FOR AGENDA

EBS/89/113

CONFIDENTIAL

June 2, 1989

To: Members of the Executive Board

From: The Acting Secretary

Subject: *Jordan - Staff Report for the 1989 Article IV Consultation and Request for Stand-By Arrangement*

Attached for consideration by the Executive Directors is the staff report for the 1989 Article IV consultation with Jordan and its request for a stand-by arrangement equivalent to SDR 60 million, which will be brought to the agenda for discussion on a date to be announced. Draft decisions appear on page 39.

Mr. El-Khouri (ext. 6557) or Mr. Sassanpour (ext. 6763) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

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INTERNATIONAL MONETARY FUND

JORDAN

Staff Report for the 1989 Article IV Consultation and Request for Stand-By Arrangement

Prepared by the Middle Eastern Department and the Exchange and Trade Relations Department in Consultation with the Fiscal Affairs Department

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

May 31, 1989

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I. Introduction

The 1989 Article IV consultation discussions with Jordan, together with discussions on an adjustment program to be supported by a stand-by arrangement, were held in Amman during the period March 28-April 14, 1989. 1/ The last Article IV consultation discussions with Jordan were held in March 1988 and the staff report (SM/88/111) was considered by the Executive Board on June 20, 1988. On that occasion, Directors advocated an early implementation of a comprehensive adjustment program to respond to reduced external receipts, including measures to tighten demand management through budgetary restraint, and promote export-led economic growth based on improved resource allocation.

In the letter of intent, dated April 13, 1989 (Appendix II, Attachment), the authorities have requested an 18-month stand-by arrangement in an amount of SDR 60 million, equivalent to an annual access of 55 percent of Jordan's quota of SDR 73.9 million. They have also requested a drawing under Section 2 of the compensatory and contingency financing facility (CCFF) in regard to which a separate paper is being circulated to the Executive Board.

There will be six purchases under the proposed stand-by arrangement; the first purchase of SDR 18.5 million, equivalent to the first credit tranche, is to be effected upon Board approval. Subsequently, one purchase of SDR 8.3 million is anticipated in 1989, and four equal quarterly purchases of SDR 8.3 million are anticipated in 1990. The purchases that are to be effected in the first and third quarters of 1990 are contingent on the successful completion of the first and the second reviews of the program, respectively, as well as on the meeting of the quantitative performance criteria for the end of the preceding periods. When the stand-by expires in December 1990, and assuming that all the purchases are effected, net Fund credit outstanding will be SDR 76.7 million (103.8 percent of quota). Of this amount, 81.2 percent of quota will be under the tranche policies and 22.6 percent of quota on account of the CCFF 2/ (Table 1). Jordan continues to avail itself of the transitional arrangements of Article XIV. A summary of the Fund's relations with Jordan is given in Appendix III.

1/ The mission comprised Messrs. Yaqub (Head), El-Khouri, Sassanpour, Sisson (all MED), Ms. Kirmani (ETR), Mr. Bayoumi (RES), and Ms. Campayne (Secretary-LEG). Mr. Hashimoto of the World Bank also participated in the mission work. Messrs. Shaalan and Yaqub visited Amman during the period May 15-18, 1989 for the purpose of reviewing with the new cabinet, which was formed in late April, the contents of the understanding that was reached with the previous government.

2/ Jordan made use of Fund resources in January 1985 in the upper tranche of the compensatory financing facility under the Decision on Compensatory Financing of Fluctuations in the Cost of Cereal Imports; the purchase was equivalent to SDR 57.4 million, or 78 percent of quota.

Table 1. Jordan: Fund Position During Period of Proposed Stand-By Arrangement, 1989-90

	Outstanding at Feb. 28, 1989	1989 Apr.-June	1989 July-Sept.	1989 Oct.-Dec.	1990 Jan.-March	1990 Apr.-June	1990 July-Sept.	1990 Oct.-Dec.
					(In millions of SDRs)			
Transactions under tranche policies	--	--	18.5 1/	8.3	8.3	8.3	8.3	8.3
Compensatory and contingency financing facility (net)	28.7	-7.2	9.5	-7.2	-7.2	--	--	--
Purchases		(--)	(16.7) 2/	(--)	(--)	(--)	(--)	(--)
Repurchases		(-7.2)	(-7.2) 2/	(-7.2)	(-7.2)	(--)	(--)	(--)
Total Fund credit outstanding (end of period)	28.7	21.5	49.5	50.6	51.8	60.1	68.4	76.7
Under tranche policies	(--)	(--)	(18.5)	(26.8)	(35.1)	(43.4)	(51.7)	(60.0)
Under CCFF	(28.7)	(21.5)	(31.0)	(23.8)	(16.7)	(16.7)	(16.7)	(16.7)
					(As percent of quota)			
Total Fund credit outstanding (end of period)	38.8	29.1	67.0	68.5	70.1	81.4	92.6	103.8
Under tranche policies	(--)	(--)	(25.0)	(36.3)	(47.5)	(58.8)	(70.0)	(81.2)
Under CCFF	(38.8)	(29.1)	(42.0)	(32.2)	(22.6)	(22.6)	(22.6)	(22.6)

1/ First credit tranche.
2/ Purchase assumed to be made before July 23 when the repurchase is due.

The World Bank staff is negotiating with the Jordanian authorities an industry and trade policy adjustment loan of US$150 million, and cofinancing is being sought from the Government of Japan. There has been close cooperation between the Fund and World Bank staffs in the case of Jordan, including participation in each other's missions. Relations between Jordan and the World Bank are summarized in Appendix IV.

The quality of Jordan's economic and financial data is generally good and the authorities have recently taken steps to enhance it further, particularly in the area of external debt. Statistical issues are reviewed in Appendix V.

II. Background and Recent Economic Developments

1. Background

Jordan has a relatively diversified production base and an outward-looking economy. The private sector plays an active role in most aspects of production, distribution, and trade, with the role of the public sector being confined mainly to the provision of basic services and infrastructure. The Jordanian economy is highly dependent on developments in the region as the neighboring oil producing countries are the principal source of foreign grants and provide the main market for Jordan's exports of goods and skilled labor. Prior to the mid-1980s, Jordan enjoyed a prolonged period of rapid economic growth and relative financial stability as the regional economic boom led to substantial inflows of external grants and private remittances. At their peak in 1979, external grants accounted for 54 percent of budgetary receipts and, together with remittance flows, constituted 58 percent of external current account receipts. During the period 1974-82, the average real economic growth rate exceeded 10 percent, real investment more than quadrupled, real per capita income almost doubled, budgetary and balance of payments positions were comfortable, and foreign exchange reserves were built up substantially. At the same time, heavy investment by the Government in social facilities improved education and health and social services, and the development of infrastructure facilitated increased private sector activity.

2. Recent economic developments

Since about the mid-1980s, Jordan's economic and financial performance has been adversely affected by the prolonged recession in the region which, together with other regional developments, had the effect of reducing the flows of official and private transfers and limiting export growth. These factors contributed to a slackening of economic activity and brought to surface the underlying weakness in the budget and the balance of payments which had relied to a significant extent on external receipts. Real GNP growth averaged 1.5 percent per annum between 1983 and 1987 (Table 2 and Chart 1) as the agricultural sector was adversely affected by drought conditions in 1984 and 1986 and industrial and construction sectors by slackness in demand from the regional recession.

Table 2. Jordan: Selected Indicators

I. Social and Demographic Indicators

Area	Population	Density
97.7 thousand sq. km	3.0 million Rate of growth (1979-88): 3.9 percent per annum	31 per sq. km

GNP per capita (1988)

US$1,666

Population characteristics

Life expectancy at birth (years)	65
Crude birth rate (per thousand)	39
Crude death rate (per thousand)	7
Infant mortality rate (per thousand)	51

Age structure:	(Percent)
Under 14	50
15-64	48
over 65	2
Urban	72
Rural	28

Access to safe water and electricity

Water: 97 percent of population
Electricity: 77 percent of dwellings

Nutrition

Per capita supply of:	
Calories (per day)	2,968
Proteins (grams per day)	78

Health

Population per physician (thousand)	1.5
Population per hospital bed (thousand)	1.1

Education

Enrollment rate:	
Primary	99
Secondary	79
Pupil-teacher ratio:	
Primary	31
Secondary	18

II. Selected Economic and Financial Indicators, 1983-90

	Actuals					Prel. Actuals	Program Proj.	Program Targets
	1983	1984	1985	1986	1987	1988	1989	1990
	(Annual changes in percent)							
National income and prices								
Real GDP	5.7	2.3	5.6	5.4	3.2	-3.5	--	3.4
Real GNP	3.4	1.4	--	4.6	-1.7	-4.0	1.0	2.6
Nominal GDP	7.7	5.3	7.2	2.1	2.8	1.0	14.0	15.6
GDP deflator	1.9	3.0	1.5	-3.1	-0.4	4.6	14.0	11.8
External sector								
Exports, f.o.b.	-22.7	30.5	4.2	-7.2	27.3	10.1	5.4	16.0
Imports, c.i.f.	-6.3	-8.3	-2.2	-11.0	11.2	1.7	-4.7	3.8
Workers' remittances (net)	0.3	8.1	-20.0	19.3	-19.6	-0.7	0.5	6.6
Unrequited transfers	-23.3	-10.6	10.1	-14.9	-13.5	6.3	-33.8	-8.9
Real effective exchange rate 1/	-4.5	4.2	-7.0	-6.1	-14.3	-21.4	--	--
	(In percent of GDP)							
National income								
Consumption	119.2	116.8	112.5	103.0	103.3	103.3	101.5	96.8
Gross fixed investment	35.3	32.4	29.5	28.0	26.4	26.1	25.6	25.8
Net exports of goods and nonfactor services	-55.1	-49.3	-43.0	-32.5	-29.7	-29.4	-27.1	-22.6
Domestic saving	-19.2	-16.8	-12.5	-3.0	-3.3	-3.3	-1.5	3.2
Government budget								
Total revenue (excluding grants)	28.2	27.7	27.4	31.4	31.5	31.8	29.6	31.6
Foreign grants	13.8	7.1	11.7	8.8	7.6	7.3	8.2	6.7
Total expenditure and net lending	46.8	44.2	46.1	49.5	50.8	53.7	49.2	48.2
Overall deficit 2/ (excluding grants)	-18.5	-15.5	-21.9	-14.6	-25.2	-23.7	-19.6	-16.6
Overall deficit 2/ (including grants)	-4.7	-8.5	-10.2	-5.8	-17.6	-16.4	-11.4	-9.9
Foreign financing (net)	4.3	5.7	7.8	5.2	0.4	0.8	3.4	...
Domestic bank financing (net)	0.4	2.0	1.4	1.5	16.9	15.6	7.5	...

Table 2. Jordan: Selected Indicators (concluded)

	Actuals 1983	1984	1985	1986	1987	Prel. Actuals 1988	Program Proj. 1989	Program Targets 1990
	(Changes in percent of beginning stock of money and quasi-money)							
Money and quasi-money	15.1	8.8	6.7	10.5	14.5	11.9	11.3	10.7
Foreign assets (net)	2.7	-3.9	1.4	1.6	-2.5	-2.0	2.3	1.7
Domestic assets (net)	12.4	12.8	5.3	8.9	17.0	13.9	9.0	9.0
Of which: Claims on Government (net)	0.3	1.8	1.3	1.3	13.7	11.0	5.5	...
Claims on private sector	11.5	8.5	3.7	5.3	2.4	4.0	5.1	...
Blocked account	--	--	--	--	--	--	-3.1	...
	(In percent of GNP)							
National income								
Consumption	95.8	94.5	96.0	88.0	93.2	94.3	92.2	88.4
Gross fixed investment	28.4	26.2	25.1	24.0	23.9	23.9	23.5	23.7
Gross national savings	4.2	5.5	4.0	12.0	6.8	5.7	7.8	11.6
External sector								
Current account (deficit -)	-8.0	-5.6	-5.3	-0.8	-6.3	-5.6	-4.6	-2.7
Overall balance (deficit -)	1.4	-5.8	3.2	2.4	-0.9	-9.7	-15.9	-13.9
External debt 3/	46.2	50.6	62.5	61.8	66.7	159.0	207.3	197.9
	(In millions of U.S. dollars unless otherwise specified)							
Trade balance (deficit-)	-2,456	-2,027	-1,933	-1,692	-1,762	-1,715	-1,530	-1,456
Current account (deficit-)	-390	-271	-254	-46	-349	-282	-181	-116
Overall balance (deficit-)	70	-278	153	133	-51	-487	-632	-590
External debt 3/	2,254	2,443	2,985	3,391	3,676	7,982	8,244	8,345
Debt service payments 4/	220	323	331	479	734	861	1,263	1,426
(As percent of exports of goods and services)	(7.2)	(9.8)	(10.6)	(15.5)	(22.8)	(25.3)	(36.2)	(37.8)
Gross official reserves 5/	823.9	514.6	421.7	435.5	422.8	109.5	207.8	292.0
(In months of imports)	(3.3)	(2.2)	(1.9)	(2.2)	(1.9)	(0.5)	(1.0)	(1.3)

Sources: The Jordanian authorities; the World Bank Group; and staff estimates.

1/ December averages; depreciation (-).

2/ Includes discrepancy between the financing items and the budgetary accounts presumably representing extrabudgetary expenditures in 1987-88 as well as adjustment from a commitment to a cash basis in previous years.

3/ Represents outstanding disbursed medium- and long-term government and government-guaranteed debt except loans for military and revolving oil credits for 1983-87; outstanding disbursed and undisbursed medium- and long-term government and government-guaranteed debt for 1988; and staff projections for 1989-90. Data for 1988-90 are not comparable with data for previous years because of the difference in coverage.

4/ Based on partial debt data for 1983-88; and staff projections for 1989-90 including new project loans and exceptional financing to cover balance of payments gaps. Data for 1989-90 are not comparable with data for previous years because of the difference in coverage.

5/ Excluding gold and claims on the Central Bank of Iraq.

The immediate policy responses to slackening economic conditions were to redress the sectoral difficulties. In the agricultural sector, a system of production licensing and subsidies was introduced in 1985 to reduce the output of crops which had faced marketing difficulties abroad. In addition, production was supported by highly subsidized inputs, and self-sufficiency in cereals was encouraged by offering high procurement prices to farmers. In the industrial sector, import substitution was encouraged through quantitative restrictions on imports, increased tariff rates, and exemption of duty on imports of certain raw materials and intermediate goods. In addition, tax concessions and other incentives were offered to private investors, and a number of bilateral trade agreements were concluded involving exports of a variety of industrial products. Nevertheless, gross fixed investment declined substantially in real terms, with the investment/GDP ratio falling to 26 percent in 1987 from 35 percent in 1983. Moreover, even the declining level of investment was financed mainly by remittance and capital inflows as domestic savings continued to be negative throughout the period, primarily due to the substantial dissaving of the public sector. The slow pace of economic activity at home, and reduced employment opportunities abroad, led to a rise in the unemployment rate to about 8 percent in 1987. However, reflecting slack demand conditions and declining import prices, the rate of increase in consumer prices decelerated gradually from over 7 percent in 1982 to 3 percent in 1985; consumer prices remained virtually stable in the following two years. It may be noted that domestic prices are generally market determined, except for a few essential commodities the prices of which are controlled for social considerations. 1/

In the area of macroeconomic policies, the Government continued to boost aggregate demand through high public sector expenditures in spite of the decline in availability of external grants. Total expenditure increased from 44 percent of GDP in 1984 to 51 percent in 1987, primarily due to larger outlays on wages and salaries, transfers, and rapidly rising interest payments on public debt. Improvements in revenue from 28 percent of GDP to 32 percent during the same period were inadequate in relation to the rise in expenditure; as a result, the overall budget deficit (excluding foreign grants as revenue) rose from 16 percent of GDP in 1984 to 25 percent in 1987. The deficits were initially financed by foreign borrowing; such borrowing covered more than three fourths of the budget deficit during 1985-86. In 1987, the budget deficit was financed largely by recourse to domestic bank borrowing which amounted to about 17 percent of GDP as compared with less than 2 percent during 1983-86.

Prior to 1987, when government bank borrowing was limited, the growth of domestic liquidity (money plus quasi-money) was mainly accounted for by increases in credit to the private sector. The expansion of bank credit to the private sector slowed down from

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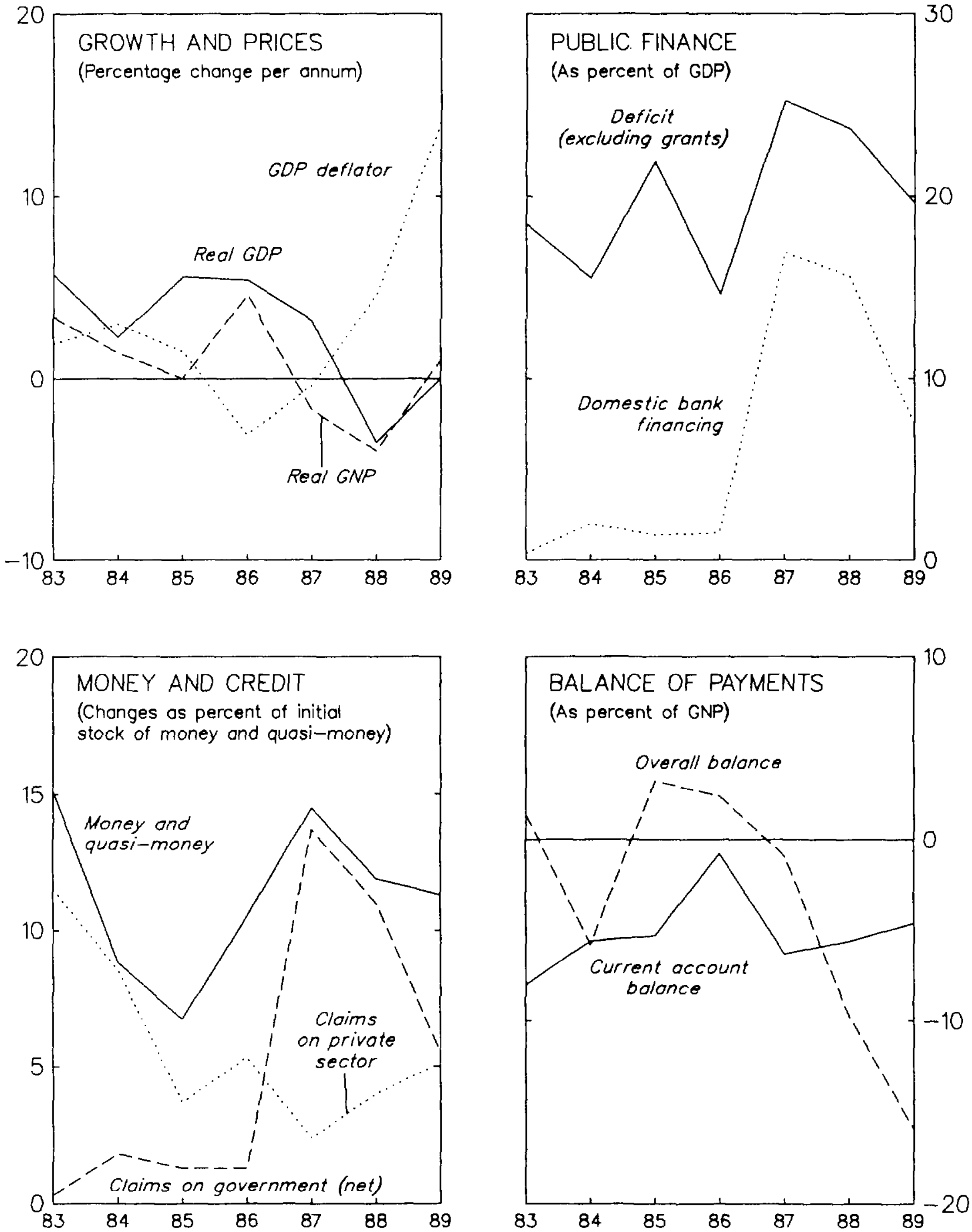
1/ These are: bread, barley, sugar, rice, maize, chickpeas, lentils, milk, meat, and olive oil.

