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August 19, 1986

To: Members of the Executive Board

From: The Acting Secretary

Subject: Jordan - Staff Report for the 1986 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1986 Article IV consultation with Jordon. A draft decision appears on page 19.

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

Mr. Handy (ext. 7073) or Mr. Iqbal (ext. 4534) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

JORDAN

Staff Report for the 1986 Article IV Consultation

Prepared by the Staff Representatives for the
1986 Article IV Consultation with Jordan

Approved by A.S. Shaalan and J.T. Boorman

August 18, 1986

I. Introduction

The 1986 Article IV consultation discussions with Jordan were held in Amman during the period July 5-8, 1986. The Jordanian representatives included the Minister of Finance, the Minister of Planning, and the Governor of the Central Bank of Jordan, as well as senior officials of these and other agencies responsible for economic and financial policies. The mission comprised Messrs. A. S. Shaalan (Head), P. Griffith, H. Handy, Z. Iqbal, and M. Melhem, all of the Middle Eastern Department, and Ms. A. Sookazian (Secretary-STAT).

Jordan continues to avail itself of the transitional arrangements of Article XIV. 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. A fuller description of Jordan's relations with the Fund is provided in Appendix I. Other appendices cover Jordan's relations with the World Bank (Appendix II), statistical issues (Appendix III), medium-term balance of payments projections (Appendix IV), and a summary of basic data (Appendix V).

II. Background and Recent Developments

Following a lengthy period of rapid growth in a climate of financial stability, Jordan's economic performance has deteriorated over the past few years. This deterioration has revealed underlying structural weaknesses in the economy associated with high rates of consumption and low productivity of earlier investment. It has also reflected lagging adjustment to a rapidly changing external environment in an economy where current external receipts account for as much as 80 percent of GNP. External pressures have derived from security problems in the region and economic decline in neighboring countries upon which Jordan has depended heavily for foreign assistance, outlets for its surplus labor and related remittances, and markets for its exports.

During 1983-85, grants which come mainly from neighboring Arab countries, and which have been a mainstay of the balance of payments and the budget, were on average almost 30 percent lower than in the preceding three years. Remittances by Jordan's estimated 340,000 migrant workers (more than three quarters of whom are employed in neighboring Arab countries) have been a major source of growth in current external receipts in the past. Even though recent data are believed to be inflated by transfers of workers returning permanently, remittances appear to have peaked in 1984 and now seem set to decline as a consequence of shrinking employment opportunities and lower wages throughout the region.

Trends in merchandise export earnings also reflect the adverse developments in the region. Though exports to Iraq (Jordan's largest single trading partner) have recovered over the past two years, following a setback in 1983, this has followed the introduction of special trade and credit arrangements which have led to a substantial buildup of illiquid official claims on that country which now exceed US$0.5 billion. Exports to other neighboring countries have stagnated. There has been some progress toward diversification of markets and products, but the growth of total export earnings (averaging 6 percent over the past four years) has been hindered by the weakness of prices for Jordan's major commodity exports (phosphates, fertilizer, and potash) and has not been sufficient to forestall a significant deterioration in the external current account.

The policy response by the authorities to these external developments was insufficient. In 1983 they announced a policy of fiscal restraint aimed at adjusting to lower foreign resources. Following increases of the order of 11 percent in 1980-82, total expenditures were reduced by about 2 percent in 1983 by means of deep cuts in capital expenditures (Chart 1). However, the restraint was short-lived. Expenditure growth picked up again in 1984-85, averaging about 7 percent annually. Also, in the latter two years, revenue showed little increase owing both to the low elasticity of the tax system and erosion of the tax base as tax incentives and exemptions were expanded with a view to stimulating activity. As a result, the overall budget deficit increased from the equivalent of about 5 percent of GDP in 1983 to an average of about 9 percent in 1984-85, with the bulk of financing coming from foreign borrowing. Excluding foreign grants, the budget deficit amounted to 18 percent of GDP in 1984 and 20 percent of GDP in 1985.

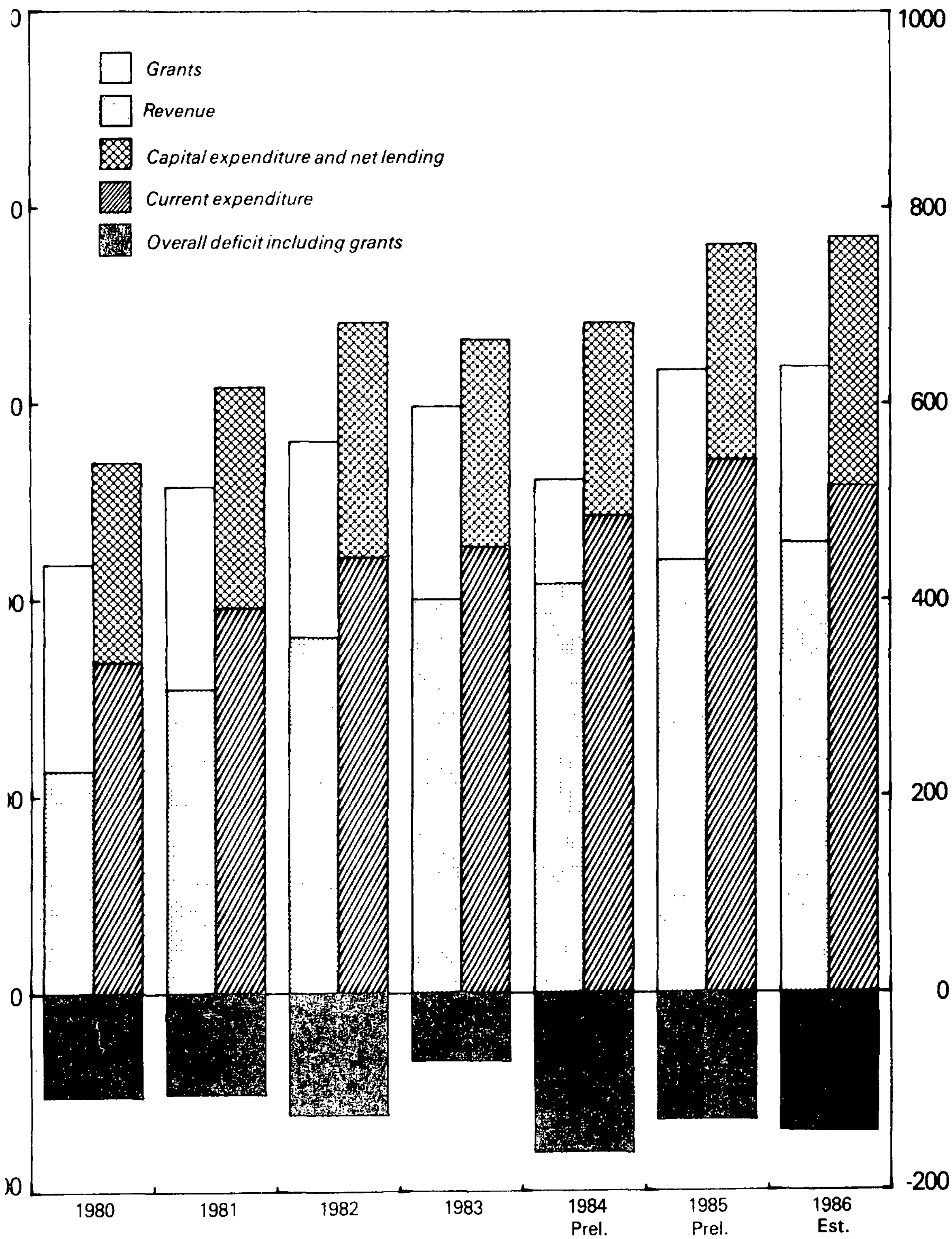
Monetary policy in 1983-84 aimed at compensating for the reduced growth impulses from the external sector and was expansionary: central bank advances to commercial banks were increased, reserve requirements reduced, and lending rates lowered slightly. As a result of these steps, credit to the private sector continued to expand briskly though at a lower rate than previously (Chart 2). Last year the authorities took a number of further steps to encourage bank lending to the private sector, particularly for export financing. In the event, however, the growth in credit to the private sector slackened to about 5 percent on account of the continued slowdown in the economy and the fact that,

CHART 1

JORDAN

CENTRAL GOVERNMENT BUDGETARY OPERATIONS

(In millions of Jordan dinars)



