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Jordan: Post-Program Monitoring Discussions—Staff Report; and Public Information Notice on the Executive Board Consideration

In the context of the Post-Program Monitoring Discussions with Jordan, the following documents have been released and are included in this package:

- the staff report for the Post-Program Monitoring Discussions, prepared by a staff team of the IMF, following discussions that ended on October 27, 2004, 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 December 23, 2004. 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 Executive Board's assessment on the staff report that completed the Post-Program Monitoring consultation.

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

Post-Program Monitoring Discussions

Prepared by the Middle East and Central Asia Department
in consultation with other departments

Approved by Amor Tahari and Martin Fetherston

December 23, 2004

- Discussions on Post-Program Monitoring (PPM) were held in Amman and Aqaba from October 17 to 27, 2004. The mission comprised Messrs. Iqbal (head), Petri, and Poddar (all MCD), Ms. Zakharova (FAD), and Mr. Féler (PDR). Mr. Kanaan (OED) participated in policy discussions.
- The mission conducted policy discussions with the minister of finance and the Governor of the Central Bank of Jordan (CBJ). It also met with the prime minister, parliamentarians, representatives of the royal court, and business and media representatives. Jordan has accepted the obligations of Article VIII, Sections 2, 3, and 4, in 1997, and the exchange system remains free of restrictions on payments and transfers for current international transactions.
- A Stand-By Arrangement (SBA) in the amount equivalent to SDR 85.28 million (50 percent of quota) was approved in July 2002 and was successfully completed in July 2004. In view of the strong balance of payments position, the authorities treated the arrangement as precautionary after the first review. Following the approval of the SBA, the Paris Club granted an exit rescheduling to Jordan covering obligations on pre-cutoff date debt through 2007. Jordan's outstanding use of Fund resources at end-October 2004 was equivalent to SDR 227.2 million or 133.3 percent of quota (Appendix I).
- The World Bank is supporting structural reforms with a second Public Sector Reform Loan in the amount of $120 million (Appendix II). The timeliness and coverage of macroeconomic data are generally sufficient for program monitoring (Appendix III).
- The authorities have agreed in principle to the publication of the staff report.
- This report was prepared by Messrs. Iqbal and Petri with contributions from Mses. Brukoff and Zakharova, and Messrs. Féler and Poddar.

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EXECUTIVE SUMMARY

After successfully graduating from a series of Fund-supported programs, Jordan has maintained close relations with the Fund in the context of PPM. Policy implementation since the expiration of the last SBA in July 2004 has been consistent with the authorities' stated goals of promoting growth while consolidating the fiscal position in order to reduce the public debt/GDP ratio.

Background: Economic activity has remained strong through the third quarter of 2004, with real GDP growth now projected at 6 percent for the year. Inflation remains in check, unemployment has fallen, and the stock exchange index has increased substantially. Strong fiscal implementation—stemming from buoyant tax receipts, better revenue administration, and ongoing expenditure restraint—resulted in a small budget surplus through the third quarter and, on current trends, will likely lead to overperformance on the overall deficit of about ½ percent of GDP compared to the original target. Net government debt is projected to decline to 92 percent of GDP by end-2004. The external position remained sound, posting a small deficit in the first half of 2004. Strong growth in domestic exports was largely offset by surging imports, reflecting the high import content of exports, continued pickup in domestic economic activity, and rising world oil prices. Gross international reserves were $4.8 billion at end-October 2004 (equivalent to seven months of prospective 2005 imports), in part due to strong foreign direct investment (FDI) flows into the information technology and real estate sectors. Interest rates on CBJ CDs were adjusted in line with developments in global capital markets in support of the exchange rate peg to the U.S. dollar. Banking sector health continued to improve, the result of efforts to strengthen the capital position of banks and to improve supervision.

PPM discussions: Macroeconomic conditions in 2005 are projected to remain manageable, and the outlook for growth over the medium term is strong given a favorable investor climate, the emergence of Jordan as a hub for activities in Iraq, and continued penetration of foreign markets. Maintaining high and sustainable economic growth and reducing the debt burden will require supporting private sector-led growth. Toward that end, the authorities will continue reducing the budget deficit, implementing the privatization program and other structural reforms, and further rationalizing government expenditures. The fiscal effort will entail revenue measures to improve the structure and efficiency of the tax system, expenditure measures to rein in current spending and increase the efficiency of social spending, and an adjustment in petroleum product prices to narrow the gap between domestic and world market levels. The authorities will continue to implement discretionary fuel price adjustments ahead of upcoming efforts to strengthen the social safety net, which they view as a precondition for the introduction of an automatic price adjustment formula. Key structural measures include the privatization of electricity generation in 2005 and the establishment of relevant regulatory agencies to avoid the creation of private monopolies and to ensure market pricing by privatized entities. Progress toward strengthening the banking system will also continue. Nevertheless, attainment of the authorities' key objectives remains vulnerable to continued grant reliance, further real effective depreciation of the Jordanian dinar, and higher-than-expected world oil prices.

List of Acronyms

AMPCO	Agricultural Marketing Company
ATC	World Trade Organization Agreement on Textiles and Clothing
BPM5	Balance of Payments Manual, Fifth Edition
CAS	Country Assistance Strategy
CBJ	Central Bank of Jordan
CD	Certificate of Deposit
CIRR	Commercial Interest Rates
CPI	Consumer Price Index
DOS	Department of Statistics
FDI	Foreign Direct Investment
FMRP	Financial Management Reform Project
FSAP	Financial Sector Assessment Program
FSSA	Financial System Stability Assessment
FTA	Free Trade Agreement
GST	General Sales Tax
HEIS	Household Expenditure and Income Survey
IAS	International Accounting Standards
IFC	International Finance Corporation
ISA	International Standards in Auditing
LTO	Large Taxpayer Office
NDA	Net Domestic Assets
NFA	Net Foreign Asset
NIR	Net International Reserves
PCA	Prompt Corrective Action
PDL	Public Debt Law
PPI	Producer Price Index
PPM	Post-Program Monitoring
PSET	Plan for Social and Economic Transformation
QIZ	Qualified Industrial Zones
ROSC	Report on the Observance of Standards and Codes
SBA	Stand-by Arrangement
SDDS	Special Data Dissemination Standard
WEO	World Economic Outlook
WTO	World Trade Organization

I. Introduction

1. **Jordan has graduated successfully from a series of Fund-supported programs.** The third and final review under the SBA was approved on June 30, 2004 on a lapse-of-time basis, and the SBA expired on July 2. The authorities have decided not to request a successor arrangement, but welcomed participating in PPM.

2. **Jordan's performance under the SBA generally exceeded the program goals.** Notwithstanding the adverse effects of the war in Iraq and the Israeli-Palestinian conflict, fiscal performance was better than anticipated, and the composition of spending improved further. The program targets on public debt reduction, however, were missed primarily because of valuation losses and delays in implementing the privatization program. The Public Debt Law (PDL) calls for a reduction in the debt/GDP ratio to 80 percent by 2006, including 60 percent for external debt. The external current account registered large surpluses reflecting booming exports and large grants, and gross usable reserves exceeded the original program targets by a substantial margin. The authorities also implemented an ambitious structural reform agenda, particularly in the fiscal and pension areas.

3. **At the time of the 2004 Article IV consultations in April 2004, Directors commended the authorities for their continued commitment to prudent macroeconomic policies and far-reaching structural reforms.** Going forward, Directors urged the authorities to sustain their fiscal adjustment efforts, accelerate privatization, and utilize privatization proceeds solely for debt reduction purposes, so as to meet the debt ceilings under the PDL. They also stressed the need to deal swiftly with the few banks that were undercapitalized at the time.

4. **Jordan's overall political situation is broadly stable with a gradual movement toward greater political participation.** Prime Minister Faisal al-Fayez's government has been in office since October 2003, with some changes introduced in October 2004 that did not affect the economic team.

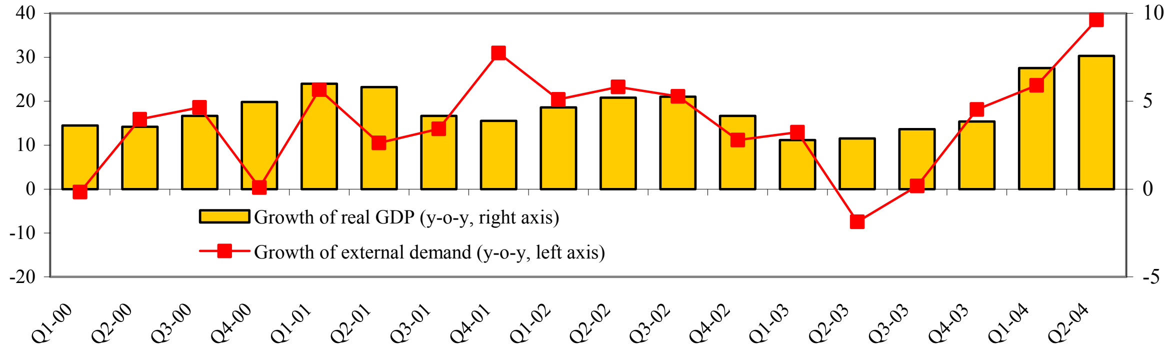
II. Recent Economic Developments

5. **The government policy stance during 2004 was aimed at promoting growth while consolidating the fiscal position in order to reduce the public debt/GDP ratio.** The macroeconomic policy mix included tight budgetary management and stimulative credit policy while allowing the Jordanian dinar to depreciate in real effective terms.

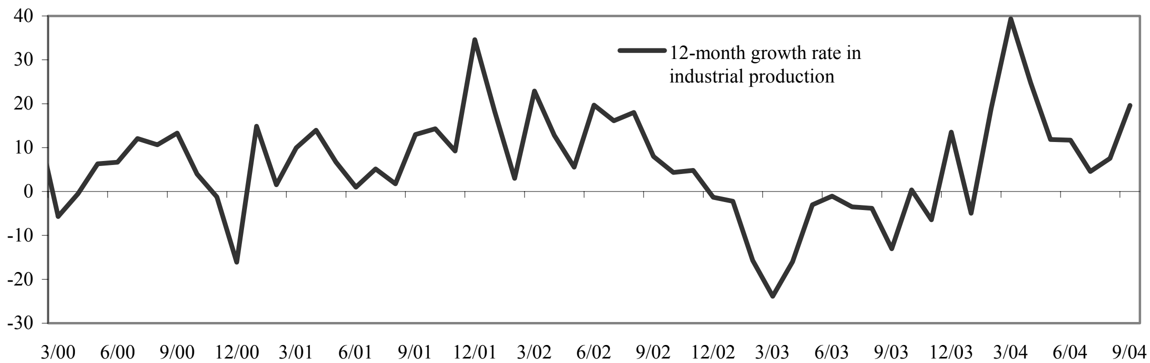
6. **Available indicators point to a continuation of the recent strong economic activity through the third quarter of 2004, and real GDP growth for the year is now projected at 6 percent (Table 1 and Figure 1).** Growth in the second half of the year will continue to be strong, albeit somewhat slower than in the first half. The unemployment rate decreased from 14.5 percent in 2003 to 12.5 percent in the first half of 2004. The Amman stock exchange index increased by 47 percent during the first 10 months of the year (Figure 2). Average CPI inflation for 2004 is projected to be 3.5 percent.

Figure 1. Jordan: Selected Coincident Indicators, 2000–04

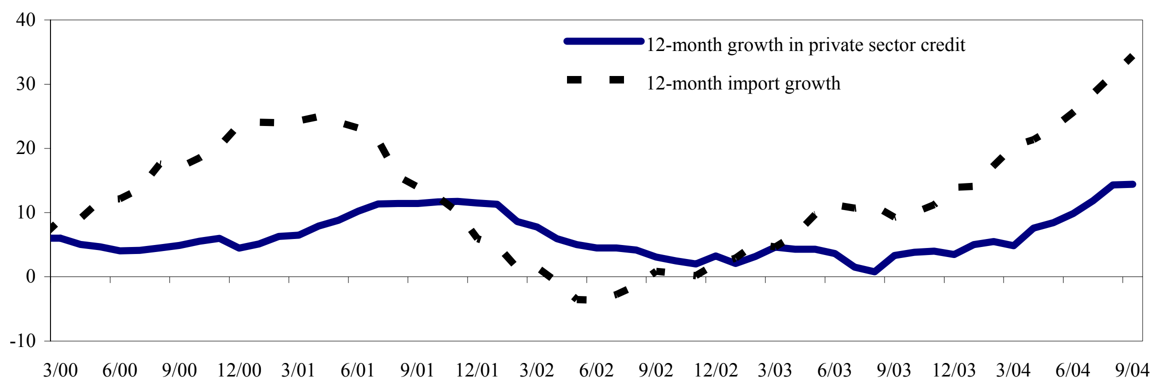
Real GDP growth in 2004 has been supported by a recovery of external demand, ...



... while industrial production has recovered after the war in Iraq, ...

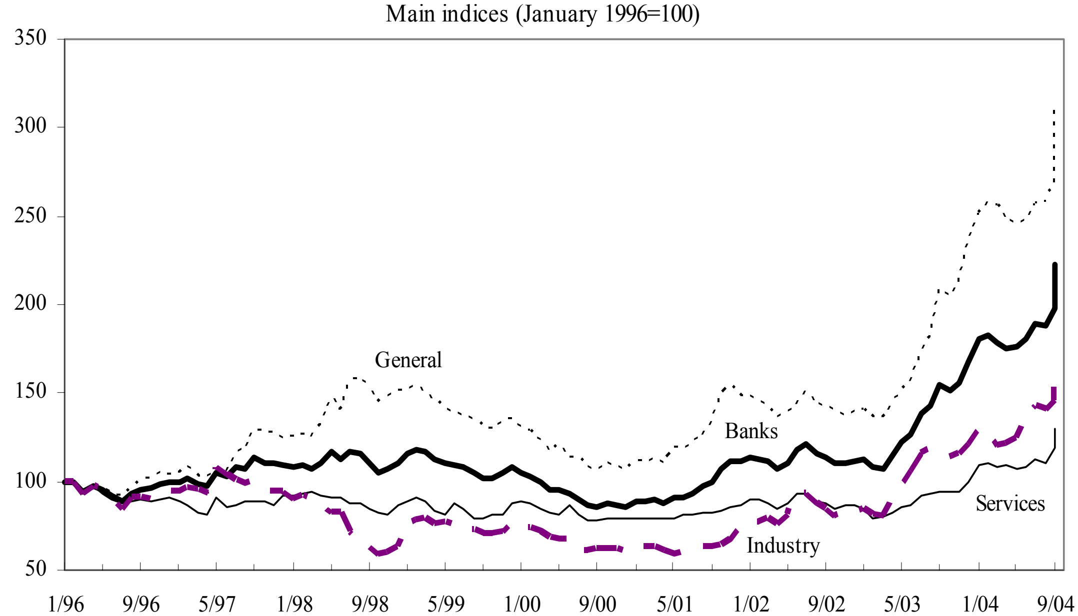


... and import growth and credit to the private sector have picked up.



Sources: Jordanian authorities; and Fund staff estimates.

Figure 2. Jordan: Amman Stock Exchange, 1996–2004 (October)
Main indices (January 1996=100)



Source: Amman Stock Exchange.

7. **The fiscal position strengthened during 2004.** The budget through September registered a surplus equivalent to about 1.6 percent of period GDP (Table 2). Should revenue trends continue through the fourth quarter, the overall deficit is likely to be around 3½ percent of GDP—an overperformance of about ½ percent of GDP compared to the original target. The debt to GDP ratio is expected to decline by almost 8 percentage points to 92 percent of GDP.

8. **Tax revenues grew by 35 percent in the first nine months of 2004 compared to the same period in 2003, propelled by buoyant general sales tax (GST) and income tax receipts (Table 3 and Figure 3).** GST collections increased by 41 percent during the same period on account of strong domestic demand, higher-than-expected import growth, and the increase in the GST rate from 13 to 16 percent in April 2004. Income tax receipts grew by 21 percent during the same period. Both GST and income tax collections benefited from improved tax administration following the merger of the income and the sales tax departments. For 2004 as a whole, tax revenue is projected at 17.2 percent of GDP as compared to 15.4 percent in 2003. Nontax revenues (excluding the oil surplus)[1] increased by 26 percent year-on-year as a result of strong public enterprise profits and fees.