CHART 1
JORDAN
SELECTED ECONOMIC INDICATORS, 1983–89



Source: Table 2.

19 percent in 1983 to 6 percent in 1985 reflecting domestic recessionary conditions, and contributed to a deceleration in the rate of liquidity expansion from 15 percent to 7 percent during this period. However, in order to stimulate private sector economic activity the Government took a number of measures in 1986 to ease credit policy, including increases in Central Bank advances to commercial banks, reductions in reserve requirements, a lowering of lending rates, and measures to encourage bank lending for export financing. Accordingly, domestic liquidity increased by 11 percent in 1986. The rising trend in credit to the private sector was reinforced by a substantial increase in net government borrowing from the domestic banking system in 1987 with the result that domestic liquidity increased by 15 percent in 1987 despite a contractionary impact of the external sector.

In the external sector, the exchange rate policy was used to encourage economic diversification and enhance external competitiveness. Although the Jordan dinar has been formally pegged to the SDR at a rate of JD 1 = SDR 2.579 within margins of 2.25 percent since early 1975, the rate was allowed to move within a wider margin from late 1984 with a view to effecting a gradual depreciation in real effective terms (Chart 2). Moreover, in 1986 commercial banks were allowed to quote their own rates using the Central Bank rate as a guide. Similarly, moneychangers freely quoted their rates, which were typically about 10 percent more depreciated than the commercial bank rates. After fluctuating within a fairly narrow band during 1983-84, the official rate of the dinar was depreciated by 25 percent in real effective terms during 1985-87.

Despite improved competitiveness, the growth of export receipts remained limited due to the shrinking regional market as well as the weakening of foreign prices for Jordan's principal exports (phosphate, potash, and fertilizers). In the circumstances, exports were supported by special trade and credit arrangements, including an agreement with Iraq which led to a sizable build up of claims in favor of Jordan. As regards remittances of Jordanian workers abroad, which had peaked at over US$1.2 billion in 1984, these declined by one fourth during 1985-87 reflecting the reduced employment opportunities and lower wages in the region. Moreover, official grants declined by one fourth while interest payments on foreign debt more than doubled between 1983 and 1987. Nevertheless, the external current account deficit declined steadily from 10 percent of GDP in 1983 to 1 percent in 1986, reflecting mainly a 20 percent reduction in imports following the decline in the world oil prices. However, this improvement proved to be temporary as the current account deficit widened to 7 percent of GDP in 1987 attributed mainly to a partial recovery of international oil prices and a substantial decline in workers' remittances and in private unrequited transfers.

The current account deficits in the last 3-4 years were financed largely by recourse to foreign borrowing, a substantial part of which was on commercial terms. As a result, the outstanding external debt increased sharply and the debt service ratio (excluding military debt) more than tripled to 23 percent between 1983 and 1987. Despite increased foreign borrowing, gross official reserves (excluding gold and claims on the Central Bank of Iraq), which were equivalent to more than three months of imports in 1983, declined by one half in absolute terms between end-1983 and end-1987.

3. Economic and financial situation in 1988

The economic and financial conditions continued to deteriorate in 1988. In the real sector, real GDP and real GNP contracted by 3.5 percent and 4.0 percent, respectively, as all sectors except agriculture and government services recorded negative growth rates. Investment declined in real terms and domestic savings continued to be negative at about 3 percent of GDP. The unemployment rate reached about 10 percent of the labor force. After two years of virtual price stability, consumer prices rose by 3.2 percent in 1988 as a whole; however, in the second half of the year, prices rose by 14 percent reflecting the impact of the sharp depreciation of the dinar in this period and the lagged effect of liquidity expansion.

The fiscal stance remained expansionary with the result that the overall budget deficit excluding grants remained high at about 24 percent of GDP and that including grants at about 16 percent. Expenditure on wages and salaries, interest payments, and transfers grew rapidly, while revenue performance improved only marginally. As in 1987, the deficit was financed mainly by domestic bank borrowing amounting to the equivalent of 16 percent of GDP. Despite a tightening of credit policy during the second half of 1988, the Government's substantial recourse to domestic bank borrowing was the main reason for an increase in the net domestic assets of the banking system equivalent to about 14 percent of the beginning period stock of money and quasi-money. The expansionary impact on domestic liquidity of the increase in net domestic assets was partly offset by a decline in net foreign assets with the result that domestic liquidity increased by about 12 percent.

As regards the balance of payments, while exports increased due to a higher demand for Jordan's traditional exports, imports also rose with the result that the trade deficit declined only marginally to about US$1.7 billion. The current account deficit also declined from US$350 million to about US$280 million as lower remittance receipts and increased net interest payments were offset by higher private unrequited transfers and receipts from other services. The capital account registered a much smaller net inflow than in the past as a result of sharply higher amortization payments; total debt service payments (excluding military debt) amounted to US$0.9 billion in 1988, equivalent to about 25 percent of current receipts. As a result, the overall balance of payments recorded a deficit of US$487 million which was financed mainly by a drawdown of official reserves to the equivalent of about two weeks of imports at end-1988; in addition external payments arrears began to emerge by the end of 1988. As a result of these developments, the exchange rate came under considerable pressure. The uncertainties following the Government's decision in July to sever economic and political ties with the West Bank also contributed to the pressure on the dinar. The deteriorating economic and financial conditions prompted the authorities to take a number of corrective measures late in 1988 (see the following section), which had only a limited impact on the outcome for 1988.

III. Main Elements of Adjustment Policies

Toward the end of 1988, the authorities became increasingly aware that a strong and comprehensive adjustment effort on a sustained basis was required, since indications were that the adverse external conditions were unlikely to be reversed fully and that the prospects for the resumption of high levels of external grants were not promising. It also became evident that, given the magnitude of economic and financial problems facing Jordan, domestic effort alone would not be sufficient to correct the underlying structural imbalances. Moreover, it began to be recognized that Jordan could not maintain orderly external financial relations without debt rescheduling and exceptional external financing for the next several years. Accordingly, the authorities decided to adopt a medium-term strategy to address the internal and external financial imbalances through domestic effort and seek exceptional international support, and in this context approached the Fund and the Bank for technical and financial assistance.

1. Medium-term framework of adjustment

The authorities, in collaboration with the staff, have prepared macroeconomic projections for 1989-93 with and without additional policy adjustment. 1/ It was clearly evident from these projections that, in the absence of substantive additional policy measures, the country would continue to experience low growth in real output, declining investment and a high level of consumption, a fast rate of monetary expansion, and an intensification of inflationary and balance of payments pressures (Appendix I, Table 11). With imports being more than twice the level of exports, and with debt servicing absorbing a large proportion of foreign exchange receipts, the balance of payments management without comprehensive reforms and international financial support would have meant import compression, intensification of restrictions, risk of default on external debt, and exchange rate instability.

Faced with this prospect, the authorities have adopted a medium-term, growth-oriented, macroeconomic adjustment strategy to address the structural weaknesses in the budget and the balance of payments and to facilitate the achievement of sustainable growth. The major objectives to be attained during the 1989-93 period include the restoration and

1/ For technical details on the macroeconomic framework, see an appendix to the report on Recent Economic Developments, to be issued shortly.

steady recovery of economic growth to about 4 percent by 1991; a lowering of the inflation rate to less than 7 percent by 1993 from 14 percent in 1989; and the elimination of the external current account deficit (including foreign grants) by 1993 (Table 3).

The achievement of sustainable growth over the medium term would require the establishment of a policy framework that provides appropriate incentives for increased investment and savings by the private sector, which is expected to be the main engine of economic expansion. Moreover, the investment level would need to be increasingly financed by domestic savings which are expected to improve from a dissaving equivalent to 3 percent of GDP in 1988 to a saving rate of 8 percent by 1993. A significant decline in public sector dissaving would contribute to a stable financial environment within which private savings could grow. The intention is to eliminate government dissaving by 1993 through fiscal reforms that raise domestic revenue to the level of current expenditure. Moreover, the budget deficit excluding grants would be gradually lowered from 24 percent of GDP in 1988 to 9 percent in 1993. Measures would need to be implemented to reduce total government expenditure from 54 percent of GDP in 1988 to 46 percent in 1993, and to increase total revenue from 32 percent of GDP to 36 percent during the same period. This would reduce the reliance of the budget on the domestic banking system which, in combination with a tight credit policy, would lead to a decline in the rate of liquidity expansion to a level consistent with the inflation target.

The medium-term balance of payments 1/ objective would be to steadily improve the current account (including grants) from a deficit equivalent to 6 percent of GDP in 1988 to a balanced position by 1993. Comprehensive export-promoting policies would need to be pursued to increase exports at an annual rate of 11 percent over the period 1989-93, while the growth of imports would be limited to 4 percent per annum. As a consequence, the trade deficit is expected to decline from 37 percent of GDP in 1988 to 33 percent in 1993. This improvement, together with a projected 5 percent annual increase in remittance inflows and higher tourist receipts, should help achieve a balanced current account position by 1993 despite high debt service payments and declining official transfers projected over the period.

1/ For further details see Sections 2.e. (1) and 2.e.(2) on balance of payments projections.

Table 3. Jordan: Medium-Term Scenario With Policy Adjustment, 1988-93

	Prel. Actuals 1988	Projection 1989	Targets 1990	1991	1992	1993
			(Percentage change per annum)			
Growth and inflation						
Real GDP	-3.5	--	3.4	3.9	4.0	4.0
Real GNP	-4.0	1.0	2.6	4.7	5.4	5.1
GDP deflator	4.6	14.0	11.8	9.5	7.8	6.5
			(In percent)			
Distribution of GDP						
Consumption	103.3	102	97	95	93	92
Investment	26.1	26	26	26	26	27
Private	12.5	15	15	15	15	16
Government	13.7	11	11	11	11	11
Net exports of goods and nonfactor services	-29.4	-27	-23	-21	-20	-18
Domestic saving	-3.3	-2	3	5	7	8
			(In percent of GDP)			
Government budget						
Total revenue and grants	39.1	38	39	40	40	40
Revenue	31.8	30	32	34	35	36
Foreign grants	7.3	8	7	6	4	3
Total expenditure	53.7	49	48	48	47	46
Deficit (excluding grants)	-23.7	-20	-17	-14	-11	-9
Deficit (including grants)	-16.4	-11	-10	-8	-7	-6
Foreign financing (net)	0.8	3	3	3	2	1
Domestic financing (net)	15.6	8	7	5	5	5
Bank	15.6	7	6	4	4	4
Nonbank	--	1	1	1	1	1
			(In percent of GDP)			
Balance of Payments						
Trade balance (deficit -)	-37.4	-42.6	-37.8	-35.7	-34.3	-32.6
Workers' remittances	19.7	24.4	24.0	23.9	24.0	24.1
Unrequited transfers	13.6	11.5	9.8	8.2	6.5	5.0
Current account balance (deficit -)	-6.2	-5.0	-3.0	-2.0	-1.0	--
Overall balance (deficit -) 1/	-10.6	-17.6	-15.3	-12.2	-10.0	-9.1
Exceptional financing	--	20.3	17.5	14.0	11.5	10.5
			(Percentage change per annum)			
Exports, f.o.b.	10.1	5.4	16.0	10.1	11.5	11.6
Imports, c.i.f.	1.7	-4.7	3.8	5.7	7.4	7.2
Remittances (net)	-0.7	0.5	6.6	8.8	9.3	9.3
Travel (net)	4.4	117.7	7.8	7.6	7.3	7.6
Unrequited transfers	6.3	-33.8	-8.9	-10.1	-14.5	-16.6
			(In millions of U.S. dollars)			
Reserves	109.5	207.8	292.0	369.0	436.0	503.0
(In months of imports)	(0.5)	(1.0)	(1.3)	(1.5)	(1.7)	(1.8)
Debt service payments 2/	861 3/	1,263	1,426	1,370	1,352	1,418
(In percent of exports of goods and services)	(25.3) 3/	(36.2)	(37.8)	(33.9)	(31.1)	(30.2)
			(Changes as percent of beginning period stock of money plus quasi-money)			
Monetary accounts						
Money and quasi-money	11.9	11.3	10.7	10.4	10.2	9.5
Foreign assets (net)	-2.0	2.3	1.7	1.4	1.2	0.5
Domestic assets (net)	13.9	9.0	9.0	9.0	9.0	9.0
Claims on Government (net)	11.0	5.5	3.5	3.5	3.5	3.5
Claims on private sector	4.0	5.1	6.5	6.5	6.5	6.5
Other items (net)	-1.1	-1.6	-1.0	-1.0	-1.0	-1.0

Sources: The Jordanian authorities; and staff estimates.

1/ Before exceptional financing.
2/ On the basis of the stock of debt at end-1988 and including new project loans and exceptional financing to cover balance of payments gaps.
3/ Excluding military loans and, therefore, not comparable with the subsequent years.

2. Macroeconomic policies to achieve the program targets for 1989 and 1990

In line with the medium-term macroeconomic objectives, the specific targets for 1989 and 1990 are to increase the rate of GDP growth to 3.4 percent by 1990 from negative growth of 3.5 percent in 1988 and no growth in 1989; to lower the inflation rate from 14 percent in 1989 to less than 12 percent in 1990; to reduce the external current account deficit (including grants) from 6 percent in 1988 to 5 percent of GDP in 1989 and 3 percent in 1990; and to gradually rebuild the level of official foreign reserves to about one and a half months of imports by end-1990 compared with two weeks of imports at end-1988. These targets are to be achieved through policies designed to promote private savings, reduce the budget deficit, improve resource allocation, contain monetary expansion, promote exports, remittances, and tourism and limit contraction of new nonconcessional external debt.

a. Policies to promote economic growth and investment

Recovery and expansion in growth is expected to be achieved through increased productivity and a better allocation of resources because the investment/GDP ratio cannot increase much from the existing level of 26 percent due to resource constraint. However, it is expected that, while the ratio of government investment to GDP would decline during the program period, private investment would rise from less than 13 percent of GDP in 1988 to 15 percent in 1989-90. Furthermore, greater reliance would be placed on domestic savings to finance investment; domestic savings equivalent to about 6 percent of GDP would need to be mobilized in the two years. Saving initiatives would involve the private sector as well as the public sector. A significant decline in public sector dissaving envisaged under the program (see Section 2.b. below) would be a major element in achieving the saving objectives. Moreover, financial discipline in the public sector, in combination with flexible interest rate and exchange rate policies, is expected to contribute to the development of a stable financial environment conducive to increased private savings and remittance inflows.

In addition to the adoption of a strong adjustment program which would help restore confidence in the economy, the authorities intend to introduce a number of reform measures to stimulate private saving and investment. The authorities intend to revise, in consultation with the World Bank staff, the Encouragement of Investment Law which, in combination with the existing tariff protection, has created an incentive structure that encourages inefficient import substitution and discriminates against labor-intensive production. Moreover, a rationalization of incentives would require a streamlining of exemptions and simplification of the investment approval process. The Bank has done extensive work on the revision of the investment incentives and tariff reforms and an appraisal mission of the Bank is currently in Amman to reach an understanding on the new structure of incentives and tariffs.

The Bank staff is also engaged in discussions with the authorities on improving the pricing, production, and marketing strategy for agriculture with a view to expanding the market share in the region and penetrating new markets. As mentioned in the background section, the orientation of agricultural policy in Jordan in recent years has been to redirect agricultural production through licensing of the cropped land, encourage production through provision of subsidized inputs, and to support local producer prices through purchases of surplus crops by government agencies. In addition, procurement prices above international prices are being offered to farmers to promote self-sufficiency in wheat. The staff is of the view that attempts to restructure agricultural production through regulation, import subsidization, and price support schemes, beside being a drain on the budget, encourage inefficient allocation of resources. The cropping pattern should reflect Jordan's comparative advantages in agricultural production, with domestic producer prices moving in line with world prices. Similarly, an appropriate input pricing policy is needed to reduce the subsidy element on irrigation water and livestock feed. The Bank has recently completed a study on these and other agricultural policies and is expected to initiate discussion with the Jordanian authorities with the aim of arriving at a specific plan of action relating to the various policy issues in the agricultural sector.

In the industrial sector, the quantitative restrictions on imports which have domestic substitutes have been replaced by high tariffs, in order to expose domestic industries to a fair degree of competition from abroad. 1/ The authorities are also considering other reform measures including rationalization of the tariff regime, institutional arrangements for export promotion, strengthening of industrial support institutions, and introduction of industrial standards. The aim of the tariff reform is to reduce disparities in protection offered to different producing sectors and to remove variations in the tariff rate without adversely affecting government revenue. Institutional export support arrangements under review include the creation of an export credit insurance agency and a better utilization of the export rediscounting facility at the Central Bank. The Government also intends to consider merger of the Industrial Estates Corporation and the Free Zones Corporation with a view to introducing policy reforms to make them operate on an internationally competitive basis. Finally, the authorities are committed to the continued pursuit of liberal and open commercial and trade policies for promoting the industrial sector. The Fund staff is working closely with the Bank staff which has fielded an appraisal mission to reach an understanding on these issues with the authorities.

