FOR AGENDA

SM/85/159

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June 3, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Jordan - Staff Report for the 1985 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1985 Article IV consultation with Jordan, which is tentatively scheduled for discussion on Wednesday, June 26, 1985. A draft decision appears on page 19.

Mr. Jakubiak (ext. 7109) 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 1985 Article IV Consultation

Prepared by the Staff Representatives for the
1985 Consultation with Jordan

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

May 31, 1985

I. Introduction

The 1985 Article IV consultation discussions with Jordan were held in Amman during the period March 23-28, 1985. The Jordanian representatives were led by the Governor of the Central Bank of Jordan and included senior officials from the Central Bank and the government ministries and agencies responsible for economic and financial policies. The mission also benefited from discussions with H.R.H. the Crown Prince, who oversees economic policy, and with the Minister of Finance. The mission was composed of Messrs. A.S. Shaalan (Head), F. Drees, and H.E. Jakubiak (all of MED), Mr. S. El-Khouri (INST), and Mrs. R. Pahigiannis (Secretary - MED).

Jordan continues to avail itself of the transitional arrangement of Article XIV. 1/ 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.

II. Background

Jordan's economy is essentially service based, although the manufacturing and mining sectors also make important contributions to national income. The economy is also substantially dependent on external transactions. In 1982, exports 2/ of goods and nonfactor services were equivalent to 35 percent of GNP and commodity imports to over 60 percent. Net inflows of workers' remittances and intergovernmental foreign grants also were large, each equivalent to about 20 percent of GNP.

Jordan experienced a rapid economic expansion in the 1979-81 period when nominal GDP rose by nearly 25 percent annually. Real income data are not available, but as the domestic inflation rate averaged only about

1/ Jordan's relations with the Fund and the World Bank Group are summarized in Appendices II and III, respectively.
2/ In this paper, references to exports and imports both exclude re-exports.

10 percent, it appears that real growth was also substantial. A major stimulus for this growth came from the external sector, reflecting the high level of economic activity in the Arab oil exporting countries, to which Jordan's economy is closely linked through its exports of goods and services, including the employment of Jordanian nationals. In addition, the Central Government's fiscal operations were a major factor underlying the rapid economic growth, as large grants from Arab governments 1/ and sharp increases in domestic revenue permitted a considerable increase in government expenditures. During the period monetary expansion averaged 25 percent annually and reflected a brisk demand for credit by the private sector and relatively large external surpluses. With the large inflows of foreign exchange receipts from workers' remittances, exports, and intergovernmental grants, the current account of the balance of payments evidenced a surplus during these three years, despite a considerable growth in import payments, and a total overall surplus of SDR 475 million was recorded.

Jordan's investment spending is implemented in the context of development plans. A second Five-Year Plan was introduced in 1981 with the objective of maintaining economic growth and continuing with the diversification of the economy in favor of the commodity producing sectors as well as with the expansion of physical and social infrastructure. The World Bank assessed the Plan's investment program as generally appropriate, although ambitious at US$8.5 billion. The Bank considered the Plan's real growth rate of 11 percent also to be ambitious and indicated that success in implementation would depend on the country's ability to undertake the massive investment program, on a major domestic resource mobilization effort, and on the realization of large external grants.

In 1982 the nominal growth rate of Jordan's economy fell by one half to 13 percent due in large part to a reduced stimulus from the external sector, as a result of substantial declines in the growth rates of commodity and service exports, including workers' remittances (Chart 1 and Table 1). The impact of these developments on the current account position, however, was moderated by a sharply lower growth rate for import payments due to the slower economic growth. Nevertheless, the current deficit widened substantially from 1 percent to 7 percent of GNP, and the balance of payments recorded its first overall deficit since 1972. In the budget, the slowing of economic growth was reflected in a substantial decline in the growth rate of domestic revenue, and this was accompanied by a somewhat lower level of grant receipts. Consequently, measures were taken to reduce the rate of increase in government spending; these succeeded in containing the overall deficit/GDP ratio to 8.4 percent. 2/ However, there was a substantial increase in domestic bank financing of the budget equivalent to 7 percent of the beginning-year monetary stock, and this factor and a further large expansion in credit to the private sector resulted in an increase in the rate of domestic credit growth to over 40 percent.

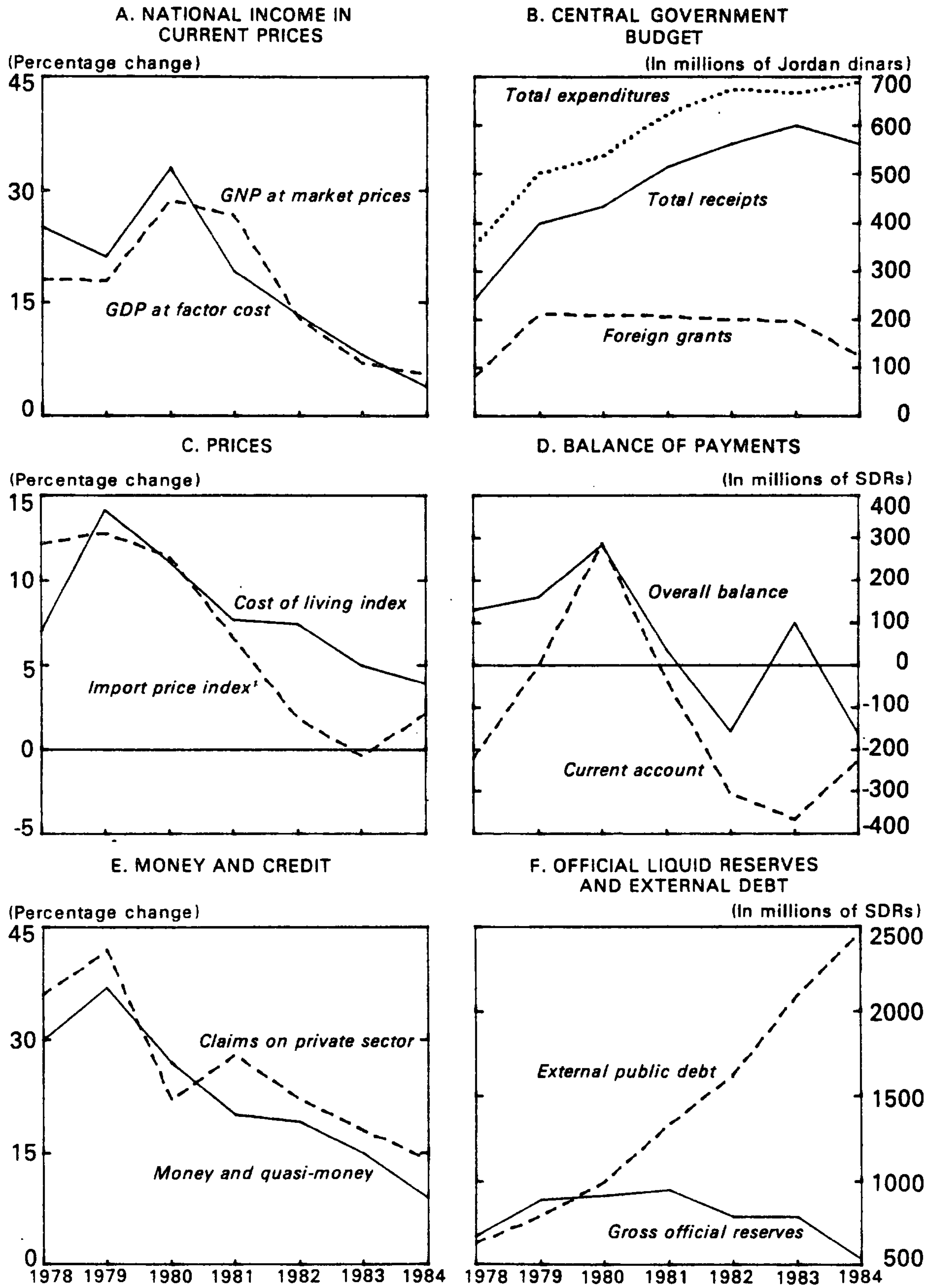
1/ A sizable part of these grants has been used to finance off-budget expenditures.

2/ Excluding intergovernmental grants, the budget deficit was equivalent to 23 percent of GDP.

CHART 1

JORDAN

ECONOMIC INDICATORS, 1978-84



Source: Data provided by the Jordanian authorities.
[1]Staff estimates for non-oil imports.

