

Jordan: 2009 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Jordan

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2009 Article IV consultation with Jordan, the following documents have been released and are included in this package:

- The staff report for the 2009 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on March 8, 2009, with the officials of Jordan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 8, 2009. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its May 4, 2009, discussion of the staff report that concluded the Article IV consultation.
- A statement by the Executive Director for Jordan.

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**International Monetary Fund
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INTERNATIONAL MONETARY FUND

JORDAN

Staff Report for the 2009 Article IV Consultation

Prepared by Staff Representatives for the 2009 Consultation with Jordan

Approved by Ratna Sahay and Ranil Salgado

April 8, 2009

- **Mission dates:** February 24–March 8, 2009
- **Team:** Messrs./Mmes. Almoussor, Husain (head), Ongley, and Ter-Martirosyan (all MCD). Mr. Johnston (MCM, FSAP head) joined the mission.
- **Counterparts:** Prime Minister Dahabi, Finance Minister Salem, Governor Toukan, other senior officials, private sector, and donors.
- **Last Article IV consultation:** May 12, 2008;
<http://www.imf.org/external/np/sec/pn/2008/pn0855.htm>
- **Credit outstanding (end-February 2009):** SDR 16.6 million (9.75 percent of quota)
- Jordan accepted the obligations of Article VIII, Sections 2, 3, and 4 in 1995, and maintains an exchange system free of restrictions on payments and transfers for current international transactions. The dinar is pegged to the U.S. dollar.
- The timeliness and coverage of macroeconomic data are generally adequate for surveillance.

Executive Summary	3
I. Background	4
A. Overview	4
B. Recent Developments.....	5
II. Policy Discussions	8
A. Outlook.....	8
B. Fiscal Policy	11
C. Monetary and Exchange Rate Policy	12
D. Financial Sector Policies.....	14
E. Other Issues	15
III. Staff Appraisal	15
Text Boxes	
1. Regional Linkages	9
2. Exchange Rate Assessment.....	13
3. FSAP Financial Stability Recommendations.....	14
Figures	
1. Real Sector Developments.....	18
2. External Sector Developments.....	19
3. Monetary and Financial Indicators	20
4. Fiscal Developments.....	21
Tables	
1. Selected Economic Indicators and Macroeconomic Outlook, 2005–14.....	22
2. Summary Balance of Payments, 2005–14	23
3. Summary Monetary Survey, 2005–09	24
4. Summary Accounts of the Central Bank of Jordan, 2005–09	25
5. Summary of Fiscal Operations, 2005–14.....	26
6. Summary of Revenues and Expenditures, 2005–14	27
7. Indicators of Financial Vulnerability, 2002–08	28
8. Indicators of Fund Credit, 2005–14.....	29
Appendices	
I. Public Debt Sustainability Analysis.....	30
II. External Debt Sustainability Analysis	33

EXECUTIVE SUMMARY

The discussions focused on the prospective impact of the global crisis and the appropriate policy response, especially in light of Jordan's external and fiscal vulnerabilities.

Background

Jordan's macroeconomic performance was generally favorable in 2008. Real GDP growth was strong for most of the year, and inflation, which had climbed sharply due to the surge in world fuel and food prices, subsequently came down quickly as world prices softened. Economic activity is expected to slow significantly in 2009, reflecting the much weaker global and regional outlook. Managing the prospective slowdown while guarding against vulnerabilities—especially the still-large current account deficit—is the key near-term challenge.

Authorities' views

The authorities plan to increase capital spending substantially in 2009 to support activity. Lower subsidies—on account of lower world food prices and the removal of fuel subsidies last year—will allow some reduction in the overall fiscal deficit, despite a cyclical weakening in revenue and lower grants. Additional stimulus is not planned at this stage and will be undertaken only if additional concessional financing is forthcoming.

While taking steps to ensure confidence and liquidity in the interbank market, the central bank allowed the differential against dollar interest rates to widen in order to guard against any deterioration in the balance of payments. With reserves continuing to build, inflation falling sharply, and bank credit sluggish, cautious monetary easing is being undertaken.

Although bank soundness indicators remain favorable, the authorities are taking pre-emptive measures to guard against risks. Banking supervision is being enhanced and banks are being encouraged to build capital buffers, in line with FSAP Update recommendations.

Staff recommendations

The 2009 fiscal stance strikes a reasonable balance between reducing vulnerabilities and supporting domestic activity. Further fiscal stimulus would carry significant risks. If undertaken, it should be temporary, well-targeted, and presented within a credible medium-term fiscal consolidation framework.

The peg remains appropriate for Jordan. As long as the balance of payments position remains broadly stable, there may be scope for a further modest cut in policy interest rates.

Intensified banking supervision is warranted in the current environment. Steps taken by the Central Bank of Jordan (CBJ) are welcome. In view of the uncertainty surrounding the depth and duration of the global crisis, intensified contingency planning to deal with worst-case situations is advisable.

I. BACKGROUND

A. Overview

1. **Jordan has experienced impressive macroeconomic performance in recent years,** underpinned by its strong trade links with the region and the rest of the world. Annual real GDP growth averaged 6 percent since the start of the decade, supported by the implementation of sound policies and wide-ranging structural reforms. As a result, per capita GDP almost doubled from 1999 to 2008. Inflation remained generally low, and efforts to tighten fiscal policy facilitated a substantial decline in public debt. Although the external deficit widened, sizable FDI inflows enabled a steady and sizable increase in foreign reserves.

Jordan: Main Macroeconomic Indicators, 1990–2008

	1990–95	1996–2000	2001–07	2008
	(In percent of GDP, unless otherwise indicated)			
Real GDP growth	5.2	3.2	6.6	5.6
Inflation, annual average	6.3	2.8	3.4	14.9
Nominal GDP per capita (in U.S. dollars)	1,372	1,672	2,230	3,418
Unemployment rate (in percent of labor force)	17.3	13.8	14.5	12.7
Total government and government guaranteed net debt	150.4	98.4	85.4	60.1
International reserves (in millions of U.S. dollars)	501	1,663	4,765	7,734

Source: Jordanian authorities.

2. **Over the coming year, economic activity is expected to slow significantly, reflecting the weaker global and regional outlook.** Although limited integration with global financial markets has buffered Jordan from recent turmoil, the key near-term policy challenge is to manage the impact of the global economic slowdown while mitigating risks related to fiscal and external vulnerabilities. Accordingly, the discussions focused on:

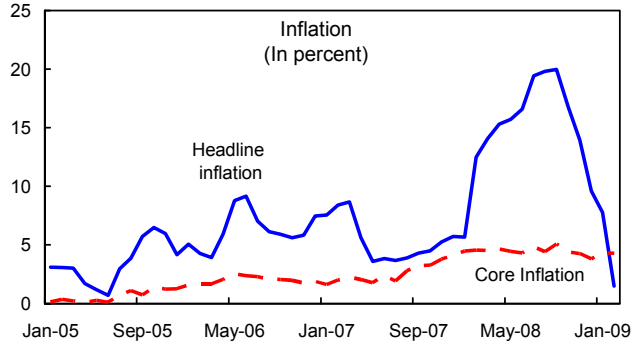
- the very limited room for fiscal policy stimulus, especially in light of Jordan’s still-high public debt and sizable current account deficit;
- the scope for cautious monetary policy easing to support activity;
- appropriate steps to guard against risks in the banking sector; and
- structural reforms to support medium-term fiscal adjustment and growth potential.

B. Recent Developments

3. Jordan's macroeconomic performance was generally favorable in 2008.

- Real GDP growth averaged 5.6 percent during the year, only slightly slower than the 2007 pace (Table 1 and Figure 1). However, preliminary data indicate a slowdown to 4 percent (y-o-y) in the fourth quarter, mainly due to weaker activity in the construction, finance, and trade sectors.

- Sharply lower world fuel and food prices since late 2008 brought inflation down. After rising to 20 percent y-o-y in September, mainly on account of the previous surge in commodity prices, headline inflation moderated to 1½ percent (y-o-y) by February 2009, and core inflation eased to below 4 percent.

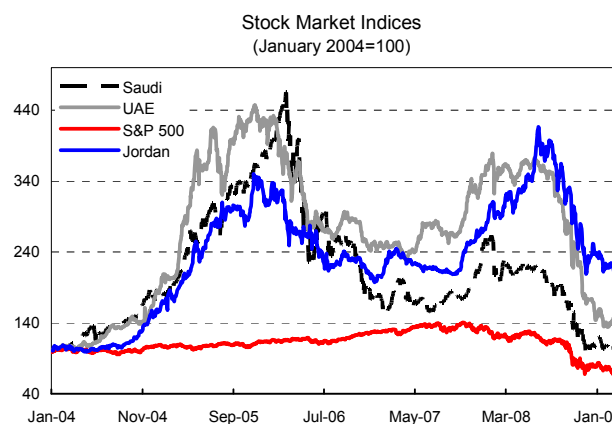


- Lower commodity prices also helped narrow the current account deficit to 12 percent of GDP in 2008 (from 17¾ percent in 2007 and 19 percent in 2008H1). Imports slowed sharply in the latter part of the year as prices fell, while tourism receipts remained strong, and mining exports were buoyed by continued high prices. Higher grants also contributed to reducing the external deficit (Table 2 and Figure 2).
- FDI financed about three quarters of the external deficit, with the remainder largely coming from positive errors and omissions. The authorities believe that a significant part of the errors and omissions (estimated at 7 percent of GDP in 2008) may be related to current inflows, particularly remittances from Iraqi migrants and overseas Jordanians. Part may also represent unrecorded re-exports to Iraq.
- Official foreign exchange reserves rose to \$7.7 billion by end-2008 (equivalent to about 6 months of imports), more than reversing a decline earlier in the year related to the buyback of nonconcessional Paris Club debt.¹ Reserves edged down during October–November but have increased steadily since mid-December (to \$8.5 billion at end-March). The real effective exchange rate appreciated by 6 percent in 2008 due to the wider inflation differential against trading partners and strengthening of the U.S. dollar—to which the dinar is pegged—against other currencies.

¹ The \$2.1 billion buyback was financed by a land sale (about \$500 million) and with balances—mainly privatization proceeds—held in the government's accounts (about \$1.6 billion). The latter was reflected in a drawdown of foreign reserves held by the CBJ.

4. **However, Jordan's money and financial markets have weakened since mid-2008.**

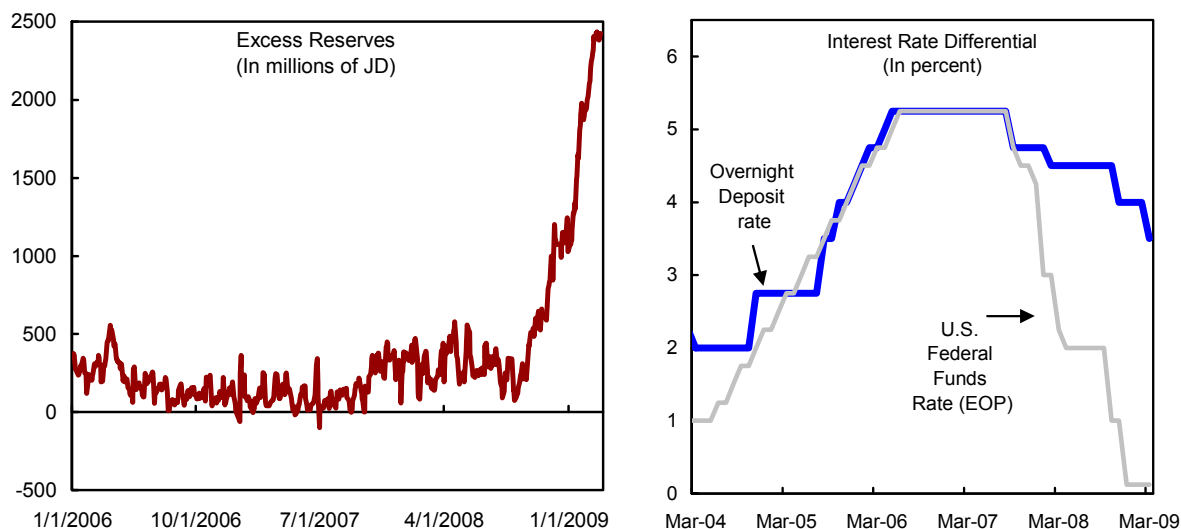
- Bank deposits edged down slightly in October but subsequently recovered (Figure 3 and Tables 3 and 4). The share of dinar deposits has continued to increase, reflecting the interest rate differential. Bank credit has also slowed sharply in recent months and has been essentially flat since December. The share of credit to construction and real estate edged down in 2008Q4.
- The stock market has corrected since its June 2008 peak, although its performance between end-2007 and end-2009Q1 (25 percent decline) remains better than many other markets in the region. While quantitative indicators are not available, news reports suggest that property prices in certain market segments have softened.



5. **The Central Bank of Jordan (CBJ) took pre-emptive steps to maintain confidence and support the domestic money market following the onset of global turbulence.**

- In October, the CBJ announced a full guarantee of all bank deposits until end-2009.² Operations to soak up liquidity were also scaled back. As a result, banks' excess reserves have increased sharply in recent months.
- In late November, policy interest rates were cut by 50 bps. The reserve requirement was also reduced by 100 bps to 9 percent, partly reversing a 200 bps increase earlier in the year. The deeper cuts by the U.S. Federal Reserve, however, resulted in a widening of the interest rate differential against the dollar to 400 bps by year-end. With reserves continuing to build, headline inflation moderating rapidly, and bank credit decelerating, the CBJ cut rates by a further 50 bps in mid-March 2009 and announced that the reserve requirement would be reduced by another 100 bps from end-April.

² This broadened the existing coverage of JD10,000 (about \$14,000) per account.



6. High fuel and food prices for much of 2008, and softening domestic revenues, put pressure on the fiscal position.

- The deficit excluding grants reached 11.2 percent of GDP, against 8.9 percent in 2007 (Tables 5 and 6 and Figure 4). The outcome could have been much worse had it not been for the bold decision in early 2008 to remove fuel subsidies and institute an automatic price adjustment mechanism that fully passed through changes in world prices.

Summary of Fiscal Operations
(In percent of GDP)

	2007	Prel. 2008
Total revenue and grants	33.4	33.1
Budgetary revenue, of which:	30.5	28.0
Tax revenue	21.1	19.4
Nontax revenue	9.4	8.6
Grants	2.9	5.1
Total budgetary expenditure	38.7	38.2
Current expenditure, of which:	31.9	31.8
Fuel subsidy	2.6	1.4
Food subsidy	1.7	1.8
Capital expenditure and net lending	6.7	6.4
Statistical discrepancy, net	0.5	1.0
Financing (= deficit including grants)	5.9	6.1
Memorandum item:		
Overall balance, excluding grants	-8.9	-11.2
Primary balance excluding grants	-5.7	-8.5
Government and guaranteed net debt	70.0	60.1

Sources: Jordanian authorities; and Fund staff projections.

- Domestic tax revenue—especially sales tax, customs, and nontax receipts—declined in relation to GDP, particularly in the latter part of the year. On the other hand, the cost of food subsidies remained high with elevated world prices for much of 2008.
- However, higher grants contained the overall deficit at 6.1 percent of GDP. Rapid nominal GDP growth, together with the Paris Club debt buyback in early 2008, resulted in a substantial reduction in total public debt to around 60 percent of GDP at end-2008 (from 70 percent of GDP at end-2007).

7. **Banking sector profitability and soundness indicators have so far remained favorable.** Banks' liquidity ratios are high and funding is predominantly from deposits. Notwithstanding a moderate decline in the banking system's capital adequacy ratio in 2008 due to implementation of Basle II standards (especially the incorporation of operational risk), it remains well above the 12 percent requirement (Table 7), although there is significant variation across banks. Stress tests conducted by the recent FSAP Update mission indicate limited exposure to interest rate, liquidity, interbank contagion, and other market risks. However, the tests also identify vulnerability to credit and concentration risks. In particular, the real estate, construction, and foreign trade sectors are vulnerable to weaker activity, and banks with substantial exposures abroad are likely to be adversely affected by the slowdown in advanced economies.

Indicators of Bank Soundness 2003–08

	2003	2004	2005	2006	2007	Prel. 2008
Risk weighted capital adequacy ratio	15.9	17.8	17.6	21.4	20.8	18.3
Nonperforming loans (in percent of total loans)	15.5	10.3	6.6	4.3	4.1	4.2
Provisions (in percent of classified loans)	51.9	63.8	78.4	79.6	67.8	63.3
Return on asset	0.7	1.1	2.0	1.7	1.6	1.4
Return on equity	10.9	13.6	21.7	14.8	14.0	11.5

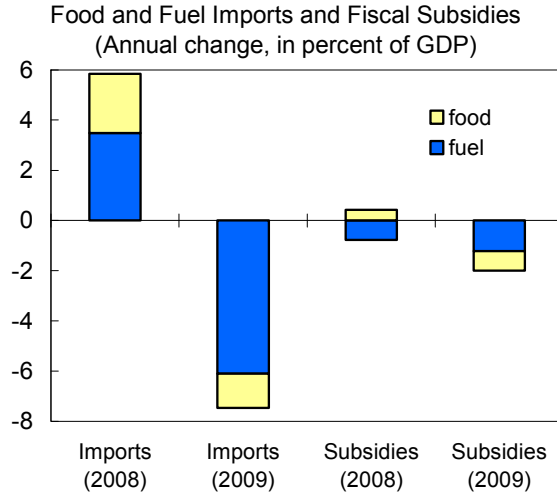
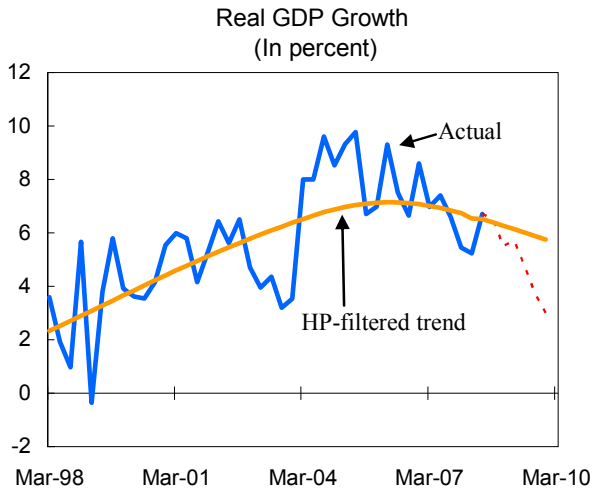
Source: Central Bank of Jordan

8. **Progress on structural reforms continued over the past year.** Public financial management continues to be strengthened via improved budget classification and implementation of a Chart of Accounts, preparations for the government financial management information system (GFMIS), and implementation of the first phase of the Treasury Single Account.

