September 2004
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Jordan: Third Review Under the Stand-By Arrangement; and Press Release on the Executive Board Discussion

In the context of the third review under the Stand-By Arrangement with Jordan, the following documents have been released and is included in this package:

- the staff report for the third review under the Stand-By Arrangement, prepared by a staff team of the IMF, following discussions that ended on May 23, 2004, with the officials of Jordan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 15, 2004. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a Press Release summarizing the views of the Executive Board of the staff report that completed the review.

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

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INTERNATIONAL MONETARY FUND

JORDAN

Third Review Under the Stand-By Arrangement

Prepared by Middle East and Central Asia Department
in Consultation with Other Departments

Approved by Amor Tahari and Martin Fetherston

June 15, 2004

- Discussions on the third review under the Stand–By Arrangement (SBA) were held in Amman during May 12–23, 2004. The mission comprised Messrs. Mansur (head), Mongardini, Petri, and Poddar (all MCD), and Mr. Feler (PDR).

- The mission conducted policy discussions with the minister of finance and the Governor of the Central Bank of Jordan (CBJ). It also met with the prime minister, the ministers of planning and tourism, parliamentarians, and business and media representatives. Jordan has accepted the obligations of Article VIII, Section 2, 3, and 4, in 1997, and the exchange system remains free of restrictions on payments and transfers for current international transactions.

- The SBA in the amount equivalent to SDR 85.28 million (50 percent of quota) was approved in July 2002. Following the approval of the SBA, the Paris Club granted an exit rescheduling to Jordan covering obligations on pre-cutoff date debt through 2007. Jordan's outstanding use of Fund resources at end-April 2004 was equivalent to SDR 257.1 million or 150.8 percent of quota (Appendix I). In view of the strong balance of payments position, the authorities have not used Fund resources after the completion of the first review and plan to treat the remainder of the arrangement as precautionary.

- The World Bank is supporting structural reforms with a second Public Sector Reform Loan in the amount of US$120 million (Appendix II). The timeliness and coverage of macroeconomic data are generally sufficient for program monitoring (Appendix III).

- The authorities will consider the publication of the report after it is issued to the Executive Board.

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List of Acronyms

AMPCO	Agricultural Marketing Company
ATC	World Trade Organization Agreement on Textiles and Clothing
BMP5	Balance of Payments Manual, Fifth Edition
BOP	Balance of Payments
CAS	Country Assistance Strategy
CBJ	Central Bank of Jordan
CD	Certificate of Deposit
CIRR	Commercial Interest Rates
CPI	Consumer Price Index
DOS	Department of Statistics
FDI	Foreign Direct Investment
FMRP	Financial Management Reform Project
FSAP	Financial Sector Assessment Program
FSSA	Financial System Stability Assessment
FTA	Free Trade Agreement
GST	General Sales Tax
HEIS	Household Expenditure and Income Survey
IAS	International Accounting Standards
IFC	International Finance Corporation
ISA	International Standards in Auditing
LTO	Large Taxpayer Office
MEFP	Memorandum on Economic and Financial Policies
NDA	Net Domestic Assets
NFA	Net Foreign Asset
NIR	Net International Reserves
PCA	Prompt Corrective Action
PPI	Producer Price Index
PPM	Post-Program Monitoring
PSET	Plan for Social and Economic Transformation
QIZ	Qualified Industrial Zones
ROSC	Report on the Observance of Standards and Codes
SBA	Stand-by Arrangement
SDDS	Special Data Dissemination Standard
WEO	World Economic Outlook
WTO	World Trade Organization

Executive Summary

The Jordanian authorities have requested completion of the third and final review under the SBA. All performance criteria were met and structural benchmarks implemented. Because of the strengthened external outlook, the authorities do not intend to make the remaining purchase under the arrangement. The authorities are keen to maintain close relations with the Fund in the context of the Post-Program Monitoring (PPM) and technical assistance support.

Background: Economic activity has strengthened substantially, following the disruptions caused by the 2003 Iraqi war. Real GDP grew by 6.9 percent in the first quarter of 2004, boosted by exports and domestic demand. Inflation remained moderate through April 2004 (3.2 percent). The central government registered a fiscal surplus of 1.8 percent of GDP in the first quarter of 2004, reflecting strong tax revenues resulting from the pickup in economic activity, better revenue administration, higher foreign grants, and expenditure restraint. Net government debt declined by 8 percentage points to 93½ percent of GDP. Jordan's external position remained strong—the external current account registering a surplus of 1.0 percent of GDP—despite a surge in imports associated with the robust domestic activity. Reflecting large public debt repayments and settlement of official transfers (US$250 million), gross international reserves fell by US$410 million to US$4.3 billion during the five months through end-May 2004. Interest rates on CBJ-CDs were allowed to increase modestly, reflecting tighter monetary conditions globally. Banking sector health improved significantly in 2003, reflecting stronger profitability and prudent credit policies.

Program discussions: The macroeconomic framework for 2004 was updated to reflect the favorable developments in the first quarter, and the projection for real GDP growth was increased by ½ percentage point to 5½ percent. In 2004, Jordan is essentially insulated from higher international oil prices because the increases in oil import payments and budgetary subsidies are largely matched by increased oil grants. External sector performance is likely to remain strong and the current account surplus is expected to reach 5½ percent of GDP. Gross usable reserves of the CBJ are expected to recover to a comfortable level of US$4½ billion. The strong fiscal performance in the first quarter bodes well for the remainder of 2004 and the program deficit target of 3.9 percent of GDP should be attainable. Additional grants and a somewhat higher tax revenue will offset the loss of the oil surplus and the increase in petroleum subsidies. The authorities intend to limit total budgetary expenditure to the program level with a view to achieving the fiscal deficit target. The authorities recognized an upside potential on the revenue side, and in such an event, they intend to save a large portion of the over performance for further deficit and debt reduction. They believe that the current levels of interest rates are consistent with the revised international reserves target, but are committed to managing interest rates in a flexible manner in line with developments in the spread with U.S. interest rates. The authorities are considering all possible options to resolve the last small bank under temporary CBJ administration and expect that no public funds would be needed for this purpose. These positive developments and outlook notwithstanding, significant challenges remain over the medium term, particularly with regard to oil price vulnerability, grant dependence, and improving the direct tax system.

I. Introduction

1. **In the attached letter, the Jordanian authorities request completion of the third review under the SBA**. The attached Memorandum on Economic and Financial Policies (MEFP) describes developments in the first quarter of 2004 and the macroeconomic policies and structural reform agenda for the remainder of 2004. All end-March 2004 performance criteria were met by large margins and all structural benchmarks were implemented. The authorities welcomed participating in PPM following the completion of the SBA.

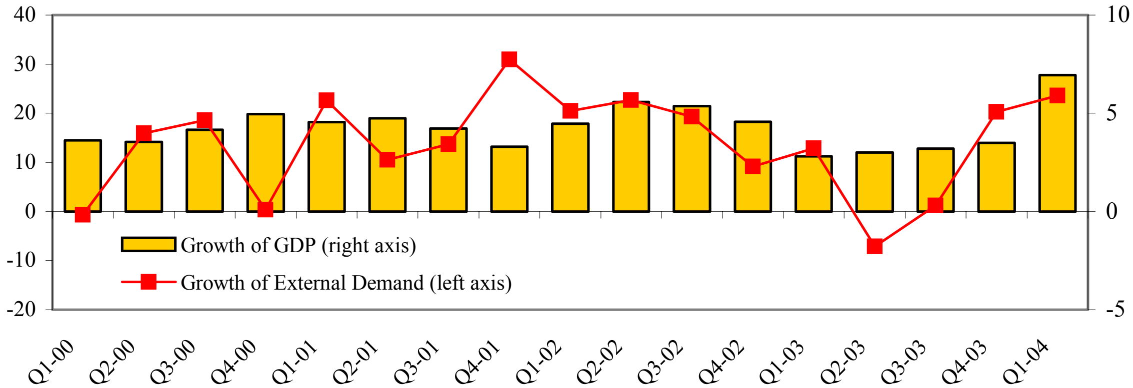
2. **The last Article IV consultation was concluded by the Executive Board on April 2, 2004**. At that time, Directors commended the authorities for their continued commitment to prudent macroeconomic policies and far-reaching structural reforms. Directors urged the authorities to sustain their fiscal adjustment efforts to meet the debt ceilings mandated under the Public Debt Law (80 percent of GDP for total debt and 60 percent of GDP external debt by end-2006). They also stressed the need to deal swiftly with the four banks that were undercapitalized at the time.

II. Recent Economic Developments

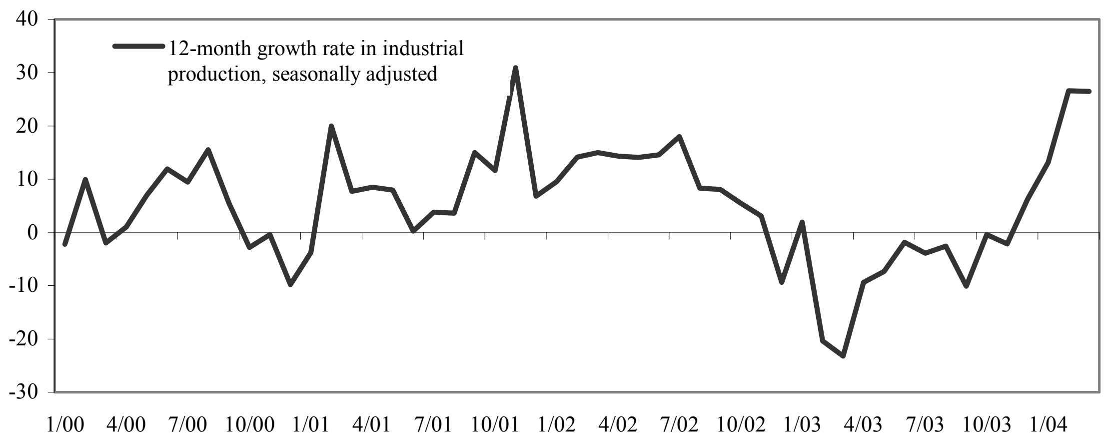
3. **Economic activity is strengthening further, following the disruptions caused by the war in Iraq in 2003 (MEFP, paragraph 2)**. After increasing by 3.2 percent in 2003, real GDP grew by 6.9 percent in the first quarter of 2004, boosted by a surge in exports (29 percent year-on-year, Figure 1) and a rebound in domestic demand. The industrial production index—which excludes export activity through the Qualified Industrial Zones (QIZ)—increased by an annual rate of about 15 percent during the same period, while imports rose by 32 percent. Other sectors driving growth are manufacturing (QIZs), construction, tourism, and transport as Jordan emerges as a hub for the reconstruction efforts in Iraq. Inflation remained moderate at 3.2 percent in the 12 months to April 2004. The Amman Stock Exchange index rose by about 5 percent in the first four months of 2004, despite some market correction (Figure 2). According to a recent World Bank study, the number of Jordanians living below the poverty line declined by about one third between 1997 and 2002, but is still high at 14.2 percent (Figure 3). Unemployment remains stubbornly elevated at 14.5 percent, in part because of the increase in female labor participation.

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

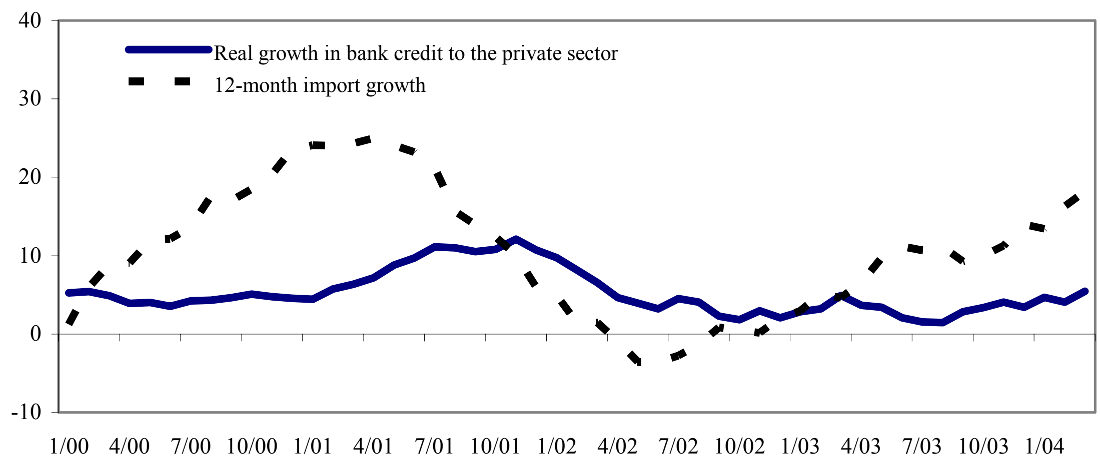
Real GDP growth in 2003 and 2004 has been fueled by a recovery of external demand,...



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



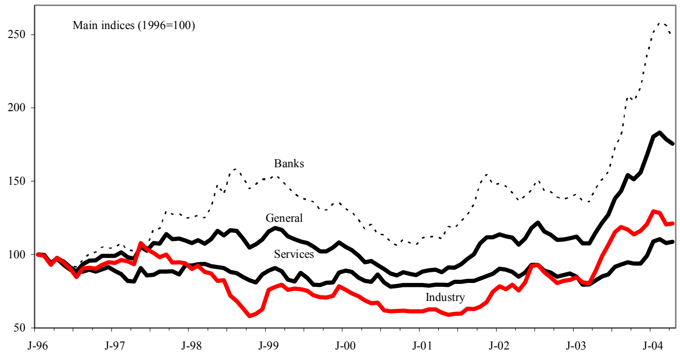
..and import growth has picked up, though credit to the private sector remains subdued.



Sources: Jordanian authorities; and Fund staff estimates.

Figure 2. Jordan: Amman Stock Exchange, 1996–2004

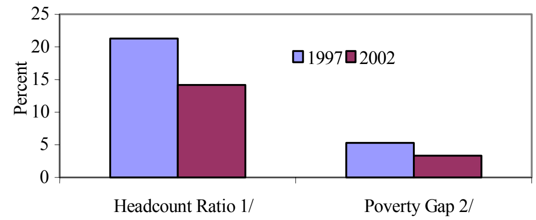
Equity prices have stabilized following the gains after the end of the Iraq war.



Source: Jordan Stock Exchange.

Figure 3. Jordan: Indicators of Poverty 1997-2002.

All indicators of poverty have improved.



Source: World Bank.

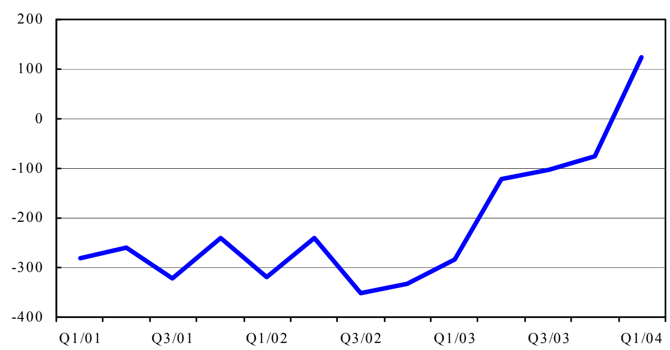
1/ Headcount ratio measures the percentage of poor people in the population.

2/ Poverty Gap measures the depth of poverty.

4. **The central government fiscal outturn registered a large surplus in the first quarter of 2004** (Figure 4), reflecting the pickup in economic activity, better revenue administration, and higher foreign grants (MEFP, paragraph 3). The central government surplus was 1.8 percent of GDP in the first quarter of 2004, compared to a deficit of 1.9 percent of GDP envisaged under the program, and a deficit of 1.1 percent of GDP in 2003. The revenue over performance resulted from strong GST and customs duty collections, reflecting robust import growth and better revenue administration (Figure 5). Income tax receipts were also high as a result of strong corporate earnings in 2003 and better tax compliance brought about by the unification of Sales Tax and Income Tax Departments. At the same time, the government held a tight control on budgetary spending and collected significant repayments from onlending operations. Overall, the fiscal surplus led to a reduction in the net government debt stock in the first quarter of 2004 by 8 percentage points to 93½ percent of GDP (68 percent of GDP external debt). The overall public sector registered a surplus of 2.6 percent of GDP during the first quarter, while its net debt declined by 4½ percentage points to 55 percent of GDP. In May 2004, the government decided to reduce the GST rate on hotel accommodations from 16 percent to 7 percent, for a period of one year, in order to boost tourism's competitiveness. Customs duties on steel and cement were reduced by 5 percentage points to 25 percent in April 2004 to increase competition.