Table 1. Jordan: Selected Economic Indicators, 1981-84

(Changes in percent unless otherwise indicated)

	1981	1982	1983	1984
Production and prices				
GDP (factor cost)	19.2	13.4	8.1 1/	3.8 1/
GNP (market prices)	26.6	13.0	7.0 1/	5.5 1/
Cost of living index	7.7	7.4	5.0	3.9
Import price index (non-oil) 2/	6.6	1.8	-0.4	2.1
Central government budget				
Domestic revenues	36.8	17.1	11.6	8.4
Foreign grants	-1.4	-3.3	-1.5	-36.9
Expenditures	15.7	8.1	-1.0	3.1
Current	(16.5)	(13.2)	(1.1)	(8.7)
Capital	(3.9)	(8.8)	(-9.3)	(2.1)
Overall deficit (including grants) (in percent of GDP)	-9.2	-8.4	-4.6	-8.2
Overall deficit (excluding grants) (in percent of GDP)	-26.6	-23.3	-18.0	-16.2
Domestic revenue/current expenditure (in percent)	80.0	81.7	90.2	89.9
Money and credit				
Money and quasi-money	20	19	15	9
Claims on private sector	28	22	18	14
External sector				
Domestic exports, f.o.b.	40.7	9.8	-13.7	63.0
Non-oil imports, c.i.f. 3/	45.2	4.2	1.7	-3.4
Oil imports, c.i.f.	53.3	32.1	-10.9	8.1
Remittances (net)	51.5	10.6	3.3	17.3
Current account (in percent of GNP)	-0.9	-7.0	-7.8	-4.6
Overall balance (in percent of GNP)	1.0	-3.6	2.1	-3.3
Gross official reserves (in months of following year's imports net of re-exports)	4.1	3.5	3.5	2.3
Public debt service ratio (as percent of exports of goods and services) 4/	7.4	6.6	7.3	7.6
Change in real effective exchange rate (depreciation-) 5/	0.7	3.2	-0.7	-0.3

Sources: Data provided by the Jordanian authorities and staff estimates.

1/ Based on preliminary data.
2/ Staff estimate.
3/ Excludes re-exports.
4/ Includes inward remittances.
5/ Annual averages.

This contributed to pressures on the balance of payments and a sustaining of monetary growth at near 20 percent despite the external deficit. Moreover, the rate of domestic inflation remained essentially unchanged at about 7.5 percent, although the rate of increase in import prices fell sharply.

At end-1982, Jordan's disbursed external public debt (excluding defense loans for which data are considered confidential) was equivalent to 37 percent of GNP; as much of this debt is on concessional terms, the debt service ratio was under 7 percent. 1/ Jordan's exchange system is liberally administered; the system includes restrictions on commercial bank payments for current invisibles and capital transactions, as well as surrender requirements for exports. Since February 1975 the Jordan dinar has been pegged to the SDR with narrow margins. Over the period 1979-82, the dinar's real effective exchange rate appreciated by 9.6 percent on an average annual basis (Chart 2).

With regard to statistical data, 2/ the coverage and currentness are good for monetary and price data. However, it is important to undertake efforts to reduce the errors and omissions residual in the balance of payments and to introduce budgetary reforms to include the substantial transactions which are now off-budget. Large discrepancies exist between the budgetary and monetary data due in large part to the treatment of expenditures on a commitment basis, and the occasional treatment of external grants on an accrual basis has at times entailed substantial ex post revisions to the budgetary outcome. The current price national income data for the 1983-84 period are expected to undergo revisions; Jordan has no official constant price national accounts data.

III. Reports on the Discussions

The consultation discussions centered on economic and policy developments in 1983-84, and on prospects and policies for 1985 and the balance of payments outlook for the medium term. In the discussions, the staff was guided by the views of the Executive Board as reflected in the Chairman's Summing Up at the Board discussion of the 1983 Article IV consultation and the discussion in January 1985 of Jordan's request for the use of resources under the compensatory financing facility. In the consultation discussion, Executive Directors noted that fiscal policy had played a central role in the authorities' adjustment effort undertaken in response to declining external grants, but queried whether monetary policy was contributing adequately to the stabilization objective. Directors also suggested efforts to strengthen export growth and advised prudence in contracting external commercial debt. In the discussion of the compensatory financing request, Directors commented that in recent years there had been a marked deterioration in the current account of the balance of payments and that further measures might be needed to narrow the deficit. They noted that the country had a record of prudent financial policies.

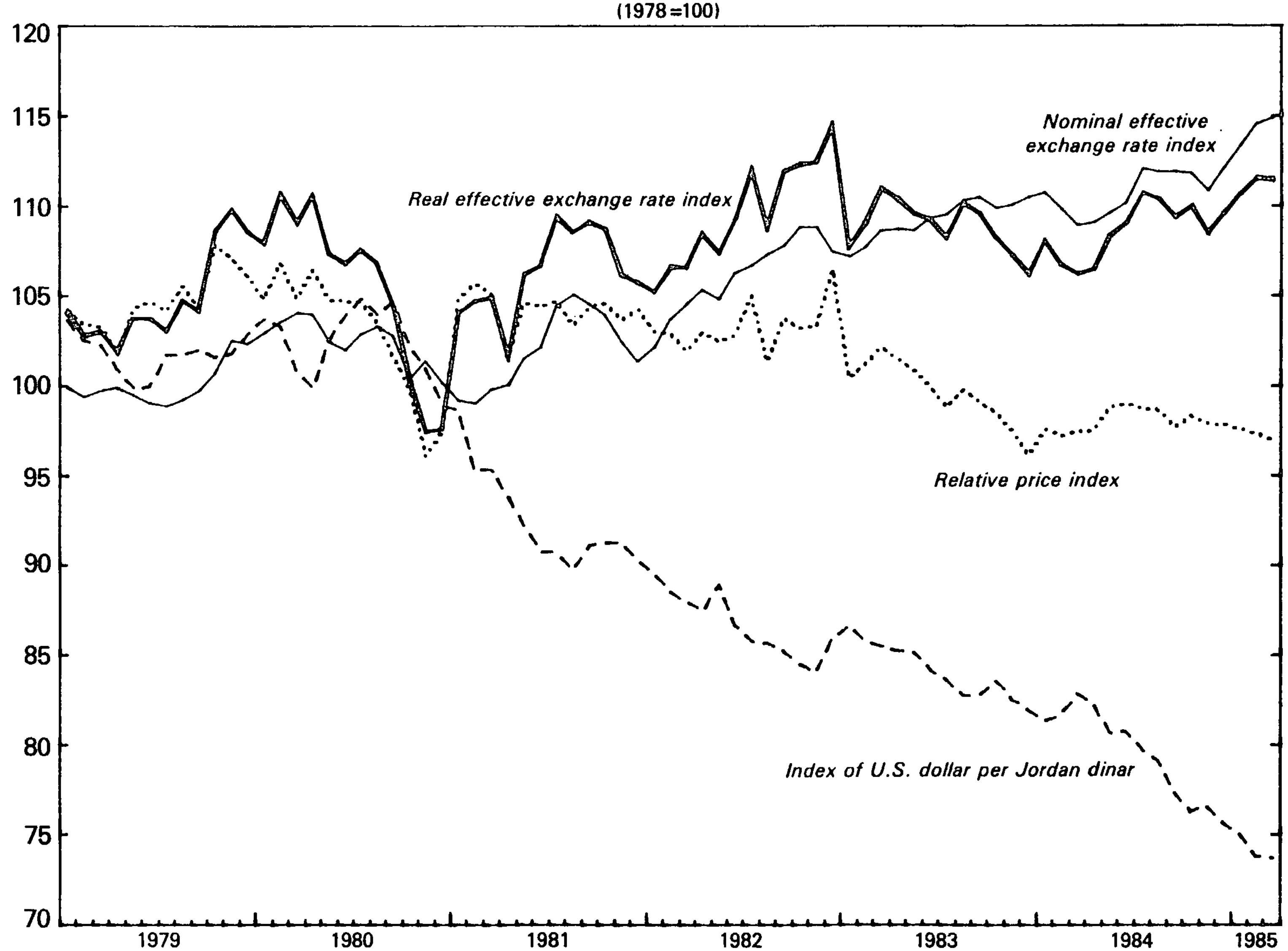
1/ Debt service as a proportion of exports of goods and services, including remittances.
2/ Statistical issues are reviewed in Appendix IV.

