunctions regarding trade and payments restrictions; introduction of a General Sales Tax by January 1, 1993; reviews on the financing of the program prior to each purchase under the program, provided that no such review shall be necessary after the Fund finds that satisfactory arrangements with the creditors for the financing of the program have been reached; and two comprehensive reviews of the stand-by program to be conducted by June 30 and December 31, 1992. Both reviews will assess various aspects of demand management policies, progress toward the introduction of General Sales Tax, progress toward subsidy reduction, balance of payments financing, and exchange rate and interest rate policies. During the second review understanding will be reached on the elements of the program for 1993, including the quarterly performance criteria for the remainder of the period of the stand-by arrangement covering the first half of 1993.

V. Staff Appraisal

In early 1989, the Jordanian authorities adopted a medium-term adjustment strategy aimed at reducing external and internal financial imbalances and restoring economic growth. The adjustment program included structural reforms, tightening of fiscal and monetary policies, and the pursuit of flexible pricing, interest rate, and exchange rate policies. Significant progress was made in 1989 and the first half of 1990 in attaining the program's objectives, despite slippages in some areas. However, the regional crisis that erupted in August 1990 caused major disruptions in economic and financial activity in Jordan; it led to a reduction in real income, a sharp rise in unemployment as a result of the reflux of a large number of Jordanians working abroad, disruptions in trade, and stoppage of aid flows from neighboring Arab countries. The adverse effects of the crisis on the domestic economy were partly offset by the receipt of grants and concessional loans from the Gulf Crisis Financial Coordination Group, the savings brought back by returning workers, and adjustments to policies, particularly fiscal policy. However, the underlying external and internal imbalances and the structural weaknesses of the economy were accentuated by the crisis.

The authorities recognize the serious problems facing the economy arising from the underlying macroeconomic and structural imbalances as well as the uncertainties relating to trade and aid relations between Jordan and its neighboring countries. There is also a recognition that pursuit of a strong and sustained domestic adjustment effort is a prerequisite to addressing them. Accordingly, the Government of Jordan has adopted a comprehensive medium-term adjustment program covering the period 1992-98 aimed at restoring and sustaining economic growth within a framework of price stability, and attaining budgetary and balance of payments viability. Achievement of the medium-term targets would, however, be predicated not only on a strong and sustained domestic adjustment effort, but also on the re-establishment of the traditional trade, economic, and financial relations with the neighboring countries, alleviation of the heavy burden of external debt, and the availability of substantial external financing for the next several years. There are risks with regard to the sustainability of the domestic adjustment effort in the increasingly fragile domestic socio-political climate, and uncertainties about the availability of the needed external financial support. However, assuming a favorable convergence of developments, and as an important first step in the difficult medium-term path of adjustment, the authorities have begun to implement a policy package for 1992-93 which is to serve as a basis for a stand-by arrangement with the Fund, sectoral adjustment loans from the World Bank, and debt rescheduling and additional financial support from donors and creditors.

Under the program, the process of structural reform, which was started in 1989 and which was aimed at promoting savings, investment, and growth, is being continued and strengthened. The second phase of the tariff reform which had been agreed to with the World Bank would be completed. The authorities would also adopt, in consultation with the World Bank, a plan of action for reforms of the agricultural and energy sectors and a number of public enterprises, which would be implemented in 1992-93. These structural reforms would help strengthen substantially the production base of the economy and enhance prospects for achieving the medium-term growth objectives. Furthermore, they would facilitate exports and efficient import substitution and, thus, help in alleviating the pressures on the balance of payments. The improved supply prospects of the economy, together with the pursuit of tight fiscal and monetary policies, should also be helpful in reducing inflationary pressures.

The core of the program for 1992-93 is a substantial reduction of the budget deficit. Notwithstanding a general wage adjustment in the public sector that has been long overdue, and some increase in capital expenditures to rehabilitate the returnees, significant action has been taken to reduce the budget deficit by over 4 percentage points of GDP in 1992. The authorities' recent decision to cancel the Mirage jet deal worth US$1 billion would help reduce military interest expenditures by about 2 percentage points of GDP annually. The authorities have also undertaken to implement additional revenue-raising and expenditure-reducing measures equivalent to 2.5 percent of GDP by January 1, 1992 at the latest. These measures, some of which are sensitive, constitute prior actions and a statement or supplement to the staff report will be issued detailing them once they are implemented. The authorities have also committed to the introduction of a General Sales Tax by January 1, 1993 at the latest, and this constitutes a performance criterion under the program. Other specific measures to achieve the budgetary targets for 1993 would be agreed at the time of the second review of the stand-by arrangement. From the medium-term point of view, it is important that, in addition to the introduction of a General Sales Tax and other revenue measures, a determined effort is made to reduce the expenditure/GDP ratio by containing nonessential expenditures and implementing reforms of enterprises that would improve their financial contribution to the budget.

The tight budgetary policy is being reinforced with measures to contain the rate of monetary expansion to a level that is consistent with the inflation target, credit requirements of the expanding private sector, and the expected changes in foreign exchange reserves. Strict limits have been imposed on public sector borrowing from the domestic banking system, while priority has been given to ensure that the genuine credit requirements of the private sector are being met. The banking system had been experiencing excess liquidity primarily due to a slackening in demand for credit, repatriation of savings by the returnees, and an increase in government deposits due to the receipt of large crisis-related foreign aid. The excess liquidity pressures are expected to diminish with the expansion in economic activity and imports and the rise in demand for investment-related credit. However, if these pressures persist, the authorities will take appropriate measures, including an increase in reserve requirements. As regards interest rates, although they are market determined, their level has remained sticky and, in general, below the inflation rate. The Government believes that the phenomenon of the stickiness of the rates is attributable to several factors including a slackness in demand for credit and a sharp increase in foreign exchange deposits at the commercial banks as a result of the repatriation of savings from abroad. However, the matter will be thoroughly reviewed at the time of the first review of the stand-by arrangement.

In the external sector, the program aims at a substantial reduction in the current account deficit through policies aimed at promotion of exports, tourism and remittances, and containment of imports through efficient import substitution and tight fiscal and monetary policies. In view of the tight demand management policies being envisaged under the program, and the satisfactory movement of Jordan's exports at present, the staff believes the level of the exchange rate is adequate to achieve the program objectives. However, if pressures were to develop on the exchange rate, the Government will not defend it through intensification of restrictions or reduction in reserves, but will adopt appropriate remedial measures to strengthen the program. Exchange rate policy will be subject to reviews under the stand-by arrangement.

The authorities also intend to eliminate or regularize all external arrears either by payment or through rescheduling by June 30, 1992 at the latest, and not to incur any new arrears during the period of the stand-by arrangement except for the debt service obligations that are being rescheduled. In view of the heavy burden of the outstanding external debt, build-up of arrears, and large external debt service payments falling due in the coming years, the authorities have committed not to incur any short-term debt, and strictly limit all other nonconcessional borrowing.

Large external financing gaps are projected over the next few years. The gap is estimated at about US$1.8 billion in 1992. Arrangements to cover the financing gap will require substantial contributions from the main creditor groups in the form of debt rescheduling from the Paris Club, other official bilateral creditors and commercial banks, grants and loans from bilateral or multilateral creditors, and resources from the Fund and the Bank. The authorities, with the assistance of the Fund and the Bank staffs, have already started contacting bilateral creditors and donors, the Paris Club, and commercial banks, to secure resources to cover the gap. Moreover, the Bank is to organize a Consultative Group meeting for Jordan in February 1992. Prior to the Executive Board consideration of the stand-by arrangement, a statement or supplement to the staff report will be issued on the financing package for 1992. Purchases under the stand-by arrangement after the first purchase are also subject to quarterly reviews on the financing of the program. Further, two overall reviews are envisaged under the stand-by arrangement to be conducted by June 30 and December 31, 1992.

Jordan maintains exchange restrictions on the making of payments and transfers for current international transactions, evidenced by limitations on certain invisible payments in accordance with Article XIV. In addition, Jordan also maintains exchange restrictions evidenced by minimum advance deposits required for various imports and arrears on external debt service payments that are subject to Fund approval under Article VIII. The authorities have lowered the amounts of advance deposits required for imports in early 1991 and expressed their intention to eliminate them as soon as possible. The authorities also expressed their intention to eliminate all external arrears through payment or rescheduling by June 30, 1992. In view of the foregoing, the staff recommends that the Executive Board grant approval for the retention of these restrictions.

In discharging their external debt obligations, the authorities intend to give priority to repayments to the Fund and repurchases of obligations have always been discharged in a timely manner. Over the next several years, such obligations will remain small in relation to Jordan's foreign assets. The staff believes that Jordan will be able to meet future obligations to the Fund without difficulty.

To sum up, the corrective policies being implemented under the program for 1992-93 are comprehensive and constitute an important step in addressing the medium-term difficulties facing the economy. In the staff's view, these adjustment efforts deserve to be supported by the proposed stand-by arrangement.

