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REPORT AND RECOMMENDATION

OF THE

PRESIDENT OF THE

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED LOAN

IN AN AMOUNT OF US$120 MILLION

TO

THE HASHEMITE KINGDOM OF JORDAN

FOR A

SECOND ECONOMIC REFORM AND DEVELOPMENT LOAN

November 14, 1996

PRINCIPAL ABBREVIATIONS AND ACRONYMS USED

ACC	=	Agricultural Credit Corporation
ACSD	=	Amman Clearing Settlement, and Depository Company
AFM	=	Amman Financial Market
ARC	=	Aqaba Railways Company
ASE	=	Amman Stock Exchange
CAS	=	Country Assistance Strategy
CBJ	=	Central Bank of Jordan
CG	=	Certificate of Deposit
CG	=	Consultative Group
CVDB	=	Cities and Villages Development Bank
DDSR	=	Debt/Debt Service Reduction
EFF	=	Extended Fund Facility
ERDL	=	Economic Reform and Development Loan
ESAL	=	Energy Sector Adjustment Loan
EU	=	European Union
GCC	=	Gulf Cooperation Council
GDP	=	Gross Domestic Product
GST	=	General Sales Tax
GTZ	=	Gesellschaft für Technische Zusammenarbeit
IDB	=	Investment Development Bank
IDECO	=	Irbid District Electricity Company
IDF	=	Institutional Development Facility
IFC	=	International Finance Corporation
ISA	=	Insurance Supervision Agency
JEA	=	Jordan Electricity Authority
JEPCO	=	Jordan Electric Power Company
JIC	=	Jordan Investment Corporation
JSEC	=	Jordan Securities Exchange Commission
NAF	=	National Aid Facility
NBFI	=	Non-Bank Financial Institutions
NGO	=	Non-Government Organizations
NPV	=	Net present value
PTC	=	Public Transport Company
SSC	=	Social Security Corporation
TCC	=	Telecommunication Corporation
UNCTAD	=	United Nations Commission of Trade and Development
USAID	=	United States Agency for International Development
WBG	=	West Bank & Gaza
WTO	=	World Trade Organization

Currency Unit = Jordanian Dinar (JD)
(As of October 15, 1996)
US$1.00 = JD 0.7
JD 1.00 = US$1.43
JD 1.00 = fils 1,000

GOVERNMENT OF THE HASHEMITE KINGDOM OF JORDAN

FISCAL YEAR
January 1 - December 31

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HASHEMITE KINGDOM OF JORDAN

SECOND ECONOMIC REFORM AND DEVELOPMENT LOAN

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HASHEMITE KINGDOM OF JORDAN

SECOND ECONOMIC REFORM AND DEVELOPMENT LOAN

LOAN SUMMARY

Borrower:	The Hashemite Kingdom of Jordan.
Amount:	US$120 million.
Terms:	Repayment on 17 years, including 4 years at grace, US$ LIBOR based at variable rate, on the Bank's standard terms.
Loan Objectives:	A key objective of the series of Economic Reform and Development Loans (ERDLs), of which this is the second, is to support Jordan in addressing constraints to rapid and sustained growth imposed by the limitations of a relatively small domestic market. The Government's cross-cutting reforms target close integration with global markets and the establishment of an investment-friendly, efficient business environment. ERDL-II, by supporting further trade liberalization, streamlining of customs procedures and administration, would lead to a sustained growth of exports; through a comprehensive program of privatization, would lead to an efficient production and incentive structure; through financial sector reform, would lead to efficient resource mobilization and allocation; and finally, through streamlining the regulatory framework, would lead to a stable environment that is attractive to private business, ready to compete aggressively in the world markets.
Loan Description:	The Loan supports a series of trade, privatization, financial sector, and regulatory reforms. It would further reduce anti-export bias, foster integration with world markets, and reduce administrative obstacles that raise the cost of trading activity through tariff reductions, elimination of exemptions, and modernization of the Customs Law and administration. It would improve banking competition and the efficiency of financial intermediation. It would reduce special privileges that distort the financial sector and improve viability of financial institutions. It would encourage long-term savings and promote development of new financial instruments and markets. It would encourage entry and improve incentives for domestic and foreign investors. Finally, through privatization, it would improve opportunities for private sector firms, increase competition, and allow the Government to concentrate on its core functions and, thereby, achieve greater efficiency.

Benefits:	The policy package supported by the Loan would lead to the maintenance of high GDP growth supported by robust export performance and a much greater role for the private sector competing in an enabling legal framework. It would: (a) strengthen the incentives for export production through reducing the import costs of capital goods and intermediate goods; (b) benefit domestic consumers by lowering the costs of imported consumption goods; (c) boost national income growth and alleviate poverty; (d) improve resource efficiency and raise factor productivity; (e) help Jordan to attract direct foreign and domestic investment; (f) facilitate Jordan's move toward closer trade relations with the EU and regional economies; and (g) support Jordan's balance of payments financing requirements.
Risks:	The main risk is political and associated with possible reversals in the regional peace process. Macroeconomic stability may be adversely affected by external shocks in terms of possible adverse capital movements or changes on the external demand for Jordanian goods and services. There is also the risk that despite the expectation that reforms would benefit the bulk of the population, vested interests may succeed in arguing against the reforms due to misconceived social and political risks from lowering of trade protection and privatization. The Government has maintained a delicate balance between economic reforms and political stability since 1989. The political liberalization initiated has provided a democratic process for conflict resolution, thus contributing to social and political stability. The Government's appreciation of the political feasibility of the reforms has been factored into the program (e.g. in the phasing of reforms), thereby reducing risks to program implementation. Maintaining the macroeconomic framework, including a realistic exchange rate and an appropriate interest rate policy, would enable Jordan to better cope with external shocks that could take place from changes of capital flows. The assurance of a sound macroeconomic framework has been secured with the successful implementation of the ongoing Fund EFF program.
Disbursement:	The loan would be disbursed in one tranche of US$120 million.
Financing Plan	The Government has requested co-financing from the Netherlands, in an amount of Fl 15 million (US$8.9 million equivalent). The EU is supporting the reforms with financing in the order of ECU 100 million.
Poverty Category:	Not Applicable.

REPORT AND RECOMMENDATION OF THE PRESIDENT OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT TO THE EXECUTIVE DIRECTORS ON A PROPOSED SECOND ECONOMIC REFORM AND DEVELOPMENT LOAN TO THE HASHEMITE KINGDOM OF JORDAN

I submit for your approval the following report and recommendation on a proposed Second Economic Reform and Development Loan (ERDL-II) to the Hashemite Kingdom of Jordan for US$120 million. This loan would be disbursed in one tranche to provide financial support for the trade, financial sector, and legislative policy reforms, as well as the privatization program, that the Government is implementing as part of its medium-term Economic Reform and Development Program (ERDP). This program is described in a Letter of Development Policy (LDP) from the Government (Annex I), and summarized below (paras. 13-19). The loan would be on standard IBRD terms at a variable rate with 17 years maturity, including 4 years of grace.

PART I. THE ECONOMY

RECENT ECONOMIC DEVELOPMENTS

1. Jordan approaches the next century facing a radically different world from that of the early decades following its independence in 1946. With few natural resources (potash, phosphate, Jordan Valley agriculture), the country invested heavily in its human resources during the 1970s and 1980s, and the remittances of skilled Jordanian workers in the Gulf and elsewhere became Jordan's largest single source of foreign exchange. The Cold War, the Arab-Israeli conflict and high oil prices all contributed to high levels of official grants and concessional loan assistance to Jordan from 1973 until 1982. The economic boom ended in 1983 with the fall in the price of oil and subsequent declines in remittances and exports, while foreign grants were halved. Average annual growth during 1983-89 was under one percent. Consumption levels were maintained with ever increasing budget deficits and external debt; internal and external deficits became unsustainable. By 1989, Jordan's inability to meet its external obligations precipitated a crisis which led to a Fund-supported stabilization program and a major Paris Club rescheduling. The adjustment and economic recession reduced real per capita income to about half its 1987 peak of US$2,100. With the advent of the Gulf crisis in 1990, Jordan faced the new challenge of disruptions of aid and trade, and the return of 300,000 Jordanians from the Gulf area, which pushed unemployment up to 25 percent. Nevertheless, stabilization policies have since been successful: the fiscal deficit and inflation fell, and most prices and interest rates became market determined. Structural constraints to growth have been and are being addressed as the Government is fully committed to open the economy further and give private initiative fuller rein.

2. Since 1989 the Government has pursued an ambitious reform agenda in order to stabilize the economy, improve efficiency, and broaden the role of the private sector. The reform program included measures to reduce the fiscal deficit, maintain a competitive real exchange rate, and restructure the tariff and trade regimes. Fueled by a real estate boom associated with a major inflow of savings from Gulf returnees, real GDP rebounded in 1992 with

growth of 16 percent. Growth was about 6 percent in both 1993 and 1994, while inflation declined to less than 4 percent. In 1995, growth is estimated to have accelerated to 6.4 percent; while construction-led in 1992-94, growth in 1995 was based on a recovery in agriculture, a pick-up in tourism and trade-related activities, and an expansion of traditional mining activities. Inflation further declined to 3 percent in 1995, despite indirect tax increases, reflecting increased supply of agricultural products and prudent demand management. The rebound in domestic economic activity helped reduce the unemployment rate from its peak of 25 percent in 1991, but it still remains high at about 13-15 percent.

3. After a small increase in the fiscal deficit in 1994, mainly due to a sharp decline in customs duties and non-tax revenues, in 1995 both the primary and overall fiscal balance, excluding foreign grants, are estimated to have improved by one percent of GDP, owing to increased revenue collection. The primary balance improved from a 0.6 percent deficit in 1994 to a 0.4 percent surplus in 1995, while the overall fiscal deficit improved from 6.2 percent to 5.1 percent, as the increased revenue from the new general sales tax (GST) and higher non-tax revenue more than offset the decline in customs duties.

4. On the external side, the current account deficit, after a dramatic decline from 11.6 percent of GDP in 1993 to 6.5 percent in 1994, narrowed further to an estimated 3.7 percent in 1995, mainly reflecting the strong performance in exports. Merchandise exports increased by 14 percent in 1994 and 24 percent in 1995, based on an expansion in quantity and higher prices of fertilizers and potash exports and a strong performance of nontraditional exports, which grew by almost 30 percent. Imports actually declined in 1994, but showed a marked shift in favor of raw materials and capital equipment, which allowed for sustained economic expansion. This shift continued in 1995; while total imports increased by 9.5 percent, raw material imports grew by 27 percent. Service receipts also registered a significant improvement in 1995, with tourism revenue up by 24 percent and remittances by 13 percent. The capital account improved during 1994 and showed a surplus in 1995 due to increased disbursement of loans by official creditors. Private foreign investment inflows remained modest, while other private capital inflows are on a declining trend.

5. Monetary policy in 1994-95 was geared toward maintaining the attractiveness of JD-denominated financial assets, in support of a stable exchange rate policy with the JD tightly linked to the US dollar. Following pressure on official foreign exchange reserves, the Central Bank of Jordan (CBJ) raised domestic interest rates starting in July 1994 and maintained subsequent interest differentials of about 300 basis points in favor of JD-denominated financial assets relative to foreign. By January 1996 further increases in domestic rates had extended this spread to 400 basis points.

MEDIUM-TERM PROSPECTS[1] AND FINANCING PLAN

6. The Government has formulated an adjustment and reform program for the period 1995-98, which is being supported by a new IMF Extended Fund Facility (EFF) and by the Bank through a set of ERDLs. The medium-term program aims at: (a) sustaining past GDP growth rates of at least 6 percent, consistent with the objectives of improving living standards and expanding employment opportunities; (b) sustaining export growth of about 10 percent p.a.;

[1] Key Economic Indicators are presented in Annex IV.

(c) maintaining inflation rates in line with those of industrial countries; (d) narrowing the external current account deficit to below 3 percent of GDP, which would contribute to lowering the debt and debt-service burden over the medium term; and (e) building up international reserves to the equivalent of three months of imports. A further build-up of reserves is envisaged in order to guard against a possible redemption of JDs circulating in the West Bank and Gaza (WBG).

7. The Government has aimed to achieve these growth and stabilization objectives by: (a) steadily reducing the fiscal deficit through containing recurrent expenditures, improving the financial position of public enterprises, and improving the revenue performance; (b) improving management of domestic credit, and maintaining a moderate pace of credit expansion in line with GDP growth; (c) maintaining stable and consistent interest and exchange rate policies; and (d) accelerating structural reforms to spur private-sector-based and export-led growth and investment.

8. To achieve the GDP growth targets, investments in the order of 34 percent of GDP would be required, with private investment playing an increased role (around 28 percent of GDP). Together with the envisaged external current account adjustment to below 3 percent of GDP, such an investment target will require sustained domestic savings. With the fiscal deficit targeted at 2.5 percent of GDP in 1998, domestic private savings will need to sustain its level of at least 14 percent. This assumes that workers' remittances will stay at about 20 percent of GDP, a prospect not unlikely, given the recently intensified efforts to normalize the relationship with Saudi Arabia and other Gulf states.

9. In view of the Government's export-oriented reform program, exports of goods and non-factor services are projected to increase by about 10 percent p.a. in real terms, while imports are estimated to grow in line with GDP. This would allow for an increase in per capita real consumption of about 3.5 percent during the medium term, as compared with an annual decline of 4 percent during 1994-95. Such an increase, together with expanding employment opportunities, should make the reform program politically acceptable and socially sustainable.

10. Despite further significant adjustment, substantial financing gaps in the order of $300-400 million p.a. are projected in the next two years. However, if export growth of 10 percent is realized and the Government moves rapidly on its privatization agenda, Jordan's exceptional financing gaps could well cease by 1999. The short-term financing gap is, to a large extent, caused by the JD redemption from WBG (in the order of $500 million) and the need to build up international reserves to provide a cushion against uncertainties regarding regional developments. As such, the financing gap does not arise primarily from a need to cover current account deficits. A higher level of quick disbursing Bank lending, as well as assistance from the donor community to deal with the rather unique redemption problem, may be required in order to achieve program targets.

11. **Debt and Creditworthiness**. Jordan has managed its external debt with a view to restoring its access to world financial markets. As a result of decreasing new borrowing, debt buy-backs at substantial discounts, and debt reductions totaling US$800 million to date, the debt/GDP ratio has been reduced from 180 percent in 1991 to 105 percent in 1995, and is expected to fall to about 70 percent by 2000 on the assumptions that exports would grow rapidly, that private sector (and foreign) investment would accelerate, and that remittance income would be maintained at current levels in real terms.