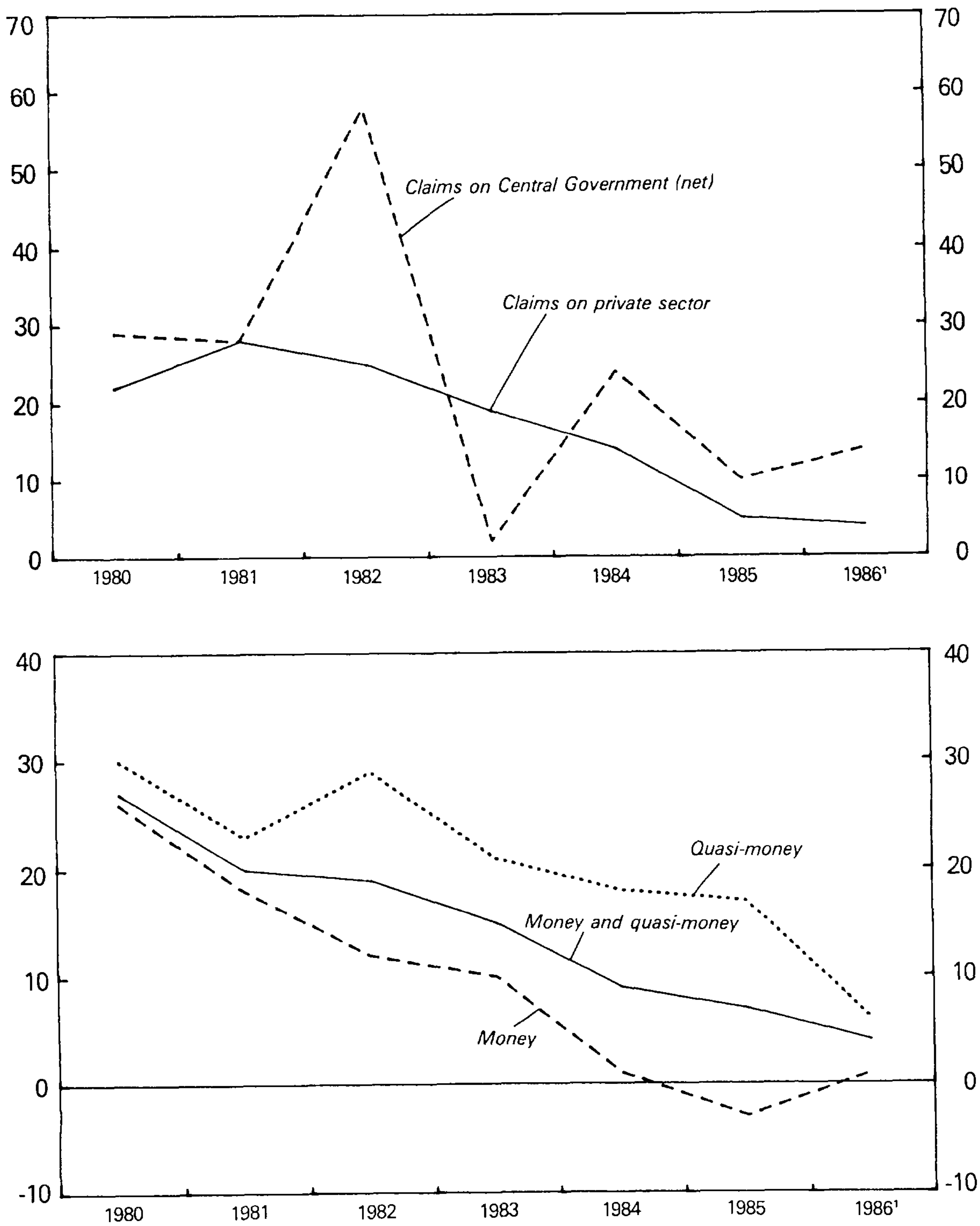
Source: Jordanian authorities.

CHART 2

JORDAN

MONETARY DEVELOPMENTS, 1980-86

(Changes in percent)



Source: Jordanian authorities.

1 April, 1986.

mainly because of lower inflation, domestic interest rates were rising in real terms. Meanwhile, total liquidity growth has kept ahead of nominal growth of the economy, though with a significant shift in its composition in favor of quasi-money.

Outside the realm of demand management, the authorities took a number of measures designed to assist the domestic economy. In agriculture, which faced competition from subsidized products in neighboring countries, restrictions were placed on the cultivation of certain items in plentiful supply, and subsidies and price support schemes were extended with a view to promoting output of other crops in demand both locally and abroad. Some domestic manufacturing industries were given increased protection; imports of certain finished products, for which domestically produced substitutes were available, became subject to higher tariffs or were banned altogether. At the same time, certain raw materials and intermediate products were exempted from duty. Also, in early 1984, the Central Bank introduced regulations requiring commercial banks to hold not less than 4 percent of their total deposits in development bonds, treasury bills, and corporate bonds, as well as to invest not less than 15 percent of their capital and reserves in corporate equities. Finally, the authorities have taken steps to attract increased investment from other Arab countries. These include the elimination of restrictions on participation in all major sectors, and extension of rights to acquire and own property. In addition, citizens of other Arab countries became eligible to own up to 49 percent of equity in joint ventures in trade, insurance, and finance, to benefit from comparable preferential tax arrangements as Jordanian citizens, and to receive guarantees against nationalization of their assets.

In general, policies have not succeeded in forestalling a gradual deterioration in economic performance both domestically and in the external sector. Real output growth weakened considerably over the past three years, to a range of 1-2 percent annually, with indications of a marked slowdown in manufacturing and construction (Chart 3). These developments are viewed with concern, inter alia, because of the pressing need to generate new employment domestically now that unemployment is on the rise and job opportunities in neighboring countries are declining. Another source of concern is that the brunt of the slowdown has been borne by investment. Though the growth of consumption declined to about 1 percent annually in real terms over 1983-85, gross fixed investment contracted by 10 percent annually. As a result, the share of consumption in GNP increased from 92 percent in 1982 to 96 percent in 1985, while the investment ratio fell from 36 percent to 26 percent with heavy external borrowing helping to prevent a much greater decline.

While inflationary pressures have continued to ease (the increase in the cost of living index was 3 percent last year and is on a downtrend), the results of shortcomings in demand management in the context of declining foreign resources are revealed in the balance of payments where large current account deficits have been incurred since 1982 (Chart 4). These deficits (including official transfers) have averaged close to 7 percent of GNP and have been financed through recourse to foreign borrowing, mainly from international commercial banks. As a result, external public and publicly guaranteed commercial debt has grown from about SDR 270 million at end-1982 to SDR 930 million at end-1985. Total external debt (excluding defense credits for which information is not available to the staff) now represents about 67 percent of GDP, and known debt service payments, though still relatively low, have been on the rise; they accounted for 10 percent of exports of goods and services in 1985. Despite the increased borrowing, however, gross official reserves (excluding claims on Iraq) have fallen sharply in recent years and at end-June 1986 stood at the equivalent of less than six weeks of imports of goods and services.

Jordan's exchange system is free from restrictions on payments for current international transactions except for a few limits on payments for invisibles. The dinar has been pegged to the SDR at the rate of JD1 = SDR 2.5790 since February 1975 within margins of 2.25 percent. In recent months, the exchange rate of the dinar vis-a-vis the SDR has been allowed to move within margins of up to 6 percent. The real effective exchange rate as measured by the standard index developed in connection with the information notice system has moved within a fairly narrow range in recent years (Chart 5). However, from the time of the last Executive Board discussion of Jordan's exchange rate policy--the 1985 Article IV consultation in June 1985--through June 1986, the Jordan dinar depreciated in real effective terms by 11.3 percent. Since recent developments in the exchange rate of the dinar are discussed in the present paper, no separate information notice will be issued.

III. Policy Issues and Discussions

At the time of the last consultation with Jordan in June 1985, Executive Directors emphasized the need for strong and comprehensive adjustment policies in order to cope with the deterioration in the external economic environment. To this end, they called for a determined policy of enhancing government revenues and constraining budget spending as well as for a tightening of credit policy including a more flexible interest rate policy. They also urged the authorities to refrain from expanding intervention in the economy through subsidies, regulations, or restrictive trade policies. Finally, Directors thought that priority should be given to improving the balance of payments and rebuilding reserves, while reducing the economy's dependence on foreign grants; in this regard they suggested that the authorities should not hesitate to use the exchange rate as a policy tool.

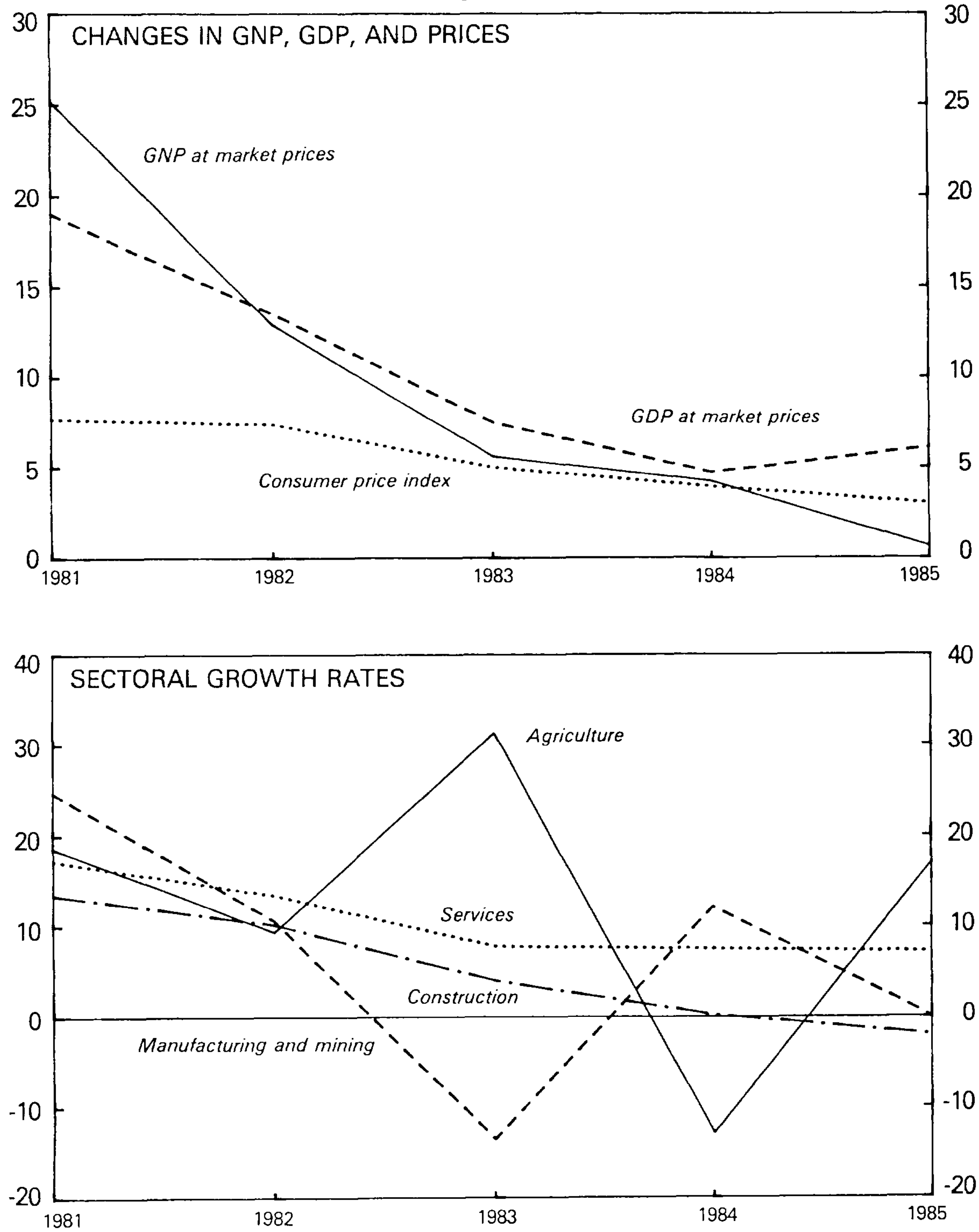
Developments since the last consultation, particularly the prospect of a deepening recession in the region following the precipitous fall in oil prices since the beginning of this year, have, in the view of the staff, made these recommendations all the more compelling and urgent. With these considerations in mind, the consultation discussions centered on two broad areas: first, on reassessing the underlying trends and