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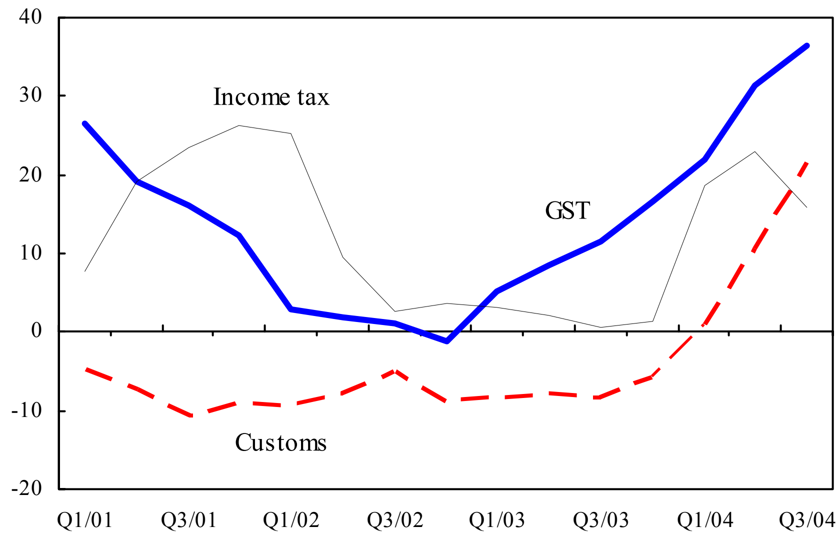
[1] The oil surplus refers to the transfers of the refinery to the budget. The reduction in the oil surplus was partially offset by the increase in the value of the in-kind oil grants from neighboring countries. Currently, the authorities net out oil grants from the oil surplus, thus, overestimating nontax revenues and underestimating oil grants and expenditures. The staff estimated an oil subsidy of about 1.8 percent of GDP through September, as compared to an oil surplus of about 1½ percent of GDP in 2002. Ideally, the oil subsidy should be recorded as a transfer under current expenditures and the market value of the oil grants under grants. The authorities have adopted this presentation in the 2005 budget proposal, and it is used in staff's projection.

Figure 3. Jordan: Tax Collections
(Four-quarter moving average of annual percentage change)



Source: Ministry of finance.

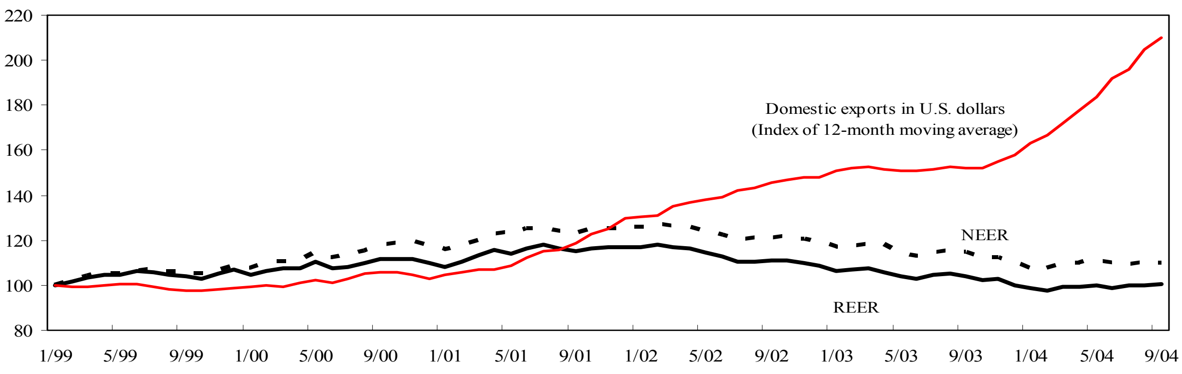
9. **The authorities restrained total expenditure, reducing it by 2.5 percent of period GDP over the first nine months of 2004 compared to the same period last year.** Current expenditures remained broadly unchanged in nominal terms compared to the same period in 2003, while capital expenditure increased by 40 percent on a year-on-year basis, with expenditures attributed to the Plan for Social and Economic Transformation (PSET) growing by 27 percent.

10. **Jordan's external position remained sound, despite a surge in imports.** After recording a surplus equivalent to 11 percent of GDP in 2003, the external current account (including grants) posted a small deficit in the first half of 2004, mainly reflecting delays in disbursements of grants. Domestic exports surged by 47 percent in the first nine months of 2004—the latest period for which data are available—relative to the same period of last year, fueled by both rapidly rising textile exports to the United States market, and a remarkably strong and broad-based rebound in exports to Iraq (Figure 4). The strong export performance was largely offset by a 39 percent increase in imports, on account of both the large import content of exports, a pickup in domestic demand, and surging international oil prices. FDI inflows are estimated to have reached $364 million in the first half of 2004 (3.3 percent of GDP), thanks to increased inflows into the IT sector and substantial acquisition of real estate assets in Jordan by foreigners, mainly Iraqis. The gross usable reserves of the CBJ increased to $4.8 billion at end-October 2004 (Figure 5)—equivalent to seven months of prospective 2005 imports or 44 percent of Jordanian dinar broad money.

Figure 4. Jordan: Merchandise Exports, Real and Nominal Effective Exchange Rates

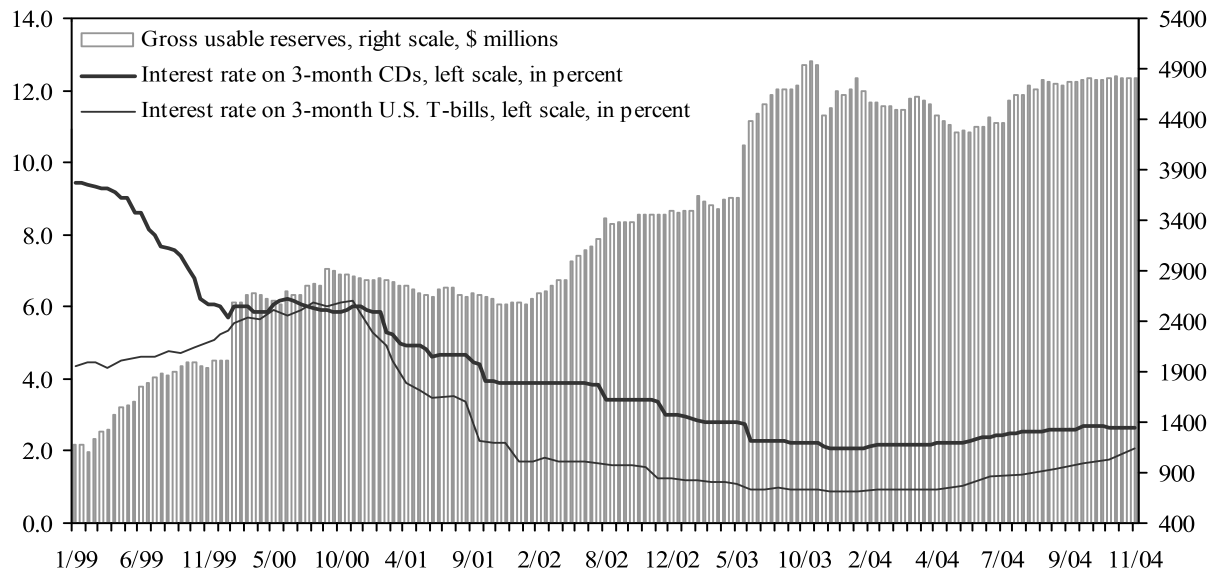
January 1999—September 2004, January 1999 = 100

Exports surged since the war in Iraq, boosted in part by improved competitiveness.



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

Figure 5. Jordan: International Reserves, Interest Rates, and CD Sales, 1999–2004



Source: Central Bank of Jordan.

11. **The external current account balance is expected to register a surplus of about 2 percent of GDP for the year as grant disbursements increase in the second half of the year (Table 4)**. The capital account is also projected to record a small surplus for 2004, owing to significant private inflows. The Jordanian dinar depreciated by 3.9 percent in real effective terms over the 12 months to September 2004, largely due to the weakness of the U.S. dollar. Total official external debt is estimated to be 67 percent of GDP at end-2004 (Table 5).

12. **Broad money is estimated to have increased by 8.4 percent through September (Table 6).** Net foreign assets increased by 4.1 percent of broad money reflecting the strong balance of payments, while NDA increased by 4.3 percent as credit to the private sector grew briskly on account of the buoyant economic activity.[2] During the last quarter of 2004, there is a large government domestic financing need (about 5 percent of GDP) on account of the delays in privatization and negative net external financing. Assuming that this will be covered by the banking system, broad money growth for end-2004 is expected at about 11 percent, 2 percent above nominal GDP growth. Domestic interest rates were adjusted in line with developments in the global capital market in support of the peg with the U.S. dollar. Steps were also taken during 2004 to strengthen the capital position of banks and to improve supervision. The CBJ expects the one remaining bank under temporary CBJ administration to be merged soon with a larger, stronger bank without the use of public funds. The other undercapitalized bank was recapitalized and is now profitable; it is expected to comply with the Jordanian statutory capital adequacy ratio of 12 percent in early 2005. The share of nonperforming loans declined substantially during 2004.

13. **Further progress has been made in structural reforms (Table 9)**. Three bidders have been selected for the privatization of the electricity generation companies. The sale is expected to be completed in the first half of 2005. The privatization of the management of the Aqaba container port in early 2004 has led to a marked increase in port handling capacity and reduced waiting time for ships. Jordan has also embarked upon an ambitious improvement in the health and education sectors, supported by a World Bank loan.

III. Near- and Medium-Term Outlook

14. **Macroeconomic conditions in 2005 are projected to remain manageable.** After the vigorous growth performance in 2004, real GDP growth is likely to remain solid at about 5 percent in 2005, as the impact of Iraq moderates. CPI inflation is likely to decline somewhat in spite of the planned petroleum price adjustments and higher import prices. Under unchanged policies, the fiscal deficit will increase, mainly on account of higher implicit fuel subsidies, and the external current account is projected to register a small deficit as export growth slows down while imports continue to increase, including on account of higher oil prices.

15. **The outlook for growth over the medium term is strong given a favorable investor climate, the emergence of Jordan as a hub for activities in Iraq, and continued penetration of foreign markets.** Growth would be supported by the recent structural reforms. Taking into account strong labor force growth, staff projections imply only modest improvements in total factor productivity. However, maintenance of fiscal restraint needed for achieving the debt target will entail fiscal tightening over the next three years. The external current account balance is projected to shift to small deficits over the coming years

[2] Broad money growth was largely explained by JD and foreign currency deposits, which increased by 5.2 percent and 3.4 percent of broad money, respectively.

owing mainly to higher imports, partly related to higher oil prices. Merchandise export growth is expected to be sustained at about 6–8 percent a year, spurred by further penetration of markets in Iraq and other neighboring countries, as well as by the FTA with the United States and the Association Agreement with the European Union.[3] The debt and external sustainability analyses (see Appendix IV) indicate that, given the currency composition of external debt, the greatest risks pertain to a large real depreciation of the Jordanian dinar.[4] In any event, capacity to repay the Fund is likely to remain strong, since debt service to the Fund is less than 2 percent of exports of goods and nonfactor services (Table 10).

IV. Discussions with the Authorities

16. **The authorities and staff agreed that achieving high economic growth and reducing the debt burden should remain primary policy objectives over the medium term.** The authorities intend to maintain the momentum of 2003–04 toward fiscal adjustment to steadily reduce the budget deficit and to shift financing to the domestic market. Moreover, judicious implementation of the privatization program under market-based prices, structural reforms, and rationalization of government expenditures will contribute to private sector-led growth. The authorities also agreed that the persistent high oil prices, notwithstanding oil-related grants, will, in the face of low domestic fuel prices, create additional challenges to achieving the authorities' objectives.[5]

17. **Discussions with the authorities focused primarily on:** (a) fiscal policies for 2005 and the medium term; (b) monetary developments, interest rate policy, and steps to

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[3] This outlook is, however, subject to some downside risks, particularly if Jordan's textile industry fails to move up the value-added chain following the elimination of quotas in 2005 under the WTO agreement on textiles. Such adverse developments could worsen the current account by up to 2 percentage points of GDP a year over the medium term and slow the reduction of external debt, even if part of the shock could be financed from a drawdown of Jordan's present comfortable level of international reserves. See IMF Country Report No. 04/121 (5/4/04) for an analysis of Jordan's export prospects.

[4] Such a depreciation could result from a further depreciation of the U.S. dollar vis-à-vis other major currencies, in which about half of public external debt is denominated.

[5] Jordan subsidizes all petroleum products except for gasoline via a system of administered prices. The Zarqa refinery, which has an exclusive concession, purchases crude oil at market prices from the government. The government imports crude oil and some refined products on behalf of the refinery, which sells petroleum products at administered prices to the public. In the past, when oil prices were lower, the refinery used to transfer surpluses to the government. Now, the government reimburses the refinery for the difference between revenues and costs plus statutory profits. In 2004, an oil subsidy of 2.7 percent of GDP is projected rather than a surplus.

strengthen banking system soundness; and (c) structural measures to address medium-term challenges and to ensure the achievement of the authorities' twin objectives.

A. Fiscal Policy

18. **Staff projections indicate that the achievement of the authorities' 2005 fiscal deficit target (JD 270 million, or 3.2 percent of GDP) needed to remain on the chosen debt/GDP path will require additional fiscal efforts estimated at 1.5 percent of GDP.**[6] The fiscal effort will call for both revenue and expenditure measures and an adjustment in petroleum product prices. One important risk to budget implementation is that some of the budgeted grants are not yet fully secured. It is also critical that the planned privatization is completed so that the debt-to-GDP ratio is reduced as needed to meet the target by 2006.

19. **The authorities broadly agreed with the staff assessment**. They intend to bridge the fiscal gap in 2005 by increasing domestic petroleum product prices via a one-time discretionary adjustment, aligning the GST rate for hotels, cigarettes, and alcohol with the standard rate (16 percent),[7] restraining expenditure growth in line with the planned public sector reforms, and reducing capital spending.[8] The authorities underscored that capital projects will be carried out strictly subject to the availability of financing including grants and in line with the budget spending priorities and the deficit target.

20. **The mission recognized that the planned measures will be adequate to meet the adjustment requirements for 2005, but felt that there was a need to lay the foundation for a more durable medium-term structural strengthening of the budget.** In this context,

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[6] The authorities' initial estimates of domestic revenues in the budget proposal appear conservative as they do not take into account the full effect of the increased revenue base from strong 2004 performance. Tax revenues are projected by staff to grow broadly in line with nominal GDP. GST collections are projected to grow with nominal GDP and non-oil imports plus the full-year effect of the increase in the rate effective April 2004. Similarly, income tax collections, based on nominal GDP growth in 2004, are projected to increase somewhat, whereas taxes on foreign trade, based on the growth of non-oil imports would fall on account of tariff reductions. The authorities' grant projections are higher than the staff's, which only include grants with a high degree of certainty.

[7] Jordan currently has four positive GST rates: (a) a low rate of 4 percent on basic food stuffs and petroleum products; (b) a 7 percent rate on hotel accommodations with a sunset provision due July 2005; (c) a 13 percent rate on alcohol and cigarettes; and (d) the basic rate of 16 percent on all other products and services.

[8] At 7.9 percent of GDP, the budgeted capital spending appears to be high, compared to the average of 5.5 percent of GDP in 2000–02. Jordan was one of the pilot case studies for the forthcoming Board paper on public investment and fiscal policy.

the staff recommended a broader package of measures including (annualized revenue gains in parentheses): (a) introducing an automatic quarterly price adjustment mechanism that would gradually close the gap between domestic and international petroleum product prices by 2008 (0.7 percent of GDP); (b) increasing the lower GST rate by 2 percentage points to 6 percent, with a view to aligning it with the standard rate over the medium term (0.1 percent of GDP); (c) eliminating all other nonstandard GST rates, and aligning them with the standard rate (0.1 percent of GDP); (d) extending the GST to transportation and electricity (0.1 percent of GDP) in order to broaden coverage and improve the structure of the GST; and (e) rationalizing and reducing capital spending (0.5 percent of GDP).

21. **The mission stressed that the introduction of an automatic petroleum product price adjustment formula would guarantee a stable and reliable revenue stream over the next four years.** Such a measure could raise revenues of about JD 58 million (0.7 percent of GDP) on an annualized basis in 2005, if quarterly adjustments started on January 1, 2005. This revenue gain is comparable to the additional revenue that would result from a discretionary average price increase of 10 percent for all petroleum products. The proposed measure would more effectively address the budget vulnerability to the volatility in the world oil prices which has already manifested itself in the emergence of an implicit fuel subsidy of about 2.7 percent of GDP in 2004. An automatic formula would also have important political and structural advantages over discretionary price adjustments, including reducing political pressures as to the size and timing of the price changes, by allowing the government to divest itself of the political burden of "setting" prices; helping in negotiating additional oil grants by sending a credible signal to the donors that Jordan is committed to eliminating fuel subsidies; assuring sustained adjustment beyond 2005 through the continued application of the automatic price adjustment formula; and preparing the public for the eventual liberalization of the fuel market.

22. **The authorities agreed with the mission in principle on the automatic price adjustment formula, but noted that discretionary price adjustments would provide them with more flexibility to respond to the variable political circumstances affecting Jordan.** Moreover, they stressed the importance of strengthening the social safety net to cushion the impact of fuel price increases on vulnerable groups as a precondition for the implementation of the automatic price adjustment. The Fiscal Affairs Department (FAD) is scheduled to provide the technical assistance on the needed social safety net measures in early 2005.

23. **The authorities recognize that improving the GST rate structure would ease the burden on tax administration and improve the allocative efficiency of the tax system.** While recognizing the need to align the lower GST rate with the standard rate over the medium term, the authorities felt that this could not be done under present circumstances due to social considerations, since the lower rate is applied mostly on food products and other basic necessities. Regarding expenditures management, they have already initiated steps to rein in current expenditures, especially wages and salaries through civil service reform and increased efficiency of health and education outlays.[9] The authorities also plan to rationalize capital outlays by focusing on priority projects.

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[9] The World Bank and the authorities are preparing a collaborative Public Expenditure Review (PER) that should provide useful guidance in this respect.

