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Jordan: 2008 Article IV Consultation—Staff Report; and Public Information Notice on the Executive Board Discussion

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2008 Article IV consultation with Jordan, the following documents have been released and are included in this package:

- The staff report and informational annex for the 2008 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on March 11, 2008, with the officials of Jordan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 18, 2008. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its May 12, 2008 discussion of the staff report that concluded the Article IV consultation.

The document listed below will be separately released.

Selected Issues Paper

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

JORDAN

Staff Report for the 2008 Article IV Consultation

Prepared by Staff Representatives for the 2008 Consultation with Jordan

Approved by David Owen and Martin Fetherston

April 18, 2008

- **Mission dates:** February 27–March 11

- **Team:** Messrs./Mmes. Husain (head), Baunsgaard, Sab, Ter-Martirosyan (all MCD), and Tadesse (PDR). Mr. El-Khouri (OED) joined the mission.

- **Counterparts:** Prime Minister Dahabi, Finance Minister Kasasbeh, Governor Toukan, other senior officials, the private sector, and donors.

- **Last Article IV consultation:** March 5, 2007; http://www.imf.org/external/np/sec/pn/2007/pn0738.htm

- **Fifth Post-Program Monitoring (PPM) review:** June 25, 2007 (lapse-of-time basis); http://www.imf.org/external/np/sec/pr/2007/pr07180.htm. PPM expired at end-2007.

- **Credit outstanding (end-March 2008):** SDR 49.07 million (28.8 percent of quota)

- Jordan accepted the obligations of Article VIII, Sections 2, 3, and 4 in 1995, and maintains an exchange system free of restrictions on payments and transfers for current international transactions with limited restrictions on capital transactions. The dinar is pegged to the U.S. dollar.

- The timeliness and coverage of macroeconomic data are generally adequate for surveillance.

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Executive Summary

The 2008 Article IV consultation discussions with Jordan focused on the appropriate policy response to mounting fiscal and external vulnerabilities and higher inflation.

Background

The economy continued to perform well in 2007, with 6 percent real GDP growth and lower unemployment. However, sharply higher world fuel and food prices led to a marked widening of the fiscal and external current account deficits and, more recently, a jump in inflation. Economic prospects remain broadly favorable, though the public and external sector imbalances imply increased challenges to sustaining strong macroeconomic performance.

Authorities' views

The authorities plan to lower the fiscal deficit in 2008, despite pressures to increase spending following the removal of fuel subsidies. Although specific measures have not yet been identified, they expect to reduce the deficit substantially more over the medium term, mainly via lower expenditure growth.

The exchange rate peg has anchored monetary policy and prevented an even larger deterioration of the current account last year, when there was upward pressure on the dinar. Interest rate differentials against the U.S. will be allowed to widen further to curb inflationary pressures and credit growth.

Structural reforms are proceeding, aimed at reducing distortions and enhancing the private sector's growth prospects.

Staff recommendations

The planned tightening of fiscal policy in 2008 will help narrow the fiscal and external imbalances and bring inflation down. Significant further fiscal consolidation is needed over the medium-term to reduce the still-high public debt and the large current account deficit.

The peg remains appropriate for Jordan. As long as short-term capital inflows remain limited, there is scope to tighten monetary conditions to stem inflation.

Progress on the structural reform agenda is key to sustaining strong economic performance. Priority areas include public financial management, the framework for public-private partnerships, liberalization of the petroleum sector, developing the debt market, and continued enhancement of financial sector supervision.

I. Background

A. Overview

1. **Jordan's macroeconomic performance in recent years has been very strong, supported by the implementation of sound policies and wide-ranging structural reforms**. GDP growth has averaged 6 percent annually since the beginning of the decade, resulting in an increase in per capita GDP of over 60 percent. Inflation has remained generally low, and efforts to tighten fiscal policy have facilitated a significant decline in the public debt stock. Although the current account deficit has widened, a significant pickup in FDI inflows has enabled a tripling of foreign reserves from 1999 to 2007.

Jordan: Main Macroeconomic Indicators, 1990-2007

	1990-95	1996-2000	2001-06	2007
	(In percent of GDP, unless otherwise indicated)			
Real GDP growth	5.2	3.2	6.2	6.0
Inflation, annual average	6.3	2.8	3.1	5.4
Nominal GDP per capita (in U.S. dollars)	1,372	1,672	2,098	2,764
Unemployment rate (in percent of labor force)	17.3	13.8	14.7	13.1
Total government and government guaranteed net debt	150.4	98.4	88.6	73.0
International reserves (in millions of U.S. dollars)	501	1,663	4,415	6,865

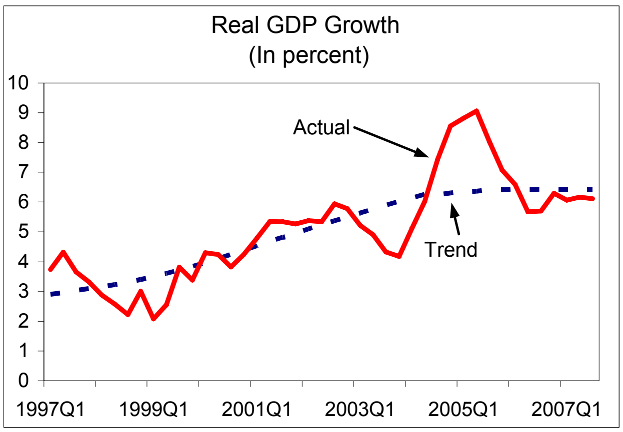
Source: Jordanian authorities.

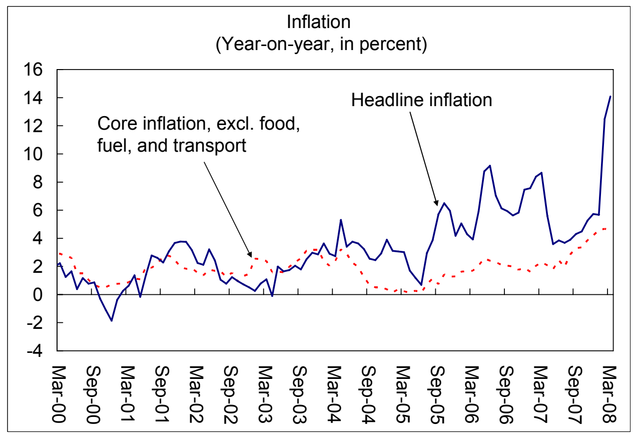
2. **Over the past year, higher international food and fuel prices have pushed up inflation and widened the fiscal and external deficits.** The key near-term policy challenges are to bring inflation back down quickly and to mitigate risks related to fiscal and external vulnerabilities. Accordingly, the discussions focused on:

- fiscal policy adjustment to contain inflationary pressures, bring down public debt, and contribute to a faster current account adjustment;
- the scope for monetary policy tightening to lower inflation expectations; and
- structural reforms to support the fiscal adjustment and facilitate higher growth.

B. Recent Developments

3. **The economy continued to perform well in 2007 in a more challenging external environment.** Real GDP grew by 6 percent and the unemployment rate fell further (Figure 1 and Table 1). FDI inflows remained strong and international reserves increased substantially. Inflation, which had picked up following the fuel price adjustment in 2006, declined from almost 9 percent (year-on-year) in early 2007 to below 4 percent by mid-year. However, rapidly rising world fuel and food prices put pressure on the fiscal and external accounts in the second half of the year. Inflation started to pick up again in late 2007 and jumped to 14 percent (y-o-y) in March 2008, following a 47 percent average increase in petroleum product prices.[1] Core inflation also picked up, but remains below 5 percent.





4. **The fiscal position deteriorated in the second half of 2007, mainly reflecting the higher cost of fuel and food subsidies and a shortfall in external grants**. The overall deficit for 2007 is estimated at 6.2 percent of GDP, against an original target of 2.8 percent (Tables 2 and 3). Higher fuel and food subsidies on account of increased world prices, as well as lower-than-anticipated grants, were partly offset by lower capital expenditure and net lending, and overperformance on domestic revenue. Increased domestic borrowing to finance the larger deficit resulted in only a marginal decline in

Summary of Fiscal Operations, 2005–07
(In percent of GDP)

	2005	Prel. 2006	(I) Budget 2007	(II) Prel. 2007	=(II) minus (I)
Total revenue and grants	33.2	34.5	34.9	34.9	0.0
Budgetary revenue	28.2	31.2	29.8	31.9	2.0
Grants	5.0	3.3	5.1	3.1	-2.1
Total budgetary expenditure	39.4	39.3	37.7	40.4	2.7
Current expenditure, *of which:*	32.8	31.9	29.6	33.4	3.8
Fuel subsidy	5.6	2.8	0.0	2.7	2.7
Food subsidy	0.6	0.8	0.5	1.8	1.2
Capital expenditure and net lending	6.6	7.5	8.1	7.0	-1.1
Financing (=deficit including grants)	5.0	3.8	2.8	6.2	3.4
Foreign financing (net)	-0.6	-0.2	-1.4	-1.6	-0.2
Privatization receipts (net)	0.0	4.2	3.2	2.3	-0.9
Domestic financing (net)	5.6	-0.3	1.0	4.9	3.9
Memorandum items:					
Overall balance excluding grants	-10.1	-7.1	-7.9	-9.2	-1.4
Primary balance excluding grants	-7.1	-3.9	-4.4	-6.0	-1.6
Government and guaranteed net debt	83.8	73.5	69.1	73.0	4.0

Sources: Jordanian authorities; and Fund staff projections.

[1] Energy and transportation account for 13 percent of the consumption basket.

the overall public debt stock to 73 percent of GDP (Figure 2).

5. **Despite a sizable deterioration in the external current account, the reserves position strengthened**. The current account deficit widened to 17½ percent of GDP in 2007, reflecting higher import costs, a slowdown in export growth, and a shortfall in external grants (Table 4). Weakness in the textile sector dampened overall export performance, despite strong growth in exports of nontraditional products and to faster-growing destinations in the Middle East and Asia (Figure 3). Import volume expansion moderated to 3 percent, but sharply higher prices translated into a 17 percent increase in the total import bill. In addition, errors and omissions—which may partly reflect unrecorded current receipts—more than doubled to 8 percent of GDP. Continued strong FDI and portfolio inflows financed the current account deficit. The latter also contributed to the strong performance of the Amman Stock Exchange (up 36 percent in 2007). The real effective exchange rate depreciated by 4 percent in 2007 on account of the weakening dollar, to which the dinar is pegged. Reserves rose to $6.9 billion by year-end, equivalent to five months of prospective imports, from $6.1 billion at end-2006 (Table 5). A buyback of nonconcessional Paris Club debt was completed at end-March 2008 (Box 1). Correspondingly, reserves declined to $5.4 billion.

Box 1. Paris Club Debt Buyback

In March 2008, Jordan finalized a $2.4 billion debt buyback operation with its Paris Club creditors. The buyback covered all previously rescheduled nonconcessional debt, which was retired through a $2.1 billion payment to Paris Club creditors. The operation involved a principal face value reduction of around 11 percent. Financing for the operation was covered by privatization revenues and external grants.

The buyback operation will (i) reduce Jordan's large debt burden, with external debt falling from 46 percent of GDP in 2007 to 28 percent in 2008;[1] (ii) send a positive signal to investors and rating agencies; (iii) provide external debt service saving of roughly 1¼ percent of GDP per year; and (iv) reduce the nondollar share of external debt. A key objective of the authorities had been to reduce the high share of debt denominated in currencies other than the dollar, whose depreciation in 2006 and 2007 raised Jordan's external debt—in dollar and dinar terms—by 2 percentage points of GDP in each year.

Following the buyback operation, reserves fell to $5.4 billion, equivalent to 3.7 months of prospective imports and almost 9 times short-term debt on a remaining maturity basis. At close to one-third of GDP, reserves remain sufficient to withstand the full (but unlikely) reversal of all the non-FDI private capital that has flowed into Jordan during the last three years.

[1] The buyback accounts for an 11 percentage point of GDP reduction in gross external debt, with the remainder reflecting net amortization payments to other creditors as well as nominal GDP growth.

6. **Monetary policy remained geared toward maintaining the exchange rate peg.** The overnight interest rate was cut by 50 basis points (bps) in September 2007, following the reduction in the Fed funds rate (Figure 4). Since then, despite a further 250 bps cumulative cut in the Fed funds rate, the Central Bank of Jordan (CBJ) has lowered its key policy rate by only 25 bps (in early February) to avoid an excessively accommodative monetary stance (Tables 6 and 7). So far, there are no indications that the widening interest differential has attracted significant short-term capital inflows. Bank prudential indicators have remained steady, with the average risk-weighted capital adequacy ratio easing to a still-healthy 19 percent in mid-2007. Although private credit growth moderated to 15 percent by end-2007, the banking system's loan-deposit ratio continued to edge up (Box 2). Financial supervision was enhanced via the issuance of regulations on corporate governance, risk management, and internal control systems in the banking sector. In addition, the CBJ launched an annual financial stability report in late 2007.

Indicators of Bank Soundness, 2000–07

	2000	2004	2005	2006	2007
	(In percent, unless otherwise indicated)				
Risk-weighted capital adequacy ratio 1/	19.4	17.8	17.6	21.4	18.8
Non-performing loans (in percent of total loans) 1/	14.6	10.3	6.6	4.3	4.2
Provisions (in percent of classified loans) 1/	...	63.8	78.4	80.0	70.0
Leverage (capital to assets ratio) 1/	...	8.9	10.5	13.2	12.8
Return on assets 1/	0.3	1.1	2.0	1.7	1.6
Return on equity 1/	4.4	13.1	20.9	15.0	12.2
Loans to GDP ratio (in percent of GDP)	75.8	76.5	86.6	97.6	100.6

Source: Central Bank of Jordan.

1/ Data for end-June 2007. Returns on assets and equity have been annualized.

7. **Staff's analysis of the real exchange rate shows no clear evidence that the dinar is misaligned.** While alternative methodologies yield a considerable dispersion in misalignment estimates, the average estimate is very small (Box 3). Analysis of the current account indicates that transient factors—including temporary factors related to the conflict in Iraq, terms of trade movements, and mining sector production stoppages—may account for as much as one-half of the deficit in 2007, implying that the "underlying" current account is stronger than the actual level. Moreover, the risk of external instability from the capital account is limited since FDI constitutes the bulk of inflows, external debt is almost entirely to official creditors, and reserves are very comfortable in relation to short-term liabilities.[2]

8. **Significant progress was achieved in the structural area over the past year.** On the fiscal side, this includes the introduction of a new chart of accounts, preparation of an

[2] Chapters I and II of the 2008 Selected Issues Paper (forthcoming) contain a detailed discussion of the misalignment estimates and analyze the factors accounting for the large current account deficit, respectively. FDI prospects are also discussed in Chapter II.

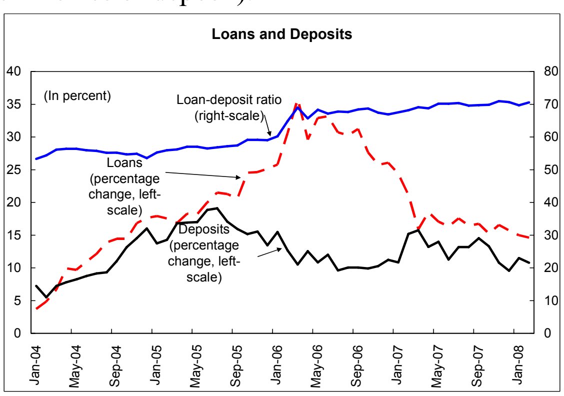
integrated medium-term expenditure framework, and enhancement of the macro-fiscal unit in the Ministry of Finance (MOF). In the privatization area, the successful initial public offering of 71 percent of the shares of Royal Jordanian airline and the privatization of three electricity companies were completed in recent months. In the financial area, an anti-money laundering (AML) law was enacted in 2007 and an AML unit was established in the CBJ. An electronic check clearing system became operational in 2007. The recent establishment of a Dow Jones index for the Amman Stock Exchange is expected to further enhance foreign investment, which already accounts for about one-half of market capitalization.

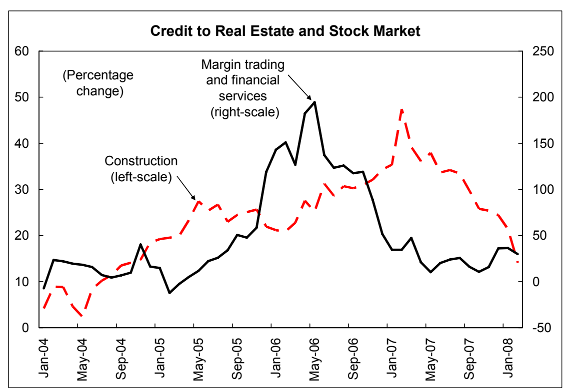
Box 2. Banking Sector Developments

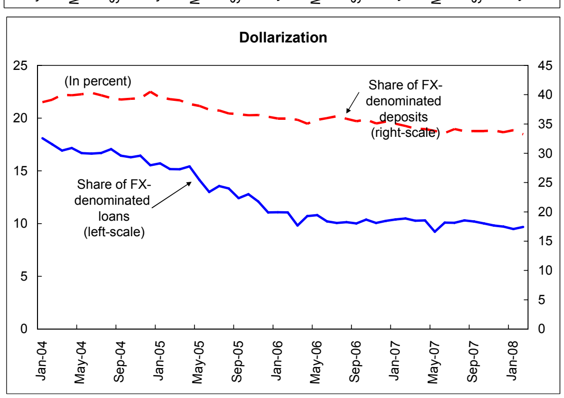
Banks' loan growth has outpaced that of deposits in recent years. Credit expansion has predominantly been in local currency, reflecting prudential restrictions on foreign currency lending. Loans for real estate and to buy stocks have grown rapidly in recent years, though their pace decelerated in 2007. Several banks are now close to the 20 percent real estate exposure limit, which includes loans to the construction sector.