VI. Proposed Decisions

The following draft decisions are proposed for adoption by the Executive Board:

A. Exchange System

Jordan maintains exchange restrictions on the making of payments and transfers for current international transactions, evidenced by limitations on certain invisible payments in accordance with Article XIV, Section 2. In addition, Jordan retains, as described in EBS/91/202, exchange restrictions evidenced by minimum advance deposits required on imports and arrears on external debt service payments that are subject to Fund approval under Article VIII, Section 2(a). The Fund welcomes the recent actions taken by the Jordanian authorities to lower the amounts of the advance deposits required on imports and their intention to eliminate them as soon as possible. The Fund also welcomes the authorities' intention to eliminate all external payment arrears by June 30, 1992. In the meantime, the Fund grants approval for the retention of these exchange restrictions until June 30, 1992 or the conclusion of the first review under the stand-by arrangement, whichever is earlier.

B. Stand-By Arrangement

1. The Government of Jordan has requested a stand-by arrangement in an amount equivalent to SDR 44.4 million for a period of 18-months from January __, 1992.

2. The Fund approves the stand-by arrangement attached to EBS/91/202.

3. The Fund waives the limitation in Article V, Section 3(b)(iii).

Table 11. Jordan: External Debt 1/

(In millions of U.S. dollars)

	End-August 1991		
	Disbursed	Undisbursed	Total
Arab countries	417	146	563
Bilateral loans	(45)	(--)	(45)
Funds	(372)	(146)	(518)
Industrial countries	2,945	585	3,530
Bilateral loans	(1,583)	(404)	(1,988)
Export credit guarantees	(1,362)	(181)	(1,542)
Other countries	554	14	568
International banks	1,248	--	1,248
Foreign companies	55	--	55
Others	851	477	1,328
Bretton Woods institutions	(594)	(277)	(871)
Other multilateral	(257)	(200)	(457)
Subtotal	6,069	1,223	7,292
Bonds	255	--	255
Leases	537	41	578
Total	6,861	1,264	8,125

Sources: The Jordanian authorities; and staff estimates.

1/ Public and publicly guaranteed medium- and long-term debt.

Table 12. Jordan: Government Revenue, 1987-92

(In millions of Jordan dinars)

	Actuals				Estimates	Program Proj.
	1987	1988	1989	1990	1991	1992
Total revenue	531.5	543.6	565.2	734.8	762.0	849.8
Tax revenue	242.4	255.2	273.9	395.9	390.0	443.6
Taxes on income and profits	(45.3)	(43.3)	(51.4)	(114.1)	(93.0)	(110.0)
Corporations	[21.0]	[20.2]	[28.3]	[88.4]	[66.0]	[80.5]
Individuals	[16.5]	[15.8]	[14.9]	[16.1]	[17.0]	[18.3]
Salaried employees	[7.8]	[7.3]	[8.2]	[9.6]	[10.0]	[11.2]
Taxes on domestic transactions	(73.8)	(78.7)	(103.7)	(120.3)	(123.0)	(155.6)
Excise duties/consumption tax	[58.3]	[61.2]	[77.5]	[90.4]	[92.0]	[122.6]
Other taxes	[15.5]	[17.5]	[26.2]	[29.9]	[31.0]	[33.0]
Taxes on foreign trade	(108.6)	(117.3)	(103.9)	(116.7)	(120.0)	(132.0)
Customs duties	[105.8]	[113.4]	[100.4]	[112.3]	[111.0]	[117.0]
Duties on returnees' cars	[--]	[--]	[--]	[--]	[4.0]	[10.0]
Fines and forfeits	[2.8]	[3.9]	[3.5]	[4.4]	[5.0]	[5.0]
Additional tax	(14.7)	(15.9)	(14.9)	(32.8)	(34.0)	(36.0)
Imports	[9.4]	[9.7]	[9.5]	[21.3]	[22.7]	[24.0]
Other	[5.3]	[6.2]	[5.4]	[11.5]	[11.3]	[12.0]
Tax on Jordanians working abroad	(--)	(--)	(--)	(12.0)	(20.0)	(10.0)
Nontax revenue	289.1	288.4	291.3	338.9	372.0	406.2
Licenses	(33.0)	(36.1)	(32.3)	(36.3)	(44.0)	(48.0)
Fees	(50.1)	(50.6)	(61.9)	(71.7)	(74.0)	(78.0)
Revenues from post and telephone	(41.8)	(50.7)	(62.7)	(80.6)	(88.0)	(89.2)
Interest and profits	(37.0)	(27.6)	(44.5)	(59.8)	(64.0)	(67.0)
Interest	[12.0]	[12.3]	[15.6]	[20.0]	[17.0]	[20.0]
Profits 1/	[25.0]	[15.3]	[28.9]	[39.8]	[47.0]	[47.0]
Miscellaneous	(127.2)	(123.4)	(89.9)	(90.5)	(102.0)	(124.0)

Sources: Ministry of Finance; and staff estimates.

1/ Excluding Central Bank revaluation profits transfers of JD 26.6 million in 1990 and JD 15.5 million in 1991.

Table 13. Jordan: Government Expenditure, 1987-92

(In millions of Jordan dinars)

	Actuals 1987	Actuals 1988	Actuals 1989	Actuals 1990	Est. 1991	Program Proj. 1992
Total expenditure	999.8	1,075.0	1,053.8	1,223.8	1,277.0	1,294.4
Current expenditure	628.4	727.7	890.0	976.2	1,010.2	1,020.4
Wages and salaries	(131.5)	(146.3)	(153.7)	(163.6)	(192.9)	(214.0)
Purchases of goods and services	(50.2)	(54.2)	(47.6)	(42.4)	(56.8)	(65.0)
Interest payments	(101.0)	(154.3)	(226.2)	(276.0)	(266.5)	(249.6)
Internal	[30.2]	[35.3]	[45.5]	[44.7]	[38.2]	[37.5]
External 1/	[70.8]	[119.0]	[180.7]	[231.3]	[228.3]	[212.1]
Subsidies	(6.4)	(18.9)	(74.7)	(88.1)	(74.8)	(39.3)
Food	[--]	[6.6]	[73.1]	[83.5]	[54.8]	[39.3]
Fuel	[--]	[--]	[--]	[4.0]	[20.0]	[--]
Other	[6.4]	[12.3]	[1.6]	[0.6]	[--]	[--]
Other transfers	(86.4)	(96.7)	(135.4)	(149.8)	(149.5)	(164.8)
Pensions	[50.0]	[59.9]	[74.9]	[83.0]	[90.0]	[110.0]
Social security	[4.0]	[4.2]	[4.1]	[3.9]	[4.4]	[4.5]
Decentralized agencies	[16.6]	[14.3]	[40.6]	[44.1]	[25.1]	[28.8]
Relief operations	[2.4]	[5.0]	[2.0]	[2.1]	[13.0]	[3.5]
Other	[13.4]	[13.3]	[13.8]	[16.7]	[17.0]	[18.0]
Military expenditure	252.9	257.3	252.4	256.3	269.7	287.8
Capital expenditure	223.1	206.2	196.4	159.5	202.3	300.0
Net lending	31.6	28.7	16.2	2.2	-29.7	-26.0
Gross lending	(49.3)	(50.2)	(44.7)	(31.8)	(18.8)	(19.0)
Repayments	(-17.7)	(-21.5)	(-28.5)	(-29.6)	(-48.5)	(-45.0)
Extrabudgetary expenditure and discrepancy 2/	116.7	112.4	-48.8	85.9	94.2 3/	--

Sources: Ministry of Finance; and staff estimates.

1/ Commitment basis.
2/ Including emergency expenditures.
3/ Of which JD 45.0 million constitute capital expenditures.

Table 14. Jordan: Credit Ceilings for 1992 1/

(In millions of Jordan dinars)

	Indicative targets 2/ 1991	1992 Ceilings			
	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
Net domestic assets of the banking system 3/	2,385	2,465	2,535	2,610	2,680
Net claims on the public sector by the banking system 4/	955	985	1,005	1,030	1,045
	(Cumulative changes relative to December 31, 1991)				
Memorandum items:					
Net domestic assets of the banking system 3/		80	150	225	295
Net claims on the public sector by the banking system 4/		30	50	75	90
Claims on Government (net)		(25)	(40)	(60)	(70)
Claims on public entities		(5)	(10)	(15)	(20)

Source: Memorandum on Economic Policy of the Jordanian Government.

1/ Credit ceilings are based on the assumption that the external financing needs of the budget are in the amount of JD 375 million. If net external receipts from grants, loans, and debt relief (excluding the rescheduling of arrears outstanding at the end of 1991, for which no provision has been made in the budget) exceed the program assumption of JD 375 million, the quarterly credit ceilings specified above will be lowered in equal amounts by the magnitude of the excess. In the event such receipts fall short of the program assumption, the quarterly ceilings will be reviewed taking into account several factors, including the budgetary effort which would be mounted to compensate for the shortfall.

2/ A substantial deviation from the indicative targets would necessitate a review of the credit ceilings.

3/ Net domestic assets of the Central Bank, commercial banks, and the Housing Bank. Includes net claims on Government, claims on public entities, claims on private sector, claims on specialized credit institutions, claims on financial companies, and other items (net).

4/ Includes net claims on Government and claims on public entities. Government is defined to include all ministries and governmental agencies. Net claims on Government is defined as claims on the Government minus government deposits.