24. **The medium-term fiscal outlook and the associated PDL targets remain vulnerable to adverse shocks.** The most important risks to these targets stem from valuation effects in the event of a significant depreciation of the Jordanian dinar and oil price developments. The debt sustainability analysis (Appendix IV) indicates that a 30 percent depreciation in 2005 would raise the public and external debt ratios by about 30 percent of GDP above the baseline. These risks can also be mitigated through the government's fiscal funding strategy aimed at shifting its borrowing toward domestic currency-denominated debt. Another risk comes from further possible delays in privatizing electricity companies that would result in the need for a significantly higher domestic financing in 2005. Finally, a deterioration of the regional security environment could become an important source of debt vulnerability.

25. **Should the recent revenue buoyancy not continue, additional fiscal efforts would be needed to keep the planned debt reduction on track.** In order to harness Jordan's greater revenue potential, the staff urged the authorities to overhaul the income tax system in a more equitable and efficient manner. The authorities are conscious of their high dependence on oil-related external grants, which, under current high oil prices, has also heightened the budget's vulnerability. They believe that this dependence will be substantially diminished as the domestic revenue base is strengthened and the remaining petroleum subsidies are eliminated through annual upward price adjustments.

B. Monetary Policy, Banking Sector, and Exchange Rate Policy

26. **The authorities intend to pursue cautious monetary policy and adjust interest rates in line with global developments in order to ensure adequate foreign reserves and the maintenance of the exchange rate peg to the U.S. dollar.** Under the monetary program developed with the authorities, broad money growth in 2005 is projected to be close to nominal GDP growth. While net foreign assets are projected to grow by only about 2 percent of broad money stock, net domestic assets would increase in line with economic activity (Table 6), allowing for ample credit growth to the private sector of about 10 percent. With significant projected privatization proceeds of about JD 300 million (3½ percent of GDP), there would likely be no need for domestic bank financing of the budget. The ratio of foreign deposits to overall deposits is likely to decline towards historical averages as the demand for foreign currency deposits by Iraqi citizens stabilizes.

27. **The authorities consider the present interest rate level as appropriate.**[10] Given the current comfortable level of international reserves, they will continue their policy of adjusting interest rates in line with international interest rates. The mission agreed with the monetary policy stance and noted the importance of monitoring international interest rates and reserve developments closely to be able to react promptly to changing circumstances.

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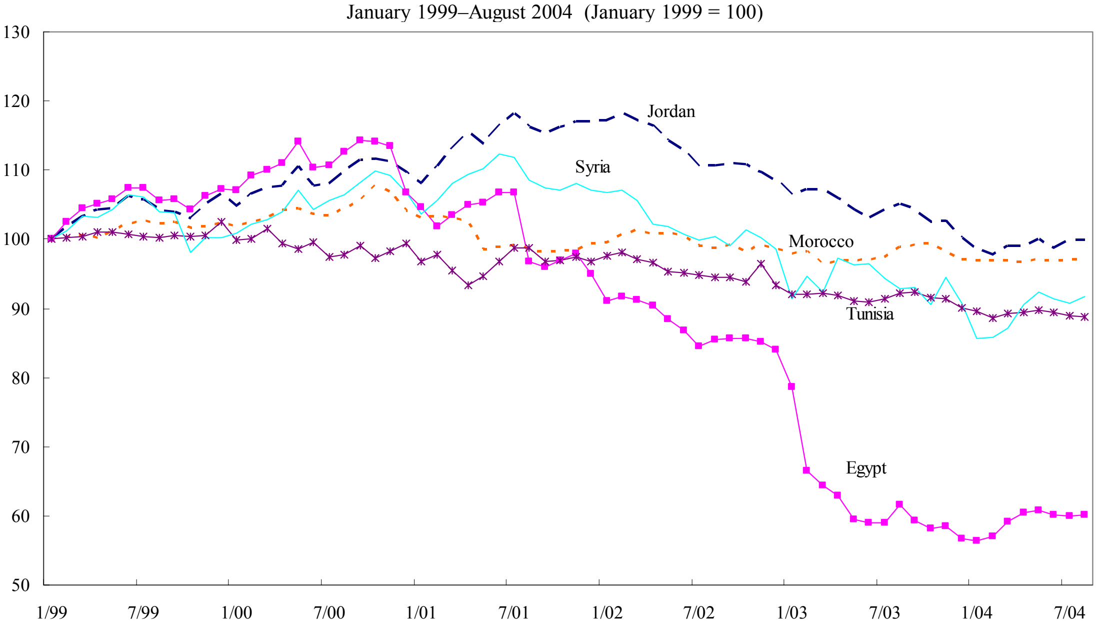
[10] As of end-September, interest rates on demand and savings deposits rates were 0.4 percent and 0.8 percent, respectively, while lending rates on loans and overdrafts were 8 percent. The rates on 3-month CBJ CDs declined temporarily in November due to technical reasons.

28. **Progress toward the development of a sounder banking sector continues.** The capitalization and profitability of the banking sector has improved substantially throughout 2004 and is expected to continue during 2005. As noted earlier, the one remaining bank under temporary CBJ administration will be merged soon with a stronger bank. The CBJ has issued guidelines on bank corporate governance in early 2004. In addition, it has intensified its on- and offsite examination program, which has contributed in part to an increased provisioning for nonperforming loans. Banks have almost fully provisioned for these loans, and the related financial risk is negligible. The CBJ intends to gradually raise the minimum capital requirement for banks to JD 100 million from the current JD 40 million by the year 2010, as part of its strategy to consolidate the banking industry. Preparations are also under way for implementing Basle II, with a readiness report expected during 2005.

29. **The authorities believe that the fixed exchange rate regime has served Jordan well.** External competitiveness appears adequate, as evidenced by the robust export performance in recent years. A comparison of real effective exchange rate developments with other countries in the region shows a gain in Jordan's external competitiveness since 2001 (Figure 6). In addition, the authorities argue that the high confidence in the dinar has contributed to a substantial strengthening of Jordan's international reserves position. They will, however, continue to monitor developments related to this issue in the period ahead. Nevertheless, the mission noted that the current pegged regime could make it difficult to quickly adjust to potential vulnerabilities arising from the elimination of textile quotas, the loss of oil grants, or other significant adverse real shocks. It stressed that an eventual move to a more flexible exchange rate regime, particularly from a position of strength, could potentially help Jordan adjust to such shocks. Efforts to strengthen the institutional capacity with respect to monetary policy instruments and foreign exchange markets would be necessary to implement increased flexibility.

Figure 6: Jordan: Real Effective Exchange Rate Indices of Selected Regional Countries

January 1999–August 2004 (January 1999 = 100)



Source: IMF information notice system.

C. Structural Policies

30. **The authorities intend to privatize electricity generation during 2005.** This step will be followed by the privatization of the electricity distribution companies. In addition, transactions related to two noncore businesses of Royal Jordanian, Jordan Post, and the Civil Aviation Authority are expected to be completed. The authorities intend to follow a sequential approach in the period ahead, under which the establishment of appropriate regulatory agencies to protect against the creation of private monopolies and adherence to market prices by privatized entities will precede privatization.

31. **The mission supported the authorities' plans to fully integrate the PSET into the budget, effective 2005, with the aim of improving efficiency and reducing spending.** The individual projects will be allocated to the responsible spending agencies within their overall expenditure ceilings. The ministry of finance will integrate all budget preparation and execution functions under its authority to improve budget management. The authorities intend to deepen cooperation between the ministry of finance and the CBJ to improve the design and implementation of macroeconomic policies. In addition, such collaboration could also facilitate coordination in the issuance of government bonds, which should replace the CBJ's CDs over the medium term as the primary instrument of monetary policy.

D. Statistical Issues and Technical Assistance

32. **The authorities are committed to meeting the Fund's Special Data Dissemination Standard within the next two to three years**. They are implementing the recommendations of the *Update to the Report on the Observation of Standards and Codes—Data Module*[11] in order to achieve this goal. Following the publication of revised balance of payments statistics according to the *Fifth Edition of the Balance of Payments Manual* (BPM5) and the international reserve template in May 2004 with the benefit of a Fund technical advisor, a strategy has been adopted to compile the international investment position, with a view to commencing its regular publication by early 2005. Further improvements in the balance of payments statistics relating to regular surveys in the transportation and investment areas would also be desirable. Lastly, the ministry of finance will shortly start publishing general government statistics on a quarterly basis, in line with the recommendations by the recent Fund Statistics Department mission.

33. **The authorities expressed interest in technical assistance in reserve management and developing the domestic bond market.** Given the large reserve position of the CBJ and the government's large foreign currency liabilities, it is becoming more important to manage reserves and hedge liabilities in order to achieve the highest risk-return profile. Moreover, the authorities reiterated their interest in receiving assistance for developing a domestic government bond market as part of their strategy to shift government financing towards domestic debt instruments and to develop a yield curve for the domestic capital market.

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[11] Available at http://www.imf.org/external/pubs/cat/longres.cfm?sk=17183.0

34. **The continuation of the ongoing technical assistance in tax administration and expenditure management will be crucial.** In addition to the planned mission to advise on modifying the existing social safety net, a follow-up FAD mission is planned for early 2005 to assess progress made in unifying the income and GST departments and to look at other issues related to further integration of tax administration. Furthermore, two assignments for tax administration experts are scheduled for early 2005: one to follow-up on large and medium taxpayer reforms; and the second to provide advice in modernizing domestic excise administration. Improving macrofiscal coordination, budget classification, and cash management, as well as introducing a Government Financial Management Information System in the medium term, remain priorities.

35. **The authorities are continuing their policy of increased transparency.** In this context, they have agreed, in principle, to the publication of this staff report.

V. Staff Appraisal

36. **The Jordanian economy continued its good performance in 2004.** Spurred by rising domestic demand, global economic recovery, restoration of trade links with Iraq, and the continued implementation of prudent macroeconomic policies, real GDP in 2004 is expected to grow by about 6 percent as compared with 3 percent in 2003 under low inflation. The external position is expected to remain strong with usable gross official reserves comfortable at the equivalent of over 6 months of prospective imports. Reflecting buoyant tax revenues and tight expenditure management, the fiscal position has strengthened. The overall budget in 2004 is estimated to post an overperformance compared with the budget target. The total public debt/GDP ratio is projected to drop to 92 percent of GDP by end-2004 in line with the target under the PDL. These developments have strengthened financial stability and improved investor confidence, resulting in increased inflows of FDI.

37. **Over the medium term, the authorities are appropriately focusing on the twin objectives of reducing the public debt burden and maintaining high economic growth.** However, the achievement of these objectives may be constrained by a number of important external and domestic factors. Given the currency composition of public debt, its planned reduction is vulnerable to the potential adverse impact of valuation effects in the event of further effective depreciation of the Jordanian dinar. In the fiscal area, continued reliance on foreign grants remains an important vulnerability. Moreover, failure to adjust domestic fuel prices, coupled with higher-than-expected world oil prices, would result in a significant widening of the fiscal deficit and could delay meeting the debt reduction target by 2006. Setbacks in privatization pose another important risk for the debt strategy.

38. **The authorities are fully aware of these risks and are taking decisive steps to address them.** The official strategy aims at a sustained reduction in the fiscal deficit supported by structural reforms to stimulate private sector investment, including FDI, and a judicious implementation of the privatization program under market-based prices. In

particular, it aims to strengthen fiscal adjustment through both revenue and expenditure measures, by realigning domestic petroleum product prices with international levels, and by shifting government borrowing toward domestic currency-denominated debt.

39. **The staff broadly supports the thrust of the official strategy for the 2005 budget, which calls for restricting the overall deficit to JD 270 million (3.2 percent of GDP) in line with the debt target under the PDL.** However, it is crucial that the authorities take advantage of progress made in 2004 to sustain the reform momentum. In particular, the staff encourages the authorities to take steps to introduce the automatic petroleum product price adjustment mechanism to close the gap between domestic and international petroleum product prices by 2008. The planned Fund technical assistance will help strengthen the existing social safety net in order to cushion the impact of the price increases on the vulnerable groups. Realigning the nonstandard GST rates with the basic rate and broadening the GST coverage will also be critical. There is also scope for reducing and rationalizing capital spending. In this regard, the integration of the PSET with the regular budget is a critical step toward minimizing duplication and improving expenditure management. Continued Fund technical assistance in tax administration and expenditure management will be useful in facilitating ongoing reforms. It is also critical that electricity generation is privatized in 2005 as planned, and proceeds are used to retire debt. The staff supports the authorities' plans to proceed carefully with privatization and link it to the establishment of appropriate regulatory agencies to protect against the creation of private monopolies and to ensure adherence to market prices by privatized entities. In the period ahead, restructuring the income tax would make it more equitable and would improve resource allocation, in addition to generating higher revenue.

40. **Jordan's exchange rate policy of pegging to the depreciating U.S. dollar, combined with prudent financial policies, has ensured competitiveness.** The planned pursuit of a tighter monetary policy in 2005 and adjustment in domestic interest rates in line with international rates should facilitate maintenance of competitiveness. The staff encourages the authorities to continue monitoring developments in external reserves, interest rate developments in the international capital market, and export competitiveness to ensure the effectiveness of their exchange rate policy. The authorities should be prepared to respond expeditiously to any significant negative impact of the elimination of textile quotas under the multi-fiber arrangement.

41. **The staff commends the authorities for steps being taken to support development of a strong banking sector.** An early merger of the one remaining bank under CBJ administration with another larger bank would send an important signal to the financial market. The planned gradual increase in the minimum capital requirements for banks over the medium term is consistent with the official strategy for a sounder and more consolidated banking sector. The staff supports the authorities' intention to develop the domestic government bond market as part of their strategy to shift budgetary financing toward domestic debt instruments, which would also help in developing a yield curve for the domestic capital market. Fund technical assistance for developing such a market will be beneficial.

42. **Jordan has made steady progress on the development and dissemination of economic data.** In the continuation of their transparency policy, the authorities have agreed, in principle, to the publication of this staff report.

43. **It is recommended that the next review under PPM be conducted along with the next Article IV Consultation in mid-2005.**

Table 1. Jordan: Summary of the Macroeconomic Framework, 2001–09
(Quota: SDR 170.5 million)

	2001	2002	Prel. 2003	CR 04/287 2004	Revised projections 2004	2005	2006	2007	2008	2009
Output and prices				(Annual percentage changes)						
Real GDP at market prices	4.9	4.8	3.3	5.5	6.0	5.0	5.5	6.0	6.0	6.0
GDP deflator at market prices	0.0	0.8	2.0	3.0	3.5	3.0	1.8	1.8	1.8	1.8
Nominal GDP at market prices	5.8	5.7	5.3	8.7	9.7	8.2	7.4	7.9	8.0	7.9
Nominal GDP at market prices (JD millions)	6,338	6,699	7,056	7,596	7,741	8,372	8,991	9,703	10,474	11,303
Consumer price index (annual average)	1.8	1.8	2.3	3.5	3.5	3.0	1.8	1.8	1.8	1.8
Consumer price index (end of period)	3.8	0.5	3.6	2.5	3.5	2.5	1.8	1.8	1.8	1.8
Unemployment rate (percent)	14.7	15.3	14.5	...	...	...	...	...	...	...
Investment and savings				(In percent of annual GDP)						
Gross domestic investment	22.1	22.7	21.6	23.0	23.2	24.3	25.6	26.2	26.5	26.9
Government	5.7	6.9	9.0	7.4	7.8	7.9	6.8	5.9	6.1	6.1
Other	16.4	15.8	12.6	15.6	15.3	16.4	18.8	20.2	20.5	20.9
Gross national savings	22.1	26.5	32.8	28.6	25.1	23.9	23.5	22.5	23.3	24.7
Government	2.1	2.0	7.9	3.6	4.4	4.7	4.0	3.4	3.6	3.6
Other	20.0	24.5	24.9	25.0	20.7	19.2	19.5	19.0	19.8	21.2
Savings-investment balance	-0.1	3.8	11.3	5.5	2.0	-0.4	-2.2	-3.7	-3.2	-2.2
Government	-3.6	-4.9	-1.1	-3.9	-3.4	-3.2	-2.8	-2.5	-2.5	-2.5
Other	3.6	8.7	12.3	9.4	5.4	2.9	0.6	-1.2	-0.7	0.3
Fiscal operations										
Revenue and grants	30.4	30.0	35.6	32.0	35.2	35.1	28.6	25.9	25.8	25.5
Of which: Grants	4.3	5.1	12.0	10.1	10.0	9.9	3.9	1.2	1.1	0.8
Expenditure and net lending (including off-budget)	34.0	34.9	36.6	35.9	38.6	38.3	31.4	28.4	28.3	28.0
Overall fiscal balance	-3.6	-4.9	-1.1	-3.9	-3.4	-3.2	-2.8	-2.5	-2.5	-2.5
Government and government guaranteed debt 1/	96.2	99.0	99.6	92.0	92.0	83.9	78.8	75.0	69.8	63.9
*Of which: E*xternal 1/	78.4	79.9	76.4	66.0	67.4	61.1	55.4	50.4	45.8	40.3
External sector										
Current account balance (after grants), *of which:*	-0.1	3.8	11.3	5.5	2.0	-0.4	-2.2	-3.7	-3.2	-2.2
Exports, f.o.b. ($ billions)	2.3	2.8	3.1	3.2	3.9	4.2	4.5	4.8	5.2	5.6
Imports, f.o.b. ($ billions), *of which:*	4.3	4.5	5.1	5.4	6.8	7.4	7.4	7.9	8.4	8.9
Imports of oil and oil products ($ millions)	699	762	933	...	1,712	1,856	1,723	1,694	1,744	1,789
				(Annual percentage changes)						
Merchandise exports ($)	20.8	20.7	11.2	14.8	27.8	5.8	7.0	7.9	7.8	8.2
Merchandise imports ($)	5.6	4.6	12.8	18.2	33.5	9.8	0.1	5.5	6.5	6.5
Monetary sector										
Net foreign assets	3.5	10.7	24.5	-1.9	8.1	3.3	2.7	2.5	3.7	3.0
Net domestic assets	8.3	3.3	-0.9	9.7	15.8	10.6	13.0	13.8	12.2	12.4
Broad money	5.8	7.0	12.4	9.3	11.3	6.5	7.4	7.9	8.0	7.9
Credit to private sector	11.5	3.2	3.5	8.4	11.9	10.1	9.7	9.9	11.2	11.3
Stock market index	29.8	-0.5	50.8	...	...	...	...	...	...	...
Memorandum items:										
Population (in thousands)	5,182	5,329	5,480	...	5,635	5,795	5,959	6,128	6,302	6,480
Nominal per capita GDP ($)	1,725	1,773	1,816	1,903	1,937	2,038	2,128	2,233	2,344	2,460
Gross usable international reserves ($ millions) 2/	2,565	3,474	4,745	4,500	4,637	4,600	4,512	4,389	4,377	4,350
In months of prospective imports of GNFS 4/	5.4	6.8	7.1	7.4	6.4	6.2	5.8	5.3	4.9	4.8
As percent of JD broad money	30.1	38.1	46.4	40.2	41.7	38.7	35.2	31.6	29.1	26.7
Net international reserves ($ millions) 2/	2,111	3,032	4,437	4,280	4,465	4,548	4,544	4,497	4,540	4,513
U.S. dollar per Jordanian dinar (period average)	1.41	1.41	1.41	…	…	…	…	…	…	…
Real effective exchange rate (eop, 1995=100)	132.8	122.9	114.5	…	…	…	…	…	…	…
Percent change (+: appreciation)	6.2	-7.4	-6.9	…	…	…	…	…	…	…