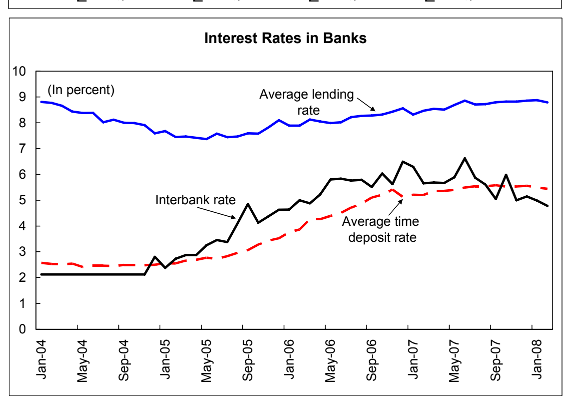
Deposit growth has tapered off. This partly reflects changes in the investment policy of the Social Security Corporation, which has reduced its bank deposits in favor of bonds, equities, and privatized assets. Deposit dollarization is declining but remains substantial.

Bank lending and deposit interest rates increased in 2007. Interbank rates edged down, reflecting lower policy rates and some scaling back of liquidity operations by the CBJ (through issuance of certificates of deposit).





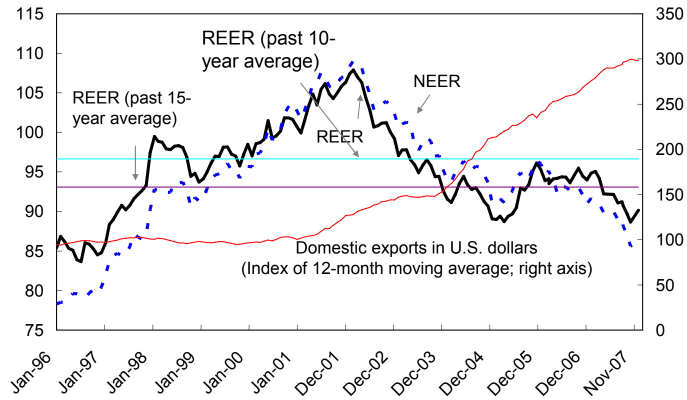




Box 3. Exchange Rate Assessment

Traditional indicators suggest that Jordan's external competitiveness remains adequate. With the dinar pegged to the U.S. dollar, the real effective exchange rate (REER) has depreciated by 16½ percent relative to its peak in 2002. By end-2007, the REER was below both its 10-year and 15-year historical averages. Exports have grown at double-digit rates in recent years, with a decline in exports to the U.S. in 2007 offset by diversification into nontraditional products and to Asian and Middle Eastern countries.

Jordan: Merchandise Exports, Real and Nominal Effective Exchange Rates
Index, 2000 (January 1996-December 2007)



Sources: IMF information notice system; and Central Bank of Jordan.

Assessment of the level of the REER by a variety of commonly applied methods presents a more mixed picture. The relative PPP approach points to significant undervaluation of the dinar as of end-2007. The macroeconomic balance, external sustainability, and equilibrium REER approaches—whether evaluated at projected values of macro fundamentals for 2013 or by stripping out temporary factors from the 2007 current account—provide no consistent findings. Whereas the macroeconomic balance approach suggests that the dinar is overvalued, estimates from the external sustainability and the equilibrium REER approaches are consistent with fundamentals.

Jordan: Assessment of the Real Effective Exchange Rate

I. End-2007 REER difference against:		II. Relative PPP 1/	III. Macroeconomic balance 2/		IV. External sustainability 3/		V. Equilibrium real exchange rate 4/		Average misalignment (II - V)	
10-year average	15-year average		2007 fundamentals	2013 fundamentals	2007 fundamentals	2013 fundamentals	2007 fundamentals	2013 fundamentals	2007 fundamentals	2013 fundamentals
(Misalignment as percentage deviation from estimated equilibrium, overvaluation (+), undervaluation (-)).										
-6.7	-3.2	-21.9	7.2	10.9	-4.8	-1.0	1.8	-0.6	-4.4	-3.1

1/ Estimated deviation of the end-2007 REER from its long-run level based on an international comparison of price levels and productivity. The estimate for Jordan is the geometric weighted average of the deviations of its trading partners' currencies against the U.S. dollar.

2/ Measures the adjustment needed to eliminate the gap between an estimated current account "norm"--obtained from applying CGER cross-country panel regression coefficients to Jordanian data--and the projected "underlying" medium-term current account balance for Jordan.

3/ Provides an estimate of the adjustment needed to stabilize Jordan's net foreign assets (NFA) to GDP ratio at its end-2006 level, using CBJ data for NFA. If NFA data are instead taken from the Lane/Milesi-Ferretti cross-country database, the resulting estimate is +14.2 percent with 2013 fundamentals and +11.4 percent with 2007 fundamentals.

4/ Estimates the deviation between the actual and the "equilibrium" REERs. The latter is obtained by applying coefficients from the CGER cross-country panel regression to Jordanian data.

II. Policy Discussions

A. Outlook

9. **The near-term outlook remains generally favorable, but fiscal and external vulnerabilities have increased.** Real GDP growth is expected to ease slightly to 5½ percent in 2008, with continued robust activity in construction and tourism broadly offsetting weaker external demand.[3] Inflation is projected to moderate to 9 percent (y-o-y) by December, assuming the fiscal tightening envisaged by the authorities is implemented. Despite high import prices and weakness of textile exports, the current account deficit is projected to narrow moderately to 15½ percent of GDP due to a recovery of grants and buoyant prices of mining exports, and is expected to be financed by continued strong FDI and portfolio flows.

10. **The fiscal and external imbalances are projected to narrow gradually over the medium term.** Under the baseline outlook, growth is projected to recover to 6 percent—broadly in line with estimated trend—supported by continued strong investment inflows, especially from the region. As the effect of the recent fuel price adjustments on headline inflation wears off, and given the exchange rate peg, CPI inflation is expected to converge to trading partner countries' levels. The fiscal deficit is projected to come down moderately to 4½ percent of GDP by 2013, with lower spending—in relation to GDP—more than offsetting a decline in grants. Thus, the projected narrowing of the external current account deficit to about 9 percent would only partly be due to fiscal adjustment. Instead, the main contribution would come from a gradual unwinding of transient factors. In particular, the projected easing of world commodity prices over the medium term is expected to reduce the trade deficit by 5 percent of GDP, which would be reflected in a gradual recovery in the private saving rate to the 2004–06 average.[4]

Sources of Growth (in percent)

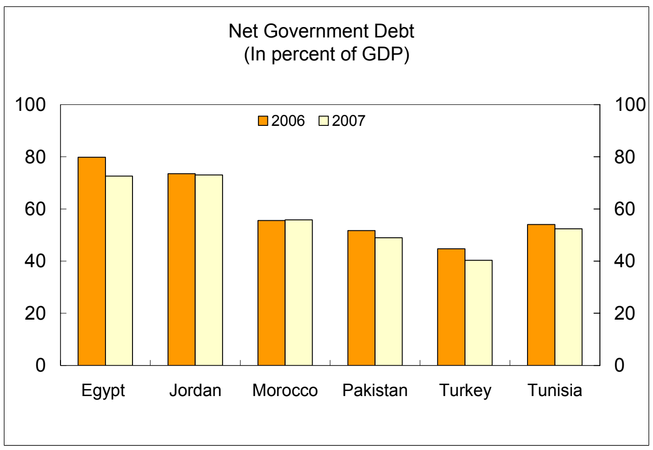
	1995-2001	2001-07	Proj. 2008-12
GDP growth (in percent)	3.7	6.2	6.0
of which:			
Labor	2.5	1.9	1.9
Capital 1/	0.8	2.6	3.0
Total factor productivity	0.5	1.6	1.0

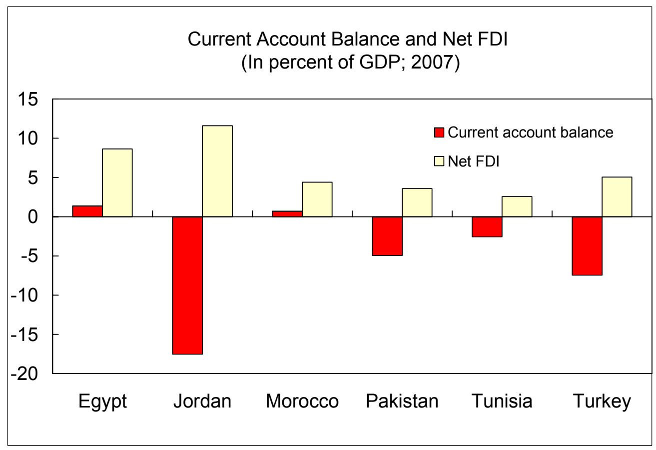
1/ A depreciation rate of 10 percent and an initial capital-output ratio of 2.0 in 1980 are assumed to calculate the capital stock. The projected capital contribution assumes an average investment to GDP ratio of 30 percent, compared with 32 percent during 2005-07.

[3] Based on historical correlations, a 0.5 percentage point (p.p.) decline in global growth would reduce growth in Jordan by 0.1–0.3 p.p.

[4] Application of the WEO commodity price projections for 2013 to 2007 trade volumes implies a temporary adverse price effect of 6½ percent of GDP on the import side in 2007, which was partly offset by a temporary boost to mining exports by 1½ percent of GDP (Chapter II of the 2008 Selected Issues Paper contains details).

11. **The main risks relate to the relatively high public debt and current account deficit**. In the near term, continued escalation of world fuel and food prices could widen the current account deficit and intensify pressures to relax fiscal policy. Also, the large external financing requirement is a vulnerability, although FDI inflows, especially from oil-producing countries in the region, are expected to remain strong. Over the medium term, government and government-guaranteed debt is expected to decline in relation to GDP, but will remain high in comparison with many emerging market economies. Adverse shocks—to growth, interest rates, grants, or the exchange rate—would result in a significantly higher debt path (Appendix I). While the baseline external debt outlook is favorable—outstanding external debt is expected to decline to 14 percent of GDP by 2013—and shocks to growth, interest rates, and the current account would have a relatively moderate impact, the gross financing requirement would remain sizable, implying continued vulnerability to a sharp slowdown in capital inflows (Appendix II).





B. Fiscal Policy

12. **The 2008 budget aims at containing the expenditure pressures that emerged in 2007.** Along with the removal of petroleum subsidies in early February, a monthly fuel price adjustment mechanism was implemented, greatly reducing the vulnerability of the budget to future oil price developments.[5] The authorities estimate that, at a world oil price of $95/barrel, fuel subsidies could have been 5.8 percent of GDP higher in 2008 had the price adjustment not been implemented. Compensatory expenditure measures were also taken to protect vulnerable groups. The measures, which amount to 3.5 percent of GDP, include an increase in public sector salaries and an expansion of social safety net transfers (Box 4). While acknowledging that the salary increase would make the overall structure of public spending more rigid, the authorities emphasized that mechanisms for precisely targeting sizable social assistance were not available and the measures had, in fact, reached many of

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[5] Fuel prices were raised by a further 6 percent and 2 percent on average in March and April, respectively, under the mechanism. Prices of LPG remain subsidized and are not covered by the monthly mechanism.

the most vulnerable. They also noted that the compensatory package had succeeded in winning public acceptance for a difficult measure, which implied a fiscal deficit that would be almost 2½ percent of GDP lower than if fuel subsidies had not been removed. A supplementary budget that is currently under preparation will seek additional budget allocations to fully cover the cost of the compensatory measures.

Summary of Fiscal Operations, 2007–11
(In percent of GDP)

	Prel. 2007	Budget 2008	Additional Measures	Proj. 2008	2009	2010	2011
Total revenue and grants	34.9	34.0	0.9	34.8	33.6	33.2	32.9
Budgetary revenue, *of which:*	31.9	30.6	0.9	31.5	31.2	31.1	31.0
Tax revenue	22.0	21.7	0.4	22.1	22.0	22.0	22.0
Nontax revenue	9.8	8.9	0.5	9.4	9.2	9.1	9.0
Grants	3.1	3.4	0.0	3.4	2.4	2.1	1.9
Total budgetary expenditure	40.4	39.5	0.9	40.4	38.8	38.3	37.8
Current expenditure, *of which:*	33.4	31.2	2.2	33.4	31.7	31.3	30.8
Primary current spending w/o fuel subsidy	27.4	28.3	1.2	29.5	28.4	28.1	27.8
Fuel subsidy	2.7	0.0	0.8	0.8	0.0	0.0	0.0
Capital expenditure and net lending	7.0	8.2	-1.3	6.9	7.1	7.0	7.1
Financing (=deficit including grants)	6.2	5.5	…	5.5	5.3	5.1	4.9
Foreign financing (net)	-1.6	-1.5	…	-9.0	-0.9	-0.8	-0.7
Privatization receipts (net)	2.3	0.0	…	1.0	0.0	0.0	0.0
Domestic financing (net)	4.9	7.1	…	13.5	6.1	5.8	5.6
Memorandum items:							
Overall balance excluding grants	-9.2	-8.9	0.0	-8.9	-7.6	-7.2	-6.8
Primary balance excluding grants	-6.0	-5.9	0.2	-5.7	-4.3	-4.1	-3.9
Government and guaranteed net debt	73.0	...	...	62.4	60.6	59.9	59.3

Sources: Jordanian authorities; and Fund staff projections.

Box 4. Fuel Price Adjustment and Compensatory Measures

Following the 47 percent average price increase in February, petroleum product prices are being adjusted on a monthly basis. A committee composed of representatives from several ministries and the Petroleum Refinery now sets fuel prices based on the world average oil price in the preceding month, as well as transportation and handling costs. A similar pricing mechanism has been in place for some products—including jet fuel—from last year.

The social impact of removing fuel subsidies was softened by expanding wages, pensions, and social spending. The 2008 compensatory measures included (i) an increase, on a progressive scale, in public sector wages and pensions; (ii) cash assistance to the poor in the private sector; (iii) an increase in assistance provided by the National Aid Fund (NAF); and (iv) financial support targeted at small-size farmers. The estimated cost of compensatory measures—including allocations in the forthcoming supplementary budget—is 3.5 percent of GDP.

Jordan: Fuel Price Adjustments and Compensatory Measures

	2005 July	2005 Sept	2006 April	2008 Feb
Average (weighted) price increase (in %) , *of which:*	27.3	14.4	34.3	47.5
Gas oil (diesel)	33.3	22.2	43.2	76.2
LPG	7.7	7.1	13.3	52.9
Fuel oil	33.3	0.0	65.0	110.9
Gasoline (regular)	10.6	5.5	11.7	33.7
Offsetting expenditure measures (in % of GDP)	1.0		1.0	3.5
Wage increase for government employees	✓	✓		1.8
Pension increase	✓	✓		0.9
Wage/pension bonuses	✓	✓	✓	
Cash transfers to public and private sectors			✓	0.3
Additional allocations to National Aid Fund			✓	0.1
Minimum wage increase	✓		✓	
Other				0.4

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

13. **The authorities intend to undertake additional policy effort in order to reduce the budget deficit in 2008 relative to 2007.** They noted that pressures to increase spending had intensified in recent months, especially in the wake of the fuel subsidy removal and cuts in food subsidies. Nevertheless, recognizing the importance of reining in the fiscal position, the authorities emphasized that additional measures of about 1½ percent of GDP will be taken in order to achieve the original budget deficit target of 5½ percent. Some revenue measures are already in place, including a gasoline tax and higher mining royalties, and further measures will be included in the supplementary budget. Significant underutilization of capital spending allocations, which were increased by 33 percent in the budget, and some restraint in executing current spending as well as further modest gains in tax administration are expected to yield additional savings. Thus, the total fiscal policy adjustment, including the net impact of removing fuel subsidies, would amount to almost 4 percent of GDP in 2008. External grants are also expected to recover modestly from last year.

14. **The authorities agreed that further consolidation of the public finances is needed over the medium term.** To that end, parliament has recently adopted a revised public debt management law, which enshrines the authorities' existing medium-term overall public debt target as a ceiling of 60 percent of GDP in 2011. Even with the envisaged tightening this year, however, the ceiling is likely to be only just met. The staff's baseline projections—based on unchanged policies—suggest that the budget deficit excluding grants would decline by almost 3 percentage points over the medium term, but lower grants would keep the overall deficit above 4½ percent of GDP. By contrast, tighter fiscal policy to achieve a primary surplus by 2011—implying an overall deficit of less than 3 percent—would lower debt to about 55 percent of GDP. The authorities agreed that aiming toward a more ambitious debt target would be appropriate, especially given the upfront debt reduction provided by the Paris Club buyback. They believe a moderate but steady decline in current spending relative to GDP is both desirable and achievable. With public-private partnership (PPP) projects expected to pick up, they also see scope for lower capital expenditure (in relation to GDP). Thus, they expect to achieve a significantly lower fiscal deficit over the medium term than in the staff's baseline projections.

15. **Ongoing fiscal structural reforms will help strengthen the fiscal position.** The authorities indicated that the public financial management system is being enhanced, with further progress expected in the coming months on implementing the treasury single account, and the Government Financial Management Information System (GFMIS) soon to move into the implementation phase. Steps are also being taken to improve budget coverage and classification. In addition, they have resolved the long-standing issue of the government's overdraft facility with the CBJ, and the outstanding balance (from previous years) will be retired by issuing government bonds to the CBJ.

C. Monetary and Exchange Rate Policy

16. **The exchange rate peg continues to underpin monetary policy, though the authorities see some scope for tightening.** The CBJ has allowed interest rate differentials against the U.S. to widen in recent months. While there has been some switching from dollar to domestic currency deposits, the authorities have not detected a significant pickup in short-term capital inflows, and reserves have held broadly stable. They also observed that prudential limits on banks' open foreign exchange exposure, together with rules that bar foreign currency lending to clients without export earnings, meant that banks had little incentive to mobilize relatively inexpensive funding from abroad. Thus, they see some room to let interest differentials widen further and possibly also for some increase in certain policy rates, which they expect will help keep inflation expectations in check. They were confident that underlying inflationary pressures remained well contained and, correspondingly, headline inflation would moderate quickly following the large fuel price adjustments in February.