Figure 4. Jordan: Overall Fiscal Balance Including Grants

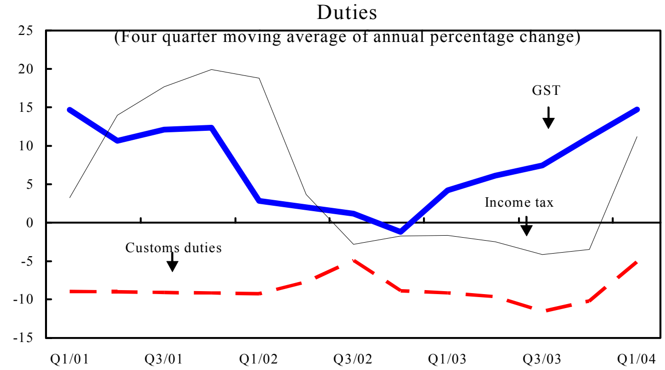
(On a rolling four-quarter basis; in millions of JD)



Source: Ministry of Finance.

Figure 5. Jordan: GST, Income Tax, and Customs Duties

(Four quarter moving average of annual percentage change)

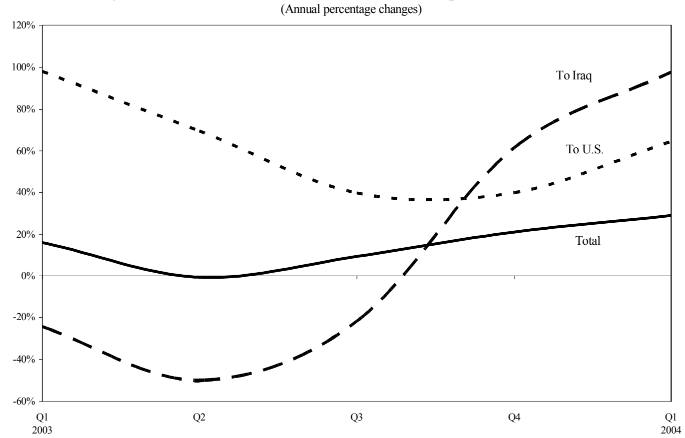


Source: Ministry of Finance.

5. **Jordan's external position remained strong, despite a surge in imports associated with the robust domestic activity** (MEFP, paragraph 4). After recording a surplus of 11.2 percent of GDP in 2003, the external current account (including grants) is estimated to have recorded a surplus of US$107 million (1.0 percent of annual GDP) during the first quarter of 2004. The trade balance registered a deficit of US$613 million (5.7 percent of annual GDP), somewhat higher than the same period in 2003, as the rise in imports more than offset the increase in merchandise exports. The surge in imports reflected the stronger-than-anticipated rebound in economic activity and higher oil prices. Export growth was broad based and fueled by growing demand from Iraq as well as by the continued expansion of textile exports, mainly from QIZs, to the U.S. (Figure 6). Net tourism receipts increased by 31 percent, due to higher tourist arrivals and subdued travel abroad by Jordanians, and remittances grew by 7 percent. Preliminary estimates point to a capital account deficit of US$283 million during the first quarter, partly reflecting large net repayment of foreign debt by the public sector. There were also significant capital outflows of around US$250 million, reflecting mainly settlements of official accounts. The latter contributed to a decline in gross international reserves by US$410 million during the first five months of 2004. The real effective exchange rate depreciated by 7.8 percent in the 12 months to March 2004, primarily reflecting the depreciation of the U.S. dollar vis-à-vis other currencies (Figure 7).

Figure 6. Jordan: Year-On-Year Merchandise Export Growth, 2003-04

(Annual percentage changes)

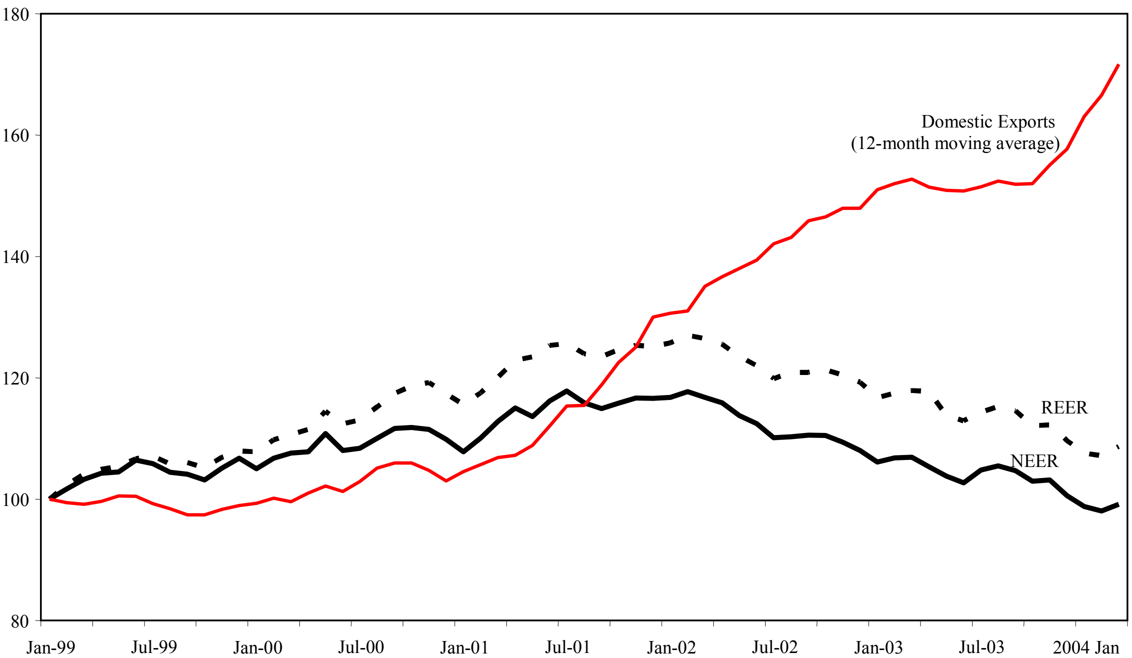


Source: Jordanian authorities.

Monetary policy continued to support the exchange rate peg (MEFP, paragraph 5). Broad money, which rose by 12.3 percent in 2003, grew at an annual rate of 8.6 percent during the first quarter of 2004, compared to 10.6 percent under the program, reflecting mainly the fiscal surplus and a small decline in net foreign assets (NFA). Private sector credit growth recovered to 4.9 percent, but lagged behind the pace of domestic activity because of reliance on retained earnings. The CBJ continued its prudent monetary policy, thus allowing for a decline in the JD reserve money in line with lower NFA of the CBJ. Accordingly, gross reserves of the CBJ as a ratio of JD reserve money increased to 149 percent by end-March 2004. Interest rates on CBJ-CDs were also allowed to increase modestly, reflecting tighter monetary conditions globally (Figure 8).

Figure 7. Jordan: Merchandise Exports, Real and Nominal Effective Exchange Rate Indices
January 1999-March 2004, Jan. 1999 = 100

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

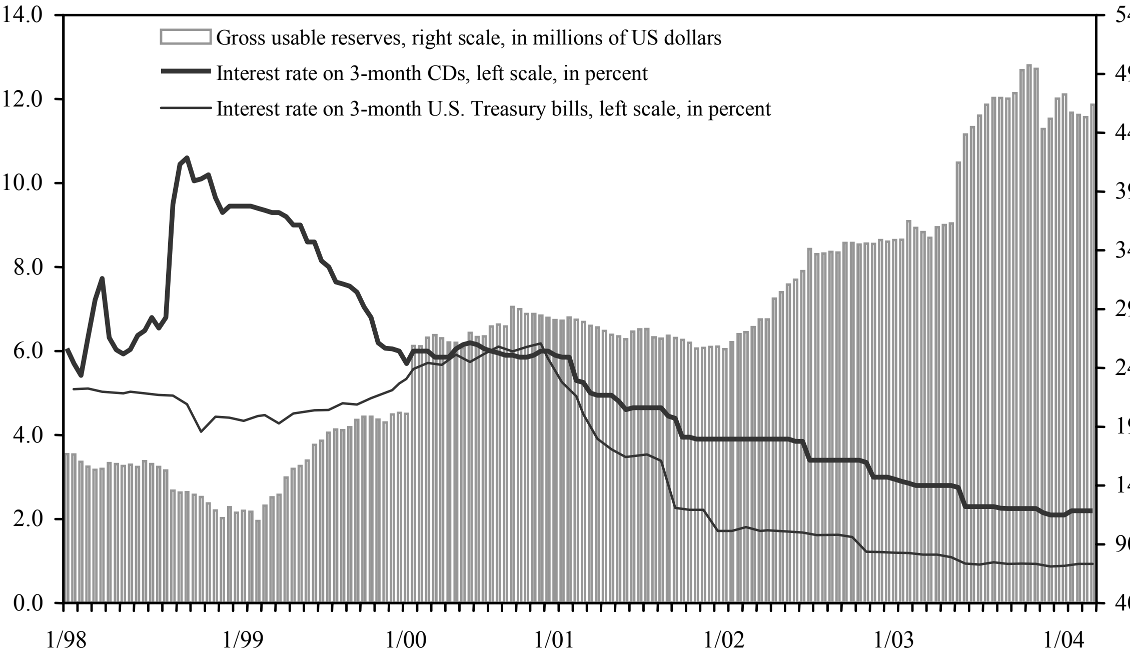


Source: IMF Information Notice System; and Central Bank of Jordan.

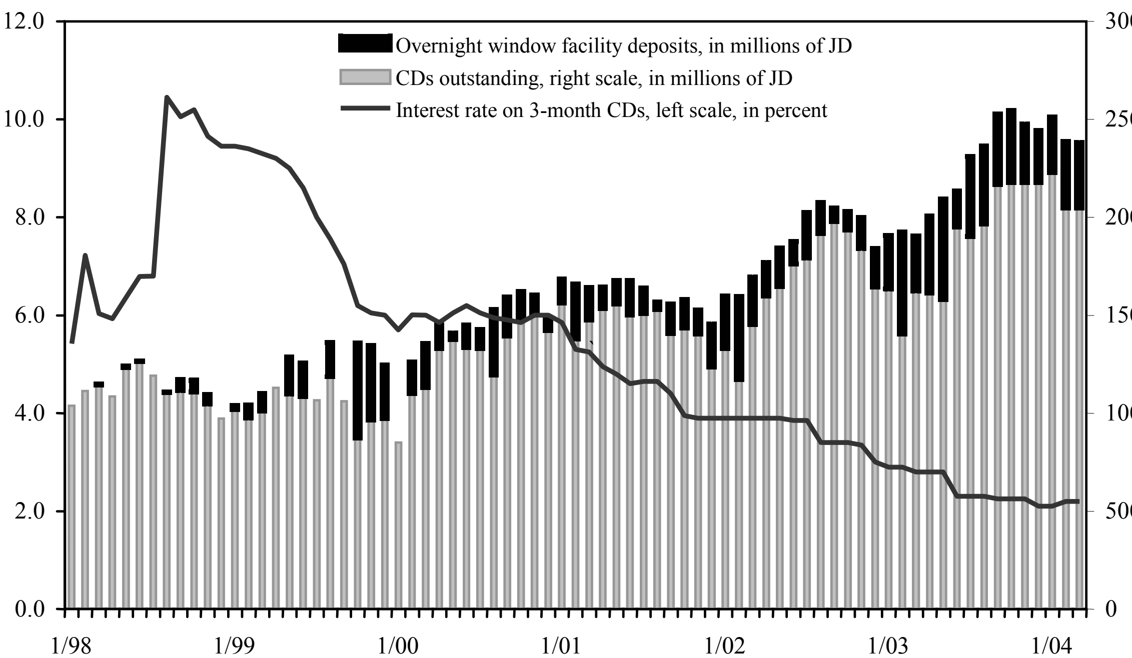
6. **The health of the banking sector improved in 2003, reflecting stronger profitability and prudent credit policies (MEFP, paragraph 6)**. Net after-tax profits of the banking sector increased by 27 percent to 1.3 percent of GDP, reflecting better banking practices. The level of classified loans, excluding interest in suspense, fell to 15.8 percent of total loans, compared to 17.5 percent in 2002. The underlying risk-weighted capital-adequacy ratio (CAR) improved in 2003 by 1.3 percentage points to 17.9 percent, reflecting a strengthening of the balance sheet of banks. However, because of the inclusion of market risk in the 2003 calculations, the CAR declined marginally to 15.9 percent, compared to 16.6 percent in 2002. Two banks have increased their capital to meet the mandated capital-adequacy requirement, and one bank under temporary CBJ administration was restructured in March 2004. The authorities have also agreed on a time-bound restructuring plan with the remaining undercapitalized bank.

Figure 8. Jordan: International Reserves, Interest Rates, and CD Sales, 1997–04

International reserves continue at high levels ...



...while interest rates are at historic lows.



Source: Central Bank of Jordan.

7. **Further progress has been made in structural reforms (MEFP, paragraph 7)**. The expression of interest for the privatization of the electricity generation companies was launched in March 2004 and attracted a strong response from investors. Cabinet also approved the privatization of the agricultural marketing company AMPCO. The government also signed a free trade agreement with Singapore that will come into effect in the second half of 2004. On June 2, 2004, the CBJ implemented the last benchmark under the SBA by publishing revised balance of payments statistics, in line with the fifth edition of the IMF balance of payments manual (BPM5), and a new international reserves template.

III. Discussions with the Authorities

8. **Discussions with the authorities focused primarily on the following topics:** (a) performance and policy implementation under the current SBA; (b) monetary developments, interest rate policy, and banking system soundness; (c) medium-term challenges with a focus on fiscal consolidation to achieve the Public Debt Law targets ; and (d) modalities of PPM following the completion of the SBA. In view of the buoyant performance in the first quarter of 2004, the macroframework for 2004 was updated, pointing to a somewhat better outlook for growth and the external position than the one presented in the last staff report (Country Report No. 04/122).

A. Overall Performance under the SBA

9. **Jordan's performance has generally exceeded the original goals of the current SBA (Annex I).** Notwithstanding the war in Iraq and the negative impact of the Israeli–Palestinian conflict, economic growth was respectable and gained momentum in the aftermath of the Iraq war, driven by robust export growth and a rebound in domestic demand supported by inflows of grants, while inflation remained subdued. Fiscal performance was better than anticipated, and the composition of spending improved further. The program targets on debt reduction, however, were missed by a large margin primarily because of valuation losses. The current account registered large surpluses reflecting booming exports and large grants, while gross usable reserves exceeded the original program targets by a large margin. The authorities also implemented an ambitious structural reform agenda, particularly in the fiscal and pension reform areas. Staff encouraged the authorities to continue their prudent policies to reduce the debt burden and achieve the economy's full potential. The authorities agreed with staff and indicated that they would continue to rely on Fund policy advice including through PPM and technical assistance.

10. **The authorities concurred with staff that there is significant upside potential for the remainder of the year (MEFP, paragraph 8)**. The quick recovery from the war in Iraq and the strength of the exports bodes well for higher growth rates over the medium term. Accordingly, real GDP growth for 2004 was revised upward by ½ percentage point to 5½ percent to reflect the strong growth in the first quarter. However, average inflation is now expected to be slightly higher at 3.5 percent, as a result of the higher-than-programmed GST rate increase in April 2004 and somewhat higher foreign inflation. In 2004, Jordan is

essentially insulated from higher international oil prices because the increases in oil import payments and budgetary subsidies are largely matched by increased in-kind oil grants.

11. **External sector performance is likely to remain strong in 2004.** Export and import growth are expected to slow down somewhat during the remainder of the year, as trade with Iraq catches up to pre-war levels. The tourism sector is expected to remain buoyant, while remittances grow in line with economic activity in neighboring Arab countries. As a result, the current account surplus is expected to reach 5½ percent of GDP, slightly higher than projected under the program. Taking into account moderate capital outflows reflecting higher external public debt amortization and grant disbursements, gross usable reserves of the CBJ are expected to recover to a comfortable level of US$4½ billion.

B. Fiscal Policy

12. **The fiscal performance in the first quarter bodes well for the remainder of 2004 (MEFP, paragraph 9)**. Additional grants secured from neighboring countries (1.6 percent of GDP) and somewhat higher tax revenue (0.3 percent of GDP) will offset the loss of the oil surplus and increase in petroleum subsidies (1.9 percent of GDP).[1] The authorities also reaffirmed their plan to limit total budgetary expenditure to the program level with a view to achieving the fiscal deficit target (including grants) of 3.9 percent of GDP. The government plans to introduce universal health insurance for children under six and compensate low-income public-sector employees with a JD 5–JD 10 increase in monthly salaries to compensate for the petroleum price and tax increases announced in April. The authorities will seek to accommodate these additional commitments amounting to 0.7 percent of GDP within the expenditure program by generating savings in other non-essential categories. To this end, the ministry of finance has already issued a budget circular instructing ministries to achieve savings in utility bills of 20 percent. The authorities also recognized the upside potential on the revenue side, and in such an event, the government intends to save a large portion of the over performance for further debt reduction. Staff expressed strong reservations regarding the reduction in the GST rate on hotel accommodations and pointed out that it would likely not improve the sector's competitiveness, complicate tax administration (rate proliferation), and that direct budget support would be preferable to support the government's new tourism strategy. The authorities agreed with the assessment and explained that the measure amounting to less than 0.1 percent of GDP is time bound and limited to hotel accommodations.

