INTERNATIONAL MONETARY FUND

Staff Country Reports

IMF Country Report No. 12/119

JORDAN

2012 ARTICLE IV CONSULTATION

May 2012

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2012 Article IV consultation with Jordan, the following documents have been released and are included in this package:

- **Staff Report** for the 2012 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on February 2, 2012, 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 March 23, 2012. 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.
- **Staff Statement** of April 9, 2012 updating information on recent developments.
- **Public Information Notice** (PIN) summarizing the views of the Executive Board as expressed during its April 9, 2012 discussion of the staff report that concluded the Article IV consultation.
- **Statement by the Executive Director** for Jordan.

The document listed below has been or will be separately released.

Selected Issues Paper

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

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JORDAN

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION

March 23, 2012

KEY ISSUES

Context

Jordan continues to face multiple exogenous shocks in 2011–12—high import prices for oil and food; repeated and extensive periods of interrupted natural gas flow from Egypt due to sabotage of energy infrastructure; a slowdown in tourism and remittance flows; heightened domestic and regional political tensions; and rising sovereign financing costs.

Focus of the consultation and recommendations

The immediate challenge for Jordan is to reduce fiscal and external imbalances, which will help preserve macroeconomic stability. Staff recommends:

- Proceeding with near-term fiscal consolidation plans to mitigate risks related to the high level of public debt and any possible slowdown in external flows. Implementation of the authorities' medium-term fiscal reform agenda will minimize vulnerabilities, reduce distortions, and help ensure sustainable fiscal and external balances.

- Maintaining a sufficiently large international reserve buffer to serve as insurance against unexpected shocks, especially given continuing high commodity-import prices and regional political uncertainties.

- Safeguarding the exchange rate peg remains the lynchpin for the maintenance of financial stability. Analysis of the real exchange rate indicates that the dinar remains broadly in line with medium-term fundamentals.

- Tightening monetary conditions as appropriate, to sustain the attractiveness of Jordanian dinar-denominated assets and contain inflation expectations.

- Continuing to strengthen the resilience of the financial sector, through enhancement of the central bank's already-strong regulation and banking supervision.

- Improving the business environment for the private sector, and encouraging accountability and good governance, which are keys to achieving more inclusive growth and generating employment.

Approved By
David Owen and Thomas Dorsey

Discussions were held in Amman during January 22–February 2, 2012. The staff team comprised Paul Cashin (head), Moataz El-Said, Mehdi Raissi, Agustin Roitman (all MCD), and Nkunde Mwase (SPR). The mission met Prime Minister Khasawneh, Finance Minister Toukan, Central Bank of Jordan (CBJ) Governor Fariz, Planning Minister Hassan, Tourism Minister Al-Fayez, other senior officials, private sector representatives, and donors. The mission issued a Press Statement.

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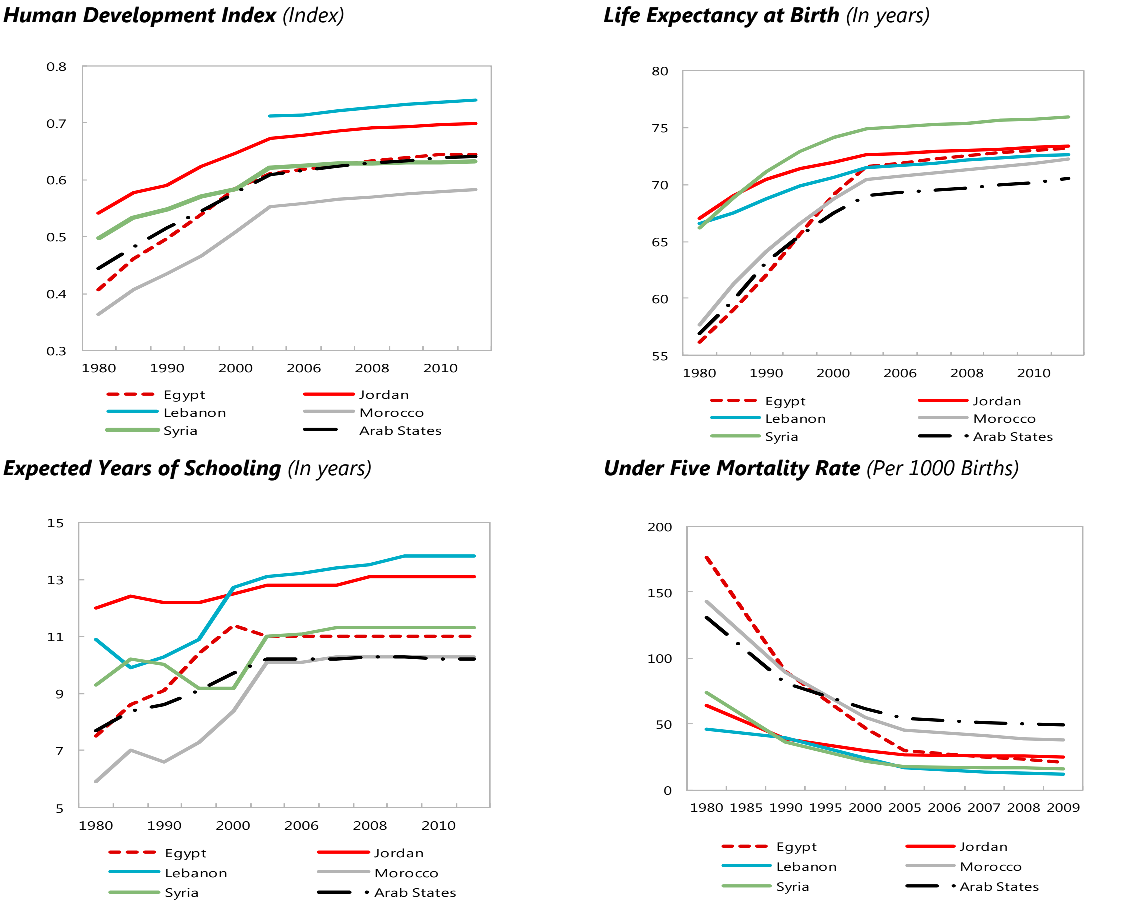
BACKGROUND

1. **Economic activity slowed sharply in 2010.** This slowdown followed a period of robust growth during 2000–09 (averaging about 6½ percent) supported by a favorable external environment. The Jordanian economy is among the most open in the Middle East, and remains highly dependent on commodity imports (oil and grains), tourism receipts, remittances, FDI flows, and external grants. While the authorities have implemented structural reforms to develop the private sector, Jordan has a chronic unemployment problem, with overall unemployment averaging around 13 percent during 2000–11. Unemployment is particularly high among the young and graduates (estimated at around 31 percent at end-2011).

2. **Jordan's social indicators compare well among neighboring countries**. Jordan's key social indicators are generally better than the average of Arab states. Jordan's ranking on the Human Development Index has been improving over time, and with Lebanon is among the highest in the Mashreq region.

Jordan: Progress for Selected Social Indicators, 1980–2011



Sources: UNDP, World Development Indicators and the World Bank.

3. **In the wake of the Arab Spring, Jordan has accelerated the pace of political reforms.** However, in comparison with other MENA countries, Jordan is implementing a more gradual process of political reforms. The aspirations of the Jordanian people have broadened to embrace enhanced accountability, transparency of government, and an increased voice in the decision-making process. Historic revisions to the Constitution were made in late 2011, to better balance power between the executive, legislative, and judicial branches of government. In 2012, Jordan will build on these reforms by passing legislation establishing a new Elections Law, a Political Parties Law, an independent electoral commission and a constitutional court, as well as hold parliamentary and municipal elections under the auspices of these revised arrangements. These steps are intended to consolidate the move towards a multi-party political system, where future governments are drawn from parliamentary majorities.

4. **Jordan has a continuing commitment to sound economic policies.** Notwithstanding the series of adverse shocks which have recently affected the economy, Jordan has a track record of sound economic fundamentals and prudent policies, which have been supported by a well-developed institutional policy framework and strong implementation capacity. These attributes have yielded a set of positive macroeconomic outturns, including: robust real growth; a low inflation environment, and stable exchange rate; limited external debt and adequate reserve buffers; an external capital account dominated by private capital flows; fiscal imbalances which stabilize debt at sustainable levels; a well supervised and sound banking system, funded mainly by local deposits; region-leading social and development indicators; and good quality data and statistical practices (Box 1). The authorities remain committed to sound policies in the future to reduce any remaining vulnerabilities.

5. **There is broad consensus on economic priorities.** Staff's discussions with a range of stakeholders yielded a broadly common view on key economic priorities, in line with those developed by Jordan's Economic Dialogue Committee. These include: ensuring that fiscal and external balances are sustainable; maintaining the robustness of the exchange rate peg; fighting corruption and bolstering the transparency of public policymaking; improving the quality of government services, particularly in health and education; combating poverty through well-targeted transfers and reducing unemployment; dampening adverse effects of shocks to the economy arising from its heavy dependence on imported oil and food; and boosting industry competitiveness, particularly in the tourism sector.

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

While economic activity remains subdued, unexpected additional fiscal and external pressures have arisen from instability in neighboring countries. Uncertainties related to regional economic and political developments will continue to pose significant challenges to Jordan in 2012. Moderate economic performance is expected over the medium term.

A. 2011—A Challenging Year

6. **Subdued real GDP growth is expected in 2011.** Following a downturn in 2010, real GDP is expected to rise by 2½ percent, mainly due to modest growth in mining, finance, and government services sectors. Regional unrest, high imported food and fuel prices, and rising sovereign financing costs have adversely affected the economy.

7. **Inflation fell and unemployment edged up.** Headline inflation fell to 4½ percent in 2011, due in part to the absence (since January 2011) of pass through of international oil prices. However, core inflation picked up to around 4½ percent y-o-y. The unemployment rate increased to almost 13 percent in 2011, and is expected to continue to rise given the country's muted growth prospects (Table 1 and Figure 1).

8. **Fiscal policy was accommodative.** The overall fiscal deficit increased to about 6 percent of GDP in 2011, mainly due to increased commodity subsidies and other social spending (costing an additional 2⅓ percent of GDP) and a cyclical weakening in domestic revenues. Budgetary grants of $1.4 billion (5 percent of GDP) were provided by Saudi Arabia during 2011, which helped fund the cost of fuel subsidies. Excluding grants, the overall fiscal balance registered a relatively high deficit of around 12 percent of GDP (Tables 2–3, and Figure 2).[1]

9. **The debt-to-GDP ratio increased considerably.** In addition to central government borrowing, increased borrowing on behalf of Jordan's National Electric Power Company (to accommodate more costly imported fuel products used during the frequent periods of interrupted natural gas supply from Egypt) and other own-budget agencies increased the public debt-to-GDP ratio to about 64½ percent at end-2011 (Box 2).

10. **The external position worsened, as a result of a series of adverse shocks.** The external current account deficit is expected to widen to 9½ percent of GDP in 2011, as a robust export performance is offset by increased energy imports and declining remittances and tourism receipts.[2] International reserves fell by 14 percent to reach $10.7 billion (equivalent to 6⅔ months of imports) at end-2011, as shortfalls in foreign

[1] The cyclically-adjusted primary deficit (excluding grants) fell by 4 percentage points of potential output to below 8 percent in 2010, before rising to about 10 percent in 2011.

[2] The value of energy imports increased in part due to higher oil prices, but also because of the need to substitute more expensive refined fuel products for natural gas (gas flows declined dramatically due to repeated sabotage of the Egyptian gas pipeline).

direct investment (FDI) flows accompanied the deterioration in the current account (Table 4 and Figure 3).

11. **Financing needs for 2011 were met by borrowing from the domestic banking system and a drawdown of international reserves.** Budgetary financing needs (excluding grants) are estimated to have reached \$2.84 billion (9.5 percent of GDP), and external financing needs (after FDI, new borrowing, other capital flows, and including official transfers) reached \$1.0 billion (3.3 percent of GDP). Given large excess liquidity in the banking system, local banks were able to meet the growing private credit demand, in addition to providing for most of the fiscal financing needs. Meanwhile, external financing needs were met by drawing down foreign reserves (Selected Issues, Chapter 3).

12. **The monetary stance has been tightened.** Following the Arab Spring, there has been a generalized increase in sovereign risk premia in Jordan and other MENA countries. In addition, the low nominal interest rate environment and rising inflation expectations have created the conditions for negative real interest rates. The Central Bank of Jordan (CBJ) tightened the monetary stance in July 2011, when it raised key interest rates by 25 basis points, increasing the overnight window rate to 2.25 percent (Tables 5–6 and Figure 4).

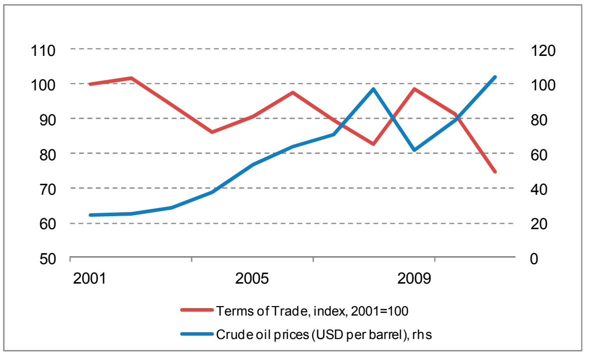
13. **Credit growth is accelerating.** The slow economic rebound is engendering a gradual rise in credit demand. Bank private sector credit continues to rebound (growing by 9½ percent y-o-y in December 2011).

B. Outlook and Risks—Regional Uncertainties Remain

14. **The outlook for 2012 remains challenging.** Modest economic growth, around 2¾ percent, is expected in 2012, supported by improved mining and financial services activity and continued growth in Gulf Cooperation Council countries, to which the business cycle of Jordan is closely linked. Average inflation is projected to pick up to almost 6 percent in 2012, given the planned resumption of pass through of international oil prices to domestic markets. Despite regional uncertainties, the current account deficit is projected to narrow (to 8 percent of GDP) due to a moderation of energy imports (given fewer disruptions to gas pipeline flows) and buoyant mining exports.

15. **The Jordanian economy continues to face substantial downside risks.** An outturn of higher commodity-import prices (particularly oil imports) would generate lower economic growth and higher fiscal and external deficits than the baseline projections. Indeed, Jordan has already experienced a 13 percent decline in its terms of trade in 2011.

Jordan: Terms of Trade and International Oil Prices



Jordan: Risk Assessment Matrix

Nature/Sources of Main Threats	Likelihood of Realization in the Next Three Years	Expected Impact on Economy if Risk is Realized
A large and prolonged increase in commodity prices	***Staff Assessment: Medium*** Jordan remains heavily dependent on commodity imports. A slowdown in global demand could ease upward pressures on commodity prices, but strong growth in emerging markets, particularly India and China, would contribute to persistently high commodity prices.	***Staff Assessment: High*** The projected narrowing of the fiscal and external current account deficits would be lessened. This might thereby increase pressures for more current expenditures (particularly subsidies and social transfers), which would affect fiscal sustainability.
Continued sabotage of the Egyptian natural gas pipeline	***Staff Assessment: Medium to High*** The security situation in the Sinai Peninsula is deficient, and the natural gas pipeline remains vulnerable to attack.	***Staff Assessment: High*** The projected narrowing of the external current account deficit would be lessened (due to the increased cost of importing gas-substitute fuel products), and public debt would increase (see also Box 2).
A worsening of unrest and civil war in neighboring countries	***Staff Assessment: Medium to High*** Social unrest and protests in the region are unfolding and the outlook remains uncertain.	***Staff Assessment: High*** Increased unrest would engender a slowdown in external inflows (particularly remittances, tourism, and FDI). Persistent and heightened unrest may result in capital outflows, a slowdown in intraregional trade, further curtailment of natural gas imports, and reduced economic growth.
Fiscal slippage	***Staff Assessment: Medium*** A three-year fiscal consolidation plan was announced as part of the approved 2012 budget. However, relatively high borrowing costs and fiscal deficits could pose a challenge to sovereign financing, particularly in the presence of an adverse, unanticipated external shock.	***Staff Assessment: Medium*** Failure to implement near- and medium-term fiscal consolidation would exacerbate existing debt sustainability concerns.
A spike in domestic inflation	***Staff Assessment: Medium to High*** Fiscal consolidation measures, including the removal of fuel subsidies, may engender an increase in domestic commodity prices.	***Staff Assessment: Medium*** A rise in domestic commodity prices would typically (following pass-through) lead to an increase in headline inflation. Such an inflation spike might affect inflation expectations, and raise public and private sector wage demands.
Direct effects of Eurozone crisis	***Staff Assessment: Medium to High*** A slowdown in the Eurozone would have some direct adverse effects on the Jordanian economy, mainly through trade and financial channels.	***Staff Assessment: Low to Medium*** There is limited exposure of Jordanian banks to the Eurozone, and limited trade links with Europe. Nevertheless, Jordan may experience a slowdown on international trade, and face increased sovereign and corporate borrowing costs. Jordan may also be indirectly affected by a Eurozone slowdown through any consequent reduction in the global demand for energy, which would adversely affect Jordan's key trading partners (particularly the GCC countries).

Regional political events with possible spillovers to Jordan—including unrest in neighboring countries—could adversely affect economic activity through lower tourism receipts and FDI, and more costly access to capital markets. In addition, a deepening of the European crisis could indirectly affect Jordan, mostly through its adverse impact on regional oil exporters (a major source of Jordanian trade, external grants, remittances, tourism and investment flows), given Jordan's limited export and financial market links to Europe (Selected Issues, Chapter 2).

16. **The authorities agreed with staff's assessment of the outlook and risks.** In particular, they viewed the frequent disruption of natural gas flows from Egypt as a serious risk to Jordan's macroeconomic and financial stability. Alternative energy sources are, and will continue to be, costly in the short term. Alternatives to natural gas for electricity generation (including new pipelines and ship-based liquefied natural gas imports) can be introduced to cushion the cost of energy imports over the medium term.

POLICY PRIORITIES

MANAGING THE ECONOMY IN 2012

The immediate challenge for Jordan is to reduce fiscal and external imbalances, which will help preserve macroeconomic stability. Given limited fiscal space and rising borrowing costs, it is important for Jordan to focus on near-term fiscal consolidation plans and have a clear medium-term strategy to further strengthen the fiscal position. At the same time, maintaining an appropriate monetary stance is important, along with adopting measures to promote inclusive growth and employment.

A. Maintaining Fiscal Sustainability Amidst Rising Social Spending

Despite regional political unrest, adverse commodity price shocks and the sluggish global economic recovery, Jordan should proceed with fiscal consolidation plans to mitigate risks related to the already-high level of public debt and any possible slowdown in external flows.

17. **The parliamentary-approved 2012 budget envisages considerable fiscal consolidation.** Reining in the deficit is an appropriate and necessary step, to mitigate risks associated with Jordan's already-high public debt and debt servicing costs, and to maintain fiscal sustainability. The approved budget focuses on raising domestic revenue (including by removing tax exemptions, revamping property transfer fees, and higher tax rates on luxury goods) and containing current spending (including by freezing public sector hiring, reductions in the operational costs of Ministries, and reform of the present system of universal subsidies for gasoline and diesel). The budget also provides for the

implementation of targeted transfers to alleviate higher fuel costs associated with the phasing out of fuel subsidies. The authorities' budget measures would lower the overall deficit by about 1.5 percent of GDP in 2012 (see Text Table).

Projected Yield from Budget Measures

	2012
Fiscal measures	(Percent of GDP)
Revenue	1.4
Tax Measures	1.2
Removing Exemptions	0.9
Tax on Luxury Goods	0.3
Non Tax Revenue	0.2
Expenditure	-0.1
Civil Service Reform	0.4
Pension Reform	0.3
Fuel Price Subsidy Reform	-0.7
Of which: Subsidy cuts	-1.0
Targeted Transfers	0.2
Change in Overall Deficit	**1.5**

Source: Authorities and IMF staff estimates. Figures may not add up due to rounding.

18. **The staff supports the authorities' fiscal consolidation plans.** Based on the latest developments and macroeconomic assumptions, if the budget is fully implemented, the 2012 overall deficit is expected to narrow by about 1 percent of GDP relative to the 2011 outturn, reaching 5¼ percent of GDP.[3] [4] This is a large adjustment, as evidenced by measuring the planned consolidation in structural deficit terms. For 2012, the cyclically-adjusted primary deficit (excluding grants) is projected to be reduced by 4 percentage points to reach 6½ percent of potential GDP (Box 3).

19. **The debt-to-GDP ratio will rise in 2012.** Given the above fiscal imbalances, and likely public borrowing for own-budget entities, the public debt-to-GDP ratio would rise to 65½ percent by end-2012. The staff cautioned that failure to implement the fiscal consolidation envisaged in the 2012 budget would place upward pressure on inflation, increase external imbalances, and raise domestic borrowing costs.

20. **The authorities are well aware of the short term fiscal challenges.** They stated that implementing the budget is essential to rein in the fiscal deficit, and that it is a necessary step to mitigate risks associated with Jordan's already-high public debt and debt servicing costs, given the importance of demonstrating commitment to maintain fiscal sustainability.

- The mission welcomed the authorities' revenue-raising efforts and supports their intentions to eliminate inefficient tax exemptions and privileges that narrow the tax base, as well as broadening the coverage of the tax system (including through revamped property taxes) to better target wealthy taxpayers.
- On the expenditure side, the authorities concurred with staff on the need for a freeze in the size of the civil service, which (depending on grant flows) would create the fiscal space for an increase in capital spending above its historic-low levels. The 2012 budget also puts back in place the automatic fuel pricing mechanism, which will remove the vulnerability of the fiscal

[3] Key differences between the 2012 Budget and the staff's 2012 fiscal projections include: due to assumed slower economic activity, staff is more conservative in calculating domestic revenue; staff also estimates higher expenditure on subsidies due to its use of a higher oil price forecast; and staff assumes slightly higher debt service payments.

[4] The cost of external debt servicing (interest payments and amortization) is projected to increase from about 1.6 percent of GDP in 2011 to 2.7 percent in 2012, mainly due to a large one-off principal repayment.

accounts to future oil price movements.[5] In addition, to better protect the needy, the budget envisages that universal commodity subsidies (which are biased in favor of high-income households) will be replaced by well-targeted compensatory transfers—these could take the form of cash transfers to low-income households (Selected Issues, Chapter 1). Staff also highlighted the importance of communicating a comprehensive strategy to the public to bolster support for future subsidy reforms.

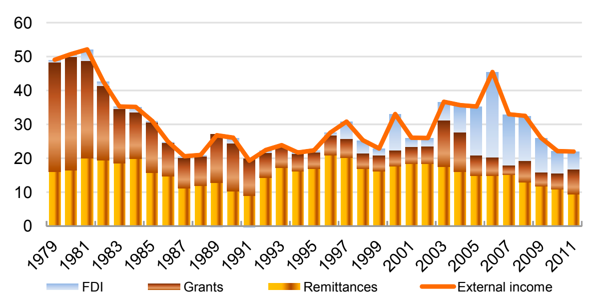
- Discussions also focused on the authorities' medium-term fiscal objectives and possible policy measures. These include further consolidation of own-budget agencies (which stand at 62 agencies at end-2011), and reforms to the electricity and water sectors (in particular gradually raising charges to cost-recovery levels) that would help ensure debt sustainability.