12. With a strong adjustment and structural reform program in place, Jordan is expected to enter the ranks of moderately indebted countries within the next couple of years, as the ratio of the net present value (NPV) of debt to GDP is about to fall below the 80 percent mark and the NPV of debt to exports ratio below 100 percent. The debt service to exports ratio at 18 percent is well below the 25 percent mark, where liquidity concerns arise. In October 1995, international commercial credit ratings were for the first time assigned to Jordan's foreign currency debt by Moody's and Standard & Poor (S&P). Jordan is the first country in the Arab world to receive a credit rating from S&P and the second country, after Tunisia, to receive one from Moody's. Given a reform-minded Government, high growth, privatization, the prospect of expanded economic activities with its neighbors, prospective gains from the EU Mediterranean initiative, normalization of relations with the Gulf states, and a highly educated workforce, Jordan should be in a position to attract increasing flows of foreign investment capital.

PART II. THE COUNTRY'S ADJUSTMENT STRATEGY

THE ECONOMIC AND SOCIAL DEVELOPMENT PLAN

13. The Government's Economic and Social Development Plan for 1993-1997 stipulated a range of broad principles which are intended to guide the future course of the national economy. The first principle is the *"liberalization of the economy and its institutions, elimination of distortions obstructing sound economic performance, and development of an appropriate investment climate."*[2]

14. In a subsequent medium-term policy framework paper, the Government in September 1995 further articulated and updated its vision of the path to an open, competitive, business-friendly environment for the end of the 1990s. The goal would be to deepen and extend macroeconomic stabilization, trade liberalization, financial sector reform, legislative reform, and adapt the role of the state to promote a better climate for private sector development and competitive investments.

15. Maintaining **macroeconomic stability** would provide the necessary basis for structural and sectoral reforms which would reduce the reliance on external financing, redress long-term structural imbalances, and enhance the prospects for sustainable long-run growth. In this regard, the Government plans to gradually convert the GST adopted in 1994 into a full value added tax, strengthening the incentive to save. The new Income Tax Law, which was adopted in 1995, rationalizes the tax structure and encourages corporate and personal savings. Continued adoption of strong fiscal adjustment measures, and reforms of public enterprises, would boost public sector savings. The Government will also continue to adopt and improve indirect monetary control mechanisms, such as open market operations, to reduce the costs of financial intermediation and to improve the incentives for financial savings.

16. **Extending trade liberalization** and greater integration into world markets would create the incentives for firms to improve their efficiency and technical standards so as to

[2] *Economic and Social Development Plan 1993-1997, Ministry of Planning, 1993, pp. 103-104.*

realize their export potential. In this regard, the Government is actively: (a) assuring potential investors of its medium-term trade liberalization objectives; (b) negotiating accession to the World Trade Organization (WTO); (c) negotiating a Partnership Agreement with the European Union (EU); (e) further reducing the level and dispersion of tariffs and eliminating most tariff exemptions; (f) setting internationally accepted product standards; (g) streamlining customs procedures; and (h) improving the duty drawback and temporary admission mechanisms for imported inputs to export production.

17. **Financial sector deepening** - efficiently providing a variety of financial services for investors and savers to choose from - in order to mobilize savings for real sector growth, channel them to the best investments, and enable the financial sector to become a growth center in its own right to enable it to compete in serving the regional economies. The Government's reforms are designed to improve competition and efficiency in this sector; and will foster the development of long-term financing instruments, both equity and debt, which are not yet widely available. To this end, the Government is formulating, or has begun to implement, plans to: (a) enhance banking competition; (b) reduce credit subsidies; (c) strengthen bank supervision; (d) facilitate the access of companies to corporate bond financing, and the development of secondary markets for long-term papers; (e) facilitate the development of non-bank financial institutions, such as leasing, factoring, and venture capital companies; (f) completely modernize and computerize trading in shares and the structure of the Amman Financial Market; (g) lift restrictions on the foreign exchange interbank market; and (h) facilitate the development of contractual savings institutions (insurance and pension funds), and strengthen their role as suppliers of long-term finance.

18. The Government is convinced that long-run sustainable growth rests on a growing role of the private sector and **redefinition of the role of the state** in the economy. To this end, Government policy actions will focus first on liberalizing the regulatory framework affecting business entry, operation (including pricing policy), and exit; as well as separating policy, regulatory, and business operation functions. In August 1995, Parliament passed a new Telecommunications Law creating a separate independent regulatory body and opening the sector to domestic and foreign private investors. Parliament has also amended the Income Tax Law and the GST Law, and enacted a new Investment Law. The latter has made approval of investments more automatic, removed the ceiling on foreign investment except for a limited number of strategic sectors, granted national treatment to foreign investors, adopted international practice in dispute settlement, and created more efficient tax incentives for investors. The Government has revised the Customs Law and the entire complex of business laws. In a second, overlapping phase, the Government intends to privatize public enterprises and divest Government holdings in public shareholding companies. It is already selling its shares in hotels, and has announced its intention to privatize the Jordan Telecommunications Corporation, the Jordan Electricity Authority, and Jordan Cement Factories.

19. An important concomitant measure is to ensure that the reforms are politically and socially robust and to address poverty in the short term through the *provision of compensatory mechanisms (consistent with the outward-oriented growth goal) for the poor and those who may suffer temporarily from these reforms*. A vital short-term approach would be to improve the efficiency of the existing social safety nets. These, supported by Governmental agencies and NGOs, include cash transfers, health care subsidies, food coupons, aid to the disabled and orphans, in-kind grants, and employment through income-generating projects. The

Bank's recent Poverty Assessment of Jordan[3] has proposed a number of ways to sharpen the focus and improve the management of the safety nets so as to protect the vulnerable poor most efficiently and effectively. These include centralizing screening activities, shifting the food coupon program to a better targeted income-based scheme and increasing benefits, and strengthening NGOs and the coordination among them. Recently the general bread subsidy was replaced by better-targeted cash transfers. In addition, IFC has started working on a micro-enterprise operation targeted to the poor, and the Bank will follow up on the Poverty Assessment with a view to supporting further measures directed specifically at some pockets of poverty. It should be noted, however, that poverty in Jordan is "shallow" and that the most effective way of alleviation is through broad-based economic growth.

20. In support of the Government's medium-term adjustment and structural reform program, the IMF approved a three-year EFF in May 1994 (SDR 127 million). The Bank supported the program through an Energy Sector Adjustment Loan (ESAL) in FY93 and an Agriculture Sector Adjustment Loan in FY94. The adjustment efforts have been supported also by successive debt rescheduling (March, 1992 and July 1994) through the Paris Club, by a Debt and Debt Service Reduction (DDSR) operation with the London Club, and a debt buy-back arrangement with the former Soviet Union. Official bilateral debt reductions were granted by several creditor countries (e.g., US, UK, Germany, and France) in the order of $800 million. Substantial donor assistance was mobilized through three Consultative Group (CG) meetings (January 1993, May 1994, and July 1996).

21. In order to further support the Government's reforms, the Bank approved the First Economic reform and Development Loan (ERDL-I) in the amount of $80 million in October 1995 with co-financing of $80 million from Japan and $12 million from Italy. After successful completion of scheduled reviews under the EFF program, the Fund in February 1996 replaced the previous EFF ahead of time with a new one, in an amount equivalent to SDR 200.8 million, which represents 55 percent of Jordan's quota on an annual basis. The proposed ERDL-II would support the continuation of the rapid reform pace.

THE MACROECONOMIC PROGRAM FOR 1996

22. Consistent with the medium-term macroeconomic objectives, the program for 1996 aims at: (a) sustaining the growth of real GDP at about 6.5 percent; (b) containing inflation to 3.5 percent, despite the impact of indirect tax increases and reduction in subsidies; (c) reducing the external current account deficit further to below 4 percent of GDP; and (d) providing for an additional foreign exchange reserve build-up of about US$150 million, thus bringing official foreign exchange reserves to about US$620 million (equivalent to about 2 months of imports) by end-1996. An additional reserve build-up of about US$300 million related to the possible redemption of JDs circulating in the WBG is also envisaged, which would raise total official foreign exchange reserves to about US$900 million. The achievement of these objectives hinges critically on continued fiscal consolidation and a tight monetary policy, ensuring the competitiveness of the Jordanian economy; on a strengthening of structural reforms; and on the provision of external financing on appropriate terms.

[3] Report 12675-JO, "Hashemite Kingdom of Jordan: Poverty Assessment", October, 1994.

23. Continued fiscal consolidation remains central to the Government's efforts to further stabilize the economy. Fiscal policy aims at further reducing the budget deficit while simultaneously improving the efficiency of the tax system and the quality of Government expenditure. To this end, a number of measures have been taken recently. In September 1995, several amendments to the GST law were approved by Parliament with a view to improving the design and operation of the system. These included an increase in the basic tax rate from 7 percent to 10 percent, a tax rebate for inputs if the exported final good is tax exempt, extension of the positive list of services subject to GST, voluntary registration of taxpayers below a certain threshold, and provisions for introducing a supplementary duty on alcohol, tobacco, and luxury products to protect revenue in the context of the planned tariff reform. Amendments to the Income Tax Law were also approved by Parliament in September 1995. Under the new legislation, improvements included the elimination of tax holidays (except for less-developed areas); limitation of tax deductibility to net interest payments; reduction of the maximum tax rates for personal and corporate income taxes from 50 percent to 30 percent and from 55 percent to 35 percent, respectively, and in the number of other tax rates; rationalization of corporate tax rates by establishing three flat tax rates of 15 percent for companies in encouraged sectors, 35 percent for banks and financial institutions and 25 percent for all other companies; and encouragement of capital accumulation by imposing a withholding tax of 10 percent on distributed profits.

24. Consistent with the macroeconomic objectives for 1996, the overall fiscal deficit will be further reduced to 4.1 percent of GDP. Government revenues are projected at 30.9 percent of GDP. The recent increase in the GST rate from 7 to 10 percent will more than compensate the revenue losses resulting from the amendments to the personal income tax law and reductions in customs duties. Expenditures are budgeted to decline from 36.5 percent of GDP in 1995 to 35 percent of GDP in 1996. To this end, the Government has reduced the cost of the food subsidy program. The Government is ready to introduce additional fiscal measures to ensure attainment of the overall fiscal balance target should need be.

25. Regarding budgetary and public sector reforms, the Government will take administrative measures to improve the operation of the GST system. It will also formulate a plan for a comprehensive civil service reform program, with a view to containing the wage bill, and in the meantime limit new hiring to fill only half of new vacancies (with most new hiring being in education and health sectors) as well as hire only on a contractual basis. In 1996, subsidies for wheat and animal feed have been replaced with a cash transfer scheme, and targeting of subsidies for sugar, rice and powdered milk was improved by lowering the ceiling for eligibility, reducing the number of beneficiaries by about 150,000. Effective January 1, 1996, the income eligibility threshold for coupons (currently at JD 500 per month) has been based on household income instead of on the income of the household head only. Concurrently, the Government will increase cash transfers to the poor through the National Assistance Fund (NAF). To enhance the effectiveness of the social safety net, the Government is formulating a plan to expand gradually the operations of the NAF to cover all poor, whether working or non-working, starting in 1996, and to refine the present system of means-testing for food coupons in 1996, for implementation in 1997.

26. The Government remains committed to broad nominal stability of the JD vis-à-vis the US dollar. Monetary policy is thus geared to maintaining the relative attractiveness of JD-denominated assets vis-à-vis foreign currency-denominated assets through increased responsiveness in interest rate policy in support of the exchange rate policy. In January 1996,

interest rates were raised by 50 basis points. Consistent with the proposed program targets, domestic credit expansion will be determined with a view to containing monetary expansion at a slower rate than that of nominal GDP growth.

27. Informal estimates of the volume of JD denominated currency and demand deposit holdings in the WBG center around JD 350 million ($500 million). Over the medium term, there will be a cost to Jordan in the form of foregone seignorage resulting from declining demand for JDs as WBG residents replace their JD holdings with a possible Palestinian currency. The prospects for an orderly and negotiated transition through a formal redemption operation increased after the signing of an agreement between Jordan and the Palestinian Authority on January 26, 1995. The exact timing of the issuance of an own currency for WBG is unclear. However, informal redemption has begun already. This has lead to a shift out of JDs and a run on Jordan's foreign exchange reserves, as reputedly happened in April-June 1994 and again in October 1995. The CBJ at that time announced the JD's tight link to the dollar in order to instill more confidence in the currency.

28. The CBJ counteracted the latest attack with an increase in interest rates to 9.5 percent (6-month CDs), which has stabilized the situation. The CBJ is clearly committed to the stable JD/$ exchange rate, that basically has prevailed since the depreciation in 1989. The real exchange rate has appreciated by only 2 percent since then. The macroeconomic fundamentals would not call for a currency realignment for the moment. However, real interest rates in the order of 10 percent or more for business loans may well start to affect Jordan's steady growth performance.

THE PROGRAM SUPPORTED BY ERDL-II

29. The proposed Loan provides continued support from the Bank for the Government's strong reform program which attempts to generate foreign exchange earnings that are sufficient to promote investment and growth and a level of foreign exchange reserves that are sufficient to withstand major external shocks. The Government's strategy calls for promoting and sustaining a high level of exports of goods and services, attracting an adequate level of direct foreign investment, and attracting strategic foreign investors to some at the privatized enterprises to enhance efficiency and competitiveness.

30. The reform package associated with the proposed Loan supports exactly this strategy-- increased competition; removal of an inherent anti-export bias, a modern, computerized financial system; best-practice business laws; and prudent privatization. Collectively, this package would profoundly boost the supply-side of the Jordanian economy and enable private businesses to reap the foreign exchange income from potential markets in neighboring countries and in the EU, with whom a partnership and free trade agreement is about to be signed. Similarly, privatization, in addition to increasing efficiency and investment, could fetch large amounts of foreign currency, which would contribute directly to strengthening of the international reserves position.

31. Nevertheless, reforms need time to take effect, and privatization of large enterprises is complex. Bank projections show that the current financing gap can be closed by about 1999. In the interim period, however, Jordan will need the support of the Bank, the Fund, and the international donor community. The proposed ERDL-II, backed by donor co-financing,

would demonstrate the international community's dedication toward resolving Jordan's short-term plight as well as its support for Jordan's long-term development.