[1] The oil surplus reflects the revenues the government receives from the refinery, which buys inputs at international prices but sells domestically at administered prices. However, in 2004, instead of a surplus, the refinery will likely require subsidies amounting to 1.5 percent of GDP. This illustrates Jordan's vulnerability to movements in international oil prices.

C. Monetary Developments, Interest Rate Policy, and Banking Sector Soundness

13. **The slowdown in monetary expansion in the first quarter of 2004 is likely to be reversed during the remainder of 2004 (MEFP, paragraph 11)**. In line with higher economic activity, broad money is expected to grow by 9.6 percent in 2004, reflecting a recovery in JD deposits. With the moderate increase in net foreign assets of the banking system, this should give ample room for private sector credit growth. The CBJ will continue limiting the expansion of its net domestic assets so as to meet its international reserve target in a non-inflationary manner.

14. **The authorities believe that the current level of interest rates is appropriate to achieve the revised international reserves target.** The latest monetary data indicate that the NFA inflow and the associated surge in JD deposits witnessed last year may have come to an end. At end-March, 2004, three-month CBJ-CD rates stood at 2.2 percent, and the current low level of spreads against U.S. interest rates (about 100 basis points for three-month rates) may therefore no longer be sufficient to maintain the current level of reserves. The authorities noted that the decline in international reserves was largely related to one-time factors, notably the settlement of official accounts. They also expected reserves to bounce back in the second half of 2004 as a result of the strong balance of payments performance, including disbursements of sizable official grants, and they did not see the need to tighten monetary policy at this stage. Nevertheless, the authorities reaffirmed their commitment to manage interest rates in a flexible manner in line with developments in the spread with U.S. interest rates. The authorities have recently issued JD 100 million in five-year government bonds and plan to continue auctions of long-term government bonds on a regular basis. They intend to request technical assistance from the Fund for deepening the market for long-term bonds and lengthening the maturity structure of their debt portfolio.

15. **The authorities' recent efforts to improve banking supervision are paying off**. The improvement in the health of the banking sector in 2003 can partly be attributed to more effective banking supervision and stronger corporate governance.[2] The authorities have started enforcing the prompt corrective action (PCA) framework, and will be implementing further refinements of banking regulations to stiffen the monetary penalties for noncompliance with the PCA and to change the calculations for reserve requirements to a biweekly average. The authorities are considering all possible options to resolve the last small bank under temporary CBJ administration (MEFP, paragraph 13). The courts have recovered a large portion of the bank's nonperforming assets. The authorities will decide by September 2004 whether to restructure the bank through a capital injection, merge it with a larger financially strong bank, or liquidate it while compensating depositors through the privately-funded Deposit Insurance Corporation. In view of the recovery of most nonperforming assets, no use of public funds is expected for any of these options. The

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[2] The confiscation of US$8½ million by Israeli troops from Jordanian banks in the West Bank in February 2004 does not appear to have had a significant impact on the Jordanian banking system.

mission pointed out that liquidation would have the added advantage of sending a strong signal to the banking community that mismanaged banks could be allowed to fail.

Medium-term outlook and challenges

16. **Notwithstanding the improved outlook for 2004, significant fiscal challenges remain over the medium term.** The recent surge in international petroleum prices underlines the continued vulnerability of the budget to the implicit subsidies on domestic petroleum products. The authorities, however, believe that it is politically not feasible to increase petroleum product prices again in 2004, following the significant adjustments implemented in April 2004, and note that the subsidies will be offset through higher oil grants in 2004. The authorities are also conscious of their high grant dependence but believe that it will be substantially diminished as the domestic revenue base is strengthened and the remaining petroleum subsidies are eliminated through annual upward price adjustments as during the last four years. Should the recent revenue buoyancy not continue in 2005, significant fiscal efforts would be needed. In order to harness Jordan's greater revenue potential, the mission urged the authorities to overhaul the income tax system in a more equitable and efficient manner. On the expenditure side, Jordan needs to reduce current outlays by containing the wage bill and unproductive spending, and increase the efficiency of health and education provision.

17. **Achieving the Public Debt Law targets will remain vulnerable to adverse shocks.** One of the most important risks is from valuation effects in the event of a depreciation of the Jordanian dinar. This risk can be gradually reduced through the government's new fiscal funding strategy aimed at shifting its borrowing toward domestic currency-denominated debt.[3] Another source of vulnerability could arise from a further deterioration of the regional security environment.

18. **Jordan's external outlook should remain favorable over the medium term.** The external current account balance is projected to continue to record significant, albeit declining, surpluses over the coming years. Exports growth is expected to be sustained at about 6–8 percent a year, spurred by further penetration of markets in Iraq and other neighboring countries, as well as by the FTA with the United States and the Association Agreement with the EU. This outlook is, however, subject to some downside risks, particularly if Jordan's textile industry fails to move up the value-added chain, following the elimination of quotas under the WTO agreement on textiles. Such adverse developments could worsen the current account by up to 2 percentage points of GDP a year over the

[3] For details on Jordan's fiscal funding strategy and debt sustainability analysis see Country Report No. 04/121.

medium term and slow the reduction of external debt, even if part of the shock could be financed from a drawdown of Jordan's present comfortable level of international reserves.[4]

D. Post-Program Monitoring and Other Issues

19. **The authorities are keen to participate in PPM, following the completion of the current SBA.** They have established a set of informal quarterly quantitative targets in consultation with staff, consistent with the 2004 macroeconomic framework, to help guide macroeconomic policy. PPM will focus on further public debt reduction, through privatization and continued fiscal consolidation. The latter will require revenue-enhancing tax reforms, gains from continued adjustment in oil prices, rationalization of expenditure, and improvements in public expenditure management drawing on the findings of the recent joint Bank/Fund mission. Discussions on the first review under PPM are expected to be initiated in the fourth quarter of 2004.

20. **The authorities are committed to meeting the Fund's Special Data Dissemination Standard within the next two to three years (MEFP, paragraph 16)**. They are implementing the recommendations of the Update to the Report on the Observation of Standards and Codes—Data Module[5] in order to achieve this goal. Following the publication of revised balance of payments (BOP) statistics according to BPM5 and the international reserve template in May 2004, a strategy has been adopted to compile the international investment position, with a view to commencing regular publication by early 2005. To meet these targets, the CBJ is working with a Fund technical advisor on balance of payments statistics. In addition, the ministry of finance will shortly start publishing general government statistics on a quarterly basis, in line with the recommendations by the recent Fund Statistics Department mission.

IV. Staff Appraisal

21. **Jordan's economic performance has strengthened and its outlook improved substantially in the aftermath of the war in Iraq, supported by prudent macroeconomic management**. The combined effect of surging exports, rebounding domestic demand, and a revitalized tourism sector has led to a strong recovery in real economic activity in the first quarter of 2004. The track record of sound macroeconomic management, trade liberalization, and reforms on multiple fronts have enabled it to revive domestic investment and boost exports. At the same time, Jordan's strategic location and historical relations allowed it to regain its export market in Iraq and realize opportunities arising from reconstruction activities. While confidence in the economy is gaining momentum and substantial progress was made in poverty reduction, the challenges posed by high unemployment and poverty

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[4] See Country Report No. 04/121 for an analysis of Jordan's export prospects.

[5] Available on the IMF website at http://www.imf.org/external/pubs/cat/longres.cfm?sk=17183.0

levels would require achieving and sustaining economic growth at full potential over the medium term.

22. **The remarkably strengthened fiscal position in the first quarter of 2004 is the result of revenue measures and reforms implemented earlier under the program and a manifestation of the authorities' resolve to contain budgetary outlays, notwithstanding higher-than-programmed grants.** The impact of the strong package of revenue measures implemented in April has strengthened the foundation further in 2004. In particular, the impact of GST reforms—aimed at broadening the tax base and strengthening tax administration—have led to a remarkable growth of GST revenue. Therefore, any GST-rate reductions to favor certain sectors should be resisted. Also, the sharp rise in world oil prices poses a serious challenge for fiscal management and requires firm expenditure control. In this context, staff was particularly impressed by the ministry of finance's ability to contain expenditure. The staff commends the authorities' commitment to save a major portion of any additional revenue over performance, should it materialize.

23. **Jordan continues to face significant challenges over the medium term, in the form of a high debt burden, dependence on external grants, and vulnerability through higher oil prices.** Sustaining fiscal consolidation would require the elimination of the remaining subsidies on petroleum products, undertaking a comprehensive reform of the direct tax system, and expenditure rationalization in line with the medium-term fiscal framework. The substantial reduction in government debt recorded so far in 2004 is encouraging, although achieving the debt limits under the Public Debt Law by 2006 could be undermined by adverse shocks, including from valuation losses. The staff encouraged the authorities to continue their reform efforts including through early identification of measures for next year's budget. Accelerating privatization and using the entire proceeds for debt reduction would be essential for the success of the debt strategy.

24. **Credible financial policies and a strong external reserve position have brought a high degree of financial stability and investor confidence**. Continued strong export performance, a buoyant medium-term export outlook, and the recent real depreciation of the dinar indicate that competitiveness is adequate. The authorities' track record of prudent liquidity management and flexible interest rate policy to protect reserves has underpinned their strong commitment to the peg. The health of the banking sector has improved further reflecting stronger profitability, more prudent credit policies, and the effective implementation of the PCA framework. The progress made in collecting nonperforming assets of the remaining bank under CBJ administration is encouraging and has opened up options for securing a permanent solution without recourse to public funds and sending a strong signal to the banking community. Staff urges the authorities to resume regular long-term government bond auctions and welcomes the authorities' request for technical assistance in developing and deepening the debt market.

25. **The staff recommends approval by the Executive Board of the authorities' request for completion of the third and final review under the SBA,** in view of Jordan's solid track record on performance and policy implementation, as well as the authorities'

continued strong commitment to prudent financial policies. Steadfast implementation of policies/reforms under the program has strengthened the economy's foundation, and Jordan is ready to graduate from Fund supported programs. The staff supports the authorities' decision to treat the remainder of the program as precautionary, which is also consistent with their exit strategy. The staff recommends that the authorities engage in PPM and welcomes their intention to maintain close relations with the Fund in the context of PPM and technical assistance provision.

Table 1. Jordan: Summary of the Macroeconomic Framework, 2000–09

					Q1	Q1							
				Prel.	Prog.	Prel.	Prog.	Revised projections					
	2000	2001	2002	2003	2004	2004	2004	2004	2005	2006	2007	2008	2009
Output and prices	(Annual percentage changes)												
Real GDP at market prices	4.1	4.2	5.0	3.2	6.3	6.9	5.0	5.5	5.5	6.0	6.0	6.0	6.0
GDP deflator at market prices	-0.2	0.0	0.4	1.9	1.8	3.5	2.5	3.0	1.8	1.8	1.8	1.8	1.8
Nominal GDP at market prices	3.8	5.4	5.4	5.1	8.3	10.7	7.6	8.7	7.4	7.9	7.9	7.9	7.9
Consumer price index (annual average)	0.7	1.8	1.8	2.3	2.6	3.1	3.0	3.5	1.8	1.8	1.8	1.8	1.8
Consumer price index (end of period)	-1.9	3.8	0.5	3.6	2.3	2.7	1.8	2.5	1.8	1.8	1.8	1.8	1.8
Nominal GDP at market prices (JD millions)	5,989	6,310	6,653	6,991	1,694	1,741	7,524	7,596	8,159	8,803	9,500	10,252	11,063
Investment and savings	(In percent of annual GDP)												
Gross domestic investment	22.2	22.2	22.5	22.3	...	...	23.5	23.0	24.9	26.3	27.1	27.2	27.3
Government	5.2	5.8	6.7	8.8	1.3	0.7	7.7	7.4	7.0	6.9	6.8	6.7	6.8
Other	16.9	16.4	15.8	13.5	...	...	15.8	15.6	17.9	19.4	20.4	20.5	20.5
Gross national savings	22.9	22.2	27.0	33.5	...	...	28.8	28.6	26.7	27.1	27.3	27.2	27.3
Government	0.5	2.2	1.7	7.7	-0.6	2.5	3.8	3.6	3.7	4.1	4.3	4.2	4.3
Other	22.4	20.0	25.3	25.8	...	...	25.0	25.0	23.0	23.0	23.0	23.0	23.0
Savings-investment balance	0.7	0.0	4.5	11.2	...	1.0	5.3	5.5	1.8	0.7	0.1	0.0	0.0
Government	-4.7	-3.7	-5.0	-1.1	-1.9	1.8	-3.9	-3.9	-3.3	-2.8	-2.5	-2.5	-2.5
Other	5.4	3.6	9.4	12.3	...	-0.8	9.2	9.4	5.1	3.5	2.6	2.5	2.5
Fiscal operations													
Revenue and grants	30.1	30.5	30.2	35.9	7.0	8.5	32.3	32.0	27.8	26.8	26.3	26.4	26.0
Of which: grants	4.2	4.3	5.2	12.1	1.1	2.3	8.7	10.1	4.5	2.9	2.2	2.0	1.7
Expenditure and net lending (incl. off-budget)	34.8	34.2	35.2	37.0	8.9	6.7	36.2	35.9	31.1	29.6	28.8	28.9	28.5
Overall fiscal balance (after grants)	-4.7	-3.7	-5.0	-1.1	-1.9	1.8	-3.9	-3.9	-3.3	-2.8	-2.5	-2.5	-2.5
Government and government guaranteed debt 1/	100.0	97.0	100.5	101.5	...	93.5	93.0	92.0	85.7	79.0	74.1	68.3	62.4
Of which: external	84.2	78.7	80.4	77.1	...	69.7	68.2	66.0	60.4	54.6	49.8	45.4	40.7
External sector													
Current account balance (after grants)	0.7	0.0	4.5	11.2	...	1.0	5.3	5.5	1.8	0.7	0.1	0.0	0.0
	(Annual percentage changes in U.S. dollar terms)												
Merchandise exports	3.7	20.8	20.7	11.2	...	29.0	8.3	14.8	5.5	6.6	7.7	7.5	7.6
Merchandise imports	23.7	5.6	3.5	12.3	...	32.9	9.7	18.2	4.0	6.1	6.8	7.2	7.4
	(Changes in percent of beginning-of-period broad money)												
Monetary sector													
Net foreign assets	12.6	1.8	5.4	12.8	-0.2	-1.0	2.1	1.2	1.6	1.5	1.4	1.8	1.4
Broad money	10.2	5.8	7.0	12.4	2.2	-1.0	8.5	9.6	8.4	8.9	8.9	8.9	8.9
Memorandum items:													
Nominal annual GDP per capita (US$)	1,675	1,717	1,761	1,800	1,855	1,903	1,885	1,903	1,988	2,087	2,190	2,299	2,414
Gross usable intl. reserves (US$ millions) 2/ 3/	2,742	2,565	3,474	4,745	4,636	4,551	4,700	4,500	4,444	4,319	4,175	4,139	4,082
In months of prospective imports of GNFS 4/	5.8	5.4	6.9	8.2	...	7.8	9.0	7.4	6.9	6.3	5.6	5.2	5.0
As percent of JD broad money	33.2	30.1	38.1	46.4	44.4	45.7	42.2	40.2	36.5	32.4	28.7	26.0	23.4
Net international reserves (US$ millions) 2/	2,275	2,111	3,032	4,437	4,341	4,267	4,479	4,280	4,267	4,228	4,169	4,183	4,126
U.S. dollar per Jordanian dinar (period average)	1.41	1.41	1.41	1.41	…	1.41	…	…	…	…	…	…	…
Real effective exchange rate (eop, 1995=100)	125.1	132.8	122.9	114.5	…	112.8	…	…	…	…	…	…	…
Percent change (+: appreciation)	2.9	6.2	-7.4	-6.9	…	-7.3	…	…	…	…	…	…	…

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

1/ Domestic debt is net of government deposits with the banking system, and external debt includes collateralized Brady bonds.

2/ Net of short-term foreign liabilities and excluding commercial banks' foreign currency deposits with the Central Bank of Jordan.

3/ Excludes pledged assets under the 1993 commercial debt rescheduling agreement and the yearly change in foreign currency swaps.

4/ Imports of goods and nonfactor services, excluding imports for re-export, in subsequent 12 months.