CHART 2

JORDAN

EXCHANGE RATE INDICATORS

(1978=100)



Sources: IMF, Information Notice System and *IFS*, line ah.

Jordan's economic performance in 1984 was weaker than had been anticipated by the authorities during the staff visit in the fall of 1984 in connection with the request for a compensatory financing facility purchase. The economy expanded at a lower than expected rate, the budget deficit was larger than forecast as the authorities had previously underestimated current and capital expenditures, and the overall balance of payments deficit was more than double the projected level. For the 1985-86 period, the authorities' most recent external sector projections suggest a smaller current account deficit than earlier forecast; 1/ however, a larger overall deficit is projected due in part to lower capital inflows.

1. Production and prices

Jordan's rate of economic growth continued to decline in 1983-84. The authorities' present assessment is that the expansion in nominal GDP decelerated on average to about 6 percent annually; over the same period the increase in domestic prices was 4-5 percent. There is a general perception that the aggregate income estimates for the two-year period, and particularly for 1983, are high. The major factors contributing to the weaker growth performance were a virtual stagnation in central government expenditures, largely as a result of lower foreign grant receipts, and in 1983 a decline in exports due essentially to lower exports to Iraq as well as a sharply lower growth of remittance inflows.

With regard to the performance of individual sectors, production and export data suggest a subdued growth in agriculture but a relatively good manufacturing and mining performance. The growth of the construction and nongovernment services sectors also appears to have weakened. In response to slowed economic growth, the authorities introduced measures in 1983-84 aimed at assisting specific sectors, and thereby the economy generally as well as the balance of payments. The Jordanian representatives indicated that agriculture had been confronted with difficulties in marketing fruits and vegetables to certain Middle Eastern countries due to larger domestic production in those countries as well as strong competition from other suppliers. As a result, there had been surpluses of some crops. In order to reduce these surpluses and make better use of land by substituting for imported food items, the Government in 1984 introduced, on a limited basis, for the 1985 crop year the licensing of acreage for some food crops in surplus; the authorities also initiated demonstration projects in order to encourage private farmers to expand the cultivation of field crops, and in particular wheat. In conjunction with the above efforts, incentive prices were introduced for three crops (including wheat) on which import substitution efforts are at present

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1/ The forecasts for 1985 and 1986 project the combined gross foreign exchange earnings from exports, remittances, and travel to be 8 percent and 5 percent higher in the two years, respectively, compared with the forecasts made prior to Jordan's request for a compensatory financing facility purchase in January 1985 (EBS/84/265).

focused. The incentive prices were set at levels 40-70 percent above import cost and were estimated to involve a budgetary subsidy of JD 7 million in 1985.

In the manufacturing and mining sector, Jordan's output and export position has benefited greatly from the coming on stream since 1982 of major new production facilities in the areas of phosphates, potash, fertilizer, and cement. Over the 1983-84 period, exports of the first three of these commodities rose annually by 40 percent, and helped to moderate the effect on economic growth of a weakened export demand for other manufactured goods in 1983 by Iraq. In 1984 there was a substantial expansion in the trade and credit arrangements which had been established by the Jordanian Government to promote exports to Iraq (see below), and these arrangements resulted in a sharp increase in export of manufactured goods. With regard to industrial sector policies, the Jordanian representatives indicated that the sector had been confronted with shrinking export demand and expanded competition from domestic producers in Jordan's traditional Middle Eastern markets. In response, increased tariff protection had been afforded some industries, and there had also been a closer examination of the problems confronting domestic producers as a result of dumping as well as of ways of assisting these producers to adjust. In this connection, in a few cases import restrictions had been utilized to allow domestic industry, and by and large new domestic industry, an adjustment period. Moreover, efforts had been made to establish new markets in Middle Eastern and Red Sea countries. With regard to the construction sector, activity had been affected by the slowed growth of remittances and lower foreign assistance for government housing programs. Over the past two years, monetary policy has been expansionary in response to economic conditions (see below), and as a facet of this policy the authorities provided special credit facilities to the commercial banks which benefited in particular the construction sector. In 1983-84, the sector accounted for nearly 35 percent of new credits extended by the banks, and these credits were utilized in part in order to fund certain public sector housing projects. The data on the general employment situation over the past two years is limited, and does not permit a quantitative assessment. In 1984 the authorities adopted a policy of requiring new industries to increase their employment of Jordanians from a minimum of 40 percent of their labor force to 60 percent.

In considering the current policy stance to assist the domestic economy, the mission indicated that, while it sympathized with the objective of encouraging local production, it had reservations regarding some aspects of the policy of expanded intervention in the economy. For example, encouraging import substitution in agriculture through the licensing of crops or the provision of producer subsidies could generate results that ran counter to the principle of comparative advantage. For this reason, consideration should be given to leaving decisions regarding the cropping pattern and the choice between exports and import substitution to the interplay of market forces. With regard to industry, the mission suggested that Jordan's traditionally liberal trade policies had served the country well and that despite greater difficulties in external markets and with import competition, it was important that the authorities not overreact by extending undue protection to domestic industries.

For 1985 the authorities' expectation is for a higher nominal growth rate of 7 percent; they also estimate that recent increases in administered prices might result in an increase in the domestic rate of inflation to about 5 percent.

Virtually all of Jordan's energy requirement is imported in the form of crude petroleum, and over the 1983-84 period has involved an average foreign exchange cost equivalent to about 20 percent of the total import bill. In view of these foreign exchange costs, the authorities have acted over the past two years to increase substantially domestic petroleum prices. Prices were raised by 18-159 percent in February 1983 and by a further 8-14 percent in December 1984. At present gasoline prices are well above border prices, while the prices for other products are below these equivalents. Also in December 1984 electricity rates were unified for the country and raised on a weighted average basis by 3-8 percent for agriculture and large industry and by 30 percent for high-level household use; however, the weighted average rates for conventional household use and small industry and commerce were slightly lowered. Petroleum products as well as electricity have entailed a subsidy from the budget. As a result of the 1983 pricing measures and the March 1983 decline in world oil prices, the energy subsidy fell from 6.5 percent of total expenditures in 1982 to about 4.0 percent in 1983; however, the ratio rose to over 5 percent in 1984 due to the impact of exchange rate movements and higher transport costs. The authorities project that the December 1984 energy pricing measures and price increases to be introduced for kerosene and diesel fuel (see below) will further reduce the energy subsidy to about 1 percent of expenditure in 1985. Following a number of years of exploration, Jordan discovered oil in 1984 and three producing wells have been drilled. The Jordanian representatives explained that prospects remained very uncertain. Output from the first two wells was modest, while the third appeared to be more promising. Exploration activity is to be continued to assess the size of reserves.

In assessing overall economic performance and the implementation of the investment program over the first four years of the present Development Plan, the Jordanian representatives stated that any evaluation should take into account the fact that several of the assumptions on which the Plan was based did not materialize. These included the assumptions regarding sustained high levels of foreign aid and a continued favorable investment climate. Since these assumptions had not been met, the growth rate was about half the targeted level of 11 percent.

2. Domestic financial policies

The basic orientation of fiscal policy over the 1983-84 period was to adjust central government expenditures and domestic revenues to less certain and reduced levels of external grants. As a result, government spending was held at an essentially unchanged level over the two years, thereby reducing the expenditure/GDP ratio, while domestic revenues rose at a substantially higher rate than national income.

In 1983 the budget incorporated a moderate slowing in the growth of government total outlays to 6 percent. The rate of increase in current expenditures was targeted to decline mainly due to a reduction in energy subsidies resulting from price adjustments, while on the assumption of a somewhat higher level of foreign grants, capital outlays were projected to rise. On the revenue side, measures were taken which were expected to help generate a 20 percent rise in domestic receipts; these measures included higher import duties for luxury goods, a capital gains tax on real estate sales, and administrative improvements relating to income taxes and customs duties. Over the course of the year, actual receipts of external grants turned out to be well below the expected level, and in adjusting to this development the authorities introduced a further tightening of expenditures. Capital expenditures were reduced to below the 1982 level. Civilian current outlays also declined, but this reflected mainly the effect on energy subsidies of the March 1983 reduction in world petroleum prices. The growth of domestic revenue, however, fell short of target, largely as a result of a lower than expected increase in import duties and income taxes. While at end year the overall budget deficit was equivalent to 8 percent of GDP, some external grants which had been anticipated for 1983 were received subsequently in 1984. As the authorities attributed these grants to the 1983 budget, the deficit ratio was revised to 4.6 percent, a level close to the budget target; the ratio excluding grants fell to 18 percent. A policy objective of the Jordanian authorities is to fully cover current expenditure from domestic revenue sources, and with the expenditure restraint in 1983, this ratio rose to 90 percent from about 80 percent in the two previous years.

