

# Economic and Fiscal Reforms

**Ministry of Finance**  
**JORDAN**

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# Background

- **During 1980s, Jordan macroeconomic imbalances began to deteriorate. These imbalances peaked in 1989; therefore, Jordan started prudent economic adjustment process in collaboration with the IMF and the World Bank and support from the International Community.**
- **Since 1989, Jordan has successfully implemented various economic adjustment programs to overcome the major imbalances and to regain macroeconomic stability as a precondition for sustainable economic growth.**
- **Most of targeted goals set in the programs were accomplished and in some cases surpassed. Therefore, Jordan finished the last agreed upon IMF adjustment program in July 2004. Nevertheless, the adjustment process continued and home grown reform programs are being implemented since.**

## Major Economic Indicators, 1989 and 2004

	1989	2004
<b>Real GDP Growth</b>	<b>-13.4</b>	<b>7.2</b>
<b>Inflation, % change of CPI</b>	<b>25.7</b>	<b>3.5</b>
<b>Budget Deficit (including grants), % of GDP</b>	<b>-10.1</b>	<b>-2.7</b>
<b>Budget Deficit (excluding grants), % of GDP</b>	<b>-21.7</b>	<b>-12.8</b>
<b>Foreign Reserves, million US\$</b>	<b>130</b>	<b>4824</b>
<b>External Debt, % of GDP</b>	<b>190</b>	<b>66</b>

## **Challenges Facing Domestic Economy**

- Since the end of the IMF adjustment programs, national economic and social reform programs are being adopted benefiting from the momentum gained during the past 15 years.**
- In 2005, the national economy in general and the general budget in particular were challenged by the sharp increase of international oil prices combined with a sharp drop of external grants.**

## Main Budget Distortions

- **The abovementioned challenges forced the government to deal with several distortions in the budget:-**
- ❖ **A significant budget deficit excluding grants which reached 11% of GDP in 2005.**
  - ❖ **Domestic revenues fell short of a full coverage of current expenditures, 88% in 2005.**
  - ❖ **A significant volume of subsidies were allocated in the budget. They reached JD 833 million in 2005, which is equivalent to 24% of public expenditures. 60% of these subsidies targeted oil final products**
  - ❖ **A sizeable government contribution in the economy, where general government expenditures reached 48% of GDP in 2005.**

# National Agenda Initiatives

- ❑ **To face the abovementioned challenges, Jordan adopted a National Agenda program that included several initiatives in late 2005.**
  
- ❑ **The government translates these initiatives through a number of measures, mainly focused on the expenditure side of the budget, which include:**
  - **Rationalizing operational expenditures and focusing more on capital expenditures.**
  - **Adopting a program that aims at lowering subsidies in general and to gradually eliminate oil subsidy and liberalize oil sector by 2008 in particular.**

- In this context, domestic petroleum products prices have been raised three times since July 2005. Consequently oil subsidy declined in 2006 by 60% compared to its level in 2005 despite the sharp increase of international oil prices in 2006.**

# Fiscal Management Reform Programs

- Furthermore, the National Agenda stressed the importance of continuing the implementation of the fiscal management reform strategy that has been adopted by the MOF.
- This strategy aims mainly at raising the efficiency of planning, preparing and executing the general budget. To accomplish these objectives, the following projects are being implemented:

## **A) Medium Term Fiscal Framework, MTFF**

- This framework aims at:**
  - Utilizing modern methods in forecasting domestic revenues and public expenditures in the short and medium terms taking into consideration the latest local and international macroeconomic developments.**
  - Formulating fiscal policy stance and its future direction to insure the best allocation of the available financial resources.**
  - Setting partial ceilings of expenditure of each ministry according to sector priorities and in harmony with national objectives.**
- The framework is prepared twice annually and it has been well institutionalized at the MOF.**

## **B) Treasury Single Account, TSA**

- ❖ **The MOF established a treasury single account at the Central Bank by eliminating unnecessary governmental accounts and unifying the remaining accounts in one single account to enhance the efficiency of cash flow management of MOF.**
- ❖ **MOF is working now with the licensed banks to establish a treasury single account that covers all governmental accounts at the domestic banking sector.**

## C) Budget Classification

- ❖ **The MOF is planning to review the classification of the budget to be in line with international best practices.**
- ❖ **Part of the 2001 GFS manual is implemented in preparing the 2007 budget by including information about economical, geographical and functional classification of expenditures.**
- ❖ **MOF transferred the allocation of some programs from its budget to concerned ministries.**
- ❖ **The MOF is planning to implement a new chart of accounts according to international standards on 2008 budget.**

## **D) Government Financial Management Information System (GFMIS)**

**❖ GFMIS is a set of government financial management functions that consistently produce relevant, reliable and timely financial information to support decision-making across the government. Many procedures are concluded towards the implementation of this system including the council of ministers approval of the system.**

## **E) Medium Term Expenditure Framework (MTEF)**

- ❖ **This framework aims at:**
  - **Preparing medium term forecasts of current and capital expenditures for each line ministry under the assumption that no new projects will be implemented.**
  - **Deriving the fiscal space to be distributed to line ministries based on national priorities.**
- ❖ **The Ministry of Education was chosen as a pilot ministry for implementing this framework. Technical assistant was provided by the EU and the GTZ. The ministry was able to produce forecasts for its current and capital expenditures detailed items for the period 2007-2010. A report was prepared and sent to the General Budget Department, GBD of these forecasts to be taken into consideration when preparing the 2008 budget.**

## **MTEF, continued**

- **All budget forms that will be used in budget were modified to accommodate the needed data for building the MTEF.**
- **The General Budget Department requested all ministries and public departments to prepare forward estimates-projections of the ongoing and committed expenditures for the next three years.**
- **These estimates will help the MOF and the GBD in calculating the gap, the difference between the estimated resources under MTEF and forward estimated of expenditures.**

## **F) Result Oriented Budgeting, ROB**

- ❖ **Objectives:**
  - **Control of budget resources.**
  - **Focus on outcomes of resource allocation.**
  - **Prioritization of limited resources to programs most vital to economic and social development.**
- ❖ **For the first time, the 2008 budget will be prepared under the concept of ROB. Therefore, the General Budget Department has amended all forms to allow all government agencies to articulate their:**
  - **mission,**
  - **strategic goals,**
  - **program structure and description,**
  - **program goals and objectives and**
  - **performance measures.**

- ❖ **Furthermore, designated employees of all government agencies were trained on the new concepts of ROB and MTEF. This will enable them to prepare their agencies' budgets according to these new concepts.**