II. POLICY DISCUSSIONS

A. Outlook

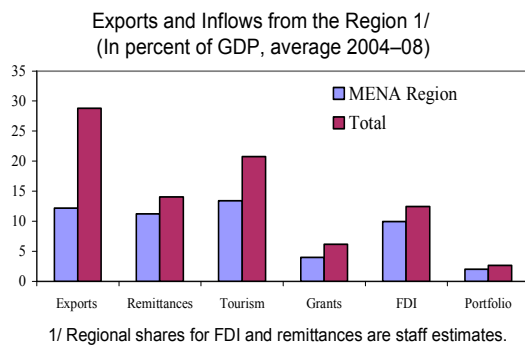
9. **Economic activity is expected to slow substantially in 2009.** Real GDP growth is projected to slow to 3 percent, in line with the weaker global and regional outlook (Box 1). Average inflation will continue to decline to 4 percent, reflecting lower world food and fuel prices. Exports are projected to decline, though the impact on the current account will be more than offset by lower imports (on account of lower oil and food prices as well as weaker activity). As a result, the current account deficit is projected to narrow to about 11 percent of GDP.



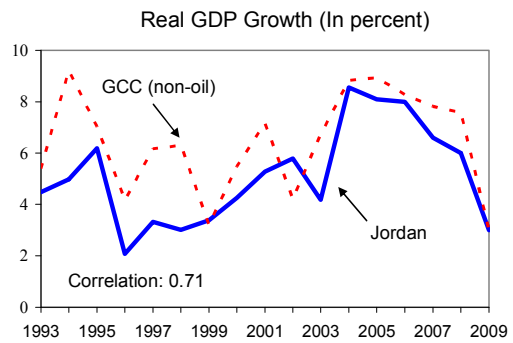
Box 1. Regional Linkages

Jordan has strong links with the region—especially the GCC countries—through trade, tourism, remittances, grants, and capital flows.

This is reflected in the strong correlation between Jordan’s real GDP growth and output growth in GCC countries, especially output of the non-oil sector, which accounts for the bulk of remittances and exports to/from Jordan. In 2009, non-oil growth is projected to slow significantly in GCC countries. This will, in turn, affect growth prospects in countries with which they have strong economic links, such as Jordan.

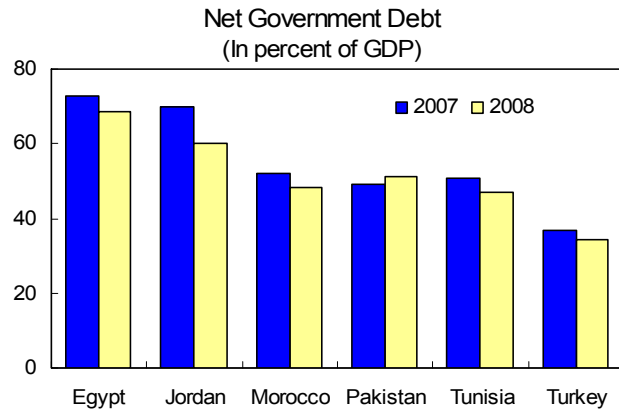


1/ Regional shares for FDI and remittances are staff estimates.



Correlation: 0.71

10. **Over the medium term, growth is expected to pick up as the global recovery sets in,** eventually rising to about 5½ percent. Inflation is projected to ease further to 2 percent, roughly equal to the average over the past decade and in line with projected inflation in major trading partners. The current account deficit should narrow to about 9½ percent of GDP, mainly due to further capacity expansion that will increase mining exports. The medium-term fiscal outlook assumes that capital spending relative to GDP will gradually ease back toward its average level in recent years and taxes will recover moderately as cyclical conditions improve. Thus, the fiscal deficit excluding grants will narrow significantly by 2014, but lower grants (relative to GDP) will keep the overall fiscal deficit in the 5½–6½ percent range. Consequently, the public debt ratio is projected to rise above its present level, which is already relatively high compared to many emerging market economies. Adverse shocks—to growth, interest rates, or the exchange rate—would result in a significantly higher debt path (Appendices I and II).



11. **Key risks to the outlook relate to financing the current account deficit,** which is projected to remain sizable. Adverse external shocks could widen the current account deficit substantially. Exports, tourism, remittances, and/or grants receipts could weaken more sharply, especially if the global and/or regional downturn proves deeper than currently expected. The sharp tightening of the liquidity situation that has taken place in the GCC countries, which have accounted for a large share of FDI and portfolio inflows in recent years, may reduce capital flows into Jordan more than presently envisaged. A deeper economic slowdown in Jordan could push up unemployment and weaken asset prices as well as the quality of banks' loan portfolios. The authorities agreed that a slowdown of the domestic economy is inevitable, but they were confident that the situation would remain manageable. They noted that the sharp declines in world fuel and food prices, which represent a large terms of trade gain for Jordan, would support domestic demand and therefore imply significant upside risk to the staff's macroeconomic projections.

B. Fiscal Policy

12. **The fiscal stance in 2009 seeks to keep the deficit in check while providing some stimulus to the economy.** The deficit excluding grants is projected to narrow by almost 1½ percent of GDP. Lower world commodity prices and the authorities' plan to remove barley and liquefied petroleum gas (LPG) subsidies during the year will reduce current expenditure by over 2 percentage points of GDP relative to 2008.³ However, this will be mostly offset by a 30 percent increase in capital spending to support economic activity and further cyclical weakening in sales tax and customs revenue. With foreign grants expected to decline somewhat, the overall deficit is projected to narrow by almost 1 percentage point to about 5¼ percent of GDP. Staff cautioned that, notwithstanding the moderate projected decline compared to 2008, the projections assume that grants will remain relatively high, and any shortfall would heighten fiscal and external vulnerabilities.

	Prel. 2008	Budget 2009	Proj.
Total revenue and grants	33.1	35.4	32.4
Budgetary revenue, <i>of which</i> :	28.0	30.9	27.9
Tax revenue	19.4	21.2	18.9
Nontax revenue	8.6	9.7	9.0
Grants	5.1	4.5	4.5
Total budgetary expenditure	38.2	39.9	37.8
Current expenditure, <i>of which</i> :	31.8	31.2	29.9
Fuel subsidy	1.4	0.4	0.1
Food subsidy	1.8	1.4	0.9
Capital expenditure and net lending	6.4	8.7	7.9
Statistical discrepancy, net	1.0	...	...
Financing (= deficit including grants)	6.1	...	5.3
Memorandum item:			
Overall balance, excluding grants	-11.2	-8.9	-9.8
Primary balance excluding grants	-8.5	-6.1	-7.0
Government and guaranteed net debt	60.1	...	60.4

Sources: Jordanian authorities; and Fund staff projections.

13. **The authorities intend to proceed cautiously in response to calls for increased spending.** They recognize that the already high public debt ratio and fiscal deficit imply limited room for further stimulus. Any additional spending, which is not envisaged at this stage, would be undertaken only if additional grants and/or concessional loans are forthcoming. They also emphasized that, in such circumstances, measures would be taken to ensure that the spending is well targeted and temporary, and they would put forward a credible plan for consolidating the public finances over the medium term.

14. **The authorities remain committed to further reducing public debt and fiscal vulnerabilities over the medium term.** Staff cautioned that even without additional spending this year and in the absence of tightening measures, public debt would exceed the legislative ceiling for 2011 of 60 percent of GDP. Indeed, a reduction of the deficit by over 1 percent of GDP a year would be needed to keep the debt ratio on a downward trajectory. The authorities acknowledged the need for fiscal adjustment and indicated that they intend to significantly reduce the deficit over the medium term. They agreed that in view of the relatively high revenue ratio, it should concentrate on the expenditure side. In this context, they noted that the public sector reform strategy, which could include pension and

³ Most of the projected decline in subsidies is due to lower commodity prices, with around ¼ percent of GDP attributable to policy changes.

civil service reforms, would support medium-term fiscal consolidation. They will also consider income tax reform to enhance the efficiency of the tax system.

15. **Ongoing fiscal structural reforms will support the needed fiscal adjustment** by raising the efficiency of expenditures and financial control. The authorities noted that the 2009 budget had been prepared within a medium-term framework and that results-oriented budgeting had been introduced in 2008. They also pointed to their ongoing efforts to strengthen the public financial management system, in particular their aim to extend coverage of the Treasury Single Account to government accounts in commercial banks and begin rolling out the GFMIS at six pilot sites from mid-2009.

C. Monetary and Exchange Rate Policy

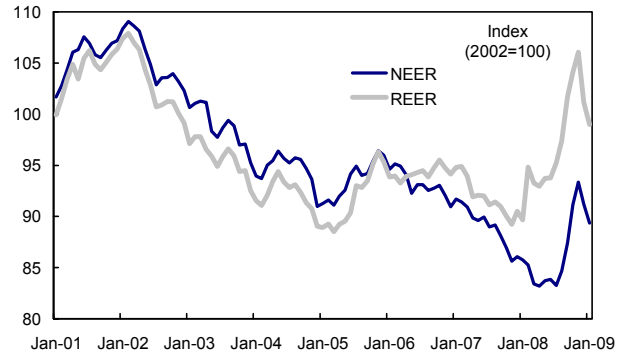
16. **Monetary policy remains geared to maintaining confidence in the exchange rate peg and adequate liquidity in the domestic money market.** The authorities noted that the interbank market had tightened following the onset of global financial turbulence, and the measures taken by the CBJ had succeeded in restoring liquidity quickly. At the same time, the CBJ had taken a cautious approach to following the U.S. interest rate cuts, allowing the interest differential to widen in order to avoid pressure on the balance of payments. In the event, confidence in the peg—reflected in continued switching from dollar to dinar deposits—and an improving current account position had helped strengthen the overall balance of payments, which in turn allowed the CBJ to cut rates in March. The authorities indicated that the timing of any future cuts would continue to depend on developments in inflation, bank credit, and the balance of payments. Once bank credit growth normalizes, the CBJ stands ready to tighten liquidity by resuming issuance of certificates of deposit (CDs). Recapitalization of the CBJ will be considered over the medium term to strengthen its balance sheet. The authorities emphasized that profit and loss considerations would continue not to have any bearing on the conduct of monetary policy.

17. **The authorities concurred with the staff's assessment that the real exchange rate of the dinar is broadly in line with fundamentals** (Box 2). They observed that the peg had been critical in maintaining confidence in the Jordanian economy during a period of major turmoil in global markets. They noted that the current account had already narrowed substantially in response to lower world fuel and food prices, and they expected considerable further narrowing in 2009 with the full-year impact of the lower prices. They also noted that a significant part of the errors and omissions in the balance of payments could represent unrecorded current inflows, and that transactions related to transient Iraqi migrants may have caused the current account deficit to widen temporarily. Thus, the “underlying” current account deficit is likely narrower than the recorded deficit.

Box 2. Exchange Rate Assessment

Staff estimates suggest that the real exchange rate of the dinar is broadly in line with medium-term fundamentals.

Averages of estimates from alternative methodologies¹—based both on the “underlying” current account² in 2008 and its projected level over the medium term—range from small overvaluation to modest undervaluation. However, the wide range of estimates across the various approaches underscores their imprecision and suggests caution in drawing definitive policy prescriptions.



Jordan: Assessment of the Real Effective Exchange Rate

I. Macroeconomic balance 1/		II. External sustainability 2/		III. Equilibrium real exchange rate 3/		Average misalignment	
2008 fundamentals	2013 fundamentals	2008 fundamentals	2013 fundamentals	2008 fundamentals	2013 fundamentals	2008 fundamentals	2013 fundamentals
8.8	2.2	-11.1	-16.1	8.8	7.8	2.2	-2.0

[Misalignment as percentage deviation from estimated equilibrium, overvaluation (+), undervaluation (-)].

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

2/ Provides an estimate of the adjustment needed to stabilize Jordan's net foreign assets (NFA) to GDP ratio at its end-2007 level (-128 percent of GDP), using CBJ data for NFA. If NFA data are instead taken from the Lane/Milesi-Ferretti cross-country database (NFA equal to -61 percent of GDP), the resulting estimate is -2.7 percent with 2013 fundamentals and +7.2 percent with 2008 fundamentals.

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

¹ For a description of the methodology underlying these updated estimates of exchange rate misalignment and the “underlying” current account, see Chapters I and II, respectively, of the Selected Issues paper for the 2008 Article IV Consultation (IMF Country Report No. 08/291). Chapter II also provides empirical analysis of export and import trends, which remains valid in light of developments over the past year.

² The estimated “underlying” deficit excludes transient factors related to the conflict in Iraq (1–4 percent of GDP in 2008) and temporary terms of terms movements related to high commodity prices in 2008 (about 2 percent of GDP). Thus, the underlying deficit in 2008 is estimated at about 6–9 percent points of GDP, significantly narrower than the actual level. Chapter II of the Selected Issues paper for the 2008 Article IV Consultation (IMF Country Report No. 08/291) contains details on the calculation of the underlying deficit for 2007.

D. Financial Sector Policies

18. **Jordanian banks' financial indicators have so far not been affected significantly by the global financial turmoil.** The authorities noted that the banking system's liquidity position is comfortable and the average capitalization ratio remains high. They indicated that all banks are in compliance with capital adequacy requirements and are comfortably meeting liquidity requirements. So far there has been very limited impact on credit quality, with the nonperforming loan (NPL) ratio edging up only slightly (from 4.1 percent at end-2007 to 4.2 percent at end-2008). While they acknowledged that a further deterioration in loan quality is possible as economic activity slows and property prices soften, they noted that banks are monitoring exposures closely and repricing credits and/or cutting credit lines to customers facing increased risks, especially in the real estate and foreign trade sectors. The authorities were of the view that the banks' portfolio rebalancing process may be nearing completion, and they were hopeful that credit growth would normalize in coming months.

19. **The authorities are nevertheless taking extensive preemptive steps to guard against risks,** broadly in line with FSAP Update recommendations (Box 3). Banks are being encouraged to build capital buffers, both by increased profit retention and through capital injections by shareholders. Global consolidated supervision is being enhanced, including through increased contacts with foreign supervisory agencies and on-site supervisory visits to foreign subsidiaries of domestic banks. An early warning system for monitoring risks, especially credit risk, is now operational. The CBJ's supervisory function is also being enhanced with the recruitment of 12 additional banking supervision staff. A new on-site supervisory manual is in the final stages of preparation, and CBJ guidelines on stress testing are soon to be issued to banks. An automated data collection system—to enhance off-site monitoring capacity—is to be introduced in the next few months. In addition, implementation of the Basle II framework is proceeding in line with expectations, and the FSAP Update found that nearly all supervision principles are largely compliant or better with the Basle Core Principles.

Box 3. FSAP Financial Stability Recommendations

Short Term	<p>Encourage banks near regulatory minimum to increase capital.</p> <p>Enhance global consolidated supervision.</p> <p>Strengthen contingency planning framework to deal with stress in the banking system.</p> <p>Enhance early warning system.</p> <p>Strengthen the staffing of the supervisory department of the CBJ.</p>
Medium Term	<p>Recapitalize central bank.</p> <p>Adopt bank resolution framework by developing explicit exit procedures for dealing with unsound banks.</p> <p>Enhance stress testing capacity of the CBJ and commercial banks.</p>

E. Other Issues

20. **Structural reforms in other areas are proceeding.** A new Public-Private Partnerships (PPP) law is being drafted to enhance the regulatory framework and attract private financing for PPP projects. Building on the liberalization of petroleum product prices, plans to fully liberalize the petroleum sector over the medium term are moving forward. As a next step, a new logistics company responsible for fuel storage is expected to be established in 2009. The authorities are also considering reforming the National Aid Fund (NAF) to improve targeted assistance to the poor. Reforms of the social security system that aim to enhance the actuarial soundness of the pension system are also being discussed.

21. **The authorities are working toward meeting the remaining requirements for Special Data Dissemination Standards (SDDS) subscription.** New surveys have been designed to improve the compilation and timeliness of wages and earnings data. Efforts are also being made to align the coverage of budget revenues and expenditures with government financing flows, but staff noted that expedited progress is needed to reduce the still-high statistical discrepancy in the fiscal accounts. The authorities indicated that additional technical assistance from the Fund, possibly through the Middle East Technical Assistance Center (METAC), may be helpful.

III. STAFF APPRAISAL

22. **Jordan's macroeconomic policies should remain focused on guarding against external and fiscal vulnerabilities,** especially in light of the adverse global economic outlook. Limited integration with global financial markets has buffered Jordan from recent turmoil. At the same time, strong economic links with the region and rest of the world, which have underpinned robust growth in recent years, imply that the global economic downturn will affect the domestic economy.

23. **The projected fiscal stance for 2009 strikes a reasonable balance between reducing vulnerabilities and supporting domestic activity.** The widening of the deficit in relation to the budget should be seen as moderate stimulus that will help support activity without unduly exacerbating macroeconomic imbalances.

24. **Further fiscal stimulus—beyond that contained in the baseline outlook—would carry significant risks.** Since Jordan is a highly open economy, a large share of any additional spending would be associated with increased imports. This would dampen the stimulative impact on domestic activity and, at the same time, widen the external deficit and associated vulnerabilities. Moreover, with capital spending already set to increase sharply, the efficiency of an even larger increase would be difficult to maintain. If further stimulus is nevertheless undertaken, it will be critical to ensure that additional spending is temporary and carefully targeted. In such circumstances, announcement of a credible plan to reduce the fiscal deficit over the medium term will be needed to maintain confidence in the sustainability of fiscal policy and the external position.