Fiscal policy in 1984 was aimed at continuing the adjustment in expenditure policies. Essentially the objective was to freeze current spending at the 1983 level through a further reduction in energy subsidies, to be achieved by an increase in domestic petroleum prices early in the year. However, on the assumption of a sharp recovery in external grants to a level well above actual receipts by end-1983, the authorities allowed for a 25 percent increase in capital outlays. The overall deficit/GDP ratio was targeted at about 4 percent. The fiscal results for 1984 were characterized by a level of external grant receipts for the budget which was approximately 35 percent below the revised level for 1983, as well as a shortfall from the domestic revenue target; the latter was due in large part to lower than anticipated customs duties as well as interest and profit receipts. The burden of adjustment to these developments fell on capital expenditures which were held to an increase of only 2 percent. On the other hand, civilian current expenditures exceeded by 13 percent and 15 percent, respectively, the budget forecast and the 1983 level. The primary factors underlying this overage were higher than budgeted energy subsidies and interest payments; the former was attributable for the most part to a delay until December 1984 in implementing the planned petroleum price adjustments. With these developments, the overall deficit nearly doubled to 8.2 percent of GDP, and entailed a doubling of domestic bank borrowing. The domestic revenue/current expenditure ratio was unchanged at 90 percent. In reviewing budgetary developments in 1983-84, the mission observed that while it was clear that a substantial adjustment effort had taken place in 1983 and that the authorities were to be commended for this, the adjustment effort in 1984 was less successful in view of both the overage in current spending and the revenue shortfall.

Budgetary estimates for 1985 incorporate a forecast for a recovery in external grants to the level budgeted for 1984. In this regard the Jordanian representatives stated that expanded assistance was expected from certain aid donors whose contributions had fallen off in earlier years. On this assumption, capital spending has again been projected to rise by 25 percent. The authorities are seeking to maintain their adjustment effort through a reduced growth of current expenditure (6 percent) and an improvement in revenue performance (12 percent). The increase in current outlays reflects largely higher civil and military service wage and pension payments as a result of 10-25 percent increases granted in March 1985; these were the first across-the-board wage increases afforded government employees since 1981. On the other hand, energy subsidies are expected to decline sharply due to the petroleum and electricity pricing measures taken in December 1984 and the reduction in world oil prices in late 1984. As for domestic revenue, increases are forecast for most categories, based on the projection for some expansion in economic activity, certain discretionary measures, including higher customs duties on luxury and energy-intensive products and an increase in the excise duty on locally produced cigarettes, as well as improved administration. The budget anticipates a decline in the deficit/GDP ratio to 5.4 percent.

In reviewing the 1985 budget estimates, the mission expressed some reservations regarding the projected increase in revenues from import duties and noted that additional measures appeared to be needed to reduce the petroleum subsidy to the budget target. Given these considerations and the possibility that external grants might remain unchanged from the actual 1984 level, the overall deficit could well be double the projected level. Therefore, a contingency plan was needed to reduce expenditures in a timely manner should shortfalls in domestic revenues and/or foreign grants materialize. The Jordanian representatives observed that they were optimistic that the grant level projected in the budget could be attained, and that consideration was being given to raising the domestic prices of kerosene and diesel fuel in order to reduce the energy subsidy to the budgeted level. Moreover, a contingency plan had been drawn up to eliminate or postpone several low-priority projects, as required. Given the uncertainties regarding the budgetary outlook, they felt that the overall deficit could be higher than projected, but that it was not likely to be larger as a proportion of GDP than the 8 percent level of 1984.

With regard to medium-term planning, the mission noted that the authorities would need to be prepared in case anticipated external grant flows did not materialize and Jordan's budgetary and balance of payments positions came under increased pressure. This necessitated that an overall adjustment effort be implemented consistently over the medium term, and in this effort fiscal adjustment would need to be an important component. In this regard, a number of approaches could be considered. Price adjustments could be undertaken to eliminate direct subsidies in the budget and those being financed from off-budgetary accounts, as well as to reduce indirect subsidies by recovering the costs of economic services provided by the Government. Public sector investment outlays could be scrutinized to postpone those expenditures which would make only limited contributions to growth. Tax revenues could be enhanced by reductions in the widespread exemptions from income taxes and import tariffs; for example, at present only 3 percent of public sector employees pay income taxes, and about 60-70 percent of imports were exempt from duties. Moreover, consideration could be given to the introduction of a broad-based sales tax at the manufacturers' level; currently excise duties on locally produced cigarettes and cement accounted for virtually all receipts from taxes on domestic goods and services. The mission added that for adequate budgetary analysis and policy formulation it was important for the authorities to be able to determine the effect of fiscal operations on the economy, and for this reason it would be desirable to undertake a budgetary reform which consolidated into the central government accounts all the off-budget transactions of government ministries and noncommercial agencies. The Jordanian representatives commented that they recognized the need for adjustment to a lower level of foreign aid and that this was being undertaken on a continuous basis; however, it was important that any adjustment not be at the expense of growth and exports which were important substitutes to declining foreign aid.

In the 1983-84 period, the rate of monetary expansion in Jordan evidenced a steady decline, falling from 19 percent in 1982 to 15 percent and 9 percent over the two years, respectively. The major factor contributing to the monetary expansion was the growth of credit to the private sector which averaged 16 percent; there was also in 1984 a higher dependence of the budget on the domestic banking system. Within private credit, the largest increments were accounted for by the construction sector. In reviewing these developments and the use of monetary instruments, the mission expressed the view that the policy stance of the Central Bank appeared to have been expansionary. In 1983-84, the authorities had generally encouraged the commercial banks to expand their use of central bank advances; additionally there had been reductions in commercial bank reserve requirements, a lowering of central bank interest rates, and a lowering of the effective maximum lending rates permitted to the commercial banks. As a result of this expansionary stance, private credit growth was too high relative to the growth of real GDP, thereby putting pressures on the balance of payments. The Jordanian representatives responded that with the onset of the economic slowdown in 1983 some response was warranted, and for this reason, in early 1983 the authorities had decided on a major change of central bank policy under which the Bank undertook to encourage the commercial banks to use its advances; the easing in advances had also been allowed to the specialized credit institutions and the nonbank financial corporations. The other changes in monetary instruments were assessed as being more limited in their effect on credit growth. While policy was mildly expansionary, there was an awareness of the need to maintain control over the monetary situation and guard against inflationary pressures.

Jordan's interest rate structure is regulated by the Central Bank, which establishes ceiling rates for local currency loans and deposits at the commercial banks and the specialized credit institutions. The maximum commercial bank rates for savings and time deposits were introduced in early 1983 at 6-8 percent to replace previously applicable minimum rates of 5.5-6.5 percent. In recent years the commercial bank ceiling loan rates have been 8.75-9.00 percent. The mission observed that the effect of ceilings was to constrain the role of interest rates in ensuring an efficient allocation of resources in the economy. Therefore, and in view of the current close proximity between domestic and international interest rates, consideration should be given to removing interest rate ceilings. This would also benefit the balance of payments as higher deposit rates would encourage greater remittance inflows and a willingness to hold dinar liquid assets. In this regard, the Jordanian representatives stated that in the last few years real interest rates in Jordan had moved from being negative to positive. However, as the economy was in recession, there was a need to keep watch on the cost of funds to borrowers in order not to aggravate recessionary conditions.

Over the 1983-84 period, the Central Bank has introduced a number of measures affecting the commercial banks' portfolio composition. Measures were taken to further encourage or require the financial sector to purchase government debt instruments with the result that over the 1983-84 period all bank financing for the central government budget was supplied by the commercial banks. Apart from an increase in the Treasury bill rate, the guideline relating to commercial bank holdings of government debt instruments was expanded and made mandatory in February 1984. 1/ The Central Bank also required the banks in February 1984 to purchase corporate equities. 2/ In discussing these measures, the mission commented that both sets of measures had placed limitations on the freedom of the commercial banks to determine the composition of their asset portfolios, and that particularly with regard to equity purchases it might be preferable to allow each bank to decide its own risk exposure. The Jordanian representatives commented that the commercial bank market was viewed as a useful way to meet the

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1/ This requirement provides that 4 percent of dinar deposits be used to purchase Treasury bills, 4 percent to purchase development and public entities' bonds, and 4 percent to purchase corporate bonds.