Table 2. Jordan: Summary Fiscal Operations, 2000–07

				Prel. Q1	Prel.	Prog. Q1	Prel. Q1	Prog.	Revised projections			
	2000	2001	2002	2003	2003	2004	2004	2004	2004	2005	2006	2007
	(In millions of Jordanian dinars)											
Total revenue and grants	1,802	1,926	2,010	501	2,511	527	642	2,431	2,431	2,271	2,358	2,500
Budgetary revenue	1,551	1,653	1,667	369	1,665	443	471	1,779	1,661	1,902	2,100	2,291
Tax revenue	962	1,020	1,000	251	1,083	270	357	1,186	1,224	1,306	1,406	1,516
Nontax revenue	589	633	667	119	582	174	114	593	437	597	694	775
Grants	251	273	343	132	846	83	172	651	770	369	259	210
Total budgetary expenditure	2,035	2,116	2,310	545	2,678	591	489	2,648	2,648	2,813	2,976	3,172
Current expenditure	1,739	1,791	1,852	456	2,057	493	450	2,046	2,076	2,231	2,358	2,515
Capital expenditure	289	326	433	89	601	96	67	558	558	561	595	633
Net lending	7	0	25	1	20	1	-29	44	14	21	23	25
Non-budget accounts, net 1/	49	41	31	17	-92	75	17	75	75	0	0	0
Measures to be identified 2/	0	0	0	0	0	0	0	0	0	272	100	63
Overall balance, including grants	-283	-231	-331	-62	-74	-140	137	-293	-293	-269	-246	-237
Financing	283	231	331	62	74	140	-137	293	293	269	246	237
Foreign financing (net)	-83	95	78	-22	-323	8	-51	-174	-281	-20	-38	-28
Privatization receipts (net)	426	-6	79	-2	88	0	-2	300	300	200	200	100
Domestic financing (net)	-60	143	175	86	309	132	-83	167	273	89	84	166
	(In percent of period GDP)											
Total revenue and grants	30.1	30.5	30.2	32.0	35.9	31.1	36.9	32.3	32.0	27.8	26.8	26.3
Budgetary revenue	25.9	26.2	25.1	23.6	23.8	26.2	27.0	23.6	21.9	23.3	23.8	24.1
Tax revenue	16.1	16.2	15.0	16.0	15.5	15.9	20.5	15.8	16.1	16.0	16.0	16.0
Nontax revenue	9.8	10.0	10.0	7.6	8.3	10.3	6.5	7.9	5.8	7.3	7.9	8.2
Grants	4.2	4.3	5.2	8.4	12.1	4.9	9.9	8.7	10.1	4.5	2.9	2.2
Total budgetary expenditure	34.0	33.5	34.7	34.9	38.3	34.9	28.1	35.2	34.9	34.5	33.8	33.4
Current expenditure	29.0	28.4	27.8	29.1	29.4	29.1	25.8	27.2	27.3	27.3	26.8	26.5
Capital expenditure	4.8	5.2	6.5	5.7	8.6	5.7	3.9	7.4	7.3	6.9	6.8	6.7
Net lending	0.1	0.0	0.4	0.1	0.3	0.1	-1.6	0.6	0.2	0.3	0.3	0.3
Nonbudget accounts, net 1/	0.8	0.6	0.5	1.1	-1.3	4.4	1.0	1.0	1.0	0.0	0.0	0.0
Measures to be identified 2/	…	…	…	0.0	0.0	0.0	0.0	0.0	0.0	3.3	1.1	0.7
Overall balance, including grants	-4.7	-3.7	-5.0	-4.0	-1.1	-8.3	7.8	-3.9	-3.9	-3.3	-2.8	-2.5
Financing	4.7	3.7	5.0	4.0	1.1	8.3	-7.8	3.9	3.9	3.3	2.8	2.5
Foreign financing (net)	-1.4	1.5	1.2	-1.4	-4.6	0.5	-2.9	-2.3	-3.7	-0.2	-0.4	-0.3
Privatization receipts (net)	7.1	-0.1	1.2	-0.1	1.3	0.0	-0.1	4.0	3.9	2.5	2.3	1.1
Domestic financing (net)	-1.0	2.3	2.6	5.5	4.4	7.8	-4.8	2.2	3.6	1.1	1.0	1.7
Memorandum items												
Overall balance, excluding grants	-8.9	-8.0	-10.1	-12.4	-13.2	-13.2	-2.0	-12.5	-14.0	-7.8	-5.7	-4.7
Primary balance including grants	0.5	0.8	-1.2	-0.9	2.8	-5.2	10.2	-0.5	-0.5	0.2	0.6	0.7
Debt creating balance 3/	2.1	-3.8	-3.8	-4.3	-0.2	-8.7	7.7	-0.3	-0.3	-0.8	-0.5	-1.4
PSET spending	0.0	0.0	0.9	2.0	2.6	2.0	0.9	2.1	2.1	1.5	1.4	1.3
Off-budget on-lending	0.7	0.9	0.8	...	0.7	...	...	0.4	0.4	0.0	0.0	0.0
Government and guaranteed debt 4/	100.0	97.0	100.5	...	101.5	...	...	93.0	92.0	85.7	79.0	74.1
GDP at market prices (JD millions)	5,989	6,310	6,653	1,564	6,991	1,694	1,741	7,524	7,596	8,159	8,803	9,500

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

2/ Additional measures needed to reach the fiscal deficit target. In the year t it is assumed that the additional measures in the year t-1 were implemented.

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

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

Table 2. Jordan: Summary Fiscal Operations, 2000–07, (concluded)

	2000	2001	2002	Prel. Q1 2003	Prel. 2003	Prog. Q1 2004	Prel. Q1 2004	Prog. 2004	Revised projections 2004	2005	2006	2007
	(In millions of Jordanian dinars)											
Total revenue and grants	1,802	1,926	2,010	501	2,511	527	642	2,431	2,431	2,271	2,358	2,500
Budgetary revenue	1,551	1,653	1,667	369	1,665	443	471	1,779	1,661	1,902	2,100	2,291
Tax revenue, *of which:*	962	1,020	1,000	251	1,083	270	357	1,186	1,224	1,306	1,406	1,516
Taxes on income and profits	161	195	196	66	195	74	108	212	220	239	257	277
General sales tax	465	515	511	123	596	133	170	700	720	778	843	909
Taxes on foreign trade	265	240	220	48	209	47	58	190	200	199	209	225
Nontax revenue, *of which:*	589	633	667	119	582	174	114	593	437	597	694	775
Fees	200	215	225	51	249	56	67	242	250	268	289	312
Oil surplus	50	98	110	12	23	16	0	33	-116	14	79	112
Grants	251	273	343	132	846	83	172	651	770	369	259	210
Of which: PSET grants	0	0	73	82	161	0	69	159	159	120	120	0
Total expenditures	2,035	2,116	2,310	545	2,678	591	489	2,648	2,648	2,540	2,605	2,738
Current expenditure	1,739	1,791	1,852	456	2,057	493	450	2,046	2,076	2,231	2,358	2,515
Wages and salaries	367	380	407	103	419	112	108	453	498	519	543	586
Interest payments	315	279	252	48	270	52	40	253	253	288	297	304
Domestic	65	56	59	15	61	17	11	61	51	113	114	117
External	250	223	192	33	209	36	29	192	202	175	183	188
Military expenditure	531	537	551	140	629	152	137	623	623	685	739	798
Transfers	408	453	505	132	582	143	134	547	557	600	634	670
Of which: pensions	269	293	320	84	346	91	90	370	370	386	404	422
Purchases of goods and services	72	82	81	20	94	22	18	95	85	84	85	92
Capital expenditure	289	326	433	89	601	96	67	558	558	561	595	633
Of which: PSET spending	0	0	58	31	179	34	17	159	159	120	120	120
Net lending and nonbudget spending	7	0	25	1	20	1	-29	44	14	21	23	25
Measures to be identified (cumulative)	0	0	0	0	0	0	0	0	0	-272	-372	-435
	(In percent of period GDP)											
Total revenue and grants	30.1	30.5	30.2	32.0	35.9	31.1	36.9	32.3	32.0	27.8	26.8	26.3
Budgetary revenue	25.9	26.2	25.1	23.6	23.8	26.2	27.0	23.6	21.9	23.3	23.8	24.1
Tax revenue, *of which:*	16.1	16.2	15.0	16.0	15.5	15.9	20.5	15.8	16.1	16.0	16.0	16.0
Taxes on income and profits	2.7	3.1	2.9	4.2	2.8	4.3	6.2	2.8	2.9	2.9	2.9	2.9
General sales tax	7.8	8.2	7.7	7.8	8.5	7.8	9.8	9.3	9.5	9.5	9.6	9.6
Taxes on foreign trade	4.4	3.8	3.3	3.0	3.0	2.8	3.3	2.5	2.6	2.4	2.4	2.4
Nontax revenue, *of which:*	9.8	10.0	10.0	7.6	8.3	10.3	6.5	7.9	5.8	7.3	7.9	8.2
Fees	3.3	3.4	3.4	3.2	3.6	3.3	3.9	3.2	3.3	3.3	3.3	3.3
Oil surplus	0.8	1.6	1.7	0.8	0.3	1.0	0.0	0.5	-1.5	0.2	0.9	1.2
Grants	4.2	4.3	5.2	8.4	12.1	4.9	9.9	8.7	10.1	4.5	2.9	2.2
Of which: PSET grants	0.0	0.0	1.1	5.2	2.3	0.0	4.0	2.1	2.1	1.5	1.4	0.0
Total expenditure	34.0	33.5	34.7	34.9	38.3	34.9	28.1	35.2	34.9	31.1	29.6	28.8
Current expenditure	29.0	28.4	27.8	29.1	29.4	29.1	25.8	27.2	27.3	27.3	26.8	26.5
Wages and salaries	6.1	6.0	6.1	6.6	6.0	6.6	6.2	6.0	6.6	6.4	6.2	6.2
Interest payments	5.3	4.4	3.8	3.1	3.9	3.1	2.3	3.4	3.3	3.5	3.4	3.2
Domestic	1.1	0.9	0.9	1.0	0.9	1.0	0.7	0.8	0.7	1.4	1.3	1.2
External	4.2	3.5	2.9	2.1	3.0	2.1	1.6	2.6	2.7	2.1	2.1	2.0
Military expenditure	8.9	8.5	8.3	9.0	9.0	9.0	7.9	8.3	8.2	8.4	8.4	8.4
Transfers	6.8	7.2	7.6	8.4	8.3	8.4	7.7	7.3	7.3	7.4	7.2	7.1
Of which: pensions	4.5	4.6	4.8	5.4	4.9	5.4	5.2	4.9	4.9	4.7	4.6	4.4
Purchases of goods and services	1.2	1.3	1.2	1.3	1.3	1.3	1.0	1.3	1.1	1.0	1.0	1.0
Capital expenditure	4.8	5.2	6.5	5.7	8.6	5.7	3.9	7.4	7.3	6.9	6.8	6.7
Of which: PSET spending	0.0	0.0	0.9	2.0	2.6	2.0	0.9	2.1	2.1	1.5	1.4	1.3
Net lending and nonbudget spending	0.1	0.0	0.4	0.1	0.3	0.1	-1.6	0.6	0.2	0.3	0.3	0.3
Measures to be identified (cumulative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-3.3	-4.2	-4.6

Sources: Jordanian authorities; and Fund staff estimates.

Table 3. Jordan: Summary Monetary Survey, 2001–04

	2001 Dec.	2002 Dec.	Rev. 2003 Dec.	Prog. 2004 Mar.	Prel. 2004 Mar.	Revised Projections 2004 Jun.	2004 Sept.	2004 Dec.
	(Stocks in millions of Jordanian dinars)							
Net foreign assets	3,985	4,411	5,493	5,356	5,400	5,387	5,547	5,603
Net domestic assets	3,881	4,008	3,973	4,191	3,968	4,330	4,603	4,768
Net claims on government	1,310	1,412	1,346	1,477	1,172	1,410	1,351	1,666
of which: on central government 1/	1,330	1,403	1,398	1,529	1,211	1,454	1,395	1,699
Claims on nonfinancial public enterprises	284	261	278	278	399	399	399	399
Claims on financial institutions	79	75	73	73	70	70	70	70
Claims on the private sector	4,696	4,848	5,016	5,202	5,169	5,318	5,675	5,575
Other items (net)	-2,488	-2,588	-2,739	-2,839	-2,842	-2,867	-2,892	-2,942
Broad money	7,866	8,419	9,466	9,547	9,367	9,717	10,150	10,371
Currency in circulation	1,202	1,253	1,444	1,472	1,422	1,471	1,533	1,567
Jordanian dinar deposits	4,842	5,218	5,800	5,936	5,633	5,887	6,195	6,373
Foreign currency deposits	1,821	1,949	2,222	2,140	2,313	2,359	2,422	2,431
	(Cumulative flows in millions of Jordanian dinars)							
Net foreign assets	133	426	1,081	-15	-93	-106	55	111
Net domestic assets	298	127	-35	217	-5	357	630	795
Net claims on government	207	102	-67	131	-174	64	5	320
of which: on central government 1/	178	73	-5	131	-187	57	-2	301
Claims on nonfinancial public enterprises	-33	-23	17	0	121	121	121	121
Claims on financial institutions	-1	-4	-1	0	-3	-3	-3	-3
Claims on the private sector	484	152	168	186	153	303	660	559
Other items (net)	-359	-100	-151	-100	-103	-128	-153	-203
Broad money	431	553	1,047	202	-98	251	685	905
Currency in circulation	-37	50	191	28	-22	27	89	123
Jordanian dinar deposits	231	376	582	139	-167	87	395	574
Foreign currency deposits	238	127	274	36	91	137	200	209
	(Cumulative flows in percent of beginning-of-period broad money)							
Net foreign assets	1.8	5.4	12.8	-0.2	-1.0	-1.1	0.6	1.2
Net domestic assets	4.0	1.6	-0.4	2.3	-0.1	3.8	6.7	8.4
Net claims on government	2.8	1.3	-0.8	1.4	-1.8	0.7	0.1	3.4
of which: on general government 1/	2.4	0.9	-0.1	1.4	-2.0	0.6	0.0	3.2
Claims on nonfinancial public enterprises	-0.4	-0.3	0.2	0.0	1.3	1.3	1.3	1.3
Claims on financial institutions	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Claims on the private sector	6.5	1.9	2.0	2.0	1.6	3.2	7.0	5.9
Other items (net)	-4.8	-1.3	-1.8	-1.1	-1.1	-1.3	-1.6	-2.1
Broad money	5.8	7.0	12.4	2.2	-1.0	2.7	7.2	9.6
Currency in circulation	-0.5	0.6	2.3	0.3	-0.2	0.3	0.9	1.3
Jordanian dinar deposits	3.1	4.8	6.9	1.5	-1.8	0.9	4.2	6.1
Foreign currency deposits	3.2	1.6	3.3	0.4	1.0	1.4	2.1	2.2
Memorandum items:								
Annual growth in JD broad money (percent)	3.3	7.0	11.9	12.4	7.1	7.1	7.7	9.6
Annual growth in broad money (percent)	5.8	7.0	12.4	10.6	8.6	9.0	9.3	9.6
Annual growth in claims on the private sector (percent)	11.5	3.2	3.5	5.5	4.9	7.7	14.3	11.1
Ratio of foreign currency to total deposits (percent)	27.3	27.2	27.7	26.5	29.1	28.6	28.1	27.6
Currency/JD deposits (percent)	24.8	24.0	24.9	24.8	25.2	25.0	24.7	24.6

Sources: Central Bank of Jordan; and Fund staff estimates and projections.
1/ Excludes U.N. compensation funds and change in Brady bonds held by Jordanian banks.