1/ Excluding 11 luxury goods the imports of which were prohibited in November 1988, the import bans remaining in effect are on tomato paste, fresh milk, mineral water, and table salt. For details see the report on Recent Economic Developments, to be issued shortly.

b. Fiscal policy

The core of the adjustment effort in Jordan lies in raising revenues and containing expenditures so as to reduce the budget deficit to a level that is sustainable without exceptional external financing and without excessive resort to domestic bank borrowing. The enormity of the task becomes apparent from a review of the structure of the budget (Table 4). The level of expenditure is not only high in relation to GDP, but also sharply exceeds domestic revenue. Moreover, a rising proportion of current expenditures is comprised of contractual obligations such as debt servicing and pension payments. The revenue structure, on the other hand, suffers from a number of fundamental weaknesses. Revenue is highly inelastic in relation to nominal GDP due to the narrowness of the tax base, specificity of most rates, loopholes created by exemptions and deductions, and heavy dependence on sources that are either unpredictable (surpluses on oil operations) or shrinking in relation to nominal GDP (imports). Moreover, tax administration is quite lax resulting in a wide gap between the statutory and effective rates. As a consequence of the inelasticity of the system, the Government has to take discretionary revenue measures every year simply to maintain the revenue/GDP ratio.

In late 1988, the Government began to address the budgetary problem in earnest and introduced a number of expenditure-reducing and revenue-enhancing measures as a first step toward a sustained effort at fiscal retrenchment and budgetary reform. Measures to limit expenditure, most of which were incorporated in the context of the 1989 budget, 1/ included: (i) maintaining military expenditure at virtually the same level as in 1988 in nominal terms and restraining other current expenditures; (ii) freezing outlays on new services, furniture and cars, and infrastructure; (iii) reducing appropriations for equipment purchases and travel; (iv) refraining from new projects in infrastructure and from contracting new loans for unproductive projects; and (v) limiting public sector purchases of goods to local products to the extent possible. Revenue measures to strengthen the budget included: (a) a 10 percent tax on sales in luxury restaurants and hotels; (b) a 3 percent tax on airline tickets for travel abroad; (c) a substantial increase in departure taxes; (d) a tripling of annual fees for work permits for foreign workers; and (e) tightening of the procedures for collection of taxes and arrears. In addition, income tax collections and profit transfers were expected to be higher reflecting the increased profitability of major export-oriented corporations following the devaluation of the dinar. The favorable impact of the expenditure restraining and the revenue measures on the budget was, however, largely offset by other factors. Budgetary subsidies on wheat, barley, sugar, rice, and powdered milk, amounting to JD 38 million (2 percent of GDP) emerged in 1989 due to the decision of the Government not to raise their prices following the devaluation of the dinar.

1/ Fiscal year coincides with calendar year.

Table 4. Jordan: Central Government Budgetary Operations, 1983-90

	Actuals					Prel. Actual	Program Proj.	Targets
	1983	1984	1985	1986	1987	1988	1989	1990
			(In millions of Jordan dinars)					
Total revenue and foreign grants	597.6	521.1	628.6	658.1	659.1	665.0	734	859
Revenue	400.6	415.0	440.8	514.4	531.5	541.2	574	709
Tax revenue	(225.8)	(232.2)	(246.6)	(238.0)	(242.4)	(257.2)	(287)	(...)
Nontax revenue	(174.8)	(182.8)	(194.2)	(276.4)	(289.1)	(284.0)	(287)	(...)
Foreign grants	197.0	106.1	187.8	143.7	127.6	123.8 1/	160	150
Total expenditure and lending minus repayments	665.8	663.1	740.4	811.3	857.4	915.1	955	1,081
Current expenditure	453.7	488.1	542.5	570.5	602.7	661.1	745	...
Capital expenditure	176.4	152.5	170.9	199.7	223.1	228.5	202	...
Lending minus repayments	35.7	22.5	27.0	41.1	31.6	25.5	8	...
Discrepancy 2/	-1.7	-14.7	52.0	-58.1	99.8	29.4	--	--
Overall deficit, excluding grants 3/	-263.5	-233.4	-351.6	-238.8	-425.7	-403.3	-381	-372
Overall deficit, including grants 3/	-66.5	-127.3	-163.8	-95.1	-298.1	-279.5	-221	-222
Financing	66.5	127.3	163.8	95.1	298.1	279.5	221	222
Foreign (net)	60.7	85.4	125.0	86.2	7.3	13.3	66	...
Domestic (net)	5.8	41.9	38.8	8.9	290.8	266.2	155	...
Banking system	(3.9)	(29.7)	(22.8)	(24.7)	(284.5)	(266.5)	(145)	(...)
Central Bank	[-6.7]	[5.0]	[13.1]	[22.3]	[131.7]	[292.1]	[...]	[...]
Commercial banks	[10.6]	[34.7]	[9.7]	[2.4]	[152.8]	[-25.6]	[...]	[...]
Nonbank sources	(1.9)	(12.2)	(16.0)	(-15.8)	(6.3)	(-0.3)	(10)	(...)
			(As percent of GDP at market prices)					
Total revenue and foreign grants	42.0	34.8	39.1	40.1	39.1	39.1	37.8	38.3
Revenue	28.2	27.7	27.4	31.4	31.5	31.8	29.6	31.6
Foreign grants	13.8	7.1	11.7	8.8	7.6	7.3	8.2	6.7
Total expenditure and net lending	46.8	44.2	46.1	49.5	50.8	53.7	49.2	48.2
Current expenditure	31.9	32.5	33.8	34.8	35.7	38.8	38.4	...
Capital expenditure	12.4	10.2	10.6	12.2	13.2	13.4	10.4	...
Lending minus repayments	2.5	1.5	1.7	2.5	1.9	1.5	0.4	...
Overall deficit, excluding grants 3/	-18.5	-15.5	-21.9	-14.6	-25.2	-23.7	-19.6	-16.6
Overall deficit, including grants 3/	-4.7	-8.5	-10.2	-5.8	-17.6	-16.4	-11.4	-9.9
Foreign financing	4.3	5.7	7.8	5.2	0.4	0.8	3.4	...
Domestic financing	0.4	2.8	2.4	0.5	17.2	15.6	8.0	...
			(Annual changes in percent)					
Total revenue and grants	6.4	-12.8	20.6	4.7	0.1	0.9	10.4	17.0
Revenue	10.6	3.6	6.2	16.7	3.3	1.8	6.1	23.5
Foreign grants	-1.3	-46.1	77.0	-23.5	-11.2	-3.0	29.2	-6.3
Total expenditure and lending	-1.3	-0.4	11.7	9.6	5.7	6.7	4.4	13.2
Current expenditure	2.4	7.6	11.1	5.2	5.6	9.7	12.7	...
Capital expenditure	-12.1	-13.5	12.1	16.9	11.7	2.4	-11.6	...

Sources: The Jordanian authorities; and staff estimates.

1/ Cash basis.
2/ Reflects the difference between the recorded overall budget deficit and the financing as recorded in the monetary accounts. A positive (negative) discrepancy implies overfinancing (underfinancing) of the budget presumably representing extrabudgetary expenditure.
3/ Includes financing discrepancy.

Similarly, in the absence of a price pass-through of devaluation, the profits from the sale of petroleum products were projected to decline to JD 20 million compared with JD 68 million in 1988, and banning of luxury imports reduced custom receipts by about JD 23 million. In addition, interest payments on external loans rose sharply due to large payments falling due as well as depreciation of the exchange rate, and transfers to pensions were higher due to the early retirement of Jordanian teachers in the West Bank (Appendix I, Tables 12 and 13). After taking into account the discretionary measures and the offsetting factors, the staff estimated during the April mission that, without additional fiscal effort, the budget deficit (excluding grants) at 22.8 percent of GDP for 1989 would be only about 1 percentage point lower than in 1988.

It was recognized that the deficit would need to be reduced further in 1989 if the target of achieving budget viability in the medium term was to be achieved. Accordingly, the authorities implemented additional measures on April 16 with a budgetary impact equivalent to 4.5 percent of GDP on an annual basis and 3 percent of GDP in the remainder of 1989. Revenue measures include (Appendix I, Table 12): (i) increases in domestic petroleum product prices ranging from 11 percent to 33 percent; (ii) an average increase of 25 percent in the tax rate on local and imported cigarettes; (iii) a 40-50 percent tax increase on alcoholic drinks and an 18 percent tax on soft drinks and mineral water; (iv) a 25 percent tax increase on detergents; (v) a 67 percent increase in taxes on steel bars; (vi) new telephone charges; (vii) doubling of water charges in the Jordan valley; (viii) increases in fees on car registrations and licenses; and (ix) royalty tax on phosphate and potash production. These measures were complemented by reduction of subsidies on barley, bran, olive oil, and powdered milk by raising their domestic retail prices; reduction or elimination of subsidies for production and exports; and a reduction of capital expenditure (Appendix I, Table 13). Under the combined impact of these measures, the budget deficit excluding grants would decline from 23.7 percent of GDP in 1988 to 19.6 percent in 1989, while the deficit including grants would indicate a larger reduction from 16.4 percent to 11.4 percent because of a higher dinar value of grants due to the depreciation of the dinar. 1/ Moreover, the budget's reliance on the domestic banking system in 1989 will be reduced to the equivalent of 7.5 percent of GDP, compared with 15.6 percent in 1988.

As for 1990, the Government is committed to implement measures covering four major areas. First, structural reforms would be implemented to improve the elasticity of revenue. In this context, a staff mission is to visit Amman in mid-June to undertake a full review of the revenue system with the aim of making recommendations to expand the tax

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1/ These estimates do not take into account the favorable effect on the budget of the expected reduction of JD 6 million in development expenditures and an improvement in the yield of import duties due to a gradual move to the use of the official exchange rate as a basis for customs valuation.

base, reduce tax loopholes, and change the rate structure from specific to ad valorem. Second, the authorities intend to take concrete preparatory steps in 1990 for the introduction of a general consumption tax of the value-added type in 1991, and the fiscal mission will agree with the authorities on the steps and timing for these preparations. Third, the Government is to complete a review process, preferably in consultation with the Bank, of all public enterprises in order to improve their contribution to the budget. The public enterprises are generally well managed and profitable. However, the enterprises that yield profits would be encouraged to increase their budgetary contributions through improvement in efficiency and containment of operating expenditures. In the case of the entities incurring losses (mainly a few public utilities), financial viability will be attained through improved efficiency and a revision of pricing policies. Fourth, additional resource mobilization and expenditure-restraining measures would be adopted, along with structural reforms, to reduce the budget deficit (excluding grants) by an additional 3 percentage points of GDP to 16.6 percent in 1990. The staff will discuss with the authorities the nature and mix of fiscal measures to attain the targeted reduction in deficit in 1990 at the time of the first review of the program in November 1989.

c. Monetary and credit policies and credit ceilings

The program aims at a reduction in the rate of increase in net domestic assets from about 14 percent of the initial stock of money and quasi-money in 1988 to 9 percent in 1989 (Table 5). This is to be achieved by a sharp curtailment of government borrowing from the domestic banking system from 11 percent of the initial stock of money and quasi-money in 1988 to 5.5 percent in 1989. The reduced level of government borrowing would be accompanied by setting up of a "blocked" account to partly sterilize the impact of expected debt rescheduling. As a result, there would be enough scope for expansion of credit to the private sector to meet its genuine credit requirements within the above limit of increase in net domestic assets. The Central Bank of Jordan, in collaboration with the staff, undertook a detailed analysis for 1989 of the genuine credit requirements of the private sector, which are estimated to increase by JD 135 million (9 percent). While this is less than the projected increase in prices during the year, it provides adequate scope for the meeting of all credit requirements for productive activities through a curtailment of credit flows to low priority needs. The containment of private sector credit within the above limit, and channeling of an increasing proportion of it to productive uses, is to be facilitated by the market-determined interest rates (see next section) and credit control measures that have already been adopted.

Table 5. Jordan: Factors Affecting Changes in Money and Quasi-Money, 1983-89

Changes During Period	Actuals 1983	1984	1985	1986	1987	1988	Program Proj. 1989	Targets 1990
	(In millions of Jordan dinars)							
Money and quasi-money	211.8	142.6	117.0	197.7	299.7	282.2	300.0	315.0
Foreign assets (net)	38.4	-63.5	24.4	30.0	-52.6	-48.3	60.0	50.0
Domestic assets (net)	173.4	206.1	92.6	167.7	352.3	330.5	240.0	265.0
Claims on Government (net)	3.8	29.8	22.8	24.7	284.6	262.1	145.0	...
Claims on public entities	0.6	32.0	28.5	27.7	57.4	24.0	40.0	...
Claims on private sector	161.4	137.9	65.4	98.7	50.2	95.4	135.0	...
Claims on specialized credit institutions	4.3	-0.7	2.2	2.2	1.5	3.2	--	...
Claims on financial companies	14.0	9.9	-1.7	6.5	8.7	-2.8	--	...
Other items (net)	-10.7	-2.8	-24.6	7.9	-50.1	-51.4	-80.0	...
Of which: Blocked account	(--)	(--)	(--)	(--)	(--)	(--)	(-80.0)	(...)
	(Changes in percent of beginning period stock of money and quasi-money)							
Money and quasi-money	15.1	8.8	6.7	10.5	14.5	11.9	11.3	10.7
Foreign assets (net)	2.7	-3.9	1.4	1.6	-2.5	-2.0	2.3	1.7
Domestic assets (net)	12.4	12.8	5.3	8.9	17.0	13.9	9.0	9.0
Claims on Government (net)	0.3	1.8	1.3	1.3	13.7	11.0	5.5	...
Claims on public entities	--	2.0	1.6	1.5	2.8	1.0	1.5	...
Claims on private sector	11.5	8.5	3.7	5.3	2.4	4.0	5.1	...
Other items 1/ (net)	0.5	0.4	-1.4	0.9	-1.9	-2.1	-3.1	...
Of which: Blocked account	(--)	(--)	(--)	(--)	(--)	(--)	(-3.1)	(...)
	(Annual changes in percent)							
Domestic assets (net)	17.7	17.9	6.8	11.6	21.8	16.8	10.4	10.4
Claims on Government (net)	2.8	21.3	13.4	12.8	130.9	52.2	19.0	...
Claims on private sector	18.9	13.6	5.7	8.1	3.8	7.0	9.2	...

Sources: The Jordanian authorities; and staff estimates.

1/ Includes claims on specialized credit institutions and financial companies.

In the area of credit control policy, the required reserve ratio on time and savings deposits was raised from 6 percent to 9 percent in September 1988, thus unifying it with the required reserve ratio on demand deposits. The Central Bank of Jordan raised the rediscount rate from 5.75 percent to 7 percent in September 1988 and to 8 percent in January 1989. Moreover, the credit policy has been tightened effective from June 1988 by limiting commercial banks' overdraft facilities, and forbidding the banks from extending credit to residents in dinars against foreign currency deposits. These measures are expected to assist in the achievement of credit targets for the year, but the Central Bank is committed to adopt further measures, if needed, to ensure observance of ceilings on net domestic assets that have been set for end-September and end-December 1989, along with indicative targets for end-June 1989 (Appendix I, Table 14). To ensure that the Government does not pre-empt the availability of credit for the private sector, subceilings have also been established on net borrowing by the Government. A deviation of the actual outcome from the indicative targets for June would necessitate a review with the staff of factors and policies so as to ensure observance of ceilings for September and December 1989, which constitute performance criteria.

As for 1990, the Government is committed to limit expansion in net domestic assets to 9 percent of the initial stock of money and quasi-money. On the basis of the above target, the quarterly ceilings on net domestic assets and on net government borrowing for 1990 would be agreed at the time of the first review of the program in November 1989.

d. Interest rate policy

In recent years, Jordan has followed a fairly flexible interest rate policy with the result that the rate structure, while being subject to ceilings set by the Central Bank, remained positive in real terms for most of the time. For example, the effective lending rates (including surcharges) were in the range of 9-12 percent during the period 1983-88 compared with an annual average rate of increase in consumer prices of 2.5 percent during this period. As a part of the package of policy reforms introduced starting in mid-1988, the policy was further liberalized with a view to allowing market forces to determine the level of most of the interest rates. As a first step, interest rates on deposits were floated in September 1988; currently, the six-month deposit rates are in the range of 8-9 percent. Moreover, the base lending rate was raised from 8 percent to 9 percent in September 1988 and further to 10 percent in January 1989. While the base lending rate remained fixed, the cost of borrowing was allowed to increase by permitting the commercial banks to impose a variable surcharge on the lending rate; the surcharge has been in the region of 2-3 percentage points in the recent past. The Government is in the process of completing the necessary legislative and administrative procedures to free the base lending rate from the existing restrictions; accordingly, the base lending rate will also be freely determined by market forces effective October 1, 1989. It is expected that the rise in the lending rate following the implementation of the decision to allow it to be determined by market forces, coupled with a reduction in the underlying rate of inflation, would lead to emergence of a substantially positive rate structure that, in turn, will facilitate financial intermediation, promote savings, and improve resource allocation.

e. Balance of payments outlook and external sector policies

The major external sector objectives are to bring about a steady reduction in the current account balance of payments deficit through diversification of exports, encouragement of remittances and tourism, and containment of import demand; rebuild foreign reserves; reduce dependence on foreign loans and grants; and improve the external debt profile over the longer term. In addition to expansion in output and containment of effective demand, the achievement of these objectives would crucially depend on active pursuit of a flexible exchange rate policy, tariff reforms, export-oriented trade policy, and prudent debt management policy.