2/ These purchases are to be equivalent to 15 percent of the banks' paid-up capital and reserves, provided that no bank hold more than 10 percent of any company's capital and reserves.

Government's deficit financing needs and that government debt instruments were attractive to the banks, even more so with the decline in domestic stock prices. As for the mandatory purchase of corporate stocks, the view was that as the banks held the deposits of the general public, the Central Bank wished to ensure that the use of these deposits was in the interest of the country. It would be a mistake to construe the equities purchase measure as aimed at supporting the stock market. The implementation of the equities measure has been postponed to June 1985 due to certain technical difficulties.

Regarding credit planning for 1985, it was noted that the authorities' forecasts for the growth of nominal GDP and credit use by the Central Government suggested the need to reduce the growth of credit to the private sector to under 10 percent, compared with 14 percent in 1984. This restraint was consistent with the objective of alleviating pressures on the balance of payments and making the external position a major focus of policy. Credit to the private sector would need to be even lower if there were slippages in the budget which resulted in higher domestic bank borrowing or if the growth of the economy or the inflation rate were less than presently forecast. The authorities would need to be cautious in this area. The Jordanian representatives remarked that the growth rate for private credit appeared tight, but they agreed that it was necessary to practice credit restraint given the pressures on the external position.

3. External sector policies

The balance of payments over the 1983-84 period was characterized by a weakening in exports and remittances in 1983 followed by a strong recovery, moderately declining import payments, and substantially lower external grants. The current account continued to show sizable deficits, and the capital account reflected large commercial borrowings.

In 1983 the current account deficit widened slightly to 8 percent of GNP. The total import bill fell slightly, reflecting essentially lower world petroleum prices. There was also a further easing of the growth of non-oil imports, but this resulted largely from the absence of civilian aircraft purchases which had inflated the previous year's imports; excluding these, non-oil imports rose by 9 percent. In the aggregate, Jordan's domestic exports recorded a 14 percent fall, but this was attributable entirely to a sharp decline of exports to Iraq; exports to other countries rose by 13 percent, largely due to the new export items, potash and fertilizer. In the services account, the growth rate of net workers' remittances fell to only 3 percent; however, net receipts from nonfactor services rose subtantially. External grants declined by SDR 200 million, but this was offset by a US$225 million Eurodollar borrowing which averted a prospective substantial reduction in gross capital inflows. On an overall basis, the balance of payments recorded a surplus of about SDR 100 million.

In 1984 Jordan's balance of payments position deteriorated evidencing an overall deficit of about SDR 165 million, or 3.3 percent of GNP. As the current account deficit narrowed, the deterioration resulted from a lower level of net capital inflows and a substantial negative errors and omissions entry. The erosion in net capital receipts reflected both lower receipts and higher payments, and occurred despite further external commercial borrowing of US$200 million. Export performance in 1984 was strong. Exports (excluding those to Iraq) rose by 45 percent due to a large increase in phosphate shipments and further sizable gains for fertilizer and potash, while with the special credit and trade arrangements for exports to Iraq, these exports more than doubled. Net remittance inflows rose by 17 percent; in this regard, the Jordanian representatives suggested that there might have been an increase in the number of workers returning from abroad; however, it was difficult to explain the sharp rise at this time. Total import payments again fell marginally as higher oil import payments were offset by a small decline in non-oil imports. Apart from continued slack conditions in the domestic economy, the fall in these imports reflected the coming on stream of a new cement plant, which virtually eliminated cement imports, and a decline in food imports despite higher cereal imports. The erosion in official grants continued in 1984. In reviewing recent balance of payments developments, the mission observed that external sector analysis was hampered by a large errors and omissions entry. For example, in 1984 the change in this entry was equivalent to about 80 percent of the deterioration in the overall balance of payments. Since the errors and omissions entry had been mostly negative in the past five years, it appeared that there was a systematic overrecording of receipts and/or underrecording of payments.

In discussing the balance of payments prospects for 1985 and the medium term, 1/ there was agreement between the Jordanian authorities and the mission that the projections were subject to substantial uncertainties. Apart from assessing the impact of world economic developments in general and the regional economic situation in particular, the major policy targets of the new Five-Year Plan beginning in 1986 had not yet been decided. Moreover, any adjustment to reflect the magnitude of likely errors and omissions would be arbitrary. For these reasons, the balance of payments projections had to be viewed as being very tentative. The authorities have forecast that Jordan's major exports (phosphate, fertilizer, and potash) will rise at rapid rates, expanding on a combined basis by 13 percent annually. Other exports are expected to benefit from the opening up of new markets and other export promotion measures, and as a result are forecast to grow by 10 percent annually. (In late 1984 new trade agreements were signed with Egypt and Ethiopia.) Non-oil imports are anticipated to resume their growth trend of about 8 percent. Reflecting the discovery of domestic oil and less buoyant economic growth, the volume of oil imports is forecast to decline by 3 percent per year. However, because of the subdued economic conditions in neighboring oil

1/ The medium-term balance of payments forecast and a note on the projections for the major variables are presented in Appendix I.

producing countries, remittance receipts are projected to grow by only 4 percent per annum. It is also expected that grant receipts would fall further before stabilizing during 1986-89, while net capital inflows, after declining sharply in 1985, would recover subsequently because of private sector inflows. On the assumption that a negative errors and omissions entry will continue to characterize the balance of payments, an adjustment has been included in the forecasts equivalent to the average of this entry for the past five years. Taken together, these individual projections result in a balance of payments improvement in 1985, with the current account deficit declining to 1.8 percent of GNP and the overall deficit falling to SDR 49 million. Thereafter a gradual increase in the current account deficit emerges, and there would be an overall deficit in each subsequent year. For the 1985-89 period as a whole, the overall deficit would be in the order of SDR 275 million.

In commenting on these projections, the mission agreed that while on balance the external forecast appeared reasonable, it was of course sensitive to departures from some of the major projections. A 5 percent lower rate of increase for exports (other than phosphates, potash, and fertilizer) would add SDR 325 million to the overall deficit. Moreover, an unchanged volume of oil imports, rather than a decline, would add another SDR 260 million. Finally, the errors and omissions entry might turn out to be larger than the average for the past five years as they had exhibited a rising trend during these years. In view of these considerations and the current official reserve position, there was a need for a strengthened adjustment effort.

Jordan's gross official reserves of convertible foreign exchange and SDR holdings were SDR 538 million at end-1984, equivalent to 2.3 months of projected imports for 1985; reserves have declined steadily from their peak level in 1979 when gross official assets were equivalent to 8 months of imports. At end-1984 the Central Bank of Jordan also held claims equivalent to SDR 282 million on the Central Bank of Iraq. 1/ The Jordanian representatives considered the present reserve level to be inadequate.

Jordan's public and publicly guaranteed external debt rose by over 50 percent over the 1983-84 period to SDR 2.5 billion (equivalent to one half of GNP), and debt service increased to 7.6 percent in 1984. The Government's commercial external borrowing in 1983-84 of US$425 million is projected to be reflected in an increase in the debt service ratio to 10.6 percent by 1986; thereafter the ratio is forecast to decline to 8.7 percent by 1989 for the present stock of outstanding debt. In this

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1/ These claims originated from two special arrangements established to facilitate Jordanian trade with Iraq. In 1983 the Central Bank of Jordan opened a credit facility on behalf of the Central Bank of Iraq to pay Jordanian exporters for exports of goods or services to Iraq. In addition, a countertrade arrangement was concluded in 1984 which provided for the exchange of Iraqi oil and Jordanian products. Neither arrangement contains bilateral payments features.

connection the Jordanian representatives explained that due to the reduction in external grants some commercial borrowing would continue to be necessary although on a declining scale, and that tentative arrangements had been made to contract an additional US$100 million in 1985. It is the authorities' intention that such borrowings have a grace period of 3-4 years, so that the impact on the debt service ratio would be limited during the remainder of the 1980s. While recognizing that Jordan's debt service ratio was much lower than the average for developing countries, the mission cautioned against heavy commercial borrowing for budgetary and balance of payments purposes.