Table 15. Jordan: Ceilings on New Public or Publicly Guaranteed Nonconcessional External Debt, 1992

(In millions of U.S. dollars)

	Cumulative from January 1, 1992 through March 31, 1992	Cumulative from January 1, 1992 through June 30, 1992	Cumulative from January 1, 1992 through Sept. 30, 1992	Cumulative from January 1, 1992 through Dec. 31,1992
Ceilings 1/ on new contractions of public and publicly guaranteed debts with initial maturity of over one (1) year and up to and including twelve (12) years	30	40	50	50
Of which: With initial maturity of over one (1) year and up to and including five (5) years.	(20)	(25)	(30)	(35)

Source: Memorandum on Economic Policy of the Jordanian Government.

1/ Excludes loans with a grant element equivalent to 25 percent or more, as defined by DAC, restructuring and refinancing loans undertaken in multilateral restructuring of official bilateral debt and commercial bank loans, use of Fund resources, and international reserve liabilities of the banking system.

Jordan: Stand-By Arrangement

Attached hereto is a letter, with annexed memorandum ("Memorandum on Economic Policy of the Jordanian Government" and Attachments I, II, III, IV, V, and VI) dated November 18, 1991 from the Minister of Finance of Jordan and the Governor of the Central Bank of Jordan requesting a stand-by arrangement and setting forth: (a) the policies and objectives that the authorities of Jordan intend to pursue for the period of this stand-by arrangement; and (b) understandings of Jordan with the Fund regarding reviews that will be made of the progress in realizing the objectives of the program and of the policies and measures that the authorities of Jordan will pursue for the period of this stand-by arrangement.

To support these objectives and policies, the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For a period of 18 months from January __, 1992, Jordan will have the right to make purchases from the Fund in an amount equivalent to SDR 44.4 million, subject to paragraphs 2, 3, 4, 5, and 6 below, without further review by the Fund.

2. (a) Purchases under this stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 7.4 million until May 15, 1992, the equivalent of SDR 14.8 million until August 15, 1992, the equivalent of SDR 22.2 million until November 15, 1992, the equivalent of SDR 29.6 million until February 15, 1993, and the equivalent of SDR 37.0 million until May 15, 1993.

(b) None of the limits in (a) above shall apply to a purchase under this stand-by arrangement that would not increase the Fund's holdings of Jordan's currency in the credit tranches beyond 25 percent of quota.

3. Purchases under this stand-by arrangement shall be made from ordinary resources only.

4. Jordan will not make purchases under this stand-by arrangement that would increase the Fund's holdings of its currency in the credit tranches beyond 25 percent of quota:

(a) during any period in which the data at the end of the preceding period indicate that:

(i) the limit on net domestic assets of the banking system as described in paragraph 26 of the Memorandum annexed to the attached letter and specified in Attachment III annexed thereto, or

(ii) the limit on net claims on the public sector by the domestic banking system as described in paragraph 26 of the Memorandum annexed to the attached letter and specified in Attachment III annexed thereto, or

(iii) the limit on new nonconcessional external borrowing contracted or guaranteed by the Government, as described in paragraph 35 of the Memorandum annexed to the attached letter and specified in Attachment IV annexed thereto,

are not observed; or

(b) if Jordan fails to carry out the intentions regarding arrears on external debt service payments as specified in paragraph 36 of the Memorandum annexed to the attached letter; or

(c) during any period after June 30, 1992 and December 31, 1992, respectively, until the reviews referred to in the attached letter have been completed and suitable performance criteria have been established for the remaining period of the arrangement after December 31, 1992, or after such performance criteria have been established, while they are not being observed; or

(d) during any period after December 31, 1992 if the intention specified in paragraph 24 of the Memorandum annexed to the attached letter is not carried out; or

(e) after April 30, 1992, July 31, 1992, October 31, 1992, January 31, 1993, and April 30, 1993, respectively, until the completion of a review on the financing of the program, provided that no such review shall be necessary after the Fund finds that satisfactory arrangements with commercial banks for the financing of the program have been reached; or

(f) during the entire period of this stand-by arrangement, if Jordan:

(i) imposes new or intensifies existing restrictions on payments and transfers for current international transactions, or

(ii) introduces or modifies multiple currency practices, or

(iii) concludes bilateral payments agreements, which are inconsistent with Article VIII, or

(iv) imposes or intensifies import restrictions for balance of payments reasons.

When Jordan is prevented from purchasing under this stand-by arrangement because of this paragraph 4, purchases will be resumed only after consultation has taken place between the Fund and Jordan and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. Jordan will not make purchases under this stand-by arrangement during any period of the arrangement in which Jordan has an overdue financial obligation to the Fund or is failing to meet a repurchase expectation pursuant to the Guidelines on Corrective Action in respect of a noncomplying purchase, or pursuant to Decision No. 9331-(89/167), as amended.

6. Jordan's right to engage in the transactions covered by this stand-by arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of Jordan. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 6, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and Jordan and understandings have been reached regarding the circumstances in which such purchases can be resumed.

7. Purchases under this stand-by arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in SDRs if, on the request of Jordan, the Fund agrees to provide them at the time of the purchase.

8. Jordan shall pay a charge for this stand-by arrangement in accordance with the decisions of the Fund.

9. (a) Jordan shall repurchase the outstanding amount of its currency that results from a purchase under this stand-by arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchase as Jordan's balance of payments and reserve position improves.

(b) Any reductions in Jordan's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

10. During the period of the stand-by arrangement, Jordan shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to Jordan or of representatives of Jordan to the Fund. Jordan shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of Jordan in achieving the objectives and policies set forth in the attached letter and annexed Memorandum.

11. In accordance with the attached letter, Jordan will consult with the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because any of the criteria in paragraph 4 above have not been observed or because he considers that consultation on the program is desirable. In addition, after the period of this stand-by arrangement and while Jordan has outstanding purchases in the upper credit tranches, the Government will consult with the Fund from time to time, at the initiative of the Government or at the request of the Managing Director, concerning Jordan's balance of payments policies.

November 18, 1991

Mr. Michel Camdessus
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Camdessus:

The attached Memorandum on Economic Policy of the Government of Jordan sets out the medium-term framework of growth-oriented adjustment, covering the period 1992-98, and provides details of the objectives and policies of the first year's program. In support of this program the Government requests an 18-month stand-by arrangement from the International Monetary Fund in an amount equivalent to SDR 44.4 million, which represents 40 percent of Jordan's quota on an annual basis. A number of quantitative and nonquantitative performance criteria are proposed for the program period. These are given in Attachment VI of the above-mentioned Memorandum.

The domestic effort alone would not succeed in achieving the program objectives, and would need to be supported by debt relief and additional grants and concessionary loans. Accordingly, the Government of Jordan intends to request the Paris Club, other bilateral creditors and commercial banks for debt relief on very generous terms, including debt reduction. There may also be a need to arrange a meeting of donors and creditors for the mobilization of additional resources. The Government is aware that for the program to be supported by a stand-by arrangement, adequate assurances of financial support from the international donor and creditor community are needed. In this connection, we request you and your staff to assist us in presenting our case to the international donor and creditor community. To facilitate this process, the Government of Jordan authorizes you, at your discretion, to provide the necessary information relating to this program to any organization or government that may have to be approached for debt relief or financial assistance to Jordan.

The Government believes that the policies set forth in the attached Memorandum are adequate to achieve the objectives of the program but will take any further measures that may become appropriate for this purpose. The Government of Jordan will consult periodically with the Fund, in accordance with the Fund's policies on such consultations, about the progress being made in the implementation of the program described in the Memorandum on Economic Policy and about any policy adaptations considered appropriate for the achievement of its objectives. In any event, the Government will complete reviews with the Fund not later than June 30, 1992 and December 31, 1992, respectively, on the progress made in the implementation of the program described in the Memorandum on Economic Policy, and, if necessary, will reach understandings on any additional measures as may be needed.

In the second review, the Government will also reach understandings with the Fund on the performance criteria for the remaining period of the arrangement after December 31, 1992. In addition, the progress in securing adequate external financing for the program will also be kept under review, pending the conclusion of satisfactory arrangements with external creditors.

Jordan will provide such information as the Fund may request in connection with the implementation and appraisal of the policies set forth in the Memorandum.

Sincerely yours,

[Signed]	[Signed]
H.E. Basil Jardaneh Minister of Finance and Customs Ministry of Finance and Customs	The Hon. Dr. M. Said Nabulsi Governor Central Bank of Jordan

Memorandum on Economic Policy of the Jordanian Government

1. After a prolonged period of rapid economic growth and relative internal and external financial stability, economic and financial conditions deteriorated sharply in Jordan in the later part of the 1980s. This reflected mainly a substantial reduction in external financial inflows caused by a decline in world oil prices and its adverse impact on regional economic developments. In an attempt to address the underlying problems, the Government adopted in 1989 a comprehensive medium-term growth-oriented adjustment program. Within that framework, an adjustment program encompassing, inter alia, reform of investment and pricing policies, trade liberalization, tariff rationalization, resource mobilization, and exchange rate adjustment was implemented in 1989. This was supported by a stand-by arrangement with the Fund, a Trade and Industry Loan from the World Bank, a rescheduling of Jordan's foreign debt obligations by the major creditors, and grants from neighboring countries. Performance under the program was mixed. The Government continued its adjustment effort for the second year and formulated, in consultation with the Fund and Bank staffs, a package of policy reforms for 1990 containing, inter alia, measures for a further tightening of monetary and fiscal policies, structural reforms, and liberalization of interest rates. Most of the measures were implemented as planned and the economy appeared to be generally on track in the first half of 1990, notwithstanding slippages in certain areas, both in terms of policy action and performance.