TRADE POLICY

32. As a result of reforms undertaken since 1989 the transparency of the trade regime has been greatly enhanced. Currently, the only instrument of protection is the tariff; import quotas, bans and licensing have all been eliminated. The average level of protection and the dispersion of tariffs have also been reduced significantly through the partial removal of exemptions and a reduction in the maximum tariff to 50 percent. Nevertheless, some anti-export bias continues to prevail. To correct this bias, the Government is continuing to reduce import tariffs and open the economy to foreign trade. Ongoing negotiations with the EU to establish a reciprocal free trade agreement for manufactured goods are expected to be concluded this year, and efforts are being made to accede to the World Trade Organization (WTO).

33. Trade policy reforms supported by ERDL-II are designed to encourage export-oriented investment and production by reducing tariffs (maximum tariff and tariffs on capital goods) and by facilitating trade (through the adoption of measures to speed customs clearance).

34. In order to simplify the tariff structure and increase transparency, three tariff bands (16, 21, and 25) will be eliminated, bringing the total to six (0, 5, 10, 20, 30, and 40). Fees and surcharges that are additional to the tariff will be consolidated into the tariff. With the exception of alcohol and tobacco, the maximum tariff will be reduced to 40 percent. In the case of motor vehicles, this will be accompanied by the adoption of additional sales taxes to ensure that the change is revenue neutral. Tariffs on a set of 492 capital goods will be reduced to zero, and the Government is considering reducing to 10 percent tariffs on an additional 218 capital goods, including computer and telecommunications equipment.

35. The Government will not introduce any more tariff exemptions nor renew current exemptions. In the medium-term this would help offset the revenue loss from tariff reduction and further harmonize the incentive regime confronting investors. In conjunction with accession to WTO an amendment will also be made to the GST Law to equalize sales tax levies on imports versus domestically produced goods, eliminating existing exceptions for domestic producers of clothing, shoes, furniture, and alcohol.

36. The second major component of the reform program concerns facilitation of customs clearance. Chief among the important actions being undertaken by the Government in this area is the drafting of a new Customs law based on international best practices. In addition, a WTO-consistent Safeguard Law is about to be submitted to Parliament. This Law could be invoked should social and economic pressures in the economy as a whole require that a domestic industry be granted extra time to adjust to trade liberalization. Actions designed to avoid delay and uncertainty concerning customs clearance include improvements in temporary entry and duty drawback systems, revisions in the bonus system for Customs officials, the acceptance and clearance by Customs of imports that have undergone pre-shipment certification by accredited certification bodies, a "Green Channel" for easy clearance of imports used in production for exports, as well as an important ongoing three-year program to further simplify procedures, computerize customs, and upgrade and expand training facilities for customs officials being supported by GTZ.

FINANCIAL SECTOR POLICY

37. Jordan has a well developed financial system. The banking sector is generally prudent, competitive, well regulated, and strongly capitalized. There is a fairly sizable securities market with many listed companies, although trading volumes and market liquidity are relatively low. The insurance sector is expanding, while the social security system is in sound financial position with considerable accumulated funds and positive real investment returns.

38. Government policy in the financial sector is directed towards improving competition and efficiency, strengthening prudential regulation and supervision of all segments of the system, promoting the development of non-bank financial institutions such as leasing, factoring and venture capital companies as well as mutual funds and contractual savings institutions (insurance companies and pension funds), and facilitating company access to the corporate bond market.

39. Prudential supervision of the insurance sector will be strengthened through the development of the existing Insurance Control Department within the Ministry of Trade and Industry into an Insurance Supervision Agency with clearly specified inspection and intervention powers. A new securities law is drafted that will create the Jordan Securities and Exchange Commission and two independent private sector bodies, the Amman Securities Exchange and the Amman Clearing, Settlement, and Depository Company, thereby separating the regulatory functions from the technical side of the market. A contract has been signed with the Paris Bourse, which will result in complete computerization of securities trading, clearing and settlement, and depository systems during the next 14 months.

40. Within the banking sector, the Government has agreed on a number of actions designed to equalize treatment among institutions and sectors. The subsidy component embodied in the current set of rediscount and advance rates established by the Central Bank to support the development of agriculture, small handicraft and industry, municipal infrastructure, low-income housing, and exports will be eliminated gradually, except for a maximum of 2 percentage points for exports, agriculture, and handicraft and industry. With the elimination of the subsidy element the Central Bank rediscounting mechanism would remain available, but at market rates of interest.

41. The Government recognizes that the changing financial environment, including greater exposure to exchange and interest rate risks and to competition, necessitates a continuous review and improvement of supervisory methods and procedures as well as prudential regulations. The proposed Loan would support the Government's plan to move away from direct intervention in the day-to-day operation of the banks and give the banks sufficient degree of freedom to manage their portfolio within pre-set ratios. In that respect, the CBJ has already eliminated prior approval of foreign currency lending by exporters and is reviewing ways of substituting discretion with transparent rules for the non-export sectors.

42. The Housing Bank has been made subject to the same Central Bank regulation and supervision as applied to other banks. In addition, draft legislation has been submitted to Cabinet to remove all other privileges enjoyed by the Housing Bank, consistent with maintaining its obligations to low income housing. The draft legislation will include a provision that any subsidy will be made available through a tax credit to the Housing Bank. Such a tax credit would not

exceed the current subsidy extended by the Housing Bank to low income housing. Likewise, as other mechanisms for financial industry are developed (e.g. secured financing, leasing, venture capital, etc.) the Government will move toward integration of IDB within the banking system. In addition, ERDL-II (through an IDF grant) would support the Government's efforts to establish an action plan for agricultural and micro-enterprise finance that would not just extend the needed financing but also help develop the overall financial sector and mobilize savings in rural areas, and would also support the Government's efforts to formulate a time-bound action plan for restructuring the ACC.

PRIVATIZATION AND RESTRUCTURING

43. Jordanian state-owned enterprises are concentrated in the infrastructure sectors (transport, electricity, water, and telecommunications). In addition, through the Jordanian Investment Corporation (JIC), the state-owned investment arm, the Government has substantial share-ownership in mining and cement companies listed on the stock-market, and minority share-holdings in a number of small and medium-sized companies across several sectors, including various financial institutions.

44. Privatization efforts previously have been carried out in an ad hoc and decentralized fashion by several ministries and agencies: The Ministry of Post and Telecommunications has launched an effort to corporatize TCC (Telecommunications Corp.), and the Ministry of Transport has taken initiatives to restructure ARC (Aqaba Railways Company) and PTC (Public Transport Company). While JIC has launched several privatization initiatives, only the sale of two hotels have been transacted. This limited success is attributable to JIC's limited technical capacity in privatization matters and the absence of a clear mandate and guidelines from the Government. In addition, there is some opposition to privatization based on concerns about possible increases in prices and unemployment, and non-transparency of procedures. In order to accelerate progress in privatization, the Government is designing programs that address these concerns explicitly and is issuing clear procedural guidelines mandated by the newly established inter-ministerial privatization committee, and is establishing a Privatization Implementation Office with the responsibility of coordinating the various privatization initiatives and ensuring transparency.

45. While the full implementation of the privatization program will take over two years, during the first phase, the Government has accomplished the following: (a) decision to sell a 26 percent stake of TCC to a strategic investor, registration of TCC as a public shareholding company under the Companies Law, and satisfactory progress toward the recruitment of financial advisors to undertake a valuation of TCC, market the firm to investors, and execute its privatization; (b) the registration of Jordan Electricity Authority (JEA) as a public shareholding company under the Companies Law; the decision to divest Irbid District Electricity Company (IDECO) and Jordan Electric Power Company (JEPCO) and separate the electric distribution net from JEA; (c) the acceleration of efforts to privatize ARC; (d) decision to sell a 20 percent stake of Jordan Cement Factories to a strategic investor; (e) the continuation of privatization efforts within JIC, with two loss-making enterprises being liquidated; and (f) decision to privatize the Public Transport Corporation (PTC); and (g) progress on awarding a concession to the private sector management and investment in the Main Spa Complex.

REGULATORY FRAMEWORK

46. ERDL-I supported the establishment of a business-enabling investment law with strengthened investment incentives; and new laws that would allow for privatization in the energy and telecommunication sectors. The GST Law was amended in order to increase the rate to 10 percent to counter-balance revenue losses from tariff reductions, and tax rebates were introduced for exporters. Furthermore, the Income Tax Law amendment established three flat corporate tax rates--15, 25, and 35 percent--and introduced a withholding tax of 10 percent on distributed profits.

47. The Cabinet, as part of the ERDL-II program, has or is about to approve several important business laws: Securities Law, Safeguard Law, Companies Law, and Customs Law. The latter two already have been transmitted to Parliament. Drafting of a Competition Law, and a Secured Financing and Leasing Law is at an advanced stage. Ensuring coherence and consistency among this complex of laws was an over-arching concern.

48. As noted above, the new Securities Law separates the regulatory and operational functions of the AFM. The Law calls for the establishment of a regulatory body--the Jordan Securities and Exchange Commission--appointed by the Council of Ministers and with broad and well-defined powers over non-banking financial services. The Law would accommodate modern computerized trading by stipulating that (share) ownership does not require the possession of a certificate (scrip).

49. The Companies Law has been amended such that: (a) approval requirements for several sector-specific economic activities are abolished; (b) company registration requirements simplified; (c) other excessively centralized and duplicated licensing requirements abolished; and (d) corporate governance and finance improved. Current obstacles for leasing, factoring, and venture capital companies, and such institutions have been removed. Furthermore, the Government has decided to remove tax on retained earnings and reserves that are converted into paid-up capital. Finally, articles related to securities have been removed from the Companies Law, and instead are addressed in the new Securities Law.

50. A proposed Secured Financing and Leasing Law will permit additional types of property, especially movables, to be used as collateral. The Law enables the creation, registration, and liquidation of collateral security on movable property such as machinery, inventory, and receivables. Under the new law a lender or other credit grantor (e.g., a seller of goods) can secure its loan by creating a security interest in movable property (e.g., equipment, inventory, receivables) and enforce its interest through a simple system of automated notice registration which establishes the lender's priority and prevents double use of assets for collateral. The law encourages lending, expands the number of financial instruments and encourages growth through leverage of property. The Law will also provide an appropriate legal framework for leasing, factoring, and venture capital companies.

51. The new Customs Law is consistent with WTO and establishes the principle of invoice-based valuation of goods combined with a post-auditing system. The principle of self-declaration will be implemented upon completion of computerization of customs. The Law allows for voluntary pre-shipment valuation by international companies as well as a "green channel" for exporters. In addition, a WTO consistent Safeguard Law will be established for the first time.

52. The Government recognizes the importance of enacting an up-to-date Competition Law in order to maintain and encourage competition in domestic markets and foster economic efficiency and consumer welfare. Furthermore, the Law addresses issues related to entry barriers to business, and advocate sound business practices and ethics. Effective implementation of such a law would also enhance the flexibility and the competitiveness of Jordanian industry in an increasingly globalized market environment, and position it to meet some of the requirements of an association agreement with the European Union.

PART III. THE PROPOSED LOAN

53. Design of the Loan. The proposed loan is designed as a single tranche loan to support policy actions taken prior to Board presentation. It responds to a Government request for support for its intensified adjustment efforts. It would represent a continuation of the support provided under ERDL-I, recognizing the successful policy performance under that loan and the comprehensive program of medium-term structural reform, described above, that has already been initiated. The proposed ERDL-II and the ongoing EFF are complementary. Privatization, trade liberalization, legislative reform, and other measures to improve enterprise and financial market efficiency, supported by the Bank, will complement macroeconomic stability established in the context of the EFF program.

54. The proposed loan is fully consistent with the Country Assistance Strategy (CAS) discussed by the Board on October 24, 1995. The centerpiece of the Bank's assistance under the CAS is the series of three adjustment operations to support rapid introduction of broad economic reforms. This program, of which ERDL-II is the second in the series, is phased to help cover the annual financing gap during approximately four years of reforms.

55. Loan Objectives. An important policy direction supported by this loan is the removal of remaining trade and investment barriers paving the way for higher economic growth and export earnings, a closer trade relation (an Association Agreement) with the European Union (EU), and accession to the World Trade Organization (WTO). Further objectives are to broaden and deepen financial intermediation, to provide an enabling business environment and increase the private sector's share of the economy through privatization of public and publicly-owned enterprises. This is expected to reduce uncertainty, raise the level and efficiency of investments and lead to accelerated growth. Furthermore, the proposed loan would provide Jordan with short-term balance of payments support in order to strengthen its international reserves position.

56. Loan Description. The ERDL-II supports trade and investment policy reforms to: (a) further reduce anti-export bias, to foster integration with world markets, and reduce administrative obstacles that raise the cost of trading activity through tariff reductions, elimination of exemptions, and modernization of the Customs Law and administration; (b) improve banking competition and the efficiency of financial intermediation; (c) improve viability of financial institutions and eliminate special privileges that distort the financial sector; (d) encourage long-term saving and promote development of new financial instruments and markets; (e) encourage entry, improve incentives, and offer national treatment to foreign investors; (f) modernize a broad range of business laws; and (g) improve opportunities for private sector firms, increase competition, allow

the Government to concentrate on its core functions, and achieve greater efficiency through privatization and restructuring.

57. Benefits. The ERDL-II would support the deepening and acceleration of the Government's ongoing economic reform and development program. It would: (a) strengthen the incentives for export production through reducing the import costs of capital goods and intermediate goods; (b) benefit domestic consumers by lowering the costs of imported consumption goods; (c) give a boost to GDP and national income growth; (d) improve resource efficiency and raise factor productivity; (e) help Jordan to attract direct foreign and domestic investment; (f) facilitate Jordan's move toward closer trade relations with the EU and regional economies; and (g) support Jordan's balance of payments financing requirements.

58. Risks. The main risk is political and associated with possible reversals in the regional peace process. Macroeconomic stability may be adversely affected by external shocks in terms of possible adverse capital movements or changes in the external demand for Jordanian goods and services. There is also the risk that despite the expectation that reforms would benefit the bulk of the population, vested interests may succeed in arguing against the reforms due to misconceived social and political risks from lowering of trade protection and privatization.

59. The Government has maintained a delicate balance between economic reforms and political stability since 1989. The political liberalization initiated has provided a democratic process for conflict resolution, thus contributing to social and political stability. The Government's appreciation of the political feasibility of the reforms has been factored into the program (e.g. in the phasing of reforms), thereby reducing risks to program implementation.

60. Maintaining the macroeconomic framework, including a flexible exchange rate and interest rate policy stance, would enable Jordan to better cope with external shocks that could take place from changes of capital flows. The assurance of a sound macroeconomic framework has been secured with the successful implementation of the Fund EFF program.