Sources: Jordanian authorities; and Fund staff estimates and projections.
1/ Domestic debt is net of government deposits with the banking system; external debt includes collateralized Brady bonds.
2/ Net of short-term foreign liabilities and excluding commercial bank foreign currency deposits with the Central Bank of Jordan.
3/ Excludes pledged assets under the 1993 commercial debt rescheduling agreement and the yearly change in foreign currency swaps.
4/ Imports of goods and nonfactor services, excluding imports for re-export, in subsequent 12 months.

Table 2. Jordan: Summary of Fiscal Operations, 2001–09

	2001	2002	Act. Jan–Sep 2003	Act. 2003	Prel. Jan–Sep 2004	CR 04/287 2004	Proj. 2004	Prel. Budget 2005	Revised projections 2005	2006	2007	2008	2009
	(In millions of Jordanian dinars)												
Total revenue and grants	1,926	2,010	1,868	2,511	2,062	2,431	2,722	3,050	2,936	2,571	2,511	2,700	2,880
Budgetary revenue	1,653	1,667	1,189	1,665	1,541	1,661	1,945	1,990	2,109	2,221	2,394	2,582	2,785
Tax revenue	1,020	1,000	791	1,083	1,069	1,224	1,332	1,368	1,460	1,538	1,657	1,788	1,930
Nontax revenue	633	667	397	582	472	437	613	622	650	683	737	794	856
Of which: Oil surplus 1/	98	110	23	23	0	0	0	0	0	0	0	0	0
Grants 1/	273	343	679	846	521	770	776	1,060	827	349	117	117	95
Total budgetary expenditure	2,116	2,310	1,871	2,678	1,970	2,648	2,911	3,320	3,330	3,237	3,401	3,604	3,844
Current expenditure	1,791	1,852	1,499	2,057	1,508	2,076	2,338	2,545	2,555	2,588	2,700	2,847	3,028
Of which: Fuel subsidy 1/	0	0	312	0	0	116	209	310	320	205	148	128	134
Capital expenditure	326	433	363	601	507	558	566	660	660	629	679	733	791
Net lending	0	25	10	20	-10	14	7	115	115	20	22	23	25
Non-budget accounts, net 2/	41	31	39	-92	-35	75	75	0	0	0	0	0	0
Additional measures to be identified 3/	0	0	0	0	0	0	0	0	123	292	232	-5	39
Overall balance, including grants	-231	-331	-44	-74	92	-293	-264	-270	-270	-252	-243	-262	-283
Financing	231	331	44	74	-92	293	264	270	270	252	243	262	283
Foreign financing (net)	95	78	-57	-323	-98	-281	-86	...	-36	-45	-35	127	127
Privatization receipts (net)	-6	79	-5	88	45	300	45	...	300	100	0	0	0
Domestic financing (net)	143	175	106	309	-40	273	305	...	6	197	277	135	155
	(In percent of period GDP)												
Total revenue and grants	30.4	30.0	35.8	35.6	35.1	32.0	35.2	36.4	35.1	28.6	25.9	25.8	25.5
Budgetary revenue	26.1	24.9	22.8	23.6	26.3	21.9	25.1	23.8	25.2	24.7	24.7	24.7	24.6
Tax revenue	16.1	14.9	15.2	15.4	18.2	16.1	17.2	16.3	17.4	17.1	17.1	17.1	17.1
Nontax revenue	10.0	10.0	7.6	8.3	8.0	5.8	7.9	7.4	7.8	7.6	7.6	7.6	7.6
Of which: Oil surplus 1/	1.5	1.6	0.4	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants 1/	4.3	5.1	13.0	12.0	8.9	10.1	10.0	12.7	9.9	3.9	1.2	1.1	0.8
Total budgetary expenditure	33.4	34.5	35.9	37.9	33.6	34.9	37.6	39.7	39.8	36.0	35.1	34.4	34.0
Current expenditure	28.3	27.7	28.7	29.2	25.7	27.3	30.2	30.4	30.5	28.8	27.8	27.2	26.8
Of which: Fuel subsidy 1/	0.0	0.0	6.0	0.0	0.0	1.5	2.7	3.7	3.8	2.3	1.5	1.2	1.2
Capital expenditure	5.1	6.5	7.0	8.5	8.6	7.3	7.3	7.9	7.9	7.0	7.0	7.0	7.0
Net lending	0.0	0.4	0.2	0.3	-0.2	0.2	0.1	1.4	1.4	0.2	0.2	0.2	0.2
Nonbudget accounts, net 2/	0.6	0.5	0.7	-1.3	-0.6	1.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Additional measures to be identified 3/	…	…	0.0	0.0	0.0	0.0	0.0	0.0	1.5	3.2	2.4	0.0	0.3
Overall balance, including grants	-3.6	-4.9	-0.9	-1.1	1.6	-3.9	-3.4	-3.2	-3.2	-2.8	-2.5	-2.5	-2.5
Financing	3.6	4.9	0.9	1.1	-1.6	3.9	3.4	3.2	3.2	2.8	2.5	2.5	2.5
Foreign financing (net)	1.5	1.2	-1.1	-4.6	-1.7	-3.7	-1.1	...	-0.4	-0.5	-0.4	1.2	1.1
Privatization receipts (net)	-0.1	1.2	-0.1	1.3	0.8	3.9	0.6	...	3.6	1.1	0.0	0.0	0.0
Domestic financing (net)	2.3	2.6	2.0	4.4	-0.7	3.6	3.9	...	0.1	2.2	2.9	1.3	1.4
Memorandum items:													
Overall balance excluding grants	-8.0	-10.1	0.0	-13.0	0.0	-14.0	-13.4	-15.9	-13.1	-6.7	-3.7	-3.6	-3.3
Primary balance including grants	0.8	-1.2	0.7	2.8	0.6	-0.5	-0.2	-0.2	-0.2	0.7	0.9	0.7	0.5
Debt creating balance 4/	-3.8	-3.8	0.4	-0.2	0.4	-0.3	-3.2	-3.2	0.0	-1.8	-2.6	-2.6	-2.6
PSET spending	0.0	0.9	0.3	2.5	0.3	2.1	2.2	1.9	1.9	0.0	0.0	0.0	0.0
Off-budget on-lending	0.8	0.7	...	0.7	...	0.4	0.4	0.0	0.3	0.2	0.1	0.1	0.1
Government and guaranteed net debt 5/	96.2	99.0	...	99.6	...	92.0	92.0	83.9	83.9	78.8	75.0	69.8	63.9
GDP at market prices (JD millions)	6,338	6,699	5,213	7,056	5,870	7,596	7,741	8,372	8,372	8,991	9,703	10,474	11,303

Sources: Jordanian authorities; and Fund staff estimates.

1/ The oil surplus is defined as the surplus transfered from the Zarqa refinery. In 2004, the refinery incurred a loss and the government needed to subsidise the refinery. The authorities record oil grants net of the fuel subsidy, whereas staff projections show the fuel subsidy as expenditure and the full amount of oil grants at market prices. The 2005 budget proposal also shows the fuel subsidy under current expenditure and the full amount of oil grants at market prices.

2/ Includes discrepancy and spending out of privatization proceeds. In 2003, includes spending on building up the strategic oil reserve.

3/ Additional measures needed to reach the fiscal deficit target. In the year t, it is assumed that the additional measures in the year t-1 were implemented. Please refer to Table 3 for the cumulative amount of measures each year.

4/ Deficit net of privatization proceeds and debt swaps. Includes off-budget on-lending.

5/ Domestic debt is net of government deposits with the banking system.

Table 3. Jordan: Summary of Revenues and Expenditures, 2001–09

	2001	2002	Act. Jan–Sep 2003	Act. 2003	Prel. Jan–Sep 2004	CR 04/287 2004	Proj. 2004	Prel. Budget 2005	Revised projections 2005	2006	2007	2008	2009
	(In millions of Jordanian dinars)												
Total revenue and grants	1,926	2,010	1,868	2,511	2,062	2,431	2,722	3,050	2,936	2,571	2,511	2,700	2,880
Budgetary revenue	1,653	1,667	1,189	1,665	1,541	1,661	1,945	1,990	2,109	2,221	2,394	2,582	2,785
Tax revenue, *of which:*	1,020	1,000	791	1,083	1,069	1,224	1,332	1,368	1,460	1,538	1,657	1,788	1,930
Taxes on income and profits	195	196	148	195	179	220	220	220	241	260	280	302	326
General sales tax	515	511	430	596	608	720	800	840	894	945	1,019	1,100	1,187
Taxes on foreign trade	240	220	153	209	197	200	220	208	225	225	243	262	283
Nontax revenue, *of which:*	633	667	397	582	472	437	613	622	650	683	737	794	856
Fees	215	225	177	249	241	250	273	310	296	317	343	370	399
Oil surplus	98	110	23	23	0	0	0	0	0	0	0	0	0
Grants	273	343	679	846	521	770	776	1,060	827	349	117	117	95
Of which: PSET grants	0	73	133	161	144	159	285	56	56	0	0	0	0
Total expenditures	2,157	2,341	1,909	2,585	1,970	2,723	2,986	3,320	3,206	2,822	2,754	2,961	3,163
Current expenditure	1,791	1,852	1,499	2,057	1,508	2,076	2,338	2,545	2,555	2,588	2,700	2,847	3,028
Wages and salaries	380	407	312	419	329	498	470	487	487	506	546	589	636
Interest payments	279	252	170	270	146	253	252	254	254	312	332	338	341
Domestic	56	59	43	61	39	51	51	69	69	95	104	110	113
External	223	192	127	209	106	202	201	185	185	217	228	228	228
Military expenditure	537	551	474	629	474	623	653	691	691	719	776	838	904
Fuel subsidy	0	0	115	0	0	116	209	310	320	205	148	128	134
Transfers	453	505	426	582	428	557	577	614	614	646	683	722	762
Of which: Pensions	293	320	257	346	280	370	370	414	414	432	453	474	495
Purchases of goods and services	82	81	71	94	80	85	104	123	123	127	137	148	160
Capital expenditure	326	433	363	601	507	558	566	660	660	629	679	733	791
Of which: PSET spending	0	58	104	179	132	159	167	161	161	0	0	0	0
Net lending and nonbudget spending	41	56	48	-72	-45	89	82	115	115	20	22	23	25
Measures to be identified (cumulative)	0	0	0	0	0	0	0	0	-123	-415	-647	-642	-681
	(In percent of period GDP)												
Total revenue and grants	30.4	30.0	35.8	35.6	35.1	32.0	35.2	36.4	35.1	28.6	25.9	25.8	25.5
Budgetary revenue	26.1	24.9	22.8	23.6	26.3	21.9	25.1	23.8	25.2	24.7	24.7	24.7	24.6
Tax revenue, *of which:*	16.1	14.9	15.2	15.4	18.2	16.1	17.2	16.3	17.4	17.1	17.1	17.1	17.1
Taxes on income and profits	3.1	2.9	2.8	2.8	3.1	2.9	2.8	2.6	2.9	2.9	2.9	2.9	2.9
General sales tax	8.1	7.6	8.3	8.5	10.4	9.5	10.3	10.0	10.7	10.5	10.5	10.5	10.5
Taxes on foreign trade	3.8	3.3	2.9	3.0	3.4	2.6	2.8	2.5	2.7	2.5	2.5	2.5	2.5
Nontax revenue, *of which:*	10.0	10.0	7.6	8.3	8.0	5.8	7.9	7.4	7.8	7.6	7.6	7.6	7.6
Fees	3.4	3.4	3.4	3.5	4.1	3.3	3.5	3.7	3.5	3.5	3.5	3.5	3.5
Oil surplus	1.5	1.6	0.2	0.3	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	4.3	5.1	13.0	12.0	8.9	10.1	10.0	12.7	9.9	3.9	1.2	1.1	0.8
Of which: PSET grants	0.0	1.1	2.6	2.3	2.5	2.1	3.7	0.7	0.7	0.0	0.0	0.0	0.0
Total expenditure	34.0	34.9	36.6	36.6	33.6	35.8	38.6	39.7	38.3	31.4	28.4	28.3	28.0
Current expenditure	28.3	27.7	28.7	29.2	25.7	27.3	30.2	30.4	30.5	28.8	27.8	27.2	26.8
Wages and salaries	6.0	6.1	6.0	5.9	5.6	6.6	6.1	5.8	5.8	5.6	5.6	5.6	5.6
Interest payments	4.4	3.8	3.3	3.8	2.5	3.3	3.3	3.0	3.0	3.5	3.4	3.2	3.0
Domestic	0.9	0.9	0.8	0.9	0.7	0.7	0.7	0.8	0.8	1.1	1.1	1.0	1.0
External	3.5	2.9	2.4	3.0	1.8	2.7	2.6	2.2	2.2	2.4	2.4	2.2	2.0
Military expenditure	8.5	8.2	9.1	8.9	8.1	8.2	8.4	8.3	8.3	8.0	8.0	8.0	8.0
Fuel subsidy	0.0	0.0	2.2	0.0	0.0	1.5	2.7	3.7	3.8	2.3	1.5	1.2	1.2
Transfers	7.1	7.5	8.2	8.2	7.3	7.3	7.4	7.3	7.3	7.2	7.0	6.9	6.7
Of which: Pensions	4.6	4.8	4.9	4.9	4.8	4.9	4.8	4.9	4.9	4.8	4.7	4.5	4.4
Purchases of goods and services	1.3	1.2	1.4	1.3	1.4	1.1	1.3	1.5	1.5	1.4	1.4	1.4	1.4
Capital expenditure	5.1	6.5	7.0	8.5	8.6	7.3	7.3	7.9	7.9	7.0	7.0	7.0	7.0
Of which: PSET spending	0.0	0.9	2.0	2.5	2.2	2.1	2.2	1.9	1.9	0.0	0.0	0.0	0.0
Net lending and nonbudget spending	0.6	0.8	0.9	-1.0	-0.8	1.2	1.1	1.4	1.4	0.2	0.2	0.2	0.2
Measures to be identified (cumulative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-1.5	-4.6	-6.7	-6.1	-6.0

Sources: Jordanian authorities; and Fund staff estimates.