Table 4. Jordan: Summary Accounts of the Central Bank of Jordan, 2001–04

			Rev.	Prog.	Prel.	Revised Projections		
	2001	2002	2003	2004	2004	2004	2004	2004
	Dec.	Dec.	Dec.	Mar.	Mar.	Jun.	Sept.	Dec.
	(Stocks in millions of Jordanian dinars)							
Net foreign assets	2,321	2,940	3,910	3,858	3,843	3,667	3,764	3,812
Net domestic assets	-513	-1,046	-1,623	-1,519	-1,678	-1,388	-1,348	-1,306
Net claims on government 1/	664	580	728	860	534	785	726	1,029
Net claims on NFPEs, local government, and the SSC	-19	-56	-128	-128	-55	-55	-55	-55
Net claims on financial institutions	14	24	24	24	21	21	21	21
Net claims on private sector	14	15	15	15	15	15	15	15
Net claims on commercial banks	114	121	87	87	18	18	18	18
CDs	-1,234	-1,644	-2,176	-2,204	-2,046	-2,008	-1,909	-2,169
Other items, net (asset: +)	-66	-86	-172	-172	-164	-164	-164	-164
Jordanian dinar reserve money	1,808	1,894	2,287	2,339	2,165	2,279	2,416	2,506
Currency	1,279	1,333	1,535	1,563	1,513	1,563	1,625	1,658
Commercial banks' reserves	529	561	751	776	652	716	792	848
Of which : required reserves	283	322	428	439	377	435	458	471
	(Cumulative flows in millions of Jordanian dinars from beginning of period)							
Net foreign assets	-142	619	970	-51	-67	-242	-145	-98
Net domestic assets	74	-533	-577	103	-55	235	275	317
Net claims on government 1/	9	-85	148	131	-194	57	-2	301
Net claims on NFPEs, local government, and the SSC	0	-37	-73	0	73	73	73	73
Net claims on financial institutions	-14	10	0	0	-4	-4	-4	-4
Net claims on private sector	1	1	1	0	0	0	0	0
Net claims on commercial banks	-141	8	-34	0	-68	-68	-68	-68
CDs	189	-410	-533	-28	130	168	267	7
Other items, net (asset: +)	30	-20	-86	0	8	8	8	8
Jordanian dinar reserve money	-68	86	393	53	-122	-7	130	219
Currency	-44	54	202	28	-22	27	89	123
Commercial banks' reserves	-24	32	190	25	-99	-35	40	96
	(Cumulative flows in percent of beginning-of-period reserve money)							
Net foreign assets	-7.6	34.3	51.2	-2.2	-2.9	-10.6	-6.3	-4.3
Net domestic assets	3.9	-29.5	-30.5	4.5	-2.4	10.3	12.0	13.9
Net claims on government 1/	0.5	-4.7	7.8	5.7	-8.5	2.5	-0.1	13.2
Net claims on NFPEs, local government, and the SSC	0.0	-2.0	-3.8	0.0	3.2	3.2	3.2	3.2
Net claims on financial institutions	-0.7	0.6	0.0	0.0	-0.2	-0.2	-0.2	-0.2
Net claims on private sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net claims on commercial banks	-7.5	0.4	-1.8	0.0	-3.0	-3.0	-3.0	-3.0
CDs	10.0	-22.7	-28.1	-1.2	5.7	7.4	11.7	0.3
Other items, net (asset: +)	1.6	-1.1	-4.5	0.0	0.4	0.4	0.4	0.4
Jordanian dinar reserve money	-3.6	4.8	20.7	2.3	-5.3	-0.3	5.7	9.6
Currency	-2.4	3.0	10.7	1.2	-1.0	1.2	3.9	5.4
Commercial banks' reserves	-1.3	1.8	10.0	1.1	-4.3	-1.5	1.8	4.2
Memorandum items:								
Gross usable international reserves (US$ millions) 2/	2,565	3,474	4,745	4,636	4,551	4,414	4,458	4,500
As a ratio to JD broad money (in percent)	30.1	38.1	46.4	44.4	45.7	42.5	40.9	40.2
As a ratio of JD reserve money (in percent)	100.6	130.0	147.1	140.5	149.0	137.3	130.8	127.3
NIR in IMF definition 2/	1,497	2,150	3,146	3,078	3,026	2,887	2,984	3,035
Money multiplier (for Jordanian dinar liquidity)	3.34	3.42	3.17	3.17	3.26	3.23	3.20	3.17

Sources: CBJ; and Fund staff estimates and projections.

1/ Including U.N. compensation funds and WAJ debt assumed by government.

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

Table 5. Jordan: Summary Balance of Payments, 2000–09
(In millions of U.S. dollars)

	2000	2001	2002	Prel. 2003	Prel. Est. 1Q2004	Prog. 2004	Revised projections 2004	2005	2006	2007	2008	2009
Current account	59	-4	418	1,106	107	561	595	207	93	19	2	-6
Trade balance	-2,175	-2,007	-1,680	-1,915	-613	-2,158	-2,367	-2,412	-2,544	-2,682	-2,859	-3,059
Exports f.o.b.	1,899	2,294	2,770	3,082	868	3,249	3,538	3,732	3,977	4,284	4,606	4,957
Imports f.o.b.	4,074	4,301	4,450	4,997	1,481	5,407	5,905	6,144	6,521	6,966	7,465	8,016
Services (net)	-86	-243	-276	-257	-73	-290	-202	-189	-182	-169	-147	-117
of which: travel (net)	336	280	368	437	109	473	525	567	620	688	762	844
Income (net)	135	187	111	122	73	208	192	362	423	431	438	459
of which: investment income (net)	-27	9	-79	-76	21	2	-14	149	197	192	184	190
of which: employee compensation (net)	161	178	190	198	52	206	206	213	226	239	254	269
Current transfers (net)	2,184	2,059	2,264	3,156	721	2,801	2,971	2,446	2,396	2,439	2,570	2,711
Public (net)	405	461	511	1,270	260	961	1,128	562	407	338	338	341
Private (net)	1,780	1,598	1,753	1,886	461	1,840	1,844	1,884	1,989	2,102	2,232	2,370
of which: U.N. compensation 1/	529	68	76	99	0	0	0	0	0	0	0	0
of which: remittances	1,485	1,640	1,751	1,823	480	1,916	1,920	1,966	2,079	2,198	2,336	2,482
Capital account	903	-89	-89	63	-283	-621	-701	-246	-109	20	300	253
Public sector (net)	-310	-87	-153	-722	-146	-512	-665	-265	-300	-221	-70	-284
Disbursements	171	342	334	178	17	235	235	245	200	257	386	261
Amortization 2/	481	429	487	899	164	747	900	510	500	478	456	545
Private sector (net)	1,213	-2	64	785	-136	-109	-36	19	191	241	370	537
Direct foreign investment 3/	782	91	31	376	20	96	299	102	100	170	250	250
Portfolio and other capital flows	104	-111	31	347	98	-205	-334	-83	91	71	120	287
Errors and omissions	328	18	1	62	-254	0	0	0	0	0	0	0
Overall balance	961	-94	329	1,169	-176	-60	-106	-39	-16	38	302	247
Financing	-961	94	-329	-1,169	176	60	106	39	17	-38	-302	-247
Increase in NFA (-) 4/	-1,198	-185	-613	-1,425	160	-174	-58	-149	-149	-157	-273	-258
Central bank 3/	-665	290	-886	-1,268	124	37	237	91	126	138	42	80
Commercial banks	-533	-475	272	-158	37	-210	-294	-240	-275	-295	-316	-338
Fund credit (net)	-11	-13	12	-100	-29	-99	-99	-78	-87	-79	-56	-23
Arab Monetary Fund (net)	-17	1	-15	-9	-4	-11	-11	-9	0	0	0	0
Relief from debt operations 5/	65	86	69	94	0	45	45	41	37	0	0	0
Debt rescheduling	200	204	218	271	49	298	228	235	216	198	28	34
Memorandum items:												
Gross international reserves	2,742	2,565	3,474	4,745	4,551	4,700	4,500	4,444	4,319	4,175	4,139	4,082
In months of prospective imports GNFS 6/	5.8	5.4	6.9	8.2	7.8	9.0	7.4	6.9	6.3	5.6	5.3	4.9
In months of current merchandise imports	8.9	7.9	10.8	13.3	10.4	12.0	10.5	10.0	9.2	8.3	7.6	7.0
Annual merchandise export growth, percent	3.7	20.8	20.7	11.2	29.0	8.3	14.8	5.5	6.6	7.7	7.5	7.6
Domestic exports	2.8	25.1	15.1	7.6	33.7	10.1	16.8	5.6	7.0	8.5	8.2	8.3
Export of GNFS growth, percent	0.1	6.8	13.4	7.0	25.2	8.1	12.8	6.0	7.0	8.0	8.0	8.1
Import growth, percent	23.7	5.6	3.5	12.3	32.9	9.7	18.2	4.0	6.1	6.8	7.2	7.4
Excluding oil	18.8	7.1	3.0	10.9	32.2	11.3	15.4	7.5	7.7	7.6	7.8	7.6
Import of GNFS growth, percent	16.2	4.0	3.5	8.2	38.6	9.3	14.6	4.4	6.3	6.9	7.2	7.4
Current account balance												
In percent of annual GDP	0.7	0.0	4.5	11.2	1.0	5.3	5.5	1.8	0.7	0.1	0.0	0.0
GDP (in millions of U.S.dollars)	8,447	8,901	9,383	9,860	10,714	10,612	10,714	11,507	12,417	13,399	14,459	15,603

Sources: Jordanian authorities; and Fund staff estimates.

1/ U.N. compensation to Jordanian residents for personal and business losses related to the Gulf war.

2/ Includes the face value of debt reduction from debt restructuring operations, as well as a buyback of all of Jordan's Par Brady bonds in December 2003. In 2004, allows for the early repayment of JD250 million of higher interest external debt.

3/ Includes the proceeds for US$170 million from the privatization of 26 percent of the Arab Potash Company in October 2003.

4/ The change in Fund credit outstanding is deducted from the change in NFA from monetary survey.

5/ The difference between the face value of debt reduction and the cost of debt operations.

6/ In months of prospective import of goods and non-factor services for the following 12 months, excluding imports for re-exports.

Table 6. Jordan: Consolidated Public Sector Fiscal Operations and Net Debt, 2000–09

	2000	2001	2002	Prel. 2003	Prel. Est. Q1 2004	Revised projections 2004	2005	2006	2007	2008	2009
	(In percent of annual GDP)										
I. Budgetary central government											
Revenue and grants	30.1	30.5	30.2	35.9	8.5	32.0	27.8	26.8	26.3	26.4	26.0
Expenditure	34.8	34.2	35.2	37.0	6.7	35.8	31.1	29.6	28.8	28.9	28.5
Balance	-4.7	-3.7	-5.0	-1.1	1.8	-3.9	-3.3	-2.8	-2.5	-2.5	-2.5
Net debt/assets (-)	101.5	97.8	100.8	101.6	93.6	92.1	85.8	79.1	74.2	68.4	62.5
External	84.2	78.7	80.4	77.1	69.7	66.0	60.4	54.6	49.8	45.4	40.7
Domestic (gross)	22.2	22.9	25.2	26.1	25.1	27.6	26.8	25.8	25.6	24.1	22.8
Domestic (net)	17.3	19.0	20.3	24.5	23.8	26.1	25.4	24.5	24.5	23.0	21.8
II. Own-budget agencies											
Revenue	5.5	5.4	5.3	5.6	1.2	5.6	5.6	5.6	5.6	5.6	5.6
Expenditure	5.7	5.8	5.9	5.8	1.3	5.8	5.8	5.8	5.8	5.8	5.8
Balance	-0.2	-0.5	-0.6	-0.2	0.0	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Net debt/assets (-) 1/	-1.6	-0.8	-0.3	-0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
III. Consolidated central government (= I + II)											
Revenue	34.7	34.7	34.6	40.2	9.5	36.4	32.3	31.2	30.7	30.8	30.4
Expenditure	39.5	39.1	39.9	41.5	7.7	40.3	35.6	34.1	33.3	33.4	33.0
Balance	-4.8	-4.4	-5.3	-1.3	1.8	-3.9	-3.4	-2.9	-2.6	-2.6	-2.6
Net debt/assets (-)	100.0	97.0	100.5	101.5	93.5	92.0	85.7	79.0	74.1	68.3	62.4
IV. Social Security Corporation											
Revenue	3.6	4.3	4.2	4.4	1.1	4.5	4.6	4.8	4.9	5.0	5.1
Expenditure	1.4	1.8	2.2	2.4	0.6	2.5	2.5	2.6	2.7	2.7	2.8
Balance	2.2	2.7	2.1	2.0	0.5	2.1	2.1	2.2	2.2	2.3	2.3
Net debt/assets (-)	-23.6	-24.9	-25.6	-26.4	-24.8	-26.4	-26.6	-26.9	-27.1	-27.4	-27.7
V. Consolidated general government (= III + IV) 2/											
Revenue	37.3	37.3	36.0	42.2	10.1	38.0	33.8	32.7	32.2	32.1	31.7
Expenditure	41.6	40.9	41.4	42.7	8.0	41.3	36.8	35.0	34.1	33.9	33.4
Balance	-4.3	-3.7	-5.4	-0.5	2.1	-3.3	-3.0	-2.3	-1.9	-1.8	-1.7
Net debt/assets (-)	76.4	72.1	74.9	75.1	68.7	65.6	59.1	52.1	47.0	41.0	34.7
VI. Central Bank of Jordan											
Revenue	2.6	2.6	1.4	2.0	0.6	1.6	1.6	1.5	1.4	1.4	1.3
Expenditure	2.1	2.3	1.6	1.6	0.3	1.3	1.4	1.2	1.0	0.8	0.7
Balance	0.5	0.3	-0.2	0.5	0.3	0.4	0.1	0.3	0.4	0.5	0.7
Net debt/assets (-) 3/	-11.3	-9.6	-9.6	-12.1	-11.4	-12.4	-12.8	-13.3	-13.7	-14.2	-14.7
VII. Consolidated public sector (= V + VI) 4/											
Revenue	40.7	41.4	39.9	46.3	11.2	42.2	38.1	37.1	36.7	36.8	36.5
Expenditure	43.0	42.7	43.6	45.1	8.6	43.8	39.3	37.6	36.7	36.7	36.2
Balance	-2.4	-1.3	-3.7	1.2	2.6	-1.6	-1.2	-0.5	0.0	0.1	0.3
Net debt/assets (-)	60.2	57.9	60.7	59.7	55.2	51.1	45.0	38.3	33.5	27.2	20.5
	(In millions of Jordanian dinars)										
Memorandum items:											
Government and guaranteed gross total debt	6,029	6,140	6,781	7,206	7,205	7,099	7,107	7,065	7,154	7,119	7,018
Of which: gross external debt	5,043	4,969	5,350	5,391	5,296	5,011	4,930	4,803	4,726	4,659	4,506
Government and guaranteed net total debt	5,738	5,894	6,459	7,094	7,106	6,987	6,995	6,953	7,042	7,007	6,906

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

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

2/ Excludes municipalities and local governments. Transfers and common debt obligations between sectors are eliminated.

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

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

Table 7. Jordan: Central Government Medium-Term External Debt and Debt Service, 2000–09

	2000	2001	2002	Prel. 2003	Revised projections 2004	2005	2006	2007	2008	2009
	(In millions of Jordanian dinars)									
Total government external debt 1/	5,150	5,067	5,447	5,391	5,011	4,930	4,803	4,726	4,659	4,506
excl. market value of Brady collateral	5,043	4,969	5,350	5,391	5,011	4,930	4,803	4,726	4,659	4,506
excl. collateralized Brady bonds	4,795	4,743	5,123	5,391	5,011	4,930	4,803	4,726	4,659	4,506
	(In millions of U.S. dollars)									
Total government external debt 1/	7,263	7,146	7,683	7,604	7,067	6,953	6,775	6,666	6,571	6,355
excl. market value of Brady collateral	7,113	7,009	7,546	7,604	7,067	6,953	6,775	6,666	6,571	6,355
excl. collateralized Brady bonds	6,763	6,689	7,226	7,604	7,067	6,953	6,775	6,666	6,571	6,355
Of which: obligations existing as of end-1999	7,263	7,146	7,683	7,413	6,413	5,827	5,243	4,705	4,240	3,795
Medium- and long-term debt	6,802	6,713	7,203	7,183	6,742	6,705	6,613	6,583	6,544	6,351
To bilateral and multilateral creditors 1/	6,126	6,116	6,633	7,092	6,692	6,658	6,568	6,541	6,504	6,310
To London Club creditors	551	497	492	25	25	25	25	25	25	25
Of which: collateralized Brady bonds	501	457	457	0	0	0	0	0	0	0
To other creditors	124	101	78	66	25	23	20	17	16	16
Use of Fund resources	462	433	483	421	325	248	162	83	27	4
Service on government external debt 1/ 2/ 3/	730	769	799	866	959	813	817	829	792	851
Of which: to the Fund	55	72	94	112	108	85	92	82	58	24
Amortization 2/ 3/	353	437	506	545	658	556	550	557	512	568
Of which: to the Fund	31	51	79	100	99	78	87	79	56	23
Interest	377	332	293	321	301	257	267	272	280	283
Of which: to the Fund	24	20	14	12	9	7	6	3	2	1
	(In percent of GDP)									
Total government external debt 1/	86.0	80.3	81.9	77.1	66.0	60.4	54.6	49.8	45.4	40.7
excl. market value of Brady collateral	84.2	78.7	80.4	77.1	66.0	60.4	54.6	49.8	45.4	40.7
excl. collateralized Brady bonds	80.1	75.2	77.0	77.1	66.0	60.4	54.6	49.8	45.4	40.7
Medium- and long-term debt	80.5	75.4	76.8	72.9	62.9	58.3	53.3	49.1	45.3	40.7
Use of Fund resources	5.5	4.9	5.1	4.3	3.0	2.2	1.3	0.6	0.2	0.0
Service on government external debt 1/	8.6	8.6	8.5	8.8	8.9	7.1	6.6	6.2	5.5	5.5
Amortization	4.2	4.9	5.4	5.5	6.1	4.8	4.4	4.2	3.5	3.6
Interest	4.5	3.7	3.1	3.3	2.8	2.2	2.2	2.0	1.9	1.8
	(In percent of exports of goods and nonfactor services)									
Total government external debt 1/	205.4	189.2	179.4	166.0	136.7	126.9	115.5	105.3	96.1	86.0
excl. market value of Brady collateral	201.2	185.6	176.2	166.0	136.7	126.9	115.5	105.3	96.1	86.0
excl. collateralized Brady bonds	191.2	177.1	168.7	166.0	136.7	126.9	115.5	105.3	96.1	86.0
Of which: to the Fund	13.1	11.5	11.3	9.2	6.3	4.5	2.8	1.3	0.4	0.1
Service on government external debt 1/	20.6	20.4	18.7	18.9	18.6	14.8	13.9	13.1	11.6	11.5
Of which: to the Fund	1.6	1.9	2.2	2.4	2.1	1.6	1.6	1.3	0.9	0.3
Amortization 2/ 3/	10.0	11.6	11.8	11.9	12.7	10.1	9.4	8.8	7.5	7.7
Of which: to the Fund	0.9	1.4	1.9	2.2	1.9	1.4	1.5	1.2	0.8	0.3
Interest	10.7	8.8	6.8	7.0	5.8	4.7	4.6	4.3	4.1	3.8
Of which: to the Fund	0.7	0.5	0.3	0.3	0.2	0.1	0.1	0.1	0.0	0.0

Sources: Jordanian authorities; and Fund staff estimates and projections.
1/ Includes government guaranteed external debt.
2/ On a commitment basis.
3/ For 2003 includes prepayments of US$456 million; for 2004 assumes prepayments of US$353 million.