CHART 3

JORDAN

SELECTED ECONOMIC INDICATORS

(Change in percent)



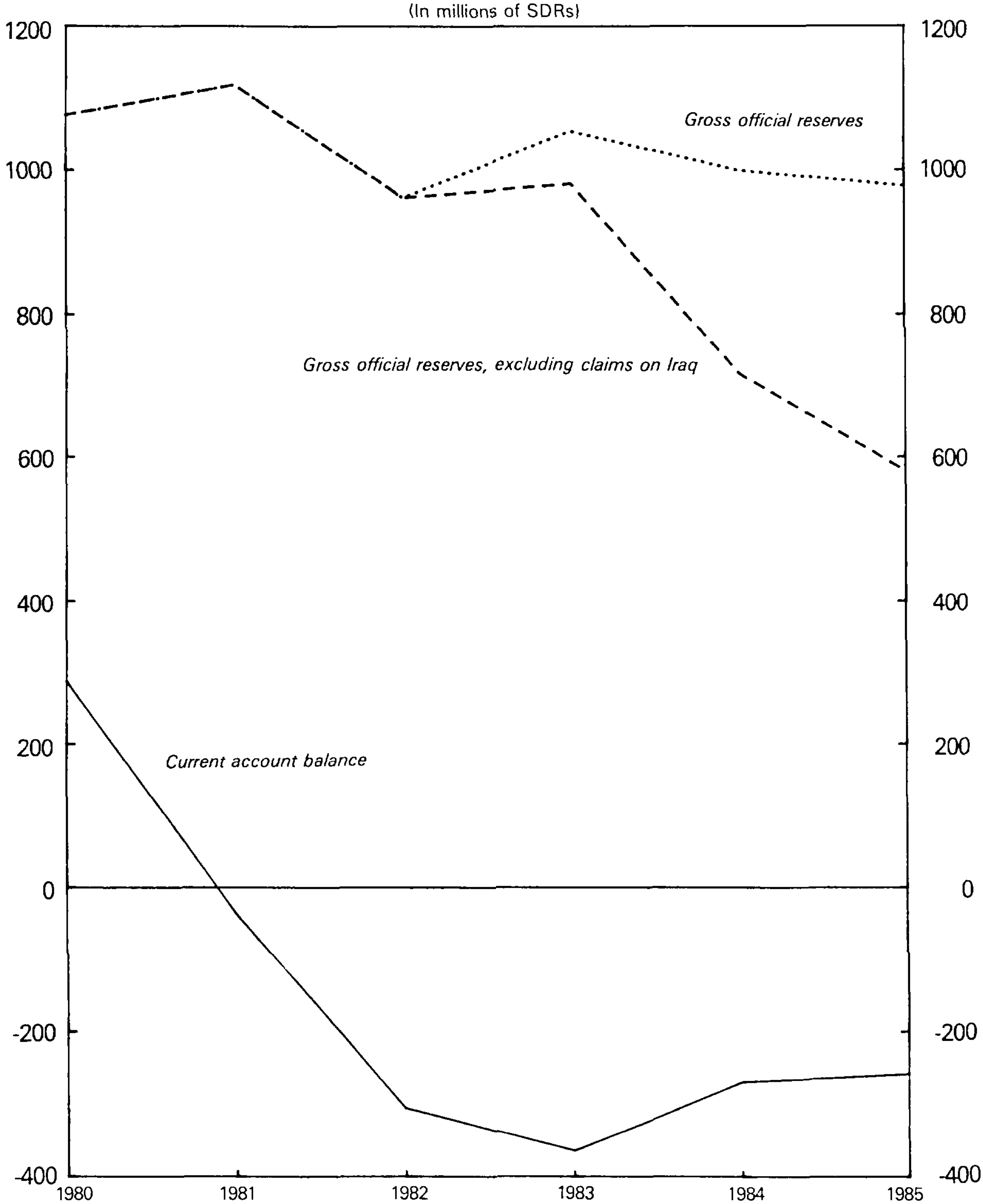
Source: Jordanian authorities.

CHART 4

JORDAN

EXTERNAL CURRENT ACCOUNT AND OFFICIAL RESERVES

(In millions of SDRs)



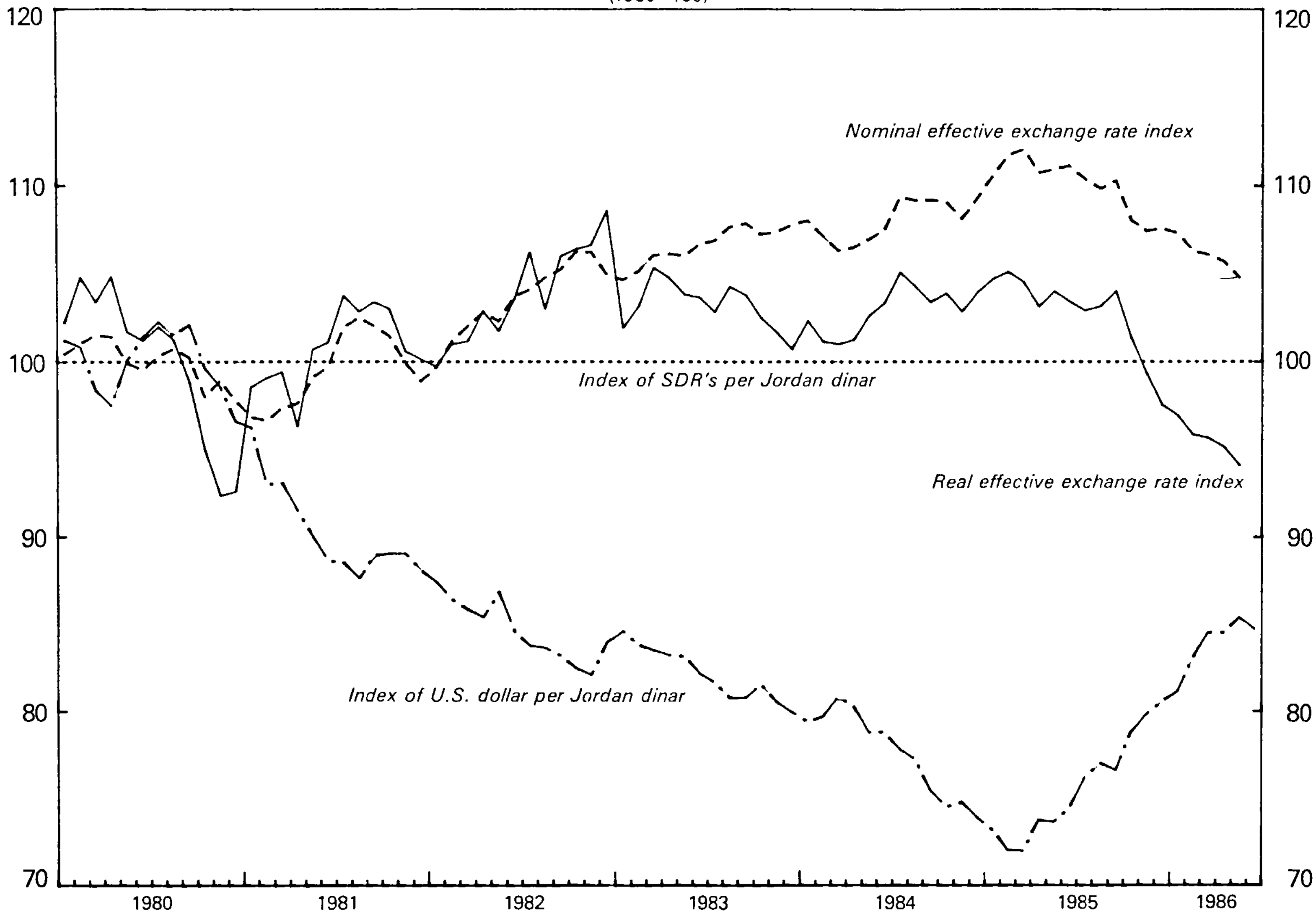
Source: Jordanian authorities.

CHART 5

JORDAN

EXCHANGE RATE INDICES

(1980 = 100)



Sources: IFS; and IMF Information Notice System.

prospects in the economy in light of the less favorable external environment; and, second, on identifying the policy requirements for strengthening the external position while establishing the necessary conditions for a resumption of sustainable growth over the medium term.

1. Current policy issues

a. Production and employment

The recent weakness of domestic activity is expected to continue into 1986. In current prices, GDP at factor cost is likely to increase only marginally while the cost of living index would remain broadly unchanged. This implies little or no real growth, and represents a further slowdown compared with 1985 which is expected to encompass all major sectors. Agriculture, an important contributor to growth over much of the recent past, is expected to record little or no growth in 1986 reflecting increasing penetration of the domestic market by imported goods, stiff competition in export markets, and a steep drought-related decline in the output of rainfed crops. The latest indications are that industrial activity, too, is subdued owing to weak demand, and any revival in this area seems unlikely in the near future. In construction, a number of leading indicators point to a further decline in output of this sector in 1986. Finally, activity in the remaining sectors--services, trade, and public utilities--are likely to remain relatively weak on account of the recessionary conditions in the rest of the economy.