61. Poverty Impact. Even though poverty is not directly targeted, the overall impact on poverty of the reform program, and the breathing space the loan provides, is expected to be favorable as higher growth in the private sector would create new jobs and expand employment. Adjustments in the labor market may, however, be accentuated in the short term as large public sector companies are privatized. The privatization strategy would address such issues as severance payments, early retirements, and programs for redeploying and retraining of workers through its design, but it is important to keep in mind that a key purpose of privatization is to expand infra-structure services. For example, the desired expansion of telephone services from 300,000 lines currently to 1,200,000 lines is likely to be job-creating in at least two ways: (a) construction of the lines; and (b) a growth-enhancing business environment. Nevertheless, subsidies, be it for food or housing, are expected to be better targeted, as agreed under the IMF EFF program. Concurrently, the proposed ERDL-II will commission a study to address the question of better extension of finance to farmers and small- and micro-enterprises. In addition, IFC has started working on a micro-enterprise operation targeted on the poor, and the Bank will follow up on the Poverty Assessment with a view to supporting further measures directed specifically at some pockets of poverty. It should be noted, however, that poverty in Jordan is "shallow" and that the most effective way of dealing with it is through broad-based economic growth.

62. Financing Plan. The Government has requested co-financing from the Netherlands in the order of $9 million equivalent. The EU is supporting the reforms with financing in the order of ECU 100 million.

63. Disbursement. The Borrower will open an account in CBJ. Upon effectiveness, proceeds of the loan will be deposited by the Bank in this account at the request of the Borrower. If after deposit in this account, the proceeds of the loan are used for ineligible purposes (i.e., to finance items imported from non-member countries, or goods or services in the standard negative list), the Bank will require the Borrower to either (a) return that amount to the account for use for eligible purposes; or (b) refund the amount directly to the Bank, in which case the Bank will cancel an equivalent undisbursed amount of the loan. Although routine audit of the account will not be required, the Bank reserves the right to require it.

PART IV. RECOMMENDATION

64. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Bank and recommend that the Executive Directors approve it.

James D. Wolfensohn
President

by Caio Koch-Weser

Attachments

November 14, 1996
Washington, DC

Annex I

بسم الله الرحمن الرحيم

No. .... الرقم

.... التاريخ

Date 11-11-1996 الموافق

المملكة الأردنية الهاشمية
وزارة التخطيط
مكتب الوزير

THE HASHEMITE KINGDOM OF JORDAN
MINISTRY OF PLANNING
MINISTER'S OFFICE

Mr. James D. Wolfensohn
President
The World Bank Group
Washington, D.C.
U.S.A.

Dear Mr. Wolfensohn:

Jordan's Reform Program to build Sustainable Development

1. The Government of the Hashemite Kingdom of Jordan wishes to reiterate its commitment to continue the implementation of the ongoing Economic Reform Program with its primary aim to strengthen the base upon which sustainable development could be built. We also wish to confirm our intention to seek financial assistance from the World Bank under the proposed Second Economic Reform and Development Loan (ERDL-II), a one tranche operation of US$ 120 million. The reforms to be supported through this loan would further strengthen Jordan's ability to attract foreign and domestic private sector investments; enhance external orientation of the economy; boost its export potential; enhance government's privatization efforts; and achieve vital legislative reforms to facilitate the change process. I am also pleased to note that our reform program has again been endorsed by the International Monetary Fund through the continuation of the existing Extended Fund Facility (EFF) covering 1996 through 1998. This letter consists of two parts: an overview of our most recent performances, and an update of the Government's medium-term strategy.

I. OVERVIEW

2. Almost one year ago, we submitted to you a letter of Development Policy in support of ERDL-I outlining an ambitious program of reforms. We are immensely pleased to note here that we have successfully achieved our targets. Presented below is a summary of the recent economic performance and a presentation of the important milestones we have already covered in our march to achieve self reliance.

صندوق بريد ٥٥٥ العنوان البرقي: NPC تلكس: ٢١٣١٩ NPC جو، ٢٤٢٥٨ MINP جو فاكسميلي: ٦٤٩٣٤١ تلفون: ٦٤٤٤٦٦/٧٠-٦٤٤٣٨١/٨٥
P. O. Box 555 Cable : NPC Telex : 21319 NPC Jo, 24258 MINP Jo Telfax : 649341 Tel : 644466/70 - 644381/85

3. **Economic Growth**. Jordan's economy has shown consistent growth since 1992 when the reform program was rejuvenated after the Gulf crisis. Real growth, over the last three years, has been maintained at an average of 6 percent. Preliminary estimates of GDP for 1996 show a growth of about 5.9 percent, led mainly by the increases in the output of agriculture, tourism and mining sectors. During 1995, inflation remained below 4 percent and the external current account deficit was reduced to less than 4 percent of GDP and is expected to be further reduced to 3.1 percent in 1996. The export sector also continued to show improvement. Merchandise exports increased by 14 percent in 1994 and by 25 percent in 1995; the latter showed a strong performance of nontraditional exports which expanded by 24 percent. Import payments declined in nominal terms in 1994, but showed a shift in favor of raw materials and capital equipment, which allowed for sustained economic expansion during 1995-96. This shift continued in 1995, with imports going up by about 10 percent, but those of raw materials increasing by 34.6 percent. While the trade deficit has come down in 1995 from the previous year, it still remains high at about 29 percent of GDP but lower than the 41 percent recorded in 1992. The Government expects that its trade policies will bring it down to manageable levels over the next three to five years.

4. **Macro-economic Stability.** Maintaining macroeconomic stability provided a solid base to pursue structural and sectoral reforms that will gradually improve resource allocation and factor productivity and enhance the prospects for sustainable long-run growth. In this regard, we have raised domestic interest rates and tightened the fiscal expenditures to achieve a stronger level of foreign exchange reserves. To address the underlying structural imbalances in the internal and external accounts, the Government intends to gradually shift the General Sales Tax into a full Value Added Tax (VAT), thus tilting the bias in favor of savings. The basic tax rate was also increased recently from 7 percent to 10 percent. Parliament has approved an amendment to the Income Tax Law with a view towards rationalizing the tax structure and encouraging corporate and personal savings. The Government has also implemented and will continue to adopt strong fiscal adjustment measures, including the reform of public enterprises to boost public savings. Jordan has adhered to the IMF Article VIII regarding currency convertibility for current transactions. Steps to liberalize some categories of capital account transactions have also been initiated by the Central Bank of Jordan (CBJ). CBJ has increased reliance on indirect monetary control mechanisms, such as open market operations, in order to refine credit control mechanisms and to maintain stability in the foreign exchange market. These measures are expected to promote sustainable long-run growth by consolidating the macro-economic gains, reducing the reliance on external financing, and redressing the long-term structural imbalances. The Government's reform program is now well into its implementation phase, and includes major policy and legislative reforms. The program's three main components are: ***achieving economic stabilization, efficiency improvements in the trade regime, and private sector development including an active privatization program.***

5. **Debt Management.** Through prudent borrowing, debt reduction and debt-buyback operations, the Government was able to reduce the stock of its external debt to about 75 percent of its 1991 level. The debt/GDP ratio was reduced from 180 percent in 1991 to 105 percent in 1995. It is further expected to fall to about 77 percent of GDP by year 2001. The ensuing reduction in debt and debt service is expected to significantly improve Jordan's creditworthiness; potential for access to world financial markets; private sector participation in our privatization activities; and investor confidence in the economy.

6. **Private Sector Development.** Mr. President, as you know, our reforms initially concentrated in the areas of trade, finance, and private sector development. Several important actions have already been completed to support the objectives of enhancing the private sector contribution to the economy and to create an enabling environment for private investment, both domestic and foreign. In this connection, we have recently enacted a new Investment Law, to make it more responsive to the private sector initiatives. The Government has removed a number of cumbersome import licensing requirements, lowered the tariff and rationalized the regime, reduced income taxes and streamlined tax procedures. In addition, we have passed new laws in the areas of electricity and telecommunications with a view to opening the sectors up for private investments and allowing for greater competition on a level playing field.

7. The government, in conjunction with its policy to reform the public sector enterprises, has taken a number of initiatives to corporatize and privatize various entities. However, the responsibility and decision process in this area until now had been fragmented over various institutions within the Government. In order to centralize and systemize the approach, the government has recently established a new Privatization Unit under the direct supervision of the Prime Minister. This unit has been charged with the responsibility to develop a comprehensive privatization strategy and to oversee the implementation of all privatization activities in the country. A World Bank grant under the Institutional Development Fund (IDF) has been secured to assist with the initial administrative costs of this unit.

8. **Financial Sector.** In line with the Government's commitment to provide modern financial services to the business community, and to promote Jordan as a regional financial hub, the government has undertaken a serious restructuring effort of the financial sector. The reform program has two basic objectives: firstly, to increase the banking sector's efficiency and improve competition, and secondly, to expand the availability of medium- to long-term finance for investments. Towards this end, Jordan has made substantive progress in adapting to international norms on capital adequacy and prudential regulation. CBJ has made considerable improvement in bank supervision system by instituting full financial disclosure. Furthermore, the CBJ is examining the issues related to deposit insurance to enhance confidence in the system. The CBJ has already adopted a number of measures to replace direct credit control with indirect

monetary instruments in order to encourage competition among the banks. In 1995, as a measure of confidence building, the CBJ removed the credit-to-deposit ratio thus encouraging the evolution of an efficient interbank money market. Finally, a secondary mortgage facility is now being established with the support of a World Bank project to further deepen the capital market and provide new financial instruments.

9. These achievements clearly indicate the strength and comprehensiveness of the Government's reform policy. In addition, the successful implementation of the policies demonstrates the serious commitment of the Jordanian authorities to undertake difficult additional measures in response to changing conditions. Uncertainties in the Middle East Region and the steep increases in the international prices of major food import commodities such as wheat and barley have made the achievement of fiscal targets even more difficult. Nevertheless, the government showed its strong commitment to keep the budget on track and recently implemented a subsidy reform scheme which replaced the generalized subsidy on wheat, barley and animal feed by a cash transfer to households meeting the income eligibility criteria. In line with this policy reform, the price of bread was increased by almost 200 percent from 85 fils to 250 fils per kilogram. This action, however, was balanced by making available cash transfers to the affected people. We expect that during 1996 these policy measures will yield an additional one percentage point reduction in the Government's overall fiscal deficit as percent of GDP.

Medium Term Strategy

10. Jordan has come a long way in its economic reforms and modernization exercise. Because of our reform efforts initiated in 1989, today, we stand much closer to globalizing our economic activity. In addition to our domestic efforts, our success emanates equally from the collective support we have received from our partners in development, both multilateral and bilateral institutions. The World Bank's technical as well as financial assistance has been a paramount factor in this group effort. While the past achievements have been substantial, the future sustainability of economic growth remains deeply embedded in our ability to further deepen the reform process. The government's foreign exchange reserves remain under severe strain caused mainly by the regional, political, and economic uncertainties. In order to face these challenges and to take advantage of new opportunities in the region, the Government this year adopted a more far-reaching macroeconomic adjustment and structural reform program. This program, covering three years (1996-1998), is being supported by a new Extended Fund Facility (EFF) with the International Monetary Fund (IMF). In the second part of this letter, we have elaborated the specific actions and policy changes that have been taken to-date to support this program. We have also provided for each area under reform, the government's medium-term targets to be accomplished over the next two years.

II. THE DEVELOPMENT AND CONTINUATION OF REFORMS

11. A primary objective of the Government's strong reform program remains the enhancement of its ability to generate sufficient level of foreign exchange earnings to promote investment and growth, employment opportunities, and to boost foreign exchange reserves to withstand external shocks. This calls for promoting and sustaining a high level of exports, attracting an adequate level of foreign investment and improving investment efficiencies through reduction of unnecessary bureaucratic bottlenecks, further simplification of customs regulations, enacting business friendly legislation and proceeding with a well thought through privatization program.

12. The reform package supported by the proposed ERDL-II, encompasses exactly this strategy -- **increased competition, liberalized trade regime including removal of any remaining anti-export bias, a modern financial system**, and **best-practice business laws**. This would enable private businesses to reap the foreign exchange income from vast potential markets in the region where pre-Gulf war amicable relationships are now rapidly being restored, and the EU, with whom an association agreement establishing free trade is about to be signed. Similarly, privatization, in addition to increasing efficiency and investment, could generate foreign currency earnings.

13. We fully realize that reforms need time to take effect, and privatization of large enterprises must be well planned and gradual. In the interim period, Jordan needs the support of the Bank, the Fund, and the international donor community to assure the sustainability of its economic progress to-date and to discharge its vital responsibility of making available the basic human needs for its poor and disadvantaged population. Support provided through the proposed ERDL-II, backed by donor co-financing, would show the international community's resolve to the resolution of Jordan's short-term problems.

TRADE POLICY

Background

14. As a result of reforms undertaken since 1989 the transparency of the trade regime has been greatly enhanced. Currently the only instrument of protection is the tariff; import quotas, bans and licensing have all been eliminated. The average level of protection and the dispersion of tariffs have also been significantly reduced. This has been achieved through the partial removal of exemptions and a reduction in the maximum tariff to 50 percent. The import weighted average tariff rate is now 20 percent, down from 34 percent in 1987.

15. The Government recognizes the importance of addressing any remaining anti-export bias , and intends to alleviate these during next year. Maximum import tariffs will be further reduced. Negotiations with the European Union (EU) to establish a reciprocal free trade agreement for manufactured goods are ongoing and are expected to be concluded very shortly. Accession to the World Trade Organization (WTO) is also under active consideration. These are important initiatives that will benefit the Jordanian economy and provide a clear signal to the international financial markets that the Government is fully committed to an open market policy stance.

16. The objective of trade policy reforms is to encourage export-oriented investment and production by facilitating trade and reducing tariff protection. Trade will be facilitated through the adoption of measures to speed customs clearance, especially for exporters. Tariff reduction will center not only on the maximum tariff but also on reducing tariff rates on capital goods and further consolidating the number of tariff bands.

Level and Dispersion of Trade Taxes

17. Approximately 10 percent of all imports (almost 20 percent of the tariff schedule) are subject to a 50 percent tariff. Moreover, many capital goods and some industrial inputs are subject to tariffs exceeding 10 percent. The collected average tariff rate applying to intermediate inputs (raw materials and components) is still 14 percent. These relatively high tariffs give rise to an anti-export bias.

18. The government intends to reduce the maximum tariff to 40 percent, except for alcohol and tobacco, by January 1, 1997. In the case of motor vehicles, this will be accompanied by the adoption of additional general sales taxes to ensure that this is revenue neutral. In order to simplify the tariff structure and increase transparency, tariff bands will be reduced from nine to six (0, 5, 10, 20, 30, and 40). Fees and surcharges additional to the tariff will be consolidated into one single charge (band).