(1) Outlook and external financing requirements for 1989 and 1990

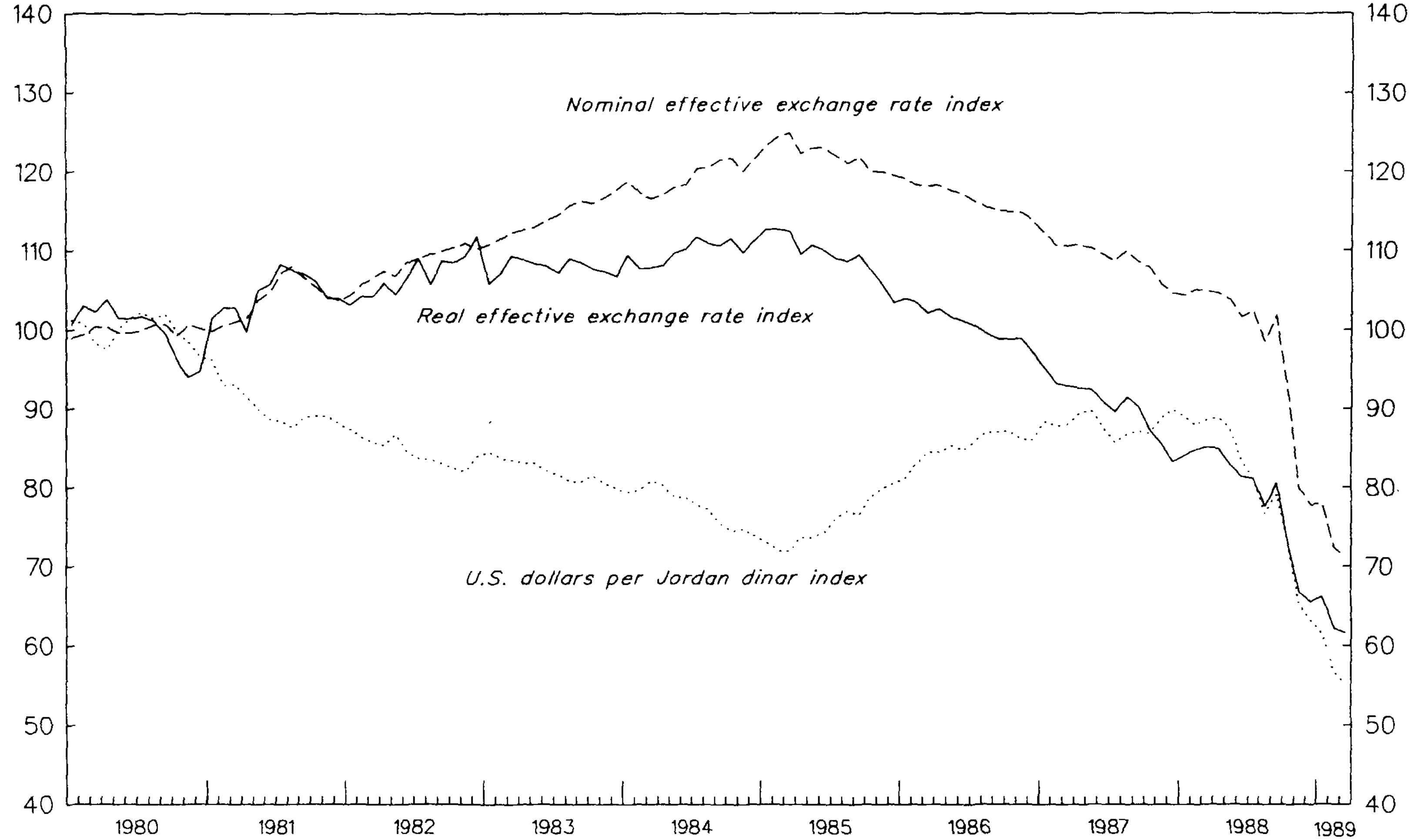
The program aims to reduce the current account deficit (including foreign grants) from over 6 percent of GDP in 1988 to 5 percent in 1989 and further to 3 percent in 1990 (Table 6). If grants are excluded, the envisaged adjustment is much larger, with the current account deficit declining by 3 percentage points to 15.5 percent of GDP in 1989 and further by 3.7 percentage points to 11.8 percent in 1990. The current account targets are to be achieved through policies aimed at promoting exports, encouraging remittances and tourism, and containing imports. Aided by the recent significant gains in competitiveness (Chart 2) and reductions in domestic absorption envisaged under the program, exports are projected to rise by 5 percent (in U.S. dollar terms) in 1989 and a further 16 percent in 1990. The relatively modest overall export growth projected for 1989 reflects the high level of exports of phosphate, potash, and fertilizers in 1988 due to the drawdown of stocks and favorable international prices. The volume of exports of fruits and vegetables is expected to increase sharply in 1989 in view of improved competitiveness and expansion in the regional market. As for 1990, the principal exports are expected to resume their rising trend while other exports are expected to continue to rise rapidly as supply responses to the recent exchange rate depreciation are more strongly manifested. In addition to improved competitiveness, export growth is also expected to be encouraged by other measures including export finance arrangements and export credit insurance schemes that are under discussion between the authorities and the Bank staff.

CHART 2

JORDAN

EXCHANGE RATE INDICES,[1] 1980–89

(1980=100)



Sources: IMF, Information Notice System, and *International Financial Statistics*.

[1] A decline in the index indicates depreciation.

Table 6. Jordan: Balance of Payments, 1983-90

(In millions of U.S. dollars)

	Actuals					Prel. Actuals	Projections	
	1983	1984	1985	1986	1987	1988	1989	1990
Current account	-390	-271	-254	-46	-349	-282	-181	-116
Goods and services	-1,202	-997	-1,053	-726	-938	-907	-595	-493
Trade balance	-2,456	-2,027	-1,933	-1,692	-1,762	-1,715	-1,530	-1,456
Exports, f.o.b.	580	757	789	732	932	1,026	1,081	1,254
Imports, c.i.f.	-3,036	-2,784	-2,722	-2,423	-2,694	-2,741	-2,612	-2,710
Foodstuffs	-497	-480	-446	-473	-460	-465	-474	-480
Oil and oil products	-586	-556	-567	-333	-461	-424	-439	-469
Other	-1,953	-1,748	-1,709	-1,617	-1,774	-1,852	-1,699	-1,761
Services (net)	1,254	1,030	880	966	825	809	935	962
Remittances (net)	909	983	786	938	754	749	753	803
Receipts	1,110	1,237	1,023	1,185	938	903	876	924
Payments	-201	-254	-236	-247	-184	-154	-123	-120
Travel (net)	140	70	96	89	135	141	307	331
Receipts	504	451	518	533	580	621	664	704
Payments	-365	-381	-422	-444	-445	-480	-357	-373
Investment income (net)	46	-61	-89	-141	-220	-310	-372	-427
Receipts	173	101	100	100	58	41	37	37
Payments	-128	-162	-189	-241	-278	-351	-409	-464
Other (net)	159	38	86	81	156	229	247	255
Receipts	673	730	670	540	713	808	832	857
Payments	-514	-692	-584	-459	-557	-579	-585	-602
Unrequited transfers	812	726	799	680	588	625	414	377
Private	15	45	60	48	-11	59	37	37
Public	798	681	739	633	599	566	377 4/	340 4/
Capital account	432	168	349	146	224	90	-439	-474
Public sector 1/	402	92	325	126	185	64	-443	-479
Receipts	870	746	865	769	798	1,027 2/	663 2/	524
Payments	-468	-653	-540	-644	-613	-963	-1,106 2/	-1,002
Private long-term (net)	24	75	14	23	32	--	4	4
Private short-term (net)	6	--	10	-2	6	26	--	--
Errors and omissions	96	-77	-49	-48	17	62	--	--
Counterpart to valuation adjustment	-69	-97	106	81	56	-357	-13	---
Overall balance	70	-278	153	133	-51	-487	-632	-590
Change in reserves 3/ (- indicates increase in assets)	-70	278	-153	-133	51	487	-98	-84
Memorandum items								
Current account/GDP (percent)								
Including grants	-9.9	-6.9	-6.2	-1.0	-7.0	-6.2	-5.0	-3.0
Excluding grants	-30.3	-24.4	-24.4	-14.5	-19.0	-18.5	-15.5	-11.8
Gross official foreign reserves (excluding gold and CBJ claims on Iraq)	823.9	514.6	421.7	435.3	422.8	109.5	207.8	292.0
(Months of imports)	3.3	2.2	1.9	2.2	1.9	0.5	1.0	1.3
Average exchange rate US$/JD	2.755	2.604	2.538	2.858	2.952	2.690	1.852 5/	...

Sources: The Jordanian authorities; and staff estimates.

1/ Comprises public and publicly guaranteed short-, medium-, and long-term capital.
2/ Includes US$150 million of short-term bridging loans in 1988 which were converted into medium-term loans in 1989.
3/ Change in net foreign assets of the banking system.
4/ Includes US$81 million of UN grants for relief operations; the remainder (US$296 million in 1989 and US$260 million in 1990) represent official bilateral grants.
5/ Actual rate prevailing since February 8, 1989.

Another major source of foreign exchange earnings is workers' remittances. Remittance receipts, after a small decline in 1989, are projected to rise by 5 percent in 1990 on the expectation that adoption of a comprehensive adjustment program would help restore confidence, and that the recent depreciation of the exchange rate and liberalization of interest rate policy will be instrumental in attracting remittances for savings and investment. Another factor that would help the outlook for remittances is the improved economic and financial situation in the region. Receipts from travel are also expected to show an annual increase of 6-7 percent in 1989 and 1990, as the depreciation of the dinar, improved economic situation in the region, and other promotional policies are expected to encourage tourism.

Import growth in 1989 is expected to be contained by tighter demand management, the depreciation of the exchange rate, and the ban on imports of some luxury goods. Overall import value is projected to fall by 5 percent, with volumes declining by about 10 percent mainly due to a substantial decline in imports of consumer durables. The increase in volume of imports of petroleum and petroleum products is expected to be contained within 2 percent, partly reflecting the recent upward adjustment in domestic petroleum product prices. As for 1990, the continuation of tight demand management policies is expected to limit the growth of imports to 4 percent in terms of U.S. dollars. Imports of foodstuffs, consumer durables, and industrial goods, are expected to grow in volume, reflecting in part the revival of economic activity and the expected removal of the import bans by end-1989. The capital account in 1989 and 1990 is expected to show large outflows of US$440-475 million as amortization payments will exceed loan disbursements.

On the basis of the above projections, and allowing for a modest build-up of reserves, the external financing requirements are estimated at US$1,026 million in 1989 and US$933 million in 1990 (Table 7). These requirements are expected to be met by foreign grants, resources from the Fund and the Bank, and debt rescheduling from the Paris Club, commercial banks, and other official creditors.

The authorities believe that disbursements of official bilateral grants from Saudi Arabia, Kuwait, the United Arab Emirates, Oman, and the United States would amount to about US$296 million in 1989 (about 83 percent of total expected commitments). The staff has stressed to the authorities the need for assurances on the availability of the required grants before Board consideration of the program. During the recent staff visit, the authorities stated that they were in contact with the major donors and were confident that the indicated amounts of grants would be forthcoming.

Table 7. Jordan: External Financing Requirements, 1989-90

(In millions of U.S. dollars)

	1989	1990
Exports	1,081	1,254
Imports	-2,612	-2,710
Services (net), private transfers, UN grants	1,055	1,081
Current account balance (excluding official bilateral grants)	-476	-375
Increase in foreign reserves	-111 1/	-84
Net capital inflow 2/	-439	-474
Total financing required	-1,026	-933
Official bilateral grants:		
Disbursements	296	260
(Commitments)	(358)	
Arab Monetary Fund	22	...
World Bank program loan	75	75
IMF (net)	19	34
Residual gap	-613	-564
Memorandum items:		
(1) Principal due (on end-1988 debt stock)		
Paris Club creditors 3/	188	176
Commercial banks 4/	335	296
Other creditors 5/	74	168
Subtotal	597	640
Arab funds 6/	62	64
Multilateral 7/	106	67
Other 8/	78	111
Total	843	882
(2) Interest due (on end-1988 debt stock)		
Paris Club 3/	139	184
Commercial banks 4/	121	97
Other creditors 5/	39	40
Subtotal	299	321
Arab funds 6/	27	28
Multilateral 7/	43	47
Other 8/	1	1
Total	370	397

Sources: The Jordanian authorities; and staff estimates.

1/ Comprises reserve increase of US$98 million and counterpart to valuation changes amounting to US$13 million.
2/ Before exceptional financing.
3/ Includes bilateral loans from industrial countries, and export credits guaranteed by their official agencies.
4/ Includes unguaranteed part of loans from foreign commercial banks.
5/ Includes nonindustrial and non-Arab countries and unguaranteed part of suppliers' credits.
6/ Includes small amounts of bilateral loans from Arab governments.
7/ Bretton Woods institutions, IFAD, EIB, OPEC Fund, Islamic Development Bank, Arab Monetary Fund.
8/ Bonds and leases.

In addition to bilateral grants, disbursements amounting to US$94 million are expected from the World Bank and the Fund (on a net basis) in 1989. The first tranche of the proposed US$150 million adjustment loan of the Bank (currently envisaged at US$75 million) would be disbursed upon Bank Board approval, with disbursement of the remaining amount scheduled for 1990. A loan of US$22 million from the Arab Monetary Fund has already been disbursed. After the approval of the requests for the stand-by arrangement and CCFF drawing, and assuming that performance criteria are met, Jordan will make net purchases of SDR 14.7 million from the Fund in 1989. On this basis, the unfinanced gap for 1989 will be reduced to US$613 million. To cover this gap, the Government is seeking debt rescheduling from the Paris Club, commercial banks, and other bilateral creditors. The assumption in the program is that for 1989 all principal and some interest will be rescheduled or refinanced. For 1990, rescheduling of principal alone will be enough to cover the gap provided grants continue to become available at a level similar to 1989. The Paris Club has already been informed of Jordan's intentions and the staff understands that the meeting on Jordan will be convened in mid-July following Board approval of the stand-by arrangement. Contacts with commercial banks have been initiated, a steering committee is to be set up shortly, and an agreement in principle on refinancing is expected to be reached before the Fund Board's consideration of the stand-by request. The authorities intend also to approach other official creditors for rescheduling on terms similar to the Paris Club.

(2) Medium-term balance of payments projections and repayment to the Fund

The medium-term balance of payments projections (Table 8) are based on assumptions of a sustained expansion in output, tight demand management policies, and pursuit of a flexible exchange rate policy designed to encourage exports, remittances, and travel receipts and contain demand for imports and capital outflows. Accordingly, exports, remittances, and travel receipts are each expected to grow at annual rates of about 9 percent during 1991-98. Import growth is expected to be contained to 7 percent per year during the same period. As regards grants and capital flows, grants are expected to decline sharply from the levels in the last several years while project and commodity loan disbursements are expected to maintain their recent levels. It is also assumed that new borrowing will be on relatively concessional terms.

Table 8. Jordan: Balance of Payments and Debt Service Projections, 1991-98 1/

(In millions of U.S. dollars)

	1991	1992	1993	1994	1995	1996	1997	1998
Current account	-83	-45	--	284	545	695	690	675
Exports, f.o.b.	1,381	1,540	1,719	1,899	2,100	2,238	2,390	2,556
Imports, c.i.f.	-2,865	-3,077	-3,298	-3,431	-3,593	-3,814	-4,197	-4,596
Services, net	1,062	1,202	1,337	1,573	1,793	2,025	2,249	2,465
Remittances	874	955	1,044	1,174	1,290	1,400	1,503	1,609
Receipts	993	1,076	1,168	1,302	1,423	1,538	1,647	1,759
Payments	-119	-121	-123	-128	-133	-139	-144	-150
Travel	356	382	411	502	585	678	775	862
Receipts	746	791	838	933	1,024	1,134	1,255	1,370
Payments	-390	-409	-427	-431	-439	-456	-480	-508
Investment income	-430	-406	-397	-393	-382	-365	-354	-344
Receipts	37	37	37	38	40	42	43	45
Payments 2/	-467	-443	-434	-431	-422	-407	-397	-389
Other	262	270	278	289	301	312	325	338
Unrequited transfers	339	290	242	243	245	247	249	251
Private	39	40	42	43	45	47	49	51
Public	300	250	200	200	200	200	200	200
Capital account	-423	-408	-442	-555	-585	-695	-689	-674
Public sector 2/	-427	-412	-447	-559	-589	-699	-694	-679
Receipts 3/	614	634	660	665	696	631	660	688
Private long-term	4	4	4	4	4	5	5	5
Overall balance	-506	-448	-442	-271	-40	--	--	--
Reserve accumulation 4/	-77	-67	-67	-67	...	...	...	...
Exceptional financing requirements 5/	583	515	509	338	40	--	--	--
Memorandum items:								
(1) Principal due (on end-1988 debt stock)								
Paris Club creditors 6/	197	206	281	284	272	242	216	160
Commercial banks 7/	210	175	155	116	87	57	26	25
Other creditors 8/	134	94	82	64	56	48	41	33
Subtotal	541	475	518	464	415	347	283	218
Arab funds 9/	72	72	68	63	56	46	43	35
Multilateral 10/	66	64	66	67	67	66	60	56
Other 11/	100	87	79	77	77	78	74	70
Total	779	698	730	671	615	537	460	379
(2) Interest due (on end-1988 debt stock)								
Paris Club 6/	190	176	160	137	114	93	75	59
Commercial banks 7/	73	53	39	26	17	8	4	2
Other creditors 8/	37	29	22	18	14	11	8	7
Subtotal	301	258	220	182	145	112	87	68
Arab funds 9/	24	21	18	15	14	12	11	8
Multilateral 10/	47	44	39	34	29	24	19	14
Other 11/	1	1	1	1	1	1	1	1
Total	373	324	278	232	189	149	118	91
(3) Debt service (on end-1988 debt stock) [(1) + (2)]	1,152	1,022	1,008	903	804	686	478	470
(4) Debt service (including new borrowing) 12/								
Total	1,370	1,352	1,418	1,516	1,569	1,599	1,611	1,616
As percent of exports of goods and services	33.9	31.1	30.2	29.6	28.3	27.0	25.5	24.0

Source: Staff projections.

Footnotes to Table 8 appear on page 26.

FOOTNOTES TO TABLE 8

1/ Assumes domestic and foreign real GDP growth at 4 percent and 5 percent per annum, respectively; inflation at home and abroad are also set at 5 percent per annum. Real oil, phosphate, potash, and fertilizer prices are assumed to rise by 6 percent, 1.2 percent, 0.6 percent, and 0.8 percent per annum, respectively. Phosphate and fertilizer production are assumed to rise by 3 percent per annum, and potash by 7 percent per annum.

2/ Includes debt service payments on exceptional financing.

3/ Includes "normal" medium- and long-term project and commodity loans. Public sector receipts and payments also assume an inflow and outflow of short-term capital of US$120 million each.

4/ Gross official reserves (excluding gold and Central Bank of Jordan claims on Iraq) are assumed to be built up gradually from about one months' imports in 1989 to about two months' imports by 1994.

5/ Assumed to be met by a combination of debt rescheduling/refinancing of principal and new loans. For illustrative purposes, the calculations are based on rescheduling/refinancing of principal due in 1989-92 from debt contracted through end-1988; the remaining gaps are assumed to be filled by new borrowing. For 1993-94, exceptional financing requirements are assumed to be met by debt rescheduling of less than 100 percent of principal and some new borrowing.

6/ Bilateral loans from industrial countries and export credits guaranteed by their official agencies.

7/ Loans from foreign commercial banks not guaranteed by official export credit agencies.

8/ Non-industrial, non-Arab countries and unguaranteed part of suppliers' credits.

9/ Includes small amounts of bilateral loans from Arab governments.

10/ Bretton Woods institutions, IFAD, EIB, OPEC Fund, Islamic Development Bank, Arab Monetary Fund.

11/ Bonds and leases.

12/ Assumes US$400-500 million of new commitments on project/commodity loans per year with average terms of 15 years' maturity including 5 years' grace and 6 percent interest. For illustrative purposes only, debt rescheduling/refinancing terms are assumed at 10 years' maturity including 5 years' grace and interest rate of 11 percent for commercial bank loans and 8 percent for other loans.