2. The regional crisis that began early in the second half of the year severely affected the economy through a disruption of international and transit trade, a reflux of Jordanians and Palestinians working abroad, and a cessation of aid from traditional sources. The most daunting problems encountered in the aftermath of the crisis were a rising level of unemployment and an increasing demand on budgetary resources for the provision of health, education, and other social services to the returnees and their families. The increase in these expenditures took place in the context of a decline in economic activity that adversely affected government revenues. There were also substantial direct financial costs of the crisis for the Jordanian economy. Moreover, the ensuing uncertainties created an environment that was not conducive to the promotion of saving, investment, and growth. Nevertheless, the Government of Jordan believes that the economy showed considerable resilience in cushioning the impact of the crisis, aided as it was by emergency assistance from the Gulf Crisis Financial Coordination Group (GCFCG) and an inflow of savings of the Jordanian workers returning from abroad.

3. The latest assessment is that the decline in GDP was halted in 1991, the budget deficit excluding grants was contained in the neighborhood of the previous two years, foreign trade continued to remain free from restrictions, the foreign exchange market remained stable, and the country was able to accumulate foreign exchange assets. The encouraging outcome in

these areas, however, conceals the fact that unemployment rose to a high level, underlying price pressures increased, the current account of the balance of payments recorded a substantial deficit, and foreign arrears were allowed to build up.

4. Currently, the country's financial imbalances, both internal and external, are at unsustainably high levels and the task of addressing them is made difficult by the rising level of external debt servicing payments and the overhang of a huge outstanding external debt. Moreover, the country's social and political situation is very vulnerable and the Government's decision to participate in the peace process has tended to add to internal social and political strains. A delicate balance needs to be struck by the Government in taking economic policy measures and ensuring socio-political stability. The Government is aware that success in overcoming the difficult economic problems of the country will depend crucially on the strength and sustenance of the domestic effort and has committed itself to vigorously pursue adjustment policies on a sustained basis, extended over several years. However, the Government would also like to emphasize that the achievement of the medium-term objectives will be equally dependent on the availability of the required external financial assistance, on very concessional terms, during the entire period. This is particularly so in view of the unsustainably high levels of external debt and debt servicing obligations of the country. It also needs to be recognized that the regional crisis has compounded the underlying structural weaknesses and financial imbalances of the economy, which, in combination with the huge burden of external debt, necessitate a lengthening of the period of adjustment to more than five years in order to achieve balance of payments viability.

Medium-Term Framework of Adjustment

5. The Government has prepared, in consultation with the Fund and Bank staffs, a medium-term adjustment program covering the period 1992-98 (Attachment I). It is designed to restore and sustain economic growth in a noninflationary environment, generate employment, and achieve budgetary and balance of payments viability. More specifically, the real growth rate, which was negative on average in the last three years, is to be gradually increased to over 4 percent by 1997. The annual rate of inflation is targeted to decline from about 10 percent in 1991 to one half that level by 1997. In the area of public finance, the budget deficit excluding grants will be lowered from about 18 percent of GDP in 1991 to 6.5 percent in 1997 and 5 percent in 1998. As regards the balance of payments, the adjustment framework envisages a steady decline in the current account deficit (excluding official transfers), from 24 percent in 1991 to about 2 percent in 1997 and a balanced position by 1998. The exceptional financing requirements, which are close to US$1.8 billion in 1992, will gradually fall to about one third of that figure in 1994 and 1995, reach moderate levels in 1996 and 1997, and disappear altogether by 1998.

6. Economic recovery and growth in the medium term is predicated on increased investment and domestic savings, and further improvement in the efficiency of investment. To this end, the Government is committed to continuing with the process of institutional and structural reform, as well as the maintenance of flexible pricing, interest rate, and exchange rate policies. Given the financial constraints faced by the Government, and keeping efficiency considerations in view, the private sector will have to play an increasing role in achieving the saving, investment, and growth objectives.

7. The public sector is expected to play a direct role in increasing savings, initially by eliminating current dissaving, and thereafter making positive contributions. More importantly, financial discipline in the public sector, in combination with the use of flexible exchange and interest rate policies, is expected to contribute to the development of a stable financial environment conducive to remittance inflows, and domestic private savings which are expected to increase substantially.

8. The Government has already adopted several measures to encourage private investment and improve efficiency in investment: the investment licensing requirement has been abolished; the Encouragement of Investment Law has been amended to provide direct and more uniform investment incentives; the first stage of tariff reforms has been completed; and initial steps have been taken to generally move toward deregulation of the economy. It is the intention of the Government to take further appropriate measures to deregulate the economy and to encourage domestic and foreign investment.

9. A central objective of the medium-term adjustment strategy is to achieve a significant and sustained reduction in the budget deficit, to a level that could be financed by normal aid inflows, and recourse to domestic bank borrowing at a level that would be consistent with the requirements of internal financial stability. This is to be achieved by raising the revenue/GDP ratio as well as reducing the expenditure/GDP ratio. Progress has already been made toward improving the elasticity of the revenue system through the reform of the income tax law as well as the tariff reform. Further measures, including the introduction of a generalized consumption tax, will be taken to improve the revenue structure. On the expenditure side, the Government is committed to containing unproductive current expenditures and reducing transfers and subsidies. The Government is also committed to the reform of a number of financially strained public enterprises, with a view to increasing their contribution to the budget.

10. As regards the balance of payments, the Government is determined to take the appropriate measures to achieve a balanced position in the current account (excluding grants) by 1998, compared with a deficit of about 24 percent of GDP in 1991. There is a need to follow a strong export promotion policy, involving a marketing strategy and enhancement of export-competitiveness, in order to regain market shares and establish new markets. In this regard, the Government is committed to the continued pursuit of a flexible exchange rate policy, to help achieve an expansion in exports of goods and contain import demand.

Objectives and Policy Framework for 1992

11. As a decisive first step toward achieving the medium-term targets of the program, the Government has decided to adopt a comprehensive policy package for 1992, aimed at accelerating growth and ensuring a sharp reduction in the economic and financial imbalances in the economy. The policy package includes, inter alia, fundamental structural reforms, a significant tightening of fiscal and monetary policies, and measures aimed at ameliorating the difficult balance of payments and external debt situation. The Government has also taken measures to protect the poor from adverse price effects during the period of adjustment and place special emphasis on creating employment opportunities in the country.

Structural Reform Measures

12. In order to stimulate growth in the economy it is crucial to supplement policies designed to restore financial balances with a series of structural reforms. Future growth in Jordan will depend on expansion of investment, geared toward increasing nontraditional exports and efficient import substitution. In the commodity-producing sectors like industry and agriculture, the efficiency of resource use will be improved by restructuring incentives in line with world prices. In this regard, it is crucial to rationalize the trade regime. The Government has already taken a number of measures to reduce the level of, and variation in, tariff rates, to simplify customs procedures, and to abolish quantitative restrictions on imports. This reform will be carried forward by reducing the maximum tariff rate from 60 percent to 50 percent by the end of 1991. Given the country's difficult budgetary position, net losses in revenue from customs duties due to the tariff reforms will be kept to the minimum. The World Bank has estimated that the proposed tariff reforms will result in a revenue loss of about JD 5 million, and this has already been taken into account in the budgetary estimates for 1992. In addition to the tariff reforms, the Government intends to strengthen institutions in support of manufacturing and exports. During the course of next year steps will be taken to centralize the institutional responsibility for export promotion and improve the working of the import duty drawback system, industrial product standards, and export finance.

13. During the next year, the Government will also take measures to improve marketing arrangements for agricultural products, and will abandon the practice of setting cropping patterns and improve the system of marketing of horticultural products. These measures will restructure incentives and allow resources to flow to high-value export crops. The Government also proposes to review farm gate prices for cereals, livestock feed subsidies, and the price of water, with a view to formulating an action plan, in consultation with the World Bank, for moving toward market-based prices of agricultural inputs and outputs.

14. Some of the public sector enterprises have become highly indebted and have not contributed to the strengthening of the public finances. The huge government investment in these enterprises must ultimately yield a reasonable rate of return and, accordingly, measures will be adopted to restore their financial viability. These will include improvements in operational efficiency and adjustments in output prices. In the long run, however, participation of the private sector should be increased, and greater competition should be ensured for the goods and services provided by these enterprises. Over the next two to three years the Government proposes to concentrate on the most problematic of these enterprise, as indicated below.

15. The Energy Sector and the Jordan Electricity Authority (JEA): The current prices of petroleum products and electricity have to be raised to respectively reflect their international prices and long-run marginal costs. This action is needed, not only to improve resource use and strengthen the budget, but also on environmental considerations. The Government proposes to selectively increase petroleum product prices in the context of the 1992 budget and further measures will be considered in the following years. Moreover, the Government intends to adopt a comprehensive program of reform in the energy sector consisting of: (i) rationalizing the setting of petroleum pricing to improve the efficiency of the refinery, (ii) restoring the financial viability of the JEA, and (iii) implementing measures to improve the operational efficiency of power utilities. The Government is particularly aware of the financial problems of JEA which can be traced to insufficient increases in tariffs in the face of increasing costs. Part of the problem lies in the excess capacity that has been installed, in relation to the current electricity requirements of the country, and will be self-correcting as the demand for electricity increases. Nevertheless, the Government will prepare an action plan, in consultation with the World Bank, to improve efficiency and move toward full cost recovery.