17. **The authorities believe that the real exchange rate of the dinar is in line with fundamentals.** They concurred with the results of the staff's exchange rate analysis. They observed that the peg had been critical in achieving relatively low inflation in recent years, and had likely prevented an even larger current account deterioration in 2007, especially in the first three quarters when reserves were increasing rapidly. They expressed concern over the widening of the current account deficit in 2007, but noted that this was due in large part to transient factors. In addition, they believed the large increase in errors and omissions partly reflected unrecorded current receipts. They also noted that the envisaged fiscal consolidation, the coming onstream of new mining exports, and an increase in grant inflows would narrow the current account substantially over the medium term.

D. Financial Sector Policies

18. **Banks' prudential indicators remain strong.** Banks are well capitalized, non-performing loan ratios are low, and strict loan classification and provisioning rules require banks to maintain adequate loan-loss provisions. Although the share of credit to the construction sector and to purchase stocks has increased in recent years, the authorities emphasized that prudential regulations are in place to curb banks' exposure to real estate and the stock market. They expressed some concern over the continued rise in the loan-deposit ratio, especially in some of the smaller banks that now have relatively high ratios and have increasingly relied on the interbank market to fund their lending. The authorities noted that prudential limits on the sources versus uses of funds were under consideration, to help mitigate funding risk and curb credit growth, thereby also reducing inflationary pressures.

19. **The regulatory and institutional framework for the financial sector is being enhanced further.** The implementation of Basel II standards is now underway (from 2008) for the banking sector. The authorities noted that the new standards, together with the recent

corporate governance regulations, reflect an emphasis on a risk-based rather than a compliance-based approach to banking supervision. They are looking forward to the FSAP Update mission later this year, which they expect will help prioritize future reforms. They also mentioned that credit bureau legislation is under discussion, which is expected to boost the further development of the financial system. As regards the broader capital market, the authorities noted that accounting standards and margin financing regulations had been brought into line with international best practice in recent years, particularly following the implementation of tougher margin and capital requirements for brokerage firms in 2006. Looking forward, further enhancements to disclosure requirements are under consideration and efforts will focus on developing the secondary debt market.

E. Other Issues

20. **Structural reforms in other areas are envisaged to help sustain strong economic performance.** A regulatory framework for PPP projects to attract private financing for public investment projects is being established. To guard against fiscal risks, MOF representatives are to be part of the PPP project approval committee. Plans to fully liberalize the petroleum sector over the next 2–3 years are being drawn up to further reduce fiscal risks and improve the efficiency of resource allocation. The authorities are also considering reforms to the social security system that aim at improving the actuarial soundness of the pension system.

21. **The authorities expect to meet the remaining requirements for Special Data Dissemination Standards (SDDS) subscription by end-2008.** New surveys have been implemented to improve the compilation and timeliness of wages and earnings data. Efforts are also being made to align the coverage of budget revenues and expenditures with government financing flows, which should help reduce the sizable statistical discrepancy in the fiscal accounts.

III. Staff Appraisal

22. **Jordan's economy continues to grow at a brisk pace, but policy challenges to sustaining strong economic performance have intensified.** Inflation has picked up and the fiscal and external deficits have widened on account of sharply higher world food and fuel prices. Macroeconomic policy tightening is needed to bring inflation back down and reduce fiscal and external vulnerabilities, thereby helping ensure a continued favorable outlook.

23. **The authorities' intention to tighten fiscal policy is welcome.** The removal of fuel subsidies in early 2008 was a bold but necessary step, and sizable compensatory measures were understandably implemented in order to gain public acceptance and protect vulnerable groups. Achieving the targeted narrowing of the budget deficit will require significant tightening, resisting additional spending pressures, and continued full operation of the new fuel price adjustment mechanism. The lower deficit will be critical for bringing inflation down, reducing the external imbalance, and preventing a crowding out of private credit that could dampen overall growth.

24. **Further consolidation of the public finances will be needed over the medium term to bring the fiscal imbalance to a more comfortable level.** The revised public debt management law, which places a ceiling on public debt, will anchor the budgetary position. Nevertheless, gearing fiscal policy toward a more ambitious target of at most 55 percent of GDP would leave some cushion for possible unforeseen demands on the budget. Given the high level of government spending relative to the size of the economy—over 40 percent of GDP at present—fiscal expenditure restraint would create needed space for the private sector and strengthen medium-term growth prospects.

25. **Current account adjustment would also be facilitated by tighter fiscal policy.** A gradual unwinding of transient factors and some softening of world commodity prices is expected to narrow the external deficit over the medium term. While private capital (mainly investment) inflows are expected to fully cover the deficit, Jordan will remain vulnerable to a slowdown in capital inflows, and stronger fiscal adjustment would help limit risks to external stability. In this context, the Paris Club debt buyback has lowered external debt, improved its currency composition, and sent a positive signal to investors and rating agencies.

26. **The exchange rate peg continues to serve as a strong anchor for monetary policy, and there is no clear evidence of exchange rate misalignment.** Given inflation risks, the authorities have appropriately allowed interest rate differentials against U.S. dollar rates to widen in recent months. Official reserves have remained broadly stable and the CBJ has not so far needed to step up its sterilization operations. As long as short-term capital inflows remain limited, there is scope to let interest differentials widen further, and also to moderately increase policy rates if needed, to keep inflation in check. Higher policy and interbank interest rates would also aid in curbing banks' loan-deposit ratios, which have been edging up. In order to determine the appropriate volume and frequency of liquidity operations by the central bank, close coordination with the MOF on government debt issuance will be critical.

27. **Banking sector risks appear manageable, supported by a strong supervisory system.** Prudential regulations are in place to limit banks' currency, property, and stock market exposures. The recent implementation of Basel II standards, along with the new corporate governance regulations, is expected to further enhance the stability and soundness of the banking system. The regulations under consideration on sources and uses of bank funds should help mitigate funding risk and, by curbing credit growth, also contain inflationary pressures.

28. **Structural reforms will help sustain strong macroeconomic performance.** Important gains have been made in the fiscal structural area over the past year. The priority going forward should be on further strengthening public financial management system through completing the implementation of the treasury single account and the GFMIS. In other areas, the focus is rightly turning to establishing a regulatory environment for PPP projects, which needs to be complemented by an appropriate institutional framework to

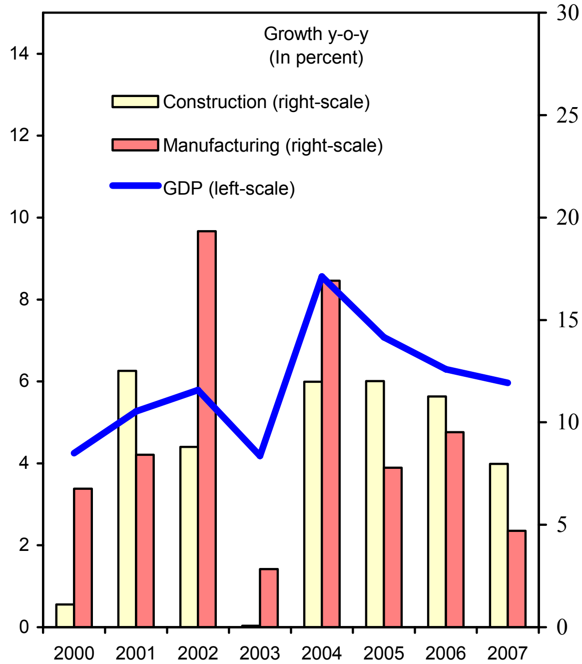
facilitate careful assessment of risks to the budget. The medium-term plan to fully liberalize the petroleum sector will further mitigate the impact of any future oil price shocks on the budget.

29. **Early completion of recent initiatives to address issues related to public debt and data will bring significant benefits.** The recent resolution of the government's overdraft facility with the CBJ will further improve the transparency of government debt statistics, enhance central bank independence, and strongly signal the authorities' resolve to rein in the fiscal position. The staff urges early progress in addressing the remaining issues that are delaying SDDS subscription, and in further strengthening BOP statistics to reduce the errors and omissions component, which hampers current account analysis. Coordinated effort by the MOF and CBJ to align budget coverage with government financing flows will facilitate the assessment of fiscal developments and the policy stance. Fostering the development of the secondary debt market will support private investment and enhance longer-term growth.

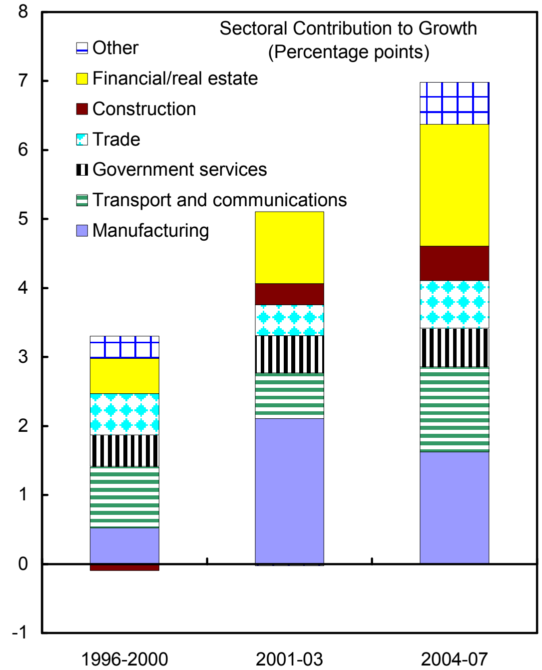
30. It is proposed that the next Article IV consultation takes place on the standard 12-month cycle.

Figure1. Jordan: Real Sector Developments

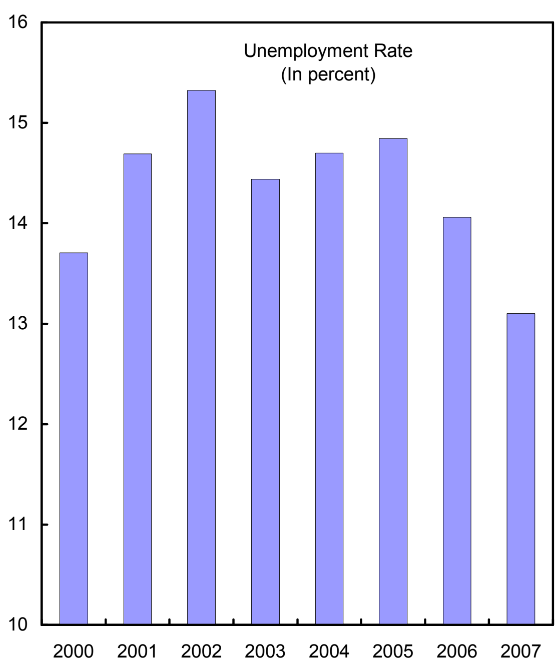
Growth has remained buoyant...



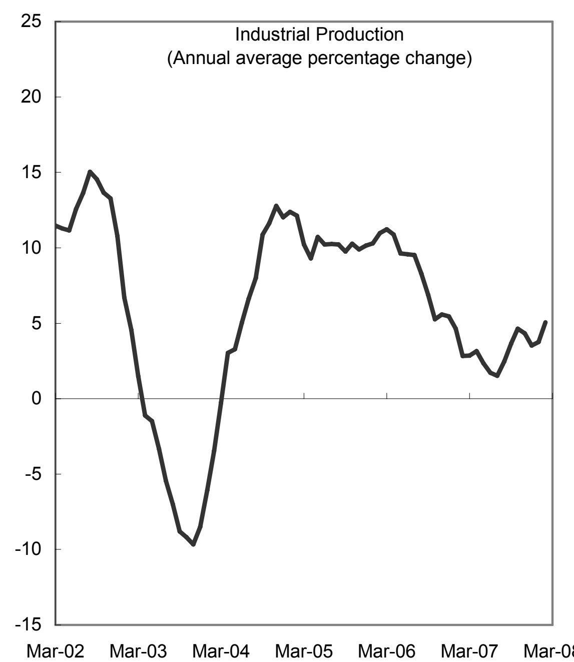
...and broad based.



Consequently, unemployment has started to come down.

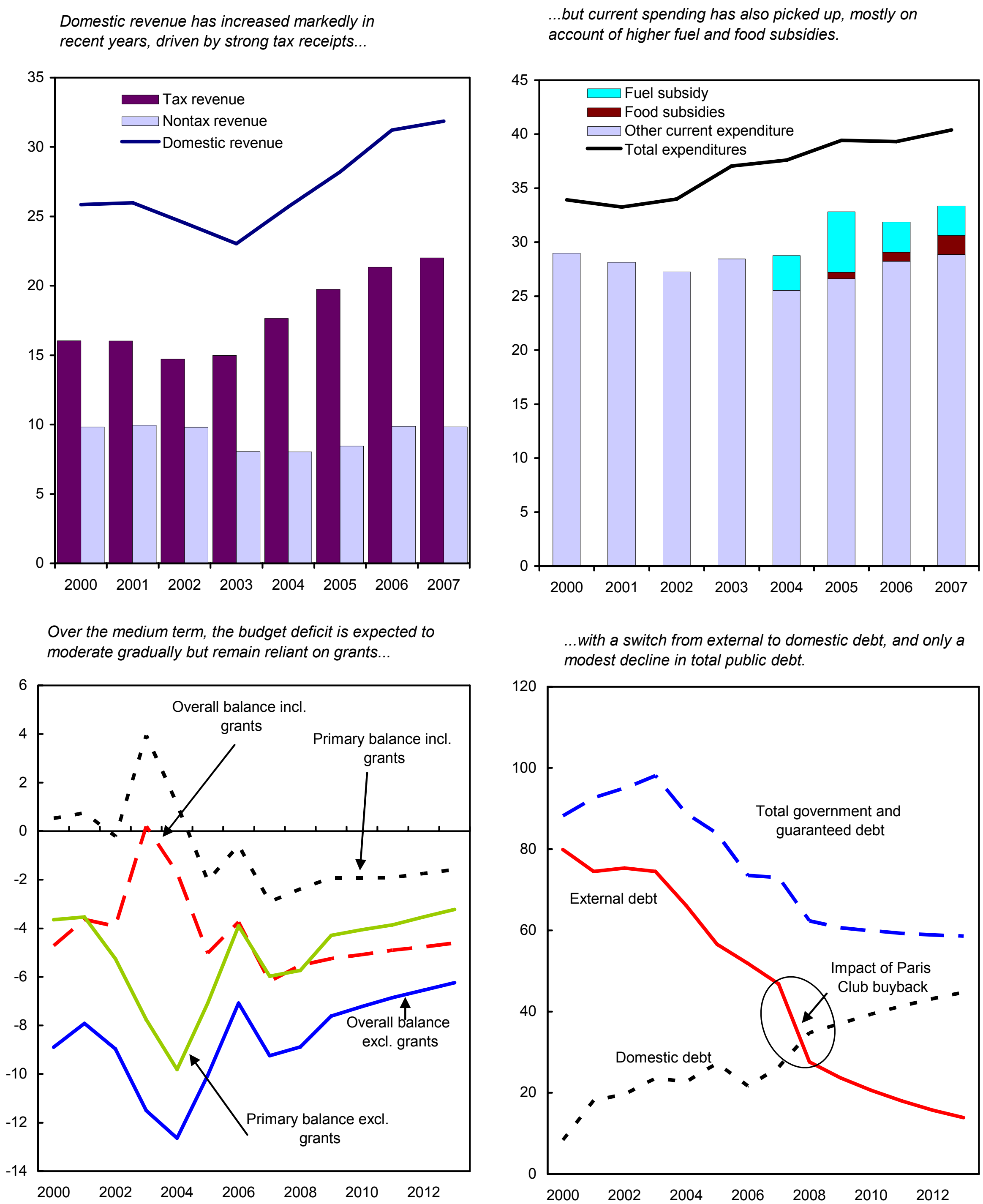


Industrial production decelerated in 2006 and early 2007, but recovered somewhat in recent months.



Sources: Central Bank of Jordan; and Department of Statistics.

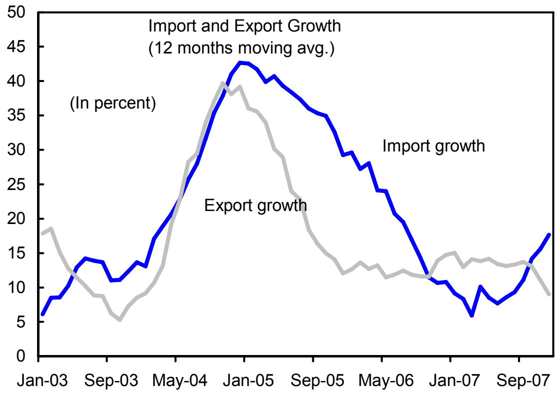
Figure 2. Jordan: Fiscal Developments and Outlook
(In percent of GDP)



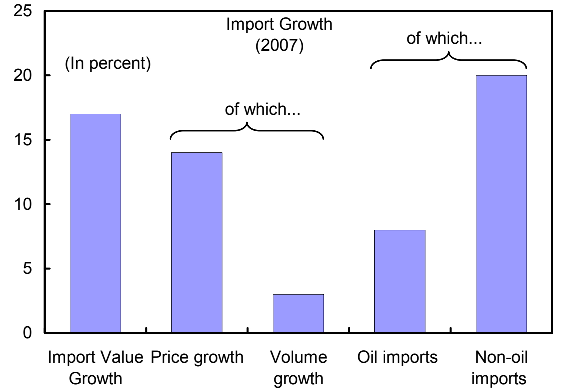
Sources: Jordanian authorities; and Fund staff projections.

Figure 3. Jordan: External Sector Development

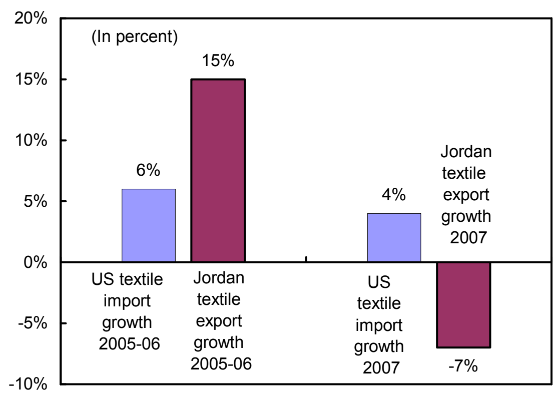
The current account deficit widened in 2007, as import growth began to surpass export growth in the second half of the year.