19. Tariffs on a set of 492 capital goods will also be eliminated by January 1, 1997, with a view to encouraging investment and the use of new technologies and harmonizing the incentive regime. Currently, investors benefiting from legislated exemptions do not pay tariffs on these items. Given the difficulty of eliminating the exemptions given under legal agreements, outright abolition of tariffs will ensure that all investors face the same conditions. The Government will also reduce tariffs on an additional 218 capital goods. The affected items are currently subject to tariff ranging up to 50 percent and include tools of various kinds, computers, and data processing, telecommunications, and measuring equipment. Also, duties on parts for capital goods will not exceed 30 percent.

20. The Government has reviewed the current tariff exemption policies and has ceased authorizing any new exemptions. The exemptions existing under the current agreements will also not be renewed once the agreements currently in-force expire. Reduction of exemptions will help to offset the revenue loss from tariff reduction and further harmonize the incentive regime. The Government also intends to equalize sales taxes on all imported and domestically produced goods, according to schedules to be agreed with WTO.

Trade Facilitation

21. The second major component of the reform program concerns facilitation of customs clearance. As of mid-1996, application of a reference price database for valuation of goods has been initiated by Customs. A new Customs law, based on best practices, has been drafted and approved by the Cabinet for submission to the Parliament. The new law requires that valuation be based on self-declaration by importers. The law is consistent with WTO rules and will ensure that protection will only be granted if it is considered to be in the interest of the economy as a whole. In addition, a Safeguard Law has been submitted to Parliament.

22. The temporary entry and duty drawback systems were improved during 1996 through the introduction of computerization as part of a USAID-supported project. The bonus system for Customs officials has also been revised to reduce the incentive for officials for "overzealous" enforcement. Collected fines are now deposited in a central fund for "merit based" salary increases and officials are required to substantiate decisions to impose penalties.

23. The Government will allow importers to use the services of a selected pre-shipment certification provider on a voluntary basis. Such services would be financed by the importer. Acceptance by Jordanian Customs of documents establishing the classification and value of goods provided by certification bodies accredited by the Government of Jordan would be mandatory. Inspection or opening of containers sealed by certification bodies by Customs would be limited. This voluntary pre-shipment inspection scheme will provide bonafide importers with an opportunity to avoid any delay and uncertainty concerning customs clearance. Moreover, the intensity of its use will provide information on the extent to which Customs procedures regarding valuation and clearance are a significant burden on the private sector.

24. The Government has also implemented a scheme under which it permits established exporters to benefit from a "Green Channel" for imports of materials, equipment, and components used in production of export. The green channel involves acceptance of invoices presented by exporters on the basis of trust, with reliance on ex-post random auditing of factory premises.

25. The Customs Department is closely involved with GTZ in a program to simplify procedures, computerize customs, and upgrade and expand training facilities for customs officials. Simplification of procedures will be pursued in conjunction with the adoption of the new Customs Law, and build upon EU experience and documentary requirements. Computerization is programmed to be completed by July 1999.

FINANCIAL SECTOR POLICY

Background

26. Jordan's financial system is considered as one of the region's most developed and up-to-date. The banking sector is well regulated, competitive, and financially sound. There is a well functioning securities market with many listed companies, although trading volumes and market liquidity are relatively low. The insurance sector is expanding and the social security system is in sound financial position with considerable accumulated funds and positive real investment returns. A weak link in the system is the poor performance of agricultural credits and small- and micro-enterprise finance. The Industrial Development Bank (IDB) is in reasonably good financial condition. Limited use is made of subsidized credits and the whole financial system is able to operate well in an environment of macroeconomic stability.

27. In the financial sector, the government's main objectives are: to improve competition and efficiency; strengthen prudential regulation and supervision of all segments of the system; enhance availability and access to medium- and long-term credit; promote the development of Non-Bank Financial Institutions (NBFIs); and to facilitate company access to the corporate bond market. To this end, the Government is currently drafting appropriate legislation for the creation of leasing companies, mutual funds and other NBFIs and is in the process of implementing a major restructuring of securities markets legislation and regulation.

Amman Financial Market (AFM)

28. Policy and legislative reforms, recently finalized will enhance AFM's efficiency, in both regulatory and technical aspects. A new Securities Law has been approved by the Cabinet, which separates the regulatory functions from the technical side of the market. The proposed draft law will create the Jordan Securities and Exchange Commission (JSEC) which will have broad and well-defined powers and will report to the Council of Ministers. It encompasses all regulatory functions related to securities markets, including public offerings and new issues, securities markets intermediaries, etc. The new law also creates two independent private sector bodies: the Amman Securities Exchange (ASE) and the Amman Clearing, Settlement, and Depository Company (ACSD), both of which will be regulated by the Jordan Securities and Exchange Commission (JSEC). The ethical principles of the draft Securities Law are based on the latest international standards.

29. Considerable progress is also being made on improving the technical capacity of the stock exchange. In accordance with the Government's plan to computerize the trading activities of the Amman Financial Market (AFM), AFM has contracted to purchase appropriate software and hardware system from France for installation in the very near future. The recently selected trading system should provide for a continuous order driven market, with all order handling capability. The system will be capable of both a single trading room configuration and dispersed terminal trading, preferably through international links. Functional changes to the computer systems are expected to be specified by December 1996. Installation of computers and systems, as well as initial training would be completed by end of 1997, targeting conversion of the first security to the new system by the first quarter of 1998.

Secured Financing and Leasing

30. In order to improve the competitive environment in Jordan's financial sector, the Government would encourage the development of leasing, factoring, and venture capital companies. While at present the banking sector holds a significant share of the financial sector, the presence of non-bank financial institutions could stimulate efficiency in the banking sector. The current legal and regulatory environment lacks the enabling legislation and implementing regulations that would be conducive to the development of these institutions. In this regard, an appropriate Secured Financing and Leasing Law is being drafted which is expected to be submitted to the Parliament by early 1997.

Mutual Funds

31. Institutions like mutual funds could play an important role in developing the financial sector, especially long-term securities market. Mutual funds would package securities in order to better suit the needs of various investors, in terms of size, risk diversification, as well as sector composition. Marketability of long-term securities, therefore, could significantly be boosted by the operations of mutual funds. Mutual funds are currently regulated by the Companies Law, but the provisions are not sufficiently comprehensive and the law lacks implementing regulations. As a result, there are no mutual funds in operation in Jordan, despite the advanced stage of development of the stock market. The new Securities Law, submitted to the Parliament, includes necessary improvements. Mutual funds would be supervised by the Jordan Securities Exchange Commission (JSEC). The government intends to draft a Trust Law which will further facilitate the creation of mutual funds. The tax law will also be amended to alleviate the possibility of double taxation.

Insurance Sector

32. As for the insurance sector in Jordan, the government intends to strengthen the prudential supervision needed. An in-depth study to review the issues and to prepare an action plan to amend the Insurance Law to transform the existing Insurance Control

Department into an Insurance Supervision Agency (ISA), with clearly specified inspection and intervention powers, has been initiated. The study is expected to be completed by December 31, 1996. The action plan would also suggest appropriate amendments to the Insurance Law to adopt European Union solvency margins based on both premiums and claims to ensure that companies maintain an adequate capital base for the risks they assume and are discouraged from offering deceptively low premiums. This action plan would be implemented in 1997. ISA would monitor insurance companies to ensure that they maintain the required levels of solvency margins. It would be empowered to propose prompt corrective actions for companies that fail to meet the stipulated solvency margins or violate other aspects of the law.

Social Security and Provident Funds

33. Currently the social security system of Jordan is in a reasonably strong financial condition. The system is young and the demographic structure of the covered population is also young. As a result, pension expenditures have been low and the Social Security Corporation (SSC) has been able to accumulate large amounts of financial resources which have been invested in the banking and capital markets. The investment return has been positive in real terms. However, the system is based on defined benefits and could face financial pressures in the longer run.

34. A comprehensive review of the public pension system has been conducted by the IMF. They have examined the operation of the system and assessed its financial soundness. The regulatory requirements of such a system and its implications for the financial markets have also been assessed. A World Bank team has initiated a study of the investment management of the resources of the SSC with a view to developing investment rules and regulations that would ensure the orderly functioning of banking and capital markets. The study is expected to be concluded by the end of 1996.

Banking Sector

35. **Instruments of Monetary Policy and Reserve Requirement**. The Central Bank used to apply different reserve ratios for commercial banks and investment banks. Because the difference between commercial and investment banks has become blurred, the CBJ has acted to unify the reserve ratios. The CBJ has reduced the difference in reserve ratios to 5 percentage points (14% for commercial banks and 9% for investment banks) and plans to reduce it further in the future.

36. **Central Bank's Rediscount Facility**. A set of rediscount and advance facilities at subsidized interest rates were established by the CBJ to support the development of several sectors of the economy. The main activities being supported are agriculture (through subsidized advances to the ACC to be on-lent to small farmers), small handicraft industry (through advances to the IDB), municipalities' infrastructure (through advances to the Cities

and Villages Development Bank, CVDB), low-income housing (through advances to the Housing Bank), and exports (through the Export Re-discounting facility to commercial banks). The CBJ has now decided to gradually eliminate the subsidy component in the Central Bank's rediscount facility, except for a maximum of 2 percentage points for agriculture, handicraft and exports. With the elimination of the subsidy element, the Central Bank rediscounting mechanism would remain available, but at market terms.

37. **Prudential Regulations and Supervision**. The changing environment -- more exposure to exchange and interest rate risks and to competition -- necessitates a continuous review and improvement of supervisory methods and procedures as well as prudential regulations. The CBJ plans to move away from direct intervention in the day-to-day operation of the banks and give the banks sufficient degree of freedom to manage their portfolio within pre-set ratios. In this respect, the CBJ has already eliminated prior approval of foreign currency lending for exporters and is reviewing ways of substituting discretion with transparent rules for the non-export sectors.

38. **The Housing Bank**. The Housing Bank has been made subject to the same Central Bank regulation and supervision as applied to other banks. Draft legislation has also been submitted to the Cabinet to remove all other privileges enjoyed by the Housing Bank, consistent with maintaining its obligations to low income housing, the draft legislation includes a provision that any subsidy will be made available through a tax credit to the Housing Bank. Such a tax credit will not exceed the subsidy extended by the Housing Bank to low income housing.

39. **Study on Better Extension of Agricultural and Micro-enterprise Finance**. Two main issues in micro finance area are: (a) how to make banks accessible to farmers and small scale entrepreneurs, and (b) how to make farmers and small scale entrepreneurs creditworthy to the banks. The Government plans to address these issues and intends to develop an action plan for agricultural and micro-enterprise finance which, not only would extend the needed financing, but would also help develop the overall financial sector and mobilize savings in rural areas. IFC is currently assisting the Government with the development of schemes for better extension of micro-enterprise finance. Furthermore, as other mechanisms for financing industry are developed Government intends to move toward integrating IDB within the banking system.

PRIVATIZATION AND RESTRUCTURING

Background

40. **Jordanian PE sector**. The Jordanian state-owned enterprises are concentrated mainly in the infrastructure sectors (transport, electricity, water, and telecommunications). Furthermore, through the Jordanian Investment Corporation (JIC), the state-owned investment agency, the Government has substantial share-

ownership in mining and cement companies listed on the stock-market, and minority share-holdings in a number of small and medium-sized companies across several sectors, including various financial institutions.

41. **Privatization Program.** Given that our economic strategy calls for a much larger role for the private sector in the economy, the government's aim is to reduce its own involvement in the production and distribution of goods and services. We have started opening up some of the sectors previously closed to private investors such as telecommunication and power generation. A new public-private partnership is being forged to build mutual trust and create better understanding of each other's concerns. Meanwhile the Government is aggressively following a program of privatization across all sectors of the economy.

42. The government's privatization program will aim at raising enterprise efficiency. Sale of shares to reputable strategic investors could improve the operational performance of the PEs that currently suffer from administrative interventions, limited autonomy, inadequate investment capital, and poorly designed incentive structures. Other objectives of the divestitures would be to develop the AFM through public share offerings by increasing investment and diversification opportunities to both institutional and retail investors, and to consolidate public finances by reducing subsidies and fiscal drain, and by increasing tax base.

43. **Institutional Framework for Privatization**. Rapid implementation of the privatization program in a transparent manner is a key objective of the Government. To this end the institutional framework for privatization has been established and divestiture procedures defined: The Cabinet has recently appointed an inter-ministerial committee, headed by the Prime Minister, to steer the overall privatization plan. The Cabinet has also approved the setting up of a Privatization Implementation Unit in the office of the Prime Minister to provide implementation assistance for privatization activities. An Institutional Development Fund (IDF) grant has been mobilized through the World Bank to support the building up of institutional capacity to implement the program. The IDF and the Government will finance the hiring of qualified local and foreign experts to implement transactions and training of professional staff of the Privatization Implementation Unit. The main responsibilities of the Privatization Implementation Unit include: (a) coordination of the preparation of the divestiture transactions; (b) management of the teams of technical experts and short-term external advisors; (c) management of the marketing efforts of enterprises being divested; (d) negotiations with various groups of stakeholders; (e) execution of transactions; (f) dissemination of information regarding the progress of the program.

44. **First phase of the privatization program**. Substantive steps have been taken in the energy and telecommunications sectors towards eventual privatization and expanded private sector participation. It is also the government's intention that the public

enterprises in the transport sector will be restructured to allow for greater private sector participation. While full implementation of the privatization program will take over two years, the Government has decided that Telecommunication Corporation (TCC), Jordan Electricity Authority (JEA), Irbid District Electricity Company (IDECO), Jordan Electric Power Company (JEPCO), Aqaba Railway Corporation (ARC), Jordan Cement Companies (JCC), Public Transport Corporation (PTC), and the Main Spa will comprise the first phase of the program to be completed within next twelve months. The following actions have already been completed:

(i) **TCC** has been registered as a public shareholding company under the Companies Law. The Privatization Inter-Ministerial Committee has made the decision to divest at least 26% of the Government's shares in TCC to a strategic investor. The Government has requested, in international press, expressions of interest from financial advisors to execute this transaction. The selection of financial advisors will be completed by December, 1996.

(ii) **JEA** has been transformed into a public shareholding company under the name of National Electric and Power Company (NEPCO). It has been decided to divest NEPCO shares in IDECO and JEPCO. The Board of Directors of NEPCO has approved the separation of distribution assets of NEPCO as separate cost centres. The Government has established a Regulatory Commission appointed by Council of Ministers and directly responsible for all aspects of regulation in the electricity sector.