Assuming a gradual build-up of reserves from about one month's imports in 1989 to about two months' imports by 1994, the exceptional financing requirements are estimated to decline from about US$580 million in 1991 to about US$340 million in 1994 and virtually eliminated in 1995. These exceptional financing requirements are assumed to be met by a combination of debt rescheduling/refinancing of principal falling due and new loans. It is evident that, despite a substantial improvement in the current account (including foreign grants) reflecting a strong and sustained adjustment effort, viability in the balance of payments is unlikely to be achieved before 1995 because of the debt overhang. Even so, it may be noted that recourse to debt restructuring would steadily decline as a proportion of scheduled debt service payments.

Assuming that Jordan obtains exceptional financing (including debt rescheduling) on the terms envisaged in the program, the authorities should have little difficulty in meeting their debt service obligations to the Fund. Over the period 1989-95, outstanding Fund credit resulting from purchases under the stand-by arrangement and the CCFF would not exceed 2.6 percent of GDP or 1.2 percent of Jordan's total external debt. Fund repurchases and charges would not exceed 3.2 percent of total debt service obligations, or 1.2 percent of the foreign exchange receipts from exports of goods and services (Table 9). With sustained pursuit of adjustment and growth policies, Jordan should be able to meet its future financial obligations to the Fund in a timely manner. The authorities have also assured the staff that repayments to the Fund would be given top priority.

(3) Exchange rate policy and exchange system

The authorities have followed a flexible exchange rate policy in recent years which led to the depreciation of the dinar by 25 percent in real effective terms during 1985-87. Subsequently, as the official rate came under pressure and divergencies between the rates of the Central Bank, the commercial banks, and the moneychangers widened, the dinar was effectively floated in October 1988. This resulted in an additional depreciation of the official rate in real effective terms by 21 percent in 1988, with the cumulative depreciation since the end of 1984 amounting to 41 percent. On February 8, 1989 operations of moneychangers were suspended indefinitely as they were reported to have engaged in illegal and speculative activities, exerting unwarranted pressure on the exchange rate. Simultaneously, the Central Bank and commercial bank rates were unified at US$1 = JD 0.540 leading to a further depreciation of 8.5 percent in the nominal effective exchange rate in the first quarter of 1989; the real effective exchange rate could not be computed as information on prices is not as yet available.

Table 9. Jordan: Indicators of Fund Credit, 1989-95

	1989	1990	1991	1992	1993	1994	1995
				Amounts (In millions of SDRs)			
Purchases	43.5	33.2	--	--	--	--	--
Repurchases	28.8	7.2	--	4.4	28.0	34.0	10.4
Charges on Fund credit	2.7	4.7	6.4	6.4	5.3	2.6	0.5
Debt service to Fund	31.5	11.9	6.4	10.8	33.3	36.6	10.9
Outstanding Fund credit (end of period)	50.6	76.7	76.7	72.3	44.3	10.4	--
				Ratios (In percent)			
Outstanding Fund credit/GDP	1.8	2.6	2.4	2.1	1.2	0.3	--
Outstanding Fund credit/quota	68.5	103.8	103.8	97.8	59.9	14.1	--
Outstanding Fund credit/ total debt	0.8	1.2	1.2	1.1	0.6	0.2	--
Debt service to Fund/ total debt service	3.2	1.1	0.6	1.0	3.1	3.1	0.9
Debt service to Fund/ exports of goods and services	1.2	0.4	0.2	0.3	0.9	0.9	0.3

Source: *Staff projections.*

The Government is committed to continue to follow a flexible exchange rate policy and to ensure, as a minimum, the maintenance of the real effective rate. In view of tight demand management policies that have been put in place and expected foreign exchange earnings, foreign assistance, and debt restructuring, the Government believes that exchange rate stability can be ensured for the near future. However, if unexpected pressures develop the Government will not defend the exchange rate through intensification of trade and exchange restrictions, increased short-term borrowing, or the use of foreign reserves which would be contrary to the program's objectives, but rather it will review the policy with the Fund management to adopt appropriate and timely remedial measures. The factors to be taken into account in such a review would include the effectiveness of demand management policies, relative price changes in Jordan and abroad, developments in other markets on which the dinar is traded, export performance, and reserve position of the country. In any event, the Government will reach understandings with the Fund on the exchange rate policy in the context of the first review of the program to be initiated in November 1989; a review of the exchange rate policy is a performance criterion under 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 arrears on external debt service payments, which give rise to restrictions subject to Article VIII. The authorities stated that they were looking into the possibilities of liberalization of exchange limits on invisibles, though the timing would depend on balance of payments developments. They stated that exchange licenses continued to be freely granted for imports, and no changes in regulations or practices had occurred restricting other payments and transfers, with the exception of arrears on external debt service payments (see Section 2.e.(5) below).

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; or (iv) impose new import restrictions or intensify existing ones for balance of payments reasons. These undertakings constitute performance criteria under the stand-by arrangement.

(4) Trade policy and tariff reform

The Government is committed to a reform of the trade regime in order to maintain the traditional outward orientation of the economy. Toward this end, significant liberalization was instituted in August 1988 when import prohibitions on 30 products competing with domestically produced commodities were replaced by tariffs. However, in November 1988 imports of 11 luxury consumer goods were prohibited temporarily for balance of payments purposes and tariffs on certain other items considered nonessential were raised. The banned items are estimated to account for US$200 million of imports, or 7 percent of 1988 import value, and include mostly consumer durables. It is the Government's intention to remove the ban at the latest by the end of 1989.

As regards simplification of the trade regime, the Government is currently in the process of changing the customs code from the Brussels Tariff Nomenclature (BTN) to Customs Common Classification Nomenclature (CCCN) (or the harmonized system recognized by the GATT as the standard for customs systems). Similarly, the Government is contemplating a simplification and consolidation of import taxes, as well as an elimination of import licensing, unless it is required for well-defined regulatory purposes.

A key element of trade liberalization will be a reform of the tariff system. To this end, the Government is committed to a simplification of the tariff structure and reduction in the variation in rates. The nominal protection in the Jordanian economy, as measured by an average tariff level of about 26 percent, is not high in comparison with most other countries in a similar stage of development. However, because of the high range of the tariff structure, there are large differences in effective protection given to different sectors in the economy. Over half of the imports carry a duty of zero, about 15 percent carry duties above 50 percent, and 5 percent carry duties over 70 percent. In the context of its adjustment loan, the Bank staff is expected to reach an understanding on tariff reforms. Given the budgetary implications of changes in tariffs and their resource allocation effects, the staff of the Bank and the Fund are working closely together to ensure consistency of tariff reforms with other policies; the Board will be provided supplementary information on the outcome of the Bank staff mission in the field.

(5) External debt, arrears, and debt management policy

Jordan's medium- and long-term external debt increased sharply in the 1980s reflecting substantial commercial borrowing, and the outstanding stock amounted to US$8 billion at end-1988 (159 percent of GNP) (Table 10). 1/ In contrast, available information indicates that outstanding short-term debt is relatively modest, amounting to about US$400 million at end-1988. The debt service ratio rose markedly and is expected to reach 36 percent in 1989, or about five times the ratio in 1983 when commercial borrowings began to substitute for external grants.

1/ Comprehensive external debt statistics for years prior to 1988 are not available. Data for 1988 were compiled during the mission's visit and the Central Bank is in the process of compiling external debt statistics on a similar basis for prior years. For this purpose, the Central Bank has established a Debt Unit and the authorities have also requested technical assistance from the Fund to improve debt data.

Table 10. Jordan: Outstanding External Debt and Debt Service Payments, 1/ 1988-94

(In millions of U.S. dollars)

	1988	1989	1990	1991	1992	1993	1994
	Outstanding Stock 2/			Amortization			
Medium- and long-term debt							
Arab governments	770.3	61.7	63.7	71.5	72.3	67.9	63.2
Bilateral loans	45.0	10.0	10.0	10.0	10.0	5.0	--
Arab funds	725.3	51.7	53.7	61.5	62.3	62.9	63.2
Industrial countries	2,933.8	188.3	176.4	196.5	205.6	280.8	283.7
Bilateral loans	1,351.1	72.7	53.7	73.8	77.2	83.9	86.4
Export credit guarantees	1,582.7	115.6	122.8	122.6	128.4	196.9	197.3
Other governments	570.4	20.5	123.6	81.8	65.2	62.6	51.9
Bilateral loans	536.5	20.5	121.3	77.1	60.2	57.6	46.9
Export credit guarantees	33.9	--	2.2	4.7	5.0	5.0	5.0
International banks	1,610.8	335.5	296.3	210.4	175.0	155.0	116.2
Foreign companies	239.5	53.2	44.2	52.6	28.6	19.1	11.7
Other	855.5	105.6	67.1	66.0	64.0	65.6	66.5
Bretton Woods institutions	659.2	83.1	51.6	48.7	47.9	50.9	50.9
Other multilateral	196.3	22.4	15.5	17.3	16.1	14.7	15.6
Subtotal	6,980.2	764.7	771.3	678.7	610.7	651.0	593.3
Bonds	438.1	9.7	48.2	39.4	27.9	21.7	22.2
Leases	563.5	68.7	62.7	60.8	58.9	57.0	55.2
Total	7,981.8	843.1	882.2	778.8	697.6	729.7	670.7
				Interest payments			
Arab governments		27.2	27.5	24.2	21.2	18.1	15.4
Bilateral loans		2.1	1.6	1.1	0.6	0.1	--
Arab funds		25.1	25.9	23.1	20.6	18.0	15.4
Industrial countries		138.5	183.6	190.0	176.4	159.7	137.4
Bilateral loans		40.9	41.9	42.0	40.4	37.5	34.1
Export credit guarantees		97.5	141.7	148.0	136.1	122.2	103.3
Other governments		23.4	28.2	29.1	23.8	18.6	15.3
Bilateral loans		21.2	26.1	27.2	22.2	17.3	14.4
Export credit guarantees		2.1	2.1	1.9	1.6	1.3	0.9
International banks		121.3	97.5	73.2	52.6	38.9	26.5
Foreign companies		16.2	12.1	8.3	5.5	3.2	2.5
Other		42.6	46.5	46.8	43.2	38.5	33.4
Bretton Woods institutions		33.7	38.7	39.6	36.9	32.8	28.7
Other multilateral		8.9	7.8	7.2	6.4	5.6	4.8
Subtotal		369.1	395.4	371.6	322.9	277.0	230.5
Bonds		1.4	1.4	1.4	1.4	1.4	1.4
Total		370.5	396.7	373.0	324.2	278.4	231.9

Sources: The Jordanian authorities; and staff estimates.

1/ Debt service payments are based on debt outstanding (including undisbursed) at end-1988.

2/ Public and public-guaranteed medium- and long-term debt (including undisbursed) contracted as of end-1988.

The economy is also facing heavy scheduled debt service payments over the next five to six years. On the basis of debt outstanding at end-1988, Jordan will be faced with scheduled annual debt service payments of US$0.9-1.2 billion during 1989-94. Assuming some US$400-500 million new commitments annually for project loans, and including exceptional financing assumed in the medium-term scenario, debt service is projected at US$1.2-1.6 billion annually during 1989-98. The debt service ratio is projected to peak at 38 percent in 1990 and to decline steadily thereafter, reaching 24 percent in 1998.

As the Government was unable to make all the scheduled debt payments, arrears on external debt payments began to accumulate mainly since the beginning of 1989. As of mid-March 1989, these amounted to US$185 million, of which US$77 million constituted arrears on interest. The authorities intend to eliminate outstanding arrears by November 15, 1989 through debt rescheduling with the Paris Club, commercial banks, and other creditors. They have also undertaken that arrears, if any, to multilateral organizations would be settled prior to the Board consideration of their request for a stand-by arrangement. During the period of the stand-by arrangement, the Government has undertaken that arrears will not be incurred. Up to November 15, 1989, arrears for the purpose of this definition exclude external debt service obligations in the process of being rescheduled. The above undertakings constitute performance criteria under the stand-by arrangement.

The authorities are also committed to pursue a prudent debt management strategy and severely limit resort to nonconcessional loans of limited maturities. For 1989 tight ceilings on foreign borrowing in the one- to twelve-year maturity range have been established. Newly contracted nonconcessional public and publicly-guaranteed external debt of initial maturity of over one year and up to and including five years will not exceed US$175 million in 1989. 1/ The ceilings in the one- to twelve-year maturity category are US$260 million for the period January 1, 1989 through September 30, 1989, and US$275 million for 1989 as a whole (Appendix I, Table 15). 2/ The ceilings exclude concessional

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1/ Included in this ceiling are three commercial loans totaling US$150 million which were disbursed as short-term bridging loans in 1988 and were converted to medium-term loans in 1989, and a loan of about US$22 million from the Arab Monetary Fund.

2/ In addition to the loans mentioned in the previous footnote, these ceilings take into account an already contracted U.S. commodity loan of US$65 million, the nonconcessional portion (US$17 million) of a mixed Swiss credit, and a US$10 million Japanese Exim-Bank loan. The latter two loans are not yet contracted.

loans, rescheduling and refinancing loans undertaken in the context of debt restructuring with the Paris Club, commercial banks, and other creditors, purchases from the Fund, and international reserve liabilities of the banking system. The external debt ceilings constitute performance criteria under the program.

f. Performance criteria and indicative targets

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

Quantitative performance criteria include (Appendix I, Tables 14 and 15):

(i) ceilings for end-September and end-December 1989 on the net domestic assets of the banking system and the net claims on Government by the domestic banking system;

(ii) limits for end-September and end-December 1989 on the cumulative new nonconcessional external borrowing contracted or guaranteed by the Government during 1989; and

(iii) the elimination of external payments arrears by November 15, 1989.

The nonquantitative performance criteria include the standard injunction regarding trade and payments restrictions; and two reviews to be undertaken during the period of the stand-by arrangement. The first review is to be completed by February 1, 1990 and the second review by August 1, 1990. Both reviews will assess various aspects of demand management policies, balance of payments financing, and exchange rate policy. During the first review, understanding will be reached on the elements of the program and on the quarterly quantitative performance criteria for 1990.

g. Policies to protect the poor

The Government believes that benefits of the rapid growth of the economy, remittance inflows, and government expenditure on social and physical infrastructure in the early 1980s had been distributed fairly widely among the various segments of the population. Nevertheless, the Government is keen to ensure that the cost of adjustment falls more heavily on those who have a better ability to bear it. As an important first step in this process, prices of certain essential items were not allowed to increase following the devaluation. This gave rise to the emergence of budgetary subsidies which were offset by revenue measures having larger incidence on the relatively rich. These subsidies will be reviewed in the context of the 1990 budget with a view to targeting them more pointedly toward the poor. Similarly, in making recommendations for tax reform and new revenue measures, the fiscal mission is to keep in view the necessity to protect the vulnerable segments of the population. A recent Bank mission also identified other measures which will be included in the Bank's adjustment loan to support the Government's overall strategy for protecting the poor. The proposed public sector expenditure review will aim to safeguard those projects which create employment opportunities for the poor or offer social services which clearly benefit the poor. Moreover, the operations of social welfare organizations will be reviewed with the aim of providing adequate coverage to the needs of the poor.

3. Other matters

The Jordanian representatives stated that the occupying authorities of the West Bank had limited transfers of dinars from the East Bank. Moreover, while the dinar continued to circulate in the West Bank, the Jordanian representatives indicated that the occupying authorities were not dealing in dinars or accepting dinars for their official transactions. The authorities stated that these restrictions were having an adverse effect on the stability of the exchange rate and may interfere with the achievement of their economic objectives.

With regard to the consultation cycle, the Jordanian authorities prefer to hold the next Article IV consultation on the standard 12-month cycle.

IV. Staff Appraisal

Prior to the early 1980s, Jordan enjoyed a long period of rapid economic growth and financial stability as the economy benefited from substantial receipts from official grants and private remittances following the economic boom in neighboring oil producing countries. In this period, with rising external resource availability, ambitious programs were undertaken to develop the infrastructure and lay the foundations of a relatively diversified economic system. Encouraged by the pursuit of sound economic management by the Government and outward-looking policies, the private sector investment increased substantially and provided the impetus for economic expansion. With sustained flows of external receipts, budgetary and balance of payments positions remained comfortable and external reserves were built up significantly. However, with the onset of the regional recession in the early 1980s, the demand for Jordan's commodity exports and its skilled labor declined which led to a reduction in the inflow of external resources. These developments contributed to a slackening of economic activity and a rise in unemployment and, at the same time, exposed the structural weaknesses in the budget and the balance of payments.

The decline in the level of external grants was not offset by a corresponding domestic resource mobilization effort, or reduction in government expenditures; in fact government expenditures continued to rise. The consequent widening budget deficits were initially financed by external commercial borrowing and, since 1987 through domestic bank borrowing which was the principal factor behind the rapid expansion in domestic liquidity. At the same time, imports, which were about twice the level of exports, continued to be sustained through foreign commercial borrowings and drawdown of reserves in the face of dwindling inflows of remittances and grants. Heavy domestic bank borrowing by the Government contributed to a build up of excess demand in the economy, while increasing external indebtedness sharply accelerated debt service payments. As a result, the exchange rate came under extreme pressure. With official reserves having already been virtually depleted, these developments prompted the Government to float the exchange rate in late 1988 and take several other measures including banning, on a temporary basis, of a number of luxury consumer imports. The Government also began to address the budgetary problem in earnest and froze a large component of expenditure in the 1989 budget, and introduced a number of new tax and nontax revenue measures. In February 1989, exchange rates were unified involving substantial devaluation of the official rate. However, the effects of the exchange rate depreciation were not passed on to the retail prices of certain essential food items and petroleum products with significant adverse budgetary effects. This factor, in combination with lower import duty collections due to the banning of high-dutiable luxury consumer imports and the built-in inelasticity of the revenue structure, effectively offset the positive effects of discretionary fiscal measures which had been introduced since late 1988. At the same time, the increasing scarcity of foreign exchange resources made it difficult for the Government to fully service its external debt and external arrears began to accumulate from the beginning of 1989.

Since then, the Government has recognized that they are faced with more fundamental problems that require a comprehensive and sustained adjustment effort extended over a number of years, during which period exceptional external financial assistance would be necessary. Accordingly, they have adopted a medium-term, growth-oriented adjustment strategy covering the period 1989-93 and agreed with the staff on the policy package for 1989-90 which could serve, inter alia, as a basis for a stand-by arrangement with the Fund, and for rescheduling of debt by the Paris Club, commercial banks, and other bilateral creditors. Following the understanding between the staff and the authorities, the Bank has fielded a mission to negotiate a trade and industry adjustment loan. It is expected that understandings would be reached during the visit on, inter alia, reform measures in the areas of investment and export incentives and trade and tariffs. The staff will inform the Board of the outcome of these discussions.

The main objectives of the medium-term strategy are to restore the rate of economic growth to a level higher than population growth, to reduce the budget deficit to a level that can be financed through normal aid inflows and recourse to bank borrowing that is consistent with the requirements of internal financial stability, and to improve the current account of the balance of payments to the extent that, in combination with normal capital inflows, the country should be able to fully service its external debt without exceptional financing. The target is to achieve budgetary viability by 1993; however, in view of the external debt overhang, the country will not be able to fully service its external debt before 1995, requiring continuation of exceptional financing until 1994, even though on a declining scale.