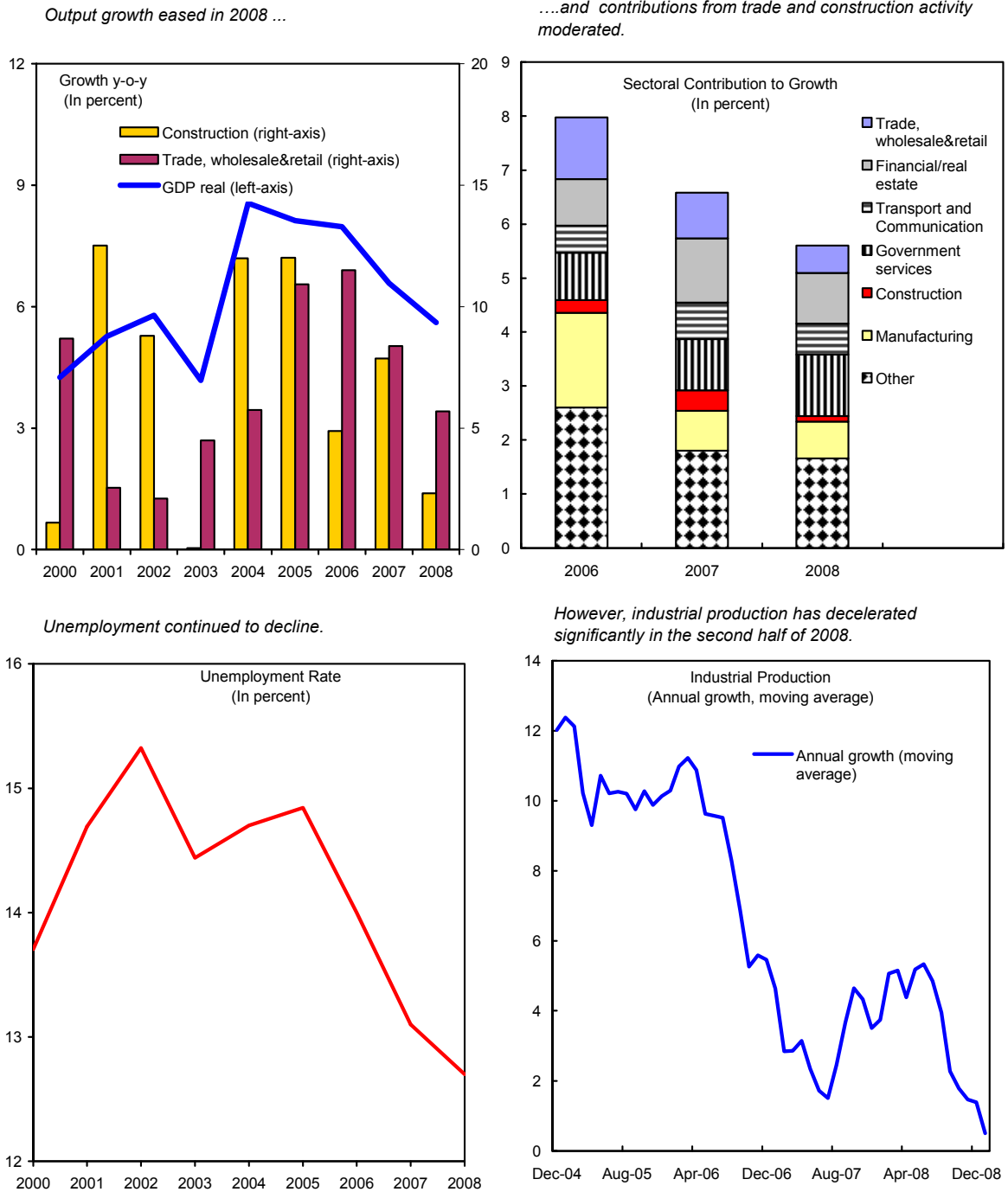
25. **Once cyclical conditions improve, significant tightening of fiscal policy is needed to reduce public debt and the associated fiscal and external vulnerabilities.** Given the already high revenue ratio, the adjustment should concentrate on the expenditure side. Reducing the overall deficit by about 1 percentage point of GDP a year is an appropriate objective, which can be achieved by limiting the growth of recurrent spending—especially wages and pensions—supported by much-needed pension and civil service reforms. This will also help narrow the external deficit and free up domestic financing to support private sector growth. If additional fiscal stimulus is undertaken in 2009, the necessary medium-term fiscal adjustment will be correspondingly larger.
26. **Moderate monetary policy easing is now appropriate.** Pre-emptive steps taken by the CBJ in recent months have supported the domestic money market. Confidence in the banking system and the peg has kept the balance of payments position strong at a time of unusual turbulence in global financial markets. As long as reserves remain broadly stable and inflation remains in check, there may be room for further modest easing of the monetary stance to soften the impact of the global slowdown on the domestic economy. Close monitoring of the CBJ's key external and financial early warning indicators will be necessary, with a view to tightening liquidity conditions quickly if signs of balance of payments pressure emerge.
27. **The exchange rate peg, which has provided stability in the challenging global environment, remains an appropriate nominal anchor.** The staff's analysis of the real exchange rate suggests that the dinar remains broadly aligned with medium-term fundamentals. The risk of external instability from the capital account is mitigated by the fact that external debt is comprised almost entirely of public sector obligations to official creditors and that reserves are comfortable in relation to short-term liabilities, although the sharp increase in errors and omissions in the first half of 2008 is a concern.
28. **Even though banking sector soundness indicators remain generally favorable, the weaker global environment poses significant risks.** The CBJ has taken a number of welcome measures to ensure banking soundness and stability, including by nudging banks to increase their capital and enhancing its own early warning systems. Encouragingly, banks have been repricing credits, closely monitoring exposures, and building capital buffers to reflect the heightened risks in their portfolios.
29. **Intensified banking supervision is warranted in the current environment.** The FSAP Update identified a number of areas that would strengthen the financial system. These include strengthening capital adequacy of banks close to the regulatory minimum, enhancing consolidated supervision, developing the contingency planning framework, and—over the medium term—recapitalizing the CBJ. The staff welcomes the measures taken by the CBJ to enhance banking supervision, banks' capital buffers, and its own early warning systems. In view of the turbulent global conditions, it is advisable to intensify contingency planning to deal with worst-case situations, including delineation of responsibilities and coordination between the CBJ, the Ministry of Finance, and the Deposit Insurance Corporation.

30. **Continued progress in public sector structural reforms will enhance longer-term macroeconomic performance.** Top priority should be accorded to completing ongoing reforms in the public financial management area, especially implementing fully the treasury single account, improving budget classification and control, rolling out the GFMIS, and continuing to strengthen the medium-term framework for budget formulation and preparation. Continued efforts to enhance public debt management, which is being supported by Fund technical assistance, are welcome.

31. **Expeditious progress is needed to resolve data issues.** Priority should be given to the remaining requirements for SDDS subscription: improving the compilation and coverage of wages and earnings data, and aligning the coverage of budget revenues and expenditures with government financing flows. The latter is particularly important, including for macroeconomic analysis and formulating fiscal policy. Progress is needed in identifying any gaps in the coverage of balance of payments statistics that could explain the sharp increase in errors and omissions in 2008. A better understanding of these flows is critical for policy making. Further improvements in the quality of quarterly production-based national accounts statistics as well as the frequency and timeliness of expenditure-based national accounts data would also aid policy formulation, as would compilation of property price data.

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

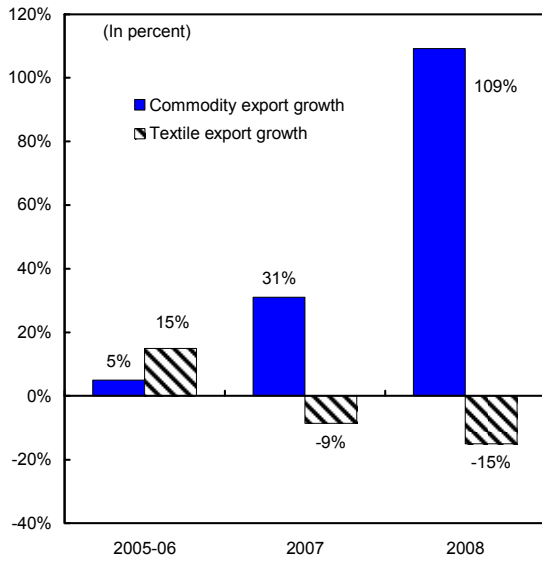
Figure 1. Jordan: Real Sector Developments



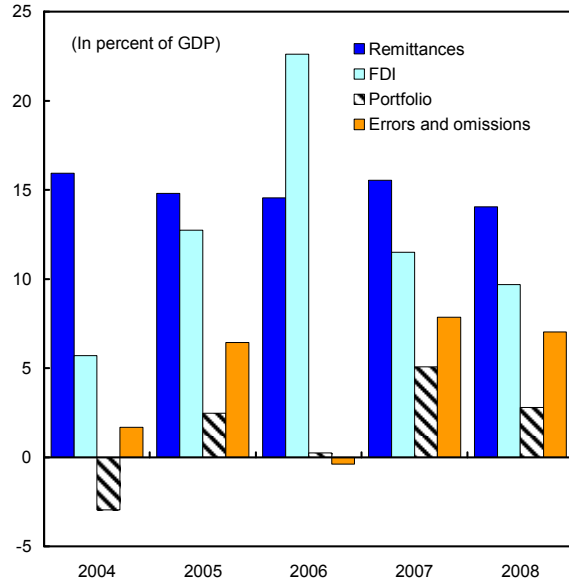
Sources: Central Bank of Jordan; and Department of Statistics.

Figure 2. Jordan: External Sector Developments

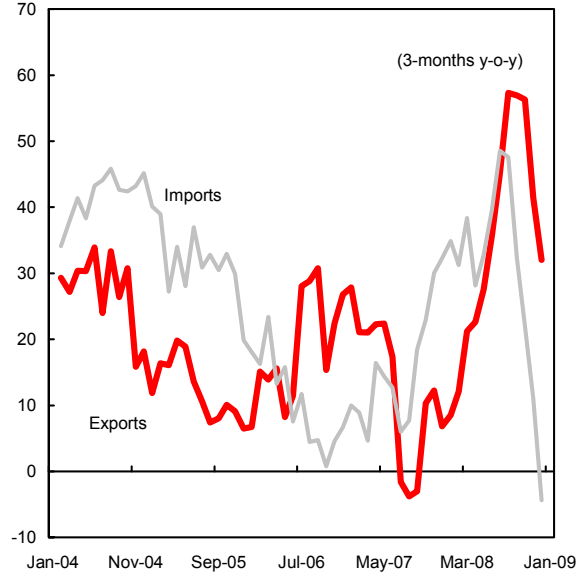
In 2008, a decline in textile exports to the U.S. was more than offset by strong commodity export growth.



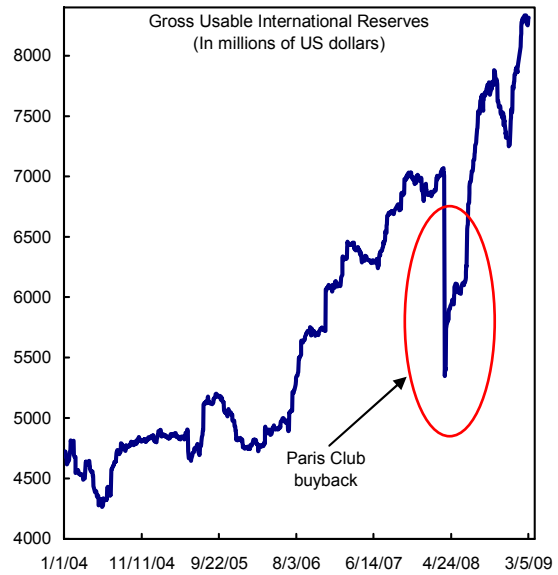
Remittances and FDI inflows edged down, while errors and omissions in the BOP remained high.



Since late 2008, import and export growth have fallen substantially, driven mostly by lower prices (especially fuel).



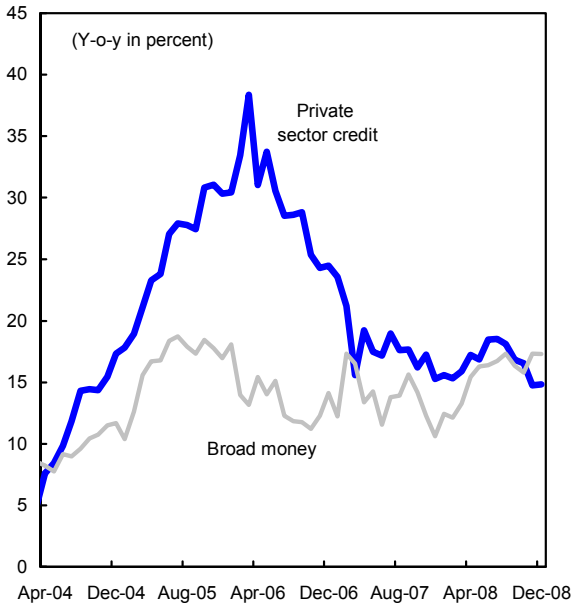
International reserves have continued to increase.



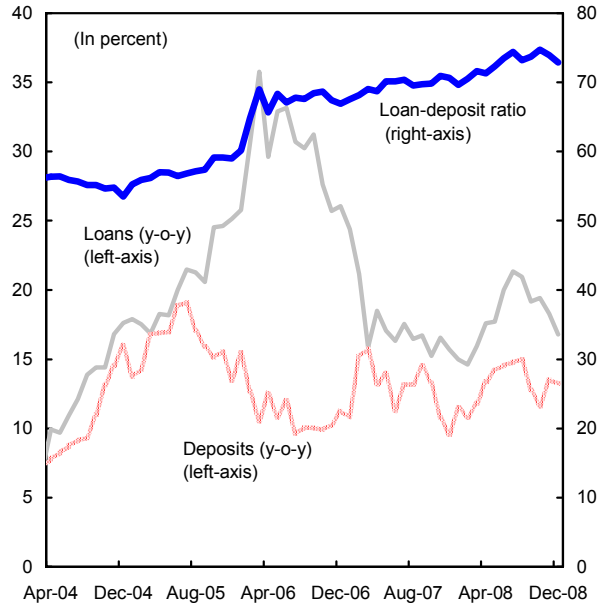
Sources: Jordanian authorities; and Fund staff projections.

Figure 3. Jordan: Monetary and Financial Indicators

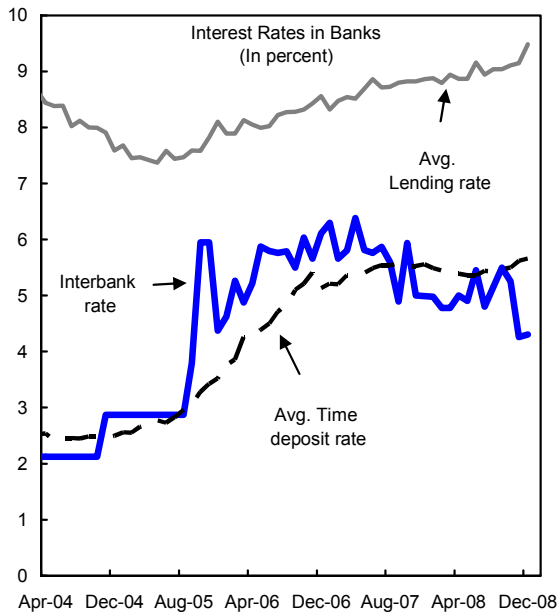
Money growth picked up modestly in 2008, but private sector credit growth began to ease late in the year...



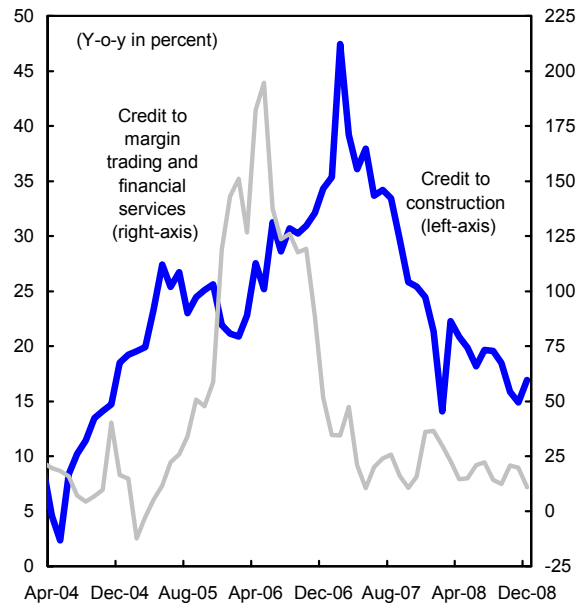
...and the banking system's loan-to-deposit ratio has edged down in recent months.



Commercial bank lending rates edged up, reflecting repricing of credits.



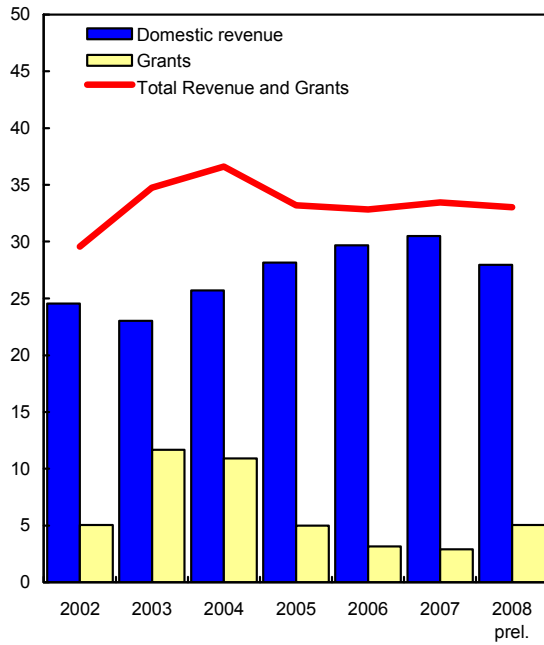
Construction related credit growth continued to moderate.