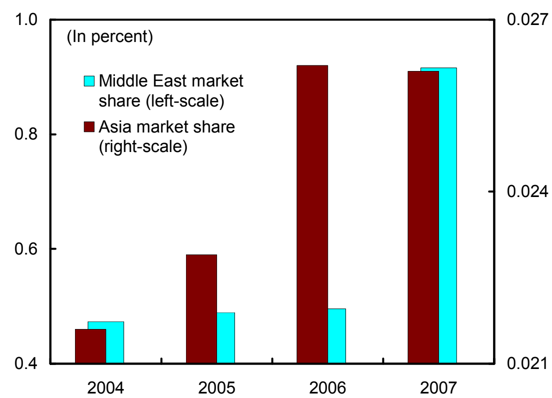
The import increase mainly reflected price effects, as well as the impact of non-oil imports.



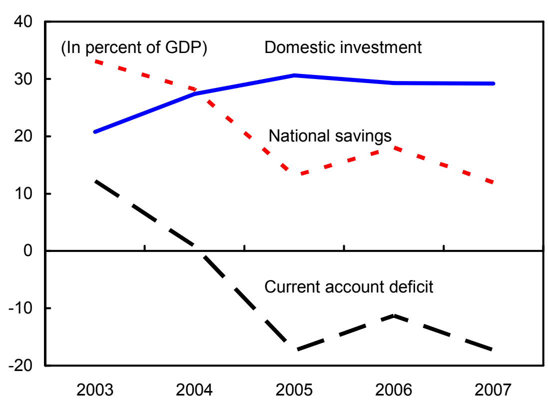
Textile and apparel exports to the US fell in 2007 after many years of impressive growth...



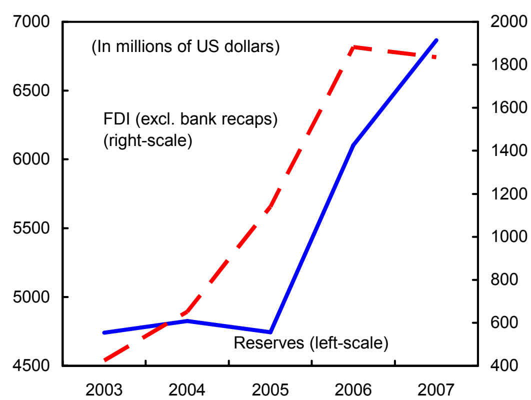
...but exports did very well in fast-growing Middle East and Asian countries, as seen in rising market shares.



Domestic investment has risen alongside Jordan's rising current account deficits...

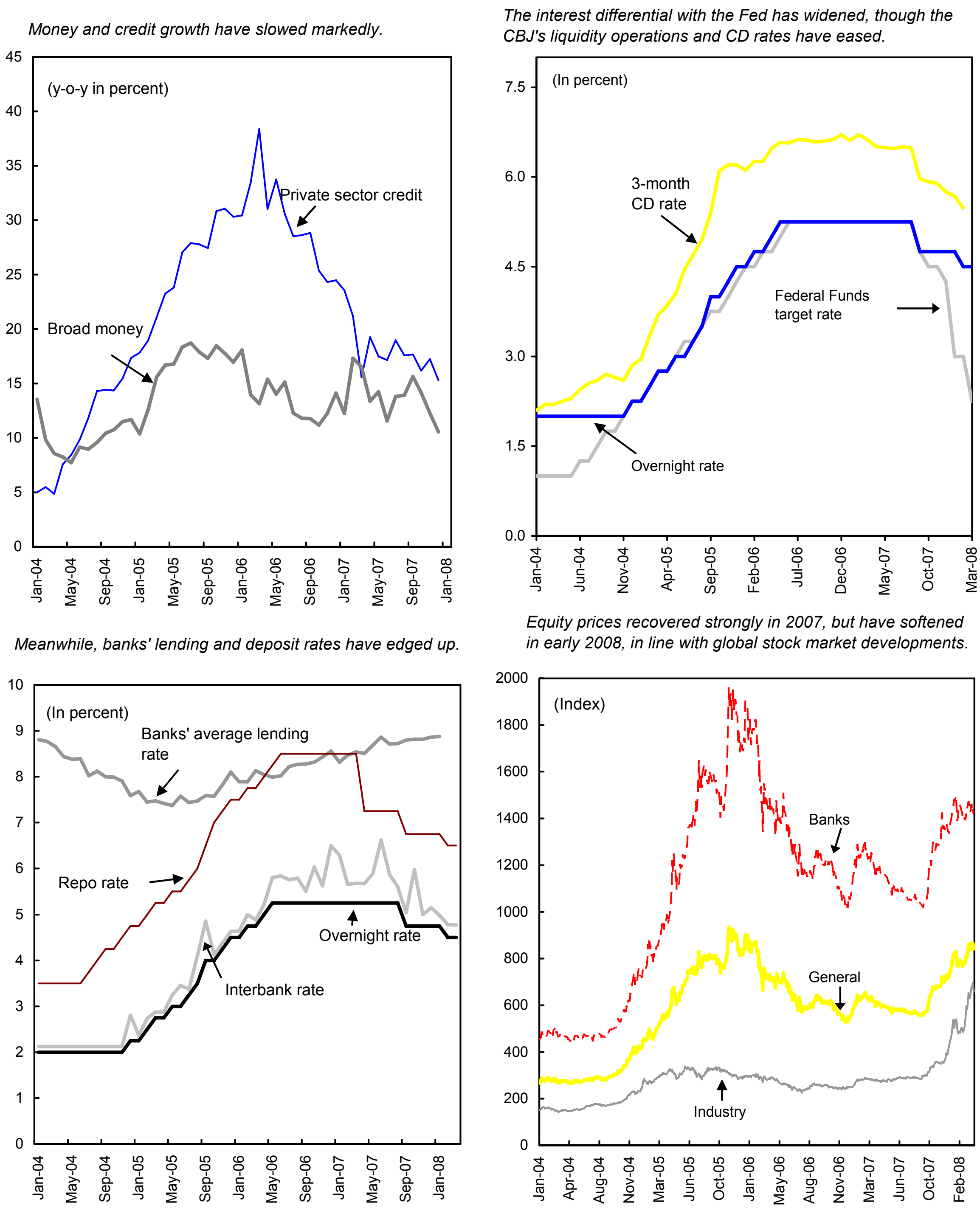


... but there has been ample financing provided by FDI, which in turn has boosted reserves.



Sources: Jordanian authorities; and Fund staff projections.

Figure 4. Jordan: Monetary and Financial Indicators



Sources: Central Bank of Jordan; and Amman Stock Exchange.

Table 1. Jordan: Selected Economic Indicators and Macroeconomic Outlook, 2004–13
(Quota: SDR 170.5 million)

				Prel.	Projections					
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Output and prices				(Annual percentage changes)						
Real GDP at market prices	8.6	7.1	6.3	6.0	5.5	5.8	6.0	6.0	6.0	6.0
GDP deflator at market prices	3.1	3.2	5.2	6.0	10.8	6.5	4.3	3.7	3.0	2.5
Nominal GDP at market prices	11.9	10.5	11.8	12.3	16.9	12.7	10.6	10.0	9.2	8.7
Nominal GDP at market prices (JD millions)	8,091	8,942	9,998	11,225	13,122	14,789	16,354	17,981	19,629	21,330
Nominal GDP at market prices ($ millions)	11,411	12,611	14,101	15,833	18,508	20,859	23,066	25,361	27,685	30,085
Consumer price index (annual average)	3.4	3.5	6.3	5.4	11.0	6.5	4.3	3.7	3.0	2.5
Consumer price index (end of period)	3.9	4.2	7.5	5.7	9.0	6.3	4.0	3.5	2.5	2.5
Unemployment rate (percent)	14.7	14.8	14.1	13.1	...	...	...	...	...	...
Investment and savings				(In percent of annual GDP)						
Consumption	102.3	106.8	103.9	107.9	108.3	104.8	103.5	102.0	101.1	100.3
Government	21.3	19.5	20.3	24.4	24.7	24.5	24.3	24.2	24.1	23.9
Other	81.0	87.3	83.6	83.5	83.6	80.3	79.2	77.8	77.1	76.3
Gross domestic investment	27.4	34.1	31.9	31.9	31.2	31.0	30.5	30.2	29.9	29.7
Government	9.3	6.5	7.4	7.2	6.9	7.0	7.0	7.0	6.9	6.8
Other	18.1	27.6	24.5	24.7	24.4	24.0	23.5	23.2	23.0	22.9
Gross national savings	28.2	16.6	20.6	14.4	15.7	17.6	18.4	19.4	19.9	20.6
Government	7.6	1.5	3.7	1.0	1.3	1.8	1.9	2.1	2.1	2.2
Other	20.6	15.2	16.9	13.4	14.4	15.8	16.5	17.3	17.8	18.3
Savings-investment balance	0.8	-17.4	-11.3	-17.5	-15.5	-13.4	-12.1	-10.8	-10.0	-9.2
Government	-1.7	-5.0	-3.8	-6.2	-5.5	-5.3	-5.1	-4.9	-4.8	-4.6
Other	2.5	-12.4	-7.6	-11.3	-10.0	-8.2	-7.0	-5.9	-5.2	-4.6
Fiscal operations										
Revenue and grants	36.6	33.2	34.5	34.9	34.8	33.6	33.2	32.9	32.7	32.6
Of which: grants 1/	10.9	5.0	3.3	3.1	3.4	2.4	2.1	1.9	1.8	1.6
Expenditure and net lending (including off-budget)	38.3	38.3	38.3	41.1	40.4	38.8	38.3	37.8	37.5	37.2
Overall fiscal balance including grants	-1.7	-5.0	-3.8	-6.2	-5.5	-5.3	-5.1	-4.9	-4.8	-4.6
Overall fiscal balance excluding grants	-12.6	-10.1	-7.1	-9.2	-8.9	-7.6	-7.2	-6.8	-6.5	-6.2
Primary fiscal balance excluding grants	-9.8	-7.1	-3.9	-6.0	-5.7	-4.3	-4.1	-3.9	-3.5	-3.2
Government and government-guaranteed net debt	88.7	83.8	73.5	73.0	62.4	60.6	59.9	59.3	58.8	58.6
Of which: domestic debt	22.7	27.3	21.6	26.2	34.8	37.0	39.3	41.3	43.2	44.7
External sector										
Current account balance (after grants), *of which:*	0.8	-17.4	-11.3	-17.5	-15.5	-13.4	-12.1	-10.8	-10.0	-9.2
Exports of goods, f.o.b. ($ billions)	3.9	4.3	5.2	5.7	6.5	7.3	8.0	8.8	9.6	10.6
Imports of goods, f.o.b. ($ billions)	7.3	9.3	10.3	12.0	14.0	15.1	16.3	17.6	19.1	20.7
Oil and oil products ($ billions)	1.4	2.2	2.4	2.6	3.2	3.4	3.7	3.9	4.2	4.6
Current account balance (excluding grants)	-10.8	-23.4	-17.1	-19.9	-19.6	-16.6	-14.9	-13.4	-12.3	-11.3
Private capital inflows (net)	5.5	19.6	25.3	22.4	17.9	15.0	13.5	12.1	11.1	9.6
				(Annual percentage changes)						
Exports of goods, f.o.b. ($)	26.0	10.8	21.0	9.5	14.6	11.7	9.2	10.3	9.4	9.8
Imports of goods, f.o.b. ($)	43.0	28.3	10.1	17.2	16.1	8.0	8.1	8.2	8.3	8.4
Monetary sector										
Broad money	11.7	17.0	14.1	10.6	9.3	12.7	10.6	10.0	9.2	8.7
Net foreign assets	7.1	3.3	23.4	6.2	-10.7	1.8	1.8	1.6	1.6	0.2
Net domestic assets	17.8	33.7	5.3	15.5	29.7	20.3	15.8	14.3	12.7	12.2
Credit to private sector	17.3	30.3	24.5	15.3	12.1	9.0	8.0	7.1	6.4	6.2
Stock market index	62.4	92.9	-32.6	36.3	...	...	...	...	...	...
Memorandum items:										
Gross usable international reserves ($ millions)	4,826	4,745	6,103	6,865	5,400	5,500	5,700	6,000	6,300	6,400
In months of prospective imports of GNFS	5.2	4.7	5.1	5.0	3.6	3.4	3.3	3.2	3.1	3.1
Relative to short-term debt by remaining maturity	5.0	5.8	7.3	7.9	8.7	9.2	9.3	9.4	9.5	9.8
Budgetary grants ($ millions)	1,246	633	470	484	621	494	494	494	494	494
Population (in thousands)	5,350	5,473	5,599	5,728	5,859	5,994	6,132	6,273	6,417	6,564
Nominal per capita GDP ($)	2,133	2,304	2,519	2,764	3,159	3,480	3,762	4,043	4,314	4,583
Real effective exchange rate (end of period, 2000=100)	89.1	95.3	94.0	90.2	…	…	…	…	…	…
Percent change (+=appreciation; end of period)	-3.8	7.0	-1.3	-4.1	…	…	…	…	…	…

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

1/ There is a timing difference with some grants recorded in the current account in 2006, but recorded in the budget in 2007, as some budgetary grants were temporarily deposited in a nontreasury account.

Table 2. Jordan: Summary of Fiscal Operations, 2004–13

	2004	2005	2006	Prel. 2007	Budget 2008	Additional Measures 2008 1/	Projections 2008	2009	2010	2011	2012	2013
					(In millions of Jordanian dinars)							
Total revenue and grants	2,962	2,971	3,454	3,920	4,457	115	4,572	4,967	5,437	5,921	6,425	6,953
Budgetary revenue	2,079	2,522	3,121	3,577	4,017	115	4,132	4,617	5,087	5,571	6,075	6,603
Tax revenue	1,429	1,766	2,134	2,472	2,850	51	2,901	3,260	3,605	3,959	4,324	4,705
Nontax revenue	650	756	987	1,105	1,167	64	1,231	1,357	1,481	1,612	1,752	1,898
Grants 1/	883	449	333	343	440	0	440	350	350	350	350	350
Total budgetary expenditure	3,043	3,526	3,931	4,535	5,182	115	5,297	5,743	6,267	6,802	7,360	7,934
Current expenditure, *of which*: 2/	2,327	2,935	3,186	3,744	4,100	287	4,387	4,690	5,118	5,532	5,996	6,458
Fuel subsidy	260	501	279	306	0	105	105	0	0	0	0	0
Capital expenditure 3/	725	532	696	744	1,022	-172	850	989	1,084	1,197	1,285	1,390
Net lending	-8	59	50	46	60	0	60	64	66	72	79	86
Spending of privatization proceeds	1	3	2	22	0	0	0	0	0	0	0	0
Nonbudget accounts, net 4/	57	-108	-104	58	0	0	0	0	0	0	0	0
Overall balance, including grants	-139	-450	-375	-694	-725	0	-725	-776	-831	-881	-934	-981
Financing	139	450	375	694	725	...	725	776	831	881	934	981
Foreign financing (net) 5/ 6/	-112	-54	-21	-181	-203	...	-1,187	-133	-125	-125	-103	-82
Privatization receipts (net)	42	4	424	258	...	...	136	0	0	0	0	0
Domestic financing (net)	209	500	-28	551	927	...	1,777	909	956	1,007	1,038	1,063
						(In percent of GDP)						
Total revenue and grants	36.6	33.2	34.5	34.9	34.0	0.9	34.8	33.6	33.2	32.9	32.7	32.6
Budgetary revenue	25.7	28.2	31.2	31.9	30.6	0.9	31.5	31.2	31.1	31.0	31.0	31.0
Tax revenue	17.7	19.7	21.3	22.0	21.7	0.4	22.1	22.0	22.0	22.0	22.0	22.1
Nontax revenue, *of which*:	8.0	8.5	9.9	9.8	8.9	0.5	9.4	9.2	9.1	9.0	8.9	8.9
Grants 1/	10.9	5.0	3.3	3.1	3.4	0.0	3.4	2.4	2.1	1.9	1.8	1.6
Total budgetary expenditure	37.6	39.4	39.3	40.4	39.5	0.9	40.4	38.8	38.3	37.8	37.5	37.2
Current expenditure, *of which*: 2/	28.8	32.8	31.9	33.4	31.2	2.2	33.4	31.7	31.3	30.8	30.5	30.3
Fuel subsidy	3.2	5.6	2.8	2.7	0.0	0.8	0.8	0.0	0.0	0.0	0.0	0.0
Interest	2.8	3.0	3.2	3.3	3.0	0.2	3.1	3.3	3.2	3.0	3.0	3.0
Capital expenditure 3/	9.0	6.0	7.0	6.6	7.8	-1.3	6.5	6.7	6.6	6.7	6.5	6.5
Net lending	-0.1	0.7	0.5	0.4	0.5	0.0	0.5	0.4	0.4	0.4	0.4	0.4
Spending of privatization proceeds	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy, net 4/	0.7	-1.2	-1.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance including grants	-1.7	-5.0	-3.8	-6.2	-5.5	0.0	-5.5	-5.3	-5.1	-4.9	-4.8	-4.6
Financing	1.7	5.0	3.8	6.2	5.5	…	5.5	5.3	5.1	4.9	4.8	4.6
Foreign financing (net) 5/ 6/	-1.4	-0.6	-0.2	-1.6	-1.5	…	-9.0	-0.9	-0.8	-0.7	-0.5	-0.4
Privatization receipts (net)	0.5	0.0	4.2	2.3	0.0	…	1.0	0.0	0.0	0.0	0.0	0.0
Domestic financing (net)	2.6	5.6	-0.3	4.9	7.1	…	13.5	6.1	5.8	5.6	5.3	5.0
Memorandum items:												
Overall balance excluding grants	-12.6	-10.1	-7.1	-9.2	-8.9	0.0	-8.9	-7.6	-7.2	-6.8	-6.5	-6.2
Primary balance including grants	1.1	-2.1	-0.6	-2.9	-2.6	0.2	-2.4	-1.9	-1.9	-1.9	-1.7	-1.6
Primary balance excluding grants	-9.8	-7.1	-3.9	-6.0	-5.9	0.2	-5.7	-4.3	-4.1	-3.9	-3.5	-3.2
Government and guaranteed net debt 7/	88.7	83.8	73.5	73.0	...	...	62.4	60.6	59.9	59.3	58.8	58.6
Of which: External	66.1	56.6	51.9	46.8	...	...	27.6	23.7	20.6	17.9	15.7	13.9
GDP at market prices (JD millions)	8,091	8,942	9,998	11,225	13,122	13,122	13,122	14,789	16,354	17,981	19,629	21,330

Sources: Jordanian authorities; and Fund staff projections.