The achievement of these medium-term objectives would require a strong domestic adjustment effort on a sustained and comprehensive basis, encompassing structural reforms, including a reorientation of investment incentives, trade liberalization and tariff reforms, and tight demand management policies, involving curtailment of expenditure, intensified resource mobilization, budgetary reforms, and an active use of interest rate and exchange rate policy. The staff believes that the Government is seriously committed to use all the available policy instruments in support of its adjustment effort.

The core of the adjustment effort lies in reducing the budget deficit to a sustainable level by 1993. As a first step, the authorities took revenue-raising and expenditure-curtailing measures in April 1989 with a budgetary impact equivalent to about 4.5 percent of GDP on an annual basis. These involved increases in the prices of sensitive commodities including petroleum products and some foodstuffs, reduction or elimination of budgetary subsidies for production and exports, and introduction of a variety of new taxes. In spite of a strong public reaction to the budgetary measures, and a consequent change of the cabinet, the Government did not rescind any of the measures, indicating its strong commitment to adjustment. This commitment was reconfirmed by the new Government during a staff visit to Amman in May. The Government is also committed to further measures in 1990 to reduce the budget deficit by an additional 3 percentage points of GDP and to introduce structural reform to expand the tax base, reduce exemptions and loopholes, change specific rates to ad valorem, and to introduce other measures to improve the elasticity of the revenue system. It is also expected that further progress would be made in making administrative and procedural arrangements to introduce a general consumption tax of a value-added variety in 1991. The staff believes that the budgetary measures that have already been implemented, in combination with those expected to be taken in 1990, will achieve the targets for budget deficit reduction for 1989 and 1990 and lay a solid foundation for further progress in the subsequent years to achieve budgetary viability by 1993.

The budgetary effort is being reinforced by tight credit controls and an interest rate structure that is to be determined freely by market forces. A substantial reduction in Government borrowing from the banking system and an increase in credit to the private sector at a rate lower than the increase in prices, in combination with the contractionary impact of blocking of a part of the anticipated debt relief, is expected to substantially reduce the rate of expansion in net domestic assets in 1989 compared with 1988. At the same time, careful analysis of the prospective credit requirements of the private sector has been undertaken to ensure adequate availability of credit for the genuine requirements of the private sector. The Central Bank has taken a number of measures to ensure observance of credit ceilings and is prepared to take additional measures, if necessary, to achieve the objectives. The tight stance of monetary policy is to be maintained in 1990.

Interest rate policy will ensure maintenance of a positive rate structure. All rates, other than the base lending rate, are already freely determined by market forces. With the freeing of the base lending rate effective October 1, 1989, the entire interest rate structure would be market determined. This would help improve financial intermediation, promote financial savings, and contribute toward efficient allocation of resources.

The Government is committed to maintaining a flexible exchange rate policy which, together with institutional and trade liberalization measures and tariff reform, would facilitate an export-led growth. The staff believes that the recent depreciation in the rate in real effective terms has enhanced external competitiveness, evidenced by the expansion of nontraditional exports and increased activity in import substitution. In view of tight demand management policies that have been put in place, and expected foreign exchange inflows and debt relief, the Government believes that exchange rate stability can be ensured in the near future. However, if unexpected pressures develop, the Government will not defend the exchange rate through trade and exchange restrictions, short-term borrowing, or the use of foreign reserves which would be contrary to the program's objectives, but rather it will review the policy with the Fund management to adopt appropriate and timely remedial measures. The factors to be taken into account in such a review would include the effectiveness of demand management policies, relative price changes in Jordan and abroad, developments in other markets on which the dinar is traded, export performance, and reserve position of the country. In any event, the Government will review the adequacy of the exchange rate on the occasion of the first review of the program to be initiated in November 1989; this is a performance criterion under the stand-by arrangement. The Government would need to follow a policy of full price pass-through resulting from exchange rate actions.

In view of the sizable amortization payments falling due, the capital account, which has traditionally financed the current account deficits, is expected to show large outflows in 1989 and 1990. In these circumstances, the external financing requirements, estimated at US$1.1 billion in 1989 and US$0.9 billion in 1990, would need to be met mainly by foreign bilateral grants, and debt rescheduling or refinancing from the Paris Club, commercial banks, and other creditors. Taking into account expected disbursements from bilateral donors and multilateral financial institutions, debt rescheduling or refinancing covering all principal payments for 1989 and some part of interest would cover the remaining financing gap for 1989. For 1990, availability of grants similar to that in 1989 and rescheduling of principal falling due would be able to cover the gap. The staff will provide the latest information on the financing package prior to Board consideration of the proposed stand-by arrangement.

The authorities are also committed to eliminate or regularize all external arrears following rescheduling and by no later than November 15, 1989. In order to improve the debt profile and avoid the emergence of debt servicing problems, the Government intends to follow a prudent debt management strategy and severe limitations have been set on nonconcessional borrowing which is a performance criteria under the stand-by arrangement.

The corrective policies implemented by the Jordanian authorities since late 1988 have been strong and comprehensive, and it is the intention of the authorities to reinforce them by further measures during the program period as well as over the medium term. In the staff's view, the authorities' adjustment effort deserves to be supported by the proposed stand-by arrangement. In order to monitor the program implementation it is intended to hold staff discussions on the first review of the program in November 1989 and complete the review by February 1, 1990. On that occasion, the staff will also reach an understanding with the authorities on the main elements of the program and quantitative performance criteria for 1990. The second review of the program is intended to be completed by August 1, 1990.

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. Jordan also retains an exchange restriction evidenced by arrears on external debt service payments subject to Fund approval under Article VIII. In view of the authorities' intention to eliminate all arrears by no later than November 15, 1989, the staff recommends approval of these exchange restrictions until November 15, 1989.

The next Article IV consultation discussions with Jordan are expected to take place on the standard 12-month cycle.

V. Proposed Decisions

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

A. 1989 Consultation

1. The Fund takes this decision relating to Jordan's exchange measures subject to Article VIII, Section 2, in concluding the 1989 Article XIV consultation with Jordan and in the light of the 1989 Article IV consultation with Jordan conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended (Surveillance Over Exchange Rate Policies).

2. 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, as described in EBS/89/113. Jordan also retains an exchange restriction evidenced by arrears on external debt service payments which is subject to Fund approval under Article VIII, Section 2(a). The Fund notes the intention of the authorities to eliminate all external payments arrears by November 15, 1989 and approves the retention of the restriction until November 15, 1989.

B. Stand-By Arrangement

1. The Government of Jordan has requested a stand-by arrangement for the 18-month period beginning ______, 1989 in an amount equivalent to SDR 60 million.

2. The Fund approves the stand-by arrangement attached to EBS/89/113.

Table 11. Jordan: Medium-Term Scenario Without Policy Adjustment, 1988-93

	Prel. Actuals 1988	Projections 1989	1990	1991	1992	1993
			(Percentage change per annum)			
Growth and inflation						
Real GDP	-3.5	--	2	3	2	2
Real GNP	-4.0	1	--	2	2	2
GDP deflator	4.6	14	15	15	16	17
			(In percent)			
Distribution of GDP						
Consumption	103.3	102	100	99	98	97
Investment	26.1	24	23	22	21	20
Private	12.5	13	12	11	10	9
Government	13.7	11	11	11	11	11
Net exports of goods and nonfactor services	-29.4	-26	-23	-21	-19	-17
Domestic saving	-3.3	-2	--	1	2	3
			(In percent of GDP)			
Government budget						
Total revenue and grants	39.1	35	33	30	28	27
Revenue	31.8	27	26	26	25	25
Foreign grants	7.3	8	6	5	3	2
Total expenditure	53.7	50	50	50	50	50
Deficit (excluding grants)	-23.7	-23	-24	-24	-25	-26
Deficit (including grants)	-16.4	-15	-17	-20	-22	-23
Foreign financing (net)	0.8	-6	-5	-3	-1	-1
Domestic financing (net)	15.6	20	22	22	23	25
			(In percent of GDP)			
Balance of payments						
Trade balance (deficit -)	-37.4	-42	-36	-33	-30	-27
Current account balance (deficit -)	-6.2	-4	-5	-6	-7	-7
Overall balance (deficit -)	-10.6	-16	-16	-12	-10	-10
			(Percentage change per annum)			
Exports, f.o.b.	10.1	5	17	9	10	11
Imports, c.i.f.	1.7	-6	9	9	8	8
Remittances (net)	-0.7	1	2	3	3	3
Travel (net)	4.4	118	8	8	7	8
Unrequited transfers	6.3	-34	-9	-10	-15	-17
			(In millions of U.S. dollars)			
Reserves	109.5	109.5	109.5	109.5	109.5	109.5
(In months of imports)	(0.5)	(0.5)	(0.5)	(0.4)	(0.4)	(0.4)
			(Changes as percent of beginning period stock of money plus quasi-money)			
Monetary accounts						
Money and quasi-money	11.9	22	23	25	27	31
Foreign assets (net)	-2.0	--	--	--	--	--
Domestic assets (net)	13.9	22	23	25	27	31
Claims on Government (net)	11.0	15	16	17	18	21
Claims on private sector	4.0	7	7	8	9	9
Other items (net)	-1.1	--	--	--	--	--

Source: The Jordanian authorities; and staff estimates.

Table 12. Jordan: Central Government Revenue, 1983-89 1/

	Actual 1983	1984	1985	1986	1987	Prel. Actual 1988	Initial 2/ Estimates 1989	Program 3/ Estimates 1989
	(In millions of Jordan dinars)							
Total revenue	400.6	415.0	440.8	514.4	531.5	541.2	526.0	574.0
Tax revenue	225.8	232.2	246.6	238.0	242.4	257.2	267.0	287.0
Taxes on net income	46.0	48.7	54.4	47.9	45.3	44.8	60.0	60.0
Taxes on domestic transactions	45.8	48.9	58.8	63.9	73.8	79.4	96.0	116.0
Excise duties	(35.3)	(37.2)	(45.8)	(51.6)	(58.3)	(60.3)	(67.0)	(78.0)
Other taxes	(10.5)	(11.7)	(13.0)	(12.3)	(15.5)	(19.1)	(29.0)	(38.0)
Taxes on foreign trade	134.0	134.6	133.4	126.2	123.3	133.0	111.0	111.0
Customs duties	(117.4)	(115.5)	(115.7)	(109.3)	(105.8)	(112.7)	(90.0)	(90.0)
Other	(16.6)	(19.1)	(17.7)	(16.9)	(17.5)	(20.3)	(21.0)	(21.0)
Nontax revenue	174.8	182.8	194.2	276.4	289.1	284.0	259.0	287.0
Licenses	25.8	28.7	28.3	30.0	33.0	35.6	35.0	37.0
Fees	42.0	44.5	42.4	41.3	50.1	47.0	55.0	55.0
Operating surpluses from post and telephone services	23.4	33.3	38.3	45.6	41.8	51.0	58.0	58.0
Interest and profits	59.5	36.4	43.9	39.7	37.0	36.0	39.0	39.0
Miscellaneous 2/	24.1	39.9	41.3	119.8	127.2	114.4	72.0	98.0
Of which: Petroleum surplus	(--)	(--)	(--)	(90.6)	(78.6)	(68.2)	(20.0)	(46.0)
	(As a percentage of GDP at market prices)							
Total revenue	28.2	27.7	27.4	31.4	31.5	31.8	27.1	29.6
Tax revenue	15.9	15.5	15.3	14.5	14.4	15.1	13.8	14.8
Taxes on net income	3.3	3.2	3.4	2.9	2.7	2.6	3.1	3.1
Taxes on domestic transactions	3.2	3.3	3.6	3.9	4.4	4.7	4.9	6.0
Excise duties	(2.5)	(2.5)	(2.8)	(3.1)	(3.5)	(3.5)	(3.5)	(4.0)
Other taxes	(0.7)	(0.8)	(0.8)	(0.8)	(0.9)	(1.1)	(1.5)	(2.0)
Taxes on foreign trade	9.4	9.0	8.3	7.7	7.3	7.8	5.7	5.7
Customs duties	(8.2)	(7.7)	(7.2)	(6.7)	(6.3)	(6.6)	(4.6)	(4.6)
Other	(1.2)	(1.3)	(1.1)	(1.0)	(1.0)	(1.2)	(1.1)	(1.1)
Nontax revenue	12.3	12.2	12.1	16.9	17.1	16.7	13.3	14.8
Licenses	1.8	1.9	1.8	1.9	2.0	2.1	1.8	1.9
Fees	3.0	3.0	2.6	2.5	3.0	2.8	2.8	2.8
Operating surpluses from post and telephone services	1.6	2.2	2.4	2.8	2.4	3.0	3.0	3.0
Interest and profits	4.2	2.4	2.7	2.4	2.2	2.1	2.0	2.0
Miscellaneous	1.7	2.7	2.6	7.3	7.5	6.7	3.7	5.1

Sources: *The Jordanian authorities; and staff estimates.*

1/ Fiscal year coincides with calendar year.
2/ Based on measures taken prior to April 1989.
3/ On the basis of the measures taken in mid-April 1989.

Table 13. Jordan: Central Government Expenditure and Net Lending, 1983-89 1/

	Actual					Prel. Actuals	Initial 2/ Estimates	Program 3/ Estimates
	1983	1984	1985	1986	1987	1988	1989	
	(In millions of Jordan dinars)							
Total expenditure and net lending	665.8	663.1	740.4	811.3	857.4	915.1	969.0	955.0
Total current expenditure	453.7	488.1	542.5	570.5	602.7	661.1	754.0	745.0
Civil current expenditure	257.7	291.3	318.5	320.9	349.8	405.1	503.0	493.0
Wages and salaries	(93.3)	(98.5)	(110.4)	(122.3)	(131.5)	(147.0)	(147.0)	(147.0)
Purchases of goods and services	(40.3)	(44.1)	(50.6)	(49.8)	(50.2)	(54.6)	(45.0)	(45.0)
Interest payments	(31.3)	(40.8)	(51.5)	(58.0)	(75.3)	(92.7)	(139.0)	(139.0)
Subsidies:	(35.0)	(46.9)	(33.5)	(6.3)	(6.4)	13.0	42.0	32.0
Food	[5.0]	[5.3]	[3.9]	[--]	[--]	[--]	[38.0]	[31.0]
Fuel	[26.7]	[36.9]	[24.3]	[--]	[--]	[--]	[--]	[--]
Other	[3.3]	[4.7]	[5.3]	[6.3]	[6.4]	[13.0]	[4.0]	[1.0]
Other transfers	(57.8)	(61.0)	(72.5)	(84.5)	(86.4)	(97.8)	(130.0)	(130.0)
Pensions	[30.0]	[33.0]	[42.6]	[47.2]	[50.0]	[62.0]	[74.0]	[74.0]
Social security	[2.5]	[2.5]	[2.4]	[3.1]	[4.0]	[4.1]	[4.0]	[4.0]
Decentralized agencies	[13.8]	[13.8]	[15.2]	[16.9]	[16.6]	[14.6]	[38.0]	[38.0]
Relief operations	[2.1]	[4.0]	[3.0]	[2.9]	[2.4]	[3.0]	[1.0]	[1.0]
Other	[9.4]	[7.7]	[9.3]	[14.4]	[13.4]	[14.1]	[13.0]	[13.0]
Military expenditure 4/	196.0	196.8	224.0	249.6	252.9	256.0	252.0	252.0
Total capital expenditure	176.4	152.5	170.9	199.7	223.1	228.5	207.0	202.0
Purchase of land	13.6	5.7	11.3	15.5	12.1	6.6	2.0	2.0
Acquisition of other assets	162.8	146.8	159.6	184.2	211.0	221.9	205.0	200.0
Net lending	35.7	22.5	27.0	41.1	31.6	25.5	8.0	8.0
	(In percent)							
Memorandum items:								
Subsidies/total current expenditure	7.7	9.6	6.2	1.1	1.1	2.0	5.6	4.3
Military expenditure/total current expenditure	43.2	40.3	41.3	43.8	42.0	38.7	33.4	33.8
Total current expenditure/total expenditure and net lending	68.1	73.6	73.3	70.3	70.3	72.2	77.8	78.0

Sources: The Jordanian authorities; and staff estimates.

1/ Fiscal year coincides with calendar year.
2/ Based on measures taken prior to April 1989.
3/ On the basis of the measures taken in mid-April 1989.
4/ Comprises defense and public order and safety.

Table 14. Jordan: Credit Ceilings and Indicative Targets for 1989

(In millions of Jordan dinars)

	1988 Actual	1989 Indicative Targets	1989 Ceilings	
	Dec. 31	June 30	Sept. 30	Dec. 31
		(Outstanding stock)		
Net domestic assets of the banking system 1/	2,299.6	2,444.6	2,491.6	2,539.6
Net claims on Government by the banking system 2/	764.2	839.2	874.2	909.2
	(Cumulative changes relative to end-1988)			
Memorandum items:				
Net domestic assets of the banking system 1/	...	145.0	192.0	240.0
Net claims on Government by the banking system 2/	...	75.0	110.0	145.0

Source: Attachment II to The Statement by the Government of Jordan on its Economic Policies.

1/ Net domestic assets of the Central Bank, commercial banks, and the Housing Bank; includes net claims on Government as defined in footnote 2 below, claims on public entities, claims on private sector, claims on specialized credit institutions, claims on financial companies and other items (net), and deposits in a blocked account which are expected to reach JD 30 million by June 30, JD 55 million by September 30, and JD 80 million by December 31, 1989.

2/ Includes claims on and deposits of various ministries and governmental agencies as defined in a separate technical note. Also included is the trading account of the Ministry of Supply; at the end of 1988, there were no claims on this trading account by the banking system and its deposits with the banking system were JD 4.5 million.

Table 15. Jordan: Ceilings on New Public or Publicly-Guaranteed Nonconcessional External Debt, 1989

(In millions of U.S. dollars)

	Cumulative from January 1, 1989 through Sept. 30, 1989	Cumulative from January 1, 1989 through Dec. 31, 1989
Ceilings 1/ on new contractions of public and publicly-guaranteed debts:		
(a) with initial maturity of over one (1) year and up to and including five (5) years;	175	175
(b) with initial maturity of over one (1) year and up to and including twelve (12) years	260	275

Source: Attachment III to The Statement by the Government of Jordan on its Economic Policies.

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 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 statement ("A Statement by the Government of Jordan on its Economic Policies" and Attachments I, II, and III), dated April 13, 1989 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 ______, 1989, Jordan will have the right to make purchases from the Fund in an amount equivalent to SDR 60.00 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 18.50 million until November 15, 1989, the equivalent of SDR 26.8 million until February 15, 1990, the equivalent of SDR 35.1 million until May 15, 1990, the equivalent of SDR 43.4 million until August 15, 1990, and the equivalent of SDR 51.7 million until November 15, 1990.