(iii) The efforts to privatize **ARC** have been accelerated and a time bound action plan for privatization of ARC will be completed by December, 1996. Tender documents for a concession for the operations of the company will be issued by February, 1997.

(iv) The privatization of the **Jordan Cement Factories** has been initiated by a decision of the Board of JIC to sell at least a 20% stake to a strategic partner and by holding an international pre-bidding conference to interested parties. A short-list of potential investors has been prepared, bids are currently being evaluated.

(v) The Board of the **Jordan Tourism and Spa Complex** at Zerka Main, has invited expressions of interest from interested parties for a long-term concession.

(vi) A Government decision has been taken to privatize the operations of **PTC**, and advisors have been recruited for the task to be completed by March, 1997.

(vii) Divestiture activities of loss-making firms in the portfolio of Jordan Investment Corporation (JIC) have been accelerated; liquidators have been appointed to sell the assets of the TV Production Company and the Glass Factory.

REGULATORY FRAMEWORK

Background

45. During 1995-96, the government developed and implemented a business-enabling Investment Law with strengthened investment incentives; and new Telecommunication and Electricity Laws to allow privatization in the energy and telecommunication sectors. The General Sales Tax Law was amended in order to increase the rate to 10 percent to counter-balance revenue losses from tariff reductions, and tax rebates were introduced for exporters. Furthermore, the Income Tax Law amendment established three flat corporate tax rates -15, 25, and 35 percent - and introduced a withholding tax of 10 percent on distributed profits.

Legislative Reforms

46. The Government has approved several important business laws: Companies Law, Securities Law, Customs Law, and Safeguard Law. The latter two laws already have been submitted to Parliament. The Secured Financing and Leasing Law and the Competition Law will be submitted to the Parliament in early 1997.

47. As noted above, the new **Securities Law** separates the regulatory and operational functions of the AFM. The Law calls for the establishment of a regulatory body - the Jordan Securities and Exchange Commission - appointed by the Council of Ministers and with broad and well-defined powers over non-banking financial services.

48. The **Companies Law** has been amended such that: (a) approval requirements for several sector-specific economic activities are abolished; (b) company registration requirements simplified; (c) other excessively centralized and duplicated licensing requirements abolished; and (d) corporate governance and finance improved. Articles related to securities have been shifted from the Companies Law to the new Securities Law. The Law accommodates modern computerized trading by stipulating that (share) ownership does not require the possession of a certificate (scrip). The Government has removed tax on retained earnings and reserves that are converted into paid-up capital.

49. The new **Secured Financing and Leasing Law** under preparation and expected to be submitted to the Parliament by early 1997, will permit additional types of property, especially movables, to be used as collateral. Under the new law a lender or other credit grantor (e.g., a seller of goods) will be able to secure its loan by creating a security interest in movable property and enforce its interest through a simple system of automated notice registration which establishes the lender's priority and prevents double use of assets for collateral. The law would encourage lending, expand the number of financial instruments and encourage growth through leverage of property.

50. The proposed new **Customs Law** is consistent with WTO and establishes the principle of invoice-based valuation of goods combined with a post-auditing system. The principle of self-declaration will be implemented upon completion of computerization of customs. In addition, the law allows for voluntary pre-shipment valuation by international companies as well as a "green channel" for exporters. A WTO consistent **Safeguard Law** will be established for the first time.

51. The Government recognizes the importance of enacting an up-to-date **Competition Law** in order to maintain and encourage competition in domestic markets and foster economic efficiency and consumer welfare. Furthermore, the Law will address issues related to entry barriers to business, and advocate sound business practices and ethics. Effective implementation of such a law would also enhance the flexibility and the competitiveness of Jordanian industry in an increasingly globalized market environment, and position it to meet some of the requirements of an Association Agreement with the European Union. In this regard, a new Competition Law is expected to be finalized shortly.

CONCLUSION

52. Mr. President, in concluding this letter, I wish to emphasize that, for this year, we had set for ourselves targets and milestones which appeared almost insurmountable. We are proud to say that the entire package of reforms has now been achieved within the time period envisioned. We are fully confident that the policy and legislative reforms undertaken in this phase of the program would carry us far towards meeting our overall objective of self sufficiency, poverty eradication, and provision of basic social welfare. I wish to assure you that the Government will continue to press ahead with the reform program, on the economic front; while it intensifies its efforts to implement the necessary social safety nets to protect the poor in the short-term and eradicate the causes of poverty in the medium-term, on the social front. Also, and as we are moving progressively towards greater democratization of our institutions, we intend to continue shifting production responsibilities from the public to the private sector, and allowing wider participation of the public in the decision making process.

53. The reform phase just completed provides the necessary framework for the growth of the private sector and unleashes its ability to contribute to the national economy. These changes also layout the necessary infrastructure for greater globalization of our economy. This package of reforms was a necessary base for the next phase during which actual implementation of events under the new laws will commence. We feel that the next phase will be even more crucial in realizing our objectives. We visualize that this would require a considerable amount of implementation assistance, training, and development activities. We are extremely grateful to the World Bank for its strong support to Jordan in meeting these difficult challenges. We hope that this partnership will be maintained and strengthened as we move along on our growth path.

Regards,

Dr. Rima Khalaf Hunaidi
Minister of Planning

Jordan: Medium-Term Policy Framework Matrix
Trade Policy

Policy Area	Status as of March 1996	Policy Actions for 1996 (prior to Board)	Policy Actions for 1997	Policy Actions for 1998
1. Import Tariffs (Objective: Reduce anti-export bias, stimulate efficiency and competition)				
1.1 Tariff structure	Maximum tariff at 50% (except for alcohol, tobacco, and cars) with 10 bands.	Public announcement or Cabinet decision to reduce by January 1, 1997, the maximum tariff to 40% excluding tariffs on alcohol and tobacco. Lower the number of tariff bands to six: 0, 5, 10, 20, 30, and 40%.	Further progress on lowering tariffs on selected raw materials and intermediate goods. Reduction of the maximum tariff on July 1, 1998.	
1.2 Capital goods	Tariffs on 492 capital goods (at the 8-digit HS level) are subject to 0, 5, or 10% tariffs.	Announce to eliminate by January 1, 1997, tariffs on the current agreed list of 492 capital goods. Public announcement or Cabinet decision to reduce by January 1, 1997, tariffs to 10% on an additional list of 218 capital goods, including computer and telecommunication equipment. For such capital goods, tariffs on parts will not exceed 30%.		
1.3 Tariff exemptions	Major legislated exemptions for specific enterprises accounting for some 10% of imports.	No new tariff exemptions will be introduced and current exemptions will not be renewed when they expire.	Continue policy.	
1.4 Fees and surcharges	Legislation to consolidate fees and surcharges into the tariffs is currently with the Cabinet.	Submit legislation to the Parliament that consolidates all import fees, surcharges, and other applicable fees into one of the basic tariff rates.		
1.5 Customs Law	Current Customs Law lacks invoice based valuation.	Submit to Parliament a new WTO consistent Customs Law and establish principle of invoice-based valuation of goods combined with post-audit system. The principle of self-declaration will be implemented upon completion of computerization of Customs.		
1.6 Tax equalization	Exemption of GST is granted to domestic producers of clothing, shoes, furniture, and alcohol, but levied on imports of similar goods.	Agreement to equalize sales taxes on all imported and domestically produced goods, according to schedules to be agreed with WTO.		

Policy Area	Status as of March 1996	Policy Actions for 1996 (prior to Board)	Policy Actions for 1997	Policy Actions for 1998
2. Customs Administration (Objective: Reduce transaction costs of imports to expand exports and modernize industry)				
2.1 Valuation	Customs administration is viewed as costly and untimely by importers.	Begin to apply a reference price database for valuation of goods by Customs.	Adopt procedures for valuation of goods based on the self-declaration principle, in accordance with WTO Customs Valuation Agreement, upon computerization of Customs.	
2.2 Duty drawback and temporary admission		Computerize duty drawback and temporary admission systems.	Extend the duty drawback and temporary admission regimes to indirect exporters.	
2.3 Bonus system	Customs officials have individual incentives to levy fines, leading to conflict of interest.	The existing bonus system for Customs officials will be revised so as to reduce individual incentives to levy fines.		
2.4 "Green Channel"	Materials used for exported products are subject to same procedures as other imports.	For a set of established exporters provide "Green Channel" for imports of materials, equipment, and components used in the production of exports. This implies acceptance of invoices presented by exporters on the basis of trust, with reliance on limited ex-post random auditing of factory premises.	Evaluate facility and possibly extend list of exporters.	
2.5 Pre-shipment valuation	Pre-shipment valuation is not accepted.	Announce that by January 1997 importers can use the services of pre-shipment certification providers on a voluntary basis, which involves mandatory acceptance by Customs of documents issued by certification providers establishing the classification and value of goods. There will be only limited inspection and/or opening of containers sealed by certification providers.		

Jordan: Medium-Term Policy Framework Matrix
Financial Sector Policy

Policy Area	Status as of March 1996	Policy Actions for 1996 (prior to Board)	Policy Actions for 1997	Policy Actions for 1998
3. Banking Sector (Objective: to stimulate efficiency and competition)				
3.1 Reserve Requirements[1]	Reserve ratios applied to commercial banks differ from those applied to investment banks, but the difference has been narrowed down to currently 5 percentage points (i.e. 14 percent for commercial banks and 9 percent for investment banks).		Continue progress towards unification of the reserve ratio, consistent with monetary policy objectives.	
3.2 Subsidy through Rediscount/ Advance Facility	Subsidies are extended to agriculture (through Agricultural Credit Corporation), handicraft and industry (through Industrial Development Bank), housing (through the Housing Bank), and export (through commercial banks).	Eliminate interest rate subsidy, except for a maximum of 2 percentage points for export, agriculture, and handicraft and industry. The rate of subsidy is measured by the difference between general rediscount rate and the rate for respective sector.	Continue progress towards phasing out interest subsidy.	
3.3 Bank Supervision and Prudential Regulation[1]	Prudential regulation and supervision is adequate. However, the changing environment requires a continuous evaluation of the system to cope with the change.	Formulate and adopt measures to strengthen banking supervision and regulation.	Strengthen banking supervision and prudential regulations further through full financial disclosure by banks and changes in reporting requirements to bring them to internationally accepted standards.	
	CBJ has significantly moved away from direct intervention in day-to-day operations of banks.	Eliminate prior approval by CBJ of foreign currency lending to exporters. Review regulations and practices which still require case-by-case approvals by the authorities (as in the case of credit in foreign currency to non-export sectors), and formulate guidelines, as needed, for reform.	Follow guidelines with the objective to allowing banks to operate with sufficient degree of freedom within pre-set ratios.	
3.4 The Housing Bank	The Housing Bank is still benefiting from special privileges, although to a reduced extent as compared to the past (with obligation to provide housing finance at subsidized rates to low income group).	Make the Housing Bank subject to the same Central Bank regulation as in the case of all other banks. Remove all privileges to Housing Bank extended by the CBJ including special legal reserve, liquidity, credit concentration, and capital adequacy ratios, and disclosure provisions.	Redesign the subsidized housing finance program to better reach below-average income group.	

[1] Reserve requirements and prudential regulation and supervision are covered under IMF programs.

Policy Area	Status as of March 1996	Policy Actions for 1996 (prior to Board)	Policy Actions for 1997	Policy Actions for 1998
3.4 The Housing Bank (cont.)		Submit to Cabinet draft legislation to remove all other privileges enjoyed by the Housing Bank, consistent with maintaining its obligations to low income housing. In particular the draft legislation will include a provision that subsidy will be made available through tax credit to the Housing Bank. Such tax credit will not exceed the subsidy extended by the Housing Bank to low income housing.		
4. Non-Bank Financial Institutions (Objective: to develop non-bank financial institutions and alternative mechanisms for financing industry and agriculture)				
4.1 Agricultural and Small- and Micro-enterprise Finance	The Agricultural Credit Corporation (ACC) needs a comprehensive restructuring program. IDB is in sound condition, but tax and other special treatments make IDB a privileged institution as compared to other (especially smaller) banks.	Conduct study to restructure the ACC and improve extension of agricultural, and small- and micro-enterprise finance.	Improve extension of agricultural, and small- and micro-enterprise finance. Implement the restructuring program for ACC. As other mechanisms for financing industry are developed(e.g. secured financing and leasing, etc. - see below), move toward integrating IDB within the banking system.	
4.2 Mutual Funds	Current regulation for mutual funds in the Companies Law is not sufficient.	Satisfactory progress in achieving appropriate legal framework for mutual funds.	Develop and adopt by-laws and implementing regulations.	
5. Contractual Saving Institutions (Objective: to promote sources of long-term funds)				
5.1 Insurance Companies	Prudential regulation and supervision is weak.	Conduct a study for strengthening the supervisory body.	Complete the study and prepare action plan.	
5.2 Pension/ Provident Funds and Social Security	Although the Social Security Corporation is presently in a relatively sound condition, the aging of the population in the coming future would necessitate the review of alternative arrangements.	Conduct a study to: (a) review the social security and pension/provident funds with a view to introducing defined contribution plans; and (b) examine the investment regulations on the SSC and pension/provident funds that would be required to ensure the orderly functioning of banking and securities markets	Complete the study and prepare action plan.	

Policy Area	Policy as of March 1996	Policy Action for 1996 (prior to Board)	Policy Actions for 1997	Policy Actions for 1998
6. Securities Markets (Objective: to strengthen the regulations of securities markets)				
6.1 Structure of the Amman Financial Market	AFM functions both as market regulator as well as market operator.	Cabinet approval of a modern and comprehensive Securities Law.	Start to put in place in the first quarter of 1997 the supervisory authority (JSEC) as well as Amman Stock Exchange (ASE) and the Central Depository.	Complete the establishment of the JSEC, ASE, and the Central Depository by first quarter of 1998.
6.2 Trading, Clearing and Settlement, and Depository Systems	Current trading, clearing and settlement, and depository systems need significant modernization	Select system and secure financing for trading, clearing and settlement, and depository systems.	Install modern trading, clearing, settlement, and depository systems.	Move into new facility and complete conversion to new systems.
6.3 Companies Law	Existing Companies Law contains provisions which could hinder the development of securities markets, such as: * The price at issue is determined by the Issuing Committee; * Full value of corporate bonds must be guaranteed by mortgages; * Value of corporate bonds must not exceed paid-up capital of the issuing company; and * The share that can be subscribed by each promoter of a public company must not exceed 10 percent of total share capital of the company. * Companies Law does not allow for scripless securities markets to develop	Cabinet approval of revisions to Companies Law.		
6.4 Financial Disclosure and Accounting Standards			Adopt and announce the principle of full and credible financial disclosure.	Adopt a uniform code of internationally-accepted accounting standards and practices.
7. Regulatory Environment for Financial Services (Objective: to encourage new forms of secured finance)				
7.1 Secured Financing and Leasing	Existing regulatory framework does not provide suitable environment for non-bank financial institutions to develop.	Satisfactory progress in preparing appropriate legislation enabling the creation, registration, and liquidation of collateral security on movable property such as machinery, inventory and receivables. The Law will include appropriate regulatory framework for leasing, factoring, and venture capital companies and existing legal and regulatory provisions that hinder their development will be removed.		
7.2 Tax on Retained Earnings		Cabinet approval of appropriate legal amendment to remove tax on conversion of retained earnings and reserves into paid-up capital.		