16. Water Authority of Jordan (WAJ): The WAJ is responsible for most of the domestic and industrial water supply and sewerage systems. Water charges were increased in October 1990 and sewerage tariffs in October 1991, but the WAJ continues to face severe financial problems. Given its present structure of costs, WAJ would require further substantial tariff increases to cover its operational and maintenance expenses and service its debt. The Government intends to attain full cost recovery over the medium term, partly through tariff increases and partly through improving operational efficiency, and financial restructuring of the Authority. It is expected that the Government will finalize an action plan covering all these areas, in consultation with the World Bank, by mid-1992.

17. Aqaba Railway Corporation (ARC): ARC's sole function is the transportation of phosphate from the mines of the Jordan Phosphate Mining Company (JPMC) to Aqaba. ARC increased freight charges in 1991 and is no longer incurring operational losses. However, it is faced with problems of old track, poor equipment maintenance, and weak management and the Government is prepared to take additional measures to improve the functional performance of ARC and further strengthen its financial position.

18. Royal Jordanian Airline (RJ): The financial situation of RJ is precarious. The solution to RJ's problems lies in privatization. However, before this step is taken, a number of issues such as assumption of RJ's debt, and restoration of profitability, have to be resolved. The Government intends to review all aspects of the operations of RJ and prepare an action plan for implementation in 1992.

Fiscal and Monetary Policies

19. On the financial side, the crux of the adjustment effort lies in the budget. In Jordan, the level of expenditures in relation to GDP, at about 45 percent, is very high while domestic revenues have hovered around 25 percent of GDP, leaving substantial deficits that have been financed through foreign grants and loans and domestic bank borrowing. Since the adoption of the adjustment program in 1989, the Government has taken several discretionary measures to mobilize domestic resources but, given the inelasticity of the revenue system and recent economic developments, the revenue/GDP ratio has in fact declined. It is hoped that the structural reform measures introduced in the last two years, combined with a further improvement in tax administration and recovery of the economy, will cause the revenue/GDP ratio to improve. This, in combination with the introduction of a generalized consumption tax by January 1, 1993 would put the revenue structure on a relatively sound basis. Nevertheless, the Government fully acknowledges that a lowering of the deficit/GDP ratio to sustainable levels will require measures to significantly reduce expenditures as a percentage of GDP.

20. In preparing the budget for 1992, the Government has been guided mainly by an intention to significantly reduce its deficit. A major action in this respect has been the recent cancellation of a deal to purchase US$1 billion worth of Mirage jet fighters from France. This measure will result in a reduction in interest payments on military debt of about 2 percent of GDP annually. This expenditure-reducing measure will be partly offset in 1992 by a generalized salary adjustment and increased development and emergency expenditures. No across-the-board salary increase has been granted since 1985, while expenditure on subsidies has been curtailed, and, in combination with an increase in general prices, this has led to a considerable erosion in the living standards of government employees. Therefore, a decision has been taken to grant an across-the-board salary increase to civilian and military government employees and pensioners, and a provision has been made in the budget for 1992 for additional expenditure of JD 45 million. This is equivalent to about 10 percent of the wage and pension bill and 1.4 percent of GDP. The salary adjustment will be kept within this limit or additional revenue measures will have to be put in place to cover any excess cost. A decision has also been taken to increase capital spending. This is a part of the effort to rehabilitate the large numbers of returnees from abroad by providing them with essential services such as schooling, health facilities, and utilities, and is also intended to improve the physical infrastructure

in the country. Given the high level of unemployment in the country, every effort will be made to give priority to projects that have the potential to generate large employment. Moreover, relatively labor-intensive techniques will be adopted in the execution of those projects.

21. The Government has already taken some discretionary revenue measures which include: (a) a fine on excess axle loads on trucks; (b) an extension of exemption from military service for Jordanians working abroad in lieu of the payment of a fee; (c) a requirement for the payment of customs duties on cars brought to Jordan by returnees from abroad; (d) a tax on trucks crossing through Jordan; and (e) some adjustments in excise taxes. The combined effect of these measures will be to raise revenues by about JD 38 million (1.2 percent of GDP) in 1992. In the absence of further corrective action, these budgetary proposals would still have resulted in an overall budget deficit excluding grants of 16.8 percent of GDP in 1992.

22. Recognizing the need to achieve a further reduction in the budget deficit, the Government has decided to implement additional measures of a structural nature equivalent to JD 80 million (about 2.5 percent of GDP) as described in Attachment II. These measures will be implemented on or before January 1, 1992, and are considered prior actions for the stand-by arrangement. In addition, the Government is in the process of identifying low priority development projects that could be eliminated so as to reduce capital expenditure from the budgeted level of JD 320 million to JD 300 million. As a result of all these measures the overall budget deficit excluding grants will decline to JD 445 million or 13.7 percent of GDP in 1992, compared to about 18.0 percent in 1991.

23. The overall budget deficit excluding grants of JD 445 million in 1992, will be financed from the domestic banking system to the extent of JD 70 million, in accordance with the credit ceilings given in Attachment III. This will leave a gap of JD 375 million to be financed by net external receipts from loans, grants, and debt relief. If the external receipts from all these sources exceed the above amount, the quarterly credit ceilings will be adjusted as specified in Attachment III. In the event that such receipts fall short of the program assumption, the quarterly ceilings will be reviewed taking into account relevant factors, including budgetary efforts which would be mounted to compensate for the shortfall.

24. Recognizing the need to enhance the tax base and the elasticity of the tax system and to contain consumption, the Government intends to introduce a general sales tax by January 1, 1993 at the latest. This measure would constitute a performance criterion under the program. The Government intends to put in place all the necessary procedural, institutional, and administrative arrangements, and submit to parliament, if necessary, legislation for the introduction of such a tax by June 1992. The progress made toward the introduction of the general sales tax would be examined during the reviews of the stand-by arrangement.

25. The Government is also committed to pursuing policies that will achieve a gradual reduction in the ratio of current expenditures to GDP over the medium term. As part of this strategy, the Government intends, inter alia, to contain unproductive expenditure, both civilian and military, reduce transfers to decentralized agencies, and continue to lower the burden of subsidies on the budget. In this connection, the Government reaffirms its commitment to phase-out the subsidies on sugar, rice, and powdered milk during a three-year period ending in 1994. The progress to be made in 1993 in this respect will be examined during the second review of the stand-by arrangement. The Government also affirms that all military expenditures are included in the budget data provided to the Fund and that no extrabudgetary expenditure will be incurred.

26. The budgetary policies for 1992 will be reinforced by a tight credit policy that simultaneously ensures an adequate supply of credit to the private sector, which is expected to be the main engine of economic expansion. Consistent with the 1992 program targets of a reduction in inflation, the target for the rate of monetary expansion has been set at 9 percent in 1992 compared with an estimated increase of 11 percent in 1991. Keeping in view the foreign reserve target, and the genuine credit requirements of the private sector, quarterly ceilings have been established on net domestic assets of the domestic banking system and on net claims on the public sector (see Attachment III). The ceilings constitute performance criteria under the program. The credit ceilings are based on indicative targets for December 31, 1991, as shown in Attachment III. A substantial deviation of the actual outcome for December 31, 1991 from the indicative targets would necessitate a review of the quarterly credit ceilings for 1992.

27. The Central Bank took a number of measures during the course of 1991 to help stimulate economic activity and encourage the repatriation to Jordan of the savings of workers returning from Kuwait: advance import deposit requirements were lowered; commercial banks were allowed to extend credit to residents and nonresidents against their foreign currency deposits of up to JD 25,000 without prior approval of the Central Bank; and the amount which residents are allowed to keep in foreign currency accounts with local institutions was increased from JD 150,000 to JD 500,000. The inflow of accumulated savings of Jordanians returning from abroad, financing of the losses of the Petra Bank by the Central Bank, and large increases in the deposits of the Government reflecting the disbursement of loans and grants by the GCFCG, have contributed to excess liquidity in the banking system. Moreover, there was a hesitancy on the part of banks to lend in the uncertain economic, financial, and political conditions of the recent past, and demand for credit was also slack. All these factors are expected to be reversed, and there are signs that this is happening already. However, the Central Bank is closely monitoring the situation, and in the event that excess liquidity persists and pressures begin to develop for credit expansion in excess of the genuine credit requirements of the private sector, appropriate measures will be taken to siphon off excess liquidity, including an increase in reserve requirements.

28. The Central Bank acted promptly in August 1989 to prevent a banking crisis following the insolvency of one of Jordan's largest commercial banks, the Petra Bank. In order to avoid a repetition of such problems, bank supervision has been tightened and a new banking law has been drafted and is being processed for Government approval. The thrust of the proposed legislation is to ensure bank capital adequacy; clearly identify the scope of operations by commercial banks, investment companies, and financial institutions; and define the responsibilities of bank management. The Central Bank will also submit to the Council of Ministers in the near future a deposit insurance scheme which aims at protecting small depositors. A law has also been submitted to parliament for the legalization of the operations of authorized money exchange dealers, under strict guidelines established by the Central Bank, and it is expected to be passed by the parliament soon. These laws will strengthen the ability of the Central Bank to ensure the continuation of a healthy and sound banking system. Larger and more effective provisioning for doubtful debts and increased capitalization in the banking system are being contemplated.