(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.

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 limits on net domestic assets of the banking system as described in paragraph 17 of the statement annexed to the letter and specified in Attachment II annexed thereto, or

(ii) the limits on net claims on government by the domestic banking system as described in paragraph 17 of the statement annexed to the letter and specified in Attachment II annexed thereto, or

(iii) the limits on new nonconcessional external borrowing contracted or guaranteed by the Government, as described in paragraph 21 of the statement annexed to the letter and specified in Attachment III annexed thereto, are not observed, or

(iv) the undertakings and intentions regarding arrears on external debt service payments as specified in paragraph 22 of the statement annexed to the letter are not observed, or carried out, or

(v) during any period after February 1, 1990 until the first review contemplated in paragraph 1(b) of the letter and in paragraphs 13, 17, 20, and 21 of the statement annexed to the letter is completed and suitable performance criteria have been established for the remaining period of the arrangement after January 1, 1990, or after such performance criteria have been established, while they are not being observed, or

(b) during any period after August 1, 1990 until the second review with the Fund is completed; or

(c) if Jordan:

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

(ii) introduces 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.

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 decision 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 statement.

11. In accordance with paragraph 3 of 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.

April 13, 1989

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

Dear Mr. Camdessus:

1. The attached statement by the Government of Jordan sets out the country's economic and financial objectives for 1989 and 1990, developed in the context of a medium-term framework of growth oriented adjustment, and the policies that it intends to pursue for their achievement. In addition, Jordan intends to request purchases under the compensatory element of the compensatory and contingency financing facility (CCFF) in respect to a shortfall in export earnings. Upon completion of the first review of the stand-by arrangement, Jordan would avail itself of the optional tranche of the CCFF. The following will constitute performance criteria under the program to be supported by the proposed stand-by arrangement:

a. Ceilings on net domestic assets of the banking system and ceilings on net government borrowings from the banking system for end-September and end-December 1989 as described in paragraph 17 of the attached statement.

b. Review of policies as described in paragraphs 13 and 20.

c. Ceilings on new contractions on non concessional public and pubically guaranteed external debt for September and December 1989 as described in paragraph 21.

d. Elimination of arrears on external debt payments as described in paragraph 22.

e. The standard requirements with regard to trade and exchange system as described in paragraph 23.

2. The domestic adjustment effort by Jordan would need to be supported by debt relief and additional concessionary aid to cover the remaining balance of payments gap. Accordingly, the Government of Jordan intends to request the Paris Club, other bilateral creditors and commercial banks for debt rescheduling on generous terms.

3. The Government believes that the policies set forth in the attached statement 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 with the Fund on adoption of any measures that may be appropriate in accordance with the

Fund's policies on such consultation. In this context, the first review of performance under the program will be held not later than November 30, 1989, when understandings will also be reached on policies to be pursued in 1990 and on the performance criteria for the period of arrangement after December 31, 1989.

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

Sincerely yours,

Hanna Odeh	Husayn S. Kasim
Minister of Finance	Governor
Government of Jordan	Central Bank of Jordan
Amman	Amman

A Statement by the Government of Jordan on its Economic Policies

1. Jordan recorded a rapid rate of economic growth and relative financial and price stablility for a prolonged period up to the mid-1980s. During the decade ending in 1985, per capita income more than doubled and there was a noticeable improvement in the living standards of the people. Heavy investment by the Government in social facilities produced large improvements in education, health, and other social services in the country and, at the same time, development of a road network and other physical infrastructure created an environment conducive to an acceleration in private investment activity. One of the main factors facilitating the process of rapid economic development was a sharp increase in private remittance inflows and official grants following the economic boom in the neigboring oil producing countries. However, it was the framework of sound macroeconomic policies and liberal exchange and trade system that was instrumental in a productive and efficient use of the flow of financial resources from abroad.

2. Encouraged by the sustained increase in the inflow of remittances and expectations of high levels of foreign grants under the 1978 Baghdad Arab Summit Resolution, the Government accelerated the pace of economic and social development in the country. However, the subsequent decline in oil prices and other regional developments led to a marked deceleration in the availability of external resources. A prolonged slowdown in the region curtailed the demand for Jordan's exports and reduced employment opportunities abroad for Jordanian workers, leading to a decline in remittances and a rise in domestic unemployment. These developments, in combination with lower than expected foreign grants began, in the context of inflexible expenditure commitments, to strain the budget and the balance of payments by the mid-1980s.

3. Believing that these were reversable trends, the initial government response was to continue the momentum of economic activity in the public sector by resorting to external commercial borrowing, followed by increased recourse to domestic bank borrowing. The resulting domestic demand pressures, in combination with declines in remittances and official grants and rapidly rising external debt obligations, exerted pressure on the balance of payments and the exchange rate. By 1987 the country was faced with a low growth rate, a widening budget deficit, higher rates of monetary expansion, an increased deficit in the current account of the balance of payments, a widening of the overall balance of payments deficit, and a decline in reserves. Despite a number of measures adopted by the Government in the second half of 1988 (see below), there were indications that the underlying economic and financial conditions in 1988 continued to deteriorate.

4. The underlying weakness in the budget and the balance of payments combined with speculative activity led to a situation that could not be sustained without a reassessment of economic priorities and a fundamental restructuring of macroeconomic policies. Accordingly, the Government took bold policy initiatives starting in mid-1988, the most important being the floating of the exchange rate which led to its depreciation, freezing of a large component of government expenditures in the budget for 1989, and a tightening of monetary policy.

5. In the area of external sector, the dinar during the second half of 1988 depreciated by 31 percent in local currency terms in relation to the U.S. dollar (to JD 0.477 = US$1). During this period, divergences in exchange rates of the Central Bank, commercial banks, and the moneychangers widened. However, in mid-February 1989, in view of the mounting speculative pressure on the dinar, the central bank rate and the commercial bank rate were unified at the rate of JD 0.540 = US$1 leading to a further depreciation of 13 percent of the official rate, and licenses of moneychangers were cancelled and their operations were closed down indefinitely. The higher costs of foreign exchange were passed on to domestic prices except for basic foodstuffs and petroleum products whose retail prices were kept unchanged.

6. Other external sector policies included the removal of quantitative restrictions on some imports in August 1988 and their replacement by high tariffs. In November 1988, a temporary ban on imports of 16 luxury goods was imposed in order to preserve the rapidly declining foreign exchange resources; this ban is to be lifted at the latest by the end of 1989.

7. As regards the budget, expenditures were contained by allowing no general wage increase and virtually freezing military expenditure, while purchases of materials and supplies were reduced. Revenue measures to strengthen the budget included (a) a 10 percent tax on sales in luxury restaurants and hotels; (b) a 3 percent tax on airline tickets for travel abroad; (c) a substantial increase in departure taxes; (d) a tripling of annual fees for work permits for foreign workers; and (e) tightening of the procedures for collection of taxes and arrears. The favorable impact of the expenditure restraint and the new revenue measures on the budget was, however, offset by other factors including the revenue loss from freezing petroleum product prices, emergence of subsidies on food items following the devaluation, custom revenue losses from the banning of certain luxury imports, increased transfer payments, and rising debt service obligations. The result is that, without additional measures, the budget deficit (excluding grants) is estimated to decrease marginally from 23.7 percent of GDP in 1988 to 23 percent in 1989.

8. In addition to the above measures, the Government tightened monetary policy and liberalised interest rates. Interest rates on deposits were floated in June 1988, the base lending rate was raised from 8 percent to 10 percent, and banks were allowed to freely determine

the surcharge on lending rates. In addition, the central bank discount rate was raised from 5.75 percent to 7 percent in September 1988 and to 8 percent in January 1989. At the same time, credit policy was tightened by limiting commercial banks' ablility to extend overdraft facilities, prohibiting banks from extending credit in dinars against foreign currency deposits, and increasing the required reserve ratio on term deposits from 6 percent to 9 percent. In addition, encouragement was provided to attract foreign currency deposits to the banking system by raising the limits on such deposits by residents, while continuing the existing practice of having no limits or restrictions on foreign currency deposits maintained by expatriate Jordanians.

9. The Government believes that it has taken substantive measures since mid-1988, and is determined to continue to implement further policy reforms to address the imbalances in the economy. However, there is an increasing realization that the magnitude of the problem is such that comprehensive and sustained efforts are essential since indications are that adverse factors affecting external inflows are unlikely to be fully reversed. There is also a recognition that medium-term, growth-oriented adjustment based on domestic effort alone will be very painful and unsustainable. Accordingly, the Government has adopted a medium-term approach in consultation with the Fund and the World Bank staffs and intends to seek international support for its effort.

10. The principal objectives of the comprehensive medium-term reform program, covering the period 1989-93, is to restore and increase the rate of economic growth within the framework of relative price stablility, and to effect a substantial improvement in the budget and the balance of payments. More specifically, the real growth of the economy, which was negative in 1988, is to be gradually increased to about 4 percent by 1992 and sustained at that level, a rate that is higher than the population growth rate. This is to be achieved through the creation of a policy framework that provides increased investment incentives, and restores confidence, leading to an increase in private sector investment. The Government intends to develop and implement policies aimed at further encouraging private sector investment in consultation with the World Bank. These will include a reassessment of incentives offered by the Encouragement of Investment Law. The Government also intends to assess the organizational requirements of corporations, their business strategies, and operating plans and policies with technical assistance from the Bank. In order to improve resource use in the agricultural sector, its pricing policies, particularly those relating to pricing of water and subsidy to wheat production, will be reviewed and revised in consultation with the Bank. Higher investment would need to be financed by increased domestic savings. The Government recognizes that an essential element for the promotion of domestic savings is the elimination of the dissaving of the Government. Accordingly, the Government intends to take measures that would reduce the budget deficit to a sustainable level by 1993, which will require stringent controls on expenditure, reform of the revenue structure, and new revenue measures on a sustained basis. Reduced

reliance of the budget on domestic bank borrowing would need to be coupled with tight credit policy for the private sector and financial disciplining of the public enterprises so as to moderate the rate of monetary expansion to a level that is consistent with the target of reducing inflation rate from about 14 percent in 1989 to about 7 percent in 1993.

11. As regards the balance of payments, the Government is determined to take all the appropriate measures to achieve a balanced position in the current account by 1993 compared with a deficit equivalent to over 6 percent of GDP in 1988. This is to be achieved through (a) an agressive policy of promoting exports, remittances, and tourism; (b) a tight demand management policy to contain import demand; (c) rationalization of the tariff structure to promote efficiency in resource use; and (d) a flexible exchange rate policy.

12. Within the medium-term framework, the Government intends to reinforce the policies that have already been put in place by additional measures so as to build up the momentum of growth-oriented adjustment. The most fundamental area that requires additional measures in 1989, and in subsequent years, is the budget. Even after taking into account the expenditure reducing and revenue enhancing measures that have already been implemented, the deficit (excluding grants) is projected to be 23 percent of GDP in 1989. It is the intention of the Government to take additional measures in the remainder of 1989 to reduce the deficit by 3 percentage points to 20 percent of GDP compared with 23.7 percent in 1988. Correspondingly, the deficit (including grants) would decline from over 16 percent of GDP in 1988 to less than 12 percent in 1989. The reduction in the deficit is to be achieved by additional measures as described in Attachment I.

13. As for 1990, the Government is committed to reducing the budget deficit (excluding grants) by another 3 percentage points of GDP to 17 percent through revenue measures and expenditure restraint. The Government is aware that the present tax structure is highly inelastic in relation to nominal GDP. This is due to a number of factors including the narrowness of the tax base, heavy dependence of taxes on imports, specificity of most rates, absence of a generalized consumption tax, a wide gap between the statutory and effective tax rates due to tax loopholes and tax evasion, and liberal import duty exemptions. Accordingly, there is an urgent need for tax reform and introduction of a generalized consumption tax of the value-added variety. The Government intends to undertake a full review of the tax structure well ahead of the time for the preparation of the next budget so as to implement tax reforms. Similarly, the Government intends to undertake concrete steps in 1990 for the introduction of a general consumption tax effective in 1991. For both these purposes, the Government has asked the Fund to field a fiscal mission in June/July 1989 with a view to submitting recommendations to the Government, at the latest by end September 1989, which would help in the preparation of the 1990 budget. If the structural reforms are inadequate to yield revenue that

would help reduce the budget deficit/GDP ratio by an additional 3 percentage points in 1990, the Government will take additional revenue measures to achieve the target. These measures will be discussed with a Fund mission which is expected to visit Amman in November 1989 for the first review of the proposed stand-by arrangement.

14. Central government expenditures are currently at an unsustainable level of 50 percent of GDP, or about 80 percent higher than total domestic revenue. Current expenditures alone exceed revenue by over 40 percent indicating that government consumption is being sustained through domestic bank borrowing and external assistance. It is quite clear that the rate of growth of expenditures must be contained well below the growth of nominal GDP in order to achieve the targeted reduction in the budget deficit/GDP ratio. Accordingly, the Government will need to continue to constrain expenditures, particularly the unproductive ones.

15. A new element in the expenditures that has emerged in 1989 is subsidies on basic food items of about JD 38 million mainly due to the fact that the retail prices of wheat and flour, barley, rice, sugar, and powdered milk were not adjusted in line with depreciation of the dinar. The Government believes that these subsidies are essential to protect the poor and vulnerable segments of the population from the effects of austerity measures. However, an attempt will be made to target subsidies for the poor on a more selective basis, keeping in view the objective of reducing the budget deficit.

16. The public enterprises are generally well managed in Jordan and most of them yield a positive rate of return on government investment. However, there are certain enterprises which are a drain on the budget or rely on bank borrowing to finance their operations. In the present context of austere budget and tight credit policy, the Government has initiated a review process, both from an auditing and management point of view, of all the enterprises in order to increase their contribution to the budget. Those entities that are incurring an operating loss will be directed to improve efficiency, and follow realistic pricing policies, so as to achieve financial viability and self-sufficiency. Those already making a profit will be encouraged to curtail inessential expenditures and improve performance so that their contribution to the budget would increase over time.

17. The budgetary initiatives will need to be reinforced with a tight credit policy that, at the same time, ensures adequate supply of credit to the private sector, which will be the main engine of economic expansion. The Central Bank of Jordan has undertaken a thorough review of credit requirements of the private sector and public enterprises. In credit planning for 1989, due account has been taken of an expanding role of the private sector, and the increased demand for credit emanating from the projected increase in nominal GDP. The genuine credit requirements of the private sector and the seasonal credit needs of the public entities can be fully met even if the growth in net

domestic assets is reduced from 14 percent of the initial money stock in 1988 to about 9 percent in 1989. This growth in net domestic assets together with the expansionary impact of the build up of foreign exchange reserves equivalent to JD 60 million will lead to monetary expansion of about 11 percent in 1989. Based on the analysis of the credit requirements of the private sector and public entities, ceilings have been established on net domestic assets for end-September and end-December 1989 as set out in Attachment II. To facilitate the meeting of these ceilings after coming into effect of the stand-by arrangement, indicative targets have been established for end-June 1989. A substantial deviation of the actual outcome in June 1989 from the indicative target would necessitate a review of factors and policies. To ensure that the private sector has adequate access to credit availability, ceilings have been established on net government borrowings from the domestic banking system for end-September and end-December 1989 (Attachment II). A blocked account has been set up to partly sterilize the impact of the anticipated debt relief on the budget and on the financial position of the public entities. Credit ceilings on domestic assets and on net government borrowing from the banking system for 1990 will be established at the time of the first review in November 1989.

18. The Government has already floated all the interest rates on deposits and, although the base lending rate remained fixed, the freedom given to the banks to vary their surcharge had in effect freed the borrowing rates as well. However, in order to encourage agressive mobilization of financial savings and effect an improvement in the allocation of loanable funds, the Government has also decided to free the base lending rate effective from October 1, 1989. The Government intends to let the lending and the borrowing rates be determined freely by the market forces so as to impart confidence to the financial market. In order to further deepen and widen the financial market, the Government intends to sell government bonds to the nonbank private sector at competitive interest rates.

19. Reduction in the current account deficit of the balance of payments is another major objective of the Government's adjustment effort. The target is to reduce the current account deficit in relation to GDP from over 6 percent in 1988 to 5 percent in 1989, and 3 percent in 1990. This is to be achieved by promotion of exports, and remittances and tourism, and containment of imports through stringent demand management policies. The Government intends to develop and implement measures to encourage export market diversification and create an appropriate institutional arrangement for export financing in order to promote exports. To further facilitate export performance and reduce price distortions, the Government plans to implement a medium-term program of trade liberalization. The Government will also take measures to simplify trading procedures and complete the ongoing process of eliminating quantitative restrictions. In order to reduce disparities in the protection offered to different sectors of the economy, and to narrow variations in tariff rates, the Goverment will introduce tariff reforms, ensuring that their revenue impact is neutral. Specific policies

relating to these areas, and timing for their implementation, will be discussed and agreed with the forthcoming World Bank appraisal mission.

20. As regards the exchange rate, the Government has demonstrated its flexibility by effecting a sharp depreciation of the dinar during 1988 and early 1989 when the exchange rate came under market pressure. This contributed to improving the competitiveness of the dinar in real effective terms. The Government believes that the present real effective exchange rate provides adequate incentives for exports and intends to maintain it. In view of tight demand management policies that have been put in place and expected foreign exchange inflows and debt relief, the Government believes that exchange rate stability can be ensured in the near future. However, if unexpected pressures develop, the Government intends to review the policy with the Fund staff to adopt appropriate remedial measures. The factors to be taken into account in such a review would include the effectiveness of demand management policies, relative price changes in Jordan and abroad, developments in other markets on which the dinar is traded, export performance, and reserve position of the country.

21. The Government is committed to pursue a prudent debt management policy. In order to alleviate external debt servicing problems and improve the structure of external debt, the Government has established ceilings for September and December 1989 on new nonconcessional public and publicly-guaranteed external debt of initial maturity of over one year and up to and including twelve years, and such ceilings of initial maturity of over one year and up to and including five years (Attachment III). These ceilings will exclude rescheduling and refinancing undertaken in multilateral restructuring of official and commercial bank loans. Loan ceilings for 1990 will be established at the time of the first review.

22. Arrears on external debt service payments have emerged in recent months. Given the foreign exchange constraint, and the need to ensure a level of imports that is necessary for meeting the growth and price targets of the program, external support in the form of additional resources and rescheduling of outstanding debt will be needed. The Government will request a rescheduling of external debt obligations, including outstanding arrears, from the Paris Club and other official creditors, and from commercial banks, hopefully on very generous terms; and it is determined not to incur new arrears once these negotiations are concluded. On this basis, it is expected that all external arrears will be eliminated through payment or rescheduling by November 15, 1989. Existing arrears to multilateral financial institutions would be settled prior to the coming into effect of the 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 November 15, 1989 arrears for the purpose of this definition exclude external debt service obligations in the process of being regularized through rescheduling.