Table 4. Jordan: Summary Balance of Payments, 2001–09
(In millions of U.S. dollars)

				CR/04/287	Revised projections					
	2001	2002	2003	2004	2004	2005	2006	2007	2008	2009
Current account	-4	362	963	595	214	-43	-275	-510	-468	-352
Trade balance	-2,007	-1,731	-1,996	-2,367	-2,840	-3,277	-2,992	-3,048	-3,184	-3,301
Exports f.o.b.	2,294	2,770	3,082	3,538	3,939	4,166	4,457	4,808	5,185	5,611
Imports f.o.b.	4,301	4,501	5,078	5,905	6,778	7,444	7,449	7,856	8,369	8,912
Services (net)	-243	-284	-270	-202	-323	-333	-328	-302	-266	-216
Of which: Travel (net)	280	368	437	525	453	507	571	664	770	890
Income (net)	187	112	122	192	190	284	370	383	389	425
Of which: Investment income (net)	9	-79	-75	-14	-14	65	135	134	123	143
Current transfers (net)	2,059	2,264	3,107	2,971	3,187	3,283	2,675	2,457	2,594	2,739
Public (net)	461	510	1,275	1,128	1,269	1,377	702	369	369	371
Private (net)	1,598	1,754	1,832	1,844	1,918	1,905	1,973	2,088	2,224	2,368
Of which: Remittances	1,640	1,750	1,812	1,920	1,899	1,993	2,135	2,263	2,412	2,571
Capital account	-26	-32	199	-696	153	68	271	560	805	636
Public sector (net)	-88	-153	-721	-665	-393	-290	-315	-235	-81	-295
Disbursements	342	334	178	235	180	235	200	257	386	261
Amortization 1/	457	481	1,222	900	573	525	515	491	467	556
Private sector (net)	62	121	921	-31	545	358	586	795	886	931
Direct foreign investment 2/	91	31	376	199	439	410	415	503	565	602
Portfolio and other capital flows	-111	34	9	-229	106	-52	171	292	321	329
Errors and omissions	82	57	536	0	0	0	0	0	0	0
Overall balance	-30	330	1,162	-101	367	25	-4	50	338	283
Financing	30	-330	-1,162	106	-367	-23	6	-47	-335	-281
Increase in NFA (-) 3/	-184	-617	-1,424	-58	-533	-200	-150	-150	-280	-255
Central bank 2/	290	-889	-1,241	237	-2	-7	88	124	12	53
Commercial banks	-474	272	-183	-294	-530	-193	-238	-273	-292	-308
Fund credit (net)	-13	15	-97	-99	-97	-76	-84	-77	-55	-26
Arab Monetary Fund (net)	1	-14	-9	-11	-11	-9	0	0	0	0
Relief from debt operations 4/	22	69	94	45	45	41	37	0	0	0
Debt rescheduling	204	218	274	228	228	221	204	180	0	0
Memorandum items:										
Gross international reserves	2,565	3,474	4,745	4,500	4,637	4,600	4,512	4,389	4,377	4,350
Months of prospective imports GNFS 5/	5.4	6.8	7.1	7.4	6.4	6.2	5.8	5.3	5.0	4.7
Months of current merchandise imports	7.9	10.6	13.1	10.5	9.2	8.2	8.1	7.5	7.0	6.5
Annual merchandise export growth, percent	20.8	20.7	11.2	14.8	27.8	5.8	7.0	7.9	7.8	8.2
Domestic exports	25.1	15.1	7.6	16.8	-5.6	6.0	7.2	8.3	8.2	8.7
Export of GNFS growth, percent	6.8	13.4	6.8	12.8	20.4	6.6	7.3	8.5	8.5	8.9
Import growth, percent	5.6	4.6	12.8	18.2	33.5	9.8	0.1	5.5	6.5	6.5
Excluding oil	7.1	3.0	10.9	15.4	22.8	6.8	7.3	7.3	7.4	7.4
Import of GNFS growth, percent	4.0	4.5	8.6	14.6	26.7	9.3	1.5	5.9	6.7	6.7
Current account balance										
In percent of annual GDP	-0.1	3.8	11.2	5.5	2.0	-0.4	-2.2	-3.7	-3.2	-2.2
GDP (in millions of U.S. dollars)	8,940	9,449	9,952	10,714	10,918	11,809	12,682	13,685	14,774	15,948

Sources: Jordanian authorities; and Fund staff estimates.
1/ Includes the face value of debt reduction from debt restructuring operations, as well as a buyback of all of Jordan's Par Brady bonds in December 2003.
2/ Includes the proceeds for $170 million from the privatization of 26 percent of the Arab Potash Company in October 2003.
3/ The change in Fund credit outstanding is deducted from the change in NFA from monetary survey.
4/ The difference between the face value of debt reduction and the cost of debt operations.
5/ In months of prospective import of goods and nonfactor services for the following 12 months, excluding imports for re-exports.

Table 5. Jordan: Central Government Medium-Term External Debt and Debt Service, 2001–09

	2001	2002	2003	CR/04/287 2004	Revised projections 2004	2005	2006	2007	2008	2009
					(In millions of Jordanian dinars)					
Total government external debt 1/	5,067	5,447	5,391	5,011	5,216	5,117	4,981	4,891	4,796	4,555
Excluding market value of Brady collateral	4,969	5,350	5,391	5,011	5,216	5,117	4,981	4,891	4,796	4,555
Excluding collateralized Brady bonds	4,743	5,123	5,391	5,011	5,216	5,117	4,981	4,891	4,796	4,555
					(In millions of U.S. dollars)					
Total government external debt 1/	7,146	7,683	7,604	7,067	7,357	7,217	7,025	6,898	6,765	6,425
Excluding market value of Brady collateral	7,009	7,546	7,604	7,067	7,357	7,217	7,025	6,898	6,765	6,425
Excluding collateralized Brady bonds	6,689	7,226	7,604	7,067	7,357	7,217	7,025	6,898	6,765	6,425
Of which: Obligations existing as of end-1999	7,146	7,683	7,413	6,413	6,757	6,169	5,583	5,043	4,565	4,026
Medium- and long-term debt	6,713	7,203	7,183	6,742	7,040	6,975	6,868	6,817	6,739	6,425
To bilateral and multilateral creditors 1/	6,116	6,633	7,092	6,692	6,989	6,928	6,823	6,775	6,698	6,384
To London Club creditors	497	492	25	25	25	25	25	25	25	25
Of which: Collateralized Brady bonds	457	457	0	0	0	0	0	0	0	0
To other creditors	101	78	66	25	25	23	20	17	16	16
Use of Fund resources	433	483	421	325	317	242	158	81	26	0
Service on government external debt 1/ 2/ 3/	769	799	865	959	980	872	878	898	863	913
Of which: To the Fund	72	94	112	108	107	86	92	81	58	27
Amortization 2/ 3/	437	506	544	658	680	570	563	568	522	582
Of which: To the Fund	51	79	100	99	97	76	84	77	55	26
Interest	332	293	321	301	300	303	315	330	341	331
Of which: To the Fund	20	14	12	9	10	10	7	5	2	1
					(In percent of GDP)					
Total government external debt 1/	79.9	81.3	76.4	66.0	67.4	61.1	55.4	50.4	45.8	40.3
Excluding market value of Brady collateral	78.4	79.9	76.4	66.0	67.4	61.1	55.4	50.4	45.8	40.3
Excluding collateralized Brady bonds	74.8	76.5	76.4	66.0	67.4	61.1	55.4	50.4	45.8	40.3
Medium- and long-term debt	75.1	76.2	72.2	62.9	64.5	59.1	54.2	49.8	45.6	40.3
Use of Fund resources	4.8	5.1	4.2	3.0	2.9	2.0	1.2	0.6	0.2	0.0
Service on government external debt 1/	8.6	8.5	8.7	8.9	9.0	7.4	6.9	6.6	5.8	5.7
Amortization	4.9	5.4	5.5	6.1	6.2	4.8	4.4	4.2	3.5	3.7
Interest	3.7	3.1	3.2	2.8	2.7	2.6	2.5	2.4	2.3	2.1
					(In percent of exports of goods and nonfactor services)					
Total government external debt 1/	189.2	179.4	166.2	136.7	133.6	123.0	111.5	101.0	91.3	79.6
Excluding market value of Brady collateral	185.6	176.2	166.2	136.7	133.6	123.0	111.5	101.0	91.3	79.6
Excluding collateralized Brady bonds	177.1	168.7	166.2	136.7	133.6	123.0	111.5	101.0	91.3	79.6
Of which: To the Fund	11.5	11.3	9.2	6.3	5.8	4.1	2.5	1.2	0.4	0.0
Service on government external debt 1/	20.4	18.7	18.9	18.6	17.8	14.9	13.9	13.1	11.6	11.3
Of which: To the Fund	1.9	2.2	2.4	2.1	1.9	1.5	1.5	1.2	0.8	0.3
Amortization 2/ 3/	11.6	11.8	11.9	12.7	12.4	9.7	8.9	8.3	7.0	7.2
Of which: To the Fund	1.4	1.9	2.2	1.9	1.8	1.3	1.3	1.1	0.7	0.3
Interest	8.8	6.8	7.0	5.8	5.5	5.2	5.0	4.8	4.6	4.1
Of which: To the Fund	0.5	0.3	0.3	0.2	0.2	0.2	0.1	0.1	0.0	0.0

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

1/ Includes government guaranteed external debt.

2/ On a commitment basis.

3/ For 2003, includes prepayments of $456 million; for 2004 assumes prepayments of $353 million.

Table 6. Jordan: Summary Monetary Survey, 2001–05

	Dec. 2001	Dec. 2002	Dec. 2003	CR/04/287 Sep. 2004	Prel. Sep. 2004	CR/04/287 Dec. 2004	Proj. Dec. 2004	Proj. Dec. 2005
	(Stocks in millions of Jordanian dinars)							
Net foreign assets	3,985	4,411	5,493	5,547	5,880	5,603	5,939	6,135
Net domestic assets	3,881	4,008	3,973	4,603	4,377	4,768	4,601	5,087
Net claims on central government 1/	1,268	1,353	1,348	1,353	1,245	1,656	1,613	1,619
Of which : Budgetary central government 2/	1,328	1,403	1,392	1,390	1,344	1,693	1,702	1,708
Claims on nonfinancial public enterprises	284	261	278	399	451	399	430	465
Claims on financial institutions	79	75	73	70	69	70	71	71
Claims on the private sector	4,696	4,848	5,016	5,672	5,683	5,584	5,611	6,176
Other items (net)	-2,446	-2,529	-2,741	-2,892	-3,071	-2,942	-3,124	-3,243
Broad money	7,866	8,419	9,466	10,150	10,257	10,371	10,540	11,222
Currency in circulation	1,202	1,253	1,444	1,533	1,414	1,567	1,479	1,563
Jordanian dinar deposits	4,842	5,218	5,800	6,195	6,294	6,373	6,399	6,859
Foreign currency deposits	1,821	1,949	2,222	2,422	2,549	2,431	2,662	2,799
	(Cumulative flows in millions of Jordanian dinars)							
Net foreign assets	133	426	1,081	55	387	111	446	196
Net domestic assets	298	127	-35	629	404	795	628	486
Net claims on central government 1/	223	85	-5	5	-103	308	266	6
Of which: Budgetary central government 2/	180	74	-11	-2	-48	301	310	6
Claims on nonfinancial public enterprises	-33	-23	17	121	173	121	152	35
Claims on financial institutions	-1	-4	-1	-3	-5	-3	-3	0
Claims on the private sector	484	152	168	657	668	569	595	565
Other items (net)	-373	-83	-213	-151	-330	-201	-382	-120
Broad money	431	553	1,047	684	791	905	1,074	682
Currency in circulation	-37	50	191	89	-29	123	35	84
Jordanian dinar deposits	231	376	582	395	494	574	599	460
Foreign currency deposits	238	127	274	200	326	208	440	137
	(Cumulative flows in percent of beginning-of-period broad money)							
Net foreign assets	1.8	5.4	12.8	0.6	4.1	1.2	4.7	1.9
Net domestic assets	4.0	1.6	-0.4	6.6	4.3	8.4	6.6	4.6
Net claims on general government 1/	3.0	1.1	-0.1	0.1	-1.1	3.3	2.8	0.1
Of which: Budgetary central government 2/	2.4	0.9	-0.1	0.0	-0.5	3.2	3.3	0.1
Claims on nonfinancial public enterprises	-0.4	-0.3	0.2	1.3	1.8	1.3	1.6	0.3
Claims on financial institutions	0.0	-0.1	0.0	0.0	-0.1	0.0	0.0	0.0
Claims on the private sector	6.5	1.9	2.0	6.9	7.1	6.0	6.3	5.4
Other items (net)	-5.0	-1.1	-2.5	-1.6	-3.5	-2.1	-4.0	-1.1
Broad money	5.8	7.0	12.4	7.2	8.4	9.6	11.3	6.5
Currency in circulation	-0.5	0.6	2.3	0.9	-0.3	1.3	0.4	0.8
Jordanian dinar deposits	3.1	4.8	6.9	4.2	5.2	6.1	6.3	4.4
Foreign currency deposits	3.2	1.6	3.3	2.1	3.4	2.2	4.6	1.3
Memorandum items:								
Annual broad money growth (percent)	5.8	7.0	12.4	9.3	10.4	9.6	11.3	6.5
Annual JD broad money growth (percent)	3.3	7.0	11.9	7.7	7.4	9.6	8.8	6.9
Annual private sector credit growth (percent)	11.5	3.2	3.5	14.2	14.4	11.3	11.9	10.1
Foreign currency/total deposits (percent)	27.3	27.2	27.7	28.1	28.8	27.6	29.4	29.0
Currency/JD deposits (percent)	24.8	24.0	24.9	24.7	22.5	24.6	23.1	22.8

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 U.N. compensation funds and Brady bonds held by Jordanian banks.

Table 7. Jordan: Summary Accounts of the Central Bank of Jordan, 2001–05

	Dec. 2001	Dec. 2002	Dec. 2003	CR/04/287 Sep. 2004	Prel. Sep. 2004	CR/04/287 Dec. 2004	Proj. Dec. 2004	Proj. Dec. 2005
	(Stocks in millions of Jordanian dinars)							
Net foreign assets	2,321	2,940	3,910	3,754	4,001	3,812	3,980	4,039
Net domestic assets	-513	-1,046	-1,623	-1,338	-1,791	-1,306	-1,599	-1,493
Net claims on central government 1/	664	580	728	726	696	1,029	681	487
Net claims on NFPEs and the SSC	-19	-56	-128	-55	-68	-55	-93	-93
Net claims on financial institutions	14	24	24	21	21	21	22	22
Net claims on private sector	14	15	15	15	18	15	18	18
Net claims on commercial banks	114	121	87	18	-60	18	-18	-18
CDs	-1,234	-1,644	-2,176	-1,898	-2,254	-2,170	-2,073	-1,773
Other items, net (asset: +)	-66	-86	-172	-164	-145	-164	-136	-136
Jordanian dinar reserve money	1,808	1,894	2,287	2,416	2,210	2,506	2,381	2,546
Currency	1,279	1,333	1,535	1,625	1,512	1,659	1,579	1,663
Commercial bank reserves	529	561	751	792	698	847	802	882
Of which : Required reserves	283	322	428	458	423	471	427	427
	(Cumulative flows in millions of Jordanian dinars from beginning of period)							
Net foreign assets	-142	619	970	-156	91	-98	70	59
Net domestic assets	74	-533	-577	285	-168	317	24	106
Net claims on central government 1/	9	-85	148	-2	-31	301	-47	-194
Net claims on NFPEs and the SSC	0	-37	-73	73	60	73	35	0
Net claims on financial institutions	-14	10	0	-4	-3	-4	-2	0
Net claims on private sector	1	1	1	0	3	0	3	0
Net claims on commercial banks	-141	8	-34	-68	-146	-68	-105	0
CDs	189	-410	-533	278	-78	6	103	300
Other items, net (asset: +)	30	-20	-86	8	27	8	37	0
Jordanian dinar reserve money	-68	86	393	129	-77	219	94	165
Currency	-44	54	202	89	-23	123	44	84
Commercial banks' reserves	-24	32	190	40	-53	96	51	80
	(Cumulative flows in percent of beginning-of-period reserve money)							
Net foreign assets	-7.6	34.3	51.2	-6.8	4.0	-4.3	3.1	2.5
Net domestic assets	3.9	-29.5	-30.5	12.5	-7.3	13.9	1.0	4.4
Net claims on central government 1/	0.5	-4.7	7.8	-0.1	-1.4	13.2	-2.0	-8.2
Net claims on NFPEs and the SSC	0.0	-2.0	-3.8	3.2	2.6	3.2	1.5	0.0
Net claims on financial institutions	-0.7	0.6	0.0	-0.2	-0.1	-0.2	-0.1	0.0
Net claims on private sector	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.0
Net claims on commercial banks	-7.5	0.4	-1.8	-3.0	-6.4	-3.0	-4.6	0.0
CDs	10.0	-22.7	-28.1	12.1	-3.4	0.3	4.5	12.6
Other items, net (asset: +)	1.6	-1.1	-4.5	0.4	1.2	0.4	1.6	0.0
Jordanian dinar reserve money	-3.6	4.8	20.7	5.7	-3.4	9.6	4.1	6.9
Currency	-2.4	3.0	10.7	3.9	-1.0	5.4	1.9	3.5
Commercial bank reserves	-1.3	1.8	10.0	1.8	-2.3	4.2	2.2	3.4
Memorandum items:								
Gross usable international reserves ($ millions)	2,565	3,474	4,745	4,444	4,733	4,500	4,637	4,600
As a ratio to JD broad money (in percent)	30.1	38.1	46.4	40.8	43.5	40.2	41.7	38.7
As a ratio of JD reserve money (in percent)	100.6	130.0	147.1	130.4	151.8	127.3	138.1	128.1
NIR in IMF definition 2/	1,497	2,150	3,146	2,974	3,183	3,035	3,166	3,225
Money multiplier (for JD liquidity)	3.34	3.42	3.17	3.20	3.49	3.17	3.31	3.31

Sources: CBJ; and Fund staff estimates and projections.