29. The Government is also committed to the continued pursuit of a flexible interest rate policy. Although the interest rate structure had been freed as of early 1990, nominal lending rates increased only marginally, and deposit rates remained negative in real terms. This can be attributed to a slackness in demand for credit and a sharp increase in foreign exchange deposits at the commercial banks as a result of the repatriation of savings from abroad. The Government affirms that there are no impediments to the free market determination of interest rates. However, this issue will be re-examined in the context of the reviews under the stand-by arrangement.

Balance of Payments and External Sector Policies

30. The external sector was one of the main areas of weakness in Jordan even before the eruption of the regional crisis in 1990. The balance of payments was faced with large current account deficits, debt service liabilities had increased substantially, and the financing of the required level of imports had become dependent on the availability of external grants and rescheduling of debt. Following the implementation of an adjustment program in 1989 and 1990, that was supported by debt relief and other exceptional financing, it was expected that an expansion in exports, remittances, and tourist receipts, combined with policies to contain demand, would gradually reduce the need for exceptional external financing. The regional crisis disrupted this process due to the closure of Jordan's traditional agricultural export markets, the reflux of Jordanian workers from abroad, the reduction of tourist receipts, and a drying up of the traditional sources of foreign assistance. At the same time, the GCFCG provided grants and loans of about US$327 million in 1990, and an estimated US$774 million in 1991, and the Jordanian workers returning from abroad brought with them their accumulated savings of close to US$600 million in 1990 and 1991. Moreover, the Government did not meet fully its external debt service obligations and, as a result, the country accumulated external payment arrears estimated at US$700 million up to the end of 1991. In view of this, the country was able to continue to maintain imports, without intensification of restrictions,

and at the same time build up reserves. The Government is aware that, notwithstanding the apparently comfortable foreign exchange position, the underlying balance of payments position of Jordan continues to be weak and the Government recognizes the importance of making a concerted effort for the promotion of exports, tourism, and remittances, and containing imports through an appropriate mix of fiscal, monetary, and exchange rate policies.

31. The country's agricultural exports have begun to penetrate new markets and the Government remains hopeful of the reopening of the traditional markets in the region in the near future. In addition, export volumes and international prices for phosphates and fertilizers are expected to improve. The ongoing reform of the tariff system will reduce anti-export bias and allow allocation of resources to export-oriented industries. In order to make domestic exports more competitive, the procedures for duty-drawback are being greatly simplified, and an automatic input tax credit and refund mechanism will be established to ensure "zero-rating" of exports, particularly under the General Sales Tax scheme to be introduced in 1993.

32. A recovery of remittance flows (other than savings) and tourist receipts is expected to take place as normal trade relations begin to be reestablished in the region and the peace process takes hold. The current flexible exchange rate policy and continuation of a liberal exchange system will serve as an encouragement for Jordanians working abroad to continue to transfer a high proportion of their earnings to Jordan. The Government is also continuing discussions aimed at finding employment opportunities in other countries for some of the professionals and skilled workers who have returned from abroad. Travel and tourism have picked-up in recent months, and with continued improvements in the political and security environment in the region, are expected to improve significantly in 1992.

33. The growth in the overall level of imports will be contained through tight demand management and other policies, and imports are expected to increase by 5.8 percent in 1992. However, the Government will protect an adequate level of investment inputs and basic consumer goods, through selective use of consumption taxes on luxury consumer goods at uniform rates at both the import and domestic manufacturing levels, in line with the tariff reform.

34. The Government is committed to a flexible exchange rate policy in order to maintain the competitiveness of exporters and encourage efficient import substitution. Developments in the parallel market are being closely monitored and at present there is virtually no difference between the official and parallel market exchange rates. Moreover, traditional exports continue to remain competitive and are making inroads to new markets at the present exchange rate. In view of the envisaged tight fiscal and monetary policies, and assuming that external financing requirements are met, no immediate exchange rate adjustment is required. However, if unexpected pressures develop, the Government will not defend the rate through intensification of trade and payments restrictions, or through sustained depletion of reserves, and will adopt appropriate remedial measures in consultation with the Fund staff. Exchange rate developments will be

examined during the first review of the stand-by arrangement and appropriate measures will be adopted at that time, based on the consideration of the effectiveness of fiscal and monetary policies, developments in relative prices vis-a-vis trading partners, export performance, and the foreign exchange reserve position of the country.

35. Since 1989, the Government has pursued a prudent debt management policy by converting all short-term debt to medium-term maturities and by not incurring new short-term debt. As a part of the ongoing strategy to alleviate external debt servicing problems and improve the maturity structure of external debt, the Government is committed not to incur short-term external debt. Moreover, the Government has established ceilings for March, June, September, and December 1992 on new nonconcessional public and publicly-guaranteed external debt with an initial maturity range of over one year and up to and including five years, and an initial maturity range of one year and up to and including 12 years (Attachment IV). These ceilings will exclude rescheduling and refinancing undertaken in connection with multilateral restructuring of official bilateral debt and commercial bank loans. Debt ceilings for 1993 will be established at the time of the second review.

36. The Government has been unable to fully discharge its external debt service obligations in the recent past, resulting in an accumulation of substantial arrears on account of external debt. Assuming the availability of exceptional financing, it is intended that all external arrears will be eliminated through payment or rescheduling by June 30, 1992. Arrears to multilateral financial institutions, if any, will be settled through cash payment prior to the Board consideration of the stand-by arrangement. Moreover, the Government intends to remain current in payments to those organizations that are normally not subject to debt rescheduling. During the period of the stand-by arrangement, arrears will not be incurred in respect of payments and transfers for current international transactions. However, up to June 30, 1992 arrears for the purpose of this performance criterion excludes external debt obligations in the process of being regularized through rescheduling.

37. The Government shall not: (a) impose or intensify restrictions on payment and transfers on current international transactions; (b) introduce multiple currency practices; (c) conclude new bilateral payments agreements which are inconsistent with Article VIII of the Fund's Articles of Agreement; or (d) impose new import restrictions or intensify existing ones for balance of payments reasons.

External Financing Requirements

38. Projections of external financing requirements for 1992 and 1993 are given in Attachment V. In 1992, total external financing requirements are estimated at US$2.22 billion, of which US$1.96 billion is needed to clear the arrears (of US$716 million) and meet payments of interest (US$541 million) and principal (US$699 million) falling due in 1992. It is estimated that grants and loans equivalent to US$392 million will be

disbursed on the basis of existing commitments, leaving a residual gap of US$1.8 billion to be covered through additional grants and loans and debt relief. As for 1993, tentative projections indicate that exceptional financing requirements will decline to US$1.1 billion. Given the foreign exchange constraint, and the need to ensure a level of imports that is necessary to meet the growth and price targets of the program, the Government will request a rescheduling of external debt obligations, including outstanding arrears, from the Paris Club, other official creditors, and commercial banks. The Government is hopeful of very generous terms, including the possibility of debt reduction. This rescheduling would need to be supplemented with grants and loans on very concessional terms, for which an aid club may need to be organized and convened under the auspices of the World Bank.

Protection of the Poor

39. While attempting to reduce macroeconomic imbalances, the Government of Jordan is conscious of the need to protect the poor from the adverse price effects of adjustment measures. The category of people who are most vulnerable includes the unemployed, elderly, low-wage employees, and the handicapped. Wheat, sugar, rice, and milk constitute the bulk of their consumption basket. Accordingly, the Government has put in place a system of subsidy through rationing of sugar, rice, and milk to cushion the impact of price increases on the vulnerable segments of the population. At the same time, wage adjustment has been provided in the public sector, and is most likely to be followed in the private sector. Unemployment being the most severe form of hardship, the Government has established a Development and Employment Fund (DEF) to extend credit for micro-businesses. The DEF is to extend credit on the basis of the merit and financial viability of the individual projects and is targeted to the poor. It carries a low interest rate of 6.5 percent. Structural reforms in the area of human resource development are also a critical element as they provide health and family welfare services at minimum cost. The Government expects to implement reforms in the health sector soon, to improve the quality of health services.