Table 8. Jordan: Indicators of Financial Vulnerability, 2000–04
(End of period, unless otherwise noted)

	2000	2001	2002	Prel. 2003	Proj. 2004
Monetary and financial indicators					
Gross domestic currency public debt (in percent of GDP)	19.3	22.1	24.9	26.0	27.5
Central government net domestic currency borrowing requirement (in percent of GDP)	-1.0	2.3	2.6	4.4	3.6
Broad money (annual growth, in percent)	10.2	5.8	7.0	12.4	9.6
Broad domestic currency liquidity (M2) (annual growth, in percent)	7.1	3.3	7.0	11.9	9.6
Private sector credit (annual growth, in percent)	4.5	11.3	3.2	3.5	11.1
Banking sector indicators					
Problem loans (as percent of capital and reserves)	92.9	102.1	115.0	…	…
Provisions against problem loans (as percent of problem loans)	34.6	36.4	36.7	…	…
Risk-weighted capital adequacy ratio (in percent)	19.4	17.4	16.7	…	…
Share of construction loans in total private credit (in percent)	18.6	16.4	16.7	17.2	…
Credit to private sector (in percent of GDP)	66.8	70.6	68.9	66.8	…
Foreign currency and external debt indicators					
Gross foreign currency public debt (in millions of U.S. dollars)	6,763	6,689	7,228	7,605	7,068
Gross external public debt (in millions of U.S. dollars)	6,763	6,689	7,228	7,605	7,068
In percent of GDP	80.1	75.2	77.0	77.1	66.0
Short-term external debt (in millions of U.S. dollars) 1/	353	437	506	545	658
Total foreign liabilities of central bank (in millions of U.S. dollars)	598	592	607	502	479
Total foreign liabilities of commercial banks (in millions of U.S. dollars)	3,629	4,213	4,718	5,048	5,402
Commercial banks' net foreign asset position (in millions of U.S. dollars)	1,379	1,891	1,619	1,801	1,815
Official reserves indicators					
Gross usable reserves (in millions of U.S. dollars) 2/	2,742	2,565	3,474	4,745	4,500
In percent of M2	26.2	23.1	29.3	35.5	30.8
In percent of short-term external debt by remaining maturity	776.6	587.5	685.8	870.9	684.4
Net international reserves (in millions of U.S. dollars) 2/	2,275	2,111	3,032	4,280	4,267
In percent of M2	21.7	19.0	25.5	32.1	29.2
In percent of short-term external debt	644.3	483.6	598.6	785.6	649.0
External current account indicators (annual flows)					
Merchandise exports, f.o.b. (in millions of U.S. dollars)	1,899	2,294	2,770	3,082	3,538
Annual changes in percent	3.7	20.8	20.7	11.2	14.8
Merchandise imports, f.o.b. (in millions of U.S. dollars)	4,074	4,301	4,450	4,997	5,905
Annual changes in percent	23.7	5.6	3.5	12.3	18.2
Current account balance (including grants, in millions of U.S. dollars)	59	-4	418	1,106	595
In percent of GDP	0.7	0.0	4.5	11.2	5.5

Sources: Data provided by the authorities; Bank for International Settlements; IMF, World Economic Outlook; and Fund staff estimates.
1/ Short-term public debt is defined as nonresident treasury bill holdings and amortization falling due during the year.
2/ Excluding foreign currency deposits held by commercial banks with the central bank.

Table 9. Jordan: Indicators of Bank Soundness, 1998–2003

	End of Period					
	1998	1999	2000	2001	2002 1/	2003 2/
	(In millions of Jordanian dinars)					
Total assets	9,869	10,990	12,387	13,630	14,602	15,186
Total loans	4,066	4,267	4,367	4,771	4,955	5,088
Total capital	572	570	601	617	642	665
Capital and reserves 3/	841	856	865	902	906	978
Classified loans 4/	450	613	804	921	1,042	1,013
Provisions against classified loans 5/	206	274	278	335	382	394
Total assets in foreign currency	3,349	3,786	4,580	5,211	5,640	5,461
Of which : loans to residents in foreign currency	347	384	402	478	569	664
Total liabilities in foreign currencies	3,267	3,639	4,428	5,015	5,485	5,302
Of which : non-resident deposits	1,520	1,546	1,658	1,713	1,898	1,703
Net profits (after tax)	72	30	38	98	79	100
	(In percent)					
Total capital/total assets	5.8	5.2	4.9	4.5	4.4	4.4
Capital and reserves/total assets	8.5	7.9	7.0	6.6	6.2	6.4
Risk-weighted capital ratio 6/	21.7	21.2	19.4	17.4	16.7	15.9
Classified loans/total loans	11.1	14.4	18.4	19.3	21.0	19.9
Classified loans/total loans (excluding interest in suspense) 7/	9.5	12.2	14.6	16.0	17.5	15.8
Provisions/classified loans	45.8	44.7	34.6	36.4	36.7	38.9
Net profits/total assets	0.7	0.3	0.3	0.7	0.5	0.7
Net profits/total loans	1.8	0.7	0.9	2.1	1.6	2.0

Source: Central Bank of Jordan.
1/ Data for Philadelphia Bank is as of June 2002.
2/ Data used for Jordan Gulf Bank is as of June 2003, and data used for Jordan Investment and Finance Bank and Jordan National Bank are preliminary.
3/ Capital and reserves are defined according to the capital adequacy definition of 1997.
4/ Loans at least 180 days overdue until 1999, then 150 days overdue for 2000, 120 days overdue for 2001, and 90 days overdue thereafter.
5/ With the agreement of the Central Bank of Jordan, no provisions were taken for the troubled banks pending a court resolution.
6/ Risk-weighted capital adequacy ratio includes market risk in 2003.
7/ Interest in suspense is excluded from the numerator and denominator.

Table 10. Jordan: Indicators of Fund Credit, 2000–10
(In millions of SDR)

					Projections						
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total Fund credit outstanding at end-period											
In millions of SDR	354.3	344.5	355.0	283.6	217.5	165.3	107.7	55.4	17.9	2.5	0.0
In millions of U.S. dollars	461.6	432.9	482.6	421.4	325.3	248.0	161.8	83.3	26.9	3.8	0.0
In percent of:											
Quota	207.8	202.1	208.2	166.3	127.5	96.9	63.2	32.5	10.5	1.5	0.0
GDP	5.5	4.9	5.1	4.3	3.0	2.2	1.3	0.6	0.2	0.0	0.0
Exports of goods and nonfactor services	13.1	11.5	11.3	9.2	6.3	4.5	2.8	1.3	0.4	0.1	0.0
Public and publicly guaranteed debt	6.4	6.1	6.3	5.5	4.6	3.6	2.4	1.3	0.4	0.1	0.0
Transactions under the GRA											
Purchases under the GRA	15.2	30.5	71.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases 1/	23.8	40.2	61.0	71.4	66.1	52.2	57.6	52.3	37.5	15.4	2.5
Net Purchases	-8.6	-9.8	10.5	-71.4	-66.1	-52.2	-57.6	-52.3	-37.5	-15.4	-2.5
Charges and interest	18.2	16.1	11.1	8.7	5.9	4.6	3.8	2.2	1.2	0.5	0.3
Debt service to the Fund											
In millions of SDR	42.0	56.3	72.1	80.1	72.0	56.8	61.4	54.5	38.7	15.8	2.8
In millions of U.S. dollars	55.4	71.8	93.7	112.0	107.6	85.1	92.3	81.9	58.2	23.8	4.2
In percent of:											
Exports of goods and nonfactor services	1.6	1.9	2.2	2.4	2.1	1.6	1.6	1.3	0.9	0.3	0.1
Service on public and publicly guaranteed debt	7.6	9.3	11.7	12.9	13.4	10.7	12.0	10.8	7.7	3.1	0.6

Sources: IMF Finance Department; and Fund staff estimates.

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

Table 11. Jordan: Quantitative Performance Criteria and Indicative Targets Under the Stand-By Arrangement, 2004

	End-March			End-June
	2004 Program	Adjusted Program	Actual	2004 Program 1/
	(Cumulative flows from January 1, in millions of Jordanian dinars)			
Performance Criteria				
Net international reserves of the CBJ 2/	-376	-318	-117	-348
Net domestic assets of the CBJ 3/ 4/	139	81	-5	162
Overall fiscal deficit after grants of the central government 5/ 6/ 7/	140	140	-137	55
	(Cumulative flows from January 1, in millions of U.S. dollars)			
Outstanding stock of government and government-guaranteed short-term external debt (ceiling)	25	25	0	25
Contracting or guaranteeing of new nonconcessional medium- and long-term external debt by the government (ceiling)	100	100	41	150
Of which : with maturity of more than one year and up to and including five years	40	40	0	80
Non-accumulation of external payment arrears 8/	0	0	0	0
Memorandum items	(Cumulative flows from January 1, in millions of Jordanian dinars)			
Programmed sum of foreign grants, net external financing of the budget (excluding project loans) and privatization proceeds from abroad	21	21	80	309
Programmed foreign grants 6/ 9/	83	83	172	454
Programmed expenditure associated with debt swaps with official bilateral creditors	10	10	0	15

Source: Quarterly macroeconomic program.
1/ The targets for end-June are indicative.
2/ These floors will be adjusted upward (downward) by the extent to which the actual sum of foreign grants and net external financing of the central government (excluding project-related loans and privatization proceeds from abroad) received during 2004 exceeds (falls short of) the levels specified above. This adjuster includes any net cost of prepaying external debt.
3/ These ceilings will be adjusted upward (downward) by the extent to which the floors on the net international reserves of the CBJ are adjusted downward (upward) due to shortfalls (excesses) in the sum of foreign grants and net external financing of the central government (excluding project-related loans and privatization proceeds from abroad) received during 2004, compared to the levels specified above.This adjuster includes any net cost of prepaying external debt.
4/ These ceilings will be adjusted downward (upward) by the extent to which the CBJ decreases (increases) reserve requirements on Jordanian dinar deposits of the banking system. The adjustment will equal the change in the required reserve ratio multiplied by the stock of deposits at licensed banks at the start of the month when the new reserve requirement ratio applies that are: (i) denominated in Jordanian dinars; and (ii) subject to reserve requirements.
5/ These ceilings will be adjusted upward by the extent to which expenditure associated with debt swaps with official bilateral creditors exceeds the amount specified above.
6/ These ceilings will be adjusted upward by the amount of recapitalization bonds at market interest rates placed by the government with the troubled banks discussed in Section II of the MEFP, up to a maximum amount of JD100 million.
7/ These ceilings will be adjusted upward by the amount of the shortfall in grants received by the central government compared to the program targets, up to a maximum of JD75 million.
8/ Continuous performance criterion.
9/ Excludes technical assistance grants channeled through the ministry of planning.

Jordan—Performance under the Current Stand-By Arrangement

Jordan's performance has generally exceeded the original goals of the SBA. Notwithstanding the war in Iraq and regional uncertainties, economic growth was satisfactory and resumed on an upward trajectory, driven by impressive export growth. Fiscal performance was better than anticipated, and the composition of spending improved. The targets for debt reduction, however, were missed by a large margin. Jordan's balance of payments position strengthened significantly with the external current account registering large surpluses and gross official reserves exceeding program targets substantially. Under the SBA, the authorities completed an ambitious structural reform agenda by implementing all the structural conditionality envisaged under the program, particularly in the fiscal and pension areas. Significant strides were made toward the objective of transforming Jordan into a more dynamic market-oriented economy.

Macroeconomic performance

Macroeconomic performance has strengthened under the program (Table 1). Real GDP growth increased to 5 percent in 2002 from about 4 percent in 2000–01. In 2003, the economy showed considerable resilience to the war in Iraq, and real GDP growth of 3.2 percent exceeded expectations. Preliminary data suggest that growth in 2004 is likely to reach 5.5 percent. Growth has been driven by a strong rebound in domestic demand and increased export demand fueled by Iraq as well as for textile products, mainly from the QIZs. Inflation has remained subdued and in line with program projections.

Table 1. Jordan: Macroeconomic Performance Under the Stand by Arrangement, 2002–04
(In percent per year; unless otherwise indicated)

	2002		2003			2004		
	Prog.	Act.	Baseline	Prog.	Act.	Baseline	Prog.	Proj.
Real GDP growth	5.1	5.0	6.0	3.0	3.2	5.8	5.0	5.5
CPI inflation (average)	3.2	1.8	2.1	2.5	2.3	1.8	3.0	3.5
Overall fiscal balance (in percent of GDP)	-4.1	-5.0	-4.3	-2.5	-1.1	-3.9	-3.9	-3.9
Total govt. and govt. guaranteed debt								
(in percent of GDP)	91.6	100.5	85.1	96.5	101.5	79.5	93.0	92.0
Current account balance (in percent of GDP)	-0.4	4.5	-0.9	4.6	11.1	-1.1	5.3	5.6
Gross usable reserves (US$ millions)	2,747	3,474	2,835	3,913	4,745	2,909	4,700	4,500
(in months of import cover)	6.7	7.8	6.4	8.0	9.7	6.2	9.0	7.4

Sources: Jordanian authorities; and Fund staff estimates.

Fiscal performance has been better than anticipated. Instead of a programmed cumulative overall deficit of 8.4 percent of GDP for 2002–03, the deficit including grants has been contained at 6.1 percent of GDP, both due to fiscal consolidation efforts as well as a large inflow of grants in 2003. Fiscal consolidation has been driven by significant progress in: reforming the tax system, particularly the GST; implementing an ambitious pension reform strategy; raising domestic petroleum product prices in the context of every budget; and increasing other taxes. Cumulative government savings during 2002–03 surged to 9.4 percent of GDP, compared with 3.3 percent envisaged under the original baseline scenario, in part reflecting lower current outlays. The sharply higher public sector savings also translated into higher capital spending entailing a qualitative improvement in the fiscal structure, while providing a boost to domestic economic activity. The budget for 2004 is consistent with the original program deficit target of 3.9 percent of GDP and the latest fiscal data suggest that the strong fiscal performance is likely to continue in 2004.

Figure 1. Jordan: Overall Fiscal Deficit Under the SBA.

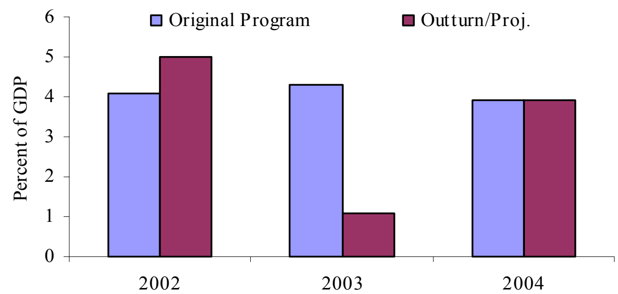


Table 2. Jordan: Fiscal Performance Under the SBA, 2002–04
(In percent of GDP)

	2002		2003			2004		
	Prog.	Act.	Baseline	Prog.	Act.	Baseline	Prog.	Proj.
Total revenue and grants	30.8	30.2	31.2	35.2	35.9	30.9	32.3	32.3
Of which: grants	6.0	5.2	6.0	10.8	12.1	5.6	8.7	8.7
Total expenditure and net lending	34.7	35.2	35.5	37.7	37.0	34.8	36.2	36.2
Of which: capital outlays	5.5	6.5	5.6	6.8	8.6	5.6	7.4	7.3
Overall fiscal balance, including grants	-4.1	-5.0	-4.3	-2.5	-1.1	-3.9	-3.9	-3.9
Government savings	2.0	1.7	1.3	4.4	7.7	1.7	3.8	3.6

Sources: Jordanian authorities; and Fund staff estimates.