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

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

Table 8. Jordan: Consolidated Public Sector Fiscal Operations and Net Debt, 2001–09

	2001	2002	2003	Prel. Est. H1 2004	CR 04/287 2004	Revised projections 2004	2005	2006	2007	2008	2009
	(In percent of annual GDP)										
I. Budgetary central government											
Revenue and grants	30.4	30.0	35.6	15.4	32.0	35.2	35.1	28.6	25.9	25.8	25.5
Expenditure	34.0	34.9	36.6	15.5	35.8	38.6	38.3	31.4	28.4	28.3	28.0
Balance	-3.6	-4.9	-1.1	0.0	-3.9	-3.4	-3.2	-2.8	-2.5	-2.5	-2.5
Net debt/assets (-) 1/	97.1	99.7	100.3	90.8	92.1	93.1	85.0	79.8	75.9	70.7	64.7
External 1/	78.4	79.9	76.4	67.5	66.0	67.4	61.1	55.4	50.4	45.8	40.3
Domestic (gross)	22.8	25.0	25.8	25.1	27.6	28.0	25.9	26.3	27.2	26.5	26.0
Domestic (net)	18.9	20.2	24.2	23.3	26.1	26.0	24.1	24.7	25.7	25.1	24.6
II. Own-budget agencies											
Revenue	6.0	6.7	7.3	3.3	5.6	7.3	7.3	7.3	7.3	7.3	7.3
Expenditure	5.8	6.6	7.0	3.2	5.8	7.0	7.0	7.0	7.0	7.0	7.0
Balance	0.2	0.0	0.3	0.1	-0.2	0.3	0.3	0.3	0.3	0.3	0.3
Net debt/assets (-) 2/	-1.0	-0.7	-0.6	-0.8	-0.1	-1.1	-1.1	-1.0	-0.9	-0.8	-0.8
III. Consolidated central government (= I + II)											
Revenue	33.8	34.2	40.5	18.1	36.4	40.0	40.1	33.7	31.0	30.9	30.6
Expenditure	38.2	39.7	42.0	17.9	40.3	43.9	43.6	36.7	33.7	33.6	33.3
Balance	-4.4	-5.5	-1.5	0.2	-3.9	-3.8	-3.5	-3.0	-2.7	-2.7	-2.7
Net debt/assets (-) 1/	96.2	99.0	99.6	89.9	92.0	92.0	83.9	78.8	75.0	69.8	63.9
IV. Social Security Corporation											
Revenue	4.3	4.1	4.4	2.2	4.5	4.5	4.6	4.7	4.8	5.0	5.1
Expenditure	1.8	2.1	2.4	1.2	2.5	2.4	2.5	2.6	2.6	2.7	2.8
Balance	2.7	2.1	2.0	1.0	2.1	2.0	2.1	2.1	2.2	2.3	2.3
Net debt/assets (-)	-24.8	-25.4	-26.2	-23.0	-26.4	-25.9	-26.0	-26.4	-26.6	-26.9	-27.3
V. Consolidated general government (= III + IV) 3/											
Revenue	36.4	35.6	42.5	19.6	38.0	41.7	41.7	35.3	32.5	32.3	32.0
Expenditure	40.1	41.2	43.1	18.7	41.3	44.7	44.4	37.5	34.4	34.2	33.8
Balance	-3.7	-5.6	-0.7	0.8	-3.3	-3.0	-2.6	-2.3	-2.0	-1.9	-1.8
Net debt/assets (-) 1/	71.4	73.5	73.5	67.0	65.6	66.1	57.9	52.4	48.3	42.9	36.7
VI. Central Bank of Jordan											
Revenue	2.6	1.4	2.0	1.4	1.6	1.7	1.6	1.6	1.5	1.4	1.4
Expenditure	2.3	1.6	1.5	0.8	1.3	1.2	1.1	1.2	1.1	0.9	0.8
Balance	0.3	-0.2	0.4	0.6	0.4	0.5	0.5	0.4	0.4	0.5	0.5
Net debt/assets (-) 4/	-9.6	-9.6	-11.9	-10.2	-12.4	-11.7	-11.7	-12.0	-12.3	-12.5	-12.8
VII Consolidated public sector (= V + VI) 5/											
Revenue	40.5	39.4	46.5	21.6	42.2	45.9	46.0	39.7	37.0	37.0	36.8
Expenditure	41.8	43.4	45.5	19.9	43.8	47.2	46.9	40.1	37.1	36.9	36.6
Balance	-1.3	-3.9	1.0	1.7	-1.6	-1.3	-0.9	-0.5	-0.1	0.1	0.2
Net debt/assets (-)	57.3	59.4	58.3	48.5	51.1	52.9	46.4	41.3	37.4	32.0	25.4
	(In millions of Jordanian dinars)										
Memorandum items:											
Central government gross total debt 1/	6,354	6,975	7,170	7,102	7,099	7,291	7,197	7,258	7,445	7,486	7,400
Of which: Gross external debt 1/	4,969	5,350	5,391	5,222	5,011	5,216	5,117	4,981	4,891	4,796	4,555
Central government net total debt 1/	6,097	6,631	7,030	6,963	6,987	7,119	7,026	7,086	7,274	7,314	7,228

Sources: Jordanian authorities; and Fund staff estimates. Latest data available.

1/ Includes collateralized Brady bonds and guaranteed debt.

2/ Own-budget agencies domestic banking system debt only. Domestic and external debt of these agencies are captured under the central government debt.

3/ Includes net debt of subnational governments. Transfers and common debt obligations between sectors are eliminated.

4/ CBJ assets are net foreign assets plus net domestic assets less currency in circulation.

5/ Excludes public enterprises. Transfers and common debt obligations between sectors are eliminated. CBJ accounts are on a commitment basis.

Table 9. Jordan: Progress on Structural Reform Agenda, 2000–04

Main Objectives	Recent Progress
Fiscal Sector • Broaden the base and improve the efficiency of the General Sales Tax (GST).	• GST was extended to sale of goods at the retail level by businesses with sales above JD 250,000 and to a broader range of services (January 2001). • The GST threshold for retailers was lowered to JD 150,000 (January 2002). • The incidence of zero rating and exemptions was reduced by imposing a new low rate on essential consumer and zero-rated goods (2002). • A nonfiler enforcement program was introduced in the GST Department to reduce the number of nonfilers to 10 percent of the registered taxpayer population (December 2002).
• Increase the role of the income tax in the overall revenue effort.	• Double taxation of dividends has been eliminated (January 2003). • The number of corporate tax rates has been streamlined from five to three with a 15 percent rate applicable to companies in certain preferred sectors; 35 percent on bank and financial institutions; and 25 percent on all other companies.
• Improve tax administration.	• A unified revenue administration was established through the integration of the income and sales tax departments (March 2004).
• Rationalize expenditures.	• A treasury single account at the central bank encompassing all civil agencies was implemented (December 2003). • Pension reform necessary to reduce expenditures in the military and civil service pension plans was completed (February 2004).
Trade Liberalization • Create necessary conditions for export-led growth.	• Jordan acceded to the WTO (2000).

Table 9. Jordan: Progress on Structural Reform Agenda, 2000–04

Main Objectives	Recent Progress
	• Jordan ratified an FTA with the United States (2001). • An association agreement with the European Union was signed (2002). • Jordan, Egypt, Morocco, and Tunisia formally reached an agreement towards the creation of a Euro-Mediterranean Free Trade Area by 2010 (April 2004). • An FTA was signed with Singapore in 2004 to enhance cooperation and investment in high value added industries.
Privatization and improvements in the business environment • Enhance economic efficiency, attract domestic and international investment, develop domestic capital markets, consolidate public finances	• Disinvestment in government-owned companies in telecommunications, transport, cement, and other key sectors has increased efficiency, boosted employment, and strengthened foreign exchange reserves. • Prominent companies that have been privatized include Jordan Telecoms, Jordan Cement Factories, the Jordan Investment Corporation Portfolio, the Royal Jordanian Air Academy the Arab Potash Company, and the Aqaba Port container terminal. Considerable progress has been made in the privatization of the electricity sector, and sale of majority stakes in the generation, and distribution companies are likely to be completed in 2005. • Over a billion dollars (10 percent of GDP) in privatization receipts have been raised since the program began in 1996.
• Foster a more conducive environment for private sector dynamism	• A U.S.- based consultant has been engaged to prepare the strategically important energy master plan, setting out a roadmap for the development of the Kingdom's energy sector, from the exploitation of natural resources to electricity tariff levels.

Table 9. Jordan: Progress on Structural Reform Agenda, 2000–04

Main Objectives	Recent Progress
	• The creation of the Special Economic Zone at the port of Aqaba, and the continued enactment of investor friendly laws and regulations is likely to enable the port to become a regional hub for investment. • Legislation passed since 2002 has abolished controls on foreign ownership of property and land; strengthened the judicial system and regulatory agencies; encouraged and regulated leasing activities, electronic commerce, and e-government.
Financial Sector • Improve the structure, efficiency, and transparency of monetary and financial sector operations.	• Penalties for violations of central bank regulations were strengthened in 2002. • Regulations were issued to implement prompt corrective actions, stipulating automatic penalties for violations of prudential regulations by banks (January 2004). • A comprehensive Financial Sector Assessment Plan (FSAP) was undertaken to identify vulnerabilities in the financial sector (2003). • Auditing of the financial statement of the CBJ has been enhanced in line with recommendations from the Safeguards Assessment (December 2003).

Table 10. Jordan: Indicators of Fund Credit, 2000–09

(In millions of SDR)

	2000	2001	2002	2003	Projections 2004	2005	2006	2007	2008	2009
Total Fund credit outstanding at end-period										
In millions of SDR	354.3	344.5	355.0	283.6	217.5	165.3	107.7	55.4	17.9	0.0
In millions of U.S. dollars	461.6	432.9	482.6	421.4	317.1	241.7	157.8	81.3	26.3	0.1
In percent of:										
Quota	207.8	202.1	208.2	166.3	127.5	96.9	63.2	32.5	10.5	0.0
GDP	5.5	4.8	5.1	4.2	2.9	2.0	1.2	0.6	0.2	0.0
Exports of goods and nonfactor services	13.1	11.5	11.3	9.2	5.8	4.1	2.5	1.2	0.4	0.0
Public and publicly guaranteed debt	6.4	6.1	6.3	5.5	4.3	3.3	2.2	1.2	0.4	0.0
Transactions under the GRA										
Purchases under the GRA	15.2	30.5	71.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases 1/	23.8	40.2	61.0	71.4	66.1	52.2	57.6	52.3	37.5	17.9
Net Purchases	-8.6	-9.8	10.5	-71.4	-66.1	-52.2	-57.6	-52.3	-37.5	-17.9
Charges and interest	18.2	16.1	11.1	8.7	6.5	6.8	5.1	3.2	1.7	0.5
Debt service to the Fund										
In millions of SDR	42.0	56.3	72.1	80.1	72.6	58.9	62.7	55.5	39.2	18.3
In millions of U.S. dollars	55.4	71.8	93.7	112.0	106.5	86.1	91.8	81.4	57.6	26.9
In percent of:										
Exports of goods and nonfactor services	1.6	1.9	2.2	2.4	1.9	1.5	1.5	1.2	0.8	0.3
Service on public and publicly guaranteed debt	7.6	9.3	11.7	12.9	12.7	10.5	11.5	10.4	7.3	3.4

Sources: IMF Finance Department; and Fund staff estimates.

1/ On an expectation basis for purchases made after November 17, 2000.

Jordan: Relations with the Fund

(As of October 31, 2004)

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	397.66	233.23
Reserve position in Fund	0.07	0.04

III. **SDR Department:**	**SDR million**	**% Allocation**
Net cumulative allocation	16.89	100.00
Holdings	3.01	17.84

IV. **Outstanding Purchases and Loans:**	**SDR million**	**% Quota**
Extended Arrangements	217.89	127.80
Stand-by Arrangement	9.33	5.47

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				
	2004	2005	2006	2007	2008
Principal	9.75	52.17	57.61	52.28	37.52
Charges/Interest	1.92	6.76	5.06	3.19	1.70
Total	11.67	58.94	62.68	55.47	39.22

VII. **Safeguard Assessment:** Under the Fund's safeguards assessment policy, the Central Bank of Jordan (CBJ) was subject to a full assessment with respect to the SBA arrangement, 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. Implementation of the remaining recommendations is being monitored by staff.

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

IX. **Article IV Consultation:** The 2004 Article IV consultation was concluded by the Executive Board on April 2, 2004. Two Financial Sector Assessment Program (FSAP) missions visited Jordan in August and September 2003, and the Financial System Stability Assessment (FSSA) was published in January 2004.

X. **Technical Assistance:** Extensive technical assistance has been provided to Jordan over the years (Table 1).

XI. **ROSCs**

Standards or Codes Assessed	**Date of Issuance**	**Document Number**
Data module	10/7/2002	
FSSA	1/7/2004	
Update to data module	1/30/2004	IMF Country Report No. 04/32

Table 1. Technical Assistance, 1999–2004

Date	**Purpose**
Fiscal	
August 1999	Income tax reform
March 2000	Pension reform
May 2000	Framework for managing nontreasury accounts
September 2000	Oil pricing mechanism
January–April 2002	Pension reform
January–September 2002	General sales tax reform
November 2002	Macrofiscal capacity and treasury single account
February 2003	Revenue administration reform
June, August, December 2003	Peripatetic advisor on single treasury account
February 2004	Peripatetic advisor on revenue administration reform
February 2004	Public expenditure management
May 2004	Public expenditure management
August 2004	Resident expert in macrofiscal management
Monetary and Financial	
August 1999	Auctions of government securities, and auditing and accounting reform
August 1999–August 2000	Resident expert in banking supervision
September 1999–September 2000	Resident expert in payment system development
December 1999	Development of the domestic and foreign exchange interbank market
January-February, April-May 2001	International reserve management
Statistical	
February 1999	Preparation of General Data Dissemination System metadata
April 1999	Revision of the PPI sample and PPI calculation
September 1999	NA statistics
November 1999	PPI statistics
July 2000	NA 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
March–May 2004	Balance of payments statistics
April–May 2004	Government finance statistics

Jordan: World Bank Group Strategy and Operations

As of September 30, 2004, Jordan had received 63 World Bank (Bank) loans, one guarantee, and 15 IDA credits totaling $2,215 million net of cancellations and terminations. Of this amount, $2,014 million has been disbursed to-date. All the credits and 56 of the loans have been fully disbursed. There are seven active projects in the Bank's portfolio for a total of $319.7 million. Overall performance of the portfolio, both from the perspective of implementation and development impact is good. 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. As of end-October 2004, IFC had made cumulative loan and equity commitments of $246 million and an additional $70 million in syndications.

The Joint World Bank-IFC Country Assistance Strategy (CAS) for 2003–05, discussed by the Executive Board in January 2003 addresses the same thematic challenges as the previous CAS. Under the present CAS, the Bank will continue to provide support to the government's key objective, with focus on: (a) private sector development for sustainable growth and job creation; (b) human development with emphasis on poverty reduction and enabling more Jordanians to participate in the knowledge economy; (c) improving water resource management and the environment; and (d) greater gender inclusion in the development process.

The proposed lending ranges from $250 million in the base case to $325 million in the high case (compared to $300 and $450 million respectively in the last CAS). Bank lending during the CAS period concentrates on the focus areas of human resources development (largely education with the Education Reform for the Knowledge Economy) and public sector reform. Bank support for public sector reform and education is a continuation of programmatic Bank support in both areas (Public Sector Reform Loan Series and Human Resources Development Sector Investment Loan)—reflecting the need for a long-term engagement to address deep, underlying structural issues.

The CAS emphasizes knowledge sharing and capacity building through nonlending assistance. Interventions that disseminate knowledge in the form of international best practice, technical assistance, and economic and sector analysis will play a prominent role in future Bank assistance. For sectors and areas where longer-term Bank engagement is necessary but no lending is currently envisaged, the Bank will focus on a new multi-year analytical and advisory activities that would enable the Bank to support sustained support for policy reform, implementation, and institutional development.

Preparations for a new CAS covering the Bank's assistance over the period Fiscal Year 2006–08 will start during the second half of fiscal year 2005.

World Bank Group support to private sector development will continue to focus on improving the investment environment, privatization, 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. IFC has traditionally experienced solid demand for financing from successful private sector companies in Jordan, including many export-oriented firms, and at end-October 2004 had a committed portfolio of $82 million in 12 companies. IFC's investments are in diverse sectors, including hotels, financial services, chemicals, manufacturing, and industrial zones. In line with the CAS, IFC will continue to seek opportunities in: (a) infrastructure development to encourage foreign private investment; (b) SMEs; (c) financial sector development; and (d) export-oriented and foreign exchange generating investments.

Jordan: Statistical Issues

A mission from the Fund's Statistics Department (STA) visited Amman from December 17 to 21, 2003 to update the data module of the Report on the Observance of Standards and Codes (ROSC) prepared by the February 2002 mission. The main objectives of this mission were to: (a) review and document the actions taken by the authorities to address the issues raised by the 2002 Data ROSC mission for all macroeconomics statistics included in the ROSC exercise (national accounts, price, government finance, monetary, and balance of payments statistics); (b) discuss with the authorities their plans for further improving the quality of the statistics; and (c) review Jordan's current data dissemination practices against the requirements of the Special Data Dissemination Standard (SDDS).