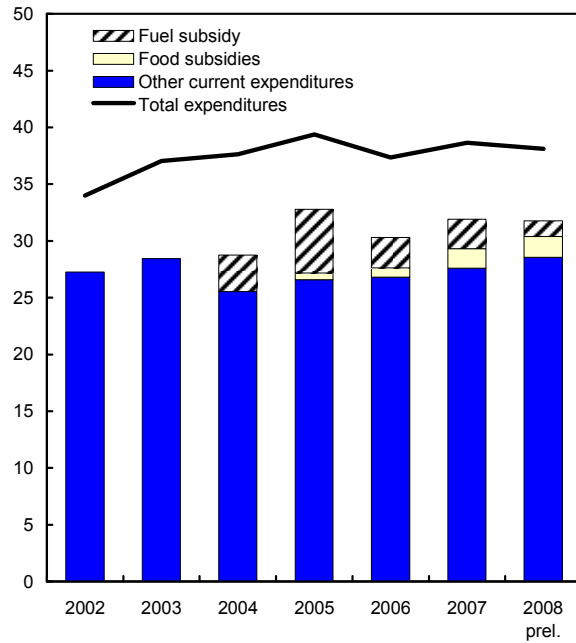
Sources: Central Bank of Jordan; and Amman Stock Exchange.

Figure 4. Jordan: Fiscal Developments
(In percent of GDP)

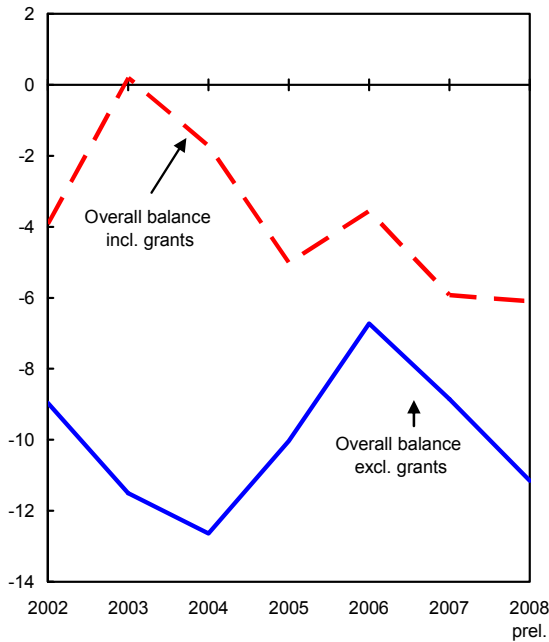
Domestic revenue softened, while external grant receipts increased in 2008...



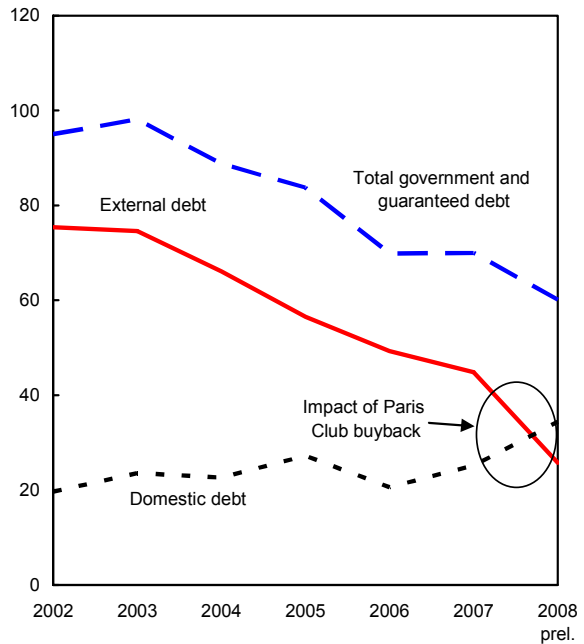
...and current spending remained steady.



As a result, the underlying budget deficit excluding grants widened in 2008.



The external debt ratio declined sharply following the Paris Club buyback, although domestic debt increased.



Sources: Jordanian authorities; and Fund staff projections.

Table 1. Jordan: Selected Economic Indicators and Macroeconomic Outlook, 2005–14
(Quota: SDR 170.5 million)

	2005	2006	2007	Prel.	Projections					
				2008	2009	2010	2011	2012	2013	2014
(Percentage change, unless otherwise indicated)										
Output and prices										
Real GDP at market prices	8.1	8.0	6.6	5.6	3.0	4.0	4.5	5.0	5.5	5.5
GDP deflator at market prices	2.4	8.8	4.5	14.6	5.1	3.6	2.1	2.1	2.2	1.8
Nominal GDP at market prices	10.7	17.5	11.4	21.1	8.2	7.7	6.7	7.2	7.8	7.5
Nominal GDP at market prices (JD millions)	8,954	10,521	11,722	14,190	15,354	16,536	17,637	18,913	20,397	21,916
Nominal GDP at market prices (\$ millions)	12,629	14,839	16,532	20,013	21,656	23,323	24,876	26,676	28,767	30,911
Consumer price index (annual average)	3.5	6.3	5.4	14.9	4.0	3.6	2.1	2.1	2.2	1.8
Consumer price index (end of period)	4.2	7.5	5.7	9.6	5.0	2.3	2.3	2.7	2.2	1.8
Unemployment rate (percent)	14.8	14.1	13.1	12.7	...	...	...	...	...	...
(In percent of GDP, unless otherwise indicated)										
Investment and savings										
Consumption	106.8	103.5	107.5	105.7	101.9	100.0	99.3	98.5	98.0	97.4
Government	19.5	19.3	23.4	25.7	23.3	23.2	23.2	23.1	23.1	23.1
Other	87.3	84.2	84.0	80.0	78.6	76.8	76.1	75.4	74.9	74.4
Gross domestic investment	34.0	30.5	31.4	28.3	27.8	27.7	28.7	29.1	29.3	29.4
Government	6.5	7.1	6.9	6.4	7.8	7.4	7.3	7.1	6.8	6.7
Other	27.5	23.4	24.6	21.8	20.1	20.3	21.4	22.0	22.5	22.7
Gross national savings	16.6	19.7	13.7	16.1	17.0	17.1	18.1	19.2	19.5	19.8
Government	1.5	3.5	0.9	0.3	2.5	0.9	1.0	1.0	1.2	1.2
Other	15.1	16.2	12.8	15.8	14.5	16.2	17.1	18.2	18.4	18.5
Savings-investment balance	-17.4	-10.8	-17.7	-12.1	-10.8	-10.6	-10.5	-9.9	-9.7	-9.6
Government	-5.0	-3.6	-5.9	-6.1	-5.3	-6.5	-6.3	-6.1	-5.6	-5.5
Other	-12.4	-7.2	-11.8	-6.0	-5.5	-4.1	-4.3	-3.8	-4.1	-4.2
Fiscal operations										
Revenue and grants	33.2	32.8	33.4	33.1	32.4	30.6	30.6	30.5	30.5	30.5
Of which: grants	5.0	3.2	2.9	5.1	4.5	2.6	2.4	2.2	2.2	2.0
Expenditure and net lending (including off-budget)	38.2	36.4	39.4	39.2	37.7	37.1	36.9	36.6	36.2	36.0
Overall fiscal balance including grants	-5.0	-3.6	-5.9	-6.1	-5.3	-6.5	-6.3	-6.1	-5.6	-5.5
Overall fiscal balance excluding grants	-10.0	-6.7	-8.9	-11.2	-9.8	-9.1	-8.6	-8.2	-7.8	-7.5
Primary fiscal balance excluding grants	-7.1	-3.7	-5.7	-8.5	-7.0	-6.3	-5.9	-5.5	-5.1	-4.8
Government and government-guaranteed net debt	83.7	69.9	70.0	60.1	60.4	62.1	63.9	65.0	65.3	65.9
Of which: external debt	56.5	49.3	44.8	25.8	23.3	20.9	18.7	16.5	14.4	12.8
External sector										
Current account balance (including grants), of which:	-17.4	-10.8	-17.7	-12.1	-10.8	-10.6	-10.5	-9.9	-9.7	-9.6
Exports of goods, f.o.b. (\$ billions)	4.3	5.2	5.7	7.8	6.8	7.5	8.2	8.9	9.7	10.6
Imports of goods, f.o.b. (\$ billions)	9.3	10.3	12.2	15.0	13.7	14.5	15.7	16.9	18.3	19.7
Oil and oil products (\$ billions)	2.2	2.4	2.6	3.3	2.0	2.2	2.5	2.7	3.0	3.2
Current account balance (excluding grants)	-23.3	-16.2	-20.0	-16.8	-16.0	-13.9	-13.5	-12.6	-12.4	-12.1
Private capital inflows (net)	19.6	24.0	22.4	18.1	8.5	11.1	11.9	11.7	11.4	11.4
(Annual percentage changes)										
Exports of goods, f.o.b.	10.8	21.0	10.1	35.9	-12.6	10.8	8.5	8.9	9.1	8.7
Imports of goods, f.o.b.	28.3	10.1	18.7	23.2	-8.9	6.2	8.3	7.8	8.0	7.6
Monetary sector										
Broad money	17.0	14.1	10.6	17.3	7.1	7.7	6.7	7.2	7.8	7.5
Net foreign assets	3.3	23.4	6.2	-9.7	-5.9	-0.7	1.9	3.2	2.9	3.4
Net domestic assets	33.7	5.3	15.5	44.7	15.3	12.0	8.9	9.0	9.8	9.0
Credit to private sector	30.3	24.5	15.3	14.8	7.2	7.0	5.0	5.8	7.6	7.3
Stock market index	92.9	-32.6	36.3	-17.0	...	...	...	...	...	...
Memorandum items:										
Gross usable international reserves (\$ millions)	4,745	6,103	6,865	7,734	7,311	7,318	7,480	7,717	7,935	8,203
In months of prospective imports of GNFS	4.7	5.1	4.7	5.8	5.2	4.8	4.6	4.4	4.4	4.3
Relative to short-term debt by remaining maturity	5.8	7.3	7.9	11.6	12.2	11.8	11.4	11.3	11.6	11.8
Budgetary grants (\$ millions)	633	470	484	1,013	965	606	592	578	620	622
Population (in millions)	5.47	5.60	5.72	5.85	5.99	6.13	6.27	6.41	6.56	6.71
Nominal per capita GDP (\$)	2,307	2,650	2,889	3,418	3,616	3,807	3,969	4,161	4,386	4,608
Real effective exchange rate (period average, 2000=100)	93.6	94.2	91.9	97.0	...	...	...	...	...	...
Percent change (+=appreciation; period average)	1.7	0.6	-2.5	5.5	...	...	...	...	...	...

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

Table 2. Jordan: Summary Balance of Payments, 2005–14
(In millions of U.S. dollars, unless otherwise noted)

	2005	2006	Prel.	Prel.	Projections					
			2007	2008	2009	2010	2011	2012	2013	2014
Current account	-2,199	-1,599	-2,933	-2,427	-2,346	-2,479	-2,617	-2,632	-2,802	-2,978
Trade balance	-5,015	-5,056	-6,451	-7,216	-6,854	-6,958	-7,524	-8,017	-8,569	-9,119
Exports f.o.b.	4,302	5,204	5,732	7,791	6,811	7,547	8,191	8,921	9,729	10,574
Of which: domestic exports, f.o.b.	3,626	4,132	4,490	6,183	5,171	5,743	6,206	6,738	7,328	7,980
Imports f.o.b.	9,318	10,260	12,183	15,007	13,664	14,505	15,715	16,938	18,297	19,693
Of which: food imports, f.o.b.	1,016	1,163	1,656	2,130	1,836	1,911	2,066	2,214	2,399	2,599
Of which: oil-gas imports, f.o.b.	2,151	2,426	2,581	3,278	1,957	2,230	2,503	2,745	3,015	3,238
Services (net)	-209	-63	-68	303	313	382	461	528	598	675
Of which: travel receipts	1,441	2,061	2,311	2,945	2,651	2,889	3,149	3,401	3,640	3,894
Income (net)	408	581	807	951	781	918	1,150	1,440	1,569	1,696
Of which: investment income (net)	129	259	424	373	275	361	538	766	828	873
Current transfers (net)	2,616	2,940	2,779	3,535	3,414	3,178	3,295	3,417	3,599	3,771
Public (net)	745	810	374	933	1,119	761	747	732	773	773
Private (net)	1,871	2,130	2,405	2,602	2,295	2,417	2,549	2,685	2,826	2,997
Of which: remittances (net)	1,871	2,160	2,571	2,817	2,420	2,549	2,684	2,826	2,974	3,152
Capital account	2,251	3,312	3,355	1,347	1,759	2,418	2,794	2,938	3,093	3,320
Public sector (net)	-220	-257	-348	-2,279	-75	-168	-179	-190	-200	-209
Disbursements	253	270	185	221	328	251	251	251	251	251
Amortization	473	526	533	2,500	403	418	430	440	450	460
Of which: Paris Club debt buyback	...	...	...	2,103	...	...	...	...	...	...
Private sector (net)	2,471	3,568	3,702	3,626	1,834	2,585	2,973	3,127	3,293	3,529
Direct foreign investment	1,611	3,357	1,902	1,941	1,050	1,523	1,828	2,010	2,111	2,259
Portfolio flows	313	37	840	562	-140	350	476	571	657	788
Other capital plus E&Os	547	174	960	1,123	924	712	669	546	525	482
Other capital flows	-266	231	-338	-285	...	...	...	...	...	...
Errors and omissions	814	-57	1,299	1,408	...	...	...	...	...	...
Overall balance	52	1,713	422	-1,080	-586	-62	177	306	291	342
Financing	-52	-1,713	-422	1,080	586	62	-176	-305	-290	-340
Increase in NFA (-) 1/	-192	-1,897	-571	1,139	609	66	-176	-305	-290	-340
Central bank	24	-1,294	-893	-740	422	-7	-162	-237	-218	-268
Commercial banks	-217	-603	322	1,879	187	73	-14	-68	-73	-72
IMF, net (expectations basis)	-77	-88	-76	-59	-23	-4	0	0	0	0
Arab Monetary Fund (net)	-9	0	0	0	0	0	0	0	0	0
Relief from debt operations 2/	9	63	40	0	0	0	0	0	0	0
Debt rescheduling/exceptional financing	218	209	185	0	0	0	0	0	0	0
Memorandum items:										
Gross usable international reserves	4,745	6,103	6,865	7,734	7,311	7,318	7,480	7,717	7,935	8,203
In months of prospective imports 3/	4.7	5.1	4.7	5.8	5.2	4.8	4.6	4.4	4.3	4.2
Merchandise export growth, percent	10.8	21.0	10.1	35.9	-12.6	10.8	8.5	8.9	9.1	8.7
Of which: domestic exports	11.5	13.9	8.7	37.7	-16.4	11.1	8.1	8.6	8.8	8.9
Of which: excluding mining exports	12.2	16.4	4.6	17.4	-3.3	4.2	7.0	7.5	7.5	7.5
Export of GNFS growth, percent	11.4	22.2	13.0	33.3	-9.5	10.0	8.6	8.6	8.3	8.0
Import growth, percent	28.3	10.1	18.7	23.2	-8.9	6.2	8.3	7.8	8.0	7.6
Of which: excl.oil/food	25.2	8.3	19.1	20.8	2.8	5.0	7.5	7.5	7.5	7.5
Import of GNFS growth, percent	26.1	11.6	18.5	21.9	-8.0	6.5	8.2	7.7	7.6	7.3
Import oil price (\$ per barrel)	50.8	62.3	71.3	94.5	52.0	62.5	67.5	70.5	72.5	74.8
Current account (in percent of GDP)	-17.4	-10.8	-17.7	-12.1	-10.8	-10.6	-10.5	-9.9	-9.7	-9.6
Current account, excl. grants (percent of GDP)	-23.3	-16.2	-20.0	-16.8	-16.0	-13.9	-13.5	-12.6	-12.4	-12.1
Private capital (net, percent of GDP)	19.6	24.0	22.4	18.1	8.5	11.1	11.9	11.7	11.4	11.4
External government debt (percent of GDP)	56.5	49.3	44.8	25.8	23.3	20.9	18.7	16.5	14.4	12.8
GDP (\$ millions)	12,629	14,839	16,532	20,013	21,656	23,323	24,876	26,676	28,767	30,911
Terms of trade (percent change)	3.6	1.3	-8.2	0.7	18.9	-3.8	-2.3	-0.7	-0.3	-0.4

Sources: Jordanian authorities; and Fund staff estimates.

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

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

3/ In months of prospective import of goods and nonfactor services (GNFS) of the following year, excluding imports for re-export purposes.