Jordan: Medium-Term Policy Framework Matrix
Privatization

Policy Area	Status as of March 1996	Policy Actions for 1996 (prior to Board)	Policy Actions for 1997	Policy Actions for 1998
8. Privatization (Objective: enable private-sector-led growth, increase competition, allow Government to focus of its core function, remove monetary vulnerability).				
8.1 Institutional framework and implementation	No central decision body.	Establish Privatization Ministerial Committee to formulate privatization strategy and oversee its implementation.	Supervise and if possible accelerate implementation of action plan.	
	No central implementation office.	Establish Implementation Office to: (a) coordinate the preparation the privatization transactions; (b) manage teams of technical experts; (c) manage marketing efforts; (d) supervise transactions; (e) inform the public; (f) report to inter-ministerial committee.	Implement action plan.	
8.2 Action plan	No comprehensive action plan established.	Formulate detailed action plan:		
TCC		Register TCC as public shareholding company under Companies Law. Privatization Ministerial Committee decision to sell a minimum of 26% of shares to a strategic investor. Issue invitation for expression of interest to act as financial advisor to assist with privatization of TCC.	Sell stake in TCC to strategic partner.	Continue progress in privatization of TCC.
JEA		Prepare a comprehensive and time bound commer-cialization and privatization plan for JEA: Transform JEA into a public shareholding company (NEPCO) under Companies Law. Decision for JEA to divest its shares in IDECO and JEPCO. Satisfactory progress towards separation from NEPCO of distribution assets as cost centers. Cabinet decision to establish an autonomous regulatory commission directly responsible for all regulatory aspects in electricity sector.	Initiate privatization of distribution assets under NEPCO. Initiate privatization of IDECO. Separate transmission from generation. Start to sell shares in generation companies.	Continue progress in privatization of distribution net. Continue progress in selling shares in generation companies.

Policy Area	Status as of March 1996	Policy Actions for 1996 (prior to Board)	Policy Actions for 1997	Policy Actions for 1998
8. Privatization (cont.).				
ARC		Privatization Ministerial Committee decision to privatize ARC. Initiate consultant recruitment to draft the tender documents for a concession for the operations of the company.	Complete award of concession.	
Public Transport Company (PTC)		Cabinet Development Council decision to privatize PTC.	Establish a Public Transport Authority. Sell PTC assets to private operators.	
Cement Factories		JIC Board decision to sell a minimum of 20% of shares to a strategic investor. Send out requests for proposal to short-listed companies. Organize pre-bidding conference. Receive bids by October 15, 1996.	Complete the initial sale of shares in Jordan Cement to strategic partner. Continue further divestiture of JIC shares in Jordan Cement.	Continue progress in privatization of Jordan Cement.
Main Tourism and Spa Complex		Invite expressions of interest from private sector for investment and long-term concession.	Award lease or management contract to private operator.	
JIC Loss-making Companies		Continue privatization efforts within JIC to sell or liquidate two loss-making enterprises (the TV production Company and the Glass Factory).	Sell or lease out to private sector two loss-making enterpri-ses as going concerns or liquidate them.	Continue progress in selling loss-making enterprises as going concerns or liquidating them.
Other			Undertake preparatory privatization work on selected PEs.	Start privatization of selected PEs.

Jordan: Medium-Term Policy Framework Matrix
Regulatory Regime (summary)

Policy Area	Status as of March 1996	Policy Actions for 1996 (prior to Board)	Policy Actions for 1997	Policy Actions for 1998
9. Regulatory Regime (Objective: Improve efficiency and global integration, deepen and broaden financial intermediation)				
9.1 Investment Law	New law passed by Parliament, by-laws agreed upon by Cabinet.	Complete procedural guidelines and implement law.	Reduce barriers to wholly owned foreign businesses.	
9.2 Customs Law	New Law in advanced stage of preparation.	Submit to Parliament appropriate Customs Law. Issues raised under points 1.5 and 2.1-2.4 are addressed appropriately.	Implement new Customs Law.	
9.3 Safeguard Law	Law needs drafting.	Submit to Parliament appropriate Safeguard Law.	Implement new Safeguard Law.	
9.4 Securities Law	New Law in advanced stage of preparation.	Cabinet approval of appropriate Securities Law. Issues raised under points 4.2, 6.1, 6.3, 6.4 are addressed appropriately.	Implement new Securities Law.	
9.5 Companies Law	New Law in advanced stage of preparation.	Cabinet approval of appropriate Companies Law, that: (a) abolishes approval requirements for several sector-specific economic activities; (b) simplifies company registration requirements; (c) abolishes other excessively centralized and duplicated licensing requirements; and (iv) improves corporate governance and finance. Issues raised under points 4.2, 6.3, 7. are addressed appropriately.	Implement new Companies Law.	
9.6 Competition Law	Law needs drafting.	Satisfactory progress in drafting appropriate Competition Law.	Implement new Competition Law.	
9.7 Secured Financing and Leasing Law	Major obstacles to establishment of leasing, factoring, and venture capital companies. Law needs drafting.	Satisfactory progress in preparing appropriate legislation enabling the creation, registration, and liquidation of collateral security on movable property such as machinery, inventory and receivables. The Law will include appropriate regulatory framework for leasing, factoring, and venture capital.	Implement new Secured Financing and Leasing Law.	
9.8 Tax on Retained Earnings.		Cabinet approval of appropriate legal amendment to remove tax on conversion of retained earnings and reserves into paid-up capital.		
9.9 Insurance Law			Liberalize according to point 5.1.	

Status of Bank Group Operations in Jordan
A. IBRD Loans in the Operations Portfolio

As of November 12, 1996

Project ID	Loan No.	Fiscal Year	Borrower	Purpose	Original amount in US$		Undisbursed	Difference between expected and actual disbursements[a]
					IBRD	Cancel.		
Number of Closed Loans/Credits: 49								
Active Loans								
5295	L31060	1989	Government of Jordan	Human Res. Sector	73.00		2.21	2.21
5284	L35680	1993	Government of Jordan	Transport III	35.00		22.00	16.55
5319	L35740	1993	Government of Jordan	Health II	20.00		19.37	3.37
5318	L36510	1994	Government of Jordan	Energy Sector Loan	80.00		20.00	20.02
5322	L37380	1994	Government of Jordan	Jordan Telecom	20.00		15.24	9.81
5310	L38170	1995	Government of Jordan	ASAL	80.00		30.00	30.00
5321	L38180	1995	Government of Jordan	TA for Agriculture	6.60		6.21	4.31
5307	L38640	1995	Government of Jordan	Human Res. Devt.	60.00		58.26	9.66
35995	L39930	1996	Government of Jordan	Export Development	40.00		32.00	-2.41
5323	L40710	1997	Government of Jordan	Housing & Urban Sector	20.00		20.00	
TOTAL					434.60	0.00	225.28	93.51

	Active Loans	Closed Loans	Total
Total disbursed (IBRD)	209.32	969.10	1178.42
Of which repaid	12.10	462.07	474.17
Total now held by IBRD	422.50	507.03	929.53
Amount sold	0.00	11.53	11.53
Of which repaid	0.00	11.53	11.53
Total undisbursed	225.28	0.00	225.28

a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.

Note: Disbursement data are updated at the end of the first week of the month.

B. Statement of IFC Investments
Committed and Disbursed Portfolio

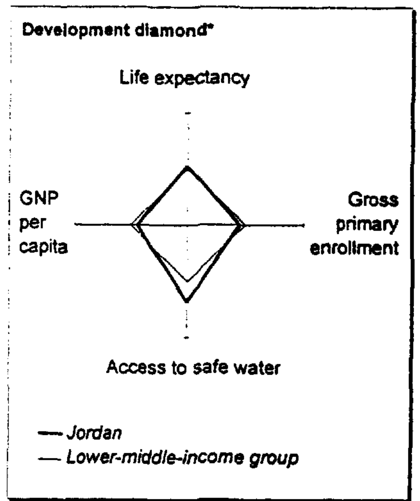
As of September 30, 1996
(In US Dollar Millions)

		Committed				Disbursed			
		IFC				IFC			
FY Approval	*Company*	*Loan*	*Equity*	*Quasi*	*Partic*	*Loan*	*Equity*	*Quasi*	*Partic*
1987/90/95	Al-Hikma	0.00	0.00	2.70	0.00	0.00	0.00	2.36	0.00
1993	Al-Hikma	5.00	0.00	0.00	0.00	5.00	0.00	0.00	0.00
1994	Al-Keena Paper	8.00	0.00	0.00	0.00	8.00	0.00	0.00	0.00
1995	Indo-Jordan	30.00	0.00	0.00	0.00	16.69	0.00	0.00	0.00
1995	Jordan Telephone	15.00	3.00	0.00	0.00	15.00	3.00	0.00	0.00
1996	MODAL	5.50	0.00	0.00	0.00	4.50	0.00	0.00	0.00
	Total Portfolio:	63.50	3.00	2.70	0.00	49.19	3.00	2.36	0.00

		Approvals Pending Commitment			
		Loan	*Equity*	*Quasi*	*Partic*
1996	ZARA INVESTMENT	15.00	3.00	0.00	0.00
	Total Pending Commitment:	15.00	3.00	0.00	0.00

Jordan at a glance

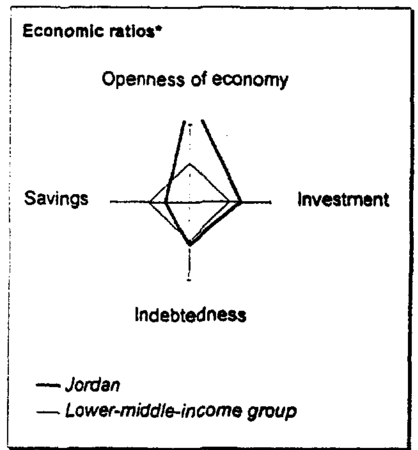
POVERTY and SOCIAL	Jordan	M. East & North Africa	Lower-middle-income
Population mid-1995 *(millions)*	4.2	273	1,154
GNP per capita 1995 *(US$)*	1,500	1,780	1,700
GNP 1995 *(billions US$)*	6.3	486	1,962
Average annual growth, 1990-95			
Population *(%)*	5.7	2.7	1.4
Labor force *(%)*	5.2	3.3	1.7
Most recent estimate *(latest year available since 1989)*			
Poverty: headcount index *(% of population)*	..	..	..
Urban population *(% of total population)*	72	56	56
Life expectancy at birth *(years)*	70	66	67
Infant mortality *(per 1,000 live births)*	32	49	36
Child malnutrition *(% of children under 5)*	17	..	..
Access to safe water *(% of population)*	99	83	73
Illiteracy *(% of population age 15+)*	20	37	..
Gross primary enrollment *(% of school-age population)*	94	97	104
Male	94	104	105
Female	95	90	101



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

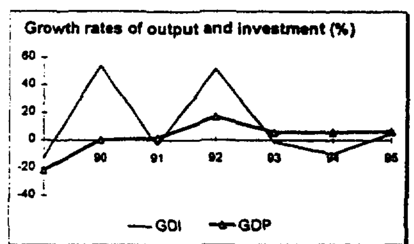
	1975	1985	1994	1995
GDP *(billions US$)*	..	5.0	6.0	6.6
Gross domestic investment/GDP	..	21.7	36.2	35.8
Exports of goods and non-factor services/GDP	..	37.2	49.8	53.0
Gross domestic savings/GDP	..	-17.4	12.7	14.3
Gross national savings/GDP	..	-2.4	27.0	26.7
Current account balance/GDP	..	-19.9	-9.2	-9.1
Interest payments/GDP	..	3.8	3.2	..
Total debt/GDP	..	80.6	115.5	..
Total debt service/exports	3.7	17.2	12.2	..
Present value of debt/GDP	..	..	88.0	..
Present value of debt/exports	..	..	129.4	..