Real sector

During the past two years, progress has been made toward enhancing the quality of national accounts statistics. However, the implementation of the authorities' plans for improvement will require a strong commitment and the allocation of some additional resources. The main actions taken by the Department of Statistics (DOS) in the area of national accounts statistics, since the 2002 ROSC mission, include:

- Compilation of price indices for imports and exports for estimating GDP at constant prices;
- Estimation of household final consumption expenditure based on the 2002 Household Expenditure and Income Survey (HEIS);
- Updating of supply and use of tables for the assessment and valuation of the statistical output;
- Preparation of a study on the revision to the GDP series for 1976–2002;
- Workshops conducted to enhance quality awareness of data providers and users and to monitor users' needs;
- Adoption of a comprehensive training program for national accounts statistics compilers; and
- Dissemination of national accounts data at the two-digit level of ISIC activity.

With respect to price statistics, even though the CPI and PPI were already considered to be of good quality by the 2002 Data ROSC mission, the DOS has short-term plans for improvements leading to full observance of international best practices in all data quality dimensions. These plans include:

- Incorporation of owner-occupied dwelling services in the CPI;
- Updating of CPI weights based on the 2002 HEIS; and
- Dissemination of regional CPIs.

With respect to the serviceability and accessibility of national accounts and price statistics, DOS has short-term plans to:

- Inform the public about the minister of planning's access to data prior to public release (the minister of planning has oversight responsibilities over DOS);
- Continue the program to increase quality awareness and monitor users' needs;
- Disseminate a statement on revision policy and practices in the DOS publications and website;
- Disseminate an advance release calendar for national accounts and price statistics; and
- Update the GDDS metadata on a more timely basis.

Government finance

Significant improvements in government finance statistics since the 2002 Data ROSC mission have been facilitated by the establishment of a statistical division in the ministry of finance (MoF) and the adoption of the Financial Management Reform Project (FMRP). The FMRP is guided by an interministerial committee headed by the secretary general of the MoF. Important actions that have already been taken include:

- Compilation of data on the operations of the general government (currently, only data on the budgetary central government are disseminated; the authorities plan to disseminate data on the operations of the general government during 2004); and
- Initiation of migration to the methodology of the *Government Finance Statistics 2001 (GFSM 2001).*

Some of the actions contemplated in the comprehensive plan to improve the quality of government finance statistics include:

- Dissemination of data on central and general government operations based on the classification and sectorization systems recommended by the *GFSM 2001*;
- Seeking feedback from users of government finance statistics to monitor their needs;
- Establishment of regular procedures for the verification of internal and intersectoral consistency of government finance statistics;
- Dissemination of a statement on the revision policy, an advance release calendar, and more detailed metadata in the MoF publications and website; and
- Updating of GDDS metadata on a more timely basis.

Monetary

Monetary data for the 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 authorities informed the 2003 STA ROSC update mission that the Research Department, which is responsible for the collection and compilation of the monetary statistics in the CBJ, has proposed to the CBJ management the establishment of an interagency group by June 2004 to monitor the intersectoral consistency of macroeconomic statistics. Furthermore, actions are being taken to improve the quality of the source data and the methodological soundness of the statistical output. In particular, the CBJ is:

- Reviewing a new set of report forms for banking institutions, which the banking supervision department prepared to facilitate better classification and sectorization of the analytical accounts; and
- Promoting the adoption of international accounting standards (IAS) by the commercial banks. Also, the administrative and financial department and the banking supervision department of the CBJ are in the process of adopting the IAS, in particular with respect to valuation procedures and the recording of financial derivatives within the balance sheet.

Balance of payments statistics

The establishment of a BoP division within the research department and the allocation of additional resources have facilitated the development of a comprehensive program for the improvement of BoP statistics, including a detailed action plan to address weaknesses in all data quality dimensions. These efforts were supported by long-term STA technical assistance involving two peripatetic missions. Over the last six months, considerable progress has been made in improving the quality of BoP and international investment position (IIP) statistics. The CBJ has adopted the BPM5 methodology in the compilation of the BoP statistics and the IIP, and has disseminated data in the BPM5 format. Furthermore, the CBJ started compiling and disseminating the reserves template. The progress is reflected in the data published by the CBJ and in the submission of reserve template data to the IMF for operational purposes. The BoP metadata, posted on the DSBB, which have not been updated since September 2000, should reflect these improvements. The implementation of surveys in the area of transportation services and direct investment are crucial in order to improve the quality of BoP and IIP statistics.

Reporting of Main Statistical Indicators

	Exchange rates	International reserves	Reserve/ base money	Central bank balance sheet	Broad money	Interest rates	Consumer price index	Exports/ imports	Current account balance	Overall government balance	GDP/GNP	External public debt/ debt service
Date of latest observation	10/04	10/04	10/04	10/04	10/04	10/04	10/04	9/04	Q2/04	10/04	Q2/04	10/04
Date received	11/04	11/04	11/04	11/04	11/04	11/04	11/04	11/04	9/04	11/04	11/04	11/04
Frequency of data	W	W	M	M	M	W	M	M	Q	M	Q	M
Frequency of publication	M	M	M	M	M	M	M	M	Q	M	Q	M
Frequency of reporting	W	W	M	M	M	W	M	Q	Q	M	Q	M
Source of update	Central Bank of Jordan (CBJ)	CBJ	CBJ	CBJ	CBJ	CBJ	CBJ	CBJ	CBJ	Ministry of Finance (MoF)	Department of Statistics	MoF
Mode of reporting	E-mail	E-mail	E-mail	E-mail	E-mail	E-mail	*Monthly Statistical Bulletin*	*Monthly Statistical Bulletin*	*Monthly Statistical Bulletin*	*Government Finance Bulletin*	E-mail	*Government Finance Bulletin*
Confidentiality	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted
Published data	*Monthly Statistical Bulletin*	*Monthly Statistical Bulletin*	*Monthly Statistical Bulletin*	*Monthly Statistical Bulletin*	*Monthly Statistical Bulletin*	*Monthly Statistical Bulletin*	*Monthly Statistical Bulletin*	*Monthly Statistical Bulletin*	*Monthly Statistical Bulletin*	*Government Finance Bulletin*	*Monthly Statistical Bulletin*	*Government Finance Bulletin*

(As of November 30, 2004)

Jordan: Debt Sustainability Analysis

This appendix updates a debt sustainability analysis (DSA) conducted in June 2003. The main conclusion remains that, while the reduction in debt ratios may be delayed by macroeconomic shocks, it is unlikely to be derailed. Sufficiently large shocks, however, could delay the achievement of Public Debt Law (PDL) debt targets.

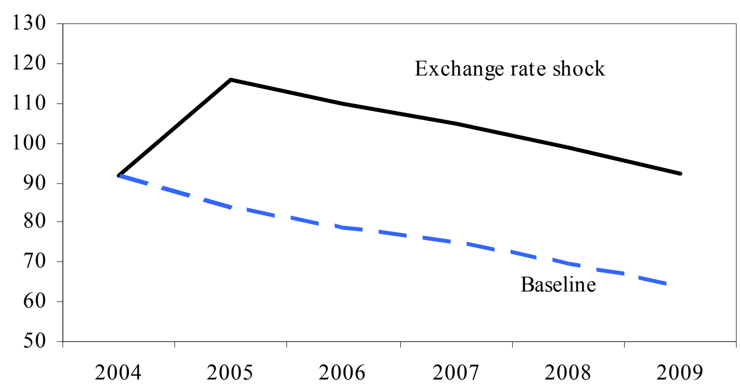
The baseline DSA is based on the Post-Program Monitoring (PPM) medium-term macroeconomic framework, where the government is assumed to abstain from short-term and commercial borrowing. Under the new fiscal funding strategy, external borrowing is expected to decline as the domestic capital markets are being developed. The baseline scenario suggests a steady decline in public and publicly guaranteed debt to 64 percent by 2009. This is in line with the authorities' PDL, which requires limiting the overall (external) public debt to less than 80 (60) percent of GDP by end-2006. The pace of debt reduction is contingent upon projected real GDP growth (6 percent over the medium term), implementation of the privatization program, and continued fiscal consolidation.

The following is a brief discussion of the impact of most relevant external shocks on both public and external debt sustainability. The stress test results are presented in Table 1.

Public debt sustainability

While relatively robust, the debt reduction path is vulnerable to larger external shocks. In particular, given the high proportion of external debt, the initial impact of a 30 percent real effective depreciation will be substantial (Figure 1). The public debt ratio under such a scenario would remain markedly above the baseline, potentially entailing the need for further debt relief. The impact of other shocks is explained below:

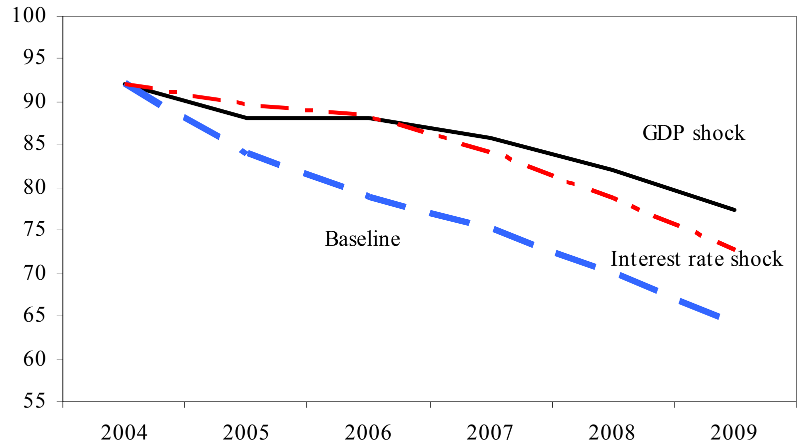
Figure 1. Jordan: Exchange Rate Shock Stress Test
(In percent of GDP)



Source: Fund staff estimates.

- With real GDP growth and two standard deviations below its 10-year average in 2005–06, the public debt stock would be about 14 percent of GDP higher than the baseline by 2009 (Figure 2). Similar results hold for higher real interest rates.

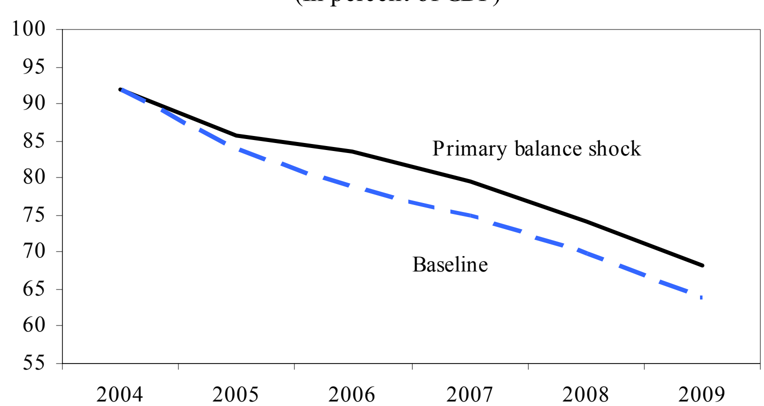
Figure 2. Jordan: GDP and Interest Rate Shock Stress Tests
(In percent of GDP)



Source: Fund staff estimates.

- A lowering of the primary fiscal balance by 2 percent of GDP in 2005–06 would result in a debt ratio level 4 percent of GDP above baseline by 2009 (Figure 3). The 2006 PDL target would thus only be achieved in 2007.

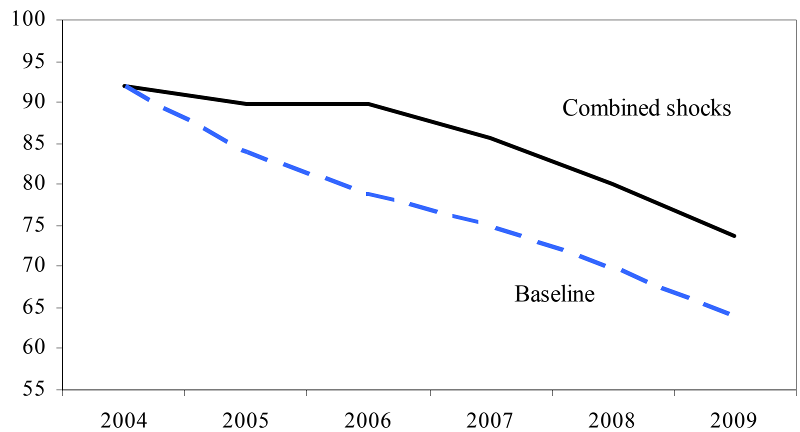
Figure 3. Jordan: Primary Balance Shock Stress Test
(In percent of GDP)



Source: Fund staff estimates.

- More seriously, a combination of interest rate, GDP, and fiscal shocks (on the basis of one standard deviation from historical averages) would imply missing the PDL targets by about 10 percentage points in 2006 (Figure 4).

Figure 4. Jordan: Combined Shocks Stress Test
(In percent of GDP)



Source: Fund staff estimates.

Alternative scenarios

Three additional scenarios were considered: (a) retaining key variables at their historical averages in 2005–09; (b) constant primary balance in 2005–09; and (c) an increase in the oil price by $5 per barrel in 2005–09, compared to baseline. All three scenarios imply that by 2009, the public debt ratio would exceed the baseline ratio by less than 3½ percentage points, although the 2006 PDL targets would be missed by a small margin for scenarios (a) and (c).

External debt sustainability

The external debt burden would remain manageable under all, but the most severe shocks:

- Holding GDP, nominal interest rates, the noninterest current account, and other variables at the historical average (the stress-test baseline) flattens the downward path of the external-debt ratio by a relatively small margin.[1] By 2009, the external-debt ratio is about 10 percentage points of GDP above staff projections. Lowering projected real GDP growth in 2005–06 would increase the 2009 external-debt ratio by 14 percentage points of GDP relative to the stress-test baseline.

[1] Historical averages were taken over the ten-year period ending in 2002. The year 2003 was excluded due to the surge in grants associated with the Iraqi conflict that contributed to the exceptional level of the external current account surplus.

- A more challenging outcome would result from larger shocks. In particular, decreasing the non-interest current account balance by two standard deviations in 2005–06 would cause the external debt ratio to spike in 2006, before declining to a level 16 percentage points of GDP higher than the stress-test baseline by 2009.[2] A similar pattern would result from a combination of one standard deviation shocks, leaving the external debt ratio some 37 percentage points above the stress-test baseline in 2009.

- The most worrisome scenario would be a large exchange rate shock, as a 30 percent real effective depreciation of the dinar in 2005 would cause the external debt ratio to first jump back above 100 percent of GDP, and still be some 26 percentage points above the stress-test baseline in 2009. This key vulnerability can be effectively reduced over time through both proactive public debt and international reserve management policies.

[2] This shock could arise either from a further hike in oil prices not compensated by higher oil grants, or from a more adverse impact of the elimination of the quotas under the WTO/ATC, than anticipated under the baseline scenario. However, as illustrated in Chapter VII of IMF Country Report No. 04/121 (5/4/04), part of the adverse impact on the external debt-to-GDP ratio could be mitigated by drawing down some of Jordan's relatively abundant international reserves.