Progress on debt reduction, however, has fallen substantially short of program targets largely due to external developments. The shortfall in reducing the debt ratio over the period 2002–03 has been about 16½ percent of GDP, the main contributors being: valuation changes arising from a weakening of the U.S. dollar; weaker GDP growth from the negative impact of the war in Iraq; and lower privatization receipts. To mitigate these factors, the authorities prepaid high-interest external debt (the outstanding stock of Par Brady Bonds), which is expected to lower borrowing requirements by more than JD 10 million a year. Notwithstanding the setbacks recorded in 2002–03, Jordan's public debt remains sustainable, the Public Debt Law target of 80 percent of GDP by end-2006 should be attainable, and the ratio is projected to converge steadily to about 60 percent of GDP by 2006.[6] It is particularly encouraging to note that the debt ratio declined by 8 percentage points to 93.5 percent of GDP by end-March 2004.

The external position strengthened substantially over the program period. The program had envisaged modest but sustainable current account deficits and a moderate accumulation of reserves. In the event, the current account registered large surpluses, reflecting a surge in grant receipts and the underlying strength in the balance of payments. Merchandise exports grew by 20.7 percent in 2002 and 11.2 percent in 2003, despite the disruption of exports to Iraq (17.6 percent of 2002 total exports) during the war. Export growth has rebounded strongly in early 2004 and is now envisaged to grow at twice the rate envisaged under the program in 2004. Export growth was largely driven by textiles and apparel, mainly to the U.S. market, and a strong rebound in exports to Iraq in 2004. These positive external developments have led to a large increase in gross usable reserves, far exceeding program targets, and providing a sizable cushion against further external shocks.

Figure 2. Jordan: Export Growth under the SBA.

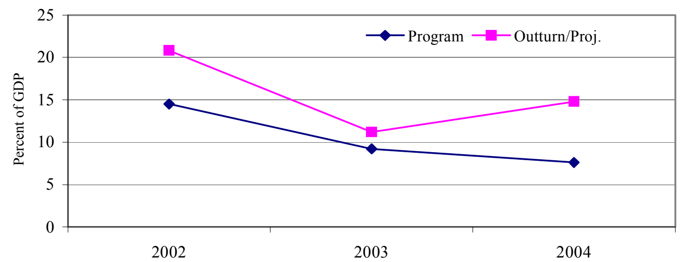


Figure 3. Jordan: Current Account Balance under the SBA

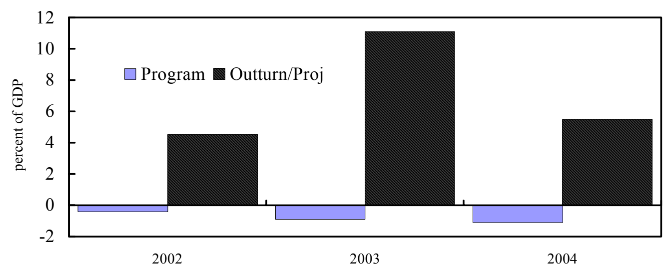
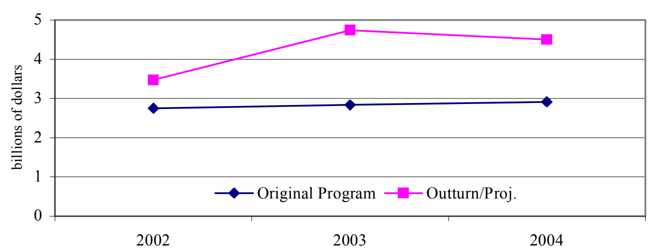


Figure 4. Jordan: Gross Usable Reserves Under the SBA.



[6] For details please see Country Report No. 04/121, Jordan—Selected Issues Paper, Chapter V for full details of the authorities' medium-term fiscal strategy.

Table 3. Jordan: External Performance under the SBA, 2002–04
(In percent of GDP)

	2002		2003			2004		
	Prog.	Act.	Baseline	Prog.	Act.	Baseline	Prog.	Proj.
Merchandise export growth (percent)	14.5	20.8	9.2	5.9	11.2	7.6	8.3	14.8
Merchandise import growth (percent)	10.2	3.5	7.8	7.8	12.3	6.4	9.7	18.2
Current account balance	-0.4	4.5	-0.9	4.6	11.1	-1.1	5.3	5.5
Gross usable reserves (US$ millions)	2,747	3,474	2,835	3,913	4,745	2,909	4,700	4,500
(in months of import cover)	6.7	7.8	6.4	8.0	9.7	6.2	9.0	7.4

Sources: Jordanian authorities; and Fund staff estimates.

Structural reforms

Jordan has made remarkable progress on fiscal, public sector, and financial sector structural reforms under the SBA. In the fiscal area, Jordan has reformed its tax system, rebalanced the composition of taxes, and rationalized expenditures. Important reforms have been made to the GST system—including broadening its base, improving its efficiency, and strengthening its administration—that make it a model for the region. At 8.5 percent of GDP in 2003, Jordan's GST revenue compares favorably internationally, and further gains in 2004 to 9.5 percent of GDP are encouraging. The income tax legislation has been strengthened, albeit to a limited extent. Tax reforms implemented under the program allowed an opening of the economy by reducing tariffs while continuing with fiscal consolidation. To improve tax administration, a unified revenue administration is being established through the integration of the Income and Sales Tax Departments, legislation for which was approved by the lower house of parliament in May 2004. Nontax revenues have declined due to their inherent inelasticity and ongoing privatizations. On the expenditure side, a comprehensive and ambitious government pension reform has been completed, which will significantly reduce pension liabilities over the long term. Finally, to strengthen public expenditure management, a Treasury Single Account encompassing all civil agencies has been established.

The privatization program has progressed steadily, albeit at a slower pace than envisaged under the SBA, reflecting the uncertain regional security environment. Prominent companies that have been privatized include Jordan Telecom (sale of additional shares), the Jordan Investment Corporation portfolios, Royal Jordanian Air Academy, and Arab Potash Company. A major element of the government's privatization program is the sale of majority stakes in the electricity generation and distribution companies. The sale of generation companies is expected to be completed in 2004.

Jordan has made solid progress in the reform of the monetary and financial sectors to improve their structure and efficiency. The authorities have issued regulations to implement prompt corrective actions that stipulate automatic penalties for violations of prudential regulations by banks; made improvements in the auditing of the financial statements of the CBJ; and have begun the improvement of balance of payments statistics. In addition, a comprehensive Financial Sector Stability Assessment was completed in 2004 and the authorities have started implementing its recommendations, including by increasing the margin between the interbank and the CBJ overnight-deposit-window rates. With numerous improvements in the statistical area, Jordan is on its way to meet the Fund's Special Data Dissemination Standards within the next two to three years.

Table 4. Jordan—Structural Performance Criteria and Benchmarks
Under the Stand-By Arrangement, 2002–04

I. Structural Performance Criteria	**Status**
Issue regulations to enroll all new military recruits in the pension plan administered by the Social Security Corporation (end-December 2002).	Waived. Done in March 2003
Implement criteria for disability pensions financed by the central government budget that are consistent with those applied by the Social Security Corporation for its members (end-December 2002).	Waived. Done in February 2004
II. Structural Benchmarks	**Status**
Develop a risk-based audit plan based on different audit techniques as recommended by the FAD technical assistance mission to audit GST filers (end-September 2002).	Done in October 2002
Reduce the number of nonfilers to 10 percent of the registered taxpayer population by establishing a nonfiler enforcement program in the GST Department (end-December 2002).	Done
Implement a single treasury account system at the central bank (end-December 2003).	Done
Commencing with the 2003 financial statements, the ministry of finance, in consultation with the CBJ, will ensure that the engagement of the external auditor under the bank's new policy of audit rotation, commencing with the 2003 financial statements, will specify that the: (i) audit of the CBJ's financial statements will be conducted by an internationally recognized audit firm, in accordance with International Standard on Auditing (ISA); (ii) external audit opinion will be reviewed (so called "second-partner-review") by an international partner with International Accounting Standards (IAS) banking experience from another region of the international audit firm, who would issue an internal report to the "signing-partner," which attests the audit has met international standards (the internal report would be made available to the Board and Fund staff); and (iii) audit engagement would be for a term that is greater than one year (e.g., three-to-five years) (end-December 2003).	Done

Table 4. Jordan—Structural Performance Criteria and Benchmarks
Under the Stand-By Arrangement, 2002–04 (continued)

II. Structural Benchmarks	**Status**
The CBJ will issue regulations to implement prompt corrective actions that would stipulate automatic penalties for violations of prudential regulations by banks, in line with the recommendations of the forthcoming FSAP (end-December 2003).	Done in January 2004
The government will issue a decree to create a single function-based revenue department by integrating the Income Tax and Sales Tax Departments under a single director general reporting to the minister of finance. In addition, the ministry of finance will create a temporary integration project directorate to oversee development and implementation of the large and medium taxpayer offices; the reform of small taxpayer administration; and the incremental establishment of an integrated head office (end-March 2004)."	Done
The CBJ will publish: (i) the balance of payments statistics of the CBJ according to the fifth edition of the *Balance of Payments Manual* of the Fund; and (ii) the international reserve template according to Fund methodology (end-May 2004).	Done on June 2, 2004

Jordan: Relations With the Fund
(As of April 30, 2004)

I. **Membership Status:** Joined 8/29/52; Article VIII

II. **General Resources Account:**	SDR million	% Quota
Quota	170.50	100.00
Fund holdings of currency	427.52	250.74
Reserve position in Fund	0.07	0.04

III. **SDR Department:**	SDR million	% Allocation
Net cumulative allocation	16.89	100.00
Holdings	3.07	18.17

IV. **Outstanding Purchases and Loans:**	SDR million	% Quota
Extended Arrangements	246.42	144.53
Stand-by Arrangement	10.66	6.25

V. **Latest Financial Arrangements:**

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

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

	Overdue	Forthcoming				
	3/31/04	2004	2005	2006	2007	2008
Principal	--	39.61	52.17	57.61	52.28	37.52
Charges/Interest	--	4.34	4.65	3.49	2.21	1.19
Total	--	43.95	56.83	61.11	54.49	38.72

VII. **Safeguard Assessment**: Under the Fund's safeguards assessment policy, the CBJ is subject to a full assessment with respect to the SBA, which was approved on July 3, 2002 and is scheduled to expire 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 safeguards assessment of May 2001. However, the assessment noted that there are still some unresolved issues at various levels of the bank's operations, including the need for greater transparency in the CBJ's financial statements. Consequently, the assessment proposed a set of measures, which once implemented, could further strengthen the CBJ's operations. Implementation of the recommendations is being monitored by staff.

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

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

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

XI. **ROSCs**

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

Table 1. Jordan: Technical Assistance, 1999–2004

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

Jordan—World Bank Group Strategy and Operations

As of April 30, 2004, Jordan had received 63 World Bank (Bank) loans and 15 IDA credits totaling US$2,177 million net of cancellations and terminations. Of the US$2,177, US$2,001 has been disbursed to-date. All the credits and 57 of the loans have been fully disbursed. There are seven active projects in the Bank's portfolio for a total of US$311.7 million. Overall performance of the portfolio both from the perspective of implementation and development impact is good. This reflects the generally good project implementation capacity of Jordanian institutions, Jordan's strong ownership of the program, and the quality of the dialogue between the Bank and the Government of Jordan. The IFC has made cumulative loan and equity investment approvals of US$262 million and about US$78 million in syndications.

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

The proposed lending ranges from US$250 million in the base case to US$325 million in the high case (compared to US$300 and US$450 million respectively in the last CAS). Bank lending during the proposed CAS period will concentrate on the focus areas of human resources development (largely education) and public sector reform, which together will account for more than 80 percent of the proposed lending. Bank support for public sector reform and education is a continuation of programmatic Bank support in both areas (Public Sector Reform Loan series and Human Resources Development Sector Investment Loan)—reflecting the need for a long-term engagement to address deep, underlying structural issues.

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

World Bank Group support to private sector development will continue to focus on improving the investment environment, privatization, partial risk guarantees for major projects (envisaged to attract private sector participation and to provide a better financial package for critical projects in water and energy), and, in the case of IFC, direct investment. IFC has been active in Jordan for many years and has a current portfolio of US$109 million in 17 companies. Its role is expected to expand as the investment environment continues to improve and as new opportunities for export-oriented businesses open up in response to the free trade agreement recently concluded with the United States and the association agreement with the European Union. In addition to export-oriented sectors, IFC plans to focus on investments in the financial sector, infrastructure development, and information technology.

Jordan: Statistical Issues

A mission from the Fund's Statistics Department visited Amman during December 17–21, 2003 to update the Data module of the Report on the Observance of Standards and Codes (ROSC) prepared by a mission that visited Amman in February 2002. The main objectives of this mission were to (1) review and document the actions taken by the authorities to address the issues raised by the 2002 Data ROSC mission for all macroeconomics statistics included in the ROSC exercise (national accounts, price, government finance, monetary, and balance of payments statistics,); (2) discuss with the authorities their plans for further improving the quality of the statistics, and (3) review Jordan's current data dissemination practices against the requirements of the Special Data Dissemination Standard (SDDS).

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

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

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

- Incorporation of owner-occupied dwelling services in the CPI;

- Updating of CPI weights based on the 2002 HEIS; and
- Dissemination of regional CPIs.

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

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

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

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

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

- Dissemination of data on central and general government operations based on the classification and sectorization systems recommended by the *GFSM 2001*;
- Seeking feedback from users of government finance statistics to monitor their needs;
- Establishment of regular procedures for the verification of internal and intersectoral consistency of government finance statistics;

- Dissemination of a statement on the revision policy, an advance release calendar, and more detailed metadata in the MOF publications and website; and

- Updating of GDDS metadata on a more timely basis.

Monetary—Monetary data for the CBJ and the commercial banks are reported and published on a monthly basis. At present, consistency checks between government finance statistics and monetary statistics are not conducted. However, the CBJ authorities informed the 2003 STA ROSC Update mission that the Research Department, which is responsible for the collection and compilation of the monetary statistics in the CBJ, has proposed to the CBJ management to establish an interagency group by June 2004 to monitor the intersectoral consistency of macroeconomic statistics. Further, actions are being taken to improve the quality of the source data and the methodological soundness of the statistical output. In particular, the CBJ is:

- reviewing a new set of report forms for banking institutions, which the Banking Supervision Department has prepared to facilitate better classification and sectorization of the analytical accounts; and

- promoting the adoption of international accounting standards (IAS) by the commercial banks. Also, the Administrative and Financial Department and the Banking Supervision Department of the CBJ are in the process of adopting the IAS, in particular with respect to valuation procedures and the recording of financial derivatives within the balance sheet.

Balance of payments statistics—The establishment of a BOP division within the Research Department and the allocation of additional resources have facilitated the development of a comprehensive program for the improvement of BOP statistics, including a detailed action plan to address weaknesses in all data quality dimensions. These efforts are being supported by long-term technical assistance from the IMF Statistics Department through four peripatetic missions.

Within the framework of the comprehensive program for improvements, the CBJ plans to undertake the following actions within the next year:

- Adoption of the *BPM5* methodology in the compilation of the BOP statistics and the international investment position, and dissemination of data in the *BPM5* format;

- Dissemination the complete Data Template on International Reserves and International Liquidity;

- Utilization of further data sources to increase coverage of international transactions of the household and corporate sectors;

- Resolution of most of the existing major gaps in data coverage, including gaps in the financial account statistics and data on international services;
- Development of techniques for systematically analyzing both raw data and statistical aggregates to minimize processing errors;
- Preparation of more comprehensive revision studies on a regular basis to strengthen the statistical process;
- Establishment of procedures for routinely assessing the quality of data, including examination of the causes of estimation errors and revisions;
- Dissemination of the provisions for the confidentiality of individual respondents' data and identification of the BOP Division as the source of the BOP data in the *MSB*;
- Publication of more detailed BOP metadata and analysis of current developments in the *MSB* and on the CBJ website;
- Introduction of a regular and continuing program for consultations with users and inform the users of the availability (on request) of more detailed data in the *MSB* and on the CBJ website;
- Publication of an advanced calendar for the release of BOP statistics in the *MSB* and on the CBJ website; and
- Updating of the BOP metadata on the GDDS bulletin board on a more timely basis.

Jordan: Reporting of Main Statistical Indicators
(As of May 31, 2004)

	Exchange rates	International reserves	Reserve/ base money	Central bank balance sheet	Broad money	Interest rates	Consumer price index	Exports/ imports	Current account balance	Overall government balance	GDP/GNP	External public debt/ debt service
Date of latest observation	4/04	4/04	4/04	4/04	4/04	4/04	4/04	3/04	Q1/04	4/04	Q4/03	1/04
Date received	5/04	5/04	5/04	5/04	5/04	5/04	5/04	5/04	5/04	5/04	3/04	2/04
Frequency of data	W	W	M	M	M	W	M	M	Q	M	Q	M
Frequency of publication	M	M	M	M	M	M	M	M	Q	M	Q	M
Frequency of reporting	W	W	M	M	M	W	M	Q	Q	M	Q	M
Source of update	Central Bank of Jordan (CBJ)	CBJ	CBJ	CBJ	CBJ	CBJ	CBJ	CBJ	CBJ	Ministry of Finance (MoF)	Department of Statistics	MoF
Mode of reporting	E-mail	E-mail	E-mail	E-mail	E-mail	E-mail	*Monthly Statistical Bulletin*	*Monthly Statistical Bulletin*	*Monthly Statistical Bulletin*	*Government Finance Bulletin*	E-mail	*Government Finance Bulletin*
Confidentiality	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted
Published data	*Monthly Statistical Bulletin*	*Monthly Statistical Bulletin*	*Monthly Statistical Bulletin*	*Monthly Statistical Bulletin*	*Monthly Statistical Bulletin*	*Monthly Statistical Bulletin*	*Monthly Statistical Bulletin*	*Monthly Statistical Bulletin*	*Monthly Statistical Bulletin*	*Government Finance Bulletin*	*Monthly Statistical Bulletin*	*Government Finance Bulletin*

June 15, 2004

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, DC 20431
U.S.A.