With regard to operation of the trade system, the Jordanian representatives stated that while there had been no basic change in their traditionally liberal import policy, over the years temporary import restrictions for items that compete with some products of newly established industries had been occasionally applied in order to afford these industries a period of adjustment. Most recently, in September 1984 producers of glass, certain aluminum products, and blankets had been granted such protection. Apart from this, import restrictions were mainly applied to control dumping. In this area, the mission commented that there was a need for caution against any movement toward quantitative restrictions, and that infant industry protection should be achieved through temporary import duties.

Over the 1983-84 period, the Jordan dinar has depreciated in real effective terms by about 1 percent. With regard to exchange arrangements, the Jordanian representatives stated that in view of this steady behavior of the real effective rate for the dinar, the authorities were no longer actively pursuing the idea of replacing the SDR with a trade basket peg. During the recent wide fluctuations in exchange rates for the major world currencies, the dinar has occasionally moved outside the narrow margins around the SDR peg. For this reason, the authorities were thinking of widening the margins somewhat, to perhaps 4-5 percent. On the topic of exchange rate management, the mission, against the background of the recent and prospective pressures on the balance of payments and the difficulties which had been confronting traditional exports, pointed to the desirability of keeping the exchange rate under review and pursuing a flexible approach to the use of exchange rate policy.

IV. Staff Appraisal

Jordan has consistently had prudent economic management with the result that for a long period the overall performance of the economy has been most satisfactory despite limited natural resources and at times a difficult regional environment. Economic growth has been rapid, there have been substantial increases in real income, and the country has benefited from financial stability. However, over the past 2-3 years the economy has been confronted with a less buoyant external environment. In addition to recessionary world economic conditions, Jordan has experienced a slowed pace of expansion in its export markets in neighboring countries, a lower growth of remittances from nationals employed in these countries, and reduced and less certain inflows of foreign assistance. The uncertainty surrounding the level of foreign assistance has in particular complicated economic management. Taken together these factors have been reflected in a slower growth of the domestic economy and in strong pressures on both the budgetary and balance of payments positions.

In response to these developments, the Jordanian authorities have introduced policy measures over the 1983-84 period with the objective of striking a balance between adjustment to the reduced availability of financial resources from abroad and containing the impact of adverse external developments on the domestic economy and income levels. In this policy approach, the adjustment effort has been focused in large part on the central government budget. The authorities are to be commended for their success in containing total expenditures to a virtually unchanged level over the two-year period and in expanding domestic revenue at a rate exceeding the growth of nominal GDP. Nevertheless, the shortfall in external grants in 1984 resulted in a near doubling of the overall budget deficit from the prior year's outcome as well as higher government borrowing from the domestic banking system.

Credit policy in 1983-84, on the other hand, was assigned the role of trying to assist the domestic economy to overcome the effects of a reduced growth stimulus from the external sector, and as a result was on balance expansionary, with the growth rate of private credit considerably exceeding that of the economy and contributing to pressures on the balance of payments. In the external sector, there was in 1984 a good export performance and an expansion in remittance inflows, but in part as a result of a further decline in grants and lower net capital inflows, there was a deterioration in the overall balance of payments position and an erosion in official reserves to a level equivalent to about two months' imports. This erosion occurred even though the authorities undertook additional large external commercial borrowing.

For the medium term, the prospects for the balance of payments under present policies appear difficult, and the current forecasts suggest the possibility of significant overall deficits and drawdown of official reserves. In view of these prospects, the staff believes that priority in the authorities' economic policy formulation should be assigned to improving the balance of payments, and that to this end a strengthening of the adjustment effort through a more determined approach to the management of aggregate demand would be desirable. In this undertaking, both fiscal and credit policy would need to be strengthened.

With regard to fiscal policy, the prospects for this year's budget are that without further measures the overall deficit could substantially exceed the projected level. Therefore consideration should be given to actions to ensure that the budget revenue enhancement and subsidy reduction targets are achieved, as well as to contingency planning in order to be able to reduce expenditures promptly in response to shortfalls in foreign grants. For the medium term, a determined fiscal effort directed at expanding domestic revenue and constraining expenditures is needed in order to improve the structure of public finance and reduce dependence on less certain external assistance. In this regard, a number of areas merit special consideration. For example, broadening of the domestic tax base through a reduction in income tax and import tariff exemptions; introduction of a domestic sales tax at the manufacturers' level that would improve tax elasticity; a closer scrutiny of capital expenditures and their contribution to growth; and price rationalization aimed at eliminating or reducing most forms of direct and indirect subsidization. In this latter area, the authorities should be commended for the pricing measures taken over the past two years to reduce the energy subsidy bill, but in view of the continuing constraints on budgetary resources early action is needed to eliminate this subsidy. Also in the area of public finance, the staff believes that budgetary reform aimed at consolidating into the central government accounts all the off-budget transactions by government ministries and noncommercial agencies would assist the authorities in the use of fiscal policy as a demand management tool.

Within the more determined approach to demand management, fiscal policy will need to be supported by cautious credit policies. While Jordan has traditionally had a good track record in this regard, the balance of payments would benefit from a much closer alignment of credit growth with the expansion in economic activity. This would entail a revision of current policies and an early tightening of credit expansion. In the area of monetary policy, it would moreover be timely for the authorities to consider freeing domestic interest rates as, apart from benefiting resource allocation, a flexible interest rate regime may well assist the external payments position by attracting larger remittance flows and encouraging the holding of dinar liquid assets.

The staff believes that it is important for the authorities to make an early start on the strengthening of domestic financial policies in order to improve the balance of payments and restore reserves to a more comfortable level; since the alternatives of a further erosion of the reserves position or of additional commercial borrowing offer only limited scope, caution is needed in both areas. For these reasons also, the authorities should keep the exchange rate under review and should not be hesitant to explore use of the exchange rate as a tool in balance of payments management.

Jordan has traditionally pursued liberal and market-oriented policies both in the domestic economy and in international trade, and this stance has contributed substantially to the country's good economic performance. The staff hopes that in the present difficult domestic and external environment these policies will be continued and that the temptation to respond by expanding intervention in the economy through subsidies, regulation, or restrictive trade policies will be resisted. While such intervention might contribute to alleviating a short-term growth problem, the resultant reduced flexibility in the economy could impair the economy's efficient operation and thereby the achievement of the needed improvement in the medium-term balance of payments. Reliance should instead be placed on more fundamental policy tools.

Jordan is currently on an 18-month consultation cycle. During the discussions, the staff noted that the 12-month cycle was the norm and reviewed with the authorities the desirability of moving to that standard cycle in view of external sector developments and prospects and Jordan's use of Fund resources in the upper tranche of the compensatory financing facility. The authorities indicated that their preference was to remain with the present cycle unless Fund regulations provide otherwise. It is therefore recommended that the next Article IV consultation with Jordan be held on an 18-month cycle.

V. Proposed Decision

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

1. The Fund takes this decision in concluding the 1985 Article XIV consultation with Jordan, in the light of the 1985 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.

Table 2. Jordan: Balance of Payments Projections, 1984-89

(In millions of SDRs) 1/

	Prov.	Official Projections				
	1984	1985	1986	1987	1988	1989
Current account	-227	-95	-116	-137	-157	-178
Domestic exports, f.o.b.	673	838	913	988	1,082	1,167
Phosphate	(180)	(222)	(230)	(237)	(279)	(304)
Fertilizer	(103)	(155)	(165)	(165)	(165)	(165)
Potash	(36)	(75)	(93)	(116)	(121)	(129)
Other	(353)	(386)	(425)	(470)	(517)	(569)
Imports, c.i.f. 2/	-2,680	-2,746	-2,905	-3,100	-3,312	-3,537
Oil	(-573)	(-554)	(-539)	(-544)	(-552)	(-557)
Other	(-2,107)	(-2,192)	(-2,366)	(-2,556)	(-2,760)	(-2,980)
Trade balance	-2,007	-1,908	-1,992	-2,112	-2,230	-2,370
Services (net)	1,073	1,212	1,351	1,439	1,529	1,635
Of which: Remittance receipts	(1,225)	(1,279)	(1,341)	(1,380)	(1,431)	(1,495)
Balance of goods and services	-934	-696	-641	-673	-701	-735
Unrequited transfers (net), of which:	706	601	525	536	544	557
Public sector	(663)	(572)	(490)	(490)	(490)	(490)
Capital account (net)	214	133	142	193	193	180
Adjustment 3/	-151	-87	-87	-87	-87	-87
Overall deficit 4/	-164	-49	-61	-31	-51	-85

Source: Central Bank of Jordan.