Table 3. Jordan: Summary Monetary Survey, 2005–09

	Dec. 2005	Dec. 2006	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.	Proj. Dec. 2009
			2007				2008				
(Stocks in millions of Jordanian dinars)											
Net foreign assets	6,002	7,410	7,402	7,412	8,117	7,868	6,766	7,308	7,330	7,103	6,687
Net domestic assets	6,362	6,700	6,872	7,383	7,434	7,738	9,403	9,910	10,761	11,201	12,918
Net claims on central government 1/ <i>Of which: budgetary central government 2/</i>	1,800	1,459	1,413	1,488	1,737	2,091	3,105	3,078	3,467	4,095	4,988
Claims on nonfinancial public enterprises	528	521	550	535	486	624	667	627	542	603	652
Claims on financial institutions	153	214	218	261	257	277	323	330	325	335	335
Claims on the private sector	7,669	9,546	10,011	10,547	10,978	11,003	11,602	12,495	12,826	12,636	13,543
Other items (net)	-3,787	-5,041	-5,322	-5,450	-6,029	-6,259	-6,296	-6,622	-6,432	-6,517	-6,600
Broad money	12,364	14,110	14,274	14,794	15,552	15,607	16,169	17,218	18,092	18,304	19,606
Currency in circulation	1,657	2,027	1,962	2,050	2,077	2,172	2,262	2,404	2,693	2,665	2,884
Jordanian dinar deposits	7,795	8,760	9,077	9,436	9,810	9,809	10,340	11,300	12,054	12,314	13,292
Foreign currency deposits	2,912	3,322	3,236	3,309	3,665	3,625	3,566	3,514	3,345	3,325	3,430
(Cumulative flows in millions of Jordanian dinars)											
Net foreign assets	191	1,407	-8	2	708	459	-1,103	-560	-538	-766	-416
Net domestic assets	1,602	338	172	683	734	1,038	1,664	2,171	3,023	3,463	1,717
Net claims on central government 1/ <i>Of which: budgetary central government 2/</i>	401	-340	-46	29	278	632	1,014	987	1,375	2,004	894
Claims on nonfinancial public enterprises	56	-8	30	14	-35	103	44	3	-82	-21	49
Claims on financial institutions	58	62	3	47	42	63	46	53	48	58	0
Claims on the private sector	1,784	1,878	465	1,001	1,432	1,457	599	1,492	1,823	1,633	907
Other items (net)	-686	-1,253	-282	-409	-989	-1,218	-37	-363	-174	-258	-83
Broad money	1,793	1,746	164	685	1,442	1,497	562	1,611	2,485	2,697	1,301
Currency in circulation	243	370	-66	23	50	145	90	232	520	492	219
Jordanian dinar deposits	1,340	965	317	676	1,050	1,049	531	1,491	2,245	2,505	978
Foreign currency deposits	210	411	-87	-14	343	303	-59	-111	-280	-300	105
(Cumulative flows in percent of beginning-of-period broad money)											
Net foreign assets	1.8	11.4	-0.1	0.0	5.0	3.3	-7.1	-3.6	-3.4	-4.9	-2.3
Net domestic assets	15.2	2.7	1.2	4.8	5.2	7.4	10.7	13.9	19.4	22.2	9.4
Net claims on general government 1/ <i>Of which: budgetary central government 2/</i>	3.8	-2.8	-0.3	0.2	2.0	4.5	6.5	6.3	8.8	12.8	4.9
Claims on nonfinancial public enterprises	0.5	-0.1	0.2	0.1	-0.2	0.7	0.3	0.0	-0.5	-0.1	0.3
Claims on financial institutions	0.5	0.5	0.0	0.3	0.3	0.4	0.3	0.3	0.3	0.4	0.0
Claims on the private sector	16.9	15.2	3.3	7.1	10.1	10.3	3.8	9.6	11.7	10.5	5.0
Other items (net)	-6.5	-10.1	-2.0	-2.9	-7.0	-8.6	-0.2	-2.3	-1.1	-1.7	-0.5
Broad money	17.0	14.1	1.2	4.9	10.2	10.6	3.6	10.3	15.9	17.3	7.1
Currency in circulation	2.3	3.0	-0.5	0.2	0.4	1.0	0.6	1.5	3.3	3.2	1.2
Jordanian dinar deposits	12.7	7.8	2.2	4.8	7.4	7.4	3.4	9.6	14.4	16.0	5.3
Foreign currency deposits	2.0	3.3	-0.6	-0.1	2.4	2.1	-0.4	-0.7	-1.8	-1.9	0.6
Memorandum items:											
Annual broad money growth (percent)	17.0	14.1	16.5	11.6	15.6	10.6	13.3	16.4	16.3	17.3	7.1
Annual JD broad money growth (percent)	20.1	14.1	17.8	13.4	15.3	11.1	14.2	19.3	24.1	25.0	8.0
Annual net domestic assets growth (percent)	33.7	5.3	15.2	8.4	15.6	15.5	36.8	34.2	44.8	44.7	15.3
Annual private sector credit growth (percent)	30.3	24.5	15.6	17.2	17.7	15.3	15.9	18.5	16.8	14.8	7.2

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

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

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

Table 4. Jordan: Summary Accounts of the Central Bank of Jordan, 2005–09

	Dec. 2005	Dec. 2006	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.	Proj. Dec. 2009
			2007				2008				
(Stocks in millions of Jordanian dinars)											
Net foreign assets	4,004	4,984	5,215	5,137	5,506	5,671	4,607	5,464	6,204	6,238	5,954
Net domestic assets	-1,183	-1,598	-2,016	-1,701	-2,236	-2,018	-1,023	-1,638	-1,902	-1,725	-1,181
Net claims on central government 1/	914	152	197	249	390	173	1,131	841	1,058	980	963
Net claims on NFPEs and the SSC	-24	-19	-23	-31	-63	-61	-41	-40	-83	-212	-212
Net claims on financial institutions	75	94	85	90	94	99	94	89	88	86	86
Net claims on private sector	18	18	18	18	18	18	18	19	19	19	19
Net claims on commercial banks	151	425	252	352	254	211	140	5	126	-672	-812
CDs	-2,280	-2,153	-2,222	-2,007	-2,425	-1,977	-1,728	-1,840	-2,467	-1,166	-525
Other items, net (asset: +)	-39	-115	-323	-372	-504	-482	-637	-711	-644	-759	-700
Jordanian dinar reserve money	2,821	3,386	3,199	3,436	3,270	3,653	3,584	3,826	4,301	4,513	4,773
Currency	1,783	2,201	2,099	2,190	2,253	2,350	2,439	2,588	2,925	2,872	3,090
Commercial bank reserves	1,038	1,185	1,101	1,247	1,017	1,302	1,145	1,239	1,377	1,641	1,682
Of which : required reserves	566	715	758	786	820	834	862	942	1,156	1,297	1,246
(Cumulative flows in millions of Jordanian dinars from beginning of period)											
Net foreign assets	37	980	231	153	522	687	-1,064	-207	533	567	-283
Net domestic assets	421	-415	-417	-102	-638	-420	995	381	116	294	543
Net claims on central government 1/	261	-762	45	97	238	21	958	667	885	806	-17
Net claims on NFPEs and the SSC	63	4	-4	-12	-44	-42	20	21	-22	-151	0
Net claims on financial institutions	50	18	-9	-4	0	5	-6	-10	-11	-13	0
Net claims on private sector	0	-1	0	0	0	0	1	1	1	1	0
Net claims on commercial banks	-161	274	-172	-73	-171	-214	-71	-207	-85	-883	-140
CDs	255	127	-69	146	-272	176	249	137	-490	811	641
Other items, net (asset: +)	-47	-76	-208	-257	-389	-367	-156	-229	-162	-277	59
Jordanian dinar reserve money	458	565	-186	51	-115	267	-69	174	649	860	260
Currency	276	418	-102	-12	52	149	89	237	575	521	219
Commercial banks' reserves	183	147	-84	62	-167	118	-158	-64	74	339	41
(Cumulative flows in percent of beginning-of-period reserve money)											
Net foreign assets	1.6	34.7	6.8	4.5	15.4	20.3	-29.1	-5.7	14.6	15.5	-6.3
Net domestic assets	17.8	-14.7	-12.3	-3.0	-18.8	-12.4	27.2	10.4	3.2	8.0	12.0
Net claims on central government 1/	11.1	-27.0	1.3	2.9	7.0	0.6	26.2	18.3	24.2	22.1	-0.4
Net claims on NFPEs and the SSC	2.7	0.2	-0.1	-0.4	-1.3	-1.2	0.5	0.6	-0.6	-4.1	0.0
Net claims on financial institutions	2.1	0.7	-0.3	-0.1	0.0	0.2	-0.2	-0.3	-0.3	-0.4	0.0
Net claims on private sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net claims on commercial banks	-6.8	9.7	-5.1	-2.2	-5.0	-6.3	-1.9	-5.7	-2.3	-24.2	-3.1
CDs	10.8	4.5	-2.0	4.3	-8.0	5.2	6.8	3.8	-13.4	22.2	14.2
Other items, net (asset: +)	-2.0	-2.7	-6.1	-7.6	-11.5	-10.8	-4.3	-6.3	-4.4	-7.6	1.3
Jordanian dinar reserve money	19.4	20.0	-5.5	1.5	-3.4	7.9	-1.9	4.8	17.8	23.6	5.8
Currency	11.7	14.8	-3.0	-0.3	1.5	4.4	2.4	6.5	15.7	14.3	4.8
Commercial bank reserves	7.7	5.2	-2.5	1.8	-4.9	3.5	-4.3	-1.7	2.0	9.3	0.9
Memorandum items:											
Gross usable international reserves (\$ millions)	4,745	6,103	6,400	6,274	6,741	6,865	5,420	6,592	7,703	7,734	7,311
As a ratio to JD broad money (in percent)	35.6	40.1	41.1	38.7	40.2	40.6	30.5	34.1	37.0	36.6	32.0
As a ratio of JD reserve money (in percent)	119.3	127.8	141.8	129.5	146.1	133.3	107.2	122.1	127.0	121.5	108.6
Net international reserves (JD millions)	3,222	4,270	4,448	4,369	4,739	4,904	3,839	4,696	5,435	5,469	5,187
Money multiplier (for JD liquidity)	3.4	3.2	3.5	3.3	3.6	3.3	3.5	3.6	3.4	3.3	3.4

Sources: CBJ; and Fund staff estimates and projections.

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

Table 5. Jordan: Summary of Fiscal Operations, 2005–14

	2005	2006	2007	Prel.	Budget	Projections					
				2008	2009	2009	2010	2011	2012	2013	2014
(In millions of Jordanian dinars)											
Total revenue and grants	2,971	3,454	3,920	4,690	5,436	4,974	5,053	5,405	5,778	6,228	6,687
Budgetary revenue	2,522	3,121	3,577	3,972	4,752	4,290	4,623	4,985	5,368	5,788	6,246
Tax revenue	1,766	2,134	2,472	2,758	3,257	2,907	3,141	3,403	3,672	3,957	4,269
Nontax revenue	756	987	1,105	1,214	1,495	1,383	1,482	1,582	1,696	1,831	1,977
Grants 1/	449	333	343	718	684	684	430	420	410	440	441
Total budgetary expenditure	3,526	3,931	4,531	5,415	6,125	5,798	6,130	6,509	6,923	7,380	7,888
Current expenditure, of which: 2/	2,935	3,186	3,741	4,513	4,791	4,591	4,894	5,217	5,576	5,986	6,418
Fuel subsidy	501	279	306	197	65	10	0	0	0	0	0
Capital expenditure 3/	532	696	744	875	2,273	1,145	1,180	1,236	1,298	1,350	1,434
Net lending	59	50	46	26	62	62	57	56	50	44	37
Spending of privatization proceeds	3	2	22	2	0	0	0	0	0	0	0
Statistical discrepancy, net 4/	-108	-104	61	139	0	0	0	0	0	0	0
Overall balance, including grants	-450	-375	-694	-865	-689	-816	-1,077	-1,104	-1,146	-1,152	-1,202
Financing	450	375	694	865	...	816	1,077	1,104	1,146	1,152	1,202
Foreign financing (net) 5/	-54	-21	-181	-1,245	...	-78	-132	-132	-132	-136	-135
Privatization receipts (net)	4	424	258	229	...	0	0	0	0	0	0
Domestic financing (net)	500	-28	551	1,882	...	894	1,210	1,237	1,278	1,287	1,337
(In percent of GDP)											
Total revenue and grants	33.2	32.8	33.4	33.1	35.4	32.4	30.6	30.6	30.5	30.5	30.5
Budgetary revenue	28.2	29.7	30.5	28.0	30.9	27.9	28.0	28.3	28.4	28.4	28.5
Tax revenue	19.7	20.3	21.1	19.4	21.2	18.9	19.0	19.3	19.4	19.4	19.5
Nontax revenue, of which:	8.4	9.4	9.4	8.6	9.7	9.0	9.0	9.0	9.0	9.0	9.0
Grants 1/	5.0	3.2	2.9	5.1	4.5	4.5	2.6	2.4	2.2	2.2	2.0
Total budgetary expenditure	39.4	37.4	38.7	38.2	39.9	37.8	37.1	36.9	36.6	36.2	36.0
Current expenditure, of which: 2/	32.8	30.3	31.9	31.8	31.2	29.9	29.6	29.6	29.5	29.3	29.3
Fuel subsidy	5.6	2.6	2.6	1.4	0.4	0.1	0.0	0.0	0.0	0.0	0.0
Capital expenditure 3/	5.9	6.6	6.4	6.2	8.3	7.5	7.1	7.0	6.9	6.6	6.5
Net lending	0.7	0.5	0.4	0.2	0.4	0.4	0.3	0.3	0.3	0.2	0.2
Spending of privatization proceeds	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy, net 4/	-1.2	-1.0	0.5	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance including grants	-5.0	-3.6	-5.9	-6.1	-4.5	-5.3	-6.5	-6.3	-6.1	-5.6	-5.5
Financing	5.0	3.6	5.9	6.1	...	5.3	6.5	6.3	6.1	5.6	5.5
Foreign financing (net) 5/	-0.6	-0.2	-1.5	-8.8	...	-0.5	-0.8	-0.8	-0.7	-0.7	-0.6
Privatization receipts (net)	0.0	4.0	2.2	1.6	...	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing (net)	5.6	-0.3	4.7	13.3	...	5.8	7.3	7.0	6.8	6.3	6.1
Memorandum items:											
Overall balance excluding grants	-10.0	-6.7	-8.9	-11.2	-8.9	-9.8	-9.1	-8.6	-8.2	-7.8	-7.5
Primary balance including grants	-2.0	-0.5	-2.8	-3.4	-1.7	-2.6	-3.7	-3.5	-3.3	-2.9	-2.8
Primary balance excluding grants	-7.1	-3.7	-5.7	-8.5	-6.1	-7.0	-6.3	-5.9	-5.5	-5.1	-4.8
Government and guaranteed net debt 6/	83.7	69.9	70.0	60.1	...	60.4	62.1	63.9	65.0	65.3	65.9
Of which: External	56.5	49.3	44.8	25.8	...	23.4	20.9	18.7	16.5	14.4	12.8
GDP at market prices (JD millions) 7/	8,954	10,521	11,722	14,190	...	15,354	16,536	17,637	18,913	20,397	21,916

Sources: Jordanian authorities; and Fund staff projections.

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

2/ 2005 data include JD 58.5 million of spending carried out in 2004, but paid in 2005.

3/ Includes some current expenditure, such as maintenance and wage-related spending.

4/ The discrepancy is accounted for in part by the inclusion of non-budgetary accounts in the domestic financing data. Efforts are underway to improve the coverage of budgetary financing data and its alignment with above-the-line transactions in the context of the authorities working toward SDDS subscription.

5/ In 2008, foreign financing includes repayment of Paris Club debt, partly financed through domestic financing (drawdown of the privatization account).

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

7/ The 2009 budget ratios to GDP are based on staff's GDP estimates.

Table 6. Jordan: Summary of Revenues and Expenditures, 2005–14

	2005	2006	Prel.	Prel.	Budget	Projections					
			2007	2008	2009	2009	2010	2011	2012	2013	2014
(In millions of Jordanian dinars)											
Total revenue and grants	2,971	3,454	3,920	4,690	5,436	4,974	5,053	5,405	5,778	6,228	6,687
Domestic revenue	2,522	3,121	3,577	3,972	4,752	4,290	4,623	4,985	5,368	5,789	6,246
Tax revenue, of which :	1,766	2,134	2,472	2,758	3,257	2,907	3,141	3,403	3,672	3,958	4,270
Taxes on income and profits	284	411	495	603	664	690	747	805	858	920	992
General sales tax	1,024	1,219	1,465	1,671	2,070	1,713	1,869	2,046	2,231	2,409	2,601
Taxes on foreign trade	305	316	312	284	283	288	293	305	318	342	368
Nontax revenue, of which :	756	987	1,105	1,214	1,495	1,383	1,482	1,582	1,696	1,831	1,977
Fees	424	503	550	576	684	588	633	678	725	778	834
Grants	449	333	343	718	684	684	430	420	410	440	441
Total expenditures	3,418	3,827	4,531	5,415	6,125	5,798	6,131	6,509	6,924	7,380	7,889
Current expenditure	2,935	3,186	3,741	4,513	4,791	4,591	4,894	5,217	5,576	5,986	6,418
Wages and salaries	493	518	583	729	788	788	843	908	968	1,038	1,119
Interest payments	266	318	367	377	434	419	466	492	522	550	581
Domestic	94	133	169	249	330	314	361	386	419	450	475
External	172	185	198	129	104	105	105	105	104	100	106
Military expenditure	699	792	1,151	1,510	1,644	1,644	1,771	1,889	2,025	2,184	2,347
Fuel subsidies	501	279	306	197	65	10	0	0	0	0	0
Food subsidy	55	85	200	261	215	140	112	119	119	120	121
Transfers, of which :	674	926	784	846	1,223	1,168	1,257	1,341	1,438	1,551	1,667
Pensions	434	491	517	676	734	734	791	843	904	975	1,048
Purchases of goods & services and other	247	268	350	593	422	422	444	469	503	542	583
Capital expenditure	532	696	744	875	1,273	1,145	1,180	1,236	1,298	1,351	1,434
Net lending and nonbudget spending	-49	-54	46	26	62	62	57	56	50	44	37
(In percent of GDP)											
Total revenue and grants	33.2	32.8	33.4	33.1	35.4	32.4	30.6	30.6	30.5	30.5	30.5
Domestic revenue	28.2	29.7	30.5	28.0	30.9	27.9	28.0	28.3	28.4	28.4	28.5
Tax revenue, of which :	19.7	20.3	21.1	19.4	21.2	18.9	19.0	19.3	19.4	19.4	19.5
Taxes on income and profits	3.2	3.9	4.2	4.3	4.3	4.5	4.5	4.6	4.5	4.5	4.5
General sales tax	11.4	11.6	12.5	11.8	13.5	11.2	11.3	11.6	11.8	11.8	11.9
Taxes on foreign trade	3.4	3.0	2.7	2.0	1.8	1.9	1.8	1.7	1.7	1.7	1.7
Nontax revenue, of which :	8.4	9.4	9.4	8.6	9.7	9.0	9.0	9.0	9.0	9.0	9.0
Fees	4.7	4.8	4.7	4.1	4.5	3.8	3.8	3.8	3.8	3.8	3.8
Grants	5.0	3.2	2.9	5.1	4.5	4.5	2.6	2.4	2.2	2.2	2.0
Total expenditure	38.2	36.4	38.7	38.2	39.9	37.8	37.1	36.9	36.6	36.2	36.0
Current expenditure	32.8	30.3	31.9	31.8	31.2	29.9	29.6	29.6	29.5	29.3	29.3
Wages and salaries	5.5	4.9	5.0	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1
Interest payments	3.0	3.0	3.1	2.7	2.8	2.7	2.8	2.8	2.8	2.7	2.7
Domestic	1.1	1.3	1.4	1.8	2.1	2.0	2.2	2.2	2.2	2.2	2.2
External	1.9	1.8	1.7	0.9	0.7	0.7	0.6	0.6	0.5	0.5	0.5
Military expenditure	7.8	7.5	9.8	10.6	10.7	10.7	10.7	10.7	10.7	10.7	10.7
Fuel subsidy	5.6	2.6	2.6	1.4	0.4	0.1	0.0	0.0	0.0	0.0	0.0
Food subsidy	0.6	0.8	1.7	1.8	1.4	0.9	0.7	0.7	0.6	0.6	0.6
Transfers, of which :	7.5	8.8	6.7	6.0	8.0	7.6	7.6	7.6	7.6	7.6	7.6
Pensions	4.9	4.7	4.4	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8
Purchases of goods & services and other	2.8	2.5	3.0	4.2	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Capital expenditure	5.9	6.6	6.4	6.2	8.3	7.5	7.1	7.0	6.9	6.6	6.5
Net lending and nonbudget spending	-0.6	-0.5	0.4	0.2	0.4	0.4	0.3	0.3	0.3	0.2	0.2

Sources: Jordanian authorities; and Fund staff projections.