23. 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 payment agreements which are inconsistent with Article VIII of the Fund's Articles of Agreement; and (d) impose new import restrictions or intensify existing ones for balances of payments reasons.

The following fiscal measures will be implemented on or before May 1, 1989.

Item	Change in Tax Rates or Prices	12 month Revenue Effect	8 month Revenue Effect
		(JD millions)	
A. Revenues			
1. Petroleum	Price increase from:		
LPG	JD 1.8/cyl to JD 2.0/cyl	1.9	1.3
Premium gasoline	JD 0.21/1 to JD 0.27/1	3.9	2.6
Regular gasoline	JD 0.18/1 to JD 0.22/1	15.8	10.5
Jet fuel	JD 0.065/1 to JD 0.08/1	2.6	1.7
Kerosene	JD 0.065/1 to JD 0.075/1	2.0	1.4
Gas oil	JD 0.065/1 to JD 0.075/1	9.6	6.4
Asphalt	JD 50/ton to JD 60/ton	1.4	0.9
Subtotal		37.2	24.8
2. Cigarettes			
Local	Average increase of 30 percent in tax rate	10.8	7.2
Imported		0.6	0.4
Subtotal		11.4	7.6

Item		Change in Tax Rates or Prices	12 month Revenue Effect	8 month Revenue Effect
			(JD millions)	
3.	Beverages			
	Local Alcohol	Tax increase of about 40%	0.6	0.4
	Imported Alcohol		0.6	0.4
	Soft drinks	Tax increase of 18 percent	1.2	0.8
	Subtotal		2.4	1.6
4.	Steel bars	Increase in tax from JD 15/ton to JD 25/ton	2.0	1.5
5.	Telephones	A new tax of 10 percent	3.5	2.3
6.	Car registration and licenses	Various increases	2.3	1.5
7.	Royalties			
	Phosphate	A new tax of US$2/ton on production	7.0	4.7
	Potash	A new tax of $5 a ton on production	3.5	2.3
8.	Irrigation water in the Jordan Valley	Increase from 3 fils/cubic meter to 6/fils cubic meter	0.5	0.3
	Subtotal		18.8	12.6
Total revenue measures			69.8	46.6

Item	Change in Tax Rates or Prices	8 Month Revenue Effect
		(JD millions)
B. Expenditure		
1. Reduction/elimination of subsidies on food items		
Barley	Increase in price from JD 42/ton to JD 57/ton	1.5
Bran	Increase in price from JD 25/ton to JD 35/ton	0.5
Milk	Increase in price from JD 8.2/carton to JD 10.6/carton	1.0
Meat	Average increase in price of about 18 percent	3.0
Olive oil imports	Surplus representing difference between cost price of JD 13 per carton and sale price of JD 17 per carton	0.5
Wheat	Saving due to an increase in the extraction rate of milling wheat from 78 percent to 80 percent	0.8
Subtotal		7.3

Item	Change in Tax Rates or Prices	8 Month Revenue Effect
		(JD millions)
2. Reduction/elimination of budgetary subsidies for production and exports		
(i) Domestic production of barley, lentils, chickpeas, and vegetables	Elimination of budgeted subsidies due to alignment of domestic prices to international prices	2.5
(ii) Exports of finished products	Removal of subsidies	3.0
3. Reduction in expenditure 1/	Savings in telecommunication sector	2.0
Total expenditure savings		14.8
Total revenue and expenditure measures		61.4

1/ In addition, an attempt will be made to reduce expenditures on projects by JD 5-6 million in 1989.

Jordan: Credit Ceilings and Indicative Targets for 1989

(In millions of Jordan dinars)

	1988 Actual	1989 Indicative Targets	1989 Ceilings	
	Dec. 31	June 30	Sept. 30	Dec. 31
		(Outstanding stock)		
Net domestic assets of the banking system 1/	2,299.6	2,444.6	2,491.6	2,539.6
Net claims on Government by the banking system 2/	764.2	839.2	874.2	909.2
		(Cumulative changes relative to end-1988)		
Memorandum items:				
Net domestic assets of the banking system 1/	...	145.0	192.0	240.0
Net claims on Government by the banking system 2/	...	75.0	110.0	145.0

1/ Net domestic assets of the Central Bank, commercial banks, and the Housing Bank; includes net claims on Government as defined in footnote 2 below, claims on public entities, claims on private sector, claims on specialized credit institutions, claims on financial companies and other items (net), and deposits in a blocked account which are expected to reach JD 30 million by June 30, JD 55 million by September 30, and JD 80 million by December 31, 1989.

2/ Includes claims on and deposits of various ministries and governmental agencies as defined in a separate technical note. Also included is the trading account of the Ministry of Supply; at the end of 1988, there were no claims on this trading account by the banking system and its deposits with the banking system were JD 4.5 million.

Jordan: Ceilings on New Public or Publicly-Guaranteed Nonconcessional External Debt, 1989

(In millions of U.S. dollars)

	Cumulative from January 1, 1989 through Sept. 30, 1989	Cumulative from January 1, 1989 through Dec. 31, 1989
Ceilings 1/ on new contractions of public and publicly guaranteed debts:		
(a) with initial maturity of over one (1) year and up to and including five (5) years;	175	175
(b) with initial maturity of over one (1) year and up to and including twelve (12) years	260	275

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 and commercial bank loans, use of Fund resources, and international reserve liabilities of the banking system.

Jordan - Relations with the Fund

(As of April 30, 1989)

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	
b.	Total Fund holdings of Jordan dinars	95.4	129.12
c.	Fund credit: Compensatory	21.5	29.12
d.	Reserve tranche position	--	--
e.	Current operational budget		
f.	Lending to the Fund	None	

III. SDR Department

a.	Net cumulative allocation	SDR 16.9 million
b.	Holdings	0.9 (or 5.6 percent of net cumulative allocation)
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; the amounts outstanding from this purchase (SDR 21.5 million) are scheduled to be repaid in 1989 (SDR 14.4 million) and 1990 (SDR 7.2 million).

B. Nonfinancial Relations

V. Exchange System

Since February 15, 1975, the Jordan dinar has been pegged officially to the SDR at the rate of JD 1 = SDR 2.5790 with margins of 2.25 percent. However, since late 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 in October 1988 it was allowed to float as the Central Bank withdrew support to the foreign exchange market. Divergencies between exchange rates of the Central Bank, commercial banks, and the moneychangers widened. Between October 1988 and early February 1989, the dinar was floating. On February 8, 1989 the Central Bank unified the Central Bank and commercial bank rates at JD 1 = US$ 1.85 and closed down the operations of the moneychangers. The rate has remained unchanged since then.

VI. Last Article IV Consultation

The last Article IV consultation discussions were held in March 1988. The staff report (SM/88/111) was discussed by the Executive Board on June 20, 1988 (EBM/88/96). Directors recommended that the next Article IV consultation with Jordan be held on the standard 12-month cycle.

VII. Technical Assistance

A staff member of the Bureau of Computing Services visited Amman in March 1985 to assess the need for Fund technical assistance to the Central Bank in making better use of its computer facilities. Subsequently, a panel expert was assigned to Jordan by the Central Banking Department. His one-year assignment was extended until December 1986. Staff members of the Fiscal Affairs Department and the Middle Eastern Department visited Jordan in November 1986 to provide technical assistance in the areas of financial reporting and general sales taxation. A staff member of the Bureau of Statistics visited Jordan in April 1987 and reviewed Jordan's national accounts methodology. In January 1988, an expert was assigned to Jordan by the Fiscal Affairs Department for a period of one year to review procedures for budget preparation and execution; his period of appointment was extended for an additional one year. A staff member of the Bureau of Computing Services visited Amman in May 1988 to provide advice on exchange of information between the Fund and the Central Bank and on data processing and system development; a report was subsequently submitted to the authorities. In November 1988, a staff member of the Fiscal Affairs Department visited Amman to advise on the reform of the tax system and to identify the scope for further studies; a report was subsequently submitted to the authorities.

Jordan: Relations with the World Bank Group 1/

As of March 31, 1989, Jordan had received 28 Bank loans and 15 IDA credits totaling US$770.9 million (net of cancellations); all the credits and nine loans have been fully disbursed. For the future, the Bank program for Jordan is expected to average about US$100 million a year. IFC has made loans and equity investments in Jordan with total commitments of US$97.1 million (including US$50.3 million in syndications). Project implementation and disbursement performance have been satisfactory in Jordan. In recent years, disbursements have amounted to more than 75 percent of appraisal estimates, which is generally higher than the average for the EMENA Region.

The Bank Group's strategy has been to support the Government in responding to the fall in oil prices and the resulting slowdown in the regional economies by (i) accelerating growth in the medium term while achieving a viable budgetary and balance of payments position; (ii) addressing the unemployment problem; and (iii) dealing with two critical long-term constraints to future growth, a rapidly growing population, and an increasing water scarcity.

The recent balance of payments developments have created the need to restructure the economy and reorder investment priorities. The Bank is responding to the changing conditions by reorienting its lending program and refocusing its economic and sector work. At the core of the Bank's modified lending program is assistance to the Government's adjustment program. This would include a proposed adjustment loan in the industry and trade area that would aim to strengthen the most important sources of growth in the Jordanian economy, i.e., the expansion and diversification of industrial output and exports. This project, which would be undertaken in the context of a macroeconomic framework and a stand-by arrangement with the Fund, would include measures to help the Government ensure a competitive and stable macroeconomic environment, improve the competitiveness of industry and trade, while protecting the poor during the adjustment period. The proposed loan would be the first step in a process to help the Government with its ongoing structural adjustment program designed to lay the basis for sustainable long-term growth.

Subsequent operations could include possible support to the agriculture sector, based on a recently completed sector report that sets out a policy framework and development strategy for the sector to support the Government's efforts to increase agricultural efficiency and accelerate growth. To bolster the Bank's strategy of helping the Government diversify its export base and accelerate growth, an Industrial Exports Project is envisaged as a follow-up to the adjustment loan to provide further assistance to the Government's export-oriented development strategy, by promoting additional policy and institutional

1/ Prepared by the Bank staff.

measures in this key area and by the creation and expansion of traditional and non-traditional export-oriented industries. This would complement the Shidiya Phosphate Beneficiation Project, which would help expand and rationalize production of Jordan's major export. Finally, a project is planned in the area of science and technology, based on ongoing sector work, which would help the Government expand Jordan's existing science and technology base and support the Government's efforts to develop and implement a comprehensive strategy for science and technology within its wider policy of developing high-quality, high-value exports.

The Bank's strategy also puts considerable emphasis on human resource development. This is designed to help the Government create new opportunities for employment growth--specifically plans for expanding both the quality of Jordan's labor force (to help increase penetration of the higher-skill portion of the external labor market) and the quantity and quality of skilled labor in the domestic economy. The strategy includes education system reform and scientific/technological capacity building, which together can contribute to making Jordan a skilled human resources entrepot in the region. The Human Resources Development Sector Investment Project would support a thorough reform of Jordan's education system designed to ensure that the system will produce graduates with a high quality general education and hence create a flexible workforce capable of being trained with relative ease in response to emerging opportunities. Also in the human resources area, the program includes further assistance to the health sector, which would not only deal with issues such as the quality of health care and institutional and financial aspects of the sector, but also expand Bank assistance in the crucial population area. Finally, to help deal with the other major long-term constraint to Jordan's future growth, the Bank's lending program would include further assistance to the Government in maximizing Jordan's scarce water resources.

The Bank's future economic and sector work is designed to support the adjustment effort and includes a macroeconomic and public expenditure review, which would refine existing analyses of trends in the overall resource balance and review the different components of the public expenditure program in the light of budget constraints; a financial sector review, which would be designed to assist Government policymakers develop policies to improve the working of the financial sector in Jordan; and a social impact study, which would provide assistance to the Government in designing a development strategy to protect the poor during the period of adjustment.

At the end of 1988, the Bank Group share in Jordan's total external public debt was 12.3 percent, and its share in debt service was 10.3 percent. In 1989, the Bank Group's shares in debt outstanding and disbursed and in debt service are both expected to be about 14 percent.

Jordan: Financial Relations with the World Bank Group - Outstanding Stock of Loans and Credits as of March 31, 1989

(In millions of U.S. dollars)

	IBRD	IDA	Total
IBRD/IDA lending operations			
1. Fully disbursed operations 1/	214.3	86.1	300.4
2. Ongoing operations 2/	470.4	--	470.4
Agriculture	--	--	--
Education	120.2	--	120.2
Infrastructure	190.0	--	190.0
Industry	79.0	--	79.0
Population, Health and Human Resources	23.7	--	23.7
Energy (including power and utilities)	57.5	--	57.5
3. Total (1 + 2)	684.7	86.1	770.8
4. Less: Repayments	81.0	6.5	87.5
5. Total now held by IBRD/IDA	603.7	79.6	683.3
Memorandum items:			
Total IBRD/IDA undisbursed loans	250.2		250.2
IFC investments			97.0
Less: Repayments, sales, cancellations			83.0
Total commitments now held by IFC			14.0

Source: The World Bank.

1/ Twenty-four loans and credits fully disbursed, net of cancellations.
2/ Includes one IBRD loan for US$36.0 million approved by the Board but not yet effective.

Jordan: Financial Flows with IBRD and IDA

(In millions of U.S. dollars)

Fiscal Years	1984	1985	1986	1987	1988
IBRD (net)	31.479	35.285	68.823	74.119	43.82
Disbursements	33.216	40.840	81.606	93.653	77.86
Amortization	-1.737	-5.555	-12.783	-19.534	-34.04
IDA (net)	-0.423	-0.900	-0.830	-0.880	-0.93
Disbursements	0.305	—	—	—	—
Amortization	-0.728	-0.900	-0.830	-0.880	-0.93
Total loans (net)	31.056	34.385	67.993	73.239	42.89
Interest payments					
IBRD	6,207	8.989	15.360	26.329	32.96
IDA	0.623	0.630	0.620	0.614	0.58
Total interest	6.830	9.619	15.980	26.943	33.54

II. Description of Major Projects 1/

World Bank

Loan No. 1617-JO: Arab Potash Project

The loan for $35 million was designed to finance the project to produce 1.2 million tons per annum of fertilizer-grade potash from Dead Sea brine via solar evaporation. Production started in 1982. The loan has been fully disbursed and was closed on December 31, 1984.

Loan No. 2162-JO: Fifth Power Project

The project was for the construction of a power station in Aqaba, a transmission line between Aqaba and Amman, and consultant services for engineering, erection, supervision and initial operation. The loan has been fully disbursed and was closed on December 31, 1988.

1/ Involving World Bank group financing of US$30 million or more.

Loan No. 2371-JO: Energy Development Project

The project was designed to assist power subsector development, as well as contribute to petroleum exploration and improve energy efficiency and planning through the expansion/rehabilitation of urban distribution networks, village electrification, procurement of equipment for petroleum exploration, energy development and efficiency, technical assistance and training.

Loan No. 2378-JO: Sixth Education Project

The project provides financial assistance for constructing, equipping and furnishing 31 compulsory schools, 16 new general secondary schools; 48 science laboratories, 49 libraries, and 50 multi-purpose workshops, and technical assistance for training instructors, education planning and technology, project implementation, and preinvestment studies.

Loan No. 2425-JO: Eight Cities Water Supply and Sewerage Project

The project was to improve water supply service and provide sewerage service in the provincial cities of Ramtha, Mafraq, Anjara, Ajloun, Ein Janneh, Kufrinja, Madaba, and Ma'an. The loan of US$30 million was fully disbursed in December 1987, well ahead of its closing date of June 30, 1990.

Loan No. 2463-JO: Multi-Mode Transport Project

The project would relieve transport bottlenecks and congestion on Jordan's international trade routes. It would thus facilitate the movement of key commodities such as phosphate, potash, fertilizer, and cement, as well as general cargo.

Loan No. 2483-JO: Greater Amman Water Supply and Sewerage Project

The project would improve the water supply and sewerage services in the Greater Amman area through the extension and rehabilitation of water mains, construction of trunk and sewers, and sewage treatment works, provision of operating and maintenance equipment and consultant services. The project was completed in March 1988.

Loan No. 2694-JO: Water Supply and Sewerage

The project provides financial assistance for the extension and rehabilitation of water mains, construction of service reservoirs and pumping stations, trunk and collector sewers, equipment supply for operation, maintenance and water sources monitoring, consultant services for engineering, construction supervision and water supply systems control.

Loan No. 2890-JO: Seventh Education Project

The project is designed to support Government efforts to further improve the quality and relevance of education and occupational training, and to strengthen related education institutions.

Loan No. 2902-JO: Phosphate Mining

The project aims to bring the low-cost Shidiya phosphate deposit into production while ensuring its proper integration with existing phosphate industry operations, facilities and infrastructure. The project includes the development of a 1.5 mpty mine as a first step in the development of the Shidiya ore field, a dry beneficiation plant, and social/industrial infrastructure.

IFC

Jordan Fertilizer Project

This IFC assisted project aims at producing 740,000 tons per annum of diammonium phosphate (DAP) and 105,000 tons of phosphoric acid in a plant near Aqaba. Production started in 1982.

Jordan - Statistical Issues

1. Outstanding statistical issues

a. Government finance

The 1988 GFS Yearbook includes budgetary central government data through 1986, but data on local governments are current only through 1976. Consequently, the local government and general government tables are not included in the 1988 GFS Yearbook. Moreover, the GFS Yearbook does not publish provisional data for Jordan.

b. Monetary accounts

Monetary data in the Central Bank's Bulletin are more current than those reported for IFS. The Bureau of Statistics will address this issue with the IFS correspondent. The coverage of banking institutions in IFS is in the process of being expanded and it is intended to introduce a banking survey in the near future.

2. Coverage, currentness, and reporting of data in IFS

The table below shows the currentness and coverage of data published in the country page for Jordan in the May 1989 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Central Bank of Jordan which, during the past year have been provided on an infrequent basis.

Status of IFS Data

		Latest Data in May 1989 IFS
Real Sector	- National accounts	1987
	- Prices	July 1988
	- Production	July 1988
	- Employment	n.a.
	- Earnings	n.a.
Government finance	- Deficit/surplus	Q1 1988
	- Financing	Q1 1988
	- Debt	Q1 1988
Monetary authorities	- Monetary authorities	July 1988
	- Deposit money banks	July 1988
	- Other financial institutions	March 1988
Interest rates	- Discount rate	July 1988
	- Bank lending/deposit rates	n.a.
	- Bond yields	n.a.
External sector	- Merchandise trade: Values	Q1 1988
	Prices	Q3 1987
	- Balance of payments	Q4 1987
	- International reserves	August 1988
	- Exchange rates	March 1989