The continued sluggishness of demand and activity in the economy in 1986 posed, in the view of the authorities, a serious problem now that unemployment had re-emerged for the first time in a decade. Unemployment was currently estimated at 8 percent of labor force, and with workers returning from abroad would reach about 10.5 percent by year end. The authorities were looking to an expansion of the domestic services sector, where Jordan enjoyed comparative advantage in a number of areas, as a means of absorbing at least some of those from among the growing pool of the skilled unemployed. Curbs had been placed, in May 1986, on the hiring of non-Jordanians, who currently accounted for about 28 percent of the domestic labor force but who were primarily engaged in lower-paid activities.

The authorities have also taken further steps to boost domestic employment and to foster production and import substitution in agriculture and industry. The policy of regulating agricultural production has been extended. The staff representatives expressed reservations as to the Government's increasing intervention in agriculture, recalling that this was one aspect of a more general issue on which Executive Directors had expressed misgivings at the time of the last consultation. Increasing reliance on such policies, in the view of the staff, indicated a disturbing trend, particularly as regards subsidies which, once introduced, were hard to remove. The staff representatives encouraged the authorities to monitor the implementation of these policies carefully, while examining the scope for a more market-oriented producer incentive system that might better encourage the development of new agricultural crops in which Jordan had comparative advantage and export potential. The Jordanian representatives stressed that these policies were, indeed, kept under careful review. They considered that the support prices were justified as a temporary measure to promote innovation and diversification; as producers gained expertise in the new areas, support prices would be eliminated.

In the industrial sector the financial position of certain of the major export industries has deteriorated in recent years, and substantial losses have been reported by some, including potash, fertilizer, and cement. The Jordanian representatives ascribed these developments to a variety of causes, including weak world market prices (especially in the case of potash and fertilizer), marketing problems, high production costs and dumping (cement), falling regional demand (chemicals and animal feed), and stiff international competition (food and food products). Prospects, however, were better on account of the reorganization of some industries, expanded capacity in others, and efforts to strengthen export marketing arrangements. At the same time, they indicated that in line with World Bank projections, they expected some recovery in world market prices for Jordan's major commodity exports in the period ahead.

In explaining the reasons behind the increasing resort to import protection for domestic manufacturing in the past two years, including tariff increases and a ban on the import of certain items, the Jordanian representatives said that these measures were necessary in the present recessionary climate. They were primarily aimed at fostering the development of local industry and stimulating domestic production. Bans had been limited to those cases where dumping had occurred and applied to items accounting for less than 4 percent of the value of total imports in 1985; local products benefiting from such protection were subject to price control. It was emphasized that these measures did not signal a fundamental shift in Jordan's trading policies and practices, and that the authorities were still firmly committed to maintaining a liberal and open trade regime. The staff representatives cautioned against tightening import restrictions as a means of promoting domestic industry: they stressed that such policies risked becoming entrenched while fostering inefficient industries and a misallocation of resources.

b. Prices and wages

Although most prices are freely determined, there has been a recent tendency to increase the number of items subject to price control while certain other items are subsidized. The Jordanian representatives pointed out that the system of price control had traditionally encompassed basic foodstuffs, utilities, pharmaceuticals, and oil products. While price controls had been extended to certain local manufactures subject to import protection, most officially set prices for goods and services continued to be based on actual cost plus a profit margin. Subsidies applied in only a few cases and were financed mainly through the budget; an exception was wheat which was subsidized by the Ministry of Supply from its off-budget resources. Total subsidies financed through the budget applied principally to food items and energy, and had fallen from JD 46 million in 1984 (9 1/2 percent of current total budgetary expenditures) to JD 36.3 million in 1985 (6 1/2 percent). A further decline in budget-financed subsidies (to about 2 percent of current expenditures) was in process as domestic prices for oil products were being maintained in the face of falling import prices.

Wages and salaries of government employees were last adjusted in March 1985. The present budget envisages a continuing freeze on remuneration in the public sector as well as on net new hirings. Though reliable information on wage developments in the private sector is lacking, the indications are that in view of current trends in output and prices, and rising umemployment, little or no growth in real incomes will occur in the current year.

c. Domestic financial policies

Discussions of fiscal policy focused on the implementation of the 1986 budget and the thrust of fiscal policy in current circumstances. The Jordanian representatives agreed that recent developments had rendered the original 1986 budget estimates in need of substantial revision. Accordingly, revised estimates drawn up in collaboration with the staff team are shown in Table 1.

Total expenditures are now expected to be less than envisaged in the original budget, reflecting a shortfall in capital spending, with the result that capital expenditures would remain at about the same level as last year. Current expenditures, on the other hand, are expected to be in line with the original budget; overruns, which have been a feature of past years, would be avoided by means of strengthened controls over disbursements. On the receipt side, with the further weakening of the domestic economy and the anticipated decline in the value of imports in 1986, tax revenues are now expected to fall short of the budget estimates by 15 percent. Nontax revenues are also expected to be below budget, but to show a substantial improvement over last year as a result of a number of measures, including higher license fees and increased charges for postal and telecommunication services. The estimate for grant receipts has also been lowered from the original budget estimate to a level somewhat below that realized last year. Overall, the revised estimates for the 1986 budget point to a fiscal deficit of the order of JD 147 million, or the equivalent of nearly 9.5 percent of GDP--somewhat higher than that estimated for 1985 and more than double the level of the deficit (including grants) originally envisaged in this year's budget.

Table 1. Jordan: Central Government Budgetary Operations, 1982-86

	Actual 1982	Actual 1983	Preliminary 1984	Preliminary 1985	Budget 1986	Revised Estimates 1986
	(In millions of Jordan dinars)					
Revenue and grants	561.6	597.6	522.3	634.8	769.0	633.0
Revenue	362.0	400.6	416.2	439.9	516.0	450.0
Tax revenue	(200.3)	(225.8)	(233.2)	(254.5)	(281.5)	(240.0)
Nontax revenue	(161.7)	(174.8)	(183.0)	(185.4)	(234.5)	(210.0)
Foreign grants	199.6	197.0	106.1	194.9	253.0	183.0
Expenditure and net lending	683.7	665.9	683.2	762.7	832.2	780.0
Current expenditure	443.0	453.7	485.2	542.0	563.8	563.8
Capital expenditure	200.7	176.4	169.2	191.3	241.9	190.0
Net lending	40.0	35.8	28.8	29.4	26.5	26.2
Overall deficit, excluding grants	-321.7	-265.3	-267.0	-322.8	-316.2	-330.0
Overall deficit, including grants	-122.1	-68.3	-160.9	-127.9	-63.2	-147.0
Financing	122.1	68.3	160.9	127.9	63.2	147.0
Foreign (net)	55.5	60.7	105.6	162.0	50.2	50.2
Domestic	61.6	6.1	53.7	37.8	13.0	13.0
Banking system (net)	(61.6)	(3.8)	(41.5)	(21.6)	(...)	(...)
Nonbank sources (net)	(--)	(2.3)	(12.2)	(16.2)	(...)	(...)
Discrepancy	5.0	1.5	1.6	-71.8	...	...
Unfinanced gap	--	--	--	--	--	83.8
	(As percent of GDP)					
Memorandum items:						
Revenue	27.4	28.2	27.9	27.8	32.6	28.5
Expenditure and net lending	51.7	46.8	45.9	48.2	52.6	49.3
Overall deficit, excluding grants	-24.3	-18.6	-17.9	-20.4	-20.0	-20.9
Overall deficit, including grants	-9.2	-4.8	-10.8	-8.1	-4.0	-9.3

Source: Jordanian authorities.

The staff representatives expressed concern as to the high level of the deficit that now seemed in prospect and inquired if the authorities were contemplating any further initiatives to redress the situation. The Jordanian representatives recalled that numerous measures had already been taken to curtail the increase in the underlying deficit, and others, including a strengthening of revenue administration, were now being considered. However, they felt that in the present recessionary conditions, with mounting unemployment, the focus of fiscal policy had to be on reviving the domestic economy. To this end they believed that the present level of expenditure should be maintained, and that local procurement could be emphasized so as to minimize any negative effects on the balance of payments. On the financing side, the authorities would try to limit total commercial financing from abroad to an amount no greater than that needed to roll over maturing commercial loans.

The staff representatives stressed that the deficit constituted a structural rather than cyclical problem, deriving from the changed economic conditions and prospects in the region. Thus, efforts to revive domestic activity through fiscal expansion would frustrate the needed adjustment and run counter to the expressed intentions of the authorities in other areas. The revised budget estimates envisaged a large unfinanced gap--of the order of JD 85 million, or 5.5 percent of GDP. Whether this was financed from domestic or external sources, the result would be to add to domestic liquidity creation, generating inflationary pressures and further weakening the external position, the implications of which are examined further below. The rising external debt service burden and the expressed intention of the authorities to limit further recourse to external borrowing on commercial terms, put a constraint on the scope for foreign financing. On the other hand, given the low level of foreign reserves, a continuation of current budgetary trends would ultimately leave the authorities with little option other than the imposition of further restrictions and controls. For these reasons, the prospective fiscal deficit appeared to the staff team as the central policy issue, and one which called for early action encompassing both revenue and expenditure measures aimed at bringing the deficit down to somewhere near the level envisaged in the 1986 budget.

Turning to monetary developments and policy, the staff representatives observed that the uncertainty surrounding actual budgetary financing requirements for 1986 and their implications for the balance of payments naturally made it difficult to assess the prospective course of monetary and credit developments. At the same time, the large budget deficit that appeared in prospect limited the scope for effective monetary and credit control. With these qualifications in mind, the staff representatives went on to inquire as to the role of and objectives envisaged for monetary policy in the period ahead. The Jordanian representatives pointed out that the implementation of monetary policy continued to be governed by three considerations: maintaining stability in the financial system; achieving greater efficiency in the allocation of credit; and preserving domestic and external stability.