Table 7. Jordan: Indicators of Financial Vulnerability, 2002–08
(End-of-period, unless otherwise noted)

	2002	2003	2004	2005	2006	2007	2008
Monetary and financial indicators	(In percent of GDP, unless otherwise indicated)						
Gross domestic currency public debt (including own-budget agencies)	24.4	25.1	25.7	27.6	28.2	31.5	40.7
Central government net domestic financing	2.6	4.3	2.6	5.6	-0.3	4.7	13.3
Broad money (annual growth, in percent)	7.0	12.4	11.7	17.0	14.1	10.6	17.3
Broad domestic currency liquidity (M2) (annual growth, in percent)	7.0	11.9	8.6	20.1	14.1	11.1	25.0
Private sector credit (annual growth, in percent)	3.2	3.5	17.3	30.3	24.5	15.3	14.8
Banking sector indicators							
Nonperforming loans (excluding interest in suspense, as percent of loans)	17.1	15.5	10.3	6.6	4.3	4.1	4.2
Nonperforming loans (as percent of capital and reserves)	85.8	73.2	46.2	28.3	15.9	15.9	18.1
Provisions against nonperforming loans (excl. interest in suspense, in percent)	50.6	51.9	63.8	78.4	79.6	67.8	63.3
Risk-weighted capital adequacy ratio (in percent)	16.6	15.9	17.8	17.6	21.4	20.8	18.3
Leverage (equity to assets ratio, in percent)	7.2	7.5	8.9	10.5	13.2	13.3	12.9
Construction loans in total private credit to residents (in percent)	16.7	17.2	17.4	16.4	17.4	18.7	18.9
Credit to private sector (in percent of GDP)	65.9	61.5	72.7	85.6	90.7	93.9	89.1
	(In millions of US\$, unless otherwise indicated)						
Foreign currency and external debt indicators							
Gross external public debt	7,222	7,599	7,541	7,132	7,315	7,409	5,154
In percent of GDP	75.4	74.5	66.1	56.5	49.3	44.8	25.8
Short-term external debt	812	860	959	819	835	867	669
Total foreign liabilities of central bank	661	595	494	393	412	343	388
Total foreign liabilities of commercial banks	4,718	4,379	4,892	5,234	5,946	6,760	7,789
Commercial banks' net foreign asset position	1,619	1,801	2,163	2,329	2,803	2,431	406
Official reserves indicators							
Gross usable reserves 1/	3,495	4,740	4,826	4,745	6,103	6,865	7,734
In percent of M2	29.4	35.5	32.4	27.2	30.7	31.2	30.0
Net international reserves 1/	2,978	4,343	4,442	4,544	6,023	6,917	7,713
In percent of M2	25.1	32.5	29.8	26.1	30.3	31.4	29.9
In percent of short-term external debt	367	505	463	555	721	798	1,152
External current account indicators (annual flows)							
Merchandise exports, f.o.b.	2,770	3,082	3,883	4,302	5,204	5,732	7,791
Annual changes in percent	20.7	11.2	26.0	10.8	21.0	10.1	35.9
Merchandise imports, f.o.b.	4,501	5,078	7,261	9,318	10,260	12,183	15,007
Annual changes in percent	4.6	12.8	43.0	28.3	10.1	18.7	23.2
Current account balance including grants	545	1,245	89	-2,199	-1,599	-2,933	-2,427
In percent of GDP	5.7	12.2	0.8	-17.4	-10.8	-17.7	-12.1

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

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

Table 8. Jordan: Indicators of Fund Credit, 2005–14
(In millions of SDR)

	2005	2006	2007	2008	2009	2010	Projections		2013	2014
							2011	2012		
Total Fund credit outstanding at end-period										
In millions of SDR	165.3	105.2	55.4	17.9	2.5	0.0	0.0	0.0	0.0	0.0
In millions of U.S. dollars	236.6	158.7	87.3	27.2	3.8	0.0	0.0	0.0	0.0	0.0
In percent of:										
Quota	97.0	61.7	32.5	10.5	1.5	0.0	0.0	0.0	0.0	0.0
GDP	1.9	1.1	0.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Exports of goods and nonfactor services	3.6	2.0	1.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed debt	3.3	2.2	1.2	0.5	0.1	0.0	0.0	0.0	0.0	0.0
Transactions under the GRA										
Purchases under the GRA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases 1/	52.2	60.1	49.8	37.5	15.4	2.5	0.0	0.0	0.0	0.0
Net Purchases	-52.2	-60.1	-49.8	-37.5	-15.4	-2.5	0.0	0.0	0.0	0.0
Charges and interest 2/	7.4	7.6	5.5	2.6	1.0	0.6	0.5	0.5	0.5	0.5
Debt service to the Fund										
In millions of SDR	59.6	67.7	55.3	40.2	16.4	3.1	0.5	0.5	0.5	0.5
In millions of U.S. dollars	88.0	99.6	84.7	63.5	24.3	4.6	0.8	0.8	0.8	0.8
In percent of:										
Exports of goods and nonfactor services	1.3	1.2	0.9	0.5	0.2	0.0	0.0	0.0	0.0	0.0
Service on public and publicly guaranteed debt	10.9	12.0	10.1	10.9	4.3	0.8	0.2	0.2	0.2	0.2

Sources: IMF Finance Department; and Fund staff estimates.

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

2/ Includes SDR charges.

Appendix I. Public Debt Sustainability Analysis

In the absence of fiscal consolidation measures, Jordan’s public debt is expected to rise steadily to around 65 percent of GDP in 2014.¹ The debt ratio dropped by 10 percentage points in 2008, thanks to rapid nominal GDP growth and the Paris Club debt buyback. Based on the 2009 budget and assuming largely unchanged policies thereafter, the debt ratio is projected to increase by about one percentage point per year over the medium term.

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

- Because almost one half of the debt is foreign currency denominated, a 30 percent real exchange rate depreciation would increase the debt-to-GDP ratio by around 11 percentage points relative to the baseline in 2009 and the ratio would exceed 70 percent over the projection period.
- A contingent liabilities shock—an increase in the debt ratio by 10 percent of GDP in 2009—would cause the debt path to remain about 9 percentage points above the baseline throughout the projection period.
- Even under smaller shocks—individual one-half standard deviation shocks to real growth, interest rates, and the primary balance and a combined one-fourth standard deviation shock—the debt-to-GDP ratios would exceed 70 percent by the end of the projection period.

Public debt sustainability and containing these vulnerabilities is contingent on appropriate adjustment policies. Under the baseline outlook, the average primary deficit (including grants) slightly exceeds 3 percent of GDP in 2009–14. In contrast,

- holding the primary deficit constant at 3.4 percent of GDP (its 2008 level) over 2009–14 would keep the debt ratio somewhat above the baseline scenario by 2014;
- fiscal adjustment of one percentage point per year (relative to the baseline) would stabilize the debt ratio around 60 percent; and
- the debt ratio would decline (approaching 40 percent by 2014) if key assumptions are held at their historical averages, reflecting that the primary deficit (including grants) was, on average, in balance during 1999–2008.

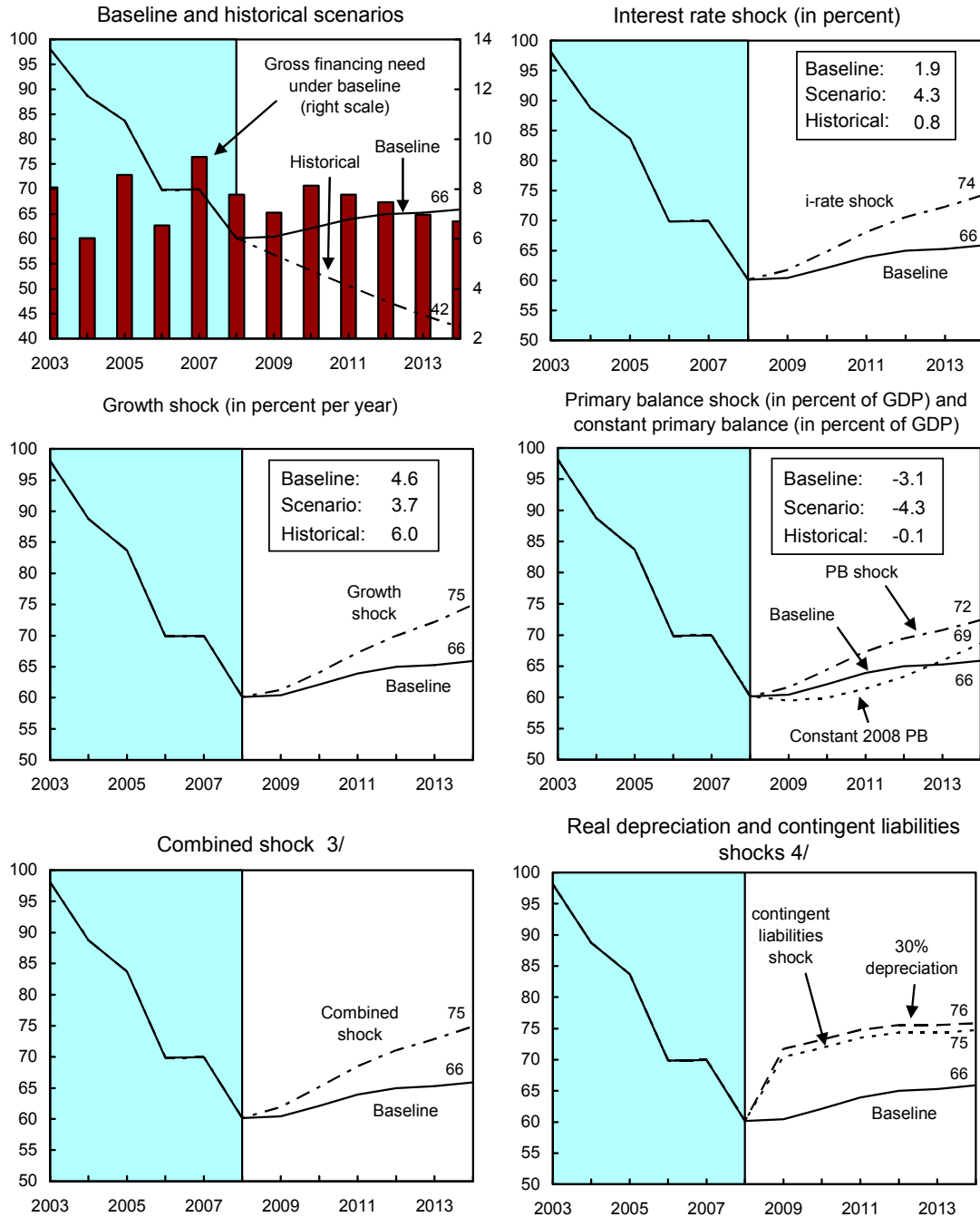
¹ Public debt is defined as government and government-guaranteed debt. The domestic component is net of government deposits with the banking system, including privatization proceeds.

Table A.1. Jordan: Public Debt Sustainability Framework, 2003–14 1/
(In percent of GDP, unless otherwise indicated)

	Actual					Prel.	Projections							
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014		
1 Baseline: Central government debt including government guarantees (net)	98.1	88.7	83.7	69.9	70.0	60.1	60.4	62.1	63.9	65.0	65.3	65.9		
<i>Of which: foreign-currency denominated</i>	74.5	66.1	56.5	49.3	44.8	25.8	23.3	20.9	18.7	16.5	14.4	12.8		
2 Change in central government debt	3.1	-9.4	-5.0	-13.8	0.1	-9.8	0.3	1.7	1.8	1.1	0.3	0.6		
3 Identified debt-creating flows (4+7+12)	-6.5	-9.3	-3.6	-12.9	-3.4	-7.7	0.8	2.2	2.4	1.7	0.9	1.0		
4 Primary deficit	-4.5	-1.1	2.0	0.5	2.8	3.4	2.6	3.7	3.5	3.3	3.0	2.8		
5 Revenue and grants	34.7	36.6	33.2	32.8	33.4	33.1	32.4	30.6	30.6	30.5	30.5	30.5		
6 Primary (noninterest) expenditure	30.2	35.5	35.2	33.4	36.2	36.5	35.0	34.3	34.1	33.8	33.5	33.3		
7 Automatic debt dynamics 2/	-2.0	-7.6	-5.6	-9.4	-4.0	-9.5	-1.8	-1.5	-1.1	-1.6	-2.0	-1.9		
8 Contribution from interest rate/growth differential 3/	-2.0	-7.6	-5.6	-9.4	-4.0	-9.5	-1.8	-1.5	-1.1	-1.6	-2.0	-1.9		
9 <i>Of which: contribution from real interest rate</i>	1.8	-0.1	0.9	-3.8	0.1	-6.3	-0.2	0.7	1.5	1.4	1.3	1.5		
10 <i>Of which: contribution from real GDP growth</i>	-3.7	-7.5	-6.5	-5.7	-4.1	-3.2	-1.7	-2.2	-2.6	-3.0	-3.3	-3.3		
11 Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...
12 Other identified debt-creating flows	0.0	-0.5	0.0	-4.0	-2.2	-1.6	0.0	0.0	0.0	0.0	0.0	0.0		
13 Privatization receipts (negative)	0.0	-0.5	0.0	-4.0	-2.2	-1.6	0.0	0.0	0.0	0.0	0.0	0.0		
14 Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
15 Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
16 Residual, including asset changes (2-3) 5/	9.6	-0.1	-1.5	-0.9	3.5	-2.1	-0.5	-0.5	-0.6	-0.7	-0.6	-0.4		
Central government debt-to-revenue ratio	282.4	242.4	252.2	212.8	209.2	181.9	186.5	203.3	208.5	212.7	213.8	215.9		
Gross financing need 6/	8.1	6.0	8.6	6.5	9.3	7.8	7.1	8.1	7.8	7.5	7.0	6.7		
(In billions of U.S. dollars)	0.8	0.7	1.1	1.0	1.5	1.6	1.5	1.9	1.9	2.0	2.0	2.1		
Scenario with key variables at their historical averages 7/							56.8	53.6	50.5	47.5	44.7	42.3		
Scenario with constant primary balance in 2009–14							59.5	59.9	61.4	63.3	65.9	68.6		
Key macroeconomic and fiscal assumptions underlying baseline							10-Year Historical Average	10-Year Standard Deviation						
Real GDP growth (in percent)	4.2	8.6	8.1	8.0	6.6	5.6	6.0	1.8	3.0	4.0	4.5	5.0	5.5	5.5
Average nominal interest rate on public debt (in percent) 8/	4.2	3.2	3.7	4.2	5.0	4.6	4.5	0.7	4.9	5.0	4.8	4.6	4.5	4.4
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	2.1	0.1	1.4	-4.6	0.5	-10.0	0.8	4.9	-0.1	1.5	2.7	2.5	2.3	2.5
Nominal appreciation (increase in US dollar value of local currency, in percent)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inflation rate (GDP deflator, in percent)	2.1	3.1	2.4	8.8	4.5	14.6	3.6	4.7	5.1	3.6	2.1	2.1	2.2	1.8
Growth of real primary spending (deflated by GDP deflator, in percent)	5.7	27.5	7.3	2.3	15.7	6.4	7.7	8.5	-1.3	1.8	4.1	4.2	4.4	5.0
Primary deficit (including grants)	-4.5	-1.1	2.0	0.5	2.8	3.4	0.1	2.3	2.6	3.7	3.5	3.3	3.0	2.8

- 1/ Public debt is defined as central government and government guaranteed debt. The domestic component is net of government deposits with the banking system.
2/ Derived as $[(r - p(1+g) - g + ae(1+r))/(1+g+p+gp)]$ times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
3/ The real interest rate contribution is derived from the denominator in footnote 1/ as $r - \pi(1+g)$ and the real growth contribution as $-g$.
4/ The exchange rate contribution is derived from the numerator in footnote 1/ as $ae(1+r)$.
5/ For projections, this line includes exchange rate changes.
6/ Defined as public sector deficit, plus amortization of medium- and long-term public sector debt, plus short-term debt at end of previous period.
7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
8/ Derived as nominal interest expenditure divided by previous period debt stock.

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



Sources: Jordanian authorities; and Fund staff estimates.

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

2/ Shaded areas represent actual data. Individual shocks are permanent 1/2 standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. The end-period values are also shown.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.

4/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2009.

Appendix II. External Debt Sustainability Analysis

Jordan's external debt is relatively low but remains vulnerable to adverse shocks. The external debt ratio declined sharply to 25 percent of GDP following the \$2.1 billion buyback of Paris club debt and is expected to fall under 20 percent by 2011. The projections are based on the current outlook for commodity prices—particularly for food and fuel—and expectations that Jordan will continue to pursue cautious external borrowing policies, relying predominantly on concessional sources of external financing from multilateral and regional development banks.

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

- The standard bound tests reveal that external debt sustainability is most vulnerable to developments in the current account position. If the actual current account were one-half standard deviation worse than currently assumed, the debt ratio would edge up slightly throughout the projection period.
- An important source of risk is a sharper slowdown in current account inflows and FDI if the global/regional downturn proves deeper than currently expected. An impact of such a slowdown is illustrated in an alternative scenario that envisages a 20 percent decline in 2009–10 in remittances and tourism flows, as well as FDI, relative to the baseline.¹ Under this scenario, the debt ratio deteriorates to slightly above 30 percent by end-2010.
- Bound tests show that the debt-to-GDP ratio is robust to shocks in the external interest rate or GDP growth. A sharp depreciation would lead to an immediate deterioration in the debt ratio but would not have a major adverse impact over time because of the relatively low stock of projected external debt.