Jordan: Phasing of the Medium-Term Adjustment, 1992-98

	Prel. Actuals 1990	Proj. 1991	Targets 1992	1993	1994	1995	1996	1997	1998
					(Percentage changes)				
Growth and inflation	-0.6	0.8	3.0	3.4	3.7	3.7	3.8	4.1	4.3
Real GDP at market prices	9.6	10.0	9.2	7.7	6.5	5.6	4.8	4.6	4.5
GDP deflator									
					(In percent of GDP)				
Investment and savings									
Consumption	108.6	100.9	95.5	92.6	89.0	86.2	83.6	81.2	79.5
Investment	17.3	19.3	21.1	21.4	21.6	21.9	22.5	23.1	23.1
Private	11.2	10.8	11.8	13.4	13.6	14.4	15.0	15.6	16.1
Public	6.1	8.5	9.3	8.0	8.0	7.5	7.5	7.5	7.0
Change in stocks	1.6	1.5							
Net exports of goods and services	-27.4	-21.7	-16.6	-14.0	-10.6	-8.1	-6.1	-4.3	-2.6
Domestic saving	-8.6	-0.9	4.5	7.4	11.0	13.8	16.4	18.8	20.5
Public finances									
Domestic revenue	28.3	26.5	26.2	27.0	27.5	28.0	28.5	29.0	30.0
Foreign grants	11.2	7.3	1.8	2.1	2.0	1.8	1.7	1.6	1.4
Total revenues and grants	39.5	33.7	27.9	29.1	29.5	29.8	30.2	30.6	31.4
Total expenditure	47.1	44.4	39.9	38.0	37.0	36.5	36.0	35.5	35.0
Deficit, excluding grants	-18.8	-17.9	-13.7	-11.0	-9.5	-8.5	-7.5	-6.5	-5.0
Deficit, including grants	-7.6	-10.6	-11.9	-8.9	-7.5	-6.7	-5.8	-4.9	-3.6
Foreign financing (net)	8.1	0.1	10.3	7.8	6.7	6.0	5.3	4.4	3.0
Domestic financing (net)	-3.9	2.4	1.7	1.0	0.8	0.6	0.5	0.5	0.5
Overdue obligations	3.4	8.1	--	--	--	--	--	--	--
					(In percent of beginning period stock of broad money)				
Money and credit									
Money and quasi-money	4.7	11.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0
Foreign assets (net)	8.3	4.9	0.5	1.2	1.2	1.1	1.0	0.3	0.3
Domestic assets (net)	-3.6	6.1	8.5	7.8	7.8	7.9	8.0	8.7	8.7
Claims on Government (net)	-5.0	2.2	1.6	1.0	0.8	0.6	0.5	0.5	0.5
Claims on private sector	4.5	4.8	5.8	6.8	7.0	7.3	7.5	8.2	8.2
Other items (net)	-3.1	-0.8	1.2	--	--	--	--	--	--
Memorandum items									
Nominal GDP (in millions of JD)	2,597	2,879	3,239	3,609	3,985	4,361	4,747	5,170	5,633
					(In percent of GDP)				
Balance of payments (deficit -)									
Current account excluding official transfers	-29.3	-23.7	-18.5	-15.0	-11.0	-7.5	-4.5	-2.5	-0.2
Trade balance	-42.6	-29.6	-27.7	-24.6	-21.9	-19.2	-16.5	-14.1	-11.7
Exports	27.2	24.4	28.1	29.2	29.8	30.3	30.5	30.5	30.5
Imports	69.8	54.0	55.7	53.8	51.7	49.5	47.0	44.6	42.3
					(Percentage changes)				
Exports	-4.1	-2.4	18.0	11.9	9.9	9.8	8.5	8.5	8.3
Imports	13.9	-15.8	5.8	3.7	3.6	3.2	2.5	2.8	2.7
Remittances (net)	-19.4	-34.7	19.3	23.1	16.1	16.0	5.0	3.5	3.3
Travel (net)	40.8	-85.8	320.0	9.5	8.7	8.0	7.4	6.9	6.5
Financing gap									
(in percent of GDP)	--	--	41.8	22.8	17.8	12.8	8.2	3.8	0.3
Reserves (in millions of US$)	221.0	426.0	446.2	504.9	567.0	630.3	692.1	711.4	732.8
(In months of imports)	1.0	2.2	2.2	2.4	2.6	2.8	3.0	3.0	3.0

Sources: The Jordanian authorities; and staff estimates.

Jordan: Credit Ceilings for 1992 1/

(In millions of Jordan dinars)

	Indicative targets 2/ 1991	1992 Ceilings			
	Dec. 31	Mar.31	June 30	Sept.30	Dec.31
Net domestic assets of the banking system 3/	2,385	2,465	2,535	2,610	2,680
Net claims on the public sector by the banking system 4/	955	985	1,005	1,030	1,045
	(Cumulative changes relative to December 31, 1991)				
Memorandum items:					
Net domestic assets of the banking system 3/		80	150	225	295
Net claims on the public sector by the banking system 4/		30	50	75	90
Claims on Government (net)		(25)	(40)	(60)	(70)
Claims on public entities		(5)	(10)	(15)	(20)

1/ Credit ceilings are based on the assumption that the external financing needs of the budget are in the amount of JD 375 million. If net external receipts from grants, loans, and debt relief (excluding the rescheduling of arrears outstanding at the end of 1991, for which no provision has been made in the budget) exceed the program assumption of JD 375 million, the quarterly credit ceilings specified above will be lowered in equal amounts by the magnitude of the excess. In the event such receipts fall short of the program assumption, the quarterly ceilings will be reviewed taking into account several factors, including the budgetary effort which would be mounted to compensate for the shortfall.

2/ A substantial deviation from the indicative targets would necessitate a review of the credit ceilings.

3/ Net domestic assets of the Central Bank, commercial banks, and the Housing Bank. Includes net claims on Government, claims on public entities, claims on private sector, claims on specialized credit institutions, claims on financial companies and other items (net).

4/ Includes net claims on Government and claims on public entities. Government is defined to include all ministries and governmental agencies. Net claims on Government is defined as claims on the Government minus government deposits.

Jordan: Ceilings on New Public or Publicly Guaranteed Nonconcessional External Debt, 1992

(In millions of U.S. dollars)

	Cumulative from January 1, 1992 through March 31, 1992	Cumulative from January 1, 1992 through June 30, 1992	Cumulative from January 1, 1992 through Sept.30, 1992	Cumulative from January 1, 1992 through Dec.31,1992
Ceilings 1/ on new contractions of public and publicly guaranteed debts with initial maturity of over one (1) year and up to and including twelve (12) years	30	40	50	50
Of which: With initial maturity of over one (1) year and up to and including five (5) years.	(20)	(25)	(30)	(35)

1/ Excludes loans with a grant element equivalent to 25 percent or more, as defined by DAC, restructuring and refinancing loans undertaken in multilateral restructuring of official bilateral debt and commercial bank loans, use of Fund resources, and international reserve liabilities of the banking system.

Jordan: External Financing Requirements, 1992-93

(In millions of U.S. dollars)

	1992 Proj.	1993 Proj.
Total foreign exchange requirements	4,436	3,861
Imports	2,434	2,525
Total foreign debt servicing required	1,956	1,225
Interest payments (due)	(541)	(558)
Principal repayments (due)	(699)	(667)
Change in arrears (decrease +)	(716)	(0)
Change in reserves (increase +)	20	60
Payments to IMF/AMF	27	51
Available financing	2,610	2,789
Exports	1,225	1,370
Services (net) (excluding remittances and interest payments)	490	458
Remittance receipts	404	501
Transfer of workers' savings and other private transfers	100	50
Official transfers	165 1/	160
Of which: GCFCG	(54)	(0)
Gross loan disbursements	227 1/	250
Of which: GCFCG	(103)	(0)
Debt rescheduling (1989)	0	0
Additional financing required	1,826	1,072
Memorandum item:		
Total official external financing required	2,217	1,482

Sources: The Jordanian authorities; and staff estimates.

1/ Expected on the basis of existing indications of commitments.

Performance Criteria

The following will constitute performance criteria under the proposed stand-by arrangement:

a. Quarterly ceilings for 1992 on net domestic assets of the banking system and net claims on the public sector by the domestic banking system as described in Attachment III.

b. Quarterly ceilings for 1992 on new contractions of nonconcessional public and publicly guaranteed debt with maturity ranges of 1-5 years and 1-12 years as described in Attachment IV.

c. The introduction of a General Sales Tax as described in paragraph 24.

d. Elimination of external arrears and non-incurrence of arrears during the period of the stand-by arrangement as described in paragraph 36.

e. The standard requirements with regard to the trade and exchange system as described in paragraph 37.

f. Two reviews of the stand-by arrangement to be conducted by June 30, and December 31, 1992, respectively.

g. Quarterly reviews on the financing of the program.

Jordan - Relations with the Fund

(As of October 31, 1991)

I. Membership Status

a.	Date of membership	August 1952
b.	Status	Article XIV

A. Financial Relations

II. General Department		SDR Millions	Percent of Quota
a.	Quota	73.9	100.0
b.	Total Fund holdings of Jordan dinars	140.1	189.6
c.	Fund credit: Compensatory	39.4	53.4
	Stand-by	26.8	36.3
d.	Reserve tranche position	--	--
e.	Current operational budget	Not included	
f.	Lending to the Fund	None	

III. SDR Department

a.	Net cumulative allocation	SDR 16.89 million
b.	Holdings	SDR 1.22 million
c.	Current designation plan	Not included

IV. Use of Fund Resources

Jordan made reserve tranche purchases of SDR 16.6 million in June 1983 and of SDR 7.2 million in May 1984. A compensatory financing purchase of SDR 57.4 million was made in January 1985; this amount has been repurchased in full. Purchases under the compensatory and contingency financing facility were made on July 19, 1989 (SDR 16.66 million) and on August 23, 1989 (SDR 22.775 million). Both purchases were in respect of the compensatory financing of export fluctuations. Purchases under an 18-month stand-by arrangement in the amount of SDR 60 million were made on July 19, 1989 (SDR 18.5 million) and on December 29, 1989 (SDR 8.3 million).