Elaborating, the Jordanian representatives explained that a number of steps had been taken toward strengthening the financial institutions. Effective from the beginning of 1986, the minimum capital base of commercial banks had been raised. Bank regulation and supervision had been reinforced by the introduction of more detailed and more frequent reporting procedures; at the same time, new and stricter guidelines for provisioning had been introduced. Banks were now required to provide detailed information of lending operations to the supervisory authorities to enable effective monitoring and to ensure prudent lending and provisioning operations. In addition, the ceiling on credit to individual clients, without prior approval of the Central Bank, had been reduced (to JD 500,000 from JD 750,000) with a view to improving the quality of banks' domestic assets. The loan/deposit ratio ceiling remained at 70 percent, a level that was regarded as conservative; moreover, in practice the ratio was much lower. Though rates of return earned by banks on equity and assets had, on average, declined with the recession, some banks had improved their position.

Following the failure of two foreign exchange houses earlier this year, the authorities had taken steps to restrict the operations of such institutions to foreign exchange transactions alone and to cut them off from access to bank credit. To these ends, official supervision had been stepped up. Also, consideration was being given to increasing the capital base of these institutions and making them subject to unlimited liability. The authorities expected the importance of the exchange houses to diminish as banks, with official encouragement, took on a more active role in foreign exchange operations and transactions.

As to policies for achieving a more efficient allocation of credit, the Jordanian representatives explained that their goal was to reduce the share of resources going to finance consumption in favor of productive investment in the private sector. Among recent steps taken in this direction, the Central Bank had, earlier this year, authorized commercial banks and finance companies to grant credit against private domestic securities, up to a limit of 75 percent of their market value, or JD 50,000 per client, without prior approval of the Central Bank. The Jordanian representatives also recalled that an earlier measure requiring banks to invest at least 15 percent of their capital in the private sector equities had also been aimed at directing bank financing toward investment. Foreign banks at their request, had been exempted from this provision but had instead agreed to provide an equivalent amount in the form of low-interest deposits with the specialized credit institutions. In response to a comment by the staff that these regulations could impede efficient market allocation, a point that had also been made in the last Executive Board discussion of Jordan, the Jordanian representatives said that the incremental amounts involved were relatively small and had had perhaps only a marginal impact on banks' allocation of loanable funds.

Recalling that interest rates on both the borrowing and lending sides continued to be subject to official regulation, leading to a highly complex structure of domestic rates and one which was slow to respond to changes in domestic or international circumstances, the staff representatives inquired as to how the authorities viewed the role of interest rates in credit allocation and their policy intentions in this regard. The Jordanian representatives said that they were examining the scope and justification for liberalizing interest rates at least on the deposit side; lending rates they felt, would continue to be controlled as a means of influencing credit allocation. They pointed out that any moves toward freeing deposit rates would have to be implemented in a gradual and cautious manner. The banking system was accustomed to the present arrangements, and the virtual absence of an interbank market had resulted in a rise in deposit rates when this approach had been tried in the past, as banks competed for deposits to build up their resource base. The staff representatives strongly encouraged the authorities to pursue their review of interest rate policy. They also expressed the view that steps to liberalize interest rates and simplify their structure would enhance domestic resource mobilization, while increasing the scope for banks to differentiate in their lending operations according to commercial risk thereby improving the allocative efficiency of the domestic capital market.

Finally, as regards the role of monetary policy in maintaining domestic and external stability, the Jordanian representatives noted that this encompassed avoiding inflationary pressures, assuring stability in the external convertibility of the Jordan dinar, and conserving foreign exchange reserves. In the latter regard, and in an effort to discourage imports, advance cash deposit requirements for importers wishing to finance imports on credit, were raised in early 1986 (to a range of 10 percent to 30 percent) and extended to cover all imports. Banks had been asked not to provide financing for these deposits, nor were they obliged to pay interest on them. The staff observed that, if the purpose was to curtail imports, it might have been better to have acted by means of an exchange rate adjustment, as this would have also carried advantages for exports.

d. External developments and policies

The official balance of payments projections for 1986, shown in Table 2, point to a marked reduction in the current account deficit (to the equivalent of about 2 percent of GNP). A fall in grants and slightly lower receipts in the form of remittances would be more than offset by a stronger trade position, principally reflecting volume increases in major commodity exports and lower import payments associated with the recession and falling oil prices. Though the surplus on capital account would narrow, on the assumption that commercial borrowing abroad would be limited to rolling over maturing loans, a small overall surplus was anticipated.

Table 2. Jordan: Balance of Payments, 1981-86

(In millions of SDRs)

	1981	1982	1983	1984	Est. 1985	Proj. 1986
Trade Balance	-2,072.8	-2,260.7	-2,298.8	-2,007.8	-1,964.2	-1,651
Exports (f.o.b.)	625.7	682.2	543.1	749.6	801.8	846
Imports (c.i.f.)	-2,698.5	-2,942.9	-2,841.9	-2,757.4	-2,766.0	-2,497
Services (net), of which	926.5	993.0	1,173.7	1,020.3	894.2	890
Remittances (receipts)	879.2	984.8	1,039.1	1,225.0	1,039.1	1,032
Unrequited transfers (net), of which	1,111.0	962.7	760.6	718.9	812.4	672
Government grants	1,071.1	938.0	746.8	674.9	751.0	620
Current account	-35.3	-305.0	-364.5	-268.6	-257.6	-89
Capital account	178.1	292.5	404.3	166.0	355.0	163
Government (net)	57.3	238.8	376.2	91.5	330.1	91
Receipts	(820.7)	(815.5)	(814.0)	(741.2)	(908.1)	(645)
Payments	(-763.4)	(-576.7)	(-437.8)	(-649.7)	(-578.0)	(-554)
Private investment (net)	120.8	53.6	28.1	74.5	24.9	72
Allocations of SDRs	3.1	—	—	—	—	—
Net errors and omissions	-106.5	-148.3	89.9	-76.2	-49.5	-52
Overall balance (deficit -)	39.4	-160.8	129.7	-178.8	47.9	22
Memorandum items:						
Current account balance (as percent of GNP)	-0.9	-7.1	-8.0	-5.6	-5.4	-1.9
Gross liquid reserves (in months of merchandise imports)	4.1	3.5	3.5	2.5	2.0	1.5 1/
Debt service payments as percent of exports of goods and services 2/	7.4	6.6	7.3	7.3	9.8	12.2

Source: Jordanian authorities.

1/ End-June 1986.
2/ Excludes payments in respect of defense credits.

In commenting on these projections, the staff representatives emphasized that the prospects were subject to considerable margin of error partly because of the continuing uncertainty surrounding the economic outlook for the region, but also because of the uncertainty regarding Jordan's own policy intentions, particularly those relating to the budget. While the trade accounts and capital flows envisaged in the balance of payments projections appeared roughly consistent with the original budget estimates, they did not fit with the present outlook for the budget and the associated financing gap. Based on current trends in domestic credit and on a broadly unchanged money demand function, the prospective budget deficit seemed likely to result in a current account deficit of 5.5 percent of GNP--about the same order of magnitude as last year. Abstracting from any implications this might have for confidence and capital flows, and in the absence of external borrowing beyond that already planned, the overall deficit would be about SDR 170 million. Given the already low level of official reserves, a further loss of reserves on this scale added an element of urgency to the need for corrective measures. Recalling the earlier discussion in connection with fiscal policy (summarized above), the staff representatives indicated that the most promising avenue lay in reducing the financing needs of the budget so as to ease pressures on the external sector. A strict credit policy combined with a cautious external borrowing program would also be required.

The Jordanian representatives recognized that current budgetary trends added a measure of uncertainty to the balance of payments outlook. While the authorities believed there was some scope for higher foreign borrowing in 1986 than that provided for in the present projections, they were anxious to avoid an excessive accumulation of foreign debt. To this end, they were strengthening procedures for monitoring and controlling external debt--an area in which technical assistance from the Fund would be sought--so as to improve the information base for policymakers and thus ensure that further borrowing would be kept well within manageable bounds. They also planned to keep demand management policies under close and continuing review. The Jordanian representatives noted that efforts to strengthen the external reserve position depended, in large part, upon a solution to the problem of the mounting claims on Iraq. No such solution was as yet in sight, however. Meanwhile trading with Iraq was being conducted under a bilateral trade agreement which had been raised this year to $200 million; in addition, Jordan had agreed to provide credit up to a limit of $100 million for 1986, of which $80 million had already been utilized.

In the context of the emerging structural weaknesses in the balance of payments and the need to achieve a further strengthening and diversification of the export sector, the staff representatives sought clarification of current official thinking on exchange rate policy. The Jordanian representatives explained that the long-term stability of the exchange rate of the dinar had brought many advantages to Jordan in terms of confidence; at the same time, they felt that considerable progress had been made in recent years in developing and diversifying the export sector. Certain steps had recently been taken to encourage exports including reductions in interest rates on export refinancing, and the provision of support facilities for marketing Jordanian products abroad; also, the authorities were giving thought to the establishment of an export credit guarantee scheme. Some greater flexibility had been introduced in exchange rate policy in recent months primarily by allowing wider margins of fluctuation of the dinar vis-a-vis the SDR.