21. Further fiscal consolidation will be essential over the medium term to ensure sustainable fiscal and external balances. The authorities have approved a three-year fiscal reform agenda to minimize vulnerabilities, reduce distortions, and help ensure that the economy achieves a higher and more inclusive growth path. In particular, the 2012 budget envisages a medium-term path of narrowing the overall deficit to about 3½ percent of GDP by 2014.

22. Additional policy measures will likely be necessary to successfully achieve the medium term budget deficit targets. In the staff's view, at present the bulk of the deficit-reduction effort beyond 2012 is based on real GDP growth, which on current assumptions will not be sufficient to attain the medium-term budget goal until 2017. In order to leave some cushion for possible unforeseen demands on the budget, gearing fiscal policy toward a more ambitious medium-term target would be prudent. The authorities broadly shared the staff's assessment, but were confident that policy measures being considered, along with a return in investor confidence, would contribute to a pickup in economic activity and net revenues.

23. Jordan has traditionally enjoyed a stable flow of external grants. Over the last ten years, grants have averaged around 5½ percent of GDP. In general, grants have moved in line with oil prices and have been largely sourced from the oil-exporting GCC countries.

External Income and its Composition
(In Percent of GDP)



Source: Staff construction based on data from the IMF.

[5] Beginning in 2005, Jordan implemented a gradual phasing out of fuel price subsidies. By February 2008 all domestic fuel prices (excepting LPG) followed international prices, as Jordan had adopted an automatic fuel pricing mechanism, which instituted full pass through. Pass through under the mechanism ceased in January 2011, with domestic fuel prices based on the then international price of oil of about $100 per barrel.

24. Financing needs for 2012 are expected to again be met by borrowing from domestic banks and reserve drawdown. Assuming full implementation of the budget, domestic banks will meet fiscal financing needs (excluding grants), which are expected to reach $2.86 billion (9.1 percent of GDP). External financing needs (after FDI, new borrowing, other capital flows, and including official transfers), to be met by reserve drawdown, are expected to reach $0.9 billion (2.7 percent of GDP). Foreign reserves are expected to decline to about 6 months of imports at end-2012.

25. Such a financing strategy is unlikely to be sustainable over the medium term, in the absence of additional external support or an enhanced pace of fiscal consolidation. The mission discussed the authorities' plans to meet their financing needs, including through financial support from members of the G8-Deauville Partnership, the Development Policy Loan with the World Bank, and potential arrangements with other IFIs and donors.

B. Monetary and Exchange Rate Policy: Preserving Reserves and Containing Inflation

In light of continuing high commodity-import prices and growing regional political uncertainties, a sufficiently large international reserve buffer is needed as insurance against unexpected shocks. Further tightening of monetary conditions is appropriate, to sustain the attractiveness of Jordanian dinar-denominated assets and contain inflation expectations.

26. Monetary and fiscal policy coordination is essential. While the envisaged fiscal consolidation is critical to ensure debt sustainability and boost confidence in the Jordanian economy, the fiscal deficit remains sizeable in 2012, and there is scope for an offsetting tightening of the monetary policy stance to ensure that inflationary pressures remain muted. In addition, given rising sovereign risk premia in Jordan and other Middle East countries, further tightening of monetary conditions is appropriate, to sustain the attractiveness of Jordanian dinar (JD)-denominated assets and strengthen the international reserve position.

27. Available monetary policy tools are limited. Given the exchange rate peg adopted by the Central Bank of Jordan (CBJ) as the economy's nominal anchor, tightening could be implemented by allowing dinar interest rate differentials against the U.S. dollar to widen by: raising the policy (overnight window) rate; increasing reserve requirements (to reduce excess reserves held at the overnight window); or by resumption of the issuance of certificates of deposit (to soak up excess banking system liquidity).

28. Safeguarding the exchange rate peg remains the lynchpin for the maintenance of financial stability. The peg of the Jordanian dinar to the U.S. dollar has served the country well by anchoring inflation expectations and providing macroeconomic stability in a challenging regional and global environment. While the real effective exchange rate has experienced a modest appreciation of 2½ percent between December 2009 and November 2011—driven by rising inflation differentials with trading partners—the mission's analysis of the real exchange rate suggests that the dinar remains broadly aligned with medium-term fundamentals. The authorities concurred, and stated that the exchange rate peg had been crucial in maintaining confidence in the economy during the recent turbulent period in global and regional financial markets (Box 4). The current account deficit in 2011 has been adversely affected by the higher cost of fuel imports (due to the shortfall in gas availability, high oil-import prices, and the increased reliance on more expensive diesel and fuel oil as a source feed for electricity generation), and declining tourism and remittances receipts. Over the medium term the current account is expected to narrow, driven by strong export growth (underpinned by growing production capacity), the development of alternative energy sources for electricity generation, and a rebound in tourism demand and remittances flows.

29. The authorities shared the staff's view that the monetary policy stance should be tightened. They concurred with staff that given recent unrest in the region, there has likely been a generalized increase in MENA and Jordanian sovereign risk premia. Accordingly, there is scope for a further tightening of the monetary stance, in order to increase the attractiveness of dinar-denominated assets, reverse the slow loss of international reserves, and combat rising inflation expectations (Selected Issues, Chapter 4). Indeed, on February 5, 2012, the CBJ raised key interest rates by 50 basis points, elevating the overnight window rate to 2.75 percent.

30. High international reserves provide important insurance against shocks. Given growing regional political risks and Jordan's vulnerable fiscal and external positions, the staff argued that Jordan should strengthen its international reserve buffers. The staff expects the external current account deficit to narrow in 2012 as exports, tourism receipts, and remittances stabilize, and this should be supported by a gradual rebound in FDI flows. The authorities were slightly more pessimistic than the staff on the likely cost of fuel imports in 2012, and consequently expected a smaller narrowing of the current account deficit.

C. Financial Sector: Enhancing Regulation of a Robust Banking System

The authorities should continue to strengthen the resilience of the financial sector, through enhancement of the CBJ's already-strong regulation and banking supervision, to help the sector weather internal and external shocks.

31. The Jordanian banking system remains sound. The CBJ continues to exercise prudent regulation and supervision of the banking system, and banks have remained conservative in their funding practices (with the JD loan/deposit ratio near 73 percent at December 2011).

- The banking sector's macro-prudential indicators remain strong—banks remain profitable and well capitalized, deposits (largely JD-denominated) continue to be the major funding base, liquidity ratios and provisioning remain high, while non-performing loans increased slightly to 8½ percent at mid-2011.

- At end-December 2011, private sector credit growth stood at 9.6 percent compared with 7.2 percent in 2010. However, there is a risk that banks could be exposed to increased non-performing loans and provisioning requirements over the medium term, as Jordan's growth path is likely to remain below trend in the period to 2015. The authorities stated that they will continue to be vigilant in monitoring bank exposures, and stand ready to take appropriate actions in the event of a further deterioration in loan quality.

Jordan: Indicators of Bank Soundness, 2005–2011

	2005	2006	2007	2008	2009	2010	2011H1
	(In percent, unless otherwise indicated)						
Risk-weighted capital adequacy ratio	17.6	21.4	20.8	18.4	19.6	20.3	18.2
Non-performing loans (in millions of JD)	481	405	453	550	877	1159	1288
Non-performing loans (in percent of total loans)	6.6	4.3	4.1	4.2	6.7	8.2	8.5
Provisions (in percent of classified loans)	78.4	80.0	67.8	63.4	52.0	52.4	56.3
Liquidity ratio	168.0	161.4	157.5	141.2	159.1	161.4	145.5
Return on assets	2.0	1.7	1.6	1.4	1.1	1.1	1.2
Return on equity	20.9	15.0	12.6	11.5	8.8	8.8	9.2

Source: Central Bank of Jordan.

32. Continued enhancement of banking supervision will strengthen the robustness of the Jordanian banking system. The mission welcomes measures taken by the CBJ in 2011 to further enhance its banking supervision under Basel II in accordance with the 2008 FSAP recommendations, including by:

- Supervisory reviews on the submitted bank Internal Capital Adequacy Assessment Process (ICAAPs), to ensure appropriate risk management and corporate governance by banks; and semi-annual monitoring of financial soundness indicators.

- Taking additional steps toward the introduction of an automated data collection system (expected to be operational by end-2012), to be used to improve off-site monitoring of banks and allow for a statistical-based early warning system.

- Passage of the Credit Information Law and associated by-laws (in August 2011), which will enable the establishment of a credit bureau and help promote private credit flows.

- Issuance of a circular to licensed banks in October 2011, requiring banks to provide details (by mid-2012) on the impact of implementing Basel III.

- In the staff's view, the monetary authorities have implemented almost all of the recommendations contained in the 2008 FSAP Update (Box 5).

33. **Most of the CBJ-administered bank lending schemes have not been renewed.** The small and medium enterprise (SME) lending scheme, and the fixed rate 5-year credit facility to industry, were not renewed when they expired in early 2012. This was mainly due to the low demand for credit extended by these schemes. In addition, the scheme to promote bank lending for low-income housing is due to expire in May, 2012.

34. **Establishing the framework for the issuance of Islamic sukuk is progressing slowly.** The draft Sukuk Law currently awaits the approval of parliament, and the government continues to work towards resolving several legal issues which at present impede the issuance of sukuk in Jordan.

35. **The authorities are to be commended for their ongoing efforts to strengthen Jordan's Anti Money Laundering (AML)/Combating Financing of Terrorism (CFT) framework.** In November 2010, Jordan was recognized as the first MENA country to be in compliance with the recommendations of the Financial Action Task Force's (FATF) targeted review of its AML/CFT regime. The AML/CFT supervision of Jordanian financial transactions has been subsequently further strengthened, following amendments to the AML/CFT Law and the adoption of revised AML/CFT instructions covering banks, insurance companies, securities activities, and money exchangers. The Jordanian AML/CFT Unit has also requested technical assistance from the IMF in undertaking an assessment of their AML/CFT regime, with an eye to further enhancing its effectiveness.

THE MEDIUM-TERM OUTLOOK

Reducing Jordan's fiscal and external vulnerabilities, improving the business environment for the private sector, and encouraging accountability and good governance are keys to achieving higher inclusive economic growth and generating employment.

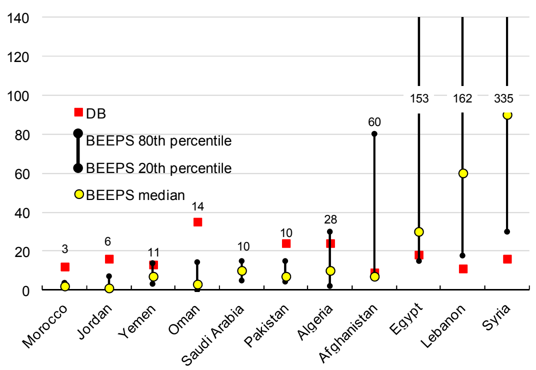
A. Medium-Term Challenges

36. **Key medium-term policy challenges** are to reduce Jordan's vulnerabilities by reining in its large fiscal and current account deficits and dependence on external grants; and creating jobs and providing social protection by achieving faster and more inclusive growth. The latter will require: maintaining a stable macroeconomic environment; improving the business climate and governance; reducing generalized subsidies and building targeted transfers and social safety nets; enhanced trade openness; poverty reduction efforts; and accelerating labor market reforms to reduce rigidities.

37. **Given the high debt burden and limited fiscal space, the government should:**

- *Improve the regulatory and administrative environment for businesses*. Private sector enterprises face fairly uniform access to government business services. For example, according to firm-level data from the *World Bank Enterprise Survey*, the median firm in Jordan can obtain an operating license in less than a week, which compares favorably with other MENA countries (Selected Issues, Chapter 5). Nonetheless, the authorities plan further enhancements to the business investment framework using the new Investment Law (passed in June 2011). In particular, they plan to further streamline procedures to obtain licenses and register businesses, through use of the Jordan Investment Board as a one-stop-shop and vehicle for the promotion of foreign investment.

Number of Days Required to Obtain an Operating License (Firm-Level)
(80th–20th percentile difference)



Sources: World Bank and European Bank for Reconstruction and Development, Business Environment and Enterprise Performance Survey (BEEPS); and World Bank, Doing Business (DB) Survey.
Note: From 2003–10; data for each country vary by year.

- *Wind down universal subsidies.* The authorities will need to build consensus on the difficult fiscal choice regarding reducing universal price subsidies, which mainly benefit the rich. Better targeted subsidies and transfers are needed to help the poor and vulnerable overcome adverse circumstances, which would also free up funds for capital spending and current spending on education and health.

- *Limit risks of mega-projects and bolster public-private partnership (PPP) framework.* The authorities should continue to refrain from issuing any form of debt guarantees for borrowing by public agencies in connection with prospective mega-projects (in rail transportation (the Jordan National Railway project), nuclear power, and water infrastructure (Red Sea-Dead Sea project)). The mission argued that such loan guarantees, along with development policy loans and concessional funding for development projects, could instead be extended by donors. The passage of the PPP Law in June 2011 is an important step toward boosting infrastructure investment (Selected Issues, Chapter 6).

- *Enhancing trade openness*. The authorities have completed their National Trade Strategy, which will guide trade initiatives over the medium term. Jordan has negotiated several free trade agreements (FTA) in recent years, most recently with Turkey in 2011, and negotiations are continuing with Mercosur countries on a prospective FTA. Jordan's bid for GCC membership also holds the potential for further enhancing intra- and inter-regional trade and economic integration. Going forward, the authorities plan to implement their National Tourism Strategy, which it is hoped will accelerate reforms to the training and education of potential tourism employees, and help attract greater foreign direct investment into the tourism sector.

- *Continue to strengthen fiscal institutions.* Continued progress in public sector structural reforms is important to enhance the business environment and allow for greater private sector-led growth. Public sector financial management has been enhanced by better cash management practices following the introduction of the Treasury Single Account; and the establishment of the Government Financial Management Information System in major ministries (including Finance, Planning, and the Budget Department), with plans to extend to remaining ministries in 2012. The mission recommended that the authorities take further steps to improve financial management through: further strengthening of the three-year medium-term framework for budget formation and implementation; and greater attention to internal audit and expenditure controls through an enhanced Audit Bureau. In addition, accelerated progress should be made in merging and reducing the number of own-budget public agencies, to reduce the burden of these agencies on the budget. The authorities concurred with the staff on the need to accelerate the process of reducing the number of agencies, and pointed out that this was likely to occur in the context of current reforms to the civil service.

- *Encourage good governance.* The authorities should put in place transparent institutions to encourage accountability and good governance. While Jordan outperforms its peers in MENAP on governance measures, there is room for improvement. The authorities noted that they plan to further strengthen institutions that support transparency and good governance, including by enhancing the Audit Bureau, the independent Ombudsman Bureau (established in 2009), and the Anti-Corruption Commission (which operates under the revised Anti-Corruption Law of 2011) (Box 6).

- *Support for poverty reduction.* Jordan's *Poverty Analysis Report*, issued in 2010, is based on the Household Income and Expenditure Survey of 2008, and indicates that some 13⅓ percent of the population had incomes below the poverty line. The mission encouraged the authorities in their endeavors to better target their poverty-reduction and transfer initiatives, including those provided through the National Aid Fund (Box 7). The authorities pointed out that they are committed to more efficiently addressing the issue of poverty, including by better targeting of transfers to the needy, drafting (with the support of donors including the World Bank) a new Poverty Reduction Strategy for 2012–15, and in the short-run by implementing capacity-building activities and establishing micro-credit facilities in well-established "poverty pockets" of the country.

38. Outreach and technical assistance. Fulfilling a previous request of the authorities, the CBJ and IMF co-hosted a Research Workshop at the conclusion of the mission. IMF staff made several well-received presentations of analytical papers on optimal reserves, unemployment, current account sustainability, and commodity subsidies (see Selected Issues chapters). The staff also conducted a training course on DSGE modeling for members of the CBJ Research Department, which was much appreciated by the authorities.

B. Inclusive and Sustainable Growth to Boost Employment

39. Jordan has in the past experienced relatively strong growth that helped to create employment opportunities for both nationals and expatriates, yet the unemployment rate has for the last few years been fixed at about 13 percent. Lowering the current high level of unemployment will require enhanced competitiveness in the economy, and adoption of active labor market policies that seek, through market-friendly programs such as vocational training, job matching services, and support for youth start-ups, to better position Jordanians in local and international labor markets.

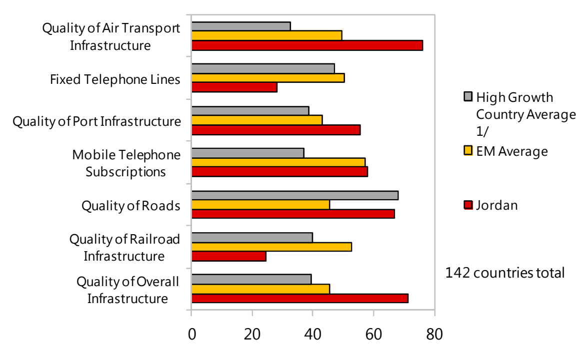
40. Jordan faces a daunting employment challenge. To absorb the 2010 unemployed and all new entrants to the labor force—around 60,000 new labor market entrants are anticipated each year—would require annual real GDP growth of around 9⅓ percent, which is about 6 percentage points higher than current medium-term projections (Selected Issues, Chapter 7).

41. Unfavorable population demographics coupled with a weaker economic outlook will challenge the authorities' ability to lower rates of unemployment. Based on past labor market trends, annual growth of about 4½ percent (near potential) is insufficient to absorb anticipated new labor market entrants. Job creation is also constrained by the tightening fiscal situation that will limit the public sector's ability to absorb labor. In addition, high remittances and education costs contribute to voluntary unemployment in Jordan by keeping reservation wages high.

42. Going forward, key priorities will be to redirect the growth strategy to place greater emphasis on high value-added production and services. Possible components of a new strategy include:

- Increased capital spending (within the constraints of fiscal sustainability) could potentially have high returns, given Jordan's low capital per worker level and relatively efficient investment process. To benefit fully from increased capital spending, however, Jordan could look to further improve its investment process, specifically the final stage, involving project evaluation and appraisal. An improved investment process would aid in the creation of jobs for Jordanians (Selected Issues, Chapter 8).
- Enhancing linkages with the Gulf Cooperation Council (GCC). The GCC has been an important platform for service sector development—for both the tourism and financial sectors. Potential impediments to accessing the GCC market, including through further improvements in customs and trade procedures and logistics, should be examined.

Jordan Infrastructure:
Percentile Rankings of Sub-Indicators, 2011



Source: World Economic Forum's Global Competitiveness Index.

- Support productivity improvements in the manufacturing sector through skill enhancement, prioritizing vocational education, and research and development.

- Broaden corporate financing sources (beyond the anemic equity market and bank financing)—including access to longer-maturity financing—by looking to develop the corporate bond market (including sukuk corporate bonds) as market conditions permit.

- Improve the functioning of labor markets. Reducing rigidities in labor markets, and decreasing the regulatory and tax burden in product and labor markets can help create jobs and lower unemployment—which is particularly high among youth and highly educated. Addressing the skill mismatch problem in the labor market, and adopting measures that encourage higher labor force participation by Jordanians, can help boost employment.

- Continue to develop access of labor-intensive SMEs to finance through the donor-supported National SME Program, which seeks to support SMEs through loan guarantees and targeted grants, while ensuring appropriate governance is in place. Introducing a credit information bureau to facilitate SME access to financing will be important. The authorities' plans to simplify business registration and regulation procedures are welcome, and will help create a more competitive business environment, especially for SMEs.

- Ensure that any revisions to the public sector compensation package or the structure of minimum wages do not distort incentives for private sector employment.

Minimum Wage in Jordan and the Region, 2010 1/

	Minimum wage for a 19-year old worker or an apprentice (US$/month)	Ratio of minimum wage to average value added per worker	Ratio of annual minimum wage to 2009 GDP per capita	Ratio of annual minimum wage to 2009 household final consumption expenditure per capita
Egypt	31	0.11	0.16	0.22
Jordan [1/]	201	0.40	0.57	0.69
Lebanon [2/]	466	0.47	0.68	0.93
Morocco	254	0.72	1.08	1.87
Syrian Arab Republic	134	0.41	0.65	0.97
Tunisia	121	0.27	0.38	0.61
MENA6 average	201	0.40	0.59	0.88
World average	305	0.33	0.43	0.72

1/ Data for Jordan minimum wage does not reflect the end-2011 minimum wage increase to $268.

2/ Household consumption data for Lebanon is for 2008.

Sources: World Bank's Doing Business 2011 and World Development Indicators, April 2011.

43. Jordan needs to bolster inclusive growth. For the new growth strategy to have a maximum impact on job creation, it needs to be inclusive—benefiting all segments of the population, not just a privileged few. The government can help by creating an enabling environment, including by providing a level playing field for personal and business access to public services, and a healthy business climate.

44. The authorities recognized the potential pressures on the labor market, but stressed the efforts that are underway to enhance job creation. They argued that while mineral exports and manufacturing are important sources of employment, the tourism sector held great potential as a source of employment given rising global tourism demand. Further development of high-value added manufacturing and services aimed at regional and international markets was being nurtured, including information communication technology, final consumer goods production, and eco- and family-oriented tourism. The authorities noted that several initiatives are underway to foster employment generation, including: enhanced SME formation through the National SME

Program; facilitation of job creation in the governorates through equity investment via the Governorates' Investment Fund; and the new National Employment Strategy, which will seek to expand vocational training opportunities to better align skill sets with emerging employment opportunities.

STAFF APPRAISAL

45. The Jordanian economy has endured large external and domestic shocks in recent years. Repeated sabotage of key energy infrastructure, a slowdown in tourism and remittances flows, heightened regional political tensions, rising sovereign financing costs, and the precipitous decline in the terms of trade in 2010–11 (due to high import prices for oil and food), have provided a difficult macroeconomic backdrop. Growth has slowed significantly as a result, despite previous fiscal and monetary easing, and investor confidence has weakened. The immediate challenge for Jordan is to preserve macroeconomic stability while enhancing inclusive growth.

46. Jordan continues to face significant risks. In addition to the challenging global and domestic economic environment, unrest in neighboring countries is adding to economic uncertainty. As one of the world's most energy-import-dependent countries, adverse developments concerning either the diminished availability of energy imports (through further curtailment of critical gas supplies from Egypt) or higher energy-import prices (due to adverse shocks to global energy supplies) would have serious repercussions for the Jordanian economy.

47. The near-term outlook hinges on the restoration of strong domestic policies. With the difficult external environment clouding prospects, domestic policies should aim at building confidence in the economy. This requires above all maintaining fiscal discipline, which will ensure that the public debt-to-GDP ratio is placed on a downward path. Though Jordan's economy has demonstrated great resilience to past crises, now is the time to build back fiscal buffers, to help prepare for any future adverse shocks.