1/ Based on existing commitments, authorities' plans, and staff estimates.
2/ 2005 data include JD 58.5 million of spending carried out in 2004 but paid in 2005.
3/ Includes some current expenditure, such as maintenance and wage-related spending.
4/ Includes non-budgetary accounts.
5/ The 2007 budget includes JD 55.2 million (about 0.5 percent of GDP) amortization to IMF.
6/ In 2008, foreign financing includes repayment of Paris Club debt.
7/ Domestic debt is net of government deposits with the banking system.

Table 3. Jordan: Summary of Revenues and Expenditures, 2004–13

				Prel.	Budget	Additional Measures	Projections					
	2004	2005	2006	2007	2008	2008 1/	2008	2009	2010	2011	2012	2013
						(In millions of Jordanian dinars)						
Total revenue and grants	2,962	2,971	3,454	3,920	4,457	115	4,572	4,967	5,437	5,921	6,425	6,953
Domestic revenue	2,079	2,522	3,121	3,577	4,017	115	4,132	4,617	5,087	5,571	6,075	6,603
Tax revenue, *of which*:	1,429	1,766	2,134	2,472	2,850	51	2,901	3,260	3,605	3,959	4,324	4,705
Taxes on income and profits	218	284	411	495	551	-5	546	636	716	791	869	948
General sales tax	827	1,024	1,219	1,465	1,726	63	1,789	1,991	2,188	2,397	2,614	2,843
Taxes on foreign trade	267	305	316	312	336	-9	327	359	395	433	475	519
Nontax revenue, *of which*:	650	756	987	1,105	1,167	64	1,231	1,357	1,481	1,612	1,752	1,898
Fees	324	424	503	550	570	32	602	658	713	770	828	889
Grants	883	449	333	343	440	0	440	350	350	350	350	350
Total expenditures	3,100	3,418	3,827	4,535	5,182	115	5,297	5,743	6,267	6,802	7,360	7,934
Current expenditure	2,327	2,935	3,186	3,744	4,100	287	4,387	4,690	5,118	5,532	5,996	6,458
Wages and salaries	443	493	518	583	683	63	746	840	929	1,022	1,115	1,212
Interest payments	229	266	318	367	388	24	412	492	517	538	593	643
Domestic	64	94	133	169	240	24	264	369	391	413	471	527
External	166	172	185	198	148	0	148	123	126	125	121	116
Military expenditure	653	699	792	1,151	1,383	78	1,461	1,630	1,796	1,969	2,143	2,323
Fuel subsidies	260	501	279	306	0	105	105	0	0	0	0	0
Food subsidies	0	55	85	200	165	60	225	165	165	145	138	130
Transfers, *of which*:	572	674	926	788	1,110	-8	1,102	1,184	1,300	1,417	1,537	1,657
Pensions	377	434	491	517	651	42	693	781	864	950	1,037	1,127
Purchases of goods & services and other	170	247	268	350	371	-34	336	379	410	442	469	492
Capital expenditure	725	532	696	744	1,022	-172	850	989	1,084	1,197	1,285	1,390
Net lending and nonbudget spending	49	-49	-54	46	60	0	60	64	66	72	79	86
						(In percent of GDP)						
Total revenue and grants	36.6	33.2	34.5	34.9	34.0	0.9	34.8	33.6	33.2	32.9	32.7	32.6
Domestic revenue	25.7	28.2	31.2	31.9	30.6	0.9	31.5	31.2	31.1	31.0	31.0	31.0
Tax revenue, *of which*:	17.7	19.7	21.3	22.0	21.7	0.4	22.1	22.0	22.0	22.0	22.0	22.1
Taxes on income and profits	2.7	3.2	4.1	4.4	4.2	0.0	4.2	4.3	4.4	4.4	4.4	4.4
General sales tax	10.2	11.4	12.2	13.0	13.2	0.5	13.6	13.5	13.4	13.3	13.3	13.3
Taxes on foreign trade	3.3	3.4	3.2	2.8	2.6	-0.1	2.5	2.4	2.4	2.4	2.4	2.4
Nontax revenue, *of which*:	8.0	8.5	9.9	9.8	8.9	0.5	9.4	9.2	9.1	9.0	8.9	8.9
Fees	4.0	4.7	5.0	4.9	4.3	0.2	4.6	4.4	4.4	4.3	4.2	4.2
Grants	10.9	5.0	3.3	3.1	3.4	0.0	3.4	2.4	2.1	1.9	1.8	1.6
Total expenditure	38.3	38.2	38.3	40.4	39.5	0.9	40.4	38.8	38.3	37.8	37.5	37.2
Current expenditure	28.8	32.8	31.9	33.4	31.2	2.2	33.4	31.7	31.3	30.8	30.5	30.3
Wages and salaries	5.5	5.5	5.2	5.2	5.2	0.5	5.7	5.7	5.7	5.7	5.7	5.7
Interest payments	2.8	3.0	3.2	3.3	3.0	0.2	3.1	3.3	3.2	3.0	3.0	3.0
Domestic	0.8	1.1	1.3	1.5	1.8	0.2	2.0	2.5	2.4	2.3	2.4	2.5
External	2.0	1.9	1.9	1.8	1.1	0.0	1.1	0.8	0.8	0.7	0.6	0.5
Military expenditure	8.1	7.8	7.9	10.3	10.5	0.6	11.1	11.0	11.0	11.0	10.9	10.9
Fuel subsidy	3.2	5.6	2.8	2.7	0.0	0.8	0.8	0.0	0.0	0.0	0.0	0.0
Food subsidy	0.0	0.6	0.8	1.8	1.3	0.5	1.7	1.1	1.0	0.8	0.7	0.6
Transfers, *of which*:	7.1	7.5	9.3	7.0	8.5	-0.1	8.4	8.0	8.0	7.9	7.8	7.8
Pensions	4.7	4.9	4.9	4.6	5.0	0.3	5.3	5.3	5.3	5.3	5.3	5.3
Purchases of goods & services and other	2.1	2.8	2.7	3.1	2.8	-0.3	2.6	2.6	2.5	2.5	2.4	2.3
Capital expenditure	9.0	6.0	7.0	6.6	7.8	-1.3	6.5	6.7	6.6	6.7	6.5	6.5
Net lending and nonbudget spending	0.6	-0.6	-0.5	0.4	0.5	0.0	0.5	0.4	0.4	0.4	0.4	0.4

Sources: Jordanian authorities; and Fund staff projections.

1/ Based on existing commitments, authorities' plans, and staff estimates.

Table 4. Jordan: Summary Balance of Payments, 2004–13

(In millions of U.S. dollars, unless otherwise noted)

			Revised	Prel.	Projections					
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Current account	89	-2,200	-1,598	-2,776	-2,873	-2,803	-2,781	-2,739	-2,768	-2,755
Trade balance	-3,378	-5,016	-5,056	-6,321	-7,421	-7,778	-8,324	-8,844	-9,480	-10,131
Exports f.o.b.	3,883	4,301	5,204	5,700	6,534	7,298	7,968	8,789	9,616	10,561
Of which: domestic exports, f.o.b.	3,253	3,625	4,132	4,485	5,197	5,828	6,350	7,042	7,729	8,523
Imports f.o.b.	7,261	9,317	10,261	12,021	13,955	15,076	16,292	17,633	19,095	20,692
Of which: oil-gas imports, f.o.b.	1,372	2,151	2,427	2,619	3,175	3,421	3,658	3,937	4,249	4,599
Services (net)	-73	-208	-63	-68	11	190	376	557	749	967
Of which: travel (net)	805	855	1,223	1,429	1,653	1,908	2,167	2,458	2,767	3,051
Income (net)	324	409	581	835	919	962	1,042	1,138	1,246	1,362
Of which: investment income (net)	84	129	259	451	480	471	502	544	593	643
Current transfers (net)	3,216	2,616	2,941	2,779	3,618	3,822	4,125	4,410	4,717	5,048
Public (net)	1,325	745	810	374	750	650	650	650	650	650
Private (net)	1,891	1,871	2,131	2,405	2,868	3,172	3,475	3,760	4,067	4,398
Of which: remittances (net)	1,819	1,871	2,161	2,571	2,960	3,270	3,578	3,869	4,182	4,520
Capital account	235	2,251	3,311	3,197	1,073	2,983	2,966	2,907	2,936	2,774
Public sector (net)	-397	-220	-257	-348	-2,240	-152	-154	-165	-146	-128
Disbursements	173	253	270	185	221	241	251	251	281	311
Amortization	570	473	526	533	2,461	393	404	416	427	438
Of which: Paris Club buyback	...	...	...	...	2,109	...	...	...	...	...
Private sector (net)	633	2,471	3,568	3,545	3,313	3,135	3,120	3,072	3,082	2,902
Direct foreign investment	651	1,532	3,121	1,835	2,000	1,950	1,950	1,900	1,900	1,900
Portfolio flows	-337	132	46	840	600	500	500	500	500	500
Other capital plus E&Os	319	807	402	870	713	685	670	672	682	502
Overall balance	324	52	1,713	422	-1,801	180	186	168	168	20
Financing	-324	-52	-1,713	-422	1,801	-180	-186	-168	-168	-20
Increase in NFA (-) 1/	-445	-192	-1,897	-571	1,248	-157	-182	-168	-168	-20
Central bank	-76	24	-1,294	-893	1,461	-100	-200	-300	-300	-100
Commercial banks	-369	-217	-603	322	-213	-57	18	132	132	80
IMF, net (expectations basis)	-98	-77	-88	-76	-56	-23	-4	0	0	0
Arab Monetary Fund (net)	-11	-9	0	0	0	0	0	0	0	0
Relief from debt operations 2/	2	9	63	40	0	0	0	0	0	0
Debt rescheduling/exceptional financing	228	218	209	185	609	0	0	0	0	0
Memorandum items:										
Gross usable international reserves	4,826	4,745	6,103	6,865	5,400	5,500	5,700	6,000	6,300	6,400
In months of prospective imports 3/	5.2	4.7	5.1	5.0	3.6	3.4	3.3	3.2	3.1	3.1
Merchandise export growth, percent	26.0	10.8	21.0	9.5	14.6	11.7	9.2	10.3	9.4	9.8
Of which: domestic exports	37.7	11.4	14.0	8.5	15.9	12.1	9.0	10.9	9.8	10.3
Export of GNFS growth, percent	23.3	11.4	22.3	12.3	14.5	11.9	10.0	10.4	9.8	9.6
Import growth, percent	43.0	28.3	10.1	17.2	16.1	8.0	8.1	8.2	8.3	8.4
Of which: excluding oil-gas	37.5	22.1	9.2	20.0	14.7	8.1	8.4	8.4	8.4	8.4
Import of GNFS growth, percent	35.0	26.1	11.6	17.1	15.1	7.9	7.9	8.1	8.1	8.0
Import oil price ($ per barrel)	34.6	50.8	62.3	71.3	95.5	94.5	93.3	92.8	92.5	92.5
Current account balance										
In percent of GDP	0.8	-17.4	-11.3	-17.5	-15.5	-13.4	-12.1	-10.8	-10.0	-9.2
Excluding grants	-10.8	-23.4	-17.1	-19.9	-19.6	-16.6	-14.9	-13.4	-12.3	-11.3
Private capital (net, percent of GDP)	5.5	19.6	25.3	22.4	17.9	15.0	13.5	12.1	11.1	9.6
External government debt	66.1	56.6	51.9	46.8	27.6	23.7	20.6	17.9	15.7	13.9
GDP ($ millions)	11,411	12,611	14,101	15,833	18,508	20,859	23,066	25,361	27,685	30,085
Terms of trade (percent change)	-3.3	3.6	1.3	2.5	-3.1	2.5	2.8	1.8	1.3	1.2

Sources: Jordanian authorities; and Fund staff estimates. Current account data for 2006 reflect CBJ revisions to travel and income accounts.

1/ The change in Fund credit outstanding is deducted from the change in NFA from monetary survey.
2/ The difference between the face value of debt reduction and the cost of debt operations.
3/ In months of prospective import of goods and nonfactor services (GNFS) of the following year, excluding imports for re-export purposes.

Table 5. Jordan: Indicators of Financial Vulnerability, 2002–07
(End of period, unless otherwise noted)

	2002	2003	2004	2005	2006	Est. 2007
Monetary and financial indicators	(In percent of GDP, unless otherwise indicated)					
Gross domestic currency public debt (including own-budget agencies)	24.4	25.1	25.7	27.6	29.6	32.9
Central government net domestic currency borrowing requirement	2.6	4.3	2.6	5.6	-0.3	4.9
Broad money (annual growth, in percent)	7.0	12.4	11.7	17.0	14.1	10.6
Broad domestic currency liquidity (M2) (annual growth, in percent)	7.0	11.9	8.6	20.1	14.1	11.1
Private sector credit (annual growth, in percent)	3.2	3.5	17.3	30.3	24.5	15.3
Banking sector indicators						
Nonperforming loans (excluding interest in suspense, as percent of loans) 1/	17.1	15.5	10.3	6.6	4.3	4.2
Nonperforming loans (as percent of capital and reserves) 1/	85.8	73.2	46.1	28.3	15.9	17.6
Provisions against nonperforming loans (excl. interest in suspense, in percent) 1/	50.6	51.9	63.8	78.4	79.6	70.0
Risk-weighted capital adequacy ratio (in percent) 1/	16.6	15.9	17.8	17.6	21.4	18.8
Leverage (capital to assets ratio, in percent) 1/	7.2	7.5	8.9	10.5	13.2	12.8
Construction loans in total private credit to residents (in percent)	16.7	17.2	17.4	16.4	17.4	18.7
Credit to private sector (in percent of GDP)	65.9	61.5	72.7	85.8	95.5	98.0
	(In millions of US$, unless otherwise indicated)					
Foreign currency and external debt indicators						
Gross external public debt	7,222	7,599	7,541	7,132	7,315	7,409
In percent of GDP	75.4	74.5	66.1	56.6	51.9	46.8
Short-term external debt	812	860	959	819	835	867
Total foreign liabilities of central bank	661	595	494	393	412	343
Total foreign liabilities of commercial banks	4,718	4,379	4,892	5,234	5,946	6,760
Commercial banks' net foreign asset position	1,619	1,801	2,163	2,329	2,803	2,431
Official reserves indicators						
Gross usable reserves 2/	3,495	4,740	4,826	4,745	6,103	6,865
In percent of M2	29.4	35.5	32.4	27.2	30.7	31.2
Net international reserves 2/	2,978	4,343	4,442	4,544	6,023	6,917
In percent of M2	25.1	32.5	29.8	26.1	30.3	31.4
In percent of short-term external debt	367	505	463	555	721	798
External current account indicators (annual flows)						
Merchandise exports, f.o.b.	2,770	3,082	3,883	4,301	5,204	5,700
Annual changes in percent	20.7	11.2	26.0	10.8	21.0	9.5
Merchandise imports, f.o.b.	4,501	5,078	7,261	9,317	10,261	12,021
Annual changes in percent	4.6	12.8	43.0	28.3	10.1	17.2
Current account balance including grants	545	1,245	89	-2,200	-1,598	-2,776
In percent of GDP	5.7	12.2	0.8	-17.4	-11.3	-17.5

Sources: Jordanian authorities; Bank for International Settlements; WEO; and Fund staff estimates.

1/ Data for 2007 refer to the first half of the year.
2/ Excluding foreign currency deposits held by commercial banks with the central bank.