The staff representatives expressed the view that the authorities might wish to review their existing pegging policy in light of the change in underlying conditions, particularly the decline in external resources. Though the real effective exchange rate index had shown little change, there were other indications that suggested some erosion of Jordan's external competitiveness in recent years. These included the necessity for increased resort to protection, reliance on advance import deposits, and the financial problems facing a number of Jordan's major export industries. In addition, the dinar had appreciated significantly vis-a-vis the currencies of certain other countries in the region with which Jordan competed directly in export markets. These trends, together with the mounting pressures on the balance of payments resulting from developments in foreign grants and remittances, suggested the need for a more flexible exchange rate policy in conjunction with other adjustment measures. In this regard, the staff emphasized that while a more flexible exchange rate policy would need the support of a restrained demand management stance, continued rigidity in the exchange rate would necessitate much greater financial restrictiveness, thereby thwarting the efforts of the authorities to achieve stronger growth with external viability.

2. Medium-term prospects and issues

Discussions of the medium term centered on the new five-year plan (1986-90) which is now being finalized in consultation with the staff of the World Bank. In reviewing the targets of the present draft, which is expected to be submitted for government approval shortly, the staff team observed that the target for real GDP growth--5 percent annually--seemed very high, implying as it did an improvement over the average rate of growth achieved under the last plan (4.2 percent) in spite of the deterioration in the external environment and the balance of payments constraint. Moreover, with most of the growth under the last plan having taken place in its first two years, real GDP had risen by only one percent annually during 1983-85. Underlying the anticipated recovery of growth were expectations of a significant strengthening of investment (programmed to rise by 5.4 percent annually in contrast to a decline of 10 percent a year in 1983-85) and exports (projected to rise by 6.7 percent compared with a decline of 3.4 percent).

While the staff of the World Bank have not yet completed their assessment of the new plan, they are of the view that the macroeconomic targets and the investment program underlying them are at best feasible only if supported by a wide range of measures to augment domestic resource mobilization and strengthen efficiency in the economy. The

Bank has also proposed a somewhat reduced emphasis on agriculture in the investment program in favor of small- and medium-scale, export-oriented, and labor-intensive industries (particularly in the areas of engineering, transport equipment, and machinery) as a means of achieving a higher rate of absorption of the anticipated growth in the labor force.

Discussions focused on two aspects of the proposed plan: its implications for domestic resource mobilization, and the external policies and balance of payments projections underlying it. As regards resource mobilization, the plan envisaged a substantial increase in domestic savings both by the private and the public sectors. Domestic savings were targeted to double in real terms over the plan period, while the consumption/GNP ratio would decline from 96 percent in 1985 to 87 percent at the end of the decade. The staff representatives said that domestic resource mobilization on the scale envisaged in the plan would be very difficult to achieve in the light of the current economic climate and the uncertain prospects. The extent to which these goals could be realized would depend on the scope and effectiveness of new policy measures in mobilizing additional savings and in channeling them toward productive export-oriented investments. To these ends, fiscal, monetary, and exchange and trade policies all had a role to play. In any circumstances, the authorities should avoid seeking to make up for a shortfall in domestic savings by monetary expansion or excessive borrowing abroad since such expedients would generate inflation and external financing pressures which, in turn, could ultimately subvert growth. Likewise, there was a need to avoid further reliance on protectionist policies as a means of fostering investment; import substitution without regard for comparative advantage would lead to a misallocation of resources and adversely affect long-term growth prospects.

The Jordanian representatives indicated that the plan envisaged a number of specific measures in the area of domestic resource mobilization. To curtail the expansion of private consumption, direct taxes would be increased, as would tariffs on certain imports. Steps would be taken as necessary to restrain the growth of government consumption expenditure to no more than about 3 percent in real terms; in particular, subsidies--both implicit and explicit--would be phased out by 1990. Efforts would also be made to improve the efficiency of investments. However, the authorities had reservations as to a suggestion by the staff of the World Bank that investment in agriculture might be de-emphasized in favor of increased investment in small-scale industry, because the agricultural sector was seen as the key to achieving more balanced regional development of the country. The authorities were fully aware of the need to avoid an excessive accumulation of external debt as a means of making up for lower domestic savings or shortfalls in foreign grants and remittances. On trade policies, while agreeing with the staff in general, they pointed out that export markets in the oil exporting countries were now contracting; thus there was need for greater emphasis on import substitution in certain areas.

Turning to the external sector and the medium-term balance of payments projections underlying the new plan (Appendix IV), the Jordanian representatives explained that, in the trade accounts, the projected increase in commodity export earnings primarily reflected increasing capacity and volume growth; "other" exports were projected to rise by 10 percent in value terms, which was in line with recent experience. Non-oil imports would grow at an annual rate of 5 percent in value, roughly equally divided between volume and price increases. Oil import projections were based on prices which were somewhat above current WEO assumptions and volume growth of 2 percent annually. Based on these assumptions, the trade balance was expected to remain close to its 1986 level in nominal terms through the end of the decade. At the same time, the balance on services account was also expected to remain at about its current level on the assumption that remittances would not decline further from their level in 1985-86. A modest further decline in grant receipts was anticipated over the coming years. The result was that the current account deficit would remain substantially lower, both in absolute terms and relative to GDP, than in the recent past. In the capital account, net borrowing from bilateral and multilateral sources was based on current estimates of availability, while commercial borrowing would be kept within the bounds needed to roll over maturing loans. Overall, the balance of payments position would be in modest surplus through 1988 facilitating some rebuilding of reserves, with small deficits in the final two years of the plan.

In commenting on the official projections, the staff representatives observed that, in addition to their reservations regarding the projections for 1986 (discussed above), the projections for subsequent years also appeared to be optimistic. Based on the current thrust of policies, particularly as regards fiscal policy and exchange rate policy, it was very difficult to see the trade balance evolving as envisaged on the official projections. In addition, the export projections appeared to ignore the continuing uncertainty regarding the settlement of current and future claims on Iraq. As to remittances, the recent underlying trend might have been masked by transfers of workers returning home permanently; however, this was likely to be a temporary phenomenon and could well foreshadow a sharp reduction in remittances one or two years from now. Finally, projected receipts of foreign assistance, both in the form of grants and loans, were at least subject to a wide margin of uncertainty given the large share of such resources coming from neighboring countries, the majority of which faced difficult economic adjustments themselves in the foreseeable future. For these reasons the staff representatives believed that the external constraint facing Jordan in the period ahead might well prove to be much greater than that implied in the current projections.

IV. Staff Appraisal

Economic developments in Jordan over the past three years have seen a marked slowdown and stand out in stark contrast to the lengthy period of high growth that preceded them. The root cause of the downturn lies in structural weaknesses that beset the economy including its continued heavy dependence upon neighboring countries whose economies have been deteriorating and now face major adjustment challenges.

Looking ahead, there are, in the view of the staff, at least two reasons for concern. In the first place, Jordan's adjustment to the adverse developments of the past few years has been less than adequate. One indication of this is that the brunt of the slowdown in the economy has been borne by investment, a development which could weaken the basis for recovery in the future. Another indication is given by financial developments: strongly expansionary fiscal policy in 1984 and 1985 aggravated the emerging weakness in the balance of payments with the result that official reserves have fallen to an historically low level in spite of further external commercial borrowing on a substantial scale. The second reason for concern at the present time is that the economic stagnation throughout the region over the past few years may be giving way to a widespread and deepening recession following the dramatic turn of events in the world oil markets this year.

The staff believes that this combination of circumstances creates not only the necessity for economic adjustment in Jordan to changed circumstances, but dictates that such a strategy be embarked upon without delay. At the same time, the prospect of declining foreign assistance and remittances, as well as the need to reduce reliance on external borrowing on commercial terms, necessarily implies a period of retrenchment. Understandably, it is not easy for the authorities to acquiesce in such a prospect, particularly at a time when a new development plan is about to be launched. However, efforts to orient financial policies toward the short-term goal of sustaining, or worse still, boosting, aggregate demand could only retard the needed structural adjustment while intensifying existing pressures on the balance of payments. A second policy option which should be firmly rejected involves resort to restrictions and controls. Such intervention in the economy runs directly counter to the official goals of strengthening efficiency, expanding employment opportunities, and laying the foundations for a resumption of sustainable growth. It is, moreover, inconsistent with the liberal traditions and outward-oriented policies that proved so effective in generating growth in the Jordanian economy in past years. In this regard, the staff notes that most of the recent steps in this direction have been aimed at countering dumping or designed as temporary expedients to foster the development of industry.

Turning to the elements of a sound adjustment strategy for Jordan, the staff believes that in view of recent developments and prospects for the external sector, top priority must now be given to reversing the drain on foreign reserves. As a first step in this direction, broad and sustained efforts are needed to bring down the fiscal deficit from its presently unsustainable levels. The indications are that the budget deficit is currently running at more than 9 percent of GDP, a level which is slightly higher than last year and could, given the present uncertainties in the situation, be exceeded. A deficit of this order of magnitude would have serious implications for the economy. Far from being an engine of growth at a time of recession, it would add to domestic liquidity creation, aggravating domestic and external imbalances which, failing corrective action, could pave the way for a proliferation of restrictions and controls. Accordingly, the staff believes that urgent action is called for, encompassing revenue and expenditure initiatives, to bring the budget deficit down to about half its current level or close to that envisaged in the 1986 budget.

Restoration of a more sustainable domestic financial environment is, in the view of the staff, an essential prerequisite to a resumption of sustainable growth over the medium term. In addition, however, there are a number of other steps needed to improve the efficiency of domestic resource allocation and to enhance the prospects for a recovery. In sum, the tendency toward greater intervention should be reversed; the interest rate system should be simplified and liberalized; and the recent progress toward reducing subsidies should be consolidated and extended. Determined steps, including a more flexible exchange rate policy, will also have to be taken to strengthen incentives for exports if the expansion and diversification of exports currently envisaged is to be realized and further import compression minimized.

The staff recognizes that these measures are not a prescription for immediate growth. They are, however, the necessary elements of a structural adjustment strategy for Jordan, one that will enhance domestic resource mobilization and promote a shift of resources toward investment and the tradables sector, thereby providing the underpinnings for sustained growth and higher employment in the future. For this strategy to succeed, the right signals will need to be provided, and the priorities underlying the public sector investment program will need to be soundly based.