48. The staff supports the fiscal consolidation contained in the 2012 Budget, which will kick-start the process of rebalancing the fiscal accounts. There is little scope for further countercyclical fiscal policy. Staff believes the decline in the overall deficit of about 1 percentage point of GDP this year is appropriate and achievable. Such consolidation allows for better-targeted social expenditures and transfers, and provides the fiscal room for needed capital expenditures. Implementation of these fiscal plans, along with borrowing to cover the cost of sabotage-induced additional fuel products, would engender a small rise in the debt-to-GDP ratio in 2012 (to about 65½ percent of GDP).

49. The authorities have approved a three-year fiscal reform agenda designed to reduce vulnerabilities. While there remains scope for further medium-term reforms, it is important to have a clear, comprehensive strategy to restore fiscal balance, which will help build consensus behind the reforms, maintain investor confidence, and preserve macroeconomic stability. This strategy will involve a combination of tax reforms, further subsidy reforms, continued moderation of growth in the public sector wage bill, greater prioritization of capital spending, and improvements in tax administration and public sector financial management.

50. Monetary policy should aim at containing inflationary pressures and support the objective of maintaining an adequate level of reserves. With rising regional and emerging market sovereign risk premia, a tightening of monetary conditions is appropriate to sustain the attractiveness of Jordanian dinar-denominated assets and contain inflation expectations. Given growing regional political risks and its vulnerable fiscal and external positions, Jordan should maintain its large stock of international reserves cover as insurance against risks. Notwithstanding the recent increase in key interest rates, the staff recommends that the monetary authorities continue to stand ready to tighten monetary conditions to achieve these goals.

51. The currency peg remains the keystone of financial stability. The dinar's peg to the U.S. dollar continues to serve Jordan well by helping anchor inflation expectations. Analysis by the staff of the level of the real effective exchange rate indicates that the dinar remains broadly in line with its medium-term fundamentals.

52. Bank regulation and supervision should continue to focus on strengthening the resilience of the financial sector. The Jordanian banking system is conservatively managed and effectively supervised, which has yielded a strong set of macroprudential indicators, and has proven resilient to large domestic and external shocks. The monetary authorities are to be commended for their efforts in implementing Basel II regulations, and Jordanian banks are already well on the way to satisfying major components of Basel III regarding capital adequacy and liquidity. However, in light of recent rising private sector credit growth and continued slow economic growth, non-performing loans and loan provisioning should continue to be closely monitored. The staff welcomes further enhancements to Jordan's already-strong AML/CFT framework, which will provide reassurance as to the health and integrity of the banking sector.

53. Jordan needs higher and more inclusive growth. Reducing the country's high levels of unemployment requires a more dynamic economy that can generate jobs. Tackling infrastructure bottlenecks through investment and structural reforms, and undertaking improvements to the business climate and efficiency of labor markets (including reducing labor market rigidities and enhanced vocational training to reduce skill mismatches), would help remove key impediments to growth and employment.

54. It is proposed that the next Article IV consultation be held on the standard 12-month cycle.

Box 1. Policies Since the 2010 Article IV Consultation

Macroeconomic policy implementation was broadly in line with staff recommendations in 2010. The authorities reduced the 2010 primary fiscal deficit (excluding grants) by close to 3 percentage points of GDP, which surpassed staff's recommended target by almost ½ of one percent of GDP. This was achieved mainly by lower than expected current and capital spending, despite a decline in tax revenue (following implementation of legislation lowering the average tax burden).

Policy implementation in 2011 was mixed. External shocks affected Jordan's economic performance, which changed significantly the context for staff advice. The broad trend of fiscal consolidation was reversed in 2011, due to heightened political tensions and increased social spending in response to the multiple shocks affecting the economy. Despite higher than expected grants, the overall fiscal deficit widened to around 6 percent of GDP, and the debt-to-GDP ratio increased to 65 percent by end-2011.

Monetary policies have been appropriately tightened and banking supervision enhanced. The monetary authorities raised key interest rates in July 2011 and again in February 2012. This was consistent with staff's recommendation to continue to stand ready to tighten monetary conditions if there are signs of pressure on the balance of payments or inflation. The monetary authorities also continued to enhance their supervision and regulation of the Jordanian banking system, in line with staff recommendations in the 2008 FSAP Update, particularly in their implementation of Basel II and ensuring the readiness of banks for Basel III.

Progress on structural reforms was uneven. Passage of the Public-Private Partnership Law in June 2011 will help boost infrastructure investment and contain risks associated with the financing of potential mega-projects. Reforms to public financial management are moving forward, while the consolidation of own-budget agencies is proceeding slowly. While further progress is needed with reforms to improve the business environment for the private sector, the authorities did pass the Credit Information and Investment Laws, which will help bolster private credit flows and investment.

Box 2. Jordan: Macroeconomic Implications of Disruptions to the Arab Gas Pipeline

Saboteurs on February 5th 2012 blew up the Arab Gas Pipeline, which supplies Egyptian natural gas to Jordan. The pipeline, which carries gas through the Sinai Peninsula and on to Jordan and Israel, has been attacked 13 times since February 2011. Security in the Peninsula has been deficient since the regime change in Egypt.

Jordan has a regulated market for electricity. The National Electric Power Company (NEPCO) purchases electricity from privately-owned generating companies at market prices, and then sells that electricity to distribution companies at regulated tariffs. The power-generating companies rely on natural gas as the main source of fuel for production.

The disruption in gas supplies has significant adverse macroeconomic implications for Jordan. Prior to the repeated sabotage of the pipeline, Jordan imported about 80 percent of its gas needs (about 250 million cubic feet of gas per day) from Egypt to generate electricity, with the remainder produced locally. When supplies of natural gas are interrupted, power plants have to use heavy fuel oil and diesel for electricity generation, which are about four times more costly than natural gas. This not only has implications for the balance of payments, but it also affects the public debt position, since the government has both issued Treasury bonds on behalf of NEPCO, and guaranteed NEPCO's own borrowings from domestic banks.

- **Balance of payments impact:** The more costly substitution of Egyptian natural gas supplies by fuel oil and diesel, coupled with the 32 percent rise in global fuel prices, has increased Jordan's energy import bill by over 50 percent in 2011—reaching 16 percent of 2011 GDP.

- **Debt impact:** The cost of electricity generation is estimated to have increased sharply during 2011 to about 197 fils per kilowatt hour—nearly three times the wholesale rate at which electricity is sold to distribution companies. As electricity tariffs remained fixed during 2011, the differential between NEPCO's cost-recovery price and fuel costs resulted in a large increase in NEPCO's losses and debt. It is estimated that domestic borrowings by or on behalf of NEPCO amounted to US$1.1 billion (about 3.8 percent of GDP) in 2011. Of this, about US$0.7 billion (2.4 percent of GDP) has involved (mainly) borrowing by the government on behalf of NEPCO, and (partly) government guarantees of NEPCO's borrowings, through both channels increasing public debt.

The disruptions have also increased the urgency for Jordan to diversify its sources of energy and a range of options are currently under consideration. Jordan is in discussions with Qatar and Saudi Arabia to supply it with the needed quantities of natural gas. Among the options being considered are renting a ship with an liquefied natural gas (LNG) terminal to import gas from Qatar (would be operational in about 18 months), or equipping the Aqaba port with an LNG terminal (which would take about 2 years to complete). There are also ongoing efforts to develop domestic sources of energy at the Risha field, as well as a shift to renewable sources of energy.

Staff incorporated in their projections the potential effects of ongoing disruptions to gas supplies, and the near term outlook is moderately more optimistic (meaning fewer gas supply disruptions) in 2012. The estimates assume some improvement in Sinai Peninsula security and accordingly that gas imports from Egypt in 2012 would be higher than in 2011.

Box 3. Jordan's Fiscal Consolidation Efforts

To assess the effectiveness of the fiscal consolidation efforts by Jordan, it is necessary to determine the actual contribution of fiscal policy in the reduction of fiscal deficits. Given that fiscal outcomes are affected by economic fluctuations and external flows (that is, revenues go up in a boom, and/or when grants are received), it is crucial to factor out exogenous fluctuations and cyclical factors affecting the fiscal balance.

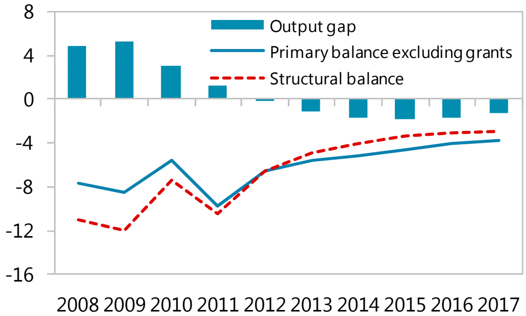
For the case of Jordan, it is essential to focus on policy instruments (that is, discretionary spending, or tax rates) as opposed to policy outcomes (such as overall fiscal balances, or tax revenues), particularly given the importance of grants, and exogenous shocks affecting fiscal revenues. Hence, the change in the structural balance is a better measure to assess actual fiscal policy underlying the fiscal consolidation plans.[1]

At the moment, the Jordanian economy is in the downward phase of the business cycle as output gaps are deteriorating. Nevertheless, fiscal policy is contractionary, given that the structural balance, as well as the primary balance excluding grants, are both improving (see Figure 1).

For 2012, the structural deficit is projected to be reduced by 4 percentage points of potential GDP, whereas the *unadjusted* primary deficit excluding grants is projected to be reduced by around 3 percentage points of GDP (see Figure 2).

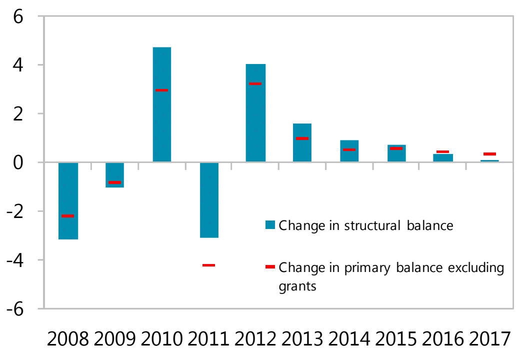
The level and the change in the structural balance for 2012 and 2013 indicate that substantial fiscal efforts are projected to be implemented during this year and next, but there remains scope to implement additional fiscal measures over the medium term.

Figure 1. Fiscal Balances and Output Gap
(percent of (potential) GDP)



Note: Structural balance is calculated in percent of potential GDP, primary balance is in percent of nominal GDP.

Figure 2. Changes in Fiscal Balances
(percent of (potential) GDP)

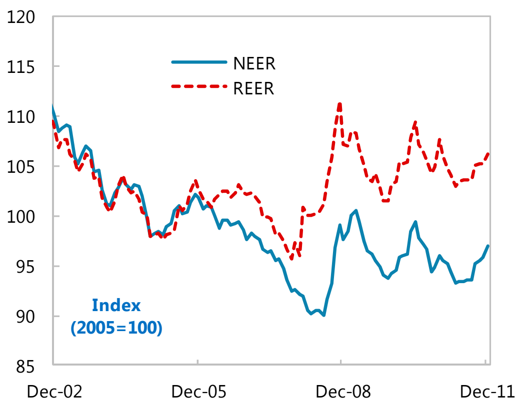


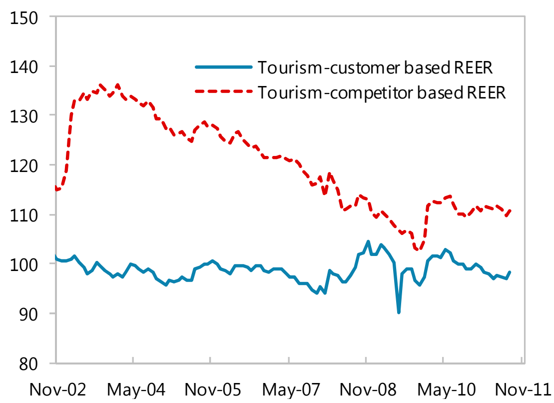
Note: Structural balance is calculated in percent of potential GDP, primary balance is in percent of nominal GDP.

[1] We define the structural balance as the cyclically-adjusted primary fiscal balance excluding grants. Revenue and expenditure elasticities are estimated using OLS regressions, whereas potential output is estimated using an HP filter with smoothing parameter of 100.

Box 4. Exchange Rate Assessment

Jordan's real effective exchange rate appears broadly in line with its medium-term fundamentals. After several years of decline in line with the weakening U.S. dollar, the trajectories of the trade-weighted nominal effective (NEER) and real effective exchange rates (REER) and tourism-based measures[1] of the real exchange rate index indicate a modest appreciation—ranging from 0 to 3 percent—relative to their end-2009 values, driven by rising inflation differentials with trading partners.





Jordan's robust export performance in recent years also suggests that the country does not face major competitiveness problems, but recent regional instability poses a challenge. Both goods and services export receipts are estimated to have grown by about 11 percent on average over the past five years (2007–11). Among services exports, the important tourism receipts, which account for about one quarter of exports of goods and services, has been adversely affected by regional instability during 2011, as reflected in sharp decrease in tourist arrival numbers.

Jordan: Assessment of the Real Effective Exchange Rate

I. Macroeconomic balance 1/		II. Macroeconomic balance 2/		III. External sustainability 3/		IV. Equilibrium real exchange rate 4/		Average misalignment	
2011 fundamental	2017 fundamental	2011 fundamental	2017 fundamental	2011 fundamentals	2017 fundamental	2011 fundamental	2017 fundamental	2011 fundamental	2017 fundamental
[Misalignment as percentage deviation from estimated equilibrium, overvaluation (+), undervaluation (-)].									
5.1	2.5	-4.1	-6.1	6.9	-4.6	-1.4	2.2	1.6	-1.5

1/ Macroeconomic balance computed using the CGER methodology

2/ Measures the adjustment needed to eliminate the gap between an estimated current account "norm" and the projected "underlying" medium-term current account balance. In computing the norms, medium-term values of the fundamentals (including the fiscal balance, oil trade balance, foreign direct investment, and real effective exchange rate) are drawn from staff projections (See Samya Beidas-Strom and Paul Cashin, 2011).

3/ Provides an estimate of the adjustment needed to stabilize Jordan's net foreign assets (NFA) to GDP ratio at its end-2010 level (-66 percent of GDP).

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

[1] Following the methodology of Emilio Pineda, Paul Cashin, and Yan Sun, 2009, "Assessing Exchange Rate Competitiveness in the Eastern Caribbean Currency Union," IMF Working Paper 09/78, the real effective exchange rate is measured against the currencies of Jordan's major customers and major regional competitors in the tourism sector.

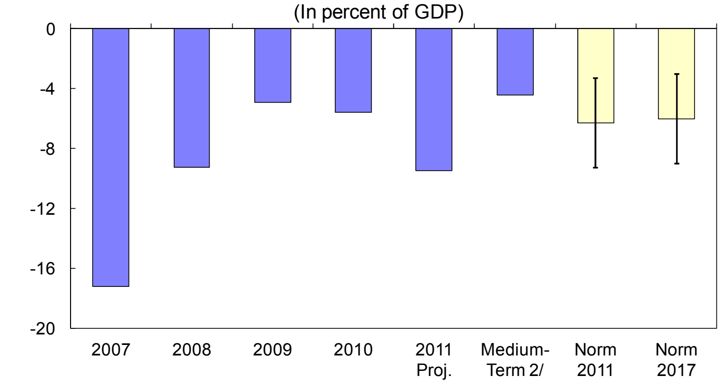
Box 4. Exchange Rate Assessment (concluded)

Estimates from the IMF's three Consultative Group on Exchange Rate (CGER)-based methodologies for exchange rate evaluation—based on the projected level of the current account over the medium term (2017)—do not yield evidence of exchange rate misalignment (see Table).[2] The *macroeconomic balance and equilibrium real exchange rate approaches* suggest that the exchange rate is broadly in equilibrium over the medium term (overvalued by between 2.2 and 2.5 percent), while the *external sustainability approach* points to a small undervaluation (by 4.6 percent). On average, there is little indication of a misalignment of the Jordanian dinar's real effective exchange rate for the medium term (2017), with the actual REER calculated as undervalued by 1½ percent vis-à-vis the equilibrium REER.

Estimates from alternative exchange rate evaluation methodologies[3]—based on a developing country-specific (including Middle East countries) version of the CGER macroeconomic balance approach to the current account—indicate that while Jordanian current account imbalances have exhibited large fluctuations over time, these have narrowed since 2007, pointing to a current account position close to the current account norm.

There is little evidence of real exchange rate misalignment. Using the macroeconomic balance approach, Fund staff estimate Jordan's equilibrium current account deficit under current policies (the current account 'norm') at around 6 percent of GDP. Jordan's projected medium-term (2017) deficit of 4½ percent of GDP is within one standard deviation of the estimated current account norm. This implies that medium-term current account imbalances in Jordan—largely financed by private capital flows (particularly FDI)—appear sustainable, and are in line with the equilibrium levels predicted by fundamentals. Accordingly, as with the standard CGER approaches, there is little evidence of real exchange rate misalignment, as the medium-term current account balance is close to the current account norm. Similarly, the 2011 current account deficit of 9½ percent of GDP is within one standard deviation of the 'norm' deficit of 6¼ percent of GDP.

Jordan: Current Account Deficit, Actual and Estimated Norms 1/
(In percent of GDP)



Sources: Fund staff estimates and projections.
1/ In computing the norms, medium-term values of the fundamentals (including the fiscal balance, oil trade balance, foreign direct investment, and real effective exchange rate) are drawn from staff projections. Band is ±1 standard error of the prediction.
2/ Based on Fund staff estimates. Medium-term is 2017.

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[2] For a description of the methodology underlying these updated estimates of exchange rate misalignment, see Chapters I and II, respectively, of the Selected Issues paper for the 2008 Jordan Article IV Consultation (IMF Country Report No. 08/291).

[3] Following the methodology of Beidas-Strom and Cashin, 2011, "Are Middle Eastern Current Account Imbalances Excessive?," IMF Working Paper 11/195, which estimates Middle Eastern current account norms using augmented fundamental determinants of the macroeconomic balance approach of the IMF's CGER relevant to three subgroups of developing and emerging economies (oil exporters, oil importers and low-income countries).

Box 5. Jordan's Readiness for Basel III

Basel II implementation is progressing well. The Central Bank of Jordan (CBJ) has now issued all the regulations for Basel II implementation, including those related to Pillars I, II, and III. The bottom-up stress testing exercise, as a part of Pillar II, is underway. The CBJ in May 2011 started conducting its Supervisory Review and Evaluation Process (SREP) on banks' submitted Internal Capital Adequacy and Assessment Processes (ICAAPs) by visiting them, in collaboration with external auditing firms, to validate the stress tests conducted by banks.

The CBJ is studying the effects of implementing Basel III on the banking sector, and is planning to initiate the implementation of the new accords in 2013, (in one shot or more gradually, depending on the findings of the study). A circular was issued to licensed banks in October 2011, requiring them to provide detailed impact studies of Basel III on capital adequacy and liquidity, taking into account phase-in-arrangements set by the Basel Committee. The deadline for providing the CBJ with the results of the impact study is June, 2012.

Basel III proposes many new capital, leverage and liquidity standards to strengthen banking regulation, supervision and risk management. The capital standards and new capital buffers (conservation and countercyclical) raise the quality and quantity of the regulatory capital base and enhance the risk coverage of the capital framework. The new leverage ratio serves as a backstop to the risk-based minimum capital requirements (and is intended to contain excessive leverage taking in the banking system). The new liquidity ratios (Liquidity Coverage Ratio—LCR—and Net Stable Funding Ratio—NSFR) ensure that adequate funding is maintained in case of crisis.

Jordan is well placed to implement Basel III. The CBJ is working on harmonizing definitions, classifications and methodologies to calculate various Basel III metrics, and on finalizing the development of a comprehensive and automated database, possibly by end-2012, to be used to improve off-site monitoring of banks and allow for a statistical-based Early Warning System.

Most banks in Jordan meet the **capital adequacy requirements** of Basel III and the main share of banks''capital is Tier 1 (most banks hold capital either as paid up or in reserves). Table 1 shows that Jordanian banks hold capital (currently at 18.2 percent of risk weighted assets) well in excess of the CBJ's regulatory minimum (12 percent) and well in excess of Basel III standards (which is set to increase from 8 to 10.5 percent between 2013 and 2019, including the 2.5 percent conservation buffer). The CBJ is revising **liquidity definitions** to align them with Basel III, but given that the two largest banks in Jordan (Arab Bank and Housing Bank) are heavily liquid, the CBJ does not expect the revised ratios to fall short of Basel III requirements. Banks in Jordan are conservative in their **funding practices** (with the JD loan/deposit ratio near 73 percent at December 2011). This is partly due to their reliance on deposits, sourced largely from the Jordanian diaspora and the region.

Table 1. Capital Adequacy Ratio Compared to Basel III Requirements

	Jordan 1/	Basel III Minimum	Basel III Min. + Capital Buffer
Risk-weighted capital adequacy ratio (in percent)	18.2	8	10.5
Total paid-up capital + reserves/Total assets	17.5	...	...

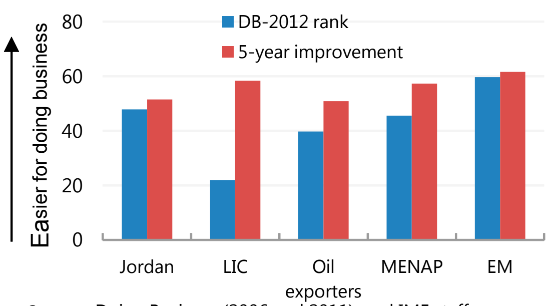
1/ Most recent data (mid-2011).

Box 6. Jordan: Business Environment and Governance

Jordan compares relatively well among MENA countries on competitiveness measures. According to the 2010 World Economic Forum's *Global Competitiveness Report*, Jordan was ranked second to Tunisia among oil-importing countries of the MENA region. Jordan ranks 96th on the World Bank's 2012 *Ease of Doing Business* indicators, although improvement in the past five years remains relatively muted. Constraints in the area of tax, tax administration, and licensing still remain, with 40 percent of firms identifying them as major constraints to doing business (according to the World Bank's *Enterprise Surveys*). Furthermore, with the share of population aged 40 or under at above 33 percent, labor market pressures are expected to remain high.

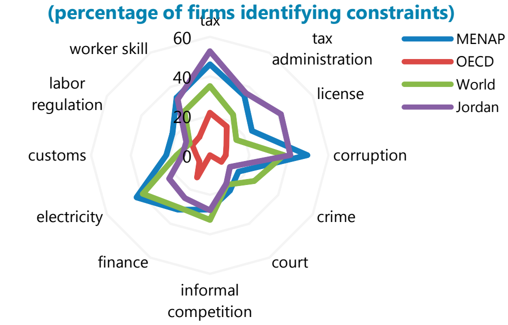
Jordan outperforms its peers in MENAP (Middle East, North Africa, Afghanistan and Pakistan) in governance measures, including voice and accountability, rule of law, and control of corruption. While voice and accountability measures have worsened in MENAP countries between 2000 and 2009, the deterioration has been significant in Jordan.