Table 6. Jordan: Summary Monetary Survey, 2004–08

	Dec	Dec	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Proj. Dec
	2003	2004	2005	2006				2007				2008
(Stocks in millions of Jordanian dinars)												
Net foreign assets	5,426	5,811	6,002	6,140	6,140	6,602	7,410	7,204	7,056	7,657	7,868	7,024
Net domestic assets	4,040	4,760	6,362	6,112	7,121	6,846	6,700	7,070	7,738	7,894	7,738	10,040
Net claims on central government 1/	1,414	1,399	1,800	1,656	2,072	1,704	1,459	1,611	1,843	2,197	2,091	3,868
Of which: budgetary central government 2/	1,458	1,591	1,908	1,770	2,163	1,821	1,825	2,002	2,215	2,493	2,212	3,989
Claims on nonfinancial public enterprises	278	473	528	569	577	585	521	550	535	486	624	624
Claims on financial institutions	73	95	153	167	196	205	214	218	261	257	277	277
Claims on the private sector	5,016	5,885	7,669	8,662	9,002	9,330	9,546	10,011	10,547	10,978	11,003	12,332
Other items (net)	-2,741	-3,101	-3,787	-4,943	-4,726	-4,978	-5,041	-5,322	-5,450	-6,029	-6,259	-7,060
Broad money	9,466	10,571	12,364	12,252	13,261	13,449	14,110	14,274	14,794	15,552	15,607	17,064
Currency in circulation	1,444	1,414	1,657	1,715	1,913	1,886	2,027	1,962	2,050	2,077	2,172	2,261
Jordanian dinar deposits	5,800	6,455	7,795	7,653	8,214	8,419	8,760	9,077	9,436	9,810	9,809	10,904
Foreign currency deposits	2,222	2,702	2,912	2,883	3,134	3,143	3,322	3,236	3,309	3,665	3,625	3,899
(Cumulative flows in millions of Jordanian dinars)												
Net foreign assets	1,053	385	191	138	138	600	1,407	-206	-353	248	459	-845
Net domestic assets	-7	720	1,602	-250	759	484	338	370	1,038	1,194	1,038	2,302
Net claims on central government 1/	23	-15	401	-144	272	-96	-340	152	384	738	632	1,777
Of which: budgetary central government 2/	17	132	318	-138	255	-87	-83	177	390	668	387	1,777
Claims on nonfinancial public enterprises	17	195	56	41	49	57	-8	30	14	-35	103	0
Claims on financial institutions	-1	21	58	15	43	52	62	3	47	42	63	0
Claims on the private sector	168	870	1,784	994	1,333	1,662	1,878	465	1,001	1,432	1,457	1,328
Other items (net)	-213	-360	-686	-1,155	-939	-1,190	-1,253	-282	-409	-989	-1,218	-801
Broad money	1,047	1,106	1,793	-112	897	1,085	1,746	164	685	1,442	1,497	1,457
Currency in circulation	191	-29	243	58	255	229	370	-66	23	50	145	88
Jordanian dinar deposits	582	656	1,340	-142	419	624	965	317	676	1,050	1,049	1,095
Foreign currency deposits	274	480	210	-28	222	232	411	-87	-14	343	303	274
(Cumulative flows in percent of beginning-of-period broad money)												
Net foreign assets	12.5	4.1	1.8	1.1	1.1	4.9	11.4	-1.5	-2.5	1.8	3.3	-5.4
Net domestic assets	-0.1	7.6	15.2	-2.0	6.1	3.9	2.7	2.6	7.4	8.5	7.4	14.7
Net claims on general government 1/	0.3	-0.2	3.8	-1.2	2.2	-0.8	-2.8	1.1	2.7	5.2	4.5	11.4
Of which: budgetary central government 2/	0.2	1.4	3.0	-1.1	2.1	-0.7	-0.7	1.3	2.8	4.7	2.7	11.4
Claims on nonfinancial public enterprises	0.2	2.1	0.5	0.3	0.4	0.5	-0.1	0.2	0.1	-0.2	0.7	0.0
Claims on financial institutions	0.0	0.2	0.5	0.1	0.3	0.4	0.5	0.0	0.3	0.3	0.4	0.0
Claims on the private sector	2.0	9.2	16.9	8.0	10.8	13.4	15.2	3.3	7.1	10.1	10.3	8.5
Other items (net)	-2.5	-3.8	-6.5	-9.3	-7.6	-9.6	-10.1	-2.0	-2.9	-7.0	-8.6	-5.1
Broad money	12.4	11.7	17.0	-0.9	7.3	8.8	14.1	1.2	4.9	10.2	10.6	9.3
Currency in circulation	2.3	-0.3	2.3	0.5	2.1	1.9	3.0	-0.5	0.2	0.4	1.0	0.6
Jordanian dinar deposits	6.9	6.9	12.7	-1.1	3.4	5.0	7.8	2.2	4.8	7.4	7.4	7.0
Foreign currency deposits	3.3	5.1	2.0	-0.2	1.8	1.9	3.3	-0.6	-0.1	2.4	2.1	1.8
Memorandum items:												
Annual broad money growth (percent)	12.4	11.7	17.0	13.2	15.1	11.8	14.1	16.5	11.6	15.6	10.6	9.3
Annual JD broad money growth (percent)	11.9	8.6	20.1	15.7	15.2	12.7	14.1	17.8	13.4	15.3	11.1	9.9
Annual net domestic assets growth (percent)	-0.2	17.8	33.7	22.6	22.4	8.9	5.3	15.7	8.7	15.3	15.5	29.7
Annual private sector credit growth (percent)	3.5	17.3	30.3	38.4	30.6	28.8	24.5	15.6	17.2	17.7	15.3	12.1

Sources: Central Bank of Jordan; and Fund staff estimates and projections.

1/ Includes central budgetary government and own-budget agencies, but excludes SSC.

2/ Excludes UN compensation funds and Brady bonds held by Jordanian banks.

Table 7. Jordan: Summary Accounts of the Central Bank of Jordan, 2004–08

	Dec	Dec	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Proj. Dec
	2003	2004	2005	2006				2007				2008
	(Stocks in millions of Jordanian dinars)											
Net foreign assets	3,843	3,967	4,004	4,021	3,850	4,284	4,984	5,017	4,782	5,046	5,671	4,675
Net domestic assets	-1,557	-1,604	-1,183	-1,330	-752	-1,373	-1,598	-1,818	-1,346	-1,776	-2,018	-858
Net claims on central government 1/	794	653	914	800	1,054	512	152	395	605	850	173	1,027
Net claims on NFPEs and the SSC	-128	-87	-24	-77	-24	-38	-19	-23	-31	-63	-61	-61
Net claims on financial institutions	24	26	75	79	92	92	94	85	90	94	99	99
Net claims on private sector	15	18	18	18	18	18	18	18	18	18	18	18
Net claims on commercial banks	87	312	151	6	422	366	425	252	352	254	211	211
CDs	-2,176	-2,534	-2,280	-2,015	-2,131	-2,120	-2,153	-2,222	-2,007	-2,425	-1,977	-1,871
Other items, net (asset: +)	-172	8	-39	-142	-184	-203	-115	-323	-372	-504	-482	-282
Jordanian dinar reserve money	2,287	2,362	2,821	2,692	3,098	2,911	3,386	3,199	3,436	3,270	3,653	3,817
Currency	1,535	1,508	1,783	1,834	2,039	2,016	2,201	2,099	2,190	2,253	2,350	2,438
Commercial bank reserves	751	855	1,038	858	1,059	895	1,185	1,101	1,247	1,017	1,302	1,378
Of which: required reserves	428	452	566	557	599	614	715	758	786	820	834	929
	(Cumulative flows in millions of Jordanian dinars from beginning of period)											
Net foreign assets	941	124	37	17	-154	280	980	33	-202	62	687	-996
Net domestic assets	-549	-48	421	-147	431	-189	-415	-220	253	-178	-420	1,160
Net claims on central government 1/	176	-142	261	-114	140	-402	-762	243	452	698	21	854
Net claims on NFPEs and the SSC	-73	42	63	-53	0	-14	4	-4	-12	-44	-42	0
Net claims on financial institutions	0	1	50	4	17	17	18	-9	-4	0	5	0
Net claims on private sector	1	3	0	0	0	0	-1	0	0	0	0	0
Net claims on commercial banks	-34	225	-161	-144	272	216	274	-172	-73	-171	-214	0
CDs	-533	-358	255	265	149	160	127	-69	146	-272	176	106
Other items, net (asset: +)	-86	180	-47	-104	-145	-164	-76	-208	-257	-389	-367	200
Jordanian dinar reserve money	393	76	458	-129	277	90	565	-186	51	-115	267	164
Currency	202	-28	276	51	256	233	418	-102	-12	52	149	88
Commercial banks' reserves	190	104	183	-180	21	-142	147	-84	62	-167	118	76
	(Cumulative flows in percent of beginning-of-period reserve money)											
Net foreign assets	49.7	5.4	1.6	0.6	-5.5	9.9	34.7	1.0	-6.0	1.8	20.3	-27.3
Net domestic assets	-29.0	-2.1	17.8	-5.2	15.3	-6.7	-14.7	-6.5	7.5	-5.2	-12.4	31.8
Net claims on central government 1/	9.3	-6.2	11.1	-4.0	5.0	-14.3	-27.0	7.2	13.4	20.6	0.6	23.4
Net claims on NFPEs and the SSC	-3.8	1.8	2.7	-1.9	0.0	-0.5	0.2	-0.1	-0.4	-1.3	-1.2	0.0
Net claims on financial institutions	0.0	0.1	2.1	0.1	0.6	0.6	0.7	-0.3	-0.1	0.0	0.2	0.0
Net claims on private sector	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net claims on commercial banks	-1.8	9.8	-6.8	-5.1	9.6	7.6	9.7	-5.1	-2.2	-5.0	-6.3	0.0
CDs	-28.1	-15.7	10.8	9.4	5.3	5.7	4.5	-2.0	4.3	-8.0	5.2	2.9
Other items, net (asset: +)	-4.5	7.9	-2.0	-3.7	-5.2	-5.8	-2.7	-6.1	-7.6	-11.5	-10.8	5.5
Jordanian dinar reserve money	20.7	3.3	19.4	-4.6	9.8	3.2	20.0	-5.5	1.5	-3.4	7.9	4.5
Currency	10.7	-1.2	11.7	1.8	9.1	8.3	14.8	-3.0	-0.3	1.5	4.4	2.4
Commercial bank reserves	10.0	4.5	7.7	-6.4	0.7	-5.0	5.2	-2.5	1.8	-4.9	3.5	2.1
Memorandum items:												
Gross usable international reserves ($ millions)	4,740	4,826	4,745	4,930	4,909	5,739	6,103	6,400	6,274	6,741	6,865	5,400
As a ratio to JD broad money (in percent)	46.4	43.5	35.6	37.3	34.4	39.5	40.1	41.1	38.7	40.2	40.6	29.1
As a ratio of JD reserve money (in percent)	147.0	144.8	119.3	129.9	112.4	139.8	127.8	141.8	129.5	146.1	133.3	100.3
Net international reserves (JD millions) 2/	3,079	3,149	3,222	3,251	3,079	3,513	4,270	4,250	4,014	4,279	4,904	3,908
Money multiplier (for JD liquidity)	3.17	3.3	3.4	3.5	3.3	3.5	3.2	3.5	3.3	3.6	3.3	3.4

Sources: CBJ; and Fund staff estimates and projections.

1/ Excludes UN compensation funds and Brady bonds held by Jordanian banks.

2/ Excludes foreign assets pledged as collateral for the 1993 commercial debt restructuring and the yearly change in foreign currency swaps.

Table 8. Jordan: Indicators of Fund Credit, 2004–13
(In millions of SDR)

	2004	2005	2006	Projections 2007	2008	2009	2010	2011	2012	2013
Total Fund credit outstanding at end-period										
In millions of SDR	217.5	165.3	105.2	55.4	17.9	2.5	0.0	0.0	0.0	0.0
In millions of U.S. dollars	335.0	236.6	158.7	87.3	27.0	3.9	0.0	0.0	0.0	0.0
In percent of:										
Quota	127.5	97.0	61.7	32.5	10.5	1.5	0.0	0.0	0.0	0.0
GDP	2.9	1.9	1.1	0.6	0.1	0.0	0.0	0.0	0.0	0.0
Exports of goods and nonfactor services	5.6	3.6	2.0	1.0	0.3	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed debt	4.4	3.3	2.2	1.2	0.5	0.1	0.0	0.0	0.0	0.0
Transactions under the GRA										
Purchases under the GRA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases 1/	66.1	52.2	60.1	49.8	37.5	15.4	2.5	0.0	0.0	0.0
Net Purchases	-66.1	-52.2	-60.1	-49.8	-37.5	-15.4	-2.5	0.0	0.0	0.0
Charges and interest 2/	6.9	7.4	7.6	5.5	2.6	1.0	0.6	0.5	0.5	0.5
Debt service to the Fund										
In millions of SDR	73.0	59.6	67.7	55.3	40.2	16.4	3.1	0.5	0.5	0.5
In millions of U.S. dollars	108.1	88.0	99.6	84.6	60.4	24.7	4.8	0.8	0.8	0.8
In percent of:										
Exports of goods and nonfactor services	1.8	1.3	1.2	0.9	0.6	0.2	0.0	0.0	0.0	0.0
Service on public and publicly guaranteed debt	12.7	10.9	12.0	10.1	10.5	4.4	0.9	0.2	0.2	0.2

Sources: IMF Finance Department; and Fund staff estimates.

1/ On an expectation basis for purchases made after November 17, 2000.
2/ Includes SDR charges.

APPENDIX I: PUBLIC DEBT SUSTAINABILITY ANALYSIS

Jordan's public debt is expected to decline to just under 60 percent by 2011.[1] The debt ratio is projected to drop by about 10 percentage points in 2008 following the Paris Club debt buyback,[2] and remain broadly flat—with an average annual decline of less than 1 percentage point—over the medium term. The projected debt path is based on the assumption that the primary deficit (including grants) will decline to 1.6 percent of GDP by 2013.

The debt outlook remains vulnerable to adverse shocks. Standard bound tests reveal that:

- Debt ratios would deteriorate under a 30 percent real exchange rate depreciation shock, increasing by 14 percentage points relative to the baseline in 2008 and remaining above 65 percent over the projection period.
- A contingent liabilities shock—an increase in the debt ratio by 10 percent of GDP in 2008—would cause the debt path to shift by about 9 percentage points above the baseline.
- Even smaller shocks—individual one-half standard deviation shocks to real growth, interest rates, and the primary balance, and a combined one-fourth standard deviation shock—would keep debt ratios above the 60 percent threshold throughout the projection period.

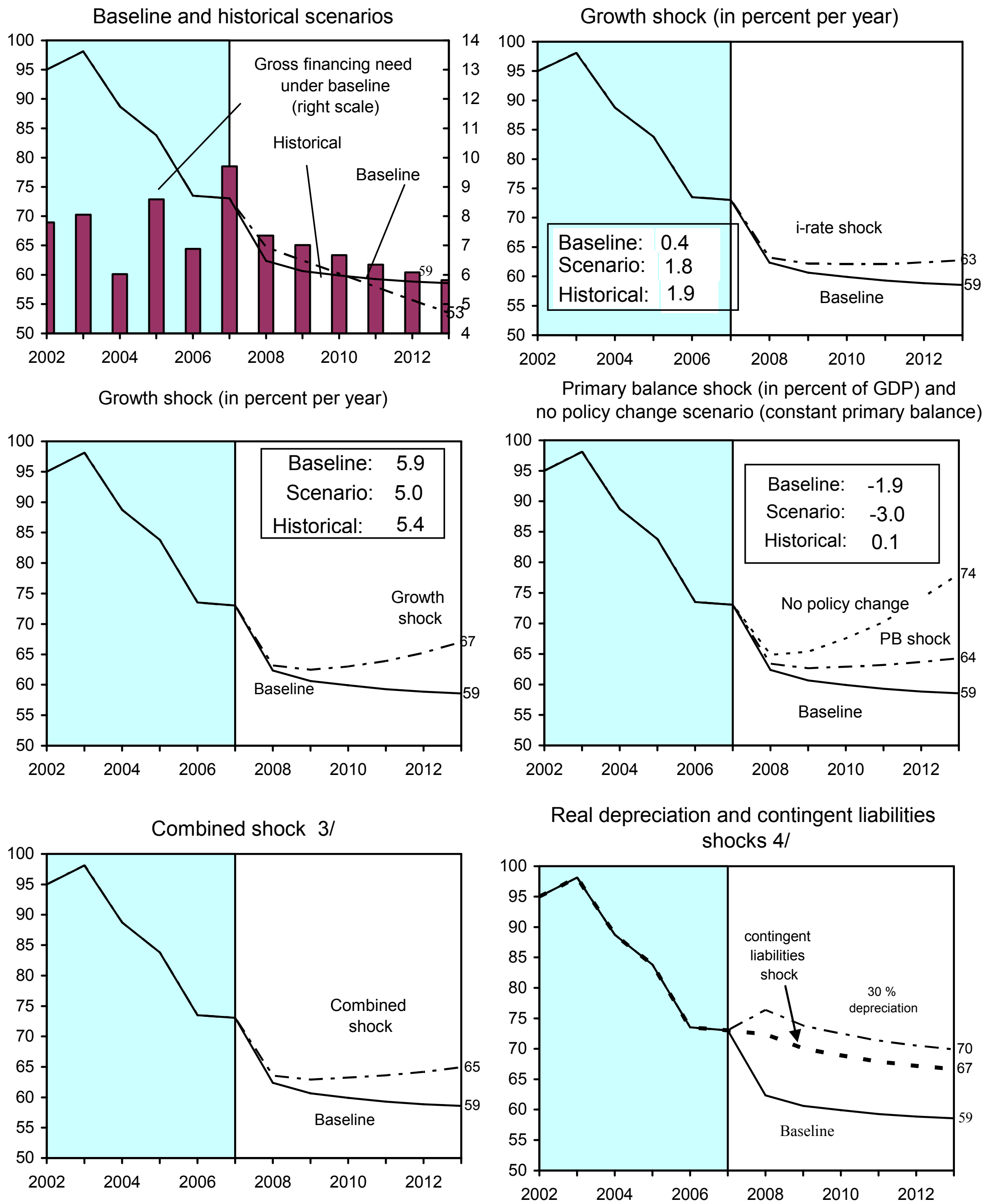
If key assumptions are held at their historical averages, debt would decline faster than under the baseline (to 53 percent by 2013), since the average historical level of the primary deficit (0.1 percent) was significantly lower than projected (2.4 percent for 2008 and 1.8 percent on average for 2009–13).

Public debt sustainability hinges on appropriate adjustment policies. A no-policy-change scenario—that assumes the primary deficit of 2007 (2.9 percent of GDP) is kept constant during 2008–13—would cause the debt-to-GDP ratio to increase from 63 percent at end-2008 to 74 percent by the end of the projection period.

[1]Public debt is defined as central government and government-guaranteed debt. The domestic component is net of government deposits with the banking system, including privatization proceeds.

[2]Use of privatization proceeds, which are government assets held with the CBJ, reduced the *net* impact of the buyback from 11 percent of GDP to about 3 percent. GDP growth accounts for most of the rest of the reduction in the public debt ratio.

Figure A.1. Jordan: Public Debt Sustainability: Bound Tests 1/ 2/
(In percent of GDP)



Sources: Jordanian authorities; and Fund staff estimates.

1/ Public debt is defined as central government debt and government guaranteed debt. The domestic component is net of government deposits with the banking system.

2/ Shaded areas represent actual data. Individual shocks are permanent ½ standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. The end-period values are also shown.

3/ Permanent ¼ standard deviation shocks applied to real interest rate, growth rate, and primary balance.

4/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2008.