Regarding the consultation cycle, the staff team conveyed to the authorities the views expressed at the time of the last consultation when Executive Directors voiced a strong preference for Jordan to be placed on the standard 12-month cycle. The authorities, however, reiterated their own preference for consultations to be on an 18-month cycle, with a margin of 3 months. Accordingly, they have proposed holding the next consultation discussions in Amman in October 1987 following the Annual Meetings of the Fund. This timing would probably result in an interval between consultations somewhat longer than the 15 months allowed under the standard 12-month cycle (plus grace period). It is recommended that Directors reaffirm the importance of regular annual consultations with Jordan in present circumstances.

V. Proposed Decision

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

1. The Fund takes this decision in concluding the 1986 Article XIV consultation with Jordan, in the light of the 1986 Article IV consultation with Jordan conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes that Jordan continues to operate a liberal exchange system.

Jordan - Relations with the Fund

(As of July 31, 1986)

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:	131.3	177.7
c.	Fund credit: compensatory	57.4	77.7
d.	Reserve tranche position:	--	--
e.	Current operational budget:	Not included	
f.	Lending to the Fund	None	

IV. SDR Department

a.	Net cumulative allocation:	16.9
b.	Holdings:	14.8 (or 87.7 percent of net cumulative allocation)
c.	Current designation plan:	Not included

VII. 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.

B. Nonfinancial Relations

VIII. Exchange System

Since February 15, 1975, the Jordan dinar has been pegged to the SDR at the rate of JD 1 = SDR 2.5790 with margins of 2.25 percent. On April 30, 1986, the exchange rate vis-a-vis the U.S. dollar was JD 1 = US$2.89.

IX. Last Article IV Consultation

The last Article IV consultation discussions were held in March 1985. The staff report (SM/85/159) was discussed by the Executive Board on June 26, 1985 (EBM/85/100). Directors recommended that the next Article IV consultation with Jordan be held in approximately 12 months.

X. Technical Assistance

A staff member of the Bureau of Statistics visited Jordan in November 1978. A staff member of the Bureau of Computer 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 has since been extended until December 1986.

Jordan: Relations with the World Bank Group

I. Financial Activities of the World Bank Group 1/

(In millions of U.S. dollars)

			Amount 2/ Bank	IDA	Undisbursed
I. IBRD					
A. Loans fully disbursed					
Fifteen credits				86.1	
Four loans			75.9		
B. Loans being disbursed					
Loan No.	Fiscal Year	Purpose			
1893	1980	Urban Development	21.0		9.4
1986	1981	Power IV	25.0		2.3
2068	1982	Education IV	25.0		15.2
2162	1982	Power V	35.0		12.5
2213	1983	Water Supply and Sewerage	17.0		6.6
2246	1983	Education V	18.8		17.4
2334	1983	Urban Transport	30.0		27.6
2371	1984	Energy Devt. I	30.0		15.3
2378	1984	Education VI	40.0		39.9
2425	1984	Eight Cities Water Supply and Sewerage	30.0		15.2
2463	1985	Multi-Mode Transport	30.0		30.0
2483	1985	Greater Amman Water Supply and Sewerage	30.0		24.4
2531	1985	Primary Health Care	13.5		13.5
2587 3/	1985	Urban Development II	28.0		28.0
2614 3/	1986	Cities Villages Development Bank II	15.0		15.0
2633 3/	1986	Manpower Development	10.2		10.2
Total 2/			474.4	86.1	282.5
	Of which: repaid		17.5	4.1	
	Total now held by Bank/IDA 2/		456.9	82.0	

II. IFC

Year	Obligator	Type of business	Loan	Equity	Total
1974	Jordan Ceramic Ind.Co.Ltd.	Ceramic tiles	1.6	0.2	1.8
1975/78/81/82	Jordan Fertilizer Ind.Co.	Phosphatic fertilizer	79.5 4/	8.7	88.2 4/
1979	Jordan Lime and Silicate	Building materials	2.5	1.3	3.8
1979	Jordan Securities Corp.	Money and capital market		0.7	0.7
1980	Jordan Leasing Co. Ltd.	Leasing		0.3	0.3
	Total Commitments		83.6 4/	11.2	94.8 4/
	Less Commitments Repaid, Sold or Cancelled		60.7 4/	0.6	61.3 4/
	Total Commitments now held by IFC		22.9	10.6	33.5
Total Undisbursed			-	-	-

II. Description of Major Projects 1/

World Bank

Loan No. 1617-JO: Arab Potash Project

This is the largest industrial project in Jordan. It is aimed at producing 1.2 million tons per annum of fertilizer-grade potash from Dead Sea brine via solar evaporation. Production started in 1982. The loan, which is fully disbursed, was for US$35 million.

Loan No. 2334-JO: Urban Transport and Municipal Development Project in Amman

The project aims to strengthen the long-term planning, investment programming, and management functions of Amman Municipality, and upgrade transport infrastructure and traffic conditions on major arteries in Amman.

Loan No. 2371-JO: Energy Development Project

The project would assist power subsector development as well as contribute to petroleum exploration and improvement of energy efficiency and planning.

Loan No. 2378-JO: Sixth Education Project

The project provides financial assistance for (a) constructing, equipping, and furnishing 24 compulsory schools and 7 general secondary schools for girls as well as 7 compulsory schools and 9 general secondary schools for boys; (b) constructing, equipping, and furnishing 48 science laboratories, 49 libraries, and 50 multi-purpose workshops for 53 existing upper general secondary schools; and (c) 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 would improve water supply service and provide sewerage service in the provincial cities of Ramtha, Mafraq, Anjara, Ajloun, Ein Janneh, Kufrinja, Madaba, and Ma'an, none of which now have sewers.

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.

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

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.

Loan No. 4129-JO: Water Supply and Sewerage Project

The project is part of the Government's high priority program to improve the water supply and sewerage services in Jordan including extension and rehabilitation of water mains, construction of a service reservoir, pumping stations, sewage treatment works, supply of water equipment and consultant services.

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. National accounts

The Department of Statistics is responsible for the compilation and publication of national income data, which are available only in current prices. The Ministry of Planning has developed its own price deflators for the current price national income data, while the Central Bank uses the consumer price index as a deflator. However, neither of these methods has been officially adopted to generate a national income series at constant prices.

The national accounts estimates at current prices which were made available to the mission for 1983 and 1984 are preliminary and are not easily reconcilable with certain production, export, and fiscal data. The authorities are now in the process of revising the national income estimates for these two years, and a special committee from the concerned government agencies and the Central Bank has been created for this purpose. It is believed that the revisions may entail significantly downward adjustments to the national income estimates, particularly for 1983.

b. Government finance

The 1985 GFS Yearbook includes data for the budget of the central government through 1983. It also includes aggregate data for local governments through 1976. There is a need to expand the coverage of the central government tables by including data for the extrabudgetary units, and also to provide detailed and more up-to-date local government data. Budgetary data for 1984 have been received and will be published in the 1986 GFS Yearbook.

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 August 1986 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 a timely basis.

Status of IFS Data

			Latest Data in June 1986 IFS
Real Sector	-	National Accounts	1984
	-	Prices: CPI	Mar. 1986
	-	Production: Industrial	Mar. 1986
	-	Employment	n.a.
	-	Earnings	n.a.

Government Finance	-	Deficit/Surplus	Dec. 1985
	-	Financing	Dec. 1985
	-	Debt	Dec. 1985
Monetary Accounts	-	Monetary Authorities	Mar. 1986
	-	Deposit Money Banks	Mar. 1986
	-	Other Financial Institutions	Feb. 1986
Interest Rates	-	Discount Rate	Aug. 1985
	-	Bank Lending/Deposit Rate	n.a.
	-	Bond Yields	n.a.
External Sector	-	Merchandise Trade: Values	Dec. 1985
	-	Prices (Unit Values)	1984
	-	Balance of Payments	Q4 1984
	-	International Reserves	June 1986
	-	Exchange Rates	June 1986

Jordan: Balance of Payments Projections, 1986-90

	1986	1987	1988	1989	1990
			(In millions of SDRs)		
Trade Balance	-1,651	-1,640	-1,666	-1,684	-1,717
Domestic exports (f.o.b.)	755	848	939	1,057	1,158
Phosphate	(200)	(206)	(245)	(304)	(335)
Fertilizer	(108)	(129)	(137)	(144)	(155)
Potash	(85)	(116)	(121)	(129)	(139)
Other	(362)	(397)	(436)	(480)	(529)
Imports (excluding re-exports)	-2,407	-2,489	-2,605	-2,742	-2,876
Non-oil	(-2,037)	(-2,141)	(-2,244)	(-2,360)	(-2,476)
Oil	(-370)	(-348)	(-361)	(-382)	(-400)
Services (net)	890	895	903	908	916
Remittances (receipts)	1,032	1,032	1,032	1,032	1,032
Unrequited transfers (net)	672	671	671	619	619
Government	620	610	619	567	567
Current account	-89	-74	-92	-157	-182
Capital account	163	183	163	196	214
Government (net)	91	124	106	134	155
Receipts	(645)	(671)	(722)	(748)	(774)
Payments	(-554)	(-547)	(-616)	(-614)	(-619)
Private investment (net)	72	59	57	62	59
Allocations of SDRs	--	--	--	--	--
Adjustment 1/	-52	-52	-52	-52	-52
Overall balance (deficit -)	22	57	19	-13	-20
Memorandum item:			(In percent)		
Debt service ratio:					
Variant A 2/	12.2	11.7	11.6	10.0	8.7
Variant B 3/	13.5	14.2	14.9	15.4	16.2
Of which IMF obligations	--	0.1	0.7	0.8	0.2

Source: Jordanian authorities.

1/ Adjustment for overestimation of foreign receipts and/or underestimation of foreign payments as reflected historically in the errors and omissions entry.

2/ Official projections based on debt outstanding as of end-1985.