Ease of Doing Business (percentile rank)



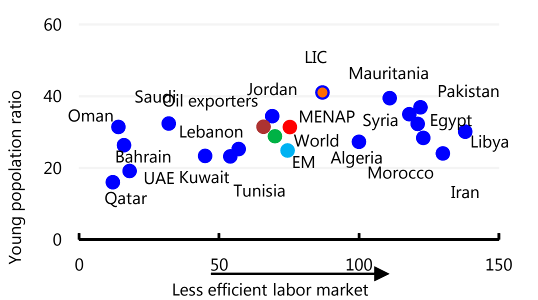
Sources: Doing Business (2006 and 2011); and IMF staff

Firm-level Business Constraints (percentage of firms identifying constraints)



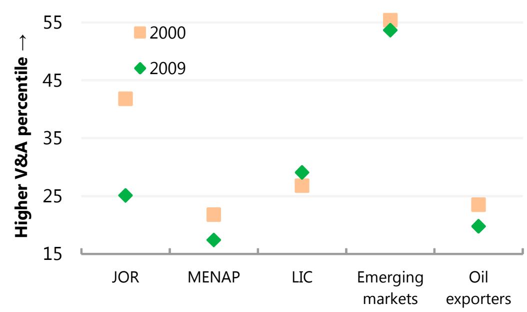
Sources: World Bank Enterprise Surveys; and IMF staff calculations.

Labor Market Efficiency and Young Population Ratio (Population ratio for those of 14 years or younger)



Sources: Global Competitiveness Report (2010; pillar 7 without female participation and brain drain) and World Development Indicators (2009); and IMF staff calculations.

Voice and Accountability (Percentile rank)



Sources: Worldwide Governance Indicators; and IMF staff calculations.

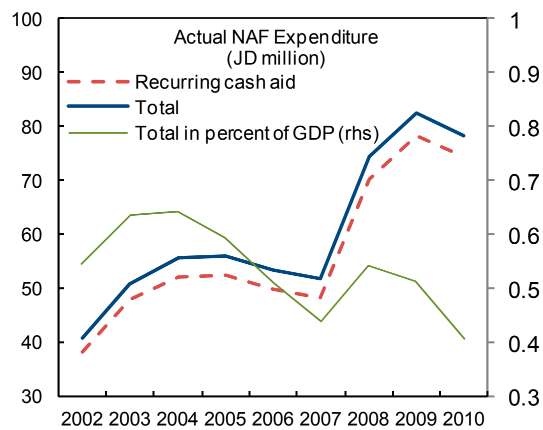
Box 7. The National Aid Fund

The National Aid Fund (NAF) is the primary agency responsible for distributing cash assistance in Jordan. It was established in 1986, following the elimination of food subsidies, to provide a more formal social safety net for the unemployable poor. By the late 1990s, the NAF had emerged as the single most comprehensive state-funded social safety net. In recent years, it has shifted its assistance away from the strict application of categorical criteria to a more flexible approach in identifying beneficiaries. In 2008, the NAF was expanded with the goal of mitigating the impact of the food and fuel crisis by raising the ceiling of recurring aid disbursed to beneficiary families and broadening the base of entitled beneficiaries to include the poor in casual employment. In 2010, the NAF's budget amounted to more than JD 78 million (0.4 percent of GDP), with about 88,000 beneficiaries (1.4 percent of the population).

The NAF includes 5 main programs:

- *Recurring Financial Aid Program* (RFAP), to raise the income of poor families;
- *Care for the Handicapped Program*, to provide income support to poor households to cover the cost of looking after handicapped family members;
- *Emergency Financial Aid Program*, to help poor families deal with accidents or emergencies;
- *Physical Rehabilitation Program*, to provide financial assistance to purchase essential medical equipment and supplies for those in special physical needs to help them perform social and productive functions; and
- *Vocational Training and Rehabilitation Program*, to provide suitable job opportunities for the children of poor beneficiary families, in coordination with specialist training bodies.

Eligibility for all the above programs is conditioned on the family being of Jordanian nationality and permanently resident in Jordan, as well as providing evidence of household monthly income, which needs to be lower than a specified threshold. With over JD 74 million in expenditure and 73,000 beneficiaries in 2010, the RFAP accounts for about 95 percent of the total NAF budget.



Sources: National Aid Fund Annual Report, 2010; and Jordanian authorities.

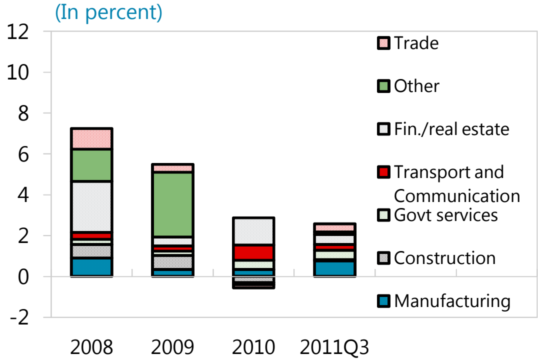
Figure 1. Jordan: Real Sector Developments and Outlook

Jordan's economy is recovering, albeit at a slow pace, and growth is uneven across sectors.

Growth picked up slightly in 2011 ...

Sectoral Contribution to Growth

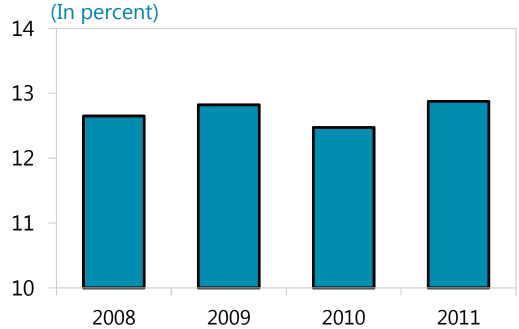
(In percent)



...while unemployment remains high.

Unemployment Rate

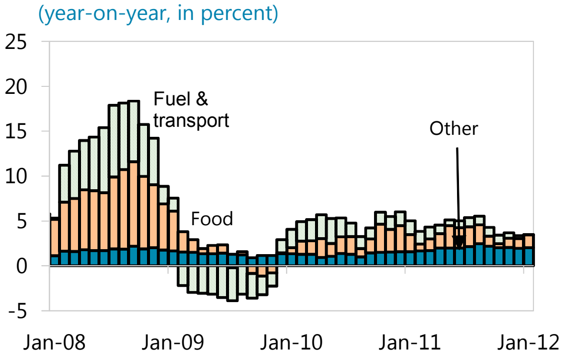
(In percent)



Inflation remains muted, mainly due to an expansion in food and fuel subsidies.

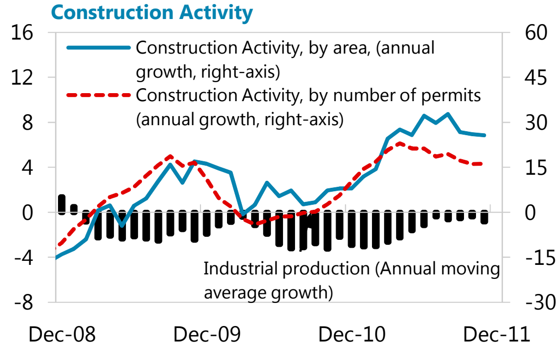
Contributions to Inflation

(year-on-year, in percent)



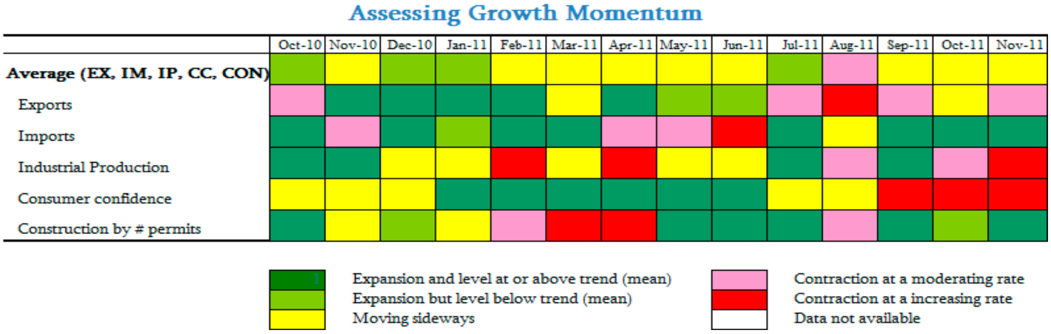
The trend growth in real indicators has flattened.

Industrial Production and Construction Activity



A weak recovery, driven by improving construction activity in the second half of 2011, remains subdued partly due to a slowdown in industrial production .

Assessing Growth Momentum

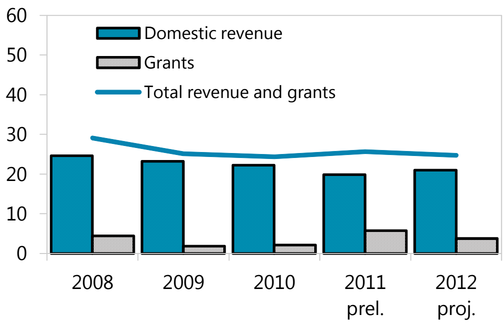


Sources: Jordanian authorities; and Fund staff projections.

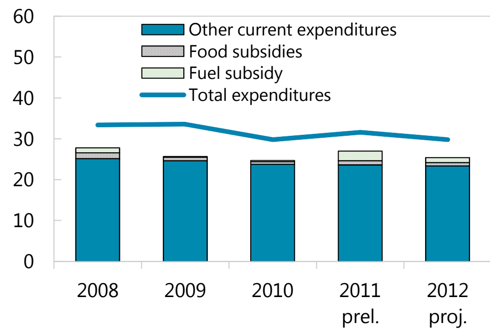
Figure 2. Jordan: Fiscal Developments
(In percent of GDP, unless otherwise noted)

The overall fiscal deficit widened in 2011 due largely to increased public spending to preserve social cohesion. Considerable fiscal consolidation is expected for 2012, including in cyclically- adjusted imbalances.

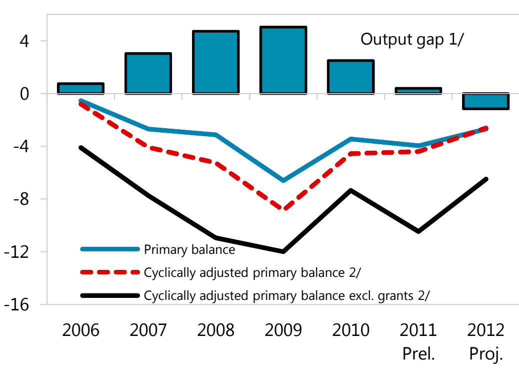
Domestic revenue softened and budgetary grants picked up significantly in 2011...



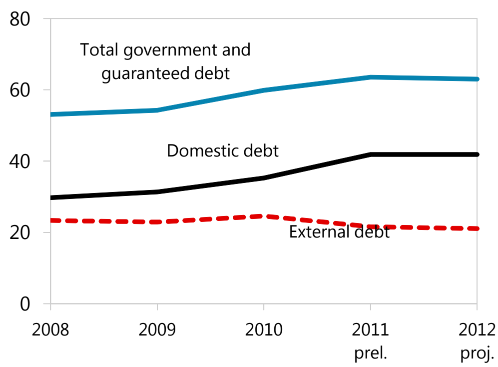
...while there was an uptick in spending, including in commodity subsidies.



The primary deficit was unchanged in 2011, while the cyclically adjusted primary deficit (excluding grants) rose in 2011 and is expected to decline in 2012.

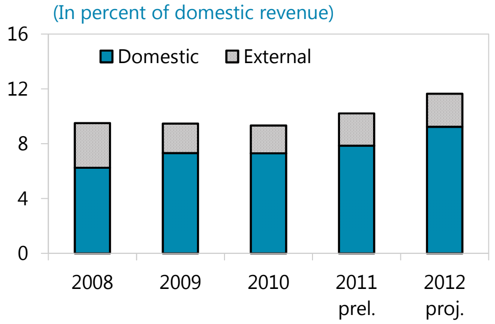


The public debt ratio edged up in 2011, mainly due to the issuance of debt for the national electricity company.



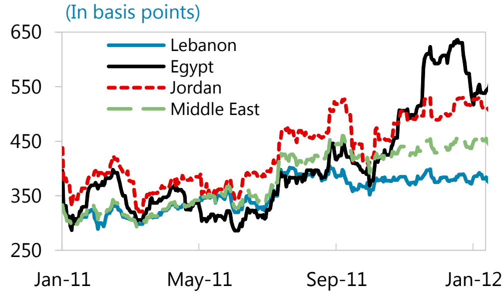
Interest expenditure is growing...

Interest Expense
(In percent of domestic revenue)



...and external borrowing costs have risen.

EMBI Bond Spread
(In basis points)



Sources: Jordanian authorities; and Fund staff projections.

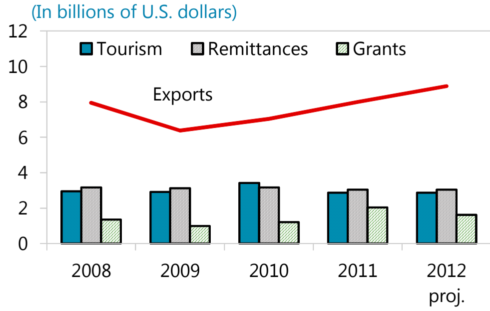
1/ The output gap is actual output less potential output, as a percent of potential output.
2/ The cyclically adjusted fiscal balance is expressed as a percent of potential output.

Figure 3. Jordan: External Sector Developments

While the external current account deficit is expected to widen in 2011, it will narrow in 2012 largely due to a contraction in expenditure on imported energy, particularly for fuel oil and diesel.

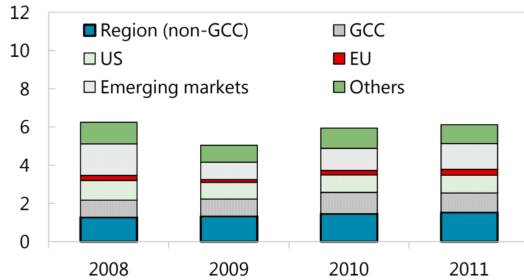
Remittances and tourism receipts declined in 2011, while grants increased ...

Current Account Inflows
(In billions of U.S. dollars)



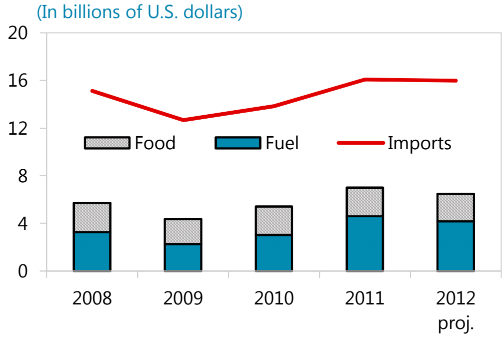
...exports, particularly mining exports to emerging markets, continued to improve.

Geographical Composition of Exports 1/
(In billions of U.S. dollars)



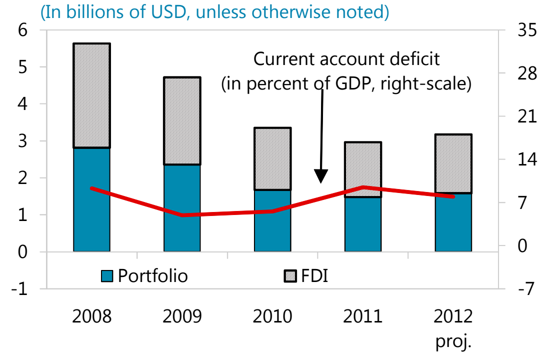
Imports increased, driven largely by rising fuel prices and much larger imports of refined products for electricity generation.

Imports
(In billions of U.S. dollars)



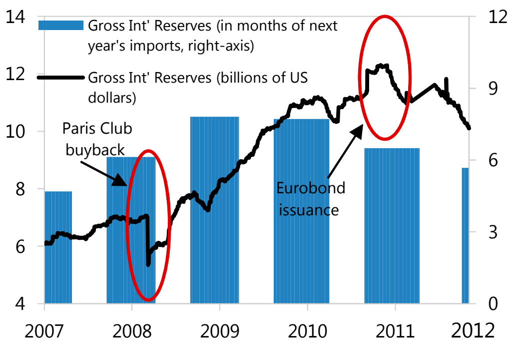
FDI and other financial flows have been adversely affected by regional instability.

Financial Flows and Current Account
(In billions of USD, unless otherwise noted)



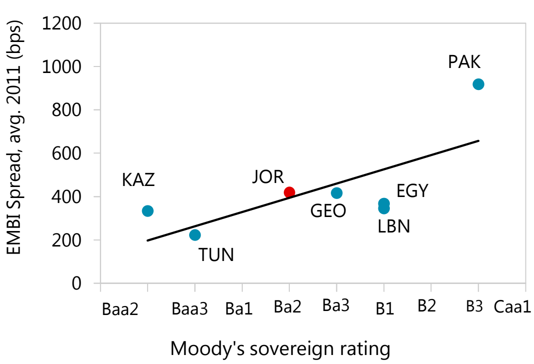
International reserves have fallen from their end-2010 peak.

International Reserves



Spreads for Jordan's Eurobond are in line with its credit rating.

EMBI and Bond Rating for Selected Countries



Sources: Jordanian authorities; and Fund staff projections.

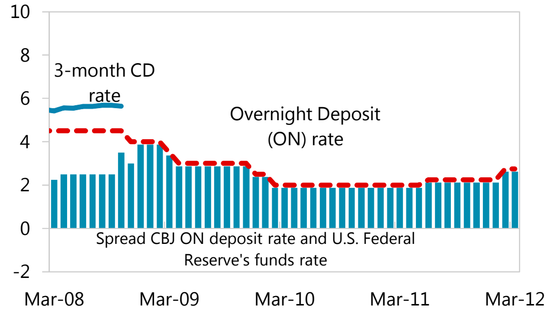
1/ Region includes: Egypt, Lebanon, Iraq, and Syria.
Emerging markets include: China, India, Indonesia, Malaysia, and Turkey.

Figure 4. Jordan: Monetary and Financial Indicators

Beginning in mid-2011, the monetary stance has been tightened. Bank credit flows grew in the second half of 2011, while banks' excess reserves have fallen.

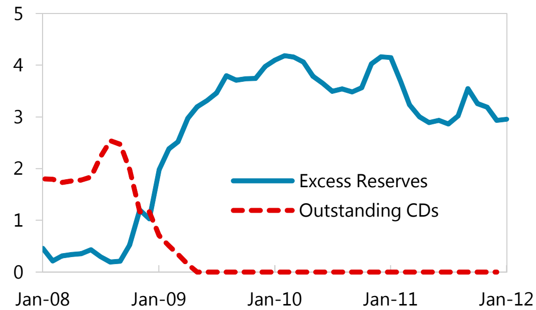
The interest differential with the U.S has risen.

Policy Rates
(In percent)



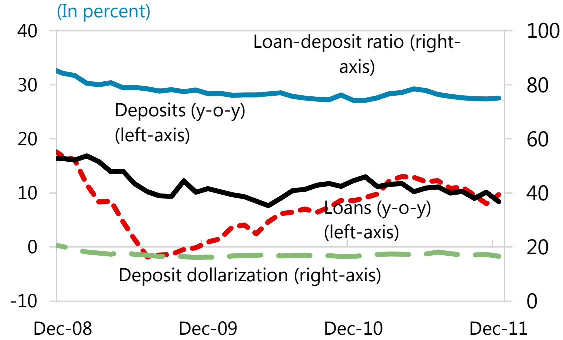
Banks' excess liquidity has moderated, yet remains sizeable.

Banks' Excess Reserves and Outstanding CDs
(In billion of JD)



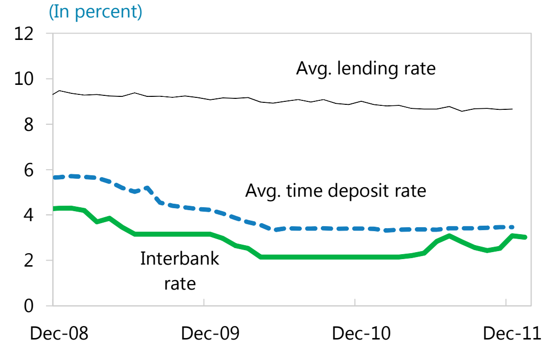
Loan growth is rebounding after a sharp decline...

Bank Indicators
(In percent)



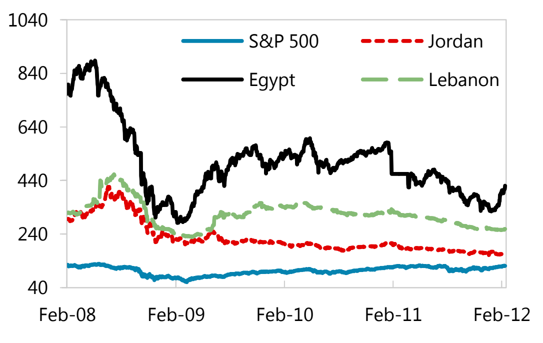
...although commercial lending rates remain high, reflecting repricing of bank credit risks.

Bank Interest Rates
(In percent)



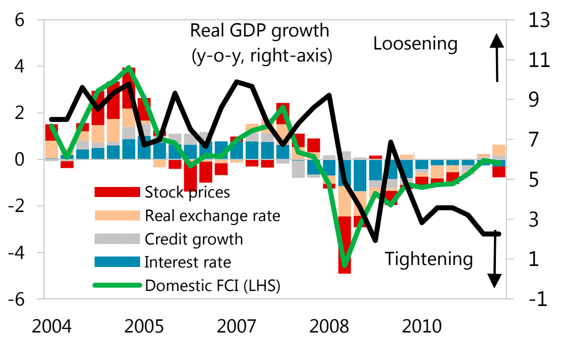
The Amman Stock Exchange remains anemic...

Stock Market Indices
(January 2004=100)



...while financial conditions have eased considerably since 2008.

Financial Conditions Index



Sources: Jordanian authorities; and Fund staff projections.