1/ Converted at JD 1 = SDR 2.579. Subsequent to the return of the mission, the data for the 1984 domestic exports components were slightly revised.
2/ Exclusive of re-exports.
3/ Adjustment for overestimation of foreign receipts and/or underestimation of foreign payments as reflected historically in the errors and omissions entry.
4/ As measured by changes in net foreign assets of the banking system.

Medium-Term Balance of Payments Projections

1. Exports

Data for phosphate, fertilizer (DAP), and potash exports are based on volume and price projections obtained from the relevant companies. Prices are expected to be stable in the case of phosphate and fertilizer and to rise by about 5 percent yearly for potash. Compared with the World Bank's Commodity Price Forecasts, these assumptions are conservative. Export volumes are expected to rise significantly in view of the recent increases in production capacities and expected or already concluded export contracts.

Other exports have shown a strong upward trend during the period 1973-84, but have moved erratically over the past five years. These exports are projected to rise in nominal terms by 10 percent per year (i.e., at the same rate as in 1984), because of the prospects for increasing exports to markets that have not been active in recent years (e.g., Egypt), the recent completion of a new export-oriented 2 million ton capacity cement factory, and various export promotion measures. If exports were to rise by only 5 percent, proceeds during the 1985-89 period would be SDR 325 million lower.

2. Imports

Oil: In line with the assumptions in the recent World Economic Outlook exercise, it is assumed that the nominal petroleum price will remain unchanged in 1985 and 1986, but rise by about 4 percent annually in the following three years. Because of the gradual coming on stream of the domestic oil field discovered in late 1984 and product pricing measures, oil import volume is expected to decline by 3 percent per year. Should petroleum import volume remain unchanged, the oil import bill would rise by about SDR 260 million more during 1985-89.

Other imports: For 1985 real economic growth is assumed to be on the order of 2 percent. With an import elasticity estimated at about one, 1/ and assuming that import prices rise by about 2 percent in 1985, the nominal growth rate would be 4 percent. For 1986-89, real annual economic growth is projected by the authorities to accelerate to about 4 percent; *this would imply a virtual stagnation of per capita income*. On the assumption of a price increase in terms of Jordan dinars of about 4 percent annually, nominal economic and import growth would be 8 percent.

3. Remittance receipts

It is assumed that the number of Jordanians working abroad will remain about unchanged, but that because of a gradual rise in their salaries, remittances will rise by about 4 percent per year.

1/ The calculations of the elasticity are based on imports for the period 1970-83.

4. Public sector grant receipts

It is projected that the downward trend in grant receipts will continue until 1986, after which grants would remain level during 1986-89 and be equivalent to half the average annual grant level during 1980-82.

5. Capital account

Because of the Government's intention to reduce external commercial borrowing, a sharp decline in net capital receipts is projected for 1985. This would be followed by a gradual increase in subsequent years (except 1989), mainly due to larger private sector capital inflows.

6. Adjustment

In all but one of the years 1980-84, the balance of payments has shown a large and growing negative errors and omissions entry, suggesting that there is generally an overrecording of foreign receipts and/or an underrecording of payments. On the assumption that this structural feature of the balance of payments estimates will continue over the next five years, a negative adjustment has been included in the projections equivalent to the average of the errors and omissions entries for the 1980-84 period.

Jordan - Fund Relations

(As of April 30, 1985)

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 financing	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:	15.3 (or 90.7 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 2.57895 with margins of 2.25 percent. The March 31, 1985 exchange rate vis-a-vis the U.S. dollar was JD 1 = US$2.4768.

IX. Last Article IV Consultation:

The last Article IV consultation discussions were held in August 1983. The staff report (SM/83/206) was discussed by the Executive Board on November 21, 1983 (EBM/83/158). Jordan is on an 18-month cycle.

X. Technical Assistance

None since a visit to Jordan by a staff member of the Bureau of Statistics in November 1978. A staff member of the Bureau of Computing Services visited Amman in late March 1985 to assess the need for Fund technical assistance to the Central Bank in making better use of its computer facilities.

Jordan - Financial Activities of the World Bank Group 1/

(In millions of U.S. dollars)

			Amount 2/ Bank	Amount 2/ IDA	Undisbursed
I. IBRD					
A. Loans fully disbursed					
Fifteen credits			--	86.1	--
Two loans			50.0	--	--
B. Loans being disbursed					
Loan Number	Fiscal Year	Purpose			
1781	1979	Education III	19.0		5.8
1826	1980	Cities and Villages Development Bank	10.0		3.3
1893	1980	Urban Development	21.0		13.5
1986	1981	Power IV	25.0		6.2
2068	1982	Education IV	25.0		19.5
2162	1982	Power V	35.0		21.7
2213	1983	Water Supply and Sewerage	17.0		16.9
2246	1983	Education V	18.8		18.6
2334	1983	Urban Transport and Municipal Development	30.0		28.9
2371	1984	Energy Development I	30.0		28.9
2378	1984	Education VI	40.0		40.0
2425	1984	Eight Cities Water Supply and Sewerage	30.0		30.0
2463	1985	Multi-Mode Transport	30.0		30.0
2483	1985	Greater Amman Water and Sewerage	30.0		30.0
Total			410.8	86.1	263.3
Of which: repaid			5.8	3.2	
Total outstanding (and held by Bank/IDA) 3/			405.0	82.9	
C. Loans being considered (FY 1985)					
Primary Health Care Project				13.5	
Second Urban Development Project				25.5	

II. IFC

Year	Obligator	Type of business	Loan	Equity	Total
1974	Jordan Ceramic Ind. Co. Ltd.	Ceramic tiles	1.6	0.2	1.8
1974/78/81/82	Jordan Fertilizer Ind. Co.	Phosphate fertilizers	79.5 4/	8.7	88.2 4/
1978/84	Jordan Lime and Silicate Brick Ind.	Building materials	2.5	0.7	3.2
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/	10.6	94.2 4/
Less commitments repaid, sold, or canceled			60.6 4/	0.7	61.3 4/
Total commitments now held by IFC			23.0	9.9	32.9
Total undisbursed			--	--	--

Source: World Bank.

1/ As of March 31, 1985.
2/ Less cancellations.
3/ Includes valuation adjustments.
4/ Includes a US$50.0 million loan managed by IFC on behalf of other participants.

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 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 shcools; 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.

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. 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 significant downward adjustments to the national income estimates, particularly for 1983.

2. Government finance

The central government budgetary data do not encompass all of the Government's operations as certain expenditures, particularly by the Ministry of Defense and the Ministry of Supply, are not recorded in the budget. Furthermore, while domestic revenue in the budget is on a cash basis, budgetary expenditures are on a commitment basis; foreign financing is on the basis of estimated cash receipts. These accounting practices have given rise to large discrepancies between the budgetary data and the monetary, balance of payments, and external debt data. Moreover, the occasional treatment of external grants on an accrual basis has entailed at times substantial ex post revisions to the budgetary outcome.

3. Monetary accounts

The monetary data are generally good. However, in the 1982-84 accounts, certain credits relating to military goods purchased by the Government have been classified in the entry "other assets" of the Central Bank; the data regarding these credits are confidential.

4. Balance of payments

The balance of payments estimates have been characterized by a large and generally growing negative errors and omissions entry in four of the last five years, possibly indicating a systematic overrecording of receipts and/or underrecording of payments.

5. External debt

The external debt data exclude loans for military purposes and revolving oil credits for which the data are confidential. As a result, a clear picture of Jordan's external debt position is not available.

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 1985 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.