B. Nonfinancial Relations

V. Exchange System

On February 15, 1975, the Jordan dinar was pegged officially to the SDR at the rate of JD 1 = SDR 2.5790 with margins of 2.25 percent. However, since 1984 the exchange rate was allowed to move within a wider margin with a view to effecting a gradual depreciation in real effective terms. Moreover, in 1986 commercial banks were allowed to quote their own rates using the central bank rate as a guide. The dinar came under increasing pressure in 1988 and it was allowed to float in October 1988. On February 8, 1989 the Central Bank unified the central bank and commercial bank rates at JD 1 = US$1.852. In late May 1989 the dinar was pegged to a basket comprising the five currencies of the SDR basket with the weight of each of these currencies reflecting its importance in Jordan's external transactions. The dual exchange rate system was formally established on July 31, 1989 at which time the official rate (applying to central bank and about 15 percent of commercial bank transactions) was JD 1 = US$1.726 and the commercial bank rate (applying to all other transactions of the commercial banks) was JD 1 = US$1.124. On February 17, 1990 the official and commercial bank rates were unified at JD 1 = US$1.486. Following the start of the regional crisis, a parallel market rate had emerged, which in November 1990 was nearly 10 percent more depreciated than the official rate. The parallel rate disappeared shortly following the end of the crisis. At end-September 1991, the exchange rate was JD 1 = US$1.456.

VI. Article IV Consultations

The 1990 Article IV consultations were concluded by the Board on June 26, 1991. Jordan is on the standard 12-month cycle.

VII. Technical Assistance

During the last several years, extensive technical assistance has been provided to Jordan. This included assistance in the use of computing facilities by the Bureau of Computing Services that fielded missions for that purpose in 1985, 1988, and 1990. Similarly, the Fiscal Affairs Department has provided technical assistance in the areas of financial reporting, sales taxation, procedures for budget preparation and execution, and reform of the tax system. This assistance took the form of several staff missions and the assignment of experts. In addition, a staff member of the Statistics Department visited Jordan in 1987 to assist the authorities in reviewing the national accounts methodology.

Since the adoption of a Fund-supported adjustment program in 1989, technical assistance provided by the Fund had been concentrated in two areas: tax reform and the computerization of external debt statistics. A FAD mission visited Amman in July 1989 to make recommendations regarding the reform of the tax system, particularly with respect to improving its elasticity; the mission's final report was submitted to the authorities in November 1989. The mission examined the three main components of the tax system: taxes on income and profits; consumption taxes; and customs tariff duties. Specific recommendations were made in each of these areas to widen the tax base and improve elasticity. In the area of income taxes, the mission recommended, among other things, reduction of deductions and exemptions, simplification of the corporate tax structure and introduction of a minimum tax on sales of companies. Regarding the consumption taxes, the mission recommended the replacement of various specific rates with ad volorem rates, widening of the consumption tax base by adding items to it, and preparing for the replacement of the existing consumption tax by a general sales tax. With respect to customs duties, the mission worked within the confines of the on-going tariff reforms that had been agreed with the World Bank. Among the recommendations were a conversion of the specific rates into ad volorem, simplification of the customs tariff schedule and reduction in exemptions. As had been mentioned in the staff report, the authorities acted promptly on several of the mission's recommendations. The direct tax base was widened by reducing exemptions and deductions, simplifying the corporate tax structure, and imposing a minimum tax on banks, finance and insurance companies. Furthermore, a number of specific excise taxes and import duties were converted into ad volorem; the base of the consumption tax was widened; and the tariff schedule was simplified considerably.

The authorities requested further technical assistance from the Fund to help in laying the groundwork for the introduction of a general sales tax, and a fiscal mission visited Amman in June 1990 for that purpose. The mission's final report was submitted to the authorities in February 1991. The mission proposed the introduction of a consumption tax that would cover all manufacturing production and imports, with a few exceptions; that it be applied at equal rates to locally-produced goods and their competing imports; and that the number of rates be confined to a maximum of three ad volorem rates with the exception of the rates on the traditionally excisable goods which could remain specific. The authorities have now committed to the introduction of a general sales tax by January 1, 1993 at the latest. Furthermore, they have committed to put in place all the necessary procedural, institutional, and administrative arrangement, and submit to parliament, if necessary, legislation for the introduction of such a tax by June 1992.

A mission from the Bureau of Computing Services also visited Amman in June 1990 to make recommendations regarding the computerization of external debt statistics. The responsibility of the collection and reporting of external debt statistics in Jordan had been assumed by the Ministry of Finance since 1989. The mission's recommendations included the installation of personal computers and appropriate programs intended to transform what was a manually intensive paper-based loan management capability into an automated capability. A plan of action was also proposed for the external debt management area. Despite delays resulting mainly from disruptions caused by the regional crisis, progress had been made in implementing the mission's recommendations. Personal computers were acquired for the external debt unit in the Ministry of Finance and personnel were trained in using them. The authorities feel that they now have the basic automation requirements necessary for the preparation of the necessary documentation for the debt rescheduling exercises.

Regarding requests for future technical assistance, the authorities have indicated that they might request Fund/Bank technical assistance in the area of tax reform with the aim of minimizing the adverse effects of the tax system on production incentives. The authorities might also seek technical assistance from the Fund in the area of budgeting and expenditure control. Technical assistance had also been requested from the World Bank in the area of National Income Accounts.

Jordan: Bank Group Strategy and Operations 1/

As of September 30, 1991, Jordan had received 31 Bank loans and 15 IDA credits totalling US$989.3 million (net of cancellations and terminations). All the credits and 14 loans have been fully disbursed. Repayments of these loans have totalled US$209.2 million. Project implementation and disbursement performance have been satisfactory. Indeed, in recent years disbursements have amounted to more than 80 percent of appraisal estimates, which is generally higher than the average of the EMENA region. IFC has made loans and equity investments in Jordan with total commitments of US$99 million (including about US$50 million in syndications).

In the post-Gulf crisis era, the medium-term objective of Bank strategy is to assist the Government in restoring the country's creditworthiness and to launch the economy on a sustainable growth path. Toward this end, a joint Bank/IMF mission visited Jordan in September/October 1991 to (a) develop, jointly with the IMF and the Jordanian Government, a macroeconomic framework; and (b) obtain agreement with the Government on the remaining actions required for the second tranche release of the Industry and Trade Policy Adjustment Loan (ITPAL). The joint mission succeeded in meeting both objectives. A new stand-by arrangement is being proposed for approval by the Fund's Executive Board. The Government also agreed to implement the specific tariff reform conditions for the release of the second tranche.

In light of recent developments, as soon as a comprehensive macroeconomic program is in place, an appropriate level of lending consistent with the Bank's exposure policies would resume. In particular, project processing for the proposed Energy Sector Adjustment, the Transport III, and an Agricultural Sector Adjustment Loan projects would begin. One important component of this program, namely the mobilization of resources at highly concessional terms to close the fiscal gap, still remains to be worked out. The Jordanian Government has requested that the Bank organize a possible Consultative Group meeting on its behalf to secure the necessary financing. The ASAL and ESAL would support reform in other key areas of the economy and further promote growth. To help the Government diversify its export base, an Industrial Exports Project is envisaged as a follow-up to the ITPAL and would be aimed at helping the Government expand export-oriented industries.

The Bank's lending in the human resources area would be designed to help the Government deal with the unemployment problem that has been exacerbated due to the recent massive influx of returnees and refugees. In addition, a proposed health project would support the start of a comprehensive reform of the health sector, as well as the continuation of

---

1/ Prepared by Bank staff.

maternal and child health care and birth spacing activities. Finally, through the recently approved Social Development Project, the Bank would help the Government in its efforts to protect the poor during the adjustment period.

The Government of Jordan has requested technical assistance in the case of Public Sector Administrative Reform; Build, Operate, and Transfer (Telecommunications and Energy Sectors) and Tax Reform. Our future economic and sector work would be designed with a view to assist the Government in these areas.

At the end of September 1991, the Bank Group's share in Jordan's total external public debt was 7.3 percent, and its share in debt service was 7.2 percent. In FY91, gross disbursements amounted to US$42 million, while net disbursements were minus US$17 million. Net transfers for the year were minus US$61 million.

Jordan: Financial flows with IBRD and IDA, 1986-91

(In millions of U.S. dollars)

Fiscal Years	1986	1987	1988	1989	1990	1991
IBRD (net)	68.9	74.3	43.9	14.6	79.5	-15.8
Disbursements	81.6	93.6	77.9	55.3	127.4	42.2
Amortization	12.8	19.5	34.1	-40.7	47.9	57.9
IDA (net)	-0.8	-0.9	-0.9	1.0	-1.2	-1.1
Disbursements	--	--	--	--	--	--
Amortization	-0.8	-0.9	-0.9	1.0	-1.2	1.1
Total loans (net)	67.9	73.3	42.9	13.3	78.3	-16.9
Interest payments						
IBRD	13.3	26.3	48.2	32.5	34.9	43.4
IDA	0.6	0.6	0.6	0.6	0.7	0.6
Total interest	13.9	26.9	48.8	33.1	35.6	44.0

Source: The World Bank.