¹ The total impact of the shock is likely overstated, since imports are assumed to be unaffected by the decline in inflows.

Table A.2. Jordan: External Debt Sustainability Framework, 2003–14
(In percent of GDP, unless otherwise indicated)

	Actual						Projections						Debt-stabilizing non-interest current account 6/ -12.0
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	
1 Baseline: External debt	74.5	66.1	56.5	49.3	44.8	25.8	23.3	20.9	18.7	16.5	14.4	12.8	
2 Change in external debt	-3.6	-8.4	-9.6	-7.2	-4.5	-19.1	-2.4	-2.5	-2.2	-2.2	-2.1	-1.6	
3 Identified external debt-creating flows (4+8+9)	-15.0	-13.3	5.6	-11.2	-10.7	-8.1	1.6	-1.3	-2.3	-2.7	-2.5	-2.5	
4 Current account deficit, excluding interest payments	-13.9	-2.1	16.0	9.4	16.3	11.1	10.1	10.0	9.9	9.3	9.3	9.2	
5 Deficit in balance of goods and services	-21.0	-30.2	-41.4	-34.5	-39.4	-34.5	-30.2	-28.2	-28.4	-28.1	-27.7	-27.3	
6 Exports	47.4	52.2	52.5	54.7	55.4	61.0	51.0	52.1	53.0	53.7	53.9	54.2	
7 Imports	-68.3	-82.4	-93.9	-89.2	-94.9	-95.5	-81.2	-80.3	-81.4	-81.8	-81.6	-81.5	
8 Net non-debt creating capital inflows (negative)	1.0	-5.3	-5.0	-16.7	-21.6	-18.1	-8.5	-11.1	-11.9	-11.7	-11.4	-11.4	
9 Automatic debt dynamics 1/	-2.1	-5.9	-5.4	-3.9	-5.4	-1.0	0.0	-0.2	-0.3	-0.4	-0.4	-0.3	
10 Contribution from nominal interest rate	1.7	1.4	1.4	1.5	1.4	1.1	0.7	0.7	0.6	0.5	0.4	0.4	
11 Contribution from real GDP growth	-3.1	-5.8	-4.8	-4.1	-2.8	-2.1	-0.7	-0.9	-0.9	-0.9	-0.8	-0.7	
12 Contribution from price and exchange rate changes 2/	-0.7	-1.6	-2.0	-1.3	-4.0	-1.9	...	...	...	...	...	...
13 Residual, incl. change in gross foreign assets (2-3) 3/	11.5	4.9	-15.2	4.0	6.2	-11.0	-4.1	-1.2	0.1	0.5	0.5	0.9	
External debt-to-exports ratio (in percent)	157.3	126.6	107.5	90.2	80.9	42.2	45.7	40.0	35.2	30.6	26.7	23.6	
Gross external financing need (in billions of US dollars) 4/	-0.7	0.6	2.7	2.2	3.5	2.9	2.8	2.9	3.1	3.1	3.3	3.4	
in percent of GDP	-6.9	4.9	21.8	14.5	21.2	14.4	11.7	11.2	10.9	10.3	10.1	9.8	
Scenario with key variables at their historical averages 5/							11.4	0.3	...	...	...	...
Scenario with 20 percent temporary (2009-10) shock to FDI, remittances and tourism receipts							29.1	32.3	28.8	25.5	22.6	20.1	
Key Macroeconomic Assumptions Underlying Baseline							<u>Historical Average</u>	<u>Standard Deviation</u>					
Real GDP growth (in percent)	4.2	8.6	8.1	8.0	6.6	5.6	6.0	1.8	3.0	4.0	4.5	5.0	5.5
GDP deflator in US dollars (change in percent)	0.9	2.1	3.1	2.4	8.8	4.5	3.6	4.7	14.6	5.1	3.6	2.1	2.1
Nominal external interest rate (in percent)	2.3	2.0	2.4	2.9	3.3	2.8	2.6	1.0	3.1	3.1	3.1	3.0	2.8
Growth of exports (US dollar terms, in percent)	6.3	23.3	11.4	22.2	13.0	33.3	13.6	11.0	-9.5	10.0	8.6	8.6	8.3
Growth of imports (US dollar terms, in percent)	9.1	35.0	26.1	11.6	18.5	21.9	14.6	11.2	-8.0	6.5	8.2	7.7	7.6
Current account balance, excluding interest payments	13.9	2.1	-16.0	-9.4	-16.3	-11.1	-1.1	11.1	-10.1	-10.0	-9.9	-9.3	-9.3
Net non-debt creating capital inflows	-1.0	5.3	5.0	16.7	21.6	18.1	11.1	9.6	8.5	11.1	11.9	11.7	11.4

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

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

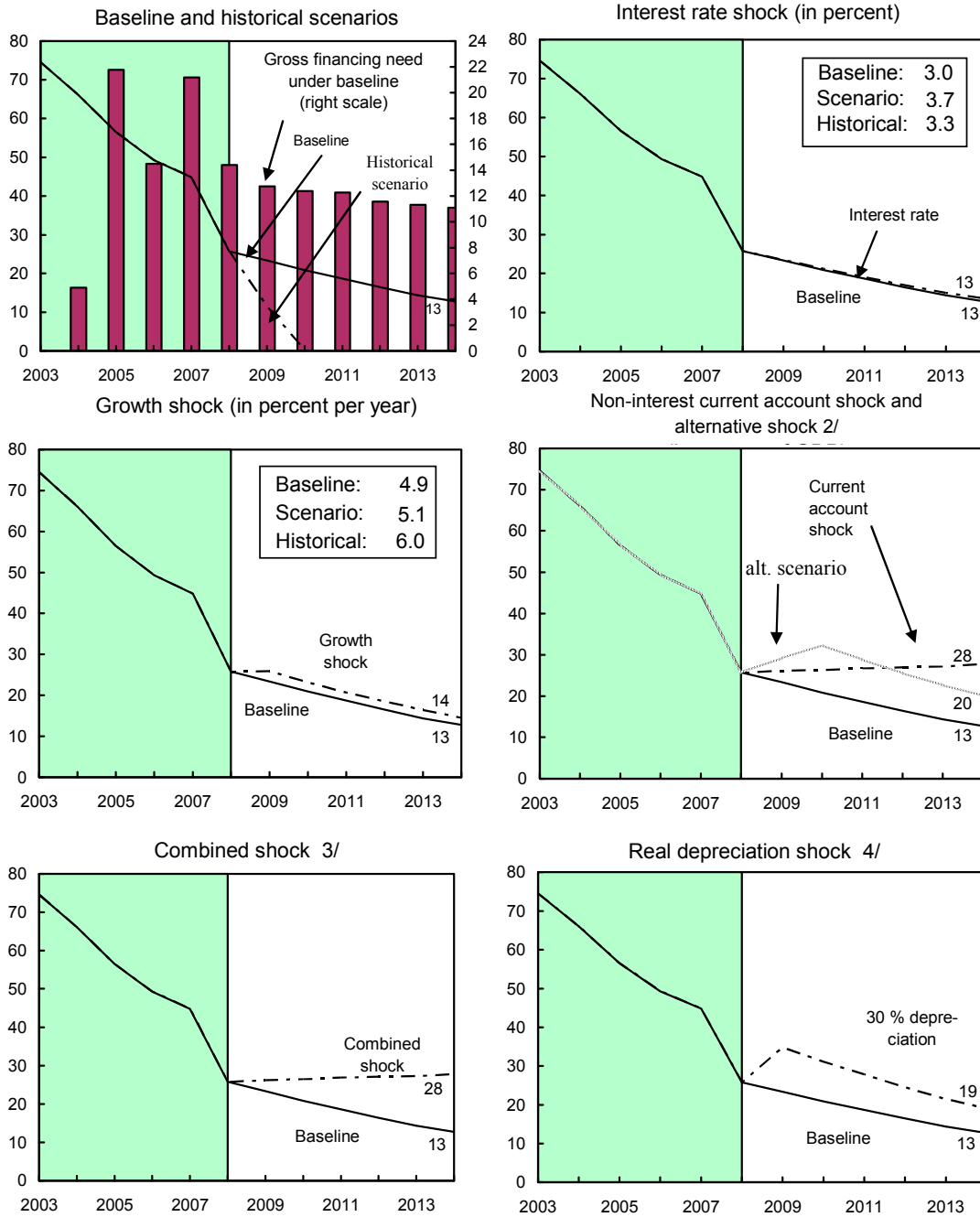
3/ The large residual term in 2008 reflects a Paris Club debt buyback of 11 percent of GDP. For projection, line includes the impact of price and exchange rate changes.

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

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

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

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



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

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

2/ Alternative scenario: temporary (2009-10) adverse 20 percent shock to remittances, tourism and FDI inflows.

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

4/ One-time real depreciation of 30 percent occurs in 2009.

INTERNATIONAL MONETARY FUND

JORDAN

Staff Report for the 2009 Article IV Consultation—Informational Annex

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

April 8, 2009

	Contents	Page
Annexes		
I. Relations with the Fund.....		2
II. World Bank Group Strategy and Operations		5
III. Statistical Issues		8

Annex I. Jordan: Relations with the Fund
(As of February 28, 2009)

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

II.	General Resources Account:	SDR million	Percent of Quota
	Quota	170.50	100.00
	Fund holdings of currency	186.87	109.60
	Reserve position in Fund	0.26	0.15
III.	SDR Department:	SDR million	Percent of Allocation
	Net cumulative allocation	16.89	100.00
	Holdings	1.96	11.62
IV.	Outstanding Purchases and Loans:	SDR million	Percent of Quota
	Extended Arrangements	16.62	9.75

V. **Latest Financial Arrangements:**

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

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

	Forthcoming				
	2009	2010	2011	2012	2013
Principal	14.08	2.54			
Charges/Interest	0.16	0.11	0.09	0.09	0.09
Total	14.24	2.64	0.09	0.09	0.09

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

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

IX. **Article IV Consultation:** The 2008 Article IV consultation was concluded by the Executive Board on May 19, 2008. Two Financial Sector Assessment Program missions visited Jordan in August and September 2003, and the Financial System Stability Assessment (FSSA) was published in January 2004. The Ex Post Assessment (EPA) of Jordan's Longer-Term Program Engagement was published in November 2005.

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

XI. **Documents:**

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

Jordan: Technical Assistance, 2000–08

Date	Purpose
Fiscal	
May 2000	Framework for managing nontreasury accounts
September 2000	Oil pricing mechanism
January–June 2002	Pension reform
January–September 2002	GST reform
November 2002	Macrofiscal capacity and treasury single account
February, October 2003	Revenue administration reform
June, August, December 2003	Peripatetic advisor on single treasury account
February, June, October 2004	Peripatetic advisor on revenue administration reform
February, May 2004	Public expenditure management
August 2004–June 2005	Resident expert in macrofiscal management
February 2005	Distributional effects of replacing oil subsidies
February–March 2005	Revenue administration reform
April 2005	Fiscal ROSC
February, May 2006	Public financial management
April–August 2006	Expert visits on revenue administration reform
October–November 2006	Revenue administration inspection visit
March–April, July, December 2007	Revenue administration reform (METAC)
June 2008	Treasury single account and cash management (METAC)
Monetary and Financial	
January–February, April–May 2001	International reserve management
April–May 2008	Debt management strategy
Statistical	
July 2000	National accounts statistics
January–February 2002	Report on the Observation of Standards and Codes—Data module
December 2003	Follow-up on Report on the Observation of Standards and Codes—Data module
Oct. 2003–Jan. 2004, Mar.–May 2004	Balance of payments statistics
April–May 2004	Government finance statistics
December 2006	National accounts statistics
October–November 2006	SDDS Assessment mission
July 2007	Follow-up on SDDS/Government Finance Statistics
October 2008	Monetary and Financial Statistics
February 2009	National accounts statistics (METAC)
Other	
March 2008	Financial programming workshop

Annex II. Jordan: World Bank Group Strategy and Operations

1. As of December 31, 2008, Jordan had received 72 World Bank (Bank) loans, 2 guarantees, and 15 IDA credits totaling \$2,405 million net of cancellations and terminations. Of the \$2,405 million, \$2,195 million have been disbursed to date. All the credits and 65 of the loans have been fully disbursed. There are seven active projects in the Bank's portfolio for a total of \$303.5 million. Overall performance of the portfolio is good, both from the perspective of implementation and development impact. This reflects the generally good project implementation capacity of Jordanian institutions, Jordan's strong ownership of the program, and the quality of the dialogue between the Bank and the government of Jordan.

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

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

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

4. Since the CAS discussions, the Bank has approved five investment loans and one supplemental loan for a total commitment amount of US\$146 million, focusing on assisting Jordan achieve a regionally balanced and equitable growth including access to services, employment opportunities, and private investments outside Amman; enhancing social protection; and reforming the vocational and training sector. The Bank has also approved a partial risk guarantee for the Amman East 370 MW power plant for US\$45 million. Two additional investment projects focusing on education and higher education reform (for about US\$45–85 million) and a partial risk guarantee (for about US\$47 million) are scheduled to be presented to the Board this fiscal year. Jordan has sought Bank support to develop overall policy frameworks and serve as a catalyst for additional financing.

5. The Government of Jordan (GoJ) has sought programmatic assistance from the Bank to accompany the reforms (many underpinned by diagnostic work) during the implementation phase. During the remaining CAS period, the Bank will continue to provide programmatic support in key areas, including public expenditure management, social insurance, poverty monitoring, and energy sector reform.

6. World Bank Group support to private sector development will continue to focus on improving the investment environment, public private partnership, partial risk guarantees for major projects (envisaged to attract private sector participation and to provide a better financial package for critical projects in water and energy), and, in the case of the IFC, direct investment. In FY08, IFC committed its largest investment program in Jordan—US\$243 million in 8 projects—increasing the total committed portfolio to US\$253 million. The IFC is playing a key role in supporting most of the strategic projects in Jordan. The GoJ has brought a number of key infrastructure projects to the market for private participation. The IFC is well positioned to support and mobilize financing to a number of these projects in transportation, water, power, and ports. The IFC's advisory activities in Jordan intend to fill the gaps and address critical areas for private sector development, such as improving the investment climate.

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

Jordan: JMAP Implementation, FY09–10

Title	Products	Provisional timing of missions	Expected delivery date
A. Mutual information on relevant work programs			
Bank work program in next 12 months	Country Assistance Strategy Progress Report Price Shocks and Subsidy Reform: Fiscal and Poverty Impact Study ICR ROSC PFM TA (MTEF and budget preparation) Statistics TA (household survey, poverty mapping, wage and earnings data, and statistical master plan) Sector work on the social safety net, energy, and PPP framework	Main Mission 1/2009 Board Disc. 4/2009 Main Mission: 9/2008 Main Mission: 1/2009 Report: 4/2009 Ongoing Ongoing Work will be ongoing throughout FY09. Next Mission dates: Energy Strategy: 02/2009 Social Insurance: 3/2009 PPP: 1/2009	FY09 FY09 FY09 FY09 FY09
IMF work program in next 12 months	Staff visit (budget discussion) Article IV consultation	August 2009 March 2009	August 2009 May 2009
B. Requests for work program inputs (as needed)			
Fund request to Bank	Information sharing (related to economic work and technical assistance)	Ongoing	
Bank request to Fund	Assessment of macroeconomic policies and prospects Data sharing	Semiannual (and on ad hoc basis if requested) Ongoing	Following Article IV and staff visits
C. Agreement on joint products and missions (as needed)			
Joint products	FSAP update Debt management TA	October 2008 June 2009	With 2009 Article IV August 2009

Annex III. Jordan: Statistical Issues

1. Data provision is adequate for surveillance purposes. However, staff's analysis would be facilitated by improvements in the coverage of fiscal, external, and national accounts statistics.
2. Jordan has participated in the General Data Dissemination System (GDDS) since September 2000. GDDS metadata were last updated in May/June 2007. An update to the data module for the Report on the Observance of Standards and Codes (ROSC) was posted in February 2004. Special Data Dissemination Standard (SDDS) assessment missions visited Amman in late 2006 and July 2007 to assist with preparations for SDDS subscription.
3. **Real sector.** During the past few years, progress has been made toward enhancing the quality of national accounts statistics. Continued improvement requires a strong commitment and allocation of additional resources. Additional efforts are needed to improve quarterly estimates of the national accounts from the production approach and the annual estimates from the expenditure approach, as well as the coverage of informal activities. Also, discrepancies between the industrial production index and the gross value added estimates for the manufacturing sector need to be addressed. New surveys have been implemented to improve the compilation and timeliness of wages and earnings data.
4. Both the **Consumer Price Index (CPI)** and the **Producer Price Index (PPI)** are considered of good quality. The CPI—rebased and updated with 2006 weights starting from January 2009—covers all main urban centers and cities at the governorate level. The PPI has been compiled since 2000; weights are derived from the 1999 Survey of Industry at the 4-digit level, and within each industry, weights are based on the 1999 Economic Establishment Census.
5. **Government finance.** In July 2007, an STA mission undertook a review of the metadata needed for subscription to the SDDS and assisted in the compilation of financing data on the central government and general government operations. The mission found that government finance statistics for the budgetary central government cover only those transactions of the budgetary central government that are channeled through the treasury account and exclude all other transactions of the government ministries such as grants and loans, earmarked taxes, and privatization receipts. In addition, social security and extrabudgetary agencies are not included in the fiscal accounts. Improvements in the coverage and dissemination of government finance statistics will be needed ahead of SDDS subscription, including:
 - dissemination of data on central and general government operations with SDDS-prescribed coverage, periodicity, and timeliness in accordance with the classification and sectorization systems recommended by the *GFSM 2001*;

- enhanced procedures for the verification of internal and intersectoral consistency of the stock and flow data that serve as a source for compiling government finance statistics; and
- strengthening government financing data by instrument and residency consistent with SDDS requirements.