Table 1. Jordan: Selected Economic Indicators and Macroeconomic Outlook, 2008–17

				Prel.	Proj.					
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Output and prices	(Percentage change, unless otherwise indicated)									
Real GDP at market prices	7.2	5.5	2.3	2.5	2.8	3.0	3.3	3.7	4.1	4.4
GDP deflator at market prices	19.9	2.8	8.4	8.0	4.1	3.6	3.1	3.0	3.0	3.0
Nominal GDP at market prices	28.5	8.5	10.9	10.6	7.0	6.7	6.5	6.8	7.2	7.6
Nominal GDP at market prices (JD millions)	15,593	16,912	18,762	20,753	22,201	23,697	25,245	26,964	28,909	31,099
Nominal GDP at market prices ($ millions)	21,981	23,840	26,447	29,230	31,309	33,412	35,595	38,019	40,762	43,849
Consumer price index (annual average)	13.9	-0.7	5.0	4.4	5.9	5.6	5.3	4.9	4.5	4.4
Consumer price index (end of period)	9.1	2.7	6.1	3.3	5.9	5.4	5.3	4.8	4.4	4.4
Unemployment rate (percent)	12.7	12.9	12.5	12.9	...	...	...	...	...	...
Investment and savings	(In percent of GDP, unless otherwise indicated)									
Consumption	104.9	98.4	98.9	102.5	99.3	96.8	96.3	96.2	96.2	96.7
Government	23.7	22.6	21.1	20.2	19.4	19.2	19.1	18.9	18.8	18.8
Other	81.2	75.8	77.8	82.4	79.9	77.6	77.2	77.2	77.5	77.9
Gross domestic investment	25.7	24.4	23.1	23.9	22.5	22.5	22.3	21.9	21.8	21.6
Government	5.9	8.2	5.2	4.8	4.6	4.6	4.7	4.6	4.6	4.6
Other	19.8	16.2	17.9	19.1	17.9	17.8	17.6	17.3	17.2	17.0
Gross national savings	16.4	19.5	17.6	14.4	14.6	16.1	16.8	17.0	17.4	17.2
Government	0.3	-0.7	-0.4	-1.3	-0.6	-0.2	0.0	0.3	0.7	1.0
Other	16.1	20.2	17.9	15.6	15.2	16.3	16.8	16.8	16.7	16.2
Savings-investment balance	-9.3	-4.9	-5.6	-9.5	-7.9	-6.4	-5.4	-4.9	-4.4	-4.4
Government	-5.5	-8.9	-5.6	-6.0	-5.2	-4.9	-4.6	-4.3	-3.9	-3.5
Other	-3.7	4.0	0.0	-3.4	-2.7	-1.5	-0.8	-0.6	-0.5	-0.8
Fiscal operations										
Revenue and grants	30.1	26.4	24.9	26.1	25.8	25.6	25.9	26.0	26.2	26.4
Of which: grants	4.6	2.0	2.1	5.9	3.9	3.4	3.1	2.9	2.9	2.9
Expenditure and net lending 1/	35.6	35.4	30.4	32.1	31.0	30.5	30.5	30.3	30.1	29.9
Overall fiscal balance including grants	-5.5	-8.9	-5.6	-6.0	-5.2	-4.9	-4.6	-4.3	-3.9	-3.5
Overall fiscal balance excluding grants	-10.2	-10.9	-7.7	-11.9	-9.1	-8.2	-7.8	-7.2	-6.8	-6.4
Primary fiscal balance excluding grants	-7.7	-8.6	-5.6	-9.8	-6.6	-5.6	-5.0	-4.3	-3.8	-3.3
Government and government-guaranteed net debt 2/	54.9	57.1	61.1	64.6	65.5	65.4	64.4	63.7	62.9	62.1
Of which: external debt	23.4	22.9	24.6	21.6	21.1	19.9	18.9	18.0	17.2	15.8
External sector										
Current account balance (including grants), *of which:*	-9.3	-4.9	-5.6	-9.5	-7.9	-6.4	-5.4	-4.9	-4.4	-4.4
Exports of goods, f.o.b. ($ billions)	7.9	6.4	7.0	8.0	8.9	9.3	9.8	10.3	10.9	11.6
Imports of goods, f.o.b. ($ billions)	15.1	12.7	13.8	16.1	16.0	16.2	17.0	17.9	19.2	20.7
Oil and oil products ($ billions)	3.3	2.3	3.0	4.6	4.2	3.8	4.1	4.4	4.9	5.6
Current account balance (excluding grants)	-15.4	-9.0	-10.1	-16.5	-13.1	-10.2	-9.0	-8.2	-7.7	-7.7
Private capital inflows (net)	15.5	9.5	9.2	5.9	5.3	6.0	6.7	7.6	8.5	9.6
	(Annual percentage changes)									
Monetary sector										
Broad money	17.3	9.3	11.5	8.1	7.0	...	...	...	...	...
Net foreign assets	-9.7	25.1	13.4	-7.2	-7.0	...	...	...	...	...
Net domestic assets	44.7	-0.7	9.9	20.7	15.8	...	...	...	...	...
Credit to private sector	14.8	0.5	7.2	9.6	13.2	...	...	...	...	...
Credit to central government	60.2	18.9	3.8	8.2	15.3	...	...	...	...	...
Memorandum items:										
Gross usable international reserves ($ millions)	7,732	11,093	12,449	10,737	9,776	9,313	9,499	10,256	11,760	13,920
In months of prospective imports of GNFS	6.1	7.8	7.7	6.6	5.9	5.3	5.1	5.2	5.5	5.9
Short-term debt (in percent of international reserves)	35.8	5.2	5.3	7.5	8.8	7.5	7.1	13.8	4.8	1.6
Budgetary grants ($ millions)	1,012	465	566	1,711	1,227	1,128	1,110	1,087	1,162	1,264
Population (in millions)	5.85	5.98	6.11	6.25	6.40	6.54	6.69	6.85	7.01	7.17
Nominal per capita GDP ($)	3,757	3,987	4,326	4,674	4,894	5,106	5,317	5,552	5,819	6,119
Stock market index (annual percentage change)	-17.0	-11.5	-7.5	-7.3	...	...	...	...	...	...
Real effective exchange rate (end of period, 2000=100)	104.3	105.6	107.1	105.6	…	…	…	…	…	…
Percent change (+=appreciation; end of period)	12.2	-4.4	2.1	3.6	…	…	…	…	…	…

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

1/ Includes statistical discrepancy.

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

Table 2. Jordan: Summary of Fiscal Operations, 2008–17

	2008	2009	2010	Prel. 2011	Budg. 2012	Proj. 2012	2013	2014	2015	2016	2017
(In millions of Jordanian dinars)											
Total revenue and grants	4,690	4,476	4,663	5,414	5,810	5,717	6,067	6,526	7,006	7,570	8,213
Budgetary revenue	3,972	4,143	4,261	4,199	4,940	4,847	5,267	5,739	6,235	6,746	7,317
Tax revenue	2,758	2,880	2,986	3,062	3,547	3,541	3,858	4,207	4,586	4,959	5,377
Nontax revenue	1,214	1,263	1,276	1,137	1,393	1,307	1,409	1,532	1,649	1,787	1,939
Grants 1/	718	333	402	1,215	870	870	800	787	770	823	895
Total budgetary expenditure	5,383	5,984	5,708	6,666	6,833	6,878	7,219	7,698	8,176	8,709	9,315
Current expenditure	4,481	4,586	4,745	5,712	5,834	5,880	6,148	6,555	6,975	7,419	7,929
Capital expenditure 2/	875	1,328	963	984	998	998	1,071	1,142	1,201	1,290	1,386
Net lending	26	70	0	-30	0	0	0	0	0	0	0
Statistical discrepancy, net 3/	171	0	0	0	...	0	0	0	0	0	0
Overall balance, including grants	-865	-1,508	-1,045	-1,251	-1,023	-1,161	-1,152	-1,171	-1,170	-1,139	-1,102
Financing	865	1,508	1,045	1,251	1,023	1,161	1,152	1,171	1,170	1,139	1,102
Foreign financing (net) 4/	-1,246	113	567	-149	...	110	-130	-101	-87	-91	-62
Privatization receipts (net)	229	4	0	0	...	0	0	0	0	0	0
Domestic financing (net)	1,882	1,391	478	1,400	...	1,051	1,281	1,273	1,257	1,230	1,165
(In percent of GDP)											
Total revenue and grants	30.1	26.5	24.9	26.1	26.2	25.8	25.6	25.9	26.0	26.2	26.4
Budgetary revenue	25.5	24.5	22.7	20.2	22.3	21.8	22.2	22.7	23.1	23.3	23.5
Tax revenue	17.7	17.0	15.9	14.8	16.0	15.9	16.3	16.7	17.0	17.2	17.3
Nontax revenue	7.8	7.5	6.8	5.5	6.3	5.9	5.9	6.1	6.1	6.2	6.2
Grants 1/	4.6	2.0	2.1	5.9	3.9	3.9	3.4	3.1	2.9	2.8	2.9
Total budgetary expenditure	34.5	35.4	30.4	32.1	30.8	31.0	30.5	30.5	30.3	30.1	30.0
Current expenditure	28.7	27.1	25.3	27.5	26.3	26.5	25.9	26.0	25.9	25.7	25.5
Capital expenditure 2/	5.6	7.9	5.1	4.7	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Net lending	0.2	0.4	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy, net 3/	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance including grants	-5.5	-8.9	-5.6	-6.0	-4.6	-5.2	-4.9	-4.6	-4.3	-3.9	-3.5
Financing	5.5	8.9	5.6	6.0	4.6	5.2	4.9	4.6	4.3	3.9	3.5
Foreign financing (net) 4/	-8.0	0.7	3.0	-0.7	...	0.5	-0.5	-0.4	-0.3	-0.3	-0.2
Privatization receipts (net)	1.5	0.0	0.0	0.0	...	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing (net)	12.1	8.2	2.5	6.7	...	4.7	5.4	5.0	4.7	4.3	3.7
Memorandum items:											
Overall balance excluding grants	-10.2	-10.9	-7.7	-11.9	-8.5	-9.1	-8.2	-7.8	-7.2	-6.8	-6.4
Primary balance including grants	-3.1	-6.6	-3.5	-4.0	-2.1	-2.7	-2.2	-1.9	-1.4	-0.9	-0.4
Primary balance excluding grants	-7.7	-8.6	-5.6	-9.8	-6.0	-6.6	-5.6	-5.0	-4.3	-3.8	-3.3
Government and guaranteed net debt 5/	54.9	57.1	61.1	64.6	...	65.5	65.4	64.4	63.7	62.9	62.1
Of which: External	23.4	22.9	24.6	21.6	...	21.1	19.9	18.9	18.0	17.2	15.8
GDP at market prices (JD millions) 6/	15,593	16,912	18,762	20,753	22,201	22,201	23,697	25,245	26,964	28,909	31,099

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

1/ Based on existing commitments, and staff estimates.
2/ Includes some current expenditure, such as maintenance and wage-related spending.
3/ The discrepancy is accounted for in part by the inclusion of non-budgetary accounts in the domestic financing data.
4/ In 2008, foreign financing includes repayment of Paris Club debt, partly financed through domestic financing (drawdown of the privatization account).
5/ Domestic debt is net of government deposits with the banking system.
6/ The 2012 budget ratios to GDP are based on staff's GDP estimates.

Table 3a. Jordan: Summary of Revenues and Expenditures, 2008–17

				Prel.	Budg. 1/	Proj.					
	2008	2009	2010	2011	2012	2012	2013	2014	2015	2016	2017
				(In millions of Jordanian dinars)							
Total revenue and grants	4,690	4,476	4,663	5,414	5,810	5,717	6,067	6,526	7,006	7,570	8,213
Domestic revenue	3,972	4,143	4,261	4,199	4,940	4,847	5,267	5,739	6,235	6,746	7,317
Tax revenue, *of which*:	2,758	2,880	2,986	3,062	3,547	3,541	3,858	4,207	4,586	4,959	5,377
Taxes on income and profits	603	765	625	686	734	734	805	895	988	1,070	1,162
General sales tax	1,671	1,682	1,987	2,079	2,444	2,456	2,661	2,884	3,123	3,370	3,648
Taxes on foreign trade	284	270	275	298	289	289	322	342	374	400	429
Nontax revenue	1,214	1,263	1,276	1,137	1,393	1,307	1,409	1,532	1,649	1,787	1,939
Grants	718	333	402	1,215	870	870	800	787	770	823	895
Total expenditures	5,383	5,984	5,708	6,666	6,833	6,878	7,219	7,698	8,176	8,709	9,315
Current expenditure	4,481	4,586	4,745	5,712	5,834	5,880	6,148	6,555	6,975	7,419	7,929
Wages and salaries	729	774	837	1,013	1,049	1,049	1,097	1,151	1,236	1,330	1,436
Interest payments	377	392	398	429	545	565	633	686	788	875	963
Domestic	249	304	311	330	427	448	491	523	558	608	633
External	129	88	87	99	118	118	142	163	230	267	330
Military expenditure	1,510	1,645	1,703	1,804	1,940	1,940	2,071	2,206	2,351	2,516	2,706
Fuel subsidies	197	43	67	507	265	290	187	193	199	205	210
Food subsidy	229	143	124	217	185	185	200	212	223	234	246
Transfers, *of which*:	846	923	880	1,200	1,414	1,414	1,489	1,602	1,641	1,700	1,769
Pensions	676	708	745	862	999	999	1,026	1,093	1,108	1,136	1,177
Purchases of goods & services	593	666	736	542	436	436	471	506	537	558	599
Capital expenditure	875	1,328	963	984	998	998	1,071	1,142	1,201	1,290	1,386
Net lending and statistical discrepancy	26	70	0	-30	0	0	0	0	0	0	0
				(In percent of GDP)							
Total revenue and grants	30.1	26.5	24.9	26.1	26.2	25.8	25.6	25.9	26.0	26.2	26.4
Domestic revenue	25.5	24.5	22.7	20.2	22.3	21.8	22.2	22.7	23.1	23.3	23.5
Tax revenue, *of which*:	17.7	17.0	15.9	14.8	16.0	15.9	16.3	16.7	17.0	17.2	17.3
Taxes on income and profits	3.9	4.5	3.3	3.3	3.3	3.3	3.4	3.5	3.7	3.7	3.7
General sales tax	10.7	9.9	10.6	10.0	11.0	11.1	11.2	11.4	11.6	11.7	11.7
Taxes on foreign trade	1.8	1.6	1.5	1.4	1.3	1.3	1.4	1.4	1.4	1.4	1.4
Nontax revenue	7.8	7.5	6.8	5.5	6.3	5.9	5.9	6.1	6.1	6.2	6.2
Grants	4.6	2.0	2.1	5.9	3.9	3.9	3.4	3.1	2.9	2.8	2.9
Total expenditure	34.5	35.4	30.4	32.1	30.8	31.0	30.5	30.5	30.3	30.1	30.0
Current expenditure	28.7	27.1	25.3	27.5	26.3	26.5	25.9	26.0	25.9	25.7	25.5
Wages and salaries	4.7	4.6	4.5	4.9	4.7	4.7	4.6	4.6	4.6	4.6	4.6
Interest payments	2.4	2.3	2.1	2.1	2.5	2.5	2.7	2.7	2.9	3.0	3.1
Domestic	1.6	1.8	1.7	1.6	1.9	2.0	2.1	2.1	2.1	2.1	2.0
External	0.8	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.9	0.9	1.1
Military expenditure	9.7	9.7	9.1	8.7	8.7	8.7	8.7	8.7	8.7	8.7	8.7
Fuel subsidy	1.3	0.3	0.4	2.4	1.2	1.3	0.8	0.8	0.7	0.7	0.7
Food subsidy	1.5	0.8	0.7	1.0	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Transfers, *of which*:	5.4	5.5	4.7	5.8	6.4	6.4	6.3	6.3	6.1	5.9	5.7
Pensions	4.3	4.2	4.0	4.2	4.5	4.5	4.3	4.3	4.1	3.9	3.8
Purchases of goods & services	3.8	3.9	3.9	2.6	2.0	2.0	2.0	2.0	2.0	1.9	1.9
Capital expenditure	5.6	7.9	5.1	4.7	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Net lending and statistical discrepancy	0.2	0.4	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Jordanian authorities; and Fund staff estimates and projections.
1/ The 2012 budget ratios to GDP are based on staff's GDP estimates.

Table 3b. Jordan: Summary of Revenues and Expenditures, 2008–17

based on GFSM 2001 classification 1/ 2/

	2008	2009	2010	Prel. 2011	Proj. 2012	2013	2014	2015	2016	2017
	(In percent of GDP, unless otherwise indicated)									
Revenue	28.6	26.4	24.9	26.1	25.8	25.6	25.9	26.0	26.2	26.4
Taxes, *Of which:*	17.7	17.0	15.9	14.8	15.9	16.3	16.7	17.0	17.2	17.3
Taxes on income and profits	3.9	4.5	3.3	3.3	3.3	3.4	3.5	3.7	3.7	3.7
General sales tax	10.7	9.9	10.6	10.0	11.1	11.2	11.4	11.6	11.7	11.7
Taxes on foreign trade	1.8	1.6	1.5	1.4	1.3	1.4	1.4	1.4	1.4	1.4
Social contributions	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grants 3/	4.6	2.0	2.1	5.9	3.9	3.4	3.1	2.9	2.9	2.9
Other revenue	6.2	7.3	6.7	5.4	5.8	5.9	6.0	6.0	6.1	6.2
Expense	31.4	30.8	27.6	29.8	28.7	28.2	28.2	28.0	27.8	27.6
Compensation of Employees	4.7	4.6	4.5	4.9	4.7	4.6	4.6	4.6	4.6	4.6
Purchase of goods and services	3.8	3.9	3.9	2.6	2.0	2.0	2.0	2.0	1.9	1.9
Interest payments	2.4	2.3	2.1	2.1	2.5	2.7	2.7	2.9	3.0	3.1
Domestic	1.6	1.8	1.7	1.6	2.0	2.1	2.1	2.1	2.1	2.0
External	0.8	0.5	0.5	0.5	0.5	0.6	0.6	0.9	0.9	1.1
Subsidies	2.7	1.1	1.0	3.5	2.1	1.6	1.6	1.6	1.5	1.5
Fuel subsidies	1.3	0.3	0.4	2.4	1.3	0.8	0.8	0.7	0.7	0.7
Food subsidy	1.5	0.8	0.7	1.0	0.8	0.8	0.8	0.8	0.8	0.8
Grants	0.4	0.6	0.4	0.5	0.4	0.4	0.4	0.4	0.4	0.4
Social benefits, *of which* :	5.0	4.8	4.3	5.3	5.9	5.8	5.9	5.7	5.5	5.3
Pensions	4.3	4.2	4.0	4.2	4.5	4.3	4.3	4.1	3.9	3.8
Military expenditure	9.7	9.7	9.1	8.7	8.7	8.7	8.7	8.7	8.7	8.7
Other expense	2.6	3.7	2.3	2.3	2.3	2.2	2.2	2.2	2.1	2.1
Gross Operating Balance	-2.7	-4.3	-2.7	-3.7	-3.0	-2.6	-2.3	-2.0	-1.6	-1.2
Net transactions in nonfinancial assets	3.5	4.9	2.8	2.9	2.8	2.8	2.8	2.7	2.7	2.6
Acquisition of nonfinancial assets	3.5	4.9	2.8	2.9	2.8	2.8	2.8	2.7	2.7	2.6
Fixed assets	2.9	3.6	2.3	2.3	2.2	2.2	2.2	2.1	2.1	2.0
Inventories	0.1	0.3	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Unproductive assets	0.5	0.9	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Net Lending/Borrowing (Overall Balance)	-6.3	-9.2	-5.6	-6.6	-5.8	-5.4	-5.1	-4.8	-4.3	-3.7
Transactions in Financial Assets and Liabilities (Financing)	-6.3	-9.2	-5.6	-6.6	-5.8	-5.4	-5.1	-4.8	-4.3	-3.8
Net acquisition of financial assets	-3.8	-3.0	0.8	-1.1	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-0.6	-1.8	0.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	-1.7	-1.2	0.4	-1.2	0.0	0.0	0.0	0.0	0.0	0.0
Sale of equity (privatization receipts)	-1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	2.5	6.2	6.4	5.5	5.8	5.4	5.1	4.8	4.3	3.8
Domestic	12.9	7.4	3.4	6.2	4.7	5.4	5.0	6.6	4.3	3.7
T-bills and bonds	7.9	7.9	3.5	6.8	4.7	5.4	5.0	6.6	4.3	3.7
Loans	5.0	-0.4	-0.1	-0.6	0.0	0.0	0.0	0.0	0.0	0.0
Foreign 4/	-10.4	-1.2	3.0	-0.6	1.1	0.0	0.0	-1.9	0.0	0.0
Sovereign Eurobonds	0.0	0.0	2.8	2.6	2.4	2.2	2.1	0.0	0.0	0.0
Memorandum items:										
Government and guaranteed net debt 5/	54.9	57.1	61.1	64.6	65.5	65.4	64.4	63.7	62.9	62.1
Of which: External	23.4	22.9	24.6	21.6	21.1	19.9	18.9	18.0	17.2	15.8
GDP at market prices (JD millions)	15,593	16,912	18,762	20,753	22,201	23,697	25,245	26,964	28,909	31,099

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

1/ In accordance with the Government Finance Statistics Manual 2001 (GFSM2001).
2/ Preliminary and subject to revisions.
3/ For 2012 is based on existing commitments, and staff estimates.
4/ In 2008, foreign financing includes repayment of Paris Club debt, partly financed through domestic financing (drawdown of the privatization account).
5/ Domestic debt is net of government deposits with the banking system.