Table A.1. Jordan: Public Debt Sustainability Framework, 2002–13 1/
(In percent of GDP, unless otherwise indicated)

	Actual					Prel.			Projections					
	2002	2003	2004	2005	2006	2007			2008	2009	2010	2011	2012	2013
1 **Baseline: Central government debt including government guarantees (net)**	95.0	98.1	88.7	83.8	73.5	73.0			**62.4**	**60.6**	**59.9**	**59.3**	**58.8**	**58.6**
Of which: foreign-currency denominated	77.7	74.5	66.1	56.6	51.9	46.8			27.6	23.7	20.6	17.9	15.7	13.9
2 Change in central government debt	2.4	3.1	-9.4	-4.9	-10.3	-0.5			-10.7	-1.7	-0.7	-0.6	-0.4	-0.3
3 Identified debt-creating flows (4+7+12)	-2.2	-6.5	-9.3	-3.5	-9.3	-4.2			-6.1	-1.8	-0.7	-0.5	-0.2	-0.1
4 Primary deficit	0.2	-4.5	-1.1	2.1	0.6	2.9			2.4	1.9	1.9	1.9	1.7	1.6
5 Revenue and grants	29.6	34.7	36.6	33.2	34.5	34.9			34.8	33.6	33.2	32.9	32.7	32.6
6 Primary (noninterest) expenditure	29.8	30.2	35.5	35.3	35.1	37.8			37.2	35.5	35.2	34.8	34.5	34.2
7 Automatic debt dynamics 2/	-2.2	-2.0	-7.6	-5.5	-5.7	-4.8			-7.4	-3.7	-2.6	-2.4	-2.0	-1.7
8 Contribution from interest rate/growth differential 3/	-2.2	-2.0	-7.6	-5.5	-5.7	-4.8			-7.4	-3.7	-2.6	-2.4	-2.0	-1.7
9 *Of which:* contribution from real interest rate	2.9	1.8	-0.1	0.2	-0.9	-0.9			-4.0	-0.5	0.6	0.8	1.3	1.6
10 *Of which:* contribution from real GDP growth	-5.0	-3.7	-7.5	-5.7	-4.7	-3.9			-3.4	-3.2	-3.3	-3.3	-3.3	-3.2
11 Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	0.0	0.0			...	...	...	...	...	...
12 Other identified debt-creating flows	-0.2	0.0	-0.5	0.0	-4.2	-2.3			-1.0	0.0	0.0	0.0	0.0	0.0
13 Privatization receipts (negative)	-0.2	0.0	-0.5	0.0	-4.2	-2.3			-1.0	0.0	0.0	0.0	0.0	0.0
14 Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0
15 Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0
16 Residual, including asset changes (2-3) 5/	4.5	9.6	-0.1	-1.5	-1.0	3.7			-4.6	0.1	0.0	-0.1	-0.2	-0.2
Central government debt-to-revenue ratio	321.1	282.4	242.4	252.2	212.8	209.2			179.0	180.6	180.2	180.0	179.8	179.7
Gross financing need 6/	7.8	8.1	6.0	8.6	6.9	9.7			7.3	7.0	6.7	6.3	6.1	5.8
(In billions of U.S. dollars)	0.7	0.8	0.7	1.1	1.0	1.5			1.4	1.5	1.5	1.6	1.7	1.8
Scenario with key variables at their historical averages 7/									**64.7**	**62.4**	**60.2**	**57.9**	**55.7**	**53.5**
Scenario with no policy change (constant primary balance) in 2007–12									**64.9**	**65.3**	**67.5**	**70.2**	**74.1**	**78.0**
Key macroeconomic and fiscal assumptions underlying baseline							Historical Average	Standard Deviation						
Real GDP growth (in percent)	5.8	4.2	8.6	7.1	6.3	6.0	5.4	1.7	5.5	5.8	6.0	6.0	6.0	6.0
Average nominal interest rate on public debt (in percent) 8/	4.3	4.2	3.2	3.7	4.2	5.0	4.5	0.7	5.0	6.0	5.8	5.5	5.6	5.6
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	3.3	2.1	0.1	0.5	-0.9	-1.0	1.9	2.7	-5.8	-0.5	1.4	1.8	2.6	3.1
Nominal appreciation (increase in US dollar value of local currency, in percent)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	0.9	2.1	3.1	3.2	5.2	6.0	2.7	2.5	10.8	6.5	4.3	3.7	3.0	2.5
Growth of real primary spending (deflated by GDP deflator, in percent)	6.8	5.7	27.5	6.4	5.8	14.2	8.3	8.2	3.8	0.9	5.0	5.0	4.9	5.1
Primary deficit	0.2	-4.5	-1.1	2.1	0.6	2.9	-0.1	2.1	2.4	1.9	1.9	1.9	1.7	1.6

1/ Public debt is defined as central government and government guaranteed debt. The domestic component is net of government deposits with the banking system.

2/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

3/ The real interest rate contribution is derived from the denominator in footnote 1/ as r - π (1+g) and the real growth contribution as -g.

4/ The exchange rate contribution is derived from the numerator in footnote 1/ as ae(1+r).

5/ For projections, this line includes exchange rate changes.

6/ Defined as public sector deficit, plus amortization of medium- and long-term public sector debt, plus short-term debt at end of previous period.

7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

8/ Derived as nominal interest expenditure divided by previous period debt stock.

APPENDIX II: EXTERNAL DEBT SUSTAINABILITY ANALYSIS

Jordan's external debt sustainability outlook remains broadly favorable. External debt ratios, which are currently somewhat above norms for emerging markets, are expected to fall to near 20 percent of GDP by the end of the decade and to around 14 percent of GDP by 2013. A large part of this drop is due to the Paris Club debt buyback that reduced external debt by around 11 percentage points of GDP in 2008. The external debt outlook is underpinned by expectations of a gradual current account adjustment reflecting strong export growth, falling medium-term import unit prices, and continued growth in earnings from tourism and remittances. The projections also reflect expectations that Jordan will—as in recent years—pursue cautious external borrowing policies, relying mainly on concessional sources of external financing from multilateral and regional development banks.

The debt reduction path envisaged is nonetheless sensitive to assumptions regarding the speed of current account adjustment and the outlook for private capital flows:

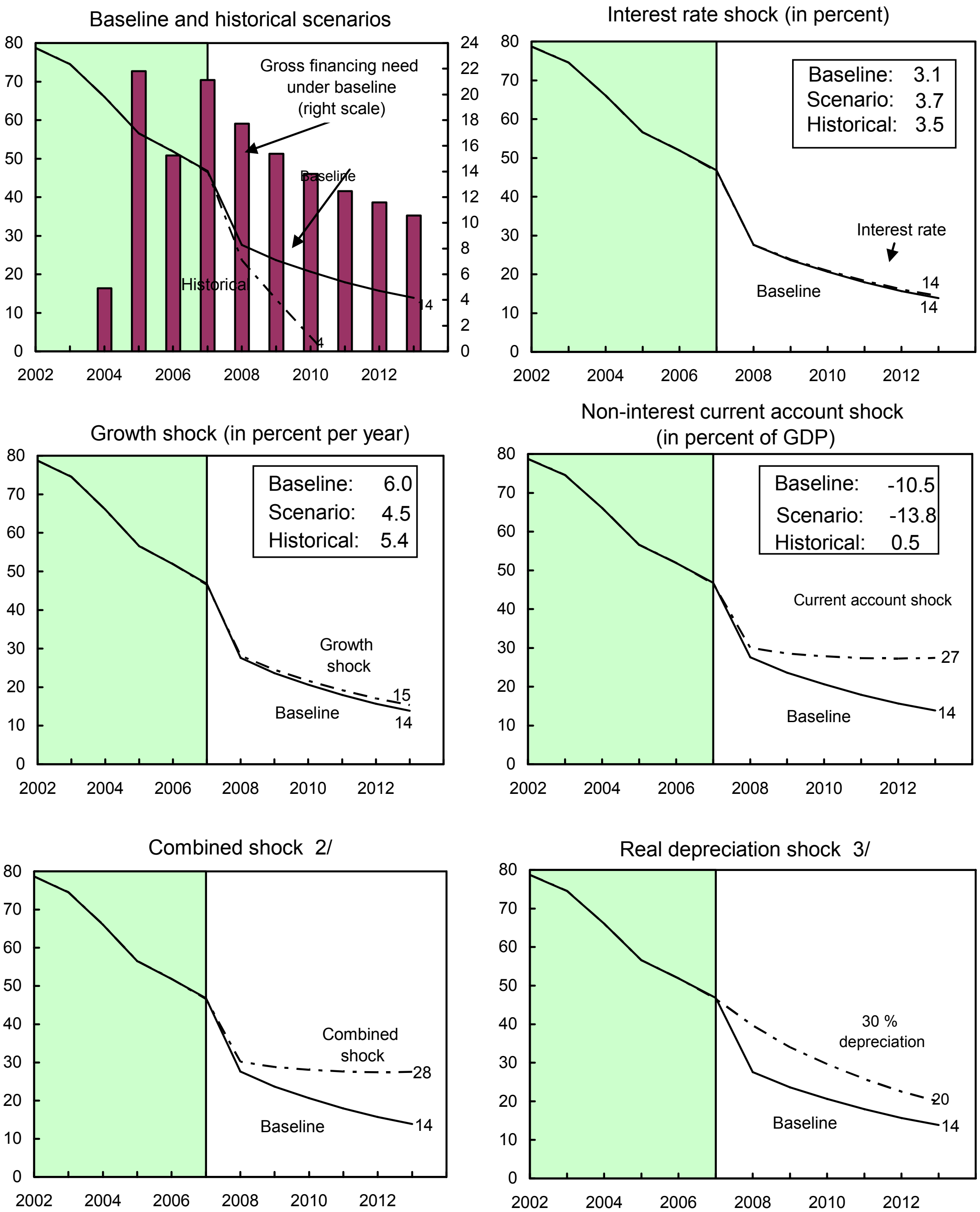
- The standard bound tests reveal that external debt sustainability is most vulnerable to developments in the current account position. If the actual current account were one-half standard deviation worse than currently assumed, there would be only a marginal decline in the debt ratio by 2013. At the same time, bound tests show that the debt-to-GDP ratio is robust to shocks in the external interest rate or GDP growth. A sharp depreciation would lead to an immediate deterioration in the debt ratio, but would not have an adverse impact over time, provided other assumptions remain achievable.

- A potentially important source of risk in Jordan's case is a shock involving a larger-than-expected decline in (non-debt creating) capital inflows. To assess the impact of a such a decline, a shock scenario is considered in which capital inflows remain the same as in the baseline scenario for 2008 but fall to the historical average for the remainder of the projection period. This scenario shows that external debt would remain in the range of 30 percent of GDP, which is well above levels expected in the baseline, but not so high as to threaten external debt sustainability.

- If key assumptions are held at their historical averages, Jordan's debt would fall even faster than expected since Jordan had maintained current account surpluses for most of the period prior to 2004.

Overall, the debt sustainability analysis continues to show that policies that help reduce the current account deficit and maintain the recent growth and FDI momentum would provide the strongest assurances of a sustainable debt position.

Figure A.2. Jordan: External Debt Sustainability: Bound Tests 1/
(In percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

3/ One-time real depreciation of 30 percent occurs in 2008.

Table A.2. Jordan: External Debt Sustainability Framework, 2002-13
(In percent of GDP, unless otherwise indicated)

	Actual								Projections					
	2002	2003	2004	2005	2006	2007			2008	2009	2010	2011	2012	2013
1 **Baseline: External debt**	78.7	74.5	66.1	56.6	51.9	46.8			**27.6**	**23.7**	**20.6**	**17.9**	**15.7**	**13.9**
2 Change in external debt	0.6	-4.2	-8.4	-9.5	-4.7	-5.1			-19.2	-4.0	-3.0	-2.7	-2.2	-1.8
3 Identified external debt-creating flows (4+8+9)	-9.6	-22.8	-14.3	-8.4	-19.9	-7.6			-4.6	-3.0	-2.8	-2.4	-2.1	-1.4
4 Current account deficit, excluding interest payments	-7.6	-13.9	-2.1	16.0	9.8	16.0			14.4	12.6	11.4	10.2	9.5	8.8
5 Deficit in balance of goods and services	-19.2	-21.0	-30.2	-41.4	-36.3	-40.4			-40.0	-36.4	-34.5	-32.7	-31.5	-30.5
6 Exports	47.4	47.4	52.2	52.6	57.5	57.5			56.3	55.9	55.6	55.9	56.2	56.7
7 Imports	-66.6	-68.3	-82.4	-94.0	-93.8	-97.9			-96.4	-92.3	-90.1	-88.6	-87.7	-87.2
8 Net non-debt creating capital inflows (negative)	1.0	-5.9	-5.5	-19.6	-25.3	-22.4			-17.9	-15.0	-13.5	-12.1	-11.1	-9.6
9 Automatic debt dynamics 1/	-3.0	-3.0	-6.6	-4.8	-4.5	-1.3			-1.1	-0.6	-0.6	-0.5	-0.5	-0.5
10 Contribution from nominal interest rate	2.0	1.7	1.4	1.5	1.5	1.5			1.1	0.8	0.7	0.6	0.5	0.4
11 Contribution from real GDP growth	-4.2	-3.1	-5.7	-4.2	-3.2	-2.8			-2.2	-1.4	-1.3	-1.1	-1.0	-0.9
12 Contribution from price and exchange rate changes 2/	-0.7	-1.6	-2.2	-2.1	-2.8	-2.9			...	...	...	...	...	...
13 Residual, incl. change in gross foreign assets (2-3) 3/	10.2	18.7	5.8	-1.1	15.3	2.5			-14.6	-0.9	-0.3	-0.2	-0.1	-0.5
External debt-to-exports ratio (in percent)	166.0	157.3	126.6	107.5	90.2	81.3			49.0	42.3	37.1	32.1	27.9	24.5
Gross external financing need (in billions of US dollars) 4/	0.0	-0.7	0.6	2.7	2.1	3.3			3.3	3.2	3.2	3.2	3.2	3.2
in percent of GDP	-0.3	-6.9	4.9	21.8	15.2	21.1			17.7	15.4	13.8	12.5	11.6	10.6
Scenario with key variables at their historical averages 5/									**23.7**	**13.5**	**3.7**	**-5.9**	**-15.2**	**-24.6**
Scenario with sharp decline in private capital inflows after 2008									**27.4**	**30.8**	**33.2**	**34.2**	**34.6**	**33.7**
Key Macroeconomic Assumptions Underlying Baseline							Historical Average	Standard Deviation						
Real GDP growth (in percent)	5.8	4.2	8.6	7.1	6.3	6.0	5.4	1.7	5.5	5.8	6.0	6.0	6.0	6.0
GDP deflator in US dollars (change in percent)	0.9	2.1	3.1	3.2	5.2	6.0	2.6	2.4	10.8	6.5	4.3	3.7	3.0	2.5
Nominal external interest rate (in percent)	2.7	2.3	2.0	2.4	2.9	3.3	3.5	1.2	2.9	3.3	3.3	3.2	3.0	2.8
Growth of exports (US dollar terms, in percent)	20.2	6.3	23.3	11.4	22.3	12.3	10.2	9.3	14.5	11.9	10.0	10.4	9.8	9.6
Growth of imports (US dollar terms, in percent)	5.9	9.1	35.0	26.1	11.6	17.1	12.1	11.9	15.1	7.9	7.9	8.1	8.1	8.0
Current account balance, excluding interest payments	7.6	13.9	2.1	-16.0	-9.8	-16.0	0.5	10.6	-14.4	-12.6	-11.4	-10.2	-9.5	-8.8
Net non-debt creating capital inflows	-1.0	5.9	5.5	19.6	25.3	22.4	9.5	10.0	17.9	15.0	13.5	12.1	11.1	9.6

1/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, ε = nominal appreciation (increase in dollar value of domestic currency), and α = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as $[-\rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock. r increases with an appreciating domestic currency ($\varepsilon > 0$) and rising inflation (based on GDP deflator).

3/ The large residual term in 2008 reflects a Paris Club debt buyback of 11 percent of GDP. For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

INTERNATIONAL MONETARY FUND

JORDAN

2008 Article IV Consultation
Informational Annex

Prepared by the Middle East and Central Asia Department
(In consultation with other departments)

April 18, 2008

Contents Page

ANNEX I: STATISTICAL ISSUES

31. Data provision is adequate for surveillance purposes. However, staff's analysis would be facilitated by improvements in the coverage of fiscal and external statistics.

32. Jordan has participated in the General Data Dissemination System (GDDS) since September 2000. GDDS metadata were last updated in May/June 2007. An update to the data module for the Report on the Observance of Standards and Codes (ROSC) was posted in February 2004. Special Data Dissemination Standard (SDDS) assessment missions visited Amman in late 2006 and in July 2007 to assist with preparations for SDDS subscription.

33. **Real sector.** During the past few years, progress has been made toward enhancing the quality of national accounts statistics. Continued improvement requires a strong commitment and allocation of additional resources. Additional efforts are needed to improve the estimates from the expenditure approach and the coverage of informal activities. New surveys have been implemented to improve the compilation and timeliness of wages and earnings data.

34. Both the **Consumer Price Index** (CPI) and the **Producer Price Index** (PPI) are considered of good quality. The CPI (base year 2002/2003) covers all main urban centers and cities at the governorate level and is expected to be updated with 2006 weights during 2008. The PPI has been compiled since 2000; weights are derived from the 1999 Survey of Industry at the 4-digit level, and within each industry, weights are based on the 1999 Economic Establishment Census.

35. **Government finance.** In July 2007, an STA mission undertook a review of the metadata needed for subscription to the SDDS and assisted in the compilation of financing data on the central government and general government operations. The mission found that government finance statistics for the budgetary central government cover only those transactions of the budgetary central government that are channeled through the treasury account and exclude all other transactions of the government ministries such as grants and loans, earmarked taxes, and privatization receipts. In addition, social security and extrabudgetary agencies are not included in the fiscal accounts. Improvements in the coverage and dissemination of government finance statistics will be needed ahead of SDDS subscription, including:

- dissemination of data on central and general government operations with SDDS-prescribed coverage, periodicity, and timeliness in accordance with the classification and sectorization systems recommended by the *GFSM 2001*;

- enhanced procedures for the verification of internal and intersectoral consistency of the stock and flow data that serve as a source for compiling government finance statistics; and

- strengthening government financing data by instrument and residency consistent with SDDS requirements.