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

7. **Balance of payments (BOP) statistics.** The CBJ has adopted the methodology of the fifth edition of the Balance of Payments Manual (BPM5) for the compilation of the BOP statistics and the international investment position (IIP), and has disseminated data in the BPM5 format. The implementation of surveys in the area of services is important for further improving the quality of the BOP statistics. Moreover, the CBJ has started compiling and disseminating the reserves template on the CBJ's website. The IIP data for 2004–05 incorporates the results of the Department of Statistics foreign direct investment survey released in May 2007. However, the recent sharp increase in errors and omissions points to potentially serious issues in the BOP statistics and needs to be addressed.

Jordan: Common Indicators Required For Surveillance
As of April 3, 2009

	Date of Latest Observation	Date Received	Frequency of Data 6/	Frequency of Reporting 6/	Frequency of Publication 6/	Memo Items:	
						Data quality—methodological soundness 7/	Data quality—accuracy and reliability 8/
Exchange rates	Apr. 2009	Apr. 2009	W	M	W		
International reserve assets and reserve liabilities of the monetary authorities 1/	Mar. 2009	Mar. 2009	W	M	M		
Reserve/base money	Jan. 2009	Mar. 2009	M	M	M		
Broad money	Jan. 2009	Mar. 2009	M	M	M		
Central bank balance sheet	Jan. 2009	Mar. 2009	M	M	M		
Consolidated balance sheet of the banking system	Jan. 2009	Mar. 2009	M	M	M	O, O, LO, LO	O, LO, O, O, LO
Interest rates 2/	Apr. 2009	Apr. 2009	W	M	W		
Consumer price index	Feb. 2009	Mar. 2009	M	M	M	O, LO, O, O	O, LO, O, O, O
Revenue, expenditure, balance and composition of financing 3/—general government 4/	2008	Mar. 2009	A	A	A		
Revenue, expenditure, balance and composition of financing 3/—central government	Dec. 2008	Mar. 2009	M	M	M	O, LO, LNO, O	O, O, O, O, NA
Stocks of central government and central government-guaranteed debt 5/	Dec. 2008	Mar. 2009	M	M	M		
External current account balance	Q4 2008	Mar. 2009	Q	Q	Q		
Exports and imports of goods and services	Dec. 2008	Feb. 2009	M	M	Q	LNO, LNO, LNO, LO	LNO, LO, LO, LO, LO
GDP/GNP	Q4 2008	Mar. 2009	Q	Q	Q	O, LO, O, O	O, LO, O, LO, LO
Gross external debt	Dec. 2008	Mar. 2009	M	M	M		

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

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

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

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

5/ Including currency and maturity composition.

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

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

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



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IMF Executive Board Concludes 2009 Article IV Consultation with Jordan

On May 4, 2009, the Executive Board of the International Monetary Fund (IMF) concluded the 2009 Article IV consultation with Jordan.¹

Background

Jordan's macroeconomic performance was generally favorable in 2008. Real GDP growth averaged 5.6 percent, only slightly slower than the 2007 pace. Sharply lower world fuel and food prices brought inflation down. After rising to 20 percent year-on-year (y-o-y) in September, mainly because of the previous surge in commodity prices, headline inflation fell sharply to 1½ percent (y-o-y) by February 2009. Lower commodity prices also helped narrow the current account deficit to an estimated 12 percent of GDP in 2008 (from almost 18 percent in 2007). FDI financed about three-quarters of the external deficit, with the remainder largely coming from positive errors and omissions. Official foreign exchange reserves rose to \$7.7 billion by end-2008 (equivalent to about 6 months of imports).

However, Jordan's money and financial markets have weakened since mid-2008. Bank deposits edged down slightly in October but subsequently recovered, with the share of dinar deposits continuing to increase. Bank credit has also slowed sharply in recent months. The stock market has corrected since its June peak, although its performance between the end of 2007 and the end of the first quarter of 2009 (25 percent decline) was better than many other markets in the region

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

The Central Bank of Jordan (CBJ) took pre-emptive steps to maintain confidence and support the domestic money market following the onset of global turbulence. In October, the CBJ announced a full guarantee of all bank deposits until end-2009. Operations to soak up liquidity were also scaled back, and banks' excess reserves increased sharply. In late November, policy interest rates were cut by 50 bps and the reserve requirement by 100 bps. The deeper cuts by the U.S. Federal Reserve, however, resulted in a widening of the interest rate differential against the dollar—to which the dinar is pegged. With reserves continuing to build, headline inflation moderating rapidly, and bank credit decelerating, the CBJ cut rates by a further 50 bps in mid-March 2009 and announced that the reserve requirement would be reduced by another 100 bps from end-April.

High fuel and food prices and softening domestic revenues put pressure on the fiscal position in 2008. The deficit excluding grants reached 11.2 percent of GDP, against 8.9 percent in 2007. The outcome could have been much worse—with record world oil prices for much of the year—had it not been for the bold decision in early 2008 to remove fuel subsidies and institute an automatic price adjustment mechanism. Higher grants contained the overall deficit to 6.1 percent of GDP. Rapid nominal GDP growth, together with the Paris Club debt buyback in early 2008, resulted in a substantial reduction in total public debt to around 60 percent of GDP at end-2008 (from 70 percent of GDP at end-2007).

Banking sector profitability and soundness indicators have so far remained favorable. Banks' liquidity ratios are high and funding is predominantly from deposits. Capitalization is healthy, with the moderate decline in the capital adequacy ratio in 2008 owing mainly to the implementation of Basle II standards, especially the incorporation of operational risk. Stress tests conducted for the Financial Stability Assessment Program (FSAP) Update indicate limited exposure to interest rate, liquidity, interbank contagion, and other market risks. However, the tests also identify vulnerability to credit and concentration risks.

Executive Board Assessment

Executive Directors noted that sound macroeconomic management has enhanced Jordan's resilience to the global crisis. Growth continues to be robust, international reserves have strengthened, and the banking sector remains healthy and profitable. Going forward, Directors emphasized that, in light of the economy's close ties with the region and reliance on external financing, near-term policies should remain focused on guarding against vulnerabilities, while progress in structural reforms should be expedited to strengthen economic fundamentals and enhance competitiveness. They encouraged the authorities to remain vigilant if the slowdown in growth is deeper than anticipated.

Directors agreed that the fiscal stance for 2009 strikes a reasonable balance between reducing vulnerabilities and supporting domestic activity. They stressed the need to resist spending pressures and to adjust capital spending plans should grants fall below expectations. Directors welcomed the authorities' commitment to reduce public debt further to meet the legislative requirement by 2011. This will require a credible plan to consolidate public finances over the

medium term, supplemented with the public sector reform strategy, to maintain confidence in the sustainability of fiscal policy and the external position.

Directors recommended attaching top priority to completing the reform of public financial management, especially implementing fully the treasury single account, improving budget classification and control, and further strengthening the medium-term framework for budget formulation and preparation. Directors welcomed efforts to enhance public debt management, which is being supported by Fund technical assistance.

Directors welcomed pre-emptive steps taken by the CBJ in recent months. They saw room for a further cautious easing of monetary policy to support the domestic economy, as long as reserves remain stable. However, external and financial indicators should be closely monitored, with a view to tightening liquidity conditions quickly if signs of balance of payments pressure emerge. At the same time, efforts should continue to develop the domestic money market and strengthen the CBJ's capacity to manage liquidity.

Directors agreed that the exchange rate peg, which has provided stability in the challenging global environment, remains an appropriate nominal anchor. They noted the staff's assessments that there is no clear evidence of real exchange rate misalignment, and that the risk of external instability from the capital account is mitigated by comfortable international reserves.

Directors commended the authorities for taking prompt action in response to the FSAP Update. They considered that the weaker environment underlines the importance of enhancing consolidated supervision, increasing capital adequacy of banks, and developing contingency plans. Directors stressed that recapitalizing the CBJ remains an important medium-term objective.

Directors called on the authorities to expedite progress toward meeting the remaining requirements for the Special Data Dissemination Standard (SDDS) subscription, particularly aligning the coverage of budget revenues and expenditures with government financing flows.

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

Jordan: Selected Economic Indicators

	2005	2006	2007	<u>Prel.</u> 2008
Real sector	(Annual percentage changes)			
Real GDP at market prices	8.1	8.0	6.6	5.6
Consumer price index (average)	3.5	6.3	5.4	14.9
Unemployment rate (percent)	14.8	14.1	13.1	12.7
Gross domestic investment (in percent of GDP)	34.0	30.5	31.4	28.6
Gross national savings (in percent of GDP)	16.6	19.7	13.7	16.1
Public finance	(In percent of GDP)			
Central government revenue and grants	33.2	32.8	33.4	33.0
<i>Of which: grants</i>	5.0	3.2	2.9	5.1
Central government expenditure and net lending 1/	38.2	36.4	39.4	39.2
Central government overall fiscal balance including grants	-5.0	-3.6	-5.9	-6.1
Government and government-guaranteed net debt	83.7	69.9	70.0	60.1
Balance of payments	(In percent of GDP)			
Current account balance (after grants), <i>of which:</i>	-17.4	-10.8	-17.7	-12.1
Exports, f.o.b. (\$ billions)	4.3	5.2	5.7	7.8
Imports, f.o.b. (\$ billions)	9.3	10.3	12.2	15.0
Gross usable international reserves (\$ millions) 2/	4745	6103	6865	7734
In months of prospective import cover	4.7	5.1	4.7	5.8
Relative to short-term debt by remaining maturity	5.8	7.3	7.9	11.6
Money and credit	(Annual percentage changes)			
Broad money	17.0	14.1	10.6	17.3
Credit to private sector	30.3	24.5	15.3	14.8
Exchange rates				
U.S. dollar per Jordanian dinar (end-period)	1.4	1.4	1.4	1.4
Real effective exchange rate (percent change) 3/	-0.3	2.6	-2.5	5.5

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

1/ Including off-budget.

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

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

Statement by Shakour Shaalan, Executive Director for Jordan
May 4, 2009

1. Underpinned by sound macroeconomic policies and strong trade links, Jordan's economy witnessed remarkable economic performance over the prolonged period of time. Intensified implementation of wide-ranging structural reforms for over a decade has also enhanced the investment climate and helped position Jordan as an attractive private capital destination. Sizeable inflows and vigorous domestic investment have steered the economy to unprecedented GDP growth averaging 6½ percent from 2001 to 2007. At the same time, inflation has been generally subdued, public debt is on a declining trend, and reserves are steadily accumulating. The economy's robust performance and its resilience in weathering various external shocks and geopolitical tensions in recent years, has placed it in a strong position to face the ongoing global economic recession.

Recent performance and outlook

2. Robust growth continued for most of 2008 and, in spite of a sharp slowdown in the fourth quarter, still generated an impressive 5.6 percent growth for the year as a whole. After peaking in September 2008 at 20 percent year-on-year, inflation has since dropped down to only 1 percent in February 2009 with the decline in world food and fuel prices and the continued pursuit of prudent policies. These factors facilitated a substantial narrowing in the current account to 12 percent of GDP in 2008 as imports shrank, while tourism receipts increased by nearly 27 percent and mining export demand as well as prices remained buoyant. The current account deficit is likely smaller than reported due to sizeable unrecorded remittance flows and re-exports, currently reflected in errors and omissions in the balance of payments amounting to about 7 percent of GDP. Notwithstanding an outflow of over \$2 billion to buy-back Paris Club nonconcessional debt, official foreign exchange reserves increased to the equivalent of about 6 months of imports by end-2008 and have since continued to accumulate at a steady pace.

3. Although Jordan is not exposed directly to the ongoing financial crisis, domestic financial markets softened since mid-2008. While the stock market index declined from its peak in mid-2008, it remains less affected than many other stock markets in the region. Bank credit growth also slowed overall as banks sought to reduce their exposure to the construction and real estate sectors. However, attesting to the effectiveness of supportive monetary policy actions, bank deposits have continued to edge up and the share of dinar deposits is increasing. Banks rely primarily on domestic deposits for their funding, and as discussed further below, banks had adequate liquidity and capital buffers to weather the downturn in domestic and global economic activity.

4. The authorities consider a growth slowdown to be inevitable, in line with the weakening global and regional activity. However, they see upside risks to staff's projected 3 percent growth rate in 2009. Strong links with regional economies may adversely affect inflows in the near term as Jordan's economy is tied closely to the GCC countries as the primary source of inflows from remittances, tourism, grants, foreign direct investment, other capital flows, and exports albeit to a lesser extent. Nevertheless, these strong links will cushion the export and growth impact on Jordan since the non-oil sector of GCC countries will be experiencing a considerably more modest slowdown than the average for the global economy. Combined with lower food and fuel

prices, the external deficit is projected to narrow on the expectation of lower import costs, and inflation to remain subdued. The authorities believe the positive terms of trade shifts would help prop up domestic demand, providing upside risks to staff's projection.

Monetary and Exchange Rate Policy

5. To safeguard the domestic money market from potential spillovers from the ongoing financial turmoil, the Central Bank of Jordan (CBJ) has promptly undertaken appropriate response measures during the past two quarters. Consistent with the peg to the U.S. dollar, the CBJ had previously raised its policy rates in tandem with the tightening cycle of U.S. interest rates. Since November 2008, however, policy interest rates have been cut in several steps by a total of 150 basis points and reserve requirements brought down by 300 basis points. Notwithstanding these cuts, the interest rate differential with the U.S. has widened since early 2008, which has enhanced the attractiveness of domestic currency denominated assets and supported further reserve accumulation. The previous bank deposit guarantee of JD 10,000 per account was extended to a full guarantee of all bank deposits with effect until end-2009. These measures helped alleviate temporary liquidity pressures that emerged in the interbank market.

6. The recent actions are consistent with the overall monetary policy aim of supporting the exchange rate peg. The dinar's peg to the U.S. dollar has served Jordan well and is a key contributor to financial stability. As domestic inflation temporarily soared relative to trading partners and the dollar strengthened in 2008, the real effective exchange rate appreciated by 6 percent. The most recent decline in inflation suggests that this appreciation has already been reversed. The authorities concurred with staff's technical assessment that the real effective exchange rate is broadly in line with medium-term fundamentals, while noting the inherent imprecision of these estimates and the fact that the "underlying" current account deficit is likely narrower than the recorded deficit.

Fiscal Policies

7. The authorities' remain resolutely committed to fiscal consolidation and debt reduction. Consistent with this goal, the 2008 budget sought to contain the overall deficit including grants to 4½ percent of GDP, by aiming to raise revenue by about 12 percent in nominal terms and to eliminate fuel subsidies that had amounted to 2.7 percent of GDP in 2007, while providing for a sizeable increase in capital spending. A number of factors prevented achievement of this target, pushing the overall deficit to about 6 percent of GDP. A bold subsidy reform was undertaken in early 2008 to eliminate fuel subsidies and revert to full pass-through of world oil prices through an automatic price adjustment mechanism. Without this decision, undertaken in early 2008, the subsidy bill would have swelled and the fiscal outcome would have been considerably worse. However, the cost of food subsidies was higher than expected due to high food prices for much of 2008. Moreover, with the weakening economy in the latter part of 2008, sales tax, customs, and non-tax revenue receipts were considerably weaker than expected. To contain the deficit, the authorities limited capital spending to a much lower level than had been budgeted.

8. The 2009 budget provides for a modest fiscal stimulus while adhering to the fiscal consolidation objective. The budget targets a reduction in the deficit excluding grants by 1½ percent of GDP and aims to increase capital spending by about 2¼ percent of GDP. Last

year's subsidy reforms have provided fiscal space of about 2 percent of GDP but revenue growth may be constrained as the economy slows. Recognizing the limited room for fiscal stimulus, the authorities intend to resist spending pressures and to adjust capital spending plans should grants fall below expectations, or the cyclical weakening in sales and customs revenue to persist.

9. Reducing public debt and strengthening public finances remain key priorities. The recent public debt law sets a ceiling of public debt to GDP of 60 percent by 2011. The aforementioned debt-buy-back operation reduced net public debt to GDP from 70 percent to 60 percent. The authorities agree that meeting the legislative requirement by 2011 requires a reduction of the deficit from its present level by over 1 percent of GDP a year, and that given the relatively high revenue ratio, the bulk of adjustment must come from the expenditure side. The public sector reform strategy aims to support this goal, as would ongoing efforts to enhance financial control and improve the efficiency of expenditures. In addition, to strengthen public financial management, the authorities are implementing a Treasury Single Account, improving budget classification, and preparing for a financial management information system.

Financial System Stability Assessment (FSSA)

10. The authorities welcomed staff's Update to the 2003 FSAP and considered its findings broadly reassuring. Jordan's banking system is profitable and well capitalized, and it is in a strong position to face any potential impact on credit quality from deteriorating global economic conditions, should those arise. Banks maintain capital ratios well above the regulatory minimum 12 percent ratio, and stress tests have shown them to be broadly robust to interest rate and exchange rate risk and to a substantial increase in nonperforming loans. Notwithstanding these strengths, the CBJ remains vigilant in monitoring bank performance and calling for additional safeguards. For example, to protect against potential credit quality deterioration stemming from large borrowers or other severe increase in nonperforming loans, the CBJ has recently urged banks to bolster their capital buffers.

11. Supervision has been considerably strengthened in recent years. This is reflected in the high degree of compliance with Basel Core Principles (BCP). Staffing resources have been augmented in the supervisory functional units and CBJ officials have commenced on-site supervisory visits to foreign subsidiaries of large banks, consistent with staff's advice related to minimizing cross-border risks through consolidated bank supervision. To enhance supervision of the insurance sector, the Insurance Commission (IC) has been actively issuing regulations and instructions covering a wide range of domains (including investments, internal control, reinsurance and consumer protection). The IC is also implementing a new risk-based supervision framework and a draft law aims to strengthen risk management.

12. Financial deepening has been an important contributor to recent growth. Financial intermediation is relatively deep and stock market capitalization is relatively high, and the insurance market is growing. Nevertheless, the authorities see scope for further developing the financial sector and expect access to finance will be enhanced with the planned decrease in the credit registry's loan threshold following the rollout of the automated data collection system.

13. On behalf of the authorities, I would like to thank staff for their dedicated work on Jordan and candid advice. The authorities value the constructive engagement of staff and management with Jordan. They appreciate the analysis provided by the Article IV staff team as well as the team of staff and experts who worked on the FSAP Update and those who have been providing helpful technical assistance from headquarters and through the Middle East Technical Assistance Center (METAC).