3/ Staff projections based on estimated debt outstanding at end of each calendar year.

Jordan: Basic Data 1/

Population (1983 estimate)	2.6 million
GNP per capita (1983 estimate)	SDR 1,797 2/

	1981	1982	1983	Prel. 1984	Est. 1985
	(In millions of Jordan dinars)				
National income (in current prices)					
GNP at market prices	1,484.2	1,675.4	1,769.4	1,844.2	1,856.0
GDP at market prices	1,165.7	1,323.2	1,422.7	1,490.0	1,581.0
GDP at factor cost	1,042.6	1,171.6	1,225.2	1,283.7	1,358.6
	(In percent of GDP at factor cost)				
Sectoral shares					
Agriculture	7.3	7.2	9.0	7.5	8.3
Manufacturing and mining	20.0	19.7	16.3	17.4	16.4
Electricity and water	2.0	2.2	2.3	2.5	2.6
Construction	10.6	10.4	10.3	9.9	9.2
Government services	18.4	18.6	18.9	18.6	18.9
Other services	41.7	42.0	43.2	44.1	44.7
	(Annual changes in percent)				
GNP at market prices	25.2	12.9	5.6	4.2	0.6
GDP at market prices	19.0	13.5	7.5	4.7	6.1
GDP at factor cost	17.4	12.4	4.6	4.8	5.8
Agriculture	18.6	9.4	31.3	-12.9	17.0
Manufacturing and mining	24.7	10.6	-13.5	12.1	3.0
Construction	13.4	10.2	4.0	0.2	-2.0
Government	12.3	14.3	6.2	2.8	7.7
Services	17.2	13.4	7.8	7.5	7.2
Cost of living index	7.7	7.4	5.0	3.9	3.0
Import price index (non-oil) 4/	6.6	1.8	-0.4	2.1	-0.2
	(Ratio in percent)				
Gross national savings/GNP	9.7	7.6	4.2	5.6	3.8
Gross fixed investment/GNP	38.1	35.6	28.4	26.3	26.2

	1981	1982	1983	Prel. 1984	Prel. 1985	Est. 1986
	(In millions of Jordan dinars)					
Central government budget						
Total revenue and grants	515.5	516.6	597.6	522.3	634.8	633.0
Revenue	(309.2)	(362.0)	(400.6)	(416.2)	(439.9)	(450.0)
Foreign grants	(206.3)	(199.6)	(197.0)	(106.1)	(194.9)	(183.0)
Expenditure and net lending	617.0	683.7	665.9	683.2	762.7	780.0
Current expenditure	(391.5)	(443.0)	(453.7)	(485.2)	(542.0)	(563.8)
Capital expenditure	(185.4)	(200.7)	(176.4)	(169.2)	(191.3)	(190.0)
Net lending	(40.1)	(40.0)	(35.8)	(28.8)	(29.4)	(26.2)
Overall deficit (including grants)	-101.5	-122.1	-68.3	-160.9	-127.9	-147.0
Foreign financing (net)	(52.1)	(55.5)	(60.7)	(105.6)	(162.0)	(50.2)
Domestic financing	(21.9)	(61.6)	(6.1)	(53.7)	(37.8)	(13.0)
Of which: bank financing (net)	[23.3]	[61.6]	[3.8]	[41.5]	[21.6]	[...]
Discrepancy	(27.5)	5.0)	(1.5)	(1.6)	(-71.8)	(...)
Unfinanced gap	--	--	--	--	--	83.8
Overall deficit (excluding grants)	-307.8	-321.7	-265.3	-267.0	-322.8	-330.0
	(In percent of GDP at current market prices)					
Total revenue and grants	44.2	42.4	42.0	35.1	40.2	...
Revenue	26.5	27.4	28.2	27.9	27.8	...
Foreign grants	17.7	15.1	13.8	7.1	12.3	...
Total expenditure and net lending	52.9	51.7	46.8	45.9	48.2	...
Current expenditure	33.6	33.5	31.9	32.6	34.3	...
Capital expenditure	15.9	15.2	12.4	11.4	12.1	...
Overall deficit (including grants)	-8.7	-9.2	-4.8	-10.8	-8.1	...
Foreign financing (net)	4.5	4.2	4.3	7.1	10.2	...
Domestic bank financing (net)	1.9	4.6	0.4	3.6	2.4	...
Overall deficit (excluding grants)	-26.4	-24.3	-18.6	-17.9	-20.4	...
	(Annual changes in percent)					
Revenue	36.8	17.1	10.7	3.9	5.7	2.2
Foreign grants	-1.4	-3.2	-1.3	-46.1	83.7	-6.1
Total expenditure	14.4	10.8	-2.6	2.6	11.6	2.3
Current expenditure	16.5	13.2	2.4	6.9	11.7	4.0
Capital expenditure	4.5	8.3	-12.1	-4.1	13.1	0.7

Jordan: Basic Data (Concluded) 1/

	1981	1982	1983	1984	1985	First Four Months 1985	First Four Months 1986
	(In millions of Jordan dinars)						
Changes in monetary aggregates							
Money and quasi-money	195.0	223.5	211.8	142.5	117.2	31.6	69.0
Foreign assets (net)	14.4	-61.9	38.4	-63.7	24.4	-44.6	-33.6
Domestic assets (net)	180.6	285.4	173.4	206.2	92.8	76.2	102.6
Claims on Central Government (net)	(23.3)	(61.6)	(3.7)	(41.6)	(21.5)	(40.4)	(33.1)
Claims on nongovernment sector 5/	(174.6)	(201.8)	(180.6)	(166.8)	(98.4)	(45.2)	(79.3)
Other items (net) (increase -)	(-17.3)	(22.0)	(-10.9)	(-2.2)	(27.1)	(-9.4)	(-9.8)
	(Annual changes in percent)						
Money and quasi-money	20	19	15	9	7	2	4
Claims on Central Government	28	58	2	24	10	19	14
Claims on private sector	28	25	19	14	5	2	4

	1981	1982	1983	1984	(Prov.) 1985	(Proj.) 1986
	(In millions of SDRs)					
Balance of payments						
Domestic exports (f.o.b.)	435.9	478.6	412.9	673.3	658.5	755.0
Re-exports	189.8	203.6	130.2	76.3	143.3	90.0
Non-oil imports (c.i.f.) 6/	-2,058.3	-2,144.4	-2,181.6	-2,155.1	-2,125.9	-2,037.0
Oil imports (c.i.f.)	-450.4	-594.9	-530.1	-526.0	-496.8	-370.0
Services (net)	926.5	993.0	1,173.7	1,020.3	894.2	890.0
Workers' remittances (net)	(745.1)	(823.9)	(851.3)	(973.6)	(799.4)	(793.8)
Investment income (net)	(73.8)	(84.2)	(42.7)	(-60.1)	(-90.3)	(-89.0)
Other Services (net)	(107.6)	(84.9)	(279.7)	(106.8)	(185.1)	(185.2)
Transfers (net)	1,111.0	962.7	760.6	718.9	812.4	672.0
Current account balance	-35.3	-305.0	-364.5	-268.6	-257.6	-89.0
Capital (net)	181.2	292.5	404.3	166.0	335.0	163.0
Errors and omissions (net)	-106.5	-148.3	89.9	- 76.2	-49.5	-52.0
Overall balance	39.4	-160.8	129.7	-178.8	47.9	22.0
	(Annual changes in percent)					
Domestic exports	40.7	9.8	-13.7	63.0	-2.2	14.8
Non-oil imports 6/	45.2	4.2	1.7	-1.2	-1.3	-4.2
Oil imports	53.3	32.1	-10.9	-0.8	-5.6	-25.5
Workers' remittances (net)	51.5	10.6	3.3	14.4	-17.9	-0.7
Transfers (net)	8.0	-13.3	-21.0	-5.5	13.0	-17.3
	(In percent of GNP)					
Domestic exports	11.4	11.1	9.0	14.2	13.8	...
Non-oil imports 6/	53.8	49.6	47.8	45.3	44.4	...
Workers' remittances (net)	19.5	19.1	18.7	20.5	16.7	...
Transfers (net)	29.0	22.7	16.7	15.1	17.0	...
Current account balance	-0.9	-7.1	-8.0	-5.6	-5.4	...
Capital (net)	4.7	6.8	8.9	3.5	7.4	...
Overall balance	1.0	-3.7	2.8	-3.8	1.0	...
	(In millions of SDRs)					
Gross official reserves 7/ (end of period)	941.8	781.4	788.0	534.6	398.4	319.8 8/
Gross official reserves (in months of following year imports)	(4.1)	(3.5)	(3.5)	(2.5)	(2.0)	(1.5)
Outstanding external public debt 9/ (end of period)	1,331.2	1,620.5	2,092.2	2,468.5	2,715.8	...
External public debt service	196.8	190.9	207.4	239.1	310.3	400.6 10/
	(In percent)					
External debt/GNP	34.8	35.5	45.8	51.9	56.7	...
External debt service/exports of goods and services (including remittances)	7.4	6.6	7.3	7.3	9.8	12.2 10/
Change in real effective exchange rate (-depreciation) 11/						
Annual average	0.7	3.2	-0.7	-0.3	-1.0	-4.7 12/
December average	8.1	8.6	-7.2	2.4	-2.9	...

Source: Data provided by the Jordanian authorities unless otherwise indicated.
1/ East Bank only.
2/ JD 1 = SDR 2.579.
3/ Based on series with 1975 weights; new series is with 1980 weights.
4/ IMF Research Department. Calculated using the export prices of Jordan's major supplier countries and 1980 trade weights.
5/ Includes credit to local governments.
6/ Excludes re-exports.
7/ Excludes gold and claims on Central Bank of Iraq.
8/ As of end-June 1986.
9/ Excludes loans received for military and oil purchases.
10/ Projected on the basis of debt outstanding at the end of 1985.
11/ IMF Information Notice System.
12/ Average of 12 months ending in May 1986.