		Latest Data in May 1985 IFS
Real Sector	- National Accounts	1983
	- Prices	December 1984
	- Production	December 1984
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	December 1984
	- Financing	December 1984
	- Debt	December 1984
Monetary Accounts	- Monetary Authorities	February 1985
	- Deposit Money Banks	February 1985
	- Other Financial Institutions	November 1984
External Sector	- Merchandise Trade:	
	Values: (Exports)	November 1984
	(Imports)	November 1984
	- Merchandise Trade: Prices	December 1983
	- Balance of Payments	Q4 1983
	- International Reserves	March 1985
	- Exchange Rates	March 1985

Jordan: Basic Data 1/

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

	1980	1981	1982	Prel. 1983	Prel. 1984
	(In millions of Jordan dinars)				
National income (in current prices)					
GNP at market prices	1,185.3	1,501.0	1,695.4	1,814.0	1,912.9
GDP at market prices	979.5	1,182.5	1,343.2	1,467.3	1,549.7
GDP at factor cost	888.4	1,059.4	1,201.2	1,298.0	1,347.3
	(In percent of GDP at factor cost)				
Sectoral shares					
Agriculture	7.3	7.2	7.0	7.6	8.3
Manufacturing and mining	18.8	19.7	19.2	18.2	18.2
Electricity and water	1.9	2.0	2.1	2.2	2.5
Construction	11.0	10.4	10.1	9.8	9.8
Government	19.2	18.0	18.2	17.9	17.9
Services	41.8	42.6	43.4	44.2	43.3
	(In percent)				
Rates of growth					
GNP at market prices	28.7	26.6	13.0	7.0	5.5
GDP at market prices	30.1	20.7	13.6	9.2	5.6
GDP at factor cost	32.9	19.2	13.4	8.1	3.8
Agriculture	48.2	18.6	9.4	18.3	12.2
Manufacturing and mining	37.4	24.7	10.6	2.8	3.8
Construction	38.3	13.4	10.2	4.0	4.6
Government	31.8	12.3	14.3	6.6	3.5
Services	26.6	21.5	15.4	10.1	1.7
Ratios					
Gross national savings/GNP	9.9	9.6	7.5	4.8	6.5
Gross fixed investment/GNP	33.6	37.6	35.2	32.6	25.1
Prices					
Rates of change in:					
Cost of living index	11.1 3/	7.7	7.4	5.0	3.9
Import price index (non-oil) 4/	11.4	6.6	1.8	-0.4	2.1

	1980	1981	1982	1983	Prov. Actuals 1984	Budget Est. 1985 5/
	(In millions of Jordan dinars)					
Central government budget						
Domestic revenue	226.1	309.2	362.0	403.9	437.7	488.9
Foreign grants	209.3	206.3	199.6	196.6	124.0	183.0
Expenditure and net lending	539.4	623.2	674.8	668.2	688.6	761.0
Current expenditure	(336.1)	(391.5)	(443.0)	(448.0)	(486.8)	(516.1)
Capital expenditure	(177.4)	(184.4)	(200.7)	(182.0)	(185.8)	(232.2)
Net lending	(25.9)	(47.3)	(31.1)	(38.2)	(16.0)	(12.7)
Overall deficit (including grants)	-104.0	-108.7	-113.2	-67.7	-126.9	-89.1
Foreign financing (net)	(67.7)	(54.0)	(55.5)	(61.3)	(91.9)	(54.2)
Domestic financing	(16.3)	(25.6)	(82.3)	(22.6)	(55.4)	(34.9)
Of which: bank financing (net)	[21.2]	[27.0]	[82.3]	[20.3]	[43.2]	[...]
Discrepancies	20.0	29.1	-24.7	-16.2	-20.4	...
Overall deficit (excluding grants)	-313.3	-315.1	-312.8	-264.3	-250.9	-272.1
	(In percent of GDP at current market prices)					
Domestic revenue	23.1	26.2	26.9	27.5	28.3	29.5
Foreign grants	21.4	17.4	14.9	13.4	8.0	11.0
Current expenditure	34.3	33.1	33.0	30.5	31.4	31.1
Capital expenditure	18.1	15.6	14.9	12.4	12.0	14.0
Overall deficit (excluding grants)	-32.0	-26.6	-23.3	-18.0	-16.2	-16.4
Overall deficit (including grants)	-10.6	-9.2	-8.4	-4.6	-8.2	-5.4
Foreign financing (net)	6.9	4.6	4.1	4.2	5.9	3.3
Domestic bank financing (net)	1.7	2.2	6.1	1.5	2.8	...
	(In percent)					
Rates of change						
Domestic revenue	20.3	36.8	17.1	11.6	8.4	11.7
Foreign grants	-0.5	-1.4	-3.3	-1.5	-36.9	47.6
Total expenditure	7.4	15.7	8.1	-1.0	3.1	10.5
Current expenditure	(4.6)	(16.5)	(13.2)	(1.1)	(8.7)	(6.0)
Capital expenditure	(14.7)	(3.9)	(8.8)	(-9.3)	(2.1)	(25.0)
Domestic revenue/current expenditure	67.3	80.0	81.7	90.2	89.9	94.7

Jordan: Basic Data (Concluded) 1/

	1980	1981	1982	1983	1984
			(In millions of Jordan dinars)		
Changes in monetary aggregates					
Money and quasi-money	211.7	195.0	223.5	211.8	142.5
Foreign assets (net)	110.1	14.4	-61.9	38.4	-63.7
Domestic assets (net)	101.6	180.6	285.4	173.4	206.2
Claims on Central Government (net)	(21.2)	(27.0)	(82.3)	(20.3)	(43.2)
Claims on nongovernment sector 6/	(102.9)	(168.8)	(182.4)	(163.5)	(165.1)
Other items (net) (increase -)	(-22.5)	(-15.2)	(20.7)	(-10.4)	(-2.1)
			(In percent)		
Rates of change					
Money and quasi-money	27	20	19	15	9
Claims on Central Government	32	31	72	10	20
Claims on private sector	22	28	22	18	14
			(In millions of SDRs)		
Balance of payments					
Domestic exports (f.o.b.)	309.8	435.9	478.6	412.9	673.2
Re-exports	132.4	189.8	203.6	130.2	76.3
Non-oil imports (c.i.f.) 7/	-1,417.3	-2,058.3	-2,144.7	-2,181.6	-2,107.1
Oil imports (c.i.f.)	-293.7	-450.3	-594.7	-530.0	-573.0
Workers' remittances (net)	491.8	745.1	823.9	851.3	998.7
Investment income (net)	36.6	73.8	84.2	42.7	-64.9
Services (net)	132.3	107.6	84.9	279.7	139.6
Receipts from other services	(769.3)	(1,000.8)	(1,040.6)	(1,102.5)	(1,079.5)
Payments for other services	(-637.0)	(-893.2)	(-955.7)	(-822.8)	(-939.9)
Transfers (net)	1,028.4	1,111.0	962.7	760.6	706.3
Current account balance	287.9	-35.3	-305.0	-364.5	-227.3
Capital (net)	85.7	181.1	292.5	404.3	213.9
Errors and omissions (net)	-89.7	-108.7	-147.1	59.2	-150.3
Overall balance	283.9	37.2	-159.6	99.0	-163.7
			(In percent)		
Rate of change					
Domestic exports	45.4	40.7	9.8	-13.7	63.0
Non-oil imports 7/	14.2	45.2	4.2	1.7	-3.4
Oil imports	65.3	53.3	32.1	-10.9	8.1
Workers' remittances (net)	21.9	51.5	10.6	3.3	17.3
Receipts from other services	35.8	30.1	4.0	5.9	-2.1
Transfers (net)	26.8	8.0	-13.3	-21.0	-7.1
			(In percent of GNP)		
Domestic exports	10.1	11.3	10.9	8.8	13.6
Non-oil imports 7/	46.4	53.2	49.1	46.6	42.7
Workers' remittances (net)	16.1	19.0	18.9	18.2	20.2
Receipts from other services	25.1	25.5	23.9	23.6	21.8
Transfers (net)	33.6	28.7	22.0	16.3	14.3
Current account balance	9.4	-0.9	-7.0	-7.8	-4.6
Overall balance	9.3	1.0	-3.6	2.1	-3.3
			(In millions of SDRs)		
Gross official reserves 8/ (end of period)	910.7	944.9	784.5	789.6	537.6
Gross official reserves (in months of following year imports)	(4.4)	(4.1)	(3.5)	(3.5)	(2.3)
Outstanding external public debt 9/ (end of period)	995.0	1,331.2	1,620.5	2,092.2	2,468.5
External public debt service	104.5	196.8	190.9	207.4	239.6
			(In percent)		
External debt/GNP	32.5	34.4	37.2	44.8	50.0
External debt service/exports of goods and services (including remittances)	5.4	7.4	6.6	7.3	7.6
Change in real effective exchange rate (-depreciation) 10/					
Annual average	0.8	0.7	3.2	-0.7	-0.3
December average	-10.0	8.1	8.6	-7.2	2.4

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/ For 1985, GDP at market prices is officially forecast to be JD 1,657 million.
6/ Includes credit to local governments.
7/ Excludes re-exports.
8/ Excludes gold and claims on Central Bank of Iraq.
9/ Excludes loans received for military and oil purchases.
10/ IMF Information Notice System.