Table 1. Jordan: Government and Government-Guaranteed Debt Sustainability Framework, 2001–09

(In percent of GDP, unless otherwise indicated)

	Actuals			Projections					
	2001	2002	2003	2004	2005	2006	2007	2008	2009
				I. Baseline Projections					
Public sector debt 1/	96.2	99.0	99.6	**92.0**	**83.9**	**78.8**	**75.0**	**69.8**	**63.9**
Of which: Foreign-currency denominated	78.4	79.9	76.4	67.4	61.1	55.4	50.4	45.8	40.3
Change in public sector debt	4.0	2.8	0.7	-7.7	-8.1	-5.1	-3.8	-5.1	-5.9
Identified debt-creating flows	-1.5	0.9	-2.8	-4.8	-0.1	-1.9	-3.3	-3.0	-2.6
Primary deficit	-0.8	1.2	-2.8	0.2	0.2	-0.7	-0.9	-0.7	-0.5
Revenue and grants	30.4	30.0	35.6	35.2	35.1	28.6	25.9	25.8	25.5
Primary (noninterest) expenditure	29.6	31.2	32.7	35.3	35.3	27.9	25.0	25.0	25.0
Automatic debt dynamics 2/	-0.7	-1.4	-1.2	-5.6	-3.9	-2.3	-2.4	-2.3	-2.1
Contribution from interest rate/growth differential 3/	-0.7	-1.4	-1.2	-5.6	-3.9	-2.3	-2.4	-2.3	-2.1
Contribution from real interest rate	3.6	3.0	1.9	-0.1	0.3	2.0	2.0	1.9	1.8
Contribution from real GDP growth	-4.3	-4.4	-3.1	-5.4	-4.3	-4.3	-4.4	-4.2	-3.9
Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	...	...	...	...	...	...
Other identified debt-creating flows	-0.1	1.2	1.3	0.6	3.6	1.1	0.0	0.0	0.0
Privatization receipts (negative)	-0.1	1.2	1.3	0.6	3.6	1.1	0.0	0.0	0.0
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual, including asset changes 5/	5.5	1.8	3.4	-2.9	-7.9	-3.2	-0.6	-2.1	-3.3
Public sector debt-to-revenue ratio 1/	316.6	329.9	280.0	261.6	239.2	275.7	289.7	270.9	250.9
Gross financing need 6/	7.5	8.9	9.5	7.9	7.2	6.3	5.9	4.1	4.0
(in billions of U.S. dollars)	0.7	0.8	0.9	0.9	0.8	0.8	0.8	0.6	0.6
Key Macroeconomic and Fiscal Assumptions									
Real GDP growth (in percent)	4.9	4.8	3.3	6.0	5.0	5.5	6.0	6.0	6.0
Average nominal interest rate on public debt (in percent) 7/	5.1	4.1	4.1	3.6	3.6	4.4	4.7	4.6	4.7
Average real interest rate (using GDP deflator, in percent)	4.2	3.3	2.1	0.1	0.6	2.6	2.9	2.8	2.9
Nominal appreciation (increase vs. US$, in percent)	0.0	0.0	0.0	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	0.9	0.8	2.0	3.5	3.0	1.8	1.8	1.8	1.8
Real primary spending growth (using GDP deflator, in percent)	5.2	10.4	8.4	14.3	4.9	-16.5	-5.2	6.4	5.7
Primary deficit	-0.8	1.2	-2.8	0.2	0.2	-0.7	-0.9	-0.7	-0.5
A. Alternative Scenarios				II. Stress Tests for Public Debt Ratio					
A1. Key variables are at their historical averages in 2005–09 8/				**92.0**	**84.9**	**80.2**	**77.1**	**72.5**	**66.6**
A2. No policy change (constant primary balance) in 2005–09				**92.0**	**83.9**	**79.6**	**76.8**	**72.5**	**67.2**
A3. Permanent oil price shock in 2005 9/				**92.0**	**85.5**	**80.4**	**76.5**	**71.4**	**65.4**
B. Bound Tests									
B1. Real interest rate at historical average plus two standard deviations in 2005 and 2006				**92.0**	**89.7**	**88.3**	**84.2**	**78.8**	**72.6**
B2. Real GDP growth at historical average minus two standard deviations in 2005 and 2006				**92.0**	**88.0**	**88.1**	**85.8**	**82.1**	**77.5**
B3. Primary balance at historical average minus two standard deviations in 2005 and 2006				**92.0**	**85.8**	**83.4**	**79.5**	**74.2**	**68.2**
B4. Combination of 2-4 using one standard deviation shocks				**92.0**	**89.8**	**89.8**	**85.6**	**80.0**	**73.6**
B5. One time 30 percent real depreciation in 2005 10/				**92.0**	**115.7**	**109.7**	**105.0**	**98.9**	**92.1**
B6. 10 percent of GDP increase in other debt-creating flows in 2005				**92.0**	**93.9**	**88.5**	**84.4**	**79.0**	**72.8**

1/ Central government and government-guaranteed debt, net of government deposits in the banking system. Includes debt of own budget agencies and subnational governments.

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 (increase in local currency value of U.S. dollar).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as r - π (1+g) and the real growth contribution as -g.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ 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/ Derived as nominal interest expenditure divided by previous period debt stock.

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

9/ Oil price is US$5 per barrel higher than under the baseline starting in 2005.

10/ Real depreciation is defined as nominal depreciation (percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Table 2. Jordan: External Sustainability Framework, 2001–09

(In percent of GDP, unless otherwise indicated)

	Actual			Projections					
	2001	2002	2003	2004	2005	2006	2007	2008	2009
External debt	**82.0**	**81.8**	**76.9**	**66.7**	**60.6**	**54.6**	**49.8**	**45.4**	**40.8**
Change in external debt	-5.5	-0.2	-4.9	-10.2	-6.1	-6.0	-4.9	-4.3	-4.6
Identified external debt-creating flows	-4.5	3.4	-19.9	-12.8	-8.1	-5.3	-4.0	-4.3	-4.9
Current account deficit excluding interest payments	-4.9	-5.4	-13.4	-4.3	-1.9	-0.3	1.2	0.4	-0.4
Deficit in balance of goods and services	19.5	14.8	22.8	29.0	30.6	26.2	24.5	23.4	22.1
Exports	42.8	45.0	46.0	50.4	49.7	49.7	49.9	50.2	50.6
Imports	62.2	59.9	68.7	79.4	80.3	75.8	74.4	73.5	72.7
Net nondebt-creating capital inflows (negative)	-0.9	-0.3	-3.8	-4.0	-3.5	-3.3	-3.7	-3.8	-3.8
Net foreign direct investment, equity	0.9	0.3	3.8	4.0	3.5	3.3	3.7	3.8	3.8
Net portfolio investment,equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Automatic debt dynamics 1/	1.3	9.0	-2.7	-4.5	-2.7	-1.8	-1.5	-0.9	-0.7
Denominator: $1+g+\rho+g\rho$	1.0	0.9	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Contribution from nominal interest rate 2/	4.9	1.8	2.1	2.3	2.3	2.4	2.5	2.8	2.6
Contribution from real GDP growth 2/	-3.6	7.6	-2.8	-4.2	-3.1	-3.1	-3.0	-2.8	-2.5
Contribution from price and exchange rate changes 2/ 3/	0.0	-0.4	-2.0	-2.6	-1.9	-1.1	-1.0	-0.9	-0.8
Residual, including change in gross foreign assets	-1.1	-3.5	14.9	2.6	2.1	-0.7	-0.9	0.0	0.3
External debt-to-exports ratio (in percent)	191.8	181.7	167.3	132.3	122.0	110.0	99.7	90.6	80.6
Gross external financing need (in billions of U.S. dollars) 4/	-0.4	-0.5	-1.3	-0.5	-0.2	0.0	0.2	0.1	-0.1
(In percent of GDP)	-4.9	-5.4	-13.4	-4.3	-1.9	-0.2	1.2	0.4	-0.4
Key macroeconomic and external assumptions									
Real GDP growth (in percent)	4.2	-8.6	3.6	6.0	5.0	5.5	6.0	6.0	6.0
Exchange rate appreciation (U.S. dollar value of local currency, change in percent)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GDP deflator in U.S. dollars (change in percent)	0.0	0.5	2.5	3.5	3.0	1.8	1.8	1.8	1.8
Nominal external interest rate (in percent)	5.9	2.1	2.7	3.3	3.7	4.3	4.9	6.1	6.1
Growth of exports (U.S. dollar terms, in percent)	6.8	12.7	7.5	20.4	6.6	7.3	8.5	8.5	8.9
Growth of imports (U.S. dollar terms, in percent)	3.8	2.9	21.0	26.7	9.3	1.5	5.9	6.7	6.7
						Stress Tests			
1. Real GDP growth, nominal interest rate, dollar deflator, non-interest current account, and nondebt inflows are at historical average in 2004–09			**76.9**	**74.6**	**71.7**	**66.1**	**60.2**	**55.2**	**50.4**
2. Nominal interest rate is at historical average plus two standard deviations in 2005 and 2006			**76.9**	**74.6**	**72.8**	**69.1**	**63.4**	**58.5**	**53.8**
3. Real GDP growth is at historical average minus two standard deviations in 2005 and 2006			**76.9**	**74.6**	**78.3**	**79.6**	**73.8**	**68.9**	**64.2**
4. Change in U.S. dollar GDP deflator is at historical average minus two standard deviations in 2005 and 2006			**76.9**	**74.6**	**75.6**	**73.8**	**68.0**	**63.0**	**58.3**
5. Non-interest current account is at historical average minus two standard deviations in 2005 and 2006			**76.9**	**74.6**	**79.5**	**81.7**	**75.9**	**71.0**	**66.3**
6. Combination of 2–5 using one standard deviation shocks			**76.9**	**74.6**	**90.9**	**107.5**	**100.3**	**93.8**	**87.6**
7. One time 30 percent nominal depreciation in 2005			**76.9**	**74.6**	**102.6**	**96.0**	**88.8**	**82.2**	**75.9**
Historical Statistics for Key Variables (past 10 years)	Historical Average		Standard Deviation						
Current account deficit, excluding interest payments	-3.4		3.9						
Net nondebt creating capital inflows	1.9		2.6						
Nominal interest rate (in percent)	5.6		1.3						
Real GDP growth (in percent)	2.7		4.1						
GDP deflator in U.S. dollars (change in percent)	2.0		2.5						

1/ Derived as $(r-r(1+g)-g)/(1+g+\rho+g\rho)$ times debt stock at t-1, with r = nominal effective interest rate on external debt; ρ = change in GDP deflator in U.S. dollar terms, and g = real GDP growth rate.

2/ Contribution from price and exchange rate changes defined as $-r(1+g)/(1+g+\rho+g\rho)$ times debt stock at t-1. ρ increases with an appreciating domestic currency and rising inflation.

3/ Does not capture the impact of cross-exchange rate movements between the U.S. dollar and other major currencies in which Jordan's external debt is denominated.

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

INTERNATIONAL MONETARY FUND
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IMF Executive Board Concludes Post-Program Monitoring Discussions with Jordan

On January 24, 2005 the Executive Board of the International Monetary Fund (IMF) concluded the first Post-Program Monitoring (PPM) Discussions with Jordan on a lapse-of-time basis.[1]

Background

The government's policy stance during 2004 aimed at promoting growth while consolidating the fiscal position in order to reduce the public debt-to-GDP ratio. The macroeconomic policy mix included prudent budgetary management and a credit policy supportive of economic expansion.

The economy recovered strongly during 2004, with real GDP growth estimated at over 6 percent. The unemployment rate decreased from 14.5 percent in 2003 to 12.5 percent in the first half of 2004. Reflecting the economic recovery, the Amman stock exchange index increased by 64 percent during the year. Inflation remained under control; average consumer price index inflation for 2004 was 3.4 percent compared with 2.3 percent in 2003.

The fiscal position strengthened during 2004, with tax revenues growing strongly and current expenditures being curtailed. For the year as a whole, the overall deficit is estimated at about 3.4 percent of GDP—an overperformance of about 0.5 percent of GDP compared to the original target. The debt-to-GDP ratio is estimated to have declined by almost 8 percentage points to 92 percent of GDP.

Jordan's external position remained sound. The external current account in 2004 is estimated to be broadly in balance, as higher imports were compensated by a brisk pickup in exports and sharply higher transfers. The capital account is estimated to record a small surplus for 2004,

[1] Post-Program Monitoring provides for frequent consultations between the Fund and members whose arrangements have expired but who continue to have Fund credit outstanding. Particular focus is placed in these consultations on policies that have a bearing on external viability. 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 consideration by the Executive Board.

owing to significant private inflows, including foreign direct investment (FDI). The gross usable reserves of the Central Bank of Jordan (CBJ) increased to US$4.8 billion at end-December 2004—equivalent to seven months of prospective 2005 imports. The Jordanian dinar depreciated by 3.9 percent in real effective terms over the 12 months to September 2004.

Monetary developments reflected the brisk growth in credit to the private sector on account of the buoyant economic activity and government domestic financing needs related to delays in privatization. Thus, broad money growth for end-2004 is estimated at about 11 percent, somewhat above nominal GDP growth. Domestic interest rates were adjusted in line with developments in the global capital markets to support the peg with the U.S. dollar. Steps were also taken during 2004 to strengthen the capital position of banks and to improve supervision. The share of nonperforming loans declined substantially during 2004.

Further progress has been made in structural reforms, including the privatization of the management of the Aqaba container port in early 2004. Jordan has also embarked on an ambitious improvement in the health and education sectors, supported by a World Bank loan.

Jordan's medium-term outlook remains positive, with a growth rate of around 6 percent per year. Trade liberalization and increased market access have set the stage for strong export-led growth over the medium term, and exports are expected to continue growing at 6–8 percent per year. Large private sector-led infrastructure projects, including in water, gas, and electricity generation, are likely to boost investment. Structural reforms, the enhancement of health and educational standards, and poverty alleviation are likely to have a positive impact on growth over the long term. Achieving the public debt target will entail fiscal tightening over the next three years. During this period, the external current account is expected to shift to a manageable deficit, while gross usable external reserves would remain at a comfortable level.

Executive Board Assessment

Over the past few years, the Jordanian economy has made impressive progress. Spurred by rising domestic demand, global economic recovery, restoration of trade links with Iraq, and the continued implementation of prudent macroeconomic policies, economic growth has picked up sharply in 2004 while inflation remained moderate. The external position is strong, with usable gross official reserves presently comfortable at the equivalent of about seven months of prospective imports. Reflecting buoyant tax revenues and tight expenditure management, the fiscal position has strengthened and the total public debt/GDP ratio has fallen.

In the period ahead, the Jordanian economy will continue to face important challenges. Public debt is large, and the economy continues to rely on external grants and remains vulnerable to exchange rate fluctuations. Moreover, inadequate adjustments in domestic fuel prices, coupled with higher-than-expected world oil prices, could result in a significant widening of the fiscal deficit and could delay meeting the debt reduction target. Delays in privatization pose another important risk for the debt strategy.

The official strategy regarding these challenges is appropriate; it focuses on the twin objectives of reducing the public debt burden and maintaining high economic growth. A sustained reduction in the fiscal deficit—supported by structural reforms to stimulate private sector investment, including FDI—and a judicious implementation of the privatization program would help place Jordan on a higher growth path consistent with a sustainable external position.

The thrust of the official strategy for the 2005 budget is sound and its overall deficit target is consistent with the debt limits under the Public Debt Law. The authorities should take advantage of progress made in 2004 to sustain the reform momentum. In addition, it would be critical to realign the nonstandard general sales tax (GST) rates with the basic rate and to broaden the coverage of the GST. Moreover, restructuring the income tax would make it more equitable and would improve resource allocation, while generating higher revenue. There also is scope for rationalizing capital spending. In this regard, the integration of the Plan for Social and Economic Transformation with the regular budget is a critical step toward minimizing duplication and improving expenditure management.

Structural reforms continue in several areas. The privatization of electricity generation in 2005 is important, and the authorities appropriately plan to proceed carefully and link privatization to the establishment of proper regulatory agencies, which would protect against the creation of private monopolies. The authorities should also take steps to introduce an automatic petroleum product price adjustment mechanism to close the gap between domestic and international petroleum product prices by 2008. The planned Fund technical assistance should be useful to strengthen the existing social safety net so as to cushion the impact of the fuel price increases on vulnerable groups, and to facilitate ongoing reforms in tax administration and expenditure management.

Jordan's policy of pegging to the U.S. dollar, combined with prudent financial policies and continued structural reforms, has ensured competitiveness. The planned pursuit of a tighter monetary policy in 2005 and the adjustment in domestic interest rates in line with international rates should facilitate the maintenance of competitiveness. The authorities are encouraged to continue monitoring developments in external reserves, interest rates in the international capital markets, and export competitiveness to ensure the effectiveness of their exchange rate policy. In this regard, the authorities should be prepared to respond expeditiously to any significant negative impact of the elimination of textile quotas under the multifiber arrangement. The steps that are being taken to support the development of a strong banking sector are appropriate. An early merger of the one remaining bank under CBJ administration with another larger bank would send an important signal to the financial market. In addition, the authorities' intention to develop the domestic government bond market is timely. It forms part of their strategy to shift budgetary financing toward domestic debt instruments, which would also help in developing a yield curve for the domestic capital market.

The next discussions under PPM will be conducted along with the Article IV Consultation in mid-2005.

Jordan: Selected Economic Indicators

	2000	2001	2002	Prel. 2003	Est. 2004
Real sector			(Changes in percent)		
Real GDP	4.1	4.9	4.8	3.3	6.0
CPI (period average)	0.7	1.8	1.8	2.3	3.4
Unemployment rate (in percent)	13.7	14.7	15.3	14.5	...
Gross national saving (in percent of GDP)	22.9	22.1	26.5	32.8	25.1
Gross capital formation (in percent of GDP)	22.2	22.1	22.7	21.6	23.2
Public finance			(In percent of GDP)		
Central government revenue and grants	30.1	30.4	30.0	35.6	35.2
Of which: grants	4.2	4.3	5.1	12.0	10.0
Central government expenditure and net lending 1/	34.8	34.0	34.9	36.6	38.6
Central government overall fiscal balance	-4.7	-3.6	-4.9	-1.1	-3.4
Net public debt 2/	100.0	96.2	99.0	99.6	92.0
Money and credit			(Changes in percent; unless otherwise indicated)		
Reserve money	7.1	-3.6	4.8	20.7	4.1
Broad money	10.2	5.8	7.0	12.4	11.3
Credit to the private sector	4.5	11.5	3.2	3.5	11.9
Interest rate on CBJ 3-month certificate of deposits	6.0	3.9	3.0	2.1	2.9
Balance of payments					
Merchandise exports	3.7	20.8	20.7	11.2	27.8
Merchandise imports	23.7	5.6	4.6	12.8	33.5
Current account balance (in percent of GDP)	0.7	0.0	4.5	11.1	2.0
Gross usable international reserves					
(In millions of U.S. dollars)	2,742	2,565	3,474	4,745	4,824
(In months of import cover)	6.4	5.4	6.8	7.1	6.5
Exchange rates					
U.S. dollar per Jordanian dinar (end-period)	1.4	1.4	1.4	1.4	1.4
Real effective exchange rate (end-period) 3/	2.9	6.2	-7.4	-6.9	...

Sources: Jordanian authorities; and IMF Staff estimates and projections.

1/ Includes spending in nontreasury accounts and from privatization proceeds.
2/ Includes government-guaranteed external debt. Domestic debt is net of government deposits with the banking system, and external debt excludes collateralized Brady bonds.
3/ A positive number indicates an appreciation of the real effective exchange rate.