(average annual growth)	1975-84	1985-95	1994	1995	1996-04
GDP	..	*-0.1*	5.8	6.4	7.1
GNP per capita	..	*-5.6*	5.5	0.5	3.5
Exports of goods and nfs	..	*8.7*	1.2	11.0	8.8

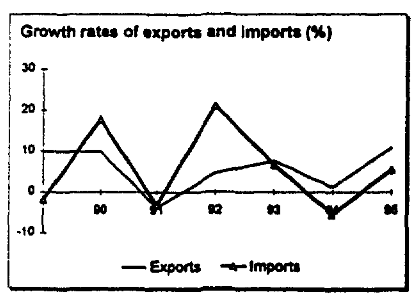


STRUCTURE of the ECONOMY

(% of GDP)	1975	1985	1994	1995
Agriculture	7.9	4.9	5.8	5.7
Industry	23.7	26.9	28.1	28.2
Manufacturing	8.9	11.9	14.0	13.6
Services	68.4	68.2	66.2	66.1
Private consumption	..	90.6	64.6	62.5
General government consumption	..	26.8	22.7	23.1
Imports of goods and non-factor services	..	76.3	73.3	74.4



(average annual growth)	1975-84	1985-95	1994	1995
Agriculture	..	*11.9*	1.0	4.0
Industry	..	*2.0*	6.5	5.8
Manufacturing	..	*5.3*	9.3	3.0
Services	..	*-3.3*	6.0	5.0
Private consumption	..	*-3.0*	5.2	2.2
General government consumption	..	*-0.9*	8.5	7.7
Gross domestic investment	..	*9.9*	-9.9	4.9
Imports of goods and non-factor services	..	*5.8*	-5.5	5.6
Gross national product	..	*-0.8*	9.4	4.0



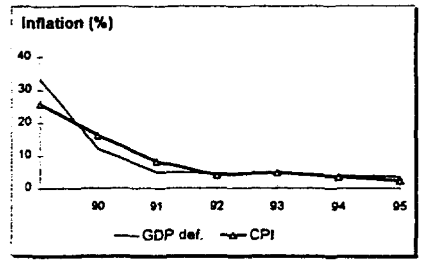
Note: 1995 data are preliminary estimates. Figures in italics are for years other than those specified.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Jordan

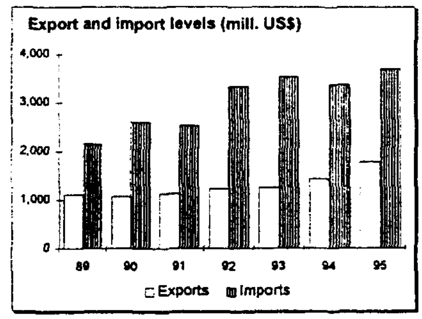
PRICES and GOVERNMENT FINANCE

	1975	1985	1994	1995
Domestic prices				
(% change)				
Consumer prices	11.9	3.0	3.5	2.4
Implicit GDP deflator	..	-0.3	3.9	3.6
Government finance				
(% of GDP)				
Current revenue	18.9	22.4	29.7	31.4
Current budget balance	-9.9	-11.6	-0.1	1.7
Overall surplus/deficit	-28.1	-21.6	-6.2	-5.1



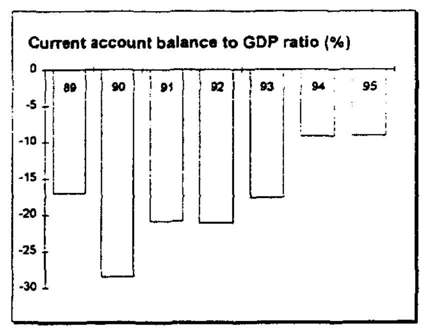
TRADE

	1975	1985	1994	1995
(millions US$)				
Total exports (fob)	125	789	1,425	1,771
Phosphorus	..	168	117	151
Other metals	..	79	166	174
Manufactures	..	282	607	704
Total imports (cif)	732	2,720	3,374	3,696
Food	..	386	582	598
Fuel and energy	..	490	427	480
Capital goods	..	661	858	906
Export price index *(1990=100)*	..	..	107	114
Import price index *(1990=100)*	..	..	102	109
Terms of trade *(1990=100)*	..	..	104	105



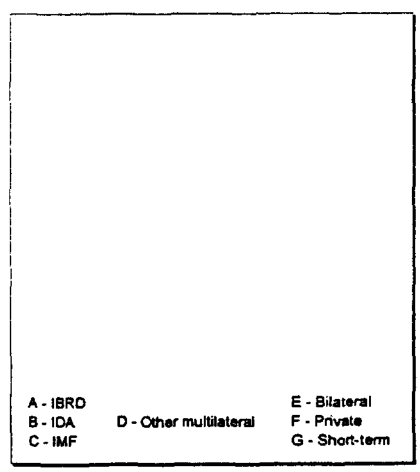
BALANCE of PAYMENTS

	1975	1985	1994	1995
(millions US$)				
Exports of goods and non-factor services	379	1,976	2,986	3,490
Imports of goods and non-factor services	942	3,723	4,395	4,905
Resource balance	-562	-1,747	-1,409	-1,415
Net factor income	26	-89	-144	-304
Net current transfers	172	845	1,002	1,118
Current account balance,				
before official transfers	-365	-991	-551	-601
Financing items (net)	538	1,145	850	963
Changes in net reserves	-173	-154	-298	-362
Memo:				
Reserves including gold *(mill. US$)*	571	770	1,977	2,257
Conversion rate *(local/US$)*	0.3	0.4	0.7	0.7



EXTERNAL DEBT and RESOURCE FLOWS

	1975	1985	1994	1995
(millions US$)				
Total debt outstanding and disbursed	345	4,022	7,051	7,200
IBRD	0	168	635	736
IDA	33	82	71	69
Total debt service	21	531	505	641
IBRD	0	21	102	125
IDA	0	2	2	3
Composition of net resource flows				
Official grants	357	453	306	320
Official creditors	71	210	109	205
Private creditors	19	190	-162	-106
Foreign direct investment	26	25	3	43
Portfolio equity	0	0	0	0
World Bank program				
Commitments	12	97	107	190
Disbursements	10	64	58	158
Principal repayments	0	10	58	79
Net flows	10	54	0	79
Interest payments	0	12	46	49
Net transfers	10	42	-46	30



Key Economic Indicators

	Actual		Estimated	Projected						Five-Year Period Averages		
	1993	1994	1995	1996	1997	1998	1999	2000		1991-95	1996-00	2001-05
National Accounts (pct. GDP at curr. market prices)												
Total Consumption	93.2%	87.3%	85.7%	84.7%	82.5%	81.5%	80.1%	78.6%		91.9%	81.5%	73.9%
Gross Domestic Fixed Investment	34.2%	33.2%	32.8%	34.7%	36.7%	36.8%	36.9%	37.0%		30.7%	36.4%	35.8%
Government Investment	6.7%	6.5%	7.0%	7.2%	6.8%	6.5%	6.2%	6.0%		6.4%	6.5%	5.7%
Private Investment (incl. increase in stocks)	30.6%	29.7%	28.8%	29.5%	29.9%	30.3%	30.7%	31.0%		27.5%	30.3%	30.1%
Exports (goods and non-factor services)	51.3%	49.8%	53.0%	53.6%	54.5%	55.6%	56.7%	58.0%		53.0%	55.7%	62.5%
Imports (goods and non-factor services)	81.8%	73.3%	74.4%	75.0%	73.8%	73.8%	73.7%	73.6%		78.9%	74.0%	72.2%
Gross Domestic Savings	6.8%	12.7%	14.3%	15.3%	17.5%	18.5%	19.9%	21.4%		7.9%	18.5%	26.1%
Gross National Savings	19.3%	27.0%	26.7%	27.3%	28.7%	28.7%	28.9%	29.7%		18.0%	28.7%	32.9%
Memorandum Items:												
Gross Domestic Product (US$mil., current)	5,501.4	5,996.7	6,589.3	7,175.7	7,841.8	8,612.5	9,499.7	10,459.3		5,484.0	8,717.8	14,024.4
Gross National Product per capita (cur. US$, Atlas)	1,310.0	1,430.0	1,470.0	1,560.0	1,640.0	1,750.0	1,860.0	2,000.0		1,310.0	1,760.0	2,460.0
Real annual growth rates:												
Gross Domestic Product, market prices	5.9%	5.8%	6.4%	5.9%	6.1%	7.0%	7.5%	7.3%		7.1%	6.8%	7.1%
Gross Domestic Income	5.7%	6.4%	6.3%	6.5%	7.3%	7.5%	8.0%	7.9%		7.5%	7.4%	8.0%
Real annual per capita growth rates:												
Gross Domestic Product, market prices	1.9%	2.1%	2.8%	2.3%	2.5%	3.4%	3.9%	4.1%		2.8%	3.3%	4.0%
Total Consumption	-2.7%	2.2%	0.1%	2.0%	1.5%	2.6%	2.6%	2.7%		1.3%	2.3%	2.7%
Private Consumption	-3.4%	1.4%	-1.2%	1.7%	2.5%	2.6%	2.5%	2.2%		1.5%	2.3%	1.7%
Balance of Payments (US$millions)												
Exports (goods and non-factor services)	2,822.0	2,985.6	3,489.9	3,845.4	4,273.8	4,786.1	5,386.2	6,066.8		2,889.0	4,871.6	8,809.4
Merchandise (FOB)	1,248.0	1,424.6	1,770.9	1,933.4	2,104.6	2,320.6	2,581.7	2,873.8		1,359.1	2,362.8	3,983.6
Imports (goods and non-factor services)	4,499.0	4,394.8	4,905.1	5,378.8	5,784.9	6,359.6	7,002.4	7,700.7		4,303.3	6,445.3	10,117.6
Merchandise (FOB)	3,541.0	3,373.7	3,696.1	4,054.9	4,348.9	4,799.4	5,307.4	5,859.2		3,250.4	4,874.0	7,758.3
Resource Balance	-1,677.0	-1,409.2	-1,415.2	-1,533.4	-1,511.1	-1,573.5	-1,616.2	-1,633.9		-1,414.3	-1,573.6	-1,308.2
Resource Balance (pct. GDP, curr. market prices)	-30.5%	-23.5%	-21.5%	-21.4%	-19.3%	-18.3%	-17.0%	-15.6%		-26.0%	-18.3%	-9.8%
Net Current Transfers (incl. off. curr. transfers)	997.0	1,002.0	1,118.0	1,186.0	1,221.2	1,245.8	1,270.1	1,296.8		875.0	1,244.0	1,375.7
Current Account Balance (after off. cap. grants)	-650.0	-227.6	-270.2	-294.1	-285.5	-374.8	-641.5	-651.6		-520.2	-449.5	-250.2
Current Account Balance (pct. GDP, market prices)	-11.8%	-3.8%	-4.1%	-4.1%	-3.6%	-4.4%	-6.8%	-6.2%		-10.4%	-5.0%	-2.1%
Net Private Foreign Direct Investment	20.0	26.0	40.0	65.0	200.0	500.0	300.0	250.0		31.4	263.0	335.8
Long-term Loans (net)	-56.5	-271.0	-25.3	31.4	-51.8	-8.2	50.3	93.4		4.3	23.0	100.1
Other Capital (net, incl. errors and omissions)	639.5	771.0	617.4	488.5	402.4	387.9	221.5	249.5		833.1	350.0	260.6
Change, Gross Foreign Reserves (minus = incr.)	47.0	-298.4	-361.9	-290.9	-265.1	-504.9	69.7	58.7		-348.6	-186.5	-446.3
Net Foreign Assets (new definition beginning 1995)			427.0	619.9	820.0	1,270.9	1,221.8	1,176.3			1,021.8	2,037.0
Net Foreign Assets (as months of merch. imports)			1.4	1.8	2.3	3.2	2.8	2.4			2.5	3.0

Key Economic Indicators (cont.)

	Actual		Estimated	Projected					Five-Year Period Averages		
	1993	1994	1995	1996	1997	1998	1999	2000	1991-95	1996-00	2001-05
Memorandum Items:											
Real Annual Growth Rates:											
Merchandise Exports (FOB)	6.8%	7.8%	16.8%	6.8%	8.3%	8.4%	8.4%	8.5%	8.0%	8.1%	8.7%
Primary	15.7%	0.3%	24.6%	5.2%	6.7%	6.8%	6.8%	6.8%	7.7%	6.5%	6.9%
Manufactures	9.7%	14.9%	11.0%	10.0%	11.0%	11.0%	11.0%	11.0%	5.4%	10.8%	11.0%
Merchandise Imports (CIF)	8.2%	-7.6%	3.4%	7.6%	7.1%	7.7%	7.4%	7.3%	5.5%	7.4%	6.9%
Public Finance (pct. GDP, current market prices)											
Current Revenues	31.3%	29.7%	31.4%	31.1%	31.5%	31.2%	30.6%	30.1%	30.8%	30.9%	29.0%
Current Expenditures	31.0%	29.9%	29.7%	28.4%	27.6%	27.0%	26.1%	25.6%	32.5%	26.9%	23.8%
Current Account Surplus (+) or Deficit (-)	0.2%	-0.1%	1.7%	2.7%	4.0%	4.2%	4.5%	4.5%	-2.0%	4.0%	5.2%
Capital Expenditures	6.1%	6.0%	6.8%	6.9%	6.6%	6.2%	6.0%	5.9%	5.8%	6.3%	5.4%
Overall Budget Surplus (+) or Deficit (-)	-5.8%	-6.2%	-5.1%	-4.2%	-2.6%	-2.0%	-1.5%	-1.4%	-7.7%	-2.3%	-0.3%
Foreign Financing	3.2%	3.3%	3.9%	6.1%	0.8%	-0.6%	-3.4%	-2.7%	6.2%	0.0%	-2.7%
Monetary Indicators											
M2/GDP (at current market prices)	117.6%	115.5%	112.8%	112.8%	113.8%	113.8%	113.8%	113.8%	120.2%	113.6%	113.5%
Growth of M2	6.9%	8.0%	7.6%	10.2%	10.3%	9.8%	10.3%	10.1%	10.8%	10.1%	9.6%
Private Sector Credit Growth/Total Credit Growth	85.0%	98.1%	77.5%	94.1%	105.3%	94.2%	93.1%	93.5%	77.1%	95.9%	91.5%
Price Indices (1990=100)											
Consumer Price Index (growth rate)	4.7%	3.5%	2.4%	4.5%	3.0%	2.6%	3.6%	3.4%	4.5%	3.4%	2.6%
GDP Deflator (growth rate)	3.1%	3.9%	3.6%	4.0%	3.0%	2.6%	2.6%	2.6%	4.2%	3.0%	2.6%
Real Interest Rates	3.6%	4.0%	4.7%	3.1%	3.5%	3.5%	2.5%	2.7%	3.4%	3.1%	3.5%
Merchandise Export Price Index	100.7	106.7	113.5	116.1	116.6	118.7	121.8	124.9	105.7	119.6	133.6
Merchandise Import Price Index	99.4	102.4	108.5	110.7	110.8	113.5	116.9	120.3	101.9	114.4	129.3
Merchandise Terms of Trade Index	101.4	104.2	104.6	104.9	105.3	104.5	104.1	103.9	103.7	104.5	103.3
Real Exchange Rate Index (US$/JD) (+ = apprec.)	102.8	102.7	99.2	100.0	101.4	101.9	102.1	102.5	101.3	101.6	103.4
Debt and Debt Service (US$millions)											
Total Debt Outstanding and Disbursed (TDO)	6,755.2	6,868.0	7,096.4	7,283.7	7,314.0	7,348.5	7,383.5	7,429.9	6,774.6	7,351.9	7,473.6
Net Disbursements	-87.2	-201.0	95.7	129.4	13.2	45.8	29.7	80.1	40.6	59.7	89.8
Total Debt Service	560.0	752.3	816.9	873.5	908.0	867.2	862.4	840.7	687.8	870.4	955.4
Debt and Debt Service Indicators:											
TDO / Exports goods, services, workers' remit.	170.5%	165.4%	146.3%	138.1%	127.0%	116.3%	106.8%	97.4%	175.5%	116.6%	72.6%
TDO / GDP	122.8%	114.5%	107.7%	101.5%	93.3%	85.3%	77.7%	71.0%	125.4%	85.5%	54.1%
TDS / Exports goods, services, workers' remit.	14.1%	18.1%	19.6%	18.4%	17.0%	14.9%	13.2%	11.8%	18.3%	15.1%	9.7%

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