Table 4. Jordan: Summary Balance of Payments, 2008–17
(In millions of U.S. dollars, unless otherwise noted)

				Prel.	Proj.					
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Current account	-2,038	-1,178	-1,474	-2,769	-2,482	-2,126	-1,932	-1,868	-1,791	-1,911
Trade balance	-7,171	-6,275	-6,804	-8,091	-7,091	-6,833	-7,132	-7,604	-8,257	-9,153
Exports f.o.b.	7,945	6,384	7,038	7,994	8,887	9,334	9,818	10,336	10,934	11,586
Of which: domestic exports, f.o.b.	6,250	5,048	5,948	6,746	7,576	7,958	8,373	8,819	9,340	9,913
Imports f.o.b.	15,116	12,658	13,842	16,085	15,978	16,168	16,950	17,940	19,191	20,739
Of which: food imports, f.o.b.	2,174	1,878	2,093	2,126	2,036	2,130	2,183	2,245	2,368	2,522
Of which: oil-gas imports, f.o.b.	3,274	2,278	3,039	4,596	4,169	3,843	4,086	4,444	4,910	5,550
Services (net)	352	741	874	257	153	272	414	576	764	978
Of which: travel receipts	2,946	2,915	3,418	2,858	2,860	3,115	3,409	3,728	4,084	4,476
Income (net)	696	554	507	216	202	253	311	372	469	530
Of which: investment income (net)	116	74	90	-32	-170	-152	-133	-113	-62	-51
Current transfers (net)	4,085	3,803	3,948	4,848	4,255	4,182	4,475	4,789	5,233	5,734
Public (net)	1,340	966	1,203	2,045	1,618	1,283	1,275	1,263	1,351	1,467
Private (net)	2,744	2,837	2,745	2,803	2,637	2,899	3,200	3,525	3,882	4,267
Of which: remittances (net)	2,746	2,679	2,733	2,648	2,641	2,897	3,189	3,501	3,848	4,225
Capital account	626	1,948	2,384	1,913	1,629	1,758	2,178	2,672	3,347	4,121
Public sector (net)	-2,577	218	-223	180	-31	-236	-213	-954	-127	-88
Of which: Disbursements	182	587	180	165	650	300	310	321	335	349
Of which: Amortization	2,759	369	403	321	681	536	523	1,276	461	438
Private sector (net)	3,203	1,731	1,857	1,732	1,661	1,994	2,391	2,876	3,474	4,209
Direct foreign investment	2,815	2,357	1,675	1,481	1,586	1,915	2,308	2,788	3,380	4,109
Portfolio flows	522	-630	-21	111	51	54	58	62	66	71
Other capital plus E&Os	199	1,748	1,042	141	24	25	26	26	28	29
Overall balance	-1,079	2,515	1,750	-964	-852	-368	247	804	1,555	2,210
Financing	1,079	-2,515	-1,750	964	852	368	-247	-804	-1,555	-2,210
Increase in NFA (-) 1/	1,139	-2,499	-1,678	1,018	927	426	-224	-797	-1,548	-2,208
Central bank	-740	-3,653	-994	1,171	965	464	-186	-757	-1,504	-2,161
Commercial banks	1,878	1,154	-684	-154	-38	-38	-38	-40	-44	-47
IMF, net (expectations basis)	-59	-16	-4	0	-8	0	0	0	0	0
Arab Monetary Fund (net)	0	0	-68	-54	-67	-58	-23	-8	-8	-2
Relief from debt operations 2/	0	0	0	0	0	0	0	0	0	0
Debt rescheduling/exceptional financing	0	0	0	0	0	0	0	0	0	0
Memorandum items:										
Gross usable international reserves	7,732	11,093	12,449	10,737	9,776	9,313	9,499	10,256	11,760	13,920
In months of prospective imports 3/	6.1	7.8	7.7	6.6	5.9	5.3	5.1	5.2	5.5	5.9
Merchandise export growth, percent	38.6	-19.6	10.2	13.6	11.2	5.0	5.2	5.3	5.8	6.0
Of which: domestic exports	39.2	-19.2	17.8	13.4	12.3	5.0	5.2	5.3	5.9	6.1
Of which: excluding mining exports	19.0	-11.0	15.9	8.9	14.0	5.3	5.8	5.9	6.4	6.5
Export of GNFS growth, percent	33.9	-11.9	11.5	4.5	8.4	6.4	6.7	6.7	7.1	7.3
Import growth, percent	24.1	-16.3	9.3	16.2	-0.7	1.2	4.8	5.8	7.0	8.1
Of which: excluding oil-gas	23.2	-12.9	5.5	5.6	1.7	4.4	4.1	4.6	5.8	6.4
Of which: excl.oil/food	21.6	-12.6	4.1	6.3	2.8	4.4	4.4	4.9	5.8	6.4
Import of GNFS growth, percent	22.6	-14.4	10.1	13.5	0.8	2.5	5.3	6.1	7.0	7.8
Import oil price assumptions ($ per barrel)	97.0	61.8	79.0	103.9	105.7	102.4	98.0	94.8	92.7	91.2
Current account (in percent of GDP)	-9.3	-4.9	-5.6	-9.5	-7.9	-6.4	-5.4	-4.9	-4.4	-4.4
Current account, excl. grants (percent of GDP)	-15.4	-9.0	-10.1	-16.5	-13.1	-10.2	-9.0	-8.2	-7.7	-7.7
Private capital (net, percent of GDP)	14.6	7.3	7.0	5.9	5.3	6.0	6.7	7.6	8.5	9.6
External government debt (percent of GDP)	23.4	22.9	24.6	21.6	21.1	19.9	18.9	18.0	17.2	15.8
GDP ($ millions)	21,981	23,840	26,447	29,230	31,309	33,412	35,595	38,019	40,762	43,849
Terms of trade of goods and services (annual percent change)	-7.9	18.4	-4.6	-13.0	-3.4	-4.1	-3.7	-3.9	-4.5	-4.8

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

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

Table 5. Jordan: Summary Monetary Survey, 2008–12

	2008	2009	2010	2011	Proj. 2012
	(Stocks in millions of Jordanian dinars)				
Net foreign assets	7,103	8,889	10,083	9,361	8,709
Of which: SDRs	3	163	160	163	163
Net domestic assets	11,201	11,125	12,224	14,758	17,093
Net claims on central government 1/	4,095	4,585	4,877	6,664	7,715
Of which: budgetary central government	4,181	4,775	5,004	6,329	7,380
Claims on nonfinancial public enterprises	603	411	343	333	356
Claims on financial institutions	335	238	223	205	205
Claims on the private sector	12,636	12,693	13,613	14,925	16,894
Other items (net)	-6,517	-6,874	-7,005	-7,550	-8,077
Broad money	18,304	20,013	22,307	24,119	25,803
Currency in circulation	2,665	2,680	2,844	3,019	3,204
Jordanian dinar deposits	12,314	14,445	16,232	17,574	18,890
Foreign currency deposits	3,325	2,889	3,232	3,526	3,708
	(Cumulative flows in millions of Jordanian dinars)				
Net foreign assets	-766	1,786	1,194	-722	-652
Net domestic assets	3,463	-77	1,099	2,534	2,336
Net claims on central government 1/	2,004	490	292	1,787	1,051
Of which: budgetary central government	1,969	594	229	1,325	1,051
Claims on nonfinancial public enterprises	-21	-192	-67	1,276	23
Claims on financial institutions	58	-97	-15	-50	0
Claims on the private sector	1,633	58	919	462	1,969
Other items (net)	-258	-357	-132	572	-527
Broad money	2,697	1,709	2,293	1,812	1,684
Currency in circulation	492	15	164	176	185
Jordanian dinar deposits	2,505	2,130	1,787	1,637	1,316
Foreign currency deposits	-300	-436	342	742	183
	(Cumulative flows in percent of beginning-of-period broad money)				
Net foreign assets	-4.9	9.8	6.0	-3.2	-2.7
Net domestic assets	22.2	-0.4	5.5	11.4	9.7
Net claims on general government 1/	12.8	2.7	1.5	8.0	4.4
Of which: budgetary central government	12.6	3.2	1.1	5.9	4.4
Claims on nonfinancial public enterprises	-0.1	-1.1	-0.3	5.7	0.1
Claims on financial institutions	0.4	-0.5	-0.1	-0.2	0.0
Claims on the private sector	10.5	0.3	4.6	2.1	8.2
Other items (net)	-1.7	-1.9	-0.7	2.6	-2.2
Broad money	17.3	9.3	11.5	8.1	7.0
Currency in circulation	3.2	0.1	0.8	0.8	0.8
Jordanian dinar deposits	16.0	11.6	8.9	7.3	5.5
Foreign currency deposits	-1.9	-2.4	1.7	3.3	0.8
Memorandum items:					
Annual broad money growth (percent)	17.3	9.3	11.5	8.1	7.0
Annual JD broad money growth (percent)	25.0	14.3	11.4	8.0	7.3
Annual private sector credit growth (percent)	14.8	0.5	7.2	9.6	13.2

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

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

Table 6. Jordan: Summary Accounts of the Central Bank of Jordan, 2008–12

	2008	2009	2010	2011	Proj. 2012
	(Stocks in millions of Jordanian dinars)				
Net foreign assets	6,238	8,842	9,551	8,721	8,042
Of which: SDRs	3	164	163	160	163
Net domestic assets	-1,725	-4,178	-4,492	-3,235	-2,173
Net claims on central government	980	671	399	438	438
Net claims on NFPEs and the SSC 1/	-212	-69	-27	-14	-14
Net claims on financial institutions	86	60	72	70	70
Net claims on private sector	19	19	19	20	20
Net claims on commercial banks	-672	-3,644	-3,691	-2,548	-2,548
CDs	-1,166	-150	-197	-230	833
Other items, net (asset: +)	-759	-1,066	-1,067	-971	-971
Jordanian dinar reserve money	4,513	4,664	5,059	5,485	5,869
Currency	2,872	2,886	3,079	3,367	3,552
Commercial bank reserves	1,641	1,778	1,981	2,118	2,318
Of which : required reserves	1,297	1,082	1,161	1,187	1,277
	(Cumulative flows in millions of Jordanian dinars from beginning of period)				
Net foreign assets	567	2,605	709	-831	-679
Of which: SDRs	1	160	-3	3	1
Net domestic assets	294	0	-314	1,257	1,063
Net claims on central government	806	-309	-272	39	0
Net claims on NFPEs and the SSC 1/	-151	143	41	14	0
Net claims on financial institutions	-13	-26	12	-2	0
Net claims on private sector	1	0	0	1	0
Net claims on commercial banks	-883	-2,972	-47	1,143	0
CDs	811	1,016	-47	-34	1,063
Other items, net (asset: +)	-277	-306	-1	95	0
Jordanian dinar reserve money	860	151	395	426	384
Currency	521	15	192	288	185
Commercial banks' reserves	339	136	203	138	199
	(Cumulative flows in percent of beginning-of-period reserve money)				
Net foreign assets	15.5	57.7	15.2	-16.4	-12.4
Net domestic assets	8.0	0.0	-6.7	24.8	19.4
Net claims on central government	22.1	-6.8	-5.8	0.8	0.0
Net claims on NFPEs and the SSC 1/	-4.1	3.2	0.9	0.3	0.0
Net claims on financial institutions	-0.4	-0.6	0.3	0.0	0.0
Net claims on private sector	0.0	0.0	0.0	0.0	0.0
Net claims on commercial banks	-24.2	-65.9	-1.0	22.6	0.0
CDs	22.2	22.5	-1.0	-0.7	19.4
Other items, net (asset: +)	-7.6	-6.8	0.0	1.9	0.0
Jordanian dinar reserve money	23.6	3.3	8.5	8.4	7.0
Currency	14.3	0.3	4.1	5.7	3.4
Commercial bank reserves	9.3	3.0	4.4	2.7	3.6
Memorandum items:					
Gross usable international reserves ($ millions)	7,732	11,093	12,449	10,737	9,776
As a ratio to JD broad money (in percent)	36.6	45.9	46.3	37.0	31.4
As a ratio of JD reserve money (in percent)	121.5	168.6	174.5	138.8	118.1
Net international reserves (JD millions)	5,469	8,076	9,550	8,721	8,042
Money multiplier (for JD liquidity)	3.3	3.7	3.8	3.8	3.8

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

1/ Non-Financial Public Enterprises

Table 7. Jordan: Indicators of Financial Vulnerability, 2006–11
(End-of-period, unless otherwise noted)

	2006	2007	2008	2009	2010	2011
Monetary and financial indicators	(In percent of GDP, unless otherwise indicated)					
Gross domestic currency public debt (including own-budget agencies)	27.7	30.5	37.2	42.0	43.1	49.0
Central government net domestic financing	-0.3	4.5	12.1	8.1	2.5	6.7
Broad money (annual growth, in percent)	14.1	10.6	17.3	9.3	11.5	8.1
Broad domestic currency liquidity (M2) (annual growth, in percent)	14.1	11.1	25.0	14.3	11.4	8.0
Private sector credit (annual growth, in percent)	24.5	15.3	14.8	0.5	7.2	9.6
Banking sector indicators						
Nonperforming loans (excluding interest in suspense, as percent of loans)	4.3	4.1	4.2	6.7	8.2	8.5
Nonperforming loans (as percent of capital and reserves)	15.9	15.9	18.1	26.4	31.7	36.5
Provisions against nonperforming loans (excl. interest in suspense, in percent)	79.6	67.8	63.4	52.0	52.4	56.3
Risk-weighted capital adequacy ratio (in percent)	21.4	20.8	18.4	19.6	20.3	18.2
Leverage (equity to assets ratio, in percent)	13.2	13.3	12.9	13.0	13.1	12.7
Construction loans in total private credit to residents (in percent)	17.4	18.7	19.3	21.4	24.4	24.2
Credit to private sector (in percent of GDP)	89.4	90.7	81.0	75.1	72.6	71.9
	(In millions of US$, unless otherwise indicated)					
Foreign currency and external debt indicators						
Gross external public debt	7,312	7,411	5,137	5,463	6,512	6,328
In percent of GDP	48.6	43.3	23.4	22.9	24.6	21.6
Short-term external debt	828	866	2,765	576	661	810
Total foreign liabilities of central bank	412	343	388	169	657	156
Total foreign liabilities of commercial banks	5,946	6,760	7,789	8,004	8,449	8,694
Commercial banks' net foreign asset position	2,803	2,431	406	-515	160	172
Official reserves indicators						
Gross usable reserves 1/	6,103	6,865	7,732	11,093	12,449	10,737
In percent of M2	30.7	31.2	29.9	39.3	39.6	31.6
Net international reserves 1/	4,993	5,905	6,511	10,642	12,224	10,426
In percent of M2	25.1	26.8	25.2	37.7	38.9	30.6
In percent of short-term external debt	603	682	235	1,848	1,850	1,287
External current account indicators (annual flows)						
Merchandise exports, f.o.b.	5,204	5,732	7,945	6,384	7,038	7,994
Annual changes in percent	21.0	10.1	38.6	-19.6	10.2	13.6
Merchandise imports, f.o.b.	10,260	12,183	15,116	12,658	13,842	16,085
Annual changes in percent	10.1	18.7	24.1	-16.3	9.3	16.2
Current account balance including grants	-1,726	-2,949	-2,038	-1,178	-1,474	-2,769
In percent of GDP	-11.5	-17.2	-9.3	-4.9	-5.6	-9.5

Sources: Jordanian authorities; and Fund staff estimates.

1/ Excluding foreign currency deposits held by commercial banks with the central bank.

Annex 1. Jordan: Public Debt Sustainability Analysis

Jordan's public debt is expected to decline to about 62 percent of GDP in 2017.[6] After a steady decline in 2003–08, the debt ratio increased by about 10 percentage points of GDP between 2009–11 due to a widening of the fiscal deficit caused by increased expenditure, a decline in external grants, and a cyclical decline in revenues. However, about one third of this increase occurred in 2011, and was mainly due to government borrowing in support of the national electricity company (NEPCO). Based on the 2012 budget and assuming largely unchanged policies thereafter, the debt ratio is projected to increase slightly in 2012 and then decline over the medium term.

The debt outlook remains vulnerable to adverse shocks. Standard bound tests reveal the following (Figure A.1):

- A contingent liabilities shock—an increase in the debt ratio by 10 percent of GDP in 2012—would cause the debt path to remain about 9–10 percentage points above the baseline throughout the projection period.
- As about one third of the debt is foreign currency denominated, a 30 percent real exchange rate depreciation would increase the debt-to-GDP ratio by around 11 percentage points relative to the baseline in 2012.
- Even under smaller shocks—individual one-half standard deviation shocks to real growth, interest rates, and the primary balance—the debt-to-GDP ratios would exceed 70 percent by the end of the projection period.

Public debt sustainability and containing these vulnerabilities is contingent on appropriate adjustment policies. Under the baseline outlook, the average primary deficit (including grants) declines from 2.7 percent of GDP in 2012 to 0.4 percent in GDP in 2017. In contrast:

- holding the primary deficit constant at 4 percent of GDP (its 2011 level) over 2012–17 would cause the debt ratio to grow to about 68 percent by 2017;
- the debt ratio would decline (approaching 46 percent by 2017) if key assumptions are held at their historical averages, reflecting that the primary deficit (including grants) was, on average, above one percent of GDP in 2001–10.

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

Table A 1. Jordan: Public Debt Sustainability Framework, 2007-2017 1/

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2007	2008	2009	2010	2011	10-Year Historical Average	10-Year Standard Deviation	2012	2013	2014	2015	2016	2017	Debt-stabilizing primary balance 9/
1 **Baseline: Central government debt including government guarantees (net)**	67.6	54.9	57.1	61.1	64.6			**65.5**	**65.4**	**64.4**	**63.7**	**62.9**	**62.1**	**-1.3**
o/w foreign-currency denominated	43.3	23.4	22.9	24.6	21.6			21.1	19.9	18.9	18.0	17.2	15.8	
2 Change in central government debt	-1.2	-12.7	2.3	4.0	3.4			0.9	-0.1	-1.0	-0.7	-0.8	-0.8	
3 Identified debt-creating flows (4+7+12)	-6.2	-11.1	3.3	-0.1	0.1			1.0	0.7	0.6	0.2	-0.3	-0.9	
4 Primary deficit	2.5	3.1	6.6	3.5	4.0			2.7	2.2	1.9	1.4	0.9	0.4	
5 Revenue and grants	32.3	30.1	26.4	24.9	26.1			25.8	25.6	25.9	26.0	26.2	26.4	
6 Primary (noninterest) expenditure	34.8	33.2	33.0	28.3	30.0			28.4	27.8	27.8	27.4	27.1	26.8	
7 Automatic debt dynamics 2/	-5.2	-12.6	-1.9	-3.5	-3.8			-1.7	-1.5	-1.3	-1.2	-1.3	-1.3	
8 Contribution from interest rate/growth differential 3/	-5.2	-12.6	-2.0	-3.5	-3.8			-1.7	-1.5	-1.3	-1.2	-1.3	-1.3	
9 Of which contribution from real interest rate	-0.3	-8.8	0.8	-2.3	-2.4			0.0	0.4	0.7	1.0	1.2	1.3	
10 Of which contribution from real GDP growth	-5.0	-3.8	-2.8	-1.2	-1.4			-1.7	-1.8	-2.0	-2.2	-2.4	-2.6	
11 Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	0.0			...	...	...	...	...	...	
12 Other identified debt-creating flows	-3.5	-1.7	-1.4	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
13 Privatization receipts (negative)	-3.5	-1.7	-1.4	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
14 Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
15 Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
16 Residual, including asset changes (2-3) 5/	5.0	-1.6	-1.0	4.1	3.3			-0.1	-0.8	-1.7	-0.9	-0.5	0.1	
Central government debt-to-revenue ratio	209.2	182.4	216.1	246.0	247.5			254.4	255.5	249.0	245.1	240.1	235.1	
Gross financing need 6/	8.3	8.1	10.3	7.0	7.6			6.7	6.3	6.0	5.5	5.0	4.6	
in billions of U.S. dollars	1.4	1.8	2.5	1.9	2.2			2.1	2.1	2.1	2.1	2.1	2.0	
Scenario with key variables at their historical averages 7/								**61.2**	**57.4**	**53.2**	**49.9**	**47.3**	**45.5**	**-3.5**
Scenario with no policy change (constant primary balance) in 2012-2017								**65.5**	**65.9**	**65.6**	**66.2**	**67.1**	**68.5**	**-1.4**
Scenario with 20 percent temporary (2012-13) shock to FDI, remittances and tourism receipts								**75.8**	**86.5**	**84.6**	**83.0**	**81.2**	**79.3**	
Scenario with disruptions to natural gas supplies in 2012 similar to 2011								**68.5**	**71.1**	**69.9**	**68.9**	**67.8**	**66.8**	
Key Macroeconomic and Fiscal Assumptions Underlying Baseline														
Real GDP growth (in percent)	8.2	7.2	5.5	2.3	2.5	6.0	2.4	2.7	3.0	3.3	3.7	4.1	4.4	
Average nominal interest rate on public debt (in percent) 8/	5.0	4.6	4.6	4.1	3.7	4.2	0.5	4.2	4.4	4.4	4.9	5.1	5.3	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-0.1	-15.3	1.8	-4.3	-4.2	-2.1	5.6	0.1	0.7	1.3	1.9	2.1	2.3	
Inflation rate (GDP deflator, in percent)	5.1	19.9	2.8	8.4	8.0	6.3	5.8	4.1	3.6	3.1	3.0	3.0	3.0	
Growth of real primary spending (deflated by GDP deflator, in percent)	13.9	2.2	5.0	-12.4	8.8	6.4	10.2	-2.8	0.7	3.2	2.3	3.0	3.4	
Primary deficit	2.5	3.1	6.6	3.5	4.0	1.6	3.1	2.7	2.2	1.9	1.4	0.9	0.4	

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

2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

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

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.

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

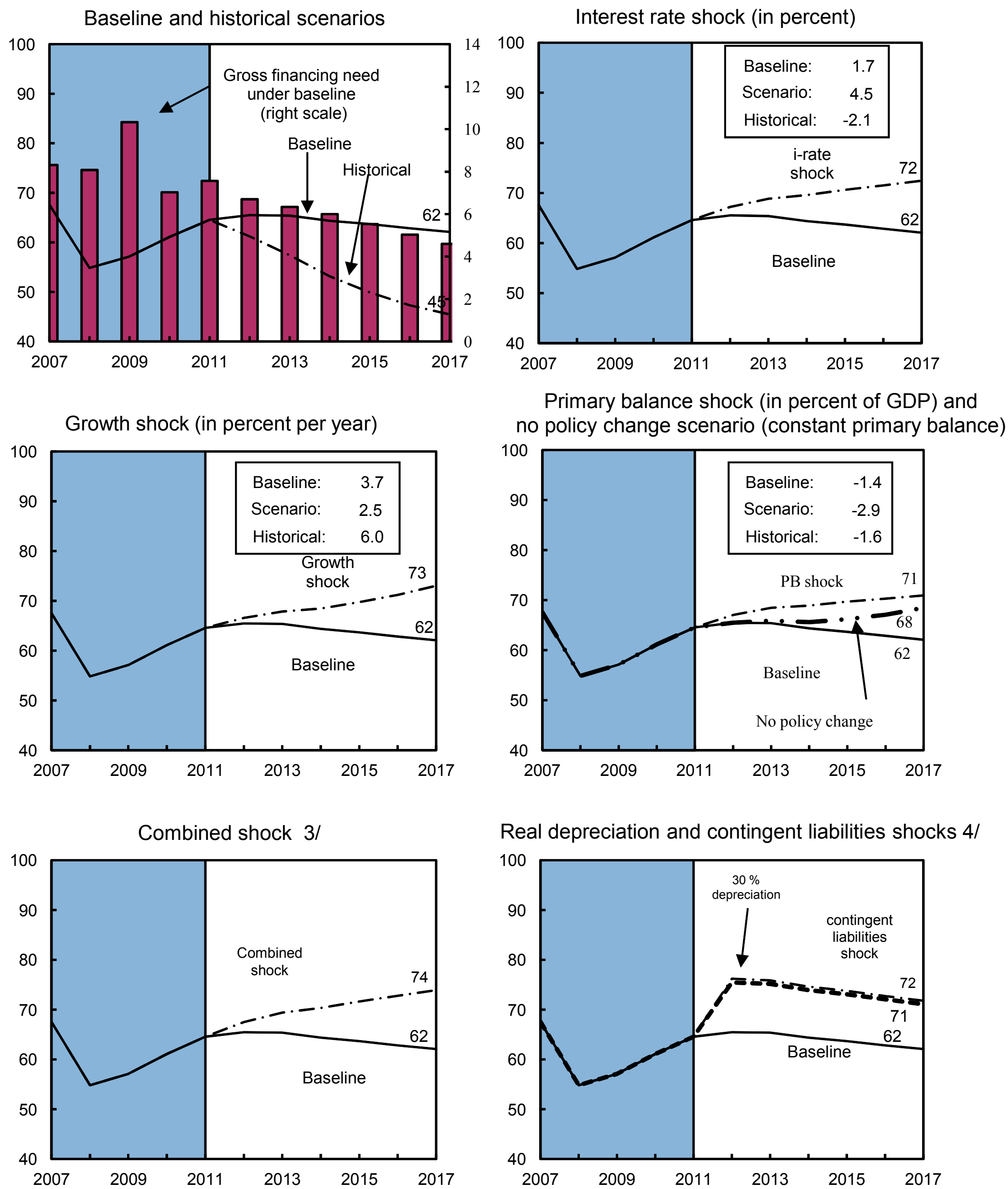
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

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

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

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

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



Sources: International Monetary Fund, country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent ¼ standard deviation shocks applied to real interest rate, growth rate, and primary balance.
4/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2012, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Annex 2. Jordan: External Debt Sustainability Analysis

Jordan's external debt is relatively low but remains vulnerable to adverse shocks. The external debt ratio, which declined sharply to about 25 percent of GDP following the $2.1 billion buyback of Paris club debt in 2008, is expected to maintain a downward trajectory and decline to 21 percent by end-2012.