Dear Mr. de Rato,

1. The Government of Jordan has held discussions with Fund staff in the context of the third review of the program supported by the two-year Stand-By Arrangement (SBA) approved in July 2002. Based on these discussions, the attached Memorandum on Economic and Financial Policies (MEFP) reviews macroeconomic developments and implementation of structural policies in the first quarter of 2004 and describes the government's economic policies for the remainder of 2004. Jordan's economic performance in the first quarter of 2004 was strong, all end-March performance criteria were met, and the policies for the remainder of the year are consistent with prudent macroeconomic policy. Accordingly, we hereby request completion of the third review under the SBA. We intend to treat the remainder of the SBA as precautionary.

2. We believe that the policies set forth in the attached MEFP are adequate to achieve the objectives of the government's program, but we will take any further measures that may become appropriate for this purpose. Jordan will consult with the Fund on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

Very truly yours,

/s/	/s/
Mohammad Abu Hammour	Umayya Toukan
Minister of Finance	Governor
Ministry of Finance	Central Bank of Jordan

JORDAN

Memorandum on Economic and Financial Policies, 2004

1. This memorandum reviews economic performance in the first quarter of 2004 and describes the government's economic policies for the remainder of the year.

I. Developments under the 2004 Program

2. The economy is rapidly recovering from the disruptions caused by the war in Iraq in 2003. Real GDP grew by 6.9 percent in the first quarter of 2004, boosted by a surge in exports (29.0 percent year-on-year). The industrial production index—which excludes the higher gains in manufacturing activity in the Qualified Industrial Zones (QIZ)—increased by an annual rate of 14.7 percent during the same period, while imports rose by 32.3 percent. Inflation remained moderate at an average rate of 2.8 percent in the 12 months through March 2004. The Amman Stock Exchange index rose by 5½ percent in the first quarter of 2004, following an increase of 54 percent in 2003. Unemployment, however, remains stubbornly high at 14.5 percent. All quantitative performance criteria at end-March 2004 under the program were met by large margins.

3. Fiscal performance was much stronger than programmed, reflecting the strong pickup in economic activity, better budgetary management, and higher foreign grants. The central government budget registered a surplus of JD 137 million (1.8 percent of expected GDP) in the first quarter of 2004, compared to a targeted deficit of JD 140 million under the program. The revenue over performance resulted from strong GST and customs duty collections reflecting the robust import growth, domestic economic activity, and strengthened tax administration. Income tax receipts were also high as a result of strong corporate earnings in 2003. At the same time, the government held a tight control on current and capital spending and collected significant repayments from onlending operations. In particular, the government issued a budget circular in March 2004 asking all government ministries to cut utility bills by 20 percent. The government also mandated, under the 2004 budget, full payment of taxes for new projects, unless donor financing requires tax exemption. Overall, the fiscal surplus led to a reduction in the net government debt stock in the first quarter of 2004 by 8 percentage points to 93.5 percent of expected GDP, with the foreign debt stock accounting for 69.7 percent of expected GDP. The overall public sector registered a surplus of 2.6 percent of expected GDP, while its net debt declined by 4½ percentage points to 55.2 percent of expected GDP.

4. Jordan's external position remained strong despite a surge in import payments associated with robust domestic activity. The external current account is estimated to have recorded a surplus of US$107 million (1.0 percent of projected annual GDP) during the first quarter of 2004. The trade balance registered a deficit of US$613 million (5.7 percent of annual GDP), somewhat higher than the same period in 2003, reflecting the surge in imports more than offsetting the increase of 29 percent in merchandise export receipts. The rise in imports suggests a stronger-than-anticipated rebound in economic activity but also reflects

higher oil prices and the large import content of booming exports. The export boom was broad-based and fueled by growing demand from the Iraqi market as well as by the continued expansion of textile exports, mainly from QIZs, to the United States. Net tourism receipts increased by an annual rate of 31.2 percent during the first quarter of 2004, supported by higher business travel of nonresidents to Jordan and lower travel abroad by Jordanians. Preliminary estimates point to a capital account deficit of US$283 million, with significant capital outflows of around US$300 million, mainly reflecting official transfers. The latter contributed to a decline in gross international reserves by US$194 million during the first quarter of 2004.

5. Monetary conditions continued to be conducive to price stability in the first quarter of 2004. Broad money grew at an annual rate of 8.6 percent at end-March 2004, fueled by an increase in foreign currency deposits in the first quarter. Private sector credit growth recovered to 4.9 percent, but remained somewhat lower than the increase in economic activity. The CBJ maintained a prudent monetary policy, thus allowing for a decline in reserve money in line with the lower NFA. Interest rates on CBJ-CDs increased modestly during the same period, following the global trend in interest rates.

6. The health of the banking sector improved in 2003, reflecting stronger profitability and more prudent credit policies. Net after tax profits of the banking sector reached JD 100 million in 2003, compared to JD 79 million in 2002. Net profits increased to 0.7 percent of total assets and 2.0 percent of total loans. The level of classified loans excluding interest in suspense fell to 15.8 percent of total loans, compared to 17.5 percent in 2002. The underlying risk-weighted capital adequacy ratio (CAR) improved in 2003 by 1.3 percentage points, reflecting a strengthening of the balance sheets of commercial banks. However, because of the inclusion of market risk in the 2003 calculations, the CAR declined marginally to 15.9 percent, compared to 16.6 percent in 2002.

7. Further progress has been made in structural reforms. The Privatization Commission has received strong expressions of interest from potential strategic investors for bidding on the privatization of the electricity generation companies in April 2004. The sale is expected to be completed in the fourth quarter of 2004. The cabinet also approved the privatization of the agricultural marketing company AMPCO. In order to improve domestic competition, customs duties on steel and cement were reduced by 5 percentage points to 25 percent in April 2004. The government also signed a free trade agreement with Singapore that will come into effect in the second half of 2004. On June 2, 2004, the CBJ published revised balance of payments statistics, in line with the fifth edition of the IMF balance of payments manual (BPM5), and a new international reserves template, the last structural benchmark under the SBA.

II. Policies for the Remainder of 2004

8. Economic policies for 2004, cast in the context of a medium-term macroeconomic framework, are designed to strengthen economic growth; maintain financial stability and a solid external reserve position through prudent demand management policy; and reduce

further public indebtedness through continued fiscal consolidation. Real GDP growth is projected to reach 5½ percent for the year as a whole, which, supported by a strengthened policy agenda, would enable Jordan to reach its full potential of 6–7 percent and achieve a significant reduction in unemployment over the medium term. Inflation is expected to increase somewhat because of upward adjustments in administered prices and certain tax rate increases in early 2004 but is likely to remain moderate at about 3½ percent. The balance of payments outlook is expected to remain strong, supported by export growth and the continued flow of external grants in the aftermath of the war in Iraq. As a result, the external current account is now expected to register a surplus of 5½ percent of GDP, and official external reserves are programmed to remain at a comfortable level of about US$4½ billion by end-2004.

Fiscal policy for the remainder of 2004

9. The government will continue its prudent stance of fiscal policy for the remainder of 2004, in order to reduce the debt burden at a pace consistent with the debt ceilings mandated by the Public Debt Law. The fiscal surplus registered in the first quarter of 2004 bodes well for the achievement of the fiscal deficit target of 3.9 percent of GDP at end-2004. However, the sharply higher international oil prices and the government decision to provide universal health insurance coverage for all children under six and to increase the salaries of civil servants and military personnel by JD 5–10 will put significant additional pressures on the budget in the remainder of 2004. Based on current projections, the shortfall in nontax revenue could be at least JD 156 million, which is expected to be fully offset by additional grants from neighboring countries and somewhat higher tax revenues. The government will limit spending in line with the budget and will continue to keep a tight control on recurrent spending, while implementing the capital program for well-targeted projects aimed at improving public infrastructure and education. The government will monitor fiscal developments closely beyond the current SBA, on the basis of quarterly quantitative targets, and will enforce expenditure cuts in certain nonpriority areas, as appropriate in order to achieve the overall fiscal deficit target. In the event the strong revenue performance in the first quarter of 2004 continues, the government intends to save a large portion of the over performance for further debt reduction. The operational aspects of the Plan for Social and Economic Transformation (PSET) will be fully integrated in the budget starting in 2005.

10. Ongoing structural reforms in the fiscal area will continue to support fiscal consolidation. The ministry of finance continues to make significant progress in merging the Income Tax and the Sales Tax Departments to improve revenue administration. After the creation of the Unified Revenue Department in December 2003, an integration project directorate was formed in February 2004, with technical assistance from the Fund, to oversee the development and implementation of the large- and the medium- taxpayer offices; the reform of small taxpayer administration; and the incremental establishment of an integrated head office. The criteria for taxpayers who will be subject to the Large Taxpayer Office (LTO) administration were finalized in April 2004, and the LTO will be fully functional by October 2004. The ministry of finance has adopted a financial management plan for 2004–06 to improve fiscal management in a multi-year context. The 2004 budget law also reduced the

limit on increasing budgetary allocations to new projects from 100 percent to 35 percent of the original budgetary allocation. The government intends to review and improve further fiscal transparency, following the recommendations of a fiscal ROSC mission planned for September 2004. The government will also be reviewing the recommendations of the actuarial review of the Social Security Corporation that is expected to be completed in June 2004, with a view to ensuring the long-term financial viability of the corporation.

Monetary and financial policy

11. Monetary policy will continue to support price stability. The peg to the U.S. dollar continues to serve Jordan well, by keeping inflation in line with industrial country levels and fostering confidence in the Jordanian dinar. The CBJ will continue to maintain a comfortable international reserve position and stands ready to protect reserves and monetary stability through active liquidity management. The monetary program for the remainder of 2004 is consistent with the objective of continued price stability and also allows for a substantial rebound in credit to the private sector. The CBJ will continue limiting the expansion of its net domestic assets so as to meet its international reserve target in a non-inflationary manner.

12. The government and the CBJ recognize the need to deepen financial intermediation. The government will continue to issue long-term bonds at regular intervals to provide a benchmark and to lengthen the maturity structure for long-term lending by commercial banks and will take appropriate complementary measures to develop the secondary market for bonds with technical assistance from the IMF. Monetary conditions permitting, the CBJ will continue to improve on the structure of interest rates by increasing the spread between the overnight deposit rate and CD yields. This should help revitalize the rather thin interbank market. Stronger competition and improved productivity in commercial banks should also lead to a reduction in the spread between deposit and lending rates.

13. The CBJ is actively considering the options to deal with the small bank under its temporary administration and a decisive action will be taken once the ongoing criminal proceedings are completed. A substantial portion of the nonperforming assets of the bank is now likely to be recovered and it is therefore expected that there will be no use of public funds for the resolution of the bank. In line with the prompt corrective action framework, the CBJ has reached agreement with the only remaining undercapitalized bank on a time-bound restructuring plan, is monitoring closely this bank, and will be ready with corrective measures in the event of deviations from the agreed restructuring. The CBJ will continue implementing the recommendations of the IMF safeguards assessment, which will further strengthen the control framework in the central bank. In this regard, the audit of the CBJ financial statements for 2003 has been completed in accordance with international accounting standards and included a second partner review by a reputable international accounting firm.

Structural reforms

14. The government plans to accelerate and broaden the privatization program. Following the privatization of the electricity generation companies in 2004, the government intends to proceed rapidly with the privatization of the electricity distribution companies. It also intends to sell a majority stake as well as management control in the Jordan Phosphate Mines Company to strategic investors and possibly an additional portion of the government's share in the Jordan Telecommunications Company. It will continue to privatize the remaining noncore units of the Royal Jordanian Airlines and will sell the Jordan Post Company to a strategic partner. The fiscal program for 2004 estimates total privatization proceeds of about JD 300 million.

15. The loss of the Iraqi oil grant in 2003 and the recent surge in international oil prices underlines the need to rationalize petroleum product prices and liberalize the domestic market for petroleum products. The government intends to reduce the vulnerability of the budget to world oil price fluctuations and to eliminate the remaining subsidies on diesel, fuel oil, liquefied petroleum gas, and kerosene by end-2006. The government is continuing with a multi-year program entailing discretionary price adjustments with a view to eliminating any remaining subsidies on petroleum products. Once the gaps between domestic and international prices have been closed, a symmetric automatic price adjustment mechanism based on international prices will be introduced. However, the full liberalization of the oil sector cannot be achieved until the exclusive concession rights of the Jordan Petroleum Refinery Company expire in 2008.

16. The government and the CBJ are committed to meeting the Fund's Special Data Dissemination Standard within the next two to three years, and are implementing the recommendations of the *Update to the Report on the Observation of Standards and Codes—Data Module* in order to achieve this goal. A strategy to compile the international investment position in accordance with *BPM5* has been adopted, with a view to commencing regular publication of these statistics by early 2005. To meet these targets, the CBJ is working with an IMF technical advisor on balance of payments statistics. In addition, the ministry of finance will set up a committee in charge of fiscal data which will be mandated to organize and publish general government statistics on a quarterly basis starting in January 2005, in line with the recommendations of the recent technical assistance mission from the Statistics Department of the IMF.

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 04/136
FOR IMMEDIATE RELEASE
July 6, 2004

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Third and Final Review Under the Stand-By Arrangement with Jordan

The Executive Board of the International Monetary Fund (IMF) completed the third and final review of Jordan's performance under a two-year SDR 85.28 million (about US$125.6 million) Stand-By Arrangement. The arrangement, which was approved on July 3, 2002 (see Press Release No. 02/31), has been treated by the Jordanian authorities as precautionary after an initial disbursement amounting to SDR 10.66 million (about US$15.7 million), given the strength of Jordan's external position.

There was no formal Executive Board discussion of Jordan's performance under the final review of the arrangement in light of the recent Board discussion, on April 2, 2004, on the second review under the Stand-By Arrangement and on Jordan's 2004 Article IV Consultation, and Jordan's fully satisfactory performance under the arrangement.

Jordan joined the IMF on August 29, 1952, and its current quota is SDR 170.5 million (about US$251.1 million). Its outstanding use of IMF credit as of end-June 2004 is SDR 248.98 million (about US$366.7 million).

Following the Executive Board's approval of the Third Review under the Stand-By Arrangement for Jordan, Anne Krueger, First Deputy Managing Director, issued the following statement:

"Jordan's economic performance has strengthened and its outlook improved substantially in the aftermath of the war in Iraq, supported by prudent macroeconomic management. The combined effect of surging exports, rebounding domestic demand, and a revitalized tourism sector has led to a strong recovery in real economic activity in the first quarter of 2004. The track record of sound macroeconomic management, trade liberalization, and reforms on multiple fronts have transformed Jordan into a dynamic economy led by the private sector.

"The remarkably strengthened fiscal position in the first quarter of 2004 is the result of strong revenue measures and reforms implemented earlier and a manifestation of the authorities' resolve to contain budgetary outlays, notwithstanding large grant inflows. The package of revenue measures implemented in April will further strengthen fiscal performance in 2004.

"Credible financial policies and a strong external reserve position have brought a high degree of financial stability and investor confidence. Continued strong export performance, a buoyant medium-term export outlook, and the comfortable reserve position indicate that competitiveness is adequate. The health of the banking sector has improved further reflecting stronger profitability, more prudent credit policies, and the effective implementation of the prompt corrective action framework.

"Jordan continues to face challenges over the medium term, in the form of a high debt burden, dependence on external grants, and vulnerability through higher oil prices. Achieving the debt limits under the Public Debt Law by 2006 will require sustained fiscal consolidation including elimination of subsidies on petroleum products, comprehensive reform of the direct tax system, and expenditure rationalization. In this context, the substantial reduction in government debt recorded so far in 2004 and the government's track record on fiscal consolidation is encouraging.

"The authorities have demonstrated a strong commitment to prudent financial policies and structural reform, and have established a solid record of policy implementation. Given the strength of the external position, the authorities' intention not to make the purchase associated with the completion of this review is appropriate, and consistent with their intention to graduate from a series of Fund-supported programs following the completion of the current Stand-By Arrangement in July 2004. The Fund looks forward to continuing its close relationship with Jordan in the context of enhanced surveillance and technical assistance," Ms. Krueger said.