36. **Monetary statistics.** Monetary data for the Central Bank of Jordan (CBJ) and the commercial banks are reported and published on a monthly basis. At present, consistency checks between government finance statistics and monetary statistics are not conducted. However, the CBJ informed the 2003 data ROSC Update mission that the CBJ Research Department, which is responsible for the collection and compilation of the monetary statistics, proposed the establishment of an interagency group to monitor the intersectoral consistency of macroeconomic statistics. Timeliness of reporting monetary data for publication in *International Financial Statistics* is satisfactory. However, little progress has been achieved so far in implementing the Standardized Report Forms for reporting monetary data to the Fund.

37. **Balance of payments (BOP) statistics.** The CBJ has adopted the methodology of the fifth edition of the *Balance of Payments Manual (BPM5)* for the compilation of the BOP statistics and the international investment position (IIP), and has disseminated data in the *BPM5* format. The implementation of surveys in the area of services is important for the further improvement of the quality of the BOP statistics. Further, the CBJ has started compiling and disseminating the reserves template on the CBJ's website. The IIP data for 2004–05 incorporates the results of the Department of Statistics foreign direct investment survey released in May 2007. The CBJ and Ministry of Finance have agreed on the modalities for compiling and disseminating external debt statistics in line with SDDS requirements, and to form a technical group to examine proposals for developing quarterly source data on nonbank private sector debt.

Jordan: Common Indicators Required For Surveillance

As of April 8, 2008

	Date of Latest Observation	Date Received	Frequency of Data 6/	Frequency of Reporting 6/	Frequency of Publication 6/	Memo Items: Data quality—methodological soundness 7/	Memo Items: Data quality—accuracy and reliability 8/
Exchange rates	Mar. 2008	Mar. 2008	W	M	W		
International reserve assets and reserve liabilities of the monetary authorities 1/	Mar. 2008	Mar. 2008	W	M	W		
Reserve/base money	Jan. 2008	Mar. 2008	M	M	M	O, O, LO, LO	O, LO, O, O, LO
Broad money	Jan. 2008	Mar. 2008	M	M	M		
Central bank balance sheet	Jan. 2008	Mar. 2008	M	M	M		
Consolidated balance sheet of the banking system	Jan. 2008	Mar. 2008	M	M	M		
Interest rates 2/	Feb. 2008	Mar. 2008	W	M	W		
Consumer price index	Feb. 2008	Mar. 2008	M	M	M	O, LO, O, O	O, LO, O, O, O
Revenue, expenditure, balance and composition of financing 3/—general government 4/	2005	Apr. 2007	A	A	A	O, LO, LNO, O	O, O, O, O, NA
Revenue, expenditure, balance and composition of financing 3/—central government	Nov. 2007	Jan. 2008	M	M	M		
Stocks of central government and central government-guaranteed debt 5/	Dec. 2007	Feb. 2008	M	M	M		
External current account balance	Q4 2007	Mar. 2008	Q	Q	Q	LNO, LNO, LNO, LO	LNO, LO, LO, LO, LO
Exports and imports of goods and services	Jan. 2008	Mar. 2008	M	M	Q		
GDP/GNP	Q4 2007	Feb. 2008	Q	Q	Q	O, LO, O, O	O, LO, O, LO, LO
Gross external debt	Jan. 2008	Feb. 2008	M	M	M		

1/ Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

2/ Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

3/ Foreign, domestic bank, and domestic nonbank financing.

4/ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

5/ Including currency and maturity composition.

6/ Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); not available (NA).

7/ Reflects the assessment provided in the substantive update of the data ROSC published on February 2004 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning (respectively) concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), not observed (NO), or not available (NA).

8/ Same as footnote 7, except referring to international standards concerning (respectively) source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies.

ANNEX II: RELATIONS WITH THE FUND
(As of March 31, 2008)

I. **Membership Status:** Joined: August 29, 1952; Article VIII

II. **General Resources Account:**	**SDR million**	**% Quota**
Quota	170.50	100.00
Fund holdings of currency	219.34	128.64
Reserve position in Fund	0.26	0.15

III. **SDR Department:**	**SDR million**	**% Allocation**
Net cumulative allocation	16.89	100.00
Holdings	3.55	21.01

IV. **Outstanding Purchases and Loans:**	**SDR million**	**% Quota**
Extended Arrangements	49.07	28.78

V. **Latest Financial Arrangements:**

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
SBA	7/03/02	7/02/04	85.28	10.66
EFF	4/15/99	5/31/02	127.88	127.88
EFF	2/09/96	2/08/99	238.04	202.52

VI. **Projected Obligations to Fund (Expectations Basis):** (SDR million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2008	2009	2010	2011	2012
Principal	31.18	15.35	2.54		
Charges/Interest	1.46	0.92	0.52	0.47	0.47
Total	32.64	16.27	3.06	0.47	0.47

VII. **Safeguards Assessment:** Under the Fund's safeguards assessment policy, the CBJ was subject to a full assessment with respect to the Stand-By Arrangement (SBA), which was approved on July 3, 2002 and expired on July 2, 2004. The assessment was completed on June 27, 2003, and concluded that the CBJ has made progress in strengthening its safeguards, as recommended in the previous assessment of May 2001. The assessment proposed a set of measures, the majority of which have been implemented.

VIII. **Exchange System:** The Jordanian dinar is fully convertible and is officially pegged to the SDR. In practice, the authorities have pegged its exchange rate to the U.S. dollar since October 1995, at JD 1 = $1.41044.

IX. **Article IV Consultation:** The 2006 Article IV consultation was concluded by the Executive Board on March 5, 2007. Two Financial Sector Assessment Program missions visited Jordan in August and September 2003, and the Financial System Stability Assessment (FSSA) was published in January 2004. The Ex Post Assessment (EPA) of Jordan's of Longer-Term Program Engagement was published in November 2005.

X. **Technical Assistance:** Extensive technical assistance has been provided to Jordan over the years.

XI. **Documents:**

Standards or Codes Assessed	**Date of Issuance**
Data module	10/8/2002
FSSA	1/7/2004
Update to data module	1/30/2004
Fiscal transparency module	1/9/2006

Jordan: Technical Assistance, 2000–2008

Date	Purpose
Fiscal	
May 2000	Framework for managing nontreasury accounts
September 2000	Oil pricing mechanism
January–June 2002	Pension reform
January–September 2002	GST reform
November 2002	Macrofiscal capacity and treasury single account
February, October 2003	Revenue administration reform
June, August, December 2003	Peripatetic advisor on single treasury account
February, June, October 2004	Peripatetic advisor on revenue administration reform
February, May 2004	Public expenditure management
August 2004–June 2005	Resident expert in macrofiscal management
February 2005	Distributional effects of replacing oil subsidies
February–March 2005	Revenue administration reform
April 2005	Fiscal ROSC
February, May 2006	Public financial management
April–August 2006	Expert visits on revenue administration reform
October–November 2006	Revenue administration inspection visit
March–April, July, December 2007	Revenue administration reform (METAC)
Monetary and Financial	
January–February, April–May 2001	International reserve management
April–May 2008	Debt management strategy
Statistical	
July 2000	National accounts statistics
January–February 2002	Report on the Observation of Standards and Codes—Data module
December 2003	Follow-up on Report on the Observation of Standards and Codes—Data module
Oct. 2003–Jan. 2004, Mar–May 2004	Balance of payments statistics
April–May 2004	Government finance statistics
December 2006	National accounts statistics
October–November 2006	SDDS Assessment mission
July 2007	Follow-up on SDDS/Government Finance Statistics
Other	
March 2008	Financial programming workshop

ANNEX III: WORLD BANK GROUP STRATEGY AND OPERATIONS

1. As of December 31, 2007, Jordan had received 68 World Bank (Bank) loans, 1 guarantee, and 15 IDA credits totaling $2,343 million net of cancellations and terminations. Of the $2,343 million, $2,154 million have been disbursed to-date. All the credits and 63 of the loans have been fully disbursed. There are five active projects in the Bank's portfolio for a total of $249 million. Overall performance of the portfolio is good, both from the perspective of implementation and development impact. This reflects the generally good project implementation capacity of Jordanian institutions, Jordan's strong ownership of the program, and the quality of the dialogue between the Bank and the government of Jordan.

2. The new Joint World Bank-IFC country assistance strategy (CAS) for 2006–10, endorsed by the Bank's Executive Board in May 2006, is aligned with the government priorities, as expressed in particular in the 10-year National Agenda, of poverty alleviation and the creation of higher productivity jobs, **while assisting the country in its transition through the medium-term economic shocks.** This CAS sets out a four-year program organized in four cross-sectoral clusters:

- strengthening the investment environment and building human resources for value-added, skill-intensive, and knowledge-based economy;
- supporting local development through increased access to services and economic opportunities;
- reforming social assistance and expanding inclusion; and
- restructuring public expenditures and supporting public sector reform.

3. The first two clusters tackle issues related to private investment and job creation, respectively at the macro level and at the local level. The third cluster deals with programs to support those who cannot by themselves achieve sufficient welfare. The last cluster is focused on strengthening the public administration's ability to design and implement development polices, including improvements in the government budget, as the main tools of public policy. Important cross-cutting issues, such as gender and the environment, will be mainstreamed into the clusters. Various sectoral concerns, such as water and energy, will be integrated in these programmatic clusters through thematic approach. **The CAS mix among possible policy lending, investment lending, and analytical services reflects the emerging needs with respect to short-term financial challenges and longer-term institutional developments, with a lending ceiling of up to US$540 million over four years.**

4. Two investment loans were approved during fiscal year 2007 aiming to assist Jordan achieve a regionally balanced and equitable growth including access to services, employment opportunities, and private investments outside Amman. One partial risk guarantee for the Amman East 370 MW power plant was also approved in FY2007.

5. World Bank Group support to private sector development will continue to focus on improving the investment environment, public private partnership, partial risk guarantees for major projects (envisaged to attract private sector participation and to provide a better financial package for critical projects in water and energy), and, in the case of IFC, direct investment. The IFC has been active in Jordan for many years and has a current portfolio of $212 million in thirteen companies as of January 2008. In FY07 IFC committed US$16 million in Jordan for two projects in the financial sector. IFC places a high priority on business development to seek investment opportunities in the following areas: (i) infrastructure development to encourage foreign direct investment; (ii) financial sector development (e.g., microfinance and trade finance); and (iii) export-oriented and foreign exchange generating investments. The IFC's advisory activities in Jordan intend to fill the gaps and address critical areas for private sector development, such as improving the investment climate.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

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FOR IMMEDIATE RELEASE
May 19, 2008

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes 2008 Article IV Consultation with Jordan

On May 12, 2008, the Executive Board of the International Monetary Fund (IMF) concluded the 2008 Article IV consultation with Jordan.[8]

Background

The economy continued to perform well in 2007 in a more challenging external environment. Output grew by 6 percent and the unemployment rate declined further. FDI inflows remained strong and international reserves increased substantially. However, rapidly rising world fuel and food prices put pressure on the fiscal and external accounts in the second half of the year. Inflation started to pick up in late 2007 and jumped in early 2008 following a 47 percent average increase in petroleum product prices. Core inflation also picked up, but remains below 5 percent.

The fiscal position deteriorated in 2007, mainly reflecting the higher cost of fuel and food subsidies and a shortfall in external grants. The overall deficit for the year is estimated at 6.2 percent of GDP, against an original target of 2.8 percent. Higher fuel and food subsidies on account of increased world prices, and lower-than-anticipated grants were partly offset by lower capital expenditure and net lending, and overperformance on domestic revenue. Increased

[8] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. This PIN summarizes the views of the Executive Board as expressed during the May 12, 2008 Executive Board discussion based on the staff report.

domestic borrowing to finance the larger deficit resulted in only a marginal decline in the overall public debt stock to 73 percent of GDP.

Despite a sizable deterioration in the external current account, the reserves position strengthened. The current account deficit increased to 17½ percent of GDP in 2007, reflecting higher import costs, a slowdown in export growth, and a shortfall in external grants. Continued strong FDI and portfolio inflows financed the current account deficit. Reserves rose to $6.9 billion by year-end, equivalent to five months of prospective imports, from $6.1 billion at end-2006. Following a US$2 billion buyback of nonconcessional Paris Club debt in early 2008, the external debt stock declined by 11 percent of GDP.

Monetary policy remained geared toward maintaining the exchange rate peg. The overnight interest rate was cut by 50 basis points (bps) in September 2007, following the reduction in the Fed Funds rate. Since then, despite a further 250 bps cumulative cut in the Fed Funds rate, the Central Bank of Jordan (CBJ) has lowered its key policy rate by only 25 basis points (in early February) to avoid an excessively accommodative monetary stance. So far, there are no indications that the widening interest differential has attracted significant short-term capital inflows. Bank prudential indicators have remained steady, with the average risk-weighted capital adequacy ratio easing to a still healthy 19 percent in mid-2007. Although private credit growth moderated to 15 percent by end-2007, the banking system's loan-deposit ratio continued to edge up.

Executive Board Assessment

Executive Directors commended Jordan's continued strong economic performance in an increasingly challenging external environment. Directors noted that higher international food and fuel prices, given Jordan's high dependence on food and fuel imports, have pushed up inflation and widened the fiscal and external deficits. They therefore emphasized the importance for the authorities to adhere to their current plan of macroeconomic policy tightening, in order to reduce vulnerabilities and ensure a continued favorable outlook.

Directors strongly supported the authorities' intention to tighten fiscal policy. They welcomed the authorities' bold step to remove fuel subsidies and introduce a monthly fuel price adjustment mechanism, which has greatly reduced the vulnerability of the budget to oil price developments. Directors observed that sizable compensatory spending measures, including an increase in public sector salaries, on a progressive scale, have been implemented to gain public acceptance and protect vulnerable groups. Nevertheless, significant budgetary savings have been achieved on a net basis. Some Directors noted that the public sector salary increase could fuel inflation further. Directors considered that achieving the targeted narrowing of the budget deficit entails significant tightening, and encouraged the authorities to resist additional spending pressures. They emphasized that the lower deficit would be critical for bringing inflation down, reducing the external imbalance, and preventing a crowding out of private credit.

Directors recommended that the authorities continue with consolidation of the public finances over the medium term. They agreed that, given the high level of government spending relative to the size of the economy, fiscal expenditure restraint would create needed space for the private sector and strengthen medium-term growth prospects.

Directors noted that the new public debt ceiling limiting total public debt to 60 percent of GDP by 2011 should help to anchor the budgetary position over the medium term. However, given the upfront debt reduction provided by the Paris Club buyback, they recommended gearing fiscal policies to a more ambitious debt target that would leave some cushion for possible unforeseen demands on the budget.

Directors noted that current account adjustment would be facilitated by tighter fiscal policy. A gradual unwinding of transient factors and some softening of world commodity prices would likely narrow the external deficit over the medium term. Directors emphasized that, while private capital inflows were expected to fully cover the deficit, Jordan would remain vulnerable to a slowdown in capital inflows, and stronger fiscal adjustment would help limit risks to external stability.

Directors indicated that the exchange rate peg continues to serve as a strong anchor for monetary policy, and there is no clear evidence of exchange rate misalignment. Given inflation risks, they agreed that the recent widening in interest rate differentials against U.S. dollar rates had been warranted. Directors recognized that, as long as short-term capital inflows remain limited, there could be scope to let interest differentials widen further to keep inflation in check. Higher policy rates would also help prevent a further increase in banks' loan-deposit ratios.

Directors noted banks' strong performance, and supported the authorities' commitment to strict financial sector supervision. They welcomed further enhancements in the regulatory and institutional framework, including the recent implementation of Basel II standards and the passage of a new anti-money laundering law. They looked forward to the FSAP update mission later this year, which would help prioritize future reforms.

Directors emphasized the importance of structural reforms in sustaining strong macroeconomic performance. They welcomed the resolution of the long-standing issue of the government's overdraft facility with the central bank, as well as recent structural measures in the fiscal area, including the new chart of accounts and the medium-term expenditure framework. Going forward, Directors suggested attaching priority to further strengthening public financial management, establishing a regulatory environment for public-private partnership projects, and full liberalization of the petroleum sector over the medium term. Directors also urged early progress in addressing data issues to allow the authorities to move ahead with Special Data Dissemination Standard subscription.

Jordan: Selected Economic Indicators

	2004	2005	2006	Prel. 2007
Real sector	(Annual percentage changes)			
Real GDP at market prices	8.6	7.1	6.3	6.0
Consumer price index (average)	3.4	3.5	6.3	5.4
Unemployment rate (percent)	14.7	14.8	14.1	13.1
Gross domestic investment (in percent of GDP)	27.4	34.1	31.9	31.9
Gross national savings (in percent of GDP)	28.2	16.6	20.6	14.4
Public finance	(In percent of GDP)			
Central government revenue and grants	36.6	33.2	34.5	34.9
Of which: grants	10.9	5.0	3.3	3.1
Central government expenditure and net lending 1/	38.3	38.3	38.3	41.1
Central government overall fiscal balance including grants	-1.7	-5.0	-3.8	-6.2
Government and government-guaranteed net debt	88.7	83.8	73.5	73.0
Balance of payments	(In percent of GDP)			
Current account balance (after grants), *of which:*	0.8	-17.4	-11.3	-17.5
Exports, f.o.b. ($ billions)	3.9	4.3	5.2	5.7
Imports, f.o.b. ($ billions)	7.3	9.3	10.3	12.0
Gross usable international reserves ($ millions) 2/	4,826	4,745	6,103	6,865
In months of prospective import cover	5.2	4.7	5.1	5.0
Relative to short-term debt by remaining maturity	5.0	5.8	7.3	7.9
Money and credit	(Annual percentage changes)			
Broad money	11.7	17.0	14.1	10.6
Credit to private sector	17.3	30.3	24.5	15.3
Exchange rates				
U.S. dollar per Jordanian dinar (end-period)	1.4	1.4	1.4	1.4
Real effective exchange rate (percent change) 3/	-3.8	7.0	-1.3	-4.1

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

1/ Including off-budget.

2/ Net of short-term foreign liabilities, foreign currency swaps, and commercial bank foreign deposits with the Central Bank of Jordan.

3/ End of period; a positive number indicates an appreciation.