The updated debt sustainability analysis indicates that as a result of strong fiscal adjustment envisaged, external debt appears to have a long-run downward path. The projections are based on the current outlook for commodity prices (particularly grains and fuel), and assume some improvement in regional security and hence higher natural gas imports from Egypt in 2012. In addition, they assume that the Jordanian economy is able to secure better fuel contracts in 2012 than in 2011, and that Jordan is able to diversify to access alternative energy sources by 2013. The projections also assume that Jordan will continue to pursue cautious external borrowing policies, relying predominantly on concessional sources of external financing from multilateral and regional development banks.

However, the envisaged debt path is somewhat sensitive to assumptions about natural gas supplies and the global/regional outlook (Table A.2):

- A major downside risk is continued disruption of natural gas supplies from Egypt in 2012 and 2013 on a scale similar to that experienced in 2011. The impact of such a scenario would be a 4½ percent and 3⅓ percent increase in the energy import bill in 2012 and 2013, respectively, relative to 2011 (a 15 percent increase over the 2012 and 2013 baselines, reaching 15 nd 13 percent of GDP in 2012 and 2013, respectively (see text table)).[7] Under this scenario, the debt ratio deteriorates to about 24 percent by end-2012, and reaches 26 percent by end-2013.

Jordan. Impact of Natural Gas on the Current Account Under Alternative Scenarios

	Baseline				Alternative Scenario	
	2010	2011	2012	2013	2012	2013
In US$ millions						
Current account	-1,474	-2,769	-2,482	-2,126	-3,122	-2,728
Imports f.o.b.	13,842	16,085	15,978	16,168	16,618	16,770
Of which: oil-gas imports	3,039	4,596	4,169	3,843	4,809	4,445
Oil products	959	1,927	1,252	689	2,042	1,266
Natural gas	570	638	715	623	651	729
Crude oil	1,914	2,649	2,762	3,047	2,762	3,047
In percent of GDP						
Current account	-5.6	-9.5	-7.9	-6.4	-10.0	-8.2
Imports f.o.b.	52	55	51	48	53	50
Of which: oil-gas imports	11	16	13	12	15	13
Percent change						
Current account	176.1	87.9	-10.4	-14.3	12.7	-12.6
Imports f.o.b.	266.6	16.2	-0.7	1.2	3.3	0.9
Of which: oil-gas imports	203.2	51.2	-9.3	-7.8	4.6	-7.6
Oil products	128.3	100.8	-35.0	-45.0	6.0	-38.0
Natural gas	-1.2	12.0	12.0	-12.8	2.0	12.0
Crude oil	23.6	38.4	4.3	10.3	4.3	10.3
Memo						
Global fuel prices, in percent	27.9	31.5	1.6	-3.1	1.6	-3.1

- An important source of risk is a sharper slowdown in current account inflows and FDI if the global/regional downturn proves deeper than currently expected. The impact of such a slowdown is illustrated in an alternative scenario that envisages a large 20 percent decline in 2012–13 in remittances and tourism flows, as well as FDI, relative to the baseline.[8] Under this scenario, the debt ratio deteriorates to about 41 percent by end-2013.

- The standard bound tests reveal that external debt sustainability is most

[7] The total impact of the shock is likely understated, since economic growth is assumed to be unaffected by the higher import costs and uncertainty associated with continued security issues in Egypt.

[8] The total impact of the shock is likely overstated, since imports are assumed to be unaffected by the decline in inflows.

vulnerable to developments in the current account position. If the actual current account were half of one standard deviation worse than currently assumed, the debt ratio would edge up throughout the projection period (reaching 41 percent of GDP by 2017).

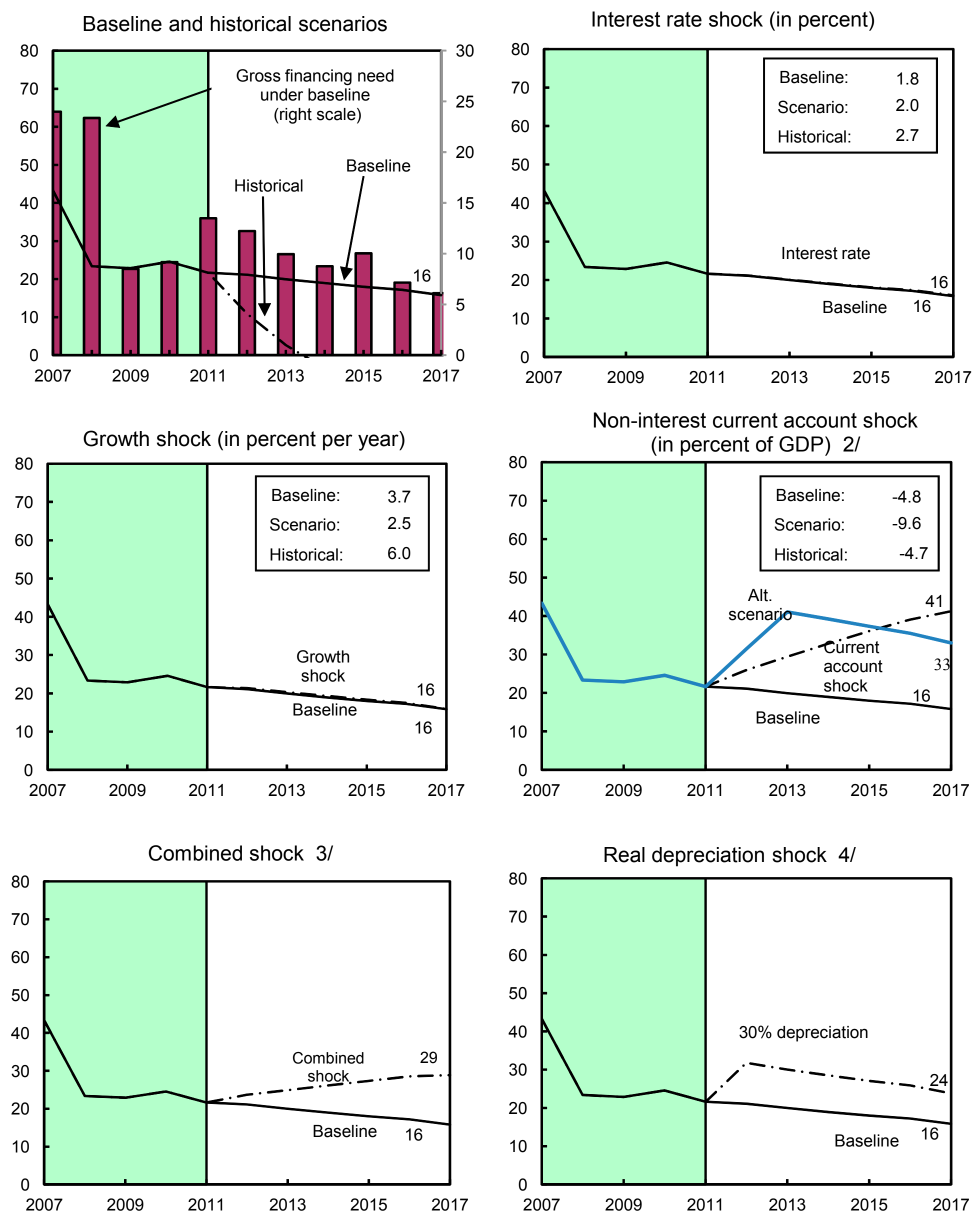
- Bound tests show that the debt-to-GDP ratio is robust to shocks in the external interest rate or GDP growth. A sharp depreciation would lead to an immediate deterioration in the debt ratio but would not have a major adverse impact over time because of the relatively low stock of projected external debt.

Table A.2. Jordan: External Debt Sustainability Framework, 2007-2017
(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2007	2008	2009	2010	2011			2012	2013	2014	2015	2016	2017	Debt-stabilizing non-interest current account 6/
1 **Baseline: External debt**	43.3	23.4	22.9	24.6	21.6			**21.1**	**20.0**	**19.0**	**18.0**	**17.2**	**15.8**	**-10.6**
2 Change in external debt	-5.3	-19.9	-0.5	1.7	-2.9			-0.5	-1.2	-1.0	-1.0	-0.8	-1.4	
3 Identified external debt-creating flows (4+8+9)	-8.9	-15.8	-6.4	-5.9	1.2			2.1	-0.2	-1.9	-3.3	-4.8	-6.0	
4 Current account deficit, excluding interest payments	15.8	8.3	4.3	5.1	8.9			7.4	5.9	5.0	4.6	4.2	4.2	
5 Deficit in balance of goods and services	-146.0	-144.1	-115.0	-114.7	-114.1			-110.6	-107.8	-107.2	-106.7	-106.6	-106.6	
6 Exports	54.2	56.5	45.9	46.2	43.6			44.2	44.1	44.1	44.1	44.1	44.0	
7 Imports	-91.8	-87.6	-69.1	-68.6	-70.4			-66.4	-63.7	-63.0	-62.6	-62.5	-62.6	
8 Net non-debt creating capital inflows (negative)	-20.3	-15.5	-9.5	-9.2	-5.9			-5.3	-6.0	-6.7	-7.6	-8.5	-9.6	
9 Automatic debt dynamics 1/	-4.4	-8.7	-1.2	-1.7	-1.8			0.0	-0.1	-0.2	-0.3	-0.5	-0.5	
10 Contribution from nominal interest rate	1.4	1.0	0.7	0.5	0.6			0.6	0.5	0.4	0.4	0.2	0.2	
11 Contribution from real GDP growth	-3.5	-2.4	-1.2	-0.5	-0.5			-0.6	-0.6	-0.6	-0.7	-0.7	-0.7	
12 Contribution from price and exchange rate changes 2/	-2.3	-7.2	-0.6	-1.8	-1.8			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	3.6	-4.1	5.9	7.6	-4.1			-2.6	-1.0	0.9	2.3	4.0	4.6	
External debt-to-exports ratio (in percent)	79.9	41.3	49.9	53.3	49.6			47.8	45.3	43.0	40.8	39.0	36.0	
Gross external financing need (in billions of US dollars) 4/	4.1	5.1	2.0	2.4	3.9			3.8	3.3	3.1	3.8	2.9	2.7	
in percent of GDP	24.0	23.4	8.5	9.2	13.5			12.2	10.0	8.8	10.0	7.2	6.1	
Scenario with key variables at their historical averages 5/								**10.9**	**2.6**	**...**	**...**	**...**	**...**	
Scenario with 20 percent temporary (2012-13) shock to FDI, remittances and tourism receipts								**31.5**	**41.1**	**39.2**	**37.3**	**35.5**	**33.0**	
Scenario with disruptions to natural gas supplies in 2012 similar to 2011								**24.2**	**25.7**	**24.4**	**23.2**	**22.2**	**20.5**	
Key Macroeconomic Assumptions Underlying Baseline						10-Year Historical Average	10-Year Standard Deviation							
Real GDP growth (in percent)	8.2	7.2	5.5	2.3	2.5	6.0	2.4	2.7	3.0	3.3	3.7	4.1	4.4	
GDP deflator in US dollars (change in percent)	5.1	19.9	2.8	8.4	8.0	6.3	5.8	4.1	3.6	3.1	3.0	3.0	3.0	
Nominal external interest rate (in percent)	3.3	2.8	3.1	2.5	2.7	2.7	0.4	2.7	2.4	2.2	2.0	1.4	1.1	
Growth of exports (US dollar terms, in percent)	14.4	33.9	-11.9	11.5	4.5	13.6	12.6	8.4	6.4	6.7	6.7	7.1	7.3	
Growth of imports (US dollar terms, in percent)	18.7	22.6	-14.4	10.1	13.5	13.8	13.3	0.8	2.5	5.3	6.1	7.0	7.8	
Current account balance, excluding interest payments	-15.8	-8.3	-4.3	-5.1	-8.9	-4.7	9.6	-7.4	-5.9	-5.0	-4.6	-4.2	-4.2	
Net non-debt creating capital inflows	20.3	15.5	9.5	9.2	5.9	11.8	8.0	5.3	6.0	6.7	7.6	8.5	9.6	

1/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate,
ε = nominal appreciation (increase in dollar value of domestic currency), and α = share of domestic-currency denominated debt in total external debt.
2/ The contribution from price and exchange rate changes is defined as $[-\rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock. ρ increases with an appreciating domestic currency ($\varepsilon > 0$) and rising inflation (based on GDP deflator).
3/ The large residual term in 2008 reflects a Paris Club debt buyback of 11 percent of GDP. For projection, line includes the impact of price and exchange rate changes.
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.
5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.
6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

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



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Alternative scenario: temporary (2012-13) adverse 20 percent shock to remittances, tourism and FDI inflows.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2012.

INTERNATIONAL MONETARY FUND

JORDAN

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

March 23, 2012

Prepared By

The Middle East and Central Asia Department
(In Consultation with Other Departments)

CONTENTS

ANNEX I. JORDAN—FUND RELATIONS

(As of February 29, 2012)

Membership Status:
Joined: August 29, 1952; Article VIII

General Resources Account

	SDR Million	Percent Quota
Quota	170.50	100.00
Fund holdings	175.26	102.79
Reserve position in Fund	0.33	0.19

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	162.07	100.00
Holdings	146.43	90.35

Outstanding Purchases

	SDR Million	Percent Quota
Extended arrangements	5.07	2.98

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

Projected Obligations to Fund[1] (SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming			
	2011	2012	2013	2014
Principal	0.00	5.07	0.00	0.00
Charges/interest	0.11	0.03	0.03	0.03
Total	**0.11**	**5.11**	**0.03**	**0.03**

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

Exchange System: The Jordanian dinar is fully convertible and is officially pegged to the SDR. In practice, the authorities have an exchange rate regime which is pegged to the U.S. dollar since October 1995 at JD 1 = $1.41044. Jordan accepted the obligations of Article VIII, Sections 2, 3, and 4 in 1995 and maintains an exchange system free of restrictions on payments and transfers for current international transactions.

[1] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Last Article IV Consultation:
The 2010 Article IV consultation was concluded by the Executive Board (on a lapse of time basis) on September 15, 2010. The Staff Report and Executive Board Assessment can be found in IMF Country Report 10/297 at:
http://www.imf.org/external/pubs/cat/longres.aspx?sk=24233.0

Financial Sector Assessment Program: Jordan participated in a Financial System Stability Assessment in 2003, and the related report was presented to the Executive Board at the time of the 2003 Article IV consultation (SM/04/1). A Financial System Stability Assessment Update was conducted in 2008, and the report presented to the Executive Board at the time of the 2008 Article IV consultation (SM/09/104).

Technical Assistance (TA): Extensive technical assistance has been provided to Jordan over recent years (see attached table).

Documents:

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

Jordan: Technical Assistance, 2002–12

Date	Purpose
Fiscal	
January–June 2002	Pension reform
January–September 2002	GST reform
November 2002	Macrofiscal capacity and treasury single account
February, October 2003	Revenue administration reform
June, August, December 2003	Peripatetic advisor on single treasury account
February, June, October 2004	Peripatetic advisor on revenue administration reform
February, May 2004	Public expenditure management
August 2004–June 2005	Resident expert in macrofiscal management
February 2005	Distributional effects of replacing oil subsidies
February–March 2005	Revenue administration reform
April 2005	Fiscal ROSC
February, May 2006	Public financial management
April–August 2006	Expert visits on revenue administration reform
October–November 2006	Revenue administration inspection visit

Date	Purpose
March/April, July, December 2007	Revenue administration reform (METAC)
June 2008	Treasury single account and cash management (METAC)
February 2009	Sustainable expenditures
March 2009	Tax policy review
July–August 2009	Public financial management reform (with World Bank)
February 2010	Expert visit to assess progress in implementing revenue reforms
February 2010	Options for short term expenditure rationalization
March 2010	Tax policy review
March 2010	Public financial management (METAC)
March–April 2010	Commitment control system (METAC)
April 2010	Improving capital expenditures (METAC)
April 2010	Public financial management (METAC)
July 2010	STX installation visit (METAC)
July/August 2010	Collection and arrears management (METAC)
January 2011	Public financial management (including World Bank & METAC)
March 2011	Public-Private Partnership
April 2011	PPPs and fiscal risks
May 2011	Follow-up on capital expenditures
June 2011	Review, strengthen structural arrangements of HQ functions
October 2011	Assessment visit
October 2011	Strengthen compliance management of financial sector
October 2011	Subsidy reform
January 2012	Regional workshop on compliance management
Monetary and Financial	
August–September 2003	Financial Sector Assessment Program (FSAP)
April–May 2008	Debt management strategy
August 2008	Review the existing budgetary system in CBJ
November 2008	FSAP update
April 2012	Implementation of Basel II
June 2010	Strengthening public debt management
October 2009	Developing the government domestic Sukuk market
July 2010	Implementation of Basel II
July 2010	Developing credit bureau regulations (METAC)
August 2010	Develop licensing guidelines to support credit bureau regulations (METAC)
October 2010	FSAP development module (World Bank)
September 2010	Debt management follow-up
January 2011	Risk management
January 2011	Regulation and supervision
January 2011	Markets instruments and infrastructure

Date	Purpose
January 2011	Setting up a risk management unit within the Central Bank
January 2011	Islamic banking: develop guidelines, assessments, tools
June 2011	Regional Workshop on debt strategy
June 2011	Developing debt management strategies
July 2011	Debt management capacity building
July 2011	Building, analyzing and evaluating debt strategies/debt management
July 2011	Assessment mission
December 2011	Early warning systems
December 2011	Licensing credit bureaus
Statistical	
January–February 2002	Report on observation of standards and codes—data module
December 2003	Follow-up on report on observation of standards and codes—data module
October 2003–January 2004, March–May 2004	Balance of payments statistics
April–May 2004	Government finance statistics
December 2006	National accounts statistics
October–November 2006	SDDS assessment mission
July 2007	Follow-up on SDDS/Government finance statistics
October 2008	Monetary and financial statistics
February 2009	National accounts statistics (METAC)
December 2009	Special data dissemination standard assessment
October 2010	National accounts statistics (METAC)
January 2011	Improving BOP and IIP compilation practices (METAC)
Other	
March 2008	Financial programming workshop
February 2010	Safeguards and fiscal investment (FIN)
April 2010	Outreach mission—Visit of Managing Director and IMF Middle East Youth Dialog (EXR and MCD)
May 2010	Data quality seminar (METAC)
July 2010	Central Bank of Jordan–IMF Research Workshop (MCD)
October 2010	Development Policy Loan (World Bank)
October 2010	STE Improvement of the quarterly national accounts (METAC)
December 2010	DPL pre-evaluation (World Bank)
February 2011	Improving BOP and IIP compilation practices (METAC)

Date	Purpose
September/October 2011	STE preparation of input/output tables (METAC)
December 2011	LTE training on the external debt statistics
February 2012	Central Bank of Jordan–IMF research workshop (MCD)

ANNEX II. JORDAN—WORLD BANK GROUP STRATEGY AND OPERATIONS

1. As of January 31, 2012, the World Bank has approved 67 loans, 15 credits and seven grants for a total of US$3.262 billion. Of the 67 loans, ten are for budget support operations (Development Policy Loans (DPLs)). The current portfolio, valued at US$288.5 million, consists of seven investment projects amounting to US$243.5 million of which US$119.4 million are undisbursed, and one guarantee operation valued at US$45 million. The performance of the portfolio, which had been strong in the past, began deteriorating at the end of 2010, and there are now six projects in problem status. Factors contributing to the deterioration in performance include complex project design, lack of ownership, interruptions in counterpart financing, and low capacity of implementing agencies. Frequent change of leadership within ministries has also affected project performance.

2. The Joint World Bank-IFC Country Partnership Strategy (CPS) for FY 2012–15, endorsed by the Bank's Executive Board in January 2012, will support Jordan in its efforts to lay a foundation for sustainable growth and job creation through a three- pronged strategy:

- Strengthen fiscal management and increase accountability
- Strengthen the foundation for sustainable growth with a focus on competitiveness; and
- Enhance inclusion through social protection and local development.

3. In light of Government's increased focus on transparency, public participation and Government accountability, the WBG will seek opportunities to support these efforts across the portfolio.

4. In the context of the new CPS, which presents an indicative IBRD envelope of US$500 to US$650 million for the FY2012–15 period, the Bank approved a First Programmatic Development Policy Loan in the amount of US$250 million on January 24, 2012. This is the first in a programmatic DPL series that focuses on: (i) transparency and accountability; (ii) budget and debt management; (iii) efficiency of government spending and services; and (iv) private sector development. The second DPL in the series is planned for delivery around December 2012. The new CPS also includes plans for a Partial Risk Guarantee in electricity generation and a robust TA program in the areas of subsidy reform (analysis of the poverty impacts and policy implications of changes in subsidy regimes and options for improved targeting mechanisms); public financial management; governance; women's labor force participation; and support to the development and implementation of an employment strategy and a poverty reduction strategy.

5. In addition, several pieces of analytical work will be undertaken, including a Development Policy Review which examines productivity and sources of growth as well as the relationship between these factors and job creation, a Fiscal Consolidation Study which will focus on the revenue side of public finance and a review of public expenditures in the energy sector, and a Gender Assessment.

6. World Bank Group support to private sector development will continue to focus on improving the investment environment, sector competitiveness, MSME financing and the framework for public private partnerships. IFC has scaled up its investment activities in Jordan during the last few years, and its portfolio has grown from US$50 million at end FY05 to about US$653 million at end-January 2012. IFC has also mobilized around US$310 million over the recent years and has undertaken an extensive program of Advisory Services to support private sector development.

The Bank and IMF continue to collaborate in supporting the authorities in the following areas:

Jordan: JMAP Implementation, FY2012–13

Title	Products	Provisional Timing of Missions	Expected Delivery Date
A. Mutual Information on Relevant Work Programs			
Bank work program	Development Policy Loan II	April (TBC)	December 2012
	Energy Sector TA)/Partial Risk Guarantee (tbc)	End-March (TBC)	July 2012
	Enterprise Survey/Financial Review		April 2012
	Social Insurance TA		June 2012
	Jordan National Employment Strategy TA		February 2012
	Poverty TA	June (TBC)	March 2012
	Governance Reform TA		June 2012
	Employment for Young Women Graduates	May	July 2012
	Gender Assessment	February 2013 (TBC)	June 2013
	Youth and Inclusion TA	May	December 2012
	Development Policy Review – Growth and Competitiveness	Mid/End March	December 2012
	Fiscal Consolidation Study	Mid/End March	September 2012
	Competitive Industries and Growth		July 2012
IMF work program	Article IV Consultation Staff Report	January 2012	April 2012
	Staff visit	May 2012	
B. Requests for Work Program Inputs (as needed)			
Fund request to Bank	Information sharing (related to economic work and technical assistance)	Ongoing	
Bank request to Fund	Development Policy Loan II (will require input from Fund)	Assessment Letter	TBD

ANNEX III. JORDAN—STATISTICAL ISSUES

(As of February 3, 2012)

I. Assessment of Data Adequacy for Surveillance

General: Data provision is adequate for surveillance purposes.

National Accounts: During the past few years, progress has been made toward enhancing the quality of national accounts statistics. This work has mainly focused on improving quarterly estimates of the national accounts from the production approach. While work has commenced, additional efforts are needed to develop annual national accounts from the expenditure approach, as well as the coverage of informal activities. Also, work on reducing discrepancies between the industrial production index and the gross value added estimates for the manufacturing sector is progressing. New surveys have been implemented to improve the compilation and timeliness of wages and earnings data. In mid-2011, the authorities revised the national accounts GDP (real and nominal) data for 2007 to 2010, to address methodological discrepancies in imputed rent values.

Government finance. The authorities have initiated work aimed at developing a financial balance sheet in accordance with the classification and sectorization systems recommended by the *GFSM 2001* aimed at further strengthening the stock and flow data that serve as a source for compiling government finance statistics and for verification of internal and intersectoral consistency.

Monetary statistics: Timeliness of reporting monetary data for publication in *International Financial Statistics* is satisfactory. However, little progress has been achieved so far in implementing the Standardized Report Forms for reporting monetary data to the Fund.

Balance of payments: The CBJ has adopted the methodology of the fifth edition of the *Balance of Payments Manual (BPM5)* for the compilation of the BOP statistics and the international investment position (IIP), and has disseminated data in the *BPM5* format. The implementation of surveys in the area of services is important for further improving the quality of the BOP statistics. In mid-2011 the CBJ revised the historical BOP data for 2008 to 2010, to address the sharp increase in errors and omissions.

II. Data Standards and Quality

Subscriber to the Fund's Special Data Dissemination Standard (SDDS) since January 2010. Uses SDDS flexibility option on the periodicity and timeliness of the labor market wages/earnings data.	Data ROSC update was published in February 2004.

Jordan: Common Indicators Required For Surveillance

(As of February 3, 2012)

	Date of Latest Observation	Date Received	Frequency of Data 7/	Frequency of Reporting 7/	Frequency of Reporting 7/	Memo Items: Data quality—methodological soundness 8/	Memo Items: Data quality—accuracy and reliability 9/
Exchange rates	Jan. 2012	Jan. 2012	W	M	W		
International reserve assets and reserve liabilities of the monetary authorities 1/	Jan. 2012	Jan. 2012	W	M	M		
Reserve/base money	Dec. 2011	Dec. 2011	M	M	M		
Broad money	Dec. 2011	Dec. 2011	M	M	M		
Central bank balance sheet	Dec. 2011	Dec. 2011	M	M	M		
Consolidated balance sheet of the banking system	Dec. 2011	Dec. 2011	M	M	M	O, O, LO, LO	O, LO, O, O, LO
Interest rates 2/	Jan. 2012	Jan. 2012	W	M	W		
Consumer price index	Jan. 2012	Jan. 2012	M	M	M	O, LO, O, O	O, LO, O, O, O
Revenue, expenditure, balance and composition of financing 3/—general government 4/	2008	July 2010	A	A	A	O, LO, LNO, O	O, O, O, O, NA
Revenue, expenditure, balance and composition of financing 3/—central government	Dec. 2011	Jan. 2012	M	M	M		
Stocks of central government and central government-guaranteed debt 5/	Dec. 2011	Feb. 2012	M	M	M		
External current account balance	Q4 2011	Feb. 2012	Q	Q	Q		
Exports and imports of goods and services	Dec. 2011	Jan. 2012	M	M	Q	LNO, LNO, LNO, LO	LNO, LO, LO, LO, LO
GDP/GNP	Q3 2011	Dec. 2011	Q	Q	Q	O, LO, O, O	O, LO, O, LO, LO
Gross external debt	Dec. 2011	Jan. 2012	M	M	M		
International Investment Position 6/	2010	June 2011	A	A	M		

1/ Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
2/ Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
3/ Foreign, domestic bank, and domestic nonbank financing.
4/ The general government consists of the central government (budgetary funds, extrabudgetary funds, and social security funds) and state and local governments.
5/ Including currency and maturity composition.
6/ Includes external gross financial asset and liability positions vis-à-vis nonresidents.
7/ Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); not available (NA).
8/ Reflects the assessment provided in the substantive update of the data ROSC published in February 2004 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning (respectively) concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), not observed (NO), or not available (NA).
9/ Same as footnote 7, except referring to international standards concerning (respectively) source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies.

Statement by the Staff Representative on Jordan
April 9, 2012

The information below has become available following the issuance of the staff report. The thrust of the staff appraisal remains unchanged, but recent trends, if continued, could entail a financing need in 2012.

1. **Latest data on economic activity confirm a continued rebound from the nadir of 2010.** GDP growth for 2011 reached 2.6 percent, slightly above expectations. This momentum continued into the fourth quarter of 2011, where GDP increased by 3.1 percent due to strong performance in the manufacturing, transportation, and financial services sectors.

2. **The drawdown of international reserves accelerated in the first quarter of 2012.** Compared to end-December 2011, reserves fell by almost US$1.1 billion (10.6 percent) to reach US$9.6 billion (representing about 5.6 months of import cover) by end-March. This pace of reserve drawdown is faster than expected with reserves already below the level projected for end-2012. This is due mainly to higher prices of oil imports and the continued need to substitute more expensive refined fuel products for natural gas (to use as an alternate fuel for electricity generation). In particular, since the most recent sabotage of the Arab Gas Pipeline on the Sinai Peninsula on February 5, 2012—the thirteenth time since January 2011—there has been no flow of natural gas from Egypt to Jordan, which, if not reinstated, could have major implications for the balance of payments.

3. **Recent modifications to the structure of electricity pricing are being revised.** The authorities raised electricity prices for large consumers on February 1. However, on March 13 the revised electricity pricing schedule was withdrawn, due to customer complaints about billing irregularities. The authorities have formed a committee of inquiry to examine this issue, which will recommend a revised pricing schedule that progressively increases prices for higher consumption, and entails a higher average price for electricity consumers.

4. **In financial markets, the broad gains seen in late February have been maintained.** During March, spreads on sovereign bonds narrowed and the stock market strengthened, while long-term domestic bonds weakened.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 12/38
FOR IMMEDIATE RELEASE
April 20, 2012

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

IMF Executive Board Concludes 2012 Article IV Consultation with Jordan

On April 9, 2012, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Jordan.[1]

Background

The pace of economic activity in Jordan remains subdued. Following a period of robust growth during 2000–09 (averaging about 6½ percent) supported by a favorable external environment, economic activity slowed sharply. Real GDP grew by only 2⅓ percent in 2010, and headline inflation picked up to 5 percent, in line with higher commodity prices. A modest increase in economic activity took place in 2011, as real GDP is expected to grow by 2½ percent. Inflation fell to 4½ percent in 2011, due in large part to the absence (since January 2011) of pass through of international oil prices to domestic markets. Real GDP is likely to grow by 2¾ percent in 2012, underpinned by modest growth in mining and financial services and continued growth in key trading-partner Gulf Cooperation Council countries. Average inflation should rise to almost 6 percent in 2012, given the planned resumption of pass-through of international oil prices to domestic fuel prices. As one of the most open economies in the Middle East, Jordan remains highly dependent on commodity imports (oil and grains), tourism receipts, remittances and FDI flows, and external grants. Jordan is also facing risks from a further deterioration in its terms of trade, unrest in neighboring countries, and the prospect of further disruptions to natural gas pipeline flows from Egypt.

Higher world commodity prices have adversely affected Jordan's external position. The external current account deficit is expected to widen considerably to 9½ percent of GDP in 2011 (from 5⅔ percent of GDP in 2010), as a robust export performance is offset by increased energy

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

imports and declining remittances and tourism receipts. International reserves fell by 14 percent in 2011 to reach $10.7 billion (equivalent to 6⅔ months of imports), as shortfalls in foreign direct investment flows accompanied the deterioration in the current account. Despite regional uncertainties, the current account deficit is projected to narrow in 2012 (reaching 8 percent of GDP), due to a moderation of energy imports and buoyant mining exports.

Increased social spending has exacerbated pressures on the fiscal position, and tighter macroeconomic policies are needed to reduce fiscal and external imbalances. The overall fiscal deficit is expected to rise to about 6 percent of GDP in 2011, mainly due to increased commodity subsidies and other social spending (costing an additional 2⅓ percent of GDP) and a cyclical weakening in domestic revenues. Budgetary grants of $1.4 billion (5 percent of GDP) were provided by Saudi Arabia during 2011, which helped fund the cost of fuel subsidies. In addition to central government borrowing, increased government borrowing on behalf of Jordan's National Electric Power Company (to cover more costly imported fuel oil used during the extensive periods of interrupted natural gas supply) and other own-budget agencies increased the public debt-to-GDP ratio to about 64 percent at end-2011.

The 2012 budget envisages considerable fiscal consolidation. The budget focuses on raising domestic revenue (including by removing tax exemptions, revamping property transfer fees, and higher tax rates on luxury goods) and containing current spending (including by freezing public sector hiring, reductions in the operational costs of Ministries, and reform of the present system of universal subsidies for gasoline and diesel). The budget also provides for the implementation of targeted transfers to alleviate higher fuel costs associated with the phasing out of fuel subsidies. Based on the latest developments and macroeconomic assumptions, the 2012 overall deficit is expected to narrow by about 1 percent of GDP relative to the 2011 outturn, reaching 5¼ percent of GDP. With this, and given likely borrowing for own-budget entities, the public debt-to-GDP ratio would rise slightly to 65½ percent by end-2012. Further fiscal consolidation will be essential over the medium term to return fiscal and external balances to a sustainable level.

The stance of monetary policy has been tightened since mid-2011. As recent unrest in the region is likely to have engendered rising sovereign risk premia in Jordan and other Middle East countries, further tightening of monetary conditions is appropriate, to sustain the attractiveness of Jordanian dinar (JD)-denominated assets and strengthen the international reserve position. In this connection, safeguarding the exchange rate peg remains the lynchpin for the maintenance of financial stability in Jordan. The peg of the Jordanian dinar to the U.S. dollar has served the country well by anchoring inflation expectations and providing stability in a challenging regional and global environment. The Jordanian dinar real effective exchange rate has experienced a modest appreciation of 2½ percent between December 2009 and November 2011, driven largely by rising inflation differentials with trading partners.

The Jordanian banking system remains sound. The Central Bank of Jordan (CBJ) continues to exercise prudent regulation and supervision of the banking system, and banks have remained conservative in their funding practices (with the JD loan/deposit ratio near 73 percent at

December 2011). The banking sector's macro-prudential indicators remain strong—banks remain profitable and well capitalized, deposits (largely JD-denominated) continue to be the major funding base, liquidity ratios and provisioning remain high, while non-performing loans increased slightly to 8½ percent at mid-2011. Bank private sector credit continues to rebound (growing by 9½ percent y-o-y in December 2011).

Executive Board Assessment

Executive Directors commended the authorities' track record of prudent and effective macroeconomic management, but noted that external and domestic shocks have recently dampened economic activity and heightened downside risks. Against this background, Directors agreed that, going forward, economic, financial and structural policies should focus on reducing fiscal and external imbalances as well as on promoting faster and more inclusive GDP growth.

Directors welcomed the fiscal tightening in the 2012 budget and the authorities' three-year fiscal reform agenda. More broadly, they underscored the importance of a comprehensive medium-term strategy to restore fiscal buffers and reduce the public debt. Such a strategy should encompass enhanced tax administration, further fuel subsidy reforms, better-targeted social and capital spending, continued containment of the public sector wage bill, and improved public sector financial management.

Directors considered that the exchange rate peg has served Jordan well in anchoring inflation expectations and fostering macroeconomic stability. Director also agreed that, in the context of this exchange rate regime, there is scope for a further tightening of the monetary stance to contain inflation risks and maintain an adequate international reserve buffer.

Directors welcomed improvements in banking regulation and supervision in line with the recommendations under the Fund's Financial Sector Assessment Program, which have helped create a liquid, well-capitalized, and profitable banking sector. They encouraged continued vigilance against financial risks, particularly from rising non-performing loans. Directors commended the progress in implementing Basel II regulations, noting that banks are already well placed to satisfy Basel III guidelines on capital adequacy and liquidity. They also welcomed the authorities' continued efforts to fight money laundering and terrorism financing.

Directors underscored that sustained and inclusive growth is central to reducing high and chronic unemployment. They welcomed the steps taken to boost the investment climate, governance, and regional trade. Nonetheless, Directors urged further progress in strengthening the legal and regulatory frameworks, addressing labor market rigidities, resolving skill mismatches, and tackling infrastructure bottlenecks.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Jordan: Selected Economic Indicators

	2009	2010	Prel. 2011	Proj. 2012
Real sector	(Annual percentage changes)			
Real GDP at market prices	5.5	2.3	2.5	2.8
Consumer price index (average)	-0.7	5.0	4.4	5.9
Unemployment rate (percent)	12.9	12.5	12.9	...
Gross domestic investment (in percent of GDP)	24.4	23.1	23.9	22.5
Gross national savings (in percent of GDP)	19.5	17.6	14.4	14.6
Public finance	(In percent of GDP)			
Central government revenue and grants	26.4	24.9	26.1	25.8
Of which: grants	2.0	2.1	5.9	3.9
Central government expenditure and net lending 1/	35.4	30.4	32.1	31.0
Central government overall fiscal balance including grants	-8.9	-5.6	-6.0	-5.2
Government and government-guaranteed net debt	57.1	61.1	64.6	65.5
Balance of payments	(In percent of GDP)			
Current account balance (after grants), *of which:*	-4.9	-5.6	-9.5	-7.9
Exports, f.o.b. ($ billions)	6.4	7.0	8.0	8.9
Imports, f.o.b. ($ billions)	12.7	13.8	16.1	16.0
Gross usable international reserves ($ millions) 2/	11,093	12,449	10,737	9,776
In months of prospective import cover	7.8	7.7	6.6	5.9
Relative to short-term debt by remaining maturity	5.2	5.3	7.5	8.8
Money and credit	(Annual percentage changes)			
Broad money	9.3	11.5	8.1	7.0
Credit to private sector	0.5	7.2	9.6	13.2
Exchange rates				
U.S. dollar per Jordanian dinar (end-period)	1.4	1.4	1.4	1.4
Real effective exchange rate (percent change) 3/	-4.4	2.1	3.6	…

Sources: Jordanian authorities; and IMFstaff estimates and projections.

1/ Including off-budget.

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

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

Statement by Shakour Shaalan, Executive Director for Jordan
April 9, 2012

1. On behalf of the Jordanian authorities, I would like to thank staff for the constructive dialogue and candid advice during Article IV Consultation. The focus on the fiscal and financial reforms that are needed to preserve macroeconomic stability, as well as measures to boost inclusive growth and generate employment opportunities is timely and appropriate. The authorities broadly concur with staff's assessment and recommendations.

Recent developments

2. Economic activity in Jordan has slowed considerably over the last two years, reflecting the combined global economic crisis and the heightened regional unrest. As one of the most open and energy-dependent country, Jordan remains vulnerable to external developments, though resilience to external shocks has strengthened over the years. Higher international prices and frequent disruption of the supply of natural gas from Egypt have strained the fiscal and external balances and if it continues could raise borrowing costs. Meanwhile, worker remittances and tourism receipts declined due to regional unrest, which has dampened growth and employment, and also created a drain on reserves, although these remain at a comfortable level. The spillovers negatively affected investor confidence and the cost of borrowing despite a track record of sound macroeconomic management.

3. However, recent data point to stronger GDP growth in Q4 of 2011 relative to the previous quarter. Furthermore, the tourism sector saw a modest recovery in the first quarter of 2012, supported by medical tourism. If these trends continue, they will likely yield higher growth in 2012 relative to staff's projection.

4. Financial soundness indicators point to the continued strength and resilience of the banking system, notwithstanding the difficult domestic environment, reflecting strong regulation and supervision by the central bank. Banks remain well capitalized, profitable, with deposits being the major source of funding.

5. Faced with some temporary adversities, the authorities will spare no effort to maintain the hard won gains in macroeconomic stability and restore confidence in the economy, building on their strong institutional capacity. Jordan has over the past several years clearly demonstrated its commitment to sound economic policies and wide-ranging reforms. However, in the current environment, rising expectations and pressures for social spending could render the achievement of their fiscal objectives more challenging. To mitigate such pressures and in order to gather strong public support to reforms, Jordan established an Economic Dialogue Committee whose key responsibility is to build a common view on major economic challenges and priorities. A consensus emerged stipulating the need to ensure fiscal and external sustainability, fight poverty and enhancing social safety net, create adequate job opportunities, and enhance the quality of government services, among others. The authorities fully support these objectives.

Economic outlook

6. The authorities expect the growth momentum to pick up over the medium term, albeit at a gradual pace, in line with the global outlook and the uncertainty in the region. Jordan's economy is tied closely to the GCC countries, which are the primary source of remittances, grants, tourism receipts, FDI, and - to a lesser extent - exports. Continued growth in the GCC economies will help boost activity, as well as the expansion in mining and financial services activity. Pressures on the balance of payments and the fiscal position are also expected to ease due to moderation in oil imports and continuing fiscal consolidation. While less interruption of the Egyptian natural gas supply is anticipated going forward, the authorities are discussing various options, including with Saudi Arabia and Qatar, to diversify their gas supply sources.

7. To make growth more inclusive, the authorities will continue to enhance private sector participation in the economy by further improving the business climate and the quality of public services and investment. While the unemployment rate has dropped significantly from the level prevailing over the past two decades, it has stabilized at around 13 percent over the past few years. The authorities are aware of the limited impact of slow economic growth on employment creation. They remain confident, however, that their plans and initiatives in this direction will bear fruits over the medium term. The current initiatives include supporting a more competitive business climate for SMEs and enhancing their access to finance, addressing the skill mismatch problem by expanding vocational training, facilitating job creation at the governorates level, and nurturing the development of sectors with large employment opportunities, such as the tourism and information technology sectors.

Fiscal policy reforms

8. While protecting priority social spending, the authorities' budget for 2012 entails sizable fiscal consolidation, which aims to build fiscal space and contain borrowing costs. A three-year fiscal reform agenda has been approved in order to build public support to fiscal reforms, and to further enhance transparency of fiscal operations and accountability. To rein in the fiscal deficit in 2012, the authorities will phase out some inefficient tax exemptions, broaden the coverage of the tax base, and raise taxes on luxury goods. On the expenditure side, the authorities will reinstate the automatic fuel pricing mechanism and abandon the general commodity subsidies in favor of a well-targeted system. This will create the needed fiscal space to boost capital spending from its current historically low level.

9. Moreover, they have taken some additional measures to mitigate the impact of the continuing rise in oil price on the 2012 budget. These include rationalizing energy consumption on public roads by switching off lighting at earlier hours and raising fees and registration licenses on several government services. In addition, electricity prices were recently raised but are currently being revised again to take account of anomalies discovered in the price structure. In this connection, it is worth noting that despite the authorities' decision to freeze domestic oil prices in early 2011, these prices remain among the highest and least subsidized in oil-importing Middle East countries. High oil prices are purely an

external shock, which is creating liquidity constraints and interrupted the ongoing fiscal consolidation and improvement in public debt management.

10. Over the medium term, the strategy focuses on minimizing vulnerabilities and reducing remaining distortions. The authorities are more confident than staff that the planned fiscal measures will contibute to meeting their fiscal target, and they stand ready to identify additional measures in due course, as needed.

Monetary policy and financial sector issues

11. Monetary policy has been accommodative since the onset of the global financial crisis in 2008. However, the central bank started to tighten the monetary stance since June 2011 in order to anchor the rising inflation expectations, stem the loss in international reserves, and enhance the attractiveness of the domestic currency denominated assets. Policy rates were raised further in February of this year. The central bank stands ready for further tightening of its monetary stance if market conditions warrant.

12. The pegged exchange rate regime continues to serve the Jordanian economy well and is a key contributor to financial stability, in particular during the ongoing turmoil in the global and regional financial markets. While the real effective exchange rate has appreciated modestly, staff's analysis confirms the central bank's assessment that the real effective exchange rate remains broadly in line with medium-term fundamentals. The comfortable level of international reserves also provides an important buffer against shocks and enhances confidence in domestic currency. As revealed by Staff's assessment of the reserve adequacy in Jordan using three different methodologies in Chapter III of the Selected Issues, the current level remains higher than the minimum suggested by the three measures.

13. The banking sector remains well-supervised, highly capitalized, and profitable. Banks also have proven resilience to external and domestic shocks, remain conservative in their funding practices, and maintain high liquidity ratios. Credit to private sector is expected to pick up further in 2012, which might provide additional boost to banks' income. In addition, practical steps have been taken to establish the first credit bureau in Jordan which is projected to start operating by end 2012. However, staff points to the risk of banks' exposure to higher levels of non-performing loans and provisioning requirement over the medium term. In this regard, it is worth mentioning that the central bank continues to monitor banks' exposures, and stands ready to take remedial actions if such scenario materializes. Additionally, almost all of the recommendations of the 2008 FSAP update were implemented, and there has been significant progress in implementing Basel II. Indeed, banks already meet the capital adequacy requirements of Basel III, and the central bank expects liquidity standards to be satisfied.

14. In conclusion, the Jordanian economy will remain among the most dynamic economies in the region, benefitting from its solid fundamentals, a stable political and security situation, and broad-based commitment to sound policies. While Jordan has a limited endowment of natural resources, its skilled human capital will remain its primary asset. The current pressures facing the economy are exogenous, related to gas pipeline disruption, higher oil

prices, and lower tourism receipts due to the regional unrest. Jordan is well placed to overcome them, given its strong policy framework following 23 years of crucial reforms, of which 15 years were under Fund programs.